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# PERFORMANCE AUDIT OF THE CITY'S BUSINESS IMPROVEMENT DISTRICT PROGRAM

Opportunities Exist to  
Strengthen the City's Collection  
of BID Assessments and Analysis  
of BID Performance

Office of the City  
Auditor

City of San Diego



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## THE CITY OF SAN DIEGO

September 9, 2015

Honorable Mayor, City Council, and Audit Committee Members  
City of San Diego, California

Transmitted herewith is an audit report on the City of San Diego's Business Improvement Districts program. This report was conducted in accordance with the City Auditor's Fiscal Year 2015 Audit Work Plan, and the report is presented in accordance with City Charter Section 39.2. The Results in Brief is presented on page 1. Audit Objectives, Scope, and Methodology are presented in Appendix B. Management's responses to our audit recommendations can be found after page 25 of the report.

We would like to thank staff from the Economic Development Department and the Office of the City Treasurer for their assistance and cooperation during this audit. All of their valuable time and efforts spent on providing us information are greatly appreciated. The audit staff responsible for this audit report are Alicia De La Garza, Nick Ketter, Matt Helm, and Kyle Elser.

Respectfully submitted,

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## Results in Brief

Business Improvement Districts (BIDs) are designated geographic areas where business owners elect to have assessments levied against their business with the purpose of utilizing those funds to improve the area's business conditions. The City of San Diego (City) established guidelines on the formation of BIDs in 1986, and today, the number of BIDs within the City has grown to 18. To manage and administer BID activities, the City contracts with a nonprofit entity associated with each BID.

Two City departments play key roles with the BID program: the Economic Development Department (Economic Development), and the Office of the City Treasurer (Treasurer). Economic Development's Office of Small Business oversees the BID program and administers the contracts with each of the BID associations. The Treasurer collects BID assessments as part of the Business Tax Certificate process.

Our audit objectives were to:

1. Analyze the City's processes for collecting BID assessments and disbursing revenues to the BID districts.
2. Evaluate Economic Development's efforts to analyze BID performance.
3. Evaluate opportunities to streamline the City's administrative operations.

First, we found that the City could enhance its efforts to ensure that businesses are paying the required BID assessment. The City requires businesses to register with the City and obtain a Business Tax Certificate. Despite this requirement, some businesses within BIDs may not be registering with the City, and not paying the required Business Tax and BID assessment.

We analyzed the Treasurer's roster of businesses that have paid BID assessments, and compared it to the business listings from the County of San Diego and a private-sector business information database used by Economic Development. While the Treasurer undertakes efforts to ensure compliance with applicable business taxes and BID assessments, our analysis suggests that their efforts could be enhanced with the use of these additional data sources. Additionally, some BID association executive directors have expressed concerns about ensuring all businesses within their BID district are paying the required assessment, and several have undertaken efforts to identify noncompliant businesses within their district.

To further ensure businesses are assessed correctly, we recommend that the Treasurer amend their current process and utilize additional data sources, and that Economic Development establish a standardized process for BIDs to report businesses that are not paying BID assessments.

Second, we found that Economic Development could better utilize performance metrics to assess BID performance. While the City requires BID associations to submit monthly activity reports and an annual accomplishments report, the information in both reports is typically a narrative, and lacks performance data. The National Trust for Historic Preservation's National Main Street Center, and BID programs in other large municipalities have acknowledged the need for performance measures, and have implemented systems which use data to gauge performance. Data related to BID association performance can enable BID members to make informed decisions about the management of their BID, and can assist the City in making informed policy decisions about the use of BID assessments. We recommend that Economic Development develop metrics to better evaluate BID performance.

Finally, as part of our review, we spoke with 14 BID association executive directors to discuss opportunities to increase the efficiency of the City's BID program. While opinions on the topic of the City's oversight of its BID program were mixed overall, several BID association executive directors characterized the monthly expense statement reporting process as overly burdensome. Although the City should continue to ensure adequate oversight of BID spending, the concerns related to the monthly expense reporting process may necessitate future discussions as to whether the City can lessen perceived administrative burdens related to BID expenditure reporting.

We have made three recommendations related to the City's BID assessment compliance efforts and use of performance metrics. Management has agreed to implement all three recommendations.

# Background

Business Improvement Districts (BIDs) are designated geographic areas in which business owners elect to have assessments levied against their business with the purpose of utilizing those funds to improve the area's business conditions. BIDs, which first aimed to revitalize depressed downtown areas, are now most common in large cities like New York City, Los Angeles, San Francisco, and Chicago. In 1970, California's first BID was established in downtown San Diego. In 1986, the San Diego City Council formally established guidelines on the formation of BIDs.<sup>1</sup> Today, the City of San Diego (City) has 18 BIDs.

**BID Formation** Local business owners typically initiate the BID establishment process by petitioning the City to establish a BID on their behalf. Per Council Policy 900-07, upon presentation of a petition signed by 20 percent of eligible businesses within a proposed district, the City conducts a mailed ballot procedure of all eligible businesses. The City executes this ballot procedure to determine whether a majority of businesses in the proposed BID support its establishment, based on both the number and assessed value of responding businesses.

In the event that an assessed value and numerical majority of those responding support BID formation, the City Council initiates a public hearing process. After the City Council conducts two public hearings, it may approve the BID establishment by ordinance, as long as written protests are not received from business owners that represent 50 percent or more of the total assessments to be collected.

The City then enters into a contract with a nonprofit entity associated with each BID for the management and administration of BID activities. The Office of the City Attorney approves the contract, and the Economic Development Department (Economic Development) acts as the designated contract administrator.

**BID Assessment Amounts** The nonprofit entity initiating a BID's formation sets the methodology for determining assessment amounts, taking into account each business's type, size, and location, along with the activities and improvements to be funded. BID member businesses pay their assessments annually as part of the Business Tax Certificate. The due date for the renewal of a Business Tax Certificate, and any applicable BID assessments, is the first day of the month following the expiration of the preceding certificate. New businesses are

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<sup>1</sup> San Diego City Council Resolution R-265208, adopted on March 10, 1986.



required to register within 15 days after the business start date or they are assessed late fees.

