



Converse County Treasurer's Office

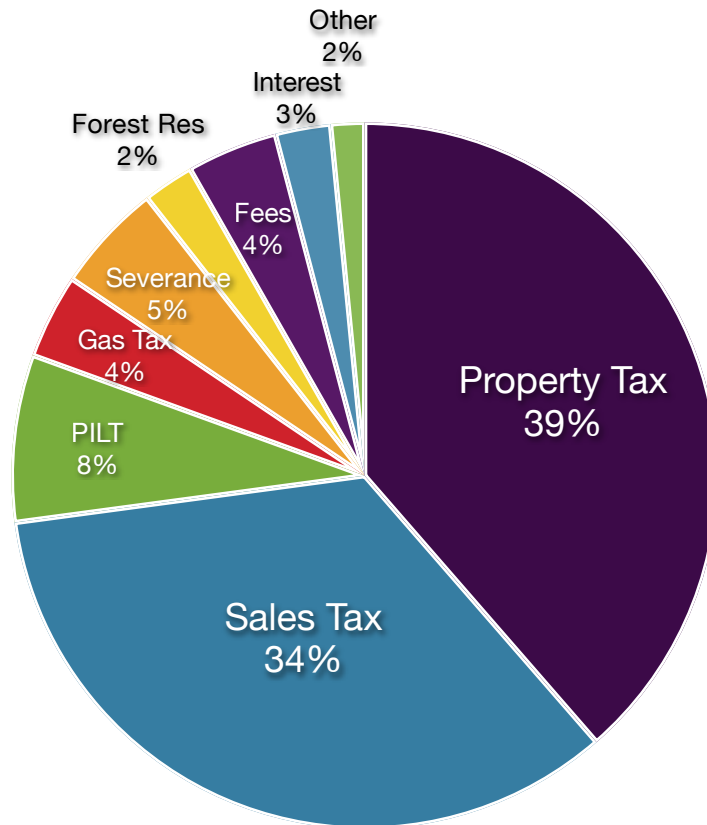
Converse County Fiscal Profile

March, 2010

2011 Fiscal Profile

Revenue Sources

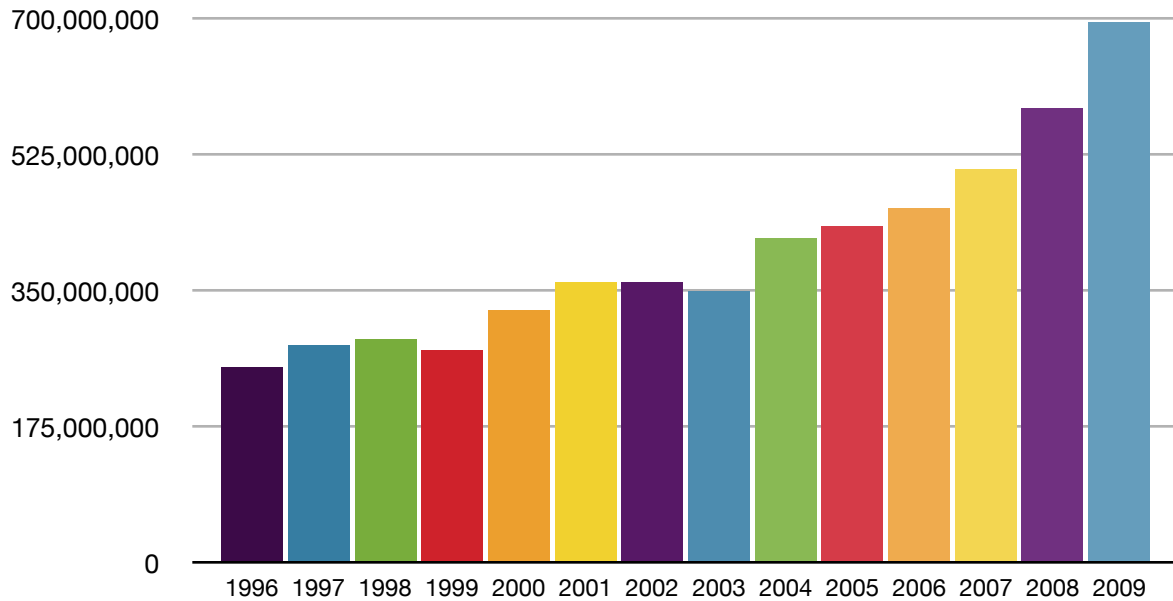
Converse County receives revenues from a variety of sources, some major and some minor. The major revenue sources include property taxes, sales taxes and Payment in Lieu of Taxes (PILT) received from the Federal Government. In Fiscal Year 2009, those three sources represented 77% of all revenue deposited to the General Fund.



