



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: John Ristow
Matt Cano

SUBJECT: SEE BELOW

DATE: May 20, 2019

Approved

Date

5-30-19

COUNCIL DISTRICT: 3

**SUBJECT: DOWNTOWN SAN JOSE PROPERTY-BASED IMPROVEMENT
DISTRICT ANNUAL REPORT FOR FISCAL YEAR 2019-2020**

RECOMMENDATION

Adopt a resolution:

- a. Approving the Downtown San José Property-Based Improvement District Annual Report prepared by the Downtown San José Property Owners' Association for Fiscal Year 2019-2020, as filed or modified by Council;
- b. Confirming the individual assessments as proposed by the Downtown San José Property Owners Association, or as modified by Council;
- c. Directing the Director of Public Works to deliver the assessment roll to the County for collection with the property taxes.

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 José 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 2019-2020 fiscal year.

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 José Property-Based Improvement District Annual Report for Fiscal Year 2019-2020* to the Council, dated May 1, 2019 (Attachment A). This report, which is the first of two reports for Fiscal Year 2019-20, 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. 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 2019-2020 improvements and activities
3. Cost estimates for FY 2019-2020 improvements and activities
4. Method and basis of levying FY 2019-2020 assessments
5. Amount of surplus revenue to be carried over
6. Non-assessment revenue

Highlights of services that will be provided by the Downtown PBID in FY 2019-2020 include:

Groundwerx Enhanced Cleaning Program: The Downtown Property Owners Association is not proposing any significant changes to the Groundwerx enhanced cleaning program in Fiscal Year 2019-20. The program continues to be effective and popular with members, earning a 90 percent approval rating on the recent 2019 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 2014-2015, 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 May 1, 2019, 24 program participants have secured employment.

Ambassador Program: The Ambassador Program received a 72 percent 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.

Business Development and Enhanced Security Programs: These programs have also produced positive results. Since the beginning of the current fiscal year, the Business Development Program assisted 74 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 José police officers to provide supplemental security within the district. The Enhanced Security program received an approval rating of 80 percent from property owners in the recent 2019 survey. This program is budgeted for 50 hours of weekly coverage that provides for staffing of eight officers with additional officers available to provide support as needed.

Street Tree & Enhanced Maintenance: The Downtown PBID will continue its Street Tree & Enhanced Maintenance services in FY 2019-20. In 2019, the tree maintenance service received an 87 percent 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.

Downtown Street Life Plan: The Downtown PBID released its Downtown Street Life Plan (DLSP) in 2013-2014. 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 2019 annual survey. With the completion of the San Pedro Squared project, which partially retrofitted the ground floor of the Market Street/San Pedro Square Parking Garage with pop-up retail, the PBID will now focus its efforts to complete the landscape redesign of the Almaden Blvd median and to continue implementation of smaller scale street life projects, including general aesthetic improvements downtown.

Proposed PBID Assessment for Fiscal Year 2019-20

The Downtown San José POA Board of Directors is recommending a total assessment increase of 5% for FY 2019-20. The PBID estimates this assessment will generate approximately \$234,270 in additional revenue per the Annual Report. These funds will offset the costs associated with the increased costs of the Enhanced Security program, as well as living wage increases, which will increase by 4.32 percent, effective January 2020.

The additional revenue will also help offset the expected increased demand for Downtown PBID services. Several large commercial spaces will be activated after being vacant for many years, and new residential development projects will be coming on line. The new buildings will likely bring an influx of new people to downtown and new events throughout the year. The impacts of the downtown homelessness population also creates greater demand for Groundwerx services, with 85 percent 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.

The total maximum assessment levy for FY 2019-2020 including some new development and assessments on City properties will be approximately \$3,036,000. It is possible that less than this amount will be collected due to delinquencies, property transfers, and other non-payments. As a property owner within the district, the City's assessment will be \$516,570. The distribution of the Downtown PBID assessment revenue crosses over between fiscal years. In FY 2019-20, PBID funds will be comprised of the second half of the FY 2018-19 assessment revenue in August 2019, along with the baseline funds and the first half of the FY 2019-2020 assessments that will include the 5% assessment increase, and will be distributed in March 2020. The projected Downtown PBID budgeted revenue is reflected in Attachment B.

The City's annual baseline service contribution is \$395,000. Funds are included in the City's 2019-2020 Proposed Operating Budget for these purposes (Page X-28). 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; however, as a result of increased operating costs since the inception of the PBID, an amendment to the annual baseline funding was approved by City Council in FY 2018-19. The increased funding ensures that the baseline services as described in the agreement between the City and the Downtown PBID continue at current levels.

