

FCC Auction Overview

February 23, 2017

BACKGROUND

In order to meet the nation's ever-increasing demand for wireless networks, the FCC has embarked on a first-of-its-kind Broadcast Incentive Auction. The intent of the auction is to "re-appropriate spectrum" in the 600 MHz Band (currently occupied by UHF television stations like KVCR-DT) in order to make room for wireless carriers. In exchange, current licensee holders can share in the proceeds from the auctioned-off spectrum.

The FCC is now in the final stages of this time-consuming, unprecedented and highly complex process which began in March 2016. Prior to the auction, all qualifying television stations were given a choice of four options:

- 1) Not participate, and potentially be subject to involuntarily relocation to a new, but comparable, Radio Frequency (RF) channel;
- 2) Forfeit its FCC license and quit broadcasting in exchange for financial compensation;
- 3) Agree to channel-share (post-auction) with another television station; or
- 4) Voluntarily move from the UHF Band to either the High VHF Band or the Low VHF Band in exchange for financial compensation.

KVCR-DT elected option four, to move from RF Channel 26 to a new channel in the Low VHF Band.

THE AUCTION

In the Reverse Phase, which ended January 2017, television broadcasters that elected to move to a lower RF channel, as KVCR-DT did, were offered steadily decreasing amounts of compensation as part of a "reverse auction". In the Forward Phase, which ended earlier in February, wireless operators bid in steadily increasing amounts to purchase soon-to-be-vacant channels in the UHF Band. The Assignment Phase, which commences on March 6, consists of the Forward Phase winners bidding additional money to select the specific channels/licenses they will be winning from the FCC auction.

TIMING AND IMPACT

Final results are expected to be released by the FCC in 4-8 weeks, after which a 39-month Transition Period will begin. SBCCD, which is the legal licensee of KVCR-DT, has been notified that its offer to move from the UHF Band to the Low VHF Band has been accepted, and in return, the District will receive financial compensation in the amount of \$157 million.

- The District will likely receive these proceeds in 2017, although later in the calendar year.
- In order to move from UHF to Low VHF, KVCR-DT will need an estimated \$3 million to cover engineering, equipment, administrative and legal costs. In addition, these costs may increase if KVCR's associated Low Power Television (LPTV) facility, which provides fill-in coverage in Palm Desert, is affected. The FCC is expected to announce which LPTV stations will be required to cease operations when it releases final auction results.
- KVCR-DT will need to move to its new frequency (VHF Low Band, RF Channel 5) during the Transition Period, with an expected project completion during the summer of 2018.
- There will be no changes to station operations before the move and KVCR-DT will continue to carry the same content over the same sub-channels now, during the Transition Phase, and after the move to Low VHF Band.
- The auction in no way impacts KVCR-FM radio operations.
- When the move from UHF Band to VHF Low Band occurs, viewers receiving the signal over-the-air (less than 10%) will need to re-scan their television tuners.* Viewers receiving the signal via cable or satellite should see no changes whatsoever.

The specific technical impact of changing the channel from RF Channel 26 to RF Channel 5 on existing viewers will not be known until SBCCD receives an engineering report prepared by a professional engineering consultant.

FCC Auction Revenue Proposed Action Plan

February 23, 2017

1. Proposed Action Plan

- a. SBCCD Board of Trustees will discuss and determine how auction revenue will be invested.
- b. Our students are our core mission and we will focus our resources on their success.
- c. Continue providing to the students and communities we serve, high quality, effective and accountable instructional programs and services.
- d. Auction proceeds should be invested in a manner that serves the region for years to come and supports SBCCD initiatives.
- e. The basic mission of KVCR still relies on public and federal support, which is critically important to cover its ongoing operating expenses.
- f. The revenue generated from the investment will help mitigate negative impacts to SBCCD's students during economic downturns.
- g. SBCCD will use approximately \$3 million for the transaction costs and equipment related to the frequency shift.
- h. SBCCD will be reimbursed approximately \$700,000 for all costs related to the FCC auction.
- i. Cable and satellite viewers will not be affected. Any affected over-the-air viewers will be notified, once the FCC decides our new channel designation, to rescan their televisions.

2. What are others doing?

- a. See Major Public Television Station Announcement.

