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Disposal of the Alaska Communication System

By Douglas N. Jones*

Alaska is the only state in the union whose sole commercial long-distance telephone and telegraph system is owned and operated by the federal government. In recent years the Air Force has been responsible for the Alaska Communication System (ACS) and previously it was operated by the Army.

The Alaska Communication System was established by act of Congress in 1900 for defense needs. At the same time the Secretary of War was authorized to permit commercial business and private citizens to use the military cable lines in Alaska. From this act evolved the present sophisticated defense warning systems and, concurrently, continued expansions of the commercial section to the point where it can now stand alone as an economically feasible separate enterprise.

Both military branches have made attempts to dispose of the commercial-oriented branch of their communication network, but it was not until 1966 that public hearings were granted on the matter.

On October 10, 1966 the U.S. Senate passed legislation authorizing the disposal of ACS by the Air Force. Since there was not time to consider the bill in the House of Representatives before adjournment, it was reintroduced in January, 1967, upon the opening of the new Congress. Here matters stand today.

Background of the Disposal Action

The "Alaska Communications Disposal Act" introduced to the 89th Congress as S 2444 and HR 9691 (and in the 90th Congress as S 223) authorizes the disposal of the government-owned, long-line communication facilities in the State of Alaska. As such, the legislation refers to the

total communications complex in Alaska and involves property and franchise rights "by sale, exchange, lease, easement or permit." However, what is realistically up for sale is that portion of the system which is primarily commercial in character: dealing with day-to-day business and residential toll and telegraph service. On a channel-mile basis, this comprises about ten per cent of the total system. The remainder includes the defense communication system (White Alice) now under contract to RCA, the Federal Aviation Agency system and the Alaska Railroad system.

"Long-lines communication facilities" were defined as "the transmission systems connecting points inside the state with other and with points outside the state by radio or wire, and includes all kinds of property and rights-of-way necessary to accomplish this interconnection."

At the same time that the Secretary of the Air Force sent a letter to the President of the Senate asking the introduction of legislation to sell ACS, the Air Force took two steps in anticipation of approval to sell.

First, the Assistant Secretary of Defense requested that a study be made toward determining the feasibility of placing ACS under an industrial fund arrangement effective Fiscal Year 1967, but now scheduled for Fiscal Year 1968. The study group concluded that ACS met the criteria for use of an industrial fund, and should be brought under a uniform system of accounts similar to that required by the Federal Communications Commission of commercial long-lines companies, whether sales disposal was successfully concluded or not.

Placing ACS under a uniform system of accounts was calculated to make any future disposal easier. Due to the non-comparability of government and corporate accounting systems, it is presently difficult to sort out the

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financial aspects of ACS. On the cost side, the problems of allocation, apportionment, depreciation and efficiencies are formidable. On the revenue side, matters of rate flexibility, imputed receipts and service merchandising are equally complex. The result is that analysts of equal goodwill can show widely varying operating results—some optimistic, some pessimistic—by using varying sets of assumptions. No truly meaningful set of numbers can be arrived at until the operations of ACS are fitted into the FCC's uniform system of accounts. Preparation of a definite *pro forma* financial statement on ACS will be possible as the Air Force moves to place ACS on an industrial fund basis. There is no chance of accurately estimating anything as complex as rates of return that might be enjoyed by private ownership and operation of Alaska commercial communications until such a rearrangement of accounts is made.

The second development was the decision to vigorously pursue outright sale of the system by going directly to the communications industry. On January 13, 1966, the Air Force sent a letter to firms in the industry

which included an attached brochure listing in detail the plant and equipment that are up for consideration for either sale or lease. The brochure also contained a map depicting the number of ACS voice and telegraph circuits and the total number of circuits available in different segments of the communication complex. Included are the toll centers of the four leading cities—Anchorage, Fairbanks, Juneau and Ketchikan.

