Our Voices Our Future

Cable Television Franchise Renewal

Northern Dakota County
Cable Communications Commission

May 27, 2014

Cable Basics

- Local Franchise Agreement is a contract
- Comcast’s Franchise is non-exclusive
- Franchise defines the type, level, and quality of service provided by cable operator(s)
- Local governments must abide by Federal and State laws when conducting franchise renewal process
- Local Franchise length typically 10 -15 years
- Public input is a critical to the renewal process
- Renewal process is central to determining what future services citizens will receive

Franchise Renewal Opportunities

- Guarantee the provision of state-of-the art services throughout the term of a renewal franchise
- Assure quality customer service
- Assure support for PEG Access channels and local community uses of the cable system
- Assure that the cable operator pays adequate rent for use of public property

NDC4 Represents Member Cities

- Ultimately Each Member City will consider identical franchise ordinances
- NDC4 will administer & enforce franchise ordinances on cities' behalf
- NDC4 will spend roughly $100,000 - $150,000 on franchise renewal process, not including staff time

Renewal Process

Renewal begins 30-36 mos. before expiration

- NDC4 franchises with Comcast expire March 31, 2015
- Comcast letter requesting renewal (received July 2012)
- NDC4 response letter (sent August 2012)

Cable Act = high presumption in favor of renewal

- Only 3 documented cases in US where renewal was denied

Two ways renewal can be accomplished

- <u>Informal process</u>

  Very few deadlines – but little leverage

- <u>Formal process</u>

  Greater leverage but more expensive and time consuming

Informal Process

Informal Negotiations → **Renewal**

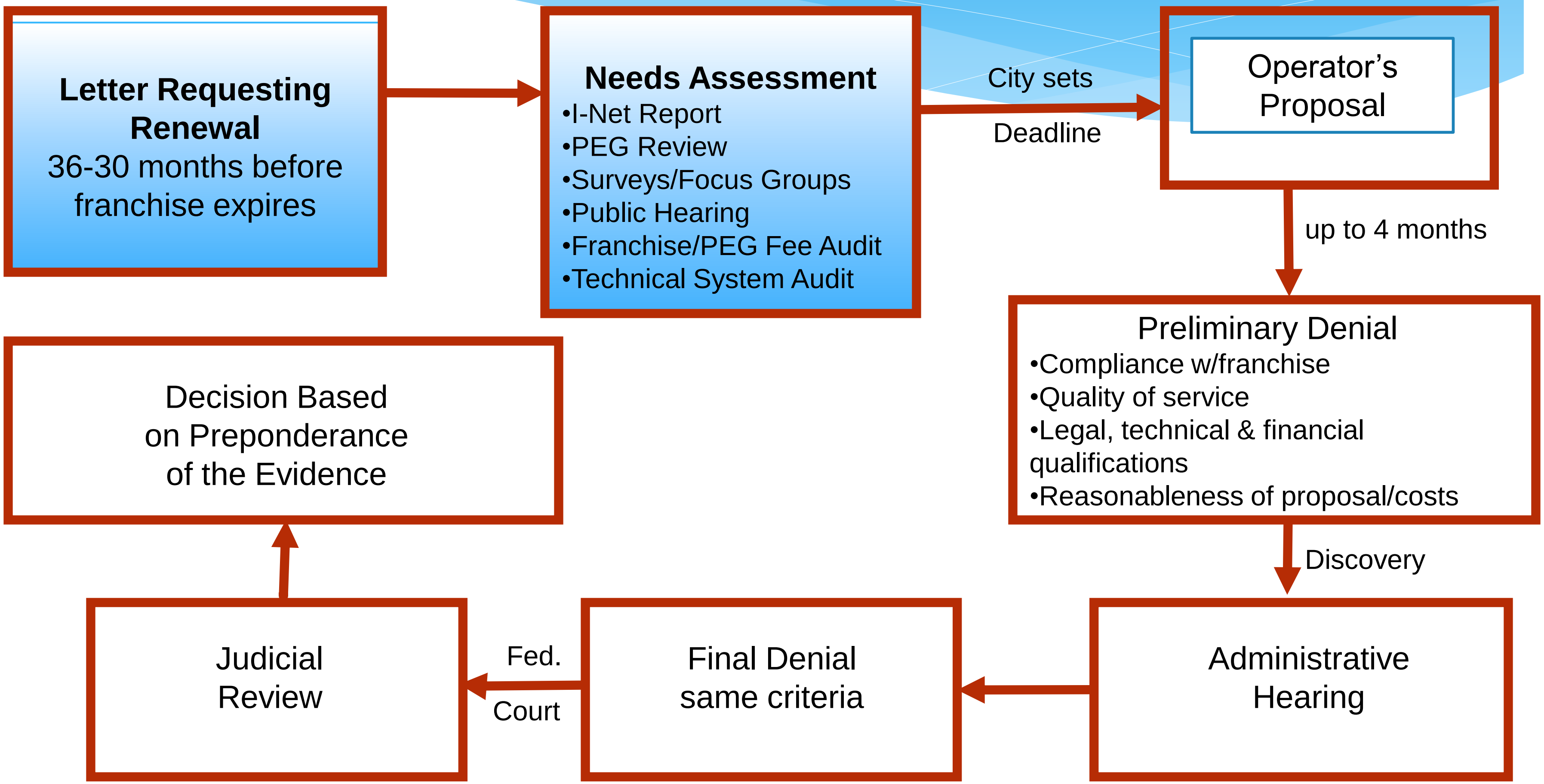
Informal Negotiations → **Back to Formal Process**

