

1961 BUDGET

TELEPHONE UTILITY FUND

SUMMARY OF REVENUES

<u>Code</u>	<u>Operating Revenue</u>	<u>Estimated 1960</u>	<u>Estimated 1961</u>
2 500	Subscriber Station Revenue	\$ 1,830,000	\$ 2,030,000
2 501	Public Telephone Revenue	29,000	28,000
2 506	Other Local Service Revenue	46,000	46,000
2 510	Message Toll Revenue	195,000	165,000
2 511	Telegram Revenue	19,000	20,000
2 523	Directory Revenue	7,000	8,000
2 526	Other Operating Revenue	95,000	84,300
	Total Operating Revenue	\$ 2,221,000	\$ 2,381,300
	<u>Non-Operating Revenue</u>		
2 171	Depreciation Revenue	342,607	480,000
	Cash Balance - Prior Year	77,230	--
	Total Non-Operating Revenue	\$ 419,837	\$ 480,000
	TOTAL OPERATING AND NON-OPERATING	\$ 2,640,837	\$ 2,861,300

BASIS for 1961 REVENUE ESTIMATES:

Operating Revenues

Local Service Operating Revenues (2-500, 2-501 and 2-506)

Estimated operating revenues for 1961 show an increase of \$160,300 over 1960. This increase will come primarily from subscriber station revenue. It reflects, monetarily, the growth from an estimated 21,700 telephones in service as of 1 January 61 to a projected 23,500 by 1 January 62. Reference to the Source of Operating Revenue Chart shows graphically the increasing importance that local service revenues have in supporting the utility. Public telephone revenue will not reach the estimated \$29,000 for 1960 and the 1961 figure is projected on actual revenues for the first 9 months of 1960. Other local service revenues are not expected to change materially this year.

It is expected that \$.883 of each \$1.00 of operating revenue will come from this source.

Message Toll and Telegram Revenues (2-510 and 2-511): Message toll and telegram revenues are expected to drop from \$214,000 in 1960 to \$185,000 in 1961.

The impact of the new toll settlement agreement between the City and the Alaska Communications System signed on 1 October 1960 is chiefly responsible for the drop. This agreement reduced the compensation factor from \$.739 per message to \$.687 per message. Also, the state-wide trend of long distance calls rising 5% - 8% each year seems to be leveling off at a more gradual rate.

It is expected that \$.078 of each \$1.00 of operating revenue will come from this source.

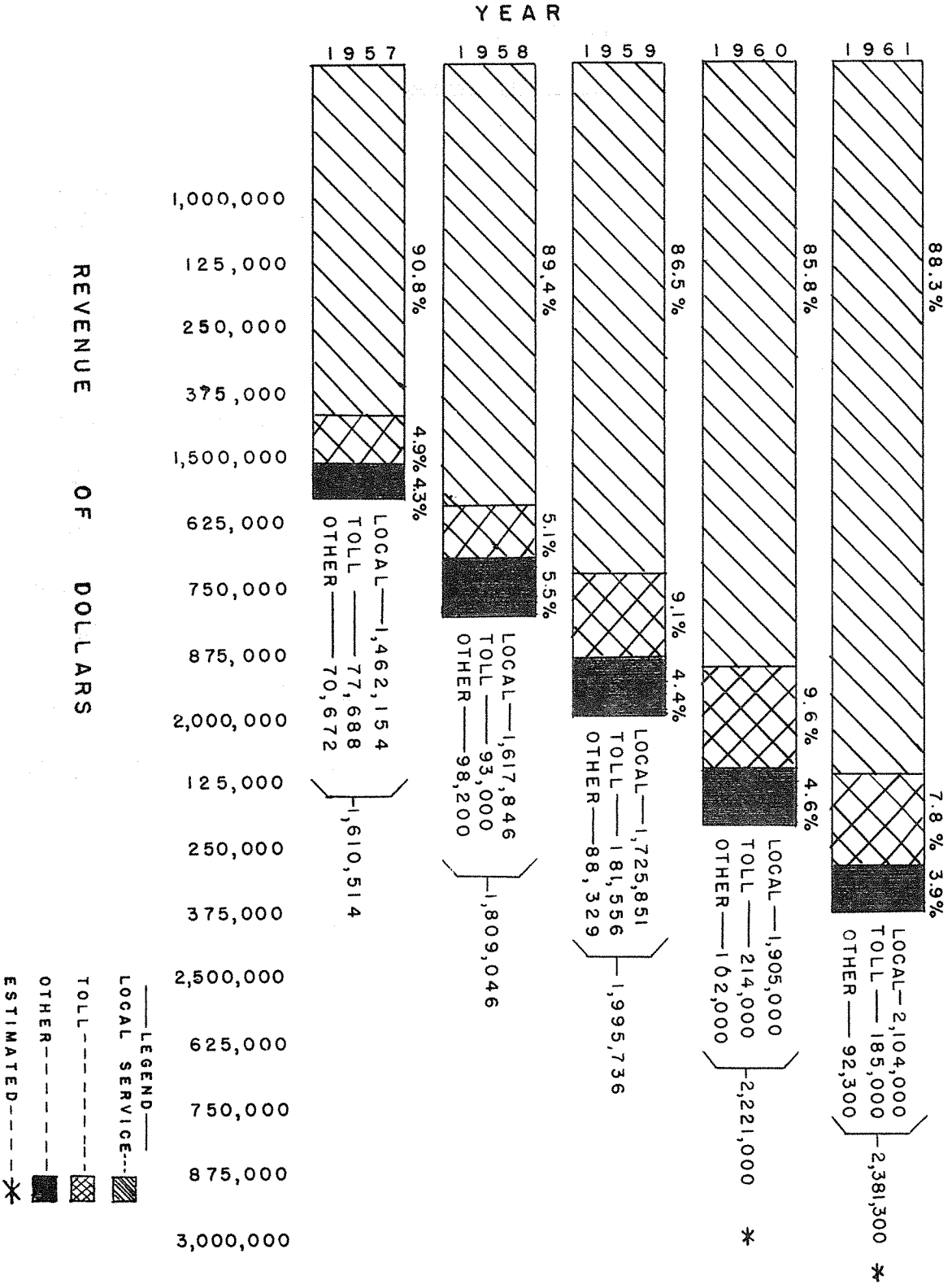
Directory and Other Operating Revenue (2-523 and 2-526): Under contract agreement, the publisher of the city telephone directory will pay the city a flat sum of \$8000 or 5% of the gross receipts - whichever is the greater. No increase is anticipated in 1961. Other operating revenue comes from non-recurring service charges, installation charges, interest on bank deposits and securities and penalties on delinquent accounts. This revenue will be \$10,000 less than in 1960 - reflecting a decrease in bank deposits of bond fund monies.