The letter, containing fairly comprehensive data on what ACS is, its contracts, current tariffs, revenues, and other details, asked firms in the industry to "indicate by mid-April 1966 (their) interest in entering the commercial communications business in Alaska." In addition, the Air Force asked about the method they would propose for the provision of service: the mix of ownership, lease, or other transfer arrangements.

In a subsequent letter in May, the Air Force told the firms that substantial attention would be given at the Congressional hearings as to what particular companies might be prepared to offer in the way of upgraded services, and schedules of rates.

Communication Studies

In recent years several studies and reports have been made on the communications complex in Alaska. Three of these are: the Middle West Service Company Study dated September 1, 1963; the Perry Report submitted by the Deputy of Transportation and Communications as a "memo for the record" in an extensive attachment to a paper from the Assistant Secretary of the Air Force

TABLE 1
COMPARISON OF TELEPHONE DAY RATES
FOR CALLS OF SIMILAR DISTANCES
Alaska and Elsewhere

ROUTE	MILES	PERSON-TO-PERSON		STATION-TO-STATION	
		3 Minutes	8 Minutes	3 Minutes	8 Minutes
Seattle-Spokane	229	\$ 2.00	\$ 4.65	\$.85	\$ 2.10
Juneau-Ketchikan	234	2.90	5.15	1.45	3.70
Chicago-Philadelphia	666	2.00	3.75	1.35	3.10
Ketchikan-Seattle	670	6.00	11.75	3.50	9.25
New York-St. Louis	875	2.25	4.25	1.45	3.45
Juneau-Seattle	892	6.00	11.75	3.50	9.25
Boston-Omaha	1282	2.65	4.65	1.60	3.45
Cordova-Seattle	1297	7.50	15.00	4.50	12.00
Cincinnati-Seattle	1972	3.30	5.80	1.90	4.40
Nome-Seattle	1979	9.00	18.00	5.50	14.50

SOURCE: 1929th Communications Group, Alaska Communication System, U.S.A.F., Seattle, Washington.

(Installations and Logistics) to the Assistant Secretary of Defense (Installations and Logistics), March 9, 1965; and the Stone Study of October 13, 1965, concerning the feasibility of financing ACS under an industrial fund.

The Middle West Study was contracted for by the Air Force (April 1963) at a time when it was seeking to determine what it should do with the total communication system operating in Alaska that it had inherited from the Army a year earlier. This independent management consultant firm was commissioned to study the financial situation of all the systems making up the Alaskan long-lines communications complex and the saleability of these systems. As a result, the study did not really focus on the commercial portion of the communications complex—ACS—and, not surprisingly, its analyses are not particularly well suited to a discussion of the portion for which bids are now being sought.

Further, the "separately operable unit" breakdown used in the report is not the correct breakdown for the construction of any *pro forma* operating statement for the commercial system. The authors of the report were seeking to develop some kind of breakdown which would throw light on the disposal question, but they did not have the advantage of present Air Force thinking, and the breakdown which they elected to make does not coincide with the current proposal.

An interesting aspect of the Middle West Study is the section dealing with commercial revenue and cost allocations. The report predicted on the commercial portion of the system that, on established cost schedules (excluding depreciation), \$12 million in revenue would be required annually to achieve a break-even point over the fiscal years 1963-1967. Accepting this figure for purposes of analysis, it is worth noting that actual commercial revenues for 1965 were over \$14 million and were compounding at a 10 percent per annum rate during the past few years.

The Perry Report sets out an analysis of ACS policy problems and carefully poses the alternative solutions. It is a definitive piece which has effectively become "the Air Force position" on ACS and has resulted in the framework and guidelines under which the Air Force is proceeding towards disposition of the system. Specifically, it formed the basis on which current legislation was introduced and sales action with the industry is being carried on.