- No deadlines
- Either party can change positions
- Nothing binding until franchise executed
- Negotiations have no impact on formal process
- If Comcast and City do not reach agreement in informal negotiations, only options are:

  1) accept Comcast's terms; <u>or</u>

  2) invoke formal renewal process.

Formal Process



Current Franchise

- **NDC4 = roughly 21,000 cable subscribers**
- **Franchise granted April 1, 2000**
  - Term = 15 years
  - Expiration Date = March 31, 2015
- **Public, Education and Government (PEG)**
  - 7 PEG Channels = Channels 14, 15, 16, 18, 19, 20 and 21
    - Jointly with the Cities of Inver Grove Heights, Lilydale, Mendota, Mendota Heights, South St. Paul, Sunfish Lake and West St. Paul
  - PEG Fee – started at $.83 - increased to $1.20 in 2014
  - PEG Fee is over and above 5% franchise fee
- **PEG Fee on Subscriber's bill**
  - 2014 PEG Fee = $1.64 /sub/mo (see Exhibit B(6) of franchise)
    - $1.20 to NDC4 - $.44 to Comcast
    - PEG Fee has been between $1.29 and $1.73 since 2000.

Franchise Compensation

- **Franchise Fees**
  - 2013 = $1,035,000 received from Comcast by NDC4
  - 25% of franchise fees paid to Cities / year = approx. $259,000
  - Franchise Fee = 5% of gross revenues on "cable service"
  - Does not include telephone or broadband
- **PEG Capital Grants**
  - $1.7 million over life of franchise – 6 lump payments
- **PEG Fees**
  - 2013 = $305,000
- **Total Franchise value**
  - Just under $1.35 million per year
- **Value of next franchise – 15 years**
  - Over $20 million – w/o inflation adjustment

Value of Next Franchise

- **Conservative estimate of Comcast cable revenues from the Franchise Agreement (from consultant Sue Buske)**
  - 22,000 subscribers x $81 per month/per subscriber x 12 months x 15 years = $320,760,000
  - Comcast can leverage the cable franchise to earn an additional $300,000,000 in Internet & telephone revenues
- **Value of next franchise – to Comcast**
  - Approx. $400-500 Million – w/o inflation

Renewal Work Plan

Determine objectives of the Commission

- Current Franchise is strong, maintain with technology updates

Project work plan / needs assessment

- I-Net review
- PEG review and assessment for future – next 10 yrs
  - Community Facility and Equipment Needs, City Hall Needs
- Focus Groups, Stakeholder Meetings, Online Survey
- Telephone Survey of Comcast Subscribers
  - Comcast experience
  - PEG Channels and Programs experience
- Technical Audit of Cable System
- Franchise Fee and PEG Fee (Financial) Audit

Importance of Needs Assessment

- Leverage
- Important for **both** informal and formal renewal process

PEG Needs Assessment

What type of production facility is needed?

