



For Immediate Release,

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MEDIA BRIEFING PAPER

DIGITAL-ONLY BROADCASTING: ENSURING “NO VIEWER LEFT BEHIND”

*Public Television Stations are Exploring the Circumstances for
Embracing a “Hard Date” for the Early Return of Analog Spectrum*

Recently, there has been a great deal of debate about the initiative recently launched by the Association of Public Television Stations (APTS) surrounding the concept of Digital-Only Broadcasting (DOB). The Balanced Budget Act of 1997 (BBA) requires public television licensees – as well as commercial licensees – to broadcast in digital-only after December 31, 2006. The BBA provides that the Federal Communications Commission (FCC) may extend this deadline if digital television reception, either over-the-air or via cable or satellite, is not widely available to at least 85 percent of households in a given market. The FCC must make this determination, and grant any extension, on a market-by-market basis. When a licensee begins broadcasting in digital-only, all of that broadcasters’ analog spectrum must be returned to the federal government for reallocation through auctions. The current debate on DOB exists within this reality.

Public television stations understand that the analog spectrum is not ours to keep – that we hold it in trust to benefit all of the American people. In the end, the government will reclaim it and auction it off for other uses. However, because of our unique position at this point in time, public television stations want to exercise greater influence over the circumstances under which our analog spectrum is returned. We cannot afford to cling to this aging technology until the government retrieves the spectrum under its own terms. Therefore, the question is simple: can public television stations formulate a plan to give the analog spectrum back to the government in a way that is strategic – in a way that helps the society as a whole *and* provides specific benefits to public television? If so, what is the quid pro quo that public television stations need from the federal government to make the transition happen sooner, rather than later?

The Case for Supporting a Hard Date

There are major advantages for public television stations to embrace a date certain for converting to digital transmission only. DOB would save public television stations \$36 million a year in the electricity costs currently incurred on analog transmission. This figure represents almost 20 percent of the total amount of money the Corporation for Public Broadcasting (CPB) distributed to public television stations in 2003 as CSGs. Switching to DOB would also help public television stations avoid the cost of maintaining and replacing analog equipment. Simply put, it would allow public television stations to focus all of their energy and resources on the future, not on a dying distribution system.

On the political level, supporting DOB could help public television stations raise the political capital necessary to achieve some of our long-standing policy goals. Positioning ourselves as an industry that wants to work with the government to accomplish a goal, rather than opposing change that is inevitable, could reap tremendous benefits. For example, supporting a hard date could give public television stations crucial leverage in efforts to establish a long-desired trust fund to supplement annual CPB appropriations. In addition, the increased political capital may be useful in enabling public television stations to secure a legislative guarantee of post-transition digital carriage on cable and satellite systems. The benefits of a hard date are numerous, and public television stations should be in the lead among American broadcasters in finding ways to begin to reap real economic benefits from the digital transition. There are also many challenges to weigh before proceeding.

An Exploration with Member Station Input

In May 2003, APTS conducted two online consultations with member stations to solicit their input on, among other things, the prospect of supporting a hard date for the ending of analog transmission. Specifically, APTS asked our members: “Assuming a hard date for ending the digital transition were far enough in the future to allow your station to be fully converted to digital, would you consider supporting a hard date if it were coupled with mandatory carriage of your digital services?” Eighty-eight percent of the stations participating in the consultations indicated that they would.

In October 2003, the APTS Board authorized the APTS staff to begin a process of exploring the set of circumstances under which public television stations could embrace a hard date. In the ensuing months, APTS engaged in a detailed exploration of this issue – with significant opportunities for member station input along the way. On February 12, APTS conducted another online member consultation to continue the discussion surrounding the DOB exploration. Representatives from approximately 75 public television stations participated. After discussing DOB in greater detail, 92 percent of participants expressed their support for APTS engaging in the process, and for APTS to develop a plan with station input – although 51 percent of all respondents remained skeptical about DOB. Given this mandate, APTS will continue exploring what legislative policies public television needed in place to support a hard date. In 2004 alone, APTS staff discussed DOB with member stations at the NETA Annual Meeting, at OSBE and at Capitol Hill Day 2004.

