

The San Benito Business Improvement District: The Model for its Implementation

**Prepared for
The Zona Rosa Corporation
San Salvador, El Salvador
December 2012**

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Introduction

In 2002, a public private partnership was formed when the Municipality of San Salvador authorized the Zona Rosa Corporation to make comprehensive improvements to the street network of the San Benito area. The municipality agreed to this partnership on the condition that private funds would be raised to pay for the public works improvements. The Corporation viewed this agreement as an opportunity to take a leadership role in the revitalization of the area and as a way to enhance the investments made by their members in the Zona Rosa district of San Benito.

Over the next several years, the Corporation made several improvements to the district's street network. However, the Corporation was dealt a significant setback when their lenders (like many others during this time) changed their underwriting standards to protect themselves against the impacts of the global recession. That led the Corporation's leaders to explore new funding sources.

In 2009, the Zona Rosa Corporation contracted with Civitas Advisors for the purpose of exploring the creation of a Business Improvement District (BID) in the San Benito area. The Corporation's leaders hoped to use the BID to create another revenue stream that would allow for the completion of their public works project.

BIDs are defined by a local government levying an assessment on a property or a business within a defined geographic area (typically a commercial district) for the purpose of supplementing and enhancing their existing municipal services. Revenues from this assessment are directed back to the defined area to finance a myriad of enhanced improvements and services such as public works, security, marketing, maintenance, economic development, tourism, promotion, parking, special events, among others.

This report describes the institutional framework that enabled the creation of the San Benito BID. This framework is replicable in other commercial districts in San Salvador and El Salvador. The report also contains the main components of the operational plan for the San Benito BID, which demonstrate how the BID funds will be administered. Lastly, the report contains recommendations from Civitas Advisors on ways to ensure the long-term success of the San Benito BID.

Legal Framework For Action

The laws of the country form the framework for institutionalizing and implementing a Business Improvement District (BID). In the United States, individual states create enabling legislation to allow individual municipalities to create a BID. The municipalities in turn create a special ordinance to tailor the BID to the specific needs of the commercial district. For each individual BID, there is a contractual agreement among the key entities that outline their duties and responsibilities in administering the funds generated by the BID. The formation of the San Benito BID consisted of a review of existing laws, an adoption of a special ordinance, and the creation of a contractual agreement among the municipality of San Salvador, the Zona Rosa Corporation, and the Homeowner’s Association of San Benito.

Reviewing Existing Laws

The legal counsel for the Zona Rosa Corporation reviewed San Salvador’s constitution with the Judicial Affairs Office of the Mayor of San Salvador. Both parties agreed that there was a legal framework and precedent that would allow for the creation of a BID in the San Benito area. However, the challenge in creating the legal framework for a BID in El Salvador came not from the laws but from the funding stream. The typical funding stream for BIDs is based on an additional levy of property taxes for a specific geographic area. The state of El Salvador had yet to create or impose a property tax. Therefore, the funding stream created for the San Benito BID was based on the use of the utility bill, which the country already uses for general and special taxing purposes. The ordinance adopted by the City Council of San Salvador identified the geographic boundaries as well as the method and the amount of the assessments.

