



STAFF REPORT TO THE CITY COUNCIL

DATE: Regular Meeting of October 10, 2017

TO: Honorable Mayor & Members of the City Council

SUBMITTED BY: David Biggs, City Manager
Lori Martin, Director of Administrative Services

SUBJECT: Cable Television Options

RECOMMENDATION: Receive report, discuss options, and provide direction if appropriate.

COMMISSION/SUBCOMMITTEE ACTION AND RECOMMENDATION: Not applicable.

FISCAL IMPACT OF RECOMMENDATION: In FY2017/18, the City has budgeted \$25,000 as the annual cost for cable broadcast services with the City of Pinole which was based on historical levels of cost. After the FY 2017/18 budget was adopted, the City of Pinole advised that the costs under a new contract would increase to \$43,815, which would exceed the budgeted amount by \$18,815.

DISCUSSION: The City of Hercules has relied on the City of Pinole for many years to provide services which allow for the broadcast of the City Council and other meetings on the Public Education and Governmental Access channels offered through cable, which for Hercules is Channel 28 with Comcast and Channel 99 with AT&T. While the City does elements of the broadcast and other services including live streaming through the web, the relationship with Pinole arises out of the fact that Hercules does not have the required access point to the cable system here in that Comcast provided only one access point in Pinole to be shared by Pinole and Hercules which dates back to the initiation of local cable services.

The current version of the contract between Hercules and Pinole dates back to 2008 (Attachment A). As discussed under Fiscal Impact above, the City of Pinole has proposed a substantial increase for the 2017/18 fiscal year and a new contract. The proposed new contract is attached (Attachment 2). The City of Hercules has advised Pinole that we view ourselves in a holdover period under the existing contract pending our ability to evaluate and respond to the proposed new terms of service.

During the past few months, we have been evaluating information provided by the City of Pinole. Pinole has approached this as a fee for service contract, as they do provide cable broadcasting services for other entities on a fee for service basis including the City of Benicia which has its own studio and

broadcast facilities. However, the City of Hercules is not in the same fee for service relationship because the shared access to the Comcast network hinders our ability to solicit and consider alternative service providers.

Evaluation of Pinole Proposal and Costs

The City of Pinole contacted Hercules after the adoption of our FY 2017/18 budget with a proposal for a new cable contract at a much higher amount as the rate had not been adjusted for many years. Since that time, staff has been consulting with Pinole as to how they determined the costs proposed for Hercules. Since the contract amount had not been changed for a number of years, Hercules staff looked back to understand the basis for the current costs of the cable operation. The Pinole methodology establishes an hourly rate for the cost of our cable broadcast and the operation of the master mixer in Pinole.

The main increases in the Pinole cable budget operation over the past few years were:

- An increase in staffing in FY 2014/15 from 2.24 staff members to 2.75 staff members;
- An increase in FY 2015/16 in the Information Systems charges from \$11,000 to \$22,000.

Other expenses remain relatively stable and reflect cost increases in keeping with inflation and wage and benefit changes.

Pinole has used the same methodology to establish rates for the other agencies for which they provide services. The main differences are the hourly rates of the employees assigned. The calculation of an hourly rate for Hercules reflects generally accepted methodology and starts with the current hourly rate for the assigned employees. There are three factors used to build a final rate after that starting point:

- A “productive” factor adjustment which endeavors to account for leave time.
- A factor which reflects employee related costs other than pay and benefits such as workers comp, insurance, etc.
- A 15% overhead and administration factor.

Of the three factors above, Hercules staff explored the productive factor and its intended application. At this point, we do not believe it is the best means to capture what is intended. In a conversation with the Pinole staff, they indicated that they understood our concerns and that perhaps an annual true-up would be the best way to address the concerns. Also, they indicated that modifying the approach for Hercules would also require them to modify the rates for their other agencies.

Our analysis of both revenues and expenses, assuming the rate methodology is appropriate, indicates that what is proposed is generally in scale with what could be described as a proportionate share of costs. However, increased costs at any level are an unbudgeted expense.

As previously noted, cable is just one of the ways our residents can access the broadcast of City meetings. The other is through the internet and the City’s own web streaming of the meetings. More and more households across the US are cutting the cable cord and turning to non-traditional means to

access television programming including the internet through devices such as Roku. According to one article in September:

“The company (eMarketer) forecasts that there will be 22.2 million cord-cutters over the age of 18 this year, more than the 15.4 million the company had previously predicted. This figure is up 33.2% over 2016. The number of US adult cord-nevers is expected to grow 5.8% this year to 34.4 million.” <http://www.businessinsider.com/report-people-are-ditching-cable-at-a-faster-than-previously-thought-2017-9>

Connecting with our residents is a high priority for the City and as technology changes we may need to adapt.

Given the significant increase in cost, and the current lack of an ability to consider more cost effective alternatives, and changing technology, staff has identified a number of options as to how to proceed:

- A. Continue under the holdover concept and negotiate with Pinole for a cost structure that is more reasonable and reflects our “captive” status which Pinole may or may not be willing to do for a longer period than what has already taken place; or
- B. Seek some on-going financial assistance from Comcast to support the cost increase proposed by Pinole as the original decision by Comcast to provide just one access point to the two cities is the primary factor for the need to utilize Pinole and this has benefited Comcast since the inception of the PEG operation; or
- C. Conceptually agree to the changes in terms of the service contract with Pinole and bring back a final contract for consideration; or
- D. Embark on a pilot under which we just live stream the City Council and other meetings for a period of six months, this would end the current contract with Pinole, and during this time staff would:
 - Explore having Comcast provide Hercules with its own access to the cable system which would allow us to either provide the services directly or which would allow for proposals for a variety of possible service providers to provide cable broadcast support.
 - Continue to negotiate with Pinole on a new contract with terms agreeable to both parties;
 - Educate residents as to alternatives to cable and consider making the pilot project permanent.

ATTACHMENTS:

1. Current Contract w/ Pinole
2. Contract proposed by Pinole