

STATEMENT OF
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FOREST SERVICE
UNITED STATES DEPARTMENT OF AGRICULTURE

BEFORE THE
SUBCOMMITTEE ON FORESTS AND PUBLIC LAND MANAGEMENT
OF THE ENERGY AND NATURAL RESOURCES COMMITTEE
UNITED STATES SENATE

March 10, 2000

Oversight on the Baca Ranch Appraisal

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

Thank you for inviting us here today to discuss the valuation of the Baca Ranch in New Mexico. I am Jack Craven, Director of Lands for the Forest Service, and I am accompanied today by Paul Tittman, Chief Appraiser for the Forest Service.

In our testimony today, we will describe for you the Federal land appraisal process, including the laws and standards that we apply, and then show how that process was applied to our valuation of the Baca Ranch. We will show you the factors considered in the valuation of the Baca Ranch, and why the purchase price of \$101 million is the fair market value of the land. Finally, we will address some of the issues raised by the General Accounting Office audit of the appraisal. At the conclusion of our testimony, we will be happy to respond to any questions that you may have.

LEGAL REQUIREMENTS FOR APPRAISALS

In the market place, land is valued using appraisals. This is true whether land is being valued by the Federal Government, by commercial banks, or potential buyers and sellers of property. An appraisal is a document, prepared in accordance with accepted standards, which examines the attributes of property affecting its value in order to determine its "fair market value." Simply stated, the fair market value of land is the amount of cash that a willing buyer would pay a willing seller in the open market.¹

Over 19 Federal agencies acquire land as part of their programs and they all use the same appraisal techniques. Federal agencies acquire land for many purposes, including the

¹ "Fair market value" is defined in the *Uniform Appraisal Standards for Federal Land Acquisitions* (herein "Federal Standards") as, "the amount in cash, or on terms reasonably equivalent to cash, for which in all probability the property would be sold by a knowledgeable owner willing but not obligated to sell to a knowledgeable purchaser who desired but is not obligated to buy." *Federal Standards*, p. 4.

construction of dams and reservoirs, highways, airports, government buildings and facilities, as well as land conservation. When the Federal Government appraises land, there are substantive and procedural requirements of Federal law, as well as accepted professional appraisal standards, which apply in establishing fair market value for all Federal land acquisitions.

In 1970, Congress enacted the Uniform Relocation Assistance and Real Property Acquisition Policies Act,² better known as Public Law 91-646, to assure that all Federal real estate acquisitions follow consistent and fair policies and procedures. This statute requires that Federal agencies offer to pay landowners the appraised fair market value of land. Not only do appraisals benefit the Federal buyer and the American taxpayer by assuring that the government does not pay too much for a property, they also benefit the seller by assuring the payment of fair and just compensation.

The Federal Government actually adopted appraisal standards in 1963 when the Attorney General convened the Interagency Land Acquisition Conference composed of representatives of Federal land purchasing agencies. Under the auspices of the Conference, the *Uniform Appraisal Standards for Federal Land Acquisitions* were first published in 1972 (hereafter referred to as "*Federal Standards*"). These *Federal Standards*, which have twice been revised and updated, are well accepted in the professional appraisal community as well as the Federal courts. By regulations, the *Federal Standards* have been adopted by all Federal land acquiring agencies. Often, Federal legislation requires appraisals to be performed in conformity with the *Federal Standards*, such as the pending legislation, S. 1892, which would authorize the acquisition of the Baca Ranch.³

APPRAISAL REQUIREMENTS

There are some fundamental requirements for any appraisal. First, it has to be prepared by a qualified appraiser who is impartial and experienced at valuing the kind of properties being appraised. Good judgment based on experience and personal knowledge of the properties being appraised are essential because the appraisal process has subjective elements, such as comparing two or more distinct properties and attempting to ascertain the elements by which they would differ in value.⁴

²42 U.S.C. §§ 4601, *et seq.*

³S. 1892, (106th Cong., 1st Sess) at section 104(a) states: "The acquisition ...[of the Baca Ranch] shall be based on an appraisal done in conformity with the Uniform Appraisal Standards for Federal Land Acquisitions... and such purchase shall be on a willing seller basis ..."

