PUBLIC MEDIA CO.

4845 Pearl East Cir. Ste. 101
Boulder, CO 80301
publicmedia.co

T 720.304.7274
F 720.565.6692
info@publicmedia.co

WHEN IS 90% NOT REALLY 90%?

When we're talking about the repack!

This analysis is coming from Public Media Company's ATSC 3.0 Public Media Ventures Group team, and is an example of the kind of in-depth information we will provide to members of the Ventures Group.

At the recent PBS TechCon, Joseph Seccia of Gates Air reviewed the situation of a hypothetical public television station with a $500,000 repack budget. Based on the "…up to 90%…" money-upfront provision that APTS obtained from the FCC for public television stations, the hypothetical station that Joe postulated might assume that it would have $450,000 available at the start of the repacking process to draw down to meet the cash requirements of repacking. Under this happy scenario the station would need to cover only $50,000 of the cost (10%) until the "square up" at the end of the repack.

However, it turns out it's very possible that 90% won't actually be 90%.

Joe projected that the station might only be allocated $163,800 in advance, a bit more than 30%. The remaining $336,200 wouldn't be paid to the station until the end of the repack process.

This got our attention at PMC and we dug into the numbers a little more. We concluded that, taken as a whole, the assumptions that Joe used in his projection might be a bit pessimistic (although they are within the realm of possibility), but we think he's likely right on the money in a couple of areas.

First, there's a good chance the $1.75 billion repack fund that Congress has allocated to pay station costs will prove to be inadequate. We don't know for sure, and we won't know for a couple of months until stations submit their repacking budgets to the FCC. But there is reason for concern. Some prognosticators estimate that $1.75 billion will be enough, but a number of reputable others caution that the cost will be much higher. Most prominently, the NAB[1] projects that the repack will cost $2.5 billion and we've seen other estimates that come in around $2.25 billion. We suggest that stations use

[1] National Association of Broadcasters

a planning range of $2.25 billion to $2.50 billion for total repacking costs under the theory that the wise manager hopes for the best but plans for the worst.

Second, Joe assumes that, to the extent repacking costs exceed the $1.75 billion budget, the FCC will reduce the amount available to stations up-front proportionally. We think that's a good assumption. One reason is simple math. Let's assume the NAB's $2.5 billion estimate is right. 80% of $2.5 billion is $2.0 billion, $250 *million* more than Congress has allocated for the *entire* repack. At this cost, the FCC won't have enough money to fund the promised 80% of the estimated cost to commercial stations, let alone the 90% that's supposed to be advanced to public television stations. The FCC won't have any alternative but to proportionally reduce everyone's up-front payments until Congress increases the repack fund.

We ran our own numbers. We're not as pessimistic as Joe in that we assume the full $1.75 billion will be available to the FCC when stations begin to incur repack costs (although, currently, the FCC has only $1 billion to draw from[2]). And we assume that the $1.75 billion won't be subject to a sequester, a budget maneuver that Congress occasionally uses to claw back money it has already appropriated. Finally, we assume that, if the estimated repack costs exceed $1.75 billion, the 90% advance available to public stations and the 80% available to commercial stations would be reduced equally by the proportion of the shortfall.

Here's what we found, assuming the total repacking costs are $2.5 billion as the NAB projects.

[2] Incentive Auction R&O, Para. 615

Advance Shortfall at Total Repacking Cost of $2.5 Billion[3]

Station Repack Budget	Full advance (@90 percent of Repack Budget)	Actual Advance	Shortfall Carried by the Repacked Station
$250,000	$225,000	$157,500	$92,500
$500,000	$450,000	$315,000	$185,000
$750,000	$675,000	$472,500	$277,500
$1,000,000	$900,000	$630,000	$370,000
$1,500,000	$1,350,000	$945,000	$555,000
$2,000,000	$1,800,000	$1,260,000	$740,000
$2,500,000	$2,250,000	$1,575,000	$925,000
$3,000,000	$2,700,000	$1,890,000	$1,110,000

Table description: A public television station's repack budget is in first column, its full 90% advance is in the second column, the actual advance the station would receive after the proportional reduction applied is in the third column, and the deficit the station would be on its own to cover until the square-up is in the fourth column.

