COUNTY OF SACRAMENTO
CALIFORNIA

October 9, 1981
For meeting on October 14, 1981

To: The Joint Cable Subcommittee

From: Assistant County Executive

Subject: REPORT BACK

At the subcommittee meeting on September 30, 1981, the subcommittee took the following three actions:

1. Approved two staff recommendations in the report on resource allocations and directed staff to return with more specific language.

2. Requested a chart indicating the possible revenues from the franchise fees and the allocation of those revenues.

3. Directed staff to return with a better memo on priorities.

This report responds to those three actions.

SPECIFIC LANGUAGE

Following are the two approved recommendations:

1. The community access resources should be allocated to provide well balanced and diversified local programming.

2. Preference will be given to proposals that are designed to make the most effective use of the resources committed to community programs. Applicants should not offer to provide resources that cannot be used effectively, by any group, organization, or for the purpose intended.

The more specific language is contained in the RFP which has been prepared by the City Attorney. Rather than being a very precise set of specifications, the RFP attempts to establish general guidelines upon which the operators may base their more specific proposals. As indicated in the City Attorney's transmittal memo, the relevant language is found on pages 16 through 27. In addition, Form K Community Access and Resource Commitments to Local Entities elicits very specific information from the applicants in order to evaluate the proposals.

This material is the focal point for any discussion of community access by the subcommittee, the Board and the Council, and the community. Access has been identified as a major public interest issue. The remainder of this report has been prepared to aid in the discussion of the issue.

FRANCHISE FEE

Attached is the requested chart which contains a projection by year of the revenue that would be derived from a 5% franchise fee. The allocation of the revenue is broken into three components: the estimated cost for franchise administration; the amount returned to the local jurisdictions (20%) for their costs; and the remaining balance which is availabale for community access. Although the figures are only estimates, the obvious conclusion is that the franchise fee will not provide much financing in the early years for access. Without direct financial commitment by the operator or other sources of funding, local groups will find it difficult to produce community programming during these years. Even if actual revenue from the franchise fee exceeds the projections by 100% in later years, needs may exceed resources.

Without knowing what the amount or sources of potential funding would be, it is difficult to suggest any specific allocation basis for the franchise fee. This would be a matter better left to Cable Commission to develop an allocation process based on a periodic review of community needs and priorities.

ADDITIONAL INFORMATION ON RESOURCE ALLOCATION

A majority of the subcommittee has asked for a better memo. Staff's interpretation of "better" is "more precise information and suggested language." Following is the format of the response to the subcommittee's request: 1) information contained in prior reports about various community access groups is summarized; 2) further information is provided relative to a suggested priority listing in the RFP; and 3) from this information more specific conclusions are made (which in some cases border on projections into the future).

Potential Resource Needs

Following is a discussion of needs by identified organizations to date. The general format is to attempt to distinguish between initial and ongoing needs, identify possible other sources of funding, and identify potential problems.

1. KVIE. As previously indicated, KVIE's original needs have been identified at an estimated cost of approximately $4.5 million for studios and equipment. Based on committee action, KVIE also will receive four channels. The 1981-82 budget for KVIE is $3.8 million with major sources of funding being: members 44%, grants 16%, and the yearly auction 16%.

A basic problem with KVIE is the ongoing resources required to program four channels. Staff is not in a position to provide accurate estimate on the cost of programming a channel. A suggestion by one operator is that it could cost as much as $2 million a year per channel. Based on KVIE's existing budget for one channel, it is safe to assume that the resources required for four additional channels will be substantial. If they cannot produce the programming for the four channels then they will lose the channels. A question would then arise as reversion to the operator or reallocation to other groups of any studio facilities, or equipment originally allocated to KVIE.

In short with their experience, and adequate ongoing funding and a formalized commitment to serve all elements of the community, KVIE could assume the role of a major producer of community programming. If KVIE intends to fill that role and if the Board and the Council are in agreement, then two things should happen: 1) KVIE should be required to develop a proposal which has community support; and 2) language should be included in the RFP which makes this clear to all the potential applicants. If on the other hand, KVIE wishes to remain independent, and compete for resources, they should not expect an automatic priority for the 15 year term of the franchise.

2. Educational Consortium. As previously indicated, the Educational Consortium has identified initial facility and equipment needs totalling $1,280,000. Although they could use ongoing support, they do have educational funds available to produce instructional television. The future production of instructional television cannot be totally dependent upon any ongoing funding from the cable system, whether it be direct support from the operator or part of the franchise fee. The major need identified by the educational consortium is access to the distribution system to facilitate use of the instructional material as represented by a request for 30 channels on the institutional network. (The calculated per channel cost for a $100,000,000 sytstem with 120 to 160 channels ranges from $625,000 to $833,000.)