While revenues change from year to year, the dependency on the major categories does not. In Fiscal Year 2010, Property Taxes represent 59% of all budgeted revenue and sales tax 25%.

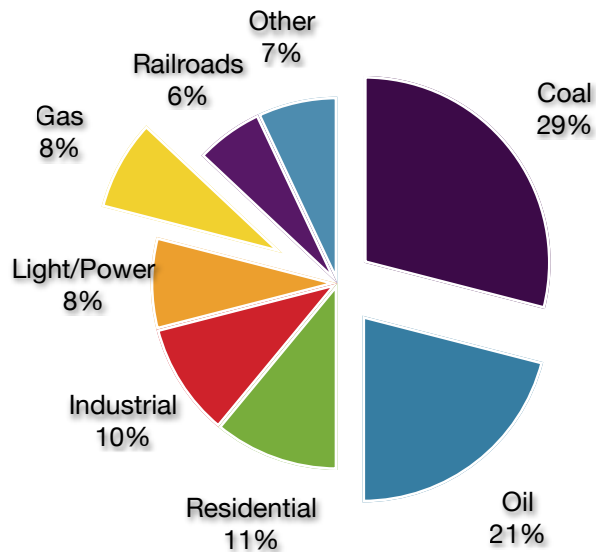
Property Taxes

Converse County has enjoyed a long period of rising tax values and revenues, largely from increases in oil and gas production and coal values.



Taxes on all types of property in the county remain the largest and most stable portion of revenue to the general fund. Tax revenues from State Assessed property on mineral production represent 58% of the county taxable value, making changes in those markets important to projecting county revenues.

Property Type	2009 Taxable Val	Pct
Coal	195,947,032	29%
Oil	146,510,979	21%
Residential	75,888,815	11%
Industrial	66,308,730	10%
Light & Power	57,845,261	8%
Gas	55,974,138	8%
Railroads	38,723,746	6%
Commercial	17,019,398	2%
Pipelines	14,789,469	2%
Minerals	14,064,502	2%
Agricultural	10,251,267	1%
Telephone	1,607,570	0%
Airplanes	128	0%



Source: Converse County Assessor's Office

Coal

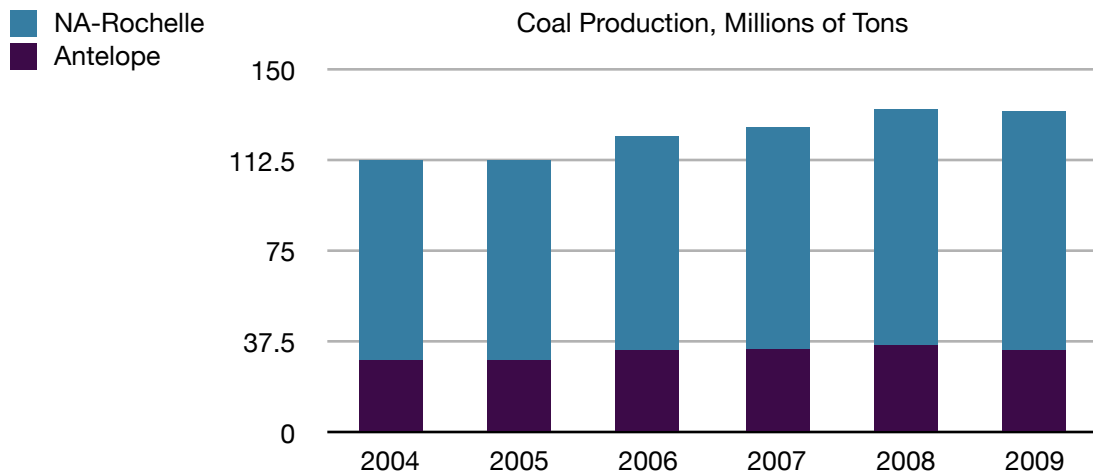
Since Fiscal Year 2011 revenues are based on the 2010 tax year and 2009 production, there is available data to help estimate the tax trend.

