January 27, 1981

TO COUNTY ASSESSORS:

INFORMATION REGARDING THE ASSESSMENT OF PETROLEUM AND GAS PRODUCING PROPERTIES

In our review of the assessment of petroleum and gas producing properties in a recent assessment practices survey, we noted the improper application of the reappraisal concept as it relates to the right to produce or extract oil, gas, and other minerals for so long as they can be produced or extracted in paying quantities from the leased land, i.e., the working interest.

There is no question under 61(a) of the Revenue and Taxation Code that the transfer of the right to extract gas and oil is a change of ownership. Court cases have established that the transfer of the working interest is equivalent to a transfer of the fee interest as far as the mineral rights are concerned. (See Dabney v. Edwards 5 Cal. 2d.) Therefore, with the transfer of a working interest, whether from a fee holder to an operator or from one operator to another, the entire interest (royalty and working interest) should be revalued at market value as of the date of transfer.

When a royalty interest alone is transferred, the transfer of that interest does not trigger a reappraisal of the mineral rights. (The California Supreme Court holds that the royalty interest is not real property within the meaning of Section 104 of the Revenue and Taxation Code.)

This concept was stated in our Assessors' Letter 80/9, Information Regarding the Assessment of Petroleum Properties, dated January 15, 1980, in Part B, Questions and Answers, pertaining to the appraisal of oil and gas properties to wit.

1. QUESTION: Where a mineral interest owner (lessor) has a royalty interest and transfers ownership of his interest, is this interest separately assessable?

   ANSWER: A leasehold interest (lessee) in a mineral right is, for all intents and purposes, according to case law, equivalent to a fee interest and ordinarily is considered to extend into perpetuity. The remaining
royalty interest is not separately assessable and therefore would not be separately appraised, nor would it be appraised upon transfer. However, the reversionary interest in the mineral rights, if it has value, is separately assessable.

If you have any further questions, please contact Mr. Ray Rothermel, Assessment Standards Division, at (916) 445-4982.

Sincerely,

Verne Walton
Chief
Assessment Standards Division

VW:sm
January 27, 1981

TO COUNTY ASSESSORS:

ASSESSORS' SUPERVISORY PERSONNEL QUESTIONNAIRE

Please complete the attached questionnaire with the names, exact job titles, and telephone number of your supervisory staff members. If your county has an ATSS network telephone system, please indicate both the public and ATSS numbers. This information will be used to compile the information directory of assessors' key personnel.

Thank you for your cooperation.

Sincerely,

Verne Walton, Chief
Assessment Standards Division

VW:sk
Enclosure
### County Assessors' Supervisory Personnel

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<tr>
<th>Job Title</th>
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<td>County Assessor</td>
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(Signed)