It is expected that \$.039 of each \$1.00 of operating revenue will come from this source.

Non-Operating Revenues:

Depreciation Reserve: The amount of \$480,000 represents the expected loss of economic value of components of the whole telephone system for the year 1961. The figure is computed by multiplying the estimated capital plant investment of \$11,665,584 by a composite depreciation figure of 4.1%, rounded off.

CITY OF ANCHORAGE TELEPHONE UTILITY DEPARTMENT
SOURCE OF OPERATING REVENUES



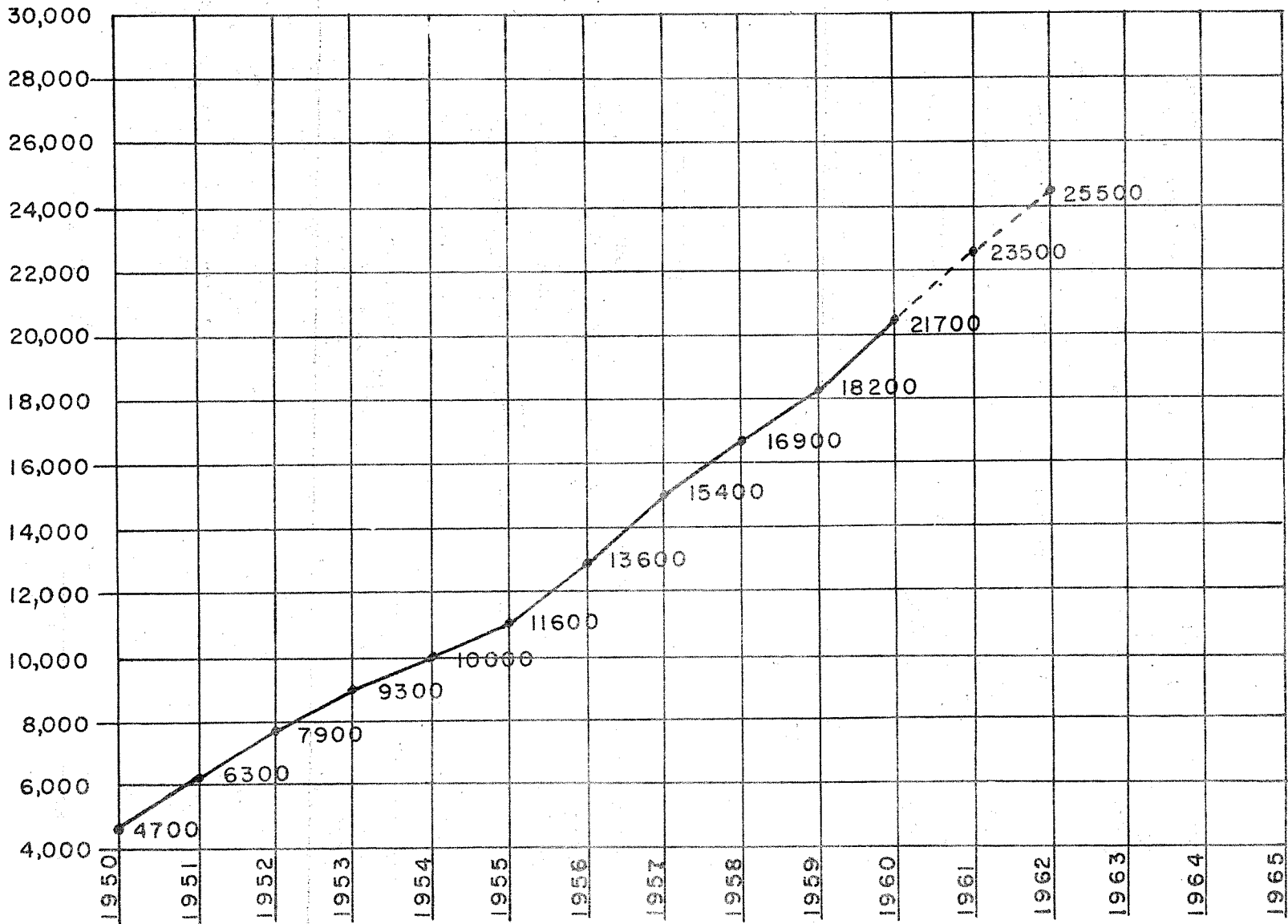
1961 BUDGET
 TELEPHONE UTILITY FUND
SUMMARY OF EXPENDITURES

