


CITY COUNCIL ACTION REQUEST

Department(s): Transportation	CEQA: Not a Project, File No. PP17-009, Staff Reports, Assessments, Annual Reports, and Informational Memos that involve no approvals of any City action.	Coordination: City Attorney's Office, Department of Public Works, City Manager's Budget Office	Dept. Approval: /s/ John Ristow
Council District(s): 3			CMO Approval:  10/29/21

SUBJECT: DOWNTOWN SAN JOSE PROPERTY-BASED IMPROVEMENT DISTRICT (PBID) ANNUAL FINANCIAL REPORT

RECOMMENDATION:

Approve the Downtown San Jose Property-Based Improvement District Annual Financial Report for FY 2020-2021.

BASIS FOR RECOMMENDATION:

The Downtown San Jose PBID was formed in August 2007 and renewed in June 2012 for a 10-year term. As required by the California Streets and Highways Code ("Property and Business Improvement District Law of 1994") and in compliance with the current agreement between the City and the Downtown Property Owners' Association, an annual Financial Report along with CPA-reviewed Financial Statements for the Downtown Property Owners' Association are required to be submitted to the City by October 1 each year. Staff reviewed the Financial Report submitted for FY 2020-2021 and determined that it meets the requirements of the current agreement. The Financial Report contains the following information as required by the agreement:

- Summary of Assessed Services
- Procurement of Goods and Services
- Downtown Property Owners' Association meeting dates for FY 2020-2021
- FY 2020-2021 Budget Report
- FY 2020-2021 Draft Financial Statements

City General Funds have been combined with assessment funds to provide baseline and enhanced services in accordance with the current agreement between the City and the Downtown Property Owners' Association, as well as the PBID Management Plan and Engineer's Report. PBID services have been effective in creating a cleaner and more vibrant downtown and have been well received by property owners. This is reflected by the positive results from the 2021 member survey, which indicated a 92% approval rating for the Groundwex enhanced cleaning and maintenance program. The beautification and street life projects and Groundwex ambassadors have also been extremely successful and continue to receive high approval ratings. Additional program highlights, including cleaning service frequencies and outputs, are detailed in the attached Financial Report for FY 2020-2021 (Attachment A). The Financial Statements are also included (Attachment B).

Climate Smart San Jose: The recommendation in this memo has no effect on Climate Smart San Jose energy, water, or mobility goals.

Commission Recommendation/Input: This item does not require any input from a board or commission.

COST AND FUNDING SOURCE:

No costs are associated with this action.

FOR QUESTIONS CONTACT: Eric Hon, Division Manager, (408) 794-1987

Attachments: **Attachment A:** Financial Report, **Attachment B:** Financial Statements



Financial Report for FY 2020-21

**Submitted by
Downtown San Jose Property Owners' Association (POA)**

October 1, 2021

The downtown San Jose Property-Based Improvement District (PBID), originally formed in August 2007 and renewed in June 2012 for a ten-year term, is an assessment district (District) that conveys special benefits to the properties located within the District boundaries. The District encompasses the core of the downtown area bounded approximately by Fourth Street and City Hall complex to the east, St. James and Devine streets to the north, Highway 87 and the SAP Center to the west and Market and First streets south to Reed Street.

Enhanced cleaning and maintenance services under the auspices of Groundwerx commenced on January 28, 2008. Since the implementation of services, property owners have been surveyed annually and the results have been overwhelmingly positive. The 2021 PBID member survey was completed April 2021 and downtown property owners continue their strong support of PBID services. Cleanliness is the highest downtown priority (87.9%), followed by security (84.4%) and homeless services (82.8%) rounding out the top three priorities. The cleaning program received an approval rating of 91.8 percent, which marks its ninth consecutive year with a rating of 90 percent or above.

I. Summary of Assessed Services for FY 2020-21

Service frequency Table A is from July 1, 2020 to June 30, 2021. The overall cleaning program has been consistent since the implementation of services. The enhanced cleaning program operates seven days a week, combining the use of mechanized equipment and cleaning by hand. Sidewalk sweeping and portering services take place from 6 a.m. to 8 p.m. daily. Pressure washing is divided into four shifts, which covers seven days per week. The shifts vary depending on the day. The District provided 7,986 hours of pressure washing in FY 2020-21, which equals approximately 154 hours of pressure washing per week.

