

1 Anthony S. Epolite
 2 Tax Counsel IV
 3 Board of Equalization, Legal Department
 4 450 N Street, MIC:85
 5 PO Box 942879
 6 Sacramento, CA 95814
 7 Tel: (916) 323-3134
 8 Fax: (916) 324-2618
 9 Attorney for Appeals Division

10 **STATE OF CALIFORNIA**
 11 **BOARD OF EQUALIZATION**

12 In the Matter of the Petition for) **APPEALS DIVISION’S REVISED¹**
 13 Reassessment of the 2011 Unitary Value for:) **HEARING SUMMARY FOR**
 14) **ORAL HEARING ON**
 15) **PROPERTY TAX PETITION**

16 **SureWest Telephone (294)**

17 Petitioner

18 Appeal No.: SAU 11-016
 19 Case ID No.: 576966

20 **Representing the Parties:**

21 For the Petitioner: Dorothy Radicevich, True Partners Consulting, LLC
 22 James Kane, True Partners Consulting, LLC

23 For the Respondent: Dan Paul, Tax Counsel, Tax Counsel
 24 Attorney for State-Assessed Properties Division

25 Richard Reisinger, Supervising Property Appraiser
 26 State-Assessed Properties Division

27 Counsel for Appeals Division: Anthony S. Epolite, Tax Counsel IV

28 **PROPOSED VALUES**

	Value	Penalty	Total
2011 Board-Adopted Value	\$144,700,000	\$0	\$144,700,000
Petitioner’s Requested Unitary Value	\$48,495,655	\$0	\$48,495,655
Respondent’s Recommendation On Appeal	\$144,700,000	\$0	\$144,700,000
Respondent’s Revised Recommendation	\$134,200,000	\$0	\$134,200,000

¹ The hearing summary has been revised to reflect the parties’ agreement on a recommended reduction to the Board-adopted unitary value.

Appeals Division's Recommendation²

The Appeals Division recommends that the Board grant the petition for reassessment in part and adopt the revised value which has been agreed upon by petitioner and respondent State-Assessed Properties Division, reducing the 2011 Board-adopted unitary value of \$144,700,000 to 134,200,000.

Procedural Background and Resolution of Issues

SureWest Telephone (petitioner) is a wholly-owned operating subsidiary of SureWest Communications, a California holding company whose operating subsidiaries provide a wide range of telecommunications, digital video, and other facilities-based communications. Petitioner is regulated by the California Public Utilities Commission (CPUC) and provides telecommunications services including local, regional toll, and network access services to residential, business, and carrier customers. Petitioner operates as an Incumbent Local Exchange Carrier (ILEC) with a service area of approximately 83 square miles, covering Roseville and Citrus Heights, California, and adjacent areas in Placer and Sacramento counties. The Board-adopted unitary value was determined by placing a 100 percent reliance on the Historical Cost Less Depreciation (HCLD) value indicator.

In the petition, petitioner made the following arguments in support of its contention that its property suffered from extraordinary economic obsolescence:

1. Petitioner contends that, as a result of competitive pressures, it experienced a 15 percent decrease in total access lines, a 25 percent decrease in voice generating units, and a 7 percent decline in business customers in 2010. Petitioner argues that general economic conditions in its service area in 2010 and expanding competition and service substitution negatively impacted, and will continue to negatively impact, the number of access lines that the company provides.
2. Petitioner argues that the current downward trend in access lines and revenue generating units is supported by SureWest Communications' (the parent company's) revenue data, as the telecom segment now accounts for only 28 percent of the parent company's total operating revenue,

² Unless the Board otherwise holds, the Board shall take official notice of: the property statement filed with the Board, together with any attachments, including without limitation any reports to regulatory agencies such as the U.S. Securities and Exchange Commission and the California Public Utilities Commission, and any annual reports to shareholders; the Appraisal Data Report (ADR) prepared by the State-Assessed Properties Division (SAPD) together with any workpapers; the Notice of Unitary Value; and any correspondence between SAPD and petitioner.

1 versus 61 percent three years ago. Petitioner contends that various studies confirm this decline in
2 the revenue of telephone companies, including a Federal Communications Commission (FCC)
3 study which reports that ILEC access lines have decreased 35.1 percent between 2000 and 2008,
4 with a 24.5 percent decrease in ILEC gross revenues during that period of time.

5 3. Petitioner asserts that its revenues are greatly influenced by the actions of the California Public
6 Utilities Commission (CPUC) and the FCC. Petitioner states that, in the past, it received support
7 from various funds established under federal and state law, but that the continued receipt of this
8 support in the future is not assured. For example, petitioner states that, in 2007, the CPUC
9 decided to phase out petitioner's \$11.5 million current annual draw from the California High
10 Cost Fund over a five-year period ending in January 2012.

11 4. Petitioner asserts that it is a unique company, in an even more unique industry, citing the
12 industry's 54.9 percent decline in revenue over the past ten years. Petitioner argues that, unlike
13 most other telephone companies, it has a relatively limited customer base and lacks the ability to
14 engage in aggressive competition or expansion to offset its losses in revenue.

15 After the appeals conference, petitioner provided additional information to respondent and the
16 parties engaged in additional conversations. Respondent reviewed this information and, in light of
17 petitioner's continued loss of customer access lines and declining revenues over the last several years,
18 concluded that petitioner's property suffered from extraordinary economic obsolescence. Respondent
19 recommends that the Board reduce the value of petitioner's property by \$10,500,000 to \$134,200,000 to
20 reflect the extraordinary economic obsolescence present in petitioner's property. Petitioner is in
21 agreement with this value recommendation.

22 ///

23 ///

24 ///

25

26

27

28