

Private Investments in Public Space:

Negotiating the Funding for Dutch Business Improvement Districts

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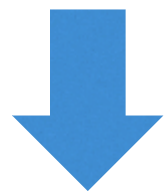
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Financing public development project is becoming more difficult

because of e.g.

- decreasing *public revenues*
- increasing *development and construction costs*
- increased *complexity* of the projects



More investments from local parties are required



Business Improvement Districts (BID)

A mechanism that is introduced by businesses and property owners to finance local improvements such as marketing, cleaning, and security, and also for investments in public space and accessibility.



Private – private coalition to carry out (contribute to) public development tasks



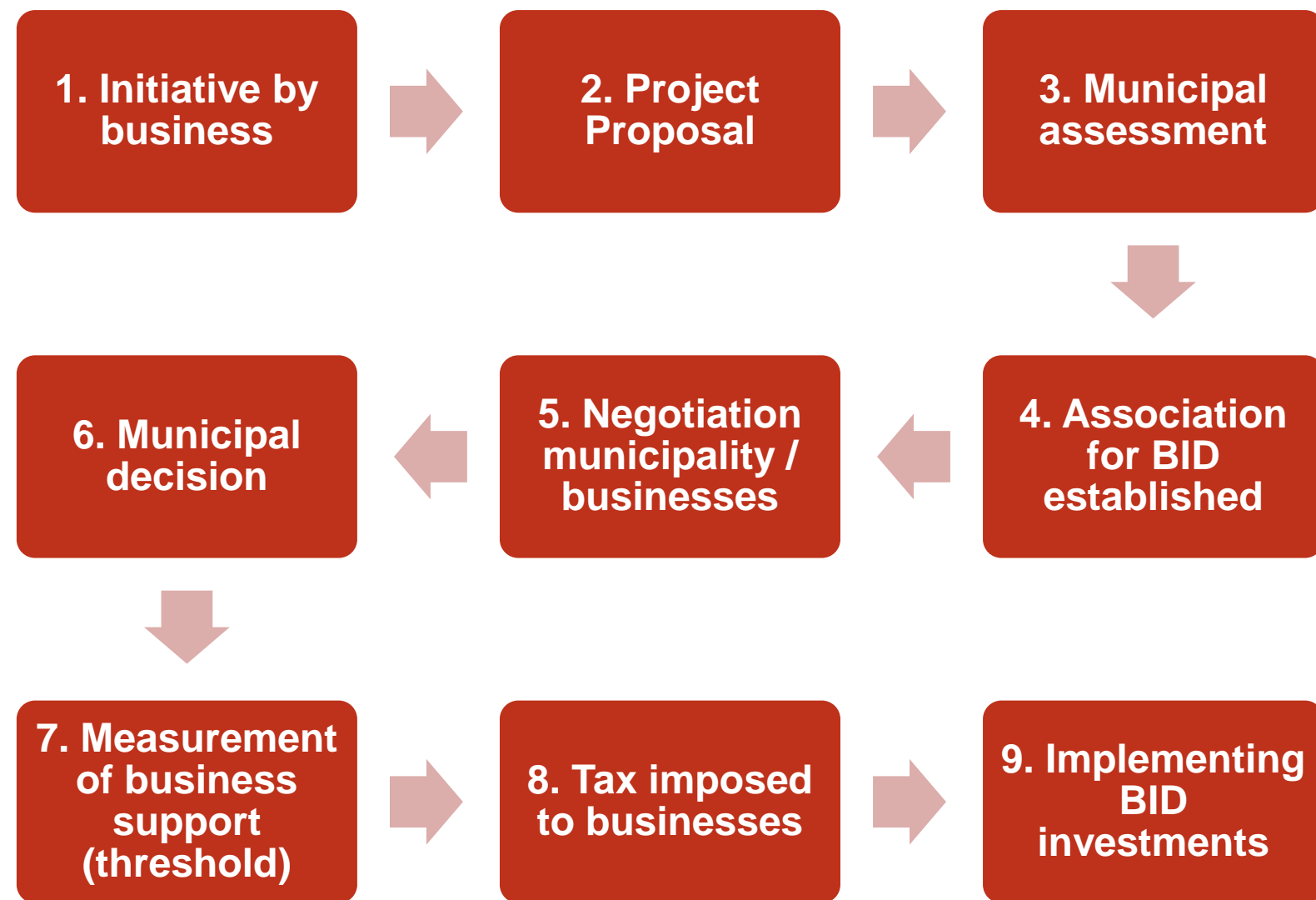
BIDs – context

Temporary agreement between businesses in an area to collectively finance additional measures

