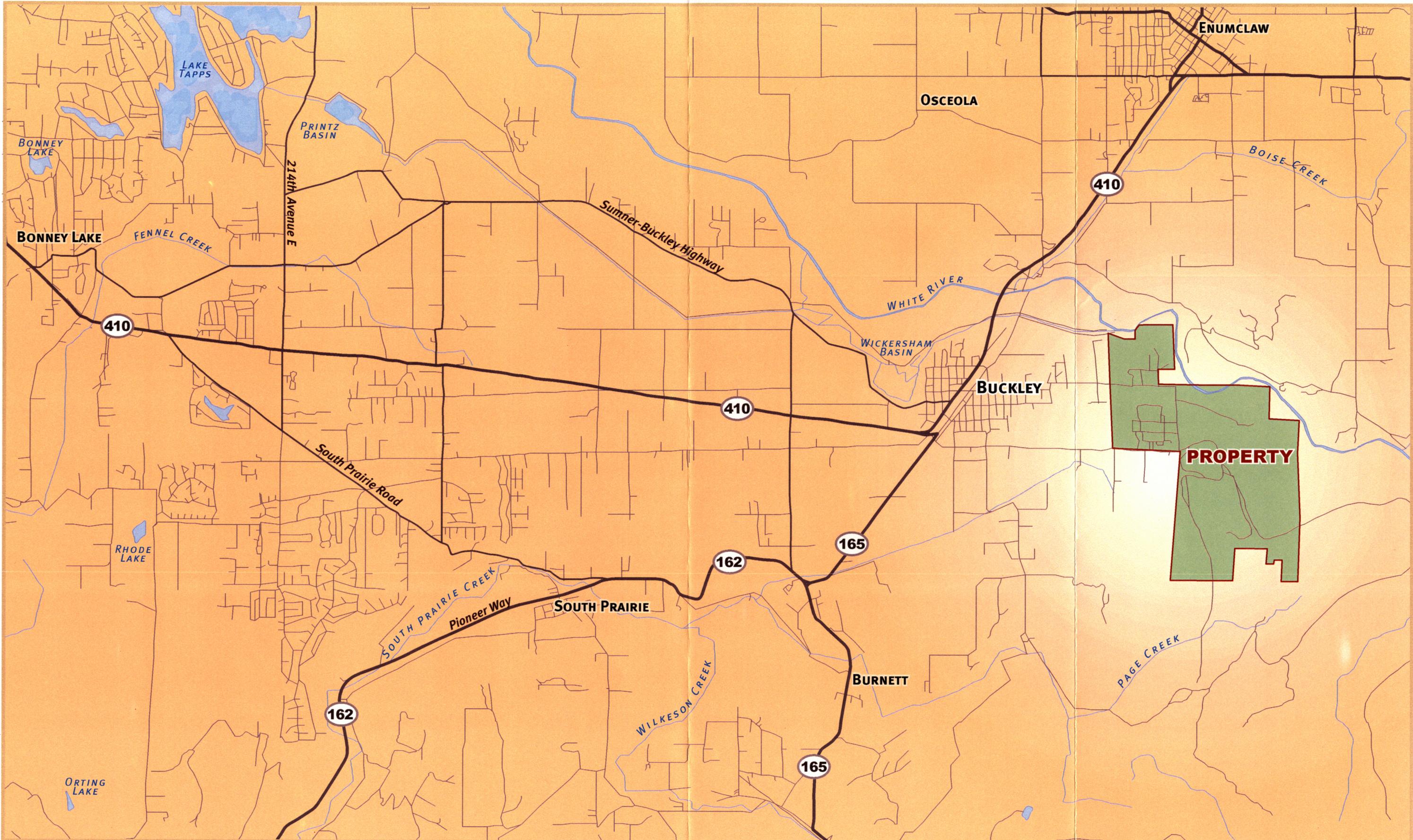


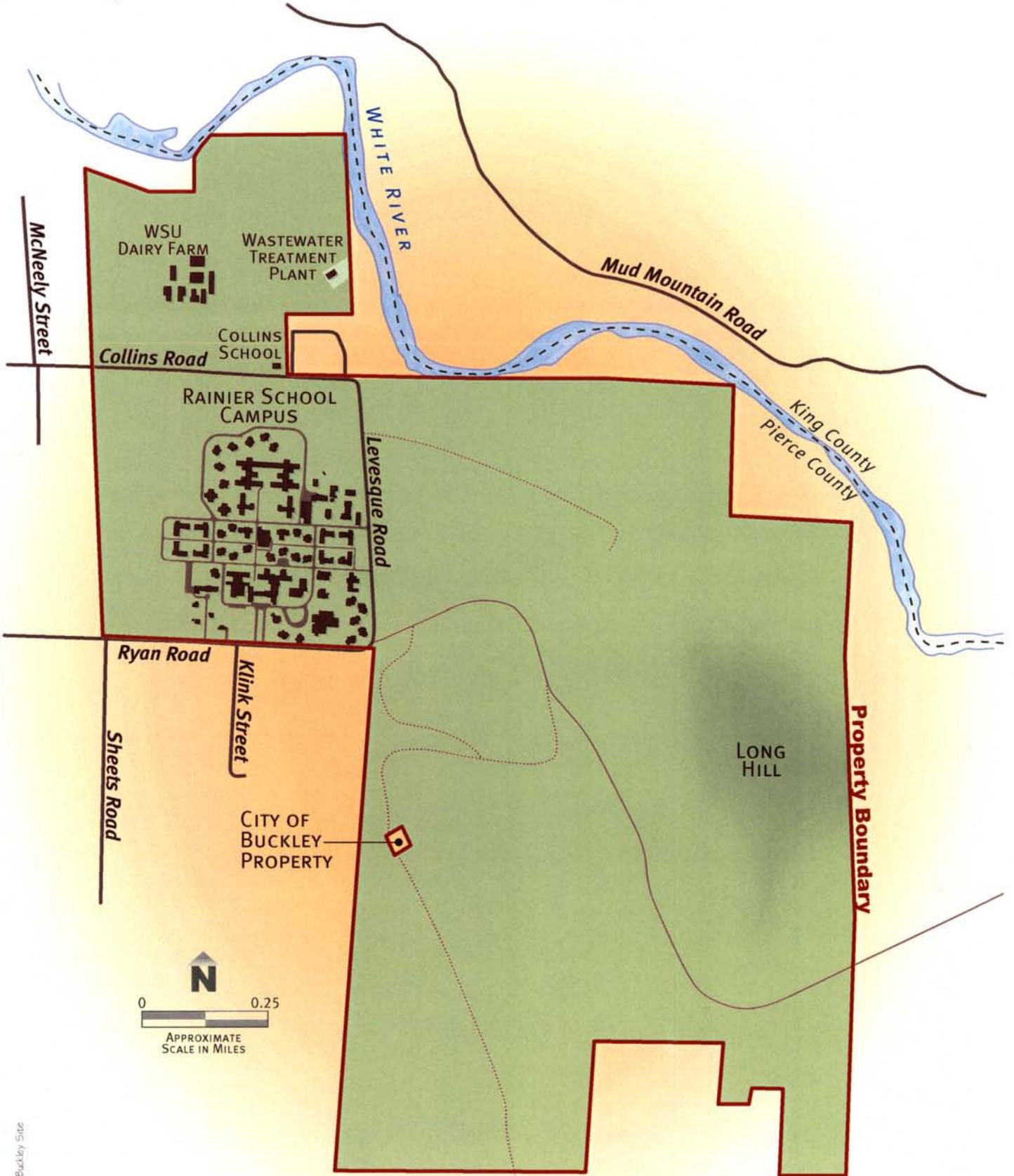
Rainier School



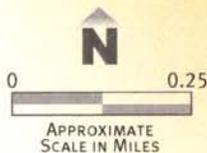
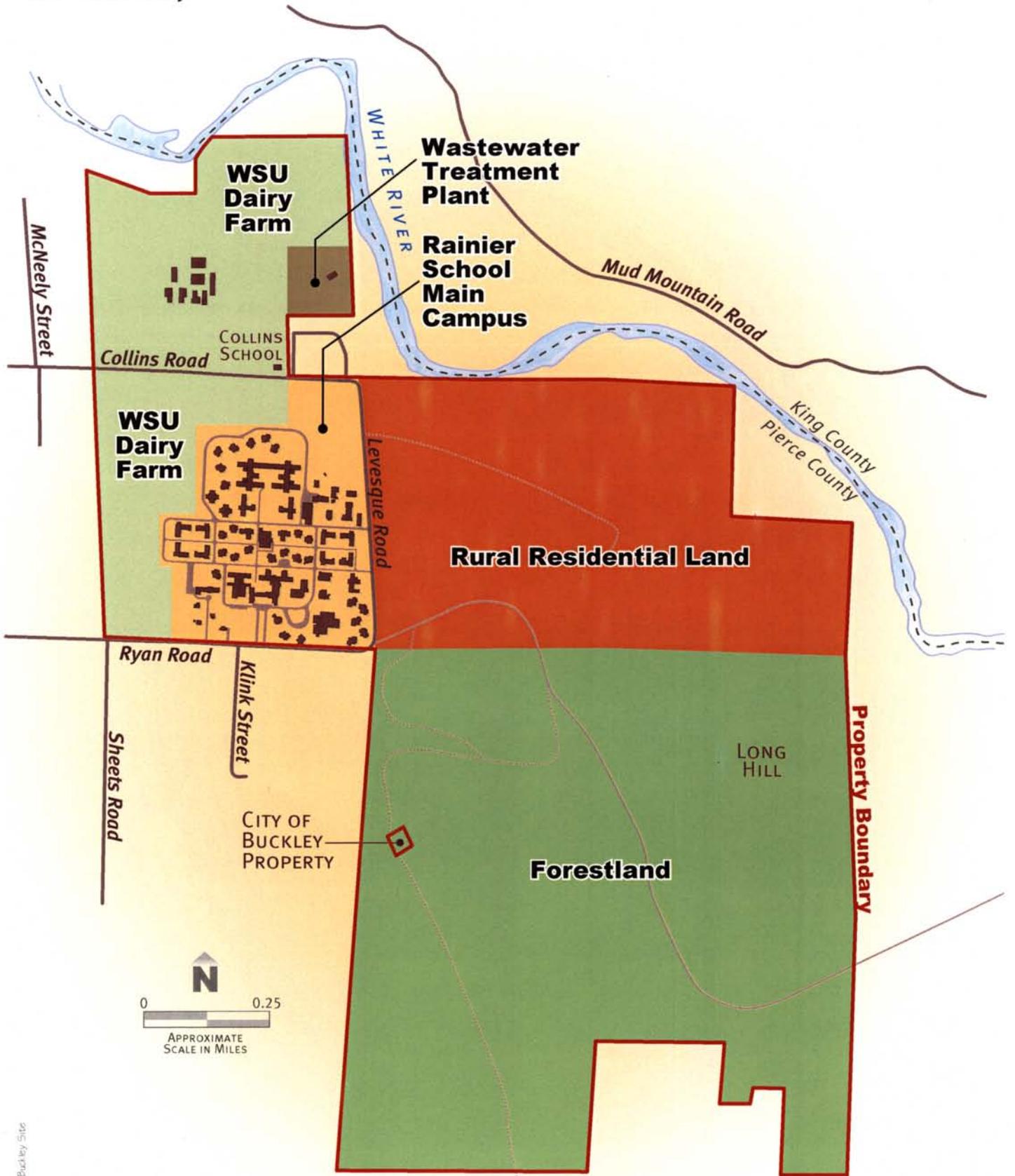
J5.11/13/03 682/Buckley Area Map



STATE OF WASHINGTON DSHS CAMPUSES Rainier School - Buckley Property Site Map



STATE OF WASHINGTON DSHS CAMPUSES Rainier School - Buckley Property Use Area Map



Executive Summary

EXECUTIVE SUMMARY

ENGAGEMENT

Heartland was engaged by the State of Washington (the "State") to complete a site analysis of the State of Washington Department of Social and Health Service's ("DSHS") Rainier School (the "Property" and/or "Site") in Buckley. The State engaged Heartland to undertake an analysis of the five Department of Social and Health Service's ("DSHS") residential habilitation centers to identify potential surplus real estate parcels at each center, evaluate opportunities and constraints with such parcels from a real estate perspective, and recommend a strategy to optimize and capture value from such real estate. The Site analysis provides information regarding the physical characteristics of the facility, regulatory issues that could impact redevelopment, market and financial issues that could affect the Site, and potential alternative uses for portions of the Site. This information can be utilized as a foundation to analyze alternative uses in the future if DSHS were to relocate certain uses and/or dispose of the related Property with the ultimate goal of providing a practical approach to realizing the estimated value of the excess property at the Site.

During the course of the engagement, Heartland completed the following:

- We conducted initial meetings with various State agencies and personnel to obtain background information on the Site and to understand the impacts of any plans, commitments, or agreements on potential alternative uses;
- We reviewed all available relevant materials, maps, and graphics referring to the physical condition of the land, buildings and other improvements at the Site. These materials provided information on ownership, tax parcels and legal lots, building and improvement ages and square footages, building construction, land areas, and access. Our review included three reports, which we used information from following confirmation of the facts, rather than duplicate their efforts. These reports were:
 - The July 2002 *Complete Appraisal of Real Property* by Cushman & Wakefield (the "Appraisal");
 - The December 2002 *Capital Study of the DDD Residential Habilitation Centers Report 02-12* from the Joint Legislative Audit and Review Committee (the "JLARC Report"); and
 - The April 2003 *Report on the Potential Excess Property of the Department of Social and Health Services Division of Developmental Disabilities Residential Habilitation Centers* from the Department of General Administration (the "GA Report").

