

WHAT DO BUSINESS IMPROVEMENT DISTRICTS DO FOR PROPERTY OWNERS?

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INTRODUCTION

BUSINESS IMPROVEMENT DISTRICTS (BIDS) first arrived in the United States in the mid-1970s, during a time when urban centers were losing both residents and businesses to the suburbs. Supported primarily through payments made by businesses within a self-determined geographic area, BIDs offer city governments the prospect of improving local public services and reviving downtown commercial areas without raising general taxes and thereby jeopardizing city economic growth.

Even though BIDs have existed for more than three decades, serious interest on the part of academics and policy makers is relatively new. While several accounts describe the governing and legal structures of BIDs, there has been little work systematically assessing whether and how BIDs help property owners. That said, recent research offers intriguing evidence that BIDs improve neighborhoods. As described later, Brooks (2006) and others find that BIDs reduce crime and Ellen, Schwartz and Voicu (2007) find evidence that BIDs increase property values, though there is wide variation in the impacts across different BIDs. In this paper, we use data from a diverse set of 47 BIDs in New York City, to begin to examine the fiscal side of Business Improvement Districts, exploring BID taxes and services. Unlike earlier work, which largely treats BIDs as homogenous, we explore whether and how tax burdens, service mix, and impacts vary across types of BIDs as part of an effort to understand how and why BIDS affect the economic fortunes of their member property owners.

WHAT IS A BID?

A BID is a nonprofit organization that provides supplemental services to a predetermined geographic area, funded through an annual assessment (the BID “tax”) paid by property owners within BID boundaries. While BIDs grow out of a long tradition of special districts and business associations, BIDs offer a new twist.¹ BIDs are essentially a public-private hybrid. On the one hand, they

are incorporated as nonprofit organizations with elected Boards and exclusive membership (as determined by the BID boundaries).² Revenue is raised from the properties within the BID boundaries; services, which typically include security, maintenance and marketing, are determined by and intended for those properties within the boundaries and are provided by private organizations, and not municipal government.

On the other hand, BIDs do not operate completely independently from government. The collection of the BID assessment fees is handled by the local governments. Assessments are like taxes – property owners within the BID are legally bound to pay them and are subject to penalties, fines and liens if they fail to do so.³ Moreover, the formation of a BID not only requires support from the local property owners, but final approval from the city government as well.

New York City has a relatively long track record with BIDs. BID enabling legislation was passed in New York State and New York City in 1981 and 1982, respectively, and the city’s first official BID was formed in Union Square in 1984. By the end of 2006, New York City had 55 BIDs, more than any other city in the United States. We focus here on the 47 BIDs operating in 2005 for which we have financial data. These BIDs are spread across four of the city’s five boroughs, with close to half located in Manhattan. Staten Island’s first BID opened after the period of our study.

BID TAXES: HOW MUCH DOES A BID COST?

As noted, BIDs are largely financed through mandatory assessments collected from property owners located within BIDs. And BID revenues can be substantial. On average, New York City BIDs collected roughly \$1.34 million in assessment charges in 2005, reflecting, in part, the influence of a small number of BIDs with very large revenues (Table 1). Median revenues, at roughly \$250,000, are considerably smaller than the mean. And, the range is wide. BID tax revenues ranged from a low

of \$53,000 for the 180th Street BID in Queens to a high of \$11.25 million for the Downtown Alliance in Manhattan.⁴ The difference in revenues is substantial and leads to substantial differences in spending. Thus, we follow Gross (2005) and Meltzer (2006), to explore differences between three categories of BIDS, distinguished by the size of their tax (assessment) revenues. As shown in Table 1, 24 “small” BIDS have revenues below the median; 14 “midsized” BIDS have assessment revenues that are above the median but below the 80th percentile and 9 “large” BIDS are in the top quintile of the revenue distribution. In dollar terms, the large BIDS had assessment revenues of \$1.32 million or more, midsized BIDS had annual assessment revenues above \$250,000 and below \$1.32 million, while small BIDS collected less than \$250,000 through BID taxes or assessments each year.

Interestingly, all but one of the large BIDS are located in Manhattan. And, overall, the mean assessment revenues collected by BIDS in Manhattan are roughly 10 times the size of the mean assessment revenues collected by BIDS in the other boroughs.

