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What Works

Money for a Song: The Public Radio Fund gives investors a chance to save nonprofit airwaves

By Alessandra Bianchi

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Money for a Song

The Public Radio Fund gives investors a chance to save nonprofit airwaves *by Alessandra Bianchi*

LAST SUMMER, BILL LEGERE, president and general manager of KTOO-FM in Juneau, Alaska, learned a disturbing lesson when his small public radio station tried to buy two commercial stations. The purchase price was reasonable enough – \$674,000 for both stations – and KTOO had \$250,000 of its own money to contribute to the deal. But try as he might, Legere could not find a commercial lender willing to loan KTOO the balance. “What we learned is that public radio acquisition of commercial stations isn’t bankable,” he says, because traditional media lenders do not typically deal with such small sums, and because nonreligious, nonprofit radio stations often do not have enough cash to pay debt service.

The Telecommunications Act of 1996 made expanding – and thereby preserving – public radio even more difficult. The act deregulated media ownership and allowed widespread consolidation within the industry. After its passage, commercial and religious broadcasters began to buy up smaller radio stations in unprecedented numbers. In 2006 alone, roughly 3 million people in 10 states lost their public radio stations to commercial and religious broadcasters. Now the number of companies that own sta-

tions in at least 10 cities has more than tripled, from fewer than 40 companies in 1995 to 121 companies in 2005. During this same period, the nation’s largest station owner, Clear Channel Communications, has increased its holdings from 39 stations to 1,184. And religious broadcaster Educational Media Foundation bought an eye-opening 53 stations.

To help public radio stations stand their ground, Marc Hand and Susan Harmon founded Public Radio Capital (PRC) in 2001. Denver-based PRC offers public radio stations sophisticated merger and acquisition tools, including consulting, brokerage, and financial advisory services. Since its

founding, PRC has helped more than 20 public radio projects through some \$100 million worth of financial transactions, reaching more than 22 million people nationwide.

But until PRC helped create the Public Radio Fund in August 2006, the nonprofit could not lend public radio stations like KTOO the capital they needed to acquire radio stations. Now the PRC can use the fund – an investment vehicle that the Ford and Calvert foundations seeded with \$4.5 million in low-interest loans – to make the very type of short-term loan that KTOO had such trouble securing. In addition, by leveraging the fund’s assets to attract tax-exempt bond financing, PRC will be able to act quickly to acquire noncommercial stations when they come on the market.

“The PRF is a rare, first of its kind opportunity for mission-based investors around the country to band together behind grassroots, alternative, independent media,” says Tim Freundlich, Calvert’s director of strategic development. “In the face of growing concern about overconcentration in media ownership, we feel more public radio in more places in the U.S. is a positive thing for the country.”

How the Fund Works

The Public Radio Fund fills a hole in public radio financing deals, says Hand, who is now a co-managing director of PRC. Although lots of banks do media lending, they rarely



From the studios of KTOO, Aida Santos and Leo Novoa host *Ritmo Latino*, Juneau, Alaska’s only Spanish-English bilingual music show. KTOO expanded its offerings with help from Public Radio Capital.



make loans under \$10 million. “Most public radio deals are small enough that stations can’t go to a lender familiar with media lending,” he says. At the same time, “local lenders have no idea how to look at a station license. It’s not that they don’t get it, it just doesn’t fit their list of required criteria,” he explains. The Federal Communications Commission doesn’t allow banks to take liens on radio station licenses, and since many small public stations have little cash flow, they can’t secure the tax-exempt bond financing commonly used by other nonprofits.

Hand cites an instance when PRC was seeking a \$5 million loan to purchase a Seattle station from a college. The banks it approached insisted on a cash reserve equal to the value of the station, and between three and five years of prepayment on the debt service. “When you took it all into account, they were in essence asking us to give them \$8 million in order for them to lend us \$5 million,” he recalls.

In contrast, the Public Radio Fund’s borrowers receive below-prime interest rates ranging from 5 to 8 percent. As is the case with other revolving loan funds, including many community development and microfinance initiatives, borrowers’ repayments are channeled into the fund and then relent to other borrowers. Harmon estimates that the fund’s initial capital will catalyze 20 to 30 transactions, and will eventually grow to \$75 million. Calvert, Ford, and PRC are actively pitching the Public Radio Fund to investors – foundations, financial institutions, and high net worth individuals – who can invest in \$100,000 increments. Investors choose to receive returns ranging from 0 to 4 percent. Calvert has successfully used sliding return scales with various program-related investments.

Revolving loan funds that deliver below-market return rates are not novel in the world of socially responsible investing. But they have never before been applied to the media. And so “[the Public Radio Fund’s] challenge will be getting media, and what’s happening to public radio in particular, on the radar screens of socially responsible investors,” says Farnum Brown, a senior portfolio manager with Trillium Asset Management, one of the oldest and largest independent socially responsible investment firms in the country. “With so

many other well-established opportunities in areas like affordable housing, economic development, land conservation, and minority access to capital, [the fund’s] task is primarily educational,” he says. Its promoters will have to convince investors that funding public radio is an urgent social issue. “Our greatest challenge right now is to recruit investors and make the case for radio,” agrees Hand.

Another roadblock is dispelling the “cannibalism” myth that holds sway in the public radio and financial industries. The myth says that new stations steal audiences from existing ones. Yet with research developed at the Station Resource Group (SRG), public radio’s leading think tank, Harmon can show that the more public radio stations per market, the greater the audience and revenue. “This happened in every market over and over again,” she notes. Harmon uses another piece of research to bolster the Public Radio Fund’s cause: “Public broadcasters, while relatively inexperienced using debt, had never defaulted on loans.”

More to Hear

“[KTOO] would have been a perfect candidate” for a loan from the Public Radio Fund, says Hand. In lieu of offering capital, PRC worked with the Juneau station to find a lender willing to finance the transaction at an affordable interest rate and with favorable terms. “PRC also helped us find the opportunity, gave us a number of business models, walked us through the financing, and gave us credibility and the ability to discuss the project intelligently with potential investors and lenders,” says Legere. KTOO purchased both stations, and now runs all three out of the same building.

This past January, KTOO debuted three new offerings: an expanded 24-hour news show on its current station, and two locally hosted and Alaska-flavored music programs on the newly acquired stations. The station also now has enough hours to run all of the NPR programs that it receives when it pays a flat fee to the national broadcaster.

New audience numbers won’t be available until later this summer, but Legere is confident that with the tripled programming, as well as the tripled wattage capacity from two new transmitters, KTOO is reaching previously underserved audiences. KTOO has also enlisted 50 new radio hosts.

The number of radio station licenses is finite, and competition for them is escalating. As a result, “timing is everything in the radio marketplace, and public radio broadcasters need to be prepared to act quickly on acquisition opportunities,” says Harmon. PRC and the Public Radio Fund should help both stations and investors reserve more frequencies for public radio. □

PRESERVING PUBLIC RADIO

- Apply community development investment tools to the media
- Share merger and acquisition expertise with nonprofits
- Let investors choose their rate of return