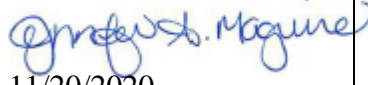


Memorandum

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:  11/20/2020

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 2019-20.

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 are required to be submitted to the City by October 1 each year. Staff reviewed the Financial Report submitted for FY 2019-20 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 for FY2019-20
- Procurement of Goods and Services
- Downtown Property Owners' Association meeting dates FY 2019-20
- FY 2019-20 Budget Report
- FY 2019-20 Reviewed Financial Statement

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 2020 member survey, which indicated a 90% approval rating for the Groundwerx enhanced cleaning and maintenance program. The beautification and street life projects and Groundwerx 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 (Attachment A). The CPA review report is 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:** CPA Review Report



Financial Report for FY 2019-20

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

September 30, 2020

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 auspice 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 2020 PBID member survey was completed April 2020 and downtown property owners continue their strong support of PBID services. Homeless services were the highest downtown priority (88%), followed by cleanliness (83%) and security (70%) rounding out the top three priorities. The cleaning program received an approval rating of 90 percent, which marks its eighth consecutive year with a rating of 90 percent or above.

I. Summary of Assessed Services for FY 2019-20

Service frequency Table A is from July 1, 2019 to June 30, 2020. 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 7,011 hours of pressure washing in FY 2019-20, which equals approximately 135 hours of pressure washing per week.

Table A includes the cleaning frequencies for both enhanced and baseline services. Baseline services account for 27.7 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 19-20
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
SWAT 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 2019-20. 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. With the COVID-19 shelter in place starting in March 2020, Groundwerx has seen a reduced amount of debris along public right of ways, a direct result of the significant drop in pedestrian traffic in the downtown core. During the shelter in place, staff has been prioritizing disinfecting street fixtures like benches, hand rails and crosswalk buttons.

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.

The Groundwerx cleaning program is supplemented with additional resources through its partnership with Downtown Streets Team (DST). In FY 2019-20, the City of San Jose's Housing Department funded a work experience program that served 103 unduplicated participants who provided additional pan and broom cleaning within the district. Of the 103 unduplicated DST participants, 20 gained employment and four were housed through this program. Due to shelter in place orders, the DST work experience was put on pause for the final four months of FY 2019-20.

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. During the civil unrest in late May and early June, Groundwerx removed or painted over 182 graffiti tags. These tags varied in size from small (under 12 inches in diameter) to large (over 4 feet in diameter).

Table B

Clean Team Services:	Output:
Pan/Broom	14,535 hrs

Pan/Broom: Debris Removal	366,825 lbs
Hot Spot Cleaning/Calls for Service	8,706
Pressure Washing	7,011 hrs
Trash Collected (Trash cans emptied)	42,971 lbs
Gum Removal	0.44lbs
Graffiti cleaned by Groundwerx	20,560

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. Since 2013, the ambassadors have been called upon more frequently to assist in graffiti abatement. The ambassadors address most of the graffiti in the outer portions of the district, thus allowing the clean team to focus on the more densely populated 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 11 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 19-20
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 2019-20. 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.

During shelter in place, Ambassadors also provided additional sanitation services such as spraying street furniture with disinfectant. Ambassadors also focused on providing information to District staff on business closures, businesses that were partially open or participating in al fresco dining. This assistance allowed for tailored outreach to impacted businesses and focused cleaning services for locations where businesses were still in operation. Ambassadors also continued their direct communication with PATH Services on homeless individuals in need of shelter and services during shelter in place. Safety escorts dropped significantly as a result of the shelter in place, several office tenants normally have scheduled safety escorts from the office to transit and parking garages in downtown. With offices closed, this assistance was not needed.

Table D

Ambassador Services:	Output:
Ambassador hours	11,651 hrs
Directions given	2,037
Business contacts	934
Sitting/Lying (loitering)	1,031
Personal safety escorts	7
Bike patrol hours	606 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 activations for volunteering.

Beautification and Street Tree Maintenance

Number of trees trimmed	373
Number of trees planted/replanted	55
Number of trees treated (disease or damage prevention)	2
Number of tree wells expanded/grates removed	18
Number of trees receiving additional care (removal of old lights, attachments, etc)	1
Number of new/refreshed flowers installed (approximate)	1,005

Mural Program – Downtown San Jose saw two new large-scale murals and 16 storefront window murals from July 2019 through June 2020. In mid February, local tattoo artist and muralist, Jim Miner, completed the 2nd Street facing wall of El Paseo Court at 40 S. 1st Street with a mural that highlights architectural characteristics of the property. The work features color faux tile inlay, additional faux window renderings and a California-inspired landscape. Later in February, muralist Francisco Franco, completed the west-facing mural on Mezcal restaurant. The installation is a Oaxacan-inspired scene featuring playful mythical animals called alebrijes.