Policy Goals Needed to Support Digital-Only Broadcasting: No Viewer Left Behind

Cable and Satellite Carriage

Chief among the issues forestalling the completion of the digital conversion is the question of whether cable and satellite systems will be required to carry all of a public television station's multicast digital program streams within a digital channel. Cable and satellite providers reach approximately 86 percent of American households, and therefore no conversion to digital-only would be possible without guaranteed cable carriage. Public television has argued vigorously that carriage of all mission-related content is essential for the digital conversion to succeed—and to ensure that stations can fulfill their mission to their local communities. This requirement remains an essential element of any DOB plan.

Over-the-Air Viewers

Public television stations operate under a federal mission to provide a free, noncommercial educational television service to all Americans. This mission may be compromised if the free, over-the-air analog service is replaced with a digital service that requires either a substantially prohibitive investment by consumers in reception technology or a prohibitively expensive subscription to a digital pay service. During the February 2004 consultation, APTS asked participants to assume that they are guaranteed full carriage of their digital signals by cable and satellite. Given that assumption, APTS asked the stations what was the most important barrier to DOB that would remain for their station. Sixty-eight percent of respondents identified the “need for remaining over-the-air viewers to get digital receivers” as the most important barrier. Therefore, if analog over-the-air service were to be shut-down and replaced with its digital counterpart, some mechanism, or combination of mechanisms, must be in place, as a matter of political expediency and fundamental fairness, to ensure the continuity of universal service.

Public Television Trust Fund

Since its inception, public television stations have sought a stable, sustainable and politically independent funding mechanism. At various times, a trust fund was sought to either replace or supplement Congressional appropriations. Each time a trust fund was considered, it was proposed that something be taken from another party to provide funding (e.g. excise taxes on televisions, or spectrum use fees for commercial broadcasters). With public television stations in the unique position of holding a very valuable asset, there may be a window of opportunity to leverage the good will on the tremendous revenue the government would generate from the early return of its analog spectrum. The government benefits from having some, or all of the analog spectrum returned in two ways. First, the government receives the direct benefit from the revenue it receives from the auction of the analog spectrum. Nextel and Verizon Wireless are currently debating the value of 10 megahertz of nationwide spectrum in the 1.9 gigahertz band, suggesting it is worth anywhere between \$3.5 and \$7.2 billion.. Public television stations control about 80 MHz of analog television spectrum. To get a more accurate assessment of the value of this spectrum, APTS hopes to commission an independent study in the near future.

In addition to auction proceeds, the government would see increased tax revenue as a result of the increased economic activity that would flow from new entrepreneurial applications when this spectrum is made available for private uses. Because the government has such a huge economic incentive for public television stations to return this spectrum, APTS believes we can encourage Congress to create a trust fund based upon the increased tax revenue and direct proceeds the government collects from the auction of analog spectrum. The prospective trust fund would be in addition to, and not in lieu of, annual appropriations for CPB. In fact, the possibility of establishing a trust fund motivates a lot of the interest public television stations have in DOB. During the February 2004 consultation, 76 percent of respondents indicated that, all other factors being equal, the establishment of a public television trust fund was a prerequisite for their support for accepting a hard date.

Summary of Policy Needs

APTS member stations provided extensive and valuable guidance on the three policy issues discussed above. The favorable resolution of these policy issues has a demonstrable impact on the viability of DOB within the next few years. Specifically, during the February 2004 consultation, stations were asked to assume: that cable and satellite would carry your digital signals when you switch off analog; that low cost digital-to-analog set-top boxes were available to over-the-air consumers; and that Congress would establish a trust fund tied to the return of public television stations' analog spectrum. Given these assumptions, 71 percent of participants indicated that they would be willing to begin broadcasting in digital-only by the end of 2007. The attainment of these policy goals would enable public television stations to seriously consider embracing DOB. Without these policy needs being satisfied, however, a much different result is obtained. When asked to assume that none of the above goals were attained, 76 percent of public television stations said they would not be willing to begin broadcasting in digital-only until the end of 2010 or later.

