

# THE HARMELIN MEDIA REPORT

A Monthly Newsletter Published By Harmelin Media

February 2006



Volume 17 No. 2

## **“Eh...What’s up Doc?” with Warner Bros and CBS?** **by Loretta Atkinson**

No Looney Tunes here. On January 24<sup>th</sup>, 2006, CBS Corp. and Warner Bros. announced their decision to create a new television network—a fifth network—the CW—to launch in September of this year at the same time effectively shutting down the WB and UPN. Financial struggles and competition for the same audience precipitated this surprise announcement. With each company owning 50% of the new network, its survival will depend on good management, programming and pricing, because cable and Fox are good alternatives to reach that young 18-34 audience.

So what does this do to the current WB and UPN affiliates across the country? Tribune-owned stations and CBS-owned UPN affiliates will become The CW in each market. However, in the seven markets where Tribune/WB and CBS/UPN stations co-exist, one of the two will have to become a truly independent station harkening back to pre-1995 when “indies” still existed in most markets. Syndicated programmers and program distributors at January’s NAPTE convention were buoyed by this news.

The current 16 Tribune and 12

*(Continued on page 2)*

## **Pennsylvania Senate Bill No. 854** **by Terry Maher**

Like many other states, Pennsylvania is under pressure from many residents to stop relying on local property taxes for public school funding. It’s a complaint that politicians have been hearing more and more in recent years. With property values soaring, the fairness of taxing this one asset is being challenged. Many residents do not consider their home an investment — it’s simply their home. While it may have soared in value, the owners would have to spend an equal amount to move someplace else. They’re not ready to cash in and downsize to a cottage. The real estate boom has been a nightmare for them -- the most tangible result has been an increase in their property taxes. Now rising property taxes have become a nightmare for elected officials as they dread a voter backlash.



In 2001, the Select Committee on Public Education Funding made a recommendation to the Pennsylvania General Assembly. The Select Committee advised the Commonwealth to find sources of revenue other than property taxes to fund public education. The Committee urged the legislators to make some fundamental reforms in the way public education is funded in the state. To its credit, the Pennsylvania General Assembly has tried hard to tackle the property tax relief problem. Senate Bill 854 is what they’ve come up with. Already passed by the Pennsylvania House, it would provide \$2.8 billion in local property tax relief annually by 2008. This will result in a local property tax reduction of up to 50% for some homeowners. Sounds good so far.

Here’s how Senate Bill 854 came into existence. Addressing the property tax issue, the Senate passed SB30 in December 2005. The statute would have required school districts to hold referendums to increase existing local earned income taxes (E.I.T.) or to create an E.I.T. for public school funding. This would have relieved some of the property tax burden. SB30 then went to the Pennsylvania House where it was amended, but ultimately defeated.

Pennsylvania House Republicans Mario Scavello (Monroe County) and Kerry Benninghoff (Centre and Mifflin Counties) crafted a property tax relief plan that the House amended into Senate Bill 854. On December 20, 2005, the House passed the bill. The Pennsylvania Senate will vote on the bill, and if it ratifies SB854, then Gov-

*(Continued on page 3)*

## Is TV to Blame? by Jaime Varjian

The Center for Science in the Public Interest (CSPI) is suing Nickelodeon, claiming it played a major part in packing the pounds on America's youth. This public-interest group wants to ban food manufacturers from advertising on the network and using the characters from children's shows to market their products. Experts compare using SpongeBob to sell sugary snacks to using a cartoon camel to sell cigarettes.

The key to Nickelodeon's financial success is its strength in marketing to children. Food advertising accounts for almost 20% of Nickelodeon's \$1 billion dollar advertising revenue. The network has already faced cutbacks from major advertisers such as Kraft, who was proactive in cutting back its advertising to children in fear of lawsuits such as this one.

Nickelodeon says it has tried to educate children and families about healthy lifestyles. A food industry-backed group says that parents should control the food they buy, and they can always turn off the television.

(Continued from page 1)

CBS-owned affiliates that will become CW affiliates will cover 48% of the country including 20 of the top 25 markets. Here's how it looks so far: The sixteen Tribune stations adopting the CW logo are in New York, Los Angeles, Chicago, Boston, Dallas, Washington, Houston, Miami, Denver, St. Louis, Portland, Indianapolis, San Diego, Hartford, New Orleans and Albany. The CBS markets include Philadelphia, San Francisco, Atlanta, Detroit, Tampa, Seattle, Sacramento, Pittsburgh, West Palm Beach, Norfolk, Oklahoma City and Providence. Subsequent CW converts will take that coverage up to 98% of the U.S.

