

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PENNSYLVANIA-AMERICAN WATER COMPANY

Docket No. A-2017-2606103

**SURREBUTTAL TESTIMONY OF
Adrienne M. Vicari, P.E.,
UTILITY VALUATION EXPERT SELECTED BY
The Municipal Authority of the City of McKeesport**

Date: August 2, 2017

Adrienne M. Vicari, P.E. Statement No. 1SR

R002403.0425

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Adrienne M. Vicari. My business mailing address is:
3 369 East Park Drive, Harrisburg, Pennsylvania 17111
4

5 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

6 A. I am employed by Herbert, Rowland & Grubic, Inc. ("HRG") as the Practice Area Leader for the
7 Financial Services Group.
8

9 Q. HAVE YOU SUPPLIED DIRECT TESTIMONY IN THIS CASE?

10 A. Yes, I provided direct testimony on July 17, 2017.
11

12 Q. HAVE YOU SUPPLIED REBUTTAL TESTIMONY IN THIS CASE?

13 A. Yes, I provided rebuttal testimony on July 26, 2017.
14

15 SCOPE OF TESTIMONY

16 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

17 A. My surrebuttal testimony addresses adjustments to the HRG appraisal presented in OCA
18 Statement 1R by OCA witnesses Ashley E. Everette relating to the Fair Market Value of the
19 McKeesport wastewater collection and treatment system. It also seeks to clarify her comments
20 concerning the change of the in-service date for manholes on the McKeesport collections system.
21

22 Q. WHAT WAS THE NATURE OF MS. EVERETTE'S CRITICISM?

23 A. Essentially, she has recommended two downward adjustments to HRG's recommendation of the
24 Fair Market Value for the MACM system by adjusting the inputs to our Cost approach and the
25 elimination of going value as a component to our Cost approach.
26

27 Q. DID ANY OF MS. EVERETTE'S CRITICISM RESULT IN AN UPWARD
28 ADJUSTMENT?

29 A. No, all her adjustments recommended downward adjustment to reduce the Fair Market Value
30 recommended in our report.
31

32 Q. IN YOUR OPINION, WAS MS. EVERETTE'S CRITICISM JUSTIFIED?

33 A. No. As stated in Section 1329, the UVE is required to perform an appraisal in accordance with
34 the Uniform Standards of Professional Appraisal Practice (USPAP) to arrive at the Fair Market

1 Value (FMV) of the McKeesport System. Section 1329 also required us to comply with a number
2 of independence requirements.

3 In accordance with Section 1329 and the Final Implementation Order (FIO), HRG considered
4 three separate valuation approaches; Cost, Income, and Market Value as described in our report,
5 AMV Statement 1. OCA Statement 1 does not consider the USPAP Standards in developing a
6 recommendation of Fair Market Value, which is in direct conflict with Section 1329.

7
8 **Q. ON PAGE 3, LINE 17, MS. EVERETTE SAYS THAT YOU CHANGED THE IN**
9 **SERVICE DATE FOR 2,490 MANHOLES, IS THIS CORRECT?**

10 **A.** Yes, as I was reviewing the age of the gravity pipelines, I noticed that all manholes had an in
11 service date of 1911 according to the asset listing provided by the third party engineer. This was
12 an error since manholes are generally constructed along with the gravity pipelines. We confirmed
13 this with MACM and asked for an explanation for the 1911.

14 Nearly all of the manholes (45%) were constructed with the gravity pipelines in 1959; in 1976
15 (28.5%); 1989 (18%), and in 1999 approximately 8%. There are a few brick manholes dating
16 back to 1911 that may still be in use, but most all were abandoned when the interceptor project
17 was completed in 1959. That project redirected collected wastewater from a direct discharge to
18 the river. I believe my estimate of a 1960 in service date is a reasonable estimate.

19 I would like to point out that in my experience most municipal systems do not maintain detailed
20 property records, which makes documenting exact costs and in service dates difficult; it requires
21 professional judgement to make reasonable estimates.

22
23 **Q. ON PAGE 6, LINE 10, MS. EVERETTE SAYS SHE DOESN'T UNDERSTAND WHY**
24 **YOU BELIEVED THAT THE COLLECTION SYSTEM WAS INSTALLED IN 2008 AND**
25 **WAS ONLY 8 YEARS OLD, CAN YOU EXPLAIN?**

26 **A.** Yes, my original source of information on MACM's assets was developed from a report prepared
27 by Industrial Appraisal dated as of December 31, 2015. We did not receive the third party
28 engineer's report until March of 2017. The initial appraisal report had a single line item for the
29 collection system lines of \$30,000,000 with a 2008 year of installation and a 50 year life. This
30 was incorporated into our initial valuation but not corrected when we received the engineer's
31 report until pointed out by Ms. Everette during informal discovery.

32
33 **Q. ON PAGE 7, LINE 25, MS. EVERETTE TESTIFIES THAT SCHEDULES E-H YOU**
34 **SUBMITTED WITH YOUR DIRECT TESTIMONY DID NOT CHANGE FROM THE**

1 ORIGINAL FMV REPORT AND SHE CONCLUDES THAT THIS DEMONSTRATES
2 THAT YOU DID NOT ELIMINATE ALL VALUES FROM THE INDUSTRIAL
3 APPRAISAL AS YOU SAID IN MACM STATEMENT 1, PAGE 8. IS SHE CORRECT?

