

January 2007

TELECOMMUNICATIONS

Issues Related to the  
Structure and Funding  
of Public Television



G A O

Accountability \* Integrity \* Reliability



Highlights of [GAO-07-150](#), a report to congressional requesters

## Why GAO Did This Study

How to fund public television has been a concern since the first noncommercial educational station went on the air in 1953. The use of federal funds to help support public television has been a particular point of discussion and debate. This report reviews (1) the organizational structure of public television, (2) the programming and other services that public television provides, (3) the current funding sources for public television, (4) the extent to which public television stations are increasing their nonfederal funding sources and developing new sources of nonfederal support, and (5) the extent to which public television benefits financially from business ventures associated with programming and how this compares with commercial broadcasters.

GAO reviewed revenue, membership, and programming data for all public television licensees. GAO also interviewed officials from 54 of public television's 173 licensees, the Corporation for Public Broadcasting, the Public Broadcasting Service, federal agencies, and producers of commercial and public television programming.

[www.gao.gov/cgi-bin/getrpt?GAO-07-150](http://www.gao.gov/cgi-bin/getrpt?GAO-07-150).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Mark L. Goldstein at (202) 512-2834 or [goldsteinm@gao.gov](mailto:goldsteinm@gao.gov).

## TELECOMMUNICATIONS

### Issues Related to the Structure and Funding of Public Television

#### What GAO Found

Public television is a largely decentralized enterprise of 349 local stations, owned and operated by 173 independent licensees. The stations' operations are funded in part by the Corporation for Public Broadcasting (CPB), a nongovernmental entity that receives federal appropriations. The Public Broadcasting Service (PBS), a nonprofit organization funded by fees paid by member licensees and CPB grants, operates a satellite-based interconnection system to distribute programs to local stations. These programs are created by producers inside public television and by outside production entities.

Public television stations broadcast national and local programs and provide a variety of nonbroadcast services to their communities. PBS prime-time and children's programs account for the majority of broadcast hours, to which stations add instructional and local programs tailored to meet the needs and interests of their communities. Nonbroadcast services include educational, civic engagement, health, and emergency-alert services.

In 2005, public television licensees reported annual revenues of \$1.8 billion, of which 15 percent came from federal sources and the rest from a variety of nonfederal sources including individuals, businesses, and state and local governments. Federal funds help licensees leverage funds from nonfederal sources. Thirty of 54 licensees GAO interviewed said that cuts in federal funding could lead to a reduction in staff, local programming, or services. In general, smaller licensees receive a higher percent of revenue from federal sources and 11 said that cuts in federal support might force the station to shut down.

Substantial growth of nonfederal funding appears unlikely. The one area with growth potential is major gifts, which many licensees are pursuing with help from CPB. Program underwriting by businesses and foundations has traditionally been an important source of revenues. A few licensees believe that these revenues could be increased if restrictions on the content of on-air underwriting acknowledgments were relaxed. Many licensees, however, believe that this would go against the noncommercial character of public television and could cause a loss of funding support from other sources.

Public television sometimes benefits from business ventures associated with its programs, but these opportunities are infrequent and do not generate significant revenue. Public television does not have the financial resources to invest heavily in the cost of program production to secure a larger share of any resulting back-end revenues. Moreover, the sale of merchandise associated with a program generally returns only a small percentage of the retail price to the program's producer and investors, as is also true for commercial television programs.

GAO provided CPB and PBS with a draft of the report for their review and comment. CPB and PBS agreed with the report.

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**Abbreviations**

APT	American Public Television
CCC	City Colleges of Chicago
CPB	Corporation for Public Broadcasting
DEAS	Digital Emergency Alert System
DTV	digital television
FCC	Federal Communications Commission
HDTV	high-definition television
ITVS	Independent Television Service
KET	Kentucky Authority for Educational Television
NETA	National Educational Telecommunications Association
NPR	National Public Radio
NTIA	National Telecommunications and Information Administration
SABS	Stations Activities Benchmarking Study
SIP	Station Independence Program
PBS	Public Broadcasting Service
RUS	Rural Utilities Service

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**Contents**

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United States Government Accountability Office  
Washington, D.C. 20548

January 19, 2007

The Honorable Ginny Brown-Waite  
House of Representatives

The Honorable Candice S. Miller  
House of Representatives

From its beginnings in the 1950s with a small number of noncommercial educational stations focused on formal instruction, public television has evolved to encompass a wide range of cultural, educational, entertainment, news, and public affairs programming offered by 349 stations nationwide. Public television stations were built and continue to operate as nonprofit, community-based organizations, largely funded by nonfederal sources. Funding for programming and station operations has been a continuing issue, given that public broadcasting operates outside of the advertising-based business model that sustains commercial television. A key point in the evolution of public television came with the Public Broadcasting Act of 1967, which amended the Communications Act of 1934, as amended (the Communications Act) to establish the Corporation for Public Broadcasting (CPB) and authorized federal funding to help support public television's operations. The Communications Act's current "declaration of policy" states that it is in the public interest of the federal government to ensure that all citizens have access to "public telecommunications," of which public television is a part. The Communications Act also states that it is in the public interest to encourage the development of programming that involves creative risks and addresses the needs of unserved and underserved audiences, particularly children and minorities.

In the decades since the passage of the Public Broadcasting Act, the position of public television as the primary source of alternative programming to the commercial broadcasting networks (such as ABC, CBS, Fox, and NBC) has been challenged by the emergence of cable and satellite television providers. These companies offer their paying subscribers dozens of channels—including some devoted to subjects that are mainstays of public television—such as nature, travel, cooking, and drama. In fact, most households today receive television service from a cable or satellite company. However, in an era of media consolidation in commercial television, public television stations continue to be locally owned and operated by community-based nonprofit organizations, universities, and state and local governments. Another important change in the media environment is the digital television (DTV) transition, a federal

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mandate requiring stations to transition from analog to digital transmission of television signals. Digital transmission not only greatly improves picture and sound quality, but it also enables stations to use the radiofrequency spectrum<sup>1</sup> more efficiently, thereby allowing stations to simultaneously broadcast multiple program channels (known as multicasting) and offer auxiliary services such as datacasting (the transmission of text, graphics, software, and Web pages to designated users). Many public television stations see the DTV transition as an opportunity to increase their program offerings—such as formal instruction and coverage of local government—and also enhance the services they can offer to their communities, such as emergency communications.

Against this backdrop of change, the issue of how to fund public broadcasting continues to be a concern for policymakers and public television's stakeholders, as it has been for decades. Without the financial base of advertising that sustains commercial television, public television stations acquire their operating revenues from diverse private and public funding sources, including voluntary membership gifts by viewers; support from organizations and businesses that underwrite programming and station operations; funding from private foundations; funding from universities; and local, state, and federal government funding. In addition, several signature public television programs have become cultural icons and have given rise to separate business ventures, such as sales of books, DVDs, and children's toys, that provide additional sources of revenue. Given these alternative sources of funding, some policymakers and public television stakeholders have debated the continued role of federal funding and whether public television can survive and prosper with less direct federal support.

In response to your request, this report examines the funding and operation of public television. Specifically, this report provides information on (1) the organizational structure of public television, (2) the programming and other services that public television provides, (3) the current funding sources for public television, (4) the extent to which public television stations are increasing their nonfederal funding support and developing new sources of nonfederal support, and (5) the extent to which public

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<sup>1</sup>The radiofrequency spectrum is a natural resource used to provide an array of wireless communications services, such as mobile voice, radio and television broadcasting, radar, and satellite-based services.

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television benefits financially from business ventures associated with programming and how this compares with commercial broadcasters.

To respond to the objectives of this report, we interviewed officials from CPB, the Federal Communications Commission (FCC), the National Telecommunications and Information Administration (NTIA) of the Department of Commerce, and the Public Broadcasting Service (PBS). For the first objective, we reviewed existing literature on the foundation and current structure of public broadcasting and reviewed relevant provisions of the Communications Act and FCC regulations. For the second, third, and fourth objectives, we interviewed officials from 54 of the 173 public television licensees; we selected licensees according to their type of license, total revenues and percentage of total revenues derived from federal funding, and by the size of the television market where the licensee operates.<sup>2</sup> We also interviewed officials from the Association of Public Television Stations, a membership organization representing public television stations; the Department of Education; the Federal Emergency Management Agency of the Department of Homeland Security; the Ford Foundation; the National Science Foundation; the Rural Utilities Service (RUS) of the Department of Agriculture; and the Urban Institute. Additionally, we analyzed 177 licensees' revenue sources, membership, and programming using CPB's Stations Activities Benchmarking Study (SABS). (In 2005, the year for which we have SABS data, there were 177 public television licensees; currently, there are 173 licensees.) SABS is a data-gathering mechanism through which licensees provide information annually on their finances and operations. To assess the reliability of SABS data, we reviewed relevant information about the database, including the user manual and a data dictionary, and we interviewed CPB officials and subcontractors for information on data quality assurance procedures. We also performed electronic testing to detect obvious errors in completeness and reasonableness. We concluded that the SABS data were sufficiently reliable for the purposes of this report. For the fifth objective, we interviewed officials from organizations producing programming for public television, including David Grubin Productions, Ken Burns (Florentine Films), HIT Entertainment, Insignia Films, Lumiere Productions, Scholastic, Sesame Workshop, WETA (Arlington, Virginia), WGBH (Boston), and WNET (New York); the Independent Television Service; commercial broadcast networks and cable channels, including A&E

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<sup>2</sup>We used total commercial television advertising revenues to measure the size of a television market.



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Television Networks, Fox, National Geographic Channel, Nickelodeon, and NBC; and several experts. We also reviewed the relevant media economics literature and materials provided by CBS. See appendix I for a more detailed discussion of our overall scope and methodology.

We conducted our review from January through November 2006 in accordance with generally accepted government auditing standards.

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## Results in Brief

Public television evolved from a handful of noncommercial educational television stations in the 1950s to a complex and uniquely organized broadcasting infrastructure that spans the United States. Public television stations are independent, locally based entities that serve their individual communities. The initial basis for this localism was FCC's decision in 1952 to reserve 242 channel assignments for educational television stations in various markets across the country. Today, there are 349 public television stations, owned and operated by 173 licensees, which reach 98 percent of the households that have televisions.<sup>3</sup> FCC licenses public television stations to community organizations, local governments, universities, and state governments. Through the Public Broadcasting Act, the Congress authorized the establishment of CPB as a nongovernmental, nonprofit corporation to facilitate the growth and development of public television and radio. CPB's primary responsibility is distributing federally appropriated funds to benefit public television and radio. PBS is a nonprofit membership organization made up of licensees of public television stations and is funded by fees paid by its member licensees, underwriting, and grants from CPB and other federal sources. PBS acquires children's and prime-time programming and operates a satellite-based interconnection system to distribute this programming to member licensees. CPB and PBS do not produce programming, but rather they rely on suppliers internal and external to public television. These suppliers include larger public television stations, such as WGBH (Boston) and WNET (New York); external producers, such as Sesame Workshop and Ken Burns; and other external suppliers, such as American Public Television.

Public television stations broadcast a variety of national and local programs and also provide nonbroadcast services to their communities.

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<sup>3</sup>Throughout the text, when we refer to a specific licensee or station, we use the name or abbreviation of the licensee or the station call sign, whichever is most appropriate for the organization.

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PBS prime-time and children's programming accounts for a majority of broadcast hours for most public television stations. However, stations supplement these programs with both instructional and locally produced programming. Local programming broadcast by stations includes a variety of topics that represent the local interests of the community, including history and public affairs, arts and culture, and community events. In some instances, stations focus their instructional programming on grades K through 12 educational material, while in other instances, stations focus on university-level educational material. In addition to programming, public television stations provide a variety of nonbroadcast services. Stations provide educational services, including programs to help prepare children for school, facilitate teacher training, and deliver instructional materials. Stations also provide civic engagement and health outreach services. Finally, the Department of Homeland Security has been working with public television stations to provide a digital emergency alert system that will improve the ability of emergency managers and public safety officials to rapidly broadcast emergency information, potentially enabling near-universal service throughout the United States once the program is complete.

Public television receives the majority of its revenues from individuals, businesses, and the federal and state governments. In 2005, public television licensees reported annual revenues of \$1.8 billion, of which 15 percent came from federal sources and the rest from a variety of nonfederal sources including individuals, businesses, foundations, and state and local governments. However, the sources of revenue vary dramatically from licensee to licensee. Licensees with less operating revenue (small licensees) and licensees that provide service in small television markets receive a larger percentage of revenue from federal sources than do licensees with more operating revenue (large licensees) and licensees that provide service in large television markets. To help public television licensees complete the DTV transition, the Congress has appropriated nearly \$400 million for CPB, NTIA, and RUS since 1999. Many licensees have received some form of support from the federal government for the DTV transition. Federal funds also help licensees leverage funds from nonfederal sources. Thirty of 54 licensees with whom we spoke said that a reduction or elimination of federal funding could lead to a reduction in staff, local programming, or services; 11 others, primarily small licensees, said that a reduction or elimination of federal funding might force the station to shut down. Similar to licensees, PBS receives funding from a variety of sources, including underwriting, fees from member

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stations, and CPB and federal sources, and a reduction or elimination of federal funding could negatively impact PBS programming.

Public television licensees receive nonfederal support from a variety of sources, but substantial growth of nonfederal support to offset a reduction or elimination of federal support appears unlikely. Between 1999 and 2005, revenues from individual member gifts of less than \$1,000—or basic membership revenue—decreased by 6 percent. According to CPB officials, public television lags behind other nonprofit organizations in attracting major gifts. For example, in 2005, 13 percent of revenues from members came from gifts of \$1,000 or more. In response to this situation, CPB launched a major giving initiative to help licensees capture major gifts. Many licensees report initial success with major giving, but see the initiative as a long-term effort. Foundations represent another nonfederal funding source; but foundations typically only fund capital expenditures or special projects, and foundation support is unlikely to expand to include general station operations. The trend in underwriting support—or revenues derived from on-air acknowledgements of businesses providing financial support—has been mixed, with some licensees experiencing increases and others decreases. According to many licensees, corporate consolidation and an increased focus on advertising among businesses have made garnering underwriting support increasingly difficult. Eleven of the 54 licensees with whom we spoke favor an easing of the statutory and regulatory restrictions on on-air underwriting acknowledgments as a means to secure more underwriting revenues. However, 19 licensees with whom we spoke oppose greater commercialization of underwriting, believing that it could threaten other sources of support and the mission of public television. Finally, licensees generally receive minimal revenues from ancillary and miscellaneous activities, such as leasing space on television towers.

Although public television receives \$7 million to \$10 million in annual revenue from business ventures associated with its programming, these business ventures are unlikely to generate significant additional revenue. Some television programs generate back-end revenues from separate business ventures, such as syndication, book and video sales, and clothing and toy sales. In commercial television, broadcast networks and cable channels receive rights to back-end revenues associated with these business ventures. However, the extent of the up-front investment in the development and production of programming greatly influences the rights to back-end revenues. Similar to their counterparts in commercial television, CPB and PBS negotiate financing and rights to back-end

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revenues with producers of programming. The extent to which CPB and PBS receive rights to back-end revenues depends on their up-front investment in program development and production—just as it does in the commercial television environment—and the importance of PBS as a distribution outlet for producers of programming. Given its statutorily defined mission and limited financial resources, public television is unlikely to greatly increase back-end revenues. In particular, relatively few programs generate significant back-end revenues. When a program is successful, the royalties to program producers typically yield 2.5 percent to 7.5 percent of the gross retail price of the merchandise sold, and the producers share these royalties with program investors and others. Because of funding limitations, CPB and PBS do not make major investments in individual programs and therefore receive a modest share of the resulting back-end revenues.

We provided a draft of this report to CPB; the departments of Agriculture, Commerce, Education, and Homeland Security; FCC; and PBS. CPB and PBS agreed with the report and their written comments appear in appendixes V and VI, respectively. The Department of Agriculture neither agreed nor disagreed with the report, but it emphasized the extensive burden that the DTV transition imposes on small and rural television stations. The Department of Education, the Department of Homeland Security, and FCC provided technical comments that we have incorporated in this report as appropriate. The Department of Commerce had no comments on the report.

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## Public Television Is Structured around Local Ownership and Control of Stations, with Assistance from National-Level Organizations

Many programs shown on public television stations carry the logo of PBS, which can create the misperception that public television is a single, national-level enterprise. However, public television is not a single, national entity, nor is it identical with PBS. Public television evolved from a handful of noncommercial educational television stations in the early 1950s to 349 stations today that reach virtually every household in the United States. The stations were built and continue to operate as independent, nonprofit, community-based entities offering a mix of broadcast programming and outreach activities to their local communities. The late 1960s saw the creation of national-level organizations to support and interconnect the stations: CPB and PBS. With producers and distributors supplying a wide variety of educational, cultural, entertainment, and public affairs programs, public television today remains a locally based enterprise with a national reach that serves the particular needs and interests of the communities within the range of each station.

