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COVER SHEET – AGENDA ITEM #R1

For Commission Meeting: September 21, 2015

“Comcast Cable Franchise Fee and PEG/I-Net Fee Review”

Recommendation

Staff recommends the Commission accept the findings of the Comcast Franchise and PEG/I-Net Fee Review for the period ending September 30, 2014.

Background

The Commission contracted with the City of Portland, Division of Revenue to conduct a franchise fee review of Comcast. The Revenue Division reported that, based upon full compliance with audit requests, that all audit issues have been resolved. The audit period covered quarters ending March 31, 2012 through September 30, 2014. The auditor recommends that the audit be accepted as filed. The auditor noted the following:

- All information requested from Comcast of Oregon II, Inc. was forwarded.
- Chart of accounts was reviewed to ensure no accounts were excluded from Franchise Fee calculation.
- Financial records were filtered by each franchise area. Once filtered, audit was able to summarize all fees to be included in the Franchise Fee calculation by each quarter in the audit period.
- Several subscriber billing statements were reviewed. The Franchise Fee and the PEG Fee exceed five and three and percent to cover non-end user revenues such as advertising and home shopping.
- Actual bad debts are billed on a monthly basis and are included in the Franchise Fee calculation.
- Taxable revenues and non-taxable revenues were tracked and fully explained. Audit agrees services not included in the Franchise Fee calculation are considered non-taxable.
- Audit has determined the Franchise Fee and the PEG Fee are being collected and remitted according to the Cable Franchise Agreement.
- Comcast maintains a separate billing agent or agents (unique identifier) for each local franchise area. A local franchise area has a unique billing agent or agents, which differentiates its subscribers from subscribers in other franchise areas. Any new business and residential structures are incorporated.

Prepared by: Mary Beth Henry
September 15, 2015



CITY OF PORTLAND
OFFICE OF MANAGEMENT AND FINANCE
BUREAU OF REVENUE AND FINANCIAL SERVICES
Charlie Hales, Mayor
Kenneth L. Rust, Chief Financial Officer
Thomas W. Lannom, Revenue Division Director

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Revenue Division
111 SW Columbia Street, Suite 600
Portland, Oregon 97201-5840
(503) 823-5157
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June 29, 2015

Ms. Mary Beth Henry
Office for Community Technology
111 SW Columbia Street, Suite 600
Portland, OR 97201

AUDIT REPORT
Comcast of Oregon II, Inc.

Dear Ms. Henry:

The Revenue Division is reporting to you that we believe, based upon full compliance with audit requests, that all audit issues have been resolved. The audit period covered quarters ending March 31, 2012 through September 30, 2014. It is our audit determination that the quarterly Franchise Fee payments of Comcast of Oregon II, Inc. for quarters ending March 31, 2009 through September 30, 2014, be accepted as filed. We note the following:

- All information requested from Comcast of Oregon II, Inc. was forwarded.
- Chart of accounts was reviewed to ensure no accounts were excluded from Franchise Fee calculation.
- Financial records were filtered by each franchise area. Once filtered, audit was able to summarize all fees to be included in the Franchise Fee calculation by each quarter in the audit period.
- As of September 2014, there were [REDACTED] MHCRC Service District customers in the Franchise Fee base (Residential [REDACTED] & Commercial [REDACTED]).
- Several subscriber billing statements were reviewed. The Franchise Fee and the PEG Fee exceed five and three and percent to cover non-end user revenues such as advertising and home shopping.
- Actual bad debts are billed on a monthly basis and are included in the Franchise Fee calculation.
- Taxable revenues and non-taxable revenues were tracked and fully explained. Audit agrees services not included in the Franchise Fee calculation are considered non-taxable.
- Audit has determined the Franchise Fee and the PEG Fee are being collected and remitted according to the Cable Franchise Agreement.
- Comcast maintains a separate billing agent or agents (unique identifier) for each local franchise area. A local franchise area has a unique billing agent or agents, which differentiates its subscribers from subscribers in other franchise areas. Any new business and residential structures are incorporated into an existing CSG billing area which causes

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aids/services to persons with disabilities upon request.*

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theses subscribers to automatically be included in Franchise Fee calculations.

- There are several criteria to ensure that a customer is located in the correct billing agent.
 - **Customer Contact:** When a customer calls to schedule an appointment for service they are asked their address and what municipality they live in. If the address is not in our billing system, a survey is conducted by our technical department to see if our cable plant passes their home and to verify what municipality they live in.
 - **New Development:** New Developers contact Comcast and provide us with the information on the number of homes, street addresses and city/county limits, when project is to start, etc. After our construction crew has completed the new development, the addresses are input into our database once released and ready for customers to order services.
 - **Annexed:** The jurisdictions mail the company information on newly annexed streets. We then move the billing address in our database to the correct jurisdiction. When an active customer is annexed from one jurisdiction into another jurisdiction limits, the customer's account number is changed to reflect the billing agent of the new jurisdiction.

