

**verizon** Verizon New York 2020 Financial Annual Report  
Excerpt: Revenues, Expenses and Profits

	Total (b)	Nonregulated (c)	Local Service (f)	Backhaul & BDS (g)
1) Total Operating Revenues	\$ 3,920,536,065	\$ 1,103,831,282	\$ 1,034,529,443	\$ 1,782,175,341
<b>Operating Expenses</b>				
2) Construct & Maintenance	\$ 2,292,823,022	\$ 681,510,905	\$ 1,068,343,137	\$ 542,968,980
3) Marketing	\$ 268,473,617	\$ 40,051,393	\$ 144,924,731	\$ 83,497,493
4) Customer Operations	\$ 218,760,557	\$ 15,791,442	\$ 146,298,266	\$ 56,670,849
5) Corporate Operations	\$ 1,373,212,407	\$ 139,569,189	\$ 832,918,318	\$ 400,724,899
6) Total Operating Expenses	\$ 5,319,671,559	\$ 916,302,836	\$ 2,908,134,380	\$ 1,495,234,343
7) Net Operating Revenues	\$ (1,399,135,494)	\$ 187,528,447	\$ (1,873,604,938)	\$ 286,940,997

**IRREGULATORS**

## VERIZON NY 2020 ANNUAL REPORT “WALK THROUGH”: New Funding to Fix the Digital Divide

### Verizon New York’s Financial Buckets of Money & Verizon Subsidiaries



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June 8<sup>th</sup>, 2021

**SUMMARY FINDINGS**

*(Source: Verizon New York 2020 Annual Report, published May 28th, 2021)*

TELEPHONE CORPORATIONS
<b>ANNUAL REPORT</b>
OF
VERIZON NEW YORK INC.
Exact legal name of reporting telephone corporation (If name was changed during year, show also the previous name and date change)
140 WEST STREET
NEW YORK, N.Y. 10007
(Address of principal business office at end of year)
FOR THE
<b>YEAR ENDED DECEMBER 31, 2020</b>
TO THE
<b>STATE OF NEW YORK</b>
<b>PUBLIC SERVICE COMMISSION</b>

The Verizon NY 2020 Annual Report was published on May 28<sup>th</sup>, 2021 and it is New York State's primary telecommunications public utility. And it is not simply the copper wire infrastructure used for phone service, but it also the fiber optic wires used for the FTTP, fiber to the premises, for FiOS. Since 2010, Verizon has been diverting the state utility-wired construction budgets to fund Verizon Wireless and the other Verizon subsidiaries—creating the Digital Divide.

#### Verizon New York 2020 Annual Report

- Revenues of over \$3.9 billion but had expenses of \$5.3 billion, creating Net Operating “losses” of \$1.4 billion.
- Local Service had \$1 billion in revenues, representing 26% of the total and are the basic wireline Plain Old Telephone Service, “POTS”. At the end of 2018 there were 1.9 million phone access lines in service in just Verizon NY.
- (NOTE: The information on the number of access lines has been redacted in the 2019 and 2020 Annual Reports. NOTE 2: This information has been manipulated to leave out 50-80% of all access lines in service.)
- Local Service, alone, lost an alleged \$1.9 billion, creating the total losses for Verizon NY, of \$1.4 billion.
- Verizon received federal and state tax benefits, over \$½ billion from these losses.
- Local Service was charged 55% of all expenses and 42-67% of total expenses for specific expense items.

- Local Service was charged \$833 million, 61%, in Corporate Operations expense, which is 81% of the Local Service revenues.
- Local Service was charged \$144 million in Marketing expenses, 54% of the total—Verizon no longer markets basic phone service.
- Local Service was charged \$1.1 billion in Construction & Maintenance, yet it spent only an estimated \$75-\$100 million for maintaining and upgrading the copper networks. Where did the \$1 billion in overcharging go?

Meanwhile

- **“Backhaul” Services** (including “Access Services”, “Business Data Services”, and “Special Access”) represented \$1.8 billion in revenues, (45%), but only paid 28% of expenses; i.e., Backhaul had double the revenues by paid ½ the expenses.
- **“Nonregulated”** services (which include formerly regulated or not regulated services, such as FiOS video and VOIP), were \$1.1 billion in revenues, but paid a fraction of all other costs as compared to Local Service.
- Local Service paid 263% more in Marketing expenses than Nonregulated services 826% more in Customer Operations expenses, 497% more Corporate Operations expense 217% more in overall expenses.