3. The SBCCD Board of Trustees will discuss and determine how the auction revenue will be invested (from 1a).

- a. Board of Trustees Budget Committee (BBC) can take the lead and prepare regular updates and a recommendation for Board of Trustees.
- b. Hire an income tax advisor.
 - 1) The capital gain realized from the sale or disposition of property that is primarily used for, or substantially related to, the exempt purpose of the tax-exempt organization (i.e. education), the profit from the sale probably is not subject to capital gains tax (Unrelated Business Income Tax or "UBIT").
- c. Hire a financial advisor.
 - 1) Develop a financial plan.
 - i. Select the appropriate investments.
 - ii. Market investment vs real estate investments vs others
 - iii. Examples
 - a) San Mateo CCD – generates about \$800K per year (wait list) and building a second one (100 units \$20 MM or 4% annual ROT)
 - b) HACSB – generated about \$4 MM for 900 units (some properties had debt service)
 - c) Dow Jones average yearly returns (see attached)
- d. Consult with legal.
 - 1) Create legal entities as necessary.

4. Recommendation – See attached.

Major Public Television Station Announcements (as of February 21, 2017)

WVTA (Windsor, VT)

- Vermont PBS, which is not affiliated with a university and owns 4 stations in the state of Vermont, elected to sell one of its four licenses for \$56 million. The remaining three licensed UHF stations will be re-engineered to cover the entire state.
- Current Article on Vermont Biz: <http://www.vermontbiz.com/news/february/vermont-pbs-sells-mt-ascutney-license-56-million>
- Article Quotes:
 - “Vermont PBS will invest its auction proceeds in strengthening the station’s educational and cultural mission.”
 - “The proceeds are a one-time source of revenue that the station will use to build a 21st century public media platform for the local community.”
- Quotes by Vermont PBS President Holly Groschner:
 - “We will continue free over the air broadcast service. Vermont viewers who currently receive our signal with rabbit ears and other kinds of TV antennas will still be able to do so and of course, our online, cable and satellite services will remain as they are.”
 - “We look forward to expanding our significant success in bringing the community together through excellent early childhood educational programs, credible in-depth coverage of today’s issues, inspiring visual experiences, and our commitment to the arts.”
 - “Whether Vermont PBS thrives in the future, however, is still dependent on the continue support of viewers, and on state and federal funding for public broadcasting.”

KRCB (Sonoma, CA)

- KRCB, a PBS station without any university affiliation and licensed to North Bay Public Media, elected to move from the UHF band to the VHF band in exchange for \$72M.
- Current Article on KRCB: <http://current.org/2017/02/california-station-reaps-72m-in-spectrum-auction-proceeds/>
- Quote by Nancy Dobbs, President and CEO of KRCB North Bay Public Media:
 - “The auction funds will allow us to begin to establish an endowment, the interest from which will allow KRCB to weather difficult times in a fast-changing technological landscape, and will help with operational costs in the coming decades.”
- Quote by Eric McHenry, Board Chair of KRCB North Bay Public Media:
 - “We have an obligation to continue to be the voice of the community and focus on content critical to the region. \$72 million is a tremendous amount of money that provides KRCB with a significant opportunity for positive growth and to improve our service to the community.”

WUSF (Tampa, FL)

- The University of South Florida elected to sell the license of WUSF in the FCC Reverse Auction for \$18.7M.
- By law, the station will cease broadcasting 6 months after the release of the *Channel Reassignment Public Notice*.
- Official USF Press Release: <http://news.usf.edu/article/templates/?a=7691&z=220>

Major Public Television Station Announcements (as of February 21, 2017)

- USF stated the following: “Auction proceeds will be invested to support University initiatives. At the earliest, proceeds are not expected to be distributed to USF until Fall 2017. The FCC will not distribute auction proceeds until the entire broadcast incentive auction is complete.”

WCMZ (Flint, MI)

- Central Michigan University elected to sell the license of WCMZ in the FCC Reverse Auction for \$14.0M.
- CMU will continue to operate 4 television and 8 radio stations in Central and Northern Michigan, and claims that “99%” of WCMZ viewers will have an alternative PBS television option.
- Official CMU Press Release: <https://www.cmich.edu/news/article/Pages/FCC-broadcast-spectrum-auction-Flint-TV.aspx>.
- CMU stated the following: “This was a difficult decision. Two facts, however, greatly influenced our conversation. First, nearly all viewers will continue to have access to PBS through other sources. If that weren’t the case, we wouldn’t have participated in the auction. Second, our students are our core mission. Our mandate. We must focus our resources on their success. This decision was made to benefit Michigan families, including those in Flint.”
- The CMU Board of Trustees will discuss and determine how the auction revenue will be invested.