- Studio space, functionality, editing, remote

What type of equipment?

- SD, HD, 3D, 4K, 8K, (what's next?)
- Cameras, editing, lights, audio, playback, truck
- Consider existing age, replacement costs, next generation

How may PEG channels are needed?

- Analog channels
- SD channels
- HD channels, (what's next?)

Placement and Presentation of PEG channels

- Near broadcasters or on channels 900 – 906 (remote island)

What should PEG Fee be in next Franchise?

PEG Needs Assessment

- **PEG Programming**
  - Type to be carried on PEG channels
  - Hours of production and replay time needed
  - Interactive capability, web streaming, On-Demand
  - New Comcast Platforms like VOD and X1 Platform
  - Finding PEG schedule– Electronic Program Guide
- **PEG Staff**
  - Levels, salaries, benefits
  - Operational v. capital use of PEG funding support
  - Volunteer coordination
- **Local Community Media Center for the Future**
- **Training**
  - Departments/organizations/individuals served
  - Government, nonprofit, community groups, access producers
  - What is the PEG technology of the future?

Institutional Network

- **13 institutions (city, school, county) served**
  - 6 strands of fiber (ring around entities)
- **41 sites**
- **$850,000 + int. paid by Users for construction of I-Net**
- **"Dark fiber"**
  - Comcast not managing ("lighting") the fiber network
  - User sites choose hardware & software, run the network
- **No monthly usage payments to Comcast**
- **Est. amount saved each year**
  - Thousands $$ per site - per year
  - One school dist. est. $25,000 per year with 7-fold speed increase ($210,000 plus inflation to-date)
- **Continuation/transition at renewal is critical**

April 2014 Updated Timeline

- Deliver Draft Informal Franchise to Comcast, May 2014
- Small, nimble negotiating committee meets informally with Comcast (Starting in June)
- Meanwhile, conduct Financial & Technical Audits (summer)
- Regular status reports to NDC4 and Member Cities
- Determine likelihood of informal success by October 2014
- Deliver recommendation to NDC4 October 7th

