



ALIGNING FOR THE FUTURE
Radio CSG Review Meeting #4 Summary
September 20-21, 2012

INTRODUCTION

For more than 40 years, local communities, along with federal and state governments, have supported the building and sustaining of the public radio system we have today. That long history is filled with challenges which were met with bold vision and equally bold action that strengthened public radio, and extended our reach and service to more Americans. We want to continue to build on those investments to preserve and grow a highly valued service, especially at the local level. However, the increased pace of evolution in the operating environment demands that we rethink and re-imagine our strategy for sustaining and strengthening our system for the future and that we do so now.

The system must grapple with the shifts in technology, audience behavior, demographics, new competition, and an economy that have dramatically changed the landscape for public media. Proliferation of digital technologies has changed not just how audiences access content, but when and where. The protracted economic downturn is having serious effects on some stations' ability to serve their communities. New players are emerging on the scene and competing for audiences and revenue. Federal funding is expected to remain flat at best through 2015, with the ever present reality of potential reductions.

Whatever the future holds, the path needs to be grounded in core values and principles upon which the system was built and sustained. From the start of its task, the CSG Review Panel agreed to uphold a set of Core Principles. First and foremost is the idea of local: local investment, local control, local service, and local value. These values and principles weave through and help define the work of the public radio system:

- Universal Service - free, over-the-air broadcast available to all citizens
- Valued and Utilized Public Service
- Localism - service that meets the needs of the local community; met through local decision-making, programming, governance, support
- Service to Unserved and Underserved
 - Minority service
 - Rural service
- Local/National Partnership - local financial support (NFFS) to earn federal match
- No Intrusion (by CPB) into Local Programming Decisions

Most stations aspire to play a larger role in the life of their communities. But, given the challenges ahead, the questions to be answered are: Is public radio aligned to achieve greater impact, with appropriate scale and capacity, to compete and win going forward? What are the best ways to strengthen "local" for today and tomorrow?

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PANEL BEGINS TO MOVE TOWARD RECOMMENDATIONS

With this context, the 2012 CPB Community Service Grant Review Panel continued its work at its September meeting with a sense of urgency about the elements of the CSG program having the largest impact on public radio stations' ability to serve their communities.

The Panel is guided by its goals of wider use by a more diverse public, deeper value for the audience and greater impact in communities served by public radio. They continued to refine a developing set of recommendations for how to update the CSG program and help stations align for the future. The emerging recommendations balance the need to continue to support key components of the existing CSG program, update CSG minimum criteria to reflect current system performance and create resources to drive innovative change and strategic restructuring within the public radio system.

MEETING 4: SEPTEMBER 20-21, 2012

Review Extended

Since the last meeting in June, CPB provided the Panel with a great deal of data and solicited and received input from the Panel. The resulting input was presented and discussed in depth. The Panel made good progress in developing and refining a set of recommendations to CPB, though no final decisions will be made until the Panel develops a complete set of recommendations at its final meeting. As the Panel grapples with the complexities of the radio CSG program and the rapidly evolving environment, the timeline for completing their review has been extended to early 2013.

The revised timeline allows for reflection after the upcoming election. More importantly, it will allow for the opportunity to gather additional feedback from the system at the Super Regional conference to be held in New Orleans, LA, November 13-14, 2012. Bruce Theriault, Senior Vice President, Radio at CPB will be presenting information on the direction of the review and a number of Panel members will be on hand as well.

Areas of Review

Throughout the meeting, the Panel members worked through both the essential details of the various CSG components, including Minimum Non-Federal Financial Support (NFFS), Rural Audience Service Stations (RASS), Minority Audience Service Stations (MASS), and Audience Service Criteria (ASC), as well as discussion of the long-term objectives of public media and the need for change. CPB reiterated the theme of the review, *Aligning for the Future*, and the need for strategic restructuring to create scale, achieve efficiencies and extend reach to provide greater public service.

LEGISLATIVE AFFAIRS

Tim Isgitt, CPB's Senior Vice President of Communications and Government Affairs, provided an update on the current Federal funding status and possible impact to CPB's appropriation and, in turn, the CSG program. Congress has delayed the decision on the FY2013 Funding Request (for CPB FY2015) and no decision is anticipated before March 2013. There will also be a great deal of activity in the post-election Congressional session. Tim reminded everyone that CPB funding is included in the budget sequestration currently slated to take effect on January 2, 2013, and CPB advised that its grantees should take this potential 8.2% reduction into consideration as they work through their budgets in 2013.

