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October 16, 2017

Mr. Kevin Timony  
Assistant Village Manager  
Village of Grayslake  
10 S. Seymour Ave.  
Grayslake, IL 60030

Dear Mr. Timony:

Pursuant to our recent conversation, SB Friedman Development Advisors (SB Friedman) is pleased to present this proposal to the Village of Grayslake (Village) to assess the overall property tax rate in the Village and competitive communities.

## Background and Understanding

Property taxes are a significant operating expense to many businesses and often considered as a factor in locational decisions. It is our understanding that the Village is concerned that the local property tax rate puts Grayslake at a competitive disadvantage with nearby communities in attracting new retail, office and industrial tenants. The Village therefore seeks to understand the extent to which property taxes in Grayslake differ from competitive locations in Lake County and in nearby Cook and Kenosha Counties.

Because assessment practices vary by township and county, SB Friedman proposes to evaluate effective tax rates, allowing for a comparison of property taxes with communities in Cook County (which has varying assessment levels by land use) and Kenosha County, and adjusting for any differential in assessment practices among townships in Lake County. Effective tax rates measure the proportion of current property value that is paid in taxes each year:

$$\text{Effective Tax Rate} = \frac{\text{Total Annual Property Tax}}{\text{Current Market Value}}$$

In addition to comparing the effective tax rate in Grayslake with competitive communities, SB Friedman will estimate the property tax load within the Village and in competitive communities for three particular commercial/industrial development typologies. These development typologies may be general (e.g., 150,000 square foot manufacturing facility, 30,000 square foot office building, 5,000 square foot retail building), or could be for three particular existing developments in Lake County. We will also use CoStar data to identify typical commercial lease terms and operating expenses, and estimate the percentage impact of any property tax differential in Grayslake on businesses.

## Scope of Services

### 1. Conduct Project Kickoff Call

We will hold a conference call with the Village to confirm and refine the project goals/objectives, the scope of work, timeline and deliverable. We will discuss with the Village the methodology for selecting case study communities, and identify the three developments/development typologies for which property taxes will be estimated.

### 2. Identify Comparable Communities

SB Friedman will work with the Village to select up to 10 communities for which the effective property tax rate will be calculated. These communities are intended to be representative of key competitive locations in Lake County, Cook County and Kenosha County, and may be neighboring municipalities, key competitive locations or representative in another way. We will identify proposed communities using in-house market data and GIS drive-times, and have preliminarily identified the following municipalities based on the existence of competitive commercial or industrial development:

- Round Lake Beach
- Gurnee
- Mundelein
- Libertyville
- Volo
- Pleasant Prairie (Kenosha County)
- Arlington Heights (Cook County)

Before proceeding, we will confirm with the Village the 10 communities to be analyzed.

### 3. Compile Tax Rate, Equalization Factor and Assessment Level Data

SB Friedman will compile the most recent tax rates, equalization factors and assessment levels, using municipal- and township-level data from the Lake County Tax Extension Department, Cook County Clerk's Office, Illinois Department of Revenue and Wisconsin Department of Revenue.

In Cook County, effective tax rates will be calculated for Class 5A (commercial) and Class 5B (industrial) properties. Effective tax rates for non-residential properties with special incentive classifications and residential properties will not be analyzed.

### 4. Calculate Effective Tax Rates

Using the data compiled in Task 3, we will estimate the overall effective tax rate for each municipality, using the average composite tax rate (i.e., average combined tax rate for all local jurisdictions). The effective tax rate varies by property depending on which particular school district, fire protection district, etc. a property is located in. Using the average tax rate will allow for an overall comparison by community.

### 5. Compile Assessed Value Data and Calculate Taxes for Three Commercial/Industrial Developments

Using county data, we will compile the most recent assessed value (AV) for any existing developments that have been selected by the Village for analysis. If the Village chooses to evaluate prototypes, rather than existing developments, we will compile AV data for comparable developments and estimate AV for

the prototype defined by the Village. We will then calculate property taxes for the developments as if they were located in Grayslake or competitive communities.

#### **6. Assess Relative Impacts on Typical Lease Terms/Operating Expenses**

We will compile lease and operating expense data from CoStar for selected existing comparable commercial and industrial developments in Lake County. We will supplement this with operating expense data from the Institute of Real Estate Management and our in-house database of past projects to identify typical ranges of operating expenses for the three commercial/industrial development typologies evaluated in Task 4. Operating expense data will be collected for retail development under SB Friedman's engagement to evaluate the need for financial assistance for development on the old Lake County Fairgrounds site. In this task, we will collect data for office and industrial development. We will assess the impacts of any property tax differential between Grayslake and competitive communities on business operations.

#### **7. Prepare Draft Memorandum**

We will prepare a draft technical memorandum documenting our analysis and describing our findings regarding effective property tax rates, the comparison of property taxes for selected development prototypes in the Village and competitive communities, and the impacts of the property tax differential on businesses' bottom line and location decisions. The memo will include a map displaying effective tax rates in Grayslake and competitive communities, as well as tables displaying the property taxes by development type and impacts of higher property taxes on operating expenses. The memo will also include backup tables with the tax rates, equalization factors and other inputs into our analysis.

