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Federal Communications Commission
Office of the Secretary

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)
)
Review of the Policy Implications) **MM Docket No. 91-221**
of the Changing Video Marketplace)

To: The Commission

REPLY COMMENTS OF THE COMMUNITY BROADCASTERS ASSOCIATION

1. The Community Broadcasters Association ("CBA") hereby submits its reply comments in the above-captioned proceeding.[1/] CBA is a trade association representing low power television ("LPTV") stations throughout the nation.

2. It appears that most of the commenters have used this proceeding as an opportunity to present "wish lists" of rule changes they would like have that would favor their own industry. The point of this proceeding, however, is to assess the prospects for the future evolution of the video marketplace, not to provide a shopping service for today's industry participants. CBA believes that its comments were responsive to the Notice of Inquiry. They were appropriately addressed to the nation's future needs, and especially the need for continuing sources of locally based television programming during a time when economic forces are driving the video industry toward centralized, national services.

3. CBA's point remains valid: The economic requirements of conventional, full power television stations are taking their toll on local service -- local service that the nation's tens of

1/ The Notice of Inquiry was published at 6 FCC Rcd. 4961 (1991).

thousands of communities vitally need. Attached hereto is the cover story from the "Money" section of USA Today for November 26, 1991, the day when LPTV broadcasters from around the nation were returning home from CBA's fourth annual convention. The headlines read "Stations cut back," and "Layoffs ravage local TV stations." While LPTV stations are growing in number and are increasing their local service, conventional full power stations are strangling under debt loads and are cutting back on local service.

4. If local television service is to be provided to any but the nation's largest communities and lowest common denominator national audiences, a delivery vehicle must be developed which is built on an economic basis that is realistic for providing such service. As noted in CBA's opening comments, the LPTV industry has that kind of realistic economic base.2/

5. Accordingly, the Commission should keep LPTV in focus and take LPTV into account in its planning for the future. The LPTV industry should be encouraged and nurtured.

Respectfully submitted,
COMMUNITY BROADCASTERS ASSOCIATION

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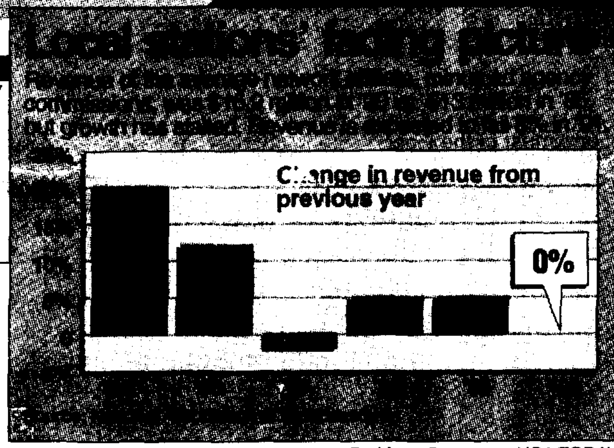
2/ This assumes that the cable television industry does not suffocate the LPTV industry by refusing to carry LPTV signals, as is sadly often the case today.

Hard times ravage local TV

By Jim Brown, USA TODAY

AT WSMV-TV NASHVILLE: Left to right, weather anchor Bill Hall, news anchors Jeff McAtee and Demetria Kalodimos, sports anchor Rudy Kalis, General Manager Mike Kettenring (standing).



By Marty Baumann, USA TODAY

USA TODAY

Money

TUESDAY, NOVEMBER 26, 1991

COVER STORY

Stations cut back as revenue falls

'Minimum of two . . . in every market have had layoffs'

By James Cox
USA TODAY

Your award-winning eyewitness news team isn't talking happy talk these days.

When the local newscast ends and the screen fades to black, those pearly smiles you see at 5, 6 and 11 are fading, too. In their places: the worried looks of people wondering if they can keep their jobs.

Since 1948, when the USA had only 108 commercial TV stations, station owners have been able to enrich themselves at fantastic rates. Many of today's 1,128 commercial stations have operated at annual profit margins of 50% or more. Now, the industry is experiencing its first serious downturn. It's the result of a powerful combination of recession, an advertising slump, increased competition from cable, network anemia, higher programming costs — and big, big debt.

Nashville's WSMV-TV is a good example. Bought jointly

Layoffs ravage local TV stations

Continued from 1B

by a group of Native Americans in Alaska and Whitcom Partners of New York for $125 million in 1989, the NBC affiliate looked like a cash machine. It perennially bested Nashville's CBS and ABC affiliates to finish tops in the ratings.

Ratings are nice, but today, falling ad revenue has the station struggling to generate enough cash to meet its owners' interest payments. Thirty-one employees have been laid off. The 139 who remain will get no raises next year. Health-care premiums, now 100% station-paid, will be split 50-50 with employees after Jan. 1. Bonuses, pensions and overtime have gradually been eliminated. Mike Kettenring, the station's president and general manager, has cut his own pay 20% since 1989. "I don't have the stomach to lay off any more people," he says.

Many WSMV employees do two or three jobs. Camera crews handle the station's shipping and receiving department between assignments. WSMV has asked the telephone company and other vendors to help it find ways to save. Its building manager now provides a switchboard operator.