In response to the Black Lives Matter (BLM) demonstrations in late May and amidst the global pandemic, PBID partnered with downtown arts organization, Local Color to bring 16 window murals to downtown. As downtown storefronts started boarding doors and windows for prevention and in response to vandalism, staff and Local Color worked with business owners to showcase timely messaging and visuals from local artists in June. Artists volunteered their time to paint these murals, including a community mural painted by local volunteers. Paint and other materials were funded by the San Jose Downtown Foundation’s “Rebuilding Downtown” campaign.

San Pedro Squared – MOMENT at San Pedro Squared celebrated its two-year anniversary in May 2020. 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 were affected by the shelter in place order like every other retail business in Santa Clara County. Fractal Flora and The Travelling Calligrapher closed completely in Mid-March. Source Zero, which sells sustainable cleaning products, eventually re-opened on a limited business as an essential service. When reviewing the numbers below, please take into account that for 3 months of the year MOMENT was mostly closed. If the gross sales were averaged on a 9 month basis rather than 12, the average would be \$15,363, almost triple last year's figure.

From June 2019-2020

- Number of businesses participating: 3 (Fractal Flora occupied two units)
- Average gross sales per month: \$11,522
- Job created: 6 (not including owner-operators)

SoFA District Art Crosswalks – Four thermoplastic art crosswalks were installed in early September at the intersection of S. 1st and San Salvador. DOT and the Public Art Committee approved the crosswalk pattern that was designed by Scape Martinez and digitally modified by Corinne Okada Takara. The crosswalks were installed and partially funded by the City as part of an agreement made with PBID after the initial pavement art previously installed at that intersection was paved over by the City. A ribbon cutting to commemorate the new crosswalks was held on September 6 at the start of the South First Friday artwalk event.

Love DTSJ Volunteering – The Love DTSJ volunteer program is volunteer-powered and focuses on street level activations and installations that beautify downtown. Volunteers engage with downtown places, explore the surrounding community and connect with others who are interested in the growth and change of downtown. In December 2019 two Love DTSJ volunteer events took place. The first, funded by the property owner, was a volunteer-powered fence-cup installation on the chain link fence at the vacant Camera 12 development, corner of Paseo de San Antonio and 2nd Street. The second event, in partnership with Our City Forest (OCF), was a Community Planting Day that resulted in planting 12 new sapling trees.

Downtown Lights – An initiative to modernize existing decorative street lighting and identify opportunities for more new lighting. In November 2019, as part of the Pride-ify Post Street initiative led by the District 3 Council office, City funds were allocated to upgrade the existing bistro lights over the Post Street sidewalks. In June an upgrade of the Circle of Palms lights followed. New lights are programmable, at-will, via a device app. These LED lights are color and effect programmable. Staff is completing an annual color and effects calendar for these new lights.

Downtown Pedestrian Counts – Pedestrian counts are conducted every four months in April, August, and December. Reports have been used by downtown brokers, potential downtown businesses, and the City. The latest report was completed in December 2019. However, counts this year were not conducted in April 2020 due to COVID-19, which means only two out of the three pedestrian counts were able to be completed this fiscal year. Although the overall number of pedestrians was 16 percent less in FY 19-20, August 2019 had 34 percent more pedestrians than August 2018 and December 2019 had 20 percent more pedestrians than December 2018.

San Fernando St. and Santa Clara St. saw the largest increases in pedestrians for August and December. The overall trend of pedestrian counts prior to COVID-19 was more pedestrians in almost all locations. After COVID-19, pedestrian counts were not able to be conducted by staff due to shelter-in-place work limits.

The PBID's business development services are focused on helping recruit and retain district businesses. During the year, 110 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 defining retail-related policy issue affecting downtown businesses this year was the City's Al Fresco program. PBID employees were extensively involved in helping draft the program, serving as the "customer" to weigh in on the web portal design and wording. Once the program was announced we did extensive community outreach to determine who could participate in the program. Further, PBID staff were instrumental in setting up and managing AL fresco street closures on San Pedro and Post Streets and San Pedro parklets in the SoFA District.

The PBID enhanced security program completed its seventh year of service in FY 18-19. 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 2019-20 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 2019-20:

September 13, 2019 - Joint PBID SJDA Board Meeting
October 11, 2019 – PBID Annual Meeting

November 5, 2019
January 21, 2020
March 24, 2020
May 19, 2020

IV. FY 2019-20 Budget report

Please see attached FY 2019-20 final reviewed financial statement for details.

The total PBID revenue for FY 2019-20 was \$3,621,313. Assessment revenues totaled \$2,886,212 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 \$348,184, which is 9.6 percent of the total revenue.

