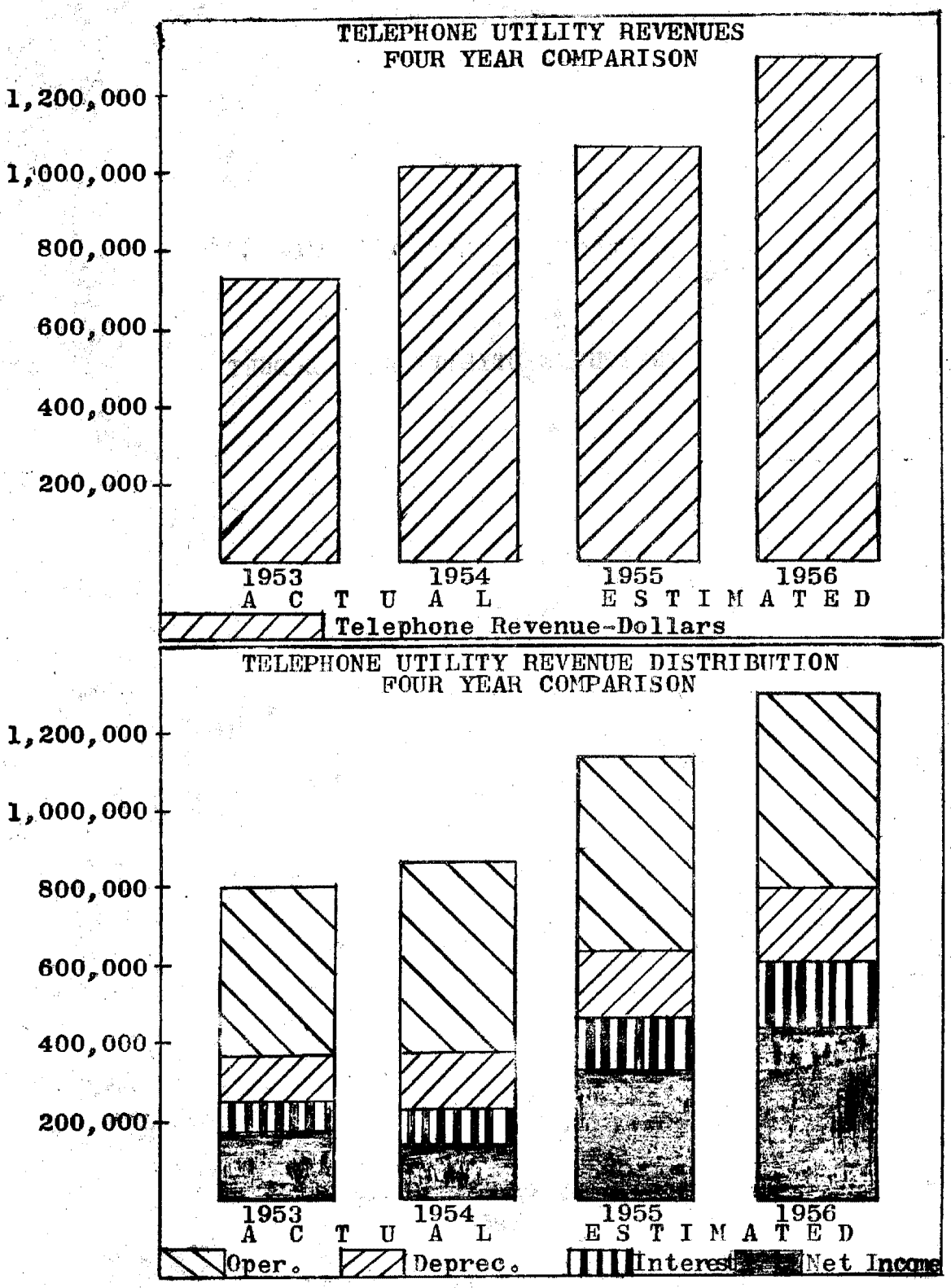
TELEPHONE UTILITY FUND BUDGET

City of Anchorage
1956


TELEPHONE UTILITY REVENUES
FOUR YEAR COMPARISON
1,200,000
1,000,000
800,000
600,000
400,000
200,000
1953
1954
1955
1956
A C T U A L
E S T I M A T E D
Telephone Revenue-Dollars
TELEPHONE UTILITY REVENUE DISTRIBUTION
FOUR YEAR COMPARISON
1,200,000
1,000,000
800,000
600,000
400,000
200,000
1953
1954
1955
1956
A C T U A L
E S T I M A T E D
Oper.
Deprec.
Interest
Net Income

1956 BUDGET
TELEPHONE UTILITY FUND

SUMMARY OF REVENUES

Code	Operating Revenues	Estimated 1955	Estimated 1956
T 500	Subscriber Station Revenue	$ 915,740	$ 1,136,541
T 501	Public Telephone Revenue	17,097	19,650
T506	Other Local Service Revenue	32,000	33,000
T 510	Message Toll Revenue	42,286	50,400
T 511	Telegram Revenue	5,048	6,500
T 526	Other Operating Revenue	49,028	52,336
	Total Operating Revenue	$1,061,208	$ 1,298,427
	Non-Operating Revenue		
	Depreciation Reserve	$ 165,244	$ 189,051
	Total Non-Operating Revenues	$ 165,244	$ 189,051
Total Budget Resources		$ 1,226,452	$ 1,487,478

EXPLANATION OF TELEPHONE UTILITY REVENUE ESTIMATES:

Operating revenues of the telephone utility are derived from six principal sources as follows: (1) Subscribers' Station Revenues, (2) Public Telephone Revenues, (3) Other Local Service Revenues, (4) Message Tolls, (5) Telegram Revenues, and (6) Other Operating Revenues. The major source is Subscribers' Station Revenues consisting of the flat rate local service revenues from business and residence subscribers' service including main stations, extension stations, intercom systems, manual and dial PBX switchboard systems, special key and convenience systems, miscellaneous items such as bells, horns, buzzers, visual signals, and other audible signal equipment, route measurement rental of cable pairs, and PBX trunks. Approximately 87.5% of he estimated 1956 gross operating revenues of the telephone utility are attributable to this revenue source. Based upon current performance experience, it is anticipated that 11,560 telephone stations of all classifications will be in service as of the end of the year 1955. It is approximately 4,500

new stations will have been installed in the new year during which time approximately 3,060 stations can be expected to disconnect, resulting in a net increase of 1,440 telephone stations for a grand total of 13,000 stations expected to be in service by the end of the year 1956. This estimated net station gain represents an approximate 12.5% increase in stations over the 1955 total.

