

## City of Alexandria, Virginia

## MEMORANDUM

DATE: DECEMBER 7, 2004

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER *PS*

SUBJECT: 2004 ANNUAL REPORT AND PLANT SURVEY FROM COMCAST CABLE COMMUNICATIONS, INC.

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**ISSUE:** Receipt of the 2004 Annual Report and Plant Survey from Comcast Cable Communications, Inc. (Comcast).

**RECOMMENDATION:** That Council receive the Comcast 2004 Annual Report and Plant Survey. The Commission on Information Technology reviewed the results of the reports at its November 8 meeting and approved the staff analysis.

**DISCUSSION:** Section 9-3-513 (a) of the City Code requires the cable television franchisee to submit an annual written report to the City Council which summarizes the company's previous year's activities in operating the Alexandria cable television system. The 2004 report, which covers the fiscal year of July 1, 2003 through June 30, 2004 (the tenth year under the cable franchise), summarizes the company's activities with respect to programming and customer service, physical plant and system operations, and describes the company's financial condition for the calendar year ending December 31, 2003.

Comcast offers 80 analog channels and 250 digital channels of video programming to 49,893 subscribers in the City of Alexandria, a decrease of 1,354 (2.6%) subscribers over 2003. According to Marie Schuler, the local Director of Government and Community Affairs for Comcast, this decrease is a direct result of competition from satellite and other video providers. Of the 49,893 subscribers, 46,439 (93.1%) subscribe to premium or pay services; 28,464 (57.1%) of the customers subscribe to digital service, and 3,319 (6.7%) subscribe to Digital Video Recorders (this increase is related to the increase in Video on Demand programming Comcast now offers). Cable penetration in the City of Alexandria is 64.0% (i.e., 64% of the City's residents and business owners subscribe to Comcast). Ms. Schuler believes that the number of cable subscribers has peaked. Therefore, Comcast is focusing on maintaining their existing telephone customers, while concentrating on the growth of the video market.

The full report runs more than 385 pages. Due to its size, the entire report is not attached, but it may be reviewed in the City Clerk's Office. The following portions of the report are attached: cover letter (Attachment 1); summary of local origination and community programming

(Attachment 2); and the independent auditor's report (Attachment 3). Following is a summary of the major accomplishments described in the Annual Report and the actions taken by the franchisee to comply with City and federal requirements.

**Programming:**

- **Local Origination and Community Programming**  
During FY 2004, Comcast's combined community and local origination programming on Channel 69 met the 30 hours or more overall requirement and, in most cases, exceeded the franchise requirement that at least ten hours per week be original, unrepeated programming of interest to Alexandria residents. A summary of the year's activities for local origination and community programming is provided in the Annual Report. Comcast continues to encourage citizen participation in Community Programming certification classes. During FY 2004, Comcast certified nine people, down seven from 16 over last year, for community programming production.
- **Programming and Channel Changes**  
The major changes made included the launch of a new Digital Sports Tier which consists of Fox Sports Net feeds, Fox Sports World, and NBA TV. Also added in High Definition (HD) were ESPN, InDemand, and WTTG and WBDC-50. All customers who have an HD television and are renting an HD converter box will have access to all programming distributed in HD. WGN was added as a Limited Basic Service and Hallmark was added as an Expanded Basic Service. To accommodate this new programming, several InDemand channels were moved and other analog and digital channels were repositioned. The channel additions, deletions, and repositions are detailed further in the attachment.

**Physical Plant and System Operations:**

- **System Construction**  
During FY 2004, Comcast expanded the physical plant by adding 0.13 miles of underground cable plant including coaxial and fiber cables. This small amount of plant expansion relates to the fact that there are no large developments in FY 2004 (such as Cameron Station) which required major expansion of the cable system's infrastructure. As of September 2004, the total number of residential and commercial units passed (units in Alexandria able to receive cable television service) was 77,930.
- **Service Outages**  
Staff's review of the Annual Report showed that during FY 2004, the number of outages increased from 65 in 2003 to 103 (59% more than 2003) mostly due to the severe weather during the reporting period, particularly during Hurricane Isabel. An outage is defined as a service interruption affecting three or more subscribers connected to the same node. Comcast reports that of the 103 outages; 43 (15 more than last year) were due to Comcast equipment failure, such as damaged motherboards, feeder connectors, and

modules in the nodes. Of the remaining 60 outages, 14 were the result of Dominion Virginia Power system outages (the same as last year), 12 were a result of damage to the plant by contractors who did not consult with MISS UTILITY prior to digging activities or ignored Comcast's cable line markings (six more than last year), five were caused by electrical power outages due to electrical shortages and power surges (six less than last year), one outage self-corrected, and the remaining 28 outages (21 more than last year) were due to routine maintenance activities conducted by Comcast staff.

