



STATE OF WEST VIRGINIA
Department of Revenue
State Tax Department

Joe Manchin III
Governor

Virgil T. Helton
State Tax Commissioner

September 1, 2006

2006 SEP - 1 A 11:34
OFFICE WEST VIRGINIA
SECRETARY OF STATE

FILED

The Honorable Betty Ireland
Secretary of State
Building 1, Suite 157-K
State Capitol
Charleston, West Virginia 25305

Dear Secretary Ireland:

Attached are final natural resource property valuation variables for the 2007 Tax Year as developed by the State Tax Department for use in appraising coal, oil, natural gas, managed timberland and other natural resource properties for ad valorem tax purposes.

In accordance with requirements of §§ 110 CSR 1-I, 1-J, and 1-K, tentative variables were made available for public comments on June 30, 2006. The final valuation variables are being filed for inclusion in the State Register.

Sincerely,

Christopher G. Morris
Deputy Tax Commissioner

CGM/dh/cb/j

Attachment

cc: All County Assessors

COAL PROPERTIES ANALYSIS

Tax Year 2007

September 1, 2006
Virgil T. Helton
State Tax Commissioner
Department of Revenue

PRODUCING COAL CAPITALIZATION RATE

Capitalization Rate Analysis and Results:

In developing a capitalization rate for use in valuing specific income-producing properties consideration is given to the three approaches generally employed in estimating a discount rate. As a matter of practicality, the Bands-of -Investment and Summation Technique approaches are utilized in establishing discount rates for active coal. Data for analysis has been derived in accordance with current Legislative Rule Title 110, Series 11.

<u>Safe Rate</u>	90 day Treasury Bills			<u>Safe Rate</u>
	January	December	2005	3.210%
	January	December	2004	1.400%
	January	December	2003	1.030%

<u>Risk Rate</u>	Interest differential between Loan Rate and 90 day Treasury Bills			
	<u>Loan Rate*</u>			<u>Debt Risk Rate</u>
	2005	8.19%		4.980%
	2004	6.34%		4.940%
	2003	6.12%		5.090%
	*Prime plus 2%			

<u>Equity</u>	Differential between Equity Rates and 90 day Treasury Bills			
	<u>Equity Rate**</u>			<u>Equity Risk Rate</u>
	2005	[13.0%/(1-.30)]-3.21		15.361%
	2004	[12.75%/(1-.30)]-1.40		16.814%
	2003	[12.75%/(1-.30)]-1.030		17.184%
	** Moody's Handbook on Common Stocks and Value Line Investment Analysis			

<u>Composite Risk Rate</u>	Loan and Equity Rates weighted by industry estimated capital structure.		
	Equity Rate	Debt Rate	Composite Risk
2005	9.217%	1.992%	11.209%
2004	10.089%	1.976%	12.065%
2003	10.311%	2.036%	12.347%
Note: Debt equity Ratio		Debt 40%	Equity 60%

Non Liquidity Rate Interest differential between a 90 day Treasury Bill and a 1 year Treasury Bill which reflects a reasonable time necessary to sell active property.

			<u>1yr T Bill</u>	<u>90 d T Bill</u>	<u>Non Liquidity Rate</u>
January	December	2005	3.620%	3.210%	0.410%
January	December	2004	1.890%	1.400%	0.490%
January	December	2003	1.240%	1.030%	0.210%

Management Rate Charges for the management of investment portfolios.
Fixed Rate (by Rule) 0.500%

<u>Inflation Rate</u>			
January	December	2005	3.400%
January	December	2004	3.300%
January	December	2003	1.900%

Capitalization Rate

Since the valuation of active coal property is predicated on a three year production average, the capitalization rate is considered in a similar manner.

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Inflation Rate	-3.400%	-3.300%	-1.900%
Safe Rate	3.210%	1.400%	1.030%
Composite Risk Rate	11.209%	12.065%	12.347%
Non Liquidity Rate	0.410%	0.490%	0.210%
Management Rate	0.500%	0.500%	0.500%
Total	11.929%	11.155%	12.187%

Three Yr Average: 11.757

Rounded to:

11.80%

CAPITALIZATION RATE - 11.8%			
MULTIPLIERS:		%	
1YR	0.946	9YR	5.677
2YR	1.792	10YR	6.024
3YR	2.548	11YR	6.334
4YR	3.225	12YR	6.611
5YR	3.83	13YR	6.859
6YR	4.372	14YR	7.081
7YR	4.856	15YR	7.279
8YR	5.289		

Explanation of Reserve Coal Valuation

The RCVM consists of a computer model, which utilizes a database consisting of coal beds and characteristics, property locations, mine locations, sales, transportation, etc., for the entire state. An extensive algorithm calculates in-place tonnage, expected time of mining and present value for all the mineable coal on every property.

