DATE: April 23, 2019

TO: Emily Ferguson, State and Local Assistance Program, NPS
Roger Knowlton, Acting Chief, Recreation Grants, Midwest Region, NPS

FROM: Ryan P. Lee, RPRA, Review Appraiser, AVSO

SUBJECT: Quality Assurance Inspection of the Appraisal Reports and Appraisal Review Reports for the RiverPlex Conversion and Rocky Glen Replacement properties located in the Peoria and West Peoria, Illinois

Background and Reasons for Inspection

The Land and Water Conservation Fund (LWCF) State Assistance Program Federal Financial Assistance Manual (the “manual”) stipulates that the State has the responsibility for “ensuring appraisals are reviewed by state certified review appraisers pursuant to the Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA), and for approving appraisals.”¹ UASFLA is the appraisal standard used by state and local appraisers in the preparation of appraisals for LWCF assisted acquisitions and the completion of conversions pursuant to Section 6(f) of the LWCF Act.² The federal standards (UASFLA) are considered supplemental standards to the Uniform Standards of Professional Appraisal Practice (USPAP).

NPS conducts spot checks of appraisal and appraisal review reports and will review the State’s LWCF appraisal review process as part of a state program review to assure compliance with the LWCF requirements and federal appraisal standards. The NPS may, and in this case has, requested a compliance review of the appraisal and appraisal review report by the Department of the Interior’s Appraisal and Valuation Services Office (AVSO).

As the Departmental authority on valuation services, Departmental Manual 602 DM 1 and 112 DM 33 outline that AVSO has responsibility for external quality assurance and compliance reviews of valuation services to the Department’s bureaus and offices to ensure that valuation products comply with statutory authority, applicable regulations, valuation standards, and the assignment specific statement of work. The AVSO Chief Appraiser is tasked with this responsibility to ensure real property valuation procedures and standards are being maintained for any Department of the Interior funded transactions where an appraisal is involved.

Methodology and Scope

The inspection was limited to a review of electronic copies (provided by NPS) of the appraisal reports for the RiverPlex conversion parcel and Rocky Glen replacement parcel as well as the appraisal review reports prepared for both parcels. The appraisal report for the RiverPlex conversion property reflects a retrospective effective date of October 15, 2015 and a report date of March 18, 2019; whereas, the appraisal report for the Rocky Glen replacement property reflects a retrospective effective date of October 15, 2015 and a report date of March 14, 2019. The appraisal reviews (2) reflect report dates of April 4 (conversion) and April 2, 2019 (replacement). No appraiser or review appraiser work files were provided as part of this inspection. Neither the appraiser nor review appraiser were contacted as part of the inspection. The reports were inspected as provided by NPS for their compliance with the applicable standards (UASFLA, USPAP) and the LWCF State Assistance Program Federal Financial Assistance Manual.

Findings – Appraisal Reports – RiverPlex conversion and Rocky Glen replacement parcels

While both appraisal reports are generally well-written, do an excellent job framing the assignments for the benefit of the reader (i.e. discussing manual requirements and treatment of proposed conversion activity as a land exchange for valuation purposes), and reasonably conform to UASFLA and USPAP requirements, the following items would appear to warrant revision or clarification by the appraiser, in consultation with the review appraiser:

3.345-acre conversion parcel

Location of “significant portion” of subject in a flood hazard area – The appraisal report (p. 19) notes that “a significant portion of the subject site is located in a flood hazard area”; however, the subject’s location within a flood hazard area is not specifically considered in the appraisal report’s highest and best use analysis or in direct comparison of the sales to the subject (please refer to UASFLA sections 1.3.1.3, 2.3.3.1.1, and 4.4.2.1).

Consideration of easements relative to subject’s property rights – The appraisal report (p. 14, p. 19) notes the subject property to be encumbered by multiple utility easements; however, the potential impact of these outstanding rights (utility easements) are not specifically considered in the appraisal report’s direct comparison of the sales to the subject (please refer to UASFLA sections 1.5.2.3, 2.3.3.2.1, and 4.4.2.1).