#### **Overcharging: A Partial List:**

- **Local Service was Overcharged an Estimated \$925 Million in Corporate Operations and Marketing Expenses, in Just New York, in Just 2020.** These 2 expenses were 95% as compared to Local Service revenues. We estimate only \$50 million of the \$977 million (\$833 million +\$144 million) could be considered legitimate.
- **Verizon NY Local Service was Overcharged an Estimated \$1.02 Billion due to the Construction and Maintenance Expenses Put into Local Service.**
- Local Service paid 73% in “network construction in progress” expenses while only 11% of the total was charged to ‘nonregulated’, (which includes FiOS and VoIP.)
- **[Tax Avoidance and Rate Increases](#) based on artificial losses, underpayments from all of the Verizon affiliates and lines of business---- needs to be investigated and halted.**

In short, for just these few basic expense areas, Verizon NY Local Service was overcharged almost \$1.9 billion dollars in 2020, and this does not include the other areas we identified.

See our other reports and analyses: <http://irregulators.org/reading-library/>

- Harvesting’ Customer Impacts
- Backhaul monopoly profits and the price of America’s communications services
- Broadband commitments and failure to upgrade impacts
- Fixing the Digital Divide
- Big Telecom & Cable Impacts

## Overview and Findings

The Verizon NY 2020 Annual Report was published on May 28<sup>th</sup>, 2021.<sup>1</sup> Verizon NY is New York State's primary telecommunications public utility. New York is the only state we know of that requires a full, public annual report. Established in 1896, Verizon NY is a wholly owned subsidiary of Verizon Communications, Inc, a holding company.

The Verizon New York public telecommunications utility is not simply the copper wire infrastructure used for phone service, but it also the fiber optic wires used for the FTTP, fiber to the premises, FiOS. Since 2010, Verizon has been transferring the state utility-wired construction budgets to fund Verizon Wireless and the other Verizon subsidiaries.

Every state has a primary state utility mostly controlled by only 3 holding companies – AT&T, Verizon and CenturyLink (Lumen), though they are hiding in plain sight, and every state has been relying on the same, exact accounting that has been causing these questionable transfers, but no state has audited the financial books for decades, nor has the FCC.

Solving the Digital Divide requires fixing a number of outstanding issues that must be addressed now.

## BEHIND THE CURTAIN

At the core, the Digital Divide was created by AT&T, Verizon and CenturyLink over the last 3 decades by a failure to upgrade the existing state telecommunications utility infrastructure, that should have replaced the copper wires with fiber optic wires. In almost every state, laws were changed to raise rates resulting in excess profits that the companies used to construct their wireless subsidiary's infrastructure. Instead, through a series of moves, these holding companies let their state utilities deteriorate; the goal has been to dismantle the utilities they control and use them as cash machines to fund the wireless networks and their other businesses.

This left most states with massive broadband holes in deployments and also did not provide the cable companies any competition, allowing them to raise rates, add made up fees, and in the end create a monopoly or duopoly in markets – or no high-speed broadband service.

The companies were able to manipulate the FCC's accounting formulas to make one line of business, Local Service, act as the cash machine for the company's other lines of business, creating artificial losses for the utility, which were, in turn, used to claim that rural areas were not profitable, that there should be rate increases, and then 'harvesting' the wireline phone customers – raising rates until the customer left or got gouged.

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<sup>1</sup> Verizon notes that "Reports to stockholders or audited financial statements for Verizon New York Inc. are not prepared".

It took a nationwide pandemic to have America realize that we did not have adequate broadband or competition and that the companies that controlled the wires also controlled the price of all services, wireline, wireless or even broadband and cable TV.

### **HALTING THE CROSS-SUBSIDIES; RECLAIMING THE UTILITIES.**

This report is designed to detail and follow the flows of money in the Verizon NY 2020 Annual Report and some of the areas of overcharging that we identified over the last decade. Other reports will supply the detailed history and what actions should be taken.

However, all of the Verizon, AT&T and CenturyLink state-based telecommunications utilities appear to be using the exact same FCC accounting, known as USOA, Uniform System of Accounting.<sup>2</sup>

In 2019, the IRREGULATORS vs FCC initiated a legal challenge against the FCC's accounting rules; the DC Court of Appeals gave us the decision we wanted—the states are now independent of the FCC and can change and fix these accounting rules.

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

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<sup>2</sup> . Note that here are other financial books including GAAP and the IRS and state tax laws and regulations that come into play.

1) OVERCHARGING AND OVERALL FINANCIAL

Verizon New York’s Financial Buckets of Money & Verizon Subsidiaries



Verizon NY’s financial books have five areas (“Buckets”) of revenue and expenses.

