
# The Road Ahead for Media Hybrids:

## Report of the Duke Nonprofit Media Conference, May 4-5th

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The Duke Nonprofit Media Conference was sponsored by the DeWitt Wallace Center for Media and Democracy, the Duke Center for Strategic Philanthropy and Civil Society, and the Duke Center for the Study of Philanthropy and Voluntarism

The Duke Nonprofit Media Conference on May 4-5, 2009 brought together a working group of nearly forty leaders from foundations, nonprofits, commercial media, and academia to examine two questions:

What are the hurdles to nonprofit or foundation ownership of media outlets?

What are the hurdles to nonprofit or foundation subsidies for the creation of public affairs information?

The conference began with the premise that greater support from the nonprofit sector is one of many avenues to explore for ways to support watchdog and accountability coverage. The conference did not focus on the broader question of new business models for news organizations. Topics such as the desirability of micropayments, behavioral targeting in advertising, and variation in the print frequency and prices of newspapers were left for another day. To focus attention squarely on the questions arising with nonprofit media, the conference organizers solicited six discussion papers that were distributed prior to the conference:

*Bad Public Relations or Is This a Real Crisis? YES* by Lauren Rich Fine

*Financing the American Newspaper in the Twenty-first Century* by Richard Schmalbeck

*A Nonprofit Model for The New York Times?* by Penelope Muse Abernathy

*Subsidizing the Watchdog: What Would it Cost to Support Investigative Journalism at a Large Metropolitan Daily Newspaper?* by James T. Hamilton

*The First Draft: Emerging Models of Regional and State Non-Profit Investigative Journalism Centers* by Brant Houston

*A Donor Collaborative to Support Not-for-Profit Public Affairs Journalism* by Joel Kramer and Jon Sawyer

The best way to understand the issues raised at the conference is first to read the discussion papers, which are presented in Appendix 1. After you've read the background papers, this report will give you a sense of what the conference participants focused on in discussions prompted by the papers. Appendix 2 provides a short description of the conference participants and the conference agenda. This report focuses on four themes that frequently appeared in the discussions: why is there a problem with sustaining watchdog or accounting ability coverage; why may the nonprofit sector offer one way to support this type of public affairs reporting; what is the range of nonprofit media alternatives; and how specifically can foundations, nonprofits, and government foster greater experimentation in nonprofit media provision.

Three centers at Duke came together to sponsor this conference: the DeWitt Center for Media and Democracy (James Hamilton, Director); the Duke Center for Strategic Philanthropy and Civil Society (Ed Skloot, Director); and the Duke Center for the Study of Philanthropy and Voluntarism (Charles Clotfelter, Director). The Centers' faculty and staff would like to thank the conference participants for sharing so many insights into the how the nonprofit sector may play a larger role in sustaining the watchdog function of journalism.

## *What is the market failure?*

Most financial indicators in the journalism industry currently point in discouraging directions. Lauren Rich Fine, in her aptly titled paper *Bad Public Relations or Is This a Real Crisis?: Yes*, recounts the challenges facing newspaper companies: print circulation is declining, classified ads have migrated to websites such as Craigslist, and retail ads are diminished by the great recession, consolidation in retail stores, and ability of firms to reach customers through many other outlets beside the local paper. This drop in revenues has brought a precipitous drop in media company stock prices, profit rates, and newspaper staffing levels. Though profits remain relatively high in some smaller markets, these papers are less likely to have strong traditions of accountability and watchdog coverage. While many large metropolitan papers with traditions of investigative journalism are still profitable, the large amount of debt owed by parent companies who made ill-advised acquisitions means even profitable papers are cutting staff to pay off these debts.

Conference participants often pointed out that attention to the products of newspaper firms was at an all-time high, because of free access to stories provided on the web. They noted that the crisis in journalism was essentially a crisis of business models, with the unanswered question being what will replace the once steady stream of classified and retail ads generated by print audiences. If newspapers were like goods sold in perfectly functioning competitive markets, changes wrought by technology and business cycles could simply be viewed as a painful process of creative destruction. Firings and closings would occur, but eventually the level of information valued by customers would be provided in new formats through new business models. By this reasoning, the public's interest would define the public interest.

Much of the discussion at the conference centered on the threats to watchdog coverage at the local level precisely because participants believed the market would not adequately sustain this type of journalism. The economic reasoning behind this worry is straightforward. Newspapers provide information that meets many different types of demands. As producers, people want information that helps them at their jobs. As consumers, they want to know what products offer the best value at what prices. As people in search of entertainment, they want to know stories and facts that are simply enjoyable to read and follow. The markets for these three types of demands—producer, consumer, and entertainment – work fairly well. If you don't seek out and consume the information, you don't get the benefit. So most people will look to the media to find information that helps them do their jobs, buy products, and stay entertained.

Coverage of the school board, city council, or state capitol serves a different information demand, that of a voter. A rational voter may realize that investing the time to read what's going on in local or state government does not pay, in a strictly cost-benefit sense. If you're about to buy a car, time on Edmunds.com can help you get a better car. If you're thinking about casting a vote in a local election, however, the time you spend in learning about issues or candidates does not change the winner of the race. The low probability you will be the decisive voter means that the cost of becoming informed outweighs the benefits from becoming informed. Even if you care about an issue a great deal, the probability your political actions will make a difference in its resolution means the expected value of becoming informed is negative. Most people choose, in the words of economist Anthony Downs, to remain rationally ignorant about the details of politics.

There is a market for political coverage. Some people believe they have a duty to vote, which translates into a duty to keep informed about politics. For some people CSPAN is like ESPN, with the details of policies being inherently interesting. Some people will pay attention to political coverage if you make it about human interest, e.g., politics as a horse race or a scandal. Yet even if you add these three demands for information together, this will not translate into the optimal demand for public affairs reporting. Many people who benefit from the changes in public policy that come from accountability coverage will still have the incentive to appreciate that the stories are there, but skip the chance to read or pay for these articles. This sets up a gap between what people need to know as citizens and what they want to know as readers.

Newspapers cannot fully capture the value of the positive spillovers on society from their watchdog or accountability coverage. When individuals or families owned media companies, some were willing to provide more than the profit-maximizing amount of public affairs coverage. This gave them the warm glow of altruism and the satisfaction of providing a public good. Even within publicly traded stock companies, when profits were high managers could afford to do well and do good at the same time by indulging a preference for stories read by a few but valued by many because of their policy impacts. In the Internet era, however, the decline of profits means that media firms are less willing or able to subsidize the provision of news about government.

Accountability journalism, in the form of watchdog beat reporting or investigative projects, can be highly expensive. In a world where a story's value is measured by eyeballs attracted (and monetized through subscriptions or advertising), this type of public affairs coverage is at risk. While most conference participants expressed concern about the levels of watchdog coverage likely to survive in the currently turbulent media markets, the question quickly emerged about why nonprofits might offer a solution to this problem.

Why would nonprofit support help remedy the market failure involved in watchdog coverage?

Economists call the positive spillovers which some goods have on society positive externalities. As the term implies, the benefits created are outside of the revenues that flow to the firm creating the good. Goods producing positive externalities will be underproduced because the firm cannot capture through the pricing system the full value of what it is creating. In some cases, the nonprofit organizational structure offers a way to increase the provision of the underprovided good.

Watchdog coverage is a classic case of a product with positive externalities. A newspaper company can gain subscriptions and advertising revenues from selling the attention of people reading accountability stories. The benefits to society arising from changes in public policy, such as the increase in education levels or rise in public safety arising from stories about schools or probation systems, are not reflected in a paper's bottom line. If a news organization were operated as a nonprofit, this organizational structure could increase support for watchdog coverage for the following reasons:

1. The tax deductibility of donations to a nonprofit media outlet would lower the cost to readers and listeners of supporting coverage of public affairs. This would reduce the flow of tax revenues to the government but allow individuals to direct these resources to media outlets they valued. Given the concerns about the First Amendment and government influence in involved in direct government sponsorship of media outlets, the tax deduction allows individuals who believe in nonprofit media to contribute to the version of the public good they value (e.g., the type of public affairs coverage they believe should be produced).

2. If a news organization's revenues exceed its costs, the nonprofit status means that part of the excess would not flow back to the government in the form of business taxes. The excess funds could be reinvested in the quantity and quality of coverage provided by the news organization.

3. The nonprofit status serves as a signal to potential donors about what the funds will be spent on and the incentives of the firm's managers. In ideal for-profit structures, managers will have the incentive to maximize profits. If accountability or watchdog coverage of public affairs is not profit-maximizing, then a person contributing to the operation of a for-profit organization might worry about how the funds would be used. Managers might have an incentive to cut costs of coverage, especially if this led to higher bonuses. Managers might also have the incentive to vary the mix of stories provided in a way that maximized advertising revenues but reduced the policy impact of the coverage. The nonprofit status of an organization lets donors

know that the managers and journalists hired are more likely to be the type to focus on maximizing impact and import rather than maximizing financial returns.

4. The nonprofit status allows a diverse set of people to pay different prices for the creation of a good they jointly value. Consider that when a single family owns a paper, the members of that family pay the price for providing amounts or types of public affairs coverage that go beyond profit-maximization. If a newspaper is run as a nonprofit, that family and others within the community can share the cost of contributing to public affairs coverage. The amounts they contribute will vary, and the incentive provided by the tax deductibility will vary too. Those making large donations will get larger deductions. The nonprofit status in effect is a way to transfer the burden of supporting extensive levels of accountability coverage from a particular family (e.g., the Sulzbergers, Grahams, or Blethens) to a larger set of people who value and benefit from the positive spillovers generated by the reporting.

## *The Range of Media Hybrids*

Much of the discussion at the conference focused on the different ways to generate support for accountability or watchdog coverage at the local and state levels. Four distinct types of media hybrids emerged in the discussions: media organizations run as nonprofits; media companies organized as low- profit limited liability corporations, denoted in conversation by the acronym L3Cs; for-profit media outlets with "affiliated" nonprofit investigative funds; and for-profit media firms who accepted funds from foundations and nonprofits to support particular areas of coverage. The participants referred to these different structures as media hybrids because each combined some elements of private market support (e.g., advertising revenues) with some elements of philanthropic support (e.g., tax-deductible donations from individuals, or grants made by foundations). With the papers in Appendix 1 offering granular details on these different hybrids, the conference discussions explored the relative advantages and disadvantages of these models.

### *Nonprofit Media Outlets*

*Stand- Alone Startups:*

Joel Kramer of *MinnPost* and Margaret Freivogel of *St Louis Beacon* each described how their news organizations as web only startups focus on local public affairs coverage. According to Kramer and Sawyer's paper *A Donor Collaborative to Support Not-for-Profit Public Affairs Journalism*, *MinnPost* has an annual budget of $1.2 million and more than a dozen staff members and *St. Louis Beacon* has a $1 million dollar budget and a staff of 17. Each is run as a nonprofit (501(c)(3)) that provides local coverage not available in the daily metropolitan newspaper in the city. To demonstrate the feasibility of a nonprofit local news site, Kramer has raised foundation grants. News products are experience goods, in that it is hard to know what they contain unless you consume part of them (e.g., experience them). Foundations like to fund demonstrations projects, whose success can show the feasibility of an idea or approach that can then be replicated elsewhere. Kramer sees the national foundation support as transitory. He hopes to eventually have a sustainable business model for *MinnPost* that involves covering the costs of operations through memberships (from both small and large individual contributors), advertising, fundraising events, sponsorships, and possibly other earned revenue streams such as syndication. Once the site was covering operations costs through these revenue streams, foundation grants might only be sought for new experiments or special one-time projects.