⁴The *Federal Standards* state: "[An appraiser] must exercise sound judgment based on known pertinent facts and circumstances and it is their responsibility to obtain knowledge of all pertinent facts and circumstances which can be acquired with diligent inquiry and search. They must weigh and consider the relevant facts with good judgment and make their decision, entirely on their own, in a sound professional manner, completely unbiased by any consideration favoring either the owner or the government. The appraisal report should be documented and supported so as to convince an impartial reader of the soundness of the

A second requirement of a proper appraisal is that it must assess fair market value utilizing one or more accepted methodologies. Without getting into the various valuation approaches,⁵ most agree that the appropriate methodology for appraising the Baca Ranch is the comparable sales approach. A comparable sales approach looks at arm's length transactions in lands in the vicinity of and comparable to the land being appraised. The *Federal Standards* note that elements for determining comparable sales include property rights conveyed,⁶ financing terms, conditions of sale, market conditions, location and physical characteristics.⁷ We will have more to say about comparable sales in a moment.

THE APPRAISERS CHOSEN TO APPRAISE THE BACA RANCH

From the outset of negotiations with the owners of the Baca Ranch, the Dunigan Family, the Forest Service made it clear that it was required by law to offer the appraised fair market value for the property. There are three means by which a property can be appraised for acquisition by a Federal Agency. The first option is for the agency to prepare an in-house appraisal using its own staff appraiser. The second option is for the agency to contract with an independent appraiser. The third option is for the property owner to contract with an independent appraiser. All three options are frequently used by Federal Agencies. However, no matter which option is utilized, the resulting appraisal must be prepared in conformity with the *Federal Standards*, and must ultimately be approved for agency use by a qualified government review appraiser.

In the case of the Baca Ranch, the Dunigans had concerns over proprietary and confidential business information. Therefore, they elected to contract for their own appraisal to be done by the appraisal firm of Van Court and Co. of Denver, Colorado. The Van Courts are very experienced appraisers and hold prominent offices in national appraisal organizations, and are qualified and licensed to appraise properties in New Mexico.

Prior to the commencement of the appraisal work, the appraisers for both the Dunigans and the Forest Service met and agreed on the application of the Federal Standards and

appraiser's estimates, within the limits of integrity, judgment and ethics." *Federal Standards* at section C-2, p. 89.

⁵There are basically three accepted valuation approaches: the comparative sales approach, which estimates a property's value by comparing it with comparable properties that have been recently sold; the income approach, which estimates a property's value by applying a capitalization rate to its potential net income; and the cost approach, which estimates a property's value by adding the estimated value of the land to the current cost of constructing replacements for any improvements (such as buildings) less depreciation on those improvements.

⁶Property rights refer to the various interests in land which may include rights of access, water rights, minerals, and other elements that constitute title to land. When comparing sales of real property, the appraiser must examine what interests in land were conveyed. For example, two properties may not be comparable if one includes mineral rights and the other does not.

⁷*Federal Standards*, pp. 11-12.

the appraisal methodology to be used. When the Van Courts completed their appraisal, it was submitted to the Forest Service for review by two Forest Service review appraisers, Paul Tittman, Chief Appraiser, and Gerald Sanchez, Regional Appraiser. As noted herein, the Forest Service review found that the Van Courts' appraisal met the *Federal Standards*, and the appraisal was approved for Forest Service use. The appraised fair market value of the Baca Ranch was established at \$101 million.

THE VAN COURT APPRAISAL OF THE BACA RANCH

In order for their appraisal to meet the *Federal Standards*, the Van Courts had to make various analyses and determinations which must be clearly documented. We will highlight the more significant issues which were addressed in the appraisal, and provide a summary of the findings and conclusions.