According to Economic Development, annual fees for San Diego's BIDs generally range from \$40 to \$500 per business. Some of the City's BID assessments are higher, ranging from \$90 to \$1,200 per year, with the "anchor" businesses paying up to \$5,000 per year. Two-thirds of the BID association's board must approve any proposed changes to assessment levels. The City Council considers any BID assessment changes approved by the board as part of the City Council's annual approval of BID budgets.

**Permissible BID Expenditures**

A primary advantage of BIDs, as opposed to voluntary merchant associations, is that a BID permits the costs of activities and physical improvements to be spread equitably across all those who benefit. San Diego BID associations may use assessment revenues for physical improvements, and activities that benefit assessed businesses. State law<sup>2</sup> defines *physical improvements* as the acquisition, construction, installation, or maintenance of any tangible property with an estimated useful life of five years or more (e.g. benches, trash receptacles, decorations, or parks). State law defines *activities* as the promotion of public events, furnishment of music in a public space, promotion of tourism, and/or other activities which benefit BID member businesses. Many BID associations use portions of their assessment revenues for personnel and operating expenses to implement programs, and leverage the assessments to generate additional revenue from other sources. Staffing costs are also supported by City General Fund revenue through the Small Business Enhancement Program (SBEP). A description of BID associations' other revenue sources can be found on **pages 6 and 7**.

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<sup>2</sup> In California, BIDs are authorized under the State's Parking and Businesses Improvement Area of Law of 1989, contained in California Streets and Highways Code § 36500 and §36551.

**San Diego's BIDs** Our audit focused on the City's management and oversight of the 18 BIDs currently operating within the City of San Diego as managed by 17 nonprofit BID associations. The 17 BID associations are listed below:

1. Adams Avenue Business Association
2. City Heights Business Association
3. College Area Economic Development Corporation
4. Diamond Business Association
5. Downtown Partnership
6. East Village Association
7. El Cajon Boulevard Business Improvement Association<sup>3</sup>
8. Gaslamp Quarter Association
9. Hillcrest Business Improvement Association
10. La Jolla Village Merchants Association
11. Little Italy Association of San Diego
12. Mission Hills Business Improvement District
13. North Park Organization of Businesses
14. Ocean Beach Merchants Association
15. Old Town San Diego Chamber of Commerce
16. Pacific Beach Community Development Corporation
17. San Ysidro Improvement Corporation

The City Council approves BID budgets annually. According to Economic Development staff, BID associations, as the designated Advisory Boards pursuant to state law, submit recommended budgets to City staff. City staff then review the budgets, and may suggest or request adjustments or clarifications in these budgets. The final Budget Reports are then submitted to City Council for consideration. As required by state law, the process to approve BID budgets and the assessments occurs over two City Council meetings, held three or four weeks apart. During the first meeting, City Council considers and approves the Budget Reports as presented or as modified by City Council, and then adopts a Resolution of Intention to levy the annual assessment and give notice for the required Public Hearing. During the second meeting, which includes the Public Hearing, the City Council receives any testimony on proposed assessments. The City Council

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<sup>3</sup> El Cajon Boulevard Business Improvement Association manages two BIDs: El Cajon Blvd Central and El Cajon Blvd Gateway.

may then confirm the BID Budget Reports by adopting a resolution which also constitutes the levy of the assessments for the fiscal year.

By resolution, City Council also authorizes the appropriation and expenditure of the collected assessments for activities and improvements contained in approved Budget Reports. Economic Development's Office of Small Business is then responsible for oversight of BID operations and spending. The City does not charge BID nonprofit entities for the staff or administrative costs related to the BID program.

**City Disbursement of BID Revenue** Prior to August 2011, the City's method for allocating BID revenues was to reimburse the nonprofits for permissible expenditures. As part of the reimbursement process, the City required nonprofits to show proof of eligible expenditures through submission of receipts and invoices. However, in response to concerns by some of San Diego's BIDs that the distribution of BID assessments on a reimbursement basis was creating cash flow problems, the City Council approved an amendment to Council Policy 900-07, effective August 4, 2011, which provided for the disbursement of monthly assessments in lieu of the reimbursement system. Under the revised policy, for each month the Treasurer collects BID assessments, the City transfers net cash available from the assets collected by the Treasurer during the month to the associations.

BID associations are to use assessment revenues only for expenditures eligible under California state law and in conformance with the BID's budget. According to the Office of the City Attorney, the City must retain enough control over the administration of BID assessments to adequately protect the business owners and safeguard against the improper use of BID assessment revenues. Council Policy 900-07 requires BID associations to submit monthly reports to the City highlighting BID activities and accounting for any expenditure of BID revenues. The report is also supposed to contain supporting documentation so the City can determine the appropriateness of spending.

**Other BID Revenue Sources** BID associations maintain revenue sources other than BID assessments collected by the City. One alternative revenue source is a Small Business Enhancement Program grant (SBEP).<sup>4</sup> The purpose of the SBEP is to provide support to small businesses and their role in revitalizing older commercial neighborhoods and adjoining residential areas. The City awards SBEP grants to each BID to offset some management and administrative costs.

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<sup>4</sup> In 1995, the City Council established the Small Business Enhancement Program (SBEP) with an annual General Fund appropriation equivalent to \$20 per small business (businesses with 12 or fewer employees) registered with the City. In FY 2015, the allocation totaled about \$1.3 million. Council Policy 900-15 sets forth the details of the SBEP program.

In addition to City grants, some BID associations receive funding from the City through the Maintenance Assessment District (MAD) program. MADs are special districts in which property owners vote to assess themselves in order to pay for maintenance services above-and-beyond what the City normally provides. Typical improvements carried out by a MAD include landscape maintenance in medians and right-of-way, litter removal, and the trimming and removal of trees.

