

Responses to Questions Asked at the Public Hearing on August 13, 2013

Lake Michigan Water Project:

Public Hearing Regarding the Formation of Special Service Area #16

For your convenience, questions have been grouped by category and similar questions were combined. If you addressed the board at the public hearing, you will also receive an individual response to your questions.

Legal Requirements:

Q: Instead of the legal notice about the SSA, why didn't you send us information about the project?

A: The notice you received in the mail was the legal notice specifically addressing the formation of Special Service Area (SSA) #16. For your convenience, all of the project materials, including all of the information from the previous Open Houses, is available at www.lakecountyil.gov/lakemichiganwater

Q: I'm concerned about the expense of mailing of the legal notice. Why did you send it first class, and to how many people did you send this?

A: The notice you received in the mail is a legal notice required by state law and included the Public Notice, the legal description, the list of PINs and the map of the SSA. The Lake County Board is committed to communicating with residents and therefore direct mail is the best way to make sure everyone has access to the information. As required by state law, the mailings were sent first class to ensure they would be forwarded or returned to sender if undeliverable. Approximately 11,300 property owners received the mailing.

Q: How long do we have to file the petition to object to the creation of SSA #16? Does the petition have to include 51 percent of the entire area?

A: The length of the petition period is determined by law. The Special Service Area Tax Law states that a petition may be filed within 60 days following the final adjournment of the public hearing which is October 14, 2013. Such petition(s) must be signed by at least 51% of the electors residing within the entire Special Service Area and at least 51% of the owners of record of the land included within the entire Special Service Area.

Q. How do the Villages become members of CLCJAWA?

A. CLCJAWA is an independent public water agency and its Board of Directors has full discretion on allowing additional members into the agency. A unanimous vote of the board is required. Lake Villa and Lindenhurst have requested admission to the Agency and in October, 2012 CLCJAWA presented those Villages with general conditions which will lead to full membership. Membership will be considered at the time the first construction contract is awarded. Lake County is already a member of CLCJAWA.

Miscellaneous:

Q: The information presented tonight was very brief, is there a place where can I find more information?

A: The public hearing was specifically about the formation of SSA #16. The presentation at the beginning of the meeting was designed to be a brief overview of the information shared at previous public information meetings. This was an effort to be respectful of everyone's time in order to maximize the opportunity for public testimony. More in depth presentations were given at multiple open houses earlier in 2013, and all of the materials, including a more robust slideshow with voiceover, are available at www.lakecountyil.gov/lakemichiganwater

Q: Are the slides from the public hearing available for viewing?

A: The slides that were used at the public hearing are available on the County website, but that was just a brief overview of the project. More in depth presentations were given at multiple open houses earlier in 2013, and all of the materials, including a more robust slideshow with voiceover are available at the county's Lake Michigan Water Project website www.lakecountyil.gov/lakemichiganwater

Financing Options & Concerns:

Q: How long will the tax increase last?

A: The CLCJAWA tax will expire in 2018.
You will see the SSA tax levy on your annual property taxes for no longer than 30 years. If we are able to secure an IEPA loan, it will only be 20 years.

Q: What happens to the SSA obligation when I try to sell my house?

A: The SSA tax will be included on your regular annual property tax bill. It is not an individual loan. It stays on the property tax bill until the bonds are retired.

Q: I see on the Public Notice that there is a possible second levy of taxes, why is that?

A: We are phasing in the project costs to minimize the impact to residents; therefore the bonding will be phased as well. At open houses held earlier in 2013, residents asked that we consider phasing in the project costs so that they weren't impacted by the entire cost all at once. The total maximum amount of any bonds levied cannot exceed \$46 million. Phasing of the tax increase will be achieved by minimizing the tax amount in the first two years (2014-2015) to only fund the engineering design phase. Then in 2016, construction will start and the full tax will be imposed at approximately \$250/year (for a \$200,000 property).

Q: The public notice makes reference to the exact finance mechanism for which you are going to borrow. The second paragraph says that we the homeowners are going to retire the bonds by levies or levies of direct annual taxes on properties subject to taxation for the services located

within the area sufficient to pay the interest on the bonds as they become due and to discharge the principal at maturity. So is this a balloon payment?

