



NOTICE OF SPECIAL MEETING

Pursuant to Section 54956 of the Government Code of the State of California, a Special meeting of the **Tracy City Council** is hereby called for:

Date/Time: **Tuesday, June 4, 2024, 5:00 p.m.**
(or as soon thereafter as possible)

Location: **Tracy City Hall**
333 Civic Center Plaza, Tracy, CA.

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

This meeting will be open to the public for in-person and remote participation pursuant to Government Code Section 54953(e)

For Remote Public Comment:

During the Items from the Audience, 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: 2552 077 4490** and **Event Password: TracyCC**
 - ***If you would like to participate in the public comment anonymously***, you may submit your comment via phone or in WebEx by typing “Anonymous” when prompted to provide a First and Last Name and inserting Anonymous@example.com when prompted to provide an email address.
 - Join by phone by dialing +1-408-418-9388, enter 25520774490#8722922# Press *3 to raise the hand icon to speak on an item.

- *Protocols for commenting via WebEx:*
 - *If you wish to comment under “Items from the Audience/Public Comment” portion of the agenda:*
 - *Listen for the Mayor to open “Items from the Audience/Public Comment”, 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 “Items from the Audience/Public Comment” will be accepted until the public comment period is closed.*

1. Call to Order
2. Actions, by Motion, of City Council pursuant to AB 2449, if any
3. Roll Call and Declaration of Conflicts
4. Items from the audience - *In accordance with Council Meeting Protocols and Rules of Procedure, adopted by Resolution No. 2019-240, and last amended by Resolution No. 2021-049, 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, Council 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 the matter be placed on a future agenda or that staff provide additional information to Council.*
5. DISCUSSION ITEMS
 - 5.A. Staff recommends that the City Council discuss options to amend Chapter 6.04 (Business Taxes) of the Tracy municipal code and direct staff to return with a future ordinance 1) amending Chapter 6.04 to provide a temporary, phased rate reduction or 2) through some other method of amending Chapter 6.04.
6. Council Items and Comments
7. Adjournment

Posting Date: May 30, 2024

The City of Tracy is in compliance with the Americans with Disabilities Act and will make all reasonable accommodations for the disabled to participate in employment, programs and facilities. Persons requiring assistance or auxiliary aids in order to participate, should contact the City Manager's Office at (209) 831-6000 at least 24 hours prior to the meeting.

June 4, 2024

Agenda Item 5.A

RECOMMENDATION

Staff recommends that the City Council discuss options to amend Chapter 6.04 (Business Taxes) of the Tracy municipal code and direct staff to return with a future ordinance 1) amending Chapter 6.04 to provide a temporary, phased rate reduction or 2) through some other method of amending Chapter 6.04.

EXECUTIVE SUMMARY

In November 2022, 72% of Tracy voters approved initiative Measure B which adopts an updated business tax structure. The tax structure had not been updated since 1984. The updated structure served to make sure all businesses paid a proportional share. The updated structure moved to a business tax based upon gross receipts rather than number of employees and took effect July 1, 2023. Shortly after the new tax bills were received by local businesses, businesses approached City Council Members, city staff and the Chamber of Commerce voicing their concern with the increased tax amount being charged to their businesses. At the City Council's request, staff has conducted discussion through several workshops and meetings with the Finance Committee (Committee) on the impacts of the new tax structure and potential options to reduce impacts to Tracy businesses. During the May 21, 2024 Council meeting, staff presented the Committee's recommendations for potential options for future amendments to Chapter 6.04 (Business Taxes). During that meeting, the City Council requested staff return on June 4th with all potential options that have been analyzed for discussion and incorporation into possible amendments to Chapter 6.04 (Business Taxes). Attachment A to the staff report outlines all options that have been analyzed by staff.

In an effort to maintain the Business Tax structure approved by 72% of voters and address the concerns of the local business community, staff recommends that the City Council consider providing interim relief to some of the businesses by adopting a phased approach to the Business Tax.