The above staff interpretation of education's use of cable television should not preclude the possibility that individual school districts could benefit significantly from future allocation of resources for facilities, equipment, or particular kinds of unique programming.

3. Public Access Sacramento. According to a prior position paper, Public Access Sacramento is a broad based coalition of individuals and representatives of organizations working on behalf of community interest. This organization has proposed the formation of a public access corporation with the operator providing two channels initially with additional channels as required, a fully equipped color studio and additional smaller public access centers, the continuing replacement of equipment, and necessary support services. In terms of funding this organization has requested that an adequate portion of the franchise fee be made available to the non-profit corporation and that the franchisee provide for organizational and operating expenses.

The ordinance provides an opportunity for the operators to propose such a non-profit access corporation. If the organization is created and the necessary facility and equipment is provided, then the problem becomes, like KVIE, the ongoing operational cost of programming for two or more channels. In effect this corporation would be a direct competitor with KVIE for both programming sources and funding from either the operator or the franchise fee.

4. Health Consortium. As indicated previously, this is an informal group requesting one channel on the subscriber network. To utilize the channel effectively, they have requested access to production facilities and equipment and would like to be considered for community access funding.

The Health Consortium becomes a more narrow community access group. Like other access organizations without ongoing financial support, they will not be able to do adequate programming.

5. Religious Coalition. This is a relatively new group which has tentatively identified programming adequate to utilize one channel. Although there is no specific request for facilities, equipment or ongoing funding, these needs will undoubtedly surface as the operators assess community needs to develop their proposals.

6. Arts Community. The planning process undertaken by the Sacramento Metropolitan Arts Commission (SMAC) has developed an awareness of the possible utilization by the arts community of the cable system. Again, no specific request for facilities or funding has been presented by SMAC to become the catalyst for community art groups wishing to utilize the cable system. However, it is anticipated that SMAC will seek to fill this role based on the outcome of the community planning process, and they will need access to facilities and equipment and funding for organizational and administrative cost.

7. Other Needs. At the last subcommittee meeting, a concept was introduced whereby funding from the proceeds of the cable operation would be made available to the community for such items as human services and cultural activities. Although there would be no need for an original allocation of cable facilities or eqiupment, use of ongoing resources for this purpose would compete with the allocation of those resources to community access.

8. Government. At this point potential governmental uses have been identified in very general terms. It will take time for those general ideas to be translated into specific uses.

Although the subcommittee did not approve the establishment of priorities for resource commitments to local entities, staff felt that such a list was not rejected until this requested supplemental memorandum was reviewed. The list and the discussion included within the draft RFP (pages 20-22) reflects staff discussions, actions by the Board and Council and the subcommittee, and comments by potential applicants. Following is a more detailed discussion of the reasons for the revised priority list:

1. Educational Consortium. Educational uses are suggested as a first priority because of the potential benefits to the total community. The state is developing a master plan for telecommunications uses for education--of which cable is only one part. It is assumed that instructional television can improve the quality and/or reduce the cost of formal education. If this is true, every person in the community will benefit from resources committed.

2. County and Cities. Two benefits are anticipated: the delivery of certain services could be improved through better information dissemination; and the cable could provide a less expensive means of data exchange. Again, these jurisdictions represent all residents of the community so any benefits realized would impact more people. Since our needs have not been identified to the same level as other needs, a priority statement will guide the applicants to an assessment of such needs and benefits.

3. We must be diligent in requiring the franchisee to honor commitments. This diligence begins in the evaluation process. Operators may promise more than the system can financially support if they perceive that the franchise will be awarded on a "more is better" basis. Their financial pro-formas will reflect this by inflating estimated revenues through overly optimistic penetration projections. If the evaluation process indicates unrealistic projections, we should expect potential future problems related to access resources.

After award, the Cable Commission should establish a process for continually monitoring the contractual responsibilities of the franchisee to be sure they are enforced in a reasonable way. We assume that the applicants will present access resource proposals which are consistent with a reasonable level of profit. A future request for release from those resource commitments is a distinct possibility if anticipated profits do not materialize or the resources are not being utilized. A continuing monitoring process will provide a better basis for making a decision on such a request. To provide continuity, perhaps one or more members of the subcommittee could be appointed initially to the Cable Commission to provide input into the development of rules, regulations, and processes based on their knowledge of the process that led to the award of a franchise.

