



TO: Mayor and Members of the City Council
FROM: T.C. Broadnax, City Manager, City Manager’s Office
COPY: City Council and City Clerk
SUBJECT: Resolution authorizing the use of up to \$100,000 of City Council Contingency Funds to hire third party consultant or consultants for a Click!! analysis and audit – November 1, 2016
DATE: October 25, 2016

SUMMARY:

Resolution directing the City Manager to hire independent third party consultant or consultants, to audit, analyze and establish a reasonable methodology for cost allocation between Tacoma Power and Click! and evaluate the expansion of the Click! Network, and to execute a professional services agreement(s) outlining the scope of work and deliverables; and, further authorizing the use of up to \$100,000 of City Council Contingency Funds to pay for the costs pending reimbursement from Click!.

COUNCIL SPONSORS:

Council Members Blocker, Ibsen, McCarthy, and Woodards

STRATEGIC POLICY PRIORITY:

This City Council action best aligns with the following strategic policy priorities:

- Ensure all Tacoma residents are valued and have access to resources to meet their needs; and,
- Encourage and promote an efficient and effective government, which is fiscally sustainable and guided by engaged residents.

BACKGROUND:

On December 15, 2015, the City Council approved Resolution 39347 which required Tacoma Power to develop a business, financial and marketing plan to provide Click! customers with retail cable television, voice, and internet services. Following a nine-month review by the Click! Engagement Committee, the Committee described the community benefits of an “All-In” Business Plan (“Plan”). On September 28, 2016, the Tacoma Public Utility Board approved Resolution No. U-10879, wherein the Board approved the Plan. The Resolution and Plan rely upon Tacoma Power’s most recent O&M cost allocation scheme and further requires an additional contribution of six to ten million dollars per year from “electric revenues” to Click!. Per the Resolution, these monies will be used to appropriately compensate Power’s past, current and future beneficial uses of the telecommunications system infrastructure...”

Since its inception, in 1996, Click! has been a part of Tacoma Powers’ telecommunications system. Click! was initially financed with Tacoma Power electric revenues. Since that time, the internal cost allocation between Click! and Tacoma Power has changed significantly. Over time, Tacoma Power has substantially increased the cost allocation borne by Click!. The most recent shift in the cost allocation is supported by an accountant assessment which relies predominantly upon the cost-accounting recommendations of Tacoma Power. This dramatic change in cost allocation spurred scrutiny as to the financial viability and prospective legality of Click!, and has been the key driver underlying the debate over the future of Click!. It has also encouraged considerable public scrutiny as to the veracity and appropriateness of the current accounting assumptions and methodology implemented by Tacoma Power. Ultimately, The sponsoring City Council Members feel that the concerns raised about the current cost allocation methodology and the implications of said methodology on the proposed Plan are significant and must be resolved prior to making a final decision on the Plan.



At the October 25, 2016 City Council Study Session, Council Member McCarthy shared a Council Consideration Request to put a resolution on the November 1st City Council Agenda directing the City Manager to hire a third party consultant or consultants to audit, analyze, and establish an independent cost allocation methodology between Tacoma Power and Click!, and to evaluate the expansion of the telecommunications system contemplated by the proposed “All-In” Business Plan in the context of an evolving telecommunications industry. The purpose of the analysis and audit will be to provide the City Council with the best analysis and information available in its deliberations on the proposed Plan, and further aims to encourage the public’s confidence in the process and the underlying assumptions of the Plan. Also discussed at the Study Session was the City Council’s direction to not slow the development of the “All-In” Business Plan consistent with City Council Resolution No. 39347, while the third-party consultant or consultants completed their analysis and audit. Section 1 of this resolution states: “That Tacoma Power shall develop a business, financial and marketing plan (the “Business Plan”) to provide customers with comprehensive, accessible, competitive retail cable television and internet services including voice over data internet protocol, retail and commercial broadband, Gigabit service and related and enhanced services responsive to market demand and competition as new technologies and services become available.”

ISSUE:

In order to authorize use of the City Council’s Contingency Funds for this purpose, a resolution must be adopted.

ALTERNATIVES:

The City Council could choose to adopt or reject the resolution.

RECOMMENDATION:

Recommend that the City Council direct the City Manager to hire third party consultant(s) to audit, analyze and review/establish an appropriate cost allocation method for Tacoma Power and Click!, and evaluate the “All-In” Business Plan to appropriately advise the City Council and provide information to assist the City Council in making an informed policy decision; and, further authorizing the use of up to \$100,000 of City Council Contingency Funds to pay for the costs.

FISCAL IMPACT:

If approved, this resolution would authorize the use of up to \$100,000 of the City Council’s Contingency Funding, which is available in the 2015-2016 biennial budget. Council Contingency Funds would be initially utilized to pay for the costs for this scope of work, and the general government would subsequently seek reimbursement of these expenditures from Click!.



EXPENDITURES:

FUND NUMBER & FUND NAME *	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
1030 City Council Contingency Fund	660000	5310100	\$100,000
TOTAL			

* General Fund: Include Department

REVENUES:

FUNDING SOURCE	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
TOTAL			

POTENTIAL POSITION IMPACT:

POSITION TITLE	PERMANENT/ PROJECT TEMPORARY POSITION	FTE IMPACT	POSITION END DATE
TOTAL			

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: Up to \$100,000

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? Yes

IF EXPENSE IS NOT BUDGETED, PLEASE EXPLAIN HOW THEY ARE TO BE COVERED.

Explain how expenditures are to be covered and if budget modifications are required.