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# PLANNING THROUGH COMPULSORY COMMERCIAL CLUBS: BUSINESS IMPROVEMENT DISTRICTS

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*Business improvement districts (BIDs) have proved successful in providing shared services for businesses within a district. They have made business areas more attractive as a result. This article analyses the origins and successes of BIDs and concludes with some further considerations for policy-makers in the development of the BID concept.*

## Introduction

The controversial business improvement district (BID) is a new and necessary form of local governance (Briffault, 1999; Levy, 2001; Hoyt, 2005a). Around the globe, commercial property and business owners in cities and towns rely on the BID model to attract visitors and investors and to enhance pedestrian experiences. By establishing a system of mandatory assessments, these autonomous governing entities pay for supplementary public services to effectively compete with regional office parks, shopping malls and suburban centres.

Invented in North America in the 1960s, the BID borrows elements from the USA's special-purpose districts and special-assessment districts (Hoyt, 2001). Like the special-purpose district, the BID is a class of government to which the state grants certain powers; it is legally independent of other local governments and typically establishes a governing board to oversee activities. However, whilst the special-purpose district facilitates service delivery at the regional level, the BID, like a special-assessment district, functions at the local level. Special-assessment districts, however, are not independent legal entities; they are finance-collection mechanisms that, for more than 200 years, local governments have used to fund capital improvements such as the expansion of roads, pavements, sewers and utilities (Foster, 1997). The BID model is a hybrid of these two concepts that empowers local commerce to take greater control of its own neighbourhood affairs.

Whilst individual states in the USA and provinces in Canada offer concise definitions within enabling statutes, there is no standard definition of what qualifies as a BID, and scholars and practitioners are at odds. The primary disagreement centres on whether the financing mechanism is mandatory or voluntary. For example, the most common definition requires BIDs to impose an added tax on all the properties in the target area (Briffault, 1999; Mitchell, 1999, 2001; Levy, 2001), while others consider entities that rely solely on voluntary donations to qualify as fully-fledged BIDs (Houstoun, 2003). To further complicate matters, there is no standard naming convention. For example, variations within the USA include, 'special improvement districts' (SIDs), 'public improvement districts' (PIDs) and 'municipal improvement districts' (MIDs). In Canada, New Zealand and South Africa, they are known as 'business improvement areas', 'main streets with separate rates' and 'city improvement districts', respectively. Variation in nomenclature makes it difficult to distinguish between BID organisations and other entities that focus on commercial revitalisation like voluntary merchant associations, main street programmes, chambers of commerce and centralised management organisations. For example, there are more than 300 town centre management (TCM) organisations throughout the United Kingdom and more than 250 town management organisations (TMOs) in Japan. Although these organisations perform some of the same functions as BIDs, they do not support their operations with the collection of mandatory

assessments from property owners and they should therefore be seen as institutions distinctly different from BIDs.<sup>1</sup>

For the purposes of this paper, BIDs are publicly sanctioned but privately directed organisations that pay for services to improve shared, geographically defined, outdoor public spaces. They are self-help organisations which govern a majority-voted self-taxing mechanism that generates multi-year revenue. The property and business owners who initiate and oversee BID organisations are motivated by self-interest, not principally by civic commitment. They work to revitalise urban commercial areas for the purpose of protecting or increasing the returns on their investments. The model offers commercial interests a solution to the free-rider problem by imposing taxes on every property owner within a district (Hoyt, 2006).

The questions addressed in the remainder of this paper are as follows. How do BIDs vary across national contexts? Which characteristics are the most salient? How do commercial interests use BID organisations to mitigate the negative impacts of suburbanisation and improve social order? To answer these questions, I draw on several sources of data including an international survey of BID organisations. For the survey, I mailed 347 surveys to BID organisations in Canada, 42 to BID organisations in South Africa, and 30 to BID organisations in New Zealand. The response rate was 27%, 41% and 53%, respectively. To facilitate a comparison between countries, some portions of the survey instrument are identical to the one designed by Mitchell to survey American BIDs (Mitchell, 1999).<sup>2</sup> In addition, I conducted personal interviews with BID managers, public- and private-service providers, and government officials in Canada, the USA, New Zealand and South Africa. Some US interviews took place from 1999 to 2000 as part of earlier research, and site visits in Canada and South Africa took place between August 2002 and January 2003.

