



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Paul Krutko
Joseph Horwedel

SUBJECT: See Below

DATE: May 3, 2006

Approved

Date

5/9/06

COUNCIL DISTRICT: City-Wide

SUBJECT: Extension of the Small Business Construction Tax Suspension Incentive Program.

RECOMMENDATION

Approval of an ordinance amending Section 4.46.039.4 of Chapter 4.46, Section 4.47.093 of Chapter 4.47, and Section 4.54.039.6 of Chapter 4.54 of Title 4 of the San Jose Municipal Code, to extend the period 18 months to November 30, 2007, during which the City suspends the collection of fifty percent of the Building and Structure Construction Tax, the Commercial-Residential-Mobilehome Park Building Tax, and the Construction Tax for construction of small business improvements, either as new construction or tenant improvements, of 3,000 square feet or less by new or existing small businesses.

OUTCOME

Approval of this recommendation will continue to provide a construction tax incentive for small businesses. Small businesses, 35 employees or less, doing construction improvements of 3,000 square feet or less will receive a 50% suspension in applicable construction excise taxes. As a result, Construction Excise Tax revenue of approximately \$450,000 will be forgone over the next 18 months that could otherwise be used for street improvements and land acquisition for transportation improvements.

BACKGROUND

In response to feedback received during the 2004 Getting Families Back to Work study session, the City Council on October 12, 2004 approved an ordinance suspending the collection of 50% of the Construction Excise taxes imposed on the first 3,000 square feet of construction improvements at the time of building permit issuance. Initially approved for 18 months, the ordinance provides tax relief to new or existing small businesses with 35 employees or less and who are making small business improvements of 3,000 square feet.

The Construction Excise Taxes that apply to small businesses include the Building and Structure Construction Tax (B & S Tax) and the Commercial- Residential- Mobilehome Park Building Tax (CRMP Tax). For Commercial uses, the B & S tax is assessed at a rate of 1.5% of the building construction valuation. The City uses B & S Tax funds for acquisition of lands for the construction, reconstruction, modification and alteration (but not maintenance and repair) of existing and proposed arterials and major collectors. The CRMP Tax is assessed on construction improvements at the rate of 3% of the construction valuation. These funds are unrestricted but have been committed by policy to fund street improvements including maintenance and repair.

The approved ordinance suspends 50% of the B & S tax and CRMP tax collected and is currently set to expire May 19, 2006.

ANALYSIS

With the passage of the ordinance, the Small Business Tax Suspension Program has helped reduce significant barriers to entry for small businesses. Since its inception, the Program has assisted 254 qualified companies. These permits accounted for the addition of 530,000 square feet of construction. The total tax exempted from collection is approximately \$386,900. This is an average of \$1,520 per permit. The tax savings to businesses equates to approximately 20% of their building permit fees and taxes paid to the City.

The most common types of qualifying businesses included retail businesses, restaurants and office uses. A complete list is provided below:

Number of Permits	Small Business Type	Sq Ft Added
93	Retail	144,703
65	Restaurant	108,361
49	Office	116,639
22	Medical/Dental	33,604
6	Manufacturing	17,477
4	Service Station	7,518
3	Mixed Use	7,814
3	Misc.	12,960
3	Repair Garage	10,788
3	Warehouse/Storage	54,167
2	Health Club	5,794
1	Recreation Building	10,500
<u>254</u>		<u>530,325</u>

An analysis of the permits completed by the Office of Economic Development indicates that approximately 560 additional jobs were created as a result of the new construction.

A leading contributor to the success of the Small Business Construction Tax Suspension program has been the marketing and outreach of the program. Promotion of the program has come from marketing materials, the San Jose Silicon Valley Chamber of Commerce, the Silicon Valley Workforce Investment Network, San Jose Redevelopment Agency, Development Services and the Small Business Ambassador Program.

The success of the program indicates that businesses are responding to the construction tax incentive and that the program is making a difference by encouraging small businesses to do business in San Jose.

Feedback received from clients of the Small Business Ambassador Program indicates that the small business community would benefit from the continuation of the program and the tax relief provided to small businesses.

The proposed Ordinance implements the directives of both the Mayor's Getting Families Back to Work effort and Initiative No. 8 of the Economic Development Strategy, "Diversify San Jose's Economic Base and Preserve/Create Middle-Income Jobs."

ALTERNATIVES

Not Applicable

PUBLIC OUTREACH

Outreach about this program has occurred via the San Jose Downtown Association, the Chamber of Commerce and the City of San Jose.

COORDINATION

This memorandum has been coordinated with City Attorney's Office and the Planning, Building and Code Enforcement Department.

COST IMPLICATIONS

The Planning, Building and Code Enforcement Department estimates that suspending the collection of 50% of the Construction excises taxes for small businesses for 18 months could result in a loss of revenue to the City of approximately \$400,000-\$450,000.

Honorable Mayor and City Council

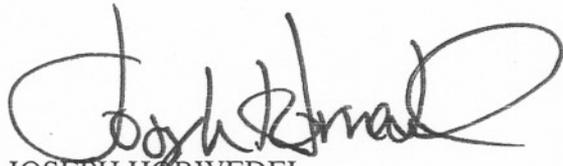
May 3, 2006

Subject: Extension of the Small Business Construction Tax Suspension Incentive Program.

Page 4 of 4

CEQA

Not a project



JOSEPH HORWEDEL

Acting Director, Planning, Building &
Code Enforcement

Phone #: (408) 535-7800



PAUL KRUTKO

Director, Office of Economic Development

Phone #: (408) 535-8181