In addition to alternate revenue sources facilitated by the City, BID associations leverage assessment dollars by generating revenue separate from City sources. Examples of these alternate revenue sources include monies generated through farmers markets, street fairs and festivals, fundraising, and advertising.

BID assessments often make up a relatively small portion of BID association budgets. For Fiscal Year (FY) 2014, BID assessments accounted for an estimated 11 percent of the total budgets of all BID associations. **Exhibit 1** summarizes BID association budgets.

*Exhibit 1*

**BID Association Revenues in Fiscal Year 2014**

BID	Assessment Revenue	Total Budget (Assessment Rev.+ Support)	Assessment Revenue as % of Total Budget
Adams Avenue*	\$ 53,813	\$ 481,371	11%
City Heights	\$ 39,170	\$ 287,345	14%
College Area	\$ 64,087	\$ 531,015	12%
Diamond	\$ 52,409	\$ 76,492	69%
Downtown	\$ 81,052	\$ 7,060,796	1%
El Cajon	\$ 99,825	\$ 212,015	47%
East Village	\$ 185,991	\$ 318,807	58%
Gaslamp	\$ 78,932	\$ 494,956	16%
Hillcrest	\$ 107,575	\$ 974,694	11%
Little Italy	\$ 99,498	\$ 1,273,355	8%
La Jolla	\$ 170,898	\$ 284,077	60%
Mission Hills	\$ 61,148	\$ 105,351	58%
North Park	\$ 66,000	\$ 408,939	16%
Ocean Beach	\$ 24,982	\$ 672,745	4%
Old Town	\$ 32,958	\$ 204,677	16%
Pacific Beach	\$ 151,300	\$ 521,349	29%
San Ysidro	\$ 151,361	\$ 257,247	59%
<b>Total</b>	<b>\$ 1,520,999</b>	<b>\$ 14,165,231</b>	<b>11%</b>

\* The audit of the Adams Avenue Business Association covered Calendar Year 2014. The audits of all other BIDs covered FY 2014, ending June 31, 2014.

Source: OCA analysis, based on FY 2014 financial statement audits.

**BID Advocacy Efforts** In 1989, existing San Diego BID associations formed the Business Improvement District Council (BID Council) to serve as a collaborative resource for BID nonprofits. Until FY 2013, the BID Council served as a contractor for the City, receiving approximately \$185,000 annually in SBEP grant money to assist in the administration of BID programs. The BID Council was responsible for disseminating information, resources, and expertise to member BIDs, and for administering SBEP funds to San Diego's BID nonprofit corporations and micro business districts.

During the City's FY 2014 budget process, Mayor Robert Filner moved SBEP administration duties to Economic Development, and established a BID Advocate position to liaise with BID associations and facilitate communications and projects between BID associations and the City departments. The intent of the transition was to increase direct involvement between the City and BID associations, and increase the annual SBEP budget for greater flexibility in supporting small business programs. According to Economic Development, following the move, approximately \$185,000 in SBEP grant funds, which were previously allocated annually to the BID Council, were redistributed directly to BID associations and other Economic Development small business programs. While the BID Council is no longer a City contractor, it continues to serve as an advocate for San Diego small businesses and their communities.

# Audit Results

## ***Finding #1 The City Could Enhance Its Current Compliance Efforts to Ensure that Businesses Are Paying the Required Business Improvement District Assessment***

The Office of the City Treasurer (Treasurer) collects Business Improvement District (BID) assessments as part of the Business Tax Certificate process, which requires businesses to register with the City of San Diego (City) in order to obtain the Business Tax Certificate. Despite this requirement, some businesses within BIDs may not be registering with the City. As a result, some businesses may not be paying the required Business Tax and BID assessment. We analyzed the Treasurer's most recently available (May 2015) monthly roster of businesses that have paid required BID assessments, and compared it to the business listings from the County of San Diego and a private sector business information database used by the Economic Development Department (Economic Development). While the Treasurer undertakes efforts to ensure compliance with applicable business taxes and BID assessments, our analysis suggests that their efforts could be enhanced with the use of additional data sources. Additionally, some BID association executive directors expressed concerns about ensuring all businesses within their BID district are paying the required assessment, and several have undertaken efforts to identify noncompliant businesses within their district.

**Overview of BID Assessment Process** Municipal Code §31.0130 requires businesses operating in the City to obtain a Business Tax Certificate.<sup>5</sup> All businesses, including home-based businesses, self-employed individuals, and independent contractors, must register no later than 15 days from the business start date. For business owners with multiple locations, the City requires a Business Tax Certificate for each location where the business operates. The Business Tax is based on the number of employees: \$34.00 for a business with 12 employees or fewer, or \$125.00 plus \$5.00 per employee for a business with 13 employees or more.

When a business submits a Business Tax Certificate application, the Treasurer's Business Tax program staff inputs the business's information into the Treasurer Tax Collection System (TTCS). Business Tax program staff then use SANGIS, the City's mapping program, to determine whether the

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<sup>5</sup> Municipal Code §31.0130.

applicant falls within a BID's boundaries. According to Treasurer's staff, when a business lies within a designated BID, TTCS calculates the appropriate assessment amount based on the BID's assessment formula, which is set forth in the City ordinance that establishes each BID. As noted earlier, assessments vary within and among BIDs.

At the end of each month, the Treasurer sends each BID association a list of all businesses within their district that have paid the required BID assessment and the dollar amount paid by each business. These monthly reports generally indicate the assessment dollar amount the City will advance to the BID in the following month.

**The City Treasurer Utilizes a Variety of Means to Ensure Compliance with Business Tax and BID Assessment Requirements**

According to Treasurer's staff, assessing BID fees as part of the Business Tax Certificate process can be complicated because each BID has a different assessment formula, and each BID has different rules and exemptions related to which businesses must pay. Furthermore, because businesses pay the City's Business Tax on a self-reporting basis, the Treasurer's Compliance staff must take additional steps to identify businesses that have not paid their Business Tax and BID assessments.

