



Think Inside the Triangle™

## 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, August 13, 2024, 6:00 p.m.**  
(or as soon thereafter as possible)

**Location:** **Tracy City Hall, Council Chambers**  
**333 Civic Center Plaza, Tracy, CA. 95376**

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: 2559 318 4733** 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](mailto:Anonymous@example.com) when prompted to provide an email address.
  - Join by phone by dialing +1-408-418-9388, enter 25593184733#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 CONDUCT A "TOWN HALL" STYLE WORKSHOP, AND UPON CONCLUSION, DISCUSS AND PROVIDE DIRECTION, BY MOTION, TO STAFF ON THE DEVELOPMENT OF AN ORDINANCE TO MODIFY THE BUSINESS TAX UNDER CHAPTER 6.04 OF THE TRACY MUNICIPAL CODE.
6. Council Items and Comments
7. Adjournment

**Posting Date: August 8, 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.

Agenda Item 5.A

RECOMMENDATION

**STAFF RECOMMENDS THAT THE CITY COUNCIL CONDUCT A “TOWN HALL” STYLE WORKSHOP, AND UPON CONCLUSION, DISCUSS AND PROVIDE DIRECTION, BY MOTION, TO STAFF ON THE DEVELOPMENT OF AN ORDINANCE TO MODIFY THE BUSINESS TAX UNDER CHAPTER 6.04 OF THE TRACY MUNICIPAL CODE.**

EXECUTIVE SUMMARY

On July 9, 2024, the City Council adopted an Urgency Moratorium Ordinance extending the moratorium on Chapter 6.04 of the Tracy Municipal Code (TMC) for an additional ten months and fifteen days. Council subsequently provided direction to staff to continue public outreach and discussions with chamber of commerce; schedule a “Town Hall” style City Council workshop; develop a calculator form that could be utilized in real time at such Town Hall meeting; and proceed with developing proposals to discuss and from which a potential solution to the business tax ordinance could be achieved. Staff returns now after having met with stakeholders, with a calculator form, at this properly noticed and scheduled City Council workshop.

BACKGROUND AND LEGISLATIVE HISTORY

On the November 8, 2022, general election the voters of Tracy approved a new business tax structure proposed pursuant to Ballot Measure B, which was proposed as a voluntary referendum item (as opposed to a voter initiative). The new tax structure took effect on July 1, 2023, and was codified as Chapter 6.04 in the Tracy Municipal Code. According to the voter approved changes to Chapter 6.04, commencing on July 1, businesses would pay a flat business tax of \$50 on the first \$500,000 of gross receipts and pay a percentage of gross receipts for any gross receipts above \$500,000. 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, depending on the category of business.

Measure B was the result of efforts started in March 2020, when the City Council formed the Ad-Hoc Committee for fiscal sustainability (which now has become the standing Finance Committee of the City Council). The Ad-Hoc Committee, consisting of former Mayor Pro Tem Vargas and current Councilmember Arriola, 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 Ad-Hoc Committee was to review the structure of the City’s Business Tax, which had remained unchanged since 1984. This old business tax structure was based upon the number of employees and had a cap of \$2,018, regardless of the sales volume or category of the business.

At the regular City Council meeting of May 21, 2024, many business owners expressed their concerns about the financial impact and strain caused by the new business tax on their operations. Some businesses indicated that they would not be able to survive this new business tax burden, and other businesses indicated they would be relocating outside of the City of Tracy.

On June 4, 2024, the City Council adopted Urgency Ordinance 1345 to establish a temporary moratorium for 45 days, on the processing of the adopted business tax as the City Council and staff needed additional time to analyze potential amendments to the current tax structure that could mitigate the severe consequences to local businesses if tax bills are sent under the current version of Chapter 6.04. On June 18, 2024, the City Council further analyzed the information presented to them and determined that much more robust analysis was needed before amendments to the existing business structure could be made. This additional analysis included information gathering that would occur at a “town hall” style special City Council meeting and additional meetings between staff and the Tracy Chamber of Commerce. This additional analysis could not be completed within the 45-day moratorium period. On July 9, 2024, the City Council adopted an Urgency Moratorium Ordinance extending the moratorium on Chapter 6.04 of the Tracy Municipal code for an additional ten months and fifteen days.