EVALUATION AND FOLLOW-UP

The attached annual report by the Downtown San José POA sets the budget and proposed assessments for FY 2019-2020 consistent with the approved Downtown PBID Management Plan/Engineer's Report. The current agreement between the City and the POA, 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 /INTEREST

This memorandum will be posted to the City's website for the June 11, 2019 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 POA Board of Directors approved the fiscal year budget at its publicly noticed and held meeting on March 19, 2019, 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

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 FY 2019-2020 is approved, the City assessment will be approximately \$516,570. In addition, the City, subject to appropriation of funds, would continue baseline funding for the Downtown PBID of \$395,000.

BUDGET REFERENCE

No budget action is required. The FY 2019-2020 Proposed Operating Budget (p. X-28), 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.

HONORABLE MAYOR AND CITY COUNCIL

May 20, 2019

Subject: Downtown San Jose PBID Annual Report for FY 2019-2020

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CEQA

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

/s/
JOHN RISTOW
Director of Transportation

/s/
MATT CANO
Director of Public Works

Attachment A: Downtown PBID Annual Report for FY 2019-2020

Attachment B: Downtown PBID Budget for FY 2019-2020

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



Downtown San Jose Property-Based Improvement District

Annual Report for Fiscal Year 2019-20 by the Downtown San Jose Property Owners' Association

May 1, 2019

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 2019-20.

2. Improvements and Activities to be provided in FY 2019-20

There are no significant service level changes for the Groundwerx cleaning program in fiscal year 2019-20. 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. Starting in January 2019, Groundwerx now deploys two all-terrain litter vacuums (ATLVs) allowing for more efficient removal of leaves, dirt and other debris.

The overall cleanliness of downtown remains the top priority for downtown property owners. In the 2019 member survey, 90 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 90.2 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 72 percent approval rating in the 2019 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 2019 survey indicate that businesses and property owners remain concerned about the downtown homeless population with 78.6 percent of the respondents identifying working with homeless individuals and service providers 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 2018-19 completed, 24 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 91 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.

San Pedro Squared, a ground floor garage retrofit project, opened 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 directed efforts to complete detailed concept designs for the Almaden Blvd Median Improvement project, a redesign of a one-mile stretch of median on Almaden Blvd from Santa Clara to Balbach Streets. PBID, through a partnership with POW! WOW! San Jose! commissioned six murals downtown, with another four currently in the pipeline. Smaller scale street life projects (such as festoon lights, art crosswalks, alley activations, 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 (87.3 percent approval in 2019). 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 in FY 2018-19, the PBID has assisted 74 small businesses in varying stages of permitting, identifying space, assessing the downtown market and understanding relevant regulations.

The Enhanced Security program received a 80 percent approval rating from members, with 75.5 percent of members indicating that security is a high priority for the district. The PBID has budgeted for a five-day program that provides 50 hours of weekly deployment hiring off-duty San Jose police officers. In April 2018, the reserve officers participating in the program retired from service. The PBID board voted to increase officer pay to time and a half due to recurring recruitment issues. In June 2018 the District was able to recruit eight on-duty officers to staff each shift, with six alternate officers, and has been fully staffed each week since, whereas staffing in previous fiscal years averaged 60 percent. For FY 2019-20, the budget for this program was increased to \$220,000 from \$125,000.

The Downtown San Jose Property Owners' Association (SJPOA) Board of Directors recommends an assessment increase of five percent for FY 2019-20 to keep pace with projected service cost increases, such as the City of San Jose's mandated living wage requirement and the increased cost of the SEU program. The next living wage increase (January 2020) is set at 4.32 percent.

District assessment revenue is projected to increase by \$234,270 (a difference of \$55,632 over a three percent assessment increase). There will be a need for increased PBID services as several large commercial spaces with long-term vacancies are slated for activation with new tenants, as well as the projected opening of two new residential developments within the District. Additionally, the impacts of homelessness in the public realm has created an increased need for Groundwerx services, with 85 percent of survey respondents indicating greater emphasis in this area is needed. There are more events and festivals throughout the year, which also increase the need for Groundwerx services. This increase in assessment revenue will cover additional street life costs, including the maintenance of newly added planters and small scale activation efforts.

The table below reflects clean team and ambassador services for FY 2019-20, as well as the proposed service output in the District Management Plan (Management Plan).