  1) We will have recommended draft franchise by Jan. 1st OR,

  2) We recommend holding extension conversations, AND

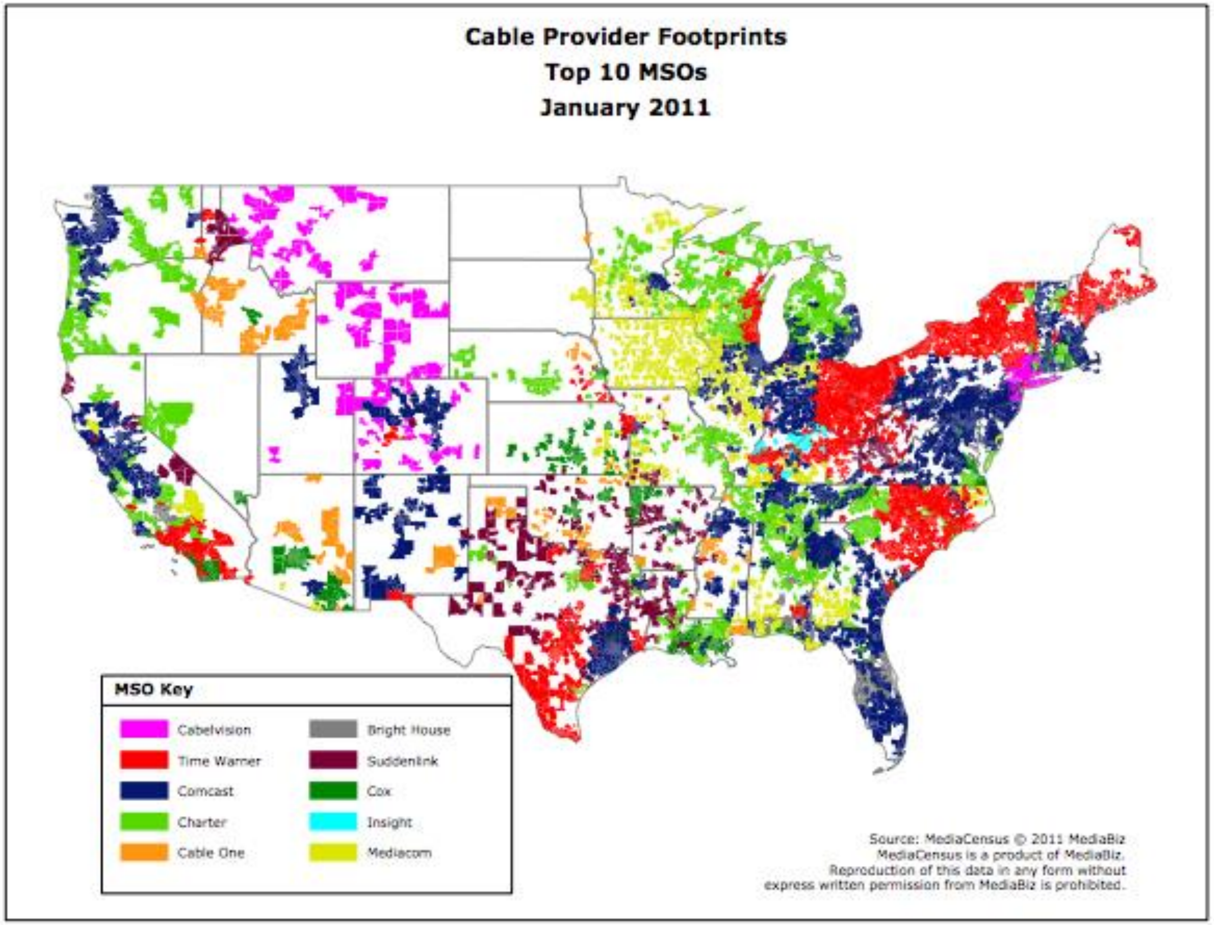
  We recommend discussion of "going formal"
- By January 1, 2015, model franchises for seven cities, OR extension and formal proceeding underway

New Wrinkle…
Comcast/Time Warner/Charter/"SpinCo"

