

THE VERIZON NEW YORK 2017 ANNUAL REPORT “WALK THROUGH”; an Excerpt.

verizon ✓		Verizon New York 2017 Financial Annual Report Excerpt: Revenues, Expenses and Profits		
Item (a)	Total (b)	3 Nonregulated (c)	1 New York Local Service (f)	2 Access (g)
Operating Revenues				
4 Total Operating Revenues	4,986,070,423	1,546,034,819	1,077,961,833	2,362,073,771
Operating Expenses				
Construction & Maintenance	2,444,033,098	1,067,055,637	917,810,103	\$459,167,359
Marketing	440,183,010	55,415,741	247,756,805	\$137,010,463
Customer Operations Services	321,094,164	51,658,380	172,875,774	\$96,560,010
Access	322,848,684	957	218,383,636	\$80,071,091
Corporate Operations	97,594,181	0	46,831,934	\$50,762,247
Subtotal	2,917,904,192	297,290,586	1,768,187,616	852,425,990
Depreciation & Amortization	6,543,657,329	1,495,814,301	3,371,845,868	1,675,997,160
13 Total Operating Expenses	1,034,501,863	50,047,572	650,204,998	\$334,249,293
Net Operating Revenues	7,578,159,192	1,545,861,873	4,022,050,865	2,010,246,453
	(2,592,088,769)	172,946	(2,944,089,032)	351,827,317
New Networks Institute	15	IRREGULATORS	16	17

CONTACT: Bruce Kushnick, Managing Director
bruce@newnetworks.com

April 1st, 2019

INTRODUCTION

The Verizon NY 2017 Annual Report was published in June 2018.¹ Verizon NY is the primary telecommunications state-based utility with \$5 billion in revenues and New York is the only state we know of that requires a full annual report.

Moreover, in July, 2018, Verizon New York settled with the NY Public Service Commission based on an investigation that, in part, used our research and methodology which started in 2015. Estimated at \$300-500 million, Verizon NY is required to deploy 32,000 lines of fiber optics and repair the existing, deteriorating copper networks.

The FCC stopped publishing basic financial state-based data in 2007 and it is now in full swing to erase any remaining laws or regulations or obligations to supply basic financial data, but worse, the FCC no longer acknowledges that state utilities still exist.²

However, this annual report is based on applying the FCC-based cost accounting rules. Based on the last available data from 2007, **every AT&T, Verizon & Centurylink state still has state-based telecommunications utilities and they are being hidden from view and currently being dismantled.**

In preparing this walk-through, we found that no one knows that:

- There are still state telecommunications utilities.
- The utility includes all of the Verizon's wires, fiber and copper, for both local service as well as FiOS, the fiber-to-the-home service, as well as the wires used for Verizon Wireless.
- Verizon Wireless and FIOS have been illegally diverting the majority of the utility construction budgets to be charged to "Local Service".
- Billions in "Corporate Operations" expenses have been put into this state utility. These are the expenses for executive pay, lobbyists, lawyers and even the golf tournaments.
- Putting the Corporate Operations expense and the construction expenses created losses which saved billions in taxes.

FCC Cost Accounting Rules Created these Cross-Subsidies

The FCC's manipulation of their cost accounting rules over the last decade caused all of these issues. By 2017, the majority of all expenses are now placed into "Local Service", seen by the Verizon NY 2017 Annual Report.

¹ <http://irregulators.org/verizonnyannual2017/>

² <https://medium.com/@kushnickbruce/warning-30-fcc-actions-in-one-year-to-slice-dice-states-rights-consumer-protections-6fefa5dfaa7a>

Unbelievably, the FCC ‘froze’ the cost accounting rules that are supposed to divide up the expenses of the different lines of business that use the state-based telecommunications infrastructure—the state-based utilities—to reflect the year 2000—19 years ago.

In 2000, Local Service was 65% of the revenues and paid 65% of the expenses; by 2017, Local Service was 21% but still paid the majority of every expense.