<u>Expenditure Classification</u>	<u>Estimated 1960</u>	<u>Estimated 1961</u>
Maintenance Expense	\$ 400,334	\$ 424,080
Depreciation & Extraordinary Retirement	356,965	494,158
Traffic Section Expense	139,608	125,782
Commercial Section Expense	68,900	95,000
General Office - Salaries and Expense	155,221	232,025
Insurance & Other Operating Expense	69,821	89,322
Clearing Accounts	35,710	41,600
Fixed Charges	1,071,671	1,274,513
Plant Construction	<u>342,607</u>	<u>84,820</u>
 TOTAL EXPENDITURES	 \$ 2,640,837	 \$ 2,861,300

TELEPHONE UTILITY FUND BUDGET

<u>Code</u>		<u>Estimated 1960</u>	<u>Estimated 1961</u>
	<u>MAINTENANCE EXPENSE</u>		
2 602.1	Repairs of Pole Lines	\$ 7,250	\$ 11,475
2 602.2	Repairs of Aerial Cable	27,500	59,178
2 602.3	Repairs of Underground Cable	2,600	13,898
2 602.4	Repairs of Buried Cable	1,000	10,379
2 602.6	Repairs of Aerial Wire	300	270
2 602.7	Repairs of Underground Conduit	1,400	3,325
2 603	Test Desk Work	29,100	40,325
2 604	Repairs of Central Office Equipment	125,354	131,100
2 605	Repairs of Station Equipment	192,430	134,330
2 606	Repairs of Buildings and Grounds	5,000	11,400
2 610	Maintaining Transmission Power	<u>8,400</u>	<u>8,400</u>
	Total Maintenance Expense	\$ 400,334	\$ 424,080
	<u>DEPRECIATION & EXTRAORDINARY RETIREMENT EXPENSE</u>		
2 608	Depreciation Expense	\$ 342,607	\$ 480,000
2 609	Extraordinary Retirements	<u>14,358</u>	<u>14,158</u>
	Total Depreciation & Extraordinary Retirement Expense	\$ 356,965	\$ 494,158
	<u>TRAFFIC EXPENSE</u>		
2 624	Operators' Wages	\$ <u>139,608</u>	\$ <u>125,782</u>
	Total Traffic Expense	\$ 139,608	\$ 125,782
	<u>COMMERCIAL EXPENSE</u>		
2 642	Advertising	\$ 6,000	\$ 6,000
2 645	Local Commercial Operations	56,000	82,000
2 649	Directory Expense	<u>6,900</u>	<u>7,000</u>
	Total Commercial Expense	\$ 68,900	\$ 95,000
	<u>GENERAL OFFICE SALARIES AND EXPENSES</u>		
2 661	Executive Division	\$ 6,000	\$ 19,333
2 662	Accounting & Collection	136,404	199,337
2 664	Law Division	<u>12,817</u>	<u>13,355</u>
	Total General Office Salaries and Expenses	\$ 155,221	\$ 232,025

CITY OF ANCHORAGE TELEPHONE UTILITY DEPARTMENT



TELEPHONE POPULATION GROWTH

<u>Code</u>		<u>Estimated 1960</u>	<u>Estimated 1961</u>
	<u>INSURANCE AND OTHER OPERATING EXPENSES</u>		
2 665	Uncollectible Expense	\$ 9,000	\$ 10,000
2 668	Insurance	25,921	28,640
2 671	Operating Rents	27,000	40,747
2 675	Other Operating Expenses	17,000	19,035
2 677	Expenses Charged to Construction	<u>(9,100)</u>	<u>(9,100)</u>
	Total Insurance and Other Operating Expenses.	\$ 69,821	\$ 89,322
	<u>CLEARING ACCOUNTS</u>		
2 702	Work Equipment Expense	\$ 3,000	\$ 6,000
2 704	Supply Expense	10,110	7,500
2 706	Plant Supervision Expense	8,000	13,500
2 707	House Service Expense	<u>14,600</u>	<u>14,600</u>
	Total Clearing Accounts	\$ 35,710	\$ 41,600
	<u>OTHER EXPENSES</u>		
	Payment to General Fund in Lieu of Taxes	\$ 188,031	\$ 205,332
	Contribution to General Fund	167,080	328,902
	Interest on Bonded Debt	216,560	229,279
	Bond Retirement	470,000	481,000
	Bond Redemption Reserve	<u>30,000</u>	<u>30,000</u>
	Total Fixed Charges.	\$ 1,071,671	\$ 1,274,513
	<u>PLANT UNDER CONSTRUCTION</u>		
	Construction Fund	\$ 342,607	\$ * 84,820
	TOTAL 1960-1961 BUDGET	\$ 2,640,837	\$ 2,861,300

