

Cable TV: Money to the People

by THOMAS BROM and EDWARD KIRSHNER

Only 14 cities now own and operate their own cable television systems. Yet it's a profitable business that seems a natural for municipal ownership.

The city of Palo Alto, California, owns its own electric-power distribution network. The system earns \$4 million a year for the city, and the citizens of Palo Alto pay one-third less for electricity than residents of nearby cities with private utilities. As municipal income from such enterprises goes up, taxes, correspondingly, can go down. Right now Palo Alto is planning to expand its domain of profit-making enterprise one step further into the fastest-growing branch of electronic media: cable television.

Cable television normally has something of a science-fiction air about it. Thanks in large part to the spate of popular articles on the subject that have appeared over the last ten years, the words conjure up images of electronic newspapers, push-button bank withdrawals, and credit-card grocery orders. It's only a short step to a McLuhanesque global village: no one ever leaves home, and everyone has access to whatever anyone else knows or wants to sell.

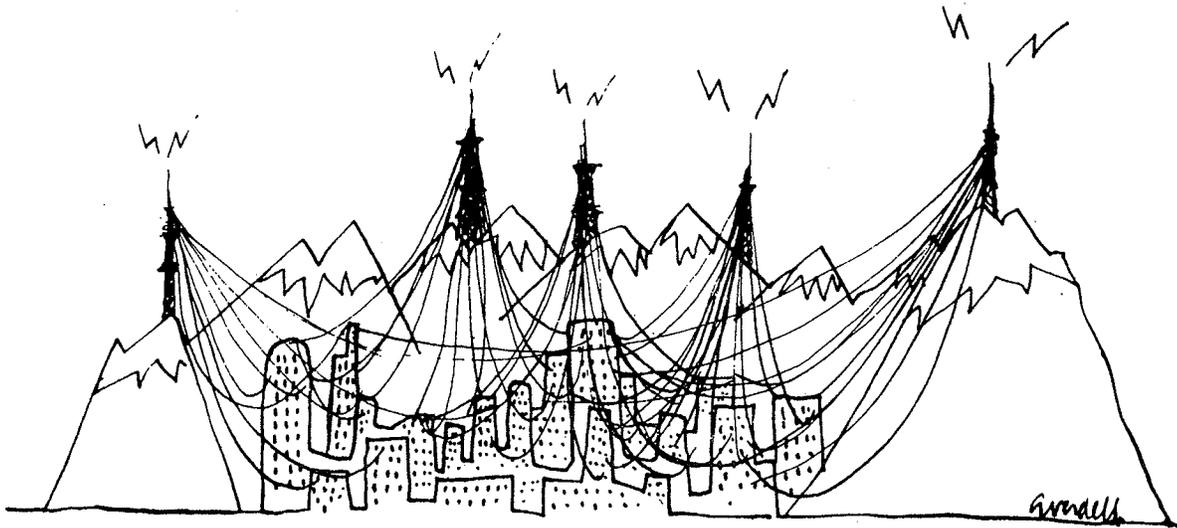
The technological reality of cable TV, of course, is quite different. By and large, local CATV systems consist of one or more receiving antennas built on a convenient hill, with cables wired down public streets to connect with people's homes. The high antenna allows reception of distant broadcast television signals. Instead of getting four fuzzy channels with your own antenna, you pay \$5 a month to get ten clear channels from the CATV antenna.

THOMAS BROM is a freelance writer based in California. He was formerly communications director for American Documentary Films, and has written widely on films and television. EDWARD KIRSHNER is a city planner and activist specializing in municipal ownership and new town development. Both Brom and Kirshner are presently connected with the Community Ownership Organizing Project located in Oakland.

What is important right now about cable TV isn't technology, it's economics. CATV is rapidly becoming a multibillion dollar industry; with some of the country's largest corporations acquiring vast systems. At the same time, there is a small but growing countermove afoot toward municipal ownership of local systems. A few communities around the country have been asking themselves why the communications conglomerates should get all that money from a monopoly that the communities themselves franchise.

