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United States Government Accountability Office
Washington, DC 20548

September 26, 2006

The Honorable Greg Walden
Chairman
Subcommittee on Forests and Forest Health
Committee on Resources
House of Representatives

The Honorable Earl Blumenauer
House of Representatives

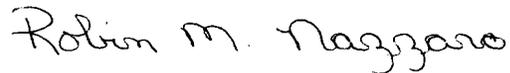
Subject: *Federal Land Exchange: Assessment of Mount Hood Land Appraisal Reports*

In response to your request, we briefed you and your staff on September 21, 2006, on the results of our review of two appraisal reports prepared for a proposed land exchange contained within the pending bill H.R. 5025, the Mount Hood Stewardship Legacy Act. This bill would authorize the exchange of private land and business interests at Cooper Spur for Forest Service land at Government Camp in Oregon. Specifically, you asked that we determine whether the appraisal reports supporting this land exchange were prepared in compliance with recognized appraisal standards, namely, appraisal industry standards as defined in the Uniform Standards of Professional Appraisal Practices (USPAP) and federal standards as defined in the Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA).

To conduct this work, we contracted with two certified appraisers to conduct separate and independent formal reviews of the Cooper Spur and Government Camp appraisal reports and to provide their professional opinions on whether these reports conform to the recognized industry and federal appraisal standards. We asked the review appraisers to conduct a desk review in accordance with appraisal standards, which consists of reviewing the information and analyses contained within the reports, as well as examining the internal logic and consistency. The appraisers did not independently verify the data presented within the reports, visually inspect the properties, or establish separate valuations of the properties.

Both appraisers concluded that the Cooper Spur appraisal report did not comply with the recognized standards, although they differed on whether the Government Camp appraisal report complied with the standards. On the basis of the review appraisers' reports and conclusions, we concluded that the federal government has limited assurance that the Cooper Spur and Government Camp appraisal reports reflect market value for the land and business interests proposed for this exchange. We discussed our results with the certified appraiser who prepared the appraisal reports and considered his comments in preparing our final report. Enclosure I provides the slides that we used in our briefing to you and your staff members. We conducted this work from August 2006 through September 2006 in accordance with generally accepted government auditing standards.

We are sending copies of this report to interested congressional committees and members, the Secretary of Agriculture, the Chief of the Forest Service, and other interested parties. We will also make copies available to others on request. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>. Should you or your staff have any questions, please contact me at (202) 512-3841 or by e-mail at nazzaror@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this briefing include David P. Bixler, Assistant Director; Nathan Anderson; Ellen W. Chu; Richard Johnson; and Arvin Wu.

A handwritten signature in black ink that reads "Robin M. Nazzaro". The signature is written in a cursive, slightly slanted style.