The Panel had previously agreed that it would anticipate this 8.2% cut as part of its deliberations in developing its recommendation to CPB for the Radio CSG. Further, the Panel agreed that should there be a 20% or greater cut to overall CPB funding in the future it would require convening a new CSG review for Radio.

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COLLABORATION/STRATEGIC RESTRUCTURING

Over the course of the past several months, the Panel has engaged in discussions about the system's operating environment and the challenges faced by many stations in matching their resources to the size and scope of their missions. Revenue generation and growth in capacity are perennial hurdles to rapidly achieving greater impact at the local level. Increasingly, stations are exploring leveraging or investing their resources together with other like-minded organizations to expand their service. In other words, greater capacity to deliver service can be achieved through relationships and structures that achieve greater scale, redirect assets for more productivity, and take advantage of the network effect. However, there are certain barriers and risks to such endeavors, both real and perceived, which need to be addressed to achieve the goal of stronger local service.

Current Support for Strategic Restructuring

One barrier is the cost associated with creating collaborations. CPB presented the current programs and policies in place to support stations engaged in creating new operational structures, including the [Merger/Collaboration Planning Assistance Program](#). This program provides financial support to conduct the necessary due-diligence and to develop a merger and/or collaboration implementation plan.

But the Panel recognized that other support would be helpful to assist stations committed to other forms of collaboration¹ – in content creation, technology and infrastructure, administrative/operation and development, or consolidation – and asked staff to develop a plan. CPB staff presented the Panel with a draft plan for their feedback that would support/incentivize these types of station collaborations through a dedicated fund within the CSG program.

CSG Support for Strategic Restructuring through a Station Collaboration Fund

CPB proposed that up to \$3 million in CSG funds be aggregated annually for up to six years to support about 16 to 20 collaborations involving around 80 or so stations. Each participating station would receive (up to) a \$150,000 CSG base grant each year for up to three years; an increase in a stations' base grant of between \$70,000 and \$90,000 to be used to support their collaboration. On average, this would mean a qualified collaboration would have roughly \$350,000 to \$400,000 in additional resources annually for three years. Requests for funding would be considered by a review panel and would need to meet strict requirements for approval and renewal each of the three years. The collaboration fund would undergo a mid-program review in three years to determine its efficacy and would sunset in six years. Therefore, the assumption is that about 8 to 10 collaborations involving around 40 or so stations would be involved in the initial three-year period and possibility another 40 or so stations in the second three-year period.

CPB analyzed the impact² of aggregating monies from the CSG incentive pool and determined it would have minimal to no impact for most stations. Based on current FY13 funding levels, a \$3 million collaboration fund would be approximately 5.5% of the \$55 million incentive pool – meaning that only stations receiving the incentive match would contribute through a slightly lower CSG. Larger Level C and D stations would experience the highest reductions while there would be no cost to Level A or B stations since they only receive base grants. Further, since the collaboration fund would be capped at \$3 million per year, any collaboration funds not spent each year on a qualified collaboration would be returned to the CSG incentive pool for normal distribution in that year.

¹ See *White Paper on Public Media Collaboration Models* for examples at:

<http://www.cpb.org/stations/radiocsgreview/White-Paper-on-Public-Media-Collaboration-Models.pdf>

² The comparative impact analysis used FY2013 CSG data to project the effect on individual stations.

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The Panel was quite supportive of creating a collaboration fund from the CSG pool and agreed that the \$3 million was about the right amount to motivate and support the desired strategic restructuring activities. The Panel advised CPB to ensure that the application of the monies results in impact for the widest range of stations possible, and that CPB should consider station type, size, geographical location, sustainability, and other factors affecting station diversity when selecting collaboration grantees.

The Case for a Collaboration Fund

Clearly, not all stations would directly participate in the 16 to 20 collaborations over the full life of this program. However, we believe that all stations in the public radio system have a vested interest in a stronger public media system. Each station is part of the larger public radio eco-system and economy as well as part of the collective service to the American public. Collectively, our diverse system and its services to Americans are at the core of the case for continued federal funding. More capacity at the local level means greater service and revenue potential that would feed back into the entire system through greater value to those served, dollars spent on program purchases, and a stronger local-national partnership. Several of these collaborations will serve as models to emulate and many will likely expand to include others. In addition, they will develop and share best practices and reduce risk for stations that engage in such activities on their own further down the road. We are already seeing the beginnings of that with the TV joint master control and Local Journalism Centers projects.