Here's how the economics of cable TV work. An operator invests anywhere from \$2-\$3 million (for a small city) to \$15 million (for a larger one). This investment pays for the antennas, cable, and other equipment; for the contracts necessary to import distant broadcast signals; and for a sales campaign to enroll subscribers. From there on, it's mostly gravy. Cable maintenance, personnel, and overhead are minimal for the life of the system. Subscriber monthly fees are a guaranteed base income. Advertising revenue, the source of all broadcaster profits, has yet to be explored. Pay cable, where a fee is paid to receive special programming and movies, has just begun in the hotels of major convention centers such as San Francisco. Channels leased for business data transmission may provide yet another source of income. Most systems expect to make profits by the fifth year of operation, with income spiraling thereafter through the life of the franchise.

At the moment, America's communications empires are battling with each other over who gets the biggest foot in the door. In June 1973, TelePrompter Corporation had 800,000 subscribers; Warner Cable



Corporation, a subsidiary of Warner Communications, had 450,000, and Tele-Communications, Inc., a Denver-based firm, was third with 387,000. Viacom International (a spinoff from CBS), Athena Communications (a spinoff from Gulf & Western), Cox Cable Communications, and UA-Columbia Cablevision are among the other big firms developing (or purchasing) cable systems. In 1972, the top 12 firms accounted for more than half of the 5.5 million cable subscribers then enrolled. According to one estimate, annual cable TV income will be \$4.4 billion in 1980.

Aside from competition from the other giants, cable TV operators generally face only one hitch. Because cables must be strung over or under public streets, operators must secure a franchise from each town government before they build. Such agreements are commonly signed for a period of 15 to 25 years, with 2-5 percent of the gross subscriber receipts paid to the municipality. Recently, revenue-starved cities and towns have been balking at giving away the franchise. A small number have actually set up their own municipally owned systems.

The prime example is San Bruno, California, a suburb of 40,000 people 20 miles south of San Francisco. After several early feelers from cable operators, San Bruno performed its own CATV feasibility study and marketing analysis in 1968. City Manager Gerard S. Vergeer concluded, "a cable TV utility operation is entirely feasible and would provide additional general fund revenue in substantial amount after repayment of the capital outlay."

San Bruno, which operates many of its other city services, was able to borrow \$505,000 from surplus generated by the water department to begin CATV

construction in 1970. The Stanford Research Institute offered to investigate and predict the financial expectations for the San Bruno system in 1971; it reported that in the seventh and following years of operation, the city would earn profits of \$204,000 a year. And that figure included income from monthly subscriber fees alone.

In March 1972, after six months of operation, revenues were so high that the second stage of construction was begun a year ahead of schedule. According to the most recent cash-flow charts, the \$100,000 one-year improvement loan from the public works fund will be repaid in only nine months. Presently CATV reaches 58 percent of the potential subscribers in San Bruno; the feasibility study projected profits at a 45 percent figure.

San Bruno has one of only 14 municipally owned CATV systems in the country. And with a population of just 40,000 it is still twice as populous as any of the other 13 cities. Nonetheless, more and more localities have had private feasibility studies performed on municipal CATV development. Palo Alto is committed to municipal ownership and plans to finance a good deal of locally originated programming. A mammoth Rand study of the Dayton, Ohio, metropolitan area offered municipal-regional CATV as one of the feasible options. The entire province of British Columbia in Canada is currently estimating the benefits of both CATV and telephone operation as public utilities; the mayor of Vancouver recently gave the concept his approval. Waiting in the wings are such towns as Tonawanda, New York, Culver City, California, and a five-city regional CATV authority in the Huntington Beach area of California.

In Detroit, the CATV commission recently released a 162-page report advocating municipalization.

Detroit is the sixth largest media market in the country; municipal ownership there would surely mark a watershed in CATV franchise policy.