Public Telephone Revenue is derived from pay station telephones which are installed in easily accessible locations throughout the business areas of the community for the convenience of the public. Some 60 pay station telephones are currently in service. It is expected that an additional 25 stations will be installed in out-of-city areas during the year 1956. Pay station service is restricted to the immediate local service area at the rate of 10¢ per call. Public telephone revenue accounts for approximately 1.5% of the estimated gross telephone operating revenues.

Other Local Service Revenue comprises the estimated receipts from all classifications of telephone service rendered to other City Departments and for rental of telephone facilities used in connection with the installation and operation of the Greater Anchorage Civil Defense Air Raid Warning network. Approximately 2.5% of the total gross operating revenues of the utility is derived from this source.

Message Toll Revenue represents the division of tolls between the City of Anchorage and the Alaska Communications System for long distance telephone service originating paid from or terminating collect at stations of the City's subscribers for which the City assumes the responsibility of billing and collecting the full charges including Federal Excise Tax for the Federal Government. An Interconnection Agreement is entered into annually between the City and the Alaska Communication System, providing for long distance service access to the long lines carrier and for local service access from the long lines carrier through the City's telephone central office equipment. It has been the experience annually that message toll revenue realized by the City continues to increase as local exchange station gains are realized. The revenue per long distance call derived by the City is contractually dependent on the varying average toll per message for any given month applied to a predetermined payout formula. Message toll revenue represents approximately 3.9% of the estimated 1956 gross operating revenues of the utility.

Telegram Revenue reflects the City's share of telegram tolls originating paid from or terminating collect at subscribers' stations of the City telephone system for which the municipality assumes the responsibility of billing and collecting from its local subscribers for the Federal Government.

This service offering is provided by agreement between the City and the Alaska Communication System under which the City derives as revenue 10% of the total telegram charges collected, not including Federal Excise Tax. Telegram revenue represents approximately 0.5% of the utility's estimated 1956 gross operating revenues.

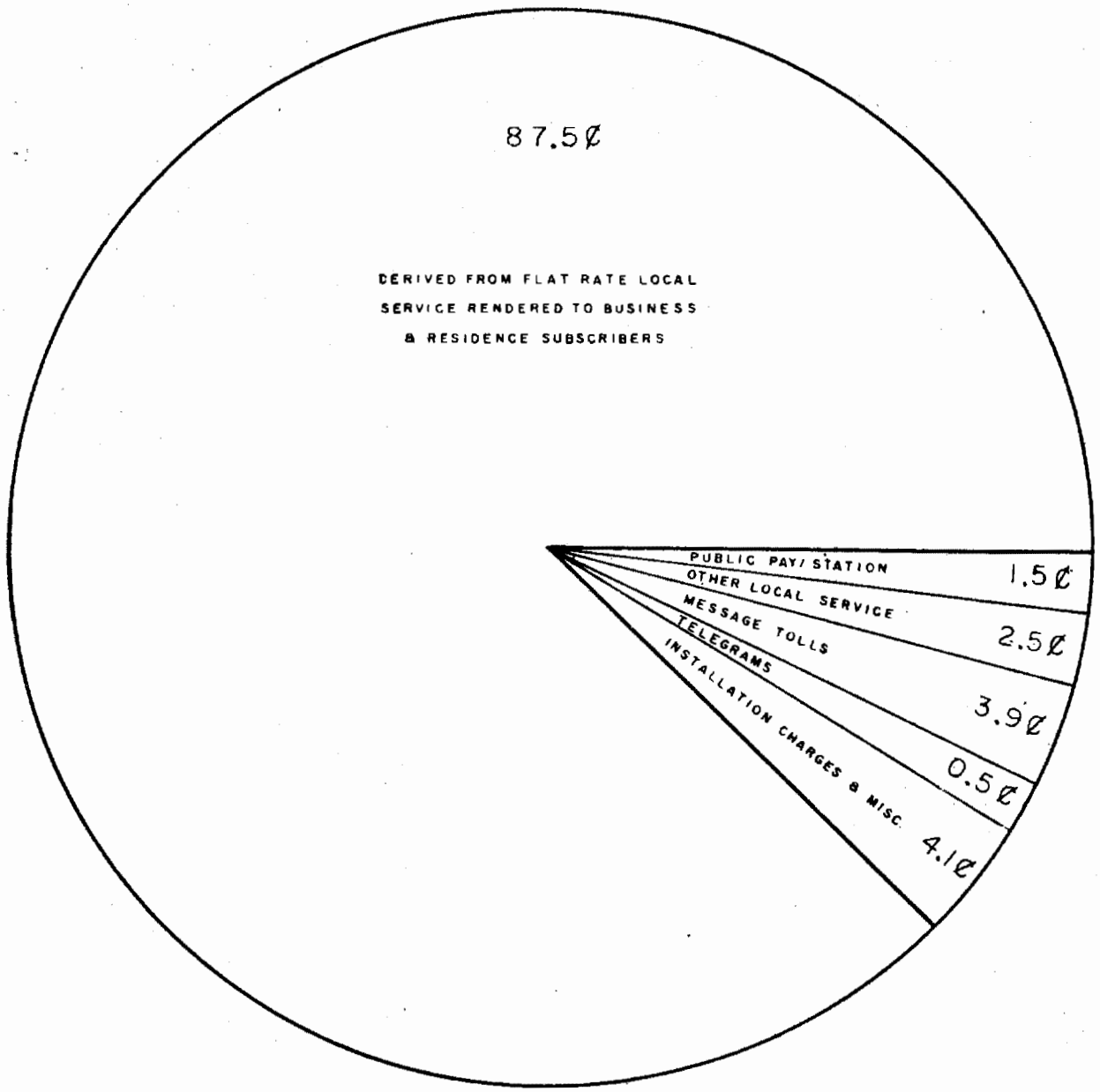
The sixth operating revenue source is designated as Other Operating Revenue and consists of equipment installation and service charges, overhead increments included in custom job order charges to recipient subscribers, interest revenue from bank deposits, and delinquent customer penalties. Approximately 4.1% of the estimated 1956 gross operating revenues is derived from this source.

