UW Relationship Committee

Findings and Recommendations

KUOW Advisory Board

May 15, 2000
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1. Highlights

Background
As a result of its retreat in September 1998, the KUOW/KCMU Advisory Board determined that there was a need to examine:

- What operating structure would allow the stations to best sustain long-term growth and achieve their missions, and
- What the role and structure of the Advisory Board should be as the stations evolve.

This examination was primarily triggered by the Advisory Board’s greatly increased yet still informal fundraising role. Increased fundraising demands were the result of:

- Reduced financial support from UW – KUOW is now treated as a self-sustaining entity and is financially independent of UW and the State, except for support for the station manager’s salary, work study student wages, and temporary payments that UW will make towards KUOW’s new rent obligations and that will diminish to $0 over the next five years.
- KUOW’s move off campus.
- Pacific Lutheran University’s decision not to partner with KUOW in forming Puget Sound Public Radio – an entity that would have jointly raised underwriting funds for both stations – because of concerns regarding KUOW’s relationship with UW and the potential impact of State law on KPLU’s operations.

The Advisory Board expressed other concerns with the existing UW relationship unrelated to fundraising, including protecting the valuable KUOW public broadcast frequency, editorial independence, inconsistent managerial oversight, inability to pay competitive market salaries, and inefficient accounting and procurement procedures.

Approach
The Advisory Board formed the UW Relationship Committee (the Committee) to examine these questions. The Committee’s first step was fact finding. To learn about the operating models used by other successful public radio stations and self-sustaining UW organizations, the Committee met with representatives of KUOW, UW, the UW Foundation, KCTS, the public radio stations in Sacramento, California, and legal counsel. To learn about relevant UW, State, and FCC requirements, the Committee met with legal counsel and UW and State representatives. These meetings are described in detail in Section 3 of this report.

Based on its research, the Committee identified four operating models for further consideration and evaluation (these models are described in more detail in Section 4 of this report):
Option 1 – Continue with the current operating structure.

Option 2 – Create an independent nonprofit organization for fundraising, but otherwise remain within the current operating structure.

Option 3 – Create an independent nonprofit organization, which would manage and operate the station, including fundraising, setting programming policy, and hiring and managing staff, under a local management agreement (LMA) with UW.

Option 4 – Create an independent nonprofit organization, which would hold the KUOW license and operate the station.

The UW Relationship Committee evaluated each of the four alternative operational models in light of KUOW’s mission – to be the most dynamic provider of news and information in the Puget Sound region – and KUOW’s long-range vision of strengthening public radio in our region through enhanced relationships with other stations. This evaluation is presented in Section 4 of this report. Based on this evaluation, the Committee formulated the following recommendations to the Advisory Board.

Recommendations

The UW Relationship Committee recommends that the Advisory Board pursue Option 3. Under this option, the license for KUOW would remain with UW, but the new nonprofit organization would operate the station in accordance with an LMA that describes the operating parameters and expectations of UW and the nonprofit organization. A new board of directors would provide policy and other guidance to the LMA management, which would become the station management.

The Committee believes this option is most supportive of KUOW’s mission and long-range vision. Furthermore, greater independence will significantly enhance the value of a major University of Washington asset by raising its presence in the community and increasing its ability to reflect the core values of the institution through programming. Specifically, greater independence:

- Reassures the public of KUOW’s editorial autonomy and reduces the perception of interest conflicts with the University or state government.

- Empowers Board volunteers to raise funds to extinguish the station’s $3.6 million debt, rebuild the reserve, and provide for future growth and enhanced services to the community.

- Increases the possibility of joint fundraising activities with KPLU and other public stations to ensure viability and growth of public broadcasting in the Puget Sound region.

- Provides more direct oversight and accountability for station management.

- Permits KUOW to pay market competitive salaries.
- Allows KUOW to structure its accounting and back office procedures appropriately to an organization of its size – avoiding the often-ponderous bureaucracy of the University.

**Benefits to the Community**

KUOW now commands a major position in the local media market as a dependable source of serious news and discussion. Public appetite for this community service has grown dramatically in just a few years. The Advisory Board of KUOW believes that KUOW can become a much greater community service and presence – what WGBH is to Boston or KQED is to San Francisco – if the Staff and Board can be empowered through autonomy and more direct public accountability.

In the most basic sense, autonomy means KUOW can raise more money from the community and put it to work more efficiently. Without limiting the scope of what we suggest or promising more than might be delivered, the University Relationship Committee believes that more money will enable KUOW to:

- Put additional reporters on the street, for example, opening specialty beats in areas like politics, science, culture or business.
- Increase original programming (like Rewind) or programming partnership projects (like Front Porch Forum) for use on KUOW’s air and perhaps for distribution throughout the state or region.
- Expand KUOW’s already substantial commitment to internet related activities in streaming and archived media.
- Expand transmission capacity, plugging the weak points in KUOW’s coverage of the region.
- Better serve disparate communities with tailored outreach services to minorities, education or even university-related disciplines like medicine, science or business.

The Staff of KUOW and its Board share a vision for an organization whose value to the community could be exponentially greater than at present, but that vision will not be developed or realized unless the station achieves greater control over its future. We believe that the findings of this report present a compelling case for KUOW autonomy within the University structure.

**Next Steps**

Recognizing that Option 3 implementation will require negotiation with UW and careful transition planning, the UW Relationship Committee recommends that the Advisory Board immediately form an independent nonprofit organization for fundraising. The KUOW Advisory Board would be the board of this new nonprofit organization. The Advisory Board does not need an LMA or other agreement from UW to form the new organization. As soon as it is established, the new organization can begin fundraising activities in support of KUOW. In particular, the new organization could be used to raise restricted grants from organizations that
are unwilling to make grants to KUOW if they would be subject to the UW indirect overhead fee. As Option 3 is implemented, the new nonprofit organization could amend its by-laws as necessary to operate the station under an LMA with UW. Thus, the additional cost of establishing the nonprofit organization necessary to implement Option 3 would be minimal.

We further recommend that the Advisory Board create an LMA Implementation Committee to begin work on detailing the services the new nonprofit organization would provide to KUOW and to UW as the licensee through an LMA, including the fiscal ramifications of the change in operating structure, and begin discussions with UW representatives regarding the proposed change in operating structure.

History of KUOW and the KUOW Advisory Board

1952 – KUOW became a University of Washington (UW) licensee. As the licensee for KUOW, UW has been and is the owner of all the equipment of the station and holds the license to operate the frequency that was authorized by the Federal Communications Commission (FCC) for the activities of the station. The UW Board of Regents is responsible to the FCC for the activities of the station.

KUOW was placed under the responsibility of the UW School of Communications. KUOW was also physically located in the School of Communications building. KUOW primarily operated as a training ground for students to learn about broadcast techniques and technology. Programming fare changed quarterly and included classical and folk music, UW lectures, local news, and UW basketball games.

1970’s – the School of Communications stopped using KUOW as a teaching tool.

1978 – The Public Broadcasting Act of 1978 required that public broadcasting licensees establish Advisory Boards that would be comprised of local community members who represented a broad spectrum of views and who could provide input to the station management and the entity holding the license, such as the UW Board of Trustees. KUOW Advisory Board members were initially appointed by the General Manager in consultation with the Dean of Continuing Education. As Advisory Board positions opened, new Advisory Board members were nominated and appointed by the then existing Advisory Board members.

