CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 1, 1999

H.R. 486
Community Broadcasters Protection Act of 1999

As ordered reported by the House Committee on Commerce on August 5, 1999

SUMMARY

H.R. 486 would direct the Federal Communications Commission (FCC) to establish rules and procedures under which certain low-power television stations (LPTV stations) could change their regulatory status and associated broadcast rights. The FCC would be directed to develop the rules and approve applications within six months after enactment of the bill.

CBO expects that implementing H.R. 486 would result in the net loss of about $95 million in offsetting receipts from spectrum auctions in 2002. The bill's changes could lead to a loss of additional amounts in future years, but CBO estimates that there would be no additional impact through 2007, when the FCC's authority to auction spectrum is scheduled to expire. Because the bill would affect direct spending, pay-as-you-go procedures would apply. We estimate that the bill would have no net effect on discretionary spending because the FCC is authorized under current law to collect fees from the telecommunications industry sufficient to offset the cost of its regulatory and applications activities.

H.R. 486 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would have no significant impact on the budgets of state, local, or tribal governments.

BACKGROUND

LPTV stations are broadcast stations that transmit signals at much lower power levels than conventional TV stations. Under current policy, LPTV stations are licensed as secondary users of the part of the radio spectrum allocated to television broadcasting, which means they can be displaced at any time if the FCC allocates frequencies to primary users, such as full-power TV stations. The ongoing transition to digital television (DTV) will reduce the amount of spectrum allocated for TV broadcasting and will lead the FCC to displace or even revoke the licenses of many LPTV broadcasters. Specifically, the frequencies now used for

channels 52 through 69 will be reallocated for other purposes. The remaining spectrum (that used by channels 2 through 51, also known as the core) should be sufficient to accommodate all existing full-power stations, but may not support all existing LPTV stations. Accommodating secondary licensees is especially difficult during the transition to DTV because full-power stations are temporarily using two channels—one for analog and one for digital broadcasts. Pending applicants for new, full-power analog stations may also claim channels now used by secondary licensees. Hundreds of LPTV stations are now in the process of trying to avoid permanent displacement by obtaining alternative channels in the core or by adjusting their operations to accommodate primary licensees.

In addition, the FCC has indicated that it will auction channels within the core that will not be used by primary licensees once the transition to DTV is complete. According to industry and agency analysts, those auctions could include spectrum that will no longer be needed for analog stations or interference buffers as well as spectrum used only by secondary licensees. Recent FCC rulings suggest that such channels will be auctioned in 2002, consistent with the terms of the Balanced Budget Act of 1997.

H.R. 486 would create a new Class A license for LPTV stations that would give eligible stations primary status. Licensees would be eligible for Class A status if they met certain programming requirements or if the FCC deemed it to be in the public interest. Eligible licensees would be granted primary status if they are licensed to operate on certain channels in the core. Eligible stations located on channels 52 through 69 would be given primary status only after they are assigned a channel in the core. Class A licensees and certain other stations also could obtain an additional channel for DTV services, subject to availability. However, the new Class A stations would not be allowed to interfere with existing full-power analog stations or with certain DTV services.

According to the FCC, at least 200 LPTV stations may be eligible for Class A status in fiscal year 2000. Class A licensees may be located in highly valuable markets, such as New York, Los Angeles, and Boston, as well as in mid-size and small markets, such as Orlando, San Antonio, and Nashville. More Class A stations may be added in subsequent years if the FCC provides eligible licensees with a second channel, but these additional licenses would have to be relinquished at the end of the transition.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO estimates that implementing H.R. 486 would reduce net proceeds from FCC auctions by about $95 million in 2002. This estimate reflects the potential effects of the bill on proceeds from auctions of TV spectrum for new users and from auctions involving LPTV

stations. Based on information from the FCC, we estimate that the bill would have no significant effect on the commission's administrative costs.

