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Improving Cable Television Service in Rural Areas

Cable television in rural areas is generally inferior to that in the suburbs, providing less revenue for local governments and poorer services. This article compares the two with an eye to improving rural cable television. It also describes the broad outlines of a new Federal law and advises local officials how to modify their current cable arrangements.

Satellite dishes like this owned by Wood Television Corp. in Bowling Green, Ohio, receive broadcast signals and retransmit them through the cable to subscribers.

Rural local governments tend to regulate cable television (CTV) far less effectively than suburban local governments. That is the major conclusion from a survey of 119 small municipal governments in Maryland. Rural governments need to more effectively regulate CTV because they have so much more to gain, in both a financial sense and in service to their citizens, than suburban governments. A newly enacted Federal law will allow most rural governments to continue regulating their cable companies with few major franchise changes, but it probably will limit many suburban CTV regulations when all the law's provisions become effective (see box).

This article is based on the results of a 1982 survey of suburban and rural local governments in Maryland. The difference in cable regulation between rural and suburban governments shows itself in two areas: the regulatory provisions of the franchises and the services provided by the cable operators.

Rural Franchise Provisions Weaker . . .

Maryland's rural municipalities received less revenue than suburban governments from cable systems (fig. 1). Practically all the rural municipalities received only 3 percent or less of their cable operator's annual revenue for the operator's use of public streets and places (most of this revenue was placed in the general fund), while most suburban municipalities received 4-5 percent of their operator's revenue (most of this revenue was not placed in the general fund but was used to support local government regulatory activities or governmental CTV access programs).

Suburban municipalities usually included provisions within their CTV franchises enabling them to periodically review the cable operator's performance, to acquire material from the operator's records to assist them in their regulatory duties, to require the posting of construction bonds, and to fine the operators for noncompliance with the franchise.

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Pirates of the Air

You don't have to be a cable company to buy a satellite dish and pull in television signals. But individuals who do it are accused of air piracy if they pull in proprietary signals. They also cost the cable companies big money—maybe $500 million in lost subscription revenues.

To combat the air pirates, some national cable companies are experimenting with scrambling their signals. Private owners of dishes will then need to buy a device (presumably from the cable company) to decode the signal in order to see the picture.

Rural governments usually lacked such provisions in their franchises. They also usually lacked regulatory staff to enforce and administer the franchise. Both types of small municipalities generally had no citizen cable commission, but that was true for 98 percent of the rural jurisdictions and only 55 percent of the suburban jurisdictions. Finally, while both types of municipalities regulated basic service subscriber rates, the suburban communities did so to a greater extent.

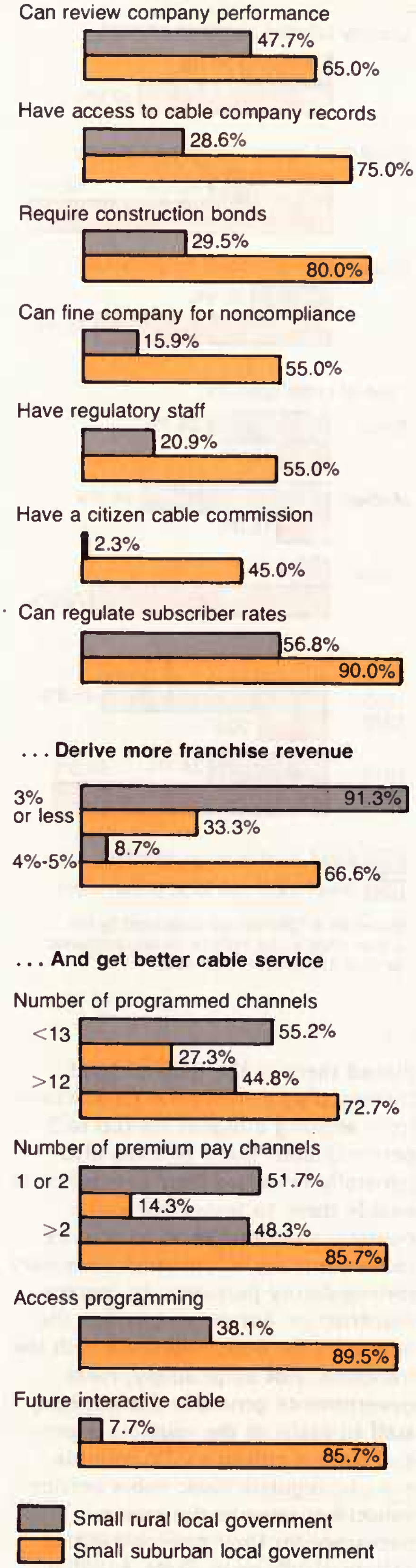
Rural jurisdictions clearly do not realize the revenue potential of cable, nor do they effectively regulate the activities of their cable operators. Rural communities need franchise provisions that empower them to acquire cable operator records for performance reviews so that the governments can ensure that the cable operators pay the appropriate fees and provide the services specified in the franchise.

