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WASHINGTON, D.C. 20543

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Agri-Forest Service

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Dear Mr. Hanna:

In accordance with your request dated April 7, 1970, we have reviewed the Forest Service's proposed increases in fees for recreation residence permits in the Santa Ana River area of the San Bernardino National Forest. Our review was directed primarily toward obtaining information regarding questions raised in a letter to you dated November 11, 1969, from Mr. and Mrs. William W. Baldwin, who have a permit for one of the 96 Forest Service recreation residence sites in the Santa Ana River area.

A permit of the type held by the Baldwins generally allows the permittee to construct a recreation residence on Forest Service land and use the land for a specific period—usually 20 years. The Forest Service charges an annual permit fee of 5 percent of the fair market value of the land, exclusive of the residence and any other improvements made by the permittee. The fair market value of the land is generally determined by comparing the land with similar parcels of land sold on the private market, taking into account factors such as location of and access to the land. Fees are generally redetermined every 5 years. When a fee is increased by more than \$75, the Forest Service prorates the increase over a 3-year period.

The Baldwins obtained their permit from the Forest Service in August 1966, at which time the permit fee was set at \$95 a year. In December 1968 the Forest Service advised the Baldwins that the fee would be increased to \$164 a year effective March 1, 1970; to \$232 a year effective March 1, 1971; and to \$300 a year effective March 1, 1972. The Forest Service made similar increases in the fees for the other 95 sites in the area.

In their November 1969 letter to you, the Baldwins stated that the increased fee had been based on a determination by the Forest Service, through the use of a private appraiser, that the fair market value of their residence site was \$6,000. The specific questions or points raised by the Baldwins were:

- Whether the private land appraisers employed by the Forest Service were connected with private land development projects.
- How the Forest Service had determined the fee increase and whether the Forest Service had considered the factors of remoteness, accessibility, snow removal, and part-time usability of the residence site.

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--Why a recent appraisal of the residence site by San Bernardino County tax appraisers had not been used to establish the permit fee. (The site was appraised at \$680 for tax purposes; the fair market value established by the Forest Service appraisal was \$6,000.)

--Whether increasing the fee was part of an effort by the Forest Service to "phase out" present permit holders and sell the recreation residence sites for development as private family vacationland by large developers.

Information regarding these matters follows.

APPRAISAL WAS MADE BY FOREST SERVICE

The appraisal used as a basis for increasing the permit fee was not made by private appraisers. The appraisal was made in November 1968 by Forest Service personnel of the San Bernardino National Forest Supervisor's office, who concluded that the fair market value of the 96 Santa Ana River lots was \$6,000 each. Accordingly, a fee of \$300 a year was established for each of the 96 lots.

REASONABLENESS OF FOREST SERVICE APPRAISAL

We were advised by representatives of the Forest Service and the chief appraiser of the San Bernardino County assessor's office that \$6,000 was representative of the market value of each of the Santa Ana River lots. We could not fully substantiate the reasonableness of the appraised value, however, because the Forest Service appraisal was not sufficiently documented with data regarding recent sales of comparable parcels of land.

The appraisal report stated that there had been no sales of comparable lots in the area. The report stated further that privately owned 5-acre parcels near the Forest Service lots were sold during 1965, 1966, and 1968 for prices ranging from \$2,500 to \$3,600 an acre. Although there was no documentation showing how these prices per acre for 5-acre parcels had been used in arriving at market values for individual lots averaging three tenths of an acre in size, the appraisal report concluded that \$6,000 each was a reasonable and conservative value for the lots.

After notifying the permittees of the proposed fee increases in December 1968, the Forest Service received an appeal from one of the other permittees, requesting that the \$300 fee be reconsidered. Personnel of the

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San Bernardino National Forest Supervisor's office then prepared an addendum to the appraisal report to further support the value of \$6,000 a lot. The addendum included the following sales data on three privately owned 5-acre parcels, and adjustments in the sales prices for differences between the privately owned parcels and the Forest Service land where the appealing permittee's lot is located.

<u>Sale number</u>	<u>Date</u>	<u>Price per acre</u>	<u>Adjustments</u>					<u>Indicated market value</u>
			<u>Time^a</u>	<u>Usability</u>	<u>Esthetics</u> (percent)	<u>Access</u>	<u>Total</u>	
1	7-66	\$2,825	+30	+45	+20	+15	+110	\$5,933
2	7-66	3,000	+30	+20	+20	+15	+ 85	5,550
3	7-68	3,000	0	+10	+20	+15	+ 45	4,350

^a15 percent a year for appreciation.

As indicated above, the Forest Service personnel who made the appraisal believed that the Forest Service lots were superior in usability, esthetics, and access to the three privately owned parcels. The addendum stated that the fair market value of 5-acre parcels in the area where the Forest Service lots are located was considered to be \$5,700 an acre.

