

**TRACY FINANCE COMMITTEE**  
SPECIAL MEETING AGENDA  
Wednesday April 3, 2024, 6:00 P.M.



Tracy City Hall Chambers, 333 Civic Center Plaza, Tracy  
Web Site: [www.cityoftracy.org](http://www.cityoftracy.org)

**THIS MEETING WILL BE OPEN TO THE PUBLIC FOR IN-PERSON AND  
REMOTE PARTICIPATION PURSUANT TO GOVERNMENT CODE SECTION  
54953(e)**

**MEMBERS OF THE PUBLIC MAY PARTICIPATE REMOTELY IN THE MEETING VIA  
THE FOLLOWING METHOD:**

*As always, the public may view the Tracy Finance Committee meetings live on the City of Tracy's website at [CityofTracy.org](http://CityofTracy.org) or on Comcast Channel 26/AT&T U-verse Channel 99. To view from the City's website, open the "Government" menu at the top of the City's homepage and select "Finance Committee", then select "[View Finance Committee Meetings on YouTube](#)" under the "Boards and Commissions" section.*

*If you only wish to watch the meeting and do not wish to address the Finance Committee, the City requests that you stream the meeting through the City's website or watch on Channel 26.*

**Remote Public Comment:**

*During the upcoming Finance Committee meeting public comment will be accepted via the options listed below. If you would like to comment remotely, please follow the protocols below:*

- *Comments via:*
  - **Online by visiting** <https://cityoftracyevents.webex.com> and using the following **Event Number: 2557 492 6627** and **Event Password: Finance**
  - ***If you would like to participate in the public comment anonymously***, you may submit your comment in WebEx by typing "Anonymous" when prompted to provide a First and Last Name and inserting [Anonymous@example.com](mailto:Anonymous@example.com) when prompted to provide an email address.
  - **Join by phone by dialing** [+1-408-418-9388](tel:+14084189388), enter [25574926627#3462623#](https://cityoftracyevents.webex.com/join/25574926627#3462623#) Press \*3 to raise the hand icon to speak on an item.
  
- *Protocols for commenting via WebEx:*
  - *If you wish to comment on the "Consent Calendar", "Items from the Audience/Public Comment" or "Regular Agenda" portions of the agenda:*
    - *Listen for the Chairperson to open that portion of the agenda for discussion, then raise your hand to speak by clicking on the Hand icon on the Participants panel to the right of your screen.*
    - *If you no longer wish to comment, you may lower your hand by clicking on the Hand icon again.*
  - *Comments for the "Consent Calendar" "Items from the Agenda/Public Comment" or "Regular Agenda" portions of the agenda will be accepted until the public comment for that item is closed.*

Government Code Section 54954.3 states that every public meeting shall provide an opportunity for the public to address the Tracy Finance Committee on any item, before or during consideration of the item, however no action shall be taken on any item not on the agenda.

Full copies of the agenda are available on the City's website: [www.cityoftracy.org](http://www.cityoftracy.org)

CALL TO ORDER  
ROLL CALL

1. CONSENT CALENDAR - NONE
2. ITEMS FROM THE AUDIENCE - *In accordance with Council Meeting Protocols and Rules of Procedure, adopted by Resolution 2019-240, a five-minute maximum time limit per speaker will apply to all individuals speaking during "Items from the Audience/Public Comment". For non-agendized items, Finance Committee members may briefly respond to statements made or questions posed by individuals during public comment; ask questions for clarification; direct the individual to the appropriate staff member; or request that matter be placed on a future agenda or that staff provide additional information to the Finance Committee.*
3. REGULAR AGENDA
  - 3.A. STAFF RECOMMENDS THAT THE TRACY FINANCE COMMITTEE CONDUCT A WORKSHOP ON THE CITY'S NEW BUSINESS TAX STRUCTURE AND DISCUSS POTENTIAL OPTIONS FOR FUTURE AMENDMENTS TO CHAPTER 6.04 (BUSINESS TAXES) OF THE TRACY MUNICIPAL CODE.
4. STAFF ITEMS
5. COMMITTEE ITEMS
6. ADJOURNMENT

**Posting Date: April 2, 2024**

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April 3, 2024

Agenda Item 3A

RECOMMENDATION

**STAFF RECOMMENDS THAT THE TRACY FINANCE COMMITTEE CONDUCT A WORKSHOP ON THE CITY'S NEW BUSINESS TAX STRUCTURE AND DISCUSS POTENTIAL OPTIONS FOR FUTURE AMENDMENTS TO CHAPTER 6.04 (BUSINESS TAXES) OF THE TRACY MUNICIPAL CODE.**

EXECUTIVE SUMMARY

In November 2022, voters approved initiative Measure B which adopts an updated business tax structure. The updated structure moved to a business tax based upon gross receipts and took effect July 1, 2023. At the City Council's request, staff provided an update on the impacts of the new tax structure and potential options to reduce impacts to Tracy businesses on October 23, 2023. Staff is now returning for a workshop to discuss the tax potential options for future amendments. This workshop invites the Committee to discuss and select options for a future action item. Following the workshop, staff will return with an action item during the April 29, 2024, meeting.

BACKGROUND AND LEGISLATIVE HISTORY

Business tax is an annual tax charged to businesses operating in the City, for the purpose of contributing revenue to the City's General Fund in support of essential services, such as public safety, streets maintenance, and recreation programs.

In March 2020, the City Council formed the Ad-Hoc Committee for fiscal sustainability (which committee now has become the standing Finance Committee of the City Council). The committee was formed with the intention of providing guidance to develop short- and long-term fiscal sustainability strategies. During this time, the City was facing a budget deficit. One of the recommendations from the committee was to review the structure of the City's business tax. The City's business tax structure was based upon the number of employees, had a cap of \$2,018 and had remained unchanged since 1984.

In March 2022, the City Council directed staff to proceed with placing a tax measure on the November 2022 ballot. Staff worked to develop a tax structure that was more equitable amongst small and large businesses. In the process of determining the proposed tax rates, staff partnered with HDL Companies to analyze the rates of cities similar in size and close in proximity to Tracy. The proposed tax rates were broken into business categories, with the lower tax rates associated with businesses with a smaller margin for profit and the with a higher rate of tax associated for businesses with a larger margin for profit.

The updated business tax structure was aimed to bring equity amongst small and large business and to give Tracy control over local funds, providing resources for community priorities including public safety, recreational programs, and economic development.

In June 2022, the City Council approved the structure to be placed on the November 2022 ballot, as Measure B. The ballot measure, as written below, was approved by voters in November 2022.

**OFFICIAL MEASURE B BALLOT LANGUAGE**

*To ensure large businesses pay a proportionate share and provide funding for City services such as: repairing potholes/streets; keeping public areas healthy/safe/clean; maintaining neighborhood police patrols/9-1-1 emergency response/fire protection; supporting our economy/ general government use, shall the ordinance to update the City of Tracy business taxes be adopted with typical rates between 0.1% and 0.3% of gross receipts as described in the ordinance, providing an additional \$3,200,000 annually, until ended by voters?*

The new tax structure took effect on July 1, 2023 (Tracy Municipal Code 6.04). Under the new tax structure, the first \$500,000 of a business’s gross receipts pays a flat \$50. Any gross receipts above \$500,000 pay a percentage of gross receipts. The percentage applied to gross receipts over \$500,000 ranges from \$0.001 to \$0.003, or \$1 to \$3 for every \$1,000 in gross receipts, dependent upon the category of business.

Cities have moved to using gross receipts as the method used for calculating business tax, pursuant to Government Code Section 37101, which allows for such taxes to be levied. While many cities used employee count as the basis for calculating the tax due, this methodology has been something that most cities have moved away from, as it is often perceived as a tax on jobs. Under Government Code section 37101(b), any city imposing a business tax must “levy the tax so that the measure of tax fairly reflects that proportion of the taxed activity actually carried on within the taxing jurisdiction.” The use of gross receipts best meets this State law requirement and allows for a proportional way to collect tax, adjusting as the economy does.

Business Rate Categories	Minimum Fee	Business Rate Categories
GENERAL BUSINESS	\$50 Flat Rate Annually (First \$500K of GR)	0.001 X Gross Receipts
MANUFACTURING, WAREHOUSING, WHOLESALE		0.0015 X Gross Receipts
CONTRACTOR/SERVICE		0.002 X Gross Receipts
PROFESSIONALS/RENTAL		0.003 X Gross Receipts

The voter approved Measure B tax structure has four categories of businesses:

- 1) General Business, which includes retail, gas stations, restaurants, and auto sales.
- 2) Manufacturing, Warehouse, and Wholesale.
- 3) Contractors and Services, which includes construction, auto repair, janitorial services, salons, and other trades.
- 4) Professional and Rentals, which includes medical and dental offices, real estate, and attorneys.

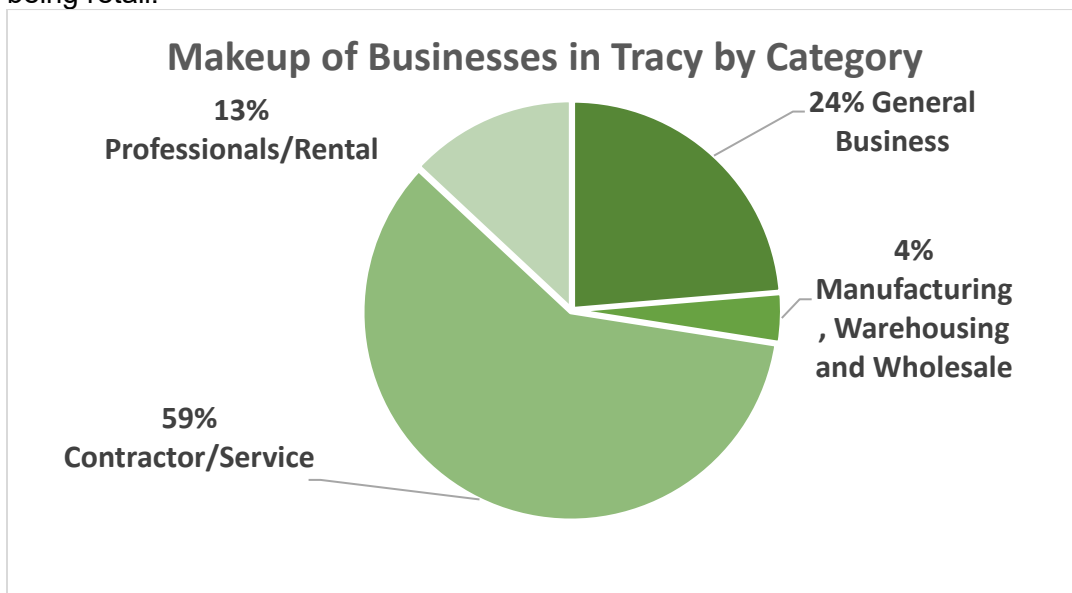
The creation of the categories and their corresponding tax rate was based upon the profit margins associated with each category. Retail sales and general business being the lowest tax rate, as those industries tend to have a lower margin of profit.