### **Persistence and proliferation of BIDs – an emerging international model**

Despite the tremendous variation with respect to legal framework, budget size, geographical scope and administrative capacity (Hoyt, 2005b), within and across nations there are two recurring characteristics of the BID worthy of a brief discussion: persistence and proliferation. First, BIDs are persistent local organisations as evidenced by their staying power and ability to expand in duration and scope. For example, the world's first BID, Bloor West Village, remains in operation today. In fact, results from the international survey show that one-third of the Canadian BIDs in operation today were legally authorised in the 1970s. Apart from a few exceptional cases, these organisations rarely dissolve (Briffault, 1999). Moreover, it is increasingly common for BIDs

to expand their term limits and organisational scope, especially in North America. With approval from the Philadelphia City Council, three BIDs – Center City, South Street and City Avenue – have been granted 20-year terms. Longer terms not only enable organisations like the Center City BID to incur debt to fund comprehensive streetscape programmes, but also give these independent entities a permanent presence in the urban fabric.

With respect to scope, one-third of the Canadian BID managers reported an increase in the annual budget, physical jurisdiction and administrative capacity since the organisation's inception. Second, BID organisations proliferate once enabling legislation is established. It is quite common for many separate BID organisations to operate within a single municipality. For example, there are more than 50 BID organisations operating in New York, more than 40 in Toronto, more than 30 in Los Angeles, Vancouver is home to more than 20, and Philadelphia and Cape Town host more than 10 each. This phenomenon raises a concern that needs to be addressed by cities that are gradually turning over responsibility for the governance of commercial neighbourhood investment and management to privately-directed organisations. Municipalities rarely evaluate the impact of BID services and, more often than not, give no consideration to any systemic externalities arising from their size, number and location. Jurisdictions with multiple BIDs inevitably produce interstitial areas that lack special funding and attention. The impacts of BIDs on these areas – which may be negative in some respects and positive in others – need to be monitored carefully.

### **Mitigating the impacts of suburbanisation**

BIDs mitigate some of the negative impacts of suburbanisation by crafting a collective image for a neighbourhood, creating a market niche and providing a bespoke set of services that supplement those already offered by the municipality. In the survey, BID managers were asked to select the phrase that best described the organisation's level of involvement in the provision of eight different services: policy advocacy, consumer marketing, maintenance, security, capital improvements, transportation, social services and economic development.<sup>3</sup> Interestingly, the results show that consumer marketing was the most frequently offered service with the majority of BIDs in three of the four countries (Canada, the USA and New Zealand) citing a high level of involvement. All the BID managers in New Zealand reported some level of involvement with the provision of consumer marketing services.<sup>4</sup> Through aggressive marketing campaigns and other forms of self-promotion, BIDs effectively attract visitors and investors from the urban periphery and thus represent a decentralised approach to

confronting the challenges of suburbanisation such as the allure of suburban shopping malls. New Zealand's BIDs, known as *main streets with a separate rate*, have allowed cities and towns, where the majority of businesses are owned by New Zealanders, to compete with the suburban malls which have a high percentage of Australian-owned stores. Funds acquired through the separate rate often assist with the provision of consumer marketing services and the implementation of capital improvements which local authorities cannot support.<sup>5</sup> According to Karen Remetis of the New Zealand Town Centre Development Group, '*Separate rating* is acknowledged as the only means possible for main streets to become competitive with the encroachment and proliferation of mall development in New Zealand.'<sup>6</sup>

### Improving social order

Whilst it is reasonable to say that, in all national contexts, BIDs supplement publicly rendered services (Hoyt, 2004), this is demonstrated most extremely in South Africa. Here, local governments are simply unable to deliver basic security and social services (Tomlinson, 1999; Bremner, 2000). With few alternatives at hand, property and business owners have used the BID as a means for raising the necessary funds to fill gaps in the provision of municipal services. The South African BID is intensely focused on issues of security; all of the BID managers who completed the survey indicated that their organisation is 'very involved' with security services and described the central mission of their organisation as an attack on crime.

