



COUNCIL DATE: 06/19/18
FILE: 18-801
ITEM: 2.31

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Jim Ortbal
Matt Cano

SUBJECT: SEE BELOW

DATE: May 29, 2018

Approved

Mayor A. Maguire

Date

6-7-18

COUNCIL DISTRICT: 3

**SUBJECT: DOWNTOWN SAN JOSE PROPERTY-BASED BUSINESS
IMPROVEMENT DISTRICT ANNUAL REPORT FOR FISCAL YEAR
2018-19**

RECOMMENDATION

(a) Adopt a resolution:

- (1) Approving the Downtown San José Property-Based Improvement District Annual Report prepared by the Downtown San José Property Owners' Association for Fiscal Year 2018-19 as filed or modified by Council;
- (2) Confirming the individual assessments as proposed by the Downtown San José Property Owners Association, or as modified by Council;
- (3) Directing a modified City baseline services contribution in the amount of \$395,000 be provided in Fiscal Year 2018-19;
- (4) Directing the Director of Public Works to deliver the assessment roll to the County for collection with the property taxes.

(b) Approve an amendment to the Downtown San José Property Owners' agreement, increasing the baseline funding amount from \$365,000 to \$395,000 for the remainder of the agreement.

OUTCOME

Approval of this recommendation will provide for the continued enhanced maintenance services, cleaning of sidewalk areas, information and safety services, beautification activities, and

business retention and growth programs funded through the levy of special assessments for Downtown San José.

BACKGROUND

The City of San José established its first Property-Based Improvement District in 2007 to fund specific, enhanced services and improvements above those provided by the City from generally available funds. Since the enhanced services directly benefit individual parcels within the district rather than the City as a whole, the costs are assessed to these same parcels.

The Downtown San Jose Property-Based Improvement District (Downtown PBID) was originally approved by property owners and adopted by Council on August 7, 2007, for a five-year period to raise funds for enhanced services for the Downtown, and was subsequently expanded and renewed on June 19, 2012, for a 10-year period beginning January 1, 2013, and ending on December 31, 2022. The voter-approved assessment formula provides for an annual rate increase not to exceed 5% per year to keep pace with the Bay Area Consumer Price Index for all urban consumers and/or other changes in program costs. An assessment increase of 5% is recommended for the 2018-2019 fiscal year.

On March 23, 2018, the San José Downtown Property Owners' Association submitted a request to the City Manager's Office, seeking an increase to the annual baseline funding due to the increased costs of providing baseline services. The current Downtown PBID agreement commenced in 2012 and covers a 10-year term that will end on December 31, 2022. This agreement established a flat baseline funding amount of \$365,000 for the duration of the agreement.

ANALYSIS

As required by Part 7 of Division 18 of the California Streets and Highways Code "Property and Business Improvement District Law of 1994" for reporting, and in accordance with the agreement between the City and the San José Downtown Property Owners' Association (POA), the POA has submitted the *Downtown San Jose Property-Based Improvement District Annual Report for Fiscal Year 2018-19* to the Council, dated May 1, 2018 (**Attachment A**). This report, which is the first of two reports for Fiscal Year 2018-19, will be on file in the City Clerk's Office prior to the Council Meeting. A second report, the Fiscal Year 2018-19 Financial Report, will be submitted in October 2019 to the Council from the POA. The Annual Report contains the following information which is consistent with the Engineer's Report for the Downtown PBID:

1. Declaration of no material changes to the district
2. FY 2018-19 improvements and activities
3. Cost estimates for FY 2018-19 improvements and activities
4. Method and basis of levying FY 2018-19 assessments

5. Amount of surplus revenue to be carried over
6. Non-assessment revenue

The Downtown Property Owners' Association is not proposing any significant changes to the Groundwerx enhanced cleaning program in 2018-19. The program continues to be effective and popular with members, earning a 92% approval rating on the recent 2018-member survey. District priorities for the cleaning program will continue to focus on graffiti removal, debris removal, sidewalk sweeping and sidewalk cleaning/stain removal.