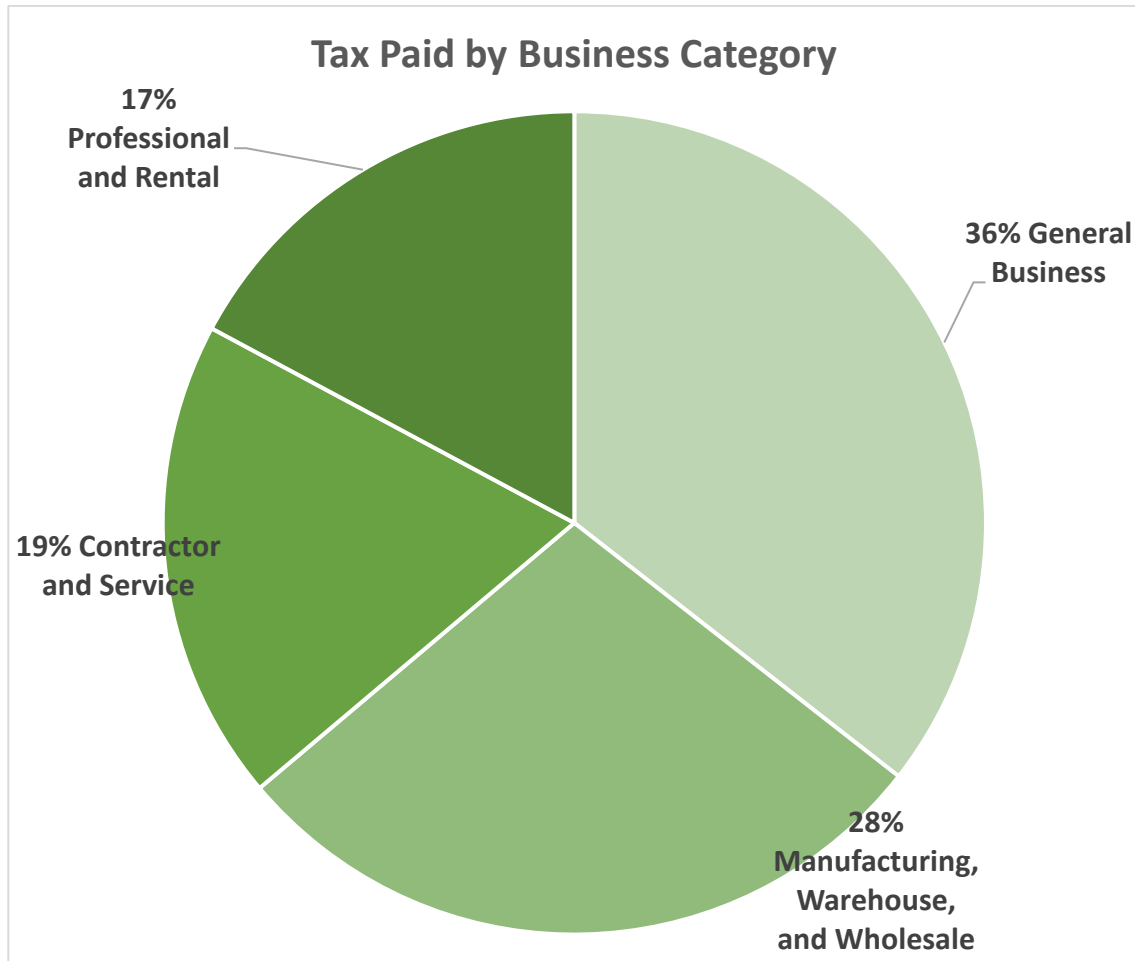
### ANALYSIS

The City Council requested that the Finance Committee receive updates on the new business tax structure, its impacts on the Tracy business community, and options the City Council may have for methods of minimizing these impacts. The first update was conducted on October 23, 2023 and staff is returning for a workshop to discuss the tax.

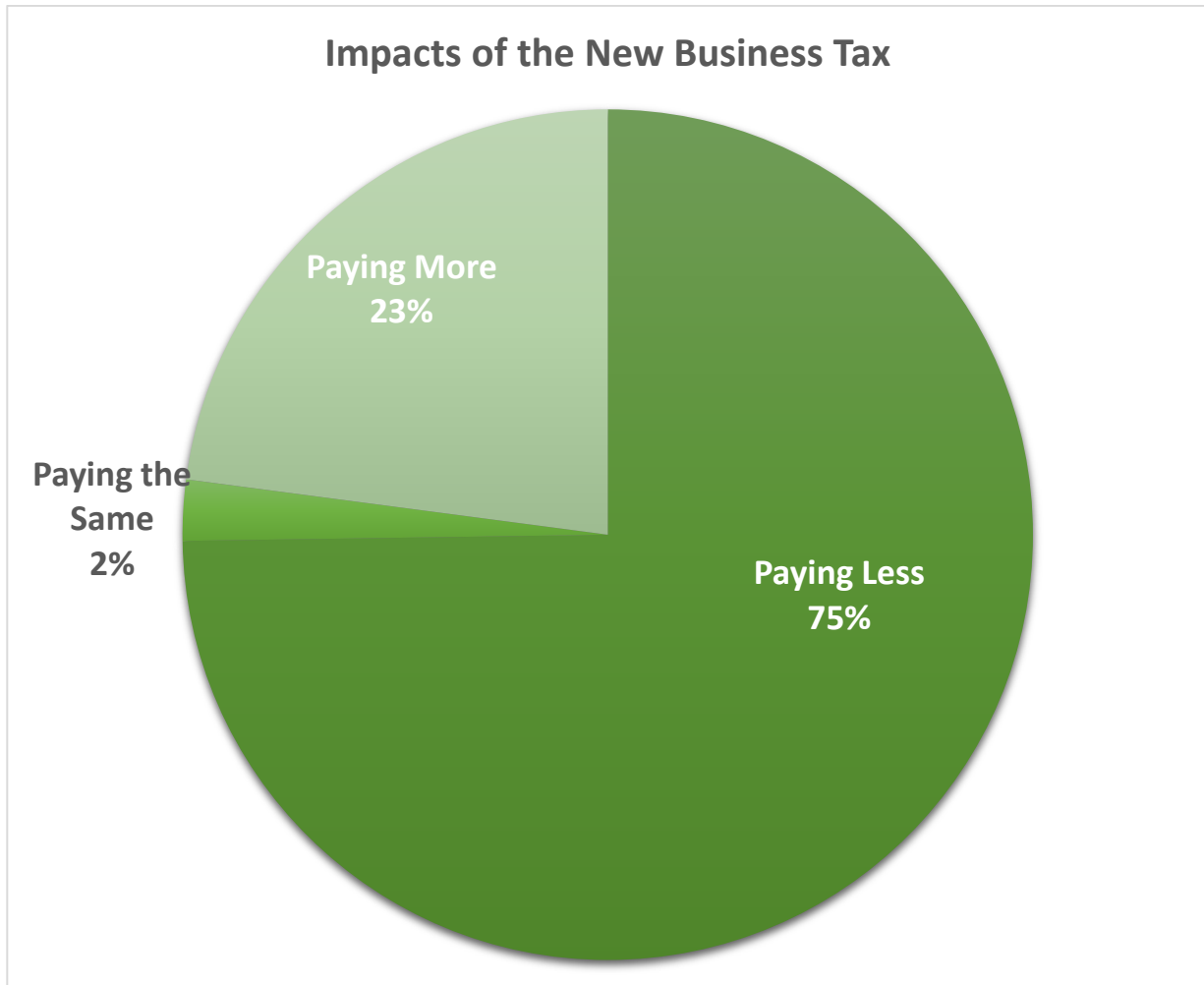
The chart below depicts the makeup of businesses in Tracy by category. The majority of businesses operating in Tracy are in the Contractor and Services category.

In reviewing the amount of tax paid by category, the General Business category contributes the largest amount of tax. While the General Business category pays the lowest tax rate of all four categories, it is likely the largest contributor due to many of the businesses in this category being retail.



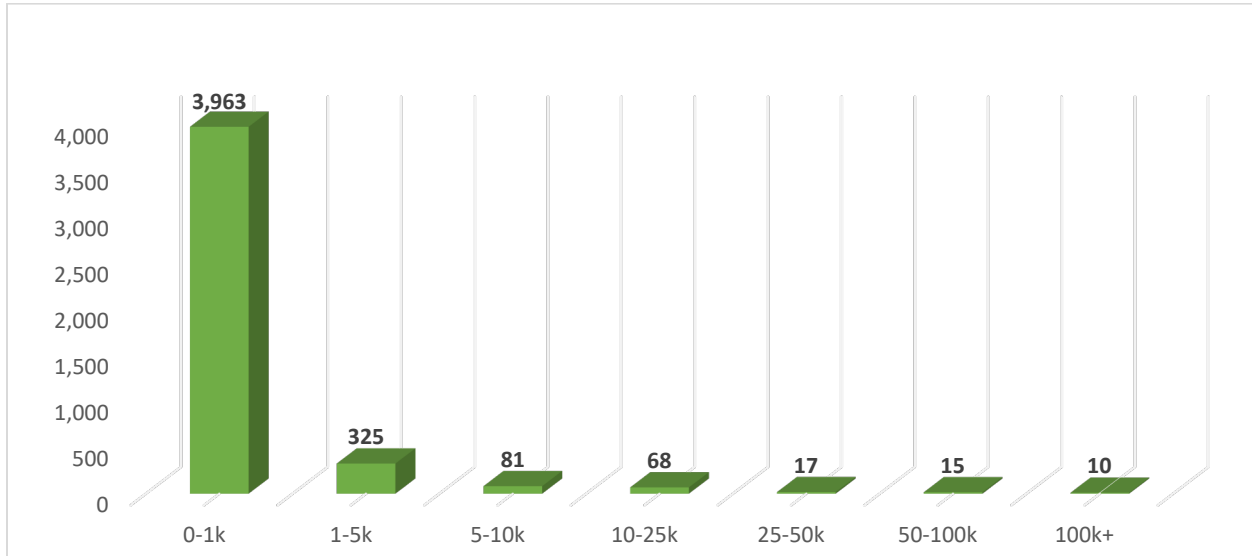


The prior business tax structure had a maximum tax of \$2,018 annually. Initial analysis of the tax measure projected that 80% of businesses would see a reduction in the amount of business tax paid to the City. Upon implementation of the new tax structure, 75% of businesses renewing their license saw the reduction in tax and 2% of businesses saw no change in the amount paid. 23% of the businesses in Tracy saw an increase in the amount of business tax paid. Of the businesses that saw an increase in the amount of tax paid, the average increase was found to be \$7,825.