A balance of \$1,149,018 was carried over, which constitutes the POA's reserves. The POA's reserves allow the District to receive a two percent discount by paying Block by Block, its primary Groundwerx service provider, on a quarterly schedule.

Street Life projects underspent in FY19-20, with several anticipated projects experiencing delays related to COVID-19 shelter in place restrictions, pushing the completion of these projects to FY 20-21. These projects include: a mural installation, a Love DTSJ volunteer installation and a potential dog facility in the SoFA District. Beautification and maintenance projects were also put on hold due to shelter in place restrictions and included mural restorations, string lighting upgrades and minimized spending on landscaping services. The tree un-girdling scheduled for late Spring 2020 was put on hold and rescheduled for FY20-21, leaving Enhanced Maintenance underspent.

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. This service agreement was renewed with a three percent increase in FY 2019-20 for a total of \$85,717.

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 2019-20, the contract generated \$87,580 in revenue.

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

V. FY 2019-20 Reviewed Financial Statement.

Please see attached Reviewed Financial Statement

	FY 19-20
	Actual
REVENUE	
Assessments	
Assessments - thru SCC	2,310,167
less assessment charges SCC	(23,948)
Assessments - exempt thru SJ	605,635
less assessment charges SJ	(10,000)
Assessment - thru PBID	4,358
Net Assessments	2,886,212
City baseline	395,000
Contracts	239,923
Street Life Investors	100,000
Miscellaneous & Interest	178
TOTAL REVENUE	3,621,313
EXPENSES	
CLEAN TEAMS	
Contract service	1,032,117
Contract baseline	395,000
Subtotal	1,427,117
SAFETY AMBASSADOR TEAMS	
Contract Service	541,932
Subtotal	541,932
Total BBB Contract	1,969,049
IMAGE ENHANCEMENTS	
San Pedro Squared	
Street Life Plan Projects	249,531
Maintenance completed projects	274,929
Enhanced Maintenance	31,329
Street Tree maintenance	123,806
Subtotal	679,595
DISTRICT ENHANCEMENTS	
Business development program	143,000
Secondary Employment Unit	220,009
Fee for Service Contracts	73,200
Miscellaneous	21,098
Subtotal	457,307
ADMINISTRATION	
SJDA Management	358,510
Insurance	5,215
Professional Services	17,402
Office Supplies	4,536
Misc	1,849
less 2% prepay contracts	(39,327)
RDA Write-off	-
Subtotal	348,184
St. James Park Study	
CDA Conference 2020	10,000
Renewal Campaign	
Stabilization Plan	0
TOTAL EXPENSES	3,464,135
REVENUE NET OF EXPENSES	157,178
Beginning Fund Balance	991,840
Projected Ending Fund Balance	1,149,018

**San Jose Downtown Property Owners'
Association**

Financial Statements

June 30, 2020



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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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

We have reviewed 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, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be 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 Organization has adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. Our conclusion is not modified with respect to that matter.

Emphasis of Matter

As described in Note 7 of 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 conclusion 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 29, 2020

San Jose Downtown Property Owners' Association
Statement of Financial Position
June 30, 2020

ASSETS

Current assets	
Cash and cash equivalents	\$ 1,738,679
Accounts receivable	4,909
Contracts receivable	128,572
Prepaid expenses	<u>7,000</u>
Total current assets	<u>1,879,160</u>
Fixed assets	
Office equipment	20,266
Accumulated depreciation	<u>(18,927)</u>
Total fixed assets	<u>1,339</u>
Total assets	<u>\$ 1,880,499</u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 714,681
Accrued expenses	<u>16,800</u>
Total current liabilities	731,481
Net assets without donor restrictions	<u>1,149,018</u>
Total liabilities and net assets	<u>\$ 1,880,499</u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Property Owners' Association
Statement of Activities
For the Year Ended June 30, 2020

Revenues, gains and other support	
Property owners' assessments	\$ 2,286,219
Exempt properties assessments	599,993
City of San Jose contracts - baseline services	395,000
Grants	100,000
Other contracts	239,924
Interest income	<u>178</u>
Total revenues, gains and other support	<u>3,621,314</u>
Functional expenses	
Program services	
Street Life Projects	249,531
Image Maintenance Projects	274,930
Enhanced Maintenance	31,329
Tree Maintenance	123,806
District Enhancements	457,307
Clean / Greet Teams	<u>1,929,721</u>
Total program services	<u>3,066,624</u>
Support services	
Management and general	<u>397,512</u>
Total support services	<u>397,512</u>
Total functional expenses	<u>3,464,136</u>
Change in net assets	157,178
Net assets without donor restrictions, beginning of year	<u>991,840</u>
Net assets without donor restrictions, end of year	<u>\$ 1,149,018</u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Property Owners' Association
Statement of Functional Expenses
For the Year Ended June 30, 2020

