

# Agenda Report

DATE: JULY 23, 2001

TO: CITY COUNCIL

FROM: CITY MANAGER

SUBJECT: ADOPTION OF A RESOLUTION DECLARING THE CITY'S INTENTION TO ENTER INTO A FRANCHISE AGREEMENT WITH ALTRIO COMMUNICATIONS FOR OPERATION OF AN OPEN VIDEO SYSTEM

## RECOMMENDATION:

It is recommended that the City Council: 1) adopt a resolution declaring the City's intent to enter into a franchise agreement with Altrio Communications for operation of an open video system serving Pasadena; and 2) set the date of a public hearing related to the franchise award for Monday, August 13, 2001, at 8:00 p.m.

## BACKGROUND:

Altrio Communications submitted an application to the City for an open video system franchise in December, 2000. Since receipt of Altrio's application, staff has been working with Altrio to reach agreement on the terms of a franchise agreement, which will address the following general areas:

- Payment of a five percent franchise fee
- Requirements related to construction, upgrade or rebuild of the open video system, including conditions triggering system modification or upgrade to ensure provision of advanced services
- Requirements related to public, educational, and governmental access
- Conditions on Altrio's use of the public right-of-way
- Special services to be provided to the City
- Liability insurance and indemnification
- Identification of conditions of default
- Other penalties associated with Altrio's failure to perform according to the franchise terms

The City Charter requires that the Council adopt a resolution declaring its intention to grant a franchise and specifying the date of a public hearing prior to

adoption of any franchise. The attached resolution sets the date of the public hearing related to the franchise award for Monday, August 13, 2001. This public hearing will also constitute the public hearing required under Section 53066.3 of the California Government Code, which relates to competitive cable TV franchises.

Staff proposes the following schedule for completion of the franchise process:

- Public hearing regarding the renewed franchise agreement – August 13, 2001
- First reading of the ordinance adopting the franchise – August 13, 2001
- Second reading of the ordinance – August 20, 2001
- Ordinance becomes effective – September 19, 2001

FISCAL IMPACT:

The franchise agreement that is the subject of the proposed resolution will generate several types of revenue for the City, including franchise fees, utility users tax revenues, and grants and in-kind benefits for municipal, educational, public access, and community organization needs. These revenues will vary depending on the term of the agreement and how fast Altrio builds its system. Staff estimates the revenues as follows:

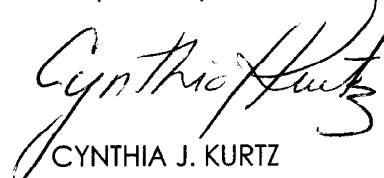
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| • Franchise fees              | \$1,917,000 to \$3,079,000   |
| • Utility users tax revenues  | \$3,604,000 to \$5,789,000   |
| • Grants and in-kind benefits | Match, but not duplicate, cable TV franchise contributions by Charter Communications, which staff estimates at \$1,293,285 |

Altrio will likely draw customers from both residents who don't have cable TV service and current Charter Communications' subscribers. The City will realize a net increase in franchise fee and utility users tax revenues over what Charter Communications currently remits only from those residents who are not current Charter Communications customers. Telecommunications industry analysts indicate that there is typically 10 to 15 percent growth in the video programming market when a new provider enters that market. As such, staff estimates that overall franchise fee and utility users tax revenue related to video programming will increase by 10 to 15 percent over the next decade.

Altrio's system construction will also generate excavation permit fees and pole attachment fees that staff is working with Altrio to estimate. Altrio also plans to offer local telephone service, which will generate additional utility users tax revenue. Phone service is regulated by the State Public Utilities Commission, and

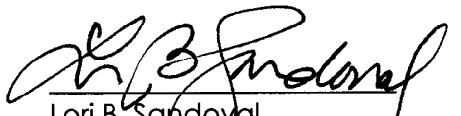
will not be covered by the City's open video system franchise agreement with Altrio.

Respectfully submitted,



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