- Introduced in Canada in the 70s
- Worldwide at least 1400 BIDs

In Netherlands,

- since 2009, 113 BIDs (35 business estates, 78 shopping areas)
- after successful temporary regulations, now a permanent law is in preparation.



Although applied worldwide, including the Netherlands, it is unclear how BID – coalition is established



Regulation needs to reflect opinions and preferences in practice in order for the BID to provide the best outcomes, but is quite diverse



BIDs international

(Berenschot, 2012)

	USA	UK	Germany	Netherlands
Character	Private management with financing from public business taxes	Addition to municipal and existing inner city management	Introduced by local government, carried out by contractor	Addition to municipal investments
Tax	Imposed to owners, dependant on real estate (location, size, etc.)	Dependant on local conditions, but often the renters	Additional taks on real estate ownership	Imposed to renters
Decision-making	Board determines policy and membership	Written permission among businesses who pay extra contribution	Government closes a early contract with a contractor	A local association represents the interests of the businesses
Required support	Double majority	Double majority, More than 50% of owners with more than 50% of real estate have to approve	Less than 30% of real estate owners representing less than 30% of real estate oppose	Double majority. 50% of businesses have to reply, of which 2/3rd need to agree, representing 50% of real estate



Research Objective

To identify the essential conditions for setting up BID in the Netherlands.

More specifically, to examine the process of negotiation in ***coalition building*** and the role of ***information*** availability in order to assess whether the regulation fit the actual behavior of Dutch actors in ***contributing*** to BIDs project



Methodology: (Serious) Game Experiment

- **Setting:**

- Four players, i.e. companies/land-owners, need to form a coalition to form a BID
- The project funded by the BID will create an added value to all players (if BID is agreed)
- 3/4 of players is required to form a BID (in law this is 2/3rd)

- **Task:**

- Players (businesses) have to negotiate about their contribution to fund the BID project.

- **Two games (2 rounds for each game):**

- Closed information
- Revealed information

(the information is especially related to the gain of each player from the BID project)



Possible coalitions (negotiation outcomes)

Outcome 1 NO BID

Negotiation: 2 or less owners reach an agreement on BID contributions.

Result: Everybody has a result of 0.



Outcome 2 BID – 3-way agreement

Negotiation: 3 owners reach an agreement on a BID contribution.

Result: Added value of owner by BID minus contribution of owner to BID.



Outcome 3 BID – 4-way agreement

Negotiation: All 4 owners reach an agreement on a BID contribution.

Result: Added value of owner by BID minus contribution of owner to BID..

