
Freeland Sewer and Water Reuse Project User's Guide to the Special Benefit Study



What is a special benefit study?

A special benefit study is a report that looks at properties within a proposed Local Improvement District (LID) and estimates market values both without and with a planned public improvement project.

The formal title of this special benefit study is Formation Special Benefit/Proportionate Assessment Study.

- **Formation** refers to the establishment of an LID to finance a public improvement that directly benefits individual properties within the community.
- **Special benefit** refers to the unique, measurable increase in market value of a parcel as a result of a public improvement.
- **Proportionate assessment** refers to the legal requirement that an assessment be proportionate to all other assessments within the LID.

A special benefit study was conducted for the Freeland Water and Sewer District by the real estate appraisal firm of Macaulay and Associates, Ltd., of Everett, Washington. The firm specializes in economic feasibility and special benefit studies.

What is the purpose of the special benefit study?

The special benefit study was conducted to provide the Freeland Water and Sewer District with the information it needs to 1) determine whether creation of an LID to support a sewer system is feasible and 2) if an LID-supported project is economically feasible, provide property owners with a preliminary estimate of how much their property would be assessed to help pay for a sewer and water reuse project.

After completing a study of current market data and conducting “on the ground” research, Macaulay and Associates found that an LID to fund all of the project costs is not presently feasible and therefore the report does not include preliminary assessment estimates.

Local Improvement District

A financing method for paying for public improvements that benefit some properties to a greater extent than the enhancement to the general public.

How was the study conducted?

The study looked at all properties within the proposed LID; in other words, all parcels which would be served by the initial phase of the sewer and water reuse system. The 400+ acre area encompasses 496 separate parcels (see map on page 3).

Macaulay considered the market value for each parcel (individually and as an aggregate) within the proposed LID. The appraisal team made personal inspections, reviewed recent real estate transactions; commercial and residential lease data; vacancy rates and a variety of other indicators. Macaulay then estimated market value without sewer and again with sewer (or in the language of the study: without and with LID).

Zoning with and without Sewer

Zoning is one of the most important factors in estimating special benefit. For this special benefit study, the assumption is made that the zoning identified in the recently approved 2010 Freeland Subarea Plan will be in place once the sewer LID project is completed. Because these zoning designations allow for more intensive development, they cannot be put into place until an area-wide sewer system is available. Until such time, the interim zoning designations in the 1998 Island County Comprehensive Plan are in place.

The special benefit study includes maps showing present and anticipated zoning. In addition, the study special benefit spreadsheet identifies applicable zoning for each tax parcel within the proposed LID.

Below are brief descriptions of the various zoning designations the study cites. More detailed descriptions are provided within the special benefit study report or by consulting the Island County Comprehensive Plan and/or the Freeland Subarea Plan.

How does the special benefit relate to the assessment?

As noted earlier, the special benefit study does not include an estimate of assessments because, at present, the cost of the project exceeds the special benefit (by law, the assessment cannot exceed the benefit). That said, property owners may find it helpful to understand how special benefit is typically used to calculate assessments.

Special Benefit

“Special benefit” refers to the increase in value a property would receive due to a public improvement (e.g. roads, sewers, sidewalks). What makes the benefit “special” is that some properties benefit more directly from a public improvement than the public or area at large (for example, the general public may benefit from having a new roadway, but those properties directly served by the new road are “specially benefitted”). The special benefit is measured as the difference between the estimated market value of a property with and without a LID-funded project.

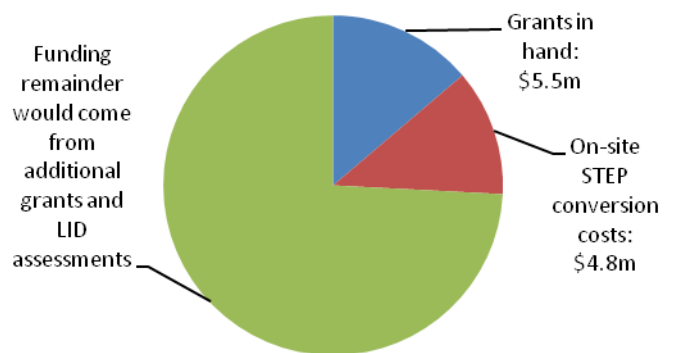
key component in reducing the amount to be assessed. As the amount of grants secured increases, the total to be assessed will decrease. FWSD also intends to provide property owners with the option to fold on-site costs (sewer hook-up and STEP conversion) into their assessments.