4 A. She is correct that the schedules she referenced did not change except for the unit costs, but she is
5 incorrect with respect to the values in the Industrial Appraisal report. The Schedules she
6 references were not from the Industrial Appraisal report. That report had only 1 line item for the
7 entire collection system, Account 361 assets, showing a lump sum value of \$30,000,000. This
8 appeared on our Schedule "C" in our FMV Report. I submitted a revised Schedule "C" with
9 AMV-Statement 1 that removed all Industrial Appraisal values for Account 361 assets.

10
11 Q. ON PAGE 8, LINE 16, MS. EVERETTE RECOMMENDS THAT THE 20% ADD-ON
12 FOR OVERHEAD EXPENSES NOT BE CONSIDERED. DO YOU AGREE?

13 A. No. In my judgement, USPAP Rule 1-2 (e), included as MACM Exhibit AMV No 1, requires me
14 to consider intangible items relative to the asset, in addition to other associated items such as
15 easements. I have provided detailed information regarding the calculation of the per linear foot
16 cost used in our original FMV report on Schedules E-H. None of these values include an
17 allowance for project overhead costs including engineering, construction observation, right-of-
18 way costs, legal fees, and financing during construction. A typical estimate for these costs would
19 be in the range of 30% to 35% of construction cost for estimating purposes. The Industrial
20 Appraisal adds 15% for engineering alone for above ground structures which, unlike pipeline
21 installation, does not require right-of-way acquisition and full time inspection. HRG's experience
22 in managing pipeline projects indicates that full-time inspection costs are between 15% - 25% of
23 the engineering fee. I estimated 18%, which results in \$4,250,000 of estimated construction
24 observation costs. Rights-of-way are another significant component of the cost of a collection
25 system. Much of the municipal collection system is built in public rights-of-way which means
26 there is no cost for the rights-of-way, except for approximately 25% of pipeline which is installed
27 on private property. The owner must acquire the right from a property owner to install their
28 facilities on their property and have the perpetual right to enter upon this right-of-way to perform
29 maintenance, repair or replace the facilities. A typical construction right-of-way is 20 feet, but
30 the permanent easement is 10 feet. So for each lineal foot of sewer main, you need to acquire 10
31 square feet of permanent right-of-way. I estimated the cost of the rights-of-way to be \$2,426,600,
32 which includes land along with the legal and survey costs incurred to record the rights-of-way, at
33 a cost of \$10.50/ LF of sewer main (assuming a 10 foot wide permanent easement). In total, the
34 20% add on increased the value of the sewer system piping cost by \$30,697,000. Of this, 15% of

1 the total asset value, or \$24,020,400, represents basic engineering fees; \$4,250,000 represents
2 construction observation costs, and \$2,426,600 represents costs for rights-of-way.

3 There are approximately 870,000 lineal feet of sewer main. The average cost per lineal foot was
4 originally \$184.00. Adding the \$30,697,000 adds on average \$35.28 per lineal foot for an
5 updated cost per lineal foot of \$219.29. Furthermore, I believe the 20% add-on is both
6 reasonable, justified, and consistent with USPAP Rule 1-2(e). Based upon the above, the Fair
7 Market Value of our cost approach should be \$170,040,000 as reflected in our updated FMV
8 Summary.

9
10 **Q. IN EXHIBIT OCA AEE-1R, MS. EVERETTE MAKES AN ADJUSTMENT OF**
11 **\$29,499,899 RELATIVE TO YOUR MARKET VALUE APPROACH, IS SHE JUSTIFIED**
12 **IN MAKING THIS ADJUSTMENT?**

13 A. No, the terms of every sale / purchase are negotiated and the cash compensation is only part of
14 the total compensation. The value of the transaction is the sum of the cash paid and the
15 improvements to be made. While we understand this may present some rate base concerns when
16 included in the cost method, this is not true when considering the Market Value approach. The
17 compensation paid by the purchaser is the sum of the cash and future improvements. How these
18 are reflected in the rate base for those particular systems is irrelevant in the Market Value
19 calculation. We attempted to use our best judgement in arriving at the per customer value of
20 \$8,661 realizing that it may actually be low because of New Garden, which was \$14,008 per
21 customer. We strongly believe that any appraisal needs to reflect the changing market conditions
22 as reflected in Standards Rule 1-3 (a) that requires the consideration of "economic supply and
23 demand" and "market area trends", refer to MACM Exhibit AMV No II. The approach taken by
24 OCA is a clear violation of this rule and our Market Value as presented in our FMV Report of
25 \$190,130,000 is justified and correct.