Given the rapid pace of change and emerging new competition, our system needs a jump-start to realign and gain greater capacity and scale to successfully compete going forward. There is no reason to believe that new players will not disrupt our public media (journalism or culture) business, just like the automakers, steel, newspapers, and other industries experienced. According to Clayton Christensen, "it is not until the disruption is in its final stages that it truly erodes the position of the incumbents."³ This puts many local stations, one of our most cherished values and assets, at considerable risk. It is clear we need to take immediate and serious system-wide action to address the challenge. We believe acting decisively now through strategic restructuring and other methods being contemplated will increase the odds that local stations thrive, not just survive.

If we believe that one of our greatest assets is a system of stations rooted in their communities across the country, combined with strong national producers, then we need to find ways to unleash the potential of the "network effect" for our mutual benefit. Achieving the "network effect" is one of the compelling, underlying rationales for the Public Media Platform (PMP) and why CPB is investing \$8.1 million into it. But, that can only occur if the individual players are all strong contributors, and not weak links. No one thinks that the proposed collaboration fund is the answer or only action needed, but it could play an important role in building our capacity to preserve and strengthen our service for the future.

System Communications

The importance of system communication was also discussed at length, with Panel members stressing how important it is to communicate the need for change and how this strategy works both by itself and with other efforts, such as the Mergers/Collaboration Assistance Planning program, to promote strategic restructuring. The Panel agreed that resistance to exploring strategic restructuring is often a result of

³ Nieman Reports "Breaking News: Mastering the Art of Disruptive Innovation in Journalism," by Clayton M. Christensen, David Skok, and James Allworth

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not making clear that the intent is to enhance local (control, decision-making, service, etc.) rather than obstruct or remove it.

The Panel requested that CPB, working with panel input, continue to develop the details of the concept and share them with the Panel at its next meeting.

2010 TV CSG POLICY AND ADAPTATION FOR RADIO

The Panel continued reviewing the TV CSG policies adopted in 2010 to determine which ones aligned with public radio. There is a desire by joint licensees to, wherever possible, align policies to ensure consistency and streamline the required reporting. The Panel was provided results from a survey they completed prior to the meeting, which helped inform and expedite the discussions.

The Radio CSG Panel agreed TV CSG policy related to Transparency and Donor Privacy is appropriate for adoption to Radio CSG program. The following policies were discussed in greater detail:

- Recovery of CSG funds in situations where a signal is sold to non-CSG qualified entity: The Panel proposed a revision of this policy to make CPB's recovery of CSG funds discretionary.
- Diversity eligibility: The Panel affirmed the importance of encouraging and supporting diversity within the system, but was concerned with some of the specific language in the TV policy. A small team of Panel members will work with CPB on crafting alternate language to better achieve the goal of nurturing diversity for radio.
- Annual report on local content and service: The Panel opposed this policy for radio, i.e., not needed for radio. The vast majority of public radio stations create a significant amount of local content. The Panel believes the additional reporting requirement to be unnecessary for Radio as well as an additional administrative burden, especially to resource strapped smaller stations.

The Panel discussed the remainder of the policies and either deemed them not relevant to Radio or thought Radio should develop alternative versions.

The results of the 2010 TV CSG Review as approved by the CPB Board can be found at:

http://www.cpb.org/aboutcpb/leadership/board/resolutions/100922_TV_2010CSG_Recommendations.pdf

PROGRAM SERVICE DIFFERENTIATION

Panelist Tom Thomas presented data from the Station Resource Group on the diversity of programming in the public radio system and how most markets with multiple public radio stations naturally gravitated toward different program formats to provide greater service within a given market. The Panel agreed that continuing the dialogue on programming differentiation would be valuable and should be on the agenda for the January meeting.

CUMULATIVE IMPACT OF PROPOSED CHANGES

Next, the Panel reviewed the combined impact of the proposed changes to the CSG program to help assess if there were any unintended consequences. The Panel raised a number of questions, and many were further analyzed by CPB. However, additional data analysis will be conducted by CPB prior to the next meeting, review of which may lead to further refinement of some proposed changes to achieve goals. The panel continued the discussion by revisiting the individual topic areas discussed at previous meetings to move closer to formal recommendations to CPB management.

