Downtown Revitalization in Japan: Examination of the Town Management Organization Model

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ABSTRACT

Downtowns have experienced decline since the 1990s in Japan and several strategies have been implemented to deal with it. This research focuses on one of such strategies—the Town Management Organization (TMO) model. Although the model was expected to achieve downtown revitalization through managing downtown areas, it has made negligible contributions. This research examines the reasons why the TMO model has not worked well through a survey and interviews with TMO staff members.

This research demonstrates that TMOs tend to face obstacles at two different stages, which has led to the low level of contribution of the TMO model. At the planning stage, most TMO boards are dominated by commercial stakeholders and do not take in broad opinions. As a result, most TMOs do not gain benefits from active participation of various local stakeholders or receive their political and financial support. At the implementation stage, TMOs face different difficulties according to their funding structure. TMOs raising their funds mainly from such outside sources as subsidies tend to face funding shortages and lack of staff, and as a result, do not conduct effective revitalization activities. In contrast, TMOs that are not dependent on outside sources but make most earnings from the sales of goods or services are likely to face deficits and focus on profitable activities which might not be related to downtown revitalization.

This research recommends that TMOs reform their boards, capitalize on external conditions, diversify their funding sources, and utilize other resources such as volunteers and financial institutions. In addition, this research proposes that governments create effective public policies to help TMOs carry out these recommendations.

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Chapter 1: Introduction

Although downtowns used to be the center of residential, economic, and cultural life, many cities and towns in Japan have experienced suburbanization and downtown decline since the 1990s. Residents have moved toward suburban areas, accompanied with decentralization of businesses. Retail stores in downtowns have found it difficult to compete with suburban large-scale stores. The number of pedestrians and visitors has decreased in downtowns, whereas vacancy rates have increased. Many abandoned properties can be found in downtowns, especially in rural small cities. Commercial streets in some downtowns are called “shutter streets” because many stores along the streets close the shutters. Such a situation is considered a big problem.

Suburbanization and downtown decline occurred much earlier in the United States than in Japan. As wealthier people and businesses left downtowns for suburban areas since the 1950s, downtown areas have faced several problems, such as the concentration of low-income residents, the increase in crime, physical decay, and decrease of the tax base. In order to solve these problems, a variety of downtown revitalization strategies have been implemented, one of which is the Business Improve District (BID). BIDs have been established all over the United States since the 1970s, and there are 404 BIDs according to Jerry Mitchell. BIDs are regarded as important contributors to downtown revitalization.

Borrowing the idea of the BID, the Japanese government introduced in 1998 a new model, 

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1 For the purpose of this study, downtown refers to the area playing the role as the center of a city or town. The Japanese equivalent of downtown is Chuushin Shigaichi, which literally means a central urban area.
2 Ministry of Land, Infrastructure and Transport (MLIT), Report of Board for Downtown Revitalization: 2-6
4 Mitchell, Jerry, Business Improvement Districts and Innovative Service Delivery (New York: The PricewaterhouseCoopers Endowment for the Business of Government, 1999);
the Town Management Organization (TMO), in order to revitalize downtown areas. The TMO model copies the centralized management of shopping malls: TMOs are expected to contribute to downtown revitalization through the management of these areas. In only eight years since the adoption of the TMO model, 375 TMOs have been established all over the nation. Although some TMOs have succeeded in stopping downtown declines, most of them made negligible contributions to downtown revitalization and many downtowns are still declining.

Research Questions

This research focuses on the TMO model among many strategies that have been implemented for downtown revitalization, such as urban redevelopment and business attraction programs. Unlike in the United States where many types of organizations, such as BIDs and Main Streets, work for downtown revitalization, there are a small number of such organizations in Japan. TMOs are almost the first organization focusing their work on downtown revitalization, and so it has been expected that the establishment of TMOs would create positive impacts on downtowns. Because some TMOs have contributed to revitalizing downtowns, there is a great potential that TMOs can become contributors for downtown revitalization, which is why this research focuses on the TMO model.

Against the expectation, the fact is that most TMOs have found difficulty in undertaking effective activities and have made tiny contributions to downtowns. In other words, although there is a high potential that TMOs could contribute to revitalizing downtowns, as shown in some success cases, some obstacles have prevented most TMOs from having success. Considering that TMOs face obstacles everywhere in Japan, the problem is not a specific

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6 This number is based on the data gathered by the Japanese government as of May 15, 2005. The number may have grown since then.
7 Saitou, Go, and Susumu Hatano, City Planning based on TMO (2001).
characteristic of only a few TMOs, but a structural problem of the TMO model. The purpose of this research is to analyze why TMOs have not necessarily worked well in spite of their potential for success.

Many researchers, government officials, and TMO staff believe that several factors have contributed to the low level of contribution of TMOs. The most cited reason is that many TMOs face financial difficulty and so cannot play the intended management role. In fact, many TMOs have asked for financial aid in a public hearing or surveys, and furthermore, a TMO has gone bankrupt. In addition to the funding problem, other factors, such as the low level of collaboration with local stakeholders and the lack of TMO staff, are also regarded as contributory factors. Based on these existing findings, this study focuses on answering the following research questions:

- To what extent do TMOs face the three problems—funding problem, low level collaboration with local stakeholders, and lack of staff? What is the nature of the difficulties?
- Why do they face these problems?
- How do these problems relate to one another?
- How do these problems affect the level of contribution of TMOs to downtown revitalization?

By answering these questions, this study would help to understand why so many TMOs have not contributed to downtown revitalization. The results of this study would be useful for governments in making better policies for the TMO. In particular, it could be useful for the central government, which is now modifying the TMO model. In addition, existing TMOs could use it to improve their activities, and people who are working for downtown revitalization could also utilize it for making effective strategies.
Methodology

The study methodology consists of three components: a review of existing literature, a survey of TMOs (TMO Survey), and qualitative interviews with TMO managers and staff.

Although existing literature provides basic insight into TMOs, it is insufficient to answer the research questions completely: there is little literature that analyzes the nature of the three problems, how these problems are interrelated, and how they affect TMO activities. In addition, there is almost no research that analyzes the TMO model by focusing on differences among TMOs. On the one hand, some researchers analyze at the macro level and treat all TMOs as if they had the same problems to the same degree and ignore differences among TMOs. On the other hand, some researchers analyze TMOs at the micro level and focus on individual TMOs and do not make comparisons. In order to answer the research questions, this research conducts the TMO Survey to make analyses at the macro level and to explore differences among TMOs and factors creating the differences.

The TMO Survey was carried out by mail in January 2006 to 370 TMOs in Japan. Each TMO staff received an envelope containing a cover letter, survey, and postage-paid reply envelop. In addition, the TMOs that did not return the survey received reminders in the form of e-mails. Surveys were received from 189 TMOs, and the response rate was 51%.

The list of TMOs to be surveyed was developed from the website of the Downtown Revitalization Promotion Office, the Japanese Government, where 375 TMOs were found. Five out of them were listed twice because they were in charge of two different districts. These five TMOs were counted only once in this survey, which is why the survey was sent to 370 TMOs rather than 375.

The survey was written in Japanese and includes 13 questions. Many of the questions were
in multiple-choice or closed-ended format, in which TMOs were asked to provide such information as organizational type, the year of the establishment, the number of staff, their board members, their budget, and their activities. Also, the survey contained one question that allowed open-ended answers, in which TMOs were asked how their funding systems affected their activities. The survey instrument can be found in the Appendix with an English translation.

In order to complement the survey, six telephone interviews were conducted with TMO managers and staff. Each contact person received a questionnaire by e-mail ahead of the interview, and notes were recorded during the interview. In addition, additional data was gathered through several e-mail exchanges with TMO managers and staff.

**Thesis Framework**

Figure 1-1 illustrates the framework of this research. The introductory chapter gives an overview of the research, demonstrating the research questions and methodology. Chapter 2 shows the background of the TMO model. Specifically, the chapter illustrates the reasons for downtown decline and policy responses in Japan, details of the TMO model, and issues facing TMOs. Because the TMO model was established in imitation of the U.S. BID model, downtown decline and policy responses in the United States are also discussed in this chapter.

Chapter 3 presents an overview on TMOs from the macro point of view. Specifically, this chapter clarifies what kind of activities TMOs are conducting, what problems they are experiencing, and to what extent they are facing these problems. Through these analyses, this chapter presents that TMOs face obstacles at both planning stage and implementation stage in general.

The next two chapters make analyses in depth, focusing on differences among TMOs. Considering that each TMO differs from one another, issues should vary among TMOs.
Therefore, the investigation of differences in issues among TMOs helps understand more on why the TMO model has not worked. In Chapter 4, TMOs are divided into three categories, based on the degree of self-dependency. The findings suggest that all TMOs, regardless of the degree of self-dependency, tend to have similar difficulties at the planning stage, whereas TMOs with high level of self-dependency experience completely different difficulties from those with low level of self-dependency at the implementation stage.

Chapter 5 explores the effects of external contexts. TMOs cannot be irrelevant to surrounding environments. Specifically, city or town size is one important factor that determines the nature of TMOs: TMOs in large cities should be different from those in small towns. This chapter investigates how the city/town size creates differences in obstacles facing TMOs. In addition, this chapter demonstrates under what conditions TMOs are likely to contribute to downtown revitalization through the examination of four examples of successful TMOs.

Based on these findings, the final chapter discusses implications and recommendations for governments and TMO staff.
Introduction

Background

- Causes of downtown decline
- Policy responses
- TMO model
- Issues facing TMOs

Analyses

- Analyses of TMOs as a whole
- Analyses of differences among TMOs by funding structure
- Analyses of the effects of external contexts

External contexts
(City/town size)

Conclusions

- Summary of the analyses
- Recommendations

Figure 1-1 Thesis framework
Source: Author
Chapter 2: Decline of Downtowns and Town Management Organization

In the United States, people and businesses that once contributed to the prosperity in downtowns have moved to the surrounding suburbs, resulting in the decline of these areas. Similarly, in Japan, downtowns have experienced a steady decline: they have lost their population, retail stores, and offices. In order to stop the continuing decline of downtowns, several strategies have been implemented in both countries. One of them is the Business Improvement District (BID) in the United States and the Town Management Organization (TMO) in Japan.

In this chapter, I provide an overview of what has happened in downtowns, based on the existing research and literature. I first demonstrate the causes of the decline and the policy responses in Japan as well as in the United States. Second, I explain the details of the TMO model. Finally, I present current issues about the TMO model.

2-1 Downtown Decline and Policy Responses

Downtown Decline in the United States

Causes of Downtown Decline

Downtown areas started declining in the 1920s and the speed of the decline increased after World War Two in the United States. Several reasons have been given for this decline. First, middle-class people moved to the suburbs in search of more space, inexpensive housing, and a

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8 Burayidi, 1-5.
9 Ministry of Internal Affairs and Communications (MIC), Recommendation Based on Public Evaluation about Downtown Revitalization (2004).
10 Burayidi, 1-5.
lower cost of life, which caused a decrease in population and demographic change in centered cities. What boosted this movement were the Federal government policies that favored suburbs, such as the Federal Housing Redevelopment Acts of 1949 and 1954 and the Federal-Aid Highway Act of 1956. These programs offered homeownership subsidies for the middle class and stimulated the construction of highways in the suburbs, which made life in suburban areas more affordable and convenient and encouraged the movement of people to suburbs. In addition, changes in the transportation technology fueled this movement. That is, although downtowns used to be prosperous due to the easy access via such mass transit as street cars, they were inconvenient for automobiles because of narrow roads and few parking spaces. Therefore, the increase in automobiles lowered the advantage of downtowns and heightened the importance of suburbs where land is abundant. Whereas middle-class people moved to the suburbs because of these factors, low-income residents remained and concentrated near downtowns. Exclusionary zoning laws prevented the development of low-income housing in suburban areas by setting a minimum lot size, which made it difficult for low-income people to move from centered cities.

Another major factor of the downtown decline was the decentralization of retail stores. Due to the movement of people to the suburbs, retail stores in downtowns lost their customers and so started to follow them to the suburbs. Furthermore, the emergence of shopping malls and large discounters, such as Wal-mart, which tended to locate in suburbs because they need large spaces, created considerable negative effects on small retail stores in downtowns.

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12 Burayidi, 1; Gottdiener, 15.
14 Gottdiener, 50-58
15 Burayidi, 250-251.
Third, business decentralization and the decrease in job opportunities in downtowns also led to the decline. Firms have been attracted to suburban areas because they could develop sites more cheaply and easily than in downtown: it is time-consuming and costly for firms to develop sites in downtown where lands are not only expensive but also divided among several owners. Moreover, the shift from the manufacturing-dominated economy to the service economy made it more difficult for lower-skilled workers, who used to work for manufacturing firms in downtowns, to get well-paying jobs.

Policy Responses

Suburbanization and downtown decline created several problems in the United States. First, because businesses moved towards suburban areas, low-income residents, who could not obtain houses in the suburbs and remained in urban cities, found it difficult to get stable and well-paid jobs in their neighborhoods. They had to commute to work in suburbs, have low-paid jobs, or become unemployed. Second, as businesses and middle- or working-class people left downtowns towards suburban areas, local governments administering downtowns experienced loss in tax revenues, which restrained the governments' budgets. This fiscal limitation lowered the level of public services, which contributed to worsening the quality of life in downtowns. Third, local governments where new development was conducted were required to provide infrastructure amenities, such as police, education, and roads, leading to an increase in expenditures and a high tax rate.

In order to deal with these problems, a variety of policies have been implemented to

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16 Burayidi, 1.
18 Burayidi, 1-2. 
19 Ibid. 
20 Burayidi, 1-2; Gottdiener 61-64
revitalize downtowns, and local governments (state and municipal governments) have taken an important part. In the United States, the governmental system—federalism—gives large powers to local governments. In addition, fiscal deficits of the federal government and national political obsession with avoiding taxes have further prevented the federal government from providing substantial financial support to downtown revitalization.\(^2\) According to Frieden, the federal government phased out urban aid programs.\(^22\) Thus, although the federal government has established several policies for downtown revitalization, local governments have also played a key role in developing these policies.

Policies related to downtown revitalization can be divided into three categories. The first type is the redevelopment of downtowns. Suburbanization has created abandoned or blighted properties in downtown areas. Also, rapid economic growth in suburban areas has made it difficult for downtowns to compete with suburbs. In order to renew these properties and support new economic activities in downtowns, redevelopment agencies that represent local governments have been established in many states and cities.\(^23\) These public agencies have encouraged large-scale private projects by assembling lands, demolishing existing structures, and giving financial support. They have also improved infrastructures for stimulating private investments. Although the federal government has also encouraged urban redevelopment through such program as the Urban Development Action Grant Program, local development agencies have strongly stimulated redevelopment.

The second type is business attraction and development. As mentioned above, businesses in downtowns have faced severe competition with suburban businesses, which resulted in the


\(^{23}\) Ibid.
decrease in businesses and job opportunities in downtown areas. In order to support the growth of businesses, many cities have implemented policies for business development. One example is business incubation programs, which provide start-up businesses with professional services and space at below-market rate. Business incubators have increased in number since the 1980s, and there are more than 500 in North America.24

The third approach for downtown revitalization is district management. This approach is intended to overcome one big disadvantage of downtown—fragmentation of the local stakeholders: they rarely work together for the improvement of downtown areas without effective organizations. This approach tries to manage and coordinate the actions of the stakeholders so that downtowns can successfully compete with suburbs. One example of this is the Main Street program, which was introduced by the National Trust for Historic Preservation in the 1970s. This program uses a four-point approach for downtown revitalization—organization, promotion, design, and economic restructuring—, and aims at revitalization through community-based and incremental efforts, based on consensus and cooperation among the various stakeholders.25 Because the Main Street program is a comprehensive approach that could be tailored to meet local needs, and because the National Main Street Center established a network of resources for information, training, and technical assistance, the program has been widespread: about 1,600 communities have used it for downtown revitalization in the United States.26

Another example of the district management is the BID. The BID is defined as an approach in which “a geographically defined majority of property owners and/or merchants agrees to

25 National Trust for Historic Preservation website.
provide an extra level of public service in a specific area by imposing an added tax or fee on all of the properties and/or businesses in the area,” according to Jerry Mitchell. Examples of these services are supplementary security, additional street cleaning, and the unique marketing of events. Thus, BIDs share the cost of common area maintenance and manage the district. The authorization of BIDs is provided by state laws, and the job of local (municipal) governments is to legally establish BIDs, collect the special tax assessments, and transfer the funds over to BIDs. BIDs began to be established in the 1970s, and increased in number rapidly in the 1990s: there are more than 400 BIDs in the United States.

Downtown Decline in Japan

Causes of Downtown Decline

Decentralization of businesses and residents occurred much later in Japan than in the United States: downtown decline became recognized as a big problem in Japan in the 1990s. There are two major factors that contributed to the downtown decline. The first was the movement of people to suburbs, which has been caused partly by a significant increase in land prices. In the late 1980s, land prices soared dramatically as a result of the bubble economy: for example, the land price in six large cities rose by 200% from 1985 to 1990. The rise was considerable especially in downtown areas. Although the bubble burst in the early 1990s, the land price in downtowns have remained higher compared to that in suburbs. Thus, high land values have prevented people from living within and near downtowns and encouraged decentralization of

27 Mitchell, 6-13.
28 Ibid.
30 Japan Real Estate Institute, Urban Land Price Index.
residences. In addition, an increase in automobiles has fueled the decentralization of the population. That is, as in the United States, increasing cars lowered the attractiveness of downtown areas that used to be the center of mass transit and enabled people to live in suburbs conveniently. The popularization of automobiles occurred in Japan much later than in the United States: whereas one out of five people had an automobile in the 1930s in the United States, it was as late as around 1980 when one out of five people had a car in Japan.\textsuperscript{32} Since then, automobiles have increased in number, which has encouraged people to locate in suburbs instead of downtowns.

