

PROPERTY ASSESSMENT APPEAL BOARD
FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER ON REMAND
FROM THE DISTRICT COURT FOR EMMET COUNTY

PAAB Docket No. 14-32-0297

STATELINE COOPERATIVE,
Appellant,

vs.

EMMET COUNTY BOARD OF REVIEW,
Appellee.

Introduction

This appeal comes before the Property Assessment Appeal Board (PAAB) on remand from the District Court for Emmet County. The Court has ordered PAAB “to receive additional evidence on, and determine, the portions and corresponding values of the feed mill building and two exterior grain bins.”

Attorney Brant Kahler represents StateLine Cooperative. Attorney Brett Ryan represents the Emmet County Board of Review.

PAAB held a contested case hearing on the remanded issue on August 30, 2017.

Findings of Fact

StateLine claims portions of the feed mill building, specifically the overhead bins (ingredient and loadout); and the large/small exterior grain bins’ walls and roofs are exempt as machinery used in a manufacturing establishment. (See Appendix A & StateLine Post-Hearing Brf. on Limited Remand p. 3).

Cherilyn Krichau, StateLine’s feed department manager at the subject facility, testified on its behalf. Krichau described the subject facility’s manufacturing process. She demonstrated where trucks enter the facility and dump corn into the pit scale, from there conveyors move the corn through a bucket elevator and ultimately to the large grain bin. Alternatively, the corn is gravity-fed to a smaller grain bin. She stated the corn is constantly moving through those bins on a daily basis. She further explained how the non-corn ingredients enter the facility and are

stored in the overhead ingredient bins. There are twenty-four ingredient bins of various sizes and eighteen load-out bins inside the main structure of the feed mill. (Tr. p. 25, In. 1-14; Tr. p. 27, In. 11-14). Krichau notes the ingredient bins hold the raw materials until they are needed for the manufacturing process. (Tr. p. 17, In. 22-24; Tr. p. 39, In. 7-15). However, once the ingredients are delivered to the bins, they cannot be removed or used for any other reason than to process into meal feed. (Tr. p. 22, In. 13-25).

The computerized distributor functions to move corn and non-corn ingredients by auger from the bins onto a scale, and eventually into a mixer then surge hopper for processing into meal feed. (Tr. p. 19, In. 14-25). Krichau explained this is a continuous process. (Tr. p. 20, In. 1-4; Tr. p. 22, In. 11-12). A small amount of the meal feed is sold; however the majority (95%) goes on for further processing. (Tr. p. 20, In. 22-25).

Krichau also identified a large and small grain bin used to store corn. Krichau explained that if the feed mill is operating at capacity when the large grain bin is filled, corn will begin moving into production on day one with all corn processed within roughly sixteen to twenty days. (Tr. p. 37, In. 18-25). Product in the smaller bin is moved to production within four to five days. (Tr. p. 38, In. 3-9).

David Edge, StateLine's Chief Financial Officer, testified regarding the facility's actual construction costs compared to portions of the subject property's assessment, as well as StateLine's opinion of the correct assessments. (Ex. E & Ex. 9, p. DE 0002). Edge clarified that the use of the term "feed mill" on the construction contract was used in a broad sense and included items in excess of the 2200 square feet that the assessor identified as the feed mill. (Tr. p. 56, In. 9-19; Tr. p. 58, In. 1-19). He confirmed the cost of materials for the ingredient and load-out bins was \$1,032,500. (Ex. E, line item 19; Tr. p. 58, In. 20 to p. 59, In. 9). Ultimately, Edge did not offer an opinion of value for any of the components subject to remand.

StateLine submitted an appraisal completed by Don Vaske of Frandson and Associates, LC, Des Moines. (Ex. 39, Appraisal). Vaske's appraisal report provides his "opinion of the appropriate allocation of assessed values on improvements identified by the Emmet County Assessor as the feed mill and feed mill basement (Assessor's ID B-1) and the two grain/corn holding bins (Assessor's ID B-3 & B-4)." (Ex. 39, Appraisal p. 1; Tr. p. 67, In. 20 to p. 68, In. 9). Ultimately, Vaske determined the following allocations for specific components of the buildings, some of which StateLine asserts are exempt as machinery/equipment. (Ex. 39, Appraisal p. 8).

