



RESOLUTION NO. U-10828

1 A RESOLUTION relating to Click! Network; authorizing Click! to prepare a
2 business plan to provide, in addition to retail cable television, retail
3 internet services including voice over data internet ("VoIP") protocol,
4 commercial broadband and Gigabit service ("Retail Services").

5 WHEREAS the City Council of Tacoma authorized the Department of
6 Public Utilities ("TPU"), Light Division (dba "Tacoma Power"), to implement and
7 manage a broadband telecommunication system ("Click! Network" or "Click!" as
8 authorized through City Council Substitute Resolution No. 33668, approved
9 April 8, 1997, and Public Utility Board Amended Substitute Resolution U-9258
10 approved April 9, 1997), and

11 WHEREAS Tacoma Power provided retail cable TV services to
12 customers, wholesale internet to independent Internet Service Providers
13 ("ISPs") who served retail customers and wholesale broadband service to
14 business customers, and

15 WHEREAS the broadband telecommunication system is critical
16 infrastructure for Tacoma Power, including the connection of substations,
17 support of approximately 18,000 Gateway smart meters, as well as providing
18 support for the City's I-net system, and

19 WHEREAS the City Charter Section 4.6 requires a vote of the people
20 before the City may sell, lease, or dispose of any utility system, or parts thereof
21 essential to continued effective utility service, and

22 WHEREAS the presence of Click! Cable TV in the marketplace provided
23 savings for all cable TV customers, regardless of provider, in the Click! Market
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territory as compared to other Puget Sound market areas to an estimated average savings of \$10 million dollars a year, between 2004 and 2008, and

WHEREAS Click! services currently reaches 26.2% of the customers in the service territory with one or more of its services (Cable TV only, Internet only or Cable TV and Internet) according to Click! customer counts, and

WHEREAS 61% of those polled in May of 2015 said that it would be a good idea for Click! to provide internet service directly to customers, and

WHEREAS Click! infrastructure could provide Gigabit internet speeds to customers in the entire service territory with capital investment, and

WHEREAS customers' use of internet is increasing and use of Cable TV is decreasing, just as the cost for Cable TV is increasing significantly for the Click! network, and

WHEREAS Click!'s current business model creates future potential financial losses that may require the use of Tacoma Power ratepayer funds, and

WHEREAS the Public Utility Board has determined that the most reasonable path to meeting community objectives and financial sustainability is to pursue a business model where Click! offers additional retail products directly to its customers, including retail cable TV, Internet, voice over Internet (VoIP), and commercial broadband services ("All-In Retail model"); Now, therefore,

BE IT RESOLVED BY THE PUBLIC UTILITY BOARD OF THE CITY OF TACOMA:

Sec. 1. Definitions.



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- a. "Click! or Click! Network" shall mean the telecommunication section of the Light Division of the Department of Public Utilities for the City of Tacoma, as established and described in Public Utility Board Amended Substitute Board Resolution U-9258 and City Council Substitute Resolution No. 33668.
- b. "Tacoma Power" shall mean the Light Division (doing business as Tacoma Power), of the Department of Public Utilities, for the City of Tacoma, as established by the City of Tacoma Charter Section 4.10.
- c. "Tacoma Public Utilities" shall mean the Department of Public Utilities (doing business as TPU), for the City of Tacoma, as established by the City of Tacoma Charter Article 4.
- d. "Retail Services" shall mean cable television and retail internet services including voice over data internet protocol, retail and commercial broadband, Gigabit service and related and enhanced services offered to customers from time to time as new technologies and services become available.
- e. "Expenditures" shall mean capital (including debt service) and operations and maintenance ("O&M") expenses determined on a "cash flow" basis incurred by Click! after January 1, 2016. "Expenditures" shall not include, and Click! shall not be charged Click! past physical plant and capital related costs made by Tacoma Power on behalf of Click! prior to January 1, 2016.

Sec. 2. Click! shall work with consultants as appropriate to develop a detailed business, financial and marketing plan (the "Business Plan") to provide customers the Retail Services and other aspects of the Business Plan contemplated herein. The goal will be for Click! to present to the Public Utility Board and the City Council an initial detailed Business Plan on or near April 7th, 2016. The goal will be for the Public Utility Board and City Council to approve the initial detailed Business Plan within 60 days thereafter.

- a. The Business Plan shall include annual, biennial and longer term goals, benchmarks and measures of financial progress and success, including
 - i. building customer counts and increasing market penetration
 - ii. financial projection and benchmarks
 - iii. designing and implementing rates that support customers count goals while providing revenue to pay Expenditures



