Wind Towers Acquisition Cost

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TO: IOWA ASSESSORS

FROM: DALE HYMAN, ADMINISTRATOR PROPERTY TAX DIVISION

IOWA DEPARTMENT OF REVENUE

RE: SALE OF WIND TOWER AND ASSETS REAL OR PERSONAL

The Iowa Department of Revenue has received questions on the sale of wind farms and what should be included in net acquisition cost.

Purchase of Wind Towers

A new owner writes:

Our company completed two transactions to create an operating wind farm from a previous wind farm developer.

First, we bought a turbine and the associated infrastructure for $2.376 million.

Second, we bought an LLC with no tangible assets for $1.29 million. This LLC holds contracts, including:

- Power Purchase Agreement- the contract to sell the power at a given price for a given period of time to the utility.
- Interconnection Agreement - the right to connect onto the transmission lines.
- Land Lease –the rental agreement with the landowner.

We combined the turbine and the LLC and commissioned the project on January 30, 2010.

Our questions are:

1. What is our assessable value? Is it only $2.376 million?

Answer: The assessed value is based on the construction cost reported by the original owner. A subsequent sale of the turbine and associated infrastructure does not effect the assessment. Your purchase price is not considered in the assessed value.

2. Does the 0% to 30% assessment valuation start over because we are new owners?

Answer: No. The sale does not change the stage of the assessment ladder that it is on.

Example:

If the property had an original acquisition cost of $3,000,000 and the stage of assessment is year five, the assessment is $3,000,000 x 20% = $600,000.

Assets included in Net Acquisition Cost when a Wind Farm is assessed under 427B.26

Type of Expense	Net Acquisition Cost
AFUDC (Allowance for Funds Used During Construction) – Noncash item representing the estimated composite interest cost of debt and return on equity funds used to finance construction.	Include
Damage Payments – Payments to property owners to reimburse the owner for damage caused by construction or delivery of the materials to the wind sites.	Include
Easements and right-of-way and land lease costs	Do not include
Payments to city airports for permanently canceling their non-directional approach to certain runways.	Include
Attorney costs (abstracts, permits)	Include
Permits – environmental, construction, etc.	Include
Meals	Include
Employee expense reports	Include

Other Questions Related to Assessment of Wind Farms

Question:

Should meteorological towers (MET) and Operation and Maintenance (O&M) buildings dedicated to the wind farm be valued under 427B.26?

Answer:

Whether or not METs and O&M buildings are valued under 427B.26 depends on the circumstances.

A MET may be constructed before an ordinance for the special valuation of wind energy conversion property has been approved by local government or before a letter of intent has been filed with the local assessor. In these instances, the MET is subject to the provisions of 427A.1 and may be assessed as real estate before the project is assessed under 427B.26.

If there is a separate assessment for the MET, it should not be included in the acquisition cost reported for assessment under the special valuation for wind energy conversion property.

However, if the MET is not separately assessed before the project is first assessed under the special valuation for wind energy conversion property, then it should be included in the special valuation.

O&M buildings that are used primarily to support the wind farms should also be included in the acquisition cost under 427B.26.

Question:

Should the costs incurred after a wind farm is placed in service be treated separately or be included with the original costs? For example, a wind turbine went into service in 2006 at a cost of $2 million. In 2007, an additional $100 thousand in related costs were incurred. In which assessment year should the $100 thousand be included? Some counties are adding the additional costs to the original costs and others are treating the additional costs as stand-alone. Which method is correct?

Answer:

The costs that are part of the original construction project should be added to the net acquisition cost when the project is first assessed. Subsequent capitalized costs that are part of the maintenance of the project should not be added to the net acquisition cost.

A new tower or improvement should be first assessed when it comes into service. This will result in a separate assessment schedule starting at zero percent of the net acquisition cost the first year. The second through the sixth year the rate increases by five percentage points. The seventh and succeeding years will be at 30% of acquisition cost.