Further analysis finds that under the new business tax structure, the majority of businesses in Tracy are paying less than \$1,000 annually to renew their business license. Because the structure of the new business tax has no maximum tax, there are currently 25 businesses in Tracy with a tax bill larger than \$50,000. The tax was aimed to create an equitable, proportional tax amongst Tracy businesses based on gross receipts; as opposed to a capped tax where smaller size business pay a large proportionate share of their income to that of large businesses. The data supports that the new tax structure is allocating the tax proportionally.

Amount of Business Tax Paid in FY 2023-24



In reviewing the business tax structure of the cities closest to Tracy, most Cities have moved to a gross receipts-based structure. Some cities have a maximum tax, but many do not. It is important to note that each city may have other local taxes or industries contributing to its General Fund, such as a stronger tourism base resulting in additional Transit Occupancy Tax (TOT). Many Cities with a lower tax structure have not made updates to their tax structure in 20-30 years and may soon be in the process of changing their tax similarly to the City. Among cities that have a gross receipts-based tax, Tracy is the only City that provides any exemption. The City currently exempts the first \$500,000 of gross receipts to a flat \$50 tax. Because of this, 75% of Tracy's businesses saw a reduction in the amount of tax paid and 2% of businesses paid the same amount of tax.

City Name	Population	Tax Type	Maximum Tax	Last Ordinance Revision
Tracy	98,601	Gross Receipts	No	2023
Modesto	214,221	Gross Receipts	No	1997
Stockton	307,000	Gross Receipts	No	2005
Livermore	86,493	Gross Receipts	No	2018
Pleasanton	9,800	Gross Receipts	No	2017
Manteca	81,592	Gross Receipts	\$1,250	1990
Lathrop	23,284	Flat	\$661	2002



Depicted below is an example of the tax that would be collected in each of the comparison Cities by a business with \$5 million dollars in gross receipts in each of the business tax categories.

<b>Example - Businesses with \$5,000,000 in Gross Receipts</b>							
<b>Type of Business</b>	<b>Tracy</b>	<b>Modesto</b>	<b>Stockton</b>	<b>Livermore</b>	<b>Pleasanton</b>	<b>Manteca</b>	<b>Lathrop</b>
Retail or General Business	\$4,550	\$5,000	\$4,500	\$4,000	\$1,750	\$1,250	\$661
Manufacturing/Wholesale	\$6,800	\$100	\$1,250	\$4,000	\$1,750	\$1,250	\$661
Contractor/ Service	\$9,050	\$10,000	\$2,500	\$4,000	\$1,750	\$1,250	\$661
Professional / Rentals	\$13,550	\$10,000	\$10,000	\$8,000	\$1,750	\$1,250	\$661

Since the adoption of the updated business tax, the City has been able to support additional programs and services, such as two additional traffic enforcement Police Officers, two Maintenance Workers for roadway maintenance, increased purchasing of materials for roadway repairs, one Maintenance Worker for Parks Maintenance, one Cybersecurity Officer, and the addition of Economic Development staff and an Economic Development business incentive program.

The City Council requested that the Finance Committee receive an update on the business tax and discuss options that could potentially reduce the impact of the increase from the new tax structure that some businesses have faced. Staff presented an update to the Finance Committee on October 23, 2023 with options for a reduction in impact to businesses, that will not require a new ballot measure to go back out to voters for approval. During that meeting, the Chamber of Commerce requested that the Committee not recommend any of the six options to Council and instead conduct a workshop on the business tax. The Committee action during the October 2023 meeting directed staff to return with a Finance Committee Workshop on the business tax.

Since the October 2023 Finance Committee meeting, staff has worked with the Chamber to conduct listening sessions with Tracy businesses that would allow staff to understand what changes the business community is looking to see in the business tax structure. During these meetings, the Chamber identified certain industries that were impacted, and the City has facilitated meetings with business managers from those impacted industries. Through those discussions, it was discovered that many of the gas stations within Tracy inadvertently included pass-through taxes such as sales tax and gas tax in their gross receipts calculation, resulting in an overpayment of their business tax. The City and their business tax consultant, HDL have been working directly with those businesses to correct their return and provide a credit or refund of their overpayment.

Through category audits, it was also identified that there are several businesses within Tracy that provide multiple services, crossing over more than one tax category, for example, a hair salon that sells retail products would report the gross receipts from professional services at the professional service tax rate and the retail sales in the general business category, which is a lower rate. The City and HDL continue their efforts to communicate with businesses that are

believed to be due a credit or refund as a result of their business falling into multiple categories.

Below is a timeline of events occurring both before and after the October 2023 Finance Committee Meeting:

July 2023	New business tax structure takes effect
July – August 2023	Extended deadline to make tax payment
September 2023	City attends Chamber Liaison meeting
September 2023	City analyzes tax data from the new tax structure
October 2023	Finance Committee receives update on new tax structure and options for possible changes to structure
November 2023	City and Chamber meet to discuss tax
December 2023- January 2024	Chamber meets with Tracy businesses to conduct listening sessions on business tax impacts
February 2024	Chamber identifies industry specific questions on the business tax
March 2024	City and Chamber host industry specific meetings.
March 2024	Chamber submits options for changes to business tax to the City


On March 22, 2024, the Chamber submitted a set of options for the Finance Committee's consideration to reduce the impact of the tax on local businesses. Within the options presented by the Chamber, there is also the request for the creation of two new categories: Cannabis and Gas Stations. The Chamber is requesting an additional category for cannabis businesses due to those businesses paying the City Cannabis tax and community benefit fee. There are currently two cannabis businesses in Tracy, with several more expected to open within the next year. The second requested category creation is for gas stations. The request for a category specific to gas stations is due to the lower profit margin in fuel. Currently, cannabis businesses and gas stations are reporting in the retail/general business category, which is the lowest tax rate category.

Any reduction in tax paid by businesses in Tracy will result in a reduction in overall revenue to the City's General Fund, which is used to pay for essential services. Staff has estimated the fiscal impact associated with the option for tax reduction, however, it is important to note that the actual fiscal impact will vary, as businesses gross receipts vary from year to year and must be applied to all businesses within a business category. For example, all retail would receive the same tax structure which could potentially have large impacts upon the total revenue collection. The estimated fiscal impact stated is based upon the amount of gross receipts reported in the current fiscal year.

**Chamber Options:**


**Chamber Option 1**

The Chamber's option 1 includes a reduced tax rate across all categories and the creation of a new cannabis category that would pay a flat \$50 tax, due to those businesses paying the City cannabis tax and community benefit fee. This change would allow all businesses to see a reduction in the amount of tax paid. The estimated fiscal impact associated with this option is \$5.3M annually. This option provides a reduction to all categories, however, is a significant impact to the City.

Option 1		 <b>TRACY</b> <i>Chamber of Commerce</i>	
BUSINESS RATE CATEGORIES	MINIMUM FEE	BUSINESS RATE CATEGORIES	
Retail	\$50 Flat Rate Annually (First \$500k Of GR)	\$0.50 Per \$1000 Gross Receipts (0.0005)	
Manufacturing, Warehouse, Wholesaling		\$0.30 Per \$1000 Gross Receipts (0.0003)	
Contractor/Service		\$0.40 Per \$1000 Gross Receipts (0.0004)	
Professional/Rentals		\$0.40 Per \$1000 Gross Receipts (0.0004)	
Cannabis		\$50 Flat Rate Due to a 1.5% Gross Receipts Tax Already In Place To The City	


Chamber Option 2

The Chamber's option 2 includes a reduced tax rate across all categories, a maximum tax of \$50,000 and the creation of a new cannabis category that would pay a flat \$50 tax, due to those businesses paying the City cannabis tax and community benefit fee. The estimated fiscal impact associated with this option is \$6M annually. While this option provides a reduction in the tax, it does reduce City business tax revenues to an annual amount equal to the previous tax, creating a significant impact to the City.

<div style="display: flex; justify-content: space-between; align-items: center;"> <span style="font-size: 2em;">Option 2</span>  </div>		
BUSINESS RATE CATEGORIES	MINIMUM FEE	BUSINESS RATE CATEGORIES
Retail	\$50 Flat Rate Annually (First \$500k Of GR)  \$50k Fee Cap	0.00025 X Gross Receipts
Manufacturing, Warehouse, Wholesaling		0.000375 X Gross Receipts
Contractor/Service		0.0005 X Gross Receipts
Professional/Rentals		0.00075 X Gross Receipts
Cannabis		\$50 Flat Rate Due to a 1.5% Gross Receipts Tax Already In Place To The City

Chamber Option 3

The Chamber's option 3 includes a reduced tax rate across all categories, a maximum tax of \$25,000 and the creation of a new cannabis category that would pay a flat \$50 tax, due to those businesses paying the City cannabis tax and community benefit fee. This option is similar in structure to option 2 but provides a slightly higher tax rate with a lower maximum tax. The estimated fiscal impact associated with this option is \$5.5M annually. While this option provides a reduction in the tax, it does significantly reduce City business tax revenues to an annual amount that is approximately \$500k higher than the previous tax.