1. Determination of the Highest and Best Use

In order to ascertain what a buyer would be willing to pay for a property, the appraiser first considers its "highest and best use". A property's "highest and best use" is the use that is physically possible, legally permissible, financially feasible and, under current market conditions, would offer the maximum profitability for a likely buyer.⁸

Ordinarily, the highest and best use is what the property is being used for at the time of the appraisal. In the case of the Baca Ranch, the appraiser determined that the highest and best use would be its existing multi-use regime for ranching, private accommodation, and outfitting (a "trophy ranch").

A trophy ranch is a premium property available to only the wealthiest of buyers who can afford to enjoy the amenities of a property without necessarily deriving sufficient income from it to offset their investment or operating costs. These ranch properties appeal to an affluent segment of society who have exceptional buying power and a desire for exclusivity and seclusion with a ranch having a high degree of "ambiance".

Trophy ranches come in a wide variety of sizes, and generally stand out as unusually attractive high quality properties within a given market area. Prices for this class of property are generally at the top of the market reflecting the relative quality of this category of property, and aesthetically they are far superior to the common ranch typically found in rural America.

The Van Courts determined the highest and best use of the Baca Ranch to be a trophy ranch based on sales and uses of similar large ranch properties in the west. Typically, the utilization of the timber and other resources of these kinds of properties does not justify their high price as a buyer would never be able to recoup his investment. Unlike the Baca Ranch, some of these properties do not readily lend themselves to subdivision and development due to their isolation, lack of infrastructure, and the costs and time of marketing. The value of a trophy ranch is in its natural amenities - in a word, "uniqueness."

⁸*Federal Standards*, Part A-3, p. 8, *et seq.*

2. The Comparable Sale Approach to Valuation

The Van Courts used the comparable sales approach to valuing the Baca Ranch because that approach is most appropriate for a "trophy ranch" used primarily for recreation and which produces relatively little income and has relatively few improvements.⁹ Comparable sales is also the preferred approach under the *Federal Standards* because of its proven reliability when there are sufficient market data available. A comparable sale for purposes of this appraisal is not just the sale of any large ranch, but it is rather among those arms-length transactions involving other ranches with large acreages having similarities to the Baca. Since all such ranch properties are unique, they may have similarities in some aspects and not others. The professional judgment of a qualified appraiser is necessary to assess these similarities.

The comparable sales approach is procedurally complicated,¹⁰ but conceptually simple. If you are valuing a single family home in a community, you look to sales of homes with similarities to the property you are valuing. Thus, comparable sales would be other single family homes, of equivalent size and construction, located in similar residential neighborhoods. The job of the appraiser is to examine, in person, those properties which are most similar and ascertain the factors by which the subject property might bring a higher or lower price on the open market.

3. Criteria for Comparability

To appraise a trophy ranch like the Baca, the Van Courts looked at the sales of large acreage ranch properties in New Mexico and neighboring states. Among the various factors considered were the changes in price of these properties over a given period of

⁹The appraiser also considered the income approach in assessing the value of the Baca, but chose not to rely upon it because it would not be a valid approach under Federal Standards for a trophy ranch. While the income potential for a property is often an essential element to ascertaining its value, with a trophy ranch like the Baca, reliance on such an analysis can severely distort the value and produce an unreliable result. The value of a trophy ranch is in its uniqueness and other values important to the buyer such as scenic qualities, wildlife, and isolated location, not in its income potential from minerals, timber, grazing, or similar uses.

¹⁰Federal appraisal standards require, among other things, that appraisers collect, verify, analyze, and reconcile available data; identify and consider appropriate market information; use all pertinent information in developing the appraised value; and report their analyses, opinions, and conclusions clearly and accurately in a manner that is not misleading and that contains sufficient information to allow users of the report to understand it properly. One of the jobs of an appraiser is to use his professional judgment to ascertain how the differences in properties might affect their respective values. This is determined by site visits to the subject property and those of comparability.

time. Older sales have to be adjusted to account for market fluctuations over time. Other considerations include the relationship of size to price, the availability of water sufficient to support the highest and best use of the properties, the quality of the vegetative cover, and the contribution of any structural or resource related improvements. Also considered were the properties' aesthetics and viewsheds and last, but not least, the quality of access to and within the properties.