- **“Local Service”** — (sometimes referred to as “State” or “Intrastate”) — This is mostly regular phone service.
- **“Backhaul”** (sometimes referred to as “Network & Special Access” or “Federal” or “Interstate” or just “Access”, or “Business Data Services”, “BDS”) — These are the fees paid by companies and competitors to use the networks as well as a class of data lines used for cell sites or competitors.
- **“Nonregulated”** — can be formerly regulated telecommunications services that are deregulated but related to local service, or other services that were never regulated; this includes Verizon’s FiOS or VoIP services
- **“Black Hole” Revenues** — the fourth category, are additional revenues we uncovered that appeared in one set of financial books, Verizon NY’s SEC-filed annual reports, but are left out of the state-based Verizon NY annual reports filed with the NY Public Service Commission.
- **“Verizon Subsidiaries”** — Verizon’s other divisions/companies include Verizon Online, which handles the Internet service and equipment, Verizon Business, Verizon Wireless and Verizon Long Distance, for example.

2) VERIZON NY REVENUES

This chart, taken from Schedule 9 in the Verizon NY 2020 Annual Report. shows the major lines of business and the division of revenues and expenses.

<b>verizon</b>		<b>Verizon New York 2020 Financial Annual Report Excerpt: Revenues, Expenses and Profits</b>			
	<b>Total</b>	<b>Nonregulated</b>	<b>Local Service</b>	<b>Backhaul &amp; BDS</b>	
	<b>(b)</b>	<b>(c)</b>	<b>(f)</b>	<b>(g)</b>	
<b>1) Total Operating Revenues</b>	\$ 3,920,536,065	\$ 1,103,831,282	\$ 1,034,529,443	\$ 1,782,175,341	
<b>Operating Expenses</b>					
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<b>7) Net Operating Revenues</b>	\$(1,399,135,494)	\$ 187,528,447	\$(1,873,604,938)	\$ 286,940,997	

**3) VERIZON NY HAS SPECIFIC REVENUES AND EXPENSES FOR THE STATE TELECOM UTILITIES**

For the year 2020, Verizon NY had over \$3.9 billion in revenues.

- LINE 1B—Verizon NY “Total Operating Revenues” were almost \$3.9 billion.
- LINE 1C—Nonregulated revenues were \$1.1 billion.
- LINE 1F— Local Service had approximately \$1 billion in revenues.
- LINE 1G—Backhaul had the most revenues at \$1.8 billion.

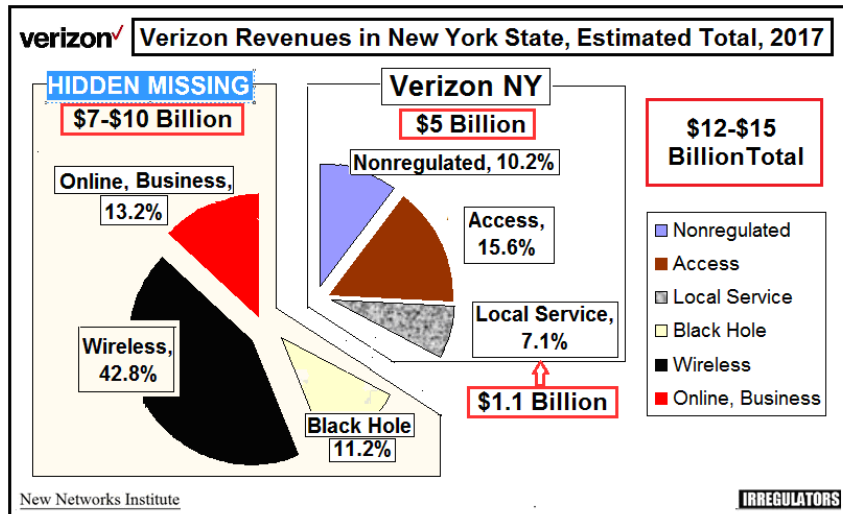
In terms of the percent of revenues, in 2020, Local Service is 26% of the total revenue, slightly up from 2019, but the majority of the revenues is from ‘backhaul’—with \$1.8 billion.

	<b>Total</b>	<b>Nonregulated</b>	<b>Local Service</b>	<b>Backhaul</b>
<b>Total Revenues</b>	\$3,920,536,065	\$1,103,831,282	\$1,034,529,443	\$ 1,782,175,341
		28.16%	26.39%	45.46%

**4) OFF THE BOOKS: VERIZON’S TOTAL REVENUES IN NEW YORK STATE ARE ESTIMATED AT \$12-15 BILLION.**

**Other Verizon Subsidiaries** While the previous exhibit details Verizon New York, the 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.

