March 2016

LOCAL MEDIA ADVERTISING

FCC Should Take Action to Ensure Television Stations Publicly File Advertising Agreements

GAO Highlights

Highlights of GAO-16-349, a report to congressional committees

Why GAO Did This Study

Television stations, which provide free, over-the-air programming, and MVPDs, which provide subscription television services, compete with other local media for advertising revenue. FCC rules limit the number of local stations an entity can own in one market to promote competition and other public interests. Some station owners created joint sales agreements to potentially cut costs. In 2014, finding that such agreements confer influence akin to ownership, FCC adopted rules that require that where such agreements encompass more than 15 percent of the weekly advertising time of another station, they will count toward FCC's ownership limits. MVPDs also have arrangements ("interconnects") for jointly selling advertising in a local market.

GAO was asked to examine the role of advertising agreements in local media markets. This report examines (1) the prevalence and characteristics of such agreements, and (2) stakeholders' perspectives on these agreements. GAO examined publicly available joint sales agreements and interviewed FCC officials and media, public interest, academic, and financial stakeholders about their views. Stakeholders were selected to represent a range of companies and from those who submitted comments on FCC's rules, among other reasons.

What GAO Recommends

FCC should review joint sales agreements filed in stations' public files to identify missing agreements and take action to ensure the files are complete. FCC said it would take action to ensure compliance with its public file requirement.

View GAO-16-349. For more information, contact Mark L. Goldstein at (202) 512-2834 or goldsteinm@gao.gov.

What GAO Found

Agreements among station owners allowing stations to jointly sell advertising—known as "joint sales agreements"—are mostly in smaller markets and include provisions such as the amount of advertising time sold and how stations share revenue. Some of these agreements also included provisions typical of other types of sharing agreements. The Federal Communications Commission (FCC) requires each station involved in a joint sales agreement to file the agreement in the station's public inspection file. According to FCC, these files are meant to provide the public increased transparency about the operation of local stations and encourage public participation in ensuring that stations serve the public interest. GAO reviewed all joint sales agreements found in stations' public files and identified 86 such agreements among stations. GAO also found inconsistencies in the filing of these agreements. Specifically, 25 of these agreements were filed by one station but not by others involved in the agreements. FCC addresses compliance with this filing requirement through its periodic reviews of station licensing and in response to complaints. However, FCC officials said neither of these approaches has identified agreements that should be filed but have not been, and FCC has not reviewed the completeness of stations' joint sales agreement filings. If stations with joint sales agreements are not filing these agreements as required, a member of the public reviewing such a station's public file would not see in the file that the station's advertising sales involve joint sales with another station. Most multichannel video programming distributor (MVPD) stakeholders GAO interviewed said that interconnects exist in most markets. These arrangements allow an advertiser to purchase advertising from a single point to be simultaneously distributed to all MVPDs in a local market participating in the interconnect.

Stakeholders GAO interviewed—including station owners, MVPDs, media industry associations, and financial analysts—said that joint sales agreements and interconnects can provide economic benefits for television stations and MVPDs, respectively. Joint sales agreements allow stations to cut advertising costs, since one station generally performs this role for both stations. For example, some station owners said they used the savings from joint sales agreements and other service-sharing agreements to invest in and improve local programming. Some selected station owners and financial analysts said that stations in smaller markets are more likely to use joint sales agreements because stations in smaller markets receive less advertising revenue while having similar costs as stations in larger markets. Other stakeholders, including public-interest groups and academics, raised concerns about how these agreements may negatively affect local markets. For example, some public-interest groups said that using these agreements reduces competition in the local market and allows broadcasters to circumvent FCC's ownership rules. MVPDs stated that interconnects allow MVPDs to better compete with broadcasters for local advertising revenue by increasing the potential reach of an advertisement to subscribers of MVPDs participating in the interconnect. Some small MVPDs raised concerns that large MVPDs that manage interconnects may impose unfair terms as a condition of their participation in the interconnect. However, large MVPDs said they do not engage in such practices.