*Only this amount available from depreciation reserve to put into new construction.

1961 BUDGET

TELEPHONE UTILITY FUND

BASIS FOR 1961 EXPENDITURES

Maintenance (2-602, 2-603, 2-604, 2-605, 2-606, 2-610)

The maintenance program covers repairs to, and preventive corrections of, the physical properties of the telephone system. The physical properties consist of pole lines, aerial cable, underground cable, buried cable, underground conduct and duct, aerial wire, central office equipment, telephones, switchboards, buildings and grounds and the necessary power sources.

Repairs are necessitated by the ravages of weather, damage by accidents, contractors etc. and generalized equipment failures. Included in this category are the equipment and personnel required to locate, analyze, engineer and restore the system to top efficiency. It also includes the routine rehabilitation of disconnected equipment for subsequent re-use.

Preventive corrections are programs implemented to foresee and correct potential service failures, to analyze equipment failure as to cause, and to perform routine servicing of such items as - daily testing of trunk lines between central offices, daily testing of central office switches, wet-weather testing of aerial and buried cables for leakage etc.

Depreciation and Extraordinary Plant Retirement (2-608, 2-609)

This account reflects the estimated loss of economic value of the total telephone system for the year 1961. It is based upon an estimated gross value \$11,665,584 at the end of 1960. This amount is then normally used for physical plant replacements, retirements, and system improvement - and shown as Plant under Construction.

Expense for extraordinary retirement reflects loss of economic value of telephone plant for causes not recognized in depreciation. This is the third (last) installment of a program instituted in 1959 to retire aerial wire of insufficient capacity.

Traffic Expense: (2-624)

Certain special service functions of a telephone system must go on 24 hours a day, 7 days a week - these are, emergency dial assistance, information service, recording "after hour" trouble reports and acting as a pseudo clearing house for all manner of questions from the telephone using public. Also included in this expenditure is the rental of "time of day" announcing equipment.

Commercial Expense (2-642, 2-645, 2-649)

The expense of preparing copy for the publishing of the semi-annual telephone directory, preparation and processing of the more than 25,000 telephone work orders that must be examined to determine whether or not they affect the directory. Budgeting for 1961 includes the purchase of advertising and institutional visual material to stimulate the use of the "fringe" benefits of the system such as extension telephones, color telephones, extension bells, cut-off keys etc.

Also included are the expenses incurred in maintaining the records necessary to conduct the business; the assignment of facilities to permit installation of subscriber service; the processing of service orders taken by the City Hall service representatives. A new item is the institution and maintenance of "quality of service" control reports and their analysis for corrective action, as well as innovations to improve the speed and tone of customer service.

General Office Salaries and Expenses (2-661, 2-662 and 2-664)

Expenses necessary to administer the management of the business, as well as the cost of accounting, billing and collecting of the revenues. Conversely, the cost of accounting functions necessary to keep accurate records of the utility's expenditures are also found here. These functions are provided by the staffs of the Controller and City Clerk-Treasurer - explanation of their appropriations will be found in their respective budgets. The last item is the utility's proportionate share of the cost of the City Attorney's office.

Insurance and Other Operating Expenses (2-665, 2-668, 2-671, 2-675 & 2-677)

While Anchorage enjoys one of the nation's lowest "uncollectible" ratings, sound business requires a reserve fund of about $\frac{1}{2}\%$ of gross collections per subscriber station, toll and telegram accounts. Other insurance covering business interruption, fire coverage for the four central offices and associated equipment, and workman's compensation are to be found in the 2-668 account. Operating rents paid by the utility include "contact" charges for 3,000 Municipal Light and Power, and 7,500 Chugach Electric Association poles. Two other items found here are rental of cable pairs from other agencies and right-of-way charges.

Social security costs, membership dues to Alaska Telephone Association, United States Independent Telephone Association etc. are covered in Account 2-675.

To clear expenses involved in construction programs of a capital value, account 2-677 was established.

Clearing Accounts (2-702, 2-704, 2-706, 2-707)

Provides for spreading of expenditures which, by their nature, are not charged directly to capital accounts or expense accounts. These clearing accounts will be distributed at the end of 3-month intervals to the appropriate capital accounts or expense accounts affected during the 3-month period.

