THE ECONOMIC IMPACT OF
BUSINESS IMPROVEMENT DISTRICTS
(BIDS) IN SAN DIEGO

BY VINCE VASQUEZ
ACKNOWLEDGEMENTS

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“Creating more jobs... during this downturn requires us to keep investing in our small businesses—and one of the best ways we can do that is through Business Improvement Districts.”

– New York City Mayor Michael Bloomberg
Executive Summary

Business improvement districts (BIDs) generate positive economic benefits for member businesses and for the greater San Diego County area. Strong evidence suggests that for more than forty years, BIDs have created jobs, supported small business owners, and renewed some of San Diego’s oldest commercial corridors. With high unemployment and state government budget cuts continuing for the foreseeable future, local policy makers should consider exploring new ways to expand participation in the BID program. In this policy brief, the National University System Institute for Policy Research (NUSIPR) evaluates financial data from BIDs in the City of San Diego and measures their economic impact within the region.

We found that:

- With approximately 12,000 merchants and $12.5 million in annual revenues, business improvement districts are the largest self-sustaining small business program in San Diego.

- From fiscal years 2008 to 2010, San Diego business improvement districts generated a $47.4 million regional economic impact.

- Every year, BID spending sustains approximately 233 jobs.

- Most BID members receive greater than a 5:1 return on investment for their annual assessments.
BIDs: An Overview

America’s traditional downtown shopping districts, which for decades dominated consumer life, began declining shortly after the suburban housing boom that followed World War II. By the 1960s, aging commercial corridors were confronting rising competition from shopping malls, which developers were building closer to American families’ new suburban jobs and homes. Mall location, as well as landlord-tenant mall management, placed independent downtown business owners at a disadvantage. Mall tenants are all required to participate in a management system where rent is used to fund security, sanitation, special events, and parking improvements. This, in turn, provides a safe, clean, and convenient shopping experience.

However, collective action problems hinder downtown merchants from offering a similar system of revenue and services. While each has an incentive to provide such amenities, they have an even stronger incentive to “free ride” off others. With no way to compel business owners to pay for services and activities that solve common problems, such as cleanliness, safety and marketing, many urban shopping districts struggled with crime and sanitation issues, as well as negative perceptions from consumers. Like many collective action dilemmas, all merchants are worse off than they would be if there was a way of enforcing cooperative behavior.

The shift in consumer behavior had a detrimental impact on urban areas. Vacancy rates climbed and, in many cases, private investment in downtown shopping areas dried up. These changes put greater strains on public services, such as law enforcement, while providing dwindling support from tax receipts. Chart 1 shows the steady growth in U.S. shopping malls from 1960 to 2005.

![Chart 1: Number of Shopping Malls in the United States](image)

Sources: International Downtown Association, U.S. Census
In response to these problems, all 50 states now champion legislation to allow independent business owners to organize as business improvement districts (BIDs). BIDs have proven popular, largely due to their ability to solve collective action problems and initiate marketing programs and physical improvements for business owners, whom otherwise would be unable to afford such activities on their own. The number of established BIDs has risen dramatically in recent years. Whereas there were 404 BIDs in 2001, by 2010 the International Downtown Association estimated that more than 1,000 BIDs were in operation in the United States. California has allowed the establishment of BIDs since 1965, and at present it has approximately 200 in operation, including more than 17 in San Diego County.

In BIDs, businesses from a geographically defined area agree to assess themselves a fee. That fee is then used to fund three functions.

1) Maintaining the commercial streetscape

Many BIDs augment public programs to improve the physical commercial environment of their respective commercial districts. Some, for example, contract for private security patrols to increase shoppers’ perceptions that the area is safe. BIDs commonly provide garbage and recycling collection, graffiti abatement, street cleaning, sidewalk power-washing, and tree trimming at levels greater than those provided by the municipality. Some BIDs engage in extensive beautification efforts, such as the installation and maintenance of street furniture, lighting, street medians, public restrooms, and parks. The idea is that by making these investments, the BID is able to create a more desirable shopping environment, matching the amenities of suburban malls without losing the distinctive character of the urban shopping district.