The Verizon NY Annual Report shows billions in cross-subsidies of the state utility and the other Verizon subsidiaries that were directly created by the FCC’s manipulation of the FCC’s cost accounting rules.

In December, 2018, the FCC extended this ‘freeze’ another 6 years. There have been no audits or investigations of the impacts of the rules, which now put the majority of all expenses into the ‘state-based’ local service while allowing the ‘interstate’ services, including wireless and FiOS to only pay a fraction of the expenses.

THE PROOF

We created this excerpt from our full Verizon NY 2017 Annual Report Walk Through. It supplies a glimpse into just how corrupt the FCC’s rules have become and the billions of dollars of cross-subsidies that need to be addressed immediately.

The complete Walk Through is a package which goes through the major sections of the Verizon NY Annual Reports and it includes consulting to explain the findings in detail. Contact bruce@newnetworks.com for more information.

FULL WALK THROUGH TABLE OF CONTENTS

INTRODUCTION

SUMMARY

NNI, THE IRREGULATORS & OUR RESEARCH

PART 1

- A) Basics: Examining Verizon New York's Revenues
- B) Financial Accounting Categories: "Buckets of Money"
- C) All of the Wires, Copper & Fiber, are Part of the State Utility—& Title II
- D) Total Revenues of Verizon in New York are Hidden.
- E) "Verizon New York" is Hidden: Revenues are Divided up into Multiple Verizon Subsidiaries and Partners.
- F) Corporate Operations is a Massive Garbage Pail of Corporate Expenses.

PART 2 **Schedule 9: Page 27: FOLLOW THE NUMBERS**

- G) VERIZON NEW YORK REVENUES AND EXPENSES**
- H) Follow the Numbers: Follow the Money
- I) Local Service is Paying the Majority of Expenses.
- J) The Intrastate Expenses are Paying-Cross-Subsidizing, the Interstate Revenues and Profits
- K) OFF THE BOOKS: Verizon in NY Revenues are Estimated at \$13-15 Billion.

PART 3

- L) Taxes; Schedule 9

PART 4

- M) Access Lines in Service; Schedule 61
- N) Interstate Lines are Hidden: 80% of Verizon NY Revenues, Zero Lines
- O) The Lines are Hiding in Plain Sight, Almost.
- P) The Majority of Access Lines are Hidden in the Presentations of FCC, Verizon, AT&T and USTelecom's Data
- Q) Deceptive Practices are being used to Manipulate Public Policies
- R) The FCC Stopped Publishing Basic Data in 2007.
- S) Estimating the Hidden Access Lines in America

PART 5

- T) A 5% of More Interest in these 472 Entities; Schedule 4

PART 6

- U) Affiliate Transactions; Schedule 59

PART 2

To Sum Up: Verizon NY had \$5 billion in revenues in 2017; Local Service representing \$1.1 billion. However, Local Service was charged 62% of the Corporate Operations expenses, \$1.8 billion, and \$1.2 billion in construction and maintenance, even though only \$100-125 million was used for Local Service. This and other expenses had Local Service lose \$2.9 billion, which had nothing to do with providing Local Service, and this created an overall tax savings of \$943 million. At the same time, services that were classified as ‘interstate’ services, including the fiber optic wires for Verizon Wireless and FiOS, were cross-subsidized and paid a fraction of the expenses. Customers paid over \$2,750 extra since 2006; Local Service prices should have been in steep decline.