Failing the sale of ACS, the Perry Report emphasizes the need for a Department of Defense policy toward modernizing and expanding communication facilities serving the general public in Alaska and reconsidering rates to be charged for service. It also treats the alternatives of industrial funding and the establishment of a government corporation along the lines of the Alaska Railroad.

TABLE 2
MONTHLY CHARGES FOR PRIVATE TELETYPE LINE
LEASES, ACS and AT&T

COMPANY	AT&T	ACS	Percent Difference
Alaska Steamship Company	\$1,500	\$2,400	60
Associated Press (Statewide)	2,000	3,900	94
Pacific Northern Airlines (Statewide)	1,900	3,900	105
Alaska Airlines (Statewide)	2,100	4,500	110
Pan American World Airways (Statewide)	1,500	3,300	120
Northwest Airlines (Statewide)	1,000	2,800	180
Wien Alaska Airlines (Statewide)	1,100	2,000	82

SOURCE: Alaska Communications Region, Elmendorf Air Force Base, Alaska, 1964.

Rates in Alaska

The present high telephone and telegraph charges are a deterrent to the economic growth of Alaska and inhibit the normal flow of communications traffic within and to and from the state. At the same time much needs to be done to improve the service and upgrade the quality of equipment. For necessary improvements in both the cost of service and the quality of service, a number of parties must be looked to—the long-lines carrier (the Air Force) and its contractors, the local exchanges and the regulatory agencies.

Alaskan subscribers are seriously disadvantaged by the high cost of service. Table 1 presents a comparison of telephone rates for three-minute person-to-person and station-to-station calls from certain cities in Alaska and calls of similar distances elsewhere. Since typically the length of an ACS call is about 8 minutes, total charges for such calls are also compared. Charges to Alaskan callers are three to four times that of other callers. Initial charges for a person-to-person Juneau-Seattle call show at \$6 for 3 minutes and \$11.75 for 8 minutes, as compared with \$2.25 and \$4.25 for a comparable contiguous interstate distance; for station-to-station the comparison is \$3.50 and \$9.25 as against \$1.45 and \$3.45. Additional minute charges are \$1.15 per minute in one case and 40 cents in the other. While it is true that traffic densities and differing operating characteristics can be cited as governing factors, they do not entirely explain the differentials. In any event, the cost penalties that these unregulated rates impose on Alaskan subscribers are clear. Also, the exhibit is for day rates—"after eight" rates for these points generally go down to one dollar, while in Alaska there are no such rates, and so the differentials are further accentuated.

A similarly burdensome cost picture is revealed in Table 2. Here monthly ACS charges for private-line teletype leases to several heavy-user Alaskan companies are com-

pared with what the monthly charges would be for equal coverage under AT&T tariffs. The differences ranged up to 120 and 180 percent in the case of airline companies, over 90 percent with a news service, and 60 percent with a steamship company. Whatever its limitations, the exhibit is at least illustrative of the obstacles to an economical and competitive cost position for companies operating in Alaska.

Of great concern in any analysis of the cost of service to Alaskan subscribers is the division of revenues among the communication segments—the local exchange, ACS, and the connecting long-lines carrier. The recent reduction of AT&T charges for its submarine cable connecting Alaska with the rest of the United States was reflected in lower rates to toll customers and was the second rate reduction by ACS in two years. Other parties retained the same absolute amounts with, of course, resulting higher percentages of the total. Rates are strongly affected by interconnection agreements negotiated between ACS and individual local exchanges. Thus, the City of Anchorage now receives 94 cents per call, whether that call is to nearby Palmer or to Seattle. Recently, Anchorage has requested an increase (opposed by the Air Force) to \$1.13 per call.