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## Public Television Stations Are Independent, Locally Based Entities That Serve Their Communities

Public television began as, and continues to be, a largely decentralized enterprise, with ownership and control of the stations maintained at the state or local level. The basis for this localism was established by FCC's initial decision in 1952 to reserve 242 channels assignments for educational television stations in various markets across the country.<sup>4</sup> These reserved channels were to serve "the educational and cultural broadcast needs of the entire community to which they are assigned." It was left to the local communities to construct and operate television stations to use these reserved channels, since neither FCC nor the Congress provided funds for this purpose.

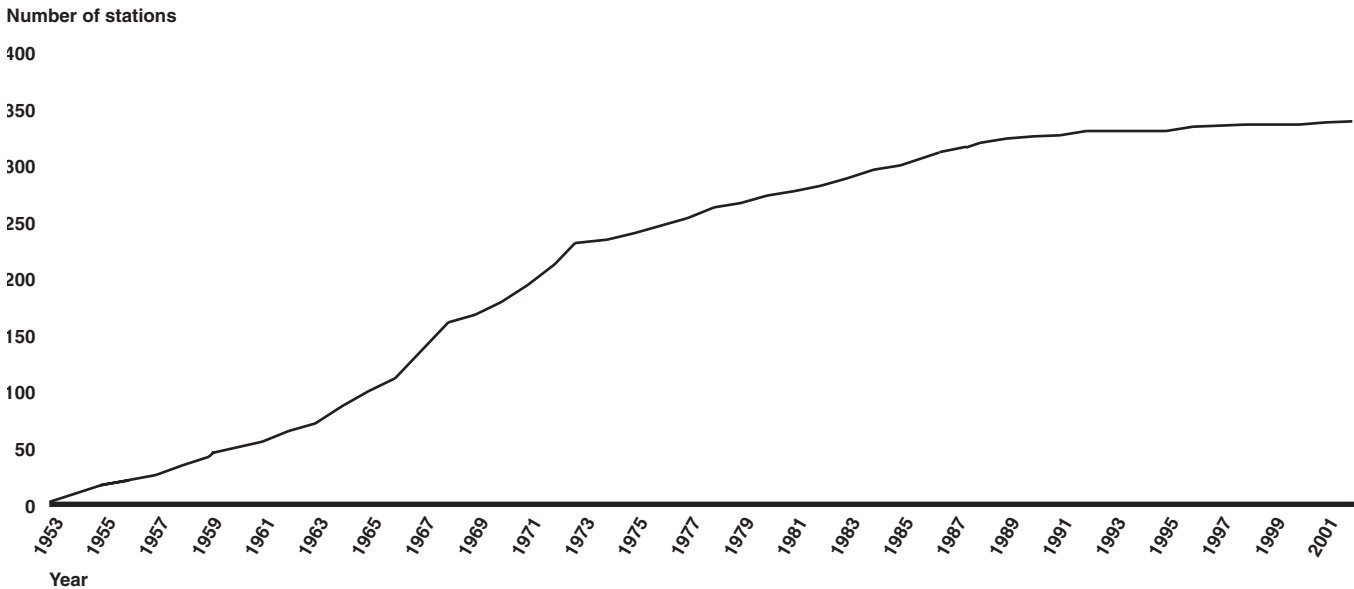
The growth of public television's station infrastructure has been the work of decades, as civic leaders, universities, and state and local governments have marshaled funding and operational support from public and private sources to establish and operate noncommercial educational television stations to serve their communities. Today, there are 349 such stations, owned and operated by 173 licensees, which reach at least 98 percent of households that have a television.<sup>5</sup> Figure 1 illustrates the pace of station growth since 1953, when KUHT (Houston, Texas) became the first noncommercial educational television licensee.

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<sup>4</sup>In addition to the 242 noncommercial assignments, FCC's order allocated 2,053 commercial stations. Since then, the number of reserved channels has been increased incrementally. Sixth Report and Order, 41 FCC 148 (1952).

<sup>5</sup>Licensees can operate more than one station, such as licensees chartered by a state to operate a statewide network. An example of a state network is the Kentucky Authority for Educational Television (KET), which has 16 stations on the air throughout the state.

**Figure 1: Number of Noncommercial Educational Television Stations, 1953-2002**

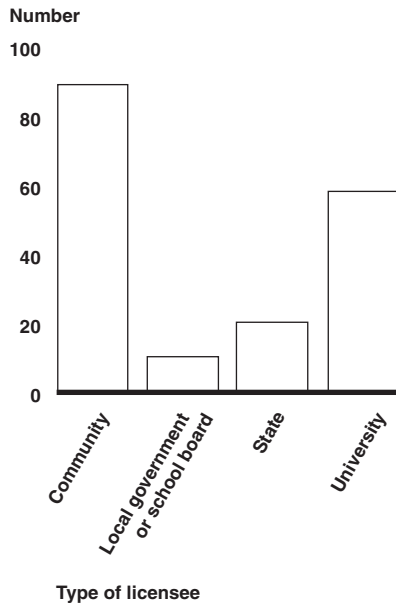


Source: GAO analysis of PBS data.

Most public television stations broadcast under the terms of noncommercial educational television licenses granted to them by FCC. Under FCC rules, licensees of public television stations must be one of the following (see fig. 2):

- A nonprofit educational organization, such as a university or local school board. For example, WKYU (Bowling Green, Kentucky) is a university licensee.
- A governmental entity other than a school, such as a state agency. For example, Mississippi Public Broadcasting (Jackson, Mississippi) is a state licensee and WNYE (New York) is a local licensee.
- Another type of nonprofit educational entity, such as a “community organization.” For example, North Texas Public Broadcasting, Inc., operates KERA (Dallas, Texas).

**Figure 2: Number of Public Television Licensees, 2005**



Source: GAO analysis of SABS data.

Public television stations' most visible activity is broadcasting programs to serve the educational and cultural needs of their communities. Each station's management decides what programs to air to meet the particular needs and tastes of their communities. In addition, stations are typically involved in a variety of nonbroadcast activities that extend their educational and cultural mission and support their local communities. As noncommercial educational licensees, the stations must support themselves financially without reliance on the airing of commercial advertising.<sup>6</sup> Both the stations' activities and the various funding streams that support them are discussed in more detail in later sections of this report.

The stations' overall operational expenses vary greatly depending on a station's size and specific activities. In fiscal year 2005, these expenses

<sup>6</sup>Advertisements are any message or other programming material that is broadcast or otherwise transmitted "in exchange for any remuneration" and is intended to "promote any service, facility, or product" of for-profit entities. 47 U.S.C. §399b(a). See, also 47 C.F.R. §73.621(e).

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ranged from \$881,106 for WVUT (Vincennes, Indiana) to \$174,474,123 for WGBH (Boston). Stations incur expenses associated with

- construction and maintenance of broadcast towers and transmission equipment;
- utilities associated with signal transmission;
- office and studio facilities;
- master control equipment to manage the station's broadcast traffic (see fig. 3);
- production equipment, such as television cameras;
- program production and acquisition fees;
- nonbroadcast community outreach activities; and
- salaries for station personnel.



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**Figure 3: WNET (New York) Master Control Facility**



Source: GAO.

Many stations have formed affinity groups, such as the Organization of State Broadcasting Executives, the Small Station Association, and the University Licensee Association, to deal with common concerns. Stations may also be members of the Association of Public Television Stations, a nonprofit organization established in 1980 to advocate for public television interests at the national level.

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## The Corporation for Public Broadcasting Provides Federal Support to Stations and Other Public Television Entities

Funding has been a continual concern for public television. As noted earlier, the channels reserved for noncommercial educational television in 1952 did not come with any federal funding to get the stations up and running. The first decade of public television saw slow growth in the number of stations. By 1960, 49 stations were broadcasting. To spur the construction of stations, the Educational Television Facilities Act of 1962 was enacted to provide the first direct federal funding for station

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infrastructure.<sup>7</sup> The Educational Television Facilities Act authorized a \$32 million, 5-year program of federal matching grants to licensees for facilities.<sup>8</sup> The program, however, did not cover stations' operational expenses. In 1965, the Carnegie Corporation sponsored a commission to study educational television's financial needs. As recommended in the Carnegie Commission's 1967 report, President Lyndon Johnson proposed, and the Congress enacted, the Public Broadcasting Act, which amended the Communications Act to reauthorize funding for facilities and equipment grants under the Educational Television Facilities Act and to authorize additional federal funding for public television through a new entity—CPB.<sup>9</sup>

CPB was authorized under the Public Broadcasting Act to be established as a nonprofit corporation to facilitate the growth and development of both public television and public radio, along with the use of these media for instructional, educational, and cultural programming. This private corporation structure was to afford “maximum protection from extraneous interference and control.”<sup>10</sup> CPB operates under the provisions of the Communications Act, and is governed by a board of directors consisting of nine members appointed by the President and confirmed by the Senate. The Communications Act includes a congressional “Declaration of Policy” stating, among other things, that it is in the public interest to encourage the growth of public radio and television, as well as the development of programming that involves creative risks and serves the needs of unserved and underserved audiences, particularly children and minorities. The declaration also states that public telecommunications services (including public television and radio) constitute a valuable local community resource for addressing national concerns and local problems, and that it is in the interest of the federal government to ensure that all citizens have access to these services.<sup>11</sup>

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<sup>7</sup>Pub. L. No. 87-447, 76 Stat. 64 (1962).

<sup>8</sup>This program was originally administered by the Department of Health, Education, and Welfare to provide grants. It was later moved to NTIA in the Department of Commerce, which administers the program today.

<sup>9</sup>Public Broadcasting Act of 1967, Pub. L. 90-129, 81 Stat. 365 (1967).

<sup>10</sup>47 U.S.C. §396(a)(10).

<sup>11</sup>47 U.S.C. §396(a)(1-10).

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CPB's main responsibility is distributing congressionally appropriated funds to benefit public broadcasting (both public television and public radio).<sup>12</sup> CPB allocates its appropriated funds (which constitute virtually its entire budget) in accordance with the provisions of the statute.<sup>13</sup> The statute directs CPB to allocate yearly 6 percent of its appropriated funds for "system support" (largely royalty fees, station interconnection costs, and projects and activities to enhance public broadcasting) and not more than 5 percent for CPB's administrative expenses. Of the remaining funds (about 89 percent), 25 percent is to be allocated for public radio and 75 percent for public television. There is a further division of the funds for public television: 75 percent is to be made available for distribution to station licensees and 25 percent for national programming. Because the distribution formula is defined by statute, changes in CPB's yearly appropriation affect both public television and public radio licensees.

The principal mechanism by which CPB distributes federal funding to public television licensees is the Community Service Grant program.<sup>14</sup> CPB currently administers the program by providing each licensee that operates an on-air public television station with a "basic" grant of \$10,000. In addition to the basic grant, eligible licensees receive two component grants in their Community Service Grant—a "base" grant and an "incentive" grant. Base grants are determined by the statutory allocations noted above, CPB's annual appropriation, the number of licensees eligible for grants, and a fixed grant funding level set by CPB's board of directors. Incentive grants are designed to encourage stations to maintain and stimulate new sources of nonfederal funding support. Accordingly, the size of an incentive grant depends on the amount of revenues that an individual licensee raises from

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<sup>12</sup>In passing the Public Broadcasting Act, the 90th Congress saw annual appropriations for CPB as a temporary measure for providing funding support for public broadcasting pending the development and adoption of a long-term financing plan. Various long-term financing proposals have been suggested over the years, without a consensus being reached. In the absence of a long-term financing plan, CPB has continued to receive nearly all its budget in the form of annual federal appropriations. Since 1976, the Congress has provided a 2-year advanced appropriation for CPB.

<sup>13</sup>47 U.S.C. §396(k).

<sup>14</sup>Statutory provisions requiring CPB to distribute funds directly to licensees were first enacted in 1975. See, Public Broadcasting Financing Act of 1975, Pub. L. No. 94-192, 89 Stat. 1099. 47 U.S.C. §§396(k)(5), (6) and (7).

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nonfederal sources.<sup>15</sup> (See app. II for detailed information on the components of Community Service Grants.)

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### The Public Broadcasting Service Is a Nonprofit Organization That Provides Technical and Programming Support to Stations

One of the goals of the Public Broadcasting Act was to establish a system to interconnect the individual public television stations for the distribution of programming. The Communications Act, as amended by the Public Broadcasting Act, authorizes CPB to assist in the establishment and development of one or more interconnection systems, but in keeping with the concept of local control, CPB is expressly prohibited from owning the interconnection systems or from producing, scheduling, or disseminating programs.<sup>16</sup> To fill these needs, CPB worked with the stations and other stakeholders to create PBS in 1969 as an entity for managing an interconnection system and acquiring and distributing programs. PBS was established as a private, nonprofit organization made up of licensees of noncommercial television stations. Today, nearly all public television licensees have chosen to be members paying assessments for access to PBS national programming. PBS is governed by a board with a majority of members representing stations. PBS's activities and services include the following:

- acquiring and promoting the programs for children's and prime-time broadcast that make up PBS's "National Programming Service;"
- operating a satellite-based interconnection system for distributing programming to member stations for broadcast to their local communities;
- providing educational services, such as its Web-based TeacherSource; and
- assisting member stations with fund-raising and development support, as well as a variety of engineering and technology development issues, such as the digital transition.

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<sup>15</sup>For a more detailed explanation of the allocation and distribution process, see GAO, *Telecommunications: Issues Related to Federal Funding for Public Television by the Corporation for Public Broadcasting*, [GAO-04-284](#) (Washington, D.C.: Apr. 30, 2004).

<sup>16</sup>47 U.S.C. §396(g)(3).

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As a result of agreements with the stations at the time of its creation, PBS was authorized to coordinate the development of a national program schedule, but not to produce broadcast programming of its own. Programming comes from individual public television stations, outside production companies, and independent producers. PBS selects programs to be included in its National Programming Service and distributes them to stations via the interconnection system. Stations exercise substantial discretion over programming decisions and are free to choose which of these programs to broadcast.

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## A Variety of Entities Produce and Provide Public Television Programs

Television production involves developing and funding an individual program or series from an initial concept to a finished product. Producers of programming for public television are both internal to public television, such as producing stations, and external to public television, such as outside producers.

**Producing Stations.** A small number of the larger public television stations regularly produce and coproduce programs and series designed for national audiences that are included in PBS's National Programming Service. Examples include WGBH (Boston): *NOVA*, *Mystery!*, *Frontline*, and *Masterpiece Theatre*; WNET (New York): *American Masters*, *Great Performances*, and *Nature*; WETA (Arlington, Virginia): *The NewsHour with Jim Lehrer* and *Washington Week*; and OPB (Portland, Oregon): *History Detectives* and *The New Heroes*. Other public television stations may, from time to time, produce a show that is chosen by PBS for national broadcast or by individual stations for local broadcast.

**Local Production.** Aside from broadcasting programs developed for a national audience, stations produce and broadcast their own local programs that are designed to meet the special needs and interests of their individual communities. Because program production can be expensive, the amount of a station's local production is closely tied to its budgetary resources and underwriting support from the business community. Examples of such locally produced programs include WVPT's (Harrisonburg, Virginia) farm report, *Rural Virginia*, and WTTW's (Chicago) showcase of local events and people, *Chicago Tonight*.

**Outside Producers.** These producers are not public television entities but are independent production companies and individual producers who create programming that is acquired by PBS or individual stations for their broadcast schedules. One such production company is Sesame Workshop,

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the producer of *Sesame Street*. Although this long-running program has become strongly identified with public television and PBS, Sesame Workshop is a nonprofit educational organization. (See app. IV for a description of Sesame Workshop.) An example of a for-profit production company is HIT Entertainment, the producer of shows such as *Barney & Friends* and *Bob the Builder*. There are also independent producers of public television programming, who are generally not affiliated with a studio, a television station, or a major production company. Ken Burns, for example, has produced some of public television's best-known series, such as *The Civil War*, *Baseball*, and *Jazz*, as well as profiles of notable Americans, such as Mark Twain and Frank Lloyd Wright. International producers are another source of programming. British productions, in particular, have been a regular feature of public television for decades.

**The Independent Television Service (ITVS).** In 1988, the Congress directed CPB to provide adequate funds to an independent television production service.<sup>17</sup> Pursuant to this mandate, CPB provides annual funding to ITVS. ITVS funds, distributes, and promotes new programs developed by independent producers primarily for public television. ITVS looks for proposals that increase diversity on public television and present a range of subjects and viewpoints that complement and provide alternatives to existing public television offerings. An example of ITVS's programs include *And Thou Shalt Honor. . .*, which explores the increasing role of caregiving for elderly Americans.

