

## 3630 - MINERAL MATERIAL APPRAISAL

.01 Purpose. This Manual Section establishes the standards and policy for the appraisal of mineral materials required under 43 CFR 3600 for those lands administered by the Bureau of Land Management (BLM).

.02 Objectives. The objective of an appraisal is to ensure that the BLM receives fair market value for mineral materials disposed of from land under its administration.

.03 Authority.

A. Laws.

1. The Materials Act of July 31, 1947 (61 Stat. 681, 30 U.S.C. 601, et seq.) as principally amended by:
  - a. The Act of July 23, 1955 (69 Stat. 367, 30 U.S.C. 601).
  - b. The Act of September 28, 1962 (76 Stat. 652, 30 U.S.C. 601).
2. Federal Land Policy and Management Act of October 21, 1976 (90 Stat. 2745, 43 U.S.C. 1701 and 1719).

B. Regulations.

1. 43 CFR 3600.

C. Delegations.

1. Bureau Manual Section 3060.03.
2. Bureau Manual Section 3600.

.04 Responsibility.

A. The Director. The Director is responsible for establishing overall policy and guidance for the management of mineral materials administered by the BLM. This responsibility is exercised through the Deputy Director, Energy and Mineral Resources.

B. State Directors. State Directors are responsible for the management of mineral materials administered by the BLM, within their respective areas of jurisdiction including:

1. Developing statewide appraisal guidelines and procedures if necessary.
2. Identifying who is responsible for making appraisals, who is responsible for the technical review of appraisal reports, and who is responsible for management review.

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3. Ensuring that only those mineral specialists (see Bureau Manual Section 3060, Glossary of Terms) who have received formal appraisal training or have demonstrated the ability to make appraisals themselves, or other qualified appraisers, review mineral material appraisal reports.
4. Ensuring that appraisals pertaining to trespass and split estate disposals are made by either mineral specialists who are qualified as expert witnesses in mineral material appraisal or by other qualified appraisers with the assistance of a mineral specialist.

C. District Managers. District Managers are responsible for ensuring that accurate appraisals are prepared in their District by:

1. Ensuring that all mineral material appraisals are prepared timely, accurately, and in compliance with established procedures by mineral specialists who have received formal appraisal training or by other appraisers who have had formal appraisal training with the assistance of a mineral specialist.
2. Ensuring that mineral material disposals are made at fair market value.

D. Area Managers. Area Managers are responsible for the timely preparation of mineral material appraisals where so delegated.

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.05 References.

A. Bureau Manual Sections 1274, 1275, 3060, 3600, 3890, 9235, 9310, and the H-3630-1 Handbook.

B. 43 CFR 3600.

C. Uniform Appraisal Standards for Federal Land Acquisition (602 DM 1.3).

.06 Policy. The BLM will ensure the receipt of fair market value for mineral materials unless otherwise provided for by statute. In areas where numerous small disposals are anticipated, a blanket or market area-wide appraisal may be appropriate. This appraisal should address the fair market value of material in the area. An appraisal of community pits or common use areas should address all types of material sold from those areas, making appraisal of individual sales unnecessary. Appraisals are valid for periods not exceeding 2 years; however, they should be reviewed annually and updated as necessary to ensure that they reflect fair market value.

.07 File and Records Maintenance. The mineral material appraisal report and all information necessary for that report are to be kept in the mineral material disposal case file i.e., community pit case file, material sale case file, free-use permit case file, etc. The case files are to be organized and maintained in accordance with standard Bureau procedure as given in the Manuals referenced in .05 above.

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.1 Mineral Material Appraisal Categories. Mineral material appraisals are categorized into three types.

.11 Mineral Material Sales and Free-Use Permits. The mineral material is appraised in place.

.12 Innocent Trespass. The mineral material is appraised in place. However, this does not preclude the authorized officer from using discretion to assess rehabilitation costs or other damages.

.13 Willful Trespass. Unless otherwise determined by regulation or State law, the mineral material is appraised f.o.b., the first point of sale or use.

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.2 Approaches to Value. Technical reviewers shall approve only appraisals which use one of the following appraisal approaches.

.21 Market Data Approach. This is an appraisal method that relies on direct comparison of transactions between knowledgeable buyers and sellers in the open market. It is the simplest and ordinarily the most direct and reliable approach. Consequently, its use alone may be adequate where sufficient transaction data exist upon which to draw firm conclusions of value. It is particularly applicable to small volume sales. Two most frequently used market data approach methods are discussed below.

