



*Where Life is Sweet*

Mayor and Members of the City Council  
**STAFF REPORT**  
For the Meeting of July 8, 2024

**Title/Subject**

Resolution 2332- Master Fee Resolution Update: Add Business License Fee

**Summary and Background**

The City Council adopted a requirement for a business license by ordinance at its January 8, 2024 meeting. However, Council did not adopt an actual fee associated with it at the same time, with the request to further study the issue and return with recommendations for the fee. A Business License Fee committee was formed with several City Councilors and representatives from the Chamber of Commerce as well as local business owners themselves, including several who had voiced opposition to the fee at the January 8 meeting. The committee met several times through the Spring, and at their June 10, 2024 meeting a majority voted to recommend that City Council adopt the business license fee schedule as originally presented on January 8.

The proposed fee is:

<b>Businesses WITH a Permanent Location WITHIN City Limits</b> 1. Base Fee – Includes 0-5 Full-Time Equivalent (FTE) Employees 2. 6-49 FTE Employees 3. 50+ FTE Employees	1. \$85.00 2. Base + \$15.00 per Employee 3. \$1,000.00
<b>Businesses WITHOUT a Permanent Location WITHIN City Limits</b> 1. Base Fee- Includes 0-5 Hermiston Full-Time Equivalent (FTE) Employees 2. 6-49 FTE Hermiston Employees 3. 50+ FTE Hermiston Employees	1. \$100.00 2. Base + \$20.00 per Employee 3. \$1,200.00

There are a number of different ways to assess this fee, and most cities in Oregon do charge a Business License Fee of some form. This fee schedule is substantially similar to the structure of fees in Pendleton. Although this is a very simplistic fee schedule, due to the complexities of

various types of business, whether those complexities are real, or simply raised for the purpose making a simple process appear overly complicated in an attempt to avoid the fee, here is a thorough walk-through of the various interpretations which will be utilized in administering the fee. These interpretations have been reviewed with the City of Pendleton to ensure simplicity in long-term administration.

1. What constitutes “doing business” specifically with regard to remote/telecommuting Workers- An example of this was raised at the January 8 Council meeting such as an engineer who works from their home and reviews plans and makes designs for a company out of Portland on projects across the Northwest. The home has no outward appearance of doing any business locally, they don’t advertise as doing business in Hermiston, and there is no impact to any utilities, services, etc. that would be out of the ordinary compared to a normal residence. Does the fact that the company’s remote employee lives in Hermiston count as ‘doing business’ in Hermiston? The City of Pendleton has indicated that they do not attempt to chase down that type of an operation, and does not consider that to be ‘doing business’ within the city.
2. “Employee”
  - a. Includes the owners. However, they would be treated like all other employees, where their hours worked just factor in to the total “FTE” count.
  - b. FTE is rounded down. Since an FTE is 2,080 hours, then a business with 20,000 hours of employee work would result in 9.6 FTE. Since 0.6 employees, by logical understanding doesn’t count as a full time employee, that would be rounded down to 9.0 FTE. Therefore, the business license fee would be:
    - i. Base \$85
    - ii.  $\frac{\$15\text{FTE Over } 5}{1} = \$15 \times 4 = \$60$
    - iii. Total Business License = \$145
3. Duration Pro-ration: The business license fee is an annual fee, and is not eligible to be pro-rated. Examples where this would likely come up include things such as short-term fireworks stands, Christmas Tree lots, etc. It is assumed that these businesses would be required to pay the full \$85, rather than a pro-rated amount of \$7 to account for the one-month duration.
4. Separate Licenses for Separate Businesses
  - a. There are some larger entities within the City which, while appearing as though they are one entity, they are actually made up of several separate businesses operating under one umbrella. Each business would be required to have a separate business license.
5. Exemptions: There are a number of exemptions included in the Business License Ordinance, this list is intended to include the ones that staff anticipates receiving the most questions about
  - a. Under 18- The fee will not apply to the 10 year old selling cookies and lemonade on the sidewalk for a couple of days. However, there are other businesses which are ostensibly operated by youth under the age of 18, but the actual business ownership is murkier; the example could be things like the concessions businesses operated by the High School Business classes. That would presumably be covered by the other exemptions applying to non-profits or local governments, however it points out an issue where the devil is in the details.