Adopting Special Ordinance

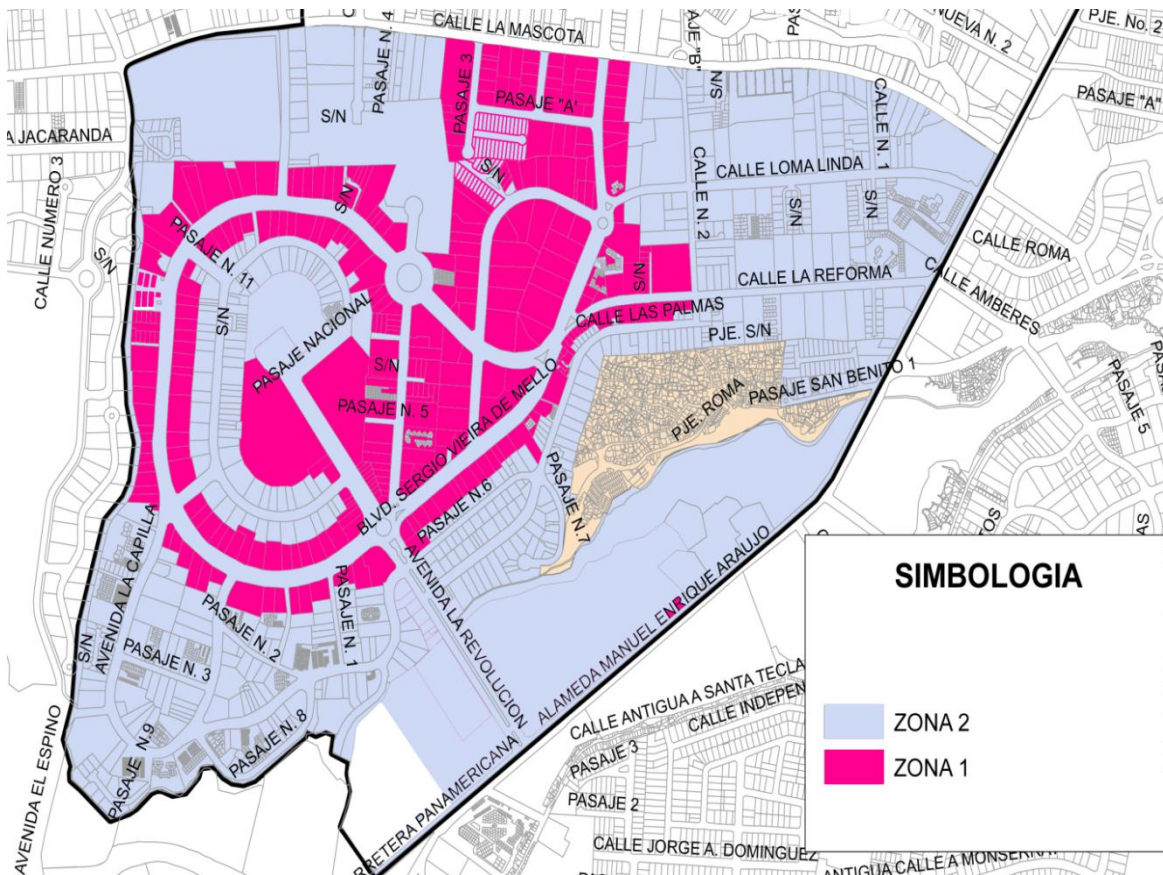
On May 31, 2011, the municipality of San Salvador adopted the special ordinance under Agreement 6.2, Order Number: 33 for the purpose of establishing a “special tax ordinance for the execution of urban infrastructure projects of the San Benito area.” The boundaries are as follows:

- **Northern boundary:** from Mascota Street as it stretches between Las Azaleas and Alameda Manuel Araujo Avenues;
- **Eastern boundary:** from Alameda Manuel Araujo Avenue as it stretches between La Mascota Street until it intersects with El Espino Street;
- **Southern boundary:** from the lots of the Institute of Emiliani, the Presidential house, and the lots facing Capilla Avenue;
- **Western boundary:** from the continuation of El Espino Street and Las Azaleas Avenue until the intersection with Mascota Street.

Adopting Special Ordinance - Continued

The ordinance identifies the creation of two zones for the district that are assessed at different values. It is fairly typical to evaluate the individual properties or businesses differently within their geographical boundaries due to a variety of factors. For example, there tends to be a greater concentration of commercial buildings in the central part of a district requiring more improvements or services than the outlying areas with smaller buildings. For the San Benito area, two zones were developed based upon the proximity of the properties located along the central arterial streets that are already designated as Tourist and Entertainment areas. This was done to recognize that the public works improvements benefit more directly the main streets than the properties that do not face the trade corridors.