Treasurer's staff acknowledged that due to the self-reporting nature of the Business Tax, not all business are complying with City requirements to obtain a Business Tax Certificate. Therefore, the Treasurer's Compliance staff currently utilizes a variety of means to identify businesses that have not paid the assessment. Specifically:

- The Treasurer began using Franchise Tax Board data in 2006 to increase Business Tax Compliance. According to the Treasurer, since 2006, over 53,000 businesses have been found to be noncompliant and have paid taxes, penalties, and BID fees, if applicable (process described below);
- While the Treasurer does not yet have established policies and procedures for using other data sources, the Business Tax Program Manager reported that the office also uses Board of Equalization data, San Diego County Fictitious Business Names data, and records for registered contractors in the State of California as additive components of their compliance efforts; and
- The Treasurer investigates referrals from other City departments, BID associations, and the general public.

City Treasurer Process Narrative 0105 establishes policies for analyzing information from the California Franchise Tax Board in order to identify noncompliant Business Tax accounts. The Treasurer receives the California

Franchise Tax Board data each December and imports it into an Oracle database. Throughout the year, the Business Tax Program Manager conducts an automated comparison of TTCS and the California Franchise Tax Board Business data which results in noncompliant leads. For businesses that the Treasurer identifies as not having paid a required BID assessment, it uses TTCS to generate requesting that the business submit a Business Tax Certificate application and fee. Continued failure by a business to register for the Business Tax Certificate within 90 days results in referral to the Treasurer's Delinquent Account Collections Program.

**Additional Data  
Sources Could  
Enhance the  
Treasurer's  
Compliance Efforts**

As noted above, the Treasurer's Compliance staff use a variety of sources to ensure compliance with Business Tax and BID assessment requirements. It is important to note that the data sources currently in use have certain limitations. For example, there can be a lag time on data sources; certain data sets include only specific types of businesses; and, some data sets need to be manually analyzed. As a result, it is important to use a variety of data sources to ensure compliance. We undertook two separate efforts to identify and test data sources that could potentially enhance the Treasurer's compliance efforts. The results of our testing suggest that the additional data sources could be used as an additive component to the Treasurer's current efforts.

One test used a private sector business information database used by Economic Development, and one used the business listings from San Diego County Assessor (County Assessor) data. Data from the County Assessor is based on Business Personal Property Tax records, and includes businesses that have zero assessed personal property, businesses operating on leased property, and businesses that own its property.

First, we queried information from a private sector business information database used to identify businesses operating within the City. For this testing, we input the results into ArcGIS geospatial information software to identify businesses that fall within BID boundaries. Using this baseline data, we tested all 2,391 businesses that fell within a BID. We compared our baseline data from the private database against the Treasurer's most recently available (May 2015) monthly roster of businesses that have paid required BID assessments. Through this comparison, we identified businesses operating in the City that may not be paying the Business Tax and therefore not paying the required BID assessment. We found that, approximately 26 percent, or 625 businesses, were listed in the private sector database, but not on the paid BID assessment list. It is important to note that a portion of the 625 businesses may not be required to pay the City's Business Tax or BID assessment due to a variety of exemptions, which is described in more detail on the following page.



In an effort to ensure thorough testing of business listings within the City, we conducted a second test using the County Assessor's data, which includes a list of all businesses operating within the City. Using ArcGIS geospatial information software, we identified a total of 13,129 businesses within BID boundaries. For 11 BIDs, we selected a random sample of businesses based on a 95 percent confidence interval and a 5 percent margin of error. We then verified whether each business from the sample was recorded as having paid the required Business Tax and BID assessment. Based on our testing, the percentage of businesses listed in the County Assessor's data but not on the paid BID assessment list ranged from 30 to 61 percent across the 11 BIDs that we tested. As with the private sector database previously described, an undetermined portion of the businesses we identified may be exempt from Business Tax and BID assessment requirements. Notwithstanding the exemptions, the data provides additional leads that would enhance the City's compliance efforts.

In total, we tested approximately 5,000 businesses. We provided these results to the Treasurer for review. After a preliminary and partial review of our results, the Treasurer indicated that our referral led to valid leads. For example, the Treasurer examined 159 businesses from the results of our testing of the County Assessor's data. The Treasurer determined that 30 (about 19 percent) of the businesses they examined are good, or potentially good, leads to identify as noncompliant with Business Tax and BID assessment requirements. It is likely that additional examination of the data would result in additional leads of noncompliant businesses.

The Treasurer also noted that many of the businesses in our testing samples are exempt from Business Tax and BID assessment requirements for a variety of reasons, and each BID has different rules and exemptions related to which businesses must pay. In addition, the Municipal Code exempts non-profit entities such as schools, churches, and City properties from paying Business Tax and assessment requirements. Furthermore, the Treasurer may have already referred some of the businesses we identified to the Delinquent Account Collections Program. Nevertheless, our testing and the Treasurer's preliminary examination of our results suggest that some businesses may not be paying the required Business Tax and BID assessment. Accordingly, the Treasurer should utilize the data we provided to enhance their current compliance efforts.

**BID Executive Directors Have Expressed Concerns Over Foregone Revenue** Some of the 14 BID association executive directors we spoke with expressed concerns about businesses not registering with the City, and therefore not paying the required Business Tax and BID assessment. Due to these concerns, some BID associations have surveyed their districts on a regular and ongoing basis to identify businesses that have not registered for a Business Tax Certificate, and therefore not paying the BID assessment fee. For example, one BID set up a system in which BID board members were charged with surveying a designated geographic area within the BID and comparing it to the Treasurer's monthly assessment list to identify businesses operating within the district that have not paid the required assessment fee. Following the survey, the BID association submitted a list of allegedly noncompliant businesses for review to the Treasurer. Other BID association executive directors expressed similar concerns related to BID assessment collections, but noted they lacked the resources necessary to survey their districts to identify noncompliant businesses.

