

## **Frequently Asked Questions (FAQs): Illinois Business Districts**

### **What is a Business District?**

A Business District ("BD" or "District") is a special financing area created by a municipality to encourage redevelopment within targeted areas of the community. This program enables municipalities to attract development on vacant properties and redevelop existing properties within a designated area. New business development will increase local services and amenities, increase employment opportunities, and increase sales and property tax revenues for the municipality, as well as for other taxing bodies. This economic development tool is very flexible and allows municipalities to collect up to 1.0% additional retail sales tax to fund any project that benefits the District. Business Districts allow municipalities to make and enter into all contracts necessary or incidental to the furtherance of a BD Plan – including payments to private developers for eligible business district project costs. In the case of the Old Orchard Center Business District, Westfield and Macy's both own the properties and as such will lead development/redevelopment efforts as articulated the BD plan.

There are specific parameters and procedures which must be followed to establish a Business District. The municipality may impose this tax if it has a development or redevelopment plan for an area of the municipality that is contiguous (i.e., the properties within the area border each other), includes only parcels of real property that will directly and substantially benefit from the proposed plan, and is blighted, as defined in the Illinois Municipal Code (see 65 ILCS 5/11-74.3-5).

### **How are Business Districts Approved and by Whom?**

Illinois municipalities can designate an area within the municipality as a business district to promote economic development. To institute a Business District, the municipality must establish a Business District Plan approved by the corporate authorities of the municipality after a public hearing. Once the plan is approved by the municipality, the Illinois Department of Revenue has the authority to approve the plan and collection of the additional Business Development & Redevelopment Tax (used specifically and only to fund improvements allowed by state law and as stated in the Plan).

### **Why is the formation of a Business District at Old Orchard being considered?**

Over the past decade, Old Orchard has experienced lagging sales and a low volume of potential tenants, resulting in fewer recruitment/expansion opportunities. These circumstances are due to several factors, most significantly the growing property tax burden associated with being located within Cook County, in addition to aged and obsolete existing physical conditions, the devastating effects of COVID-19 and changing consumer demand. These factors have led to increased longer-term vacancies among major anchors and a sustained lack of private investment within the Center. In fact, the last major investment at the Center occurred nearly 30 years ago.

At the request of Westfield and affirmed by the Village, it has been determined that to preserve and enhance the tax base, Old Orchard would benefit from the utilization of a Business District designation. If approved, proceeds available from the additional 1% Business District Development & Redevelopment Tax will be used to support the Business District Plan which contemplates investment of over \$100 million through the life of the District.

The Plan developed in conjunction with the Village is an initial step to partner with the Developer to maintain and grow retail and commercial advantage in the Village, solidify Old Orchard as the premier shopping destination on Chicago's North Shore, grow the property and sales tax base, and maintain its standing as one of the largest employers in the community. Given recent market trends affecting retail trade, as well as the negative trends toward brick-and-mortar retail, the Village believes additional support is required to promote and accelerate redevelopment efforts of Old Orchard and enhance economic growth in the Village

**If approved, when will the additional 1% retailers' sale and occupation tax take effect?**

The Village is anticipating a filing of the enabling ordinances with the Illinois Department of Revenue by April 1, 2022. If this deadline is met, the tax will become effective July 1, 2022.

**What types of establishments will not charge the Business District Sales Tax?**

Businesses participating in special events and service businesses such as contractors, mechanics, hair salons, travel agents, etc. Qualifying food, drugs, and medical appliances already exempt from sales taxes will not be impacted by the Business District Sales Tax.

**What if the proposed Business District is not approved?**

If the proposed Old Orchard Center Business District is not approved, Westfield will not be financially able to significantly invest in improving and growing the Center. The result will likely manifest over the near-term with increased vacancies, continued and overall deterioration of the Center and its presence in the retail trade area and region, lower property valuation, reduced sales taxes for Village services, fewer employment opportunities, etc.

**How long can a Business District operate?**

A Business District can operate for up to 23 years but can be terminated sooner.

**Who pays for the Business District?**

Pursuant to state law, an additional service occupation and retailers' occupation tax may be imposed for consumers at a rate not to exceed one percent (1%) of the gross receipts from sales of tangible personal property within the business district and must be imposed in quarter percent (0.25%) increments.

In the case of Old Orchard, an additional 1% service and retailers' occupation tax is being contemplated to fund the proposed improvements which are projected to exceed \$100 Million.

**Does the Business District negatively impact schools?**

One of the primary goals of establishing a Business District is to not only preserve property tax assessments or equalized assessed valuation (EAV), but to grow them by implementing the Business District Plan. Since Business Districts enable the collection of additional incremental service and retailers' occupation sales taxes and not property taxes like Tax Increment Financing (TIF) Districts, representative school and underlying taxing jurisdictions often view the tool as favorable. In the case of the proposed Old Orchard Center Business District, both Skokie School District 68 (K-8) and Niles Township High School District 219 are in support of this action as the EAV is expected to grow as capital investments are made, occupancy grows, sales increase, and the overall position of the Center is strengthened.

**What is the difference between a TIF and Business District?**

The statutory process to establish a Business District is less complicated than creating a TIF District, because a Business District does not affect the collection or distribution of real estate taxes which can impact schools and other taxing bodies. The Business District fund receives increased retail sales taxes generated by commercial retail development occurring within the District and not property taxes.

**How are monies collected and allocated from the Business District?**

These funds are collected by the state and disbursed back to the Village in a separate Business District Tax Allocation Fund. These monies are then disbursed by the Village to the property owner (in this case, Westfield) on a schedule which is of mutual acceptance. These funds can only be used for eligible costs as identified in the Business District Plan and allowable by state law.

