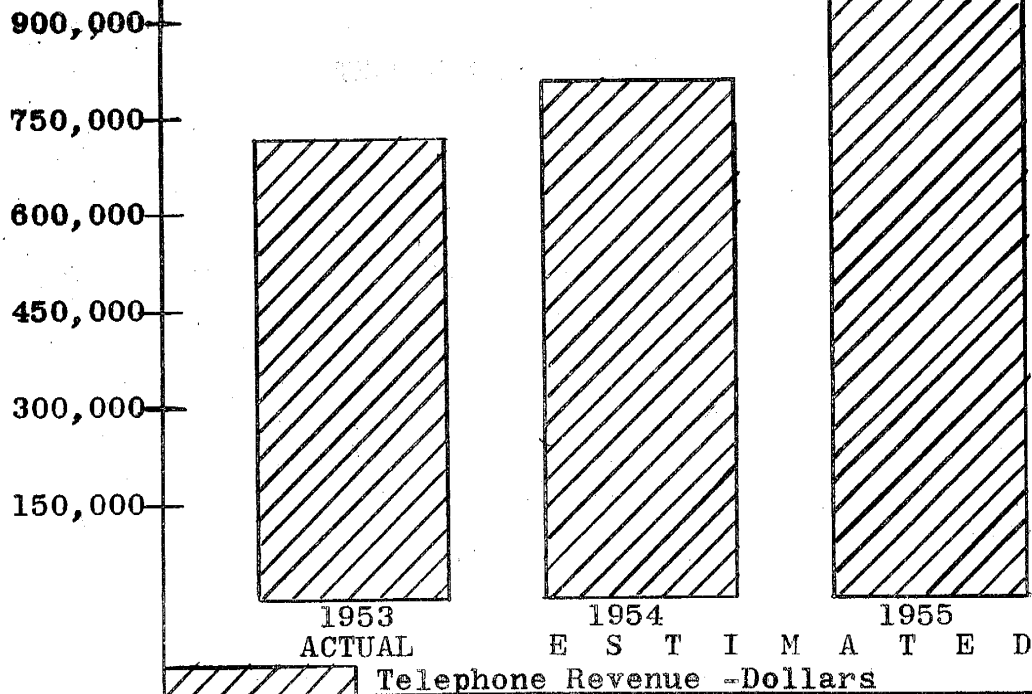


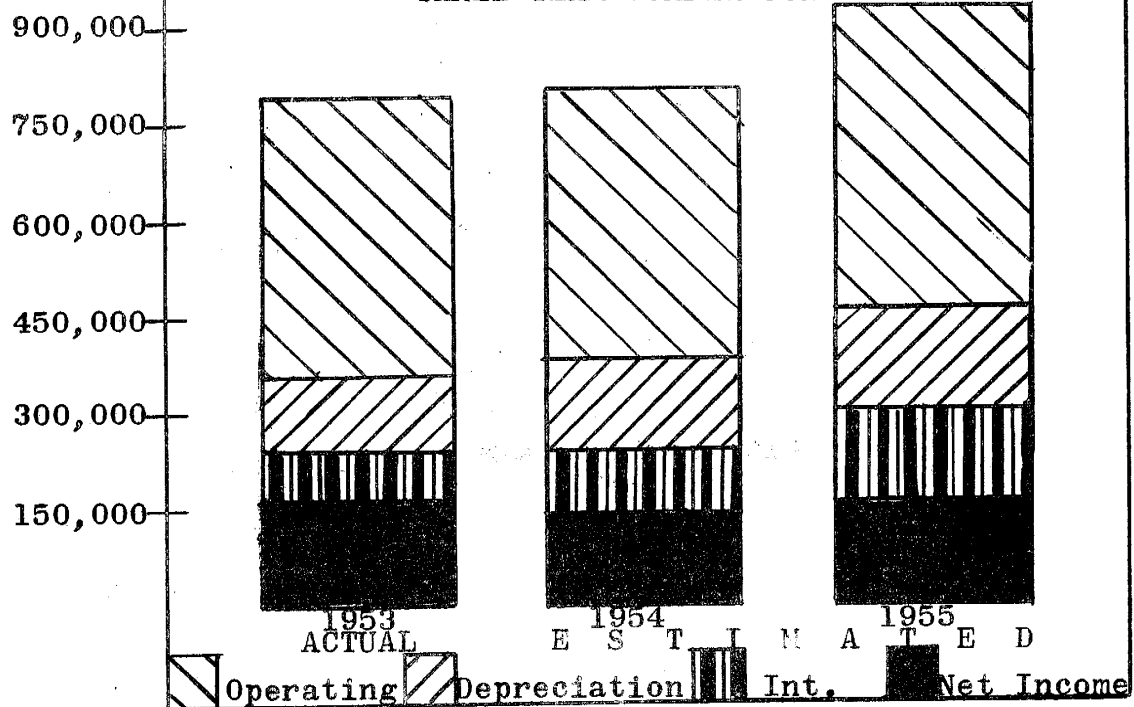
TELEPHONE UTILITY FUND BUDGET

**City of Anchorage
1955**

TELEPHONE UTILITY REVENUES
THREE YEAR COMPARISON



TELEPHONE UTILITY REVENUE DISTRIBUTION
THREE YEAR COMPARISON



1955 BUDGET
TELEPHONE UTILITY FUND

SUMMARY OF REVENUES

<u>Code</u>		<u>Estimated 1954</u>	<u>Estimated 1955</u>
	<u>Operating Revenues</u>		
T 500	Subscriber Station Revenue	\$ 690,003	\$ 806,552
T 501	Public Telephone Revenue	13,217	15,300
T 506	Other Local Service Revenue	20,345	21,900
T 510	Message Toll Revenue	38,337	41,969
T 523	Directory Advertising & Sales	4,503	- -
T 526	Other Operating Revenue	<u>39,944</u>	<u>48,125</u>
	Total Operating Revenue	\$ 806,349	\$ 933,846
	<u>Non-Operating Revenue</u>		
	Depreciation	139,002	162,354
	1953 Cash Balance	<u>54,353</u>	<u>- -</u>
	Total Non-Operating Rev.	\$ 193,355	\$ 162,354
	Total Operating and Non-Operating Revenues.....	\$ 999,704	\$1,096,200

EXPLANATION OF TELEPHONE UTILITY REVENUE ESTIMATES:

The telephone revenues for 1955 will be greatly affected by the construction program made possible through the authorization to expand the telephone plant into the suburban and rural areas situated within a radius of 5.8 miles of the office building. These expansion construction projects are being paid for out of bond monies and, as the plant becomes available in new areas, additional telephone customers will be served thereby immediately affecting the operational revenues of the Telephone Department.

Subscriber Station Revenues:

It is estimated that approximately 86% of the operating revenue will be derived from subscriber station sources. In making the estimate for 1955, consideration has been given to the construction program that is now underway within the city limits and the rural construction program that will be getting underway around the first of the year. At the beginning of 1955, it is expected that the system will have 10,100 working trunks and stations. According to present service requests and expected requests for service, as new plant installations are made, net increases in services will be as follows:

January - 60	May - 100	September - 300
February - 60	June - 200	October - 270
March - 80	July - 350	November - 250
April - 80	August - 350	December - 150

Total increase for the year is expected to be 2,250 or a total of 12,350 working stations by the end of 1955. Of this increased number 1,150 will be out-of-City stations.

In the calculation of revenues for the Telephone Department there has been no adjustment for rate increase inside the city limits. On January 1 it is anticipated that the rate differential between City and out-of-City telephones of approximately 85¢ per month will go into effect as an interim rate adjustment to follow the policy indicated by the Council prior to the bond election on October 5th.

Public Telephone Revenues:

The public pay telephone stations are now operating on a 10¢ toll and the revenue estimate is based on 70 stations in service and possibly the installation of 15 more during the 1955 year.

Other Local Service Revenues:

This revenue source represents telephone charges to the various City departments for telephones and other types of service. Approximately 10% of this revenue is for the control of the Civil Defense warning system.

Message Toll Revenues:

The interconnection fees which the City receives from the Alaska Communications System has been averaging approxi-

mately \$3,200 per month. As the number of telephones increase, this source of revenue should show a corresponding increase. There is also the possibility of a new contract with the ACS which will have a direct effect upon the revenue estimate.

Directory Advertising and Sales:

The Council policy adopted in 1954 prohibits the City from obtaining revenue from this source. This means that the cost of preparing the directory is now absorbed in the telephone rate schedule and will be a consideration by the telephone rate engineer.

Other Operating Revenues:

The major source of other operating revenues is represented in the new installation charges. Any collections of penalty and interest on delinquent accounts is also included in this revenue source, as well as interest on time deposits or bond fund monies during the course of construction.

