

Near Term Prospects for Local TV in Canada

Nordicity

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Prepared for

**Friends of Canadian Broadcasting
Unifor**

November 5, 2015



Preamble

This report was prepared by Nordicity and Peter Miller, P. Eng., LL.B. for, Unifor and Friends of Canadian Broadcasting. The views expressed in this report are those of the Authors and not necessarily those of the commissioning parties.

ABOUT NORDICITY

Nordicity is a leading consulting firm specializing in policy, strategy, and economic analysis in the media, creative and information and communications technology sectors. Over the last three decades, Nordicity has become widely recognized as one of the leading international consultancies specializing in economic analysis and business planning within the television broadcasting sector.

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Executive Summary

The broad conclusion to this report is that Canada's local television heritage is at risk of major cutbacks and station closures, which could be avoided, deferred or minimized by the Canadian Radio-television and Telecommunication Commission's (CRTC's) contemplated reallocation of mandatory Broadcasting Distribution Undertaking (BDU) "local expression" contributions, if directed to private small and medium market TV stations.

Almost a decade after the first signs that the "business model for local TV is broken"¹, conventional TV in Canada is suffering serious losses in revenues, with private broadcasters approaching double-digits in red ink across the board.

CRTC figures reveal that from 2010 to 2014, private conventional TV revenues declined from a peak of \$2.14 billion to \$1.8 billion, for an accelerating four-year decline of 16%². The 2014 broadcast year revealed a 7.2% decrease in overall revenues of private local TV, from \$1.94 billion the previous year, and a drop in Profit before Interest and Taxes (PBIT) margin from -0.1% to -7.7% (or from -\$2.3 million to -\$138.7 million). Preliminary figures suggest at least a 10% revenue drop for the 2015 broadcast year August 31, 2015, for a five year decline of over 25%.

At this rate of financial losses, station groups big and small will inevitably conclude that losses are not sustainable, and that severe cost cutting measures must be deployed.

The Commission's Notice of Consultation on Community and Local TV (BNoC) contemplates the diversion of some portion of community channel contributions to local TV. The BNoC notes that the BDU sector contributed in excess of \$151 million toward community channels in 2014³, derived largely from terrestrial BDU contributions of 2% of gross revenues. A 2% of revenue contribution from all BDUs (including Direct-to-Home satellite services [DTH]) would have yielded \$178 million. Thus the amounts in this potential pool of contributions are only slightly higher than the 2014 losses suffered by private TV as a group.

Market estimates place private TV revenues down by \$140 million year-over-year to 2015, with \$160 million in additional losses forecast in this study by 2020, assuming no station closures. This represents a total estimated revenue decline of close to \$450 million over the decade. By way of comparison, total mandatory 5% BDU contributions amounted to \$465 million in 2014.⁴

The clear message: the decline in fortunes of private TV in Canada cannot be solved, either completely or permanently, by a diversion of BDU contributions. There simply would not be enough money.

Public policy has not supported local television in Canada to nearly the same degree as it has done in the United States (U.S.). In the U.S., a series of measures enacted over the last fifty

¹ A phrase that has been used by certain industry players. Expanded upon further below.

² Revenue had dropped to \$1.97B in 2009 from \$2.14B in 2008 because of the economic downturn.

³ Broadcasting Notice of Consultation CRTC 2015-421, para 17.

⁴ CRTC, Communications Monitoring Report 2015, p. 142.

years has strongly protected local broadcaster programming rights, allowed negotiated fees from carriers and guaranteed recompense for spectrum relocations. Canada has chosen not to implement such measures, or has pulled back where such protections existed. As a result, U.S. local broadcasters are far more financially secure and face a far more secure future.

Meanwhile, the one initiative to support local programming that was unique to Canada, the Local Programming Improvement Fund (LPIF) was phased out last year.

Any permanent solution for local TV in Canada will have to be much broader than a redirection of current mandatory BDU contributions.

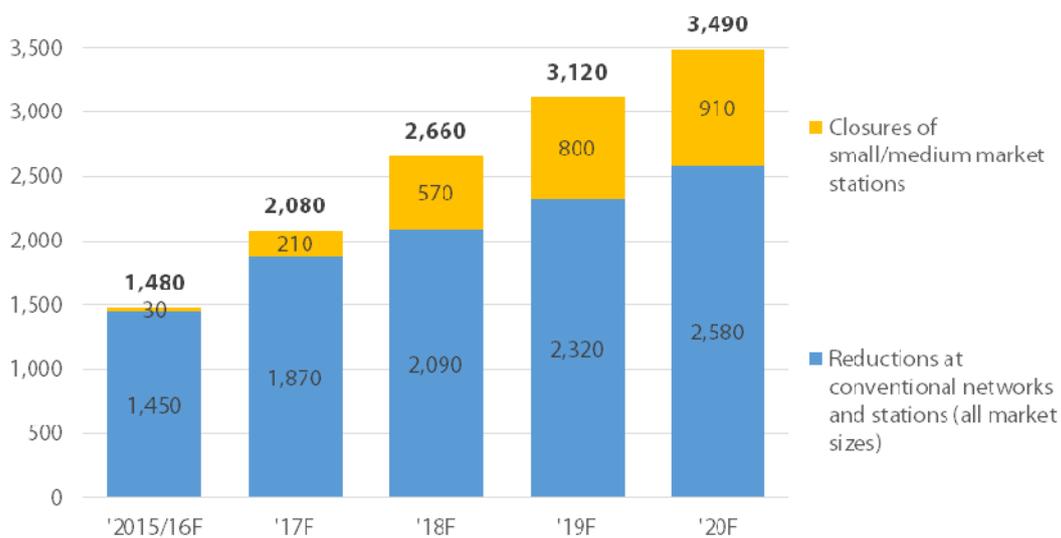
Until that happens, Canada’s 56 small and medium market stations are at great risk – with the members of the coalition of Small Market Independent Stations (SMITS) in the worst position. (They operate in Canada’s smallest markets, and have little to none of the operating or corporate synergies of their vertically integrated brethren.)

A redirection of limited BDU funds might appropriately, therefore, focus on SMITS as a first priority, and other small and medium market stations as a second.

Given their financial situation and public statements made by Bell Media Inc. (“Bell”) and SMITS, without such action, we estimate that on the order of 50% of Canada’s small and medium market stations could close by 2020.

These closures would result in the loss of local news and other local programming to over 20 already underserved small markets in Canada, and would also eliminate an estimated 910 full-time equivalent jobs (FTEs) by 2020. Additional forecasted revenue declines across private and public conventional TV in Canada are expected to result in the loss of over 2,580 FTEs by 2020.

Figure 1 Summary forecast of cumulative job losses in conventional TV (number of full-time equivalent jobs)



Source: Authors’ estimates based on data from CRTC, TVB, Zenith Optimedia, eMarketer, SMITS, Statistics Canada, Finance Canada and Scotiabank.