In 2014-15, with the support of the City's Housing Department, Groundwerx, and the Downtown Streets Team (DST) launched a work experience program in response to homelessness concerns. Through this partnership, DST participants are trained in cleaning/maintenance skills by Groundwerx staff to improve their work skills and enhance their employability. As of April 30, 2018, 12 program participants have secured employment and several others are actively seeking employment.

The Ambassador Program received a 75% approval rating from downtown property owners. Groundwerx ambassadors will continue to greet and provide valuable information to downtown pedestrians and work with partner agencies to connect the downtown homeless population to available resources.

The Business Development & Enhanced Security programs have also produced positive results. Since the beginning of 2017-18, the Business Development Program has assisted 69 small businesses on permitting issues, identifying available space, assessing the downtown market and understanding relevant regulations.

The Downtown PBID operating budget has also allocated funding to continue the Enhanced Security program utilizing off-duty San Jose police officers to provide supplemental security within the district. The Enhanced Security program is budgeted for 46 hours of weekly coverage, but coverage is subject to the availability of off-duty officers to staff the program.

The Downtown PBID will continue its Street Tree & Enhanced Maintenance services in 2018-19. In 2018, the tree maintenance service received an 86% approval rating from downtown property owners, and will focus its efforts in the upcoming year on pruning district trees, replanting missing trees, and implementation of pest control measures to ensure a healthy street tree canopy.

The Downtown PBID released its Downtown Street Life Plan (DLSP) in 2013-14. The design, implementation and maintenance of street life activation projects is an important function of the Downtown PBID. These projects provide a direct benefit to the downtown area and will improve its image as a local destination point. Completed Street Life projects received a 91 percent approval rating in the 2018 annual survey. The San Pedro Squared project, which partially retrofitted the ground floor of the Market Street/San Pedro Square Parking Garage with pop-up retail was unveiled on May 18, 2018, and the Downtown PBID also plans to continue

implementation of smaller scale street life projects including general aesthetic improvements downtown.

The Downtown San José Property Owners' Association, Board of Directors is recommending a total assessment increase of 5% for 2018-19 which is estimated to generate approximately \$137,800 annually in additional revenue. These funds will offset the costs associated with living wage increases, which will increase by 5.64%, effective for the Groundwerx contract in January 2019. Downtown PBID labor costs have increased by an average of 6.75% over the past four years. These wage increases have a significant impact on the Groundwerx contract, which accounts for a majority of the work performed by the Downtown PBID.

The additional revenue will also help offset the increasing demand for Downtown PBID services. Several large commercial spaces will be activated after being vacant for many years and two new residential development projects will be coming online in the upcoming year. The new buildings will bring an influx of new people to downtown and new events throughout the year. The impacts of the downtown homelessness population also create greater demand for Groundwerx services, with 72% of survey respondents indicating greater emphasis is needed. Groundwerx staff are called upon on a daily basis by downtown residents, property owners and businesses, to clean up spaces that were occupied by the homeless. Additional expenses will also be generated through the implementation and ongoing maintenance of new street life projects and other upcoming downtown events, including the 2019 College Football Championship game and NHL All Star game at the SAP Center.

The total maximum assessment levy for 2018-19 including some new development and assessments on the City and the Successor Agency to the Redevelopment Agency (SARA) properties will be approximately \$2,895,000. It is possible that less than this amount will be collected due to delinquencies, property transfers and other non-payments, as reflected in the 2018-19 Approved Budget for Net Assessments. The projected Downtown PBID budgeted revenue is reflected on page 4 of **Attachment A**. As a property owner with the district, the City's assessment will be \$495,785 and SARA will be assessed \$7,854.

