

AMERICAN INSTITUTE OF MINERALS APPRAISERS

NEWSLETTER

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PRESIDENT'S MESSAGE

Fredric Pirkle, AIMA President

As a reminder, our current continuing education (CE) requirement is 10 hours per year over a 3-year average. This requirement went into effect in 2011 so the current period ends December 31, 2013. For the period from 2011-2013, CEUs from 2010 may also be claimed. For members who wish to brush up on their CE units the Valuation papers and presentations from the 2011 SME convention held in Denver can be purchased on DVD for \$90 from AIMA headquarters and the Valuation papers and presentations from the 2012 SME Convention held in Seattle can be purchased on DVD for \$80 also from AIMA headquarters. Members are encouraged to use the table in the web site, which allows the voluntary recording of CE activities.

SME 2014 PREVIEW

To all AIMA members and those interested in issues pertaining to Mineral Valuation, please attend the SME annual conference in Salt Lake City late February. Details regarding the event may be found on the SME website.

SME 2014 Annual Meeting and Exhibit
Salt Palace Convention Center
Salt Lake City, Utah
February 23-26, 2014

The Valuation Session chairs for this year's SME meeting are Tim Knobloch and Richard Jolk.

The abstracts for the upcoming talks are shown as follows. It looks to be an exciting line-up of great talks. Please contact Tim Knobloch (tknobloch@jkpcinc.com) or Richard Jolk (alchmst@q.com) to let them know if you are interested in volunteering or helping in anyway. They have worked hard to set up a great session and many thanks to all their efforts.

Valuation – Case Histories

Tuesday Morning

The Different Types of Valuation Specialists in the Extractive Industries

J. Manes; CMC, Inc.,
Scottsdale, AZ

Mineral Valuation specialists are engaged in the Extractive Industries to perform valuation of mineral assets. Occasionally the assignment conditions may require valuation of other assets and interests, such as real estate, timber, crops, plant& equipment, inventory and business. The author of this paper has worked in cooperation with other types of valuation specialists on assignments, and has also witnessed non-qualified valuation

specialists providing mineral valuation services. Case histories from several projects will be discussed, addressing the different types and qualifications of valuation specialists in the Extractive Industries.

Information on assignment conditions and the objectives of the different valuation specialists will be covered. Advice on interacting with other valuation experts during a mineral valuation assignment will also be discussed.

Fundamental Elements of Mineral Property Value

R. Jolk; AIMA,
Golden, CO

There are many fundamental elements that contribute value to a mineral property. The author categorized these for discussion into five main areas; 1) elements associated with the mineralized deposit proper - tons, grade, shape, orientation, and integrity of both the ore and host rock; 2) location of the deposit with regard to climate, access, infrastructure, and supporting resources; 3) development work performed including - geologic interpretation, mine planning, process design, logistics, cost estimating and economic analysis; 4) prevailing socioeconomic, environmental and political climate; and 5) leadership and management capabilities and goals of those in charge including staffing, finance, purchasing, public relations, and marketing. Accurate mineral property valuation requires detail consideration of all these areas and an understanding of the combined level of detail and development that must be achieved at various points along a timeline so as to properly consider each area's respective contribution to overall property value.

Appraisal of Mineral Property Conservation Easement Donations

T. Ellis; Ellis International Services,
Denver, CO

Donation of conservation easements covering mineral properties became quite popular during the last 15 years, reaching a frenzy of activity in Colorado by 2005. The driving incentive has been tax deductions and lucrative state tax credits. The author uses case examples to illustrate correct and

inappropriate conservation easement appraisal practice, the driving economics for the donations, the resultant impacts on mineral property supply and value, the reaction of regulators, and dangers for appraisers.

Lessons Learned in the Valuation of Surface Estates for Mineral Properties

M. Chapman; Chapman Appraisals,
Louisville, KY

Not surprising, market participants generally place greatest emphasis on the mineral estate in the valuation of mineral properties. This analysis, however; looks at the contributory value of the surface estate. While the highest and best use and overall valuation methodology will be covered, the appraiser will delve deeper into paired sale analysis and general findings citing a few specific case studies.