The larger BIDS also tend to be dominated by office space. As shown in Table 2, 71 percent of the 371,490 square feet of building space inside the large BIDS was designated as office space. Just over 11 percent of the large BID space was designated as residential and 17.6 percent was retail. Small BIDS, by contrast, are much more geared towards residential and retail uses, with only 11 percent of total floor space designated as office space.

While the assessment is the BID’s most stable and predictable funding stream, many BIDS also raise revenues from other sources, such as dona-

Table 1
Distribution of BIDS by Borough and Size of Assessment Revenue

<i>Borough</i>	<i>BID Assessment Revenue</i>			<i>Total Number of BIDS</i>	<i>Average BID Assessment Revenue (2005)</i>
	<i>Large (\$1,320,000 or more)</i>	<i>Midsize (Between \$1,320,000 and \$250,000)</i>	<i>Small (\$250,000 or less)</i>		
<i>New York City</i>	9	14	24	47	\$1,340,464
<i>Manhattan</i>	8	8	3	19	\$2,852,135
<i>Bronx</i>	0	1	3	4	\$210,982
<i>Brooklyn</i>	1	2	12	15	\$374,735
<i>Queens</i>	0	3	6	9	\$260,701
<i>Staten Island</i>	0	0	0	0	NA

Notes:

The statistics in this table include all BIDS formed prior to 2006 with available assessment information. Assessments are levied on each property in the BID and are used to provide supplemental services within the BID boundaries; BID assessment revenue is calculated as the sum of individual property assessments for FY05 for each BID. The BID size categories are defined by the 80th and 50th percentiles of the assessment revenue distribution for FY05.

Table 2
Distribution of Floor Space by BID Size

<i>BID Assessment Revenue</i>	<i>Total Floor Space (000's sq. ft.)</i>	<i>Residential</i>	<i>Commercial</i>		
			<i>Retail</i>	<i>Office</i>	<i>Industrial</i>
<i>All BIDS</i>	465,876	15.0%	22.6%	61.7%	0.7%
<i>Large</i>	371,490	11.3%	17.6%	70.8%	0.2%
<i>Midsize</i>	59,664	23.9%	41.7%	34.4%	0.0%
<i>Small</i>	34,722	38.7%	43.5%	11.1%	6.6%

Note:

The statistics in this table include all BIDS formed prior to 2006 with available assessment information. The BID size categories are defined by the 80th and 50th percentiles of the assessment revenue distribution for FY05.

tions, fees, sales of district services, proceeds of district-backed bonds, interest income, and public state or federal economic development grants. Reliance on these outside funds varies by the programmatic goals and capacities of the BID, and a good number of BIDs are funded entirely by assessments. According to Pack (1992), in 1992 assessments accounted for about 70 percent of BID revenues nationally. Our data indicates that in New York City, FY2005 total assessments accounted for 82 percent of total BID revenues.⁵

Assessment Formula – How Much Is the BID Tax?

While BIDs purportedly share a common goal to set assessments such that the ‘cost’ to each property owner is proportional to the benefits received, there is considerable variation in the formula used to determine the tax burden (SBS, 2003). Interestingly, the formulae vary not only in the rates but in the base upon which taxes are levied. Assessments formula rely upon one or more of the following three factors: assessed value (AV), frontage (the distance along the front of the property), or the total lot area of a property. In our New York City sample, about 13 percent of the BIDs calculate their assessment based on AV only, another 25.5 percent use some combination of AV and frontage and/or lot area, 36 percent use frontage only, and 25.5 percent use lot area only.

While a full analysis of the factors that determine the formulae is outside the scope of this paper (albeit worthy of future research), the features of the assessment formula seem to be related to the mix of properties in a BID. Frontage-based formulae are typically used to calculate payments in retail districts -- when most of the benefit from the BID may be enjoyed by the first floor tenant. Since most New York City BIDs are in fact small, retail-oriented districts, the majority of BIDs use a frontage-based formula. Larger BIDs that include a

mix of office and retail space more typically base their formulae on lot area or assessed value.

