



Radio CSG Review Meeting #3 Summary June 18-19, 2012

ALIGNING FOR THE FUTURE BEGINS NOW

In the past several years, shifts in technology, a more diverse population, and a weak economy have dramatically changed the landscape for public media, and, further, have prompted new thinking on how stations go about the business of providing essential public service to the American public. 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. Federal funding is expected to remain flat at best through 2015, with the ever present reality of potential reductions. With all these factors in mind, the Radio CSG Panel is operating with a heightened sense of urgency.

While the Panel acknowledges this context of radical change and economic pressures, the focus is on public media's aspirations rather than its real and immediate challenges. This changing landscape also brings opportunities to be seized that will help the system meet its greater goals: **wider use** by a much more diverse public, **deeper value** placed on the service by the audience, and **greater impact** in the communities that local stations serve. The case for on-going support from communities, individuals, and government is most compelling when it's tied to these aspirations and actual delivery of greater public service.

Aligning system resources for the future must accelerate. There is a growing sentiment among insiders and observers alike that actions taken in the next three to five years will determine the long term outlook for public media. The time frame for the system to have a say in its own future is immediate and short. Engaging in a concerted, system wide effort at **strategic restructuring**¹ is needed in order to thrive in the future. Incremental change will not get the job done. Developing new ways to function and a new mind-set of what we are trying to accomplish as a public media system is the most practical, strategic, and promising path forward.

MEETING 3: June 18-19, 2012

The third meeting of the Radio CSG review was held on June 18-19, 2012, with continued focus on policies related to Minimum Non-Federal Financial Support (NFFS), Rural Audience Service Stations (RASS), Minority Audience Service Stations (MASS), and Audience Service Criteria (ASC). In each of these areas, a great deal of data and research compiled by CPB staff was shared with the Panel. Significant progress was made in developing and aligning recommendations, though no final decisions will be made until the Panel develops a complete set of recommendations to CPB management.

Additionally, CPB presented a legislative update and the implications for federal funding of CPB and, in turn, the CSG program. The Panel also reviewed the TV CSG Review policy recommendations approved

¹ See "White Paper on Public Media Collaboration Models" at <http://www.cpb.org/stations/radiocsgreview/White-Paper-on-Public-Media-Collaboration-Models.pdf> for examples of possible strategic restructuring models.

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by the CPB Board and began discussing the ones relevant to the Radio CSG Review. The meeting continued its prior examination of collaborative models.

CSG PROGRAM CORE PRINCIPLES FINALIZED

The Panel agreed to the following set of Core Principles to use when assessing the CSG program:

- 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, and support
- Service to unserved and underserved
 - Minority service
 - Rural service
- National/local partnership - local financial support (NFFS) to earn federal match
- No Intrusion (by CPB) into local programming decisions

The Panel also agreed to use Fairness (similar stations treated similarly) as an evaluation tool in its deliberations.

LEGISLATIVE AFFAIRS & THE IMPENDING SEQUESTRATION

Tim Isgitt, CPB's Senior Vice President of Communications and Government Affairs, provided an update on the numerous major bills totaling trillions of dollars that Congress has yet to address but is required to do so by year-end. Given this daunting legislative agenda, it's unclear whether Congress will reconsider the current legislation that requires sequestration cuts to automatically be enacted on January 2, 2013, resulting in an across-the-board reduction of about 8%, in all FY13 defense and discretionary domestic spending, including CPB's funding. There is even the possibility of deeper cuts to CPB funding if some proposals currently circulating in Congress are enacted. The final funding picture for FY13 is far from certain, and we won't likely know the outcome until after the November election at the earliest.

The Panel agreed it was prudent to consider the possibility of an 8% reduction as part of its deliberations in developing its recommendations to CPB for the Radio CSG program. Further, the Panel agreed that if Congress enacted a significantly greater cut to overall CPB funding (which the Panel set at greater than 20%), it would necessitate a total reevaluation of the CSG policies and funding program and the Radio CSG review panel would be reconvened.

MINIMUM NFFS REQUIREMENT

NFFS – Non Federal Financial Support – is used as a key indicator of a station's overall viability and minimum foundation to build and sustain a meaningful local public service for its community. After a thorough review of station NFFS data and its implications, the Panel agreed to phase in an increase in the minimum amount of NFFS required for Level B and C grantees to \$300,000 and for Level D grantees to \$500,000 beginning with stations' FY14² AFR. The Panel agreed that these revised minimums are a better reflection of today's cost of doing business.

² Levels B and C: FY14 NFFS minimum \$200,000 ; FY15 \$250,000 and FY16 \$300,000. Level D: FY14 NFFS minimum \$300,000 ; FY15 \$400,000 and FY16 \$500,000

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This increase would ramp up over a three-year phase-in period. NFFS minimums for grantees that are both RASS and MASS would be lowered to \$50,000 beginning in FY14³. Level A grantees will remain unchanged, i.e., no minimum NFFS level requirement. Beginning with the FY14 application period, stations applying to enter the CSG program would be required to meet the new minimums from the start.