In 1961, a sum of \$41,600 is allocated, of which approximately 50% will be spread to capital accounts and 50% to expense accounts.

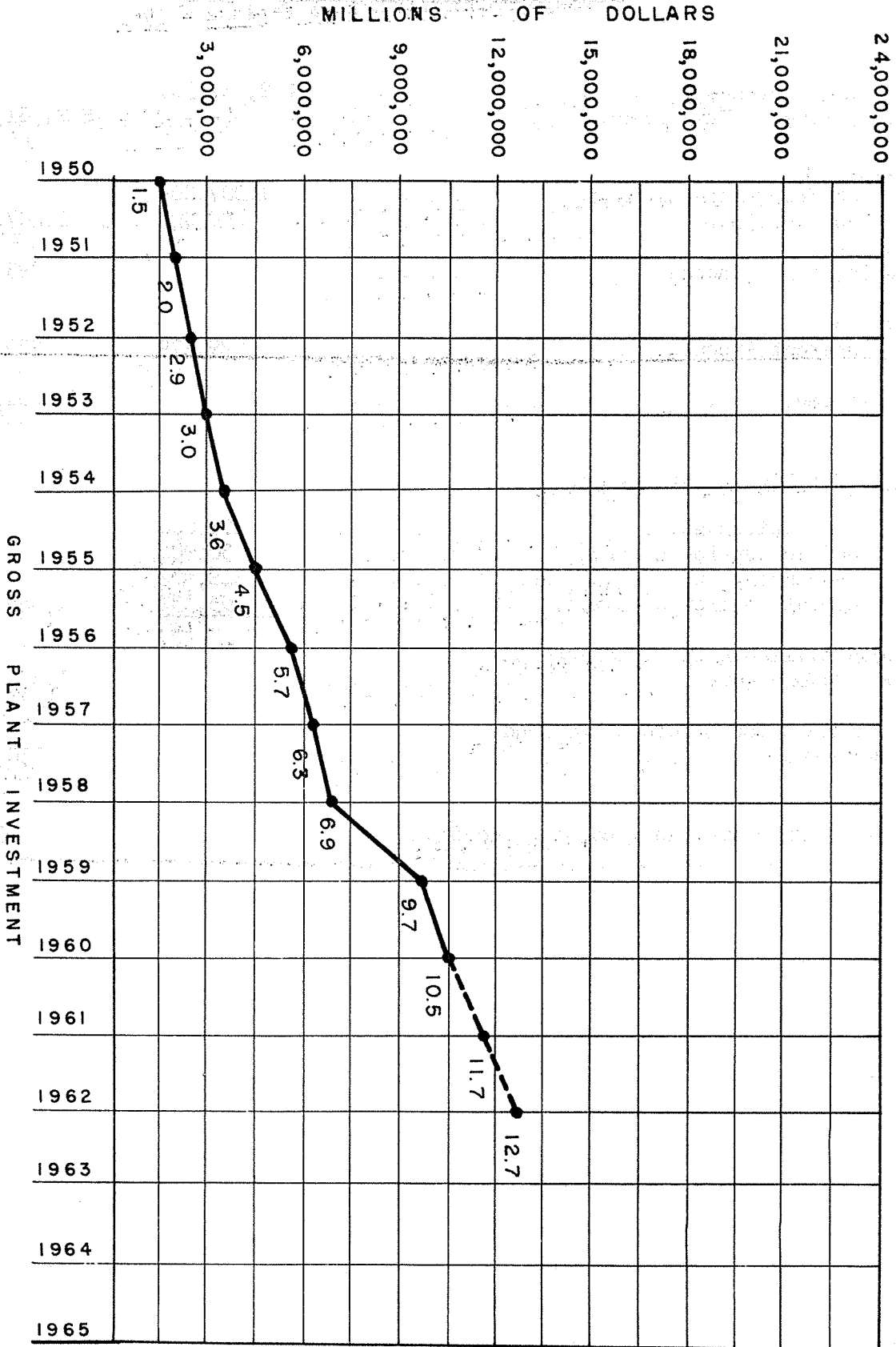
Comparison - Income vs Expense - 1961

Operating Revenue	\$ 2,381,300	
Cash Balance - Prior Year	- - -	\$ 2,381,300
Less:		
Operating Expenditures.	1,007,809	
Depreciation.	480,000	1,487,809
Net Operating Income.		893,491
Less:		
Interest Expense.	229,279	229,279
Net Income.		664,212

Appropriation of Net Income

Bond Retirement.	481,000	
Bond Redemption Reserve.	30,000	
Contribution to General Fund	328,902	
Payment in lieu of taxes.	<u>205,332</u>	1,045,234
Income Available for Interest and Bond Retirement.		1,373,491
Requirement for Interest and Bond Retirement.		710,279
Ratio of Cash Available to Cash Required . . .		1.93

CITY OF ANCHORAGE
TELEPHONE UTILITY DEPARTMENT



Plant Under Construction

In 1961, only \$84,820 of the \$480,000 depreciation reserve can be appropriated for capital expenditures to replace plant and make improvements to the system.

