CALIFORNIA STATE BOARD OF EQUALIZATION

SUMMARY DECISION UNDER REVENUE AND TAXATION CODE SECTION 40

In the Matter of the Petition for Reassessment of the 2024 Unitary Value for: **CROWN CASTLE FIBER, LLC (8169)** Petitioner	Appeal No.: SAU 24-025 Nonappearance Hearing Date: November 19, 2024[1]

Representing the Parties:

For the Petitioner: Don Jackson, Representative

For the Respondent: David Lujan, Attorney
Attorney for State-Assessed Properties Division

Michelle Cruz
Principal Property Appraiser
State-Assessed Properties Division

Appeals Attorney: Sarah Wilkman, Attorney III

VALUES AT ISSUE

	Value	Penalty	Total
2024 Board-Adopted Unitary Value	$1,270,800,000	$0	$1,270,800,000
Petitioner's Requested Unitary Value	$1,014,400,000	$0	$1,014,400,000
Respondent's Appeal Recommendation	$1,270,800,000	$0	$1,270,800,000
Board Determined Value	$1,270,800,000	$0	$1,270,800,000

Factual Background

Petitioner is a subsidiary of Crown Castle International Corporation. Petitioner provides shared communications infrastructure to wireless carriers by offering ethernet, wavelength, internet access, colocation, and related services with its network of over 40,000 cell towers and approximately 85,000

[1] At the nonappearance hearing, the Board denied the petition by a unanimous vote of the Members present, with Chair Lieber, Vice-Chair Gaines, Member Schaefer, Member Vazquez, and Controller Cohen voting aye.

route miles of fiber supporting small cells and fiber solutions.

Petitioner's 2024 Board-adopted unitary value of $1,270,800,000 is based on a 100 percent reliance on the Replacement Cost Less Depreciation (ReplCLD) value indicator.

On appeal, Petitioner contended that their 2024 Board-adopted unitary value is overstated and requests a revised unitary value of $1,270,800,000. Petitioner raises three primary issues in its petition: 1) Whether duplicative fiber optic cable exists requiring a functional obsolescence adjustment for fiber optic cable capital costs; 2) Whether duplicative fiber optic cable exists requiring a functional obsolescence adjustment for excess fiber optic cable operating costs; and 3) Whether there must be a deduction from RepCLD for the removal of fiber at the end of its economic life.

Legal Issue 1: Whether duplicative fiber optic cable exists requiring a functional obsolescence adjustment for fiber optic cable capital costs.

Findings of Fact and Related Contentions

Petitioner contends that its outside plant acquisitions in 2012, 2013, 2015, and 2017 include fiber optic cable spans that run parallel to each other in close proximity (are duplicative), which has resulted in a network that is in excess of market standards (superadequate). Petitioner contends that a prospective market participant would not intentionally build a network with duplicative fiber cables, especially if each cable was already designed with adequate spare capacity for future growth, and, therefore, its fiber optic cables require a functional obsolescence adjustment. In support of their opinion, Petitioner includes a copy of the 2024 Replacement Cost New Less Depreciation (ReplCNLD) Study it commissioned from CostQuest Associates, which shows a ReplCNLD value approach based on a hypothetical efficient replacement fiber optic network, i.e. with optimization under a greenfield[2] approach. (hereinafter "CostQuest Study" or "Study".)

Petitioner also points to a comparison of its ReplCNLD, both as a whole and also via subsets of its outside Plant Replacement Cost New (RCN) and Electronic RCN), asserting the CostQuest Study's differential confirms the presence of additional uncaptured obsolescence. Petitioner further asserts that Respondent's ReplCLD is out of the range of the company's earning abilities, signaling further

[2] A greenfield approach that estimates reproduction from scratch, without restrictions or dependencies on the existing systems or infrastructure.

obsolescence adjustment is needed. Based on the study and Petitioner's estimations, it requests a 12.1% reduction to the appraised value of its outside plant properties.

Petitioner asserts its criteria for defining "duplicative fiber," as multiple cable routes transversing the same road segment, which translates to within 25 feet—the average length of a single roadway with cabling on both sides. Petitioner notes that some duplicate fiber routes were maintained in the CostQuest Study to account for instances with an extra-wide road or divided boulevard.

