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Tacoma City Council Government Performance and Finance Committee

www.cityoftacoma.org/GPF

Tacoma Municipal Building, 747 Market Street, Conference Room 248

AGENDA

Wednesday, October 17, 2012 – 4:30 p.m.

- 1. Approval of the minutes of the meeting of October 3, 2012**
- 2. Click! Rate Changes** – Tenzin Gyaltsen, General Manager, Click! Network
- 3. Tacoma Rail Budget Changes** – Jim Sant, Deputy Director for Administration, Tacoma Rail
- 4. Topics for Upcoming Meetings**
- 5. Other Items of Interest**
- 6. Public Comment**
- 7. Adjournment**



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Click! Network

Cable TV

Rate Adjustment Proposal

City of Tacoma
Government Performance & Finance Committee
October 17, 2012



CLICK! NETWORK
TACOMA POWER

Presentation Agenda

- Background
- Basis for Rate Adjustment
- Change in Programming Cost Per Customer
- Programming Cost Increases v. Rate Increases
- Budget and Financial Performance
- Proposed Cable TV Rate Adjustment
- Proposed Rates - Comparison to Market
- Other Rate Changes
- Next Steps
- Update on Click!'s' Strategic Plan

Background

- Two rate increases planned for the 2011/12 Biennium
- First increase was budgeted for Sep 2011, but was implemented in Apr 2012.
- Postponed to coincide with launch of retail internet and phone services
- Board directed staff to shelf retail plan and pursue alternative solution, but approved the Apr 2012 rate increase
- Second rate increase proposed for Nov 2012, but postponed for further review by Director
- Proposing second rate increase be effective Jan 1, 2013

Basis for Rate Adjustment

- Mitigate revenue gap resulting from declining customer base
 - Change in technology and new market entrants (i.e., digital over-the-air broadcast, Internet video, and other telecommunications companies)
- Recover increases in other operating costs
 - Controllable costs were eliminated/reduced (i.e., reorg/staff reductions, IP circuit, billing system, maintenance agreements, changed outside counsel, discontinued bottled water, and cut current and future CAPEX)
 - Non-controllable costs continue to rise (i.e., benefits, step increases, consumables and internal cost allocations and assessments)

Basis for Rate Adjustment (cont'd)

- Close the rate disparity with the market as recommended by consultant
 - Maintain a reasonable level of discount to market for competitive reasons
- Recover increases in programming costs
 - Majority of programming purchased through the National Cable Television Cooperative (NCTC) – with defined annual increases
 - Retransmission consent agreements with local broadcasters; rates steeply increased for 2012-2014 retransmission consent period

Change in Programming Cost Per Customer

Biennium	Programming Cost	Average # of Customers	Cost per Customer per Month	% Increase per Customer
2007-2008	\$21,565,421	24,521	\$36.64	
2009-2010	\$22,958,272	24,241	\$39.46	7.7%
2011-2012	\$23,868,300	23,000	\$43.24	9.6%
2013-2014*	\$23,355,141	20,829	\$46.72	8.1%

Programming Increases v. Rate Increases

Year	Programming Cost Increases by Product Tier			Cumulative Programming	Rate Increases	
	Broadcast	Basic	Standard	Total Standard	1 st	2 nd
2002					8.5%	
2005					5.0%	
2008					9.5%	
2009	6.5%	6.2%	14.4%	13.6%		
2010	1.4%	5.5%	0.1%	1.3%	9.7%	8.4%
2011	56.3%	0.5%	12.6%	13.4%		
2012	28.8%	4.7%	5.0%	6.1%	9.8%	
2013	12.7%	4.8%	10.0%	9.9%	8.9%*	9.3%**
2014					9.5%**	

* Proposed for 2011/12, but taking effect in 2013; average increase on core services

** Proposed for 2013/14; average increase on core services

Budget and Financial Performance

Description	2011/12 Budget	Projected 2011/12 Actuals	Proposed 2013/14 Budget
Cable TV Revenue	\$39,432,108	\$36,632,161	\$39,958,757
ISP Wholesale Revenue	9,483,931	9,804,820	12,482,038
Broadband Revenue	2,482,790	3,027,600	3,049,280
Total Revenue	\$51,398,829	\$49,464,581	\$55,490,075
Click! Commercial Expense	\$45,706,382	\$43,996,000	\$46,401,015
Click! Power Expense	10,433,826	10,006,200	12,989,625
Total O & M Expense	\$56,140,208	\$54,002,200	\$59,390,640
Net Revenue	-\$4,741,379	-\$4,537,619	-\$3,900,565
Click! Capital	\$10,582,000	\$5,000,000	\$4,752,000
Net Cash	-\$15,323,379	-\$9,537,619	-\$8,652,565