These stand-alone sites supplement, rather than substitute for, metro newspaper coverage. Their advantages include an ability to focus on public affairs beats that have been slighted by for-profit media , freedom from the debt burdens forcing staff reductions at many newspapers, and ability to hire experienced reporters recently laid off from metro dailies. As nonprofits they do not have the ability to endorse political candidates. Joel Kramer points out, however, that *MinnPost* does provide space for many different opinions to be aired about public affairs so that readers can find news plus distinct perspectives on local politics at the site.

Stephen Engelberg, the managing editor of ProPublica, spoke at the conference about how this nonprofit site measures success. Funded with an initial promise of $30 million of support over three years by the Sandler Foundation, and supported by additional funding from foundations such as Atlantic Philanthropies and the MacArthur Foundation, ProPublica now has a staff of 32 journalists focused on national investigative stories. The site does not have an editorial or opinion section. It partners with for-profit media outlets to gain greater circulation for its stories, which are also posted on the website www.propublica.org. Engelberg encourages reporters to aim for stories with impact, encouraging them to think about what letter to a public official a reader might write after being reading a ProPublica investigation. The current annual budget of $10 million is designed to yield about 50 deep-dive stories a year. He indicates that the organization is already starting to plan about how to develop a sustainable model, which could involve building an individual donor base similar to public media and expanding the set of foundations and high net worth donors beyond the initial set of backers.

*Investigative Reporting Units at Universities*:

In his paper *The First Draft: Emerging Models for Regional and State Non-Profit Investigative Journalism Centers*, Brant Houston describes the growth at universities of investigative reporting units focused on regional and state issues. He cites two recent examples as the Wisconsin Center for Investigative Journalism at the University of Wisconsin and the New England Center for Investigative Reporting at Boston University. Also frequently mentioned at the conference were the Investigative Reporting Workshop at American University, Schuster Institute at Brandeis, and the Stabile Investigative Journalism Center at Columbia University.

Investigative centers at universities are often either situated in the journalism department or operated as stand-alone nonprofit entities. The journalists involved may teach classes at the university, act as mentors to students and interns, and help produce projects with students that gain wide circulation through partnerships with local commercial media. The schools gain by training students, and by contributing to community affairs through the development of the investigative reports. One potential problem involves libel liability, which may rest with the commercial publisher, or the stand- alone reporting nonprofit, or the university depending on how the report is produced and released.

*Traditional newspaper transitioning to a nonprofit:*

The declining staff, diminishing page counts, and dwindling (and in some cases disappearing) profit rates at metro dailies have increased discussion of the possibility of transforming some daily papers into nonprofit entities. *The St Petersburg Times*, a for profit newspaper owned by the Poynter Institute (a nonprofit journalism education entity), is often discussed as one example of nonprofit ownership. Yet the origins of this arrangement, Nelson Poynter's willingness to give away his ownership interest in the paper to create a nonprofit, may make it difficult to replicate.

In his paper *Financing the American Newspaper in the Twenty-First Century*, Richard Schmalbeck points out that the positive educational spillovers generated by newspaper coverage of public affairs should qualify publishing a newspaper as a charitable purpose. To date the IRS decisions relating to this question appear relatively discouraging. The bill recently introduced by Senator Cardin to amend the IRS code to allow certain newspapers to operate as 501(c)(3) nonprofits has sparked debate about the best way for the government to permit the operation of papers as nonprofits. Drawbacks of the Cardin bill discussed at the conference included its requirement that a paper contain local, national, and international news and its apparent requirement that the news product be published in print as a general circulation newspaper. Lawyers at the conference specializing in nonprofit operations believed that legislation might not be required in this area, if the IRS were willing to provide clarity on newspapers or other news enterprises operating as nonprofits by issuing a guidance ruling.

*Public Media*:

The growing audience size for NPR is evidence of the interest people have in public affairs coverage provided by public broadcasting. Andrew Haeg, one of the founders of the Public Insight Journalism network developed by American Public Media and Minnesota Public Radio, discussed at the conference how public radio stations were using information provided by listeners to crowd source stories. Conference participants noted that traditionally local public radio stations were not known for doing local watchdog or investigative pieces. Yet some of the nonprofit stand-alone operations doing investigative work view public radio as a natural partner for their work, since this wider platform offers a way to reach a bigger audience. Stephen Engelberg noted that ProPublica and WNYC had collaborated to produce a site, www.shovelwatch.org, devoted to tracking how stimulus funds are actually spent and how stimulus projects play out at the local level.

*Nonprofits Providing Media Inputs:*

Conference participants noted that nonprofits working on public affairs issues are increasingly providing their own data, research, reports, and even stories to fill the void created by reductions in traditional media coverage. Human Rights Watch issues reports that become the basis of stories by journalists who lack the resources to do their own investigations in many countries. Surveys and research sponsored by the Pew Charitable Trusts on media, global warming, and state policies regularly become the basis of reporters' articles. The Kaiser Family Foundation has taken this process one step further by creating Kaiser Health News. The Foundation has hired journalists and free-lancers to write about health care in the US, including the development of health care policy in Washington. The stories are available on www. Kaisernetwork.org and are made freely available to news organizations. With commercial media reducing the number of reporters covering many policy beats, information provided by nonprofits involved in policy formation may provide some coverage of issues once reported by professional journalists working in media organizations.

## *Low-Profit Limited Liability Company (L3C)*

The L3C organizational structure appears tailor-made for a news organization, though the relatively recent vintage of this innovative structure means that to date no media company has organized as a L3C. As Richard Schmalbeck details in his paper (see Appendix 1), Vermont became in 2008 the first state to pass legislation allowing the creation of a new type of business called the L3C, the low-profit limited liability company. Essentially, the L3C is designed for a firm that serves educational or charitable purposes. In the language of economics, an L3C would be a firm that generates significant positive externalities and could have trouble attracting capital because of its low profit rate.

Consider how a metro daily might make the case for L3C status. The newspaper is really a portfolio of stories serving many information demands: producer, consumer, entertainment, and voter. Current structural trends (e.g., demise of classified ads, drop in circulation) and cyclical trends (e.g., drop in retail advertising) mean low or negative returns for papers in some markets. This puts pressure on papers to cut accountability or watchdog coverage, in part because of its great expense and in part because the benefits it generates for society do not transfer readily into subscription or advertising revenue. Yet if the paper were organized as an L3C, it might attract three different types of investors who placed different weights on the company's private and social returns.

Under the ideal operation of the L3C structure, local foundations concerned about civic life in a city would make a program-related investment (PRI) in the L3C. These are investments made with an eye to furthering the foundation's charitable mission, rather than meant to maximize returns for the foundation. Note that foundations making a PRI now often seek a ruling from the IRS, that will come with significant legal costs. If federal legislation were passed that required the IRS to give an expedited answer to a proposed PRI in a L3C, and if the L3C form itself were a strong signal to the IRS of the charitable nature of the organization, then foundations might be more willing to support investment in the L3C. Donations to the foundation by individuals, in turn, would be tax deductible, so that people desiring to help a local news organization could get a tax deduction by donating to the supporting foundation. The foundation, which might be a community foundation pooling the donations of local readers, could stipulate that it would only accept a low rate of return on this investment.

A second or mezzanine tier of investors could be publicly spirited, high net worth individuals in a city who were willing to invest in the L3C. They might state up front a willingness to accept a lower than market rate of return on their investment, in part because they value the role the newspaper plays in the city's civic life. The third type of investors would be those simply focused on financial returns. Note that if the first two layers of investors are willing to accept a low rate of return because they value the externalities generated by the paper, this raises the effective return for the third set of investors. Even though overall profits for the firm would be low, the return for the third set could be at the market rate because of the lower claims made by the foundation and publicly spirited investor sets.

The L3C offers many advantages. The mixed set of investor expectations matches the mixed types of returns that newspapers offer. Great uncertainty surrounds the current state of newspaper markets. Foundation investments, tax-deductible donations from individuals to the investing foundations, and investments by local philanthropists offer a way to sustain watchdog coverage. If a newspaper veered from this type of accountability journalism, it would engender less public support. If high rates of profits returned to the industry, they would be taxed as they were distributed to investors.

The hurdles surrounding the adoption of the L3C currently involve policy uncertainty. The IRS has not strongly signaled that it would accept a newspaper as serving a charitable or educational purpose. The question of getting a PRI for an L3C might require IRS approval on a case by case basis, with delays and legal costs being potentially high. This uncertainty may be reduced, however, if a media organization is willing to bear the risks and costs of seeking to organize as an L3C. Guidance rulings by the IRS or congressional action on nonprofit newspaper legislation, and federal legislation requiring the IRS to quickly render decisions on proposed PRIs in L3Cs, would also help reduce uncertainty about the L3C structure.

### *For-Profit Media Outlet, with "Affiliated" Nonprofit Partner*

Another way to recognize and support the positive spillovers generated by a commercial news organization would be to develop a nonprofit fund to support accountability/investigative work that was published by the for-profit media outlet (and made available elsewhere too). A recent version of this structure is the Huffington Post Investigative Fund. This is a stand-alone nonprofit entity, with Arianna Huffington as the Chair of the Advisory Board and Nick Penniman of the American News Project as the Executive Director. It is funded by donations from the Atlantic Philanthropies and the Huffington Post. As a nonprofit, the Investigative Fund can accept tax-deductible donations and get grants from foundations interested in supporting watchdog reporting. The stories generated will gain wide circulation by being published on the Huffington Post website. In order to make sure that this relationship is not seen as a "private benefit" to the Huffington Post, the stories would also have to be immediately available for use by other news organizations. The sharing of the stories widely without any favoritism toward funders (e.g., the Huffington Post) would make it more likely that the IRS would allow the Investigative Fund to maintain its nonprofit status.

Conference participants noted that the Nation Institute is another example of a nonprofit whose work benefits for profit-media outlets. The Nation Institute is a 501(c)(3) public foundation that accepts tax deductible donations to support the conferences, journalism fellowships, investigative research, and internships that it sponsors. The interns often work at *The Nation* magazine, a for-profit entity. The work of the journalism fellows is often published in the magazine, and in other independent press venues. Note that *The Nation* magazine also solicits donations, which are not tax-deductible, from readers. Those giving at least $35 are called Nation Associates and enjoy extra membership benefits. Those who give at least $500 are called Loyalists, and they receive a free subscription, a collection of books, and are recognized in the magazine.

### *For-Profit Media Outlet, with Subsidized Content*

If the prime market failure in local news provision involves watchdog or accountability coverage, then one possible solution to sustaining this coverage is for nonprofits and foundations to subsidize the creation of this information by commercial news outlets. In *Subsidizing the Watchdog: What Would it Cost to Support Investigative Journalism at a Large Metropolitan Daily Newspaper?,* I use a case study of the Raleigh *News and Observer* to illustrate how content subsidies might work. Assume that you were a nonprofit or foundation in North Carolina's Research Triangle area interested in supporting coverage with positive spillovers on society. You might be interested in education, environment, or good government and be willing to support expanded coverage of schools, environmental agencies, or city council hearings.

In the paper presented in Appendix 1, I estimated what different levels of grants to the *News and Observer* would cost. A beat reporter for one year might cost $61,500 to support, while funding a dedicated page each week would cost $106,000. A three part investigative series taking 6 months to research would cost $200,000, while a fully funded investigative unit for a year would be $500,000. Funders might have multiple concerns in providing such grants to the paper. In making the grants (which the paper might prefer to be for a duration of two years), there would be uncertainty about the exact type of stories that would be produced. Especially in investigative reporting, it is hard to specify what types of stories will be discovered and produced. The foundation or nonprofit would also want to structure the support so that it generated new, additional reporting. If the grant were not targeted for incremental hiring of reporters, then the parent company of a newspaper might simply encourage the local publisher to accept the funds, link them to coverage already envisioned, and send the additional money to the parent company to pay off debt.

In considering whether to accept outside support for coverage, editors and publishers of metro dailies such as the *News and Observer* would consider a number of issues. Work supported by foundation funding would need to carry a note acknowledging this to ensure transparency. A paper might only accept support from nonprofits and foundations that are viewed as nonpartisan. In negotiating the terms of support, the paper's editors would be careful to avoid promising particular stories or outcomes of coverage. Though determining whether and how to accept support runs against the grain of many reporters, the dwindling market support for accountability stories raises the question of which is less desirable: engaging in difficult discussions that lead to expanded funding for watchdog journalism, or avoiding the potential for conflicts and (simultaneously) letting support for investigative work decline.

## *Making Bets on Organizational Forms*

Editors from struggling newspapers, foundation officers concerned about the flow of information about local and state public affairs, and media web entrepreneurs all face decisions about what forms of media hybrids might best support accountability coverage. In her paper *A Nonprofit Model for The New York Times*, Penny Abernathy examines four different options that a financially troubled *Times* might consider: creation of an endowment that would cover the news department budget of $200 million per year; foundation support for parts of the *Times* coverage, such as its international reporting, national political coverage, cultural writing, or science reporting; sale of the newspaper to an educational institution; or sale to an "angel investor." The paper clearly evaluates the drawbacks associated with each of these options. At the conference, discussion centered on the management challenges at the paper, the difficulties associated with a transition from for-profit to nonprofit operation, and the possible business strategies the for-profit *Times* could pursue (e.g., paring of coverage, reduction in printing frequency). The lack of a current media L3C to point to as a model meant that this option for the *Times* was not debated a great length.

The type (if any) of nonprofit support for watchdog reporting favored by conference participants often depended on how they answered these questions:

1. What scale and scope are ideal for a news organization trying to cover public affairs and attract attention?

   People have many different information demands in their lives as workers, customers, consumers of entertainment, and voters. Some participants felt that in order for people to become exposed to public affairs information, it is better to offer a full portfolio of story types. Through flipping through a hard copy to the sports or living section, a person would be exposed to the government stories. This argument for a wide scope relies on the idea that putting different information types together lowers the cost to a reader of finding local public affairs content, and that a broad scope of stories allows for serendipity to lead you to stories you might not know you wanted. An alternative view is that in the age of Google search and Google News, narrowly targeted niche sites with content tailored for your interests, and recommendations of likely news interests via social network sites, people don't expect that one media provider will offer the best portfolio of stories to choose from.

   A related point involves the scale of operation. The Baghdad bureau became a frequent meme in conversations at the conference. Some participants held that only large media organizations such as the *New York Times* and *Washington Post* could afford the high fixed costs (including security costs) of maintaining a bureau in Baghdad. This became an argument in favor of trying to maintain support for these traditional types of news organizations. Others, including Jon Sawyer of the Pulitzer Center on Crisis Reporting, noted that grants to free-lancers via smaller nonprofit reporting centers were a viable alternative that generated on the ground reporting in Iraq too.

   Participants acknowledged the ability of commercial media outlets to attract very wide audiences for investigative reports, but many stressed that the platform of a large metro daily or network news operation could be tapped by smaller nonprofits through partnership arrangements. ProPublica gains wide circulation for its stories by bringing in commercial media outlets early on in the development of stories, which raises the likelihood that the for-profit outlet will partner because they have seen the production process for the report. While partnership offers smaller nonprofits a larger scale for distribution, it does not address the question of how to maintain the operation of the cooperating for-profit entities (such as strapped metro dailies).

2. How many individual donors will step forward to support local news nonprofits?

   As in many other areas of journalistic experimentation, the Knight Foundation is supporting the initial growth of stand-alone civics reporting nonprofits such as

*MinnPost, Voice of San Diego, Chi-Town Daily News,* and the *St. Louis Beacon*. Early foundation support for these venues can show proof of concept. Information products at heart are experience goods; to understand fully what they involve, you often need to see and consume them. As these sites are established and develop track records, their founders hope that local residents will respond by making tax-deductible donations to support the sites. Joel Kramer hopes that eventually *MinnPost* will be sustained in part by donations from local members, advertising revenue, and sponsorships.

The success of this strategy depends on whether local news organizations can create a donor identity that gains support from local residents. Public radio and tv stations have created the notion of "members like you" who support public broadcasting. The stand-alone reporting nonprofits, L3Cs, or investigative funds associated with commercial media have a higher chance of succeeding if they can determine how to appeal to local consumers. If supporting the watchdog function can be seen as expression of support for good government, part of your identity as a citizen, or rooting for a cause, then the likelihood of people donating may increase. Conference participants differed in their views of the likely amount of donor support available across different cities for this type of reporting, but at this stage of experimentation with nonprofit media these are open, empirical questions.

3. Will community foundations step forward to fund information provision about local public affairs?

The Knight Community Information Challenge offers $24 million in challenge grants over a five- year period to community foundations who are willing to support innovative ways to use technology to generate information that engages local residents about community issues. Most conference participants shared the belief that the creation of information about public affairs in local communities is at risk as traditional media companies cut back reporting staff. Foundation officers at the conference noted that media organizations seeking support from community foundations would need to be able to demonstrate how their information affected community outcomes. Assume, for example, that a community foundation focused on local public education. Would the foundation be better off funding a demonstration project in the local schools, producing its own report on school outcomes, or supporting an education beat reporter at the local paper? Andrea Bazan of the Triangle Community Foundation noted that she hoped more community foundations would partner with local newspapers to enter the Knight Challenge as one way to drive more experiments that involved traditional media covering local public affairs.

Community foundation participants at the conference shared examples of how they had funded the creation and provision of civic affairs information. David Haas and Feather Houstoun described how the William Penn Foundation supported the Next Mayor project. This multimedia initiative involved WHYY and the *Daily News* in the creation of stories about the 2007 mayor's race that focused attention in particular civic issues (rather than personalities). The Foundation also funded the creation of the site www.planphilly.com, which hired former journalists from the *Philadelphia Inquirer* to help produce stories about the development of the built environment in Philadelphia. Kevin Murphy of the Berks County Community Foundation related how this foundation funded reports on health care and educational attainment in Berks County that helped frame public debates. He also noted that because of a recent bequest, the foundation now has the controlling interest of the local newspaper, the *Reading Eagle.*

4. Is print still an essential element in making an impact with watchdog coverage?

Stephen Engelberg of ProPublica noted that their investigative stories gained great circulation through two venues, their partnership with commercial media outlets and their own website. Conference participants agreed publishing on the web allows nonprofit media stories to be easily available for circulation. They disagreed, however, on whether at the local level stories printed by the local metro daily would have a greater impact than stories released only on the web at a stand-alone local nonprofit site. Some argued that the long track record, brand visibility, and wide distribution of the physical newspaper meant that its investigations would have greater impact. Others noted that local nonprofits could partner with the local metro dailies to increase the impact of watchdog coverage, and, that once stories were created, they would gain an echo effect in commercial media even if they only first appeared on a local nonprofit website.

5. What types of information need to be subsidized?

Discussions about declines in newspaper staffs often do not distinguish between which changes may be the result of market forces signaling changes in demand for the content of newspapers and which are the result of continuing market failures. The existence of detailed, deep, specialized sites on the web means that readers may be less likely to turn to their local newspaper for a local review of a nationally released movie, or seek financial advice from a local source rather than a specialized consumer finance site. If people are meeting their producer or consumer demands elsewhere, then some reductions in the number of journalists at metro dailies are part of the painful process of human capital being redistributed to alternative uses.

Reductions in public affairs coverage, however, can be an example of market forces pushing to create a larger market failure. When metro dailies acted like monopoly gatekeepers for local advertising, the high profits allowed owners and managers to provide more than the profit-maximizing amounts of civics news. As recounted earlier, the Internet has removed the ability to cross-subsidize news that has traditionally had large, positive spillovers on society. Conference participants focused on watchdog and accountability coverage as the type of information most in need of nonprofit support. It is more costly to produce and on days when government beat reporting generates scrutiny on officials but little attention from readers, it does not yield great advertising returns. Though it is hard for newspapers to capture the benefits its coverage brings in terms of better policy decisions, the need to generate the stories creates the argument for nonprofit support. Conference participants identified watchdog coverage in public affairs as the prime area for support, differing only in the level of government they wanted to the reports to cover: local council meetings; state legislatures; federal agencies; and involvement by the US abroad (including the current deployment of forces in Iraq and Afghanistan).

## *Recommendations for the Road Ahead*

No attempts were made to reach a consensus among the conference participants about how the debates about nonprofit ownership and subsidies for news creation should be advanced. Instead, people were encouraged to surface new ideas that could be considered long after the conference concluded. (Since you're reading this report, you're part of that envisioned process.) These suggestions primarily took three forms: projects for foundations to consider; potential changes in government policies affecting nonprofit media; and experiments in business model operation that would make clearer the desirability of particular media hybrids.

### *Suggestions for Foundations*

#### *Establish a Donor Collaborative to Support Nonprofit Public Affairs Journalism*

In their conference paper, Joel Kramer of *MinnPost* and Jon Sawyer of the Pulitzer Center on Crisis Reporting make the case that the new nonprofit media startups covering public affairs are being hampered by the transaction costs of applying for support from many different foundations. Just as the founding entrepreneurs are trying to define their new product, hire staff, and generate impact, they have to retreat to the office to generate multiple grant applications, which often must be geared to producing different types of reporting content. Kramer and Sawyer also suggest that foundations and other philanthropists may be discouraged by the growing stack of applications from nonprofits across different cities seeking support for public affairs reporting.

The solution they propose is the creation of a donor collaborative model. Though the details are provided in the appendix to this report, the essentials of their proposal are straightforward. Philanthropists and foundations would commit to giving to a central fund. The funds would be dispersed to independent nonprofit journalism organizations that were not subsidiaries of other organizations and not part of the public broadcasting system. To qualify, the organization would have had to raise at least $400,000 in revenue the previous year, a requirement aimed at making sure the money went to groups that had already met a rough feasibility test. A formula would determine how the donor fund was divided among the group of eligible media enterprises, with the dispersal depending in part on the nonprofit's budget and how much increase there was in its donations from individual donors.

The rules and formula would simplify the administrative life of the nonprofit media outlets, and reduce the transaction costs of philanthropists and foundations. Some staff from larger foundations indicated they wanted to provide more targeted funding in particular areas rather than provide operating support through a central fund. Kramer and Sawyer noted that the collaborative idea might be particularly attractive for high net worth philanthropists without large staff dedicated to processing applications.

*Support assets that could be shared across regional and state nonprofit investigative centers*

Brant Houston notes in his conference paper that the new investigative centers, often centered at universities, face problems familiar to nonprofits. They need to learn management, administration, and fundraising, even as they try to develop innovative ways to report using newly available data and analytical tools. He suggests that foundations provide training in management, develop low-cost administrative support that can be shared across sites (at fees lower than currently available), help with legal advice on organizational issues and libel, and fund the creation of centralized databases and analytical support that could be shared across investigative teams.