Clean	Management Plan	Proposed FY 19-20
Maintenance F.T.E.	13 to 18	13 to 18
Average weekly coverage	7 days	7 days
Pan & Broom, Litter Removal/All-Terrain Litter Vacuum/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 percent 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 2019-20

The estimated total cost for improvements and activities for FY 2019-20 is \$3,556,797.

The table below summarizes the total estimated costs for providing the services to meet the needs of the District in FY 2019-20:

Improvements & Activities	Estimated costs
Cleaning	\$1,409,848
Information/Safety Ambassadors	\$536,381
Image Enhancements (Street Life/Beautification)/Tree Maintenance/Enhanced Maintenance	\$790,000
Business Development	\$143,000
Enhanced Security (SJPd Secondary Employment)	\$220,000
District Enhancements (Supplies, transit mall clock)	\$25,000
Administration	\$352,568
Fee for Service Contracts	\$80,000
TOTAL	\$3,556,797

Revenue Source	Projected Revenue
Assessments	\$2,910,705
City of San Jose Baseline Funding	\$395,000
Other Contracts/Miscellaneous	\$283,110
TOTAL	\$3,588,816

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 2019-20 Assessments

The methodology for levying District assessments will remain the same for FY 2019-20. 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 2019-20.

Area	Per square foot of Lot FY 2019-20	Per square foot of Building FY 2019-20
Basic Zone: Commercial, Enterprise Government	\$ 0.0755	\$ 0.0755
Premium Zone: Commercial, Enterprise Government	\$ 0.1265	\$ 0.1265
Basic Zone: Residential, Traditional Gov’t, Other Non-Commercial (image enhancement assessment not included)	\$ 0.0510	\$ 0.0510
Premium Zone: Residential, Traditional Gov’t, Other Non-Commercial (image enhancement assessment not included)	\$ 0.1019	\$ 0.1019

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

The PBID will carry over a projected fund balance of \$794,015. 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 2019-20 quarterly installment is approximately \$469,779.

The carry over 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 2019-20.

The PBID has renewed 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 is for \$85,717 in FY 19-20. 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 \$100,000 from the Knight Foundation to support projects outlined in the Street Life Plan in FY 19-20. This five-year grant is finishing its fourth year.

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.

Fee for service contracts have become a more significant source of non-assessment revenue for the PBID in the last two fiscal years. Groundwerx staffing for all fee for service work is separate from assessment funded clean and safe work. The enhanced maintenance and docent services in St. James Park will continue through a purchase order agreement with the City of San Jose's Parks, Recreation and Neighborhood Services Department, with the new purchase order valid from May 3, 2019 to May 2, 2020, for up to a \$100,000 in services.

Smaller scale fee for service work on private property on a regular and as-needed basis makes up a small portion of the fee for service work the PBID currently provides, and several additional property owners have expressed interest in starting fee for service contracts sometime during FY 19-20.

Attachment B

San Jose Downtown Property Owners' Association
FY 2019-20

	FY 19-20
	Approved
	BUDGET
REVENUE	
Assessments	
Assessments - thru SCC	2,297,221
less assessment charges SCC	(22,972)
Assessments - exempt thru SJ	642,181
less assessment charges SJ	(10,000)
Assessment - thru PBID	4,276
Net Assessments	2,910,705
City baseline	395,000
Contracts	185,000
Street Life Investors	98,000
San Pedro Squared	-
Miscellaneous & Interest	110
TOTAL REVENUE	3,588,816
EXPENSES	
CLEAN TEAMS	
Contract service	1,014,848
Contract baseline	395,000
Subtotal	1,409,848
SAFETY AMBASSADOR TEAMS	
Contract Service	536,381
Subtotal	536,381
Total BBB Contract	1,946,228
IMAGE ENHANCEMENTS	
San Pedro Squared	-
Street Life Plan Projects	375,000
Maintenance completed projects	220,000
Enhanced Maintenance	70,000
Street Tree maintenance	125,000
Subtotal	790,000
DISTRICT ENHANCEMENTS	
Business development program	143,000
Secondary Employment Unit	220,000
APT (auto public toilet) maintenance	-
Fee for Service Contracts	80,000
Miscellaneous	25,000
Subtotal	468,000
ADMINISTRATION	
SJDA Management	355,293
Insurance	6,000
Professional Services	17,000
Office Supplies	7,000
Misc	6,200
less 2% prepay contracts	(38,925)
Subtotal	352,568
PBID 10 Year Anniversary	-
TOTAL EXPENSES	3,556,797
REVENUE NET OF EXPENSES	32,019
Beginning Fund Balance	794,015
Projected Ending Fund Balance	826,034