




**TO:** Mayor and City Council  
**FROM:** William A. Gaines, Director of Utilities/CEO   
**COPY:** T. C. Broadnax, City Manager and City Clerk  
**SUBJECT:** Ordinance to amend TMC Chapter 12.13 Click! Network Cable TV Rates – January 24, 2017  
**DATE:** January 11, 2017

**SUMMARY:**

An Ordinance amending Chapter 12.13 of the Tacoma Municipal Code to revise prices and packages for Click! Network cable television services. Click! Network’s Cable TV rates should be increased to recover per subscriber programming and other cost increases experienced in 2015 – 2016. During the 2015-2016 biennium, programming costs, which represent approximately 55% of the costs of providing cable television services, rose by more than 16% and labor costs per employee rose by 15.5%. It is recommended that cable television rates be increased by an average of 13% in 2017. This item is brought forth at this time to allow sufficient time to notify customers prior to the planned implementation date of March 1, 2017. Click! Network respectfully requests the Council pass the ordinance.

**STRATEGIC POLICY PRIORITY:**

- Strengthen and maintain a strong fiscal management position.
  - Click! Network’s costs to acquire programming increase each year according to pre-determined schedules contained in multiple programming carriage agreements. Click! must increase the rates it charges cable television subscribers accordingly in order to improve its financial position.
- Foster neighborhood, community, and economic development vitality and sustainability.
  - The presence of Click! Cable TV in the Tacoma market provides the community with choice in cable television providers. That competitive choice has tended to constrain the cable television rates in Tacoma to be below the outside Tacoma market, providing value to the residents.

**BACKGROUND:**

The 2017-2018 Budget anticipates the approval and implementation of two Cable TV rate increases in March of each year of the biennium. Adjustments to Click! retail cable television rates were last made in July 2014 of 10%. An increase of 17.5% was proposed in 2015 and approved by the Public Utility Board by way of Resolution U-10773, however, that increase did not receive a passing recommendation from the City Council’s Government Performance and Finance Committee due to the pending policy direction on Click!’s long-term business plan. Since that decision remains outstanding, no rate adjustment recommendations were advanced in 2016. The purpose of this memo is to seek approval for the first budgeted Cable TV rate increase for the 2017-2018 biennium.

**ISSUE:**

The need for rate increases is primarily driven by rising costs and the need to meet financial budget. During the 2015-2016 biennium, programming costs, which represent approximately 55% of the costs of providing cable television services, rose significantly. License fees for local broadcast TV stations rose on average by 103% and are expected to rise again when the contracts expire in December 2017. Additionally, license fees for cable networks carried through the National Cable Telecommunications Cooperative (NCTC) rose on average by 15%, and are expected to increase again on average by 9% in 2017.



Furthermore, labor costs, which represent 23% of the cost of providing cable television services, rose by 15.5%. While vacancies were held and FTEs reduced, labor costs rose during the biennium due to lump sum payments made in exchange for labor contract reopener language and the implementation of market wage adjustments in 2015.

All the other costs were managed to minimize any significant impact on rates.

Although the proposed March 2017 Cable TV rate increase will provide incremental revenue, it will still not be sufficient to fully cover all the costs anticipated in 2017. Continued annual rate increases will be required for the foreseeable future to meet financial budgets.

Based on prior guidance, significant progress had been made over the last couple of biennia towards closing the market rate differential. However, recent actions have resulted in the widening of the market rate differential. Recent market comparison shows that the rate differential has increased to 32%. The proposed rate increase will attempt to narrow that gap, but the rate differential is expected to persist for the foreseeable future. Policymakers have generally favored maintaining a reasonable level of market rate differential, so that objective will continue to be met during the 2017-2018 biennium.

**ALTERNATIVES:**

Various alternatives to the present proposal exist. One alternative would be to leave the rates as they are. A second alternative would be to increase the cable television rates to a level that would fully recover Click!’s costs of providing cable television service.

If Click! were to forego the increase in 2017, the under recovery of cable television costs would increase by \$2 million, requiring a greater financial contribution by Tacoma Power.

If Click! were to increase cable television rates to a level that would fully recover cable television costs in 2017, the increase would be approximately 38%. The market discipline approach that has been employed since Click!’s inception would be abandoned and customer counts would likely decline.

**RECOMMENDATION:**

To address the evolving needs of the enterprise, as discussed above, staff recommends that the rates for the Broadcast and Standard Cable TV packages be adjusted as noted in the table below:

Service Type	Current Rate City of Tacoma	Proposed Rate City of Tacoma (effective 3/17)
Broadcast	\$17.99	\$19.69
Standard	\$52.99	\$59.99

Service Type	Current Rate Outside COT	Proposed Rate Outside COT (effective 3/17)
Broadcast	\$19.49	\$21.29
Standard	\$54.99	\$62.39



The City of Tacoma charges Gross Earnings Tax (GET) on all revenues whether generated inside or outside the City. As such, Click! Cable TV rates for outside Tacoma are higher than the Tacoma rates to recover the GET assessment.

The implementation of this increase results in an average Cable TV rate increase of 12.9% in 2017. Click! anticipates bringing forward a second rate increase request in 2017, to be effective in March, 2018. Click! will continue to participate in Tacoma Public Utility's low income program and offer 20% discount on Broadcast and Standard packages to qualifying customers. In terms of revenue, this rate increase is expected to generate approximately \$2.0 million in incremental Cable TV revenue.

This proposed Cable TV rate adjustment has been captured in the attached Proposed Ordinance to take effect March 1, 2017. The Proposed Ordinance also captures the corresponding rate adjustments to bulk rates for apartment complexes and an increase in the maximum set-top receiver price.

Click!'s industry peers and competitors routinely use promotional pricing as a tactic to attract new customers and compete for market share. Examples of promotional pricing may include a discounted package price for a given number of months, or a single service or piece of equipment provided at no cost one time or for a fixed number of months. Click! desires formal approval to offer promotional pricing so it may effectively compete for new customers. Click! proposes to match the industry and competitors' practice and offer promotional pricing on packages, services and equipment from time to time that is consistent both in amount and duration with promotions offered by its competitors in this market. Formal approval permitting the use of this tactic is requested in conjunction with this request to adjust Cable TV rates.



**FISCAL IMPACT:**

**EXPENDITURES:**

FUND NUMBER & FUND NAME *	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
<b>TOTAL</b>			

\* General Fund: Include Department

**REVENUES:**

FUNDING SOURCE	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
Customer Revenues	Ord 90005121	4343800	\$495,886
	Ord 90005123	4343800	\$994,871
	Ord 90005138	4343880	\$266,663
	Ord 90005142	4343800	\$242,580
<b>TOTAL</b>			

**POTENTIAL POSITION IMPACT:**

POSITION TITLE	PERMANENT/ PROJECT TEMPORARY POSITION	FTE IMPACT	POSITION END DATE
<b>TOTAL</b>			

*This section should only be completed if a subsequent request will be made to increase or decrease the current position count.*

**FISCAL IMPACT TO CURRENT BIENNIAL BUDGET: \$2,000,000 revenue**

**ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? Yes**

**IF EXPENSE IS NOT BUDGETED, PLEASE EXPLAIN HOW THEY ARE TO BE COVERED. N/A**