*Create a clearinghouse to vet foundation investments in nonprofit media*

George Rahdert noted the potential need down the road for a centralized legal clearinghouse that could examine foundation investments made as Program-Related Investments in nonprofit media. The legal examination and vetting could reduce the likelihood that the PRI would run afoul of IRS regulations. The Poynter Institute might be one place where this legal advice could be provided on a fee for service basis.

*Encourage Community Foundations to work with traditional local media such as metro dailies to develop innovative digital delivery of public affairs content*

Andrea Bazan of the Triangle Community Foundation noted that as community foundations considered how to support the local information ecosystem that they should consider partnering with local media outlets, including metro dailies. She raised the prospect that more community foundations might try to collaborate with daily newspapers to submit proposals for innovative digital projects in the Knight Community Information Challenge competition.

## *Potential Changes in Government Policy*

*Make clear that many news organizations, including traditional metro daily papers, can be run as nonprofits*

When asked what policy change they would favor affecting nonprofit media, the most frequent response from conference participants was a desire for the IRS or Congress to make clear that newspapers could be run as nonprofits. As Richard Schmalbeck points out in *Financing the American Newspaper in the Twenty-First Century*, the positive spillovers a newspaper generates in its coverage of public affairs should probably mean that publication of a newspaper should be seen as a "valid charitable objective." To date the IRS decisions about the nonprofit status of publications, especially those with advertising, have generally been negative.

There are many ways to remove the uncertainty about whether news organizations or newspapers that carry advertising could be treated by the IRS as nonprofits. Senator Cardin's bill has started a discussion about what language would be desirable in legislation. Marc Owens, formerly the head of the IRS Exempt Organizations Division and currently at Caplin and Drysdale, noted that through the public comment process of the IRS individuals could request that the IRS issue a published guidance statement that would make clear the circumstances under which a newspaper or news organization could be run as a nonprofit. Both the legislative route or the guidance route would create a clearer set of rules widely applicable across cities as struggling newspapers and new public affairs startups ponder particular organizational forms. Two other avenues could also provide clarity: litigation that involved a challenge to an organization's status, or a request for a private letter ruling about the nonprofit operation of a particular news organization. Aside from the legal costs involved with both these routes, they would not set a wide precedent like the legislation or guidance policy avenues would. Conference participants ultimately hoped that the IRS would issue a guidance policy on nonprofit newspapers, and a subset agreed to draft a letter requesting this guidance.

*Encourage the growth of Low-profit Limited Liability (L3C) news organizations*

Newspapers serve a mix of information demands. Some demands are well met in the marketplace, such information to help you as a worker, customer, or reader in search of diversion. Some demands are not strongly expressed, such as the demand for public affairs information, because the benefits spillover beyond the person who's reading. L3C companies serve a mix of investment motives. Some L3C investors are in search of a market rate of return, while others are in search of projects that will help support community life and civic affairs. The mixed nature of news goods overlaps well with the mixed nature of L3C investor types.

Yet the L3C, as a newly devised organizational structure, is more talked about than observed. To date there has not been a media organization organized as a L3C. Supporters hope that by removing the uncertainty around Program-Related Investments in L3Cs they will be able to stimulate the creation of L3Cs, including media L3Cs. PRIs are not very common right now, in part because foundations interested in making investments aimed at social returns but carrying below market rates will often seek a private letter ruling from the IRS or a letter from legal counsel. Both of these may involve significant transaction costs.

One way to reduce the costs of PRIs would be to require the IRS to rule within 90 days on requests for approvals of PRIs. There could even be a rebuttable presumption that PRIs in L3Cs would be appropriate, because of the positive spillovers associated with L3Cs. These two proposals were part of the Program-Related Investment Promotion Act of 2008. While conference participants did not discuss the specifics of federal legislation, many indicated that they favored laws that would streamline the PRI process and make it easy for L3Cs to attract these types of investments by foundations.

*Expand government support for news products*

Conference participants differed sharply on the desirability of expanding the financial role of government supporting the creation of news stories. The strongest advocate of this position at the conference was Josh Silver of Free Press. He described at the conference many of the policies later articulated in the Free Press report *Changing Media: Public Interest Policies for the Digital Age*. These included expanding Internet broadband openness and access, and increasing government funding for a journalism jobs program, research and development fund for journalistic innovation, and enhanced public media.

## *Experiments to Run in Organization Structures*

Foundations often favor using their resources to invest in demonstration projects, whose value lie in the precedents created and knowledge gained by trying to implement innovative ideas. Three experiments in media hybrids that could yield high returns by showing what works and does not work in organizational structures include:

*Media L3C*

The L3C is now a viable legal structure, with at least four states having passed legislation authorizing the creation of this type of entity. It is possible today for a news organization, either a startup or an existing entity, to adopt the L3C model. While the founders of the L3C hoped the structure would become a brand that would signal the appropriateness of Program-Related Investments in the entity, the initial media L3C could also choose to seek a private letter ruling from the IRS with the initial PRI to be made in the structure. The media L3C could also seek through the public comment process guidance on whether the L3C status could be seen as presumptively acceptable for PRIs, though getting this policy might be more likely through PRI legislation.

*Nonprofit newspaper emerging from a distressed for-profit newspaper*

For a bankrupt or struggling metro daily, the transition to a nonprofit would leave it with multiple revenue sources: advertising, subscriptions, tax-deductible donations, and foundation grants. If the IRS were to issue guidance on the nonprofit structure of newspapers, this might raise the probability that a large metro daily would experiment with a nonprofit structure. There would still be many issues surrounding the interests of creditors, shareholders, and workers involved in a transition to a nonprofit. A foundation willing to support innovations in media could view supporting the legal and financial analysis surrounding a paper's transition to nonprofit status as another way to support experimentation in the delivery of public affairs information.

*Readers Like You – Experiments in Fundraising for Hybrid Media*

Local public affairs startups such as *MinnPost* hope to generate a significant part of their revenues from individual donations. Across the country, similar media hybrids (which accept advertising and court tax- deductible contributions) are trying to determine the best ways to engage in fundraising. These are like natural experiments, with entrepreneurs trying to determine the best ways to describe why people should support local watchdog and accountability coverage. In many ways this involves the creation of an identity for supporters to consume, much in the way the local public radio tries to increase contributions from "listeners like you." Foundations and nonprofits interested in supporting the growth of media hybrids may wish to fund experiments in fundraising, with the knowledge gained being widely shared across the growing number of nonprofit startups covering local and regional public affairs issues.

# Appendix 1

**Duke Conference on Nonprofit Media**
**May 4-5, 2009**

# Bad Public Relations or Is This a Real Crisis?: YES

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Newspapers are suffering financially and many question their fate. Is this a case of bad public relations or is this a real crisis? I would contend it is both. This report is intended to provide a current look at the financial status of the industry, mostly using data on the public companies as they are the ones for which financial data is available, while incorporating industry data when possible. In addition to a snapshot of the industry, I also share a variety of thoughts on what can be done to improve the economics of the industry.

There are currently nine actively traded public newspaper companies: AH Belo, Gannett, Journal Communications, Lee Enterprises, McClatchy Newspapers, Media General, New York Times, E.W. Scripps, and Washington Post; the less actively traded names are Gatehouse Media and Journal Register. There is still some public data for Tribune and Media News Group. The combined circulation of these companies is roundly 22.4 million daily and 24.8 million Sunday, or 44% & 48% of total U.S. circulation as measured by the Newspaper Association of America (NAA). While the data isn't complete, this group generated roundly 35% of US ad revenues, again based on NAA data.

A number of newspapers have filed for bankruptcy over the last few months, in many cases, due to excessive debt, typically related to acquisitions. Among them are Tribune, Philadelphia Newspaper Holdings, Chicago Sun-Times, and the Minneapolis Star-Tribune. Some newspapers have folded, for example the Rocky Mountain News. Others have gone online only or some combination of print and online, such as the Christian Science Monitor and the Detroit Free Press. It is a dicey time. While many newspapers still have a lot of debt, it is not something I plan to address as it is company specific and typically was related to an acquisition.

**Revenues**
Newspapers typically have two major revenue streams, advertising and circulation, which account for roughly 80% and 20% of revenues, respectively. Many newspapers offer commercial printing services, using their (increasingly) excess print capacity, and other related services such as custom publishing, direct marketing, etc.

**Circulation:** It would be easy to think that there are no newspaper readers left in the world if one were to read the popular press. While circulation trends are far from positive, there are still 50 million daily and Sunday newspaper readers in the United States (Table 1). Granted, they are aging, and unlike in past times, they are unlikely to be offset by new, younger readers. Younger people were never really newspaper readers, even historically, but typically, when a consumer bought their first house, they became a newspaper reader. That does not seem to be the case today.