Traditionally, coal has been one of the highest and most stable source for county revenues, as production in the Powder River Basin has been steady for the last twenty years. However, the Wyoming Mining Association announced that in 2009, coal production in the basin fell 7% as a result of lower electricity demand.¹ The majority of that decrease was attributed to two Campbell County coal mines, Black Thunder and Jacobs Ranch.

Two mines contribute to the coal value in Converse County; Antelope Coal Mine (owned by Cloud Peak Energy) and part of North Antelope-Rochelle (owned by Arch Coal, Inc.).

In 2009, production at Antelope Mine slipped by 1.77 million tons, from 35.79 million in 2008 to 34.01 million, a 5% decrease.

At the same time, the North Antelope-Rochelle mine increased production, from 97.6 million tons in 2008 to 98.6 million tons.



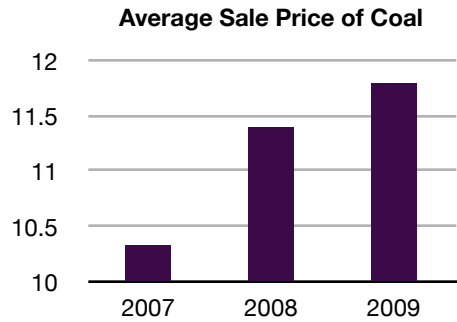
Source: U.S. Mine Safety & Health Administration / U.S. Energy Information Administration

Unfortunately, not all of the production at North Antelope-Rochelle is attributable to Converse County, as the coal seams span the county line. Until Arch Coal files its production reports with the Department of Revenue, it's not possible to estimate what the proportion of the production is between Converse and Campbell.

The other aspect of coal valuation is the market price. While data on the average price is available for the spot market, it's difficult to determine how much coal is sold with long term contracts and how much was offered on the spot market.

¹ As reported in the Gillette News Record, Jan. 11, 2010

According to the U.S. Energy Information Administration, the average sales price of Wyoming coal was \$10.33 per short ton in 2007 and \$11.39 in 2008. In their February 10, 2010 report, "Short-Term Energy Outlook," the U.S. EIA,



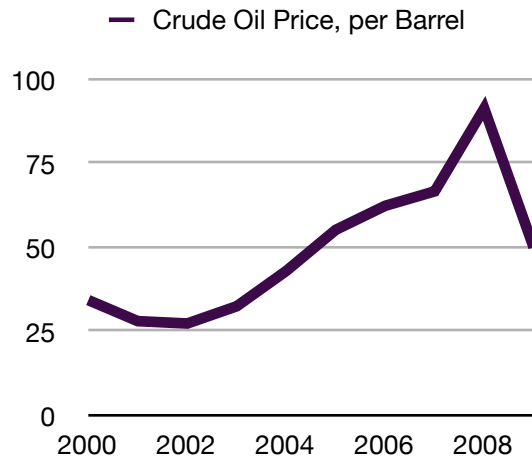
“estimates that the 2009 delivered electric-power-sector coal price increased by 7% in 2009 despite decreases in spot coal prices, lower prices for other fossil fuels, and declines in coal-fired electricity generation. This higher cost of delivered coal is due to the significant portion of longer-term power-sector coal contracts that were initiated during a period of high prices for all fuels.”

According to the Consensus Revenue Estimating Group's (CREG) January 2010 Revenue Forecast, the average gross price for all Wyoming coal production in 2009 was \$11.79 per ton, a 3% increase.

The \$196 million in taxable value from coal in tax year 2009 will bring \$1.68 million in tax revenue to the general fund. If the production is roughly the same and prices increase 3%, the taxable value for coal could rise to \$201 million in tax year 2010, bringing \$1.73 million in taxes to the general fund.

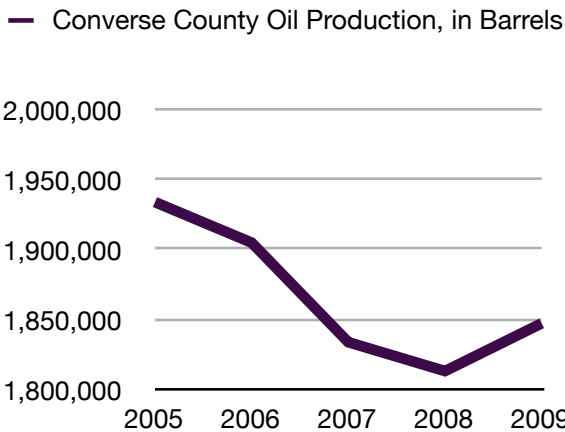
Oil

Revenues from oil production represent 21% of property tax income to the county. Again, the tax revenue is based on actual barrels of production and the sale price. FY 2011 revenue will be based on the 2010 tax year and 2009 prices and production.