1. Research and Analysis of Local TV in Canada

1.1 Profile of Local TV in Canada

Canada has an extensive local television market. Ninety private stations⁵ (some of them CBC affiliates, and some third language) and 27 CBC/SRC owned-and-operated stations directly serve Canadians in over 50 markets⁶, and rebroadcast regionally relevant programming to the vast majority of other communities.

A profile of Canada’s private local TV stations is provided in Table 1 below.

The decline in revenues and profitability for Canadian local TV is, at its roots, a four phase, four decade long story.

Table 1 Profile of Canada’s private local TV broadcasters⁷

Market Size	# of Stations	Examples of Markets
Small market stations – under 300,000 population	33	Kamloops, Medicine Hat, Prince George, Lloydminster, Lethbridge, Red Deer, Regina, Yorkton, Prince Albert, Thunder Bay, Sudbury, Sault Ste. Marie, Timmins, North Bay, Peterborough, Kingston, Riviere du Loup, Val-d’Or, Rouyn-Noranda, Carleton, Rimouski, Sydney, Saint John, Moncton, and St. John’s
Medium market stations – 300,000 to 500,000 population	23	Halifax, Sherbrooke, Saguenay, Trois-Rivières, Pembroke, Oshawa, Kitchener, London, Windsor and Saskatoon
Large market stations – over 500,000 population	34	Toronto/Hamilton, Montreal, Quebec, Ottawa/Gatineau, Winnipeg, Calgary, Edmonton, Vancouver

Source: Authors’ research

The first phase of local TV’s decline essentially started with the introduction of specialty TV in the 1980s. From a beach-head of a few specialty channels, television evolved into the 500 channel universe, with conventional television’s share of tuning being reduced from 100% to less than half by the early 2000s⁸, and its share of advertising revenue declining to 63% by

⁵ CRTC 2015 Monitoring Report, Table 4.2.5. The breakdown by language is 20 French, 64 English and 6 Third-language stations.

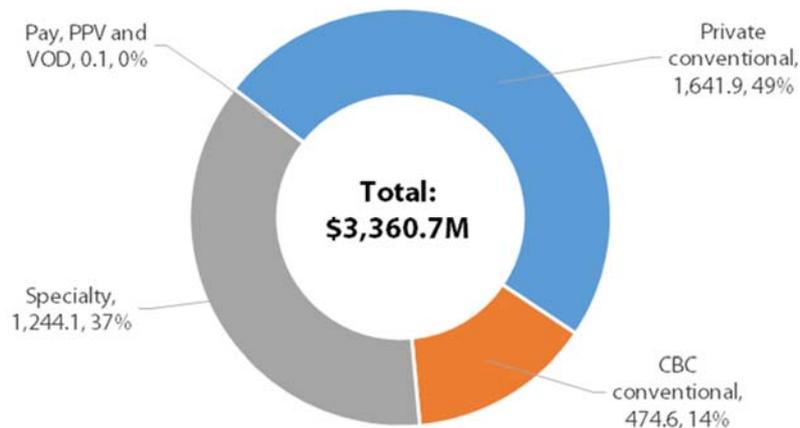
⁶ There are local stations serving every province. See CRTC 2015 Monitoring Report, Table 4.2.6.

⁷ This list includes network stations such as CTV, TVA and Global, and independent stations and affiliates, including private affiliates of CBC/SRC. The market size categorizations and station numbers noted here are different than those published by the Commission in its Local Programming Data released 14 September 2015, for the Public Hearing of January 25th 2016. For one, the total number of stations reporting therein is 86 versus the 90 used here per the CRTC Monitoring Report. Small market TV stations have historically been defined by the CRTC as serving a CMA of under 300,000. (See, for example, Broadcasting Decision [CRTC 2013-739](#).) We use the CRTC radio market definition of 500,000 population to distinguish between medium and large markets. Among other consequences,, this places more stations in our large market category.

⁸ By 2006-7, the combined share of CBC/SRC, Canadian private conventional and U.S. conventional was 40.7%: CRTC Monitoring Report 2011, Table 4.3.4

2014.

Figure 2 Advertising revenue in Canadian television industry, 2014



Source: Authors' calculations based on data from CRTC.

This phase did not see reductions in overall revenue or profitability for conventional TV. To the contrary, the relationship in Canada became largely synergistic, with conventional television remaining the dominant medium for TV advertising, especially in the early stages when the reach of specialties was limited and their audience narrow. Nevertheless, the decline in audience for conventional TV limited revenue growth and constrained profitability.

The second phase can be considered to have started in the late 1990s, when revenues continued to climb. However, profitability suffered from competition among the major networks for U.S. prime time programming. "Bidding up" of U.S. program rights costs squeezed margins, put pressure on Canadian programming expenditures, and helped bring overall private TV PBIT margins from 11.1% in 1998 to 5.2% in 2007⁹.

The third phase combined material revenue reductions and increases in programming costs.

CRTC figures reveal that from 2010 to 2014, private conventional TV revenues declined from a peak of \$2.14 billion to \$1.8 billion, for an accelerating four-year decline of 16%¹⁰. The 2014 broadcast year revealed a 7.2% decrease in overall revenues of private local TV, from \$1.94 billion the previous year, and a drop in PBIT margin from 0.1% to -7.7%. Preliminary figures suggest at least a 10% revenue drop for the 2015 broadcast year (ending August 31, 2015) – for a five year decline in excess of 25%.

The impact of revenue declines was initially constrained by the CRTC's LPIF, which supported expenditures on local programming on designated stations from an incremental percentage

⁹ In metropolitan markets, the decline was from 15.9% to 9.2%, whereas in markets with a population of less than one million, the PBIT margins declined from 3.2% to -4.0%. Para 344. <http://www.crtc.gc.ca/eng/archive/2008/pb2008-100.htm#h32>

¹⁰ Revenue had dropped to \$1.97 b in 2009 from \$2.14 b in 2008 because of the economic downturn

of revenue contribution from BDUs. The program was introduced in 2009, and at its peak in 2012, contributed almost \$112 million to local TV and local programming in Canada¹¹. LPIF was phased out by the Commission in 2014, based on an apparent (and as it turned out, very short lived) “general rebound in the aggregate advertising revenues of conventional television stations”¹².

One net result was that programming costs, having been pushed down to a ten-year low of \$1.36 billion in 2011 (or 63.4% of revenue), rose to \$1.44 billion in 2012, and on a percentage-of-revenue basis, continued to climb to 77.5% in 2014¹³.

The analysis provided by SMITS in the Let’s Talk TV (LTTV) proceeding is indicative of the challenges facing conventional TV operators, particularly those in small and medium-sized markets. While stations are holding their own in ratings (and even experiencing some evidence of increases in viewing to local programming), capital expenditures (CAPEX) are rising (non-programming capital expenditures). More alarming, local stations in small and medium-sized markets are becoming less relevant to national advertisers, who now have multiple means in which to “buy around” tertiary markets, and rely on “spill” or other media¹⁴.

