CHAPTER 7

APPRAISALS
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7.00.00.00 - APPRAISALS

7.01.00.00 - APPRAISAL POLICIES AND GENERAL REQUIREMENTS

7.01.01.00 General Overview

Article I, Section 19 of California Constitution states ***"Private property may be taken or damaged for public use only when just compensation, ascertained by a jury unless waived, has first been paid to, or into court for, the owner."***

7.01.01.01 Definition of Market Value

The measure of "just compensation" is "market value." Section 1263.320 of the California Code of Civil Procedure defines market value as:

"(a) The fair market value of the property taken is the highest price on the date of valuation that would be agreed to by a seller, being willing to sell but under no particular or urgent necessity for so doing, nor obliged to sell, and a buyer, being ready, willing and able to buy but under no particular necessity for so doing, each dealing with the other with full knowledge of all the uses and purposes for which the property is reasonably adaptable and available.

"(b) The fair market value of property taken for which there is no relevant, comparable market is its value on the date of valuation as determined by any method of valuation that is just and equitable."

A just and equitable method of determining the value of nonprofit, special use property as defined, for which there is no relevant, comparable market is:

"The cost of purchasing land and the reasonable cost of making it suitable for the conduct of the same nonprofit, special use, together with the cost of constructing similar improvements."

This method of valuation pertains only to those properties where all of the following apply:

1. Operated for a special nonprofit use such as a school, church, cemetery, hospital or a similar property.
2. Tax-exempt.

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3. Not owned by a public entity.
4. There is no relevant, comparable market.

See Section 7.04.13.00 for further details.

7.01.01.02 Necessity for Appraisal

An appraisal is necessary to ensure compliance with the Constitution in arriving at a conclusion of just compensation. The basic document in all appraisals is the Appraisal Report. It contains the appraiser's estimate of fair market value and all data and narrative necessary to support the appraiser's conclusions.

An approved report is generally required for acquisition, property management, relocation assistance and record purposes. It is of critical importance to further Right of Way activity. It must be complete and reliable in all its contents.

The report will be a summary of basic information and conclusions together with pertinent support. It shall contain information about the properties and general aspects of the entire project. Additional backup information such as detailed improvement descriptions and plans, additional photographs, bids, detailed cost studies, interview records, additional comparable data, utility relocation studies, etc., should be maintained until acquisition is complete and the files are no longer necessary for record, testimony, or RAP purposes.

7.01.02.00 Appraisal Report Not Required

When the Region/District determines that the valuation problem is uncomplicated and the fair market value is estimated at $10,000 or less, based on a review of available data, an appraisal report is not necessary under the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended. The $10,000 amount includes severance damages but excludes any nonsubstantial construction contract work. Authority to waive the appraisal is provided for in Federal Regulation [49 CFR 24.102(c)(2)]. Authority to make this determination rests with the Region/District Right of Way Manager (Region/District R/W Mgr.), who may delegate it. The documentation required is the "Waiver Valuation." (See Section 7.02.13.00.) The Waiver Valuation **cannot** be used as a basis for deposit when obtaining an Order for Possession.

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7.01.03.00 Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended (Uniform Act)

The Federal Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended (Uniform Act) contains basic requirements for the appraisal of real property for Federal and federally-assisted land acquisition programs. These basic requirements shall apply to all projects, regardless of Federal participation. Appraisals are to be prepared according to these requirements, which are intended to be consistent with the Uniform Standards of Professional Appraisal Practice (USPAP).

49 CFR 24.1, 24.101, 24.102, 24.103, and 24.104 set forth these basic requirements.

7.01.04.00 Standards

The appraiser will thoroughly investigate and consider every material fact regarding the market value of the appraised property. Every effort will be made to interview the property owners and to secure factual information on the subject property sales, costs, alterations, income and expense data, age, etc. The subject properties and comparable data shall be viewed in the field and all improvements to be appraised shall be carefully inspected. The appraiser should refrain from furnishing detailed information regarding valuation, time schedule or construction items. At the appraisal stage, such information is usually incomplete and subject to change.

7.01.04.01 Appraiser Qualifications

The Associate Right of Way Agent is considered the staff appraiser for routine to complex eminent domain real property appraisals not involving Federally insured financial lending institutions. Staff appraisers (Associate Right of Way Agent) are not additionally required to be licensed by any other State agency having real property appraisal oversight. Ranges A and B Right of Way Agents are considered the staff appraiser when the work product is directly supervised by and cosigned by an Associate Right of Way Agent.

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7.01.05.00 Separation of Appraisal and Acquisition Functions

The Department of Transportation (Department) maintains a separation of the appraisal and acquisition functions, except that the same person can appraise and negotiate a parcel if total valuation, excluding nonsubstantial construction contract work, is $10,000 or less. This dollar limit also applies to revisions where the appraiser was previously assigned to negotiate the parcel. The valuation document can be either an appraisal or Waiver Valuation as discussed in 7.01.02.00 above.

When the same person prepares the appraisal and performs the acquisition, the Certificate of Appraiser must be revised from the standard Certificate. It should contain a statement substantially as follows: *"That I understand that I may be assigned as the Acquisition Agent for one or more parcels contained in this report but this has not affected my professional judgment nor influenced my opinion of value."*

Members or candidates of professional appraisal organizations who are assigned to act in the dual capacity of appraiser and acquisition agent should check their organization's code of ethics for specific prohibitions and disclosure requirements.

7.01.06.00 Prerequisites for *"Preliminary Right of Way"*

Right of Way Planning and Management is the lead right of way function concerning prerequisites for commencement of all "preliminary engineering" activities, "preliminary right of way" activities, and "regular right of way" activities. See Chapter 3.

Preliminary Right of Way is defined as those Right of Way activities that occur after:

A. The project is programmed or lump sum funded. (Activities are typically charged as Right of Way support to the project's Phase 2 expenditure authorization.)

B. Budgeted spending has occurred.

   1. The project is in the current approved Right of Way Capital Plan or in the proposed Right of Way Capital Plan for the budget year.

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2. Other entity funding is secured. The source of funding is in accordance with the terms of a Cooperative Agreement with a Local Public Agency, if applicable.

The Preliminary Right of Way Activities are:

1. Ordering Title Reports.
2. Preparing Base Maps.
3. Preparing Appraisal Maps.
4. Conducting project-wide comparable sales searches once a preferred alternate is internally selected.

In addition, the preferred alternate must be made public in some manner, e.g., newspaper announcement, distribution of the final environmental document, or the like, before the following activities can take place.

5. Assigning appraisers to specific parcels.
6. Contacting the property owners to commence appraisal activity (i.e., sending the Notice of Decision to Appraise).
7. Completing the appraisal.

These prerequisites do not apply to hardship and protection appraisals.

Final environmental clearance is a prerequisite to commencing regular right of way acquisition. The exception to this rule is when "early acquisition" is approved. See the Early Acquisition Guidelines (Reference 3-EX-6). Appraisal support costs may or may not qualify for federal aid. PA&ED along with E-76 approval is the point at which parcel specific right of way support costs become eligible for federal aid on a federally eligible project.

7.01.07.00 Dual Report Requirements

The District may determine that dual reports are needed to ensure the owner receives a fair market value offer. Duals should be considered for unusually large or complicated parcels or parcels exceeding $500,000 in value. This amount includes improvements pertaining to realty, severance damages, and substantial construction contract work.

The following are items to consider in determining which parcels may require dual reports:

- There is a serious question as to highest and best use.

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- Market data is inconclusive because of its scarcity and/or absence of established patterns.

- There are substantial improvements not compatible with the highest and best use of the land.

- A significant portion of the appraised value is severance damages or there is a substantial question regarding damages or benefits.

- The value of the land is primarily on a development-analysis approach, or there is reliance on a specific plan of proposed development.

Dual reports shall be separate, and fully independent in calculations, analysis and conclusions. This will give a better basis for determining market value and help ensure a sound offer. The appraisers and their Region/District supervisors are responsible for maintaining the fact, spirit and appearance of this independence.

For dual report requirements pertaining to the direct sale of excess commercial property pursuant to S&H Code Section 118.1, refer to Excess Land Appraisals 7.14.02.02.

7.01.08.00 Donations

Anticipated donations must first be appraised unless the following apply:

A. The donation is initiated by the owner, and

B. The owner, after being informed of the right to receive just compensation, provides the Region/District with a signed statement or letter waiving said right to receive just compensation and releasing the State from its obligation to appraise the property.

If an owner provides a signed statement or letter waiving just compensation but requesting an appraisal, the Notice of Decision to Appraise is not required.

In the past, IRS has indicated that staff appraisers may not be used to appraise donations in excess of $5,000 which are to be claimed as charitable contributions for Federal tax purposes. The owner should be advised to check with a tax consultant, IRS and/or the Franchise Tax Board if this or other questions of tax implications arise.

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Donations may be used as matching fund credit to a Local Agency. This can apply on selected route segments where a local agency is required to match State right of way protection expenditures. The donation must be appraised to establish the contributory value to be credited to the local agency.

7.01.08.01 Credit Toward State's Matching Share

Section 146(a) of the Surface Transportation and Uniform Relocation Assistance Act of 1987 provides that the fair market value of land lawfully donated after April 2, 1987, and incorporated into the project, may be used as credit toward the State's matching share for a Federal-aid highway project. No credit can be allowed for any amount negotiated with the owner which exceeds the appraised fair market value. The credit applies only to bona fide donations. It does not apply to dedications. The fair market value shall be established by an appraisal made in conformity with the provisions of 49 CFR 24.103 and 24.104, subject to the following conditions:

A. Increases and decreases in the value of the donated property caused by the project are to be excluded.

B. The appraisal shall not reflect damages or benefits to remaining property.

C. The fair market value shall be established as of the date the donation becomes effective or when equitable title vests in the State, whichever is earlier.

Donated land must be incorporated into the project to be eligible for credit purposes. Donations made by a Federal or State government agency are not eligible for project credit purposes. A contribution by a unit of local government of real property which is offered for credit, in connection with a project eligible for assistance under this title, shall be credited against the State share of the project at fair market value of the real property. Property may also be presented for project use with the understanding that no credit for its use is sought. Right of Way shall assure that the acquisition satisfied the conditions in 23 CFR 710.501(b) and the documentation justifies the amount of the credit.

All appraisals involving donations for credit to State matching funds must otherwise meet the same standards as normal acquisition appraisals. See Chapter 8 for further information related to Acquisition.

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7.01.09.00 Dedications

Legal considerations concerning the appraisal of property having future street requirements as of the date of value are summarized in this section. Legal considerations are not to be confused with factual determinations which are to be made in every instance by the appraiser. Appraising a property with future street requirements can prove problematic when the property is located in such manner that in order to comply with the master plan of streets or the master plan of zoning, additional street areas will be required to be dedicated and improved in the reasonable near future as of the date of valuation for the purposes of the appraisal. These properties generally fall into four categories:

A. Those already improved to their highest and best use.

   The property that is already enjoying the highest and best use and the street requirement, while considered, must be assumed to not affect valuation. It is unlikely that the local governing body could force a dedication if the property is already developed to its highest and best use. If the street were to be widened, the local governing body would be required to condemn the necessary area. Therefore, this property should be valued at full market value under the highest and best use.

B. Those already zoned to their highest and best use.

   Generally, a dedication requirement arises as a condition for a change of zone. If that is the only requirement of the local governing body, then the conclusions under Category A would be followed. However, a significant number of local governmental entities have adopted building permit requirements, as opposed to zone change requirements, which impose dedication requirements as a condition for obtaining a building permit. If the property is found in such a political entity, then the conclusion under Category C would be followed.

C. Those not zoned or improved to their highest and best use.

   Since the required street area would have to be dedicated before the property could achieve its zoning or building permit for highest and best use, the required area would likely have a nominal value. In this instance, the value of the area to be dedicated is reflected in the higher unit value of the remaining property which is generated by such dedication. It follows then that the average unit value theory could not apply and the nominal value theory would be used. In any event, if the

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appraiser finds that by reason of the local agency's governing provisions the land probably will never be used for street purposes, the appraiser should take that into consideration in forming an opinion of value.

D. Those properties which would fall within Category C, except there is an interim use of some significant time period before the ultimate highest and best use is developed.

   The area to be dedicated would have the same unit value as either the whole property or the remaining property by the interim use, assuming, that the time of the interim use and the value of the interim use were of such significance as to affect the appraiser's ultimate conclusions of value.

In all of these instances, the future requirement of street dedication with the ultimate improvement of the street for city or county standards must be considered by the appraiser.

7.01.10.00 Notice of Decision to Appraise

The appraiser must advise the property owner of the State's decision to appraise the property. The notice must be in writing and cover the following:

A. A specific area is being considered for a particular public use, i.e., the project;

B. The owner's property is located within the project area; and

C. All or a portion of the owner's property (which should be generally described) may be acquired for public use.

The letter will offer the owner (or the owner's representative) the opportunity to accompany the appraiser on an inspection of the property. It will give reasonable advance notice. There is no mandatory format for the notice; however, see Exhibit 7-EX-17 for a suggested format.

Enclosed with the letter to the owner will be the following:

A. Written explanation of the Department's land-acquisition procedures. The booklet "Your Property, Your Transportation Project" will satisfy this requirement; and

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B. A Title VI brochure and other required items listed in R/W Manual Chapter 2, Section 2.04.01.02.

The Notice and acquisition procedure explanations may be modified as necessary when doing contract appraisal work for other agencies, when the property owner is a governmental agency, etc. Governmental agencies are entitled to written notice, etc., just like a private property owner; however, judgment should be used as to the need to send complete notices and packages to the same agency time after time.

7.01.11.00 Parcel Diary

The appraiser will initiate the Parcel Diary Form RW 7-1 for each ownership. The appraiser shall include all required information covered in the instructions. The form should be initiated by an appropriate entry indicating the date the parcel is assigned for purposes of preparing an appraisal, together with entries documenting parcel data. The parcel diary is an internal document to be forwarded with the appraisal for review and kept in the parcel file for documentation.

7.01.12.00 Responsibility for Providing RAP Information

The Appraisal Branch is responsible for the following:

A. The Appraiser, when asked, shall give accurate, basic relocation information to all potential displaced persons encountered during the appraisal process.

B. Pursuant to Federal regulations, the RAP Branch is required to advise potential displacees of their possible RAP benefits as soon as the occupants are identified. The Code of Federal Regulations also requires each business to be interviewed by the RAP Agent prior to the initiation of negotiations. The appraiser is usually the first contact a potential displaced person has with the Department. When an appraisal (primary or alternate) indicates a displacement of people, businesses, and/or personal property, the appraiser is to complete the Parcel Occupancy Data Form RW 7-2 at the time of the first meeting or contact with the owner. This is true whether the displacement would result from the taking of right of way or from the effect of the taking on the remainder. Note that a displacement may occur even though there are no severance damages to the real property (a "consequential" displacement). This form may be modified to cover a

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residential or business only displacement. The RAP Agent may accompany the appraiser during the inspection of the subject.

The Parcel Occupancy Data Form is an internal document; as such, it does not go forward with the appraisal. The appraiser is to forward the Parcel Occupancy Data Form to the Region/District RAP Branch at the earliest possible date and note in the Parcel Diary the date it was forwarded. The RAP Branch will then provide general relocation assistance information to all potential displacees listed. The RAP Branch will send the Title VI (Civil Rights) Survey form and a Title VI brochure to all known tenants.

The appraiser must immediately notify the appropriate branch (RAP, Acquisition, etc.) of information which may affect the displaced person's eligibility for RAP benefits (i.e., the knowledge that an occupant intends to move prior to the date of the first written offer), along with a parcel diary entry.

C. Where the appraisal of commercial, industrial, or other properties includes machinery, equipment, fixtures, and/or improvements pertaining to the realty, the appraiser shall, as part of the appraisal report:

   1. Itemize for identification: machinery, equipment, and fixtures which are considered realty, as well as those items determined to be Improvements Pertaining to the Realty (see California Code of Civil Procedure Sec. 1263.205). RAP will not pay for the relocation of realty.

   2. To the extent possible, determine the ownership or claims to ownership of the listed items as between the fee owner and tenants or lessees.

D. If the primary or alternate appraisal indicates occupied improvements will be acquired or may be acquired as uneconomic remnants (in the market or to the owner), then the State is usually obligated to provide relocation assistance to the occupants (residential or business). In questionable situations, the appraiser shall discuss the situation with the Region/District's RAP Branch.

E. Actual and Economic Rental Rates (see Section 7.03.08.00, "Rental Rates") – Actual and economic rental rates for all properties will be shown in the fair market value appraisal.

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7.01.13.00 Legal Opinions

All appraisals shall consider potential legal items involved in the appraisal problem, and care must be exercised to see that they are clearly defined and resolved. The Region/District should consult with the Legal Division, normally through HQ R/W, when such problems are first encountered. The Region/District may request a legal opinion directly from a local office of the Legal Division generally where an interpretation of a condition or situation is involved.

Any legal opinions involved in the appraisal process shall be documented in the report. It may be desirable to secure legal opinions on such questions as benefits, compensable damages, extent of larger parcel, personalty versus realty, valuation of dedications, etc. Strictly adhering to this policy will result in minimum loss of time for Region/District personnel and the State's attorneys.

7.01.14.00 Responsibility for Preparation

Appraisals will only be made by qualified appraisers. Field work and composition will be accomplished by or under the direct supervision of a Right of Way Agent of at least Associate grade. The agent assisting in the preparation will, at the Region/Districts' option, sign the Title Page and/or a Certificate of Appraiser as discussed in Section 7.02.03.00. The appraiser shall personally conduct the inspection of the subject and comparable properties.

7.01.15.00 Appraisal Review

All appraisals are reviewed to:

1. Ensure that the appraiser's documentation, including valuation data and the analyses, demonstrates the soundness of the appraiser's opinion of value and that the appraisal report conforms to the requirements of this Chapter and established appraisal practices.

2. Ensure that the appraised amount is equitable and represents a proper amount for the offer of just compensation in accordance with the Uniform Relocation Assistance and Real Property Acquisitions Policies Act of 1970 and Government Code 7260 et seq.

Both the cumulative review and review appraiser process are recognized and acceptable methods for determining the adequacy and appropriateness of the appraisal report being reviewed to ensure that it is based on sound appraisal theory and contains appropriate documentation to support the

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appraisers' conclusions. Both methods will also accomplish the requirement that the approved appraisal represents the fair market value of the property and represents a proper amount for the offer of just compensation.

Definitions:

Administrative Review - A review performed to confirm the appraisal contains the proper forms, is in proper sequence, and the arithmetic is correct. The administrative review is usually less detailed than a technical review, and the administrative reviewer does not render an opinion as to adequacy of the opinion of value.

Technical Review - Review performed for the purpose of forming an opinion as to whether the analyses, opinions and conclusions in the appraisal report under review are appropriate and reasonable and that the appraisal complies with the Uniform Act, Government Code 7260 et seq., the requirements of this Chapter, and established appraisal practices.

The technical reviewer, as the review appraiser or the cumulative review appraiser, must have the necessary appraisal knowledge, experience, and formal education to satisfy the requirements of 49 CFR 24.103(d). The qualifications of the review appraiser and cumulative review appraiser must be consistent with the scope of work for the appraisal assignment. The qualifications must meet the appraisal related criteria of the Senior Right of Way Agent classification (as defined by the California State Personnel Board and internal district duty statements) and must be based on formal appraisal education such as the courses listed on the Division of Right of Way Recommended Course List.

7.01.15.01 Cumulative Review Concept

The cumulative review process used by the Department requires that the appraiser's supervising Senior will conduct a technical review and approve or recommend for approval the appraisal report. If the supervising Senior is not delegated to approve the appraisal report, it will be submitted for approval to the Supervising Right of Way Agent (Branch Chief), Region/District Right of Way Manager, or HQ R/W in accordance with the current delegations. A flow chart outlining the typical steps in the cumulative review process is shown as Table I in Section 7.01.21.00.

There are limited instances where the Review Appraiser concept and its implementation are available to the staff reviewing appraiser. See Section 7.01.15.02.

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7.01.15.02 Review Appraiser Concept

The review appraiser is a unique position whose responsibility includes ensuring that appraisals under review are based on sound appraisal theory and contain appropriate documentation to support the conclusion of fair market value consistent with requirements of 7.01.15.00. As part of this responsibility, the review appraiser can reject an appraisal that does not meet the test of an adequate appraisal product and if unable to resolve the differences with the appraiser, require a new appraisal be prepared.

The review appraiser will conduct a technical review and will have the authority to approve appraisals consistent with current delegations.

Since the review appraiser is the only individual reviewing and approving the appraisal report at the Region/District level, it is imperative that the review appraiser have a solid appraisal background. This will include education and experience in preparing a wide variety of appraisals including partial acquisition appraisals with severance damages and/or benefits analysis. At a minimum, the review appraiser should be a Senior Right of Way Agent and report directly to the Region/District Right of Way Manager. Review appraisers receive their approval authority/review appraiser delegation through Headquarters based on individual appraisal background and experience.

In limited instances, this concept and its implementation are available to the cumulative review appraiser.

This process may be used when a contracted/independent fee appraiser prepares an acquisition report or, in rare instances, on a staff appraisal. This situation may also be encountered when a local agency hires a fee appraiser, and the Department provides appraisal review and approval services.

When the review appraiser finds the report lacking in content, support, reasoning, or conclusion, the reviewer may elect to assume the capacity of review appraiser (when delegated) and supplement the areas considered lacking, including modifying the appraised value. This would be accomplished by written memorandum clearly delineating the areas in question and providing full support and documentation for the reviewer's conclusions. Approval requirements will be in accordance with existing delegations.

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7.01.16.00 Review Appraiser Process

A flow chart outlining the typical steps in the review appraisal process is shown as Table II in Section 7.01.21.00.

A. Roles and Responsibilities of Review Appraiser.

To better define the role and responsibilities of a review appraiser, a Review Appraiser Task/Duties is included as Table III in Section 7.01.21.00. While some of the tasks may be discretionary, the table provides the basis for the expectations of the duties to be performed by a review appraiser.

B. Approval Certificate

In conjunction with the approval of the appraisal, the review appraiser will sign the Review Appraiser Certificate, Exhibit 7-EX-24D, and Appraisal Title Page - Review Appraiser, Exhibit 7-EX-21B.

C. Dual Report Process

The current process for dual reports as stated in 7.01.07.00 remains the same. The review appraiser duties regarding dual reports are as follows:

- Review and concur with all requests for waiver of dual reports prior to submitting the request to the Region/District Right of Way Manager.

- When dual reports are prepared, the review appraiser will perform a technical review of both reports and recommend both reports to HQ R/W for approval.

  The review appraiser's recommendation of both reports is not necessarily a recommendation of two separate fair market values. Rather it is an indication that both reports are based on sound appraisal theory and contain appropriate documentation to support the appraisers' conclusions. See Section 7.02.09.02 for an additional discussion on resolving significant judgmental differences between the two reports.

  Only the approved appraisal will be provided to the Grantor. The second report will be stamped "Reviewed for Documentation" and kept in the office files.

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D. Role of Supervising Senior in the Review Appraiser Process

Although the supervising senior will not be approving and/or recommending for approval the appraisals produced by their unit, they need to have a good understanding of appraisal theory and practice. In this context, the supervising senior will:

- Make appraisal assignments.
- Track progress of appraisals.
- Provide staff the necessary guidance and training.
- Assure consistency in application of data and valuations, particularly between different appraisers who are preparing appraisals in the same area.
- Perform an administrative review of the appraisal for accuracy, adequacy of documentation, and consistency in the application of data and valuation prior to submitting the appraisal to the review appraiser for approval. This administrative review is not considered a review for purposes of approving the appraised value, nor is it a first step in the cumulative review process. Rather it is a review for form and content to ensure that the appraisal product is complete and contains appropriate documentation to support the appraiser's opinion. Upon completion of the administrative review, the supervising senior will complete the Appraisal Checklist, Exhibit 7-EX-22, and sign a certificate indicating an administrative review of the appraisal for form and content has been completed. Exhibit 7-EX-23 is a suggested format for the transmittal letter.
- Assist the appraisers in responding to the review appraiser's concerns.

7.01.16.01 Minor Deficiencies

Minor deficiencies are deficiencies that do not affect the value, but should be corrected prior to approval. They include:

1. Mathematical errors not affecting the value conclusion
2. Project identification data
3. Parcel numbers
4. Typographical errors which could lead the reader to an erroneous conclusion. Possible errors in location, zoning, or present use of either the subject property or of comparable sales, if not a major deficiency (i.e., one which affects value)
5. Other minor deficiencies not affecting value

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In the case of minor deficiencies in the appraisal report, the review appraiser can either request the appraiser correct the deficiencies or make the changes to the report as the review appraiser. Any changes made by the review appraiser should be initialed and dated and the appraiser notified of the changes.

7.01.16.02 Major Deficiencies

Major deficiencies are deficiencies that affect the value conclusion and, unless corrected, will result in a rejection of the appraisal report. They include:

1. Highest and best use analysis
2. Insufficient analysis, reasoning, and erroneous conclusions
3. Errors in valuation
4. Analysis that mislead the user of the report
5. Nonadherence to the requirements of this Chapter
6. Other deficiencies that will cause the report to be rejected

In the case of major deficiencies in the appraisal report, the review appraiser should immediately notify the appraiser and supervising senior, preferably in writing, stating the deficiencies and/or need for clarification. If the review appraiser is unable to resolve the deficiencies, the review appraiser will reject the appraisal and request a new appraisal or prepare a Reviewer's Appraisal Report.

A. Appraisal Rejection

When an appraisal is rejected, the review appraiser prepares a memorandum to the supervising senior (Appraisal Branch Chief) with a copy to the Region/District Right of Way Manager stating the reasons for the rejection, the major areas of disagreement, and efforts taken to obtain an acceptable report. The supervising senior will then make arrangements to have a new appraisal prepared.

B. Reviewer's Appraisal Report

If it is not practical to obtain a new appraisal, the review appraiser, after consulting with the supervising senior (Appraisal Branch Chief) and Region/District Right of Way Manager, may develop appraisal documentation to correct the rejected report for the parcel in question. In arriving at their own estimate of value, the review appraiser may use valid market data available, including data contained in any appraisals received for review. The review appraiser must personally verify any data

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obtained on their own initiative and provide written analyses of the data, plus reasoned justification or explanation supporting their conclusions consistent with the requirements of this chapter and established appraisal practices.

When the review appraiser makes changes to an existing appraisal report to cure a deficiency which results in the reviewer's own opinion of value, the entire appraisal report is considered to be that of the review appraiser and no longer that of the original appraiser.

7.01.17.00 Approval Authority

Regardless whether the Region/District utilizes the cumulative review or review appraisal process, approval of the appraisal products will be in accordance with the existing delegations as discussed in R/W Manual Chapter 2. Any approvals not specifically delegated are retained in HQ R/W.

7.01.18.00 Criteria for Use of Contracted or Independent Fee Appraisers

When the Department uses a Contracted or Independent Fee Appraiser to prepare a regular acquisition, condemnation, excess land or airspace appraisal, the Contracted/Independent must have a current California "Certified General" (AG) real estate appraiser license issued in accordance with Title XI of Reform, Recovery and Enforcement Act of 1989 and the California Code of Regulations Title 10, Chapter 6.5 (Real Estate Appraisers). This requirement also applies to all Federally-aided local streets and roads projects and all special funded projects.

7.01.19.00 Report Processing and Record Keeping

The original appraisal shall be held by the Region/District as their record of appraisals for the applicable retention period. An electronic copy is acceptable. All appraisals shall be loaded into ROWMIS immediately upon approval; a copy is not required to be sent to HQ R/W unless specified by delegation or policy. This includes Local Programs contract appraisals when acquisition is to be performed by the Region/District.

1. Appraisals may contain multiple parcels in a single ownership for both HQ R/W and Region/District approval. Waiver Valuations may also contain multiple parcels in a single supplement. In these cases,

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parcels will be arranged in the report in numerical order regardless of approval authority.

2. The Title Page will indicate whether HQ R/W approved or Region/District approved.

3. If used, a Parcel Summary Sheet may be kept in the parcel file for documentation.

4. Internal documents including the Certificate of Sufficiency (COS), the Hazardous Materials Disclosure Document (HMDD), the Parcel Diary, the Parcel Occupancy Data Sheet, the Parcel Summary Page, and the Excess Property Inventory Valuation (VTA) are not a part of the appraisal per se. As such, they must go forward with the appraisal for review and also with the copy that goes to Acquisition. The internal documents are then retained in the District's file. All internal documents shall be removed prior to providing a copy of the appraisal to the Grantor.

7.01.20.00 Memo of Transmittal

A memo of transmittal is not required for routine submission of Appraisal Reports. A memo is required on resubmission of unapproved reports or the submission of corrected or revised appraisal pages. In these cases, the memo will briefly summarize the reason for resubmission and corrections made.

