

Long Beach Business Journal

City Auditor: More City Oversight Needed For Business Improvement Districts

January 15, 2018 | Brandon Richardson, Senior Writer

An audit of Long Beach's 10 business improvement districts (BIDs) found that lax oversight on the part of the city resulted in subpar annual reports, a lack of understanding of agreements and mishandling of funds. The audit was conducted by Long Beach City Auditor Laura Doud and her staff and released earlier this month.

"We wanted to look at some best practices and we wanted to make sure the city was doing its role. This was really just kind of a first step and we found that the city was lax in their oversight," Doud told the Business Journal. "The BIDs now know we are actively watching. We found that several of the BIDs didn't even know agreements existed."

The audit did not include an in-depth review of operations or services provided by each BID, nor if BID members were receiving a return on their investment (each business within a BID boundary is charged an assessment).

Doud's staff analyzed financial records and other data exchanged between the city and its BIDs from October 1, 2015, to March 31, 2017. The audit's key findings included:

- BIDs were not aware that agreements existed or were not knowledgeable of their content because the city did not emphasize or enforce the terms.
- Annual reports submitted by the BIDs did not all contain state-mandated information and did not provide a full picture of BID operations. Additionally, not all reports submitted by BIDs were reviewed by the city.
- The city did not pay all of its own assessment fees to two BIDs in 2016, owing \$64,000. A lack of communication on assessment formulas and business licenses, as well as data errors, caused BIDs to receive incorrect amounts of assessment revenue from the city.
- A handbook and training for BIDs are needed to improve communication and understanding of the BID program amongst all parties.

To correct these shortcomings, the audit recommends the following:

- Update BID agreements to better outline required reporting and payment processes, and enforce these new agreements.
- Reassess which reports must be submitted by BIDs, create templates for those reports and review all required reports upon submittal.
- Track payments and facilitate communication on assessment formulas and identifying new businesses within each BID.

“The most important thing to me as the city auditor is implementation. Our audits don’t really mean anything if [our recommendations] are not implemented,” Doud said. “So that has been something I’ve done consistently for 12 years – asking for status updates on implementation. There is a timeline that we ask when these recommendations are going to be implemented and there are dates. So these are things that we follow up on.”

Long Beach staff has incorporated the BIDs into its overall economic development strategy to promote business growth. The city’s recently adopted Blueprint for Economic Development states that the development of new BIDs would help create business-to-business cooperation, as well as between businesses and the city.

According to the audit report, in 2016, the 10 BIDs received \$17 million, \$9 million of which was assessment revenue handled by the city. Additionally, the city owns property in four property-based BIDs, resulting in \$630,000 in assessment fees owed by the city annually. Doud noted that this is a significant amount of money, which highlights the importance of proper BID management.

The audit cited the 2017 Small Business Monitor Survey conducted by Scott Flexo, managing director of Cal State Long Beach’s Marketing Business Center, which found that 53% of small businesses thought BIDs did a “good” or “very good” job supporting them – an increase from 45% the previous year. The report noted that one-third of small businesses were uncertain of the support provided by BIDs.

When asked why the audit did not address BID operations and services, Doud said it focused exclusively on the city-BID relationship, not the BIDs’ relationships with businesses. Now that the audit’s results have been released, Doud explained that BIDs’ future annual reports should paint a better picture of their operations and services. Part of this process includes reporting more detailed annual budgets outlining how each BID plans to spend its money throughout the year, which is subject to city council approval.

“We’re pleased that this was the first step of the whole process. We know that BIDs are a very important part of the city,” Doud said. “I think this is an important message to people who are interested in this topic because it shows the spirit of transparency and providing the public with information that they have the right to know through this annual reporting. It’s holding everyone accountable.”