May 21, 2010

Mr. David Rosen  
Legislative Budget and Financial Officer  
Office of Legislative Services  
State House Annex  
PO Box 068  
Trenton, NJ 08625-0068

Dear Mr. Rosen:

Please find below NJN’S response to questions raised by Senator Barbara Buono at the Senate Budget and Appropriations Committee on April 20, 2010.

We appreciate the extension your office provided to allow us to collect the information in full.

QUESTIONS:

Under the Governor’s FY 2011 budget recommendation, the Public Broadcast Authority will transition from a State-run media organization into an independent not-for-profit organization as of January 1, 2011.

I. How will the transfer of assets be handled during this transition? What will distinguish whether or not the assets are transferred with remuneration to the State?

As we understand the Governor’s proposal, a public service provided by the State will migrate to a public service provided by an independent, nonprofit organization, essentially a charitable organization serving the public good. As such, NJN’s mission will remain as it has always been: to educate, inform, entertain and make New Jersey a better place.

NJN proposes to have the tangible and intangible assets transferred to the new nonprofit organization, with no remuneration to the State, thereby ensuring that these assets remain in New Jersey to provide noncommercial public broadcasting service to New Jerseyans, as they were intended to do. The transfer of assets will regulate the use of these licenses to ensure the nonprofit organization may not sell its license to a commercial entity or to a religious broadcaster.
In other states, public television stations did not pay for the assets when the license was transferred from the State to a nonprofit to fulfill the public service mission of informing and educating the public. (See response below.)

It is important to note that NJN’s television and radio licenses are non-commercial and difficult to sell. Furthermore, much of our equipment is quite old, some dating to the 1980s. In some instances, we have had to turn to eBay to get necessary parts because the equipment is no longer manufactured. The State of New Jersey would get a better return on its 40-year investment by making it possible for NJN to continue and thrive.

In terms of generating revenue from these assets, even if NJN were able to sub-license a portion of its digital spectrum three to four years from now, studies indicate that in the best case the order of magnitude of revenues would total about $2 to $4 million per year, (making up for the State support but not much more). And to sustain that sub-license revenue, NJN still has to be providing public service broadcasting in order to keep the FCC license. Any income potential as a public service broadcaster is limited to offsetting operating expenses, not the retirement of a major upfront asset purchase.

II. Please provide any information concerning how other states have handled the transfer of assets when the licenses for public television and radio stations have been transferred to a not-for-profit organization.

NJN management researched five public television stations that transitioned from state/municipal licensees to independently owned and operated 501(c)3 nonprofit organizations that hold a community license. The following information reflects discussions with leadership associated with these five stations: Maine (1992), Vermont (1990), Oregon (1993), Hawaii (2002), and Nashville (1999).

Deal Structures

Maine: The Maine Public Broadcasting Network was formed in 1992 through the merger of the educational radio and television stations provided by the University of Maine System and WCBB public television operated by Colby, Bates, and Bowdoin Colleges.

Reason: Fund-raising difficulties due to competition in very small market area.

Deal: All assets and licenses were transferred to the new nonprofit entity at no charge. The station has free use of buildings, and pays small rent for rental of the ground beneath building. “...paid no compensation for the assets because they were transferred in the public interest for the public trust” and “in our situation, the state got rid of a liability, so they gave up the assets.”

Vermont: Vermont Public Television was a business unit operated by the University of Vermont, a state institution.

Reasons: Elimination of conflict of interest (UVM’s agenda did not match public television agenda); state university status made grant applications difficult, some conflicts; bureaucracy resulted in long decision cycles.
Deal: All assets and licenses were transferred from UVM to VPT “for good and valued consideration of one dollar.”

Oregon: The State authority Oregon Public Broadcasting Commission became the nonprofit Oregon Public Broadcasting Inc.

Reason: State funding was rapidly declining. The Governor also was in favor of change due to market and technology changes.

Deal: There was no payment for the licenses. The State memorialized in legislation that it would continue to provide funding for the organization; State funding continued “for about 10 years” at “about $2M per year,” then ended amidst a State finance crisis. “No payments to the State for anything. Everything just transferred over via statute.”

Hawaii: The station was a university licensee, and was then transferred to the Dept. of Commerce. A four-year plan was condensed to a two-year plan due to State budget issues. The Hawaii Public Broadcast Authority was the old entity; the new one was formed in 1997, in anticipation of a transfer by 2002 (actual: 2000). PBS Hawaii is currently owned by the people of Hawaii through the Hawaii Public Television Foundation governed by a volunteer Board of Directors.

Reasons: Initially, a plan to become more modern through self-sufficiency, but ultimately a State budget issue.

Deal: All assets were transferred, at no charge, to the Hawaii Public Broadcast Foundation in 1999 (which began operations in 2000).

Nashville: The station was formerly owned by Nashville Metropolitan Board of Education, and now is owned and operated by the nonprofit Nashville Public Television.

Reasons: As Nashville grew into a more modern metropolitan area, newcomers were vocal about the city’s “old fashioned” public television operation, reluctant to exhibit anything that might upset a very conservative audience; conflicts between financial needs of an urban school system and a public television station for the greater community.

Deal: The school district transferred all assets and licenses to the nonprofit at no charge. Also, the school district provided funding for four years on a declining schedule from $1.9M in first year to $1M in final year—about $6M in total. All assets (including a building, all transmission equipment, copyrights, program agreements) were transferred at no charge. Licenses were not valued.

