

MEMO

To: Supervisor Dean Preston, District 5 Supervisor

CC: San Francisco Board of Supervisors

From: Chris Corgas; OEWD Senior Program Manager

RE: Japantown Community Benefit District; FY 19-20 Annual Report

Date: June 10, 2021

This is a memo summarizing the accomplishments of the Japantown Community Benefit District and an analysis of its financial statements (based on their audit) for the period between July 1, 2019 and June 30, 2020.

Each year the CBD is required to submit a mid-year report, an annual report, and a CPA Financial Review or Audit. Japantown CBD has complied with the submission of all these requirements. OEWD staff reviewed these financial documents to monitor and report on whether they have complied with the rules per the Property and Business Improvement District Law of 1994, California Streets and Highways Code Sections 36600 Et Seq.; San Francisco's Business and Tax Regulations Code Article 15; the Japantown CBD management contract with the City; and their Management Plan approved by the Board of Supervisors in 2017.

Also attached to this memo are the following documents:

1. Annual Reports
 - a. FY 2019-2020
2. CPA Financial Statements
 - a. FY 2019-2020
3. Draft resolution from the Office of Economic and Workforce Development



Background

The Japantown Community Benefit District (Japantown CBD) was formed to clean, beautify, and provide economic enhancements within the district. The Japantown CBD is located in one of 3 remaining Japantowns in the United States, in a neighborhood that is identified by its rich cultural heritage and history. The Japantown CBD includes both privately and publicly owned properties. The district is 7 whole and partial blocks and approximately 67 parcels in the commercial core of Japantown.

- July 25, 2017: the Board of Supervisors approved the resolution that established the Japantown Community Benefit District for 10 years (Resolution # 461-17).
- December 12, 2017: the Board of Supervisors approved the contract for the administration and management of the Japantown Community Benefit District (Resolution # 13-06).
- December 21, 2020: the Board of Supervisors approved the FY 18-19 Annual Report for the Japantown Community Benefit District (Resolution #537-20)

Basic Info about Japantown Community Benefit District:

Year Established	2017
Assessment Collection Period	FY 2017-2018 to FY 2026-2027 (July 1, 2017 to June 30, 2027)
Services Start and End Date	January 1, 2018 – December 31, 2027
Initial Estimated Annual Budget	\$393,750
FY 2019-20 Assessment Submission	\$393,750.30
Fiscal Year	July 1 – June 30
Executive Director	Grace Horikiri
Name of Nonprofit Owners' Entity	Japantown Community Benefit District, Inc.

The current CBD website <https://www.jtowncbd.org> includes all the pertinent information about the organization and their programs, a calendar of events, their Management Plan, Mid-Year Report, Annual Report, and meeting schedules.

Summary of Program Areas

Environmental Enhancements

The Japantown CBD Management Plan calls for 31.25% of the assessment budget to be spent on Environmental Enhancements are designed to address vacancies by filling them with targeted businesses and to bring more visitors to the District area to engage in commercial and business activities.

Economic Enhancements

The Japantown CBD Management Plan calls for 48.75% of the assessment budget to be spent on Economic Enhancements. Economic Enhancements include a business liaison to work as the primary point of contact between the CBD and the Japantown CBD business community. The liaison builds relationships businesses and connects them, as needed, to appropriate resources such as commerce experts, business associations, training programs, eligible grants, etc. in an effort to create a stronger business environment for all. Economic Enhancements also include destination marketing aimed to position Japantown as a dining, retail, and cultural destination.

Advocacy/Administration

The Japantown CBD Management Plan calls for 17.50% of the assessment budget to be used on Advocacy/Administration. The CBD is staffed by a Executive Director who 1) performs the day-to-day management of the organization, 2) works with various city departments, 3) advocates for city funds and services, 4) ensures that the organization is in compliance with their Management Plan and City contract, and 5) provide leadership through research and community education to represent the community with one clear voice.

CBD Reserve

The remaining 2.50% of annual budget is to be allocated to Reserves. Reserves are budgeted as a contingency for any payment delinquencies and/or unforeseen budget adjustments

The Japantown CBD board has fourteen (14) members which represent property owners, merchants, community organizations, and other stakeholders. Board member seats are determined using the following guidelines: 60% of seats are set aside for District property owners, 20% of seats are set aside for non-property owning merchants with a preference for existing small businesses operating retail, restaurant and service, and the remaining 20% of seats can be used for Community Based Organizations and stakeholders. This structure complies with Article 15 of the San Francisco Business and Tax Regulations Code. The full board meets monthly.

Summary of Accomplishments, Challenges, and Delivery of Services

FY 2019-2020

Environmental Enhancements

- Community ambassadors provide daily cleaning services from 7:30 AM to 4:00 PM on Japantown CBD's sidewalks and public spaces.
- Removed approximately 13,000 lbs of litter and trash
- Cleaned up 240 instances of biohazards
- Removed 553 instances of graffiti or stickers
- Picked up 308 needles
- Picked up 387 instances of broken vehicle glass
- Power washed 52 block faces
- Removed 72,305 cigarette butts

Economic Enhancements

- Installed 4 Big Belly units in Japantown, through an OEWD grant.
- Deployed holiday lighting in the Buchanan Mall and Peace Plaza to add ambiance.
- Held quarterly Greater Japantown Marketing & Communications meetings with key community stakeholders to provide updates about planned marketing initiatives. These quarterly meetings are an opportunity for key stakeholders to provide input, ensure that there is no duplication-of-effort, and to look at ways to partner efforts.

- Partnered with the Nihonmachi Street Fair, the National Japanese American Historical Society and New People to bring Jtown After Dark movie night during the 46th Annual Nihonmachi Street Fair.

Advocacy/Administration

- Translated State and City Covid-19 information into Japanese and Korean.
- Prepared and disseminated regular, high quality e-newsletters providing merchants and other stakeholders accurate information relating to the ongoing Covid-19 pandemic.
- Provided technical assistance to Japantown small businesses with Covid grant and permit applications.
- Passing out Covid-19 information from the City to small businesses.
- Launched the Heart of Jtown Resiliency fun on March 26th and successfully raised over \$500,000 to help support Japantown small businesses.
 - \$20,000 was used to purchase PPE for small businesses
 - \$400,000 was dedicated to help fund 80 small businesses through an online grant application process
 - Remaining fun supported additional small business needs during Covid.

Japantown CBD Annual Budget Analysis

OEWD's staff reviewed the following budget related benchmarks Japantown CBD:

- **BENCHMARK 1:** Whether the variance between the budget amounts for each service category was within 10 percentage points from the budget identified in the Management Plan (*Agreement for the Administration of the "Japantown Community Benefit District," Section 3.9 – Budget*)
- **BENCHMARK 2:** Whether five and fifty-five hundredths percent (5.55%) of actuals came from sources other than assessment revenue (*CA Streets & Highways Code, Section 36650(B)(6); Agreement for the Administration of the "Japantown Community Benefit District," Section 3.4 - Annual Reports*)
- **BENCHMARK 3:** Whether the variance between the budget amount and actual expenses within a fiscal year was within 10 percent (*Agreement for the Administration of the "Japantown Community Benefit District," Section 3.9 – Budget*).
- **BENCHMARK 4:** Whether Japantown CBD is indicating the amount of any surplus or deficit revenues to be carried forward into the next fiscal year and designating the projects to be funded by any surplus revenues (*CA Streets & Highways Code, Section 36650(B)(5)*).

FY 2019-2020

BENCHMARK 1: Whether the variance between the budget amounts for each service category was within 10 percentage points from the budget identified in the Management Plan

ANALYSIS: Japantown CBD met this requirement. See Table Below.

Service Category	Management Plan Budget (Percentage)	FY 2019-20 Budget – Asst. (Percentage)	FY 2019-20 Budget – Total. (Percentage)	Variance % Points – Asst.	Variance % Points – Total.
Environmental Enhancements	\$125,000.00 (31.25%)	\$114,200.00 (28.64%)	\$160,500.00 (33.95%)	-2.61%	+2.70%
Economic Enhancements	\$195,000.00 (48.75%)	\$215,390.00 (54.01%)	\$233,890.00 (49.47%)	+5.26%	+0.72%
Advocacy/Administration	\$70,000.00 (17.50%)	\$69,190.00 (17.35%)	\$78,390.00 (16.58%)	-0.15%	-0.92%
CBD Reserve	\$10,000.00 (2.50%)	\$0.00 (0.00%)	\$0.00 (0.00%)	-2.50%	-2.50%
TOTAL	\$400,000 (100%)	\$398,780.00 (100%)	\$472,780.00 (100%)	0.0%	