1980 – after a brief period of reporting to the Dean of Continuing Education, the Department of Broadcast Services was created under the Vice President for University Relations.

1981 – KUOW lost all UW funding except for the station manager’s salary. Prior to 1981, KUOW received more than two-thirds of its funding from UW and the Corporation for Public Broadcasting (CPB).

Early 1980s – KUOW’s Advisory Board began to serve as a de facto oversight board, with some similarity to the board of directors of a corporation, as Board members became involved in fundraising activities and reviewed station budgets. Although Advisory Boards are no longer required for institutionally-licensed public radio stations, KUOW management has continued to utilize its Advisory Board in this way. However, the Advisory Board has not operated like a legally authorized board of directors, which would establish policies to be implemented by management, hire and fire the station management, have full access to books and records, and perform other actions of a corporate board of directors. (See Exhibit 1 – KUOW Advisory Board Bylaws, Committee Descriptions, Etc.)
1998 – UW decided to move KUOW off-campus. (See Exhibit 4 – UW Correspondence and Regents’ Action Regarding Relocation dated March 4, 1998)


December 12, 1999 – First live KUOW broadcast from its new, separate broadcast studio.

KUOW Today

KUOW’s mission today is to create and serve an informed public, one challenged and invigorated by an understanding and appreciation of events, ideas and cultures. (See Exhibit 2 – KUOW Strategic Plan) KUOW has been successful in growing the size of its listening audience. On an average day, KUOW has a market share of 3.2%. The station reaches approximately 225,000 listeners each week.

KUOW reports to Jack Faris, the Vice President for University Relations. Approximately 60 permanent employees are on the KUOW payroll, including 42 full time professional and classified staff. (See Exhibit 3 – KUOW/UW Organization Chart).

As KUOW has grown over the last several years, its revenues and expenses have grown steadily. (See Exhibit 5 - Revenue and Expense Summaries). KUOW obtains its revenue for operations from several sources, including gifts from individuals, corporate underwriting, grants from CPB and other sources, including earned income. In fiscal year 1999 (July 1, 1998 – June 30, 1999), KUOW community support reached an all-time high of $4,015,000. Support for KUOW comes: 59% from individual donations; 24% from business and foundation donations; 15% from government grants and funding; and 3% from other earned income. KUOW’s expenses have also grown, including salaries, costs of programming KUOW obtains from other sources, supplies, personal services, and rent.

KUOW has had to dramatically increase its fundraising activities in the last three years as a result of its off-campus move. KUOW spent its accumulated reserves and engaged in a capital campaign to pay construction costs for the new site. Fundraising efforts continue in order to pay off debt KUOW has acquired to pay for the construction. (See further discussion below)

Puget Sound Public Radio Efforts

KPLU is the public radio station licensed to Pacific Lutheran University (PLU) and located in Tacoma, Washington. KPLU operates primarily as a dual format jazz and news station, with feeds obtained from National Public Radio (NPR) and other distributors.

Recognizing that KPLU shared large segments of its geographic market and audience with KUOW and broadcasts overlapping programming (e.g., All Things Considered), KUOW proposed to coordinate its activities more and to form a stronger relationship with KPLU. KUOW and KPLU received a $50,000 grant from CPB to study how to provide the Puget Sound listening community with better services by making better use of their resources. The stations analyzed how to combine different functions they shared while preserving their independent organizational and legal structures. A study was produced that concluded the stations could
make more efficient use of their resources by combining certain functions, such as fundraising, marketing, news, and some other administrative functions, in a separate nonprofit organization that was formed under Section 501(c)(3) of the Internal Revenue Code and that could provide these services to both stations.

Puget Sound Public Radio, as the entity was to be called, would in time consolidate the major underwriting and major grant application activities of the two stations, providing a greater voice for public radio in the region. In recent years there has been a consolidation of commercial radio ownership in Seattle, making access to major companies and their advertising agencies more difficult for individual radio stations. Similarly, increased demand for foundation money encourages organizations with similar missions to cooperate in their appeals to ensure that each dollar produces the greatest good for the public.

This year KUOW will earn approximately $1.2 million in underwriting revenues; KPLU approximately $1.5 million. An outside sales consultant has estimated the combined audiences of these stations, based on share and qualitative characteristics, should generate in excess of $7 million yearly. Estimating revenue potential for joint foundation funding is more difficult, but KUOW management believes joint fundraising would certainly open more doors than at present because our constituency would be nearly a quarter of a million members of the public.

However, this proposed approach was rejected in 1998 by PLU for numerous reasons, including PLU’s concerns that:

- The new organization might be dominated by UW, the larger of the two licensees;
- The new organization would be subject to the politicized environment of State government;
- The Washington State Public Records Act might require PLU’s books be open to the public; and
- Meetings of this new organization might be subject to State public meeting requirements because UW would be part of it.

As a result of these concerns, the proposal stalled. The plan to form a closer formal relationship remains dormant.

Although a joint operating arrangement is not foreseeable with KPLU, joint fundraising is done on an ad hoc basis. In occasional situations, the two stations sell underwriting to common accounts and KPLU and KUOW share the revenue based on market share in the Seattle-Tacoma market, after overhead is deducted. As a practical matter, the staffs of the two stations work together, albeit informally. Puget Sound Public Radio was, in essence, just designed to grow that relationship to the benefit of both parties. It is speculative, but KUOW station management feels that, if KUOW is operated in part by a nonprofit organization with more independence from UW and a relationship defined by the terms of an LMA, PLU may be less concerned with the issues that caused it to stop Puget Sound Public Radio from advancing.

KUOW has relationships with other local public radio stations. These include stations licensed to Nathan Hale High School, Bellevue Community College, and Evergreen State College.
Although KUOW has not formally proposed establishing closer relationships with these licensees, it continues to explore ways to more efficiently utilize its resources to serve its broadcasting audience in conjunction with other local public radio stations.

Northwest Public Affairs Network

The Northwest Public Affairs Network (NPAN) is an independent non-profit organization that has supported regional public radio projects for the last ten years. NPAN received a CPB grant in 1998 to encourage collaborative projects among public radio stations in the Puget Sound region. It is expected that NPAN will fulfill many of the objectives sought by Puget Sound Public Radio in the near future.

KCMU

UW became licensee for KCMU in 1972. In 1980, KUOW took over management responsibilities for KCMU under the department of Broadcasts Services. Over the last several years, KCMU has found a growing audience for an eclectic blend of world music. KCMU also had achieved financial stability as it grew stronger administrative bonds with KUOW. KUOW and KCMU planned to move together into the new off-campus facility in 1999.

However, in September 1999, it was announced that UW President Richard McCormick decided to move KCMU to UW Computing & Communications and to retain KCMU on campus. (See Exhibit 6 – Transfer of KCMU to Computing and Communications dated November 22, 1999). This decision was based on a proposal by UW Vice President for Computing & Communications, Ron Johnson, to utilize the frequency for innovative data communications purposes. (See Exhibit 7 – KCMU Prospectus (9/17/99)) The KCMU frequency will remain licensed to UW, and a new KCMU advisory board will be created.