The 2015 broadcast year was the first without any LPIF funding. As a result, many small and medium-market stations will have cut to the bone to keep operating. In a September, 2015 filing with the CRTC, the SMITS coalition signaled how dire the situation has become for them:

From a peak of \$102 million in revenues in 2011, SMITS station revenue will have declined to under \$80 million in 2015, with a commensurate drop in PBIT margin from 15.8% to under –10%. This is a comparable decline to that experienced by private local TV as a whole, but with far greater impact given the nature of the players involved.

Indeed, we **estimate that the 2015 broadcast year will put aggregate SMITS revenue down \$7.5 million¹⁵ (almost 9%) from 2014 and PBIT margin at –13%.**

For some SMITS, 2015 will bring a first year of losses. For others the slimmest ever profit. But for others, it will be the second or even third year of consistent losses¹⁶.

Needless to say, such a situation is not sustainable.

The **fourth phase**, which appears to be imminent, will see further revenue and profitability reductions, and unless measures are taken, major station rationalizations and closures.

¹¹ Broadcast Monitoring Report 2013, section 2.1.

¹² The contribution level was set at 1.5% for 2009. In 2012, the Commission decided to phase out the LPIF by reducing the BDU contribution by 0.5% a year over 3 years. LPIF was completely eliminated as at September 1, 2014. Broadcasting Regulatory Policies [2009-406](#), [2009-406-1](#), and [2012-385](#)

¹³ CRTC Statistical Summaries. Includes all Canadian and foreign programming costs.

¹⁴ Small Market Realities: An analysis of the changing revenue landscape for Independent Television Operators in Small Markets, Strategic Inc., Appendix to SMITS Intervention in Broadcasting Notice of Consultation CRTC 2014-190, June 27, 2014,

¹⁵ On the order of \$6 million of this revenue decline is attributable to the phase out of LPIF.

¹⁶ SMITS Intervention in Broadcasting Notice of Consultation CRTC 2015-330 – Call for comments on the proposed Simultaneous Programming Service Deletion and Substitution Regulations, para 9-11.

1.2 Canada's Local TV Future

Between 2010 and 2013, private conventional television stations' share of total TV advertising Canada fell from 57% to 52%. These share points largely migrated to specialty services, whose share rose from 33% to 38%. Assuming linear impacts (i.e. that private conventional television continues to lose approximately one share point per year), our modelling sees conventional TV suffering ongoing revenue declines, and dropping below \$1.6 billion in 2020.

Given the negative profitability picture, mere ongoing linear declines, with no "tipping point" effects, are certainly not something prudent policy makers can assume. Rather, it is more reasonable to assume that, barring a fundamental shift in public policy framework, Canadian local TV will experience a dramatic reduction in numbers of local stations and hours/quality of local programming, beginning most noticeably with small and medium-sized market stations. Even for the large market stations, there will be increased pressure to cut costs – which include local programming¹⁷.

Note that this is NOT a prognosis affecting U.S. local TV. To the contrary, in the U.S., numerous measures have been taken to strengthen local TV – measures that Canadian policy makers have thus far not implemented¹⁸. They include:

- Network non-duplication and syndex rules which require both cable and satellite to "blackout" programming imported into local markets that has been purchased by the local broadcaster (in Canada, simultaneous substitution or "simulcast" offers only limited protection against identical programming imported into a local market at the same time);
- Strong restrictions, bordering on outright bans on importation of distant signals on U.S. DTH due to its negative impact on local broadcasters¹⁹. (In Canada, importation of distant signals was permitted from the outset on DTH, and the practice has expanded to include importation by cable operators with no compensation); and
- "Retransmission consent" which allows local TV stations to negotiate compensation for their carriage by cable operators and has evolved over two decades from enabling U.S. local broadcasters to launch specialty ("cable") networks to direct cash payments estimated at \$2.5 billion today²⁰. (A variation of this was proposed by the CRTC in 2010,

¹⁷ It is also important to recognize that local programming cuts cannot generally be made in a linear fashion. At a certain point, whether a station is producing 7 hours a week or four hours or two hours a week, may not make a huge difference – it still needs on-air hosts, camera people, production staff, assignment editors etc etc. The decision becomes: "can the market sustain local programming and a local station, or not".

¹⁸ Chapters could be written on the differences between the OTA TV business in (English) Canada and the U.S. The net result, however, is that while Canadian OTA broadcasters are on the verge of being on their last legs, U.S. OTA broadcasters have taken advantage of their full program rights protection (through blackout and network non-duplication rules) and retransmission consent to evolve from principal licensees of content to owners of it (through equity positions or vertical integration E.g. NBC Universal) and are far better positioned to withstand competitive threats from OTT than their Canadian counterparts.

¹⁹ See, For example, <http://www.fcc.gov/guides/television-broadcast-stations-satellite>

²⁰ Industry estimate.

but found to be *ultra vires* by the Federal Court of Appeal²¹)

Moreover, U.S. local TV benefits from the much-higher share of total advertising garnered by their TV sector overall (43% vs. 20% in Canada), and an 85% higher per capita volume²². In the result, U.S. local TV stations have continued to grow advertising revenues – from \$15.8 billion in 2009 to \$20.8 billion in 2014 – and are forecast to continue to grow advertising revenues through to 2019 (to \$23.2 billion)²³.

In its “local TV” Let’s Talk TV (LTTV) Decision issued January 25, 2015²⁴, the Commission came to “the preliminary view that there is currently sufficient funding within the system to ensure the creation of locally relevant and reflective programming, but that the allocation of such funding needs to be re-examined in order to ensure that such programming is compelling, accessible and well-financed.” The Commission specifically identified the 5% BDU contribution as a source of funding that could be reallocated to local TV.

At that time, the CRTC indicated that the matter would be addressed in a forthcoming review of community and local TV. That review was announced on September 14, 2015²⁵.

Should the Commission be able to fast track decisions on the creation and implementation of a model to support local TV, a local TV crisis may be averted.

If not, or even notwithstanding any last minute efforts on the part of the Commission, numerous factors are now combining to suggest that a significant rationalization of local TV in Canada will occur before 2020.

Impacts will not be felt evenly across the board.

By all accounts, large market stations are best able to weather ongoing revenue declines. The “scarcity” of popular TV shows that can amass significant audience in desirable demographics and markets means that major-market prime time TV should continue to have a respected place in the media buys of advertisers for the foreseeable future. Major market stations may lose revenue and become smaller, but they are sufficiently large to be “scalable” and should be able to survive through the medium term, at least²⁶.

What becomes less-and-less important for the same advertisers is to access the same shows in tertiary medium and small markets, which can be reached regardless through “spill” from neighbouring large markets. The result in small and medium market stations is a significant

²¹ Reference Re Broadcasting Act, 2011 FCA 64, [2012] 4 F.C.R. 231. <http://reports.fja-cmf.gc.ca/eng/2012/2011fca64.html>

²² *Canadian Internet Advertising Revenue Survey 2014*, IAB, Sept 14, 2014 at p. 6 “As a digital media market, Canada resembles Australia or the UK as opposed to the US market despite a tighter integration with its neighbor” http://iabcanada.com/files/Canadian-Internet-AdRev-Survey_2013-14.pdf

²³ Source: BIA/Kelsey Consulting.

