AMERICAN INSTITUTE OF MINERALS APPRAISERS

N E W S L E T T E R

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MERGER WITH ASFMRA? DECISION TIME

Trevor R. Ellis, Vice President, AIMA

In the March 1998 Newsletter, I provided details of the progress of my discussions with the American Society of Farm Managers and Rural Appraisers about joining forces. Our Board, with reservations, is in favor of the concept of the AIMA becoming a subsidiary Institute of the ASFMRA, with our Members having full ASFMRA privileges. The time has come for our Members to tell our Board whether we should proceed.

Our current President, Michael Cartwright, initiated discussions with the ASFMRA in 1996 on areas of joint interest. In January 1997, our President, John Gustavson, and myself as Treasurer, attended the ASFMRA's annual Executive Council meeting. John addressed the meeting about mutual interest and problems. In February 1998, I met with Gary Enright, Executive VP, and Nancy Hardiman, Education Director. We discussed initial details of the subsidiary Institute proposal, and a looser, Affiliate arrangement, with positive results. The 1998-99 President of the ASFMRA, Art Clapp, has now expressed his support for our subsidiary Institute proposal. I am scheduled to meet with Mr. Clapp, and the new Executive VP, Tom Lipetsky, in August to go over the merger details.

The specifics of the merger have yet to be worked out, and are subject to approval of both organizations. The tentative agreement is that our Members retain our CMA status, while automatically becoming Candidate Rural Appraisers. The annual membership fees at this level would be about $230 to the ASFMRA, plus say $80 for the AIMA. The state chapter fee will typically add another $25. There are some continuing education requirements to maintain Candidate status, as we also propose for maintaining CMA status. Through course work and documentation of experience, our members could progress to the Professional and the full Accredited Rural Appraiser (ARA) status if they desire. Although, a lot of details in this regard would need hammering out.

Appraisal Education and Continuing Education are a major function of the ASFMRA. My review of the content of the 13 core courses in Appraisal Education indicates that they are all very relevant to us as minerals appraisers. A wealth of other courses are offered, some of which have relevance to us, but many do not. The prices of the core courses tend to fall in the $200 to $600 range, and run from one to seven days long. The courses are offered at locations scattered across the country, with Colorado, Florida and Hawaii being frequent sites. The prices of Continuing Education courses are much more modest, typically about $60 each.

As I see it, the negatives of the merger are that we lose some of our independent and loose ways, our fees take a painfully big leap, and we will be expected to become educated and remain educated through expensive appraisal courses, and meet another set of standards. If we proceed, many of our current low membership of about 23 will leave.

The following are some of the positive aspects that I foresee in the merger. We will be Members of a well recognized appraisal group, while continuing as Members of the AIMA. The organization has more than 2,000 members, of which about a third are appraisers. We will have access to much needed courses, continuing education and publications in appraisal at Member prices. Networking with ASFMRA members at state chapter meetings and the Annual Meeting will provide support to our members, since many of the issues faced by Rural Appraisers are similar to ours. I expect that some members will

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COMMENTS ON MERGER(S)

Michael R. Cartwright, President

I have reviewed the above article regarding the contemplated merger with ASFMRA and I have some questions.

1) Dues: What is the total dues an AIMA member would have to pay? $230, $310, plus another $25 for state chapter fees? I found this part a bit confusing.

2) The general tone of the article almost makes it sound like this merger thing is being forced on the membership by the officers. I don't know that "merger" is the correct word to use from the AIMA point of view. I seem to remember that when this business began, we (AIMA) were looking for a way to "hook up" to a larger appraisal organization in order to be better able to influence the Appraisal Foundation in recognition of the specialized nature of minerals appraisals. I think the term we preferred to use was "affiliation" as opposed to "merger".

The past officers have had or were discussing this affiliation type of idea with the Appraisal Institute (AI) and American Society of Appraisers (ASA). All that time we did not want to lose our identity as the AIMA. That was why we were looking for an affiliation as opposed to a merger. I am still of the opinion that some form of affiliation with a larger appraisal group may be beneficial to us. I have some serious doubts about a merger and the resultant absorption of our membership into a much larger group with a different agenda than we may have.

3) As far as appraisal education goes, basic and/or continuing education, any one can normally take any of the courses offered by any of the larger appraisal organizations. The fees are only slightly reduced for actual members of these organizations. While it may benefit some of our members to have knowledge of and/or access to some form of continuing education in appraisal topics I do not believe that a merger is required. I can take it upon myself to gather information about appraisal course offerings and post them somewhere that our members can find out about them.

4) As for influencing the "important Appraisal Foundation", I have learned over the past six months that a greater level of influence may be had at the individual level than at the organization level. Especially if the individual writes to the Appraisal Foundation in a rational manner and fully explains why a particular position that the Appraisal Standards Board is thinking of adopting may not work well in some areas. Due to the contents of the second exposure draft for proposed revisions to USPAP I think some of our members may have a large problem with mixing of appraising and consulting parts of their business.