Depreciation Reserve:

Depreciation reserve is an operating expense of the Telephone Department to be used in replacement of plant equipment when needed. During periods of rapid expansion, rather than create a cash reserve, the money is shown as budgeted revenue and spent for plant expansion; thereby augmenting the bond funds that the City has to borrow for plant expansion. As the plant increases in size and value, the amount for depreciation will increase proportionately to always be sufficient to replace worn-out equipment.

Cash Balance:

The 1953 program did not meet the schedule that was originally intended; therefore, a cash balance was available at the beginning of the 1954 fiscal year. The expansion program for 1954 is up to schedule, and it is not believed that there will be any substantial amount of funds available at the close of this year. Therefore, no cash balance is indicated in the revenues as available for 1955. Any amount of cash that may be available, will be placed in a cash reserve for appropriation in 1955 at a later time.

TELEPHONE UTILITY FUND
1955 BUDGET

EXPENDITURE SUMMARY

<u>Expenditure Classification</u>	<u>Estimated 1954</u>	<u>Estimated 1955</u>
Maintenance Expense	\$ 146,390	\$ 167,002
Depreciation Expense	139,002	162,354
Traffic Expense	60,262	64,606
Commercial Expense	38,093	43,132
General Office Salaries & Expense	80,816	83,520
Insurance and Other Operating Expense	31,083	33,522
Clearing Accounts	14,773	19,439
Other Expenses	350,283	474,430
Plant Construction	<u>139,002</u>	<u>48,195</u>
Grand Total Expenditures.....	\$ 999,704	\$1,096,200

TELEPHONE UTILITY FUND BUDGET

<u>Code</u>		<u>Estimated 1954</u>	<u>Estimated 1955</u>
<u>MAINTENANCE EXPENSE</u>			
T 602.1	Repairs of Pole Lines	\$ 7,644	\$ 6,166
T 602.2	Repairs of Aerial Cable	14,537	17,760
T 602.3	Repairs of Underground Cable....	2,060	2,602
T 602.4	Repairs to Buried Cable	605	859
T 602.6	Repairs of Aerial Wire	7,007	5,320
T 602.7	Repairs to Underground Conduit..	100	342
T 603	Test Desk Work	13,846	16,706
T 604	Repairs of Central Office Equipment..	28,425	35,544
T 605	Repairs of Station Equip.	63,923	69,956
T 606	Repairs of Buildings and Grounds....	2,210	2,480
T 607	Station Removals and Changes....	<u>6,033</u>	<u>9,267</u>
	Total Maintenance Expense	\$ 146,390	\$ 167,002
<u>DEPRECIATION EXPENSE</u>			
T 608	Depreciation Charges.....	\$ 139,002	\$ 162,354
<u>TRAFFIC EXPENSE</u>			
T 624	Operators' Wages	59,332	63,886
T 629	C.O. Stationary & Printing	50	720
T 633	Other Traffic Expense	<u>880</u>	<u>-</u>
	Total Traffic Expense....	\$ 60,262	\$ 64,606
<u>COMMERCIAL EXPENSE</u>			
T 642	Advertising	194	180
T 645	Local Commercial Operations	32,762	37,620
T 649	Directory Expense	<u>5,137</u>	<u>5,332</u>
	Total Commercial Expense.	\$ 38,093	\$ 43,132

<u>Code</u>		<u>Estimated 1954</u>	<u>Estimated 1955</u>
<u>GENERAL OFFICE SALARIES & EXPENSES</u>			
T 661	Executive Department	\$ 11,503	\$ 12,120
T 662	Accounting Department	<u>69,313</u>	<u>71,400</u>
	Total General Office Salaries and Expenses.	\$ 80,816	\$ 83,520
<u>INSURANCE & OTHER OPERATING EXPENSES</u>			
T 665	Uncollectible Expense	-	2,335
T 668	Insurance	15,500	16,850
T 671	Operating Rents	6,000	3,937
T 709	Approved Nat'l Guard Leave	248	-
T 675	Other Operating Expenses	<u>9,335</u>	<u>10,400</u>
	Total Insurance & Other Operating Expenses...	\$ 31,083	\$ 33,522
<u>CLEARING ACCOUNTS</u>			
T 702	Vehicle & Other Work Equipment Expense.	3,187	5,962
T 704	Supply Expense	3,000	6,194
T 705	Engineering Expense	2,288	-
T 706	Plant Supervision Expense	1,577	2,852
T 707	House Service Expense	<u>4,721</u>	<u>4,431</u>
	Total Clearing Accounts.....	\$ 14,773	\$ 19,439
<u>OTHER EXPENSES</u>			
	Operating Taxes(Payment to General Fund in Lieu of Taxes)	51,900	58,572
	Contribution to General Fund	33,008	35,000
	Interest on Bonded Debt	99,375	144,858
	Bond Retirement	160,000	205,000
	Bond Redemption Reserve	<u>6,000</u>	<u>31,000</u>
	Total Fixed Charges.....	\$ 350,283	\$474,430
<u>PLANT UNDER CONSTRUCTION</u>			
	Construction Work in Progress	<u>139,002</u>	<u>48,195</u>
TOTAL 1954-1955 BUDGET.....		\$ 999,704	\$1,096,200

