



Clerk of the Circuit Court

Brevard County, Florida

400 SOUTH ST., P.O. Box 999, Titusville, Florida 32781

<http://www.brevardclerk.us>

Scott Ellis, Clerk

February 4, 2008

Scott Ellis
Clerk of Courts
400 South Streets
Titusville, FL 32781

RE: Internal Audit and Analysis
St. Johns Heritage Parkway land acquisition – Welchwood Enterprises
Agenda presentation date February 19, 2008

Dear Mr. Ellis:

Pursuant to your request, we have conducted an internal audit and analysis of the land acquisition proposed for the St. Johns Heritage Parkway by Brevard County. The following is a report of findings and recommendations.

Sincerely,

Internal Audit,
Clerk of Courts
Brevard County

EXECUTIVE SUMMARY

PURPOSE

This internal audit and analysis is limited to the proposed acquisition of properties owned by *Welchwood Enterprises, Inc.* and which are being presented to the Board of County Commissioners (BoCC) on February 19, 2008.

FINDINGS

Finding 1: There is a concern that the BoCC is purchasing more acreage than is needed of the subject property to support the development of the Parkway.

Finding 2: Both appraisers failed to state that the subject property may have a substantial amount of muck which would affect the residential subdivision development costs and the appraised market value.

Finding 3: Both appraisers fail to support their estimate of severance damages with supporting information that is verifiable.

Finding 4: Both appraisers failed to adequately address the extension costs for the utilities, to be paid by the owner/developer in relation to the comparable sales.

Finding 5: Both appraisers chose to use price per gross acre as the unit of comparison rather than price per unit which provides for a more accurate market value estimate.

Finding 6: Both appraisers failed to apply proper adjustments to comparable sales for the declining market conditions since the peak of the market.

Finding 7: One appraiser failed to adjust the market value conclusions of the two proposed taking scenarios for the difference between the remaining tract and the property to be taken.

Finding 8: Both appraisers fail to reconcile the market value conclusion with the market value assessed by the Brevard County Property Appraiser as required by USPAP.

Finding 9: Both appraisals performed were Summary Appraisals rather than Self-contained Appraisal Reports.

PURPOSE

This internal audit and analysis is limited to the proposed acquisition of lands for the construction of the St. Johns Heritage Parkway by the BoCC.

BACKGROUND

General

On February 23, 2006, the Board of County Commissioners authorized staff to begin negotiations for a Contract for Sale and Purchase for property on the Palm Bay Parkway, now known as St. Johns Heritage Parkway. To date, only one piece of property has been acquired to support the Parkway project. This property is proposed to be on the northeast corner of SR 192 and the Parkway, and was recently purchased for \$813,825 or \$125,396 per acre by the BoCC. In April 2007, the Transportation Engineering/Land Acquisition submitted a request to the BoCC for the acquisition of the subject property owned by Welchwood Enterprises, Inc. for \$6,500,000 (Item No. VIII.A.3 to be heard on April 24, 2007). At that time only one of the two required appraisals had been completed. Prior to the meeting the item was removed from the Agenda; therefore, the land acquisition request for the Welchwood property was not presented to the BoCC.

Criteria for Acquisition

The Transportation Engineering Department needs to acquire land where the St. Johns Heritage Parkway is scheduled to be constructed. Much of this land, south of SR 192, was purchased in late 2005 and early 2006.

Agenda package

The Transportation Engineering Department is required to compose an Agenda Package for consideration by the Board of County Commissioners. The Agenda must include the fiscal impact of the acquisition along with relevant details so the Board of County Commissioners can make an informed decision.

SCOPE

We reviewed the appraisals on the property owned by Welchwood Enterprises, Inc. and Brevard County Administrative Orders and Policies. This report precedes the actual agenda item which will be reviewed for factual accuracy when made available. We spoke with staff from Brevard County Transportation Engineering Department and researched the use of the comparable land sales used by the appraisers. We compared land purchases made on land that lies where the Parkway is scheduled to go with land similar in nature.

FINDINGS AND RECOMMENDATIONS

Finding 1:

There is a concern that the BoCC is purchasing more acreage than is needed of the subject property to support the development of the Parkway.