The CREG 2010 Fiscal Forecast noted that the average gross sales price for all Wyoming oil production was \$50.00 per barrel in 2009, down from an average price of \$91.35 in 2008. The 45% price decrease will result in lower property tax revenues from oil in FY 2011.

Source: West Texas Intermediate Spot Average / CREG



The other side of the equation, production, looks a little better. Over the last ten years, production has consistently fallen in Converse County as with the rest of Wyoming. In 2009, though, oil production in Converse County was slightly higher than the year before, rising to 1,847,142 barrels from the previous year total of 1,813,029 barrels. The 2% increase in production will offset a little of the price decrease.

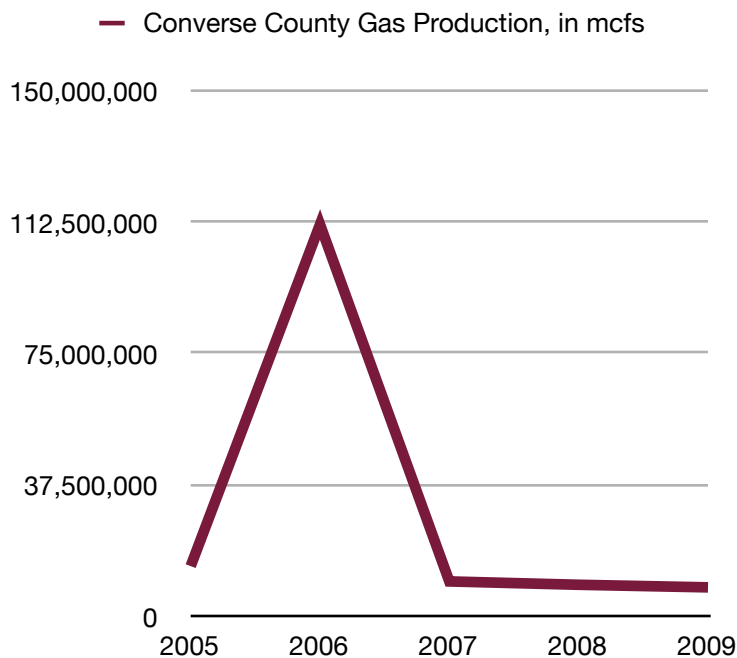
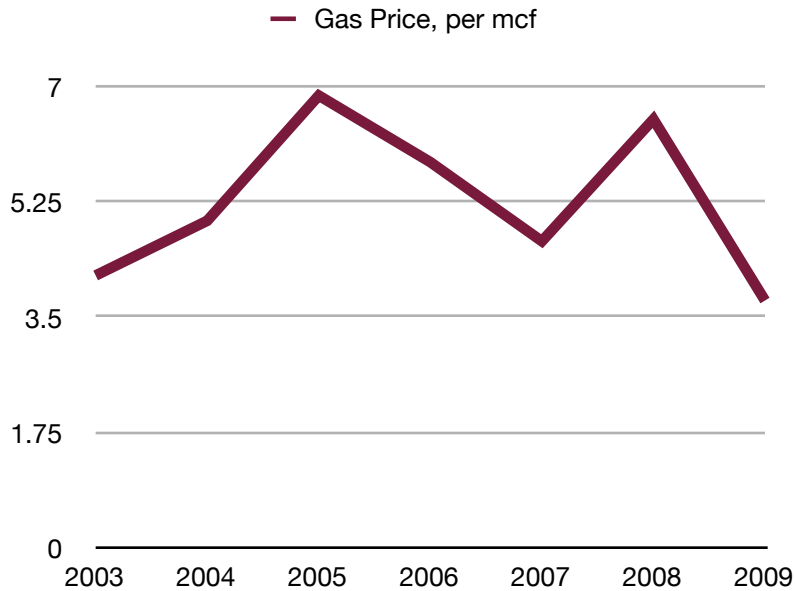
Source: Wyoming Oil & Gas Conservation Commission

It's difficult to assess the exact revenue impact because of the complication of the formulas involved in the assessment of the taxable value. However, if the price estimates from CREG hold true, the \$146 million in taxable value the county received from oil in 2009 may be closer to \$82 million in tax year 2010. In terms of actual impact to the general fund, the \$146 million in taxable value would have resulted in \$1.26 million in general fund tax dollars in 2009, where a taxable value of \$82 million would generate \$706,000 tax dollars in tax year 2010.