The City's annual baseline service contribution is recommended to increase from \$365,000 to \$395,000 starting in 2018-19. Funds are included in the City's proposed 2018-2019 Operating Budget for these purposes (Page X-32). The current Downtown PBID agreement commenced in 2012 and covers a 10-year term that will end on December 31, 2022. This agreement established a flat baseline funding amount of \$365,000 for the duration of the agreement. The decision to maintain a flat funding level was primarily due to uncertainty about the economy and the City's future funding outlook at the time the agreement was established. With an increase in overall operating costs of 16.7% since the inception of the Downtown PBID, as described in the Downtown PBID Annual Report, an amendment to the current agreement increasing the annual baseline service funding to \$395,000 is recommended. The increased funding will ensure that the baseline services as described in the agreement between the City and the Downtown PBID continue at their current levels.

EVALUATION AND FOLLOW-UP

The attached annual report by the Downtown San José Property Owners' Association sets the budget and proposed assessments for 2018-19 consistent with the approved Downtown PBID Management Plan/Engineer's Report. The current agreement between the City and the POA, and PBID Law, also requires the POA to submit an Annual Financial Report, containing an independent Certified Public Accountant Review Report in October of each year.

PUBLIC OUTREACH

This memorandum will be posted to the City's website for the June 19, 2018, City Council agenda. The Annual Report is filed in the City Clerk's Office for public review and will also be made available to the property owners within the district upon request. A notice of assessment and map of the district will be recorded with the County Recorder for public viewing and for title purposes. This will allow the district to be referenced in title searches to inform property owners of the district and the accompanying assessment. Finally, the San José Downtown Property Owners' Association, Board of Directors approved the fiscal year budget at its publicly noticed and held meeting on March 27, 2018, at 28 N. First Street.

COORDINATION

This memo has been coordinated with the City Attorney's Office and the City Manager's Budget Office.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

FISCAL/POLICY ALIGNMENT

This action is consistent with the City Council's direction to seek alternative ways to deliver services and reduce costs in the Downtown through appropriate community partnerships and public-private partnerships, and is consistent with the Council-approved Budget Principle in that it utilizes special assessments for enhanced services.

COST SUMMARY/IMPLICATIONS

If the Downtown PBID Annual Report for Fiscal Year 2018-19 is approved, the City assessment will be approximately \$495,785, along with an assessment of approximately \$7,854 on

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May 29, 2018

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by SARA. In addition, the City, subject to appropriation of funds, would increase its current baseline funding for the Downtown from \$365,000 to \$395,000. Subject to Council approval, the 2018-2019 Proposed Operating Budget incorporates both the recommended assessment increase and increase to baseline funding.

BUDGET REFERENCE

No budget action is required. The 2018-2019 Proposed Operating Budget (p. X-32), Statement of Source and Use of Fund for the Downtown Property-Based Improvement District Fund, incorporates both the recommended assessment increase and increase to baseline funding specified above, subject to Council approval.

CEQA

Not a Project, File No. PP17-009, assessments/annual reports.

/s/
JIM ORTBAL
Director of Transportation

/s/
MATT CANO
Director of Public Works

For questions, please contact Eric Hon, Division Manager, Department of Transportation, at (408) 794-1987.

Attachments



Downtown San Jose Property-Based Improvement District

Annual Report for Fiscal Year 2018-19 by the Downtown San Jose Property Owners' Association

May 1, 2018

1. Property-Based Improvement District

The Downtown San Jose Property-Based Improvement District (PBID) is a special benefit assessment district (District) that conveys special benefits to the properties located within the District boundaries. The PBID encompasses the core of the downtown area bounded approximately by Fourth Street and City Hall complex to the east, St. James, Devine and Julian streets to the north, Highway 87 and the SAP Center to the west and Market and First streets south to Reed Street. The PBID was renewed on June 19, 2012. The new term began on January 1, 2013 and runs through December 31, 2022. No changes are proposed to the District's current boundaries, benefit zones or classification of properties for fiscal year 2018-19.