G) VERIZON NEW YORK REVENUES AND EXPENSES

Schedule 9: Page 27: FOLLOW THE NUMBERS

verizon		Verizon New York 2017 Financial Annual Report Excerpt: Revenues, Expenses and Profits			
Item (a)	Total (b)	Nonregulated (c)	New York Local Service (f)	Access (g)	
Operating Revenues					
4 Total Operating Revenues	4,986,070,423	1,546,034,819	1,077,961,833	2,362,073,771	
Operating Expenses					
8 Construction & Maintenance	2,444,033,098	1,067,055,633	917,810,103	\$459,167,359	
Marketing	440,183,010	55,415,744	247,756,805	\$137,010,463	
Customer Operations Services	321,094,164	51,658,380	172,875,774	\$96,560,010	
Access	322,848,684	957	218,383,636	\$80,071,091	
Corporate Operations	97,594,181	0	46,831,934	\$50,762,247	
10 Subtotal	2,917,904,192	297,290,586	1,768,187,616	852,425,990	
Depreciation & Amortization	6,543,657,329	1,495,814,301	3,371,845,868	1,675,997,160	
13 Total Operating Expenses	1,034,501,863	50,047,572	650,204,998	\$334,249,293	
14	7,578,159,192	1,545,861,873	4,022,050,865	2,010,246,453	
Net Operating Revenues	(2,592,088,769)	172,946	(2,944,089,032)	351,827,317	
New Networks Institute		15	16	17	

NOTE: To make these financials easier to read than the original, we removed two columns, “Other” and “Other Adjustments” (d) (e). We also renamed two columns to reflect what they really are: “New York State” (f) revenue is “Local Service” and “Other” (g) are the “Access” lines and fees. We also eliminated some of the sub-categories under operating revenue and under operating expenses. We changed nothing.

Verizon NY has 3 Major Revenue Classifications in this Annual Report

- **“Local Service” (New York State) are “Intrastate”** revenues from the local phone services, sometimes called “POTS”, “Plain Old Telephone Service”,
- **“Access” Fees (Other) are “Interstate”** service revenues for using the networks as well as “Business Data Services” (sometimes called “Special Access”) used for alarm services, banks as well as the wires to the cell sites and Wifi hot spots.
- **“Nonregulated”** are “Interstate” or “Information”, or “Unregulated” or “Deregulated”, etc. revenues and includes anything formerly regulated or never regulated, including FiOS Video and VoIP services or inside wire maintenance.

H) Follow the Numbers: Follow the Money

Verizon NY has 3 Major Revenue Classifications

- 1) **“Local Service” (New York State)** are the intrastate “POTS” lines revenues.
- 2) **“Access” Fees (Other)** are “Business Data Services” (“Special Access”).
- 3) **“Nonregulated”** are interstate, information or nonregulated service revenues.

REVENUES

- 4) Verizon NY “Total Operating Revenues” were almost \$5 billion.
- 5) Local Service had approximately \$1.1 billion in revenues.
- 6) Access had the most revenues at \$2.4 billion.
- 7) Nonregulated revenues grew to \$1.5 billion.

EXPENSES

- 8) Constructions & Maintenance (“Plant” and “Nonspecific Plant”)
- 9) Local Service paid the majority of these expenses, \$1.2 billion, almost double what Access services paid.

CORPORATE OPERATIONS EXPENSE

- 10) Corporate Operations expense was \$2.9 billion and are the lobbyists, lawyers, executive pay, and even corporate jets.
- 11) Local Service paid \$1.8 billion of Corporate Operations, 61% of the total.
- 12) Nonregulated had \$1.5 billion in revenues but is only paying \$297 million.

