

CALIFORNIA STATE BOARD OF EQUALIZATION
SUMMARY DECISION UNDER REVENUE AND TAXATION CODE SECTION 40

In the Matter of the Petition for
Reassessment of the 2023 Unitary Value for:

CROWN CASTLE FIBER, LLC
(8169)

Petitioner

Appeal No.: SAU 23-020

Oral Hearing Date:
December 12, 2023¹

Representing the Parties:

For the Petitioner:	Peter Michaels, Attorney Law Office of Peter Michaels
For the Respondent:	Richard Moon, Attorney V Attorney for State-Assessed Properties Division
	Michelle Cruz Principal Property Tax Appraiser State-Assessed Properties Division
Appeals Attorney:	Sonya Yim, Attorney IV

VALUES AT ISSUE

	<u>Value</u>	<u>Penalty</u>	<u>Total</u>
2023 Board-Adopted Unitary Value	\$1,093,700,000	\$0	\$1,093,700,000
Petitioner's Requested Unitary Value	\$950,000,000	\$0	\$950,000,000
Respondent's Appeal Recommendation	\$1,093,700,000	\$0	\$1,093,700,000
Board Determined Value	\$1,093,700,000	\$0	\$1,093,700,000

¹ At the nonappearance hearing, the Board denied the petition for reassessment and affirmed the 2023 Board-adopted unitary value, by a unanimous vote of the Members present, with Chair Vazquez, Vice-Chair Lieber, Member Gaines, Member Schaefer, and Controller Cohen voting aye.

1 **Factual Background**

2 Petitioner is a subsidiary of Crown Castle International Corporation. Petitioner provides shared
3 communications infrastructure to wireless carriers by offering ethernet, wavelength, internet access,
4 colocation, and related services with its network of over 40,000 cell towers and approximately 85,000
5 route miles of fiber supporting small cells and fiber solutions.

6 The 2023 Board-adopted unitary value of \$1,093,700,000 for Petitioner’s facility is based on a
7 100 percent reliance on the Replacement Cost New Less Depreciation (ReplCLD) value indicator.
8

9 **Legal Issue 1**

10 **Whether duplicative fiber optic cable exists requiring a functional obsolescence adjustment for**
11 **fiber optic cable capital costs.**

12 **Findings of Fact and Related Contentions**

13 Petitioner contends that its outside plant acquisitions in 2012, 2013, 2015, and 2017 include
14 fiber optic cable spans that run parallel to each other in close proximity (are duplicative), which
15 resulted in a network that is in excess of market standards (superadequate). Petitioner argues that a
16 prospective buyer would not build a network with duplicative fiber cables, especially if each cable was
17 designed with adequate spare capacity for future growth, and therefore, the presence of unnecessary
18 fiber optic cables requires a functional obsolescence adjustment in the Board-adopted unitary value.

19 To calculate duplicative fiber, Petitioner claims that through its Geographic Information
20 Systems (GIS), Petitioner located each cable on a map, identified areas where spans of fiber cable were
21 within a 20 meter radius, and classified cables as duplicative if (1) the capacity of the cables was
22 demonstrably inferior to the capacity of other Crown Castle fiber spans in same geographical area, or
23 the fiber spans had zero usage; and (2) the underlying fiber was placed into service before September
24 2019. The GIS data identified 3,474 miles of duplicative fiber in California, as well as 331 miles of
25 zero usage fiber located beyond a 20-meter radius of another cable. As such, Petitioner estimates that
26 3,805 miles of fiber optic cable is duplicative in its network.

27 To support its conclusions, Petitioner relied on a “Fiber & Conduit Plant Obsolescence Study”
28 by CostQuest (Petition, Exhibit 4), which found that Petitioner’s network consists of 3,796 more fiber
miles than a comparable replacement network would require, which is consistent with the above-

1 described 3,805 miles. Petitioner determines that if 3,805 miles of duplicate fiber was included among
2 6,039 miles acquired, then the duplicative plant adjustment is 63 percent ($3805/6039 = 63\%$).

