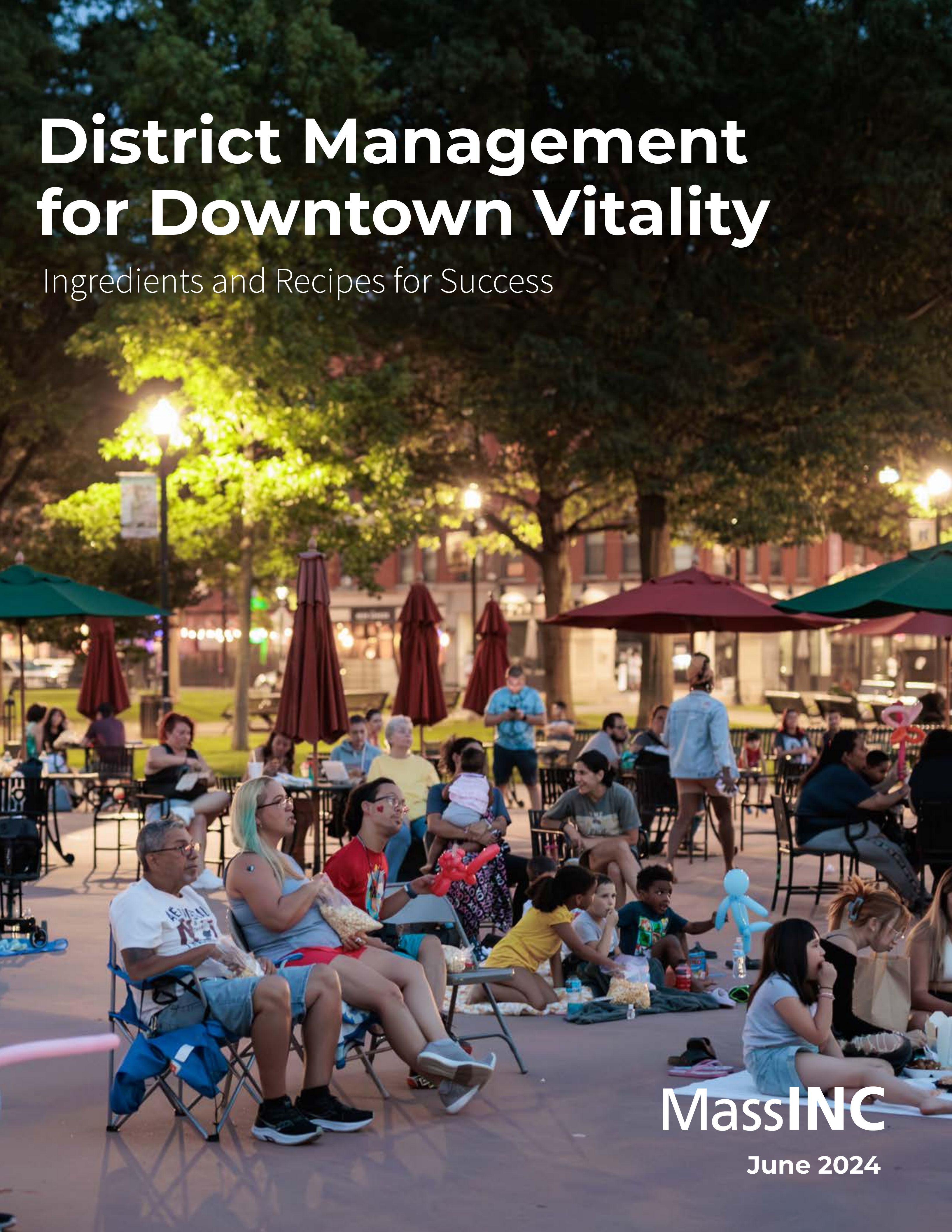
# District Management for Downtown Vitality

Ingredients and Recipes for Success



MassINC

June 2024

**Acknowledgments**
We would like to express our gratitude to many local economic development, cultural development, and district management experts who helped inform this study. They include Richard Braga, Ann Burke, Ali Carter, Carolyn Cole, Emmy Hahn, Rob May, Marco Li Mandri, Jim McKeag, Annabelle Rondon, Emily Ruddock, Derek Santos, Annis Sengupta, Bethann Steiner, and Elizabeth Wurfbain. These leaders carefully reviewed drafts and contributed their time and knowledge to the project. While we are grateful for their invaluable contributions, the MassINC Policy Center bears full responsibility for the analysis and recommendations contained in this report. Special thanks also to the Hudson and Worcester Business Improvement Districts. They provided us with the beautiful photos that capture the essence of what district management offers communities far more powerfully than words and numbers ever will.

**Graphic Design**
Sharoline Galva

**Editing**
The Hired Pens

**Suggested Citation**
Elise Rapoza, Andre Leroux, and Ben Forman. "District Management for Downtown Vitality: Ingredients and Recipes for Success." (Boston, MA: MassINC, 2024).

# TABLE OF CONTENTS


# I. INTRODUCTION

Over the past decade, the Massachusetts legislature created several state designations, public finance structures, and technical assistance programs to help communities make their downtowns, town centers, and main streets vital spaces for economic activity and social connection. These place-based interventions, when used comprehensively to strengthen and sustain small business areas, are commonly known as “district management” or “place governance” approaches.

A small but growing number of cities and towns have deployed the state’s new district management tools in intentional and systematic ways. Their pioneering efforts suggest one ingredient is missing: predictable state funding for start-up and medium-term working capital. An understanding of district management’s importance to the fabric of our Commonwealth is necessary to appreciate the returns that modest state investment could generate by meeting this need.

For starters, we must recognize that commercial areas are ever-evolving. Organized capacity to respond to changing consumer preferences and economic conditions is critical. Without capacity to reposition, rebrand, and self-promote, communities will have great difficulty building and maintaining commercial spaces that make them vibrant and distinct. The long-standing underperformance of many traditional commercial areas makes this point evident. These places had few tools to wield when suburbanization siphoned activity to shopping centers, strip malls, and office parks starting in the 1950s. Decades of disinvestment have left a challenging road to recovery.

Aiding the revitalization of these older downtowns—as well as supporting the growth of newer mixed-use commercial districts throughout the state—takes on extra importance postpandemic. Massachusetts needs more multifamily housing in town centers and Gateway City downtowns to keep residents from moving to lower-cost states. A market for this housing is contingent on cultivating vibrant, amenity-rich, mixed-use neighborhoods.

In the past, American cities naturally generated these rich spaces through self-organized civic life and dynamic, small-scale capitalism. However, today’s residential and consumer patterns make it more difficult for these spaces to form on their own. And when frayed, neither the public, private, nor nonprofit sectors can reweave this fabric acting on their own. By transforming the way these three sectors work together to achieve shared goals, district management organizations (DMOs) can build and rebuild bustling social and economic centers.

