

**PREPARED TESTIMONY FOR FCC WORKSHOP ON ‘PUBLIC AND OTHER  
NONCOMMERCIAL MEDIA IN THE DIGITAL ERA’**

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My name is Craig Aaron, and I’m the managing director of Free Press, the national, nonpartisan, nonprofit media reform group. I’m honored to be included on this esteemed panel and thankful to be able to represent our more than 500,000 members here today at the FCC.<sup>1</sup>

It’s often said that out of crisis comes opportunity.

You know about the crisis: Tens of thousands of journalists losing their jobs. Local outlets shuttered or reduced to a shell. A “perfect storm” created when the rise of the Internet and the end of local advertising monopolies collided with the economic downturn.

That’s not the full story, of course. We can’t forget that the media’s most serious wounds were self-inflicted. While our regulators rubber-stamped one mega-merger after another, the big media companies took on massive amounts of debt. Now they are drowning in it, and taking the newsrooms down with them.

Wherever you point the blame, we face the same daunting reality: There is no longer enough private capital — in the form of advertising, subscriptions, philanthropy and other sources — to support the depth and breadth of quality local, national and international news reporting our communities need to participate in a 21<sup>st</sup>-century democracy.

And there’s the opportunity: Now is the moment to re-imagine our old public broadcasting system and rebuild it as new public media network that’s committed first and foremost to local newsgathering, education and community service.

This network includes not just PBS and NPR, but community radio and Low Power FM stations, public access cable channels, and noncommercial newsrooms based on the Internet. They need to be part of this conversation, because they are part of the answer.

Local news reporting should become one of public media’s top priorities, and we should redeploy and redouble our resources accordingly. We need public media to put professional reporters, fact checkers and editors on the beat to keep a watchful eye on the powerful and to reliably examine the vital issues that most Americans can’t follow closely on their own.

Oh, yes — we also need to figure out how to pay for it.

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<sup>1</sup> Special thanks to my colleagues Josh Silver, S. Derek Turner and Candace Clement for their help in preparing this testimony.

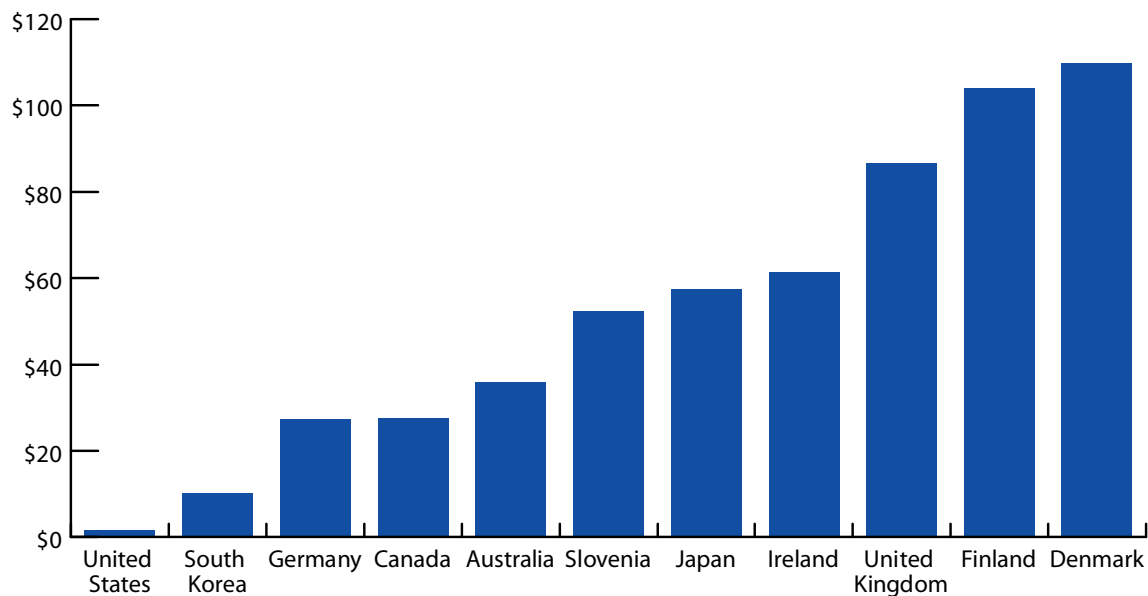
At a time when the need for public media couldn't be bigger, we're spending far too little.

