

WYOMING DEPARTMENT OF REVENUE
CHAPTER 7
PROPERTY TAX VALUATION METHODOLOGY AND
ASSESSMENT (DEPARTMENT ASSESSMENTS)

Section 1. Authority.

These Rules are promulgated under the authority of W.S. 39-11-102(b).

Section 2. Purpose of Rules.

These rules are intended to describe the valuation methodology to be used to determine the taxable value of Department assessed companies' properties for ad valorem tax purposes. The formulae, methods, systems, standards, and criteria to be used by the Department of Revenue to determine fair market value are set forth herein.

Section 3. Duties of the Department of Revenue.

(a) The Property Tax Division is hereby delegated the authority to appraise and value all property specified in W.S. 39-13-102(m)(ii-ix) (Department assessed company or Department assessed companies).

(b) All real and personal property existing on January 1 of each year is subject to assessment, except as otherwise specifically exempt by Wyoming Statutes.

Section 4. Definitions.

For the purpose of ad valorem taxation under these rules, the definitions set forth in Title 39, as amended, are incorporated herein by reference. In addition, the following definitions shall apply:

(a) "Best Information Appraisal" means the calculation of taxable value based upon the most recently filed annual report adjusted by other best information available, including:

- (i) The producer price index, if applicable;
- (ii) Recognized financial measures of economic conditions; and
- (iii) Comparison to the most comparable Department assessed companies.

(b) "Department" means the Department of Revenue, the Property Tax Division, and/or its authorized agent.

(c) "Depreciation" means a loss of utility and hence value from any cause. Depreciation may take the form of physical depreciation, functional obsolescence, or external obsolescence.

(i) "Physical Depreciation" means the physical deterioration as evidenced by wear and tear, decay or depletion of the property.

WYOMING DEPARTMENT OF REVENUE

(ii) "Functional Obsolescence" means the impairment of functional capacity or efficiency, which reflects a loss in value brought about by such factors as defects, deficiencies, or super adequacies, which affect the property item itself or its relation with other items comprising a larger property.

(iii) "External Obsolescence" means impairment of desirability or useful life arising from factors external to the property, such as economic forces or environmental changes which affect supply-demand relationships in the market. Methods to measure economic obsolescence include:

(A) Capitalization of the income or rent loss attributable to the negative influence;

(B) Comparison of sales of similar properties which are subject to the negative influence with others which are not.

(C) Identification of factors specifically analogous to the property, i.e. investments, capacities, and/or industry relationships.

(e) "Discount rate" means a firm's opportunity cost or weighted average cost of available capital. A discount rate is used to discount future cash flows back to their present value. A discount rate becomes a capitalization rate with the addition of a capital recapture rate.

(f) "Appreciation" means an increase in value due to an increase in cost to reproduce, value over the cost, or value at some specified earlier point in time, brought about by greater demand, improved economic conditions, increasing price levels, reversal of depreciating environmental trends, or other factors as defined in the market.

(g) "Fair market value" is defined as the amount in cash, or terms reasonably equivalent to cash, that a well informed buyer is justified in paying for a property and a well informed seller is justified in accepting, assuming that neither of the parties thereto are acting under undue compulsion and assuming further that the property has been offered in the market place for a reasonable time.

(h) "Non-operating Property" means all Department assessed companies' property, owned or leased, not used in operations.

(i) "Operating Property" means all property which is owned, leased, or otherwise used exclusively in Department assessed companies' operations.

(j) "Department Appraiser" means Department personnel with specific job responsibilities for appraisal of Department assessed companies' .

(k) "Unitary valuation" is the process of determining the value of a company as a whole without reference to individual parts. The unitary approach is used in the valuation of properties which derive their value from interdependent assets working together. The market value is not a summation of fractional appraisals, but the value of a company as an operating unit.

WYOMING DEPARTMENT OF REVENUE

Section 5. Annual Reporting Requirements.

(a) Each Department assessed company shall submit an annual report to the Department on or before the mandatory dates specified by statute.

(b) Any request for extension of the filing deadline shall be submitted in writing prior to the statutory due date. Extensions shall not be granted for greater than fifteen (15) calendar days.