Respondent affirms it used the Replacement Cost New Less Depreciation (ReplCLD) method to value Petitioner's unitary property, by first calculating the replacement cost new (RCN), by applying a price index factor, or trend factor, to the historical acquisition cost of the property, segregated by year of acquisition, for each of the fixed asset accounts, and then second, adjusting the RCN for depreciation by the application of a percent good factor according to the estimated economic life for each specific category. (Property Tax Rule[3] 6, subds. (c), (d); State Board of Equalization, Unitary Valuation Methods (March 2003) (UVM), p. 23.)

Respondent also notes that consistent with the Board's Guidelines, "[i]f an assessee properly and adequately documents additional or extraordinary obsolescence, it should be deducted from the ReplCLD value." (UVM, p. 23.) While Respondent acknowledges Petitioner's attempt to follow the Board's guidelines in substantiating additional obsolescence or superadequacy, Petitioner's CostQuest Study leaves a number of outstanding questions due to its approach, rendering the study unreliable as a methodology to establish functional obsolescence. Respondent reviewed all submitted data to determine whether any additional obsolescence adjustment could be substantiated based on Petitioner's claims and evidence, apart from the CostQuest Study; however, because neither the CostQuest Study nor Petitioner's data and evidence could demonstrate that Petitioner's property in question exceeds the market standard, or even what the market standard is, due to these underlying questions.

At the Appeals Conference on October 16, 2024, the parties generally incorporated by reference and renewed their contentions as previously captured in the parties' briefings. On October 29, 2024, parties further discussed the CostQuest study's methodology. The Parties also exchanged some information related to outstanding questions via email. Thereafter, Respondent stated in correspondence on November 4, 2024, that while SAPD acknowledges the efforts Petition made to

[3] "Property Tax Rule" or "Rule" references are to sections of title 18 of the California Code of Regulations.

provide responses to information requests to substantiate the CostQuest Study, Petitioner's responses have not demonstrated SAPD erred in its calculation, nor has Petitioner adequately supported and substantiated its claims with sufficient verifiable evidence to enable SAPD to make an informed judgment concerning the existence and calculation of potential uncaptured functional obsolescence. Specifically, Respondent notes that

> As a greenfield approach, CQA's replacement model is founded on the assumption that if Petitioner could rebuild its entire fiber network from scratch today, the replacement network would have the most optimal/efficient configuration and the current cost to rebuild would be less compared to Petitioner's current network. However, in today's market, it is not feasible to rebuild an entire network from scratch at the same location(s) and retain the same market presence for less cost and without undue delay. Thus, the foundational assumption underlying Petitioner's replacement model is unrealistic and unreasonable. Instead, under current market conditions, the reasonable and appropriate replacement model should be based on a brownfield approach, where the assumption is to retire and replace and upgrade parts of the current network as needed.

Further, Respondent notes that even if they were to accept a greenfield approach, part of establishing superadequacy is demonstrating that the asserted excess capacity is actually in excess of market standard, as opposed to spare capacity that the market builds into the property to handle peak demands, growth, or other factors. Respondent notes, these market standards were not established, explained, and substantiated in the CostQuest Study's approach, nor in Petitioner's supplemental responses.

Putting aside Petitioner's ReplCNLD approach, in reviewing a general functional obsolescence adjustment argument, Respondent notes Petitioner did not provide actual network information and/or documentation that identified where the claimed redundancy exists in its current network, nor provided information showing or quantifying its excess in comparison to the market standard. Similarly, Petitioner also did not comply with standard appraisal practices set forth in the Obsolescence Guidelines, such as adjusting the inutility calculation for economies of scale and recognizing that property deemed superadequate may have value as excess equipment, salvage value, or residual value. Further, Petitioner also did not provide sufficient documentation for SAPD to verify details such as system maintenance and repair expense account details, and the method by which Petitioner identified those account details that are attributable to California. Finally, Respondent points out that Petitioner acknowledged at the October 29, 2024, meeting that all fiber routes were in use.