Elsewhere, layoffs have hit KIRO-TV and KING-TV in Seattle, KYW-TV in Philadelphia and WWL in New Orleans, *Broadcasting* magazine reports. Boston has been a bloodbath: WHDH-TV axed 70 of 250 employees; WCVB-TV laid off 29 of its 290-member staff and canceled *Good Day!*, its weekday morning talk show; WBZ-TV canceled *Evening Magazine* and laid off 19 of 260 people.

"You could name a minimum of two, more likely three (stations) in every market that have had layoffs," says Mick Schafbuch, general manager of Portland's KOIN-TV.

Analyst Peter Appert of C.J. Lawrence concludes that "the golden age of station ownership has passed." What's happening:

▶ Ad revenue is falling. TV stations sell commercial time to local advertisers and national or regional advertisers who make spot buys in local markets instead of buying network ads. Total station ad revenue is off 7.9% this year, according to the National Association of Broadcasters.

The slide is partly the result of an ad slump affecting all media. But cable-TV companies, starting to sell commercial time aggressively, are stealing local ad dollars from TV stations. Advertisers spent $230 million on cable commercials in 1982. They will spend $3 billion this year and $5.2 billion in 1995, estimates the Cabletelevision Advertising Bureau.

ABC, CBS and NBC have cut their rates for network commercial time, and undercut their local affiliates in the process. The result is that national advertisers are buying more network time with money they would have spent at local stations.

▶ Viewership is falling. Cable TV continues to pull viewers from broadcast TV — and advertisers know it. Nationally, cable had 6% of the viewing audience in the 1982-83 TV season. In the 1990-91 season, it claimed 24%.

▶ Cable is growing at the expense of TV stations. A federal copyright-law exemption lets cable companies transmit signals of local TV stations without paying them. So viewers pay cable companies for something the cable companies get free. "It just blows my mind and makes me mad as hell," says Kettenring. "I've got a competitor draining millions off my bottom line every day of the year, and I don't get a penny."

▶ The pulse of the networks is weakening. ABC, CBS and NBC have been losing viewers and ad revenue, so they have slashed the fees they pay affiliates to carry network shows. Analysts predict the payments — $370 million last year — will end in a few years. Next year, ABC is cutting network compensation fees 10%. NBC cuts will lower compensation 10% to 19%. CBS, which chopped compensation 20% this year, has stated that it plans no further cuts until 1993.

The cuts have emboldened affiliates to pre-empt low-rated network shows and air locally produced shows or syndicated programs, such as *M*A*S*H* reruns or *Hard Copy*. Network-affiliate relations have grown "tense and stressful," says Eric Bremner, president of Seattle-based King Broadcasting Co. and head of the NBC affiliates association. The networks, all of which came under new ownership in the 1980s, "just don't understand," says Bremner. "They thought it was an industry full of anachronisms that could be streamlined to be extremely profitable. . . . They screwed it up."

▶ Programming costs are zooming. Network-affiliated stations paid 148% more for syndicated shows last year than they paid in 1984 while revenue rose only 17%.

To cut costs, more stations are turning to syndicated-barter arrangements: The station gets a movie or TV show for half-price in return for allowing the syndication company to sell half the advertising shown during the program.

▶ Station values are collapsing. TV stations sold for 12 to 14 times cash flow — net income plus depreciation — in the mid-1980s, when new owners could buy TV stations just as they could buy real estate, with little money down. The few stations changing hands today sell for seven or eight times cash flow.

As recently as 1987, Ted Hepburn, whose Cincinnati company matches station buyers and sellers, was involved in nine deals worth $270 million. This year, he has brokered two deals worth about $15 million. "The market is awful," says Hepburn. "People who could afford to sell at today's prices don't want to. People who need to sell can't afford to take what they'd get."

Squeeze on TV pinches viewers

So TV stations are being squeezed. Why should TV viewers care?

One reason is that stations experiencing financial pressure are cutting back on news and local programming, or doing both on the cheap.

Stations are substituting video press releases — canned features provided free by corporations or interest groups hoping to gain from the exposure — for their own news footage.

Others are trimming or axing investigative news units. Still others, desperate to boost viewership, are using news time to promote themselves and their networks' shows.

WRC-TV, an NBC affiliate in Washington, D.C., recently ran a weeklong series of pieces featuring its news, weather, sports and entertainment anchors visiting their hometowns. And, like many affiliates across the country, WRC's newscasts often include interviews with stars of the network's shows.

TV stations in each market still bid against one another for the right to pay top dollar for syndicated shows. *Oprah*, for instance, can fetch [illegible] million a year from a New York or Los Angeles station and [illegible] million a year in a smaller market such as Nashville.

But after plunking down the cash for a top show, many stations have to fill the rest of their schedules with syndicated programs at the lower end of the price scale.

Stations in the largest market might pick up reruns of *The Hogan Family* for $1.4 million a year. A station in a medium-size market could get the show for $210,000.

Meanwhile, stations such as Seattle's KING-TV and Nashville's WSMV-TV are airing program-length commercials called infomercials and ads for 900-number "party lines" or other services, both of which they shunned just a few years ago.

"I'm so damned tired of seeing automobile polish (infomercials). . . . I could barf," says Mike Kettenring, president and general manager of WSMV. "But these days, we're doing what it takes to pay the bills."

— James Cox