Table A includes the cleaning frequencies for both enhanced and baseline services. Baseline services account for 26 percent of the total cleaning budget, which is equivalent to providing basic portering services Monday through Friday along the Transit Mall and Repertory Plaza and three days of portering in SoFA and San Pedro Square. Additional portering hours throughout the district, including evening and weekends, are part of the enhanced services provided by the PBID.

Table A

Cleaning	Proposed in Management Plan	FY 20-21
Maintenance F.T.E.	13 to 18	13-16
Pan & Broom, Litter Removal/All-Terrain Litter Vacuum/Machine Sweeping/Transit Stop Maintenance (Includes Basic Portering)	7 days/week, 16 hours/day (Premium Zone) 8 hours/day (Basic Zone)	7 days/week, 16 hours/day (Premium Zone) 8 hours/day (Basic Zone)
Pressure Washing: Basic Zone	Two to Four times per year	Three times and as needed for hot spots
Pressure Washing: Premium Zone	Four to Six times per year	Seven times and as needed for hot spots
Graffiti Reporting/Cleaning	Daily as Needed	Daily as Needed
Light Landscape/Weeds	As Needed	As Needed
Hot Spot Patrol or “emergency cleaning”	As Needed	Daily
Maintenance of PBID funded beautification elements	Landscape watering 3 days/week and as needed.	Landscape watering 3 days/week and as needed.
Tree trimming	Approximately ¼ of street trees per year	Approximately ¼ of street trees per year

Other maintenance services such as pole painting, paver repair and refinishing street benches.	As Needed	As Needed
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Table B shows total output for various components of the cleaning program in FY 2020-21. The amount of litter and the condition of the downtown streets resulted in more cleaning services provided by the District than projected in the management plan. Since January 2019, Groundwerx has deployed two all-terrain litter vacuums (ATLVs) allowing for more efficient removal of leaves, dirt and other debris. Groundwerx has continued to see a reduced amount of debris along public right of ways in areas where pedestrian traffic remains low due to limited storefront and office activation.

Groundwerx provides service to 104 public litter cans (PLC) by closely monitoring the overflow. At a minimum, the PLCs are emptied once a day, but many are frequently emptied more often. Pan and broom cleaners also wipe down each PLC and paint them as needed throughout the year.

Graffiti clean up continues to be one of Groundwerx’s primary services. Groundwerx removes most tags within 48 hours. Offensive tags are prioritized and are often abated within 24 hours. In addition to graffiti tags, Groundwerx removes stickers and handbills that are attached to public spaces and street fixtures. A small portion of District graffiti is forwarded to the City contractor or private property owners.

Table B

Clean Team Services:	Output:
Pan/Broom	13,989 hrs
Pan/Broom: Debris Removal	230,015 lbs
Hot Spot Cleaning/Calls for Service	8,706
Pressure Washing	7,986 hrs
Trash Collected (Trash cans emptied)	174,275 lbs
All-Terrain Litter Vacuum: Debris Removal	87,575 lbs
Graffiti cleaned by Groundwerx	16,054

Groundwerx ambassadors reinforce the image of a friendly downtown by offering visible assistance to downtown employees, visitors and residents. Ambassadors perform a variety of tasks, such as providing information to visitors, escorting pedestrians and employees to their vehicles (or other destinations in the District) and reporting graffiti and other messes to the appropriate party. Ambassadors also report instances of vandalism and property damage to property owners and work with local social service agencies to provide referrals. Ambassadors have been called upon more frequently to interact with downtown’s unsheltered population, including coordinated outreach with service agency partners working in the downtown core.

The ambassador program incorporates mobile and foot patrols seven days a week. Ambassadors begin their routes at 6 a.m. and provide services until 8 p.m. during the week, with extended hours to 10 p.m. on weekends. Ambassadors are frequently the first point of contact with many individuals in downtown’s homeless population. Ambassadors are trained on the nuances of downtown San Jose and carry helpful information such as walking maps, bus and light rail schedules, special event flyers and other collateral. They are equipped with handheld devices with Internet access, which allows them to access information at any time. Reporting incidents and property conditions are also made easier and more effective by this technology. Ambassadors also play an important role in identifying potentially troublesome situations and contact the appropriate authorities. Table C depicts the regular deployment of Groundwerx ambassadors. Hours and schedules may be adjusted to accommodate downtown special events.