Econometric research on business improvement districts (BID), the most prominent DMO form, shows that these efforts can foster a strong business climate in mixed-use downtowns. Commercial areas with BIDs receive more foot traffic, their visitors stay longer, and those visiting spend more at local businesses. Research suggests that these effects boost commercial property values by as much as 25 percent.[1]

In the postpandemic era, commercial areas face new headwinds. Many storefronts receive far fewer visits from office workers. Retailers are having an especially difficult time with competition from online vendors steadily growing. The unhoused and those with behavioral health conditions are increasingly congregating in commercial areas. With recovery funds dwindling, communities are struggling to secure the resources and staffing necessary to reach out to these vulnerable populations and connect them to services. Despite these challenges, many entrepreneurs, including a significant number of entrepreneurs of color, took advantage of pandemic relief funds to launch businesses in downtowns and main street areas across Massachusetts. These new enterprises offer green shoots.

By serving as a central backbone to deliver a set of supplemental services over and above what municipal governments can currently provide, DMO can help struggling businesses to overcome challenges and new businesses to thrive. DMOs can offer more of the basics, such as additional street cleaning and maintenance. They can also meet more specific needs, including marketing the district, providing special event programming, directly supporting small businesses with technical assistance, and leading strategic planning and development efforts. Through these activities, effective DMO can reduce vacant storefronts, support social services outreach, spur housing production, and promote wealth creation through small business ownership.

Commercial areas can self-organize and self-fund DMO with the tools that the Legislature has provided, but as this analysis demonstrates, they need additional assistance from the state to deliver these services at a high enough intensity and for a long enough duration to achieve impact, especially during the start-up and ramp-up phases. Launching a district management initiative is resource intensive. Many communities lack the expertise and staff necessary to analyze the financial tools and conduct outreach to build community support. With so many residents and small business owners unnerved by the increasing cost of doing business and the fear of rising rents and displacement, generating buy-in among a diverse set of stakeholders has become especially time-intensive.

State start-up funds are vital to successfully plan and prototype district management initiatives in a manner that recognizes these dynamics and does not create power imbalances. In lower-income communities that have suffered from decades of disinvestment, the state must also provide medium-term working capital to give time for the local real estate market to strengthen and small business activity to grow so that local property taxes and fees can eventually generate sufficient revenue to support the higher level of benefits and services that the community needs.

The pages that follow build to this conclusion. The next section describes the fundamentals of district management, the toolset currently available in Massachusetts, and the growing number of communities seeking to deploy it. With this important context, section three unpacks the economics of district management, and the varying ability of communities to cover these costs with local revenue alone. The paper concludes with strategies to ensure that all of our downtowns, main streets, and town centers are able to equitably and successfully execute this essential local economic development practice.

**Key Findings**

- Commercial districts need a high volume of foot traffic to support thriving small businesses. Supplemental district management services can dramatically increase this activity. Over the past two decades, there has been widespread interest in forming district management organizations (DMOs) to provide these services in rural, suburban, and urban areas.
- Massachusetts has a number of local finance tools to support DMOs, but it lacks crucial funding to help start these entities and grow them to an impactful size. As a result, many efforts have failed to launch and many of those that did get off the ground struggled to accomplish their objectives with insufficient resources.
- Our estimates suggest a strong downtown DMO requires an annual operating budget of at least $700,000 to be effective. Smaller DMOs serving a town center or neighborhood commercial area would ideally have an annual budget of at least $200,000.
- As vacancy rates in the district decline and DMOs gain experience delivering contractual services, their financial capacity increases over time. Our model suggests DMOs will require seven to eight years to reach the break-even point. State support to ensure a sufficient operating budget during this critical growth stage is $272,000 for smaller DMOs and $1.1 million for downtown DMOs.
- If Massachusetts supported cohorts of five new downtown DMOs at this level each year between now and 2030, the annual cost to the state would start at $375,000 and peak in 2030 at $5.5 million. At that point, Massachusetts would have 30 new well-resourced downtown DMOs generating nearly $13 million annually for revitalization and economic development from local resources.
- If Massachusetts supported cohorts of 10 new smaller DMOs each year between now and 2030, the annual cost to the state would start at $500,000 and peak in 2030 at $2.4 million. At that point, Massachusetts would have 60 new well-resourced smaller DMOs generating more than $8 million annually for revitalization and economic development from local resources
- The Downtown Vitality Act provides a framework to seed a  vibrant DMO sector that serves communities of all types across the Commonwealth.


# II. THE DISTRICT MANAGEMENT TOOLSET IN MASSACHUSETTS

Vibrant downtowns and main street commercial areas provide a classic example of what economists term "positive externalities." In these special places, the various mix of activities creates a buzz that draws people in to live, work, and visit. Cultivating and maximizing these positive externalities takes concerted effort. Strong downtown and main street districts enjoy intensive use, and therefore require a heightened level of services to manage the various activities and to keep the public spaces clean and safe. Struggling downtowns and main streets need robust and sustained intervention to bring a critical mass of businesses, housing, and patrons back to the area.

Over the last 50 years, communities across North America have deployed many "district management" models to organize these place-based efforts. While they vary widely in terms of their structure, experience increasingly shows that the most effective and equitable results come from models that have three fundamental traits:

- Representative and responsive governance;
- A shared work plan, with long-term goals and metrics; and
- Sufficient and sustainable funding.

As detailed below, Massachusetts has created a variety of programs and tools to support district management. While they all add value, few communities have been able to utilize them, either individually or in combination, in a manner that provides all three fundamental ingredients for success. This limits their impact and hinders the expansion of district management, at a time when cities and towns across the Commonwealth could benefit from the practice. Among the Commonwealth's existing tools, the Business Improvement District framework comes the closest to integrating all three characteristics that make up a comprehensive district management approach.

### Business Improvement Districts (BIDs)

Since the 1970s, property owners in commercial areas have formed special districts to finance supplemental services that increase patronage of local businesses, and further general conditions for businesses within the area. Typical activities undertaken by BIDs include marketing, beautification and maintenance, public safety, business development, and cultural programming. (In some states, these districts may be called Community Improvement Districts, Benefit Assessment Districts, Local Improvement Districts, or Special Service Areas).

The Massachusetts legislature first authorized the use of BIDs in 1998. Under state law, locations must be contiguous geographic areas where at least 75 percent of the land is zoned or used for commercial, retail, industrial, or mixed-use. Forming a BID requires a vote of the elected body of the municipality and support from at least 60 percent of the property owners representing at least 51 percent of the assessed valuation of the real property within the proposed district. During the formation process, each BID creates a local fee structure that articulates the manner in which each property category will participate. For example, parcels owned by non-profit entities may be exempted, included in a fee structure formula, or participate through a negotiated agreement. Public properties typically participate through a negotiated agreement. Small residential properties and residential condominiums are often exempted. This flexibility allows each BID to develop a fee structure that is considered fair and equitable for the unique range of properties in its district. A successful BID may institute a surcharge of up to 0.5 percent of the assessed value annually, although the rate is usually much less.