Zone 1 is composed of the properties facing the arterial streets recognized as Zona Rosa and the primary tourism and entertainment sector. Zone 2 is composed of properties in the outlying areas consisting mainly of residential properties and services. As such, the owners of the Zone 1 pay a higher rate than in Zone 2. Properties located in Zone 1 will pay \$ 0.05 per square meter of land per month and for buildings with upper story and underground construction. Properties located in Zone 2 will pay \$ 0.01 per square meter of land per month and for buildings with an upper story and underground construction. A differentiated rate of \$ 0.07 per square meter per month was created for unused or vacant land to promote its development.



Creating Contractual Agreement

Effective August 24, 2011, a 10-year agreement was executed among three parties: the municipal government of San Salvador, the Zona Rosa Corporation, and Homeowner's Association of San Benito. A Coordinating Committee was created to monitor the use of the BID funds. It consists of three persons designated as follows: one representative of the City Council, a representative of the Corporation and a representative of the Association.

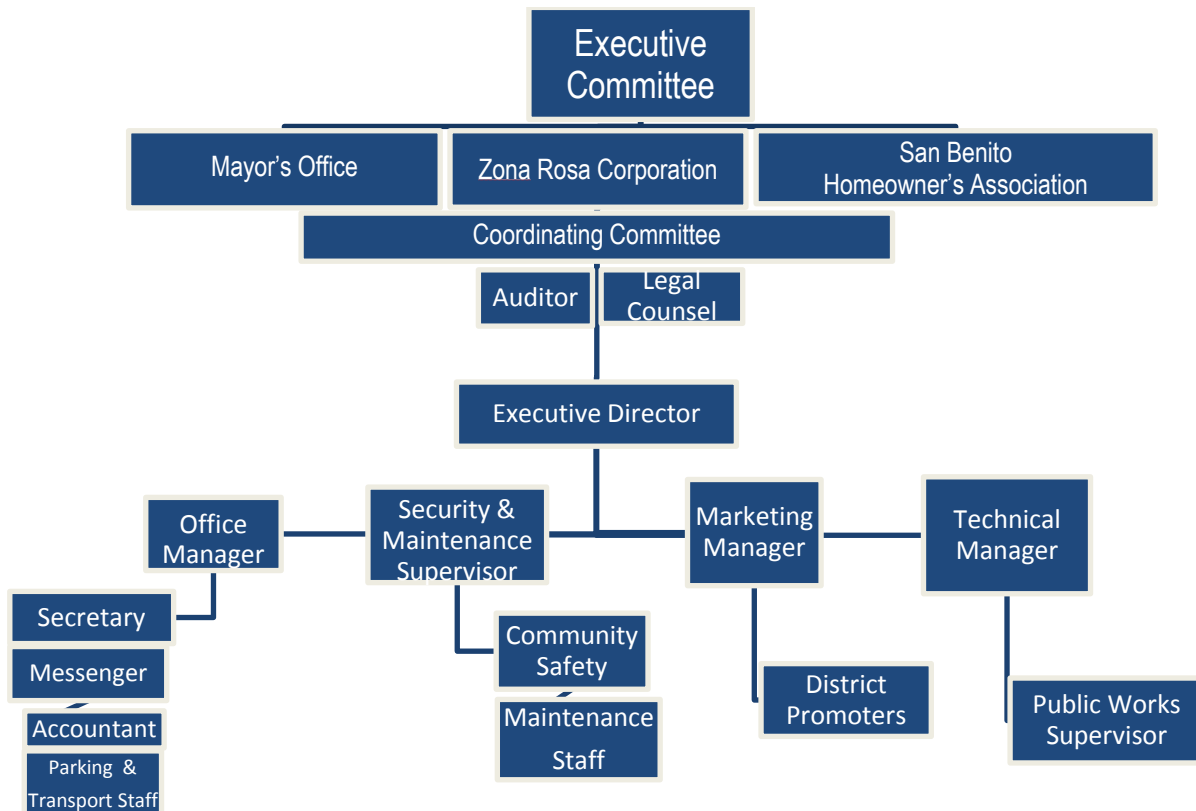
The funds collected from the San Benito BID will be transferred by the San Salvador municipality directly to the Corporation. The first transfer of funds to the Corporation will be contingent on their ability to secure financing for the execution of the public works projects. In addition to the BID funds, the Corporation will also provide services for the district that help to enhance the quality of life for its property and business owners. The next section provides the outline for an operating plan that allows the Corporation to implement the public works projects and the services over a 10 year period.