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MASS

CPB's policy for minority stations includes a higher base grant and a 50% multiplier on NFFS - resulting in about \$4.7 million in additional support to those stations. In FY 12, CPB's total support to the 81 stations qualified as MASS was \$14 million or 15% of the CSG pool. The Panel reviewed and confirmed its commitment to maintain current funding for Minority Audience Service Stations (MASS) as they are an important source of service to unserved and underserved audiences.

MASS Qualification Criteria

The Panel discussed and agreed that the audience qualification criterion for MASS status, which currently requires that the minority percentage of a station's audience should be at least 35% of a station's total Cume, should be changed to require their minority audience be at least 51% of a station's total Cume. This is an update to the decades-old standard of significant service to minority audience consistent with the overwhelming demographic shifts that have taken place since the standard was first adopted. Any stations affected would be given a one-year advance notice of their upcoming change of status. This change only affects stations using minority Cume composition to qualify as MASS, therefore, this change will not affect stations qualifying as Historically Black College or University (HCBU) or Native American stations.

AUDIENCE SERVICE CRITERIA (LI & CFSI)

The Panel strongly endorsed maintaining Audience Service Criteria (ASC) as a requirement of the CSG program. It sends the clear message that audience, significant community support, and measurable public service are important. The Panel supports using ASC as a measure of public service and said it should continue to be utilized to evaluate the minimum level of station service required to merit a CPB grant. The Panel supported a resetting of both of the indices (i.e., LI & CFSI) used in the ASC; both to recalibrate for the revised Arbitron measuring methodology in PPM markets and to more accurately reflect a generally lower AQH across all Arbitron markets. The last "reset" of the ASC indices was done after the 2005 CSG review and, given these system wide trends, it appears that a "reset" beginning in FY14 is warranted.

		Listening Index (LI)		Community Financial Support Index (CFSI)	
Cohort	Coverage Area Pop.	Current	Updated '11 Data	Current	Updated '11 Data
I	under 500K	24	10	48	104
II	500K - 1M	19	16	44	54
III	1M - 5M	16	12	37	38
IV	> 5 million	13	9	34	33

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Disqualification from CPB and CSG Program

Additionally, the Panel recommended that CPB revise the policy for removing stations from CSG eligibility for failing to meet the ASC minimums from the current five year “glide path” to three years. Grantees would continue to be CPB qualified and receive full CSGs during that three-year time period, with 25% of the CSG restricted for expenses related to activities geared toward increasing their performance against the ASC. In addition, CPB would begin providing annual notices to stations at risk of not meeting these minimum requirements. This new “glide path” would begin in FY14.

There will be further analysis of the impact of implementing these changes for presentation to the Panel in the next meeting. In addition, CPB staff will continue to evaluate the efficacy of both indices (LI & CFSI) to determine if they are still achieving the intended results.

NFFS MINIMUMS

A robust discussion ensued on the subject of Non-Federal Financial Support (NFFS) minimums. The Panel was reminded that federal funding is intended to be a match to local investment. The Panel concurs that NFFS is not only a local expression of the value of the service supported by the CSG program but also a critical component of funding diversity necessary for sustainability.

Increasing Minimums

The Panel continued to examine the NFFS (Non Federal Financial Support) minimum requirement and whether the current minimum of \$100,000 for CSG program eligibility is sufficient. NFFS is an indicator of a station’s overall viability to provide public service, i.e., the basic foundation to build a strong public radio operation that can provide a significant local service in its community. CPB has been presented findings from two independent studies showing that the amount of NFFS that indicates minimum viability is a little more than \$300,000. In addition, the minimum NFFS threshold first introduced in 1975 would be valued at \$300,000 in today’s dollars if adjusted for inflation.

