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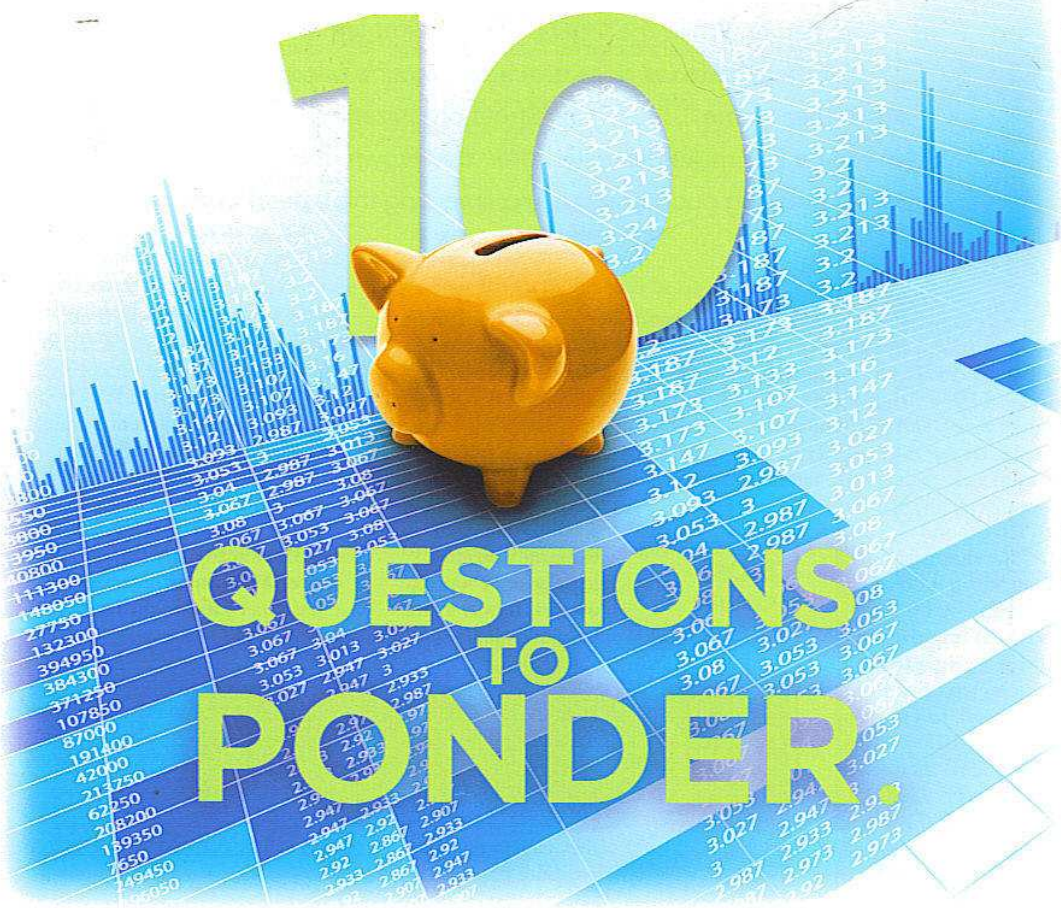
IS A BID FEASIBLE IN YOUR TOWN?



by Donna Ann Harris

Many Main Street organizations, after they have passed through the initial growing pains of the catalyst years and have embarked on the growth phase, face significant funding challenges. The revitalization effort may be well regarded and successful, but revenues have not kept pace. Merchants may advocate for more services such as a comprehensive downtown promotion and marketing program, or property owners begin asking for more traditional "clean and safe" services such as benches, flowers, or power washing of sidewalks. But there is no major increase in contributions, and donations come only from a select group rather than all who benefit from the revitalization effort. Municipalities that contribute to their local Main Street program may be increasingly pressed by revenue-sharing cuts or increased costs, only to revise their budgets at the expense of the local Main Street effort, leaving it with less money to do more. At this point, many downtown organizations seriously examine sustainable funding alternatives, specifically a business improvement district (BID) as part of their organizational evolution.

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See how Downtown Manhattan, Inc., is using a free online tool to communicate more effectively and efficiently with members and the rest of the community.