Applicable Law and Appraisal Principles

Burden of Proof

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

Value Standard

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

Replacement Cost Approach to Value (ReplCLD Value Indicator)

Property Tax Rule 6, subdivision (a) provides, in pertinent part: "The reproduction or replacement cost approach to value…is preferred when neither reliable sales data…nor reliable income data are available…" In general, the ReplCLD valuation indicator methodology is a twostep process: 1) ReplCN is calculated by applying an index factor to the historical acquisition cost of the property, segregated by year of acquisition; and 2) the ReplCN is adjusted for depreciation by the application of a percent good factor to the ReplCN. (Property Tax Rule 6, subd. (d); Cal. Bd. of Equaliz., *Unitary Valuation Methods* (March 2003), p. 23.) Step two includes the ReplCN being "reduced by the amount that 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 obsolescence." (Property Tax Rule 6, subd. (e); Cal. Bd. of Equaliz., *Unitary Valuation Methods* (March 2003), pp. 23-24.)

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Depreciation and the Cost Approach

In general, the cost approach recognizes three types of depreciation: physical deterioration, functional obsolescence, and external, or economic, obsolescence, through the application of the Board's replacement cost new trend factors and "percent" good factors. Obsolescence may occur when property is outmoded (functional obsolescence) or when some event has substantially diminished the future earning power of the property (economic obsolescence). (See Assessors' Handbook section 501, *Basic Appraisal* (January 2002), pp. 80-83.) Economic obsolescence is the diminished utility of a property due to adverse factors external to the property being appraised and is incurable by the property owner. (*Id*. at p. 82.) The existence of any additional or extraordinary obsolescence must be supported with verifiable documentation and evidence, consistent with Board Guidelines, and Petitioner has the burden of establishing the existence of any additional or extraordinary obsolescence. (See Property Tax Rule[4] 6, subds. (d) & (e); Cal. Bd. of Equalization, Assessors' Handbook section 502, *Advanced Appraisal* (Reprinted January 2015) (AH 502), pp. 20-21; UVM, p. 30; and Cal. Bd. of Equalization, *Guidelines for Substantiating Additional Obsolescence*, at p. 1.)

Letter to Assessors 2008/068 (December 5, 2008), *Guidelines for Substantiating Additional Obsolescence for State-Assessed Telecommunications Properties* provides guidance for quantifying superadequacy, stating in part that:

> "Property suffers from superadequacy when it exceeds market standards. In order to substantiate superadequacy, the study must demonstrate that the purported excess capacity is in excess of market standards and not spare capacity the market typically builds into the property to handle peak demands, growth, planned redundancy, or that required by law. For example, local exchanges typically design and build their systems to handle the high volume of calls on holidays or emergencies, and wireless providers build their networks to limit the number of dropped calls. To substantiate superadequacy, the study should demonstrate that the property in question exceeds the market standard as evidenced by other participants' actions. Additionally, in order to claim superadequacy, the property must be scalable in the sense that the property should be attainable in the market at that increment…Furthermore, the superadequate property may not always be valueless. Property deemed superadequate may still have value as excess equipment, salvage value, or some other residual value that must be included in the appraisal."[5]

Analysis and Decision

Respondent is presumed to have correctly determined the value of the property at issue, and

[4] All references to "Property Tax Rule" or "Rule(s)" are to sections of title 18 of the California Code of Regulations.
[5] Obsolescence for Equipment of State-Assessed Telecommunication Companies.

Petitioner bears the burden of proving otherwise. Here, Petitioner contends that its outside plant acquisitions between 2012 – 2017 include fiber optic cable spans that are duplicative because they run parallel to each other in close proximity, which resulted in a network that is in excess of market standards (superadequate). Petitioner submitted a CostQuest Study to substantiate this and reflect its believed value via a ReplCNLD approach because Petitioner asserts a prospective buyer would not build a network with duplicative fiber cables, especially if each cable was already designed with adequate spare capacity for future growth. Accordingly, Petitioner maintains that it requires a functional obsolescence adjustment to its the Board-adopted unitary value to remove the value of the duplicate fiber. However, as Respondent points out and the Board's Guidelines provide, there remain many unanswered material questions within Petitioner's submitted study and opinion of value, which render it unreliable. Regardless, as Respondent points out, Petitioner's assertions do not show error or illegality in Respondent's ReplCLD calculation, nor do they establish a functional obsolescence adjustment must be made or that Petitioner's ReplCNLD approach must be followed. In fact, Petitioner is still using the allegedly duplicative fiber optic cables. Accordingly, the Board finds that Petitioner has not met its burden of proving Respondent erred by not including an additional adjustment for functional obsolescence in Petitioner's 2024 Board-adopted unitary value.