Valuation Issues in the Marcellus Shale: Pennsylvania Perspective

F. Bertrand; American Institute of Minerals Appraisers, Boulder, CO

Pennsylvania is once again undergoing significant energy extraction activity due to the Marcellus Shale. Oil, coal, and now deep gas repeat previous booms. The state's second largest county, Bradford is the locale to many of the most active gas extractors in the state. How do wells, compressor stations, gathering pipelines, water ponds affect property value? How does contamination of water supplies affect value? Does methane contamination affect property values? How does the appraiser discount (if appropriate) these surface issues? How does the appraiser or realtor assign a value to dormant gas rights when presented as a seller's concession to a listing? What are the various concepts of lease terms? How are gas rights—prior to royalty income—valued? Can they be valued? What is the state view on dormant lease values?

MPEEM –The new and Improved Residual Technique of Reserve Valuation

Stagg; Geologic Group, Stagg Resource Consultants, Inc., Cross Lanes, WV

The Residual Technique of Reserve Valuation has been used for decades in valuing mineral reserves. Changes in financial reporting standards have led to a modification, known as the Multi-Period Excess Earnings Method. As with the Residual Technique, an operating model is constructed to forecast annual streams of revenue and expenses derived from the business enterprise associated with the reserves. The difference involves deducting not only the value of contributory assets from the cash flow stream, but also in imputed return on the investment in these assets. The present value of the excess earnings is then attributed to the reserves. This presentation reviews the methodology used in the application of this approach and presents an example of a complex appraisal that was conducted using this technique.

Valuation – Lessons Learned

Tuesday Afternoon

What is the Fair Market Value of 1,000 Acres in the Utica Shale in Ohio?

T. Knobloch, James Knobloch Petroleum Consultants Inc., Marietta, OH and J. Gustavson, Mineral Appraiser, LLC, Boulder, CO

The Utica Shale play in Ohio is evolving on an almost daily basis. Results of new wells can significantly change the value that oil and gas operators are willing to pay for leases including the lease bonus. On one end of the spectrum, the results of 1 or 2 wells may severely discount the potential value of large acreage positions, while in other areas, a “monster well” could make leasing values skyrocket. These great fluctuations in value can cause valuers to carefully consider their basis for experience indicates that oil and gas acreage values vary depending on the location, the stage of oil and gas development on the acreage and offset to acreage, and ultimately, the highest and best use. Valuations completed to date indicate that within a shale play, not all 1,000 acre parcels are not created equal. A brief introduction to the Utica Shale play as it stands today will be presented followed by a review of “1000 acre parcels” in various counties across the Utica Shale Play.

The Science and Skill Underlying Sales Comparisons Adjustments in Mineral Property Appraisal

D. Collins; Ellis International Services, Littleton, CO

An integral part of the Sales Comparisons Approach used in mineral property appraisals is the transaction adjustment process where adjustments are made from value components derived from transactions of similar properties to convert them to those of the Subject Property. The adjustments are based on known facts and are usually a calculated or educated percentage estimation. Adjustments are made on attributes such as mineral grade and quality, mine and deposit size, mineral processing, mine type and operating costs, location, infrastructure and site access, taxes, royalties, tariffs, project and country risks.

Lessons Learned from Appraising Shale Properties

J. Gustavson; Mineral Appraiser LLC, Boulder, CO

The quality of shale appraisals is bounded upwards by USPAP/IRS-compliant reports and in the other end by casual opinions espoused by self-proclaimed “professionals” (otherwise competent lawyers, accountants, surface appraisers, even landmen and field engineers). However, quality work by minerals appraisers must follow USPAP and IRS regulations. It must be based on a reasonable decline forecast and a discount rate reflecting the market once a property is producing. Alternatively, when properties are undeveloped, appraisers must rely on the bonus market for sales comparison followed by extrapolation to FMV. The “old bridge” for FMV of 2½ times bonus must be reexamined, and the result must then be adjusted for maturity of exploration. Landowners form trusts for heirs, which may further sever the minerals into Executive and Non-Participating Royalty interests with additional discounts (DLOC and DLOM) to be discussed.