At this time, those additional affiliates are being courted with many different scenarios playing out in those markets. For example, in Dayton, WHIO-TV7-CBS/UPN and WBDT-TV26-WB are in heated competition to land the new parent while in LaCrosse, it is already decided that WXOW-TV will become the CW affiliate and WQEG-TV will relinquish its UPN affiliation and go independent immediately, not waiting until the fall demise of the network. In Odessa, KOSA-TV, a UPN and CBS affiliate, is cablecast while the WB station KWWT-TV30 is broadcast.

They are not sure if the CW will want the over-the-air or cable station. Whichever remains unattached can become independent.

The hard-hit FOX Network owns nine UPN affiliates and began the separation process soon after the announcement by removing the UPN identity from its on-air promotions. Fox-owned UPN stations include WWOR/New York, KCOP/Los Angeles, WPWR/Chicago, WDCA/Washington DC, KTXH/Houston, KUTP/Phoenix, WFTC/Minneapolis, WRBW/Orlando and WUTB/Baltimore. At this time, FOX is not looking to pick up the the CW in Minneapolis, Orlando, Baltimore or Phoenix where there are no Tribune- or CBS-owned stations. It is planning to launch an unwired programming service to help fill primetime hours once the UPN affiliation disappears. Breaking News: News Corp., owners of the FOX network, just announced plans for the creation of MyNetorkTV, an unwired programming service to help fill primetime hours once the UPN affiliation disappears. Look to see FOX's new telenovela *Desire* in that primetime lineup.

Sinclair Broadcasting has 18 WB and six UPN affiliates, owning both in Birmingham, Milwaukee, Nashville and Raleigh. While Sinclair is likely to get the CW affiliation in a majority of its markets, eight of their stations will have no affiliation.

For some stations, this is a devastating situation because going independent in a more highly competitive market with the explosion of cable could sound the death knell. Will the FCC consider allowing sales to create duopolies rather than letting stations go dark?

As far as programming, the CW has proclaimed a commitment to cultural diversity. Programming will take its cue from WB with M-F 8-10pm, Sun 5-10pm, and M-F 3-5pm and finally, a Sat 7a-12n animation block. Popular UPN shows will remain, including *Everybody Hates Chris*, *Veronica Mars*, *WWE Smackdown*, *America's Next Top Model* and *Girlfriends*. WB shows that will stay include *Gilmore Girls*, *Beauty and the Geek*, *Supernatural*, *Smallville* and *Reba*.

It will be a most interesting year in television as the CW struts its stuff at the upfront, as some stations begin to function independently or struggle to survive and as researchers track audience migration. Additionally, the CW may be well-positioned to go after the tech-savvy 18-34 demographic as an ideal proving ground for the new direct-to-consumer digital distribution options. On the other hand, the CW may stick with traditional broadcasting until it is firmly established. "Eh...that's all folks!"



*(Continued from page 1)*

error Ed Rendell's signature will make it law.

What's the uproar in the business community about a law that can reduce school property taxes by some 50%? The Pennsylvania House Republican Caucus website lauds the Scavello-Benninghoff plan as "the first real meaningful property tax reform measure in our state's history."

**SB 854 "would keep the sales tax at 6% but slightly expand the items taxed"**

The Republican website also mentions that the plan "would keep the sales tax at 6% but slightly expand the items taxed . . ."

What's a 'slight' expansion of the items taxed? The bill expands sales taxable items to include candy, gum, and personal hygiene products, but didn't most Pennsylvanians think those items were already taxed? A tax on chewing gum won't devastate Pennsylvania's economy. What are these business groups griping about?

There are many other items that would be subject to the 6% sales tax. Many of these items caught the business community off guard.

Advertising would be one of the 'slight' expansion items subject to the sales tax; so would some other major business activities. The 6% tax on advertising would generate \$419.4 million in fiscal 2006-07; \$680.0 million would be generated with the tax on 'management, consulting and public relations,' and \$74.5 million would result from the sales tax on 'catalogs and direct mail advertising.' Sales taxes on management, consulting, public relations, advertising, catalogs, and direct mail will account for 46.8% of the new revenues.

Why the uproar? The question should be 'why isn't the uproar louder?' To someone working in one of the affected industries, SB854 seems to arbitrarily select certain business sectors to tax. Accounting services are still exempt, as are attorney services — did anyone think a legislative body would tax its lifeblood? But the business community's uproar about SB854 goes beyond just the affected industries. This tax will be a drag on Pennsylvania's economy.

The theoretical economic philosophy for a sales tax is to place the tax burden on the consumption of the final product or service. A sales tax on items that go into manufacture or distribution of the final item has a pyramid effect — that is, the final consumption item is not only taxed at the checkout line, but its components are taxed at each step in the process. For example, the final price on a pack of gum would include the 6% tax at the cash register, plus the sales taxes that the manufacturer

would have paid on the ingredients, the packaging, the shipping, and the local advertisement. Any sales tax is non-progressive; that is, the poorest person pays the same 6% as the wealthiest person. By pyramiding a sales tax, a greater burden is placed on those consumers who can least afford it.

