

BILL SUMMARY & FISCAL NOTE

Department:	Contact Person/Phone:	Executive Contact/Phone:
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1. BILL SUMMARY

Legislation Title: AN ORDINANCE related to cable television; authorizing the Mayor to enter into a new Cable Television Franchise Agreement with Qwest Broadband Services, Inc. d/b/a CenturyLink; authorizing the Chief Technology Officer to enter into other agreements for the purpose of implementing or administering the new franchise; increasing an appropriation in the 2015 budget of the Department of Information Technology for costs incurred in processing the franchise application; and transferring cash received for processing the franchise application; all by a 3/4 vote of the City Council.

Summary and background of the Legislation:

Qwest Broadband Services, Inc. d/b/a CenturyLink (QBSI), seeks approval to operate as a cable television provider in the City, allowing the company to offer its Prism cable television service. QBSI is a wholly owned subsidiary of CenturyLink, Inc. CenturyLink currently operates in Seattle as a telephone and internet service provider under separate authority.

Over the past year CenturyLink has been upgrading its existing network infrastructure in Seattle, giving its system the capacity to offer the additional cable television service. As of the date of QBSI's franchise application, CenturyLink's network upgrade areas pass approximately 60,000 Seattle households, and CenturyLink expects the upgrades to ultimately pass at least 100,000 households. With a cable franchise, QBSI would have a cable television service option to offer these households, allowing the company to directly compete with existing cable operators that already provide three service options (video, internet, telephone) to residents.

Seattle Municipal Code Sections 21.60.080 and 21.60.090 govern the granting of new cable franchises. QBSI submitted the required franchise application information and \$20,000 processing fee to the City on April 28, 2015. The Office of Cable Communications (OCC) confirmed the application was complete and conducted a legal, financial and technical review of QBSI. The review confirmed the company possesses the requisite qualifications to provide cable services in the City.

The OCC has now reached agreement with QBSI on proposed terms of a new cable franchise. The proposed franchise terms were developed to be equitable with cable franchise agreements the City has with existing cable operators, in terms of the relative obligations taking number of

subscribers into account. This legislation will allow the City Council to consider the proposed franchise terms, and authorize the City to enter into the franchise agreement with QBSI.

2. CAPITAL IMPROVEMENT PROGRAM

 This legislation creates, funds, or amends a CIP Project.

3. SUMMARY OF FINANCIAL IMPLICATIONS

 X This legislation has direct financial implications.

Budget program(s) affected:				
Estimated \$ Appropriation change:	General Fund \$		Other \$	
	2015	2016	2015	2016
			20,000	
Estimated \$ Revenue change:	Revenue to General Fund		Revenue to Other Funds	
	2015	2016	2015	2016
			20,000	
Positions affected:	No. of Positions		Total FTE Change	
	2015	2016	2015	2016
			0	
Other departments affected:	n/a			

3.a. Appropriations

 X This legislation adds, changes, or deletes appropriations.

Fund Name and number	Dept	Budget Control Level Name/##*	2015 Appropriation Change	2016 Estimated Appropriation Change
Information Technology Fund (50410)	DoIT	Office of Electronic Communications/D4400	20,000	0
Cable Television Franchise Subfund (00160)	DoIT	Cable Fee Support to Information Technology Fund Budget Control/D160B	20,000	0
TOTAL			40,000	0

Appropriations Notes:

This appropriation authorizes the use of a \$20,000 cable franchise application fee received from CenturyLink. The application fee is used to cover the 2015 expenses associated with processing

the cable franchise application. All cable-related revenues are deposited into the Cable Television Franchise Subfund (00160) and then transferred into the Information Technology Fund (50410) from which direct expenditures are made. The Cable Television Franchise Subfund requires an appropriation to put \$20,000 in the Information Technology Fund and the Information Technology Fund requires an appropriation to pay for the expenditures.

3.b. Revenues/Reimbursements

This legislation adds, changes, or deletes revenues or reimbursements.