**Recommendation #1** In order to enhance current compliance efforts, the Office of the City Treasurer should:

- Amend City Treasurer Process Narrative 0105 to fully reflect current compliance practices and current data and referral sources; and
- Utilize additional sources, including San Diego County Assessor's data, to enhance compliance efforts and ensure that all businesses with BIDs are being assessed correctly. The use of any additional data sources should be documented in City Treasurer Process Narrative 0105. (Priority 3)

**Recommendation #2** The Economic Development Department, in consultation with the Office of the City Treasurer and BID association management, should:

- Establish and document a standardized process for BIDs to report businesses within districts that are not potentially paying Business Tax or required BID assessments. The documented process should include reporting procedures and timeframes for determining compliance. (Priority 3)

## ***Finding #2 The Economic Development Department Can Better Utilize Performance Metrics to Assess BID Performance***

The Economic Development Department (Economic Development) can better utilize metrics to evaluate Business Improvement District (BID) association performance and effectiveness. While the City of San Diego (City) requires BID associations to submit monthly activity reports and an annual accomplishments report summarizing BID goals, accomplishments, and expenditures, information in both reports is typically a narrative, and lacks performance data. The National Trust for Historic Preservation's National Main Street Center, and BID programs in other large municipalities, have acknowledged the need for performance measures and have implemented systems which use data to gauge performance. Data related to BID association performance can better enable BID members to make informed decisions about the management of their BID and can assist the City in making informed policy decisions about the use of BID assessments.

### **Performance Information Submitted by BIDs Are Primarily in Narrative Form**

The monthly activity reports and annual reports we reviewed listed BID association activities for the month, including such items as meetings held, the initiatives and working groups contributed to, and the completion of neighborhood improvement projects. For performance analysis purposes, information related to programs introduced and maintained by the BID association is considered an output. The information does not necessarily show outcomes, which demonstrate the effectiveness of the program. Furthermore, the types of information provided by BID associations in the monthly and annual reports vary, making the identification and analysis of performance trends difficult.

### **Benefits of Utilizing Performance Information**

The use of performance goals and measurement can be effective tools for advancing an organization's mission. The Government Finance Officers Association, the International City/County Management Association, and the White House Office of Management and Budget, among other groups, recognize the need to utilize performance measurements in order to help agencies achieve meaningful progress and find lower-cost ways to achieve positive results. Organizations should focus on three key performance improvement strategies:

1. Using performance information to lead and learn to improve outcomes;
2. Communicating performance information clearly and concisely to improve results and transparency; and

3. Strengthening problem-solving networks inside and outside government to improve outcomes and performance management practices.

While the use of performance information can help an organization advance its mission, BID associations may differ from one another in what performance indicators they believe most closely measure BID performance. For example, we interviewed one San Diego BID association executive director who said their BID association's priorities included the mitigation of trash and criminal activity, and that the usefulness of any quantitative performance metrics for their BID would depend on whether the metrics measured those key BID association priorities.

In a previous performance audit of the City's economic development programs,<sup>6</sup> our office noted that external factors like economic fluctuation can make analysis of whether an economic development program is achieving its intended outcome difficult. For example, a weak economy may not mean that a specific program is ineffective, and vice versa. Notwithstanding the external factors that can impact program measurement, research and experts our office interviewed indicated it is essential to maintain a range of performance measures to monitor the overall trends and outcomes of economic development efforts.

**National Main Street  
Center Use of  
Performance Data**

As part of our review, we consulted with program managers from the National Trust for Historic Preservation's National Main Street Center, a national nonprofit organization dedicated to the preservation and revitalization of historic downtown and commercial districts. The National Main Street Center oversees 27 "Main Street" organizations in California, each of which have applied for membership to the National Main Street Center and demonstrated that it has support from the entire community, as opposed to an individual or a small group of people. A downtown or commercial district may not use the "Main Street" designation without the consent of the National Trust for Historic Preservation. Within San Diego, North Park and Ocean Beach Districts hold the distinction of being National Main Streets.

Main Street members submit statistics related to their revitalization efforts in an annual report to the National Main Street Center. The annual report contains data on both public and private investment in neighborhood development projects, and allows for a year-to-year record of a Main Street program's impact during its history as a member of the National Main Street Center. While not all of the data types listed below are directly applicable to

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<sup>6</sup> City Auditor's *Performance Audit of the Economic Development Department* (Report: OCA 13-006).

BID association performance, the baseline data submitted by member Main Streets includes:

- Community population;
- Net of all gains and losses in jobs;
- Net of all gains and losses in new businesses;
- Number of building rehabilitation projects;
- Number of public improvement projects;
- Number of new construction projects;
- Number of housing units created;
- Monetary value of private investments spent in the above projects;
- Monetary value of public investments spent in the above projects;
- Monetary value total of all investment and public and private investment;
- Ground-floor vacancy rate when your program started;
- Ground-floor vacancy rate now;
- Rental rate per square foot when program started;
- Rental rate per square foot now; and
- The program's annual operating budget.

The program manager with oversight of California's Main Streets said an important element of assessing performance, during the annual reporting process, is the National Main Street Center's development of investment ratios that measure public and private investment in neighborhood development projects against operating budgets. The investment ratio formula is below:

$$\frac{\text{Public Investment} + \text{Private Investment}}{\text{Total Annual Operating Budget}}$$

Anomalies in the annual performance data submitted by member Main Street programs or low reinvestment ratios can result in follow up inquiries, or actions by the parent organization. The data further informs National Main Street Center program managers when determining whether to take an action against a member Main Street, such as placing a member on probation. However, in addition to the National Main Street Center's use of annual performance reporting to identify possible program management concerns, Main Street members can use reinvestment statistics to demonstrate and communicate the effectiveness of their programs.

Providing tangible measurements of a Main Street program’s success is crucial in order for programs to sustain financial and programmatic support for its revitalization work.