Feed Mill	Allocation Value
Basement	\$215,950
Ground Level	\$377,400
Overhead Bins	\$1,092,550
Exterior Grain Bins (Walls/Roof)	
B3	\$487,250
B4	\$55,675

StateLine believes the overhead bin area, as well as the walls/roof of the grain bins, totaling \$1,635,475, should be exempt.¹

Vaske’s appraisal report and testimony explains in detail how he arrived at these conclusions. Pointing to a reproduction of a sketch of the subject improvements found on the property record card, the areas shaded in gray are the focus of his analysis. (Ex. 39, Appraisal p. 11). Vaske explained the feed mill is only a portion of the larger structure, which also includes a warehouse, receiving area, and boiler room. The feed mill includes a basement and tunnel reflected as an inset on the upper left hand corner of the sketch. (Ex. 39, Appraisal p. 11). His analysis also includes the two exterior grain bins. Vaske did not opine an independent value of these components; rather he allocated the assessed values assigned to each component. (Tr. p. 68, ln. 1-9).

Vaske’s analysis of the feed mill begins with a description of it, as well as how its assessment was calculated. The feed mill consists of 2228 square feet of ground floor area centrally located within the facility. It houses the grinding and mixing equipment operations. It is an I-beam structure that supports the 42 overhead bins and is independent of the surrounding warehouse structure. The overhead bins rise above the surrounding warehouse area, with the exterior of the bins exposed. The feed mill also includes 3377 square feet of basement area and a conveyor tunnel which houses feed and processing equipment, as well as the conveying equipment used to transport the ingredients to and from the ground floor feed mill to operations. (Ex. 39, Appraisal p 5-6; Tr. p. 71, ln. 4-17).

Vaske reports the Assessor assigned a value to the feed mill by estimating the replacement cost new (RCN) on a per-cubic-foot basis and then applied a grade multiplier of

¹ In its brief, StateLine asks PAAB to reduce the assessment by \$1,635,175, which appears to be a typographical error.

1.50. The resulting RCN per cubic foot is \$9.60. (RCN \$6.40 x grade multiplier 1.50 = \$9.60). The adjusted RCN was then depreciated by 2%, resulting in a depreciated RCN per cubic foot of \$9.41. According to Vaske, the Assessor estimated the feed mill, including the overhead bins, at 156,244 cubic feet, resulting in a depreciated assessed value of \$1,469,950 for this portion of the feed mill. The basement and conveyor belt was assessed separately and has a depreciated assessed value of \$215,950. The total depreciated RCN of the feed mill is \$1,685,900. (Ex. 39, Appraisal p. 6).

Vaske identifies three components of the feed mill: the ground floor area, the overhead area, and the basement. Vaske determined the \$215,950 assessed value of the basement component was reasonable and allocates this amount to that component. (Ex. 39, Appraisal p. 7).

He considers the ground floor area to be the space from the floor to the bottom of the overhead bins, calculating this area as 40,104 cubic square feet. Applying the depreciated value of \$9.41 per cubic foot, Vaske concludes an allocation of \$377,400 (rounded) for the ground floor component. (Ex. 39, Appraisal p. 7).

The overhead bins begin near the roof line of the surrounding warehouse and also include the I-Beam support structure. Because the assessment valued the ground floor and overhead bins together, Vaske simply deducts his conclusion of \$377,400 for the ground floor allocation from the feed mill's total assessed value of \$1,685,900, concluding an allocated value of \$1,092,500 for the overhead bins. StateLine noted that Vaske's allocation of \$1,092,500 for the overhead bins is comparable to the actual construction costs of \$1,032,500 identified for the bins, which it believes further validates his analysis. (Ex. E, line item 19).