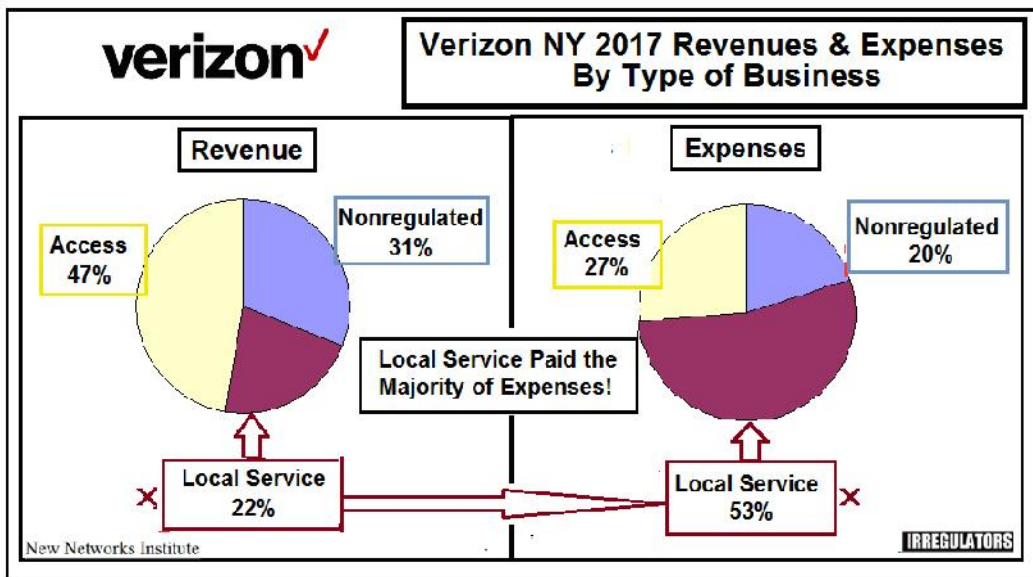
TOTAL OPERATING EXPENSES

- 13) Total Operating Expenses – While the revenues were about \$5 billion, the expenses were \$7.6 billion.
- 14) Local Service shows total expenses of \$4 billion, making the state utility unprofitable, while “Access” only had \$2 billion of expenses.

NET OPERATING EXPENSES: LOSSES

- 15) Overall, Verizon NY shows \$2.6 billion in losses for 2017.
- 16) Local Service was responsible for all of the losses as ‘intrastate’ services with \$2.9 billion.
- 17) Access and Nonregulated, both ‘interstate’ services, were both profitable, but they both paid a fraction of the actual expenses. Access shows \$352 million in profits.

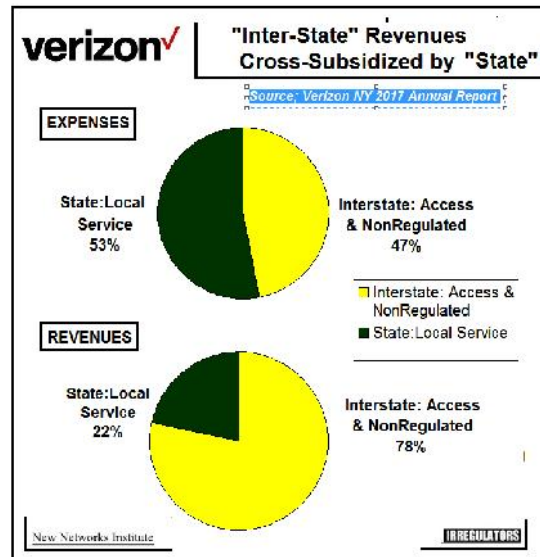
D) Local Service is Paying the Majority of Expenses. Based on these numbers, Verizon Local Service was only 22% of the revenues but paid 53% of all expenses.



J) The Intrastate Expenses are Paying-Cross-Subsidizing, the Interstate Revenues and Profits.

Another way to examine this; the state utility Local Service are ‘state based’, intrastate revenues but it is paying the majority of “interstate” expenses. 78% of the revenues were interstate, but it paid only 47% of the expenses.

In the question of “states’ rights’, local phone customers have been the defacto investors to Verizon’s other lines of business.



K) OFF THE BOOKS: Verizon’s Total Revenues in NY are Estimated at \$12-15 Billion.

While the previous exhibit details the Verizon New York, state-based utility, the total revenues are estimated at \$12-15 billion, including Verizon Wireless, Verizon Online, Verizon Business and a host of other Verizon subsidiaries.

However, the capital expenditures, and most of the other expenses were not paid by these other subsidiaries but are cross-subsidized by the utility.