BENCHMARK 2: Whether five percent (5.55%) of Japantown CBD’s actuals came from sources other than assessment revenue

ANALYSIS: *Japantown CBD met this requirement. Assessment revenue was \$427,153.00 or 76.99% of actuals and non-assessment revenue was \$121,671.00 or 23.01% of actuals. See table below.*

Revenue Sources	FY 2019-2020 Actuals	% of Actuals
Special Benefit Assessments	\$392,979.00	
Late Assessment Payments	\$34,174.00	
Total assessment revenue	\$427,153.00	76.99%
Grants & Contributions	\$29,915.00	5.39%
Satisfaction of Donor Restrictions	\$97,756.00	17.62%
Total non-assessment revenue	\$121,671.00	23.01%
TOTAL	\$554,824.00	100%

BENCHMARK 3: Whether the variance between the budget amount and actual expenses within a fiscal year was within 10 percentage points.

ANALYSIS: *Japantown CBD did not meet this requirement. See table below.*

Service Category	FY 2019-20 Budget – Asst. (Percentage)	FY 2019-20 Budget – Total. (Percentage)	FY 19-20 Actuals – Asst. (Percentage)	FY 19-20 Actuals – Total (Percentage)	Variance % Points – Asst.	Variance % Points – Total.
Environmental Enhancements	\$114,200.00 (28.64%)	\$160,500.00 (33.95%)	\$101,128.00 (27.59%)	\$222,174.00 (44.32%)	-1.04%	+10.37%
Economic Enhancements	\$215,390.00 (54.01%)	\$233,890.00 (49.47%)	\$129,959.00 (35.46%)	\$139,959.00 (27.12%)	-18.55%	-22.35%
Advocacy/Admin.	\$69,190.00 (17.35%)	\$78,390.00 (16.58%)	\$135,398.00 (36.95%)	\$143,137.00 (28.55%)	+19.59%	+11.97%
CBD Reserve	\$0.00 (0.00%)	\$0.00 (0.00%)	\$0.00 (0.00%)	\$0.00 (0.00%)	0.00%	0.00%
TOTAL	\$398,780.00 (100%)	\$472,780.00 (100%)	\$366,845.00 (100%)	\$501,270.00 (100%)		

BENCHMARK 4: Whether Japantown CBD is indicating the amount of any surplus or deficit revenues to be carried forward into the next fiscal year and designating the projects to be funded by any surplus revenues

ANALYSIS: *Japantown CBD met this requirement. Please note: There is a period between when the City collects assessment payment and when the City disburses the funds to the CBD. As a result, a CBD typically has a fund balance at the end of the fiscal year that is equal to about 6 months of their annual budget. See table below.*

FY 2019-2020 Carryover Disbursement	Budgeted for FY 20-21	Budgeted for Future Years
Designated Projects for FY 2020-2021		
Environmental Enhancements	\$24,726.00	\$140,114.00
Economic Enhancements	\$21,729.00	\$123,131.00
Advocacy/Administration	\$11,988.00	\$67,934.00
	\$1,499.00	\$8,492.00
Total Designated amount for Future Years	\$59,942.00	\$339,671.00

Findings and Recommendations

The Japantown CBD has met 3 out of 4 benchmarks as defined on page 4 of this memo. This is Japantown CBD’s second annual reporting process and the first time they did not meet all 4 benchmarks reviewed by OEWD. The Japantown CBD missed benchmark 3 which compares the organization’s fiscal year budget with the fiscal year actuals. Per Section 3.9 of each CBD is allotted a ten (10) percent

deviation from their management plan budget. If they do not meet this, OEWD must determine if this deviation adversely impacts the special benefits conferred on parcels within the CBD.

In this particular situation, based on assessment dollars, the CBD spent 9.59% more on their Advocacy/Administration service category than the 10% variance allowance. Additionally, the CBD spent 8.55% less on their Economic Enhancements service category the 10% variance allowance. In order to determine if these actions adversely impacted special benefits conferred on parcels within the CBD OEWD reviewed the CBD's management plan and engineer's report approved by the Board of Supervisors on July 25, 2017 (File # 170784).

