CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 8, 1998

S. 1720
Copyright Compulsory License Improvement Act

As reported by the Senate Committee on the Judiciary on October 1, 1998

SUMMARY

Pursuant to the Satellite Home Viewer Act of 1988, satellite carriers (companies that use satellite transmissions to provide television signals directly to consumers) pay a monthly royalty fee for each subscriber to the U.S. Copyright Office for the right to retransmit network and superstation signals by satellite to subscribers for private home viewing. The Copyright Office later distributes these fees to those who own copyrights on the material retransmitted by satellite.

S. 1720 would allow satellite carriers to retransmit the signals of local television broadcast stations into the local markets of those stations. The bill also would extend the requirement that satellite carriers pay royalty fees to the federal government until December 31, 2003. Finally, the bill would reduce the fees charged to superstations by 30 percent to $0.19 per subscriber per channel per month and the fees paid by network stations by 45 percent to $0.15.

CBO estimates that enacting S. 1720 would decrease revenues from royalty collections by $63 million in 1999, but would increase revenues in subsequent years. We estimate that enacting the bill would result in a net increase in revenues of $407 million over the 1999-2003 period and of $102 million in fiscal year 2004. After review by an arbitration panel, royalty fees are paid to copyright owners, along with accrued interest earnings. With higher royalty collections, the payments to copyright holders would also be higher under S. 1720, by an estimated $110 million over the 1999-2003 period, and by another $446 million over the following five years. Because S. 1720 would affect both revenues and direct spending, it would be subject to pay-as-you-go procedures. Assuming appropriation of the necessary amounts, CBO also estimates that issuing conforming regulations would cost the Copyright Office about $500,000 in 1999.

The bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1720 is shown in the following table. For purposes of this estimate, CBO assumes the bill will be enacted near the start of fiscal year 1999. CBO also assumes that payments from the federal government to copyright holders for satellite transmissions would follow historical patterns. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars				
	1999	2000	2001	2002	2003
Receipts and Spending Under Current Law					
Estimated Revenues[a]	322	259	183	193	202
Estimated Budget Authority[b]	376	286	208	217	225
Estimated Outlays	332	295	250	216	205
Proposed Changes					
Estimated Revenues	-63	19	127	149	175
Estimated Budget Authority	-65	17	130	158	188
Estimated Outlays	0	-20	-29	37	122
Net Increase or Decrease (-) in Surplus	-63	39	156	112	53
Receipts and Spending Under S. 1720					
Estimated Revenues[a]	259	278	310	342	377
Estimated Budget Authority[b]	311	303	338	375	413
Estimated Outlays	332	275	221	253	327

NOTE: In addition to the effects shown above, S. 1720 would increase spending subject to appropriation by about $500,000 in fiscal year 1999.

a. Includes royalty collections from cable television stations, jukebox licenses, satellite carriers, and digital audio devices.
b. Payments to copyright owners include interest earnings on securities held by the Copyright Office.

BASIS OF ESTIMATE

S. 1720 would allow a satellite carrier to make secondary transmissions of local television broadcasts, extend copyright royalty fees, and reduce the rates of those fees. All of these provisions would affect payments by satellite carriers to the federal government and payments by the federal government to copyright holders. Assuming enactment of the bill near the beginning of fiscal year 1999, CBO estimates that S. 1720 would increase revenues by $407 million and increase spending by $110 million over the 1999-2003 period.

Secondary Transmissions

Section 2 of S. 1720 would allow satellite carriers to retransmit the signals of local television broadcast stations into the local markets of those stations. Secondary transmissions would make the services provided by satellite carriers much more attractive to people who are not customers of cable television stations. As a result, CBO expects that the number of subscribers to satellite services would increase more rapidly than under current law. Based on information from the Copyright Office, CBO estimates that under S. 1720 the annual change in the volume of satellite services would increase from a projected rate of 10 percent a year to 17 percent a year by 2001. By 2003, this increased rate of growth would result in additional annual revenues of $38 million, all of which would ultimately be paid out to copyright holders. Because these provisions could increase the incentives for choosing satellite service over cable service, they might lead to a loss in revenues from cable fees. However, based on information from the Copyright Office and the cable and satellite industries, CBO estimates that any such reduction in revenues would not be significant.

S. 1720 would result in a small discretionary cost for the Copyright Office to issue conforming regulations. CBO estimates that the cost of issuing those regulations would be about $500,000, subject to the availability of appropriated funds.

Reduction in the Copyright Royalty Fee

A rule issued on October 28, 1997, by the Librarian of Congress, increased the royalty fee to $0.27 per subscriber per month. S. 1720 would reduce the royalty fee on superstations by 30 percent to $0.19 per subscriber per channel per month and the rates on network stations by 45 percent to $0.15. Based on information from the Copyright Office, CBO estimates that this provision would reduce revenues by $63 million in fiscal year 1999.

Extension of Copyright Royalty Fees

Under current law, the royalty fees for satellite carriers expire on December 31, 1999. S. 1720 would extend royalty fees through December 31, 2003, increasing both revenue from satellite carriers and payments to copyright holders (including interest) during the 2000-2004 period. CBO estimates that revenues from satellite carriers would total $103 million in 2000 (of which $51 million would be from the proposed extension of fees). In 2000, the net change in estimated revenues is relatively small because of a lag between changes in fee rates and the collection of such fees. In particular, the first of two annual payments to the Copyright Office in 2000 would be lower than under current law because of the lower rates required by the bill for 1999. Only the second of those two payments would reflect the bill's extension of the authority to collect royalty fees. By 2003, we expect additional revenues to total $175 million.

Payments to Copyright Holders

S. 1720 would result in additional spending because all revenues are eventually paid to copyright holders with interest. Historical spending patterns indicate that copyright holders may receive the fees and interest up to four years after the Copyright Office has collected the revenues. Thus, CBO estimates a significant lag between changes in revenues and the eventual changes in outlays that stem from copyright fees.

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. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in 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
Changes in outlays	0	-20	-29	37	122	166	162	95	23	0
Changes in receipts	-63	19	127	149	175	102	0	0	0	0

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 1720 would impose no intergovernmental or private-sector mandates as defined in UMRA. However, the bill would have two effects on the future royalty fees paid by satellite carriers and later distributed to copyright holders, which include some state and local governments entities. First, the bill would reduce the rates that satellite carriers must pay to retransmit the signals of local television broadcast stations. Second, the bill would extend the fees (at the lower rate) from the end of calendar year 1999 to the end of calendar year 2003. The net result of theses two changes would be to decrease payments to copyright holders by $49 million over years 2000 and 2001 and to increase these payments by $605 million over the 2002 to 2007 period.

PREVIOUS CBO ESTIMATES

CBO has transmitted numerous estimates for legislation making changes in satellite royalty fees. On September 4, 1998, CBO transmitted an estimate for H.R. 2921, the Copyright Compulsory License Improvement Act of 1998, as ordered reported by the House Committee on the Judiciary on August 4, 1998. On July 9, 1998, CBO transmitted an estimate for H.R. 2921, the Multichannel Video Competition and Consumer Protection Act of 1997, as ordered reported by the House Committee on Commerce on June 24, 1998. On March 26, 1998, CBO prepared a cost estimate for S. 1422, the Federal Communications Commission Satellite Carrier Oversight Act, as ordered reported by the Senate Committee on Commerce, Science, and Transportation on March 12, 1998. Differences between those estimates and the estimate of the S. 1720 reflect differences in the bills and the timing of fee collections.

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