7.01.21.00 Tables

Table I - Cumulative Review Process For $10,000 and Over

Table II - Review Appraiser Process $10,001 to $1,500,000

Table III - Review Appraiser Task/Duties

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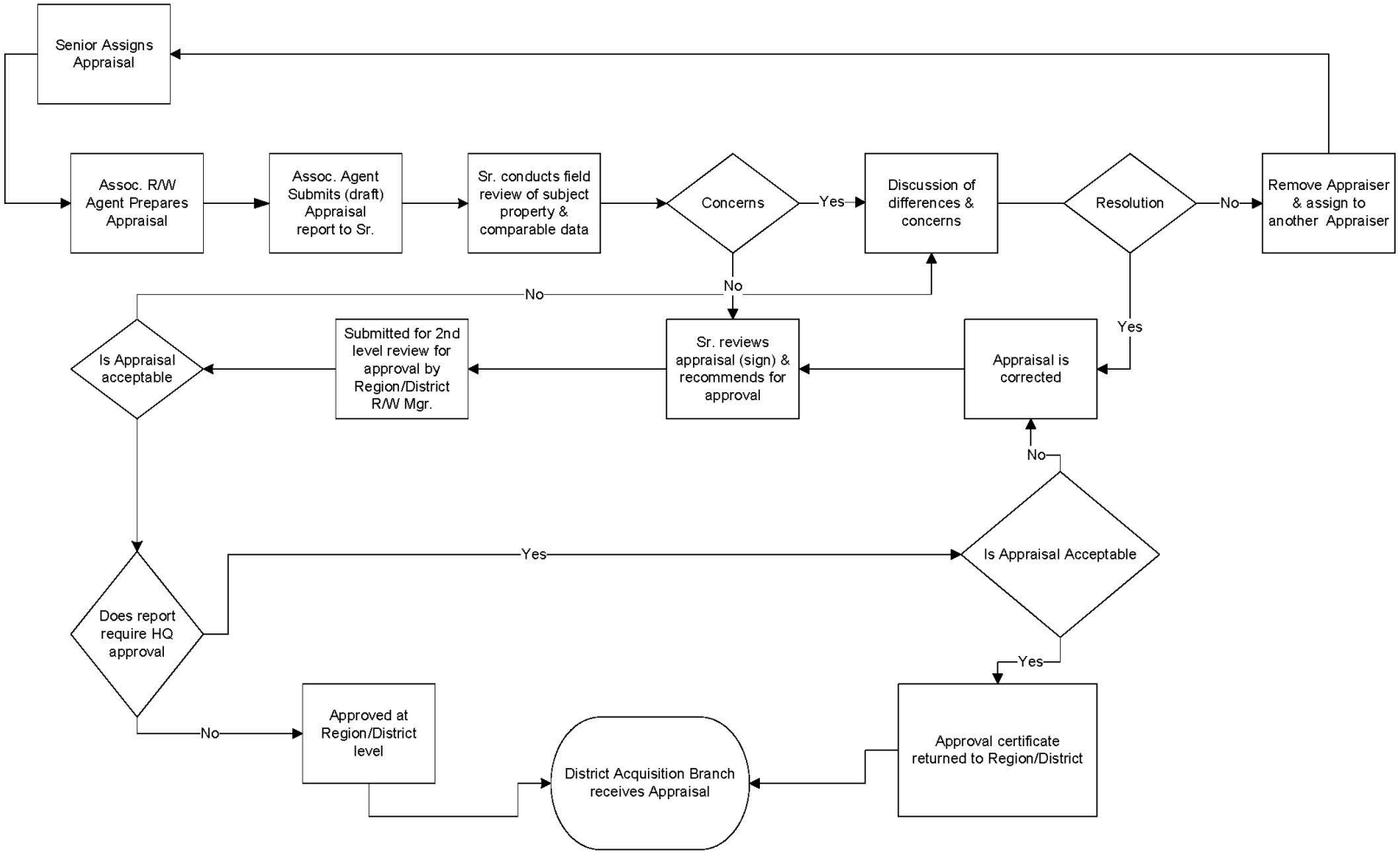
Table I
CUMULATIVE REVIEW PROCESS
FOR $10,000 AND OVER



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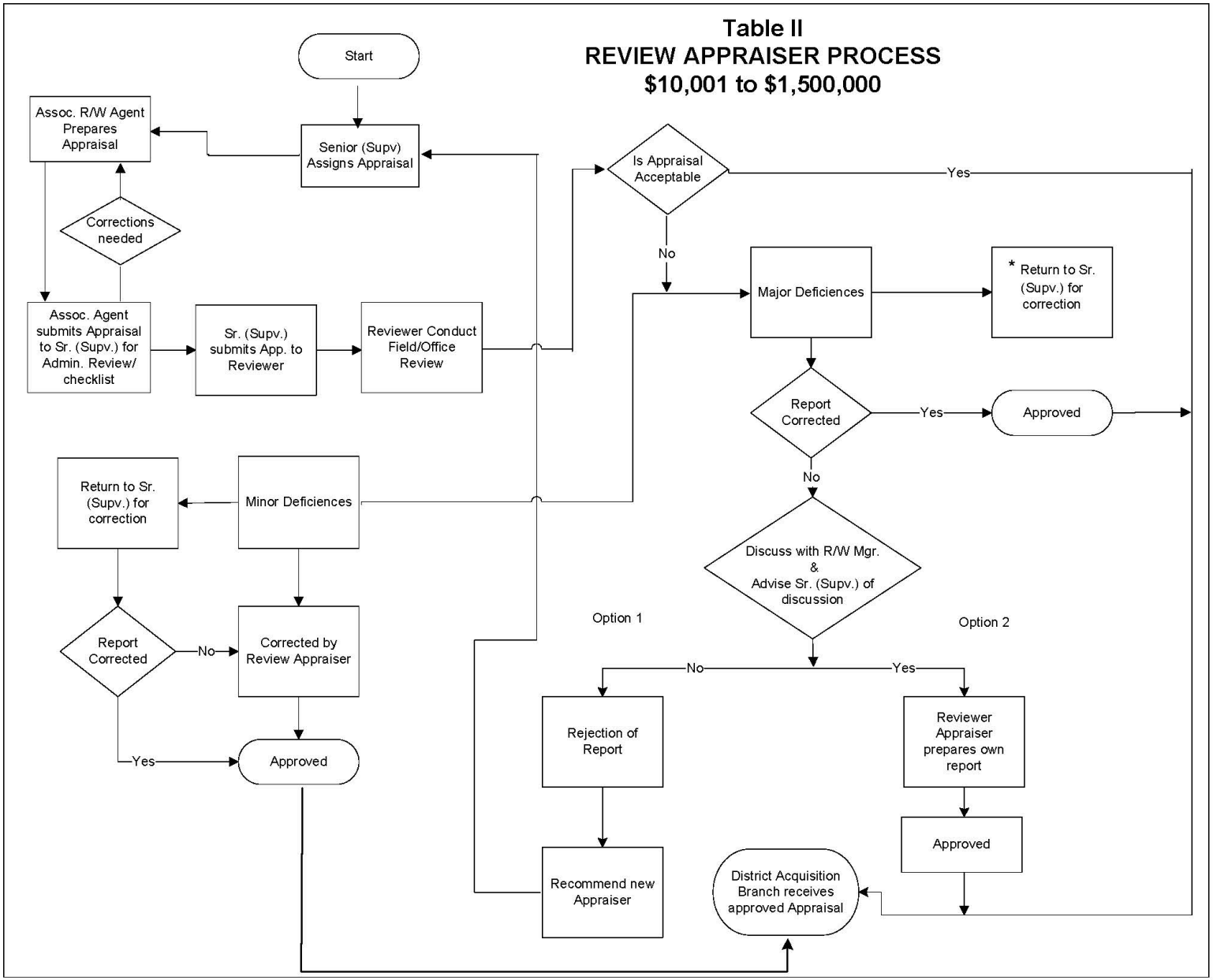

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Table III
Review Appraiser Task/Duties

1. To become familiar with all projects involving the acquisition and disposal of parcels including field reviews, if necessary.
2. Meets with supervising senior to review the maps of projects involving R/W acquisitions/disposals and to discuss potential appraisal problems.
3. In conjunction with supervising senior, determines which parcels require dual reports and when dual reports may be waived.
4. Although supervising senior will author all requests for waiver of dual reports, appraisal reviewer recommends approval of such waivers to the Region/District Right of Way Manager.
5. May attend STM meetings, Public Hearings, etc., for projects involving R/W acquisition.
6. Consults with the supervising senior to discuss appraisal issues that arise during the preparation of the appraisals.
7. Reads all single and dual reports and field reviews subjects and comparable sales in accordance with existing policy in the R/W Manual.
8. Assures that Appraisal Branch Senior has completed the standard "Appraisal Checklist," which verifies that appraisal meets requirements of R/W Manual.
9. When reviewing a report where the dual was "waived," has the right to request preparation of the dual should the single report display that the appraisal assignment did indeed not meet the criteria for waiver of a dual.
10. Consults with the supervising senior and the appraiser to discuss appropriate corrective action, if any, on concerns that arose during the appraisal review.
11. May make minor corrective changes to the report, which do not materially affect the value conclusion without assuming responsibility for the appraisal.
12. Approves all single project appraisals up to $1,500,000.
13. For dual reports, reviews both reports regardless of value. Recommends both and sends to HQ liaison for review/approval, one for acquisition, and the other for documentation.
14. Reviews and recommends to HQ for approval all other nondelegated project appraisals, e.g., goodwill, railroad, etc.
15. Prepares Review Appraiser Certificate for all parcels approved.
16. Prepares Review Appraiser Report when appraisal is modified in some manner by review appraiser.

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Table III
Review Appraiser Task/Duties (Continued)

17. In exceptional cases, can elect to revise appraisals under the review appraiser concept. When does so, must author revised pages, appraiser certificate, etc., as required and assumes role of the appraiser.
18. Is responsible for assuring consistency of appraised values on any given project. When inconsistencies are observed, meets with the supervising senior to discuss appropriate corrective action.
19. Is responsible for assuring that individual appraisal branches are being consistent in the application of Department's appraisal policies. Consults with supervising senior when discrepancies are observed to discuss appropriate corrective action.
20. In conjunction with supervising senior, provides appraisal training to appraisal staff.

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7.02.00.00 - APPRAISAL REPORTS

7.02.01.00 Federal Project Numbers

Federal project numbers are required for projects involving Federal participation in Right of Way costs. The Federal project number will appear on the following:

A. All appraisal correspondence (including a letter of transmittal, if used)

B. The Front Cover (7-EX-1)

C. Appraisal Title Page (7-EX-21)

D. Parcel Summary Page, if used (RW 7-4)

E. Appraisal Summary (RW 7-9)

F. Appraisal Maps

7.02.02.00 Report Identification Numbers

Appraisal Reports will use Phase 9 Expenditure Authorizations and be numbered in sequence. Each expenditure authorization will have its own series of report numbers. If an expenditure authorization is subdivided, each new expenditure authorization number will warrant a separate series of numbers. The Title Page will also show the Control Expenditure Authorization.

Project post mile and project limit descriptions of each report must coincide exactly with Phase 1 Expenditure Authorization limits. Right of Way Planning and Management can provide the most current description.

7.02.03.00 Organization, Content, and Sequence

The material in most reports shall be arranged in the following order as applicable. All pages in the report shall be numbered consecutively and completed as described.

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A. Front Cover

HQ R/W copy of the report will be bound and the information shown on Exhibit 7-EX-1 will be typed in the upper right-hand corner of the cover sheet.

For a revised parcel, place the word "Revised" and the old report number in parentheses following the parcel number. All parcels appraised together as a larger parcel will be listed in parentheses under the lowest parcel number of the group, regardless of number sequence.

B. Title Page

The Title Page will be organized substantially as shown on Exhibit 7-EX-21 if the cumulative review process is used or Exhibit 7-EX-21B if the review appraiser concept is used.

One signed original or a scanned copy of the Title Page will be submitted to HQ R/W so one hard copy with the Headquarters approval signature can be returned to the Region/District as a receipt. The hard copy of the approved Title Page will be bound into the report, inside the front cover. This procedure provides the Region/District with a positive verification of HQ R/W having received their copy of the appraisal and any revisions.

Each person signing this page certifies the appraisal has had appropriate review for accuracy and the report is approved or recommended for approval. Signatures shall be in accordance with current delegations.

The person verifying the calculations certifies that all mathematical calculations have been checked, verifies the accuracy of the maps in comparison with parcel appraisals, and certifies that no typographical errors or content inconsistencies exist in the report.

C. Parcel Summary Page (if used)

This will be prepared in accordance with RW 7-4.

D. Senior Field Review Certificate

This will be organized substantially as shown on 7-EX-24. The Senior Agent supervising preparation of the appraisal will sign the Certificate

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which summarizes the Senior's field review and certification statements regarding all parcels in the report. The 7-EX-24A will be used when the Senior has not performed a field review. The 7-EX-24D will be used by the Review Appraiser.

E. Certificate of Appraiser

This is executed by the Appraiser and by any other Agent who participated in preparing the appraisal. A new Certificate is required whenever a parcel appraisal is revised resulting in a change in value. See RW 7-6.

F. Excess Land Review Certificate

The Excess Land Review Certificate is an internal document. This will not be included in the appraisal report, but transmitted separately for review with reports proposing purchase of excess. A new Certificate will be submitted with any change in excess parcels. See RW 7-7.

The Certificate will be executed by the Region/District Excess Land Manager. The purpose of the excess land review is to minimize or eliminate fragmentary excess land parcels.

G. Introduction

The Introduction shall contain information of a general nature applying to the Appraisal Report as a whole. It may also contain parcel description or valuation information pertaining to several parcels, if more than one parcel is included in a supplement (e.g., more than one parcel in a single ownership or Waiver Valuation).

Data which apply only to individual parcels should be shown on the pages for those parcels and not in the Introduction.

H. Outdoor Advertising Structures

All outdoor advertising structures owned by entities other than grantor or occupants of the subject property will be listed on the Summary of Outdoor Advertising Structures prepared in accordance with the format and instructions shown on RW 7-8.

The cost of outdoor advertising structures appraised will be carried forward to the Parcel Summary Page (RW 7-4), if used, and to the Appraisal Summary (RW 7-9).

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I. List of Access Openings

A list will be included in each report noting parcels with proposed private access openings within the access - restriction line. The list will show the openings by parcel number, station location, width, and type (permanent, temporary, or locked gate). The list and pertinent maps will be reviewed and confirmed with Region/District Project Development immediately prior to submission of the report for approval.

J. Photographs

Each Parcel Appraisal and each Comparable shall include photographs. They are to show all major improvements. Approximate location and direction of the view and the right of way line should be indicated where possible. Each photograph will be clearly identified with the parcel number, date, and photographer's initials or other suitable identification.

K. Appraisal Summary

Separate Appraisal Summary pages will be included covering all parcels (and subparcels when necessary) included in the report. See RW 7-9. An Appraisal Summary may be used to recapitulate the values for all subparcels in the parcel appraisal and for all parcels appraised together as a larger parcel.

L. Parcel Remarks

The Parcel Remarks shall contain information of a specific nature, applying to the individual parcel only. Included in this narrative section are site descriptions, improvement descriptions, Highest and Best Use, valuation analysis, damages/benefits discussions, and reconciliation.

To aid the acquisition agent with the preparation of either the Appraisal Summary Statement (8-EX-15A or B) or the Valuation Summary Statement (8-EX-15C), in the Department's compliance with Section 7267.2 of the Government Code, the appraiser shall provide a paragraph entitled, "Summary of the Basis for Just Compensation." The paragraph shall be reproduced, verbatim, and inserted by the acquisition agent into either the Appraisal Summary Statement or the Valuation Summary Statement. This paragraph shall provide a concise summary of the reconciliation of value, (i.e., method most heavily relied upon, and reason); the reason for damages, or the lack thereof; the

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reason that damages can or cannot be cured; and a discussion of benefits, or a lack thereof. Numerical calculations should not be included in the narrative discussion.

M. Sales Data

The subject's sales history will be reported on the form and according to the instructions shown on RW 7-10. Each change of vesting of the subject during the last five years will be explained on a separate Sales Data form. Starting with the most recent sale that occurred during this period, all sales shall be verified by the appraiser with both the grantor and the grantee if at all possible. If not verified with both parties, efforts to do so must be described.

A complete verification shall be made, not only as to price paid and terms of the sale and what the sale included, but why the seller sold the property, why the buyer purchased the property, was the buyer aware of the State's proposed construction and acquisition, if the buyer had knowledge of the proposed construction and the effect it had on the purchase price, and how the purchase price was determined.

Any difference in appraised value and sales price must be explained.

This page is not required for sales of portions of the subject ownership outside the right of way.

N. Summary of Comparable Data

All comparable data used in a report should be separately summarized in tabular form similar to Exhibit 7-EX-2.

A specific comparable or group of comparables may be related to one or more specific subject properties.

O. Comparable Data

All comparable data will be carefully investigated with as many parties involved as warranted. All reasonable attempts should be made to confirm the transaction with both the seller and the buyer. In the rare instance when the sale cannot be confirmed with one or both of the principals to the transaction, the appraiser will provide the full explanation on the Comparable Data form. In these cases, confirmation with secondary sources such as brokers, closing agents, and lenders with direct knowledge of the transaction should be

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included. Information solely obtained from the Assessor, Recorder, or private data services such as Costar, FARES, and Multiple Listing Service is not adequate for verification and confirmation purposes. Comparable improvements should be inspected when possible and/or appropriate, including interiors, and square feet obtained. If not possible, the Comparable Data form will so state.

Recent listings of the subject parcel should be investigated, considered, and discussed in the appraisal. If the listing is considered to be a reliable indicator of value, it may be included in the comparable data. In this case, it will also be referenced as a subject parcel.

All comparable data will be described on Comparable Data forms in accordance with RW 7-11 or RW 7-11A.

Other State appraisals or settlements will not be used for comparable data purposes.

An appraiser using the data verified previously by another State appraiser must investigate and analyze the data as appropriate, to enable reliance on the information for valuation purposes. This does not require reverifying the data with the principals unless the circumstances warrant. It does require viewing the data in the field and reviewing all pertinent information necessary to become familiar with the data in all the aspects necessary for reliable comparison purposes. It is imperative that each appraiser analyze any zones of land value or contributory value of improvements indicated on the Comparable Data form. Independent judgment will be documented by appropriate comments on the sales sheet to the effect that the figures have been reviewed and found reasonable or changes made to reflect the second appraiser's judgment. Each appraiser is free to change items on sales sheets previously used if he or she disagrees with the judgment of the original appraiser.

The Comparable Data form will show the date and name of the agent who originally verified the data. If the comparable data is used by other appraisers in subsequent appraisals, the date and name of the using appraiser will be shown immediately below that of the verifying appraiser.

Not all comparable data discovered need be included in the report. Include only that data considered most reliable and indicative of market value and which has been referenced in support of the parcel

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appraisal. Additional data should be retained in the Region/District's files.

The Comparable Data form shall be numbered, indexed, and filed for easy and rapid retrieval.
The inclusion of an Assessor's Plat of the comparable is strongly encouraged for clarity and understanding.

See Section 7.05.02.00 for further information on comparable data.

P. Appraisal Maps

The report will contain all the maps necessary for proper analysis, identification, and documentation. Each report will contain an Index Map (if available from Right of Way Engineering), an Appraisal Map, and a Comparable Data Map.

The report will include any additional maps required for proper understanding and documentation of specific parcel valuations, such as contour maps, topographic maps, or design plans. Significant topography should be included for partial acquisitions. Where a total ownership is very large, it can be shown on a reduced sketch, plat, or map.

Exhibit maps showing pertinent design detail are required for parcels with damages, benefits, and/or construction contract work of other than routine curative nature, utility relocations, or road approaches. Such exhibit maps may be on a reduced scale and need show only the affected parcels. The maps should show the main lanes, frontage roads, and the nearest interchanges, drainage structures, construction contract work locations, and information regarding cuts and fills (if significant) for the affected parcels. At the Region/District's discretion, this information may be on separate maps, or plotted on the Appraisal Maps. If a large number of parcel appraisals are involved, the possibility of consolidating the Appraisal Map and the topographic design map should be investigated.

The Appraisal Branch is responsible for the completeness of the maps, and for requesting delineation of pertinent data and topography not previously included.

It is also the Appraisal Branch's responsibility to ensure that maps, including coloring, are correct. If corrections are required, the maps will be returned to R/W Engineering for correction.

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Q. Comparable Data Map

This map will be produced from information supplied by the appraiser. The map must show the proper locations of the comparable data, the subject properties, and other pertinent information necessary for the understanding of the comparable data.

The map will be prepared by the appraiser or Right of Way Engineering. It will be of sufficient size or scale to show the following:

1. Size, shape, and location of subject property(ies) and comparable data as related to each other.

2. Zone(s) of the various properties (when pertinent).

3. Comparable sales colored orange, comparable listings colored green, and subject property(ies) colored red.

4. Utility service mains (when pertinent).

Additional information may be included when necessary or when considered by the appraiser to contribute to the understanding of the comparable data. A North arrow will be included on all maps.

7.02.04.00 Parcel Numbering

The parcel numbering shown on the Appraisal Maps and certified for right of way acquisition will be utilized in the report. If parcels merge prior to final Appraisal Maps being received by the Appraisal Branch, the parcel numbering will be revised. If a merger occurs after final Appraisal Maps are received, at the Region/District's option, the assigned parcel numbering will continue and the merged parcels will be appraised together as a larger parcel. Merged parcels will be colored one color; both separate and combined areas will be shown, and the correct vesting will be shown on the maps. The lowest parcel number will be used for reference and the other number(s) will be shown in parentheses. If the Region/District prefers, it can revise the maps and numbering and combine the parcels into one.

Occasionally, an ownership lies outside the right of way but has appurtenant rights affected by the project requirements (access rights, easements, etc.). The effect of the project requirements may not become known until the appraisal stage. Such rights may be cleared by quitclaim deed in the encumbered parcel transaction. Frequently, however, the right of way

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acquisition of the appurtenant rights may materially affect the dominant remainder. If a separate appraisal of the affected ownership is required, the Appraisal Branch will request a parcel number be assigned and the ownership delineated. Separate appraisals may be required when (1) improvements are affected, (2) damages occur to the remainder, (3) construction contract work is required, or (4) a separate escrow is necessary.

Subparcel numbers will be used to designate separate requirements. Occasionally, subsidiary interests, such as mining claims or oil rights, will require separate appraisals. These will be separately identified by subparcel letters by the Appraisal Branch and need not be delineated on Appraisal Maps unless required for clarity.

Parcel numbering for right of way purposes may not necessarily coincide with condemnation parcels nor with title company parcels.

It is the Region/District Appraisal Branch's responsibility to ensure that vestings, parcel numbering, and appurtenant rights are correct.

7.02.05.00 Number of Parcels Per Report

Generally, only one parcel will be contained in each report as the report will be provided to the Grantor in compliance with Section 102 of Streets and Highways Code. However, multiple parcels within a single ownership may be contained in a report. Waiver Valuations may also contain more than one parcel in a supplement.

7.02.06.00 Parcels Straddling an Expenditure Authorization

If requirements from a single ownership straddle an expenditure authorization, it will be acceptable to charge the total property cost to a single project expenditure authorization. Minor overlaps warrant investigation of possible project limit adjustments.

7.02.07.00 Parcel Groups - Mutual Owners

A project may contain multiple parcels with the same ownership, but the parcels not comprising an integrated operation. In these cases, the remarks for each parcel should contain clear references to other parcels required

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from the same owner. All requirements from a single owner on a project should be included in the same report, if possible.

7.02.08.00 Parcel Groups - Integrated Operation

A. General

Parcels that compose an integrated operation will be included in one appraisal with sufficient discussion to illustrate the relationship of the parcels. If the inclusion of all of the parcels in one appraisal is impractical, the Region/District may approve the variance.

B. Procedure

When appraising parcels which are part of an integrated operation, the following instructions apply:

1. All parcels in the group will be included together in the report regardless of numbering sequence. If revision of an unclosed transaction is necessary, either revised appraisal pages may be used or the entire group included in a revised appraisal.

2. A recapitulation Appraisal Summary (RW 7-9) will summarize the values for the total group. The page will reference in the upper margin all parcels included in the group. It will use the lowest parcel number as file reference.

3. Following the recapitulation will be the pro rata segregations of value for each parcel and subparcel, including excess portions. Subparcels will follow each parcel. Below the words "Parcel No." on the Appraisal Summary, insert the words "See also Parcel _____" and the lowest parcel number in the group.

4. Following the Appraisal Summary will be the basic appraisal data for the group.

5. On the Appraisal Report front cover and Parcel Summary Page, list the parcels appraised together as a larger parcel in parentheses showing the lowest parcel number regardless of number sequence. On the Parcel Summary Page, the total value of each parcel in the group will be shown.

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6. On the Appraisal Maps, the group will be colored as a whole with the same color. A plot plan of the group will also be shown if the total group cannot be seen on one map.

7.02.09.00 Dual Report Process

When a Dual Report Process is utilized, the second report may be prepared by either a second staff appraiser or by a contract appraiser under the supervision of another Senior, or both reports may be done by contract appraisers. Contract appraisals shall comply with all pertinent appraisal instructions. This includes the front cover through the Appraisal Summary (RW 7-9) which will be prepared by the reviewing Senior from information in the report. The two reviewing Seniors shall act as a liaison between the appraisers to ascertain that both are following the same legal premises and have benefit of all the sales and other supporting data. (See 7.01.07.00 and 7.01.16.00, C.)

Senior Review Certificates will be prepared for each appraisal.

The excess property inventory valuation and replacement housing estimates will be prepared by Staff (following HQ R/W approval) and not by independent appraisers.

The report to be used for acquisition will be approved. The other report will be reviewed for documentation. The judicious use of joint factual data is encouraged; however, independent analyses, judgments, valuations, and conclusions are required. A joint factual data section may include any data of a factual nature mutually accepted as such by the appraisers, and other data such as acquisition authorization documents, list of access openings, photos, maps, and cost-new estimates.

7.02.09.01 Corrections and Revisions

Where two reports were prepared and revision or correction of the approved appraisal becomes necessary, the following guidelines are to be observed:

A. In general, only the approved appraisal need be revised; except,

B. In these situations where there is a major change which substantially affects the fair market value estimate, it is necessary to revise both reports.

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7.02.09.02 Review Process

Region/District cumulative reviewers above the Senior level are responsible for resolving significant differences between reports due to factual matters only. Determining the reasons for major divergences is important. It may be necessary to inquire into the support for significant judgmental differences. However, any attempt to simply narrow the spread of values resulting from differences is inappropriate and contrary to the purpose for securing dual reports. HQ R/W will consider these differences in its review process.

The Region/District Appraisal Supervisor's signature recommending approval of both reports is not considered a recommendation of two separate fair market values. It is just indicating that both reports are based on sound appraisal theory and contain appropriate documentation and analysis to support the appraisers' conclusions. HQ R/W is responsible for reviewing both reports and approving the report which best supports its conclusions.

7.02.10.00 Replacement Housing Valuation Reports

The Appraisal Branch may prepare these reports for use by the Relocation Assistance function. Instructions for preparing them are contained in Relocation Assistance, Chapter 10.

One individual cannot prepare both the Acquisition Appraisal and the Replacement Housing Valuation on the same dwelling unit. One Senior Right of Way Agent may review and recommend for approval both reports on the same dwelling unit as long as that Senior does not also have responsibility for the Region/District's Relocation function.

7.02.11.00 Calculations

All monetary appraisal calculations shall normally be carried accurately to the nearest cent without rounding of figures or adjustment of unit values to yield rounded figures. The total appraised value is to be rounded as follows:

A. From $500 to $2,500, to the nearest $50.

B. From $2,501 to $100,000, to the nearest $100.

C. Parcels exceeding $100,000, to the nearest $1,000.

When several approaches to value are used, the final value found after reconciliation will normally be a rounded figure. Minor rounding adjustments

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are permitted on condemnation appraisals for clarity of testimony presentation.

Generally, land areas should be shown to at least two decimal places where acres or front feet are used, and to the closest square foot where areas are so expressed.
Building areas should be calculated to the closest square foot.

All calculations shall be carefully checked prior to first level recommendation for approval.

7.02.12.00 Noncomplex Valuations of $25,000 or Less

Noncomplex parcel valuations of $25,000 or less may be appraised utilizing either the memorandum appraisal format (Exhibit 7-EX-25), or a very succinct narrative appraisal using RW 7-9. The $25,000 amount includes severance damages, but excludes minor construction contract work such as: replacement of existing facilities such as road approaches, fencing, irrigation pipelines, etc. A Noncomplex Valuation is still an appraisal and must meet all the requirements of 49 CFR 24.103(a) and applicable California State Statutes.

The determination as to which parcel valuations are noncomplex rests with the Region/District. Among the criteria to be considered in making the determination are:

A. There is no serious question as to highest and best use.

B. Adequate market data is available.

C. Substantial damages and benefits are not involved.

D. There is no substantial decrease in market value due to the presence of hazardous material/waste.

Exhibit 7-EX-25 shows the minimum content requirements for the narrative portion of the appraisal. The amount of analysis and degree of documentation should be in proportion to the appraisal problem and valuation involved. However, substance and brevity should be the norm. If RW 7-9 is used, then the narrative should be the same succinct format as the Memorandum Appraisal. A narrative paragraph, as described in Section 7.02.03.00, L., shall be included in the report.

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All appraisals must include at least the following:

- Certificate of Sufficiency and HMDD
- Senior Field Review Certificate
- Certificate of Appraiser
- Photograph(s) of subject
- Summary of the Basis for Just Compensation
- Index map
- Appraisal map
- Comparable Data forms with photographs
- Comparable Data Map

Where applicable, the appraisal must also include: Summary of Outdoor Advertising Structures, List of Access Openings, and Sales Data form.

7.02.13.00 Waiver Valuation In Lieu of an Appraisal

An appraisal is not required if the Region/District determines one is unnecessary because the valuation problem is uncomplicated and the fair market value is estimated at $10,000 or less based on a review of available data. As stated in 49 CFR 24.102(c)(2), an appraisal is not required for parcels estimated at $10,000 or less.

The $10,000 amount should include severance damages, if any, but exclude any insignificant construction contract work. Authority to make this determination rests with the Right of Way Manager, who may delegate it.

The "Waiver Valuation" does not qualify as an appraisal under 49 CFR 24.103(a) and is to be used merely for documentation for support of the amount of just compensation to be paid to the property owner. A Waiver Valuation cannot be used in eminent domain proceedings.

The determination as to which parcel is uncomplicated rests with the Region/District. Among the criteria to be considered in making the determination are:

A. There is no serious question as to highest and best use.

B. Adequate market data is available.

C. Substantial damages and benefits are not involved.

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D. There is no substantial decrease in market value due to the presence of hazardous material/waste.

The Waiver Valuation may be based on a review of available relevant data such as: comparable sales and listings already in the Region/District files, comparable sales and listings from multiple-listing services, and commercial databases, opinions of Assessor's Office appraisers or real estate brokers, and other data sources. Comparable Data forms and Comparable Data Maps are not necessary.

The documentation to support the Waiver Valuation is contained in Manual Sections 7.02.13.01 and 7.02.13.02. The required content will differ depending on whether the value is $2,500 or less, or $2,501 to $10,000.

Requirements regarding the Certificate of Sufficiency and HMDD for environmental clearance, project identification, certification date, confidentiality statement, and certification of need for the right of way and access control by Project Development still apply. A narrative paragraph, as described in Section 7.02.03.00, L., shall be included in the report.

Property owners of these parcels shall be sent the "Notice of Decision to Inspect" letter (7-EX-17A) with the appropriate Title VI information and booklet "Your Property, Your Transportation Project." Also, parcel diaries should be initiated and included in the estimate and the file.

A Waiver Valuation must be approved in accordance with present approval delegations. They may be prepared and recommended for approval by an Agent of less than Associate grade. It is strongly recommended that Agent preparing the Waiver Valuation have a good understanding of appraisal valuation concepts.

Members or candidates of professional appraisal organizations who are assigned to act in the dual capacity of Appraiser and Acquisition Agent should check their organization's Code of Ethics for specific prohibitions and disclosure requirements.

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7.02.13.01 Waiver Valuation ($2,500 or Less) - Contents and Requirements

In addition to the documentation mentioned in Section 7.02.13.00, a Waiver Valuation valued at $2,500 or less can be documented with a diary entry. The diary entry should state the basis of the value conclusion, i.e., land value, improvement value, and severance/cost to cure damages. In addition, a photograph(s) of the subject must be included.

7.02.13.02 Waiver Valuation ($2,501 to $10,000) - Contents and Requirements

In addition to the documentation mentioned in Section 7.02.13.00, a Waiver Valuation with a value estimate of $2,501 to $10,000 must include the following:

- Waiver Valuation Title Page, Exhibit 7-EX-21A
- Senior Review Certificate Form - Waiver Valuation, Exhibit 7-EX-24B
- Certificate of Waiver Valuation, RW 7-6A
- Waiver Valuation, RW 7-15
- Photograph(s) of subject
- Index map (if available)
- Appraisal map

The Certification of Waiver Valuation may have to be modified as to the statements concerning comparable sales. It should also contain a statement as follows:

> "That I understand I may be assigned as the Acquisition Agent for one or more parcels contained in this report, but this has not affected my professional judgment nor influenced my opinion of value."

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7.02.14.00 Nominal Values ($2,500 or Less)

Regardless of the type of valuation report prepared, i.e., narrative appraisal report, memorandum appraisal report, or Waiver Valuation, if the amount of all property rights or interests is $2,500 or less, the value of the required property is considered to be nominal. Calculations supporting this conclusion shall be shown in the valuation report to illustrate the basis for the $2,500 or less conclusion. For example, the report will show 0.025 acres at $5,000/ac = $125.

The word "Nominal," as discussed above, shall be shown in the $2,500 or less valuation report as the following:

A. If the value of the requirement is so minimal as to not be calculable or to not have an effect on the market value of the parcel, show "Nominal" in the amount column.

B. If the calculated amount is $500 or less, show "$500 (Nominal)" in the amount column.

C. If the calculated amount is between $501 and $2,500, show the actual amount rounded to the nearest $50 with "(Nominal)" in the amount column.

Under options A, B, or C, the word "Nominal" or the valuation amounts with Nominal in parenthesis shall be carried forward to the RW 7-9 value column, the Parcel Summary Page, if used, the Senior Field Review Certificate, and the Certificate of Appraiser.

The Senior Field Review Certificate and Appraisal Review Report shall be prepared substantially as shown on the 7-EX-24. Minor modifications may be made to suit the approval requirements.

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7.03.00.00 - APPRAISAL PREPARATION

7.03.01.00 The Appraisal Summary - Purpose

This page presents a summation of parcel data, value elements, and total appraised valuation.

7.03.02.00 Appraisal Summary Format

The Appraisal Summary (Form RW 7-9) will be completed in accordance with the directions following the form. Each of the described headings will be completed as appropriate.

Under the heading "Land," show the valuation of the land or other property rights to be acquired. Each class of land required will be shown by type, area, unit value, and total value. Mining claims or other land rights separately valued will be separately described. If access rights are the only rights required, the remark "Access Rights Only" and a nominal value will be shown. Loss in parcel value will be reflected under "Damages." If excess property is to be acquired, including parcels with excess proposed for exchange or as replacement sites, a segregation between Right of Way and Excess will be shown. If subparcels are included, clearly indicate the separate values, including those of excess.

All improvements proposed to be acquired, including those valued with land, will be listed under the "Improvement" heading. If improvements are on excess to be acquired, there will be a segregation of value between right of way and excess.

Improvements proposed for relocation in lieu of purchase and fixtures, machinery, equipment, and other "items pertaining to the realty" proposed for purchase will be shown under separate subheadings. Improvements may be listed either on the Appraisal Summary page, a Summary of Improvements page, or in the Cost Approach.

7.03.03.00 Alternate Appraisals

Alternate appraisals are secondary acquisition approaches and will be shown on supplemental Appraisal Summary pages. When alternate appraisals are included, the words "Primary" or "Alternate" will be shown in the headings of the Appraisal Summary pages. See the following sections on appraisals of Uneconomic Remnants and Excess Acquisitions regarding which approach

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should be the primary and which approach should be the alternate. The amount carried forward to the Parcel Summary Page, if used, will be the appraisal, either alternate or primary, that represents the higher cost to the State. Both the Primary and Alternate valuations will be provided to the Grantor in compliance with Section 102 of the Streets and Highways Code, as they are both part of the approved appraisal.

7.03.04.00 Appraisals of Excess Property for Acquisition

The appraisal of excess property will be done according to one of the following subsections:

7.03.04.01 Uneconomic in the Market

Staff appraisals will normally propose only acquisition of the right of way required plus net damages to the remaining property, if any. A small uneconomic remnant should be reviewed for possibility of including it in the right of way. However, with full substantiation, the appraisal may propose purchase of uneconomic remnants and/or improvements in the following instances:

A. When net severance damages, construction contract work, and utility relocations are substantial in relation to the value of the remainder in the before condition.

B. When the remainder is landlocked or so reduced in size or irregularly shaped as to be legally or economically incapable of independent development in the after condition.

