**Market Value of your Mineral Interest**

In the State of Texas, mineral interests will be appraised each year a lease is active on January 1. Value determination is regulated by State Property Tax Code which is overseen by the Texas State Comptroller’s Office. The value is calculated using the Discounted Cash Flow (DCF) model of the income approach to market value.

Below are some key points about mineral appraisals.

1. The value of your property is the **Fair Market Value**. Fair market value, in the case of mineral property and ownership represents what a willing buyer and a willing seller in an arm's-length transaction are agreeable to pay for a specific mineral interest.
2. The value of a mineral interest is determined using the *Income Approach.* This approach derives the value from what the expected future income the well will provide through its economic life. A common misconception is that a minerals market value should be one year's income (like Federal Income Tax). Though one would not typically sell an interest for an amount of one year's income if it was expected that the income would continue after the end of the year. The market value would typically be more than that one years’ income.

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1. The *Income Approach* to market value utilizes several parameters in the appraisal, the most important are **price and production**.
	* The **price** used in the appraisal is regulated by the state. The first year's price is based on the average price from the prior year multiplied by a "Market Condition Factor" provided by the Comptroller. The price is escalated each year according to a table also provided by the Comptroller.
	* **Production** for each property is available through the Texas Railroad Commission. Using historical production patterns (most recent patterns being the most important) a forecast of future production is made.
2. With the price and production forecast an income stream can be determined. Discounting the income back to present value as of Jan 1 of the appraisal year gives the total value of the property.
3. Once the total value of the property is determined, your decimal interest in this lease then is used to establish your portion of the mineral value.

Because mineral property values can vary by large amounts each year (up and down) they are reappraised every year and an appraisal notice is mailed out.