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12. Downtown's Beleaguered Urban Forest
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16. Managing and Policing Hospitality Zones
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IS A BID FEASIBLE IN YOUR TOWN? 10 QUESTIONS TO PONDER.

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As one element in a diverse revenue mix a, BID can supply a predictable, stable, and long-term funding source to increase the capacity of the organization and its volunteers to satisfy concerns that are district-wide in nature. While the legal process of implementing a BID varies from state to state (*as does its name; see side bar on page 3, "A BID by Any Other Name"*), local Main Street organizations should carefully assess whether a BID makes sense for their downtown district at least a year before speaking publicly about implementing this type of district.

WHAT IS A BID?

In Lawrence O. Houstoun's book, *Business Improvement Districts*, M. Bradley Segal, a Denver-based consultant, provides this definition of a business improvement district: "A BID is based upon the benefit district concept, which allows for an assessment on property within a defined geographic boundary. Revenues from this assessment are directed back to the defined area to finance a myriad of enhanced services including security, maintenance, marketing, economic development, parking, and special events."

According to Houstoun, BIDs are enacted to spread costs to all property owners to address downtown management issues that private-sector stakeholders identify. BIDs create a predictable and non-voluntary funding stream, enforceable as a municipal tax or special assessment, to pay for multi-year projects or to pay for bonds for capital improvements such as paving, street lights, and street furniture.

Most BIDs provide "clean and safe" services with a substantial part of their budget devoted to maintenance and security teams, and lesser amounts devoted to marketing. Small BIDs (with revenues under $250,000) predominantly focus on consumer marketing and to a lesser degree on public improvements, according to Houstoun.

The International Downtown Association estimates that 1,200 business improvement districts exist across the nation. According to Houstoun, half of them are small BIDs, with assessments that generate between $20,000 and $250,000 per year. The expansion of this funding mechanism over the next decade will be attributable to BIDs starting in smaller communities, in suburban towns, or in neighborhood commercial districts in larger cities.

> "BIDs create a predictable and non-voluntary funding stream"

BIDS and the Main Street Four-Point Approach™

State enabling legislation sets out how a BID is adopted and governed and how funds can be used. Main Street organizations or other quasi-public corporations are often tapped to manage BIDs, but they must be governed by a board of directors dominated by the property owners who pay the special assessment as mandated in the state enabling legislation. Property owners, however, are only one subset of the wide variety of people who benefit from a revitalized downtown and serve on local Main Street boards.

A BID is a funding mechanism only. It will help distribute the financial responsibility to everyone who benefits from the BID services and eliminate any "freeloaders," a common occurrence on many Main Streets. BID funding can provide a predictable base of support from which to build organizational capacity and sustain a volunteer-driven Main Street organization.

A BID is not an organizing mechanism; it does not substitute for the Main Street Four Point Approach™. It will take extraordinary diligence to retain the "volunteer driven" nature of your local program if a BID is integrated into the funding mix because staff responsibilities will expand. In order to retain the broad Main Street agenda, you may want to consider making the BID a subsidiary corporation to your Main Street organization.

Another idea might be to substantially restructure your program to create a hybrid organization if property owners must hold the majority of board seats as specified in your state's enabling legislation. Either way, the Main Street volunteer-driven, historic preservation-based economic development philosophy must dominate, the four committees must continue, and the community as a whole must be the beneficiary of your downtown revitalization efforts.

BID Feasibility

Below are 10 questions that Main Street organizations should consider well in advance of proposing a BID. These 10 questions assess your organiza-

tion's readiness to get involved in proposing legislation to establish a mandatory, special property tax assessment that may take many months to implement.

If your board members are intrigued by the possibilities, form a small feasibility committee to assess your organization's readiness to implement a BID. This assessment can be done in-house by a small committee that includes the Main Street manager. No consultants are required at this point, as the committee's job is to gather information, test some theories, and assess needs. This work should be done quietly with minimal fuss so that the organization can get quality information before making its plans public.

If your revitalization effort is ready to move to the next level, read on about preparing your organization to tackle a BID for your commercial district.

1. Can you make a compelling case that a BID's multi-year funding will enhance the downtown and solve some of its intractable problems?

