

New Networks Institute

4.0 Verizon New York Expenses

Verizon New York and Verizon Communications assign the company's expenses to each category. The main expenses are:

- **Networks Expenses** — This includes the 'capital expenditures', and it is mainly the money spent on upgrading and maintaining the networks. These are commonly known as "Plant & Non-Specific Plant" expenses and they can be everything from 'conduit' to the actual poles that carry the conduit.
- **Corporate Operations** — Verizon Communications, the parent holding company, is able to dump billions of corporate expenses into the local phone utility companies, such as Verizon New York, and this includes everything from lobbying and lawyers to paying for use of the corporate jet.
- **Marketing** — This includes advertising and marketing the product, known as 'product management'.
- **Customer Services** — Are mainly the services related to handling customers, from taking new orders to handling customer issues and billing.

4.1 How the Financial Shell Game has been Played.

Let's examine one aspect of the losses — dumping the majority of "Corporate Operation" expenses into "Local Service". This is an excerpt that appeared in the Verizon New York SEC financial report, as well as the other state financial reports, for the year 2010.

And most importantly, remember that Verizon New York was able to get multiple rate increases for basic residential phone service over the last decade based on 'massive deployment of fiber optics' and 'losses'; Corporate Operation expenses are included in the calculation of 'losses'.

EXHIBIT 12

Verizon Services, as told by the Verizon NY SEC 4th Quarter Filing, 2010

Verizon Services

We have contractual arrangements with Verizon Services for the provision of various centralized services. These services are divided into two broad categories. The first category is comprised of network related services which generally benefit only Verizon's operating telephone subsidiaries. These services include marketing, sales, legal, accounting, finance, data processing, materials management, procurement, labor relations, and staff support for various network operations. The second category is comprised of overhead and support services which generally benefit all subsidiaries of Verizon. Such services include corporate governance, corporate finance, external affairs, legal, media relations, employee communications, corporate advertising, human resources, treasury, and rent expenses associated with the rental of facilities and equipment. Costs may be either directly assigned to one subsidiary or allocated to more than one subsidiary based on functional reviews of the work performed.

(Almost identical language appeared in every Verizon state-based SEC report for the year 2010, from Massachusetts down through Virginia; it was even in the SEC-filed reports for the former GTE territories — California, Texas and Florida, (which are now being sold off)).

There are also FCC rules and definitions of what constitutes the ‘corporate operations’ expense that are more extensive and show that almost any expense can end up in this expense line item. For example, the following list shows that the monies are going to ‘maintain relationships’ with the public et al., and that can include public relations, or dealing with new or existing legislation. (And notice that there are other financial buckets of money at play here that also show up on state utility books.)

EXHIBIT 13 Corporate Operations Expense as Told by FCC Rules¹⁰

“(d) Maintaining relations with government, regulators, other companies and the general public. This includes:

(1) Reviewing existing or pending legislation (see also Account 7300, Nonoperating income and expense, for lobbying expenses);

(2) Preparing and presenting information for regulatory purposes, including tariff and service cost filings, and obtaining radio licenses and construction permits;

(3) Performing public relations and non-product-related corporate image advertising activities;

4.2 Corporate Operations: Verizon Services

"Verizon Services" is an umbrella for the corporate-expense fund that ends up in the accounting of the state utility.

This next exhibit is a partial collection of affiliate companies that were included in a list of the ‘affiliate transactions’ where Verizon New York “purchased (services) from affiliates”. Unfortunately, there are no descriptions of these companies in the financial books or any coherent description anywhere else online, so some of these may, in fact, not be part of the corporation operations expense.

¹⁰ In the Annual Report it is referred to as Corporate Operations Expense, on the FCC rules it is under General and Administrative -- <http://www.hallikainen.org/FCC/FccRules/2014/32/6720/index.php>

EXHIBIT 14 Verizon NY Purchased Services from Selected Verizon Affiliate Companies, 2014

Vz=Verizon		Amount Paid
Vz Corporate Services Corp	Purchased from Affiliates	\$ 468,671,411
Vz Corporate Services Group	Purchased from Affiliates	\$ 148,001,498
Vz Corporate Resources Group	Purchased from Affiliates	\$ 168,971,552
Vz Select Services Inc	Purchased from Affiliates	\$ 1,382,945
Vz Services Corp	Purchased from Affiliates	\$1,488,388,751
Vz Services Operations Inc	Purchased from Affiliates	\$ 9,908,329
Vz Services Organization Inc	Purchased from Affiliates	\$ 107,994,523