Highest and Best Use

Fundamental to the process of estimating market value with and without a public improvement is the concept of “highest and best use.” Highest and best use is the reasonably probable and legal use of vacant or improved land that produces the highest property value. The premise is that market value is directly related to use of the property.

For example, in estimating market value of a vacant tract, an appraiser considers applicable zoning. If zoning allows for this parcel to be subdivided into four residential lots, that is its highest and best use. Achieving the parcel’s highest and best use, however, depends on market demand and other factors.

Freeland Sewer and Water Reuse Project Current Cost Estimate: \$39.9 Million



Appraisers compare the project cost to the total estimated special benefit. For a typical project where the total amount to be assessed is known, this comparison forms a cost/benefit ratio, which is often expressed as a percentage. That percentage is then applied to each parcel’s special benefit to determine the proportionate assessment. Property owners typically have 15 to 20 years to pay an assessment in annual installments, or they can pre-pay the assessment to avoid interest charges.

For the Freeland sewer and water reuse project, grants will be a key component in reducing the amount to be assessed. As the amount of grants secured increases, the total to be assessed will decrease. FWSD also intends to provide property owners with the option to fold on-site costs (sewer hook-up and STEP conversion) into their assessments.

Zoning Designations without Sewer

Rural (R): Minimum lot size is 5 acres. Permitted uses are compatible with rural lifestyles and include: agriculture, B&Bs, home occupations, small group homes and day cares, etc. (The Rural zone is the principal land use classification for Island County).

Rural Residential (RR): Essentially areas of more intensive development than Rural. Minimum lot size is 14,500 SF (or a width of 60 feet, whichever is larger). Primary permitted uses include single family dwellings, duplexes, triplexes, fourplexes, home occupations, small group homes and day cares, etc.

Rural Central (RC): Existing non-residential and mixed-use development. Permitted uses include a range of commercial uses, schools and churches; health care and government services; multi-family housing, etc.

Zoning Designations with Sewer

Low Density Residential: Single family homes on relatively large lots with deep setbacks. 2-4 dwelling units per acre allowed. Transitional zone between rural and more urban zones.

Medium Density Residential: 5 – 9 dwelling units per acre allowed. Transitional zone between low density residential and more intense development.

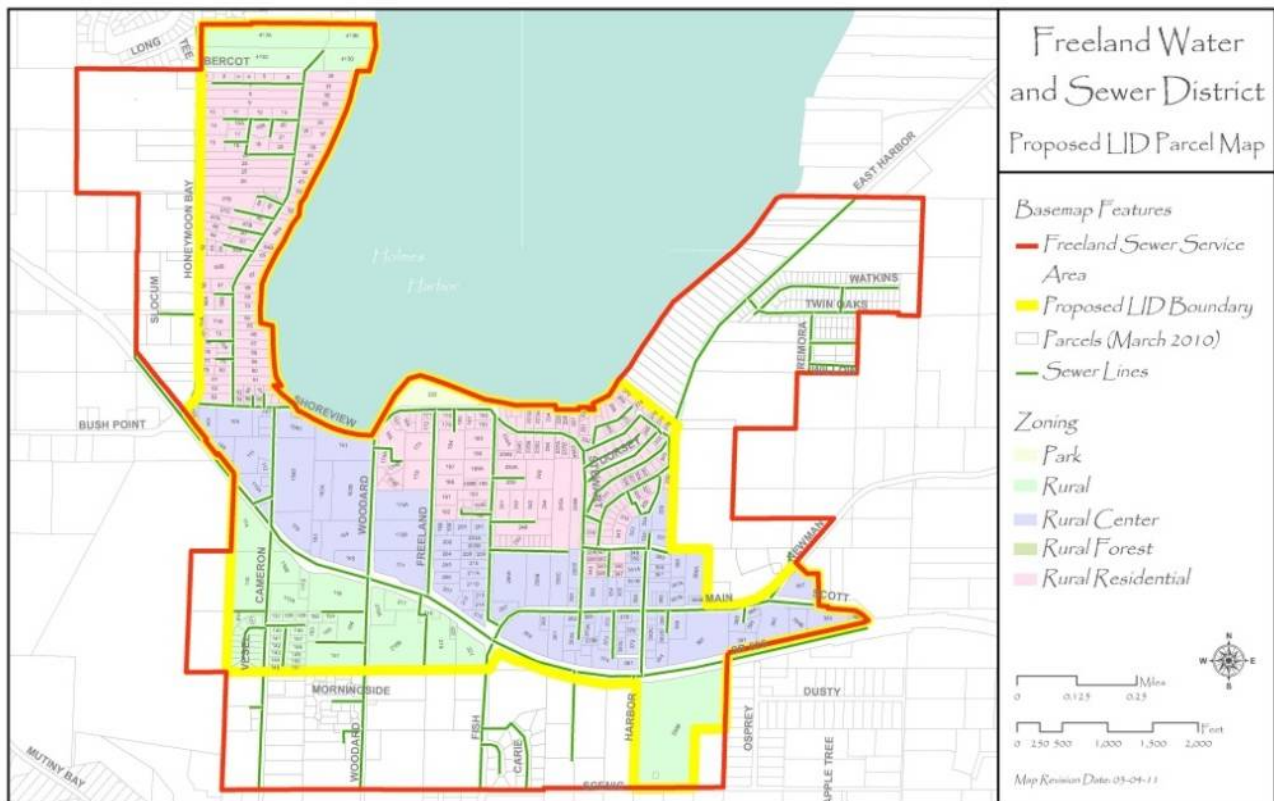
Business Village: Compact, mixed-use, pedestrian-oriented businesses. Serves as the community center.