Five of the 103 outages lasted longer than four hours (one more than last year). The City Code requires Comcast to credit subscribers with a prorated share of the monthly charge if the subscriber is without service or if service is substantially impaired for any reason for more than four hours during and 24-hours period. Comcast staff issued the appropriate credits to the affected customers. Staff will continue to monitor system outages and ensure that credits are given where appropriate.

- Plant Survey  
Section 9-3-153 (c) of the City Code requires the franchisee to submit a complete survey of its plant, including electronic measures to determine any signal leakage above the FCC requirements, and to assure the City that Comcast is complying with FCC technical standards. The FCC Proof-of-Performance tests were conducted by Comcast staff January 1- February 20, 2004. Signal leakage tests were conducted for Comcast by Comcast Engineering/Compliance on August 19, 2003. All tests indicated that results complied with FCC technical standards.

#### **Customer Service:**

- Subscriber Trouble Calls  
During the reporting period, Comcast responded to 11,500 subscriber trouble calls, an increase of 220 calls (two percent) from 2003. These trouble calls related to problems with customers equipment (televisions and VCRs), converter boxes, distribution/signals, and coaxial cable. The majority of these calls (5,951 or 52%) were in the "Tap to the TV Set" category (the "tap" is the connecting equipment from the pole to the house), 1128 fewer than last year. The majority of the tap to TV set problems result from bad connectors or splitters between the tap and the customer's TV due to age, corrosion, exposure to the elements, or fittings that had been improperly tightened by customers. Converter problems accounted for 19% of the trouble calls, and the remaining 29% of calls were a result of customer equipment (five percent), miscellaneous problems (17%), or no trouble found/subscriber not home (seven percent).
- Customer Service Standards  
The City Code requires Comcast to report quarterly on telephone availability. The Code requires Comcast's service representatives to answer their telephones within 30 seconds, 95 percent of the time. This standard exceeds the federal standard which requires that the telephones be answered within 30 seconds, 90 percent of the time. During the reporting

period, Comcast's quarterly data indicate that the percentage of telephones answered within 30 seconds was as follows: July (97.6%), August (87%), September (88.5%), October (86.9%), November (77%), December (90%), January(81.9%), February (86.5%), March (81.3%), April (86.2%), May (85%), June (77.3%). Since Comcast's average response time statistics for each quarter did not meet the 95 percent standard, the company was fined four times for a total of \$800.

<b>Statistics FY 2003</b>	<b>Statistics FY 2004</b>
July (97.6%)	July (97.6%)
August (87%)	August (81.6%)
September (88.5%)	September (86.5%)
October (86.9%)	October (89.4%)
November (77%)	November (88.3%)
December (70%)	December (89.9%)
January (81.9%)	January (90.88%)
February (86.5%)	February (91.8%)
March (81.3%)	March (92.33%)
April (86.2%)	April (93.89%)
May (85%)	May (93.31%)
June (77.3%)	June (91.1%)

It should be noted that, overall, these percentages are higher than those of last year. Comcast accomplished this by increasing salaries slightly to reduce turnover and attract quality service representatives; providing more training for service representatives to respond more accurately to customer queries and problems; and monitoring telephone calls and providing employee coaching as needed.

**Financial Information:**

Director of Finance, Dan Neckel, reviewed the financial information provided from Comcast including:

- Audited Gross Receipts of Comcast Cablevision of Virginia, Inc. for the year Ended December 31, 2003;
- Unaudited Financial Statements of Comcast Cablevision of Virginia, Inc. for the year ended December 31, 2003; and