Option 3		
BUSINESS RATE CATEGORIES	MINIMUM FEE	BUSINESS RATE CATEGORIES
Retail	\$50 Flat Rate Annually (First \$500k Of GR)  \$25k Fee Cap	0.0005 X Gross Receipts
Manufacturing, Warehouse, Wholesaling		0.00075 X Gross Receipts
Contractor/Service		0.001 X Gross Receipts
Professional/Rentals		0.0015 X Gross Receipts
Cannabis		\$50 Flat Rate Due to a 1.5% Gross Receipts Tax Already In Place To The City

Chamber Option 4 – 6

The Chamber's options 4-6 are specific to the creation of a category for gas stations. The Chamber supports the creation of a new category for the gas stations, as the profit margin for gasoline sales is low. These options assume a different tax rate for gasoline sales from the attached convenience stores retail sales. Staff's analysis of these three options proved to be challenging, as staff does not know how much of the businesses gross receipts are from gasoline sales or retail sales from the convenience store. The gross receipts are currently reported as one number. Staff assumed a percentage split of 80% gasoline sales and 20% retail sales for the purpose of this analysis. The estimated fiscal impact associated with options 4-6 are shown below:

- Chamber Option 4     estimated fiscal impact of \$70,000 annually
- Chamber Option 5     estimated fiscal impact of \$100,000 annually
- Chamber Option 6     estimated fiscal impact of \$85,000 annually

While the creation of a category for gas stations has a smaller fiscal impact, this may not be equitable among other businesses that also have a low profit margin.

Gas Station Options		
BUSINESS RATE CATEGORIES	MINIMUM FEE	BUSINESS RATE CATEGORIES
Gas Stations Option 1	\$50 Flat Rate Annually (First \$500k Of GR)  Option 1- No Cap Option 2- \$50k Fee Cap Option 3- \$25k Fee Cap	\$0.50 Per \$1000 Retail GR  \$50 Flat Rate For Gas Sales GR
Gas Stations Option 2		0.00025 X Retail GR  0.00025 X Gas Sales GR
Gas Stations Option 3		0.0005 X Retail GR  0.000375 X Gas Sales GR

An additional request of the Chamber is to allow one business license for businesses that operate at multiple locations under the same parent company within the City. Staff has conducted research and has concluded that the requirement of a business license at each location is required due to tax law. A single business owner could have multiple business types and tax rates that would require much more comprehensive audits to be conducted annually. Staff has also verified the municipal code of other Cities to be in alignment of the requirement to have a business license at each business location.

**Staff Options:**

As previously mentioned, staff provided an update on the business tax to the Committee on October 23, 2023. Below are the six options presented by staff during that meeting.

City Option 1

No changes, maintain current business tax structure.

City Option 2

Increase the exemption allowing businesses to pay a flat rate of \$50, from \$500,000 to \$1,000,000. This change would allow more businesses to see a reduction in tax, with the impact reaching 3,965 businesses in Tracy. While some of the businesses are already seeing a reduction in the amount of tax paid from the prior tax structure, this change would equitably allow for more businesses to see a reduction. The estimated annual fiscal impact of this option is \$615,000 annually.

City Option 3

Create a cap on the maximum amount of tax to be paid. This change would provide relief to a smaller percentage of businesses, benefitting those with a larger amount of gross receipts. For example, creation of a maximum tax of \$50,000 would provide relief for twenty-five businesses and would reduce the equity of the tax paid per capita between small and larger businesses. The estimated fiscal impact of a \$50,000 maximum tax would be around \$2.5M. This option results in the City's large businesses paying a lower proportionate share based on gross receipts and would benefit only a small number of City businesses (see chart "Amount of Business Tax Paid in FY 2023-24")

City Option 4

Allow a deduction for raw materials. This change would provide relief to manufacturing, packing and processing businesses, primarily in the warehouse business category. A deduction for the value of raw materials at the time it enters the manufacturing process would allow for the business tax to be calculated only on the value of the manufactured product. There are 66 businesses in Tracy that are classified as manufacturing businesses that could see relief from this option. The fiscal impacts of this option are unknown, as the City does not have information on the value of raw materials that would potentially be deducted from the business's gross receipts. It is important to note that this category was segregated out in Tracy's Business Tax due to the potential threat of losses e-commerce sales tax revenue from the City's warehouses. The Business Tax revenue was modernized to provide an increase revenue to the City and mitigate the potential loss from sales tax.

City Option 5

Reduce the tax rate for all categories. A reduction to the tax rate would equitably reduce taxes across all categories. An example of a 25% reduction to the tax rate is depicted below. The estimated fiscal impact associated with reducing the tax rate by 25% would cause the City's business tax revenue to decline by \$1.5M.

Business Category	Minimum Fee	Current Tax Rate	Reduced Tax Rate
General Business	\$50 Flat Rate Annually (First \$500k of Gross Receipts)	0.001	0.00075
Manufacturing, Warehousing, Wholesaling		0.0015	0.00125
Contractor/Service		0.002	0.00150
Professionals/Rental		0.003	0.00225

In the example of a 25% reduction in the tax rate, businesses would see reduction in tax of approximately \$125 per business for every \$1M in gross receipts.

Business Category	Gross Gross Receipts	GR after Exemption	Current Tax	Reduced Tax	Difference
General Business	\$1,000,000	\$500,000	\$550	\$425	\$125
Manufacturing, Warehousing, Wholesaling	\$1,000,000	\$500,000	\$800	\$675	\$125
Contractor/Service	\$1,000,000	\$500,000	\$1,050	\$925	\$125
Professionals/Rental	\$1,000,000	\$500,000	\$1,550	\$1,425	\$125

City Option 6

Take a phased approach to the business tax structure. With this option, the business tax would be phased to the current voter approved rate over the next four fiscal years. The phasing would be in 25% increments. While this option provides the largest amount of relief to the Tracy business community, reduction of the rate in year one of this option to 25% of the voter approved rate would reduce the annual business tax revenue to the prior business tax structure amount.

Estimated Annual Fiscal Impact:

FY2024-25	\$6M
FY2025-26	\$4.5M
FY2026-27	\$1.5M
FY2027-28	\$0



<b>Business Category</b>	<b>Minimum Fee</b>	<b>Current Tax Rate</b>	<b>FY2024-25 Tax Rate</b>	<b>FY2025-26 Tax Rate</b>	<b>FY2026-27 Tax Rate</b>	<b>FY2027-28 Tax Rate</b>
General Business	\$50 Flat Rate Annually (First \$500k of Gross Receipts)	0.001	0.00025	0.00050	0.00075	0.0010
Manufacturing, Warehousing, Wholesaling		0.0015	0.000375	0.00075	0.00125	0.0015
Contractor/Service		0.002	0.00050	0.00100	0.00150	0.0020
Professionals/Rental		0.003	0.00075	0.00150	0.00225	0.0030

Impacts of Reduction to Tax on General Fund Budget

It is important to note that the adopted FY2023-24 budget, including staffing levels, labor contracts, road and park improvements, was approved with the new Business Tax structure as a General Fund revenue source. Any changes that result in a reduction in the tax during the current fiscal year will require review of the adopted budget as well as potential reductions to balance the budget. Staff is currently preparing the FY2024-25 budget and has presented budget augmentations to the Finance Committee that support the Council adopted Strategic Priorities and enhance City services and programs. Any reduction to the tax in the upcoming fiscal year would reduce the viability of including those budget augmentations, and in certain scenarios presented, require City departments to reduce services or Council to amend its fiscal sustainability strategies to balance the budget.

Separately, as has been discussed publicly, the City’s sales tax allocation is expected to decrease in the near future, as changes to the structure of sales tax related to e-commerce are imminent with the State law. The amount of decrease to sales tax remains unknown at this time; however, the reduction could be as much as 30-50% of the City’s sales tax allocation.

The City’s costs of operating City functions and providing essential services to Tracy residents continues to increase, and all existing revenue sources have been considered in the current year’s budget. Staff recommends that if the City Council were to consider any reduction to the business tax, such a reduction, be temporary relief, reevaluated on an annual basis, in consideration of the City’s financial position and future outlook. To have a balanced budget, staff recommends that both the revenue reductions and appropriations reduction be proposed to the City Council concurrently for consideration.

FISCAL IMPACT

Revenue collected from the City’s business tax contributes to the City’s General Fund. Any changes to the structure of the business tax will impact the City’s budget and fiscal sustainability strategies.

STRATEGIC PLAN

This agenda item supports the Governance strategic priority, goal two, ensure short and long-term fiscal health.

ACTION REQUESTED OF THE FINANCE COMMITTEE

Staff recommends that the Tracy Finance Committee conduct a workshop on the City's new business tax structure and discuss potential options for future amendments to Chapter 6.04 (Business Taxes) of the Tracy Municipal Code.

Prepared by: Sara Cowell, Director of Finance

Reviewed by: Bijal Patel, City Attorney  
Karin Schnaider, Assistant City Manager

Attachments

Attachment A: Business Tax Update Power Point Presentation  
Attachment B: Submittal from the Tracy Chamber of Commerce



# Business Tax Workshop

Finance Committee

April 3, 2024

# Background

- 1984 – Business Tax based upon number of employees is established. A maximum tax of \$2,018 is established.
- March 2020 – Council formed the Ad-Hoc Committee for Fiscal Sustainability.
- March 2021 – City’s Guiding Budget Principles were created, one of the strategies was to update the Business Tax structure for a more equitable tax.
- March 2022 – Council directs staff to proceed with placing a tax measure on the November 2022 ballot.



# Background

July 2022 - Council approves the Business Tax structure that would be on the November 2022 ballot (Measure B). The structure is based upon gross receipts and is aimed to bring equity amongst large and small businesses.

## OFFICIAL MEASURE B BALLOT LANGUAGE

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*To ensure large businesses pay a proportionate share and provide funding for City services such as: repairing potholes/streets; keeping public areas healthy/safe/clean; maintaining neighborhood police patrols/9-1-1 emergency response/fire protection; supporting our economy/ general government use, shall the ordinance to update the City of Tracy business taxes be adopted with typical rates between 0.1% and 0.3% of gross receipts as described in the ordinance, providing an additional \$3,200,000 annually, until ended by voters?*

---

November 2022 – Voters approve new Business Tax structure.