2. Improvements and Activities to be provided in FY 2018-19

There are no significant service level changes for the Groundwerx cleaning program in fiscal year 2018-19. Service levels will continue to be consistent with the benchmarks identified in the PBID management plan, however, the daily deployment may vary slightly throughout the year to accommodate special events and other district needs. With the recent declaration that California's ongoing drought has ended, adjustments to portions of the Groundwerx cleaning program from previous years may be made.

The overall cleanliness of downtown remains the top priority for downtown property owners. In the 2018 member survey, 85.9 percent of respondents indicated that this was the most important downtown issue. Groundwerx will continue to proactively address graffiti, sidewalk debris and provide regular sidewalk cleaning/stain removal to ensure that downtown is maintained at the highest level. The Groundwerx cleaning program continues to impress members as evidenced by a 92 percent approval rating in the recent survey.

Downtown business and property owners also continue to see value in the Groundwerx ambassador program. Ambassadors received a 75.3 percent approval rating in the 2018 survey. Groundwerx ambassadors provide a wide range of services within the district such as disseminating downtown information to visitors, reporting issues to property owners and serving as the "eyes and ears" of the district

by reporting security issues. Ambassadors assist the clean team by abating small graffiti and reporting messes to their cleaning counterparts.

Results from the 2018 survey indicate that businesses and property owners remain concerned about the downtown homeless population with 72 percent of the respondents identifying this as an area that needs more emphasis. Groundwerx and Downtown Street Teams (DST) will continue its partnership to provide a work experience program for homeless individuals. With three quarters of FY 2017-18 completed, 12 individuals who were part of the work experience program have obtained permanent work either with Groundwerx or another local employer (90 days or longer).

Street Life projects and downtown image enhancements continue to receive high marks from PBID members. A 90.6 percent approval rating was given to previous projects, and multiple PBID members and organizations outside the district have reached out to discuss potential street life collaborations in the near future. The PBID continues to apply for grants, seek private contributions, and lean on established relationships to better leverage assessment funding to implement more projects.

Street Life's current large project, San Pedro Squared, will be completed in May 2018. This project converted 12 garage parking spaces into micro-retail units and turned five on-street parking spaces into a parklet. With the completion of San Pedro Squared, the PBID board is evaluating potential new large-scale street life projects for FY 2018-19. Smaller scale street life projects (such as murals, festoon lights, etc.) will also be implemented in the next fiscal year.

The PBID's street tree and enhanced maintenance (minor public space repairs) services will continue in the new fiscal year. The PBID street tree program was implemented in 2010 and remains a popular service with property owners (85.9 percent approval in 2018). For the upcoming year, the PBID will assess the needs of the district and provide supplemental pruning, replant missing trees and implement disease control measures to sure a healthy street tree canopy. "Ungirdling" (the removal of tree grates and granite pavers from around the base of a tree) is a multi-year project throughout the district.

The PBID will continue its District Enhancements, which includes the Business Development program and Enhanced Security. The business development manager works closely with the City's Planning Department and Office of Economic Development to assist business and property owners in the permitting and development process. The business development manager also actively works to recruit new businesses and retain existing ones in the District. Year to date for the current fiscal year (FY 2017-18), the PBID has assisted 69 small businesses in varying stages of permitting, identifying space, assessing the downtown market and understanding relevant regulations.

The Enhanced Security program received a 72.3 percent approval rating from members. The program was launched in 2013 as a pilot program because downtown security is one of the highest priorities for property owners. The PBID has budgeted for a five-day program that provides 46 hours of weekly deployment hiring off-duty San Jose police officers. For FY 2018-19, the budget for this program was reduced to \$125,000 due to ongoing challenges recruiting officers to participate in the program.

The Downtown San Jose Property Owners 'Association (SJPOA) Board of Directors recommends an assessment increase of five percent for FY 2018-19 to keep pace with projected service cost increases, such as the City of San Jose's mandated living wage requirement. The next living wage increase (January 2019) is set at 5.64 percent.