The telephone utility total gross operating revenue estimate for the calendar year 1956 reflects an estimated net increase of 22.35% over the anticipated total for the preceding year. This increase is attributable to a substantial net gain in telephone stations in service expected to be accomplished during the year 1956, and to the establishment in May 1955, following completion by expert rate engineers of a comprehensive rate analysis, of an adequate schedule of rates for the utility through the institution of a general rate increase for all service classifications.

Depreciation Reserve of the utility is budgeted as a non-operating revenue resource and, as the sole source of current income available for capitalization, will be used for replacement of capitalized plant components and for plant improvements. The estimated 1956 plant depreciation reserve represents an approximate 14.4% increase over the 1955 appropriation.

TELEPHONE UTILITY

OPERATING REVENUE DOLLAR RESOURCES — 1956



TELEPHONE UTILITY FUND
1956 BUDGET

EXPENDITURE SUMMARY

Expenditure Classification	Estimated 1955	Estimated 1956
Maintenance Expense	$ 182,811	$ 205,600
Depreciation Expense	165,244	189,051
Traffic Expense	62,171	69,667
Commercial Expense	42,392	45,518
General Office Salaries & Expense	84,965	116,589
Insurance & Other Operating Expense	33,552	47,658
Clearing Accounts	19,439	19,565
Other Expenses	482,659	604,779
Plant Construction	153,219	189,051
Grand Total Expenditures.....	$ 1,226,452	$ 1,487,478

TELEPHONE UTILITY FUND BUDGET

Code		Estimated 1955	Estimated 1956
	MAINTENANCE EXPENSE		
T 602.1	Repairs of Pole Lines	$ 6,166	$ 5,637
T 602.2	Repairs of Aerial Cable	17,035	17,477
T 602.3	Repairs of Underground Cable	6,829	7,394
T 602.4	Repairs of Buried Cable	859	760
T 602.6	Repairs of Aerial Wire	3,865	3,776
T 602.7	Repairs of Underground Conduit	342	591
T 603	Test Desk Work	21,590	23,491
T 604	Repairs of Central Office Equipment	39,485	49,612
T 605	Repairs of Station Equipment	74,215	84,479
T 606	Repairs of Buildings & Grounds	2,480	2,000
T 607	Station Removals & Changes	9,945	10,383
	Total Maintenance Expense...	$ 182,811	$ 205,600
	DEPRECIATION EXPENSE		
T 608	Depreciation Charges.....	$ 165,244	$ 189,051
	TRAFFIC EXPENSE		
T 624	Operators' Wages	$ 62,036	$ 69,427
T 629	C. O. Stationary & Printing	85	240
T 633	Other Traffic Expense	50	- - - -
	Total Traffic Expense.....	$ 62,171	$ 69,667
	COMMERCIAL EXPENSE		
T 642	Advertising	$ 240	$ 270
T 645	Local Commercial Operations	36,870	38,840
T 649	Directory Expense	5,282	6,408
	Total Commercial Expense....	$ 42,392	$ 45,518
	GENERAL OFFICE SALARIES & EXPENSES		
T 661	Executive Department	$ 9,240	$ 15,589
T 662	Accounting and Collecting	75,725	96,000
T 664	Law Department	- - -	5,000
	Total General Office Salaries And Expenses.....	$ 84,965	$ 116,589

Code		Estimated 1955	Estimated 1956
	INSURANCE AND OTHER OPERATING EXPENSES		
T 665	Uncollectible Expense	$ 2,335	$ 2,948
T 668	Insurance	16,850	23,553
T 671	Operating Rents	4,967	13,978
T 709	Approved National Guard Leave	500	- - -
T 675	Other Operating Expense	8,900	7,179
	Total Insurance & Other Operating Expenses.....	$ 33,552	$ 47,658
	CLEARING ACCOUNTS		
T 702	Vehicle and Other Work Equipment Expense	$ 5,962	$ 4,402
T 704	Supply Expense	6,194	5,600
T 706	Plant Supervision Expense	2,852	4,763
T 707	House Service Expense	4,431	4,800
	Total Clearing Accounts.....	$ 19,439	$ 19,565
	OTHER EXPENSES		
	Contingent Reserve (Ordinance 1158)	$ - - - -	$ 17,000
	Payment to General Fund in Lieu of Taxes	58,572	67,629
	Contribution to Gen. Fund	35,000	75,000
	Interest on Bonded Debt	141,067	165,150
	Bond Retirement	205,000	250,000
	Bond Redemption	43,020	30,000
	Total Fixed Charges.....	$ 482,659	$ 604,779
	PLANT UNDER CONSTRUCTION		
	Construction Fund	$ 153,219	$ 189,051
	TOTAL 1955-1956 BUDGET...	$ 1,226,452	$ 1,487,478

Comparative Statement of Income and Expense:

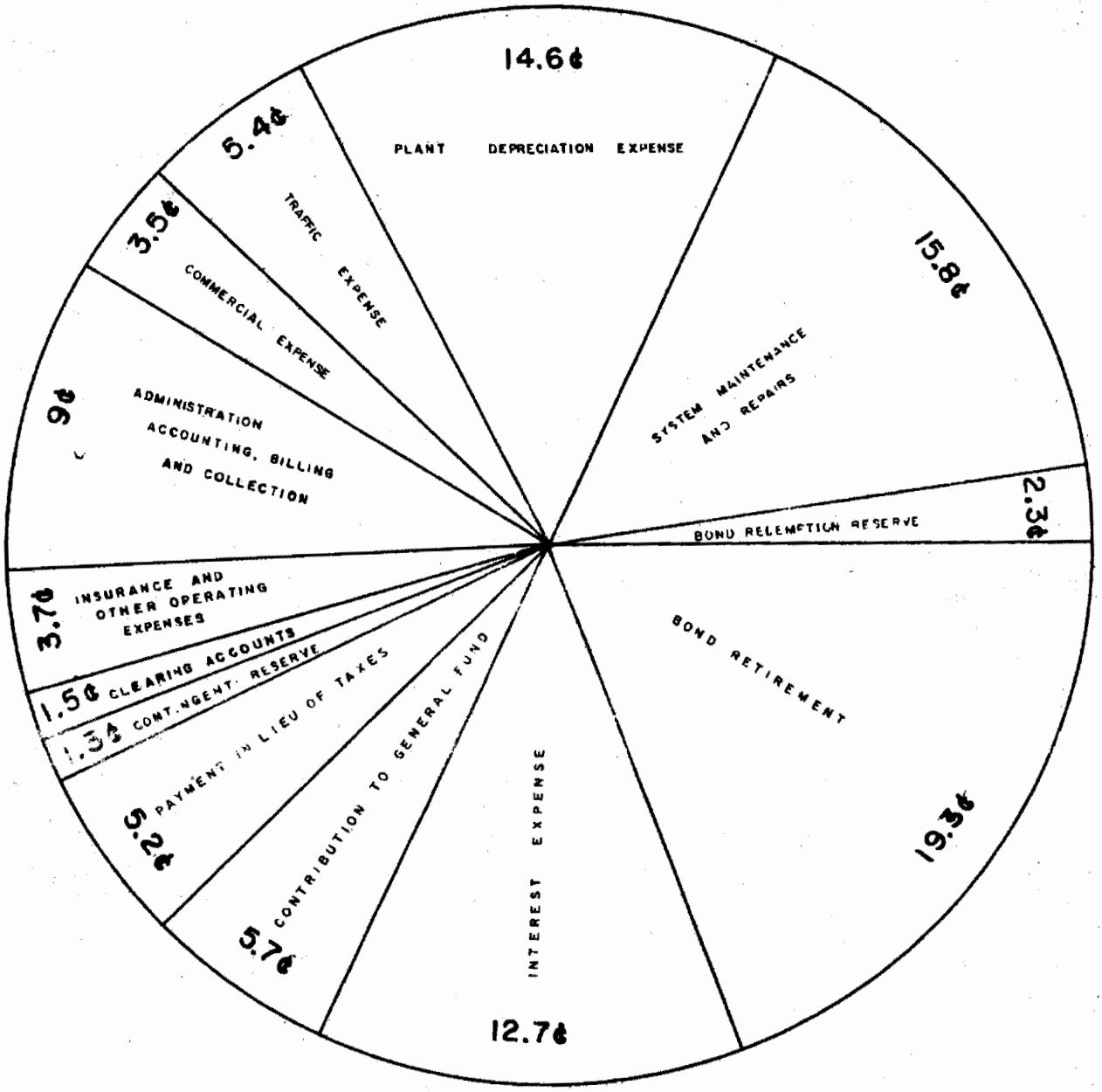
	Actual 1954	Estimated 1955	Estimated 1956
Operating Revenues	$ 816,288	$1,061,208	$1,298,427
Less:			
Operating Expenditures	371,864	425,330	504,597
Depreciation	150,782	165,244	189,051
Net Operating Income	293,642	470,634	604,779
Less: Interest Expense	98,492	141,067	165,150
Net Income	$ 195,150	$ 329,567	$ 439,629
Appropriations of Net Income:			
Transfers to General Fund	33,008	35,000	75,000
City Equity Increase	110,242	235,995	280,000
Payments in Lieu of Taxes	51,900	58,572	67,629
Contingent Reserve (Ordinance 1158)	------	------	17,000
Totals	$ 195,150	$ 329,567	$ 439,629
Income Available for Interest and Bond Retirement	$ 444,424	$ 635,878	$ 793,830
Total Requirement for Interest and Bond Retirement	$ 258,492	$ 346,067	$ 415,150
Ratio of Cash Available To Cash Required	1.719	1.8374	1.9121

1956 WORK PROGRAM - TELEPHONE UTILITY

The City of Anchorage Telephone Utility conforms with the regulations of and is classified as a Class A telephone Company under the uniform system of accounts as established by the Federal Communications Commission. In the preparation of the telephone utility budget, each expense account appropriation has been estimated in detail as to anticipated labor and material charges. Consolidated totals of all such estimated expenses for 1956 are reflected under each respective expenditure account for ready comparison with appropriations authorized in the 1955 budget.

TELEPHONE UTILITY

OPERATING REVENUE DOLLAR APPROPRIATIONS – 1956



Maintenance costs of the six major outside plant components are reflected in Account T602 and its related detail sub-accounts. Pole line repairs primarily involve inspecting, testing, and reporting on the condition of over 200 miles of pole line to determine the need for repairs or replacements; moving poles in connection with road and street changes; restoring condition of pole lines damaged by storms or other casualties; tightening guys, trimming trees, and cutting underbrush. Repairs of approximately 500,000 linear feet of aerial cable involve such functions as clearing defective cable pairs; transferring cable and cable terminals in connection with pole replacement; moving aerial cable in connection with road and street changes; and opening, testing, splicing, and other related work of transferring pairs in cable and transferring cable from one cable or stub to another cable or stub during the course of redistribution of cable plant. Repairs of nearly 40,000 feet of underground cable are essentially similar in nature to operations performed on aerial cable repairs but is confined to telephone cable installed in underground ducts and manholes. Repairs of approximately 5,000 feet of buried cable are in turn similar in every respect to maintenance functions performed in connection with underground cable with the exception that buried cable is a direct lay in the earth and does not benefit from the protection of enclosing ducts or manholes. Repairs of over 700,000 circuit feet of aerial wire are confined to such functions as moving the wire facilities in connection with road and street changes; restoring condition of aerial wire plant damage by storms or other casualties; testing for, locating, and clearing trouble; transferring aerial wire in connection with replacements of poles and cross arms; transposing or retransposing existing wire for the removal of electric interference; and cutting out or cutting in slack in aerial wire. Repairs of approximately 13,000 linear feet of underground conduit involves cleaning manholes and ducts; restoring condition of underground conduit plant damaged by casualties; and opening pavement when necessary and repaving in connection with repairs of underground cable and conduit.

Costs incurred by central office forces engaged in receiving and recording subscribers' trouble complaints; testing from test desk to determine the nature and location of plant failure; dispatching repair men; testing with repair men during the course of their repair work; and testing from the test desk in the course of station reconnections, installations, and rearrangements are chargeable to the expense account designated test desk work. This is one of the most important key maintenance positions and as such is scheduled for six days per week coverage.

Repairs of central office equipment include the total expense of plant department forces engaged in the maintenance and operation of 6,000 lines of dial central office switching facilities and all related equipment components such as control, alarm, cross-connection, protection, and the telephone power plant. Central office equipment capacity has been increased by 20% over the 1955 level through the installation of the seven thousand group dial equipment addition late during the preceding year to meet the requirements of the current telephone expansion program throughout the Greater Anchorage Area. Six days per week coverage on a 24 hour day basis has been scheduled for this vital maintenance function in the 1956 budgetary estimate. A total of 45,000,000 telephone calls are expected to be processed by the central office switching equipment during the year.