It is important to note that our assignment was to consider only market-based real estate options and disposition alternatives for the Property. The previous reports from JLARC and General Administration take a wider scope and weigh potential sales of portions of the Property against other options that involve maintaining ownership

or operational use of the Property. Therefore, our analysis, recommended alternatives and implementation strategies may contradict some recommendations from those previous reports;

- We reviewed political and regulatory factors that could affect new uses and/or redevelopment of the Site. We evaluated the regulatory constraints and impacts to potential uses. This evaluation included a review of local land use codes and zoning regulations to understand the range of permissible uses and potential development capacity as well as the need for and likelihood of a rezone;
- We researched the physical characteristics of the Site and determined their impact on future development;
- We considered alternative uses for the Site and estimated the development capacity for those alternative uses;
- We reviewed and conducted market research to inform the potential market acceptance for possible alternative uses on the Site; and
- We conducted financial analyses of the various alternative uses and strategies discussed in the report.

PROPERTY DESCRIPTION

Area and Neighborhood

Portions of the Property are located within the City of Buckley (the "City" or "Buckley"), just inside its eastern boundary with unincorporated Pierce County. Buckley is in the predominantly rural southeastern corner of the Puget Sound region, about 35 miles southeast of Seattle and 25 miles east of Tacoma. The remainder of the Site is in unincorporated Pierce County, just south of its border with King County and north of Mount Rainier National Park. There is no direct access route to the Park from the area. The Site is at the edge of the region's urban development and there is virtually no additional development to the east or south. This is likely to continue into the foreseeable future.

Buckley can be characterized as a low-density community of rural single-family homes and limited suburban medium-density multi-family. The town center has a traditional retail and services core, and areas in the western portion of the city have a limited variety of light-industrial uses.

In the unincorporated portions of the Site, rural residential, forestry and agricultural uses are predominant.

The Property totals approximately 1,109.31 acres on 17 tax lots (see the *Site Map* at the end of the *Property Description* Section). Roughly 1,065 acres of this area are on eight of these tax lots.

The Property can also be segregated into five areas, according to use. These areas are described below and will be described in further detail in the *Property Description* Section of this report.

| Use Area | Size (Acres) | Location on Site |
|------------------------------|--------------|------------------|
| Main Rainier School Campus | 105.00 | Center |
| Wastewater Treatment Plant | 16.52 | North |
| WSU Dairy Farm | 170.04 | West/Northwest |
| Rural Residential Land (R20) | 230.00 | East |
| Forestland | 586.50 | Southeast |

The Property is mostly level, with areas of rolling hills. Some portions of the R20 land and forestry areas have hills and steep slopes. With the White River running along its northern portions, the Property has some river frontage.

Structural

A facilities inventory, from the Developmental Disabilities Division ("DDD") of DSHS, showed a total of 68 buildings on the Campus portion of the Site, containing 867,890 square feet. The 2002 Appraisal lists a total of 75 buildings with 863,681 square feet.

Most of the older buildings constructed with the original campus have poured-in-place concrete exteriors, with wood interior beams and floors. The newer buildings, those built from the late 1950s and later, are mostly wood frame construction. The buildings vary greatly in condition and quality.

We did not receive similar building or improvement data for the WSU dairy portion of the Property. The Appraisal states that the improvements total about 25,000 square feet in eight main buildings and that WSU spent about \$5,000,000 in the mid 1990s to upgrade the facility.

On the northern portion of the Site, the Rainier School owns its own wastewater treatment plant. This plant is included in the DDD facilities inventory. This facility is widely considered to be technologically obsolete, however, and is in need of repair or replacement. We received no potential cost estimates.

The Rainier School also owns and operates, in partnership with the City of Buckley, a water system that traverses the Property. This system draws water from South Prairie Creek, southeast of the Site. The improvements consist of over six miles of pipeline, a 1,700,000-gallon reservoir, and a chlorination station. This system is currently in need of major repairs. Cost estimates for these expenses are approximately \$3,300,000.

Utilities

Electricity is provided by Puget Sound Energy, while natural gas is provided by the City of Buckley. Telephone service is provided by Verizon.

As mentioned in the *Utilities* Section, the Rainier School provides its own water and sewer services. Water is delivered via a system either owned (per GA Report) or jointly owned (per Appraisal and JLARC Report) and operated with the City of Buckley. DSHS has claims to water rights of up to approximately 2,534 acre-feet per year. However, the actual use appears to be much less than this amount and the valid claim may be for much less, as well.

The wastewater/sewer system is owned by the DSHS and is located on the northern portion of the Site, along the White River. Both the water and sewer systems are outdated and in need of repair. They are approaching the ends of their useful lives and will need to be replaced.

Regulatory

The Site is located within Buckley and in unincorporated Pierce County. We will summarize both jurisdictions' land use regulations below.

City of Buckley

The portions of the Site located within Buckley are predominantly zoned P, or Public, with some areas along the White River zoned S, or Sensitive Areas. The P zone is intended for a wide variety of public uses and the Buckley Comprehensive Plan and zoning designations generally support the types of activities that DSHS currently engages in at the Site.

According to our discussion with Dave Schmidt, Buckley City Administrator, the City would consider a rezone of the Property if the current DSHS facility ceased its operations. The likely new designation would be some form of low density residential, as this is typical of surrounding properties. However, this does not necessarily eliminate the possibility of other uses. Mr. Schmidt stated that the final land uses decision would rely on the City's ability to provide water and sewer services, as well as other factors, such as job creation and overall community benefit.

Pierce County

Approximately 816.5 acres of the Site lies within unincorporated Pierce County. About 230 acres is zoned R20, or Rural 20, a residential designation allowing one homesite per 20 acres. The remaining 586.5 acres is zoned Designated Forestland, which supports timber harvesting operations and is highly restrictive on development. This classification would allow one homesite per 80-acre lot. These zoning designations are consistent with the Pierce County Comprehensive Plan.

Environmental

The main campus portion of the Site has historically been utilized for institutional uses and little or no ground contamination would be expected from these uses. It appears that some of the buildings may contain asbestos in their construction, which could affect potential alternatives for the Site, especially those involving potential demolition or significant renovation of the existing buildings. In our review of documentation for the Site, we found no other evidence of contamination or hazardous materials located on the main campus.

According to previous reports and our discussions with WSU and PSHS officials, dairy and agricultural operations on the WSU portion of the land may have resulted in some soil contamination. We received no information on the characterization or locations of this contamination. According to our research, DSHS is taking the lead in clean-up efforts.

It appears that there are two creeks that run on the Property. Both are unnamed and appear to be somewhat seasonal. Both empty into the White River, which runs along the northern edge of the Site. Those portions of the Property that front the White River will have limited developability, due to restrictions and setbacks.

The Site's proximity to Mount Rainier also poses some significant environmental risks associated with volcanic activity. The White River is a potential route of pyroclastic mudflows, or lahars, that result from volcanic eruptions. Most of the Site is at a sufficient elevation to lessen the risk of inundation, but portions along the White River are identified as zones of probable inundation.

Market

Several different land uses were briefly analyzed to determine feasibility for potential development at the Site. Rehabilitation center, single-family residential, agricultural/forestry, and public utility uses were deemed to be feasible uses for different sections of the Property. No one use appeared to be feasible for the entire Property.

The Appraisal identified five sales of rehabilitation centers in Washington. The sales ranged in price from \$33.87 to \$95.86 per square foot of building, including land value, overall, with a range of improvements value of \$13.04 to \$56.74 per square foot.

Residential uses were split into three types - Rural Residential (15- to 25-acre parcels), Residential/Forestry (40-acre and higher parcels), and Subdivision Land (larger parcels slated for subdivision). Below is a chart summarizing the residential land sales information and value conclusions.

| Type | Value Range (per acre) |
|----------------------|------------------------|
| Rural Residential | \$6,000 - \$8,000 |
| Residential/Forestry | \$1,800 - \$2,000 |
| Subdivision Land | \$13,000 - \$15,000 |

Sources: 2002 Appraisal, NWMLS, MetroScan

ALTERNATIVES AND STRATEGIES

The *Alternatives and Strategies* Section of this report formulates three potential alternatives for the Site and discusses implementation strategies for the preferred alternative: (i) Alternative I assumes the Site would be sold "As- Is," to a single buyer; (ii) Alternative II assumes the potential value of demolishing the buildings and selling the raw land beneath them; and (iii) Strategy III assumes the potential of keeping the existing buildings on the Site, then selling certain portions of the Property.

In each Alternative, issues regarding the water and sewer systems must be resolved, as there are potential costs associated with these systems that could heavily impact the values of the properties.

Alternative I: Vacate Premises and Sell Property As-Is

Alternative I would be considered if DSHS entirely ceased operations at the Rainier School. It would entail marketing the Site, perhaps to a buyer interested in performing a similar institutional use at the Site, or a developer of recreational uses, such as a golf course. Marketing the Property to such buyers could potentially result in a sale, which would allow DSHS to dispose of the Property in a relatively simple manner. However, given the unique nature of the Site, there would likely be a very long marketing period, given the size of the Property and limited number of buyers for institutional or recreational properties.

Alternative I: Vacate Premises and Sell Property As-Is

| | | | |
|------------------------------|-------------|------------|-----------------|
| | <u>High</u> | <u>Low</u> | <u>Probable</u> |
| Net Present Value Conclusion | \$4.2M | \$.07M | \$2.0M |

Alternative II: Vacate Premises and Demolish Structures, Sell Vacant Land

Alternative II could also be considered if DSHS ceased operations at the Rainier School. This option would allow the Site to be marketed to a wider pool of buyers, as the vacant land would have more development and use potential than it has when burdened with the existing buildings. Additionally, as mentioned in the *Regulatory* Section of this report, a potential rezone of the Property allowing residential uses could broaden the marketability of the Site. However, the costs associated with demolition would negate most of the value added to the Site.

Alternative II: Vacate Premises and Demolish Structures, Sell Vacant Land

| | | | |
|------------------------------|-------------|------------|-----------------|
| | <u>High</u> | <u>Low</u> | <u>Probable</u> |
| Net Present Value Conclusion | \$0.1M | (\$0.4M) | (\$0.2M) |

Alternative III: Disposition of Properties Not Associated with Campus, While Keeping Campus Intact for Continued Use or Sale

Alternative III would allow DSHS to remain and expand on the campus portion of the Site, but would allow the excess land in other parts of the Property to be sold in pieces, most likely to a number of different parties. If DSHS no longer operates a facility at the Site, the campus could then be sold as a campus property since the estimated demolition costs exceed the estimated land value. The pool of buyers for these smaller pieces would be larger and, therefore, the marketing time could be expected to be shorter. This alternative could allow the State to capture these values over a shorter period of time than in Alternatives I or II. The smaller pieces would also likely sell for a higher per-acre price than the large, single transactions in Alternatives I and II. Without the demolition of existing structures, this option would require little up-front costs for the State.

Alternative III: Disposition of Properties Not Associated with Campus, While Keeping Campus Intact for Continued Use or Sale

| | | | |
|------------------------------|-------------|------------|-----------------|
| | <u>High</u> | <u>Low</u> | <u>Probable</u> |
| Net Present Value Conclusion | \$7.1M | \$6.5M | \$6.8M |

RECOMMENDATIONS

Based on our analysis, we recommend the strategy presented as *Alternative III: Disposition of Properties Not Associated with Campus, While Keeping Campus Intact for Continued Use or Sale* above. There is ample excess land on this campus that can be optimized through near- to mid-term sales and the addition of the 100 to 150 acres for the existing campus area should be considered a second priority. This also allows DSHS the option to continue operations at the Site as long as it wishes. The shifting of the utilities provides the appropriate control of these utilities and allows the opportunity for redevelopment of the area south of Collins Road in the future following DSHS's discontinued use of the Site. Due to the negative land value of the campus area when taking into account the demolition costs, until the land value exceeds demolition costs, there is no practical reason to demolish the campus. The only two practical options at this time, if the campus is no longer used by DSHS, are to mothball the Site or to sell the Property as a campus.

A timeline illustrating the implementation steps described above in Alternative III is included in the *Recommendations* Section of this report.

Property Description

PROPERTY DESCRIPTION

AREA AND NEIGHBORHOOD

- Part of the Site is located within Buckley, just inside its eastern boundary with unincorporated Pierce County. Buckley is in the predominantly rural southeastern corner of the Puget Sound region, about 35 miles southeast of Seattle and 25 miles east of Tacoma.
- Buckley can be characterized as a low-density community of rural single-family homes and limited suburban medium-density multi-family. The town center has a traditional retail and services core, and areas in the western portion of the City have a limited variety of light-industrial uses.
- The remainder of the Site is in unincorporated Pierce County, just south of its border with King County, and north of Mount Rainier National Park. There is no direct access route, however, to the Park from the area.
- In the unincorporated portions of the Site, rural residential, forestry and agricultural uses are predominant.
- The Site is at the edge of the region's urban development and there is virtually no additional development to the east or south.

SITE OVERVIEW

- The Rainier School, originally established as a facility for the mentally retarded by the Washington State Legislature in 1937, was built in 1938. The Site is still used by DSHS as a residential school for developmentally disabled people. The various buildings on the main campus house over 400 residents, as well as administrative offices and other support activities.
- We were provided with copies of various maps, title reports, and other documents that describe different parts of this large Property. The Property size has been estimated by several sources, all at slightly varying acreages.

The most recent report, the 2002 appraisal by Cushman & Wakefield, utilizes Pierce County Assessor's data for a size of 1,108.06 acres. Previous documents place the Property anywhere from 1,010 acres to as many as 1,235 acres. Obviously a priority, before any real estate action is taken on these lands, would be to have a professional and accurate survey of the Property.

For this analysis, we have chosen to use the Assessor's data. Our research of this data indicates a total size of approximately 1,109.31 acres on 17 tax lots. Roughly 1,065 acres of this area are on eight of these tax lots.

- For analysis, the Property can be segregated into five areas, each containing different land uses, which are discussed below.

Previous professional reports about the Property utilized much of the same information in our files. Therefore, for the sake of consistency, we have chosen to use most of the same land areas and sizes for our descriptions and analysis of the physical property.

Main Rainier School Campus

The Campus for the Rainier School occupies approximately 105 acres of the Site. Located in the far eastern portion of Buckley, the Campus is bounded on three sides by public roads. Private residences are located on several adjacent properties.