A: No, this is not structured as a balloon payment. The maximum interest rate is 7%, however if bonds were issued today (August 29, 2013) the rate would be close to 6%; if the IEPA loan come through, then under 4%. When the bonds are sold, the interest rate cannot exceed 7%. Those bonds will be retired over no more than 30 years at a rate no more than 7%. The bonds will be payable over the 30 years, not just at the end. Specifically the IEPA requires repayment semiannually over no more than 20 years. The overall debt for the project will be structured so that payments will be made every year toward bond interest and principal.

Q: The public notice also says direct annual taxes shall be levied upon taxable property within the area for the entire period that the bonds or refund bonds shall be outstanding and shall be unlimited as to the rate or amount in addition to other taxes. What is unlimited?

A: The term "unlimited" applies to the tax rate, not the interest rate. The unlimited tax rate refers to the County Clerk's ability to adjust the tax rate up or down to allow the County to generate sufficient funds to pay the bond principal and interest. The annual tax rate may fluctuate from year to year to cover the annual principal and interest associated with the SSA bond(s) or IEPA loan(s).

Q: Can we as the homeowners have the opportunity to prepay?

A: Prepayment of a taxpayer's portion is not possible, just as prepayment of any property tax is not possible.

Q: I have seen 2 numbers floated about here. One for \$43 million in a power point display, and then the mailing they talk about \$46 million. Will someone explain that difference for me?.

A: The project is estimated at \$43,000,000 but \$46,000,000 is the maximum to allow flexibility in the bonding, particularly in negotiating reserve levels with the IEPA. Total costs of the project will be known after project completion. The \$46,000,000 is the maximum cost allowed.

Q: Why not hold a referendum?

A: In order for a referendum process to be conducted, each of the project participants (Lake County, Village of Lake Villa and Village of Lindenhurst) would need to conduct individual referenda, meaning each would establish its own financing mechanism to fund the project. The Special Service Area process allows for the three project participants to spread the cost of the project over the total assessed value for the entire area, reducing the amount borrowed and the bond issuance costs. In addition, as the respective areas grow in the future, all property owners within the larger area will benefit when the total assessed value of property increases (ie. When growth occurs in Lindenhurst, property owners in Lake Villa will benefit from an increase in total assessed value of property, thereby, reducing costs for each individual property owner).

Q: Is the interest rate fixed or variable?

A: The maximum interest rate cannot exceed 7% and is intended to be a fixed rate. Interest rates will be finalized when the bonds are sold. That will take place once the Special Service Area establishment process is completed.

Q. Why will we be taxed on the value of our home instead of everyone having the same cost?

A. By law, Special Service areas are taxed "ad valorem" or based on the value of taxable property. Special assessment which requires assigned "benefit" from the improvements provided to each property served is not feasible to a project of this type and scale. The Lake Michigan water delivered is for four basic functions, (1) domestic consumption, (2) sanitation, (3) outside use, and (4) fire protection.

Q. Have you looked at other funding sources beyond SSA bonds?

A. Yes, other funding sources were considered and analyzed. There are three methods of long term financing for a project of this sort, (1) SSA Bonds, (2) General Obligation (GO) Bonds, and (3) Water Revenue Bonds. SSA bonds and GO bonds are both based on property values, so the payment obligations would be no different between the two as it relates to proportional debt assignment. To implement a GO Bond, Lake Villa and Lindenhurst each would need to successfully pass a GO referendum for the project to proceed. SSA financing would be the only option for Lake County because assigning a General Obligation tax against the entire County would be inequitable. Revenue Bonds are available to all three communities and are a possibility; however water rates would need to be drastically increased immediately to cover construction costs or additional money borrowed from another source (construction loan) to cover construction costs. This would make Revenue Bonds the more expensive alternative and runs contrary to public input received to phase in the rate impact of Lake Michigan water.

Q. Can you use General Obligation Bonds instead of increasing property taxes?

A. General Obligation Bonds and Special Service Area bonds assign the proportional debt service on the value of taxable property (ad valorem taxes). There would be no payment difference between the two property tax based debt instruments.