**Non-PBS Distributors of Programming.** Although PBS is the principal distributor of children's and prime-time shows for its member stations, other distributors also provide stations with programs. One is American Public Television (APT), which distributes shows such as *Lidia's Italian-American Kitchen* and *Rick Steves' Europe*. Another is the National Educational Telecommunications Association (NETA), which distributes shows such as *This is America with Dennis Wholey*. Stations can also acquire broadcast rights from international distributors.

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<sup>17</sup>47 U.S.C. §396(k)(3)(B)(i).

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## Public Television Stations Provide a Variety of National and Local Programs and Services

Public television stations broadcast a mix of national and local programs. PBS prime-time and children's programming constitute a majority of broadcast hours for most public television stations. However, stations supplement these programs with both locally produced and instructional programming to meet the needs of their communities. In addition to programming, public television stations provide a variety of nonbroadcast services. Stations provide educational services, including programs to help promote literacy and facilitate teacher training. Some stations also provide civic engagement and health outreach services. Finally, many stations provide emergency-alert services to facilitate communication among public safety officials and between public safety officials and the public.

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## Public Television Stations Provide a Variety of National and Local Programming

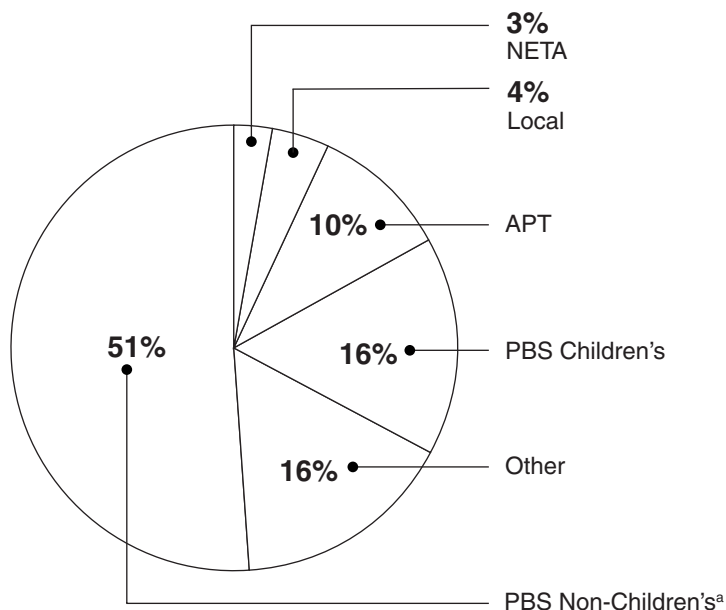
Public television stations produce, acquire, and broadcast programs from a variety of sources. According to the Communications Act, public television programming should, among other things, (1) serve educational, cultural, and instructional purposes; (2) address the needs of unserved and underserved audiences, particularly children and minorities; and (3) serve local and national interests.<sup>18</sup> (See app. III for the demographic characteristics of public television viewers.) As we mentioned earlier, each station decides what programs to broadcast to meet the needs and tastes of its communities. Figure 4 illustrates the percentage of broadcast time filled from various program sources. On average, public television stations use PBS programs for 67 percent of all broadcast hours. To a far lesser extent, stations rely on APT and NETA for nationally distributed programming. Finally, stations dedicate about 4 percent of broadcast hours to local programs.<sup>19</sup>

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<sup>18</sup>47 U.S.C. §396(a).

<sup>19</sup>Other sources of programming include Annenberg Media; other public television stations; and international sources, such as the BBC.

**Figure 4: Percentage of Total Broadcast Hours Filled from Various Sources, 2005**



Source: GAO analysis of SABS data.

<sup>a</sup>“PBS Non-Children’s” includes programming from the National Programming Service (excluding children’s programming), the Station Independence Program, PBS Plus, and other types of PBS program acquisitions.

The DTV transition expands the programming opportunities for public television stations through multicasting. For example, in the Washington, D.C., television market, WETA (channel 26) broadcasts 26.1, 26.2, 26.3, and 26.4, or four separate digital video signals in addition to its analog signal, expanding the amount of programming that WETA can broadcast. Among the stations we contacted that are broadcasting a digital signal, most are simulcasting (or repeating) their analog signal on one of these digital signals. Most stations we contacted that broadcast in digital also provide additional programming streams such as “PBS HD,” PBS’s high-definition programming service; “World,” an aggregation of PBS and other nonfiction programs; and “Create,” lifestyle and how-to programs. In addition, some stations offer instructional or regional programming. For example, KET (Lexington, Kentucky) offers two instructional channels for Kentucky schools and KAMU (College Station, Texas) offers “The Research Channel.” KTCA (St. Paul, Minnesota) offers “Minnesota Channel,” which features a variety of programming that is from or about Minnesota and its close neighbors, and WFSU (Tallahassee, Florida) provides “The Florida



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Channel,” a C-SPAN-type channel focusing on Florida. Some station officials with whom we spoke indicated that their future multicasting plans include providing a broader range of programming that is more tailored to the needs of their communities. For example, some stations indicated that they plan to offer additional programming from packaged programming streams, such as “V-me,” a channel planned for launch in early 2007 that will feature Spanish language programs on a variety of topics, or “MHz WORLDVIEW,” which offers international programming. In addition, some stations plan to create their own programming streams tailored to local audiences. For example, WYES in New Orleans, Louisiana, is collaborating with local organizations to develop a tourist-oriented channel, and South Dakota Public Broadcasting (Vermillion, South Dakota) is working with local and state organizations to create a channel that would focus on instructional programming for classroom use during the day and children’s programs in the evening.

We identified several types, or streams, of programming broadcast by public television stations. These streams of programs include PBS non-children’s, children’s, local, and instructional programming. While most public television stations share some common programming, such as PBS Primetime and PBS Kids, additional programming choices, such as local and instructional programming, vary from station to station.

**PBS Programming.** Almost all public television stations carry PBS programming. PBS programming represents about half of the broadcast hours provided by public television stations and is a cost-effective approach to acquire and broadcast programming.<sup>20</sup> Most PBS programming is provided via PBS’s National Programming Service, which features a variety of educational and cultural topics. PBS takes a multimedia approach to expand the reach of its programming, including Web sites, teachers’ guides, and lesson plans for many programs. Figure 5 illustrates the major program themes included in PBS’s National Programming Service, excluding children’s programming, which is addressed in the next section. These themes include the following:

- Public affairs and news programs, such as *The NewsHour with Jim Lehrer*, long-form coverage and analysis of national news; *Nightly*

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<sup>20</sup>In 2005, stations paid approximately \$86 per hour for PBS programming versus an average of \$1,785 per hour for local programming that they broadcast.

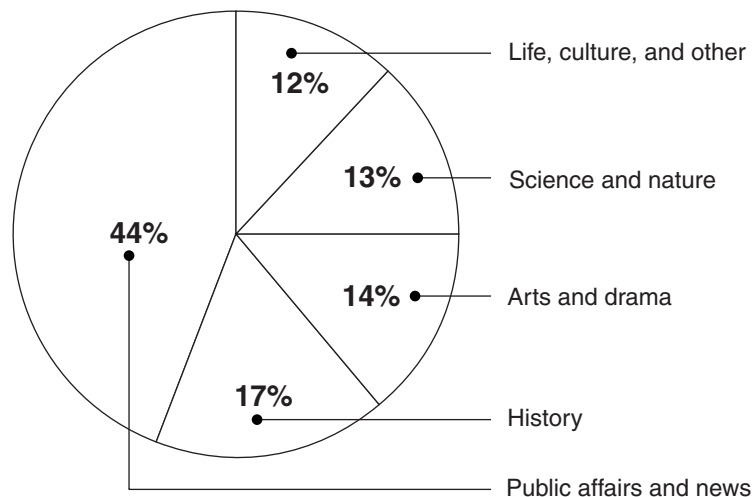
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*Business Report*, business and economic news; and *Frontline*, long-form public-affairs documentaries.

- Science and nature programming, such as *Nova*; *Nature*; and *Scientific American Frontiers*, covering new technologies and discoveries in science and medicine.
- Arts and drama programming, such as *American Masters*, specials on American cultural artists; *Masterpiece Theatre*, a drama series featuring works by classic and contemporary writers; and *Great Performances*, broadcasts of music, theater, and dance performances.
- History programming, such as *American Experience*, *Ken Burns' American Stories*, and *History Detectives*.
- Life, cultural, and other programming, such as *Religion & Ethics Newsweekly*, news on and analysis of religion and ethics; *Independent Lens*, documentaries and dramas featuring diverse stories; and *Wide Angle*, international current affairs documentaries.

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**Figure 5: Types of Programming in PBS's National Programming Service (Excluding Children's Programming), 2005**



Source: GAO analysis of PBS data.

**Children's Programming.** Children's programming constitutes an important portion of broadcast time, and many station officials told us that

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it is one of the strengths of public television.<sup>21</sup> We found that children's programming accounts for 16 percent of all program hours broadcast by public television stations. Children's programming represents over 40 percent of the weekday programming schedule for many stations. Many stations broadcast about 8 to 10 hours of children's programming per weekday, often beginning before 8:00 a.m. and ending between 5:00 p.m. and 6:00 p.m. Stations often design their weekday schedule to include programming oriented toward the prekindergarten age group during the school day and toward school-age children, after school.

PBS Kids features nonviolent, curriculum-based content that promotes skills such as literacy, math, problem solving, and social skills. Several prominent examples of children's programming include *Sesame Street*, which encourages the development of preschool level skills, such as those needed for reading, writing, math, and science; *Between the Lions*, which fosters literacy skills among 4 to 7 year olds; *Maya & Miguel*, which encourages children to appreciate other cultures and builds understanding of English among 6 to 11 year olds; and *Cyberchase*, which promotes math problem-solving skills among 8 to 12 year olds. PBS and member stations leverage the concepts taught in these and other children's programs via Web resources, including lesson plans, activities, parent guides, book suggestions, and links to other resources related to the skills promoted in specific programs.

**Local Programming.** Most public television stations produce and broadcast some local programming in order to meet specific needs of their audiences. On average, local programming represents about 4 percent of total broadcast hours for public television stations. Some stations we contacted indicated that they would like to provide more local programming, but that local production is expensive. Although local programming does not constitute a large percentage of the programming provided by public television, some stations we contacted emphasized the unique nature of public television's local programming or the importance of local programming to their communities. Some stations mentioned that they are the only source in their community of local programming unrelated to news or sports. Stations we contacted cited many examples of local programming, such as the following:

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<sup>21</sup>"PBS Kids" programs constitute most of the children's programming broadcast by public television stations.

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- Many stations provide programming on local and state history and public affairs. For example, KET (Lexington, Kentucky) covers the Kentucky state legislature live; many stations provide state election coverage; and, of the stations we contacted, the majority provide at least one public affairs program, such as KAID's (Boise, Idaho) *Dialogue*.
  - Some stations produce local programming to enhance access to arts and cultural amenities. WBRA (Roanoke, Virginia) produces a virtual excursion show introducing viewers to local sites, a weekly open microphone show featuring soloists and small groups, and a weekly concert series showcasing old-time and bluegrass music from the region.
  - Some stations broadcast local events and residents that are not covered by national networks. For example, KNCT (Killeen, Texas) broadcast the arrivals of and ceremonies for the 1st Cavalry Division and the 4th Infantry Division after their return from Iraq; KOOD (Bunker Hill, Kansas) broadcasts some local high school sporting events; and KNME (Albuquerque, New Mexico) produces documentaries on the art, culture, history, and cultural diversity of New Mexico.
  - Some stations also provide programming that gives underserved viewers access to services and information they might otherwise have difficulty obtaining. For example, several stations broadcast call-in shows, such as *Doctors on Call*, *Lawyers on the Line*, and *Homework Hotline*, during which viewers can ask questions of health-care professionals, lawyers, and teachers, respectively. Other similar programs include *Healthy Minds*, a WLIW (Plainview, New York) program about mental illness; specials on methamphetamine, such as *Meth in Wisconsin* from WPTV (Madison, Wisconsin); and topics such as affordable housing on KCWC's (Riverton, Wyoming) *Wyoming Perspectives*.

**Instructional Programming.** Many public television stations provide formal instructional programming to meet local educational needs. Instructional programming constitutes about 4 percent of total broadcast hours. The amount and type of instructional programming offered varies from station to station.

- KET (Lexington, Kentucky) provides instructional programming for students in grades K through 12 and adults. For grades K through 12, KET produces AP courses, virtual field trips, and a news program; for

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### WCTE Produces a Variety of Local Programming for the Rural Upper Cumberland Region



Source: WCTE.

WCTE (Cookeville, Tennessee) produces over 200 hours of local programming annually, including *Upper Cumberland Business Profiles*, featuring area business leaders; *Kaleidoscope*, a magazine-type program highlighting community events; *Tennessee Sportsman*, featuring hunting and fishing; *Heart and Soul*, a concert series; *Road Trips*, highlighting regional travel destinations; a book review series; coverage of the Smithville Fiddlers' Jamboree, the Putnam County Fair, and the Cookeville Christmas Parade; local high school and college sports; *High School Academic Bowl*, covering 30 competitions annually; *House Call*, a medical call-in program; and an educational series on sexual abuse.

adults, KET provides programming for adult basic education, GED preparation, workplace essential skills, and childcare certification training.<sup>22</sup>

- WETP (Knoxville, Tennessee) offers 6 hours of instructional programming per day, 175 days per year, for grades K through 12 and teachers. In addition, WETP provides “in-service” professional growth programming for teachers and administrators, including programs such as *Reading Rockets: Launching Young Readers*; *Managing Your Classroom: Supporting Students at Risk*; and *Principals & Leaders: Set High Expectations & Standards*.
- WYCC (Chicago), licensed to the City Colleges of Chicago (CCC), offers 5 ½ hours of instructional programming each weekday. In 2 ½ years, students can fulfill virtually all requirements for an associate’s degree from CCC by participating in WYCC’s telecourses.

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## Public Television Stations Provide a Variety of Nonbroadcast Services

Public television stations provide a variety of nonbroadcast services to meet local and national needs. As set forth in the Communications Act, public television stations constitute local community resources for using electronic media to address national concerns and solve local problems through outreach and other community programs.<sup>23</sup> Some public television services are federally funded and centrally facilitated, but involve some local implementation. These services include Ready To Learn, TeacherLine, and the Digital Emergency Alert System, which address both national and local needs, such as literacy, teacher training, and emergency response. Other services are developed and administered at the local level to meet

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<sup>22</sup>KET developed much of its programming for Kentucky, but other public television stations throughout the United States also broadcast its programming.

<sup>23</sup>47 U.S.C. §396(a)(8).

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**KLVX Provides Instructional Programming and Services for Clark County, Nevada**



Source: Vegas PBS.

KLVX (Las Vegas, Nevada) provides instructional programming and services for Clark County via multiple media and multiple delivery mechanisms, including a media center with over 15,000 items available for daily delivery to local schools; a free-loan, captioned media library available to deaf or hard-of-hearing students and adults, their parents, and their caregivers; free video streaming of instructional programming aligned with state standards; and a "Virtual High School" with courses for students throughout the state, accessible via broadcast, DVD, video, and the Internet.

needs of the station's communities. We identified four primary types of nonbroadcast services: educational, civic engagement, health, and emergency services.

**Educational Services.** Educational services extend the value of public television's electronic resources, especially broadcast programming and Web resources, to help fulfill a variety of local and national educational needs. These services are rooted in the historical education mission of public television and are the most common type of services provided by the stations we interviewed. For the most part, public television's educational services are designed to align with local and national standards.

Public television's centrally facilitated educational services help prepare children for school, train teachers, and provide teaching resources; these services often rely on federal funding and involve some local implementation. The Department of Education's Ready To Learn initiative was a joint initiative of PBS and 149 public television licensees and included educational programming, workshops, books and magazines, Web sites, and classroom resources. Until recently, almost all public television licensees provided local outreach in association with Ready To Learn, including workshops for over 140,000 caregivers and teachers annually, focusing on linking concepts presented in programs to skill-building activities. Many aspects of the program are being continued or modified under the new Ready To Learn and Ready to Lead in Literacy initiatives, with less emphasis on local-level workshops and greater emphasis on educational programming and more geographically limited, need-targeted outreach. Another initiative featuring PBS and station involvement is TeacherLine, which is funded through the Department of Education's Ready to Teach program. TeacherLine provides pedagogical and content training for teachers, consistent with national and state standards. Over 22,000 teachers in all 50 states and the District of Columbia enrolled in TeacherLine courses from 2000 through 2005. While PBS provides access to the online courses, several stations customize or supplement course modules for teachers in their region, and many higher education institutions provide graduate credit for TeacherLine courses. In addition to these initiatives, PBS offers TeacherSource, a Web site that provides at least 3,000 free lesson plans, designed to be consistent with individual state education standards, for teachers of grades pre-K through 12.