Natural Gas

In tax year 2009, natural gas represented 8% of the overall property tax value, at \$56 million.

After spiking in 2008 with an average sale price in Wyoming of \$6.50 per mcf, gas prices continued to slip through 2009, finishing at an average price of \$3.75 per mcf. The 42% decrease has had a significant effect on the overall revenues for the State of Wyoming and will have some effect on Converse County. Certainly not as significant, though, since gas only represents 8% of the property tax base in the county.



Natural gas production also fell slightly in Converse County, from 8.9 million mcf in 2008 to 8.2 million in 2009.

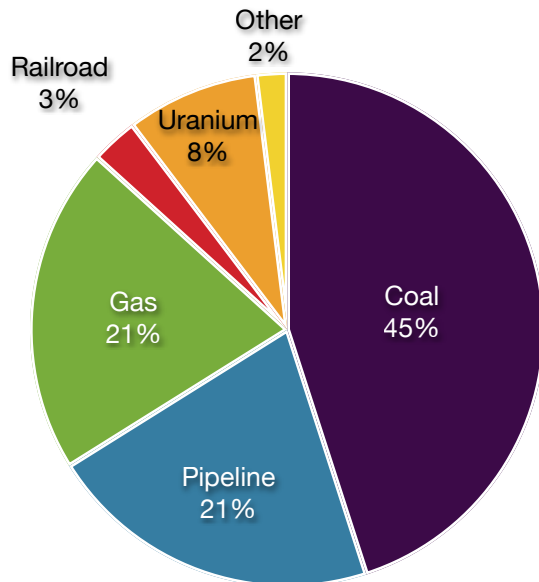
The \$56 million in taxable value generated \$482,000 in revenue to the general fund for the tax year 2009. In tax year 2010, the taxable value for gas may be closer to \$31 million, yielding \$267,000 in tax dollars.

Source: Wyo Oil & Gas Cons. Commission

Industrial / Light & Power

As mineral revenues decline, the diversification of the tax base in the county may offer some additional revenues to offset those losses.

In tax year 2009, industrial property had a taxable value of \$66 million and brought approximately \$560,000 in revenue to the general fund. Most of the taxable value on industrial property in the county is attributable to the energy industry.



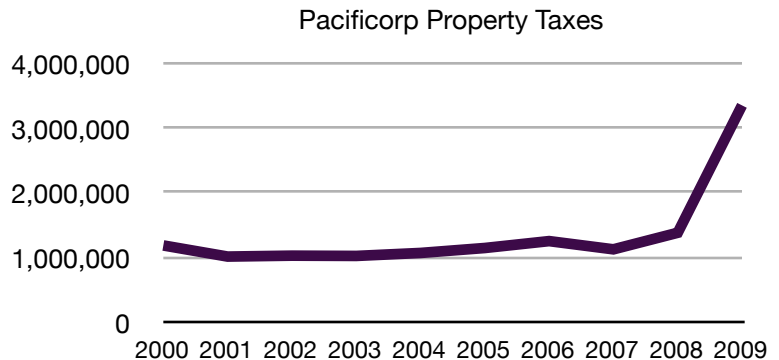
Light & Power contributed another \$58 million in taxable value, or \$500,000 to the general fund. Assets of Pacificorp (Rocky Mountain Power) make up almost all of that valuation.

The valuation at the power plant has historically remained stable, though there was a big jump in 2009, probably due to the enhancements to the plant itself and the construction of the wind farm. No data is available from the Department of Revenue that would indicate how much of the increase is due to which component at the facility.

The construction of wind farm facilities will continue to have a positive impact on the county valuation and the Industrial/Light & Power sector will become a larger portion of property tax revenue.

Even though the Campbell Hill Project was just beginning construction in 2009, the state assessed \$1.5 million in taxable value to Three Buttes Windpower, LLC. Though the final value of the project isn't publicly available, Duke Energy estimates that it will generate 99 megawatts of power.² Aaron Clark, Governor Freudenthal's Energy Advisor, said a general rule of thumb would be that, "a small wind farm of 100 megawatts would pay a county \$2 million in property taxes."³

Based on 2009 mill levies, \$2 million in property taxes would generate an additional \$250,000 for the general fund.