Let's consider the numbers: We now spend about \$420 million per year in public money for public media. That works out to just \$1.43 per capita.<sup>2</sup>

By comparison, Canada spends more than \$27 per capita, and England spends \$87 per capita.<sup>3</sup> If the United States spent the same per capita on public media and journalism subsidies as Sweden and Norway, which rank No. 1 and No. 2, we would be spending as much as \$30 billion a year on public media.<sup>4</sup>

Not coincidentally, those same two countries rank at the top of *The Economist's* annual Democracy Index, which evaluates nations on the basis of the functioning of government, civic participation and civil liberties. The United States ranks 18<sup>th</sup>.<sup>5</sup>

**Figure 1: Global Spending on Public Media Per Capita**



Source: Free Press research.

<sup>2</sup> The U.S. figure was calculated by relying on the money appropriated in 2006 for the 2008 fiscal year, as well as a much smaller amount appropriated in 2008 for the same year.

<sup>3</sup> In many countries, public media funding is derived from an annual government-mandated television license fee for television owners. In general, the total amount generated through this license fee for 2008 was divided by the population of the country for the same year. The currency was converted to U.S. dollars using the relevant exchange rate from April 19, 2010.

<sup>4</sup> Robert W. McChesney and John Nichols, "How to Save Journalism," *The Nation*, Jan. 7, 2010.

<sup>5</sup> See "Economist Intelligence Unit's Index of Democracy 2008."

Imagine how the American public media system could dramatically increase its reach and relevance with a more modest increase in funding — say, to as little as \$5 a person. (It’s worth remembering that just a year ago, every U.S. taxpayer spent \$565 to bail out AIG; five bucks for better public media is a bargain.<sup>6</sup>)

Unfortunately, while annual appropriations for public media are still essential — and it would be great to see an increase — we can’t count on the politically charged process in Congress to provide long-term fiscal viability and independence.

What’s needed instead is a supplemental source of revenue: a trust fund seeded with a substantial endowment and operated by the Corporation for Public Broadcasting (or better yet, a newly mandated "Corporation for Public *Media*"). If done right, a trust would not only supplement budgets in the near term but eventually enable the public media system to become nearly or completely self-sufficient.

Here are five promising proposals to consider:

### ***Spectrum Use Fees***

What if we treated commercial broadcasters — long one of the most heavily subsidized industries in our economy — like any other business that uses public resources? Perhaps they should start paying rent for using the public airwaves.

A modest spectrum fee of 5 percent of local broadcast station revenues would generate nearly \$1.8 billion in annual public media funding — more than four times the current annual appropriations. Such a fee would amount to an \$800,000 annual assessment for the average TV station and \$65,000 for the typical radio station (see Figure 2).

**Figure 2: Annual Spectrum Use Fee**

Spectrum Use Fee (percent of revenue)	Annual Fee Paid by Average Broadcast TV Station	Annual Fee Paid by Average Broadcast Radio Station	Total Annual Fees paid by Broadcast TV Stations	Total Annual Fees paid by Broadcast Radio Stations	Total Broadcast Spectrum Fees
0.5%	\$80,665	\$6,495	\$110,457,500	\$68,237,480	\$178,694,980
1%	\$161,330	\$12,990	\$220,915,000	\$136,474,960	\$357,389,960
2%	\$322,660	\$25,980	\$441,830,000	\$272,949,920	\$714,779,920
3%	\$483,990	\$38,970	\$662,745,000	\$409,424,880	\$1,072,169,880
4%	\$645,320	\$51,960	\$883,660,000	\$545,899,840	\$1,429,559,840
5%	\$806,650	\$64,950	\$1,104,575,000	\$682,374,800	\$1,786,949,800

*Source: Free Press estimations based on revenue data from BIA Media Access Pro*

To lessen any concerns about “rate shock,” such fees could be phased in over five years. During that time and for another five years hence, ongoing CPB appropriations could be supplemented with 10 percent of the revenues from the fees, with the rest going into the trust. After 10 years, all the remaining fees would be deposited in the trust. After 20 years, the public media system would be solely supported by interest from the trust fund,

<sup>6</sup> To date, AIG has received \$173 billion.

annual appropriations could be phased out, and the spectrum itself could be repurposed for other uses.<sup>7</sup>

This proposal would result in a steady increase in funding for public media, culminating in a self-sustaining annual budget approaching \$2.5 billion by 2030 (see Figure 3).