At the local level, stations initiate a variety of other educational services. Station officials whom we spoke with cited many examples of educational services, including the following:

- Stations increasingly offer instructional programming and other instructional resources via multiple platforms, especially the Internet. Some station officials said that they offer instructional resources, such as advanced placement courses, in order to provide underserved regions with more equitable access to instructional resources.
- Many stations conduct the “Reading Rainbow Writers and Illustrators Contest” in their viewing areas. In addition, some stations organize and broadcast regional high school knowledge bowls. KLCS (Los Angeles) organizes an awards program that honors teachers and students who create videos that advance the California State Content Standards.
- Many stations, especially university licensees, provide internship and employment opportunities for students.

**Civic Engagement and Community Building.** Many of public television’s nonbroadcast services foster civic engagement and community building. For example, stations we contacted mentioned the following services:

- SDPB (Vermillion, South Dakota) provides video streams of all state legislature committee meetings and audio streams of Public Utilities Commission meetings on its Web site.
- KYUK (Bethel, Alaska) documents the history, culture, and lifestyle of the Yup’ik people of Western Alaska. The station is transferring its large archive of documentaries and raw footage—including oral histories, traditional dances and ceremonies, meetings, and other materials—to digital media in order to preserve these resources and make them available.
- WKYU (Bowling Green, Kentucky) organized a “Living Will” symposium that attracted 500 people who created living wills with the assistance of an attorney at no charge.

**Health Outreach.** Many stations provide educational programming on health issues combined with outreach programs to expand the reach of the messages. Two examples follow:

- WTTW (Chicago) is one of many public television stations that offered outreach in association with the broadcast of *A Lion in the House*, a documentary addressing childhood cancer. WTTW partnered with the

**WNMU News Program Is Produced, Directed, and Hosted by an All-Student Crew**



Source: WNMU, Northern Michigan University.

*Public Eye News*, a WNMU (Marquette, Michigan) news program, provides news for the Upper Great Lakes Region and training opportunities for students. Northern Michigan University students are responsible for all aspects of the newscast. The program features local news stories, sports highlights, weather reports, and national news. Several other public television stations provide student-run news programs.

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Chicago Pediatric Cancer Care Coalition to offer referral support and answer inquiries about childhood cancer services.

- Numerous public television stations provided outreach in association with the program *The Forgetting*, a documentary about Alzheimer's disease. WNET (New York) provided a range of services, including screenings and panel discussions for the general public and for community service and health-care professionals, Web materials, and print materials for outreach events and partner organizations.

**Emergency Services.** Many public television stations have integrated or will soon integrate emergency services into the public services they provide. At least 26 public television stations in 17 states recently participated in the pilot of a Digital Emergency Alert System (DEAS) that is being created by the Department of Homeland Security in coordination with other federal departments and agencies via a cooperative agreement with the Association of Public Television Stations. The new system will improve the ability of emergency managers and public safety officials to rapidly broadcast emergency information to first responders and the general public. The technology will enable officials to pinpoint to whom the information is sent and can be relayed over a variety of media, such as television, radio, cellular telephones, computers, and personal data accessories.<sup>24</sup> The next phase of the DEAS program includes the extension of the system so that all public television stations can transmit information to local first responders and the public, potentially enabling near universal service throughout the United States once the program is complete.

Many stations have developed other emergency services, often in partnership with local organizations, such as the following:

- To improve community preparedness in the case of flooding of the Red River, Prairie Public Television (Fargo, North Dakota) hosts a "Riverwatch" Web site featuring information provided by government agencies and commercial entities.

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<sup>24</sup>Participation of commercial mobile service providers, such as cellular telephone companies, is dependent on agreements between those companies and FCC and the Department of Homeland Security.



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- Some stations, such as MAINE (Lewiston, Maine), provide AMBER Alerts, emergency messages broadcast when a law enforcement agency determines that a child has been abducted and is in imminent danger.

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## Individuals, Businesses, and the Federal and State Governments Provide the Majority of Funds for Public Television

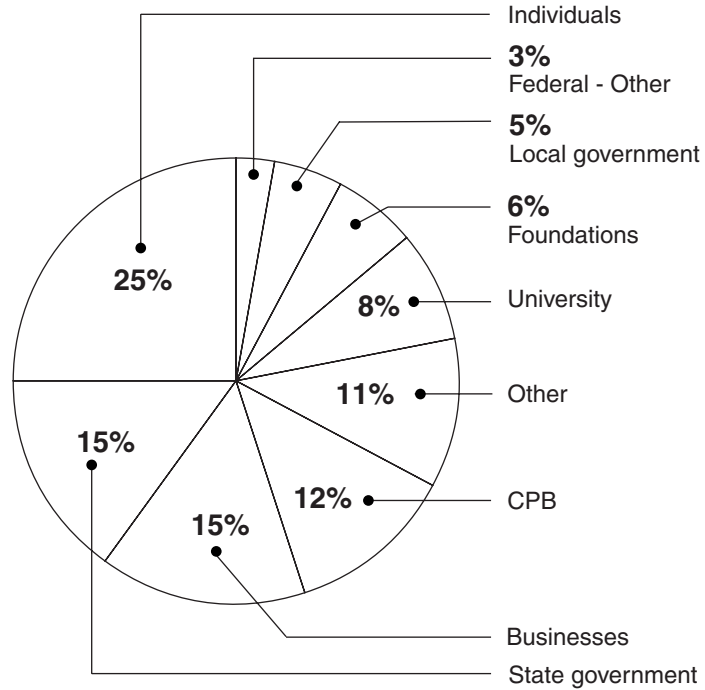
Public television receives funding from many sources, the most important of which are individuals, businesses, and the federal and state governments. In 2005, public television licensees reported annual revenues of \$1.8 billion, of which 15 percent came from federal sources. However, the relative sources of funds differ significantly from licensee to licensee; licensees with less operating revenue (small licensees) and licensees that provide service in small television markets receive a larger percentage of revenues from federal sources than do licensees with more operating revenue (large licensees) and licensees that provide service in large television markets. In addition to basic support provided through CPB, the Congress provides funds for public television to help licensees complete the DTV transition. Licensees consider federal funding important for their operations, and many suggested that its elimination would lead to staff reductions and less local programming and services. Finally, federal funds help support PBS and the production of national programming.

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## Public Television Licensees Receive Funding from Many Sources; However, Small Licensees and Licensees in Small Television Markets Exhibit Greater Dependence on Federal Funds

Public television licensees receive the majority of their revenues from four sources: individuals, businesses, and the federal and state governments. In 2005, the 177 public television licensees reported revenues of \$1.8 billion. Of the \$1.8 billion, contributions from individuals account for 25 percent, and business support, state support, and federal support each account for 15 percent. The remaining sources make up about 30 percent of licensees' total revenues. Figure 6 illustrates the sources of revenues for public television licensees in 2005.

**Figure 6: Percentage of Revenue from Various Sources for Public Television Licensees, 2005**



Source: GAO analysis of SABS data.

The sources of revenues vary according to the type of licensee—community, local, state, or university. Table 1 lists the sources of revenues for different types of licensees in 2005. Community licensees received a significant percentage of revenues from individuals, businesses, and the federal government through CPB. Local licensees received a large percentage of revenues from local governments, state licensees received a large percentage of revenues from state governments, and university licensees received a large percentage of revenues from universities. The percentage of revenues from the federal government varied modestly across the types of licensees, with the state licensees receiving the lowest percentage.

**Table 1: Percentage of Revenue from Various Sources and Type of Public Television Licensee, 2005**

Source	Type of licensee			
	Community	Local	State	University
Individuals	30.7	14.9	14.1	15.8
Business	17.0	12.5	5.9	6.0
State government	11.5	8.6	43.9	11.8
Federal government—CPB	19.3	19.2	15.4	19.8
Foundation	5.5	1.8	2.6	2.8
University	2.5	0.6	1.8	34.8
Local government	2.4	36.4	7.5	3.7
Other	11.1	6.0	8.8	5.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: GAO analysis of SABS data.

Note: The percentages refer to the mean percent per licensee to account for differences in the size of licensees.

The percentage of revenue received from the federal government through CPB decreases significantly as the size of the licensee increases;<sup>25</sup> in particular, CPB distributes funds through a statutory formula designed to consider the financial needs and requirements of stations and to maintain and stimulate new sources of nonfederal support.<sup>26</sup> Table 2 provides data for 2005 on the sources of revenues for licensees of different sizes. For the smallest licensees, those with revenues of less than \$3.0 million, federal support through CPB represented 33 percent of the average licensee’s revenues. In fact, federal support provides over 40 percent of the revenues for 9 licensees.<sup>27</sup> Alternatively, among the largest licensees, those with revenues exceeding \$10.7 million, federal support made up about

<sup>25</sup>For purposes of classifying the size of licensees, we consider total licensee operating revenues.

<sup>26</sup>47 U.S.C. §396(k)(6)(B).

<sup>27</sup>These licensees were KYUK (Bethel, Alaska), KEET (Eureka, California), KSMQ (Austin, Minnesota), KRSC (Claremore, Oklahoma), WCTE (Cookeville, Tennessee), KCOS (El Paso, Texas), KMBH (Harlingen, Texas), KNCT (Killeen, Texas), and KOCV (Odessa, Texas).

10 percent of total revenues for the average licensee.<sup>28</sup> Large licensees received a greater percentage of revenues from individuals, businesses, state governments, and foundations than did small licensees.

**Table 2: Percentage of Revenue from Various Sources and Size of Public Television Licensee, 2005**

Source	Licensee operating revenues (in millions)			
	Less than \$3.0	\$3.0 to \$5.5	\$5.5 to \$10.7	More than \$10.7
Individuals	15.9	23.7	26.5	26.0
Business	9.5	12.4	12.6	13.1
State government	11.2	12.9	16.6	19.5
Federal government—CPB	32.9	18.7	14.3	10.3
Foundation	4.3	2.3	3.5	6.0
University	13.9	19.4	10.0	8.3
Local government	3.0	2.3	10.1	6.0
Other	9.3	8.3	6.4	10.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: GAO analysis of SABS data.

Notes: The number of licensees in each category is 44 for “Less than \$3.0,” 44 for “\$3.0 to \$5.5,” 44 for “\$5.5 to \$10.7,” and 45 for “More than \$10.7.” The percentages refer to the mean percent per licensee to account for differences in the size of licensees.

A similar trend appears when we consider the size of the television market where the licensee operates. In larger television markets, licensees have access to larger numbers of individual donors, businesses, and foundations and thus would generally be less reliant on federal support. Table 3 provides data for 2005 on the sources of revenues for licensees in television markets of different sizes. On average, among licensees in the smallest television markets, those with revenues of less than \$46.2 million, federal support through CPB represented about 27 percent of revenues.

<sup>28</sup>While federal support accounts for a smaller percentage of total revenues for large licensees than for small licensees, large licensees nonetheless received more federal support, on average, than small licensees. Licensees with total revenues less than \$3.0 million received \$656,573 on average from CPB while licensees with total revenues greater than \$10.7 million received \$2.5 million from CPB. CPB staff attributed this outcome to the Incentive Grant component of the Community Service Grant, which is designed to encourage licensees to acquire nonfederal support.

Conversely, for licensees in the largest television markets, those with revenues exceeding \$313.0 million, federal support made up an average of 12 percent of revenues. As anticipated, licensees in large television markets received a larger proportion of revenues from individuals, businesses, and foundations than did licensees in the smallest television markets.

**Table 3: Percentage of Revenues from Various Sources and Size of Television Market, 2005**

Source	Size of television market (in millions)			
	Less than \$46.2	\$46.2 to \$107.6	\$107.6 to \$313.0	More than \$313.0
Individuals	19.5	23.9	22.5	27.8
Business	8.3	9.7	14.1	14.7
State government	10.6	15.3	19.6	14.2
Federal government—CPB	27.2	21.6	14.7	12.3
Foundation	2.8	4.0	4.3	5.4
University	18.5	15.0	9.6	9.9
Local government	2.8	3.7	7.3	6.8
Other	10.3	6.8	7.9	8.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: GAO analysis of SABS data.

Notes: We used total commercial television advertising revenue to measure the size of a television market. The number of licensees in each category is 42 for “Less than \$46.2,” 43 for “\$46.2 to \$107.6,” 43 for “\$107.6 to \$313.0,” and 45 for “More than \$313.0.” We did not receive information on television market advertising revenue for four licensees. The percentages refer to the mean percent per licensee to account for differences in the size of licensees.

## Most Licensees Received Federal Support for the DTV Transition

For commercial and noncommercial television stations, the DTV transition requires a substantial capital investment. In 2002, we reported that stations would incur capital costs of approximately \$3.0 million each for the DTV transition.<sup>29</sup> Stations must overhaul and replace the transmitting equipment, including perhaps replacing the antenna, and studio equipment.

<sup>29</sup>See, GAO, *Telecommunications: Many Broadcasters Will Not Meet May 2002 Digital Television Deadline*, [GAO-02-466](#) (Washington, D.C.: Apr. 23, 2002), p. 16.

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In addition, during the DTV transition, stations must operate both an analog and digital transmitter, which increases the stations' operating expenses.<sup>30</sup>

To help public television licensees complete the DTV transition, since 1999, the Congress has appropriated nearly \$400 million for CPB, NTIA, and the Rural Utilities Service (RUS) of the Department of Agriculture. CPB operates the Digital Distribution Fund, which provides grants for digital transmission equipment necessary to comply with FCC's regulations. In 2006, CPB offered grants of \$500,000 for each transmitter, and stations were required to match 25 percent of the cost of the project.<sup>31</sup> NTIA, through its Public Telecommunications Facilities Program, also provides grants to licensees. In 2006, NTIA required stations to match 25 percent to 50 percent of the cost of the funded project. Finally, RUS operates the Public Television Station Digital Transition Grant Program. This program provides support for rural licensees and does not require matching funds because of the financial burden of the DTV transition for rural licensees.<sup>32</sup> NTIA officials said that the agency coordinates with officials at CPB and RUS to prevent duplication; however, RUS officials noted that a licensee could receive support from more than one agency, as long as the support funded different equipment.

Licensees with whom we spoke reported receiving support for the DTV transition from a variety of sources. Forty-two of 54 licensees reported receiving some form of support from the federal government. Among the three grant programs, licensees most frequently cited CPB's Digital Distribution Fund and NTIA's Public Telecommunications Facilities Program. In addition to federal support, many licensees reported receiving support from a state government. Licensees also reported receiving funding from universities, licensee capital campaigns, licensee operating funds, and gifts.

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<sup>30</sup>In the Digital Television Transition and Public Safety Act of 2005, Congress set February 17, 2009, as the end date for the DTV transition. Following this date, television stations will no longer transmit an analog signal. Pub. L. No. 109-171, title III, 120 stat. 4, 21 (2006).

<sup>31</sup>CPB can reduce or waive the matching requirement on the basis of need.

<sup>32</sup>In general, the cost of the DTV transition is independent of the size of the licensee—measured in total revenues. Thus, the DTV transition can prove relatively burdensome for licensees with small budgets.

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## Public Television Licensees Consider Federal Funding to Be Important

Twenty-three of the 54 licensees with whom we spoke said that federal funding was important for their operations. In particular, federal funding has several positive attributes for licensees. First, licensees have generally broad discretion with federal funds and therefore can use these funds for general station operations.<sup>33</sup> Funding from other sources, especially foundations, is generally restricted to specific projects or programs, potentially limiting the licensee's ability to respond to changing needs. Second, licensees incur relatively minimal costs to secure federal funding, compared with funding from other sources. Finally, some licensees noted, federal funds are a vehicle to attract other funds. For example, WVPB (Charleston, West Virginia) said that the state government considers federal funding a source of matching support, and the state government is willing to appropriate state funds because the licensee will also receive federal funding.

If federal funding were reduced or eliminated, some licensees would need to reduce their level of service. In a report prepared for CPB, McKinsey and Company projected that in response to a 15-percent reduction in total revenues, licensees would need to reduce staff by 26 percent and reduce local programming by 40 percent.<sup>34</sup> Twelve licensees with whom we spoke noted that another source of funds does not exist that could fill the void that would be left if federal funding were reduced or eliminated. Eleven licensees said that the station would discontinue operations if federal funding were eliminated; these were generally smaller licensees in smaller television markets. However, a larger number (30) said that they would need to reduce staff, local programming, or services. Some licensees noted that they must continue to purchase PBS programming, because this programming attracts viewers and therefore membership and underwriting support. Thus, some licensees would likely reduce local programming, which is more costly to produce. Furthermore, three licensees said that they would need to reduce or eliminate television service to more rural areas of their service territory.

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<sup>33</sup>For example, licensees can use CPB's Community Service Grant funds for the following expenditures: programming and production; broadcasting, transmission, and distribution; program information and promotion; fund-raising and membership development; underwriting and grant solicitation; management and general; and purchasing, rehabilitation, or improvement of capital assets.