²⁴ *Broadcasting Regulatory Policy 2015-24*

²⁵ *Broadcasting Notice of Consultation CRTC 2015-421*

²⁶ This conclusion is central to the general issue, debated over the last ten years, as to whether the business model of local TV is fundamentally “broken”. Our view is that with respect to large market stations, the answer is no. But with respect to small and medium market stations, the answer is now yes – if not broken, severely stretched. For some historical perspective, see *The Business of Canadian OTA Television: 2009*, prepared for the CRTC, by Peter H Miller. We note also below the recent study by Communications Management Inc. *Canada’s Digital Divides*, which postulates the demise of all conventional TV by 2025. http://media-cmi.com/downloads/CMI_Discussion_Paper_Digital_Divides_082015.pdf.

drop in national advertising over the past decade, in some cases made up through increases in local advertising. Unfortunately, as noted by SMITS, there are indications that declines in national advertising appear to be accelerating²⁷. Independent owners in small and medium markets are also in far less a position than major vertically-integrated players to weather revenue declines, or make investments in new business models.

In addition to these harsh business realities, a number of policy decisions further threaten the viability of local TV in Canada, and may well cause operators to "throw in the towel" sooner rather than later.

First, in an LTTV decision that was opposed by virtually every stakeholder group, the CRTC decided to eliminate simulcast on the Super Bowl effective Q1 2017²⁸. According to evidence tabled at the LTTV proceeding, the negative revenue impact of eliminating simulcast on live events such as the Super Bowl on CTV alone is \$40 million annually, and this estimate does not take into account the negative downstream effects on small market affiliates and the promotion of Canadian and other programming²⁹.

Second, in a decision on repurposing the 600 MHz frequency band, released by Industry Canada on August 14, 2015, the former (Harper) Government endorsed a plan to repatriate broadcast spectrum in synch with the U.S., but without the compensation for affected Canadian broadcasters that the U.S. has committed its local TV stations³⁰. In the result, Canadian local broadcasters face a one-time cost of as much as \$500 million over the next five years to relocate their over-the-air (OTA) channels, at no benefit to them, so spectrum can be sold to wireless operators³¹. We anticipate that many local TV operators will simply decide not to make that transition.

Different ownership groups also face different circumstances.

Bell, which owns the majority of network-owned small and medium market stations in Canada, committed to keep all its local TV stations on air until 2017 as a condition of approval of its purchase of Astral Media Inc.³². After that, Bell would be free to shut stations down.

At the LTTV hearing in September 2014, Bell stated that its 30 local stations lost a combined \$12 million in the preceding year:

"Local TV stations are crucially important, but the business model has been broken for some time and now it's time to act.... .

²⁷ See SMITS Intervention in Broadcasting Notice of Consultation CRTC 2014-190, June 27, 2014, Appendix, (Strategic Inc., Report) p. 22 - 23

²⁸ Broadcasting Regulatory Policy CRTC 2015-25

²⁹ Transcript Volume 3, paragraph 3916.

³⁰ See [https://www.ic.gc.ca/eic/site/smt-gst.nsf/vwapj/600MHz-repurposing-consultation-decision-2015.pdf/\\$file/600MHz-repurposing-consultation-decision-2015.pdf](https://www.ic.gc.ca/eic/site/smt-gst.nsf/vwapj/600MHz-repurposing-consultation-decision-2015.pdf/$file/600MHz-repurposing-consultation-decision-2015.pdf), <https://transition.fcc.gov/ib/sand/agree/files/PASIIIC.pdf>

³¹ See [https://www.ic.gc.ca/eic/site/smt-gst.nsf/vwapj/600MHz-repurposing-consultation-decision-2015.pdf/\\$file/600MHz-repurposing-consultation-decision-2015.pdf](https://www.ic.gc.ca/eic/site/smt-gst.nsf/vwapj/600MHz-repurposing-consultation-decision-2015.pdf/$file/600MHz-repurposing-consultation-decision-2015.pdf), <https://transition.fcc.gov/ib/sand/agree/files/PASIIIC.pdf>

from which the FCC is to reimburse costs incurred by broadcasters when the broadcast spectrum is repacked following the FCC's first incentive auction

³² Astral Acquisition. <http://www.crtc.gc.ca/eng/archive/2013/2013-310.htm>, para 88.

“Despite investing about \$2 billion each year, without the LPIF, conventional TV as a whole, as an industry, would have only been marginally profitable in one out of the last five years. Our 30 local TV stations at CTV and CTV2 together employ 2,060 Canadians and last year we actually had costs of operating these channels of \$721 million against the ability to generate revenue of only \$709 million, producing a loss of \$12 million³³.”

In response to a question about the consequence of the Commission not endorsing a proposal Bell made for local TV stations accessing subscription fees, Bell stated:

4440 MR. CRULL: Well, Commissioner Molnar, we don't have an alternative, and it would be -- it would be unwise, and probably unproductive, for me to speculate on, you know, grand pronouncements of shutting it down and this and that, so I -- I will tell you that over the years we've looked at many things of trying to improve the cost side of the business, because the revenue side of the business has run out of steam.

4441 I mentioned that, you know, we've reduced newsroom staffs, we've automated our newsrooms tremendously, we've lowered our foreign programming spend significantly, very significantly, so I think you see that line coming down aggressively.

4442 We operate local television stations in 30 communities, large and small, across the country. We've looked at: Is 30 the right number? Should it be 20? Should it be 25? Should it be 15 or 16? Unfortunately, I would not want -- it would be terrible to abandon any of these communities, but if I thought it would make local TV sustainable, I would. Abandoning 10 of those communities doesn't alter the economic situation.

4443 So, Ms Molnar, what's going to happen? I don't have a plan B, but I believe this with all of my heart, it's not going to be good for Canadians or for Bell.

Independent small market local TV broadcasters would appear to be in the worst position, with little to none of the operating or corporate synergies of their vertically integrated counterparts.

In a request for emergency interim funding, filed by SMITS after the local TV CRTC LTTV Decision³⁴, and subsequently rejected by the Commission³⁵, small market broadcasters cited many of the above issues and stated:

³³ Transcript Volume 3, paragraph 3898 & 3913. <http://www.crtc.gc.ca/eng/transcripts/2014/tb0910.htm>

³⁴ Letter to Secretary General, CRTC, date March 9, 2015. The SMITS Coalition includes:

- Jim Pattison Broadcast Group (3 stations; 2 BC (Kamloops and Prince George) & 1 Medicine Hat, Alta)
- Newcap (2 stations in Lloydminster Alberta)
- Thunder Bay Electronics (2 stations in Thunder Bay)
- Corus (CKWS Kingston & CHEX Peterborough)
- RNC Media (3 stations in Quebec – 2 Rouyn-Noranda; 1 Val-d'Or)
- Télé Inter-Rives (4 stations in Quebec – 3 in Rivière du Loup; 1 in Carleton)
- Miracle Channel, Lethbridge
- Newfoundland Broadcasting, St. John's
- CHEK-TV, Victoria

³⁵ Letter to Rick Arnish, Chair SMITS, dated May 28, 2015.