**Figure 3: Using Annual Spectrum Use Fees to Establish a Public Media Trust Fund**

Year	Spectrum Fee	Expected Industry Revenues	Revenues for Trust Fund	Congressional Appropriations	Annual Public Media Budget	Trust Fund Balance
2010	1%	\$35,000,000,000	\$350,000,000	\$405,000,000	\$440,000,000	\$315,000,000
2011	2%	\$36,050,000,000	\$721,000,000	\$417,150,000	\$489,250,000	\$979,650,000
2012	3%	\$37,131,500,000	\$1,113,945,000	\$429,664,500	\$541,059,000	\$2,031,183,000
2013	4%	\$38,245,445,000	\$1,529,817,800	\$442,554,435	\$595,536,215	\$3,509,578,170
2014	5%	\$39,392,808,350	\$1,969,640,418	\$455,831,068	\$652,795,110	\$5,457,733,454
2015	5%	\$40,574,592,601	\$2,028,729,630	\$469,506,000	\$672,378,963	\$7,556,476,794
2016	5%	\$41,791,830,379	\$2,089,591,519	\$483,591,180	\$692,550,332	\$9,814,933,001
2017	5%	\$43,045,585,290	\$2,152,279,264	\$498,098,915	\$713,326,842	\$12,242,730,989
2018	5%	\$44,336,952,849	\$2,216,847,642	\$513,041,883	\$734,726,647	\$14,850,030,416
2019	5%	\$45,667,061,434	\$2,283,353,072	\$528,433,139	\$756,768,447	\$17,647,549,702
2020	5%	\$47,037,073,277	\$2,351,853,664	\$0	\$832,445,291	\$20,049,335,559
2021	5%	\$48,448,185,475	\$2,422,409,274	\$0	\$915,689,820	\$22,558,521,791
2022	5%	\$49,901,631,040	\$2,495,081,552	\$0	\$1,007,258,802	\$25,174,270,630
2023	5%	\$51,398,679,971	\$2,569,933,999	\$0	\$1,107,984,683	\$27,894,933,477
2024	5%	\$52,940,640,370	\$2,647,032,018	\$0	\$1,218,783,151	\$30,717,929,019
2025	5%	\$54,528,859,581	\$2,726,442,979	\$0	\$1,340,661,466	\$33,639,606,982
2026	5%	\$56,164,725,368	\$2,808,236,268	\$0	\$1,474,727,613	\$36,655,095,987
2027	5%	\$57,849,667,130	\$2,892,483,356	\$0	\$1,622,200,374	\$39,758,133,769
2028	5%	\$59,585,157,143	\$2,979,257,857	\$0	\$1,784,420,411	\$42,940,877,904
2029	5%	\$61,372,711,858	\$3,068,635,593	\$0	\$1,962,862,452	\$46,193,694,939
2030 & Beyond	0%	N/A	N/A	\$0	\$2,425,168,984	\$48,503,379,686

Source: Free Press estimations based in part on revenue data from BIA Media Access Pro.

### *Spectrum Auction Revenues*

Another way to support a public media trust would be via future spectrum auctions. The FCC's National Broadband Plan proposes a voluntary giveback scheme for television broadcasters, with recommendations that auction revenues be used to compensate the license holders and support public media.

For the sake of argument, imagine if you auctioned off the entire spectrum used by UHF television stations (which already get 90 percent of their viewers via cable or satellite). You could set aside half of that spectrum for unlicensed use or for small wireless Internet providers, and then auction the rest to help support public media.