Business General: Larger scale commercial businesses that serve the regional market.

Industrial: More intensive than light manufacturing. Examples of industrial uses include sawmills and boat building. Requires steps to minimize impact to surrounding areas.

Mixed Use: Diverse mix of commercial land uses that includes light manufacturing.

Public: Parks, open space and other publicly owned properties.



What did the study conclude?

Special benefit estimates

The special benefit study contains a spreadsheet that summarizes special benefit estimates to each parcel within the proposed LID boundary. (As noted, the full document with parcel-specific data can be viewed on the FWSD website (www.freelandwsd.com), you may order a copy from Puget Sound Business Systems in Freeland, view it at the Freeland Library or at or at the FWSD office.)

In general, the special benefit estimates for residential properties ranged from \$5,000 - \$15,000. At the low end of the range are properties currently served by newer, lower risk septic systems. Unimproved parcels are at the high end of the range; meaning that they experience the most special benefit as a result of the project.

For commercial properties, the estimated special benefit ranged from \$1.50 - \$2.25 per square foot. As with residential property, vacant parcels benefit more because, without the constraints of existing improvements, there is greater opportunity for highest and best use development and therefore a higher market value with the project in place.

Factors cited for enhancing a property’s value with sewer:

- Increased development potential (new construction, remodeling, landscaping, etc.) for land previously set aside for septic drain fields or due to the inability to obtain necessary permits due to lack of sewer.
- Elimination of costs and risks associated with septic systems.
- Significant improvement in the surrounding neighborhood’s reputation and aesthetic appeal.

Factors cited for inhibiting the special benefit derived from sewer:

- Nationwide recession and tightened credit markets depressing local commercial and residential real estate.
- Rural location and abundant supply (slow sales rate) of unimproved land.

The Bottom Line

For the sum of all properties in the proposed sewer LID:

Total Estimated Market Value without LID	\$165,070,000
Total Estimated Market Value with LID.....	\$187,055,000
Difference (Special Benefit)	\$21,985,000

To form an LID, the special benefit a property would receive from the public improvement has to be greater than the assessment. Therefore, LID-supported financing for the sewer and water reuse project, in its present form, is not feasible.

Glossary of Acronyms

NMUGA: Non-Municipal Urban Growth Area. A term under Washington’s Growth Management Act to indicate areas where urban growth is to be encouraged and supported with urban levels of service and not within a city. Freeland was designated an NMUGA in 2007.

FSP: Freeland Subarea Plan. A section of the Island County Comprehensive Plan that sets forth zoning and infrastructure plans for sewer, water and stormwater (a Growth Management Act requirement of NMUGAs).

RAID: Rural Area of Intense Development is a land use planning designation that preceded Freeland’s designation as an NMUGA.

SFR: Single family residence

ICC: Island County Zoning Code

DU: Dwelling Unit

ECV: Estimated contribution value refers to the contribution value which improvements (buildings, etc.) make to the underlying land.