July 2023 – New Business Tax structure becomes effective.





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# New Tax Structure Effective July 1, 2023

BUSINESS RATE CATEGORIES	MINIMUM FEE	BUSINESS RATE CATEGORIES
GENERAL BUSINESS	\$50 FLAT RATE ANNUALLY (FIRST \$500K OF GR)	0.001 X GROSS RECEIPTS
MANUFACTURING, WAREHOUSING, WHOLESALE		0.0015 X GROSS RECEIPTS
CONTRACTOR/SERVICE		0.002 X GROSS RECEIPTS
PROFESSIONALS/RENTALS		0.003 X GROSS RECEIPTS

# Background

The updated Business Tax gives residents local control over local funds and provides resources for the City to be used on City Services, such as:

- Repairing streets
- Keeping public areas safe & clean
- Maintaining police patrols
- Emergency protection





# Why Gross Receipts?

- Cities have moved away from using employee count as a method of taxation, as that is considered a tax on jobs.
- Proportional way to charge tax, naturally adjusts up or down as the economy does.
- Government code section 37101 authorizes the use of gross receipts.

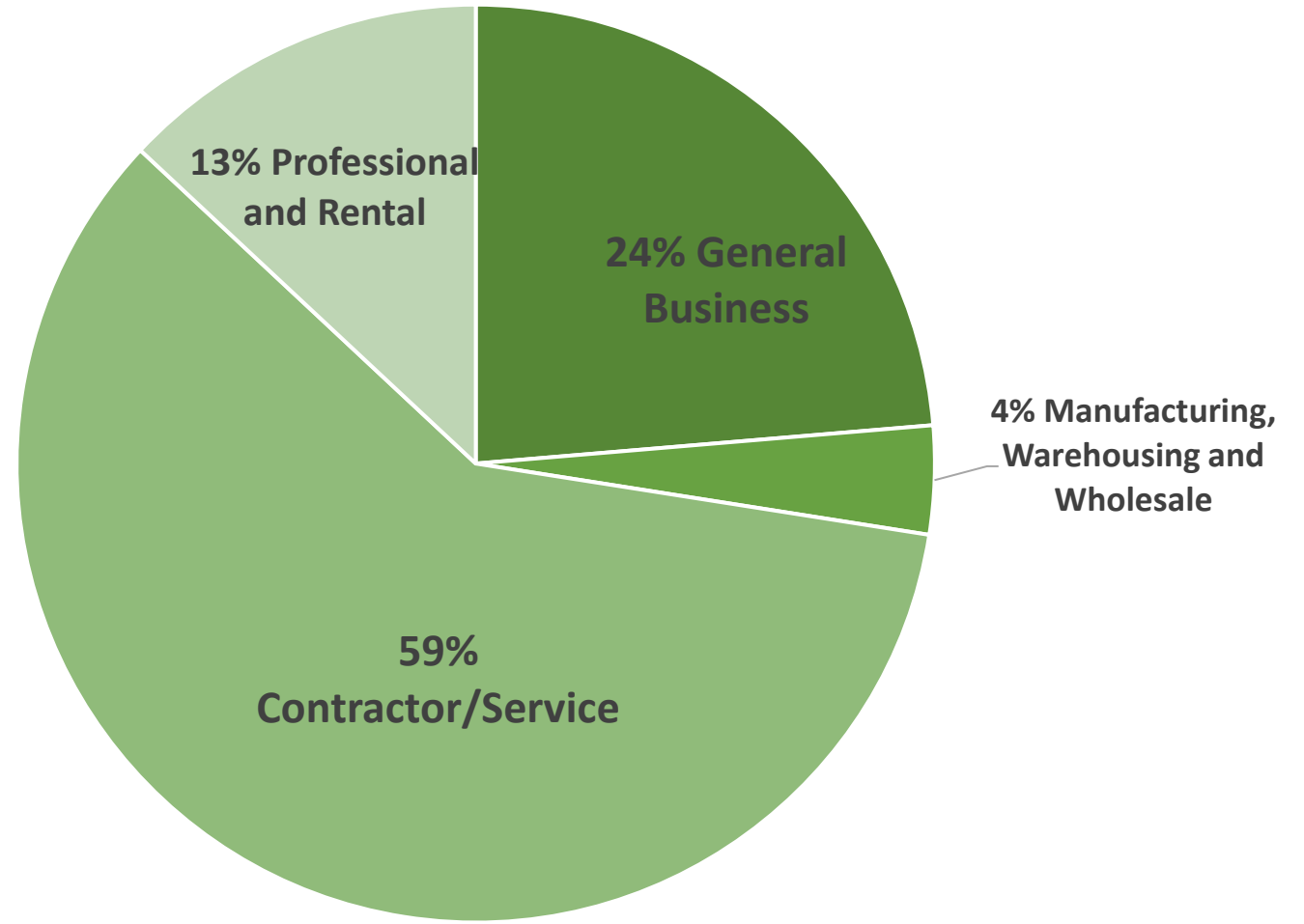






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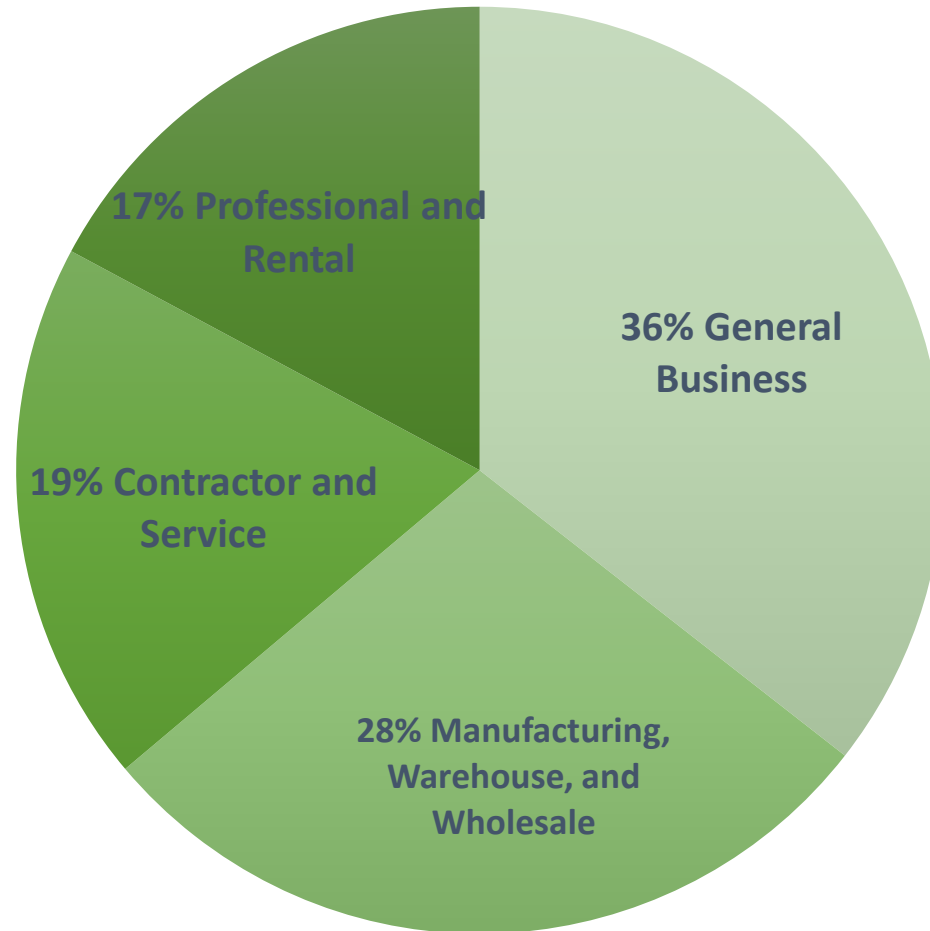
# Makeup of Businesses by Category





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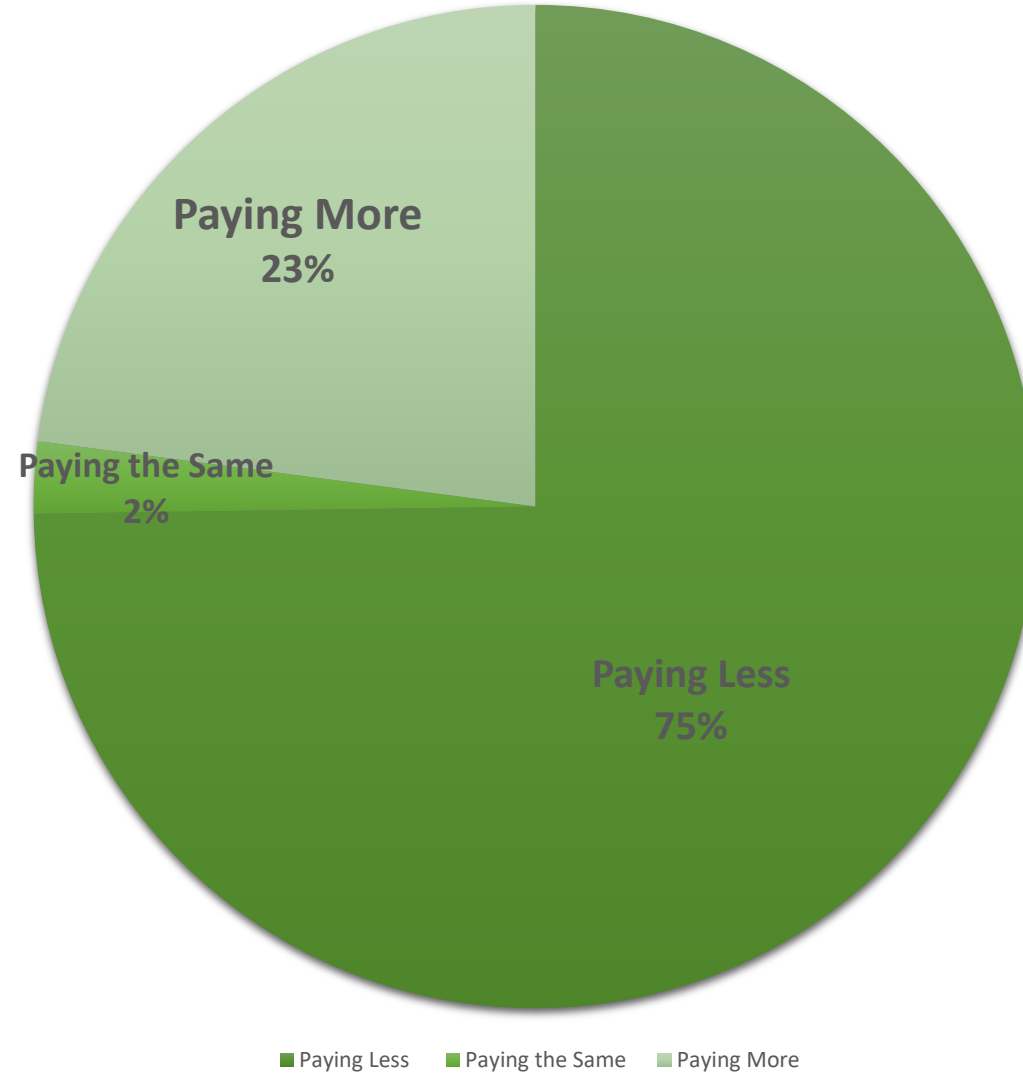
# Tax Paid by Business Category