A weak franchise agreement victimized Lonaconing, Md., a rural municipality in the western part of the State. Lonaconing was notified of a basic-service rate hike in October 1976, and found that it could not prevent the hike because no provisions for rate regulation, performance review, and access to company records were included in its CTV franchise. The ordinance even initially lacked a franchise fee provision. A further consequence of a poorly written franchise, as shown in the following section, is that rural communities receive lower quality cable services.

. . . As Are Rural Cable Services

Rural communities generally lacked the various types of cable access programming the suburban communities usually received (fig. 1). Cable access programming often includes programs developed by the local government itself or by various types of community organizations. Such programs are aired on PEG (public, educational, and government) CTV access channels. These channels are controlled by the community rather than by the cable operator and generally offer noncommercial information air time free to all nonprofit entities. Rural residents also received fewer CTV channels than suburbanites.

Figure 1
Suburban jurisdictions have more control over cable company . . .



Based on a 1982 survey conducted by the author while at the Institute for Governmental Service, University of Maryland.

Another difference was found in interactive cable service, whereby viewers can send responses to the central system. While none of Maryland's small municipalities had any type of two-way or interactive cable service at the time of the survey, rural officials, when questioned, generally saw no future for interactive cable in their communities while suburban officials responded more positively.

The service gap is directly related to the franchise gap; good cable service is usually not provided without well-developed policies, as expressed in both the franchise and the government's general ordinances and administrative procedures. Without such policies, not only is good cable service elusive, but so are effective regulation and substantial revenue receipts.

Accounting for the CTV Gap

Why did Maryland's rural governments not behave in a more rational and self-interested fashion?

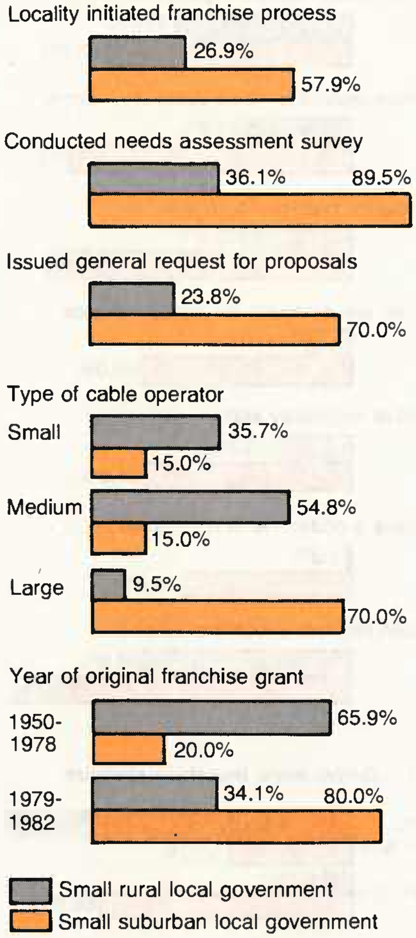
The gap between rural and suburban CTV can be explained by historical circumstances and the attitudes of local officials. Rural communities usually acquired cable television at the instigation of a local cable company (fig. 2). Suburban communities, on the other hand, usually acquired their service through the actions of their local governments. That pattern reflects the attitudes of local officials toward CTV. Rural officials often "franchised and forgot," whereas suburban officials usually assumed a more aggressive franchising attitude.