Whenever the purchase of excess is proposed, purchase of the excess is required as the primary appraisal and will be approved for acquisition in accordance with current appraisal approval delegations. Justification for the acquisition of the excess from an economic standpoint in the market must be included in the report. The partial acquisition appraisal including estimated net severance damages must be included as the alternate appraisal. On Federally funded projects, the Department's policy is to seek Federal reimbursement for the value of the partial acquisition, plus the amount of net damages accruing to the remainder.

NOTE: Whenever feasible, a valuation of the minor remnant left in the after condition should be included in the acquisition appraisal if: (1) the uneconomic remnant "is landlocked or so reduced in size or irregularly shaped as to be legally or economically incapable of independent

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development;" and (2) the uneconomic remnant is likely to have a value of $5,000 or less as an independent parcel or as plottage to an adjoining property. The valuation should be prepared in the appropriate excess land appraisal format and processed as a nominal value parcel (see Section 7.14.00.00). The valuation amount is the VTA. See Section 7.03.07.00.

If an exchange appears likely, the acquisition may be accelerated by completing the excess land appraisal concurrently with the acquisition appraisal, regardless of dollar amount.

7.03.04.02 Uneconomic to the Owner, or for the Convenience of the Owner

FHWA (49 CFR 24.2) defines "uneconomic remnant" as follows: "a parcel of real property in which the owner is left with an interest after a partial acquisition of the owner's property, and which the acquiring agency has determined has little or no value or utility to the owner." NOTE: An uneconomic remnant may have substantial market value and still have little or no value or utility to the owner.

The Uniform Act [49 CFR 102(k)] states:

> "If the acquisition of only a portion of a property would leave the owner with an uneconomic remnant, the Agency shall offer to acquire the uneconomic remnant along with the portion of the property needed for the project."

Statutes on the subject of "uneconomic remnants" are as follows:

A. State Government Code Section 7267.7(a) states:

> "If the acquisition of only a portion of a property would leave the remaining portion in such a shape or condition as to constitute an uneconomic remnant, the public entity shall offer to, and may acquire, the entire property if the owner so desires."

B. Code of Civil Procedure Section 1240.150 states:

> "Whenever a part of a larger parcel of property is to be acquired by a public entity for public use and the remainder, or a portion of the remainder, will be left in such size, shape, or condition as to be of little value to its owner or to give rise to a claim for severance or other damages, the public entity may acquire the remainder, or

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portion of the remainder, by any means (including eminent domain) expressly consented to by the owner."

Law Revision Commission Comment: "Inasmuch as exercise of the authority conferred by this section depends upon the consent and concurrence of the property owner, the language of the section is broadly drawn to authorize acquisition whenever the remainder would have little value to its owner (rather than little market value or value to another owner)."

At the appraisal stage, it may be difficult to determine whether or not a remainder is an uneconomic remnant to the owner. The determination must be made on a case-by-case basis. The Region/District should consult with the Division Appraisal Branch when questions arise. Ultimately, the appraiser needs to explain in the appraisal that the proposed changes to the remainder will affect the utility of the parcel in such a way as to make the use no longer viable to the owner, and make a determination that the owner's request for acquisition is not merely for the owner's convenience. If the remainder is not identified initially by the appraiser as an "uneconomic remnant to the owner," the Acquisition Branch may later request an alternate appraisal that includes the uneconomic remnant and document such request by the owner in the Parcel Diary.

Identified uneconomic remnants to the owner will be included for acquisition as an excess parcel in an alternate appraisal. A partial acquisition appraisal is required as the primary appraisal, which will be reviewed and approved for acquisition. The alternate will be approved for valuation purposes only. The specific justification and authorization for the acquisition of the excess in the alternate will be the responsibility of the Region/District Right of Way Manager (Region/District R/W Mgr.).

The partial acquisition appraisal including damages sets the limit for Federal participation. The residual value of the excess after damages is not eligible for Federal participation.

The exception to the requirement of preparing both a primary and alternate appraisal, as described above, is in situations where the property owner, at the time of the appraisal, requests that the State acquire the remnant that has been identified by the appraiser to be an "uneconomic remnant to the owner." In these cases, the Region/District R/W Mgr., may authorize the Appraisal Branch, in writing, to prepare a single, full take appraisal that proposes acquisition of the remnant as an excess parcel. A copy of the memorandum authorizing the single appraisal will be included in the appraisal report. The appraiser must also document such requests in the

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Parcel Diary. This exception only applies if there is no Federal participation in funding the acquisition since the appraisal would not contain a before and after damage analysis.

Additionally, property owners may request the purchase of a remainder merely for their convenience under circumstances which do not fit within the reasons as described above. Again, the partial acquisition appraisal including damages sets the limit for Federal participation. An alternate appraisal proposing the purchase of excess will be prepared when authorized in writing by the Region/District R/W Mgr. A copy of this memorandum will be included in the report with appropriate reference.

When the property owner requests the purchase of a remainder for convenience, a partial acquisition appraisal is required as the primary appraisal, which will be reviewed and approved for acquisition. The alternate will be approved for valuation purposes only, in accordance with current delegations. The specific justification and authorization for the acquisition of the excess in the alternate will be the responsibility of the Region/District R/W Mgr., considering among other things, the availability of State funds. The alternate excess acquisition appraisal may be made at the time of the initial appraisal or subsequently at the request of the Acquisition Branch.

If primary and alternate appraisals are made pursuant to this Section, the appraisal report must include a statement to that effect.

7.03.04.03 To Avoid Large Windfall Relocation Payments to Single Family Owner-Occupants

In some situations involving improved single family residential sites, a partial acquisition may result in a large windfall purchase price differential payment to the owner-occupant. This may occur when the taking includes the residence, and the remaining site has substantial value. The Appraiser must discuss these cases with the Relocation and Acquisition Branches to determine if a windfall situation exists, and thus a need to offer to acquire the remainder as excess (a total take) to avoid the windfall. If yes, a total take appraisal (including excess) will be made as the primary approach and a part take appraisal will be made as the alternate approach. A statement must be included that both appraisals are being made to avoid creating a windfall situation.

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The total take must first be offered to the owner-occupant. If the owner elects to retain the remainder, the relocation payment can be calculated on the basis of a full take, thus avoiding the windfall payment.

In these situations, both the primary and alternate appraisals will be reviewed for approval in accordance with current appraisal approval delegations. While the purchase of the excess under this circumstance is not eligible for Federal participation, reimbursement can be sought for the value of the requirement plus the appraised amount of the damages (as set by the partial acquisition appraisal) on Federally funded projects.

7.03.05.00 Legal Larger Parcel and Subparcels

Generally, each parcel, together with all subparcels, will be included on one Appraisal Summary (RW 7-9). It may be necessary to have separate Appraisal Summary pages for subparcels. In these cases, the total value for the parcel will be compiled on one Appraisal Summary page.

There will be cases when more than one ownership will be included in a legal larger parcel. It may be necessary to appraise the separate ownerships as one legal larger parcel for proper damage and special benefit valuation. A separate Appraisal Summary page will be included to summarize the combined analysis of these separate ownerships.

7.03.06.00 Allocation Between Excess and Right of Way

Land value will be segregated by area, unit value, and total value of each class of land in the right of way and excess area. Additional requirements on excess land (drainage easements, etc.) are to be valued and attributed to the right of way. The excess is valued after encumbrances of any additional requirements.

Improvement values, including Relocations in Lieu of Purchase and Improvements Pertaining to the Realty, will be allocated between the required right of way acquisition area and the proposed excess area depending on their location and subject to the following instructions:

A. Building improvements straddling the right of way line will be charged to Right of Way. Building improvements, including garages and auxiliary buildings, located entirely on excess will be charged to Excess.

B. Landscaping, miscellaneous yard improvements, minor sheds, patios, fencing, and improvements pertaining to the realty located on excess

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are to be charged to Right of Way if the property's major improvements are charged to Right of Way.

C. Damages to remainders not acquired as excess will be charged to Right of Way.

Separate totals will be shown for right of way and excess areas.

7.03.07.00 Excess Parcel Inventory Value (VTA)

Every proposed excess parcel will be appraised at inventory value (Value at Time of Acquisition, or VTA) for accounting purposes.

A. Inventory Value is the value of the excess, as a partial acquisition under condemnation rules, immediately after acquisition and considered as a separate parcel. The inventory value may not exceed the pro rata cost of the parcel except when this cost is less than $1. The minimum inventory value is $1.

B. The inventory value of each proposed excess parcel will be shown on an Excess Property Inventory Valuation Page (Form RW 7-13) in each parcel appraisal.

C. Inventory Value may be based on the appraiser's judgment without detailed supporting documentation. Excess valued in a partial acquisition appraisal need only be summarized on Form RW 7-13.

D. It is anticipated that Form RW 7-13 will not contain sufficient data to document a partial acquisition. If grantor desires to retain the excess and the excess has not been appraised on a partial acquisition alternate, the Acquisition Branch will request a revised appraisal.

E. Inventory value will be changed only if the staff Appraisal is revised. Inventory values will not be revised to agree with administrative settlements, independent appraisals, stipulations, or condemnation judgments.

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7.03.08.00 Rental Rates

Rental rates for all improved properties where the improvements are affected by the taking and rented unimproved properties shall be shown on the Appraisal Summary (RW 7-9).

The actual existing rental rate and the estimated economic rental rate will be shown on tenant-occupied properties. An estimate of the economic rental rate will be shown for all improved owner-occupied properties. The basis for the appraiser's estimate of economic rent on dwelling units to be acquired shall be documented in the appraisal usually by specific reference to comparable rental data (see Exhibit 7-EX-3). State ownership will not be considered in estimating the rate. All actual and estimated economic rental rate data that include utilities should be specific as to type of utility(ies) involved.

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7.04.00.00 - VALUE CONCEPTS AND CONSIDERATIONS

7.04.01.00 Value Basis

Required property rights will be appraised at current fair market value. The property will be appraised as though free and clear of all liens, bond assessments, and indebtedness. The property will be appraised at its highest and best use, considering its legal and economic utility and desirability. Highest and best use is considered to be the reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and results in the highest value.

Any decrease or increase in the fair market value prior to the date of valuation of real property caused by the public improvement for which such property is acquired, or by the likelihood that the property would be acquired for such improvement, other than that due to physical deterioration within the reasonable control of the owner, will be disregarded in determining the compensation for the property.

7.04.02.00 Total Value

The market value of required property is the total appraised value of the property rights proposed for purchase including net damages, if any, to the remainder. This amount is carried forward to the Appraisal Summary (RW 7-9) and the Parcel Summary Page (RW 7-4), if used.

7.04.03.00 Encumbered Fee

The condition of title of each subject parcel will be examined. The effects of land restrictions and existing rights of way and easements, recorded and unrecorded, will be considered in the land valuation. The effect of routine tract restrictions, domestic utility easements, and easements of nominal effect may be reflected in the overall valuation of the land. Fee areas encumbered with extensive easements and rights of way which materially affect the use or desirability of the land are to be valued separately, reflecting the effect of the encumbrances. Great care must be exercised in evaluating the effect of private land restrictions or easements in which the subject parcel is a servient tenement. In these cases, a separate appraisal of the dominant tenement and the effect on the servient tenement may be required.

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7.04.04.00 Mineral, Water, Oil and Gas Rights

Mining claims, water rights, mineral reservation, and oil and gas rights will be valued as separate rights in land, if separately owned, or if comparable data supports other than nominal valuation. The appraisal will include the land value of the right, the improvements appurtenant to the right, and the damage payments and construction contract work necessitated by the proposed highway construction. The value of the fee ownership should reflect the loss of the surface area and other rights required to exploit the resource.

Frequently, these rights may be exploited in the after condition without interfering with the use of the surface for highway purposes. In these cases, the appraisal may show the right at a nominal land value and appropriate payments for improvements, damages, and construction contract work.

When necessary to make separate appraisals of these interests, the Appraisal Branch will identify the separate rights by subparcel letter designation. These rights need not be delineated on Appraisal Maps unless required for clarity.

7.04.05.00 Improvement Bonds and Assessments

Property will normally be appraised free and clear of improvement bonds and assessments. This assumes that the appraised value reflects these improvements over properties not so improved and therefore not subject to bonds and assessments. Comparable data are to be adjusted to reflect these differences where the comparables are not subject to the same bonded indebtedness.

Exception to this policy will be allowed only if both the following conditions are met:

A. The assessment Region/District is relatively new, and few, if any, sales have occurred which reflect the effect of the bonded improvements on property values.

B. The appraisal indicates that the bonded improvement will be adequate for the area and will add value to the properties, at least, commensurate with its cost.

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7.04.06.00 Leasehold Interests "Bonus Values"

The valuation of parcels will be made as if free and clear of leasehold interests. However, leasehold information is required. The appraisal will contain the name of the lessee, lease rate, and general summary of the lease terms. The contract, estimated economic rents and any circumstances which may indicate a "bonus value" situation, including the statement that one does or may exist, will be discussed.

"Bonus Value" is defined as the value of a tenant's leasehold interest in the real estate arising from contract rent that is less than the economic rent. The economic rent must be consistent with the highest and best use of the property. The amount of "bonus value" is a matter between lessor and lessee. Any "bonus value" shall be estimated only at the request of the Acquisition Branch for assistance in negotiations and not included in the Appraisal Report.

7.04.07.00 Access Rights

The value of restriction of abutter's rights, including access rights, is measured by the loss in value of the remaining property before and after the restriction. The requirements for abutter's rights and/or access rights will be marked on the Appraisal Summary (RW 7-9) of all partial acquisitions. If abutter's rights and/or access rights are the only property rights acquired, the remark "Abutter's Rights and/or Access Rights Only" and nominal value will follow the "Land" heading. Valuation of any loss will be shown under "Damages." (See Section 7.09.00.00.)

When the Department proposes to dispose of access rights, Project Development may request an appraisal of the market value of the property right being transferred. The measure of market value for access rights is the potential increase in value of the abutting property before and after the access is granted. See Project Development Manual, Chapters 26 and 27, as well as Chapter 16 of the Right of Way Manual for guidance.

7.04.08.00 Temporary Easements

A temporary easement is an encumbrance for a specific use over a specified duration of time. Temporary requirements are valued by the loss in utility and enjoyment of the encumbered area for the entire easement term/duration. The appraiser shall discuss the proposed use of the temporary easement area with Design in order to understand and estimate the impacts to the subject parcel.

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An appraiser is often unable to accurately calculate any varying levels of loss, as Caltrans may not control when "actual" physical work starts and ends on a parcel within the span of the temporary easement term. Although the actual/physical use of a property may be anticipated for a limited duration within a set time frame, a property is considered to be encumbered for the entire duration of the easement term. While the extent of an owner's loss of utility and enjoyment may be influenced by a potential constraint to the lease or general use of the encumbered area, the temporary easement valuation shall employ one consistent (flat) rate for the compensable period. This loss may be expressed as a discounted land rental rate.

The compensable period for a temporary easement shall commence on the "start date" and expire on the "end date." The start date shall be the project's Right of Way Certification date. The end date should be confirmed with Design, if possible. If the end date cannot be confirmed with Design, the end date shall be the project's Construction Contract Acceptance date.

If there are additional acquisitions and/or impacts to the subject property, timing of the temporary easement encumbrance shall be considered appropriately in order to avoid any potential double payment and/or minimize damages.

7.04.09.00 Permanent Easements

A permanent easement is a perpetual encumbrance for a specific use. Permanent requirements, such as drainage easements, etc., will be valued by the loss in utility and enjoyment before and after the imposition of the encumbrance. This loss may be expressed as a percentage of unencumbered fee value. The appraiser shall discuss the proposed use of the permanent easement area with Design in order to understand and estimate the impacts to the subject parcel. The requirement may also involve improvements and possible damages and benefits to the remaining property.

Care must be exercised that easements existing within the subject fee acquisition are properly valued and that double payment is not proposed for easement replacement requirements.

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7.04.10.00 Underlying Fee

Caltrans defines "underlying fee" as the portion of ownership encumbered by a public road easement. Per Streets and Highways Code Section 83, the underlying fee "*within the boundaries of a state highway . . . constitute a part of the right of way*" and shall be without compensation paid. As the public has full control over the surface use and the only right the underlying fee owner has is one of reversion, underlying fee is typically valued at $1.00. Also see Section 7.13.70.00 G (2).

7.04.11.00 Unit Values

Comparable data, land, and improvement values are normally expressed as unit values. The unit values are then adjusted and applied to land and/or improvements of the subject, as appropriate, after taking differences into account.

Occasionally, land may be valued by comparison on a site or lot basis. This method must be supported by the comparable data. In a partial acquisition, the land will be valued at the comparable unit value of the class of land of which it is a portion. Distribution of value between right of way requirements and excess will be shown at the component unit land values of the classes of land of which the portions are a part.

7.04.12.00 Hazardous Waste and Hazardous Material Definition

A material is hazardous if it poses a threat to human health or the environment. The term "*hazardous waste*" is applicable to the storage, deposit, contamination, etc., involving a hazardous material (HM) which has escaped or been discarded or abandoned and which may be defined in general terms as being any of the following:

- Flammable
- Reactive (subject to spontaneous explosion or flammability)
- Corrosive
- Toxic

"*Hazardous materials*" may be any of a large group of the above products. If their use is under control and in accordance with applicable statutes and regulations, there is generally no appraisal problem.

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7.04.12.01 Hazardous Waste General

Each Region/District has a designated Region/District Hazardous Waste/Materials Coordinator; this is the contact person for all HW information that may pertain to the development of a project. They will be responsible for ensuring implementation of and compliance with the Director's policy memorandum that outlines the Department's policy/procedure relative to HW. The major points affecting Right of Way are:

A. No real property acquisition or possession is to take place until HW investigation reports have been completed and the appraisal reflects those findings.

B. The parcel Certificate of Sufficiency (COS) from Project Development to Right of Way is to have attached a Hazardous Materials Disclosure Document (HMDD) that provides a narrative certification from the District Hazardous Waste Coordinator that the property can be:

    1. considered free of significant HW; or

    2. the COS and HMDD will include a completed and approved property investigation report stating the nature and extent of contamination and an appropriate remedial cost estimate; or

    3. if appropriate, the COS and HMDD will state the owner's approved cleanup plans, schedule and current status.

The COS and HMDD are internal documents. As such, they are to be transmitted with the appraisal for review and retained in the file.

7.04.12.02 Hazardous Waste Identification and Investigation

During the early stages of project development, the Region/District Environmental Engineering Branch, as part of the Project Development Team (PDT), will identify sites or facilities that may be contaminated with HW for further investigation. Note: R/W, as a PDT member, shall provide functional input on HW parcel issues early in the project development process.

Environmental Engineering thereafter administers HW investigations and should furnish resulting parcel reports and estimated costs to R/W by the time

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the parcel Certificate of Sufficiency with attached Hazardous Materials Disclosure Document is approved and forwarded to Right of Way.

The R/W Appraisal Branch must receive and consider in the appraisal the effect of the parcel HW investigation report, or receive a certification from Environmental that the parcel is considered "free" of HW, before a resulting parcel appraisal can be approved for acquisition purposes.

Right of Way, as part of the Project Development Team, will assist in the identification and investigation phases whenever possible and will provide the primary source of contact with property owners and operators. As such, Right of Way will:

A. Alert the PDT whenever a new potential HW site is discovered.

B. Obtain necessary Permits to Enter for HW investigation and cleanup from property owners and operators, including securing court orders through the Legal Division.

C. Provide normal right of way clearance activities to include cleanup of minor HW situations which can be handled as part of the clearance contracts.

Early identification of potential HW is essential. The Region/District Project Development Branch is responsible for developing and maintaining an HW tracking system database; however, Right of Way should assist in any possible way and ensure that the PDT is aware of any suspected HW sites.

Environmental Engineering must give a copy of any reports and cleanup costs to R/W by the time the Certificate of Sufficiency with attached Hazardous Materials Disclosure Document is approved and provided to R/W. This must then be considered in the appraisal of the parcel or the Certificate with attachment must state the parcel is "free" of HW before the appraisal can be approved for acquisition.

7.04.12.03 Hazardous Materials

Asbestos containing materials (ACMs) and other HMs must be fully considered to ensure property with such HM is not acquired without adequate prior investigation, valuation analysis and clearance abatement. HMs primarily include asbestos, but can include polychlorinated biphenyls (PCBs), lead based paints, etc.

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The identification, investigation and evaluation of parcels which may contain HMs must be made early to assure project delivery schedules are met. This early identification requires the appraiser to use common sense and knowledge to identify possible HM-containing property. Once identified, inspections will be performed by licensed, qualified persons, usually contractors hired by contracts awarded under the bidding process either by task order or separate contract.

The property owner must give prior written permission before an inspection can be made.

The inspection will include a determination of:

A. The type, extent, location, and quantity of ACM (and any other suspected significant HM), within the structure;

B. Condition of the ACM - friable, nonfriable, stable or deteriorating, etc.;

C. Identification of and cost of appropriate remedial action(s):

   1. Removal

   2. Other acceptable steps (encapsulation, etc.)

   3. Cost of restoration.

   Every improved property will be inspected except:

      A. Residential improvements of one to eight units when:

         1. The market approach is the only, or clearly the primary, basis for valuation;

         2. Comparable data shares the general characteristics of the subject; and

         3. The existing improvements represent the highest and best use of the property;

      B. Improvements constructed entirely after January 1, 1980.

      C. Those improvements constructed with materials which can be easily determined to not contain HMs (example: all-metal storage buildings).

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7.04.12.04 HW Site Identification

This, as well as information on testing and/or cleanup, including a cleanup cost estimate appropriate for fair market value appraisal analysis, should be furnished by Project Development for all parcel appraisals including replacement utility easements to be acquired by the Department. The appraiser may obtain information to assist Project Development in identifying possible HW sites that may have been missed. This includes observing potential problems during the inspection of the subject property. It also includes questioning the owner and lessee about current and past possible HM and possible contamination on the site including underground storage tanks. When previously undiscovered tanks do exist, the appraiser must obtain as much information as possible regarding tank size, age, construction, location, contents, etc.

The appraiser must document observations and discussions with the property owner, lessee or other occupants regarding possible waste problems in the Parcel Diary. This must be passed on to Project Development and the Hazardous Waste Coordinator. (See 7.04.12.05, "Notification.")

As a general guide for appraisers, some present and prior land uses where HW/HM problems may exist are set forth below.

A. Commercial and industrial sites such as service stations, muffler shops, bulk plants, paint manufacturing companies, machine shops, plating works, dry cleaning plants, chemical and fertilizer companies (which may use or have used solvents, cleaning compounds, catalysts, cutting oils, plating solutions, dyes, paints, or other chemicals);

B. Junk yards, auto wrecking yards, dumps, or landfills;

C. Underground or aboveground tanks for storage of liquid hydrocarbons, pesticides or other toxic materials;

D. Existing buildings with asbestos siding, roofing, ceiling material, floor tiles, fire-proof doors, or insulation on water pipes, heaters, heating ducts, steel framing, etc.

E. Disposal sumps or pits which may contain agricultural chemicals or industrial wastes;

F. Utility substations or storage/maintenance facilities, and;

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G. Sites where contamination may have resulted from an adjacent property owner's operation.

7.04.12.05 Notification

When a suspected HW site has not previously been identified, R/W is to immediately notify Project Development by memorandum with a copy to the Hazardous Waste Coordinator. This memorandum is to give full details as to the appraiser's observations and findings regarding the potential HW problem. The memorandum will request an investigation to determine future actions. If the investigation finds potential HW and testing is necessary, Project Development will hire a consultant to determine the nature and extent of the waste. If testing confirms contamination, Project Development is to furnish the Appraisal Branch with a cleanup cost estimate.

7.04.12.06 Valuation

Regardless whether the right of way requirement is fee or easement title, the real property will be appraised recognizing the effects of HW and HM on its market value.

A. HAZARDOUS WASTES -

The valuation of property that involves an identified HW site will include: 1) The market value of the property as if free and clear of the HW. 2) The market value of the property considering the effects of the HW.

The opinion of market value of a property in its contaminated condition must consider the following:

- Local regulatory agency cleanup requirements.
- Estimated cleanup cost furnished by Project Development.
- Market data involving sales, offers or listings of properties with comparable cleanup problems.
- Marketability of parcels with known HW cleanup problems considering opinions of developers, brokers, lenders, insurers, investors or other informed persons.
- Any other pertinent data, opinions, etc.

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- Comparable data verification will at a minimum include the following:

    1. Was site investigation or testing done as a condition of sale? What were the results?

    2. Did the transaction price or terms reflect the results and/or cost of correction?

    3. Was an indemnification agreement to protect the buyer from risks associated with HW/HM a part of the deal?

- If investigation indicates that the property being appraised either originated or caused contamination that has, or may have, also contaminated adjacent property, HQ R/W is to be contacted.

- Adequate comparable data may not be available to directly conclude a fair market opinion of a property in its contaminated condition. In such cases, the alternate appraisal may consider deducting the estimated cleanup cost from the value of the property as if free and clear of the HW. The estimated cleanup cost should reflect what a knowledgeable buyer would reasonably expect to pay in order to utilize the property at its highest and best use. This does not necessarily follow the remedial methods, costs or construction schedule associated with the Department's project. Also, the property's highest and best use could change depending on the nature and extent of contamination and alternate remediation options and costs.

- Analysis must consider the cleanup requirements, for highest and best use, of the local regulatory agency having jurisdiction. Full cleanup may not be required or can be delayed for a certain period of time. Thus, the cleanup estimate as furnished by Project Development may need to be adjusted or discounted to reflect the market value situation.

Appraisals that result in a negative value (cost of HW cleanup exceeds market value of cleared property) will be shown as "$0."

The existence or absence of possible hazardous waste will be noted on the Appraisal Summary (RW 7-9) in every appraisal by checking "Yes" or "No" after "Possible HW (including underground tanks)." Where possible or confirmed HW problems do exist, a full discussion will be included in the body of the appraisal. This discussion will describe the nature of the problem or suspected problem, regulatory agency cleanup requirements,

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status of testing or cleanup plans and any other pertinent information, including the impact on market value, if any.

B. HAZARDOUS MATERIALS -

The Appraisal Branch must obtain and fully evaluate the impact of ACM, or other HM, before an appraisal report can be approved for acquisition purposes. The Appraisal Branch retains the responsibility for requesting needed inspections on improved properties which were originally excluded from inspection. The appraisal report will document if an inspection was not required.

Appraisals of all improved properties to be acquired will reflect market adjustments for the presence of ACMs or other significant HMs.

Evaluation of improved comparable sales data will, at a minimum, include verification of the following:

1. Was an inspection of the buildings for HWs and/or HMs made as a condition of sale? If "Yes," what were the results of the inspection?

2. Did the transaction price or terms reflect the results and/or the cost of correction or other HW/HM considerations?

3. Was there an indemnification agreement provided by the seller that affected the property's sale price by protecting the buyer from liability, risk or exposure associated with a known or possible HW/HM condition?

Valuation will consider the impact of HM on the property. The market may react to the presence of HMs in an improvement on the subject by adjusting the price/terms of the purchase agreement. Dollar adjustments, if any, may be more, less, or equal to the cost of the remedial action to remove, restore, or otherwise mitigate the problem.

The effect of HM on value will vary depending on whether the existing improvements are the highest and best use of the land. Cost of remedial action may change the highest and best use. Further, any remodeling, renovation, repair or modernization which requires disturbance of otherwise dormant HMs in order to achieve or maintain highest and best use must be analyzed. Economic life of improvements may be shortened as a result.

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The fact that the Department will incur cleanup costs as part of the right of way clearance process does not necessarily indicate that the market value of the property is affected. In appraisals where the estimated demolition cost of an improvement is being deducted from the market value of a property as if vacant and ready for development, the estimated demolition cost should include the removal of any HMs.

Containerized HMs used in an operation that represents the highest and best use of a property will ordinarily not affect market value — i.e., paint stored in cans in an auto paint shop. On the other hand, containers of HMs that must be removed to utilize a property to its highest and best use may impact market value — i.e., abandoned drums of toxic chemicals on a vacant site.

Following investigation, the existence or absence of HMs will be noted in the appraisal. Where HMs occur, the appraisal discussion will include a description of the materials, their location and condition, any regulatory controls applicable, the effect on the property's current or future use, present and/or future remediation actions and costs, and the estimated impact on market value.

7.04.13.00 Market Value of Nonprofit, Special Use Properties

The statutory definition of market value for nonprofit, special use properties is defined by Evidence Code Section 824(a) as:

> *"The cost of purchasing land and the reasonable cost of making it suitable for the conduct of the same nonprofit, special use, together with the cost of constructing similar improvements."*

These provisions are applicable only if the property meets all four of the following criteria:

1. The subject property is operated for a special, nonprofit use.
2. The operator must have an exempt status with the State or Federal Income Tax offices.
3. The property is not owned by a public entity.
4. There is no relevant, comparable market data.

"*The cost of purchasing land*" is considered to be the estimated cost to acquire an area of sufficient size to conduct the special use. It is not necessary to identify any specific property. The cost should usually be estimated on the basis of typical unit or site prices for a land area with

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sufficient utility to conduct the use. The geographical area analyzed to arrive at the typical price should be suitable to the special nonprofit use. *"The reasonable cost of making it suitable for the conduct of the same nonprofit, special use"* should be based on the typical or appropriate factors in the geographical area suitable to the use. There is no requirement to base the cost on a specific site, and there is no requirement that the nonprofit entity relocate in order to be compensated under this method.

"The cost of constructing similar improvements" shall be based on the value of reproducing the improvements without taking into consideration any depreciation or obsolescence of the improvements per Evidence Code Section 824(b).

The total sum of these three costs is the market value under this method. It is important to note that Federal participation in acquisition costs is limited in these cases to fair market value as commonly measured on the basis of replacement cost new less depreciation. For accounting purposes, appraisal reports shall include the market value of the subject property using a conventional cost approach (considering any applicable depreciation).

The difference between the two valuations will be a nonparticipating, state-only payment.

Properties of this type may not be acquired often but have potential for significant effects on capital and scheduling, and should be discussed with the Headquarters Appraisal Branch before the owner is contacted and the appraisal begun. All nonprofit, special use property appraisal reports are to be approved consistent with current delegations.

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7.05.00.00 - METHODS OF VALUATION

7.05.01.00 Value Approaches

The appraisal of all properties will utilize the three approaches to value as appropriate. If an approach is not used, an explanation will be given for the nonapplicability of the particular approach. Even if not required, separate approaches may be used if helpful.

The final reconciliation of value will be made considering the relative validity and reliability of each approach and will be the best estimate of the value of the entire property. The basis of reconciliation and relative considerations will be explained as necessary. Averaging is not a satisfactory reconciliation procedure. Exhibit 7-EX-4 is a suggested format. The final Estimate of Value should be further segregated for total charges to lessee-owned improvements, partial acquisition, joint acquisitions, etc.

Separate approaches and reconciliations for before and after conditions may be required to measure severance damages.

7.05.02.00 Sales Comparison Approach

The Sales Comparison Approach is required in most appraisals. The only exception to this rule is in certain governmental, public utility, or special-purpose parcels under specified circumstances. Comparable data will be fully utilized for direct comparison of total values, land values, improvement values, for information for other approaches, and for damage and special benefit studies.

Gross Income Multipliers are a unit for comparison of income properties and are indicated when there are sufficient sales of similar properties. It is extremely important to use similar properties when employing this method.

7.05.02.01 Comparable Data

The most reliable comparable data are the sales and listings of properties similar to subject parcels. Comparable data are not to be limited to sales and listings or to use in the Sales Comparison Approach. Valuable information may be gained for all three approaches by studies of similar properties with regard to use and development, well-informed opinions, independent appraisals, depreciated values, after condition land use, remainder parcel and excess parcel sales, options, income-expense

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experience, etc. Each factor or value element in the appraisal which can be supported by comparable data attains greater reliability.

Significant comparable data of all types are expected to be included in the Appraisal Report in support of appraisal conclusions.

Sections 7.02.03.00 O and P contain additional requirements for comparable data collection, confirmation, and reporting.

7.05.02.02 Analysis of Comparable Data

Proper analysis of comparable data in relation to the subject is basic to the Sales Comparison Approach. The following procedures are intended to achieve the optimum quality in the discussion relating comparables to the subject parcel:

A. Comparable-data prices may be compared in terms of whole properties. However, to facilitate comparison, reduction of comparable prices to a common denominator or unit of comparison may be desirable. Examples are price per square foot and price per dwelling unit. Applicable adjustments may be made on either the whole property or unit of comparison basis.

B. The six basic elements of comparable adjustment are:

   1. Property rights conveyed (i.e., conveyance of leasehold interest, etc.)

   2. Financing terms

   3. Conditions of sale (i.e., motivations of the buyer or seller)

   4. Expenditures immediately after purchase (expenditures a buyer will have to make immediately upon purchase, i.e., demolition costs, hazardous waste cleanup)

   5. Market conditions (time)

   6. Physical characteristics (e.g., location, size, shape, topography, access, etc.)

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C. Adjustments to Comparable Data

Both California Department of Transportation (Department) and FHWA appraisal policy recognizes the need to have an appraisal that is well supported and demonstrates a thorough analysis of the elements of comparison necessary to arrive at a factual conclusion in the sales comparison approach. Each appraisal must contain a sufficient description of the comparable sales including the specific elements of comparison made thereto so that it is possible for the reader to understand the conclusions drawn by the appraiser from the comparable sales data. Department and FHWA policy mandates that quantified adjustments shall be the primary method of adjusting comparable data. The quantified adjustments can be expressed as a percentage or dollar amount and represent a market derived adjustment or, absent that, the appraiser's opinion of the comparative weight for the element of comparison to be made.

