

WYOMING WONDERS



**WYOMING  
DEPARTMENT  
OF  
REVENUE**



**ANNUAL REPORT  
2006**

**EDMUND J. SCHMIDT, DIRECTOR**

Department of Revenue



*Department of Revenue*

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## **WYOMING QUALITY OF LIFE RESULTS**

Wyoming state government is a responsible steward of state assets and effectively responds to the needs of residents and guests.

## **CONTRIBUTION TO WYOMING'S QUALITY OF LIFE**

The Department of Revenue applies the tax laws of the state fairly and equitably to all taxpayers by valuing property, collecting taxes, and distributing those values and taxes timely to all the governmental units of Wyoming. In addition the Department's Liquor Division distributes wine and spirits to retailers in the state and enforces the liquor control laws of the state.

By diligently performing these statutory duties, The Department of Revenue contributes to the quality of life in Wyoming by collecting the taxes properly due the state, thus ensuring that state and local governmental services are funded for the benefit of the people of Wyoming.

## **BASIC FACTS**

The agency has 128 full and 1 part-time employees and a total operating budget for the biennium ending June 30, 2006, of \$124,167,954. of which \$14,151,422. are general funds (\$110 million are funds used to purchase liquor and are reimbursed by the Division to the General Fund).

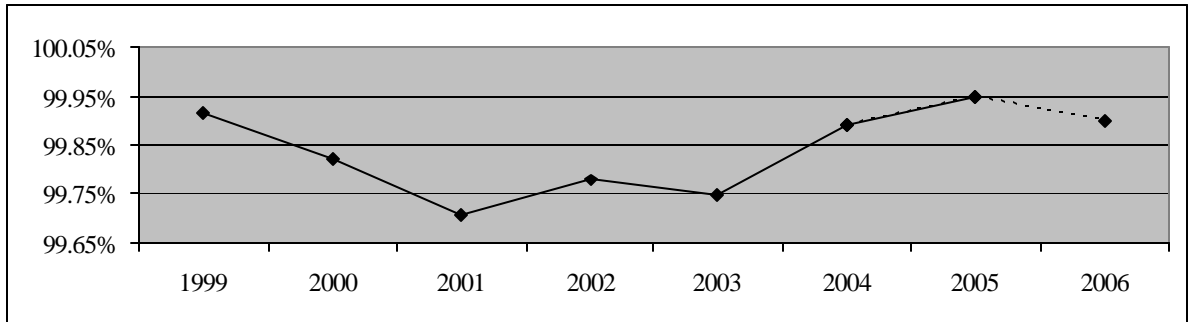
The primary functions of the Department are:

1. Collection of mineral severance and excise (sales, use, estate and cigarette) taxes.
2. Distribution of the taxes collected.
3. Determination of fair market value of minerals and public utility property in the state for property tax purposes and the certification of that value to the various counties and tax districts in the state.
4. Maintenance of computer assisted mass appraisal (CAMA) systems to aid county assessors with their duty to fairly value real and personal property for tax purposes.
5. Education of taxpayers, assessment personnel and liquor retailers and servers.
6. Distribution of liquor to retailers in the state and enforcement of liquor control laws in the state.

**PERFORMANCE MEASURES**

The performance measures the Department considers most relevant to its work are as follows:

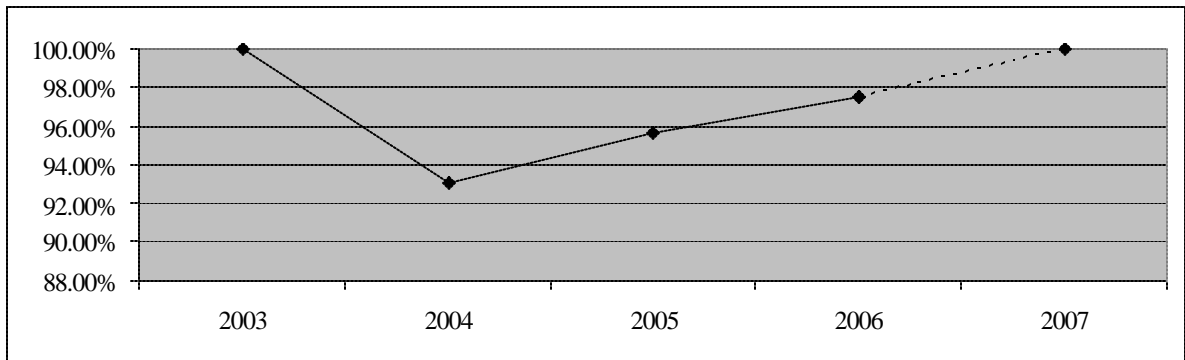
*#1: Mineral Severance Taxes Collected as a Percentage of Severance Taxes Due*



*Percentage of Compliance with Sales and Use Tax Statutes as Indicated by Audits:*