Some federal sources of revenue have been lost to the system in the past few years, including PTFP and the digital appropriation. The remaining public broadcasting appropriation remains under significant pressure and will continue to be for the foreseeable future. Stations need to be positioned to sustain services in a persistently uncertain environment. The Panel is strongly considering recommending an increase in minimum NFFS required for program eligibility from the current \$100,000 to \$300,000 for Level B/C stations and from the current \$200,000 to \$500,000 for Level D stations. Changes will be phased in over a three-year period as follows:

	LEVEL B/C	LEVEL D	
FY14	\$200,000	\$300,000	(affects FY16 grant)
FY15	\$250,000	\$400,000	(affects FY17 grant)
FY16	\$300,000	\$500,000	(affects FY18 grant)

RASS/MASS

CPB had proposed that for stations that qualify as both Rural and Minority (RASS + MASS) the minimum NFFS be set at \$50,000, given the difficulty these stations face in raising funds in a RASS + MASS

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environment. However, the Panel suggested maintaining the NFFS minimum at \$100,000 for combined RASS + MASS stations. The concern is that lowering the NFFS threshold is not consistent with signaling to stations that they need to address their financial vulnerability.

Minimum Cash Requirement

Finally, the Panel agreed that 50% of the NFFS minimum requirement should be in cash and that this requirement would also be phased in over a two-year period. The Panel generally agreed that stations applying for CPB qualification must meet the fully phased-in minimum for their respective level in order to qualify for CSG funding.

Level B Impact Concerns

The Panel and CPB are concerned with the potential impact of these changes on some Level B stations. While the Panel and CPB believe that the proposed higher NFFS minimums are appropriate and achievable for most stations, we worried that this change could result in too many small stations losing CPB support. A proposal was floated to change Level B into a “safety net” type category for stations that just can’t make the phased in higher NFFS minimums. The basic concept is to reduce the CSG for stations not meeting the new minimums to a considerably smaller base grant. This “safety net” would keep stations connected to the system and CPB qualified to assure continuing coverage under various blanket agreements such as those with ASCAP, BMI, SESAC, SoundExchange, and iBiquity.

More specifically, the proposal for a repurposed Level B would leave the minimum NFFS for Level B at \$100,000 and the minimum staff at one full-time employee. Consistent with other proposed changes, at least half of the minimum NFFS would need to be in cash. Level B grantees would receive a grant of approximately 40% to 60% less than current levels. As is currently the case, they would receive no match on their NFFS.

The Panel agreed that this redefined Level B should not be viewed as suggesting the status quo is a goal or even advisable, but as a “safety net” for stations unable to raise greater resources due to challenging circumstances locally. All agreed this proposal needed more analysis and asked staff to provide data at the next Panel meeting.

More Analysis Needed

The Panel firmly agreed that increases in the minimum are not only appropriate but an imperative to strengthen the system. The discussion surfaced requests for new and refined data analysis centered on the consequences of the proposed changes. CPB will share the results with the Panel prior to and at the next meeting.

RASS

CPB’s policy is to provide all rural stations with a larger base grant and a Rural Support Grant, as well as a 1.25 multiplier to NFFS for Level C stations – a total of about \$10 million. The combined impact is that about 1 of 3 CSG dollars went to rural stations in FY12, totaling \$30 million. Building on the work done in the May meeting, the Panel agreed to maintain the current funding level for the 171 Rural Audience Service Stations (RASS). These stations play a vital role in providing service to unserved and underserved audiences, and the system’s goal of providing (universal) service to nearly all Americans. In FY12, each non-MASS rural station received a Rural Support Grant of \$22,587, and each MASS rural station received a Rural Support Grant of \$33,880. CPB and the public radio system’s strong commitment to supporting stations providing services to rural communities should continue.

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Rural Definition and Status Change Notification

The Panel agreed that the qualifying definition of rural, i.e., 40 persons or fewer per square kilometer, remains the best measurement method identified to date and should continue to be the standard. The Panel also recommended that grantees losing rural status, generally due to signal expansion and/or shifts in population, be given notification one year prior to losing RASS funding to help in their financial planning.

CONCLUSION

Bruce Theriault, CPB Senior Vice President of Radio, is scheduled to make a presentation on the Radio CSG Review at the upcoming Super-Regional meeting in New Orleans, November 13-14, 2012. The meeting is an opportunity for a broader system conversation about aligning the program for the future. A number of Panel members will also be attending.

With the next meeting scheduled several months from now, all the Panelists agreed that it was important to maintain the momentum in the review process. Panelists will work with CPB to continue to review data and details on the proposed changes in order to drive the work forward. The Panel is expected to make final recommendations to CPB management in early 2013, once all areas of review and the combined impact of all changes are carefully analyzed. Panel members were encouraged to discuss the meeting content with colleagues and to invite system colleagues to provide feedback via the email address radiocsgreview@cpb.org.