<sup>34</sup>*Developing a Sustainable Economic Model for Public Television*, March/April 2003.

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Several licensees with whom we spoke had incurred funding reductions in the past and responded with reductions in staff, local programming, and services. For example, according to three licensees, the state of Tennessee reduced state funding for public television licensees by 9 percent. In response, these licensees undertook the following actions:

- WETP (Knoxville, Tennessee) eliminated instructional programming, delayed sign-on until 3:00 pm, and reduced staff benefits.
- WCTE (Cookeville, Tennessee) reduced staff, staff benefits, and local programming.
- WNPT (Nashville, Tennessee) reduced staff and local programming.<sup>35</sup>

In addition, WNMU (Marquette, Michigan) lost 40 percent of its state support and eliminated 12 staff positions from a total of 36. KLCS (Los Angeles) lost \$1.3 million in support from the Los Angeles Unified School District and eliminated 33 staff positions from a total of 76.

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## Federal Funds Also Support PBS Nationwide Programming

The three largest revenue sources for PBS are underwriting, member station assessments, and CPB and other federal sources. In 2005, PBS's revenues were \$532 million. Of this total, \$192 million, or 36 percent, came from underwriting.<sup>36</sup> PBS also received \$163 million from member station assessments and \$70 million from federal sources, such as funds from CPB.<sup>37</sup> In fiscal years 2000 through 2005, PBS's annual revenues ranged between \$489 million and \$542 million. During this period, member station assessments typically increased on a yearly basis, while funding from the remaining sources varied from year to year. Among licensees with whom we spoke, eight indicated that a reduction or elimination of federal funding could negatively affect PBS programming.

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<sup>35</sup>In response to the state funding reduction, WNPT increased fund-raising, which contributed to a slight increase in membership.

<sup>36</sup>According to PBS, underwriting includes the imputed value of contributions made by corporations, foundations, and others to producers. Thus, it represents the difference between the value of PBS productions and PBS grants to producers. PBS recognizes the underwriting revenue and offsetting expenses when PBS receives the initial program.

<sup>37</sup>PBS received \$107 million in revenue from video, royalties, license fees, investment returns, and other sources. In some instances, these revenues were largely offset by corresponding expenses.



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In 2004, PBS formed the PBS Foundation to increase the long-term stability of the organization. According to PBS staff, the foundation is a 509(a)(3) supporting organization and operates exclusively for the benefit of PBS. The foundation conducts fund-raising activities to support PBS's needs and PBS controls the foundation through various bylaw requirements. According to PBS staff, the foundation has raised over \$17 million, including \$2.4 million from the Ford Foundation for the foundation's operating expenses.<sup>38</sup>

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## Public Television Stations Are Pursuing a Variety of Nonfederal Funding Sources, but Substantial Growth to Offset a Reduction or Elimination of Federal Support Appears Unlikely

While contributions from individual members represent a significant source of revenue, this source is not expected to grow significantly in the future. Alternatively, public television officials consider major giving a source of long-term revenue growth, and CPB has initiated a major giving initiative to cultivate major donations. Foundations provide funding to public television, but generally only support capital and other projects, and not station operations. The trend in underwriting support has been mixed, with some licensees experiencing increases and others decreases. While some licensees favor an easing of the statutory and regulatory restrictions on underwriting activities, many licensees do not share this sentiment. Finally, licensees generally receive minimal revenues from ancillary and miscellaneous activities.

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## Basic Membership Revenue Is Not Expected to Grow Significantly in the Future

Basic membership, or gifts from individuals of less than \$1,000, has been a mainstay of public television for many years. Among the 54 licensees with whom we spoke, several mentioned that their stations began on-air membership campaigns during the late 1960s and early 1970s to increase revenue. Almost all licensees receive contributions from individuals, and with the exception of several local licensees,<sup>39</sup> the licensees with whom we spoke conduct membership campaigns.

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<sup>38</sup>PBS staff said that National Public Radio's (NPR) experience with its foundation, the NPR Foundation, greatly influenced PBS and the PBS Foundation. NPR established its foundation in 1993, and in 2003, it received a gift exceeding \$200 million from Joan Kroc; today, the \$300 million foundation provides resources for NPR to expand its news operations.

<sup>39</sup>Since these licensees rely on local tax dollars for support, they do not ask viewers, and thus taxpayers, to fund the station again through donations.

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While basic membership serves as an important source of revenue for licensees, recent trends indicate that this source of revenue is decreasing. Both the number of members and the average gift size determine the amount of basic membership revenue that a station receives. According to CPB, the number of public television members has decreased from 4.7 million in 1999 to 3.6 million in 2005. At the same time, the average annual gift has increased from \$79 to \$97. As a result, annual basic membership revenue has decreased about \$24 million, or 6 percent, from \$373 million in 1999 to \$349 million.

Several factors appear to be contributing to the decrease in the number of members and basic membership revenue. According to a study prepared by McKinsey and Company for CPB, increased competition for gifts from a growing number of nonprofit entities, more viewer choices, and less familiarity with public television are expected to contribute to declines in the number of members and basic membership revenue. Additionally, the free-rider problem hinders the ability of licensees to acquire members. The free-rider problem refers to the tendency of individuals not to contribute to a service that they can receive free of charge; in the case of broadcast television, individuals can view the station's signal without contributing. Furthermore, officials at licensees with whom we spoke said that increasing the number of members and basic membership revenue is difficult for the following reasons:

- Competition for charitable gifts has increased because more nonprofit entities are seeking gifts.
- Viewers have many more choices since the advent of cable and satellite television and as a result are less familiar with public television than in the past.
- In some areas, a poor local economy limits the number of viewers that are able to make charitable gifts. (See app. III for the demographic characteristics of public television members.)

Several licensees are adopting alternative approaches to increase the number of members and basic membership revenues. Traditionally, licensees purchase a package of programs from PBS—known as the

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Station Independence Program (SIP)<sup>40</sup>—that the stations broadcast during their on-air membership campaigns. However, several licensees said they do not use the traditional SIP programming. Rather, these officials stated that airing programming that viewers most enjoy or local programming, rather than the SIP programming package, could attract more viewers during on-air membership campaigns and thereby increase the number of members and basic membership revenues.<sup>41</sup> Some station officials added that discovering what programming viewers most enjoy and airing that programming could be important to increasing the number of members and basic membership revenues. In addition, some officials told us that involvement in community activities is more important to attracting members and gifts than are on-air membership campaigns.

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## Major Giving Is Seen as Having Potential for Long-Term Growth

To improve the financial sustainability of public television, in 2003, CPB launched a major giving initiative to help stations increase gifts of \$1,000 or more. According to CPB officials, public television lags behind most other nonprofit organizations in designing and implementing campaigns to garner major gifts.<sup>42</sup> For example, in 2005, 13 percent of revenues from members came from gifts of \$1,000 or more. In contrast, CPB noted that other nonprofit organizations receive a much larger share of revenue from major gifts.

Since acquiring major gifts requires an approach much different from traditional membership campaigns, CPB implemented a capacity building program for station staff. Acquiring major gifts requires one-on-one contact with current and potential donors, instead of the retail-oriented effort associated with on-air membership campaigns. The major giving initiative also requires station management and staff alter their traditional roles. For example, the station manager must focus not just internally on station operations, but also externally on fund-raising. The capacity building program consists of four elements:

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<sup>40</sup>SIP includes research, programming, and promotional materials for stations to use during on-air fund-raising.

<sup>41</sup>Public radio adopts this approach to on-air membership campaigns.

<sup>42</sup>Public television considers gifts of \$1,000 or more to be a major gift.

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- team leadership meetings attended by the station's chief executive officer, board members, and chief development officer to involve top station management;
  - curricula delivered via Web lectures once a month for 6 months, with follow-up teleconferences among various station groups to share experiences;
  - on-site consulting to help the stations implement their specific plans; and
  - a set of Web-based tools, including (1) information about best practices and budgeting, (2) on-air spots for station use, and (3) videos to show at donor gatherings.

According to CPB, 110 of 177 licensees are participating in the major giving initiative. Among the 54 licensees with whom we spoke, most are participating, or plan to participate, in the initiative. Several licensees had efforts under way to attract major gifts prior to CPB's initiative; some of these licensees have joined CPB's initiative while others have chosen to continue with their own efforts. Licensees with whom we spoke that have chosen not to participate in the initiative cited several reasons for their decision, including a small number of individuals in their area that have the financial resources to make a major gift and a lack of staff and budgetary resources to undertake the initiative.<sup>43</sup>

According to CPB, early results from the major giving initiative appear encouraging. In 2004, licensees received \$49.3 million in major giving revenue. However, in 2005, the first full year of the major giving initiative, revenue from this source increased by about 3 percent to \$50.8 million. Furthermore, among the first group of licensees participating in the major giving initiative,<sup>44</sup> major giving revenues increased from \$16.2 million in 2004 to \$19.2 million in 2005, or 18 percent in 1 year. CPB also cited several examples of major gifts: KCET (Los Angeles) and WNPT (Nashville, Tennessee) both received \$1,000,000 gifts while KWCM (Appleton, Minnesota) received a \$100,000 estate-related gift. Among the 54 licensees

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<sup>43</sup>CPB imposes no fee on licensees participating in the major giving initiative. However, licensees must fund their own personnel and a portion of travel-related expenses.

<sup>44</sup>The first group consisted of 79 licensees.

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with whom we spoke, several also mentioned early successes. For example, an official at KNME (Albuquerque, New Mexico) told us that the station increased major giving revenue from \$35,000 in 2004 to \$1.1 million in 2005.

While the major giving initiative has generated some early successes, CPB and licensees noted that realizing the benefits of the initiative requires a long-term effort. Of the 54 licensees we spoke with, 16 said that major giving is a long-term effort. CPB noted that acquiring major gifts requires a lengthy period of courtship and confidence building. As a result, CPB said, it will take several years for the major giving initiative to mature and CPB will not have definitive quantitative measures until 2009. Furthermore, CPB does not anticipate that increases in major giving revenues will offset decreases in basic membership revenues for several years. Thus, major giving appears to hold promise, but at this early stage, it is difficult to project how much funding the initiative will generate and whether it will benefit all stations, especially those in rural and low-income areas.

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### Foundations Typically Provide Support for Projects and Capital, but Not Station Operations

Most licensees receive support from foundations; but, the amount varies significantly between licensees. According to our analysis of SABS data, 158 of 177 licensees received foundation revenue in 2005. However, the largest 25 percent of licensees received an average of \$2.1 million from foundations while the remaining 75 percent of licensees received an average of \$153,520. Officials from the Ford Foundation noted that stations in large cities can more easily attract foundation support than stations in smaller cities and rural areas.

In general, foundations provide support for specific projects, such as capital expenditures and programming, and not for general station operations. Among licensees with whom we spoke, many said that foundations provide support for specific projects. For example, officials at Prairie Public Broadcasting (Fargo, North Dakota) noted that the station received foundation support to implement the major giving initiative and the DTV transition. Again, officials from the Ford Foundation said that few foundations provide general support for public television, but that some foundations support particular programs or projects.

From 1999 through 2004, CPB data show that foundation revenues increased 19 percent, from \$97 million to \$115 million; however, in 2005, foundation revenues remained at \$115 million. Among the licensees we contacted, many said that they do not expect a significant increase in

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support from foundations. Some licensees do not receive or seek foundation support because there are no, or a very limited number of, foundations in their local area. Other licensees said that foundation support is increasingly difficult to obtain because of greater competition from other nonprofit organizations for foundation support. These officials added that many foundations seek out projects that have a direct and measurable impact on a population and that it is difficult to measure the impact of public television programming.

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### Underwriting Revenues Are Generally Flat, and Licensees Express Mixed Opinions about Greater Commercialization of Underwriting

The Communications Act and FCC regulations establish parameters for underwriting acknowledgments. Unlike commercial television stations, public television stations are prohibited from airing advertisements. However, public television stations are permitted to acknowledge station support and, without interrupting regular programming, may acknowledge underwriters on air. Such acknowledgments may not promote the underwriters' products, services, or businesses, and may not contain comparative or qualitative descriptions, price information, calls to action, or inducements. Within these statutory and regulatory parameters, individual licensees develop and implement underwriting policies for their stations. For example, in 2004, we reported that an equal number of licensees aired and did not air or plan to air, 30-second underwriting acknowledgments.<sup>45</sup> In addition, PBS established guidelines that govern how underwriters of PBS-distributed programs may be identified on air. PBS guidelines specify that the maximum duration for all underwriter acknowledgments for PBS-distributed programs may not exceed 60 seconds, and generally the maximum duration for a single underwriter may not exceed 15 seconds.<sup>46</sup>

Virtually all public television licensees receive underwriting support, although the amount varies greatly among licensees. According to our analysis of SABS data, 173 of 177 licensees received underwriting support

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<sup>45</sup>GAO-04-284, p. 94.

<sup>46</sup>An exception to the 15-second limit, and the 60-second total limit, applies in the case of corporate underwriters that contribute \$1.5 million or more per year to a program or program series. A single underwriter in this category may be acknowledged by way of a 30-second credit. In such a case, PBS's guidelines allow no more than 60 seconds total for all corporate acknowledgments, but provide that the total credit limit can extend to 90 seconds if necessary to acknowledge foundation, government, and other nonprofit funding. This exception does not apply to children's programming, where the 15-second limit applies.

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in 2005. Among licensees with whom we spoke, 11 said that local businesses, such as banks, legal offices, medical facilities, and retail businesses, provided most of their underwriting support. For licensees receiving underwriting support, the average amount of underwriting revenue was \$1.6 million in 2005. However, licensees' experiences differ dramatically. The largest 25 percent of licensees, in terms of total revenues, received on average \$4.6 million of underwriting support. Conversely, the remaining 75 percent of licensees received just \$544,245 on average.

Licensees with whom we spoke experienced mixed results with underwriting. In a 2003 report for CPB, McKinsey and Company suggested that underwriting represented a potential source of revenue growth. Consistent with this assessment, 11 licensees said that underwriting revenues have increased. Among factors contributing to the increases in underwriting revenues, licensees cited hiring new staff, implementing a packaged strategy through which companies sponsor a single program over an extended period of time, and adding local sports to the programming schedule. However, eight licensees said that underwriting revenues have decreased. These licensees cited increased competition for corporate dollars, a lack of staff or turnover among underwriting staff, and poor economic conditions in the local area as contributing to the decrease in their underwriting revenues.

Among the 54 licensees with whom we spoke, some noted that corporate consolidation and an increased advertising focus among corporations have negatively affected underwriting. Twelve licensees said that corporate consolidation hinders underwriting activities. For example, some licensees mentioned that corporate offices and facilities have moved from their service area, thereby eliminating a source of underwriting support. Similarly, some licensees said that distant corporate headquarters limit the discretion of local branch operations in terms of underwriting and other charitable contributions. Twenty-two licensees said that corporations increasingly adopt an advertising approach to underwriting. Some licensees note that corporate marketing departments and national advertising agencies increasingly handle underwriting activities, rather than corporate philanthropy departments.<sup>47</sup> With the greater emphasis on advertising, corporations and advertising agencies seek out programming with high ratings and targeted demographics.

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<sup>47</sup>For example, one licensee noted that corporations are less interested in brand or image advertising and more interested in advertising that moves products.

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In response to the changing environment, some licensees favor less restrictive underwriting regulations and policies. In particular, 11 licensees favor greater flexibility for on-air underwriting acknowledgments, including perhaps permitting calls to action and price quotes. The licensees favoring greater underwriting flexibility serve large television markets or an entire state. These licensees said that greater underwriting flexibility

- would enable the licensee to increase underwriting revenues;<sup>48</sup>
- would allow corporations to use the same advertisement on commercial and public television, thereby enabling them to avoid the cost of developing multiple advertisements;
- would not represent a significant change, since underwriting acknowledgments and pledge drives have already become commercialized; and
- would not threaten the licensee's mission, because licensees operate as nonprofit entities and therefore would not focus on low-quality, high-ratings programming.

In the early 1980s, public television conducted a limited experiment with greater underwriting flexibility. In 1981, the Congress amended the Communications Act and established the Temporary Commission on Alternative Financing for Public Telecommunications to conduct demonstrations of limited advertising.<sup>49</sup> The amendments authorized 10 public television stations to experiment with paid commercials for 18 months.<sup>50</sup> Following the experiment, the commission concluded that potential revenues from advertising were limited in scope and that the avoidance of significant risks to public broadcasting could not be ensured. However, one licensee with whom we spoke that participated in the

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<sup>48</sup>Officials from three licensees said they would be willing to forego part or all of their CPB grant in exchange for greater underwriting flexibility.

<sup>49</sup>The Public Broadcasting Amendments Act of 1981, Pub. L. No. 97-35, §1221-34, 95 Stat. 725, 736 (1981).