2) Marketing and place promotion

Many BIDs engage in marketing efforts using a diverse toolbox including newsletters, websites, brochures, and business directories. BIDs will often pursue “branding” efforts for commercial areas to increase public interest and foster a distinctive look and feel on the outside. Branding tools include street banners, informational brochures, and websites. BIDs also often produce special events and engage in place promotion. For example, a district with a high concentration of restaurants might sponsor a gastronomic tour, or a historically ethnic business district may host large-scale cultural events such as a Lunar New Year festival.

3) Representing and advocating for BID businesses

Lastly, BIDs often serve as a one-stop resource guide for businesses. Many field questions and resolve issues ranging from broken streetlights to municipal code compliance. Several BIDs provide technical assistance to members, from workshops and business counseling to sponsoring business-to-business expositions. District leaders also provide policy advocacy and a channel for business owners to speak at city hall with a single voice.

In most cases a designated nonprofit organization, led by a board of directors drawn from the business community, implements these functions. The public sector collects and passes on BID revenues. In some cases, the public sector helps augment BID revenues through grants or through joint production of special events.

BIDs in the City of San Diego

BID formation rules in the City of San Diego are similar to those found in other California municipalities. In order to initiate the BID process, at least 20 percent of business owners in a given district must sign a petition in favor of establishing a BID. Under state law, the petition must include a map showing the proposed district boundaries, assessment levels, and a brief description of proposed BID activities and physical improvements. Business owners must also complete a more detailed BID planning document known as a management district plan in conjunction with their BID petition.

Upon receipt of the necessary signatures, the City Council will mail ballots to all district merchants for formal ratification. If merchants who represent 50 percent or more of the total assessments that would be collected under the proposed district protest in writing, BID formation fails. The Council must hold two public hearings, where the proposed BID and assessments are reviewed by elected officials. At the hearings, Councilmembers may revise the types of proposed BID improvements and activities, as well as the proposed BID boundaries and assessment levels. Ultimately, a district is established when a majority of the members of the San Diego City Council vote to approve a BID by ordinance.

If a BID is approved, the Council designates a nonprofit business or merchant association within each BID to manage and implement BID programs, services, and activities. Pursuant to San Diego City policy, “selection of the entity shall be based upon its involvement in small business affairs within the district, demonstrated track record, and representation of business.”
In San Diego, the city treasurer collects assessment dollars through a special contractual arrangement with the BIDs when business owners apply for their business tax certificates each year. The city then distributes assessment dollars on a direct disbursement basis (with exceptions) to the nonprofit business associations managing the BIDs. According to the City of San Diego’s Economic Development Division, most BID fees range from $40 to $500 per business annually. Municipal oversight of the BID program resides with the Office of Small Business (OSB). The Economic Development Division, which houses the OSB, reviews each BID’s performance. BIDs must also submit audits or financial statements to the city each year.

In 1970, California’s first BID was established in downtown San Diego. Today, 17 BIDs encompass approximately 12,000 businesses in the city. Table 1 describes these BIDs.

Table 1: Business Improvement Districts in the City of San Diego

<table>
<thead>
<tr>
<th>Business Improvement District</th>
<th>Year Established</th>
<th>Est. Number of Businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adams Avenue BID</td>
<td>1985</td>
<td>588</td>
</tr>
<tr>
<td>City Heights BID</td>
<td>1987</td>
<td>490</td>
</tr>
<tr>
<td>College Area BID</td>
<td>1996</td>
<td>470</td>
</tr>
<tr>
<td>Downtown BID</td>
<td>1970</td>
<td>909</td>
</tr>
<tr>
<td>East Village BID</td>
<td>2009</td>
<td>500</td>
</tr>
<tr>
<td>El Cajon Boulevard Central BID</td>
<td>1987</td>
<td>686</td>
</tr>
<tr>
<td>El Cajon Boulevard Gateway BID</td>
<td>1985</td>
<td>322</td>
</tr>
<tr>
<td>Gaslamp BID</td>
<td>1982</td>
<td>405</td>
</tr>
<tr>
<td>Hillcrest BID</td>
<td>1984</td>
<td>1,081</td>
</tr>
<tr>
<td>La Jolla BID</td>
<td>1990</td>
<td>1,176</td>
</tr>
<tr>
<td>Little Italy BID</td>
<td>1997</td>
<td>683</td>
</tr>
<tr>
<td>Mission Hills BID</td>
<td>1990</td>
<td>490</td>
</tr>
<tr>
<td>North Park BID</td>
<td>1985</td>
<td>365</td>
</tr>
<tr>
<td>Ocean Beach BID</td>
<td>1989</td>
<td>352</td>
</tr>
<tr>
<td>Old Town BID</td>
<td>1995</td>
<td>428</td>
</tr>
<tr>
<td>Pacific Beach BID</td>
<td>1997</td>
<td>1,247</td>
</tr>
<tr>
<td>San Ysidro BID</td>
<td>1999</td>
<td>708</td>
</tr>
</tbody>
</table>
BIDs are prevalent in San Diego's oldest commercial corridors, which are found within coastal neighborhoods and the urban core south of Highway 8 as Chart 2, below, shows.

