



TO: Board Members

FROM: Jackie Flowers, Director of Utilities

DATE: October 3, 2018

RE: Click! Network Cable TV Rate and Wholesale ISP Advantage Rate Adjustment Recommendation:

BACKGROUND: Click! Network is expected to post a financial deficit of approximately \$6.5M for the 2017-2018 biennium. A preliminary draft budget for the 2019-2020 biennium projected a deficit of approximately \$9.9M. Click! Network's financial deficits have historically been funded by Tacoma Power. The use of Tacoma Power funds for Click! Network is under legal challenge, and the City's General Fund is also not in a position to support Click! Network deficits.

The City made a decision to pursue the Public/Private Collaboration Model for the future of the Click! network. The Click! network must continue to be managed and maintained until such transition occurs and cover business transition costs.

These legal and funding constraints have made it necessary for Click! Network to develop a fully self-funded budget for the 2019-2020 biennium.

DISCUSSION: In order to achieve a fully self-funded budget for the 2019-2020 biennium, drastic cost cuts and revenue enhancements are necessary.

Click! Network has cut full-time equivalent (FTE) positions through attrition during the past two years. In the 2017-2018 biennium, Click! Network reduced 32 FTEs through a combination of voluntary separations, retirements and job transfers. These FTE reductions are transitional measures and not sustainable long-term, and only achieved as a result of side-letter agreement with the labor union.

Click! Network has also significantly scaled back its capital expenditures. The 2019-2020 proposed budget includes capital to address critical needs and for sustaining operations through a transition to a private partner. Like the FTE cuts, this level of cuts in capital expenditure is not sustainable long-term.

While the FTE and capital cuts have helped reduce the deficit, there is still a large funding gap. It is anticipated that this funding gap could be closed through revenue enhancement measures such as raising retail Cable TV service rates and wholesale ISP Advantage service rates.

Cable TV rates have not been raised in three of the last four years, and Cable TV rates are currently well under market (i.e. Comcast rates) on an A La Carte basis. The wholesale ISP Advantage rates have not changed over the last decade. The Tacoma Municipal Code Chapter

12.13 on Click! Network rates already approves a range of \$5 to \$150 for wholesale ISP Advantage rates, so an increase can be implemented without a code revision.

The proposed Cable TV and ISP Advantage rate increases are necessary to close the funding gap that results in a fully self-funded Click! Network budget for the 2019-2020 biennium.

RECOMMENDATION: The proposed rate increases are necessary to generate revenues sufficient to produce a fully self-funded 2019-2020 Click! Network budget.

Pertaining to the wholesale ISP Advantage rates, a \$5 increase per service tier per year effective January 1 of each year of the 2019-2020 biennium is proposed. The average retail rate, and current and proposed wholesale ISP Advantage rates and speeds per tier of service is provided in the table below.

Service Tiers*	Average Retail	Wholesale Rates			Wholesale % Split			Proposed Speeds
		Current	2019	2020	Current	2019	2020	
Vacation	\$10.00	\$4.00	\$9.00	\$14.00	40%	90%	140%	
Res_6Mbps	\$32.95	\$19.17	\$24.17	\$29.17	58%	73%	89%	10 Mbps
Res_12Mbps	\$42.95	\$22.17	\$27.17	\$32.17	52%	63%	75%	25 Mbps
Res_20Mbps	\$59.95	\$32.00	\$37.00	\$42.00	53%	62%	70%	50 Mbps
Res_30Mbps	\$69.95	\$40.00	\$45.00	\$50.00	57%	64%	71%	75 Mbps
Res_55Mbps	\$79.95	\$55.97	\$65.00	\$70.00	70%	81%	88%	100 Mbps
Res_100Mbps	\$89.95	\$60.00	\$65.00	\$70.00	67%	72%	78%	100 Mbps
Com_6Mbps	\$42.95	\$22.37	\$27.37	\$32.37	52%	64%	75%	10 Mbps
Com_12Mbps	\$69.95	\$33.59	\$38.59	\$43.59	48%	55%	62%	25 Mbps
Com_20Mbps	\$89.95	\$53.99	\$58.99	\$63.99	60%	66%	71%	50 Mbps
Com_30Mbps	\$99.95	\$60.00	\$65.00	\$70.00	60%	65%	70%	75 Mbps
Com_55MbpsNEW	\$109.95	\$66.00	\$101.00	\$106.00	60%	92%	96%	100 Mbps
Com_100MbpsNEW	\$149.95	\$96.00	\$101.00	\$106.00	64%	67%	71%	100 Mbps

As stated earlier, the ISP Advantage service rates can be raised without a code revision and the ISP Advantage Agreement provides the City the flexibility to raise rates upon providing a 90-day advance notice to the ISPs. Staff has already notified the ISPs of the proposed rate increase in anticipation of your approval.