Repairs of station equipment involve functions such as testing, inspecting, and repairing of all subscribers' station apparatus, approximately 13,000 station installations (including inside wire), drop and block wires, and the maintenance of repair shop facilities to recondition and rehabilitate telephone instruments and other station equipment disconnected in the field. This account incurs all charges related to the repair and maintenance of an ever-increasing number of manual and dial PBX switchboard systems, key and convenience systems, all special installations of visual and audible control or signal systems, and other associated facilities. A corrective and, for the first time, a concerted preventative maintenance program will be provided for in the 1956 budget appropriation on a six day per week basis. An increased maintenance force is expected to be in a favorable position to offer all subscribers a progressively improved repair service response throughout the year 1956 in anticipation of the expected substantial net gain in stations and the additional repair work load that will thereby be created.

Costs of repairs to buildings and grounds have been estimated on the basis of recurring charges expected to be incurred in connection with the performance of periodic maintenance contracts for servicing the boiler, furnace, and air conditioning units located at the telephone building, and heating and plumbing units of the outside plant dispatching and repair quarters located in the City Shops area. Estimated costs of minor repairing and painting of building spaces occupied by central office and telephone engineering forces are also included in this expense account appropriation.

Estimated costs of station removals and changes include the expense of removing or disconnecting station equipment, rearrangement of station equipment when no resultant increase in plant value occurs, and changing line numbers or

station equipment as a result of district plant consolidation or redistribution projects.

The Depreciation Expense Estimate is an operating expense based on an estimated telephone plant value at the end of the year 1955 of $4,726,278 at an approximate average composite annual rate of 4%. This expense is funded in a reserve account and will be used for replacement of plant components and for plant expansion and improvements. Appropriation of the reserve fund is further explained in detail in the plant under construction account.

The expense of operators' wages and central office stationery and printing comprises the total estimated traffic expenses. A two position attendant type switchboard is manned twenty-four hours each day of the year to render such public convenience services as intercept and referrals, alphabetical and numberical information listing of subscribers and line numbers in use, dial assistance and information for remote long distance operators on incoming message toll traffic, receiving and recording subscribers' trouble complaints, dial assistance to subscribers requiring expeditious processing of emergency fire, police, or medical communications, and time service.

Commercial expense consists of the estimated costs of advertising, performing local commercial operations, and directory preparation. The advertising appropriation permits the publication of notices three intervals annually in local newspapers of forthcoming directory publication deadlines. Local commercial operations reflects the costs of the telephone business office forces engaged in the processing of all manner of subscriber service orders and contracts. It is estimated that approximately 14,000 such orders will be processed during the year. The costs of collection of public telephone pay station coins from 85 pay stations are also chargeable to this account. The costs of compilation of alphabetical telephone directory listings resulting in the scheduled publication of three editions during 1956 are charged to directory expense. Based on the preceding year's experience, an estimated 12,000 total changes will occur during the year affecting the three scheduled publications of the directory.

General office salaries and expenses consist of the administrative cost of managing the affairs of the utility, accounting and collection costs incurred by the comproller's and city clerk's offices for performance of billing and collecting functions, and for maintaining the general and special accounts of the various telephone utility funds. This utility is also, for the first time, sharing proportionately in the direct expense associated with the maintenance of the City's legal staff.

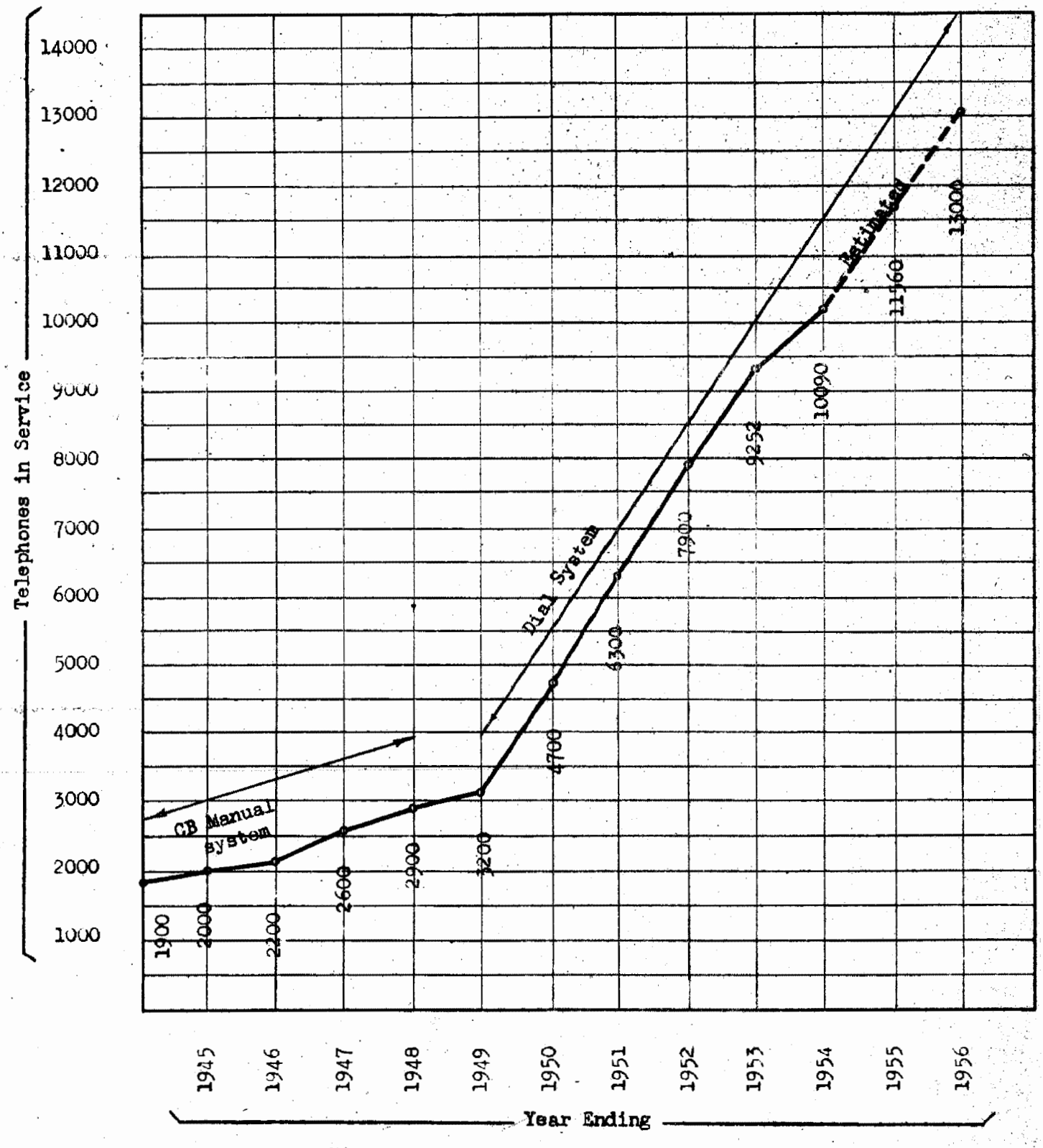
Insurance and other operating expenses consist of appropriations for uncollectible expense, insurance, operating rents, and other miscellaneous operating costs. Uncollectible expense has been estimated at one-fourth of 1% of the total subscribers' station, message toll, and telegram revenues. Insurance cost is the total estimated annual expense of workmen's compensation insurance, fire insurance on the telephone exchange building, and for business interruption insurance protection. Operating rents represent the estimated annual cost of wood pole attachment privilege for telephone plant facility contacts on approximately 3,500 poles owned by the Chugach Electric Association and for 2,925 poles owned by the Municipal Light and Power Department. This account also provides for the lease of cable pairs from other agencies and for right-of-way lease charges. Social Security costs, dues payable to the Alaska Telephone Association, and other miscellaneous unclassified operating charges are provided for by the account designated Other Operating Expenses.