Valuing Mineral Interests in Federal Land Exchanges

E. Moritz; Gustavson Associates, Boulder, CO

Federal land exchanges occur from time to time and on occasion involve mineral interests. When conducting such an assignment, it is necessary to follow the UASFLA standards and prepare two separate reports for the parties exchanging properties. This presentation discusses experiences in valuing mineral interests as part of exchange assignment and discusses methodology in the approach to value. The challenges of finding comparable sales data and larger parcel analysis are also discussed.

Appraisal of Oil and Gas Rights in the Pennsylvania Marcellus Region: Timing and Facts are Everything.

J. Kern; Resource Technologies Corporation, State College, PA

Using a recent Internal Revenue Service Case, the paper presents the factors to be considered and the procedures used when appraising both developed and undeveloped oil and gas rights in Pennsylvania. The paper examines the ownership, geology, production, market, and capital factors considered in developing value. The application of reserve classification standards is also discussed. Finally, the paper examines the importance of timing in developing valuations and in the use of the appraisal in tax planning, bank lending, and other applications.

Chasing Your Tail: Cost Depletion and Valuation of Mineral Properties

M. Cronshaw; Gustavson Associates, LLC, Boulder, CO

The income method must be considered as part of the valuation of mineral properties. This requires a forecast of the cash flows that are anticipated from the property. Income taxes must be included in the cash flows if an after tax approach is used. With such an approach there is circularity in the valuation that has a substantial effect on value and must be resolved. (1)The value of the property depends on the anticipated income tax obligation, and (2) the income tax obligation depends on the cost depletion that will be taken, which in turn depends on the value of the property. This paper discusses analytical methods for resolving this circularity, and

provides an example to show that it can have a substantial effect on value.

**SME 2013 VALUATION SESSIONS
DVDs**

Both Valuation Sessions from the 2013 SME Annual Meeting & Exhibit 24 – 27 February in Denver, Colorado are now available in electronic form.

The American Institute of Minerals Appraisers, Organizer of the 2 Valuation Sessions for the SME since 1999, has at its cost captured each of the 2013 presentations in audio, synchronized with the speaker's slides. The AIMA funded the recording for educational purposes and subsidizes the production (at a roughly \$2500 budget!).

The actual audio from the presentations is superimposed on each of the slides. Individual slides can be extracted from the DVD.

The DVD's have been professionally recorded by Freeman Audio Visual Solutions and are available at \$85.00 for both sessions including handling and shipping from the AIMA Headquarters:

**American Institute of Minerals Appraisers
5757 Central Avenue, Suite D
Boulder, CO 80301, USA**

Please, mail your check for US \$85.00 made out to the "AIMA" with your name and address and allow 2 weeks for delivery.

Members of the American Institute of Minerals Appraisers may claim up to 6 Hours of Continuing Education Credits when personally attending the complete two Valuation Sessions. Subsequent hours recorded by CMA's for serious desk study of the DVD material may also be claimed as contact hours toward CE credits.

There are still DVD's available for the 3-session 2011 Conference (now \$120 per set) and for the 2-session 2012 Conference (@ \$90 per set). Hours recorded by CMA's for desk study of this historic DVD material may also be claimed as contact hours toward CE credits

Please, address any questions to the AIMA Past President at john.gustavson1@aol.com

EMAIL CHAIN CONTRIBUTIONS

Matt Chapman Newsletter Editor

I am grateful for those who have sent me emails over the course of the year for material to include in the newsletter. I have filtered some of the emails to not identify names and I have edited some of the emails in order to bring them into context with multiple others received so as to be able to better present a compilation of contributions. It is noted that while I did edit the emails, much of the following article is not my personal writings.

Thanks! Matt

Business Appraisers

New Member Request

“I am interested in learning further about the AIMA organization. Our firm is involved in the business valuation of mining properties at present.”

CMA 1 response to new member application

AIMA goes one step deeper than the valuation of a mining business, namely into the valuation of the underlying asset, the mineral deposit.

The value of an extractive business is dominated by its mineral assets. Many times a deposit is in varying stages of development prior to being extracted or is being singled out for a transaction, for a litigation, for tax or for estate matters. Those appraisal activities require specialized competence under the Uniform Standards of Professional Appraisal Practice. That is why the AIMA has several levels of membership:

1. Certified Minerals Appraiser. A professional with a mining or petroleum engineering or geology background, who has met the certification requirements and who has been peer reviewed for his/her competence.
2. Associate Member. A person with a mining or petroleum engineering or geology degree, who is working on gaining the necessary skills and

experience in the cross-disciplinary profession of minerals appraisal assisted by a designated Institute Mentor.