**How many Business Districts operate in Illinois? What are a couple of nearby Districts?**

As of February 2022, there are over 200 established Business Districts throughout Illinois. Nearby, the Village of Morton Grove has a Business District established at Dempster and Waukegan Roads while Glenview's Business District is located at Chestnut Street and Waukegan Road.

**Have there been other Business Districts approved in Skokie?**

The Village created and approved the East Industrial Business Redevelopment District in April 2005. This Business District was bounded by Oakton Street on the south, St. Louis Avenue and the alley west of McCormick Boulevard on the west, Cleveland Street and Madison Street on the north, and McCormick Boulevard on the east, and was primarily created to help attract an automobile dealership to the vacant site at 3340 Oakton (now Evanston Subaru). The underlying BD enabled the auto dealership to apply for a Cook County Property tax incentive.

**What are the findings of the proposed Old Orchard Center Business District Plan?**

As it currently exists and validated by third party consultant Grant Thornton, the proposed Business District demonstrates factors which support its qualification as a "blighted area" pursuant to the Business District Act. These include 1) improper subdivision or obsolete platting; and 2) deterioration of site improvements. Their presence alone, and in combination, constitute an economic liability and economic underutilization of the area. This is further evidenced by specific factors some of which include declining sales, increased vacancies, deferred maintenance, declining property values (EAV), etc. Furthermore, the proposed Business District has not been subject to growth and development through investment by Westfield and would not reasonably be anticipated to be developed or redeveloped without the adoption of the Business District Plan.

### **Can Business District boundaries change?**

The municipality can change the boundaries of a designated Business District as allowed by state law. There are specific stipulations which must be followed if the municipality changes the boundaries of its Business District. Some of these include an updated, detailed map of the Business District boundaries; an updated copy of the Business District Plan and a detailed list of each new address located within the Business District's boundaries.

### **How long does it take for the Business District to become operational once approved?**

A Business District can usually be established within 60-90 days by a simple majority vote of the municipality's corporate authority. Larger, more complicated boundaries may require additional time.

### **How will the additional Sales Tax affect consumer behavior at the Center? Will the tax dissuade shoppers from Old Orchard?**

According to a study by local economist Gruen and Gruen, this incentive for re-investment will encourage sales, negating the effects of a sales tax increase. "Case Study" reviews of three Westfield malls (Old Orchard, Topanga, and Roseville Galleria) subject to sales tax rate increases indicate that sales before - and after - the rate increases did not decline in categories typically comprised by a high share of infrequent but high-ticket purchases. The travel costs to a comparable retail mall in a lower-tax jurisdiction would offset the costs of a sales tax increase - namely downtown Chicago, where the cost of parking is likely higher than the sales tax difference of a purchase at Old Orchard.

### **What is the vacancy rate at Old Orchard and how has the changing retail environment impacted this?**

The vacancy rates at Westfield Old Orchard are higher than its historical average and as of February 2022 stand at 21%. By unlocking the potential for re-investment, Old Orchard can capture the trend of consolidation among the most sought-after retailers.

**Will additional sales tax be collected outside the boundaries of the proposed Business District?**

No, only sales at Old Orchard will be subject to the additional 1% tax.

**Why are we not considering a new Tax Increment Financing District for these purposes?**

Tax Increment Financing Districts (TIF) is a tool which utilizes growth in property taxes as a mechanism to fund development, redevelopment, new or upgraded infrastructure, etc. The increase or "increment" can be made available by freezing the overall assessment at the time the TIF District is established. Given the fact that Old Orchard is singularly the largest property tax generator in the Village (combined with the fact that the assessments over the past 5 years have been stagnant), it was determined that establishing a TIF for Old Orchard would negatively impact other businesses and residents in Skokie by shifting the property tax burden to them.

**What can Business District Taxes be used for?**

Per state law, there are specific items that Business District taxes can be used to finance. Some of these items include Improvements to the Center, including but not limited to such items as building systems replacements or upgrade (e.g., HVAC, fire suppression, electrical, or data service) façade or entry way renovation, remodeling of common areas, assistance with tenant build-outs, addition of new signage, landscaping, and lighting, demolition, public and private infrastructure, accessibility, or site improvements that may be necessary and allowable under the Business District Act.

**How are we assured investments and improvements will be made?**

As part of the Village's agreement with Westfield, annual reviews will take place which will ensure that funds spent are in accordance with state legal requirements and accounted for appropriately. If investments and improvements are not made, not accounted for properly, or utilized for non-conforming items, the Village can terminate the Business District. Westfield is a publicly traded global company that must also comply with their internal and fiduciary responsibilities. The Business District plan and redevelopment agreement, once finalized, will ensure that these investments will be made and for the legally allowable purposes.

Westfield and the Village both recognize that there is a generational opportunity to consolidate the retail offerings on the North Shore and the region to dramatically increase Old Orchard's market-share.

**Will all the businesses participate if the Business District is Approved?**

Yes, all businesses that are required to collect sales tax at the time of purchase will be required by State statute to participate.

**Will my other taxes go up because of the formation of a Business District at Old Orchard?**

Not as a result of implementing the proposed Business District. Village officials are extremely mindful and prudent when proposing the utilization of Economic Development tools. To that end, both the Village and Westfield determined that this additional tax will have the least impact on Skokie residents and businesses as 80% of shoppers and visitors to Old Orchard reside outside of Skokie.

**How do the Property Taxes compare with other centers in the Westfield global portfolio and others in the region such as Oakbrook?**

The property tax burden of Westfield Old Orchard is \$7/square foot, and tenant occupancy charges is approx. 38%.

Comparatively, this amounts to:

- Over 3 times the national average of approx. 12% of occupancy cost and the Westfield URW flagship portfolio average (13.7%)
- Nearly twice the tax burden of Oak Brook (\$4/square foot)