Cash versus In-kind and indirect support

Additionally, the Panel agreed that a portion of the minimum eligibility NFFS required of all stations should include a significant amount of cash, somewhere between 25% and 75%. This cash requirement would be phased in over the same three year period as the increased levels, beginning with FY14. Although the panel acknowledged without reservation the value and importance of in-kind and indirect support to stations, they believe that there are costs to station operations that can only be met with cash. The proposed changes would only affect the mix of cash and in-kind needed to meet the minimum NFFS requirement; it would not affect the amount of NFFS match a station receives.

Loss of CPB Eligibility

Importantly, the Panel recommended that CPB institute a three year “glide path” for removing stations from CSG eligibility for failing to meet the NFFS minimum for three years. The Panel urged CPB to begin communicating annually to stations failing to meet, or in danger of not meeting, these minimum requirements.

TV CSG POLICIES AND RELEVANCE TO THE RADIO CSG

Mark Erstling, CPB Senior Vice President, System Development and Media Strategy, and Kevin Martin, Vice President, Station Grants and Television Station Initiatives, reviewed sixteen television policies adopted by the CPB Board from the 2010 Television CSG Review.⁴

The Radio Panel then discussed which TV policies are relevant to the work being done by the Radio Panel, acknowledging that it makes sense to align Radio and TV CSG policies as appropriate. The Panel asked CPB staff to facilitate a discussion online prior to the next meeting in order to reach preliminary recommendations. The policies listed as potentially relevant are:

Recommendation 1: Mergers and Consolidations

- 1.1 Create a pool of funds for stations that have completed mergers, consolidations or LMAs.
- 1.2 Access to pool of funds will be prioritized toward maintaining universal service.

Recommendation 2: Collaborative Bandwidth Optimization

- 2.1 Create a pool of funds for stations with overlapping coverage area that have engaged in collaborative bandwidth initiatives, which include a unified approach to programming, promotion and on-air fundraising.
- 2.2 Access to the pool of funds will be prioritized towards stations in CPB-defined multi-provider markets.

³ This group of stations would be disproportionately affected by increases to the NFFS minimum and operate in environments that make it extremely difficult to raise NFFS at higher levels. In FY12 there are 46 stations that simultaneously qualify for the RASS and MASS designations.

⁴ The full document approved by the CPB Board can be accessed at http://cpb.org/aboutcpb/leadership/board/resolutions/100922_TV_2010CSG_Recommendations.pdf

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Recommendation 4: Diversity Eligibility

4.1 As a condition of eligibility for receiving a Community Service Grant, grantees must certify that they have established a formal goal of reflecting a broad universe of diversity in their workforce, management and governing board (with governance responsibilities specific or limited to the station).

Recommendation 5: Transparency and Donor Privacy

5.1 Require stations to maintain information on their websites that are aligned with open record guidelines.

5.2 Stations must certify that they are meeting Federal and State law regarding donor privacy and data security.

Recommendation 6: Local Content and Service

6.1 Require all TV grantees to submit to CPB and post on its web site an annual report on its content and services that serve local needs, including analysis about the reach and impact of the local services in its community.

6.2 CPB will create a template for the report that allows for aggregation of data across the system.

Recommendation 14: TV CSG Recovery

14.1 Explicitly state in CPB policies the requirement of the return of all CSG funds, expended or unexpended, to CPB if, during the CSG's expenditure period, the license is sold or leased to a non-CSG qualified organization or the licensee ceases to operate a qualified public television service.

Recommendation 16: NFFS Qualified Revenue

16.1 Any underwriting revenue included in NFFS generated from any type of media, including, but not limited to web sites, must meet current underwriting requirements as stated in CPB's financial reporting guidelines.

RASS

In FY 12, CPB's total support for rural stations is \$30 million or 33% of the total CSG pool. Building on the work done in the May meeting, the Panel tentatively agreed to maintain the current funding level for the (171) Rural Audience Service Stations (RASS), which includes a 1.25 multiplier to NFFS for Level C stations and a Rural Support Grant for all rural stations. 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. The Panel agreed that the qualifying definition of rural as 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 recommends that grantees losing rural status be provided with a one-year notification to help in their financial planning. It was agreed that further discussion is needed on whether funds (based on the NFFS multiplier) previously granted to stations losing rural status should be maintained in the pool of funds available only to rural stations or used for other purposes, including returning it to the general CSG pool.

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MASS

In FY 12, CPB's total support to stations qualified as MASS is \$14 million or 15% of the CSG pool.