Other Key Considerations

We have to emphasize that this is the beginning of a process that will involve extensive research not only at the legislative level, but at the regulatory and consumer market levels as well. In order to be in a position to move forward, The APTS Board instructed APTS staff to prepare a report that addresses several questions, including:

- What is public television's "universal service" responsibility for serving the remaining over-the-air analog audience, and what do we know about the population of viewers who get all or a combination of their programming through over-the-air?
- How reliable is the ATSC Standard for over-the-air digital reception?
- What are the costs for consumers to purchase digital equipment and receive digital?
- What partnerships do public television stations need in order to successfully return analog?

- What regulatory and legislative strategies are necessary to achieve DOB?
- Is the European experience applicable to the United States?

To begin to answer these questions, the APTS Board appointed an *Ad Hoc* DOB Committee, formed by then-Board Chair Steve Bass and comprised of David Liroff, Dennis Haarsager and Joseph Widoff, President and CEO of WHRO. The *Ad Hoc* DOB Committee has worked closely with APTS staff to conduct extensive research on these and other issues. As always, APTS will continue to seek station input as the research continues on these and related questions.

Public television stations understand that digital is the next evolutionary development in broadcasting, and the time is ripe to leverage the early return of our analog spectrum to the government while it still carries a high value. APTS welcomes and encourages a dialogue as we chart the path to DOB. The DOB exploration undertaken by APTS is meant to be the first word, not the *only* word, in an ongoing discussion. We don't purport to have all the answers – and we appreciate the constructive input of others in this dialog.

Developing the Consumer Proposition

One issue that is central to any plan to move forward with DOB is the need to develop the consumer proposition to increase demand for digital services. As stated above, public television stations view the need to continue to fulfill their universal service obligations in a post-transition world as critical. To begin to answer this question, APTS focused its attention on two specific areas: the need for broadcasters to provide compelling digital content; and finding a means of making digital reception equipment more affordable.

Business Models for Digital Programming

The transition to digital broadcasting is unique in America for the simple reason that it was compelled by the federal government, rather than being the result of economic demands. In other words, stations are making the transition before Americans consumers have expressed a desire to receive digital services. As such, broadcasters must develop sustainable business models to stimulate consumer demand for digital programming and services. In Europe, where the conversion to digital was mandated in certain areas, lessons derived from their successes and failures may prove to be instructive here. For example, in early February APTS held an online briefing for members to explore *Freeview*, a free, over-the-air digital broadcasting service that was successfully released in the United Kingdom - resulting in robust consumer adoption. APTS invited Michael Schueppert, the lead executive at Crown Castle, Ltd who played a major role in creating Freeview, to help us examine Freeview for similarities and differences with the U.S. market and discuss a range of policy and business options for public television stations. Moving forward, public television stations will have to work with many partners to cultivate consumer demand for digital programming and services.

Making Digital Reception More Affordable

If we are successful in developing business models that stimulate consumer demand for digital services, then we can expect a significant fall in prices as economies of scale reduce the cost of manufacturing digital tuners and set-top-boxes. For example, in Berlin-Brandenburg, an area with high cable and satellite penetration, the government mandated digital-only broadcasting on August 4, 2003. As a result of the mandated conversion, competition among manufacturers increased considerably – resulting in a clear drop in prices for receivers. While falling prices may play a large part in making digital receivers more affordable, it is probable that the federal government would have to play a role to ensure that public television stations would be able to fulfill their *universal* service missions. In Berlin, the government needed to subsidize the purchase of receivers for many consumers, and this would probably need to be the case in the United States. APTS is exploring a variety of tax proposals – such as an income-triggered subsidy or tax credit for either the one-time purchase of digital over-the-air set-top boxes, or to offset the costs of digital cable or satellite subscriptions for a limited period of time. In any event, APTS will be guided by the goal of ensuring the continuation of universal service for those individuals who may be harmed by the conversion to digital-only broadcasting.

A Simple Case for Action

While there are great challenges to address, public television must work to proactively maximize the opportunity we currently have. America’s public television stations control 21 percent of the analog television spectrum in the richest, most technologically advanced society on the face of the planet – a society that craves bandwidth for ever faster and more ubiquitous connectivity. This spectrum is so valuable it’s called “beachfront property.” This beachfront property is a major asset, but it will become a wasting asset if we don’t actively manage its return to the government. Putting it into the private market can unlock its true economic potential. And that is just what the federal government, as required by current law, intends to do. The questions are when . . . and under whose terms.