The BoCC is being offered the option to purchase approximately 75 acres of the subject property when only a portion of the property may be necessary to support the construction of the Parkway. Based on the proposed path of the Parkway, only 7 acres +/- is needed of the subject property. However, the BoCC is being requested to purchase approximately 75 acres. While the possibility may exist that additional acreage for mitigation, flood plain compensation, and storm water treatment purposes be purchased, 68 acres at a cost of \$55,000 to \$60,000 per acre appears to be excessive for those needs. **NOTE:** The auditors are also concerned with the amount of funds being used to support the acquisition of lands for the northern leg of the Parkway; when the southern, stand alone leg along SR 192 south to Malabar Road seems to be of greater need due to large amounts of dense residential development in Palm Bay.

Recommendation: We recommend BoCC consider purchasing only the amount of acreage required to support the 200 foot right-of-way for the Parkway.

Finding 2:

Both appraisers failed to state that the subject property may have a substantial amount of muck which would affect the residential subdivision development costs and the appraised market value.

The subject property may contain a substantial amount of muck, particularly on the western half of the property, which may require muck excavation (the removal and disposal of saturated soils). This process would greatly add to the residential subdivision development cost yet both appraisers failed to address this cost when estimating the subject's market value.

Both appraisers have stated that no soil tests or other engineering reports were provided or available for use in their appraisal assignments; therefore, the appraisers do not know how much fill can be excavated onsite. Since soil conditions on the subject property are unknown, the appraiser's implied assumption that sufficient fill dirt exists onsite to enable the development of the entire site cannot be supported.

Recommendation: We recommend BoCC halt the acquisition of the subject property until soil tests, a wetland survey, or other engineering report is conducted for the determination of soil conditions.

Finding 3:

Both appraisers fail to support their estimate of severance damages with documentation that is verifiable.

Since the soil conditions on the property are unknown and soil tests have not been conducted, the appraisers do not know how much fill can be excavated onsite. Therefore, it is impossible to verify the estimate of the severance damages applicable to the remainder tract.

Recommendation: We recommend BoCC halt the acquisition of the subject property until soil tests, a wetland survey, or other engineering report is conducted for the determination of soil conditions. This is the only way the amount of severance damages can be verified with supporting documentation.

Finding 4:

Both appraisers failed to adequately address the extension costs for the utilities, to be paid by the owner/developer in relation to the comparable sales.

Public water and sewer services are not presently available or provided to the subject property. The nearest water and sewer lines are about one mile south of the subject property at Brandywine Lane and are provided by the City of West Melbourne. These utility lines would have to be extended to the subject property before the proposed subdivision development can occur. The extension cost was not adequately addressed in either of the appraisals; as subjective adjustments estimated by the appraisers were used rather than estimates of actual extension costs to be incurred by the subject property versus the land comparables.

Recommendation: We recommend the BoCC require the appraisers to acquire actual extension costs and reflect those costs adequately within their appraisals.

Finding 5:

Both appraisers chose to use price per gross acre as the unit of comparison rather than price per unit, which provides for a more accurate market value estimate.

The appraisers were aware of how many units have been approved for the subject's proposed subdivision and in almost all of the comparable sales. However, both appraisers chose to use price per gross acre as the unit of comparison rather than price per unit. Developers, when determining what they will pay for residential tracts similar to the subject property, use the price per unit comparison. In addition, the price per acre is much less accurate and can generate a less reliable market value estimate than that of price per unit.

Finding 6:

Both appraisers failed to apply proper adjustments to comparable sales for the declining market conditions since the peak of the market.

One appraiser (Roper) estimated positive market conditions adjustments for land sales that occurred before the recent market peak (according to his estimate of when the peak occurred), but failed to use negative market conditions adjustments for the time period between the market peak and the date of valuation. The local real estate market experienced a substantial decline after the market peak, reflecting much lower sale prices and volumes of sales. The failure to consistently apply market conditions adjustments reveals an inherent bias in the appraisal.

The other appraiser (Phillips) applied a negative 8% per year adjustment to all comparables. However, the basis of the adjustment is defined as the percentage change difference in median sale prices of single family residences from 2005 to 2006 and 2006 to 2007.