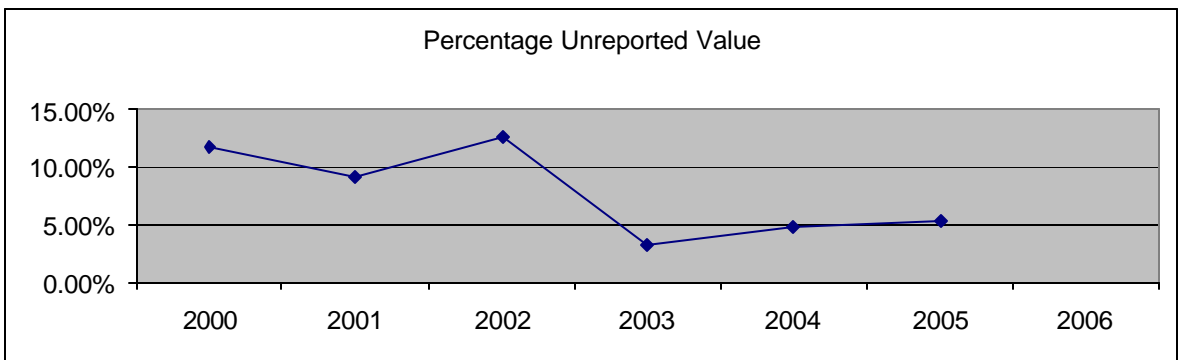
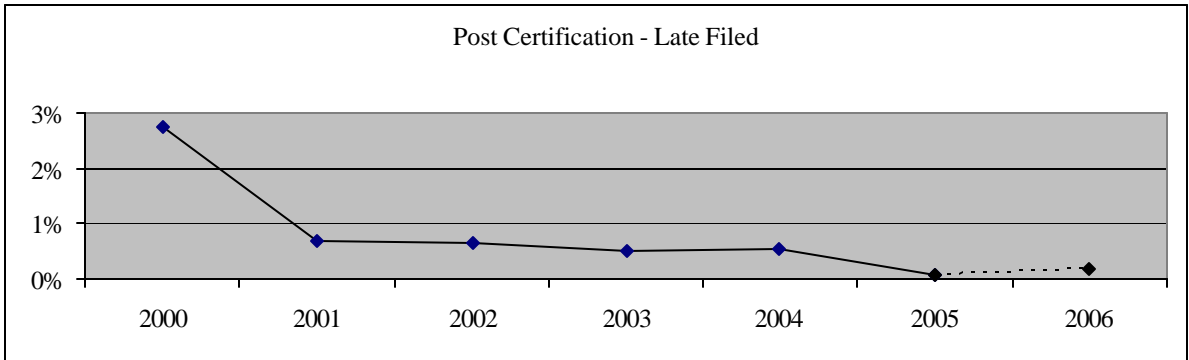


*#2: Percentage of Taxes Received that Are Deposited with the State Treasurer on the Same Day*

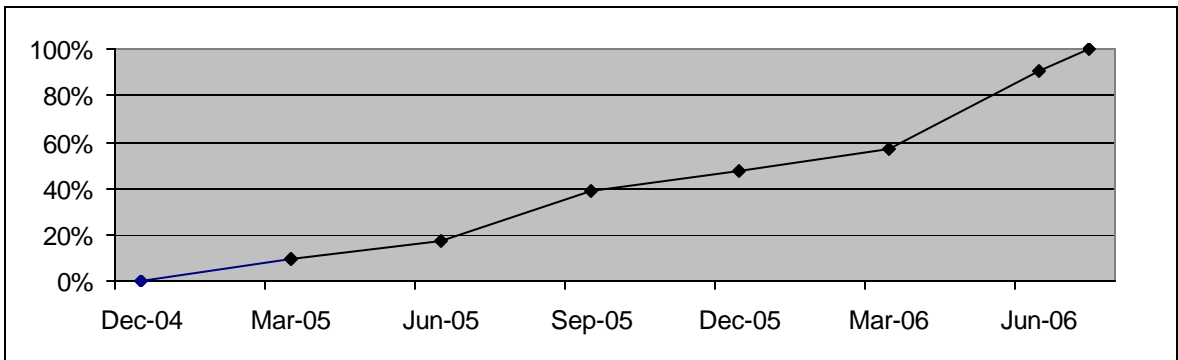


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#3: Percent of Mineral Value Reported after Values Are Certified to the Counties