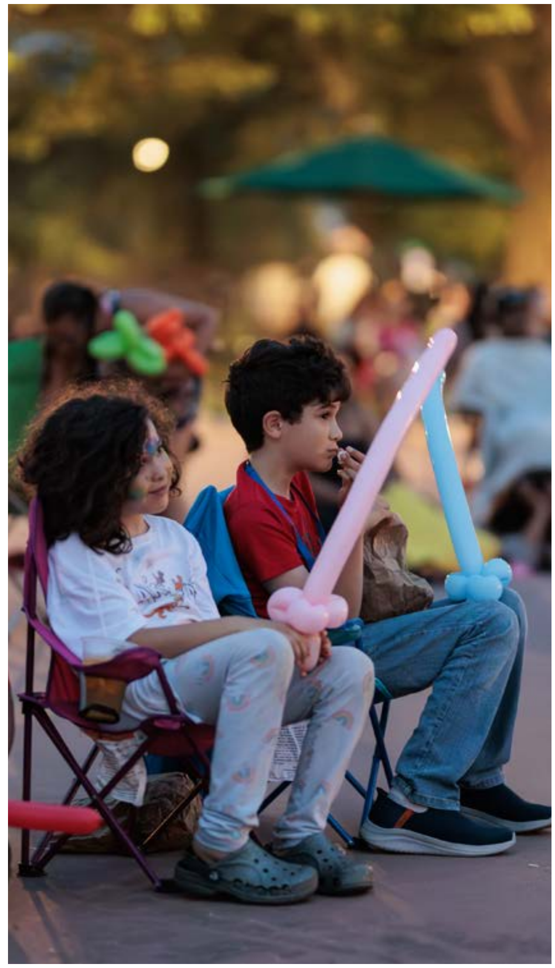
Prior to 2012, any owner could opt out of the BID within 30 days of its establishment. With this unusual limitation in effect, only seven BIDs were created in the first 16 years and two failed relatively quickly. Since the legislature amended the statute to require all owners to participate if petition thresholds are met (in line with other states), five new BIDs have been established for a total of 10 active BIDs across the Commonwealth. The Massachusetts Downtown Initiative reports another dozen in an exploratory phase.

Although the original BIDs in Massachusetts were incorporated as 501(c)6 nonprofit membership organizations, it is now best practice to follow a charitable 501(c)3 model. By state statute, the board of directors must include a majority of contributing property owners in the district. However, 49% of board members may be composed of any other community representatives, and most districts strive to include a diverse group of stakeholders. BIDs also typically hire a full-time executive director to manage and carry out programmatic activities, and may employ direct hires or contract with a management company to execute the management plan. The municipality often participates in a variety of ways, including by collecting BID fees with property tax bills, paying into the district directly, and establishing municipal service agreements. Standard practice includes establishing a Memorandum of Understanding (MOU) with the municipality that spells out the existing level of municipal services, while the BID workplan lays out the supplemental services to be provided by the district management organization.

While the state's BID law provides for the makings of strong district management, BID assessments may not provide sufficient resources to cover start-up and robust service delivery in smaller commercial areas or places with relatively weak real estate markets. Balancing the financial contributions of large property owners with the need for broadly representative governance can also be challenging in districts where a limited number of property owners contribute an outsized share of the budget. As the sector grows, flexibility and experimentation may give rise to creative approaches, such as the Downtown Taunton Foundation, a community development corporation established by the Taunton BID.

### Cultural Districts

Created by the legislature in 2011, state-designated Cultural Districts are designed to attract artists and cultural enterprises, encourage business and job development, market the area as a tourist destination, preserve historic buildings, enhance property values, and otherwise foster local cultural development. To receive a designation, current guidelines issued by the Massachusetts Cultural Council (MCC) call for districts to have a mappable footprint; be compact, easy to navigate, and accessible; and have cultural facilities and assets. So far, 55 districts have received state designation.



During formation, applicants must create a cultural asset inventory, management plan, and marketing strategy. Designated districts then receive a site assessment report from MCC that includes a set of strategic planning recommendations.

A city or town must establish a cultural district partnership spearheaded by the municipality to serve as the management entity. Many of these partnerships have grown to include groups that meet regularly to steward collaborative effort on the district's behalf. A team of MCC program officers support communities during the application process and throughout the district's 10-year designation. This extended time period provides an opportunity to develop and implement local initiatives.

While this approach to governance and strategy development leans toward inclusive decision-making, Cultural Districts tend to depend on volunteer engagement to sustain their activity. Since many operate out of city hall, they may not be able to create independent 501(c)3 organizations and may have to navigate political constraints.

According to the MCC, municipal funding may flow to some Cultural Districts via a percentage of parking revenue, Community Preservation Act (CPA) funds for applicable activities, Community Development Block Grant (CDBG) funds, or grants. Other sources of support include private donations, membership fees, and philanthropic grants.

In recent years, such districts have been eligible for modest Cultural District Investment Grants from MCC ($15,000 per district in FY 2024), and the Healey-Driscoll administration recently adopted a policy giving projects in cultural districts preferences for One Stop funding and travel and tourism grants. However, Cultural Districts lack an intrinsic financing mechanism, which reduces budget size and predictability. Nearly all districts are staffed by volunteers or part-time employees.

### Transformative Development Initiative (TDI) Districts

Created by the Legislature in 2014, the Transformative Development Initiative (TDI) at MassDevelopment works to strengthen the conditions for economic development in targeted areas of Gateway Cities by supporting relationships among businesses, public and private sector institutions, and residents. Led by a TDI Fellow, MassDevelopment provides capital and intensive technical assistance to these downtown and neighborhood districts over a three-year period. So far, MassDevelopment has served 28 TDI districts in 19 communities.

In addition to providing the fellow, MassDevelopment covers consulting fees and other expenses to produce plans and technical analysis for strategic projects in the area. TDI districts receive a range of funds from MassDevelopment for district management activities, including TDI Equity Investment and the TDI Creative Catalyst Grant program. Coordinated, almost bespoke access to all of the agency's funding opportunities remains one of the significant benefits of TDI. On a total investment of approximately $38 million from MassDevelopment, local partnerships have leveraged an additional $400 million in public and private investment.

TDI has led to the creation of more than 10 formal backbone organizations to maintain high levels of collaboration in the district beyond MassDevelopment's three-year engagement. They include business associations, main street programs, and BIDs. The Worcester BID exemplifies how TDI can provide an ideal launch pad for establishing a strong district management entity to lead the long-term effort necessary to transform communities that have suffered from decades of disinvestment.

### District Improvement Financing

In another instance, a TDI-led effort successfully led to sustainable financing for district management by leveraging District Improvement Financing (DIF). Massachusetts law provides communities with the ability to capture rising property values to finance revitalization activities. Generally, communities use this tool to subsidize work on a specific parcel (i.e., directing a portion of the real estate taxes generated through redevelopment to help cover the project's debt financing). With MassDevelopment's support, Brockton created a much larger 190-acre downtown DIF district in 2016. The increased valuation on these 488 parcels produces roughly $350,000 per year.[2] These resources have supported predevelopment costs for a new parking garage, as well as artwork and signage downtown and the establishment of a farmer's market.

A majority vote of the municipality's elected body must approve the district, but DIF does not proscribe an inclusive governance process to administer the funds. In Brockton's case, the quasi-public nonprofit Brockton Redevelopment Authority fills this role with direction from municipal officials.

### Parking Benefit Districts

Authorized in 2016, municipalities can establish specific geographic areas where parking fees can be collected and reinvested in transportation-related improvements. Although there is some ambiguity in the statute about how broadly these funds can be applied, they have been used for improvements to the public realm, such as street trees, parklets, and walking and biking infrastructure. Without Parking Benefit Districts (PBD), parking revenues flow directly into the municipality's general fund. As a result, downtown property and business owners generally see no benefit from higher parking fees, and frequently oppose efforts to increase them.