Use of this \$84,820 will be limited to projects that will provide maximum service improvement with maximum revenue. Detailed below are the projects planned:

1. Installation of Line Concentrators in:
 - Sand Lake Area
 - Huffman Road Area
 - DeBarr-Muldoon Road Area
 - Government Hill Area\$ 25,000
2. Installation of Cable Pressurizing Equipment - Broadway Exchange \$ 12,000
3. Installation of Trunk-Carrier Equipment between:
 - Broadway-Federal Exchanges
 - Broadway-Diamond Exchanges\$ 32,000
4. Purchase of tools, line and splicing equipment, miscellaneous maps, files etc. \$ 7,000
5. Recovery and rehabilitation of approximately 2700 telephone instruments at subscribers' homes but not in service. \$ 8,820

Bond Fund Construction

Approval by the voters for \$1,500,000 in bond funds permits scheduling a minimum amount of new construction in the next two years.

Assuming that the funds will be available in the second half of 1961, use of the monies is outlined below:

1. BROADWAY EXCHANGE AREA

- a. Place underground cable in existing underground ducts:

3-4 Alley - C to E Streets	
4-5 " E to A "	
4-5 " E to F "	
4-5 " to 3-4 at F Street	\$109,000
4-5 " F to I Streets	
3-4 " F to I "	

b.	Place buried cable to Public Safety Building	\$ 15,000
c.	Place aerial and buried cable to reinforce the Cordova Street cable complex	\$ 20,000
d.	Reinforcement of aerial cable along Post Road	\$ 9,000
e.	Construct permanent cable facilities to Anchorage Port Facilities	\$ 12,000
f.	Construct miscellaneous cable and terminal facilities in exchange area	\$ 15,000
g.	Construct 15 blocks of new underground duct system	\$140,000
	Total - Broadway Exchange	\$320,000

2. DIAMOND EXCHANGE AREA

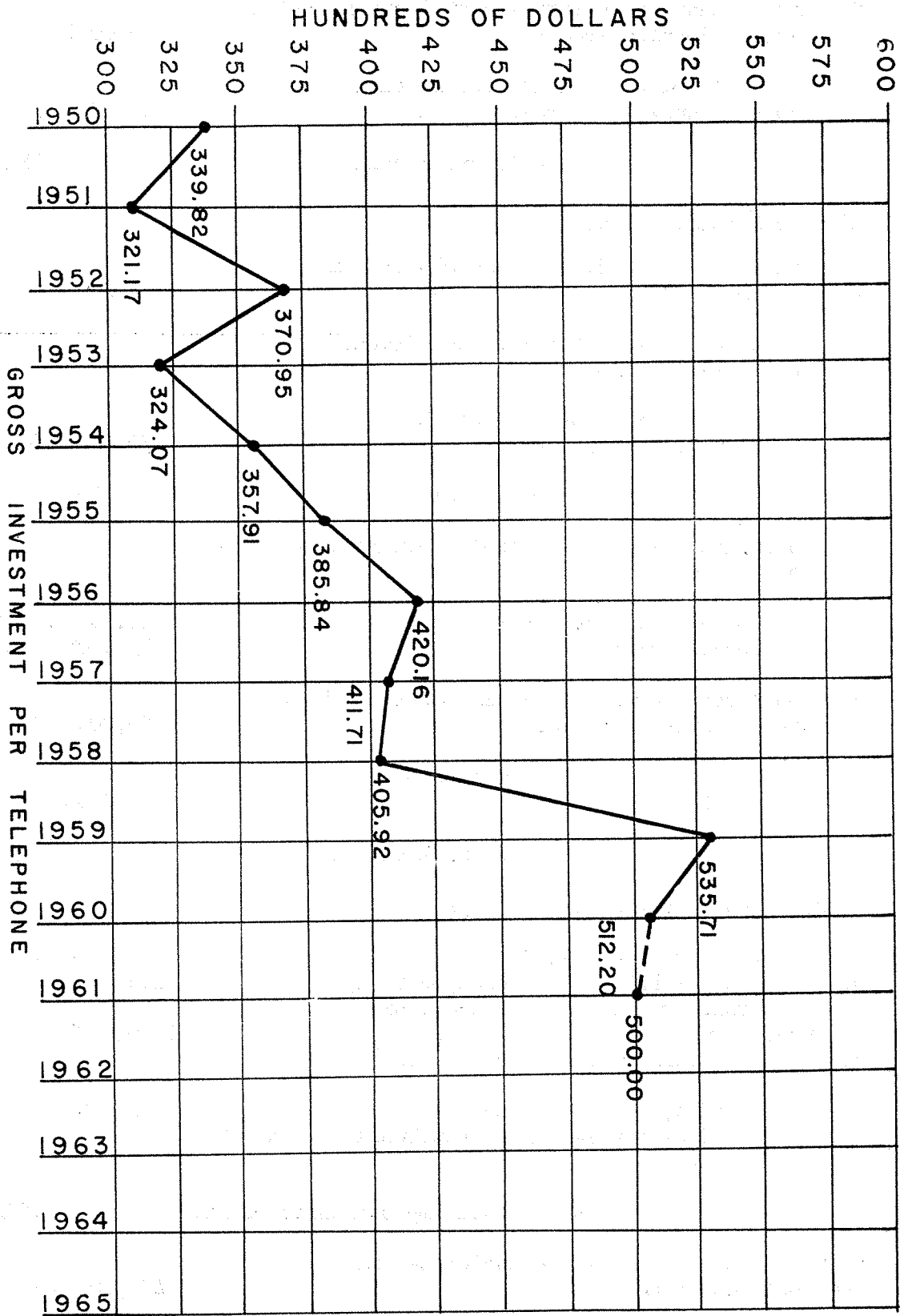
a.	Reinforce the Seward Highway Cable system (1.5 miles of 606 pr)	\$ 57,000
b.	Construct miscellaneous feeder and distribution facilities	\$ 18,000
c.	Construct feeder and distribution facilities vicinity of Huffman Rd.	\$ 7,000
d.	Transmission improvements to the Diamond-Broadway trunk system	\$ 6,000
	Total-Diamond Exchange	\$ 88,000