26
27 **Q. IN EXHIBIT OCA AEE-3R, LINE 17 MS. EVERETTE MAKES A DOWNWARD**
28 **ADJUSTMENT TO THE COST VALUE FOR \$19,800,000 FOR GOING VALUE, IS SHE**
29 **CORRECT?**

30 A. No, the adjustment references Footnote 5 which refers to Mr. Watkin's, OCA Statement 2. Mr.
31 Watkins did recommend elimination of Going Value as it relates to the Income Approach, but
32 Ms. Everette does not explain her adjustment to the Cost Approach consistent with USPAP
33 standards. The reference to Page 10 in OCA Statement 1R provides no discussion of the
34 adjustment and simply references Mr. Watkins direct testimony on Lines 17 and 18. At no time

1 has Ms. Everette explained why Going Value should not be included in the Cost Approach in
2 accordance with USPAP Standards.

3
4 **Q. SHOULD GOING VALUE BE INCLUDED IN THE COST APPROACH?**

5 A. Yes, the Cost Approach is based simply on the replacement cost of the assets. It does not reflect
6 the enterprise value of those assets. Going value is an estimate to reflect the real cost for a start-
7 up business that is not captured in the value of the assets or reflected in the income but for which
8 a seller should receive compensation. Granted, the calculation is based on assumptions and
9 estimates of the capital needed to get the entity to a point where it is operational without loss, as
10 is the case with any business. The calculation on Schedule O estimates this value.

11 The underlying assumption is that a certain level of expense will be incurred that exceeds the
12 revenue growth resulting in cumulative losses during the first years of operation. Going value
13 reflects the value of the going concern, a value not imbedded in the reproduction cost of the assets
14 and needs to be added to reflect the Fair Market Value of the Utility.

15
16 **Q. IS IT YOUR OPINION THAT OCA IS VIOLATING USPAP STANDARDS?**

17
18 A. Yes, Standard 3 of USPAP applies when reviewing the work of an appraiser. When the reviewer
19 develops their own opinion of value, Standards Rule 3-3(c), included as MACM Exhibit AMV
20 No III, requires the reviewer to meet the requirements of Standards 1, 6, 7 and 9. In my
21 judgement, Ms. Everette has not met Standard 1, since her analysis and methodology focuses on
22 valuing the hard assets without considering value of associated costs such as engineering and
23 related fees, future capital improvement costs, the cost of developing the organization and
24 institution of the utility, and the like. Similarly, Standards Rule 3-6, included as MACM Exhibit
25 AMV No IV, requires the reviewer to certify that they have no bias with respect to the property
26 being reviewed or the parties involved, nor that their engagement was contingent upon
27 developing predetermined results. To my knowledge, no certification has been provided and all
28 recommendations provided by OCA witnesses Everette and Watkins were related to downward
29 adjustments of the Fair Market Value provided by HRG which, in my opinion, suggests a pre-
30 desired outcome to lower the amount included in rate base which will have the effect of lower
31 user rates. While they may argue this is consistent with their role as an advocate for consumers,
32 it provides in my opinion very little value in terms of an USPAP compliant appraisal.

33

1 Q. ARE THERE OTHER REASONS WHY YOU DON'T BELIEVE OCA WITNESSES
2 EVERETTE AND WATKINS FOLLOWED USPAP?

3 A. Yes, *Uniform Standard of Professional Appraisal Practice, Applying the Standards (Eighth*
4 *Edition)* outlines on Page 51 the binding requirement of Standards Rule 3-1. As shown in
5 MACM Exhibit AMV No. V, in order for the reviewer to provide an opinion of value different
6 from that outlined in the appraisal report, this Standards Rule requires the reviewer's scope of
7 work to not be less than the scope of work in the original appraisal assignment. In my judgement,
8 neither OCA witnesses Everette nor Watkins completed the same scope of work as HRG or AUS.
9 Instead, they approached their work looking to recalculate the appraisal value for the purpose of
10 lowering rate base without attempting to see if the overall value is a Fair Market Value. Neither
11 Ms. Everette nor Mr. Watkins looks at the total value to ask if it's a Fair Market Value. They
12 each provided an analysis of parts of our report and Ms. Everette makes no comment on our
13 Income Approach but simply refers to the work of Mr. Watkins. Neither concludes on their own
14 a Fair Market Value. They cannot claim to be unbiased as required by Standards Rule 3-6, which
15 is a binding requirement. In my judgement, their responsibility as a representative of the OCA is
16 different from that of a UVE, prohibiting them from serving as a reviewer and providing an
17 opinion of overall Fair Market Value under the USPAP. For instance in my opinion it would not
18 be possible for Ms. Everette to qualify as a UVE because she could not comply with the
19 independence requirements of Section 1329, as I noted earlier in my surrebuttal testimony.

20
21 Q. DOES THIS COMPLETE YOUR TESTIMONY?

22 A. Yes.

MACM Exhibit AMV No. I
Witness: Adrienne M. Vicari, P.E.

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PENNSYLVANIA-AMERICAN WATER COMPANY

Docket No. A-2017-2606103

Exhibit to Accompany
the

Surrebuttal Testimony

of

Adrienne M. Vicari, P.E.

Municipal Authority of McKeesport

Date: August 2, 2017

Adrienne M. Vicari, P.E. Statement No. 1SR

**UNIFORM
STANDARDS OF
PROFESSIONAL
APPRAISAL
PRACTICE**

**2014-2015
EDITION**

APPRAISAL STANDARDS BOARD



THE APPRAISAL FOUNDATION

*Authorized by Congress as the Source of Appraisal
Standards and Appraiser Qualifications*

Published in the United States of America.