Section E of the District's Engineers report, entitled "Special and General Benefits" articulates the assessment engineer's analysis of special and general benefits of the service categories in the CBD's Management District Plan. Per the Engineer's Report, Environmental Enhancements was the only category with activities that generally can benefit the public at large, meaning the remaining activities have specific benefit to parcels within the CBD and any general public benefit is incidental and collateral to providing to the special benefits to the assessed parcels. In this particular situation, the Japantown CBD was in compliance with categories related to the special benefit vs. general benefit. Additionally, upon review of the documents provided by the Japantown CBD it appears that the organization has mislabeled significant areas of actual expenditures. For instance, all salaries were labeled as part of the Advocacy/Administration service category despite the work that was being performed should have fallen under another service category. If staff was performing work specifically related to the Economic Enhancements or Environmental Enhancements service categories than their salaries should have been placed under those service category actuals. It in OEWD's opinion that this deviance did not adversely impact special benefits conferred on parcels within the District due to the combination of these factors.

OEWD has two recommendations for the Japantown CBD to ensure they meet this benchmark in the future. First, the CBD should utilize timekeeping documents or software to accurately keep track of how staff is spending their work hours. Doing so will allow the CBD to accurately breakdown what percentage of a staff member's salaries should fall under the correct service category. Secondly, the CBD and their financial professional should work to incorporate these findings in future actuals data provided to OEWD. It is OEWD's belief that these two changes would ensure the CBD meets benchmark 3 in the future.

The second half of FY 2019-2020 was particularly challenging for the Japantown CBD as well as property owners and businesses in the area. In February 2020 visitor traffic to the area began to decline due to the emergence of the Covid-19 global pandemic. On March 16, 2020 Mayor London N. Breed announced that that the Health Officer for the City County of San Francisco issued a Public Health Order requiring residents to remain at home, with the exception of essential needs. Additionally, all businesses other than Essential Businesses and Essential Government Functions, were required to cease all operations. All public and private gatherings of any number of people occurring outside a single family or living unit were also prohibited.

This order was particularly confusing to the Community Benefit District/Business Improvement District community in San Francisco as, by definition, they provide supplemental service and no direction was provided on whether or not they were to cease operations. Each CBD decided on whether to continue

services as usual, scale back services, change service patterns, or suspend service operations. Japantown CBD, out of an abundance of caution, decided to suspend its operations and services in the early days of the pandemic.

OEWD and the Office of the City Attorney worked to determine if CBD/BIDs must continue their supplemental service despite what decisions each district made in reaction to the pandemic. On March 23, 2020 OEWD issued a memo to all CBD/BIDs stating that, based on the advice of Deputy City Attorney Manu Pradhan, Articles 13 C and D of the California Constitution supersede both gubernatorial and mayoral executive orders. These Constitutional provisions deal with how special benefits are conveyed and each CBD/BID's specific assessment formula. The ramifications of this meant that all CBD/BIDs had to return to full service immediately. OEWD also provided a list of resources to the CBD/BIDs to provide to their employees or contractors. The Japantown CBD returned to their full-service schedule immediately once this determination was made.

During the pandemic OEWD worked with the Covid Command Center to ensure that CBD/BID essential workers were not forgotten during the Covid response and was able to acquire personal protective equipment and hygiene supplies to keep workers and the community safe. CBD/BIDs played an important role in facilitating communication between the City and their stakeholders throughout the pandemic. The Japantown CBD worked with the Covid Command Center, through OEWD, to disseminate Covid-19 related information to its stakeholders and provided safety kits to the unhoused community and commuters within the District. Additionally, the Japantown CBD organized Covid-19 testing for the community and regularly did so throughout the pandemic.

In order to support Japantown's struggling small businesses during the pandemic, the CBD founded the Heart of Japantown resiliency fund for small businesses. The fund was launched on March 26, 2020 with a goal of raising \$500,000 to help support small businesses. A separate committee was formed to oversee the distribution of these funds. The fund reached its goal in FY 20-21. OEWD will provide more information on this fund in the FY 20-21 annual report for the Japantown CBD.

Conclusion

Japantown CBD has performed well in implementing the service plan. The CBD continues to do a good job of integrating itself into the Japantown community and has forged critical partnerships with established neighborhood organizations and nonprofits. The Japantown CBD's leadership in the community during the pandemic was instrumental to assisting City and County of San Francisco outreach and testing efforts. The CBD is a well-run organization with active board and committee members and OEWD believes it is well positioned to continue successfully carry out its mission as a community benefit district.