

ATTACHMENT D: Local Funding Options

The following chart lists potential sources of revenue that could be allocated to support affordable housing programs.

Revenue Source	Revenue Potential	Nexus ?	2/3 Vote?	Adoption Requirements/Feasibility
Building & Structure Construction Tax	Currently set at 1 ¾% of 88% of construction valuation for residential buildings, and 1 ½% of Building Valuation for Commercial, and 1.00% of valuation for Industrial.	N/A	Yes	The San José Municipal Code details the eligible uses—to improve roadway conditions on major arterials (Fund 429).
Business License Tax	Currently set at \$195 per business with an additional charge per employee that varies by number of total employees, up to a maximum of \$150,000.	No	Yes	A 2/3 majority would be required if a special tax versus simple majority for a general tax.
Construction and Conveyance Tax	Imposed for use in specific purposes, such as parks and community facilities, library, fire, service yards, and communication capital programs. The Construction Tax is a flat rate assessed to residential, commercial and industrial developments.	N/A	Yes	Property conveyance taxes are a common source for Housing Trust Funds throughout the nation. Realtors generally oppose real estate transaction taxes and do not poll well with the voters.
Construction Excise Tax	Varies by residential type from \$75-\$150. Non-residential uses assessed at \$0.08 per sq ft of floor area.	Yes	Yes	The Construction Tax is solely to raise revenue. There are also a variety of exemptions currently in the municipal code governing the tax.
Commercial Impact Fee	A commercial impact fee charges a per square foot fee on commercial development to be used for affordable housing creation.	Yes	Maybe	Requires a vote of the local legislative body. Other Santa Clara County cities have a commercial linkage fee, including Santa Clara, Palo Alto, Mountain View, Sunnyvale, and Cupertino. See the January 12, 2018 Information Memo . Linkage fees, if considered taxes, may require a 2/3rds approval. An affordable housing contribution could be negotiated from significant commercial developments that are planned through a Development Agreement.
Community Benefits	Varies depending on structure of the program and strength of the submarket.	Yes	No	Community benefits, such as those developers will select in exchange

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Zoning	A contribution towards affordable housing that goes beyond what is required as a baseline under the City’s Inclusionary Housing Ordinance, or opting to build residences instead of paying in-lieu fees, could be considered a community benefit.			for discretionary land use entitlements in Urban Village Implementation, will include variety of mechanisms to help fund community improvements and infrastructure.
Enhanced Infrastructure Financing Districts	EIFDs can be set up to capture the City’s portion of tax increment in a defined area and can be used to help fund affordable housing and infrastructure at a project- or area-level.			Given the City’s small share of property taxes and relatively high costs of establishment and bonding, EIFDs have not been identified as a potentially lucrative source of funds for affordable housing.
General Obligation Bonds	Issue a GO Bond. A GO Bond could raise considerable money. A one-time source, they can be used for the acquisition and improvement of real property (capital projects), but not for services or homeless activities. San José voters have approved several GO bond issuances: a \$228 million bond for parks approved in 2000; a \$212 million bond for libraries approved in 2001; and, a \$159 million bond for neighborhood security approved in 2002.	N/A	Yes	GO Bonds have been used successfully as a vehicle to fund affordable housing in other jurisdictions including San Francisco, Santa Clara County, and San Mateo County. Other city needs are currently being prioritized for a potential GO bond ballot measure.
Residential Construction Tax	Per unit tax of \$90-\$180 depending on structure type.	N/A	Yes	The amount of revenue received from this tax would be small relative to the effort it would take to obtain 2/3rds voter approval.
Residential Parcel Tax	San Jose currently has one parcel tax: the library parcel tax. Its purpose is to raise revenue to maintain and enhance library services. San José Municipal Code Title 4, Section 4.79.710 provides a schedule of rates. Rates vary by type of use (residential or “professional”) and size of the development (number of units for residential and number of acres for professional)	No	Yes	A residential parcel tax would need to be created as an excise tax rather than a property tax to comply with Proposition 13.
Sales Tax	The sales tax rate in San José was 8.75% in 2016, and increased in April 2017 to 9.25% due to implementation of Measure B, which funds transportation infrastructure. San Jose receives 1% of the overall tax, which is paid to the General Fund. The remaining portion goes to other government agencies or for specified purposes.	N/A	Yes	With San José’s 2017 sales tax increase and a rate of 9.25%, San Jose is at the state local tax add-on limit.