CALIFORNIA STATE BOARD OF EQUALIZATION

SUMMARY DECISION UNDER REVENUE AND TAXATION CODE SECTION 40

In the Matter of the Petition for Reassessment of the 2025 Unitary Value for:

RACE TELECOMMUNICATIONS, LLC (8099)

Petitioner

Appeal No.: SAU 25-005

Nonappearance Hearing Date: December 16, 2025[1]

Representing the Parties:

For the Petitioners: Ruben Miranda, Representative
Kroll, LLC

Ruby Kwot, Representative
Kroll, LLC

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

Michelle Cruz
Principal Property Appraiser
State-Assessed Properties Division

Appeals Attorney: Louis Ambrose, Attorney IV

VALUES AT ISSUE

	Value	Penalty	Total
2025 Board-Adopted Unitary Value	$415,400,000	$0	$415,400,000
Petitioner's Requested Unitary Value	$330,200,000	$0	$330,200,000
Respondent's Appeal Recommendation	$415,400,000	$0	$415,400,000
Board Determined Value	$415,400,000	$0	$415,400,000

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

Factual Background

Race Telecommunications, LLC (Petitioner) operates a fiber-based telecommunications network providing voice, video, broadband internet access, and data service-related infrastructure in unserved or underserved areas in California. The majority of Petitioner's fiber network was built with a combination of California Advanced Services Fund (CASF) grants and private funding (grant network); however, in 2024 Petitioner started to build additional portions of its fiber network with 100 percent private funding (non-grant network).

Petitioner's 2025 Board-adopted unitary value of $415,400,000 is based on 100 percent reliance on the Replacement Cost New Less Depreciation (ReplCLD) value indicator.

On appeal, Petitioner contends that its 2025 Board-adopted unitary value is overstated and requests a revised unitary value of $330,200,000. Throughout the appeals process, Petitioner and the State-Assessed Properties Division (SAPD or Respondent) each submitted briefing, evidence, and argument to support their positions on the two issues raised in this petition.

Legal Issue 1: Whether Petitioner has established and quantified the existence of external (economic) obsolescence for portions of Petitioner's network that were built with CASF grants.

Findings of Fact and Related Contentions

Between 2010 and 2021, Petitioner obtained $113 million in grant funding from the California Public Utilities Commission (CPUC) and Petitioner agreed to provide $59 million for the construction of the grant network, a series of fiber networks to unserved and underserved communities in rural California. During 2024, Petitioner commenced construction of the non-grant network – "a series of new, distinct networks, many located far from the existing grant network footprints" – into areas that were identified as more densely populated and economically viable portions of the state and thus were not eligible for grant funds.

Petitioner obtained an appraisal report prepared by Kroll.com (Appraisal) which compared the two networks to developed nine methods quantifying external obsolescence in the grant network. The Appraisal states that the grant network was built with state-funded grants intended "to stimulate investment within the private sector in regions that are uneconomic to serve, which is a powerful

indicator of economic obsolescence." Petitioner argues that the non-grant network is the most appropriate and reasonable benchmark for economic obsolescence as it is built by the same company and "[t]he fact that the grant network, though older, is unable to generate adequate returns while the non-grant network can generate adequate returns, demonstrates that the impairment arises from external conditions rather than physical characteristics." Petitioner adds that comparing the differences in density and competitiveness of the areas served by the grant and non-grant networks also confirms its analysis by isolating external burdens and quantifying their effect on value.

For purposes of comparison, the Appraisal assumed no economic obsolescence in the non-grant network assets, because they operate in denser regions of California that are much more economic to serve than the grant network. In addition, the Appraisal states that those network assets are privately funded which assumes that they are meeting their cost of capital and thus serve as a benchmark to quantify economic obsolescence of the grant network assets. The Appraisal determined economic obsolescence of 57 percent in the grant network which was multiplied by the ReplCLD value indicator for the two categories of grant network personal property (electronics and outside plant) to arrive at the requested external obsolescence deduction of $73,385,424.

