



Action Audits, LLC

April 8, 2008

Catherine Lazorko
Public Information Officer
Town of Chapel Hill
Town Hall
405 Martin Luther King Jr. Blvd
Chapel Hill, NC 27514

Dear Catherine:

This letter serves to explain some of the legal obligations to which the Town is subject regarding PEG fees under the Video Service Competition Act (S.L. 2006-151), and which are the basis for our recommendations regarding the Town's Performance Agreement with the Peoples Channel.

Principally, there are two sources of revenue the Town receives for local public, educational and government access channels from the N.C. Department of Revenue (DOR) as a result of the Video Service Competition Act: PEG Supplemental Fund fees and PEG Subscriber revenue.

PEG Supplemental Funds

According to the Video Service Competition Act (SL 2006-151), §105-164.4(b) through (d), a municipality must certify to the Dept of Revenue (DOR) by July 15th of each year, the number of qualifying Public, Education and Government (PEG) channels it "operates." The DOR must then include the applicable amount of supplemental PEG channel support in each quarterly distribution to that municipality, due within 75 days after the end of the quarter. The law specifies that these Supplemental PEG funds "must be used by [the municipality] "for the operation and support of PEG channels" but does not specify how much each channel should receive or when the Town should use the funds.

With this in mind, we recommended that these funds be distributed based on the financial needs of each channel as the Town so determines. More specifically, in light of the town's history of support for public access programming, and out of consideration for the Peoples Channel's need to forecast and plan their services each year based on future financial resources, we recommended that the Town determine the distribution of the funds for the public access channel portion of these fees, in advance of the Peoples' Channel's fiscal year.

PEG Subscriber Fee Revenue

Likewise, according to the Video Service Competition Act (SL 2006-151), §105-164.4 (e), a municipality that received PEG subscriber fees during the first six months of the 2006-2007

fiscal year, and certified them with the Department of Revenue by March 15, 2007, must use those funds, when distributed by the DOR to the municipality as a percentage of its Video Programming Tax, "for the operation and support of PEG channels." Yet again the law does not specify how much is to be distributed to each channel, or when those funds should be distributed.

With this in mind, and recognizing that the Town has a history of support for public access programming, we recommended that the Town agree to distribute these funds to the Public, Education or Government channels based on the financial needs of each channel, and as best meets the community's needs, as the Town so determines. More specifically, out of consideration for the Peoples Channel's need to forecast and plan their services each year based on future financial resources, we recommended that the Town determine the distribution of the funds for the public access channel portion, in advance of the Peoples' Channel's fiscal year.

Please feel free to contact me if you have any other questions.

Sincerely,



Catharine Rice
Cable Consultant to Chapel Hill
through the TJCOG Cable Consortium