APBC FY17 Budget Cut
Work Session Discussion Paper
April 12, 2016

Overview

Purpose of the Alaska Public Broadcasting Commission (Alaska Statute 44.21.264): The commission is created to encourage and supervise the development of an integrated public broadcasting system for the state and for the coordination of all public broadcasting stations. The primary purpose of the commission is the encouragement and support of noncommercial public broadcasting in the state through the provision of operating and capital grants in support of the delivery of noncommercial programs intended for a general audience by locally controlled nonprofit broadcast stations or telecommunications entities.

On March 11, 2016 the twenty-six radio station grantees learned that a 27% reduction in State of Alaska (SOA) funding will likely be the best possible outcome in FY17. For the TV and APBC grants the best possible outcomes are losses around 5%. The Conference Committee is expected to take action on final FY17 funding levels for public broadcasting in the days ahead. If the legislature chooses the House levels, then the Commission will be investing $2.68M in public broadcasting in FY17. This represents the lowest level since before 1986 and another reduction is in the forecast for FY18. There is intense pressure on all stations to deal with these losses in revenue. Of even greater concern, the two year decline in SOA revenue puts several stations at risk of losing eligibility to receive federal operating grants through the Corporation for Public Broadcasting (CPB). For the Commission, the central question is how to proceed with allocating remaining funds: stay the course using the formula or consider a different approach?

Given these system challenges and the proximity to the start of the fiscal year, the APBC will benefit from having additional discussions regarding how to proceed with operating grant allocations in FY17. This work session and the one scheduled for April 29 will inform and better position the Commission for finalizing decisions at the June 17 meeting in Anchorage. To help frame the issues and discussion, please review the following background information on 1) CPB radio station operating grants in Alaska, 2) the nature of 'sole service' 3) the issue of lost federal funding due to SOA revenue reductions.

Sole Service Stations – CPB Designation

Per CPB, eleven public radio stations in Alaska currently qualify as *sole service stations.* In these areas there are no alternatives on the dial. Stations designated as sole service Level A grantees by CPB are not at risk of losing federal funds. This does not mean that these stations are not seriously impacted by lost SOA revenue but they are not facing a crippling blow of additional lost federal operating grants.

- Nine of the eleven sole service stations in Alaska are currently designated as Level A grantees: Chevak, Fort Yukon, Galena, McGrath, Saint Paul, Sand Point, Talkeetna, Unalakleet and Unalaska.
- The two other sole service stations actually secure higher federal funding amounts as Level C grantees: Barrow and Kotzebue. If these two stations failed to meet the Level C requirements, they would drop to Level A eligibility status and funding level.

Of note, the late Senator Stevens deserves credit for establishment of the Level A designation. He believed that public broadcasting was an essential service in Alaska and wanted to ensure that sole service stations received a minimal level of funding to ensure a minimal level of local service.

Alaska Recognition of Unique & Essential Local Service

The CPB designation of sole service is narrowly defined and does not capture the whole picture in Alaska. Ten Level C stations located in Bethel, Dillingham, Haines, Homer, Ketchikan, Kodiak, Petersburg, Sitka, Wrangell and Valdez serve communities where there may be other program options including commercial and religious broadcasters. Many of these alternative program sources are automated with a national program stream – no local content, voices, or control, and provide little if any local, state or national news programming. In these communities and service areas, public radio stations are the trusted community source for local news, local public affairs, local emergency/public safety information, broadcast of governmental meetings and community information. They are an integral part of each community. In addition, they provide sole service coverage to regional areas outside their main community as their signals reach surrounding areas while the imported translator stations do not. These stations would not be eligible for CPB Level A sole service designation if they lose their Level C status.

The Level C stations in Anchorage, Fairbanks, Juneau, and the Level B station in Kenai all provide local programming services that are otherwise not available in their areas (e.g. broadcast of local government meetings) and in many cases provide sole service coverage to outlying areas.

In short, no other locally owned and operated media will provide the kind of critical information sharing platforms that public broadcasting stations provide within their communities and across the state. No other funding source will replace the SOA's investment in this vital information infrastructure, this strong path of communications, across our vast multifaceted and multicultural state.

SOA Revenue Reductions = Federal Funding Losses for CPB Level B & C Grantees (17 stations)

Full financial impact of the FY16 and FY17 SOA budget cuts will be realized two years after the fiscal year in which the reduction occurred. For example, FY16 SOA reductions will impact FY18 CPB operating grants. FY17 will impact FY19 and so on.