**Large Municipalities Using Performance Metrics for BIDs**

Other large municipalities are utilizing performance measurement systems to assess the effectiveness of their Special Service Areas<sup>7</sup> and BIDs. One of those municipalities is the City of Chicago, which has implemented a line item metric system where Special Service Areas submit quarterly reports on area activities. For each activity measured by Chicago, the district submits information on the dollar amount spent on the activity and an outcome metric. The City then reviews the quarterly metrics to monitor district activities. An example of data collected by Chicago’s performance reporting system is shown in **Exhibit 2**.

*Exhibit 2*

**Example of Special Service Area Performance Data Collected by the City of Chicago**

Sustainability and Public Places	2014 Budget	2014 Expenses	Difference	Outcome Measure	Prior Year	Q1	Q2	Q3	Q4	YTD
Garbage/ Materials Recycling Program	<i>Dollar Amount (\$)</i>	<i>Dollar Amount (\$)</i>	<i>Dollar Amount (\$)</i>	<b>Pounds (lbs.) of Recycled Materials Collected</b>	<i>lbs.</i>	<i>lbs.</i>	<i>lbs.</i>	<i>lbs.</i>	<i>lbs.</i>	<i>lbs.</i>

Source: City of Chicago, Department of Planning and Development.

New York City is also in the process of implementing a new rating system to analyze the performance of its BIDs. For individual BIDs, the rating system will measure data for a particular mission objective against how much money the BID allocated to that objective. New York City’s BID program plans to utilize information from the Mayor’s Office of Data Analytics as part of its new BID rating process. The Office of Data Analytics, which aggregates and analyzes data from across New York City agencies to address crime, public safety, and quality of life issues, can provide information relevant to New York BID associations, such as statistics for foot traffic and sanitation issues. New York City will use this data as a capacity building tool. New York City will provide the data it collects to BID associations so that they can compare their efforts to peers and make better, more efficient decisions about programs and spending.

<sup>7</sup> In the City of Chicago, Business Improvement Districts are known as Special Service Areas.

**Applicable Performance Metrics for San Diego BIDs** We reviewed performance measures used by the National Trust for Historic Preservation's Main Street Center, New York City, and the City of Chicago, and reviewed academic research from experts in the field of BID performance measures. Based on our analysis, the City can use various performance indicators to assess BID effectiveness. The performance indicator data would be available from BID associations, City departments, or a combination of both. The information also could supplement annual accomplishment reports already submitted by BID associations by providing Economic Development staff the opportunity to assess year-to-year trends related to BID activity outcomes. Several potential performance indicators are shown below in **Exhibit 3**.

*Exhibit 3*

**Performance Indicators Applicable to San Diego BIDs**

Performance Indicator	Positive Outcome Measured
Ratio of annual BID assessment amount to total annual operating budget	The ability of the BID to leverage assessment dollars
Net of all gains and losses in new businesses	Increases or stability in the number of businesses indicates local business success, retention, and expansion
Net of all gains and losses in jobs	Increases in the number of jobs indicates local business success, retention, and expansion
Ground floor vacancy rate	Increases in lease rates indicates increased demand for district real estate
Sales tax revenue	Increases in sales tax revenue indicates local business success, retention, and expansion
Rates of reported crimes	Decreases in the number of reported crimes indicates an increased sense of safety and security

Source: OCA analysis.

**Recommendation #3** The Economic Development Department, in conjunction with BID association management, should develop metrics to evaluate BID performance. Performance reporting should incorporate BID budget priorities in order to measure data against individual BID association missions; and be reported as part of annual reporting.

For each metric, the Economic Development Department, in conjunction with BID association management, should determine whether the City or the BID association will be responsible for collecting the data. The determination should be based on the access to and the reliability of the data. (Priority 3)

## Other Pertinent Information: Monthly Oversight of BID Expenditures

As part of our review, we spoke with 14 Business Improvement District (BID) association executive directors to discuss opportunities to increase the efficiency of the City of San Diego's (City) BID program. While opinions on the topic of the City's oversight of its BID programs were mixed overall, several BID association Executive Directors characterized the monthly expense statement reporting process as overly burdensome.

Per City Council Policy 900-07, BID associations must submit monthly reports to the City highlighting BID-funded activities, and account for any expenditure of BID revenues. Furthermore, the policy stipulates BID associations should submit supporting documentation so the City can determine the appropriateness of spending. The BID associations compile these monthly reports and the supporting documentation into paper-based packets and mail the information to the Economic Development Department (Economic Development). Economic Development staff then review the packets, which contain copies of checks, bank statements, invoices, and business activity summaries, to assess BID association adherence to contracts and their Council-approved BID budget. The monthly reports we reviewed ranged from 21 to 108 pages. According to Economic Development's Office of Small Business, reviews of the reports are staff- and time-intensive.

In total, five executive directors said the monthly reports were overly burdensome. They cited the following concerns about the monthly reporting process:

- The amount of time required to compile the reconciliation packet is excessive;
- The paper-based nature of the reporting process requires BID association staff to manually reconcile expenditure documents to electronic bookkeeping records; and
- The level of monthly oversight required of BID program expenditures is not commensurate with the amount of funds disbursed by the City to BID associations.

However, another five executive directors were generally satisfied with the monthly expense reporting process. Four executive directors either offered mixed opinions on whether the monthly reports are overly burdensome, or did not state an opinion. For example, one BID association executive



director said that while the reports can be difficult to compile, monthly oversight of BID spending is necessary. We also spoke with two certified public accounting (CPA) firms that were responsible for 12 of the BID associations' FY 2014 annual financial statement audits. According to both CPAs, the monthly reconciliation reports are a central aspect of the City's oversight of BID spending. One CPA firm added that the monthly packets are a major part of their audit's documentation process.

In April 2011, a memorandum by the Office of the City Attorney<sup>8</sup> concluded BID assessments are public funds, and therefore the City should structure revenue disbursement procedures in a manner that ensures BID associations properly expend revenues. Furthermore, the memorandum noted that procedures should allow for the City to quickly and efficiently recoup funds that may be improperly expended.