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, recreation programs and economic development.

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, street maintenance, 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.

Many cities have modernized their tax structure by 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 several cities still use employee count as the basis for calculating the tax due, this methodology has been something that cities are moving 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

Finance Committee Work

Staff presented an update on the revised Business Tax structure to the Finance Committee on October 23, 2023, along with options for amendments that would reduce impact to businesses but 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 they felt were disproportionately 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 station owners 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.

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 four cannabis businesses in Tracy, with two more that could potentially 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. Information regarding Chamber submitted options are detailed in Attachment A to the staff report.

On April 3, 2024, The Committee conducted a workshop to discuss and explore options presented by both the Chamber and City staff. During the workshop, members of the business community were invited to speak and discuss the impacts of the tax with the Committee members. Upon the conclusion of the workshop, the Committee recommended six of the options return with further analysis to be completed by staff. Several of the options requested for analysis were industry specific adjustments aimed to make adjustments to the tax rate within industries that have been uniquely impacted by the tax.

May 21, 2024 City Council Meeting

Staff returned to the Committee on April 29, 2024, where the Committee made recommendations for Council consideration of specific options that reduce the impact of the Business Tax. These options included: an overall reduction by 25%, a reduction on gasoline sales, and an exemption for the cost of raw goods for manufacturers. On May 21, 2024, the City Council heard the Committee's recommendations and requested that staff return on June 4th for a discussion of all options that have been analyzed by staff. The City Council also directed the City Attorney to prepare and return on June 4th for the City Council's consideration, a draft Interim Urgency Ordinance that would impose a 45-day moratorium on the application of Chapter 6.04.

Original Intent of Tax Reform

As noted above, Measure B and its codification to Chapter 6.04 of the TMC are the results of the City's Ad-Hoc Fiscal Sustainability Committee, which was looking at ways of increasing revenue to solve a budget deficit. The Business Tax was a particular focus of the Committee because the City's tax structure had not been amended since 1984 and relied on an outdated

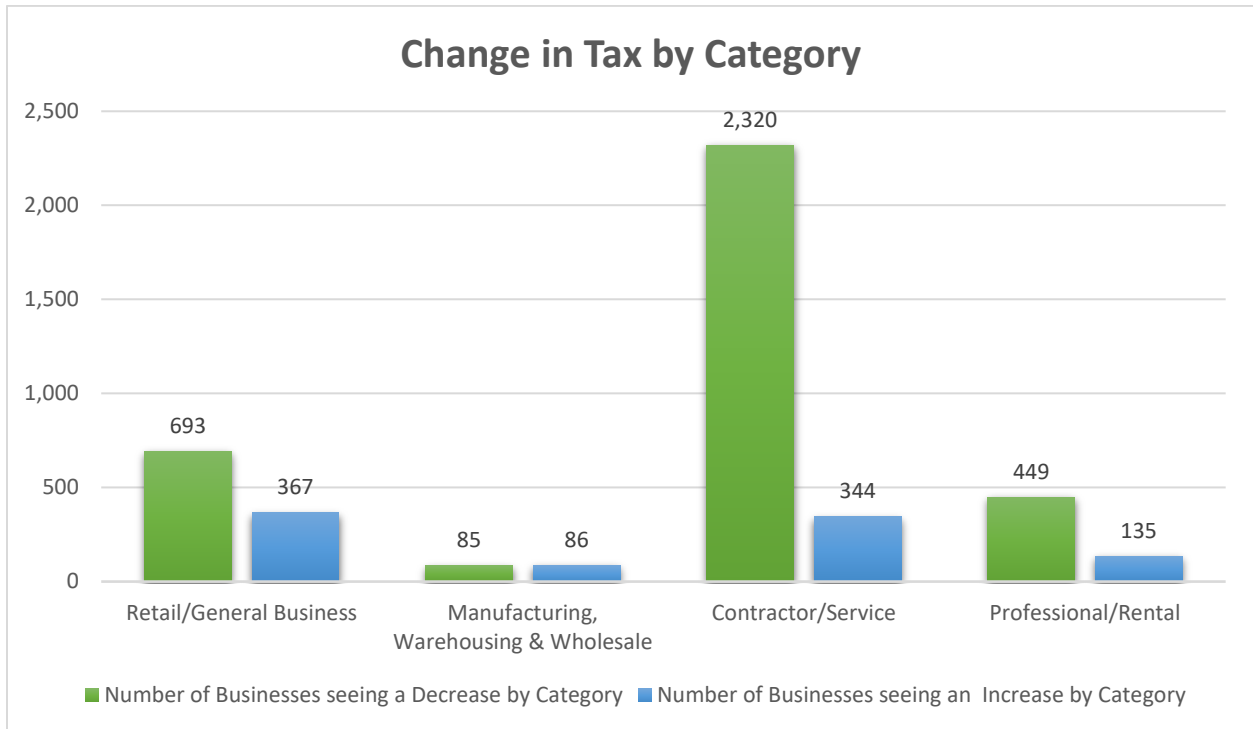
and ineffective methodology of employee count. Throughout the State, cities are using a gross receipts methodology, as it is a more sound manner of taxing businesses who operate in a jurisdiction.