Table C

Information and Safety Ambassadors	Proposed in Management Plan	FY 20-21
Ambassadors F.T.E.	9-12	9-12
Coverage in Basic area	7 days/week, 8 hours/day	7 days/week, 8 hours/day
Coverage in Premium area	7 days/week, 12-16 hours	7 days/week, 12-16 hours

Table D represents a statistical summary of the ambassador program for FY 20-21.

Ambassadors make business contacts on a regular basis as part of the enhanced services of the PBID. These informal “check-ins” allow ambassadors to convey information to business and property owners such as resource referrals and property condition reports. This type of interaction also enhances the visibility of ambassadors and helps promote a friendly downtown. The “Sitting/Lying” statistic reflects ambassador efforts in making downtown more friendly for the general public. The presence of ambassadors can discourage vagrancy and loitering.

Ambassadors work with social service and outreach providers to assist the downtown homeless population who are interested in obtaining services.

Table D

Ambassador Services:	Output:
Ambassador hours	10,023 hrs
Directions given	1,638
Business contacts	1,671
Sitting/Lying (loitering)	1,813
Personal safety escorts	10
Bike patrol hours	52 hours

Streetscape beautification and image enhancements, also referred to as Street Life Projects, comprise the third component of the core PBID services. The PBID continues to provide general maintenance of the PBID’s previous installations. The Streetlife scope includes greening, partnership projects and streetscape enhancements in the form of decorative lighting, urban tree stewardship, murals, art crosswalks, and volunteer activations.

Beautification and Street Tree Maintenance

Number of trees trimmed	200
Number of trees planted/replanted	26
Number of trees treated (disease or damage prevention)	15
Number of tree wells expanded/grates removed	41
Number of trees receiving additional care (removal of old lights, attachments, etc)	2
Number of new/refreshed flowers installed (approximate)	2,422

The number of trees trimmed this year was abnormally small due to unforeseen circumstances. 534 trees along 1st St and 2nd St, VTA transit mall trees, were scheduled to be trimmed in June, but the maintenance was cancelled due to the suspension of light rail services and associated track allocation work after the fatal tragedy that occurred at the VTA employee center.

Mural Program- This year, downtown San Jose saw the installation of many murals both small- and large-scale. There were two large-scale murals including “Pride-ify” Post Street Mural on the local nightlife establishment, Splash. This mural encompasses a myriad of colors and displays an image of inclusivity and fun. Another large-scale mural that was established was the “Qmunity” mural on Lightston Alley. Another bold display of color, this mural is a large and beautiful celebration of the LGBTQ+ community. Other smaller-scale murals include 13 Al-Fresco K-rail murals, 29 “Hella Gardens” window paintings, and two Pow Wow SJ! artist in residency murals.

San Pedro Squared – MOMENT at San Pedro Squared celebrated its three-year anniversary in May 2021. The project involves four micro-retail units and San Jose’s longest parklet (100 feet). The entire project converted five on-street parking and 12 garage spaces into active places for people.

MOMENT tenants continue to be affected by the shelter in place order like every other retail business in Santa Clara County. Since last year, Fractal Flora graduated from the program and moved their business west of downtown. The Source Zero continues to remain healthy amid the pandemic as sales predominately stay above last year’s average. Source Zero is looking to move into a storefront downtown. SJMADE pivoted their business model to accommodate the online sales and are bolstering 3rd party sales as well as activating their space with event-focused in-store opportunities. The storefronts are constantly varied with clothing, art, health products, and other accessories.