SMITS deteriorating financial situation *combined with* the CRTC's deferral of a decision on implementing a new small market independent television fund *combined with* the prospect of unaffordable over-the-air transmitter relocation costs *adds up to* an outlook that for a number of SMITS makes imminent closure a real possibility, if not likelihood.

...

The Commission's proposed process to examine local TV and local programming, while welcome, will not bring relief quickly enough to ensure local TV in Canada's smallest markets survives. Unless support along the lines of SMITS proposal is in place by September 2015, the likelihood of stations going dark is extremely high.

Finally, major shifts in TV consumption, described in an earlier work by one of the authors³⁶, suggest that the future for all forms of traditional TV, including conventional TV, is clouded. Technological and consumer behavioural change is expected to have material impacts in the medium to long term.

A leading Canadian authority on media economics and trends has gone so far as to suggest that "in 2025, there might be no local broadcast television stations in Canada. ... We will still watch a lot of television, but the structure of the TV industry will come to look less-and-less like broadcasting, and more and more like e-commerce for programs."³⁷

For many small and medium market television operators, a cloudy present plus a cloudy future will lead to local station closures - incurring the loss of quality jobs, and access to local news and information, central to life in smaller Canadian communities.

1.3 Potential Private Local TV Station Closures

As bad as it was then, the foregoing suggests that the financial situation and outlook facing local TV in Canada has worsened since the CRTC's September 2014 LTTV hearing.

Accordingly, should the CRTC fail to establish an appropriate new model to support local TV pursuant to BNoC 2015-421, we believe it is reasonable to expect that as early as 2017, and certainly by 2020:

- 50% of SMITS (all small market) will have closed (i.e. 9 of 19 stations);
 - *As noted above, SMITS aggregate PBIT margin declined to -13% in 2015, following a 9% revenue decline from 2014. "For some SMITS, 2015 will bring a first year of losses. For others the slimmest ever profit. But for others, it will be the second or even third year of consistent losses." We believe a 50% loss of stations to be a conservative estimate in the face of these financial numbers. Only the commendable tenacity and committed local connections of SMITS owners and*

³⁶ Canadian Television – An Environmental Scan, June 27, 2014, Peter H. Miller. Available as 3rd document at: <https://services.crtc.gc.ca/pub/ListeInterventionList/Documents.aspx?ID=218210&Lang=e>

³⁷ Ken Goldstein, Communications Management Inc. Canada's Digital Divides, http://media-cmi.com/downloads/CMI_Discussion_Paper_Digital_Divides_082015.pdf.

operators would prevent greater losses.

- Three-of-four Ontario small and medium market local Bell CTV-2 stations will have closed;
 - *The CTV-2 network of stations suffers from a lack of complete national coverage, access to major markets through tertiary ones and second tier programming. It is quite possible that the entire network could be shuttered by Bell by 2020. It is reasonable to assume that, at a minimum, in order to cut costs, Bell would eliminate three of its four Ontario CTV-2 and consolidate its Ontario operations in one station serving the entire province.*
- Two-thirds of remaining small and medium market Bell CTV and CBC-affiliate stations will have closed (i.e. 9 of 14 stations);
 - *Bell has put the CRTC on notice that it could close as many as half of all of its local stations. Closing small and medium market stations would be the logical place to start. Two thirds of Bell's small and medium market Bell CTV stations could represent, for example, a consolidation of all Northern Ontario stations into one, and a closure of all non-provincial capital stations. We believe that, if only for political reasons, stations in provincial capitals will be kept open as long as possible. It is possible that provinces would find means of subsidizing such stations³⁸.*
- 50% of Shaw Media Inc.'s ("Shaw's") small and medium-market stations will have closed (i.e. 4 of 7 stations);
 - *Shaw has small and medium market stations in Kelowna, Lethbridge, Kenora and Regina, and provincial capitals. It is reasonable to assume that Shaw would, at minimum, close all non-provincial capital stations.*
- One third of small and medium-market non-SMITS French-language stations³⁹ will have closed (i.e. 4 of 12) stations.
 - *French language conventional TV stations are generally not seeing the degree of technological and consumer disruption observed on the English side. While we expect that many small and medium-market Quebec stations are suffering declines, they may not be as pronounced. We also believe it possible that the province of Quebec would find a means of subsidizing at-risk stations. We conservatively put our estimate of station closures at one third.*

In sum, given their financial situation, and public statements made by Bell and SMITS, we estimate that, without public policy intervention⁴⁰, in the order of **50% of private small and**

³⁸ This is not unprecedented. The Alberta government bought airtime on privatized educational station, Access Alberta, for some time, to keep it going.

³⁹ These include 5 medium market stations owned by SMITS operators, 3 V stations and 4 TVA stations

⁴⁰ The CRTC announced a review of community and local TV on September 14, 2015 pursuant to Broadcasting Notice of Consultation CRTC 2015-421. *The potential impact of any new measures arising from this proceeding is of course not known at this time.*

medium-market stations could close by 2020⁴¹. We cannot specifically identify which ones, of course, but we expect that smaller-market stations are the most vulnerable. In **Table 2** below, we put forward the types of stations that appear to be prime candidates for closure⁴². We are not projecting that any large market private local stations or CBC owned-and-operated stations would close over this time frame. Nor do we project that any provincial capital stations would close.

Table 2 Breakdown of stations vulnerable to closures

	Number of station closures	Current number of stations
SMITS stations	9	19
Bell CTV-2 small/medium-market stations in Ontario	3	4
Bell CTV & CBC affiliate small/medium-market stations	9	14
Shaw small/medium market stations	4	7
Quebec small/medium-market stations (excl. SMITS stations)	4	12
Total	29	56

Source: Authors' research

1.4 Potential Job Losses in Local TV Stations in Canada

These closures would result in the loss of local news to over twenty already-underserved small markets in Canada, and would also eliminate an estimated 910 FTEs by 2020 (see Economic Impact Analysis, below).

The possibility that closures could be even more extensive, and include large-market stations, cannot be dismissed. As already noted, Bell's entire CTV 2 network, and all its associated local stations, could be shut down. A number of Rogers OMNI stations, whose financial difficulties and local news restructuring have been documented, could face a similar fate⁴³. And while we do not necessarily share the view that all local TV stations in Canada will be shut down by 2025, we do believe that this could well be the case for small and medium-market stations.

Our analysis indicates that the overall erosion of advertising revenue in conventional television – private and CBC/SRC would also result in job shedding by **large market** television stations – which results in even larger aggregate job losses. The CBC is very likely to undertake similar headcount reductions over the same time period, if Parliamentary appropriations stay at the current reduced level⁴⁴. This would lead to the loss of an estimated

⁴¹ Bell, which owns the majority of network-owned small and medium market TV stations in Canada, committed to keep all its local TV stations on air until 2017 as a condition of approval of its purchase of Astral.