The demand for telecommunications nationally is constantly growing, and Alaska is no exception. In an affluent society and an integrated economy, it is not surprising that the history of the industry is dynamic. The demand for telephone service is not only "income elastic" in the economist's terms, but it is also "price elastic." Each time levels of charges have been reduced, whether willingly or at the urging of regulatory bodies, the "consumption" of service has increased, and total revenues have gone up. There is no reason why the same pattern of growth will not emerge in Alaska. Here is a population that requires having at its disposal the latest in subscriber services—perhaps even more so because of its relative remoteness from other states; here is an economy whose emerging commercial character demands the best the industry has to offer in the way of voice and data transmission equipment at reasonable rates. In sum, Alaska is a modern society with, as admitted by parties concerned, an antiquated communication system.

Potential for Growth

Some rough indication of the potential for telephone growth in the state can be seen from noting that, while the average number of telephones per 100 population is 46 for the United States as a whole, Alaska has 29. Anchorage, Alaska's largest city, has 31 telephones per 100 population. Further, as one looks to numbers of telephones in several Rocky Mountain communities of com-

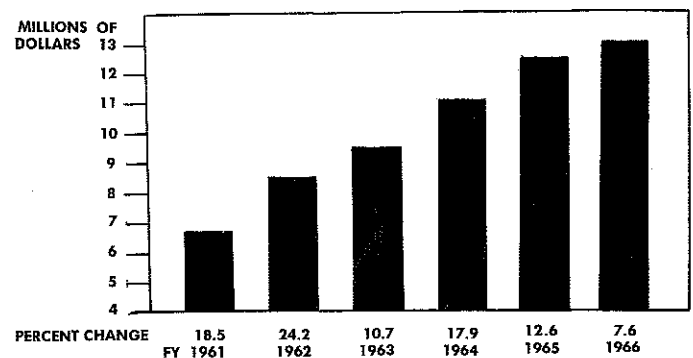
parable sizes, one finds that Pueblo, Colorado, for example, has 20,000 more telephones than Anchorage; and Sidney, Montana, 30 more phones per 100 people than Ketchikan. While obviously the varying profiles of different cities dictate the particular numbers of telephones, the orders of magnitude quoted are wide enough apart to be of suggestive significance.

Figures 1 and 2 depict the telephone and telegraph growth in the system. While typically there is some substitution of telephone for telegraph usage, it can be expected that the installation of modern service offerings at reasonable charges in this type of communication would serve to strengthen receipts. With the economies that could be expected from a modernized system (there have been no significant capital improvements in the system during the past six years), aggressive marketing practices, improvements in service such as direct distance dialing, and lower rates (there are recognizable demand elasticities in the telephone market), total revenues should increase while average costs should decrease.

Looked at as a whole, ACS business has increased markedly, amounting to \$14.8 million in Fiscal Year 1965, (which was \$1.2 million over the previous year) and \$16 million in Fiscal Year 1966 (Table 3). The distribution as between customers is also shown but the figures for some of the government agencies are estimates and may understate the case.

For some time ACS has felt the demand for improved and modernized service offerings to commercial/industrial customers as well as residential users. The installation of direct distance dialing for Anchorage, Fairbanks, Juneau

FIGURE 1
TOTAL SYSTEM COMMERCIAL TELEPHONE REVENUES
FY 1961 - FY 1965



Note: Intrastate-Consistently represents 24 percent of the total
Interstate-Consistently represents 76 percent of the total

Source: Communications Report, FY 1965, 1929 Communications Group, Alaska Communications System, U.S.A.F., Seattle, Washington, p. 21, Part II.

and Ketchikan is recognized as clearly desirable, with an estimated resulting gain in net revenue of half a million dollars annually (measured against a relatively small one-time procurement and installation cost of \$1.2 million). ACS sees the need for a submarine cable to Sitka, one of Alaska's fastest growing industrial centers, where revenues from telephone subscribers amount to \$200,000 annually. Installation of the Sitka cable would result in an estimated increase of \$50,000 annually. TELEX Service provides for direct teletype service from subscriber to subscriber, similar to use of the telephone. When ACS informally sounded out the demand for such service, it found some 70 potential subscribers at estimated annual revenues of about \$106,000. The constantly expanding activity of the oil industry in the Cook Inlet-Kenai area has been accompanied by increased demands on ACS. Similarly with Kodiak.