There are, therefore, no set "rates" available on reserve coal under the Rule. The RCVM values on each property will not be available until all data has been entered, after November 15 of each year. Please refer to the State Register, Legislative Rules, Title 110, Series 11 for details of the process.

COAL

Royalty Rate Analysis

The development of royalty rates for the various categories of mines and markets involves information collection and review from a variety of sources. Research data for coal lease rates have been derived from recorded lease transactions provided by county assessors, tax auditors, producers, and by individual lessors/lessees involved in the specific transaction. The prices for mined coal have been calculated from data published in "COAL WEEK", from pricing information provided by producers as part of the most recent tax filing, and from data obtained from the WV Public Service Commission and U.S. Federal Energy Regulatory Commission concerning power plant fuel purchases. Because a large portion of the data used in this analysis is, by law, considered confidential, only a summary of the results are published.

COAL SALE PRICES 2003, 2004, and 2005 FOR TY2007 APPLICATION

GRAND SUMMARY ALL SOURCES

	STEAM SPOT	STEAM TERM	MET
FERC	\$46.21	\$36.93	
Coal Week Publication	\$54.67		\$69.15
Active Return Summary	\$32.67	<-S+T	\$67.15

STATE STEAM PRICE	\$42.62	EIA & PSC, 3 YR WTD
STATE MET PRICE	\$68.15	
STATE STEAM SPOT PRICE	\$44.52	

FERC Tons reported 2005.	Spot Sales	Term Sales	Total
	19,729,741	43,129,249	62,858,990

COAL TY 2007 ROYALTY RATES

	Deep	Surface
TOTAL RECORDS	167	324
STRAIGHT AVERAGE	5.67%	6.30%
MEDIAN	5.05%	5.46%
WEIGHTED AVERAGE	5.17%	5.87%
TENTATIVE RATE SURFACE	5.87%	
TENTATIVE RATE DEEP	5.17%	

ROYALTY RATE CALCULATIONS

Steam Coal/ Deep Mine	\$44.52	X	5.17%	\$2.30
Metallurgical Coal/ Deep Mine	\$68.15	X	5.17%	\$3.52
Steam Coal/ Surface Mine	\$44.52	X	5.87%	\$2.61
Metallurgical Coal/ Surface Mine	\$68.15	X	5.87%	\$4.00

Title 110, Series 11
Valuation of Active and Reserve Coal Property for Ad Valorem Property Tax Purposes

The above Legislative Rule was modified during the 2005 Legislative Session to allow biannual revisiting of the geostatistical basis for several valuation factors used in the Reserve Coal Valuation Model. Preliminary research has been conducted and the results are as follows:

Market Interest Factor

This is the relationship between transactions (sales, leases, prospects, permit applications, etc.) and mining as it relates to properties and locations. Trans_Ct is the number of transactions counted within the radius.

Radius = 5 miles

If Trans_Ct >= 50 Then TransFactor = 20

If Trans_Ct < 50 And Trans_Ct >= 20 Then TransFactor = 40

Else TransFactor = 80

Market Mineability Factor

This is the relationship between property location and mining, through time. Determining feature is count of mines within the radius.

Radius = 5 miles

Surface Mines: Smine

Deep Mines: Dmine

Boom Mines: Bmine

Historic Mines: Omine

Current Mines: Cmine

To assign MineFactor:

If Cmine > 0 Then MineFactor = 20

If Cmine = 0 And (Omine > 0 Or Bmine > 0) Then MineFactor = 40

Else MineFactor = 80

Use Conflict Factor

This is the relationship between oil & gas well drilling and mining as it relates to property location. Well density is in wells per square mile.

WellDensity < 2 Then WellFactor = 0

WellDensity >= 2 And WellDensity < 13 Then WellFactor = 20

WellDensity >= 13 And WellDensity < 24 Then WellFactor = 40

WellDensity > 24. Then WellFactor = 80

**OTHER MINED MINERAL
PROPERTY ANALYSIS**

Tax Year 2007

September 1, 2006
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PRODUCING OTHER MINED MINERALS CAPITALIZATION RATE

Capitalization Rate Analysis and Results:

In developing a capitalization rate for use in valuing specific income-producing properties consideration is given to the three approaches generally employed in estimating a discount rate. As a matter of practicality, the Bands-of -Investment and Summation Technique approaches are utilized in establishing discount rates for active coal. Data for analysis has been derived in accordance with current Legislative Rule Title 110, Series 1k.