As with property taxes, the amount of the BID assessment varies with tax class. The New York City property tax system has four tax class types, three of which are represented in BIDs. Specifically, 62 percent of BID properties are Class 4, or commercial; 30 percent are Class 2, or multifamily residential; while 8 percent are Class 1, and are typically small, mixed-use buildings with stores or offices on the first floor and one or two apartments above.⁶ As shown in Table 3, the commercial properties, which make up the majority of BID properties, pay an average of \$5 to the BID, for every \$1,000 of assessed value, which is quite modest compared to property taxes. Consider that the property tax rate for commercial properties in New York City is \$116 per \$1,000 of AV.

The average property in a BID pays a BID tax that is fairly close to the amount paid by the average commercial property -- \$6 per \$1,000 of AV. But there is considerable variation across property types. The BID assessment relative to assessed value is, on average, quite low for multifamily residential buildings, reflecting the practice in most BIDs of exempting purely residential properties from the BID tax (or simply to charge a nominal \$1 fee). That said, predominantly residential buildings with commercial space on the ground floor are typically subject to BID taxation. In fact, the assessment-AV ratio is quite high for the small, mixed use properties. Usually occupying the entire first floor of these 3- or 4-floor walk-up buildings, the commercial space constitutes a larger portion of the building space, and consequently, its value. Thus, BID assessments are relatively high, when measured as a percentage of the entire building’s AV.⁷ For these small, mixed-use buildings, the price of participation in the BID appears to be more substantial than for other types of properties.⁸

Table 3
BID Tax Burdens by Property Type

Property Type	BID Tax Burdens (\$ per \$1,000 AV)			
	Mean	Median	Minimum	Maximum
Commercial	\$5	\$3	\$0	\$160
Small Mixed-Use Residential	\$24	\$21	\$0	\$195
Multifamily Residential	\$2	\$0	\$0	\$104

Notes:

BID data is based on BID assessments for FY05 for BIDs formed prior to 2006 with available assessment data.

Finally, as shown in Table 4, BIDs differ significantly in their reliance on financing from different types of properties. Large BIDS rely almost exclusively on revenues derived from commercial properties (more than 96 percent), while the small BIDS derive just two-thirds of their revenue from commercial properties. As might be expected, the midsized BIDS are somewhere in between. These patterns suggest that properties in smaller, retail strip BIDS bear a larger assessment burden relative to assessed value because the buildings are smaller (shorter) and of lower aggregate value.

BID SERVICES: WHAT DO BUSINESSES IN BIDS GET?

Like BIDS elsewhere, the BIDS in New York City concentrate on delivering fairly basic services, which fall into four main categories: security, maintenance, marketing, and capital improvements. Security typically includes the hiring of

private security guards; sanitation and maintenance covers sidewalk and street cleaning and graffiti removal; marketing includes special events, promotion and tourism, and holiday decorations; and capital improvements typically involve relatively minor investments, such as new street lights, trash receptacles, flower boxes, and signage.

Table 5 shows the breakdown of total BID spending in New York City in 2005 (based on the 47 BIDS in our sample). As shown, nearly one-half of BID budgets were spent on security and street cleaning/maintenance. Another quarter was spent on marketing activities and capital improvements, while the final quarter was spent on administration and other activities. In other words, for every dollar raised through assessments, the BIDS receive about 25 cents worth of sanitation or security services. In contrast, New York City spends about 9 cents per every dollar raised by property taxes on sanitation and 32 cents on policing services (New York

Table 4
**Contribution of Different Property Types to the BID Revenue
 (as % of BID Assessment Revenue), by BID Size**

<i>Property Type</i>	<i>BID Assessment Revenue</i>			
	<i>Large</i>	<i>Midsize</i>	<i>Small</i>	<i>All BIDs</i>
Commercial	96.3%	85.3%	66.8%	93.1%
Small Mixed-Use Residential	0.1%	1.8%	9.2%	0.8%
Multifamily Residential	3.6%	12.9%	24.0%	6.1%

Notes:

BID data is based on BID assessments for FY05 for BIDS formed prior to 2006 with available assessment data. The BID size categories are defined by the 80th and 50th percentiles of the assessment revenue distribution for FY05.