Wastewater Treatment Plant

The Rainier School owns and operates its own sewer and wastewater treatment facility. The treatment plant is located on a 16.52-acre portion of the Site, north of the Main Campus. This area is also within Buckley.

Access to this Site is via an easement through the Shay Estates Plat, off of Collins Road.

Washington State University Dairy Farm

The WSU Dairy Farm is located at the northwestern corner of the Site and occupies about 170 acres. This area is also within Buckley. This research and educational facility was built around the same time as the Main Campus, in the late 1930's.

Access to the Property and facilities is off of Collins Road.

Also located on this segment of the Site is the Collins School. The school was built in the 1930s, but now is leased from DSHS by the White River School District as an alternative high school.

According to the documents we received, there was some question as to whether DSHS or WSU owns this land. Our discussions with DSHS and WSU officials did not clarify the issue, and there appears to be lingering confusion about the ownership of this portion of the Site. The Pierce County Assessor lists DSHS as the owner of this land. Therefore, in our analysis, we will assume DSHS ownership.

Rural Residential Land

The eastern and southern portions of the Site are located in unincorporated Pierce County. Approximately 230 acres directly east of the Main Campus are zoned for 20-acre residential lots.

This segment of the Site has both open pastures and wooded areas, as well as some frontage along the White River. It appears that there are several areas that would make attractive homesites. The State Department of Natural Resources (DNR) has estimated that there are about 40 acres of merchantable timber on this portion of the Property.

This area has access off of Levesque Road and several private roads running through the interior of the Site. These private roads would appear to be in good locations for providing access to homesites on subdivided parcels.

Designated Forestland

The largest segment of the Property is also located in unincorporated Pierce County. The approximately 586 acres in the southeastern portion of the Property are zoned Designated Forestland and would allow 80-acre lots to be created. The area is heavily wooded and most of the merchantable timber is remaining.

DNR estimates that more than 400 acres of this portion of the Property may have merchantable timber. DNR has also indicated that if the Property were managed by DNR, this area would likely not be harvested. DNR would attempt to market the Property to a conservation group due to habitat potential.

Surrounding Uses

The immediate vicinity of the Site is characterized by various uses, including residential, agricultural, and forestry uses.

North - White River and 15-acre Puget Sound Energy property. Across the White River, King County rural and agricultural uses.

Across Collins Road from campus, one single-family residential plat.

West - Rural residential uses

East - Rural forestry and agricultural uses

South - Rural residential, forestry and agricultural uses

Access

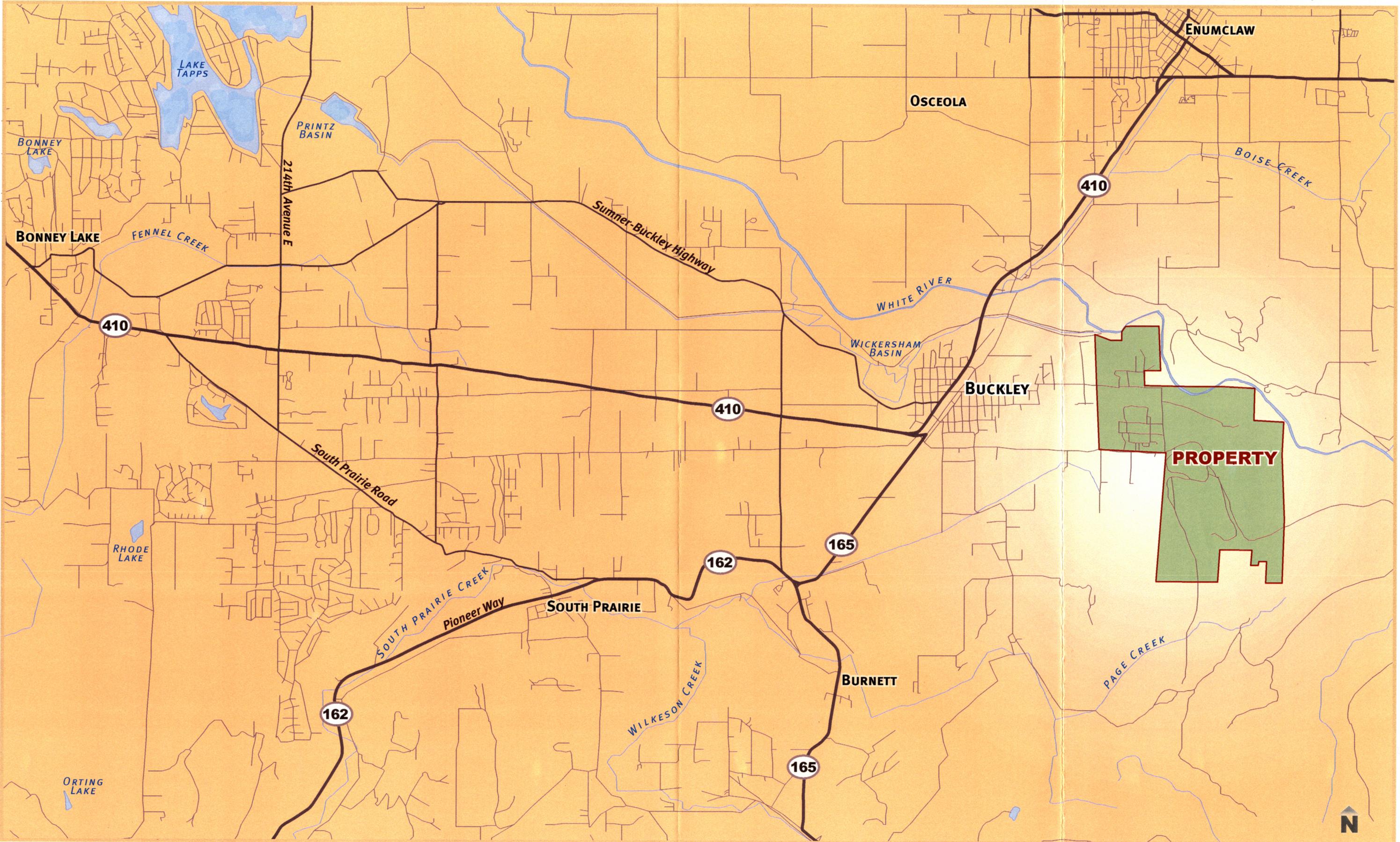
- The Site is about two miles east of downtown Buckley and State Route 410. State Route 167 is approximately 12 miles west, near Sumner and Puyallup.
- The main campus is bounded by Ryan Road to the south, Levesque Road to the east, and Collins Road to the north. All three are rural two-lane asphalt roads with no curbs or sidewalks.
- Access to the Campus is off of Levesque and Ryan Roads. Access to the WSU and wastewater facilities is off of Collins Road. The R20 land east of the campus is accessed from Levesque Road. The forestland in the southeast portion of the Site is accessed via a private road, which begins at the intersection of Ryan and Levesque.

Topography/Hydrology

- The Property is mostly level, with areas of rolling hills. Some portions of the R20 land and forestry areas have hills and steep slopes.
- The White River runs along the northern and northeastern portions of the Property. The Site has a small amount of river frontage.

Areas along the river are classified by the City as "Environmentally Sensitive Areas." Development is restricted and will likely require 200-foot setbacks, as well as a comprehensive plan review and approval process by the City.

There are also two creeks running through the Property, which both run into the White River. These creeks do not appear to have any designation which would require extensive setbacks.



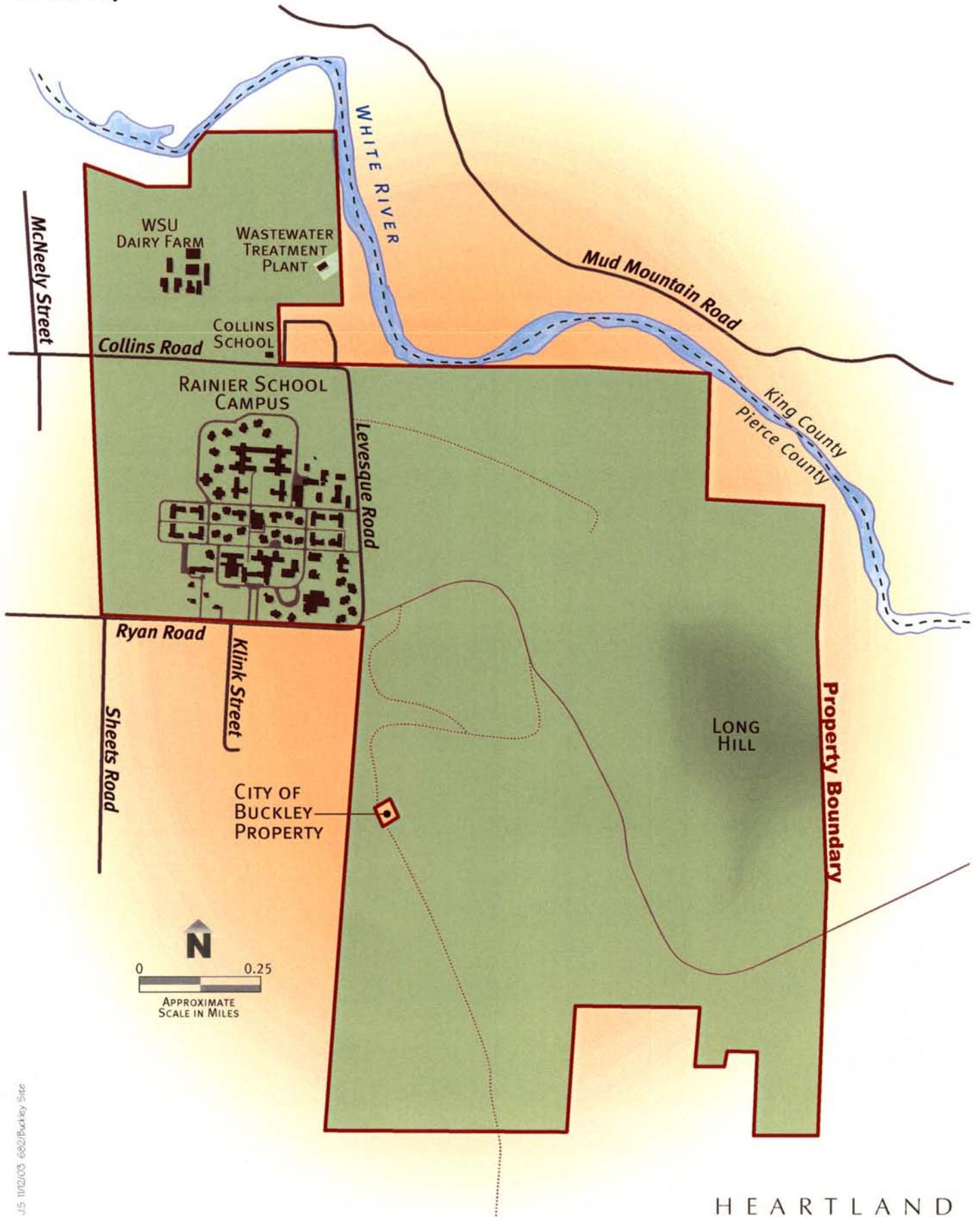
J.S. 11/12/03 e622/Buckley Area Map



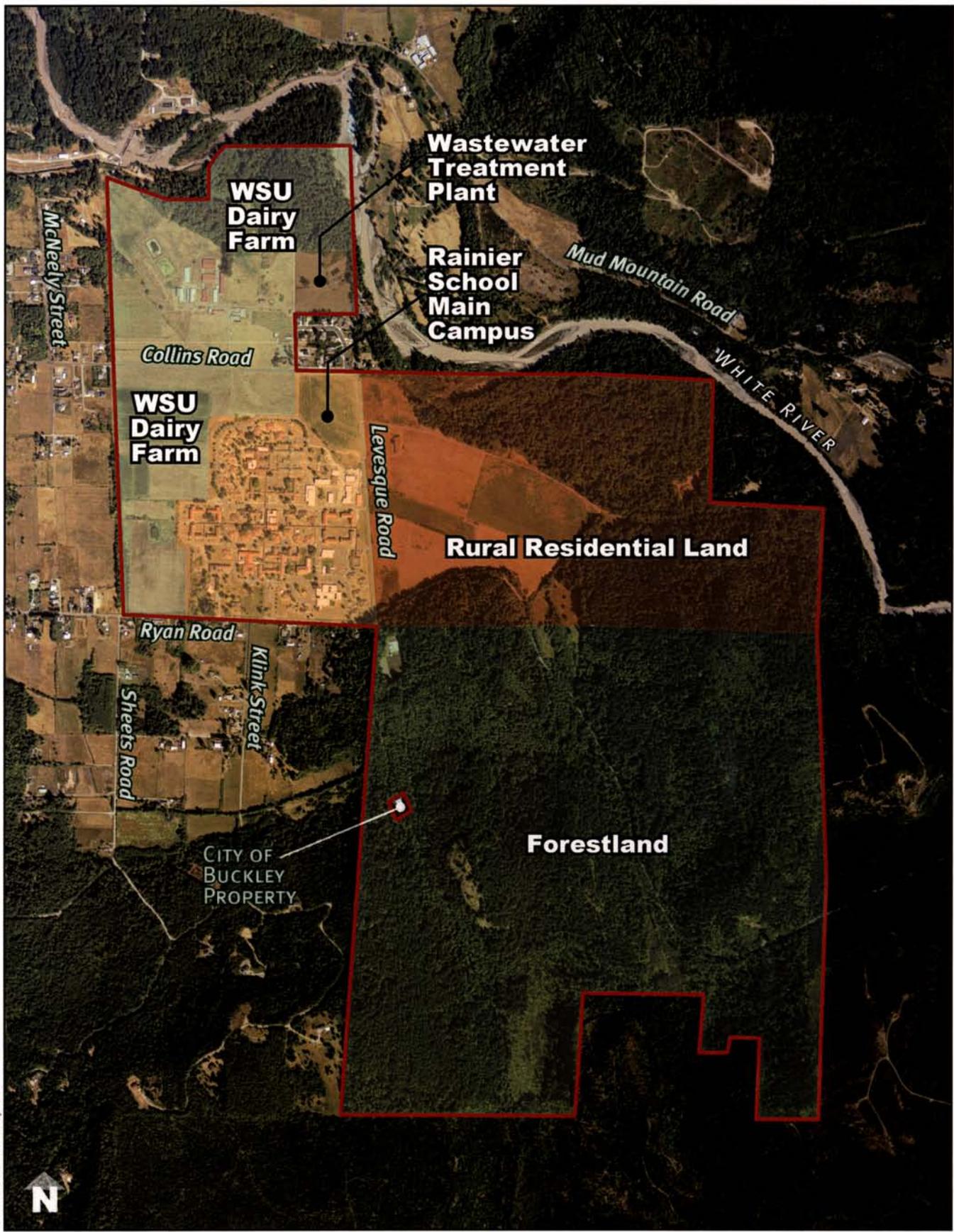
STATE OF WASHINGTON DSHS CAMPUSES

Rainier School - Buckley Property

Site Map



STATE OF WASHINGTON DSHS CAMPUSES
Rainier School - Buckley Property
Aerial



J:\5_11\12\03_6802\Buckley\Aerial

Structural

STRUCTURAL

This section summarizes the primary structures that make up the Site. Floor plans, seismic analyses, and condition reports for the structures were not provided to Heartland.