In very limited circumstances when the appraiser cannot find market derived adjustments and/or cannot form an opinion of the comparative weight for the element of comparison to be made, qualitative adjustments can be used. When the appraiser must resort to qualitative adjustments, they must recognize that this form of comparative analysis will require a more extensive discussion. Merely to state that the comparable is superior or inferior, either overall or for a particular element of comparison, is not suitable. Each element of comparison must be discussed in sufficient detail to allow the reader to clearly understand the appraiser's reasoning for the adjustment and the comparative weight that the appraiser is attributing to that element of comparison. To facilitate clarity and consistency, seven levels of comparison are to be used in qualitative adjustment: similar, slightly inferior, inferior, far inferior, slightly superior, superior, and far superior. The degree of difference may be expressed as one, two, or three pluses or minuses applied to each element in a grid. In addition, the appraiser must state whether the comparable sale is overall superior or inferior to the subject.

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Quantitative and qualitative adjustments are not mutually exclusive methodologies. Because one element of comparison cannot be quantified does not mean that all adjustments to a comparable sale must be qualitative. All factors that can be quantified should be adjusted accordingly. When quantitative and qualitative adjustments are both used in the adjustment process, all quantitative adjustments should be made first.

If no adjustment of any element is needed, a statement explaining the reason(s) shall be included in the appraisal.

In developing a final value estimate by the sales comparison approach, the appraiser shall explain the comparative weight given to each comparable sale, no matter whether quantitative or qualitative adjustments or a combination thereof are used. A comparative adjustment chart or grid is strongly recommended and may assist the appraiser in applying the adjustments consistently and help the reader follow the appraiser's reasoning and analysis.

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D. Sequence of Adjustments

The following sequence for making adjustments is required whenever percentage adjustments are used either solely or in combination with dollar adjustments. The first series of adjustments are sequentially applied with resulting subtotals for each adjustment. After applying the market condition adjustment, all other adjustments for items such as location, physical characteristics, etc., are combined and applied to the market conditions adjusted price to arrive at a final adjusted sales price.

This sequence is depicted in the following example:

Unadjusted sales price		$100,000
Adjustment for property rights conveyed	0%	$0
Adjusted price		$100,000
Financing terms	-$5,000	-$5,000
Adjusted price		$95,000
Conditions of Sale	+10%	+$9,500
Adjusted price		$104,500
Adjustment for expenditure immediately after purchase		+$5,000
Adjusted price		$109,500
Adjustment for market conditions	+10%	+$10,950
Adjusted price		$120,450
Location	+5%	
Size	-10%	
Shape	-5%	
Topography	-5%	
Access	+5%	
Net Adjustment	-10%	**-$12,045**
Final Adjusted Sales Price		**$108,405**

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7.05.03.00 Assessor's Office Data

Under Section 408 of the Revenue and Taxation Code (AB 82-Chapter 1641), County Assessors are required to provide information, abstracts, or access to records to Department staff appraisers "pursuant to their authorization to examine such records."

The code provides that Department will reimburse the Assessors for their actual costs incurred in furnishing data pursuant to the code. These costs and the resulting charges to Department can vary from county to county.

The obtaining of data and arrangements as to fees involved should be handled directly between the Region/District and the Assessor's Office involved.

7.05.04.00 Cost Approach

The Cost Approach is required in the valuation of improved properties where income and market data are nonexistent, limited, or inconclusive. In the valuation of improved properties where there is sufficient comparable data to estimate the value of the property by the market and income approaches, the Cost Approach is optional. However, the Cost Approach may still be appropriate and advisable in these cases for reconciliation with the Income and Sales Comparison Approaches. The Cost Approach is not required for the valuation of minor improvements and improvements that have only interim, salvage, or a negative value.

An analysis and support of depreciation must accompany the Cost Approach. The basis for the "cost new" estimates must be supported by acceptable cost sources. This applies to the valuation of buildings, structures, machinery and equipment and all other improvements pertaining to the realty defined in Code of Civil Procedure Section 1263.205.

Support of the cost new estimates with acceptable cost sources applies to all appraisals using the Cost Approach prepared by either staff or independent appraisers, including separate specialty-type appraisals (e.g., machinery and equipment). The same support for cost estimates also applies to cost-to-cure damages.

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The following are some of the cost-new sources which are acceptable:

- Recent actual construction costs of similar improvements.
- Cost data services (e.g., Marshall & Swift).
- Architects, engineers, contractors, builders and supplier estimates.
- Actual written bids from contractors, engineers, suppliers, etc.
- Manufacturers' catalogs.

When estimates from architects, engineers, contractors, etc., are used as cost sources and the estimated cost new of any improvement is substantial, a secondary cost source must be used as collateral support. If more than one cost source is used and the costs differ, the appraiser must furnish rationale for the final cost estimate.

When a cost-data service such as Marshall & Swift is used as a cost source, the appraiser must show the page, section, and date of each reference, together with support for any adjustments used in estimating the cost new. Cost references must be identified or referenced on an item-by-item basis in the Cost Approach. Exhibit 7-EX-5 is a suggested format for displaying the Cost Approach.

7.05.05.00 Income Approach

The Income Approach is appropriate and usually required for valuation of properties that are bought and sold in the market on the basis of income.

There may be instances where there is sufficient comparable data to very clearly support the value indicated by the Sales Comparison Approach without the need for analysis by other approaches. This would most often occur with smaller residential income properties. Use of the Income Approach in those cases is optional. However, its use may still be appropriate as a check against the other approaches. In most cases involving income property, inclusion of an Income Approach is expected.

The Income Approach is not required for minor partial acquisitions with no severance damages, which have little or no effect on the income stream and where there is no necessity for entire property valuation.

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When the Income Approach is used, documentation to support each element, including income, expenses, and rate(s) must be included in the Appraisal Report. If possible, the same comparable sales used in the Sales Comparison Approach should be analyzed in sufficient detail to reflect these elements. If these sales cannot be utilized, other comparable data must be gathered and analyzed to obtain the necessary information. These data or a detailed summary must be included in the Appraisal Report.

Where economic rent varies from existing or contract rent, the increase or decrease shall be explained and supported by market information.

7.05.05.01 Income Schedule

A schedule of actual and fair income will be included as a supplement. The schedule will show the rental basis including furniture or utilities supplied, and the reasons for adjustment to fair rents. It will also include significant leasehold terms and conditions and may include a Gross Income Multiplier valuation. An example for an income residential property is Exhibit 7-EX-7, which also provides basic relocation assistance information.

7.05.06.00 Review of Owner's Claimed Out-of-Pocket Expenses

The Acquisition Branch must verify any payment to reimburse owners for out-of-pocket expenses claimed to be incurred by the development of property when development is interrupted by State's Acquisition. (See Chapter 8.) This will include appropriate audits, and, if necessary, review by the Regional Legal Office. However, the Acquisition Branch should request the Appraisal Branch to assist in the review of the reasonableness of the expenses claimed by the owner. This review will be to determine whether or not any of these expenses claimed have already been considered and included in the appraisal. This review should eliminate any duplication of payments.

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7.06.00.00 - LAND

7.06.01.00 General

Final appraised land value will assume the land to be vacant and ready for development to its most probable highest and best use. Land value will be established in almost all cases by the Sales Comparison Approach.

It is proper to use zones of value due to differing amenities or utilities of portions of the parcel. Examples of zones of value would be illustrated in differences between level and hillside, commercial and residential, or irrigated and nonirrigated portions of an ownership. Differing land values by zone must be supported by comparable data. When using zones of value, it is important to consider the effect each zone has upon each other and the value of the whole. Without this, merely aggregating the different zones of value is not a complete analysis.

Valuation of timber land, agricultural land, government land, land which is encumbered by a conservation easement, and fee-owned public utility properties may be subject to special treatment as noted in this Section and in Section 7.13.50.00.

The effect of existing private expressway access openings on the development potential of the land should be investigated. The reasonable probability of developing such an opening as a future public street connection to and from the interior of the property is a valid valuation consideration.

Retaining walls and utility services necessary for proper use of the land should be included in land valuation.

Certain specific improvements such as agricultural wells, fencing, etc., may be included with land, as described in 7.07.05.00 and 7.07.06.00.

7.06.02.00 Timber Land

Valuation of commercial timber will be based on in-place value of the uncut timber estimated by timber cruise. The value of the timber and the value of cut-over land will be shown separately but totaled in the land valuation. Care must be exercised that proper market consideration is given to possible recreational or residential use of the timbered area.

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7.06.03.00 Agricultural Land

Adequately developed agricultural properties such as orchards and vineyards frequently sell on acreage values, considering the state of development and productive capacity of the land as improved. As such, the value of trees, vines, irrigation systems, agricultural wells, fencing, etc., may properly be included as part of the land value. The unit value should reflect adjustment to the comparable data for differences in age, condition, and productive capacity as compared to the subject. If valued by this method, agricultural improvements other than trees and vines will be briefly described under "Improvements" with zero value and the remark that their value is included in the "Land." The description of pumps and motors will include model and serial numbers.

Although Code of Civil Procedure Section 1263.250 requires the valuation of and payment for growing crops when possession is taken before harvesting, it is usually not necessary to make such a valuation in reports prepared for negotiations. The owner will generally be afforded the opportunity to harvest the existing crop.

7.06.04.00 Valuation of Williamson Act or Farmland Security Zone Lands and Timberland Production Zone Land

If the land proposed for acquisition, in whole or in part, is under contract with a local agency pursuant to the California Land Conservation Act of 1965, special notification and valuation procedures apply. This Act, which is also known as the Williamson Act, is found in Government Code (GOV) Sections 51200 – 51295 inclusive. Article 6, GOV Sections 51290 – 51295, governs eminent domain procedures for Williamson Act lands. Agricultural properties may also be held subject to Farmland Security Zone contracts, which are similar to but expand upon Williamson Act contracts (GOV Sections 51296 – 51297.4). Generally, the same eminent domain provisions applicable to Williamson Act lands will also apply to Farmland Security Zone properties (GOV Section 51297.1).

The Williamson Act and Farmland Security Zone provisions require special notification under GOV Section 51291(b) to the Director of the California Department of Conservation and the local governing body administering the preserve ***"…whenever it appears that land within an agricultural preserve may be required by a public agency or person for a public use..."*** Usually such notification would take place during the environmental phase of the project,

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with facts and findings in the approved environmental document. The appraiser should confirm with the Environmental Branch that this notification has been performed.

As to valuation for eminent domain acquisitions, the law requires that Williamson Act contracts shall be considered never to have existed for the purpose of valuation in the case of a total acquisition, and disregarded in the valuation of the land actually taken in a partial acquisition. If the remaining land subject to contract will be adversely affected by the acquisition, the value of the damage shall be computed without regard to the contract (GOV Section 51295). As noted above, the same procedures apply for properties under the Farmland Security Zone contracts.

Similar notification and valuation procedures apply for land zoned Timberland Production Zone (TPZ) (GOV Section 51155). Like lands subject to Williamson Act contracts, these specialized zones artificially affect highest and best use, and are to be disregarded in eminent domain appraisals as outlined above. However, the notification is to be sent to the Secretary of Resources and the local governing body [GOV Section 51151(b)]. Again, the appraiser should confirm with the Environmental Branch that this notification has been performed. Timberland Production Zones are governed by the "California Timberland Productivity Act of 1982" under GOV Sections 51100 – 51155 inclusive. Article 6, GOV Sections 51150 – 51155 governs eminent domain procedures for TPZs. In valuation, the TPZ shall be deemed never to have existed. Under GOV Section 51155, when any action in eminent domain is filed in court for a full acquisition, the parcel is immediately rezoned as to the land actually being condemned; for the purposes of establishing the value of the land, the TPZ must be treated as though it never existed. When an action to acquire less than all of a parcel of land subject to a TPZ is filed, the parcel is deemed immediately rezoned as to the land actually condemned or acquired and must be disregarded in the valuation process only as to the land actually being taken, unless the remaining land subject to the TPZ will be adversely affected by the condemnation, in which case the value of that damage shall be computed without regard to the TPZ. As a result, the appraiser should contact the County Planning Department to ascertain the zoning of the parcel upon the removal of the TPZ.

Each of these special zones will be disclosed by investigation at the local planning agency as part of the appraisal process.

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7.06.05.00 Valuation of Land Encumbered by Conservation Easement

If the land proposed for acquisition is encumbered by a conservation easement, special procedures apply. These properties are distinguished from Section 7.06.04.00 above in that the properties noted above are owned in fee and have restrictive zoning overlays, whereas the properties covered in this Section are encumbered by conditions in a recorded deed. The term "conservation easement" is defined in Civil Code (CIV) Sections 815-815.5 and refers to a restriction placed by (or on behalf of) the owner upon the use of land for the purpose of retaining land in its natural, scenic, historical, agricultural, forested, or open-space condition. Public entities, qualified tax-exempt, nonprofit organizations, and certain California Native American Tribes [see CIV Section 815.3(c) for specific information regarding qualifying tribal entities] can hold conservation easements, but all conservation easements must be recorded under CIV Section 815.5.

California law recognizes several special types of conservation easements that involve specific approaches to valuation and acquisition (Open-Space, Wildlife, and Agricultural Easements, discussed further in this Section). However, conservation easements are generally acquired and valued by the Department in the manner set forth in Code of Civil Procedure (CCP) Section 1240.055. Under the statute, the Department has authority to acquire conservation easements solely under either CCP Section 1240.510 (compatible public use) or CCP Section 1240.610 (more necessary public use). The following provisions apply:

NOTIFICATION:

When sending the *Notice of Decision to Appraise* to the fee land owner, the appraiser shall also send a letter to the easement holder notifying them of the State's proposed acquisition and including the project description and appraisal map. This notice is mandatory and provides for early communication with the parties involved with the conservation easement acquisition; CCP Section 1240.055(c) states ***"Not later than 105 days prior to the hearing held pursuant to Section 1245.235, or at the time of the offer made to the owner or owners of record pursuant to Section 7267.2 of the Government Code, whichever occurs earlier, the person seeking to acquire property subject to a conservation easement shall give notice to the holder of the conservation easement as provided in this subdivision."*** CCP Section 1240.055(c)(1)(D) requires the easement holder, under certain circumstances set forth in CCP Section 1240.055(c)(2)(B), to take several steps – one of which is to forward the State's notice within 15 days to any

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and all public agencies funding or having direct involvement in the approval or permitting of the original easement. An example of this notice is included in the Exhibits as 7-EX-17B *Notice of Decision to Appraise (Conservation Easement)*. The holder of the conservation easement or the public entity receiving notice, or both, may respond with written comments on the acquisition, including identifying any potential conflict between the public use proposed for the property and the purposes and terms of the conservation easement. Written comments on the acquisition may be submitted no later than 45 days from the date the notice was mailed to the easement holder. The statute requires the Department to respond to comments from the easement holder and the notified public entity within 30 days. Any comments received shall be referred to the project environmental coordinator for expert analysis and input. The result of that coordination shall be utilized in preparing responses to comments. It shall also be considered in the appraisal of the impacts of the proposed project on the conservation easement.

VALUATION:

- CCP Section 1240.055(g)(1)(A) provides general parameters for valuing conservation easements: "***The total compensation for the acquisition of all interests in property encumbered by a conservation easement shall not be less than, and shall not exceed, the fair market value of the fee simple interest of the property as if it were not encumbered by the conservation easement."***

- The statute further reads: "***If the acquisition does not damage the conservation easement, the total compensation shall be assessed by determining the value of all interests in the property as encumbered by the conservation easement."*** [CCP Section 1240.055(g)(1)(B), emphasis added]. A "before and after" analysis will be the primary means of valuing the rights acquired from the interest(s).

- The final valuation guidance in the statute [CCP Section 1240.055(g)(1)(C), emphasis added] reads that ***"If the acquisition damages the conservation easement in whole or in part, compensation shall be determined consistent with Section 1260.220 and the value of the fee simple interest of the property shall be assessed as if it were not encumbered by the conservation easement."*** That section (CCP Section 1260.220) provides that each property interest and the damage to the remainder of each interest shall be separately "assessed," but allows the condemning agency to present an undivided offer at its discretion.

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While the appraisal shall present separate valuations of just compensation due to the fee and easement holder, it is the Department's usual policy to follow CCP Section 1260.220(b) that allows an undivided offer.

The acquisition may damage the conservation easement by reducing the environmental and/or ecological goals and values for which the easement was acquired. The appraiser shall consider damages to the remainder of the conservation easement. Damages to the remainder of the conservation easement may occur due to reduction in the critical size of the protected area (i.e., size of the remainder limits ability to serve intent of easement), fragmentation thereof, or related issues. These are technical questions that require communication with our Division of Environmental Analysis and input from the affected stakeholders through the notification and communication process outlined above.

The following concepts are consistent with appraisals in general: there may be the "value of the part acquired" and/or "damages to the remainder" from the encumbered fee area, in addition to "the value of the part acquired" and/or "damages to the remainder" from the unencumbered fee area (that is, free of the conservation easement). The appraiser must be careful not to duplicate compensation to the fee and easement areas.

The general case is that most road or highway acquisitions involve fee or highway easements that may potentially impair the value of the conservation easement as public improvements typically physically impair the natural resource values for which the conservation easement was acquired in the first place. In such cases, the Department will typically invoke the authority of CCP Section 1240.610 to acquire the property. The measure of compensation is based on the rights that the express deed language grants to the Department, and upon the assumption that the Department's exercise of its granted rights are "more necessary" and will displace the conservation use(s) of the property. Anecdotal or unrecorded assurances of about lesser impacts, regardless of the source(s) of the assurances, should be disregarded.

However, instances may arise where the acquisition will not impair the conservation easement. This occurs where the Department's authority to acquire is based on CCP Section 1240.510, in that the use to be put to the land is "compatible" with the conservation easement purposes, and the easement deed language has been specifically modified to perpetuate and protect the environmental values for which the conservation easement was created. In such cases, the acquisition would result in no impairment to the conservation easement. As previously described, the property should then be valued as though encumbered by the conservation easement.

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In order for the appraiser to incorporate these compatibility findings into the appraisal, specific documentation must be provided from the certified project environmental document. In addition, communication with the project's Environmental Coordinator, the easement holder, and impacted public agencies should be undertaken to reach a mutual concurrence on the compatibility finding. Any modifications to the acquisition easement deed to ensure compatibility would necessarily be drafted and/or approved by the Legal Division in conjunction with the discussions with the stakeholders. The appraiser should fully discuss the findings in the appraisal and attach a copy of the easement deed with the modified language.

Regardless of possible damage(s) to the remainder of the easement, the valuation analysis of all reports should include the unencumbered fee value of the acquisition. The Appraisal Summary (RW 7-9) will show the just compensation to the fee interest and just compensation to the conservation easement interest.

If the recorded conservation easement, recorded deed, or other document encumbering the acquisition parcel includes a "condemnation clause" which specifies a different procedure from the statutes by which just compensation will be segregated between the underlying fee owner, the conservation easement holder, and/or funding entities, then the recorded easement language shall be cited and attached in the appraisal and acquisition. The appraiser still performs the analysis between the conservation easement and the fee interest as above.

The appraiser should find conservation easements of all types disclosed in the exceptions to the preliminary title report as they are required to be recorded by law. In addition, the appraiser should also consult the certified environmental document, the approved project report, and/or the project environmental coordinator for guidance and consistency regarding how the project Department plans to address any acquisitions of conservation easements.

Identification and evaluation of conservation easements frequently involve complex legal issues in the areas of real property and State and Federal environmental law. In the event that legal assistance is needed in assessing the Department's and grantors' rights and/or duties with respect to conservation easements, the Legal Division should be contacted.

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7.06.05.01 Open-Space Easements

Open-Space Easements (easements established to preserve the natural character of open-space land for the benefit of public use and enjoyment) should be treated in the appraisal as other conservation easements (in accordance with CCP Section 1240.055), with one exception. If the open-space easement was gifted or donated, the easement shall terminate at the time of condemnation complaint filing; the owner is compensated as if the easement did not exist (GOV Sections 51063 and 51095).

7.06.05.02 Wildlife Conservation Easements

Wildlife Conservation Easements (easements held by state agencies at least 10 years in duration primarily to benefit wildlife) will be acquired in accordance with Fish and Game Code (FGC) Section 1348.3. The eminent domain law regarding conservation easements (found in CCP Sections 1240.055(g)(1)(A)-(C) as referenced in the previous section) does not apply in its entirety to wildlife conservation easements acquired by a state agency, as stated in CCP Section 1240.055(h). The following principles are specified in FGC Section 1348.3, which is part of the "Wildlife Conservation Law of 1947" under FGC Sections 1300-1375.

Under FGC Section 1348.3(b), prior to the initiation of condemnation proceedings against a state agency-held wildlife conservation easement, the condemning entity shall give notice to the holder of the easement, provide an opportunity for the holder of the easement to consult with the condemning agency, provide the holder of the easement the opportunity to state its objections to the condemnation, and provide a response to the objections. CCP Section 1240.510 (authority to acquire for a compatible public use) and CCP Section 1240.610 (authority to acquire for a more necessary use) apply to wildlife conservation easement acquisitions. The condemning governmental entity is required to prove by clear and convincing evidence that its proposed use satisfies the requirements of those statutes. At the appraisal stage, the FGC Section 1348.3(b) notice of the proposed acquisition shall be given to the holder of the wildlife conservation easement. Exhibit 7-EX-17B may be used for this purpose. Upon receiving the response to the notification, the appraiser shall forward the response to the project environmental coordinator, the project manager, and the Acquisition Senior. The Department is required to provide a response to any objections to the acquisition.

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The statute does not explicitly identify a valuation methodology, nor does it preclude one; therefore, the following valuation approach is recommended, consistent with similar special conservation easement valuations. In valuing the acquisition, the owner of the land in fee shall be paid the full value that would have been payable to the owner but for the existence of the wildlife conservation easement less the fair market value of the easement, and the easement holder shall be paid the value of the wildlife conservation easement. The appraisal shall take into account any reasonable impacts disclosed by the comment process as outlined above.

7.06.05.03 Agricultural Conservation Easements

Agricultural Conservation Easements are interests in land, less than fee simple, which represent the right to prevent the development or improvement of the land, as specified in Civil Code Section 815.1, for any purpose other than agricultural production. Such easements are granted for the California Farmland Conservancy Program by the owner of a fee interest to a local government, nonprofit organization, resource conservation district, or to a regional park or open-space district/authority that has the conservation of farmland among its stated purposes as provided by statute, or as expressed in the entity's locally adopted policies. Agricultural conservation easements are granted in perpetuity as the equivalent of covenants running with the land (Public Resources Code Section 10211).

Agricultural conservation easements will be appraised in accordance with Public Resources Code (PRC) Section 10261. According to PRC Section 10261(a)(1), ***"The owner of the land in fee shall be paid the full value that would have been payable to the owner but for the existence of the easement less the fair market value of the easement, as determined by an independent appraisal, at the time of condemnation."*** Furthermore, PRC Section 10261(a)(2) states ***"The [California Farmland Conservancy] program, and any other contributing parties if so provided in the easement, shall be paid the value of the easement at the time of condemnation."*** In valuing the acquisition, the owner of the land in fee shall be paid the full value that would have been payable to the owner but for the existence of the agricultural conservation easement less the fair market value of the easement, and the easement holder shall be paid the value of the agricultural conservation easement.

However, CCP Section 1240.055 subdivisions (a) through (f), which govern scope, notification, resolutions of necessity and court proceedings, still apply. It is only the valuation subsection, CCP Sections 1240.055(g)(1)-(2), that does

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not apply to agricultural conservation easements acquired under PRC Section 10261.

7.06.05.04 Replacement Conservation Easements

In some cases where the Department is acquiring a property encumbered by a conservation easement, it may propose replacement of the conservation easement. This may occur by replacement with a substitute property or easement elsewhere, or by acquiring a replacement conservation easement area from the existing fee owner (this applies where there is a remainder that is not encumbered by an existing conservation easement). Usually, this type of an arrangement will be developed through the environmental phase of the project and documented in the approved environmental document, license, certification, or permit. In addition, there will be cases where the certified environmental document will require a replacement easement area that exceeds the existing easement area by a ratio that is higher than 1:1. The appraiser will appraise the project requirement and any replacement property as per normal procedures and cite the approved environmental document, license, certification, or permit's specific provisions for the treatment of conservation easement and the replacement conservation easement.

7.06.05.05 Comparison of Statutes Regarding Valuation of Conservation Easements

The following table shows the relationship between the statutes regarding the valuation of existing conservation easements.

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Comparison of Statutes Regarding Valuation of Conservation Easements

Easement Type	Scope of Law (Application)	Measure of Compensation
Conservation Easements	• Applies to recorded conservation easements (CIV Section 815.5), whether local, special district, state, federal, or tribal, [CCP Section 1240.055(a)] or held by a tax-exempt nonprofit entity whose primary purpose is conservation, etc. (CIV Section 815.3). • Does not apply to wildlife conservation easements if they were acquired by a State agency. [CCP Section 1240.055(h)]. • Per CCP Section 1240.055(g)(2), the valuation methodology [CCP Section 1240.055(g)(1)] does not apply to Agricultural Conservation Easements acquired under PRC Section 10261. **CIV Section 815, CCP Sections 1240.55 and 1260.220**	• Allocation between encumbered fee and easement areas as provided in CCP Section 1240.055(g)(1): ➢ If the acquisition does not damage the easement, compensation is assessed as encumbered. ➢ If the acquisition does damage the easement, compensation is assessed as not encumbered. ➢ The total compensation of all interests shall not be less than, and shall not exceed, the fair market value of the fee simple interest as if it were not encumbered by the easement.
Open-Space Easements	• These apply only to open-space easements acquired by or on behalf of a city or county. **GOV Sections 51063 and 51095**	• Similar to the methodology for conservation easements above, with one exception: ➢ If the open space easement was gifted, then the compensation shall be calculated as if the easement does not exist.

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Easement Type	Scope of Law (Application)	Measure of Compensation
Wildlife Conservation Easements	• Applies only to state-agency acquired wildlife conservation easements [FGC Section 1348.3(a)(3)] as defined in CIV Section 815.1 and recorded in CIV Section 815.5. **FGC Sections 1300-1375**	• Not specified in FGC Section 1348.3 or related statutes. FGC Section 1348.2 provides that the (original) acquisition price "…shall not exceed the fair market value of the property." Suggested methodology consistent with similar special conservation easement valuations: ➢ The land fee owner is compensated for the fair market value as encumbered. ➢ The easement-holder is compensated for the value of the easement.
Agricultural Conservation Easements	• Applies to agricultural conservation easements acquired through the "California Farmland Conservancy Program" (PRC Section 10211), administered by the Department of Conservation and held by an entity defined in PRC Section 10212, "city, county, nonprofit organization, resource conservation district, or a regional park or open space authority…" **PRC Sections 10211-10212 and 10261**	• Allocation between the encumbered fee and the conservation easement as specified in PRC Section 10261(a): ➢ The land fee owner is compensated for the fair market value as encumbered. ➢ The easement-holder is compensated for the value of the easement.

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7.06.06.00 Outdoor Advertising Sites

Where a property is improved with an existing outdoor advertising sign and the comparable sales are not so improved, it will be necessary to analyze the additional contributory value of the outdoor advertising site. Any additional value may take the form of, and require the consideration of, either an interim use, an ancillary use, or a highest and best use.

Interim use value is defined as that increment in value which a short-range use, usually not exceeding five years, other than the highest and best use of the property, would contribute to the total value of the property.

Ancillary use value is defined as an additional source of income other than from highest and best use of the property which may or may not influence the economic rent of the dominant use.

Highest and best use is used in the regular appraisal context.

Complete Exhibit 7-EX-10. The value on Line 28 will be carried forward to the Land Valuation portion of the Appraisal Page under the heading of "Contributory Value of Outdoor Advertising Sign Site(s)."

The appraisal will contain sufficient explanation to document adjustments, conclusions, and assumptions, including "Comparable Sign Board Site Rental Adjustment Chart" (Exhibit 7-EX-10 pg. 3).

The valuation process described here is usually not used to value sites of outdoor advertising signs removed as a part of the Highway Beautification Billboard Removal Program. A formula method is used by the Region/District Right of Way Billboard Coordinators for that program's site valuations.

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7.07.00.00 - IMPROVEMENTS

7.07.01.00 General

Improvements will be appraised at the value they add to the land, assuming the land to be vacant and ready for development to its most probable highest and best use. As such, improvements will be appraised at their depreciated value in place, considering the effect of depreciation from all causes.

Appraisal of improvements at the value they add to the land, if vacant, does not assume that existing improvements are necessarily an improper development of the land. Appraisal by this method will reflect the amount the well-informed buyer would pay for the total property, considering the estimated remaining useful and economic life of the improvements and probable use of the land, if the improvements are removed.

(See the following Right of Way Manual (R/W Manual) Sections 7.07.04.00, 7.07.05.00, and 7.07.06.00 regarding classification of fences, water sources and agricultural improvements, and Exhibit 7-EX-9 regarding improvements.)

7.07.02.00 Single Family Residence and Two to Four Unit Multi-Residence - Form Appraisal

The Uniform Residential Appraisal Report form (URAR) may be used for appraising total acquisitions of either improved single family residential or 2 to 4-unit multi-residential properties. The acquisition may include excess property providing an appropriate allocation of land and improvement values between excess and right of way is made as set forth in R/W Manual Section 7.03.04.00.

The URAR form appraisal may be used only if the land's highest and best use is single family residence and the property is improved with one single family residence or, the land's highest and best use is a 2 to 4-unit multi-residence and the property is improved with one 2 to 4-unit multi-residence. This includes properties improved with mobile homes as realty. See R/W Manual Section 7.12.00.00.

When using the form appraisal, a Parcel Appraisal Page, Form RW 7-9, must still be included in the appraisal report for each parcel appraised, together with any other forms listed in R/W Manual Section 7.02.03.00 that are pertinent to the appraisal.

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When appraising a total acquisition of either a single-family residence or a 2 to 4-unit multi-residence, with no excess land to be acquired, an allocation between land and improvement values is not required.

When using the URAR form, the total price shown on the Comparable Data Page (Form RW 7-11) does not need to be allocated between land and improvements. However, a detailed description of the improvements located on the comparable must be shown on the Comparable Data Page.

The URAR forms may be purchased from various business form companies. The smaller region/districts not needing as many of the forms may consider obtaining them from a larger region/district having a greater need for the forms.

There are several books available providing instructions for using the URAR forms for appraising single family residences and 2 to 4-unit multi-residences. Information on the availability of these books can be obtained from HQ R/W Appraisal Branch. The URAR form appraisals may also be completed by use of a computer. There are various companies that sell computer software packages for the URAR form.

7.07.03.00 Miscellaneous Improvements and Landscaping

Normal and adequate landscaping and miscellaneous yard improvements (including residential Private Fencing, driveways, and walks) may be briefly listed and valued at their lump-sum contribution to the total value of the property. Normal and adequate porches, stairways, and breezeways need not be separately evaluated if they are considered in the basic building value. Private retaining walls are included in the land value.

Minor curative work, such as the relocation of very minor improvements, can be proposed in an appraisal without including a separate value for purchase. Mailboxes, gate posts, Private Fence end posts, yard lights, capping landscaping irrigation lines, and small signs are examples.

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7.07.04.00 Agricultural Improvements

Agricultural buildings and farm residences will be valued as Improvements at depreciated value in place.

If agricultural use represents only an interim use, particular care should be taken to consider only the value the improvements add to the land. If conversion of the land to a higher use is anticipated in the near future, agricultural improvements might better be valued under the "Improvement" headings at interim, salvage, or demolition values rather than included with the land. (See R/W Manual Sections 7.07.07.00 and 7.07.08.00.)

7.07.05.00 Valuation of Fences

Fences are defined and described in the Highway Design Manual, Chapter 700, Miscellaneous Standards, Topic 701 – Fences; and the Maintenance Manual, Chapter C5, Section 2 - Fences. For purposes of this chapter, fences are divided into two (2) categories: 1) Departmental Fences, and 2) Private Fences.

Departmental Fences are State owned and act as physical barriers to ensure integrity of access lines or right of way lines. All Departmental Fences are placed on State property either on the access lines or immediately adjacent to the right of way line and are maintained by the State. Departmental Fences are not valued as part of the requirement. Cost to install, replace or relocate Departmental Fences will be included in construction costs.

Private Fences are located outside the State's right of way. Private Fences are owned by the adjacent property owners and only serve the property owners' needs. The property owners maintain Private Fences. Private Fences are valued as follows:

A. Private Fencing Included in Land Value

Private Fences on agricultural, grazing, timber, desert, or undeveloped subdivision land, or Private Fence of marginal utility, should be included in the land value unless the comparable data indicates the contrary. Private Fence included in the land value will be briefly described as to type and condition under "Improvements" with a zero value and the remark that the value is included with the land. Specialized Private Fence may still be valued under "Improvements" at the contributory value it adds to the total property.