Vehicle and other work equipment expense, supply expense, plant supervision expense, and house service expense are designated as clearing accounts. Clearing accounts are provided as a medium for the distribution of charges which affect more than one primary account and which cannot be appropriately allocated as they are incurred. Clearing account charges are proportionately spread at six month intervals to the affected primary expense accounts and to current capital improvement expenditures. The 1956 work program is expected to incur clearing account charges in the estimated total amount of $97,831 of which 80% will be charged to the Telephone Bond Fund construction expenditures and 20% to the budgeted 1956 telephone utility appropriations. Vehicle and other work equipment appropriation provides for the maintenance and repair of the truck fleet and for the purchase of small tools and work equipment having a short life. Supply expense includes the utility's proportionate share of central purchasing and warehousing costs. Plant supervision expense is confined to costs of general supervision of personnel activities not appropriately chargeable in full to specific primary accounts. House service expense includes the direct cost of electricity, telephone, water, fuel, supplies, and janitorial services for the spaces occupied by telephone department forces and facilities.

Other expenses consist of fixed charges such as bond maturities, interest on bond indebtedness, bond redemption reserve, payment to the General Fund in lieu of taxes, contribution to the Municipal General Fund from the net income of the utility, and a contingent reserve to satisfy a covenant of the 1955 telephone revenue bond ordinance. Bond retirement and redemption reserve payments in 1956 will increase the City's equity in the telephone plant by approximately 20%

and will effect a reduction in current funded debt of the utility at a most favorable rate of approximately 6.24%. Of the total appropriation for bond redemption reserve, 80% is placed in reserve for redemption of the 1955 telephone revenue bond issue, and the balance represents a payment into the reserve of $500 per month as required by the 1948 General Obligation telephone bond ordinance. Interest expense on the long term debt has been held to an increase of approximately 17% over the 1955 interest cost although the utility's funded debt was increased during the year 1955 by 55.35% as the result of the sale of $1,500,000 in authorized telephone revenue bonds to finance the expansion of plant facilities to serve potential subscribers situated in out-of-city areas. Analysis of this favorable trend indicates that the City's recent experience in obtaining lower cost capital and the adoption of a sound long term debt service policy have effected beneficial results. Payment to the General Fund in lieu of taxes is equivalent to private industry's operating taxes payable to the municipal government based on a depreciated plant value of the utility on July 1, 1955 of $3,381,458.75 and predicated on a 20 mill assessment levy. The appropriation designated contribution to the municipal General Fund is an approximate 4.48% rate of return to the City on its equity in the system compared to the 1955 dividend of 2.5%. Continued favorable net station gains and revenue producing plant fill of the telephone system facilities, as they are extended and activated throughout the local exchange service area under the current system expansion program, are expected to progressively improve the financial soundness of the utility in succeeding years, provided that the adequacy of rates and efficiency of operation are maintained. Under such favorable operating conditions, net income should be expected to develop during succeeding years as a result of current plant additions, sufficiently to permit appropriations effecting a moderate increase in the rate of return to the City on its invested capital. However, it should be expected that frequent recurring economic development cycles of districts within the utility service area may demand and necessitate major plant additions and service improvements, thereby requiring additional financing and possibly modifying the City's net income position as well as the rate of return on its invested capital. The contingent reserve has been reflected in this budget to satisfy the requirements of the 1955 telephone revenue bond ordinance in which the City covenants to maintain a minimum ratio of cash available to cash required for payment of bond retirement and interest cost of the long term debt. The minimum ratio has been established by ordinance at 1.9. A small portion of the contingent reserve has been included in the budget to assure the availability of funds for payment of interest charges for approximately six months in 1956 on the remaining balance of $275,000 under the 1953 G. O. telephone

CITY OF ANCHORAGE TELEPHONE UTILITY



History of Telephone Station Growth 1944-1956

bond authorization scheduled to be sold for additional plant improvements within the corporate boundaries of the City.