Such attitudes, however, are historical in origin: most rural franchises were granted during cable's pioneer years in Maryland (1950-78) when a "franchise and forget" attitude was acceptable because there were few reasons to regulate cable. Rural areas generally got cable first because they needed it to receive over-the-air television signals; such signals were provided to rural residents by means of simple 12-channel CTV systems. These systems, originally known as Community Antenna Television Systems (or CATV), could provide only limited services. As a result, there was no need to develop extensive franchises requiring elaborate services and providing for comprehensive regulatory and enforcement provisions. The problem, though, is that many rural officials still have an attitude based on a lack of appreciation for cable's contemporary uses.

Most suburban franchises, by contrast, were granted during cable's boom years in Maryland (1979-82). Suburban officials tended to view cable as a highly desirable entertainment service and a potential nonentertainment technology and so were able to secure more complete franchises and better service options than the older rural franchises. When linked with the historical development of the cable industry, this attitudinal difference also accounts for the type of cable operators that both types of government attracted. Rural government officials not only "franchised and forgot," but they dealt with an industry in an early developmental stage. These two factors probably account for the small or medium-sized cable companies and the antiquated systems generally found in rural communities. Suburban governments, on the other hand, not only were staffed by aggressive and knowledgeable officials, but they also dealt with a more developed industry. Suburban governments tend to receive their services from large, generally state-of-the-art, companies.

Such differences largely account for the current franchise and service gaps between rural and suburban cable. When many of the rural franchises were granted, for instance, the communities either required no fee or could charge no more than 3 percent (under then-current FCC rules), unless the fees were earmarked for regulatory or access television purposes. Communities that levied franchise fees usually

Figure 2
Suburbs took more care in selecting cable operator



Based on a 1982 survey conducted by the author while at the Institute for Governmental Service, University of Maryland.

placed them in the general fund, thereby disqualifying the jurisdiction from seeking a higher fee (up to 5 percent) later. Rural officials also generally refrained from provisions to enable them to review the cable operator's performance, to acquire cable company information necessary for regulatory purposes, to require construction bonds, and to fine the operators for noncompliance with the franchise. Not surprisingly, rural governments generally did not hire staff to assist in the regulatory process, form a citizen's CTV commission, or regulate basic cable service subscriber rates to the extent necessary for their noncompetitive communications markets. In other words, without CTV competition to keep subscriber costs down and quality high, local governments must regulate CTV to achieve those results. Since many rural governments did not develop the necessary regulatory mechanisms, rural communities now have inferior cable service in terms of access programming, the number of programmed and premium pay channels, and the possibility of interactive service.

If government officials of Maryland's small towns adopt a more active and enlightened attitude toward cable, the gap between rural and suburban CTV could be greatly narrowed, thereby providing a basic foundation for improving rural cable. Without such a change in attitude, rural communities will probably be unable to achieve the revenue and service potential that cable offers.

Improving Rural Service

The following recommendations, although drawing on the Maryland survey, apply to all rural communities. The recommendations, furthermore, are presented in terms of their overall importance in improving rural cable service. Changes in attitude, for instance, should come first because they are more basic and more important than structural changes. Likewise structural changes should be made before a new franchise is developed.