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B. Private Fencing Appraised as an Improvement

Any Private Fence within the requirement not included in land value will be valued as an improvement for the contributory value to the land. The method is to value the improvements at the depreciated value in place. Care should be exercised that double payment is not made for Private Fence owned by two property owners.

C. Damages to the Remainder for Private Fencing

After total Damages are assessed, the State may pay to mitigate those Damages by replacing, adding to, or internally rearranging Private Fences for permanent or temporary construction. The appraiser must be careful not to double pay for Damages. The amount paid as a Damage cannot be more than the difference between 100% cost of a new replacement Private Fence and the amount paid as the improvement (the depreciated value in place). (See Damages Section 7.09.00.00.) Damages may also be mitigated by reinforcing grantor's remaining Private Fence. Private Fences can be replaced or rearranged by construction contract work to mitigate Damages.

7.07.06.00 Valuation of Water Sources

Agricultural water sources and pumping and distribution systems will usually be included in the land value, as adjusted, to reflect the productivity of the water supply. The improvements being acquired, such as the pump, are to be fully described as to type, distribution and condition under the "Improvement" heading. Water sources included in the land value will be valued at zero with the remark that the value is included with the land.

Water sources which are replaced or relocated will be valued at zero. If an agricultural water source or system is to be relocated or replaced, the cost of such work will be shown under "Damage" or "Construction Contract Work," and must be justified as mitigating greater severance damages to remainder (see also Damages Section 7.09.00.00).

Nonagricultural water sources will be appraised as an improvement. If water-system equipment is proposed for relocation, the water source will be valued at the relocation cost estimate under "Improvement" subheading of "Relocation in Lieu of Purchase." This relocation cost estimate will include necessary expenses to reestablish a source of equivalent quality and quantity, including well drilling and test holes, if required.

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Increased size, capacity, power, etc., necessary due to relocation of a water source must be justified as mitigating greater severance damage to the remainder. Where physical relocation of the water source equipment is not feasible, the equipment will be valued at depreciated value in place under "Improvements." Additional expenses which become necessary to avoid greater severance damage due to loss of the water source must be shown under "Damages."

If relocation or replacement of a water system is proposed to be performed by a State contractor, the water source and equipment will be described under the "Improvement" heading and valued at zero value. The entire relocation or replacement cost will then be shown under "Construction Contract Work."

7.07.07.00 Improvements - Little or No Value

Occasionally, improvements add little or no economic value, or may even decrease the value of land suitable for a higher and better use. In these cases, the improvements will be described for Acquisition and Property Management purposes and valued at the amount they contribute to the market value of the property. This would be a positive amount if the improvements have a salvage value; such an amount should be identified as "salvage value." This would be a negative amount if the improvements have no salvage value and a cost would be incurred for their removal. This amount should be identified as "clearance" or "demolition" cost.

7.07.08.00 Improvements - Interim Value

Occasionally, improvements may have value due to a brief period of productive income until conversion of the land to a higher and better use. Such value should be identified and supported as interim value. Estimated short term net income, giving consideration to proper risk and expenses, may be an appropriate valuation method.

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7.07.09.00 Improvements - Purchase or Curative Work?

It may be more economical to relocate, rearrange, or alter improvements such as garages, other auxiliary buildings, storage sheds, on-premise signs, etc. For these cases, the primary appraisal must value the improvement for purchase. The curative work should be included as an alternate appraisal.

Where substantial savings may result if the grantor or the State relocates, rearranges, and/or severs and reconstructs improvements that would otherwise be purchased or damaged, only the curative approach need be included in the appraisal. An alternate providing for purchase may be included at the request of the Acquisition Branch. The alternate appraisal will be processed in accordance with Section 7.03.03.00.

Relocation curative work is normally considered economically feasible if the cost (including utility relocations and other damages) does not exceed the depreciated value of the improvements, less salvage value at State sale. This information will be included in the appraisal to support the feasibility of proposed relocation work.

7.07.10.00 Improvement Relocations or Replacements Exceeding Depreciated Value Less Salvage

Occasionally, improvements within the right of way (including excess) may be valued at their relocation or replacement costs rather than at their depreciated value in place to avoid greater severance damages to the remainder. The improvement will be described and valued at the relocation or replacement cost. If the relocation or replacement cost is greater than the depreciated value in place, less salvage, the additional cost must be justified as mitigating greater severance damage to the remainder. This additional cost will be shown under "Damage."

The only exceptions to these rules are relocation or replacement of improvements valued as part of the land or proposed for replacement in kind or utility by a State contractor. In these cases, the total relocation or replacement cost will be shown as a Damage or Construction Contract Work and must be totally justified as mitigation of greater severance damages.

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7.07.11.00 Relocation, Rearrangement, or Reconstruction Estimates

This work on minor improvements, such as mailboxes, sheds, Private Fencing, gates, cutting and capping utility lines, etc., may be briefly described and valued at lump sum amounts directly on the Appraisal Page. On major improvements, it must be supported by a work estimate included in the appraisal. The estimate may be made by the Appraisal staff based on the Region/District's cost experience and interviews with house movers, contractors, and the Region/District's Project Development, Property Management, and/or Utility Clearance Units.

The estimate will:

A. Include all necessary expenses involved in the proposed work, including storage, security, overhead, and supervision; but will exclude, or take credit for avoidable betterments.

B. Contain the source of the cost data. If the estimate involves highway construction contract work, it will be made or verified by the Project Development Unit. Certain estimates should be made or verified by the Region/District Property Management or Utility Clearance Units.

C. Show the estimated depreciated value in place and salvage value of building improvements proposed for relocation.

D. Show the Region/District's recommendation whether final bids are required prior to settlement.

Estimates involving relocation of improvements from within the right of way (including excess) will be shown under "Improvements" with the subheading "Relocation in Lieu of Purchase." The only exception to this rule is the relocation, from within the right of way (or excess), of improvements valued with the land or proposed for relocation by a State contractor. In these cases, the improvement will be listed under the "Relocation" subheading with a zero value. The relocation estimate amount will be shown under "Damage" or "Construction Contract Work."

All other rearrangement, replacement, and severance and reconstruction work will be considered as a Damage or as Construction Contract Work.

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Severance and reconstruction of improvements straddling the right of way line may involve payment for the portion of the improvement required as well as payment for the curative work.

7.07.12.00 Building Check Sheets

Exhibit 7-8 is for use in assembling the basic information required to describe residential improvements in a uniform, systematic manner with a limited amount of actual writing. The grid on the back is to record improvement measurements and is for field use. This exhibit without the grid will be inserted in the Report. If the URAR form is used, Exhibit 7-8 is not necessary.

Types of improvements not listed on the exhibit will be described in detail in the appraisal. This description will include the use, age, construction, condition, specialized features, if any, and any other factors which may be important in valuing the improvement.

7.07.13.00 Service Station, Commercial and Industrial Buildings

When appraising these, Exhibit 7-9 should be used to assemble the basic data.

The exhibit, without the grid, will be included in the Report.

7.07.14.00 Tenant or Lessee-Owned Improvements (Excluding Personal Property)

The appraisal will contain a specific list of tenant or lessee-owned improvements (realty) which include buildings, structures, other improvements and improvements pertaining to the realty. The appraiser will separately show the value of the improvements on the Appraisal Page according to their ownership, such as:

Lessor Owned (List improvements)	$100,000
Tenant or Lessee Owned (List improvements)	$25,000
Total Value of Improvements	$125,000

Tenant or lessee-owned improvements will be appraised at the amount they contribute to the fair-market value of the real property to be acquired or their

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fair-market value for removal from the real property, whichever is greater [49 CFR §24.105(c)].

Fair-market value for removal means "salvage value." It is the probable sales price of an item, if offered for sale on the condition that it will be removed from the property at the buyer's expense, allowing a reasonable period of time to find a person buying with knowledge of uses and purposes for which it is adaptable and capable of being used, including separate use of serviceable components and scrap when there is no reasonable prospect of sale except on that basis.

The Appraisal Report will show both the contributory and salvage value of such improvements. The greater value will be carried forward to the Appraisal and Summary Pages.

If the salvage value is greater than the contributory value, the existing improvements may not constitute the highest and best use of the property. Where the tenant-owned real property improvements do not contribute any value to the property, the tenant is still entitled to any salvage value of such improvements.

In some situations, it is possible for both the contributory value and the salvage value of lessee-owned improvements to equal zero. In these cases, the improvements should be shown at "nominal" in the Report.

Structural improvements are normally classified as real property and not personal property. If there is any doubt whether a tenant or lessee-owned improvement is part of the real estate or personal property, the Division should be consulted and/or a legal opinion obtained.

In some cases, there may be controversy between lessors and lessees regarding ownership of the improvements (real property). Then, the appraiser will make a statement in the Report regarding the controversy of ownership to alert the Acquisition and RAP Branches of the problem.

The appraiser should separately show three categories, such as:

Lessor Owned (List improvements)	$100,000
Lessee Owned (List improvements)	$15,000
Ownership Claimed by Both Lessor and Lessee	$10,000
Total Value of Improvements	$125,000

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7.07.15.00 Retention Value

A separate retention value may be included in a Report when the owner wants to retain the structural improvements. This is in addition to either the full or part-take appraisal that proposes the purchase of the improvements, as applicable, and any "Relocation in Lieu of Purchase" alternate that may be appropriate. Retention value in this instance is the same as salvage value. It should normally be established through a comparative analysis of improvements sold at public sale.

It is not intended to allow "piecemeal" retention of portions of structural improvements which, if removed, would leave the structure in an unrentable condition. Also, this concept does not apply to improvements pertaining to the realty, such as machinery and equipment, as defined in the California Eminent Domain Law (Title 7, Chapter 9, Article 3, Section 1263.205 of the Code of Civil Procedure). These items are available to owners by other means.

Owner retention of improvements for salvage value is at the Department's option and is not a right of the owner. Accordingly, it should not be proposed in situations that have the potential of producing an indefensible windfall to the owner.

Retention value estimates will be provided on written request from the Acquisition Branch if they were not a part of the original appraisal. These requests will be processed like any other revised page(s) to the original appraisal.

The above instructions do not apply to those miscellaneous minor improvement items which grantors often wish to retain, e.g., drapes, antennas, etc. If a separate valuation of such items is requested, they will be listed with their contributory values.

7.07.16.00 Removal of Improvements Straddling the State's Right of Way Line

When buildings or improvements are discovered to be straddling the State's right of way line, a TCE is required to allow the Department to enter private property in order to modify/remove the buildings/improvements. The TCE should be designed, mapped and included in the appraisal report.
Care must be taken to avoid potential duplication of payment for any damages to the remainder of the property and the acquisition cost of the TCE. If a damage payment fully compensates the grantor for the loss in use

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during the modification or removal of the private building or improvement, the TCE may have nominal value. Please refer to 7-EX-20, "TCEs - Improvements Straddling the Right of Way Line Memorandum."

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7.08.00.00 - IMPROVEMENTS PERTAINING TO THE REALTY

7.08.01.00 General

Trade fixtures, equipment, machinery, and other items installed for use on a property will only be appraised if they are "improvements pertaining to the realty" as defined in Section 1263.205 CCP. These improvements include items that "...cannot be removed without a substantial economic loss or without substantial damage to the property on which it is installed, regardless of the method of installation." The appraiser must compare the value in place against the value if removed and sold.

This decision is a matter of economics. It must be fully documented so the decision can be supported without question. This requires a comparison of the items' depreciated value in place and its salvage value to establish that it cannot be removed "without substantial economic loss." The nature and extent of the damage must be explained.

Whenever a separate valuation of machinery and equipment or other specialty items is required by the Appraisal Branch, it shall be prepared by a qualified individual, either staff or independent. Separate specialty reports shall be prepared in accordance with current and appropriate standards and will contain cost sources for each item as shown in Section 7.05.04.00, "Cost Approach."

Independent specialty reports shall be reviewed by a specialist in those Regions/Districts staffed with building cost estimators before distribution to the real estate appraisers. In those Regions/Districts without cost estimators, a Senior assigned to the Appraisal Branch shall review independent specialty appraisals. The specialty reports shall be reviewed to the same degree as is now done on regular realty appraisals before being utilized in establishing the market value of the total property required.

When a separate valuation of trade fixtures, equipment, machinery, and/or other items pertaining to the realty is required, the value of such items shall not be arbitrarily added to the valuation of other realty. It shall be considered to the extent of their contributory value in establishing the value of the whole property. If the specialty appraisal is used to establish the value of the whole, a narrative discussion of the adjustments or lack of adjustments from the values in the specialty report will be included in the appraisal. The appraiser

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may consider the specialist's factual data, information, and opinions, but the final conclusions of value remain the appraiser's responsibility.

7.08.02.00 Appraisal Page Format

Trade fixtures, equipment, machinery, and other items determined to pertain to the realty will be listed on a separate page in the parcel appraisal with the following information:

- Item identification, including make, model, and serial number.
- Age (approximate age is sufficient where actual age is not known or is not appropriate due to extensive remodeling).
- Estimated new and remaining service life.
- General condition.
- Replacement cost new in place with cost sources.
- Depreciated value in place.
- Salvage value in place.
- Relocation expense estimate.
- Cost sources of each item and basis of relocation estimate.
- Photographs of major items.
- Comment on which items may be easily moved or utilized in circumstances other than the existing use.

Lessee-owned items will be separately shown. The items' value, relocation estimates, and salvage value totals will be appropriately proportioned between lessee and lessor.

The contributory value in place of trade fixtures, equipment, machinery, and improvements pertaining to the realty will be carried forward to the Appraisal Page (Form RW 7-9) and entered under the appropriate subheading under "Improvements." In partial acquisitions and alternate appraisals where grantor requests relocation in lieu of purchase and on minor improvements, the relocation estimate amount may be used in lieu of the contributory value in place.

7.08.03.00 Replacement Cost

Replacement cost new of equivalent machinery should be shown at catalog price plus freight, tax, cartage, and installation costs to yield cost new in place. Freight, tax, cartage, and installation costs should consider installation of the entire operation at one time and not as separately installed items. However, costs should be distributed to individual items when practical. Care

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should be exercised that specialized plumbing, electrical and structural work is not included in both the building appraisal and the installation charges.

7.08.04.00 Depreciated Value

Depreciated value in place is to reflect depreciation due to all causes as related to each item and to the total operation. This should include physical deterioration, functional obsolescence, and any economic obsolescence. A dollar or percentage breakdown of each type is not necessarily required. The appraiser should state whether the item contains functional obsolescence and provide a reasonable explanation of the depreciation basis.

While depreciation may be attributed to the entire operation, distribution of an estimate of depreciation to each item is desirable, when practical.

7.08.05.00 Salvage Value

Salvage value is the price the State would obtain for the equipment in place at auction with the buyer removing the equipment in a relatively short time.

7.08.06.00 Improvements Not Pertaining to Realty Under Section 1263.205

Appraisals of furnished or partly furnished rental homes, duplexes, motels, hotels, or apartment houses need to include an inventory of the improvements not pertaining to the realty under Section 1263.205 CCP. It should show the total estimated in-place market value. The State may have to purchase these items to prevent eviction of tenants who will be unable to continue their occupancy of the premises if such items are retained and removed by the owner. Items which would not cause the tenants to move from the premises if not purchased by the State are not to be included. The total value of such improvements not pertaining to the realty is not to be carried forward to the Appraisal Page nor included in the "Market Value of Required Property." This is in contrast to improvements which do pertain to the realty which shall be carried forward and included in the market value.

Purchase of furniture from vacated homes or homes which are not the permanent residence of the occupants would only be done when the property is purchased long enough in advance of right of way clearance that the State can amortize the cost of the furniture from increased rentals during the time the property will be available for rent.

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7.09.00.00 - DAMAGES, BENEFITS, AND CONSTRUCTION CONTRACT WORK

7.09.01.00 General

The possibility of damages and benefits will be investigated in every partial acquisition. This investigation will include local market data, similar after-condition land development and highest and best use analyses, and other applicable information.

Any damages and/or benefits will be supported and clearly documented in the parcel appraisal. Severance damages and benefits will be shown as separate totals. Benefits, if any, will be subtracted from severance damages. Any net benefits or damages will be shown separately.

The results and support of the investigation which reveals that no damages and/or benefits occur must be shown in the appraisal report. Such analyses may materially assist negotiations in cases where unsubstantiated claims for damages might be made.

Benefits which result due to construction of the project in the manner proposed should be described, valued, and supported even if it is determined that there are no damages. Benefits may presently be incapable of being valued; the nature of the benefits should then be described in the appraisal. Legal opinions should be secured when there is uncertainty regarding compensable damages.

7.09.02.00 Severance Damages

A severance damage is a loss in value to the remaining property after acquisition and construction in the manner proposed. Severance damages are valued by the appraisal of the remainder as a portion of the total property in the before condition and as a freestanding remainder in the after condition (disregarding the benefits of the construction project). The remainder is considered damaged if it is worth less after construction of the project due to a legally compensable reason. The after condition valuation requires the same support as the before condition valuation. Severance damage analyses should consider when the damages will occur (Code of Civil Procedure Sections 1263.420 and 1263.440).

The parcel appraisal must specifically state the reasons for the severance damage and discuss the comparable data or investigation results supporting

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the severance damage estimate. Comparable data used will be referenced under the heading "Market Data (After)."

Generally, any severance damages to a larger parcel functioning as a unit, especially under an agricultural use, will be measured by any decrease in market value of the remainder(s) (*Department of Public Works v. Lundy*). Under very narrowly described circumstances, damages to the continued operation of the remainder(s) as a unit may be considered (*Department of Public Works v. Cozza*); these include items such as increased cost, difficulty, and hazard. If this form of damages is considered applicable, the Region/District must furnish particulars to HQ R/W Appraisal Branch and request a legal opinion prior to completion of the appraisal.

Compensable damages to the remainder may be caused by either or both of the following (see CCP Section 1263.420):

(a) The severance of the remainder from the part taken.
(b) The construction and use of the project for which the property is taken in the manner proposed by the plaintiff, whether or not the damage is caused by a portion of the project located on the part taken.

7.09.03.00 Noncompensable Damages

The following types of damages have been found by the courts not to be compensable, or in certain respects, may be compensable only under laws other than those of eminent domain. Therefore, the following noncompensable damages should generally not be included in real property acquisition valuations:

A. *Damages to business*

However, loss of goodwill is compensable if proven by the owner. Handling of such losses is treated under R/W Manual Section 7.17.00.00.

B. *Expenses for moving personal property*

However, displaced property owners and tenants may be entitled to payment for moving personal property under the Relocation Assistance Program.

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C. *Temporary damages to the use and occupancy of property reasonably incident to construction requirements*

Unnecessary and substantial interference may be compensable. The appraiser should confer with HQ R/W Appraisal Branch and Legal to assist in the determination of damage compensability.

D. *Damage due to annoyance and inconvenience suffered by the public generally*

Exceptions to this may include diminution in property value of the remainder caused by noise, fumes, and/or other annoyances inherent in the daily use of a freeway. These types of severance damages are generally dependent on the specific circumstances in each case and must be measurable within the market. It is important to note that the damage must be sustained by the property itself rather than the owners. The appraiser should confer with HQ R/W Appraisal Branch and Legal to assist in the determination of damage compensability.

If noise damages are assessed in the appraisal, written documentation from Project Development will be included in the report. This documentation should confirm that no noise attenuation measures are included in the proposed construction plans.

E. *Circuity of travel caused by dividing a highway*

Damages concerning circuity of travel can occur under many circumstances. The appraiser should confer with HQ R/W Appraisal Branch and Legal to assist in the determination of damage compensability.

F. *Rerouting or diversion of traffic or changing of a two-way street to a one-way street*

G. *In general, all those types of damages which can be considered to be conjectural, speculative, and/or remote*

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7.09.04.00 Cost to Cure

Some severance damages may be mitigated or entirely eliminated by estimating the cost to cure the damage. The appraiser must first show the total estimated severance damages to the remainder which would occur if not cured. After the damage amount is estimated, the appraiser can explore potential costs to cure those damages. Damages are measured by the lesser of these two costs: the potential damage (loss in value) to the remainder or the cost to cure the damage. The estimated cost to cure may not exceed the estimated severance damage. Since cost to cure damages are a form of severance damages, they are to be offset by any benefits.

The supporting data and sources used to estimate cost to cure damages must be shown in the appraisal report in accordance with R/W Manual Section 7.05.04.00 relating the documentation of cost estimates.

7.09.05.00 Benefits

Benefits are valued by the appraisal of the remainder before and after the acquisition and construction of the project in the manner proposed. Benefits analyses should consider when the benefits will occur. (See CCP Sections 1263.430 and 1263.440.)

The appraiser must provide a descriptive analysis with adequate support for any estimated benefits.

Benefits are to be offset against any severance damages in the valuation. If benefits are estimated to the remainder, such benefits will be quantified and shown in the appraisal report, even if it is determined that there are no severance damages to the remainder. When excess benefits remain after the offset against severance damages, the excess benefits shall be shown in the report. Benefits can be used to offset any loss of goodwill that may occur to a business located on the property if owned by the fee owner. (See CCP Section 1263.410.)

7.09.06.00 Summary of Severance Damages and Benefits

Severance damages and/or benefits shall be summarized on a before-and-after value basis in the appraisal report. A "Summary of Severance Damages and Benefits" (Form RW 7-12) shall be used for the summary.

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In cases where severance damages and/or benefits are relatively minor, it will not be necessary to include a before-and-after value summary.

7.09.07.00 Damage Alternatives

The "Summary of Damage Alternatives" and "Discussion of Damages" (Exhibit 7-EX-6) are the suggested formats to be used to compare practical alternative damage approaches and to discuss damage elements. The "Discussion of Damages" section will be used in cases where damages, other than minor adjustment curative work, are present.

If no feasible curative work alternative can be proposed to mitigate severance damages, the "Discussion of Damages" will so state. If severance damage estimates are inconclusive using before-and-after valuations, or are impractical due to the size or nature of the remainder, or if the cost to cure the severance is the best measure, the "Discussion" will give the reasons for the approach used. If the severance damages are valued by market comparison, the "Discussion" will reference the comparable data used and explain the comparative analysis. If market data is inconclusive as a basis for the estimation of damages, the "Discussion" should include a description of the scope of the market investigation and the reason supporting the opinion of damages.

The formats contained in Exhibit 7-EX-6 should be used to substantiate a purchase of excess land, except in the following cases: (1) landlocked remainders; (2) properties with major improvements straddling the right of way line; (3) sites reduced below zoning minimums; (4) public utility or governmental properties. Even in these exceptions, comments should describe investigations of possible curative work alternatives and reasons for rejections.

It is important to note that in some cases, potential curative work alternatives may include substitute condemnation. The most common situation where substitute condemnation should be considered occurs where an acquisition would deprive a property of access to a public road or utility service. To restore the utility of such parcels, and in doing so, to minimize severance damages, the State may provide substitute access or utility service. CCP Section 1240.350 provides the discretionary authority for substitute condemnation of additional property "as reasonably necessary and appropriate (after taking into account any hardship to the owner of the additional property) to provide utility service to, or access to a public road from, any property that is not acquired for such public use but which is cut off from utility service or access to a public road as a result of the acquisition by

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the public entity." When proposing substitute condemnation as a means to minimize severance damages, the appraisal report (along with the resolution of necessity) shall specifically refer to CCP Section 1240.350 and include a statement that the substitute property is necessary for the purpose specified in this section.

7.09.08.00 Utility Service Damage

The grantor must be fully compensated for all justified damages due to relocation of utilities, including payment for severing water, sewer, and gas lines and wiring extending into the right of way area, if such work is to be performed by grantor.

7.09.09.00 Construction Contract Work

Occasionally, work in or outside of the State right of way is required to restore the utility of remaining property (i.e., road/driveway approach, cattle pass, utility sleeve) and may be most economically and/or practically performed by the State's highway contractor. The work and estimated cost will be described as "Construction Contract Work." The feasibility and cost of the proposed work must be estimated or verified by Region/District Project Development prior to submission of the appraisal. Sources of estimated costs will be included in the report and documented in the Region/District's appraisal file. Costs must be justified by the value of the remainder and must be less than the potential damage which would occur if the construction work was not performed.

Only work for the grantor's benefit to the remainder is considered to be "Construction Contract Work" as it is a form of a damage payment. Work of greatest benefit to the public or required by the highway construction will not be classified as "Construction Contract Work."

The appraisal must clearly show the computations and explain the reasons for proposing construction contract work that is not offset when benefits are present. Minor construction contract work for driveway reconstruction, domestic utility reconnections, etc., should be proposed regardless of the presence of benefits.

Construction contract work may also include curative work for a remainder which is to be performed by a clearance contractor or public utility agency. The feasibility and cost of the proposed work will be estimated or verified by the Region/District Property Management or Utility Clearance Branches prior to submission of the appraisal.

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The Appraisal Summary (RW 7-9) will show a "Construction Contract Work" heading for all partial acquisitions. The heading will show the remark "None Required" or contain a description and valuation of required construction contract work, including proposed engineering station locations. The total of all construction contract work will be carried forward to the Parcel Summary Page (if used).

Construction contract work can benefit more than one property. If multiple properties are benefited, the total amount of construction contract work will be split among the various properties at the amount of benefit each property receives. A reference will be made in each parcel appraisal that the construction contract work benefits other parcels.

7.09.10.00 Utility Main Relocations

Relocation of utility transmission lines up to the point of owner's service is usually included in agreements with the utility company. Such relocations need not be considered in the parcel appraisal, with the one exception: the extension of utility mains for the sole benefit of few properties remaining after State acquisition. In these cases, the utility main relocation costs must be justified by the values of the affected remainders.

If payment of severance damages or purchase of remainders is less costly, it should be considered.

7.09.10.01 Private Utility Connections

The relocation of private connections can be handled in one of the following ways:

- Reconnection by the grantor through a damage payment.
- Reconnection by the utility company as part of the utility agreement.
- Reconnection by the highway contractor as construction contract work.
- Reconnection by the clearance contractor as construction contract work.

Whenever possible, the appraisal analysis should anticipate how private relocations and reconnections will be accomplished. The estimated cost for work performed by the grantor will be shown as a "Damage." Reconnection by any other means will be shown as "Construction Contract Work." If construction plans or utility company plans are incomplete, the appraisal will describe the various utility services and discuss possible relocation and

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reconnection requirements, potential challenges (if any), and estimated costs.

An analysis will also describe the parcel's utility sources and possible relocation requirements, if any. Such analyses should consider grantor-owned well water, sewerage, and other utility systems.

7.09.11.00 Access Openings

All proposed openings within areas of access restriction to allow direct private access to the highway (either permanent, temporary, or locked gate) will be listed on the Appraisal Summary (RW 7-9) under the heading "Access Openings." Do not list public road openings included in Freeway Agreements or road approaches from conventional highways or frontage roads. Costs will be valued under "Damages" or "Construction Contract Work," if appropriate.

All access openings must be confirmed by Region/District Project Development. The necessity for locked gates or temporary openings must be fully explained in the parcel appraisal. All listed access openings will be properly delineated on the Appraisal Map and included on the List of Access Openings in the appraisal report.

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7.10.00.00 - REVISION AND REVIEWS

7.10.01.00 General

Offers may be made only on the basis of approved appraisals or authorized adjustments; therefore, it is imperative that revisions be made without undue delay.

The Region/District shall devise and maintain an efficient procedure for systematic appraisal review for "updating" unclosed parcels in areas where significant new data is revealed.

It is the Acquisition Branch's responsibility to develop any new data, make an investigation thereof and determine if such new data warrants further review by the Appraisal Branch. When requested, the Appraisal Branch shall investigate the new data and determine the applicability to unacquired parcels. If adjustment is not justified, the Acquisition Branch will be immediately notified.

If significant adjustment is in order, an appraisal revision will be immediately processed so negotiations may proceed without undue delay. Review will be expedited upon request.

7.10.02.00 Changes in Unapproved Appraisals Requiring Division Approval

If a report is returned to the Region/District without action, or a report is approved except for certain parcels, the Region/District will take such corrective action as necessary. A cover letter of transmittal will describe the action taken on the points raised by HQ R/W.

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7.10.03.00 Changes in Approved Appraisals-Unacquired Parcels

The contents or valuation of an unacquired parcel appraisal may be changed by one of the following methods, in accordance with current delegations:

- Revised appraisal pages.
- Revised parcel appraisal canceling and superseding an existing appraisal by inclusion in a later report.
- Memorandum of Adjustment.

7.10.04.00 Revised Appraisal Pages

Parcel appraisals may be revised by submitting revised appraisal pages for replacement in the approved report, providing the change can be substantiated without extensive changes in supplemental appraisal pages. The following are examples of cases in which revised appraisal pages may be used:

A. Mathematical or typographical errors.

B. A valuation change resulting from an orderly change in price level which can be clearly supported by new comparable data and the original appraisal relied predominantly on a market approach.

C. The change involves addition or deletion of a subparcel, or parcel split or merger with little change in value factors.

D. The change involves addition or deletion of minor improvements without effect on the land valuation.

E. The change involves increase or decrease in right of way requirements or excess with no significant change in damages, benefits, or construction contract work.

F. The change involves including an alternate appraisal with little change in the valuation of the total property.

G. The change involves parcel grouping.

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7.10.04.01 Submittal of Revised Pages

Revised pages and maps will be submitted with a memorandum of transmittal detailing the changes. A change in right of way requirement or access control will be approved by the Region/District Division of Design. Revised pages will have the word "Revised" and the revision date shown at the top of all pages. Revised maps, when necessary, will have only the affected parcel(s) colored and will have the word "Revised" and the date visible on the map when both opened and folded. A revised Comparable Data Map is required whenever new comparable data is used. A new Senior Field Review Certificate and a revised Certificate of Appraiser are required whenever there has been a change in the value, improvements affected, or area taken. Minor typographical corrections do not require new Certificates.

7.10.05.00 Revised Parcel Appraisals

If extensive changes are required, a revised parcel appraisal canceling and superseding the existing appraisal must be submitted. They will be submitted in succeeding reports and will be complete with all necessary information and supporting data.

The Appraisal Summary (RW 7-9) will contain a brief résumé of the reasons for the revision. At the top of the page, show the remark "Revises and Supersedes the Parcel Appraisal in Appraisal Report No. _____, Dated _____."

Revised parcels contained in a report with other parcels will be marked "Revised" on the Parcel Summary Page (if used) and on the front cover. In addition, the front cover will show the old Appraisal Report number. Revised parcel appraisals must keep the original parcel number, except that subparcels may be added or deleted.

7.10.06.00 Memorandum of Adjustment

This method will be used for nonsubstantial valuation adjustments and minor variations which do not warrant revised appraisal pages. The revision may be at the request of the Acquisition Branch or as a result of a subsequent appraisal or discovery of new information and data. Each Memorandum must follow the same approval process as the original appraisal.

If HQ R/W approved the original appraisal, it must approve the Memorandum. If there is not enough time for HQ R/W review and approval due to imminence of trial or possession date, the Memorandum will be

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prepared and submitted with a detailed discussion supporting the insufficiency of time and the need for the Memorandum. Telephone approval should be obtained and referenced in the Memorandum.

7.10.07.00 Changes in Approved Appraisals on Acquired Parcels

There are very few occasions where an approved appraisal can be revised after the parcel is acquired and escrow has closed. In certain instances, the Acquisition Branch may find it necessary to amend a Right of Way Contract to correct a situation discovered after close of escrow. Acquisition should direct a memo to Appraisals setting forth the reasons for the amendment and the need for a change in the approved appraisal. Appraisals will then prepare a Memorandum of Adjustment valuing the additional rights taken or damages incurred as if they were part of the original appraisal. The approval process will be the same as the original appraisal.

A. Additional right of way over a grantor's remainder requires a new appraisal under a new parcel number in a new appraisal report. Legal advice should be obtained concerning the use of before or after condition values in the appraisal of additional requirements.

B. If no new right of way is required, the Acquisition Branch may nonetheless find it necessary to amend a contract. In such an instance, when related to value, the Appraisal Branch shall, prior to such necessary amendment and at the request of the Acquisition Branch, prepare a Statement of Value, in the same form as a Memorandum of Adjustment, valuing the additional rights taken as part of the original appraisal. Approval of the Statement of Value will be in accordance with the existing delegations.

7.10.08.00 Parcel Splits and Mergers

Splits or mergers due to change in ownership, or addition and/or cancellation of subparcels, may be submitted by revised appraisal pages or revised parcel appraisals, as the extent of necessary reappraisal requires. Parcel splits will comply with the following instructions:

A. The original ownership (or one parcel) will retain the original parcel and appropriate subparcel numbers and will be identified as a revised appraisal.

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B. The new ownership will have new parcel and subparcel numbers issued. It will be considered a new appraisal.

C. The headings of both parcels' Appraisal Summaries (RW 7-9) will cross-reference the other parcel.

D. Both appraisals will be submitted concurrently if revised appraisal pages are used or in the same report if submitted as revised parcel appraisals.