From June 2020-2021

- Number of businesses participating: 8 (3 last year)
- Average gross sales per month: \$30,890 (Last year \$11,522)
- Job created: 14 (not including owner-operators)

SoFA Pocket Park opened at 540 S First St. This space was completely transformed from a blighted parking lot (former Emile’s restaurant) site into a beautiful park. Featuring two distinct sides, the Pocket Park is half dog park and half demonstration garden by non-profit partner Veggielution. The Park also features a programmable Vestaboard sign, decorative string lights, benches, and a multi-piece, multi-artist mural. Funds were leveraged from a variety of sources, including activation partners Veggielution, San Jose Museum of Quilts and Textiles, Urban Community (use of the space), and in-kind design work by TOPA Design. The PBID spent \$163,385 in assessment dollars on this capital improvement project, and was able to match those funds with a total of \$183,493 in sponsorship dollars as well as in-kind/pro bono goods and services.

The PBID has installed programmable lighting on Post Street, Circle of Palms and the San Pedro Arch. These lights are programmable via a smartphone app. In an effort to increase community engagement with street life projects, both a banner and a light change request form was written for individuals and organizations who wish to personalize the banners and lights managed by the PBID. Examples of this include changing the programmable San Pedro Arch lights to blue and

gold for San Jose State's Week of Welcome events, or posting banners to advertise a local street festival. Protocols were also written for these changes as a way to standardize how requests are made.

The PBID has continued to leverage CityData software that allows us to use smartphone location data to track footfall downtown and dwell times. It also allows us to see where pedestrians are coming/going and what days/times they are there. CityData helps us see the aggregate data and better understand our audiences. In April 2021, the Knight Foundation awarded a two-year grant of \$170,000 called DTSJ by the Numbers. This grant provides funding for additional data analysis support by the Mayor's Office of Technology and Innovation (MOTI), CityData costs, and funding for a newly created Research and Data Analyst position (starting in FY 21-22).

The PBID's business development services are focused on helping recruit and retain district businesses. During the year, 131 small businesses, brokers, developers and similar stakeholders were assisted with the city permitting process, available office or retail spaces, pricing, incentives, referrals, and other issues related to the downtown business environment.

The theme of our work this year has been "business resiliency." We have adjusted our methods and approach, defined by SJDA's internal Stabilization Plan as shifting from a Business Development model to a Business Support model. We continued to provide location assistance, permit assistance (including an upswing in requests from SJDA members for help with the County Health Department, both for Covid related issues and plan check comment issues) but also added additional services such as direct assistance with grant and loan applications, more referrals for "access to capital" inquiries, and a renewed focus on helping members apply for the City of San Jose's Al Fresco program and Storefront Grant program. We also added a new member to the Business Support team. Working closely with the Office of Economic Development, SJDA is part of a federal EDA grant to the city that will support business resiliency and to mentor business associations in the Alum Rock and Monterey Corridor frame areas. The outreach part of the grant includes monthly reporting.

The PBID enhanced security program completed its seventh year of service in FY 20-21. These off-duty SJPD officers continued their focus in addressing quality-of-life issues in the downtown area. The program is scheduled to provide 50 hours of weekly coverage, and has been fully staffed since April 2018. Typical program hours are Monday and Thursday from 7 a.m. to 12 p.m. and Tuesday, Wednesday and Friday from 10 a.m. to 3 p.m.

II. Procurement of Goods and Services

The downtown Property Owners' Association (POA) certifies all funds were expended in accordance with the Property and Business Improvement District Law of 1994, Section 36600 et seq. of the State of California Streets and Highways Code (PBID Law). A fair and competitive process was maintained during the procurement of goods and services as per the agreement with the City of San Jose. The POA substantially followed the procurement guidelines provided by the City of San Jose, Council Policy No. 0-35 and in accordance with the POA procurement policy adopted on August 18, 2009.

A primary use of the District's FY 2020-21 assessment funds continued the agreement with Block-by-Block (BBB), to provide cleaning and ambassadorial services. The POA and BBB worked with the Office of Equality Assurance (OEA) to ensure wages complied with the City's Living Wage policy.

District funds were used to commission artists for various murals downtown, provide enhanced maintenance and landscaping services.

III. Downtown POA meeting dates FY 2020-21:

July 21, 2020
August 18, 2020
October 9, 2020 – PBID Annual Meeting
November 17, 2020
January 12, 2021
March 16, 2021
May 14, 2021 - Joint PBID & SJDA meeting

IV. FY 2020-21 Budget report

Please see attached FY 2020-21 final reviewed financial statement for details.

