

State of California  
BOARD OF EQUALIZATION  
PROPERTY TAX RULES

Division 1. State Board of Equalization-Property Tax  
Chapter 4. Equalization by State Board  
Article 4. Change in Ownership and New Construction

**Rule 469. Mining Properties.**

*Authority:* Section 15606, Government Code.

*Reference:* Article XIII, Section 1, California Constitution; Article XIII A, Section 2, California Constitution; and Sections 51 and 110.1, Revenue and Taxation Code.

**(a)** The provisions of this rule apply to the valuation of the rights to explore, develop and produce minerals, other than oil, gas and geothermal resources, and the real property associated with these rights.

**(b) GENERAL.**

(1) Rights to enter in or upon land for the purpose of exploration, development or production of minerals are taxable real property interests to the extent they individually or collectively have ascertainable value.

(2) It is the right to explore, develop and produce that is being valued and not the physical quantity of resources present on the valuation date.

(3) The unique nature of mineral property interests requires the application of specialized appraisal techniques designed to satisfy the requirements of article XIII, section 1, and article XIII A, section 2, of the California Constitution. To this end, mineral property interests and other real property associated therewith shall be valued pursuant to the principles and procedures set forth in this section.

(4) Notwithstanding any other provision in this section, any appropriate valuation method described in section 3 of title 18 of this code may be applied in the event of a transfer of an ownership interest in the right to explore, develop or produce a mineral property.

**(c) DEFINITIONS.** For the purposes of this section:

(1) "Minerals" means organic and inorganic earth material including rock but excluding oil, gas, and geothermal resources.

(2) "Proved reserves" means those minerals measured by volume or weight which geological and engineering information indicate with reasonable certainty to be recoverable in the future, taking into account reasonably projected physical and economic operating conditions. "Proved reserves" includes all minerals that satisfy the conditions of the preceding sentence without regard to how the term is used in industry.

(3) "Exploration" means the searching for and determining the location, quantity, nature, shape, and quality of mineral deposits.

(4) "Development" means the preparation of minerals for production including the removal of waste rock or overburden, and the construction of improvements or improvements to land related to the production of minerals.

(5) "Production" means the removal or processing of minerals.

## **Rule 469 (Contd.)**

(6) "Appraisal unit" consists of a mineral property that persons in the marketplace commonly buy and sell as a unit or that is normally valued separately.

### **(d) VALUATION OF MINERAL PROPERTIES PRIOR TO PRODUCTION.**

(1) Exploration. The right to explore for minerals is taxable to the extent it has value separate from the rights to develop and produce any discovered minerals. The right to explore shall be valued by any appropriate method or methods as prescribed in section 3 of title 18 of this code taking into consideration appropriate risks; however, in no event shall the right be considered to be under construction. While the construction of structures or the physical alterations to land, e.g., access roads, fencing, drainage or water systems, land clearing, etc., during exploration constitutes assessable new construction (subject to the provisions of section 463 of title 18 of this code), it does not add to or diminish the value of the right to explore. Costs associated with obtaining government approval related to new construction should be considered when valuing new construction. Costs of obtaining governmental approval to operate, taking ore samples, assaying for mineral content or testing processing methods, shall not be considered for purposes of valuing the right to explore. These latter elements of cost may appear in the value of the mineral rights when production starts. Once the base-year value of the right to explore is determined and enrolled, it shall not be changed except to reflect diminution in value from all causes as well as any increase in value resulting from the annual rate of inflation as prescribed by section 460 of title 18 of this code or to reflect a change in ownership, or as provided in subdivision (g) of this rule.

#### (2) Development.

(A) Although the right to develop and the right to produce minerals are separate rights, the value of the right to develop is virtually unascertainable separate from the right to produce. Therefore no separate value shall be established for the right to develop unless there is an intervening change in ownership at which time the right to develop may have an assessable value as reflected in the purchase price. Any value attributable thereto shall be deemed to be included in the base-year value of the mineral rights established in accordance with subdivisions (e) and (f) of this rule. In no event shall the right to develop or produce minerals be treated as being under construction.

(B) Whether the construction of improvements or alteration to land during development qualify as new construction shall be determined by reference to sections 463 and 463.5 of title 18 of this code and sections 70, 71, and 73 of the Revenue and Taxation Code.