In parcel mergers (merged after the initial appraisal), the merged parcels will be grouped under the lowest parcel number and appraised as a larger parcel. Originally assigned parcel and subparcel numbers for each parcel will be retained. The parcels will have typed in the upper margin "Revised (date), merges with Parcel _____ and supersedes the parcel appraisal in Appraisal Report No. _____ Dated _____." Revised maps are necessary showing new gross areas, vesting, and correct coloring.

7.10.09.00 Parcel Cancellations

Parcel appraisals may be canceled for any number of reasons. Typically, Design may change the requirements or the construction date is delayed and the project is no longer budgeted. Prior to cancellation, the Acquisition and RAP Branches must be advised and they must determine that there are no outstanding obligations to the owners or occupants of the property.

7.10.10.00 Review of Condemnation Parcels

Upon written request, the Appraisal Branch will investigate all new data discovered relating to condemnation parcels and will revise affected parcels.

Prior to engaging contract or staff condemnation appraisers, the Acquisition Branch will request the Appraisal Branch to make a review of a condemnation parcel and all pertinent data. Upon receipt of the Confirmation of Market Value request, the Appraisal Branch will issue an appraisal revision with a new date of value and new comparable data, if any, supporting the opinion of value as of the new date. For nonsubstantial valuation adjustments, a Memorandum of Adjustment should be used.

After engaging condemnation witnesses, the staff appraisal would not normally be revised except for mechanical changes (in areas, subparcels, etc.), substantial changes in design, or protracted delays or changes in data which would normally require significant adjustments in witnesses' reports. In

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these latter two cases, revision of the staff appraisal is optional with the Region/District considering the most cost-effective approach to acquisition.

7.10.11.00 Preparation of the Report Analysis for Expert Witness Appraisals

Preparation of the Report Analysis (7-EX-18) shall be consistent with current appraisal report approval delegations; if the acquisition report was approved in Headquarters through the Region/District cumulative review process, then Region/District will prepare the 7-EX-18 for Headquarters review and concurrence. The appropriate Headquarters Appraisal Liaison will prepare the exhibit for the Supervising Acquisition Agent and the State's attorney, keep the original to be filed with the corresponding staff report, and forward an electronic copy to the Region/District Supervising Acquisition Agent and State's attorney with copies to the Chief of the Office of Project Delivery. (Consistent with R/W Manual Section 9.05.11.00.)

The Report Analysis (7-EX-18) shall include the following:

- **Compliance** – Comment on compliance with applicable reporting and valuation standards. When comparing staff/independent reports, note and explain any significant differences.

- **Value** – Tabulate the major value conclusions in the current staff appraisal, the experts' appraisals, and/or other experts' appraisals received to date in the Analysis Section. If the submission is a revision of a previous appraisal, show both the original and updated amounts. Comment on major differences in value or other important information.

The Appraisal Branch shall neither approve nor disapprove the report. The analysis shall state if the report is in compliance with professional appraisal standards (e.g., the Uniform Standards of Professional Appraisal Practice [USPAP]), in addition to the valuation-related components of Federal and State laws applicable to the acquisition and appraisal of real property rights (e.g., the Uniform Relocation Assistance and Real Property Acquisition for Federal and Federally-Assisted Programs [Uniform Act], California Eminent Domain Law, etc.). The analysis will not contain recommendations as to possible settlement amounts or negotiation approaches.

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7.11.00.00 - OUTDOOR ADVERTISING SIGNS

7.11.01.00 Valuation

A. Signs owned by grantors or occupants, located on a subject property, and identifying or advertising the business or activity conducted on that property (known as on-premise signs) will be valued on the Appraisal Page under "Improvements" at depreciated value in place. If relocation of such signs is feasible, the relocation costs may be shown in parentheses for information purposes, or may be included on Alternate Appraisal Pages.

   Grantor or occupant-owned business signs located off the subject parcel may be subject to severance damages.

B. Signs owned by outdoor advertising companies will be valued by use of payment Schedules A, B, C, D, E, G, and H (Exhibit 7-EX-14). This valuation will be shown on the Summary of Outdoor Advertising Structures, Form RW 7-8. If the outdoor advertising company refuses the schedule, the signboard structure will be appraised as an improvement. See Section 7.11.05.00.

7.11.02.00 Definitions

A. On-Premise Sign - A sign identifying or advertising the business or activity conducted on the property where the sign is located.

B. Off-Premise Sign - All outdoor advertising signs other than on-premise signs.

C. Poster Panel - A structure designed to support a flat surface of 300 square feet upon which printed advertising or other messages are pasted to the panel built on one or more posts imbedded in the ground or attached to the wall of a building.

D. Back-To-Back Poster Panel - A structure designed to support two or more flat surfaces of 300 square feet built on one or more posts imbedded in the ground.

   Printed advertising or other messages are pasted to the panels.

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E. Roof Poster Panel - A Poster Panel built on one or more posts imbedded into the roof of a building. Each flat surface supported by such post(s) is a separate Roof Poster Panel.

F. 8-Sheet Poster Panel - A structure designed to support a flat surface of 72 square feet upon which printed advertising or other messages are pasted to the panel, built on one or more posts embedded in the ground.

G. Offset Sign - A sign constructed so that the advertising surface is supported upon horizontal members not less than 2 feet in length, and these members are joined to vertical posts imbedded into the ground.

H. Special Build - Any sign not covered under Schedule A, D, E, F, G, or H. Usually this type of structure is on one post imbedded in the ground and utilizes torque bar construction.

I. Urban Rotate - Painted bulletins which always have full illumination and the advertising facing sections are in modular form, designed and constructed to be moved from one structure to another on a periodic basis. The standard size is 14′ x 48′, but they are often larger and may have special embellishment features, such as cutouts, special lighting effects, freestanding letters, neon and space extensions to cover the advertisement of a specific product. The structures are usually steel and always have two back decks designed and constructed to State and local safety standards so that working crews can have easy and safe access to the back of the facing sections during the rotation process. They are generally found in urban areas in the more desirable locations at points of maximum advertising exposure. Their advertising message is most often of a national product or of regional interest.

J. Painted Bulletin - A structure designed to support one or more flat surfaces upon which at least one advertising or other message is painted in whole or substantial part, built on one or more posts imbedded into the ground or attached to the wall or roof of a building.

K. Wood Sign - A sign with wood posts.

L. Steel Sign - A sign with steel posts.

M. Illuminated Sign - A sign with attached lighting fixtures to make the advertising message visible at night.

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N. Outdoor Advertising Company - This refers to any business or individual who erects or maintains an outdoor advertising display.

O. Professional Signs - Well constructed signs with quality materials and workmanship evidenced throughout, providing a uniform appearance and extended physical life with minimum necessary maintenance. The advertising message is normally professionally lettered.

   Schedules A, B, C, D, E, G, and H should be utilized for signs in this classification.

P. Miscellaneous Signs - Signs normally built with minimum quality and amounts of material and may be characterized by "do it yourself" workmanship. This type of construction tends to shorten physical life and increase the necessity for maintenance over the life of the sign. In many instances, the advertising message is of a nonprofessional type and advertises the sign owner's business.

   Signs in this classification should be valued by the use of Schedule F.

7.11.03.00 Process

A. When starting an appraisal that includes outdoor advertising signs, the appraiser will take the following steps:

   1. Send a request to the Region/District Outdoor Advertising Coordinator for determination of the legality of the sign and feasibility of relocation. Use Exhibit 7-EX-11 as a format.

   2. When Schedule B is utilized for a special build, send a letter to the sign company requesting the information required on Exhibit 7-EX-12.

B. If a sign may be relocated pursuant to Business and Professions Code Section 5412 or 5443.5 or onto the grantor's remaining property, the relocation payment should be determined as follows:

   1. Poster Panel - Use Schedule C.

   2. Special Builds, Painted Bulletins or Urban Rotate Bulletins:

      a. Obtain an estimate from the sign company by use of Exhibit 7-EX-13, or

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b. Obtain an estimate from the Region/District Building Cost Estimator, or

c. Obtain estimates from at least two sign companies other than the company that owns the sign to be relocated.

C. For each structure, show the average height of the bottom of the sign panel above the ground (HAGL) on the Outdoor Advertising Structures Page. A close-up photograph of each sign will be included.

D. The photographs shall be placed in the Appraisal Report immediately following the Summary Page.

E. The appraisal must include the results of the legality and relocation determination from the Region/District Outdoor Advertising Coordinator. When a sign may be relocated, the relocation cost will be shown with the removal (i.e., purchase) cost shown in parentheses. If it is necessary to receive information from the sign company to complete the valuation and it is not available by the time the Appraisal Report is ready for completion, the sign will be listed in the "Summary" with the valuation space showing "N.A." The Remarks section should state when the letter was sent to the sign company.

F. Signs within the existing right of way are not entitled to payment but will be listed in the Summary of Outdoor Advertising Signs at a zero value.

G. Signs located on property under the Williamson Act (Government Code Sections 51200-51295) contract as an agricultural preserve may or may not be compensable, depending primarily on when they were erected.

1. A structure erected on property after the land is placed in an agricultural preserve is illegal and payment must not be made for its removal. Removal of such structure should be enforced by the county or the local entity as a party to the Williamson Act contract. It will be listed on the Summary Page.

2. Property placed in an agricultural preserve with an existing structure in place.

Generally, the Surface Transportation Act of 1978 requires payment for the removal of any structure located adjacent to an Interstate or Primary highway, if it was legally placed prior to November 6, 1978. Not all aspects of the compensation provisions are clear. These payment provisions do not apply to structures located adjacent to highways not included in the

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Interstate or Primary systems. The Region/District should seek advice from the Legal Division prior to proceeding with the appraisal and acquisition of signs in these locations.

7.11.04.00 Payment Schedules/Application Renewal Permit Fees

The sign payment schedules (see Exhibit 7-EX-14) are to be used as follows:

- Schedule A - Payment Schedule for Poster Panel Removal (straight or offset single and double plus rooftop).

- Schedule B - Payment for "Special Build" removal and relocation of "Special Builds," Painted Bulletins (Professional and Miscellaneous), and Urban "Rotate" Bulletins based on sign owner cost claims.

- Schedule C - Payment Schedule for Relocating Poster Panels onto Adjacent Property or pursuant to Business and Professions Code 5412 or 5443.5.

- Schedule D - Payment Schedule for Urban "Rotate" Bulletin Removal. Painted Bulletins that do not fall under the definition of an Urban "Rotate" should be covered by Schedules B, E, or F.

- Schedule E - Payment Schedule for the removal of Painted Bulletins in the "Professional" category.

  This schedule is to provide a basis for payments in lieu of appraisals or cost claims (Schedule B) for painted bulletins not falling under the definition of Rotate Bulletin (Schedule D) or "Miscellaneous" Sign (Schedule F).

- Schedule F - Payment Schedule for "Miscellaneous" Sign Removal.

- Schedule G - Payment Schedule for 8-Sheet Poster Panel Removal.

- Schedule H - Payment Schedule for Relocating 8-Sheet Poster Panels onto Adjacent Property or pursuant to Business and Professions Code 5412 or 5443.5.

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7.11.05.00 Appraisal Procedures for Outdoor Advertising Signs

If the schedule is not used, the valuation of the real property, including the sign structure, will follow normal appraisal practice and must adhere to the Uniform Act and applicable statutes. The following items must be considered when appraising a sign structure:

- The sign will be considered an improvement and will be analyzed as a primary or secondary use in appraising the value of the land as consistent with its highest and best use.

- Only cost information and that market and income data attributable solely to the real estate should be considered. Using this real-estate-only data, accepted real-estate-valuation methods should be used to the extent necessary and possible to value the land and improvements. Since data can be difficult to obtain, the cost approach may be of primary importance.

- If the fair market rent of the structure as real estate, in contrast to advertising business income, can be determined, that income may be processed to an indicated value or be reconciled with one or both of the other approaches.

- Sign structures will be appraised at the amount they contribute to the fair market value of the real property. The value of the structure will be shown on the RW 7-9 as an improvement at its value in place and included as part of the total value for the parcel. Tenant-owned sign structures will be indicated as such.

- Even though a sign structure alone may not represent the highest and best use of a site as though vacant, it may still have value. If the sign is located on the site in such a manner as to not interfere with development of the site to its highest and best use, it remains an economically viable asset.

- In considering the sales comparison approach, the Appraiser should make a reasonable search for comparable sales that included a sign structure considered as realty.

- The application of multipliers to the advertising income is not proper in arriving at the value contributed to the property by the sign structure. Advertising revenues are to be distinguished from the economic rent for land and improvements.

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- The ground lease to the outdoor advertising company will generally add value to the fee. If the contract rent is less than the market rent, the outdoor advertising company may have a bonus value in the lease. The ground lease should be thoroughly reviewed to ensure a complete understanding of what it covers.

- As with any tenant business, the sign company compensation is provided for in the payment for the land and improvements or in the payment for compensable loss of goodwill.

- Each sign company should be advised of its right to claim a loss of goodwill due to the taking, and the fact noted in the diary sheet. If a claim and tax returns are filed, the business aspect and loss of goodwill, if any, can be determined by a goodwill appraisal.

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7.12.00.00 – MOBILE HOMES

7.12.01.00 Mobile Homes – General

Mobile home appraisals are treated somewhat differently than other types of appraisals only because of their unique nature. The first determination to be made is whether it is realty or personalty.

7.12.02.00 Mobile Homes – Realty

Mobile homes installed on the owner's land in compliance with Health and Safety Code Section 18551 may be shown on County Recorder's records as subject to real property taxation. Mobile homes so indexed should be considered real property and be appraised as such. See Section 7.07.02.00. If the mobile home is not so indexed, the appraiser should consider the following tests to determine if the mobile home should be classified as real property:

A. Does the physical manner in which the mobile home is affixed to land (particularly the nature of the foundation) indicate an apparent intention that the home be permanently annexed to the realty?

B. Would removal of the mobile home completely or materially render other significant real property improvements associated with the use of the mobile home (e.g., pads, utilities, etc.) to be unfit for their intended use? Minor improvements should not be considered in this respect.

If the mobile home clearly fits either of these tests, it should be considered real property and appraised accordingly. If there is doubt, a legal opinion should be obtained.

7.12.03.00 Mobile Homes – Personalty

Mobile homes classified as personalty are eligible for purchase by the State only if they are determined to be owner-occupied and to fall within one of the following categories:

A. The mobile homes do not meet "decent, safe, and sanitary" standards; or

B. There are not an adequate number of suitable replacement sites for the mobile homes being displaced; or

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C. The mobile homes cannot be made roadworthy and are thus incapable of being moved.

These mobile homes will be appraised only after the District/Region's Relocation Assistance Branch has determined that they qualify for purchase by the State. The Relocation Assistance Branch will normally initiate the appraisal by memorandum specifying the conditions requiring the appraisal. A copy of this memorandum will be included in the Report.

It is the responsibility of the appraiser to review all mobile homes when inspecting the parent property site. If it appears that any will not meet D. S. & S. standards, the Relocation Assistance Branch should be notified so that a definitive determination can be made.

7.12.04.00 Mobile Homes – Special Procedures

The parcel number to be used for mobile homes on rented or leased space (such as in a mobile home park) will be the parcel number of the property in which the mobile home is located, with an "MH" suffix added together with a unit number; e.g., 11456(MH-1). Mobile homes will be appraised in the same manner as other property, (i.e., fair market value in place). Normally, there should be ample market data available. Comparison factors should be based on industry standards. Although they should not be included in the report, current Mobile Home Appraisal and Condition Report forms are often available through lenders and dealers and list many of the factors considered in mobile home valuations. The Residential Building Check Sheet (Exhibit 7-EX-8) should be used in the appraisal. As an alternate, a modified URAR Form can be used. Additional considerations involved in the appraisal of mobile homes are the license or tax status of the unit and possible penalties to the seller, differences between nominal and actual length of the unit, the quality, condition and desirability of the mobile home park, and the impact of space rental rates on the subject and the comparables.

The industry "blue book" may yield useful information for arriving at a Replacement Cost New for a comparable unit, but not include the total cost of a new unit established on the site.

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7.12.05.00 Mobile Homes – Format

Mobile home appraisals will conform to normal format except that the following additional information is required:

A. Year built and manufacturer.

B. Nominal dimensions; e.g., 2.4 m x 12 m and actual dimensions (if different);
e.g., 2.44 m x 12.04 m.

C. Vehicle serial number.

D. Vehicle license plate number, State, and expiration date. Instead of a license plate number, some mobile homes will have a substitute State of California Title Control Number ("Q" series number) on the Ownership Certificate (if sold new in California after July 1, 1980, if sold more than 120 days after the expiration date of the license plates, and certain other circumstances). The number used should be the two-letter four-digit license plate or control number indicated on the title to the current owner.

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7.13.00.00 - SPECIAL APPRAISAL REPORTS

7.13.01.00 General

Some special appraisals shall be prepared in separate reports. Such Special Reports may have modified formats, and follow modified review and approval processes as discussed below. These Special Reports include appraisals for material and disposal sites; sites for maintenance stations, shops, and offices; joint acquisitions by the California Department of Transportation (Department) and other public agencies; and inverse condemnation actions.

7.13.02.00 Material Site Appraisals

If a material site is to be acquired in conjunction with a right of way acquisition, both requirements will be appraised as a whole and separated into two reports.

The "Introduction" will include economic justification for purchase of the site as compared with the cost of securing the material by royalty agreement. The approximate quantity of material to be taken from the site should be noted. A comparison can then be made as to the equivalent cubic meter cost should the material be secured by materials agreement. The going price for similar material in the vicinity on a metric basis should be indicated. The estimated salvage value of the land after removal operations have been completed shall also be shown.

The format, content, and approval process is the same as any other regular acquisition appraisal.

The appraisal will contain the following information:

A. A statement by the Region/District Materials Engineer as to the quantity and quality of the material.

B. The name of the office originating the request (Construction, Project Development, or Maintenance).

C. The termini of the project or projects on which the material is to be used.

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D. The budget or program in which the project or projects may be found (if there is a specially voted project by the California Transportation Commission, so state and indicate the date of the vote).

E. The average haul distance from the site to the project or projects, or to that portion of the project or projects on which the material is to be used.

F. A statement that the location of the material site does not violate any of the provisions of the Standard Specifications (prohibiting excavation which would result in scars which will present an unsightly appearance from any highway). If the provisions of the Standard Specifications cannot be complied with, a statement must be included to the effect that the Region/District will take such action as is necessary to correct any unsightly appearance.

G. A statement that the location of the material site is not in violation of any ordinance or zoning regulations.

H. Approximate date of termination of use.

7.13.03.00 Disposal Site Appraisals

If a disposal site is to be acquired in conjunction with a right of way acquisition, both requirements will be appraised as a whole and separated into two reports.

The introduction should include the same information as listed for material sites under 7.13.02.00 B through H.

7.13.04.00 Office and Maintenance Station Site Appraisals

Appraisals of new sites for maintenance stations, shops, or office buildings shall be separate reports. If the site is to be acquired in conjunction with a right of way acquisition, both requirements will be appraised as a whole even though separated into two reports. All other appraisals not a part of a right of way project will be in the standard format and content with the same approval process as a regular acquisition appraisal.

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7.13.10.00 Joint Acquisition Appraisals

The Department may enter into Cooperative Agreements with other public agencies for purchase of property for other public purposes. The date and title of the Cooperative Agreement will be referenced in the report. The highway requirements and the other agencies' requirements will be shown separately with the appropriate values distributed to each in accordance with the agreement.

The appraisal will assume that all agencies' acquisition and construction occur together and no damages or benefits caused by one shall affect the before value of the other. This does not preclude proper apportioning of damages occurring to remaining property due to specific construction features of one. Similarly, benefits due to the construction project of one agency may be used to offset damages caused by the other.

If the Cooperative Agreement provides for specific proportions for sharing right of way costs, these proportions will be used in the report and shown on the Appraisal Page.

Legal opinions should be obtained before condemnation of joint acquisitions.

7.13.20.00 Protection Appraisals

Protection acquisitions require prior approval by Project Development and Construction, and approval to proceed with a protection appraisal requires prior Region/District Manager approval. Upon receiving authority, the Region/District shall proceed to prepare an appraisal covering this acquisition. The appraisal will be prepared the same as a regular program appraisal, but identified as a "Protection" appraisal.

Appraisals submitted for HQ R/W approval must contain a reference to the date of the approval authorizing the protection acquisition. Any special funding approval must also be noted in the report.

7.13.30.00 Appraisals for Other Agencies

Appraisals prepared for other State or Local Agencies will be comparable in format and documentation to that of a staff appraisal for the Department except where the agreement with the agency specifies a different product.

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7.13.40.00 Staff Litigation Reports

An appraisal for condemnation or inverse litigation testimony shall be of sufficient detail, consistent with legal and professional requirements for format and documentation to present a clear and accurate opinion of value. The staff appraiser will be furnished all data that would be furnished a contract appraiser at the time of the assignment. A Report Analysis Form (Exhibit 7-EX-18) will be prepared by the District originally delegated the type of report or values. Condemnation appraisals are to be completed and submitted for review at least 14 days prior to exchange with opposing counsel and 60 days prior to the trial date. The completed Exhibit 7-EX-18 will be forwarded to the District, the State's Attorney of Record (Caltrans Legal Division), and Right of Way Headquarters Acquisition Section with a recommend or discommend approval for the Staff Report.

If the Legal Division requests preparation of a staff independent appraisal for purposes of inverse litigation, the report will conform to the same standards as a condemnation report, but will show the phrase "Inverse Condemnation Appraisal" on the front cover. A description of the claim will be included.

The following two statements will be included in the Certificate of Appraiser:

A. "This report is pursuant to the request of and for the confidential use by the Legal Division for the purpose of defending the State."
B. "Valuation conclusions are the result of using given legal assumptions for analysis purpose only and in no way imply acceptance or rejection of the validity of the claim to which this report relates."

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7.13.50.00 - UTILITY, RAILROAD AND GOVERNMENTAL OWNERSHIPS

7.13.50.01 Public Utility Property

Property owned in fee by public utilities (including governmental utility agencies, irrigation district/regions, and flood control district/regions) may be subject to special appraisal treatment, including the purchase of replacement land for exchange, where necessary. If the public utility and the State have entered into a master agreement at variance with instructions, the master agreement will prevail. In these cases, the title and date of the master agreement will be noted in the appraisal. Appraisers should first confer with the Utility Branch when assigned public-utility owned parcels to appraise.

7.13.50.02 Fee Land

A. If joint use of fee-owned property is proposed, the land required for highway use will be appraised at the market value of the underlying fee. This envisions the land utilized by the utility facility has a secondary use. For example, an electric tower line traverses a property. The area under the line may still be used for agriculture, parking or residential assemblage.

B. If the State proposes to replace the land in full required by exchange, land value of the fee-owned parcel should be shown as zero (Market Value may be shown in "Remarks"). In "Remarks," describe the location and parcel numbers of the replacement land, if determined.

   When the State is replacing the fee-owned utility right of way with a replacement right of way that is not as wide as the existing utility property being acquired, the valuation approach will be the same as set forth in Section 7.13.60.01 for valuation of railroad operating right of way.

C. If the public utility proposes to acquire the replacement property, the land value should be the market value of the minimum requirements of the replacement property. The basis of the valuation and description of the replacement property must be fully documented in the appraisal.

D. If the public utility proposes to abandon the use of the property without replacement, market value would be paid for the required property

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considering the property clear of the public utility use. Cost of abandonment and removal of improvements may be covered by utility agreement.

E. Public utility corporation yards, shops, office and other proprietary properties will be valued by normal methods.

7.13.50.03 Improvements

Relocation and/or replacement of buildings, equipment, and lines involved in the utility production or transmission will normally be handled by utility agreement. Improvements which are relocated and/or replaced under the utility agreement will be clearly described and assigned a zero value. Improvements which are not included in the utility agreement will be valued using normal appraisal methods, with depreciation and salvage value given full recognition.

7.13.60.00 Railroad Property General Prerequisites

All appraisals of railroad-owned properties are to be submitted to HQ R/W for review and approval, regardless of the monetary amount involved. All appraisals of railroad-operating properties connected with rights of way, depots, station grounds, switching yards, or public team tracks, etc., are specialized and require special handling, including being submitted to HQ R/W for review and approval, regardless of the monetary amount involved.

All railroad properties will be appraised in the full, narrative format at market value of underlying fee and be in compliance with all other sections in the Right of Way Manual for appraisal reporting (except where noted in this section). The Non-Complex Valuation of $10,000 or Less and the Waiver Valuation formats shall not be used. Railroad parcels are not eligible for the one-agent appraise/acquire process.

Proper handling of railroad properties requires a high degree of coordination between numerous departments, including Legal, Structures, Project Development, and Right of Way. The following prerequisites apply:

A. Upon assignment of a railroad property appraisal, the appraiser shall first confer with the Region/District Railroad Agent. The delivery of the Notice of Decision to Appraise letter shall be coordinated through the Region/District Railroad Agent. The Railroad Agent may also facilitate inviting a railroad representative on the inspection of the subject.

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B. Railroad appraisals are to be submitted on a construction project basis including all takings from the railroad ownership in a single appraisal.

C. Due to extraordinary lead time requirements, appraisals of land located within the railroad's transportation corridor must be submitted a minimum of 24 months prior to the project certification date. Single transverse crossings of railroad transportation corridor which do not require substantial relocation of rail facilities are excepted from this requirement and may be submitted one year prior to the certification date. Any other exception to this policy must have prior approval of HQ R/W.

D. The appraisal shall include a general description of the items, e.g., track and signals, which are proposed to be covered by a future construction and maintenance agreement or service contract.

E. The appraisal will include copies of the permanent and temporary easement deed language for property rights being appraised. If it is a Permanent Easement, the Appraiser will use the most recent version of the RW 6-1(Z) Deed form.

F. In all cases, the appraisal will include a clear statement describing the property rights held by the railroad in the property being acquired.

Railroad Property Terms:

Railroad Right of Way: Title, in fee and/or easement, or by adverse possession, to a strip of land between two points, all or a portion of which land is used for railroad purposes that include freight and/or passenger service.

Transportation Corridor: A corridor which includes existing operating and nonoperating railroad property with reasonably probable future transportation uses, including railroad tracks, excess width, utility lines, pipelines, fiber-optic lines, etc. These uses must not be speculative. See Section A.1.d. below.

Operating Railroad Property: The property necessary for operation of rail service over the railroad right of way. The area covered by the nonabandoned tracks plus the minimum additional clearance width as set by the Public Utilities Commission (PUC) and/or the safety standards set by the railroad. It may include switching yards, station sites and their parking lots, and crossing gates and associated equipment. All operating railroad property is located within a transportation corridor.

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Nonoperating Railroad Property: Anything other than operating railroad property; i.e., property which is not required to operate rail service on a right of way. This may include unused right of way where track has been removed, area required for flood protection, grading, land leased to others, administrative properties, etc. It is important to note that railroad property converted to hiking or biking trails might not change the "transportation corridor" status.

Abandoned Railroad Right of Way: A right of way for which a termination of rail services has been approved by the Surface Transportation Board, and all further requirements have been fulfilled.

7.13.60.01 Valuation of Railroad Properties

Takings from railroads may involve complex legal and appraisal problems in determining fair market value for all or a part of the transportation corridor being acquired. Whenever it becomes apparent that unusual problems exist or there is a problem with defining whether the property is located inside or outside of the transportation corridor, the Region/District should confer with the Region/District Railroad Agent, or if necessary, HQ R/W. In most cases, the following guidelines may be used:

A. Appraisals of Railroad-Owned Lands

1. Land within the transportation corridor:

a. Where the State proposes replacement of the required land or facility, the part taken will be assigned a nominal value. A description of the replacement land will be included in "Remarks" and delineated on the Appraisal Maps.

When the State is replacing the transportation corridor needed for the project with a transportation corridor that is not as wide as the existing transportation corridor, generally, only the portion replaced will be assigned a nominal value. For example, assume the existing transportation corridor is 80 feet wide and the State is proposing to convey a 60-foot wide transportation corridor to the railroad company as the replacement transportation corridor. Under this circumstance, the appraisal will show 60 feet of the existing transportation corridor at nominal (because it is being replaced). The remaining width, 20 feet in this example, will then be handled in one of two ways:

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1) If the additional width of the existing transportation corridor is required only because of uneven topography (slopes, etc.), it will also be valued at nominal.

2) Otherwise, the additional width will be appraised at market value.

The appraisal report will show as follows (on Form RW 7-9):

Total area taken – 80 x 500 feet =	40,000 sq ft
Area being replaced – 60 x 500 feet (30,000 sq ft) =	nominal
Area not being replaced – 20 x 500 feet (10,000 sq ft) @ $5.00/sq ft (market value) =	$50,000
Est. Total Value =	$50,000

However, if the existing transportation corridor is 80 feet wide because of an adverse terrain condition (cut or fill) and the replacement transportation corridor is on level ground thus only requiring 60 feet of transportation corridor to replace the utility of the existing transportation corridor, then the total area being acquired of 40,000 sq ft will be assigned a nominal value.

If the railroad company requests that the State acquire and convey a replacement transportation corridor which is wider than their existing transportation corridor to be acquired by the State for the project, then the appraisal will show the extra width at market value to be paid for by the railroad company in the exchange transaction.

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The appraisal report will show as follows (on Form RW 7-9):

Total area to be acquired – 60 x 500 feet =	30,000 sq ft
Replacement transportation corridor – 80 x 500 feet =	40,000 sq ft
Transportation corridor take – 60 x 500 feet (30,000 sq ft) @ nominal	nominal
Replacement area in excess of take – 20 x 500 feet (10,000 sq ft) @ $5.00/sq ft (market value) =	$50,000
Total amount to be paid to the State by railroad company	$50,000

However, if the replacement railroad transportation corridor is 80 feet wide because of adverse terrain condition (cut or fill) and the replacement transportation corridor merely replaces the functional utility of the existing transportation corridor, then the appraisal will show nominal value for an even exchange.

Width with utility will be the criterion. Length and area alone will not.

If the total area of the replacement transportation corridor is different from the total area of the existing transportation corridor to be acquired for the project merely because of the different lengths of the two transportation corridors, the appraisal will be nominal value as stated in the first paragraph of this Section.

b. Where the State does not propose replacement of the required land, the State's requirement shall be identified as either a transverse crossing or a longitudinal taking.

"Transverse Crossing" means any portion of a public road project physically crossing a transportation corridor from one side of the transportation corridor to the other regardless of the angle of the crossing.

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"Longitudinal taking or acquisition" means any taking of any portion of a transportation corridor other than a transverse crossing. However, a transverse crossing may also physically share a portion of the area within a longitudinal taking.

Where the State does not propose replacement of the required land, the longitudinal takings will be appraised at fair market value. An example of this type of taking occurs when the State is acquiring a longitudinal strip of existing transportation corridor and the railroad company is able and willing to continue its operations without any replacement transportation corridor; e.g., the existing transportation corridor is 80 feet wide and the State needs a 20-foot strip for the project and replacement transportation corridor is not required.

c. Where portions of the transportation corridor property may reasonably be converted to nontransportation uses by minor adjustments of facilities without affecting the reasonably probable transportation uses, the longitudinal taking will be appraised at market value, reflecting the costs of conversion.

d. Transverse crossings require special consideration by the appraiser. Existing California law establishes certain principles regarding the valuation of transverse crossings. The leading case in California establishing those principles is City of Oakland v. Schenck (1925) 197 Cal. 456. The main principle is that the public has the right to construct crossings necessitated by a public road project for a nominal consideration when the crossing does not interfere with the railroads' use. Subsequent cases have expanded the "rail use" to a "transportation use." This is why the transportation corridor is defined above. Information about railroad operations and uses should be obtained through the Region/District Railroad Agent.

   The transportation corridor may contain operating right of way, nonoperating right of way, excess land, communication corridor, pipeline corridor, Outdoor Advertising Structures, etc. The following are factors to consider in defining the transportation corridor and should be included when testing for uses which are physically possible, legally permissible, financially feasible, and maximally productive.

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1. Determine the area that is subject to PUC and Federal Surface Transportation Board (STB) regulation. Determine what restrictions, if any, the PUC and the STB place on railroad operations within the area subject to PUC and STB jurisdiction. This information should be obtained through the Region/District Railroad Agent.

2. Determine what interest the railroad has in the land, i.e., fee or easement. Determine what deed restrictions have been placed on the railroad's use of that area.

3. Determine whether the railroad has any documented plan for the use and/or development of its property. This information should be obtained through the Region/District Railroad Agent.

4. Railroad properties are not zoned by the Cities and Counties even though county zoning maps might show railroad properties zoned similar to adjacent parcels. This is due to the fact the counties have no authority of use over railroad properties. Railroad properties are under federal government jurisdiction acting through the Surface Transportation Board (STB) and are not accountable to county regulations.

5. Determine which uses are considered to be for legitimate railroad purposes. Some uses may be precluded by existing physical limitations, such as steep terrain. Legitimate railroad uses may include air or subsurface space, which may be reasonably usable for valuable nontransportation uses or for other transportation uses, and these uses are reasonably probable.

