PURPOSE

This manual change revises Subsections 7.03.04.01 and 7.03.04.02 to clarify procedures for uneconomic remnants.

EFFECTIVE DATE

Immediately.

MANUAL IMPACT

- Remove the superseded pages and insert the attached pages in the Manual.
- Record the action on the Revision Record.

REVISION SUMMARY

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Remove Old Pages</th>
<th>Insert New/Revised Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>7 - Sections</td>
<td>Table of Contents (REV 2/2010) 7.03.00.00 (REV 10/2009)</td>
<td>Table of Contents (REV 10/2010) 7.03.00.00 (REV 10/2010)</td>
</tr>
</tbody>
</table>

Remove the following in its entirety: Replace with the following in its entirety:
# CHAPTER 7

## APPRAISALS

### TABLE OF CONTENTS

#### 7.01.00.00 APPRAISAL POLICIES AND GENERAL REQUIREMENTS

- 01.00 General Overview
- 01.01 Definition of Market Value
- 01.02 Necessity for Appraisal
- 02.00 Appraisal Report Not Required
- 03.00 Uniform Relocation Assistance and Acquisition Policies Acts
- 04.00 Standards
- 04.01 Appraiser Qualifications
- 04.02 Jurisdictional Exception
- 05.00 Separation of Appraisal and Acquisition Functions
- 06.00 Prerequisites for “Preliminary Right of Way”
- 07.00 Dual Report Requirements
- 08.00 Donations
- 08.01 Credit Toward State’s Matching Share
- 09.00 Dedications
- 10.00 Notice of Decision to Appraise
- 11.00 Parcel Diary
- 12.00 Responsibility for Providing RAP Information
- 13.00 Legal Opinions
- 14.00 Responsibility for Preparation
- 15.00 Appraisal Review
- 15.01 Cumulative Review Concept
- 15.02 Review Appraiser Concept
- 16.00 Review Appraiser Process
- 16.01 Minor Deficiencies
- 16.02 Major Deficiencies
- 17.00 Approval Authority
- 18.00 Criteria for Use of Independent Fee Appraisers
- 19.00 Report Processing and Records
- 20.00 Memo of Transmittal
- 21.00 Tables

#### 7.02.00.00 APPRAISAL REPORTS

- 01.00 Federal Project Numbers
- 02.00 Report Identification Numbers
- 03.00 Organization, Content, and Sequence
- 04.00 Parcel Numbering
- 05.00 Number of Parcels Per Report
- 06.00 Parcels Straddling an Expenditure Authorization
- 07.00 Parcel Groups - Mutual Owners
- 08.00 Parcel Groups - Integrated Operation
- 09.00 Dual Report Process
- 09.01 Corrections and Revisions
- 09.02 Review Process

(REV 10/2010)
7.02.00.00 APPRAISAL REPORTS (Continued)
10.00 Replacement Housing Valuation Reports
11.00 Calculations
12.00 Noncomplex Valuations of $10,000 or Less
13.00 Waiver Valuation In Lieu of an Appraisal
13.01 Waiver Valuation ($2,500 or Less) - Contents and Requirements
13.02 Waiver Valuation ($2,501 to $10,000) - Contents and Requirements
14.00 Nominal Values ($2,500 or Less)

7.03.00.00 APPRAISAL PREPARATION
01.00 The Appraisal Page—Purpose
02.00 Appraisal Page Format
03.00 Alternate Appraisals
04.00 Appraisals of Excess Property for Acquisition
04.01 Uneconomic in the Market
04.02 Uneconomic to the Owner, or for the Convenience of the Owner
04.03 To Avoid Large Windfall Relocation Payments to Single Family Owner-Occupants
05.00 Legal Larger Parcel and Subparcels
06.00 Allocation Between Excess and Right of Way
07.00 Excess Parcel Inventory Value (VTA)
08.00 Rental Rates

