



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Hans F. Larsen  
Jennifer A. Maguire

**SUBJECT: CONSTRUCTION EXCISE TAX  
AND BUILDING AND STRUCTURE  
CONSTRUCTION TAX ADDITIONAL  
REVENUE**

**DATE:** May 23, 2013

Approved

Date

5/23/13

## RECOMMENDATION

1. Approve the following position amendment to the 2013-2014 Proposed Operating Budget:  
Add 1.0 Senior Engineer position.
2. Approve the following 2013-2014 Proposed Capital Budget and 2014-2018 Proposed Capital Improvement Program amendments in the Building and Structure Construction Tax Fund:
  - a. Increase the 2013-2014 Beginning Fund Balance in the amount of \$2.0 million;
  - b. Establish a project for LED Streetlight Conversion in 2013-2014 in the amount of \$1.0 million;
  - c. Increase the Ending Fund Balance in 2013-2014 in the amount of \$1.0 million;
  - d. Increase the Beginning Fund Balance in 2014-2015 in the amount of \$1.0 million;  
and
  - e. Establish a project for LED Streetlight Conversion in 2014-2015 in the amount of \$1.0 million.
3. Approve the following 2013-2014 Proposed Capital Budget and 2014-2018 Proposed Capital Improvement Program amendments in the Construction Excise Tax Fund:
  - a. Increase the 2013-2014 Beginning Fund Balance in the amount of \$3.0 million;
  - b. Establish a project for Neighborhood Traffic Calming in 2013-2014 in the amount of \$750,000;
  - c. Increase the Pavement Maintenance – City project in 2013-2014 in the amount of \$1.5 million;
  - d. Increase the Ending Fund Balance in 2013-2014 in the amount of \$750,000;
  - e. Increase the Beginning Fund Balance in 2014-2015 in the amount of \$750,000; and
  - f. Establish a project for Neighborhood Traffic Calming in 2014-2015 in the amount of \$750,000.

## **BACKGROUND**

The Building and Structure Construction Tax is imposed upon the construction, repair, or improvement of any building or structure where a building permit is required. Per the San José Municipal Code, these revenues are reserved for developing the General Plan transportation system. The Construction Excise Tax is imposed upon the construction, alteration, repair, or improvement of any building or structure that is for residential or commercial purposes, or is associated with a mobile home. The Construction Excise Tax is an unrestricted general purpose tax. Per City Council policy, however, the proceeds have traditionally been dedicated primarily to the Traffic Capital Improvement Program (CIP).

Due to an improving economic climate for private development in San José as reflected in tax receipts received in 2012-2013 as of February 2013, the Proposed 2013-2014 Capital Budget and 2014-2018 Proposed Capital Improvement Program estimated that revenue collections would increase from \$10.0 million to \$11.0 million and continue at the higher level through 2017-2018 for the Building and Structure Construction Tax, and from \$13.0 million to \$14.0 million and continue at the higher level through for the Construction Excise Tax. However, as the strength of private development activity has exceeded expectations for 2012-2013, an additional \$2.0 million is projected to be received from the Building and Structure Construction Tax and an additional \$3.0 million is projected to be received from the Construction Excise Tax, increasing each tax's respective estimated year-end totals to \$13.0 million and \$17.0 million in the current year.

## **ANALYSIS**

In an effort to address priority transportation needs, the Administration recommends allocating the \$5.0 million in additional transportation revenues to the following programs targeted toward improving transportation safety, infrastructure condition, and energy efficiency.

- Neighborhood Traffic Calming – Funding of \$1.5 million from the Construction Excise Tax Fund is proposed for allocation over a two-year period to partially restore neighborhood traffic calming services that were eliminated as part of the 2010-2011 Adopted Budget. A new Senior Engineer position would be added to manage the program, with a focus on streamlining the administrative process for selecting and delivering the highest priority projects for public funding. It is expected that that the program would implement approximately 30 projects to address “adverse neighborhood speeding conditions” using physical devices such as road humps and choker islands at warranted locations consistent with the City Council’s Traffic Calming Policy for Residential Neighborhoods (No. 5-6). Additional lower-priority projects could also be implemented if future funding is identified from other sources.
- Pavement Maintenance – Funding of \$1.5 million from the Construction Excise Tax Fund is proposed for allocation in 2013-2014 to help further reduce the backlog of deferred maintenance for the City’s Priority Street Network. The Proposed CIP already includes increasing the City’s funding share for pavement maintenance in 2013-2014 to \$5.0 million

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(up from \$3.0 million). The additional funding would increase the City share to \$6.5 million in 2013-2014. Other funding allocated for pavement maintenance in 2013-2014 include State Gas Tax (\$8.8 million), federal gas taxes (\$5.8 million), County vehicle registration fees (\$5.4 million), and special one-time federal grants (\$12.4 million) targeted to rehabilitate former state highways recently relinquished to San José. With the additional funds, total funding for San José pavement maintenance in 2013-2014 would increase from \$37.4 million to \$38.9 million. As previously reported to the City Council, approximately \$100 million is needed annually for 10 years to fully address City-wide pavement maintenance needs.

- LED Streetlight Conversion – Funding of \$2.0 million from the Building and Structure Construction Tax is proposed for allocation over a two-year period to help accelerate the conversion of streetlights along major arterial streets to lower energy consumption with brighter and longer lasting LED lights, consistent with Green Vision goals. This funding would allow for conversion of over 2,000 lights and complement additional efforts being pursued in partnership with Chevron Energy Solutions. Streetlight conversion locations would be selected to also align with City goals for public safety and economic development.

The Administration will continue to monitor the Building and Structure Construction Tax and Construction Excise Tax throughout 2013-2014 to determine if this higher collection level is sustainable and to identify any additional recommended budget adjustments.

/s/

HANS F. LARSEN  
Director of Transportation

/s/

JENNIFER A. MAGUIRE  
Budget Director