(c) All requested information and required supplemental documents shall be included with the report filing. Failure to file a report form or an incomplete report shall require the Department to appraise the company by a best information appraisal as defined by this chapter and subject those companies to the penalties specified in W.S. 39-13-108.

(d) Leased Property. Each Department assessed company's annual report shall include schedules for reporting non-capitalized leased real property including improvements and equipment used in the company's operations. All non-capitalized leased property used in connection with a company's operating property shall be valued and assessed as if owned.

Section 6. Appraisal Methods.

(a) The appraisal techniques which the Department may use include the approaches described in this section. Each approach used shall be an appropriate method for the type of property being valued; that is, the property shall fit the assumptions inherent in the appraisal method in order to calculate or estimate the fair market value of the property. Each approach used shall also consider the nature of the property or industry, and the regulatory and economic environment within which the property operates.

(b) The Department appraisers shall estimate fair market value utilizing specific appraisal standards which reflect three distinct methods of data analysis: i.e. sales comparison or market; cost; and income capitalization. One or more of these approaches shall be considered in all determinations of value, except when utilizing a "best information appraisal".

(i) Market Approaches to Value

(A) The Sales Comparison. The comparable sales approach is an appropriate method of valuation where there is an adequate number of reliable arms-length sales and the properties subject to such sales are similar to the property being valued. Comparable sales shall be adjusted to reflect differences in time, location, size, physical attributes, financing terms or other differences which affect value. The use of this approach to value depends upon:

(I) The availability of comparable sales data;

(II) The verification of the sales data;

(III) The degree of comparability or extent of adjustment necessary for time differences; and

(IV) The absence of non-typical conditions affecting the sales price.

WYOMING DEPARTMENT OF REVENUE

(B) The Stock and Debt. The stock and debt approach is a method of estimating the value of property based on the premise that the total assets (property) are equal to the total liabilities plus owner's equity. This approach substitutes for the conventional market data approach by equating market prices at which fractional interests in the property, or similar properties, have recently sold recognizing other existing claims on assets and premiums paid to acquire entire interests. The approach is normally used when there are not sales of whole properties comparable to the subject property.

(ii) Cost Approaches to Value

(A) Replacement Cost. The replacement cost approach is a method of estimating the value of property based upon the cost of construction at current prices of a substitute property which provides utility or usefulness equivalent to the property being appraised, constructed with modern materials and according to current standards, design, and layout. The replacement cost shall consider all forms of depreciation and appreciation. The appraised value of associated land shall be added to the depreciated replacement cost.

(B) Reproduction Cost. The reproduction cost approach is a method of estimating the value of property based upon the cost of construction at current prices of an exact duplicate or replica using the same materials, construction standards, design, layout, and quality of workmanship, embodying all the deficiencies, super adequacies and obsolescence of the subject building. The reproduction cost shall consider all forms of depreciation and appreciation. The appraised value of associated land shall be added to the depreciated reproduction cost.

(C) Historical Cost. The historical cost approach is a method of estimating the value of property based upon the actual or first cost of property at the time it was originally constructed and placed in service. In an assembled property, the historical cost as of any date means, the first cost as defined, plus all subsequent additions and replacements less deduction or removals. The historical cost shall consider all forms of depreciation and appreciation. Items such as construction work in progress, plant held for future use, acquisition adjustments, non-capitalized leased property, materials, supplies and other items shall also be included to the extent they are taxable and not otherwise valued.

(iii) Income Capitalization to Value

(A) The Income or Capitalized Earnings Approach. In the income capitalization approach, an appraiser analyzes a property's capacity to generate future by converting anticipated benefits and capitalizes the income into an indication of present value. The principle of anticipation is fundamental to the approach. Techniques and procedures from this approach are used to analyze comparable sales data and to measure obsolescence or enhancement in the cost approach.

(I) Yield Capitalization is used to convert future benefits, typically a periodic income stream and reversion, into present value by discounting each future benefit at an appropriate yield rate or by applying an overall rate that explicitly reflects the investment's income pattern, change in value and yield rate.