BIDs are often instituted for specific terms (frequently five years) and must be reauthorized to continue. During this period, you must undertake work that those who pay the special assessment feel will improve the district. It is best to focus on tasks that are currently beyond the grasp of your Main Street organization.

Your BID activities will be unique to your community. They should be tasks that are too expensive for a small group of stakeholders to resolve, but are common to everyone in the district, such as upgraded landscaping, pedestrian lighting, or a comprehensive marketing program. Identify the key issues thwarting your progress and

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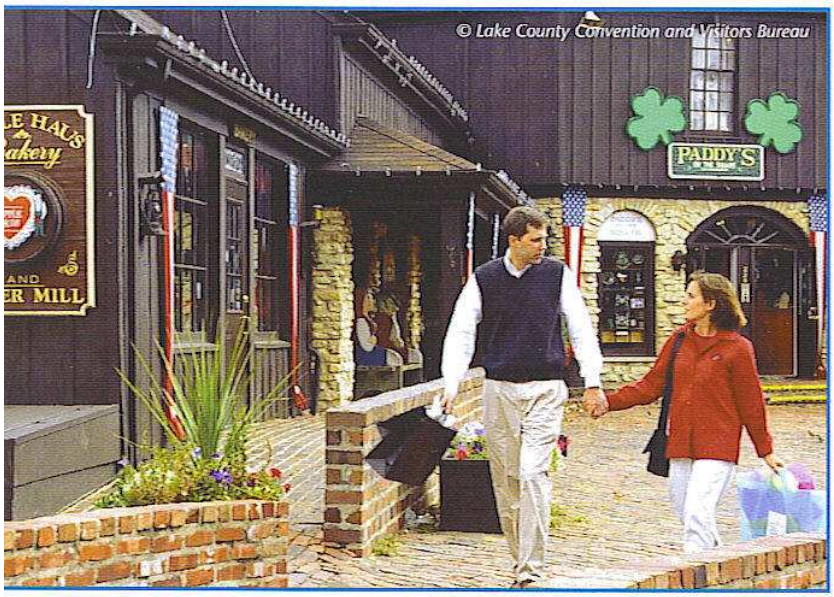


An inviting and lively shopping district helps to increase sales to targeted customers like these folks in Long Grove, Ill.

A BID by Any Other Name

Business improvement district: Alabama, California, Colorado, Delaware, District of Columbia, Georgia, Idaho, Kansas, Massachusetts, Montana, Nebraska, New Mexico, New York, North Dakota, Pennsylvania, South Dakota, Tennessee, Utah, Virginia, and Wisconsin.

Improvement district for enhanced municipal services: Arizona

Municipal special services district: Connecticut

Neighborhood improvement district: Florida

Self-supported municipal improvement district: Iowa

Special service area: Illinois

Economic improvement district: Indiana

Community improvement district: Kentucky

Local improvement tax district or principal shopping district: Michigan

Neighborhood improvement district or public improvement district: Missouri

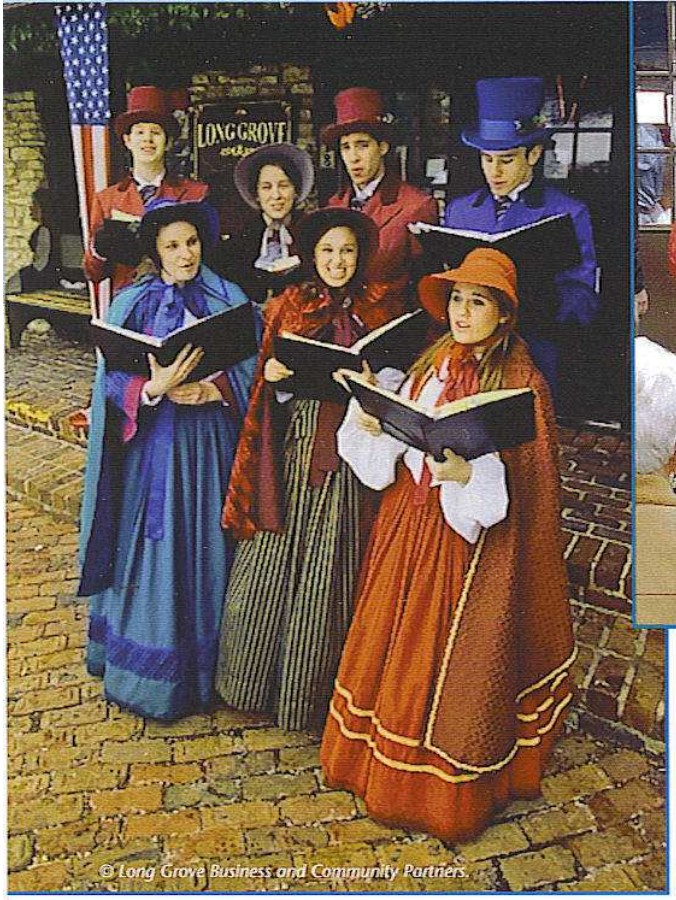
Sidewalk improvement district: Minnesota

