

- Real property acquisitions undertaken by the Department of Transportation (DOT) are covered under federal law. DOT currently follows the procedures outlined in the bill, such as providing second appraisals, and thus would not be subjected to increased costs as required by the bill's provisions.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2002	FY 2003	FUTURE YEARS
Political subdivisions			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential increase	Potential increase	Potential increase

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- Property acquisition costs for these entities may also increase, as they would be required to adhere to the new appraisal standards prescribed for state agencies. Counties, municipalities, and other units of government such as sanitary sewer districts and conservancy districts are all typically involved in property acquisition.
- Although the number of property acquisitions in negotiation varies each year, it is likely that the cost of providing second or updated appraisals could increase real estate acquisition costs.
- Real property acquisitions undertaken by political subdivisions in conjunction with the Department of Transportation (DOT) are covered under federal law. The procedures outlined in the bill, such as providing second appraisals, are currently carried out and thus would not subject those political subdivisions to increased costs as required by the bill's provisions.

Detailed Fiscal Analysis

The bill modifies aspects of current law that govern the way in which state agencies and political subdivisions acquire real estate for public purposes. There are now certain guidelines that agencies and public entities must follow in the appraisal and acquisition negotiation process. The bill modifies these guidelines and requires state agencies and political subdivisions to do the following:

- Furnish the owner a copy of the appraisal if the property is appraised at a value over \$10,000;
- Obtain updated appraisals when the existing appraisal is more than two years old or the current owner presents evidence that the value of the property has changed since the original appraisal was performed; and
- Require that the appraised value be used as the minimum offer when acquisition negotiations begin.

The provisions listed above could increase the costs of real estate acquisition, both for state agencies and political subdivisions. These added costs may be included in requests for capital appropriations, both on the state and local level.

Furnishing a copy of the appraisal if the property is appraised above \$10,000

Typically, an agency or political subdivision does not provide a copy of an appraisal to a property owner. If an agency or political subdivision were required to do so, it is likely that a property owner 1) would contest the appraisal, or 2) take a firmer stance in negotiating the sale price of property. State agencies or political subdivisions customarily show appraisals to owners only when the proposed acquisition results in eminent domain proceedings. In a few cases, limiting state agencies' leverage to negotiate might have the effect of increasing overall property acquisitions costs.

Updating appraisals if the property owner demonstrates valid reasons why previous one is incomplete or outdated

The bill outlines conditions under which a state agency or political subdivision would have to obtain a new appraisal, and this provision may add additional costs to the acquisition process. Costs range from \$200-\$10,000 per appraisal according to the size and type of property—industrial, commercial, or residential—and the methodology employed. Second appraisals or updates required under this provision would impose a financial cost upon political subdivisions that do not conduct second or updated appraisals except under unusual circumstances. Under current law, political subdivisions conduct second or updated appraisals at their discretion; this provision in the bill would mandate them to conduct second or updated appraisals.

For example, in urban Franklin County, approximately 115 appraisals were contracted out for property acquisition during calendar year 2001 with costs ranging from \$1500-\$4000 for each appraisal. Franklin County estimates that twelve to thirteen percent of their appraisals would need a second or updated appraisal under the bill's provision. Based on these estimates, Franklin County would be required to pay an additional \$20,700 for these appraisals. In order for a local impact determination to be assessed upon a political subdivision, a threshold of \$5,000 must be surpassed; Franklin County would have a local impact determination as it surpasses the minimum threshold.

Delaware County conducted twenty-three property acquisitions during calendar year 2001 with costs ranging from \$800 for residential appraisals to \$3000 for commercial appraisals. Delaware County would need to conduct only two commercial appraisals, seven residential appraisals or any combination thereof to surpass the \$5,000 local impact determination threshold.

Requiring that the established appraised value be the minimum offer for real estate acquisition

A state agency's or political subdivision's negotiations to buy residential real estate usually begins and ends with an offer that is equivalent to the appraised value of the property; commercial real estate acquisitions generally begin negotiations below the appraised value but increase up to the appraised value through the negotiation process. By requiring that the appraised value be the minimum bid, the cost of real estate acquisitions, particularly commercial property acquisitions, could increase.

*LSC fiscal staff: Allison Thomas, Economist
Nelson D. Fox, Senior Budget Analyst
Jonathan Lee, Budget Analyst*

HB0426EN.doc