

To: Members of the City Council

From: Haritha Narra, Deputy Finance Director

Date: 11/12/2024

Subject: Recommendation to Increase City of Redmond's Business License Threshold

I am writing to address the recommendation concerning the increase in the City of Redmond's business license threshold.

Currently, businesses or individuals whose annual value of products, gross proceeds of sales, or gross income within the City of Redmond is equal to or less than \$2,000, and who do not maintain a physical place of business within the City, are exempt from the City's business license fee. This threshold exemption was first adopted in 2019, and since that time, no adjustments have been made to the threshold.

In early 2024, the Association of Washington Cities (AWC) convened with cities and business stakeholders to discuss potential updates to the current threshold. After consultations with various cities, AWC is recommending the following adjustments:

- A one-time increase of the threshold to \$4,000, with the option for the City to set a higher amount if desired.
- Effective date January 1, 2026
- The threshold should be adjusted every 48 months based on the Consumer Price Index (CPI).
- To determine the adjustment,
 - o the cumulative CPI over each 48-month period would be applied.
 - o If the annual CPI decreases, no increase will be applied (0%).
 - o If the annual CPI increases by more than 5%, a 5% increase will be applied.

AWC is in the process of finalizing the model threshold language to incorporate the above changes. The timeline for adoption is currently unknown.

Based on AWC's recommendations and other identified limitations (outlined below), the following recommendations are made regarding the threshold increase:

1. One-Time Increase of the Threshold to \$4,000

- o Financial Impact: This increase will result in a revenue reduction of \$47,376. However, given that the impact is not substantial, it can be offset by the General Fund surplus.
- o Considerations: Any threshold increase beyond \$4,000 would lead to more significant revenue losses, which would need to be compensated by raising the business license fee per FTE (highlighted in the attached PPT)

2. Effective Date: January 1, 2026

The recommended effective date is based on the following limitations:

- o The state will not accept changes until January 31, 2025.
- o The state requires at least seven to eight months to process and implement the change in their system.

- If implemented on January 1, 2025, before the state has time to implement the change in their systems, there would be a significant increase in staff time due to the need for manual refunds.

3. Update threshold every four years

- In alignment with AWC recommendations and in consideration of the limitations regarding the time required for programming updates to the state software.

4. Adjust the threshold using AWC's recommended methodology

- Every four years, updating the threshold by using four-year CPI increase using each 12-month period ending from on June 30 of each prior year, and rounded to the nearest \$100.
- This approach ensures the city remains in alignment with AWC's recommended methodology.
- The adjustment will help the city keep pace with inflation over time.

Other recommendations

- Business License Audit

- Conduct the proposed business license audit outlined in the 2025-2026 preliminary budget to assess and gain a comprehensive understanding of the full inventory of businesses, providing insights for policy and program improvements.
- Review and update the entire business license program after the completion of the proposed audit.

Please let me know if you have any questions. The recommendation will be presented at Finance, Administration and Communications committee on November 12, 2024.



Business License Program Exemption Threshold Update

Haritha Narra, Deputy Finance Director
November 2024



Agenda

- Council request
- Current ordinance
- Background and research
- Exemption Threshold comparison
- Financial impact of increases
- Implementation challenges
- Recommendation

Council Request

Evaluate the current ordinance and determine if an increase in the exemption threshold is warranted and can be implemented for the 2025-2026 biennial budget.



Current Ordinance

Ordinance 3131 (year 2024)

(e) For purposes of the license by this chapter, any person or business whose annual value of products, gross proceeds of sales, or gross income of the business in the City is equal to or less than \$2,000 and who does not maintain a place of business within the City, shall submit a business license registration to the Director or designee, but be exempt from the City license fee therefor. The threshold does not apply to regulatory license requirements or activities that require a specialized permit.



Background and Research

- The threshold first was adopted in 2018 with effective date of January 1, 2019 as part of an effort by AWC.
- The City is allowed to increase the threshold annually.
- Per RCW 35.90.080, the City's threshold cannot be below the minimum threshold established by AWC. Currently \$2,000 and will likely increase to \$4,000 effective January 1, 2026



Background and Research - Continued

AWC Activity:

- In 2024, Association of Washington Cities (AWC) met with the cities and the business community to discuss updates to the threshold.
- Recommended effective date January 1, 2026
- One-time increase to a higher threshold to \$4,000 for out-of-city businesses (City can determine higher threshold)
- The threshold amount will be adjusted every forty-eight months on January 1, by an amount equal to the increase in the Consumer Price Index ("CPI")

Exemption Threshold Comparison

City	Threshold
Bellevue	\$2,000
Kirkland	\$12,000
Bothell	\$12,000
Renton	\$2,000
Redmond	\$2,000

Financial Impact of Threshold Increase

Threshold	# Exempt Businesses	Uncollected Revenue	Increased Uncollected	Required Business License Fee Increase
\$2,000 (Current)	1,728	\$255,915		
\$4,000	1,922	\$303,291	\$47,376	N/A
\$6,000	2,135	\$329,940	\$74,025	\$0.78
\$8,000	2,228	\$344,463	\$88,548	\$0.94
\$10,000	2,431	\$373,932	\$118,017	\$1.25
\$12,000	2,520	\$390,852	\$134,937	\$1.38
\$20,000	2,814	\$429,768	\$173,853	\$1.84

Implementation Challenges

- State will not accept changes to business license programs until January 31, 2025.
- State will take at least six to eight months to implement the programming change in system
- Threshold increase effective date of January 1, 2025, would create significant amount of refunds.
- Threshold increase effective date of January 1, 2025, would conflict with ACW process.

Recommendation

- Threshold increase to \$4,000
- Increase effective January 1, 2026
- Update threshold every four years (recommended by AWC)
- Complete the proposed business license audit included in the preliminary budget to identify and understand the full inventory of business and to inform policy and program improvements.
- Evaluate and update entire business license program once the proposed audit is complete.

Thank you

Any Questions?