3 Petitioner claims that the duplicative fiber was valued on the 2023 lien date rather than the
4 acquisition date, and that due to more recent intelligence applications, a prudent buyer as of the 2023
5 lien date would have been better informed about the potential presence of duplicative fiber, and
6 discounted the purchase price accordingly.

7 Petitioner further asserts that it investigated generally accepted industry standards for
8 determining whether fiber is duplicative or has inferior/superior capacity, and found that these issues
9 do not arise frequently, and the standard approach is to either correlate cabling data with road segment
10 data to identify cables on the same road, or identify points needing service, and develop optimal
11 pathing to identify overlap and routing inefficiency; essentially, duplicative fiber analyses are
12 performed on a case by case basis. Petitioner reiterates that geographic proximity is the only basis for
13 identifying and differentiating multiple fiber spans in the same portion of Petitioner's network, and
14 asserts that Petitioner's engineering and GIS system groups have a longstanding practice of using a 20
15 meter radius as the metric for calculating unique route mileage.

16 Petitioner further explains that its duplicative fiber analysis is premised on the fiber optic cables
17 having 25 percent of capacity for growth. Petitioner claims that for the years ended in 2020 through
18 2022, its network was utilized 15, 16, and 17 percent, respectively. Petitioner additionally explains that
19 to determine inferior capacity, the smaller strand count span of two spans would be considered
20 duplicative if the proximate span could serve the duplicated span's usage with sufficient remaining
21 strands available for growth. Petitioner also asserts that September 2019 was the cutoff date in its
22 analysis in order to exclude any newly constructed spans, as the purpose of the analysis was to identify
23 spans that became duplicative as a result of acquisitions. Petitioner also claims that if cables were in
24 close proximity in certain portions of a run but not in others, the portions of each span not in close
25 proximity were disregarded in the analysis.

26 Petitioner additionally explains that all cables have the ability to connect to the same
27 customers; that all fibers are owned rather than leased; that 2,173 miles of duplicative fiber are aerial
28 and 1,299 miles of duplicative fiber are underground; and all are in public streets/highways.

1 Respondent contends that Petitioner’s calculation of functional obsolescence is unreliable due
2 to a number of unresolved issues. While Petitioner states that fiber optic cable acquired between 2012-
3 2017 was duplicative of existing cables, Respondent contends that there is no evidence they were
4 duplicative at the time of acquisition; in fact on the contrary, Petitioner’s annual 10-K filings with the
5 Securities and Exchange Commission (SEC) states that these assets were complementary to existing
6 assets.² Further, while Petitioner argues that a prospective purchaser would give minimal value to
7 duplicative fiber, Respondent claims that Petitioner’s own purchase price allocations (PPA)³
8 completed after each of the acquisitions, assigned significantly more than a minimal value to its
9 acquired property, evidencing its belief that its acquisitions were not duplicative.

10 Respondent asserts that Petitioner has not explained the market standard by which duplication
11 is measured, as required by the *Guidelines for Substantiating Additional Obsolescence for State-*
12 *Assessed Telecommunications Properties* (Guidelines).⁴ Specifically, Respondent claims that
13 Petitioner has not explained: why geographic proximity is the standard the market uses to determine
14 whether cables are needed or not (duplicative); why Petitioner used 20 meters to measure proximity;
15 how much spare capacity is typically built into fiber optic cables; and how much extra capacity is
16 standard to account for growth. Respondent further points out that Petitioner has not clarified what
17 “inferior capacity” means, and why that determines duplication, nor why September 2019 was selected
18 as the cutoff date, particularly when its last acquisition was in 2017. Respondent further contends that
19 Petitioner has not explained how proximity for cables is determined for runs where certain cables are
20 in “close proximity” for portions of that run but not in other portions of the same run, whether cables
21 within a certain distance to each other always have the ability to connect to the same exact customers,
22 how much of the parallel fibers are from acquisitions and how much were constructed by Petitioner,
23 how much of the parallel fibers are owned vs. leased or underground vs. aerial, and how much of the
24

25 ² Petitioner 10K filings with the SEC are available here: <<https://investor.crowncastle.com/financial-information/secfilings>>
[as of February 2, 2024].

