HAVING IT ALL

How Public Radio Stations Can Provide Great Service and Live Within Their Means

BRODY • WEISER • BURNS

November 2004

Corporation for Public Broadcasting

Dear Station Manager:

CPB is pleased to share with you this important report on the financial health of public radio. We believe that it will help to bring about significant improvements in the way stations conduct business and provide service.

The report grew out of concern at CPB that the financial challenges we had observed at some stations may have been more widespread than generally thought. Although our system as a whole was attracting a growing audience and increased revenue, we worried that this overall positive picture might be masking significant pockets of distress. That is why we commissioned this study by Brody Weiser Burns, a consulting firm specializing in high-level assistance to nonprofits.

It is the first such study in our history. Departing from our norm, Brody Weiser Burns concentrated not on gross revenue but on net revenue.

Some of what they told us was greatly encouraging. About a quarter of our stations are in good financial health and provide good audience service. The best of the best—about 10% of the total—have excellent operating margins as well as outstanding audience service.

But they also found reason for concern. Most stations are not generating even minimal levels of net revenue needed for long-term security. Station finances are increasingly stretched by large increases in station-based programming and production. Net revenue declined significantly for nearly 300 licensees over the last five years.

Please look carefully at the recommendations in this report. Based on the key management practices of top stations, along with best practices in the nonprofit sector, Brody Weiser Burns recommend specific actions that will benefit every station in our system.

Our hope is that our national service organizations will advance these recommendations as well. By getting stronger financially, public radio can provide even better public service to the American people and ensure a vibrant future.

Let me know if you would like to see the complete report from which this abbreviated version was prepared. CPB found it an eye-opener—I'm sure you will, too.

Regards,

Vincent Curren
Senior Vice President, Radio

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How Public Radio Stations Can Provide Great Service and Live Within Their Means

A Report on the Financial Health of Public Radio
Commissioned by the Corporation for Public Broadcasting

NOVEMBER 2004

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A COMMISSIONED REPORT ON THE FINANCIAL HEALTH OF PUBLIC RADIO

Does public radio face serious financial threats that have been masked by audience growth? If financial problems are identified, are they universal or are they limited to particular organizations or stations sharing certain characteristics? And what steps should stations take to improve their financial health?

To answer these questions, the Corporation for Public Broadcasting (CPB) engaged the consulting firm of Brody Weiser Burns (BWB) to assess the financial health of the public radio system. The objectives of BWB's study were as follows:

- Understand the current health of public radio overall.
- Understand if that health varies by strategic cohort (that is, groups of stations that share certain important characteristics).
- Identify trends, potential opportunities, and threats that would result in significant changes in the current health of public radio.
- Identify benchmarks for evaluating the financial conditions of individual stations.
- Recommend actions that stations should take to improve their financial health.

The findings in this report were derived from an analysis of the Annual Financial Reports (AFRs) submitted by 314 licensees, which represented 98% of the system listener-sensitive income for the five-year period 1999 to 2003. In addition, interviews were conducted with nearly 30 public radio industry leaders, consultants, heads of national organizations, and station managers.

STATIONS CAN HAVE IT ALL: SUPERIOR SERVICE AND FINANCIAL HEALTH

Public radio stations can achieve superior financial health and, at the same time, provide excellent service to their audience. Stations are not forced to choose between one objective or the other. They can have both.

In this study, we looked at net revenue (operating revenue minus operating expenses) from 1999 to 2003 as well as audience service, using audience loyalty[1] as a benchmark to measure service. Our study revealed that approximately 23% of all licensees had both acceptable financial health and above average audience service. And 10% had excellent financial health and outstanding audience service.

The collective bottom line for the public radio system was $4.5 million lower in 2003 than in 1999.

While the performance of these stations is laudable, the public radio system as a whole has experienced some troubling financial trends. We found that 56% of licensees did not achieve an acceptable level of financial health (net revenue at least 2% of operating revenue). Furthermore, although total system revenue increased dramatically between 1999 and 2003, system-wide net revenue actually decreased.

The collective bottom line for the public radio system was $4.5 million lower in 2003 than in 1999. More troubling was the finding that 45% of all licensees ran a deficit in 2003, and that the 20 licensees running the largest deficits lost a total of $21.7 million among them. Operating at a loss is clearly unsustainable over the long run.

Programming costs drove losses. The most important factor in the decline in system surplus was the growth of programming costs, particularly those expended by stations on their own programming and production. The increase in programming costs accounted for $112 million, or 60%, of the total $184 million in increased operating expense over the period. But fundraising and underwriting costs, although smaller, grew rapidly as well.