**Table 1: Newspaper Circulation Statistics** *Source: Editor and Publisher International Yearbook*

| Number of Daily Newspapers | | | | Daily Circulation | | | Sunday | |
|---|---|---|---|---|---|---|---|---|
| Year | Morning | Evening | Total Newspapers | Morning (000) | Evening (000) | Total (000) | Total Newspapers | Total Circulation (000) |
| 1940 | 380 | 1,498 | 1,878 | 16,114 | 25,018 | 41,132 | 525 | 32,371 |
| 1945 | 330 | 1,419 | 1,749 | 19,240 | 29,144 | 48,384 | 485 | 39,860 |
| 1946 | 334 | 1,429 | 1,763 | 20,546 | 30,382 | 50,928 | 497 | 43,665 |
| 1947 | 328 | 1,441 | 1,769 | 20,762 | 30,911 | 51,673 | 511 | 45,151 |
| 1948 | 328 | 1,453 | 1,781 | 21,082 | 31,203 | 52,285 | 530 | 46,308 |
| 1949 | 329 | 1,451 | 1,780 | 21,005 | 31,841 | 52,846 | 546 | 46,399 |
| 1950 | 322 | 1,450 | 1,772 | 21,266 | 32,563 | 53,829 | 549 | 46,582 |
| 1951 | 319 | 1,454 | 1,773 | 21,223 | 32,795 | 54,018 | 543 | 46,279 |
| 1952 | 327 | 1,459 | 1,786 | 21,160 | 32,791 | 53,951 | 545 | 46,210 |
| 1953 | 327 | 1,458 | 1,785 | 21,412 | 33,060 | 54,472 | 544 | 45,949 |
| 1954 | 317 | 1,448 | 1,765 | 21,705 | 33,367 | 55,072 | 544 | 46,176 |
| 1955 | 316 | 1,454 | 1,760 | 22,183 | 33,964 | 56,147 | 541 | 46,448 |
| 1956 | 314 | 1,454 | 1,761 | 22,492 | 34,610 | 57,102 | 546 | 47,162 |
| 1957 | 309 | 1,453 | 1,755 | 23,171 | 34,635 | 57,805 | 544 | 47,044 |
| 1958 | 307 | 1,456 | 1,751 | 23,161 | 34,258 | 57,418 | 556 | 46,955 |
| 1959 | 306 | 1,455 | 1,755 | 23,547 | 34,753 | 58,300 | 564 | 47,848 |
| 1960 | 312 | 1,459 | 1,763 | 24,029 | 34,853 | 58,882 | 563 | 47,699 |
| 1961 | 312 | 1,458 | 1,761 | 24,094 | 35,167 | 59,261 | 558 | 48,216 |
| 1962 | 318 | 1,451 | 1,760 | 24,563 | 35,286 | 59,849 | 558 | 48,888 |
| 1963 | 311 | 1,453 | 1,754 | 23,459 | 35,446 | 58,905 | 550 | 46,830 |
| 1964 | 323 | 1,452 | 1,763 | 24,365 | 36,048 | 60,412 | 561 | 48,383 |
| 1965 | 320 | 1,444 | 1,751 | 24,107 | 36,251 | 60,358 | 562 | 48,600 |
| 1966 | 324 | 1,444 | 1,754 | 24,806 | 36,592 | 61,397 | 578 | 49,282 |
| 1967 | 327 | 1,438 | 1,749 | 25,282 | 36,279 | 61,561 | 573 | 49,224 |
| 1968 | 328 | 1,443 | 1,752 | 25,838 | 36,697 | 62,535 | 578 | 49,693 |
| 1969 | 333 | 1,443 | 1,758 | 25,812 | 36,248 | 62,060 | 585 | 49,675 |
| 1970 | 334 | 1,429 | 1,748 | 25,934 | 36,174 | 62,108 | 586 | 49,217 |
| 1971 | 339 | 1,425 | 1,749 | 26,116 | 36,115 | 62,231 | 590 | 49,665 |
| 1972 | 337 | 1,441 | 1,761 | 26,078 | 36,432 | 62,510 | 605 | 50,001 |
| 1973 | 343 | 1,451 | 1,774 | 26,524 | 36,623 | 63,147 | 634 | 51,717 |
| 1974 | 340 | 1,449 | 1,768 | 26,145 | 35,732 | 61,877 | 641 | 51,679 |
| 1975 | 339 | 1,436 | 1,756 | 25,490 | 35,165 | 60,655 | 639 | 51,096 |
| 1976 | 346 | 1,435 | 1,762 | 25,858 | 35,119 | 60,977 | 650 | 51,565 |
| 1977 | 352 | 1,435 | 1,753 | 26,742 | 34,753 | 61,495 | 668 | 52,429 |
| 1978 | 355 | 1,419 | 1,756 | 27,657 | 34,333 | 61,990 | 696 | 53,990 |
| 1979 | 382 | 1,405 | 1,763 | 28,575 | 33,648 | 62,223 | 720 | 54,380 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 1980 | 387 | 1,388 | 1,745 | | 29,414 | 32,787 | 62,202 | | 736 | 54,676 |
| 1981 | 408 | 1,352 | 1,730 | | 30,552 | 30,878 | 61,431 | | 755 | 55,180 |
| 1982 | 434 | 1,310 | 1,711 | | 33,174 | 29,313 | 62,487 | | 768 | 56,261 |
| 1983 | 446 | 1,284 | 1,701 | | 33,842 | 28,802 | 62,645 | | 772 | 56,747 |
| 1984 | 458 | 1,257 | 1,688 | | 35,683 | 27,657 | 63,340 | | 783 | 57,574 |
| 1985 | 482 | 1,220 | 1,676 | | 36,362 | 26,405 | 62,766 | | 798 | 58,826 |
| 1986 | 499 | 1,188 | 1,657 | | 37,441 | 25,061 | 62,502 | | 802 | 58,925 |
| 1987 | 511 | 1,166 | 1,645 | | 39,124 | 23,702 | 62,826 | | 820 | 60,112 |
| 1988 | 529 | 1,141 | 1,642 | | 40,453 | 22,242 | 62,695 | | 840 | 61,474 |
| 1989 | 530 | 1,125 | 1,626 | | 40,759 | 21,890 | 62,649 | | 847 | 62,008 |
| 1990 | 559 | 1,084 | 1,611 | | 41,311 | 21,017 | 62,328 | | 863 | 62,635 |
| 1991 | 571 | 1,042 | 1,586 | | 41,470 | 19,217 | 60,687 | | 875 | 62,068 |
| 1992 | 596 | 996 | 1,570 | | 42,388 | 17,777 | 60,164 | | 891 | 62,160 |
| 1993 | 623 | 954 | 1,556 | | 43,094 | 16,718 | 59,812 | | 884 | 62,566 |
| 1994 | 635 | 935 | 1,548 | | 43,382 | 15,924 | 59,305 | | 886 | 62,295 |
| 1995 | 656 | 891 | 1,533 | | 44,310 | 13,883 | 58,193 | | 888 | 61,229 |
| 1996 | 686 | 846 | 1,520 | | 44,785 | 12,198 | 56,983 | | 890 | 60,798 |
| 1997 | 705 | 816 | 1,509 | | 45,434 | 11,290 | 56,728 | | 903 | 60,486 |
| 1998 | 721 | 781 | 1,489 | | 45,643 | 10,539 | 56,182 | | 898 | 60,066 |
| 1999 | 736 | 760 | 1,483 | | 45,997 | 9,982 | 55,979 | | 905 | 59,894 |
| 2000 | 766 | 727 | 1,480 | | 46,772 | 9,000 | 55,773 | | 917 | 59,421 |
| 2001 | 776 | 704 | 1,468 | | 46,821 | 8,756 | 55,578 | | 913 | 59,090 |
| 2002 | 777 | 692 | 1,457 | | 46,617 | 8,568 | 55,186 | | 913 | 58,780 |
| 2003 | 787 | 680 | 1,456 | | 46,930 | 8,255 | 55,185 | | 917 | 58,495 |
| 2004 | 814 | 653 | 1,457 | | 46,887 | 7,738 | 54,626 | | 915 | 57,754 |
| 2005 | 817 | 645 | 1,452 | | 46,122 | 7,222 | 53,345 | | 914 | 55,270 |
| 2006 | 833 | 614 | 1,437 | | 45,441 | 6,888 | 52,329 | | 907 | 53,179 |
| 2007 | 867 | 565 | 1,422 | | 44,548 | 6,194 | 50,742 | | 907 | 51,246 |

So, with 50 million readers, how could the industry be in trouble? Readers only contribute 20% of the revenues, that's why. Circulation has proven to be highly elastic, i.e. the cover price is raised, circulation volume goes down. Further, in the current environment, readers don't exactly need well honed observation skills to know they are getting less content each day.

While it is imperative that newspapers find a way to attract younger generations, it can't be a primary focus today as circulation promotions are costly. Further, from an economic point of view, circulation revenues are unlikely to ever save the day (Table 2).

**Advertising:** The real economic crisis is on the advertising side of the business. Newspaper advertising is typically divided into three buckets: retail, classified, and national (Table 3). Retail historically has been the largest category, but classified has always been the most profitable. In fact, at the peak of the last boom cycle, classifieds contributed a purported 70% of pre-tax profits.

| Table 2: Newspaper Circulation Revenues | | | *Source: NAA* |
|---|---|---|---|
| **Year** | **Weekday** | **Sunday** | **Total** |
| 1956 | $961,507 | $382,985 | $1,344,492 |
| 1957 | $989,574 | $383,890 | $1,373,464 |
| 1958 | $1,064,760 | $394,253 | $1,459,013 |
| 1959 | $1,131,744 | $417,832 | $1,549,576 |
| 1960 | $1,168,627 | $435,601 | $1,604,228 |
| 1961 | $1,233,592 | $450,727 | $1,684,319 |
| 1962 | $1,350,763 | $469,077 | $1,819,840 |
| 1963 | $1,418,540 | $483,280 | $1,901,820 |
| 1964 | $1,486,318 | $497,491 | $1,983,809 |
| 1965 | $1,501,332 | $521,758 | $2,023,090 |
| 1966 | $1,580,811 | $528,239 | $2,109,050 |
| 1967 | $1,643,068 | $537,174 | $2,180,242 |
| 1968 | $1,732,427 | $555,788 | $2,288,215 |
| 1969 | $1,799,116 | $626,330 | $2,425,446 |
| 1970 | $1,921,404 | $712,998 | $2,634,402 |
| 1971 | $2,088,520 | $744,800 | $2,833,320 |
| 1972 | $2,138,653 | $790,580 | $2,929,233 |
| 1973 | $2,206,430 | $831,390 | $3,037,820 |
| 1974 | $2,641,020 | $940,713 | $3,581,733 |
| 1975 | $2,886,978 | $1,034,537 | $3,921,515 |
| 1976 | $2,973,894 | $1,113,409 | $4,087,303 |
| 1977 | $3,129,901 | $1,180,335 | $4,310,236 |
| 1978 | $3,289,526 | $1,245,253 | $4,534,779 |
| 1979 | $3,519,008 | $1,431,534 | $4,950,542 |
| 1980 | $3,863,822 | $1,605,767 | $5,469,589 |
| 1981 | $4,359,244 | $1,846,897 | $6,206,141 |
| 1982 | $4,689,837 | $1,966,824 | $6,656,661 |
| 1983 | $4,895,936 | $2,148,162 | $7,044,098 |
| 1984 | $5,093,394 | $2,274,764 | $7,368,158 |
| 1985 | $5,233,661 | $2,425,636 | $7,659,297 |
| 1986 | $5,410,949 | $2,641,199 | $8,052,148 |
| 1987 | $5,561,670 | $2,837,362 | $8,399,032 |
| 1988 | $4,869,613 | $3,176,674 | $8,046,287 |
| 1989 | $5,005,078 | $3,365,246 | $8,370,324 |
| 1990 | N/A | N/A | N/A |
| 1991 | $5,455,070 | $3,242,609 | $8,697,679 |
| 1992 | $5,745,052 | $3,418,482 | $9,163,534 |
| 1993 | $5,704,671 | $3,489,132 | $9,193,802 |
| 1994 | $5,846,897 | $3,596,320 | $9,443,217 |
| 1995 | $6,007,134 | $3,713,052 | $9,720,186 |
| 1996 | $6,157,735 | $3,811,504 | $9,969,240 |
| 1997 | $6,227,741 | $3,837,902 | $10,065,642 |
| 1998 | $6,352,295 | $3,914,660 | $10,266,955 |
| 1999 | $6,475,426 | $3,996,868 | $10,472,294 |
| 2000 | $6,507,803 | $4,032,840 | $10,540,643 |
| 2001 | $6,689,745 | $4,093,333 | $10,783,078 |
| 2002 | $6,830,230 | $4,195,666 | $11,025,896 |
| 2003 | $6,974,530 | $4,249,832 | $11,224,362 |
| 2004 | $6,832,315 | $4,156,336 | $10,988,651 |