The addendum to the appraisal report indicated that the conversion of the market value of \$5,700 an acre for 5-acre parcels to \$6,000 a lot for lots smaller than an acre was based on an assumption as to what portion of the total adjusted price for 5 acres, plus an assumed amount for developer's profit and risk, would be applicable to the riverfront lots included in each 5-acre parcel. The Forest Service personnel who prepared the addendum advised us that the adjustments and the assumptions had been based on judgment and had not been documented with actual market data.

An official of the Forest Service headquarters office who specializes in appraisals advised us that, on the basis of the information obtained in our review, he was of the opinion that the appraisal had not been made and documented in accordance with Forest Service standards. This official advised us further that the appraisal should have been documented with actual market data. He stated that in this case such data could be obtained only by making another appraisal.

He stated further that, on the basis of his experience, he believed that \$6,000 a lot was a reasonable value for the lots along the Santa Ana River and that any new appraisal using actual market data possibly could establish a higher value for the lots.

COUNTY APPRAISAL FOR TAX PURPOSES

As previously stated, the chief appraiser of the San Bernardino County assessor's office advised us that, in his opinion, the Forest Service appraisal of \$6,000 a lot was representative of the market value of the lots. He advised us further

--that the market value of \$680 established by the county for tax purposes on the Baldwins' lot represented the fair market value of their "possessory interest" in the property, by virtue of their holding a permit from the Forest Service to use the lot, rather than the market value of the property itself;

--that appraisals of possessory interests for tax purposes are not intended to represent the full market value of the land because the possessor does not own the land;

---that the appraisal of the fair market value of the Baldwins' possessory interest in the Forest Service lot was made in 1966 and that market values of recreation property had increased substantially subsequent to that time; and

--that, for tax purposes, county appraisers have a tendency to appraise at less than fair market value.

As an indication that tax appraisers have a tendency to appraise at less than fair market value, even when assessing taxes on land instead of a possessory interest in the land, Forest Service records show that the average selling price of the three privately owned 5-acre parcels was about \$16,500 each. According to appraisals made by the county in 1966 for tax purposes, the average value of these parcels was about \$2,300 each.

PLANNED USES FOR RECREATION RESIDENCE SITES

We were advised by Forest Service personnel at the San Bernardino National Forest that they had no intention of selling the land being used by the Baldwins. They advised us further that certain permits, including

the Baldwins', would be eventually terminated as the general public's demand for recreation land increased, but that a definite date for this action had not been set. The permits will expire in 1982. Under Forest Service procedures, if the permittees are not notified 10 years in advance that the permits will be terminated in 1982, the permits will automatically be extended another 10 years--to 1992.

APPEAL RIGHTS

The Baldwins' letter to you did not mention the subject of appeal rights. Forest Service regulations provide that a permittee who is not satisfied with a fee adjustment may appeal to the Forest Service Regional Forester. Further appeal may be made to the Department of Agriculture's Board of Forest Appeals and, in some cases, to the Chief of the Forest Service and the Secretary of Agriculture. Forest Service regulations require that the appeal be filed by the permittee within 30 days of receipt of the notice of fee adjustment.

We were advised by a Forest Service headquarters official that permittees were usually advised of their appeal rights in the notice of fee adjustment. Forest Service officials at the San Bernardino National Forest advised us, however, that the Baldwins and other permittees had not been advised of their appeal rights at the time they were notified of the fee increases. We have been advised by a Forest Service headquarters official that, if the Baldwins were to file an appeal at this time, a rejection of the appeal on the basis that it had not been filed within 30 days could be further appealed under the usual procedures.

The Forest Service headquarters official advised us also that the outcome of any appeal case involving the amount of a permit fee could be (1) an upholding of the original fee, (2) a decrease or an increase in the fee, or (3) in the event of inadequate documentation, a new appraisal to establish the fee.

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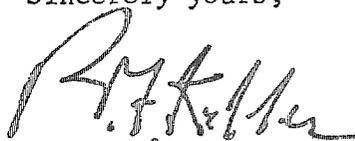
Pursuant to an agreement reached with Mr. Thomas Lankard of your staff, we are distributing copies of this report to the Chief of the Forest Service and to the Regional Forester, Forest Service Region 5, San Francisco, California. We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only

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after your agreement has been obtained or public announcement has been made by you concerning the contents of this report.

We are returning the copies of correspondence which you enclosed with your request.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "R. F. Keller". The signature is written in a cursive style with a large initial "R" and a distinct "K".

Assistant Comptroller General
of the United States

Enclosures - 19

The Honorable Richard T. Hanna
House of Representatives