² Duke Energy Press Release, Sept 10, 2008

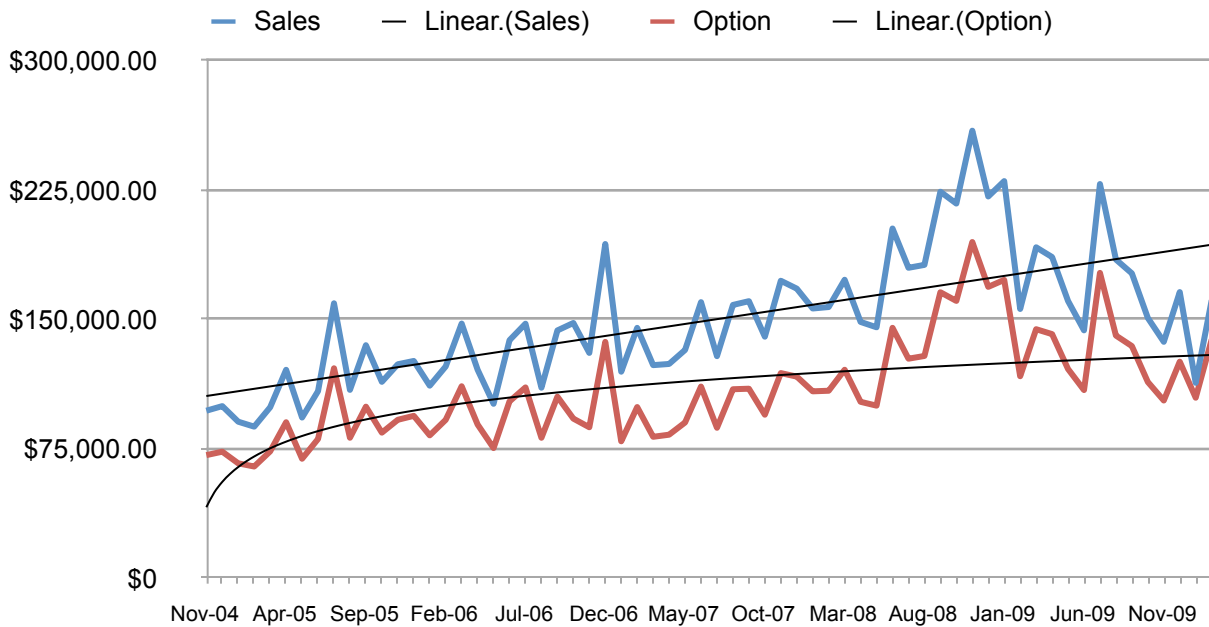
³ Casper Star Tribune, "What else do they generate?", July 29, 2009

Sales Tax

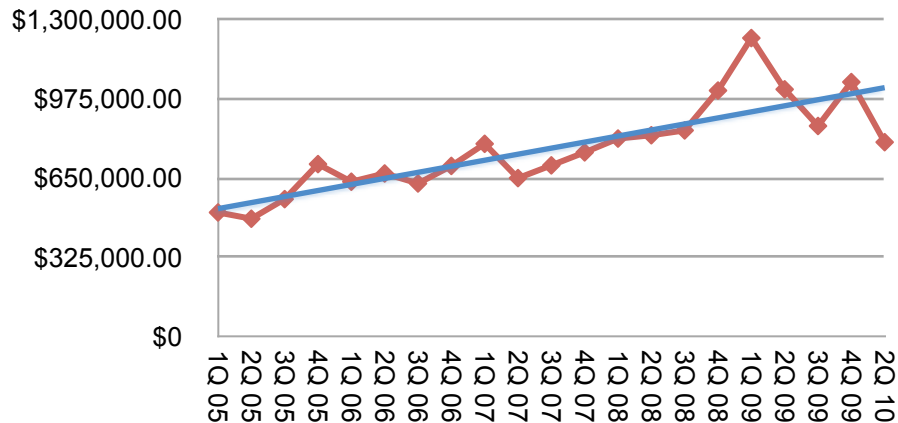
Sales and use taxes accounted for 34% of the total general fund revenue in fiscal year 2009 and are budgeted to account for \$2.62 million, or 25% of the general fund revenue in fiscal year 2010.