26 ³ A PPA is typically conducted for financial and tax reporting requirements to allocate the total purchase price to various
27 assets and liabilities following a merger or acquisition. The PPA-assigned value for fixed assets represents the assets’ fair
28 value at the time of the purchase. (Financial Accounting Standards Board Accounting Standards Codification 805 (ASC
805)). Fair value is defined as, “The price that would be received to sell an asset or paid to transfer a liability in an orderly
transaction between market participants at the measurement date.” (ASC 820.) This definition is similar to the definition of
fair market value in Revenue and Taxation Code section 110 which is the basis of property taxation as required by
California Constitution article XIII, section 1.

⁴ Letter to Assessors 2008/068 <<https://boe.ca.gov/proptaxes/pdf/lta08068.pdf>>

1 parallel fibers are sharing rights of ways.

2 Respondent additionally contends that since the GIS data identified 3,474 miles of duplicative
3 fiber and 331 miles zero-usage fiber, this implies that 3,474 miles of fiber is at least partially used; and
4 Petitioner has not explained why it has designated in-use fiber as duplicative, particularly since
5 Petitioner claims additional obsolescence for inutility due to “underusage” of its fiber optic cable in
6 Issue 3, below.

7 Finally, Respondent states that Petitioner calculates a 63 percent functional obsolescence based
8 on 3,805 miles of purported duplicative fiber divided by a total 6,039 miles of acquired fiber; however,
9 Respondent asserts that it is unclear why the denominator is the total acquired fiber rather than the total
10 California network fiber, since the numerator of 3,805 miles of duplicative fiber was determined from
11 its total California network.

12 At the Appeals Conference on November 9, 2023, the parties generally incorporated by
13 reference and renewed their contentions.

14 Petitioner also agreed to provide SAPD with additional information regarding the basis for
15 selecting September 2019 as the date after which Petitioner deems fiber placed into service as non-
16 duplicative.

17 Thereafter, Petitioner stated in an email on November 22, 2023, that it would have been
18 impossible for Crown Castle go back to 2017 because underlying information and data from the 2017
19 transaction was not fully researched, analyzed, compiled, and migrated until 2019, and that detailed
20 vintage information and data for 2017 and 2018 no longer exists.

21 **Applicable Law and Appraisal Principles**

22 **Burden of Proof**

23 Assessing officers are presumed to have properly performed their duties. (Evid. Code, § 664.)
24 Therefore, Petitioner has the burden of showing that the assessment is incorrect or illegal. (*ITT World*
25 *Communications v. Santa Clara* (1980) 101 Cal.App.3d 246; see also Cal. Code Regs., tit. 18, § 5541,
26 subd. (a).)

27 **Value Standard**

28 Section 1 of article XIII of the California Constitution states that all property must be valued at
fair market value. Property Tax Rule 2, subdivision (a), states that “in addition to the meaning

1 ascribed to them in the Revenue and Taxation Code, the words “full value”, “full cash value”, “cash
2 value”, “actual value” and “fair market value” mean the price at which a property, if exposed for sale
3 in the open market with a reasonable time for the seller to find a purchaser, would transfer for cash or
4 its equivalent under prevailing market conditions between parties who have knowledge of the uses to
5 which the property may be put, both seeking to maximize their gains and neither being a position to
6 take advantage of the exigencies of the other.”