- Excerpts from the Financial Reports of Comcast Corporation as of December 31, 2003.
- Audited Gross Receipts:  
The schedule and accompanying audit opinion are a special report issued by Comcast's external auditors for a specific purpose. In this case, the schedule addresses the gross receipts recorded in accordance with the June 1994 cable franchise fees to be paid to the City. The external auditors found that the revenues associated with this agreement for the year ended December 31, 2003 were \$34,384,503. This represents an increase of 5.2% or \$1.7 million when compared with the audited gross receipts for 2002. The external audit opinion is a clean opinion, indicating that the revenues as stated can be relied upon by the City. In the report, the auditors noted that the Federal Communications Commission (FCC) has ruled that cable modem services (i.e., broad band high speed Internet services) are not a "cable service" and thus are not included in the gross receipts subject to the cable franchise agreement.
- Unaudited Financial Statements:  
The unaudited financial statements for Comcast Cablevision of Virginia, Inc. Alexandria for the year ended December 21, 2003, included a Balance Sheet, a Statement of Cash Flows and a Statement of Operations and Accumulated Deficits. These statements show that the Alexandria operations of Comcast earned \$5.1 million for the year, thus reducing the operation's Accumulated Deficit from \$35.8 million to \$30.7 million. During the year, Comcast increased their investment in the property and equipment in Alexandria by \$10.6 million bringing the total cost of the Alexandria property and equipment to \$65.8 million. The Comcast Alexandria operation has a long-term debt to affiliated companies of \$43.5 million. The total Stockholders' Equity for Comcast Cablevision of Virginia, Inc. Alexandria as of December 31, 2003 was \$132.8 million.
- Comcast Corporation Financial Report:  
The Comcast Corporation Financial Report is the financial statement of Comcast Corporation and its subsidiaries as a whole. The financial information of Comcast Cablevision of Virginia, Inc. Alexandria is such a small portion of the total operation that it is not mentioned separately in this report.

The Comcast Corporation is the largest cable operator in the country with 21.5 million video subscribers, 5.3 million high-speed internet subscribers and 1.3 million telephone subscribers. Comcast Corporation and its subsidiaries had a net income for the year of \$3.2 billion on revenues of \$18.3 billion. Its total stockholders' equity increased from \$38.3 billion to \$41.7 billion. Comcast's external auditors issued Comcast Corporation and its subsidiaries a clean opinion indicating the financial statements comply with existing accounting standards and are free from material misstatements.

**FISCAL IMPACT:** For calendar year 2003, the franchise fee to the City, based on three percent of gross receipts from all operations (\$34,384,504), was \$1,031,535. Franchise fees are

considered general revenues that are deposited in the General Fund and help finance the City government expenditures and transfers. In addition, Comcast paid the City the required \$659,651 in support of City information technology systems.

**ATTACHMENTS:**

Attachment 1. Cover letter to Rose Williams Boyd from Marie Schuler dated August 30, 2004

Attachment 2. Summary of Local Origination and Community Programming

Attachment 3. Independent Auditors' Report

**STAFF:**

Rose Williams Boyd, Director of Citizen Assistance

Jacqueline Levy, Cable Television Administrator

Dan Neckel, Director of Finance



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Fax: 703.567.4444  
www.comcast.com

August 30, 2004

Ms. Rose Williams Boyd  
Director  
Office of Citizen Assistance  
City of Alexandria  
301 King Street Room 1900  
Alexandria, Virginia 22314

Dear Ms. Boyd,

Comcast is pleased to submit our 2004 Annual Report to the City of Alexandria, in accordance with Chapter 3 of Title 9 of the Alexandria City Code. Included are copies or summaries of the Year's Activities within Local Origination and Community Programming, a Summary of Customer Complaints, Financial Reports, Statements of Major Equipment and Capital Expenditures, Construction Plans, a list of Comcast Officers and Board of Directors, the Alexandria Employee Report, Television Channel Changes, Customer Opinion Survey, the Plant Report, and Customer Service Telephone Statistics for the period of August 1, 2003 through July 31, 2004.

This past year has been extremely busy for the system, as we grew our Digital Cable and Internet business, and worked to improve our quality standards both in the field and on the telephone. As Director of Government and Community Affairs, I am happy to continue the partnership we have established with the City of Alexandria. Comcast remains committed to fostering this relationship and expanding our efforts in the Community.

Highlights from the past year are:

- ◆ The launch of additional HDTV channels and additional Digital channels; offering more value to our customers
- ◆ A highly successful test market for Digital Video Recorders (DVR); first launch for the company in the country, with deployment to all other Comcast markets to follow.
- ◆ Major sponsor of the Philanthropy Summit, a partnership between the Alexandria Volunteer Bureau and the Alexandria Chamber of Commerce
- ◆ Corporate sponsor of the Alexandria Chamber of Commerce
- ◆ Sponsored the Alexandria Scholarship Fund Telethon which raised \$80,000 for T.C. Williams Graduates
- ◆ Partnered with the City of Alexandria for an Outdoor Film Festival at Ben Brenman Park

Comcast and its employees pride themselves with being involved with the Community, and being in the forefront within the Company to deploy new services and technologies to our customers. We look forward to continuing this partnership in 2005.

Yours sincerely,

Marie Schuler  
Director of Government and Community Affairs

**YEAR'S ACTIVITY SUMMARY**  
**Local Origination and Community Programming**  
**Service to the Community**

- Supported Kones for Kids sponsored by the Department of Human Services for their Foster Care program.
- Supported the "Walk for the Future with Project discovery
- Supported the Alexandria Technology Awards
- Supported the Alexandria Volunteer Bureau An Evening in the Heart of Alexandria Gala
- Provided Cable in the Classroom magazines in conjunction with the CIC program in Alexandria Public Schools
- Supported the Alexandria Chamber of Commerce with their Annual Golf Tournament
- Supported the Alexandria City Public Schools Family Involvement Rally
- Awarded a Comcast Student Achievement Award to a T.C. Williams graduate. The scholarship is awarded based on improvements made during their high school years while overcoming personal difficulties.
- Awarded a Comcast scholarship to a T.C. Williams graduate pursuing film studies at the Scholarship Fund of Alexandria Awards Ceremony
- Both filmed and participated in the USA/Alexandria Birthday Celebration at Founders Park
- Filmed and participated in the American Indian Festival, the African American Festival, the Italian Festival, the Irish Festival and the Chirlagua Festival.
- Promoted summer concerts throughout the area, Lunch Bunch Concerts, Ben Brenman Park Concert, Ft Ward Park Concerts, Waterfront Park Concerts, Montgomery Park Concerts, Henderson Park Concerts, and the King Street Gardens Concert.
- Sponsor of the Alexandria Philanthropy Summit
- Comcast chaired the Advisory and Planning Committees for the Philanthropy Summit Awards; and was a major sponsor of the event
- Donated to the T.C. Williams Drug and Alcohol Free Graduation Party
- Participated in the United Way campaign
- Supported the Alexandria Chamber of Commerce "Total Resource" Campaign
- Participated with the Region in Comcast Cares Day at Wakefield High School in Arlington. We painted and color coded the hallways per safety and security recommendations and landscaped the front entrance
- Conducted a tour of Wheeler Avenue facility for the Federal Communications Commission and the United States Telecommunications Training Institute, whose class is made up of members of the military from around the world.
- Participated in the Alexandria Public Schools Family Involvement Rally
- Corporate sponsor of the Alexandria Waterfront Festival
- Coverage of the Alexandria Election Returns
- Supported the Breast Cancer Walk, taped and broadcast the event
- Partnered with the City of Alexandria for the Comcast Outdoor Film Festival



- Taped and broadcast the T.C. Williams Homecoming Football Game on our local community Channel
- Taped and broadcast Agenda Alexandria monthly
- Taped and broadcast the Alexandria Chamber Business Leader of the Year
- Taped and broadcast the Grace Episcopal Concert
- Supported the Alexandria Chamber of Commerce Gala
- Taped and broadcast the Martin Luther King Birthday Ceremony
- Taped and broadcast the St Patrick's Day Parade
- Taped and broadcast the George Washington Day Parade
- Taped and broadcast the Days of Remembrance
- Supported, taped and broadcast the State of the City Address
- Taped and broadcast the Salute to Women Awards
- Taped and broadcast the Valor Awards
- Broadcast live the City Election Results
- Taped and broadcast the Law Day Debate
- Taped and broadcast the Episcopal Graduation
- Taped and broadcast the Bishop Ireton Graduation
- Taped and broadcast the T.C. Williams Graduation
- Taped and broadcast the Scholarship Awards Ceremony
- Taped and broadcast the St. Stephens /St. Agnes Graduation
- Taped and Broadcast the Scottish Christmas Walk
- Taped and Broadcast the Christmas Tree Lighting Ceremony
- Taped and Broadcast the Excellence in Education Awards
- Taped and Broadcast the Girls Exploratory League Basketball Game
- Taped and Broadcast the Hoop Academy Great 8 Boys Basketball
- Taped and Broadcast the Hoop Academy Girls Sweet Sixteen Basketball Tournament
- Taped and Broadcast the T.C. Williams Girls Field Hockey Games
- Taped and Broadcast the St. Stephen St Agnes Girls Field Hockey Games
- Taped and Broadcast the T.C. Williams Girls Volleyball Games
- Supported the Alexandria Torpedo Factory for the "Taste of Alexandria"
- Supported the Alexandria Department of Human Services with their Bicycle round-up Program
- Taped and Broadcast the Alexandria Victims Retreat
- Supported taped and Broadcast the 70<sup>th</sup> NAACP Banquet
- Supported the Northern Virginia Urban League Gala
- Participated in the City of Alexandria Softball Program
- Sponsored the Alexandria Scholarship Fund Telethon through in kind work planning and broadcasting live and on replay the telethon event. This year's telethon raised \$60,000.
- Sponsored the Scholarship Fund Committee Wrap-up Party