7.04.00.00 VALUE CONCEPTS AND CONSIDERATIONS
01.00 Value Basis
02.00 Total Value
03.00 Encumbered Fee
04.00 Mineral, Water, Oil and Gas Rights
05.00 Improvement Bonds and Assessments
06.00 Leasehold Interests “Bonus Values”
07.00 Change in Grade Only
08.00 Access Rights
09.00 Temporary Easements
10.00 Permanent Easements
11.00 Unit Values
12.00 Hazardous Waste and Hazardous Material Definition
12.01 Hazardous Waste General
12.02 Certification
12.03 R/W HW/Materials Coordinators Activities
12.04 Hazardous Materials
12.05 HW Site Identification
12.06 Notification
12.07 Valuation
13.00 Market Value of Nonprofit, Special Use Properties

(REV 10/2010)
7.05.00.00  METHODS OF VALUATION
01.00  Value Approaches
02.00  Sales Comparison Approach
02.01  Comparable Data
02.02  Analysis of Comparable Data
03.00  Assessor’s Office Data
04.00  Cost Approach
05.00  Income Approach
05.01  Income Schedule
06.00  Review of Owner’s Claimed Out-of-Pocket Expenses

7.06.00.00  LAND
01.00  General
02.00  Timber Land
03.00  Agricultural Land
04.00  Valuation of Open Space Land (Williamson Act, Timberland Production Zone, Farmland Security Zone, etc.)
05.00  Outdoor Advertising Sites

7.07.00.00  IMPROVEMENTS
01.00  General
02.00  Single Family Residence and Two to Four Unit Multi-Residence - Form Appraisal
03.00  Miscellaneous Improvements and Landscaping
04.00  Agricultural Improvements
05.00  Valuation of Fences
06.00  Valuation of Water Sources
07.00  Improvements - Little or No Value
08.00  Improvements - Interim Value
09.00  Improvements - Purchase or Curative Work?
10.00  Improvement Relocations or Replacements Exceeding Depreciated Value Less Salvage
11.00  Relocation, Rearrangement, or Reconstruction Estimates
12.00  Building Check Sheets
13.00  Service Station, Commercial and Industrial Buildings
14.00  Tenant or Lessee-Owned Improvements (Excluding Personal Property)
15.00  Retention Value

7.08.00.00  IMPROVEMENTS PERTAINING TO THE REALTY
01.00  General
02.00  Appraisal Page Format
03.00  Replacement Cost
04.00  Depreciated Value
05.00  Salvage Value
06.00  Improvements Not Pertaining to Realty Under Section 1263.205

(REV 10/2010)
7.09.00.00 DAMAGES, BENEFITS, CONTRACT WORK

01.00 General
02.00 Severance Damages
03.00 Noncompensable Damages
04.00 Cost to Cure
05.00 Benefits
06.00 Summary of Severance Damages and Benefits
07.00 Damage Alternatives
08.00 Utility Service Damage
09.00 Construction Contract Work
10.00 Utility Main Relocations
10.01 Private Utility Connections
11.00 Access Openings

7.10.00.00 REVISION AND REVIEWS

01.00 General
02.00 Changes in Unapproved Appraisals Requiring Division Approval
03.00 Changes in Approved Appraisals-Unacquired Parcels
04.00 Revised Appraisal Pages
04.01 Submittal of Revised Pages
05.00 Revised Parcel Appraisals
06.00 Memorandum of Adjustment
07.00 Changes in Approved Appraisals on Acquired Parcels
08.00 Parcel Splits and Mergers
09.00 Parcel Cancellations
10.00 Review of Condemnation Parcels
11.00 Report Analysis for Nondelegated Parcels

7.11.00.00 OUTDOOR ADVERTISING SIGNS

01.00 Valuation
02.00 Definitions
03.00 Process
04.00 Payment Schedules/Application Renewal Permit Fees
05.00 Appraisal Procedures for Outdoor Advertising Signs

