



## SPECIAL SERVICE AREA GUIDELINES

Special Service Area (SSA) financing is a mechanism for residents to fund the installation of an infrastructure improvement through a localized property tax levy. An area is defined in which property owners will specially benefit by a proposed improvement. Based on the actual cost of the improvement, a tax rate is then established and applied against the assessed value of each property in the defined area. That amount appears on the property tax bill and pays for the improvement over a predetermined period of years.

Improvement costs are the responsibility of the residents because the improvement specially benefits those that reside within the SSA, not the public at large. Therefore, the cost for the improvement is only distributed among those residing within the defined SSA.

The City has been funding projects using the SSA financing mechanism over the last few decades. This mechanism is formalized to ensure all residents who are interested in pursuing such financing are presented with standard guidelines. Attached are detailed SSA guidelines along with the legal procedures, frequently asked questions about SSA and the current City Council fiscal policy as it relates to SSA.

SSA financing involves the creation of a defined geographic area within which a tax is levied, in addition to other taxes, to pay for special services provided to the defined area. SSAs are governed by the Special Service Area Tax Law “**SSA Law**” (35 ILCS 200/27-5 *et seq.*). The special services provided to an SSA are typically financed by an ad valorem property tax or some sort of special and distinct tax that is rationally related to the benefit within the SSA (35 ILCS 200/27-25). If the City chooses to levy this special and distinct tax in lieu of or in addition to an ad valorem property tax, a special tax roll will be required, 35 ILCS 200/27-75.

The residents’ share of the improvement costs can be financed through the SSA Financing. This is a financing method that is authorized by the Illinois State Statutes. The project would be engineered, competitively bid, and constructed under the supervision of the City. The cost of the project would be financed by special bonds sold by the City at its tax exempt rate, and paid by the property owners through a special line item on their property tax bill. The cost of the project is spread according to the assessed valuation of the properties involved. The City works with the property owners to determine the length of the bond issue. The City’s share of a utility project cost would be deducted from the principal. SSA financing is voluntary, and City procedures provide numerous opportunities to meet with the residents to discuss the project, and a 60-day period in which the property owners and residents can vote not to proceed with the project.

Listed below are frequently asked questions regarding SSA process:

***Q: Why are the residents required to pay for the improvement and not the City?***

Improvement costs are the responsibility of the residents because the improvement specially benefits those that reside within the SSA, not the public at large. Therefore, the cost for the improvement is only distributed among those residing within the defined SSA. The other costs associated with the project such as resurfacing, curb replacement, or watermain upgrades shall be paid for by the City as these are existing public infrastructure. Upon installation and acceptance of public improvement, City will take over the maintenance of the same in perpetuity.

***Q: In addition to SSA payments, what additional costs are property owners responsible for?***

As part of an SSA utility installation (new watermain, sanitary sewer, or storm sewer) the mainline costs are the only costs that are included in the SSA costs. The Phase II design engineering costs and Phase III construction inspection costs are also included in the SSA, if the project is outsourced for consulting work. Other costs that will be included in the SSA are financing-related, legal and minimum \$5,000 administrative costs.

In addition, as part of the SSA project, a service utility stub running from the mainline to the property line will also be installed. It shall be the responsibility of the property owners, at their own expense, to connect their utility service from the property line stub to the house. A permit will be required to do this work. It is advantageous for the property owner to utilize the City-approved contractor who is doing the SSA utility main work to do your individual utility service connection work thereby avoiding costs related to mobilization charges and also take advantage of economies of scale pricing.

***Q. What are the advantages of SSA?***

- (a) The procedure for establishing an SSA is less expensive, less time consuming and complex than those for a special assessment as SSAs do not involve filing of a petition in Court.
- (b) Bonds issued under an SSA are more secure due to the property tax nature of the collection. This result in a lower interest rate and cost to the residents.
- (c) In case of well or septic system upgrades to public utilities, the maintenance responsibility for the mainline utility falls under City. Removal of a septic system may free up land available for yard purposes or a building addition. Long-term cost savings could be attained after connecting to public utilities with no maintenance costs related to a water well or septic field.
- (d) In case of septic field there are potential for health issues related to leaky fields or in case of water wells there are potential for groundwater contamination. The public health issues are minimized (not eliminated) with public water and public sanitary sewers.

***Q. Is the SSA yearly assessment tax deductible?***

Even though the SSA assessments appear on property tax bills, they are only tax deductible if they are for the repairs or maintenance of existing infrastructure. The assessments are not tax deductible if they are for new infrastructure. For additional information on the tax

liabilities, please refer to the Internal Revenue Service's Publication 535 on real estate taxes, which can be found at [www.irs.gov](http://www.irs.gov), <http://www.irs.gov/pub/irs-pdf/p535.pdf> see page 16 or contact the IRS at 1-800-829-1040.