**Table 3: Advertising Revenue Breakdown** *Source: NAA*

| | NATIONAL | | | RETAIL | | | CLASSIFIED | | | PRINT TOTAL | | ONLINE TOTAL | | | PRINT AND ONLINE TOTAL | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Year** | **$ Mill** | **% Change** | **% Total** | **$ Mill** | **% Change** | **% Total** | **$ Mill** | **% Change** | **% Total** | **$ Mill** | **% Change** | **$ Mill** | **% Change** | **% Total** | **$ Mill** | **% Change** |
| **1950** | $518 | 11.9% | 25.0% | $1,175 | 6.3% | 56.8% | $377 | 9.9% | 18.2% | $2,070 | 8.3% | | | | $2,070 | |
| **1951** | $529 | 2.1% | 23.5% | $1,259 | 7.1% | 55.9% | $463 | 22.8% | 20.6% | $2,251 | 8.7% | | | | $2,251 | 8.7% |
| **1952** | $537 | 1.5% | 21.8% | $1,411 | 12.1% | 57.3% | $516 | 11.4% | 20.9% | $2,464 | 9.5% | | | | $2,464 | 9.5% |
| **1953** | $606 | 12.8% | 23.0% | $1,455 | 3.1% | 55.3% | $571 | 10.7% | 21.7% | $2,632 | 6.8% | | | | $2,632 | 6.8% |
| **1954** | $607 | 0.2% | 22.6% | $1,539 | 5.8% | 57.3% | $539 | -5.6% | 20.1% | $2,685 | 2.0% | | | | $2,685 | 2.0% |
| **1955** | $712 | 17.3% | 23.1% | $1,755 | 14.0% | 57.0% | $610 | 13.2% | 19.8% | $3,077 | 14.6% | | | | $3,077 | 14.6% |
| **1956** | $768 | 5.9% | 23.8% | $1,808 | 3.0% | 56.1% | $661 | 8.4% | 20.5% | $3,223 | 4.7% | | | | $3,223 | 4.7% |
| **1957** | $738 | 0.8% | 22.6% | $1,835 | 1.5% | 56.2% | $665 | 0.6% | 20.3% | $3,268 | 1.4% | | | | $3,268 | 1.4% |
| **1958** | $724 | -4.7% | 22.8% | $1,802 | -1.8% | 56.7% | $650 | -2.3% | 20.5% | $3,176 | -2.8% | | | | $3,176 | -2.8% |
| **1959** | $774 | 6.9% | 22.0% | $2,014 | 11.8% | 57.1% | $738 | 13.5% | 20.9% | $3,526 | 11.0% | | | | $3,526 | 11.0% |
| **1960** | $778 | 0.5% | 21.1% | $2,100 | 4.3% | 57.0% | $803 | 8.8% | 21.8% | $3,681 | 4.4% | | | | $3,681 | 4.4% |
| **1961** | $744 | -4.4% | 20.7% | $2,053 | -2.2% | 57.0% | $804 | 0.1% | 22.3% | $3,601 | -2.2% | | | | $3,601 | -2.2% |
| **1962** | $722 | -3.0% | 19.7% | $2,103 | 2.4% | 57.5% | $834 | 3.7% | 22.8% | $3,659 | 1.6% | | | | $3,659 | 1.6% |
| **1963** | $702 | -2.8% | 18.6% | $2,211 | 5.1% | 58.5% | $867 | 4.7% | 22.9% | $3,780 | 3.3% | | | | $3,780 | 3.3% |
| **1964** | $773 | 10.1% | 18.8% | $2,344 | 6.0% | 56.9% | $1,003 | 15.7% | 24.3% | $4,120 | 9.0% | | | | $4,120 | 9.0% |
| **1965** | $783 | 1.3% | 17.7% | $2,429 | 3.6% | 54.9% | $1,214 | 21.0% | 27.4% | $4,426 | 7.4% | | | | $4,426 | 7.4% |
| **1966** | $887 | 13.3% | 18.2% | $2,645 | 8.9% | 54.4% | $1,333 | 9.8% | 27.4% | $4,865 | 9.9% | | | | $4,865 | 9.9% |
| **1967** | $846 | -4.6% | 17.2% | $2,760 | 4.3% | 56.2% | $1,304 | -2.2% | 26.6% | $4,910 | 0.9% | | | | $4,910 | 0.9% |
| **1968** | $889 | 5.1% | 17.0% | $2,919 | 5.8% | 55.8% | $1,424 | 9.2% | 27.2% | $5,232 | 6.6% | | | | $5,232 | 6.6% |
| **1969** | $943 | 6.1% | 16.5% | $3,166 | 8.5% | 55.4% | $1,605 | 12.7% | 28.1% | $5,714 | 9.2% | | | | $5,714 | 9.2% |
| **1970** | $891 | -5.5% | 15.6% | $3,292 | 4.0% | 57.7% | $1,521 | -5.2% | 26.7% | $5,704 | -0.2% | | | | $5,704 | -0.2% |
| **1971** | $972 | 9.1% | 15.8% | $3,565 | 8.3% | 57.8% | $1,630 | 7.2% | 26.4% | $6,167 | 8.1% | | | | $6,167 | 8.1% |
| **1972** | $1,062 | 9.3% | 15.3% | $3,964 | 11.2% | 57.1% | $1,913 | 17.4% | 27.6% | $6,939 | 12.5% | | | | $6,939 | 12.5% |
| **1973** | $1,049 | -1.2% | 14.0% | $4,245 | 7.1% | 56.7% | $2,187 | 14.3% | 29.2% | $7,481 | 7.8% | | | | $7,481 | 7.8% |
| **1974** | $1,105 | 5.3% | 14.1% | $4,563 | 7.5% | 58.2% | $2,174 | -0.6% | 27.7% | $7,842 | 4.8% | | | | $7,842 | 4.8% |
| **1975** | $1,109 | 0.4% | 13.5% | $4,966 | 8.8% | 60.3% | $2,159 | -0.7% | 26.2% | $8,234 | 5.0% | | | | $8,234 | 5.0% |
| **1976** | $1,342 | 21.0% | 14.0% | $5,668 | 14.1% | 58.9% | $2,608 | 20.8% | 27.1% | $9,618 | 16.8% | | | | $9,618 | 16.8% |
| **1977** | $1,472 | 9.7% | 13.7% | $6,241 | 10.1% | 58.1% | $3,038 | 16.5% | 28.3% | $10,751 | 11.8% | | | | $10,751 | 11.8% |

| | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1978** | $1,541 | 4.7% | 12.6% | $7,023 | 12.5% | 57.5% | $3,649 | 20.1% | 29.9% | $12,213 | 13.6% | | | | $12,213 | 13.6% |
| **1979** | $1,770 | 14.9% | 12.8% | $7,845 | 11.7% | 56.6% | $4,248 | 16.4% | 30.6% | $13,863 | 13.5% | | | | $13,863 | 13.5% |
| **1980** | $1,963 | 10.9% | 13.3% | $8,609 | 9.7% | 58.2% | $4,222 | -0.6% | 28.5% | $14,794 | 6.7% | | | | $14,794 | 6.7% |
| **1981** | $2,258 | 15.0% | 13.7% | $9,686 | 12.5% | 58.6% | $4,583 | 8.6% | 27.7% | $16,527 | 11.7% | | | | $16,527 | 11.7% |
| **1982** | $2,452 | 8.6% | 13.9% | $10,390 | 7.3% | 58.7% | $4,852 | 5.9% | 27.4% | $17,694 | 7.1% | | | | $17,694 | 7.1% |
| **1983** | $2,734 | 11.5% | 13.3% | $11,841 | 14.0% | 57.5% | $6,006 | 23.8% | 29.2% | $20,581 | 16.3% | | | | $20,581 | 16.3% |
| **1984** | $3,081 | 12.7% | 13.1% | $12,784 | 8.0% | 54.3% | $7,657 | 27.5% | 32.6% | $23,522 | 14.3% | | | | $23,522 | 14.3% |
| **1985** | $3,352 | 8.8% | 13.3% | $13,443 | 5.2% | 53.4% | $8,375 | 9.4% | 33.3% | $25,170 | 7.0% | | | | $25,170 | 7.0% |
| **1986** | $3,376 | 0.7% | 12.5% | $14,311 | 6.5% | 53.0% | $9,303 | 11.1% | 34.5% | $26,990 | 7.2% | | | | $26,990 | 7.2% |
| **1987** | $3,494 | 3.5% | 11.9% | $15,227 | 6.4% | 51.8% | $10,691 | 14.9% | 36.3% | $29,412 | 9.0% | | | | $29,412 | 9.0% |
| **1988** | $3,821 | 2.6% | 12.2% | $15,790 | 4.0% | 50.6% | $11,586 | 10.1% | 37.1% | $31,197 | 6.1% | | | | $31,197 | 6.1% |
| **1989** | $3,948 | 3.3% | 12.2% | $16,504 | 4.5% | 51.0% | $11,916 | 2.9% | 36.8% | $32,368 | 3.8% | | | | $32,368 | 3.8% |
| **1990** | $4,122 | 4.4% | 12.8% | $16,652 | 0.9% | 51.6% | $11,506 | -3.5% | 35.6% | $32,280 | -0.3% | | | | $32,280 | -0.3% |
| **1991** | $3,924 | -4.8% | 12.9% | $15,839 | -4.9% | 52.2% | $10,587 | -8.0% | 34.9% | $30,349 | -6.0% | | | | $30,349 | -6.0% |
| **1992** | $3,834 | -2.3% | 12.5% | $16,041 | 1.3% | 52.4% | $10,764 | 1.7% | 35.1% | $30,639 | 1.0% | | | | $30,639 | 1.0% |
| **1993** | $3,853 | 0.5% | 12.1% | $16,859 | 5.1% | 52.9% | $11,157 | 3.7% | 35.0% | $31,869 | 4.0% | | | | $31,869 | 4.0% |
| **1994** | $4,149 | 7.7% | 12.2% | $17,496 | 3.8% | 51.3% | $12,464 | 11.7% | 36.5% | $34,109 | 7.0% | | | | $34,109 | 7.0% |
| **1995** | $4,251 | 2.5% | 11.8% | $18,099 | 3.4% | 50.1% | $13,742 | 10.3% | 38.1% | $36,092 | 5.8% | | | | $36,092 | 5.8% |
| **1996** | $4,667 | 9.8% | 12.3% | $18,344 | 1.4% | 48.2% | $15,065 | 9.6% | 39.6% | $38,075 | 5.5% | | | | $38,075 | 5.5% |
| **1997** | $5,315 | 13.9% | 12.9% | $19,242 | 4.9% | 46.6% | $16,773 | 11.3% | 40.6% | $41,330 | 8.5% | | | | $41,330 | 8.5% |
| **1998** | $5,721 | 7.7% | 13.0% | $20,331 | 5.7% | 46.3% | $17,873 | 6.6% | 40.7% | $43,925 | 6.3% | | | | $43,925 | 6.3% |
| **1999** | $6,732 | 17.7% | 14.5% | $20,907 | 2.8% | 45.2% | $18,650 | 4.3% | 40.3% | $46,289 | 5.4% | | | | $46,289 | 5.4% |
| **2000** | $7,653 | 13.7% | 15.7% | $21,409 | 2.4% | 44.0% | $19,608 | 5.1% | 40.3% | $48,670 | 5.1% | | | | $48,670 | 5.1% |
| **2001** | $7,004 | -8.5% | 15.8% | $20,679 | -3.4% | 46.7% | $16,622 | -15.2% | 37.5% | $44,305 | -9.0% | | | | $44,305 | -9.0% |
| **2002** | $7,210 | 2.9% | 16.3% | $20,994 | 1.5% | 47.6% | $15,898 | -4.3% | 36.0% | $44,102 | -0.5% | | | | $44,102 | -0.5% |
| **2003** | $7,797 | 8.1% | 16.9% | $21,341 | 1.7% | 46.2% | $15,801 | -0.6% | 34.2% | $44,939 | 1.9% | $1,216 | | 2.6% | $46,156 | 4.7% |
| **2004** | $8,083 | 3.7% | 16.8% | $22,012 | 3.1% | 45.6% | $16,608 | 5.1% | 34.4% | $46,703 | 3.9% | $1,541 | 26.7% | 3.2% | $48,244 | 4.5% |
| **2005** | $7,910 | -2.2% | 16.0% | $22,187 | 0.8% | 44.9% | $17,312 | 4.2% | 35.0% | $47,408 | 1.5% | $2,027 | 31.5% | 4.1% | $49,435 | 2.5% |
| **2006** | $7,505 | -5.1% | 15.2% | $22,121 | -0.3% | 44.9% | $16,986 | -1.9% | 34.5% | $46,611 | -1.7% | $2,664 | 31.5% | 5.4% | $49,275 | -0.3% |
| **2007** | $7,005 | -6.7% | 15.4% | $21,018 | -5.0% | 46.3% | $14,186 | -16.5% | 31.3% | $42,209 | -9.4% | $3,166 | 18.8% | 7.0% | $45,375 | -7.9% |
| **2008** | $5,996 | -14.4% | 15.8% | $18,769 | -10.7% | 49.6% | $9,975 | -29.7% | 26.4% | $34,740 | -17.7% | $3,109 | -1.8% | 8.2% | $37,848 | -16.6% |

**Classifieds**: Classifieds (Table 4) typically move in conjunction with GDP as it would be hard to have economic growth without gains in real estate, auto and jobs. Classifieds, however, came under pressure in advance of the economic cycle as classified auto ads started to decline in 2004 and as overall classifieds started their descent in 2006. There are many explanations for this. The most obvious is that print classifieds have lost share to online classifieds, on newspaper sites and certainly elsewhere. The other is that newspapers lost pricing power due to the competitive pressures of online. The likely answer is both; newspapers, after having enjoyed a virtual monopoly in classifieds, lost both pricing power and market share.