Table 5
Service Mix (as % of BID Assessment Revenue), by BID Size

<i>Services</i>	<i>BID Assessment Revenue</i>			
	<i>Large</i>	<i>Midsize</i>	<i>Small</i>	<i>All BIDs</i>
Security	26.5%	20.8%	4.9%	24.4%
Sanitation ¹	22.6%	28.9%	28.3%	23.8%
Marketing ²	12.5%	13.2%	21.2%	13.1%
Capital Improvement	13.3%	4.2%	3.5%	11.5%
Administration	9.6%	24.7%	37.4%	13.3%
Other	15.5%	8.3%	4.9%	13.9%

Notes:

The statistics in this table include all BIDS formed prior to 2006 with available assessment information. The BID size categories are defined by the 80th and 50th percentiles of the assessment revenue distribution for FY05.

¹Sanitation includes street cleaning, graffiti removal, and maintenance.

²Marketing includes holiday decorations, promotion, and tourism programs.

City Independent Budget Office, 2006a).⁹ Thus, the spending patterns reinforce the view that BID formation is motivated by an interest in improved sanitation.

Looking across the 47 BIDs, the breakdown in spending varied considerably. The small BIDs stand out. As was noted above, these small BIDs spend a much larger share of their budget on administration and other services. They also spend less on security and capital improvements and more on marketing. Spending breakdowns for large and midsized BIDs look more similar, though large/corporate BIDs spend a greater share of their budgets on capital improvements and a somewhat lesser share on sanitation and marketing, perhaps due to their office orientation.

The most striking difference in Table 5 is the share of budgets spent on administration. Significantly, property owners in large BIDs get about 90 cents worth of direct services for every dollar paid in assessments; by contrast, owners in small BIDs only get about 63 cents worth of direct services for every dollar paid in assessments. While understanding the determinants of these patterns is complicated by a host of institutional and economic issues, these point to the presence of significant economies of scale.

BID IMPACTS ON PROPERTY VALUES: WHAT IS THE NET VALUE?

If property markets are well functioning, property values offer a good barometer of the success of a BID. If property owners were not getting a good value for their BID tax contributions, then property values should fall when the BID forms. Conversely, if they are getting back more than they pay in, property values should rise. Despite the importance of this question, virtually no studies have examined the impact of BIDs on property values. Three studies have aimed to study the impact of BIDs on crime rates (Brooks 2006; Hoyt 2005; Calanog 2006). Hoyt (2005) examines the impact of BIDs on crime in Philadelphia and finds that property crimes, thefts, and auto thefts are all lower on BID blocks. But relying on cross-sectional data, the study is unable to discern whether the establishment of the BID actually caused these differences. Calanog (2006) also studies the impact of BIDs on crime in Philadelphia, using a longitudinal data set on reported crimes at the census tract, for each month between 1997 and 2002. He reports

some evidence of crime deterrence for property crimes, as well as evidence that such crimes may be displaced outside of BID boundaries. Brooks (2006) studies the impacts of BIDs on crime in Los Angeles, using a 13-year panel of neighborhood-level crime data and three different approaches to identify appropriate comparison neighborhoods. All three of these methods suggest significant declines in crime in BIDs – on the order of 5 to 9 percent.

Ellen, Schwartz, and Voicu (2007) examine the impact of BIDs on property values, in an attempt to capture more comprehensively the diverse set of potential improvements. The authors construct a rich data set that includes information on the precise locations and establishment dates for 44 BIDs in New York City, as well as sales transaction prices and building characteristics for all industrial, retail, and office buildings sold in the city between 1974 and 2003. To weed out changes due to factors other than the BID, the authors essentially compare changes in sales prices of commercial buildings inside the BID with those just outside the BID, but still in the same general neighborhood. Specifically, they estimate a difference-in-difference hedonic model with fixed effects for the surrounding zip code, the larger community district¹⁰ and year-quarters. This specification suggests that right before the BID adoption, commercial properties in BID areas sold for 30.7 percent more than comparable properties located outside the BID boundaries but still in the same general neighborhood (i.e., the zip code). After formation, the price differential between the properties in the BID and those outside increased by an average of 15.7 percentage points. However, the authors find considerable heterogeneity in impacts across BIDs.

The implication is that at least on average, BIDs are improving the local business environment, and doing so at a cost that is less than the delivered benefits. But the authors also find that small, retail-oriented BIDs do not affect property values, suggesting perhaps that for small BIDs, the costs match the benefits. Given the financial analysis here, this is not surprising. Small BIDs are dominated by properties that bear greater burdens from BID taxes, and moreover, a greater share of their BID tax dollars go to cover administrative costs. Moreover, given that the taxes contributed by residential properties represent a larger share of revenues in small BIDs, perhaps it's not surprising

that impacts on commercial properties are not as profound.