Pertaining to the Cable TV service, a first rate increase on average of 9.8% effective January 1, 2019 and a second rate increase on average of 18% effective January 1, 2020 is proposed. The budget also includes commensurate increases in bulk rates for residential and commercial complexes (i.e. apartments, condos, and hotels and motels), and set-top-box and other ancillary fees.

The current retail and proposed retail rates for Cable TV service for both inside and outside the City limits are provided in the table below.

Cable TV Rates inside Tacoma

	Customers	PACKAGE	CURRENT RATE	2019	2020	2019	2020	BIENNIAL
				RATE	RATE	IMPACT	IMPACT	IMPACT
9.8% & 18% Annual Increases	100%	BROADCAST	\$ 19.69	\$ 21.62	\$ 25.51	\$ 1.93	\$ 3.89	\$ 5.82
	82%	STANDARD ¹	\$ 59.99	\$ 65.87	\$ 77.73	\$ 5.88	\$ 11.86	\$ 17.74
	28%	DIGITAL ²	\$ 81.99	\$ 90.03	\$106.23	\$ 8.04	\$ 16.20	\$ 24.24

Cable TV Rates Outside Tacoma

	Customers	PACKAGE	CURRENT RATE	2019 RATE	2020 RATE	2019 IMPACT	2020 IMPACT	BIENNIAL IMPACT
9.8% & 18% Annual Increases	100%	BROADCAST	\$ 21.29	\$ 23.38	\$ 27.58	\$ 2.09	\$ 4.21	\$ 6.29
	82%	STANDARD ¹	\$ 62.39	\$ 68.50	\$ 80.83	\$ 6.11	\$ 12.33	\$ 18.44
	28%	DIGITAL ²	\$ 87.39	\$ 95.95	\$113.23	\$ 8.56	\$ 17.27	\$ 25.84

Set-Top-Box Fees

Equipment		PACKAGE	CURRENT RATE	2019 RATE	2020 RATE	2019 IMPACT	2020 IMPACT	BIENNIAL IMPACT
	29%	DIGITAL ADAPTER	\$ 1.10	\$ 1.20	\$ 1.30	\$ 0.10	\$ 0.10	\$ 0.20
	17%	STANDARD RECEIVER	\$ 5.50	\$ 6.00	\$ 6.50	\$ 0.50	\$ 0.50	\$ 1.00
	47%	HI DEF RECEIVER	\$ 7.75	\$ 8.50	\$ 9.25	\$ 0.75	\$ 0.75	\$ 1.50
	34%	HD DVR	\$14.25	\$15.25	\$ 16.25	\$ 1.00	\$ 1.00	\$ 2.00

¹Standard is inclusive of Broadcast

²Digital is inclusive of Broadcast and Standard

As of September 2018, Click! Cable TV rates on an A La Carte basis are under market as shown in the table below.

Inside Tacoma	Click!		Comcast*		\$ Difference		% Difference	
	Broadcast	Standard	Broadcast	Standard	Broadcast	Standard	Broadcast	Standard
Sep-2018	\$19.69	\$59.99	\$23.45	\$89.99	(\$3.76)	(\$30.00)	-19%	-50%
Jan-2019	\$21.62	\$65.87	\$23.45	\$89.99	(\$1.83)	(\$24.12)	-8%	-37%
Jan-2020	\$25.51	\$77.73	\$23.45	\$89.99	\$2.06^	(\$12.26)	8%	-16%

[^]Expected to changed when Comcast raises its rates.

The Click Cable TV rates will continue to be under market after the January 2019 rate increase. Although the table shows Click! Cable TV rates going above market in 2020, it is expected to reverse when Comcast adjusts their rates, as they typically do every year.

In summary, the proposed Cable TV and ISP Advantage rate increases coupled with the FTE reductions and capital cuts are sufficient to produce a fully self-funded budget. The O&M cuts generated approximately \$2.9M, the Cable TV rate increase generated approximately \$3.6M, and the ISP Advantage rate increase generated approximately \$4.0M. And the estimated business transition costs were \$1.25M. These adjustments were sufficient to eliminate the preliminary draft budget deficit of \$9.9M resulting in a surplus of \$0.2M. While having met the objective of a fully self-funded budget, this proposed budget is to temporarily alleviate the legal and funding constraints and should not be viewed as sustainable financial model for the Click! network.

Staff respectfully recommends the Public Utility Board approve the proposed rate increases for the first year of the 2019-2020 biennium on average of 9.8% effective January 1, 2019 for the Cable TV service and \$5 per service tier for the wholesale ISP Advantage service also effective January 1, 2019.