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[1] Loyalty, as defined by Audience Research Analysis, is the total time that an individual listens to a particular station in a measurement period, as a percentage of the total time that that individual listens to all radio during the same measurement period. For example, if a station has a loyalty score of 33%, then its listeners spend one-third of their total radio listening time tuned to that station. (Audience Research Analysis is a firm that analyzes Arbitron's syndicated radio listening data for the public radio system.)

Increases in programming costs generally were associated with *decreases* in net revenues. Increases in fundraising and underwriting costs were associated with *increases* in net revenues. This finding should not be surprising. Most station managers have long known that a dollar expended on programming locally rarely brings back a dollar in revenue in the near term, while a dollar expended on underwriting and fundraising typically brings back much more than a dollar in revenue.

Stations make their own choices. One of the primary drivers of financial loss is increased spending by stations on programs that they produce—a driver that is under their direct control. Stations are going "into the red" in part because of choices that they have made, rather than choices that are forced on them.

Investments in locally produced programming may result in audience service but such investments appear to detract from financial health in many stations. Is this stark choice inevitable?

- Invest in great programming to improve audience service, but suffer ill financial health as a result, or
- Dole out program dollars in a miserly way to achieve financial health at the expense of audience service.

Must it be a choice between two evils? The answer is no. Stations can achieve both audience service and excellent financial health. In this report, stations that truly combine the best of both worlds are referred to as "soaring" stations. They represent about 10% of the public radio system.

In contrast, 27% of all licensees have the worst of both worlds—poor financial health and below-average audience service. This is a difficult position and it is unsustainable in the long run. Here, they are referred to as "sinking" stations.

Lessons from stations that "soar." The management styles of the "soaring" licensees can help station managers understand how to elevate their stations both financially and in terms of audience service. Some of the strategies employed by "soaring" stations—those with high audience loyalty as well as robust financial health—include:

- Hire experienced and skilled financial managers.
- Focus on controlling net revenue rather than just increasing gross revenues.
- Be proactive and ready to cut costs quickly in response to financial pressures.
- Use realistic models of cost and revenue when planning program production.

Increased programming costs accounted for 60% of the total increase in operating expense from 1999 through 2003.

FIVE-YEAR TREND: MORE REVENUE, MORE LISTENER HOURS… AND MORE EXPENSES

The public radio system's performance over the past five years (1999-2003) was very good in some ways:

- Total operating revenue grew from $523 million to $703 million, an average growth rate of 7.7% per year.
- Listener hours grew from 878 million to 1.08 billion, a growth rate of 6.1% per year.

Operating expenses grew fast enough to exceed operating revenue in 2002, bringing the system as a whole "into the red."

Given this positive growth, one might expect that the bottom line was doing well also. But this was not the case. Net revenues declined during this period, falling from a system-wide total of $14 million in 1999 to $9 million at the end of fiscal year 2003.

Why the decline? The simple answer is that even though revenue was growing, expenses were growing faster. Over the period, operating expenses grew from $509 million to $694 million, a growth rate of 8.1% per year. In fact, operating expenses grew fast enough to exceed operating revenue in 2002, bringing the system as a whole "into the red." Operating revenue growth picked up in 2003, helping to bring the system back "into the black," as indicated in the graph to the right.

Faced with this statistic, some might say, "So what? The system as a whole is down a little over a five-year period. That's not a particularly meaningful statistic." The reason that the drop in net revenue is worth paying attention to is that it is an indicator of troubled financial health in certain stations. And that matters a great deal.

If we look deeper into the pattern of stations that reported losses, we find that 142 licensees out of 314 were "in the red." In other words, 45% of all licensees are losing money. Operating at a loss is not sustainable in the long run.

Not only are 45% of stations losing money, some stations are losing a lot of money.

