Frequently Asked Questions about Special Service Areas (SSAs)

What are Special Service Areas (SSAs)?

Special Service Areas (SSAs) are becoming more prevalent in the suburbs of Chicago, and similar areas are popping up in the St. Louis Metro-East area. SSAs are special taxing districts in municipalities that are established by ordinance, often at the request of developers of new housing subdivisions, in order to pass on the costs of the streets, landscaping, water lines, and sewer systems to homeowners who reside within the SSA. The SSA assessments pay off the municipal bonds that are issued to pay for the infrastructure. A Special Service Area can include a neighborhood, an entire subdivision, or an entire village.

What are the purposes of an SSA in a residential area?

There are three purposes for SSAs in residential areas: to pay for the repairs and maintenance of existing infrastructure, to pay for new infrastructure, or to be in place in the event a homeowners association dissolves and no longer maintains the infrastructure (these SSAs are also known as "shadow" or "fall back" SSAs). New homes in SSAs are typically marketed at lower prices because the infrastructure costs aren't rolled into the cost of the home. Instead, the infrastructure costs are paid annually through SSA assessments.

How is the assessment collected?

A Special Service Area assessment is a tax lien on the property, and the assessment will appear on a homeowner's property tax bill as a line item that says "Special Service Area Number X: $XXXX.00". Most assessments range from $1000 to $3000 per year, increasing anywhere from 2 percent to 5 percent per year, generally for a period of 20 to 30 years.

Is the assessment tax deductible?

Even though these 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. The interest portion of the assessment is tax deductible only if the taxing body separates the principal from the interest, which is not done in most counties. 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, or contact the IRS at 1-800-829-1040.

How do you know if a home is located in an SSA?

If the house is a resale, a simple check of the property tax bill will tell you if it's located in an SSA, as the assessment will appear on its own line. If there's a line for an SSA assessment that says $0, either the assessment has been prepaid, or the SSA is a "fall back" SSA that will only start assessing dollar amounts if the homeowners association fails and the municipality then has to maintain the infrastructure. If the home is newly-constructed, there's a greater chance that it will be in an SSA, so it's a good idea to specifically ask the developer if the home is in an SSA. The SSA assessments on new construction homes won't appear on the property tax bills until the following year. For greater assurances, you can contact the county clerk's office and give the clerk the home's PIN, or you can call the municipality and ask if that home is located in an SSA. It's good practice to check with the county clerk or SSA administrator to find out the following: is the home in an SSA, what is the life of the bond, how much is the current assessment, at what percentage will the maximum increase each year, is the assessment available to be prepaid, and if so, what is the cost to prepay? It's also good to know who will maintain the infrastructure after the life of the bond. Most municipalities will take over the maintenance, but it's a good idea to check with the municipality to make sure. The ordinance establishing the SSA will state whether or not the municipality will take over the maintenance after the bond is paid.

What should I know if I'm listing a home that is located in an SSA?

When listing a home that is located in an SSA, it's important to take the assessment into consideration when determining the listing price. Keep in mind that since the home's infrastructure costs aren't rolled into the cost of the home, the home's listing price will be lower than a similar home that isn't located in an SSA. However, if the homeowner has prepaid the assessment, the home should be listed with those costs included, just like a similar home that's not in an SSA. It's important to remind your client of this so that there's no confusion when the client points out that similar homes that aren't in SSAs are listed at higher prices. A home with a prepaid assessment is a benefit to a potential buyer because, while the home will be listed for a higher price than similar homes without prepaid assessments in the subdivision, the potential buyer will be able to deduct the mortgage interest, unlike the SSA assessments, on his federal taxes.

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