KUOW and KCMU will operate independently of each other. Nevertheless, President McCormick has committed to recompense KUOW for the equipment purchases and operations allocations that it had made for KCMU to move into the new facility but that are not needed anymore. During discussions associated with the KCMU move, President McCormick has also committed to preserving KUOW as an independent operation.
3. UW Relationship Committee Activities and Findings

Formation and Purpose

The KUOW Advisory Board held a day-long retreat on September 12, 1998. The Advisory Board explored the missions of KUOW and KCMU, and examined the events that were occurring and about to occur:

- KUOW was more successful than ever, with a stronger financial position and an increasing listening audience;
- KUOW was being required by UW to move off-campus into a privately owned building which was chosen and controlled by UW, with significantly increasing financial requirements;
- UW was going to pay for part of the move and to subsidize some of the newly required rent payments to the landlord temporarily and in diminishing amounts down to $0 over five years;
- With this move and the new financial arrangements between KUOW and UW, KUOW was increasingly treated as a self-sustaining entity by UW;
- The KUOW Advisory Board was more actively involved in fundraising, driven in part by the need for a capital campaign to pay for the construction in the new building and in part to help improve the financing for the station;
- Forming an independent nonprofit organization to operate Puget Sound Public Radio with KPLU was found to be a logical and potentially beneficial approach toward serving the needs of the KUOW listening audience, even if PLU did not want to participate (yet) in this approach; and
- Concerns about UW’s long-term goals for KUOW and its operation in view of these changes in the environment for public radio in Puget Sound.

After the retreat, a subset of the Advisory Board met on October 23, 1998 to identify and prioritize issues identified at the retreat (See Exhibit 8 – Summary of Issues Raised at September 12, 1998 Board Retreat), to propose a plan for how to structure the handling of the identified issues within the Advisory Board, and to recommend how to address each issue. (See Exhibit 9 - Report to the Advisory Board on November 5, 1998 Summarizing Issues Regarding UW Relationship) Two primary issues emerged from this analysis:

- What operating and corporate structure would allow KUOW and KCMU to best sustain long-term growth and achieve their missions?
- What should the role of the Advisory Board be as a result of the determination of this structure, and what should the Advisory Board’s governance structure be?
These issues are driven by and dependent upon the relationship of KUOW, KCMU and UW. As a result, the Advisory Board felt compelled to analyze the relationship of the stations to UW and the role of the Advisory Board in its governance. The Advisory Board felt there was a need to assess whether, as community representatives, the relationship between the stations and UW should change in order to allow the stations to improve or at least continue along their growth paths.

The Advisory Board then formed the UW Relationship Committee (the Committee) to address these issues and make recommendations to the Advisory Board about options for operating in its future relationship with UW. Rich Wyde served as chair, with the members including Peter Barrett, Jon Bridge, Dan Devin, Heidi Dexter, Sturges Dorrance, JoAnne Tompkins, Alex Torres, Susan Wallace, Danielle Whalen, and Wayne Roth. All Advisory Board members were invited to participate in this process.

The UW Relationship Committee had numerous meetings and is producing this Report as a result of its meetings and at the direction of the Advisory Board.

Committee Meetings

Initial meeting on January 5, 1999 – the Committee discussed:

- Problems that KUOW has experienced as a result of its relationship with UW (e.g., fiscal, procurement, employment, and State and UW budget cuts);
- The structure of the current Advisory Board;
- Benefits from being part of the State;
- Legal issues and relationships with other public radio stations in Puget Sound; and
- Types of models to consider, e.g., outsourcing or even independent status like KCTS-TV.

The Committee recognized that it needed more information about these other models of public radio operation, other organizations at UW, and State requirements, before making recommendations to the Advisory Board.

The Committee established a plan to conduct fact finding through meetings and discussions with other UW and outside organizations and to produce a report with recommendations to the Advisory Board about whether or not to change the relationship with UW.
Subsequent meetings – The Committee met repeatedly over the next year to discuss issues related to the UW relationship, including meetings with Committee members and outside parties.1 (See Exhibit 10 – Summary of Issues for UW Relationship Committee dated January 26, 1999 and List of KUOW/KCMU Interactions with UW dated February 7, 1999). As noted below, memoranda and notes describing these meetings are included as exhibits to this Report. Instead of repeating all of the detail in those documents, this section of the Report will attempt to highlight some of the discussions at these meetings, including positives and negatives of the UW relationship. Overall, it appears that KUOW enjoys many benefits from its association with the UW but faces some operating constraints, which could be mitigated through an independent operating entity.

Self-Sustaining Status
KUOW is characterized as a self-sustaining organization at UW. As such, UW has decided, based on its own criteria, which of KUOW’s operating and capital costs are paid for by KUOW and which are not. UW expects KUOW to pay for its activities with minimum, if any, direct support from UW. Other UW departments that are self-sustaining pay rent, such as Housing & Dining, Athletics, Hospitals, Parking, some smaller departments (such as Training & Development), and certain student facilities that do not draw money from the administration of UW for rent or otherwise.

Other departments that UW has characterized as self-sustaining have sources of revenues similar to KUOW. For example, the student athletic facility pays its debt service on its building and pays the operating expenses associated with the building with student fees, which are part of the tuition costs. It also receives fees from nonstudents, faculty, and staff. In general, it appears that, if a part of UW can, for the most part, generate revenues to cover its expenses, UW characterizes it as self-sustaining and removes all or part of its financial support.

Benefits from Being Part of UW
KUOW receives tangible benefits from being a part of UW and the State of Washington. However, the total economic value of UW’s support is unclear, in terms of cash and in kind services. (See Exhibit 11 – 5-Year Projections including UW Support for Operating Expenditures 6/3/99). A summary of the more significant benefits to the station include:

- A rent subsidy over the next five years, starting at 50% per year in fiscal year 1999, diminishing by 10% each year to $0, (prior to the move to the new facility, KUOW occupied “rent free” space in the School of Communications).

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- Salary and benefits for the station manager;

- Legal services are provided at no direct charge from the State’s Attorney General’s Office. These services include assisting on underwriting and other contracts. Nancy Hovis, Assistant Attorney General (AAG), had also drafted the bylaws for the Puget Sound Public Radio. The Attorney General’s Office also assists on employment matters, while outside counsel is retained for FCC and related Federal regulatory requirements. Litigation is also done by the Attorney General’s Office;

- Work study matching funds of approximately $25,000.

- Free access to UW computer systems.

- Cost-effective employee benefits – KUOW’s cost to provide employee benefits – 25% to 29% of professional and state classified employees’ salaries, and 10% of hourly-paid employees’ salaries, including the employer portion of FICA tax and payroll processing costs – is below what an independent nonprofit organization would have to pay for similar benefits. The employee benefits provided by the State include:
  - Health benefits, subject to deductibles and co-pay requirements;
  - Home loan assistance through Continental Bank;
  - Participation in the State and TIAA-CREF retirement plans. UW matches dollar for dollar 5% of the salary for everyone. When a person is 42 years old, the match is 7.5%; then, at 50, the match is 10% at the employee’s request;
  - UW allows employees to place their retirement contributions into UW’s high risk stock account, and UW still guarantees the higher of the stock appreciation or an annuity based on the number of years of service (2%) for every year of service, averaged based on last few years of salary;
  - A tuition benefit of up to five hours a quarter;
  - Some free training opportunities, specific to the workplace, e.g., software training, with the department or employee paying for most of the training;

- UW serves as KUOW’s economic and legal safety net. For example, UW is the contracting party for programming received from National Public Radio (NPR) and, as the licensee, UW is legally responsible for all activities of the station. Therefore, UW will bear the liability for damages that might be caused by KUOW. UW establishes risk management policies within which KUOW must operate.