Second, businesses also moved to suburban areas, and downtowns have lost the position as a commercial center. The rise in the land prices and the increase in automobiles have also encouraged retail stores and even public facilities, such as city halls, to move to suburbs.\textsuperscript{33} Furthermore, downtown retail stores have experienced severe attacks from large retail stores and shopping centers in suburban areas, which were established due to the deregulation in the early 1990s. That is, the establishment of large stores was strictly controlled by the Large-Scale Retail Store Law until 1990: under the law, those who would like to open new large stores were required to agree with existing business owners in the neighborhoods about the construction of the large stores.\textsuperscript{34} Because local business owners usually disagreed with the construction to protect their profits, it sometimes took ten years to be allowed to open large retail stores, which restrained the increase in large stores.\textsuperscript{35} However, such a strict regulation was criticized by not only Japanese economic world but also the U.S. government, and as a result, the central government eased the regulation in 1990, which caused a dramatic increase in international and

\textsuperscript{32} Kaidou, Kiyonobu, \textit{Compact City} (Kyoto, Japan: Gakugei Publisher, 2001), 194-195
\textsuperscript{33} Hosono, Sukehiro, \textit{Smart Community}, (Tokyo, Japan: Chuou University Press, 2000), 161.
\textsuperscript{34} Hosono, 258-263
national large retail stores: the establishment of large stores increased in number by 100% from 1989 to 1990. These stores tended to locate in suburbs where cheap land is widely available, contributing to the reduction of the sales of stores in downtowns.

Thus, on the one hand, downtown decline in Japan is similar to that in the United States in several points. In both countries, the increase in automobiles has decreased the importance of downtown areas, which has contributed to the decentralization of people and businesses. In addition, the emergence of large stores in suburban areas has threatened retail stores in downtown areas, which has fueled the decline of downtowns. On the other hand, there are differences between these two countries, too. The concentration of low-income residents near downtowns, which can be found in the United States, is not recognized as a big issue in Japan. Also, because the popularization of automobiles and the increase in large stores occurred in Japan much later than in the United States, the decentralization and downtown decline had not occurred until the 1990s in Japan.

*Problems caused by downtown decline*

Downtown decline has become a big issue in Japan. The out-migration of the population and businesses has contributed to an increase in vacancy rates in downtowns. In particular, the movement of large retail stores to suburban areas has brought about extremely negative effects on downtowns. These stores had been a destination and attracted many people to downtown areas, and therefore, the relocation of these stores reduced the attractiveness of downtown areas considerably.36 Because of a weak investment climate in downtowns, these properties are typically kept abandoned: only 37% of such properties are reoccupied by other tenants.37

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36 MLIT (2006), 5-6
37 Ministry of Economy, Trade and Industry (METI) (2005)
The situation is much worse in small cities, especially in rural areas, than in large urban cities. First, the fact that suburban areas of small rural cities are typically composed of farmlands leads to a significant decline in downtowns. That is, because there is almost no regulation on the usage of farmlands, large-scale developments can be easily conducted in the farmlands. As a result, many large stores have been constructed on these farmlands in suburbs without any constraints, which have worsened the situation of downtowns in these cities. Second, people have become highly dependent on automobiles in small rural cities, contributing to a decrease in the importance of downtowns. Unlike in large urban cities, public transportation is not convenient in these cities: because of the small population, following by the small demands for public transportation, trains or buses run infrequently. As a result, the degree of reliance on automobiles has increased largely in small rural cities, encouraging residents to drive to stores in suburban areas where parking is abundant.

Not only business owners in downtown areas but also many other local stakeholders are concerned about downtown decline. First, some residents who do not drive a car and have visited stores in downtowns using public transportation express complaints on downtown decline. Because it is not necessarily easy for them to go shopping in suburban areas, the decrease in number of stores in downtown areas means a reduction in shopping opportunities for them. Considering that aging population is increasing dramatically, it is projected that the number of people with limited shopping opportunities will increase. Second, local governments also want to stop downtown decline and suburbanization. New developments in suburban areas have required local governments to offer further infrastructure, which has imposed heavy burdens on

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38 Motoyama and Okada, *Size of Local Governments and Their Capacity.*
39 MLIT (2006), 19-20
40 MLIT, Report for Advisory Meeting on Downtown Revitalization, 2005.
41 MLIT (2006), 7-8
them. To make matters worse, National Institute of Population and Social Security Research has forecasted that the Japanese population will decrease dramatically because of a declining birthrate: the population is projected to decrease by 1.5 million from 2005 to 2015 and by further 5 million from 2015 to 2025.42 Because the decrease of population will lead to a drop in tax revenue, downtown decline and sprawl, followed by the provision of new infrastructure, is expected to cause serious damages to government budgets.43

Policy Responses

In order to deal with downtown decline, many policies have been implemented. One characteristic of these policies in Japan is that the central government has played a key role. Unlike in the United States where federalism is adopted, the government has been centralized in Japan, and the central government has much more power than local governments.44 As a result, policies for downtown revitalization are developed mainly by the central government, and as Tamura notes, local governments only implement policies that the central government establishes.45 Although the Japanese government is now deferring its power to local governments, national policies are still crucially important and have strong influences on downtown revitalization.

The types of policies for downtown revitalization are similar to those in the United States. For example, in order to help revitalize downtowns, large-scale redevelopment projects have been implemented in many downtowns, based on the Urban Redevelopment Act enacted by the central government. Also, the efforts to attract businesses to downtown areas have been made.

43 METI, 15-16.
44 Since the end of the 1990s, Japan has been heading for decentralization, and the role of local governments has become greater than before.
45 Tamura, Akira, Practice of City Planning (Tokyo, Japan: Iwanami, 1999), 122-123
For example, the Japanese government enacted the Act for the Promotion of the Development of Special Commerce Facilities in 1991, when the problem of downtown decline became increasingly recognized. Under the act, the government gave subsidies and tax abatement for the establishment of commerce facilities, such as a complex of stores and a community hall.

Despite these programs, downtown areas continued to decline. The decline was serious especially in small rural cities, as mentioned above, and constituency and mayors in these cities lobbied for the members of the Diet to provide further support for downtown revitalization. Because the governing party, Liberal Democratic Party (LDP), was strong especially in rural areas at that time, these advocacy activities encouraged the central government to enact a new law. In 1998, the central government implemented Law Regarding Integrated Promotion of the Development and Improvement and Revitalization of Commerce in Central Urban Areas, so called Downtown Revitalization Law. This law is a comprehensive one, which aims at downtown revitalization through several approaches. The first main approach is the physical improvement of downtown areas: public agencies, especially local governments, are supposed to offer such facilities as housing, to assemble land for large-scale redevelopment projects, and to provide infrastructure amenities, such as road and public open space. The second is the development of businesses: both the central and local governments support the establishment of anchor commercial facilities and business incubators in downtowns through subsidies and tax abatements. The third approach is district management: the central government introduced a new model, Town Management Organization (TMO), borrowing the idea of the BID from foreign

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46 Yasui, 48
47 The government also enacted two other laws at the same time. The one is the Amendment of City Planning Law, which enables local governments to limit the areas where large retail stores could locate. The other law is Law Concerning the Measures by Large-Scale Retail Stores for Preservation of Living Environment, by which large retail stores are required to consider its effects on neighborhoods such as noise, trash, and traffic congestion.
countries, such as the United States.\textsuperscript{48} Local governments are supposed to authorize the establishment of TMOs. Because there were few organizations working for downtown revitalization in Japan, the introduction of the organizational model similar to BID was expected to contribute greatly to downtown revitalization.

The Downtown Revitalization Law introduced all these three approaches at the same time. Since the enactment of the Downtown Revitalization Law in 1998, many projects for revitalizing downtown areas have been implemented based on these approaches. In particular, the TMO has become recognized as an important player for managing the areas.

2-2 Basic Information about Town Management Organization

Concept

The TMO model, as with the BID model, copies the centralized management of shopping malls which typically locate in suburb areas and threaten the prosperity of downtown areas. It is often said that one big reason why shopping malls prosper whereas downtowns decline is the difference of the management system between shopping malls and downtowns. That is, the owners of shopping malls can increase the attractiveness of the malls by coordinating tenant selection, promotion, and market research, as well as providing comfortable infrastructure amenities.\textsuperscript{49} On the other hand, although downtowns have a variety of stores, they usually lack a management organization that is able to coordinate fragmented business owners, which prevents downtowns from providing attractive environment as shopping malls.\textsuperscript{50}

\begin{flushleft}
\textsuperscript{48} Yasui, 48
\end{flushleft}
In order to increase the attractiveness and revitalize downtowns, TMOs as well as BIDs are expected to manage the downtown areas in the same way as the owners of shopping malls manage them. In other words, shopping malls are models for the kind of integrated service delivery, area-wide management, and strategic planning that downtowns believe they need if they are to survive the competition with malls. Specifically, TMOs are supposed to coordinate tenant selection, provide high-quality amenities such as parking, and offer such services as market research, promotion, and security.

National and local governments support TMOs in several ways. For example, governments give subsidies and tax abatements for various kinds of projects that TMOs conduct, such as capital improvement and business recruitment. Also, the central government sends professionals to give advice on TMO activities.

**Establishment Process**

The Downtown Revitalization Law requires several steps before the establishment of a TMO. First, a local government (city, town, or village government) has to create a “Basic Downtown Revitalization Plan”, in which the government is supposed to specify the area of the downtown, indicate the goal of the plan, and demonstrate specific projects to achieve the goal. Second, an organization that would like to become a TMO is required to submit a document (“TMO Framework”) to the local government. The TMO Framework is required to include the activities that the organization is planning to implement and their expected effects. The local government is supposed to authorize the document if it is consistent with the Basic Plan and the activities are

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51 Briffault, 365-477
53 When the central government gives subsidy, the local government where the TMO locates is usually required to pay the same amount as the central government. Specifically, in many cases, the central government gives money to the local government, which in turn adds their own money and gives it to the TMO.
feasible. Once the TMO Framework is authorized, the organization is officially established as a TMO.

Organization

The Downtown Revitalization Law limits the types of organizations that could become a TMO—a TMO should be one of the following:

- Shoko Kaigisho: chamber of commerce (mainly in large cities)
- Shokokai: chamber of commerce (mainly in small cities and towns)
- Specialized company: joint stock company capitalized mainly by medium/small companies with more than 3% shared by local government
- Foundation: with more than 3% invested by local government
- Non profit organization (NPO)

According to the Downtown Revitalization Promotion Office, as of May 15, 2005, there are 375 TMOs in Japan. Figure 2-1 shows the percentage of each organizational type: about 70% of the TMOs are chambers of commerce (Shokokai or Shoko Kaigisho), and most of the rest are specialized companies, which are public-private organizations.

Figure 2-1 Organizational type
Source: The Downtown Revitalization Promotion Office
2-3 Current Issues Related to the TMO

Overall evaluation of the TMO model

Although the existence of TMOs was expected to contribute to downtown revitalization enormously, they have not created a substantial positive impact. In fact, many downtown areas are still declining. According to the Ministry of Internal Affairs and Communications (MIC), about 70% of cities and towns where TMOs were established before 2000 experienced population decline in their downtown areas from 1997 to 2003, which led to a 2.9% drop in the ratio of downtown residents to all people. Also, about 93% of these cities and towns faced a decrease in stores in downtowns from 1997 to 2002: in total, the number of stores in downtowns surveyed decreased by 16% during that time. Although it might be too early to judge the impacts of TMOs, these data show that downtown areas are still losing their importance in spite of the establishment of TMOs.

In addition, researchers and even TMO staff member think that TMOs have made negligible contributions to preventing the decline of downtowns, although a handful of TMOs have achieved success. According to a survey conducted by Nikkei Research Institute of Industry and Markets in 2004, as many as 96% of TMOs think their activities have not been sufficient to revitalize downtown areas. Tsuruta mentions that only five or six TMOs have contributed to downtown revitalization.

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55 Tsuruta, 49.
Many researchers criticize that the TMO model does not necessarily work.\textsuperscript{56} Public agencies, such as the Board of Audit of Japan and the MIC, also judge that the TMO model has not made the expected contribution to the revitalization of downtown areas.\textsuperscript{57} Based on this situation, the central government is now considering the modification of the TMO model.

**Reasons for the small contribution**

The small contribution of the TMO model is astonishing, considering that the BID model, upon which the TMO model is based, is regarded as successful.\textsuperscript{58} Why has the TMO model not made a big impact in downtowns? Existing research demonstrates the following three main reasons.

The first reason is lack of funds. According to the survey conducted by Soft Creation in 2003, the most important factor that TMOs think necessary for conducting their projects was the establishment of financial bases.\textsuperscript{59} In fact, many TMOs claim that their low level of impact is attributable to the lack of funds.\textsuperscript{60} Furthermore, a TMO went bankrupt.\textsuperscript{61}

It is often claimed that the reason for the funding shortage is that TMOs do not have stable funding sources. On the one hand, BIDs have sustainable funding bases, which enable them to undertake long-term activities. That is, BIDs collect funding from an added assessment on the property owners and/or businesses within the boundary of the district, and this funding source is reliable and predictable because the assessment is typically collected by the local government.\textsuperscript{62}

\textsuperscript{56} Okada, Yutaka. “Issues about Downtown” Mizuho Research (April 2005), 10-12; Tsuruta, 49-50; Saitou & Susumu.
\textsuperscript{57} Board of Audit of Japan, Papers on Downtown Revitalization Conducted by Town Management Organization (TMO) (2003); MIC
\textsuperscript{58} Levy, Paul R, “Paying for the Public Life,” Economic Development Quarterly, 15 (2001), 124; Briffault, 477
\textsuperscript{59} The Small and Medium Enterprise Agency. Paper on What TMO should be (2003), 5.
\textsuperscript{60} Nikkei, 18.
\textsuperscript{61} Tsuruta, 50-51, Saitou & Hatano, 50-55.
\textsuperscript{62} In addition to the assessment, some BIDs receive funds from other sources: 50% of U.S. BIDs receive donations, 27% obtain federal or state subsidies, 24% acquire funds from local governments, and 21% sell goods and services, according to Mitchell.
Thus, a BID is regarded as "self-supported" or "self-financing." On the other hand, a TMO does not have such an assessment system; instead, it raises money mostly from subsidies and proceeds from sales. However, these funding sources are not reliable because TMOs may not receive a stable amount of money from the sales of goods and services and because the amount of subsidies may vary every year. In many cases when the central government gives subsidy to a TMO, the local government also has to pay the same amount of money. Therefore, if the local government cannot pay money due to financial crisis, TMOs cannot get subsidies from the central government. Thus, although TMOs aim at the centralized management of downtown areas as BIDs do, the lack of the assessment system differentiates TMOs from BIDs and makes it difficult for TMOs to get sustainable funding bases.

The second reason for the low level of contribution of TMOs is limited collaboration between TMOs and local stakeholders. Downtown revitalization cannot be achieved only by TMOs: the cooperation and involvement of local stakeholders, such as business owners and property owners, is essential. However, it is often said that many TMOs have no collaboration with business owners. The MIC also mentions that only a few TMOs understand what local stakeholders ask for, and so TMOs rarely have a shared vision with local stakeholders.

The third reason for the small contribution is the shortage of professionals and staff. The management of downtown areas, which is regarded as the central role of TMOs, is complex work and requires experienced professionals as well as staff. But, the fact is that most TMOs do not have enough number of staff. In addition, staff members are typically inexperienced. According

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63 Briffault, 390.
64 For example, Hoyt classifies the TMO as “BID-like” organization in her international BID survey because TMOs do not have the assessment system.
66 The Small and Medium Enterprise Agency (2003), 12.
67 MIC, 10-12
68 The Small and Medium Enterprise Agency (2003), 5.
to the Board of Audit of Japan, 83% of TMOs think that they lack professionals who have experience and can play the management role. The lack in human resources makes it difficult for TMOs to conduct their work effectively.

2-4 Conclusions

Japan has faced the decline of downtown areas since the early 1990s. In order to stop the decline, the Japanese government introduced the TMO model, borrowing the idea of the centralized management—the BID model—from the United States, where BIDs have made success. However, TMOs have made fewer positive effects on downtowns than expected.

Existing research attributes the reason for the small contribution of the TMO model to several factors: most of them mention that the main reasons are the funding shortage, low level of collaboration with local stakeholders, and the shortage of staff. In the next chapter, I will analyze to what extent TMOs face these problems.

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69 The Board of Audit of Japan.
Chapter 3: Overview of Activities and Problems of TMOs

As mentioned in the last chapter, the existing research points out three major reasons why TMOs have not made considerable contributions to downtown revitalization —funding difficulty, lack of staff, and low level of collaboration with local stakeholders. In this chapter, I demonstrate to what extent TMOs face these problems at the macro level, based on the survey that I conducted. Specifically, I first demonstrate that the characteristics of survey respondents partially represent all TMOs. Then, I analyze TMO activities and show that events are the most popular activity, whereas TMOs are not engaged in providing comfortable environment. Finally, I illustrate that TMOs in general face such issues as funding shortage, strong influences of commercial stakeholders, and lack of staff.

3-1 The Survey Respondents

As noted in Chapter 1, the survey was sent to 370 TMOs, and 189 of them replied. The purpose of Section 3-1 is to demonstrate how the survey respondents represent all TMOs in the organizational type, year of the establishment, population of the city or town, and location. In addition to the data gathered from the TMO Survey, the list of all TMOs, including their organizational type and year of establishment, can be found on Downtown Revitalization Promotion Office website. Based on these data, this section illustrates that the survey respondents partially represent all TMOs.
Organizational type

As mentioned in Chapter 2, a TMO should be one of the following: Shoko-Kaigisho (chamber of commerce in a large city), Shokokai (chamber of commerce in a small city and town), specialized company (public-private company), foundation, or non-profit organization (NPO). Figure 3-1, which shows the percentages of each organizational type of the survey respondents and all TMOs, illustrates that the survey respondents are representative of all TMOs in terms of organizational type.

About two thirds of TMOs that responded to the survey are associated with chambers of commerce (Shoko-Kaigisho or Shokokai), whereas a third are public-private companies. Among the respondents, there are only two foundations and two NPOs. These percentages are almost the same as those in all TMOs.70

Establishment year

70 The reason for the inconsistency in terms of NPOs (there are two NPOs in the TMO survey, whereas there is no NPO among all TMOs) is the time lag between the TMO survey and the data collection by the Downtown Revitalization Promotion Office: these two TMOs used to be associated with chambers of commerce, but they changed their organizational type into NPO.
The establishment of TMOs started in 1998 when the Downtown Revitalization Law was enacted. Figure 3-2 illustrates the establishment year of the survey respondents and all TMOs, which demonstrates that the survey respondents does not exactly match the distributions for all TMOs.