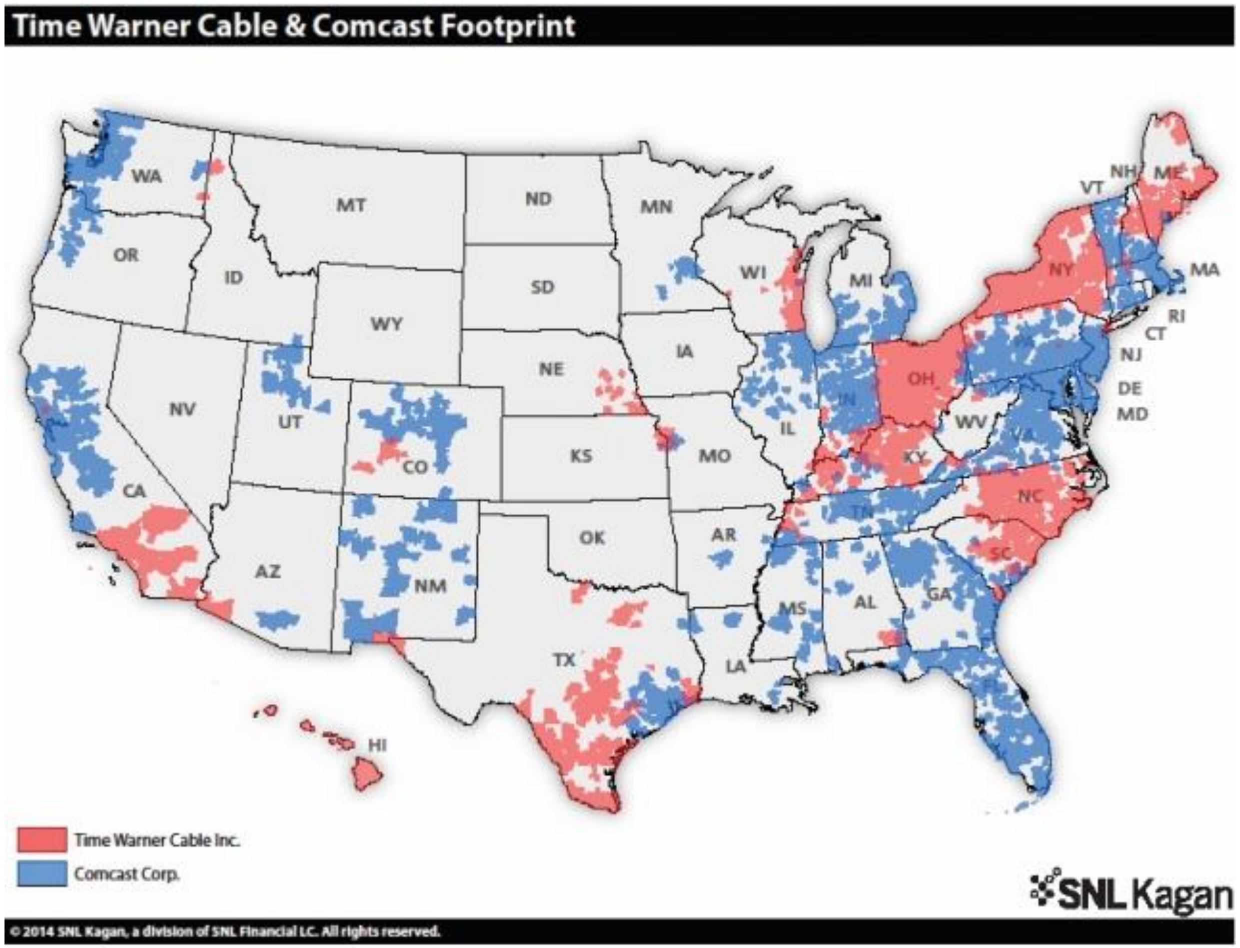
NewsFlash! Comcast merger with Time Warner

- Requires federal agencies' approvals
- Another *NewsFlash!* Twin Cities properties to be "spun off" to new entity – "SpinCo"
- SpinCo will be a new publicly traded entity - new separate board of directors
  - Owned 33% by Charter Communications, 67% by Comcast/TW shareholders
  - managed by Charter Communications
- Financial review – challenging given lack of operating history