***Q: As part of SSA process, how come the costs for each property owner are based on equalized assessed valuation of the property?***

SSA is a State Statute and administered by each County. Lake County allows communities to decide on either using per lot basis or using assessed value basis. The City, as part of the preliminary engineering study, will base the costs on assessed valuation. Unless the project circumstances call for dividing the costs based on per lot basis, City will only use ad valorem basis for the establishing SSA. Once the project is complete and final bills paid to the contractor and consultants, municipality sends all information to Lake County to administer the payback payment process for the SSA. A line item called SSA shall appear on your tax bill.

***Q: What will happen to my annual costs if the property is assessed lower than the estimates?***

As we have mentioned above, once the City submits the cost to Lake County the administration of the SSA is handled by them. If your property is assessed lower than the estimates shown or if you have appealed your property taxes, those revised assessments will be re-calculated as part of yearly SSA cost distribution for each lot. The cost estimates provided by the City are based on the information pulled from Lake County Assessor website and is not the final assessed value.

***Q: Can each property owner choose their own amortization period? Or is there a default amortization period?***

SSA State Statute mandates choosing only one amortization period for the entire SSA. The City asks the property owners within the SSA to provide their choice of an amortization period. Based on the majority of the responses received the amortization period is set for the SSA. In case of a tie or if the responses received do not provide a clear majority then the City will default to a **10-yr** amortization period or other period as approved by City Council. Also, if the City is up fronting the SSA costs on behalf of residents, the amortization period cannot exceed beyond 10 years. See City Council Fiscal Policy for further details.

***Q: How is the interest rate calculated?***

In accordance with City Council Fiscal Policy, for projects funded through the sale of bonds, the interest rate will be based on the market rate at the date of bond sale. For City-financed SSA projects, the interest rate will not be less than the Municipal Market Data rate for uninsured Aaa rated bonds + 2%. This interest rate, for City finance projects, will be established on the construction start date.

***Q: Do we have to connect to newly constructed utility?***

No, if your existing utility or private independent system (such as well, septic, etc.) is functioning properly, you are under no obligation to connect to the newly constructed utility

main even though you are paying for the new main. Once you decide to connect to the utility main, a City of Lake Forest permit shall be required for the work.

***Q: Can the property owners opt out of the project after The City of Lake Forest invests in final engineering design and costs?***

Yes, during the SSA process after the City Council adopts the ordinance proposing the establishment of the SSA, there is a 60-day mandatory waiting period prior to establishment of SSA. During this period, the project can be voted down by the submission of a notarized petition signed by 51% of electors (registered voters) **and** 51% of property owners. If no such petition is received and the SSA is established for the particular utility alternative, the property owners are locked into SSA payments.

***Q: Can the property owners pay their costs as a lump sum payment instead of being assessed on yearly basis based on the amortization period and interest rate?***

Yes, typically once the final project costs are tabulated the property owners will receive an invoice with the option of paying the entire cost as a lump sum payment. Usually a 30-day deadline is given to choose the lump sum payment option. If the City does not receive the lump-sum payment by the due date then the City shall assume property owner(s) elected to choose the set amortization payment option. Once the SSA payment cycle is established there are no other pre-payment options available until the expiration of the amortization period.

***Q: When will property owners know if City funds are available for SSA?***

All capital projects (including proposed SSA projects) are discussed annually with the City Council during the budget meetings. The SSA project funding will be based on City's fiscal policy requirements on Capital Projects. In the past, SSA projects with the backing of residents who are in favor of the SSA, have been looked upon favorably by the City Council for immediate funding. Typically, at the November Capital Improvements Program meeting the City Council discusses the 5-year Capital Projects and provides staff with a direction on priority projects. The final budget approval for the fiscal year, including all Capital Projects, is typically done in March or April. The City fiscal year runs from May 1 thru April 30.

The City will finance, on an annual basis, a maximum residents' share of \$500,000 on all SSA projects. For projects greater than \$500,000, a bond sale shall be conducted. The priority of project funding will depend on first-come first-serve basis in terms of establishing the SSA ordinance or as approved by City Council upon staff recommendation.

If the City is required to provide up front the related capital project funding earlier than planned due to the establishment of the SSA, the funding shall be from General Fund fund balance. At no time shall the establishment of the SSA cause the General Fund fund balance to drop to less than 15% of net operating revenues for the General Fund plus accrued sick and vacation leave.

***Q: Will the residents have daily access to their driveways during construction?***

With all construction projects it is the City's intention is to provide residents with daily access to their driveways at the end of the day. During the day the access could be limited with the

construction activity but access will always be provided for emergency vehicles. Please note issues such as driveway access, service interruptions and impact on public and private property depend on the nature and scope of the work. If the proposed work involves concrete work like sidewalks or curbs and that work crosses any driveways, access to the driveways may be restricted for a period of up to five days for the concrete to cure. All City construction projects are supervised by City Engineering personnel on a daily basis who can be reached for any special needs or requests during the duration of the construction project.