On the one hand, there is a similarity between the two figures. For both the survey respondents and all TMOs, the majority was established between 2000 and 2003: 77% of the respondents and 78% of all TMOs were founded during this period. On the other hand, there is a difference between these two: TMOs that were established before 2001 occupy a larger portion for the survey respondents than for all TMOs. In fact, whereas the response rate of the TMOs that were established before 2001 was 59%, the response rate after 2002 was 43%, suggesting that new TMOs are less likely to respond to the TMO Survey than old TMOs.

City/town population

Figures 3-3 and 3-4 show the population of cities and towns served by the TMOs. As these figures illustrate, TMOs exist in large cities as well as small towns. These two figures present a similar tendency, indicating that the survey respondents represent all TMOs adequately in terms of city/town population.
TMOs exist all over the nation: forty-six out of forty-seven prefectures have one or more TMOs. The respondents were TMOs from forty-five prefectures, meaning that the respondents strongly represent the all TMOs in terms of location.

Conclusion

Comparison between all TMOs and the survey respondents demonstrates how the respondents represent all TMOs. That is, there are no significant differences in the organizational type, city/town population, and geographic distribution between all TMOs and the survey respondents, whereas TMOs with longer history are more likely to respond to the survey. Thus, the analyses in the following sections and chapters, which are based on the TMO Survey, are more reflective of
TMOs with relatively long history rather than that of new TMOs. This is very helpful for the analyses of the TMO model because TMOs with long history are likely to face permanent problems, rather than temporary ones. In other words, the reflection of old TMOs is likely to highlight fundamental reasons for the low level of impacts of the TMO model.

3-2 Activities of TMOs

Each TMO undertakes a variety of activities for downtown revitalization, such as business recruitment, events, and advertisement. This section overviews what kind of activities TMOs are conducting and what are popular activities.

Activities

In the TMO Survey, TMOs were asked to answer if they undertook the following activities:

a. Market research, such as analyses of the economic condition of the area
b. Business recruitment, such as tenant selection
c. Capital Improvements, such as improvements of pedestrian-scale lightning, sidewalk and arcades
d. Parking improvements and management
e. Beautification of the area, such as cleaning
f. Security
g. Events programming
h. Promotion and advertisement
i. Seminar and consultant for business owners
j. Consensus building among stakeholders
k. Social services, such as nursing center and welfare work
Figure 3-5 shows the percentage of TMOs that undertake each activity. The most popular activity is events: about 80% of TMOs organize them. Business recruitment and consensus building among stakeholders are also conducted by many TMOs (62% and 56%, respectively). On the other hand, only a few TMOs provide security services and social services.

![Figure 3-5 Activities of TMOs](image)

**Source:** The TMO Survey

**Categorization of the activities**

As discussed in Chapter 2, the TMO is an organization for the centralized management of the district. From this perspective, the central government classifies TMO's activities that are essential for managing the district sufficiently into three categories: (1) selection of appropriate tenants; (2) provision of comfortable physical environment; (3) sophisticated services. These categories can also be found in literature related to the BID. For the purpose of the research, the

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72 For example, Briffault notes that the BID is intended to (1) engage in strategic planning, including leasing to tenants whose businesses complement each other and fit the district, (2) provide high-quality common area amenities, and (3) offer business-related services. (p. 425-429)
activities listed in the TMO Survey can be grouped into three categories as shown in Table 3-1.

<table>
<thead>
<tr>
<th>Category</th>
<th>Activities in the TMO Survey</th>
</tr>
</thead>
</table>
| (1) Tenant selection | a. market research  
b. business recruitment |
| (2) Provision of comfortable environment | c. capital improvements  
d. parking  
e. cleaning  
f. security |
| (3) Services | g. events  
h. promotion  
i. consultant  
j. consensus building  
k. social services |

Source: Author

From the viewpoint of this categorization, the result of the TMO Survey in Figure 3-5 shows that TMOs are less likely to engage in the second category—provision of comfortable physical environment—than in other categories. Only a small number of TMOs undertake capital improvements and parking management. Also, the fact that cleaning and security are not major activities of TMOs illustrates a big difference with those of BIDs, considering that “clean and safe” is a phrase often associated with BIDs in the United States. 73

**The role of subsidies**

Do TMOs conduct these activities based on their own funding or relying on subsidies? Table 3-2

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73 Mitchell, 19.
shows how many TMOs receive subsidies in conducting each activity. The first column illustrates the percentages of TMOs that undertake each activity, which are the same as shown in Figure 3-5. The second column demonstrates percentages of TMOs that receive subsidies in undertaking each activity. And, the third column shows subsidy rates, which are calculated by dividing the second column by the first column. Take market research for example. 28% of the survey respondents undertake market research (column 1), and 19% of the survey respondents do it with subsidies (column 2). In other words, 68% of the TMOs that conduct market research receive subsidies for this activity (column 3).

Table 3-2 Percentages of TMOs that receive subsidies in conducting each activity

<table>
<thead>
<tr>
<th></th>
<th>% of TMOs undertaking each activity (A)</th>
<th>% of TMOs receiving subsidies (B)</th>
<th>Subsidy rate (B/A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Research</td>
<td>28%</td>
<td>19%</td>
<td>68%</td>
</tr>
<tr>
<td>Biz recruitment</td>
<td>62%</td>
<td>40%</td>
<td>64%</td>
</tr>
<tr>
<td>Capital Improvements</td>
<td>30%</td>
<td>24%</td>
<td>79%</td>
</tr>
<tr>
<td>Parking</td>
<td>24%</td>
<td>7%</td>
<td>29%</td>
</tr>
<tr>
<td>Cleaning</td>
<td>25%</td>
<td>10%</td>
<td>40%</td>
</tr>
<tr>
<td>Security</td>
<td>5%</td>
<td>3%</td>
<td>56%</td>
</tr>
<tr>
<td>Events</td>
<td>80%</td>
<td>57%</td>
<td>72%</td>
</tr>
<tr>
<td>Promotion</td>
<td>43%</td>
<td>22%</td>
<td>52%</td>
</tr>
<tr>
<td>Seminar, consultant</td>
<td>43%</td>
<td>23%</td>
<td>53%</td>
</tr>
<tr>
<td>Consensus building</td>
<td>56%</td>
<td>24%</td>
<td>42%</td>
</tr>
<tr>
<td>Social activities</td>
<td>9%</td>
<td>4%</td>
<td>41%</td>
</tr>
</tbody>
</table>

Source: The TMO Survey

The data present three interesting findings. First, 72% of the TMOs that hold events receive subsidies. Such a high percentage might suggest that governmental support encourages TMOs to organize events. In other words, events might be one of the most favored targets of subsidies for governments, which might be why the majority of TMOs conduct events. Second, the majority (79%) of TMOs receive subsidies in conducting capital improvements, suggesting that it is hard
to implement these activities without subsidies because such improvements are typically costly. Also, the fact that only 30% of TMOs conduct capital improvements might indicate that many TMOs do not conduct these improvements because they cannot receive subsidies, even if they want to undertake these activities. Although the central government offers numerous kinds of subsidies related to capital improvements, it might not be easy for TMOs to receive them: because local governments are typically required to pay money for a TMO when the central government gives subsidies to it, the budget constraints of local governments make it difficult for TMOs to receive subsidies offered by the central government. Third, although the shortage of parking is said to be a big reason for downtown decline, only 29% of TMOs that conduct parking management receive subsidies for this activity. This might suggest that governments do not support parking services provided by TMOs. Most of the TMOs that want to conduct parking services are required to provide them without relying on subsidies.

**Contribution of the activities**

Do TMO activities contribute to downtown revitalization? It is difficult to answer this question based on quantitative data, such as the changes of population and number of stores, because such changes are caused not only by TMO activities but also by many other factors. Instead, in the TMO Survey, TMOs were asked to answer qualitatively about their contribution to downtown revitalization.

Figure 3-6 illustrates that only 17%

![Pie chart showing contribution of TMOs](image)
felt that they made a great contribution to downtown revitalization, although the majority of TMOs felt that they contributed moderately. Moreover, a tenth of TMOs felt that they made almost no contribution. These data suggest that TMO activities are not useless for downtown revitalization but do not have large impacts.

3-3 Issues facing TMOs

Literature review clarified the three problems: funding, low level of collaboration, and lack of staff. Although each TMO might face these problems to different degrees, it is useful to explore these problems in general. This section overviews to what extent TMOs as a whole are facing these problems.

The funding problem

*Budget size*

TMO budget size data is important for analyzing the funding difficulty of TMOs. Although the

![Pie chart showing annual expense distribution of TMOs](image)

- 50 million < 15%
- 0-1 million, 10%
- 10-20 million, 18%
- 20-50 million, 14%
- 5-10 million, 23%
- 1-5 million, 20%
- (unit: yen)

**Figure 3-7 Annual expense of TMOs**

**Source:** The TMO Survey
budget size of a TMO depends on local needs for the TMO, a small budget tends to be a big barrier to an expansion of its activities. As shown in Figure 3-11, most TMOs have a tight budget: more than half of TMOs spend less than 10 million yen ($85,000) annually.\textsuperscript{74} In particular, the fact that about 10\% of TMOs have a budget with less than one million yen ($8,500) is astonishing. Such small budgets naturally have negative effects on TMO activities. For example, a staff member of a TMO with a budget of about 8 million yen ($68,000) mentions in the TMO Survey that “one factor contributing to the inactiveness of the TMO is the lack of funding.” Another TMO with a budget of 1.7 million yen ($14,000) says, “When the TMO undertakes activities, it is hard to make both ends meet because of the lack of revenue.”

Another key indicator for the funding problems is profit/deficit of TMOs. Figure 3-8 shows that about a fourth of them face deficit. Some of them might be facing temporary deficits, and such deficits might not be a big problem. However, permanent deficits will bring about serious effects on the TMO. In fact, a TMO has gone bankrupt because of huge deficits.

\begin{center}
\begin{figure}[h]
\centering
\includegraphics[width=0.5\textwidth]{Figure3-8.png}
\caption{Figure 3-8 Annual profit/deficit of TMOs}
\end{figure}
\end{center}

Median: 0 yen
Minimum: -11.8 million yen ($-0.1 million)
Maximum: 12.5 million yen ($0.1 million)

\textsuperscript{74} $1 = 118$ yen (as of February 20, 2006)
Funding source

In the TMO Survey, TMOs were asked to answer the percentages that the following funding sources account for:

a. Subsidies
b. Money from TMO funds
c. Proceeds from businesses (i.e., sales, rents, parking)
d. Money from local business owners
e. Donations from residents and corporations
f. Others

Figure 3-9 indicates the percentages of the TMOs that get funds from each source, regardless of the amount. Subsidies from governments and proceeds from businesses are the major sources: 82% of TMOs receive subsidies and 54% gains proceeds from businesses. Figure 3-10 focuses on the amount of each source, showing the composition of the revenue in an average TMO.75 This data also indicates that subsidies and proceeds from sales play an important role in TMO budgets.

![Figure 3-9 Funding source](source)

**Figure 3-9 Funding source**

*Source: The TMO Survey*

![Figure 3-10 Composition of revenue in an average TMO](source)

**Figure 3-10 Composition of revenue in an average TMO**

*Source: The TMO Survey*

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75 The percentages are the average figures of the survey respondents.
These two figures also present an interesting finding—the large proportion of funding from “others”: more than half TMOs get funding from “others,” and “others” account for 17% of the total revenue in an average TMO. In the TMO Survey, TMOs were asked to specify what “others” represent, about 80% of which are money transfers from the budgets of chambers of commerce. The following comments indicate the importance of the money transfers:

“Our revenue is basically composed of subsidies from the city government and money from the chamber of commerce”

“The TMO budget is two million yen. One million yen is from the city government, and the rest is from the chamber of commerce”

“The TMO relies on TMO funds and money from the chamber of commerce”

Thus, when a TMO, especially that associated with a chamber of commerce, lacks money, the chamber of commerce appropriates its money for the TMO to fill the gap between the expense and the TMO’s own revenue. Without the money transfers, about two-thirds of TMOs would have deficits. In other words, many TMOs do not raise enough funds to cover their expenses, and money transfers from chambers of commerce play an important role in cutting TMO budget deficits.

The reliance on the money transfers contributes to a big problem. The budgets of chambers of commerce are typically based on membership fees from business owners. However, downtown decline and a decrease in businesses have resulted in a decrease in the amount of membership fees, tightening the budgets of chambers of commerce all over the nation. For instance, a TMO mentions, “the budget of the chamber of commerce has become tight because of reasons, such as decrease in the number of the members.” Also, another TMO notes, “the budget limits of the chamber of commerce prevent it from appropriating much money for the TMO.” Thus, the amount of the money transfers has decreased year by year, which caused budget cuts in
TMOs. In fact, many TMOs that depend on the money transfers from chambers of commerce mention that the decrease in the money transfers has brought about negative effects on TMO activities.

**The low level of collaboration**

*Board*

The board of a TMO plays an important role in making policy and projects for downtown revitalization: discussion among board members shapes the framework of TMO activities. In addition, board members could provide financial and political supports for TMOs. Therefore, the composition of board members is key to conditioning the decision-making related to the activities. For example, a board consisting of many business owners is likely to emphasize commercial development, whereas a board composed of many residents is likely to focus on the improvement of quality of life. Also, a TMO with a board consisting of various stakeholder groups (business owners, property owners, residents, financial institutions, etc.) is more likely to receive strong financial and political support than that with a board composed of only one stakeholder group.

Figure 3-11 shows the percentages of TMOs that include each group’s members on their boards, which demonstrates that the majority of TMO boards includes staff of chambers of commerce, business owners and government officials. Also, Table 3-3, which illustrates the composition of board members in an average TMO, reveals that board members are dominated by staff of chambers of commerce and business owners. These two figures describe that the decisions of boards are under strong pressure from these commercial stakeholders.
Another important issue regarding the board is how often it meets. Even if a board includes a variety of stakeholders, the low frequency of board meetings would prevent considerable discussion among them. As shown in Figure 3-12, which illustrates the frequency of board meetings, nearly half of TMOs hold meetings less than three times a year. These TMOs might establish other organizations, such as subordinate committees, in order to set up discussion. Nevertheless, the low frequency of board meetings indicates the low level of activities.

The domination of commercial stakeholders (staff of chambers of commerce and business
owners) and infrequent board meetings seem to result in two major problems. First, local stakeholders do not have shared vision on the future of downtowns or how to revitalize downtowns. As a result, stakeholders do not necessarily work in the same direction. For instance, a TMO staff member comments, “Each stakeholder acts for downtown revitalization separately from one another.” Thus, the insufficiency of boards is likely to prevent TMOs from coordinating various stakeholders. Second, because of the dominance of commercial stakeholders, TMOs are unlikely to receive strong political support from other stakeholders, such as residents, which seems to result in limited support from local governments. The following comments indicate that local governments are not necessarily supportive:

“It is necessary for the local government to understand the importance [of the TMO]”
“We are expecting considerable efforts from local residents and the local government [toward downtown revitalization]”
“We do not think that the local government is making a great effort in downtown revitalization”

Thus, surprisingly enough, even local governments, which authorized the establishment of TMOs, do not necessarily recognize the importance of TMO activities or downtown revitalization.

**Relationship with business owners and residents**

Downtown revitalization cannot be accomplished only through TMOs: the participation of business owners, property owners and residents are essential. However, the TMO Survey reveals that about 40% TMOs do not even inform local business owners and residents of their activities, as shown in Figure 3-13. Also, Figure 3-14 illustrates that local business owners and residents do not voluntarily participate in TMO activities in the majority of TMOs. In fact, a TMO staff
member states that without the involvement of local business owners, its expense for downtown revitalization would be a waste. These data and comments illustrate that many TMOs do not enjoy participation of business owners and residents, which has negative effects.

![Figure 3-13 Percentages of TMOs that inform biz owners/residents of its activities](image1)

Source: The TMO Survey

![Figure 3-14 Percentages of TMOs with voluntary participation of biz owners/residents](image2)

Source: The TMO Survey

**Staff**

TMO staff also plays an essential role in TMO activities: TMO staff manages and coordinates the activities, supports program implementation, and acts as a primary spokesperson. Therefore, even if the board creates great projects or policies for downtown revitalization, the lack of staff would prevent a TMO from implementing them effectively.

Figure 3-15 reveals a surprising fact: 61% of TMOs do not have any full-time staff. Even including part-time staff, more than half of TMOs have two or fewer staff members, as shown in Figure 3-16. In fact, many TMO staff members complain about the lack of staff in the TMO Survey. For example, a TMO with zero full-time staff and two part-time staff members mentions
that without any increase in staff, the TMO will not be able to continue its tasks. Thus, many TMOs face a shortage of staff, especially full-time staff, which is an obstacle for TMOs to contributing to downtown revitalization.

3-4 Conclusions

The analyses in this chapter have examined the main reasons for the low level of contribution of TMOs. These problems can be found in two different stages: planning stage and implementation stage. Figure 3-17 summarizes the issues TMOs face.

At the planning stage, TMOs do not hold board meetings very often and the board members are dominated by business owners and staff of chambers of commerce. In other words, TMOs do not take in broad opinions or provide sufficient opportunities to discuss TMO activities. As a result, TMOs do not necessarily succeed in creating visions shared with various stakeholders or
receive strong support from various stakeholders, such as residents and even local governments.

At the implementation stage, TMOs face several issues. First, the analyses demonstrate that most TMOs have a tight budget, which limits their activities. In addition, many do not raise enough funds by themselves but receive money transfers from chambers of commerce, which worsen the situation because the amount of the money transfers has been decreasing all over the nation. Second, many TMOs do not have enough opportunity to promote cooperation with local stakeholders. They do not publicize their activities to the public or get voluntary participation of business owners and residents. Third, many TMOs do not have sufficient staff. About 60% of TMOs do not have full-time staff, relying on part-time staff, which makes it difficult for TMOs to become active.

These problems are not necessarily independent from one another: for example, a tight budget might relate to a shortage of staff. Furthermore, the analyses in this chapter only reveal the common problems of TMOs. Considering every TMO differs from one another, not all TMOs face the same problems to the same degree. In the next chapter, I examine the differences among TMOs and interrelationships between the problems by focusing on their funding structure.
Planning Stage

- Infrequent board meetings
- Dominance of commercial stakeholders

TMOs are unlikely to take in broad opinions.

Implementation Stage

- Lack of funding
- Low level of collaboration with local stakeholders
- Insufficient staff

TMOs do not implement projects sufficiently

Activities

- Major activities are events and business recruitment.
- The improvement of physical environment is not widely engaged.