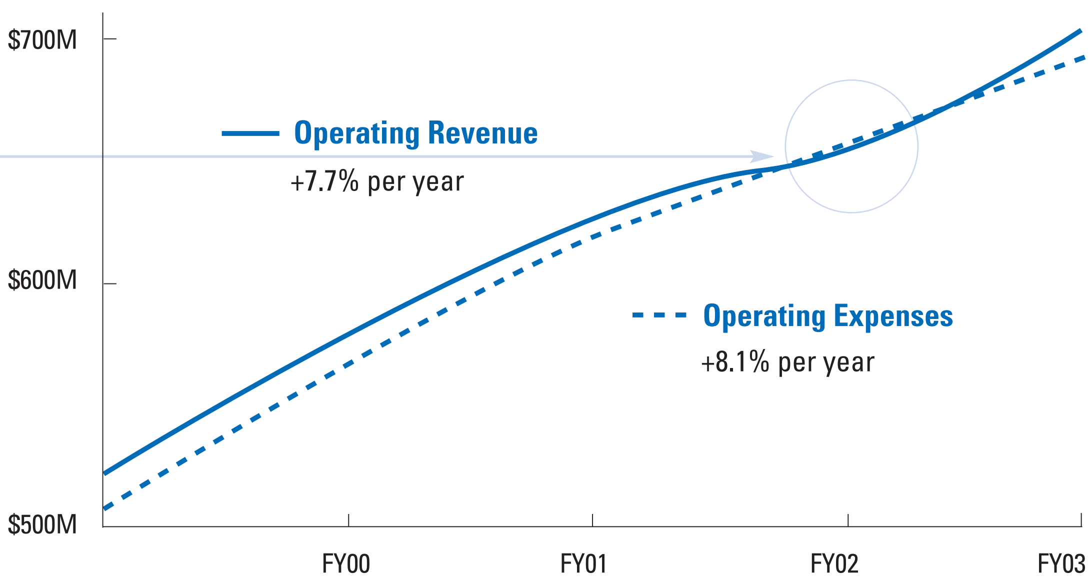
SOME STATIONS DID WELL, OTHERS DID NOT

Is it possible to combine good audience service with sound financial health? To answer this question, we established a set of benchmarks to measure financial health and service to the public. The benchmarks were based on earlier studies of public radio; interviews with station managers, CPB staff, and industry experts; and financial studies of nonprofits and government agencies.

What financial health means. Stations are considered financially healthy when net income (revenues minus expenses) is at least 2% of operating revenue. Stations with net revenue above 5% of operating revenue per year are considered to be in "excellent" financial health.

From the perspective of a lender or a rating agency, having "excellent" financial health over a period of three to five years means that the station would likely be able to borrow from the banks or institutional investors for its capital needs without requiring additional guarantees or other types of credit enhancement.

Expenses grew faster than revenues



Source: CPB AFR Data

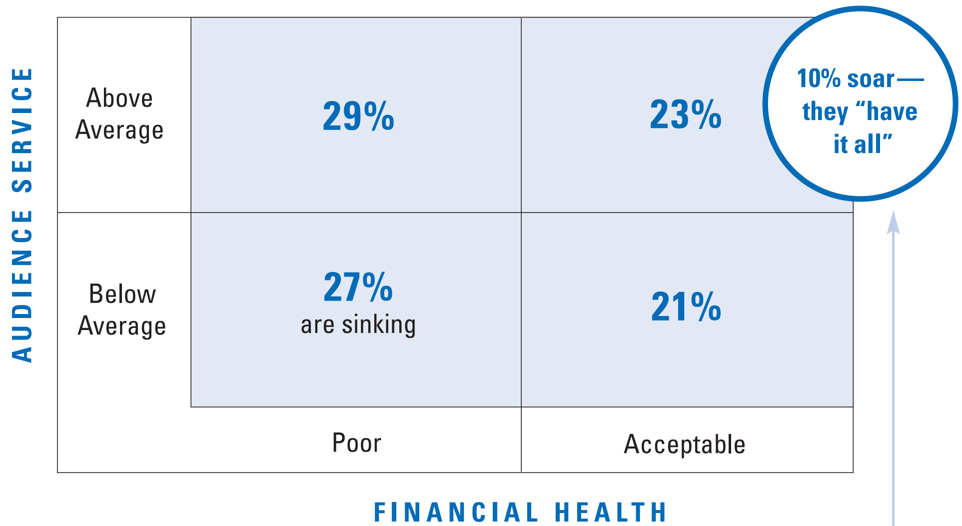
For additional benchmarks of financial health in public radio stations, see Appendix, page 17.

What audience service means. Stations are considered to be serving their audience when they attract a high percentage of the audience's total listening time. On average, stations get 32% of their audience's listening time, the benchmark for adequate audience service during the time period studied for this report. Higher audience service levels are clearly desirable, since they are a key measure of mission fulfillment.

How stations performed. Individual stations differed widely in their performance, both financially and in terms of audience service. Based on these benchmarks, stations fell into four categories, as shown in the illustration below:

Stations fell into four benchmark categories

With excellent financial health and outstanding audience service, 10% of all stations combine the best of both worlds.



Source: CPB AFR Data, Arbitron

- Just under one-fourth of all stations (23%) had acceptable financial health and above-average audience service. A fraction of these —10% of the total—had excellent financial health and outstanding audience service. These stations "soar." They combine the best of both worlds.
- 50% of all stations fall short on one measure or the other. Either they serve their audiences well but have financial problems (29%), or they have strong bottom lines but lack audience loyalty (21%).

