



## LEGISLATIVE REQUEST MEMORANDUM

*Request new legislation, or request staff resources be allocated to issues not included in current budget, City Work Program, or department work plans.*

Title: Long-Term Rental Business License Review

Date: 4/07/2021

Requesting  
Councilmember: Toby Nixon

Department(s)  
Assigned: Finance & Administration

### REQUEST SUMMARY

*A clear, concise description of the issue(s) to be addressed, and why the City should be involved.*

The request is to review and possibly modify the Kirkland Municipal Code provisions requiring business licenses for long-term rentals of residential properties (over 30 days).

The proposal is to create an exemption in Kirkland's business license code for the following *long-term* rental of residential property from obtaining a City Business License: (a) one single-family home or condo unit that you previous lived in as your primary residence; (b) an attached or detached ADU of your owner-occupied dwelling; or (c) one or more rooms in your owner-occupied dwelling. There is concern that the requirement for a business license could discourage people to rent properties, either because of the cost or the administrative burden of applying for the license.

### BENEFITS

*Preliminary potential benefits of the proposal.*

Business license requirements could discourage residential property owners from renting their properties and instead opt to sell their property or stop renting. Dropping or modifying these requirements would return to the status prior to owner's awareness of this license requirement.

### IMPACTS

*Preliminary potential impacts of the proposal.*

**Revenue** : The only data the City has on long-term rentals is through the database in the Utility Billing software. This information is not tracked as a business code in the state's business license database because the state does not currently require a state license for long-term rentals. The minimum business license fee is generally \$205 (\$100 for the registration and 1 FTE fee of \$105), and for the long-term rentals a monthly rent of \$1,000 for 12 months would produce the minimum threshold for a license and head tax. There is no data on whether the cost or administrative burden of the business license fee has resulted in an owner ceasing to rent out a property.

In 2020, Business Licensing staff reached out to identified long-term rentals, about 2,200 from the utility billing database, with notices of existing business license requirement. 15% of these were contacted by mailed letter, 85% with email. 25% of those contacted obtained a business license. 74% did not respond. One is in conversation with the City and one refused to license. Total revenue for the 25% (557 licenses) is \$108,135. If all the long-term rentals who did not respond obtained business licenses that would result in additional annual revenue of \$315,000.

Elimination of business license requirements entirely for long term rentals could have a potential revenue loss of \$423,000 annually. Exempting sub-categories of rentals would result in a lower revenue loss that would require more staff analysis to estimate

**Administrative:** Implementing changes to the business code would require outreach to all potential properties affected by the change. The addition of multiple licensing categories would have to be clearly defined to avoid confusion in the application of the code to both applicants and administrative staff. It would also require the City to set up a local system separate from the State business license portal now used.

**Data Tracking:** Requiring a business license informs the City of all business activity occurring in Kirkland and provides contact information for those operating businesses.

## COUNCIL VISION AND GOALS

*Check all that apply.*

✓	Inclusive and Equitable Community	✓	Attainable Housing
✓	Vibrant Neighborhoods	✓	Financial Stability
	Community Safety		Sustainable Environment
	Supportive Human Services	✓	Thriving Economy
	Balanced Transportation		Dependable Infrastructure
	Abundant Parks, Open Spaces, and Recreational Services		

## EQUITY

*Preliminary discussion on how the proposal may impact diversity, equity, and inclusion.*

Although the City does not have data on the who rents this type of housing or the market cost of this type of housing, it is thought that long-term rentals of ADUs, rooms in owner-occupied residential properties, and some homes provide some of the more affordable housing options in Kirkland. Renting out of rooms and ADUs may also be providing important supplemental income to fixed-income or lower-income families allowing them to remain in Kirkland.

Simplifying or eliminating the business license requirements for these activities could encourage the continued availability of this housing in Kirkland, although we do not have specific data regarding the tenants occupying the types of long-term rentals exempted in the proposal. If a business license fee remains on long-term rentals, a potential exemption could be included that more specifically targets affordable housing.

## STAKEHOLDERS / OUTREACH

*Preliminary potential stakeholders impacted and outreach to be considered.*

The primary stakeholders are the owners of the residential properties. Additional stakeholders would include the renters of those properties and the neighbors to these rental properties who want to be informed about rentals in their neighborhoods.

Outreach would be to the property owners of the long-term rental properties to inform them of any changes to the business license code regarding license requirements for long-term rental of residential properties.

## RESOURCES AND BUDGET

*Preliminary potential staff resources needed and whether current staff and budget authority could accommodate the request.*

- Legal review required to modify Kirkland Municipal Code.
- Licensing staff required to create in-house administration of certain licenses (simplified process for constituents but additional ongoing administrative work by City staff ).
- Licensing staff and resources to provide outreach to owners of long-term residential rental properties.
- Analysis is needed to determine if this administration could be handled by existing licensing staff. Could require the addition of up to a 0.5 FTE.
- Software that could be purchased to track and process specialty licenses. Cost would need to be researched.

## OPTIONS

*Potential options or alternatives that could be evaluated.*

Additional Questions raised by Council regarding modifications to the Business License code which need to be determined:

1. How to determine which long-term rentals are required to be licensed? What factors would be used to determine requirement or non/requirement?
2. What (if any) protections to renters does a City business license provide?

Additional Options

1. Remove long-term rental business license requirements from the state BLS and process in-house to streamline and simplify process.
2. Require registration only with no fee, with in-house administration.
3. Require only 1 business license for multiple property rentals, rather than the current requirement of a license for each location.
4. Create a reduced fee for certain types of rentals, such as for long-term affordable housing rentals.
5. Take no action at this time but include this issue in the comprehensive review of business license fees that is scheduled for the first quarter of 2022.

## ADDITIONAL CONSIDERATIONS

*Check all that apply.*

✓	Legal analysis required
✓	Fiscal analysis required
✓	Legislative change required
	State or federal change required
	Other (please explain):

▪Department Director responsible for acquiring Finance and Legal approval before submitting to City Manager.

APPROVALS	INITIAL	DATE
Finance Department	MO	4/8/2021
Legal Department	DE	4/9/2021
Department Director	MO	4/8/2021
Submit to City Manager		