

**BEFORE THE
ILLINOIS COMMERCE COMMISSION**

Docket No. 05-_____

**Direct Testimony of David M. Swanson
On Behalf of SBC Illinois**

SBC Illinois Exhibit 1.0

December 1, 2005

1 **DIRECT TESTIMONY OF DAVID M. SWANSON**

2 **ON BEHALF OF SBC ILLINOIS**

3
4 **QUALIFICATIONS**

5 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

6 A. David M. Swanson, 912 Country Club Drive, LaGrange, Illinois 60525.

7
8 **Q. WHAT IS YOUR POSITION?**

9 A. I provide real estate asset and transaction management services under contract to
10 SBC and Illinois Bell Telephone Company (the “Company” or “SBC Illinois”).

11
12 **Q. WHAT IS YOUR BUSINESS EXPERIENCE?**

13 A. I was a real estate manager for Illinois Bell Telephone Company for 23 years and
14 handled purchases, zoning, sales, leases and administrative functions related to the
15 Company’s real estate operations. Since July of 1994, I have been providing services on
16 a contract basis, as D.M. Swan Enterprises, Inc. I am also a licensed real estate broker in
17 the State of Illinois.

18
19 **PURPOSE**

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

21 A. SBC Illinois is proposing to transfer of certain real estate located at 508 North State
22 Street, Cook County, Chicago, Illinois 60610 (Cook County PIN Nos. 17-09-248-016-
23 0000, 17-09-248-017-0000, 17-09-248 – 018-0000) to SBC Asset Management Inc.

24 (“SBC AMI”), a non-regulated affiliate of SBC, for the sum of \$5,580,000. A copy of
25 the proposed agreement is attached as Schedule A. The Company is required to seek
26 Commission approval for the transfer of property pursuant to Section 7-102 of the Public
27 Utilities Act. The purpose of my testimony is to describe the proposed asset transfer and
28 to demonstrate that the transfer is in the public interest.

29

30 **Q. WHAT ASSET TRANSFER VALUATION STANDARDS WILL THE COMPANY**
31 **APPLY?**

32 A. The applicable valuation standards are set forth in 47 C.F.R. Part 32, as modified by Part
33 710 of the Commission’s rules. Under 47 C.F.R. Section 32.27 (transactions with
34 affiliates), the valuation standard for transactions from a regulated entity to a non-
35 regulated affiliate is the higher of fair market value or net book cost.

36

37 **Q. PLEASE PROVIDE GENERAL INFORMATION ABOUT THE PURCHASER.**

38 A. SBC AMI is a non-regulated affiliate of SBC in the business of holding various real
39 estate assets.

40

41 **DESCRIPTION OF REAL ESTATE**

42 **Q. PLEASE DESCRIBE THE REAL ESTATE WHICH SBC ILLINOIS SEEKS TO**
43 **TRANSFER TO SBC AMI.**

44 A. This property is a fenced asphalt parking lot, 100.04 x 139.79, or 13,955 square feet (.320
45 acres). A copy of the survey is attached as Schedule B to this testimony. This Lot and
46 surrounding area are more fully described in the Appraisal, attached as Schedule C.

47

48 **Q. FOR WHAT PURPOSE WAS THE REAL ESTATE USED?**

49 A. The property is adjacent to the Illinois / Dearborn Central Office and is used for
50 employee parking for various company locations.

51

52 **Q. DOES SBC ILLINOIS NEED THE PROPERTY TO PROVIDE**
53 **TELECOMMUNICATIONS SERVICES?**

54 A. No.

55

56 **Q. WHAT ZONING CATEGORY APPLIES TO THE REAL ESTATE?**

57 A. The zoning of the facility was recently changed from B4-4, a restricted services district
58 classification, to DX 7 & DX 12, Down Town mixed-use classifications.

59

60 **Q. WHAT IS THE CURRENT SBC ILLINOIS INVESTMENT IN THESE**
61 **FACILITIES?**

62 A. The 2111.20C (Operating Plant, Land) investment is \$609,670. The 2121.10C
63 (Operating Plant, Buildings) investment is \$69,466, with a net book value of \$43,471.

