



CITY AND COUNTY OF DENVER

OFFICE OF TELECOMMUNICATIONS

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MEMORANDUM

TO: Denver City Councilmembers

FROM: Darryn Zuehlke, Director *Darryn Zuehlke*

DATE: March 31, 2011

RE: PEG Fee Increase Resolution

The resolution before you is not something that has ordinarily been done when the Office of Telecommunications (OTC) recommends and implements an increase in the Public, Education, Government (PEG) Fee. However, a recent Independent Auditor study of the office recommended the full Council should consider such recommendations, and a City Councilmember additionally requested the resolution. If passed, the resolution will direct the OTC to increase the PEG Fee from its current 87-cents per subscriber per month to \$1.00 per subscriber per month.

How the process has previously worked is the OTC director would make a recommendation to the council leadership and the committee to which it reports. After that, action is taken because the franchise agreement addresses the PEG Fee increases, and authority has been given to the City to take that action. The Independent Auditor report explained that the Auditor didn't feel that was sufficient approval by the Local Franchising Authority and that the entire City Council (as the body to which the OTC director reports) should approve the action. No ordinance is required because this is a policy directive to the OTC; the franchise itself is not being modified. The City Attorney's Office has indicated a resolution, should City Council or even an individual Councilmember would wish it, will be sufficient.

Comcast collects the PEG Fee from subscribers for the City, which we utilize for capital and construction costs related to Denver 8 and 58, Denver Open Media (Ch. 56, 57, and 219), Denver Public Schools Distance Learning (Ch. 22) and the Auraria Higher Education Channel (Ch. 54). These monies can only be used for cable access capital/construction purposes. Until January of this year, I felt the 87-cent fee was sufficient to meet the identified needs of the PEG Access stations. New information shows in the next one to three years there are large construction costs pending – the move of Denver 8 TV, the move of Denver Public Schools studios, and the acquisition of a more permanent location for Denver Open Media because the current building owner is in foreclosure. Therefore, the Office of Telecommunications (OTC) recommends an

increase to \$1.00 per subscriber per month to meet those needs. Without the increase, the PEG Fee would not fully meet the requirements of the PEG entities.

These fees can only be used for PEG Access support – equipment, etc. and cannot be used for operational purposes. The PEG Fee allows Denver 8TV to purchase cameras, editing systems, and all its production equipment without requests through the City's capital construction fund. Denver Open Media receives no other funding from the City except a portion of the PEG Fee. With the conversion to digital and High-Definition TV underway, there are fairly large capital costs that the PEG Fee will be called upon to support. These are in addition to the near-future construction/relocation costs.

I maintain a high sensitivity level to the amount of money Denver subscribers pay to Comcast for their services, and strive to consider impacts to those subscribers from any fee increase I propose. If the monthly service charges get too high for people, they drop their cable service which results in loss of franchise fee revenues. Thus, I don't make this recommendation lightly. However, the capital/construction needs of the PEG access stations is now great enough that it offsets the impact of an additional 13-cents per month on residents' cable bills (\$1.56 overall increase for the entire year).

The Government Affairs and Finance Committee approved the OTC recommendation on February 2, 2011. After the City Councilmember had requested a resolution, the Committee co-chairs approved filing the resolution for consideration by the full City Council. The proposed resolution authorizes the Director of OTC to give notice to Comcast to increase the PEG fee to the full \$1.00 per residential subscriber per month as contemplated by the franchise.