7 **Depreciation and the Cost Approach**

8 In general, the cost approach recognizes three types of depreciation: physical deterioration,
9 functional obsolescence, and external, or economic, obsolescence, through the application of the
10 Board’s replacement cost new trend factors and “percent” good factors. Obsolescence may occur when
11 property is outmoded (functional obsolescence) or when some event has substantially diminished the
12 future earning power of the property (economic obsolescence). (See Assessors’ Handbook section 501,
13 *Basic Appraisal* (January 2002), pp. 80-83.) Functional obsolescence is the loss of value in a property
14 caused by the property’s loss of capacity to perform the function for which it was intended. (*Id.* at p.
15 81.) Economic obsolescence is the diminished utility of a property due to adverse factors external to
16 the property being appraised and is incurable by the property owner. (*Id.* at p. 82.) The existence of
17 any additional or extraordinary obsolescence must be supported with verifiable documentation and
18 evidence, consistent with Board Guidelines, and Petitioner has the burden of establishing the existence
19 of any additional or extraordinary obsolescence. (See Property Tax Rule 6, subs. (d) & (e); Cal. Bd.
20 of Equalization, Assessors’ Handbook section 502, *Advanced Appraisal* (Reprinted January 2015) (AH
21 502), pp. 20-21; UVM, p. 30; and Cal. Bd. of Equalization, *Guidelines for Substantiating Additional*
22 *Obsolescence*, at p. 1.)

23 **Analysis and Disposition**

24 Respondent is presumed to have correctly determined the value of the property at issue, and
25 Petitioner bears the burden of proving otherwise. Here, Petitioner contends that its outside plant
26 acquisitions between 2012 – 2017 include fiber optic cable spans that are duplicative because they run
27 parallel to each other in close proximity; as such, Petitioner contends its network is in excess of market
28 standards (superadequate) and since a prospective buyer would not build a network with duplicative
fiber cables, especially if each cable was designed with adequate spare capacity for future growth, it

1 requires a functional obsolescence adjustment in the Board-adopted unitary value. However,
2 Petitioner's annual 10-K filings with the Securities and Exchange Commission states that these assets
3 were complementary to existing assets and Petitioner's own purchase price allocations assigned
4 significantly more than a minimal value to its acquired property, evidencing its belief that its
5 acquisitions were not duplicative.

6 Further, we note, as Respondent points out, there are several key questions that remain
7 unanswered by Petitioner related to their assertions, including why geographic proximity is the
8 standard to determine whether cables are needed (duplicative) or not; why Petitioner used 20 meters to
9 measure proximity; or why it has designated in-use fiber as duplicative. Petitioner confirmed at the
10 appeals conference that Petitioner has the ability to shut off the allegedly duplicative fiber optic cable
11 spans but has not done so. Petitioner also has the ability to consolidate customers onto the non-
12 duplicative fiber but has not done so. In fact, Petitioner confirmed that it is still using the allegedly
13 duplicative fiber optic cables. Thus, Petitioner has cited no legal or appraisal authority, or provided
14 verifiable evidence that would substantiate the necessity of obsolescence adjustments to its unitary
15 property value. Accordingly, we find that Petitioner has not met its burden of proving Respondent
16 erred by not including an additional adjustment for functional obsolescence in Petitioner's 2023 Board-
17 adopted unitary value.

18 19 **Legal Issue 2**

20 **Whether duplicative fiber optic cable exists requiring a functional obsolescence adjustment for**
21 **fiber optic cable operating costs.**

22 **Findings of Fact and Related Contentions**

23 Petitioner contends that the Board-adopted value does not include an adjustment for excess
24 operating costs associated with duplicative fiber optic cable. Petitioner estimates excess operating costs
25 at \$480 per mile annually, multiplied by 3,805 miles of duplicative fiber; and with an estimated
26 remaining useful life 6.76 years, using the BOE's 2023 lien date capitalization rate of 16.45 percent,
27 present value is calculated to be \$5,638,427. Petitioner asserts that this amount should be deducted
28 from the ReplCLD value for outside plant.

1 However, Petitioner also states that Petitioner does not advocate a change in the ReplCLD
2 value indicator. Petitioner asserts that a fiber network with relatively higher operating costs would
3 command a lower purchase price offer than a network with relatively lower operating costs, and that its
4 excess operating costs calculation is limited to duplicate fiber in California.

5 Respondent contends that although additional obsolescence may include excess operating costs
6 of superadequate assets (citing *Guidelines*, p. 4), operating costs were not a component of Petitioner’s
7 ReplCLD. Therefore, since no operating costs were included in the ReplCLD, there are no operating
8 costs, excess or otherwise, to remove.