#### **8. Discuss Draft and Finalize Memorandum**

We will submit the draft memo for the Village's review and hold a conference call to discuss findings, answer questions and obtain feedback on any required edits. We will incorporate edits and address comments from one consolidated round of Village edits and prepare a final version of the memo.

No formal presentation of findings is anticipated under this scope of services. SB Friedman is available to perform additional related services or present findings with additional budget authorization.

### **Timeframe**

We will work closely with the Village to meet any specific deadlines for the analyses, where possible. On the basis of the scope of the work outlined herein and our experience with similar projects, we estimate it will take approximately 30 days to complete this work. The precise timing will depend in part on the length of time it takes for governmental data sources to provide key data for our analyses.

### **Fee Proposal**

Professional fees for our services will be based on time required at the then-current billing rates of the SB Friedman personnel assigned to the project. The scope of the engagement and our experience with similar services indicate that our professional fees and expenses will total approximately \$8,800, as shown in the Detailed Budget Estimate below.

This fee estimate is based upon the work steps described in the Scope of Services, and the time budgets shown in the Detailed Budget Estimate. The fee estimate has been prepared based on certain assumptions as to the time required, the secondary data sources to be used and the primary research needed for the multiple land uses and product types. The fee estimate is subject to upward revision if the engagement entails more time than estimated due to problems that are encountered which could not reasonably have been foreseen at the commencement of the engagement, or if the scope is changed. In this event, we will discuss the matter with you so that a mutually agreeable revision may be made.

Actual billings will be based on time expended at the following hourly rates:

President	\$385
Practice Leader	\$350
Senior Vice President	\$255
Vice President	\$220
Associate Project Manager	\$195
Associate	\$155
Research Associate	\$140
Editor	\$125
Intern/Data Entry/Support	\$ 95

These rates will be in effect until December 31, 2017 except in the case of promotions of individuals. After this date, rates are subject to adjustment.

Travel, publications, maps, telephone toll charges, photocopies, report reproduction, color reproduction, faxes, messenger and express services, data purchased specifically for this project, use of company-owned or -licensed data bases, and other out-of-pocket expenses will be billed as incurred without mark up. Travel time in excess of normal commuting time at the beginning or end of the day will be billed. Travel time during business hours will be billed in full.

#### Detailed Budget Estimate

	<i>Person:</i> <i>Rate:</i>	Senior Vice		Research
		President	Associate	Associate
		\$ 255	\$ 155	\$ 140
1 Conduct kickoff meeting		1	1	
2 Identify comparable communities		1	2	2
3 Compile tax rate, equalization factor and assessment level data			2	6
4 Compile AV data for case study commercial developments		1	2	4
5 Calculate effective tax rates		2	4	
6 Assess relative impacts on typical lease terms/operating expenses		1	4	4
7 Prepare draft memorandum		2	6	2
8 Discuss draft and finalize memorandum		2	2	
<b>Total Hours</b>	<b>51</b>	<b>10</b>	<b>23</b>	<b>18</b>
<b>Total Professional Fees</b>	<b>\$ 8,635</b>	<b>\$ 2,550</b>	<b>\$ 3,565</b>	<b>\$ 2,520</b>
Reimbursable Expenses	\$ 150			
<b>TOTAL BUDGET ESTIMATE</b>	<b>\$ 8,785</b>			

Additional meeting time and additional services, beyond what has been included in the budget, will be billed at then-current billing rates.

Invoices will be rendered monthly as our work progresses for services and costs incurred. Invoices are payable within 30 days.

If at any point the decision is made to discontinue our services, our fee will be based upon the actual time expended and out-of-pocket costs incurred to that date.

**Acceptance Procedures**

We look forward to this opportunity to assist the Village of Grayslake on this project. To indicate your acceptance of this proposal, please sign a copy of this letter and return it to us as authorization for us to proceed.

The attached Limitations of Engagement apply to this project.

Sincerely,



Fran Lefor Rood, AICP  
Senior Vice President

Accepted:

-5-18  
Signature Date

Michael T. Ellis Village Manager  
Name Title

**LIMITATIONS OF ENGAGEMENT**

Our deliverables will be based on estimates, assumptions, and other information developed from research of local property tax rates, knowledge of the industry, and meetings during which we will obtain certain information. The sources of information and bases of the estimates and assumptions will be stated in the deliverables. While sources used will be ones which we deem reliable, no guarantee can be made as to their accuracy. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur. Therefore, actual results achieved during the period covered by our analysis will necessarily vary from those described in our deliverables, and the variations may be material. Our report will contain a statement to that effect.

The terms of this engagement will be such that we have no obligation to revise the deliverables to reflect events or conditions that occur subsequent to the date of the deliverable. These events or conditions include, without limitation, economic growth trends, governmental actions, changes in assessment practices, and other market factors. However, we will be available to discuss the necessity for revision in view of changes in the economic or market factors affecting the proposed project.

Our report will be intended solely for your information, and for submission to local governmental entities with overlapping boundaries, and should not be relied upon for any other purposes. Neither the report nor its contents, nor any reference to our Firm, may be included or quoted in any offering circular or registration statement, appraisal, sales brochure, prospectus, loan, or other agreement or document without our prior written consent.