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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

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LOGISTICS AND COMMUNICATIONS DIVISION

MAR 15 1973

B-133201



The Honorable Elliot L. Richardson
The Secretary of Defense

Attention: Assistant Secretary of Defense
(Telecommunications)

Dear Mr. Secretary:

The Department of Defense (DOD) provides telephone service by means of Government-owned systems at about 160 military installations. Some of these system facilities (cables) are used by commercial telephone companies in conjunction with their public pay telephones installed on the installations.

We made a review to determine whether the Government received equitable compensation for the use of its facilities by the telephone companies. The practices involving compensation to the Government for support of public pay telephones were reviewed at six military installations--five served by Bell System-affiliated companies and one served by an independent telephone company (Carolina Telephone and Telegraph Company, Tarboro, North Carolina).

LICENSES FOR PUBLIC PAY TELEPHONES

Army, Navy, and Air Force regulations state that installation of commercially owned public pay telephones will be authorized by a license, revocable at will, by the Secretary of the Department.

The present license[DA(s)-49-040-Eng-1; NOy (U)-24664] for the installation, operation, and maintenance of public telephones on DOD establishments in the areas serviced by Bell System telephone companies was executed in 1950 between the Departments of the Army, Navy, and Air Force and the 23 Bell System telephone companies. The license contains the following provisions and conditions.

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1. The telephone companies will install and maintain public telephone facilities at points where, in their judgment, there is a need for telephone service.
2. In consideration of the privileges granted, the telephone companies shall pay to the United States the standard commissions on charges collected that would apply to all other public telephones under similar circumstances.
3. In the installation of public telephones, the telephone companies may use those Government-owned cables, wires, poles, etc., which are required to provide service.

Similar provisions were included in the existing revocable license between DOD and the independent telephone company reviewed. This license had been executed by direction of the Under Secretary of War in 1946.

GOVERNMENT'S STATUS UNDER THE LICENSE

Telephone companies pay commissions, ranging from 9 to 20 percent, to the Government on revenues collected from the public pay telephones. These commissions can be considered standard because the same rates are authorized and/or paid to the Government and commercial concerns. (See enc. I.)

The six military installations furnish the telephone companies some of the cable facilities used to provide public pay telephone service, whereas commercial concerns and other Government organizations normally do not furnish such facilities. Thus, it is apparent that all public pay telephones are not provided under similar circumstances.

According to our interpretation of the terms of the revocable license, the standard commissions apply only when circumstances are similar. We believe, therefore, that something more than standard commissions should be paid when cables to serve the public pay telephones are furnished by the Government.

Although the terminology differs, the military departments' regulations are in consonance with the concept that the Government should receive the standard commissions plus an equitable compensation for the telephone facilities it furnishes.

POTENTIAL COMPENSATION FOR USE
OF GOVERNMENT-OWNED FACILITIES

We estimated compensation due the Government to be \$4,318 a month (see enc. II), or \$51,816 annually, for the cable facilities used at the six military installations reviewed. This estimate was computed by multiplying the quantity of cable provided to serve public pay telephones by the prevailing area rate for lease of such cable. We do not say that this method is the only feasible way to arrive at compensation to the Government for use of its cable or that it is the most equitable. It is presented as an indication of the magnitude of the amounts involved at the installations reviewed.

After we deducted the estimated compensation due the Government, the monthly public pay telephone collections ranged from \$5,779 to \$23,165 at the installations. The average revenue per telephone at each installation ranged from \$35 to \$95 per month, and the overall average at all six installations was \$58. (See enc. III.)

The three intrastate public utility tariffs (rate schedules) reviewed did not require minimum revenue guarantees from public pay telephones. However, the average monthly revenues per telephone at the six military installations were compared with similar statistics from the General Services Administration (GSA) buildings in San Francisco, California, where Government-owned cables were not used. After we deducted estimated compensation due the Government for use of its facilities, the \$35 to \$95 average monthly revenue for each telephone at the six military installations exceeded the \$30 average at the GSA buildings.

AGENCY AND INDUSTRY COMMENTS

Comments on this subject have been furnished by the Assistant Secretary of Defense (Telecommunications), the Office of Telecommunications Policy (OTP), the American Telephone and Telegraph Company (AT&T), and the United States Independent Telephone Association (USITA).

OTP stated that compensating the Government for use of its facilities serving public pay telephones appears to be reasonable and to conform with existing practices in similar areas and that there would appear to be no obstacle to doing so.