Broadcasters with a single transmitter that must be repacked will most likely be on the lower end of the chart. Many public broadcasters will be repacking several transmitters, though, and will see higher costs. And some state networks have the immense challenge of repacking a dozen or more transmitters – their shortfall will likely be off the chart. Keep in mind that these projections are strictly for costs that are eligible for reimbursement through the FCC's repack fund. Costs that stations may incur to build ATSC 3.0 ready facilities (which we continue to strongly recommend) will be in addition to the repack eligible costs.

Again, this scenario is based on the NAB's estimate of a total repacking cost of $2.5 billion. We also ran scenarios at total repacking costs of $2 billion and $2.25 billion. They are available on our website http://www.publicmedia.co/repacking/ .

We all hope (and most observers believe) that Congress will step up and address any shortfall in the repacking budget. If they do, the stations will need to find a way to finance the deficit initially, but they will eventually be repaid.

But even in this rosy scenario, stations are unlikely to have access to the cash they need to cover the bulk of their costs for some time. First, there won't be an adjustment this fiscal year because Congress has already passed a stopgap measure to keep the government operating through September 30th, and an increase in the repacking fund isn't in it. Second, if history is a guide, smart money would bet that Congress won't pass a FY 2018 budget (the next opportunity to increase the repacking fund) until

[3] To our knowledge, the FCC has not yet announced how they will calculate the reduction in the accounts they are setting up in the Treasury that stations can draw down as they purchase equipment if actual repacking costs exceed $1.75 billion. We think the method we have used here is a reasonable approach and is useful for your planning purposes, but the method the FCC actually uses may be different and result in numbers somewhat different from what we have calculated.

well in the 2018 fiscal year, perhaps close to a year from now. Third, even smarter money would bet that an increase won't be in the 2018 budget anyway, given tax reform, current financial pressures, and the fact that the end of the repack is several budget years off. Finally, we understand that the Office of Management and Budget has already "tagged" the revenue from the auction, essentially meaning that the auction proceeds are already spent. So, any increase to the repack fund will have a negative consequence on the deficit.

We recommend that stations make plans to cover the shortfall for two to three years.

We also recommend that stations run their own projections about their potential shortfall and begin to plan for it now. Many institutional licensees have the potential to approach their parent organization to help cover a temporary shortfall. State licensees may be able to obtain special appropriations to cover their needs. Community licensees may be more challenged.

Stations in later repack phases have a little time to make appropriate financial arrangements but stations in earlier repack phases have to move very quickly to develop a plan to meet the immediate cash requirements associated with the equipment they will need to acquire.

PMC has arranged a $20 million+ loan fund to help stations cover the costs of the repack and ATSC 3.0 conversion. One advantage of this fund is that the lender understands public media and their unique needs. Another advantage is that there is flexibility on prepaying the loans, so stations could repay the loan when and if FCC reimbursements become available. More information is available at

http://www.publicmedia.co/public-television-financing-program/.

Beyond this immediate challenge, PMC has been working for the last few years to help public television stations prepare for the auction, the repack, and the coming opportunities with ATSC 3.0. We are currently forming a Public Media Ventures Group, a small group of stations that will lead the development of innovative revenue and service models under ATSC 3.0. PMC has assembled a team with deep experience in both public media and commercial television to work with the Public Media Ventures Group, and will bring in leading thinkers and entrepreneurs in broadcasting and allied communications fields to brief the Ventures Group. We will soon finalize the membership of this group so, if you are interested, please contact us.

PMC is also working with stations on post-auction channel-sharing opportunities. For more information about PMC's channel sharing services, visit http://www.publicmedia.co/fccspectrumauction-and-channel-sharing/.

PMC provides a variety of brokerage, financing, business planning and general consulting services to stations. Please feel free to contact us at info@publicmedia.co, if you any questions about this article or if we may be helpful to you as you plan for the future.