3. Affiliate Member. A person of good standing in other property appraisal areas with willingness to abide by the Institute Code of Ethics and who wishes to communicate closely with mineral property appraisers.

Please, let me know, which of the above may interest. Our Institute strongly recommends association with appraisers of other types of property and of business.

CMA 2 Response to Above

Due to my interactions with business appraisers, in recent years my opinion has moved to being in line with yours -- our members appraise the value of the interest held in the land. If we at sometime decide to accept business appraisers as members, we should create another category of certified membership for them.

CMA 1 Response to Above

In response to CMA 2's last sentence I can tell you that the particular Business Appraiser immediately requested membership application forms for our Affiliate Member category. Also, we are working on getting these very knowledgeable Affiliates up on our web site (John Manes action), but with the proviso and notice to the public that they are not Certified, because of the absence of mineral geological or engineering education.

Please feel free to offer a response and title the email Response to Business Appraisers to matt@chapmanappraisers.com

Associate in Training

Associate Comment to CE Requirement

“It's hard for "associates" to justify spending money on training without booked work to justify it. Moreover, it's impossible to get appraisal work without certification and the length of apprenticeship seems to be arbitrary and moving. But the constant is the paying of dues for various

licenses, groups, and associations that seems to be requisite in this field.

Compare this with engineering certification. With professional engineering licenses the apprenticeship was a four year period after passing the national 8 hour EIT (Engineer in Training Examination - now called the Fundamentals of Engineering Examination) and then 4 years after that, while working under a PE and with 4 favorable letters from other PEs, an EIT would be qualified to take the 8 hour Professional Engineering Exam.

That was a long tough process but it was something newcomers could plan and bank on before embarking on the long journey. Moreover, the state departments of licensure never asked apprentices for dues or tried to sell them training.”

CMA Response

“Please view the AIMA website and you will see the following with respect to gaining certification.

No doubt though, you raise some valid concerns about the requisite training and obstacles in becoming competent. Realistically, becoming competent in this field requires specific education requirements, strong mentorship, and time to gain experience in multiple disciplines. Additionally self motivation and independent study are necessary to ultimately be successful.

But even with the best education background, self-motivation and attitude, there is no guarantee for strong experience that will help you grow. It is my recommendation therefore that associates are selective in their mentors to make sure that they will have the time to teach and their work will be of the experience you are looking to gain.

Realistically, it may be a trade-off and to work for a strong mentor and gain excellent experience, the pay may not be as good as other avenues. This stated; it is quite common for the intern’s primary benefit to be experience rather than pay. That is just how the cookie crumbles.”

From AIMA Website

Applicants must have at least five years of progressively more responsible professional experience, following receipt of a baccalaureate degree, during which full competence has been demonstrated in the application of professional principles and methods to the execution of work involving:

- 1.the understanding of the appraisal approaches and methodology utilized by the market in appraising mineral rights and properties; or
- 2.the development, management, or regulation o' mineral rights and properties; or
- 3.the teaching and market research of mineral property transactions and the concepts of fair market value at the university level.

In fulfillment of this experience requirement, two years of experience credit shall be allowed for work performed during the completion of a master's degree, or three years of credit shall be allowed for work performed during the completion of a doctorate degree, providing that the graduate training was primarily in some aspect of minerals appraisal. In no case shall the total experience credit for academic work, above the baccalaureate degree exceed a total of three years.

Applicant must furnish specific and explicit descriptions of the qualifying work experience. Qualifying work experience specifically does not include routine activities, where the elements of initiative, professional judgment, and decision-making are lacking, nor does it include activities that do not use appraisal methods to process and interpret market data. Where pertinent, the description should include a bibliography listing published or unpublished reports of substantive original investigations or appraisal reports based on market data.

Specifically, and subject to change without notice by the Executive Committee, the requirements shall include education, experience, and a record of personal integrity as set forth in the following paragraphs. The interpretation and application of such requirements shall be within the sole discretion of the Executive Committee, which may in its

judgment adopt and publish higher or additional requirements.