OVERVIEW

Main Rainier School Campus

- A facilities inventory from the Developmental Disabilities Division ("DDD") of DSHS showed a total of 68 buildings on the campus portion of the Site, containing 867,890 square feet. The 2002 Appraisal lists a total of 75 buildings with 863,681 square feet.
- Most of the older buildings, constructed with the original Campus, have poured-in-place concrete exteriors, with wood interior beams and floors. The newer buildings, those built from the late 1950s and later, are mostly wood frame construction. The buildings vary greatly in condition and quality.
- The older buildings on the Campus are very likely to contain asbestos in their construction materials. Any scenario involving demolition or renovation will need to consider this situation.
- Included in the Campus inventory is a Superintendent's Residence, which is currently leased to a physician who provides emergency medical support to the School. This large house on the southwestern edge of the Campus was constructed with the original Campus in the late 1930s. Currently, it is not directly involved with the School's operations.

WSU Dairy

- We did not receive similar building or improvement data for the WSU Dairy portion of the Property. The Appraisal states that the improvements total about 25,000 square feet in eight main buildings and that WSU spent about \$5,000,000 in the mid 1990s to upgrade the facility.

Collins School

- Also referred to as the Collins Cottage, this building is located north of the Main Campus on Collins Road. The facility is situated on the WSU Dairy portion of the Site, but is separate from the dairy operations. The facility is currently leased to the White River School District as an alternative high school.

STATE OF WASHINGTON DSHS CAMPUSES
Rainier School - Buckley



Entrance to Main Campus off of Ryan Road



Auditorium/Gymnasium Building (circa 1940)

Utilities

UTILITIES

OVERVIEW

Because the Site currently supports such a large operational facility, it is reasonable to assume that the available utilities could support many types of development with the upgrades described below.

Electrical

Puget Sound Energy

Telephone

Verizon

Natural Gas

Puget Sound Energy

Water

The Rainier School provides its own water services. Water is delivered via a system either owned (per GA Report) or jointly owned (per Appraisal and JLARC Report) and operated with the City of Buckley. This system includes the headworks, a transmission pipeline, a reservoir, a sand filtration system, a chlorination station, and backup wells. Though the treatment systems have been built over time, the primary headworks and pipeline system have been operated jointly between the City and School for over 50 years. Much of the system is now in need of extensive repair.

The source of the surface water is the South Prairie Creek, a tributary of the Carbon River. The headwaters are several miles southeast of the School and are delivered to the Site via pipeline. The treatment system, including the 1,700,000-gallon reservoir and chlorination station, is located on the Forestry portion of the Site.

The Rainier School historically has water rights 2,534 acre-feet per year from this surface source. However, a water right requires the owner to display beneficial use of the volume allotted, or the water right may decrease. The Appraisal indicates that the School's rights may be much less than their certificate states. They quote a government official who stated that both the City and the School together had a valid claim for no more than 706 acre-feet per year. This is less than 18 percent of the 3,982 acre-feet that both parties have in water right claims.

It appears that, while the School's water rights are separate from the water system, they may not be feasibly severable due to the fact that beneficial use is a component of the water right.

There are also three wells on the Property used for backup supply when water quality from the source stream is poor or when the surface source system is undergoing maintenance. We were not provided with any information of the extent of the School's ownership or water rights associated with the wells.

Ownership of the headworks was not clear, either. The Cushman & Wakefield analysis assumed that the headworks is jointly owned with the City of Buckley, in proportion to their water rights contribution (Buckley 1,448 ac-ft/Rainier School 2,534 ac-ft).

Likewise, the agreement between the City and DSHS distributes responsibility for maintenance, operation, and capital improvements between the two parties according to their actual water usage. The Rainier School's consumption has typically been between 25 to 35 percent of the total. The School's share of potential capital expenditures has been estimated as high as \$3,300,000.

The appraisal speculates that it "may be beneficial to become a normal paying customer of the City of Buckley water system in order to avoid the capital costs and on-going maintenance costs. In that case, the Rainier School might benefit from deeding both the water rights and the water supply facility to the City of Buckley in exchange for avoiding these costs." We will include this potential transaction in our analysis.

Sewer/Wastewater

The sewer and wastewater treatment system is owned by the Rainier School. It is located north of the Main Campus on the WSU Dairy Farm portion of the Site. The facility is adjacent to the White River, north of Collins Road and the Shay Estates Plat.

The facility is old and its water treating technology is outdated. The system currently operates within its permit-allowed discharge levels, which have been grandfathered, but discharge of pollutants from the system into the river is more than 30 times the level of newer systems. The Appraisal quoted an official at the State Department of Ecology as saying "the system would likely need to be completely replaced within the next five to ten years, based upon population growth in the area and increasing water quality requirements." We received no potential cost estimates. There is a potential temporary solution in that the treated water can be used to irrigate agricultural fields, reducing the total volume discharged into the river.

There is some speculation that the City could be interested in purchasing this portion of the Site for a new wastewater facility. This area has enough land to accommodate a new facility and is adjacent to the White River, which would facilitate discharge of the treated water. Also, the current buildings on the WSU Dairy Farm could be used by the City as maintenance facilities and the agricultural land and irrigation systems could be used for dispersing treated wastewater.

Regulatory

REGULATORY

The *Regulatory* Section of this report summarizes the land use regulations that apply to the Site. The Site is located within Buckley and in unincorporated Pierce County. We will examine both jurisdictions' land use regulations.

COMPREHENSIVE PLAN AND ZONING

City of Buckley

- The portions of the Site located within Buckley are all zoned P, or Public. This zone is intended for a wide variety of public uses and the Buckley Comprehensive Plan and zoning designations generally support the types of activities that DSHS currently engages in at the Site.
- According to the 2002 Appraisal, the City of Buckley would consider a rezone of the Property if the current DSHS facility ceased its operations. The likely new designation would be some form of low density residential, as this is typical of surrounding properties. However, the City would likely consider other forms of zoning if the corresponding use created jobs and overall community benefit.

Pierce County

- Approximately 816.5 acres of the Site lies within unincorporated Pierce County. About 230 acres is zoned R20, or Rural 20, a residential designation allowing one homesite per 20 acres. The remaining 586.5 acres is zoned Designated Forestland, which supports timber harvesting operations and is highly restrictive on development. This classification would allow one homesite per 80-acre lot.
- These zoning designations are consistent with the Pierce County Comprehensive Plan.

PERMITTED USES

City of Buckley

- P Zone – Public and recreational uses.
- Low Density Residential Zones (RA, R-3, R-4) – Single-family dwellings, adult day care and family homes, public parks, and existing agricultural uses.

Pierce County

- R20 Zone – Single-family dwellings, accessory dwelling units, and resource uses (agriculture, forestry).
- FL Zone – Single-family dwellings, forestry resource use, non-profit recreational uses, and public utilities

USES REQUIRING A CONDITIONAL USE PERMIT

City of Buckley

- P Zone – Government buildings, schools, wastewater treatment plants, cemeteries, and public utilities (except electric generation facilities)
- Low Density Residential Zones (RA, R-3, R-4) – Public utilities (except electric generation facilities), golf courses, and churches

Pierce County

- R20 Zone – Group homes, day care and educational facilities, non-profit recreational uses, lodging, and electric generation facilities
- FL Zone – Group homes, lodging, and electric generation facilities

LOT COVERAGE

City of Buckley

- P Zone – Case-by-case review
- Low Density Residential Zones – RA, 25 percent; R-3 and R-4, 40 percent

Pierce County

- R20 Zone – 25 percent
- FL Zone – N/A

BUILDING HEIGHT

City of Buckley

- P Zone – Case-by-case review
- Low Density Residential Zones (RA, R-3, R-4) – 30 feet

Pierce County

- R20 Zone – 40 feet
- FL Zone – 40 feet

SETBACKS

City of Buckley

- P Zone – Case-by-case review
- Low Density Residential Zones (Front/Rear/Sides) – RA, 25/25/25; R-3 and R-4, 25/12/25

Pierce County

- R20 Zone – (Front/Rear/Sides) – 25/30/10
- FL Zone – (Front/Rear/Sides) - 25/30/30

SUBDIVISION/PARTITION PROCESSES

City of Buckley

- Land divisions in Buckley are divided into two categories: (i) divisions of property into two to four lots are termed "short subdivisions;" and (ii) divisions of property into four or more lots are called "subdivisions."
- To divide a lot in Buckley, an applicant must follow the regulations outlined in Chapter 18 of the Buckley Code.
- Subdivisions, in which no lot is smaller than five acres or lot line adjustments that create no new lots, are exempt from the subdivision and short subdivision regulations.
- According to Buckley's Code, there is not a minimum lot size in the P Zone. All development and subdivision in this zone is reviewed by the City on a case-by-case basis.
- Within the RA, R-3, and R-4 Zones, minimum lot sizes are 20,000, 12,500, and 10,000 square feet, respectively.
- Subdivisions require both preliminary and final approval by vote of the City Council. Planning Commission recommendations and public hearings are held prior to both votes by the Council.
- Short Subdivisions, on the other hand, are reviewed by the City Engineer and City Planner and are preliminarily approved without Council action. Final approval requires a Council vote.

Pierce County

- To divide a lot in Pierce County, an applicant must follow the regulations outlined in Title 16 of the Pierce County Code.
- Land divisions in Pierce County are divided into three categories: (i) divisions of property into two to four lots are termed "short subdivisions;" (ii) divisions of property into four or more lots are called "subdivisions;" and (iii) divisions of property in which the smallest lot is between five and 20 acres are termed "large lot divisions."
- Subdivisions of land in which the smallest lot is 20 acres or larger are exempt from the subdivision, short subdivision, and large lot division regulations.

- Subdivisions require both preliminary and final approval by vote of the City Council. Planning Commission recommendations and public hearings are held prior to both votes by the Council.
- Short Subdivisions and Large Lot Divisions, on the other hand, are reviewed by various County departments and are summarily approved by the Pierce County Planning Director.

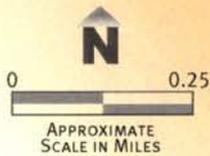
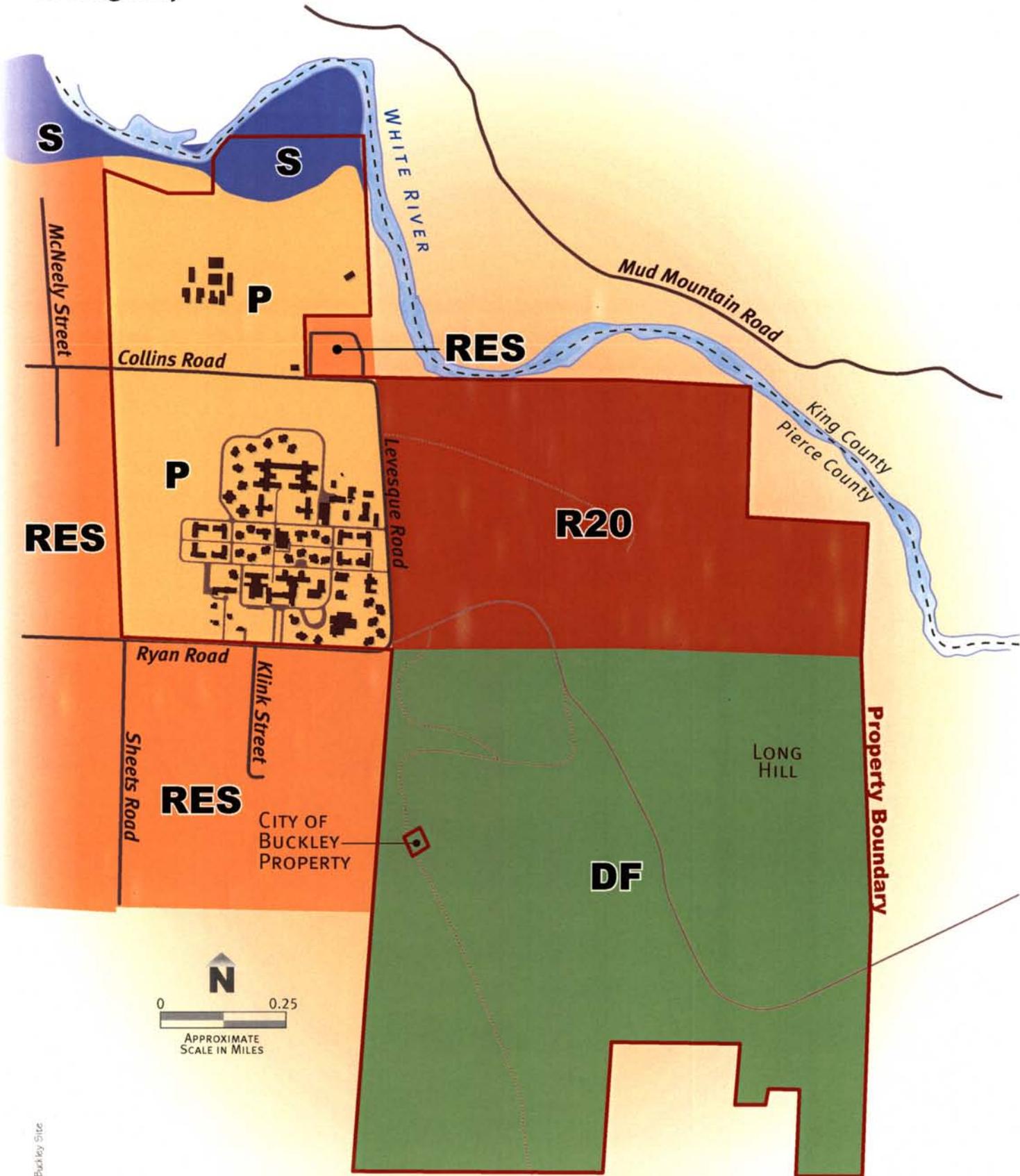
TITLE

Copies of several title reports were provided to Heartland for this report. These reports, however, did not cover the entire Property comprehensively and some of the reports appeared to be outdated.