WYOMING DEPARTMENT OF REVENUE

(1.) Net operating income or cash flow is discounted to fair market value using a capitalization rate developed by the methods described in Section 7 of this Chapter.

(2.) For the purposes of this subsection, cash flow is the difference between dollars paid and dollars received. Dollars received include all revenues generated from operating assets. Dollars paid include all current expenses and capital expenditures, or annual allowances therefore, required to develop and maintain the income stream. Cash flow must also take into account all legally enforceable restrictions on the property.

(II) Direct Capitalization is a comparable sales technique that utilizes units of comparison. Each unit is divided by a sales price....There are three levels of comparison: equity, preferred, and long-term interest paid.

(1.) For the equity comparison, the market value is obtained using six (6) units of comparison utilized in development of capitalization ratios: Revenue, Cash Flow, Earnings, Dividends, Capital Spending and Book Value. The price per share is used to develop the average unit ratio comparisons.

(2.) For the preferred comparison, the market value is obtained by dividing the preferred dividends paid by the company by the market preferred yield of that rated stock.

(3.) For the long term debt comparison, the market value is obtained by dividing the company's long term interest expense by the appropriate debt yield for the appropriate debt rating.

(4.) The values achieved through the three comparisons are totaled together to develop an estimate of total value for the company.

(5.) All non-operating and/or other exempt property included in the total value shall be removed to arrive at a fair market value for the subject company using the Direct Capitalization method.

Section 7. Capitalization Rate Development

(a) The capitalization rate is any rate used to convert an income stream into a present worth of future benefits. The rate reflects the relationship between one year's income or an annual average of several years' income and the corresponding value. The Department shall annually calculate capitalization rates based upon the band of investment method as defined by these rules for all Department assessed industries. The primary components of the rate shall include capital structure (book, market and/or regulatory) as determined for the industry and/or company being appraised (if industry data is not available or applicable) and cost of capital (debt, preferred, and equity) as developed in appropriate money markets.

(i) Band-of-investment shall mean the method based on the concept that the capitalization rate is equal to the weighted average cost of the debt and equity portions of the capital investment. Proper development and application of the band-of-investment requires obtaining and analyzing data by industry type for:

WYOMING DEPARTMENT OF REVENUE

(A) The percent of debt and equity which makes up the capital structure as determined from published financial sources (Mergents Bond Record, regulatory reports or other recognized financial materials available to the Department). The determination shall be done by industry type and subgrouping (if sufficient data is available for review) by corporate bond rating or other means if bond ratings are not available.

(B) Debt rate estimates used in the band-of-investment method shall reflect the average current cost of yield to maturity of outstanding issues of debt financing for the year ending closest to the lien date of appraisal. The rates shall be taken from published financial sources (Mergents Bond Record, Standard and Poor's Record, Public Utility Financing Tracker and/or other recognized financial materials available to the Department). The determination shall be done by industry type and sub-grouping (if sufficient data is available for review) by corporate bond rating or other means if bond ratings are not available.

(C) Preferred rate estimates used in the band-of-investment method shall reflect the average current cost of market yield of outstanding issues of preferred stock financing for the year ending closest to the lien date of appraisal. The rates shall be taken from published financial sources (Mergents Bond Record, Standard and Poor's Record, Public Utility Financing Tracker and/or other recognized financial materials available to the Department). The determination shall be done by industry type and sub-grouping (if sufficient data is available for review) by corporate bond rating or other means if bond ratings are not available.

(D) The current cost of equity shall be based on data from the capital markets of public utility industries. Equity rates shall reflect the representative cost of equity financing for a given industry and sub-grouping (if sufficient data is available for review) by corporate bond rating or other means if bond ratings are not available as of the lien date of appraisal. The current cost of equity will be developed by accepted models in the appraisal and financial communities. These models shall include, but are not limited to, equity risk premium (ERP), capital asset pricing model (CAPM), and the discounted cash flow model (DCF). The sources of required data shall be taken from published financial sources, i.e. (Value Line, Morningstar, Inc. Ibbotson-“Stocks, Bonds, Bills and Inflation”, Wall Street Journal, regulatory filings, Federal Reserve Bulletin, Public Utility Financing Tracker and/or other recognized financial materials available to the Department).