The Panel tentatively agreed to maintain the current funding level for the (81) Minority Audience Service Stations (MASS) program, which includes a 1.50 multiplier to their base grant and NFFS

The panel discussed whether to increase the audience qualifier for MASS status. Currently, stations qualify for minority audience service status if they are licensed to a designated Historically Black College or University or to a Native American organization⁵. Stations may also qualify if their cume audience is at least 35% minority. After discussions, the panel tentatively recommended an increase from 35% cume audience to 51% beginning in FY14. The decision to raise the minority audience percentage centered largely on updating our decades old standard to reflect the dramatic growth in diversity throughout America over the last decade or so. Like RASS, any stations affected would be given a one-year notice to help with financial planning for their change of status and reduced grant.

AUDIENCE SERVICE CRITERIA (ASC)

The Panel strongly endorsed maintaining ASC as a requirement of the CSG 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. CPB presented information on the measures that comprise the ASC – the Listening Index and the Community Financial Support Index – and current system performance against those measures. The Panel supported a resetting of both of these measures; 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 indexes was done after the 2005 CSG review and given these system wide trends it appears that a “reset” beginning in FY14 is warranted.

Additionally, the Panel recommended that CPB revise the current five year “glide path” to three years for removing stations from CSG eligibility for failing to meet the ASC minimums. Grantees would continue to 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. This change would include CPB providing annual notices to stations in danger of not meeting these minimum requirements. This new “glide path” would be instituted in FY14.

STRATEGIC RESTRUCTURING/COLLABORATIONS

Having reviewed various collaboration models⁶ at the last CSG meeting in May, the Panel continued its dialogue about collaboration models with a heightened sense of urgency (see White Paper on Public Media Collaboration Models” at <http://www.cpb.org/stations/radiocsgreview/White-Paper-on-Public-Media-Collaboration-Models.pdf> and David La Piana’s article “Merging Wisely” at http://www.ssireview.org/articles/entry/merging_wisely).

The Panel immediately raised the conversation to a higher level, focusing on the mission of public media and the belief that any changes at the local level need to be driven by what is in the best interest of serving community needs. Understanding local community needs must be the starting point for

⁵ The complete definition is: Licensed to a Native American Tribe, a consortium of Tribes, or an entity controlled by a Tribe, or licensed to a community within recognized Tribal Lands and providing a coverage area of which a substantial portion includes Tribal Lands.

⁶ The Panel also discussed the issue of semantics and how the word collaboration has come to have a negative connotation. Collaboration is really a continuum of options, from information sharing to mergers and creations of new organizations. The system has some outstanding examples of success throughout this continuum. A suggestion was made to use the term, “strategic restructuring” to address this continuum with the system.

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strategic restructuring discussions, whether it's joint content creation, technical and infrastructure collaborations, outsourcing development and administrative functions, or outright mergers and new ventures. The Panel emphasized that the main driver for collaboration has to be a larger vision for improving service to a community. Although cost savings can result, especially through infrastructure and outsourcing projects, the reason to consider strategic restructuring of any type must be to achieve greater levels of service.

The Panel recognizes that collaboration, in its many forms, can play a significant role in addressing the need for strategic restructuring in the public radio system.

The Panel then discussed ways to motivate greater collaboration to better serve community needs. The list included:

- Generating a greater sense of urgency to adjust to the environmental and demographic changes
- Local Board engagement in the discussion and options
- Improved communication about models and benefits
- Clarifying the definition of local – what is the essence of local and what can be done differently?
- Changing the mindset and language used from focusing on the downside and losses to focusing on the upside and gains
- Reminding everyone – communities, donors, listeners – about the importance of long-term viability of public media
- Communicating the value of public media to key constituencies
- Developing a mindset of perseverance and patience in such efforts

After the higher-level discussion, the Panel explored what role, if any, CPB should play in motivating strategic restructuring and the role, if any, of CSG funds. There was general agreement by the Panel that CPB should continue to use its convening ability and “bully-pulpit” to focus the system on the challenges and opportunities ahead and the need for rapid and decisive action to better align station and system resources for the future. CPB should communicate the necessity for system strategic restructuring to assure future viability, presenting options and stimulating local discussion.

The Panel also recommended that CPB review all CSG policies to determine if any of the current policies impede efforts at strategic restructuring, as well as ways to motivate and incentivize desired behavior for long-term system viability. CPB will explore what would be eligible activities if a pool of resources were created and how the mechanics of such a program would work. This will be discussed further at the next meeting.

NEXT STEPS

Prior to the next CSG Review meeting in the fall, CPB staff will be testing or modeling the Panel's recommended revisions to gauge the combined impact of the proposed changes. In the interim months, the Panel will also be providing individual input on the TV CSG review recommendations for possible adaption or adoption by Radio.

CONCLUSION

A robust set of discussions yielded great progress in the Panel's objective of advising CPB about how to optimize the finite pool of CSG funds for their highest and best use. Again, no final recommendations will be made until all areas of review have been fully analyzed and the combined impact of all changes is

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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.