Figure 3-17 Overview of activities and problems of TMOs
Source: Author
Chapter 4: Differences among TMOs

The last chapter demonstrated the issues facing TMOs: infrequent board meetings, funding shortage, low level of collaboration with local stakeholders, and lack of staff. Although these issues are common with many TMOs, the extents of the issues vary. This chapter focuses on the differences among TMOs by classifying TMOs into three types based on the degree of self-dependency and illustrates that each type of TMO faces different obstacles. Specifically, this chapter demonstrates that TMOs with low degree of self-dependency tend to face tight budgets and lack of staff, preventing them from providing a variety of services, whereas TMOs with high degree of self-dependency are likely to experience large deficits and sometimes conduct activities that are not directly related to downtown revitalization in order to generate funds. In this chapter, I begin with the explanation of the categorization process. Then, I demonstrate differences among these types from two points of view: structure and function. Finally, I present issues facing each type of TMOs, based on the findings.

4-1 Classification of TMOs

In this research, TMOs are classified into three types based on the degree of self-dependency, which is determined by their funding sources: funding sources are divided into outside sources and inside sources, and TMOs are categorized based on the degree of reliance on each source. The outside sources include such sources as subsidies from governments, whereas the inside sources contain such sources as proceeds from sales, as mentioned below.

The reason for the focus on the funding sources is that comments in the TMO Survey
suggested that funding sources were an important matter. On the one hand, more than 30 TMOs mention that they need to raise funds by themselves instead of relying on outside sources, especially subsidies. The following are some examples of such comments:

“Without raising funds by themselves, the TMO cannot do anything. It is impossible to continue activities only with subsidies”
“IT is necessary for the TMO to increase the proceeds from sales and decrease the reliance on subsidies.”
“To secure internal funding sources is the only way to increase TMO activities.”
“TMO should be such an organization that is run based on proceeds from sales.”

On the other hand, about 40 TMOs state that further funds from outside sources are essential for TMOs:

“The larger subsidies will be favored for managing the TMO”
“It is important to secure funds mainly from subsidies.”
“Without any subsidies, the TMO would have to stop all activities.”

Furthermore, some TMOs consider both sources to be important and some cannot decide which is more important:

“It is necessary to keep the balance between subsidies and proceeds from sales”
“We are wavering in the judgment on which source we should rely on”

As shown in these comments, the degree of reliance on each source is a key issue for TMOs. There are two main reasons why TMOs are concerned about funding sources. The first reason is the funding shortage. Because the lack of funding is one big obstacle for TMOs, as mentioned in the last chapter, TMOs are likely to worry about how to secure sufficient funding base. Second, funding sources could influence TMO activities. On the one hand, TMOs dependent highly on
outside sources might be constrained by these sources. These sources might provide funds only for some specific types of activities, and TMOs are forced to conduct mainly these activities. On the other hand, TMOs that rely on inside sources could conduct activities freely. Thus, the degree of reliance on outside sources is important for TMOs and suitable for the categorization of TMOs in this research.

In the TMO Survey, TMOs were asked to answer the percentages that the following revenue sources account for: subsidies, TMO funds, proceeds form sales, money from local business owners, donations, and others. Also, as mentioned in Chapter 3, money transfers from chambers of commerce, which are included in “others,” are also a major source. In this research, among these sources, subsidies, TMO funds, and money transfers from chambers of commerce are defined as “outside sources,” whereas sales proceeds, donations, money from local businesses, and others (except for money transfers from chambers of commerce) are defined as “inside sources.” Outside sources are different from inside sources in that the money comes from other organizations, such as governments, funds, and chambers of commerce, and so TMOs cannot control over the money. In other words, outside sources provide funds for specific types of projects and activities, and TMOs cannot use freely the funds from these sources.76

Figure 4-1 shows how TMOs depend on outside sources. As shown in the figure, outside sources occupy more than 80% of the revenue in about 80 TMOs, whereas they account for less than 20% in 24 TMOs.

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76 TMO fund is operated by a public agency in each prefecture. The fund receives capital from combination of grant and debt sources. The fund makes profits by lending the capital to businesses and development projects, and gives some of the profits to TMOs as grants. Because the grants are provided for specific activities and TMOs cannot use the money freely, TMO funds are defined as “outside sources”.
In the research, TMOs are divided into three types ("Type 1," "Type 2," and "Type 3") based on the degree of dependence on the outside sources, 20% and 80% being set as thresholds. Type 1 TMOs rely heavily (more than 80%) on outside sources, Type 2 TMOs depend moderately (20-80%), and Type 3 TMOs rely only a little (0-20%). Table 4-1 summarizes the categorization.

Table 4-1 Three types of TMOs

<table>
<thead>
<tr>
<th></th>
<th>Degree of dependency on outside sources</th>
<th>% of outside sources in the revenue</th>
<th>Number of TMOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type 1</td>
<td>High</td>
<td>80% &lt;</td>
<td>79</td>
</tr>
<tr>
<td>Type 2</td>
<td>Medium</td>
<td>20 - 80%</td>
<td>46</td>
</tr>
<tr>
<td>Type 3</td>
<td>Low</td>
<td>=&lt; 20%</td>
<td>24</td>
</tr>
</tbody>
</table>

Source: The TMO Survey

4-2 Differences in structure by type

Overview of the differences in structure

The analyses based on this categorization demonstrate that the three types of TMOs differ from
one another along structural attributes in several points. The first is organizational types. The three types of TMOs tend to be different according to organizational type: Type 1 TMOs are mainly chambers of commerce, whereas most of the Type 3 TMOs are public-private companies.

The second difference lies in the boards. As mentioned in Chapter 3, TMOs tend to face problems at the planning stage: the board meetings are held infrequently and the boards are dominated by commercial stakeholders, making it difficult for TMOs to take in broad opinions. The categorization of TMOs clarifies that each type of TMO faces the problem to a different degree: Type 3 TMOs are more likely to hold board meetings frequently but less likely to include a variety of stakeholders than Type 1 TMOs. However, it should be also noted that boards of all TMOs, regardless of types, are dominated by commercial stakeholders.

Third, the three types of TMOs face different problems at the implementation stage. As stated in Chapter 3, TMOs in general tend to face difficulties in funding, staff, and collaboration with local stakeholders. However, each type of TMO faces different kinds of problems. For example, Type 3 TMOs tend to have a much larger budget than Type 1 TMOs, whereas Type 3 TMOs are more likely to face large deficits.

Table 4-2 summarizes the differences among the three types, and the rest of this section offers a more detailed explanation of the differences.
Table 4-2 Summary of differences in structures among the three types

<table>
<thead>
<tr>
<th></th>
<th><strong>Type 1 (N=79)</strong></th>
<th><strong>Type 2 (N=46)</strong></th>
<th><strong>Type 3 (N=24)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(High dependency on outside sources)</td>
<td>(Moderate dependency on outside sources)</td>
<td>(Low dependency on outside sources)</td>
</tr>
<tr>
<td><strong>Organization</strong></td>
<td>Mainly chamber of commerce</td>
<td>Both chamber of commerce and public-private company</td>
<td>Mainly public-private company</td>
</tr>
<tr>
<td><strong>Board</strong></td>
<td>Large size</td>
<td>Large size</td>
<td>Small size</td>
</tr>
<tr>
<td></td>
<td>Not so frequent</td>
<td>Relatively frequent</td>
<td>Frequent</td>
</tr>
<tr>
<td><strong>Budget</strong></td>
<td>Small expense</td>
<td>Medium expense</td>
<td>Large expense</td>
</tr>
<tr>
<td></td>
<td>No profit/deficit</td>
<td>Small profit or deficit</td>
<td>Large profit or deficit</td>
</tr>
<tr>
<td><strong>Staff</strong></td>
<td>Part-time staff</td>
<td>Both part- and full-time staff</td>
<td>Full-time staff</td>
</tr>
<tr>
<td><strong>Collaboration with local stakeholders</strong></td>
<td>Low</td>
<td>Moderate</td>
<td>Low</td>
</tr>
</tbody>
</table>

Source: Author

Organizational differences

As noted earlier, TMOs should be one of the following: chambers of commerce (Shokokai or Shoko-Kaigisho), public-private companies (specialized companies), foundations, or non profit organizations. Figure 4-2 shows a sharp contrast between Type 1 and Type 3: more than 80% of Type 1 TMOs are

Figure 4-2 Differences in Organizational Type

Source: The TMO Survey
associated with chambers of commerce, whereas almost all Type 3 TMOs are public-private companies.

Why are Type 1 TMOs dominated by chambers of commerce? In other words, why do TMOs associated with chambers of commerce tend to depend on outside sources? The comments from TMOs provide two main reasons. First, it is typically difficult for them to raise funds by themselves because chambers of commerce are a group of businesses. For example, a staff member of a TMO associated with a chamber of commerce mentions that when it plans to sell goods or services for making profits, some business owners who provide similar goods or services disagree with the plan, and as a result, it cannot start such businesses. Thus, these TMOs find it difficult to reach agreements with their members in making proceeds from sales, which prevents them from raising funds without relying on outside sources.

Another reason is related to the impetus for the establishment of a TMO: some chamber-of-commerce TMOs are supposed to depend on outside funding sources from the beginning. A chamber of commerce is likely to become a TMO relatively easily because it is an existing organization, whereas the establishment of a new public-private company tends to be time-consuming. Therefore, people in downtowns who wanted to receive subsidies offered under the TMO Law as soon as possible tended to choose chambers of commerce as TMOs. As a result, some chamber-of-commerce TMOs were established just for receiving subsidies and were not supposed to raise funds by themselves. In fact, a TMO staff member comments that “this TMO was established as a receiver of subsidies.”

On the other hand, public-private companies have to yield profits so as to pay dividends to shareholders. Because the reliance on subsidies creates few profits, they tend to raise funds by

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77 68% of TMOs associated with chambers of commerce are Type 1, whereas only 25% of public-private-company TMOs are Type 1.
themselves, and as a result, many of them are Type 2 or Type 3.

**Differences in the boards**

**Board members**

As mentioned in Chapter 3, TMO boards in general are dominated by staff of chambers of commerce and business owners. Table 4-3 illustrates that the dominance of these commercial stakeholders can be found in all types of TMOs. On the other hand, the table also shows a difference among the three types of TMOs: Type 3 TMOs have fewer board members and are less likely to include residents or professionals in the board members than the other two types.

<table>
<thead>
<tr>
<th></th>
<th>Chamber of commerce</th>
<th>Business owners</th>
<th>Residents</th>
<th>Government</th>
<th>Corporation</th>
<th>Professionals</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type 1</td>
<td>5.5</td>
<td>6.5</td>
<td>2.2</td>
<td>2.5</td>
<td>1.4</td>
<td>1.2</td>
<td>1.2</td>
<td>20.5</td>
</tr>
<tr>
<td>Type 2</td>
<td>6.0</td>
<td>6.6</td>
<td>1.8</td>
<td>2.7</td>
<td>2.1</td>
<td>0.9</td>
<td>1.3</td>
<td>21.4</td>
</tr>
<tr>
<td>Type 3</td>
<td>1.3</td>
<td>3.3</td>
<td>0.6</td>
<td>0.9</td>
<td>2.3</td>
<td>0.3</td>
<td>2.7</td>
<td>11.3</td>
</tr>
</tbody>
</table>

Source: The TMO Survey

There are two possible reasons for the difference. First, because Type 3 TMOs raise most funds from proceeds from sales, they can decide by themselves what they will do. As a result, they might not have to take in broad opinions from business owners or residents, contributing to the small number of board members. On the other hand, Type 1 and Type 2 TMOs might be required informally to listen to a variety of opinions in order to receive subsidies and money transfers from chambers of commerce, although there is no official rule. Also, it might be essential for these TMOs to contact with government officials for getting subsidies. These

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78 Although some Type 3 TMOs get their funding from such sources as donations and money from business owners, these funding sources occupy a small portion of their revenues.
reasons might encourage them to include many business owners, residents, and government officials.

Second, as mentioned earlier, many of the Type 1 and Type 2 TMOs are chambers of commerce, which typically have large numbers of board members. That is, because chambers of commerce are a group of business owners, they need to include many business owners and staff of chambers of commerce in the boards. As a result, the numbers of board members in Type 1 and Type 2 TMOs tend to be large.

*Frequency of board meetings*

Figure 4-3 shows the frequency of board meetings in each type of TMO. As can be seen, Type 3 TMOs are more likely to hold board meetings frequently than the other types. Although it is difficult to decide the reason for it, the size of the boards might be related to the frequency of meetings. That is, because Type 3 TMOs have fewer board members, they might be able to have meetings more easily than the other types. Also, because Type 1 and Type 2 TMOs tend to

79 The analysis of variance (ANOVA) test shows that the difference among the three types is statistically significant (at the significance level of 0.05).
provide a small variety of services, as mentioned later, they might have a narrower agenda than Type 3 TMOs, which might lead to the low frequency of the board meetings of Type 1 and Type 2 TMOs.

**Fiscal differences**

*Budget size*

Chapter 3 demonstrates that most TMOs have tight budgets: more than half of TMOs spend less than 10 million yen ($85,000) annually. How do the three types relate to the size of the budget? Figure 4-4 shows big differences among the three types. As can be seen, Type 3 TMOs tend to spend more amounts of money than other types. 60% of Type 1 TMOs spend less than 10 million yen ($85,000), whereas only 16% of Type 3 TMOs do so; while only 4% of Type 1 TMOs spend over 50 million yen ($425,000), more than half of Type 3 TMOs spend this amount. This finding is seemingly counterintuitive, considering that outside sources are more likely to provide a large amount of funding than TMOs' own internal sources.

![Figure 4-4 Annual expense in each type](source: The TMO Survey)
The reason why Type 1 TMOs have small budgets

The reason why Type 1 TMOs have smaller budgets than Type 3 TMOs might be related to organizational types. That is, because public-private-company TMOs pursue profits so that they can pay dividends to stakeholders, they tend to have larger budgets than chamber-of-commerce TMOs. In fact, the TMO Survey demonstrates that the median amount of expense of the former TMOs is 24 million yen, whereas that of the latter TMOs is only 6 million yen. As noted earlier, Type 1 TMOs are dominated by chamber-of-commerce TMOs, which contributes somewhat to the small size of budget in Type 1 TMOs.

Although this description partially explains the reason for the difference in expense among the three types, it is not sufficient. More detailed analyses indicate that there is also a difference in the size of expense among the public-private-company TMOs. That is, public-private-company TMOs that are Type 1 have a smaller amount of expense than those that are Type 2 and Type 3. The median of the budget of public-private-company Type 1 TMOs is 7.5 million yen, that of Type 2 TMOs is 16 million yen, and that of Type 3 TMOs is 58 million yen. Thus, even among public-private-company TMOs, Type 1 is more likely to have a small budget than Type 3, suggesting that there are other reasons than the organizational type for the difference in budget size among the three types.

Two main reasons why Type 1 TMOs are more likely to have tight budgets emerge from comments from and interviews with TMO staff. The first is budget constraints of governments. Many local governments have experienced budget limits and tried to reduce their expenses, resulting in the diminution of subsidies for TMOs. Because many Type 1 TMOs rely heavily on subsidies, the reduction of subsidies creates negative effects on their budgets, forcing them to reduce expenses. The following comments from Type 1 TMOs provide insights into how the budget constraints of governments affect TMO activities.
“Although subsidies from governments account for more than 90% of the revenue now, it is hard to continue receiving the same amount of subsidies, considering the current financial condition [of governments].”

“Subsidies from the city government to the TMO decreased by 50% this year”

“Because governments are aiming at the improvement of their financial condition, it has become more difficult for the TMO to receive financial supports from governments.”

Thus, the budget constraints of governments, followed by the reduction of subsidies, contributes to the small budget of Type 1 TMOs.

The second reason is the budget limits of chambers of commerce, which have resulted in a reduction in the amount of the money transfers to TMOs: downtown decline has decreased the number of businesses, resulting in a drop in revenue from membership fees, and as a result, chambers of commerce cut their money transfers. The reduction of the money transfers not only leads to a reduction in TMOs’ budgets directly but also means that TMOs are not able to get large amounts of subsidies. That is, subsidies, which are usually tied to specific projects, do not necessarily cover the whole costs of the projects: TMOs are usually required to pay some portion (typically 10-50%) of the costs. For example, if a TMO wants to carry out a project which costs 30 million yen by receiving a subsidy that covers two-thirds of the costs, the TMO gets 20 million yen from subsidies and pays the rest of 10 million yen by themselves. Type 1 TMOs, which do not raise funds by themselves but depend heavily on outside sources, prepare such funds mainly by money transfers from chambers of commerce. In fact, a TMO mentions, “the chamber of commerce pay the project costs that are not covered by the subsidies.” Thus, the budget constraints of chambers of commerce, followed by the reduction in the money transfers, have contributed directly and indirectly to tightening budgets of Type 1 TMOs.

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80 How much TMOs are required to pay is dependent on the kinds or providers of subsidies. In some cases, local governments give subsidies that cover the whole costs of the projects, and so TMOs do not need to pay.
The reason why Type 3 TMOs have large budgets

Unlike Type 1 TMOs, Type 3 TMOs are likely to have large budgets. The reason for this might be related to the fact that they raise funds mainly from sales of goods and services. Although Type 3 TMOs get their funding from several sources, the most important source is the proceeds from sales. Because these TMOs would like to break even at least and create profits if possible, they conduct businesses so that the revenues are equal to or above the costs. It might be essential for these TMOs to sell large amounts of goods and services to achieve this break-even point, which might result in these TMOs having large budgets.

Although the TMO Survey did not ask what kind of goods and services these TMOs sell in order to raise money, the comments from and interviews with TMO staff demonstrate that there are two categories of these goods and services. The first is what stimulates downtown revitalization. The management of parking is one example of this. Through parking services, TMOs not only make money but also contribute to downtown revitalization by increasing a limited parking supply. Another example is building renovation project. Some TMOs construct new buildings in vacant lands or renovate abandoned buildings, and then they recruit favorable tenants and rent spaces to them, by which they create profits. Such a project could improve the environment of downtowns through a decrease in vacancy and an increase in the mix of businesses.