Special improvement district: New Jersey

Economic improvement district: Oregon

Public improvement district: Texas

Parking and business improvement district: Washington



Holiday promotions are an important part of many Main Street efforts, and BID funding can upgrade and support these activities. Carolers in Long Grove, Ill., serenade visitors during the holiday season.

Special events and festivals sponsored by Main Street organizations can be significantly enhanced if funds from business improvement districts are used to add elements such as live music. Banjo pickers are a popular part of Applefest in Long Grove, Ill.

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determine how a BID could tackle these problems, given enough money to do so.

2. Do you know the state's BID law backwards and forwards, or how quickly can you learn it?

The feasibility committee must understand how the state enabling legislation works and how a BID is adopted and implemented by the municipality, including the petition process, public hearings, waiting period, and implementation ordinance. Talk to Main Street programs and other organizations in your state that have recently enacted a BID to learn more about their experiences.

Most BID "how-to guides" stress how important it is to first gain the consensus of those who would be assessed and then organize and staff an organization to market the concept. Most Main Street organizations already have these relationships in place. Instead, I suggest that Main Street organizations "do the math" first.

Don't start by thinking about the services you would like to provide through the BID. Instead focus on the gross revenues that a BID could generate for your organization. Review your state's enabling legislation to determine how the assessment formula works. Some states allow communities to increase property taxes based on the assessed value of the building; others permit increases based on square footage, street frontage, or size of the lot. Determine the assessment formula permitted in your state and do the math.

First, obtain the current assessed value of each parcel and the current property tax rate in your downtown district from the real estate tax assessor. Check that all parcels are accounted for by walking through the district. Create a spread sheet with all the parcels, their assessment and tax paid, and add all the assessments up. Take the total assessed value of the district and determine how much would be generated by the BID by increasing the tax assessment in increments of one percent to 10 percent. If your state legislation permits alternative formulas (such as square footage, street frontage, lot size) you should test these formulas as well.

Secondly, create a gross budget forecast. For example: say a one percent increase in property taxes may generate $20,000 in BID assessments. Therefore, the tenant in the "average" storefront might pay a very nominal increase in pass-through tax assessment. The BID may work because the smallest owner will experience only a modest property tax increase. On the other hand, if this math exercise reveals that a typical property owner would see a substantial increase – say, many hundreds of dollars – then the BID may be too costly for a small property owner. Check how much each one percent tax increase will generate (up to 10 percent) and then decide if the BID is "affordable" in your town.

The political mechanism to pass a BID takes significant time and effort (after all, you are cooperating with local government to propose municipal legislation). Thinking that you can start with a very small assessment (a micro BID) and increase your budget later is probably a fallacy. Make sure the initial budget is large enough to provide valuable and enhanced services and be worth your time and effort. "Doing the math" early in your assessment process will prevent you from wasting time on a BID that will not work for your district.

3. Do you have strong relationships with the property owners in your district and do you communicate regularly with owners who live out of town?

Assess how well you know all of the property owners in your district, but especially the top 20 owners in terms of assessed

valuation and square footage owned. If you don't know them well already, make a sustained effort over the next several months. Learn about their major concerns for their property and for the downtown. If most of these large owners live out of town, you should already have relationships with their local property managers. Discuss their concerns without describing the BID just yet.