<http://www.crtc.gc.ca/eng/archive/2013/2013-310.htm>, para 88.

⁴² Note that there has been no official word with any of the owners of these stations, nor any contact with them about the potential for such action.

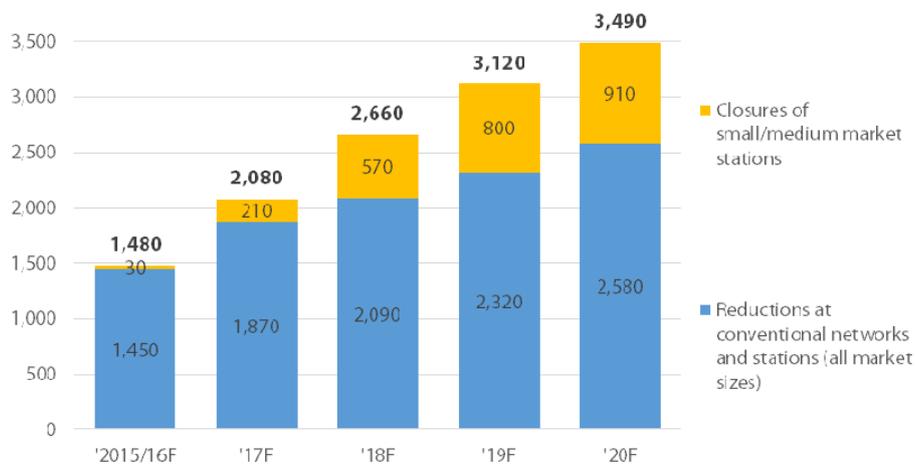
⁴³ Rogers owns five ethnic TV stations across Canada and provides programming to a sixth independent ethnic stations in Montreal, CFHD-DT. While not modeled, it would not be unreasonable to assume that only stations in Toronto, Vancouver and, perhaps, Montreal would survive beyond 2020.

⁴⁴ In an announcement made on September 22, 2015, the Liberal party announced that a Liberal government would invest

additional 2,580 FTEs by 2020 (see **Figure 3**, below).

In total, job losses associated with the closure of small and medium-market stations, reductions at other private and public conventional stations (in all markets), and reductions at the network level are expected to result in the loss of 3,490 FTEs by 2020. In other words, by 2020, there is expected to be 3,490 fewer full-time equivalent workers Canada’s public and private conventional TV industry compared to the level of employment during the 2014 broadcasting year (ending August 31, 2014), or approximately 30% of current employment⁴⁵

Figure 3 Summary forecast of cumulative job losses in conventional TV (number of full-time jobs)



Source: Authors’ estimates based on data from CRTC, TVB, Zenith Optimedia, eMarketer, SMITS, Statistics Canada, Finance Canada and Scotiabank.

\$150 million in new annual funding for CBC/Radio-Canada. Should this commitment be implemented, it would largely reverse the revenue reductions and job losses otherwise projected for the Corporation. <https://www.liberal.ca/liberals-to-invest-in-canadian-culture-and-middle-class-jobs/>.

⁴⁵ 2014 private and public conventional employment stood at 11,804 full-time jobs.

2. Economic Impact Analysis

Our economic impact analysis is based on the following underlying assumptions:

- CBC/SRC conventional is expected to lose approximately \$120 million in advertising revenue in the 2015 broadcasting year due to the loss of Hockey Night in Canada (HNIC). Thereafter, CBC/SRC's share of the ad market is assumed to decline in line with the decline in private conventional ad revenue⁴⁶.
- Private conventional television's share of the overall TV advertising market is assumed to continue to decline during the forecast period from 49% in 2014 to 46% in 2020.
- Specialty television is assumed to gain share of TV ad spending in 2015 from the transfer of HNIC (see above); thereafter, it is assumed to gain share at the expense of private conventional television and CBC/SRC conventional.
- As of 2014, small and medium market stations are assumed to employ 2,090 full-time equivalent workers and earn total revenue of \$350 million (out of total private conventional television revenue of \$1,804 million).
- Based on our assumptions for the average size of small market (25 full-time equivalent employees) and medium market (55 full-time equivalent employees) and forecast of station closures, we further forecast that 43% of the employment and revenue at private small and medium market conventional stations in 2014 would be lost to station closures by 2020.
- Only 20% of the ad revenue (and associated employment) lost due to closures of private small and medium market stations would be absorbed by surviving conventional broadcasters; 80% of the losses would escape from the broadcasting system to other advertising media such as radio or the Internet.
- In other words, 80% of the revenue and employment losses due to station closures would be incremental to the revenue and employment losses that the conventional television segment is forecast to experience on account of general trends in ad spending in Canada.

The shifts in advertising revenue within the television broadcasting industry, when combined with broadcasters' other sources of revenue, the effects of station closures and the loss of simultaneous substitution revenue translate into the overall forecast of total revenue in **Figure 4**.

- CBC conventional TV's loss of advertising revenue in 2015 is offset partially by an additional \$30 million in revenue from the production of HNIC for Rogers Media.

⁴⁶ We are not in a position to assess the net cost or benefit associated with the loss of NHL to CBC. Obviously, there would be a commensurate decrease in NHL rights costs for CBC associated with this revenue decrease that a revenue-based analysis, such as this, does not address. We assume however that CBC will ultimately require replacement programming, and that such programming will have a material associated cost to attract audiences.

- Revenue losses from station closures reach just over \$150 million (i.e. 43% of \$350 million) on an annual basis by 2020.
- Revenue losses due to reductions in simultaneous substitution are forecast at \$20 million in 2017, increasing with Consumer Price Index (CPI) inflation to \$21.2 million by 2020.

Figure 4 Total revenue in conventional TV


Source: Authors' estimates based on data from CRTC, TVB, Zenith Optimedia, eMarketer, SMITS, Statistics Canada, Finance Canada and Scotiabank.

2.1 Impact of Station Closures and Overall Job Losses on GDP

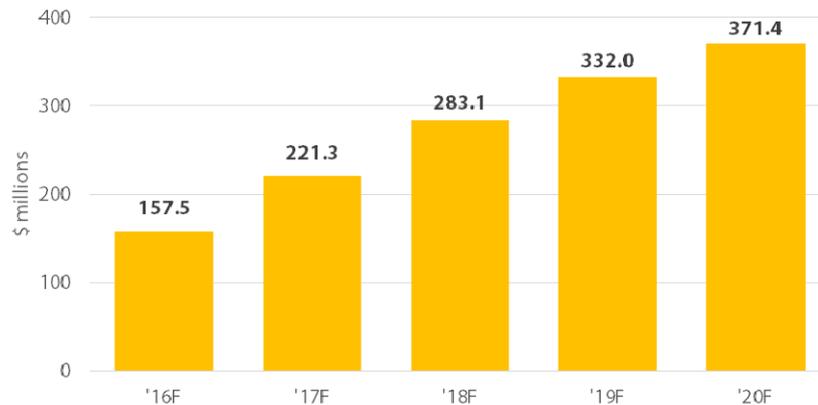
The station closures and jobs losses expected to occur in the private and public conventional TV industry would also result in the loss of approximately \$370 million in annual direct gross domestic product (GDP) (i.e. excluding any spin-off impacts) by 2020 (Figure 2).