Proposed Cable TV Rate Adjustment

A La Carte Services

Service	Current Rates COT / Outside COT*	Proposed Rates COT / Outside COT*	Change	% Change
Broadcast	\$13.65	\$14.90	\$1.25	9.2%
	\$14.75	\$16.20	\$1.45	9.8%
Basic	\$18.35	\$19.60	\$1.25	6.8%
	\$19.75	\$21.25	\$1.50	7.6%
Standard	\$40.50	\$44.25	\$3.75	9.3%
	\$43.75	\$47.75	\$4.00	9.1%
Standard Plus	\$44.50	\$48.25	\$3.75	8.4%
	\$47.75	\$51.75	\$4.00	8.4%

*Outside COT rates include an 8% Gross Earnings Tax adjustment

Proposed Cable TV Rate Adjustment (cont'd)

Digital Video Packages

Service	Current Rates COT / Outside COT*	Proposed Rates COT / Outside COT*	Change	% Change
Click! ON Digital	\$57.50	\$63.00	\$5.50	9.6%
	\$62.00	\$68.00	\$6.00	9.7%
Click! ON 1**	\$69.00	\$75.50	\$6.50	9.4%
Plus 1 Premium	\$74.50	\$81.50	\$7.00	9.4%
Click! ON 2**	\$78.50	\$86.00	\$7.50	9.6%
Plus 2 Premium	\$84.75	\$92.75	\$8.00	9.4%
Click! ON 3	\$89.50	\$98.00	\$8.50	9.5%
Plus 3 Premium	\$96.50	\$105.00	\$9.00	9.3%
Click! ON 4	\$97.75	\$107.25	\$9.50	9.7%
Plus all Premium	\$105.50	\$115.50	\$10.00	9.5%

*Outside COT rates include an 8% Gross Earnings Tax adjustment

** Packages with HBO are \$2.75 additional before and after rate increase



Proposed Rates - Comparison to Market

Service	Click! Tacoma	Comcast Local	Discount to Comcast	Comcast Regional	Discount Before	Disc to Regional
Broadcast	\$14.90	\$17.12	-12.9%	\$17.12	-20%	-12.9%
Standard Plus	\$48.25	\$49.49	-2.5%	\$67.49	-10%	-28.5%
Click! ON Digital	\$63.00	\$67.49	-6.6%	\$85.49	-14.8%	-26.3%

Service	Click! Outside COT*	Comcast Local	Discount to Comcast	Comcast Regional	Discount Before	Disc to Regional
Broadcast	\$16.20	\$17.12	-5.3%	\$17.12	-13.8%	-5.3%
Standard Plus	\$51.75	\$49.49	4.0%	\$67.49	-3.5%	-23.3%
Click! ON Digital	\$68.00	\$67.49	0.7%	\$85.49	-8.8%	-20.5%

*Outside Tacoma rates include an 8% Gross Earnings Tax adjustment, Basic is no longer actively sold and Comcast does not have a comparable product.

Other Rate Changes

Premium Channels – A la Carte

Service	Current Rates	Proposed Rates	Change	Comcast
Starz!	\$12.99	\$14.99	\$2.00	\$19.99
HBO	\$17.99	\$18.99	\$1.00	\$19.99
Showtime	\$15.99	\$16.99	\$1.00	\$19.99
Cinemax	\$11.99	\$12.99	\$1.00	\$19.99

Other Fees

Service	Current Rates	Proposed Rates	Change	Comcast
Late Payment Admin Fee	\$3.00	\$5.99	\$2.00	\$6.99

Next Steps

Action	Date
City Council First Reading	10/23/2012
City Council Second Reading	10/30/2012
Rate Increase Officially Adopted	11/9/2012
Rate Increase Notification Letters	11/26/2012
Rate Increase Effective Date	1/1/2013