9 Respondent additionally asserts that Petitioner appears to have calculated its excess operating
10 costs on systemwide level rather than calculating operating costs associated with only the fiber
11 Petitioner purports to be duplicative in its California network.

Applicable Law and Appraisal Principles

Burden of Proof

14 Assessing officers are presumed to have properly performed their duties. (Evid. Code, § 664.)
15 Therefore, petitioner has the burden of showing that the assessment is incorrect or illegal. (*ITT World*
16 *Communications v. Santa Clara* (1980) 101 Cal.App.3d 246; see also Cal. Code Regs., tit. 18, § 5541,
17 subd. (a).)

Value Standard

19 See Issue 1, Applicable Law, p. 5-6.

ReplCLD Value Indicator

21 Property Tax Rule 6, subdivision (a), provides, in part: “The reproduction or replacement cost
22 approach to value . . . is preferred when neither reliable sales data . . . nor reliable income data are
23 available . . .” In general, the ReplCLD valuation indicator methodology is a two-step process: 1)
24 ReplCN is calculated by applying an index factor to the historical acquisition cost of the property,
25 segregated by year of acquisition; and 2) the ReplCN is adjusted for depreciation by the application of
26 a percent good factor to the ReplCN. (Property Tax Rule 6, subd. (d); Cal. Bd. of Equaliz., *Unitary*
27 *Valuation Methods*, (2003), p. 23.) Step two includes the ReplCN being “reduced by the amount that
28 such cost is estimated to exceed the current value of the reproducible property by reason of physical
deterioration, misplacement, over- or under-improvement, and other forms of depreciation or

1 obsolescence.” (Property Tax Rule 6, subd. (e); Cal. Bd. of Equaliz., [Unitary Valuation Methods](#),
2 (2003), pp. 23-24.)

3 **Depreciation and the Cost Approach**

4 See Issue 1, Applicable Law, p. 6.

6 **Analysis and Disposition**

7 Respondent is presumed to have correctly determined the value of the property at issue, and
8 Petitioner bears the burden of proving otherwise. Here, Petitioner contends that the Board-adopted
9 value, which was based on a 100 percent reliance on the ReplCLD value indicator, does not include an
10 adjustment for excess operating costs associated with duplicative fiber optic cable. However, Petitioner
11 also states that Petitioner does not advocate a change in the ReplCLD inputs. Respondent asserts that
12 no operating costs were included in the ReplCLD, and for that reason, there are no operating costs to
13 remove.

14 Thus, Petitioner has cited no legal or appraisal authority, or provided any arguments or
15 evidence that would substantiate the necessity of an obsolescence adjustment to its unitary property
16 value. Accordingly, we find that Petitioner has not met its burden of proving Respondent erred by not
17 including an additional adjustment for functional obsolescence in Petitioner’s 2023 Board-adopted
18 unitary value.

20 **Legal Issue 3**

21 **Whether economic obsolescence should be allowed for fiber optic cable asserted to be**
22 **underutilized.**

23 **Findings of Fact and Related Contentions**

24 Petitioner contends that 9,496 miles of non-duplicative fiber optic cable, identified by the GIS
25 system deriving total California miles, less miles identified as duplicative, requires an economic
26 obsolescence adjustment to account for inutility. Inutility is established by comparing a property’s
27 capacity to its use level and adjusting the result for economies of scale (scale factor). (*Guidelines*, p.
28 4.) Petitioner calculated inutility by multiplying non-duplicative cable miles (9,496) by a weighted
average strand capacity per mile (173 strands), which gave a maximum strand capacity of 1,640,600

1 strands. The maximum capacity was then adjusted downward by 25 percent to determine an expected
2 network capacity of 1,230,450 strands. This was compared to 986,217 strands in use in California, and
3 adjusted with a scaling factor of .31. The result was 6.71 percent inutility. This was applied to non-
4 duplicative fiber costs from 2011-2018. Petitioner asserts that the total inutility adjustment is
5 \$19,197,789.

