

Click! Budget and Rate Increases

**Tacoma Public Utility Board – Study Session
September 26, 2018**

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Final

Agenda

- Background
- Challenges
- Potential solutions
- Click! budget adjustments
- FTE status
- 2019-2020 Click! proposed budget
- Cable TV and Internet rate tables
- Market rate comparison
- Summary
- Next steps

Background

- For the 2017-2018 biennium, Click! is expected to post a deficit of approximately \$6.5M
- A preliminary draft budget for the 2019-2020 biennium projected a deficit of approximately \$9.9M
- Click! Network financial deficits have historically been funded by Tacoma Power
- Cable TV rate increases were not implemented in 2015 and 2016
- The 2017 Cable TV rate increase implemented, but 2018 was postponed
- On an A La Carte basis, Click! Cable TV rates are under market
- No Wholesale Internet rate increases implemented in the last decade

Challenges

- Superior Court decision prohibits the use of Tacoma Power funds to pay for Click! deficits
- City's General Fund is not in a position to support Click! deficits
- It is not entirely clear if City Council can/will approve Tacoma Power budget with a Click! deficit
- Transition to a Public/Private Partnership is expected to take 12 to 18 months
- It is unclear, at best, whether Tacoma Power can fund Click! business transition costs such as retention and severance for employees
- These conditions require Click! to present a fully self-funded budget

Potential solutions

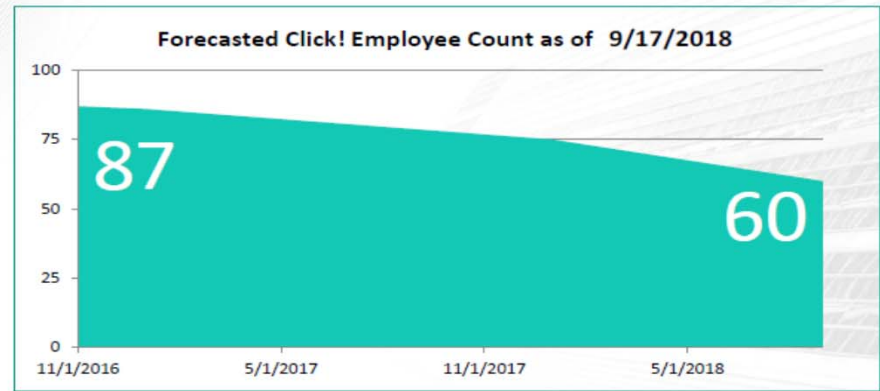
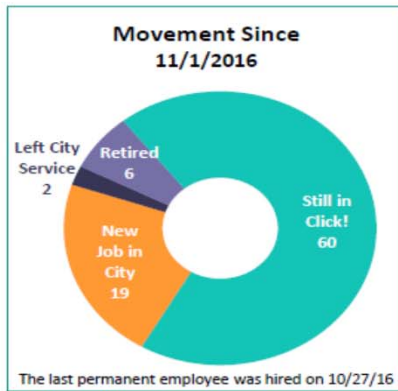
- **Raise Cable TV rates**
 - 30-day FCC customer notice requirement
 - 45 days to complete approval process
 - Could effectuate as early as 12/1/18 if approved by 9/30/18
- **Raise Wholesale Internet rates**
 - 90-day contractual advance notice provision
 - Could effectuate as early as 1/1/19 if noticed by 9/30/18
- **Reduce O&M and Capital costs**
 - Reduce FTE to 54 via attrition and augment with contract support
 - Limit capital expenditures to critical needs and plant extensions
 - Recognize transitional costs such as retention and severance
 - Measures are drastic and in response to the extraordinary circumstance

Click! budget adjustments **[Reduced Capital and FTEs]**

| (\$ in millions) | Status Quo Preliminary Budget | Cost cuts and additions | | | | 2019-2020 Budget | |
|---|-------------------------------|-------------------------|------------------|-----------------------------|------------------------------|-----------------------------|---------|
| | | Capital Cuts | Reduce marketing | Reduce FTEs and other costs | Add Transition costs | Once Each Year | |
| | | | | | | 2018/19 | 2020 |
| | | | | | 9.8% Cable plus \$5 Internet | 18% Cable plus \$5 Internet | |
| Cash Flow Deficit before increases and cuts | (9.94) | (9.94) | (9.26) | (8.91) | (6.31) | (7.56) | (5.14) |
| Revenue from Cable TV rate increase | | | | | | \$1.22 | \$2.36 |
| Revenue from ISP Advantage rate increase | | | | | | \$1.34 | \$2.66 |
| Changes in taxes, bad debt & programming costs | | | | | | (0.14) | \$0.13 |
| Capital cuts | | \$0.68 | | | | | |
| Marketing cuts | | | \$0.36 | | | | |
| Labor adjustments (FTE cuts and augmentation with contract labor) | | | | \$2.22 | | | |
| Other cost cuts (assessments, etc.) | | | | \$0.37 | | | |
| Transition costs | | | | | (1.25) | | |
| Net change in costs | \$0.00 | \$0.68 | \$0.36 | \$2.59 | (1.25) | \$2.42 | \$5.15 |
| Cash Flow Deficit after increases and cuts | (9.94) | (9.26) | (8.91) | (6.31) | (7.56) | (5.14) | \$0.02 |
| Estimated Cable customer losses | (1,963) | | | | | (1,526) | (2,979) |
| Cable customer loss % | -15% | | | | | -12% | -23% |

