Some Helpful Information about your Mineral Appraised Value

The appraisal of the property in which you own a mineral interest is based on an income approach to value. This entails estimating the remaining future reserves of the property and the timing of how those reserves will be recovered. This estimation of future production along with the estimation of future pricing generates an estimated yearly income that is discounted to current day dollars. Each succeeding year's income is more heavily discounted than the previous, thus rendering less and less value contribution with each succeeding year. For example using a discount of 20%, a dollar ($1.00) anticipated to be received in the 10^{th} year of the productive life of an oil or gas lease would only contribute $.18 (18 cents) of value in today's dollars. Whereas a dollar anticipated to be received in the first year would contribute $.91 (91 cents) in today's dollars. Each year's value contribution is then added, and a market adjustment factor is then applied. Your value is determined from this total, based on the type of interest you own and the decimal interest you own in the lease.

Income you receive after January 1

The appraisal date is January 1 of each tax year. The proposed market values are based on each lease's parameters as of January 1, otherwise known as "the appraisal projection". The market value is NOT a tax on prior years of income.

Helpful Information about Product Pricing in the Property Tax Code

Section 23.175 of the Texas Property Tax Code reads as follows:

(a) If a real property interest in oil or gas in place is appraised by a method that takes into account the future income from the sale of oil or gas to be produced from the interest, the method must use the average price of the oil or gas from the interest for the proceeding calendar year multiplied by a price adjustment factor as the price at which the oil or gas produced from the interest is projected to be sold in the current year of the appraisal. The average price for the proceeding calendar year is calculated by dividing the sum of the monthly average prices for which oil and gas from the interest was selling during each month of the proceeding calendar year by 12. If there was no production of oil or gas from the interest during any month of the proceeding calendar year, the average price for which similar oil and gas from comparable interests was selling during that month is to be used. The chief appraiser shall calculate the price adjustment factor by dividing the price of imported low-sulfur light crude oil in nominal dollars or the spot price of natural gas at the Henry Hub in nominal dollars, as applicable, as projected for the current calendar year by the United States Energy Information Administration in the most recently published Early Release Overview of the Annual Energy Outlook by the price of imported low-sulfur light crude oil in nominal dollars or the spot price of natural gas at the Henry Hub in nominal dollars, as applicable, for the proceeding calendar year as stated in the same report. The price of the interest used in the second through the sixth calendar year of the appraisal may not reflect an annual escalation or de-escalation rate that exceeds the average annual percentage change from 1982 to the most recent year for which the information is available in the producer price index for domestically produced petroleum or for natural gas, as applicable, as published by the Bureau of Labor Statistics of the United States Department of Labor. The price for the interest used in the sixth calendar year of the appraisal must be used in each subsequent year of the appraisal.

(b) The comptroller by rule shall develop and distribute to each appraisal office appraisal manuals that specify the formula to be used in computing the limit on the price for an interest used in the second through the sixth year of an appraisal and the methods and procedures to discount future income from the sale of oil or gas from the interest to present value.

(c) Each appraisal office shall use the formula, methods, and procedures specified by the appraisal manuals developed under Subsection (b).

New Leases

If you are receiving income from a producing zone that is new, there may be further risks that need to be considered. However, you can still take the income received, since you began receiving it, and divide that income by the number of months it represents. Then divide that average monthly income into the value estimated for your mineral interest. This will give the number of months of income necessary to equal your value. If you have received no income but know you have signed a lease, contact the operator listed in the Property Description of your Notice of Value, or contact persons you have dealt with in the lease signing.