The City should continue to ensure adequate oversight of BID spending in accordance with Council policy and recommendations of the Office of the City Attorney. However, BID association executive directors' concerns related to the monthly expense reporting process may necessitate future discussions as to whether the City can lessen perceived administrative burdens related to BID expenditure reporting.

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<sup>8</sup> Memorandum MS 59, April 12, 2011, Office of the City Attorney, City of San Diego.

## Conclusion

Business Improvement Districts (BIDs) are designated geographic areas within the City of San Diego (City) where business owners elect to have assessments levied against their business for the purpose of utilizing the funds to improve district business conditions. The City currently has 18 active BIDs. BID associations maintain other government revenue sources, and are able to leverage assessment dollars by managing revenue-generating activities such as farmers' markets, street fairs and festivals, and fundraising drives.

The Office of the City Treasurer (Treasurer) collects BID assessments as part of the Business Tax Certificate process, and the Economic Development Department (Economic Development) is responsible for oversight of BID operations and spending. We determined that opportunities exist for the Treasurer to utilize additional data sources to enhance compliance efforts. We also found that Economic Development could better utilize performance metrics to assess BID performances.

To analyze the Treasurer's assessment collection process, we compared the Treasurer's monthly roster of businesses that have paid BID assessments to business listings from the County of San Diego, and a private sector business information database. While the Treasurer undertakes efforts to ensure compliance with applicable business taxes and BID assessments, we determined that some businesses may not be registering with the City, and therefore not paying the required business tax and BID assessment. Our analysis suggests that the Treasurer's efforts could be enhanced with the use of additional data sources. In addition, Economic Development should establish a standardized process for BIDs to report businesses that are not paying BID assessments.

Lastly, we found that Economic Development can better utilize metrics to evaluate BID performance and effectiveness. While the City requires BIDs to submit monthly activity reports and an annual accomplishments report summarizing BID goals, accomplishments, and expenditures, information in both reports is typically a narrative, and lacks performance data. We identified six potential performance indicators that the City could use to analyze BID association performance. Data related to BID association performance can better enable BID members to make informed decisions about the renewal and management of their BID, and can assist the City in making informed policy decisions about the use of BID assessments.

# Recommendations

- Recommendation #1** In order to enhance current compliance efforts, the Office of the City Treasurer should:
- Amend City Treasurer Process Narrative 0105 to fully reflect current compliance practices and current data and referral sources; and
  - Utilize additional sources, including San Diego County Assessor's data, to enhance compliance efforts and ensure that all businesses with BIDs are being assessed correctly. The use of any additional data sources should be documented in City Treasurer Process Narrative 0105. (Priority 3)

- Recommendation #2** The Economic Development Department, in consultation with the Office of the City Treasurer and BID association management, should:
- Establish and document a standardized process for BIDs to report businesses within districts that are not potentially paying Business Tax or required BID assessments. The documented process should include reporting procedures and timeframes for determining compliance. (Priority 3)

- Recommendation #3** The Economic Development Department, in conjunction with BID association management, should develop metrics to evaluate BID performance. Performance reporting should incorporate BID budget priorities in order to measure data against individual BID association missions; and be reported as part of annual reporting.

For each metric, the Economic Development Department, in conjunction with BID association management, should determine whether the City or the BID association will be responsible for collecting the data. The determination should be based on the access to and the reliability of the data. (Priority 3)

# Appendix A: Audit Recommendation Priorities

## DEFINITIONS OF PRIORITY 1, 2, AND 3

### AUDIT RECOMMENDATIONS

The Office of the City Auditor maintains a priority classification scheme for audit recommendations based on the importance of each recommendation to the City, as described in the table below. While the City Auditor is responsible for providing a priority classification for recommendations, it is the City Administration's responsibility to establish a target date to implement each recommendation taking into considerations its priority. The City Auditor requests that target dates be included in the Administration's official response to the audit findings and recommendations.

Priority Class <sup>9</sup>	Description
1	Fraud or serious violations are being committed. Significant fiscal and/or equivalent non-fiscal losses are occurring. Costly and/or detrimental operational inefficiencies are taking place. A significant internal control weakness has been identified.
2	The potential for incurring significant fiscal and/or equivalent non-fiscal losses exists. The potential for costly and/or detrimental operational inefficiencies exists. The potential for strengthening or improving internal controls exists.
3	Operation or administrative process will be improved.

<sup>9</sup> The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

# Appendix B: Objectives, Scope, and Methodology

**Objectives** In accordance with the City Auditor's FY 2015 Work Plan, we conducted a performance audit of the Economic Development Department's (Economic Development) Business Improvement Districts (BID) program. Our audit focused primarily on the period from Fiscal Year (FY) 2014 to FY 2015, with an emphasis on current operations. The objective of this audit was to review the City of San Diego's (City) management of Economic Development's BID program to determine whether opportunities exist to increase efficiency and enhance internal controls.

**Scope and Methodology** To achieve our audit objectives, we:

1. Analyzed the City's process for collecting BID assessments from businesses, and its process for disbursing BID revenues to the BID districts;
2. Evaluated Economic Development's efforts to analyze BID performance; and
3. Evaluated opportunities to streamline operations and improve BIDs' overall satisfaction with the City's administration of the BID program.

To determine if all businesses within BID boundaries are paying the required business tax and BID assessment, we met with the Office of the City Treasurer (Treasurer) to review their current procedures for collecting and disbursing BID revenues. We subsequently queried information from a private sector market research database to identify businesses operating within the City. Because this database only included addresses and not the County of San Diego Assessor's Parcel Numbers, we used ArcGIS geospatial information software to identify business that lie within a BID. Using this baseline data, we conducted testing of all 2,391 businesses that fell within a BID. We compared our baseline data from the private database against the City's master list of businesses that have paid their required BID assessment. Through this comparison, we identified businesses operating in the City that may not be paying a required BID assessment.

To supplement the testing completed on the data from the private sector database, we utilized the San Diego County Assessor's data, which includes a list of all businesses operating within the City to generate a baseline list of businesses which may be required to pay a BID assessment.

