**Fairness and price caps: Patrick legacy**

How much longer Dennis Patrick will stick around as chairman of the FCC is anybody's guess, but he could step down tomorrow secure in the knowledge that he has left his mark on the Fifth Estate.

In August 1987, just four months after succeeding Mark Fowler as chairman, Patrick led the agency's repeal of the fairness doctrine—a move that to this day has soured his relations with Congress. Congress or the courts may yet overturn the action, but the FCC action pushed the First Amendment protections of broadcasting further than ever before.

Last week Patrick and his two fellow commissioners introduced the country to a new form of telephone regulation: price caps. The FCC will substitute limits on prices for traditional rate-of-return regulation of AT&T on July 1, and, if all goes well, it will extend the scheme to the federally regulated services of local telephone companies a year later.

The repeal of the fairness doctrine and price caps—which were, incidentally, proposed the same day fairness was repealed—may well be the twin pillars of the Patrick legacy.

The price cap vote attracted just as much media attention as the fairness doctrine repeal, and it is likely to have a far greater impact on the public. According to the FCC's calculations, the new regulatory regime will save AT&T $900 million over the next four years. As Patrick put it, the caps will give telephone companies a real incentive "to cut, innovate and be more efficient."

And to make sure the savings from the cost-cutting are shared with customers, the caps will come down each year.

Patrick's handling of price caps shows how much he has grown politically in his two years as chairman. He went ahead with the repeal of the fairness doctrine in spite of Congress. He brought price caps to a vote only after he arrived "at a substantial consensus" with Congress. The interaction with Congress concerning price caps was "absolutely unprecedented" in his experience, he said, and it resulted in substantial and positive changes.

Congress accepted the price caps in the end, but skepticism lingers. Congressional leaders were planning last week to introduce legislation that would require the FCC to monitor closely the impact of price caps. "Trust, but verify" was the watchword on Capitol Hill.

Price caps put Patrick in the media spotlight. He spent the afternoon following the vote with reporters, and the next morning he appeared on ABC's Good Morning, America.

After all the attention, Patrick left for a one-week vacation. What happens after that, only Patrick knows. And he isn't talking.

**Knight-Ridder's legacy: more meager multiples**

Near-complete station group sale has observers examining trends in station pricing

Last week Adam Young agreed to buy WTNH-TV Albany, N.Y., from Knight-Ridder for an estimated $38 million. With contracts signed for seven of Knight-Ridger's eight stations, and negotiations said to be under way to sell the eighth, WRTI-TV Flint, Mich., to George Lilley and TA Associates, the assessment of the biggest station transaction so far in 1989 was under way.

Industry assessment of the prices Knight-Ridder obtained—the total appears to just exceed $400 million—was by no means unanimous. But a number of current and recent sellers who commented agreed with buyers that the largest transaction of 1989 indicated a slight dampening of station multiples—the station's sale price divided by its cash flow. How important and how reversible such a movement in the multiple appeared depended on what scale and time frame one used in charting the movement.

Narragansett Capital Inc. has been both a recent seller (KQBU-TV Sacramento, Calif.) and buyer (WPRI-TV Providence, R.I., and WTKR-TV Norfolk, Va.), Gregory Barber, managing director of the Providence-based firm, said it appeared that "multiples are coming in more at 11-13 times [cash flow], compared to 12-14 or 15 times previously."

At least a few particulars of the Knight-Ridder transaction made it a less-than-perfect litmus test of the marketplace. Price multiples from the sales were being expressed relative to 1988, or "trailing" cash flow—the convention of recent years had been to use current or next-year cash flow, almost always higher. Further confusing the issue is that at least a few of the stations are said to expect lower cash flow in 1989.

Adding further confusion is the effect of rising interest rates on station prices. The increase in banks' cost of funds and their changing perception of the affiliate station business might have led them to deny financing to some would-be bidders, thus reducing the pool of buyers.

But several veteran observers dismissed any significant effect of interest rates on transaction multiples. Ron Beck of Morgan Stanley said that while the prime rate is up several percentage points over a year ago, rates for junk bonds, which apply to many media securities issues, have changed little over the past year. Also agreeing that interest rates played little role in dampening station multiples was Barber: "Rates going up implies inflation, and nothing is better as an inflation-hedge investment than advertiser-driven television."

Thus the major factors influencing buyers' perceptions and bids are said to be industry fundamentals, including slower advertising growth and possible reductions in affiliate compensations. Broadcast Investment Analysts estimated that 1989 revenue growth in the eight Knight-Ridder