WQED (Pittsburgh, PA)

- WQED, a PBS station without any university affiliation, elected to move from the VHF High band to the VHF Low band in exchange for \$9.9M.
- Pittsburgh Post-Gazette Article: <http://www.post-gazette.com/ae/tv-radio/2017/02/10/WQED-reaps-9-9-million-in-FCC-frequency-auction/stories/201702100128>
- Quotes by WQED President and CEO Deborah Acklin:
 - “I’m thrilled, I’m excited, it’s miraculous.”
 - “It’s a reversal of fortune for this community institution that is truly historic. We have in some way, shape or form been burdened by financial issues for 30-plus years and this wipes it all away in one fell swoop.”
 - “That’s the money that we’re going to be engaging in an analysis and a discussion about with our constituents and communities. I think one of the likely proposals is that we add it to the endowment since this is a one-time gain. We’re not likely to blow it on a single project.”
- Quote by Tom McGough, Chair of the Board of Directors:
 - “The expectations of what it would be were completely undefined in the beginning. As we were watching the auction unfold it oscillated wildly – everything from zero to considerably more. It literally went all of the spectrum, no pun intended.”
- Article Quotes:
 - “With the \$9.9 million, which it will likely receive in about a year, it will pay down that debt, and use about \$1.5 million for transaction costs and equipment

Major Public Television Station Announcements (as of February 21, 2017)

related to the frequency shift. That leaves a ballpark surplus in excess of \$2 million.”

- See article for additional information and quotes.

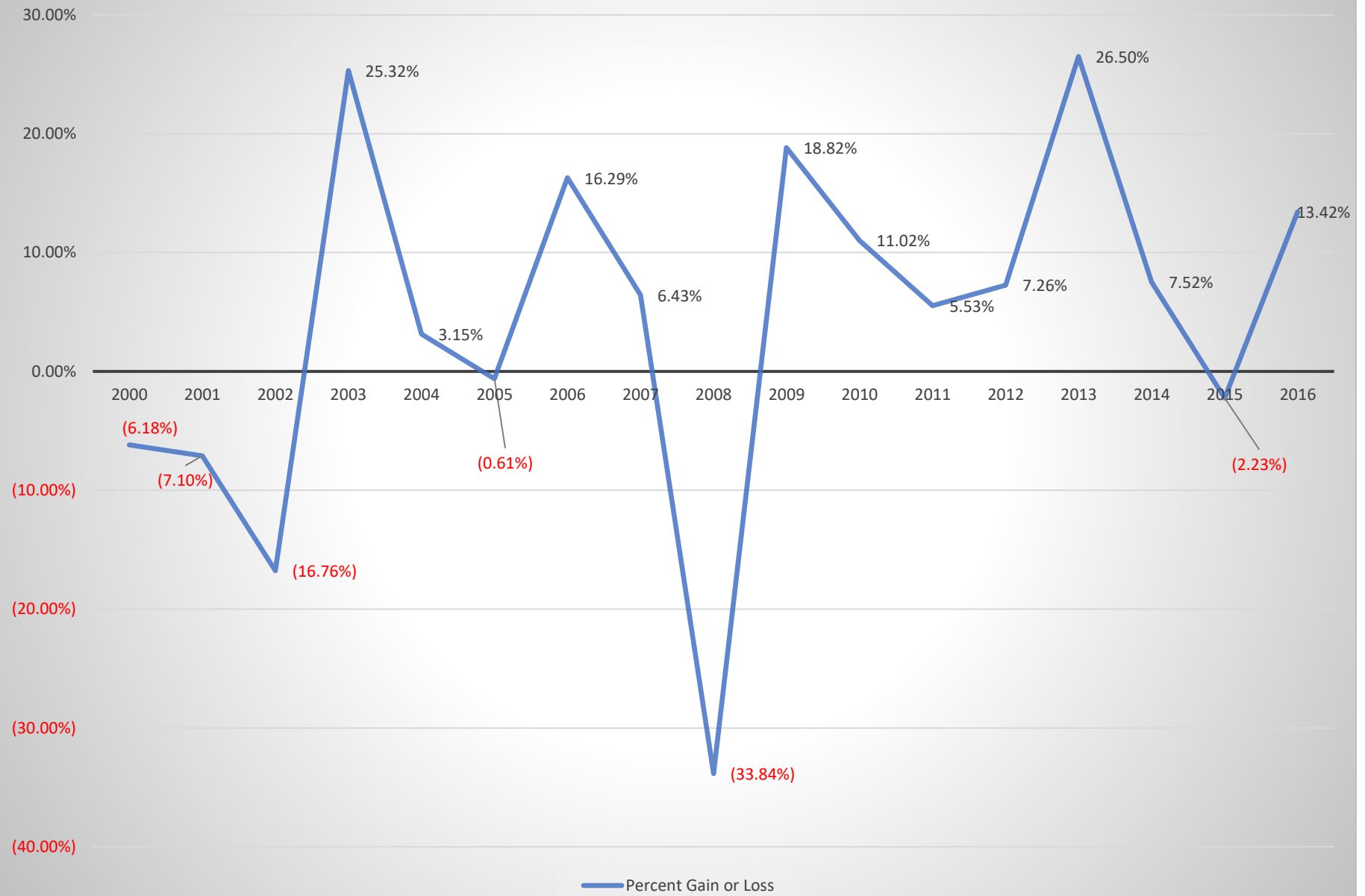
WITF (Harrisburg, PA)