The total PBID revenue for FY 2019-20 was \$3,589,994. Assessment revenues totaled \$2,964,104 and the City's baseline contribution was \$395,000. Additional revenue was generated through fee-for-service agreements and grants.

Total program administrative costs were \$355,404, which is 9.89 percent of the total revenue.

A balance of \$863,577 was carried over, which constitutes the POA's reserves. The POA's prudent reserves allow the District to have the equivalent of three months operating capital and receive a two percent discount by paying Block by Block, its primary Groundwerx service provider, on a quarterly schedule.

Street Life projects overspent in FY 20-21 by \$28,760, due to unexpected construction expenses for the SoFA Pocket Park. However, Street Life projects have underspent in the last two fiscal years. Additionally, projects paused due to COVID-19 related shutdowns in FY 19-20 were completed in this fiscal year.

The POA continues to leverage funds by negotiating discounts and conservatively projecting program costs. The current fund balance will allow the POA to maintain its current service levels despite anticipated increases in operating costs, such as the City's mandated living wage increases. The POA will also retain the ability to add services as needs arise within the District.

Aside from the assessment revenue and City baseline funds, the POA has other revenue in fee-for-service contracts. In 2008, the POA reached an agreement with VTA to provide additional cleaning of the VTA tracks and light rail stations. In FY 2016-17, VTA added weekly maintenance of four Bus Rapid Transit stations to the contract. While PBID and VTA staff work towards a prevailing wage contract moving forward, this service agreement remained the same as previous years, with a FY 20-21 total of \$88,288.

The POA continued to contract with the Parks, Recreation and Neighborhood Services Department (PRNS) to provide supplemental maintenance, trash collection, cleaning and ambassador services in St. James Park. In FY 20-21, the contract generated \$76,835 in revenue.

Additional small-scale fee-for-service contracts are in place with the San Jose Museum of Art and Valley Oaks Partners.

V. FY 2020-21 Audited Financial Statement.

Please see attached Audited Financial Statement

FY 2020-21 PBID Budget

1		FY 20-21
2		Final
3		Actual
4	REVENUE	
5		
6	Assessments	
7	Assessments - thru SCC	2,366,255
8	less assessment charges SCC	(24,830)
9	Assessments - exempt thru SJ	628,189
10	less assessment charges SJ	(10,000)
11	Assessment - thru PBID	4,489
12		
13	Net Assessments	2,964,104
14		
15	City baseline	395,000
16	Contracts	174,676
17	Street Life Investors	56,100
18	Miscellaneous & Interest	64
19		
20	TOTAL REVENUE	3,589,944
21		
22	EXPENSES	
23		
24	CLEAN TEAMS	
25	Contract service	1,121,904
26	Contract baseline	395,000
27	Subtotal	1,516,904
28		
29	SAFETY AMBASSADOR TEAMS	
30	Contract Service	573,704
31	Subtotal	573,704
32		
33	Total BBB Contract	2,090,608
34		
35	IMAGE ENHANCEMENTS	
36	Street Life Plan Projects	498,760
37	Maintenance completed projects	215,421
38	Enhanced Maintenance	50,788
39	Street Tree maintenance	123,555
40	Subtotal	888,524
41		
42	DISTRICT ENHANCEMENTS	
43	Business development program	150,000
44	Secondary Employment Unit	176,310
45	Fee for Service Contracts	78,761
46	Community Engagement Manager	40,000
47	Miscellaneous	56,002
48	Subtotal	501,073
49		
50	ADMINISTRATION	
51	SJDA Management	355,404
52	Insurance	4,746
53	Professional Services	27,740
54	Office Supplies	8,239
55	Misc	2,659
56	less 2% prepay contracts	(41,633)
58	Subtotal	357,155
59		
60	CDA Conference 2020	
61	Renewal Campaign	28,025
62	Stabilization Plan	10,000
63		
64	TOTAL EXPENSES	3,875,385
65		
66	REVENUE NET OF EXPENSES	(285,441)
67		
68		
69	Beginning Fund Balance	1,149,018
70		
71	Ending Fund Balance	863,577

**San Jose Downtown Property Owners'
Association**

Financial Statements

June 30, 2021



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 11

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
San Jose Downtown Property Owners' Association
San Jose, California

We have audited the accompanying financial statements of San Jose Downtown Property Owners' Association (a California nonprofit mutual benefit corporation) (the "Association"), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Jose Downtown Property Owners' Association as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Association has adopted Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topics 606)*. Our opinion is not modified with respect to that matter.