- b. Part of a licensed business (Beauticians, Realtors, etc)- The prime example here is a business set up like a beauty salon, where often times the individual beauticians are not otherwise employees of the salon for certain reasons. In this instance, as long as the overall salon itself has a business license, and as long as it does account for those workers within it's business license, then the individual beauticians would not be required to obtain their own business licenses.
    - i. A convoluted issue associated with this type of umbrella exemption is likely to arise from operations such as Good Shepherd Medical Center, which is a very large employer and operates multiple lines of business; some of which may actually be for-profit. Additionally, some affiliates may outwardly appear as though they are part of GSMC, but are otherwise separately owned and operated, and depending on several factors, may or may not be required to obtain a business license and pay the fee. Complex conglomerates like this will likely warrant significant upfront work directly with the business prior to implementation.
  - c. Garage Sales- Generally exempted. Unfortunately, there is likely to be a very small subset of garage sales, which push the limit. If an individual conducts a garage sale for more than 72 hours, or if they operate more than 5 garage sales in a calendar year, then they would require a business license.
  - d. "Special Events"- Organizers and participants are exempt. For example, food vendors at the downtown Watermelon Festival may very well be from out of the area and not otherwise have a business license to operate in Hermiston, but if the event is deemed a "special event" by the City Manager, then the vendors can be exempt from the license fee. However, that must occur prior to the event.
  - e. Non-Profits & Local/State/Federal Governments- These are exempted from the Business License requirement; however, these entities often times utilize private for-profit vendors to supply significant portions of their basic services, with significant numbers of employees. Examples of this would include operations like Chartwell's Food Service, First Student Buses, and Champions After-School Program; all of which appear likely to be subject to the business licenses and fees. Significant City of Hermiston vendors subject to the requirement include private entities like Anderson Perry Engineering, Gorge Aviation, Hermiston Taxi, etc.
6. Timing: Implementation of the business license fee is planned to take effect January 1, 2025. Moving forward, renewals will occur every January 1.

### **Tie-In to Council Goals**

Public safety: improve traffic safety and align public safety resources with community needs

- The revenue associated with the Business License Fee was one of the mixture of increases in revenues and cuts to other expenditures in order to increase police staffing.

## **Fiscal Information**

The City of Pendleton received \$131,000 and \$144,000 in Business License Fees in Fiscal Years 2022 and 2023 respectively. It is anticipated that in calendar year 2025, the City of Hermiston will gross approximately \$100,000 from Business License Fees. Factors included in this estimate include:

- Hermiston's fee schedule is modeled off of Pendleton's, but is slightly cheaper.
- Pendleton's fee has been in place for nearly 30 years, and therefore enjoys a certain amount of having businesses in the habit of paying, whereas there is likely to be a significant amount of revenue "loss" in Hermiston in the first year just by virtue of businesses not realizing they need to have a license.
- Long-term, it is likely that Hermiston's revenues will match or slightly exceed Pendleton's due to the larger number of businesses in Hermiston.

It should also be noted that there will be some administrative startup costs associated with activating licensing software for administration and tracking.

## **Alternatives and Recommendation**

This was a lengthy staff report, which delved in to the details on several specific topics; however, it is anticipated that these types of questions will arise regardless of how the business license fee is structured. Therefore, it is recommended that Council accept the recommendation from the Business License Fee Committee, and adopt the fee schedule as presented. Keep in mind that, just as the Council changed the code by adopting the business license concept in January, it also always has the power to go back and amend the code to change how the program is implemented if, upon implementation, it is determined that some changes are warranted.

## **Submitted By:**

Mark Morgan