



TO: Elizabeth Pauli, City Manager
FROM: Jackie Flowers, Director of Utilities, Tacoma Public Utilities
COPY: Government Performance and Finance Committee
PRESENTER: Tenzin Gyaltzen, Click! General Manager
SUBJECT: Ordinance to amend TMC Chapter 12.13 Click! Network Cable TV Rates –
January 1, 2019
DATE: October 2, 2018

PRESENTATION TYPE:
Informational Briefing

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 March 2018 Pierce County Superior Court ruling on the Click! lawsuit prohibits Tacoma Power from funding Click! Network deficits. The City's General Fund is also not in a position to support Click! Network deficits. The City also 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.

Drastic cost cuts and revenue enhancing measures are necessary to achieve a fully self-funded budget. Click! Network has reduced its full-time equivalent (FTE) positions by 32 in the past two years. Click! Network has also significantly scaled back capital expenditures. Although these cost cuts have been helpful, there is need for additional funds. This additional funding is achieved through revenue enhancement measures such as raising Cable TV and ISP Advantage rates.

The proposed 2019-2020 Click! Network budget includes two Cable TV rate increases – a first rate increase of 9.8%, on average, effective January 1, 2019 and a second rate increase of 18%, on average, effective January 1, 2020. The proposed budget also includes two ISP Advantage rate increases of \$5 per service tier per each year of the 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.

Click! Network respectfully requests Committee recommendation for the approval of the proposed rate increases for the first year of the 2019-2020 biennium of 9.8%, on average, effective January 1, 2019 for the Cable TV service and \$5 per service tier for the wholesale ISP Advantage service and approval of the Ordinance amending Chapter 12.13 of the Tacoma Municipal code to effectuate the proposed rate changes.

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 March 2018 Pierce County Superior Court ruling prohibits the use of Tacoma Power funds to support Click! Network deficits. Given this court decision, it is unclear if the City Council can or will approve a Tacoma Power budget that



includes a Click! Network deficit. The City has also stated that its General Fund is not in a position to support Click! Network deficits.

In August 2018, the City made a decision to set aside other pursuits and focus on the Public/Private Collaboration Model for determining the future of the Click! Network. If negotiations are fruitful, the transition to a private partner is expected to take place within 12 to 18 months. Click! Network must continue operating and maintaining the network until such transition occurs and incur transition related costs such as employee retention and severance. It is unclear, at best, whether Tacoma Power can fund these 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.

ISSUE:

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 been cutting full-time equivalent (FTE) positions through attrition over the past two years. During the 2017-2018 biennium, Click! Network has reduced 32 FTEs through voluntary separations, a retirement incentive offer, and transfers of Click! Network employees to other jobs within the Utility. As successful as the FTE reduction activity has been, such reductions are not sustainable long-term. This level of reduction was possible only because of Click! Network's negotiated ability to use contract labor on a temporary basis with IBEW Local 483.

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 been helpful, there is still a need for additional funds to achieve a budget that is fully self-funded. This additional funding is expected to be achieved through revenue enhancements.

Cable TV rate increases were not implemented in 2015 and 2016. The 2017-2018 budget projected Cable TV rate increases in each year of the biennium. The first Cable TV rate increase was implemented in March 2017. The second Cable TV rate increase, which was planned for January 2018, was indefinitely postponed. On an A La Carte basis, Click! Network's Cable TV rates are under market.

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. Therefore, a wholesale ISP Advantage rate increase can be implemented without a revision to the municipal code.

Given that Cable TV rates are under market and the wholesale ISP Advantage rate are overdue for a rate increase, there is capacity to raise rates.

Click! Network proposes to take the following actions to generate revenues sufficient to produce a fully self-funded Click! Network budget for the 2019-2020 biennium:



Regarding the wholesale ISP Advantage rates, a \$5 increase per service tier per year is proposed in the 2019-2020 biennium budget. The average retail and current and proposed wholesale ISP Advantage rates 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 in the foregoing, Click! Network has the capacity to raise the wholesale ISP Advantage rates without an ordinance revision. The ISP Advantage contract provides the City the ability to unilaterally raise rates with a 90-day advance notice. However, Click! Network has apprised of the Staff intends to provide such written notice by October 1, 2018 such that the new rates take effect January 1, 2019.

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

The current and proposed 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 IMPACT
				RATE	RATE	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 Broadcast²Digital is inclusive of Broadcast and Standard

Click! Cable TV rates on an A La Carte basis are under market as noted 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 to be above market in 2020, it is expected to change when Comcast adjusts their rates, as they typically do every year.

ALTERNATIVES:

Leave the Cable TV and ISP Advantage rates as they are. This alternative is not advisable, as it will not generate the funding necessary to produce a fully self-funded 2019-2020 budget for Click! Network.

Direct Click! Network to pursue other amounts of rate increases. This alternative is also not advisable. Other amounts and combinations of rate increases either did not produce sufficient revenues to produce a fully self-funded budget or were in ranges that would not be recommendable.

FISCAL IMPACT:

The ISP Advantage and Cable TV rate increases coupled with the FTE reductions and capital cuts was 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 reduced the preliminary draft budget deficit of \$9.9M into 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.

RECOMMENDATION:



Click! Network respectfully requests Committee recommendation for the approval of the proposed rate increases for the first year of the 2019-2020 biennium of 9.8%, on average, effective January 1, 2019 for the Cable TV service and \$5 per service tier for the wholesale ISP Advantage service and the approval of the Ordinance amending Chapter 12.13 of the Tacoma Municipal code to effectuate the proposed rate changes.