Legal Issue 2: Whether duplicative fiber optic cable exists requiring a functional obsolescence adjustment for excess fiber optic cable operating costs.

Findings of Fact and Related Contentions

Petitioner contends that building upon the information provided in issue 1 regarding duplicate networks, there is also excess operating costs associated with the operation of duplicative fiber optic cabling. As such, Petitioner is requesting a further functional obsolescence adjustment to the ReplCLD value indicator to reflect these excess operating costs. and views this request consistent with the Board's obsolescence guidelines. Petitioner's CostQuest Study estimates these costs as 14% less in expenses related to maintenance and repair of cabling and conduit based on the study's hypothetical optimized network. Petitioner estimates the present value of the excess operating expense is $18.9 million.

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

Respondent asserts that consistent with the Board's Guidelines, Petitioner could have attempted to estimate by considering the earning ability of the property via an income shortfall study instead, because as is, Respondent does not view Petitioner's submitted calculation as reliable or appropriate.

Parties met at the Appeals Conference on October 16, 2024. At the conference, the parties generally incorporated by reference and renewed their contentions as previously captured in the parties' briefings. The parties mainly discussed the details, bases, and reasoning behind their positions around the issue of whether duplicative fiber optic cable exists requiring a functional obsolescence adjustment for fiber optic cable capital costs. Petitioner also presented some additional details about the CostQuest Study and the approach. Respondent reaffirmed the number of outstanding questions and the reliability issues. Thereafter, the Parties exchanged some information related to outstanding questions via email and had a follow up meeting on October 29, 2024.

Respondent stated in correspondence on November 4, 2024, that while SAPD acknowledges the efforts Petition made to provide responses to information requests to substantiate the CostQuest Study, Petitioner's responses have not demonstrated SAPD erred in its calculation, nor has Petitioner adequately supported and substantiated its claims with sufficient verifiable evidence to enable SAPD to make an informed judgment concerning the existence and calculation of potential uncaptured functional obsolescence. Specifically, Respondent notes that

> As a greenfield approach, CQA's replacement model is founded on the assumption that if Petitioner could rebuild its entire fiber network from scratch today, the replacement network would have the most optimal/efficient configuration and the current cost to rebuild would be less compared to Petitioner's current network. However, in today's market, it is not feasible to rebuild an entire network from scratch at the same location(s) and retain the same market presence for less cost and without undue delay. Thus, the foundational assumption underlying Petitioner's replacement model is unrealistic and unreasonable. Instead, under current market conditions, the reasonable and appropriate replacement model should be based on a brownfield approach, where the assumption is to retire and replace and upgrade parts of the current network as needed.

Further, Respondent notes that even if they were to accept a greenfield approach, part of establishing superadequacy is demonstrating that the asserted excess capacity is actually in excess of market standard, as opposed to spare capacity that the market builds into the property to handle peak demands, growth, or other factors. Respondent notes, these market standards were not established, explained, and substantiated in the CostQuest Study's approach, nor in Petitioner's supplemental responses.

Putting aside Petitioner's ReplCNLD approach, in reviewing a general functional obsolescence adjustment argument, Respondent notes Petitioner did not provide actual network information and/or documentation that identified where the claimed redundancy exists in its current network, nor provided information showing or quantifying its excess in comparison to the market standard. Similarly, Petitioner also did not comply with standard appraisal practices set forth in the Obsolescence Guidelines, such as adjusting the inutility calculation for economies of scale and recognizing that property deemed superadequate may have value as excess equipment, salvage value, or residual value. Further, Petitioner also did not provide sufficient documentation for SAPD to verify details such as system maintenance and repair expense account details, and the method by which Petitioner identified those account details that are attributable to California. Finally, Respondent points out that at the October 29, 2024, meeting Petitioner acknowledged that all fiber routes were in use.

Applicable Law and Appraisal Principles

Burden of Proof

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

Value Standard

See Issue 1, Applicable Law, p. 5.

Replacement Cost Approach to Value (ReplCLD Value Indicator)

See Issue 1, Applicable Law, p. 5.

Depreciation and the Cost Approach

See Issue 1, Applicable Law, p. 6.