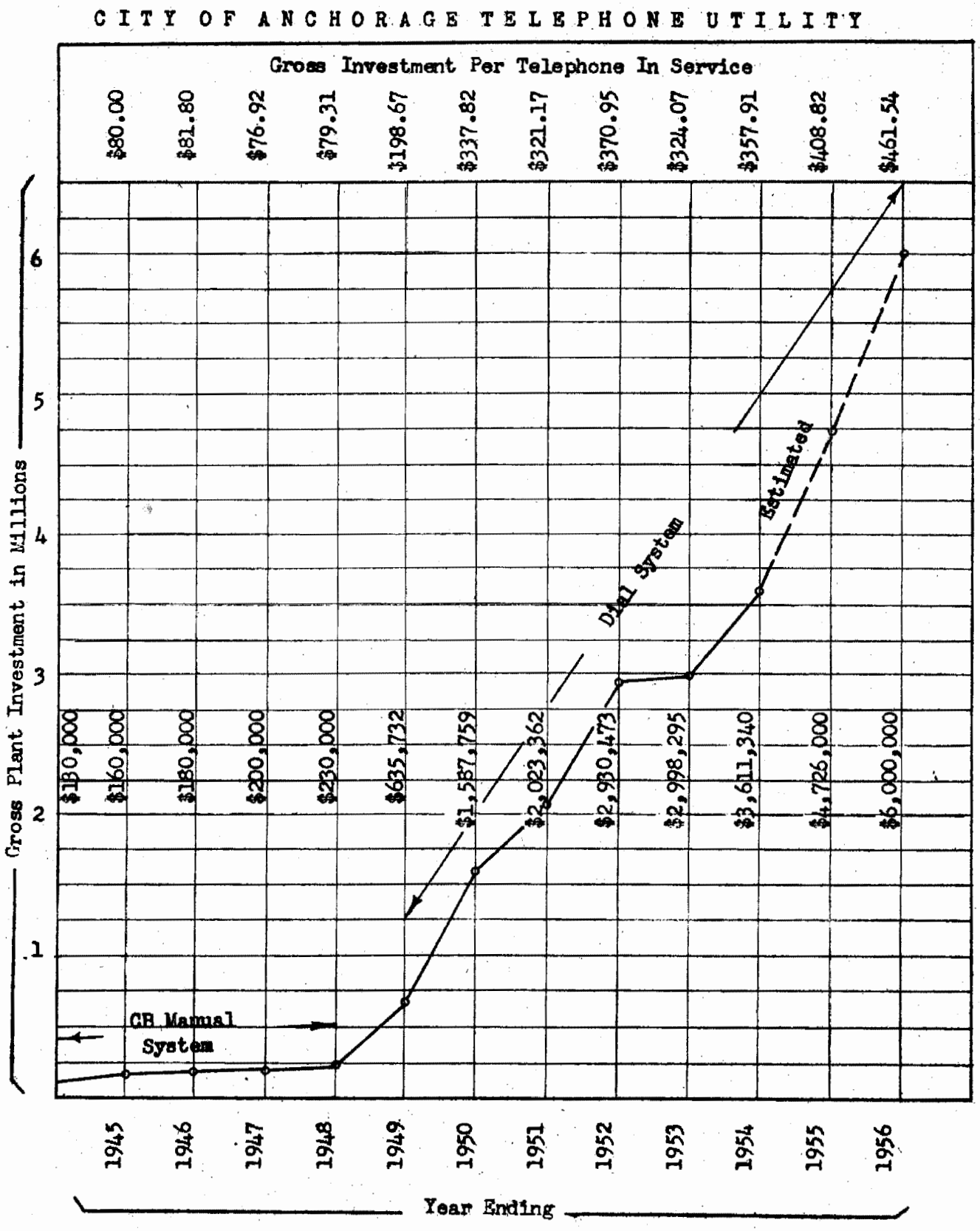
The depreciation reserve equals in dollar value the total appropriation for plant under construction scheduled for 1956. The largest outlay under the construction account is for drop and block wiring, and for subscribers' station installations. The combined total estimated expenditures of these two plant accounts, including a 15% factor for clearing accounts, is approximately $130,000. The total capital outlay under the two described plant accounts represents an approximate average cost of $29 per telephone station installation based on the scheduled 4,500 installations expected to be accomplished during the year. Of this average unit cost, a portion is recovered as a direct revenue by the City immediately following the telephone installation by way of a nominal non-recurring installation charge, and the balance is amortized through revenues received from the monthly recurring charges billed to subscribers for telephone service in accordance with prevailing industry rate practices. Improvements to buildings and grounds consisting of extensive central office equipment room lighting additions, wiring and partitioning of engineering office spaces, air conditioning and heating improvements to rectify presently inadequate dust prevention facilities and ventilating deficiencies in the telephone power plant spaces and landscaping improvements to the grounds surrounding the telephone exchange building are expected to cost approximately $7,500. Needed capital purchases of major tools, work equipment, and test sets for outside plant construction and maintenance forces, and for central office use is expected to cost approximately $3,500. Purchase of office furniture and other equipment to maintain the operational needs of the expanding utility includes such items as large map files, line number and account card files for controlling and recording an increasing number of telephone stations in service, additional file cabinets, lockers, desks, chairs, storage cabinets, typewriters, and other related items which are expected to cost approximately $4,700. The trade-in of 4 trucks of 5 year vintage or more and the purchase of 3 additional trucks equipped with installers' type utility bodies to supplement the expanding needs of the installation and maintenance fleet will cost approximately $21,000. Total expenditures for the foregoing described purchases, together with the estimated applicable clearing account factors, leaves a balance in the over-all appropriation of $16,846, which is earmarked principally for the estimated labor costs expected to be incurred in connection with the retirement in 1956 of the entire original open wire plant of Mountain View, Fairview, the densely populated areas of Spenard, and other locations where permanent feeder distribution cable plant is being constructed to replace the inadequate open wire facilities.

BOND FUND CONSTRUCTION:

The present telephone plant facility expansion program both within the City limits and in out-of-city areas is expected to continue throughout the new year at a progressively accelerating rate. The City's telephone engineering consultant completed the master telephone plant layout plan under contract, following eight months of intensive field engineering effort, and submitted the final document together with 75 tracings comprising the recommended master plan layout of the outside telephone plant to the City during August 1955. Following the presentation to the City Council for approval of various segments of the master plan, detailed design and construction was commenced of permanent distribution cable plant in the more densely populated districts such as Mountain View, Nunaka Valley, Turnagain-By-The-Sea, Homestead Acres, and other areas where formerly little or no service was available. Major feeder cable extensions into the referenced districts will be under varying stages of completion and activation by the start of the year 1956 permitting the immediate commencement in adjacent areas of additional permanent distribution cable plant construction.