ISBN: 978-0-9798728-9-1

All rights reserved.

No parts of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopy, recording or otherwise, without the prior written consent of the publisher.

EFFECTIVE:

**January 1, 2014 through
December 31, 2015**

STANDARD 1

477 STANDARD 1: REAL PROPERTY APPRAISAL, DEVELOPMENT

478 In developing a real property appraisal, an appraiser must identify the problem to be solved, determine
479 the scope of work necessary to solve the problem, and correctly complete research and analyses necessary
480 to produce a credible appraisal.

481 Comment: STANDARD 1 is directed toward the substantive aspects of developing a credible
482 appraisal of real property. The requirements set forth in STANDARD 1 follow the appraisal
483 development process in the order of topics addressed and can be used by appraisers and the
484 users of appraisal services as a convenient checklist.

485 Standards Rule 1-1

486 In developing a real property appraisal, an appraiser must:

487 (a) be aware of, understand, and correctly employ those recognized methods and techniques that are
488 necessary to produce a credible appraisal;

489 Comment: This Standards Rule recognizes that the principle of change continues to affect the
490 manner in which appraisers perform appraisal services. Changes and developments in the real
491 estate field have a substantial impact on the appraisal profession. Important changes in the
492 cost and manner of constructing and marketing commercial, industrial, and residential real
493 estate as well as changes in the legal framework in which real property rights and interests are
494 created, conveyed, and mortgaged have resulted in corresponding changes in appraisal theory
495 and practice. Social change has also had an effect on appraisal theory and practice. To keep
496 abreast of these changes and developments, the appraisal profession is constantly reviewing
497 and revising appraisal methods and techniques and devising new methods and techniques to
498 meet new circumstances. For this reason, it is not sufficient for appraisers to simply maintain
499 the skills and the knowledge they possess when they become appraisers. Each appraiser must
500 continuously improve his or her skills to remain proficient in real property appraisal.

501 (b) not commit a substantial error of omission or commission that significantly affects an appraisal;
502 and

503 Comment: An appraiser must use sufficient care to avoid errors that would significantly affect
504 his or her opinions and conclusions. Diligence is required to identify and analyze the factors,
505 conditions, data, and other information that would have a significant effect on the credibility
506 of the assignment results.

507 (c) not render appraisal services in a careless or negligent manner, such as by making a series of
508 errors that, although individually might not significantly affect the results of an appraisal, in the
509 aggregate affects the credibility of those results.

510 Comment: Perfection is impossible to attain, and competence does not require perfection.
511 However, an appraiser must not render appraisal services in a careless or negligent manner.
512 This Standards Rule requires an appraiser to use due diligence and due care.

513 Standards Rule 1-2

514 In developing a real property appraisal, an appraiser must:

- 515 (a) identify the client and other intended users;⁵
- 516 (b) identify the intended use of the appraiser's opinions and conclusions;⁶
- 517 Comment: An appraiser must not allow the intended use of an assignment or a client's
518 objectives to cause the assignment results to be biased.⁷
- 519 (c) identify the type and definition of value, and, if the value opinion to be developed is market
520 value, ascertain whether the value is to be the most probable price:
- 521 (i) in terms of cash; or
- 522 (ii) in terms of financial arrangements equivalent to cash; or
- 523 (iii) in other precisely defined terms; and
- 524 (iv) if the opinion of value is to be based on non-market financing or financing with unusual
525 conditions or incentives, the terms of such financing must be clearly identified and the
526 appraiser's opinion of their contributions to or negative influence on value must be
527 developed by analysis of relevant market data;
- 528 Comment: When exposure time is a component of the definition for the value
529 opinion being developed, the appraiser must also develop an opinion of reasonable
530 exposure time linked to that value opinion.⁸
- 531 (d) identify the effective date of the appraiser's opinions and conclusions;⁹
- 532 (e) identify the characteristics of the property that are relevant to the type and definition of value
533 and intended use of the appraisal,¹⁰ including:
- 534 (i) its location and physical, legal, and economic attributes;
- 535 (ii) the real property interest to be valued;
- 536 (iii) any personal property, trade fixtures, or intangible items that are not real property but
537 are included in the appraisal;
- 538 (iv) any known easements, restrictions, encumbrances, leases, reservations, covenants,
539 contracts, declarations, special assessments, ordinances, or other items of a similar
540 nature; and

⁵ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

⁶ See Statement on Appraisal Standards No. 9, *Identification of Intended Use and Intended Users*.

⁷ See Advisory Opinion 19, *Unacceptable Assignment Conditions in Real Property Appraisal Assignments*.

⁸ See Statement on Appraisal Standards No. 6, *Reasonable Exposure Time in Real Property and Personal Property Opinions of Value*. See also Advisory Opinion 7, *Marketing Time Opinions*, and Advisory Opinion 22, *Scope of Work in Market Value Appraisal Assignments, Real Property*.

⁹ See Statement on Appraisal Standards No. 3, *Retrospective Value Opinions*, and Statement on Appraisal Standards No. 4, *Prospective Value Opinions*.

