

Minutes of Regular Meeting

Board of Directors

San Jose Downtown Property Owners' Association

March 15, 2017

A regular meeting of the Board of Directors of the San Jose Downtown Property Owners' Association (POA), a non-profit California corporation, was held at SJDA office, 28 N. First St., Suite 1000, San Jose, CA 95113.

Board members present: Freise, Hammers, Kline, Messinger, Ortbal, Schneider and Utic

Members absent: Bartl, Mussara, Ryan and Zelalich

Also present were Executive Director Scott Knies, Director of Policy and Operations Nate Echeverria, Operations Manager Chloe Verrey, Street Life Project Manager Jason Su, Business Development Manager Nate LeBlanc, Project Coordinator Zach Lewis, Semu One Bear from Block by Block, David Tran from the D3 office and Eric Hon from DOT.

Hammers called the meeting to order at 8:31 a.m.

Minutes: The minutes for the January 11 meeting were distributed to the board prior to the meeting and were approved unanimously.

President's Report

- Hammers welcomed Nate LeBlanc as our new Business Development Manager. LeBlanc comes to us most recently from SoFA Market, and has been a part of the downtown business community for the last 6 years. He has worked with a variety of small businesses, mainly restaurants and night life.

- 10th Anniversary: January 2018 is the 10th anniversary of PBID services. Staff and board should start thinking of how to best acknowledge this milestone. Block by Block has been notified of this milestone, and is interested in collaborating on some kind of celebration. Additionally, we will begin year 5 of our 10-year PBID renewal.

Staff has been discussing moving our PBID renewal ahead of schedule to address BART related activities. One major concern is that renewal campaigns are time intensive, and it is highly likely that downtown conditions during BART construction will put significant strain on Groundwerx staff. At this time, construction is estimated to be 8 years, beginning in 2018.

Another thing to explore when looking into PBID renewal is extension of the PBID boundaries. Hammers asked if we can amend the boundaries now and have it go into full effect after the current PBID term expires. Staff will look into PBID state law to see what is allowable.

When discussing PBID boundaries, it was brought up that a number of large property owners on west side of the PBID boundaries include publicly held sites, including VTA, High Speed Rail Authority, CalTrain and the City of San Jose. It could be possible to build into the process of master planning that PBID is the recommended maintenance model for the Diridon area.

The board recommended tabling annexation and early PBID renewal to another meeting. Additionally, Schenider requested that staff look at possible assessment revenue from annexation, using the current assessment rates.

New Business

- San Pedro Squared: Nate Echeverria

This project has major budget implications for the FY 17-18 year. Staff has been focused on determining the best course of action for the project. A beautification meeting was held last month to discuss the project in-depth. From the direction of the beautification committee, staff brings the current budget recommendations.

Echeverria explained the project history and cost increases associated with working inside a city-owned facility and general construction cost escalation.

To reduce overall project costs, value engineering became necessary. The original parklet design has been modified so the components are more temporary and flexible. The current budget reflects more funds being spent on infrastructure in the garage that will make San Pedro Squared possible, but also allow for the proper infrastructure for future San Pedro activation and beautification efforts.

In the proposed budget, the contribution from the PBID is \$326,000. Two funding assumptions are made: \$45,00 from Southwest Heart of the Community grant and an additional \$100,000 from DOT in direct payments to PG&E and permit payments.

Utic expressed concern over losing other possible projects throughout PBID by putting so much of our budget into this one project. Utic asked about ongoing expenses associated with San Pedro Squared.

Echeverria indicated that this project is designed to be self-sustainable, but not a revenue generator. Rent is priced at approximately half of market rate to entice businesses that would need an incubator-like space.

Staff would manage continue to operations of the project, but the leases would be through the DCDC, not the PBID. A market manager would be hired or contracted with, and their function would be similar to structure seen at SoFA Market for the management of tenants.

Several board members indicated that this project has the potential to add something truly unique to downtown and the San Pedro area. The incubator nature of the project is needed in downtown for retail businesses.

Additionally, the ambience and "stickiness" it would add to the neighborhood would draw people in and invite them to spend more time in San Pedro Square. Hammers reiterated the garage section of San Pedro Street has long been identified as an area that needs improvement.

Ortbal queried if the direct payments line item had been discussed with DOT staff. PBID and DOT/OED staffs have preliminarily discussed this item. The hypothesis is that because they are direct payments to other entities it would not trigger the public bid process. The permits would be an interdepartmental transfer of funds from DOT to DPW. Lighting and power upgrades to the garage would be beneficial for activation specific lighting along San Pedro.

The timing of this project's process would be to finalize the newest funding stream with DOT, and to have PG&E provide final costs. Construction is scheduled to start in July, and finish September.

- Preliminary Budget FY 17-18

The proposed budget included a 3% increase for the assessments. City staff builds in a 3% increase for their budgetary projects. For reference, a 1% increase in assessments is approximately \$25,000. This budget reflects the recommendations discussed with the San Pedro Squared project. Assuming the extra \$100,000 contribution from city is direct payments to another department or PG&E, it is not reflected in the PBID budget.

One of the goals with this budget was to be able to have funds for other small-scale street life projects outside of San Pedro Squared.

A negative fund balance was budgeted because we built up a reserve from under-spending on projects in previous years. It is necessary to have a reserve of approximately \$400,000 so that we can pre-pay our Block by Block contract each quarter and receive a discount.

The board indicated that the current trend of spending down the reserve is significant. Kline asked if this trend will continue after San Pedro Squared is complete. Hammers said these large-scale projects seem to drive this spending. The recommendation from staff is to be more conservative on pursuing large grants and projects that consume so many PBID resources.

Staff recommended approving the budget with a cap on PBID contribution for San Pedro Squared. Fiese moved to approve the project with cap of \$375,000, Schneider seconded, and it was unanimously approved. If the project's costs exceed what is budgeted, staff can look for other revenue streams to cover additional costs, including additional fund raising, and requiring tenant improvement contributions from future tenants.

Ortbal provided clarification on the assessment setting process, the Annual Report provide by PBID staff is due May 1. This report is then sent to City Council for formal adoption in June. The ne assessment rate is provided to the county. The city's Budget Director plans for 3% increase projection over 5 years. It is possible that a higher assessment rate would be challenged, but the large-scale projects underway and a high living wage increase could help push a higher rate through.

Several board members expressed concern with an increase other than 3%. For many commercial property owners, a 3% increase is often built into leases. Friese also shared that the number of projects coming online in FY 18-19 inspires confidence in a 3% rate this year. Friese motioned to approve a 3% assessment increase, Messinger seconded the motion, and it was unanimously approved.

Staff Reports: Reports were sent ahead of the meeting. In an effort to get the meeting out on time, staff did not report out to the board verbally.

New Business:

Messinger asked what is being done to push developers to fill retail in new mixed-use buildings. Councilmember Peralez is attempting to address this with the "Storefronts Initiative," that requires property owners to register vacant storefront spaces. It is going to CEDC next month. At this time there is nothing that focuses on developers, but it may be best to focus on incentives over penalties. Penalties can discourage a developer before a project even starts.

The meeting was adjourned at 10:02 a.m.