

CITY COUNCIL AGENDA TOPIC

Ordinance amending Section 4.03.025 of the Bellevue City Code pursuant to a mandatory Business License Model Ordinance update and to make minor technical changes to align with the Model Ordinance.

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EXECUTIVE SUMMARY**ACTION**

Consider adoption of Ordinance to amend BCC 4.03.025 to update the business license minimum threshold exemption for out-of-city businesses from \$2,000 to \$4,000 and allow for periodic future increases to the threshold based on the rate of inflation. This is a change to the mandatory model ordinance for all cities with business license requirements. The City plans to enforce updates to BCC 4.03.025 effective January 1, 2026.

RECOMMENDATION

Move to adopt Ordinance No. 6875

BACKGROUND/ANALYSIS

On November 5, 2018, Council approved amending BCC 4.03.025 to adopt the mandatory business license model ordinance. State law mandated all cities that require a business license adopt changes in their code to comply with the model ordinance as adopted by the State Legislature. This model ordinance simplified business licensing for businesses that operate in multiple jurisdictions.

The model municipal business license ordinance changes required the City amend its code to provide that a business is not required to obtain a business license if 1) the 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, 2) it does not maintain a place of business within the City. Under the model ordinance, a city can also establish a higher threshold than \$2,000.

Recently, the business communities conveyed concerns that the threshold needs to be adjusted on a regular basis to account for inflation and other factors to alleviate the burden of licensing in each jurisdiction where minimal contact happens via small dollar deliveries of goods. In response to these concerns, the cities that require a business license have proposed to increase the threshold.

The primary change in the update would implement a one-time increase to a higher threshold of \$4,000 for out-of-city businesses, from the existing \$2,000 threshold, effective January 1, 2026. Other changes

include:

- Every four years thereafter, the threshold would have an automatic periodic increase based on cumulative inflation.
- The rates of inflation would be calculated using the Consumer Price Index-U (CPI-U) Western for June of each year compared to the previous year for the previous four years.
- The rate of inflation would be calculated as zero in any year in which inflation was negative and capped at 5 percent per year or 20 percent over four years if inflation exceeded those amounts.
- To make the threshold easier to administer, the cumulative inflation amount would be rounded to the nearest \$100.
- Cities would retain the local option of requiring a no-fee registration for out-of-city businesses below the threshold and the local option of imposing a higher threshold than the model minimum threshold.

Increasing this threshold supports small businesses who do minimal business and do not have a place of business in Bellevue since they will no longer be required to obtain a license.

The model ordinance also maintains the option to allow cities to require businesses with equal to or less than \$4,000 in sales and who do not maintain a place of business within the City, to obtain a business license at no cost by submitting a business license registration to the Director of Finance and Asset Management. Bellevue staff continues to not recommend this option because it would require new administrative procedures and additional costs to track and maintain licenses that are submitted to the Director only. The proposed Ordinance presented to Council this evening provides that businesses with \$4,000 or less in annual value of products, gross proceeds of sales, or gross income of the business, and whose businesses are not located in the City, do not have to file for a business license.

The model ordinance provisions do not affect the City's ability to continue to set business license fees and to use FileLocal for business licensing. FileLocal was established by an interlocal agreement and allows businesses in Bellevue, Seattle, Tacoma, Everett, and several other cities to file for business licenses and pay business and occupation taxes online.

POLICY & FISCAL IMPACTS

Policy Impact

RCW 35.09.080 and RCW 35.90.090

Under the model ordinance statute, all cities with business license requirements must adopt this change with the same effective date. If a city does not comply with this change, they may not enforce its general business licensing requirements until the changes take effect.

Fiscal Impact

Approval of this action will increase the threshold exemption for business registration and license requirements to \$4,000. This change is expected to have a de minimis impact on City revenues, as on average, approximately 10 businesses per year would no longer be required to obtain a license, resulting in an estimated revenue loss of only \$1,150 annually.

OPTIONS

1. Adopt the Ordinance amending Section 4.03.025 of the Bellevue City Code pursuant to a mandatory Business License Model Ordinance update and to make minor technical changes to align with the Model Ordinance.
2. Do not adopt the Ordinance and provide alternative direction for staff.

ATTACHMENTS

A. Ordinance - Redlined
Proposed Ordinance No. 6875

AVAILABLE IN COUNCIL LIBRARY

N/A