After this round of general interviewing, determine whether the BID can respond to some or all of their downtown management issues and how it affects their properties. Do not be lulled into thinking that if these major property owners in town are agreeable, your BID is assured of passing. It is not. Remember that all property owners get one vote. You must convince the single building owner as well as the major property owners of the merits of assessing everyone for downtown services.

4. Do you know what your downtown merchants need and want in order to grow their businesses?

BIDs generally tax property owners, but it is the merchant who eventually pays the assessment through lease pass-through mechanisms or rent increases. Because merchants do not vote to pass the BID, they are an essential group to involve in the BID proposal process. They must see that BID services will result in more revenue for their stores.

> Stakeholders must be convinced that the additional tax is in their best interest ... and [will] generate more sales for their businesses.

You should already know all of the merchants very well if you have been involved in Main Street revitalization for several years. If you do not know what business owners really need to make their businesses grow, ask them. Engage them in discussions about the big picture issues in the commercial district, not just the small stuff. Surveys, focus groups, or individual meetings can help sort out the complaints from the real issues that inhibit the district from being all it could be.

If there are merchant factions that aren't involved with your organization, be sure to find out what they need and want. Even if you have good, long-standing relationships with your business owners, you may be surprised what they consider to be their biggest problems. With an ample BID budget, troublesome issues such as snow removal or improved wayfinding signage could be cured once and for all.

5. Do you have the board capacity, commitment, and leadership to undertake an 18-to-24-month effort to enact a BID? Are board members willing to use all of their "political capital" to get the BID enacted?

The board president must play a significant leadership role, convincing your board, merchants, property owners, and city council that a BID has merit. If the board president does not believe wholeheartedly that the BID will make a difference, or is unwilling to use his or her own personal "political capital" to move the BID forward, do not start this effort. Wait until another board president is in place or find another highly regarded person in the downtown to lead the charge.

Proposing a BID is hard work. After all, you are asking property owners to assess themselves for additional services that many believe the city should provide. Stakeholders must be convinced that the

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What Can BIDs Fund?

From a January 1999 article published by the American Planning Association, Lawrence Houstoun states that BIDs serve 10 functions:

1. **Maintenance**: collecting rubbish; removing litter and graffiti; washing sidewalks; shoveling snow; cutting grass; trimming trees; planting flowers in public places.

2. **Security and hospitality**: hiring uniformed security and street "guides" or "ambassadors"; buying and installing electronic security equipment or special police equipment; staffing sidewalk tourism kiosks.

3. **Consumer marketing**: producing festivals and events; coordinating sales promotions; producing maps and newsletters; launching image enhancement and advertising campaigns; installing directional signage.

4. **Business recruitment and retention**: conducting market research; producing data-oriented reports; offering financial incentives for new and expanding businesses; marketing to investors.

5. **Public space regulation**: managing sidewalk vending and street performers; street furniture; and code compliance.

6. **Parking and transportation management**: managing the public parking system; maintaining transit shelters; operating rideshare programs.

7. **Urban design**: developing urban design guidelines; managing façade improvement programs.

8. **Social services**: creating or aiding "help the homeless," job training, and youth services programs.

9. **Visioning**: developing a vision or strategic plan.

10. **Capital improvements**: installing pedestrian-scale lighting and street furniture; planting and maintaining trees and flowers.

Source: "Business Improvement Districts and Urban Entertainment and Cultural Centers," *Journal of the American Planning Association*, January 1999.

For more information about BIDs

Literature on business improvement districts has grown in the last few years as the BID funding mechanism itself has matured. These books and articles are particularly helpful for BID planning purposes.

Lawrence O. Houstoun Jr., *Business Improvement Districts* Second Edition. Washington DC: Urban Land Institute, in cooperation with the International Downtown Association, 2003.

Lawrence O. Houstoun, "Capitalist Tool, What a Small Business Improvement District can Mean to Main Street," *Planning*, January 2004.

M. Bradley Segal, *ABCs for Creating BIDs*, Washington DC: International Downtown Association, 2003.

Amanda West, "Business Districts Revisited," *Main Street News*, Issue 128, January 1997.