   The appraiser must also be familiar with the construction in the manner proposed to determine the impact on the existing and potential uses. The physical impact of construction should be analyzed as to its effect on the reasonable and probable transportation uses. Construction details, such as footings and pillars, shall <u>not be valued</u> separately, but shall be included in the analysis of the overall impact of the State's requirement.

   The valuation of permanent easements for transverse crossings is similar to other easement valuations. The value

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of the easement is the difference in the parcels value from the unencumbered condition and the encumbered condition (Right of Way Manual Section 07.04.10.00 on Permanent Easements). The appraiser must ask the following questions: 1) Does the exercise of the rights being acquired unduly interfere with the railroad's existing use of its transportation corridor for legitimate railroad and other existing transportation purposes? The appraiser must also determine whether the transverse crossing will interfere with a reasonably probable future transportation use. If it does not and there is no loss of use, utility or capacity in the after condition, the holding in City of Oakland v. Schenck (1925) 197 Cal. 456 applies, and the value is nominal. If the State's project does interfere with any one of the above uses, then two additional questions must be answered: 2) What are the reasonably probable uses that are impacted; and, 3) What is the market value of those impacts as measured by the loss in utility and desirability of the transportation corridor? When the State's transverse crossing interferes with any one of the above-listed uses, the impact will be reflected in the valuation. With respect to transverse crossings, after making the above-listed determinations, including the width of the corridor and the permitted uses, the transverse crossing will be valued by the loss in utility and desirability before and after the imposition of the encumbrance.

Each transverse crossing must be evaluated as described in the preceding paragraph. Merely including the Manual reference or the simple citation of California Case Law in the written appraisal is not sufficient documentation of the valuation. Based on the appraiser's thorough analysis when the value of the transverse crossing is nominal, the loss can be expressed as "nominal" in the equation instead of as a percentage.

Temporary Construction Easements (TCEs): In the valuation of TCEs, the appraiser must consider whether the easement is an exclusive or nonexclusive (shared use) easement (please refer to Right of Way Manual Section 07.04.09.00 on Temporary Easements). If the temporary easement is nonexclusive, the appraiser must determine the resulting loss of use the railroad has incurred during the

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easement term. That percentage of loss will be multiplied by the fee unit value, the rate of return to vacant land, and easement's term. It is important to note that the Schenck ruling can be interpreted to include Transverse TCEs if the appraiser's findings are consistent with the 'combined use' and nominal loss holding of the ruling.

A "Summary for the Basis of Just Compensation" is required to be included at the end of all appraisal reports. Appraisal reports for railroads are no exception. Where the easement values are determined to be nominal, a statement similar to the following paragraph shall be included in the appraisal to summarize the analysis:

> "The appraiser has ascertained that the Highest and Best Use of the subject property is as a transportation corridor including all legitimate railroad and other transportation purposes. The required transverse crossing will not diminish the market value of the railroads' property or unduly interfere with the railroads' use for legitimate transportation purposes, as ascertained by analysis of the before and after conditions. Therefore, the compensation is nominal, consistent with California state law."

e. Longitudinal takings that cross existing structural transverse easements will be appraised at market value if the existing transverse easement was obtained at nominal value. The effect on land uses or values because of the existing highway-railroad grade separation structure, within the new longitudinal easement area, will not be considered in estimating the market value of the longitudinal taking. The reasoning behind this premise is that if the original transverse crossing easement was obtained at nominal value and provided no benefit to the railroad, the new longitudinal taking should be paid for by the State.

2. <u>Land outside of the transportation corridor</u>:

Land considered to be outside of the railroad's present or future transportation corridor will be appraised at market value. Where the property is not capable of independent use or development, the appraiser should consider any potential additional use or utility of the property as assembled to the adjacent properties.

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B. Appraisals of Railroad-Owned Improvements

1. Railroad improvements (other than trackage) being acquired without replacements or relocation and lessee-owned improvements on railroad properties will be valued using normal appraisal methods, with depreciation and salvage value given full recognition.

2. Railroad improvements, including trackage, which are to be relocated or replaced under the terms of a construction and maintenance agreement will be clearly described and assigned a zero value.

7.13.70.00 Governmental, Indian, Functionally Replaced Publicly Owned Facilities, and State Land

A. Federal public lands, including national forests, will be appraised at zero land value, unless the Region/District believes land value may become an issue during acquisition. In this event, the land is to be appraised and shown at market value.

B. Federal military reservations and Federal reservoirs, canals, and flood control channels will normally be appraised at zero land value unless the Region/District believes value may become an issue during acquisition. In this event, the land is to be appraised and shown at market value.

C. Federal General Services Administration properties will usually be appraised at market value. There may be circumstances where the property will be conveyed at zero value if the use as a highway is compatible and a benefit to the Federal facility.

D. State School Lands will be appraised at market value.

E. Proposed acquisitions of public parks will be appraised at replacement cost. Per the Public Park Preservation Act of 1971, the acquiring entity pays sufficient compensation, or land, or both, to enable the operating entity to replace the park land and the facilities thereon. Ballantine's Law Dictionary defines "park" as a "tract of land acquired by a city, town, or other public authority, for ornament, and as a place for the resort of the public for recreation and amusement."

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The substitute land should be of comparable characteristics and of substantially equal size, located in an area that would allow for use by generally the same persons who used the existing park land and facilities. The cost will include the land and the cost of development into park land, including placing of substitute facilities thereon. See Sections 5400 through 5409 of the California Public Resources Code.

F. Indian tribal and allotted lands will normally be conveyed as easement title only and will therefore be appraised at market value less one dollar.

G. All other federal, state, county, special district, school district, and city lands will be appraised at market value except:

1. If State will purchase the replacement property and functional replacement of improvements is proposed, and the owning agency has waived its right to have an estimate of compensation for the acquisition parcel established by the appraisal process in preference to functional replacement, the subject acquisition parcel will be valued at zero value. It will be necessary that there be compliance with all provisions of 23 CFR 710.509, et seq. (See Acquisition Chapter 8 and Exhibit 8-EX-34.)

   The parcel numbers of the replacement land will be noted if available and the valuation basis discussed. The market value of the subject land will be included for information in "Remarks."

   It will always be necessary for the Appraisal Branch to supply cost-estimate data for the acquisition property. These data are for inclusion in the submittal to FHWA seeking their concurrence in functional replacement. This will normally occur during the project-development stage of a project.

2. If acquisition of replacement property by the governmental agencies is proposed, the value of the minimum requirements of the proposed replacement property may be used as land value of the subject. The basis of valuation and description of the replacement property will be fully documented in the appraisal. The market value of the subject land will be included for information in "Remarks."

   These instructions do not preclude donation, dedication, consent to joint use, or transfer of possession and control, without

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consideration, from any public agency to the Department for highway purposes.

City streets and county roads closed by freeway agreement will not be valued except as to the underlying fee for adjacent properties, if separate valuation of the underlying fee is necessary. Normally, the underlying fee is valued at $1 because the public has full control over the surface use and the only rights the underlying fee owner has is one of a reversion. See Section 83 of the S&H Code.

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7.14.00.00 - EXCESS LAND APPRAISALS

7.14.01.00 General

Requests for excess property valuations will originate in the Excess Land Branch or the Acquisition Branch. A copy of the written request will be included in the report, as well as the *Hazardous Material Disclosure Document-Disposal* (ENV-0001-D) to certify the property can be sold or exchanged.

Excess land Market Value Appraisals, Market Value Determinations (of $10,000 or Less), and Public Sale Estimates may be prepared by a Right of Way Agent, Range B, provided the Agent's qualifications are commensurate with the complexity of the valuation problem.

At the discretion of the Region/District Right of Way Manager (Region/District R/W Mgr.), Market Value Determinations and Public Sale Estimates of market value may be prepared by an agent assigned to the Excess Land Branch. However, the Market Value Determination must be reviewed and recommended for approval by a Senior Right of Way Agent assigned to the Appraisal Branch.

When the same agent prepares the Market Value Determination or Public Sales Estimate and conducts the sale, the RW 7-17A, Certificate of Market Value Determination, must be revised. It should contain the following statement:

> "That I understand I may be assigned as the sales agent for one or more parcels contained in this report, but this has not affected my professional judgment nor influenced my opinion of value."

Only in the instances cited above, may an excess land valuation be prepared by an agent assigned to the Excess Land Branch.

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7.14.01.01 Excess Land Methods of Disposal

The following are commonly used methods of disposal that typically require valuation:

A. Public sale by auction or sealed bid.

B. Private sale by auction or sealed bid between adjoining owners.

C. Direct conveyances.

   1. Direct sale to adjoining owner (Findings "A" and "B").

   2. To other governmental agencies.

   3. To public utilities.

   4. By Cooperative Agreements.

   5. Pursuant to legislation.

   6. To qualifying occupants under certain statutory requirements.

   7. Exchange pursuant to a contractual obligation.

D. Transfer of Jurisdiction to other State agencies.

7.14.01.02 Excess Land Valuations

There are three basic types of excess land valuations. They are Market Value Appraisals, Market Value Determinations (of $10,000 or Less), and Public Sale Estimates. A Market Value Appraisal or a Market Value Determination will be prepared for all properties to be sold at other than a public sale. All excess land valuations are based on the same definition of fair market value used in acquisition appraisals. All valuations shall be approved in accordance with the current delegations.

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7.14.02.00 Market Value Appraisals

A Market Value Appraisal will be prepared for all excess parcels unless they are to be sold at public auction or meet the criteria for a Market Value Determination ($10,000 or less). The Market Value Appraisal must consider the full market effect of all damages and benefits, and the economic effect of delay in the use of the property pending completion of construction of the transportation project. "Market value" is based on the value of the parcel at its highest and best use, which may be as assemblage to adjoining property.

There are some specific valuation concepts and considerations associated with Market Value Appraisals of excess land.

A. Excess property with a highest and best use as assemblage to an adjoining property will be appraised at plottage value, i.e., the increment of value created by assemblage. The before and after valuation method will be used. Thus, the adjoining property will first be appraised as a separate parcel and then as assembled with the excess property. Plottage value created by assemblage must then be allocated between the adjoining parcel and the excess parcel, recognizing that both parcels are needed to create plottage value, but taking into consideration what each contributes to that value. The portion of the allocation attributed to the excess parcel is the "market value" of the excess. Note: Where the excess parcel is a minor remnant and an analysis of the adjoining property indicates that the excess parcel is likely to add $5,000 or less to its value, a simple approximation of the value of the adjoining property is sufficient.

   In valuing the assembled parcels, the appraiser must also consider costs of physically joining the excess property with the adjacent property; for example, earthwork necessary to eliminate a substantial grade difference. The appraiser must also take into consideration soft costs such as time, carrying costs, and profit for any development required to realize the plottage value.

   When the excess parcel being valued adjoins more than one ownership, it will be appropriate to indicate the value of the excess parcel as assembled with each of the adjoining ownerships. The value as shown on page 1 of the Excess Land Market Value Sheet (Form RW 7-18) will be that which is the highest value. Lower values considering assemblage to other adjoining ownerships may be indicated by notation on the Excess Parcel Market Value Sheet or attachment thereto.

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In assemblage situations, the appraisal will include a map showing the excess and all adjoining ownerships.

When an adjoining property(s) requests decertification of right of way, the appraised value will not be reduced by the costs of relocating or reconstructing any necessary highway facilities such as freeway fencing, drainage facilities, slopes, landscaping, etc. The buyers of decertified right of way must pay for necessary costs of rearranging utilities, fencing, landscaping, and other improvements which may be affected by the decertification.

B. Utility easements to be conveyed to utility companies will be appraised at market value.

   1. If the valuation amount is between $0 and $500, show "nominal" in the amount column.

   2. If the valuation amount is between $501 and $2,500, show the actual amount rounded to the nearest $50, or, show "nominal" followed by the amount shown in parentheses.

C. Access rights will be valued at the difference between the values of adjoining property with and without encumbrance of the access rights.

D. Current market data are normally the best comparables. State sale comparables may be used if they meet normal criteria of comparability in time, desirability, market transaction, etc. State sales may best be used to demonstrate damage/benefit relationships between a State sale and contemporary market data in its locality. This relationship may be helpful in applying similar damage/benefit ratios to local market data and the subject parcel.

7.14.02.01 Format, Content, and Standards

A. Market Value Appraisals must follow the general standards of right of way acquisition appraisals.

   However, the amount of analysis and degree of documentation should be in proportion to the appraisal problem and valuation involved. Only relevant data should be included. The relevant data should be concisely stated and succinctly analyzed.

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The standard right of way acquisition appraisal format is used except that the Excess Land Appraisal Title Page (RW 7-16), Senior Field Review Certificate - Excess Lands (7-EX-24C), Certificate of Appraiser - Excess Land (RW 7-17), and Excess Land Market Value Sheet (RW 7-18) will replace the standard forms/exhibits used in the acquisition appraisal. The report will also include the excess land appraisal request and Director's Deed Map(s).

The excess land appraisal request from the Excess Land Branch or the Acquisition Branch should include the acquisition cost of the excess.

B. The Uniform Residential Appraisal Report form (URAR) may be used for appraising single family residential properties or 2 to 4-unit multi-residential properties. For further information regarding the use of the URAR form appraisal, see Section 7.07.02.00.

If the URAR form appraisal is used for proposed direct sales of excess pursuant to Government Code Section 54235 et seq. (SB 86, Roberti), the following is to be considered when preparing the appraisal:

- If improvement rehabilitation work is to be completed prior to sale and the parcel is appraised as though the work has been completed, list the rehabilitation work on a separate page attached to the form appraisal.

- The form may also be used to appraise the property before rehabilitation if the Excess Land Sales section requests such an appraisal. The appropriate premise must be indicated in the appraisal request letter from the Excess Land Sales section.

7.14.02.02 Dual Report Requirements

The District may determine that dual Market Value Appraisals are needed for excess land parcels of $500,000 or more that are proposed for direct sale to private parties. The criteria for determining the necessity for dual reports are similar to those related to project appraisals (Section 7.01.07.00) except for issues related to severance damages. The appraisals can be prepared by staff appraisers who shall be at the journey level or higher. Exceptions may be made by the Region/District for noncontroversial direct sales to private entities. The requirement for approval of the dual excess land appraisal remains with Headquarters Right of Way.

Proposed direct sales of excess property to a public agency do not require a dual appraisal and staff may prepare the single report. However, if the

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parcel is controversial, or politically sensitive, the Region/District should strongly consider hiring an independent appraiser.

Per Streets and Highways Code, Section 118.1, dual appraisals are required for the sale to a qualified occupant of commercial real property that was acquired by the Department for construction of a state highway but is no longer required because the construction will not take place. This is applicable when the current occupant is actively renting or leasing the real property from the Department, has used and occupied the real property, and has made improvements exceeding $5,000 in value at his or her own expense consistent with the terms of the rental/lease agreement. The Department must obtain at least two independent appraisals of fair market value from qualified appraisers. Reports may be prepared by either qualified staff or contracted fee appraisers. To maintain independence, qualified staff appraisers should report to different supervisors and the appraisals shall be reviewed and recommended for approval by each supervisor. Contracted fee appraisals shall be completed by separate appraisal companies. Dual reports shall be separate and fully independent in analyses and conclusions.

7.14.03.00 Market Value Determination of $10,000 or Less

A Market Value Determination can be substituted for a Market Value Appraisal if the Region/District determines that the latter is unnecessary because the valuation problem is uncomplicated and the fair market value is estimated at $10,000 or less based on a review of available data. The Market Value Determination (MVD) is not an appraisal but is used to document the fair market value of the excess land to be disposed of. Like the Market Value Appraisal, the MVD must consider the full market effect of all damages and benefits, and the economic effect of delay in the use of the property pending completion of construction of the transportation project.

The determination as to which parcel is uncomplicated rests with the Region/District. Among criteria to be considered in making the determination are:

A. There is no serious question as to highest and best use.

B. Adequate market data is available.

C. Substantial enhancement value to adjoining parcel will not occur with the assemblage of the excess parcel.

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An MVD cannot be used for a valuation problem that is considered complicated and/or complex, regardless of value. A preliminary analysis of potential plottage value, as detailed in Item A of Section 7.14.02.00, must be made in order to determine whether or not an MVD is appropriate.

The Market Value Determination may be based on a review of available relevant market data such as: comparable sales and listings already in the Region/District files, comparable sales and listings from multiple-listing services and commercial databases, opinions of Assessor's Office appraisers or real estate brokers, and other data sources. Comparable Data forms and sales location maps are not necessary.

A Market Value Determination can, subject to approval delegations, be approved at the Senior level. They may be prepared and recommended for approval by an agent of less than Associate grade. It is strongly recommended that the Agent preparing the Market Value Determination have a good understanding of appraisal valuation concepts.

When applicable, a Market Value Determination can be used to document the fair market value of excess land in a direct sale transaction to a public agency. In this case, the Market Value Determination would be approved at the Headquarters level consistent with the direct sale to a public agency delegation. (Reminder that all valuations involving direct sale to a public agency are currently delegated to Headquarters, regardless of dollar amount or reporting format.)

The same Agent who is assigned to sell the excess parcel can prepare a Market Value Determination. Refer to 7.14.01.00 for the proper statement to include in RW 7-17A when a single Agent is assigned both activities.

Members or candidates of professional appraisal organizations who are assigned to act in a dual role of Appraiser and Acquisition Agent should check with their organization's Code of Ethics for specific prohibitions and disclosure requirements.

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7.14.03.01 Format, Content, and Standards

Market Value Determinations of $10,000 or less may be prepared in the format shown in Memorandum – Market Value Determination (7-EX-16).

1. If the valuation amount is between $0 and $500, show the word "nominal" in the amount column.

   In addition to the 7-EX-16, the report includes a Senior Field Review Certificate - Excess Lands (7-EX-24C), Certificate of Market Value Determination - Excess Land (RW 7-17A), excess land appraisal request, and the Director's Deed Map(s). Photographs and narrative support of the valuation are not required unless HQ R/W approval is requested.

2. If the valuation amount is between $501 and $2,500, show the actual amount; or show "nominal" followed by the amount, rounded to the nearest $50, shown in parenthesis.

   Report requirements are the same as are given under item #1 above.

3. If the valuation amount is between $2,501 and $10,000, show the actual amount rounded to the nearest $50.

   In addition to the 7-EX-16 and the report requirements given under item #1 above, the Market Value Determination will ordinarily require a brief valuation analysis, and the content can be similar to that required for a Public Sales Estimate as indicated in 7.14.04.02 and 7.14.04.03.

   Any number of parcels on a single project with a like use can be valued on the same form.

   The excess land appraisal request from the Excess Land Branch or the Acquisition Branch should include the acquisition cost of the excess.

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7.14.04.00 Public Sale Estimates

A Public Sale Estimate will be prepared for all excess parcels to be sold by public sale, except where a Market Value Appraisal or Market Value Determination has already been prepared. It is an estimate of current market value, in brief written form, containing the minimum reasonable parcel description, value analysis and supporting data. While the intention is to complete the estimate as rapidly as possible, it is also important that the appraiser strive for a reasonable level of quality and accuracy.

It is intended to provide the Excess Land Branch with an estimate of market value in the least possible time. The estimate will be used as the basis for setting the minimum bid on property to be offered at public sale.

This estimate of market value is to consider the parcel at its highest and best use as a separate parcel. It must consider present zoning as it affects the value for such use, along with the potential for rezoning.

The full market effect of all damages and benefits including noncompensable damages and general benefits must be considered. Also consider the economic effect of delay in the use of the property pending completion of construction of the transportation project.

7.14.04.01 Format

The Public Sale Estimate report should usually be prepared in the format of Exhibit 7-EX-15 and have map(s) attached. The report may be typed, but a legibly written, reproducible estimate is acceptable.

7.14.04.02 Content

The essential items to appear on the report page(s) are:

- Excess property identification (Region/District, County, Route and Director's Deed number, Excess Land parcel number(s) and property address).
- Zoning of the property.
- Highest and Best Use of the property and comment in support thereof.
- A brief narrative description of the subject (including improvements), and its neighborhood setting.

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- A description of easements or other legal encumbrances.
- A brief statement about the supporting data used.
- A brief analysis.
- Estimate of market value, including separate land and improvement values if applicable.
- Date of value.
- Estimator's name, signature and date.
- Senior Appraiser's name, signature and date.
- Approving Right of Way Agent's name, signature, title and date.

7.14.04.03 Examples of Supporting Data

- Primary

  a. Comparable sale(s).

  b. Comparable listing(s).

- Secondary

  a. Market value opinion(s) from:

  b. County assessor or staff appraisal members.

  c. Real estate brokers or sales persons.

  d. Real estate developers.

  e. Real estate buyers and sellers.

  f. Real estate appraisers, public or private.

  g. Other people with credible knowledge about real estate values relevant to the subject.

- State excess land sales

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7.14.05.00 Review of Request for Proposal Submittals (RFP)

Proposal Forms received as the result of a Request for Proposals, in the course of sale of residential properties under Government Code Sections 54235 et seq., will be reviewed by the Region/District Appraisal Section. This is to validate the reasonableness of the offers received.

Upon receipt of written request from the Excess Land Sales Section, the Appraisal Branch's responsibility will be to review the Proposal Form to verify that the estimated operating expenses appear appropriate to the particular property involved. That is, fixed and variable operating expenses and reserves for replacements will be reviewed to see that they conform to local practice experience, market expectations and reasonable anticipated costs and economic life standards.

In addition, proposed rehabilitation work and its estimated cost as contained in the proposal should be reviewed to determine whether the work and cost appear appropriate. The review will be commensurate with the extent of the information furnished. Excess Land Sales is responsible for furnishing additional data for consideration if any is required.

The review memorandum should be signed by the Appraisal Manager and a copy retained in the Appraisal files.

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7.15.00.00 - AIRSPACE ESTIMATES, BID LEASE VALUATIONS AND APPRAISALS

7.15.01.00 General

Airspace appraisers should familiarize themselves with the Airspace Chapter and the Standard Airspace Development Lease to better understand the procedures and terms used by the Department.

Estimates, valuations and appraisals of airspace parcels will be made at the written request of the Region/District Airspace Branch. A copy of the written request will accompany the estimate or appraisal. Requests will provide necessary maps, plans and profiles of the freeway, the airspace parcel numbers and any available information pertinent to the valuation. The property (rights) to be appraised and any special conditions that would affect value must be defined.

The appraiser should include any collateral data useful in marketing the area to be leased. Whenever possible, the appraiser and the airspace agent will discuss the site prior to the start of the appraisal. There must be effective coordination between the Airspace Branch and Appraisal Branch as well as a mutual understanding of the functioning of each other's Branches. If special restrictions have a significant effect on value, the necessity for the restrictions should be reviewed and discussed between the appraiser and the seniors of the Appraisal and Airspace Branches.

The Airspace Branch will furnish, on an annual basis, by June 1 the projected airspace appraisals needed for the next fiscal year. This list will identify the lease areas to be appraised and the dates by which the appraisals are needed. It will form the priority basis for preparation of airspace appraisals. If the Airspace Branch must change this schedule, a written request for change and/or an updated schedule is to be furnished to the Appraisal Branch. Updates should be requested well in advance of the need.

The appraiser should consider all legal potential and proposed uses for the parcel. A proposed use should be discussed in the Report even if the appraiser subsequently decides that this use does not represent highest and best use. Each analysis must be thorough and complete so the reader/reviewer is clearly and logically led to the appraiser's conclusion. Among other questions, the analysis should answer those such as:

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A. Can the subject airspace parcel be legally developed as an independent parcel?

   1) Is it physically possible to develop it independently?

   2) What can it be used for as an independent parcel?

   3) What markets exist for the most profitable anticipated uses?

B. Can it be joined for use with an adjacent parcel?

   1) How are the adjacent parcels developed?

   2) Can the airspace parcel be used through joinder?

   3) Does it enhance/improve the use of the adjoining property?

C. The conclusion:

   1) Which will yield the highest net return, joinder or use as an independent site?

   2) What is the highest and best use and the reasoning leading to this conclusion?

Experienced associate grade appraisers should be assigned the preparation of airspace appraisals because of their specialized nature. The assignment should be for at least three years. Region/District airspace appraisers should meet periodically to exchange data and ideas. The need for such meetings should be expressed to HQ RW Appraisal Branch which will coordinate them. Free interchange of data and ideas between the Regions/Districts at all times is strongly encouraged.

Each Region/District should routinely transmit material which might be informative or useful to all Region/District Appraisal Branches. This would include market data indicating the effect of typical lease areas, impacts of physical or legal encumbrances, and copies of feasibilities studies.

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7.15.02.00 Estimates

Estimates may be requested to provide the Airspace Branch with a figure for preliminary discussions with potential users or for minimum value sites. A regular airspace appraisal can be made in lieu of an estimate if deemed necessary by either the Airspace or Appraisal Branch.

Estimates should be minimum-type valuations similar to letter-type appraisals. Only a minimum amount of comparable data to support the conclusions of value is necessary.

The estimate will consider all factors directly or indirectly affecting the utility of the rights to be leased. Full recognition will be given to any enhancement of real estate values in the area because of the location of the freeway. A statement of highest and best use will be made with supporting data and rationale. The appraiser should consider any possibility of plotting the airspace parcel with a State excess land parcel or a privately-owned parcel in the immediate area to determine the highest and best use.

A completed Form RW 7-19 will be accompanied by a vicinity and parcel map.

Airspace estimates will be Region/District approved and it will not be necessary to send copies to Division.

7.15.03.00 Appraisals – General

The parcel may have to be appraised based on various uses or premises; for example, as a separate parcel, in conjunction with uses of adjacent or nearby properties, etc. The primary appraisal will be the fair market value of the parcel based on its highest and best use. Any other requested values based on uses or premises that do not represent the highest and best use of the parcel will be shown separately in the Appraisal Report as alternate appraisals on separate Airspace Parcel Appraisal pages Form RW 7-21 labeled as "Alternate Appraisals." When alternate appraisals are included, the primary appraisal as described above will be labeled "Primary Appraisal."

The appraiser, after deciding on the highest and best use of the parcel and before proceeding with the appraisal, should consult with the Airspace Branch to advise them of the conclusion. Once the Airspace Branch knows the highest and best use, they may see a need for an alternate appraisal based on some other premise or use.

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For example, if the highest and best use is concluded as joinder with the adjacent ownership, the Airspace Branch may also need an alternate valuation as an independent parcel.

By holding these consultations during the initial appraisal process, any need for alternate appraisals can be identified at an early stage so the alternate can initially be done and included in the Appraisal Report.

7.15.03.01 Format

The format for airspace appraisals will generally be the same as for acquisition appraisals. However, airspace appraisals use Form RW 7-20 for the Appraisal Title Page and Form RW 7-21 in lieu of the Form RW 7-9. If the appraisal contains more than one parcel, include a summary page listing the parcels and the appraised values.

7.15.03.02 Standards and Methods

Regular market value airspace appraisals will be required for any airspace parcel that will be leased on a direct basis without calling for competitive bids, and those situations not meeting the specified criteria for bid lease valuations.

All airspace appraisals shall be performed to meet the same quality standards as used for acquisition appraisal reports with respect to analysis, documentation, market data, and market data analysis. Only one appraisal is required, even for airspace parcels to be directly negotiated.

Methods will be the same as those applied in appraising any right of way acquisition parcel, except that consideration should be given to all of the factors that may limit or enhance its utility because of the existence of the freeway improvement located on or near the parcel. Full recognition will be given to any enhancement of real estate values in the area because of the location of the freeway.

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7.15.03.03 Preparation

The appraiser must thoroughly discuss and analyze the effect that the freeway improvement has on the use of the parcel, with special emphasis on the restrictions imposed by the following jurisdictions:

- The Department of Transportation
- The State Fire Marshal (standard requirements are on file in the Region/District offices)
- 23 CFR, Section 710.405
- Local planning and building departments
- Any other agencies having controls

The appraiser should look closely at the location of the freeway structure across the parcel. If the viaduct structure were confined to one side of the parcel, it could have a different effect on the overall use of the parcel than if the structure traversed the center of the parcel only, leaving small strips of open land on each side.

Comparable data directly applicable to the physical condition of the subject may be difficult to find in the market. However, the appraiser must use what market data is available and make the necessary adjustments. The appraiser may use lease data in an income approach for the purpose of estimating the value of the parcel. Lease data from existing airspace leases may be useful if the data meets the normal comparability tests.

There should be a thorough analysis of adjustments with market-data support if possible. The use of dollar or percentage adjustments follows the same requirements as for acquisition appraisals. The appraiser must fully support the conclusion of value the same as is presently required in any appraisal of acquisition parcels.

All airspace appraisals will be reviewed for approval by the Division. Only the primary appraisal based on the highest and best use of the airspace parcel will be approved for lease purposes.

Alternate appraisals will be reviewed "as to value only" based on the premise used in the Report. Any subsequent use of the alternate appraisal for lease

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purposes will require prior administrative authorization by the Division Airspace Development Branch.

An Airspace Appraisal Summary Form RW 7-22 will be prepared and submitted to the Division with each parcel appraisal.

The summary will be given to the Airspace Advisory Committee of the California Transportation Commission for their review. The function of the Committee is to review proposed airspace leases and make recommendations to the Transportation Commission regarding acceptability. Form RW 7-22 shows the format to be used. For consistency purposes, please adhere to the format shown.

The summary should be brief, but long enough to adequately cover the important aspects of the appraisal. Under "Brief Property Description," include a description of the freeway facility that is located on or over the airspace parcel.

7.15.04.00 Bid Lease Valuations

An airspace bid lease valuation is used for establishing minimum rental rates for leasing airspace parcels on the basis of competitive bids. They will be approved according to the current delegations.

Each valuation will contain a range of value and will be prepared upon written request from the Airspace Branch.

Range of Value is defined for this purpose as the range of most probable sales price if the rights being valued were to be sold on the open market. The range should be based on the typical low and high prices paid for similar properties in the market adjusted for comparability.

Because the airspace rights so valued will be exposed to the market through the bid process, documentation and support need not be as extensive as in the standard airspace appraisal which estimates fair market value. Nevertheless, at least a reasonable amount of documentation and support must be presented. However, every bid lease valuation will contain a thorough, complete statement and analysis of the highest and best use of the rights under study. This analysis will be as comprehensive and definitive as one required for an airspace market value appraisal.

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7.15.05.00 Rental Rate Appraisals

In order to streamline the airspace appraisal process, for those qualifying nondevelopmental uses on directly negotiated airspace leases, Regions/Districts may use an Airspace Rental Rate Appraisal process in lieu of a regular airspace appraisal report.

The purpose of this airspace appraisal category is to facilitate the appraisal process for numerous noncomplex and noncontroversial airspace parcels. Appraisals responds directly to a request for a specific use rental rate by the Region/District Airspace Manager. In this specific case, the appraiser is not asked or required to perform an independent highest and best use analysis or resulting land valuation.

Generally, Airspace rental rate appraisals can be used for vacant:

1) Landlocked Parcels

2) Minimum-sized or oddly-shaped parcels that have little value or utility

3) Park-and-ride lots

4) Public parks (Marler-Johnson)

5) Parcels leased to bona fide public agencies

6) Parking and/or storage uses when there are ample comparable rents available

Rental rate appraisals will not be used for the following:

1) If comparable rents are scarce or nonexistent and rental value is not easily determined

2) If the proposed use is controversial or complex

3) If the parcel is to be leased for plottage to an adjoining owner to meet minimum use requirements or intensify the development of such a privately-owned parcel

Qualifying Rental Rate Appraisals will be Region/District approved in accordance with current Delegations, with a report copy forwarded to HQ RW. Regular full-market value appraisals are still required for all other

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proposed uses that will be leased on a direct basis without calling for competitive bids.

The decision to request a full appraisal or Airspace Rental Rate Appraisal is entirely that of the Region/District Airspace Manager.

The Region/District Airspace Manager also assumes exclusive responsibility for specifying the highest and best use/specific use to be assumed by the appraiser, and for providing all proposed rental information for use and reliance by the Appraisal Branch.

The written airspace request for a rental rate appraisal must clearly describe the proposed use, term and renewal options, any special conditions or credits, and any limitations to be placed on the parcel by the Department. The rental rate appraisal will therefore not contain a highest and best use determination, but will rely strictly on the use and parcel data information provided by the Region/District Airspace Manager. However, the Region/District Airspace Manager should consider any input from the Appraisal Branch, including whether comparables are available that provide a good indication of a market rental rate.

The rental rate appraisal will conclude a specific market lease rate as appropriate to the airspace parcel's attributes, limitations and benefits, and its proposed rental use and lease terms. In extenuating circumstances involving marginal market data only, the appraisal may as an exception include a lease rate range as supported by the limited market data.

The rental rate appraisal format will follow regular airspace appraisal standards and methodology. As with any appraisal, the amount of analysis and degree of documentation should be in proportion to the appraisal problem and valuation involved. Since the report will not include the appraiser's independent highest and best use analysis, but rather rely on the use proposed by the Airspace Manager, the appraisal will include the limiting conditions on the new Airspace Parcel Appraisal Form RW 7-21 in conformance with Uniform Standards of Professional Appraisal Practice, S.R. 2-2. The Airspace Advisory Committee does not review Rental Rate Appraisal Reports, and Summary Form RW 7-22 will not be included in these reports.