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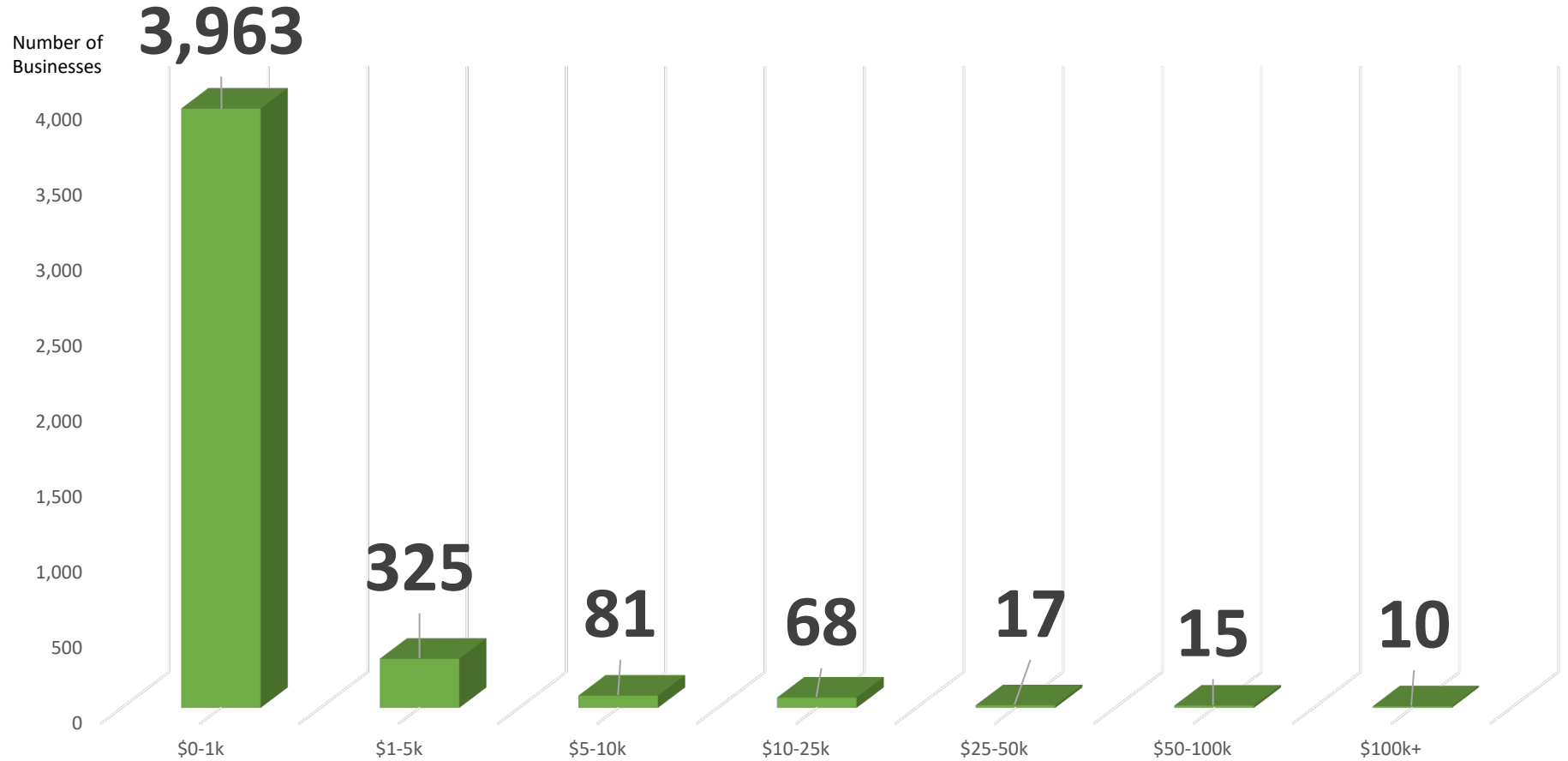
# Impacts of New Tax Structure





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# Breakout of Tax Paid



Amount of Business Tax Paid in FY2023-24



# Comparison of other Cities

City Name	Population	Tax Type	Maximum Tax	Last Ordinance Revision
Tracy	98,601	Gross Receipts	No	2023
Modesto	214,221	Gross Receipts	No	1997
Stockton	307,000	Gross Receipts	No	2005
Livermore	86,493	Gross Receipts	No	2018
Pleasanton	9,800	Gross Receipts	No	2017
Manteca	81,592	Gross Receipts	\$1,250	1990
Lathrop	23,284	Flat	\$661	2002



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# Comparison of Other Cities

**Example - Business with \$5,000,000 in Gross Receipts**

Type of Business	Tracy	Modesto	Stockton	Livermore	Pleasanton	Manteca	Lathrop
Retail or General Business	\$4,550	\$5,000	\$4,500	\$4,000	\$1,750	\$1,250	\$661
Manufacturing/Wholesale	\$6,800	\$100	\$1,250	\$4,000	\$1,750	\$1,250	\$661
Contractor/ Service	\$9,050	\$10,000	\$2,500	\$4,000	\$1,750	\$1,250	\$661
Professional / Rentals	\$13,550	\$10,000	\$10,000	\$8,000	\$1,750	\$1,250	\$661

# Budget Enhancements Since Updating Business Tax

- 2 Traffic enforcement Police Officers
- 2 Maintenance Workers for roadway maintenance
- Increased purchase of materials for roadway maintenance
- 1 Maintenance Worker for Parks maintenance
- 1 Cybersecurity Officer
- 1 Economic Development Management Analyst
- Creation of a pilot Economic Development business incentive program



# Timeline

- July-August 2023 Tax Due
- September 2023 – City analysis of tax results
- October 2023 – Business Tax update to Finance Committee
- November 2023 – City and Chamber Discussion
- December 2023 – January 2024 – Chamber meets with Tracy Businesses to discuss business tax impacts
- March 2024 – City and Chamber host industry specific meetings.
- March 2024 – Chamber submits options for changes to Business tax to City.





# Options for Consideration, submitted by the Chamber of Commerce





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# Chamber Option 1

Includes a reduction in tax rate to all categories and the creation of a new category for cannabis business with a \$50 flat tax.

Estimated fiscal impact: \$5.3M annually.

Option 1		
BUSINESS RATE CATEGORIES	MINIMUM FEE	BUSINESS RATE CATEGORIES
Retail	\$50 Flat Rate Annually (First \$500k Of GR)	\$0.50 Per \$1000 Gross Receipts (0.0005)
Manufacturing, Warehouse, Wholesaling		\$0.30 Per \$1000 Gross Receipts (0.0003)
Contractor/Service		\$0.40 Per \$1000 Gross Receipts (0.0004)
Professional/Rentals		\$0.40 Per \$1000 Gross Receipts (0.0004)
Cannabis		\$50 Flat Rate Due to a 1.5% Gross Receipts Tax Already In Place To The City





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# Chamber Option 2

Includes a reduction in tax rate to all categories, creation of a new category for cannabis businesses with a \$50 flat tax and a \$50,000 maximum tax.

Estimated fiscal impact: \$6M annually

Option 2		
BUSINESS RATE CATEGORIES	MINIMUM FEE	BUSINESS RATE CATEGORIES
Retail	\$50 Flat Rate Annually (First \$500k Of GR)  \$50k Fee Cap	0.00025 X Gross Receipts
Manufacturing, Warehouse, Wholesaling		0.000375 X Gross Receipts
Contractor/Service		0.0005 X Gross Receipts
Professional/Rentals		0.00075 X Gross Receipts
Cannabis		\$50 Flat Rate Due to a 1.5% Gross Receipts Tax Already In Place To The City





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# Chamber Option 3

Includes a reduction in tax rate to all categories, creation of a new category for cannabis businesses with a flat tax of \$50, and a maximum tax of \$25,000.

Estimated fiscal impact: \$5.5M annually

Option 3		
BUSINESS RATE CATEGORIES	MINIMUM FEE	BUSINESS RATE CATEGORIES
Retail	\$50 Flat Rate Annually (First \$500k Of GR)  \$25k Fee Cap	0.0005 X Gross Receipts
Manufacturing, Warehouse, Wholesaling		0.00075 X Gross Receipts
Contractor/Service		0.001 X Gross Receipts
Professional/Rentals		0.0015 X Gross Receipts
Cannabis		\$50 Flat Rate Due to a 1.5% Gross Receipts Tax Already In Place To The City





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# Chamber Option 4-6

Specific to the creation of a new category for gas stations.