This impact is based on the following assumptions:

- The forecast trends in total revenue within the private and public conventional segments were used to model the impact on employment and GDP. The going-in employment ratios (i.e. jobs per \$1 million revenue) were used to model the impacts. In 2014, private conventional TV displayed an employment ratio of 3.3 jobs per \$1M; CBC/SRC conventional displayed an employment ratio of 4.4. jobs per \$1M.
- Private conventional stations were assumed to improve their labour productivity in each year by a factor of 0.02 jobs per \$1M. This reflected a long-term trend displayed by private conventional TV stations between 1996 and 2014.
- The job losses at CBC/SRC conventional TV are "front-loaded" due to the loss of HNIC see above and reductions in its parliamentary appropriation in 2014. Labour productivity was also assumed to improve at a rate of 0.02 jobs per \$1M at CBC/SRC, from 2016 onwards.
- Thereafter, CBC/SRC conventional TV's jobs losses are tied to real dollar declines in

advertising revenue and total revenue that it experiences during the forecast period.

Figure 5 Estimated GDP impact of station closures and revenue losses in conventional TV (direct GDP impact only)



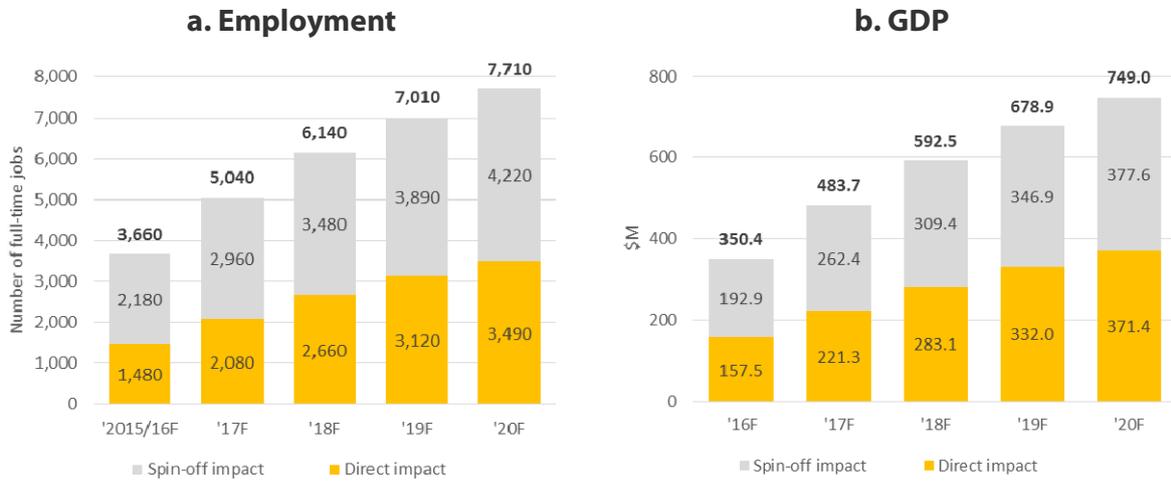
Source: Authors' estimates based on data from CRTC, TVB, Zenith Optimedia, eMarketer, SMITS, Statistics Canada, Finance Canada, Scotiabank and CMPA Profile 2014.

2.2 Spin-off Impacts

The overall economic impact of station closures in small and medium markets will not be confined to the TV industry. TV stations procure supplies and services not only from within their local markets but also from other cities and regions in Canada (i.e. indirect impacts). Furthermore, the workers employed by TV stations and their suppliers re-spend their income within their local markets and elsewhere in Canada (i.e. induced impacts). The sum of these indirect and induced impacts is referred to as the 'spin-off' impact.

When one takes into account the spin-off economic impact associated with the conventional TV industry, the total economic impacts increase significantly. Including the spin-off impact:

- By 2020, an estimated 7,710 FTEs would be lost within the Canadian economy (**Figure 6a**).
- The total impact on GDP in 2020 increases to \$749 million (**Figure 6b**).

Figure 6 Total economic impact in Canada, direct and spin-off impacts


Source: Authors' estimates based on data from CRTC, TVB, Zenith Optimedia, eMarketer, SMITS, Statistics Canada, Finance Canada and Scotiabank.

3. Revenue Gap Analysis

Minimizing Station Closures and Other Impacts Through Redirected BDU Contributions

As already noted, the Commission's context for BNoC 2015-421 contemplates the potential for a redirection of mandatory BDU Canadian programming contributions to support local television and local programming. In this section we model how a levy on BDU revenue could be used to fill the "revenue gaps" that would otherwise be experienced by different categories of local stations, and thereby preserve local programming and stave off or, at least, minimize station closures.

3.1 SMITS

Figure charts a forecast of the revenue gap forecast for SMITS against the revenue that could be raised by a levy on BDU revenues.

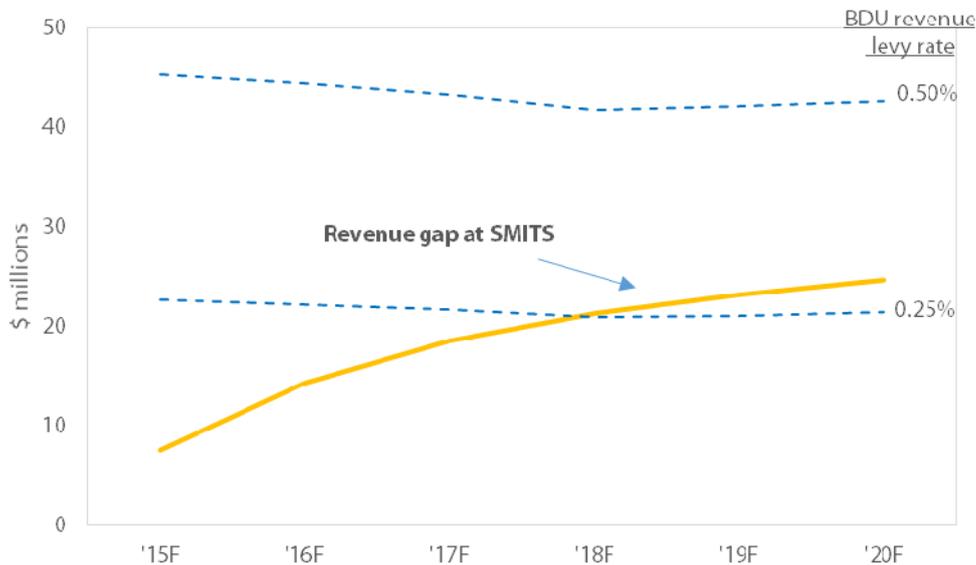
In 2015, revenue for SMITS is expected to drop from approximately \$87 million to under \$80 million, yielding a \$7.5 million revenue decline⁴⁷. To forecast the revenue gap for the balance of the forecast period, 2016-2020, we assumed that annual percentage rate of revenue losses at SMITS would be equivalent to 150% of the rate of revenue losses experienced across the entire conventional television segment. Based on this approach, by 2020, this revenue gap is forecast to widen to \$26 million, or 30% of SMITS 2014 revenue⁴⁸.