Where Will it Work?

Not all cable systems will be as easy to set up or as immediately profitable as San Bruno's. One problem is financing. Despite the potentially high profitability of CATV operations over the life of a 15 to 25-year franchise, the capitalization of such an operation is a serious undertaking. The sheer magnitude of the operation, coupled with the complex technology, continues to persuade many cities to grant private CATV franchises rather than undertake the enterprise themselves.

Cities like San Bruno and Palo Alto have a history of municipal ownership of basic utilities; their citizens are used to the idea, and there are often city funds available for initial capitalization. Other localities may not be so fortunate. But bonding authority is often available, and cities may be able to attract financing that way.

Whether a city *can* finance a CATV system and whether it *should* do so, of course, are two separate matters. Among the profitability factors are geography, quality of broadcast reception, proximity to cities in the top 50 or 100 media markets, population density, and local requirements on cable connections. In the majority of American cities and small towns, municipal cable is not only feasible but enormously profitable on subscriber revenues alone. The present exceptions are rural areas where population density is so low that monthly revenues would not cover construction and equipment costs, and in some of the largest urban suburbs with excellent broadcast reception. Federal subsidy, similar to Rural Electrification Administration loans for rural telephone systems, would make the former financially feasible. The urban systems are more complex, caught in the present battle between competing technologies and economic interests.

The latest set of CATV regulations issued by the Federal Communications Commission—the Third Report and Order—made things very difficult for cable systems operating in the top 50 markets. Those difficulties are in large measure a result of constant and vigorous lobbying by the National Association of Broadcasters, culminating in revised urban-cable-policy guidelines issued by the FCC on February 2, 1972. Commissioner Nicholas Johnson immediately labeled that decision “a patchwork of protectionism, designed to foster the interests of vested economic

institutions at the expense of the public,” and “a cold and smog-filled day” for CATV.

Briefly, the new rules provided “exclusivity” contracts to broadcasters for certain programming that could not be picked up by CATV systems. They also severely limited CATV importation of distant broadcast signals and forbade “leapfrogging” whereby a CATV system might skip over nearby broadcasters in favor of importing more distant stations.

The net effect was to protect local broadcasting interests in the big markets. CATV systems in these markets are also required to provide locally originated programming and will be required to provide a free government channel, educational channel, and public-access channel by 1977. These CATV services are not required in the smaller media markets, where, ironically, subscriber revenues are generally higher than in the cities.

All of this has produced a situation where many big-city cable systems are not immediately profitable on revenue from subscribers alone. Advertising, pay cable, and various ancillary services will no doubt insure the profitability of urban systems in the near future. But at present, the media conglomerates write off the losses (both real and fictional) against taxable income earned elsewhere.

Municipal cable systems have no such latitude. One alternative is for cities to create a partnership that would allow private investors to claim losses for tax purposes. The investors would in turn provide up to 25 percent of the venture capital. Otherwise, municipalities would have to absorb losses until sufficient urban cable services were developed to provide operating revenues, or until broadcast protectionist policies eased. That period might be relatively short, but cities contemplating municipal ownership must consider financing through the lean years.

“Unfair Competition”

In most cases, all of these caveats put together appear insignificant when compared to the potential benefits of municipal ownership. Cable TV systems are essentially simple, long-lived, low-maintenance communications networks with enormous public value. And, since most localities don't yet have cable facilities, the time is ripe to explore and develop the possibilities of municipal ownership.

