331

STATEMENT OF FCC COMMISSIONER JAMES H. QUELLO
CHAIRMAN OF THE TEMPORARY COMMISSION ON ALTERNATIVE FINANCING FOR PUBLIC TELECOMMUNICATIONS

Submitted to
THE SUBCOMMITTEE ON COMMUNICATIONS OF THE
SENATE COMMITTEE ON SCIENCE, COMMERCE AND TRANSPORTATION

FEBRUARY 22, 1984

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I am pleased to submit this statement describing the work of the Temporary Commission on Alternative Financing for Public Telecommunications. Specifically, I shall address the issue of whether Congress should permit public broadcast stations to carry limited advertising in order to supplement revenues from other sources.

Pursuant to congressional directions contained in the Public Broadcasting Amendments Act of 1981, the Temporary Commission conducted a detailed exploration of the advertising question and submitted its Final Report to Congress on October 1, 1983. Copies of this report accompany my statement, and additional copies are available from my office.

Briefly, the Temporary Commission authorized ten public television stations to carry advertising messages over a 15 month period ending June 30, 1983. Only nine stations participated to the conclusion of the advertising demonstration program.[1/] Seven of these stations presented advertising messages, while the other two stations styled their messages as "enhanced underwriting." [2/]

1/ See Table 1, attached, for a description of the participating stations and a summary of the revenues each received during the demonstration program.

2/ The Temporary Commission did not prescribe standards for acceptable "enhanced underwriting." All stations were free to present any type of message they chose within the statutory limits. Messages could not interrupt programming and were limited to a duration of 30 seconds.

The Temporary Commission selected an independent research organization, the ELRA Group, to assess viewers', subscribers', and the general public's attitudes toward carriage of advertising on public television stations. The Temporary Commission also directed the participating stations to file periodic status reports, conducted a survey of selected advertisers and underwriters, and consulted with independent experts, other federal agencies, and potentially affected entities such as unions and commercial broadcasters in order to assemble as complete a record as possible for congressional review.

The ELRA Group research generally demonstrated no negative reaction to limited advertising as a means to supplement funding for public television. While such positive results were essential to further consideration of the advertising question, several factors dictate that these findings cannot properly serve as the sole basis for a recommendation supporting limited advertising. First, the demonstration was not designed as a scientific experiment to test the hypothesis that permitting limited advertising would well serve the public broadcasting system. For example, due to the small number of stations interested in participating, the participating stations were essentially self-selected and clearly did not represent a cross-section of the public broadcasting community.[3/] Second, the demonstration did not take

Second, the demonstration did not take into account the potential impact of limited advertising on union and copyright agreements as well as other service agreements under which noncommercial broadcasting enjoys favored treatment. Third, the demonstration could not measure long-term effects. Thus, while the ELRA research was a significant

3/ Seven of the final nine stations were VHF stations, while most public television stations operate on the disadvantaged UHF band. Also, four of the top five television markets were represented among the participating stations and only three participating stations were outside the top 13 markets.

aspect of the Temporary Commission's work, it did not provide a litmus test of whether public television advertising should be encouraged.

The Temporary Commission concluded that advertising should be permitted only if Congress could clearly determine (1) that the benefits to public broadcasting overall would exceed the costs, and (2) that the risks associated with advertising would not be shared by public stations that chose not to carry advertising. Some of the primary factors leading to this decision were:

- that overall revenues to the system would be limited because most public television stations would not carry advertising due to legal restrictions, local economic considerations, or concern about advertising's impact on the character of the public broadcasting service;
- that the risks associated with advertising -- particularly risks to the copyright structure now applicable to all public broadcast programming -- could not be limited to the stations carrying advertising messages; and
- that, despite the demonstration's short-term findings, no experiment could demonstrate that there would not be an eventual adverse impact on other vital revenue sources, such as corporate underwriters, large private subscribers, or state and local government support.

The Temporary Commission recognized that it's efforts did not resolve all the questions concerning whether advertising should be used to provide additional revenue for public broadcasting. The work of the Temporary Commission did, however, significantly reduce the range of uncertainty so as to permit a more informed policy decision by the Congress.

It is my personal view that the existing balance among the varied funding sources for public broadcasting plays a crucial role in maintaining the special character of public broadcast programming. If advertising revenues do not predominate over other funding sources the unique nature of public broadcasting should not be unduly affected. Nevertheless, the absence of commercial messages on public broadcasting serves as the "bright line" distinction between the public and commercial broadcast services. While reasonable persons can differ on this issue, I cannot recommend that this bright line should be eroded at this time.

Thank you for this opportunity to present my views on this important question. I shall be happy to provide any additional information that you may require concerning the work of the Temporary Commission.

TABLE 1

The Advertising Demonstration Program Stations At-a-Glance

Name, (Channel) License Type	Location	#TV Households (rank)	ADP approach	1st ad/ expanded credit aired	Fiscal Year 1983 Net Proceeds[1]	Net Station Total Revenue[2]	Proceeds as % of Station Revenue
WTTW (11) Community	Chicago, IL	2,979,670 (3)	Ads	6/14/82	$1,309,358	$13,428,114	9.75%
WHYY (12) Community	Wilmington, DE/ Phila., PA	2,425,640 (4)	Ads	6/1/82	$813,403	$8,746,980	9.30
WPBT (2) Community	Miami, FL	1,148,390 (13)	Ads	5/24/82	$375,297	$7,333,904	5.12
WYES (12) Community	New Orleans, LA	608,250 (34)	Ads	3/26/82	$346,562	$4,356,153	7.96
KCSM (60) College	San Mateo/San Francisco, CA	2,009,820 (5)	Ads	5/21/82	$214,459	$1,840,879	11.65
WIPB (49) University	Muncie, IN	223,789 (98)	Ads	6/2/82	$61,270	$1,292,857	4.74
WQLN (54) Community	Erie, PA	150,180 (138)	Ads	9/9/82	$13,891	$1,819,876	0.76
					$3,134,240	$38,818,763	8.07%
WNET (13) Community	Newark, NJ/ New York, NY	6,471,390 (1)	Expanded credits	11/21/82	$745,467	$58,530,671	1.27%
WQED (13) Community	Pittsbg., PA	1,213,030 (12)	Expanded credits	10/1/82	$141,609	$18,806,454	0.75
					$887,085	$77,377,125	1.15%

[1]Fiscal Year 1983 is the period from July 1, 1982, to June 30, 1983, or the last four quarters of the five-quarter demonstration program; Net proceeds = gross billings for cash and non-program barter less direct costs of sales or special development efforts.

[2]Total station money and inkind income less development and fundraising expenses.

Source: Station reports submitted to the Temporary Commission