Kennedy Smith and Matt Hussman, "Business Improvement Districts," Special Supplement, *Main Street News*, Issue 46, May 1989.

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additional tax is in their best interest, will save them money, increase the value of their property, and generate more sales for their businesses.

The BID leader must be willing to spend considerable extra time from his or her already overburdened schedule to see this effort through. Staff cannot champion the BID and carry out the work of the Main Street organization at the same time. It must be a board effort in cooperation with the city, led by a strong leader who is willing to speak out, be quoted, and demonstrate the courage of his or her convictions.

6. Is the Main Street manager committed to enactment of the BID over the next 18-to-24 months?

The manager will be adding another half time job on top of his or her "normal" 50-hour-a-week schedule during the many months needed to plan and pass a BID. Success will be more likely if other staff members are available to handle the organization's day-to-day work, so the manager can support the BID's feasibility and then the BID implementation team.

Moving a BID toward passage will be an extraordinary burden on the Main Street program's staff. The manager must work hand in hand with the BID implementation team to move this agenda forward. If the manager does not have the time or inclination, or is unwilling to risk the political capital that he or she has developed, then it is not the right time to propose the BID.

Considering that the average tenure of a Main Street manager is about two years, the manager must commit to completing the BID implementation process. A manager change midstream could derail the entire effort.

7. Does the Main Street organization have good and ongoing relationships with local government staff including the city manager, city finance director, city attorney, and planners?

Take an honest look at your relationships with key players in local government. If your relationships are not the best,

Maintaining public spaces and providing additional pedestrian amenities such as benches, fountains, trees, and flowers are typical uses of business improvement district funding.

© Long Grove Business and Community Partnership

Planning meetings are a critical part of any feasibility study to create a business improvement district.

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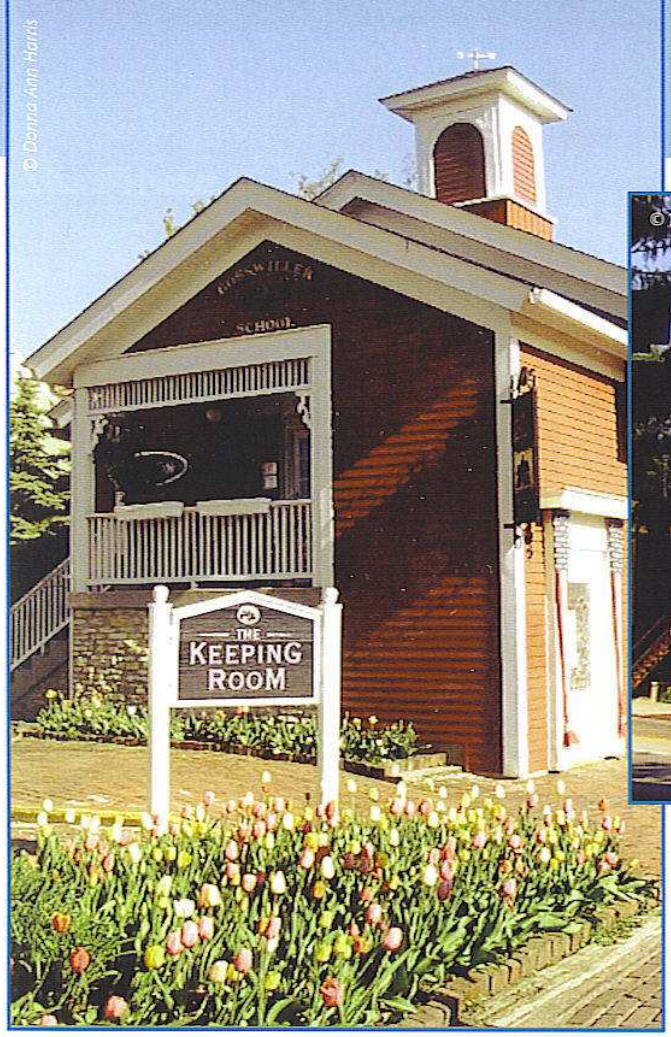
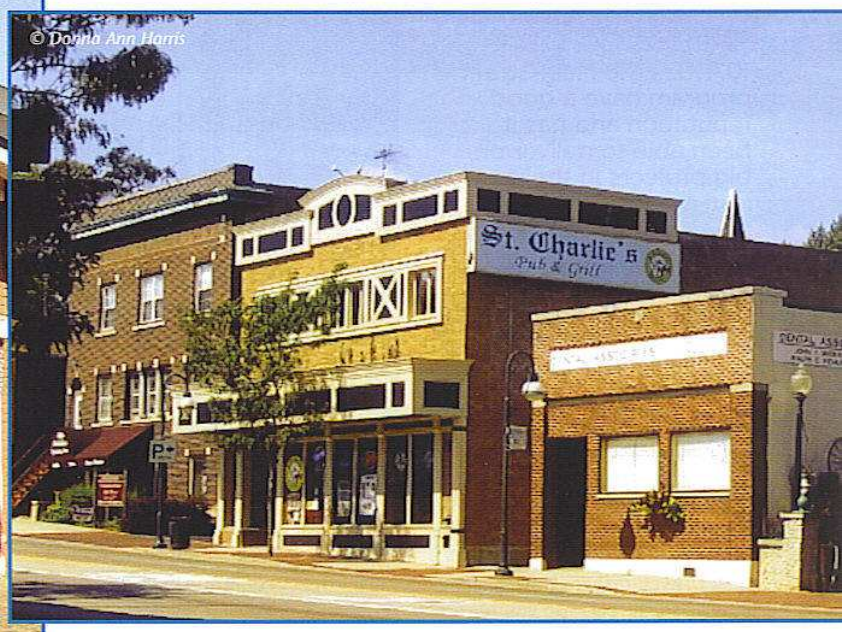