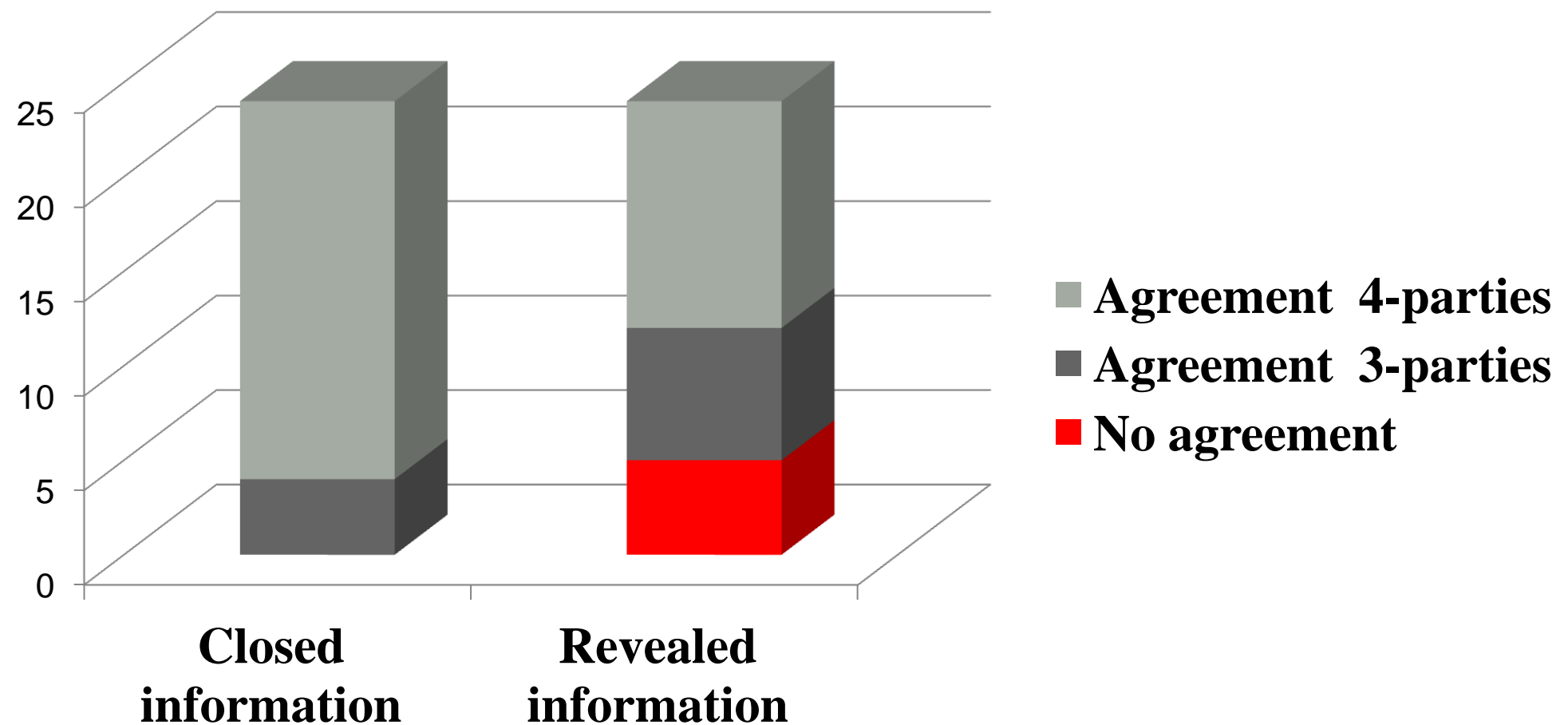


**48 participants:
12 Groups**



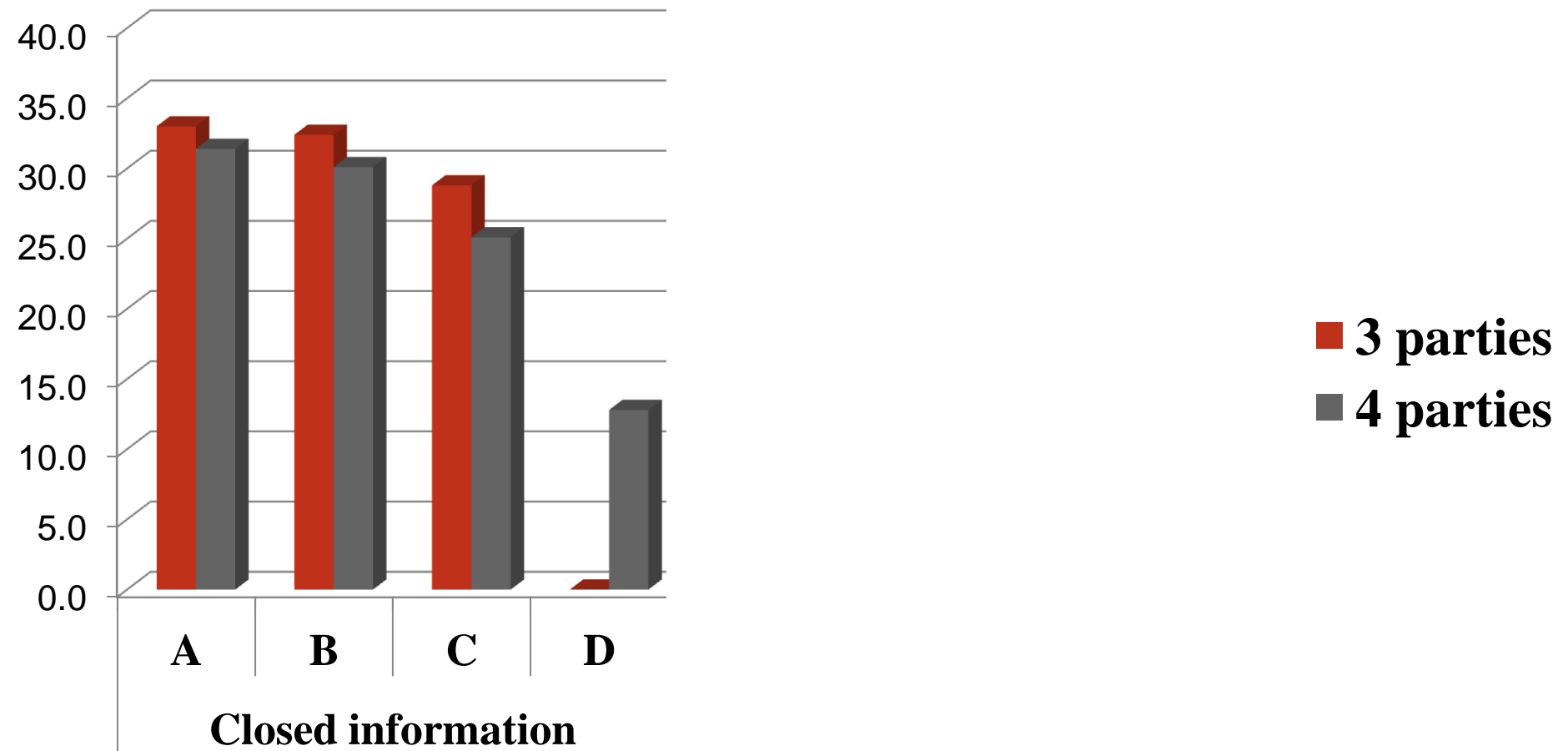
Results: Number of agreements

	No agreement	Agreement		
	Total	3 -parties	4-parties	Total
Closed information	0	4	20	24
Revealed information	5	7	12	19