Emphasis of Matter

As discussed in Note 7 to the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to that matter.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Jose, California

September 30, 2021

San Jose Downtown Property Owners' Association
Statement of Financial Position
June 30, 2021

ASSETS

Current assets	
Cash and cash equivalents	\$ 1,385,808
Accounts receivable	9,496
Contracts receivable	57,388
Prepaid expenses	<u>8,872</u>
Total current assets	<u>1,461,564</u>
Fixed assets, net	
Office equipment	20,266
Accumulated depreciation	<u>(19,374)</u>
Total fixed assets, net	<u>892</u>
Total assets	<u><u>\$ 1,462,456</u></u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 581,578
Accrued expenses	<u>17,300</u>
Total current liabilities	598,878
Net assets without donor restrictions	<u>863,578</u>
Total liabilities and net assets	<u><u>\$ 1,462,456</u></u>

The accompanying notes are an integral part of these financial statements.

San Jose Downtown Property Owners' Association
Statement of Activities
For the Year Ended June 30, 2021

Revenues, gains and other support	
Property owners' assessments	\$ 2,341,426
Exempt properties assessments	622,678
City of San Jose contracts - baseline services	395,000
Other contracts	200,676
Other revenue	30,100
Interest income	64
Total revenues, gains and other support	<u>3,589,944</u>
Functional expenses	
Program services	
Street Life Projects	534,260
Image Maintenance Projects	215,421
Enhanced Maintenance	50,788
Tree Maintenance	123,555
District Enhancements	465,573
Clean / Greet Teams	2,048,973
Total program services	<u>3,438,570</u>
Support services	
Management and general	436,814
Total support services	<u>436,814</u>
Total functional expenses	<u>3,875,384</u>
Change in net assets	(285,440)
Net assets without donor restrictions, beginning of year	<u>1,149,018</u>
Net assets without donor restrictions, end of year	<u>\$ 863,578</u>

The accompanying notes are an integral part of these financial statements.

San Jose Downtown Property Owners' Association
Statement of Functional Expenses
For the Year Ended June 30, 2021

	Street Life Projects	Image Maintenance Projects	Enhanced Maintenance	Tree Maintenance	District Enhancements	Clean / Greet Teams	Total Program Services	Management and General	Total
Functional expenses									
Subcontractors - Groundwerx	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,045,871	\$ 2,045,871	\$ -	\$ 2,045,871
Image enhancement	531,515	215,421	50,788	123,555	-	-	921,279	38,026	959,305
District enhancements	-	-	-	-	405,071	-	405,071	-	405,071
Management services	-	-	-	-	-	-	-	355,404	355,404
Other supplies and materials	-	-	-	-	20,502	-	20,502	-	20,502
Professional services	-	-	-	-	-	-	-	27,740	27,740
Miscellaneous	-	-	-	-	40,000	3,102	43,102	6,289	49,391
Travel	-	-	-	-	-	-	-	1,494	1,494
Insurance	-	-	-	-	-	-	-	4,746	4,746
Office supplies	2,299	-	-	-	-	-	2,299	3,115	5,414
Depreciation	446	-	-	-	-	-	446	-	446
	<u>\$ 534,260</u>	<u>\$ 215,421</u>	<u>\$ 50,788</u>	<u>\$ 123,555</u>	<u>\$ 465,573</u>	<u>\$ 2,048,973</u>	<u>\$ 3,438,570</u>	<u>\$ 436,814</u>	<u>\$ 3,875,384</u>

The accompanying notes are an integral part of these financial statements.