Every possible effort will be exhausted in attempts to construct by the end of 1956 the plant facilities required to meet the minimum communications needs of all potential service areas situated within the 5.8 mile full coverage service radius adopted by the City Council. Proceeds of the 1955 Telephone Revenue Bond Fund of $1,500,000 will be used to the limit of funds available to finance capital plant expansion and improvements scheduled to be undertaken during the new year in out-of-city areas. Other plant projects are planned for construction during the new year to provide limited multi-party line service in the outer southeastern perimeter of the Greater Anchorage Area situated just beyond the 5.8 radius of full service coverage.

Permanent aerial cable plant is scheduled for construction throughout those districts within the Fairview and Spenard Public Utility Districts in which the existing aerial wire plant is presently inadequate to meet the minimum capacity demand level. Aerial wire plant so replaced will in turn be reconstructed throughout the sparsely populated rural districts of the community. Major redistribution of existing feeder cables in all areas of the community will necessarily be undertaken to insure maximum recommended plant fill and effective distribution of existing as well as all new plant facilities to be constructed. Districting or sectionalizing of outside plant facilities is expected to be accomplished during the year through the development of 3 additional wire centers and the improvement of an existing center from which locations all

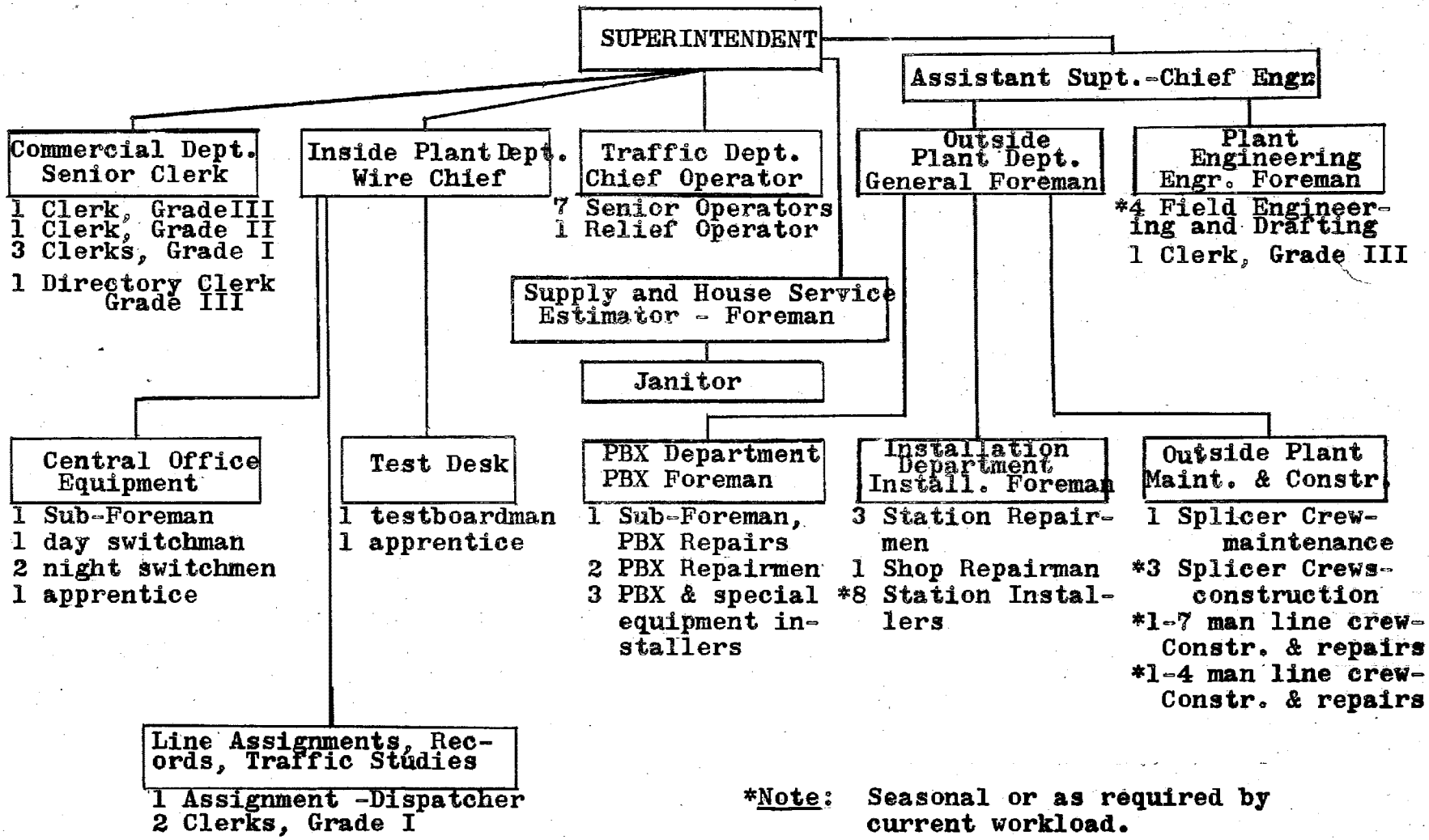


History of Annual Gross Plant Investment and Corresponding Investment Per Telephone 1944-1956

distribution cable plant facilities will ultimately radiate in accordance with the master plan layout.

Special emphasis will be devoted to the completion in 1956 of plant improvement projects in areas within the City limits. Supplementation of existing feeder and distribution plant facilities servicing the entire general area located west of "L" Street will be undertaken. Additional segments of the main business district underground system of ducts and manholes are expected to be constructed during the new year. Other needed plant improvements and plant rearrangements will be made throughout the City to keep pace with the ever-changing subscribers' requirements. The remaining 1953 telephone General Obligation bond authorization of $275,000 should be sold during 1956 to finance the plant additions scheduled for construction inside the City. A substantial inventory consisting of such vital outside plant components as lead covered cable, messenger strand, pole hardware, and cable terminals is presently on hand and is expected to eliminate supply delays which could otherwise prove to be most disrupting to the 1956 plant expansion program. The master plan developed for the City by expert telephone engineers is available to guide the course to be followed in undertaking plant expansion and to insure that every dollar spent toward capital plant improvements has been determined in advance to be feasible. Telephone plant construction during the year 1956 will, without doubt, be on the largest scale in the City's history and will correspondingly result in the City's ability to provide modern dial telephone service to more subscribers than ever before.

TELEPHONE DEPARTMENT ORGANIZATION CHART- 1956



*Note: Seasonal or as required by current workload.