In addition, other comparable sales were not used or considered by the appraisers and are comparable to the subject property being appraised. These sales reflect a range of value between \$21,401 and \$52,396 per gross acre.

<u>Tax Acct</u>	<u>Sale Date</u>	<u>Sale Price</u>	<u>Acreage</u>	<u>Price p/Ac</u>	<u>Current Owner</u>
2802925	10/2005	\$6,741,600	315	\$21,401	RDR COMMUNITIES INC
2964373	05/2006	\$2,779,700	84.75	\$32,799	LENNAR HOMES INC
2903855	04/2006	\$3,157,800	80	\$39,473	DR HORTON INC - JAX
2861027	10/2007	\$3,258,000	62.18	\$52,396	MERCEDES HOMES INC

In addition, we conducted a search of comparable listings for large residential acreage tracts on MLS. Although the number of listings were minimal, we found one comparable listing in the subject's neighborhood which is currently listed for sale at \$1,700,000 or \$36,200 per gross acre as the property is 47.31 acres in size (MLS#: V489412A).

Finding 7:

One appraiser failed to adjust the market value conclusions of the two proposed taking scenarios for the difference between the remaining tract and the property to be taken.

The appraiser estimated the subject's market value as raw land before the take to be \$65,000 per acre. This unit value was applied to the land area to be taken under each of

two scenarios. Scenario #1 assumes that 70.3 acres will be taken and Scenario #2 assumes that 75.7 acres will be taken. No consideration was given to the difference between the portions of the subject property that will remain versus the portions that will be taken. The front (east) 300 feet of the subject property is zoned R-2 (allows for a higher density), for which 74 townhome lots are proposed. Also, a borrow pit is located on the remainder tract (under both scenarios), which indicates that fill dirt is present (though the amount is unknown). Considering that the proposed takes under both scenarios exclusively consist of the single family portion of the subject parent tract, and that this portion may include substantial muck, it is not reasonable to assume that the proposed take has the same value per acre or unit as does the subject's parent tract. The proposed takes probably have a much lower value per acre/unit, while the remainders have much higher values. Therefore, the failure to properly allocate the subject's land value between the take and remainder property reduces the reliability of the market value conclusions.

Finding 8:

Both appraisers fail to reconcile the market value conclusion with the market value assessed by the Brevard County Property Appraiser as required by USPAP.

The subject property was purchased on February 27, 1989 on two separate deeds with nominal consideration (\$100). There has been no other sales transaction on the property. It is currently assessed by the BCPA for \$446,000 and the appraisers state the appraised value is between \$6,685,000 and \$7,233,000. Florida Statutes require the BCPA to value property at 100% of the market value less the usual and reasonable fees and costs of the sale, which usually represents about 10 - 15% of the purchase price. Florida law does not promote establishing assessed values for tax purposes at 6.1 to 6.7% of market value.

Finding 9:

Both appraisals performed were Summary Appraisals rather than Self-contained Appraisal Reports.

Both of the appraisals performed were prepared as Summary Appraisals rather than Self-contained Appraisal Reports. Although summary appraisal reports comply with the reporting requirements set forth under USPAP Standards Rule 2-1(b), Florida Department of Transportation (FDOT), and Brevard County Administrative Orders, they do not present the level of detail that are outlined in Self-contained appraisal reports. As such, these types of appraisals may not include full discussions of the data, reasoning, and analysis that were used in the appraisal process to develop the appraisers' opinion of value. Supporting documentation concerning the data, reasoning, and analysis are retained in the appraiser's file.

It is not appropriate to use summary reports unless all parties involved (clients, owners, and other readers who would expect to rely upon the appraisal report content and conclusions) are reasonably well informed about the subject property, the market in

which it competes, and the "appraisal problem." Further, it is customary to provide self-contained appraisal reports whenever the market value exceeds a specified minimum amount, such as \$1,000,000.

Recommendation: We recommend the BoCC require self-contained appraisal reports when the market value of the property to be acquired is equal to or greater than \$1,000,000 by amending BoCC AO-37 III.C.2.