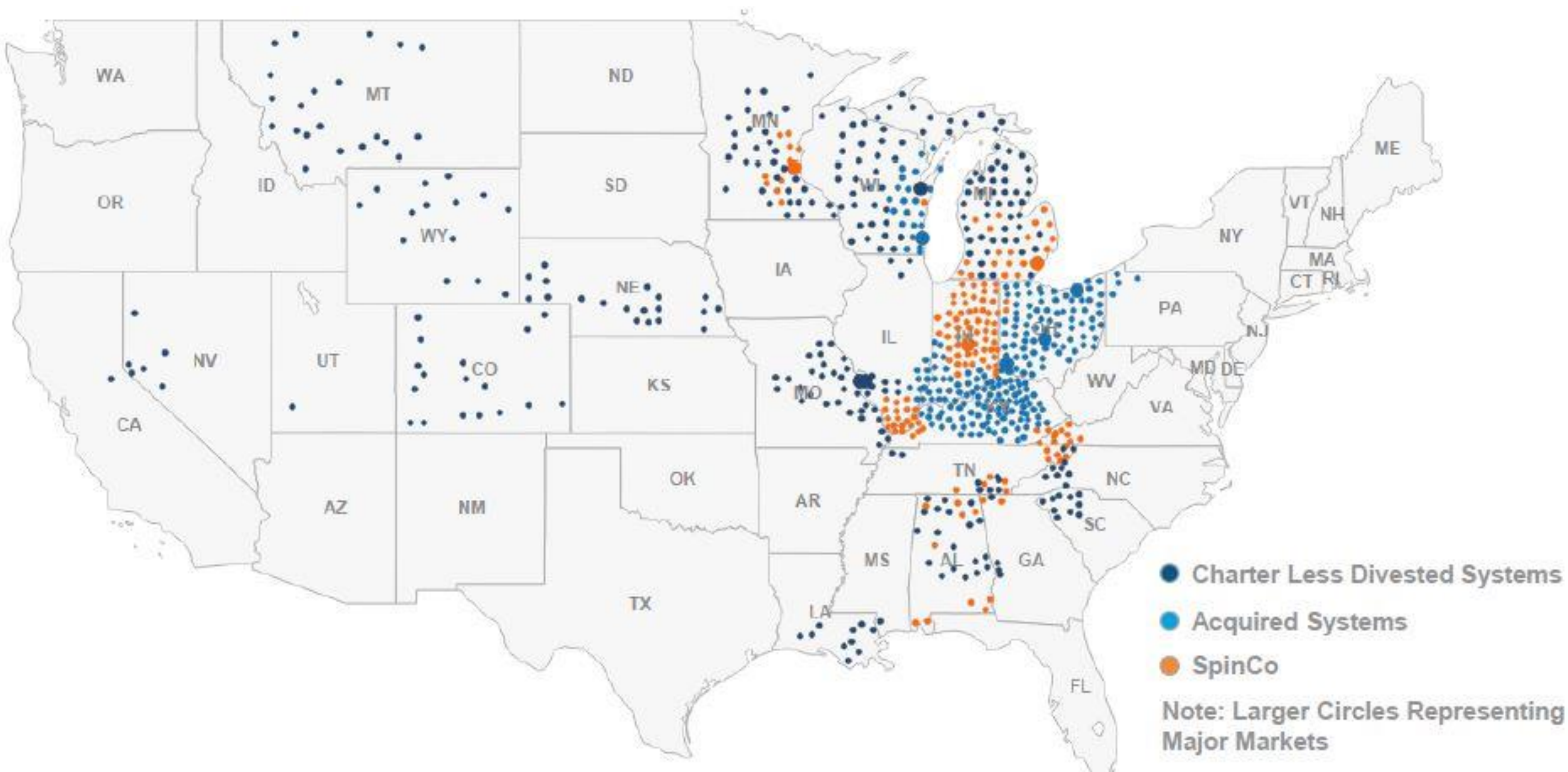
Pre-Merger Cable Markets



Comcast TWC (Pre-SpinCo) (34 million subscribers)



Proposed Charter + SpinCo (2.5 M subscribers to SpinCo)



New Wrinkle…
Comcast/Time Warner/Charter/"SpinCo"

What does this mean?

- NDC4 has right to review and approve/not approve transfers of franchises from Comcast to SpinCo
- Official request via FCC Form 394 next 30 days
- NDC4 will have 120 days to issue decision (if Form 394 application is complete)
- Legal, Technical, and Financial qualifications
- "Business as Usual" as merger unfolds

New Wrinkle…
Comcast/Time Warner/Charter/"SpinCo"

Late-breaking News

- Liberty Media announced segregation of new publicly traded stock "Liberty Broadband" to incl. its 27% interest in Charter (another spin!)
- MN LFA's working together on financial review
- FCC has agreed to combine the Charter spin-off with the original request to merge Comcast & T-W
- Cable Veteran Michael Willner named as SpinCo CEO

Final Thoughts

- "We Expect the Best, Prepare for the Worst"
- Comcast may "Audit" NDC4 or serve Data Practices Request
- If you are contacted by Comcast representatives, please contact our office.

Final Thoughts

- Please forward subscriber concerns and city needs & interests to Jodie Miller.
- NDC4 serves at the pleasure of the seven member cities. THANK YOU for your support!