Estimated fiscal impact:      Option 4 \$ 70,000 annually  
                                                  Option 5 \$100,000 annually  
                                                  Option 6 \$ 85,000 annually

Gas Station Options		
BUSINESS RATE CATEGORIES	MINIMUM FEE	BUSINESS RATE CATEGORIES
Gas Stations Option 1	\$50 Flat Rate Annually (First \$500k Of GR)  Option 1- No Cap Option 2- \$50k Fee Cap Option 3- \$25k Fee Cap	\$0.50 Per \$1000 Retail GR \$50 Flat Rate For Gas Sales GR
Gas Stations Option 2		0.00025 X Retail GR 0.00025 X Gas Sales GR
Gas Stations Option 3		0.0005 X Retail GR 0.000375 X Gas Sales GR





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# Additional Chamber Request

Request for businesses with multiple locations to have one business license.

Review of tax law and industry standard does not support this change. Staff have verified that other cities municipal code also supports having one license per location.

# Options for Consideration, as presented to the Finance Committee in October 2023



# Option 1

- No Changes, maintain current business tax structure

BUSINESS RATE CATEGORIES	MINIMUM FEE	BUSINESS RATE CATEGORIES
GENERAL BUSINESS	\$50 FLAT RATE ANNUALLY (FIRST \$500K OF GR)	0.001 X GROSS RECEIPTS
MANUFACTURING, WAREHOUSING, WHOLESALE		0.0015 X GROSS RECEIPTS
CONTRACTOR/SERVICE		0.002 X GROSS RECEIPTS
PROFESSIONALS/RENTALS		0.003 X GROSS RECEIPTS





# Option 2

- Increase exemption amount from \$500,000 to \$1,000,000

Currently, businesses can pay a flat \$50 for any gross receipts up to \$500,000. Increasing the exemption to \$1,000,000 would allow more businesses to see a reduction in tax.

Estimated Annual Fiscal Impact: \$615,000



# Option 3

- Create a cap on the maximum amount of tax to be paid.
  - \$50,000 maximum tax would provide relief to 25 businesses
  - Benefits businesses with larger amount of gross receipts
  - Provides relief to a smaller percentage of businesses

Estimated Annual Fiscal Impact: \$2.5M



# Option 4

- Allow a deduction for raw materials.
  - Allows for tax to be calculated only on value of manufactured product.
  - Manufacturing businesses would benefit, there are currently 66 businesses classified as manufacturing.

Estimated Annual Fiscal Impact: Unknown

(City does not have information on the value of raw materials that would potentially be deducted)



# Option 5

- Reduce the tax rate for all categories.
  - A reduction to the tax rate would equitably reduce taxes across all categories.

In the example of a 25% reduction in the tax rate, businesses would see a reduction in annual tax paid of \$125 per \$1M in gross receipts.

Business Category	Gross Gross Receipts	GR after Exemption	Current Tax	Reduced Tax	Difference
General Business	\$1,000,000	\$500,000	\$550	\$425	\$125
Manufacturing, Warehousing, Wholesaling	\$1,000,000	\$500,000	\$800	\$675	\$125
Contractor/Service	\$1,000,000	\$500,000	\$1,050	\$925	\$125
Professionals/Rental	\$1,000,000	\$500,000	\$1,550	\$1,425	\$125

# Option 5 (Continued)

Business Category	Minimum Fee	Current Tax Rate	Reduced (by 25%) Tax Rate
General Business	\$50 Flat Rate Annually (First \$500k of Gross Receipts)	0.001	0.00075
Manufacturing, Warehousing, Wholesaling		0.0015	0.00125
Contractor/Service		0.002	0.00150
Professionals/Rental		0.003	0.00225

Example of a 25% reduction to business tax rates

Estimated Annual Fiscal Impact: \$1.5M

# Option 6

- Phased approach to Business Tax, beginning July 1, 2024

Business Category	Minimum Fee	Current Tax Rate	FY2024-25 Tax Rate	FY2025-26 Tax Rate	FY2026-27 Tax Rate	FY2027-28 Tax Rate
General Business	\$50 Flat Rate Annually (First \$500k of Gross Receipts)	0.001	0.00025	0.00050	0.00075	0.0010
Manufacturing, Warehousing, Wholesaling		0.0015	0.000375	0.00075	0.00125	0.0015
Contractor/Service		0.002	0.00050	0.00100	0.00175	0.0020
Professionals/Rental		0.003	0.00075	0.00150	0.00225	0.0030

## Estimated Annual Fiscal Impact:

FY2024-25	\$6M
FY2025-26	\$4.5M
FY2026-27	\$1.5M
FY2027-28	\$0

# Fiscal Impact

- The City's adopted budget factored the current Business Tax rates as a revenue source. Reductions to the tax will impact the current adopted budget as well as the upcoming FY2024-25 proposed budget.
- The five-year forecast was also conducted with the current business tax rates. Reductions to the tax rate will impact the ability to maintain or provide increases in service levels in upcoming fiscal years.
- It is expected that the City's sales tax allocation will decrease in the near future, due to reallocation of tax related to e-commerce.





Staff invites the Committee to discuss and select options for a future action item.

Upon conclusion of the workshop, staff will return to the Committee with an action item on April 29, 2024.







# Discussion





# Measure B

# Tracy's Business Tax

Tracy Chamber Of Commerce

03/19/2024





The Tracy Chamber of Commerce, an organization deeply invested in the prosperity of our local businesses and the vitality of our community. Over the past several months, we have engaged in extensive discussions and meetings with businesses of all sizes operating within Tracy. Their message has been resoundingly clear: the burden of Tracy's exorbitant business tax rates is reaching a critical breaking point.

Unlike many neighboring cities, Tracy's business tax rates are disproportionately high, placing an immense strain on our local enterprises. From small startups to established corporations, business owners have come to us expressing their struggles and the severe impact these taxes are having on their operations. These taxes are not just a financial inconvenience; they represent a significant barrier to growth, investment, and job creation within our city.

If left unaddressed, the consequences of these high business taxes are dire. We risk witnessing an exodus of businesses from Tracy as they seek refuge in municipalities with more equitable tax structures. This migration not only threatens the livelihoods of countless entrepreneurs and workers but also undermines the economic foundation of our community.

The Tracy Chamber of Commerce is here today to implore the City of Tracy to take decisive action in reforming our business tax system. We understand the delicate balance required to maintain essential city services while alleviating the burdens faced by our business community. However, the status quo is no longer sustainable, and the time for meaningful change is upon us.

We urge the council to prioritize this issue and work collaboratively with local businesses to explore viable solutions. By implementing fair and competitive business tax rates, Tracy can foster an environment where businesses thrive, attract new investment, and contribute to the long-term prosperity of our city.

In closing, we stand ready to support and assist the council in any way possible as we navigate this critical juncture. Let us seize this opportunity to enact positive change and ensure a vibrant future for Tracy and all who call it home.

Thank you for your time and consideration.

# Option 1



BUSINESS RATE CATEGORIES	MINIMUM FEE	BUSINESS RATE CATEGORIES
Retail	\$50 Flat Rate Annually (First \$500k Of GR)	\$0.50 Per \$1000 Gross Receipts (0.0005)
Manufacturing, Warehouse, Wholesaling		\$0.30 Per \$1000 Gross Receipts (0.0003)
Contractor/Service		\$0.40 Per \$1000 Gross Receipts (0.0004)
Professional/Rentals		\$0.40 Per \$1000 Gross Receipts (0.0004)
Cannabis		\$50 Flat Rate Due to a 1.5% Gross Receipts Tax Already In Place To The City

# Option 1 (Continued)



## **Equitable Taxation: Advantages of Structuring Based on Per \$1000 for Consistency and Fairness**

Choosing to structure tax amounts based on an amount per \$1000, rather than a decimal percentage, is preferable due to its alignment with the model followed by other cities, promoting consistency and comparability. Moreover, this approach is perceived as fairer for businesses of varying sizes, as it ensures equitable taxation

# Option 2



BUSINESS RATE CATEGORIES	MINIMUM FEE	BUSINESS RATE CATEGORIES
Retail	\$50 Flat Rate Annually (First \$500k Of GR)  \$50k Fee Cap	0.00025 X Gross Receipts
Manufacturing, Warehouse, Wholesaling		0.000375 X Gross Receipts
Contractor/Service		0.0005 X Gross Receipts
Professional/Rentals		0.00075 X Gross Receipts
Cannabis		\$50 Flat Rate Due to a 1.5% Gross Receipts Tax Already In Place To The City

# Option 3



BUSINESS RATE CATEGORIES	MINIMUM FEE	BUSINESS RATE CATEGORIES
Retail	\$50 Flat Rate Annually (First \$500k Of GR)  \$25k Fee Cap	0.0005 X Gross Receipts
Manufacturing, Warehouse, Wholesaling		0.00075 X Gross Receipts
Contractor/Service		0.001 X Gross Receipts
Professional/Rentals		0.0015 X Gross Receipts
Cannabis		\$50 Flat Rate Due to a 1.5% Gross Receipts Tax Already In Place To The City



## Addressing the Unique Challenges Faced by Gas Stations

Through meaningful dialogue with local gas station owners, the Tracy Chamber of Commerce has gained invaluable insights into the challenges they face. Gas stations operate on exceedingly slim profit margins, exacerbated by the multitude of taxes they incur, particularly on gasoline sales. The proposed increase in business license taxes would further strain these businesses, potentially leading to higher fuel prices that disproportionately affect low-income families in our community.

Given the unique nature of gas station operations and their critical role in serving residents, we urge the council to consider creating a separate category for gas stations. This would allow for a more tailored approach to taxation, mitigating the impact on businesses while safeguarding the financial well-being of our most vulnerable residents.





# Gas Station Options



BUSINESS RATE CATEGORIES	MINIMUM FEE	BUSINESS RATE CATEGORIES
Gas Stations Option 1	\$50 Flat Rate Annually (First \$500k Of GR)  Option 1- No Cap Option 2- \$50k Fee Cap Option 3- \$25k Fee Cap	\$0.50 Per \$1000 Retail GR \$50 Flat Rate For Gas Sales GR
Gas Stations Option 2		0.00025 X Retail GR 0.00025 X Gas Sales GR
Gas Stations Option 3		0.0005 X Retail GR 0.000375 X Gas Sales GR

# Additional Provision Added To All Options



## **One Business License Provision:**

1. The option to have an issuance of a single business license shall suffice for any business entity operating multiple locations under the same parent company within the jurisdiction.
2. All subsidiary locations shall be covered under the single business license obtained by the parent company.
3. This provision shall streamline administrative processes and reduce the regulatory burden on businesses with multiple locations under a common ownership structure.
4. Businesses will retain the option to obtain multiple business licenses for multiple locations.