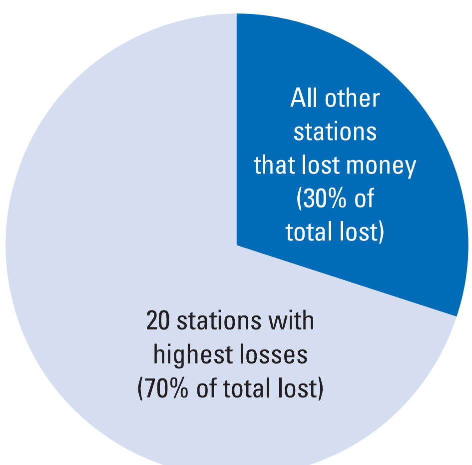
- The remaining 27% are in real trouble. They are in poor financial health *and* their audience service is below average. If they do not change their ways, they could "sink."

A MINORITY OF STATIONS PRODUCE A MAJORITY OF LOSSES

The stations in the worst financial shape are a small fraction of the public radio system. The 20 stations running the largest deficits in 2003 represented only 6% of the total, yet as shown in the chart below, their losses of $21.7 million were nearly 70% of the system's total losses in 2003.

Why is it that some stations have excellent financial health, while others show very significant losses? To find the answers, we examined a wide range of potential factors using a statistical technique called regression analysis. Regression analysis helps determine the degree of correlation of the variable the researcher is seeking to understand (in this case, changes in net revenue over time) with one or more explanatory variables.[2]

A handful of stations were responsible for most of 2003 losses



Total system losses in 2003: $31.4 million

Source: CPB AFR Data

[2] The regression analysis explained about half of the changes in net revenue. The remaining changes are a function of variables not yet identified.

Here is what we found:

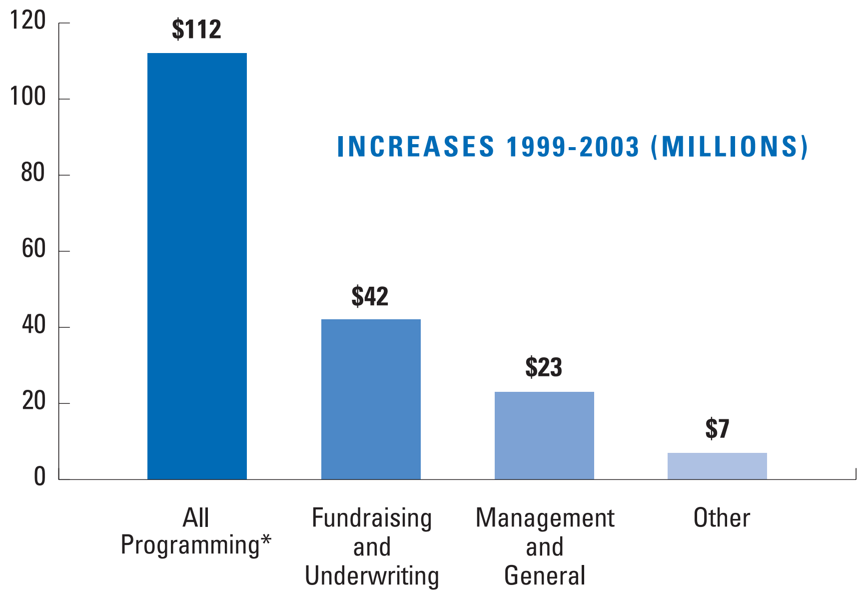
PROGRAMMING EXPENSES DRIVE NET REVENUE DOWN.

An increase in programming expenses was strongly associated with a decrease in net revenue. In other words, most stations that increased their spending on programming did not experience a sufficient increase in revenue to cover the additional costs during the period examined.

Indeed, a broader look at financial loss in the system overall from 1999 through 2003 shows that the growth of programming costs was the most important single reason. A $112 million increase in programming and production costs accounted for more than 60% of the total increase in operating expense ($184 million) over the five-year period, as shown in the graph below. The other factors, which made up the remaining 40%, were fundraising and underwriting ($42 million), management and general ($23 million), and other expenses ($7 million).

In particular, what drove up programming and production costs was stations' spending on their own programming and production. Public radio stations have two options for their programming and production activities: acquire a program or produce it themselves. The two largest program providers in the

Why operating expenses went up

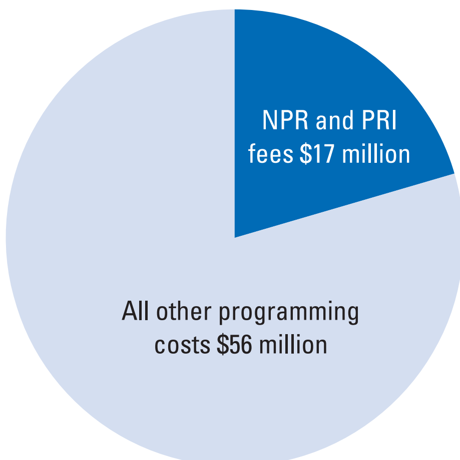


*Programming and production $73 million; broadcasting $29 million; and promotion $10 million

Source: CPB AFR Data

time period studied are National Public Radio (NPR) and Public Radio International (PRI). However, increases in fees that stations paid to NPR and PRI were only 23% of the increase in programming and production costs. The remaining 77% came from increases in the cost of local production and programming.