The *Federal Standards* require that six criteria have to be analyzed in a comparable sale analysis:

- Property rights: The property rights conveyed in a transaction must be similar to the interest being appraised (e.g. fee simple title compared with fee simple title).
- Financial terms: The financial terms of a transaction must be similar. For example, a cash sale might not be treated as completely comparable to a sale where by the seller finances the sale with a mortgage.
- Conditions of Sale: The terms and conditions under which a property is sold affects comparability. A sale where the seller is free not to sell would compare differently with a distress sale where the owner was compelled to sell.
- Market conditions: The demand and competition surrounding sales needs to be similar.
- Location: The physical location of properties within a particular market area reflects similar market conditions. With the Baca, the location of other sale properties within northern New Mexico would be more comparable than sales located in far removed states.
- Physical characteristics: Properties have to be compared on the basis of physical characteristics such as vegetative cover, topography, waters, and access.

4. Examination of Properties for Possible Comparability

In the course of appraising the Baca Ranch, the Van Courts visited not only the Baca Ranch, but also made aerial and on-the-ground visits to all of the recent large ranch sales within the immediate competitive market area (northern New Mexico and southern Colorado), as well as Montana, central Colorado, and eastern Utah. Such visits are essential for an appraiser to determine whether other sales are, in fact, actually comparable. As a part of this process, value issues were discussed with known buyers and sellers, as well as other knowledgeable appraisers who have been active in valuing similar properties.

5. The Price/Size Relationship

The "price/size" relationship does not apply in determining the value of the Baca Ranch. The size/price issue relates to the price paid per acre, and is based on a presumption that the values on a per-acre basis decrease with the increased size of properties. For

example, the per-acre value of a five-acre tract is generally much higher than that of a hundred-acre tract.

In comparing rural and relatively undeveloped properties, the appraiser may adjust the relative sales prices between properties of unequal size. Thus, when appraising a large property, the appraiser may tend to discount the per acre sale price of an otherwise comparable smaller property to account for the price/size ratio. However, the price/size ratio is less important in comparing larger sized properties and is generally irrelevant in properties exceeding 10,000 acres. Thus, in the case of the Baca, "bigger" did not result in a lower price per acre when compared to the sale of other large tracts even if those other large tracts were many thousands of acres smaller.

In New Mexico, the price/size relationship has been extensively studied. For example, the New Mexico State University study entitled, *New Mexico Ranch Values: Ranval 2000*, by L. Allen Torell, Ira Pearson and Scott Bailey, correlates the relationship of size to price in the sales of large ranch properties in New Mexico. The findings show that, for properties of approximately 10,000 acres and more, size has no measurable influence on the price per acre.

6. Analysis of Sales for Comparability

Determining comparability among properties is a process of winnowing down many properties being considered to those few which share attributes of the property being appraised based on the six criteria referenced above.

The Van Courts initially considered 50 sales within the Intermountain West. The initial 50 sales were then narrowed to 16, constituting the most similar sales that occurred within the past 5 years. The Van Courts then analyzed and compared these 16 sales directly to the Baca Ranch and finally focused on the 5 sales determined to be the most comparable to the Baca Ranch. Four of these sales are located in northern New Mexico, and one was immediately north of the New Mexico/Colorado border. These 5 sales were then narrowed down to two sales as having the greatest similarity, and hence comparability, to the Baca Ranch. These two sales are the Chama Ranch and the Spirit Bull Ranch.¹¹

Considering the six factors of comparability, it is clear how the Chama Ranch and Spirit Bull Ranch properties are the most comparable to the Baca Ranch.