It won't always be easy. Private cable companies, organized into the National Cable Television Association, are none too happy with the prospect of competition from nonprofit, municipally owned systems. The nation's second largest city-owned

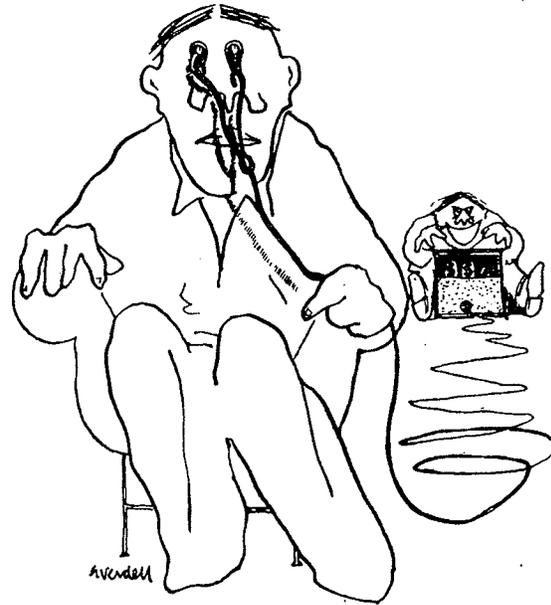
system, in Frankfort, Kentucky, provides a good example of the political obstacles that public TV operations are likely to face.

Frankfort's system is unusual, in that it was established more than 20 years ago; the city is located in a river valley area that prevents good broadcast reception. Like San Bruno, Frankfort operates a municipal water department and owns its electric distribution system. In 1952, the city utility plant board formed a non-stock, nonprofit company to operate the system, and insulated the municipal CATV board from local political interference. Citizens receive cable service for \$2.50 a month, less than half the national average, and the city has still been able to support the Chamber of Commerce and the United Fund generously from subscriber revenues.

But meanwhile the city council of East Frankfort had issued a nonexclusive CATV franchise to Consolidated TV Cable Service, a private operator. As both systems expanded to increase saturation and thereby to lower subscriber costs, they inevitably came into conflict. Operating on a nonprofit basis, able to secure low-interest loans from the city, and offering high-quality service for low subscriber fees, the city system grew faster than the private one. In January 1973, Consolidated petitioned the FCC for relief, with full support from the National Cable Television Association. The firm charged "discriminatory conduct" by the city and its CATV system, official refusal to renew Consolidated's pole-line-attachment agreement, and refusal of permission to expand the system. In the statement of support, NCTA claimed "these actions occurred precisely because the city owns a CATV system." The organization asked rhetorically, "What would be the attitude if the city owned the only newspaper in town, or the only radio station, or the only television station?" It added, "It seems particularly important to us that any medium of mass communications should not fall into the hands of government. The potential for abuse is self-evident. A portion of that potential has already been realized in Frankfort."

Government abuse, of course, would be a problem only if the abusing government agency were beyond public control; otherwise the presumption must be that it is private interests, rather than the citizenry, that are being abused. Cities such as Frankfort and most recently Palo Alto have gone to great lengths to ensure CATV accountability, for example by a governing board that is part of the city government. Whatever the theoretical dangers of government control may be, the public accountability of such a board is surely several orders of magnitude greater