FTE status

Click! Position Tracking



2019-2020 Click! proposed budget

| (\$ in millions) | Current | | Proposed | Increase/-Decrease | | Increase/-Decrease | |
|---|--------------------|-----------------|-----------------|---------------------|--------|--------------------|---------|
| | 17/18 Projected | 17/18 Budget | 19/20 Budget | Budget to Projected | | Budget to Budget | |
| Revenues | | | | | | | |
| Cable TV | \$35.06 | \$40.03 | \$33.54 | -\$1.52 | -3.8% | -\$6.49 | -16.2% |
| Cable Modem (ISP) | 14.67 | 18.27 | 18.43 | 3.76 | 20.6% | 0.16 | 0.9% |
| Broadband | 2.72 | 3.00 | 2.76 | 0.04 | 1.4% | -0.24 | -8.0% |
| Miscellaneous | 0.01 | 0.00 | 0.00 | -0.01 | - | 0.00 | - |
| Intra Trans In | 1.00 | 0.00 | 0.00 | -1.00 | - | 0.00 | - |
| Total Revenue | \$53.45 | \$61.30 | \$54.73 | \$1.28 | 2.1% | -\$6.57 | -23.3% |
| Total O&M | \$56.85 | \$67.96 | \$52.92 | -\$3.93 | -5.8% | -\$15.04 | -22.1% |
| Operating Cash Flow (OCF) | -\$3.40 | -\$6.66 | \$1.81 | \$5.21 | -78.2% | \$8.47 | -127.2% |
| Additions & Replacements & Capital | \$3.10 | \$20.32 | \$1.80 | -\$1.30 | -6.4% | -\$18.52 | -91.2% |
| Net OCF | -\$6.50 | -\$26.98 | \$0.02 | \$6.51 | -24.1% | \$27.00 | -100.1% |

Cable TV rate table

Cable TV Rates Inside Tacoma

| | Customers | PACKAGE | CURRENT RATE | 2019 RATE | 2020 RATE | 2019 IMPACT | 2020 IMPACT | BIENNIAL 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

| | 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

Wholesale Internet rate table [\$5 per tier per year]

| 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 |

*Standard tiers of service. In addition to these standard tiers, individual ISPs have additional service tiers that are unique to their business. The wholesale rate of such other service tiers will also increase commensurately. Still working on setting Fiber-to-the-Premise service rates.

Market rate comparison

| 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% |
| Dec-2018 | \$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% |

*Historically used Comcast's A La Carte rates for comparisons

^We anticipate Comcast to implement rate increases in 2019 and 2020 that would produce a gap

- Room to implement proposed Cable TV rate increases
- May not be desirable to fully close the market gap
 - Competitors have the ability to bundle products and offer deep discounts on their A La Carte prices
 - Continue to meet policy goal of maintaining below market rates

Summary

- The proposed 2019-2020 Budget entails drastic cost cuts and revenue enhancements
- Labor and capital cuts are necessary, but not sustainable long-term
- Augmentation of contract labor achieved as a result of a Letter of Agreement with IBEW Local 483
- Raising Cable TV and wholesale ISP Advantage rates is necessary
- The proposed “transition” budget temporarily resolves legal and budgetary constraints
- The proposed budget should not be viewed as a viable financial model

Next steps



Meeting Dates

GPFC Meeting – October 2, 2017

TPU Board Meeting – Approval – October 24, 2018

City Council 1st Reading – November 13, 2017

City Council 2nd Reading – November 20, 2017



Notifications

ISPs (90-day advance notice) – by October 1, 2018

Cable TV customers (30-day advance notice) – by December 1, 2018



Rate increase effective dates

Cable TV – January 1, 2019

ISP Advantage rates – January 1, 2019