64

65 **Q. DO YOU FEEL THAT THIS TRANSACTION IS IN THE BEST INTEREST OF**
66 **THE PUBLIC?**

67 A. Yes, SBC Illinois does not need this property for its operations and desires to reduce its
68 maintenance costs and real estate tax burden, which is in the public's interest.

69

70 **CURRENT VALUE OF REAL ESTATE**

71 **Q. WHAT IS THE FAIR MARKET VALUE OF THE REAL ESTATE?**

72 A. SBC Illinois hired Adams Valuation Corporation, 2803 Butterfield Road, Suite 130, Oak
73 Brook, Illinois 60523-1148 to provide an Appraisal Report reflecting its professional
74 estimate of the market value of the sale parcel. The report, dated July 13, 2004, was
75 prepared by Douglas X. Adams, MAI (Member of Appraisal Institute) & President. The
76 appraiser's opinion of the market value is \$2,975,000. A copy of the Appraisal Report is
77 attached as Schedule C.

78

79 **Q. HOW WAS THE FAIR MARKET VALUE OF THE PROPERTY**

80 **DETERMINED?**

81 A. Through our alliance partner, Equis, the determination of the fair market value for the site
82 included a mailing to brokers and direct calls to likely buyers. Equis also placed the
83 information about the property on Loopnet and CoStar, two internet sites which brokers
84 use when researching available properties in the area. Equis also placed brochures on its
85 website and would send them out when requested. A copy of the brochure is attached as
86 Schedule D.

87

88 **Q. WHAT KIND OF RESPONSE DID YOU RECEIVE FROM THIS VALUATION**

89 **EFFORT?**

90 A. We received seven (7) valuation assessments:

91 1) Centrum ----- \$ 5.60 Million

92 2) Miglin Properties ----- 303 Million

93	3) Fifield -----	4.05 Million
94	4) Lennar Communities of Chicago -----	5.85 Million
95	5) First Capital Dev.-----	5.80 Million
96	6) Colin M. Kihnke -----	5.70 Million
97	7) 2855 Development -----	2.90 Million

98

99 **WHAT IS THE FAIR MARKET VALUE OF THE REAL ESTATE?**

100 A. The Land, Account 2111.20C, has a fair market value of \$5,251,545. The Building,
101 Account 2121.10C, has a fair market value of \$598,455. See Schedule E, column (e),
102 Fair Market Value.

103

104 **ACCOUNTING TREATMENT OF REAL ESTATE**

105 **Q. IS THE FAIR MARKET VALUE OF THIS PROPERTY GREATER THAN THE**
106 **NET BOOK COST?**

107 A. Yes. As shown on Schedule E, a comparison of columns (e) Fair Market Value, and (f)
108 Part 710 Net Book Value, shows that the fair market value of the property is greater than
109 the net book cost.

110

111 **Q. WHAT IS THE PROPOSED TRANSFER PRICE?**

112 A. As previously discussed, the applicable valuation standard is fair market value which is
113 the proposed transfer price as shown on Schedule E, Column (n) Transfer Price.

114

115 **Q. WILL THE TRANSFER OF THIS REAL ESTATE IMPACT SBC ILLINOIS'**
116 **RATE BASE?**

117 A. Yes. SBC Illinois proposes to credit the Depreciation Reserve account for Buildings,
118 Account 3100.10X for \$553,962. SBC Illinois will also realize a gain on the transfer of
119 land, in Account 7100, of \$4,641,874, as a credit to expense. A copy of the proposed
120 journal is attached as Schedule F.

121

122 **Q. WILL THE GAIN ON THE TRANSFER BE RECOGNIZED IN THE**
123 **DETERMINATION OF NET INCOME?**

124 A. Yes. See Schedule F.

125

126 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

127 A. Yes, it does.

128

129 **SCHEDULES**

130 A. Agreement of Transfer

131

132 B. Plat of Survey

133

134 C. Appraisal dated September 4, 2003, reevaluated August 12, 2004

135

136 D. Sales Brochure

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138 E. Fair Market Value comparison to Net Book Value

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140 F. Proposed SBC Illinois "Journal Entry"