San Jose Downtown Property Owners' Association
Statement of Cash Flows
For the Year Ended June 30, 2021

Cash flows from operating activities	
Change in net assets	\$ (285,440)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	446
Changes in operating assets and liabilities	
Accounts receivable	(4,587)
Contracts receivable	71,186
Prepaid expenses	(1,872)
Accounts payable	(133,104)
Accrued expenses	<u>500</u>
Net cash used in operating activities	<u>(352,871)</u>
Net decrease in cash and cash equivalents	(352,871)
Cash and cash equivalents, beginning of year	<u>1,738,679</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,385,808</u></u>

The accompanying notes are an integral part of these financial statements.

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2021

1. NATURE OF OPERATIONS

The San Jose Downtown Property Owners' Association (the "Association") is a corporation organized under the California Nonprofit Mutual Benefit Corporation Law. The Association is exempt from federal income tax under Section 501(c)(6) of the Internal Revenue Code. The Association's operation commenced on January 28, 2008. The purpose of the Association is to improve downtown San Jose, California with enhanced services including:

(a) Clean teams that will sweep, scrub, power wash sidewalks, remove litter and graffiti, and increase the frequency of trash removal and maintenance of public spaces within downtown.

(b) Information and safety ambassadors to provide information on downtown activities and establishments, prevent crime and work productively with social service providers.

(c) Image enhancement and cosmetic improvements to visually improve downtown.

(d) Tree maintenance to maintain the street trees and palms within the downtown San Jose Property-based Business Improvement District ("PBID") boundary.

(e) Enhanced security services to provide a visible uniformed presence at the properties and parcels within the downtown San Jose PBID boundary.

(f) Business development program designed to keep and attract jobs, investment and new businesses to downtown San Jose.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

In accordance with accounting principles generally accepted in the United States of America, the Association reports its financial position and operating activities in two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. There are currently no net assets with donor restrictions.

Change in accounting policy

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topics 606)*. This ASU provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. GAAP. The core principle of the new guidance is that an entity should reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Association adopted ASU 2014-09 with a date of the initial application of July 1, 2020, using the full retrospective method. The adoption of ASU 2014-09 did not have a significant impact on the Association's financial position, result of operations, or cash flows. No changes were required to previously reported revenue as a result of the adoption of this standard.

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments and investments with an original maturity of three months or less, and exclude donor restricted receipts and amounts designated for long-term purposes. The Association maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Association has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Receivables

Receivables represent amount due from grants, contracts and fees that are carried at the original invoice amount less an estimate made for doubtful accounts based on a review of all outstanding amounts. Receivables are written off when deemed uncollectible and recoveries of receivables previously written off are recorded when received. No allowance for uncollectible receivables has been presented since all amounts are deemed to be collectible.

Prepaid expenses

Prepaid expenses result from advances or deposits on goods or services that will be received in the following year. Direct event expenses are recorded in the year the event takes place.

Property and equipment

The Association's policy is to capitalize property and equipment purchases in excess of \$3,000. Any furniture, equipment or other assets purchased under a grant or a service contract are considered the property of the granting agency and will not be capitalized. Depreciation is computed using straight-line depreciation methods over the asset's estimated useful lives. Depreciation expense for the year ended June 30, 2021 was \$446.

Deferred revenue

Deferred revenue results from assessments, contract or sponsorship revenue received for a specific event scheduled in the following year. Revenue is recognized in the period that the related expenses are incurred.

Revenue recognition

The Association recognizes revenue and support on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the service is provided. The Association follows the following steps to determine revenue recognition:

- Identifying the contract(s) with a customer,
- Identifying the performance obligations in the contract(s),

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

- Determining the transaction price,
- Allocating the transaction price to the performance obligations in the contract(s), and
- Recognizing revenue when, or as, the Association satisfies a performance obligation.

Advertising costs

The Association's policy is to expense advertising costs as the costs are incurred.

Functional expenses

Costs of providing the Association's activities have been allocated between program services and management and general based upon estimates of time and costs incurred by the Association.

Income tax status

San Jose Downtown Property Owners' Association is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements.

The Association files information returns in the U.S. federal jurisdiction and state of California. The Association's federal returns for the years ended June 30, 2018 and beyond remain subject to possible examination by the Internal Revenue Service. The Association's California returns for the years ended June 30, 2017 and beyond remain subject to possible examination by the Franchise Tax Board.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Accordingly, actual results could differ from those estimates.