On July 31, 2024, staff met with Chamber of Commerce board members to discuss their preferred proposals, explain the calculator and methodology to be developed by staff, as well as to explain the format of this “Town Hall” style meeting.

### ANALYSIS

Staff has compiled a number of the proposed potential ways to change the business tax as developed by the Chamber of Commerce and staff, inclusive of general levers that have been discussed and how they can be incorporated to arrive at a potential pathway forward. Council and members of the public should consider the following general considerations and how to utilize the levers in the calculator to achieve the policy goals identified by the same considerations.

Below are considerations to be explored during the workshop.

Setting Minimum and Maximum revenue goals:

- Should the proposed tax rate achieve a revenue greater than the appealed tax structure, approximately \$1.6 million?
- Should the proposed tax rate achieve a revenue up to the assumed in the ballot measure, approximately \$4.8 million?
- Should the proposed tax rate achieve a revenue greater than assumed in the ballot measure, approximately \$4.8 million?

Adjustment to Rates per Category

- Should all categories see a reduction in the tax?
- Are there any categories that should not be reduced?
- Should the rates be phased back to the ballot rates over time?

Setting a Max tax per Category

- Should a maximum tax be established?
- Should a maximum tax be the same maximum tax collected in all categories?
- Should there be a different maximum tax collected per category?
- Should the maximum tax collected to be phased up over time?

Created Exemptions for Gross Receipts

- Should there be exemptions for specific industries?
- Should cannabis gross receipts be exempted?
- Should fuel sales gross receipts be exempted?
- Should raw materials gross receipts be exempted for Manufacturing businesses?

**Potential Ways to Change Business Tax**

City staff met with Chamber of Commerce board members on July 31, 2024 to discuss their preferred proposals, explain the calculator and methodology to be developed by staff, as well as to explain the format of this “Town Hall” style meeting.

Listed below are three potential ways to change the business tax, two submitted by the Chamber of Commerce and one prepared by City staff.

Proposal 1 - Rate change to .0001 for all categories with \$100,000 maximum tax, submission from Chamber

Under this proposal, rates would be reduced by 90% to .0001 with a \$100,000. This rate proposal estimates annual Business Tax revenues of \$871,759, which is less than the \$1.6M tax collected under the previous tax structure.

Measure B Categories		Proposed Structure		
		Rate	Cap	Tax
Category 1	Retail/General Business	0.0001	100,000	363,025
Category 2	Manufacturing, Warehousing, Wholesaling	0.0001	100,000	161,855
Category 3	Contractor/Service	0.0001	100,000	260,857
Category 4	Professionals/Rentals	0.0001	100,000	86,022
				<b>871,759</b>

Proposal 2 – Overall rate reduction by 50% with \$20,000 maximum tax, submission from Chamber

Under this proposal, rates would be reduced by 50% with a maximum tax of \$20,000. This proposal also includes exemptions for specific industries including gasoline sales, cannabis, and car dealerships. This rate proposal estimates annual Business Tax revenues of \$2.2M.

Measure B Categories		Proposed Structure		
		Rate	Cap	Tax
Category 1	Retail/General Business	0.0005	20,000	611,823
Category 2	Manufacturing, Warehousing,	0.00075	20,000	460,967
	Wholesaling			
Category 3	Contractor/Service	0.001	20,000	768,305
Category 4	Professionals/Rentals	0.0015	20,000	393,882
Category 5	Gasoline Sales*	0.0005	50	567
Category 6	Cannabis	0.0005	50	200
Category 7	Car Dealership	0.0005	2,500	21,502
				<b>2,257,246</b>

Proposal 3 – Overall rate reduction by 40%, submission by City staff.

Under this proposal, rates would be reduced by 40%. This rate proposal estimates annual Business Tax revenues of \$4.8M. This is equivalent to the estimated amount of tax revenues as published in the ballot measure.