Converse County avoided much of the drastic declines in sales tax revenues that most of the state saw throughout 2009, due to a variety of major construction projects taking place in the area.

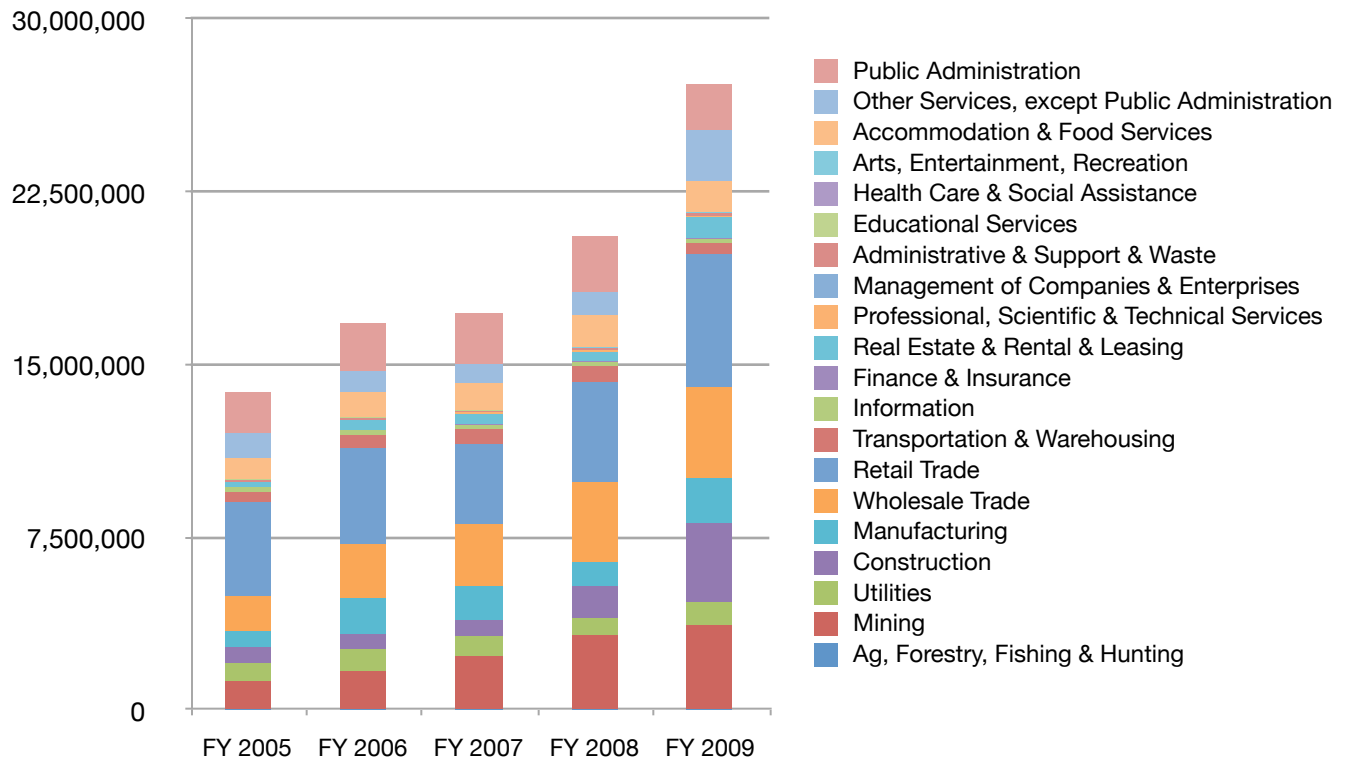
As those projects were completed or tapered off in the second fiscal quarter of 2009, revenues started to decline. The Oct-Dec 09 quarter generated 35% less revenue than the same period in 2008. The January 2010 sales tax was 47% lower than January 2009 and the lowest January collection since 2007. February 2010 revenue did bounce back to beat the February 2009 sales tax by 10%, a hopeful sign of recovery.



Quarterly Sales Tax Revenues



Traditionally, county sales tax revenues have been driven by Retail Trade, Wholesale Trade, Manufacturing, Mining and Construction. Through most of fiscal year 2009, there were increases across all of those major sectors.