Investment and Financing

KUOW’s revenues and capital are subject to UW’s investment policies and procedures. KUOW’s gift revenue and reserves are held by UW and used in accordance with investment policies established by the UW Board of Regents. (See Exhibit 12 – Regents Investment...
UW invests some of this money in securities (commingled with other UW investments) which have averaged 22% annual return to UW. But KUOW is paid only 3% interest on these amounts. Prior to 1989, UW kept 2% and paid KUOW 5-8% interest. After this policy was changed in 1989, UW initially provided KUOW with $34,000 per biennium of direct state funding to offset KUOW’s loss of investment return. Bob Edie stopped this practice because he decided that self-sustaining UW units should not receive State money.

For the construction of its new site, KUOW used up its capital reserve and had to borrow additional funds. As a State agency, the UW cannot borrow money directly from a bank. (Evidently, the ability of UW to borrow is legally limited for certain functions, e.g., parking, hospitals, or dining facilities.) Therefore, at the suggestion of the UW Treasurer’s Office, UW obtained funding for KUOW’s purchase of equipment and furnishings pursuant to State issued tax-exempt bonds at between 4-6% interest to be repaid by KUOW. These bonds are sold under State regulation. (See Exhibit 13 - Memorandum dated March 10, 1999 of Rich Wyde Discussion with Doug Breckel, UW Treasurer’s Office, for further details). Additional sums were borrowed from UW at 10% interest to provide short-term cash flow needs.

For restricted grants the UW charges an indirect overhead fee of approximately 50%. However, grants from CPB prohibit charging an indirect overhead fee; UW has, to date, permitted KUOW to accept CPB grants on this basis. Some organizations are reluctant to provide KUOW with grants due to the large percentage taken from the grant by UW. Thus, this UW administrative fee significantly reduces the value and amounts of potential grants to KUOW. The indirect overhead fee seems particularly inappropriate considering that UW pays so little interest on KUOW reserves and UW provides so few services and such little financial support to KUOW.

New Broadcast Station

The move out of the Communications building has caused fundamental changes in KUOW’s relationship with UW and had a huge impact on KUOW’s financial situation. As noted above, KUOW had been situated in the Communications building since 1954. In 1999, UW moved KUOW into a building chosen by the UW Real Estate Department1. Base rent in 2000 is $21 per square foot, with utilities. The 30 year lease is held by UW. (See Exhibit 14 — Lease in New Building). The building owner was used as general contractor for the build out, instead of the UW, in order to expedite the construction process. This approach was taken at the suggestion of the UW Real Estate Department.

There are many advantages to the location, specifically its proximity to the UW telecommunications facilities, and its line-of-sight for microwave transmissions to KUOW’s transmission tower. The new site also dramatically improves the working conditions for station employees who were cramped into the Communications building. This situation is in contrast to KCTS which could not get its satellite dish moved and had to run a landline until KCTS moved its satellite uplink from a C band to a KU band frequency satellite.

1 KUOW was given the choice to reject UW’s chosen location; in contrast, when KCTS moved off-campus, KCTS was able to choose where to construct its offices and to own its building.
KUOW estimated that construction of the new facility would cost approximately $4.4 million. As of this date, KUOW anticipates that total construction costs will come within 5% of this estimate, broken down as follows: $2.2 million in low cost loans; $1.5 million from capital fundraising campaign; and $1 million from KUOW reserves.

Additional UW Constraints

Even though it is characterized as a self-sustaining entity, KUOW is required by UW to purchase services from UW at rates established by UW and to purchase goods and services from UW approved vendors in accordance with State purchasing requirements and regulations. UW purchased services include copying, food services, and other professional services. Although these services have value, the requirements imposed by UW are often constraining and inappropriate for a smaller organization that differs significantly from other UW entities.

One significant constraint involves employee salaries. Merit and cost of living increases are set by the State legislature. The State also sets salary ranges and hiring restraints. The KUOW station manager has not received any salary increase beyond State cost-of-living adjustments for many years. As a result, the station manager’s pay is well below market and, in fact, is the lowest of any station manager in KUOW’s peer group.

Following are some examples of services KUOW obtains from UW:

- Accounting System – As a part of UW, KUOW is required to use the UW accounting system, which is designed for the entire UW. UW prints financial reports for KUOW. KUOW staff then manually input the data from these reports into KUOW’s own accounting software that is designed for a smaller entity like KUOW. KUOW and UW have unsuccessfully tried to develop an interface between the two systems. With some additional coding developed by KUOW, KUOW can manipulate the data received from UW to fill KUOW’s needs, albeit with extra staff time, cost, and effort.

- Payroll System – KUOW uses UW’s payroll system and the service is accurate.

- Accounts Payable Services – KUOW uses UW’s accounts payable (AP) services. UW often takes longer than 30 days to pay vendors. For example, tower work and programming vendors send their invoices to KUOW, which approves the payments and sends the approval paperwork to UW’s AP office. Vendors may not receive payment for six to eight weeks from receipt of the invoice.

- Telephone System – KUOW is required to use the UW telephone system. KUOW had wanted to buy its telephone system from a private vendor for financial and operating efficiencies, but UW would not allow this purchase. Instead, UW required that KUOW participate in the UW telephone system and pay for resources at lease rates charged by UW (in addition to telephone usage rates), instead of competitive rates.

- Purchasing Department – Operating under State procurement procedures constrains KUOW’s ability to pay vendors at competitive prices. State rules also prohibit paying before services are rendered. Unlike the State, KUOW has to operate in a competitive market. Its vendors are
frustrated when they don’t understand they cannot get advances, thereby impacting KUOW’s ability to receive services and products in its marketplace.

Legal Issues

On April 13, 1999, the Committee had a conference call with its legal counsel to gain a better understanding of legal issues and constraints affecting KUOW. Ernie Sanchez, KUOW outside counsel for public broadcasting matters, participated by phone from his office in Washington, D.C., and Nancy Hovis, AAG, attended the meeting in Seattle with the rest of the Committee members.

Ernie Sanchez represents numerous public radio and public television stations, and he offered his views on questions posed by the Committee. From the FCC’s perspective, the entity that holds the license has ultimate responsibility for how the station is run. If a university holds the license and allows others to run it, and if the station violates FCC rules, the university institution retains responsibility for the violation.

Over the last 20 years, there has been a shift in the kinds of institutions holding public radio licenses. Thirty years ago, universities and colleges held 66% to 80% of such licenses, often for research and education purposes. However, newer stations have generally been licensed to single-purpose, nonprofit organizations created to own and operate public radio stations.

School boards and universities often feel they have a stake in their stations, with concerns about how the public will perceive the organization. The University-Station relationship often begins with participation by the university, then evolves into more community support, and ultimately evolves into allowing operation through a more independent organization.