Finally, new communications services like electronic data processing and data transmission facilities (e.g., daily banking transactions), channel capacity for live and color TV, private lease lines, news facsimile transmission, and high quality live radio broadcasting are urgently in demand. It is noted that "next door" the Canadians have TELEX and the capacity for live TV as far as Whitehorse. Alaskan requirements are still more intense and will further intensify with continued growth.

Potential ACS Purchasers

The members of the communications industry to whom the Air Force sent its initial letter of interest and brochure of disposal were American Telephone and Telegraph, International Telephone and Telegraph Corporation, Radio Corporation of America, General Telephone and Electronics Corporation, Continental Independent Corporation, Western Union Telegraph and Western Union International. The varying interests of these firms in ACS are still emerging, and several testified at the Senate Hearings.

American Telephone and Telegraph is seemingly sensitive to participating in acquisition action of any kind—perhaps because of current Federal Communications Commission inquiries and public-image considerations—and has shown no real interest in the proceedings. AT&T has historically been involved in constructing portions of the total communications system in Alaska (notably the early warning system) and owns the important submarine cable that connects Alaska with the rest of the U.S. as well as owning the system into which the aerial lines following the Alaska Highway connect at West Sweetgrass, Montana. With its network of operating companies, its integrated switching systems, division of revenue practices,

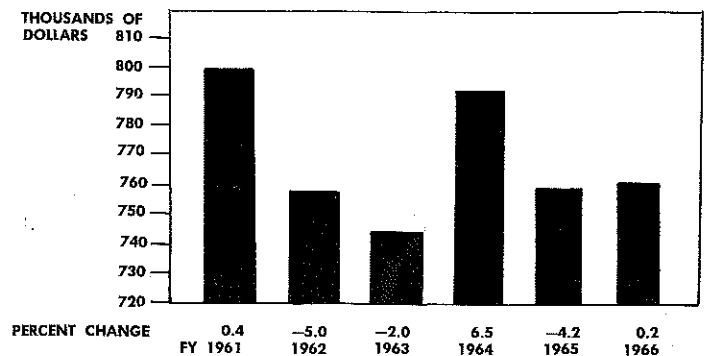
cost allocation procedures and long-run planning posture, it seems unlikely that AT&T will totally abstain from participating in the disposal. Yet AT&T interest in ACS disposal has ebbed and flowed, and it remains to be seen what role (if any) it will play.

General Telephone presently operates a number of exchanges in Alaska, has rather extensive operations in British Columbia, and owns the "tropo scatter" system that connects Alaska with the rest of the U.S. by land in competition with AT&T's submarine cable. Significantly from the competitive point of view, both the cable and the tropo scatter system are reportedly underutilized under present traffic patterns and requirements. General Telephone has also been a bidder on the White Alice system contract operation, which involves essentially the communication system other than the ACS portion. RCA, the present operator of White Alice, will bid on ACS in addition to White Alice, in part motivated perhaps by the fact that it views the advent on the scene of any other member of the industry as a potential threat to its position.

Western Union can be expected to have its normal interest in the telegraph portion of ACS and also in the telephone portion, since the company has long been anxious to get into the voice-transmission field. Similarly, ITT is generally considered to be interested in moving into the domestic communications market and may see a vehicle in the present disposal action. Through Federal Electric Company it has also participated in White Alice bidding.