- Property rights: Both the Chama and Spirit Bull ranches were fee simple transactions including water rights.

¹¹The Chama Ranch sold in June, 1995, for \$25,000,000 or \$779/acre for 32,076 acres. Adjusted for time at 4%/year, the price is \$880/acre as of September 1, 1998.

The Spirit Bull Ranch sold in March, 1998, for \$15,300,000 or \$1,368/acre for 11,184 acres. Adjusted for time at 4%/year, the price is \$1,395/acre as of September 1, 1998.

- Financial terms: Both the Chama and Spirit Bull transactions took place on terms equivalent to cash.
- Conditions of Sale: The Chama and Spirit Bull transactions were exposed to the competitive marketplace.
- Market conditions: Both the Chama and Spirit Bull transactions took place under similar market conditions where a competitive interest in trophy ranch class properties was demonstrated.
- Location: Both Chama and Spirit Bull are located in northern New Mexico, with similar access, and with exposure to the same market conditions.
- Physical characteristics: Both the Chama and Spirit Bull properties have excellent viewsheds, water, forests, and recreational opportunities.

The Van Courts determined that, among the sales they examined, the Chama and Spirit Bull Ranches compared most closely and favorably to the Baca Ranch on these factors. Nonetheless, while the Chama and Spirit Bull Ranches share many similar characteristics with the Baca, they are smaller and do not have its ecological and geological diversity.

The other sales were not deemed as sufficiently comparable to the Baca Ranch due to their locations, their having characteristics affecting value (such as title encumbrances), their not being in the vicinity of the Baca, or their being predominately agricultural in character and without the recreational attributes found on the Baca.

Among the 16 sales considered, one that was dismissed was the well-known 580,000-acre Vermejo Ranch. In that case, the price and terms of the transaction could not be verified by any reliable source that was a party to the transaction. This kind of verification is required by the *Federal Standards*. Further, the Vermejo Ranch is subject to significant outstanding mineral leases which would have made comparison to the Baca Ranch very difficult.

Another example of a non-comparable sale is the 90,000 acre tract in southern Colorado cited by the GAO as having sold recently for \$196 per acre. Although this property was similar in size to the Baca Ranch in New Mexico, it was not comparable because it did not include any of the mineral rights of the property. Without these rights, the property was not financially viable for development and, as a result, its sale was under distress. This illustrates why the appraiser has to look beyond mere size to the other major factors affecting price.

The Van Courts found the Chama Ranch and Spirit Bull Ranch as the most comparable to the Baca Ranch. The other three sales were not given further consideration because they were of largely agricultural properties.

Chama Ranch sold in June, 1995, for \$25,000,000 (or \$779 per acre) for 32,076 acres. Adjusted for time at 4% per year, the adjusted price of the Chama Ranch was approximately \$880 per acre as of September 1, 1998.

The Spirit Bull Ranch sold in March, 1998, for \$15,300,000 (or \$1,368 per acre) for 11,184 acres. Adjusted for time at 4% per year, the adjusted price for Spirit Bull Ranch was \$1,395 per acre as of September 1, 1998.

The Van Courts deemed the Chama Ranch and Spirit Bull Ranch to "bracket" the market of properties comparable to the Baca Ranch, that is, the Baca would fall somewhere between the values of these two comparable sales. The Van Courts' analysis concluded that the value of the Baca was more than the \$880 per acre ascribed to the Chama Ranch, but less than the \$1,395 per acre ascribed to the Spirit Bull Ranch. After various quantifications of variables, the appraiser found the Baca to be valued at \$1,061 per acre, which was multiplied and rounded to \$101 million for the entire property.