## PUBLIC INFRASTRUCTURE INSTALLATION PROJECT

### SPECIAL SERVICE AREA (SSA) PROCESS

- I. **Initiation Letter** - The process starts with a written letter from the resident (Lead Volunteer) addressed to the City Manager at The City of Lake Forest, 220 E. Deerpath, Lake Forest, IL 60045.

Give a clear description of the type of infrastructure services to be provided in the SSA with the following details:

- a. Name, address and phone number of individual(s) submitting the letter (Lead Volunteer)
  - b. Indication of whether applicant(s) is/are (1) property owner(s) of property within proposed SSA; and (2) registered voter(s) within Lake County
  - c. Special Services to be provided. A clear description of the type of infrastructure services to be provided in the SSA.
  - d. Boundaries of the proposed SSA. description depicting the boundaries of the proposed SSA.
- II. **1<sup>st</sup> SSA Neighborhood Informational Meeting** - The City may not initiate an SSA neighborhood meeting with only one property owner submitting the letter or petition. The City requires the Lead Volunteer to get preliminary support from other property owners in the proposed SSA to gauge their interest in paying for the new public infrastructure.
- a. Upon receiving favorable response from the property owners in the proposed SSA, the City will prepare conceptual estimates and/or plans for an informational meeting with the proposed SSA residents.
  - b. If outside consulting firms are used to provide conceptual estimates and/or plans then those costs will be added to the actual project costs.
- III. **Official Petition (60 Days after 1<sup>st</sup> Neighborhood Meeting).**
- a. Based on the information provided at the meeting, the Lead Volunteer (s) will submit an official petition to move forward the SSA process.
  - b. In order for the City to initiate preliminary engineering plans and cost estimates, the petition should be signed by at least two-thirds (2/3<sup>rd</sup>) of the total number of electors and at least two-thirds (2/3<sup>rd</sup>) of property owners within the proposed SSA. The signatures shall be collected within a single sixty (60) day period.
- IV. **2<sup>nd</sup> SSA Neighborhood Informational Meeting (60 Days after receipt of Official Petition).**
- a. Upon receipt of the official petition, the City will prepare a preliminary cost estimate for engineering design and construction. Staff time to prepare estimates and/or plans will be added to the project costs. If an outside consulting firm is used then these costs will be added to the project costs. Additionally, an administrative fee of \$5,000.00 will be assessed to the final project costs.
  - b. The preliminary engineering findings will be presented to the SSA residents at the second meeting with the following information:
    - i. General location information including preliminary plans
    - ii. Preliminary estimated cost of project including design engineering and

- inspectional services
    - iii. SSA Schedule
    - iv. Review of Ordinance proposing the establishment of SSA
    - v. Amortization Plan
    - vi. Other costs associated with the improvement such as connection fees, outside agency fees, and costs for related work on private property
  - c. Based on the 2<sup>nd</sup> SSA Neighborhood Informational Meeting and prior to the City going to the next step of introducing the SSA, it may consider requesting another petition from the Lead Volunteer (s) or a favorable written response from least two-thirds (2/3rd) of the property owners within the proposed SSA. If City does not receive the petition or a favorable response from least two-thirds (2/3rd) of the property owners within the proposed SSA then the project will not be considered unless otherwise directed by the City Council.
- V. **Introduce and adopt an Ordinance proposing an SSA and setting the date for the Public Hearing** (2 readings). (60 Days after receipt of 2<sup>nd</sup> Official Petition or 60 Days after 2<sup>nd</sup> SSA Neighborhood Informational Meeting)
- VI. **Notice of Public Hearing** (60 to 270 Days after Council adoption of Ordinance proposing SSA) – This hearing provides an opportunity for members of the public who reside within the proposed SSA boundaries to address the Council.
  - a. Publish Public Notice in newspaper at least 15 days prior to the public hearing.
  - b. Mail Certified Notice to property owners within the proposed SSA at least 10 days prior to the public hearing.
  - c. Engineering design is delayed on project until 60-day period is completed.
  - d. Start of 60-day waiting period.
  - e. If at least 51% of the property owners and 51% of the electors within the proposed SSA file a protest with the City Clerk within the 60-Day protest period following the adjournment of the Public Hearing objecting to the establishment of the SSA, then the SSA shall not be established.
- VII. **Council Adopts Ordinance Establishing SSA** (2 meetings). (60 Days after Public Hearing)
- VIII. **Engineering Design Plans** (begin 60 Days after Council Adopts Ordinance Establishing SSA, design and review process term varies by project).
  - a. Engineering firm (if used) usually selected during the 60-day waiting period. Engineering contract awarded after 60-day waiting period.
  - b. Preliminary review of design.
  - c. Meeting with resident for comments.
  - d. Send plans to various agencies for approval.
  - e. Review design.
  - f. Advertise for bids.
- IX. **Open Bids.**
- X. **Bond Ordinance** (Can be at same meeting as VII.).
  - a. Introduce Bond Ordinance (Finance Department)
  - b. Adopt Bond Ordinance

c. Record Ordinance

XI. **Construction** (term varies by project).

XII. **Close out SSA and file the property tax levies with Lake County.**