## COMMENTARY
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In a relatively short three decades, business improvement districts (BIDs) have become an established and prominent institution in the fiscal landscape of U.S. cities large and small and, more broadly, of cities across the globe. Since the first BIDs were created in North America in the early 1970s, commercial interests in city after city and neighborhood after neighborhood have voluntarily established BIDs with the intent of improving the quantity and quality of local services as a means of enhancing returns to individual enterprise through collective action. Although the range and scope of BID activity can vary substantially depending on the services its members determine are most needed to augment what city government delivers, the functional role BIDs play in the competitive fiscal fabric of urban America extends beyond the immediate objective of service delivery. BIDs have multiple personalities—as self-governance mechanisms, as hands-on organizations for service delivery, as targeted benefit districts, as economic development initiatives, as units for neighborhood strategic land use planning and/or policy advocacy, and as models of partnership between public entities and private businesses. In short, BIDs operate through the fiscal structure of cities, but the avenues of impact extend significantly beyond the municipal fisc.

Brooks and Meltzer examine a particular question of importance to scholarly municipal finance: do small, service-specific targeted institutional formats like BIDs affect the fiscal health and behavior of the larger municipality? Using a city-level simulation approach, they set up a detailed methodology for testing the economic theory of BIDs' fiscal impact. In a carefully designed exercise of stylized scenarios using BID data from New York City and Los Angeles, they aim to gauge whether and to what extent these micro-level units of decision making impact the overall average city fisc. To run their simulations, Brooks and Meltzer have to make a number of heroic assumptions in applying 2002 BID parameters for New York and Los Angeles to 275 other cities that had BIDs in place as of 2007.

By the structure of their empirical experiment and limitations of imperfect data, the authors can only simulate upper-bound impacts. This limits the nature of what the simulation exercise can tell us about the fiscal significance of BIDs as a force of local political economy. As the nation's first- and second-ranking cities, each having a complex fiscal structure and equally complex political mechanisms and legislative environments governing the determination of municipal spending, New York and Los Angeles are not representative; nor are they natural proxies for evaluating the fiscal significance of BIDs in U.S. cities.[1] The authors

1. The range of scale differences even within New York is big: for example, as of 2008, the big six BIDs in New York (Times Square Alliance, Alliance Downtown, Grand Central Partnership,

understand this and, accordingly, anticipate that their results will "if anything, . . . overstate the BIDs' extent."

The import of the results falls short of the simulation effort. Based on their findings, the authors argue that BID expenditures have little effect on local government spending and tax revenues, but these results do not advance the question of whether BID-delivered services act as substitutes or complements for directly provided government services. They find that if BID services are substitutes, the impact on nonBID spending is "negligible." If BID services are complements, the impact on spending is "negligible." In the third case when evaluating whether BID revenues have any impact on municipal revenues, they conclude that the results are predicated on the extent to which cities rely on the property tax, but, again, data limitations force them to proxy this estimate. They find that the tax liability does shift in favor of nonBID establishments in cities with BIDs, but, again, the results are quite small. These results are either predictably disappointing ("our method does not generate much variance related to underlying municipal characteristics") or only modestly suggestive, depending on how one reads the details of their methodological approach.

Is the citywide frame the right empirical focus for understanding the impacts of BIDs on municipal fiscal behavior? It's not just that New York City and Los Angeles differ from other U.S. cities, which they do in scale alone, but rather that fiscal differences among BIDs within cities—at the neighborhood level where BIDs operate—may be the more revealing locus of BID fiscal dynamics than the citywide level. In short, BIDs may have a major impact in their districts, notwithstanding a trivial impact in the larger arena of citywide expenditures.

The context and size of a BID matters, empirically. This shows up readily in an analysis of 41 BIDs in New York City carried out by Gross (2008) in which she found that BIDs of different types (corporate, Main Street, community) differ along structural and functional lines, and that these differences are shaped by contextual elements: local market conditions (property values, consumer base), resource availability within the BID (finance expertise, time), and differences in stakeholder profile (business owners, property owners, residents). Corporate BIDs such as the Times Square Alliance, for example, shape commercial growth in ways few Main Street BIDs or community BIDs do, by direct investment in capital improvements. Further, if we want to understand the causal channels in which BIDs impact fiscal behavior, we also have to account, at least qualitatively, for the role of legislative frameworks: BIDs are not free agents operating without constraints, but rather entities empowered under defined statutory frameworks that influence fiscal behavior.

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34th Street Partnership, Bryant Park, and Fashion Center) took in over $5 million in annual revenues, compared to the 20 smallest BIDs with annual revenues of less than $250,000.

Politics matters in the BID fiscal equation. When local stakeholders establish a BID, they voluntarily agree to pay additional taxes to exercise control over the provision of additional security, street cleaning, marketing, and other services of an intensely local nature. Notably, this exchange simultaneously gives BID businesses and commercial property owners' political voice and power, as a collective body, to monitor city actions that might lead to a substitution of BID expenditures for those of city government. Adding a political dimension to the theoretical equation suggests the following relationship: BID services are more likely to be substitutes for municipal service expenditures (all else equal) when the collective political power of BIDs is weak; conversely, when BIDs have political power strong enough to protect the net benefits of their additional voluntary taxation, BID services are likely to be complements to municipal service expenditures (all else equal). In other words, as a local fiscal institution, the dual nature of the BID serves as a tool for organizing local collective action in a politically competitive fiscal arena.

The popularity and rapid growth of BIDs in the United States are part of a bigger story of local political economy. Like tax increment financing, special districts, and development impact fees, BIDs match the micro-level locus of raising revenue with readily identifiable targets of benefit. From a citywide perspective, when these types of targeted fiscal formats proliferate, as they have in many U.S. cities,[2] the critical question of municipal finance revolves around the accumulated impacts on the municipal fisc. Typically, targeted fiscal formats are used to avoid the political risks of general citywide taxes for service delivery, economic development, or public capital investment. As a tax-augmentation strategy, BIDs are responsive to taxpayers' heightened sensitivity to across-the-board government spending. BIDs fit the legal logic of nexus and political efficacy of revenue generation via user taxes. BIDs further devolve local governance. BIDs confer collective political voice. And, in the real world of municipal fiscal relations, political power married to economic interest matters.

## REFERENCE

Gross, J. S. 2008. Business improvement districts in New York City's high and low income neighborhoods. In *Business improvement districts: Research, theories and controversies*, ed. G. Morçöl, L. Hoyt, J. W. Meek, and U. Zimmerman. Boca Raton, FL: Taylor & Francis Group.

2. Chicago, for example, had 44 special service districts (BIDs) and 130 tax increment financing districts in 2008.