Analysis and Disposition

Respondent is presumed to have correctly determined the value of the property at issue, and Petitioner bears the burden of proving otherwise. Petitioner asserts an adjustment to the ReplCLD value indicator must be made to remove excess operating costs associated with duplicative fiber, as shown in its CostQuest Study under the ReplCNLD approach, or as a general adjustment to Respondent's ReplCLD indicator. However, Respondent contends that the Board-adopted value, which was based on a 100 percent reliance on the ReplCLD value indicator, does not include an adjustment for excess operating costs generally. As no operating costs were included in the ReplCLD, Respondent contends there are no operating costs to remove. Accordingly, the Board finds that Petitioner has not met its burden of proving Respondent erred by not including an additional adjustment for functional obsolescence in Petitioner's 2024 Board-adopted unitary value.

Legal Issue 3: Whether there must be a deduction from RepCLD for the removal of fiber at the end of its economic life while such fiber is in use.

Findings of Fact and Related Contentions

Petitioner asserts that it is obligated to remove fiber at the end of its useful life, and thus those removal costs impact the ReplCNLD of its outside plant assets. Petitioner estimates the present value of future expected removal expense of aerial fiber was determined to be $78,104,311, while underground fiber removal cost was determined to be $32,377,189, totaling $110,481,521. Petitioner asserts the estimated $110 million should be removed from Respondent's ReplCLD value indicator.

Petitioner asserts that because removal would equate to a negative salvage value, the costs should be appropriately deducted. Petitioner also provided some additional detail regarding its calculation, such as that it utilized the BOE 4.5% rate of return for subject assets found in Assessor's Handbook 581 and the Fed Reserve Bank of St. Louis 10 year expected inflation rate. Petitioner maintains its calculation reflects actual removal costs of such assets and thus should be factored into the ReplCLD value indicator.

Respondent contends that Petitioner's request is inconsistent with Property Tax Rule 6 (b), which indicates that future removal costs do not factor into the original cost of the property, nor are the

costs asserted typically incurred to bring replacement property to a finished state. As such, potential, future removal costs have not yet taken place and are thus inappropriate to include in the current unitary value, which is based on historical costs. Respondent further points out that even if it were appropriate, no supporting evidence is provided to justify details within the removal cost per foot calculation, rendering Petitioner's calculation unreliable. Accordingly, Respondent recommends no adjustment as to this issue.

Parties met at the Appeals Conference on October 16, 2024, and had a follow up meeting on October 29, 2024. After such meetings, Respondent reaffirmed its view that no adjustment is appropriate for this issue as the costs, even if they approximate actual costs, have not yet been incurred, and thus should not be included in the development of the ReplCLD value indicator.

Applicable Law and Appraisal Principles

Burden of Proof

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

Value Standard

See Issue 1, Applicable Law, p. 5.

Replacement Cost Approach to Value (ReplCLD Value Indicator)

See Issue 1, Applicable Law, p. 5.

Depreciation and the Cost Approach

See Issue 1, Applicable Law, p. 6.

Analysis and Disposition

Respondent is presumed to have correctly determined the value of the property at issue, and Petitioner bears the burden of proving otherwise. Here, Petitioner asserts an adjustment to the ReplCLD value indicator must be made to account for future removal of aerial and underground fiber optic cables at the end of their useful life. However, as Respondent points out, the ReplCLD value indicator is based on actual historical cost information, while the present costs to remove fiber optic

cables are based on estimates of future costs. As such, we concur with Respondent that such an adjustment is not supported by Property Tax Rule 6, as removal costs do not factor into the original cost of the property or costs incurred to bring replacement property to a finished state Thus, Petitioner has cited no legal or appraisal authority, or provided any arguments or evidence that would substantiate the necessity of the requested adjustment. Accordingly, the Board finds that Petitioner has not met its burden of proving Respondent erred by not including an additional adjustment for estimates of future, not yet incurred removal costs in Petitioner's 2024 Board-adopted unitary value.

DECISION

Accordingly, the petition for reassessment is denied, and the 2024 Board-adopted unitary value of $1,270,800,000 is affirmed. *

Sally J. Lieber, Chair

Ted Gaines, Vice-Chair

Antonio Vazquez, Member

Mike Schaefer, Member

Malia M. Cohen, Controller

* The decision was rendered in Sacramento, California on November 19, 2024. This summary decision document was approved on February 19, 2025, in Sacramento, California.