Given the lack of clarity or uniformity in these title documents, we have relied upon information from the Pierce County Assessor's office to determine ownership of the Property.

Included in the title report are several encumbrances, including various roadways, railways and other rights of way, mostly accessing timber to the south and east. The Northern Pacific Railway Company also has reserved mineral rights in the agricultural fields east of the main campus. We received no other information regarding the details of these items and, therefore, for the purposes of this report, we assume that these encumbrances do not impact the overall value of the Site.

STATE OF WASHINGTON DSHS CAMPUSES Rainier School - Buckley Property Zoning Map



Environmental

ENVIRONMENTAL

SENSITIVE AREAS

- Wetlands surveys were not provided. However, it appears that some portions of the R20 land may have low spots that could contain wetlands. Wetlands areas could present an obstacle to development and the Property should be closely inspected for wetlands prior to any type of sale or development.
- The White River runs along the northern and northeastern portions of the Property. The Site has a small amount of river frontage.
- Areas along the river are classified by the City as "Environmentally Sensitive Areas." Development is restricted and will likely require 200-foot setbacks, as well as a comprehensive plan review and approval process by the City.
- There are also two creeks running through the Property, which both run into the White River. These creeks do not appear to have any designation that would require extensive setbacks.

POTENTIAL HAZARDS AND CONTAMINATION

- According to the National Flood Insurance Rate Map Community Panel Number 530138 0411C, the Main Campus is located within Zone C, which is classified by FEMA as an area outside of a 100-year flood hazard. Portions of the R20 land bordering the White River are within areas inundated by 100-year flooding.
- According to our research, there are two areas of contamination on the WSU property. No maps or characterizations of the contamination were provided to us for this report. It appears that DSHS is taking the lead in clean-up efforts. Any future actions taken to capture value on the WSU Dairy Farm portion of the Site will require a more detailed investigation into these issues.
- The Site's proximity to Mount Rainier also poses some significant environmental risks associated with volcanic activity. The White river is a potential route of lahars that result from volcanic eruptions. Most of the Site is at a sufficient elevation to lessen the risk, but portions along the White River are identified as zones of probable inundation.
- Some of the buildings may contain asbestos in their construction, which could affect potential alternatives for the Site, especially those involving potential demolition or significant renovation of the existing buildings.
- The Main Campus portion of the Site has historically been utilized for institutional uses and little or no ground contamination of the Site would be expected from these uses.

Market

MARKET

The *Market* Section of this report is intended to provide a brief overview of market conditions for feasible uses at the Rainier School property.

PREVIOUS ESTIMATES OF VALUE

- In May 2002, the Joint Legislative Audit and Review Committee commissioned an appraisal of the Rainier School¹. The appraisal rendered two estimates of value which are discussed in detail below.
 - **Use Value:** The “use value” is defined as the value a specific property has for a specific use. The use value is intended to give DSHS an idea of the utility the Property has for continued use, taking into consideration its current functionality and the cost to recreate the facility elsewhere. The use value is a balance between the estimate of value as concluded using the cost approach and the sales comparison approach. The appraisers estimated the use value to be \$40 million.
 - **Go Dark Value:** The “go dark value” is defined as the value a property has under the requirement the current user must vacate the property. Essentially the go dark value is a combination of what other users might be able to pay for the salvageable buildings on the Site and the value of the land under buildings that could not be occupied and were demolished. After accounting for demolition costs, the appraisers estimate the go dark value of the Property to be \$6.7 million.
- **Land Value:** The appraiser’s estimate of land value for the 105-acre main campus (assume a rezone to single-family residential) is \$14,000 per acre or \$1,470,000. The appraiser’s estimate of land value for the 187-acre WSU Dairy Site is \$14,000 per acre or \$2,429,000. The appraiser’s estimate of land value for the 230 acres of R20-zoned land is \$6,300 per acre or \$1,450,000. The appraiser’s estimate of land value for the 587-acres of forestry land is \$1,800 per acre or \$1,050,000. The appraiser’s total land value estimate for the Property equals approximately \$6,395,000.

MARKET ANALYSIS

As part of its 2002 Appraisal of the Property, Cushman & Wakefield analyzed the feasibility of several different potential land uses. Most were deemed as not feasible, due in large part to the Site's location and distance from non-residential uses. We agreed with the conclusions of the appraiser's highest and best use and market analyses, and we have provided additional market information to supplement their findings. A summary of considered land uses follows:

¹ Complete Appraisal of Real Property – Rainier School, Cushman & Wakefield, July 19, 2002

Retail - Not Feasible - The Site's lack of exposure in its rural location would not appeal to most retail developers. The current zoning does not allow retail uses. Also, the population density in the immediate area is unlikely to support most types of retail development.

Office - Not Feasible - A lack of easy access to the Site, coupled with an insufficient local labor force in the immediate area would make this a difficult Site for office uses. Also, the current zoning would not support office development.

Industrial - Not Feasible - While sufficient levels in some types of infrastructure may be attainable, the lack of large roads and/or railroad spurs would hamper the Site as an industrial development. A lack of proximity to associated office uses would also be an obstacle. Lastly, current zoning would not support such a use.

Governmental - Not Feasible - The Site lacks the concentration of other governmental services and supporting uses for a large facility. Also, the rural location makes access more difficult for large portions of the governmental labor pool.

Conference Center / Hospitality - Not Feasible - Cushman & Wakefield's Hospitality Group estimated that the Site would only be able to function as a small facility, hosting local or statewide groups for limited overnight meetings. Even at this capacity, it was projected that potential revenues and profits would not justify the enormous cost of converting the current school buildings to this use.

School / Educational Facility - Limited Feasibility - The Site's zoning and campus design could support an educational facility. However, the rural location would be unattractive for community colleges or other learning facilities, due to the lack of exposure and access.

Agricultural / Forestry - Feasible on Specific Portions of the Site - Obviously, these uses are now occurring on portions of DSHS land. Continued operations would be an easy alternative, especially of forestry uses on portions of the Property lying in unincorporated Pierce County.

Single-Family Residential - Feasible on Specific Portions of the Site - Given the surrounding residential uses and sufficient market for single-family homes in the area, this type of development could be a potential option for the Property, especially for those portions of the Property outside the Main Campus. Current zoning on Pierce County portions of the Property support low-density development. Though portions of the Property inside Buckley are not currently zoned for residential uses, the City has indicated that a rezone of areas north of the Main Campus would be possible.

Single-family development would most likely not be feasible on the current Campus, given that the cost of demolition of current buildings may exceed potential revenues from sale of the land.

Multi-Family Residential - Not Feasible - Though single-family residential uses may be feasible, current zoning regulations and comprehensive plans do not support such a development. Also, the market for multi-family product in this rural area would not likely support development.

Assisted Living Facilities - Not Feasible - Though this use would appear, on the surface, to be similar to the current use of the Rainier School, the design of the campus would not work well for an elderly population. Facilities located within one large building are highly preferred. Also, the local market for such uses is saturated and would hamper the success of a new facility.

Rehabilitation Center - Feasible on Specific Portions of the Site - Though the design of the Rainier School would suit this type of use, the overall size of the Main Campus would be much larger than such a facility would require. This would limit the amount a buyer would be willing to pay. Also, current zoning does not technically support this use and would need to be altered.

Public Utility - Feasible on Specific Portions of the Site - The areas of the Site north of the Main Campus would be attractive for a public utility, such as a wastewater treatment facility for the City of Buckley. This portion of the Site would be attractive for this use, due to its proximity to the White River, the sufficient amount of acreage for such a facility, and the existence of current agricultural uses and a treatment facility. The Appraisal states that and the City has expressed an interest in acquiring this portion of the Site.

Recreational or Other Large-Scale Uses - Feasibility Unknown - Though not discussed in the Appraisal, it is conceivable that the Rainier School Campus and adjacent lands could represent a rather unique property for a developer seeking a site for a large-scale development or recreational use, fair grounds, rodeo, or race track. With its size (over 1,000 acres), location, and varying topography and river frontage, it has several qualities that could be attractive to a developer with the vision and means to create a large project.

PIERCE COUNTY REHABILITATION CENTER MARKET

The Appraisal identified five sales of rehabilitation centers in Washington. The sales ranged in price from \$33.87 to \$95.86 per square foot of building, including land value, overall, with a range of improvements value of \$13.04 to \$56.74 per square foot.

As mentioned in the section above, rehabilitation centers would likely be feasible only on a small portion of the Site. The facilities in these sales ranged from about 7,800 square feet to approximately 41,000 square feet. The largest sale would represent less than five percent of the existing campus.

The 2002 Appraisal lists a value for the Main Campus as a rehabilitation center at \$950,000.

PIERCE COUNTY/BUCKLEY RESIDENTIAL MARKET

Overall, the residential market in the Buckley and Eastern Pierce County areas has been growing, somewhat slowly relative to more urbanized areas of Puget Sound. As land prices continue to escalate in the suburban areas, growth in region is spilling into these traditionally rural areas. The area surrounding Buckley and the Rainier School is the last area for growth before the National parks, forests and wilderness.

Areas immediately adjacent to the Site are comprised of well-established residential uses of medium densities. Data from the Northwest Multiple Listing Service ("NWMLS") shows seven vacant residential land sales have occurred thus far in 2003 within Buckley and another eight listings are currently on the market. These sales and listings range in size from one acre to 20 acres.

According to our conversations with local developers and from our analysis of the market, demographic data, and growth forecasts, we estimate that sufficient demand for significant residential development in the Buckley area is 10 to 15 years away. It is possible that, with continued growth of the Puget Sound region and a decrease in the number of available sites in more urban areas, the demand for new residential development could support a project of several hundred homes in this area in that timeframe. Even if sufficient demand were to occur in that time period, transportation issues would pose the major obstacle to successful development at the Site. Highway 410, the major route to Buckley from the rest of the Puget Sound region, is only two-lanes for several miles leading into town, and would need to be expanded to carry additional traffic. Also, Ryan Road, which leads from Highway 410 to the Rainier School, would also need to be expanded to accommodate any significant development at the Site.

RESIDENTIAL LAND VALUES

Given the differing zoning and land use options on various parts of the Site, it is necessary to consider three types of residential land values. The first is the value rural residential parcels of 15 to 25 acres, which would reflect the R20 zoning on Pierce County portions of the Site. The second is sales of residential forestry land of 40 acres or more, which would provide potential values for the large 80-acre parcels required in Pierce County's FL zone. Lastly, sales of larger parcels slated for subdivision would indicate values for DSHS lands inside the City of Buckley, which could potentially be rezoned for medium density residential uses.

Below is a chart summarizing the land sales information and value conclusions for the different types of property. Data from the 2002 Appraisal was corroborated with updated information from the NWMLS and MetroScan.

| Type | Value Range (per acre) |
|----------------------|-------------------------------|
| Rural Residential | \$6,000 - \$8,000 |
| Residential/Forestry | \$1,800 - \$2,500 |
| Subdivision Land | \$13,000 - \$15,000 |

Sources: 2002 Appraisal, NWMLS, MetroScan

Strategies & Financial

ALTERNATIVE STRATEGIES AND FINANCIAL ANALYSIS

OVERVIEW

This section identifies and briefly analyzes three potential alternatives for capturing different values associated with the Property and the opportunities and constraints of each. Our analysis culminates in a financial analysis that determines the net present value and net cash flow from each alternative. This report provides the State with an analysis and recommendations that consider not only the highest present value, but also the greatest cash flow. Rather than recreate what was already completed, for the "AS IS" analysis, we relied on the accuracy of the recent Appraisals, which we have discounted to account for our opinion that marketing timeframes would be longer than the Appraisal indicates. For the other analyses (alternatives assuming changes of uses, value after demolition, etc.), we completed a residual land value model, which calculates the net present value and net cash flow based on a discounted cash flow. This model considers the market rate for developed land, the costs to develop the land, the time to entitle, develop and sell the land, and the appropriate discount rate to reflect the risk and return for such a project. Alternative III represents a "preferred" option.

Alternative I: Vacate Premises and Sell Property As-Is

Alternative I would be considered if DSHS entirely ceased operations at Rainier School. It would entail marketing the Site, perhaps to a buyer interested in performing a similar institutional use at the Site, or a developer of recreational uses, such as a golf course, which would be unlikely in this rural location. Marketing the Property to such buyers could potentially result in a sale, which would allow DSHS to dispose of the Property in a relatively simple manner. However, given the unique nature of the Site, there would likely be a very long marketing period, given the size of the Property and limited number of buyers for institutional or recreational properties.