3. FAIRFAX EXCHANGE AREA

a.	Construct feeder and distribution facilities for:	
	West Turnagain	\$ 19,000
	Lake Spenard Road	\$ 10,000
	Raspberry Road	\$ 23,000
b.	Reinforce the Jewel Lake Road cable System (1.5 miles 606 pr)	\$ 57,000
c.	Construct new distribution cable in Aurora Subdivision	\$ 25,000
d.	Construction of facilities to extend Campbell Station Road system	\$ 20,000

e.	Reinforce and redistribute cable network - International Airport	\$ 30,000
f.	Improvements to existing distribution cable - Spenard area	\$ 12,000
g.	Construct miscellaneous distribution cable in unplatted areas	\$ 13,000
	Total-Fairfax Exchange	\$209,000
4.	<u>FEDERAL EXCHANGE AREA</u>	
a.	Reinforce the DeBarr Road cable system (1.3 miles 606 pr)	\$ 54,000
b.	Construct permanent feeder and distri- bution facilities for:	
	Providence Hospital - Mental Hospital - AMU complex	\$ 50,000
	East Anchorage High School	\$ 9,000
c.	Construct distribution cable facilities for:	
	College Village	\$ 13,000
	Wonder Park	\$ 13,000
d.	Construct miscellaneous distribution cables in unplatted areas	\$ 25,000
c.	Purchase and install 500 lines - 1500 numbers	\$105,000
	Total-Federal Exchange	\$269,000
5.	<u>Improvements - Entire System</u>	
a.	Purchase of 1000 telephones	\$ 28,000
b.	Purchase of PBX and Key Equipment	\$125,000
c.	Conversion of coin telephones from post-pay to pre-pay	\$ 40,000
d.	Transmission improvements	
	Broadway Tandem to ACS	\$ 12,000
	Broadway Tandem to International Airport	\$ 7,000
	Total-System Improvements	\$212,000
6.	Repayment of loan from the Municipal Light and Power Department	\$402,000
	Total Planned Expenditures	\$1,500,000
	Total Bond Funds Authorized	\$1,500,000

CITY OF ANCHORAGE
TELEPHONE UTILITY DEPARTMENT



REVENUE REQUIREMENTS

As noted in the Comparison of Income and Expenses Statement section of this budget, the net income of the utility was not sufficient to meet the cost of doing business. This is not to say that the utility is a losing proposition - its direct contribution to the City in the form of Payment in Lieu of Taxes and Dividends declared amounts to \$534,234. Indirect benefits in the form of equipment rental, proportionate share of Controller, City Clerk, Legal, Council functions, warehouse operation and other rentals can be valued at nearly \$250,000 per year.

But, the fact that replacement of plant in the value of \$395,080.00 had to be deferred, does indicate that revenues must be increased - soon.

The search for the required additional revenue revealed three principal sources. The first two are wholly within the scope of the telephone utilities control, the third will require council action. These sources are:

- a. Better utilization of existing resources and improved expense control.
- b. Selling additional services that are available, and closing loopholes in the present rate structure application.
- c. Provide a moderate rate increase.

Let's examine each one -

- a. Better utilization of existing resources and improved expense control. Another way of expressing this is - closer management control over the physical and human resources. Programs to effect a more stringent control of quality and quantity of service rendered have already been started. Additional programs to speed customer service and repair, improve customer confidence in the system, and eliminate any backlog of requests for service are being prepared. There is no way to measure the increase in revenues - but confidence builds use.
- b. Selling additional services that are available and closing loopholes in the present rate structure application. Extension telephone development in the utility is very low - yet this item requires a minimum of capital expenditure for the revenue gained. It seems feasible to seek an extension - main telephone ratio of at least 45%. Color telephones, switching keys, extra directory listings etc. are all relatively low investment-high return items that can contribute to the total operating revenue picture - under a concerted selling effort.