As shown on the chart below, the City of Tracy’s revised business tax structure using gross receipts is aligned with almost all of its neighboring cities, with the exception of Lathrop. Further, the chart demonstrates that the City’s adoption of a gross receipts methodology has come years later than its neighbors.

City Name	Population	Tax Type	Exemption	Maximum Tax	Last Ordinance Revision
Manteca	81,592	Gross Receipts	\$0	\$1,250	1990
Modesto	214,221	Gross Receipts	\$0	No	1997
Lathrop	23,284	Flat	\$0	\$661	2002
Stockton	307,000	Gross Receipts	\$0	No	2005
Pleasanton	76,689	Gross Receipts	\$0	No	2017
Livermore	86,493	Gross Receipts	\$0	No	2018
Tracy	98,601	Gross Receipts	First \$500K	No	2023

Staff believes the gross receipts methodology is important to maintain, regardless of any other amendments that may be considered by the City Council.

Additionally, the goal of the restructuring was to ensure that more “successful” businesses, such as in the wholesaling and manufacturing category, paid a proportionate share of the Business Tax. The chart below analyzing the City’s fiscal year 2023-2024 Business Tax revenue shows that the new structure has achieved this goal. **More importantly, a large percentage of business (75%) in the City experienced a decline in tax burden from the prior year which was based on the old structure.**



Tax Burden Comparison with Other Cities

At the various meetings, certain speakers commented that the City's new Business Tax structure is far more burdensome than that of neighboring cities. A deeper analysis of this issue reveals that this is not fully the case.

As noted above, all neighboring cities except for Lathrop has a gross receipts methodology. Of these cities, Modesto has the closest tax structure to Tracy. Modesto's structure has categories for Commercial Retail, Commercial Service, and Home Businesses. Modesto has exempted their Warehouse industry with a flat \$100 tax. Their rates are similar, ranging from .001 to .002, but there is an additional Downtown Improvement District tax charged with an annual cap of \$1,500 in addition to the Business Tax.

What is distinctive is that many of these cities have a cap. So, when comparing a hypothetical business generating \$1,000,000 in gross receipts with some of these other cities, here is the anticipated tax burden:

Example - Businesses with \$1,000,000 in Gross Receipts							
Type of Business	Tracy	Modesto	Stockton	Livermore	Pleasanton	Manteca	Lathrop
Retail or General Business	\$550	\$1,000	\$900	\$800	\$300	\$338	\$661
Manufacturing/Wholesale	\$800	\$100	\$2,500	\$800	\$300	\$650	\$661
Contractor/ Service	\$1,050	\$2,000	\$500	\$1,600	\$300	\$338	\$661
Professional / Rentals	\$1,550	\$2,000	\$2,000	\$1,600	\$300	\$275	\$661

*approximately 5% of Tracy’s businesses report \$1M in gross receipts.