Local decisions drove up programming and production costs



Components of $73 million increase in programming and production costs between 1999 and 2003

Source: NPR and PRI Annual Reports, CPB AFR Data

Stations that are in poor financial health make the choices that contribute to their condition.

This means that the primary growth in programming and production costs over the past five years has been under the direct control of stations. As noted, programming and production cost increases are the largest component of increased operating expenses, which in turn are the primary driver of losses at least in the short term. In other words, stations that are in poor financial health make the choices that contribute to their condition, and the choices they made have driven them into the red.

DEVELOPMENT EXPENSES DRIVE REVENUE UP.

An increase in development expenses (underwriting and membership) was strongly associated with an increase in net revenue. For most stations, this correlation means that an increase in their spending on underwriting and membership produced additional revenues significantly above the higher fundraising costs incurred during this period. The net cost of fundraising was beyond the scope of our study.

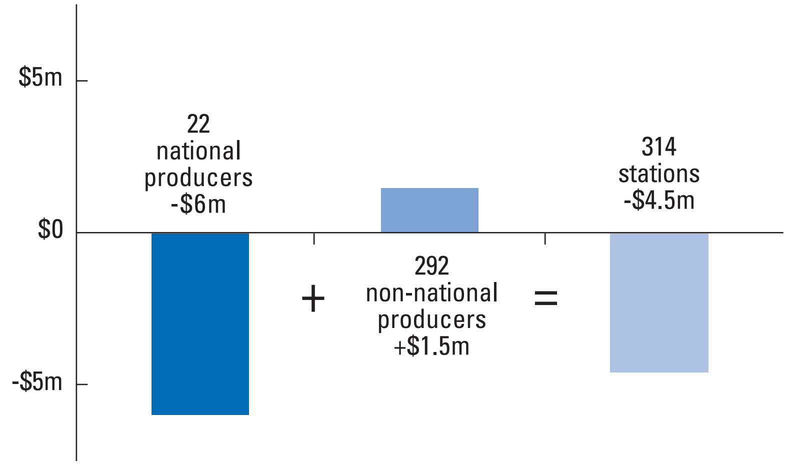
WORST CASE: NATIONAL PROGRAMMING

Our analysis showed that the 22 licensees who produce and distribute national programming for a fee experienced more significant financial challenges than all other licensees. In fact, these 22 stations as a group had a decline of over $6 million in net revenue from 1999 through 2003, compared with an overall system decline of $4.5 million during that period.

A study[3] by PRI and Accenture further documented the challenges that station-based program producers face. That study found no programs outside of key drive-time slots that have been able to achieve 100% sustainable revenue. For most nationally distributed programs, the average sustainable revenue after five years amounted to no more than 75% of total production expenses. Our study underscores that finding by showing that stations that produced national programming tended to have lower net revenue than those that did not.

Assume for a minute that the financial challenges experienced by station-based national producers are the result of their national production costs. Can this be addressed if producing stations simply priced their programs more realistically?

National producers' net revenue declined steeply



Difference in net revenue between 1999 and 2003

Source: CPB AFR Data

[3] Public Radio International and Accenture, "National Programming Survey Results," presentation to the Public Radio Development/Marketing Conference, July 2003.

Unfortunately, the answer is no. Nor can the problem be solved merely by re-allocating existing surplus in the system. We found that a substantial number of public radio stations are not generating sufficient revenues to cover their existing expenses. As shown in the graph on page 10, there is not enough growth in net revenues in the non-producing station economy to be able to fill the decline in net revenue of the station-based national producers. The public radio system lacks a clear strategy for making national programming pay, and this is a core problem.

It is not clear whether program production alone is causing financial difficulties for national producers.[4] It is possible that these stations have a propensity to take risks or to invest heavily in programming and that this tendency leads the station both to produce programming for national distribution and also to lose money. In either case, it is particularly important for these stations to create and maintain high fund balances. In nonprofit accounting, a public radio station's fund balance is the equivalent to its net worth, or total assets minus total liabilities. A high balance plus adequate net revenue are essential for stations to have flexibility to take risks with national programming.