Treatment of assemblage motivation noted for sale #4 – The appraisal report (sale transaction sheet) notes sale #4 to be an assemblage purchase by the adjacent owner. The sales comparison “grid” (p. 34) indicates a downward adjustment for assemblage motivation applied to the sale; whereas, the narrative analysis (p. 36) only notes the buyer’s indication that no notable premium for assemblage was paid. Therefore, it is unclear whether an adjustment for assemblage motivation was actually applied or warranted, and if so, what basis exists for the adjustment.
Use of “options to purchase” by government entity for direct comparison purposes – The appraisal report includes four (4) transactions (comparable sales) for the purposes of direct comparison to the subject – two (2) of which reported to be options to purchase, both to the City of Peoria. It is unclear from the information included in the appraisal report whether the aforementioned options to purchase were “binding and unconditional” (as required by UASFLA section 4.4.2.4.6) or if the transactions subsequently closed (please refer to UASFLA section 4.4.2.4.7 regarding use of sales occurring after the date of valuation). Additionally, the appraisal report fails to document the extraordinary verification required by UASFLA sections 1.5.2.4 and 4.4.2.4.2(5) for sales to government entities. Lastly, the extent (if any) of the appraisal report’s reliance on the aforementioned options to purchase by the City of Peoria in development of the sales comparison approach to estimate value for the subject is not clearly understood (please refer to UASFLA section 2.3.3.4 which states “the appraiser shall explain the comparative weight given to each comparable sale”).

71.593-acre conversion parcel

Lack of consideration for potential of size adjustment – The appraisal report includes five (5) sales for the purposes of direct comparison to the 71.593-acre subject property, three (3) of which ranging in size from 24.7 acres to 28.6 acres and two (2) of which ranging in size from 64.7 acres to 75.2 acres. The sales (#1-3) reflecting smaller / less size (as compared to the subject) report unadjusted unit values ($/ac.) ranging from $3,644/ac. to $3,900 per acre; whereas, the sales (#4-5) reflecting more similar size (as compared to the subject) report unadjusted unit values ($/ac.) ranging from $3,331/ac. to $3,355/ac. No specific consideration for differences in size (sales as compared to subject) was identified in the appraisal report. Given the smaller sales (two of which receiving the greatest weight per the appraisal report) report the highest unit values ($/ac.), differences in size in the sales comparison approach as an element of comparison should be considered – consistent with UASFLA sections 2.3.3.2.1, 4.4.2, 4.4.2.1, and 4.4.2.2 – particularly considering the prior sale of the subject (66.593 acres purchased in 2012 for $230,000 with additional 5 acres conveying in 2013 without monetary consideration) infers a sale price of $3,212/ac. (if based on 71.593 acres) or $3,454/ac. (if based on 66.593 acres). Sections 4.4.2 and 4.4.2.4.1 provide useful guidance regarding prior sales of the subject property.

Findings – Appraisal Review Reports – Riverview Park conversion and replacement parcels

The appraisal review reports fail to fully conform to UASFLA requirements, with the following deficiencies noted:

Development and Reporting of Opinions in Review Report – Other than the sections of the review reports utilized to identify the appraisal report reviewed and the real estate / real property interest appraised (effectively a summary of data contained in the appraisal report), the appraisal review reports prepared for both the appraisal reports (conversion and replacement parcels) are highly similar to one another (primarily in that they are heavily reliant on the use of checklists) and fail to identify any of the technical deficiencies described in the
previous sections of this quality assurance inspection report. Both review reports blend, as part of the reviewer’s scope of work, specific requirements found in UASFLA section 3.4 (titled “responsibilities of the review appraiser”). As a result, some responsibilities of the review appraiser cited in 3.4 are overlooked and minimal to no meaningful discussion or analysis is offered. For example, an opinion as to the adequacy of support for adjustments to the data, or lack thereof (flood hazard area, easements, and assemblage motivation for conversion parcel; size for replacement parcel) is not developed. As another example, an opinion of the adequacy and relevance of the data (use of options to purchase by a governmental entity for conversion parcel) is not developed.

Lastly, the letter of transmittal for the review report prepared for the Rocky Glen conversion parcel reflects a different value conclusion ($270,000) than cited elsewhere in the review report or as reconciled in the appraisal report ($272,000) – likely a typographical error that is easily corrected.

**Conclusion and Recommendations**

Neither the appraisal reports nor review reports are considered to have been developed fully in accordance with UASFLA. Both appraisal reports include technical deficiencies that could affect the reliability of the respective value conclusions, while the appraisal review reports fails to identify those technical deficiencies. Based on the findings outlined above, revisions or clarifications to the appraisal reports – typically to be sought by the review appraiser – would appear to be warranted.

For future cases, review appraisers should be instructed to gain familiarity with the appraisal requirements found in the LWCF State Assistance Program Federal Financial Assistance Manual and to follow the guidance provided in section 3 of the current edition of UASFLA (6th Edition) – particularly in sections 3.4 and 3.7. Section 3.4 outlines the responsibilities of the review appraiser and section 3.7 outlines the reporting requirements. Adherence to manual requirements and UASFLA guidance will result in much more relevant appraisal review reports and will serve to both identify and correct technical deficiencies in the appraisal report(s) under review.