Become More Involved

The "franchise and forget" approach to cable television is no longer appropriate. Rural officials must recognize cable as a source of substantial government revenue and a variety of services. Local governments can now demand service fees of up to 5 percent of their cable operators' annual gross revenue without specifying that such funds be used for regulatory or access television purposes. As for services, rural local officials should think not only in terms of entertainment, but also in terms of enhanced subscriber services, governmental applications, community involvement, educational programming, and even economic development. Rural local officials, for instance, should seek a strong basic tier of channels with access to an additional tier of service and at least a few premium pay channels. Home shopping and banking, utility meter reading, and home information services are just a few of the enhanced subscriber services that rural public officials should discuss with cable operators. Governmental uses of CTV include personnel training, traffic control, service delivery to isolated groups (senior citizens, juveniles, and the handicapped, for example), data base delivery, and public information delivery in terms of government hearings, emergency announcements, and service profiles.

The Maryland municipalities of Bladensburg, Hyattsville, and Riverdale use their local government CTV access channel to cablecast town meetings and to provide printed messages on the TV screen to their residents. An emergency alert is also part of the Riverdale's local government access channel. This permits the interruption of all cable channels to cablecast emergency messages on any television connected to the CTV system. With this system, for instance, the municipality can immediately notify citizens about a disaster or crisis, such as a break in a city water main.

The community uses of CTV range from interactive community discussions over the cable system to hands-on programming experience. From an educational point of view, cable can be used for teacher training, at-home instruction, and teleconferences. Finally, cable can also further the economic development of a community in at least two respects: (1) the cable operator could lease channel space to firms willing to locate in the community such as home security outfits and companies specializing in energy management; and (2) the cable operator, in cooperation with the local government, can seek to sell prospective developers or firms on the various institutional and data transmission capabilities of a good cable system. Such commercial uses of the CTV system translate into increased cable operator revenues, greater government franchise fees, stable subscriber rates, and the spillover effects of increased local business activities by firms leasing the cable channels.

In addition to the revenue generated by cable services, rural and public officials should consider their regulatory responsibilities. The Federal Communications Commission will probably classify most rural communities as lacking in telecommunications competition (that is, having few or no alternative service providers), thereby enabling them to provide for effective "competition" by closely regulating appropriate basic service rates. Most suburban communities, however, will likely be denied such rate regulation authority because most of them are located in competitive telecommunications markets.

About the Survey

In 1982, the Institute for Governmental Service at the University of Maryland surveyed the State's municipalities about cable television. These research findings are based on that survey with one notable exception. The original data represented responses from 126 municipalities out of a possible 151. The data reported in this article are based on 119 of those responses; seven municipalities were excluded from this analysis because they were too large to be considered small local governments. Eighty-five of the 119 surveyed municipalities had populations of less than 2,500; 27 fell in the 2,500-10,000 category; while only 7 had populations greater than 10,000 with the largest municipality having a population of 16,500. The seven excluded municipalities, however, all had populations in excess of 24,000. Of the surveyed municipalities, 39 had not yet issued cable franchises and thus had no cable television in 1982; all of the responses, however, were based on the assumption that they would have cable within a few years.

Seventy-five of the responding municipalities were classified as rural while 44 were classified as suburban. The rural-suburban classification used was a straightforward division of the municipalities on a regional basis; that is, 7 of Maryland's 23 counties are considered suburban because they constitute the central part of the State with Washington, D.C., and Baltimore serving as the central cities. Forty-four of the municipalities were located in this part of the State. The 75 rural municipalities lie in Maryland's western, southern, and eastern rural counties. Of the 75 rural communities, furthermore, 46 (or 61.3 percent) had cable television while 29 (or 38.7 percent) did not. The figures for the 44 suburban communities were 34 (or 77.3 percent) with cable and 10 (or 22.7 percent) without. Overall, the municipalities surveyed had small populations and were chiefly rural; in addition, they tended to have more traditional forms of government (mayor-council and commissioner types rather than the council-manager type) and low annual revenues (73 percent received less than $700,000 in revenue per year).