While the cost of national production may be one factor that concentrates system losses in the station-based national producers, there are others. One is underwriting, which was a much larger percentage of operating revenue for the producing stations than for stations as a whole. With underwriting dollars harder to raise during the time period reviewed, the nationally producing stations suffered financially.

BIGGER IS BETTER, IN FINANCIAL TERMS

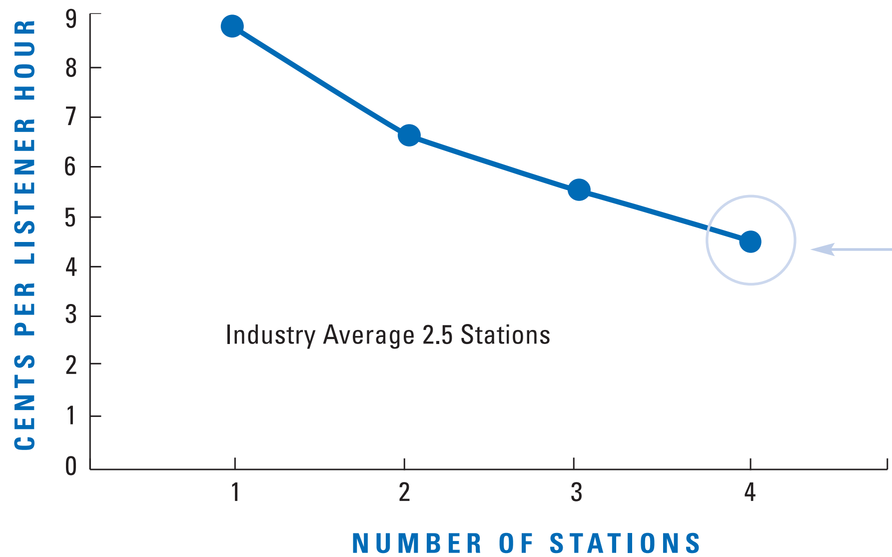
An additional factor that affected net revenue was the number of stations that a public radio license holder operates. We found clear evidence that increases in the size of the network produced significant cost savings. This suggests that collaboration, shared services, and outsourcing can have a significant effect on station and system net revenue.

Cost per listener hour was chosen as the basic metric for analyzing operating efficiency. "Listener hours" are defined in the industry as a station's Average Quarter-Hour Audience (from Arbitron) times its weekly hours on the air.

[4] Sometimes programming investments can yield net revenue, but usually the financial benefits are indirect and realized slowly. The programming returns discussed in this report are defined in financial terms only. We acknowledge that programming yields many immeasurable returns, for the individual stations and the public radio system as a whole.

Adding stations reduces cost per listener hour

Increases in network size produced significant cost savings.



Source: CPB AFR Data, Arbitron

"Cost per listener hour" is total operating expense in a year divided by the number of listener hours in that year.

Cost per listener hour varied widely across the system. The average cost per listener hour in 2003 was 6¢. The highest was 173¢. The lowest was 1.5¢. Regression analysis showed a very clear relationship between the cost per listener hour and the number of stations in a licensee's network. As indicated in the graph above, each doubling in the number of stations in one licensee's system was associated with a decline in the cost per listener hour of 2.17¢—a 36% reduction, on average.

HOW STATIONS CAN IMPROVE FINANCES

Once they understand what leads to losses and gains in income, stations that are "sinking" can turn themselves around and may even "soar" one day.

We reached this conclusion after interviewing senior managers from more than 20 stations. The managers were selected from among stations with acceptable financial health and good audience service as well as stations that were "sinking," that is, below par on both measures.

Based on the interviews, stations seeking to improve their situation need to:

EMPLOY EXPERIENCED AND SKILLED FINANCIAL MANAGERS.

Soaring stations tend to have more experienced and skilled financial managers than stations that are sinking. Specifically, the best stations are the ones with strong chief financial officers, who think about how to leverage resources to match strategies. These managers make effective use of business modeling and scenario planning in their financial decision-making.

CONTROL COSTS AND ACT QUICKLY WHEN NECESSARY.

With stronger financial management in place, soaring stations tend to have greater focus on controlling net revenue, rather than increasing revenues. Managers of soaring stations think strategically about cash flow management, and their boards exercise greater oversight of the budgeting process. Soaring stations tend to be more proactive than others, ready to cut costs quickly in response to financial pressures. Conversely, sinking stations are not adept at setting achievable budgets. These stations do not closely examine the factors affecting their net revenues and often rely upon a parent organization to cover the deficits.

Soaring stations tend to be more agile in planning and managing programming strategies.

PLAN FOR ONGOING PROGRAMMING SUBSIDIES.