Additionally, the chart below shows the anticipated tax burden of businesses generating \$5M in gross receipts.

Example - Businesses 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

*approximately 3% of Tracy’s businesses report \$5M in gross receipts.

Importantly, even though the City of Manteca uses a gross receipts methodology, its structure has not been revised since 1990 and is currently evaluating a revision to its business tax structure. The City of Pleasanton does not have any defined Business Tax categories, but Cities like Stockton and Livermore have many defined categories. Further, as noted above, Lathrop uses a flat tax methodology which is not aligned with current statewide practices.

Staff Recommendation

One of the key flaws of the City’s original tax structure was that businesses did not pay their proportionate share of business taxes, as it was based on employee count rather than revenue. The original structure had a very low cap, so the tax burden on large businesses was proportionally far less than on small business. This original tax structure is contrary to the fundamental policy pinning of the overall tax system in this country: progressive taxation. All tax structures, at the State and Federal levels are based on the policy premise that the greater the “success”, the greater the tax burden. Staff strongly recommends maintaining a gross receipts methodology with its current progressive tax underpinning. Amending the methodology would be contrary to what voters approved and negatively impact the City’s ability to provide essential services to its residents.

However, as the City shifted from a very different and outdated methodology---employee count---to the new methodology, the sudden shift has created an unexpected impact to certain businesses. Even with the Council’s reduction from the full tax (\$500,000 exemption), implementing the full tax in year one did not provide an adequate time for such businesses to plan into their respective financial operations. As such, staff recommends that the City Council consider a progressively declining reduction in the overall rate (over the \$500,000 exemption amount), to allow businesses to better plan. It is estimated that this reduction would impact 23% of the overall businesses in Tracy. As the tax rate is already set at the maximum rate the City Council desires (but note not the maximum rate approved by voters), the “phasing” would be in reverse than typically done, with the largest rate reduction in year 1 and the smallest rate reduction in year 3. This phased approach aligns with the timeline in which the City expects to see a reduction in sales tax revenue. With the phased approach, staff recommends a rate reduction of 50% in the first fiscal year, beginning July 1, 2024, a 30% rate reduction in the second fiscal year, and a 15% rate reduction in the third year, with the rate returning to the voter approved rate in the fourth year.

Business Category	Minimum Fee	Current Tax Rate	FY2024-25 Tax Rate	FY2025-26 Tax Rate	FY2026-27 Tax Rate	FY2027-28 Tax Rate
			50% Reduction	30% Reduction	15% Reduction	
General Business	\$50 Flat Rate Annually (First \$500k of Gross Receipts)	0.001	0.00050	0.00070	0.00085	0.00100
Manufacturing, Warehousing, Wholesaling		0.0015	0.00075	0.00105	0.00128	0.00150
Contractor/Service		0.002	0.00100	0.00140	0.00170	0.00200
Professionals/Rental		0.003	0.00150	0.00210	0.00255	0.00300
ESTIMATED ANNUAL FISCAL IMPACT			\$4.5M	\$2.5M	\$1.2M	\$0

Attachment A details each of the options that have been previously analyzed by staff for consideration. It is important to note that 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.

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.

Staff is currently preparing the FY2024-25 budget and has presented budget augmentations to both the Finance Committee and City Council that support the Council adopted Strategic Priorities and enhance City services and programs. Per Council direction at the May 21, 2024 meeting, staff is making a reduction to the Business Tax revenues in the upcoming fiscal year to reducing the revenue to \$4.3 million. This amount is equivalent to the anticipated Business Tax revenue at the time the ballot measure was approved by voters. This reduction reduces the viability of including those budget augmentations and could possibly cause deferral of capital projects or amendments to Council's fiscal sustainability strategies to balance the budget. Any further reduction to the Business Tax will result in further reduction of General Fund services such as Public Safety, and road repairs. Staff will return to Council with the proposed balanced budget on June 18, 2024.