The planning horizon in the telecommunications indus-

FIGURE 2
TOTAL SYSTEM COMMERCIAL TELEGRAPH REVENUES
FY 1961 - FY 1965



Note: Intrastate-Consistently represents 7 percent of the total
Interstate-Consistently represents 93 percent of the total

Source: Communications Report, FY 1965, 1929 Communications Group, Alaska Communications System, U.S.A.F., Seattle, Washington, p. 22, Part II.

try is typically quite distant—meaningfully up to twenty years. And while even the short-term prospects for communications in Alaska indicate commercial feasibility, perhaps the larger consideration for the forward-looking company is being in a position to engage and meet the anticipated changes in communications demands in the dynamics of the last third of the Twentieth Century. This would include a scientific challenge to the industry to find innovational and efficient methods, singular to the Arctic environment and also meeting the criterion that in commercial operations (as opposed to defense) cost considerations are paramount. More immediately, the companies know that what they would really be buying in bidding on ACS is not primarily the plant and equipment (much of which is outdated and inappropriate) but rather the franchise to operate in and through the state.

Implications of Disposal

In addition to the fact that disposal of ACS to the private sector would in no way hinder defense communications in Alaska (and may ultimately improve services and costs to the military), a number of goals of the federal government and the Department of Defense would be served.

It has long been official public policy to keep (or get) the government out of commercial-industrial activities. Presidents Eisenhower, Kennedy and Johnson, through executive and administrative documents, reaffirmed positions favoring private enterprise and ordinary business channels where alternative services are available at reasonable costs. And ever since legislation to permit the sale of ACS was first introduced in the late 1950's, the Bureau of the Budget has consistently supported sale of the Alaska Communication System.

Within the Department of Defense the trend is generally towards getting the military out of commercial-type activities. Specifically, there is pressure to relieve the uniformed military from performing "non-combat related" tasks and engendering the charge of "competing with private enterprise". And the proposed ACS sale would help fulfill this objective.

In addition to the manpower and mission advantages of the sale, there are other implications perhaps less obvious. Reduction of the prohibitive communication costs and improvement of communication services to Alaskan subscribers would remove one of the obstacles to economic growth in the state. It would make for a successful incision into Alaska's difficult and self-reinforcing cost/price problems. It would strike down a deterrent to development and is, therefore, a proper goal of public policy. Obviously, it would be incorrect to argue that

communication costs alone determine business location decisions or the success or failure of enterprises. It is fair to say, however, that given Alaska's relative remoteness from commercial centers and its need for frequent long-distance communications in the conduct of its marketing, ordering and stocking practices, prejudicial charges are demonstrably hurtful in the aggregate of overhead expenses. Enterprises requiring intensive use of electronic data processing and telecommunications equipment would be encouraged; effective and vigorous promotion of communication services would be likely to follow and enhance the economic growth of the region. A highly interdependent society with a complex economy requires rapid, high-performance, low-cost communications if it is not to experience bottlenecks and blockages which frustrate its total growth.

One of the current fiscal problems of Alaska is its narrow revenue base. Broadening of the tax base with the advent of large manufacturing and service enterprises is much to be desired. Sale of ACS into private corporate hands fits such a program very well. Public utility companies traditionally are substantial contributors to taxing bodies through corporate income taxes to the state (as well as federal) government, and property taxes to local units.

TABLE 3
COMPARISON OF TOTAL ACS BUSINESS
Fiscal Years 1964, 1965 and 1966

CATEGORY	FY1964	FY1965	FY1966
Commercial	\$12,354,215	\$13,798,259	\$14,851,927
Army	362,246	234,683	143,638
Air Force	341,187	298,051	482,038
Navy	113,571	67,775	48,791
Civilian Agencies	429,714	433,090	481,534
Total	\$13,600,933	\$14,831,858	\$16,007,965

Notes concerning FY1966:

1. Overall increase of 7.9 percent over FY1965.
2. Commercial telephone revenue represented 89.3 percent of total commercial revenue and commercial telegraph revenue 5.1 percent. The remaining 5.6 percent is attributed to other services.