The other category of goods and services is separate from downtown revitalization. A wide-spread example of this is the management of public facilities. Some TMOs undertake the management of facilities owned by local governments, such as community halls and sports centers, and receive management fees from these governments, through which these TMOs raise money. Such an activity is not directly related to downtown revitalization and just a source of

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81 About 85% of the revenues of Type 3 TMOs are occupied by the proceeds from sales.
revenues. Thus, it should be noted that some sales activities conducted by Type 3 TMOs are contributory to downtown revitalization, whereas others are separate from revitalization activities.

*The reason why Type 2 TMOs do not have large budgets*

Type 2 lies between Type 1 and Type 3: Type 2 TMOs tend to have larger budgets than Type 1 TMOs but smaller budgets than Type 3 TMOs. This finding is somewhat counterintuitive because it might be natural to think that Type 2 TMOs should have the largest amount of budgets, considering that they receive funding from both outside sources and proceeds from sales. However, the fact is the opposite: Type 2 TMOs have much smaller budgets than Type 3 TMOs. One possible explanation for this is that some of them used to be dependent on outside sources and started selling goods or services recently to cover the reduction of money from outside sources. Several comments from Type 2 TMOs support this explanation:

   “Because the amount of money from governments has been decreasing, the TMO has tried to secure other funding sources, although it is difficult”
   “Subsidies have been cut, and so it has been necessary to raise funds by themselves in order to continue TMO activities.”

Thus, their businesses might not mature like the businesses of Type 3 TMOs, which might lead to small budgets.
Profit

The analysis in Chapter 3 demonstrates that about a quarter of TMOs face deficits. Figure 4-5 illustrates annual profits or deficits in each type. As shown in the figure, most of the Type 1 TMOs balance the budget, suggesting that Type 1 TMOs conduct projects within their revenues from outside sources, such as subsidies. In addition, most of these TMOs receive money transfers from chambers of commerce in order to cover deficits, enabling them to break even. On the other hand, there is a large variance in the profits/deficits among Type 3 TMOs: about half of them face deficits, and another half of them gain profits. This wide variance in Type 3 TMOs suggests the difficulty of raising sufficient funds without relying on subsidies. In fact, a Type 3 TMO that face deficits comment, “Although the main purpose of TMO projects is to revitalize the downtown, these projects rarely break even.” Thus, although some TMOs succeed in gaining profits, other TMOs do not conduct projects that create sufficient profits to cover the costs and, as a result, they face deficits.

Differences in staff

The analyses in Chapter 3 show that many TMOs lack sufficient staff. How do the three types affect the number of staff? Figures 4-6 and 4-7 illustrate the numbers of full-time and part-time
staff, respectively. As demonstrated in these figures, Type 1 TMOs rely on part-time staff and are unlikely to hire full-time staff, whereas Type 3 TMOs depend on full-time staff rather than part-time staff. Type 2 TMOs are likely to hire both full-time and part-time staff. In terms of full-time equivalent (FTE), which is calculated by counting two part-time staff as one FTE, Type 2 and Type 3 TMOs have the same number, as shown in Table 4-4.

<table>
<thead>
<tr>
<th>Type 1</th>
<th>Type 2</th>
<th>Type 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median number of full-time staff</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Median number of part-time staff</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Median full-time equivalent</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

Table 4-4 Median number of staff members in each type

Source: The TMO Survey

Note: Full-time equivalent (FTE) is calculated by counting two part-time staff as one FTE

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82 The analysis of variance (ANOVA) test shows that the differences among the three types in both full-time staff and part-time staff are statistically significant (at the significance level of 0.05).
The reason for the differences among the three types seems to be related to their budgets. On the one hand, because Type 1 TMOs typically have tight budgets, they cannot afford full-time staff and so they conduct their activities with part-time staff. In fact, many Type 1 TMO representatives mention that the lack of funding prevents the TMOs from hiring full-time staff. Also, a TMO staff member comments that staff of chambers of commerce work concurrently for both the chambers of commerce and TMOs and the salary for them are paid from the budgets of chambers of commerce, not from the budgets of TMOs. Thus, the tight budget lead to the small number of full-time staff member in Type 1 TMOs. On the other hand, Type 3 TMOs tend to have larger budgets, which might enable them to hire full-time staff.

One interesting finding is that Type 2 TMOs have the same FTE as Type 3 TMOs, in spite of the tight budgets of Type 2 TMOs compared to those of Type 3 TMOs. One possible explanation for this is that Type 2 TMOs perform two different kinds of operations: they not only sell goods or services for raising funds by themselves but also make efforts in receiving subsidies. In other words, whereas Type 1 TMOs focus on receiving subsidies or grants and Type 3 TMOs pay attention only to their businesses, Type 2 TMOs have to deal with both of them, which require a large number of staff members. In fact, a Type 2 TMO staff member mentions, “we have to put a great deal of energy before getting subsidies.” Also, some Type 1 TMOs state that although they want to start raising funds by themselves, it is very difficult for them to start selling goods or services because of the lack of staff. These comments suggest that a large number of staff members is required to conduct both operations simultaneously. As a result, they have the same number of FTE as Type 3 TMOs, and the tight budgets force them to rely more on part-time staff than Type 3 TMOs.
Difference in the level of collaboration with local stakeholders

Chapter 3 demonstrates that the low level of collaboration with local stakeholders is one obstacle for TMOs: local business owners and residents voluntarily participate in TMO activities only in 40% TMOs. Table 4-5 shows that the degree of voluntary participation varies among the three types: Type 2 TMOs get the largest participation of local stakeholders.83

Table 4-5 Voluntary participation in each type

<table>
<thead>
<tr>
<th>% of TMOs where business owners/residents voluntarily participate in their activities.</th>
<th>Type 1</th>
<th>Type 2</th>
<th>Type 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>34%</td>
<td>57%</td>
<td>38%</td>
<td></td>
</tr>
</tbody>
</table>

Source: The TMO Survey

Although it is difficult to decide why there is such a difference, a Type 1 TMO staff member offers an interesting comment related to it. The member mentions, “Because the chamber of commerce [with which the TMO associates] pays the costs that are not covered by subsidies, business owners do not recognize that these projects are conducted for the sake of business owners.” In other words, because the costs of TMO projects are covered by the subsidies and funds provided by the chamber of commerce, business owners do not feel that they pay the costs, and as a result, they are not interested in these projects. This comment might suggest that the heavy reliance on outside sources, which are not necessarily familiar to business owners, lead to the indifference of business owners and residents toward activities of Type 1 TMOs.

On the other hand, Type 2 TMOs enjoy the largest participation of volunteers. In fact, a Type 2 TMO staff states, “Our activities are conducted mainly by volunteers.” The reason for the

83 The analysis of variance (ANOVA) test shows that the difference among the three types is statistically significant (at the significance level of 0.05).
high level of voluntary participation might be the same as the reason why these TMOs have the largest number of staff. That is, because Type 2 TMOs need many human resources to conduct both sales and the application of subsidies with limited budgets, they need supports from volunteers. A Type 2 TMO which raises funds from both subsidies and sales mentions, “Volunteers, including unpaid executives, cover the lack of funds of the TMO.” Thus, without their participation, it might be difficult for Type 2 TMOs to manage their activities.

4-3 Differences in function by type

Overview of the differences in function

The analyses also demonstrate that there are differences among the three types of TMOs in their functional attributes. Table 4-6 summarizes the differences among the three types, and the rest of this section provides a more detailed explanation of the differences.

<table>
<thead>
<tr>
<th>Type 1 (N=79) (High dependency on outside sources)</th>
<th>Type 2 (N=46) (Moderate dependency on outside sources)</th>
<th>Type 3 (N=24) (Low dependency on outside sources)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major activities</td>
<td>Events</td>
<td>Events</td>
</tr>
<tr>
<td></td>
<td>Consensus building</td>
<td>Business recruitment</td>
</tr>
<tr>
<td></td>
<td>Business recruitment</td>
<td></td>
</tr>
<tr>
<td>Other activities</td>
<td>Consensus building</td>
<td>Seminar/consultant</td>
</tr>
<tr>
<td></td>
<td>Business recruitment</td>
<td>Promotion</td>
</tr>
<tr>
<td>Key roles</td>
<td>Organize events</td>
<td>Provide services to business owners</td>
</tr>
</tbody>
</table>

Note: Major activities mean that most (more than 70%) of TMOs in each type conduct the activities, whereas other activities indicate more than 50%.
Difference in actions

The TMO Survey demonstrates that events, consensus building among stakeholders, and business recruitment are the major activities for the whole of the TMOs, as discussed in Chapter 3. However, the fact is that each type of TMOs conducts different activities. Table 4-7 illustrates the percentages of TMOs that conduct each service. As can be seen, although events are organized by most of the TMOs, regardless of the types, consensus building is more likely to be conducted by Type 2 TMOs than other types, and business recruitment is undertaken by almost all of the Type 3 TMOs. In addition, parking services are a major activity for Type 3 TMOs, whereas TMOs in the other types do not provide such services.84

<table>
<thead>
<tr>
<th></th>
<th>Type 1</th>
<th>Type 2</th>
<th>Type 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Research</td>
<td>30%</td>
<td>35%</td>
<td>33%</td>
</tr>
<tr>
<td>Biz recruitment</td>
<td>56%</td>
<td>72%</td>
<td>92%</td>
</tr>
<tr>
<td>Capital Improvements</td>
<td>34%</td>
<td>33%</td>
<td>21%</td>
</tr>
<tr>
<td>Parking</td>
<td>16%</td>
<td>28%</td>
<td>58%</td>
</tr>
<tr>
<td>Cleaning</td>
<td>27%</td>
<td>24%</td>
<td>29%</td>
</tr>
<tr>
<td>Security</td>
<td>6%</td>
<td>7%</td>
<td>0%</td>
</tr>
<tr>
<td>Events</td>
<td>85%</td>
<td>89%</td>
<td>88%</td>
</tr>
<tr>
<td>Promotion</td>
<td>43%</td>
<td>52%</td>
<td>54%</td>
</tr>
<tr>
<td>Seminar, consultant</td>
<td>46%</td>
<td>63%</td>
<td>33%</td>
</tr>
<tr>
<td>Consensus building</td>
<td>58%</td>
<td>74%</td>
<td>50%</td>
</tr>
<tr>
<td>Social activities</td>
<td>8%</td>
<td>13%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Source: The TMO Survey

This analysis provides several interesting findings. First, Type 1 TMOs undertake a smaller

84 The analysis of chi-test shows that the differences among the three types in business recruitment, parking, and seminar/consultant are statistically significant (at the significance level of 0.05).
number of activities than other types, focusing mainly on events. This can be explained by the
tight budgets of Type 1 TMOs mentioned above. That is, because these TMOs do not have large
budgets, they cannot afford to undertake a variety of projects, especially costly projects.

Second, Type 3 TMOs are more likely to conduct business recruitment and parking services
than other types. The reason for it might be that they have to undertake profitable projects. Because these TMOs do not receive a lot of money from outside sources, they have to raise money by themselves, especially from the proceeds from sales of goods and services. In other words, they have to conduct projects which create sufficient earnings. As mentioned earlier, the management of parking is one profitable activity, which is why so many Type 3 TMOs conduct it. In fact, a TMO mentions that parking service brings in good returns. Also, business recruitment can be profitable. For example, some TMOs not only recruit businesses but also rent spaces to these businesses, by which they create profits. Thus, because they need to make earnings by themselves, Type 3 TMOs tend to conduct profitable activities, such as parking services and business recruitment, and they are less likely to undertake such unprofitable activities as consensus building than the other types.

Third, Type 2 TMOs lie in the middle of Type 1 and Type 3 TMOs. Because they have to raise funds partially by themselves, they are more likely to conduct profitable activities, such as business recruitment, than Type 1 TMOs. At the same time, because they do not need to focus only on making profits and they can receive supports from governments and chambers of commerce, they are more likely to undertake unprofitable projects, such as consensus building and seminars, than Type 3 TMOs.

Fourth, Type 3 TMOs, which do not rely on subsidies, are less likely to undertake capital improvements. This might represent the necessity of subsidies for these activities. In fact, this analysis is consistent with the analysis in the last chapter, which demonstrates that the majority
of TMOs receive subsidies when they conduct capital improvements.

4-4 Issues facing each type of TMO

The previous sections in this chapter have demonstrated that each type of TMO is different from the others in both structure and function, except that the boards of all types are dominated by commercial stakeholders. This suggests that each type faces different kinds of problems. Figure 4-8 summarizes the issues facing each TMO, which are derived from the previous analyses.

Issues facing Type 1 TMOs

The biggest problem facing most of the Type 1 TMOs is the limited budgets: more than half of the Type 1 TMOs spend less than 10 million yen ($85,000). Such tight budgets make it difficult for these TMOs to hire full-time staff. In addition, the lack of funds as well as insufficient staff prevents these TMOs from undertaking a variety of activities. Furthermore, because they rely on outside sources, their activities are vulnerable to changes in policies of these sources. For example, a TMO comments, “although the TMO relies on subsidies from governments, almost all of the subsidies are one-year subsidies, which make it difficult for the TMO to conduct long-term projects.” Thus, a reduction in subsidies or money transfers from chambers of commerce creates directly negative effects on the activities of these TMOs. In particular, because the amount of subsidies tends to vary every year, many of these TMOs hesitate to launch long-term projects.

Issues facing Type 2 TMOs
Type 2 TMOs also tend to have relatively tight budgets, which make it difficult for these TMOs to hire many full-time staff members. On the other hand, because they need to make efforts not only in getting funding from the outside sources but also in raising money from sales, they typically need larger staff members. Therefore, without a large number of staff members or active volunteers, they might face difficulties in conducting activities. In addition, as Type 1 TMOs, they are also vulnerable to changes in the amount of money from outside sources.

**Issues facing Type 3 TMOs**

Because Type 3 TMOs have to raise money without relying on outside sources, they tend to pursue profitable projects and not to provide services that are necessary for downtowns but unprofitable. If these profitable projects are related to downtown revitalization, TMOs conducting such projects could contribute to downtown improvements. However, as some TMOs mention, it is hard to make profits from projects that are conducted for the purpose of downtown revitalization. As a result, some Type 3 TMOs are forced to conduct projects that are not directly related to downtown improvements in order to make revenues, preventing them from focusing on downtown improvements. In addition, the degree of their contribution to downtown revitalization is dependent on whether they make sufficient proceeds from their profitable activities. If they cannot make sufficient earnings from their businesses, they might face a large amount of deficits, making it difficult for them to continue their activities.
<table>
<thead>
<tr>
<th></th>
<th>Type 1</th>
<th>Type 2</th>
<th>Type 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Planning</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board member</td>
<td>Domination of commercial stakeholders</td>
<td></td>
<td>Small number</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(Exclusion of residents)</td>
</tr>
<tr>
<td>Board frequency</td>
<td>Low frequency of meeting</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Implementation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collaboration with local stakeholders</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Staff</td>
<td>Lack of staff, part-time</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget</td>
<td>Tight budget</td>
<td>Vulnerable to changes in outside sources</td>
<td>Deficit</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Activity</strong></td>
<td>Small Variety</td>
<td>Few unprofitable projects,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Short-term</td>
<td>Some projects separate from</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>revitalization works</td>
<td></td>
</tr>
</tbody>
</table>

Figure 4-8 Summary of differences in issues

Source: Author
4-5 Conclusions

This chapter has focused on differences among TMOs, by categorizing TMOs into the three types based on the degree of dependency on outside funding sources. It should be noted that this categorization provides detailed insights into the issues facing TMOs. The analyses demonstrate that each type has a different structure and function and faces different problems: Type 1 TMOs face tight budgets and lack of full-time staff, which prevent many of these TMOs from organizing a variety of activities. Type 2 TMOs also experience insufficiency in staff. Type 3 TMOs might face large deficits, and some of them have to conduct projects that are not related to downtown revitalization in order to make revenues. Thus, it is not appropriate to think that all TMOs have the same problems to the same degree. Rather, issues vary among TMOs by the degree of their dependency on outside sources.

These findings bring up two other questions. First, what factors affect the decision-making of TMOs about which type to choose? Why do some TMOs decide to rely heavily on outside sources, whereas other TMOs raise money by themselves? Second, what creates differences among each type? For example, several TMOs in Type 1 have large budgets, although the majority of them have small budgets. Why do such differences exist? In the next chapter, I will answer these questions by investigating the effects of external contexts.
Chapter 5: Effects of External Contexts

TMOs cannot be independent of their external contexts. Some TMOs work for downtowns which are located in densely populated cities, whereas some TMOs serve downtowns in under-populated cities or towns. This chapter presents analyses on the effects of such external contexts, focusing on the effects of population of cities and towns that TMOs serve. Specifically, I first demonstrate that TMOs in large cities are more likely to rely on outside funding sources than those in small cities. Then, I illustrate that city size has a smaller effect on TMOs relying heavily on outside sources rather than on those relying little on these sources. Thirdly, I introduce four TMOs that have achieved success in revitalizing downtowns. Finally, based on the findings, I present current changes of TMOs in small and large cities, showing in what condition TMOs can become successful and illustrating that there are limited funding structures with which TMOs could contribute to downtown revitalization both in small and large cities.

5-1 External contexts and funding sources

Population

Although there are several external factors affecting structure and function of TMOs, this research focuses on the effects of the population of cities and towns served by TMOs. The reason for the emphasis on the population is that it could influence TMOs in numerous ways. For example, on the one hand, local governments in large cities tend to have large budgets, which might enable TMOs to receive large amounts of subsidies. On the other hand, TMOs in small cities might find difficulty in raising funds by themselves because it might be hard to find
profitable businesses in small cities. Thus, the examination of the effects of city size provides more detailed views on issues facing TMOs.

According to the TMO Survey, the range of the population of cities and towns where TMOs are established is between 4,000 and about 2.2 million. The 25th, 50th, and 75th percentiles are 35,259, 73,000, and 170,944, respectively. In this research, we call a city/town in the bottom-quartile “a small city” and call a city in the top-quartile “a large city.”