The soaring stations usually have a clearer understanding that much of the programming they create will not break even, at least in the short run. Consequently, these stations plan for ongoing support. These stations are adept at calculating the ratio of their programming costs to financial return, as measured in audience growth, and the corresponding increases in membership and underwriting revenues. In making this calculation, the soaring stations often set benchmarks for the time frame in which new productions should yield a specified return on investment.

SUCCESS IS NOT TIED TO PROGRAMMING STRATEGY OR LICENSEE TYPE

There seems to be no noticeable difference in the programming strategies pursued by soaring or sinking stations. Both types of stations run a combination of local and national productions, and both are experiencing sharp increases in programming expenses. As noted, the difference is that soaring stations tend to be more agile than the sinking stations in planning and managing programming strategies.

Nor is success tied to difference in licensee type: community licensee versus university licensee or joint licensee (television and radio) versus radio-only licensee. The unique strengths and weaknesses that each licensee type possesses have no impact on whether a station is a high performer or not.

RECOMMENDATIONS FOR THE INDUSTRY

Over its 30-year history, the public radio system has achieved an outstanding record of success. Among the system's strengths has been the creation of programs that make a real difference in the quality of listeners' lives and that are generating continuing increases in audience and financial support. In order to sustain such success, the public radio system must overcome several industry-wide weaknesses, particularly the historically thin operating margins at many stations.

To address the financial management challenges faced by both individual radio stations and the entire public radio system, we recommend:

- **Set ambitious goals for financial health together with audience service; gather and distribute information to ensure that managers know where they stand in relation to the goals.**

The public radio system should set ambitious goals for improved financial health just as it set standards for audience service in the late 1980s, when the system focused on doubling its audience. Research in the nonprofit sector suggests that a *minimum* benchmark for acceptable financial health, in general, is net revenue at 2% of operating revenue. This benchmark is consistent with the financial performance of comparable segments in the nonprofit sector.

Similarly, a benchmark for *excellent* financial health is net revenue at or above 5% of operating revenue. Again, setting a target for the percentage of licensees that will achieve this goal would be helpful.

There are many accounting complexities, particularly among joint licensees[5] and university licensees, that may require adjusting these benchmarks to fit specific circumstances. But setting a goal that a specific percentage of licensees

[5] Although this study focused on radio stations, a number of stations are joint licensees. The television finances of joint licensees tend to outweigh the finances of the associated radio station. If the television part of the joint licensee is not financially solvent, the radio station will not be sustainable in the long run.

should achieve by a specific date would provide motivation and direction to the public radio system. Our experience with nonprofits of all kinds suggests that, within the public broadcasting system, leading service organizations and forums, such as the Public Broadcasting Management Association and the Public Radio Leadership Forum, would be particularly appropriate vehicles for helping to set goals.

- **Modify stations' operating models to achieve more robust financial health.**

Our analysis revealed a clear distinction between high performing and low performing stations. The distinction is the quality of managerial leadership found in the stations dubbed "soaring." To improve performance, stations' governing boards should help their managers acquire the skills to manage expenses and should provide the relevant feedback, coaching, and support.

Additionally, the high performing stations demonstrate that the pursuit of high levels of audience service and sound financial management practices is a deliberate choice; therefore, stations seeking to change their operating models should implement strategies for combining those two objectives.

One component of sound financial management practices is a strategy that achieves stronger fund balances to help stations weather unexpected financial downturns. While fund balances were not the primary focus of this study, the development of resources is an important component of financial health throughout the nonprofit world.

Finally, to support a keener strategic focus, stations should develop better financial reporting and management systems.

- **Develop new approaches to help stations produce high-quality local and national programming that is financially sustainable.**

High performing stations make a deliberate choice to have both excellent audience service and sustainable operating margins. A station that wants to "have it all" should begin making improvements by studying the best practices of the "soaring" stations. This assessment should lead to the development of rigorous business planning, which takes into account the economics of station-based programming.

- **Increase system productivity through collaborations, shared services, and outsourcing.**

A strength and distinguishing characteristic of the public radio system is its "localism." This characteristic, which is reflected in local ownership, local decision-making, local accountability, and locally derived approaches to

Setting a goal that a specific percentage of licensees should achieve by a specific date would provide motivation and direction to the public radio system.

meeting local community need, is a unique approach in today's media environment and distinguishes public radio from almost all other forms of mass media. Preserving and enhancing this quality is challenging, especially for radio stations that struggle with financial performance.

This study demonstrates that economies of scale play a significant role in the financial health of high performing stations. For small stations looking for strategies to enhance their financial condition, greater economies of scale can be achieved through collaboration, shared services, or outsourcing. Consequently, developing models and broadly implementing strategies for attaining measurable efficiency, while protecting the value of localism, would be an effective means of increasing productivity in the public radio system.