In heavily trafficked areas, low parking fees lead to congestion that may undermine the district's business climate. With public education, PBDs can create more buy-in for optimizing parking costs, while generating revenue for district management efforts. A dedicated funding stream can lead to more intentional parking management that encourages turnover of on-street parking for customers as well as sensible employee parking policies.

While there is no central register of these districts, at least a handful are known to exist, including in Arlington, Brookline, and Rockport.

### The Latent Demand for District Management in Massachusetts

A number of communities have experimented with one of the approaches detailed above; counting and mapping them shows district management efforts are sprouting up across the commonwealth. However, there are other signs that the latent demand for district management is even stronger. Many of the existing BIDs grew out of main street organizations and business organizations. If Massachusetts had sufficient start-up and medium-term working capital, it is likely that more communities would proceed with efforts to build stronger district management initiatives, either by enhancing main street organizations, local business associations, and nonprofit economic development, organizations, or by creating a new entity to implement recent commercial area revitalization plans.

- **Main street organizations:** Main Street America, a subsidiary of the National Trust for Historic Preservation, promotes a model to strengthen older and historic downtowns and neighborhood commercial districts through place-based economic development and community preservation. Many local groups have informally adopted the four-pronged approach (organization, design, economic development, and marketing) in Massachusetts, including Beverly Main Streets, East Somerville Main Streets, Union Square Main Streets, Lynn Main Streets, and Salem Main Streets. However, the only formal affiliate of Main Street America in the state is the City of Boston, where there is a network of 20 independent nonprofit main street organizations supported by CDBG funds and a main streets office.

- **Local business associations and nonprofit economic development organizations:** An unspecified number of local business associations operate in communities of all sizes throughout the state. Many of them function as traditional small business associations, such as local Chambers of Commerce, while others play a marketing and branding role, such as Downtown New Bedford Inc. Still others carry out a mission to support arts and culture, like Viva Fall River. Some focus on a particular neighborhood, like Worcester's Main South Business Association. Others support a particular ethnic group within a community, such as Black Owned Brockton. Additionally, some community development corporations provide intensive support to commercial areas, such as Dorchester Bay EDC.

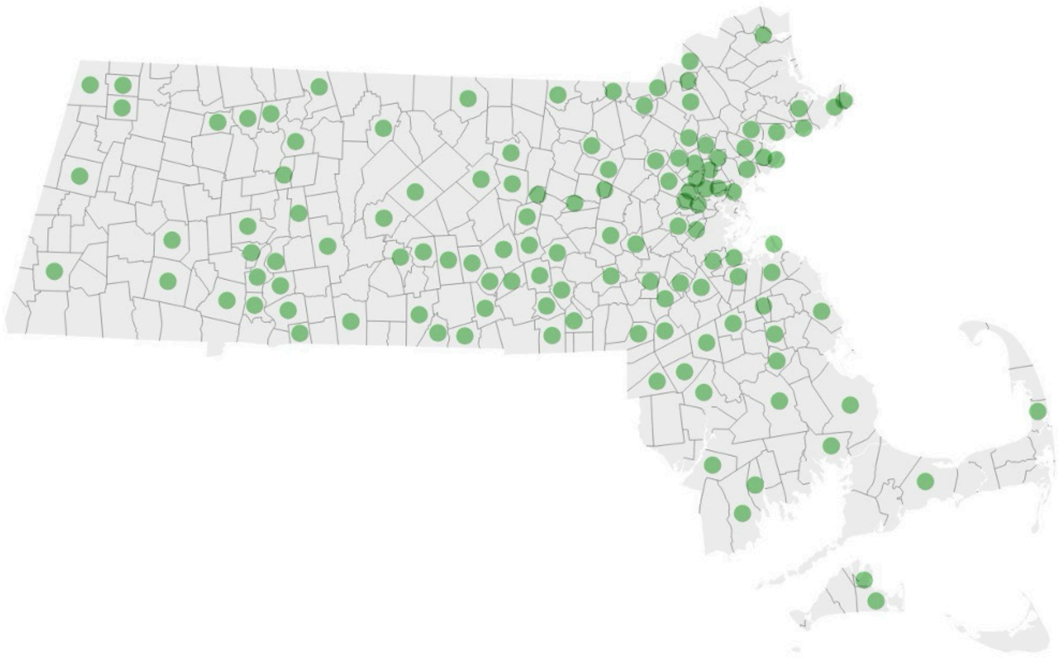
- **Cross-Sector Partnerships:** Some communities have seen the rise of independent public-private-nonprofit collaborations. These formal or informal efforts often emerge from civic planning initiatives and may become established nonprofit organizations over time. Two notable examples include The Lowell Plan and the Lawrence Partnership, which have made considerable investments in both small business development and district-focused revitalization efforts.

- **Rapid Recovery Plans (RRP):** In the wake of COVID-19, the state provided $10 million to help local commercial areas create recovery plans. According to the Executive Office of Economic Development, 124 municipalities submitted final plans encompassing more than 1,100 projects. While the state has not provided funds to execute these RRPs, the strong stakeholder engagement and strategy development led to well-crafted plans that district management entities could implement in the future.[3]

## Figure 1: Latent demand for district management from various sources

| Pipeline Source | Potential Demand |
|---|---|
| Transformative Development Initiative | 28 |
| Cultural Districts | 53 |
| Rapid Recovery Plans | 124 |
| Main Street organizations | 25+ |
| Business Improvement Districts | 24 |

Source: Authors’ analysis of public documents



Source: Massachusetts Downtown Initiative, ”Downtown Recovery in Commonwealth of Massachusetts.” Map data: MassGIS


# III. THE ECONOMICS OF DISTRICT MANAGEMENT IN MASSACHUSETTS

Cities and towns in Massachusetts have several district management tools at their disposal. Yet compared to the number of downtowns, main streets, town and village centers, and neighborhood squares throughout the state, only a small number have been making use of them. When one contrasts the expenses associated with common district management practices to the revenue generation potential of districts, an economic barrier becomes apparent. The financial challenges are particularly acute for district management organizations ("DMOs") in communities with small commercial areas or relatively weak real estate markets.

### Start-up Costs

The cost to launch a district management initiative will vary slightly based on whether the effort will be led by a new nonprofit entity or managed as a program of an existing organization. However, the largest upfront expenses come from the intensive legwork required to develop financial plans, build community support, and steward the effort through the process of obtaining majority votes from the municipal governing body and local property owners (if BID and/or DIF financing is involved). Those with experience in Massachusetts suggest communities should budget $50,000-$75,000 for consulting, legal, communications, and meeting costs, in addition to the salary of a part-time senior project manager (working for either the municipality, a quasi-public agency, or a local nonprofit) for approximately 18 months.

Bottom line: Ideally, a strong downtown district management initiative will have at least $150,000 (which includes the value of in-kind staff and services) to get off the ground. For smaller or more informal districts, total start-up expenses will likely not exceed $75,000.