Q. Can bonds be issued all at once and not phased to take advantage of lowered interest rates?

A. During public open house meetings held earlier in 2013, residents expressed a desire to spread out the tax impact. In addition, public agencies are required to expend borrowed money for its intended purpose in a timely manner. Generally speaking, governing bodies need to use borrowed money within 36 months of receipt. Federal law prevents agencies from borrowing for investment profit. The participating communities do have some latitude on sizing and timing of bond issues and will evaluate this as the project proceeds. The participating communities anticipate taking action on financing options quickly.

Q. Would special assessments make more sense than an SSA?

A. Special Assessments are expensive to implement and are more intended for small projects where proportional benefit can be easily identified. An example of a good use of Special Assessment financing would be to install a sidewalk where benefit is assigned based on lineal

frontage of the property served. Trying to apply such a principle to a regional water supply system approaching 11,300 properties would not be feasible.

Q. Will foreclosed homes be taxed?

A. We have no record on how many of the 11,300 parcels in the area are in distress. All taxable property will be taxed based on the value of the property each year.

Q. Can this be structured so that cost overruns would be the responsibility of the contractor?

A. Construction engineering services to monitor conformance of the work to the project plans will be a part of each project element. The anticipated bid process, which will be awarded by CLCJAWA, currently anticipates identifying the lowest responsible bid following statutory guidelines. A bidding procedure which would have a contractor absorb any change order foreseen or unforeseen, would increase the bid price and the risk of reckless bidding and questionable construction.

Studies & Reports:

Q: Will the water be coming from Lake Forest, or Lake Bluff?

A: This project would connect to the existing Central Lake County Joint Action Water Agency located in Lake Bluff. The water supply comes from Lake Michigan, treated at their treatment facility in Lake Bluff, and pumped out to CLCJAWA member communities.

Q: Why didn't we start looking at this issue years ago?

A: Several communities in the northern and western areas of Lake County have been studying this issue for many years. A cooperative governmental water planning group has been researching options since 2006. This group worked collaboratively to commission groundwater studies, apply for the Lake Michigan water allocations, and analyze the various options to find the most cost-effective, long-term, sustainable solution. The allocation applications for all 4 water systems and the groundwater studies can be found on the project website at www.lakecountyil.gov/lakemichiganwater.

Q: Who can we talk to about possibly being included in this project?

A: To discuss the process and the necessary infrastructure to service your subdivision, feel free to contact the Lake County Public Works Engineering Department at 847-377-7500.

Q: Is there a study or report that I can view about groundwater?

A: Independent groundwater and engineering experts were used to provide reports and studies that were used to develop the proposed project plan. Many of these reports and studies are available on the County website. www.lakecountyil.gov/lakemichiganwater

Q: You say we are running out of water and yet water reports that say the water quality is pretty good. It meets all the requirements. Why haven't the annual reports ever mentioned that we have a water issue in the area?

A: The annual water quality report sent to residents explains that our water quality is currently meeting the basic requirements of IEPA regulations, but we must be proactive. Over the last several years we have seen quality and quantity steadily decreasing and we need to find a long-term sustainable source of water. As your water provider, it is our responsibility to evaluate the system and find alternatives when the supply and quality of water in the shallow and/or deep aquifers decreases. For the last six years we have been working together to try and find the most cost-effective way to do that for our residents. Multiple communities in Lake County on groundwater supplies are facing the same challenges with respect to long-term supply issues and the time to do something about it is now.

A cooperative governmental water planning group has been researching options since 2006. Independent groundwater and engineering experts were used to provide reports and studies that were used to develop the proposed project plan. Many of these reports and studies are available on the County website. www.lakecountyiil.gov/lakemichiganwater

Q: Why do the display boards show Cedar Lake in 2011 & 2012 when lake levels were low, but not in the spring of 2013, when the levels were high?

A: These displays were used in public information meetings held last winter (2012). You are correct that the lake level was temporarily higher this spring (2013) due to the late winter snowmelt and wet spring. However, Cedar Lake levels have been low throughout the summer (2013).

Q: Why do we need another source of water?

A: Over the last 15 years the water level in the aquifers that supply Lake Villa's shallow wells have been declining. In an effort to meet the increasing public need, Lake Villa installed three (3) deep wells. As demand and water use increases throughout the region, the deep aquifers are being depleted, putting our deep wells in jeopardy.

Q: No one has mentioned additional work that will be required to do local improvements. Was a study done to look at all necessary improvements including internal local improvements?