A. Comparable Sales Method. There are two ways in which to use this method.

1. Sales of mineral materials from the same property. A reasonably recent sale of mineral materials from the same property, if the economic characters of the deposit and attributes have not materially changed since the last sale, provides the best evidence of fair market value.

2. Sales of comparable mineral materials. Reasonably recent sales of similar mineral materials that are comparable economically to the mineral materials to be appraised are the next best evidence of fair market value.

B. Purchase Price as a Percentage of Sales Price Method. This method is a variation of the market approach that may be used in situations where there is insufficient local market data. Lack of local market data may require substantial and difficult-to-support adjustments of data from different areas. This method requires collection and analysis of transactions in similar areas (similar in value, overburden, rehabilitation costs, etc.). This data can then be used to derive a typical ratio of purchase price to the selling price of the finished product f.o.b. the desired location (i.e., the production site, retail yard, delivery point, etc.). This ratio is then applied to the typical selling price of the finished product to arrive at an indication of the value of the in-place material.

.22 Income Approach. Any of the methods of appraisal that convert income into an estimate of value are income approaches. Discounted cash flow (DCF) is an example of this approach. Potential cash flows are discounted at a given rate to the time of the evaluation yielding the present value. The present values of the annual cash flows, in no case to exceed the expected life of the mining operation, along with salvage values, are added to obtain the net present value of a given mineral property. This method is most applicable to appraisals of large quantities of mineral materials.

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.3 Data Collecting and Processing. Technical reviewers shall approve only those appraisals that use either market data or income data collected expressly for the appraisal.

.31 Market Data. The technical reviewer shall ensure that any market data collected is from acceptable sources; is comparable in terms of quality, quantity, and market demand to the material being appraised; and comes from only active or recently active operations.

A. Private Transactions. Data from private companies on materials of a similar nature is the most accurate. Operators that offer data from private transactions for use in appraisals may request that the Bureau keep such data confidential and the appraiser must ensure that it is properly safeguarded. (See Bureau Manual Section 1273.) Ensure that private transactions are true sales and not simply sales between companies within the same corporate structure. Such sales values could be higher or lower than the real fair market value.

B. Public Transactions. Because prices can be administratively set, data from transactions involving governmental bodies, either as buyers or sellers, are less reliable sources of data. The technical reviewer must ensure that data from such transactions are carefully analyzed to determine if the value placed on the material was administratively set or represents a fair market value.

C. Documentation. The technical reviewer shall ensure that data from either private or public transactions is documented in the form of a copy of the contract or rate schedule.

D. Recording and Maintaining Data. The technical reviewer shall ensure that the data obtained to support an appraisal is recorded in a suitable format and copies of the data are included as part of an appraisal report.

.32 Income Data. The technical reviewer shall ensure that all necessary data is collected from the operator to make an accurate discounted cash flow analysis and that this information is verifiable.

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.4 Field Examination of the Mineral Material Site.

.41 Examination of the Deposit. The technical reviewers shall ensure that only those items which have a direct bearing on the fair market value of the material, such as the quality and quantity of the material, amount of overburden, probable mining and processing methods, and costs and feasibility of reclamation, are considered by the appraiser. A major factor affecting fair market value is distance from market. The appraiser must make special note of haul distance and grade and type of road(s) that must be used. Photographs of the mineral materials to be appraised shall be taken for inclusion in the appraisal report. Maps, flow sheets, and sketches of the deposit and any operations should be included.

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.5 The Appraisal Report. Each appraisal report is a separate document and must be complete enough to stand alone. The organization and headings should follow the format given in Section B-1 of Uniform Appraisal Standards for Federal Land Acquisitions, 1973. Exception may be made where the disposal amount is 100,000 cubic yards or less and does not involve split estates. More detailed reports shall be done for competitive sales and trespass cases. Abbreviated formats are appropriate for general market analyses reports.

.51 Minimum Requirements. As a minimum, an appraisal report contains:

- A. A statement as to the purpose and function of the appraisal.
- B. A statement of assumptions and limiting conditions affecting the appraisal.
- C. An adequate description of the material site and material being appraised.
- D. A description of, or reference to, market data considered and an explanation of analyses used to estimate value.
- E. The effective date of appraisal and signature of appraiser.

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Glossary of TermsHandbooks

→ H-3630-1 - Mineral Material Appraisal Handbook ←

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.6 Special Considerations.