¹⁰ See Advisory Opinion 2, *Inspection of Subject Property*, and Advisory Opinion 23, *Identifying the Relevant Characteristics of the Subject Property of a Real Property Appraisal Assignment*.

MACM Exhibit AMV No. II
Witness: Adrienne M. Vicari, P.E.

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PENNSYLVANIA-AMERICAN WATER COMPANY

Docket No. A-2017-2606103

Exhibit to Accompany
the

Surrebuttal Testimony

of

Adrienne M. Vicari, P.E

Municipal Authority of McKeesport

Date: August 2, 2017

Adrienne M. Vicari, P.E. Statement No. 1SR

**UNIFORM
STANDARDS OF
PROFESSIONAL
APPRAISAL
PRACTICE**

**2014-2015
EDITION**

APPRAISAL STANDARDS BOARD



THE APPRAISAL FOUNDATION

*Authorized by Congress as the Source of Appraisal
Standards and Appraiser Qualifications*

Published in the United States of America.

ISBN: 978-0-9798728-9-1

All rights reserved.

No parts of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopy, recording or otherwise, without the prior written consent of the publisher.

EFFECTIVE:

**January 1, 2014 through
December 31, 2015**

STANDARD 1

541 (v) whether the subject property is a fractional interest, physical segment, or partial
542 holding;

543 Comment on (i)-(v): The information used by an appraiser to identify the property
544 characteristics must be from sources the appraiser reasonably believes are reliable.

545 An appraiser may use any combination of a property inspection and documents, such as a
546 physical legal description, address, map reference, copy of a survey or map, property sketch,
547 or photographs, to identify the relevant characteristics of the subject property.

548 When appraising proposed improvements, an appraiser must examine and have available for
549 future examination, plans, specifications, or other documentation sufficient to identify the
550 extent and character of the proposed improvements.¹¹

551 Identification of the real property interest appraised can be based on a review of copies or
552 summaries of title descriptions or other documents that set forth any known encumbrances.

553 An appraiser is not required to value the whole when the subject of the appraisal is a
554 fractional interest, a physical segment, or a partial holding.

555 (f) identify any extraordinary assumptions necessary in the assignment;

556 Comment: An extraordinary assumption may be used in an assignment only if:

- 557 • it is required to properly develop credible opinions and conclusions;
- 558 • the appraiser has a reasonable basis for the extraordinary assumption;
- 559 • use of the extraordinary assumption results in a credible analysis; and
- 560 • the appraiser complies with the disclosure requirements set forth in USPAP for
561 extraordinary assumptions.

562 (g) identify any hypothetical conditions necessary in the assignment; and

563 Comment: A hypothetical condition may be used in an assignment only if:

- 564 • use of the hypothetical condition is clearly required for legal purposes, for purposes of
565 reasonable analysis, or for purposes of comparison;
- 566 • use of the hypothetical condition results in a credible analysis; and
- 567 • the appraiser complies with the disclosure requirements set forth in USPAP for
568 hypothetical conditions.

569 (h) determine the scope of work necessary to produce credible assignment results in accordance with
570 the SCOPE OF WORK RULE.¹²

571 Standards Rule 1-3

572 When necessary for credible assignment results in developing a market value opinion, an appraiser must:

¹¹ See Advisory Opinion 17, *Appraisals of Real Property with Proposed Improvements*.

¹² See Advisory Opinion 28, *Scope of Work Decision, Performance, and Disclosure*, and Advisory Opinion 29, *An Acceptable Scope of Work*.

573 (a) identify and analyze the effect on use and value of existing land use regulations, reasonably
 574 probable modifications of such land use regulations, economic supply and demand, the physical
 575 adaptability of the real estate, and market area trends; and

576 Comment: An appraiser must avoid making an unsupported assumption or premise about
 577 market area trends, effective age, and remaining life.

578 (b) develop an opinion of the highest and best use of the real estate.

579 Comment: An appraiser must analyze the relevant legal, physical, and economic factors to the
 580 extent necessary to support the appraiser's highest and best use conclusion(s).

581 Standards Rule I-4

582 In developing a real property appraisal, an appraiser must collect, verify, and analyze all information
 583 necessary for credible assignment results.

584 (a) When a sales comparison approach is necessary for credible assignment results, an appraiser
 585 must analyze such comparable sales data as are available to indicate a value conclusion.

586 (b) When a cost approach is necessary for credible assignment results, an appraiser must:

587 (i) develop an opinion of site value by an appropriate appraisal method or technique;

588 (ii) analyze such comparable cost data as are available to estimate the cost new of the
 589 improvements (if any); and

590 (iii) analyze such comparable data as are available to estimate the difference between the
 591 cost new and the present worth of the improvements (accrued depreciation).