Throughout the United States, universities are reducing their out-of-pocket financial commitments to their stations, although they are providing in kind support and some staff salaries. There may also be a pattern of reductions in university funding and increase of independence as there is a weakening of the link between the funding and institutional support. (See Exhibit 15 – Article about Other Universities’ Status).

There are now dozens of variations of public radio station governing models. The most common include the following:

- University licensee – regents appoint the president or chancellor who appoints the station’s manager and who makes the station part of the institution, often in public outreach;

- Governmental licensee, such as a board of education; and

- Community based organizations, usually nonprofit organizations which are formed under Section 501(c)(3) of the Internal Revenue Code and which own the license.

Ernie discussed the history of Advisory Boards. In 1978, when licenses were largely held by universities, school boards and other organizations, Congress felt there was a gap between the licensee boards and the best interests of the public. Congress required that advisory boards be created so that the input from community representatives would be less isolated or “elitist.”
That approach provided some utility, but it is not the same as having a hands-on board responsible for dealing with staff and establishing policies. Some nonprofits are membership organizations, with board and officers elected by the memberships. However, many independent organizations do not give members votes and are instead run by self-perpetuating boards.

We discussed different operating situations, including stations in San Francisco (a community based licensee), Denver (where the University of Denver had held the license), and Nashville where the license had been held by the County, through the library system. Some stations, such as in Sacramento, Cincinnati, and Long Beach (California) formed independent nonprofit organizations that hire station staff, perform fundraising activities, and operate the stations under LMAs with the licensees. Other stations, such as Denver and Nashville, ultimately transferred the license to a community licensee. (See Exhibit 16 – Model Local Management Agreements)

Ernie Sanchez suggested that a conservative model increasingly used by university and other governmental organizations is to create a nonprofit organization that operates the station and to allow the entity holding the license to keep majority control in the new nonprofit organization, even while receiving board involvement from the community. The licensee and nonprofit execute an LMA, which defines the relationship between the parties.

Where license transfers or changes in structure have occurred, they have often occurred over several stages. The parties need lots of preparation and intermediate discussion, sometimes using intermediate mechanisms to provide assurance that a terrible mistake is not being made.

Nashville, for example, was a “sleepy” operation licensed to the library system. Over time, the library and county administrators concluded a new structure was needed, but they remained involved. A nonprofit organization was created, with the library initially keeping majority control, but with other community involvement. After it became clear to the library that there was stability in this organization, the County reduced its participation to less than majority control. An endowment was formed and raised significant funds for the station operation. Eventually, the library transferred the license to the nonprofit organization.

From a State perspective, Nancy Hovis discussed issues related to the transfer of a State asset to a private organization, such as a new nonprofit organization that would hold the license, instead of just operating the station. The license, which is assigned by the FCC to an organization, is separate from the hard assets of a station, such as its equipment. The license belongs to the licensee and not the entity operating the station. From the FCC point of view, the license has no economic value because it is issued for a limited time period. However, licenses are transferred for value because of their potential for revenue generation. From a State law point of view, any action transferring assets to a new entity might raise questions about whether the State is granting a gift of State funds. To avoid this problem, a state licensee, such as UW, might have to sell, rather than transfer, the license to a new nonprofit organization.

There was next a discussion about the types of activities that could be delegated by a university licensee to an independent nonprofit organization. The trend and current common practice in LMAs is for the licensee to delegate all activities related to daily station operations, e.g., setting programming policy, hiring staff, etc., although the licensee still has ultimate responsibility for station operation. One way to minimize operational risks is to forge a strong link between the
operating entity and licensee. For example, the manager of the station could be an employee of the university or shared employee. Or, if the majority of the board were university representatives, then the FCC considers the board to be the university, so there is no question of whether the board will be doing anything outside the scope of what it is entitled to do. Or, a high level university representative could be actively involved on the board of the nonprofit organization operating the station.

One legal issue that has to be addressed is State hiring requirements and whether these State requirements would apply to an independent nonprofit organization. Nonprofit organizations also have to deal with seniority and pensions for university employees who move to the new nonprofit. The State of Washington also has requirements related to contracting out services to third parties. The UW licensee could not contract out to eliminate a civil service position that is currently or traditionally held by KUOW. However, the UW Foundation and the Alumni Association have established contracts between the UW and independent organizations to address hiring and asset transfer concerns.

Other issues discussed with counsel included:

- The need for tax exempt status of the new nonprofit organization
- Public records requirements if the board of a new nonprofit organization was comprised of UW representatives,
- Liability and indemnification issues,
- Purchasing requirements,
- Structural requirements, and
- The ability of an independent nonprofit to give bonuses and commissions, and to raise salaries to meet marketplace requirements and to reward good performance.

The UW Board of Regents and the Washington State Higher Education Board would also need to approve any such change. State-related issues arising from a transfer of operation of the station are discussed in a memorandum drafted by Nancy Hovis and attached to this report as Exhibit 17 (Nancy Hovis Memorandum).

We discussed the example of New York City, where a nonprofit corporation was established several years before the transfer of the actual license. The nonprofit corporation raised funds, hired staff and donated their services to the station. By the time of the transfer, the majority of the workers were not civil servants. When the transfer took place, the civil servants had the choice whether to stay as employees with New York City or move to the nonprofit corporation.¹

¹ This situation is similar to the process followed when the Washington State Library Commission spun out WLN (Western Library Network), which was an electronic bibliographic service started by the Library Commission, into a new nonprofit corporation.
One of the fundamental problems that many licensees have faced is that their station managers had no oversight by individuals who are knowledgeable about the station’s business. The KUOW station manager reports to the UW Vice President for University Relations, who does not actively participate in the radio business. Instead, his goal is to manage public relations for UW, while KUOW’s mission is to provide news and information to the public using the broadcast medium. As a result, the station manager does not receive policy guidance or performance evaluations from someone with knowledge of the public radio business. Such guidance could be provided by an independent board of directors including local representatives familiar with public radio. This need for knowledgeable managerial oversight has surfaced in numerous stations throughout the U.S. and has been a motivating factor for creating nonprofit organizations to operate stations whose licenses are held by government entities.

Meetings with UW Representatives and UW Foundation

On July 23, 1999, Sturges Dorrance, Rich Wyde, and Wayne Roth met with UW representatives Norm Arkans and David Thorud regarding the progress of the Committee’s work. The discussion addressed LMAs, how UW’s funding has effectively been reduced as a result of the move of the station off-campus, other UW organizations that are self-sustaining, KCTS’s changes, and the role of the Committee. The UW representatives suggested that, at the end of two to five years of funding support by UW for rent in the new building, the funding issues could be revisited and that perhaps the total lack of all funding for rent would not necessarily stay at $0.

Wayne Roth, KUOW station manager, met with the UW Foundation head, Marilyn Dunn. The UW Board of Regents linked the Foundation tightly to the UW structure. The majority of UW Regents are on the board of the Foundation. The Regents control all the Foundation’s transactions to ensure it does not use its funds for wrong priorities. The Foundation has no staff, although it has meetings and officers, with some nonregent members. UW provides administrative staff.