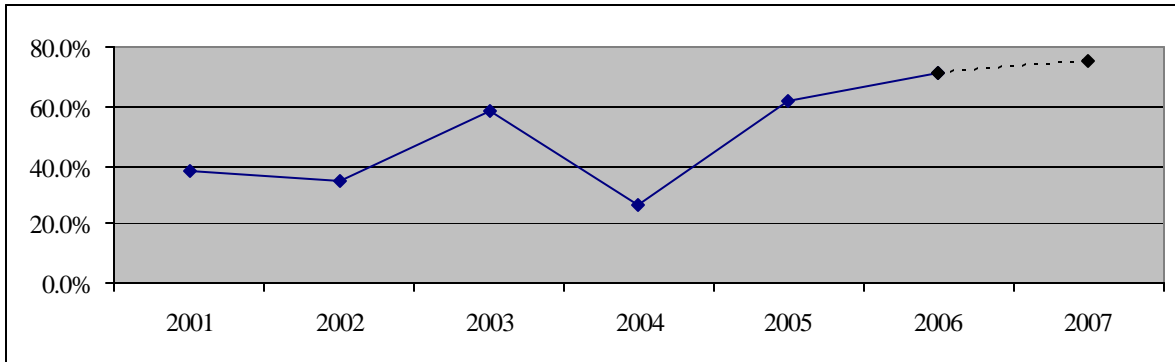


#4: Percent of Counties with a Modern CAMA System



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*#5: Percent of Courses Taken by Assessors and Department of Revenue Appraisers Sponsored by the Department*



*#6: Percentage of Liquor Orders Shipped Correctly the Same Day that the Order Is Placed*

See: Story behind the last year of Performance and What has been accomplished?

## STORY BEHIND THE LAST YEAR OF PERFORMANCE

### *#1: Mineral Severance Taxes Collected as a Percentage of Severance Taxes Due:*

Since the implementation of the MTS II system in 2000, there has been some confusion amongst industry as to how to calculate the amount of severance tax and interest due on amended returns. Many factors have created this confusion, but primarily due to the fact that payments are no longer tied to individual returns through a specific summary interface and that interest is calculated through a payment date rather than a specified length of time. This lack of understanding of the mineral system has led to large unpaid balances and litigation. The efforts of the Department in the past year have been to reduce both.

### *Percentage of Compliance with Sales and Use Tax Statutes as Indicated by Audits:*

Audit assessments related to sales and use tax indicate a compliance rate over the past several years ranging from 55% to 69%, per Department of Audit Statistics. While these compliance percentages indicate a significant compliance problem, additional analysis reveals a much higher percentage of noncompliance in the service sector than in the traditional retail trade sector, which accounts for approximately 50% of the state's sales and use tax revenue. The Excise Tax Division believes the main reason for the high rate of noncompliance in the service sector is the complexity of the tax laws service providers' face. The Division has focused its efforts on providing additional educational opportunities to the service vendors over the last several years and we believe from the FY06 numbers that it is beginning to make a difference.

### *#2: Percentage of Taxes Received that Are Deposited with the State Treasurer on the Same Day:*

We have achieved our projected goal for the Fiscal Year 2006. With the equipment that the division is currently using, we were able to achieve our FY06 projections of 97.49% of funds deposited with the State Treasurer the same day of receipt of funds. It is our intention to continue the projected goal for the next fiscal year, when our new equipment becomes operational. This will allow the division to process in a more timely and efficient manner.

### *#3: Percent of Mineral Value Reported after Values Are Certified to the Counties:*

The boom in the development and drilling of coal bed methane wells in the Powder River Basin, the Pinedale anticline, and Jonah infield has resulted in a huge increase in the filing of mineral severance and gross products tax returns. Unfortunately, it has also resulted in untimely and inaccurate reporting of new wells. With all of this drilling activity has come a large influx of new oil and gas companies unfamiliar with Wyoming's reporting requirements.

Untimely gross products tax reporting is reporting that is done after the division has certified mineral values to the counties. This late filing prevents the counties from including that value in their budgeting process. In addition, late filing generates substantial penalties that must be addressed by the division.

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### *#4: Percent of Counties with a Modern CAMA System*

The CCI CAMA system is based on modern client-server technology distributed to the individual county assessors' offices. As shown on the chart, the new system was installed in 17% of the counties by the end June of 2005, and in 91% by June 30, 2006. (The remaining two counties were installed in July, 2006.) An additional installation of a mapping/Geographical Information System/CAMA integration software component is expected to be completed in the next 6-9 months. Full retirement of the legacy systems is anticipated to be complete within the next 3-4 months.

### *#5: Percent of Courses Taken by Assessors and Department of Revenue Appraisers Sponsored by the Department:*

Chapter 13 of the Department of Revenue Rules requires county assessors, their employees and the employees of the Department engaged in property valuation to be certified. These people must take certain basic courses and pass examinations to earn initial certification. They must then take at least 28 hours of approved coursework to maintain their certification. Since this education requirement is imposed by the Department, it has the duty to provide the courses. Historically, the Division has contracted with outside sources to provide the lion's share of courses. Increasing course costs and the limited number of outside instructors available has impacted the Division's ability to provide hours of education. As a result, there was a downward trend in the number of courses and student classroom hours the Department was providing, forcing people to seek training elsewhere. One of the results is people have had to take some courses of marginal value to maintain certification. This trend has been reversed. During FY 2005, 61%% of classes taken by students were DOR-provided or sponsored classes. That percentage improved to 71% in FY 2006.