### Operating Expenses

Communities exploring district management begin by looking at the role an entity will play in local economic development. DMOs typically provide a range of services. Some simply augment municipal services such as street cleaning, security, and maintenance. But most go beyond these basic activities, including marketing districts, organizing special events, providing small business assistance, and executing placemaking or tactical urbanism projects. DMOs also spearhead long-term efforts, leading strategic planning, conducting feasibility studies, and even financing and managing capital projects (i.e. public realm improvements such as parking, sidewalks, wayfinding, and façades). While these activities often take years to bear fruit, they are especially important in areas where revitalization is a priority.

For BIDs currently operating in Massachusetts, the IRS Form 990 that all tax-exempt organizations must file to show how they receive and expend funds in the public interest provides a rough indication of how much it might cost a DMO to provide this robust suite of services.[4]

### Staffing and Other Fixed Costs

District management efforts rely heavily on leadership from collaborative and entrepreneurial executives, as well as support staff to fundraise, implement programs, and manage member relations. The Central Square BID spends $440,000 on salaries and compensation; the Downtown Boston BID devotes over $1 million to staffing expenses. In contrast, the Worcester BID has less than $200,000 to cover salaries and just $35,000 goes to part-time staffing at the Hudson BID.

Whether they function as independent nonprofits or they are hosted by fiscal agents, DMOs will have other fixed costs. In addition to occupancy, these include insurance, legal, accounting, bookkeeping, and supplies. While rent is a significant expense for the Central Square BID ($120,000/year) and the Downtown Boston BID ($204,000/year), organizations in Gateway Cities and other smaller communities generally keep occupancy costs under $20,000, on average. However, insurance, legal, accounting, bookkeeping, and supplies consume approximately $50,000 annually, even in these smaller contexts.

Bottom line: Ideally, a strong downtown DMO will have at least $300,000 to cover staffing and other fixed costs. Smaller DMOs that rely heavily on volunteers, part-time staff, and in-kind services could keep these fixed costs below $100,000, although organizational stability and efficacy may be compromised.

### Programmatic Activities

Safety and cleaning are major expenses for district management efforts. This cost is somewhat variable, increasing in geographically larger districts and/or in districts with higher volumes of activity. Most of the 990 forms provide limited detail on these expenditures, but they suggest Springfield and Worcester each spend at least $400,000 annually on cleaning and maintenance in their districts.

Marketing and event expenses are even more difficult to discern from the 990 forms. In 2021, Springfield spent nearly $300,000 on marketing, Central Square deployed $468,000 for cultural and art programs, and Amherst used $68,000 for events. The 990s provide no information on how much BIDs spend on long-term planning and feasibility studies. However, experience from TDI districts suggests a DMO will likely need a minimum of $75,000 annually to undertake this kind of work.

Bottom line: Ideally, a strong downtown DMO will have at least $400,000 annually for programmatic activities. Smaller districts are less likely to need to offer the full array of services on an ongoing basis, and their costs will be lower with less acreage to cover and far fewer business to serve. Ideally, they will still have an annual programmatic budget of at least $100,000.

## Local Revenue Generation Potential

With a clear understanding that a robust district management organization will require significant revenue to operate effectively, communities next look at the ability to generate sufficient funding and through BID Assessments and/or District Improvement Financing.

### BID Assessments

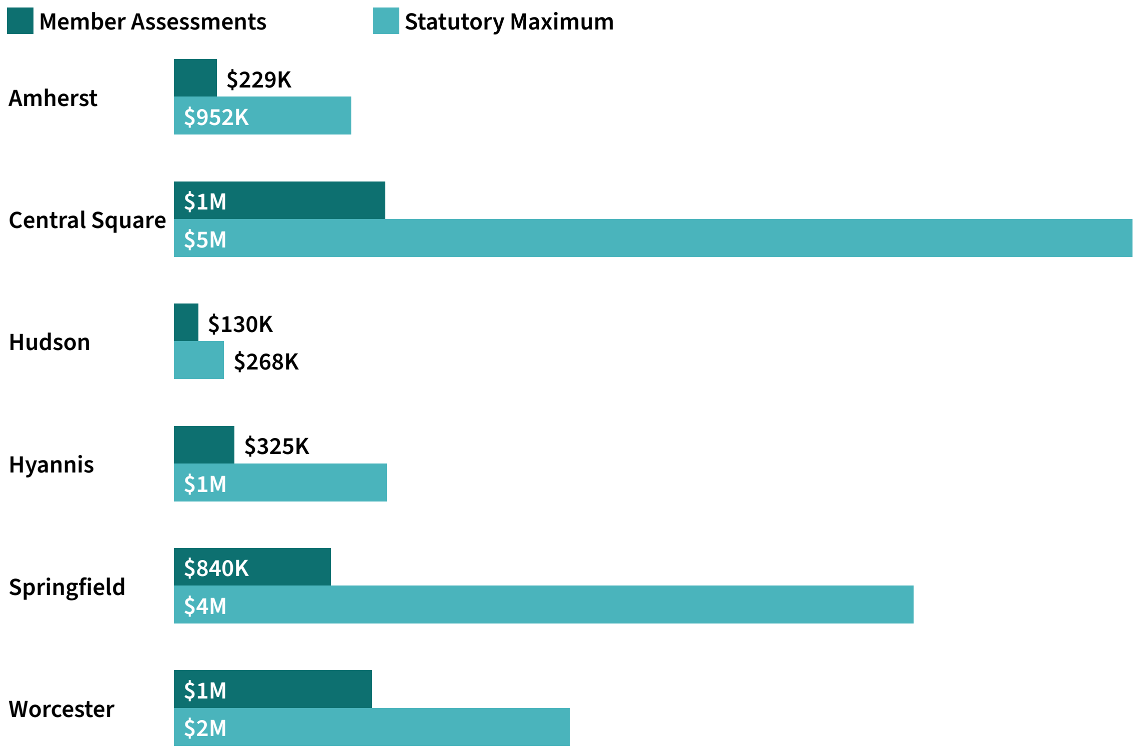
Generating revenue locally through BID assessments varies according to both the size and makeup of the commercial district, as well as the strength of the local real estate market. The state's BID statute authorizes surcharges up to 0.5 percent of a district's total assessed value. BID fees may be set up in a variety of creative ways that reflect the supplemental services provided. For example, a district may calculate the fee for sidewalk snow removal based on a parcel's linear frontage. Fee schedules may be quite nuanced and include exemptions for categories such as: public property, nonprofit property, residential property, residential condominiums, small property owners below a certain threshold, and so on. Square footage, type of use, and other factors may play a role in setting fees.

However, for the purposes of comparing how the revenue generation potential of BID-style assessments to support DMOs varies across communities, this analysis looks at total assessed values for commercial, mixed-use, and tax-exempt property in current and proposed BIDs with available boundary files. The Springfield BID could collect as much as $4 million per year, while Hudson could generate a maximum of around $270,000 per year. In practice, BIDs collect far less than the statutory cap allows. The Hudson BID takes in just half of the estimated maximum and the Springfield BID's assessments are only 21 percent of the statutory cap. Excluding Boston and Cambridge, BIDs generate 34 percent of the total allowable under state law, on average **(Figure 2)**.

