Some Stations May Fail - The $589 Million Challenge

> "… But a lot of people realize that everybody's in the same boat and that their boat doesn't rise because someone else's sinks…" From a story about Paul Levy, the man who runs Beth Israel Deaconess Medical Center, Boston Globe's Boston.com

In FY 2007, universities (a term used to describe the majority of public radio and TV stations owned by universities, colleges, school systems, and state agencies) invested over $589 million in public broadcasting compared to CPB's Community Service Grants (CSG's) investment of $284 million to these same stations. The university investment included $426 million to operate the broadcast facilities and $163 million in in-kind and in-direct support provided by these licensees.

When there was a threat to CPB funding in 1995, the public broadcasting system did not say, "Ignore it, because it's not worth it." Even though political challenges are often tied to federal funding, the public broadcasting system said, "CPB funding is important" and continued to say yes every year. Since university funding, a resource twice the size of the CPB's investment, could be cut dramatically due to the national economic decline, obviously it too is worth saving.

During these challenging times, community broadcasters may be saying they wish they had that kind of support. The reality is that the public broadcasting system as a whole is very dependent upon investments by universities. Over the decades, universities have made combined investments in public broadcasting worth several billion dollars. The resources they have provided have been the backbone upon which the public broadcasting system was built.

Each time there is an extraordinary cut to a university broadcasting facility, the result is personnel loss leading to reduced local service. The domino effect is then passed on to the national level, resulting in the loss of resources to the system supporting the national programming. Each station's loss is a system loss. Therefore, this university funding source of $589 million cannot be dismissed.

The declining economy poses a threat to this revenue source, and it is simplistic thinking to say that there are easy answers to this particular system challenge. Now, this financial resource is being stretched like every other entity, causing a multiple hit on the public stations owned by these licensees.

Besides university funding cuts, university stations are suffering the challenges of reduced underwriting and in many instances reduced listener support. This problem is universal for all licensee types. Added to this in some instances are increases in university overhead charges. A recent USA survey **compared** public radio administration fees, rent charges, and/or **overhead charges** placed on stations by their respective university, college, state, and/or school district licensees. Of the 27 stations responding, 12 were paying overhead charges ranging from $4,000 to $1.4 million annually. The other 15 stations were paying no overhead fees. The trend for stations paying these charges is increasing.

The universities are the legal owners of the majority of the public broadcasting stations, and they have the ultimate control of these stations. It is a complicated relationship, and in 2001 a grassroots effort established the University Station Alliance (USA) as a national not-for-profit 501 (c)(3) support resource for university-licensed public broadcasting stations. Here are some options the USA recognizes can help avoid the loss of public service, or in some instances, the loss of the station:

USA's Recommendations for Assistance To University Stations Losing University Support:

Funding for Emergency Assistance Teams	Teams would evaluate & guide stakeholders in financial peril. The process should include all stakeholders. (USA's Peer-Review Process is already in place)
Distribute Majority of New Stimulus $'s Using CSG Format & Formula	Distribute the new stimulus $'s to stations using the same regular percentage formula. No CPB grant re-distribution process should be tested during this time of crisis.
Create a Bridge Funding Resource From Remaining Stimulus $'s	Should assist stations with consolidation, licensee education, LMA's etc.
Funding for Management Training	Formal management training rather than on-the-job training. (USA's :20 Second Manager is a resource)

Options for University-Licensed Stations to Avoid Loss* of Public Service & Public Service Resources

Options	Disadvantages	Advantages
(1) On-going Dialogue with University-Licensee	Time-consuming	Easier to retain investments than to generate new ones
(2) Consolidation(s)	- Time-consuming - May result in no action - Negotiation process diverts personnel & resources from daily operations - Possible loss of local service	Efficient use of limited resources
(3) Sale of Station	- Same as (2) - Non-public broadcasting groups may join the bidding war causing possible loss of public broadcasting service	Station's public service preserved if purchased by another public broadcaster or local 501 (c)(3)
(4) License Management Agreements (LMA's)	- Same as (2)	- Preservation of public service - Same as (2)

*Of course, some stations may fail resulting in the loss of public service. It may be financially unrealistic to operate the station with an LMA or to consolidate with another station. Without a significant investment from a university some stations may not be viable to continue as a public service at all costs.

What are the options for university stations that are facing drastic reductions? How can they avoid the loss of public service or, in some drastic situations, the loss of the station?

- **(1) On-going dialogue** with the university licensee educating the administrators and board about the value of the public service and life-long learning resource provided by the station. If the station depends upon licensee investments, the station should be prepared for a reduction. In the **CPB funded USA Cost of Doing Business Study's Report on Governance** the lack of communication was commonly cited as characteristic of an unsuccessful governance model. **A key finding was that there is no apparent inherent barrier to success that exists in the traditional university governance structure. For every university station faced with a specific governance issue there is another that**

has successfully addressed the issue. Some call the university's support of their public broadcasting facilities "subsidies" when in fact they are "investments" as is demonstrated through the Cost of Doing Business study. The USA developed the Quantitative Analysis Tool which demonstrates that the university, college, school system, and/or state agency investment returns to the licensee multiple fold public service and public relations values that dwarf the licensee's investment.

- **(2) Consolidation** of two or more stations is very time consuming with station personnel taken away from their primary responsibilities. In the end the consolidation process may fail due to licensee administrative changes or political reasons. Consolidation of licensees is usually an extended time process. It can result in saved administrative costs and efficiencies of size but it is a very slow process to complete fraught with political and economic barriers to success.

- **(3) Selling the station** to another public broadcasting entity or to a local community 501 (c)(3) interested in preserving the public service. The challenge here is that licensees who have invested millions over the years will probably want their investments back. Plus, the university licensees are strapped for money causing a challenge between public service preservation and capital needed for other university interests. Other interest groups such as religious broadcasters will be competing for the license as well creating a challenge to preserve public service programming. The smaller the market size, the more difficult it will be for the station to economically survive as a stand-alone entity.

- **(4) License Management Agreements or LMA's** often results in the preservation of the public service by another entity operating the station and taking over the financial burden of operation from the university while the university retains the license. It usually results in the loss of localism for the converted station.

- **Some stations may fail** is a tough probability and one that public broadcasters have difficulty accepting but in some instances it may be financially unrealistic to continue the public service at all costs. Yes, it will be a loss to the system and to the public being served but there are limits to what the system can absorb.

University-Licensees
From CPB's FY 2007 Annual Financial Reports

LICENSEE	TV	RADIO
University	57	181
State	20	12
Local Authority	7	21
TOTAL	**84**	**214**

University-Licensee
Investment Comparisons

STATIONS	UNIVERSITY	CPB CSG
TV Appropriations	$346,471,536	$200,250,000
TV In-Kind & In-Direct	$ 90,723,531	$ 0
TV Sub-Total	**$ 437,195,067**	**$ 200,250,000**
Radio Appropriations	$ 79,821,099	$ 83,520,000*
Radio In-Kind & In-Direct	$ 72,034,929	$ 0
Radio Sub-Total	**$ 151,856,028**	**$ 83,520,000***
TOTAL	**$589,051,095**	**$283,770,000**

*Radio CSG: $83,520,000 [$62,300,000 (unrestricted); $21,220,000 (restricted)
Source: CPB FY 2007 Financial Reports