592 (c) When an income approach is necessary for credible assignment results, an appraiser must:

593 (i) analyze such comparable rental data as are available and/or the potential earnings
 594 capacity of the property to estimate the gross income potential of the property;

595 (ii) analyze such comparable operating expense data as are available to estimate the
 596 operating expenses of the property;

597 (iii) analyze such comparable data as are available to estimate rates of capitalization and/or
 598 rates of discount; and

599 (iv) base projections of future rent and/or income potential and expenses on reasonably clear
 600 and appropriate evidence.¹³

601 Comment: In developing income and expense statements and cash flow projections,
 602 an appraiser must weigh historical information and trends, current supply and
 603 demand factors affecting such trends, and anticipated events such as competition
 604 from developments under construction.

605 (d) When developing an opinion of the value of a leased fee estate or a leasehold estate, an appraiser
 606 must analyze the effect on value, if any, of the terms and conditions of the lease(s).

¹³ See Statement on Appraisal Standards No. 2, *Discounted Cash Flow Analysis*.

MACM Exhibit AMV No. III
Witness: Adrienne M. Vicari, P.E.

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PENNSYLVANIA-AMERICAN WATER COMPANY

Docket No. A-2017-2606103

Exhibit to Accompany
the

Surrebuttal Testimony

of

Adrienne M. Vicari, P.E

Municipal Authority of McKeesport

Date: August 2, 2017

Adrienne M. Vicari, P.E. Statement No. 1SR

**UNIFORM
STANDARDS OF
PROFESSIONAL
APPRAISAL
PRACTICE**

**2014-2015
EDITION**

APPRAISAL STANDARDS BOARD



THE APPRAISAL FOUNDATION

*Authorized by Congress as the Source of Appraisal
Standards and Appraiser Qualifications*

Published in the United States of America.

ISBN: 978-0-9798728-9-1

All rights reserved.

No parts of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopy, recording or otherwise, without the prior written consent of the publisher.

EFFECTIVE:

**January 1, 2014 through
December 31, 2015**



STANDARD 3

- 941 Comment: An extraordinary assumption may be used in a review assignment only if:
- 945 • it is required to properly develop credible opinions and conclusions;
- 946 • the reviewer has a reasonable basis for the extraordinary assumption;
- 947 • use of the extraordinary assumption results in a credible analysis; and
- 948 • the reviewer complies with the disclosure requirements set forth in USPAP for
- 949 extraordinary assumptions.
- 950 (g) identify any hypothetical conditions necessary in the review assignment; and
- 951 Comment: A hypothetical condition may be used in a review assignment only if:
- 952 • use of the hypothetical condition is clearly required for legal purposes, for purposes of
- 953 reasonable analysis, or for purposes of comparison;
- 954 • use of the hypothetical condition results in a credible analysis; and
- 955 • the reviewer complies with the disclosure requirements set forth in USPAP for
- 956 hypothetical conditions.
- 957 (h) determine the scope of work necessary to produce credible assignment results in accordance with
- 958 the **SCOPE OF WORK RULE**.
- 959 Comment: Reviewers have broad flexibility and significant responsibility in determining the
- 960 appropriate scope of work in an appraisal review assignment.
- 961 Information that should have been considered by the original appraiser can be used by the
- 962 reviewer in developing an opinion as to the quality of the work under review.
- 963 Information that was not available to the original appraiser in the normal course of business
- 964 may also be used by the reviewer; however, the reviewer must not use such information in the
- 965 reviewer's development of an opinion as to the quality of the work under review.
- 966 Standards Rule 3-3
- 967 In developing an appraisal review, a reviewer must apply the appraisal review methods and techniques
- 968 that are necessary for credible assignment results.
- 969 (a) When necessary for credible assignment results in the review of analyses, opinions, and
- 970 conclusions, the reviewer must:
- 971 (i) develop an opinion as to whether the analyses are appropriate within the context of the
- 972 requirements applicable to that work;
- 973 (ii) develop an opinion as to whether the opinions and conclusions are credible within the
- 974 context of the requirements applicable to that work; and
- 975 (iii) develop the reasons for any disagreement.
- 976 Comment: Consistent with the reviewer's scope of work, the reviewer is required to develop
- 977 an opinion as to the completeness, accuracy, adequacy, relevance, and reasonableness of the
- 978 analysis in the work under review, given law, regulations, or intended user requirements
- 979 applicable to the work under review.
- 980 (b) When necessary for credible assignment results in the review of a report, the reviewer must:

- 981 (i) develop an opinion as to whether the report is appropriate and not misleading within the
 982 context of the requirements applicable to that work; and
- 983 (ii) develop the reasons for any disagreement.

984 Comment: Consistent with the reviewer's scope of work, the reviewer is required to develop
 985 an opinion as to the completeness, accuracy, adequacy, relevance, and reasonableness of the
 986 report, given law, regulations, or intended user requirements applicable to that work.

- 987 (c) When the scope of work includes the reviewer developing his or her own opinion of value or
 988 review opinion, the reviewer must comply with the Standard applicable to the development of
 989 that opinion.

990 (i) The requirements of STANDARDS 1, 6, 7, and 9 apply to the reviewer's opinion of value
 991 for the property that is the subject of the appraisal review assignment.

992 (ii) The requirements of STANDARD 3 apply to the reviewer's opinion of quality for the
 993 work that is the subject of the appraisal review assignment.