This is partially because no BID has adopted the maximum allowable fee rate. But another explanation is the prevalence of tax-exempt parcels owned by public agencies and nonprofit institutions. For the Downtown Boston BID, tax exempt parcels represent only 12 percent of total valuation. Most Gateway Cities still have two or three times more tax-exempt parcels on a comparative basis than Boston, which limits their assessed valuation **(Figure 3)**. Hospitals, museums, and other nonprofit institutions may contribute to the BID, but in the weaker markets, the high volume of tax-exempt parcels may be due in part to vacant land or abandoned buildings that are now under municipal control, or shifting uses, such as churches moving into commercial storefronts or nonprofits taking over underutilized properties.

The impact of weak real estate markets on revenue potential is also apparent in the varying valuation of both commercial and mixed-use real estate from BID to BID. The Worcester BID has roughly $5 million of commercial and mixed-use property per acre. While far less dense, relatively high valuations give the Amherst BID more than $3 million of commercial and mixed-use property per acre. This tax base in most other BIDs is closer to $1 million per acre **(Figure 4)**. The exception, of course, is downtown Boston, where there is over $100 million in commercial and mixed-use property per acre, although the postpandemic crisis in the office market may significantly impact this number.

## Figure 2: Annual member assessment relative to the state's statutory maximum

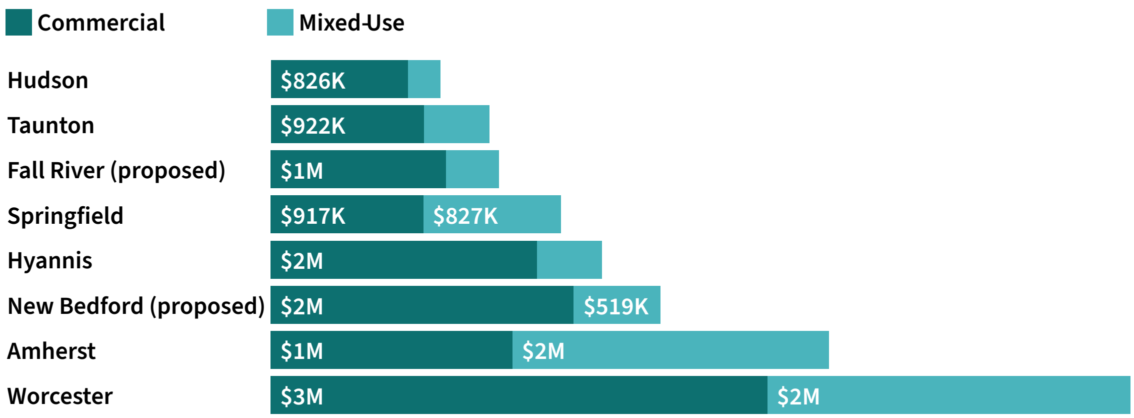



Source: Authors' analysis of IRS Form 990s and MassGIS parcel data

## Figure 3: Tax-exempt parcels as a share of total valuation in selected BIDs


Source: Authors' analysis of MassGIS parcel data

**Figure 4: Total commercial and mixed-use valuation per acre in selected BIDs**




Source: Authors' analysis of MassGIS parcel data

## District Improvement Financing

Mapping tax valuation within different areas provides an indication of how district management activities could be supported through the increase in property values created by investments that improve the business climate in a downtown, main street, or town center. For example, suppose property values rise by 10 percent throughout the district and the municipality uses DIF to capture and direct 50 percent of this increment to a district management entity. Excluding Boston and Cambridge, on average, this would generate $163,000 annually for BIDs, $86,000 for Cultural Districts, and $67,000 for TDI Districts.

This is a conservative estimate because it assumes no new development. In districts with considerable potential for infill and adaptive reuse, parcels will see dramatic changes in valuation. With DIF, a $20 million mixed-use development on a vacant municipally owned lot would generate nearly $250,000 annually (assuming the parcel paid no taxes previously, the municipality taxes commercial property at 2.5 percent rate, and the DIF takes half of the incremental value). Brockton demonstrates the potential to generate substantial revenue in this manner. Significant infill development created more value than anticipated and by Year 2 the DIF was generating $350,000 in incremental revenue. In this sense, DIF provides an attractive mechanism to finance robust district management services, but these revenues are uncertain and may take many years to materialize.

## Modeling the Impact of State Start-up and Programmatic Funds

To gain a stronger grasp of how providing state start-up and programmatic (or "working capital") funds might change the economics of district management in Massachusetts, we developed scenario models for DMOs operating in both downtown and smaller neighborhood commercial area/town center contexts. These illustrative scenarios provide a financial plan for hypothetical DMOs that can deliver robust services from their founding with assistance from the state. Over time, state funding is replaced with a mix of local revenue provided by local businesses, municipal contributions, and private fundraising.

Without state start-up and working capital, most communities that launch DMOs do so with very lean operations in their initial years. This is especially challenging if they are using BID assessments, as the state's BID statute requires property owners to reauthorize after just five years, and they may not have sufficient impact to win support for renewal if their budgets are inadequate. The models below assume significant state support will encourage communities to be more ambitious and craft financial plans that allow DMOs to provide very robust services, which will in turn position them to build the local revenue base and achieve self-sufficiency faster.

## Hypothetical Financial Plan for a Downtown DMO

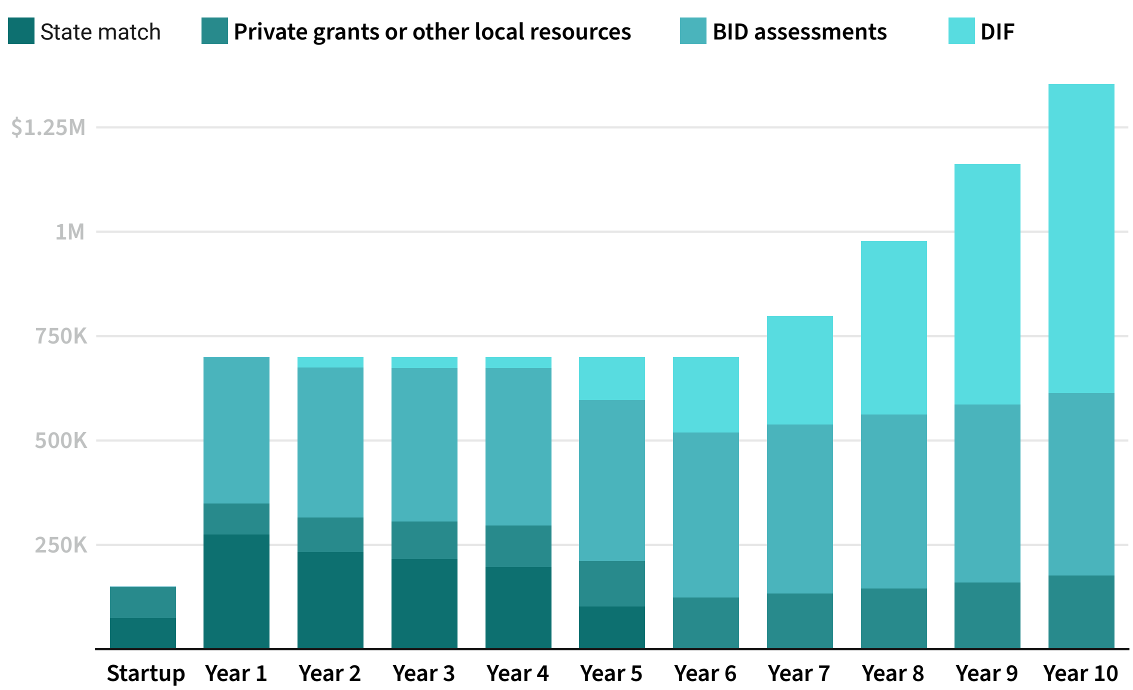
The downtown DMO assumptions are as follows:

- Starting a downtown DMO requires $150,000. The state offers grants to cover half of this expense.
- Operating a robust DMO that provides the full suite of services requires a budget of at least $700,000 annually.
- The community can initially generate $350,000 annually from BID assessments, and these proceeds will increase at 2.5 percent per annum.
- DIF produces $25,000 in Year 2 and grows at 2.5 percent per annum from generalized appreciation in the district; DIF proceeds jump by $75,000 in Years 6 and 8, as redevelopment projects bring additional value to the tax rolls.
- Private fundraising raises $75,000 in Year 1 and increases by 10 percent per annum.
- State resources cover half the start-up costs. And in each year, state grants provide sufficient resources to ensure the DMO has a budget of at least $700,000.

Under this scenario, the district management entity will require seven years to operate without state support. The total state subsidy over this period is $1.1 million, with the most state dollars coming in Year 1 ($275,000) and steadily trending toward zero. Over a 10-year period, local dollars leverage the state's investment by nearly seven-to-one **(Figure 5)**.

If Massachusetts supported cohorts of five new district management entities at this level each year between now and 2030, the annual cost to the state would start at $375,000 and peak in 2030 at $5.5 million. At that point, Massachusetts would have 30 new well-resourced district management initiatives generating nearly $13 million annually for revitalization and economic development entirely from local resources **(Figure 6)**.

### Figure 5: Funding structure for hypothetical downtown DMO from start-up to Year 10 districts




Source: Authors' analysis

**Figure 6: Total state and local investment generated through grants to 5 new downtown DMOs per year**

**Total Expenses in Fiscal Year for all Active Cohorts**

| Cohort Launch Year | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|
| **State Support** | | | | | | |
| **2025** | $375,000 | $1,375,000 | $1,168,750 | $1,079,531 | $984,988 | $509,679 |
| **2026** | | $375,000 | $1,375,000 | $1,168,750 | $1,079,531 | $984,988 |
| **2027** | | | $375,000 | $1,375,000 | $1,168,750 | $1,079,531 |
| **2028** | | | | $375,000 | $1,375,000 | $1,168,750 |
| **2029** | | | | | $375,000 | $1.375,000 |
| **2030** | | | | | | $375,000 |
| **State Subtotal** | **$375,000** | **$1,750,000** | **$2,918,750** | **$3,998,281** | **$4,983,270** | **$5,492,948** |
| **Local Support** | | | | | | |
| **2025** | $375,000 | $2,125,000 | $2,331,250 | $2,420,469 | $2,515,012 | $2,990,321 |
| **2026** | | $375,000 | $2,125,000 | $2,331,250 | $2,420,469 | $2,515,012 |
| **2027** | | | $375,000 | $2,125,000 | $2,331,250 | $2,420,469 |
| **2028** | | | | $375,000 | $2,125,000 | $2,331,250 |
| **2029** | | | | | $375,000 | $2,125,000 |
| **2030** | | | | | | $375,000 |
| **Local Subtotal** | **$375,000** | **$2,500,000** | **$4,831,250** | **$7,251,719** | **$9,766,730** | **$12,757,052** |

Source: Authors' analysis

### Hypothetical Financial Plan for a Neighborhood Commercial Area/Town Center DMO

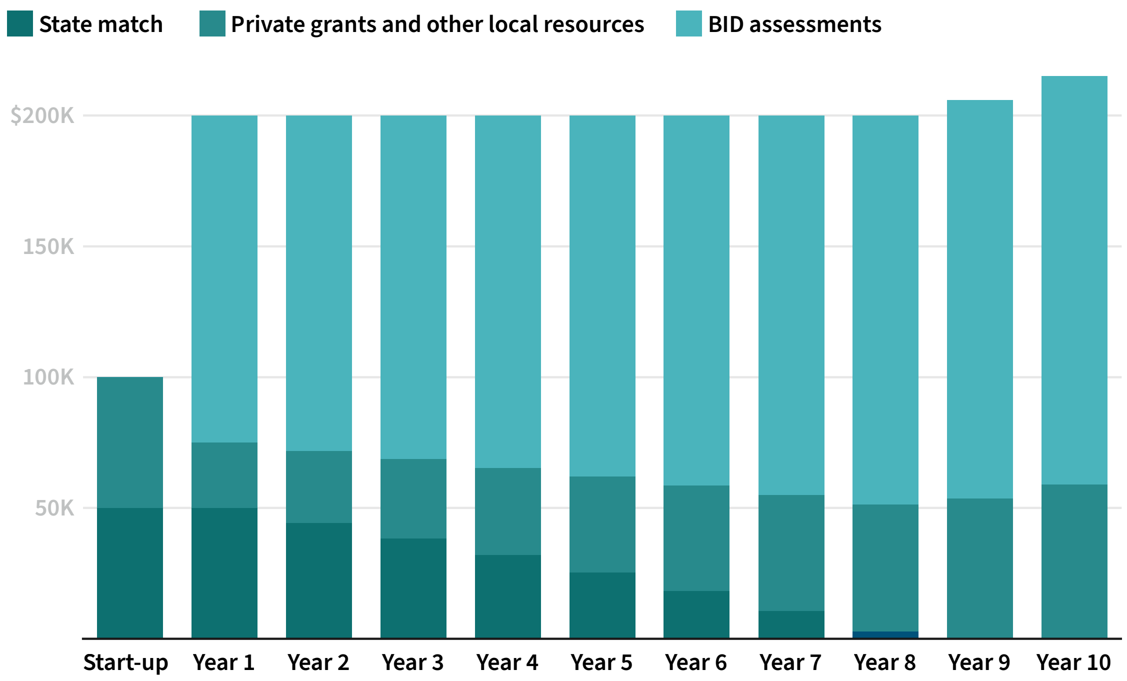
The neighborhood commercial area/town center DMO assumptions are as follows:

- Starting a smaller DMO requires $100,000.
- Operating a smaller DMO requires a budget of at least $200,000 annually.
- The community can initially generate $125,000 annually from BID assessments, and these proceeds will increase at 2.5 percent per annum.
- Private fundraising and public and private contracts raise $25,000 in Year 1 and increase by 10 percent per annum.
- State resources cover half the start-up costs. And in each year, state grants provide sufficient resources to ensure the DMO has a budget of at least $200,000.

Under this scenario, the district management entity will require eight years to operate without state support. The total state subsidy over this period is $272,000, with the most state dollars coming in Year 1 ($500,000) and steadily trending toward zero. Over a 10-year period, local dollars leverage the state's investment by nearly seven-to-one **(Figure 7)**.

If Massachusetts supported cohorts of 10 new district management entities at this level each year between now and 2030, the annual cost to the state would start at $500,000 and peak in 2030 at $2.4 million. At that point, Massachusetts would have 60 new well-resourced DMOs generating more than $8 million annually for revitalization and economic development entirely from local resources **(Figure 8)**.