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- iv. achievement of revenues that exceed Expenditures to the extent reasonably feasible
 - v. capital expenditure planning, including debt financing where appropriate
 - vi. charging just and proper proportions of the cost and expenses of other departments or offices of the City rendering service to Click!, as required under City Charter section 4.5.
- b. The Business Plan shall also include annual, biennial and longer term goals, benchmarks and measures of progress and success for non-financial achievement, including
- i. coordination with goals and strategic plans of TPU and the City of Tacoma
 - ii. promotion of market competition
 - iii. fostering and enhancing educational opportunity and economic activity in Tacoma and Pierce County
 - iv. ensuring just access to internet service regardless of economic condition, social barriers and physical challenges.
- c. The Business Plan will make adapting to changing market conditions and increased competition a priority, including necessary capital investments to improve technologies and stay competitive.
- d. The Business Plan will authorized, but not obligate, Click! to enter into negotiations for new contracts with internet services providers using its network on terms and conditions economically acceptable to Click! and consistent with the Business Plan, including authority to purchase the businesses of the existing private internet service providers using its network. Click! will be authorized to utilize the services of third-party business valuation consultants, acceptable to all parties, in connection with such negotiations.
- e. The Business Plan will include analysis and action plans for the structure of the Click! workforce, including the negotiation with the relevant labor organizations when necessary, to meet the requirements of the Business Plan.
- f. The Business Plan shall require a separate enterprise fund (subaccount) within the Tacoma Power fund to account for Click! revenues and Expenditures.
- g. The Business Plan shall require Public Utility Board and City Council approval of budgets, expenditures, rates, and charges necessary to



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implement the business plan contemplated herein as part of the regular Tacoma Power budgeting, contract, and rates approval processes.

- h. The Business Plan shall provide quarterly and annual reports to the Public Utility Board and to the City Council to monitor Click!'s actual performance relative to the approved business plan. Such reports shall include financial gains and losses and the balance of the loan account described below.

Sec. 3. The Public Utility Board and the City Council shall, upon adoption of this Resolution, appoint a Click! Engagement Committee to provide oversight and assistance to Click! in the development and implementation of the business plan. The Click! Engagement Committee shall be comprised of three (3) Public Utility Board Members and two (2) City Council members. The Click! Engagement Committee shall meet to consult with Click! on a regularly scheduled basis established by the Committee and Click!. The Public Utility Board and the City Council may consider delegating specific authority in the management of Click! to the Click! Engagement Committee in the future as the Business Plan is further developed.

Sec. 4. A fiscal note is attached to and incorporated in this Resolution U-10828. The fiscal note estimates the Capital and O&M budget requirements and impacts in addition to the financial gains and losses anticipated over the next five (5) years, in connection with the Click! business plan contemplated herein.

Approved as to form and legality:

William Foster

Chief Deputy City Attorney

Clerk

Chair

Secretary

Adopted _____



TACOMA PUBLIC UTILITIES
 3628 South 35th Street
 Tacoma, Washington 98409-3192

To: Chair and Members of the Public Utility Board

From: William A. Gaines, Director of Utilities/CEO

Date: November 25, 2015

Subject: Financial Impact of Authorizing Click! to Provide Retail Internet Service Including Gigabit Internet Service, Voice over Internet Protocol Service and Commercial Broadband Service, and Approving a Five Year Business Plan

Background:

A variety of business models have been developed and presented to policymakers, including a base case or status quo model and prospective models for Click! offering retail internet and cable television services, Click! offering wholesale-only internet (no video) and Click! entering into a private use contract involving Tacoma Power/Click! facilities. The financial models considered both low and high growth assumptions. This report addresses the fiscal impact of authorizing Click! to provide retail Internet service including Gigabit Internet service, Voice over Internet Protocol Service and Commercial Broadband Service ("All-In Retail with Gigabit model") along with cable television services. The All-In Retail with Gigabit model anticipates a loss of 1,916 Cable customers under the low growth option and a gain of 1,152 Cable customers under the high growth option in five years. It also anticipates a gain of between 6,412 and 12,124 Internet customers, and a gain of between 5,168 and 7,563 Voice over Internet Protocol customers, low and high respectively. Table 1 below shows the financial metrics of the All-In Retail with Gigabit option.

Table 1

	All-In Retail w/Gigabit	All-In Retail w/Gigabit
	Low Option	High Option
Revenue	\$181.4	\$207.1
O&M Expenditures	\$185.3	\$206.3
Capital Investment	\$27.7	\$28.8
Cumulative Cash Flow	(\$31.6)	(\$28.0)

Fiscal Impact:

The impact of pursuing the All-In Retail with Gigabit option is that the City will incur deficit spending in the range of \$28 million to \$31.6 million over the five-year business plan period, as shown in Table 1. However, as noted in Table 2 below, the Retail All-In with Gigabit model begins to produce positive cash flow in Year 8 under the high growth option.

Table 2

	LOW OPTION		HIGH OPTION	
	Cash Flow	Cumulative Cash Flow	Cash Flow	Cumulative Cash Flow
2016	(\$13,375,861)	(\$13,375,861)	(\$14,141,034)	(\$14,141,034)
2017	(4,894,538)	(18,270,399)	(4,728,564)	(18,869,598)
2018	(5,064,295)	(23,334,693)	(4,541,133)	(23,410,731)
2019	(4,430,859)	(27,765,552)	(2,866,053)	(26,276,783)
2020	(3,829,670)	(31,595,222)	(1,750,548)	(28,027,331)
2021	(3,482,159)	(35,077,381)	(945,919)	(28,973,250)
2022	(3,832,725)	(38,910,106)	(608,528)	(29,581,779)
2023	(3,114,794)	(42,024,900)	480,572	(29,101,207)
2024	(2,877,105)	(44,902,005)	1,146,032	(27,955,175)