The Board of Review was critical of Vaske's analysis because he based it on a straight-line cubic foot basis for the ground floor and the overhead bin area. It asserts the ground floor may have more value because of its foundational structure and houses services like any necessary electrical and plumbing components.

Vaske conducted a similar allocation analysis on the two free-standing grain bins assigned identification as B3 and B4, also identified in the record as buildings five and six. Here, Vaske opines an allocated value of the assessment for the bins separating the value of the foundation from that of the walls and roof. In our prior ruling, PAAB determined that the foundation is not machinery, but rather real property.

Vaske considers the RCN and the depreciated assessed value of each bin, which includes the foundation, walls, and roof. His total calculations also include the aeration floor, fans, and power sweep, which PAAB's prior Order identified as exempt. (Ex. 39, Appraisal p. 3-4; Ex. A, p. DE0011 & DE0013). The large grain bin was depreciated by 3%. The small grain bin was depreciated by 60%. The following table outlines these values.

Large Grain Bin (B3)		
Component	RCN	Assessed Value (Depreciated RCN)
Concrete base, walls & roof	\$697,000	\$676,100
Aeration Floor	\$40,300	\$39,100
4, 40 HP RPM Fans	\$22,000	\$21,300
4, 3 HP RM Fans	\$4,900	\$4,800
Power Sweep	\$14,500	\$14,100
Total	\$778,700	\$755,400

Small Grain Bin (B4)		
Component	RCN	Assessed Value (Depreciated RCN)
Concrete base, walls & roof	\$193,000	\$78,000
Aeration Floor	\$13,200	\$5,300
2, 20 HP RPM Fans	\$7,050	\$2,800
Power Sweep	\$8,000	\$3,200
Total	\$221,250	\$89,300

Based on corn usage needs of the subject's feed mill operations, Vaske determined the holding capacity of B3 is 566,394 bushels and the holding capacity of B4 is 147,456 bushels. (Ex. 39, Appraisal p. 3-4). This indicates an RCN for B3 of \$1.37 per bushel and an RCN of B4 of \$1.52 per bushel.

Vaske interviewed three construction companies that specialize in grain bin construction: Becker Construction Enterprises Co., CEEC, Inc., and Sukup Manufacturing Co. Based on conversations with representatives from these companies, Vaske determined an RCN ranging from \$1.08 to \$1.68 per bushel for a larger grain bin similar to B3. The mean and median of this analysis is \$1.35 and \$1.30 respectively. None of the costs included dirt work. The low end of this range does not include the concrete foundation – when that cost is figured in the RCN is between \$1.35 and \$1.45 per bushel, which is comparable to the other competing company's costs. The higher end of this range included a foundation which required

more extensive footings than typical construction of a similar structure. (Ex. 39, Appraisal p. 4-5). Applying the same analysis, the RCN for the smaller grain bin, B4 ranged from \$1.41 to \$1.51 per bushel.

The interviewees indicated that the concrete foundation costs associated with the construction ranged from 20-30% of the total RCN. Considering an RCN between \$1.30 and \$1.68, this would indicate a range of cost between \$0.26 and \$0.50 per bushel for the larger bin’s concrete foundation; and between \$0.28 and \$0.45 per bushel for the smaller bin’s concrete foundation. From this range, Vaske selected 25% as the appropriate allocation to the cost of the foundations. He applied 25% to the depreciated RCN of the exterior bins only, thereby excluding the items PAAB had already identified as exempt.

	Assessed Value (Depreciated RCN)	Allocation to Concrete Floor & Foundation	Allocation to Bin Wall & Roof
B3	\$676,100	\$188,850	\$487,250
B4	\$78,000	\$22,325	\$55,675

The Board of Review was critical of Vaske’s analysis for several reasons. First, it notes the reported cost of the large grain bin was roughly \$1,250,000. (Ex. F, Grain Bin – Ha’fa Feed Mill; Tr. p. 94, In. 3 to p. 95, In. 16). Yet Vaske chose to rely on the Assessor’s RCN of roughly \$780,000 as reflective of market costs. Vaske explained he was unaware of what the \$1,250,000 cost reflected in Exhibit F. He explained it could include other items such as grain legs, fans, and sweeps. While he recognized his professional agreement that the Assessor’s RCN was reasonable, he lacked information to explain why there was roughly a \$500,000 difference between it and the costs reported on Exhibit F. (Tr. p. 95, In. 5-16).

In prior testimony, Vaske acknowledged that the cost of site work was not included in the researched construction costs that he relied on for his analysis and conclusions. County Assessor Barbara Bohm testified for the Board of Review that site work is included in the assessed value of the improvements. (Tr. p. 129, In. 15 to p. 130, In. 8).

Conclusions of Law

In an exemption case, PAAB “strictly construe[s] a statute and any doubt about an exemption is resolved in favor of taxation.” *Carroll Area Child Care Center, Inc. v. Carroll Cnty. Bd. of Review*, 613 N.W.2d 252, 254 (Iowa 2000); *Wendling Quarries, Inc., v. Property Assessment Appeal Board*, 865 N.W.2d 635 (Iowa App. Ct. 2015); *Splash Enterprises, L.C. v.*

Polk Cnty. Bd. of Review, 807 N.W.2d 157, 2011 WL 3925415, at *3 (Iowa Ct. App. 2011). It is StateLine's burden to prove it is entitled to the benefit of the exemption. § 441.21(3); *Sherwin-Williams Co. v. Iowa Dep't of Revenue*, 789 N.W.2d 417, 424 (Iowa 2010).

Sections 427A.1(1)(e) and 427B.17(3) effectively exempts, "[m]achinery used in manufacturing establishments" from real property tax.

In our first Order, we concluded, "that machinery need not directly participate in the manufacturing process to receive an exemption." (PAAB Order February 26, 2016 p. 10). Stateline noted that R. 701-71.1(7)(b)(1) defines machinery to include "equipment and devices, both automated and non-automated, which is used in manufacturing as defined in Iowa Code section 428.20." We also applied the following definitions of machinery:

The Merriam-Webster dictionary defines machinery as "machines of a particular kind or machines in general." *Machinery Definition*, MERRIAM-WEBSTER.COM, <http://www.merriam-webster.com/dictionary/machinery> (last visited Feb. 18, 2016). See also *Machinery Definition*, DICTIONARY.COM, <http://dictionary.reference.com/browse/machinery?s=t> (last visited Feb. 18, 2016) (describing machinery as "an assemblage of machines or mechanical apparatuses"). A machine is defined as "a piece of equipment with moving parts that does work when it is given power from electricity, gasoline, etc." *Machine Definition*, MERRIAM-WEBSTER.COM, <http://www.merriam-webster.com/dictionary/machine> (last visited Feb. 18, 2016). Black's Law defines machine as "a device or apparatus consisting of fixed or moving parts that work together to perform some function." MACHINE, Black's Law Dictionary (10th ed. 2014).

(PAAB Order p. 10).

Applying the same principles as set forth in our original order to the issues in dispute here, we conclude StateLine has not shown the overhead bins (ingredient and loadout) or the large/small exterior grain bin's walls and roof are machinery. We do not believe any of them would commonly be understood to be machinery. Their primary purpose is to hold raw material, protecting it from the elements, until it is needed in the manufacturing process. Similarly, the large and small grain bins' primary purpose is to store raw material until it is needed in the manufacturing process.

Furthermore, even had we concluded the items were machinery, we must determine whether Stateline has shown their value.

The Board of Review argues StateLine failed to prove the value of the property absent any exempt equipment and therefore has failed to carry its burden to show the property is

entitled to an exemption. (BOR Brief 2-4). However, our first Order rejected this conclusion and reduced the assessment by the assessed value of the equipment PAAB previously found to be machinery. (PAAB Order p. 11). At hearing, StateLine proffered a value for each of the items before PAAB on remand. Had Stateline shown the disputed items here constituted machinery and were entitled to exemption, which it failed to do, it would have also needed to show the amount of the assessment attributed to those items so the assessment could be reduced accordingly.

Here, we are not convinced that Vaske's allocations accurately reflect the value of the property StateLine believes to be exempt. Regarding the large and small grain bins, Vaske determined that 25% of the cost of construction is attributable to the foundations. At the same time, however, he failed to account for the site work or estimate how the site work cost should be allocated to the resulting grain bin. PAAB finds that while the methodology Vaske employed is sound, it failed to account for the site work. To remedy, we would increase the cost of construction attributed to the foundation to the upper end of his range at 30%; thus reducing his attributed value for the roof and walls.

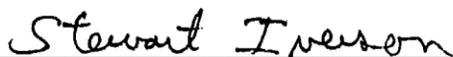
Additionally, his allocation of value to the ingredient bins relied on the assessment, which valued the entirety of the feed mill on a per-cubic-foot basis. We find that extrapolating a per-unit value from the whole and applying that to a portion of the property does not necessarily result in an accurate valuation of that portion. As an example, the IOWA REAL PROPERTY APPRAISAL MANUAL prescribes assessors are to arrive at the value of a restaurant by determining the restaurant's total square footage and then, considering its type of construction, apply a pre-determined value per-square-foot to arrive at its valuation. MANUAL, p. 6-15, available at <https://tax.iowa.gov/sites/files/idr/documents/6PRECOMPUTEDSECTIONA.pdf> (last visited Mar. 21, 2018). For instance, a 2,000 square foot wood frame restaurant would have a base cost of \$95.70 per-square-feet. *Id.* Despite the fact that the MANUAL prescribes a per-square-foot value, it could not be reasonably argued that each square foot costs the same amount to construct or contributes an equal amount to its value. Accordingly, we do not believe Vaske's allocation method is an entirely reliable reflection of the value of the ingredient and load-out bins.

In summary, we conclude the ingredient and load-out bins as well as the walls and roof of the two grain bins are not machinery and are therefore assessable as real estate. Even if we

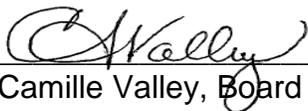
had determined they were machinery, we conclude Vaske's allocations are not reliable reflections of their value. Accordingly, we affirm the assessments of the ingredient and load-out bins and the two grain bins.



Karen Oberman, Presiding Officer



Stewart Iverson, Board Chair



Camille Valley, Board Member

IT IS SO ORDERED.

CC:

Brant Kahler/Adam Van Dike/Steven Schoenebaum By EFILE

Brett Ryan By EFILE

Appendix A

Reproduced from StateLine's Itemized List of Components filed on November 18, 2016.

Building 1 of 7

StateLine asserts the following should be exempt from taxation as "machinery used in a manufacturing establishment":

Ingredient Bins:

- Bin 1 Monocal Phosphate 1,280 cubic ft (40x8x4)
- Bin 2 Lysine 1,280 cubic ft (40x8x4)
- Bin 3 Feeding Lime 1,440 cubic ft (40x8x4.5)
- Bin 4 Salt 1,120 cubic ft (40x8x3.5)
- Bin 5 Empty 1,280 cubic ft (40x8x4)
- Bin 6 Distillers Dried Grain 1,280 cubic ft (40x8x4)
- Bin 7 Distillers Dried Grain 2,560 cubic ft (40x8x8)
- Bin 8 Soybean Meal 2,560 cubic ft (40x8x8)
- Bin 9 Meat and Bone Meal (Porcine) 2,560 cubic ft (40x8x8)
- Bin 10 Soybean Meal 2,560 cubic ft (40x8x8)
- Bin 11 Soybean Meal 2,560 cubic ft (40x8x8)
- Bin 12 Distillers Dried Grain 2,560 cubic ft (40x8x8)
- Bin 13 Wheat Midds 2,560 cubic ft (40x8x8)
- Bin 14 Distillers Dried Grain 2,560 cubic ft (40x8x8)
- Bin 15 Distillers Dried Grain 2,560 cubic ft (40x8x8)
- Bin 16 Soybean Meal 2,560 cubic ft (40x8x8)
- Bin 17 Distillers Dried Grain 2,560 cubic ft (40x8x8)
- Bin 18 Distillers Dried Grain 1,280 cubic ft (40x8x4)
- Bin 19 Whole Corn 1,280 cubic ft (40x8x4)
- Bin 20 Ground Corn 1,280 cubic ft (40x8x4)
- Bin 21 Ground Corn 1,280 cubic ft (40x8x4)
- Bin 22 Cob and Stalk Bin 1,200 cubic ft
- Bin 23 Pellet Mill Bin 2,560 cubic ft (40x8x8)
- Bin 24 Pellet Mill Bin 2,560 cubic ft (40x8x8)