Chart 2: San Diego Business Improvement Districts

LEGEND

Business Improvement District

Municipal

SAN DIEGO
San Diego BIDs are unique in the nation in that they receive administrative and programming support from an umbrella organization rather than directly from a municipal department. In 1989, San Diego BIDs agreed to form the BID Council, which receives annual funding from the City of San Diego’s Small Business Enhancement Program. The BID Council is a clearinghouse to BIDs, providing assistance on staff training, technical assistance, program development, and start-up efforts. The BID Council also achieves scale efficiencies by providing BIDs with services such as equipment storage and rental for special events.

To varying degrees, San Diego’s BIDs all provide maintenance, sanitation, and beautification services for their district hardscapes. Programs have included installing public art on utility boxes, tree planting, and displaying streetlight banners. BIDs have also produced numerous large-scale special events, such as Little Italy’s Festa, North Park’s Toyland Parade, and Pacific Beach’s Pacific BeachFest. They also hold small-scale events; for example, the San Ysidro BID hosts an annual neighborhood spring cleanup day.

Much of BIDs’ work is to provide direct assistance to district merchants. For example, the Adams Avenue BID coordinates one-on-one meetings and training workshops to assist members, and the City Heights BID offers businesses in-person and telephone counseling. BID staff also act as liaisons for city hall, passing along case work and complaints to municipal departments for resolution. BID executive directors often serve as de facto project managers, holding city departments accountable for delivering promised capital improvements. San Diego BID directors regularly communicate district needs to local public officials, philanthropic organizations, and other civic institutions. BIDs also push for municipal code changes that improve the regulatory environment for district merchants. For example, in 2006, BIDs successfully eliminated the requirement for merchants to obtain a discretionary permit to place A-frame signs, merchandise displays, or outdoor dining areas on public sidewalks in front of their businesses by agreeing to administer the city’s Public Right of Way (PROW) enhancement program within BID boundaries. PROW aims to enhance the shopping and dining experience for consumers and to create additional income opportunities for businesses. Since 2002, the BID Council has held a permanent seat on the San Diego Small Business Advisory Board, a municipal board that advocates on behalf of the small business community at San Diego City Hall. Some BID activities benefit not only members, but all small business owners in the region. For example, the BID Council has offered a comprehensive insurance program for small business owners and their employees that includes health, dental, vision, life, and disability coverage. By pooling business owners together, program participants can obtain large-group rates they otherwise would not qualify for. All businesses in San Diego County are eligible to participate.

BIDs have also been active in efforts to bolster San Diego’s $7 billion tourism industry. Since 2010, the Little Italy Association of San Diego has spearheaded the Preserve Little Italy Initiative, researching and documenting the history of the downtown neighborhood with the ultimate goal of increasing “opportunities for heritage tourism.” Other BIDs specialize in hosting and promoting large-scale seasonal events with an eye toward attracting tourists. The Gaslamp Quarter Association, which manages BID operations in San Diego’s historic commercial corridor, estimates that in fiscal year 2010, its special events (such as Mardi Gras and Taste of Gaslamp) lured 100,000 spectators, many from outside of San Diego.

