CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 7, 1999

H.R. 851

Satellite Competition and Consumer Protection Act

As ordered reported by the House Committee on Commerce on March 24, 1999

SUMMARY

H.R. 851 would allow satellite carriers (companies that use satellite transmissions to provide television signals directly to consumers) to retransmit the signals of local television broadcast stations into the local markets of those stations. The bill would allow a local broadcast station to require, by January 1, 2002, satellite carriers that serve customers in its market to transmit its signal. In addition, the bill would eliminate a 90-day waiting period for households that switch from cable to satellite service.

Under the Satellite Home Viewer Act of 1988 (Public Law 100-667), satellite carriers pay a monthly royalty fee for each subscriber to the U.S. Copyright Office for the right to retransmit distant network and superstation signals by satellite to subscribers for private home viewing. The Copyright Office later distributes the fees to those who own copyrights on the material retransmitted by satellite. The bill would permanently extend the requirement that satellite carriers pay royalty fees to the federal government. Beginning July 1, 1999, the bill would reduce the current royalty fees charged to superstations by 30 percent, to $0.19 per subscriber per channel per month, and the fees paid by network stations by 45 percent to $0.15.

CBO estimates that enacting H.R. 851 would result in a net increase in revenues of $477 million over the 2000-2004 period and of $916 million over the 2005-2009 period. After review by an arbitration panel, royalty fees are paid to copyright owners, along with accrued interest earnings. With higher royalty collections, the payments to copyright holders would also be higher under H.R. 851, by an estimated $152 million over the 2000-2004 period, and by another $750 million over the following five years. Because H.R. 851 would affect both revenues and direct spending, it would be subject to pay-as-you-go procedures. Assuming appropriation of the necessary amounts, CBO also estimates that complying with the provisions of the bill would cost the Federal Communications Commission (FCC) and the National Telecommunications and Information Administration (NTIA) about $2 million in 2000 and less than $500,000 in each subsequent year.

H.R. 851 would impose both intergovernmental and private-sector mandates, as defined by the Unfunded Mandates Reform Act (UMRA), but CBO estimates that the cost of the mandates would not exceed the thresholds established by UMRA ($50 million in 1996, adjusted for inflation for intergovernmental entities and $100 million in 1996, adjusted for inflation for the private sector).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 851 is shown in the following table. The costs of this legislation fall within budget function 370 (commerce and housing credit).

	By Fiscal Year, in Millions of Dollars					
	1999	2000	2001	2002	2003	2004
REVENUES AND DIRECT SPENDING [a]						
Receipts and Spending Under Current Law						
Estimated Revenues[b]	244	185	118	112	107	101
Estimated Budget Authority[c]	272	281	219	142	131	121
Estimated Outlays	209	207	259	264	220	182
Proposed Changes						
Estimated Revenues	0	17	92	107	122	139
Estimated Budget Authority	0	18	97	116	136	155
Estimated Outlays	0	0	4	19	35	94
Net Increase in the Surplus	0	17	88	88	87	45
Receipts and Spending Under H.R. 851						
Estimated Revenues[b]	244	202	210	219	229	240
Estimated Budget Authority[c]	272	299	316	258	267	276
Estimated Outlays	209	207	263	283	255	276

a. In addition to the effects shown in the table, H.R. 851 would increase spending subject to appropriation by about $2 million in 2000 and by less than $500,000 in each subsequent year.
b. Includes royalty fee collections from cable television stations, satellite carriers, and digital audio devices.
c. Payments to copyright owners include interest earnings on securities held by the Copyright Office.

BASIS OF ESTIMATE

H.R. 851 would allow a satellite carrier to make secondary transmissions of local television broadcasts, eliminate the waiting period for switching from cable to satellite service, reduce the rates of copyright royalty fees, and permanently extend those fees. All of these provisions would affect payments by satellite carriers to the federal government and payments by the federal government to copyright holders. CBO assumes that payments from the federal government to copyright holders for satellite transmissions would follow historical patterns. Assuming enactment of the bill before the end of fiscal year 1999, CBO estimates that H.R. 851 would increase revenues by $477 million and increase spending by $152 million over the 2000-2004 period.

Secondary Transmissions

H.R. 851 would allow satellite carriers to retransmit the signals of local television broadcast stations into the local markets of those stations. The bill also would eliminate a provision of current law that requires households to wait 90 days between ending cable service and beginning satellite service. These provisions would make the services provided by satellite carriers more attractive. As a result, CBO expects that the number of subscribers to satellite services would increase more rapidly than under current law. Based on information from the Copyright Office, CBO estimates that under H.R. 851 the annual change in the volume of satellite services would increase from a projected rate of 10 percent a year to 17 percent in 2000.

In addition, H.R. 851 would allow a local broadcast station to require, by January 1, 2002, satellite carriers that serve customers in its market to transmit its signal. This provision would reduce revenues from fees in two ways. First, satellite carriers might enter new markets more slowly as they grapple with the technical difficulty of carrying hundreds of local signals. Second, satellite carriers would provide subscribers with fewer distant network signals and more signals of local broadcast stations. Under the bill, satellite carriers would not pay the royalty fee for local broadcast stations.