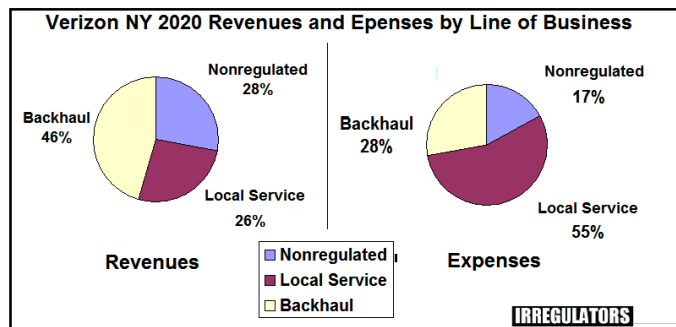
The revenues in the Verizon NY Annual Reports represents a fraction of the total revenues Verizon receives from their business subsidiaries in NY State. The other revenues, estimated to be \$8-10 billion, are from the other lines of business, such as Verizon Online, Verizon Wireless and Verizon Business. (We created an example in 2017 to detail these revenues, with multiple sources.)



**5) BUT SOMETHING IS WRONG: LOCAL SERVICE IS PAYING THE MAJORITY OF EXPENSES**

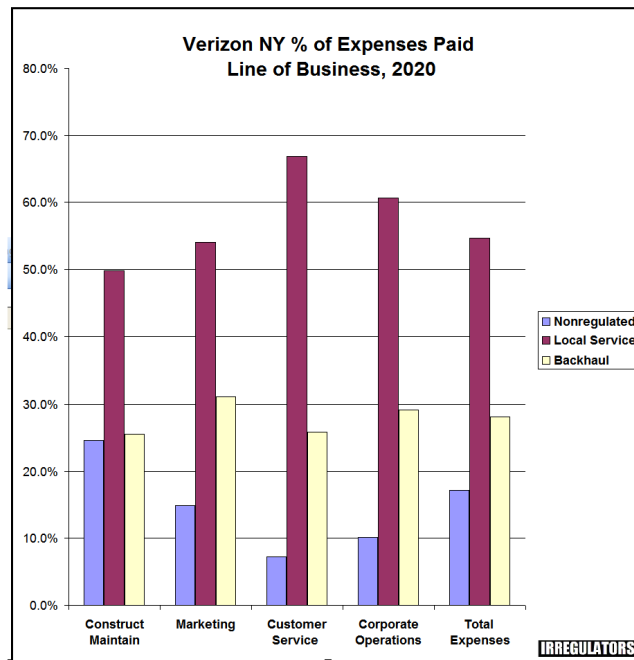
Verizon NY had \$3.9 billion in revenues in 2020 for 3 lines of business in just NY. Local Service had approximately \$1.0 billion or 26% of the revenues in 2020, while the other lines of business, Backhaul and Nonregulated, made up the difference—74%. But, as the chart above shows, while Local Service had 26% of the revenues, it paid 55% of the expenses.

This chart shows that while Local Service is only 26% of the revenues, it is paying 55% of the expenses.



**6) Dumping Expenses into Local Service and Lack of Payments for Other Lines of Business.**





This analysis shows that all of the other lines of business are paying a fraction of the expenses. Local Service has become the cash machine while the other services, from backhaul to FiOS, get a free ride.

	Nonregulated	Local Service	Backhaul	Nonreg vs Local
Construction/ Main't	24.7%	49.7%	25.6%	377%
Marketing	14.9%	54.0%	31.1%	262%
Customer Service	7.2%	66.9%	25.9%	826%
Corporate Operations	10.2%	60.7%	29.2%	497%
Total Expenses	17.2%	54.7%	28.1%	217%

Source: Verizon NY 2020 Annual Report

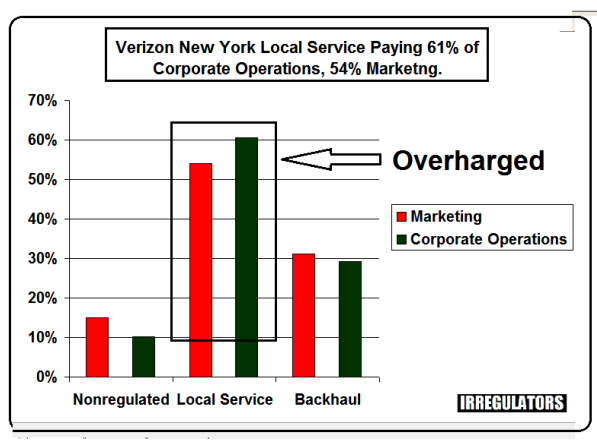
- **“Backhaul”** services” (including “Access Services”, “Business Data Services”, and “Special Access”) represented \$1.8 billion in revenues, (45%), but only paid 28% of expenses – i.e., Backhaul had double the revenues by paid ½ the expenses.
- **“Nonregulated”** services were \$1.1 billion in revenues, but paid a fraction of all other costs as compared to Local Service.
- Local Service paid 377% more than Nonregulated services (including FiOS video and VOIP) for network construction, 262% more in Marketing expenses, 826% more in Customer Operations expenses, 497% more Corporate Operations expense, and 217% more in overall expenses.