If Pennsylvania's tax code creates a pyramid sales tax, the cost of goods and services will be higher in the Commonwealth. The business community fears that this will give nearby states a big competitive advantage as all goods and services would be cheaper in neighboring states. The cost of living will go up in Pennsylvania, affecting all residents. The state would be a less desirable place to live. It would be a less desirable place to start a business or expand an existing one.

While SB854's sales tax would harm Pennsylvania's overall economy, it would be devastating for the industries directly affected, like advertising. It would give advertising and public relations firms with offices outside the Commonwealth a very big competitive edge over the ones within the state. These Pennsylvania firms could lose clients to out-of-state competitors. SB854 gives Pennsylvania agencies a very good incentive to leave the state. What's to keep Pennsylvania-based media outlets from moving? Wouldn't New Jersey love to be home to Philadelphia's television and radio stations (the Garden State is already home to New York City's NFL teams)?

When the Pennsylvania House passed SB854 in December 2005, it caught the business and advertising community by surprise. Since then, the Association of National Advertisers (ANA), the American Association of Advertising Agencies (AAAA) as

*(Continued on page 4)*

**Around the Coffee Machine**

**A Completely Unscientific Survey of Harmelin Media Employees...  
This Month's Question:**

**Have you ever voted for an American Idol contestant?**

**No 65%**

**Yes 35%**



*(Continued from page 3)*

well as many Pennsylvania ad agencies and media outlets have lobbied against SB854.

The ANA argues that other states have enacted taxes on advertising with dire consequences. Arizona, Iowa, and Florida had passed such legislation only to repeal the tax after the drag on the state's economy became evident. Furthermore, these states found the advertising tax difficult to administer. Many questions arose about what constitutes 'advertising.' For example, does a brand name logo on a piece of clothing qualify as advertising? Delivered on January 4, 2006 before the Pennsylvania Senate's Committee of Legislation, written testimony from the ANA maintained that "a study by Global Insight found that applying the 6% sales tax on advertising would decrease sales by \$14.8 billion and cost the state 64,040 jobs." The Committee of Legislation also recorded that it received correspondence from Harmelin Media opposed to SB854. No state currently has a sales tax on advertising (although a few cities, like Phoenix, have such a tax, as well as Philadelphia's sales tax on just outdoor advertising).

SB854 has yet to be brought to a vote by the Pennsylvania Senate. Many Pennsylvania business groups, as well as Harmelin Media, want the Senate to reject the statute in its present form. The advertising tax will have disastrous consequences for the industry.

Would the generated revenues result in any meaningful reduction in property taxes? Gregory Fajt, Secretary of Pennsylvania's Department of Revenue, testified that Pennsylvanians will pay about \$10.3 billion in property taxes in fiscal 2006-07. To eliminate school property taxes, the Commonwealth could raise the personal income tax to 6.34% or raise it to just 5.93% but increase the existing sales tax to 7%. He argues that SB854 will raise \$2.1 billion in fiscal 2006-07, but promises \$2.5 billion in property tax relief. That's a \$379 million shortfall already! He further argues that SB854 will result in substantial administrative costs that have yet to be calculated. SB854 would be off to a bad start.

If Pennsylvania wants to reduce school property taxes, don't do so at the expense of the state's economy. Don't fund it by taxing certain industries, like advertising, which will certainly drive many out of state (or out of business).

As Pennsylvanians look forward to the upcoming fall elections, here's a proposal. Let's put a hefty tax on political ads in the state. Say 500% or even 5000%. Enough to entirely fund the public schools. What's the worse that could happen? No political commercials?

## Harmelin Media Welcomes Nailite International

Harmelin Media is pleased to announce that through our partnership with The Brownstein Group, we have been named the media planning/buying agency for Nailite International. Nailite International, headquartered in Miami, Florida, is a manufacturer and distributor of residential and commercial siding. Nailite has perfected the art of manufacturing replica brick, stone, and cedar specialty siding. Nailite's beautiful and long-lasting panels are a great choice for new housing construction, home remodeling, or architectural accent projects.

Nailite's siding panels are made with an injection-molding technology and a proprietary coating process. The siding comes in several varieties including Rough Sawn Cedar, Hand-Split Shake, Cape Cod Perfection, Hand-Laid Brick, and Hand-Cut Stone. Nailite siding is available from contractors and quality dealers across the country. Harmelin Media, together with The Brownstein Group, looks forward to a long-lasting relationship with Nailite International.



## THE HARMELIN MEDIA REPORT

Published by Harmelin Media

525 Righters Ferry Road,  
Bala Cynwyd, PA 19004  
(610) 668-7900

CEO: Joanne Harmelin  
Editor: Terry Maher

Visit our website at [www.harmelin.com](http://www.harmelin.com)