994 Comment: These requirements apply to:

- 995 • The reviewer's own opinion of value when the subject of the review is the product of an
 996 appraisal assignment; or
- 997 • The reviewer's own opinion regarding the work reviewed by another when the subject of
 998 the review is the product of an appraisal review assignment.

999 These requirements apply whether the reviewer's own opinion:

- 1000 • concurs with the opinions and conclusions in the work under review; or
- 1001 • differs from the opinion and conclusions in the work under review.

1002 When the appraisal review scope of work includes the reviewer developing his or her own
 1003 opinion of value or review opinion, the following apply:

- 1004 • The reviewer's scope of work in developing his or her own opinion of value or review
 1005 opinion may be different from that of the work under review.
- 1006 • The effective date of the appraisal or appraisal review may be the same or different from
 1007 the effective date of the work under review.
- 1008 • The reviewer is not required to replicate the steps completed by the original appraiser.
 1009 Those items in the work under review that the reviewer concludes are credible can be
 1010 extended to the reviewer's development process on the basis of an extraordinary
 1011 assumption. Those items not deemed to be credible must be replaced with information or
 1012 analysis developed in conformance with STANDARD 1, 3, 6, 7, or 9, as applicable, to
 1013 produce credible assignment results.

1014 Standards Rule 3-4

1015 Each written or oral Appraisal Review Report must be separate from the work under review and must:

- 1016 (a) clearly and accurately set forth the appraisal review in a manner that will not be misleading;
- 1017 (b) contain sufficient information to enable the intended users of the appraisal review to understand
 1018 the report properly; and
- 1019 (c) clearly and accurately disclose all assumptions, extraordinary assumptions, and hypothetical
 1020 conditions used in the assignment.

MACM Exhibit AMV No. IV
Witness: Adrienne M. Vicari, P.E.

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PENNSYLVANIA-AMERICAN WATER COMPANY

Docket No. A-2017-2606103

Exhibit to Accompany
the

Surrebuttal Testimony

of

Adrienne M. Vicari, P.E.

Municipal Authority of McKeesport

Date: August 2, 2017

Adrienne M. Vicari, P.E. Statement No. 1SR

**UNIFORM
STANDARDS OF
PROFESSIONAL
APPRAISAL
PRACTICE**

**2014-2015
EDITION**

APPRAISAL STANDARDS BOARD



THE APPRAISAL FOUNDATION

*Authorized by Congress as the Source of Appraisal
Standards and Appraiser Qualifications*

Published in the United States of America.

ISBN: 978-0-9798728-9-1

All rights reserved.

No parts of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopy, recording or otherwise, without the prior written consent of the publisher.

EFFECTIVE:

**January 1, 2014 through
December 31, 2015**

- 1058 Comment: The report must provide sufficient information to enable the client and intended users to
1059 understand the rationale for the reviewer's opinions and conclusions.
- 1060 (f) when the scope of work includes the reviewer's development of an opinion of value or review
1061 opinion related to the work under review, the reviewer must:
- 1062 (i) state which information, analyses, opinions, and conclusions in the work under review
1063 that the reviewer accepted as credible and used in developing the reviewer's opinion and
1064 conclusions;
- 1065 (ii) at a minimum, summarize any additional information relied on and the reasoning for
1066 the reviewer's opinion of value or review opinion related to the work under review;
- 1067 (iii) clearly and conspicuously:
- 1068 • state all extraordinary assumptions and hypothetical conditions connected with the
1069 reviewer's opinion of value or review opinion related to the work under review; and
 - 1070 • state that their use might have affected the assignment results.
- 1071 Comment: The reviewer may include his or her own opinion of value or review opinion
1072 related to the work under review within the appraisal review report itself without preparing a
1073 separate report. However, data and analyses provided by the reviewer to support a different
1074 opinion or conclusion must match, at a minimum, except for the certification requirements,
1075 the reporting requirements for an:
- 1076 • Appraisal Report for a real property appraisal (Standards Rule 2-2(a));
 - 1077 • Appraisal Report for a personal property appraisal (Standards Rule 8-2(a));
 - 1078 • Appraisal Review Report for an appraisal review (Standards Rule 3-5);
 - 1079 • Mass Appraisal Report for mass appraisal (Standards Rule 6-8); and
 - 1080 • Appraisal Report for business appraisal (Standards Rule 10-2(a)).

1081 Standards Rule 3-6

1082 Each written Appraisal Review Report must contain a signed certification that is similar in content to the
1083 following form;

1084 I certify that, to the best of my knowledge and belief:

- 1085 --- the statements of fact contained in this report are true and correct.
- 1086 --- the reported analyses, opinions, and conclusions are limited only by the reported
1087 assumptions and limiting conditions and are my personal, impartial, and unbiased
1088 professional analyses, opinions, and conclusions.
- 1089 --- I have no (or the specified) present or prospective interest in the property that is the
1090 subject of the work under review and no (or the specified) personal interest with
1091 respect to the parties involved.
- 1092 --- I have performed no (or the specified) services, as an appraiser or in any other capacity,
1093 regarding the property that is the subject of the work under review within the three-
1094 year period immediately preceding acceptance of this assignment.
- 1095 --- I have no bias with respect to the property that is the subject of the work under review
1096 or to the parties involved with this assignment.
- 1097 --- my engagement in this assignment was not contingent upon developing or reporting
1098 predetermined results.
- 1099 --- my compensation is not contingent on an action or event resulting from the analyses,
1100 opinions, or conclusions in this review or from its use.