Meetings with KCTS-TV

Sturges Dorrance, Chairman of the KUOW Advisory Board, met in December 1999 and January 2000 with Burnie Clark, CEO of KCTS-TV since 1983, and Suzanne Zahnheiser, a lawyer who was on KCTS’s Board and who drafted many of the documents when KCTS became an organization independent of UW.

In 1983, KCTS had used equipment and little capacity to produce programming that would enhance the reputation of UW in the local or national public broadcasting world. KCTS sought to change its status from the position it had held in UW in the 1980s because it needed outside financial support to enable development of new facilities and implement changes needed for public television to thrive in the newly competitive media environment in the region. The key people at UW shared that vision, but could not muster the financial resources to do what all agreed was needed. Moreover, there was not even space on campus for new facilities.

Under Burnie’s predecessor, Richie Meyers, and after Burnie’s promotion in 1983, the station cultivated a substantial group of public television advocates in the community who worked to
find a location and build the financial reserves necessary to begin planning for expansion. In this
process it became clear to the group that an association (with nonprofit corporate tax status)
separate from UW was necessary to attract funds for the project.

There was no intention at the time the group was formed to move the license away from UW. The Community Television Association (the Association) was established solely to assist UW in
the development of its television asset.

By committing to new facilities and a much grander vision for Seattle public television, UW and
the Association could both make a major contribution to an important civic asset. The
Association, included Hunter Simpson, who was also a UW Regent. Don Kraft, who is a UW
Alumnus, was a key figure through Downtown Rotary in spearheading the fundraising drive for
KCTS. Jim Collier, VP for University Relations, had strongly supported UW’s responsibility for
growing KCTS’s vision. President Gerberding apparently also shared the belief that the long-
term interests of both the UW and public television would be enhanced by facilitating a transfer
of the license.

UW, itself, decided to transfer the broadcast license to the Association, not just to create a
separate operations organization. KCTS’s move out of UW was at all times amicable. The
decision to shift the broadcast license to the Association was made by the Regents because they
felt it was in the best interests of UW, not because there was any pressure from the outside
Association to do so.

Meeting with Sacramento Capital Radio.

On December 15, 1999, Rich Wyde met with three representatives of the Sacramento public
radio stations (known as Capital Public Radio). These people included: Michael Lazar, President and General Manager of Capital Public Radio; Elizabeth (Betty) Moulds, a member of
the Board of Directors and Vice President of and Chief of Staff to the President of California State University, Sacramento (Cal State); and Jan A. Rosati, a partner at Deloitte & Touche and
Chairman of Capital Public Radio. The reason for meeting with these individuals was to learn
about how Capital Public Radio had evolved into its current organizational structure in which
Cal State retains the station licenses and has the stations operated by a nonprofit corporation
pursuant to an LMA.

The station licenses have been and are now held by Cal State. The first station was created by a
faculty member of the Cal State Communications Department. The stations were managed by a
station manager and had an Advisory Board, similar to that of KUOW, with members of the
board acting more as a casual group than an active board of directors. The Board did not raise
funds or address problems that the station was experiencing. The Board also lacked clear
authority over station management because the Board was purely advisory. The station reported
to the Cal State Vice President of University Relations, but the station manager and employees
were employed by the Cal State Foundation. At some point, they realized the stations were
subject to the Cal State structure and goals, which might differ from the goals of a station, e.g.,
needing independence for news reporting. The Cal State President then decided the station could
react to the market better as an organization that was operating independently of Cal State. In
1991, the President of Cal State initiated the change to have the stations operated by a nonprofit company, even while Cal State kept the licenses.

At the transition to the new nonprofit corporation in 1991, the employees of the Foundation became employees of the nonprofit corporation. The Board members at our meeting acknowledged that there was some difficulty for the employees in the transition. However, the nonprofit’s independent status freed the organization from having to deal with Cal State-driven requirements, including those affecting employees and procurement matters. It also allowed greater community input and was designed to mirror the Cal State mission of public service to the community.

The current nonprofit corporation Board has 25 members and is now being trained to raise major gifts for the stations; it also helps station management address problems. Cal State fills five of the seats on the Board. These seats include two administrators (including Betty), two faculty members and one student. Betty is the Cal State President’s official designee.

One key to the success of this organization is the active relationship that Cal State’s Board representative has with the stations and the roles she has as the Cal State President’s official designee on the Board and as Chief of Staff to the President of Cal State. The station manager meets for 30 minutes a month with the Cal State President. Betty also meets with the station manager on a regular basis. This organization gains enormous benefits from having a Board member who is high up in the Cal State organization and who is actively serving as a liaison between the parties. This type of personal relationship significantly increases the likelihood of the success of this approach. It allows independence, professional management and, at the same time, a close relationship with the university licensee.

In the LMA, the relationship between Cal State and the nonprofit corporation operating the stations is well defined. Cal State wants the stations to be independent and to have a clear delineation of responsibilities. The LMA delineates how that relationship operates, including how the stations are to make on-air announcements for Cal State. The University President feels that independent management is better for allowing self-sustaining operation and for greater involvement of members of the Board.
4. Options and Recommendations

Options

From its meetings with representatives of KUOW, UW, the UW Foundation, the State, KCTS, the public radio stations in Sacramento, California, and legal counsel, the UW Relationship Committee learned that there are dozens of variations of governing models used by public radio stations today. In general, these models represent different allocations of operational control between the university and either an advisory board or an independent nonprofit organization created for the sole purpose of operating (or owning and operating) the station. The advisory or nonprofit board’s fundraising capabilities generally increase, and the university’s financial commitment declines, as the board takes on more operational control. The chart below illustrates the range of operational models used today.

**Alternative Operating Models**

<table>
<thead>
<tr>
<th>Advisory/Nonprofit Board</th>
<th>Operational Control and Fundraising Capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Low</td>
<td>Low</td>
</tr>
</tbody>
</table>

- **High University Operational Control and Financial Commitment**
  - Licensee runs all station operations; no advisory board (KUOW before 1978 Act).
- **Low University Operational Control and Financial Commitment**
  - Licensee runs station with input from advisory board, which participates in fundraising and station oversight (Current KUOW/UW relationship, Option 1).
  - Licensee runs station with input from advisory board; advisory board forms independent nonprofit organization for fundraising (Option 2).
  - Licensee contracts with independent nonprofit to run all station operations (Sacramento public radio, Option 3)
  - Transfer license to independent nonprofit corporation (KCTS, Nashville public radio; Option 4)

The trend over the last 20 years has been a greater operational control from universities (the lower right corner of the chart) to independent nonprofit organizations. In some cases, the station license has been transferred to the independent nonprofit organization (the upper left
corner of the chart). Furthermore, when changes in operational structure have occurred, they have often occurred in stages.

The UW Relationship Committee identified four operating models along this continuum for further consideration and evaluation:

**Option 1** – Continue with the current operating structure.

**Option 2** – Create an independent nonprofit organization for fundraising, but otherwise remain within the current operating structure.

**Option 3** – Create an independent nonprofit organization, which would manage and operate the station, including fundraising, setting programming policy, and hiring and managing staff, under a local management agreement (LMA) with UW.

**Option 4** – Create an independent nonprofit organization, which would hold the KUOW license and operate the station.

These options, and the advantages and disadvantages of each, are described in more detail below.

**Option 1 – Continue with the Current Structure**

KUOW can remain in its current status, with UW as the licensee and KUOW as a department of UW.