Based on the bidding in the last big spectrum auction in 2008, we could expect to bring in more than \$40 billion. Even after setting aside a chunk of that money to pay off the broadcasters and contribute to the U.S. treasury, we estimate you could still reasonably secure \$21 billion for a public media trust. Assuming a conservative 5 percent annual yield from the trust fund, this auction scheme would yield nearly \$1.1 billion in annual

<sup>7</sup> We assume for the purposes of projecting revenues under this plan that broadcast industry revenues would increase 3 percent each year, and that annual congressional appropriations would also increase 3 percent during years one through 10. We also assume that the trust fund would earn an annual interest at a rate of 5 percent.

funding for public media in addition to the annual congressional appropriations (see Figure 4).<sup>8</sup>

**Figure 4: Auctioning UHF Spectrum  
Estimated Revenues**

Total Amount of UHF Spectrum	Spectrum Set Aside for Unlicensed Use	Spectrum Set Aside for WISP Lottery	Estimated Auction Price (\$ per MHz)	Estimated Auction Revenues
222 MHz	67 MHz	44 MHz	\$375,000,000	\$41,625,000,000

Revenues	Revenues Paid to Broadcast License Holders	Revenues Diverted To Treasury	Net Revenues Available for Trust Fund	Annual Public Media Budget From Trust Fund
\$41,625,000,000	\$11,728,677,375	\$8,325,000,000	\$21,571,322,625	\$1,078,566,131

*Source: Free Press research.*

### ***Direct Advertising Taxes***

Taxing just tiny percent of the hundreds of billions spent on advertising in America would generate enough revenue to exceed all the annual public broadcasting funding provided by universities, federal, state and local governments, as well as corporate underwriting.

This could be done directly via a gross receipts tax on recipients of advertising revenue or via a “sales tax” on advertisers. Even with exemptions for small businesses, newspapers or online advertising, we still conservatively estimate a 2 percent advertising tax could raise over \$45 billion for a public media trust fund after a 10-year period, which would equate to a \$2.25 billion annual budget in the 11th year (see Figure 5). This proposal could get the public media system to fiscal self-sufficiency in half the time of the spectrum fee option.<sup>9</sup>

<sup>8</sup> For the purpose of this modeling, we assume that the auctioned spectrum will fetch a per-MHz-population value close to that of the 700 MHz spectrum auctions in 2008. We also assume the auction is for UHF television channels (14-51, excluding radio astronomy channel 37). We further assume that 30 percent of the available spectrum is set aside for unlicensed use, and an additional 20 percent is set aside for a spectrum lottery for small wireless Internet service providers, who would then pay a spectrum-use fee. These assumptions mean that 111 MHz of spectrum would be auctioned — or slightly less than half of the current broadcast spectrum — generating an expected \$41.6 billion in revenues generated. We then assume that TV broadcasters would receive 10 percent of total revenues from the auction. The payment to these displaced license holders would be equal to 10 percent of projected revenues over a five-year period. We also assume that the federal government would receive 20 percent of the auction revenues. Based on all of these assumptions, there would still be \$21.6 billion to devote to a public media trust.

<sup>9</sup> We conservatively assume that the taxable base will be \$190 billion in 2010. Similar to our projections of a spectrum fee, we assume that the total advertising base will grow at 3 percent per year, but that the exempt portion will increase from 38 percent in 2010 to 49 percent in 2019, due to the shift toward more online advertising. We also assume continued congressional appropriations for CPB, increasing at a rate of 3 percent per year. We also assume, as we did in the model for the spectrum fee, that the annual public media budget from federal sources will be based on the amount of congressional appropriations plus 10 percent of the annual amount collected from the advertising tax, with the remainder deposited in a trust fund.

**Figure 5: Using an Advertising Tax to Establish a Public Media Trust Fund**

Year	Estimated Total Advertising Spending	Estimated Total Exempted Advertising Spending	Estimated Total Advertising Subject to Tax	Net Revenues From Tax (assuming 2% tax)	Congressional Appropriations	Annual Public Media Budget	Trust Fund Balance
2010	\$310,000,000,000	\$117,800,000,000	\$192,200,000,000	\$3,844,000,000	\$405,000,000	\$789,400,000	\$3,459,600,000
2011	\$319,300,000,000	\$125,165,600,000	\$194,134,400,000	\$3,882,688,000	\$417,150,000	\$805,418,800	\$7,126,999,200
2012	\$328,879,000,000	\$132,867,116,000	\$196,011,884,000	\$3,920,237,680	\$429,664,500	\$821,688,268	\$11,011,563,072
2013	\$338,745,370,000	\$140,918,073,920	\$197,827,296,080	\$3,956,545,922	\$442,554,435	\$838,209,027	\$15,123,032,555
2014	\$348,907,731,100	\$149,332,508,911	\$199,575,222,189	\$3,991,504,444	\$455,831,068	\$854,981,512	\$19,471,538,182
2015	\$359,374,963,033	\$158,124,983,735	\$201,249,979,298	\$4,024,999,586	\$469,506,000	\$872,005,959	\$24,067,614,719
2016	\$370,156,211,924	\$167,310,607,790	\$202,845,604,134	\$4,056,912,083	\$483,591,180	\$889,282,388	\$28,922,216,329
2017	\$381,260,898,282	\$176,905,056,803	\$204,355,841,479	\$4,087,116,830	\$498,098,915	\$906,810,598	\$34,046,732,292
2018	\$392,698,725,230	\$186,924,593,210	\$205,774,132,021	\$4,115,482,640	\$513,041,883	\$924,590,147	\$39,453,003,283
2019	\$404,479,686,987	\$197,386,087,250	\$207,093,599,737	\$4,141,871,995	\$528,433,139	\$942,620,339	\$45,153,338,243
2020 & Beyond	N/A	N/A	N/A	N/A	\$0	\$2,257,666,912	\$45,153,338,243