Anticipated Revenue/Reimbursement Resulting from this Legislation:

Fund Name and Number	Dept	Revenue Source	2015 Revenue	2016 Estimated Revenue
Cable Television Franchise Subfund (00160)	DoIT	CenturyLink Application Processing Fee, per SMC 21.60.080.A	20,000	
Information Technology Fund (50410)	DoIT	Cable Fund 00160	20,000	
TOTAL			40,000	

Revenue/Reimbursement Notes:

Per amended Cable Code Section 21.60.080.A, an applicant seeking a new cable franchise must submit a \$20,000 application processing fee. The fee is used to offset the staff and outside consultant costs associated with the legal, financial and technical reviews of the application. All cable-related revenues from cable operators, and franchise applications, are deposited into the Cable Television Franchise Subfund (00160). Revenue from that subfund is then appropriated into the Information Technology Fund (50410) to support expenditures made by the Office of Cable Communications within DoIT.

3.c. Positions

This legislation adds, changes, or deletes positions.

4. OTHER IMPLICATIONS

a) **Does the legislation have indirect or long-term financial impacts to the City of Seattle that are not reflected in the above?**

Yes. The granting of a new cable franchise will include a requirement for the new grantee to pay the City’s franchise fee, utility tax, and Public, Education and Government Channels (PEG) fees. Currently the franchise fee rate is 4.4% of the gross revenues a cable operator derives from its cable services; the utility tax is 10%, and the PEG fee is

set at \$0.12 per subscriber per month.

As a new cable provider, Qwest Broadband Services, Inc. d/b/a CenturyLink will begin the franchise with zero cable television customers and no cable video service revenues. Until the company builds a cable television subscriber base, it is difficult to project the actual financial impact of this new franchise on the City. Additionally, CenturyLink is entering as a competitor in areas where the City has existing cable operators. All cable operators pay the same franchise fee, utility tax, and PEG fee rates. Therefore, any movement of a customer from an existing cable provider to CenturyLink will have minimal effect on the City's cable-related revenues; however, Federal Communication Commission (FCC) studies have indicated that new cable competition entering a market increases the net cable subscribers in that market. Any growth in the overall cable television subscriber base in Seattle could result in increased franchise fee, utility tax, and PEG fee revenue to the City.

b) Is there financial cost or other impacts of not implementing the legislation?

Yes. The City would forgo a potential increase in future franchise fee, utility tax, and PEG fee revenues that could result from having a third cable operator and an increased number of cable television subscribers the City. The City would also not receive any additional public benefits offered by CenturyLink over the term of the proposed franchise.

c) Does this legislation affect any departments besides the originating department?

The Department of Finance and Administrative Services, Tax Administration, would be impacted by the workload associated with monthly collection and processing of franchise fee, utility tax, and PEG fee payments from a third cable operator.

d) Is a public hearing required for this legislation?

Yes. A public hearing is required before a franchise can be granted. Council staff will conduct the hearing. June 17, 2015 has been suggested as a potential hearing date.

e) Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?

Yes. Per City Charter Article IV, the City Clerk must publish a franchise ordinance for ten consecutive press days in the City's official paper (Daily Journal of Commerce). This expense is borne by the franchise applicant.

Per Seattle Municipal Code 21.60.090.D, notice of the public hearing on this franchise legislation must be published in a newspaper of general circulation (The Seattle Times) at least 14 days before the hearing.

f) Does this legislation affect a piece of property?

No.

g) Please describe any perceived implication for the principles of the Race and Social Justice Initiative. Does this legislation impact vulnerable or historically disadvantaged communities?

This legislation impacts cable service competition in the City, which allows residents, including vulnerable and historically disadvantaged communities, more price and service options. To ensure the benefits of this competition is provided across income levels, CenturyLink is required by Seattle Municipal Code 21.60.170.A.1 to have a significant portion of the total households to which they offer cable service fall below the City's median income level. This requirement is to be met within two years of the effective date of a new franchise. CenturyLink has also committed to offering a needs-based cable discount to lower income, senior, and disabled customers.

h) If this legislation includes a new initiative or a major programmatic expansion: What are the long-term and measurable goals of the program? Please describe how this legislation would help achieve the program's desired goals.

n/a

i) Other Issues:

n/a

List attachments below: