

SACRAMENTO METROPOLITAN Cable Television Commission

901 H Street, Suite 206 ♦ Sacramento, CA 95814 ♦ www.sacmetroable.tv

Phone: (916) 874-6661 ♦ Fax: (916) 854-9666

ROBERT A DAVISON, EXECUTIVE DIRECTOR

REPRESENTING
Sacramento County
and the Cities of:
Citrus Heights
Elk Grove
Folsom
Galt
Rancho Cordova
Sacramento



AGENDA

SACRAMENTO METROPOLITAN CABLE TELEVISION COMMISSION REGULAR BOARD MEETING

Sacramento County Administrative Center
700 H Street, S. 1450
Sacramento, California

THURSDAY, MARCH 1, 2012 – 2:30 p.m.

Board Members: Andy Morin (Chair), Mel Turner (Vice-Chair), Steve Detrick, Roberta MacGlashan, Kevin McCarty, Don Nottoli, Susan Peters, Jay Schenirer, Phil Serna, Sandy Sheedy, Jimmie Yee

Ex Officio: Robert McGarvey

Elected Alternates: Bonnie Pannell; Steve Miller

Appointed Alternates: Panorea Avdis (Serna), Aaron Chong (Yee), Howard Schmidt (Peters), Ted Wolter (MacGlashan)

The Board may take up any agenda item at any time, regardless of the order listed. Members of the public coming for a specific agenda item are encouraged to arrive earlier than the scheduled time. Public comment will be taken on the item at the time that it is taken up by the Board. We ask that members of the public complete a Request to Speak form, submit it to the Clerk of the Board, and keep their remarks brief. If several persons wish to address the Board on a single item, the Chair may impose a time limit on individual remarks at the beginning of the discussion. Action may be taken on any item on this agenda.

Presentations supplemented with media (video, DVD, PowerPoint, laptop hookup, etc.) must be coordinated in advance with the meeting Clerk. All media must be tested prior to the meeting date by Metro Cable (at 916-874-7685). Untested media will not be allowed on the date of the meeting. It is also highly advisable to bring a paper copy of presentations to the meeting as back up.

Meeting facilities are accessible to persons with disabilities. Requests for alternative agenda document formats, meeting assistive listening devices, or other considerations should be made through the Commission office at (916) 874-6662.

The meeting of the Commission is cablecast live on Metro Cable 14, the local government affairs channel and webcast at www.sacmetroable.tv. The meeting is closed captioned and will be repeated the following Saturday at Noon on Channel 14. A DVD copy of the meeting will be available for check out from any Sacramento Library branch for up to 60 days following the meeting.

CALL TO ORDER

- A. Roll Call / Pledge of Allegiance
- B. Introduction of new Board Member – Councilmember Jay Schenirer

ITEM NO. 1) CLOSED EXECUTIVE SESSION

- A. CONFERENCE WITH LEGAL COUNSEL - EXISTING LITIGATION (Pursuant to subdivision (a) of Government Code Section 54956.9) – CITY OF LOS ANGELES, SACRAMENTO METROPOLITAN CABLE TELEVISION COMMISSION, and CITY OF EL SEGUNDO vs. PACIFIC BELL TELEPHONE COMPANY, d/b/a SBC PACIFIC BELL TELEPHONE COMPANY, d/b/a AT&T CALIFORNIA, Los Angeles Superior Court, Central District, Case No. BC414272.
- B. CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION (Pursuant to Government Code Section 54956.9(c)) – one case.

Action:

Adjourn to a closed executive session and report out, if necessary.

ITEM NO. 2) RESOLUTION NO. 2012-001, AUTHORIZING THE ISSUANCE OF A SUBPOENA RELATING TO AN AUDIT OF AT&T INC.'S FRANCHISE & PEG FEES

Action:

Adopt Resolution No. 2012-001, Authorizing the Issuance of a Subpoena Relating to an Audit of AT&T Inc.'s Franchise & PEG Fees, remitted to the Commission in CYs 2009 & 2010.

ITEM NO. 3) CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.'S ACQUISITION OF SUREWEST COMMUNICATIONS

Action:

Receive and file information of Consolidated Communications Holdings, Inc.'s acquisition of SureWest Communications.

ITEM NO. 4) COMCAST'S ADJUSTMENT TO FRANCHISE FEES PAID TO ACCOUNT FOR 2008-2011 CALIFORNIA PUBLIC UTILITIES COMMISSION USER FEE PAYMENTS

Action:

Receive and file the report of Comcast's adjustment to franchise fees paid to the Commission in Fiscal Years 2008-2011, and on a going forward basis, deducting the allocated amount of CPUC "user fees" from quarterly franchise fee payments.

ITEM NO. 5) SACRAMENTO COUNTY'S INVESTMENT POLICY FOR THE POOLED INVESTMENT FUND FOR CALENDAR YEAR 2012

Action:

Receive and file Sacramento County's Calendar Year 2012 Investment Policy for the Pooled Investment Fund.

ITEM NO. 6) STAFF STATUS REPORT / MISCELLANEOUS ITEMS

Action:

Receive verbal reports on Commission business and miscellaneous items and discuss future meeting dates:

- A. PEG Fee Projects Update
- B. FY 2012-13 PEG Fee Funding Request Notification
- C. Board Meetings – April 5th, May 3rd, and June 7th

ITEM NO. 7) STATE FRANCHISEE / LICENSEE REPORTS

Action:

Receive verbal reports from State Video Franchisee representatives:

- A. AT&T
- B. Comcast
- C. SureWest

ITEM NO. 8) CHANNEL LICENSEE / GRANTEE REPORTS

Action:

Receive verbal reports from Channel Licensee representatives:

- A. ACCESS Sacramento
- B. Capital Public Radio
- C. KVIE
- D. Religious Coalition for Cable Television
- E. Sacramento Educational Cable Consortium

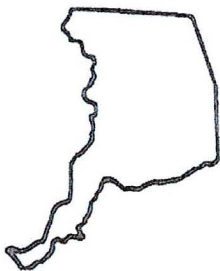
ITEM NO. 9) PUBLIC COMMENTS

Action:

Receive public comments on matters not on the agenda.

ADJOURNMENT

REPRESENTING
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ROBERT A DAVISON, EXECUTIVE DIRECTOR

AGENDA ITEM NO. 1

DATE: March 1, 2012
TO: Chair and Board of Directors
FROM: Robert A. Davison, Executive Director
SUBJECT: **CLOSED EXECUTIVE SESSION**

RECOMMENDATION:

Adjourn to a closed Executive Session to discuss the following items and report out, if necessary:

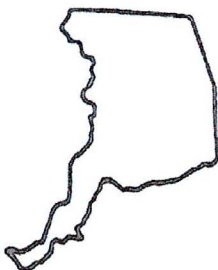
- A. CONFERENCE WITH LEGAL COUNSEL - EXISTING LITIGATION (Pursuant to subdivision (a) of Government Code Section 54956.9) – CITY OF LOS ANGELES, SACRAMENTO METROPOLITAN CABLE TELEVISION COMMISSION, and CITY OF EL SEGUNDO vs. PACIFIC BELL TELEPHONE COMPANY, d/b/a SBC PACIFIC BELL TELEPHONE COMPANY, d/b/a AT&T CALIFORNIA, Los Angeles Superior Court, Central District, Case No. BC414272.
- B. CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION (Pursuant to Government Code Section 54956.9(c)) – one case.

Respectfully submitted,

A handwritten signature in blue ink that reads "Robert A. Davison".

ROBERT A. DAVISON, Executive Director
Sacramento Metropolitan Cable Television Commission

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ROBERT A. DAVISON, EXECUTIVE DIRECTOR

AGENDA ITEM NO. 2

DATE: March 1, 2012
TO: Chair and Board of Directors
FROM: Robert A. Davison, Executive Director
SUBJECT: **RESOLUTION NO. 2012-001, AUTHORIZING THE ISSUANCE OF A SUBPOENA RELATING TO AN AUDIT OF AT&T, INC.'S FRANCHISE & PEG FEES**

RECOMMENDATION:

Adopt Resolution No. 2012-001, Authorizing the Issuance of a Subpoena Relating to an Audit of AT&T, Inc.'s Franchise & PEG Fees, remitted to the Commission in Calendar Years 2009 & 2010.

DISCUSSION:

The Commission's Auditor is scheduled to perform an audit of AT&T, Inc.'s (AT&T) franchise & PEG fees remitted to the Commission in CYs 2009 & 2010, as they pertain to AT&T's U-Verse product.

AT&T refused the Auditor's request and informed him that an updated subpoena needs to be issued to audit fees of its U-Verse product for CYs 2009 & 2010, since the audit of CYs 2007 & 2008 fees was performed back in 2009.

Public Utilities Code section 5860(i) permits a local agency to "examine the business records of a holder of a state franchise" to ensure that compensation is in compliance with state law. Since AT&T is a holder of a state franchise within the Commission's jurisdiction, the Commission's Auditor's requested an examination of AT&T's business records to ensure that compensation is legal.

While the Commission's Legal Counsel does not believe it is legally necessary to issue a subpoena, Resolution No. 2012-001 as drafted, requests authority to issue a subpoena so that the Auditor may undertake the examination as authorized by Public Utilities Code section 5860(i).

Respectfully submitted,

A handwritten signature in blue ink that reads "Robert A. Davison".

ROBERT A. DAVISON, Executive Director
Sacramento Metropolitan Cable Television Commission

Attachment: Resolution No. 2012-001

RESOLUTION NO. 2012-001

A RESOLUTION OF THE SACRAMENTO METROPOLITAN CABLE TELEVISION COMMISSION AUTHORIZING THE ISSUANCE OF A SUBPOENA RELATING TO AN AUDIT OF AT&T, INC.'S FRANCHISE & PEG FEES

WHEREAS, AT&T, Inc. ("AT&T") holds a state franchise and provides cable television services within the areas of the Sacramento Metropolitan Cable Television Commission's ("Commission") jurisdiction;

WHEREAS, the Commission has asked AT&T to make available for inspection its business records pertaining to franchise & PEG fees for the company's U-Verse product for the purpose of conducting an audit as authorized by Public Utilities Code section 5860(i);

WHEREAS, AT&T has refused to make available such records absent a subpoena;

WHEREAS, the Commission has subpoena power to the same extent that the City of Sacramento has subpoena power;

WHEREAS, Government Code section 37104 authorizes cities to issue subpoenas requiring the attendance of a person or the production of books or other documents for evidence in any action or proceeding pending before it; and

WHEREAS, the City of Sacramento Charter Article III, Section 34 grants subpoena authority for investigations.

NOW, THEREFORE, the Sacramento Metropolitan Cable Television Commission does hereby resolve as follows:

Section 1. The Commission's Auditor ("Auditor") shall specifically describe the information or records required for the audit in accordance with Public Utilities Code section 5860(i).

Section 2. The Commission authorizes its Chair or the Chair's designee to execute a subpoena for AT&T's business records, in whatever form such records are kept, whether written, electronic or otherwise, for the purpose of conducting an audit in accordance with Public Utilities Code section 5860(i). A subpoena may also require the attendance of the custodian of records or other person knowledgeable about the business records sought.

Section 3. The authority to issue the subpoena discussed herein shall expire upon the completion of the audit pertaining to franchise & PEG fees for AT&T's state video franchise for the territory within the jurisdiction of the Commission for the calendar years 2009 and 2010.

On a motion by Director _____, seconded by Director _____, the foregoing Resolution was passed and adopted by the Sacramento Metropolitan Cable Television Commission this 1st day of March, 2012 by the following vote to wit:

AYES:

NOES:

ABSENT:

ABSTAIN:

Chairperson,
Sacramento Metropolitan
Cable Television Commission

ATTEST:

Clerk/Secretary of the Board

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ROBERT A DAVISON, EXECUTIVE DIRECTOR

AGENDA ITEM NO. 3

DATE: March 1, 2012

TO: Chair and Board of Directors

FROM: Robert A. Davison, Executive Director

SUBJECT: CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.'S ACQUISITION OF SUREWEST COMMUNICATIONS

RECOMMENDATION:

Receive and file information of Consolidated Communications Holdings, Inc.'s acquisition of SureWest Communications.

DISCUSSION:

Consolidated Communications Holdings, Inc.'s press release to acquire SureWest Communications was forwarded to staff by Greg Gierczak, SureWest's Executive Director of Public Policy and Government Relations.

The press release indicated effective February 6, 2012, Consolidated Communications Holdings, Inc. and SureWest Communications entered into an agreement under which Consolidated will acquire all the outstanding shares of SureWest in a cash and stock transaction, exclusive of debt.

The Commission's Legal Counsel researched this matter and informed staff that Public Utilities Commission (PUC) section 5970 permits franchisees to transfer a franchise to their successors in interest, whether the transfer is by merger, sale, assignment, bankruptcy restructuring or other transaction, if the transferee (1) submits to the CPUC all of the information required in the Digital Infrastructure and Competition Act (DIVCA) for a new application and (2) the transferee agrees, by affidavit, to honor any collective bargaining agreement entered into by the original franchisee for the duration of the franchise unless the duration of the collective bargaining agreement is limited by its terms or by federal or state law (PUC sec 5970, GO 169, sec VI(D)).

AGENDA ITEM NO. 3

Consolidated Communications Holdings, Inc.'s Acquisition of SureWest Communications

Page 2

For the first requirement, this information is set forth in PUC section 5840. Applicable to this case, any transferee must notify all affected local entities within 14 business days of any transaction involving a change in the ownership of the business and must identify the transferee/successor in interest. (PUC sec 5840(m)(1), (4); GO 169, sec VI(D)).

The CPUC's review of the transfer will be subject to the same standards as for granting of a franchise (i.e., the application is complete and complies with DIVCA). (PUC sec 5840.) This means that the CPUC will notify affected local agencies within 30 calendar days whether or not the application for the transfer is complete. (PUC sec 5840(g)).

Staff contacted Greg Gierczak who pointed out that the franchise was not being transferred and that SureWest Televideo will still be the state franchise owner. The only requirement is that notice of the transfer needs to be provided within 15 days. When the acquisition takes place, control of the entity SureWest Televideo and the franchise will be under Consolidated Communications Holdings, Inc., not SureWest Communications.

Correspondence from SureWest's President/CEO indicates subject to regulatory review and SureWest shareholder approval, the transaction is expected to close in the second half of 2012. Until that time, SureWest will continue to operate as an independent company.

Staff will continue to monitor the acquisition process and report back on the matter at a future meeting.

Respectfully submitted,



ROBERT A. DAVISON, Executive Director
Sacramento Metropolitan Cable Television Commission

Attachments:

Consolidated Communications Holdings, Inc's Press Release (Feb. 6, 2012)
Letter from Steven C. Oldham, SureWest's President and Chief Executive Officer



Consolidated Communications to Acquire SureWest Communications

- **Combines Consolidated's strong cash flow business with SureWest's growth strategy**
- **Free cash flow accretive in first year, excluding merger and integration costs**
- **Deleveraging transaction improves capital structure**
- **Maintains current dividend and improves the payout ratio**
- **Combined company to achieve greater scale and scope as a more effective competitor**

Mattoon, IL – February 6, 2012 – Consolidated Communications Holdings, Inc. (Nasdaq: CNSL) and SureWest Communications (Nasdaq: SURW) have entered into a definitive agreement under which Consolidated will acquire all the outstanding shares of SureWest in a cash and stock transaction valued at \$23.00 per share, or a total of approximately \$340.9 million, exclusive of debt.

Under the terms of the agreement, SureWest's shareholders may elect to exchange each share of SureWest common stock for either \$23.00 in cash or shares of Consolidated common stock having an equivalent value based on average trading prices for the 20-day period ending two days before the closing of the acquisition, subject to a collar. Overall elections are subject to proration such that 50 percent of the SureWest shares will be exchanged for cash and 50 percent for stock. The stock portion of the transaction will be received tax free. The transaction will be accretive to Consolidated's free cash flow per share in the first full year following closing, excluding integration costs, and the transaction is deleveraging to Consolidated. The consideration represents a 47% premium to SureWest's stock price as of the close on February 3, 2012.

The strategic combination provides enhanced scale with operations in six states and approximately 1,775 employees. Together, Consolidated and SureWest will expand upon the strong reputations each has built with its customers and in the communities served. The diversification of revenue and cash flow streams across multiple customer segments and geographies provides a platform for growth.

"This transaction combines our cash flow generating business with SureWest's growth oriented strategy resulting in a financially strong company with a robust balance sheet and attractive dividend payout ratio," said Bob Currey, Consolidated's President and Chief Executive Officer. "SureWest has built one of the highest quality networks in the industry and transformed itself into a leading broadband provider. The combined company will create a broader platform from which to expand our products and services to meet the demands of our customers. We look forward to working with the SureWest employees to grow the business."

"Both Consolidated and SureWest have a long history of delivering the highest quality products and services to its customers," said Steve Oldham, President and Chief Executive Officer of SureWest. "From a customer perspective, the transaction creates scale by combining our proven capabilities in delivering leading edge digital TV and broadband services as a stronger, more competitive communications company. We believe the transaction is in the best interests of our company, our customers, our communities and our shareholders."

Transaction Details

On a pro forma basis, for the twelve months ending September 30, 2011, the combined company would have had revenues of approximately \$620 million. SureWest currently serves 130,000 residential subscribers and 15,700 commercial businesses in the greater Kansas City and Sacramento regions, which contain over 321,700 residential marketable homes to SureWest. Consolidated is an established communications company providing a wide range of advanced services including voice, data and video services to residential and business customers in Illinois, Pennsylvania and Texas.

The transaction is expected to generate annual operating synergies of approximately \$25 million and annual capital expenditure synergies of \$5 million to \$10 million, which are expected to be fully realized by the end of the first full year after close on a run-rate basis. Consolidated expects to incur merger and integration costs, excluding closing costs, of approximately \$20 million to \$25 million over the first two years following closing. In addition, Consolidated will be in a position to benefit from SureWest's net operating losses of approximately \$67 million, as of September 30, 2011. The merger is subject to standard closing conditions including federal and state regulatory approvals and the approval by both Consolidated and SureWest shareholders.

Wells Fargo Securities, LLC acted as financial advisor to Consolidated on the transaction and rendered a fairness opinion to the Board of Directors of Consolidated. Morgan Stanley also served as financial advisor to Consolidated and Schiff Hardin LLP acted as legal advisor. UBS Investment Bank acted as financial advisor to SureWest and Orrick, Herrington & Sutcliffe LLP acted as legal advisor.

This transaction is not subject to any financing conditions. Morgan Stanley Senior Funding, Inc. has provided Consolidated with \$350 million of committed debt financing in conjunction with the acquisition. These funds will be used to refinance the debt of SureWest and pay for the cash portion of the purchase price.

Teleconference and Webcast Information

The Company will host a conference call today at 11:00 a.m. Eastern Time / 10:00 a.m. Central Time to discuss the acquisition. The call is being webcast and archived on the "Investor Relations" section of the Company's website at <http://www.consolidated.com>. If you do not have internet access, the conference call dial-in number is 1-877-374-3981 with pass code 50453998. International parties can access the call by dialing 1-253-237-1158. A telephonic replay of the conference call will also be available starting three hours after completion of the call until February 13, 2012 at midnight Eastern Time. To hear the replay, parties in the United States and Canada should call 1-855-859-2056 and international parties should call 1-404-537-3406.

Safe Harbor

Any statements contained in this press release other than statements of historical fact, including statements about management's beliefs and expectations, are forward-looking statements and should be evaluated as such. These statements are made on the basis of management's views and assumptions regarding future events and business performance. Words such as "estimate," "believe," "anticipate," "expect," "intend," "plan," "target," "project," "should," "may," "will" and similar expressions are intended to identify forward-looking statements. Forward-looking statements (including oral representations) involve risks and uncertainties that may cause actual results to differ materially from any future results, performance or achievements expressed or implied by such statements. These risks and uncertainties include our ability to complete the acquisition of SureWest and successfully integrate SureWest's operations and realize the synergies from the acquisition, as well as a number of factors related to our business and that of SureWest, including economic and financial market conditions generally and economic conditions in Consolidated's and SureWest's service areas; various risks to shareholders of not receiving dividends and risks to Consolidated's ability to pursue growth opportunities if Consolidated continues to pay dividends according to the current dividend policy; various risks to the price and volatility of Consolidated's common stock; changes in the valuation of pension plan assets; the substantial amount of debt and Consolidated's ability to repay or refinance it or incur additional debt in

the future; Consolidated's need for a significant amount of cash to service and repay the debt and to pay dividends on the common stock; restrictions contained in the debt agreements that limit the discretion of management in operating the business; regulatory changes, including changes to subsidies, rapid development and introduction of new technologies and intense competition in the telecommunications industry; risks associated with Consolidated's possible pursuit of acquisitions; system failures; losses of large customers or government contracts; risks associated with the rights-of-way for the network; disruptions in the relationship with third party vendors; losses of key management personnel and the inability to attract and retain highly qualified management and personnel in the future; changes in the extensive governmental legislation and regulations governing telecommunications providers and the provision of telecommunications services; telecommunications carriers disputing and/or avoiding their obligations to pay network access charges for use of Consolidated's and SureWest's network; high costs of regulatory compliance; the competitive impact of legislation and regulatory changes in the telecommunications industry; and liability and compliance costs regarding environmental regulations. These and other risks and uncertainties are discussed in more detail in Consolidated's and SureWest's filings with the Securities and Exchange Commission, including their reports on Form 10-K and Form 10-Q. Many of these risks are beyond management's ability to control or predict. All forward-looking statements attributable to Consolidated or persons acting on behalf of us are expressly qualified in their entirety by the cautionary statements and risk factors contained in this press release and Consolidated's filings with the Securities and Exchange Commission. Because of these risks, uncertainties and assumptions, you should not place undue reliance on these forward-looking statements. Furthermore, forward-looking statements speak only as of the date they are made. Except as required under the federal securities laws or the rules and regulations of the Securities and Exchange Commission, Consolidated does not undertake any obligation to update or review any forward-looking information, whether as a result of new information, future events or otherwise.

Prospectus/Proxy Statement

This material is not a substitute for the prospectus/proxy statement Consolidated and SureWest will file with the Securities and Exchange Commission. Investors are urged to read the prospectus/proxy statement, which will contain important information, including detailed risk factors, when it becomes available. The prospectus/proxy statement and other documents which will be filed by Consolidated and SureWest with the Securities and Exchange Commission will be available free of charge at the SEC's website, www.sec.gov, or by directing a request when such a filing is made to Consolidated Communications, 121 South 17th Street, Mattoon, IL 61938, Attention: Investor Relations; or to SureWest Communications, P.O. Box 969, Roseville, CA 95678, Attention: Investor Relations. A final proxy statement or proxy/prospectus statement will be mailed to shareholders of SureWest and Consolidated stockholders.

This communication shall not constitute an offer to sell or the solicitation of an offer to buy securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

Proxy Solicitation

Consolidated and SureWest, and certain of their respective directors, executive officers and other members of management and employees are participants in the solicitation of proxies in connection with the proposed transactions. Information about the directors and executive officers of Consolidated is set forth in the proxy statement for its 2011 annual meeting of shareholders. Information about the directors and executive officers of SureWest is set forth in its proxy statement for its 2011 annual meeting of shareholders and SureWest's Form 10-K for the year ended December 31, 2010. Investors may obtain additional information regarding the interests of such participants in the proposed transactions by reading the prospectus/proxy statement for such proposed transactions when it becomes available.

Consolidated Communications Contact:

Matt Smith, Treasurer & Investor Relations

217-258-2959

matthew.smith@consolidated.com

SureWest Communications Contact:
Misty Wells, Investor Relations Manager
916-786-1799
investor@surewest.com



Dear Vendor,

I wanted to share some exciting news with you. Recently, SureWest announced it will be merging with Consolidated Communications. Founded more than a century ago and based in Mattoon, Illinois, Consolidated is a family of companies providing communications services to both residential and business customers in Illinois, Texas and Pennsylvania. SureWest will become part of Consolidated, adding operations in California and Kansas to the company's existing serving areas. During this transition we will continue to maintain our relationships with our vendors and provide the same advanced reliable service to the regions we currently serve.

Importantly, we believe this transaction will only serve to strengthen our partnership with you. This transaction creates a more competitive communications provider with an advanced suite of products and services, and a broader platform to expand our exceptional services for customers. The combined company will have enhanced financial resources, offering you important opportunities to grow your businesses with us, and we look forward to your continued support during this exciting time.

Subject to regulatory review and SureWest shareholder approval, the transaction is expected to close in the second half of 2012. Until the deal is closed, SureWest will continue to operate as an independent company.

I realize that you may have questions regarding this announcement, and we will do our very best to keep you informed in a timely manner. If you have any questions, please don't hesitate to contact your usual SureWest representative.

We appreciate your support and, as always, we look forward to continuing to work with you into the future.

Sincerely,

Sincerely,

Steven C. Oldham
President and Chief Executive Officer

RECEIVED

FEB 21 2012

SACRAMENTO METROPOLITAN
CABLE TELEVISION COMMISSION

*THANKS FOR MAKING
SUREWEST A PART
OF YOUR LIFE. ☺*

Please see reverse for additional important information.

SUREWEST.COM

PHONE: 866.SUREWEST P.O. BOX 969, ROSEVILLE, CA 95661.0969

Important Merger Information and Additional Information

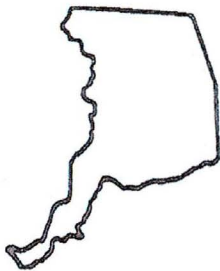
This document does not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

In connection with the proposed transaction, SureWest and Consolidated will file relevant materials with the SEC. Consolidated will file a registration statement on Form S-4 with the Securities and Exchange Commission (the "SEC"). SUREWEST SHAREHOLDERS ARE ENCOURAGED TO READ THE REGISTRATION STATEMENT AND ANY OTHER RELEVANT DOCUMENTS FILED WITH THE SEC WHEN THEY BECOME AVAILABLE, INCLUDING THE PROXY STATEMENT/PROSPECTUS THAT WILL BE PART OF THE REGISTRATION STATEMENT BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE TRANSACTION. The final proxy statement/prospectus will be mailed to SureWest shareholders. The registration statement and proxy statement/prospectus and other documents filed by SureWest with the SEC are, or when filed will be, available free of charge at the SEC web site at www.sec.gov. Copies of the registration statement and proxy statement/prospectus (when available) and other filings made by SureWest with the SEC can also be obtained, free of charge, by directing a request to SureWest Communications, P.O. Box 969, Roseville, CA 95678, Attn: Investor Relations Manager. The registration statement and proxy statement/prospectus (when available) and such other documents are also available for free on our web site at www.surw.com/ir/, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Participants in the Solicitation

SureWest and Consolidated, and certain of their respective directors and officers and other persons may be deemed to be participants in the solicitation of proxies from its shareholders in connection with the proposed acquisition transaction. Information regarding directors and executive officers of SureWest in the solicitation is set forth in the SureWest proxy statements and Annual Reports on Form 10-K, previously filed with the SEC. Information regarding directors and executive officers of Consolidated in the solicitation is set forth in the Consolidated proxy statements and Annual Reports on Form 10-K, previously filed with the SEC. Other information regarding the participants in the proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, will be contained in the proxy statement/prospectus and other relevant materials to be filed with the SEC when they become available. Investors should read the proxy statement/prospectus carefully when it becomes available before making any voting or investment decisions.

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ROBERT A DAVISON, EXECUTIVE DIRECTOR

AGENDA ITEM NO. 4

DATE: March 1, 2012

TO: Chair and Board of Directors

FROM: Robert A. Davison, Executive Director

SUBJECT: **COMCAST'S ADJUSTMENT TO FRANCHISE FEES PAID TO ACCOUNT FOR 2008-2011 CALIFORNIA PUBLIC UTILITIES COMMISSION USER FEE PAYMENTS**

RECOMMENDATION:

Receive and file a report regarding Comcast's adjustment to franchise fees paid to the Sacramento Metropolitan Cable Television Commission in Fiscal Years 2008-2011, and on a going forward basis, deducting the allocated amount of CPUC "user fees" from quarterly franchise fee payments.

DISCUSSION:

In a letter dated October 7, 2011, the Sacramento Metropolitan Cable Television Commission (Commission) was informed that Comcast would be deducting \$59,207.94 from the Third Quarter 2011 franchise fee payment to be made to the Commission. This deduction was to account for user fee payments Comcast made to the California Public Utilities Commission (CPUC) for the period it held a state video franchise from fiscal years 2008 to 2011.

Comcast was awarded a state franchise in January of 2008, and made the first CPUC user fee payment later that year, with subsequent payments made in 2009, 2010, and 2011.

Comcast claims that user fee qualifies as a franchise fee under federal law and therefore may be lawfully deducted from franchise fee payments made to local municipalities. The letter also notifies the Commission that going forward, the user fees will be deducted from the franchise fee quarterly payments. This deduction is estimated to be approximately \$4,900 per quarter (out of the approximate \$2.3 million franchise fee quarterly payments made to the Commission).

AGENDA ITEM NO. 4

Comcast's Adjustment to Franchise Fees Paid to Account for 2008-11 CPUC User Fee Payments

Page 2

In a letter dated November 28, 2011, the Commission's Legal Counsel informed Comcast its action to pay less than the required 5% franchise fees is in violation of state and federal laws, as well as CPUC requirements under its state video franchise. Comcast was asked to remit the deducted amount to the Commission immediately, along with interest owed by January 16, 2012 for the underpayment of \$59,207.94.

Comcast's response letter dated December 27, 2011 provided further explanation of additional legal authority for Comcast's action to offset franchise fees paid. Comcast remains firm in its position that it is entitled to deduct the "user fee" amounts from franchise fees, consistent with federal law; and will continue to deduct the user fee amounts from future franchise fee payments to the Commission.

Staff will continue to pursue this matter with Comcast and coordinate efforts with other jurisdictions in the state that have received the same notification.

Respectfully submitted,

A handwritten signature in blue ink that reads "Robert A. Davison". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

ROBERT A. DAVISON, Executive Director
Sacramento Metropolitan Cable Television Commission

Attachments:

Comcast's October 7, 2011 Notification Letter

Commission's November 28, 2011 Response Letter

Comcast's December 27, 2011 Response Letter



RECEIVED

OCT 12 2011

California Region
3055 Comcast Place
Livermore, CA 94551-9559

October 7, 2011

SACRAMENTO METROPOLITAN
CABLE TELEVISION COMMISSION

Mr. Robert A. Davison
Sacramento Metro Cable TV
901 H Street, Room #206
Sacramento, CA. 95814

Re: **Adjustment to Franchise Fees Paid to the City of Sacramento Under DIVCA to Account for 2008-2011 CPUC User Fee Payments**

Dear Mr. Davison:

I am writing to inform you that Comcast will be deducting \$59,207.94 from the 3rd quarter 2011 franchise fee payment to be made to the City and County of Sacramento shortly. This deduction is designed to account for user fee payments made to the California Public Utilities Commission ("CPUC") during the period that Comcast has held a state video franchise in the City and County of Sacramento.

Due to Comcast's shift to a state franchise, Comcast's franchise fee obligations are governed by the Digital Infrastructure and Video Competition Act of 2006 ("DIVCA"), subject to any limitations imposed by federal law. Under DIVCA, Comcast must collect and remit franchise fees in the amount of 5% of gross revenues (as defined under Public Utilities Code Section 5860(d)) derived from Comcast service in the City and County of Sacramento and Comcast has provided the full amount of such fees to the City and County of Sacramento.

In addition to the payment of franchise fees to the City and County of Sacramento, DIVCA requires state franchisees to pay a "user fee" to the CPUC on an annual basis based on the number of households to whom it could potentially provide service pursuant to its state franchise (usually referred to as "homes passed"). Comcast was awarded a state franchise in January of 2008, and made its first user fee payment to the CPUC later that year; subsequent payments to the CPUC have been made in 2008, 2009, 2010, and 2011.

Although the user fee is based on homes passed, the allocation of this fee is on a per subscriber basis. Based on the number of Comcast subscribers in the City and County of Sacramento, Comcast generated \$59,207.94 in user fees for fiscal years 2008-2011.

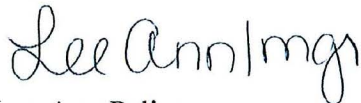
Although the CPUC has chosen to refer to its annual state franchise fee as a "user fee," the user fee qualifies as a "franchise fee" under federal law. As a result, it may be lawfully deducted

from the franchise fees paid to municipalities in which Comcast holds a state franchise. 47 U.S.C. Section 542 defines a franchise fee as including "any tax, fee, or assessment of any kind imposed by a franchising authority or other governmental entity on a cable operator or cable subscriber, or both, solely because of their status as such." 47 U.S.C. § 542(g). The CPUC is plainly a "governmental entity" that is imposing a "fee or assessment" on state-franchised cable providers solely because of their status as state-franchised cable providers. Under 47 U.S.C. Section 542(a), "the franchise fees paid by a cable operator with respect to any cable system shall not exceed 5 percent of such cable operator's gross revenues derived . . . from the operation of the cable system to provide cable services." 47 U.S.C. § 542(a). Therefore, absent a deduction of the franchise fee paid to the CPUC from the franchise fees owed to the municipalities in which a state franchise is held, Comcast would be paying more than 5% in franchise fees, in violation of federal law.

To ensure that Comcast's franchise fee liability relative to the City and County of Sacramento does not exceed the federal statutory 5% cap, Comcast is exercising its right to deduct the portion of CPUC user fees from the franchise fees paid to the City and County of Sacramento. The deduction from the 2011 3rd quarter franchise fee payment accounts for the past CPUC user payments made by Comcast. On a going forward basis, the allocated amount will be deduction from the quarterly franchise fee payments.

If you have any questions about this adjustment, and/or if you would like further information about how the adjustment was calculated, please contact me or Philip Arndt. I can be reached at 925-424-0168, or by email at Leeann_peling@cable.comcast.com. Philip Arndt can be reached at (209) 338-7923 or by email at Philip_Arndt@cable.comcast.com.

Sincerely,



Lee-Ann Peling
Franchise Operations Director
California Region

cc: Philip Arndt, Director of Government Affairs, Sacramento Metro Area

REPRESENTING
Sacramento County
and the Cities of:
Citrus Heights
Elk Grove
Folsom
Galt
Rancho Cordova
Sacramento



SACRAMENTO METROPOLITAN Cable Television Commission

901 H Street, Suite 206 ♦ Sacramento, CA 95814 ♦ www.sacmetroable.tv

Phone: (916) 874-6661 ♦ Fax: (916) 854-9666

ROBERT A DAVISON, EXECUTIVE DIRECTOR

November 28, 2011

Lee-Ann Peling
Franchise Operations Director
Comcast, California Region
3055 Comcast Place
Livermore, CA 94551-9559

RE: Adjustment to Franchise Fees Paid to the City of Sacramento Under DIVCA to Account for 2008-2011 CPUC User Fee Payments

Dear Ms. Peling,

By letter dated October 7, 2011, Comcast advised the Sacramento Metropolitan Cable Television Commission (SMCTC) that the company has begun to reduce the franchise fee it is required to pay to the SMCTC by a portion of the fee that the company is required to pay to the California Public Utilities Commission (CPUC) to cover the CPUC's costs. The fee is similar to the fee imposed upon other entities that are regulated by the CPUC.

This is to inform you that Comcast's actions to pay less than the required franchise fees is in violation of state and federal laws as well as CPUC requirements, and to request that Comcast immediately remit the amounts underpaid to the SMCTC.

As you know, Comcast's state video franchise requires, and Comcast promised as a condition of that franchise to pay SMCTC 5% of gross revenues, as defined under California law. Nowhere is Comcast authorized to deduct the expenses associated with the CPUC fee from the amount owed to SMCTC.

We understand that some operators believe that the CPUC fee is a franchise fee as defined under federal law. However, the CPUC's order implementing the Digital Infrastructure Video Competition Act (DIVCA) of 2006 specifically determined that the CPUC fees were not "franchise fees" under federal law, and explicitly stated that the CPUC fees could not be used as an "offset against franchise fees owed to local governments."¹ Given the nature of the CPUC fee, we agree with the CPUC's conclusions.

Among other reasons, federal law makes it clear that fees "imposed on both utilities and cable operators or their service" are not franchise fees unless the fees are "unduly discriminatory against cable operators or cable subscribers."²

Further, a fee is not a franchise fee unless imposed upon a cable operator because of its status as such. The CPUC fee is part of a provision of California law that imposes fees on entities that are subject to CPUC jurisdiction, and as far as we are aware, Comcast has never claimed that the fee is unduly discriminatory.

Finally, even if the fee *were* imposed on cable operators *solely* because of their status as such, the fee by law is limited to levels that are related to the CPUC's costs of awarding or enforcing franchises, and thus fall within an express exception to the franchise fee definition. Apparently, Comcast has not claimed that the fees are excessive or are being used for improper purposes.

Moreover, Comcast is not permitted to engage in self-help by choosing to deduct the CPUC fee from franchise fees owed to SMCTC. Generally, when a payment is due to a local government, the remedy that must be exercised is to pay and seek recovery, not to withhold.³

Further, the Federal Communications Commission order on franchise fees does not tolerate unilateral offsets, nor could it.⁴ DIVCA is also clear that video franchise holders **MUST** pay the 5% owed to the communities, on pain of losing the franchise.⁵ Thus, the company's withholding, even though small, is serious indeed. This is especially true as Comcast has now withheld for past years, even after these years have been paid and the funds expended by SMCTC.

Finally, if there is one thing that is obvious from the CPUC order above, it is that the fee *cannot be deducted from the* payment owed to localities. If Comcast believes there can be any offset, it must be against payments made to the franchising authority – to the state – that the company contends are franchise fees.

¹ See *Re Implement the Digital Infrastructure and Video Competition Act of 2006*, Rulemaking Proceeding 06-10-005, Decision 07-03-014, 2007 WL 725608 (Cal.P.U.C.) discussion at page 110-111 of the CPUC's Decision Adopting a General Order and Procedures to Implement the Digital Infrastructure and Video Competition Act of 2006, (R.06-10-005 COM/CRC/tcg), Decision 07-03-014, March 1, 2007 ("[W]e clarify that the Commission's user fees are not 'franchise fees' as defined by Section 542 of the Federal Communications Act. Any fees levied by the Commission pursuant to DIVCA are either fees of 'general applicability' or fees 'incidental to the awarding or enforcing of the franchise.'" (citations omitted)). Some confusion may have been caused by the recent non-binding letter from Michael Morris, a CPUC staff member. Presumably, he did not intend to reverse the findings of the CPUC, but was merely acknowledging that there could be a disagreement. The CPUC decision is available online at: http://docs.cpuc.ca.gov/published/FINAL_DECISION/65225.htm.

² 47 U.S.C. §542(g)(2).

³ 26 U.S.C. § 7421, *et seq.*

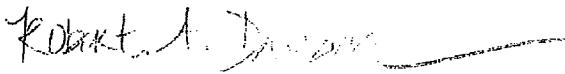
⁴ The FCC's Second Report and Order implementing Section 621 stated: "...we believe that the facts and circumstances of each situation must be assessed on a case-by-case basis under applicable law to determine whether our statutory interpretation should alter the incumbent's existing franchise agreement. This Order should in no way be interpreted as giving incumbents a unilateral right to breach their existing contractual obligations." *In re Implementation of Section 621(a)(1) of the Cable Communs. Act*, 22 FCC Rcd 19633, 19642 (FCC 2007). This is particularly so here, where the franchise was entered into in the face of the Commission's Order prohibiting offsets, Comcast expressly agreed to comply with the law, and until recently, showed that it understood it was obligated to pay by making franchise fee payments without any offset. There has been no change in federal or state law that would explain the company's change in behavior.

Lee-Ann Peling
Adjustment to Franchise Fees Paid
Page 3

⁵ See Cal. Pub. Util. Code §5810(d): "It is the intent of the Legislature that the definition of gross revenues in this division shall result in local entities maintaining their existing level of revenue from franchise fees." Cal. Pub. Util. Code §5860(a): "The holder of a state franchise that offers video service within the jurisdiction of the local entity shall calculate and remit to the local entity a state franchise fee." Only one offset is explicitly permitted by DIVCA, and that is where the holder overpays the fees owed to the local community.

Please remit the deducted amounts to the SMCTC immediately, along with the interest owed for the underpayments. As this should be a simple matter, please provide the payment to us no later than **Monday, January 16, 2012**.

Sincerely,



ROBERT A. DAVISON
Executive Director
davisonb@saccounty.net

cc: Harriet Steiner, Best Best & Krieger LLP
Philip Arndt, Director of Government Affairs, Comcast
Karen Liu, ASO, SMCTC



RECEIVED

DEC 28 2011

SACRAMENTO METROPOLITAN
CABLE TELEVISION COMMISSION

Direct Line: 415-765-0369
E-Mail: prosvall@cwclaw.com

December 27, 2011



VIA U.S. MAIL AND E-MAIL

Robert Davison
Executive Director
Sacramento Metropolitan Cable
Television Commission
901 H Street, Suite 206
Sacramento, CA 95814

Re: **Comcast Adjustment to Franchise Fees Based on 47 U.S.C. Section 542 to Account for California Public Utilities Commission "User Fees"**

Dear Mr. Davison:

On behalf of Comcast, I have been asked to respond to your November 28, 2011 letter to further explain and supply additional legal authority for Comcast's offset of franchise fees to account for the amounts paid to the California Public Utilities Commission ("CPUC") pursuant to its "user fee" requirement. Although it is termed a "user fee," this fee is legally a franchise fee under 47 U.S.C. Section 542(g), and is therefore subject to the 5% statutory cap under 47 U.S.C. Section 542(b). Comcast is entitled to offset its payments to the Sacramento Metropolitan Cable Television Commission ("SMCTC") to reflect the correct application of franchise fees for the period during which it has been subject to the state "user fee." Comcast did agree to abide by its franchise obligations, and abide by the law, but to the extent the combination of the "user fee" and the local franchise fee exceed the 5% cap, Comcast has paid an excessive and unlawful fee. Comcast is within its rights to make adjustments to its open book accounts with SMCTC to ensure that its franchise fee payments stay within the boundaries of federal law.

The "user fee" that the CPUC requires all state video franchisees to pay falls squarely within the definition of "franchise fee" under 47 U.S.C. Section 542(g)(1). The CPUC "user fee" is "imposed by a franchising authority on a cable operator . . . solely because of [its] status as

such." 47 U.S.C. § 542(g)(1). The CPUC collects the "user fee" pursuant to Public Utilities Code Section 441, which states that "[t]he [C]ommission shall annually determine a fee to be paid by an applicant or holder of a state franchise" Each of the annual resolutions establishing the user fee have directed that "[h]olders of state video franchises . . . shall remit to the Commission the amount indicated in their fee statements" *See, e.g.*, Resolution T-17305, p. 4 (Ordering Paragraph 1). It is precisely Comcast's status as a state video franchisee that triggers the requirement that it pay the "user fee."

Your letter presents three arguments by which you claim the "user fee" is not a franchise fee. First, you assert that "[t]he CPUC user fee is part of a provision of California law that imposes fees on entities that are subject to CPUC jurisdiction." This proposition is based on a false premise, as state video franchise holders are not subject to the CPUC's jurisdiction over public utilities. Public Utilities Code Section 5820 states that "[t]he holder of a state franchise shall not be deemed a public utility as a result of providing video service under this division" and further clarifies that "[t]his division shall not be construed as granting authority to the [C]ommission to regulate rates, terms, and conditions of video service, except as explicitly set forth in this division." Comcast is not a public utility, and it does not pay the video franchise "user fee" for any reason other than that it holds a state video franchise issued by the CPUC.

The "user fee" cannot be equated with the "CPUC reimbursement fee" imposed upon public utilities, as your letter suggests. Consistent with its jurisdictional limitations, the CPUC does not impose its generic "CPUC reimbursement fee" on state video franchise holders. This fee is established annually based on intrastate gross revenues derived from end user customers of regulated telecommunications providers and other public utilities. The state video franchise "user fee" is a wholly separate obligation imposed on state franchisees pursuant to DIVCA. Significantly, the "user fee" is not calculated based on gross revenues, but based on "the pro-rata share of the number of households in each state franchise holder's video service territory." D.09-04-011; *see also* Resolution T-17305, p. 2, fn. 6. Moreover, companies who are both public utilities and state franchise holders pay both the "CPUC reimbursement fee" on their regulated intrastate revenues, and the video franchise "user fee" based on their "homes passed" calculation. Both the "user fee" and the "CPUC reimbursement fee" are derived from statutory authority permitting the CPUC to fund its activities, but these fees cannot reasonably be viewed as one generic fee of "general applicability" under 47 U.S.C. Section 542(g)(2)(A).

Second, you argue that the "user fee" fits within the statutory exception for "charges incidental to the awarding or enforcing of the franchise." *See* 47 U.S.C. § 542(g)(2)(D). This characterization of the "user fee" is also misplaced. The "user fee" is not a "payment for bonds, security funds, letter of credits, insurance, indemnification, penalties, or liquidated damages," so it is plainly outside the scope of the statutorily-endorsed "incidental" items. Moreover, the "user fee" is far too large of a fee to be considered "incidental." In 2010-2011, for example, Comcast paid more than \$115,000 in user fees. Further, the "user fee" is not related to – let alone

"incidental to" – the "awarding or enforcing" of the franchise. Since the CPUC already imposes an "application fee" of \$2,000, which it deems "reasonable for recovering costs to process an application," the CPUC acknowledges that the user fee is not being used to recover application costs. See CPUC General Order 169, § IV(A)(1)(b); D.07-03-014, at p. 85. If the user fees were associated with the work done on applications, they would categorically exceed the reasonable cost of that work based on the CPUC's determinations regarding the application fee. Similarly, the user fee is unrelated to enforcement activities, as it is charged without regard to whether any enforcement has taken place. Although the CPUC has limited enforcement duties under DIVCA, Comcast is not aware that any enforcement actions have taken place involving state franchisees. In its *Second Report and Order Regarding the Implementation of Section 621(a)(1)* ("*Second Report and Order*"), the FCC confirmed its prior finding that "the term 'incidental' in Section 542(g)(2)(D) "should be limited to the list of incidentals in the statutory provision, as well as other minor expenses." In the *Matter of Implementation of Section 621(a)(1)*, MB Docket No. 05-311, *Second Report and Order*, FCC 07-190 (rel. Nov. 6, 2007), at ¶ 11. The "user fee" is neither a listed item nor a "minor expense," nor does it bear any reasonable relation to the Commission's application or enforcement activities under DIVCA. As the FCC has noted, fees that are not "incidental" "must count toward the 5 percent franchise fee cap." *Id.*

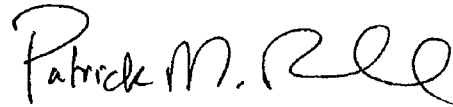
Third, you cite to the CPUC's own decisions implementing DIVCA as authority for the conclusion that the "user fee" is not a "franchise fee" under 47 U.S.C. Section 542(g). The CPUC's findings amount to an advisory opinion about an unripe legal matter that was not squarely before it and over which it has no jurisdiction. The CPUC's conclusory statements about the relationship between the "user fee" and Section 542(g) would have no bearing on the ultimate legal significance of the "user fee" under federal law. Should this question be reviewed by a court in connection with this or another related dispute, it would be reviewed *de novo* based on the FCC's guidance and the underlying Congressional intent behind the statutory 5% cap and the definition of "franchise fees."

In addition to your assertions that the "user fee" is not a "franchise fee," you object to Comcast's present deductions from franchise fees. However, you have not cited any valid authority that would prevent Comcast from making adjustments through its open accounts relationship with the SMCTC. Your citation to the FCC's *Second Report and Order* has no bearing on this question, as that language simply reflects the FCC's overall acknowledgment that an analysis of statutory conflicts with franchise obligations will be reviewed on a "case-by-case basis." *Second Report and Order*, at ¶ 19. Notwithstanding the truism that the applicability of Section 542 to individual "fees" will require "case by case" treatment, there is no reason why Comcast cannot adjust its current payments in response to overcharges of franchise fees that result from the combination of the CPUC "user fee" and the SMCTC's local franchise fee.

Robert Davison
December 27, 2011
Page 4

Comcast remains firm in its position that it is entitled to deduct the "user fee" amounts from franchise fees, consistent with federal law. If you wish to discuss this, we are available to do so. Please contact the undersigned at 415-433-1900 or by email at prosvall@cwclaw.com.

Very truly yours,

A handwritten signature in black ink that reads "Patrick M. Rosvall". The signature is written in a cursive style with a large, stylized "P" and "R".

Patrick M. Rosvall

PMR:ncg
673093.1

Lee-Ann Peling, Comcast
Steve Holmes, Comcast
Harriet Steiner, Best Best & Krieger LLP
Karen Liu, ASO, SMCTC

REPRESENTING
Sacramento County
and the Cities of:
Citrus Heights
Elk Grove
Folsom
Galt
Rancho Cordova
Sacramento



SACRAMENTO METROPOLITAN Cable Television Commission

901 H Street, Suite 206 ♦ Sacramento, CA 95814 ♦ www.sacmetroable.tv

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ROBERT A DAVISON, EXECUTIVE DIRECTOR

AGENDA ITEM NO. 5

DATE: March 1, 2012
TO: Chair and Board of Directors
FROM: Robert A. Davison, Executive Director
SUBJECT: **SACRAMENTO COUNTY'S INVESTMENT POLICY FOR THE POOLED INVESTMENT FUND FOR CALENDAR YEAR 2012**

RECOMMENDATION:

Receive and file Sacramento County's Calendar Year 2012 Investment Policy for the Pooled Investment Fund.

DISCUSSION:

On December 13, 2011, the Sacramento County Board of Supervisors approved the County's Annual Investment Policy for the Pooled Investment Fund for Calendar Year 2012.

As the Commission is a Pooled Investment Fund participant, it is recommended the Board receive and file the policy at this meeting. Your action to receive and file the policy constitutes consideration at a public meeting, as recommended by Government Code Section 53646(a)(2).

There were no major changes to the policy. Three companies were added to the list of tobacco-related companies; all other changes were grammatical corrections and do not affect the intent of the policy.

Respectfully submitted,

A handwritten signature in blue ink that reads "Robert A. Davison". The signature is written in a cursive style and is positioned above a horizontal line.

ROBERT A. DAVISON, Executive Director
Sacramento Metropolitan Cable Television Commission

Attachment:
Sacramento County's CY 2012 Investment Policy for the Pooled Investment Fund



Internal Services Agency

Department of Finance

Julie Valverde, Director

Bradley J. Hudson,

County Executive

David Villanueva,

Agency Administrator

County of Sacramento

RECEIVED

January 13, 2012

JAN 17 2012

To: Pooled Investment Fund Participant Agency Board Chairs

SACRAMENTO METROPOLITAN
CABLE TELEVISION COMMISSION

Subject: **CALENDAR YEAR 2012 INVESTMENT POLICY FOR THE POOLED INVESTMENT FUND**

Since 1987, the Director of Finance has submitted a statement of investment policy to the Sacramento County Board of Supervisors for consideration and adoption. The Board of Supervisors approved the enclosed calendar year 2012 investment policy on December 13, 2011.

There are no major changes to the investment policy. Three companies were added to the list of tobacco-related companies. All other changes were grammatical corrections and did not affect the intent of the policy.

I recommend that the legislative body of your agency receive and file the enclosed Sacramento County Annual Investment Policy of the Pooled Investment Fund — Calendar Year 2012 at its next regular meeting. Your action to receive and file the policy constitutes consideration at a public meeting as recommended by Government Code section 53646(a)(2). The investment policy is also available on the Department of Finance — Investment Division webpage at www.finance.saccounty.net/investments.

The following investment-related reports are also available on the Investment Division webpage:

- Pooled Investment Fund Monthly Review;
- Quarterly Pooled Investment Fund Report; and
- Non-Pooled Investment Funds Portfolio Reports.

If you have any questions about the investment policy or management of the Pooled Investment Fund portfolio, please call me at (916) 874-6744 or Chief Investment Officer Bernard Santo Domingo at (916) 874-7320.

Sincerely,

Julie Valverde

Director of Finance

Enclosure

cc: Treasury Oversight Committee
Bernard Santo Domingo



SACRAMENTO COUNTY

Annual Investment Policy of the Pooled Investment Fund

CALENDAR YEAR 2012

*Approved by the
Sacramento County Board of Supervisors*

December 13, 2011
Resolution No. 2011-0918

JAN 17 2012

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SACRAMENTO COUNTY

Annual Investment Policy of the Pooled Investment Fund

CALENDAR YEAR 2012

I. Authority

Under the Sacramento County Charter, the Board of Supervisors established the position of Director of Finance and by ordinance will annually review and renew the Director of Finance's authority to invest and reinvest all the funds in the County Treasury.

II. Policy Statement

This Investment Policy (Policy) establishes cash management and investment guidelines for the Director of Finance, who is responsible for the stewardship of the Sacramento County Pooled Investment Fund. Each transaction and the entire portfolio must comply with California Government Code and this Policy. All portfolio activities will be judged by the standards of the Policy and its investment objectives. Activities that violate its spirit and intent will be considered contrary to the Policy.

III. Standard of Care

The Director of Finance is the Trustee of the Pooled Investment Fund and therefore, a fiduciary subject to the prudent investor standard. The Director of Finance, employees involved in the investment process, and members of the Sacramento County Treasury Oversight Committee (Oversight Committee) shall refrain from all personal business activities that could conflict with the management of the investment program. All individuals involved will be required to report all gifts and income in accordance with California state law. When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, the Director of Finance shall act with care, skill, prudence, and diligence to meet the aims of the investment objectives listed in Section IV, Investment Objectives.

IV. Investment Objectives

The Pooled Investment Fund shall be prudently invested in order to earn a reasonable return, while awaiting application for governmental purposes. The specific objectives for the Pooled Investment Fund are ranked in order of importance.

A. Safety of Principal

The preservation of principal is the primary objective. Each transaction shall seek to ensure that capital losses are avoided, whether they be from securities default or erosion of market value.

B. Liquidity

As a second objective, the Pooled Investment Fund should remain sufficiently flexible to enable the Director of Finance to meet all operating requirements that may be reasonably anticipated in any depositor's fund.

C. Public Trust

In managing the Pooled Investment Fund, the Director of Finance and the authorized investment traders should avoid any transactions that might impair public confidence in Sacramento County and the participating local agencies. Investments should be made with precision and care, considering the probable safety of the capital as well as the probable income to be derived.

D. Maximum Rate of Return

As the fourth objective, the Pooled Investment Fund should be designed to attain a market average rate of return through budgetary and economic cycles, consistent with the risk limitations, prudent investment principles and cash flow characteristics identified herein. For comparative purposes, the State of California Local Agency Investment Fund (LAIF) will be used as a performance benchmark. The Pooled Investment Fund quarterly performance benchmark target has been set at or above LAIF's yield. This benchmark was chosen because LAIF's portfolio structure is similar to the Pooled Investment Fund.

V. Pooled Investment Fund Investors

The Pooled Investment Fund investors are comprised of Sacramento County, school and community college districts, districts directed by the Board of Supervisors, and independent special districts whose treasurer is the Director of Finance. Any local agencies not included in this category are subject to California Government Code section 53684 and are referred to as outside investors.

VI. Implementation

In order to provide direction to those responsible for management of the Pooled Investment Fund, the Director of Finance has established this Policy and will provide it to the Oversight Committee and render it to legislative bodies of local agencies that participate in the Pooled Investment Fund. In accordance with California Government Code section 53646, et seq., the Board of Supervisors shall review and approve this Policy annually.

This Policy provides a detailed description of investment parameters used to implement the investment process and includes the following: investable funds; authorized instruments; prohibited investments; credit requirements; maximum maturities and concentrations; repurchase agreements; Community Reinvestment Act Program; criteria and qualifications of broker/dealers and direct issuers; investment guidelines, management style and strategy; Approved Lists; and calculation of yield and costs.

VII. Internal Controls

The Director of Finance shall establish internal controls to provide reasonable assurance that the investment objectives are met and to ensure that the assets are protected from loss, theft, or misuse. To assist in implementation and internal controls, the Director of Finance has established an Investment Group and a Review Group.

The Investment Group, which is comprised of the Director of Finance and his/her designees, is responsible for maintenance of the investment guidelines and Approved Lists. These guidelines and lists can be altered daily, if needed, to adjust to the ever-changing financial markets. The guidelines can be more conservative or match the policy language. In no case can the guidelines override the Policy.

The Review Group, which is comprised of the Director of Finance and his/her designees, is responsible for the monthly review and appraisal of all the investments purchased by the Director of Finance and staff. This review includes bond proceeds, which are invested separately from the Pooled Investment Fund and are not governed by this Policy.

The Director of Finance shall establish a process for daily, monthly, quarterly, and annual review and monitoring of the Pooled Investment Fund activity. The following articles, in order of supremacy, govern the Pooled Investment Fund:

1. California Government Code
2. Annual Investment Policy
3. Current Investment Guidelines
4. Approved Lists (see page 9, Section IX.K)

The Director of Finance shall review the daily investment activity and corresponding bank balances.

Monthly, the Review Group shall review all investment activity and its compliance to the corresponding governing articles and investment objectives.

Quarterly, the Director of Finance will provide the Oversight Committee with a copy of the Pooled Investment Fund activity and its compliance to the annual Policy and California Government Code.

Annually, the Oversight Committee shall cause an annual audit of the activities within the Pooled Investment Fund to be conducted to determine compliance to the Policy and California Government Code. This audit will include issues relating to the structure of the investment portfolio and risk.

All securities purchased, with the exception of time deposits, money market mutual funds, LAIF and Wells Fargo's overnight investment fund, shall be delivered to the independent third-party custodian selected by the Director of Finance. This includes all collateral for repurchase agreements. All trades, where applicable, will be executed by delivery versus payment by the designated third-party custodian.

VIII. Sacramento County Treasury Oversight Committee

In accordance with California Government Code section 27130 et seq., the Board of Supervisors, in consultation with the Director of Finance, has created the Sacramento County Treasury Oversight Committee (Oversight Committee). Annually, the Director of Finance shall prepare an Investment Policy that will be forwarded to and monitored by the Oversight Committee and rendered to Boards of all local agency participants. The Board of Supervisors shall review and

approve the Policy during public session. Quarterly, the Director of Finance shall provide the Oversight Committee a report of all investment activities of the Pooled Investment Fund to ensure compliance to the Policy. Annually, the Oversight Committee shall cause an audit to be conducted on the Pooled Investment Fund. The meetings of the Oversight Committee shall be open to the public and subject to the Ralph M. Brown Act.

A member of the Oversight Committee may not be employed by an entity that has contributed to the campaign of a candidate for the office of local treasurer, or contributed to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the county treasury, in the previous three years or during the period that the employee is a member of the Oversight Committee. A member may not directly or indirectly raise money for a candidate for local treasurer or a member of the Sacramento County Board of Supervisors or governing board of any local agency that has deposited funds in the county treasury while a member of the Oversight Committee. Finally, a member may not secure employment with, or be employed by bond underwriters, bond counsel, security brokerages or dealers, or financial services firms, with whom the treasurer is doing business during the period that the person is a member of the Oversight Committee or for one year after leaving the committee.

The Oversight Committee is not allowed to direct individual investment decisions, select individual investment advisors, brokers or dealers, or impinge on the day-to-day operations of the Department of Finance treasury and investment operations.

IX. Investment Parameters

A. Investable Funds

Total Investable Funds (TIF) for purposes of this Policy are all Pooled Investment Fund moneys that are available for investment at any one time, including the estimated bank account float. Included in TIF are funds of outside investors, if applicable, for which the Director of Finance provides investment services. Excluded from TIF are all bond proceeds.

The Cash Flow Horizon is the period in which the Pooled Investment Fund cash flow can be reasonably forecasted. This Policy establishes the Cash Flow Horizon to be one (1) year.

Once the Director of Finance has deemed that the cash flow forecast can be met, the Director of Finance may invest funds with maturities beyond one year. These securities will be referred to as the Core Portfolio.

B. Authorized Investments

Authorized investments shall match the general categories established by the California Government Code sections 53601 et seq. and 53635 et seq. Authorized investments shall include, in accordance with California Government Code section 16429.1, investments into LAIF. Authorization for specific instruments within these general categories, as well as narrower portfolio concentration and maturity limits, will be established and maintained by the Investment Group as part of the Investment Guidelines. As the California Government Code is amended, this Policy shall likewise become amended.

C. Prohibited Investments

No investments shall be authorized that have the possibility of returning a zero or negative yield if held to maturity. These shall include inverse floaters, range notes, and interest only strips derived from a pool of mortgages.

All legal investments issued by a tobacco-related company are prohibited. A tobacco-related company is defined as an entity that makes smoking products from tobacco used in cigarettes, cigars, or snuff or for smoking in pipes. The tobacco-related issuers restricted from any investment are Alliance One, Altria Group, Inc., Auri Inc., British American Tobacco PLC, Imperial Tobacco Group PLC, Kirin International Holding Inc., Lorillard, Philip Morris International, Reynolds American, Inc., Schweitzer-Mauduit International Inc., Smokefree Innotec Inc., Star Scientific Inc., Universal Corp., and Vector Group, Ltd. Annually the Director of Finance and/or his designee will update the list of tobacco-related companies.

D. Credit Requirements

Except for municipal obligations and Community Reinvestment Act (CRA) bank deposits and certificates of deposit, the issuer's short-term credit ratings shall be at or above A-1 by Standard & Poor's, P-1 by Moody's, and, if available, F1 by Fitch, and the issuer's long-term credit ratings shall be at or above A by Standard & Poor's, A2 by Moody's, and, if available, A by Fitch. There are no credit requirements for Registered State Warrants. All other municipal obligations shall be at or above a short-term rating of SP-1 by Standard & Poor's, MIG1 by Moody's, and, if available, F1 by Fitch. In addition, domestic banks are limited to those with a Fitch Individual bank rating of B or better. The Investment Group is granted the authority to specify approved California banks with Fitch Individual bank ratings of B/C or C but they must have a Support rating of 1 where appropriate. Foreign banks with domestic licensed offices must have a Fitch Sovereign rating of AAA and a Fitch Individual bank rating of B or better; however, a foreign bank may have a rating of B/C or C but they must have a Support rating of 1. Domestic savings banks must be rated B or better or may have a rating of B/C or C but they must a Support rating of 1.

Community Reinvestment Act Program Credit Requirements

Maximum Amount	Minimum Requirements
Up to the FDIC- or NCUSIF-insured limit for the term of the deposit	Banks — FDIC Insurance Coverage
	Credit Unions — NCUSIF Insurance Coverage <i>Credit unions are limited to a maximum deposit of the NCUSIF-insured limit since they are not rated by nationally recognized rating agencies and are not required to provide collateral on public deposits.</i>
Over the FDIC- or NCUSIF-insured limit to \$10 million Collateral is required	(Any 2 of 3 ratings) S&P: A-2 Moody's: P-2 Fitch: F-2

Eligible banks must have Community Reinvestment Act performance ratings of “satisfactory” or “outstanding” from each financial institution’s regulatory authority. In addition, deposits greater than the federally-insured amount must be collateralized. Banks must place securities worth between 110% and 150% of the value of the deposit with the Federal Reserve Bank of San Francisco, the Home Loan Bank of San Francisco, or a trust bank.

Since credit unions do not have Community Reinvestment Act performance ratings, they must demonstrate their commitment to meeting the community reinvestment lending and charitable activities, which are also required of banks.

All commercial paper and medium-term note issues must be issued by corporations operating within the United States and having total assets in excess of one billion dollars (\$1,000,000,000).

The Investment Group may raise these credit standards as part of the Investment Guidelines and Approved Lists. Appendix A provides a Comparison and Interpretation of Credit Ratings by Standard & Poor’s, Moody’s, and Fitch.

E. Maximum Maturities

Due to the nature of the invested funds, no investment with limited market liquidity should be used. Appropriate amounts of highly-liquid investments, such as Treasury and Agency securities, should be maintained to accommodate unforeseen withdrawals.

The maximum maturity, determined as the term from the date of ownership to the date of maturity, for each investment shall be established as follows:

U.S. Treasury Notes and Agency Obligations	5 years
Bonds issued by local agencies	5 years
Registered State Warrants and Municipal Notes	5 years
Bankers Acceptances.....	180 days
Commercial Paper.....	270 days
Negotiable Certificates of Deposit.....	180 days
CRA Bank Deposit/Certificates of Deposit.....	1 year
Repurchase Agreements.....	1 year
Reverse Repurchase Agreements	92 days
Medium Term Corporate Notes.....	180 days
Shares of a Money Market Mutual Fund	(per SEC regulations) ¹
Collateralized Mortgage Obligations	180 days

The Investment Group may reduce these maturity limits to a shorter term as part of the Investment Guidelines and the Approved Lists.

The ultimate maximum maturity of any investment shall be five (5) years. The dollar-weighted average maturity of all securities shall be equal to or less than three (3) years.

F. Maximum Concentrations

No more than 80% of the portfolio may be invested in issues other than United States Treasuries and Government Agencies. The maximum allowable percentage for each type of security is set forth as follows:

U.S. Treasury and Agency Securities	100%
Bonds issued by local agencies	80%
Registered State Warrants and Municipal Notes	80%
Bankers Acceptances.....	40%
Commercial Paper.....	40%
Negotiable or CRA Bank Deposit/Certificates of Deposit	30%
Repurchase Agreements.....	30%
Reverse Repurchase Agreements	20%
Medium Term Corporate Notes.....	30%
Shares of a diversified Money Market Mutual Fund.....	20%
Collateralized Mortgage Obligations	20%
Local Agency Investment Fund (LAIF).....	(per State limit) ²

The Investment Group may reduce these concentrations as part of the Investment Guidelines and the Approved Lists.

No more than 10% of the portfolio, except Treasuries and Agencies, may be invested in securities of a single issuer including its related entities.

¹ Money Market mutual funds are regulated by the Securities and Exchange Commission under §270.2a-7 and are required to maintain a dollar-weighted average portfolio maturity of 60 days or less.

² LAIF current maximum allowed is \$50 million.

Where a percentage limitation is established above, for the purpose of determining investment compliance, that maximum percentage will be applied on the date of purchase.

G. Repurchase Agreements

Under California Government Code section 53601, paragraph (j) and section 53635, the Director of Finance may enter into Repurchase Agreements and Reverse Repurchase Agreements. The maximum maturity of a Repurchase Agreement shall be one year. The maximum maturity of a reverse repurchase agreement shall be 92 days, and the proceeds of a reverse repurchase agreement may not be invested beyond the expiration of the agreement. The reverse repurchase agreement must be "matched to maturity" and meet all other requirements in the code.

All repurchase agreements must have an executed Sacramento County Master Repurchase Agreement on file with both the Director of Finance and the Broker/Dealer. Repurchase Agreements executed with approved broker-dealers must be collateralized with either: (1) U.S. Treasuries or Agencies with a market value of 102% for collateral marked to market daily; or (2) money market instruments which are on the Approved Lists of the County and which meet the qualifications of the Policy, with a market value of 102%. Since the market value of the underlying securities is subject to daily market fluctuations, investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102% no later than the next business day. Use of mortgage-backed securities for collateral is not permitted. Strictly for purposes of investing the daily excess bank balance, the collateral provided by the Sacramento County's depository bank can be Treasuries or Agencies valued at 110%, or mortgage-backed securities valued at 150%.

H. Community Reinvestment Act Program

The Director of Finance has allocated within the Pooled Investment Fund, a maximum of \$90 million for the Community Reinvestment Act Program to encourage community investment by financial institutions, which includes community banks and credit unions, and to acknowledge and reward local financial institutions which support the community's financial needs. The Director of Finance may increase this amount, as appropriate, while staying within the investment policy objectives and maximum maturity and concentration limits. The eligible banks and savings banks must have Community Reinvestment Act performance ratings of "satisfactory" or "outstanding" from each financial institution's regulatory authority. The minimum credit requirements are located on page 5 of Section IX.D.

I. Criteria and Qualifications of Brokers/Dealers and Direct Issuers

All transactions initiated on behalf of the Pooled Investment Fund and Sacramento County shall be executed through either government security dealers reporting as primary dealers to the Market Reports Division of the Federal Reserve Bank of New York or direct issuers that directly issue their own securities which have been placed on the Approved List of brokers/dealers and direct issuers. Further, these firms must have an investment grade rating from at least two national rating services, if available.

Brokers/Dealers and direct issuers which have exceeded the political contribution limits, as contained in Rule G-37 of the Municipal Securities Rulemaking Board, within the preceding four year period to the Director of Finance or any member of the governing board of a local agency or any candidate for those offices, are prohibited from the Approved List of brokers/dealers and direct issuers.

Each broker/dealer and direct issuer will be sent a copy of this Policy and a list of those persons authorized to execute investment transactions. Each firm must acknowledge receipt of such materials to qualify for the Approved List of brokers/dealers and direct issuers.

Each broker/dealer and direct issuer authorized to do business with Sacramento County shall, at least annually, supply the Director of Finance with audited financial statements.

J. Investment Guidelines, Management Style and Strategy

The Investment Group, named by the Director of Finance, shall issue and maintain Investment Guidelines specifying authorized investments, credit requirements, permitted transactions, and issue maturity and concentration limits which are consistent with this Policy.

The Investment Group shall also issue a statement describing the investment management style and current strategy for the entire investment program. The management style and strategy can be changed to accommodate shifts in the financial markets, but at all times they must be consistent with this Policy and its objectives.

K. Approved Lists

The Investment Group, named by the Director of Finance, shall issue and maintain various Approved Lists. These lists are:

1. Approved Domestic Banks for all legal investments.
2. Approved Foreign Banks for all legal investments.
3. Approved Commercial Paper and Medium Term Note Issuers.
4. Approved Money Market Mutual Funds.
5. Approved Firms for Purchase or Sale of Securities (Brokers/Dealers and Direct Issuers).
6. Approved Banks / Credit Unions for the Community Reinvestment Act Program.

L. Calculation of Yield and Costs

The costs of managing the investment portfolio, including but not limited to: investment management; accounting for the investment activity; custody of the assets; managing and accounting for the banking; receiving and remitting deposits; oversight controls; and indirect and overhead expenses are charged to the investment earnings based upon actual labor hours worked in respective areas. Costs of these respective areas are accumulated by specific cost accounting projects and charged to the Pooled Investment Fund on a quarterly basis throughout the fiscal year.

The Department of Finance will allocate the net interest earnings of the Pooled Investment Fund quarterly. The net interest earnings are allocated based upon the average daily cash balance of each Pooled Investment Fund participant.

X. Reviewing, Monitoring and Reporting of the Portfolio

The Review Group will prepare and present to the Director of Finance at least monthly a comprehensive review and evaluation of the transactions, positions, performance of the Pooled Investment Fund and compliance to the California Government Code, Policy, and Investment Guidelines.

Quarterly, the Director of Finance will provide to the Oversight Committee and to any local agency participant that requests a copy, a detailed report on the Pooled Investment Fund. Pursuant to California Government Code section 53646, the report will list the type of investments, name of issuer, maturity date, par and dollar amount of the investment. For the total Pooled Investment Fund, the report will list average maturity, the market value, and the pricing source. Additionally, the report will show any funds under the management of contracting parties, a statement of compliance to the Policy and a statement of the Pooled Investment Fund's ability to meet the expected expenditure requirements for the next six months.

Each quarter, the Director of Finance shall provide to the Board of Supervisors and interested parties a comprehensive report on the Pooled Investment Fund.

Annually, the Director of Finance shall provide to the Oversight Committee the Investment Policy. Additionally, the Director of Finance will render a copy of the Investment Policy to the legislative body of the local agencies that participate in the Pooled Investment Fund.

XI. Withdrawal Requests for Pooled Fund Investors

The Director of Finance will honor all requests to withdraw funds for normal cash flow purposes that are approved by the Director of Finance at a one dollar net asset value. Any requests to withdraw funds for purposes other than immediate cash flow needs, such as for external investing, are subject to the consent of the Director of Finance. In accordance with California Government Code Sections 27133(h) and 27136, such requests for withdrawals must first be made in writing to the Director of Finance. When evaluating a request to withdraw funds, the Director of Finance will take into account the effect of a withdrawal on the stability and predictability of the Pooled Investment Fund and the interests of other depositors. Any withdrawal for such purposes will be at the market value of the Pooled Investment Fund on the date of the withdrawal.

XII. Limits on Honoraria, Gifts, and Gratuities

In accordance with California Government Code Section 27133(d), this Policy establishes limits for the Director of Finance; individuals responsible for management of the portfolios; and members of the Investment Group and Review Group who direct individual investment decisions, select individual investment advisors and broker/dealers, and conduct day-to-day investment trading activity. The limits also apply to members of the Oversight Committee. Any individual who receives an aggregate total of gifts, honoraria and gratuities in excess of \$50 in a calendar

year from a broker/dealer, bank or service provider to the Pooled Investment Fund must report the gifts, dates and firms to the designated filing official and complete the appropriate State forms.

No individual may receive aggregate gifts, honoraria, and gratuities in a calendar year in excess of the amount specified in Section 18940.2(a) of Title 2, Division 6 of the California Code of Regulations. This limitation is \$420 for the period January 1, 2011, to December 31, 2012. Any violation must be reported to the State Fair Political Practices Commission.

XIII. Terms and Conditions for Outside Investors

Outside investors may invest in the Pooled Investment Fund through California Government Code Section 53684. Their deposits are subject to the consent of the Director of Finance. The legislative body of the local agency must approve the Sacramento County Pooled Investment Fund as an authorized investment and execute a Memorandum of Understanding. Any withdrawal of these deposits must be made in writing 30 days in advance and will be paid based upon the market value of the Pooled Investment Fund. If the Director of Finance considers it appropriate, the deposits may be returned at any time to the local agency.

Appendix A

Comparison and Interpretation of Credit Ratings

Long Term Debt & Individual Bank Ratings				
Rating Interpretation	Moody's	S&P	Fitch	Fitch Individual Bank Rating
<i>Best-quality grade</i>	Aaa	AAA	AAA	A
<i>High-quality grade</i>	Aa1	AA+	AA+	A
	Aa2	AA	AA	A/B
	Aa3	AA-	AA-	B
<i>Upper Medium Grade</i>	A1	A+	A+	B
	A2	A	A	B/C
	A3	A-	A-	B/C
<i>Medium Grade</i>	Baa1	BBB+	BBB+	C
	Baa2	BBB	BBB	C/D
	Baa3	BBB-	BBB-	C/D
<i>Speculative Grade</i>	Ba1	BB+	BB+	D
	Ba2	BB	BB	D
	Ba3	BB-	BB-	D
<i>Low Grade</i>	B1	B+	B+	D/E
	B2	B	B	D/E
	B3	B-	B-	D/E
<i>Poor Grade to Default</i>	Caa	CCC+	CCC	D/E
<i>In Poor Standing</i>	-	CCC	-	D/E
	-	CCC-	-	D/E
<i>Highly Speculative Default</i>	Ca	CC	CC	D/E
	C	-	-	E
<i>Default</i>	-	-	DDD	E
	-	-	DD	E
	-	D	D	E

Short Term / Municipal Note Investment Grade Ratings			
Rating Interpretation	Moody's	S&P	Fitch
<i>Superior Capacity</i>	MIG-1	SP-1+/SP-1	F1+/F1
<i>Strong Capacity</i>	MIG-2	SP-2	F2
<i>Acceptable Capacity</i>	MIG-3	SP-3	F3

Appendix A

Short Term / Commercial Paper Investment Grade Ratings

Rating Interpretation	Moody's	S&P	Fitch
<i>Superior Capacity</i>	P-1	A-1+/A-1	F1+/F1
<i>Strong Capacity</i>	P-2	A-2	F2
<i>Acceptable Capacity</i>	P-3	A-3	F3

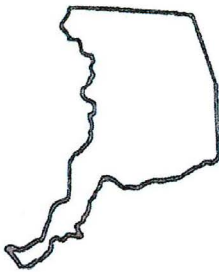
Fitch Support Ratings (related to Fitch Individual Bank Ratings)

Rating	Interpretation
1	A bank for which there is an extremely high probability of external support. The potential provider of support is very highly rated in its own right and has a very high propensity to support the bank in question. This probability of support indicates a minimum Long-Term Rating floor of 'A-'.
2	A bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-Term Rating floor of 'BBB-'.
3	A bank for which there is a moderate probability of support because of uncertainties about the ability or propensity of the potential provider of support to do so. This probability of support indicates a minimum Long-Term Rating floor of 'BB-'.
4	A bank for which there is a limited probability of support because of significant uncertainties about the ability or propensity of any possible provider of support to do so. This probability of support indicates a minimum Long-Term Rating floor of 'B'.
5	A bank for which external support, although possible, cannot be relied upon. This may be due to a lack of propensity to provide support or to very weak financial ability to do so. This probability of support indicates a Long-Term Rating floor no higher than 'B-' and in many cases no floor at all.

Appendix A

Fitch Sovereign Risk Ratings	
<i>Rating</i>	<i>Interpretation</i>
AAA	Highest credit quality. 'AAA' ratings denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality. 'AA' ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality. 'A' ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality. 'BBB' ratings indicate that expectations of default risk are currently low. The capacity for timely payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative. 'BB' ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative. 'B' ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	High default risk. Default is a real possibility.
CC	Very high levels of credit risk. Default of some kind appears probable.
C	Exceptionally high levels of credit risk. Default appears imminent or inevitable.
D	<p>Default. Indicates a default. Default generally is defined as one of the following:</p> <ul style="list-style-type: none"> • Failure to make payment of principal and/or interest under the contractual terms of the rated obligation; • The bankruptcy filings, administration, receivership, liquidation or other winding-up or cessation of the business of an issuer/obligor; or • The coercive exchange of an obligation, where creditors were offered securities with diminished structural or economic terms compared with the existing obligation.

REPRESENTING
Sacramento County
and the Cities of:
Citrus Heights
Elk Grove
Folsom
Galt
Rancho Cordova
Sacramento



SACRAMENTO METROPOLITAN Cable Television CTC Commission

901 H Street, Suite 206 ♦ Sacramento, CA 95814 ♦ www.sacmetroable.tv

Phone: (916) 874-6661 ♦ Fax: (916) 854-9666

ROBERT A DAVISON, EXECUTIVE DIRECTOR

AGENDA ITEM NO. 6

DATE: March 1, 2012
TO: Chair and Board of Directors
FROM: Robert A. Davison, Executive Director
SUBJECT: **STAFF STATUS REPORT / MISCELLANEOUS ITEMS**

RECOMMENDATION:

Receive verbal reports from staff on miscellaneous items and discuss future Board meeting dates:

- 1) PEG Fee Projects Update
- 2) FY 2012-13 PEG Fee Funding Request Notification
- 3) Board Meetings – April 5th, May 3rd, and June 7th

Respectfully submitted,

A handwritten signature in blue ink that reads "Robert A. Davison". The signature is written in a cursive style and is positioned above a horizontal line.

ROBERT A. DAVISON, Executive Director
Sacramento Metropolitan Cable Television Commission

REPRESENTING
Sacramento County
and the Cities of:
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ROBERT A DAVISON, EXECUTIVE DIRECTOR

AGENDA ITEM NO. 7

DATE: March 1, 2012
TO: Chair and Board of Directors
FROM: Robert A. Davison, Executive Director
SUBJECT: STATE FRANCHISEE / LICENSEE REPORTS

RECOMMENDATION:

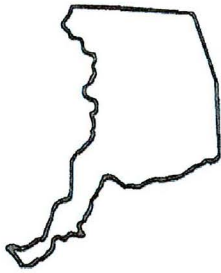
Receive verbal reports from State Franchisee/Licensee representatives.

Respectfully submitted,

A handwritten signature in blue ink that reads "Robert A. Davison". The signature is written in a cursive style and is positioned above a horizontal line.

ROBERT A. DAVISON, Executive Director
Sacramento Metropolitan Cable Television Commission

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ROBERT A. DAVISON, EXECUTIVE DIRECTOR

AGENDA ITEM NO. 8

DATE: March 1, 2012
TO: Chair and Board of Directors
FROM: Robert A. Davison, Executive Director
SUBJECT: CHANNEL LICENSEE / GRANTEE REPORTS

RECOMMENDATION:

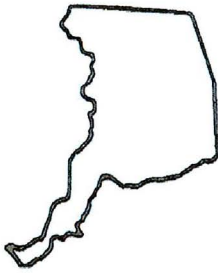
Receive verbal reports from Channel Licensee/Grantee representatives.

Respectfully submitted,



ROBERT A. DAVISON, Executive Director
Sacramento Metropolitan Cable Television Commission

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and the Cities of:
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ROBERT A DAVISON, EXECUTIVE DIRECTOR

AGENDA ITEM NO. 9

DATE: March 1, 2012
TO: Chair and Board of Directors
FROM: Robert A. Davison, Executive Director
SUBJECT: PUBLIC COMMENTS

RECOMMENDATION:

Receive public comments from the public on matters not on the agenda.

Respectfully submitted,

A handwritten signature in blue ink that reads "Robert A. Davison". The signature is written in a cursive style and is positioned above a horizontal line.

ROBERT A. DAVISON, Executive Director
Sacramento Metropolitan Cable Television Commission