**The three types and city size**

How do the population of cities and towns influence the choice of TMOs among the three types mentioned in Chapter 4—Type 1 (heavy reliance on outside funding sources), Type 2 (moderate reliance on these sources), and Type 3 (low reliance on these sources)? Figure 5-1 shows the relationship between the three types and the population. As can be seen, Type 3 TMOs are more likely to locate in small cities and less likely to be in large cities than Type 1 and Type 2 TMOs. In other words, TMOs that are heavily dependent on outside sources tend to exist in large cities. This fact is somewhat counterintuitive because it might be natural to think that TMOs in large cities could raise funds easily by themselves through the sales of goods or services and do not need to rely on outside sources.
**TMOs in small cities**

Why do many Type 3 TMOs locate in small cities? In other words, why are TMOs in small cities more likely to be independent of outside sources than those in large cities?\(^{85}\) One reason might be that there is no reliable outside funding source in small cities. That is, local governments tend not to have sufficient budgets in small cities, which can give only a small amount of subsidies; because chambers of commerce tend to have tight budgets in small cities, TMOs cannot expect a large amount of money transfers from them. Therefore, some TMOs in small cities, which encounter budget limits of these outside sources, are encouraged to raise funds by themselves through sales of goods or services in order to conduct TMO activities. In fact, a Type 3 TMO in a tiny town that has a population of about 5,000 mentions that subsidies would impose heavy burdens on the government budget and so the TMO cannot rely on the government.

However, it is not necessarily easy for TMOs to make proceeds in small cities: some of these TMOs find it difficult to conduct profitable businesses in such cities because the market is weak. In fact, a TMO in a small city comments that because they cannot make earnings from such businesses as rental of vacant rooms for tenants, they depend on small amounts of subsidies unwillingly. Thus, some TMOs in small cities have no choice but to rely heavily on outside sources, even though the outside sources are unlikely to be reliable, which is why some Type 1 TMOs exist in small cities.

**TMOs in large cities**

On the other hand, TMOs in large cities tend to rely heavily on outside funding sources.\(^{86}\) A possible factor contributing to TMOs in large cities being Type 1 is that outside sources are

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\(^{85}\) 31% of TMOs in small cities are Type 3, whereas only 10% of TMOs in large cities are Type 3.

\(^{86}\) In fact, 57% of TMOs in large cities are Type 1, whereas only 10% are Type 3.
reliable in some large cities and some TMOs can receive large amounts of funds without raising funds from sales of goods or services. Because governments and chambers of commerce in these cities tend to have larger budgets than in small cities, these outside sources might be able to afford to give a large amount of money to TMOs in some cases.

Although this explanation is appropriate for some TMOs in large cities, it does not apply to all of them. As mentioned in the next section, although some Type 1 TMOs in large cities get large amounts of subsidies from governments, others receive small amounts of funds from them. Nonetheless, these TMOs still rely on outside sources, even though these sources are unreliable and provide small amounts of funds. This surprising fact suggests that many TMOs find difficulty in launching profitable businesses and have no choice but to rely on outside sources even in large cities. In fact, two Type 1 TMOs with small budgets mention that they cannot find businesses that make sufficient profits. Also, another staff member of a Type 1 TMO notes that it is hard for the TMO to reach agreements with many stakeholders on starting sales of goods or services. This comment might suggest that because there tends to be many stakeholders in large cities, sales of goods or services are likely to cause a conflict of interests among stakeholders, which might result in the high dependency on unreliable outside sources.

5-2 External contexts and differences among each type

Overview of the differences

Even though there is a tendency for TMOs in small cities being Type 3 and TMOs in large cities being Type 1, not all TMOs follow this rule. This section discusses how the city size affects the structure of TMOs in each type. To make a clear comparison, this section focuses on Type 1 and
Type 3 TMOs in small and large cities. Table 5-1, which summarizes differences among them, presents an interesting finding: the population size does not affect all of the structural attributes of TMOs. The rest of this section provides a more detailed picture.

<table>
<thead>
<tr>
<th></th>
<th>Type 1</th>
<th>Type 2</th>
<th>Type 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small city (N=14)</td>
<td>Large city (N=24)</td>
<td>Small city (N=10)</td>
</tr>
<tr>
<td>Board</td>
<td>Small size</td>
<td>Large size</td>
<td>Small size</td>
</tr>
<tr>
<td>Budget</td>
<td>Small</td>
<td>Small</td>
<td>Large</td>
</tr>
<tr>
<td></td>
<td>(large in some cities)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No profit/deficit</td>
<td>No profit/deficit</td>
<td>No profit/deficit</td>
<td>Profit or deficit</td>
</tr>
<tr>
<td>Staff</td>
<td>Small number</td>
<td>Small number</td>
<td>Small number</td>
</tr>
<tr>
<td></td>
<td>Part-time</td>
<td>Part-time</td>
<td>Part-time</td>
</tr>
</tbody>
</table>

Note: Gray cells show that structural attributes are different by city size.

The effects of city size on the TMO board

Tables 5-2 and 5-3 illustrate the effects of the city size on board members and frequency of board meetings in Type 1 and Type 3, respectively. As shown in Table 5-2, Type 1 TMOs in large cities tend to have a larger number of board members than those in small cities. This might be because there are more stakeholders in large cities and the boards in these cities need to include them. In fact, Type 1 TMOs in large cities include many more business owners than those in small cities. The largeness of the boards seems to make it difficult for TMOs to hold board meetings frequently, only twice a year. On the other hand, Type 1 TMOs in small cities have smaller

87 It should be noted that there are only four Type 3 TMOs in large cities. This small number might affect the accuracy of the analyses in this Section.
boards, which might contribute to increasing the frequency of board meetings.

Table 5-2 Number of board members in an average TMO by stakeholder group (Type 1)

<table>
<thead>
<tr>
<th></th>
<th>Chamber of commerce</th>
<th>Business owners</th>
<th>Residents</th>
<th>Government</th>
<th>Corporation</th>
<th>Professionals</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small city</td>
<td>3.3</td>
<td>4.8</td>
<td>2.7</td>
<td>2.1</td>
<td>0.9</td>
<td>0.6</td>
<td>0.9</td>
<td>15.4</td>
</tr>
<tr>
<td>Large city</td>
<td>5.4</td>
<td>8.5</td>
<td>2.3</td>
<td>2.8</td>
<td>1.6</td>
<td>2.2</td>
<td>1.2</td>
<td>23.9</td>
</tr>
</tbody>
</table>

Source: TMO Survey

Table 5-3 illustrates that Type 3 TMOs are different from Type 1 TMOs. Unlike Type 1 TMOs, there are only small differences in Type 3 TMOs between large cities and small cities in terms of the total number of board members: both TMOs have almost the same number of members. It might be because Type 3 TMOs are not required to cover all kinds of stakeholders. Type 3 TMOs raise funds by themselves through the sales of goods or services, and so they tend to decide what they will do only by themselves. In other words, they tend not to take in broad opinions from a variety of stakeholders, and as a result, even if the city size is big and the number of stakeholders is large, TMOs might not need to include such stakeholders on their boards. In addition, it should be noted that these TMOs in large cities have no local residents on their boards. This suggests that the opinions of residents are unlikely to be reflected in the activities of these TMOs. One interesting finding is that the frequency of board meetings in small cities is much higher than that in large cities, although both boards are almost the same size. It might suggest that city size is a key factor deciding the frequency in these TMOs.

Table 5-3 Number of board members in an average TMO by stakeholder group (Type 3)

<table>
<thead>
<tr>
<th></th>
<th>Chamber of commerce</th>
<th>Business owners</th>
<th>Residents</th>
<th>Government</th>
<th>Corporation</th>
<th>Professionals</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small city</td>
<td>1.6</td>
<td>4.5</td>
<td>1.3</td>
<td>0.9</td>
<td>1.5</td>
<td>0.4</td>
<td>2.2</td>
<td>12.4</td>
</tr>
<tr>
<td>Large city</td>
<td>2.0</td>
<td>4.3</td>
<td>0.0</td>
<td>2.0</td>
<td>2.3</td>
<td>0.0</td>
<td>2.7</td>
<td>13.3</td>
</tr>
</tbody>
</table>

Source: TMO Survey
The effects of city size on budgets

As mentioned in Chapter 4, Type 3 TMOs tend to have larger budgets than Type 1 TMOs because outside sources, on which Type 1 TMOs depend heavily, do not provide large amounts of grants to TMOs. Table 5-4 demonstrates how the city size affects the budget size in each type, showing that the degree of the effects of the city size vary between Type 1 and Type 3.

Table 5-4 Median expense in Type 1 and Type 3 TMOs by city size

<table>
<thead>
<tr>
<th></th>
<th>Type 1</th>
<th>Type 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small city</td>
<td>Large city</td>
</tr>
<tr>
<td>Median expense</td>
<td>4.8 million yen</td>
<td>6.6 million yen</td>
</tr>
</tbody>
</table>

Source: TMO Survey

First, in Type 1 TMOs, the difference of median budget size between small cities and large cities is negligible, although Type 1 TMOs in small cities have slightly smaller budgets than in large cities. In addition, more detailed analyses provide an interesting fact: there is a larger variance in budget size among Type 1 TMOs in large cities than those in small cities. On the one hand, in small cities, the majority of Type 1 TMOs have small budgets (less than 5 million yen). On the other hand, in large cities, some of Type 1 TMOs (about 30%) have small budgets, whereas about 40% of them have larger budgets (more than 10 million yen). This difference in the variance might suggest that whereas outside sources provide small amounts of money in almost all small cities, the amounts of money from these sources vary considerably in large cities.

88 The standard deviation of the budget size of Type 1 TMOs in large cities is 14.5 million, whereas that in small cities is 9.2 million.
In fact, the following two comments from Type 1 TMOs in large cities offer a great contrast:

“The government is very supportive and provides a large amount of subsidies every year.”

“It is difficult to secure sufficient funding only from subsidies.”

Thus, outside sources are reliable only in some large cities, whereas these sources are as unreliable in other large cities as those in small cities.

On the other hand, in terms of Type 3 TMOs, the difference between small cities and large cities is remarkable. This suggests that whereas TMOs in large cities can gain high earnings from sales of goods or services because there is a strong market, TMOs in small cities find it difficult to raise much money in these cities where the market is weak. However, it should be noted that, even in small cities, the median expense for Type 3 TMOs is much larger than that for Type 1 TMOs,

Although there are some differences in budget size between large and small cities in both types, the city size does not create differences in profits between both cities. Almost all of Type 1 TMOs have nearly zero profits or deficits in both large and small cities. Also, half of Type 3 TMOs have profits and the other half have deficits, regardless of the city size, and the amounts of profits/deficits are not affected by the city size. Thus, the population of cities does not have impacts on profits/deficits.

The effects of city size on staff

Table 5-5 illustrates how the city size affects the number of staff. As can be seen, in both small and large cities, Type 1 TMOs depend on part-time staff and are not likely to hire full-time staff. However, it should be noted that the budget size of the Type 1 TMOs in large cities greatly influence the size of full-time staff. As mentioned above, there is a variance in budget size
among Type 1 TMOs in large cities, and those that have large budgets are more likely to hire full-time staff that those with small budgets. In fact, about half of Type 1 TMOs in large cities with a budget of more than 10 million yen hire full-time staff, whereas only 6% of those with a budget of less than this amount hire full-time staff. This suggests that only Type 1 TMOs that get sufficient funds from outside sources in large cities can afford to hire full-time staff, and the tight budgets prevent other Type 1 TMOs in both small and large cities from hiring full-time staff.

<table>
<thead>
<tr>
<th></th>
<th>Type 1</th>
<th></th>
<th>Type 3</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small city</td>
<td>Large city</td>
<td>Small city</td>
<td>Large city</td>
</tr>
<tr>
<td>Median full-time</td>
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<td>0</td>
<td>0.5</td>
<td>5</td>
</tr>
<tr>
<td>Median part-time</td>
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<td>2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Median full-time equivalent</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>5</td>
</tr>
</tbody>
</table>

Table 5-5 Median staff in Type 1 and Type 3 TMOs by city size

Source: TMO Survey
Note: full-time equivalent (FTE) is calculated by counting two part-time staff as one FTE

On the other hand, Type 3 TMOs are more likely to hire full-time staff than Type 1 TMOs in both cities, and the number of staff members varies by the city size. In small cities, the number of full-time staff members is not necessarily large and vary among TMOs: 50% of Type 3 TMOs in small cities have no full-time staff and rely on part-time staff, whereas the other 50% of them hire full-time staff and have no part-time staff. Contrastively, in large cities, Type 3 TMOs tend to hire a large number of full-time staff members. This seems to suggest that the huge budgets of Type 3 TMOs in large cities enable them to hire many staff members.

5-3 Four Examples of Successful TMOs
Thus far, the differences and similarities between TMOs in small cities and in large cities have been discussed: TMOs tend to choose different degrees of dependency on outside sources and have both similar and different structural attributes. These findings bring about an important question: under what condition are TMOs likely to contribute to downtown revitalization? In order to answer this question, this section introduces four examples of TMOs that are regarded as positive contributors to downtown revitalization. Two of them are in small rural towns, one is in a medium-size city, and the last one is located in a large urban city.

TMO in the town of Rokugo (small town): downtown revitalization through tourism

The town of Rokugo, Akita Prefecture, is a tiny town with a population of about 7,000, about 3,000 of which live in its downtown area. The downtown suffered a severe decline mainly due to the establishment of large shopping centers in its suburban areas. The number of stores in the downtown decreased from 153 in 1997 to 124 in 1999, and the total sales of these stores dropped from 8 billion yen to 5.9 billion yen during that period.\(^8^9\)

In order to stop the decline and revitalize the downtown, Rokugo Machidukuri Kabushiki-gaisha was established as a TMO in 1999, which is a public-private company. Since the establishment, the TMO has aimed at downtown revitalization through tourism. There are more than 60 fountains in the town, and the water from them was chosen as “one of the one hundred purest waters in Japan” by the central government. Many tourists visited the town to see these fountains. However, the problem was that these tourists did not go shopping in the downtown.

In order to deal with this situation, the TMO established two commercial facilities in the

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\(^8^9\) The Downtown Revitalization Promotion Office Website
downtown, using subsidies. The TMO attracted such tenants as restaurants and souvenir stores so that these facilities can play the role of destination and draw tourists to the downtown. In addition, in order to cover the operating costs of these facilities, the TMO start producing and selling soda by using the water sprung out of the fountains.

The activity of the sales of soda seems to have no relationship with downtown revitalization on the surface. However, the TMO has tried to connect this activity with downtown revitalization in two ways. First, it appropriates the profits of the sales for other revitalization activities. Although most of the profits are used for the operating costs, the TMO conducts such activities as events by using the remaining money. A staff member of the TMO mentioned that the TMO raises most of the funds from the proceeds from the sales (i.e., Type 3) and they would like to expand the sales so that they can appropriate larger amounts of money for other revitalization work. Second, the TMO tries to buy materials necessary for producing the soda or used in the facilities from businesses in the downtown, even if these materials are more expensive than those bought from outside merchants. Such purchase activities contribute to increasing the sales of businesses in the downtown. Through the construction of the commercial facilities and the sales of soda, the TMO staff member felt that the TMO has had success in the revitalization work. In fact, the downtown now attracts more tourists to the downtown.

These activities have been driven by local stakeholders with whom the TMO has a strong relationship. Half of the company's stocks are held by 68 local residents and business owners, and these stakeholders have joined the TMO activities as staff. In other words, they do not only put money into the activities but also plan and implement activities by themselves. Such a strong support from local stakeholders helps the TMO bring about considerable impacts on downtown revitalization.
TMO in the town of Taiki (small town): development of commercial facility

The town of Taiki, Hokkaido Prefecture, has a population of only 7,000. The town is located in a rural area, and the main industry is dairy. It takes one hour to get to the nearest large city, Obihiro, which has a population of 170,000. Residents in the town began to shop in large stores in suburban areas of Obihiro city, which contributed to a decline of the downtown of the town.

In order to attract customers, business owners in the downtown planned a construction of a commercial facility in 1994. After the enactment of the Downtown Revitalization Law in 1998, the chamber of commerce became a TMO, which implemented the plan. The commercial facility was completed in 2002 and includes such tenants as a grocery store, pharmacy, and a toy store.

The commercial facility plays an important role for the downtown. It has succeeded in attracting customers who used to go shopping in the large stores in Obihiro city. Also, some business owners and dairy farmers started selling dairy products, which have drawn visitors from outside the town. As a result, the number of shoppers in the downtown has increased and helped revitalize the downtown. In addition, the commercial facility is financially important for the TMO. The rental revenue from tenants, along with subsidies, is the core funding source of the total annual revenue of 20 million yen (the TMO is categorized into Type 2).

A characteristic of the TMO is that its activities have been driven by local business owners and residents: a staff member of the TMO commented that a big reason why the TMO could establish the commercial facility and has contributed to downtown revitalization is that many local stakeholders have participated in the activities. Because the chamber of commerce, with which the TMO associates, does not have sufficient number of staff, the TMO introduced “core staff system” to compensate the lack of staff of the TMO. The core staff is composed of about 25 volunteers, who are farmers, business owners, and local residents, and develops and implements projects for downtown improvements. The TMO staff member mentioned that the core staff
played an important role and such an active participation of volunteers was possible because local business owners had been strongly interested in downtown revitalization even before the establishment of the TMO. They had already developed a plan for the commercial facility, as mentioned above, and took part in the process of the establishment of the TMO, which has led to the strong relationship between the TMO and local stakeholders.

TMO in the city of Ishinomaki (medium-size city): revitalization based on a museum

Ishinomaki city, Miyagi Prefecture, is a medium-size city with population of 120,000. The city used to be prosperous as a fishing port and is an industrial city now. The downtown of the city has also been deteriorated due to suburban large-scale stores and experienced a steady decline: the total sales in the downtown decreased by 10% from 1997 to 1999.90

A TMO, Kabushuki-gaisha Machidukuri Manbou, was established in 2001 as a public-private company. The main way the TMO has tried to revitalize the downtown is based on a museum: the city is a birthplace of a famous cartoonist and the TMO opened a museum displaying his works in the downtown in 2001. The museum has attracted many visitors from both inside and outside the city.

The TMO has tried to encourage the visitors to go shopping in the downtown. For example, the TMO did not construct parking space adjacent to the museum, except for wheelchair parking lots. Instead, the TMO provides visitors with free coupon for parking space in the downtown, and as a result, visitors walk to the museum from the parking and stop by stores along the way. The director of the TMO mentioned that the sales of some stores in the downtown increased by 200% after the establishment of the museum.