Effect on Auctions of Licenses for New Primary Licensees

By increasing the number of primary licensees in the core, H.R. 486 would reduce the number of channels that could be auctioned for new full-power TV stations or other digital services. Whether the FCC would auction frequencies used by LPTV stations under current law is unclear at this time, but implementing H.R. 486 would foreclose that option for the channels occupied by LPTV stations that would have primary status under the bill (i.e., those that would become Class A licensees). To take account of this regulatory uncertainty, CBO assumes that there is a 50 percent chance that the FCC will auction channels used by secondary licensees under current law.

The cost of this legislation would depend on several factors, such as the location of potential Class A licensees and how much their channels would be worth in 2002 if they were auctioned for new full-power stations or digital services. For purposes of this estimate, CBO assumes that 25 percent of the Class A licenses (at least 50, depending on how many stations gain primary status) would affect auction proceeds in 2002. This estimate reflects our expectation that most of the Class A stations would be in small markets with relatively low market values. Our estimate also excludes the potential effects on some major markets, such as New York, Los Angeles, and Philadelphia, because we expect that few slots will be auctioned in 2002 in certain congested markets until full-power stations return their analog channels at the end of the transition period (sometime after 2007).

Data on the value of broadcast services are largely limited to information on the sale of existing stations. According to industry sources, existing TV stations sold for an average of about $30 million in 1997. For the purposes of this estimate, we used an average of $25 million because we are excluding some of the top markets from our analysis of the cost of this bill. Based on agency sources, CBO assumes that the value of the spectrum assigned for such stations represents about 50 percent of the sales price of an operating station, with the remainder attributable to a station's tangible assets, good will, and other intangible assets. This suggests current spectrum values of about $12 million per channel for stations in mid-sized markets. This average is consistent with CBO's analysis of proceeds from the upcoming auction of primary licenses for broadcast services.

CBO expects that the market value of channels auctioned in 2002 would be less than their current value, however. We expect that most of the licenses auctioned in 2002 could not be used until the transition to DTV is completed sometime after 2007, causing companies to

discount their bids to reflect the deferred income streams. Digital broadcasting also will permit more over-the-air channels to be offered in each market, which will decrease the price of new channels. Adjusting for these factors, we estimate that the auction of new channels in 2002 would average about $4 million per channel.

Assuming the bill would preclude the auction of about 50 channels and using an average price of $4 million per channel suggests that enacting H.R. 486 could reduce auction receipts by $200 million in 2002. Because we assume that there is only a 50 percent chance that the FCC would auction these channels under current law, however, CBO estimates that implementing this bill would reduce offsetting receipts from the auction of new primary licenses in 2002 by about $100 million. If the presence of Class A licensees resulted in a loss of offsetting receipts from the auction of a channel in a top market—an unlikely but possible event—the cost of this legislation would be significantly higher.

Enacting H.R. 486 also could result in a loss of receipts after 2002 if the auction held in 2002 does not include all of the spectrum that will be available at the end of the transition to DTV. The costs could be significant if, as assumed in this estimate, the FCC postpones auctioning channels in major markets until the congestion clears at the end of the transition. However, CBO does not expect the FCC to auction more broadcast channels until after 2007, which is the year the commission's general auction authority expires. Hence, CBO estimates that this bill would not affect offsetting receipts over the 2003-2007 period.

Effect on Auctions of Licenses for Existing LPTV Stations

CBO estimates that offsetting receipts from the auction of LPTV stations would increase by about $5 million in 2002 as a result of this bill. CBO expects that proceeds from auctions involving displaced LPTV stations could be higher if two or more of the applicants competing for a license were eligible for Class A status, because the value of a primary license would be greater than that of a secondary license. Based on information regarding stations awaiting relocation, CBO assumes that only a small number of LPTV auctions would involve more than one Class A applicant and that the average proceeds from each auction would be small.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. Because H.R. 486 would affect direct spending, pay-as-you-go procedures would apply. The estimated impact on outlays is shown in the following table. For purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in outlays	0	0	0	95	0	0	0	0	0	0	0
Changes in receipts	Not applicable										

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 486 contains no intergovernmental or private-sector mandates as defined in UMRA and would have no significant impact on the budgets of state, local, or tribal governments. These governments may experience some minimal benefits to the extent that they own low-power television stations that would qualify for the Class A licenses to be established under the bill.

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