BID Revenues and Their Economic Impact in the City of San Diego

As part of this project, we were interested in the aggregate revenues of San Diego’s 17 BIDs. We first reviewed data from Internal Revenue Service forms filed by all BID-affiliated nonprofit organizations in the City of San Diego. Known as Form 990, these documents provide an in-depth look at the revenue and expenditures BIDs experience each year. To ensure accuracy, we cross-referenced the collected data against the annual BID appropriation applications, profit and loss statements, and budget narratives annually submitted to the city government. Overall, NUSIPR found that from fiscal years 2008 to 2010, San Diego City BIDs generated $36.2 million in revenue.
A distinguishing characteristic of San Diego BIDs is the large amount of revenues they generate in addition to assessments. For example, BIDs in New York City derive 78.6 percent of their annual revenue from assessments, whereas in 2010, assessments accounted for only 10.3 percent of San Diego BID revenue. These numbers suggest that BIDs use assessment dollars as leverage, as seed money to apply for and obtain funds from other sources, such as grants, special event revenues, associate member dues, merchandise sales, advertising, fundraising, sponsorship agreements, and other entrepreneurial activities. Chart 3 shows the percentage of San Diego BID funding that comes from each of these sources. BID revenue documents commonly cite cooperative agreements and partnerships in achieving district goals. As some BID-affiliated nonprofits administer funds from maintenance assessment districts (MADs) or collaborate with independently managed MADs, BIDs can accomplish public space improvements on a greater scale. For example, the College Area BID and the College Heights MAD (both managed by the same nonprofit corporation) collaborate within their overlapping areas to provide, among other services, trash removal, weed and graffiti abatement, and landscape maintenance.

To calculate the return on investment (ROI) that BID members receive from their annual assessments, NUSIPR examined individual BIDs’ 990 forms and classified district revenue by type. We removed from consideration all other assessment revenue, such as MAD assessments and the Centre City property-based improvement district (PBID), as their presence was circumstantial, not a result of BID formation. Ultimately, we determined with confidence that, on average, BID businesses receive a 5:1 ROI.

BID revenue not only benefits district members but also indirectly benefits the businesses and residents of greater San Diego. BID revenue enters the local economy and is spent on goods and services, fostering job growth and generating tax revenues for state and municipal governments. As these dollars are re-spent and re-circulated in the economy, they create a measurable “multiplier effect.” NUSIPR estimates that from fiscal years 2008 to 2010, San Diego business improvement districts generated a $47.4 million regional economic impact. Our analysis also identified that each year, BID revenue spending has sustained or created approximately 233 jobs.
Conclusion

Our study provides new insight into the San Diego BID program and its impact within the greater economy. District-generated revenue has a positive, wide-ranging effect, creating jobs and additional regional income. Moreover, San Diego’s BID program has a documented track record of not only supporting small business owners in distressed urban neighborhoods, but changing the public perception that is so vital to attracting customers. The qualitative evaluation that measures whether people consider an urban district safe, desirable, and easy to visit is, in some respects, the true test of BID success.

Our findings are important for San Diego, which continues to experience economic uncertainty and budget cuts that affect business owners and residents alike. While BID services are not intended to replace those provided by municipalities, they become increasingly valuable methods of achieving the same objectives: preserving the quality of life of neighborhoods and improving the business climate for local merchants. San Diego BIDs may appear to be an emerging model program in the nation, but how they fare in the future is dependent partly on the role local officials choose to play.

Prudence would suggest that city hall leaders should actively seek out BIDs as a vital partner in improving the local economy while respecting the need for districts to define their own obligations. Small, simple steps that suggest an acknowledgement and understanding of the BID program’s economic worth can also foster the goodwill and working relationships needed to spur job creation and business investment in local neighborhoods. Advancing regulatory reforms and reviewing city department policies will also prove to be helpful exercises for BIDs, which interact more with municipal departments and employees than with elected officials.

The BID program’s success is not a foregone conclusion in San Diego or in any other city and should not be taken for granted. While cultivating strong leadership is the responsibility of every district, creating the right conditions for building a strong economy is up to city hall.
APPENDIX: OTHER RESEARCH ON BIDS

Several studies have examined the increase in the number of BIDs in the United States. The scholarly consensus is that BID assessments are a relatively minor cost of business, and that BID members have direct financial control over assessment dollars. BIDs also enable business owners to achieve economies of scale for marketing and promotion purposes, maximizing the scarce resources of small business owners. A 2008 survey of BIDs in the City of Los Angeles noted respondents “found that by leveraging their dollars, it is far more cost effective to advertise a package of businesses in their district instead of each business owner buying an individual ad.”

Some have suggested that the popularity of BIDs in California may be the result of a statewide “taxpayer revolt” in the late 1970s, which ushered in rigid tax and expenditure limits on municipalities seeking to raise revenue through higher taxes. The argument is that BIDs have replaced a shrunken public sector, what one commentator has referred to as the “dissolving city.”