There are two financial characteristics of the TMO. First, it has a huge budget (2 billion

90 The Downtown Revitalization Promotion Office Website
yen) and has never experienced deficits. The main funding source is the museum fee and sales of goods related to the cartoonist. Thus, although the TMO received subsidies in the construction of the museum, it raises all of the revenue from sales of goods and services now (i.e., Type 3 TMO). The director commented that the budget constraint of the city government has prevented the TMO from depending on subsidies and encouraged it to raise funds by itself. Second, the TMO has tried to use up its profits for revitalization work: it does not reserve the profits but limits annual net profit to one million yen. In other words, the TMO appropriates almost all of the profits from the museum and sales of goods for other less profitable activities that could stimulate downtown improvements.

**TMO in Utsunomiya city (large city): strong financial support from the city government**

The city of Utsunomiya, Tochigi Prefecture, is a large urban city and the capital of the prefecture. The city has a population of more than 450,000 and is the economic center of the prefecture. The downtown of the city has faced a continuous decline: the number of stores in the downtown decreased by 20% from 1985 to 1997 and the number of pedestrians dropped by 40%.91

The Utsunomiya Chamber of Commerce became a TMO in 2000. Unlike the three TMOs mentioned above, this TMO has received strong financial support from the city government and relied completely on subsidies (i.e., Type 1). The government not only gives a large amount of subsidies (70 million yen) but also completely funds the costs. That is, the government does not require the TMO to pay some portion of the costs, and so the TMO can carry out projects without preparing money by itself. Using the subsidy, the TMO has attracted tenants to vacant properties. Specifically, the TMO pays some portion of rental fee and costs necessary for new tenants to renovate the vacant properties. Such projects have not only contributed to decreasing vacant

91 City of Utsunomiya Website
properties but also increased a variety of businesses in the downtown area. Such subsidies have continued every year and increased slightly.

Factors contributing to the success in the four examples

These four examples suggest that the factors contributing to the success are twofold. First, external contexts play an important role in all examples. The existence of springwater and the dairy industry enabled the TMOs to attract outside visitors to the downtown in the first two examples. Considering these TMOs are located in small rural towns, many tourists would not visit the downtown, which could not therefore enjoy the benefits from them, without these external factors. In the third example, if the Ishinomaki city were not the birthplace of the cartoonist, it would be more difficult for the TMO to draw customers. Also, in the fourth example, the large size of the city, followed by the large customer base, enabled the TMO to attract new tenants to the vacant properties. Thus, some external contexts peculiar to the city or town lie behind the success story. In other words, these TMOs had success in identifying the unique assets that could make the downtowns more attractive destinations and contribute to the improvements of the downtowns.

However, not only such external contexts enabled the revitalization: without the effective activities of the TMO, downtown revitalization could not be achieved. In the first two examples, local stakeholders have taken a key part. The TMOs have strong relationships with them and gain benefits from their active participation. In the third example, staff of the TMO produced the great idea of letting museum visitors walk in the downtown and made the decision of using almost all of the profits for revitalization work, which has stimulated downtown improvements. In the fourth example, the fact that the TMO succeeded in gaining strong financial support from the city government is key to its high level of contribution. These internal aspects have helped the
TMOs successfully implement the projects based on their identified unique assets, contributing to attracting more customers from inside and outside the downtowns.

Thus, these examples imply that TMOs can become successful when there exist some appropriate external and internal contexts. It is critical for TMOs not only to identify unique assets that could potentially differentiate the downtowns from competing shopping centers in suburban areas but also to become organizations that could realize the potential.

5-4 Current changes of TMOs in small cities and large cities

TMOs are now groping for ways to become more contributive. In particular, funding structure is a key issue for many TMOs, as mentioned in Chapter 4. TMOs are trying to change their funding structure so that they can solve issues facing them and can work better. This section describes in which direction TMOs in small and large cities are moving from the viewpoint of funding structure, based on the previous analyses and comments from TMO staff members. Figures 5-2 and 5-3 illustrate the changes of TMOs in small cities and large cities, respectively. In both cities, many TMOs are aiming at decreasing their dependency on outside sources, especially subsidies, and increasing the proceeds from sales of goods or services (i.e., moving from Type 1 toward Type 2 or 3). This phenomenon seems to reflect the unreliability of subsidies.

Small cities

TMOs in small cities tend to be given a difficult choice. Outside funding sources, such as governments and chambers of commerce, tend to have tight budgets, which make it difficult for them to provide large amounts of funds for TMOs in these cities. Therefore, TMOs relying
heavily on these outside sources (i.e., Type 1 TMOs) tend to have limited budgets. These TMOs cannot afford to hire full-time staff, preventing them from becoming active. In fact, a staff member of a TMO in a small city comments, “because our TMO does not have full-time staff, we cannot launch new projects.” As a result of the lack of funding and staff, these TMOs tend to focus only on holding events and are unlikely to provide other services. A comment from a TMO in a small city describes the severe conditions facing it:

“We do not have enough funding for conducting a variety of projects, and so we hold only events by using a small amount of subsidy, by which we create temporal prosperity in the downtown.”

As mentioned in Chapter 2, TMOs are fundamentally supposed to contribute to downtown revitalization through the centralized management of the districts: they are intended to coordinate tenant selection, provide high-quality amenities, and offer such services as security. However, as the comment suggests, it seems to be difficult for the TMOs relying heavily on outside sources in small cities to play this management role.

Some of these TMOs recognize that they would not be able to contribute to downtown revitalization if they keep relying on outside sources. The continuing decrease in the amount of

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Figure 5-2 Current changes of TMOs in small cities
Source: Author
Note: The hexagons show difficulties facing TMOs, whereas circle illustrates positive results.
money from outside sources, which is caused by budget constraints of these sources, encourages them to think about the necessity of raising funds by themselves. The following comments from TMOs that rely heavily on outside sources indicate this:

“In order to continue TMO activity for a long time, sustainable funds from sales are essential.”

“Although our TMO relies on funds and subsidies, it plans to renovate buildings so that it can raise funds from tenant fees.”

However, it is not necessarily easy to make earnings without relying on outside sources. It is hard to launch profitable businesses in these small cities where the market is not strong. In addition, it is tough to persuade local business owners or property owners to pay money for TMO activities, considering that downtown decline has decreased sales of local businesses. In fact, many Type 1 TMOs state that although they understand that they need to decrease the degree of reliance on outside sources, they cannot find the way.

“We are dependent on subsidies. We cannot expect that such businesses as parking services will create profits, and so we are concerning about the future of our activity.”

“We cannot expand our profitable businesses”

As a result, some of these TMOs give up making money from sales of goods or services and advocate for the increase in subsidies from governments in order to deal with the lack of funding. However, it is not easy to receive large subsidies, considering the budget constraints of governments in small cities.

In spite of the difficulty in launching sales of goods or services, some TMOs in small cities raise funds from sales (i.e., Type 2 or Type 3). However, even though they succeed in raising money from sales and have larger budgets than Type 1 TMOs, many of them face two main problems. The first problem is deficit. Because they do not receive funds from outside sources,
they have to make enough money to cover the expenses. However, some of them cannot raise sufficient funds and face deficits. A TMO staff member notes, “It is difficult for a TMO to start selling some goods or services in the downtown where businesses are declining.” Also, a TMO that faces a deficit of about 2 million yen notes that costs of full-time staff impose heavy burdens on the TMO budget. Although temporary deficit might not be a big problem, permanent deficit could result in halting TMO activities.

The second crucial problem is that these TMOs tend to focus too much on raising funds and might not be involved deeply in revitalization work. In order to raise funds, they undertake profitable projects, which can be divided into two types: one is related to downtown revitalization, and the other is separate from revitalization work. If a TMO conducts the former type of activity, the TMO could achieve two goals at the same time—they could not only raise funds but also contribute to downtown revitalization through this activity. However, it is not necessarily easy to find such activities in small cities where the market is weak. As a result, some of these TMOs conduct activities that are separate from downtown revitalization in order to raise funds. Because to secure sufficient funds is a big issue for them, they typically focus largely on these activities. In fact, a staff member of a Type 3 TMO mentions, “We think about nothing but making profits [by these activities].” Thus, these TMOs put a great deal of energy into the projects that are separate from revitalization works in order to make earnings and might not provide a variety of projects for downtown revitalization, especially such unprofitable projects as consensus building. This suggests that they might not be able to perform the expected role of the centralized management. Most of these Type 3 TMOs try to solve these problems by making their businesses more profitable, although this is not easy. That is, they aim at making larger amounts of proceeds from the sales of goods or services, even if they are not related to downtown revitalization, and using the profits for unprofitable but essential revitalization.
activities.

In sum, TMOs in small cities face severe difficulties in finding an appropriate funding structure with which they can work well. Considering that governments in small cities tend to face severe budget constraints, advocacy for more subsidies is not likely to result in success. Therefore, in the current situation, the strategies for TMOs in small cities to contribute to downtown revitalization seem to be limited. One strategy is to conduct activities that not only make profits but also relate to downtown revitalization, such as parking management. The TMO in the town of Taiki in the previous section, which has raised funds and revitalized the downtown through the establishment of the commercial facility, is an example of this. The other strategy is to succeed in managing profitable businesses that are not directly related to downtown revitalization, such as the management of public facilities, so that they can use the profits from them for other activities that are essential for downtown revitalization. The sales of soda conducted by the TMO in the town of Rokugo in the previous section are one example. However, it is not easy to realize such strategies.

Large cities

TMOs in large cities have more chances to get large amounts of money from outside sources than in small cities because these sources are more likely to have generous budgets. Therefore, it could be probable that even TMOs relying on outside sources (i.e., Type 1) constantly have large budgets in large cities, although it is not necessarily common. It is true that large budgets do not necessary mean that TMOs have no obstacles. For instance, as some TMOs mention, TMOs that receive large amounts of subsidies are restricted by governments: they cannot implement activities freely from governments. Nevertheless, TMOs that can receive large subsidies constantly are more likely to contribute to downtown revitalization than those with small
budgets.

The number of TMOs that can receive strong financial supports from outside sources is not large. Most of the TMOs in large cities do not get large amounts of money from these sources. These TMOs, which tend to face tight budgets, have three choices, two of which are the same as those in small cities. The first is to ask for more subsidies from governments. Some of these TMOs advocate for strong supports from governments, by which they try to deal with the lack of funding. The second strategy is to start selling goods or services so that they can make enough earnings to conduct their activities (i.e., Type 2 or Type 3). However, even if they launch the sales of goods or services, it is supposed that these TMOs will face the same issues as TMOs in small cities: they might experience deficits and might not be able to provide a variety of services. For example, according to a TMO that raise much funds from the management of a building, the revenue of the business are used to cover the costs and the TMO cannot appropriate the revenue for other TMO projects.

TMOs in large cities have one more choice, which those in small cities do not have: to play only the role of the coordinator and supporter of other organizations. In large cities, there tends to be many organizations working for economic development, and so these TMOs have a choice to stop conducting their own projects and to focus on coordinating and supporting these

Figure 5-3 Current changes of TMOs in large cities

Source: Author

Note: The hexagons show difficulties facing TMOs, whereas circle illustrates positive results.
organizations. A TMO states that because of the decreasing subsidies, it cannot afford to conduct projects but started focusing on the role of coordinator for these organizations.

Although these TMOs do not need a large amount of money because they do not conduct any projects, they might also face funding shortages. That is, because they still have administrative costs and rely on outside sources for these costs, a reduction in funding from these sources might cause negative effects on their activities. In fact, some TMOs that focus on the coordination roles provide the following comments:

“Our TMO focuses on the coordination and support of other organizations and depends on subsidies from the city government. If the subsidies decrease in the future, how to secure funding base will be a big issue. The increase in subsidies is necessary.”

“It will be hard for our TMO that only coordinate projects of other organizations to keep enough funding base. Therefore, it is necessary to start sales so that we can make earnings in order to maintain the TMO”

These comments suggest that Type 1 TMOs focusing on the support of other organizations are concerned about how to secure funding for administrative costs. These TMOs also try to solve the funding shortage by advocating for more subsidies or starting sales of goods or services.

Thus, the strategies for TMOs in large cities to contribute to downtown revitalization are also limited, although the possibility for success is higher than that in small cities. The first strategy is to get strong support from outside sources, especially governments. The TMO in the city of Utsunomiya, which receives large subsidies, as mentioned above, is an example of this. The second is to contribute to downtown revitalization through the sales of goods and services. TMOs could undertake activities that are related to downtown revitalization, by which they could not only make proceeds enough to cover the costs but also improve the environment of downtowns. Also, TMOs could conduct activities that are separate from downtown revitalization.
and appropriate the profits from these activities for other unprofitable profitable activities that are necessary for downtown revitalization. The TMO in the city of Ishinomaki, although the city is not categorized into a large city, has revitalized the downtown through this strategy, as mentioned in the previous section. The third is the combination of the first and second: to receive a large amount of funds from both outside sources and sales of goods or activities. However, it is not necessarily easy for TMOs to adopt either of such strategies: most of the TMOs do not have success in managing profitable activities or enjoy strong support from outside sources.

5-5 Conclusions

This chapter demonstrates how external contexts affect TMOs by focusing on the population of the city and town served by TMOs. The analyses show that TMOs in different city size are likely to choose a different degree of dependency on outside sources and to have different structural attributes in some respects. Because of these differences, TMOs in large cities are moving in slightly different directions from those in small cities.

The analyses on the success cases and the current changes of TMOs present two findings. First, some appropriate external contexts seem to be essential for TMOs to contribute to downtown improvements. Second, both in small and large cities, there are limited funding structures with which TMOs could play the management role and contribute to downtown revitalization. Either large proceeds from sales or strong support from outside sources are required. However, it is not easy to fulfill either of these requirements.

Based on these findings, the next chapter summarizes why many TMOs do not contribute to downtown revitalization, followed by recommendations.
Chapter 6: Conclusions and Recommendations

The previous chapters have demonstrated issues facing TMOs, by dividing them into the three categories and examining the effects of eternal contexts. These analyses provide suggestions on why the TMO model has not worked well. I first summarize reason for and then make recommendations on how to help TMOs contribute to downtown revitalization.

6-1 The reasons why the TMO model has not worked

The management of downtowns

The TMO model is intended to achieve downtown revitalization through managing downtown areas. Specifically, TMOs are intended to contribute to downtown revitalization through tenant selection and the provision of high-quality amenities and services. Because the district management strategy has made great success in the United States, as can be seen in Main Street Program and Business Improvement District (BID), the TMO model was also expected to help revitalize downtowns. However, the fact is that downtowns are still declining all over the nation and the contributions of TMOs are negligible. Does this suggest that the success story of the management strategy in the United States does not apply to Japan?

The analyses in the previous chapters suggested the following two points. First, there are some prerequisite conditions for the management strategy to work well. The TMOs introduced in this research have had success based on the favorable conditions, such as the existence of the natural resources (springwater) and the birthplace of the famous person. In other words, what is key for the success of the management strategy is to identify such favorable conditions that could
contribute to downtown improvements and to find ways to utilize them. Second, even if some external requirement is fulfilled, it does not necessarily mean that TMOs can play the expected role: TMOs tend to face some obstacles in managing districts, preventing them from utilizing the external factors and contributing to downtown revitalization.

**Two main obstacles**

The analyses clarify two main obstacles facing TMOs. First, at the planning stage, TMOs do not take in opinions from a variety of local stakeholders, and as a result, their activities do not necessarily reflect broad viewpoints in the districts. Their boards are typically dominated by commercial stakeholders, such as business owners and staff of chambers of commerce, and exclude other stakeholders, such as residents, real estate developers, and financial institutions. In addition, TMOs, especially those relying heavily on outside sources in large cities, hold board meetings infrequently, which decrease the opportunities for board members to discuss. These factors make it difficult for local stakeholders to create shared visions on how to revitalize downtowns, and they are unlikely to cooperate with TMOs. As a result, TMOs tend to find it difficult to manage and coordinate various stakeholders.

Second, when TMOs implement projects for downtown revitalization, they face obstacles related to funding, and as a result, their activities tend to be insufficient. On the one hand, some TMOs depending heavily on outside sources tend to have tight budgets because of the budget constraints of outside sources. These TMOs cannot hire full-time staff, and therefore, it is typically difficult for these TMOs to spend a lot of money and time on TMO activities: they tend to focus on cheap and effortless projects, such as events, but not to provide a variety of services. On the other hand, although the TMOs that are not dependent on outside sources tend to have large budgets, some of them face deficits because of the failure in raising enough funds from
sales of goods or services. In addition, in order to make revenues, some of these TMOs put a great deal of energy into conducting projects that are not related to downtown revitalization, such as the management of public facilities, and these TMOs are unlikely to offer other projects that might be necessary for downtown revitalization, such as consensus building and consultation with business owners. Thus, regardless of the degree of dependency on outside sources, TMOs are likely to experience insufficient variety of projects. Although TMOs are intended to manage downtowns through tenant selection and the provision of amenities and services, the funding issues, such as tight budgets and deficits, impede TMOs from playing a management role.

The effects of the changes of political and economic context

The fact that TMOs tend to experience tight budgets or deficits is related to the change of political and economic context around TMOs. When TMOs were established, many of them expected that they would get strong financial support from governments and chambers of commerce. In fact, some TMOs were set up only as a receiver of subsidies. However, their expectation was too optimistic. Many local governments and chambers of commerce have faced severe fiscal constraints due to economic depression and decreased grants to TMOs. In addition, because TMOs have not involved a variety of stakeholders, they could not get strong political support from local stakeholders, which has made it more difficult for TMOs to receive large grants from governments.

In order to deal with the decrease in subsidies, some of the TMOs are looking for a way to raise funds through the sales of goods and services. However, the amounts of proceeds from sales are vulnerable to economic conditions; it is not easy to raise sustainable profits. Furthermore, although there are other potential funding sources, such as donations and money from local businesses, it is difficult for TMOs to raise substantial funds from these sources. In
fact, a TMO staff member comments, “Unlike the United States, Japan does not have the tradition that people or companies make donations.” Thus, the variety of main funding sources is limited to subsidies, money transfers from chambers of commerce, and proceeds from sales, and all of these sources are typically unreliable. This is one of the most important reasons why TMOs tend to face obstacles at the implementation stage.

Lessons learned

Five lessons can be drawn from the analyses. First, TMOs need to utilize some external conditions in order to contribute to downtown revitalization. For instance, the TMO in Rokugo regarded the downtown’s resource—springwater—as the core for the downtown revitalization, and have operated its work based on the natural resource. Without finding such a core, which is typically external to TMOs, their management work would not necessarily bring about large impacts on the improvement of downtowns. Therefore, in downtowns where there is no such a potential core, other strategies for creating favorable external conditions, such as urban redevelopment, need to be implemented before the TMO activities.