### **(e) VALUATION OF MINERAL PROPERTIES DURING PRODUCTION.**

#### (1) General.

(A) The base-year value of mineral rights associated with producing mineral properties shall be established as of March 1, 1975 or thereafter when such rights undergo a change in ownership or as of the date production commences. The market value of such mineral rights is determined by valuing the estimated quantity of proved reserves that can reasonably be expected to be produced during the time period these rights are exercisable. The valuation of the proved reserves shall be based on present and reasonably projected economic conditions (e.g., capitalization rates, product prices and operating expenses, etc.) normally considered by knowledgeable and informed people engaged in operating, buying, or selling of such properties or the marketing of the production therefrom. While the assessor has full discretion to select the appropriate appraisal method, the income approach will generally be the most relevant appraisal method employed in establishing a value for the total property.

(B) Increases in proved reserves that occur following commencement of production and that are caused by changed physical, technological or economic conditions constitute additions to the mineral rights which have not been assessed and which shall be assessed on the regular roll as of the lien date following the date they become proved reserves. The increased quantity of proved reserves shall be used to establish the value of the addition to the property interest which value shall be added to the adjusted base-year value of the reserves remaining from prior years as the separate base-year value of the addition. Reductions in recoverable amounts of minerals caused by production or by changed physical,

## Rule 469 (Contd.)

technological or economic conditions or a change in the expectation of future production capabilities constitute reductions in the measure of the mineral rights and shall correspondingly reduce value on the subsequent lien date.

### (2) Value Calculation.

(A) The base-year value or the adjusted base-year value of mineral rights as quantified by proved reserves for the current year's lien date shall be calculated as follows:

1. Estimate the market value of the total property and estimate the physical quantity of proved reserves that may be reasonably expected to be produced during the time the right to produce is exercisable using current market data.

2. Estimate the current value of proved reserves by segregating the value of land (other than proved reserves), improvements to land constructed during the exploration, development, and production stages (e.g., roads, ditches, trenches, excavations, pits, drifts, stopes, etc.), other improvements and personal property (including any resources severed from the land except for inventory already excluded from the market value of the unit) from the unit value by an allocation based on the current market value of the component parts.

3. Estimate the quantity of additions to proved reserves by subtracting the prior year's proved reserves, less depletion, from the estimated current proved reserves.

4. Estimate the value of reserves removed (depletion) by multiplying the quantity of the reserves removed in the prior year by the weighted average value, for reserves only, per unit of minerals for all prior base years. The adjusted base-year value of the reserves remaining from prior years shall be found by subtracting the value of removed reserves from the prior year's adjusted base-year value.

5. Value the added proved reserves by determining the current market value of all of the proved reserves less the current market value of proved reserves existing prior to adding new proved reserves.

6. The current adjusted base-year value for proved reserves only is the sum of the value of the prior year's proved reserves, less the depletion calculated in 4. above, factored for inflation as prescribed by section 460 of title 18 of this code added to the value of the new reserves, as calculated in 5. above.

(B) The base-year value or adjusted base-year value of land (other than mineral rights) and improvements for the current year's lien date shall be calculated as follows:

1. Determine the adjusted base-year value of land, improvements to land constructed during the exploration, development and production stages (including roads, ditches, trenches, excavations, pits, drifts, stopes, etc.), and other improvements in accordance with sections 51 and 110.1 of the Revenue and Taxation Code.

2. Add the current market value of any construction in progress on the lien date.

(C) Declines in the value of the mineral property shall be recognized when the market value of the appraisal unit, (i.e., land, improvements including fixtures, and reserves), is less than the current adjusted base-year value of the same unit.

**(f) VALUATION OF MINERAL PRODUCING PROPERTIES WITHOUT PROVED RESERVES.** Where proved reserves cannot be estimated or are not usually estimated, the value of the mineral property shall be estimated in accordance with the provisions of section 3 of title 18 of this code.

**(g) TAXABLE VALUE OF THE RIGHT TO PRODUCE MINERALS.** The value of the right to produce minerals shall be established as of the date that the production of minerals commences and the value

**Rule 469 (Contd.)**

shall be placed on the roll as provided by law. When the value of the right to produce minerals is enrolled, the roll value of the exploration or development rights for the same reserves shall be reduced to zero.

*History:* Adopted June 29, 1978, effective July 3, 1978.  
Amended September 26, 1978, effective October 2, 1978.  
Amended June 1, 1990, effective August 25, 1990.  
Amended February 24, 1999, effective August 13, 1999.  
Amended and effective June 7, 2001.  
Amended May 30, 2018, effective August 20, 2018