5) An item that has not been addressed is that a merger with a larger appraisal group may require AIMA members to become Certified General Appraisers in their state of residence. This can only be accomplished if the AIMA member becomes a "trainee" or "intern" or "apprentice", or some other such title and works under the direct supervision of a properly licensed Certified General Appraiser. I suspect that as a Candidate for an ARA designation in ASFMRA that this would be an eventual requirement that may not be in the best interests of our membership.

I, for one, would prefer to remain as independent from the national appraisal organizations as is possible. As you probably know I am an Accredited Senior Appraiser - Mines & Quarries and an Affiliate Member of the Appraisal Institute. I am also a Certified General Appraiser in Nevada and California. If the proposed revisions to USPAP are actually adopted, as currently written, I may have to give some serious thought to reexamining these memberships and licenses because of their potential impact on any form of consulting activity I may want to engage in.

There are some serious politics involved in the national appraisal organizations at this time and I do not think it would be a wise move for the AIMA to become attached to one of the relatively minor players in this game. Some form of "affiliation" I am probably for. A "merger" and loss of our independent identity I am unalterably opposed to. I think we, as AIMA, can accomplish much for our members, individually and collectively, without having to sacrifice ourselves in a merger. To be able to provide our members with a better level of service will require a higher level of dues, but my thinking was somewhere on the order of $100 per year not $300.

I believe it is time to lay out some of these possible scenarios to our membership but I do not think we should give them the impression that this type of plan is an almost done deal. I think we are still in the very early stages of exploration of the concept and especially the details that may be involved in even an affiliation with a tremendously larger group. We should explain to our members why we are even investigating this type of a deal, provide much more detail about the costs and benefits of staying independent or affiliating, discuss the need to increase the dues from the ridiculously low level they now are, the additional costs and benefits that may not simply be monetary by affiliating or remaining independent, and a host of other things that have not so far been addressed.

As you can see I have some strong thoughts about the process and results of what we are contemplating. What do our other AIMA members think? Please, write to the Editor.

FAIR MARKET RENTAL VALUE

John B. Gustavson, Secretary, AIMA

Our members may have to deal with the concept of Fair Market Rental Value. It comes up when appraising leaseholds and other mineral rights which have been subject to “taking” by the Government and subsequently released back to the property owner. Compensation may be justified.

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Merger with ASFMRA?… (cont'd from p. 1)
also get mineral appraisal work passed on to them by Rural Appraisers who need assistance in this area. Some of the load of managing the AIMA and putting out the Newsletter will be removed from our officers to a substantial headquarters staff. The Newsletter should be issued more frequently. With the ASFMRA's tie to the important Appraisal Foundation, we will have better access in lobbying the Foundation. There are also many working groups for members to become involved in if they wish. We should be able to recover the AIMA membership to the present level and higher, by spreading the word about our new standards and recognition, and by well directed advertising. This way, we have a fair chance of remaining a viable Institute.

All of this is subject to details being hammered out and approved by both boards. In the meantime, we need your feedback. Please write *Trevor R. Ellis.*

Fair Market Rental Value… (cont'd from p. 2)
The legal standard for measuring compensation in temporary takings cases is the Fair Market Rental Value of the occupied or taken premises for the term specified. The methodology is reasonable, as discussed below; all standards of the appraisal profession must be followed such as USPAP and UASFLA.

When the Government acquires an interest through the mechanism of a temporary taking, the condemnor in question (the Government) will be obligated to pay the fair market rental value due at the beginning of the rental period as just compensation. Thus, any estimated periodic market rent must be adjusted for time value of money into one single payment to be assumed to be paid in advance on the date of the onset of the temporary taking.

Comparable Sales Approach
The Fair Market Rental Value can be estimated by researching the current market rental value of comparable properties. This value is demonstrated in market transactions, such as advance minimum royalties, bonuses, acreage rentals, options and similar monetary considerations. These rentals or "sales" can then be adjusted to the subject following standard practices.

Estimates of rental value must first be separated into two distinct phases. These can be related to the highest and best use of the property. The first phase is the exploration and evaluation period during which the mineral rights owner allows an operator (or himself) to explore and evaluate the property and its potential market. For allowing this under a typical contract (lease, rental, option, a.o.) the mine operator pays the mineral rights owner considerations such as bonuses, delay rentals, option payments, advance royalties and other considerations. These considerations are economic rents. During this period the property is not available to others or to the mineral rights owner himself for competing purposes. It is under contract or, in other words, it is "taken" by the mine operator for the contractual period.

During this first phase practically no minerals are removed from the property. The minerals are still in the ground even when this phase ends. This temporary period may terminate with the expiration of the contract or with the onset of the second phase at the operator's option, the production period. Any temporary taking by the Government during this first period, or extensions or repeats thereof, can therefore be handled for the mineral rights owner in complete parallel with a mine operator's rental of the property. The rental market will yield data about comparable rentals and adjustments may be made as required.

