



TO: Mayor and City Council
FROM: Jackie Flowers, Director of Utilities/CEO
COPY: Elizabeth Pauli, City Manager, and City Clerk
SUBJECT: Ordinance to amend TMC Chapter 12.13 Click! Network Cable TV Rates – January 1, 2019
DATE: October 3, 2018

SUMMARY:

An Ordinance amending Chapter 12.13 of the Tacoma Municipal Code to revise prices for Click! Network Cable TV services effective January 1, 2019.

The proposed 2019-2020 Click! Network budget includes two Cable TV rate increases – 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.

The proposed budget also includes two ISP Advantage rate increases of \$5 per service tier per year of the 2019-2020 biennium. The Tacoma Municipal Code Chapter 12.13 on Click! Network service rates already approves a range of \$5 to \$150 for the ISP Advantage service so an ordinance revision is not required to implement this change.

Staff respectfully recommends the City Council 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, and adopt Ordinance amending Chapter 12.13 of the Tacoma Municipal code to effectuate these changes, as necessary.

STRATEGIC POLICY PRIORITY:

- Strengthen and maintain a strong fiscal management position.
 - Click! must increase Cable TV and ISP Advantage rates to alleviate legal and funding constraints, and ensure a smooth transition to a private partner.
- 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 drives excellent customer service and has tended in the past to constrain the cable television rates in Tacoma to be below the outside Tacoma market, providing value to the residents.

BACKGROUND:

Click! Network is a business line within Tacoma Power. In the past, Click! Network revenues have not always covered all of Click! Network’s operating costs. When the revenue generated by Click! Network was insufficient to meet the expenses of Click! Network, other revenues received by Tacoma Power were used to cover the deficit. Click! Network revenues for the 2017-2018 biennium are expected to be insufficient to cover all of Click! Network expenses for that biennium. A preliminary draft budget for the 2019-2020 biennium projected that Click! Network revenues would be insufficient to meet expenses unless changes are made to Click! Networks’ rates or expenses. The use of Tacoma Power funds to cover certain expenses related to Click! Network is under legal challenge, and thus the City has been seeking other sources to cover Click! Network expenses.

The City is also considering other options such as a Public/Private Collaboration Model for the future of the Click! Network. The Click! Network must continue to be managed and maintained through any



transition or changes to its structure. These legal and funding constraints have made it necessary for Click! Network to propose rate increases and look for cost savings in the 2019-2020 biennium.

ISSUE:

The proposed Click! Network budget for the 2019-2020 biennium, includes cost cuts and revenue enhancements in light of projected revenues and costs.

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. They have been achieved with the assistance of the affected 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 potential transition to a private partner or different structure. 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 projected budget shortfall, additional measures are necessary to close the 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. Although an increase in Cable TV rates will require an amendment to 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 in wholesale ISP Advantage rates can be implemented without a code revision.

The proposed Cable TV and ISP Advantage rate increases are intended to close a potential funding gap in the Click! Network budget for the 2019-2020 biennium.

ALTERNATIVES:

Leave rates unchanged. This alternative is not advisable, as it does not address the projected revenue needs for the 2019-2020 Click! Network budget.

Pursue other amounts of rate increases. This alternative is also not advisable. Staff ran several rate increase scenarios and combinations, and the proposed rate increases produced the best results in light of the City's policy objectives and the revenue needs for the 2019-2020 Click! Network budget.

RECOMMENDATION:

The proposed rate increases are intended to generate revenues at a level consistent with projected needs in the 2019-2020 Click! Network budget.

Pertaining to the wholesale ISP Advantage rates, a \$5 increase per service tier effective January 1 of 2019 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. Although the proposed budget for the 2019-2020



biennium and the table below include potential increases for 2020, at this time staff is requesting only an increase in the wholesale ISP Advantage rates for 2019.

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 were included in the proposed budget for the 2019-2020 biennium. 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. Although the proposed budget for the 2019-2020 biennium and the tables below include potential increases for 2020, at this time staff is requesting only an increase in the Cable TV rates for 2019.

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								
	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 consistent with the proposed Click! Network budget for the 2019-2020 biennium. 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 are projected to result in a surplus of \$0.2M. While having met the needs of the 2019-2020 biennium budget, this proposed budget is not projected to be a sustainable financial model for the Click! Network.

Staff respectfully recommends the City Council 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, and adopt Ordinance amending Chapter 12.13 of the Tacoma Municipal code to effectuate these changes, as necessary.



FISCAL IMPACT:

EXPENDITURES:

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

* General Fund: Include Department

REVENUES:

FUNDING SOURCE	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
2019 Cable TV Rate Increase		4343800	\$1.15M
2019 ISP Advantage Rate Increase		4343875	\$1.27M
TOTAL			\$2.42M

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: N/A

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? Yes

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