STEPS THAT CPB SHOULD TAKE.

Beyond changes at the level of individual stations, we recommend that CPB take the following actions:

- **Support station initiatives through improved data.**

CPB should improve the AFR questionnaire to provide stations and CPB with better benchmarking data. At present, the AFR is designed primarily to capture and analyze data on station income. The reports contain nearly 100 lines of data on income, but only 10 lines on expenses. As a result, expense data is weak and sometimes inconsistent from station to station. The questionnaire should be redesigned to capture costs more usefully.

CPB should encourage joint licensees to report the income and expenses from the radio portion of their operations in ways that more accurately reflect economic reality. CPB should develop an analytical framework for the "total picture" of joint licensees that examines television and radio operations together. Capturing a more accurate and thorough economic picture of radio operations should extend to university licensees and to station-based producers of national programming.

- **To increase system-wide financial health, evaluate the potential for Community Service Grant (CSG) criteria that extend beyond gross revenue.**

At present, CSG criteria focus on gross revenue. To bring the criteria into better alignment with station health, CPB should consider other possibilities, including a tie between net revenue and grant awards.

Appendix

BENCHMARKS OF FINANCIAL HEALTH FOR PUBLIC RADIO STATIONS

One of the key objectives of this project was to develop benchmarks for the financial health of public radio stations. Brody Weiser Burns consulted studies of public radio by Public Radio Capital, Fitch, and Standard and Poor's; interviews on station finances with station managers, CPB staff, and industry experts; and studies of nonprofit and government agency health conducted by Moody's and Bridgespan.

Based on this information, we developed the following qualitative and quantitative benchmarks for station financial health:

- **Positive net revenue**

Positive net revenue means that a station is generating enough revenue from operating sources to cover its regular operating expenses.

Based on the AFR data, roughly half of licensees currently have acceptable financial health (net revenue at least 2% of operating revenue), and roughly one-third have excellent financial health (net revenue at least 5% of operating revenue).

- **Loyal and growing audience base**

Considerable research and analysis by public radio experts has demonstrated that the loyalty of a station's audience base is the most important predictor of its ability to generate listener support. We chose 32%, the system's average loyalty during the time period studied, as the benchmark for adequate audience service. Growth in audience service is a key measure of mission fulfillment.

- **Diversification of corporate underwriting**

The market for corporate underwriting is driven, in part, by the financial health of corporations and their spending on advertising and marketing. The collapse of the dot.com sector and the concomitant drop in underwriting show how this dynamic can play out. Financial health is best assured if there is diversification in corporate underwriting, so that a decline in corporate health, in a station's hometown or within any particular business sector there, will not wipe out large portions of a station's underwriting income. Because the amount and type of corporate underwriting vary so much from station to station, we did not set a specific benchmark for the level of diversification.

- **Conservative budgeting techniques**

A careful organizational approach to budgeting involves conservative fiscal policies and multi-year modeling, utilizing the following techniques:

Revenue forecasting. Strong management teams have a solid track record of meeting projections in most line items over several years. Over-optimistic revenue forecasting can lead to shortfalls that must then be filled with last-minute fundraising pleas, expenditure cuts, or one-shot draws from reserves. All of these measures can undermine future financial flexibility, create problems in subsequent years, and pose a significant challenge to long-term financial viability.

Expenditure controls. Tight expenditure controls are a characteristic of strong management teams because such controls lessen the likelihood of financial distress within a current fiscal year or beyond. Strong management teams have a keen awareness of the levels of flexibility within each expenditure category.

Budget planning. Multi-year budgets should perform two important functions: incorporate "what if" scenarios into the planning process and provide a clear road map for the next several years.

- **Fund balance policies**

Stations should adopt fiscal plans that include fund balance target levels and specify the circumstances under which reserves may be used. The fund balance target should equal at least three months of operating expenses or approximately 25% of annual revenues.

- **Debt planning**

A formalized debt plan should include target and minimum debt levels, targets for pay-as-you-go funding of capital improvements, targets for capital campaigns, and incorporation of these debt policies into a multi-year capital plan. The adoption of a debt plan demonstrates that management intends to maintain short-term and long-term debt obligations at manageable levels, while ensuring that capital needs will be met on an on-going basis.

- **Succession and contingency planning**

Stations should adopt formal succession and contingency plans, which typically include documentation of organizational structures, succession plans should key personnel change, and specific scenarios to respond to likely changes that might affect credit.

- **Timely disclosure**

Stations should maintain timely financial documents, audited by a reputable outside firm, and they should disclose any events with a material impact on financial results as soon as they occur.

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