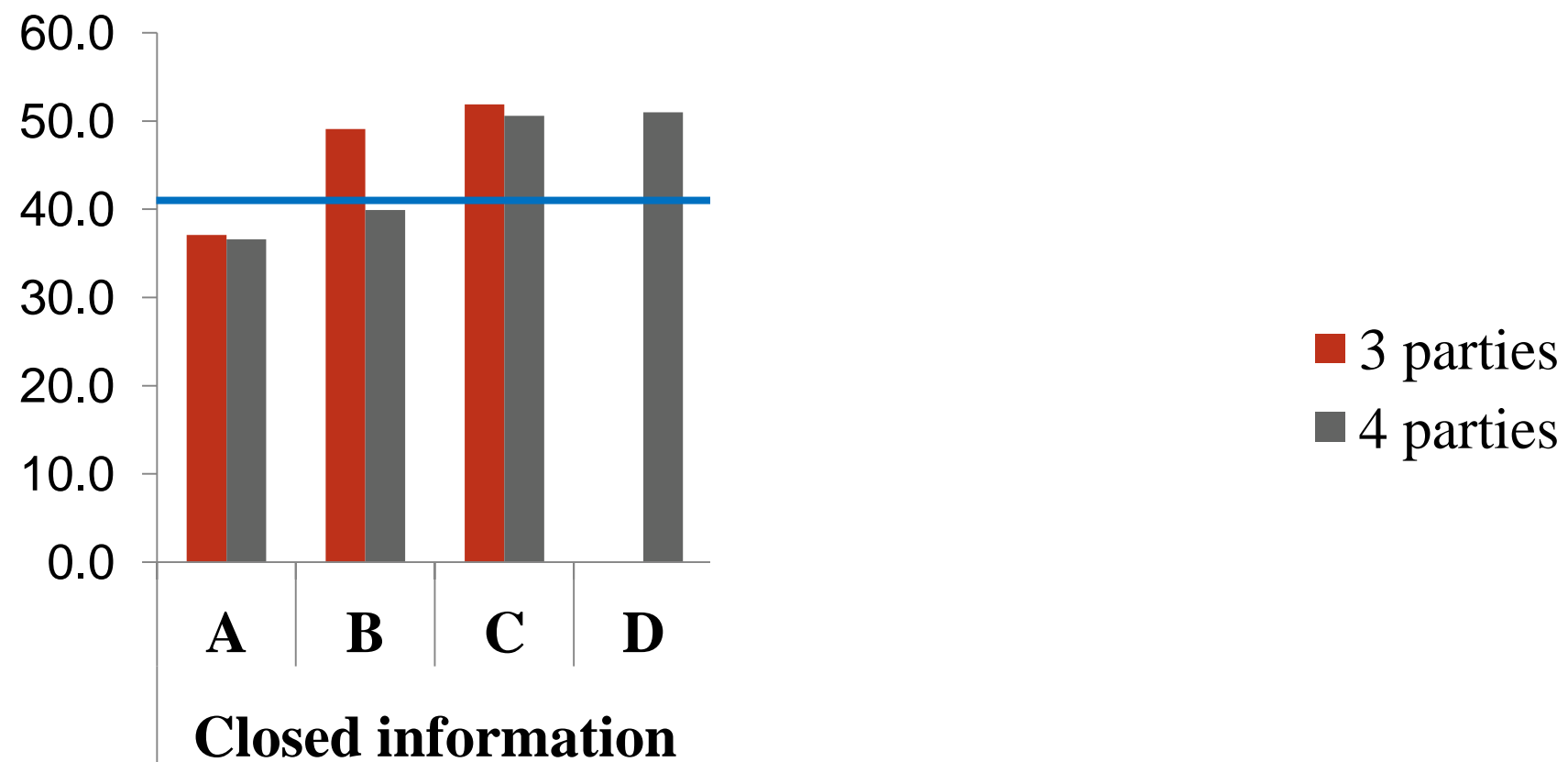
Results: Distribution of % contribution to BID

	Coalition Formation	Closed information			
		A	B	C	D
% Contribution to BID	3 parties	33,0	32,4	28,8	0,0
	4 parties	31,4	30,1	25,1	12,8



Results: Distribution of % contribution to profit

	Coalition Formation	Closed information			
		A	B	C	D
% Contribution to profit	3 parties	37,1	49,1	51,9	0,0
	4 parties	36,6	39,9	50,6	51,0
Equal % contribution to profit	% (4 parties)	41	41	41	41
	Occasions	3 (out of 24)			



Conclusions: information availability and profit distribution in BID coalitions

1. Closed information: large businesses reach higher profit margins
2. Revealed information: profit margins approach an equal distribution
 - More information leads to better agreements: a more equal distribution of the profits according to business contributions to the BID.
 - However, more information also decreases the chance that coalition building will be successful.
 - *Understanding of other players improves, but discussions over profit margins intensifies*



Recommendations and research directions: a permanent Dutch BID-law?

Legislation should be tuned towards the negotiation practice of businesses:

- Majority of businesses prefers a profit related to contribution (41%),
if information is available.
 - *But should it be? / Is it possible?*
- Large businesses profit from lack of info & 3/4 threshold in legislation
 - *How to ensure the interests of small businesses are also served?*
 - *What about large businesses opposing the BID?*
- Experiments only cover BIDs that are clearly profitable
 - *What if this is uncertain? / What if not all businesses profit?*