The regulatory implications of the proposed sale of ACS primarily involve the Federal Communications Commission and the State Public Service Commission. Presently ACS is not subject to the jurisdiction of the FCC, though requests have been made to it over the years to participate. The FCC has historically been interested only in charges for "stateside" and Canadian carriage of messages originating in Alaska and carried over the AT&T or General Telephone systems. It is understood that the public utilities commission of the state of Washington has

from time to time moved to satisfy itself that charges and cost allocations within its jurisdiction in no way served to "subsidize" Alaskan commercial communications.

With the sale of ACS, the interstate portion of the company's operation would naturally come under FCC jurisdiction. Among other things, this would mean that the uniform system of accounts prescribed by FCC would be applicable to telephone and telegraph carriers. From this would follow FCC's regulations of rates, levels of charges, rates of return and service. Regulation of intrastate activities of the carriers would similarly fall to the public utilities commission under existing authority contained in Alaska's statutes. Presumably, a staff section of the PUC would be set up with this responsibility.

Since experienced and effective telephone regulation cannot be expected to come automatically and without difficulty, it is important that any disposal action give consideration to possible schedules of charges and required improvements in service and that the legislation allowing disposal contain such safeguards.

Congress and the Air Force could have taken the position of "returning all we can from the sale". The result of "holding out for the top dollar" would be to saddle Alaska with a high cost, high price, antiquated communications system. Instead, both parties have clearly stated their support for the "public utility" view of the system, stressing minimum fair value in exchange for firm commitments from the carriers that technology and service will be upgraded and lower rate schedules introduced.

From the state's standpoint the proposed disposal of ACS involves matters of the highest public interest: in particular, lower rates and improved service. The state's interests must be considered co-equally with those of other parties and as such the state must be involved in all negotiations and kept openly informed of progress.

Typically, a member of the public service commission would represent a state's interest in such disposal action. Otherwise, it would seem that the Attorney General should represent the state at any disposal hearings. This would have the advantage of, first, bringing the legal talents of the state administration formally to bear on the issue and, second, providing a direct vehicle for the governor to make himself felt in the hearings while retaining for himself the widest possible latitudes of action.

Perhaps one of the more politically sensitive aspects of the disposal action is the matter of service to "the bush". Earlier sales proposals bogged down and, in fact, lost the support of Alaska's congressional delegation when this aspect was unsatisfactorily handled. The problem is to provide adequate service to subscribers in the sparsely

settled areas at rates they can afford. This is not a new problem to private carriers, most of whom practice an averaging of rates and charges over the entire system so that deficits on some portions are made up by surpluses on another. The solution may require the leasing of circuits or token message-rate arrangements. But individual carriers' proposals must not include arrangements to skim the cream off the populous areas while ignoring the bush. The Air Force gave assurance of proper safeguards to this end at the hearings.

To the extent that the municipalities are presently part of the commercial telecommunications system, their interests must be heard. This is perhaps especially so in the case of the important toll centers of Anchorage, Fairbanks, Juneau, and Ketchikan. However, for the municipalities to participate usefully they must be committed to lower charges and upgraded service to subscribers as the end result of disposal. It is not enough, for example, to talk only of interconnecting charges and the division of revenues between the long-line carrier and the exchanges. The total charges paid by the Alaskan public for telephone and telegraph service are the proper focus. Conceivably, lower charges might be arrived at by the long-lines carrier while total charges remained as high as ever because a municipality attempted to protect its receipts. Exchanges must not be allowed to frustrate the public interest should there be any inclination to do so. The history of local governments using their telephone exchanges as tax instruments is almost an unbroken one.

Alternatives to Sales Disposal

In the basic policy memorandum of the Assistant Secretary of Defense (Installations and Logistics) regarding ACS, the Air Force included as alternatives to sales disposal: (1) leasing of facilities, (2) contracting for commercial operation and (3) industrial funding.

