



TACOMA PUBLIC UTILITIES

3628 South 35th Street

Tacoma, Washington 98409-3192

January 11, 2017

To the Chair and Members of the Public Utility Board

**RE:** Click! Network Cable TV Rate Adjustment Recommendation for 2017:

**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.

**DISCUSSION:** 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.



**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 of 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.



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