It is hard to know whether newspapers could have done a better job of holding on to their dominant position in classifieds. If they had united earlier as an industry and offered category killers along the line of what monster.com has done in recruitment, it could have made a big difference. Certainly there were some such efforts, Classified Ventures, cars.com, apartments.com, etc. However, the beauty and curse of the Internet is that there are no real barriers to entry and as such, rampant competition exists in every sector. There has been a more coordinated effort of late as a number of newspapers have allied themselves with Yahoo but it is still likely a futile effort. Newspapers are still poised to lose pricing power and market share. What is really a shame is that the industry refused to acknowledge the obvious and did not take the likely decline seriously enough and start to aggressively cultivate other revenues. In fact, there are still publishers who expect classified to enjoy its typical cyclical upturn when the economy improves.

In reality, when forecasting the future of the newspaper industry, it would be wiser to forecast excluding any classified ad revenues and hope for positive surprises. At the peak, classified ads contributed close to 50% of ad revenues; in 2008, they contributed 30-35% of ad revenues. Bottom line, it is hard to influence the purchase of a classified ad. Given the number of free alternatives, pricing cannot be used as a competitive tool. More importantly, newspapers can't influence when someone needs a car, job, or house.

**Retail**: Retail advertising (Table 5) has been weak as well; retail has typically been the largest category hovering around 50% of the total. Retail's weakness began in advance of the current economic downturn due to rampant consolidation among department stores. A reduction in competition hurts both in terms of losing an advertiser as well as a softening in advertising by the remaining department store as they no longer have to spend against the competition. There is no question that the U.S. is over retailed based on studies of retail store square footage per consumer which is the likely reason we are starting to see bankruptcies and closures along the lines of Circuit City. Mall vacancy rates hit a 10 year high in the first quarter.

**National**: National advertising (Table 6) has historically been a challenge for the industry, in part due to the difficulty in placing a national buy. The formats of daily metropolitan newspapers vary as do their pricing. While companies have emerged that facilitate the process, either rep firms or brand versioning firms, it remains a challenging category as it isn't typically influenced at the local level. It is, however, a category that remains enticing as it is under penetrated by the industry. *The Wall Street Journal*, *The New York Times*, and *USA Today* are the three most recognized national newspapers in the U.S.

**Online:** Online advertising has become more difficult of late, in part as a good portion of online is classified related and still often sold as an upsell to print. While online classifieds were late to turn as the share gains helped offset declines in the category overall, the full impact of the economic cycle is now being felt. This category probably will improve with an economic recovery although the pricing is a fraction of the print counterpart and, as such, will not have the power to really drive a solid recovery for overall newspaper ad revenues.

**Other Revenues**: Newspapers have attempted to generate other revenue streams through the years, among them commercial printing, direct marketing, archive sales and other merchandise sales. Ultimately, newspapers are doing a decent job of monetizing each of their assets whether it is their printing presses, distribution or editorial. While a small portion of revenues for most companies, it is growing in most cases.

| Table 4: Classified Advertising Expenditures, 1995-*2008* | | | | | | | | | | | *Source: NAA* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | **AUTOMOTIVE** | | **REAL ESTATE** | | **RECRUITMENT** | | **OTHER** | | **TOTAL** | |
| **Year** | **Quarter** | **Expenditures ($000)** | **Growth** | **Expenditures ($000)** | **Growth** | **Expenditures ($000)** | **Growth** | **Expenditures ($000)** | **Growth** | **Expenditures ($000)** | **Growth** |
| **1995** | 1 | $839,854 | | $536,328 | | $1,099,178 | | $471,497 | | $2,946,857 | |
| | 2 | $935,026 | | $598,546 | | $1,164,738 | | $537,074 | | $3,235,384 | |
| | 3 | $969,174 | | $690,324 | | $1,214,017 | | $527,094 | | $3,400,609 | |
| | 4 | $1,185,243 | | $731,940 | | $1,542,896 | | $698,670 | | $4,158,749 | |
| | **Total 1995** | **$3,929,297** | | **$2,557,137** | | **$5,020,829** | | **$2,234,335** | | **$13,741,599** | |
| **1996** | 1 | $826,396 | -1.60% | $606,023 | 13.00% | $1,267,140 | 15.30% | $541,208 | 14.80% | $3,240,767 | 10.00% |
| | 2 | $947,870 | 1.40% | $670,964 | 12.10% | $1,363,228 | 17.00% | $568,012 | 5.80% | $3,550,074 | 9.70% |
| | 3 | $989,806 | 2.10% | $756,468 | 9.60% | $1,426,374 | 17.50% | $590,873 | 12.10% | $3,763,521 | 10.70% |
| | 4 | $1,271,890 | 7.30% | $775,763 | 6.00% | $1,718,404 | 11.40% | $744,191 | 6.50% | $4,510,248 | 8.50% |
| | **Total 1996** | **$4,035,961** | **2.70%** | **$2,809,218** | **9.90%** | **$5,775,147** | **15.00%** | **$2,444,284** | **9.40%** | **$15,064,610** | **9.60%** |
| **1997** | 1 | $923,543 | 11.80% | $644,332 | 6.30% | $1,492,703 | 17.80% | $519,045 | -4.10% | $3,579,623 | 10.50% |
| | 2 | $1,022,759 | 7.90% | $695,156 | 3.60% | $1,657,988 | 21.60% | $619,248 | 9.00% | $3,995,151 | 12.50% |
| | 3 | $1,025,926 | 3.60% | $713,144 | -5.70% | $1,784,944 | 25.10% | $646,417 | 9.40% | $4,170,431 | 10.80% |
| | 4 | $1,342,387 | 5.50% | $879,842 | 13.40% | $2,061,343 | 20.00% | $744,095 | 0.00% | $5,027,667 | 11.50% |
| | **Total 1997** | **$4,314,615** | **6.90%** | **$2,932,474** | **4.40%** | **$6,996,978** | **21.20%** | **$2,528,805** | **3.50%** | **$16,772,872** | **11.30%** |
| **1998** | 1 | $993,897 | 7.60% | $681,077 | 5.70% | $1,750,210 | 17.30% | $534,566 | 3.00% | $3,959,750 | 10.60% |
| | 2 | $1,051,683 | 2.80% | $701,122 | 0.90% | $1,868,233 | 12.70% | $654,095 | 5.60% | $4,275,133 | 7.00% |
| | 3 | $1,080,105 | 5.30% | $765,344 | 7.30% | $1,898,927 | 6.40% | $659,345 | 2.00% | $4,403,721 | 5.60% |
| | 4 | $1,379,611 | 2.80% | $946,744 | 7.60% | $2,184,748 | 6.00% | $723,781 | -2.70% | $5,234,884 | 4.10% |
| | **Total 1998** | **$4,505,296** | **4.40%** | **$3,094,288** | **5.50%** | **$7,702,117** | **10.10%** | **$2,571,788** | **1.70%** | **$17,873,488** | **6.60%** |
| **1999** | 1 | $1,044,299 | 5.10% | $694,828 | 2.00% | $1,825,467 | 4.30% | $546,818 | 2.30% | $4,111,412 | 3.80% |
| | 2 | $1,137,617 | 8.17% | $721,852 | 2.96% | $1,912,532 | 2.37% | $671,965 | 2.73% | $4,443,966 | 3.95% |
| | 3 | $1,191,356 | 10.30% | $760,133 | -0.70% | $1,985,975 | 4.60% | $662,642 | 0.50% | $4,600,105 | 4.50% |
| | 4 | $1,538,330.92 | 11.50% | $939,480.67 | -0.77% | $2,302,002 | 5.37% | $714,225 | -1.32% | $5,494,039 | 4.95% |
| | **Total 1999** | **$4,911,603** | **9.02%** | **$3,116,294** | **0.71%** | **$8,025,976** | **4.20%** | **$2,595,650** | **0.93%** | **$18,649,522** | **4.34%** |
| **2000** | 1 | $1,123,820 | 7.60% | $667,223 | -4.00% | $2,039,888 | 11.70% | $555,949 | 1.70% | $4,386,880 | 6.70% |
| | 2 | $1,144.56 | 0.60% | $723.94 | 0.30% | $2,135.07 | 11.60% | $684.82 | 1.90% | $4,688.39 | 5.50% |
| | 3 | $1,203,270 | 1.00% | $781,748 | 2.80% | $2,141,909 | 7.90% | $692,144 | 4.50% | $4,819,071 | 4.80% |
| | 4 | $1,554,642 | 1.1% | $993,933 | 5.8% | $2,395,762 | 4.1% | $770,014 | 7.8% | $5,714,351 | 4.0% |
| | **Total 2000** | **$5,026,291** | **2.3%** | **$3,166,848** | **1.6%** | **$8,712,628** | **8.6%** | **$2,702,923** | **4.1%** | **$19,608,690** | **5.1%** |
| **2001** | 1 | $1,056,013 | -6.00% | $744,727 | 11.60% | $1,695,562 | -16.90% | $511,990 | -7.90% | $4,008,292 | -8.60% |
| | 2 | $1,104,324 | -3.50% | $782,037 | 8.00% | $1,422,017 | -33.40% | $651,822 | -4.80% | $3,960,201 | -15.50% |
| | 3 | $1,137,125 | -5.50% | $929,055 | 18.80% | $1,305,594 | -39.10% | $623,145 | -10.00% | $3,994,918 | -17.10% |
| | 4 | $1,591,991 | 2.40% | $1,056,005 | 6.25% | $1,281,519 | -46.50% | $728,251 | -5.40% | $4,657,767 | -18.50% |
| | **Total 2001** | **$4,889,453** | **-2.70%** | **$3,511,824** | **10.90%** | **$5,704,692** | **-34.50%** | **$2,515,208** | **-6.90%** | **$16,621,178** | **-15.20%** |
| **2002** | 1 | $1,105,483 | 4.70% | $765,973 | 2.90% | $1,044,547 | -38.40% | $545,957 | 6.60% | $3,461,960 | -13.60% |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2 | $1,173,572 | 6.30% | $829,090 | 6.00% | $1,124,956 | -20.90% | $669,157 | 2.70% | $3,796,775 | -4.10% |
| | 3 | $1,193,565 | 5.00% | $944,171 | 1.60% | $1,052,608 | -19.40% | $687,523 | 10.30% | $3,877,867 | -2.90% |
| | 4 | $1,683,371 | 5.70% | $1,129,199 | 6.90% | $1,165,383 | -9.06% | $783,685 | 7.60% | $4,761,638 | 2.20% |
| | **Total 2002** | **$5,155,992** | **5.50%** | **$3,668,434** | **4.50%** | **$4,387,493** | **-23.10%** | **$2,686,322** | **6.80%** | **$15,898,240** | **-4.30%** |
| **2003** | 1 | $1,126,170 | 1.90% | $831,554 | 8.60% | $932,251 | -10.80% | $564,471 | 3.40% | $3,454,447 | -0.20% |
| | 2 | $1,193,884 | 1.70% | $903,816 | 9.00% | $956,213 | -15.00% | $594,265 | -11.20% | $3,648,177 | -2.20% |
| | 3 | $1,219,628 | 2.20% | $1,014,621 | 7.50% | $939,704 | -10.70% | $684,244 | -0.50% | $3,858,199 | -0.50% |
| | 4 | $1,652,727 | -1.80% | $1,203,707 | 6.60% | $1,149,224 | -1.40% | $834,856 | 6.50% | $4,840,513 | 1.70% |
| | **Total 2003** | **$5,192,409** | **0.70%** | **$3,953,698** | **7.80%** | **$3,977,392** | **-9.30%** | **$2,677,836** | **-0.30%** | **$15,801,336** | **-0.60%** |
| **2004** | 1 | $1,155,354 | 2.60% | $882,901 | 6.20% | $968,858 | 3.90% | $585,619 | 3.70% | $3,592,731 | 4.00% |
| | 2 | $1,157,865 | -3.00% | $959,182 | 6.10% | $1,149,542 | 20.20% | $634,679 | 6.80% | $3,901,271 | 6.90% |
| | 3 | $1,151,002 | -5.60% | $1,083,388 | 6.80% | $1,089,186 | 15.90% | $698,706 | 2.10% | $4,022,282 | 4.30% |
| | 4 | $1,550,621 | -6.20% | $1,296,065 | 7.70% | $1,368,694 | 19.10% | $876,124 | 5.20% | $5,091,504 | 5.20% |
| | **Total 2004** | **$5,014,842** | **-3.20%** | **$4,221,536** | **6.80%** | **$4,576,280** | **15.10%** | **$2,795,128** | **4.40%** | **16,607,786** | **5.10%** |
| **2005** | 1 | $1,100,008 | -4.80% | $879,829 | -0.30% | $1,111,239 | 14.70% | $627,926 | 7.20% | $3,719,002 | 3.50% |
| | 2 | $1,096,276 | -5.3% | $1,028,406 | 7.2% | $1,306,667 | 13.7% | $675,639 | 6.50% | $4,106,988 | 5.3% |
| | 3 | $1,095,945 | -4.80% | $1,224,983 | 13.10% | $1,222,689 | 12.30% | $698,000 | -0.10% | $4,241,617 | 5.50% |
| | 4 | $1,296,787 | -16.37% | $1,506,172 | 16.21% | $1,485,926 | 8.57% | $954,461 | 8.94% | $5,243,346 | 2.98% |
| | **Total 2005** | **$4,589,016** | **-8.49%** | **$4,639,390** | **9.90%** | **$5,126,521** | **12.02%** | **$2,956,726** | **5.78%** | **$17,311,653** | **4.24%** |
| **2006** | 1 | $940,596 | -14.50% | $1,111,119 | 26.30% | $1,138,293 | 2.40% | $702,877 | 11.90% | $3,892,887 | 4.70% |
| | 2 | $936,921 | -14.50% | $1,218,504 | 18.50% | $1,221,335 | -6.50% | $729,226 | 7.90% | $4,106,005 | 0.00% |
| | 3 | $968,220 | -11.70% | $1,353,830 | 10.50% | $1,099,390 | -10.10% | $694,530 | -0.50% | $4,115,968 | -3.00% |
| | 4 | $1,153,802 | -11.00% | $1,472,074 | -2.30% | $1,282,101 | -13.70% | $962,699 | 0.90% | $4,870,676 | -7.10% |
| | **Total 2006** | **$3,999,541** | **-12.80%** | **$5,155,522** | **11.10%** | **$4,741,139** | **-7.50%** | **$3,089,333** | **4.50%** | **$16,985,536** | **-1.9** |
| **2007** | 1 | $751,288 | -20.10% | $952,994 | -14.20% | $975,347 | -14.30% | $699,287 | -0.50% | $3,378,915 | -13.20% |
| | 2 | $756,256 | -19.30% | $966,790 | -20.70% | $995,438 | -18.50% | $716,071 | -1.80% | $3,434,555 | -16.40% |
| | 3 | $796,587 | -17.70% | $1,024,124 | -24.40% | $882,370 | -19.70% | $713,333 | 2.70% | $3,416,415 | -17.00% |
| | 4 | $961,881 | -16.60% | $1,047,044 | -28.90% | $951,397 | -25.80% | $995,663 | 3.40% | $3,955,984 | -18.80% |
| | **Total 2007** | **$3,266,012** | **-18.30%** | **$3,990,952** | **-22.60%** | **$3,804,551** | **-19.80%** | **$3,124,354** | **1.10%** | **$14,185,869** | **-0.165** |
| **2008** | 1 | $588,258 | -21.70% | $618,778 | -35.07% | $630,066 | -35.40% | $700,263 | 0.14% | $2,537,367 | -24.91% |
| | 2 | $579,646 | -23.35% | $619,063 | -35.97% | $600,025 | -39.72% | $702,604 | -1.88% | $2,501,339 | -27.17% |
| | 3 | $563,854 | -29.20% | $629,290 | -38.60% | $497,489 | -43.60% | $671,818 | -5.80% | $2,362,451 | -30.80% |
| | 4 | $584,717 | -39.20% | $614,254 | -41.30% | $458,770 | -51.80% | $916,115 | -8.00% | $2,573,856 | -34.90% |
| | **Total 2008** | **$2,316,475** | **-29.10%** | **$2,481,385** | **-37.80%** | **$2,186,350** | **-42.50%** | **$2,990,800** | **-4.30%** | **$9,975,013** | **-29.7** |