However, a 2009 regression analysis of BIDs from all 50 states did not find any causal link between BID formation and expenditure limits. Rather, researchers concluded that BID adoption is pervasive because BIDs resolve classic collective action problems. Further evidence against blaming constrained municipal revenue came from a 2007 study that found that the prevalence of BID formation in Southern California varied and was positively correlated to the age of the municipality.

Most academic research on BIDs examines their effects on public safety. A 2009 econometric study identified BIDs as having a meaningful effect on reducing crime within their boundaries. The authors also found that an additional $10,000 in private security spending from BIDs results in a social cost savings of up to $52,812 for each incident of assault and up to $155,242 for robbery incidents.

Other research has examined property sales data to see if there is a relationship between BIDs and property values. Researchers have examined the impact of BID formation on the sales prices of commercial properties in New York City. By comparing the change in sales prices inside the BID after BID formation to the change in sales prices of comparable non-BID properties, they found that BIDs have a significant positive impact on commercial property values. After BID formation, commercial property values increased more rapidly than those of comparable, non-BID properties in the same area. Impacts reached as high as 15 percent in BIDs dominated by large office buildings. A 2011 California study found that after BID adoption, property sales prices from a sample of eight BIDs increased, on average, 19 percent more than the sales prices of non-BID properties.
ABOUT THE NATIONAL UNIVERSITY SYSTEM INSTITUTE FOR POLICY RESEARCH

The National University System Institute for Policy Research (NUSIPR) is a nonpartisan, nonprofit organization that formulates and promotes high quality economic policy and public opinion research to improve the efficiency and effectiveness of local governments in San Diego County and to improve the quality of life enjoyed by the region’s residents.

NUSIPR regularly publishes independent research and analysis for the public on a range of topics, including unemployment, business growth, and the San Diego housing market. The Institute also works collaboratively with clients to develop high-quality research products that are tailored to their policy needs.

ABOUT THE SAN DIEGO BUSINESS IMPROVEMENT DISTRICT COUNCIL

The Business Improvement District Council is a non-profit organization founded in 1989 to foster communication, networking, and information-sharing among San Diego’s diverse Business Improvement Districts. Each of the 16 Business Improvement Districts, also known as BIDs, consists of business owners who choose to be assessed a fee to revitalize their business communities through promotions, economic restructuring, public improvements, and beautification projects in partnership with the City. The BIDs encompass approximately 12,000 San Diego small business owners. By joining together, the BIDs formed the BID Council, a stronger, unified organization focused on supporting all of San Diego’s business districts. Eight years later, the BID Foundation was formed as a 501(c)(3) to facilitate corporate and private giving. Together, the BID Council and BID Foundation have provided a coherent, powerful, and unified voice for small businesses located in San Diego’s older commercial areas. They also provide assistance and expertise with the numerous special events organized by our business communities. San Diego is proud to have the largest BID program in California and one of the most active in the nation.
ENDNOTES


3 See the appendix for more information about the high number of BIDs in California.

4 California Streets and Highways Code § 36000 et seq.


6 The City of San Diego does allow advances on working capital, depending on the circumstances.


8 City of San Diego, City Planning and Community Investment Department, FY 2011 Business Improvement District Budgets – Annual Appropriation Process (San Diego: 2010).


14 To get at this issue, one can employ an input–output model that uses statistical measurements to explore how change in demand or expenditures in one economic sector can create impacts in other areas. See Robert Stokes, “Business Improvement Districts and Small Business Advocacy: The Case of San Diego’s Citywide BID Program,” Economic Development Quarterly 21, no. 3 (August 2007): 280. We have found that IMPLAN (IMpact analysis for PLANning) software is one of the best tools for making these estimates because it allows for regionalized estimates and provides a clear understanding of assumptions about the relationships between sectors.

15 IMPLAN also highlights two kinds of secondary effects from initial economic changes: indirect economic impacts and induced economic impacts. Indirect impacts reflect the spending by original suppliers when purchasing goods and services from subsequent generations of firms to meet the demand generated from the original entity, which in this case are the 17 BIDs in the City of San Diego. Induced impacts are the economic impacts created by the spending of the additional income created by the new economic activity. These effects can be expressed both in dollar terms and in the likely increase in employment associated with the change in economic activity.


21 Ibid., 122.


24 Ibid., 459.


27 Ibid., 24.