Update on Click!'s Strategic Plan Background

- Public Utilities Board discussion on retail Internet and VoIP phone at their Jan 11, 2012 study session
- Follow up Board discussion at their Jan 26, 2012 study session
- ISPs persuaded the PUB not to pursue expansion of Click! retail services and to offer them the opportunity to address Click!'s financial objectives
- Board directed Click! to pursue an alternative solution in collaboration with the ISPs
- After three months of discussions on strategy and tactics, the ISPs agreed to grow their customer base by 6,000 incremental units by the end of 2016

Update on Click!'s Strategic Plan Background (cont'd)

- Delivered ISP asks:
 - Launched DOCSIS 3.0 services (faster speeds)
 - Agreed to special pricing terms for the trial
 - Enabled ISPs to sell cable service for virtual bundle
 - Provided training on cable products and pricing
 - Provided access to our billboard space for advertising
- Click! entered into an agreement with the ISPs to do a 90-day proof-of-concept trial between Aug 1 – Oct 31, 2012.

Update on Click!'s Strategic Plan ISPs Performance

- Performance expectations:
 - Add an average of 125 net new Internet customers per month for a total gain of 375 customers during the proof of concept.
- Performance to date:
 - August – 198
 - September - 199
 - Total of 397 new Internet customers; ahead of target by 22 units
 - Virtual bundles sold - 26

Update on Click!'s Strategic Plan Next Steps

- Update to PUB tentatively scheduled for Nov 14, 2012
- Enter into new short-term contracts with ISPs with performance clause

Tacoma Rail Biennium Budget Adjustment Detail

With the arrival of the Grand Alliance, Tacoma Rail is experiencing an elevated amount of intermodal rail traffic. The Grand Alliance traffic was the major factor in July and August of 2012 where intermodal volumes were 29% over budget. With the increased volume comes with it the potential for a volume incentive allowance. Currently, the allowance is draft, pending approval and a new Port of Tacoma operating agreement. However, the anticipated monthly accrual is being transferred into a sub fund. The first two months of allowance accrual equals \$416,667. The total allowance accrual for 2012 is estimated to be about \$1,050,000.

Commercial freight rail volumes are also over what was anticipated for the budget. Commercial traffic is currently on pace to exceed the biennium budget by 17%. This traffic is relatively more time consuming from a crew labor perspective. Rates are in place to offset the expense.

Tacoma Rail's locomotive service to the Union Pacific has increased over budget as well. This was primarily due to Union Pacific construction at their service facility. Due to the service upturn, locomotive related expenses are increased, augmented by locomotive servicing revenue.

Tacoma Rail also had several projects which were unanticipated when planning the budget. The largest project for the biennium was the Locomotive Repower Project. A project of its size was not anticipated at the time of the budget. The match requirement was satisfied through \$1,268,000 of Tacoma Rail's Locomotive Replacement Fund and \$153,489 from budget. From this project, \$179,247 was expensed for locomotive lubrication sticks due to being a consumable.

Another large project was Targa Sound Refining's \$617,549 facility track expansion. This project was completely reimbursed by WSDOT and Targa Sound Refining. However, the project's finances and supervision were handled by Tacoma Rail.

Although Tacoma Rail's expenses are over budget, so are the revenues. Tacoma Rail has focused on its net revenue/expenses, where it is anticipated to be positive.

Cost Center	Account	Name	Amount
591004	4343260	Line Haul Revenue	(3,115,000)
591004	4343262	Demurrage Revenue	(500,000)
591004	4343264	Misc Special	(500,000)
591004	4345242	Ful Svc Maint Rev	(1,250,000)
591004	4347140	Other Rent	(250,000)
591004	6232300	State Oper Grant	(185,000)
591004	6300020	Contributions-Other	(400,000)
Revenues			(6,200,000)
591004	5421020	Volume Incentive	1,050,000
591004	5422000	GET	270,000
591004	5422100	SUT	50,000
591004	5330100	Ext Contract Services	585,000
592101	5110100	Salaries & Wages	1,000,000
592202	5220100	Op Supplies	500,000
592202	5321000	Fuel	1,050,000
592202	5320100	Repair & Maint	1,195,000
592302	5220100	Op Supplies	500,000
Expenses			6,200,000