(b) The Department shall conduct a public meeting for presentation of the capitalization rates to be used for the current Department assessed companies' property valuations no later than the 15th day of March each year. Notice of the date and time of the meeting shall be provided to all interested parties at least thirty days prior to the meeting. Upon written request submitted at least 5 days prior to the meeting interested parties may, at the meeting, present written or oral comments on the proposed capitalization rates. The Department will make available the final determination of the capitalization rates on the Department's web site. on or before March 31st or as soon thereafter as possible. This final determination of rates shall not affect the rights of a taxpayers to object in accordance with contested case procedures of the Administrative Procedure Act (W.S. 16-3-101 et seq.).

Section 8. Intangible Assets.

See Chapter 14, Section 11 - Intangible Assets

WYOMING DEPARTMENT OF REVENUE

Section 9. Reconciliation.

The appraiser shall consider the relative significance, applicability and appropriateness of the indications of value derived from the approaches to value or methods outlined above, and will place the most consideration and reliance on the value indicator which, in his professional judgment, best approximates the value of the subject property. The appraiser shall evaluate all alternative conclusions and correlate the value indicators to arrive at a final estimate of fair market value.

Section 10. Allocation.

This is the process of assigning a portion of the unitary value of a Department Assessed company to Wyoming. The goal of allocation is to reasonably reflect the property value contained in Wyoming. Standard allocation formulas aimed at equitable value allocations between states can be based on a combination of factors, i.e. property (asset costs), use or capacities, and/or revenue. The Department shall develop standard models by industry to meet the criteria as specified above.

Section 11. Apportionment or Distribution.

This is the process of assigning a portion of the Wyoming allocated value to county and tax districts as determined by the Department Rules Chapter 21, "Tax District Mapping". The process is completed in two steps:

- (a) Identify all situs property, i.e. property which has a well defined legal location, site specific delineation, and specific investment accounting records; and
- (b) Identify all non-situs property or property not defined by legal descriptions, such as property which is continuous in nature (i.e. miles of pipeline, wire miles, cable miles, transmission lines, and others), and specific investment accounting assets segregated by the above items.

Section 12. Department Assessed Company Inspections.

The Department shall physically inspect each Department assessed company (on-site review) once every six (6) years.

Section 13. Appraisal Basis Explanations to Taxpayer.

All Department assessed companies will be notified of a preliminary estimate of fair market value of the subject property. The taxpayer shall receive:

- (a) A statement indicating those methods set forth in Section 6 of this Chapter which were used in arriving at the value; and, upon request,
- (b) The identification and values of all elements and data used in each method, as well as any simplifying assumptions which have been made or deviations from the method as set forth in these Rules. This includes identification of any industry-wide or other data not specific to the company's property and the utilization of such data.

WYOMING DEPARTMENT OF REVENUE

Section 14. Preliminary Notice-Informal Conference Procedure-Taxpayer.

(a) If there is an objection to the preliminary notice of value, the Department assessed company may request an informal conference to provide information as to any errors of fact or law or to explain or expand upon any of the information presented in the company's original filing. If an objection is based on a clerical error, the company shall immediately notify the Department, and a conference is not necessary.

(b) Requests for conferences shall be made in writing to the Appraisal Supervisor, Appraisal Services Group, Property Tax Division, Department of Revenue within ten (10) calendar days of the postmark date of the preliminary notice. Notification of the date and time for such conference may be made by phone or electronic confirmation. Conferences shall be brief and to the point.

Section 15. Annual Report Audit Rights and Responsibilities.

The Department reserves the right to engage the Department of Audit or a third party contractor to conduct ad valorem tax audits on Department assessed companies.

Section 16. Final Fair Market Value Determination.

The Department shall annually make a final determination of the fair market value and assessed value and provide the final determination to each Department assessed company as a final notice. Written objections to the values may be filed pursuant to W.S. 39-13-102(n).