Respondent contends that using the non-grant network as a benchmark for quantifying potential economic obsolescence is inappropriate because of the significant differences between the grant and non-grant portions of the network. Respondent notes that the grant network is considered mature and operates in unserved or underserved regions of the state that have stable subscriber counts that are not expected to change meaningfully. However, the non-grant network is in the early stages of buildout and growth and serves densely populated geographic areas with subscriber counts that are expected to evolve as the network matures in a competitive market. The differences in the network ages, stages of development, density of service areas, and competitiveness render the two networks incomparable. Thus, Respondent contends that the Appraisal presents unreliable conclusions regarding economic obsolescence.

Respondent further contends that the Appraisal uses an inappropriate approach by estimating the performance of the non-grant network at full maturity. Respondent argues that the stated purpose of the Appraisal and basic appraisal theory require a value determination of Petitioner's tangible assets as

of the valuation date, not at an estimated state of future maturity. Thus, the grant and non-grant network cannot be compared because they are fundamentally different as of the valuation date. Respondent further argues that Petitioner provided no information to support the trend factors used to develop a Replacement Cost New (ReplCN) indicator, the net operating income (NOI) projections, and an economic obsolescence exhibit, so Respondent was unable to assess the accuracy and reasonableness of the data. Finally, Respondent disputes the assumption made by the Appraisal that the entire CASF grant amount is a quantitative measure of economic obsolescence because "it does not directly evaluate income shortfall, capital recovery gap, or network underutilization."

At the Appeals Conference on October 16, 2025, the parties generally incorporated by reference and renewed their contentions as previously captured in the parties' briefings. Respondent indicated that staff had additional questions about Petitioner's methods and would review and consider additional information. After reviewing Petitioner's submissions, Respondent concluded that the Appraisal and the post-appeals conference information lacked verifiable data for substantiating economic obsolescence as required by the Board's published guidelines.

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] 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

[2] All references to "Property Tax Rule" or "Rule(s)" are to sections of title 18 of the California Code of Regulations.

which the property may be put, both seeking to maximize their gains and neither being a position to take advantage of the exigencies of the other."

ReplCLD Value Indicator—Cost Approach to Value

Property Tax Rule 6, subdivision (a), provides, in 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 two-step process: 1) Replacement Cost New (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*, (2003) (UVM), 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., UVM, pp. 23-24.)

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.) Functional obsolescence is the loss of value in a property caused by the property's loss of capacity to perform the function for which it was intended. (*Id*. at p. 81.) 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. (See Property Tax Rule 6, subds. (d) & (e); Assessors' Handbook section 502, *Advanced Appraisal* (Reprinted January 2015) (AH 502), pp. 20-21; UVM, p. 30; and Cal. Bd. of Equaliz., *Guidelines for Substantiating Additional Obsolescence*, at p. 1.)

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 contends that the Appraisal establishes additional economic obsolescence of 57 percent for the grant network based on a comparison of the grant and non-grant networks and other metrics which supports its request for a $73,385,424 adjustment. However, as Respondent points out, the non-grant network is not a valid benchmark for the grant network due to the large differences in network maturity and development, service area population densities and market competitiveness. Moreover, the comparison relies upon an estimate of the performance of the non-grant network at full maturity and, therefore, is inconsistent with basic appraisal theory which is predicated on a value determination of Petitioner's assets as of the 2025 valuation date. In addition, Petitioner provided no data or methodologies to support trend factors used to calculate the ReplCN indicator and, therefore, there is no basis for verifying the reasonableness and validity of those trend factors. Finally, Petitioner provided no information or verifiable documentation to support the forecasted NOI.

Accordingly, we find that Petitioner has not met its burden of proving Respondent erred by not making an additional economic obsolescence adjustment in Petitioner's 2025 Board-adopted unitary value.

Legal Issue 2: Whether Petitioner has shown that the 2025 unitary value should include an adjustment for future costs associated with removing poles and aerial cable.