Educational requirements shall include:

1. baccalaureate or higher degree in geology, mining or petroleum engineering;
2. a minimum of one continuing education course in appraisal of minerals as recognized by the Executive Committee; or
3. in lieu of the foregoing, evidence satisfactory to the Executive Committee, or a committee of examiners duly appointed by it, of sound knowledge and proficiency in a field of appraisal of mineral's

Experience requirements for membership shall include a minimum of five years of appraisal of minerals experience after having satisfied the education requirements of the preceding paragraph.

Applicants for membership shall affirm their adherence to applicable professional and ethical standards and shall provide acceptable references from at least three minerals appraisers who have personal knowledge of the applicant's qualifications, integrity, and conduct, at least one of whom is a Member of the Institute.

CERTIFICATION PROCEDURES

The AIMA Board has established a three-person certification review committee to decide for and against applicants for certification. The committee will meet physically once each quarter to review completed applications. A unanimous decision will be required to certify or not certify an individual by the three-member committee. Applications receiving a split decision will automatically be forwarded to the Executive Committee of AIMA for its review. In this case, a two-thirds majority of the Executive Committee will be required to obtain certification.

No individual will be certified without submitting to the full application and review procedure. Individuals denied certification may petition for a personal hearing before the review committee that denied his or her original application.

The application fee is \$75, which will cover application and membership fees through the current calendar year, and which should be submitted by check or money order with the completed application form.

Please feel free to offer a response and title the email Response to Associate in Training to matt@chapmanappraisers.com

DEVELOPERS WIN SUPREME COURT CASE ON PROPERTY RIGHTS

Developers Win Supreme Court Case on Property Rights

The U.S. Supreme Court handed down a 5-4 decision June 25 [2013] that has the potential to hamper the ability of local land-use agencies to obtain concessions from property owners and developers for actions that impact the environment, neighbors and the public, The Atlantic Cities reported.

The case, *Koontz v. St. Johns River Water Management District*, involved a 14.9-acre mostly wetlands property near Orlando, Fla., owned by Coy Koontz Sr. In the 1990s, Koontz wanted to develop 3.7 acres of his property and construct a building, a parking lot and a retention pond — and he had to obtain a permit for dredging and filling in wetlands. In exchange for the permit, Koontz agreed to conserve the rest of his land from development.

The St. Johns River Water Management District felt Koontz's offer was insufficient and required him instead to develop only one acre or pay for contractors to make improvements to other government-owned wetlands in the same watershed. Koontz refused and sued, The Atlantic Cities reported.

The case had been in the legal system for 11 years, so long, in fact, that Koontz Sr. died, and the case fell into the hands of his son, Coy Koontz Jr.

The question here revolved around the Fifth Amendment's Just Compensation Clause, which

says private property cannot be taken for public use “without just compensation.” The Supreme Court had to decide whether or not the St. Johns River Water Management District violated Koontz’s property rights by denying him a development permit because he would not adhere to the district’s conditions for land development, The Atlantic Cities reported.

While the district contended in court that nothing actually was taken from Koontz, the court decided in favor of the landowner, writing: “It makes no difference that no property was actually taken in this case. Extortionate demands for property in the land-use permitting context run afoul of the Takings Clause not because they take property but because they impermissibly burden the right not to have property taken without just compensation,” The Atlantic Cities reported.

The decision has the potential to substantially expand property owners’ ability to challenge local land use regulations and fees.

According to The Atlantic Cities, this latest case, along with precedents set by previous Supreme Court rulings, means that a government entity cannot require concessions from a property owner unrelated to the harm the owner causes or disproportionate to it.

W. Paul Farmer, CEO of the American Planning Association, told The Atlantic Cities that the decision has the potential to “instill fear” in land-use agencies and could result in local governments simply denying permits without making any efforts at environmental mitigation for fear of lawsuits.

Source:
<http://www.appraisalinstitute.org/ano/newsletter/DisplayNwsLtrArticle.aspx?volume=14&numbr=13/14&id=20215>

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Special thanks to the contributions made. The strength of the AIMA organization is through the commitment, education, and contributions of its members. We are always looking for articles to enhance our profession and welcome any material that members may provide. Thanks!

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