STANDARD 3

- 1101 — my compensation for completing this assignment is not contingent upon the
1102 development or reporting of predetermined assignment results or assignment results
1103 that favors the cause of the client, the attainment of a stipulated result, or the
1104 occurrence of a subsequent event directly related to the intended use of this appraisal
1105 review.
1106 --- my analyses, opinions, and conclusions were developed and this review report was
1107 prepared in conformity with the *Uniform Standards of Professional Appraisal Practice*.
1108 --- I have (or have not) made a personal inspection of the subject of the work under
1109 review. (If more than one person signs this certification, the certification must clearly
1110 specify which individuals did and which individuals did not make a personal
1111 inspection of the subject of the work under review.) (For reviews of a business or
1112 intangible asset appraisal assignment, the inspection portion of the certification is not
1113 applicable.)
1114 -- no one provided significant appraisal or appraisal review assistance to the person
1115 signing this certification. (If there are exceptions, the name of each individual(s)
1116 providing appraisal or appraisal review assistance must be stated.)

1117 Comment: A signed certification is an integral part of the Appraisal Review Report. A
1118 reviewer who signs any part of the appraisal review report, including a letter of transmittal,
1119 must also sign the certification.

1120 Any reviewer who signs a certification accepts responsibility for all elements of the
1121 certification, for the assignment results, and for the contents of the Appraisal Review Report.

1122 Appraisal review is distinctly different from the cosigning activity addressed in Standards
1123 Rules 2-3, 6-9, 8-3, and 10-3. To avoid confusion between these activities, a reviewer
1124 performing an appraisal review must not sign the work under review unless he or she intends
1125 to accept responsibility as a cosigner of that work.

1126 When a signing appraiser has relied on work done by appraisers and others who do not sign
1127 the certification, the signing appraiser is responsible for the decision to rely on their work.
1128 The signing appraiser is required to have a reasonable basis for believing that those
1129 individuals performing the work are competent. The signing appraiser also must have no
1130 reason to doubt that the work of those individuals is credible.

1131 The names of individuals providing significant appraisal or appraisal review assistance who
1132 do not sign a certification must be stated in the certification. It is not required that the
1133 description of their assistance be contained in the certification, but disclosure of their
1134 assistance is required in accordance with Standards Rule 3-5(g).

1135 Standards Rule 3-7

1136 To the extent that it is both possible and appropriate, an oral Appraisal Review Report must address the
1137 substantive matters set forth in Standards Rule 3-5.

1138 Comment: See the RECORD KEEPING RULE for corresponding requirements.

MACM Exhibit AMV No. V
Witness: Adrienne M. Vicari, P.E.

PENNSYLVANIA PUBLIC UTILITY COMMISSION

v.

PENNSYLVANIA-AMERICAN WATER COMPANY

Docket No. A-2017-2606103

Exhibit to Accompany
the

Surrebuttal Testimony

of

Adrienne M. Vicari, P.E.

Municipal Authority of McKeesport

Date: August 2, 2017

Adrienne M. Vicari, P.E. Statement No. 1SR

Uniform Standards *of* Professional Appraisal Practice

APPLYING THE STANDARDS

EIGHTH EDITION

Dennis S. Tosh

William B. Rayburn

 Real Estate
Education Company®

necessary to develop credible appraisal review opinions. Otherwise, he or she is in violation of the Competency Rule.

Third, if the review appraiser undertakes to "redo" the appraisal to fit his or her conclusions, then the review appraiser may find that he or she now is governed by either Standard 1 or Standard 2. If such is the case, then the review appraiser would have to be in compliance with Standards 1 and 2.

Finally, if the appraisal review report is misleading or fraudulent, the review appraiser is in violation of the Ethics Rule. All four sections of the Ethics Rule extend to review appraisal work.

Standard 3 is a free standing standard. Unlike the appraisal of real property (Standards 1 and 2) or personal property (Standards 4 and 5), the process of review appraisal assignments and the reporting of those results are both contained in a single standard.

Standards Rule 3-1 (Binding Requirement)

In developing an appraisal review, the reviewer must:

- (a) identify the reviewer's client and intended users, the intended use of the reviewer's opinions and conclusions and the purpose of the review assignment;
- (b) identify the:
 - (i) subject of the appraisal review assignment,
 - (ii) date of the review;
 - (iii) property and ownership interest appraised (if any) in the work under review,
 - (iv) date of the work under review and the effective date of the opinion in the work under review, and
 - (v) appraiser(s) who completed the work under review, unless the identify was withheld;
- (c) identify the scope of work to be performed;
- (d) develop an opinion as to the completeness of the material under review within the scope of work applicable in the assignment;
- (e) develop an opinion as to the apparent adequacy and relevance of the data and the propriety of any adjustments to the data;
- (f) develop an opinion as to the appropriateness of the appraisal methods and techniques used and develop the reasons for any disagreement;