Second, the domination of commercial stakeholders is a widespread problem, regardless of funding structure. This suggests that because TMO activities influence especially local business owners, TMOs tend to include many of them as board members. However, such a choice of TMOs does not necessarily result in positive effects. The dominance of commercial stakeholders, followed by the limited number of other stakeholders, prevents TMOs from receiving widespread cooperation and getting strong financial and political supports from these stakeholders. Therefore, TMOs should recognize the importance of the involvement of various stakeholders in their boards.

Third, a careless copying of strategies offered by other TMOs will not necessarily work
well. The analyses demonstrate that both the degree of dependency on outside sources and city
differentiate TMOs in structural and functional attributes, and not all TMOs have the same
issues to the same degree. For example, TMOs depending heavily on subsidies are likely to face
different problems from TMOs raising funds by themselves, as mentioned previously. This
suggests that a good strategy for reforming one TMO might not be appropriate for another TMO.
Therefore, those who tackle issues facing a TMO should consider the differences among TMOs.

Fourth, there is a high possibility that the change of funding sources of a TMO will bring
about new difficulties for the TMO. In other words, no matter whether TMOs rely on outside
sources or not, they tend to face some issues related to funding. For instance, many TMOs are
now aiming at decreasing the degree of dependency on outside sources by selling goods or
services in order to escape from problems facing them, such as tight budgets. If they succeed in
sales, they might have large budgets and solve the problem of tight budgets. However, even if
they succeed in making much money from businesses, it is highly probable that they will face
other problems, such as deficits and lack of funding for valuable unprofitable activities.
Therefore, TMOs that are now planning to change their funding sources should recognize that
the change of funding sources might not result in the solution of all problems.

The fifth lesson is that it is hard for TMOs to overcome issues related to funding sources
without effective public policies. As mentioned earlier, TMOs are dependent on one or more of
the three main sources—subsidies, money transfers from chambers of commerce, and proceeds
from sales—, and all of these sources are typically unreliable. In addition, TMOs cannot raise
large amounts of funds from other sources. In this situation, it is hard for TMOs to secure a
sustainable funding base. Efforts of TMOs alone cannot overcome the funding issues, such as
tight budgets and deficits. Therefore, the central government, which established the TMO model,
needs to make effective policies to deal with it.
6-2 Recommendations

The central government is now modifying the TMO model, although the details of the modification were not clear at the time when this research was conducted. This research recommends that the principle of the TMO model—the management of districts—should be maintained. Strategies for minimizing these obstacles so that TMOs can play the management role should be considered. This research offers four recommendations, and Figure 6-1 summarizes the recommendations by actors.

Figure 6-1 Recommendations by actors

Source: Author
Recommendation 1: reform of boards

First, TMOs should reform their boards so that TMOs can take in broad opinions from a variety of stakeholders. In particular, because TMOs raising most of their funds from sales tend to exclude some stakeholders, such as residents, from their board members, these TMOs need to pay careful attention to include many stakeholders. Although the stakeholders who should be included in the board members vary among TMOs, potential members are not only business owners, staff of chambers of commerce, and government officials but also residents, property owners, professionals, financial institutions, and schools.

The frequency of board meetings is also important. Even if a board includes a variety of stakeholders, the low frequency of the meetings would make it difficult for a TMO to take in broad opinions and to play its management role. Therefore, TMOs should try to increase the frequency of board meetings. However, it might be impossible for some TMOs to hold the board meetings so frequently. In fact, the analyses in the previous chapters show that some TMOs, especially TMOs relying heavily on outside sources in large cities, contain many members in their boards, which leads to the low frequency of the meetings. Thus, as a TMO includes more and more stakeholders in its board, it might be harder for the TMO to hold the meetings often because of the difficulty in arranging the schedule of many members. In other words, the pursuit of the large number of board members might be contradictory to the quest for high frequency of the meetings. In order to meet these two conflicting demands, the research suggests that TMOs establish subcommittees under the boards to discuss specific agendas. Although some TMOs have already set up subcommittees, they are not necessarily adopted by all TMOs. By establishing subcommittees, TMOs might be able to include diverse stakeholders in these subcommittees, while they limit the boards to sufficiently small size to hold frequent meetings.

Considering the current situation in which most boards are dominated by commercial
stakeholders, effective public policies might be important to stimulate TMOs to include a variety of stakeholders. The TMO law does not mention TMO boards at all. Therefore, the central government should revise the law and incorporate the requirement that TMOs include a variety of stakeholders. However, it is not appropriate for the central government to decide who should be included in the boards. The board membership should vary among TMOs, reflecting the situation of each downtown, and therefore, the central government should not set a standardized rule. Instead, this research recommends a system in which local governments check if TMOs include sufficient members as board members and these boards work well. Because local governments know more about the stakeholders under their jurisdiction than the central government, it would be appropriate for them to check TMO boards.

**Recommendation 2: utilization of external conditions**

Second, the identification and capitalization of external conditions that could lead to downtown revitalization is important for TMOs to succeed, as mentioned earlier. Therefore, TMOs need to review their basic plans, so called “TMO Frameworks,” which were submitted to local governments in the establishment process, and check if their basic plans mention such external conditions and ways to utilize them for downtown improvements. If they do not include such issues, TMOs should revise their basic plans through the discussion in the TMO boards.

Local governments, which accepted the basic plans and authorized TMOs, play an important role: if a local government finds that the TMO’s basic plan is insufficient on this point, it should give the TMO advice on the revision of the basic plan. The central government also should encourage TMOs to review and revise their basic plan. Specifically, it should give subsidies only to TMOs that have identified unique external contexts and created strategies on how to capitalize on them.
**Recommendation 3: diversification of funding sources**

Third, TMOs should diversify funding sources in order to create sustainable funding base. As mentioned repeatedly, the funding problems, such as tight budgets and deficits, are the most critical obstacle for TMOs: even if TMOs invite a variety of stakeholders in their boards and revise their basic plan, these funding issues would make it impossible for TMOs to implement projects that the boards propose. The fundamental problem lies in the limited variety of funding sources, as noted earlier. Because most of TMOs rely only on one or more of the three sources that tend to be unstable, it is hard to stabilize the amounts of revenues. Therefore, except for the TMOs that can get sustainable funding from one of these sources, TMOs need to diversify funding sources by finding new sources in order to minimize their vulnerability. In addition, in order to achieve this diversification, public policies that stimulate funding from other organizations or individuals to TMOs are essential.

This research proposes a new policy that enables local governments to provide TMOs with money collected from local individuals who gain benefits from TMO activities. In fact, in the TMO Survey, some TMO staff members mentioned the necessity of a system in which local business owners, property owners, or residents provide funds for TMO activities. Such a system would have two strong points. First, this system would create a sustainable stream of money for TMOs. Because local governments collect money, the payment would be mandatory, and therefore, the amount of the revenues could be predicted. Second, those who pay the fees for TMO activities could correspond to those who gain benefits from these activities. Such a correspondence would solve the free-rider problem. In addition, local individuals might become more interested in TMO activities because they pay the fees, and they might become cooperative with TMOs. Thus, such a public policy would have positive impacts on TMOs.
Although the adoption of the U.S. BID model, in which local property owners agree to pay additional fees to BIDs by way of local governments, might be one option, it will take a long time to establish such a new model. Instead, this research proposes the application of the existing tax—city planning tax. City planning tax is a local tax, which is adopted by a national law. Local governments can impose city planning tax on property owners and use the tax revenue only for specific public projects, such as the provisions of infrastructure (roads, parking, parks, and waterworks). Only those who gain benefits from these projects are supposed to pay the tax, and the amount of the tax on each property owner is calculated based on the assessed property value. Thus, the basic idea of the city planning tax is similar to that of the system proposed above—beneficiaries are required to pay. Therefore, the application of this tax system to TMO activities would be the most straightforward and effective way for the achievement of the proposed system, considering that such an application takes advantages of the existing tax system. The central government should consider a system in which local governments can appropriate the revenue from the city planning tax for TMO activities. Specifically, the central government should amend the law regarding the city planning tax and allow local governments to use the tax revenues for grants to TMOs. Once such an amendment is accepted in the Diet, local governments should check the adequacy of TMO activities before providing the grants. Local governments should keep providing the constant amounts of grants for TMOs so that TMOs can predict the amounts.

**Recommendation 4: utilization of other resources**

Even if TMOs try to diversify funding sources, they might still face a lack of funding. In order to deal with the funding shortage, this research recommends that TMOs utilize individuals and other organizations in their neighborhoods so that they could increase their activities within their
limited budgets. There are three important targets to be utilized.

Volunteers

Voluntary participation of local individuals, such as residents and business owners, would offset the shortage of staff, which might lead to an increase in their activities. However, the analyses indicate that only 40% of TMOs benefit from volunteers. Efforts to increase the number of volunteers are an important task for TMOs to overcome the lack of funding. Specifically, TMOs first need to inform local residents and business owners of their activities and strike a chord with local individuals.

Other organizations working for downtown revitalization

In addition to local individuals, other organizations that work for economic development could be important resources for dealing with the insufficient funding. That is, TMOs should encourage other organizations in the neighborhoods to undertake activities that fit the goals of TMOs, through which TMOs could contribute to downtown revitalization without paying a lot. Specifically, a TMO first needs to identify potential partners that could carry out projects that are important for downtown revitalization. Merchant associations, non-profit organizations, and even real estate developers are examples of these types of partners. Then, the TMO should keep tight contact with these potential partners and include them in the board if suitable, by which it should aim at creating shared visions. Once shared visions are created, the TMO should support these partners’ projects that fit TMO goals.

Financial institutions

One important strategy for TMOs to support the projects of other organizations is to collaborate
with financial institutions. When these organizations conduct revitalization projects, financial institutions play a critical role through the provision of loans, equity, and grants. Therefore, TMOs should encourage financial institutions to make investments in the projects that fit TMO goals. Specifically, TMOs should also keep contact with these institutions by involving them as board members so that they understand and follow TMO plans. Such collaboration might also help TMOs themselves. That is, financial institutions might provide TMOs with technical assistance, which might improve TMOs’ capacity.

Because partnership with TMOs could be beneficial to financial institutions, especially local ones, through the expansion of the customer base of these institutions, they might have motivation to collaborate with TMOs. In order to further improve this motivation, appropriate public policy is also essential: this research proposes that the central government request financial institutions to collaborate with TMOs. Japan does not have such a law as the Community Reinvestment Act (CRA) in the United States, which requires financial institutions to make investments in the whole service areas and directs authorities to assess bank performance. Instead, the Japanese government created “Action program for the improvement of local finance (FY2005-2006),” in which the government made several requests in order to encourage them to contribute to local economic development. The central government should incorporate the request of collaboration with TMOs in this program. Although these requests in the program are not mandatory, they could encourage financial institutions to cooperate with TMOs.

Conclusions

92 Although bills creating a new system similar to CRA were submitted to the Diet in 2001 and 2002, the bills were not approved.
The idea of the management of downtowns is important for downtown revitalization, and so the role of TMOs is crucial. However, the fact is that most TMOs do not play the expected management role because of several issues facing them. To help TMOs perform successfully is one big step for the achievement of downtown revitalization.

TMOs need to tackle many issues. For instance, they have to reform their boards and revise their basic plan if necessarily. Also, TMOs need to make efforts in solving the most critical issue—the unstable funding base. In addition, they should create partnerships with local individuals and other organizations. These reforms cannot be done only by TMOs themselves. Effective public policies are also essential.
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Rokugou Machidukuri Kabushiki-gaisha Website <http://www.rokugo.net/>


Appendix: The TMO Survey

TMOの活動状況に関する調査

本調査へのご協力をよろしくお願いいたします（本調査への回答は任意です）。調査結果につきましては集計をして処理させていただきますので、個々のご回答につきましては秘密を厳守いたします。調査結果は、中心市街地活性化に関する論文作成に活用させていただきます。本調査の所要時間は10分程度です。ご不明な点がございましたらマサチューセッツ工科大学都市計画学科 宮沢正知（masatomomiti@yahoo.co.jp）までご連絡ください。

1. 運営形式について、当てはまるもの1つに〇をお付けください。
   a. 商工会議所  b. 商工会  c. 特定会社  d. 財団法人  e. NPO

2. TMO事務局の担当者の人数をお書きください。 専任：____人 兼任：____人

3. TMOの認定を受けた年を西暦でお書きください。 __________年

4. 市町村の人口をお書きください。 __________人

5. TMOの意思決定機関（協議会等）のメンバーについて、その内訳をご記入下さい。
   a. 商工会議所・商工会 ______人
   b. 地元商店 ______人
   c. 地元住民（b.に当てはまるものを除く） ______人
   d. 地方自治体職員 ______人
   e. 地元企業 ______人
   f. 学識経験者等専門家 ______人
   g. その他（具体的に_________________） ______人

6. 協議会等の開催頻度をお書きください。 年________回程度

7. 地元商業者・住民等との関係について、当てはまるもの全てに〇を付けてください。
   a. 広報誌・インターネット等を通じて、TMOの活動内容を地元商業者・住民等に情報提供している。
   b. 地元商業者・住民等から、アンケート等を通じてTMOの活動に対する意見・要望を聴取している。
   c. 地元商業者・住民等が、TMOの活動計画の策定・決定過程に参画している。
   d. 地元商業者・住民等が、TMOの活動にボランティアとして参加している。

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8. TMOの活動内容として当てはまるものを全てに○を付けてください。
   a. 市場調査（地域の経営環境分析等）
   b. 店舗誘致（テナントミックス事業・チャレンジショップ等）
   c. 街路灯・舗道・アーケード整備
   d. 駐車場整備・運営
   e. 街の美化（清掃・植栽等）
   f. 治安維持
   g. イベント開催
   h. 街の広告宣伝・情報提供
   i. 商業者向け講習会・コンサルタント
   j. 関係者の合意形成
   k. 社会事業（保育所・福祉事業等）
   l. その他（具体的に：________________________）

9. で○を付けた活動内容のうち、行政からの補助金を受けているものについて、その番号（a〜l）を全てご記入ください。

10. TMOの活動が中心市街地活性化に貢献しているか、当てはまると思うもの1つに○をつけてください。

   a. 大いに貢献している  b. ある程度貢献している  c. あまり貢献していない

11. 2004（平成16）年度の、TMOとしての収入・支出・損益の額（実績）をお書きください。（貴団体がTMO以外の業務も行っている場合には、団体全体の金額ではなく、TMOの活動に係る部分のみご記入ください）

   収入：__________円     支出：__________円     損益：__________円

12. 2004（平成16）年度の、TMOとしての収入について、以下（a〜f）の収入源ごとに、収入額合計に占める割合（％）をお書きください。

   a. 行政からの補助金  _______％
   b. TMO基金による助成金  _______％
   c. 収益事業（物品販売・店舗賃貸・駐車場管理等）による収入  _______％
   d. 地元商業者からTMOに対する負担金  _______％
   e. 借付  _______％
   f. その他（具体的に：________________________）  _______％
13. TMOの経営基盤について、現在の財政状況がTMOの活動にどのような影響を与えているか、また、今後TMOの活動を活性化させるために財政面でどのようなことが必要と考えているか、ご自由にお書きください。（補助金の拡充が必要、収益事業を拡大して財政自立化を図ることが必要 等）

質問は以上です。ご協力ありがとうございます。
Study on the Activities of TMOs (English Translation)

Please complete this survey (participation is voluntary). The results from this survey will be reported in aggregate, and individual responses will be kept in confidential. The results will be included in my master thesis on downtown revitalization. It takes about 10 minutes to complete the survey. If you have any questions, please contact with Masatomo Miyazawa (Massachusetts Institute of technology, Department of Urban Studies and Planning, masatomomit@yahoo.co.jp).

1. Which of the following best characterize your organization? (Circle only one)
   a. Shoko-Kaigisho  b. Shokokai  c. Specialized Company  d. Foundation  e. NPO

2. How many staff does your TMO employ? Full-time:_____ Part-time:_____

3. In what year did your organization start operating as TMO? _______

4. How many people live in your city or town? _______

5. In each category, how many people are appointed as members of the decision-making group (board members)?
   a. Staff of chambers of commerce _______
   b. Local business owners _______
   c. Local residents (except for b.) _______
   d. Local government officials _______
   e. Local companies _______
   f. Professionals _______
   g. Others (Please specify______________________) _______

6. How often is the board meeting held annually? _______(Per year)

7. How does your TMO connect with local business owners and residents? (Circle all that apply)
   1. The TMO informs them of its activities through its press or web site
   2. The TMO asks their demands through questionnaires or public hearings
   3. They are involved in the process of the decision-making regarding TMO’s activities
   4. They voluntarily participate in TMO’s activities
8. What services and projects do you offer? (Circle all that apply)
   a. Market research
   b. Business recruitment
   c. Improvements of pedestrian-scale lightning, sidewalk and arcades
   d. Parking improvements and management
   e. Beautification of the area (i.e., cleaning, planting flowers)
   f. Security
   g. Events programming
   h. Promotion and advertisement
   i. Seminar and consultant for business owners
   j. Consensus building
   k. Social services (i.e., nursing center, welfare work)
   l. Others (Please specify ________________________________)

9. Among the activities you selected in the question 8, in which activities do you get subsidies from governments or money from foundations? Please write the letters (a-l).  ________

10. How much do the activities of your TMO contribute to downtown revitalization?
    a. Greatly          b. Moderately          c. Not so much

11. What were the revenue, expense, and profit of the TMO in 2004? (If your organization provides services which are not related to the TMO, please write the amounts only related to TMO activities)

   Revenue: ______yen    Expense: ______yen    Profit: ______yen

12. As for the revenue of the TMO in 2004, what percentages does each revenue source (a-f) account for?
   a. Subsidies ______%  
   b. Money from TMO fund ______%  
   c. Proceeds from businesses (Sales, rents, parking) ______%  
   d. Money from local business owners ______%  
   e. Donations from residents and corporations ______%  
   f. Others (Please specify ________________) ______%  

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13. In your own words, please describe how your current finances affects your activity and what is essential for the TMO to become more active from the viewpoint of funding (for example, the increase in subsidies are necessary, or self-finance system should be pursued by conducting more businesses).

Thank you for your cooperation