Source: Free Press research.

### Indirect Advertising Taxes

Under existing law, businesses are allowed to deduct 100 percent of the amount spent on advertising in the year in which it was purchased. Significant revenue could be generated for public media by changing the tax code to allow only 80 percent of the advertising expense to be deducted in the year it was purchased, “amortizing” the remaining expense over time.

The practical result of this is each advertiser’s taxable base is raised, leading to an increased amount of taxes collected. These additional tax revenues could be earmarked for a public media trust fund. Using a proposal originally developed by the Congressional Budget Office, we estimate that in little more than a decade the public system would be completely self-sufficient, with a \$61 billion trust fund netting a continued annual operating budget exceeding \$3 billion (see Figure 6).<sup>10</sup>

<sup>10</sup> A 1997 Congressional Budget Office (CBO) report estimated that a requirement mandating businesses to amortize a portion of advertising costs (80 percent deducted immediately, followed by amortization of the remaining 20 percent over the following 4 years) would raise \$28 billion over the five-year period from 1998 to 2002.<sup>10</sup> We have modeled this amortization approach for the 2010-to-2020 time period. Our assumptions are similar to those used in the spectrum fee and advertising tax models discussed above. We assume an annual 3 percent increase in advertising spending, but do not assume that any particular sector will be exempt from the amortization change in the tax law. We assume the change in the tax law allows business to deduct 80 percent of the cost of advertising in the year the ads were placed, with the remaining 20 percent amortized over the following four-year period. We assume an effective tax rate of 25 percent. We also assume a steadily increasing Congressional appropriation of 3 percent per year based on the 2010 baseline. The annual public media budget would draw from the appropriations, plus an increasing amount drawn from the earmarked revenues generated from the amortization pool of funds. The remaining funds from this earmarked pool would be diverted into the public media trust fund.

**Figure 6: Using an Advertising Expenditure Amortization to Establish a Public Media Trust Fund**

Year	Estimated Total Advertising Spending	Amount Deductable Under Amortization Plan	Amount Subject to Business Tax	Revenues Generated from Tax	Congressional Appropriations	Annual Public Media Budget	Trust Fund Balance
2010	\$310,000,000,000	\$248,000,000,000	\$62,000,000,000	\$15,500,000,000	\$405,000,000	\$560,000,000	\$15,345,000,000
2011	\$319,300,000,000	\$270,940,000,000	\$48,360,000,000	\$12,090,000,000	\$417,150,000	\$658,950,000	\$27,960,450,000
2012	\$328,879,000,000	\$294,568,200,000	\$34,310,800,000	\$8,577,700,000	\$429,664,500	\$772,772,500	\$37,593,064,500
2013	\$338,745,370,000	\$318,905,246,000	\$19,840,124,000	\$4,960,031,000	\$442,554,435	\$839,356,915	\$44,035,946,245
2014	\$348,907,731,100	\$343,972,403,380	\$4,935,327,720	\$1,233,831,930	\$455,831,068	\$1,072,747,033	\$46,854,659,522
2015	\$359,374,963,033	\$354,291,575,481	\$5,083,387,552	\$1,270,846,888	\$469,506,000	\$1,232,014,133	\$49,705,731,254
2016	\$370,156,211,924	\$364,920,322,746	\$5,235,889,178	\$1,308,972,295	\$483,591,180	\$1,399,871,786	\$52,583,709,505
2017	\$381,260,898,282	\$375,867,932,428	\$5,392,965,853	\$1,348,241,463	\$498,098,915	\$1,576,692,086	\$55,482,543,272
2018	\$392,698,725,230	\$387,143,970,401	\$5,554,754,829	\$1,388,688,707	\$513,041,883	\$1,762,861,720	\$58,395,539,307
2019	\$404,479,686,987	\$398,758,289,513	\$5,721,397,474	\$1,430,349,368	\$528,433,139	\$1,958,782,508	\$61,315,316,272
2020 & Beyond	N/A	N/A	N/A	N/A	\$0	\$3,065,765,814	\$61,315,316,272