Application of the present rate structure is not uniform, and revenue is being lost as a result. The policy of permitting privately owned equipment (other than military) to be connected to the city system, and business subscribers to switch their mobile or fixed radio subscribers into the city system without

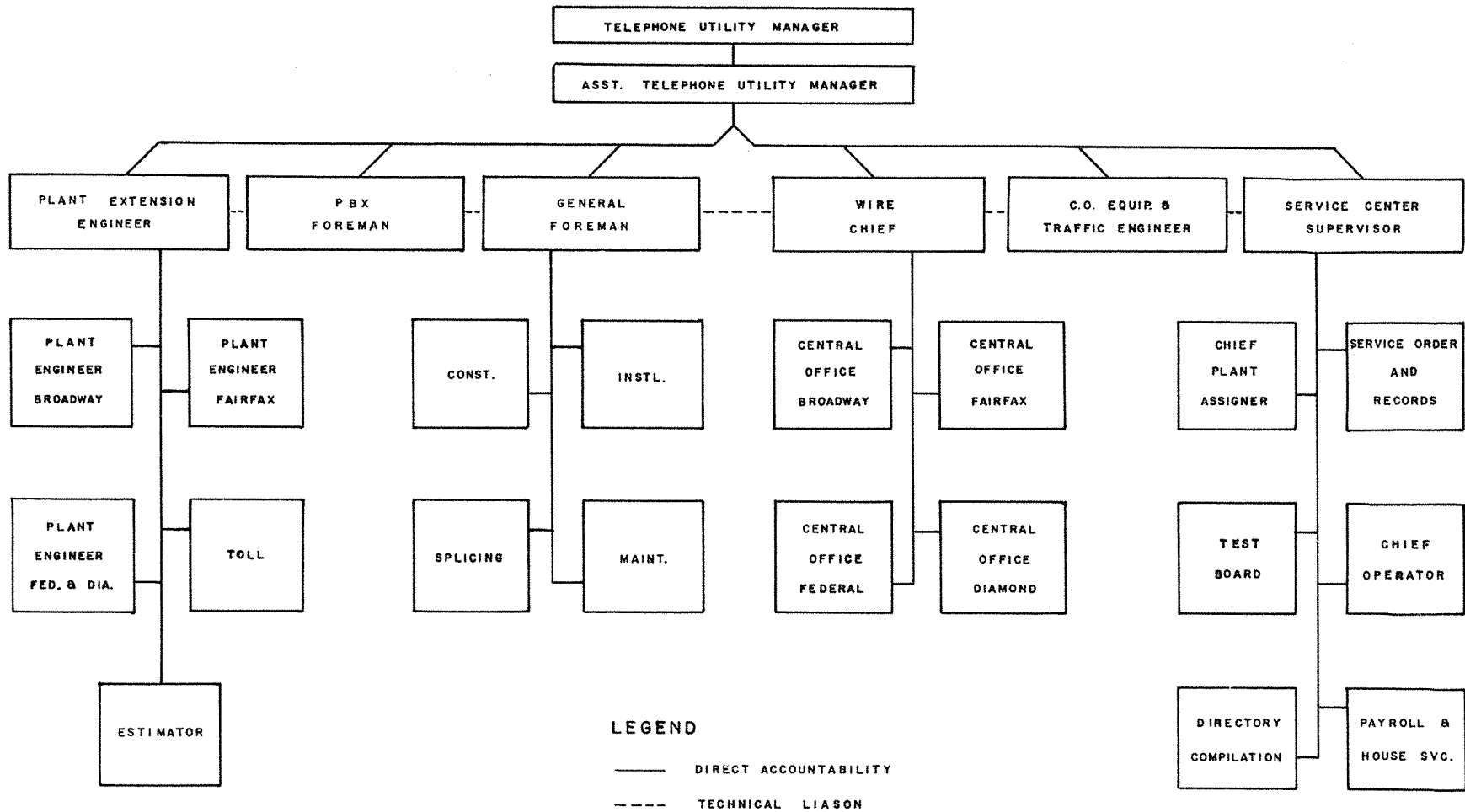
charge, is economically unsound. This policy denies the telephone utility revenue that could be used to expand the system for the benefit of all users. Steps are being taken to have it revoked.

- c. Provide a moderate rate increase. The present rate structure of the utility was approved in 1955 - there have been no changes or revisions since.

In the intervening period, expenses and revenues have both increased - but the revenue increases have not been sufficiently high to offset the rise in expenses plus provide the cash ratio required by the bond holders.

Revenues have increased 2.6 times, telephones 2.0 times and operating expenses 2.1 times. However, fixed charges, including payments to the General Fund, have increased 2.7 times.

Faced with the facts that; the "total expense" curve is rising more steeply than the "total revenue" curve, that, to keep pace with the economic growth of the Greater Anchorage area, more telephone equipment will be required, and that, the present system is carrying an increasing load every day - the most equitable remedy appears to be an across the board rate increase in early 1961.



CITY OF ANCHORAGE TELEPHONE UTILITY DEPARTMENT
 1961 ORGANIZATION CHART