To improve social order, BID organisations develop and implement crime prevention programmes including formal agreements with police, the installation of surveillance cameras and the deployment of private security patrols. To further illustrate the versatility of the model, the South African BID can be contrasted with the American BID. In Johannesburg, private security services account for nearly three-quarters of a BID's budget compared with one-quarter for Philadelphia's BIDs. As a result, 50 uniformed security personnel patrol a 100-block area in downtown Philadelphia, while the same number watch over a 12-block area in Johannesburg's central city. The application of the BID model in South Africa is also unique with regard to social services. More than one-third of the South African BID managers cited a high level of involvement with social services, whilst almost no BID managers in Canada, the USA and New Zealand did so. Where there are serious social problems, a lack of municipal funds and lack of organisational and institutional capacity, BIDs provide a vital alternative to traditional urban governance. The Central Improvement District in Cape Town, for example,

confronts issues like homelessness and drug abuse among children. In the absence of effective interventions from other agencies, this BID strives to create social order by offering shelter and care to impoverished children. It is in the interests of commercial operators to provide local social services.

### Concluding remarks

With the authority to tax its members, the BID model represents a competitive strategy for solving local collective action dilemmas through the supply of additional public goods. Governments need to understand that under the right conditions private-sector interests are willing to pay for improvements that benefit the public. The BIDs emerging in towns and cities throughout the world attest to this. It is important, however, to consider the potential ramifications of this new form of governance. Although BID authorisation requires a democratic process, BID organisations ultimately represent and overtly favour commercial interests. In the end, municipalities are granting local 'clubs' of property and business owners the power to manage public spaces (Loukaitou-Sideris *et al.*, 2004). These organisations improve the physical, economic and social conditions within their geographical jurisdiction in a way that serves their own interests and those of their customers. This will benefit some neighbourhoods and not others and it is reasonable to suppose that BIDs will have the effect of changing the spatial distribution of access to service delivery.

What are the consequences of shifting property rights over public urban spaces from general-purpose representative governments to special-purpose commercial clubs? On the one hand, this is apparently a highly efficient reallocation of rights and responsibilities since it aligns incentives in a way that produces results – regeneration, re-investment and revitalisation. If the firms involved in a BID spend BID revenue in the interests of their customers, then their self-interest may be good for a much larger public (this is presumably why they have been successful). How this plays out needs to be watched, however, since in all BIDs there will be choices between investments that confer different bundles of benefits on local firms, the area's consumers and the wider citizenry. People who do not frequent a particular commercial area may, for example, derive value from the fact that the area is no longer run down – or from the fact that they may on some future occasion choose to use its facilities. Some sections of the public may lose, for example, from the diversion of customers or political attention to a BID area. Other areas may also suffer if publicly-funded services are reduced rather than diverted to non-BID areas, or if BID areas succeed in gaining disproportionate amounts of public funds. These systemic impacts should be the subject of ongoing research and evaluation.

Municipalities that permit the establishment of BID organisations should devise implementation plans that co-ordinate their size, number and location. Appropriate public approval processes need to be in place for BIDs that seek to expand their operations. There needs to be systematic evaluation of the performance of individual BIDs as well as the collective impact of BID services on the municipality and its citizenry. There is clear evidence that BIDs fill an important institutional gap in conventional urban governance. This inevitably means changes to existing institutions and there is a great need to understand what is happening at the boundaries as private and public, municipal and club-based governance co-evolve.

1. At the time of the study, operational BID organisations existed in Canada, the USA, New Zealand and South Africa. However, the first British BID, in Kingston-upon-Thames, began operations on 1 January 2005. This is the first UK BID proposal to win a vote – 66% of Kingston's business rate payers voted to have an extra 1% supplement on the rateable value of properties, generating £4 million for town centre investment over five years. Also, several public sector bodies and national businesses have recently funded a programme to explore the feasibility of establishing BIDs in more than 20 towns and cities across Britain.
2. This study examined non-US BID organisations and aims to complement rather than duplicate Mitchell's work.
3. Phrases they could choose from were: 'very involved', 'somewhat involved' and 'not at all involved'.
4. Approximately two-thirds (63%) of the managers reported that their organisation is 'very involved' with consumer marketing, and more than one-third (37%) reported that their organisation is 'somewhat involved'.
5. In a sense, the BID concept allows main streets to harness some of the advantages that freehold malls have in providing collective services for their tenants – see the paper by Foldvary in this volume.
6. Telephone interview by author, 4 December 2003.

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