For more information on the survey, contact the Institute for Governmental Service, Suite 2101 Woods Hall, University of Maryland, College Park, MD 20742, (301) 454-2507. Write to the same office for a copy of the survey's final report prepared by the author, *Maryland Municipalities and Cable Television.*

Create a Special Cable Office

The next step in improving rural cable service is to create a governmental mechanism for administering the community's cable policies and franchise. Rural officials can pick from four structural arrangements: (1) a cable television office, (2) a citizen cable commission, (3) a designated and existing governmental agency or employee, and (4) a professional consultant. Rural officials can also operate hybrid structures by drawing on the desirable elements of each type.

A formal CTV office can handle franchise enforcement, government programming, service complaints, public information, and planning. However, since most small rural local governments cannot afford such an agency, they should consider alternatives, such as a citizen cable commission.

The New Cable Law

On October 30, 1984, President Reagan signed into law a bill establishing a national cable television policy. Formally referred to as the Cable Communications Policy Act of 1984, the law provides a framework for the partial deregulation of cable communications at the local level of government. In particular, Section 623 of the law states that by December 29, 1986, all local governments will be prohibited from regulating rates for cable service except in areas where the cable system is not "subject to effective competition." This provision applies to all franchises granted on or before the effective date of the law (December 29, 1984). Local governments cannot regulate their cable operators as common carriers or public utilities unless the operator provides data transmission or other nonvideo communications services. If an operator provides such services, then Section 621 indicates that any State or the Federal Communications Commission (FCC) may require the filing of informational tariffs that shall specify rates, terms, and conditions for provision of such communications service.

The law also establishes a franchise renewal process that virtually guarantees the local cable operator refranchisement; Section 626 states that a denial of refranchisement can be based only on the following findings: (a) the cable operator has not substantially complied with the terms of the existing franchise and with applicable law, (b) the quality of the operator's service has not been "reasonable" in light of community needs, (c) the operator does not have the financial, legal, or technical ability to provide the services, facilities, or equipment specified in the refranchisement proposal, and (d) the operator's proposal will not reasonably meet the future cable-related community needs and interests. In sum, the preceding provisions of the new law were designed to "encourage the growth and development of cable systems without unnecessary government involvement."

Another purpose of the law is to "assure that cable systems are responsive to the needs and interests of the local community." To that end, local governments can require that their cable operators provide public, educational, and governmental (PEG) access channels and the equipment to produce programming for such channels. Local governments, moreover, can now charge their operators up to 5 percent of their gross local annual revenues over a 12-month period for the use of "public streets and places." The FCC, as provided in Section 622, can no longer regulate the use of this revenue or franchise fee; that is, the FCC can no longer specify that the fee must be used for cable-related activities unless, of course, the existing franchise indicates that it must be used for cable-related activities such as regulation or governmental cable programming. Other sections specify that local officials can enact and enforce subscriber privacy laws, consumer protection laws, customer service requirements, and construction schedules.

Rural governments in particular will most likely be able to continue to regulate basic cable service rates because many rural cable systems are not "subject to effective competition." The FCC is developing rules to permit local governments to regulate basic cable service rates if the local cable company has no competition. Such rules were to be developed before April 28, 1985, according to the law.

In short, local governments in general and rural governments in particular have much to gain, in both a financial and a service sense, if they develop cable television policies and franchises that effectively respond to the recently enacted Federal law. Local officials, however, should seek advice from qualified consultants or experts on how to best develop the appropriate policies and franchises; a list of such organizations appears at the end of the article.

Such commissions can be either advisory or regulatory. If the advisory form is chosen, the commission should report directly to the local council or commission; if the regulatory form is chosen, the commission should be an independent body with quasi-judicial powers to hear complaints, issue findings, and assess penalties for noncompliance with the terms of the franchise. Regardless of the mechanism or combination of mechanisms used, rural governments must adopt a regulatory framework if they hope to benefit from a cable system.

Revise the Franchise Provisions

Many rural governments need a modern cable franchise, and the recently enacted Federal law provides them with an appropriate reason for developing such a document. Unless a rural community is issuing a cable franchise for the first time, however, most rural officials must either wait until the current franchise expires or renegotiate with the cable operator in order to effect the following recommendations. The possibility for successful renegotiation obviously depends greatly on the degree of goodwill existing between the government and the cable operator.