- WITF, a PBS station without any university affiliation, elected to channel-share with another broadcast television station in exchange for \$25.0 million.
- The WITF Board of Directors indicated the proceeds will be deposited in WITF’s board-designated endowment. The earnings will from the endowment will add about 9%, or approximately \$1 million, to WITF’s annual revenues and will be utilized to accelerate WITF’s work in three important areas, to fulfill its mission to “strengthen our communities by connecting them to each other and to opportunities for lifelong learning.”
- WITF Press Release: <http://www.witf.org/about/pressroom/2017/02/witf-to-focus-on-new-efforts-to-expand-its-journalistic-and-educational-mission-in-central-pa.php#.WJzxXIVAvY.linkedin>.
- See press release for additional information and quotes.

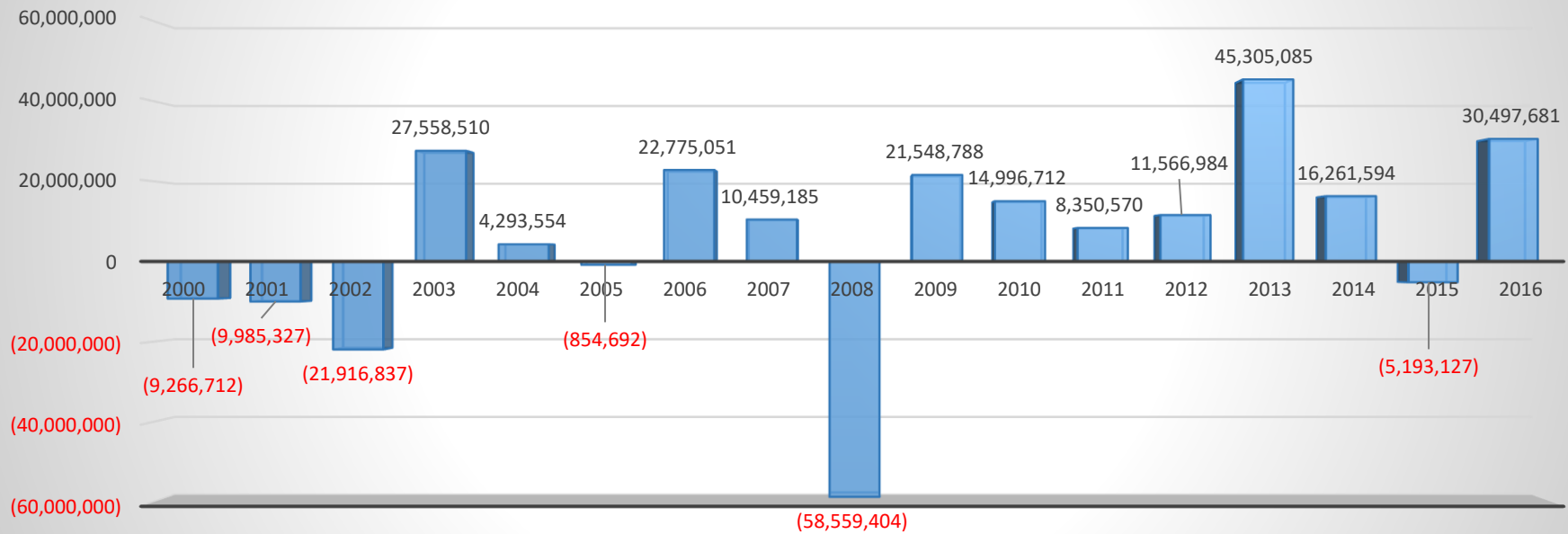
WVIA (Wilkes-Barre, PA)

