

Tab # 38  
**Possible Increase in Cable Franchise Fee Rate**  
 Martha Lester  
 October 29, 2010

<u>Issue:</u>	<p>Should the cable television franchise fee be increased to provide additional funding for one or more of the following?</p> <ul style="list-style-type: none"> <li>– Technology Matching Fund grants</li> <li>– Public access television</li> <li>– Larger share of City external e-mail (to free up General Subfund)</li> </ul>				
<u>Background:</u>	<p>The City currently imposes a franchise fee of 4.2% on cable television services. The cable companies operating in Seattle pay the fee to the City, and in turn collect it from each subscriber as an explicit line item on the cable bill. The Mayor’s 2011-2012 Proposed Budget assumes the franchise fee remains at 4.2%.</p> <p>The City collects the franchise fee from the cable operators as a percent of the cable operators’ <i>gross</i> revenue, which includes their collection of taxes and fees, as well as external revenue such as for advertising. Under federal law, the cable operators can pass all of this through to their customers. Therefore, the franchise fee on an actual cable bill for a customer is generally higher than the rate set by the City. Current monthly cable bills range from \$14 per month to over \$180 per month. For an “average” customer whose monthly bill is \$75, the existing 4.2% franchise fee results in a fee of \$3.60 per month (4.8%).</p> <p>Revenue from the cable franchise fee is deposited in the Cable Television Franchise Subfund. Expenditures from the Cable Subfund are guided by the financial policies in Resolution 30379. Total expenditures in 2011 in the Proposed Budget are \$7.4 million (and 2012 is similar). In 2011, the proposal is to use Cable Subfund to fund portions of various BCLs in the Department of Information Technology (DoIT), including the Technology Matching Fund (\$225,000 per year), public access television (\$100,000 per year), and a portion of City external e-mail (\$400,000 per year), as well as community center technology (\$174,000 per year) and public-access computers at the Seattle Public Library (\$190,000 per year).</p> <p>The City has authority, by ordinance, to impose a franchise fee as high as 5.0%. Each 0.1% increase would generate about \$160,000 per year.</p>				
<u>Example Revenue Options:</u>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Increase fee by 0.1%</td> <td>\$160,000 per year in 2011 and 2012 (\$1.08 per year for an “average” customer whose monthly bill is \$75)</td> </tr> <tr> <td>Increase fee by 0.2%</td> <td>\$320,000 per year in 2011 and 2012 (\$2.04 per year for an “average” customer whose monthly bill is \$75)</td> </tr> </table>	Increase fee by 0.1%	\$160,000 per year in 2011 and 2012 (\$1.08 per year for an “average” customer whose monthly bill is \$75)	Increase fee by 0.2%	\$320,000 per year in 2011 and 2012 (\$2.04 per year for an “average” customer whose monthly bill is \$75)
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<u>Example Expenditure Options:</u>	<p>Examples of possible options for expenditure:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">For 0.1% increase</td> <td>\$75,000 per year for Technology Matching Fund grants \$85,000 per year for public access television</td> </tr> <tr> <td>For 0.1% increase</td> <td>\$138,000 per year for City external e-mail (freeing up same amount of General Subfund) (this is the amount needed to put the <i>full</i> cost of City external e-mail (\$538,000 per year) on the Cable Subfund) \$22,000 per year for public access television</td> </tr> </table>	For 0.1% increase	\$75,000 per year for Technology Matching Fund grants \$85,000 per year for public access television	For 0.1% increase	\$138,000 per year for City external e-mail (freeing up same amount of General Subfund) (this is the amount needed to put the <i>full</i> cost of City external e-mail (\$538,000 per year) on the Cable Subfund) \$22,000 per year for public access television
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	<p>For 0.2% increase      \$138,000 per year for City external e-mail (freeing up same amount of General Subfund)</p> <p>                                     \$75,000 per year for Technology Matching Fund grants</p> <p>                                     \$107,000 per year for public access television</p>
<u>Budget Committee Guidance:</u>	I will need specific guidance from Councilmembers during Round 1 as to what legislation, revenue, and expenditure options (if any) you would like prepared for possible action in Round 2.