A: As part of the individual IDNR allocation application, a study was done to examine the possibility of any local improvements. The individual IDNR allocation applications are available on the county's Lake Michigan Water Project website at www.lakecountyiil.gov/lakemichiganwater. No additional taxes will be due for local improvements.

Q. In the presentation, you mentioned "long-term", what does that mean?

A. The water system itself is designed for a minimum service life of 50 years, but with proper maintenance, the production and delivery system could be functional for double that time. The IDNR which issues "water allocation" orders does so periodically with the longest allocation awarded through the year 2030.

Health Concerns:

Q: Will the water from Lake Michigan have elevated mercury levels?

A: Mercury is detectable in Lake Michigan water as it is throughout the air, land and water environment. However, it is below the detection limits of the drinking water testing methods specified by the Environmental Protection Agency. In short, mercury is indeed regulated in drinking water. The Central Lake County Joint Action Water Agency tests its water for mercury annually and has never detected the presence of mercury. Detailed water quality reports can be viewed on the Agency's website at www.clcjawa.com.

Q: With the recent boil order in Deerfield, and numerous beach closings, I'm concerned about bacteria counts in Lake Michigan water. Is the water safe?

A: To our knowledge the Deerfield Boil Order was not associated with the quality of Lake Michigan water. The Lake Michigan water for this project is supplied by Central Lake County Joint Action Water Agency (CLCJAWA). The CLCJAWA currently has an intake within Lake Michigan that is permitted to draw a certain quantity of water and transmit it to their treatment facility. Treated water is then pumped out to the CLCJAWA member communities. The water treated by CLCJAWA is safe and meets or exceeds all IEPA drinking water regulations.

Q: How will you protect against bacterial contaminants getting into the system?

A: The source of the water will be Lake Michigan. The Central Lake County Joint Action Water Agency (CLCJAWA) currently has an intake within Lake Michigan that is permitted to draw a certain quantity of water and transmit it to their treatment facility. The water is treated at their treatment facility in Lake Bluff. Treated water is then pumped out to the CLCJAWA member communities. CLCJAWA has extensive testing and detailed water quality reports can be viewed on the Agency's website at www.clcjawa.com.

Engineering Options:

Q: Is it possible to add other nearby subdivisions into this project?

A: Yes it is possible for areas outside the SSA to be annexed into the SSA. The proposed system has been designed with the flexibility to include additional properties. However, providing water to subdivisions that do not have a public water distribution system would add significant infrastructure costs that are not currently part of the project.

Q: What will be the tax impact for each property? I read one article stating a \$200,000 home would be \$516 in additional taxes.

A: The article you reference is most likely speaking about the Wauconda/Volo water project which is separate and independent of this SSA. For this project, the tax impact is approximately \$250 per year for a home with a \$200,000 market value. You can find more detail about this in the

joint presentation from the open house held on April 6 at www.lakecountyil.gov/lakemichiganwater.

Q: Will existing wells be available as a backup even if we go to Lake Michigan water?

A: Yes, some of the existing wells will be kept as a back-up in the event there is a water shortage that would limit the supply from CLCJAWA. Each of the existing wells in operation would be reviewed to determine which wells should be abandoned while still being able to maintain a robust back-up supply.

Q: What are the pipes sizes going to be at our homes?

A: The pipe size will not change in your neighborhood.

Q: What will the pressure be at our faucets?

A: The pressure will be the same. Pressure is controlled by the height of the water towers.

Q: Why was there no long term planning with the last SSA?

A: There was no previous SSA for Lake Michigan Water involving Lake Villa, Lindenhurst and Lake County. We interpret your question to refer to the original formation of CLCJAWA in the mid-1980s. The officials at that time did not elect to join CLCJAWA and continued to use wells.

Existing Corporate Systems & Operations:

Q: When all of the new subdivisions were being built, was there a water supply study done? Were any of the infrastructure costs paid by developers? Also, are there other alternative sources to fund this project?

A: When new subdivisions were planned in the Grandwood Park area, the County evaluated water supply needs and the existing groundwater system to determine necessary infrastructure improvements. Those studies led to the construction of additional wells and reservoirs. Some of these improvements were paid for with developer funds. However, the supply in the shallow aquifer has diminished over time and is no longer a sustainable, long-term option.