Jodie Miller

651-450-9891

jmiller@townsquare.tv www.townsquare.tv

Comcast

10 River Park Plaza
St. Paul, MN 55107

Emmett Coleman
Vice President, Government Affairs
Comcast - Twin Cities Region
(651) 493-5774

August 30, 2012

Sent Certified Mail

Mr. Justin Miller
City of Mendota Heights
1101 Victoria Curve
Mendota Heights, MN 55118

Subject: FRANCHISE RENEWAL

Dear Justin:

This is a copy of the same letter that was sent to you on July 27, 2012 concerning franchise renewal, but corrected to cite Mendota Heights in the first sentence. Please feel free to contact me with any questions.

We at Comcast appreciate the opportunity to serve the citizens of the Mendota Heights franchise area. It is our Credo that *we will deliver a superior experience to our customers every day. Our products will be the best and we will offer the most customer-friendly and reliable service in the market.* In living our Credo, we look forward to providing broadband services to our customers in the Mendota Heights area for many years to come. Therefore, we are taking this step to ensure the renewal of our franchise with you.

The Cable Communications Policy Act of 1984 ("the 1984 Cable Act") encourages franchisors and cable operators to reach renewal agreements at any time through an informal process of discussion. However, Section 626 of the 1984 Cable Act also provides for commencement of a formal renewal procedure. To preserve our statutory rights to this formal procedure, this letter is our official notice to you invoking that provision.

This letter is not intended to introduce a new formality into our discussions, nor is that the intention of the 1984 Cable Act. In fact, we prefer to reach a mutually satisfactory agreement through informal negotiations, thus making many of the 1984 Cable Act's formal procedures unnecessary. I will be happy to discuss this matter with you or provide any additional information that you may require. I look forward to meeting with you in the near future and to continuing a relationship that, we believe, benefits both the community and the residents of your community.

Sincerely,

Emmett Coleman
Vice President, Government Affairs
Comcast - Twin Cities Region

NORTHERN DAKOTA COUNTY CABLE
COMMUNICATIONS COMMISSION
5845 Blaine Avenue
Inver Grove Heights, Minnesota 55076-1401
651/450-9891 Fax 651/450-9429 e-mail: NDC4@townsquare.tv

August 7, 2012

Mr. Emmett Coleman
Vice President Government Affairs
Comcast – Twin Cities
10 River Park Plaza
St. Paul, MN 55107

Re: Informal Cable Television Franchise Renewal - NDC4

Dear Emmett:

This letter responds on behalf of Inver Grove Heights, Lilydale, Mendota, Mendota Heights, South St. Paul, Sunfish Lake, and West St. Paul, Minnesota (the "Member Cities") of the Northern Dakota County Cable Communications Commission ("NDC4"). The Member Cities have each received a letter from Comcast Communications ("Comcast") dated July 27, 2012, wherein Comcast provides notice of its desire to renew its cable television franchise and requests commencement of renewal proceedings ("Renewal Letter"). Per the Renewal Letter and pursuant to 47 U.S.C. § 546, the NDC4 has initiated proceedings on behalf of the Member Cities to: 1) assess Comcast's past performance under the existing franchise, and 2) assess the future cable-related community needs and interests of the Member Cities and NDC4.

In the Renewal Letter Comcast indicates its desire to conduct renewal proceedings informally. The NDC4 is open to informal renewal negotiations with Comcast and looks forward to working with the company during this process. If Comcast objects to proceeding in an informal manner and would rather pursue a formal renewal process, please respond in writing within thirty (30) days of the date of receipt of this letter. If the NDC4 does not receive a written objection, we will conclude Comcast's silence indicates agreement to proceed in an informal manner at this time.

Based upon our review of federal law, if at any time in the process either the NDC4 or Comcast believes that renewal cannot be achieved through informal negotiations either party has the right to move forward in the formal renewal process pursuant to 47 U.S.C. § 546.

In the future please direct correspondence regarding franchise renewal directly to my attention at NDC4, and I will keep the Member Cities informed regarding the franchise renewal process. If you have any questions please feel free to contact me.

Sincerely,

Jodie M. Miller

Jodie Miller
NDC4 Executive Director

cc: Brian T. Grogan
NDC4 Commissioners
NDC4 Member Cities Managers/Administrators/Clerks
NDC4 Member Cities Mayors