District assessment revenue is projected to increase by \$48,752. There will be a need for increased PBID services as several long vacant commercial spaces are slated for activation with new tenants, as well as the projected opening of two new residential developments within the district. There are also more events and festivals throughout the year, which also increase the need for Groundwerx services.

The table below reflects clean team and ambassador services for FY 2018-19, as well as the proposed service output in the District management plan (Management Plan).

Clean	Management Plan	Proposed FY 18-19
Maintenance F.T.E.	13 to 18	13 to 18
Average weekly coverage	7 days	7 days
Pan & Broom, Litter Removal/Vacuuming/Machine Sweeping/Transit Stop Maintenance	16 hours/day (premium) 8 hours/day (basic)	16 hrs/day (premium) 8 hrs/day (basic)
Steam Cleaning/Pressure Wash: Basic	Two to Four times per year	Two to Four times per year
Steam Cleaning/Pressure Wash: Premium	Four to Six times per year	Four to Six times per year
Graffiti Reporting/Cleaning	Daily as Needed	Daily as Needed
Light Landscape/Weeds	As Needed	As Needed
SWAT Patrol or "emergency cleaning"	As Needed	As Needed
Tree Maintenance	N/A	As Needed
Safe (Information and Safety Ambassadors)		
Ambassadors F.T.E.*	9-12	9-12
Coverage in all areas	8 hours	8 hours
Coverage in Premium areas	12-16 hours	12-16 hours

*Under the current service deployment model there are 9 regular ambassadors. This number may vary as a result of changes in district needs. The implementation of new programs could also potentially impact the FTE range for ambassadors.

PBID administrative costs account for up to 9.9% of revenue received, as approved by the POA Board of Directors and reflected in the Management Plan. Administrative costs include one full time Operations Manager, additional support staff from the San Jose Downtown Association, office supplies, postage, professional services, and other miscellaneous costs.

3. Estimate of Costs for Improvements and Activities in FY 2018-19

The estimated total cost for improvements and activities for FY 2018-19 is \$3,316,273.

The table below summarizes the total estimated costs for providing the services to meet the needs of the District in FY 2017-18:

Improvements & Activities	Estimated costs
--------------------------------------	------------------------

Cleaning	\$1,373,228
Information/Safety Ambassadors	\$522,449
Image Enhancements (Street Life/Beautification)/Tree Maintenance/Enhanced Maintenance	\$730,000
Business Development	\$143,000
Enhanced Security (SJPD Secondary Employment)	\$125,000
APT (Automated Public Toilet) Maintenance	\$31,200
Administration	\$331,109
St. James Park Fee for Service Contract	\$65,000
TOTAL	\$3,316,273

Revenue Source	Projected Revenue
Assessments	\$2,676,436
City of San Jose Baseline Funding	\$395,000
Other Contracts/Miscellaneous	\$273,103
TOTAL	\$3,334,540

The attached proposed District budget provides detailed estimates of revenues and expenses, including use of beginning fund balance.

4. Method and Basis of Levying FY 2018-19 Assessments

The methodology for levying District assessments will remain the same for FY 2018-19. Service benefits are distributed to lot and building square footage through a “cost allocation” approach – the costs of specific services are allocated to the assessment variables that benefit most from services.

The sum of lot and building square footage are the primary assessment variables for cleaning, ambassador and beautification/image enhancement costs. Benefits from all District activities are designed to improve ease of use, image, occupancy, and sales and are distributed to all properties and those using and occupying those buildings. The inclusion of lot square footage in the calculation acknowledges the greater benefits of these services to the ground level of property.

The table below reflects a 5 percent increase in assessments for FY 2018-19.