The first would involve leasing some or all of the communications facilities to a private operator for use in providing services to the public and the government on a commercial basis, but with title to the facilities retained by the government. The second would entail contracts between the Air Force and one or more commercial operators under which the contractor would act as agent of the government in providing commercial services for the public in addition to the contractor's normal responsibilities under the contract for providing service to the government itself. Drawing on the analyses of John Perry, Deputy for Transportation and Communications, the disadvantages of both lease and contract arrangements seem to outweigh the advantages. Under both arrangements: (a) the Department of Defense would ultimately (though not directly, in the case of leasing) remain responsible, as it is now, for

rate structures and standards of service, for expansion and modernization of facilities; and (b) there is no clear cost advantage to the government over those incurred in continuing to operate the communications system itself, particularly in the case of leasing.

Now that the volume of commercial traffic over ACS has reached a point where the operation can be economically self-supporting and there is no longer need for annual appropriations by the Congress, an industrial-fund arrangement has some advantages. As previously mentioned, the Air Force is presently realigning ACS into an industrial-fund framework and intends to push for its establishment on July 1, whatever the outcome of the sales legislation. After an initial appropriation from the Treasury as a capital operating fund (much as the Military Airlift Command is financed), revenues received from subscribers of communication services would be applied directly to the cost of furnishing those services, rather

than treating them as is presently done—as miscellaneous receipts to be paid into the Treasury of the United States.

Given the fact that even successful sales disposal of ACS would require a rather extensive phase-out, phase-in period, and the Air Force must responsibly prepare for ACS operation after July 1 of this year, the industrial-fund pattern seems the proper one to adopt. As a minimum, it should allow a better grip on the cost side of the operation as it is brought more in line with normal accounting and commercial practices. However, industrial funding of ACS is not a desirable long-term answer, because such an arrangement suffers from many of the deficiencies of other alternatives to outright sale. Chief among these are the provision of capital investment and modernization, the problem of rates and charges and cost allocations, and the continuance of the Air Force in a commercial activity in which it is understandably not interested and to which it is not attuned.

CONCLUSION

There is now a clear record of the considerations surrounding the disposal action and the ingredients of a public-interest outcome. The main points concerning the Air Force proposal to dispose of the Alaska Communication System to the private sector are best set forth in the findings of the Senate in its action on the legislation:

- As to timing,

“Circumstances now make transfer of the ACS from public to private operation both possible and timely.” (It is now an economically viable enterprise.)

- As to defense aspects,

“The national defense posture will not be impaired by the transfer of the ACS and in fact could be enhanced by subsequent improvements in service by the purchaser acting under normal public utility procedures as in other states.” Also, “Transfer of the ACS to a private operator will permit reassignment of military personnel and Department of Defense civilian employees to tasks that are related directly to national defense.”

“It will relieve the Department of Defense of a commercial activity which the military organization neither desires nor is particularly suited to perform (and) . . . will eliminate the need for appropriations to make necessary capital improvements.” (This last has always been a sore point in that such items for commercial activity generally did not fare well in competition with, say, Vietnam budget items.)

- As to Alaska,

“The present obsolescent telecommunications system in Alaska, with its attendant high rates to the general public, is a true deterrent to its economic development.”

And, importantly,

“Transfer of the ACS must be carried out in such a way as to serve the interests of the Alaska citizenry by obtaining firm commitments to improved service and lower rate schedules, and by obtaining a timetable for the implementation of both, as an integral part of any bid proposal action.”

- As to accomplishment,

“The Government should receive no more . . . than the fair and reasonable value for facilities sold . . .” Also “Any purchaser must obtain all necessary certificates of public convenience and necessity and must comply with the rules and procedures attendant to normal public utility regulations.”

- Finally,

“The Secretary of Defense is required . . . to obtain the advice and assistance of other parties before any transfer is made, (and these) . . . should include . . . the Federal Field Committee for Development Planning in Alaska, the Federal Communications Commission, and appropriate state and local representatives designated by the Governor of Alaska, to assure consideration of all public interest factors associated with the transfer of the ACS.”