A BID can help enhance historic structures in your commercial district by providing upgraded landscaping and other amenities.



The Downtown St. Charles (Ill.) Partnership made an early effort to provide assistance to property owners considering rehabilitation of their storefronts by using the design services of the architects available from the Illinois Main Street program.

but can be improved, work on them over the next six months. Critical to this effort will be the city manager/administrator who will play an important role in providing data and suggesting how to position the BID proposal with the city council. The city manager will need to make the city attorney available to answer your questions or take care of the necessary paperwork. If your relationship with the city manager is not the best and cannot be substantially improved, then consider waiting until there is a change in the administration before considering a BID.

8. Does the organization understand how the political "game" is played in town and know all of the elected officials well?

If you don't know all of your city council members now, start making friends. You will need every single vote on the council to establish a BID. Don't think that the downtown alderman will lead the effort. He or she can be a great champion, but you have to make a concerted effort to make your case with each and every council member.

Determine how many votes it takes to pass legislation in your community, and start to "count the votes." Find out whether the Main Street organization has adversaries on the city council before you begin discussing a BID in public. Also find out whether there is a council member who will automatically vote against any tax increase (there's always at least one). Identify the council members that will need convincing, as well as the ones who are your natural allies and will vote for you. If your research reveals too many "no" votes that will not change, wait until the next election cycle before discussing a BID with city council.

9. Does the Main Street organization have funds in reserve to sustain itself while the organization's full attention is focused on adopting the BID? Is there money to pay for the costs of adopting the BID?

The organization must be financially healthy enough to support the BID effort and pay for any needed outside help to convince people of its merits. The BID adoption effort will divert volunteer time away from the organization's routine business. Attention to normal fund raising by your committees will be stressed during this period. Don't let the organization's finances weaken while you are involved in what might be a contentious effort. A financial reserve is needed to tide your organization over, make sure you can make payroll, and pay for any consultants you will need, exclusive of staff time. Propose a BID for the right reason: to enhance services for downtown stakeholders, not to buttress inadequate Main Street fund raising.

You will also need money for the marketing effort, and a specific budget to see the BID enacted. Funds will be needed for printing, copying, mailing, website updates, consultants, attorney fees, events, and special newsletters. Start thinking about sources of support now.

Once you decide the BID is feasible, you will need an attorney. Find out whether the city manager will allow access to the city attorney to answer specific technical questions or prepare the necessary paperwork. If not, you will either have to find someone who will serve in a *pro bono* capacity or pay for this expertise.