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% (\$20-\$30 million) 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 as the City Council consider reductions to the Business Tax, such a reduction be temporary relief, in consideration of the City's financial position and future outlook.

STRATEGIC PLAN

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

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the City Council discuss options to amend chapter 6.04 (Business Taxes) of the Tracy municipal code and direct staff to return with a future ordinance 1) amending Chapter 6.04 to provide a temporary, phased rate reduction or 2) through some other method of amending Chapter 6.04.

Prepared by: Sara Cowell, Director of Finance

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

Approved by: Midori Lichtwardt, City Manager

Attachments


Attachment A: Previously Analyzed Options for Business Tax Modification

PREVIOUSLY ANALYZED OPTIONS FOR BUSINESS TAX MODIFICATION

Chamber Submitted Options:


Chamber Option 1 – Rate Reduction & Cannabis Category Creation

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 rate reduction changes the allocation from General business being the lowest rate category to being the highest rate category. The amount of rate reduction in this option varies by category, with the General Business category at a 50% reduction, Manufacturing, Warehouse, and Wholesaling at an 80% reduction, Contractor/Service at 80% reduction and the Professional/rental category at an 88% reduction. 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			
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. In this option, the rates are reduced by 75% across all rate categories and caps the maximum amount of tax to be paid at \$50,000. 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.

		
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 reduces the rate by 50% for the General Business, Contractor/Service, and Professional/Rental categories. The rate reduction is 90% for Manufacturing, Warehouse, and Wholesaling category. 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

After reviewing each of the chamber options for gas stations, the Finance Committee recommended the creation of a category for gasoline sales. This category would pay a \$50 flat rate for all gasoline sales and would pay the current retail rate for all retail sales at its convenience store.

City Options:

Increase Exemption to \$1,000,000

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.

Creation of a cap on the maximum 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. The chart below depicts the fiscal impact estimated with various levels of a cap on the maximum amount of tax to be paid.

Maximum Tax	Annual Fiscal Impact
\$50,000	\$2.5 Million
\$75,000	\$2.4 Million
\$100,000	\$2.1 Million
\$200,000	\$1.4 Million
\$250,000	\$1.0 Million
\$300,000	\$800 Thousand

Raw Materials Exemption

Allow an exemption for the cost of purchased 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.

Car Dealerships

Allowing a rate category specific to car dealerships would be another option to address an impacted industry. The Chart below depicts the fiscal impacts associated with three different options for making modification to the tax for this industry.

Car Dealership Options	
Reduce Rate by 50%	\$100,000
Reduce Rate by 75%	\$150,000
Flat \$50 on Auto Sales	200,000

Overall Rate Reduction

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. The chart below depicts the fiscal impact of overall rate reductions at various levels.

Business Rate Categories	Minimum Fee	Current	Reduction of	Reduction of	Reduction of
		Rate	25%	50%	75%
General Business		0.0010	0.00075	0.0005	0.00025
Manufacturing, Warehousing, Wholesaling	\$50 Flat Rate Annually (First \$500k of GR)	0.0015	0.001125	0.00075	0.000375
Contractor/Service		0.0020	0.0015	0.001	0.0005
Professionals/Rental		0.0030	0.00225	0.0015	0.00075
Fiscal Impact			\$1.5M	\$4.5M	\$6M

Combination of Overall Rate Reduction and Cap on Maximum Tax

Combining the two options together would provide relief amongst all categories, however, the most significant relief would be amongst the largest businesses. The fiscal impact of combining a 25% rate reduction with a \$250,000 cap on the maximum amount of tax paid is approximately \$2.5M annually. Combining the 25% rate reduction with only \$100,000 cap would cause a fiscal impact of \$3.7M annually.

Phased Approach

Initially discussed in October 2023 with the Finance Committee. Under this phased approach to the business tax structure, the business tax would be phased 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

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)	0.0010	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