LESSONS LEARNED

Albeit limited, the evidence on the impacts of BIDs suggests that BID designation is associated with a reduction in crime and other neighborhood improvements, as measured by property value increases. As noted, however, the effects appear to vary across different types of BIDs. For BIDs in New York City, impacts appear to be large for the large, office-oriented BIDs but insignificant for small, retail-oriented BIDs. In this paper, we show that these differences in impacts are not surprising and wholly consistent with the differences we find in tax bases, tax rates, and the level and distribution of spending.

In future work, we encourage researchers to further explore the political economy of BIDs. As BIDs proliferate, they will naturally include an ever more diverse set of properties, whose owners will make different choices about taxes and services. Some BIDs will arise in downtown office districts, while others will emerge on small retail strips in residential neighborhoods. Rather than assuming that impacts will be similar across all these BIDs, it is important to distinguish among them.

Notes

¹ See Briffault (1999) for more.

² Each BID designs a formula to calculate the property-specific assessment, and the local administering agency is typically required to approve this formula and any subsequent changes.

³ In terms of their commercial focus and neighborhood service provision, BIDs are similar in function to merchants' associations and Local Development Corporations (LDCs), both of which are nongovernmental entities, and can serve as BID incubators. But the key difference is that participation in BIDs is mandatory, and enforced by local government. Another distinction is that BIDs have more explicit service boundaries. Merchants associations and LDCs serve more amorphous areas, which need not be defined or even well-known. BIDs are perhaps most akin to special assessment or special purpose districts in that they are characterized by the same public-private structure that allows for a flexible and locally based service orientation. Like special assessments, BIDs receive most of their funding from assessments levied on property owners within a defined area. In addition, the revenue collected from these assessments must

be used for services and projects in that defined area. Like special purpose districts, BIDs are autonomous in their governance and programmatic functions and are overseen by an elected board. Whereas special assessment districts tend to fund physical infrastructure for growing areas, BIDs tend to develop in older, established urban business districts and focus on smaller scale, local services. In addition, BIDs usually offer a number of services, as compared to special purpose districts that are typically formed to solve one specific local problem. Briffault (1999) observes that BIDs are a unique hybrid of the special assessment and special purpose districts, bringing together "the distinctive revenue stream of the former with the governance structure and relative autonomy of the latter" (pg. 420). See Briffault (1999) for a more extensive discussion of these institutional distinctions.

⁴ BID budgets are primarily determined by the total amount collected through assessments from all of the property owners. Some of the larger BIDs, however, also supplement this revenue with outside fundraising. Average budgets are thus somewhat higher than average assessment revenues. In 2005, the average budget was \$1.64 million, while the maximum BID budget (again for the Downtown Alliance) was \$13.1 million.

⁵ Note, however, that this estimate is likely an upper bound and the actual share somewhat lower, since total revenues are likely to be underreported in our data.

⁶ To be specific, Class 1 includes most residential property of up to three units (such as 1-, 2-, and 3-family homes and small stores or offices with one or two apartments attached), vacant land that is zoned for residential use, and most condominium buildings that are not more than three stories; Class 2 includes all other property that is primarily residential, such as cooperatives and condominiums; Class 3 includes property with equipment owned by a gas, telephone, or electric company; and Class 4 includes all commercial and industrial property, such as office or factory buildings. New York City's property tax is notoriously complex. For more on property taxation in New York City, see New York City Independent Budget Office (2006b).

⁷ Note that most of the BIDs that contain a substantial proportion of these smaller mixed-use buildings base their assessment formulae on frontage rather than AV. Since the buildings are primarily residential with street-front commercial uses, frontage may better capture the commercial contribution.

⁸ However, as a percentage of the aggregate assessment, each property contribution is very modest (on average, .3 percent, which is slightly lower than the average contribution of .4 percent for the buildings in the other three tax classes).

⁹ This comparison assumes that City service levels in the BID area do no change as a result of BID formation;

this is, in theory, supposed to occur, and there is no evidence that service levels do change.

- ¹⁰ Community districts are political boundaries unique to New York City, which are intended by the city to follow large neighborhoods. There are 59 community districts in New York. We limit our analysis to the 34 community districts that contained BIDs in 2002.

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