### *#6: Percentage of Liquor Orders Shipped Correctly the Same Day the Order Is Placed:*

The Department of Revenue, Liquor Division experienced a catastrophic computer software (SAP) system failure in July 2005 and did not begin installation of the new replacement computer software (EPICOR) system until late January 2006. The remainder of the FY06 reporting period was skewed because the system was brought up in stages. As a result, the division does not have an accurate count of shipped orders.

**WHAT HAS BEEN ACCOMPLISHED?**

*#1: Mineral Severance Taxes Collected as a Percentage of Severance Taxes Due:*

The Minerals Division created several new reports last year to help identify not only the current outstanding balances of tax and interest but also those taxpayers that have historically had difficulty in paying the proper amounts. These companies were contacted and dialogue was established to clear accounts. This has dramatically increased the collection percentage for the 2001 production year from approximately 99.75% to 99.98% and from 99.75% in 2003 to 99.82% this year. Production years 2002 and 2004 saw increases in unpaid tax due to reconciliation assessments. One company with reporting and payment problems represents nearly half of all outstanding unpaid severance tax. This company will be the focus of next year's efforts.

*Percentage of Compliance with Sales and Use Tax Statutes as Indicated by Audits:*

The majority of the problems the Excise Tax Division currently sees in audits is a lack of knowledge of how to document sales transactions and when and where to use exemption certificates. Vendors in service industries are unaware of how the statutes apply to their businesses. The Education and Taxability Section of the Excise Tax Division has been aggressively advertising educational seminars over the last several years and from the FY 2006 results it is evident that their efforts are beginning to pay off. The Compliance percentage for FY 2006 has risen from a low of 55% in FY 2003 to a much improved 88.9% in 2006. We believe that a combination of a simplified tax statute for the oil and gas industry coupled with significant increases in the number of educational seminars offered and materials disseminated to vendors has led to this significant increase in compliance.

*#2: Percentage of Taxes Received that Are Deposited with the State Treasurer on the Same Day:*

The division processes a significant amount of deposits on a monthly basis and the department understands the importance of the front end operations of the division. The other divisions are working to assist in the phases of the implementation of the new equipment, to ensure accuracy and performance.

*Timely Distribution of Tax Revenues Collected:*

The Division has continued to hold a perfect record in distributing tax dollars to the various state and local governmental units no later than the tenth day of the month following the month the taxes are collected.

*#3: Percent of Mineral Value Reported after Values Are Certified to the Counties:*

The Minerals Division employed some new procedures in order to encourage producers to file accurately and on time. The Division began posting every unreported mineral property in the State in the Department's website prior to the certification period so that the companies would have an opportunity to correct their gross products returns prior to filing.

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Another procedure the Division used was directed at the company that had historically been the biggest offender when it came to late and inaccurate filing. The Division linked the imposition of the company's previous late penalties for 2004 to the company's timely filing of their gross products returns in 2005. This resulted in a dramatic improvement in the company's filing performance and the division's overall performance measure indicator dropped from .50% of total assessed value to .08% in 2005.

### *#4: Percent of Counties with a Modern CAMA System:*

During the fiscal year ending June 30, 2006, the replacement CAMA system, including—software and hardware deployment, and associated initial training—was installed in 17 Wyoming counties. Four county systems had been installed earlier in calendar year 2005. As of June 30, 2005, installations remained to be completed in two counties. (These final installations were completed in July, 2006.) As of June, 2006, the legacy CAMA system was moving towards retirement, having been removed or largely deactivated in a number of counties.

### *#5: Percent of Courses Taken by Assessors and Department of Revenue Appraisers Sponsored by the Department:*

The Department, through both training associated with the new CAMA system installation, and through the offering of new classes, substantially increased the number of course offerings it provides to students. Classes included those oriented to using the new CAMA system, using specialized statistical software for assessment purposes, and a course on agricultural land and outbuilding valuation. The Department is now relying more on in-house staff to prepare and teach such classes. A side benefit is that the coursework can be specifically tailored to Wyoming assessment laws and regulations, and course content can speak directly to Wyoming assessment issues. Assessors and their staffs now have less need to go to outside sources to gain necessary credit hours.

### *#6: Percentage of Liquor Orders Shipped the Same Day the Order Is Placed:*

Due to the Liquor Division catastrophic computer failure, an accurate report of the Liquor orders shipped the same day is not possible. The new EPICOR system is currently being implemented and the reporting figures for FY2007 are being gathered monthly. A full report of shipments data will be made available in the next reporting period.