The advantages of this structure include that KUOW can obtain loans for equipment purchases through State bonds, remain with UW as the guarantor of its financial and legal operations, and remain within UW as an organization. KUOW employees retain their health care, retirement, and other employee benefits. Disadvantages include significant operational limitations imposed by State and UW requirements, including for purchasing, hiring, and salaries, severe limitations on interest paid by UW to KUOW on revenues and reserves, the loss of large amounts of grants and gifts to UW, and possible constraints on fundraising activities due to State requirements or limitations. Lack of knowledgeable managerial oversight of the station manager is another disadvantage.

**Option 2 – Create an Independent Nonprofit Organization for Fundraising**

The KUOW Advisory Board would also be the board of the new organization. UW would retain the KUOW license and operate the station (there would be no LMA between UW and the new organization). The new nonprofit organization would simply raise funds (including restricted grants) to meet KUOW’s ongoing operational needs and to pay off construction debts for the new broadcast station. The new organization could also attempt to partner with other area public radio stations for joint fundraising efforts, although we do not know whether the other stations would be receptive. It is unclear whether funds raised by the new organization could be used to provide performance bonuses to KUOW staff to help keep total staff compensation competitive.

This approach could be a first step toward a LMA, or it could be the end point of this process.
The principal advantage of this approach is greater fundraising flexibility, for example creating endowments and fundraising opportunities through the Internet, without constraints from the State. It may also permit KUOW to partner with KPLU for joint fundraising initiatives. As with Option 1, KUOW can obtain loans for equipment purchases through State bonds, remain with UW as the guarantor of its financial and legal operations, and remain within UW as an organization. KUOW employees retain their health care, retirement, and other employee benefits.

Disadvantages include: the cost of creating a new organization; KUOW would continue to be faced with significant operational limitations imposed by State and UW requirements, including for purchasing, hiring, and salaries; lack of knowledgeable managerial oversight of the station manager; severe limitations on interest paid by UW to KUOW revenues and reserves not held by the new entity.

Option 3 – Create an Independent Nonprofit Organization to Operate the Station

The new organization would manage and operate the station, including performing fundraising, setting programming policy, hiring and managing staff, and performing all of the other activities now done by UW and KUOW. The license for KUOW would remain with UW, but the new nonprofit organization would operate the station in accordance with an LMA that describes the operating parameters and expectations of UW and the nonprofit organization. A new board of directors would provide policy and other guidance to the LMA management, which would become the station management.

Advantages of this approach include:

- Greater flexibility in fundraising, purchasing, hiring, and operations, allowing KUOW to remove UW and State constraints that should not apply to a smaller, self-sustaining operation;

- Creating a board of directors that would oversee and control the station management more directly and effectively than either the current Advisory Board, which has no authority over the management of the station, or the Vice President for University Relations, whose primary responsibilities are unrelated to operating a public radio station; and

- Potentially decreasing fears of the Pacific Lutheran University Board about forming a closer relationship with KUOW.

Disadvantages include: the additional cost of creating the new organization and replacing services and benefits (including employee benefits) currently provided by UW; the new organization must operate in compliance with contract requirements of an LMA instead of being subject to direct management by UW.

Option 4 – Create an Independent Nonprofit Organization to Own and Operate the Station

The license to the KUOW frequency would be transferred to a separate nonprofit organization. The nonprofit would operate the station and be totally separate from UW, just as occurred with KCTS. It would have its own board of directors, which would provide oversight to the station.
management. As with Option 3, advantages include greater flexibility in fundraising, purchasing, hiring and operations. Disadvantages include UW’s possibly requiring payment for the frequency and other assets and UW would no longer be the guarantor of KUOW’s financial and legal operations. This approach may also be premature. It would be desirable for the nonprofit organization to gain some experience operating the station before assuming ownership of the license.

Evaluation of Options

The UW Relationship Committee evaluated each of the four alternative operational models in light of KUOW’s mission – to be the most dynamic provider of news and information in the Puget Sound region – and KUOW’s long-range vision of strengthening public radio in our region through enhanced relationships with other stations.

To formalize and quantify our analysis, the Committee defined key objectives in three areas: KUOW’s mission, financial health and stability, and staffing and back office operations. Then the Committee evaluated each operating model against these objectives. This evaluation is summarized in the table on the next page, which includes a column for each operating model and a row for each objective, showing:

- + if the operating model is expected to help KUOW achieve the objective;
- – if the operating model is expected to hinder KUOW’s ability to achieve the objective,
- 0 if the operating model is expected to be neutral (neither helps nor hurts)
- ? if further study is needed to determine how the operating model is likely to affect KUOW’s ability to achieve the objective.

For example, in the Option 1 column, “+” is shown for the objective “obtain low interest loans for equipment purchases through State bonds” because the current structure enables KUOW to obtain such loans. But a “-” is shown for “raise restricted grants from organizations other than CPB” because UW’s indirect overhead fee of approximately 50% makes some organizations reluctant to provide restricted grants to KUOW. This fee does not apply to grants made by the Corporation for Public Broadcasting (CPB).
<table>
<thead>
<tr>
<th></th>
<th>Option 1 Current Relationship</th>
<th>Option 2 Fundraising Nonprofit</th>
<th>Option 3 Nonprofit with LMA</th>
<th>Option 4 Transfer License</th>
</tr>
</thead>
<tbody>
<tr>
<td>KUOW's Mission</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Protect the KUOW broadcast frequency from potential liquidation by the State during a budget shortfall</td>
<td>–</td>
<td>–</td>
<td>0</td>
<td>+</td>
</tr>
<tr>
<td>Assure editorial independence</td>
<td>–</td>
<td>–</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Enhance community presence and broad public mission</td>
<td>–</td>
<td>0</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Strengthen public radio in the Puget Sound region through cooperation with other stations</td>
<td>–</td>
<td>0</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Financial health and stability</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Empower public volunteers to raise funds</td>
<td>–</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Promote joint fundraising with other public radio stations</td>
<td>–</td>
<td>0</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Raise restricted grants from organizations other than CPB</td>
<td>–</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Obtain low interest loans for equipment purchases through State bonds</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>–</td>
</tr>
<tr>
<td>Earn reasonable market interest on reserves</td>
<td>–</td>
<td>–</td>
<td>?</td>
<td>+</td>
</tr>
<tr>
<td>Staffing and back office operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provide effective managerial oversight to station manager</td>
<td>–</td>
<td>–</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Pay competitive staff salaries</td>
<td>–</td>
<td>–</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Provide competitive employee benefits</td>
<td>+</td>
<td>+</td>
<td>?</td>
<td>–</td>
</tr>
<tr>
<td>Structure accounting and back office procedures appropriate for the size of KUOW</td>
<td>–</td>
<td>–</td>
<td>+</td>
<td>+</td>
</tr>
</tbody>
</table>
The table below summarizes potential barriers to implementing option 3 and option 4. There are no significant barriers to implementing option 2, other than the cost to establish the new organization.