- WVIA, a PBS station without any university affiliation, elected to channel-share with another commercial station in exchange for approximately \$25 million.
- WVIA will share a channel with WNEP, a local ABC network affiliate.
- WVIA Press Release: <http://www.publicbroadcasting.net/wvia/news.newsmain/article/0/1/1964399/press.releases/WVIA-TV.enters.into.channel.sharing.agreement.with.WNEP>.
- Quote by Joe Glynn, WVIA Vice President of Engineering:
 - “Cable and satellite viewers will not be affected by this change. However, over-the-air viewers, approximately 18% of our total audience, will eventually be affected. When the FCC decides our new channel designation, over-the-air viewers will be notified to rescan their televisions to find our new channel placement. We estimate this will happen sometime in 2018.”
- Quote by Alex Fried, Chairman of the WVIA Board of Directors:
 - “We plan to take our auction proceeds, which is nearly \$20 million after technical expenses and add it to the WVIA endowment. We plan to use the interest from the endowment to help serve the region for years to come. The interest gained annually from the endowment will be less than the \$970,000 lost to state funding cuts that occurred in 2009. That cut resulted in the cancellation of a number of locally produced programs.”
- Quote by Tom Curr, President and CEO of WVIA Public Media:
 - “WVIA Public Media remains committed to its public service mission. This venture will help us serve our viewers and listeners in more unique and dynamic ways. However, the basic mission of WVIA still relies on public and federal support which is critically important to cover its ongoing operating expenses.”

Dow Jones Industrial Average Yearly Returns



Dow Jones Industrial Average Yearly Returns Based on \$150 million investment



■ Possible Gain/(Loss)

SAN BERNARDINO COMMUNITY COLLEGE DISTRICT

TO: Board of Trustees
FROM: Board of Trustees Budget Committee
REVIEWED BY: Bruce Baron, Chancellor
PREPARED BY: Jose F. Torres, Vice Chancellor, Fiscal Services
DATE: March 9, 2017
SUBJECT: Consideration of Approval to Task the Board of Trustees Budget Committee (BBC) to Prepare a Financial Investment Plan for the FCC Incentive Auction Proceeds

RECOMMENDATION

It is recommended that the Board of Trustees task the Board of Trustees Budget Committee (BBC) to prepare a financial investment plan that provides a steady stream of revenue using the proceeds from the FCC Incentive Auction.

OVERVIEW

In order to meet the ever-increasing demand for wireless networks, the FCC has embarked on a first-of-its-kind Broadcast Incentive Auction. The intent of the auction is to “re-appropriate spectrum” in the 600 MHz Band (currently occupied by UHF television stations like KVCR-DT) in order to make room for wireless carriers. In exchange, current licensee holders can share in the proceeds from the auctioned-off spectrum.

As holder of the broadcast license held by KVCR-DT, the San Bernardino Community College District expects to receive \$157 million as a result of its voluntary participation in this auction.

ANALYSIS

As a standing committee of the SBCCD Board of Trustees, the BBC recommends that it be tasked to develop an investment plan for the FCC incentive auction proceeds, keeping the following in mind.

- Our students are our core mission and we will focus our resources on their success.
- Continue providing to the students and communities we serve; high quality, effective and accountable instructional programs and services.
- Auction proceeds should be invested in a manner that serves the region for years to come and supports SBCCD initiatives.
- The basic mission of KVCR still relies on public and federal support which is critically important to cover its ongoing operating expenses.

- The revenue generated from the investment of auction proceeds will help mitigate negative impacts to SBCCD students during economic downturns.
- SBCCD will use approximately \$3 million to invest in KVCR for transaction costs and equipment related to the frequency shift.
- SBCCD will be reimbursed approximately \$700,000 for all costs related to the FCC auction.
- In order to maximize investments while adhering to sound fiscal practices, it will be necessary to consult with tax, financial, and legal advisors.

It is anticipated that the BBC would continue to report regularly to the Board of Trustees on this subject.

BOARD IMPERATIVE

III. Resource Management For Efficiency, Effectiveness, and Excellence

FINANCIAL IMPLICATIONS

Any costs related to developing a financial investment plan will be paid for by the FCC incentive auction proceeds.

Proposed