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7.16.00.00 - RENT DETERMINATION

7.16.01.00 General

A fair market rent determination is an estimate of the amount of rent which a parcel would command in the open market, if offered under the terms and conditions typical of the market for similar properties. The fair rent for property for which there is no relevant market data shall be estimated by any reasonable method that is fair and equitable. The justification for use of such method and a full explanation of the rationale on which the method is based will be set forth. The following process will be followed for both residential and nonresidential fair market rent determinations.

Property Management may prepare residential fair market rent determinations in accordance with Right of Way Manual Sections 11.04.02.00, 11.05.01.00, and 11.06.02.00.

The Appraisal Branch prepares, reviews, and approves fair market rent determinations for all nonresidential properties except as noted in R/W Manual Section 11.05.00.00.

This service is provided by the Appraisal Branch upon written request from Property Management. These requests should be scheduled so as to give Appraisals as much lead time as possible, and will include the following information:

- A map of the property.
- Parcel number, county, route, post mile (P.M.), and property address.
- Improvements that belong to the tenant and should be excluded from consideration.
- Special items on the property, such as machinery or equipment. An inventory should be available if needed.
- Whether construction of improvements on the property will be permitted.
- Term of the proposed lease and estimated length of time property will be available for rent.

Rent determinations will be updated upon written request from Property Management.

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7.16.02.00 Content

Fair market rent shall be based on the most reasonable highest and best use, taking into consideration the term of the State's proposed lease. Other appropriate market-related factors shall also be considered in the rent determination.

The rent determination will be a specific estimated fair market rent. Rent determinations will be rounded to the nearest $10. (Example: A fair market rent estimate of $545 will be rounded to $550.)

The rent determination will be based on current rents being paid in the area for comparable properties. An analysis of comparable rentals and other market data supporting and leading to the appraiser's conclusion of fair market rent must be included in the report. The amount of analysis, number of comparables used, and the degree of documentation required should be in proportion to the value of the property to be rented.

Property Management will use the rent determination as a benchmark from which to reach the actual rental rate. The actual rental rate will be concluded after any special adjustments which may be appropriate to Property Management's operation. Therefore, it is important that the appraiser clearly indicate those items for which adjustments were made in arriving at the appraiser's estimate of fair market rent.

Individual Rental Comparable Data Sheets shall be used, and should include the following information:

- Property identification
- Property description
- Condition and effective age of improvements, if any
- Present use and highest and best use
- Rental rate, including escalation rate, if any
- Date rental rate established
- Terms, including who pays utilities, taxes, and insurance and any other recurring expenses
- Period of lease
- Names of data sources
- Names of owner and tenant, if pertinent

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All fair market rent determinations will include parcel maps. Improved properties will include pictures showing the improvements. In addition, an index map, comparable data map, and comparable data pictures are required for all rent determinations where fair market rent is $5,000 per month or more. These latter three items are optional in Region/District approved rent determinations (where fair market rent is less than $5,000 per month).

Rent determinations requiring HQ R/W approval will be submitted with a transmittal page showing county and route, parcel number, and date of value. It will include the required signed recommendations for approval.

7.16.03.00 Review and Approval Process

The review and approval process is discussed in Sections 7.01.15.00, 7.01.16.00, and 7.01.17.00. The Senior who reviews and recommends the fair market rent determination cannot execute the resulting lease on the same parcel.

7.16.04.00 Special Circumstances

Occasionally, there will be requests for rent determinations for specific uses. In many cases, the property is already rented for some use consistent with constraints the Department has imposed. This existing use may not be the most reasonable highest and best use. If the appraiser's analysis indicates there is a significant difference between the existing use and the most reasonable highest and best use, this should be pointed out in the report. Both a statement of the most reasonable highest and best use and an estimate of the fair market rent under this use will be included. This analysis will be in addition to the rent determination for the specific use as requested.

An example of this is a parcel which has a highest and best use as a parking lot. For special reasons, it may not be feasible or practical to raze the existing improvements and put it to this use. A request for a rental determination on the parcel as improved is appropriate, provided the most reasonable highest and best use is cited and the estimated fair market rent, on this basis, is also included.

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7.16.05.00 Nominal Value Nonresidential Rentals

Many properties cannot be rented for more than nominal rental rates because of size, irregular shape, and/or location. Nominal rental for this purpose is defined as $2,400 per year ($200 per month) or less.

At the Region/District's option, the Appraisal Branch staff or the Property Management Branch staff may be used for rent determinations on nominal value nonresidential rentals.

In these cases, only an 11-EX-53 appraisal is required. It should identify and describe the parcel, and summarize the data and analysis that leads to the appraiser's conclusion of fair market rent. The nominal rental conclusion should be stated as a specific rental amount. A map of the appraised property is required (8½″ x 11″ print is sufficient); photographs are recommended. See 11.05.02.00.

The rent determination should include a signed statement that the appraiser has personally viewed and inspected the parcel. The determination should also be signed by the function's Senior.

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7.17.00.00 - BUSINESS GOODWILL APPRAISALS

7.17.01.00 Statute – Compensation for Loss of Goodwill

Code of Civil Procedure, Title 7, Eminent Domain Law, Chapter 9, Article 6, Compensation for Loss of Goodwill, Sections 1263.510, .520, and .530 provide the basis for compensating the owner of a business for the loss of goodwill. These sections should be reviewed by the appraiser prior to completing any appraisal involving a commercial property. See the reference volume.

7.17.02.00 Interpretation of the Eminent Domain Law, Court Cases, and Legal Issues

The courts are continuing to interpret the statutes on loss of goodwill. The first major court ruling by the State Supreme Court was the Department of Transportation v. Muller. This case has established that the increased cost of doing business at the replacement site is a compensable cost.

The Regions/Districts should consult with HQ R/W concerning any problems with interpretation of the compensability for loss of goodwill. Requests for legal opinions must be directed through HQ R/W for action by Sacramento Legal.

7.17.03.00 Burden of Proof

The law provides that a business owner shall be compensated for the loss of goodwill if the owner proves that the loss is caused by the State's taking of the property and that the loss cannot reasonably be prevented by a relocation of the business or by taking steps and adopting procedures that a reasonably prudent person would take and adopt to preserve the goodwill. The business owner has the burden of proof for loss of goodwill.

7.17.04.00 Notification Letter to the Business Owner (Form RW 7-30)

At the initiation of each staff real estate appraisal of a parcel occupied by one or more businesses, the appraiser will provide each business owner a written notification of the owner's right to claim a loss of business goodwill using Notification of Right to Claim Loss of Business Goodwill (RW 7-30). It is highly recommended that the RW 7-30 be sent to the business owner by certified mail, with return receipt requested. Form RW 7-30 includes a

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questionnaire asking for information about the business for the owner to return when claiming a loss of goodwill.

The RW 7-30 will set a reasonable time limit for the owner to respond. No follow-up requests by the appraiser are required. The appraiser must not delay the initiation and completion of the real estate appraisal while waiting for the business owner to respond. If the appraiser does not have the business owner's name and contact information at the time the real estate appraisal report is written (such as when outdoor advertising signs are present), it will be the acquisition agent's responsibility to send the notification letter as soon as the name and contact information become available.

The date the notification letter is sent to the business owner and any responses from the owner, written or oral, must be documented in the parcel diary. The section of the parcel diary with entries relating to business goodwill shall subsequently be copied and attached to the parcel diary for the goodwill appraisal or a separate goodwill diary can be initiated.

If the owner does not submit a claim or makes a claim but does not furnish copies of State Income Tax returns, as required by California Code of Civil Procedure Section 1263.520, the appraiser must so document in the parcel diary and the real estate report. The appraiser must still make a preliminary analysis and tentative conclusion as to whether or not the business owner will be able to relocate without a loss. The research and analysis for the tentative conclusion will be included in a separate section of the staff real estate appraisal or in the addendum to the report. The research and analysis will include, as a minimum, a statement of the observed availability of replacement sites.

7.17.05.00 Timing for the Preparation and Completion of the Goodwill Appraisal

It will be prepared as soon as possible after receiving the claim from the owner with copies of the owner's tax returns and any other supporting financial data that is furnished. To ensure confidentiality, only HQ R/W copy of the appraisal report will contain the owner's income tax returns. All goodwill appraisals will be in separate reports and not part of the real estate appraisal report.

The appraiser will not complete the goodwill valuation appraisal if the owner does not furnish copies of the State Income Tax returns. The business' "in-house" financial records do not constitute acceptable income and expense information. The appraiser will make a statement in the real estate

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appraisal report that since the owner has not furnished income tax returns, there is insufficient data to estimate whether or not the business possesses goodwill value in the before condition. Therefore, any loss of goodwill is indeterminable.

7.17.06.00 The Goodwill Appraisal Report

The report may contain more than one business under the same ownership. Each business will be valued independently in the before condition and the after condition. If the business goodwill in the before condition is $0.00 or a negative number, it is not necessary to calculate an after condition value. The report will be prepared by or under the direct supervision of, and will be signed by, a Right of Way Agent of at least Associate grade. The duties and responsibilities of the appraisers and reviewers are the same as those for real estate appraisals.

Upon receipt of the goodwill questionnaire from the grantor, if the Senior Right of Way Agent determines it is obvious that there is no goodwill in the before condition (e.g., negative net income for the previous three years) as shown from the loss of business goodwill claim and tax returns for the previous five years, the Region/District has the option of utilizing a memorandum appraisal format or a very succinct narrative appraisal to document these conclusions. The memorandum is to give a full explanation of the valuation and will contain sufficient supporting documentation.

7.17.07.00 Parcel Diary

The appraiser will initiate a parcel diary, Form RW 7-23, for each goodwill parcel appraisal. A copy of the diary shall be included in the report forwarded to HQ R/W.

7.17.08.00 Cross-referencing the Goodwill and Real Estate Appraisal Reports

The report for the goodwill appraisal will carry the same basic number as the real estate report with a subreference of the letter "G." For example, if the real estate report is AR-7, the goodwill report on a business located on the parcel will be numbered AR-7G1. Any subsequent reports made on other businesses located on properties appraised in AR-7 will carry AR numbers running consecutively, e.g., AR-7G2, AR-7G3, AR-7G4, etc.

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A goodwill appraisal which supersedes a prior valuation of the same business will be given a new AR designation. The new report will cross reference the prior appraisal(s). For example, "AR-7G8: This appraisal supersedes AR-7G3, approved (date)."

7.17.09.00 Parcel Numbering

The parcel numbers for goodwill parcels will be the same as the parcel number for the real estate on which the business is located with a subreference of G-1, G-2, G-3, etc., i.e., 12345 and 12345G-1.

7.17.10.00 Review and Approval Process

All staff and in-lieu of staff goodwill appraisals will be reviewed for approval by Headquarters Right of Way.

7.17.11.00 Project Influence

Goodwill valuations shall not include any increase or decrease in the value of the business that is attributable to the project. See Section 1263.330 of the Eminent Domain Law.

7.17.12.00 Appraisal Report Components and Sequence

- Appraisal Title Page - Business Goodwill Valuation (RW 7-24)
- Parcel Summary Page – Goodwill (RW 7-25)
- Business Goodwill Valuation - Senior Field Review Certificate (RW 7-26)
- Business Goodwill Valuation - Certificate of Appraiser (RW 7-27)
- Appraisal - Business Goodwill Valuation (RW 7-28)
- Business Sales Data Page – Goodwill (RW 7-29)
- Business Comparable Data Page – Goodwill (RW 7-31)
- Purpose of Appraisal

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- Date of Value

  The date of value shall be the date funds are deposited by the State into the grantor's escrow account unless the court otherwise stipulates the date. In the case of pre-condemnation, the date of value is the date of possession.

- Description of Business

  In addition to a comprehensive description of the business operation, include the name of business and the owner(s), location, history of the business ownership, areas of land and description of improvements used (owned or leased) by the business, lease/rental amounts and terms including expenses paid by tenant, geographical area served by the business, hazardous materials used by the business and hazardous waste observed.

- Recent sales of the subject business

  Each sale of the subject business during the last five years preceding the appraisal will be explained in detail. Use a separate sales data page for each sale. The most recent sale during the period shall be verified by the appraiser with both seller and buyer, if possible. If not verified with both parties, efforts to do so must be described. A complete verification of the most recent sale will be made including sale price, terms, and a breakout of the amount paid for tangible and intangible assets such as machinery, equipment, liquor licenses, and goodwill. Any difference between the appraised value of goodwill and the price paid for goodwill must be explained.

- Availability of suitable sites for relocation

  Include a detailed study of the availability or lack of availability of suitable replacement sites for the business. If the business has already relocated prior to the date of the appraisal, the analysis will state whether or not other suitable sites were available at the time of relocation and, if utilized, would have resulted in a lesser loss or no loss.

- Valuation

  The valuation section shall include a comprehensive analysis of the appropriate approaches to value and the conclusion of the goodwill value at both the existing location and the new or proposed location. This

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also applies to businesses affected by partial acquisitions that may continue operations on the remainder.

- Reconciliation of valuation approaches and final conclusion

  Where two or more approaches to value are used, the appraisal will reconcile the separate indications of value derived and include a reasonable explanation for the final conclusions of business goodwill. The final conclusion will state whether or not the business will suffer a loss of goodwill as a result of the taking. This will usually be a comparison of the goodwill valuation of the business at the old location and at the new or proposed location (before and after).

- List and valuation of tangible and intangible assets

- Comparable data pages and maps

- Index maps (if available), subject map, relocation site map

- Parcel diary

- Addendum

The addendum should include supporting data such as financial statements, copies of the State income tax returns, relocation site studies, market analysis studies, questionnaire supplied by business owners, etc.

7.17.13.00 Goodwill Valuation

The first step is to estimate the value of goodwill, if any, of the business at the location being taken or affected by the project.

The premises for the goodwill appraisal should be consistent with the premises used in the real estate appraisal. Examples of premises that are ordinarily expected to be consistent are highest and best use, economic rent, and value of business improvements such as fixtures, machinery and equipment. Any differences in these and other important elements must be explained in the report.

Normally, the value of the goodwill is not estimated directly but is derived by a residual process. The first step is to estimate the value of the total business enterprise and then subtract the value of the separately valued assets of the business, both tangible and marketable intangible, from the total value. The

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residual value, if any, represents the intangible asset of goodwill. The following is a summary of this residual process:

Total value of business
(-) less value of tangible assets owned by business
(-) less value of marketable intangible assets owned by the business
Value of goodwill (intangible asset)

(Intangible marketable assets are those which can be sold off separately from the business, such as a liquor license.)

If the analysis indicates no goodwill value, the appraisal process ends and the report is completed. If no goodwill value exists in the before condition, there cannot be a loss of goodwill.

If the analysis results in a goodwill value, the appraiser must proceed with the appraisal process. The next step is to repeat the above process for the business after project construction in the manner proposed (and if the business required relocation), to determine the value of the goodwill at the new or proposed location. If the business has already relocated at the time of the appraisal, the business operation must be analyzed by repeating the valuation process outlined above to determine the value of the goodwill at the new location.

The compensable loss is the amount, if any, that the value in the before condition exceeds the value in the after condition.

Example:

Estimated value of goodwill before	$15,000
Estimated value of goodwill after	-$10,000
Estimated compensable loss of goodwill	$ 5,000

If the business has not been relocated at the time of the appraisal, the appraiser and the relocation agent will make a comprehensive study regarding the availability of either existing suitable sites or those sites that are expected to become available within a reasonable period of time to which the business can relocate. A suitable site is considered to be one which a prudent business owner would select in attempting to preserve goodwill to the greatest extent possible. The report will contain a section detailing the appraiser's study of the availability or lack of availability of suitable replacement sites. If suitable sites are or will become available, the appraiser will value the goodwill in the after condition as described above as if the

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business were relocated to a property which would be selected by a prudent business owner seeking to preserve or enhance the value of the business goodwill. This is in keeping with the Eminent Domain Law (CCP Section 1263.510).

If the study shows that there are no available suitable relocation sites, and none can be expected within a reasonable period of time, then the estimated business goodwill value in the before condition will be the loss of goodwill shown in the report. In other words, there is a total loss of goodwill value to the business. If these circumstances exist, the appraiser must fully document, in detail, the reasons why the business is unable to relocate.

If a business is highly complex or specialized it may be necessary or advisable to contract with consultants for appropriate market analyses and/or relocation studies.

7.17.14.00 Business Valuation Methods

There are many methods by which the value of a business and its goodwill can be estimated. The following are three methods commonly used for business valuation:

A. Market Approach

The most common market approach is the utilization of income multipliers derived from the market transactions of similar businesses. For example, retail store businesses might sell for two times annual gross income. Particular market multipliers may be based on income or sales and vary widely, depending on the type of business.

B. Capitalization of Excess Earnings

This is an income approach where excess earnings are calculated by subtracting from business net profit, a return on and of depreciable tangible assets and a return on marketable intangible assets. The return of a depreciable tangible asset is made over the remaining economic life of the asset. If marketable intangible assets have a limited life, then it will be necessary to also subtract a return of the asset over its remaining economic life. The excess earnings of a business, if any, are then capitalized at an appropriate rate to estimate the value of the goodwill.

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C. Discounted Cash-Flow Analysis

This approach is focused on the projected earnings and expenses of a business over a period of time (usually the anticipated investment period). Value of goodwill is the present value of the projected net cash flow (either before or after taxes) for a period of years plus any reversion value of the goodwill. This method takes into account the effects of changes in the net return each year.

These are brief descriptions of the more commonly used valuation methods. For a more detailed explanation of the various valuation methods, the appraiser must refer to appraisal text books or other instructional materials on business valuations.

7.17.15.00 Analyzing Financial Statements and State Income Tax Returns

In processing the various business valuation methods, such as the "capitalization of excess earnings," it will be necessary to analyze financial statements and State income tax returns. As part of this process, the appraiser must reconstruct the income and expenses reported to arrive at a net income applicable to the value of goodwill.

The following list includes examples of items that must be considered in reconstructing the income and expenses reported:

- Depreciation must be deleted.

- Payments (principal and interest) on loans used to purchase the business must be deleted.

- Payments (principal and interest) on loans used to purchase real property must be deleted and an economic rent for the real estate used by the business substituted for the payment.

- Use economic rent instead of contract rent in the statement. Also, economic rent must be used at the new location. This approach is based on legal interpretation of the law. The appraiser must look at the real estate report to see what was determined to be economic rent. An explanation must be made by the goodwill appraiser if the economic rent used in the goodwill appraisal is different than the economic rent used in the real estate appraisal. There could be a difference in the economic rents if substantial time elapsed between the dates of the two appraisals.

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- Owner's salary and draws must be adjusted to reflect reasonable compensation for the owner's role or activity in the business operation. In some cases, corporation officers receive a salary even if they do not work in the business. These salaries may be disguised as profit-sharing compensation and must be deleted because they are not an expense.

- Use of unsupported future earnings are not acceptable. All earnings in the after condition must be factual and supportable. Expectations for growth on investment or changes in the economy cannot be utilized in the calculations.

7.17.16.00 Betterment at the Relocation Property

In the process of reconstructing and/or estimating an income and expense statement for the business at a relocated property, the appraiser must adjust the statement for avoidable property betterments. The following is an example of an avoidable betterment which must be adjusted in the income and expense statement as a part of the process of estimating goodwill value at the new business location.

Assume that the business at the old location occupied a building containing 9,700 sq ft with an economic rent of $10,000/month. Also assume that the business owner chose to relocate to a 15,000 sq ft building with an economic rent of $15,000/month, even though there were other suitable relocation properties on the market containing 9,700 sq ft at a rent of $10,000/month comparable to the old property. In this example, the appraiser must use an economic rent of $10,000/month in the statement instead of the actual rent of $15,000/month at the new location.

On the other hand, an adjustment should not be made if there were no other comparable replacement properties available in the market with 9,700 sq ft renting for $10,000/month, and the owner was forced to relocate to a 15,000 sq ft, $15,000/month rent in order to continue business and preserve the goodwill (patronage). This may be considered an "unavoidable betterment." In this case, the appraiser must use an economic rent of $15,000/month. However, if the business owner were forced to relocate to the larger 15,000 sq ft building, but could sublet the 5,000 sq ft of excess area for $5,000/month, then the appraiser must, of course, take that rental income into account at the new location.

The appraiser must be careful in deciding which betterments must be adjusted as part of the process of estimating the value of the goodwill at the relocated property in the after condition. The basis for the appraiser's

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decision that there is an "unavoidable betterment" must be included in the goodwill report. If the Region/District has any difficulty in identifying betterments which should be adjusted, HQ R/W Appraisal Branch should be consulted. There may be a need to request legal advice on specific issues.

7.17.17.00 Disadvantages at the Relocation Property

There may be certain conditions at the relocated property which cause a reduction of net income and, thus, a reduction from the level of goodwill value that the business had at the old location (loss of goodwill). Some examples are loss of net patronage and increased (economic) rent or other increased operating expenses. (The increased rent or other expenses must, of course, not be a result of avoidable betterments.)

Note that the phrase "loss of net patronage" is used in this section. The reason that the word "net" is used is because Eminent Domain Law Section 1263.510, paragraph (b), states "within the meaning of this article 'goodwill' consists of the benefits that accrue to a business as a result of its location, reputation for dependability, skill, or quality, and any other circumstances resulting in probable retention of old or acquisition of new patronage." Therefore, if some of the old patronage was lost by the move, but an equal amount of new patronage was gained at the new location, there would be no net reduction of patronage.

If the Region/District has any difficulty with a particular appraisal in determining which disadvantages must be considered in estimating the compensable loss of goodwill, HQ R/W Appraisal Branch should be consulted. There may be a need to request legal advice on specific issues.

7.17.18.00 Compensation to Business Owners Under the Relocation Assistance Program (Pursuant to Section 7262 of the Government Code and 49 Code of Federal Regulation Part 24)

Certain compensable goodwill losses and Business Relocation Assistance Program items may fall into overlapping areas of the various laws. An owner is entitled to only one payment for a loss. Therefore, the appraiser must furnish the best information possible as to identifying the components of a loss of goodwill. It is then up to the Acquisition and RAP Branches to apply the information appropriately in determining proper payments. This will ensure compliance with 49 CFR 24.3 regarding no duplication of payments. The statute for compensation for loss of goodwill, California Code of Civil

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Procedure Section 1263.510, provides that there shall be no duplication of payments for loss of goodwill which are provided to the business owner pursuant to the Relocation Assistance Program. In addition, Section 1263.010 of the CCP provides "where two or more statutes provide compensation for the same loss, the person entitled to compensation may be paid only once for the loss."

The following are items for which the business owner may receive compensation under the Relocation Assistance Program. Some of these may also be included in a particular finding of a loss of goodwill. The Relocation Assistance Program covers the following:

A. Moving and related expenses that are actual, reasonable and necessary (49 CFR 24.301 and 303).

B. Reestablishment expenses (limit $25,000) (FHWA Guidance Letter, Implementation of MAP-21 Uniform Act Benefit and Eligibility Change, HEPR-10, March 25, 2014. Effective date: October 1, 2014). Only "small businesses" are entitled to compensation for these reestablishment expenses. A small business is defined [49 CFR 24.2(a)(24)] as "a business having not more than 500 employees working at the site being acquired or displaced. Sites occupied solely by outdoor advertising signs, displays or devices do not qualify as a business for purposes of receiving reestablishment benefits under 49 CFR 24.304."

1. **Eligible expenses** - Reestablishment expenses must be reasonable and necessary, as determined by the State. They may include, but are not limited to, the following:

   a. Repairs or improvements to the replacement real property as required by Federal, State, or local law, code, or ordinance.

   b. Modifications to the replacement property to accommodate the business operation or make replacement structures suitable for conducting the business.

   c. Construction and installation costs, for exterior signing to advertise the business.

   d. Redecoration or replacement of soiled or worn surfaces at the replacement site, such as paint, paneling, or carpeting.

   e. Advertisement of replacement location.

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f. Estimated increased costs of operation during the first 2 years at the replacement site for such items as:

   i. Lease or rental charges

   ii. Personal or real property taxes

   iii. Insurance premiums, and

   iv. Utility charges, excluding impact fees.

g. Other items that the State considers essential to the reestablishment of the business.

2. **Ineligible expenses** – the following is a nonexclusive listing of reestablishment expenditures not considered to be reasonable, necessary, or otherwise eligible:

   a. Purchase of capital assets, such as, office furniture, filing cabinets, machinery, or trade fixtures.

   b. Purchase of manufacturing materials, production supplies, product inventory, or other items used in the normal course of the business operation.

   c. Interest on money borrowed to make the move or purchase the replacement property.

   d. Payment to a part-time business in the home which does not contribute materially to the household income [49 CFR 24.2(a)(7)].

C. In Lieu or Fixed Payment for a business, a farm operation or a nonprofit organization for not less than $1,000 nor more than $40,000. (FHWA Guidance Letter, Implementation of MAP-21 Uniform Act Benefit and Eligibility Change, HEPR-10, March 25, 2014. Effective date: October 1, 2014). (This is a fixed payment in lieu of actual moving and related expenses, actual reasonable reestablishment expenses, and loss of patronage.)

A business owner may be entitled to payments for eligible items listed under both Categories A and B. As an option, a business owner may elect to receive a payment under Category C, "In Lieu of or Fixed Payment." If the owner selects the "In Lieu of or Fixed Payment," the

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owner is not entitled to any payments under either Categories A or B. It should be noted that the portion of the in-lieu of or fixed payment that is not moving and related costs must be offset against goodwill.

To enable the Acquisition and RAP Agents to comply with the law and fully compensate the business owner for proper costs and/or losses, but still ensure there is no duplication of payment, the appraiser must show the following in any goodwill appraisal which finds a compensable loss of goodwill:

> The appraiser must list in the loss of goodwill report each of the items listed above which contributed to the loss of goodwill, i.e., any of the eligible reestablishment expenses and/or loss of patronage which contributed to the loss of goodwill. The amount of loss of goodwill attributed to each such item shall be shown separately, if possible.
>
> Example:
>
> Total estimated loss of goodwill: $18,000
>
> Allocation (causes of the loss):

1. Increased economic rent	$9,000
2. Necessary modification at new location	$4,000
3. Loss of patronage	$5,000
Total Loss	$18,000

If the goodwill appraisal report concludes a loss of goodwill, the appraiser is to include a statement in the appraisal that if any amounts relating to loss of goodwill were paid to the business owner under the Relocation Assistance Program, such amounts must be deducted from the amount of the loss of goodwill shown in the appraisal report. The purpose of the statement is to serve as a reminder to the acquisition agent and to the Relocation Branch that no duplication payments for loss of goodwill are to be made as provided in the Eminent Domain Code.

See the Relocation Assistance Chapter for further information.

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7.18.00.00 – DELEGATIONS

7.18.01.00 Delegations of Authority

As referenced in Section 2.05.01.00, the delegation matrix for Appraisals is noted below. The delegation matrix reflects the associated policy and RW Manual reference for each delegated item. The matrix also distinguishes whether an item is delegated to the District or Headquarters (HQ) level, along with the lowest level of sub-delegation authorized.

Reference (Statutory, WBS, Director's Policy, Deputy Directive, etc.)	**RW Manual Section**	**Responsibility**	**Delegation**	**Lowest Level of Sub-Delegation**
	7.01.07.00	Approval of Option to Exercise Dual Appraisal Process	District	Supervising RW Agent or Review Appraiser
49 CFR §24.104	7.01.15.02 7.01.16.00	Approval to Implement Review Appraiser Concept and Process	HQ	Supervising RW Agent
	7.01.17.00	Appraisal Approval Authority – $1.5M or Less	District	Supervising RW Agent or Review Appraiser
	7.01.17.00	Appraisal Approval Authority – All Appraisals Over $1.5M (Excluding Full-Take SFRs)	HQ	Up to $5M: Senior RW Agent Over $5M up to $10M: Supervising RW Agent Over $10M: Division Chief

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Reference (Statutory, WBS, Director's Policy, Deputy Directive, etc.)	**RW Manual Section**	**Responsibility**	**Delegation**	**Lowest Level of Sub-Delegation**
	7.01.17.00	Appraisal Approval Authority – Full-Take SFRs (No Dollar Limit)	District	Supervising RW Agent or Review Appraiser
	7.01.17.00	Appraisal Approval Authority – All Dual Appraisals	HQ	Senior RW Agent
CCP §1263.410	7.02.08.00	Parcel Groups – Integrated Operation (Approval for Variance from Including All in One Appraisal)	District	Senior RW Agent
49 CFR §24.403	7.02.10.00 10.06.00.00	Approval of Replacement Housing Valuations (Excluding Last Resort Housing)	District	Senior RW Agent
49 CFR §24.403	7.02.10.00 10.06.00.00	Approval of Replacement Housing Valuations – Last Resort Housing	District	Up to $50K: Supervising RW Agent Over $50K: RW Manager
49 CFR §24.103	7.02.12.00	Approval of Noncomplex Valuations of $25K or Less	District	Senior RW Agent
49 CFR §24.102(c)(2)	7.02.13.00	Approval of Waiver Valuations in Lieu of an Appraisal ($10K or Less)	District	Senior RW Agent

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Reference (Statutory, WBS, Director's Policy, Deputy Directive, etc.)	**RW Manual Section**	**Responsibility**	**Delegation**	**Lowest Level of Sub-Delegation**
	7.03.04.03	Avoid Large Windfall RAP Payments to SFR Owner-Occupants – Approval to Prepare Primary and Alternate Appraisals	District	RW Manager
	7.04.13.00	Approval of Nonprofit, Special Use Property Valuations	HQ	Senior RW Agent
	7.10.03.00	Approval of Changes in Approved Appraisals - Unacquired Parcels: Revised Appraisal Pages, Revised Parcel Appraisal, Memorandum of Adjustment	Follows original appraisal approval delegation	Follows original appraisal approval delegation
	7.10.07.00 (B)	Approval of Changes in Approved Appraisals - Acquired Parcels: Statement of Value	Follows original appraisal approval delegation	Follows original appraisal approval delegation
Article 1, California Constitution §19	7.10.11.00 9.05.11.00	Preparation of the Report Analysis (7-EX-18) for Acquisition Reports	Follows original appraisal approval delegation	Follows original appraisal approval delegation

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Reference (Statutory, WBS, Director's Policy, Deputy Directive, etc.)	**RW Manual Section**	**Responsibility**	**Delegation**	**Lowest Level of Sub-Delegation**
	7.13.20.00	Approval of Hardship or Protection Appraisals – (Authority to Proceed with Appraisal Requires Prior RW Manager Approval)	Follows original appraisal approval delegation	Follows original appraisal approval delegation
	7.13.60.00	Approval of Railroad Property Appraisals	HQ	Up to $5M: Senior RW Agent Over $5M up to $10M: Supervising RW Agent Over $10M: Division Chief
	7.14.02.00	Approval of Excess Land Market Value Appraisals – Direct Sale to Private Parties $500K or Less	District	Supervising RW Agent or Review Appraiser
CTC	7.14.02.00	Approval of Excess Land Market Value Appraisals – Direct Sale to Private Parties Over $500K	HQ	Up to $5M: Senior RW Agent Over $5M up to $10M: Supervising RW Agent Over $10M: Division Chief

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Reference (Statutory, WBS, Director's Policy, Deputy Directive, etc.)	**RW Manual Section**	**Responsibility**	**Delegation**	**Lowest Level of Sub-Delegation**
	7.14.02.00	Approval of All Excess Land Market Value Appraisals – Direct Sale to Public Agencies	HQ	Up to $5M: Senior RW Agent Over $5M up to $10M: Supervising RW Agent Over $10M: Division Chief
	7.14.04.00	Approval of Public Sale Estimates	District	Senior RW Agent
	7.14.03.00	Approval of Excess Land Market Value Determinations of $10K or Less	District	Senior RW Agent *D9 Senior RW Agent up to $25K*
SHC §104.12 CTC 23 CFR §710.405	7.15.02.00	Approval of Airspace Estimates	District	Senior RW Agent
	7.15.03.03	Approval of Airspace Appraisals	HQ	Up to $5M: Senior RW Agent Over $5M up to $10M: Supervising RW Agent Over $10M: Division Chief
	7.15.04.00	Approval of Bid Lease Valuations	District	Senior RW Agent

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Reference (Statutory, WBS, Director's Policy, Deputy Directive, etc.)	**RW Manual Section**	**Responsibility**	**Delegation**	**Lowest Level of Sub-Delegation**
	7.15.05.00	Approval of Airspace Rental Rate Appraisals	District	Senior RW Agent
	7.16.02.00 7.16.05.00	Approval of Nonresidential Rent Determinations $5K/Mo. or Less	District	Senior RW Agent
	7.16.02.00	Approval of Nonresidential Rent Determinations Over $5K/Mo.	HQ	Senior RW Agent
CCP §1263.510, et. seq.	7.17.10.00	Approval of Loss of Business Goodwill Appraisals	HQ	Up to $5M: Senior RW Agent Over $5M up to $10M: Supervising RW Agent Over $10M: Division Chief

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Exhibits are located online:

- External Exhibits site
- Internal Exhibits site (internal Caltrans link)

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Forms are located online:

- External Forms site
- Internal Forms site (internal Caltrans link)

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