Comparative Statement of Income & Expense:

	<u>Actual 1953</u>	<u>Estimated 1954</u>	<u>Estimated 1955</u>
Operating Revenues.....	\$718,355	\$ 806,349	\$ 933,846
Less:			
Operating Expenditures.	358,270	423,317	469,793
Depreciation.....	<u>123,566</u>	<u>139,002</u>	<u>162,354</u>
Net Operating Income.....	236,519	244,030	301,699
Less: Interest Expense.....	<u>73,031</u>	<u>99,375</u>	<u>144,858</u>
Net Income.....	\$163,488	\$ 144,655	\$ 156,841
<u>Appropriations of Net Income</u>			
Transfer to Gen. Fund	30,225	33,008	35,000
City Equity Increase	78,910	111,647	121,841
Unappropriated Surplus	<u>54,353</u>	<u>- -</u>	<u>- -</u>
Totals.....	\$163,488	\$ 144,655	\$ 156,841

1955 WORK PROGRAM - TELEPHONE UTILITY

The 1955 work program is greatly increased because of the expansion that has taken place during 1954, and the anticipated expansion to take place in 1955. For example, in 1954 over 60,000 feet of lead covered cable was installed. This additional plant will automatically mean additional maintenance and operating expenses. As the new customers come on the line, the expense of maintaining service connections, installation work, telephone directory expense, other commercial operations, and accounting all increase as the number of customers increase. The other non-operating expenses, including retirement of debt and interest charges, are also affected by the expansion program. The increases presented in the expenditure budgets are to be expected just as increases in revenues are to be expected.

The telephone accounting follows the uniform system of accounts as established by the Federal Communications Commission. Each individual expense is broken down in the detailed budget estimates as to cost of labor and materials, but for the sake of conserving space and showing a comparison between 1954 and 1955, these figures have been consolidated into totals for budget presentation.

into totals for budget presentation.

"Maintenance Expenses" are described in detail by the various code names. As the plant expands and the number of customers increase, the estimated expenses, as submitted, reflect the increased maintenance expense that will be involved. The outside plant, including buried cable, underground conduit, and aerial wire, is kept under a constant program of inspection-testing to locate and correct trouble faults. Some of the expense is provided for contingency of damage which may be caused by natural causes, accidental damage, or malicious mischief. Rights of way are kept clear of vegetation, and tree limbs. Pole lines must be properly guyed, unsafe poles replaced, and routine checks and maintenance of cable lashings, cable sag, suspension strand tension, and cable terminal facings are all a part of this maintenance expense. Preventative maintenance must be followed as well as repair to any damage that occurs.

Test desk work includes checks on complaints, reports of trouble from subscribers. Testing from the desk board determines the nature and location of trouble, and repairmen are routed to the trouble location. New connections, installations and moves all must be cleared through the test desk. All repairs of cable changes in cross connection of lines and any other factor pertaining to maintenance of physical cable pairs or lines are accomplished through this medium. A six day week coverage has been provided for in the union contract.

Central office maintenance is now covering 5,000 lines of central office switching equipment, as compared with 4,000 lines in 1954. A six day week coverage has also been provided for this function.

Repairs to station equipment include the telephone instruments, switchboard, PBX stations and other subscriber apparatus. The repair work and relocation work to any of this equipment is charged to the station equipment account. There will be an average of 1,100 more telephone stations and eight more PBX stations to be maintained during 1955. A six day week coverage is also provided for this operation, and because of the increase in activity, at least 1/2 man-day has been added to this function.