Thank You



To the Finance Department and Council of the City of Tracy,

We're reaching out to express our concerns regarding the proposed taxes and license fees, particularly the hefty license tax fees affecting all businesses in Tracy. As longstanding owner of a gas station in Tracy for the past 18 years, with a dedicated team of 10-12 employees, most of whom are Tracy residents, we've been committed supporters of our community.

Over the years, we've actively contributed to various local causes, including local non-profit organizations, and local high school sports teams. However, the proposed tax license fees are straining our ability to sustain our community involvement and keep our business operational. We strongly oppose these changes and urge you to reconsider their impact on local businesses.

The prosperity of our community is intricately linked with the success of local businesses, yet the escalating financial burden imposed by the city is hindering the ability of small enterprises to thrive. We've witnessed numerous local businesses shutter due to city regulations and taxes, despite Tracy's growing population. Despite an influx of new residents, many still seek services and entertainment elsewhere due to these challenges.

We implore the city council to carefully assess the implications of these tax policies on small businesses and take proactive measures to foster the growth and prosperity of local entrepreneurs.

Thank you for your attention to this critical matter. We eagerly anticipate collaborating with you to find viable solutions that uphold the ongoing success of businesses in Tracy.

Sincerely,  
Ranjeet Singh

ARCO AMPM  
2430 Joe Pombo Pkwy  
Tracy, CA 95377

Dear City of Tracy - Finance Department and Council,

We are writing to express our concerns regarding the proposed taxes and license fees by the city of Tracy, specifically the burdensome tax license fees required of all businesses in the city. As the owner of a restaurant in Tracy for the past 15 years, with a team of 10-15 employees, many of whom are residents of Tracy, we have been proud supporters of our community.

Throughout the years, we have contributed to numerous local organizations and causes, including the Boys and Girls Club, Tracy City Police, Veterans of Tracy, Senior Citizens of Tracy, and more. During the difficult times of the Covid pandemic, we provided over 5,000 fresh lunch meals to those in need and healthcare workers in Tracy and San Joaquin County.

However, the proposed tax license fees are putting a strain on our ability to continue to support our community and keep our business running. We strongly oppose these changes and urge you to reconsider the impact of these proposed taxes on local businesses. The success of the community is intertwined with the success of local businesses, and the increasing financial burden placed on us by the city is making it increasingly difficult for small businesses to thrive.

In recent years, we have seen many local businesses close their doors due to the challenges imposed by city regulations and taxes. Despite an influx of new residents to Tracy, many continue to seek services and entertainment outside of the city. We urge the city council to consider the impact of these tax policies on small businesses and take action to support the growth and success of local entrepreneurs.

Thank you for your attention to this important matter. We look forward to working with you to find solutions that support the continued success of businesses in Tracy.

Sincerely,  
Manjeet Singh

Dhaba Indian Cuisine  
2242 W Grant Line Road  
Tracy, CA 95377





March 19, 2024

Subject: Concerns Regarding Business License Expenses in Tracy

Dear City Manager and staff,

I hope this message finds you well. I am writing to express some concerns regarding the recent observations we've made regarding business license expenses in Tracy, particularly within the automotive dealership sector.

Upon analyzing the provided spreadsheet detailing business license expenses for various dealerships in Tracy and neighboring cities, it has become apparent that businesses in Tracy, notably Tracy Honda and Tracy Mazda, are burdened with significantly higher business license expenses compared to their counterparts in surrounding areas.

For instance, Tracy Honda's and Tracy Mazda's business license expenses on recent dates such as 8/23 are alarmingly high, reaching \$40,541.71 and \$13,893.54, respectively. These figures starkly contrast with the expenses incurred by similar businesses in cities like Dublin, El Cerrito, Hayward, and San Leandro, where expenses typically range from a few hundred to a few thousand dollars.

Such onerous tax burdens on local businesses could have detrimental effects on Tracy's economic competitiveness and long-term growth prospects. High business license expenses not only deter potential investors and entrepreneurs from establishing new ventures within our city but also incentivize existing businesses to relocate to areas with more favorable tax environments.

Furthermore, it's worth noting that the average sales tax income from each car sale in the USA amounts to approximately \$482 in revenue to the City of Tracy. One would expect the City of Tracy to prioritize policies that encourage increased sales volume of new cars rather than inadvertently incentivizing car dealerships to limit their sales to mitigate high business taxes.

Therefore, I urge our city administration to carefully reassess the current tax structure and consider implementing measures to alleviate the tax burden on local businesses, particularly within the automotive sector. By fostering a more business-friendly environment and ensuring equitable taxation, we can enhance Tracy's attractiveness as a destination for business investment and stimulate sustainable economic development.

I appreciate your attention to this matter and look forward to discussing potential solutions to address these concerns collaboratively.

Sincerely,

Taz Harvey

President

Harvey Auto Group

Cell 209-610-8005

(Attachment)

**Business License Expense**

Dublin Honda	8/23	\$33.00
	8/22	\$32.00
	8/21	\$31.00
Dublin Mazda	8/23	\$33.00
	8/22	\$32.00
	8/21	\$31.00
Tracy Honda	8/23	\$40,541.71
	8/22	\$1,458.00
	8/21	\$1,408.00
Tracy Mazda	8/23	\$13,893.54
	8/22	\$598.00
	8/21	\$578.00
El Cerrito Honda	6/23	\$3,517.00
	2/23	\$1,925.10 OPENING
Hayward Honda	12/23	\$6,052.31
	12/22	\$4,557.61
	12/21	\$4,140.63
San Leandro Mazda	1/23	\$2,208.00
	1/22	\$1,557.20
	1/21	\$1,291.60

March 20, 2024

Maria Valenzuela  
CEO, Tracy Chamber of Commerce  
223 E. 10<sup>th</sup> Street  
Tracy, CA 95376

Dear Mrs. Valenzuela,

I am writing to express our support for the efforts undertaken by the Tracy Chamber of Commerce in relation to working with the staff of the City of Tracy on reducing Measure B's financial impact on the businesses of Tracy.

While we appreciate the leadership of Tracy's desire to increase revenue due to uncertainties in future sales tax revenue, we feel that the recently adopted business license tax is a dramatic increase to most businesses in the community and much too significant of a burden to place on the overall Tracy business community.

In these uncertain economic times, we need to support local business and not create investment disincentives or worse, incentivize companies to choose to locate in nearby cities where the burdens are not as great.

We understand the crucial role that the Chamber plays in our collective representation, especially when it comes to economic and legislative issues that directly affect our businesses and community at large and we appreciate the proactive measures the Chamber is taking to mitigate this tax impact.

Thank you for your efforts.

Best Regards,

A handwritten signature in cursive script that reads "Matthew Drury".

Matthew Drury  
Vice President, Market Officer



# THE *Raley's* COMPANIES

TO  
**CITY COUNCIL**

City of Tracy

FROM  
**CHELSEA CARBAHAL**

Vice President, Community Impact  
& Public Affairs  
The Raley's Companies

DATE  
**MARCH 20, 2024**

Dear Tracy City Council Members,

I am writing to express Raley's concerns regarding the recent increase in the business tax in the City of Tracy. The new tax structure has created a negative impact on our business and is greatly affecting our ability to invest in our store and community.

While we understand the City's desire to update the business tax code, the new structure is unreasonable compared to the previous version and other comparable cities. Under the new tax structure, our tax increased in one year, nearly twentyfold.

In similar sized California cities where Raley's operates, the average business license tax as a percentage of sales is .0163%. In addition, there are roughly a dozen other stores that are half the rate of the City of Tracy and a large percentage that are below the average. This puts Tracy at a disadvantage against other similar sized cities for businesses to locate, making Tracy less business friendly.

The increased business tax will have detrimental effects on our business, including a decrease in community outreach programs and hinder investment in store infrastructure. This tax hike is putting a strain on our resources and significantly impacting our ability to operate effectively.

I urge the City Council to reconsider the new business tax structure and find a more reasonable and fair solution that supports businesses and encourages economic growth in Tracy. Your support in this matter is greatly appreciated.

Thank you for your attention to this important issue.

*Chelsea Carbahal*

**CHELSEA CARBAHAL**

Vice President, Community Impact & Public Affairs





Taylor Farms Pacific, Inc.

March 18, 2024

City of Tracy City Council

City of Tracy staff

Taylor Farms Pacific has been meeting with the Tracy Chamber of Commerce along with businesses of many sizes and categories discussing the new tax structure voted in last year known as Measure B.

It has drastically affected many of us and the consensus is that the new structure is extremely unreasonable and not business friendly, not only hurting our ability to do business in Tracy, but we believe making it even harder to attract new businesses to our city.

Taylor Farms Pacific agrees we should pay more than the smaller businesses in town, and we want to pay our fair share, but within reason. Going from the previous structure of a \$2,000 maximum fee to an unlimited amount based on a percentage of gross revenue took our business tax to \$350,000: not a reasonable increase.

We currently support the Boys & Girls' Club, the Mc Henry House, Tracy Interfaith, Tracy and Mountain House schools and several others. That annual budget will be drastically reduced if there is not a change to the city tax.

We employ 1,300 employees who go to lunch and dinner in Tracy, buy gas and groceries in Tracy. If we are required to shrink our footprint in Tracy it will negatively affect more than just the city tax. Approximately three hundred of our employees live in Tracy, (therefore voters). The remaining commute from Stockton, Modesto, Manteca, Sacramento, and the bay area. If we reduce our workforce many of those employees will find employment in other cities and will no longer help support Tracy businesses.

We also support local businesses such as Central Valley Party Rental, local DJ's, local caterers, trade, supplies and maintenance vendors, and truckers. . . all of which will feel a decrease in revenue if our expenditures and employee recognition programs are reduced. Most of the businesses we support not only pay the business tax, but sales tax as well.

Once a reduction in tax is agreed upon, we are requesting the current year's amount is also reduced and we will accept a credit towards future tax years.

We urge you to consider lowering this tax to not only help the local business, but to help the local economy grow and thrive as well.

Sincerely,

A handwritten signature in blue ink that reads "Robin Lopez".

Robin Lopez

Community Relations