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Chuck Bonham
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Wildlife Conservation Board
1807 13th Street, Suite 103
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Dear Board Members:

As we have said on numerous prior occasions, we support conservation and the mission of the Wildlife Conservation Board. We operate our more than 440,000 acres of commercial forests with stewardship as a very high priority, and believe the State of California can also accomplish much in conserving lands and improving the environment. At the same time we have significant concerns about the ecological merits, prices paid and secrecy of appraisals for certain projects supported by WCB. We have repeatedly advocated for disclosure of appraisals for hard to value assets in advance of Department of General Services review.

It is clear that the staff of the WCB, and conservation groups that benefit from WCB funds, seek to have the least change possible to the existing system. Staff has repeatedly sought to explain that they should be allowed to maintain the secrecy of appraisals because other agencies do the same thing, and moreover the WCB's acquisition efforts could somehow be harmed. The argument that "everyone else does it" is usually dismissed by parents exercising good judgment, and it should be treated similarly here. And the idea that the WCB's acquisition efforts will be harmed is unsupported by facts or evidence. In the case of the North Coast, the idea that sharing appraisal information will harm conservation deals borders on laughable given that the WCB has been the only buyer of conservation easements that has any money for approaching a decade.

Why does this matter? Because the state is overpaying. We live in a time when California struggles mightily to adequately fund schools and social services. If we are going to expend funds for conservation, the state should be paying *current* fair market value supported by analysis that would pass muster with private market buyers. Regrettably, for the projects we have reviewed, the state is using stale comps that employ faulty analysis that no private buyer would ever accept.

We asked for the appraisals of Usal and Gualala to be released before those deals were completed. The staff of WCB said they could not release the appraisals because it would violate WCB policy. There are no legal restrictions to releasing appraisals. Now that the deals are done, after three requests, we have been able to get the appraisals and review them. A few comments on each:

Usal – recall that the WCB paid \$20 million for a conservation easement, where 90% of the purchase price was based on acquiring the “development rights” on this very remote 50,000 acre tract of cutover timberlands in northwestern Mendocino County. The appraisal reveals

- the property had yet to even be divided into the 261 potential lots that were the theoretical justification for all the appraised real estate value;
- “...the costs and time to perform a major subdivision of the Usal tract would not be financially feasible in the current market;”
- no estimate was made for the costs for infrastructure, roads, wells;
- five of the six comps used to establish the underlying real estate development rights were transactions that were made with state support or the expectation of state support; and
- *all* of the comps occurred prior to the dramatic change in the economy in 2008 and 2009. Moreover the appraiser only adjusts two of the six comps downward for a change in “market conditions.” (see below for significance)

Gualala – the WCB paid \$19 million for a conservation easement on this approximately 14,000 acre property. Similar to Usal, almost all of the appraised value is attributed to real estate value (as opposed to timber value). This appraisal reveals:

- “The Highest and Best Use of the subject property in its current, ‘as is’ condition is concluded to be for development and sale of the 73 separate parcels as rural residential homesites;”
- “...before the county will issue a building permit. A lot must have developed access, a developed water source and proven waste water disposal capabilities. None of the subject’s lots currently have all three of these criteria;”
- no economic analysis is made of the costs to develop access, water sources and waste water disposal capabilities;
- no economic analysis is made on the cost to market and the time required to sell the 73 lots;
- valuation is based on 9 comps. Two of the comps are from outside the redwood region. Six of the seven redwood region comps were transactions with state support or the expectation of state support;
- one of the seven redwood region comps is recent (this comp was much closer to San Francisco and proximate to other actual high end rural residential real estate development); and
- four of the six pre 2008 comparables were actually increased in value to reflect change in market conditions. Two were *modestly* adjusted downward.

So we have two appraisals largely relying on stale state comps, with little adjustment for any change in market conditions for the 2008 / 2009 economic decline, being used to buy raw land for residential development with no economic analysis of the costs of development or the time and expense required to sell individual lots. We take particular note of “all state comps” as the lack of true economic analysis of development value is a logic flaw that keeps being repeated, and the existence of prior state purchases at high prices is being used to justify the current purchases. Moreover, most private real estate investors would expect raw land values to have the greatest sensitivity to changes in market conditions as compared to any other segment of the real estate market. We are all familiar with the change in the value of residential homes over the last four to five years, unprecedented since the Great Depression. Here we have two appraisals indicating that essentially no change is incorporated into an assessment of the value of raw land based on comps (almost all state supported purchases) spanning almost ten years, even while home prices plummeted across the country since 2008.

The WCB staff response to criticism around this topic is to suggest lowering the threshold for appraisal review, requiring release of limited amounts of information in the form of an appraisal review for certain transactions, and to share some new guidelines prepared by staff that are illustrative of how they hope to improve the appraisal

review process. The threshold on appraisal review has a significant loophole (allowing an appraisal review to remain private in the instance where a single undefined public meeting has been held). Further, the value of the appraisal review guidelines is very low since they are proposed in an illustrative, as opposed to binding, form.