	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,929,721	\$ 1,929,721	\$ -	\$ 1,929,721
Image enhancement	242,573	274,930	31,329	123,806	-	-	672,638	-	672,638
District enhancements	-	-	-	-	436,474	-	436,474	-	436,474
Management services	-	-	-	-	-	-	-	358,510	358,510
Other supplies and materials	-	-	-	-	20,833	-	20,833	-	20,833
Professional services	-	-	-	-	-	-	-	17,402	17,402
Miscellaneous	231	-	-	-	-	-	231	11,849	12,080
Travel	6,002	-	-	-	-	-	6,002	-	6,002
Insurance	-	-	-	-	-	-	-	5,215	5,215
Office supplies	-	-	-	-	-	-	-	4,536	4,536
Depreciation	725	-	-	-	-	-	725	-	725
	<u>\$ 249,531</u>	<u>\$ 274,930</u>	<u>\$ 31,329</u>	<u>\$ 123,806</u>	<u>\$ 457,307</u>	<u>\$ 1,929,721</u>	<u>\$ 3,066,624</u>	<u>\$ 397,512</u>	<u>\$ 3,464,136</u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Property Owners' Association
Statement of Cash Flows
For the Year Ended June 30, 2020

Cash flows from operating activities	
Change in net assets	\$ 157,178
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	725
Changes in operating assets and liabilities	
Accounts receivable	(110)
Contracts receivable	(51,682)
Prepaid expenses	(4,036)
Accounts payable	401,922
Accrued expenses	<u>1,150</u>
Net cash provided by operating activities	<u>505,147</u>
Cash flows from investing activities	
Purchase of fixed assets	<u>(1,339)</u>
Net cash used in investing activities	<u>(1,339)</u>
Net increase in cash and cash equivalents	503,808
Cash and cash equivalents, beginning of year	<u>1,234,871</u>
Cash and cash equivalents, end of year	<u>\$ 1,738,679</u>

See accompanying notes and independent accountant's review report.

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2020

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 June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*, which clarifies the criteria for evaluating whether a transaction is a contribution or an exchange transaction and whether a contribution is conditional or unconditional. The Association adopted ASU 2018-08 with a date of the initial application of July 1, 2019, using the modified prospective method.

The adoption of ASU 2018-08 did not have a significant impact on Association's financial position, result of operations, or cash flows. The Association has evaluated contributions received and has determined that there is no change as a result of the adoption of the standard.

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2020

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 \$500. 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, 2020 was \$725.

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.

Advertising costs

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

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional expenses

Costs of providing the Association's activities have been allocated between programs, 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, 2017 and beyond remain subject to possible examination by the Internal Revenue Service. The Association's California returns for the years ended June 30, 2016 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 revenue 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, 2020 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, 2020. Subsequent events have been evaluated through the date the financial statements became available to be issued, September 29, 2020.

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.

San Jose Downtown Property Owners' Association
Notes to Financial Statements
June 30, 2020

3. PROPERTY-BASED IMPROVEMENT DISTRICT (continued)

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, 2020, the Association incurred expenses from this agreement totaling \$358,510.

The Association also has an arrangement with SJDA in which salaries for two SJDA employees who work on the PBID projects are paid through SJDA and reimbursed by the Association. For the year ended June 30, 2020, the Association paid a total of \$241,000 towards salaries of a Business Development Program Manager and Street Life Program Project Manager under this arrangement.

Further, the Association has an arrangement with SJDA in which grant money received by SJDA is paid to PBID for programs specified in the grant via an exchange transaction. During the year ended June 30, 2020, \$98,000 was received by the Association under this arrangement. Revenue recognized related to this arrangement totaled \$100,000 for the year ended June 30, 2020.

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, 2020. 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, 2020

6. LIQUIDITY

The following is a quantitative disclosure describing financial assets that are available within one year of June 30, 2020 to fund general expenditures and other obligations when they become due:

Cash and cash equivalents	\$ 1,738,679
Accounts receivable	4,909
Contracts receivable	<u>128,572</u>
	<u>\$ 1,872,160</u>

The Association had \$1,872,160 of financial assets available at June 30, 2020 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 caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. In response, the U.S. Government enacted the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, which includes significant provisions to provide relief and assistance to affected organizations.

COVID-19 could adversely affect the economies and financial markets of many countries, namely the United States, resulting in an economic downturn that could affect the Association in a variety of ways. The Association cannot anticipate all of the ways in which COVID-19 could adversely impact its operations. Although the Association is continuing to monitor impact of the COVID-19 outbreak, the CARES Act and other governmental initiatives is highly uncertain and subject to change.