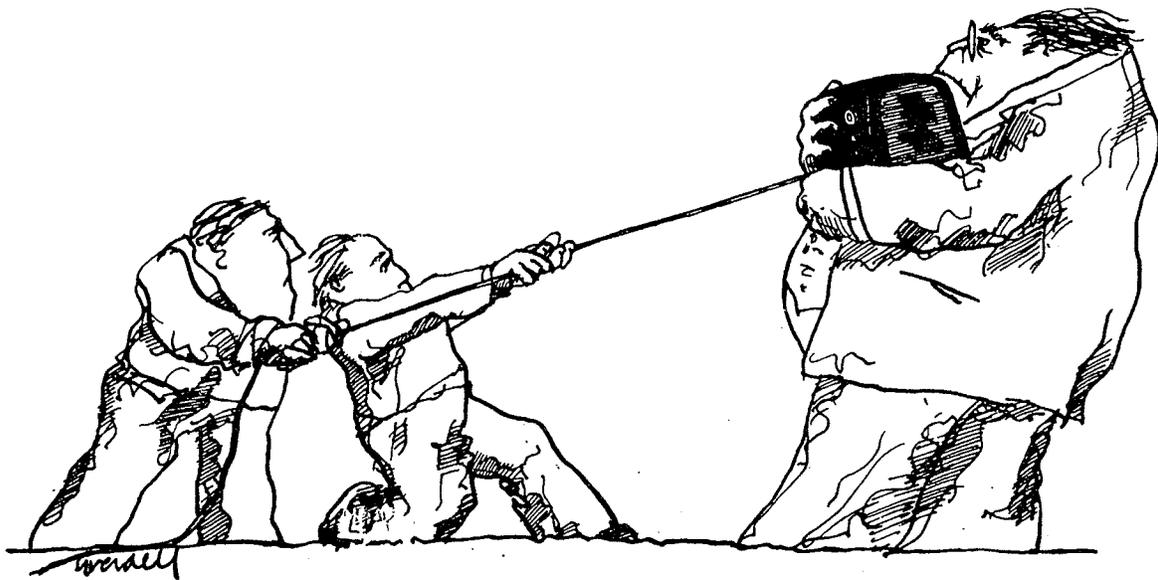
than the accountability of private corporations, most of whom in the CATV industry operate from headquarters in New York City. But residual fears run deep, however irrational they may be. The city of Cupertino, California, dismissed further discussion of



municipal CATV precisely because fears of government control ran so high. The Detroit study commission majority recommended a municipally owned, publicly controlled CATV system, but several spokesmen in the minority were nearly apoplectic in dissent. The arguments run the gamut from the dangers of government control to the notion that public ownership will be a further cause for private businesses to leave the city.

The national campaign now being waged by the NCTA to outlaw municipal and nonprofit CATV systems shows to what extent the cable industry appreciates the specter of increased competition. The people of Chicopee, Massachusetts, and Columbia, Missouri, had a chance to see the cable industry's campaign in action in November of 1972, when both cities had CATV measures on the ballot.

In Chicopee, a referendum was placed before the voters asking, "Should your state representative support a municipally owned cable system?" The *NCTA Bulletin* of January 13, 1973, describes with pride the efforts of the local CATV operator, Spectrum Communications, to control opinion on the issue.



They chose a multimedia approach which intensified during the last ten days before the election. First they purchased program time on two radio stations for saturation spots. Then they secured time on the call-in talk shows of these two radio stations. [J. Orrin] Marlowe [vice-president] and George Townsend, the president of Spectrum Communications, presented their views on these shows and then answered questions telephoned in by the listening audience. Newspaper ads were also purchased to back up the live presentation. Marlowe estimates that the entire campaign cost his company approximately \$1,000.

With little organized backing for the opposite side, the measure, predictably enough, was defeated by more than two to one.

In Columbia, Missouri, the referendum appeared as a proposal for raising a revenue bond issue to finance a municipally owned cable system. On measures concerned with bonding, the local government was forbidden to advocate an affirmative vote. The *Columbia Tribune*, not so bound, nonetheless editorialized, "The most basic reason for opposing the bond issue is simply that the city should not be in the communications and entertainment business." This time a simple majority of the voters approved issuing the bonds, but a four-sevenths vote was needed for passage.

Once again the *NCTA Bulletin* glowed with pride. Certainly the struggle for community ownership will

not be an easy one. But cities have a lot at stake, and a variety of tools at their disposal. For those that have already granted franchises, condemnation proceedings—perhaps based on the misrepresentation that has been a hallmark of franchise battles across the country—can provide a threat sufficient to force public sale of the system. Most model franchise ordinances, including those provided by the League of California Cities and the National Institute of Municipal Law Officers, include a clause reserving the right for the city to "amend any section of this ordinance so as to require additional or greater standards of construction, operation, maintenance or otherwise." A city that wanted to own and operate its system could pressure the private owner into selling through increased demands and strict regulation, coupled with the threat of eminent domain. It could then simply buy the system outright.