Pros:

- This would allow the State to capture associated values from the Property in one transaction; and
- If a large-scale development was planned, it could be welcomed by the City or County to promote economic development or community goals. This would be particularly important to the community if operations at the Rainier School were moved to another location.

Cons:

- The number of potential buyers would be small, due to the size of the Property and the number of obstacles to development at the Site (demolition of structures, rezone of land, etc.);
- Potential buyers could include institutional uses, such as rehabilitation centers, recreational/camp groups, recreational developers, or large-scale master plan developers. Unfortunately, this pool of buyers is small;

- A small pool of buyers would suggest that the marketing period for the Property could be an extended amount of time. It is not unrealistic to expect that marketing time could extend to the six-to-nine-year range;
- An extended marketing period could result in higher maintenance and holdings costs for the State, especially if DSHS is required to participate in capital improvements to the water and sewer/wastewater systems;
- Most potential buyers would require the existing structures to be extensively renovated or demolished completely, lowering the overall value that could be captured by the State; and

Cushman & Wakefield's estimated "Go Dark" value, or the value of the Property if DSHS were to vacate the Site, was \$6,700,000 for the entire Property. This value is a good indicator for our analysis, as it makes the same assumption that DSHS would discontinue all operations at Rainier School and that the Site would be sold "As Is." The resulting value to the State, however, would be significantly less after marketing time and sales and maintenance costs.

IMPLEMENTATION STEPS

- *Begin establishing a more direct and cooperative relationship with the City of Buckley.* There are multiple fronts on which the City and DSHS must meet, including the water system and a potential wastewater facility on State property. DSHS is a powerful economic influence in the Buckley area and the City is likely to realize the benefits of working closely together. Likewise, the City could possibly hold solutions to several of DSHS's potential problems, including its water and sewer/wastewater systems, and disposition of the WSU Dairy Farm site. In any case, a relationship in which the parties feel familiar with and open to each other will likely result in more positive outcomes for both.
- *Conduct a thorough investigation into the ownership and actual value of DSHS's water system and water rights, and then potentially enter into discussions with the City of Buckley.* This would include conclusively determining the volume of water that DSHS is entitled to draw from its surface source at Carbon Creek, as well as a clear understanding about the ownership of the water system components and obligations for operational and capital expenses. Once the value of the water system and water rights together is quantified and measured against the costs required for operation and maintenance of the system, it will be possible to determine whether the current system has an overall net value to DSHS.

The Appraisal estimates DSHS's portion of potential capital expenditures for the water system at \$3,300,000. If DSHS can prove a valid claim of its 2,534 acre-feet of water rights, and those water rights are worth an estimated \$1,500 per acre-foot, then the indicated value of the water rights is roughly \$3,800,000. If this estimate is correct, it would appear that, regardless of the current value of the water system, it would make financial sense to go ahead with the capital expenditures.

However, as mentioned in the *Utilities* Section above, it is possible that the actual combined water right of DSHS and the City is only 18 percent of the original amount, due to lower actual consumption. If DSHS's valid water right is determined to be roughly one-fifth of its original 2,534 acre-feet, at \$1,500 per acre-foot in value, it would be worth only about \$760,000. In this case, the value of the water system in its current condition would need to be more than \$2,540,000 to justify the projected capital expenditure.

Obviously these values need to be investigated very closely, as the financial implications would impact DSHS's interests heavily. Once all these values are positively identified, it would then be possible to begin discussions with the City of Buckley as to what sort of arrangement would best serve the interests of both parties.

- *Conduct a thorough investigation into the ownership and value of DSHS's wastewater treatment facility and the WSU Dairy Farm, then potentially enter into discussions with the City of Buckley regarding a sale or trade for the land north of Collins Road.* It has been mentioned that the City may be interested in purchasing this portion of the Site, as it has several of the qualities necessary for a wastewater facility. It is unclear whether the land is owned by WSU or by DSHS. As with the water system, it is vital to fully understand both ownership and value of the Property before entering into any type of negotiation with the City.

Once ownership is clarified, it would be necessary to first determine the current value of the wastewater facility and associated land, minus any necessary capital expenditures and operating costs. Then this net value would need to be compared to the cost of similar services over time, if they were provided by the City.

As mentioned in the *Utilities* Section above, the facility is old and would likely need to be completely replaced within the next five to ten years. Though we received no cost estimates, it would reason that this expense would likely exceed the current value of the facility. If this is the case, there may potentially be an incentive for the State to trade, or sell at a discount, this portion of the Property to the City in exchange for sewer services.

If this is done, it will be important to negotiate an agreement with the City that would allow any future redevelopment of alternative uses on the Main Campus to use this system, as well. Also, the Collins School is currently located on this parcel and is leased to the White River School District. Termination of this lease agreement would require completion of the school year, or 30-day notice during the summer break. Any sale or transfer of the parcel would need to consider this situation.

The land underlying the WSU Dairy Farm and wastewater treatment facility is on the same legal lot (Pierce County Assessor's No. 0619021000) as part of the Rainier School Campus and the small Collins School building. If a transaction is contemplated, whether by sale or other means, we suggest dividing the parcel and creating a new lot north of Collins Road, which could be transferred to the

City. If the parcel was sold to the City and operation of the school were to continue, a similar lease agreement would need to be executed between the School District and the City. Alternatively, an additional legal lot could be created for the land underlying the school and either kept by DSHS and leased as it is currently, or sold to the School District.

- *Complete a survey of the Property.* In order to accurately portray the Site to potential buyers, a survey needs to be completed. An asbestos survey of the existing buildings and a Phase 1 environmental assessment for the entire Property should also be completed.
- *Prepare a marketing package and interview and select an appropriate marketing company that has experience in campus/healthcare properties.* Given the unique nature of the Property, particular care should be placed on selecting an appropriate marketing group to work with the State to obtain the optimal value in the shortest period of time.
- *Design and Implement a Marketing Plan in conjunction with selected broker to broadly and widely expose the Property to potential buyers.*

FINANCIAL ANALYSIS

The primary assumption in this financial analysis is that the appraised "Go Dark" value of \$6.7 million is accurate, but we believe the marketing time will exceed what is assumed in the Appraisal and therefore have discounted this value as shown.

| | <u>High</u> | <u>Low</u> | <u>Probable</u> |
|------------------------------|-------------|------------|-----------------|
| Marketing Time (Years) | 3 | 9 | 6 |
| Value | \$6.7M | \$6.7M | \$6.7M |
| Discount Rate | 15% | 25% | 20% |
| Net Present Value Conclusion | \$4.2M | \$0.67M | \$2.0M |

Alternative II: Vacate Premises and Demolish Structures, Sell Vacant Land

Alternative II could also be considered if DSHS ceased operations at Rainier School. This option would allow the Site to be marketed to a wider pool of buyers, as the vacant land would have more development and use potential than it has when burdened with the existing buildings. Additionally, as mentioned in the *Regulatory* Section of this report, a potential rezone of the Property allowing residential uses could broaden the marketability of the Site. The added value to the Site, if any, in terms of reduced marketing time or value to potential buyers, would need to be measured against the expected high costs of demolishing the existing buildings.

Pros:

- As with Alternative I, this would allow the State to capture associated values from the Property in one transaction;
- Also similar to Alternative I, a potential large-scale development might be welcomed as an economic development opportunity;
- The pool of buyers would likely be much larger than Alternative I, as vacant land presents fewer challenges to development and could support a wider range of uses. Potential buyers could include recreational developers, or large residential master plan developers;
- This larger pool of buyers, coupled with a short supply of large tracts of vacant land in the region would most likely reduce the marketing time of the Property; and
- Holding costs would be much lower without the burden of maintaining the existing buildings, if DSHS could negotiate a solution to avoid capital improvements to the water and sewer/wastewater systems.

Cons:

- The costs of demolishing the existing structures on the Property could be prohibitively high, especially if extensive asbestos abatement is required. At a conservative estimate of \$4 per square foot for demolition, the demolish costs would be approximately \$3,400,000, which would likely be deducted from any sale, assuming the buyer, not the State, completed the demolition; and
- The demolition of the buildings would require the full closure of the campus and eliminate any opportunities for the campus to be used again in the future.

IMPLEMENTATION STEPS

- *Begin establishing a more direct and cooperative relationship with the City of Buckley.* There are multiple fronts on which the City and DSHS must meet, including the water system, or discussions about a potential wastewater facility on State property. DSHS is a powerful economic influence in the Buckley area and the City is likely to realize the benefits of working closely together. Likewise, the City could possibly hold solutions to several of DSHS's potential problems, including its water and sewer/wastewater systems, and disposition of the WSU

Dairy Farm site. In any case, a relationship in which the parties feel familiar with and open to each other will likely result in more positive outcomes for both.

- *Conduct a thorough investigation into the ownership and actual value of DSHS's water system and water rights, and then potentially enter into discussions with the City of Buckley.* This would include conclusively determining the volume of water that DSHS is entitled to draw from its surface source at Carbon Creek, as well as a clear understanding about the ownership of the water system components and obligations for operational and capital expenses. Once the value of the water system and water rights together is quantified and measured against the costs required for operation and maintenance of the system, it will be possible to determine whether the current system has an overall net value to DSHS.

The Appraisal estimates DSHS's portion of potential capital expenditures for the water system at \$3,300,000. If DSHS can prove a valid claim of its 2,534 acre-feet of water rights, and those water rights are worth an estimated \$1,500 per acre-foot, then the indicated value of the water rights is roughly \$3,800,000. If this estimate is correct, it would appear that, regardless of the current value of the water system, it would make financial sense to go ahead with the capital expenditures.

However, as mentioned in the *Utilities* Section above, it is possible that the actual combined water right of DSHS and the City is only 18 percent of the original amount, due to lower actual consumption. If DSHS's valid water right is determined to be roughly one-fifth of its original 2,534 acre-feet, at \$1,500 per acre-foot in value, it would be worth only about \$760,000. In this case, the value of the water system in its current condition would need to be more than \$2,540,000 to justify the projected capital expenditure.

Obviously these values need to be investigated very closely, as the financial implications would impact DSHS's interests heavily. Once all these values are positively identified, it would then be possible to begin discussions with the City of Buckley as to what sort of arrangement would best serve the interests of both parties.

- *Conduct a thorough investigation into the ownership and value of DSHS's wastewater treatment facility and the WSU Dairy Farm, then potentially enter into discussions with the City of Buckley regarding a sale or trade for the land north of Collins Road.* It has been mentioned that the City may be interested in purchasing this portion of the Site, as it has several of the qualities necessary for a wastewater facility. It is unclear whether the land is owned by WSU or by DSHS. As with the water system, it is vital to fully understand both ownership and value of this Property before entering into any type of negotiation with the City.

Once ownership is clarified, it would be necessary to first determine the current value of the wastewater facility and associated land, minus any necessary capital expenditures and operating costs. Then this net value would need to be compared to the cost of similar services over time, if they were provided by the City.

As mentioned in the *Utilities* Section above, the facility is old and would likely need to be completely replaced within the next five to 10 years. Though we received no cost estimates, it would reason that this expense would likely exceed the current value of the facility. If this is the case, there may potentially be an incentive for the State to trade, or sell at a discount, this portion of the Property to the City in exchange for sewer services.

If this is done, it will be important to negotiate an agreement with the City that would allow any future redevelopment of alternative uses on the Main Campus to use this system, as well. Also, the Collins School is currently located on this parcel and is leased to the White River School District. Termination of this lease agreement would require completion of the school year, or 30-day notice during the summer break. Any sale or transfer of the parcel would need to consider this situation.

The land underlying the WSU Dairy Farm and wastewater treatment facility is on the same legal lot (Pierce County Assessor's No. 0619021000) as part of the Rainier School Campus and the small Collins School building. If a transaction is contemplated, whether by sale or other means, we suggest dividing the parcel and creating a new lot north of Collins Road, which could be transferred to the City. If the parcel was sold to the City and operation of the school were to continue, a similar lease agreement would need to be executed between the School District and the City. Alternatively, an additional legal lot could be created for the land underlying the school and either kept by DSHS and leased as it is currently, or sold to the School District.

- *Complete a survey of the Property.* In order to accurately portray the Site to potential buyers, a survey needs to be completed. An asbestos survey of the existing buildings and a Phase 1 environmental assessment for the entire Property should also be completed.
- *Demolish the existing structures.* Following closure of the campus, the buildings would have to be demolished.
- *Complete a rezone of the Property to allow residential and potentially commercial uses on the Property inside Buckley.* Without a rezone, the land inside the city has little to no alternative value.
- *Prepare a marketing package and interview and select an appropriate marketing company.* Given the unique nature of the Property, particular care should be placed on selecting an appropriate marketing group to work with the State to obtain the optimal value in the shortest period of time.
- *Design and Implement a Marketing Plan in conjunction with selected broker to broadly and widely expose the Property to potential buyers.*

FINANCIAL ANALYSIS

The assumptions we have used for the financial analysis of Alternative II are:

Value

80-acre lot = \$160,000

20-acre lot = \$140,000

One-acre lot = \$75,000

Absorption

80-acre lot – 1 per year

20-acre lot – 3 per year

One-acre lot – 8 per year

Expenses

Selling Costs – 3 percent

Demolition - \$4 per square foot

Lot Development Costs - \$30,000 per lot on small lots, none on 20- and 80-acre lots.