Operational Plan

The operational plan for a BID includes the organizational structure, the financial plan, and the services plan for the district. The entity responsible for administering the BID funds is responsible for creating a business or operational plan. The plan serves as the tool for implementing the goals and objectives for the BID on a day-to-day basis. Most plans have a time horizon of five years. However, there is a lot of variation. The time horizon should be set based on the strategy and objectives for the BID. The ten year horizon established for the San Benito BID makes sense because of the public works projects which tend to require a longer time to implement than providing additional services for the district.

Organization & Levels of Authority

The Organizational chart below illustrates the organizational structure and levels of authority for implementing the San Benito BID. An executive committee consisting of the three main entities involved in the contractual agreement will direct the strategic direction and policies governing the BID. On a day-to-day basis, the Corporation under the leadership of its Executive Director will be responsible for overseeing the personnel managing and implementing the public works improvements and services.



Financial Plan

A BID is a powerful mechanism for leveraging other funding streams. It is rare for a BID to exist in isolation as a funding source in the revitalization of a commercial district. Relying on a single funding source also makes the effort more likely to fail or not be sustained over a long period of time. The Corporation has created an ambitious and diversified investment plan to finance the public works improvements and services for the San Benito BID. The Corporation expects to generate approximately \$1.2 million in revenues annually from three main funding sources that are listed below:

REVENUES

1. Special Contribution (from Business Improvement District):	37%
2. Advertising Revenues	
a. Existing Spaces for Corporate Banners on Street Lamps:	3%
b. New Spaces for Corporate Banners on Street Lamps:	13%
c. News Spaces for Corporate Banners on Sidewalk Lamps:	47%
3. Membership Dues (from individual or corporate donations):	0%**
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TOTAL:	100

** The Corporation has not finalized a plan for collecting membership dues. Membership dues are a great way to raise funds from businesses that want to do business with the Corporation. As the district strengthens as a regional destination, investors may be willing to pay membership dues to play a role in the growth and success of the district.

EXPENSES

1. Operational Expenses (Administration & Services):	65%
2. Debt Financing (Public Works Projects):	35%
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TOTAL:	100%

Service Plan

The majority of BIDs in the United States (U.S.) are service-oriented. A smaller percentage of U.S. BIDs are directly involved in the financing of public works projects. The San Benito BID will combine public works and services into their operating plan creating a sophisticated approach to revitalizing the district. The consulting team believes that this combination will make the BID more likely to succeed in the long-term.

The initial intent of the founders of the San Benito BID was to find a new financial mechanism by which a loan could be secured to finance a public works project, in partnership with the San Salvador municipality. After several meetings with business owners and institutional partners located in the BID, however, the Corporation supported the addition of services to their proposal. The importance of services is difficult to overstate. Services - such as marketing, merchant programs, and festivals - provide a relatively quick and impactful way to assist the existing property and business owners.

At the same time, the Corporation can also maintain a focus on the long-term health of the BID by implementing or supporting public works projects. Public works take much longer to complete, but are highly regarded highly by prospective investors because the scale of such projects demonstrate a long-term commitment by the key stakeholders (i.e., local government and existing property owners). Below is the list of the five services provided for the San Benito BID by the Corporation:

1. Private security in public spaces
2. Maintenance and landscaping of public spaces
3. Events, programs & festivals in public spaces
4. Vehicular parking assistance
5. Microenterprise employment programs

Long-Term Recommendations

The legislation in El Salvador that permitted the use of district revenues can only be used for capital improvement projects. The services of safety, maintenance, promotion, economic development, among others will have to be financed by the corporation through different revenue streams. Even if the corporation is successful, this is a powerful limitation on replicating the creation of other BIDs in El Salvador because most nonprofit organization cannot afford to pay for capital improvement projects.

Therefore, the Civitas Advisors team recommends that the corporation lead an effort to advocate for a change in the legislation to permit the use of BID funds for services as well as capital improvement projects.