7.12.00.00 MOBILE HOMES

01.00 Mobile Homes - General
02.00 Mobile Homes - Realty
03.00 Mobile Homes - Personalty
04.00 Mobile Homes - Special Procedures
05.00 Mobile Homes - Format
7.13.00.00  SPECIAL APPRAISAL REPORTS
01.00  General
02.00  Material Site Appraisals
03.00  Disposal Site Appraisals
04.00  Office and Maintenance Station Site Appraisals
10.00  Joint Acquisition Appraisals
20.00  Protection Appraisals
30.00  Appraisals for Other Agencies
40.00  Staff Litigation Reports

50.00  UTILITY, RAILROAD AND GOVERNMENTAL OWNERSHIPS
50.01  Public Utility Property
50.02  Fee Land
50.03  Improvements
60.00  Railroad Property General Prerequisites
60.01  Valuation of Railroad Properties
70.00  Governmental, Indian, Functionally Replaced Publicly Owned Facilities, and State Land

7.14.00.00  EXCESS LAND APPRAISALS
01.00  General
01.01  Sale
01.02  Valuations
02.00  Review and Approval of Excess Land Appraisals and Public Sale Estimates
03.00  Public Sale Estimates
03.01  Format
03.02  Content
03.03  Examples of Supporting Data
04.00  Market-Value Appraisals - General
04.01  Market-Value Determination of $10,000 or Less
04.02  The Appraisal Format, Content, and Standards
05.00  Review of Request for Proposal Submittals (RFP)

7.15.00.00  AIRSPACE ESTIMATES, BID LEASE VALUATIONS AND APPRAISALS
01.00  General
02.00  Estimates
03.00  Appraisals - General
03.01  Format
03.02  Standards and Methods
03.03  Preparation
04.00  Bid Lease Valuations
05.00  Rental Rate Appraisals
7.16.00.00 RENT DETERMINATION
  01.00 General
  02.00 Content
  03.00 Review and Approval Process
  04.00 Special Circumstances
  05.00 Nominal Value Nonresidential Rentals

7.17.00.00 BUSINESS GOODWILL APPRAISALS
  01.00 Statute - Compensation for Loss of Goodwill
  02.00 Interpretation of the Eminent Domain Law, Court Cases, and Legal Issues
  03.00 Burden of Proof
  04.00 Notification Letter to the Business Owner
  05.00 Timing for the Preparation and Completion of the Goodwill Appraisal
  06.00 The Goodwill Appraisal Report
  07.00 Parcel Diary
  08.00 Cross-referencing the Goodwill and Real Estate Appraisal Reports
  09.00 Parcel Numbering
  10.00 Review and Approval Process
  11.00 Project Influence
  12.00 Appraisal Report Components and Sequence
  13.00 Goodwill Valuation
  14.00 Business Valuation Methods
  15.00 Analyzing Financial Statements and State Income Tax Returns
  16.00 Betterment at the Relocation Property
  17.00 Disadvantages at the Relocation Property
  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)

(REV 10/2010)
7.03.00.00 - APPRAISAL PREPARATION

7.03.01.00 The Appraisal Page–Purpose

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

7.03.02.00 Appraisal Page Format

The Appraisal Page (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 Page, a Summary of Improvements Page, or the Cost Approach Page.

7.03.03.00 Alternate Appraisals

Alternate appraisals are secondary acquisition approaches and will be shown on Supplemental Appraisal Pages. When alternate appraisals are included, the words “Primary” or “Alternate” will be shown in the heading of the Appraisal Pages. See the following sections on appraisals of Uneconomic Remnants and Excess Acquisitions regarding which approach 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 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 excess land appraisal format and processed for nominal value parcels (see Section 7.14.04.01). 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.”

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 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 DDD-R/W.

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 District Director of Right of Way may authorize the Appraisal Branch, in writing, to prepare a single 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 Parcel Diary.

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 DDD-R/W. 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 DDD-R/W, 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.
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.

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.

Legal Larger Parcel and Subparcels

Generally, each parcel, together with all subparcels, will be included on one Appraisal Page. It may be necessary to have separate Appraisal Pages for subparcels. In these cases, the total value for the parcel will be compiled on a Summary Appraisal 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 Page will be included to summarize the combined analysis of these separate ownerships.

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 distributed to Right of Way or Excess charges 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 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.

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 Page.

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.