CBO estimates that the annual growth in fee volume would gradually decrease from the projected rate of 17 percent in 2000 to about 3 percent by 2009. Because the bill's provisions could increase the incentives for choosing satellite service over cable service, they might lead to a loss in revenues from cable fees. However, based on information from the Copyright Office and the cable and satellite industries, CBO estimates that any such reduction in revenues would not be significant.

Reduction in the Copyright Royalty Fee

A rule issued on October 28, 1997, by the Librarian of Congress, increased the royalty fee to $0.27 per subscriber per month. H.R. 851 would reduce the royalty fee on superstations by 30 percent to $0.19 per subscriber per channel per month and the rates on network stations by 45 percent to $0.15, effective July 1, 1999. Based on information from the Copyright Office, CBO estimates that this provision would reduce revenues by $26 million in fiscal year 2000, when the fees would expire under current law. But this reduction would be more than offset by permanently extending the copyright royalty fees.

Extension of Copyright Royalty Fees

Under current law, the royalty fees for satellite carriers expire on December 31, 1999. H.R. 851 would permanently extend royalty fees, increasing both revenue from satellite carriers and payments to copyright holders (including interest) during the 2000-2004 period. In fiscal year 2000, the net change in estimated revenues would be relatively small—$17 million—because the additional revenue from extending the fees ($43 million) would be partially offset by a reduction in fee payments due early in the year under current law. By 2004, CBO expects additional revenues to total $139 million because of the fee extension.

Payments to Copyright Holders

H.R. 851 would result in additional spending because all revenues are eventually paid to copyright holders with interest. Historical spending patterns indicate that copyright holders may receive the fees and interest up to 10 years after the Copyright Office has collected the revenues. Thus, CBO estimates a significant lag between changes in revenues and the eventual changes in outlays that stem from copyright fees.

Discretionary Spending

H.R. 851 would require the FCC to conduct rule makings concerning technical and business relationships between satellite carriers and local broadcast stations. The bill also would require the FCC to report on methods for facilitating the delivery of local signals in local markets, especially smaller markets. Based on information from the FCC, CBO estimates that implementing H.R. 851 would cost the commission about $1 million in 2000 and less than $500,000 in each subsequent year, subject to the availability of appropriated funds.

H.R. 851 would require NTIA to report on the availability of local television broadcast signals in small and rural markets. Based on information from NTIA, CBO estimates that conducting the inquiry would cost $500,000 to $1 million in 2000, subject to the availability of appropriated funds.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in outlays	0	0	4	19	35	94	108	125	153	173	191
Changes in receipts	0	17	92	107	122	139	156	172	186	197	205

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 851 would impose both intergovernmental and private-sector mandates, as defined by UMRA. The cost of the intergovernmental mandate would be insignificant and would not exceed the threshold established by UMRA ($50 million in 1996, adjusted for inflation). The cost of the private-sector mandates imposed on satellite carriers and network broadcast stations also would not exceed the annual threshold for private-sector mandates ($100 million in 1996, adjusted for inflation).

Section 104 would impose a mandate on the Public Broadcasting Service (PBS). The requirement would be both an intergovernmental and private-sector mandate because PBS is owned and operated by local noncommercial television stations that include both publicly and privately owned stations. This bill would require that PBS annually certify whether the majority of its member stations support the retransmission of PBS's national satellite feed. PBS must also provide such certification to the satellite carriers that carry that feed. Based on information from PBS, CBO estimates that the cost to comply with this mandate would be insignificant because PBS regularly surveys its members for other purposes and could easily incorporate this new requirement into existing surveys.

The remaining mandates would impose requirements on satellite carriers and network stations, all private-sector entities. Section 101 would require satellite carriers to obtain consent from a television broadcast station to rebroadcast programs to subscribers outside the local broadcast area. That requirement would be effective seven months after enactment of this bill. The costs imposed on the satellite carriers would be mostly administrative costs for negotiating agreements with local network stations. CBO believes that those costs would be small.

Section 103 would require that both satellite providers and network television stations maintain a publicly available file of subscribers' requests to allow the satellite retransmission of the signal of a network affiliate. Information from satellite carriers and networks indicates that most currently maintain some or all of that information. CBO estimates that the additional costs incurred by the satellite carriers and network television stations would be small.

An additional economic effect of this bill (not associated with a federal mandate) would result from changes to the royalty fees paid by satellite carriers to copyright holders, including some state and local government entities. The bill would reduce the fees from current levels and permanently extend them. If the current arrangement for collecting royalties were to expire, satellite owners would have to reach agreement with each copyright owner, which would be difficult and expensive.

PREVIOUS CBO ESTIMATE

On March 8, 1999, CBO transmitted a cost estimate for S. 247, the Satellite Home Viewers Improvements Act, as ordered reported by the Senate Committee on the Judiciary on February 25, 1999. That bill would extend the requirement that satellite carriers pay royalty fees only until December 31, 2004. Thus, S. 247 and H.R. 851 would have different effects on revenues and spending over the 2005-2009 period. S. 247 does not contain provisions affecting the FCC or NTIA.

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