<u>Safe Rate</u>	90 day Treasury Bills		<u>Safe Rate</u>
January	December	2005	3.210%
January	December	2004	1.400%
January	December	2003	1.030%

<u>Risk Rate</u>	Interest differential between Loan Rate and 90 day Treasury Bills		
	<u>Loan Rate*</u>		<u>Debt Risk Rate</u>
	2005	8.190%	4.980%
	2004	6.340%	4.940%
	2003	6.120%	5.090%

*Prime plus 2%

<u>Equity</u>	Differential between Equity Rates and 90 day Treasury Bills		
	<u>Equity Rate**</u>		<u>Equity Risk Rate</u>
	2005	[12.5%/(1-.32)]-3.21	15.172%
	2004	[12.5%/(1-.32)]-1.40	16.982%
	2003	[12.5%/(1-.32)]-1.030	17.352%

** Moody's Handbook on Common Stocks and Value Line Investment Analysis

<u>Composite Risk Rate</u>	Loan and Equity Rates weighted by industry estimated capital structure.		
	Equity Rate	Debt Rate	Composite Risk
2005	10.621%	1.494%	12.115%
2004	11.039%	1.729%	12.768%
2003	11.279%	1.782%	13.061%

Note: Debt equity Ratio Debt 30% Equity 70%

Non Liquidity Rate Interest differential between 90 day Treasury Bills and a 1 year Treasury Bill which reflects a reasonable time necessary to sell active property.

			<u>1yr T Bill</u>	<u>90 d T Bill</u>	<u>Non Liquidity Rate</u>
January	December	2005	3.620%	3.210%	0.410%
January	December	2004	1.890%	1.400%	0.490%
January	December	2003	1.240%	1.030%	0.210%

Management Rate Charges for the management of investment portfolios.
Fixed Rate (by Rule) 0.500%

<u>Inflation Rate</u>			
January	December	2005	3.400%
January	December	2004	3.300%
January	December	2003	1.900%

<u>Property Tax Rate</u>	Sixty percent (60%) of State average Class III property tax rate.		
January	December	2005	60% of 2.24 = 1.344%
January	December	2004	60% of 2.16 = 1.296%
January	December	2003	60% of 2.16 = 1.296%

Capitalization Rate

Since the valuation of other mined mineral property is predicated on a three year production average, the capitalization rate is considered in a similar manner.

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Inflation Rate	-3.400%	-3.300%	-1.900%
Safe Rate	3.210%	1.400%	1.030%
Composite Risk Rate	12.115%	12.768%	13.061%
Non Liquidity Rate	0.410%	0.490%	0.210%
Management Rate	0.500%	0.500%	0.500%
Property Tax Rate	1.344%	1.296%	1.296%
<u>Total</u>	14.179%	13.154%	14.197%

Three Yr Average: 13.843%

Rounded to:

13.80%

CAPITALIZATION RATE - 13.80%

MULTIPLIERS:	%		%
1YR	0.937	9YR	5.315
2YR	1.761	10YR	5.608
3YR	2.485	11YR	5.865
4YR	3.121	12YR	6.092
5YR	3.68	13YR	6.29
6YR	4.171	14YR	6.465
7YR	4.603	15YR	6.618
8YR	4.982		

OTHER MINED MINERALS

ROYALTY RATE SURVEY

The determination of royalty rates for other mined minerals within the state of West Virginia is dependent upon the availability of leasehold information. Since this information is limited, the Department has chosen to review data for the most recent thirty year period. A summary of this review is shown below in order to protect the confidentiality of parties involved.

RESOURCE	DATA SOURCES	WTD			TY2007 RATE
		AVERAGE PRICE	AVERAGE ROYALTY	MEDIAN ROYALTY	
LIMESTONE	23	\$7.09	\$0.28	\$0.30	\$0.28
SANDSTONE	6	\$6.45	\$0.55	\$0.55	\$0.55
CLAY/SHALE	33	N/A	\$0.11	\$0.10	\$0.11
SAND/GRAVEL	2	\$3.02	\$0.33	\$0.33	\$0.33
SALT BRINE	0	N/A	N/A	N/A	\$0.10

RESERVE VALUES

	number of sales	\$/AC
LIMESTONE	35	\$1,080.00
SANDSTONE	5	\$2,565.00
CLAY/SHALE	15	\$850.00
SAND/GRAVEL	20	\$3,285.00
SALT	6	\$1,140.00