Valuation of Assets, Licenses

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Governance

Maine: The merger resulted in a Board comprised of three college presidents plus three trustees from the University of Maine, plus six community members, said to be a “very effective, high powered, distinguished Board.”

Vermont: Two members from University Board, plus six new members.

Oregon: Foundation Board became Governing Board, Governor appointed 20% of members. It now consists of 24 people, larger than before. “They’re a good governing Board, some strategic planning, some fund raising.”

Hawaii: The Foundation Board selected its own members. Five were previous members of the Governor-appointed Authority Board, but none remain. Currently, 21 Board members, but bylaws allow up to 35.

Nashville: The new Board chair selected 15 new Board members who would be best for new organization. One Board member from the school board helped during the transition period.

Outcomes

Maine: “Things worked out beautifully. We solved the problems of two public stations competing with one another in a small state. We became far more efficient. Creative destruction—we really shook up two sleepy organizations and developed a very successful, forward-thinking new organization.”

Vermont: “The transition was difficult at first because we considered ourselves a twenty-year mature organization. The day we separated, we became a start-up organization in the eyes of funders, lenders, etc. After the first three years, we have been much more successful, and been able to operate much more crisply and efficiently than under the old model, and are able to attract alternative funding and funders (that were previously available under the old State University model).”

Oregon: “Everybody is thrilled with it! The operating budget is three-fold the size it was before. In fact, it’s kind-of nice not to have the state money because we don’t have to worry about what the legislators think about every decision.

Hawaii: “We have expanded; we were able to get a lot more funding because as a state agency, businesses didn’t want to donate to the state. For example, underwriting was previously $200,000 and it’s now over $500,000 (per year).” We’re in a building built for us, but it’s on state. The rent is now $1 year, but we pay for the operation of the building.”

Nashville: “Things worked out well but not exactly as planned. A lot of the initial revenue projections already in place were accurate, but initially, we were too optimistic in terms of membership growth. Now, the whole service is much better, ratings are much stronger (one of the most-watched stations in the country), with a steady stream of strong local productions, and some national productions.”
Special Situations in Public Broadcasting
KOCE, Huntington Beach, CA (Orange County, near Los Angeles)

License Transfer: From the Coast County Community College to KOCE Foundation (previously the fundraising arm of KOCE) in 2004.

Deal Structure: After years of contemplating a sale, Coast County Community College put the station on the market in 2003. A bidding war ensued between Christian televangelist network Daystar and KOCE-TV Foundation, an organization made up of civic and business leaders who wanted to keep KOCE an educational PBS station. A three-year court battle between and the KOCE Foundation ended amidst charges filed by Daystar of religious discrimination, civil rights violations and racketeering. KOCE paid $32 million for the license in what KOCE President Mel Rogers calls “a different economy and time.”

Governance: Now 20-25 people on the Board.

Comments: “We’d rather be a community licensee rather than an institutional licensee, since we couldn’t do anything. We were always the odd man out, because we needed to play by rules that were set up for an educational institution, not a television station.”

Mergers

WNET, New York City, acquired WLIW, Plainview, NY, in a 2001 merger. The deal saved WLIW $4 million in costs associated with digital television conversion. WLIW became part of the WNET organization. A local Board and some local programs remain.

KQED, San Francisco, acquired KTEH, San Jose, CA in a 2006 merger. The new company is called Northern California Public Broadcasting. Reasons: San Francisco’s KQED gains reach into South Bay, and KTEH is operated for about $1 million less per year. Merger creates a regional public broadcaster. KTEH no longer has a local governing Board. (Monterrey’s KCAH, previously operated by KTEH, was also part of the merger.)

ThinkTV, Dayton, Ohio, acquired CET, Cincinnati, OH in a 2009 merger. The new company is called Public Media Connect. “We believe strongly that in today’s non-profit and media environment, a shared regional vision for CET and ThinkTV offers the best opportunity to grow local programming and educational services,” said Bryan Dunn, chair of the CET Board.

Radio

Additional research needs to be undertaken for radio stations, since there are so many more in the United States. NPR Member organizations operate 784 stations, and another 117 public radio stations also present NPR programs, for a total of more than 900 stations nationwide who broadcast NPR programming. Many of these stations are very small, and valuations vary wildly.

WNYC, one of the oldest radio stations in the United State, was owned by the City of New York until 1997. New York City sold its TV station to the highest bidder but let go of its two public radio stations at a “bargain price” to the foundation that already covered
most of their costs. Under the agreement, the foundation paid the city $20 million, divided into equal annual installments over six years—a total far lower than the $35-50 million market value put on the radio stations.

The TV and FM stations could be sold freely because neither operated on a channel reserved for noncommercial use. The FCC restricted the AM station to noncommercial use when it extended the station’s broadcast day, but the license didn’t have great market value, according to WNYC. As part of the deal, the city let the radio stations keep their facilities in municipal buildings for least six years.

WNYC operates in the nation’s largest city, and is known for its nationally syndicated news and culture programming and its Internet radio broadcasts. WNYC reaches more than one million listeners each week and has the largest public radio audience in the United States.

NJN’s radio network is comprised of small stations with frequencies that have a limited reach. Our weekly cume totals approximately 55,000 listeners.

Sincerely,

[Signature]

Howard J. Blumenthal
Interim Executive Director
NJN Public Television & Radio

c: Kent Manahan, Chair, New Jersey Public Broadcasting Authority