Financing, for purchase of an existing system or construction of a new one, will normally be available through bonding or borrowing. Municipal bonds are tax-exempt, and thus carry lower interest rates than other forms of borrowing. Minority communities would in addition be eligible for federal funds, for example through a MESBIC minority enterprise loan.

Each week, *Variety* reports more and more cities that are commissioning special CATV feasibility reports and citizen study groups. Securing a private franchise is not nearly as simple as it was only five years ago. And if even one major city, such as Detroit, makes a

commitment for municipal ownership, then the CATV scenario planned by the industrial giants may be radically altered.

Surely it is a race against time: whether enough communities can wake up to the potential of cable before some kind of prohibiting legislation is passed. With control of communications go vast amounts of money and power, a truism not lost on the current hierarchy of communications conglomerates. Local communities can pre-empt the corporate vision of the CATV future, and they can provide revenues for other services in the bargain. Feasibility studies are not lacking. Technical and financial help is available. Support from established community-owned systems has already been offered by San Bruno, Palo Alto, and others. What remains is for community organizers, interest groups, and their representatives on town councils across the nation to take over cable TV—and thus to return a little more power to the hands of the people.

WP

Working Papers

Winter 1974 Vol. 1, No. 4

For a New Society

Working Papers for a New Society is published quarterly (spring, summer, fall, and winter) by The Cambridge Policy Studies Institute, Inc., 123 Mt. Auburn Street, Cambridge, Massachusetts 02138, a nonprofit corporation.
Phone: 617-547-4474.

Copyright © 1974 by The Cambridge Policy Studies Institute, Inc. All rights reserved.

comment

Working Papers from time to time solicits comments on major articles. Unsolicited comments from readers are welcome as well.

In the last issue of *Working Papers*, Thomas Brom and Edward Kirshner outlined a proposal for municipal ownership of cable television systems. Municipal ownership, they argued, would provide a source of revenue to the city, and would allow public control of cable programming. The following comments are excerpted from a longer exchange concerning this article.

Cable TV: What's It Worth?

1 Brom and Kirshner too easily assume that public ownership means public control and public use. Much of what has passed for "socialism"—e.g., nationalization—should dissuade us from that delusion.

Cable is a new technology. Its use is presently in the hands of large corporations: both the hardware (the cable) and the software (the programming). The problem I see is how we can demythologize the use of this technology so that people can see what's in it for them in terms of personal and community involvement and development. Why bother about ownership if you don't see any use? Why not just leave it to Time-Life and your local video freak?

2 Even if people do come to see some use, who's going to pay for programming? The easy answer is that programming will be financed out of profits. But (a) there may not be any profits; and (b) there perhaps should not be any profits. Shouldn't rates be set low so that more people can have the benefit of the technology? Finally, even if there are profits, the costs of programming would be substantially greater than the profits. Ten or twelve hours a day on ten or twelve channels is a lot of money. (And this does not even get us into the question of how professional such programming has to be to attract people away from network TV.)

3 I am especially disappointed that a piece in *Working Papers* is so vague in its financial analysis. The enormous difference in costs between urban and suburban systems is not articulated. Just for laying the cable, for example, these costs range from \$6,000 per mile for overhead wiring in suburban areas to over

\$125,000 per mile for underground wiring in New York City (though the cost per home passed is probably not so variable). Maintenance costs have proven much higher in urban systems; and "stealing" the signals has proven technologically easier in apartments than in single-family homes.

In the future, urban areas will require many more data transmission facilities for hospitals, police, planning, and business than suburban areas. Urban areas will also require more sophisticated computer switching and monitoring equipment.

4 There is little awareness of the complexity of the rate and standards problems deriving from FCC and state regulations. Nor is there much awareness of the problems inherent (for most states) in revenue bonding for cable systems.