This data is based on Business Personal Property taxes, and includes all businesses (even if the business has zero assessed Business Personal Property tax due), businesses operating on leased property, and businesses that own real estate. Using ArcGIS software, we identified a total of 13,129 businesses within BID boundaries. For 11 BIDs, we selected a random sample based on a 95 percent confidence interval and 5 percent margin of error, and verified whether each business was recorded as having paid a BID assessment.

In total, we reviewed approximately 5,000 business records. We provided the results of our testing to the Treasurer for review. After limited testing, the Treasurer advised us that the referral led to valid leads. However, the Treasurer also noted that some of the businesses we identified as potentially not having paid a required assessment are exempt. These exemptions can vary by BID.

To evaluate Economic Development's assessment of BID performances, we spoke with BID association executive directors to solicit input on which performance measures would benefit BIDs and the City. In addition, we conducted benchmarking against other cities, particularly those with large BID programs, to identify best practices for tracking and utilizing performance data. Furthermore, we spoke with program managers and reviewed information from the California Main Street Association to evaluate metrics the organization uses to track neighborhood revitalization programs, and which of those metrics can apply to San Diego BID associations. We also reviewed our prior performance audit of the City's Economic Development Department programs, and the White House Office of Management and Budget to identify potential best practices.

To assess opportunities to streamline administrative operations and improve BID associations' overall satisfaction with the City's administration of the BID program, we met with 14 of the 17 BID association executive directors, subject matter experts on BID finances, and BID-contracted CPA firms to solicit their perspective on the BID program management.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: September 4, 2015

TO: Eduardo Luna, City Auditor

FROM: Gail R. Granewich, City Treasurer

Handwritten signature of Gail R. Granewich in blue ink, followed by a large, thick black scribble that partially obscures the text below.

Erik Caldwell, Economic Development Department Director

SUBJECT: Management Response to the Performance Audit of the City of San Diego's Business Improvement District Program

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This memorandum is management's response to the Performance Audit of the City of San Diego's Business Improvement District Program conducted by the Office of the City Auditor.

**Recommendation #1:** In order to enhance current compliance efforts, the Office of the City Treasurer should:

- Amend City Treasurer Process Narrative 0105 to fully reflect current compliance practices and current data referral sources; and
- Utilize additional sources, including San Diego County Assessor's data, to enhance compliance efforts and ensure that all businesses with BIDs are being assessed correctly. The use of any additional data sources should be documented in the Office of the City Treasurer's Process Narrative 0105. (Priority 3)

**Management Response:** Agree with Recommendation.

The Office of the City Treasurer will update Process Narrative 0105 to reflect current compliance practices and all data sources used to increase Business Tax compliance by December 2015.

The Office of the City Treasurer uses various data sources to increase Business Tax compliance and continuously evaluates the availability of new sources. During the past year, data sources provided by the Public Utilities Commission and the State Board of Equalization's *Statewide Compliance & Outreach Program (SCOP)* have been incorporated into the Office of the City Treasurer's Business Tax compliance efforts. In addition to these new data sources, the Office of the City Treasurer also conducts Business Tax employee count compliance audits and utilizes data sources from the Franchise Tax Board, State Board of Equalization Seller's Permit applicants and State of California

Licensed Contractors. The Business Tax Compliance Program also receives non-compliant leads from the public and various City departments.

The Office of the City Treasurer's Business Tax Compliance Program has already begun using the San Diego County Assessor and private sector data referenced in the subject Performance Audit of the City of San Diego's Business Improvement District Program Audit Report.

**Recommendation #2:** The Economic Development Department, in consultation with the Office of the City Treasurer and BID association management, should:

- Establish and document a standardized process for BIDs to report businesses within districts that are not potentially paying Business Tax or required BID assessments. The documented process should include reporting procedures and timeframes for determining compliance. (Priority 3)

**Management Response:** Agree with Recommendation.

On a voluntary basis, several BID associations currently report businesses within their district that they believe are not paying the Business Tax or required BID assessments. The process they follow includes physical surveys of the businesses in the BID in comparison with monthly reports from the Office of the City Treasurer to identify and list potentially non-compliant businesses. The BID associations then submit these lists to the Office of the City Treasurer for review and action as appropriate.

Economic Development Department will meet with the Office of the City Treasurer to determine how this informal process may be formalized by standardizing the required information and format of information needed by the Office of the City Treasurer and the time required to review and respond to submissions. Economic Development will then prepare a draft procedure and template incorporating feedback from the Office of the City Treasurer. The Economic Development Department will then share this draft procedure with the BID associations for input. A meeting of all stakeholders (City Treasurer's Office, Economic Development Department, and representatives from BID associations) will be convened as needed to address any final issues prior to finalizing the procedure and implementing the process.

**Recommendation #3:** The Economic Development Department, in conjunction with BID association management, should develop metrics to evaluate BID performance. Performance reporting should incorporate BID budget priorities in order to measure data against individual BID association missions; and be reported as part of annual reporting.

For each metric, the Economic Development Department, in conjunction with BID association management, should determine whether the City or the BID association will be responsible for collecting the data. The determination should be based on the access to and the reliability of the data. (Priority 3)

**Management Response:** Agree with Recommendation.



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Eduardo Luna, City Auditor

September 4, 2015

The Economic Development Department is currently working with the Performance and Analytics Department to establish new performance metrics as part of its department tactical planning process. The Economic Development Department anticipates some metrics will be recorded and tracked by the Department while others will be tracked by BID association management and reported to the City on a periodic basis. The Economic Development Department, as part of its tactical planning process, will consult with the BID associations to review data available in order to ensure metrics established by the City can be easily reported.

cc: Scott Chadwick, Chief Operating Officer  
Stacey LoMedico, Assistant Chief Operating Officer  
Stephen Puetz, Chief of Staff, Office of the Mayor  
David Graham, Deputy Chief Operating Officer  
Mary Lewis, Chief Financial Officer  
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