4.3 How Does It All Play Out in Verizon New York's Accounting?

EXHIBIT 15 Verizon NY Revenues and Corporate Operations Expense, 2003-2014

2003	Total	Nonregulated	Local Service	Access
Total Revenues	\$ 7,148,203,639	\$ 219,748,000	\$ 4,666,839,000	\$ 2,230,978,000
% of Revenues		3%	65%	31%
Corporate	\$ 1,921,045,187	\$ 131,435,000	\$ 1,249,051,000	\$ 537,299,000
% of Corporate		7%	65%	28%
2010	Total	Nonregulated	Local Service	Access
Total Revenues	\$4,982,344,773	\$657,117,766	\$2,198,098,276	\$2,127,128,731
% of Revenues		13%	44%	43%
Corporate	\$996,443,439	\$101,275,522	\$605,665,165	\$289,502,751
% of Corporate		10%	61%	29%
2014	Total	Nonregulated	Local Service	Access
Total Revenues	\$5,230,477,636	\$1,431,325,888	\$1,441,591,799	\$2,357,559,949
% of Revenues		27%	27.6%	45%
Corporate	\$2,604,155,474	\$264,678,550	\$1,572,288,568	\$767,188,356
% of Corporate		10%	60%	29%

Sources: Verizon New York, New Networks Institute

In 2003, Local Service represented 65% of the revenues and it paid 65% of Corporate Operations.

By 2014, Local Service represented 27.6% of Verizon New York's revenues but paid 60% of corporate expenses — \$1.57 billion.

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When examining the minutia of this category one is struck by what has been dumped into the state utility books. This excerpt from the 2014 Verizon New York Annual Report includes executive pay, legal, regulatory and a host of other large categories, such as ‘Other General & Administrative’. Local Service was charged 60% of this expense.

EXHIBIT 16 Verizon NY Corporate Operations Expenses, 2014

VERIZON NY CORPORATE EXPENSES, 2014			This Year Total (e)
Corporate Operations Expense			
Executive and Planning			
80	6711	Executive	24,834,054
81	6712	Planning	1,460,839
82	6710	Executive and Planning	26,294,893
General & Administrative			
83	6721	Accounting & Finance	40,799,397
84	6722	External Relations	6,960,031
85	6723	Human Resources	35,726,684
86	6724	Information Management	206,346,037
87	6725	Legal	21,582,162
88	6726	Procurement	4,836,026
89	6727	Research and Development	(1,353)
90	6728	Other General & Administrative	2,281,622,605
91	6720	General & Administrative	2,577,870,580
92	6790	Provision for Uncollectible Notes Receivable	0
93		Total Corporate Operations Expenses	2,604,165,474

Sources; Verizon NY Annual Report, 2014, New Networks Institute

4.4 The Stark Pattern of the “Freeze”

To show the stark pattern of freezing the expenses for each year, regardless of the change in revenues, this next exhibit details “Customer Service Operations”, starting with the year 2003 and then the last 6 years, from 2009 through 2014.

Customer Service Operations are the costs associated with handling the customer, from order taking to handling complaints and inquiries. While trouble with a landline can still take up time for the Verizon customer representatives, it’s clear that the company has merged much of the operations and handles everything, including FiOS services. It is highly improbable that the costs to handle customers when Local Service was 65% to now, where the company isn’t even advertising and selling the product or related services, should be at the same expense level.

Yet, the pattern remains almost identical, plus or minus a few percentage points. In 2003, Nonregulated paid 8.6% of this expense, Local Service paid 69% and Access was 22%, and each following year kept this ratio pretty much intact.

EXHIBIT 17 Customer Operations Service Expenses by Financial Buckets, 2003-2014

	Expense by Bucket	Nonregulated	Local Service	Access
2003	Customer Operations Services	8.6%	69.4%	22.0%
2009	Customer Operations Services	7.3%	69.3%	23.4%
2010	Customer Operations Services	8.6%	68.6%	22.7%
2011	Customer Operations Services	8.3%	70.9%	20.8%
2012	Customer Operations Services	8.3%	70.3%	21.4%
2013	Customer Operations Services	7.6%	68.8%	23.6%
2014	Customer Operations Services	7.6%	68.0%	24.4%

Sources; Verizon NY Annual Reports, New Networks Institute

And all major expense categories we examined had the same mathematical patterning, where Local Service paid most of the expenses and the other financial buckets paid considerably less. This is “Marketing”.

EXHIBIT 18 Marketing Expenses by Year by Local, Access & Nonregulated Buckets, 2003-2014

		Nonregulated	Local	Access
2003	Marketing	5.8%	68.2%	26.0%
2009	Marketing	25.4%	53.4%	21.2%
2010	Marketing	22.7%	56.2%	21.0%
2011	Marketing	24.7%	53.9%	21.4%
2012	Marketing	26.0%	53.7%	20.3%
2013	Marketing	23.0%	53.9%	23.1%
2014	Marketing	22.5%	52.6%	24.9%

Sources; Verizon NY Annual Reports, New Networks Institute