Bin Legs

Ingredient Bin Augers (24)

Loadout Bins:

- Bin 25 Finished Feed Load Out Bin 2,048 cubic ft (32x8x8)
- Bin 26 Finished Feed Load Out Bin 2,048 cubic ft (32x8x8)
- Bin 27 Finished Feed Load Out Bin 1,024 cubic ft (32x8x4)
- Bin 28 Finished Feed Load Out Bin 1,024 cubic ft (32x8x4)
- Bin 29 Finished Feed Load Out Bin 1,024 cubic ft (32x8x4)
- Bin 30 Finished Feed Load Out Bin 1,024 cubic ft (32x8x4)
- Bin 31 Finished Feed Load Out Bin 2,048 cubic ft (32x8x8)
- Bin 32 Finished Feed Load Out Bin 2,048 cubic ft (32x8x8)

Bin 33 Finished Feed Load Out Bin 1,024 cubic ft (32x8x4)
Bin 34 Finished Feed Load Out Bin 1,024 cubic ft (32x8x4)
Bin 35 Finished Feed Load Out Bin 1,024 cubic ft (32x8x4)
Bin 36 Finished Feed Load Out Bin 1,024 cubic ft (32x8x4)
Bin 37 Finished Feed Load Out Bin 1,024 cubic ft (32x8x4)
Bin 38 Finished Feed Load Out Bin 1,024 cubic ft (32x8x4)
Bin 39 Finished Feed Load Out Bin 1,024 cubic ft (32x8x4)
Bin 40 Finished Feed Load Out Bin 1,024 cubic ft (32x8x4)
Bin 41 Finished Feed Load Out Bin 2,048 cubic ft (32x8x8)
Bin 42 Finished Feed Load Out Bin 2,048 cubic ft (32x8x8)

Bin Legs

Machinery Above Bins:

Gyro Sifter Feed Cleaner (1)
Corn Scalper (1)
Distributers (3)
Two-Way Valve (1)
Spouting

Other Machinery in Building 1 of 7 – Feed Mill:

Ingredient Scales (2)
Roller Mills (2)
Micro-Ingredient Bins (30) – system also includes scales, augers and conveyor
Pellet Mill (1)
Steam Lines (Pellet System)

Machinery in Mill Basement and Conveyor Tunnel:

Feed Mixer / Surge
Pellet Cooler
Conveyors

StateLine concedes the following are not exempt from taxation:

Building Foundation
Building Floor
Building Basement and Tunnel
Building Walls

Building 5 of 7

StateLine asserts the following should be exempt from taxation as “machinery used in a manufacturing establishment”:

Steel Bin Walls and Roof
Aeration Floor*
Fans*
Power Sweep*

StateLine concedes the following are not exempt from taxation:

Concrete Floor
Concrete Foundation

Building 6 of 7

StateLine asserts the following should be exempt from taxation as “machinery used in a manufacturing establishment”:

Steel Bin Walls and Roof
Aeration Floor*
Fans*
Power Sweep*

StateLine concedes the following are not exempt from taxation:

Concrete Floor
Concrete Foundation

* In a prior order, PAAB found these items were exempt.