5 Finally, I am not sure that *municipal* ownership is the direction *public* ownership should take. Municipal boundaries are too restrictive. There are more public concerns than fit easily into municipal concerns: federal, state, regional, neighborhood, etc. I would argue for a broader concept of the public corporation. It would include all major users of the systems and focus on the problems of use, not on those of building and maintaining the system. If we are thinking of arranging communications technology to serve communities, let us think of whole communities and not be bounded by such old restrictions as municipal or school-district boundaries.

—Thomas Hargadon
Belmont, Massachusetts

The authors reply:

Let us respond to Mr. Hargadon's points in order.

1 We never meant to imply that formal public ownership would *automatically* produce ideal public control and public use. Local public ownership does, however, allow more public control than the absentee monopoly ownership that currently characterizes the CATV industry. Moreover, community ownership is not the same as "nationalization." (Not that we would fault all examples of nationalization: some are profitable, some are even decentralized, some have an extent of worker and community control—and, of course, many are superior to private corporate

ownership.) The main point of local community ownership is to show that smaller, decentralized economic units controlled and run by the public can work. Naturally, the community must be active and vigilant if it is to control the enterprises.

Suggesting that public ownership moves aren't worth the effort until broad sections of the public are aware of CATV's potential is like saying there's no point struggling for any change until a Gallup poll reports that a 58 percent majority of the public wants it. What better way to demythologize the technology of cable TV than public ownership of the basic cable grid?

2 The editing of our CATV article, especially the slant of the title (which was not ours), may have overemphasized the purely economic aspects of cable TV. The question of who pays for local programming is indeed troublesome, regardless of who owns the system. Of course CATV rates should be low enough to attract subscribers. But the public should realize that it must pay for its own programming if it expects true independence from those who produce it. "Free" TV is inevitably produced within limits set by advertisers.

Local CATV programming produced in the studio or with portable video equipment can be done for a fraction of what broadcast TV or film production would cost. Certainly the initial investment in equipment means thousands of dollars, but video access centers in New York, Washington, Chicago, and other cities show that high-quality programming can be produced with limited public funds.

Also, the economics of CATV are relative. On balance, municipal systems (or nonprofit systems with municipal backing) have a clear advantage over the private model. Just to note two areas: the cost of capital for the municipal system can be as much as 50 percent less than that of private systems, thanks to public financing possibilities; and when net revenues are generated after the lean early years, the public systems need not pay corporate income taxes. Depending on the approach taken, costs would be correspondingly less or profits correspondingly greater.

3 Complete financial feasibility studies are available from us for the public CATV systems in San Bruno and Palo Alto, California. San Bruno has two years of operating experience as well, with all financial data included in the annual reports from the public works department.

Of course CATV systems built in large urban areas must be correspondingly more complex and expensive. But if CATV is viewed as a sovereign community service, the public expense is justified. Large urban areas like Los Angeles, Seattle, Tacoma, Jacksonville, and Cleveland have efficient, profitable, low-cost public power facilities. Like power facilities, sophisticated telecommunications and data transmission systems will be built in cities anyway. The question is who will design them, and for what purpose.

4 There is little doubt in our minds of the complexity of all aspects of FCC and state regulation of the CATV industry in particular, and of local public ownership schemes in general. This has not caused the relatively small CATV industry to cease fighting the larger broadcasting corporations, nor has it deterred CATV advisory boards in Detroit, Sacramento, and Seattle from recommending municipal ownership.

State restrictions on municipal revenue bond issues are another hindrance to public cable development. But in many cases those restrictions were placed there 50 years ago to block the development of public power systems. To date there are over 2,000 such systems, built in spite of private utility and state legislative resistance. Also, revenue bonds are not the only way of financing a community-owned CATV system. General obligation bonds or low-interest loans may also be available. And most cities have significant savings and surpluses. For example, San Francisco has almost \$1 billion collected in its pension funds, enterprise reserves, budget balances, etc. A complete, good-quality CATV system for the city would run between \$25 and \$50 million at most. So it would not be difficult for San Francisco to build its system outright from funds it borrowed from itself, in the same way San Bruno financed its CATV system.

