

Agenda Report

DATE: February 26, 2001

TO: CITY COUNCIL

FROM: CITY MANAGER

SUBJECT: PUBLIC HEARING TO GATHER COMMUNITY INPUT ON POTENTIAL
CABLE TV AND OPEN VIDEO SYSTEM FRANCHISE AGREEMENTS

RECOMMENDATION:

It is recommended that the City Council conduct a public hearing to gather community input on potential cable TV and open video system franchise agreements.

BACKGROUND:

Two new telecommunications companies interested in providing cable TV services to Pasadena residents have filed franchise applications with the City. The first, Western Integrated Networks, filed a cable TV franchise application with the City on September 27, 2000. The second, Altrio Communications, submitted an open video system (OVS) application on December 6, 2000. The open video system (OVS) designation was created by the Telecommunications Act of 1996 to facilitate entry of telephone companies into the cable services market. Open video system providers must be certified by the Federal Communications Commission and the state public utilities commission. Municipalities can require open video system providers to obtain a franchise agreement before offering video programming services.

The City's franchising of open video system providers is governed by Title 18 of the Municipal Code, which was revised in May, 2000 to provide current guidelines for managing franchising of telecommunications companies, including processing of OVS applications. Under Title 18, OVS agreements take essentially the same form as a cable TV franchise, including requiring payment to the City of five percent of gross revenues.

The processing of cable TV and open video system franchise applications is essentially the same, involving:

- Review of the applicant's financial, technical, and legal qualifications to provide service
- Assessment of community requirements that may be addressed in the franchise agreement
- Analysis of issues engendered by the particular franchise application and identification of protections to mitigate risks to the City and its residents
- Preparation of a draft franchise agreement
- Negotiation with the applicant
- Completion of a final draft agreement between the parties
- Review by the City Council, including a public hearing and determination if the franchise should be granted

An important part of processing a cable TV or OVS franchise application is identification of municipal and community needs and addressing those needs in negotiated agreements. Staff performed considerable community needs assessment related to cable TV services in conjunction with the recent Charter Communications franchise renewal. The City Council and Business Enterprise Committee each conducted two public hearings during the Charter Communications franchise renewal process. Staff and the consultant assisting on the Charter franchise renewal met multiple times with representatives of the Pasadena Unified School District, Pasadena City College, and Pasadena Community Access Corporation to incorporate their needs in the assessment as well. Staff will draw on that needs assessment in processing these cable TV and OVS franchise applications. Staff will also contact these agencies again to see if their needs have changed.

All four of the previous public hearings focused heavily on Charter Communications subscribers' needs and issues. This public hearing is designed to gather community input regarding companies interested in providing the city's residents with cable TV and other telecommunications services in competition with the current cable TV provider. Information provided by members of the public during the public hearing will be added to the needs assessment data gathered previously to help guide definition and negotiation of agreements with current and upcoming applicants for cable TV and OVS franchise agreements.

Western Integrated Networks (WIN)

WIN proposes to serve all areas of the City currently served by Charter Communications. WIN expects that the Pasadena operation will be part of a regional cluster in the Los Angeles area. Construction and service delivery will be rolled out in phases, with completion of the network within five years from the award of the franchise. WIN has contracted with Bechtel Corporation to be its turnkey network construction contractor.

WIN was formed in November, 1999 with the goal of building residential high speed broadband networks that take fiber directly to customers' homes and businesses in metropolitan communities in the western and southwestern United

States. The company plans to offer full-featured video, data, and voice services to residential and commercial customers.

The company's management has many years of experience in the cable TV industry. Its Chairman and CEO previously founded FrontierVision Partners, which was the 15th largest cable TV operator before its sale to Adelphia Communications in 1999. Other company executives have experience with a variety of other cable and telecommunications companies, including Comcast, Cox Cable, Pacific Bell, and MCI.

The cities of Sacramento and San Diego, California, Portland, Oregon, and Austin, San Antonio, Houston, and Dallas, Texas have already awarded WIN franchises to serve their communities. Network design and construction is underway in the cities of Sacramento, San Diego, and Dallas. WIN is in negotiations with the City of Los Angeles. The company indicates that it wants to negotiate with Pasadena following award of an agreement by the City of Los Angeles, which is anticipated in April, 2001.

Investors in WIN include J.P. Morgan, First Union Capital, Madison Dearborn, Columbia Capital, Oak Investment Partners, BCI Partners, Dolphin Communications, Duff Ackerman & Goodrich, Telesoft Partners, Providence Equity, and The Blackstone Group.

WIN's application to the City (excluding the company's financial data) is provided in Attachment A.

Altrio Communications

Altrio Communications was formed in October, 2000 to provide voice, video, and high-speed data services specifically to residents in the Los Angeles area. Company representatives have indicated that Altrio plans to deploy its services first in Pasadena, then spread out to other area cities. Altrio has filed applications with the cities of Burbank, Glendale, Arcadia, and Monrovia as well.

Like WIN, Altrio plans to serve all residential areas of Pasadena. Altrio wants to move forward quickly with the franchise process, which is a prerequisite to construction of its network. Altrio's staff and construction contractor are working on preliminary design of the system. Field visits to city neighborhoods for construction planning and initial contacts with residents began in early February.

The company's senior management team is made up of former executives of InterMedia Partners, the 18th largest U.S. cable TV company before its sale in 1994, and Media Connections Group, a consulting firm for the international telecommunications industry and municipal and foreign governments.

Altrio's investors in its initial funding round of \$125 million include Frontenac Company, Bessemer Holdings, Soros Private Equity Partners, SSB Capital Partners (the private equity investment fund affiliate of Salomon Smith Barney), RBC

Partners (the private equity arm of Royal Bank Financial Group), Bank America Capital Investors, and Grove Street Investors (whose largest limited partner is CalPERS).

Altrio's application to the City (excluding company financial data) is provided in Attachment B.

Outreach for the Public Hearing

Notice of the public hearing was published in the Pasadena Journal on February 15, 2001 and in the Pasadena Star News on February 16, 2001. A press release was sent to those newspapers, as well as the Pasadena Weekly, the Pasadena Independent, the Los Angeles Times, the City News Service, and Neighborhood Connections.

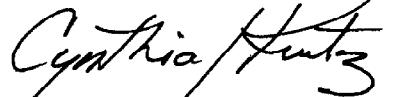
A flyer announcing the public hearing was mailed to all field representatives, neighborhood associations, chairpersons of City commissions, the Pasadena Unified School District, Pasadena City College, the Chamber of Commerce, and community and religious organizations. Flyers were also available at the City's public counters. Notice of the hearing appeared on the KPAS and PCAC bulletin boards as well.

Background information on Altrio Communications and Western Integrated Networks was available for public review at the City Clerk's Office and Pasadena libraries.

FISCAL IMPACT:

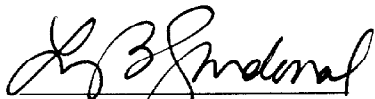
There is no fiscal impact from conducting this public hearing. This public needs assessment is a component of processing of cable TV and OVS franchise applications. The franchise agreements that ultimately result will produce several types of revenue for the City, including franchise fees, utility user taxes, grants, and in-kind services.

Respectfully submitted,



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