<sup>50</sup>The amendments also authorized an advertising experiment involving up to 10 public radio stations, but such stations chose not to participate. See Temporary Commission on Alternative Financing for Public Communications, *A Report to Congress of the United States* (October 1983).



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experiment said that all sources of its revenues increased, including both membership and underwriting revenues.<sup>51</sup>

Among licensees with whom we spoke, 19 oppose greater flexibility. These licensees said that greater underwriting flexibility

- would not generate increased underwriting revenues, since corporations and advertisers desire programming with high ratings and a targeted demographic, which some licensees said public television cannot deliver;
- would upset viewers and contribute to a decline in membership support;
- could threaten a licensee's ability to receive financial support from a state government; and
- would be inconsistent with the mission of public television and could alter programming decisions.

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## Ancillary Revenues Are a Minor Source of Funding for Many Licensees

Ancillary and miscellaneous revenues represent another nonfederal funding source. According to our analysis of SABS data, 151 of 177 licensees received ancillary and other miscellaneous revenue in 2005. Although many licensees receive ancillary and miscellaneous revenues, these are generally not significant sources of funding. On average, these sources contributed \$691,648 per licensee in 2005.<sup>52</sup> However, just as it does from underwriting, the amount of funding from these sources varies significantly across licensees. Whereas the largest 25 percent of licensees

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<sup>51</sup>This licensee also cited its experience with its public radio station. The station receives no federal or state government support, and is thus commercial, but it operates as a nonprofit station with member support. The station also generates underwriting revenues with "ads" that include calls to action. The licensee said that the radio station is thriving and that a similar model could work for public television.

<sup>52</sup>As we mentioned earlier, the DTV transition provides an opportunity for television stations to use a portion of the spectrum to provide ancillary services, such as datacasting; stations must annually remit a fee of 5 percent of the gross revenues derived from these services (47 C.F.R. §73.624(g)). According to FCC, for the 12 months ending September 30, 2005, 37 public television stations reported providing ancillary services with the digital spectrum and received \$10,861 for these services. Similarly, 10 commercial television stations reported providing these ancillary services and received \$165,914. Thus, at this point, ancillary services provided through digital television spectrum do not appear to represent a significant source of revenue for either commercial or public television stations.

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receive approximately \$2.3 million on average in annual ancillary and miscellaneous revenue, the remaining 75 percent of licensees receive \$141,936 on average.

Among the 54 licensees with whom we spoke, 30 mentioned receiving ancillary and other miscellaneous revenues. Sixteen of these licensees said ancillary and miscellaneous revenues constituted a relatively minor source of revenue.<sup>53</sup> Licensees cited many examples of ancillary and miscellaneous activities, including the following.<sup>54</sup>

- Tower leasing was the most frequently mentioned source of ancillary revenue. A television station installs its antenna on a tower to facilitate the distribution of the station's video signal. If the station owns the tower, the station can lease space to other companies, such as other television stations, cellular telephone companies, and other organizations that use wireless technologies.<sup>55</sup> These leases represent a source of ancillary revenue; however, in one instance, the licensee leases tower space to state government agencies at below-market rates, thereby lowering the possible tower leasing revenue.
- Licensees sell videos of various programs and events. For example, KLVX in Las Vegas sells Spanish language and parenting skills videos. WKYU (Bowling Green, Kentucky), licensed to Western Kentucky University, sells videos of the university's commencement.
- Several licensees also reported receiving revenues from leasing excess office space and providing access to the station's production facility; for example, a company might pay a licensee to produce a training video at the station's production facility.
- WYES in New Orleans operates YES Productions, a for-profit subsidiary. This subsidiary produces most of the sports-oriented programming in the New Orleans metropolitan area, including the National Basketball

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<sup>53</sup>Illustrating the importance of all revenue sources for small licensees, KYUK, a licensee in Bethel, Alaska with total revenues of \$1.1 million, said that the station's Friday night bingo games represent an important source of revenues.

<sup>54</sup>Licensees also mentioned receiving revenues from vehicle donation programs, a state lottery contract, online stores, and a cell phone recycling program.

<sup>55</sup>If a station does not own a tower, it must place its antenna on a tower owned by another company and, in many instances, pay to lease the space on the tower.

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Association Hornets games, as well as concerts and other entertainment events. According to WYES staff, YES Productions is the largest source of revenues for the licensee.

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## Public Television Is Unlikely to Generate Significant Additional Back-End Revenues

Some television programs generate back-end revenues from separate business ventures, such as syndication, the sale of books and videos, and the sale of clothing and toys. In commercial television, broadcast networks and cable channels receive rights to these back-end revenues, and the distribution of these rights depends on the relative amount of up-front investment in the development and production of programming that each participant contributes. In public television, CPB and PBS also negotiate for and receive rights to back-end revenues. The extent to which CPB and PBS share in the back-end revenues depends on the relative amount of up-front investment and the importance of PBS as a distribution outlet for producers of programming. While CPB and PBS receive between \$7 million and \$10 million annually in back-end revenues, a significant increase in this source of revenues appears unlikely.

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## Television Programs Can Generate Back-End Revenues

Some television programs generate back-end revenues, which arise from separate business ventures associated with the program. Such business ventures include syndication, sales of books and videos, and sales of clothing and toys.<sup>56</sup> For example, *Sesame Street* generates back-end revenues from the sale of books, clothing, DVDs, and toys; and *Seinfeld*, a situation comedy broadcast on NBC from 1990 to 1998, generates back-end revenues from syndication and the sale of DVDs.

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## The Commercial Model for Rights to Back-End Revenues

Broadcast networks and cable channels produce some, but not all, of the programming they distribute. Traditionally, studios, such as television divisions of movie studios, produced the vast majority of programming for

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<sup>56</sup>Syndicated programming includes reruns of previously broadcast programming and original programming, such as game and talk shows, licensed to local television stations and international networks. For this discussion of back-end revenues, we consider only the reruns of previously broadcast programming.

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broadcast networks.<sup>57</sup> Today, broadcast networks and cable channels have several ways to procure programming, including purchasing the programming from an external supplier, such as a studio; entering a joint venture with an external supplier; or producing the programming internally. Broadcast networks typically produce programming for certain parts of the day internally, including morning shows, news and new magazines, and sports; daytime, prime-time, and children's programming are more likely to be externally produced. Among the three cable channels we contacted, one relies primarily on internal production while the other two primarily purchase programming from external suppliers.

In commercial television, investment in the up-front development and production of a program influences the relative distribution of back-end revenues. We were told that the financing and rights associated with a program are as unique as the program itself, and therefore each financing and rights structure arrangement is unique. However, the extent of up-front investment in the development and production of programming greatly influences the financing and rights structure. Because of the large costs and risks associated with developing and producing television programming,<sup>58</sup> entities providing a significant share of the funding and assuming the financial risk seek and generally receive a greater portion of the rights to back-end revenues. Thus, we were told that the more funding an entity provides, the greater will be its share of back-end revenues. Descriptions follow of the primary approaches to funding commercial television programs and the associated back-end rights.

- For internally produced programming, the broadcast network or cable channel funds the development and production of the program. The network or cable channel assumes the financial risk associated with the program and retains the back-end rights and associated revenues.<sup>59</sup>

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<sup>57</sup>Prior to its repeal in 1995, the Financial Interest and Syndication Rules (Fin-Syn rules) limited the amount of prime-time programming that broadcast networks could produce internally. The Fin-Syn rules also prohibited broadcast networks from owning any syndication interest in programs they distributed.

<sup>58</sup>In the early 2000s, broadcast network programming production cost approached \$2.0 million for an hour-long program and \$1.5 million for a half-hour situation comedy. For cable channels, production costs can vary between \$175,000 and \$800,000 per hour.

<sup>59</sup>The broadcast network or cable channel might share a portion of the back-end rights and revenues with guild producers, writers, actors, and others.

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- For externally produced programming and coproductions, the broadcast network or cable channel funds a lesser portion of the program development and production. For externally produced programming, the network or cable channel pays a license fee for the program, which may cover one-half to two-thirds of the production costs; for coproductions, the network or cable channel provides funding in excess of the typical license fee. However, in either instance, the external supplier must arrange financing to cover the remainder of the development and production costs, referred to as the production deficit. If the network or cable channel pays only the license fee, it may not receive rights to back-end revenues, although it may share in back-end revenues with coproductions.

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## Public Television Negotiates for and Receives Rights to Back-End Revenues

As we mentioned earlier, public television acquires programming from a variety of sources. PBS does not produce programming but rather acquires programming from two primary sources: producing public television stations and independent producers. WETA, WGBH, and WNET are the major producing stations. The producing stations operate as a production company, producing programming internally and also coproducing programming with outside suppliers. Independent producers deliver programming directly to PBS or producing stations. For example, Ken Burns, Scholastic, and Sesame Workshop produce programming for public television.

Much like their counterparts in commercial television, CPB and PBS negotiate financing and rights arrangements with producing stations and independent producers. One academic expert with whom we spoke said that two factors influence the rights structure: the size of the up-front investment and the importance of PBS as a distribution outlet for an outside supplier. For public television as for commercial television, a larger up-front investment generally leads to a greater portion of the back-end rights and associated revenues. The importance of PBS as a distribution outlet is such that, several producers said that they prefer to distribute their programming through public television. For example, two producers of children's programming said they prefer to distribute their programs through public television because of the high-quality, education-based programming distributed by PBS and public television. In these instances, CPB and PBS might receive a more favorable back-end rights arrangement than the extent of their up-front investment would ordinarily warrant because these producers desire PBS distribution for their programs.

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In response to criticism about its arrangement with the producer of *Barney & Friends*,<sup>60</sup> CPB revised its revenue-sharing policy in 1997.<sup>61</sup> The stated objectives of the revised policy include ensuring the availability of quality programming, reflecting consideration of producers' objectives, and capturing windfall revenues. To fulfill these objectives, CPB created three categories of programming, each with a somewhat different rights structure.

- *Children's Programming.* For 15 years, CPB receives a 50/50 share of the net proceeds from the program, after the producer recoups any production deficit. For example, the 50/50 share implies that if CPB provides 25 percent of the project's cost, CPB receives 12.5 percent of the net proceeds. The net proceeds represents the revenues less the expenses associated with producing, marketing, and distributing the ancillary products and uses. Between years 15 and 20, the producer may retain CPB's share of the net proceeds as long as the producer applies those proceeds to future children's programs. Otherwise, CPB receives its share of the net proceeds.
- *Major Events.* This category includes programs with a production budget exceeding \$500,000 per hour or music, theater, and similar genre programming. CPB receives a 50/50 share of the net proceeds from the program for 20 years; the producer *may* be allowed to recoup the production deficit before sharing the net proceeds with CPB.
- *Other Programs and Series.* This category includes all other programming, which CPB reports would include the majority of its programming. For 15 years, CPB receives a 50/50 share of the net proceeds from the program, after a \$250,000 threshold. The producer can retain the \$250,000 threshold amount as long as the producer uses the proceeds for any public television purpose.

Like CPB, PBS negotiates for back-end rights with producing stations and independent producers. PBS staff said that the organization does not take a

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<sup>60</sup>Some critics maintained that *Barney & Friends* generated substantial back-end revenues and that public television did not properly receive a portion of those revenues. See, Congress, House of Representatives, Committee on Appropriations, *Downsizing Government and Setting Priorities of Federal Programs: Hearings before the Subcommittees of the Committee on Appropriations*, 104th Cong., 1st sess., 1995.

<sup>61</sup>See, CPB Television Revenue-Sharing Policy, adopted January 27, 1997.

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formulaic approach to rights management. Rather, the rights structure varies from program to program.<sup>62</sup> In general, PBS holds rights to back-end revenues in perpetuity. However, several factors influence the percentage of back-end revenues that PBS receives. According to PBS staff, these factors include the extent of PBS's investment in the production, the program genre and existence of a production deficit, and obligations to third parties. The program genre is a factor because PBS typically receives a larger percentage of back-end revenues from children's programming than it does from prime-time programming. PBS believes that its distribution adds considerable value to children's programming; and therefore, it possesses greater leverage with producers of such programming. This allows PBS to negotiate a more favorable rights structure for children's programming, compared with prime-time programming. With prime-time programming, PBS frequently allows producers to recoup much of the production deficit before PBS begins sharing the back-end revenues. With children's programming, PBS frequently receives a share of back-end revenues proportional to its up-front investment and typically receives these revenues sooner than it would with prime-time programming.

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## Public Television Is Unlikely to Realize Significant Back-End Revenues

CPB and PBS both receive back-end revenues. CPB reports receiving between \$100,000 and \$300,000 annually from back-end sources since 2003. According to PBS staff, since 2000, PBS has received between \$7 million and \$10 million annually from back-end sources.<sup>63</sup> PBS's back-end revenues exceed CPB's because (1) PBS funds a greater percentage of children's programming, which more frequently generates back-end revenues; and (2) CPB allows PBS to retain and reinvest CPB's share of back-end revenues earned on many programs that CPB funds through PBS. Thus, in aggregate, CPB and PBS receive about \$7 million to \$10 million annually from back-end sources.<sup>64</sup>

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<sup>62</sup>CPB and one producing station noted that PBS takes a more market-oriented approach to rights management.

<sup>63</sup>Prior to 1999, PBS received less than \$2 million annually in back-end revenues.

<sup>64</sup>Major producing stations also receive back-end revenues. For example, in 2005, WGBH received \$18 million in royalties, video, and foreign distribution revenues. However, station expenses offset these revenues.

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Commercial broadcast networks and cable channels also receive back-end revenues. According to some networks and cable channels, ancillary revenues from product sales are not a major source of revenue. Cable channels rely on advertising and subscriber fees for revenue and do not depend on ancillary sales for financial sustainability. For example, one cable channel told us that ancillary product sales represent about 1 percent of the channel's total revenues. However, syndication can represent another source of revenue for broadcast networks.

Given its statutorily defined mission and limited financial resources, it would likely be difficult for public television to substantially increase back-end revenues. We identified four constraints to public television's realizing significant back-end revenues: (1) relatively few programs are successful, (2) net proceeds are a small percentage of gross retail sales, (3) public television does not generally make significant up-front investments in program development and production, and (4) public television faces competition in the distribution of programming.

**Few Programs Are Successful.** In commercial television, relatively few programs achieve long-term success. A broadcast network might receive 500 to 800 proposals yearly for new programs, and of these, the network might place orders for 12 to 14. Furthermore, only about one-third of new programs return the following year. Thus, we were told that picking a hit is risky. To earn syndication revenue, a program generally must air for 4 years. Regarding ancillary product sales, we were told that a couple of programs might yield most of a cable channel's revenues. Because success is infrequent and uncertain, commercial television production is a portfolio business, and a company must have many programs in the pipeline at any given time to ensure that some are successful.

Officials from CPB and PBS, as well as major producing stations WGBH and WNET, said that their organizations do not base funding or programming decisions on the potential to generate back-end revenues. Rather, these organizations make funding and programming decisions that further the mission of public television. As a result, most public television programs do not generate significant back-end revenues. We were told that children's programming and Ken Burns' productions have the greatest likelihood of commercial success. However, these programs are anomalies and are not guaranteed to generate back-end revenues. For example, WGBH staff mentioned that *Between the Lions* generates little back-end revenue, even though it has been successful in attracting viewers. Similar to the experience of commercial networks and cable channels, PBS staff

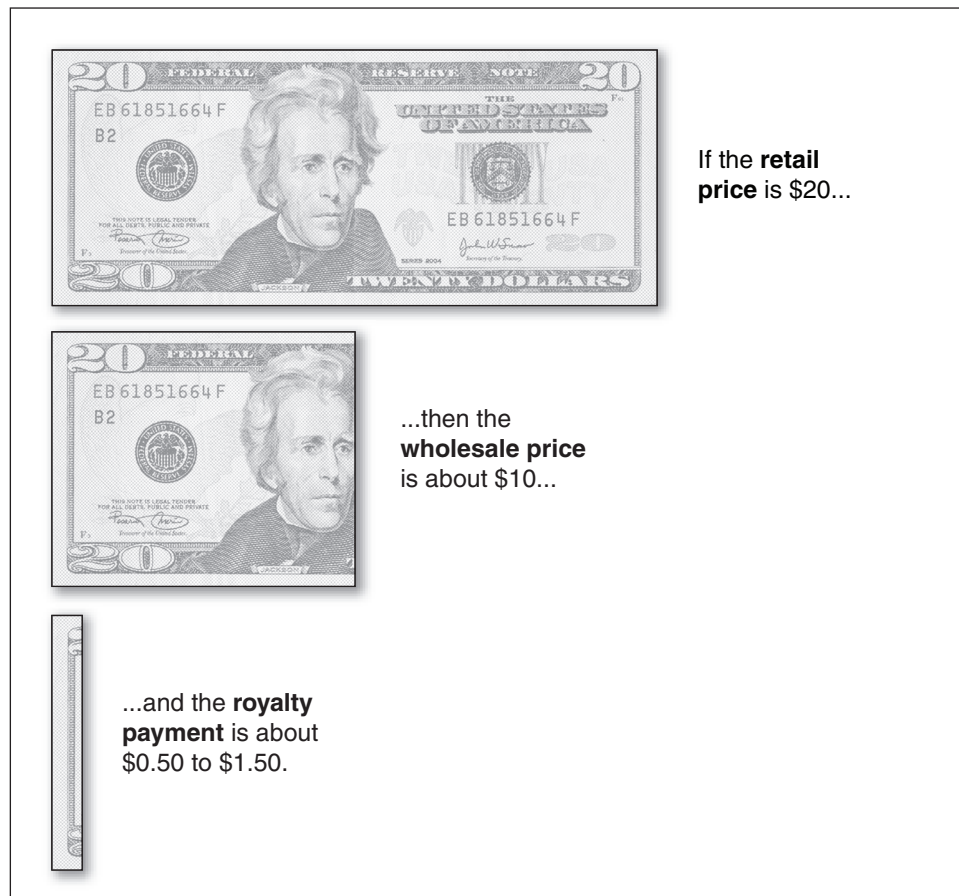


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said that in 2005, 90 percent of their organization's back-end revenues came from just 23 series.