Escalation Factor

Revenue – 1.5 percent per year

Expenses – 2.5 percent per year

| | <u>High</u> | <u>Low</u> | <u>Probable</u> |
|------------------------------|-------------|------------|-----------------|
| Net Present Value Conclusion | \$0.1M | (\$0.4M) | (\$0.2M) |
| Net Cash Flow | \$2.6M | \$2.6M | \$2.6M |
| Discount Rate | 15% | 25% | 20% |

**WSIB- Buckley
Discounted Cash Flow**

**Alternative 2- Demolish Buildings and Sell Entire Site as Land
Probable**

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|--------------------------------------|----------|----------------------|--------------------|--------------------|----------------------|--------------------|--------------------|
| Sales Proceeds: | | | | | | | |
| 80-Acre Lots | \$0.05 | \$162,400 | \$164,836 | \$167,309 | \$169,818 | \$172,365 | \$174,951 |
| 20-Acre Lots | \$0.16 | 426,300 | 432,695 | 439,185 | 371,477 | 0 | 0 |
| 1-Acre Lots | \$1.72 | 609,000 | 618,135 | 627,407 | 636,818 | 646,370 | 656,066 |
| Buildings | \$0.00 | 0 | 0 | 0 | 0 | 0 | 0 |
| Include Bldgs (0=no, 1=yes) | 1 | | | | | | |
| Total Sales Proceeds | | \$1,197,700 | \$1,215,666 | \$1,233,900 | \$1,178,114 | \$818,736 | \$831,017 |
| Selling Costs | | | | | | | |
| Net Sales Proceeds | 3.00% | (35,931) | (36,470) | (37,017) | (35,343) | (24,562) | (24,931) |
| | | \$1,161,769 | \$1,179,196 | \$1,196,883 | \$1,142,770 | \$794,174 | \$806,086 |
| Costs: | | | | | | | |
| Demolition | \$/SF | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Lot Development Costs: | Bldg./SF | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Phase I | 40 | 0 | 0 | 0 | 0 | 0 | 0 |
| Phase II | 40 | 0 | 0 | 0 | (1,324,575) | 0 | 0 |
| Phase III | 40 | 0 | 0 | 0 | 0 | 0 | 0 |
| Phase IV | 40 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cost/Lot | \$30,000 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Costs | | (\$2,930,000) | \$0 | \$0 | (\$1,324,575) | \$0 | \$0 |
| Net Cash Flow | | (\$2,930,000) | \$1,179,196 | \$1,196,883 | (\$181,805) | \$794,174 | \$806,086 |
| Net Cash Flow- Include Timber | | 0 | \$2,623,185 | \$2,623,185 | \$2,623,185 | \$2,623,185 | \$2,623,185 |

Value Today:

| | |
|-------------------|-------------|
| Discount Rate | 20.00% |
| Net Present Value | (\$178,031) |
| Timber Value | \$0 |
| Total Value Today | (\$178,031) |

Absorption:

| Start | Acres/Lot | Lots/Year | Lots Sold |
|--------------|-----------|-----------|-----------|
| 80-Acre Lots | 80 | 1 | 7.20 |
| 20-Acre Lots | 20 | 3 | 11.50 |
| 1-Acre Lots | 1 | 8 | 112.00 |

Escalators:

| | |
|-----------------------|-------|
| Sales Price Escalator | 1.50% |
| Cost Escalator | 2.50% |

Land Summary:

| | # of Lots | Gross Acres | Net Acres |
|--------------------|--------------|-------------|------------|
| 80-Acre Lots | 7.20 | 576 | 576 |
| 20-Acre Lots | 11.50 | 230 | 230 |
| 1-Acre Lots | 112.00 | 112 | 112 |
| Water | 10 | 0 | 0 |
| Wastewater | 133 | 0 | 0 |
| Total Acres | 1,109 | 918 | 918 |
| Square Feet | | | |
| Site Loss | | 30.00% | |

**WSIB- Buckley
Discounted Cash Flow**

**Alternative 2- Demolish Buildings at
Probable**

| | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
|-----------------------------|----------------------|------------------|------------------|------------------|----------------------|------------------|------------------|------------------|------------|
| Sales Proceeds: | | | | | | | | | |
| 80-Acre Lots | \$177,575 | \$36,048 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| 20-Acre Lots | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1-Acre Lots | 665,907 | 675,896 | 686,034 | 696,324 | 706,769 | 717,371 | 728,131 | 739,053 | 0 |
| Buildings | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Include Bldgs (0=no, 1=yes) | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Total Sales Proceeds | \$843,482 | \$711,943 | \$686,034 | \$696,324 | \$706,769 | \$717,371 | \$728,131 | \$739,053 | \$0 |
| Selling Costs | (25,304) | (21,358) | (20,581) | (20,890) | (21,203) | (21,521) | (21,844) | (22,172) | 0 |
| Net Sales Proceeds | \$818,178 | \$690,585 | \$665,453 | \$675,435 | \$685,566 | \$695,850 | \$706,288 | \$716,882 | \$0 |
| Costs: | | | | | | | | | |
| Demolition | | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Lot Development Costs: | | | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Phase I | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |
| Phase II | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |
| Phase III | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |
| Phase IV | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |
| Cost/Lot | \$30,000 | | | | (1,574,504) | | | | |
| Total Costs | (\$3,482,849) | \$0 | \$0 | \$0 | (\$1,574,504) | \$0 | \$0 | \$0 | \$0 |
| Net Cash Flow | (\$2,664,672) | \$690,585 | \$665,453 | \$675,435 | (\$888,938) | \$695,850 | \$706,288 | \$716,882 | \$0 |

Net Cash Flow- Include Timber

| Value Today: | |
|--------------------------|--------------------|
| Discount Rate | 20.00% |
| Net Present Value | (\$178,031) |
| Timber Value | \$0 |
| Total Value Today | (\$178,031) |

| Absorption: | Start | Acres/Lot | Lots/Year |
|--------------------|-------|-----------|-----------|
| 80-Acre Lots | 2 | 80 | 1 |
| 20-Acre Lots | 2 | 20 | 3 |
| 1-Acre Lots | 2 | 1 | 8 |

| Escalators: | Sales Price Escalator | 1.50% |
|--------------------|-----------------------|-------|
| Cost Escalator | 2.50% | |

| Land Summary: | # of Lots | Gross Acres | Net Acres |
|----------------------|--------------|-------------|------------|
| 80-Acre Lots | 7.20 | 576 | 576 |
| 20-Acre Lots | 11.50 | 230 | 230 |
| 1-Acre Lots | 112.00 | 112 | 112 |
| Water | 10 | 0 | 0 |
| Wastewater | 133 | 0 | 0 |
| Total Acres | 1,109 | 918 | 918 |
| Square Feet | | | |
| Site Loss | | | 30.00% |

**WSIB- Buckley
Discounted Cash Flow**

Alternative 2- Demolish Buildings as Probable

| | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 |
|-----------------------------|----------|-----|-----|-----|-----|-----|-----|-----|-----|
| Sales Proceeds: | | | | | | | | | |
| 80-Acre Lots | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| 20-Acre Lots | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1-Acre Lots | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Buildings | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Include Bldgs (0=no, 1=yes) | 1 | | | | | | | | |
| Total Sales Proceeds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Selling Costs | | | | | | | | | |
| Net Sales Proceeds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Costs: | | | | | | | | | |
| Demolition | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Lot Development Costs: | | | | | | | | | |
| Phase I | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Phase II | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Phase III | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Phase IV | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cost/Lot | \$30,000 | | | | | | | | |
| Total Costs | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Net Cash Flow | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

Net Cash Flow- Include Timber

| Value Today: | |
|--------------------------|--------------------|
| Discount Rate | 20.00% |
| Net Present Value | (\$178,031) |
| Timber Value | \$0 |
| Total Value Today | (\$178,031) |

| Absorption: | Start | Acres/Lot | Lots/Year |
|--------------------|-------|-----------|-----------|
| 80-Acre Lots | 2 | 80 | 1 |
| 20-Acre Lots | 2 | 20 | 3 |
| 1-Acre Lots | 2 | 1 | 8 |

| Escalators: | Sales Price Escalator | 1.50% |
|--------------------|-----------------------|-------|
| Cost Escalator | 2.50% | |

| Land Summary: | | |
|----------------------|--------------|---------------|
| # of Lots | Gross Acres | Net Acres |
| 80-Acre Lots | 7.20 | 576 |
| 20-Acre Lots | 11.50 | 230 |
| 1-Acre Lots | 112.00 | 112 |
| Water | 10 | 0 |
| Wastewater | 133 | 0 |
| Total Acres | 1,109 | 918 |
| Square Feet | | |
| Site Loss | | 30.00% |

Alternative III: Disposition of Properties Not Associated with Campus, While Keeping Campus Intact for Continued Use or Sale

Alternative III would allow DSHS to remain and expand on the Campus portion of the Site, but would allow the excess land in other parts of the Property to be sold in pieces, most likely to a number of different parties. If DSHS no longer operates a facility at the Site, the Campus could then be sold as a campus property since the estimated demolition costs exceed the estimated land value. The pool of buyers for these smaller pieces would be larger and, therefore, the marketing time could be expected to be shorter. This alternative could allow the State to capture these values over a shorter period of time than in Alternatives I or II. The smaller pieces would also likely sell for a higher per acre price than the large, single transactions in Alternatives I and II. Without the demolition of existing structures, this option would require little up-front costs for the State.

Pros:

- The State would be able to capture associated values without impacting current operations at the Rainier School;
- Without having to consider the costs of demolishing the buildings of the main campus, the State would be able to capture the full values associated with the other parts of the Property with a minimum of up-front costs;
- Disposition of excess land could be accomplished in several smaller sales, or in fewer larger sales;
- Value in other interests, such as timber or water rights (if any), could be captured concurrently with land values;
- Marketing the Property in smaller, individual pieces would bring forth a larger pool of buyers. The different areas of the Site could also be marketed to different types of buyers simultaneously. For example, the R20-zoned land could be marketed to residential developers or individuals, while the Site of the current wastewater facility and WSU Dairy farmland could be marketed to the City or other buyers; and
- A larger pool of buyers could translate into a shorter overall marketing time for sales and allow associated values to be captured more quickly.

Cons:

- There are several complicating factors such as the water system that will need to be addressed prior to executing this strategy;
- Given the limited demand in the area, the absorption timeframe for this strategy will be long, although likely still shorter than other alternatives;
- If several smaller sales were used to dispose of the excess land, the multiple transactions would raise the overall sales and marketing costs. Managing this disposition process would also be more complex; and
- Selling smaller portions of the Property individually would preclude any large-scale or master planned development opportunities.

IMPLEMENTATION STEPS

- *Begin establishing a more direct and cooperative relationship with the City of Buckley.* There are multiple fronts on which the City and DSHS must meet, including the water system, or discussions about a potential wastewater facility on State property. DSHS is a powerful economic influence in the Buckley area and the City is likely to realize the benefits of working closely together. Likewise, the City could possibly hold solutions to several of DSHS's potential problems, including its water and sewer/wastewater systems, and disposition of the WSU Dairy Farm site. In any case, a relationship in which the parties feel familiar with and open to each other will likely result in more positive outcomes for both. Prior to selling the Property, we believe the State will need to at a minimum (1) enter into a water and sewer service agreement for the campus which allows either its continued use or reuse if the current DSHS facility is closed; and (2) rezone the Property within the City of Buckley for residential uses.
- *Conduct a thorough investigation into the ownership and actual value of DSHS's water system and water rights, and then potentially enter into discussions with the City of Buckley.* This would include conclusively determining the volume of water that DSHS is entitled to draw from its surface source at Carbon Creek, as well as a clear understanding about the ownership of the water system components and obligations for operational and capital expenses. Once the value of the water system and water rights together is quantified and measured against the costs required for operation and maintenance of the system, it will be possible to determine whether the current system has an overall net value to DSHS.

The Appraisal estimates DSHS's portion of potential capital expenditures for the water system at \$3,300,000. If DSHS can prove a valid claim of its 2,534 acre-feet of water rights, and those water rights are worth an estimated \$1,500 per acre-foot, then the indicated value of the water rights is roughly \$3,800,000. If this estimate is correct, it would appear that, regardless of the current value of the water system, it would make financial sense to go ahead with the capital expenditures.

However, as mentioned in the *Utilities* Section above, it is possible that the actual combined water right of DSHS and the City is only 18 percent of the original amount, due to lower actual consumption. If DSHS's valid water right is determined to be roughly one-fifth of its original 2,534 acre-feet, at \$1,500 per acre-foot in value, it would be worth only about \$760,000. In this case, the value of the water system in its current condition would need to be more than \$2,540,000 to justify the projected capital expenditure.

Obviously these values need to be investigated very closely, as the financial implications would impact DSHS's interests heavily. Once all these values are positively identified, it would then be possible to begin discussions with the City of Buckley as to what sort of arrangement would best serve the interests of both parties.

In any case, we believe that the City is better suited to be a municipal utility provider and it would benefit both the City and the State if the City controlled the water right and provided water service to: (i) the campus; (ii) any potential residential expansion within the city boundaries on State property; and (iii) the ongoing dairy operations and other potential uses of the agricultural land within the City boundaries.

- *Conduct a thorough investigation into the ownership and value of DSHS's wastewater treatment facility and the WSU Dairy Farm, then potentially enter into discussions with the City of Buckley regarding a sale or trade for the land north of Collins Road.* It has been mentioned that the City may be interested in purchasing this portion of the Site, as it has several of the qualities necessary for a wastewater facility. It is unclear whether the land is owned by WSU or by DSHS. As with the water system, it is vital to fully understand both ownership and value of the Property before entering into any type of negotiation with the City.

Once ownership is clarified, it would be necessary to first determine the current value of the wastewater facility and associated land, minus any necessary capital expenditures and operating costs. Then this net value would need to be compared to the cost of similar services over time, if they were provided by the City.

As mentioned in the *Utilities* Section above, the facility is old and would likely need to be completely replaced within the next five to 10 years. Though we received no cost estimates, it would reason that this expense would likely exceed the current value of the facility. If this is the case, there may potentially be an incentive for the State to trade, or sell at a discount, this portion of the Property to the City in exchange for sewer services.

If this is done, it will be important to negotiate an agreement with the City that would allow any future redevelopment of alternative uses on the Main Campus to use this system, as well. Also, the Collins School is currently located on this parcel and is leased to the White River School District. Termination of this lease agreement would require completion of the school year, or 30-day notice during the summer break. Any sale or transfer of the parcel would need to consider this situation.