Other funding sources were considered and analyzed. There are three methods of long term financing for a project of this sort, (1) SSA Bonds, (2) General Obligation (GO) Bonds, and (3) Water Revenue Bonds. SSA bonds and GO bonds are both based on property values, so the payment obligations would be no different between the two as it relates to proportional debt assignment. To implement a GO Bond, Lake Villa and Lindenhurst each would need to successfully pass a GO referendum for the project to proceed. SSA financing would be the only option for Lake County because assigning a General Obligation tax against the entire County would be inequitable. Revenue Bonds are available to all three communities and are a possibility; however water rates would need to be drastically increased immediately to cover construction costs or additional money borrowed from another source (construction loan) to cover construction costs. This would make Revenue Bonds the more expensive alternative and runs contrary to public input received to phase in the rate impact of Lake Michigan water.

Q: Doesn't Lake Villa have plenty of deep well water?

A: Over the last 15 years the water level in the aquifers that supply Lake Villa's shallow wells have been declining. In an effort to meet the increasing public need, Lake Villa installed three (3) deep wells. As demand and water use increases throughout the region, the deep aquifers are being depleted, putting our deep wells in jeopardy.

Q: Will sewage rates increase as well as a result of this project?

A: No, the sewer rates will not increase as a result of this project.

Q: I know that we have a backup water supply with our shallow wells, but maybe it would be a wise thing to consider a second connection point with the Village of Lindenhurst?

A: A second connection to the Central Lake County Joint Action Water Agency (CLCJAWA) had been discussed and considered, but would significantly increase the cost of the project. The Village of Lindenhurst will maintain several shallow wells for use in emergency situations. Additionally, the Village will be constructing additional water storage that will provide sufficient water supply for several days in the event of a major disruption. Moreover, the Village currently has an interconnection with the Village of Lake Villa that can be utilized to provide water to the Lindenhurst system in the event of an emergency.

Illinois Department of Natural Resources (IDNR):

Q: I would like to voice my concern that Lake Michigan water isn't an endless supply. Who monitors the usage of the water?

A: Lake Michigan water usage is governed by the Illinois Department of Natural Resources which monitors water use as well as Lake Michigan water levels. Withdrawal of water from Lake Michigan serving Illinois is controlled through a heavily regulated permit process which promotes sustainability.

Q: Is Lake Michigan a long-term sustainable choice if it's at its lowest level in years?

A: The Lake Michigan water level is cyclical and the level depends more on Lake Superior than the amount of water being withdrawn for drinking water purposes. Lake Michigan water usage is governed by the Illinois Department of Natural Resources which monitors water use as well as Lake Michigan water levels. The water level in Lake Michigan has varied no more than a range of 6 feet, which is sustainable for such a vast body of water where it reaches 921 feet at its deepest point.

Q: In order to keep our allocation, do we have to be in operation by 2016?

A: Within Illinois, the use of Lake Michigan water is controlled by the Illinois Department of Natural Resources (IDNR). The agencies involved in this project, Lake County, the Village of Lake Villa and Village of Lindenhurst, all applied for and received an IDNR Lake Michigan Water Allocation

Permit in February 2011. The permit, however, is reviewed by the IDNR every 5 years. If the project participants do not make positive strides toward obtaining Lake Michigan Water, the IDNR can revoke the permit. As long as the project participants are making positive strides toward obtaining Lake Michigan Water, it is unlikely that the permit would be revoked.

Q: What happens if we don't act now, and wait 10 or 15? Do we have the option to get Lake Michigan Water in the future?

A: Within Illinois, the use of Lake Michigan water is controlled by the Illinois Department of Natural Resources (IDNR). Approximately 96-97% of the Illinois Lake Michigan allowable water withdrawals have been allocated. The agencies involved in this project, Lake County, the Village of Lake Villa and Village of Lindenhurst, all applied for and received an IDNR Lake Michigan Water Allocation Permit in February 2011. The permit, however, is reviewed by the IDNR every 5 years. If the project participants do not make positive strides toward obtaining Lake Michigan Water, the IDNR can revoke the permit.

In addition, the Central Lake County Joint Action Water Agency (CLCJAWA) has a limited capacity of water that its system can deliver. Today, the system has capacity to provide service to the project participants. However, it is doubtful that capacity will still be available to us in the future.