5 Certainly municipal boundaries are not an ideal definition of "community." Municipal incorporation is just a legal fiction, approximating a group of neighborhoods within geographical boundaries. But that legal fiction can be used to serve the public purpose. Where public utility districts or regional associations are more appropriate and have sufficient public input, they should supersede parochial interests, which may have limited access to skilled workers, talent, and capital. Otherwise, municipalities have proven effective on all counts for the public

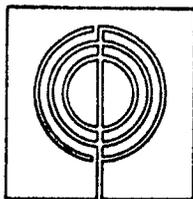
power industry, providing low-cost energy, efficient service, and public control.

In any case, most cities, if they can undertake CATV at all, can also go beyond their boundaries (individually or in association with others). For example, Palo Alto is considering an areawide system and has the legal power, in one way or another, to do it. Similarly, in the Sacramento area, it is the regional utility district and not the city itself that is considering a public CATV system.

Finally, one additional point to note: municipal ownership and programming control can be separate. Especially in larger systems, they probably should be so. For example, we worked on an initiative for municipal CATV in San Francisco. The citywide system was to be subdivided into community-control districts representing as closely as possible recogniz-

able sections of the city. There would have been both elected local boards and a general board. Programming and operations were to be local, while the association would have taken care of financing and other economic considerations. We attempted to develop an ability-to-pay fee structure, and had systemwide surpluses distributed to the local areas inversely to income level. The surpluses were to be used for programming up to a given percentage, with any remainder going to other community economic development or services. The San Francisco Board of Supervisors would have had virtually no control of the system, but would technically own it for financing and tax purposes. Not enough support has been generated for the initiative and it is now in abeyance, but we believe the principle should hold.

-Thomas Brom
Edward Kirshner



COMMUNITY OWNERSHIP ORGANIZING PROJECT (COOP)

349 62nd Street
Oakland, California 94618

tele: (415) 652-9699

Working Papers

For a New Society

Spring 1974 Vol. II, No. 1

Working Papers for a New Society is published quarterly (spring, summer, fall, and winter) by The Cambridge Policy Studies Institute, Inc., 123 Mt. Auburn Street, Cambridge, Massachusetts 02138, a nonprofit corporation.
Phone: 617-547-4474.

Copyright © 1974 by The Cambridge Policy Studies Institute, Inc. All rights reserved.

From the Reader of the Conference on Alternative State & Local Public Policies held June 13-15, 1975 in Madison, Wisconsin. The reader was edited and compiled by Derek Shearer and Lee Webb.

This item was made available by the Cornell University Library.

From Collection #6756, Conference On Alternative State And Local Policies Records.

Copyright and Permissions

Most of the items included in the Reader on Alternative Public Policies were published without copyright notice and hence entered the public domain upon initial publication. Some of the items found in the Reader are still subject to copyright. In some cases, even after extensive research efforts, we were unable to identify a possible rightsholder. We have elected to place the items in the online collection as an exercise of fair use for strictly non-commercial educational uses.

The Cornell University Library provides access to these materials for educational and research purposes and makes no warranty with regard to their use for other purposes. Responsibility for making an independent legal assessment of an item and securing any necessary permissions ultimately rests with persons desiring to use the item. The written permission of the copyright owners and/or holders of other rights (such as publicity and/or privacy rights) is required for distribution, reproduction, or other use of protected items beyond that allowed by fair use or other statutory exemptions. There may be content that is protected as "works for hire" (copyright may be held by the party that commissioned the original work) and/or under the copyright or neighboring-rights laws of other nations.

The Cornell University Library would like to learn more about these materials and to hear from individuals or institutions having any additional information about rightsholders. Please contact the Division of Rare and Manuscript Collections in the Library at: <http://rmc.library.cornell.edu>.