Measure B Categories		Proposed Structure	
		Rate	Tax
Category 1	Retail/General Business	0.0006	1,815,710
Category 2	Manufacturing, Warehousing,	0.0009	1,357,141
	Wholesaling		
Category 3	Contractor/Service	0.0012	928,174
Category 4	Professionals/Rentals	0.0018	712,610
			<b>4,813,636</b>

“Town Hall” Meeting

A “Town Hall” style meeting as described by members of the City Council would involve direct participation and comments from the members of the public through breakout groups and note taking on large butcher paper type stations. The Council felt strongly that this style of meeting would elicit the best and most thoughtful integration of public comments for problem solving and solutions-oriented work on the business tax. Such a meeting would still be governed by the Brown Act and would require that the Council and City abide by all notice and public record

keeping requirements, including the prohibition on Council quorums discussing public matters outside of a properly noticed and recorded meeting. To achieve a Town Hall style meeting, staff has noticed the Town Hall as a special meeting of the City Council and will conduct the meeting as follows:

1. Meeting will open pursuant to the special meeting rules of the City Council and an explanation on the record of what is to occur.
2. Staff will make a brief presentation, introduce the calculator and set the table for the goals of the breakout groups, how to record the discussions at each of the groups, and how notes will be presented back to full Council to read into the public record.
3. There will be five stations located throughout the Council Chambers, three stations will be assigned a proposed solution, as discussed by staff above, to change the Business Tax; one station will have policy categories that council may utilize to adjust the business tax rates, and the fifth station will allow members of the public to propose questions, alternative policy considerations, alternative proposals or other comments as they like.
4. Members of the public will receive a color sticker, which they will utilize to vote on the proposed solution they like best; a sticker which they will use to vote on the policy category(ies) they deem most important; and group of sticky notes to be used to ask questions or make alternative proposals.
5. Each station will be assigned a staff note taker. Councilmembers may select any station, roam from station to station, but regardless of choice staff recommends that there only be one councilmember per station at any point in time. If you chose to go to a station where another councilmember is present, we ask that you remain with that same pairing to adhere to the public meeting requirements.
6. The goal of each station will be to foster dialogue, react to the topics assigned, ideate solutions and proposals, and record consensus proposals to be reported back to the full Council. For the purposes of clarity, time and to make the process as impactful as possible, the designated staff note taker will be required to record those proposals and or comments that achieve majority support of all the participants in their respective breakout. This will ideally foster compromise, discussion and result in recommendations that can/may be achieved as opposed to simply a list of complaints and concerns.
7. Discussions will occur for at least 1 hour, or if all breakouts finish before 1 hour has expired, may be closed by action of the City Council and a call back to return to order.
8. Once the City Council is back on the dais each station note taker will be required to report back and place in the record the recommendations, concerns and or solutions as agreed upon by their respective group.
9. Once all reports are completed, council will open the matter to public comment, affording everyone in the room one final opportunity to present their individual thoughts on the record.
10. Once public comment concludes the Council would take up the comments and discussions to commence work on the rate calculator adjustments with a goal of developing a fundamentally fair and appropriate tax rate that balances the interest of all the constituencies of the City. This would include the traditional question and response engagement between staff and council

utilized to inform and guide the council as to the potential impacts and or outcomes of their considerations.

#### FISCAL IMPACT

The current Urgency Moratorium has a direct and deleterious effect on the current fiscal year's budget. Until the Urgency Moratorium is removed pursuant to Council action, the service levels and impacts to important capital improvement projects will remain below prior years. Further, the level of tax determined by the Council will have a direct and deleterious or positive effect on the level of service and projects that the City will be able to provide to the residents and businesses in Tracy.

#### PUBLIC OUTREACH/ INTEREST

Staff has engaged the greater business community and the topic remains of great public interest and discussion. Meetings with impacted businesses and industries continue to be scheduled and still will continue to receive input and dialogue with the public.

#### COORDINATION

Staff has coordinated and discussed the presentation of their report with the Tracy Chamber of Commerce.

#### CEQA DETERMINATION

Review under the California Environmental Quality Act is not applicable for this report.

#### STRATEGIC PLAN

This agenda item relates to Council's Strategic Priorities for Quality of Life.

#### ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the City Council conduct a "Town Hall" style workshop, and upon conclusion, discuss and provide direction, by motion, to staff on the development of an ordinance to modify the Business Tax under Chapter 6.04 of the Tracy Municipal Code.

Prepared by: Sara Castro, Finance Director  
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Reviewed by: Bijal Patel, City Attorney  
Karin Schnaider, Assistant City Manager

Approved by: Midori Lichtwardt, City Manager