The DOD response was inconclusive, stating only that it is reviewing the military departments' regulations for the purpose of instituting, as necessary, further standardization of procedures.

The telephone industry comments suggested a need for reevaluation of the economic feasibility of retaining the number of pay phones and their locations if a change is made in the interpretation of the license terms.

CONCLUSIONS AND RECOMMENDATION

Generally, the Government should be compensated for the use of its cable facilities to serve public pay telephones because (1) industry practice is to provide the cable facilities, (2) the standard commissions are paid when no cable facilities are furnished, and (3) the licenses imply adjustments to standard commissions when the circumstances are different from other public pay telephones.

Since our review included only 6 of about 160 military installations having Government-owned telephone facilities, compensation for use of their cable facilities by the telephone companies could, in the aggregate, be significant.

Recommendation

We recommend that DOD enunciate as policy the position expressed in our conclusion and direct the renegotiation of existing agreements or licenses that may conflict with this policy.

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Copies of this report are being sent to the House and Senate Committees on Appropriations; the House and Senate Committees on Government Operations; the House Committee on Interstate and Foreign Commerce; the Senate Committee on Commerce; the House Committee on Armed Services and its Special Subcommittee on Defense Communications; the Senate Committee on Armed Services and its Preparedness Investigating Subcommittee; and the Subcommittee on Priorities and Economy in Government of the Joint Economic Committee.

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Copies are also being sent to the Director, OTP; the Chairman, Federal Communications Commission; the Acting

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Administrator, GSA; the President, USITA; the President, AT&T; the Secretaries of the Army, Navy, and Air Force; and the Director, Defense Communications Agency.

Sincerely yours,

A handwritten signature in cursive script that reads "J. K. Fasick". The signature is written in dark ink and is positioned above the printed name and title.

J. K. Fasick
Director

Enclosures - 3

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COMPARISON OF COMMISSIONS PAID ON
PUBLIC PAY TELEPHONES (note a)

<u>Name</u>	<u>Military installation</u>	<u>Other locations (note b)</u>
	<u>Commission rates-- cables provided</u>	<u>Commission rates-- no cables provided</u>
Fort Benning, Ga.	15% of revenue	same as at military installation
Fort Bragg, N.C.	20% of local call revenue 10% of long-distance revenue not to exceed \$0.20 per call	space rental at \$2 to \$3 per telephone per month as negotiated ^c
Presidio of San Francisco, Calif.	15% of revenue	same as at military installation
U.S. Naval Base, Philadelphia, Pa.	9% of the first \$0.65 of average daily revenue 14% of the second \$0.65 of average daily revenue 19% of the average daily revenue in excess of \$1.30	same as at military installation
United States Military Academy, West Point, N.Y.	10% of first \$0.50 per day 14% of second \$0.50 per day 18% of second \$1.00 per day 20% of revenue over \$2.00 per day	same as at military installation
Wright-Patterson Air Force Base, Ohio	17% of revenue	same as at military installation

^aAll installations are served by Bell System-affiliated companies, except Fort Bragg. Fort Bragg is served by a member of USITA.

^bSpecified in the tariffs and/or paid to GSA, the U.S. Postal Service, and/or commercial concerns by the telephone company serving the military installation.

^cCurrently, commercial concerns are compensated on a space-rental basis. However, under the existing tariff the telephone company has the option of compensating either on a commission basis (at the rates used for Fort Bragg) or a space-rental basis.

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ESTIMATED COMPENSATION
FOR CABLE USED TO SERVICE PUBLIC PAY
TELEPHONES

<u>Location</u>	<u>Quantity of cable provided by the Government</u>	<u>Prevailing monthly rates for leasing similar cable facilities from telephone companies (note a)</u>	<u>Potential compensation per month</u>
Fort Benning	924 miles	\$2.00 per mile	\$1,848
Fort Bragg	506 miles	\$3.00 per mile	1,518
Presidio of San Francisco	72 miles	\$4.00 per mile	288
U.S. Naval Base, Philadelphia	209 cables	\$0.75 per cable	157
United States Military Academy, West Point	61 cables ^b	\$3.78 per cable ^b	230
Wright-Patterson Air Force Base	277 cables	\$1.00 per cable	<u>277</u>
Total			<u>\$4,318</u>

^aOn-premise tariff rates, which are lower than off-premise rates, were used in this computation. Off-premise rates may apply in some circumstances.

^bEach public pay telephone used an average of more than three fourths of a mile of cable. The rate per cable applies to lengths in excess of three fourths of a mile. For other cables in these columns a flat rate applies, regardless of length.