Repairs to the building include maintenance of furnace and boiler, maintenance of air conditioning unit and painting of office spaces.

Station removals and changes are abnormally high in the Anchorage area, numbering approximately 200 per month. This account includes the labor and material for one full-time man.

Depreciation charges, as explained under revenues, are a recognized operating expense and are used for capital outlay work of the system or for the payment of long-term bond obligations. Telephone revenues should be sufficient to utilize all of the depreciation reserve for plant expansion and replacement, or depositing in a cash reserve for future plant replacement. (See explanation of plant under construction).

Traffic expense consists of the telephone operators' function which must be provided 24 hours each day, 365 days per year. It includes such service as information, intercepts and dial assistance.

Commercial expense includes employees engaged in preparing, changing and handling contracts on service orders, and handling detailed commercial problems with customers, collecting pay station revenues, and maintaining records of customers' accounts. The cost of preparing the directory and maintaining an up-to-the-minute service of telephone number changes, deletions and additions, are also included under commercial expense.

General office expense represents primarily the administrative costs and the accounting and collection costs of the City Clerk's and Comptroller's offices for billing, collecting, and maintaining the general account of the telephone fund.

Insurance and other operating expenses include workmen's compensation, fire insurance on the telephone exchange building, and rental costs for pole attachment privileges in accordance with Joint Pole Use agreements with Chugach Electric Association and Inlet Power and Light. Other operating expenses include social security and \$3,500 for a rate study to be undertaken in 1955. An item for uncollectible accounts has also been provided representing 1/4 of 1% of station and message toll revenues.

Clearing accounts are expenses common to operations and capital construction alike. They are consolidated and periodically spread to construction work orders and functional accounts. The total clearing account expenses are estimated

at \$77,757, of which \$58,318 is chargeable to bond funds and the balance, \$19,489, is chargeable to current operating expenses.

Other expenses include payments in lieu of taxes, placing the municipally owned utility on the same expense basis as a private utility, and the contribution to the General Fund, equivalent to a cash dividend to the taxpayers for equity in the system. This rate of return is still lower than it should be insofar as cash is concerned, but the equity in the system is increasing annually at a very rapid rate. The interest on bonded debt shows an almost 50% increase for the coming year. The bond retirement has increased in the same amount as the interest expense, and there should always be considerably more money paid in bond retirement than for bond interest. With high interest rates, this will be more difficult to accomplish as we issue more bonds, unless rates are adjusted to provide sufficient net operating income to meet the heavier bond payments. The bond redemption reserve has been increased \$25,000 to provide for the 1955 bond issues which are anticipated to come due early in 1956. The reserve provides cash for payment and also presents a true picture of the cash position for 1955 as well as satisfies the requirements of the proposed revenue bond ordinance.

Plant under construction should equal the reserve for depreciation expense of \$162,354. Because of the unusually heavy demand to meet principal and interest payments during the first year of construction, it is necessary to divert \$114,000 of the reserve for depreciation to assist in paying off the \$205,000 of the bond principal requirements for 1955. If revenue estimates go beyond that which is anticipated, revenues should be made available to the plant under construction account for 1955 and offset the theoretical deficit in the plant under construction account.

Comparative Statement of Income and Expense:

Careful study should be given to the summary statement found at the end of the expenditure budget. The net operating income shows that the operations are being kept on a favorable basis with revenue increases, but the net income figures, after deducting interest expenses, show a decline over the 1953 actual income. This situation will always occur during periods of rapid expansion when bond fund monies are being utilized during the year for construction purposes and very little income benefit is derived from such capital expenditures during the first year. In following years, as the potential customers become actual customers, this net income picture improves.

Therefore, the installations in 1954 would not show a favorable net income until 1955; by the same token the installations in 1955 will have little bearing on the net income until 1956. Interest costs may in some instances actually show a net loss for that portion of the operations for the first year. The appropriations of the net income show an increase in the equity account each year, but it is desirable that the City's equity should increase the same amount as is paid off each year in bond retirements and bond reserves. The deficiency in equity has been explained above in the depreciation expense and plant under construction explanation. The contribution to the General Fund should actually be approximately \$75,000 rather than \$35,000 for 1955. The deficiency in both increased equity account and contribution to the general fund account point up to the necessity for increased telephone rates to carry their share of governmental operation, thereby permitting the Electrical Department to reduce its contribution load a corresponding amount. The telephone rate analysis will give the answers to the financial problems.