<table>
<thead>
<tr>
<th>Potential Barriers to Implementation</th>
<th>Option 3</th>
<th>Option 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal restrictions on transfer of a State asset (the KUOW license) to a private organization; the private organization may be required to buy the license and equipment</td>
<td>N/A</td>
<td>✓</td>
</tr>
<tr>
<td>UW, Washington State Higher Education Board, or State may object to license transfer</td>
<td>N/A</td>
<td>✓</td>
</tr>
<tr>
<td>UW, Washington State Higher Education Board, or State may object to transferring operational control to a nonprofit organization through an LMA</td>
<td>✓</td>
<td>N/A</td>
</tr>
<tr>
<td>State restrictions on contracting out of civil service positions currently or traditionally held by KUOW</td>
<td>✓</td>
<td>N/A</td>
</tr>
<tr>
<td>Employee transition difficulties (changes in benefits, reporting relationships, and so forth)</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Loss of UW as guarantor of financial and legal operations</td>
<td>N/A</td>
<td>✓</td>
</tr>
<tr>
<td>Cost to establish new organization and replace services currently provided by UW</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

**Conclusion**

KUOW’s mission is to be the most dynamic provider of news and information in the Puget Sound Region. To serve this role, KUOW has developed specialty reporting and creative ways to cover the news. In fact, KUOW has become the leading public radio station in the Puget Sound Region and a leader in the entire public radio system. It continues to grow in terms of its programming vision, use of technology in delivering its services, fundraising capability and market share. KUOW’s long-range vision includes enhancing its relationship with other public radio stations in Puget Sound in order to strengthen public radio in our region, maximizing its existing resources in order to continue its programming innovations, and restoring financial health by retiring its debt.

The primary mission of UW is the preservation, advancement and dissemination of knowledge. As the largest public institution in Puget Sound, UW achieves its mission through its teaching and research efforts. However, UW is a very large organization with large-scale operational and financial requirements which are driven by State government needs and demands. In this environment, KUOW is unable to most efficiently and cost-effectively operate and achieve its mission.
Moreover, the recent move off-campus and the treatment of KUOW as a self-sustaining entity, employment and other UW constraints, the failure of the Public Radio Partnership venture, the resulting need for additional financing to retire its large construction debt, the need for innovative fundraising techniques, and the need to retain a greater percentage of its grants suggest that KUOW should change its operational relationship with UW and organizational structure in order to best achieve its mission. The UW Relationship Committee believes KUOW’s mission can best be achieved through Option 3.

Recommendations

The UW Relationship Committee recommends that the Advisory Board pursue Option 3. Under this option, the license for KUOW would remain with UW, but the new nonprofit organization would operate the station in accordance with an LMA that describes the operating parameters and expectations of UW and the nonprofit organization. A new board of directors would provide policy and other guidance to the LMA management, which would become the station management.

The Committee believes this option is most supportive of KUOW’s mission and long-range vision. Furthermore, greater independence will significantly enhance the value of a major University of Washington asset by raising its presence in the community and increasing its ability to reflect the core values of the institution through programming. Specifically, greater independence:

- Reassures the public of KUOW's editorial autonomy and reduces the perception of interest conflicts with the University or state government.
- Empowers Board volunteers to raise funds to extinguish the station’s $3.6 million debt, rebuild the reserve, and provide for future growth and enhanced services to the community.
- Increases the possibility of joint fundraising activities with KPLU and other public stations to ensure viability and growth of public broadcasting in the Puget Sound region.
- Provides more direct oversight and accountability for station management.
- Permits KUOW to pay market competitive salaries.
- Allows KUOW to structure its accounting and back office procedures appropriately to an organization of its size – avoiding the often-ponderous bureaucracy of the University.

Benefits to the Community

KUOW now commands a major position in the local media market as a dependable source of serious news and discussion. Public appetite for this community service has grown dramatically in just a few years. The Advisory Board of KUOW believes that KUOW can become a much greater community service and presence – what WGBH is to Boston or KQED is to San Francisco – if the Staff and Board can be empowered through autonomy and more direct public accountability.
In the most basic sense, autonomy means KUOW can raise more money from the community and put it to work more efficiently. Without limiting the scope of what we suggest or promising more than might be delivered, the University Relationship Committee believes that more money will enable KUOW to:

- Put additional reporters on the street, for example, opening specialty beats in areas like politics, science, culture or business.

- Increase original programming (like Rewind) or programming partnership projects (like Front Porch Forum) for use on KUOW’s air and perhaps for distribution throughout the state or region.

- Expand KUOW’s already substantial commitment to internet related activities in streaming and archived media.

- Expand transmission capacity, plugging the weak points in KUOW’s coverage of the region.

- Better serve disparate communities with tailored outreach services to minorities, education or even university-related disciplines like medicine, science or business.

The Staff of KUOW and its Board share a vision for an organization whose value to the community could be exponentially greater than at present, but that vision will not be developed or realized unless the station achieves greater control over its future. We believe that the findings of this report present a compelling case for KUOW autonomy within the University structure.

Next Steps

Recognizing that Option 3 implementation will require negotiation with UW and careful transition planning, the UW Relationship Committee recommends that the Advisory Board immediately form an independent nonprofit organization for fundraising. The KUOW Advisory Board would be the board of this new nonprofit organization. The Advisory Board does not need an LMA or other agreement from UW to form the new organization. As soon as it is established, the new organization can begin fundraising activities in support of KUOW. In particular, the new organization could be used to raise restricted grants from organizations that are unwilling to make grants to KUOW if they would be subject to the UW indirect overhead fee. As Option 3 is implemented, the new nonprofit organization could amend its by-laws as necessary to operate the station under an LMA with UW. Thus, the additional cost of establishing the nonprofit organization necessary to implement Option 3 would be minimal.

We further recommend that the Advisory Board create an LMA Implementation Committee to begin work on detailing the services the new nonprofit organization would provide to KUOW and to UW as the licensee through an LMA, including the fiscal ramifications of the change in operating structure, and begin discussions with UW representatives regarding the proposed change in operating structure.
5. Exhibits

The following exhibits will be included in the final report.

Exhibit 1  KUOW Advisory Board Bylaws, Committee Descriptions, Etc.
Exhibit 2  KUOW Strategic Plan
Exhibit 3  UW/KUOW Organization Chart (Before Move of KCMU)
Exhibit 4  UW Correspondence and Regents’ Action Regarding Relocation dated March 4, 1998
Exhibit 5  Revenue and Expense Summaries
Exhibit 6  Transfer of KCMU to Computing and Communications dated November 22, 1999
Exhibit 7  KCMU Prospectus (9/17/99)
Exhibit 8  Summary of Issues Raised at September 12, 1998 Board Retreat
Exhibit 9  Report to Advisory Board on November 5, 1998 Summarizing Issues Regarding UW Relationship
Exhibit 10 Summary of Issues for UW Relationship Committee (Wayne Roth List January 26, 1999) and List of KUOW/KCMU Interactions with UW dated February 7, 1999
Exhibit 11 5 Year Projections including UW Support for Operating Expenditures (6/3/99)
Exhibit 12  Regents Investment Policies
Exhibit 13 Memorandum Dated March 10, 1999 of Rich Wyde Discussion with Doug Breckel, UW Treasurer’s Office
Exhibit 14 Lease in New Building
Exhibit 15 Article about Other Universities’ Status
Exhibit 16 Model Local Management Agreements
Exhibit 17 Nancy Hovis Memorandum