The land underlying the WSU Dairy Farm and wastewater treatment facility is on the same legal lot (Pierce County Assessor's No. 0619021000) as part of the Rainier School Campus and the small Collins School building. If a transaction is contemplated, whether by sale or other means, we suggest dividing the parcel and creating a new lot north of Collins Road, which could be transferred to the City. If the parcel was sold to the City and operation of the school were to continue, a similar lease agreement would need to be executed between the School District and the City. Alternatively, an additional legal lot could be created for the land underlying the school and either kept by DSHS and leased as it is currently, or sold to the School District.

- *Complete a survey of the Property.* In order to accurately portray the Site to potential buyers, a survey needs to be completed. An asbestos survey of the existing buildings and a Phase I environmental assessment for the entire Property should also be completed.

- *Perform administrative lot segregations on the R20- and FL-zoned lands.* In Pierce County, divisions of land into lots of 20 acres or more are not subject to normal subdivision regulations and can be performed with minimal effort. As long as the new lots conform to general size standards, approval of these lots is an administrative process and is not subject to approvals from planners, councils, or the public.

As smaller lots sell quicker and for a higher price per acre, dividing these portions of the Property into smaller lots is a simple method to make marketing easier and add value to the land.

The 230 acres of R20-zoned land is currently in three parcels. With 20-acre lot sizes, eight new parcels could be created, for a total of 11 lots on this portion of the Property. The 586 acres of FL-zoned land is currently in five parcels. With 80-acre lot sizes, two additional parcels could be created, for a total of seven lots.

We suggest enlisting the services of a professional engineer or land planner to design a lot layout that will make best use of the Property's existing roads and access, river frontage, and varying topography and natural settings. The plan should also minimize the impact of restrictions involved with any sensitive areas setbacks or lahar zones along the White River.

- *Capture Timber Value on the designated forestland portion of the Property.* A DNR estimate places the value of the timber on this portion of the Property at \$5,700,000 to \$7,000,000 (in the GA Report). Subsequent conversations with DNR staff have confirmed our estimate of approximately \$5,000,000. DNR has also suggested that, although no specific species were identified, the property may be sold to a conservation group due to high potential conservation/habitat values. On order to preserve higher land values in a sale, we would suggest conducting a "real estate cut," which will leave enough trees to make the Site attractive for residential use. Typically we find that 80 percent of the timber value can be harvested on areas developed as rural tracts. In addition, the State should be certain to harvest these areas under permits that allow redevelopment of the Property. Finally, the area used for extraction of the water for the existing water right should be retained by the State and hopefully transferred to the City as part of the water service agreement described above.

We suggest coordinating the timber harvesting operations closely with the land planning efforts.

- *Develop a marketing plan and sell the R20- and FL-zoned parcels as residential homesites.*

R20-Zoned Land

As mentioned in the *Market* Section above, 20-acre homesites would likely sell for between \$6,000 to \$8,000 per acre, or \$120,000 to \$160,000. 11 lot sales at these prices would indicate sales revenues of approximately \$1,320,000 to \$1,760,000.

FL-Zoned Land

Eighty-acre lots on timberland with a "real estate cut" would likely sell for around \$2,000 to \$2,500 per acre, or \$160,000 to \$200,000. Seven lot sales at these prices would indicate sales revenues of approximately \$1,120,000 to \$1,400,000.

If discussions with the City of Buckley do not result in a sale or exchange for the WSU Dairy Farm parcel, work with the City to create a new legal lot north of Collins Road and obtain a rezone of the land for a residential use. Once this is accomplished, begin a marketing effort for the newly zoned land.

If the City considered a rezone, it would likely be for RA or RB residential designation. Marketing of the newly zoned land could begin without going through the subdivision process. If little interest is shown in the rezoned, but unplatted land, DSHS could then either go through the subdivision process and receive preliminary approval, or it could choose to hold the Property until a buyer surfaces.

FINANCIAL ANALYSIS

The assumptions we have used for the financial analysis of Alternative III are:

Value

80-acre lot = \$160,000

20-acre lot = \$140,000

Buildings = \$1,240,000

Timber = \$5,080,000 (80 percent of the mid point value estimate of DNR)

Absorption

80-acre lot – 1 per year

20-acre lot – 3 per year

Buildings in Year 8

Expenses

Selling Costs – 3 percent

Escalation Factor

Revenue – 1.5 percent per year

Expenses – 2.5 percent per year

With Sale of Buildings, but including Timber in Year 1

| | <u>High</u> | <u>Low</u> | <u>Probable</u> |
|------------------------------|-------------|------------|-----------------|
| Net Present Value Conclusion | \$7.1M | \$6.5M | \$6.8M |
| Net Cash Flow | \$9.2M | \$9.2M | \$9.2M |
| Discount Rate | 15% | 25% | 20% |

**WSIB- Buckley
Discounted Cash Flow**

**Alternative 3- Sell Excess Land and Buildings Independently
Probable**

Sales Proceeds:

| | \$/SF | \$/Lot | Uninflated | Inflated |
|-----------------------------|--------|-------------|--------------------|--------------------|
| 80-Acre Lots | \$0.05 | \$160,000 | \$1,152,000 | \$1,225,302 |
| 20-Acre Lots | \$0.16 | \$140,000 | 1,610,000 | 1,669,657 |
| 1-Acre Lots | \$0.00 | \$0 | 0 | 0 |
| Buildings | \$1.43 | \$1,240,000 | 0 | 1,376,208 |
| Include Bldgs (0=no, 1=yes) | | | 1 | |
| Total Sales Proceeds | | | \$2,762,000 | \$4,271,166 |

Selling Costs

| | | | |
|--------------------|-------|-------------|-------------|
| Net Sales Proceeds | 3.00% | (128,135) | (128,135) |
| | | \$2,633,865 | \$4,143,031 |

Costs:

| | \$/SF | Bldg./SF | Uninflated | Inflated |
|------------------------|--------|----------|------------|----------|
| Demolition | 0 | 865,000 | \$0 | \$0 |
| Lot Development Costs: | | | | |
| Phase I | 0 | 0 | \$0 | \$0 |
| Phase II | 0 | 0 | 0 | 0 |
| Phase III | 25.00% | 0 | 0 | 0 |
| Phase IV | 50.00% | 0 | 0 | 0 |
| Cost/Lot | 0 | 0 | 0 | 0 |
| Total Costs | | \$30,000 | \$0 | \$0 |

Net Cash Flow

| | | |
|-------------------------------|-------------|-------------|
| | \$2,633,865 | \$4,143,031 |
| Net Cash Flow- Include Timber | 5,080,000 | \$9,223,031 |

Value Today:

| | | | |
|-------------------|-------------|-------------|-------------|
| Discount Rate | 20.00% | 15.00% | 25.00% |
| Net Present Value | \$1,687,342 | \$2,049,011 | \$1,412,213 |
| Timber Value | \$5,080,000 | \$5,080,000 | \$5,080,000 |
| Total Value Today | \$6,767,342 | \$7,129,011 | \$6,492,213 |

Absorption:

| | Start | Acres/Lot | Lots/Year | Lots Sold |
|--------------|-------|-----------|-----------|-----------|
| 80-Acre Lots | 2 | 80 | 1 | 7.20 |
| 20-Acre Lots | 2 | 20 | 3 | 11.50 |
| 1-Acre Lots | 2 | 1 | 8 | 0.00 |

Escalators:

| | |
|-----------------------|-------|
| Sales Price Escalator | 1.50% |
| Cost Escalator | 2.50% |

Land Summary:

| | # of Lots | Gross Acres | Net Acres |
|--------------|-----------|-------------|-----------|
| 80-Acre Lots | 7.20 | 576 | 576 |
| 20-Acre Lots | 11.50 | 230 | 230 |
| 1-Acre Lots | 0.00 | 0 | 0 |
| Water | 10 | 10 | 0 |
| Wastewater | 133 | 949 | 0 |
| Total Acres | | 949 | 806 |
| Square Feet | | | |
| Site Loss | | | 30.00% |

| | 1 | 2 | 3 | 4 | 5 | 6 | Z |
|--|-----|-----------|-----------|-----------|-----------|-----------|-----------|
| | \$0 | \$162,400 | \$164,836 | \$167,309 | \$169,818 | \$172,365 | \$174,951 |
| | 0 | 426,300 | 432,695 | 439,185 | 371,477 | 0 | 0 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | \$0 | \$588,700 | \$597,531 | \$606,493 | \$541,295 | \$172,365 | \$174,951 |
| | 0 | (17,661) | (17,926) | (18,195) | (16,239) | (5,171) | (5,249) |
| | \$0 | \$571,039 | \$579,605 | \$588,299 | \$525,057 | \$167,194 | \$169,702 |
| | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | \$0 | \$571,039 | \$579,605 | \$588,299 | \$525,057 | \$167,194 | \$169,702 |

**WSIB- Buckley
Discounted Cash Flow**

Alternative 3- Sell Excess Land and Probable

| | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
|-----------------------------|-------------|----------|--------|-----|-----|-----|-----|-----|-----|
| Sales Proceeds: | | | | | | | | | |
| 80-Acre Lots | \$177,575 | \$36,048 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| 20-Acre Lots | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1-Acre Lots | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Buildings | 1,376,208 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Include Bldgs (0=no, 1=yes) | 1 | | | | | | | | |
| Total Sales Proceeds | \$1,553,783 | \$36,048 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Selling Costs | (46,613) | | | | | | | | |
| Net Sales Proceeds | \$1,507,169 | \$34,966 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | | | | | | | | | |
| Costs: | | | | | | | | | |
| Demolition | 0 | \$4.00 | \$4.00 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Lot Development Costs: | | | | | | | | | |
| Phase I | 1 | 865,000 | \$4.00 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Phase II | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Phase III | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Phase IV | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cost/Lot | \$30,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Costs | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Net Cash Flow | \$1,507,169 | \$34,966 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

Net Cash Flow- Include Timber

| | |
|---------------------|-------------|
| Value Today: | |
| Discount Rate | 20.00% |
| Net Present Value | \$1,687,342 |
| Timber Value | \$5,080,000 |
| Total Value Today | \$6,767,342 |

| Absorption: | Start | Acres/Lot | Lots/Year |
|--------------------|-------|-----------|-----------|
| 80-Acre Lots | 2 | 80 | 1 |
| 20-Acre Lots | 2 | 20 | 3 |
| 1-Acre Lots | 2 | 1 | 8 |

| Escalators: | Sales Price Escalator | Cost Escalator |
|--------------------|-----------------------|----------------|
| | 1.50% | 2.50% |

| Land Summary: | # of Lots | Gross Acres | Net Acres |
|----------------------|-----------|-------------|-----------|
| 80-Acre Lots | 7.20 | 576 | 576 |
| 20-Acre Lots | 11.50 | 230 | 230 |
| 1-Acre Lots | 0.00 | 0 | 0 |
| Water | 10 | 0 | 0 |
| Wastewater | 133 | 0 | 0 |
| Total Acres | 949 | 806 | 806 |
| Square Feet | | | |
| Site Loss | | | 30.00% |

**WSIB - Buckley
Discounted Cash Flow**

Alternative 3 - Sell Excess Land and Probable

| | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 |
|-----------------------------|----------|-----|-----|-----|-----|-----|-----|-----|-----|
| Sales Proceeds: | | | | | | | | | |
| 80-Acre Lots | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| 20-Acre Lots | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 1-Acre Lots | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Buildings | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Include Bldgs (0=no, 1=yes) | 1 | | | | | | | | |
| Total Sales Proceeds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Selling Costs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Sales Proceeds | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| | | | | | | | | | |
| Costs: | | | | | | | | | |
| Demolition | 0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Lot Development Costs: | | | | | | | | | |
| Phase I | 1 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Phase II | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Phase III | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Phase IV | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cost/Lot | \$30,000 | | | | | | | | |
| Total Costs | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Net Cash Flow | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |

Net Cash Flow - Include Timber

| Value Today: | |
|---------------------|-------------|
| Discount Rate | 20.00% |
| Net Present Value | \$1,687,342 |
| Timber Value | \$5,080,000 |
| Total Value Today | \$6,767,342 |

| | Start | Acres/Lot | Lots/Year |
|--------------|-------|-----------|-----------|
| 80-Acre Lots | 2 | 80 | 1 |
| 20-Acre Lots | 2 | 20 | 3 |
| 1-Acre Lots | 2 | 1 | 8 |

| Escalators: | |
|-----------------------|-------|
| Sales Price Escalator | 1.50% |
| Cost Escalator | 2.50% |

| Land Summary: | | |
|----------------------|-------------|-----------|
| # of Lots | Gross Acres | Net Acres |
| 80-Acre Lots | 7.20 | 576 |
| 20-Acre Lots | 11.50 | 230 |
| 1-Acre Lots | 0.00 | 0 |
| Water | 10 | 0 |
| Wastewater | 133 | 0 |
| Total Acres | 949 | 806 |
| Square Feet | | |
| Site Loss | | 30.00% |

Recommendations

RECOMMENDATIONS

Based on our analysis, we recommend following the strategy presented as *Alternative III: Disposition of Properties Not Associated with Campus, While Keeping Campus Intact for Continued Use or Sale* above. There is ample excess land on this campus that can be optimized through near- to mid-term sales and the addition of the 100 to 150 acres for the existing Campus area should be considered a second priority. This also allows DSHS the option to continue operations at the Site as long as it wishes. The shifting of the utilities provides the appropriate control of these utilities and allows the opportunity for redevelopment of the area south of Collins Road in the future following DSHS's discontinued use of the Site. Due to the negative land value of the campus area when taking into account the demolition costs, until the land value exceeds demolition costs, there is no practical reason to demolish the campus and, in most cases, the demolition would be completed by a buyer, not the State. The only two practical options at this time, if the campus is no longer used by DSHS, are to mothball the Site or to sell the Property as a campus.

The following timeline illustrates the implementation steps described above in Alternative III.

STATE OF WASHINGTON DSHS CAMPUSES
Rainier School - Buckley Property Timeline