We suggest a simpler approach be employed. Just make the appraisals for hard to value asset (more than \$10 mm in purchase price from WCB and other state agencies) available to the public in draft form prior to DGS review. More transparency will only benefit the state, and allow DGS to access local knowledge when assessing the qualitative merits of subjective appraisals. This proposal will add no more time than what is proposed by WCB staff, and actually be more efficient by avoiding the preparation of an appraisal review whose sole purpose seems to be to facilitate mostly redacted and incomplete disclosure.

The state deserves to get great deals in this time of economic distress, and more transparency will help. Releasing appraisals will also cause appraisers to think more critically. The WCB staff approach, further attempting to regulate good judgment with more qualitative guidelines, will create more work but likely result in no substantive change for a process that is currently in great need of improvement.

I have been told many times that "...releasing appraisals just can't be done - it will be the final hurdle that prevents landowners from dealing with the state...". This protest is unsupported with any facts or evidence and defies credibility. People sell land to the state (usually indirectly through a conservation group that facilitates the process) because they 1) are getting a good price, 2) have a conservation objective, 3) know a sale to the state, while slow, is much faster than actually developing a property, or 4) for some combination of all three. *The process is already lengthy* and involves public disclosure, and one more step will not deter those who have already chosen to go the state-supported transaction route. Released appraisal information could easily exclude any proprietary information provided by landowners, while still greatly improving the transparency of the process. And as we have advocated for in the past, releasing an appraisal prior to DGS review is something that is only needed for hard to value assets – like conservation easements of size or raw land that might be developed some far in the future.

I am attaching an email I sent to John Donnelly and Marilyn Cundiff in advance of a workshop they conducted on December 12 on these topics in general. It is relevant to the conversation so I thought it was worth including.

The WCB has an important mission, and can accomplish a great deal with its remaining bond funds. The current process, which hides the relevant analysis until after the state has spent its money, is an anachronism that is long overdue to be addressed. Help increase the confidence of the public for this program by making the common sense and easy step of greater transparency starting now.

Once again, thank you for your consideration.



Sandy Dean
Chairman

Cc: John Donnelly, Executive Director Wildlife Conservation Board
John Laird, Natural resources Secretary
Karen Finn, Programs Budget Manager
Jim Kellogg, Wildlife Conservation Board

Sandy Dean

From: Sandy Dean
Sent: Friday, December 09, 2011 12:39 PM
To: 'Marilyn Cundiff'; jdonnell@dfg.ca.gov
Cc: mjani@mendoco.com
Subject: Dec 12th meeting

Marilyn and John

Thanks for sharing draft guidelines for what we assume is the WCB's straw man for how to review the appraisal process for large [and or hard to value] properties and conservation easement purchases.

We have reviewed the information you provided. We are unable to make the December 12 meeting, but would like to share the following comments (which you can feel free to share at the meeting if you deem appropriate) –

As you know, our interest in this issue has arisen from what we perceive to be as flawed or inadequate appraisals for a number of north coast acquisitions (see our several letters on this topic at www.mrc.com or <http://www.mrc.com/Communications-BulletinBoard.aspx>

The new proposed guidelines appear to continue to rely on an almost entirely qualitative appraisal review process... and continue the failed strategy of attempting to regulate critical thinking and judgment. Modest strengthening of the existing appraisal review process would have left the significant shortcomings in numerous prior north coast transaction appraisals unaddressed.

We urge you to consider allowing public comment on full draft appraisals, so that the Department of General Services can have the benefit of local knowledge for what will always be an intensely local valuation process (see our prior testimony at the September board meeting on this topic).

In addition to allowing public review of appraisal for the benefit of DGS, we also want to reiterate concepts we have previously advocated for, including

- A reasonable review of any appraisal can only be accomplished with a full understanding of the comparables used. For the appraisal process to have any integrity, the public must see comparables, in advance. The idea that comparables, the heart of an appraisal analysis, can be kept confidential entirely undermines the credibility of this process. If a comparable is unavailable as public information, it should be eliminated from the appraisal.
- Development rights need to be realistically valued using private market assumptions (including cost of needed infrastructure, market absorption rates, time value of money to sell lots etc...). We have discussed this concept since 2007, however there is no mention of this critical valuation issue anywhere in the new draft guidelines.
- Prior state acquisitions should be excluded from appraisal comps. Without this simple step, the state risks being the sole negotiated buyer for conservation deals.

- Comparables that date from before changes in market conditions should be heavily discounted or eliminated. It appears that recent appraisals have relied on comps from before the macroeconomic environment changed in 2008. It should be obvious that comparables from pre 2008 will produce poor results for the state as a buyer

We are available to discuss these issues if that would be helpful. Real reform of the existing process is needed to address the shortcomings that we have identified above and in our prior letters.

Best Regards,

Sandy Dean
Chairman, MRC and HRC