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10. Does the Main Street program have a good reputation and has it been able to deliver on big projects in the past?

Your organization must have credibility and a solid reputation with city hall, and the commercial district's merchants and property owners in order to tackle a BID. Has your program delivered on complex issues in the past? Large projects involving many stakeholders are good proving grounds. If you've done such projects, are they well documented? Do you have good statistics about your successes? Even if there have been failures in the past, do you have a better understanding of local politics and what your constituents want and need to move the revitalization effort forward?

The Key to Success

Your organization must convince the vast majority of merchants and property owners that a mandatory self-taxing mechanism is in their best interest and that no other program can produce the same result. You only get one chance to propose a BID, so preparation is the key to success.

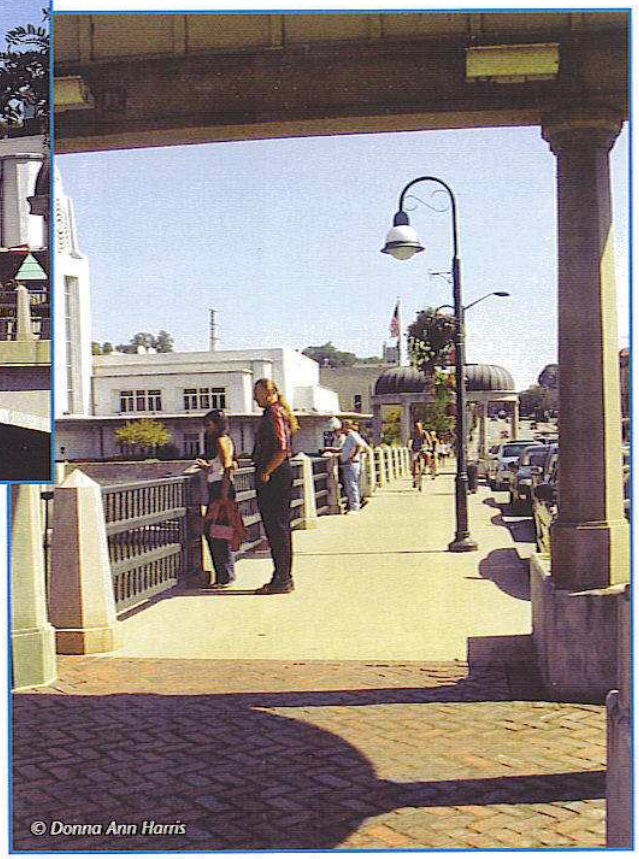
Stakeholders must also believe that the city will not reduce or eliminate current services. These services (police patrols, street sweeping, trash removal, etc.) need to be quantified to measure the type and value of services the commercial district receives now and determine the additional services the BID will provide.

Weigh the costs and benefits of establishing a BID. It can be politically contentious. You might make enemies out of current good friends. Board members might resign in protest. But you could also assure your organization a stable base of support for the near future and make a real difference in your downtown.

St. Charles, Ill., established a business improvement district before starting its Main Street program. The BID now provides a significant portion of the operating budget for the Downtown St. Charles Partnership, a 2001 winner of the Great American Main Street Award.

So how do you stack up? Can you give positive answers to most of these questions? If not, spend the next year learning more about BIDs in your state and building the necessary relationships. If your assessment of the political landscape is positive, start your BID journey with the confidence it will succeed because you have done your planning well.

Donna Ann Harris is the principal of Heritage Consulting, Inc., a Chicago-based consulting firm that works in three areas: downtown and commercial district revitalization, historic preservation, and organizational development. Ms. Harris worked with two organizations in Illinois and New York City to implement a BID and helped two other towns explore BID feasibility. Before starting her firm in 2004, Ms. Harris was state coordinator for the Illinois Main Street program for two years and the manager of the Illinois suburban Main Street program for four years. In 2003, Ms. Harris became a Certified Main Street Manager through the National Trust Main Street Center.



During the many months it took to reconstruct the bridge over the Fox River in downtown St. Charles, Ill., the Downtown St. Charles Partnership offered direct assistance to merchants affected by the bridge construction and held a full complement of promotions to offset the inconvenience to customers. Today, the bridge is a lovely spot for a stroll through the middle of the downtown.

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