The BDU levy isobars in **Figure 7** indicate the annual revenue that could be raised by a 0.25% and 0.5% levy on BDU revenue⁴⁹. A BDU levy of approximately 0.3% would be required to close this revenue gap in 2020.

⁴⁷ SMITS Coalition, June 2014 LTT Submission, Appendix 1, section 7.1, as amended by SMITS Intervention in Broadcasting Notice of Consultation CRTC 2015-330, para 9-11.

⁴⁸ This would, of course, be a catastrophic degree of revenue decline, and could not realistically occur on a same station basis.

⁴⁹ Each levy rate in this analysis has been applied to a forecast of BDU revenue based on the assumption that LTTV policies have been implemented. They take into account reductions in BDU subscribers (due to cord cutting) and ARPU.

Figure 7 Estimate of revenue gap for SMITS


Source: Authors' estimates based on data from SMITS Coalition.

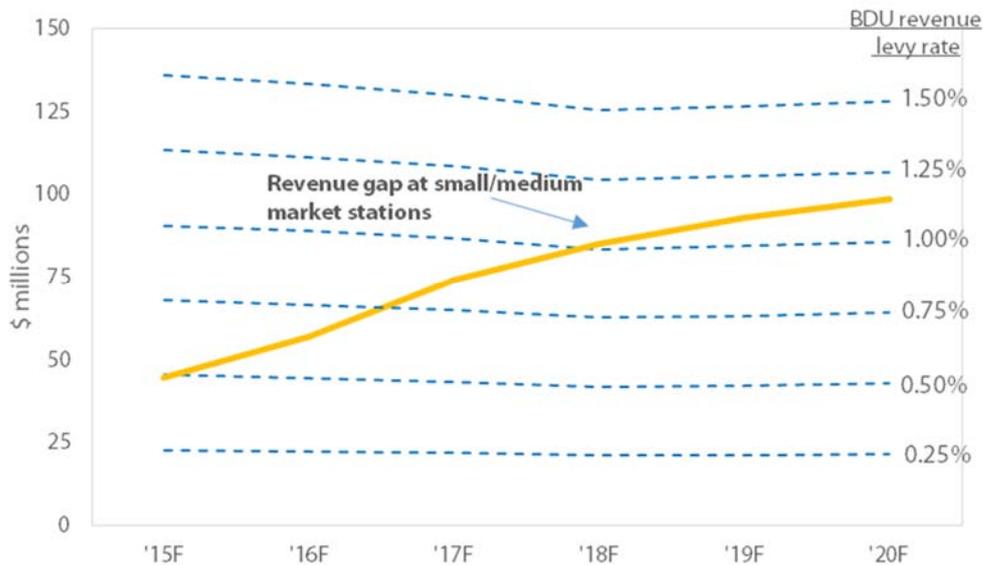
3.2 All Small and Medium Market Stations

Figure 8 Error! Reference source not found. indicates the BDU levy that would be required to fill the revenue gap for small and medium-market stations.

The revenue gap assumes that the small and medium-market stations remain open but experience percentage decreases in their revenue that are 150% of the rate forecast for the entire conventional television segment (this is the same approach as was used for SMITS). For example, in 2020, small and medium stations would experience a revenue gap of \$104 million, or approximately 30% of their baseline revenue in 2020.

The BDU levy isobars in Figure 8 indicate the annual revenue that could be raised by a levy on BDU revenue. Six different levy rates were modelled, ranging from 0.25% to 1.50%.

The forecast in Figure 8 indicates that, by 2020, a levy of approximately 1.25% of BDU revenue would likely be required to close the revenue gap that small and medium-market stations are expected to experience by 2020.

Figure 8 Estimate of revenue gap at small/medium market stations


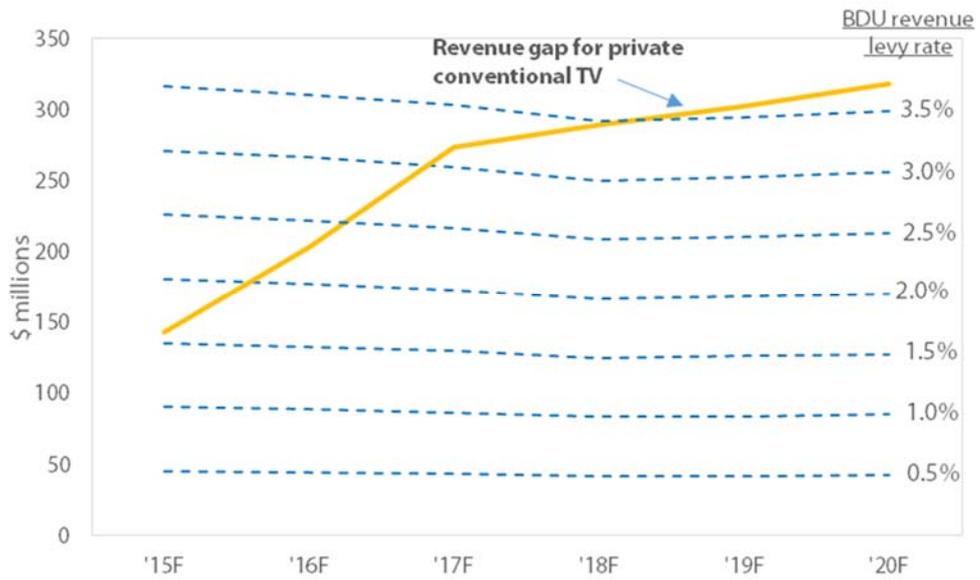
Source: Authors' estimates based on data from CRTC, TVB, Zenith Optimedia, eMarketer, SMITS, Statistics Canada, Finance Canada and Scotiabank.

3.3 Private Conventional TV

Figure 9 indicates that a BDU levy of over 3.5% would be required to cover the revenue gap that would otherwise be experienced by all private conventional television stations by 2020⁵⁰. This revenue gap combines the effects of the revenue gap for small and medium market stations, the general declines in ad revenue experienced in the private conventional television segment and any losses in simultaneous substitution revenue.

⁵⁰ In light of the Liberal party commitment to an incremental \$150 million annual appropriation to CBC, noted earlier, we have not included CBC owned and operated stations in this analysis.

Figure 9 Estimate of revenue gap for all private conventional TV



Source: Authors' estimates based on data from CRTC, TVB, Zenith Optimedia, eMarketer, SMITS, Statistics Canada, Finance Canada and Scotiabank.

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