**Net Proceeds Are a Small Percentage of Gross Retail Sales.** For both commercial and public television, we found that the net proceeds to producers and investors in program-related business ventures are a small fraction of the retail sales prices. For general merchandise associated with a television program, such as toys, the producer enters into an arrangement with one or more manufacturers. The manufacturer produces and distributes the merchandise and pays the program producer a royalty for the sale of merchandise associated with the television program. These royalties are typically 5 to 15 percent of the wholesale price, which is typically 50 percent of the retail price. Thus, for example, on a \$20 sale, the royalty will typically be \$0.50 to \$1.50. The difference represents reductions for manufacturing, distribution, and retail. Figure 7 depicts this relationship.

**Figure 7: Retail Price, Wholesale Price, and Royalty Payments for General Merchandise**



Source: GAO.

Similar discounts apply to other business ventures associated with television programs. According to CPB staff, a video distributor generally pays the producer 15 percent of the wholesale price for video products associated with a television program. For books, the producer typically receives between 5 and 10 percent of the retail price. Finally, when a producer syndicates a television program, the producer usually receives 50 to 65 percent of the sales price, and the syndication agent retains the remainder.

In some instances, the producer does not own the underlying intellectual property associated with the program. For example, Norman Bridwell

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created *Clifford the Big Red Dog* and Marc Brown created *Arthur*. In these instances, the authors and owners of the intellectual property must be paid from the royalty proceeds.

**Public Television Does Not Generally Make Significant Up-front Investments.** In general, CPB and PBS contribute less than 50 percent of the production budget associated with programming. PBS staff said that the organization generally provides seed money to producers, who must leverage these funds with funds from other organizations. From 2000 through 2005, PBS contributed between 22 and 27 percent of the total production budgets for nationally distributed programs. Producing stations and independent producers confirmed that CPB and PBS contribute relatively modest amounts to programming. PBS provided about 25 percent of WNET's total production budget over a 3-year period, and PBS's net contribution to *Sesame Workshop* is less than 10 percent of the total production costs for *Sesame Street*.<sup>65</sup> Thus, CPB and PBS appear to contribute less to the total production budget for programming than is typical in commercial television, where the license fee may cover one-half to two-thirds of the production costs.

Since CPB and PBS contribute modestly to up-front program development and production, the organizations must share the resulting back-end revenues with other participants. As discussed above, rights to back-end revenues are positively correlated with the share of up-front investment. Given their relative contributions to program development and production, it is not surprising that CPB and PBS share in the rights to back-end revenues. Because CPB and PBS provide a modest portion of the up-front program development and production budget, producers must secure the remaining funds from other sources, perhaps requiring the producers to establish relationships with many organizations. For example, WNET said that it cannot fund its productions with just one or two major participants.<sup>66</sup> Producers may also sell some of the rights to back-end revenues in return for up-front funding or in-kind support. Finally, some producers are unable to obtain external funding for an entire program and

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<sup>65</sup>In some instances, CPB and PBS provide a larger percentage of funding. For example, one producer said that CPB funded the entire production costs for a film. However, this was a special project, funded by a grant awarded through a competitive request-for-proposal process.

<sup>66</sup>WNET reported that it had 23 funders for *Great Performances*, 17 funders for *American Masters*, and 11 funders for *Nature*.

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thus incur production deficits. In these instances, the back-end revenues allow the producer to recoup the production deficit. According to PBS and one producer, most programs are deficit financed.

Increasing the proportion of up-front investment in programming appears to be beyond the financial capacity of CPB and PBS and could expose the organizations to significant risks. First, PBS supplies programming for over 170 public television licensees. To accomplish this, CPB and PBS provide some funding to producing stations and independent producers, and rely on these organizations to secure the remainder of the necessary funding. We were told that CPB and PBS do not have sufficient resources to both contribute significant amounts to individual programs and ensure adequate programming for the remainder of the broadcast year. Second, investing in program development and production involves risks. As noted above, relatively few programs are successful, and it is difficult to predict which programs will be successful. Thus, as one broadcast network told us, television production is a portfolio business in which a few winners offset losers. Without a significant pool of resources to develop a portfolio of programming, CPB and PBS could be exposed to significant financial risk if the organizations made relatively large investments in a small number of programs. In particular, if the organizations made relatively large investments in programs and those programs did not generate sufficient back-end revenues, the organizations might be unable to adequately supply programming for the remainder of the broadcast year.

**Public Television Faces Competition in the Distribution of Programming.** Even with their modest up-front investments, CPB and PBS could seek greater rights to back-end revenues; however, it is unclear whether the organizations could receive greater rights because of the presence of other distribution outlets. We were told that if CPB and PBS became too aggressive in seeking rights to back-end revenues, producers could distribute their programming through alternative outlets, such as cable channels. For example, Nickelodeon represents an alternative distribution outlet for children's programming. In fact, Sesame Workshop already distributes two programs—the *Upside Down Show* and *Pinky Dinky Doo*—through cable channels. Other producers confirmed that they distribute programming through other outlets besides PBS as well.

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## Agency Comments

We provided a draft of this report to CPB; the departments of Agriculture, Commerce, Education, and Homeland Security; FCC; and PBS. CPB and PBS agreed with the report, and their written comments appear in

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appendixes V and VI, respectively. The Department of Agriculture neither agreed nor disagreed with the report, but it emphasized the extensive burden that the DTV transition imposes on small and rural television stations. The Department of Education, the Department of Homeland Security, and FCC provided technical comments that we incorporated as appropriate. The Department of Commerce had no comments on the report.

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As we agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the date of this letter. At that time, we will send copies of this report to the appropriate congressional committees and to the Secretary of Agriculture, the Secretary of Commerce, the President and Chief Executive Officer of the Corporation for Public Broadcasting, the Secretary of Education, the Chairman of the Federal Communications Commission, and the President and Chief Executive Officer of the Public Broadcasting Service. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you have any questions about this report, please contact me at (202) 512-2834 or [goldsteinm@gao.gov](mailto:goldsteinm@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Contact information and major contributors to this report are listed in appendix VII.



Mark L. Goldstein  
Director, Physical Infrastructure Issues

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# Scope and Methodology

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This report examines the funding and operation of public television throughout the United States. In particular, the report provides information on (1) the organizational structure of public television, (2) the programming and other services that public television provides, (3) the current funding sources for public television, (4) the extent to which public television stations are increasing their nonfederal funding support and developing new sources of nonfederal support, and (5) the extent to which public television benefits financially from business ventures associated with programming and how this compares with commercial broadcasters.

To respond to the overall objectives of this report, we interviewed officials from the Corporation for Public Broadcasting (CPB), the Federal Communications Commission (FCC), the National Telecommunications and Information Administration of the Department of Commerce, and the Public Broadcasting Service.

For the first objective, we reviewed existing literature on the foundation and current structure of public broadcasting and reviewed relevant provisions of the Communications Act of 1934, as amended, and FCC regulations.

For the second, third, and fourth objectives, we interviewed officials from 54 of the 173 public television licensees (see table 4). To ensure a diversity of views, we selected licensees according to their type of license, total revenues and percentage of total revenues derived from federal funding, and by the size of the television market where the licensee operates. We also interviewed officials from the Association of Public Television Stations, a membership organization representing public television stations; the Department of Education; the Federal Emergency Management Agency of the Department of Homeland Security; the Ford Foundation; the National Science Foundation; the Rural Utilities Service (RUS) of the Department of Agriculture; and the Urban Institute.

Using data from CPB's Stations Activities Benchmarking Study (SABS), we analyzed 177 licensees' revenue sources, membership, and programming. (In 2005, the year for which we have SABS data, there were 177 public television licensees; currently, there are 173 licensees.) SABS is a data-gathering mechanism through which licensees provide information annually on their finances and operations; licensees must complete the study to receive their yearly Community Service Grant, which is the mechanism through which CPB distributes federal funding to licensees. To assess the reliability of SABS data, we reviewed relevant information about

the database, including the user manual and a data dictionary, and we interviewed CPB officials and subcontractors for information on data quality assurance procedures. We also performed electronic testing to detect obvious errors in completeness and reasonableness. We concluded that the SABS data were sufficiently reliable for the purposes of this report.

For the fifth objective, we interviewed officials from organizations producing programming for public television, including David Grubin Productions, Ken Burns (Florentine Firms), HIT Entertainment, Insignia Films, Lumiere Productions, Scholastic, Sesame Workshop, WETA, WGBH, and WNET; the Independent Television Service; commercial broadcast networks and cable channels, including A&E Television Networks, Fox, National Geographic Channel, Nickelodeon, and NBC; and several experts. We also reviewed the relevant media economics literature and materials provided by CBS.

We conducted our review from January through November 2006 in accordance with generally accepted government auditing standards.

**Table 4: Public Television Licensees Interviewed**

Licensee or station	Location	Type	Total revenues (thousands)	CPB funds as a percentage of total revenue
KYUK	Bethel, AK	Community	\$1,116	58
WCTE	Cookeville, TN	Community	1,554	41
KNCT	Killeen, TX	University	1,859	50
KOOD	Bunker Hill, KS	Community	1,944	35
WNMU	Marquette, MI	University	2,047	34
KWBU	Waco, TX	Community	2,490	28
WKYU	Bowling Green, KY	University	3,096	33
WDSE	Duluth, MN	Community	3,189	22
KUSM	Bozeman, MT	University	3,228	22
WVPT	Harrisonburg, VA	Community	3,490	19
WPBA	Atlanta, GA	Local	3,632	20
WYCC	Chicago, IL	University	3,681	19
KCWC	Riverton, WY	University	3,695	15
WETP	Knoxville, TN	Community	3,835	18
WBRA	Roanoke, VA	Community	4,149	18

**Appendix I  
Scope and Methodology**

*(Continued From Previous Page)*

<b>Licensee or station</b>	<b>Location</b>	<b>Type</b>	<b>Total revenues (thousands)</b>	<b>CPB funds as a percentage of total revenue</b>
NOVA	Falls Church, VA	Community	4,200	6
WUFT	Gainesville, FL	University	4,555	17
WYES	Metairie, LA	Community	4,869	10
WNPT	Nashville, TN	Community	5,174	18
WHUT	Washington, D.C.	University	5,698	17
KAMU	College Station, TX	University	6,065	18
KLCS	Los Angeles, CA	Local	6,189	11
KAID	Boise, ID	State	6,390	18
SDPB	Vermillion, SD	State	6,421	18
WVPB	Charleston, WV	State	6,615	15
HPTV	Honolulu, HI	Community	6,679	14
WKAR	East Lansing, MI	University	6,700	21
PPB	Fargo, ND	Community	7,344	12
MAINE	Lewiston, ME	Community	7,417	14
KNME	Albuquerque, NM	University	7,633	10
KL VX	Las Vegas, NV	Local	8,699	13
WFSU	Tallahassee, FL	University	9,009	12
WPTV	Madison, WI	State	9,818	12
KOCE	Huntington Beach, CA	Community	10,285	15
NETV	Lincoln, NE	State	10,912	15
WNYE	New York, NY	Local	11,355	0
KUED	Salt Lake City, UT	University	11,364	13
METV	Jackson, MS	State	11,642	12
WLIW	Plainview, NY	Community	12,338	7
KERA	Dallas, TX	Community	13,443	10
WHYY	Philadelphia, PA	Community	18,308	10
KPBS	San Diego, CA	University	20,481	10
IAPT	Johnston, IA	State	21,603	13
CPTV	Hartford, CT	Community	22,589	8
KTCA	St. Paul, MN	Community	26,554	8
KET	Lexington, KY	State	26,881	11
MPT	Owings Mills, MD	State	28,746	9
KQED	San Francisco, CA	Community	30,420	9
NJN	Trenton, NJ	State	32,751	8
WTTW	Chicago, IL	Community	33,137	8
WETA	Arlington, VA	Community	59,012	6



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**Appendix I**  
**Scope and Methodology**

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*(Continued From Previous Page)*

<b>Licensee or station</b>	<b>Location</b>	<b>Type</b>	<b>Total revenues (thousands)</b>	<b>CPB funds as a percentage of total revenue</b>
KCET	Los Angeles, CA	Community	64,487	7
WGBH	Boston, MA	Community	161,750	5
WNET	New York, NY	Community	\$173,728	8

Source: GAO analysis of SABS data.

# CPB Funding Allocation

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On the basis of statutory provisions and the receipt of an annual federal appropriation from the Congress, CPB makes an annual Community Service Grant award to each eligible licensee of one or more noncommercial, educational public television station(s). Table 5 summarizes the criteria for awarding funds through each of the three component grants of a Community Service Grant. In addition to the Community Service Grant, CPB provides Criteria Based Grants, including the Local Service Grant and the Distance Service Grant; the latter grant provides additional funds for licensees operating multiple transmitters, which extend television service to outlying areas.

**Appendix II  
CPB Funding Allocation**

**Table 5: Components of CPB’s Community Service Grants**

	<b>Eligibility criteria</b>	<b>Grant amount determination</b>	<b>Exceptions</b>
Basic grant	<ul style="list-style-type: none"> <li>The entity must operate a full-power noncommercial educational television station licensed by FCC.</li> <li>The public television station must be “on the air.”</li> </ul>	<ul style="list-style-type: none"> <li>\$10,000 is awarded to each licensee.</li> </ul>	Not applicable.
Base grant	<p>Same criteria as for the basic grant plus:<sup>a</sup></p> <ul style="list-style-type: none"> <li>The licensee must receive a minimum level of nonfederal financial support during a designated previous fiscal year.</li> <li>The licensee must maintain transmission and production capabilities that meet FCC requirements for a noncommercial educational television station.</li> <li>The licensed station must have broadcast 365 days during a designated previous fiscal year and for a specified minimum number of programming hours.</li> <li>The station’s daily broadcast schedule must be devoted to programming that is responsive to the “demonstrated needs of the community” and is noncommercial and educational, informative, or cultural in nature.</li> </ul>	<ul style="list-style-type: none"> <li>Based on the amount of the total appropriation received by CPB from the Congress.</li> <li>Based on the act’s allocation of 75 percent of public television funds intended for distribution among licensees of stations.</li> <li>Based on a predetermined amount for each grant set through CPB’s periodic review of the Community Service Grant program.</li> </ul>	<p>The Base Grant will be modified if:</p> <ul style="list-style-type: none"> <li>More than one licensee has a station operating in the same market (known as an “overlap” market).</li> <li>A licensee raised nonfederal financial support in excess of a maximum-specified level.</li> </ul>
Incentive grant	Same criteria as for the base grant.	<ul style="list-style-type: none"> <li>The total of all nonfederal financial support raised by public television station licensees is determined.</li> <li>The percentage share of total nonfederal financial support is determined for each licensee.</li> <li>Of the funds not already distributed through the basic and base grants, each licensee receives a percentage of remaining funds that match the licensee’s share of total nonfederal financial support raised.</li> </ul>	<p>The Incentive Grant will be increased if a licensee that operates a station in an overlap market differentiates its programming.</p>

Source: CPB.

<sup>a</sup>Nine other eligibility criteria for the base grant are specified by CPB, including licensees’ compliance with regulations on equal opportunity employment, Internal Revenue Service requirements, provisions of the Communications Act, and regulations on the use and control of donor names and lists.

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# Demographics of Public Television Viewers and Members

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This appendix discusses our analysis of the demographic characteristics of public television viewers and members. Specifically, we discuss (1) our data sources and methodology, (2) the demographic characteristics of viewers of public television's prime-time programming, (3) the demographic characteristics of viewers of public television's children's programming, and (4) the demographic characteristics of public television members.