.61 Sales Selection. Certain types of transactions are not normally considered acceptable evidence of fair market value. Some of these types shall not be used in appraisals while others may be used, provided no better evidence exists. However, if any of these "questionable" types of transactions are used, the appraiser shall explain the basis for the prices paid and discuss rationally why the transaction represents the best available indicator of fair market value. Examples of questionable transactions and transactions which are not acceptable evidence are shown below.

A. May Be Used With Justification.

1. Sales between family members.
2. Negotiated purchases by governmental bodies such as State Highway Departments, etc., provided they represent true fair market value transactions.
3. Sales between interrelated corporations.
4. Sales where price is set by administrative decisions and unrelated to fair market value (e.g., State Land Board, etc.).
5. Negotiated sales by BLM, Forest Service, and other Federal agencies provided they represent fair market value transactions.

B. Shall Not Be Used.

1. Condemnation sales or sales where the threat of condemnation entered into the negotiations.
2. Unsupported opinions of value.
3. Trades and exchanges.
4. Sales in which price was not fully paid in cash or equivalent.

.62 Federal Minerals Under Private Surface. The appraisal of federally owned mineral materials under private surface requires special consideration. The appraiser must determine what rights of access and surface use, if any, were reserved by the United States with the minerals at the time the surface was transferred to non-Federal ownership.

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A. Market Data Approach. In using the market data approach, the appraiser shall look for transactions which involve rights to the mineral materials and comparable rights of access and surface use and comparable liability for surface damages.

1. The most comparable transactions would be those in which the mineral and surface estates are in separate ownerships. The rights to the mineral materials and the rights to use the surface would have been handled as separate transactions.

2. There may be situations where the mineral and surface estates are in the same ownership but in which the rights to minerals and surface use have been handled as separate transactions and the payment for each of the components (mineral-surface) has been specified. The mineral transaction in this situation could be used directly as a comparable, provided that the payments for the different components have not been intentionally loaded or skewed for tax purposes or other reasons and the provisions for surface damage and access are similar.

3. Where the mineral and surface estates are in the same ownership; payment for the in-place material is typically a combination of mineral resource depletion; surface use rent; and surface resource depletion, alteration, or destruction. The payment is seldom broken down or allocated to the various components (i.e., minerals, access, and surface use). Such transactions shall not be used as comparables without making appropriate adjustments to reflect differences in rights to surface use.

B. Income Approach. In using the income approach, the appraiser shall deduct appropriate charges for access and surface use as costs in calculating net income attributable to the in-place mineral material. Derive these costs or charges by using standard approaches for estimating value of access and surface use.

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Glossary of Terms

area-wide appraisal: an appraisal made to cover sales within a broad market area.

cash flow: the actual or prospective revenue from a mineral property, less operating and capital costs and taxes over the investment period.

discount rate: an annual percentage rate of return on invested capital used to determine present worth factors in discounting future cash flows. The reasonableness of a rate may be tested by comparison with rates in the present market place. The discount rate can include a percentage for a real rate of return, risk, and inflation.

fair market value: the amount in cash, or on terms reasonably equivalent to cash, for which in all probability the material would be sold by a knowledgeable owner, willing but not obligated to sell, to a knowledgeable purchaser who desires but is not obligated to buy (Uniform Appraisal Standards for Federal Land Acquisition, 1973).

f.o.b.: free on board. Without charge for delivery to, and placing on board, a carrier at a specified point.

mineral materials: mineral materials include, but are not limited to, petrified wood, clay, and common varieties of sand, stone, gravel, pumice, pumicite, and cinders. The term "common varieties" is defined as deposits which, although they may have value for use in trade, manufacture, the sciences, or in the mechanical or ornamental arts, do not possess a distinct, special economic value for such use over and above the normal uses of the general run of such deposits.

mineral material appraisal: a written estimate of the fair market value of an accurately described mineral material as of a specific date and supported by the presentation and analysis of factual and relevant data.

mineral material appraiser: an individual qualified by formal appraisal training and experience to render an opinion of the value of mineral materials.

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net present value or net present worth: the sum of the present values of future years cash flows over the economic life of a mineral property, after being discounted at a specified discount rate. The present value takes into account the earning power of money over time. It is an indicator of the worth of a mineral property for its projected life.

salvage value: the amount that can be realized from the sale of an asset after useful life has ended.