In the second situation, namely, during the production phase, the activity involves removal and sale of minerals such as oil, gas, coal, gold or other commodities. Therefore, the mineral deposit is being depleted. For allowing the mine operator to remove and sell the owner's minerals, the mineral rights owner receives a consideration such as a royalty payment, a net smelter return, a net profits interest or similar considerations. If the Government interrupts this production phase, once commenced, then the mineral rights owner suffers the immediate loss of royalty income. This can be estimated by discounted cash flow methods, but it is partially offset by the fact that the minerals have not been depleted while under a temporary taking. This can also be estimated.

Market Rental Approach
Another method is based on considering the property as a capital asset the use of which is temporarily tied up. Even while unused, the "parked" capital still costs the owner money (his cost of capital) during the temporary taking. Now, there are conventional ways to estimate the value of the asset (its Fair Market Value) as well as the monthly cost of capital (the "interest") in the particular industry sector. Therefore, simple multiplication of the value by the interest and further by the number of months provides another approach to the Fair Market Rental Value.

While we are discussing minerals, federal land appraisal standards suggest utilizing "an appropriate interest rate on the land value if rental data is lacking". Still when rental data is available, it is of course the most powerful market approach. The "tied-up" capital approach is mainly of interest because it can provide a reality check on the results of the former approach.

The weighted average cost of capital is considered a fair approximation of the interest rate for a no-risk (no cash flow risk) delay in the use of capital. It costs the mineral rights owner money to have his capital tied up by the Government. This may also be the hurdle rate that companies would seek on any given investment.

Reconciliation of FMRV
This Appraiser considers the Comparable Sales Approach to be the most reliable for estimating FMRV because it is based on actual market data. In addition, the interest applied to the tied-up mineral rights value can serve as a reality check to further guide the FMRV. ■

AIMA MEMBERSHIP LIST AS OF OCTOBER 1998

Mitchell E. Albert
6435 South Pontiac Court
Englewood, CO 80111
(303) 741-2556
Certified: 1995

Sidney S. Alderman, Jr.
90 Harrison Avenue #F
Sausalito, CA 94965
(415) 331-5980
Certified: 1993

Brad G. Barby
P.O. Box 1660
Woodward, OK 73802
(580) 256-8114
Certified: 1993

Arthur R. Briggs
P.O. Box 3248
Amarillo, TX 79124
(806) 376-8318
Certified: 1995

Michael R. Cartwright
5 Claret Court
Reno, NV 89512
(702) 322-9028
Certified: 1992

Albert L. Crabtree
15 North 9th, Suite B-1
Duncan, OK 73533
(405) 252-3301
Certified: 1994

Trevor R. Ellis
600 Gaylord Street
Denver, CO 80206
(303) 399-4361
Certified: 1993

J. Paul Fly
P.O. Box 288
Georgetown, TX 78627
(512) 863-2694
Certified: 1992

Forest A. Garb
5310 Harvest Hill Road, Ste. 160-LB 152
Dallas, TX 75230
(214) 788-1110
Certified: 1992

Lawrence T. Gregg
11420 Johns Creek Parkway
Duluth, GA 30155
(770) 476-3555
Certified: 1996

Bernard J. Guarnera
1601 Blake Street #301
Denver, CO 80202
(303) 620-0020
Certified: 1995

John B. Gustavson
5757 Central Ave., Suite D
Boulder, CO 80301
(303) 443-2209
Certified: 1992

Thomas B. Henderson, Jr.
710 Buffalo Street, #201
Corpus Christi, TX 78401
(512) 883-2834
Certified: 1995

Earl G. Hoover
1855 Powell Place
Jacksonville, FL 32205
(904) 279-1661
Certified: 1992

Wesley W. Lilley
7074 South Elm Street
Littleton, CO 80122
(303) 771-9626
Certified: 1996

Joseph Stuart Limb
P.O. Box 8693
Scottsdale, AZ 85252
(602) 443-3978
Certified: 1993

Charles E. Melbye
22431 N. Hermosillo Drive
Sun City West, AZ 85375
(602) 546-8601
Certified: 1992

Edwin C. Moritz
5757 Central Ave., Suite D
Boulder, CO 80301
(303) 443-2209
Certified: 1993

Sam M. Pickering, Jr.
1414 Twin Pines Lane
Macon, GA 31211
(912) 743-9323
Certified: 1998

R.V. Rothermel
2329 Swarthmore Drive
Sacramento, CA 95825
(916) 445-4982
Certified: 1993

Ben H. Slothower
P.O. Box 3226
Bozeman, MT 59772
(406) 586-5137
Certified: 1993

James M. Stewart
700 Preston Trial
Wichita, KS 67230
(316) 733-2680
Certified: 1994

Donald E. Warnken
4030 S. 92nd East Avenue
Tulsa, OK 74145-3728
(918) 663-3074
Certified: 1992

Richard V. Wyman
P.O. Box 60473
Boulder City, NV 89006
(702) 293-1098
Certified: 1993

Please advise the Secretary, American Institute of Minerals Appraisers, 5757 Central Ave. Suite D, Boulder, CO 80301, of any changes of address.

Please welcome our newest member of the AIMA, Sam M. Pickering, Jr.

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