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## Data Sources and Methodology

We required several data elements to assess the demographic characteristics of public television viewers and members. The following is a list of our primary data sources.

- We obtained data on a sample of households in the United States from Knowledge Networks/SRI, using Knowledge Networks/SRI's product *The Home Technology Monitor™: Spring 2005 Ownership and Trend Report*. From February through April 2005, Knowledge Networks/SRI interviewed a random sample of 1,501 households in the United States. Knowledge Networks/SRI asked participating households a variety of questions about their television viewing, including how many nights per week that the household watched various television networks (such as ABC, CBS) and public television. The questions also addressed the household's demographic characteristics.
- We used information from the U.S. Census Bureau to obtain demographic information for the U.S. population.

The Knowledge Networks/SRI's product *The Home Technology Monitor™* is a survey of a probability sample of telephone-owning households in the continental United States. To assess the reliability of Knowledge Networks/SRI's data, we reviewed data documentation on survey methodology and sampling, e-mails with company officials regarding data procedures and weighting, and additional information from a previous reliability assessment. We also performed basic electronic testing to detect obvious errors in completeness and reasonableness. We concluded that these data were sufficiently reliable for the purposes of this report.

To assess the demographic characteristics of public television viewers and members, we conducted t-tests with a Bonferroni adjustment. These tests allowed us, for households responding to Knowledge Networks/SRI's survey, to compare the demographic characteristics of households that viewed certain public television programming with households that did not

view the corresponding programming, and to compare the demographic characteristics of households that are members and former members of public television with households that have never been members of public television.<sup>1</sup>

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## Viewers of Public Television's Prime-Time Programming

We found that households viewing public television's prime-time programming are more likely to be older, to be African American, and to have children under the age of 18, and are less likely to be Hispanic than are households not viewing this programming. A greater proportion of prime-time viewers are age 50 or older, compared with nonviewers in this age category. However, a greater proportion of prime-time viewers also report having children under the age of 18; 37.0 percent of viewers report having children under the age of 18 compared with 33.5 percent for nonviewers. While 5.3 percent of nonviewers are African American, 9.4 percent of viewers are African American, indicating that African Americans are more likely to watch prime-time public television programming. By contrast, Hispanic households make up 8.8 percent of viewers, compared with 12.3 percent of nonviewers. Prime-time viewers are more likely to have some college education than nonviewers; 73.6 percent of viewers have some college education, compared with 68.7 percent of nonviewers. Finally, we did not find a significant difference in the income level of viewers of public television's prime-time programming and of nonviewers.

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## Viewers of Public Television Children's Programming

Households that watch public television's children's programming are more likely to have low-incomes, to be African American and Hispanic, and to have children under the age of 18 than households that do not watch this programming. Of households that watch public television's children's programming, 9.5 percent report household income of less than \$10,000, compared with 6.1 percent for nonviewers, thereby indicating that the low-income households are more likely to view public television's children's programming. Households viewing public television's children's programming are also more likely than nonviewing households to rely on over-the-air television, rather than cable or satellite television. Both African American and Hispanic households are more likely to watch children's

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<sup>1</sup>Throughout this appendix, the differences we cite are statistically significant at the 5 percent level, unless otherwise noted. This means that 95 percent of the time we would not expect to see such differences if there were no differences in the population.

programming; 13.7 percent of households viewing public television's children's programming are African American, compared with 6.2 percent of nonviewers, and 17.4 percent of viewing households are Hispanic, compared with 8.2 percent of nonviewers. Finally, and as expected, households watching public television's children's programming are more likely to have children under the age of 18, compared with households not watching this programming.

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## Public Television Members

Unlike viewers, current and former public television members are more likely to be older, white, and report higher levels of income. Compared with households that have never been members of public television, a larger percentage of current and former member households are age 50 and older. Furthermore, 80.7 percent of public television members are white, compared with 74.7 percent of nonmembers, indicating that the white households are more likely to be current or former members of public television. Current and former public television members also report higher income levels than nonmembers; 25.6 percent of current and former members report household incomes of \$100,000 or more, compared with 11.2 percent for nonmembers, and 43.1 percent of current and former members report household incomes below \$50,000, compared with 56.0 percent of nonmembers. Finally, current and former public television members are more likely to have college degrees, compared with nonmembers.

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# Sesame Workshop

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Sesame Workshop (the Workshop), the producer of *Sesame Street* and several other children's programs, is an independent 501(c)(3) nonprofit organization; the Workshop is not affiliated with public television or any government agency. To help ensure its financial self-sufficiency, the Workshop licenses the distribution of products, such as books and videos, associated with its television programs. The revenues derived from these product licensing activities offset some of the production and educational research expenditures associated with the Workshop's programs. Today, public television pays less than 10 percent of the project costs associated with *Sesame Street*.

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## Background

The Workshop was founded in 1968 as the Children's Television Workshop. The Carnegie Corporation, CPB, and the Ford Foundation provided the initial start-up funding for the Workshop. At the time, the Workshop was affiliated with National Educational Television (NET) for organizational support. *Sesame Street* premiered on November 10, 1969. Following the first season, the Workshop severed its ties with NET and organized as a separate entity. Today, the Workshop is an independent 501(c)(3) nonprofit organization and is not affiliated with public television or any government agency. In addition to *Sesame Street*, the Workshop produces several programs for distribution through public television and domestic cable channels, including *Dragon Tales*, *Pinky Dinky Doo*, and the *Upside Down Show*. The Workshop also produces programs for international distribution.

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## Product Licensing

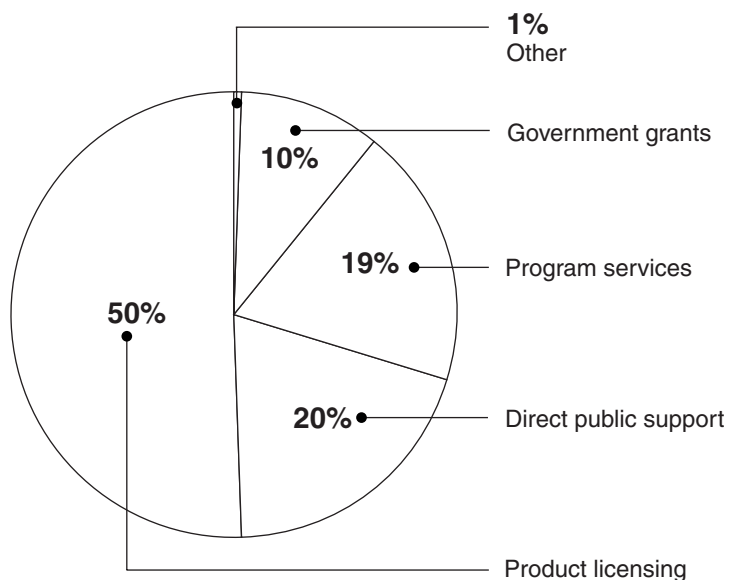
The Workshop has pursued a course for financial self-sufficiency to fulfill its mission. To this end, the Workshop has partnered with companies, such as Fisher-Price and Random House, for the distribution of products associated with the Workshop's television programs. These products include books and magazines, clothing, toys, and videos. For the year ending June 30, 2005, the Workshop received approximately \$54 million from its product licensing activities.<sup>1</sup> In addition, the Workshop received approximately \$21.2 million in direct public support, \$11.0 million from

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<sup>1</sup>In general, program producers, such as the Workshop, receive between 5 and 15 percent of the wholesale price as a royalty payment. However, the wholesale price is generally 50 percent of the retail price. Thus, producers generally receive 2.5 percent to 7.5 percent of the retail price. If the Workshop received 5 percent of the retail price, the estimated gross retail sales of all Workshop-related products would be \$1 billion.

government grants,<sup>2</sup> and \$20.3 million from program services including government fees and contracts. In total, the Workshop reported revenues of \$107.0 million. Figure 8 illustrates the percentage of revenues derived from the various sources for the Workshop.

**Figure 8: Sources of Revenue for Sesame Workshop, Year Ending June 30, 2005**



Source: GAO analysis of Sesame Workshop's Return of Organization Exempt From Income Tax (I.R.S. Form 990).

Note: "Program services" includes revenue derived from government contracts and fees.

As a nonprofit organization, the Workshop uses its revenues to fund educational research and development of programs and content consistent with its mission.<sup>3</sup> For the year ending June 30, 2005, the Workshop reported expenses of \$107.4 million. Nearly three-quarters of the Workshop's expenses consisted of program production, product licensing, and educational research and marketing. Program production expenses were approximately \$47 million, educational research expenses approximately

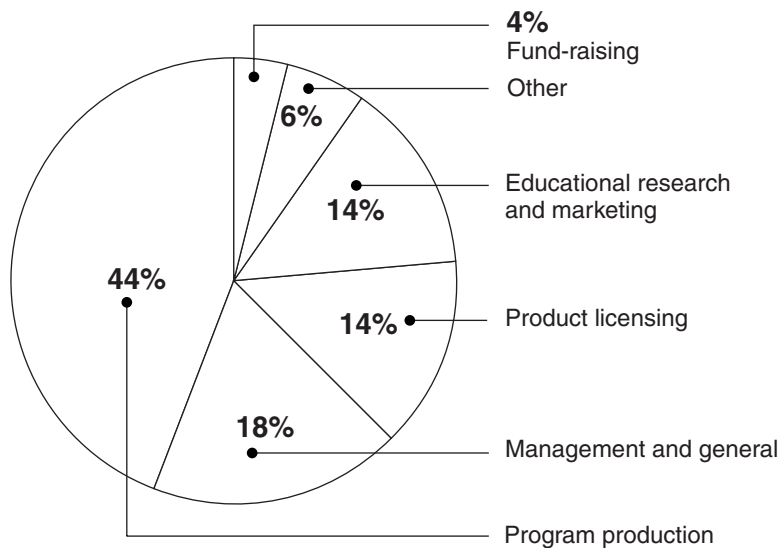
<sup>2</sup>These government grants apply primarily to the Workshop's international programming.

<sup>3</sup>The Workshop also maintains an investment portfolio to help ensure the organization's long-term financial viability, provide an operating reserve, and finance educational activities; the Workshop reported an investment portfolio balance of about \$140 million on June 30, 2005.



\$6 million,<sup>4</sup> and product licensing approximately \$15 million. The product licensing expenses include licensing; quality control of general merchandise; and administration, development, and distribution of programs for international television. Figure 9 breaks down the Workshop's expenses.

Figure 9: Sesame Workshop Expenses, Year Ending June 30, 2005



Source: GAO analysis of Sesame Workshop's Return of Organization Exempt From Income Tax (I.R.S. Form 990).

## Relationship with Public Television

Since the Workshop and the Public Broadcasting Service (PBS) are separate organizations, PBS negotiates with the Workshop for the broadcast rights to *Sesame Street* and other Workshop programs. According to the Workshop's Return of Organization Exempt From Income Tax (I.R.S. Form 990), the Workshop incurred direct production expenses of about \$13.3 million for *Sesame Street*. Additionally, the Workshop incurs expenses associated with educational research for the development of program content and with its acquisition of the *Sesame Street* Muppets

<sup>4</sup>The marketing component of educational research and marketing expenses was about \$8.8 million.

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characters.<sup>5</sup> According to Workshop officials, PBS pays the Workshop a license fee for Workshop programming. In return, PBS receives (1) exclusive rights to the distribution of the programming for 2 years and (2) a back-end participation in revenues arising from the sale of general merchandise and underwriting. Considering both the license fee and offsetting back-end revenues, Workshop officials noted that PBS's net contribution to the production of *Sesame Street* for public television is less than 10 percent of the project's expenses. Officials from CPB also mentioned that the Workshop bears all the financial risk associated with its production. Thus, the ability of the Workshop to generate revenues from product licensing helps offset the project expenses associated the programming and outreach provided by the Workshop for public television.

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<sup>5</sup>Program expenses included about \$7.1 million in amortization associated with the Workshop's acquisition of the Sesame Street Muppets characters. Following the death of Jim Henson, the Workshop acquired the Muppets characters associated with *Sesame Street*; The Walt Disney Company acquired the Muppets characters created for other programs. Thus, the Workshop does not receive revenues associated with the activities of certain Muppets characters, such as Kermit or Miss Piggy, which the Disney Company owns.

# Comments from the Corporation for Public Broadcasting



Corporation  
for Public  
Broadcasting

**Patricia de Stacy Harrison**  
President and  
Chief Executive Officer

December 18, 2006

Mr. Mark L. Goldstein  
Director, Physical Infrastructure Issues  
United States Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Goldstein:

The Corporation for Public Broadcasting appreciates the thoughtful analysis by the Government Accountability Office in its draft report, "Issues Related to the Structure and Funding of Public Television." We would like to take this opportunity to underscore several of the key points you have made.

As you note, public television stations are the last locally owned and locally operated media outlets in many communities. Their local programming reflects local interests and needs, such as health information, coverage of local news events, and arts and cultural programming. Public television services go beyond broadcast, and include educational services at all levels, civic engagement and community building, and emergency services.

CPB distributes its funds to public broadcasting stations under a statutorily mandated formula. As prescribed in CPB's authorizing legislation, the formula includes criteria that are established in consultation with the public broadcasting community and designed to maintain and stimulate non-federal support for the stations. Although federal funding accounts for only about 15 percent of public television revenues, it is critical to the financial health of most stations, particularly small and rural stations where it represents a greater proportion of revenues. Stations have broad discretion over the use of federal funds and incur minimal costs to secure them. Beyond that, the fact that funds are approved two years in advance allows stations to leverage additional state, foundation, and other funding. This advance appropriation is especially important to producing stations, as the process of raising funding for productions can be a long one.

Finally, there are simply no other sources of funding that could replace federal support. Thanks to a CPB-funded project, stations are already taking steps to reap more support from major gifts, one area where public television lags other non-profits. Most other sources of income are likely to remain flat. In particular, as you note, back-end revenues from syndication or from sales of books, toys, and other merchandise, are unlikely to increase; program successes that

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**Appendix V**  
**Comments from the Corporation for Public**  
**Broadcasting**

- 2 -

generate large amounts of income are rare; and CPB and PBS cannot make large enough investments in individual programs to receive a significant share of any revenues.

Again, we greatly appreciate the time you have taken to understand public television's financing and the valuable report you have produced.

Sincerely,



Patricia de Stacy Harrison  
President & Chief Executive Officer  
Corporation for Public Broadcasting

# Comments from the Public Broadcasting Service



December 18, 2006

2006 DEC 18 PM 3:57

Mr. John Finedore  
Assistant Director  
Physical Infrastructure Team  
U.S. Government Accountability Office  
441 G Street NW  
Washington, DC 20548

Dear Mr. Finedore:

Thank you for sharing the draft report entitled, "Issues Related to the Structure and Funding of Public Television," prepared by the General Accounting Office ("GAO"). We are pleased to provide you with our feedback.

As the GAO's research demonstrates, federal funding is critical to public television in the United States. Every year, PBS and its member stations take the funding they receive from the government and leverage it several times over, allowing us to deliver programming like "Sesame Street," "The NewsHour with Jim Lehrer," "Nova" and other television programs and services to the public.

The GAO report effectively clarifies that funding for public television in the United States is dependent upon a mix of public and private support. From our perspective, the continued viability of our system requires maintenance of this delicate balance of public and private funds. PBS is able to make programming commitments to producers often as a result of having federal funds as seed money. This PBS commitment enables station and independent producers to leverage that funding to secure revenue from private, non-governmental sources.

We strive to be good stewards of the federal investment we receive. Although we often are a minority funder in the programs we distribute, and therefore are often unable to control all ancillary uses of programs, we have increased the annual return on investment in ancillary exploitation of programming from \$339,000 in 1994 to \$8.3 million in 2005. Programming decisions are not made on the basis of revenue-generation potential because that would compromise our mission. However, we also understand that we have a responsibility to the American people to increase our self-sufficiency, whenever possible.

I commend the GAO for its professionalism and thoroughness in preparing this report. PBS deeply appreciates the federal government's financial support, and I am confident your final report will reflect this. Until then, if I or any member of the PBS team can be of assistance to you, please let me know. Thank you.

Sincerely,

Wayne Godwin  
Chief Operating Officer

Enclosure



2100 Crystal Drive . Arlington, VA 22202.3785 . 703.739.5000 . pbs.org

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# GAO Contact and Staff Acknowledgments

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## GAO Contact

Mark L. Goldstein, (202) 512-2834 or [goldsteinm@gao.gov](mailto:goldsteinm@gao.gov).

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Individuals making key contributions to this report include John Finedore, Assistant Director; Allison Bawden; Michael Clements; H. Brandon Haller; Laura Holliday; Michael Mgebroff; Lisa Mirel; Anna Maria Ortiz; and Mindi Weisenbloom.

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