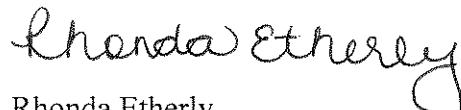
A significant amount of information was provided by Comcast of Oregon II, Inc. in response to the audit request. Considering the majority of this information is confidential in nature, we will limit the attached addendum to the following items to support the audit:

- a. Letter dated October 10, 2014 notifying Comcast of Oregon II, Inc. of the audit.
- b. "Initial Information Request"

If you wish to review additional information pertaining to this audit, confidential data and all workpapers will be maintained by the Revenue Division.

In summary, the Revenue Division recommends the Office for Community Technology accept all matters under audit as complete.

Sincerely,



Rhonda Etherly
Senior Revenue Auditor
Revenue Division-City of Portland

cc: Scott Karter, Audit & Accounting Division Manager



CITY OF PORTLAND
OFFICE OF MANAGEMENT AND FINANCE
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Fred Miller, Chief Administrative Officer
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October 10, 2014

Comcast Cable
Attention: Government Affairs
9605 SW Nimbus Avenue
Beaverton, OR 97008

(Copy mailed also to)
Comcast Cable
Attention: Government Affairs
15815 25th Avenue West
Lynnwood, WA 98087

REQUEST FOR INFORMATION
Mt. Hood Cable Regulatory Commission Franchise Fee Compliance Review

Dear Franchisee:

The Mt. Hood Cable Regulatory Commission is conducting a compliance review of franchise fees paid under the Cable Franchise Agreement dated January 1, 2012 between Comcast of Oregon II, Inc. and the City of Portland.

This review is authorized under Section 13.1 ("Open Records") of the Cable Franchise Agreement.

The purpose of this review is to ensure that all franchise fees due and payable under the Cable Franchise Agreement have been calculated correctly and that all gross revenues for the purposes of calculating franchise fees, as defined under Section 3.27 of the Cable Franchise Agreement, have been reported. The franchise fees under review are all franchise fees paid since the Cable Franchise Agreement was signed. Therefore, this shall constitute a review of all franchise payments made for quarters ending March 31, 2012 through the most recent quarter completed.

The Audit Division of the City of Portland Revenue Bureau has signed an intergovernmental agreement to assist the Mt. Hood Cable Regulatory Commission in this review process and will be conducting the compliance review.

Attached to this letter is a request for specific information. This request is in accordance with Sections 13.1 through 13.6 (Records and Reports). **Please provide copies of this information no later than Friday, November 14, 2014 or contact me by this date if you need additional time.** If you have any questions or need to contact me regarding this information request, please contact me at (503) 865-2861. If you wish to contact me by email or to forward documents, spreadsheets, etc. to me via email you may do so at Rhonda.Etherly@portlandoregon.gov.

Sincerely,

Rhonda Etherly
Senior Revenue Auditor
City of Portland Revenue Bureau

cc: Scott Karter, Audit & Accounting Division Manager - Revenue Bureau
Mary Beth Henry, Staff Director – Mt. Hood Cable Regulatory Commission

INITIAL INFORMATION REQUEST
Mt Hood Regulatory Commission Compliance Review

1. Please provide the version of the Comcast Chart of Accounts and/or Accounts Manual that was in effect during the period under audit. The chart and/or manual must include account numbers and account descriptions.
2. Please provide all reports and/or information containing all Comcast gross revenues by revenue account, sub account and/or revenue code for the period under review.
3. Please provide a list of all services, main account, sub account and/or revenue codes in which Comcast has accrued revenue within the “Franchise Area” during the period under review that is included in its calculation of Franchise Fees paid to the Mt Hood Cable Regulatory Commission (MHCRC).
4. Please provide revenues by month and quarter for all months and quarters during the period under review that Comcast accrued or earned within the Boundaries of the MHCRC Service district
5. Please provide a list of all services, main account, sub account and/or revenue codes in which Comcast has accrued or earned revenue within the Boundaries of the MHCRC Service District during the period under audit but excludes from the calculation of Franchise Fees due to the MHCRC.
6. Please provide revenues by month and quarter during the period under audit accrued or earned within the MHCRC Service District for all services, main account, sub account and/or revenue codes that Comcast excludes from its calculation of Franchise Fees due to the MHCRC.
7. Please provide an accounting, written explanation or other such reasonable evidence that all items listed in the Franchise Agreement, Section 3.27 have been included in Gross Revenues for all quarters under review.
8. Please provide all Company-generated reports and/or information that calculate Franchise Fees due to the MHCRC by quarter for all quarters under review.
9. Please provide samples of monthly bills submitted by Comcast to customers within the MHCRC Service District. Please provide 10 such samples of these monthly bills from commercial customers and another 10 samples from residential customers if applicable. We ask that you provide samples from a comparable period (example: Samples of monthly billings from August, 2012).
10. Please provide a brief narrative describing how Comcast calculates Franchise Fees due and payable to the MHCRC. With this narrative, please also provide an explanation of how you determine whether a customer is included or not included in your database as a customer located in the MHCRC Service District. Please note that the audit may find it necessary to request additional information to determine if all MHCRC Service District customers are correctly identified as MHCRC Service District customers within your database.
11. Please provide a statement of the total sum of MHCRC Service District customers (please sum both residential and commercial separately) included in the Franchise Fee base.