Area	Per square foot of Lot FY 2018-19	Per square foot of Building FY 2018-19
Basic Zone: Commercial, Enterprise Government	\$ 0.0719	\$ 0.0719

Premium Zone: Commercial, Enterprise Government	\$ 0.1205	\$ 0.1205
Basic Zone: Residential, Traditional Gov't, Other Non-Commercial (image enhancement assessment not included)	\$ 0.0485	\$ 0.0485
Premium Zone: Residential, Traditional Gov't, Other Non-Commercial (image enhancement assessment not included)	\$ 0.097	\$ 0.097

5. Amount of Surplus Revenue to be carried over from previous fiscal year

The PBID will carryover a projected fund balance of \$598,970. Since the assessment dollars are released twice annually, the PBID must carry a fund balance to cover its operating expenses. The PBID receives a two percent discount by paying Block by Block, its primary Groundwerx service provider on a quarterly schedule. Each FY 2018-19 quarterly installment is approximately \$464,441.

The carryover may also be used to fund unanticipated program costs, such as new Downtown Street Life projects and other district enhancements. Additional dollars from the fund balance may also be needed to cover expenses such as repair or replacement of equipment.

6. Contributions from non-assessment revenue

The City of San Jose will contribute baseline service funding in the amount of approximately \$395,000 for FY 2018-19. This is a \$30,000 increase from the previous year, and will require a new baseline services agreement between the City and the PBID.

The PBID is in the process of renewing its agreement with the Santa Clara Valley Transportation Authority (VTA) to maintain transit mall tracks and light rail station platforms. The annual contract with VTA was for \$80,796 in FY 17-18. The PBID has requested a three percent increase for FY 18-19. This extra maintenance of the transit mall tracks, light rail platforms and bus rapid transit stations is not part of the PBID assessment services.

The PBID received grants from the Knight Foundation for the completion of San Pedro Squared and to support other related projects outlined in the Street-life Plan in FY 17-18. These grant contributions included a \$50,000 contribution for the San Pedro Squared parklet and \$100,000 for ongoing implementation of the Street-life program as part of a five-year grant. The PBID is finishing the third year of the grant.

The PBID is looking to continue the Groundwerx work experience program for downtown homeless individuals. Downtown Streets Team manages the grant from the City of San Jose's Housing Department. The proposal for next fiscal year is currently under review. PBID receives \$15,000 to cover the cost of supplies, equipment and training.

Enhanced maintenance and docent services in St. James Park continue through a purchase order agreement with the City of San Jose's Parks, Recreation and Neighborhood Services department. The new purchase order runs through May 2, 2019, and is for \$80,000 in services. Groundwerx staffing for this agreement is separate from assessment funded clean and safe work.

San Jose Downtown Property Owners' Association
FY 2018-19 Budget

	FY 18-19
	Approved
	BUDGET
REVENUE	
Assessments	
Assessments - thru SCC	2,159,107
less assessment charges SCC	(20,644)
Assessments - exempt thru SJ	543,901
less assessment charges SJ	(10,000)
Assessment - thru PBID	4,072
Net Assessments	2,676,436
City baseline	395,000
Contracts	175,000
Street Life Investors	98,000
Miscellaneous & Interest	103
TOTAL REVENUE	3,344,540
EXPENSES	
CLEAN TEAMS	
Contract service	1,008,228
Contract baseline	365,000
Subtotal	1,373,228
SAFETY AMBASSADOR TEAMS	
Contract Service	522,449
Subtotal	522,449
Total BBB Contract	1,895,677
IMAGE ENHANCEMENTS	
Street Life Plan Projects	350,000
Maintenance completed projects	210,000
Enhanced Maintenance	35,000
Street Tree maintenance	135,000
Subtotal	730,000
DISTRICT ENHANCEMENTS	
Business development program	143,000
Secondary Employment Unit	125,000
APT (auto public toilet) maintenance	31,200
St. James Park	65,000
Subtotal	364,200
ADMINISTRATION	
SJDA Management	331,109
Insurance	6,000
Professional Services	14,000
Office Supplies	7,000
Misc	6,200
less 2% prepay contracts	(37,914)
Subtotal	326,396
TOTAL EXPENSES	3,316,273
REVENUE NET OF EXPENSES	28,267
Beginning Fund Balance	598,970
Projected Ending Fund Balance	627,237