The Committee may be interested to know that Spirit Bull Ranch is under contract of sale. Since the completion of the appraisal, a buyer has contracted to purchase the Spirit Bull Ranch for \$25,500,000 which is \$2,280 per acre. This represents an annual appreciation rate of over 29% per annum or 2.43 % per month! This rapid increase in value illustrates two important factors. First, it corroborates the fact that the price/size relationship is not a factor for this large acreage property. Second, it shows a continuing upward climb in the price of trophy ranch properties. While members of the Committee may draw their own conclusions from this sale, it certainly suggests an accelerating market for this class of property.

FEDERAL REVIEW OF THE BACA RANCH APPRAISAL

The appraisal by Van Court and Company was completed and submitted to the Forest Service for review in August, 1999. For several weeks, the Forest Service review appraisers analyzed its contents, often challenging points and requiring that the appraisers justify their data and analysis. This process necessitated revisions and refinements to the appraisal, as well as downward adjustments to the valuation.

To provide its review appraisers with a clear understanding of the general market for properties such as the Baca, the Forest Service had previously contracted for its own market survey. This survey provided an objective array of verified market data by which to review the appraisal. It defined the nature of recent ranch sales in the Intermountain West, and provided the overall range of sale prices for ranch properties. The survey did not differentiate between ranch properties purchased for their agricultural income and those purchased for recreational amenities.

The survey was not an appraisal and did not determine comparability among the properties evaluated. Rather, it simply provided a "snapshot" of the market for large rural property sales in the western United States. Thus, when the appraisal was submitted, the survey gave the Forest Service review appraisers a factual basis for review of the appraisal's analysis and conclusions.

When the appraisal was finally approved by the Forest Service review appraisers, it approved a fair market valuation of the Baca Ranch at \$101 million, which is significantly less than the value originally submitted by the Van Courts.

RESPONSES TO THE REPORT OF THE GENERAL ACCOUNTING OFFICE

As the Committee is well aware, the Forest Service strongly disagrees with the analysis and conclusions of the GAO report dated March, 2000.¹² Nonetheless, GAO and the Forest Service appear to agree on many points.

- The appraisal by prepared by Van Court & Company of Denver, Colorado, dated September 10, 1998, was prepared by qualified appraisers who are licensed to appraise property in the State of New Mexico.
- The Van Court appraisal satisfies all the requirements of the *Uniform Appraisal Standards for Federal Land Acquisitions*, and meets the requirements of Public Law 91-646.
- The Van Courts' determination that the highest and best use of the Baca Ranch is as a multi-use regime for ranching, private accommodation, and outfitting (a "trophy ranch") was agreed to by the Forest Service and not challenged by the GAO.
- The most appropriate and reliable approach to appraising the Baca Ranch is that of assessing comparable sales.
- The GAO auditors are not appraisers, and the Office did not appraise the Baca Ranch. Therefore, the GAO's report was not an appraisal and it was not intended to be such.

¹²"FEDERAL LAND MANAGEMENT: Land Acquisition Issues Related to the Baca Ranch Appraisal", GAO/RCED-00-76.

However, we must emphasize that the only way to properly value land is through a complete appraisal. The GAO acknowledges that its consulting appraiser did not prepare an appraisal himself, nor did he visit the property or any comparable properties as is required for any valuation analysis compatible with the *Federal Standards*.¹³ Therefore, GAO's conclusion that the Baca Ranch is worth less than the appraised value is not a conclusion upon which anyone can rely to determine value.

To substitute the GAO report for the federally approved appraisal, would call the entire, well-established federal appraisal process into question. However, it is clear you cannot use a report that is not an appraisal to overturn a Federally approved appraisal done by a qualified appraiser. This is particularly the case where both the GAO and its contract appraiser state that they have not appraised, or even seen, the subject property.

We will not here debate anew each of the contentions of the GAO. However, we will highlight what we believe to be the essential errors of its analysis.

1. Comparability

Simply stated, GAO misapplies the concept of comparable sales as used in appraisals. You cannot array sixteen property sales based on a time adjusted sales price and use that as a basis for comparison. Nor does the price/size relationship apply to properties over 10,000 acres in size, yet GAO continues to assert its relevance notwithstanding expert analyses to the contrary.