Robin M. Nazzaro
Director, Natural Resources
and Environment

Enclosure

Federal Land Exchange: Assessment of Mount Hood Land Appraisals Reports



**Federal Land Exchange: Assessment of Mount Hood
Land Appraisal Reports**

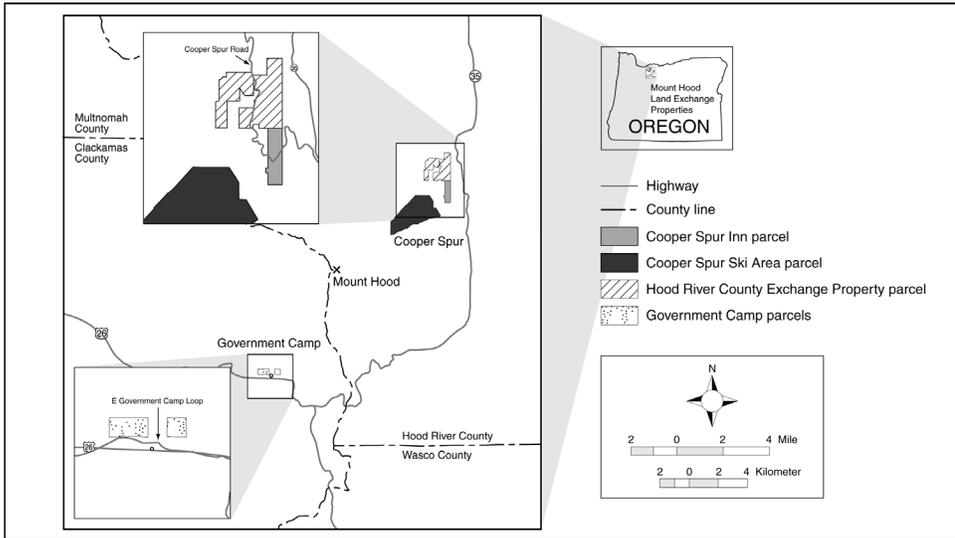
A Briefing for Congressional Requesters

September 21, 2006



- To resolve a 30-year dispute over potential development on Oregon's Mount Hood, a pending bill, H.R. 5025, would implement an agreement proposing to exchange private land and business interests at Cooper Spur for two parcels of Forest Service land at Government Camp
- In July 2005, the parties to the agreement contracted with a private land appraiser to estimate the market value of the land parcels to be exchanged

Location of Mount Hood Land Exchange Properties



Source: GAO analysis of data provided by the Forest Service.



Objective

To determine whether the appraisal reports supporting the land exchange were prepared in compliance with recognized appraisal standards:

- Uniform Standards of Professional Appraisal Practice (USPAP, herein called “industry standards”)
- Uniform Appraisal Standards for Federal Land Acquisitions (UASFLA, herein called “federal standards”)

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- We contracted with two certified appraisers having the highest appraisal industry designation (MAI) to independently review the appraisal reports and provide their professional opinions on whether the reports conformed to recognized appraisal standards
- Because of time constraints, the review appraisers performed a desk review, which “involves, in addition to confirmation that the report was prepared in accordance with these Standards, a thorough review and analysis of the information and analysis contained in the appraisal report under review and a careful examination of the internal logic and consistency”¹
- Review appraisers did not visually inspect the properties or establish a separate valuation

¹Interagency Land Acquisition Conference, *Uniform Appraisal Standards for Federal Land Acquisitions*, UASFLA Section C-2 (Chicago: Appraisal Institute, 2000)



Cooper Spur properties consist of three components:

- Cooper Spur Inn (privately owned)
 - 3 acres zoned for commercial use, containing the Inn at Cooper Spur resort, including lodge with six guest rooms, three two-bedroom suites, five cabins, and hot tubs
 - 152 acres zoned as undeveloped forestland
- Cooper Spur Ski Area (privately owned business interest on Forest Service land)
 - 1,400 acres under a Forest Service special-use permit allowing permit holder to build, operate, and maintain a winter sports resort, including a 50-acre ski area with facilities such as 10 ski runs, ski lifts, and day lodge; designated for wilderness recreation use
- Hood River County Exchange Property (privately owned)
 - 614 acres zoned as undeveloped forestland



Government Camp properties consist of two parcels owned by the Forest Service:

- 40-acre undeveloped parcel, zoned for low-density residential development if transferred to private ownership
- 80-acre undeveloped parcel, zoned for low-density residential development if transferred to private ownership



- Objective land appraisals lie at the heart of establishing the market value of a property or property interest to help guard against vested interests of buyer and seller
- In general, two sets of standards—appraisal industry (USPAP) and federal (UASFLA)—apply to appraisals for federal land transactions:
 - Federal standards conform to industry standards but add requirements and restrictions to conform with federal law about valuation of real estate for government acquisition
 - Both standards require an appraiser to identify, verify, analyze, and reconcile all pertinent information to produce an objective and credible appraisal value



Industry and federal standards require appraisers to identify a land parcel's "highest and best use." Highest and best use includes what is:

- Legally permissible: zoning, building codes, historic district controls, and environmental regulations
- Physically possible: size, shape, and terrain
- Financially feasible: potential uses likely to produce income equal to or greater than expenses
- Maximally productive: the legally permissible, physically possible, and financially feasible use that produces the highest value



Industry standards clearly state:

“Each written or oral real property appraisal report must:

- “(a) clearly and accurately set forth the appraisal in a manner that will not be misleading;
- “(b) contain sufficient information to enable the intended users of the appraisal to understand the report properly; and
- “(c) clearly and accurately disclose all assumptions, extraordinary assumptions, hypothetical conditions, and limiting conditions used in the assignment.”