Produced Comcast Local Edition interviews, appearing on Headline News for the following organizations:

City of Alexandria Recreation, Parks & Cultural activities 11  
Art on the Avenue  
Alexandria Chapter of the American Red Cross  
Potomac Watershed Partnership  
Africans Helping Africans – Liberia Relief Fund  
The Center for Adoption Support & Education  
Inova Blood  
Alexandria Convention & Visitors Center  
Office on Women - Domestic Violence  
Office on Women – Walk to Fight Breast Cancer  
Office on Women – Sexual Assault Awareness Month  
Alexandria City Public Schools Family Involvement Rally  
The Scholarship Fund of Alexandria Telethon  
Congressman James Moran  
George Washington Symposium  
SOC Enterprises - promotes independence for people with disabilities  
Literacy Council of Northern VA  
Lost Dog & Cat Rescue Foundation  
Alzheimer's Family Day Center  
National Family Caregivers Association  
Wesley Housing Corporation  
Offender Aid & Restoration  
Nancy Dunning Reward Fund  
Northern Virginia Aids Ministry  
Alexandria Chamber of Commerce  
Take Our Daughters and Sons to Work Day  
ALIVE! April in Paris  
Irish Festival  
Alexandria Commission for the Arts  
CASA  
Alexandria Outdoor Film Festival  
The Campagna Center  
Alexandria Waterfront Festival  
The Twig – fundraising event  
Project Discovery  
Alexandria Symphony Orchestra – Benny!  
Alexandria Symphony Orchestra – Immortal Beloved: Secret Lovers  
Alexandria Symphony Orchestra – Music from Fantasia  
Alexandria Symphony Orchestra – Night at the Oscars

First Night Alexandria  
Samaritan Ministry of Greater Washington  
National Symphony Orchestra



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## INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholder  
Comcast Cablevision of Virginia, Inc.  
Philadelphia, Pennsylvania

We have audited the accompanying schedule of gross revenues, as defined in Cable Franchise Agreement dated June 18, 1994 (the "Agreement"), of Comcast Cablevision of Virginia, Inc. (the "Company") for the franchise area of the City of Alexandria, Virginia (the "Schedule") for the year ended December 31, 2003. The Schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such Schedule presents fairly, in all material respects, the gross revenues, as defined in the Agreement referred to above, of Comcast Cablevision of Virginia, Inc. for the franchise area described above for the year ended December 31, 2003.

This report is intended solely for the information and use of the Board of Directors and Stockholder of Comcast Cablevision of Virginia, Inc. and the City of Alexandria, Virginia and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche LLP*

March 11, 2004

**COMCAST CABLEVISION OF VIRGINIA, INC.**

**SCHEDULE OF GROSS REVENUES  
CITY OF ALEXANDRIA, VIRGINIA  
YEAR ENDED DECEMBER 31, 2003**

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GROSS REVENUES

\$ 34,384,503

NOTE: The amount of gross revenues above is recorded in accordance with the Cable Franchise Agreement dated June 18, 1994, between Comcast Cablevision of Virginia, Inc. and the City of Alexandria, Virginia.

In accordance with the Federal Communications Commission (the "FCC") ruling that determined cable modem service is not a "cable service" as defined by the Communications Act, the gross revenues above do not include cable modem service revenues.