Findings of Fact and Related Contentions

Petitioner's Appraisal provided calculation of the asserted present value of removal costs for poles and aerial cable and remaining useful lives of those assets in each network, applying a capitalization rate of 13.45 percent to discount the future inflation-adjusted retirement costs back to present value. Petitioner states that it provided detailed information for removal costs for years 2017 to 2023 and removal costs were allowed as deductions for each of those prior years. Petitioner states that for 2024 the removal cost analysis was modified to incorporate survivor curve principles that extend the asset lives and expected retirement farther into the future; adjust for the appropriate discount rate

and incorporate the expected costs from its new expansion projects. Petitioner asserts that Respondent has reversed its prior position and denied a deduction for removal costs for 2024 and 2025. Petitioner contends that the grant network has not fundamentally changed in the last two years and that removal costs should also be valid deductions for the non-grant network.

Petitioner asserts that it has a legally enforceable obligation to remove poles and aerial cable and, although it will incur those costs in the future, the liability exists as of the 2025 valuation date and represents a cost that a willing buyer would consider in valuing the property. Petitioner contends that the recognition of such obligations is consistent with Property Tax Rule 6 and with established appraisal practice and that excluding removal costs ignores the economic reality that these obligations reduce the value of the property as of the valuation date. Petitioner states that the per-pole removal cost used in the Appraisal is derived from Southern California Joint Pole Association Authorized Costs. Petitioner asserts that pole spacing and design can vary but the disposal of poles and aerial cable does not materially differ between service areas and using an empirically supported regional average is consistent with industry practice and is a practical approach to quantifying these obligations.

Respondent states that the ReplCLD indicator is based on actual historical cost information and that the removal of poles and aerial cables at the end of their useful lives does not factor into the original cost of the property nor does it relate to a cost typically incurred to bring replacement property to a finished state. For that reason, Respondent contends that a deduction for future pole and aerial cable removal costs is not an appropriate adjustment to the assessed unitary value, which is based on historical costs.

Respondent further asserts that the Appraisal's calculation of removal costs appears to rely on inputs that are either inconsistent, inappropriate, or insufficiently supported with evidence. Respondent notes that the Appraisal states that "[a]s of the valuation date, Race telecom owns 5.25 million route feet of aerial fiber within grant networks and 4.58 million route feet of aerial fiber within non-grant networks, for a total of 9.98 million route feet." However, on page five of exhibit 2 of the Appraisal, the fiber infrastructure metric details chart reports the grant network has 2,015,110 route feet of aerial fiber and the non-grant network has 4,367,910 route feet of aerial fiber for a total of 6,383,020 route feet of aerial fiber. Respondent contends that this discrepancy of approximately 3.45 million route feet,

renders the Appraisal's ReplCN indicator unreliable.

Respondent contends that it is not appropriate to assume the same per pole removal cost for both grant and non-grant networks because the poles are in different geographic regions with different pole spacing distance and specifications. Due to the inconsistent, inappropriate and insufficiently supported inputs, Respondent contends that the present value calculation for future pole and aerial fiber removal is inappropriate, unreliable, and invalid.

At the Appeals Conference on October 16, 2025, the parties generally incorporated by reference and renewed their contentions as previously captured in the parties' briefings.

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, pp. 4-5.

Replacement Cost Approach

Replacement cost is the cost to replace an existing property with a property of equivalent utility as of a particular date. (See Assessors' Handbook section 501, *Basic Appraisal* (January 2002), p. 77.) The replacement cost may be estimated by applying current prices to the labor and material components of a substitute property capable of yielding the same services and amenities and then reduced for any depreciation or obsolescence. (Property Tax Rule 6, subds. (d) & (e).)

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 contends that telecommunication poles and aerial fiber must be removed at the end of their useful lives. As such, Petitioner contends there should be a $12,794,931 adjustment for the future removal costs, based on its present value calculation. However, as Respondent points out, the ReplCLD value indicator is based on actual

historical cost information, while the present costs to remove the poles 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. Petitioner has cited no legal or appraisal authority and has not provided any arguments or evidence that would substantiate 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 2025 Board-adopted unitary value.

DECISION

Accordingly, the petition for reassessment is denied, and the 2025 Board-adopted unitary value of $415,400,000 is affirmed. *

Ted Gaines, Chairman

Sally J. Lieber, Vice-Chair

Antonio Vazquez, Member

Mike Schaefer, Member

Malia M. Cohen, Controller

* The decision was rendered in Sacramento, California on December 16, 2025. This summary decision document was approved on February 25, 2026, in Sacramento, California.