A good cable franchise should clearly specify the exact area covered by the franchise, a franchise fee, and the posting of a construction bond. It should provide for the protection of subscriber privacy and basic consumer protection against illegal sales and advertising practices on the part of the cable operator. It should also set forth a basic rate regulation method and a construction schedule for new and rebuilding systems. Provisions requiring public, educational, and governmental (PEG) access channels, access to company books and records, and performance and evaluation sessions should also be included. While most rural communities should not expect their cable operators to provide a PEG access system that equals those found in urban areas, they should work with the operator in developing inexpensive programming for at least one combination PEG channel. Later, as the community discovers additional uses for the PEG channel and more funds become available for such programming, both of which events usually occur over a short period of time if the operator and the government cooperate, additional channels and equipment can be added to the PEG access program.

* * *

Local officials initially will need help in acquiring the basic knowledge and skills to regulate cable in a more aggressive fashion. The following organizations can provide information and assistance to interested officials to help them adopt a more appropriate and contemporary attitude toward cable television. The first two organizations can provide a more complete set of desirable franchise provisions than given in this article. The third organization is especially useful for more information on PEG access channels.

Cable Television Information Center (CTIC)
1500 North Beauregard St., Suite 205
Alexandria, VA 22311
(703) 845-1705

National Association of Telecommunications Officers and Advisors (NATOA)
1301 Pennsylvania Ave., N.W.
Washington, DC 20004
(202) 626-3115

National Federation of Local Cable Programmers (NFLCP)
906 Pennsylvania Ave., S.E.
Washington, DC 20003
(202) 544-7272

Telecommunications Research and Action Center (TRAC)
P.O. Box 12038
Washington, DC 20005
(202) 462-2520

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A Grass Roots Development Strategy with Local Development Organizations

Small cities and rural areas have few guidelines on how to organize and plan for local development without large infusions of outside money. This article may help change that situation. The authors identify characteristics of successful local development organizations, their strategies, and how State government can help. Their findings and examples are based on interviews with State officials, local development organization staffs, and business development consultants.

Smaller cities and rural areas face a range of economic development problems. Though their responses differed, we found many examples of locally controlled, community-based efforts aimed at local economic development. Those projects built on the resources already in the local economy: natural resources, existing businesses, and, most important, the talents, skills, and energies of the local population. These small-scale projects were undertaken to strengthen the local business sector and guided by people living in the area, often with some help from State or Federal Government or other outside sources. Their aim is to influence economic activity for the benefit of all residents by:

- Increasing income, employment and self-employment opportunities, and net tax revenues,
- Improving the long-term stability of the local economy,
- Improving, or at least maintaining, the local quality of life and work,
- And otherwise enhancing the well-being of the local population.

Joint public-private initiative is essential in local economic development efforts. Many projects are not sufficiently profitable to attract strictly private investments, yet they require an approach more flexible and entrepreneurial than usual for public agencies. Economic development, a long-term process, requires strong committed leadership to sustain the effort. This leadership can be more effective if it operates through and is supported by a local development organization (LDO): a private agency with close ties to both the private and public sectors.

Local Development Organizations

Whatever their form, successful LDO's share certain characteristics: flexibility, strong and creative leadership, solid local support, adequate funding, and competent, dedicated staff.

Flexibility means that LDO's must be willing to experiment, to learn from mistakes, to respond to changing circumstances, and to seize opportunities. The Mendocino Fisheries Improvement Program (Mendocino County, Calif.) exemplifies these traits. Begun in 1978, it evolved over 3 years from a project funded by the Comprehensive Employment Training Administration (CETA) into a permanent stream clearance operation funded by California's Renewable Resources Investment Fund. During the 3-year period, the organization's leaders tested and reassessed a variety of activities, seeking the right

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