Source: Appraisal Foundation, *2005 Uniform Standards of Professional Appraisal Practice*, USPAP Standards Rule 2-1 (Washington, D.C.: 2005)

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- Both review appraisers concluded that the Cooper Spur appraisal report did not comply with recognized standards
- The two review appraisers differed on whether the Government Camp appraisal report complied with recognized standards



Both review appraisers concluded that the Cooper Spur appraisal report did not comply with recognized standards.

- **Cooper Spur Inn:** Both reviewers found lack of support for zoning assumptions:
 - Evidence was insufficient to support assumption of zoning change, which formed the basis of a “highest and best use” designation as resort development for about 80 acres of forestland
 - Appraiser did not mention local opposition to rezoning from forestland to resort development, potentially violating federal appraisal standards²



- **Cooper Spur Inn (cont.):** Both reviewers found lack of support for land value appreciation assumptions.
 - Evidence was insufficient to support use of an 18 percent annual land value appreciation rate
 - An 18 percent annual land value appreciation rate was inappropriately applied to entire parcel (existing commercial, potential resort, and undeveloped forest lands)



- **Cooper Spur Ski Area:** Both reviewers found lack of support for income assumptions for the ski area.
 - Estimate of income was based on data from a single ski season (2004–05), a good snow year
 - Estimate of income appeared high because the Cooper Spur ski operator shared expenses with another nearby ski facility



- **Cooper Spur Ski Area (cont.):** Both reviewers found lack of support for the conversion of income to value.
 - Appraisal report justified use of a high conversion factor on the basis of the potential for future ski area expansion but offered no evidence for this assumption
 - Range of multipliers used in the conversion was based on much larger resorts at higher elevations—such as Heavenly Mountain Resort near Lake Tahoe in California and Nevada and Grand Targhee in Wyoming—which may not be comparable to the Cooper Spur resort



- **Hood River County Exchange Property**
 - One reviewer concluded that this component of the Cooper Spur appraisal report complied with recognized standards.
 - The other reviewer concluded that this component did not comply with recognized standards. The valuation of this component was based primarily on the work of a forestry consultant, and the review appraiser found insufficient evidence of the consultant's findings in the appraisal report to justify that valuation.



- **Other Concerns**

- One review appraiser also noted that, contrary to industry standards,³ the three Cooper Spur properties were valued separately and a single aggregate value was not given, even though the Government Camp and Cooper Spur properties were to be exchanged in aggregate.
- The other review appraiser noted that the Forest Service was not listed as an intended user in the Cooper Spur appraisal report. According to federal standards, federal land agencies and private landowners are both “intended users” of appraisals for federal land exchanges and must be named in such appraisals.⁴

³USPAP Standards Rule 1-4(e)
⁴UASFLA Section D-7



The review appraisers differed in their conclusions on whether the Government Camp appraisal report complied with recognized standards but shared a similar concern about the annual land value appreciation rates used in the appraisal reports



One reviewer concluded that the Government Camp appraisal report complied with recognized standards but noted two problems:

- Use of a 10 percent annual land value appreciation rate for Government Camp appeared inconsistent with the 18 percent used for Cooper Spur
- The two Government Camp parcels were valued separately and a single aggregate value was not given, even though the Government Camp and Cooper Spur properties were to be exchanged in aggregate



The other reviewer concluded that the Government Camp appraisal report did not comply with recognized standards when compared with the Cooper Spur appraisal report:

- Using a 10 percent annual land appreciation rate for Government Camp may understate its value, given the land appreciation rate of 18 percent used for Cooper Spur
 - Government Camp has a more active residential market
 - Government Camp is closer to Portland
 - Government Camp has more commercial amenities



- Like the appraisal report for Cooper Spur, the appraisal report for Government Camp did not list the Forest Service as an “intended user,” although federal standards state that federal land agencies and private landowners are both intended users of appraisals for federal land exchanges and must be named in such appraisal reports



One reviewer found it difficult to reconcile the appraised values of Cooper Spur and Government Camp with the potential for development at each site. For example, the reviewer noted that future development at Cooper Spur would require:

- Approval for rezoning, while Government Camp already has zoning in place
- Construction of infrastructure, while such infrastructure already exists adjacent to Government Camp
- Approval to expand the ski area, without which potential development may not be feasible, whereas ski resorts already exist near Government Camp
- Addressing public opposition and environmental concerns that Government Camp has not faced



On the basis of the review appraisers' reports and conclusions, the federal government has limited assurance that the Cooper Spur and Government Camp appraisal reports reflect market value

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