- All Alaska Level C stations (16 stations) will lose federal matching funds starting in FY18.
- Several stations will be at risk of not qualifying for the federal grant program in the future as they are projected to fall below having a minimum level of non-federal financial support (NFFS); there is also a staffing requirement that may be tough to maintain with reduced revenue.
- Two variables drive this result: SOA funding is in steep decline, CPB NFFS levels are increasing.

Per CPB, when combining FY16 reductions with a 27% reduction in FY17 (likely best case scenario), the following stations face grant program eligibility issues:

- Starting in FY18: KDLL, KSTK (possible)
- Starting in FY19: KDLL, KSTK, KCHU,

Per CPB, when combining FY16 reductions with a 100% reduction in FY17 (worst case scenario), the following stations face grant program eligibility issues:

- Starting in FY18: KDLL, KSTK
- Starting in FY19: KDLL, KSTK, KCHU, KHNS, KFSK

These at risk stations will have a two year window in which to raise enough local revenue to meet the minimum NFFS. If they fail, then in the third year they will stop receiving federal operating grants which range from $95K-$125K. The combined SOA/CPB losses for these stations will range from 45-60 percent.
In order to maintain CPB grant eligibility, these stations must raise significant new local revenue while:

- Operating with less local capacity due to layoffs, already very small staff size.
- Implementing reductions in local service.
- Facing additional SOA reductions in FY18, the financial hole gets deeper.
- System impact plays out: APRN viability, group program buy viability, etc.
- Economic recession takes hold on a statewide level.

It will be very difficult for stations to maintain let along grow local financial support in this environment. *Should this federal funding issue, and the threat it poses to the sustainability of several stations, have any bearing or impact on the APBC's FY17 grant allocation decisions?*

APBC FY17 Radio Grant Allocations

Deep SOA budget cuts more than 20 years ago gave rise to CoastAlaska, APBI, the APRN merger with APM and the creation of the Alaska One television service which recently morphed into Alaska Public Television. These large scale system changes shared a common motivational premise, preservation of locally relevant services; not preservation of organizational structure. These efforts and outcomes were station lead but APBC guidance was also in the mix. That combination is potentially needed again to maintain local service statewide.

To that end, how should the APBC allocate the 27% reduction in FY17? Last year the APBC ran the FY16 radio reduction through the formula. This methodology has provided a measure of operating grant predictability since 2009. In lieu of developing a new approach, the formula is the automatic method by which this decision is made annually. Running the FY17 reduction through the formula is a reasonable way to proceed. Managers have already prepared for this potential outcome. A 27% cut brings significant impact, direct and indirect, for all grantees. There will be increased pressure on all grantees to further pursue resource realignment and cost/service sharing initiatives with partners in FY17, especially when viewed in context of another significant budget cut in the forecast for FY18.

On the other hand, this steep decline in SOA revenue could prompt consideration of a different approach to investing dwindling revenues. If the Commission wishes to explore a new approach, then discussion is warranted at this time. Bear in mind that a new approach would take time to develop, vet, and implement. Following are a few examples of different approaches. These ideas are only starting points and they would have to be fully developed to assess station impacts and system ramifications:

1. Across the board cuts per formula. Add Commission intent language such as:
    a. X% of APBC grant must be spent on shared services/costs in FY17.
    b. Add a grantee requirement calling for meaningful, measurable, shared services/costs.
2. Adjust formula in order to attain a certain outcome such as preserving funding levels for a category of stations or service providers. APBC intent language or not.
3. Have urban grantees receive a higher % cut. APBC intent language or not.
4. Stations at risk of losing CPB funding: shift SOA funding around to maximize the total federal investment in the Alaska system. If so, how to avoid harming stations projected to meet NFFS minimums?

If considering a new approach, it will be important to ask: what is the objective or desired outcome?

Other Questions & Issues

- Rural engineering service: amount per legislature $200K. Legislative intent language was tied to these funds when first secured in FY12. Fund this service in FY17? If so, at what level?
- FY17 Discretionary Fund: amount historically set at $50K. For many years the primary use of these funds has been for in state training for system personnel and emergency funds. Establish a Discretionary Fund in FY17? If so at what level and for what purpose?
- TV group proposal: historically they present a unified proposal. Will that be the case again this year?

Ideally the APBC will come to an understanding of how to implement FY17 cuts in a timely manner. The goal of this first work session is to review information, consider additional ideas and questions from Commissioners, and see what direction the APBC will most likely pursue. We will then determine what, if any, additional information needs to be generated in support of making a decision. We will reconvene on April 29 and hopefully, at that time, there will be some clarity on how the Commission will allocate FY17 operating grants.