All of these lines of business, including the nonregulated category, are supposed to pay for the network usage and construction of the wired networks.

### 5) OVERCHARGING: A PARTIAL LIST

Let's focus on just how out of whack all of these expenses are.

- **Corporate Operations and Marketing Expenses Overcharged Verizon NY Local Service an Estimated at \$925 Million.** Local Service was charged 61% of the Corporate Operations expenses and 54% of the Marketing expenses charged to Verizon NY from the parent company – a total of \$978 million.



### What are Corporate Operations Expenses?

#### BY THE NUMBERS:

Corporate Operations expense was \$1.4 billion and are the lobbyists, lawyers, executive pay, and even corporate jets.

- Line 5C-- Nonregulated had \$1.1 billion in revenues; paid only \$140 million.
- Line 5F— Local Service paid \$842 million, 61% of the total.
- If Local Service is about \$1 billion, how can the charge be 84% as compared to revenue. i.e.; this one charge makes Local Service highly unprofitable.
- If Local Service and Nonregulated are close in revenue, then why is Local Service paying 500% more than nonregulated services?

#### MARKETING

- Line 3B —Marketing are the expenses for selling products Verizon NY spent \$248 million.
- Line 3F— Local Service paid the majority with 54% of the total-- \$144 million.
- Local Service should have little or no marketing expenses, Verizon stopped actively selling the copper-based phone services, and does no marketing.

**OVERCHARGING ON CORPORATE OPERATIONS AND MARKETING EXPENSES.**

- **We Estimate That In 2020, Verizon NY Overcharged The Local Service Category By \$923 Million In Just New York, In Just 2020.**
- Local Service is paying \$144 million for Marketing and \$833 million for Corporate Operations expense – \$978 million dollars against \$1 billion in revenue – 98% of revenues.
- Backhaul is paying \$484 million in these expenses against revenues of \$1.78 billion. – the expenses are only 28% compared to the revenue.

Virtually None of these expenses had anything to do with Local Service—Verizon stopped marketing basic phone service a few years ago and the corporate operations expenses can be out of state or even out of the country for expenses that have nothing to do with offering local telecom utility services.

**OVERCHARGING CONSTRUCTION AND MAINTENANCE EXPENSES.**

- **Local Service was Overcharged \$1.02 Billion for the Construction Expenses of the Wireless Network Infrastructure.**
- Line 2F—Local Service was charged \$1.1 billion dollars on construction, (known as Plant and Non-specific Plant), but virtually none of these funds were used to properly upgrade and maintain the local service infrastructure of the state of NY.
- Other parts of the report show that the construction budget for work in progress had Local Service paying 73% of this expense.

In fact, as discussed in the other IRREGULATOR reports, Local Service was and is charged for the fiber optic wires that are used by the Wireless company and the other lines of business.

**OVERCHARGING BY WIRELESS, \$1.3 BILLION IN 2020,**

A different example that enhances this finding is to examine the lack of payments by Verizon Wireless to Verizon NY for the construction budgets and techs that was diverted to build out the wireless networks – the flip side of the Local Service construction overcharging.

- **We estimate, (based on previous reports and analyses)) that \$1.3 billion has been charged to Verizon NY annually in construction costs in 2020 that were not used for local service, as well as underpayments of \$237 million in ‘access fees’, the fees that the wireless carriers pay to connect and use the Verizon NY infrastructure.**
- We estimate that conservatively, \$15 billion over a 10-year period was overcharged in just New York for local construction expenses that was diverted to wireless.

**TAX UNDERPAYMENTS; IMPACTS ON LOCAL PHONE CUSTOMERS,**

- Line 7f—Local Service lost \$1.9 billion dollars, which caused Verizon NY to show an overall loss of \$1.4 billion—(Line 7B) - and the losses are therefore artificial.
- The Verizon NY 2020 Annual Report shows a \$170+ million rate adjustment that appears to be directly related to these artificial losses.
- The Verizon NY 2020 Annual Report shows over \$½ billion in state and federal tax benefits.