

## MEMORANDUM

**DATE:** February 23, 2015  
**TO:** City of Ramsey City Council  
**FROM:** Quad Cities Cable Communications Commission (“QCCCC”)  
**RE:** Cable Television Franchise Transfer of Ownership

The current cable television franchisee, Comcast, has requested transfer of ownership to GreatLand Connections, Inc. The Quad Cities Cable Communications Commission (“QCCCC”) has reviewed the legal, technical, and financial qualifications of GreatLand Connections, Inc. and recommends approval of the transfer of ownership. The City of Ramsey is a member of the QCCCC joint powers organization, and the franchise transfer to GreatLand requires the approval of QCCCC’s member cities.

### Background

Comcast and Time Warner seek to merge. To address expected anti-trust concerns, Comcast will divest systems serving approximately 4 million customers nationwide to reduce the merged company’s footprint to 30% or less of US video subscribers. Comcast entered an agreement with Charter Communications to accomplish the divestitures.

Under the agreement, Comcast will sell some systems to Charter, swap systems to consolidate operations in certain geographic areas, and spin-off approximately 2.5 million subscribers/systems, including Comcast’s systems in Minnesota serving more than 550,000 customers, to a newly formed, publicly-traded company, GreatLand. Comcast will not own GreatLand but its shareholders will receive 66% ownership. Charter will hold the remaining 33%. Charter will also directly or indirectly control appointment of 6 of 9 seats on GreatLand’s board and Charter’s CEO, Tom Rutledge, will be the chair.

Charter will provide “customer-facing” services for GreatLand under the terms of a yet-to-be finalized agreement. This includes customer service, billing, marketing, technician deployment, and network engineering and IT services. GreatLand will deliver Charter’s “Spectrum” branded services and video programming packages.



By law, transfer to GreatLand requires the approval of QCCCC's member cities. Applicable law allows 120 days for review and action, but the deadline has been extended several times by the companies and is March 13, 2015.

### **Consultants' Financial Report**

QCCCC participated in a financial review of GreatLand with other local franchise authorities. The consultants' report argues that divestiture to GreatLand may result in increased operational costs, upward rate pressure, potentially reduced capital resources available for system needs and competition, and possible reductions in customer service quality. These conclusions are based largely on the fact that GreatLand (and Charter) will be encumbered with significant debt, and the fact that GreatLand is expected to pay more for video programming than Comcast. Programming is typically a cable operator's single largest expense.

It is important to note that applicable law does not specify criteria for evaluation of financial qualifications of a cable transferee. The FCC Form 394 itself suggests that, at minimum, the transferee must demonstrate "sufficient net liquid assets on hand or available from committed resources" to consummate the transaction and operate for three (3) months.

GreatLand will incur indebtedness to "pay for" the 2.5 million subscribers, systems and assets Comcast divests. GreatLand's debt amount is currently estimated at \$7.8 billion.

### **Transfer Consent Conditions and Settlement Agreement**

In conjunction with review of the transfer (divestiture) to GreatLand, QCCCC negotiated a settlement agreement and resolution granting conditional consent to the transfer. The terms can generally be divided into consideration or benefits, and conditions to address possible concerns about GreatLand. Most of the consideration/benefits are contained in the proposed settlement, while the resolution contains most of the conditions.

**Transfer Resolution.** By adopting the resolution, the City of Ramsey would consent to transfer to Greatland with conditions including the following:

- Approval does not waive rights regarding any future franchise renewal process or franchise compliance going forward, or retroactively for purposes of renewal.
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- Approval is not a representation that the Grantee is in continuing compliance with the franchise or applicable law.
- GreatLand shall provide written notice of closing of the transactions within 10 days after closing, and thereafter GreatLand and the subsidiary franchise-holder will be bound by the franchise and applicable law.
- GreatLand shall provide certificates of insurance evidencing coverage as required by the settlement agreement, and provide evidence of assignment or replacement of the \$100,000 performance bond and \$25,000 irrevocable and unconditional letter of credit required by the franchise within thirty (30) days after closing.
- GreatLand shall provide a guarantee in a specified form ensuring that sufficient financial resources are made available to the franchise-holder to comply with the franchise and applicable law. GreatLand represents and assures adequate financial resources will be available.
- GreatLand is required to comply with conditions or requirements imposed by federal agencies regarding the transactions, provided that enforcement must be at the federal level.
- GreatLand shall provide a written guarantee in a specified form that subscriber rates and charges will not increase as a result of the costs of the transaction.
- The member cities waive no rights to require franchise fee or PEG fee payments on present and future services delivered by GreatLand or its subsidiaries and affiliates via the cable system.

If any conditions or requirements are not satisfied, the approval and consent to the transfer are denied and void. If any written representations made regarding the transfer are materially incomplete, untrue or inaccurate in any material respect, it shall be deemed a material breach of the franchise and applicable law, and subject to franchise remedies and law.

**Settlement Agreement.** The following summarizes the deal points contained in the settlement which has been approved by the QCCCC:

- The Franchise is extended through August 31, 2020, and are automatically further extended through December 31, 2024 unless the Grantee timely requests, in writing, renewal proceedings.



- Grantee will continue PEG support of 2.5% of gross, plus increased support of \$0.20 per subscriber/per month, and continuation of the annual grant (approx. \$55,000 plus CPI inflator).
- One PEG channel in HD and a second channel added in 12 months. Bill message announcing the HD PEG channel. PEG channel information on the electronic programming guide. Reimburse costs to market up to \$2,500 per channel, and provide bill notices.
- Grantee pays the Commission \$55,619.39 for franchise and PEG fees underpayments.
- Grantee shall reimburse the QCCCC's transaction review costs.
- The Agreement is subject to member city approval of the transfer. The Grantee will reimburse the costs to review the transactions.

### **Recommendation**

The benefits of an extended franchise, continuation of the current strong PEG funding formula coupled with a modest funding increase, and beneficial PEG channel terms coupled with the protections in the consent resolution present an attractive package of terms. QCCCC recommends city approval of the transfer of ownership based on the settlement and the conditions imposed by the consent resolution.