Source: Free Press research.

### Consumer Electronics Tax

Finally, consider the idea of putting a very small tax on electronic devices. Consumers are expected to spend \$160 billion on electronics in 2010. Placing a 1 percent assessment on the sale of electronic devices would generate enough revenue to create a \$21 billion trust fund, capable of funding a \$1 billion annual budget for the system after a 10-year period (see Figure 7). That would cost the typical household just an extra \$15 per year.

**Figure 7: Using a Consumer Electronics Tax to Establish a Public Media Trust**

Year	Estimated Total Spending on Consumer Electronics	Revenues from 1 % Tax	Increased Annual Tax Burden for Typical Household	Congressional Appropriations	Annual Public Media Budget	Trust Fund Balance
2010	\$166,000,000,000	\$1,660,000,000	\$14	\$405,000,000	\$571,000,000	\$1,494,000,000
2011	\$170,980,000,000	\$1,709,800,000	\$14	\$417,150,000	\$605,228,000	\$3,090,422,000
2012	\$176,109,400,000	\$1,761,094,000	\$15	\$429,664,500	\$640,995,780	\$4,794,705,820
2013	\$181,392,682,000	\$1,813,926,820	\$15	\$442,554,435	\$678,364,922	\$6,612,557,444
2014	\$186,834,462,460	\$1,868,344,625	\$16	\$455,831,068	\$717,399,315	\$8,549,961,694
2015	\$192,439,496,334	\$1,924,394,963	\$16	\$469,506,000	\$758,165,245	\$10,613,195,497
2016	\$198,212,681,224	\$1,982,126,812	\$17	\$483,591,180	\$800,731,470	\$12,808,841,794
2017	\$204,159,061,661	\$2,041,590,617	\$17	\$498,098,915	\$845,169,320	\$15,143,804,096
2018	\$210,283,833,510	\$2,102,838,335	\$18	\$513,041,883	\$891,552,783	\$17,625,321,736
2019	\$216,592,348,516	\$2,165,923,485	\$18	\$528,433,139	\$939,958,602	\$20,260,985,845
2020 & Beyond	N/A	N/A	N/A	\$0	\$1,013,049,292.26	\$20,260,985,845

Source: Free Press research

It's important to note that none of these ambitious plans could be implemented by the FCC; all would take an act of Congress. And all would require other changes to prevent undue political influence in public media content and to ensure that public media are well run, more diverse, and worthy of increased support. These include changes in how the CPB board is appointed, strengthening the role of ombudsmen, creating higher benchmarks for station performance, and increasing the diversity of audience and content.

But there are a few things that the Commission can do right now to help public media by taking action in a series of proceedings already underway.

These include:

- ✓ Rejecting calls for newspaper-broadcast cross-ownership and more media consolidation;
- ✓ Requiring sponsorship identification to protect viewers from fake news;
- ✓ Creating strong Net Neutrality rules so Internet users have unfettered access to the great content public media offer; and
- ✓ Ensuring that the FCC has the ability to carry out the national broadband plan to connect all Americans to the fast, affordable, open Internet.

The one other thing the FCC can do — and it's crucial — is to help engage the American public in this discussion. We shouldn't just meet at the FCC. We need to take this show on the road and give local communities a chance to share their ideas.

Any of these solutions — or perhaps a better one that's still out there — will require building a national constituency to move statehouses and Capitol Hill to implement the right policy changes in support of public media in its many forms.

We have a crisis. We have an historic opportunity. We can't let either go to waste. ■