

# A RESOURCE GUIDE TO BUSINESS DISTRICTS

**What Is a Business District?** A Business District is a legally defined contiguous area of a municipality that has certain powers and authorities different from other parts of the municipality. The purposes of the Business District Development and Redevelopment Act are: to strengthen the tax base of Business Districts; to assure opportunities for district development or redevelopment; and to attract sound and stable commercial growth in the district.

*The Illinois Business District Act, 65 ILCS 5/Art. 11 Div. 74.3 is the enabling legislation for these districts. The Business District Act was most recently amended in 2010.*

## How it Works

A municipality can elect, by ordinance, to impose increased sales or hotel taxes in 0.25 percent increments up to 1.0 percent within the district. Sales and hotel taxes can be used within the District for any costs allowable under the Business District Act.

A Business District remains in place for 23 years following designation. During that time, all retail sales taxes are collected by the Illinois Department of Revenue and paid to the State Treasurer, who disperses a check to the municipality. In a Business District, hotel taxes must be collected directly by the municipality. Any revenues generated within the district are placed in the Business District Tax Allocation Fund.

## Eligibility

A home rule or non-home rule municipality can designate an area as a Business District if it meets at least one, or any combination, of the following factors:

- Predominance of defective, non-existent or inadequate street layout;
- Unsanitary or unsafe conditions;
- Deterioration of site improvements;
- Improper subdivision or obsolete platting; and/or
- Existence of conditions that endanger life or property by fire or other causes.

One or more of these factors must be present to the extent that it "retards the provision of housing accommodations or constitutes an economic or social liability, an economic underutilization of the area, or a menace to the public health, safety, morals, or welfare."

## Redevelopment Plan

Activities in the Business District are governed by a Business District Development or Redevelopment Plan that must include the following items:

- District boundary including a map
- General description of proposed projects
- Location of proposed projects
- District name
- Estimated project costs
- Anticipated sources of funds to pay project costs
- Anticipated type and term of obligations to be issued
- Tax rate(s) to be imposed

## Required Findings and Tests

A municipality must make the following findings in order to establish a Business District:

- The Business District must meet at least one eligibility factor.
- The Business District on the whole has "not been subject to growth and development through investment by private enterprises" or would not reasonably be anticipated to be developed or redeveloped without the adoption of the Business District Development or Redevelopment Plan.
- The Business District must be contiguous and contain only parcels of real property directly and substantially benefited by the proposed Business District Development or Redevelopment Plan.
- The Business District Development or Redevelopment Plan must conform to the Comprehensive Plan of the municipality. For municipalities with a population of 100,000 or more, it must either conform with the strategic economic development or redevelopment plan of the municipality or include land uses that have been approved by the planning commission of the municipality.

## What Does a Business District Enable a Municipality to Do?

Once a Business District has been established, the municipality has the following powers:

- Exercise eminent domain
- Buy, manage, lease, and sell real and personal property
- Apply for and accept donations, grants and loans
- Borrow money/issue bonds
- Enter into contracts
- Demolish buildings or other improvements
- Construct or reconstruct public buildings or site improvements
- Renovate or rehabilitate existing buildings
- Fix fees and/or charge rents
- Expend business district sales and/or hotel taxes for planning, executing and implementing the district plan
- Impose an incremental sales tax on businesses
- Impose an incremental hotel tax

Sample uses of a Business District include land assembly, streetscape improvements, public infrastructure improvements, site preparation, stormwater detention, and convention and tourism activities.

## Eligible Costs

Business District funds can be expended on:

1. Professional fees including legal, engineering, planning, architecture and others, as required
2. Property assembly costs
3. Site preparation costs
4. Costs of public infrastructure
5. Building rehabilitation costs
6. Building construction costs, including reimbursement payments to private developers
7. Financing costs
8. Relocation costs

## Districts Established Prior to 2010 Amendments

Municipalities must pass an ordinance to provide that the provisions in the 2010 amendment apply to pre-2010 Business Districts.

## Other Considerations

Business District revenue can supplement or provide an alternative to Tax Increment Financing (TIF) District revenue. Also, the establishment of a Business District is often quicker and simpler than the establishment of a TIF District.

In comparison to TIF District funds, there is more flexibility regarding potential uses of Business District funds. These funds are also potentially available sooner than TIF funds since the Illinois Department of Revenue disburses sales tax proceeds on a monthly basis (three months in arrears).

NOTE: This document is a brief summary of the requirements and conditions for Business Districts. The full text, including recent reforms, of the Illinois Business District Act, 65 ILCS 5/Art. 11 Div. 74.3 can be found online at:

[www.ilga.gov](http://www.ilga.gov) | <http://bit.ly/2d7XYOe>

For more information, please visit our website at [www.sbfriedman.com](http://www.sbfriedman.com) or contact us at [info@sbfriedman.com](mailto:info@sbfriedman.com).

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