This report should be viewed as a transition from previous reports to a detailed review of the provisions in the RFP that relate to community access. Therefore, it is recommended that the subcommittee:

1. Review and discuss pages 16 through 27 and Form K in the Request for Proposal as well as the alternative language attached to the City Attorney's submitted memorandum;

2. Make any modifications to the draft Request for Proposal that you deem appropriate; and

3. Adopt the submitted Request for Proposal as it may be modified, as the subcommittee's draft for public hearings, and direct staff to prepare and distribute for public review copies of the final draft as adopted.

Respectfully submitted,

William R. Freeman

WILLIAM R. FREEMAN
Assistant County Executive

WRF:emw

23F-A12

PROJECTED FUNDING FROM 5% FRANCHISE FEE

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8
I. REVENUE								
A. Homes in Service Area	250,000	260,000	270,000	280,000	290,000	300,000	310,000	320,000
B. Homes Passed	25,000	52,000	185,000	280,000	290,000	300,000	310,000	320,000
C. Projected Subscribers	10,000	21,840	81,400	128,800	139,200	150,000	155,000	160,000
D. Yearly Revenue	$3,000,000	$6,552,000	$24,420,000	$38,640,000	$41,760,000	$45,000,000	$46,500,000	$48,000,000
E. Franchise Fee 5%	$ 150,000	$ 327,600	$ 1,221,000	$ 1,932,000	$ 2,088,000	$ 2,250,000	$ 2,325,000	$ 2,400,000
II. EXPENSES								
A. Administrative	$ 179,500	$ 192,065	$ 205,510	$ 219,895	$ 235,285	$ 251,755	$ 269,380	$ 288,235
B. Reserve for Unusual Expenses	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000
C. Returned to Member Agencies	$ 30,000	$ 65,520	$ 244,200	$ 386,400	$ 417,600	$ 450,000	$ 465,000	$ 480,000
D. Balance Mailable for Community Allocations	$ --	$ 45,015	$ 746,290	$ 1,300,705	$ 1,410,115	$ 1,523,245	$ 1,565,620	$ 1,606,765
Less: Prior Year Deficit	$ --	$ 84,500	$ 39,485					
Deficit	$ 84,500	$ 39,485	$ --					

	YEAR 9	YEAR 10	YEAR 11	YEAR 12	YEAR 13	YEAR 14	YEAR 15
I. REVENUE							
A. Homes in Service Area	330,000	340,000	350,000	360,000	370,000	380,000	390,000
B. Homes Passed	330,000	340,000	350,000	360,000	370,000	380,000	390,000
C. Projected Subscribers	165,000	170,000	175,000	180,000	185,000	190,000	195,000
D. Yearly Revenue	$49,500,000	$51,000,000	$52,500,000	$54,000,000	$55,500,000	$57,000,000	$58,500,000
E. Franchise Fee 5%	$ 2,475,000	$ 2,550,000	$ 2,625,000	$ 2,700,000	$ 2,775,000	$ 2,850,000	$ 2,925,000
II. EXPENSES							
A. Administrative	$ 308,410	$ 330,000	$ 353,100	$ 377,813	$ 404,260	$ 432,555	$ 462,835
B. Reserve for Unusual Expenses	$ 25,000	$ 25,000	$ --	$ --	$ --	$ --	$ --
C. Returned to Member Agencies	$ 495,000	$ 510,000	$ 525,000	$ 540,000	$ 555,000	$ 570,000	$ 585,000
D. Balance Mailable for Community Allocations	$ 1,646,590	$ 1,685,000	$ 1,746,900	$ 1,782,187	$ 1,815,740	$ 1,847,445	$ 1,877,165
Less: Prior Year Deficit							
Deficit							

NOTES:

1. The homes passed figure reflects the required construction timetable.
2. The projected subscribers is based on an initial penetration rate which increases 2% a year and then remains constant at 50%.
3. The yearly revenue is based on an average billing of $300 per subscriber.
   It is possible that the average billing as well as the penetration rate will increase beyond the projected rates.
   It is possible for yearly revenues in the latter part of the franchise period to approach a level of $100,000,000 per year, which would produce a franchise fee of $5,000,000.
4. The administrative costs reflect a yearly increase of 7%.
5. The reserve for unusual expenses is for possible litigation or the need for outside professional consulting.
6. The ordinance requires a return to member agencies of 20% of the franchise fee.