Through the first half of fiscal year 2010, all major industry sectors have seen significant decreases. Construction is down 53% from the same period last year, Mining down 46%, Manufacturing down 30%, Retail down 16%. The only major sector that has increased in in FY 2010 when compared to FY 2009 is the Utilities sector, which rose 41%.

Part of the decrease is attributable to the abnormally high revenues in FY 2009, which were far above the historic trend line. Some of the decrease, though, is certainly due to economic factors. In the January 2010 CREG report, Jim Robinson, a senior economist for the Economic Analysis Division, reported that, "Consumer and business spending remains sluggish throughout the State."

Sales tax revenues for Converse County increased for the January 2010 collection period, when they decreased 5% statewide, suggesting that the county's economy remains stronger than the rest of the state.

Hopefully, sales tax revenue through the spring will continue to level off, though CREG projects that the revenues won't recover statewide until Fiscal Year 2012.

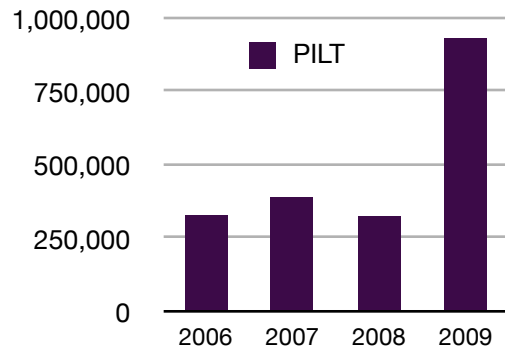
PILT

Payment in Lieu of Taxes payment are made from the federal government to local governments to offset losses in property taxes due to nontaxable Federal lands within their boundaries.

Converse County received a windfall of PILT revenues in FY 2009, budgeting \$225,000 and receiving \$929,000, after passage of the Emergency Economic Stabilization Act of 2008. Prior to the Act, PILT was only funded by Congress at 64.7% of the actual entitlement level. The Act authorizes counties to receive their full PILT entitlement from 2008 through 2012.

At the FY 2009 level of \$2.37 per qualified acre and 405,250 acres in the county, the PILT entitlement should equal \$960,442 minus Forest Reserve, Bankhead-Jones and SRS distributions, or approximately \$700,000.

The FY 2010 budget for PILT is \$225,000.

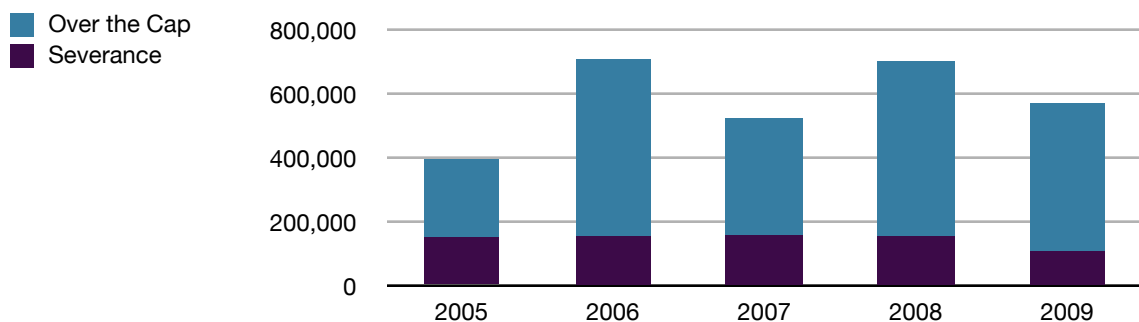


Severance Taxes / Direct Distributions

Wyoming Statutes cap the amount of money that local governments can receive from the state from severance tax collections at \$155 million. When severance taxes were running far over the cap, the state was sharing some of the additional revenue through direct distributions to cities, towns and counties.

In Converse County, the severance tax cap results in approximately \$150,000 in revenue each fiscal year. The “over the cap” distributions from the state have supplemented the budget another \$250,000 - \$550,000.

Even though severance taxes have now fallen below the caps and are less than the state anticipated, the state still appears ready to help support local governments through direct distributions.



The current budget bill in the legislature allocates roughly \$81 million to be distributed to cities, towns and counties. Currently, each county would receive 1/3 of 89%; 15% equally and the other 85% by population. Using that formula, Converse County would receive a payment of \$654,902 in August 2010 and August 2011. That formula and level of funding has not yet been approved by the legislature.