6 Petitioner claims that the scale factor identifies variable costs of fiber construction, by
7 comparing (1) materials costs for fiber only and (2) total costs for fiber construction. Petitioner
8 additionally reiterates that obsolescence was calculated as 1 minus the quotient of required strands and
9 strand capacity, then multiplied by the scale factor.

10 Petitioner states that the way it determined that a 25 percent downward adjustment was
11 appropriate was by determining that it was reasonable to set aside 25 percent capacity to ensure
12 capacity for future growth, given current 17 percent utilization of the network. When asked why the
13 ordinary obsolescence adjustment applied to the property does not cover existing inutility, Petitioner
14 responded that the inutility analysis aims to capture excess capacity in non-duplicated route segments.

15 Respondent contends that Petitioner did not provide sufficient information supporting and
16 explaining its inutility calculation provided in the Petition's Exhibit 8. Respondent claims that
17 Petitioner did not explain how it identified strands in use on its California network, how it identified
18 the portion of the fiber mileage that was nonduplicative,⁵ and how it derived the numbers used to
19 calculate the scale factor. Further, Respondent asserts that Petitioner has not explained how it
20 determined that a 25 percent downward adjustment was appropriate and yields a proper estimate for
21 expected network capacity, or why the ordinary obsolescence adjustment applied to the property does
22 not cover any inutility that may exist.

23 **Applicable Law and Appraisal Principles**

24 **Burden of Proof**

25 Assessing officers are presumed to have properly performed their duties. (Evid. Code, § 664.)
26 Therefore, petitioner has the burden of showing that the assessment is incorrect or illegal. (*ITT World*
27

28 _____
⁵ Respondent assumes Petitioner calculated this number by taking the total 13,300 California network fiber miles and reducing that by its calculated 3,805 duplicative fiber miles. Respondent asserts that if this is true, Petitioner's inutility calculation is dependent on the calculation of the duplicative fiber miles questioned in Issue 1.

1 *Communications v. Santa Clara* (1980) 101 Cal.App.3d 246; see also Cal. Code Regs., tit. 18, § 5541,
2 subd. (a).)

3 **Value Standard**

4 See Issue 1, Applicable Law, p. 5-6.

5 **Depreciation and the Cost Approach**

6 See Issue 1, Applicable Law, p. 6.

7 **Analysis and Disposition**

8 Respondent is presumed to have correctly determined the value of the property at issue, and
9 Petitioner bears the burden of proving otherwise. Here, Petitioner contends that 9,496 miles of non-
10 duplicative fiber optic cable requires an economic obsolescence adjustment for inutility. However,
11 Petitioner has cited no legal or appraisal authority, or provided any evidence or arguments, that would
12 substantiate the necessity of an obsolescence adjustment to its unitary property value on this issue.
13 While Petitioner has provided a requested inutility calculation, Petitioner has not provided information
14 regarding the approach and determinations Petitioner made to yield the calculation, such as
15 information regarding how it derived the numbers used to calculate the scale factor. Additionally,
16 while Petitioner has stated that the 25 percent capacity was set aside to ensure capacity for future
17 growth, and the fact that the inutility analysis aims to capture excess capacity, Petitioner has not
18 provided any information, explanation, or evidence regarding why a 25 percent adjustment is
19 appropriate (i.e., as opposed to no adjustment or in comparison to any other adjustment), or how it
20 yields a proper estimate for expected network capacity, or why the ordinary obsolescence adjustment
21 applied to the property does not already cover any inutility that may exist. Accordingly, we find that
22 Petitioner has not met its burden of proving Respondent erred by not including an additional
23 adjustment for economic obsolescence in Petitioner's 2023 Board-adopted unitary value.

24 **DECISION**

25 Accordingly, the petition for reassessment is denied, and the 2023 Board-adopted unitary
26 value of \$1,093,700,000 is affirmed.*

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28 Antonio Vazquez, Chair

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Sally J. Lieber _____, Vice Chair

Ted Gaines _____, Member

Mike Schaefer _____, Member

Malia M. Cohen _____, Controller

* The decision was rendered in Sacramento, California on December 12, 2023. This summary decision document was approved on February 21, 2024 in Sacramento, California.