

ADMINISTRATIVE NOTICE 98-03

SUBJECT: Property Tax -- State Tax Commissioner's Statement for the Determination of Royalty Rates for Producing Coal and Other Mined Minerals for Property Tax Purposes for Tax Year 1998, Pursuant to CSR §110-11-4.1.6 and 110-1K-4.1.6.

On June 30, 1997, the State Tax Commission filed valuation variables to be used in conjunction with legislative regulations for the appraisal of natural resource properties. (See: CSR §§ 110 1-H, 1-I, 1-J, and 1-K) This notice will address one of the variables, royalty rate(s), setting forth the procedures used in developing the rate(s) for Tax Year 1998.

DISCUSSION

In West Virginia, natural resources royalty rates are generally negotiated at a stated price per ton or as a percent of the selling price per ton of the resource produced. As most leases are negotiated as a percentage of selling price, it is necessary to obtain lease and sales information and to analyze this information in order to develop leasing and sales price patterns typical of the industry.

The Commission's review of coal industry leasing patterns during the previous five (5) years reveals that leases for surface mining operations (6.60%) are typically higher than for deep mining operations (5.70%). Review of sales prices reported in "Coal Outlook", "Coal Week" and from Tax Year 1997 returns, further reveal a difference in typical selling prices of steam coal (\$24.40 per ton) and metallurgical coal (\$32.36 per ton).

Thus, royalty rates typically negotiated by the coal industry have been as follows:

Steam Coal/Deep Mine	\$24.40 per ton	X	5.70%	=	\$1.39 per ton
Metallurgical Coal/ Deep Mine	\$32.36 per ton	X	5.70%	=	\$1.85 per ton
Steam Coal/Surface Mine	\$24.40 per ton	X	6.60%	=	\$1.61 per ton
Metallurgical Coal/ Surface Mine	\$32.36 per ton	X	6.60%	=	\$2.14 per ton

Similar research of royalty rates for other mined minerals revealed the following:

Limestone/Deep	14¢ per ton
Limestone/Surface	14¢ per ton
Sandstone	14¢ per ton
Clay/Shale	10¢ per ton
Sand/Gravel	7¢ per ton
Salt	5¢ per ton

For more information concerning natural resource properties' royalty rate(s), contact the State Tax Commission at (304) 558-3940.

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West Virginia State Tax Commission

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