**Figure 7: Funding structure for hypothetical neighborhood/town center DMO from start-up to Year 10**




Source: Authors' analysis

**Figure 8: Total state and local investment generated through grants to 10 new neighborhood/ town center DMOs per year**

| Cohort Launch Year | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---|---|---|---|---|---|
| **State Support** | | | | | | |
| 2025 | $500,000 | $500,000 | $443,750 | $384,219 | $321,137 | $254,209 |
| 2026 | | $500,000 | $500,000 | $443,750 | $384,219 | $321,137 |
| 2027 | | | $500,000 | $500,000 | $443,750 | $384,219 |
| 2028 | | | | $500,000 | $500,000 | $443,750 |
| 2029 | | | | | $500,000 | $500,000 |
| 2030 | | | | | | $500,000 |
| **State Subtotal** | **$500,000** | **$1,000,000** | **$1,443,750** | **$1,827,969** | **$2,149,105** | **$2,403,314** |
| **Local Support** | | | | | | |
| 2025 | $500,000 | $1,500,000 | $1,556,250 | $1,615,781 | $1,678,863 | $1,745,791 |
| 2026 | | | $1,500,000 | $1,556,250 | $1,615,781 | $1,678,863 |
| 2027 | | | | $1,500,000 | $1,556,250 | $1,615,781 |
| 2028 | | | | | $1,500,000 | $1,556,250 |
| 2029 | | | | | | $1,500,000 |
| 2030 | | | | | | |
| **Local Subtotal** | **$500,000** | **$1,500,000** | **$3,056,250** | **$4,672,031** | **$6,350,895** | **$8,096,686** |

Source: Authors' analysis


# IV. TOWARD A RECIPE FOR SUCCESS

Massachusetts has wonderful downtowns, urban squares, and neighborhood commercial districts, not to mention its town and village centers and main streets. Since all our communities predate the automobile, human-scale fabric for truly great places covers the entire state. This is the prime ingredient for success. A second vital ingredient is vision and will. Fortunately, this appears to be abundant as well. From east to west, cities and towns have demonstrated an increasing appetite for effective district management tools to bring more social and economic life to their commercial areas.

As this analysis demonstrates, early-stage capital to launch and sustain these efforts in a manner that will produce strong and equitable outcomes is the one missing ingredient. To address this gap and help communities mix the complete recipe for success, we offer the following recommendations for the Massachusetts Legislature and the Healey-Driscoll administration:

1. **Pass An Act to Promote Downtown Vitality (H.228/S.130)**. As detailed in the analysis above, state start-up and medium-term working capital could place DMOs on a path to sustainability in both downtowns and smaller neighborhood and town center commercial areas throughout the state. By providing the resources communities need to launch robust district management initiatives, the state could draw significant local resources from BID assessments and DIF, as well as private grants and public and private contracts. Within a decade, state dollars could draw more than $20 million to this proven local economic development strategy, with DMOs in up to 30 downtowns and 60 neighborhoods and town centers. Including 10 percent for the administering agency, the state could implement this transformational strategy with less than a $1 million for the first year and costs peaking just below $9 million in 2030.

   A bill put forward by the Gateway Cities Legislative Caucus, with support from MassCreative, the Massachusetts Cultural Council, the Massachusetts Association of Business Improvement Districts, the Metropolitan Area Planning Council, and others lays the groundwork for this approach. An Act to Promote Downtown Vitality would reinvest up to 5 percent of the state's remote retailer tax in local downtowns and main streets. Channeling some of these taxes back into our communities is a practical and equitable way to mitigate the negative effects of online retail on locally owned small businesses. District management entities in every community in the Commonwealth would be eligible for these state matching funds. Grants would cover start-up expenses and provide near- and medium-term working capital to help districts gain enough strength to self-finance their activities in perpetuity.

2. **Strengthen district management technical assistance services to communities.** State TA funding and expertise to support district management currently flows through limited channels: the Mass Cultural Council (strictly for Cultural Districts), MassDevelopment for Gateway Cities that participate in the TDI program, and for everyone else, the Massachusetts Downtown Initiative (MDI) housed in the Executive Office of Economic Development (EOED). MDI operates with a single staff person and provides technical assistance across a wide range of activities. Typically, MDI only awards four $25,000 grants every year through the Community One stop Program to explore district management tools.

   Drawing modestly on proceeds from the new Downtown Vitality Fund, MDI could significantly expand TA services, both by adding additional staff, and training and supporting a diverse new generation of preapproved consultants to meet growing community demand for these services.

3. **Promote equitable place governance.** Place governance implies a level of care beyond district management, one which lifts up a truly shared partnership representative of local stakeholders. Management highlights operational effectiveness whereas governance underscores civic life and stewardship in common. Accomplishing this requires deploying local and state resources in a manner that produces widely shared benefits for residents, large employers and institutions, and small businesses alike. The state can help attain this outcome by competitively awarding funds to district management initiatives that elevate equitable place governance in the makeup of their boards, and demonstrate a corresponding commitment in their stated vision and strategic objectives. This issue merits deeper analysis, based on a survey of best practices from around the country and interviews with district managers.

4. **Sustain the Transformative Development Initiative (TDI).** Massachusetts has made considerable investments in TDI over the past decade, and dramatically expanded to 13 communities in the last year of the Baker administration without receiving additional funds. By all accounts, the program has largely been successful at generating investment and revitalization. However, it has also lived most of its existence without complementary tools, such as ample equity funding for underutilized properties, or start-up support for district management. The Legislature's recent increase to the Housing Development Incentive Program (HDIP) puts TDI in a significantly better position to stimulate residential development. Coupled with a complete district management toolset, next generation TDI efforts could have profound impact in areas that have struggled for decades to attract private investment. A well-resourced TDI program could potentially help address the demand for revitalization and district management in "Gateway-like" communities, including low-income rural areas and smaller postindustrial cities.

5. **Allow established BIDs to lengthen their reauthorization periods.** Under current law, BIDs must recertify their signatures every five years. This is out of the norm in North America and can inhibit efforts to make public realm improvements in a district. In other states, BIDs often float bonds to make these capital investments. While cities can use DIF to finance capital projects, there may be instances where it is more appropriate for the private sector to pay for the work using BID assessments. Amending the state's BID statute to give districts the ability to extend for up to 15 years after their initial five-year period would position the private sector to self-fund improvements to downtowns and commercial areas in Massachusetts.

# NOTES

1. Leah Brooks and William Strange. "The Micro-Empirics of Collective Action: The Case of Business Improvement Districts." Journal of *Public Economics* 95.11-12 (2011); Ingrid Gould Ellen and others. "The Impact of Business Improvement Districts on Property Values: Evidence from New York City." Brookings-Wharton Papers on Urban Affairs (2007).

2. Camoin Associates. “Case Study: District Improvement Financing City of Brockton,” (Boston, MA: MassDevelopment, 2019).

3. “Downtown Recovery in the Commonwealth of Massachusetts: Findings from the Rapid Recovery Program,” (Boston, MA: Massachusetts Department of Housing and Community Development, undated).

4. The figures reported below come from a review of 990 forms for the 2021 and 2022 tax years.

MassINC

11 Beacon Street, Suite 500, Boston, MA 02108