Subsequent events

Management of the Association has evaluated events and transactions subsequent to June 30, 2021 for potential recognition or disclosure in the financial statements. The Association did not have subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2021. Subsequent events have been evaluated through the date the financial statements became available to be issued, September 30, 2021.

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2021

3. PROPERTY-BASED IMPROVEMENT DISTRICT

In August 7, 2007, City of San Jose City Resolution No. 73937 established and defined the San Jose Downtown Property-Based Improvement District ("PBID" or "District"). The PBID is funded by an assessment levied on the property owners located within the District and approved through a petition and mail-ballot process. The PBID was scheduled to terminate on December 31, 2012, however, the PBID was renewed for an additional ten years through December 31, 2022.

The Association was incorporated as a California Nonprofit Mutual Benefit Corporation to provide oversight of the District, to contract on behalf of the District, and to review and provide leadership and guidance to the members of the District.

4. SAN JOSE DOWNTOWN ASSOCIATION

On January 28, 2008, the Association entered into an agreement with San Jose Downtown Association ("SJDA") to receive management services. The agreement has been extended several times and continues through January 31, 2022. The entities have separate boards of directors and operate as separate entities. As a fee for the management services, SJDA will receive up to and not to exceed 9.9% of the total revenue received by the Association. The fee is payable semi-annually. For the year ended June 30, 2021, the Association incurred expenses from this agreement totaling \$355,404.

The Association also has an arrangement with SJDA in which salaries for four SJDA employees who work on the PBID projects are paid through SJDA and reimbursed by the Association. For the year ended June 30, 2021, the Association paid a total of \$363,000 towards salaries of a Business Development Program Manager, a Street Life Program Project Manager, a Community Engagement Manager and a PBID coordinator under this arrangement.

On January 15, 2013, SJDA on behalf of the Association entered into an Environmental and Maintenance and Supplemental Security Services agreement with Block by Block. The original agreement was for a period of three years and expired on January 14, 2016. The agreement has been amended and renewed and will expire on January 14, 2022.

5. ASSESSMENTS ON SARA PARCELS

There are certain parcels of Federal and State SARA (Successor Agency to the Redevelopment Agency of the City of San Jose) properties where assessments continue to be made on an annual basis although management of the Association believes collectability to be uncertain. Assessments are recognized in revenue upon the sale of each parcel. There were no SARA parcels sold during the year ended June 30, 2021. There are other assessments related to SARA transfers to the City of San Jose that have not been included in accounts receivable or recognized in revenue, and collectability is entirely dependent on sufficient proceeds being available at the time of any potential sale of each parcel.

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2021

6. LIQUIDITY

The following is a quantitative disclosure describing financial assets that are available within one year of June 30, 2021 to fund general expenditures and other obligations when they become due:

Cash and cash equivalents	\$ 1,385,808
Accounts receivable	9,496
Contracts receivable	<u>57,388</u>
	<u>\$ 1,452,692</u>

The Association had \$1,452,692 of financial assets available at June 30, 2021 to meet the needs for general expenditures in the next 12 months and none of them are subject to donor or other contractual restrictions. The Association manages its liquidity by developing and adopting annual operating budgets that provide sufficient funds for general expenditures in meeting its liabilities and other obligations as they become due.

As part of the Association's liquidity management it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Association expects that receivables from program and contracts will be collected and available within 60 days of the fiscal year end.

7. CONTINGENCIES AND RISKS

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has continued to cause business disruption through multiple mandated and voluntary closings of businesses and shelter in place orders over the last fiscal year. In response, the U.S. Government has enacted several financial safety net provisions in both the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, and the American Rescue Plan ("ARP").

While the Association cannot anticipate all of the ways in which COVID19 could adversely impact its operations, it did react swiftly during FY2020-21 including utilizing a Knight Foundation grant to create a short-term strategic plan (the Stabilization Plan, published in August 2020) to address pandemic conditions and prepare the Association for recovery. This Plan recognized that organizations such as the Association that rely on property tax receipts were largely spared dramatic financial impacts since property owners continued to make property tax payments. The Plan also emphasized the essential services of the PBID's Groundwerx program that provides clean and safe services for the district.