The 16 sales that GAO analyzes on a size/price scale are simply not comparable. Each may have some elements of comparability with the Baca Ranch, but there is certainly no basis to compare them solely on the basis of acreage and a time adjusted sale price. Each of the 16 sales had different attributes such as timber, water, pasture, and similar resource values. They also differed on location, access to roads, and on the interests in land being conveyed, all being critical factors in determining comparability.

For example, GAO refers to the sale of a 90,000 acre tract in Colorado for \$196 per acre as a comparable sale to the Baca owing to its similar size.¹⁴ However, that sale was examined by the appraiser and found to be a conveyance of surface rights only, and the sale was under duress since the landowner was unable to consolidate the various outstanding rights needed to develop the property. Therefore, it did not qualify as a comparable sale.

2. The Uniqueness of the Baca Ranch

¹³The *Federal Standards* require that the appraiser make a personal inspection of the property appraised. *Federal Standards* at section B-1, p. 65.

¹⁴GAO Report, p. 5.

GAO fails to accord the Baca Ranch any special value considerations based on uniqueness. Disregarding all accepted appraisal standards, but utilizing its "one size fits all" approach to valuation, it was necessary for GAO to discount the uniqueness of the Baca Ranch.

Unique means "one of a kind." It is a factor that profoundly affects the value of anything, particularly real estate. Yet uniqueness is hard to demonstrate on paper; that is why all appraisers are required to inspect the property they are appraising and to apply professional judgments based on those inspections. Had the GAO reviewer taken the offered opportunity to visit the Baca Ranch, he would have witnessed a sight compared favorably with Yellowstone National Park and similar national treasures.

The 95,000 acre Baca Ranch in northern New Mexico is a unique land area. No one in this room or in GAO can seriously doubt the significant scientific, cultural, historic, recreational, ecological, and scenic values. It is permanently protected from adverse development of the surrounding land since it is bounded by the Bandelier National Monument, the Jemez National Recreation Area, and the Santa Fe National Forest. All these resource values have been extensively studied and documented by the Forest Service.¹⁵ Had GAO or its review appraiser evaluated these factors, the uniqueness of the Baca Ranch would be self evident.

3. Premium Value versus Premium Price

As we noted in our responses to GAO, uniqueness contributes to the premium *value* of the Baca Ranch. GAO confuses a premium *price* with a premium *value*. It concludes that the Government would be paying a "premium price" to acquire the Baca for \$101 million.

The Department of Agriculture takes a different view. When we pay \$101 million, we are paying the fair market value of a property that is special and which cannot be duplicated elsewhere in the market place. In other words, we are buying a property having premium value. Thus, the difference between a "premium price" and a "premium value" is much more than semantic, it goes to the very heart of the opposite views of fair market value by this Department and the GAO.

CONCLUSION

All agree, even GAO, that the appraisal for the Baca Ranch meets *Federal Standards*.

¹⁵The Forest Service has extensive knowledge of the Baca Ranch. In 1993, acting pursuant to Congressional direction in Public Law 101-556, the Forest Service prepared its *Report on the Study of the Baca Location No. 1*, which extensively analyzed the Ranch's resources.

We want to assure you that the review done by the Forest Service Chief and Regional Appraisals was fair, objective, and in conformance with federal standards. Clearly different people, even different appraisers, can reach differing conclusions of value as to any property. The Federal system for conducting and reviewing appraisals was intended to provide a uniform approach and standards so that we all - the Forest Service, the Congress, and the American people - would have confidence that we are both paying fairly to sellers of property and yet not overpaying with taxpayer dollars.

We believe that the appraisal's valuation of \$101 million represents the fair market value. In purchasing the Baca Ranch for this amount, the United States would be paying a fair market value price for a premium property, a property so unique that it is widely considered one of the most spectacular natural and scenic areas of the nation still in private ownership.