**Costs**

Turning to the cost side of the equation, newsprint, production and distribution are a major cost as is, of course, editorial. Labor constitutes about 50% of its segment costs, production and distribution 30% and other is 20%. Newsprint & ink represents about 12-13% of costs. Newsprint is a commodity; the paper industry has consolidated dramatically. Newspapers have very little control over pricing. Many newspapers have reduced their web width, i.e. size of the paper, in order to permanently reduce their newsprint consumption. Newspapers also manage the ratio of advertising and editorial as another method of expense control.

According to the site www.graphicdesignr.net/papercuts.com, buyouts and job eliminations reduced industry employment by 2,112 in the second half of 2007, 15,866 in 2008 and to date in 2009 by 8,097. Headcount reductions are a challenge in that the industry's obsession with itself leads to tremendous coverage and negative reactions to it, despite the fact that it is happening in every industry. Further, many papers have unions that make it more difficult than it otherwise might be to achieve the appropriate financial balance.

Newspapers have attempted to manage circulation to reduce costs by no longer distributing papers to outlying regions that advertisers don't value. They have promoted subscriptions v. single copy, thereby reducing the waste that typically ensues with single copy distribution. And, of course, papers are experimenting with online/print hybrids, online only publications and reducing home delivery.

Newspaper margins have compressed dramatically over the last few years. Based on the table below, it can be seen that industry margins peaked in the late 1990's at 29%; in 2008, the average was 13% with fairly sizable variances. The combination of a secular shift in classifieds combined with an economic downturn is proving devastating. Industry ad revenues have declined throughout 2006-2008 and are now back to where they were in 1996, including online ad revenues, or 1994 excluding them. The problem is that it is difficult to roll the costs back to that era.

| Table 6: Cash Flow Margins of Selected Newspaper Companies (Newspaper Division Only), 1987-2008 | | | | | | | | | | | | | | | | *Source: Company SEC Filings* | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Company** | **'87** | **'88** | **'89** | **'90** | **'91** | **'92** | **'93** | **'94** | **'95** | **'96** | **'97** | **'98** | **'99** | **'00** | **'01** | **'02** | **'03** | **'04** | **'05** | **'06** | **'07** | **'08** |
| A.H. Belo | 17% | 13% | 19% | 18% | 14% | 19% | 21% | 24% | 22% | 26% | 30% | 29% | 29% | 29% | 24% | 27% | 26% | 18% | 18% | 13% | 5% | -1% |
| Central Newspapers | 16% | 16% | 17% | 16% | 16% | 18% | 20% | 21% | 20% | 23% | 27% | 27% | 28% | | | | | | | | | |
| Dow Jones / Community Pprs | 27% | 23% | 22% | 19% | 17% | 19% | 19% | 20% | 17% | 21% | 22% | 25% | 31% | 31% | 29% | 30% | 30% | 30% | 27% | 24% | N/A | N/A |
| Gannett | 28% | 27% | 28% | 27% | 25% | 26% | 28% | 28% | 26% | 27% | 31% | 31% | 33% | 34% | 31% | 32% | 32% | 31% | 30% | 27% | 26% | 20% |
| Gatehouse | | | | | | | | | | | | | | | | | | | | 18% | 18% | 15% |
| Journal Communications | | | | | | | | | | | | | | | 12% | 14% | 16% | 18% | 18% | 16% | 17% | 11% |
| Journal Register | | | | | | 29% | 32% | 33% | 33% | 34% | 37% | 34% | 34% | 34% | 29% | 28% | 27% | 26% | 24% | 22% | 20% | N/A |
| Knight-Ridder | 22% | 20% | 21% | 20% | 18% | 20% | 20% | 21% | 21% | 21% | 23% | 23% | 25% | 30% | 27% | 27% | 24% | | | | | |
| Lee Enterprises | | | | | | 36% | 34% | 35% | 32% | 31% | 35% | 29% | 30% | 31% | 27% | 28% | 27% | 27% | 27% | 28% | 27% | 21% |
| McClatchy News | 21% | 20% | 21% | 20% | 19% | 22% | 22% | 24% | 20% | 22% | 26% | 28% | 31% | 30% | 26% | 30% | 29% | 29% | 28% | 27% | 25% | 19% |
| Media General | | | | | | 12% | 13% | 16% | 14% | 19% | 26% | 30% | 33% | 31% | 28% | 29% | 27% | 27% | 26% | 25% | 22% | 14% |
| New York Times | 24% | 21% | 18% | 16% | 13% | 12% | 14% | 17% | 16% | 20% | 24% | 25% | 26% | 27% | 23% | 24% | 21% | 20% | 17% | 15% | 14% | 10% |
| Pulitzer | 14% | 14% | 11% | 9% | 10% | 15% | 14% | 17% | 16% | 18% | 22% | 22% | 24% | 26% | 21% | 25% | 25% | | | | | |
| E.W. Scripps | 18% | 18% | 18% | 18% | 17% | 16% | 20% | 26% | 25% | 26% | 29% | 30% | 30% | 28% | 33% | 34% | 33% | 35% | 31% | 28% | 24% | 14% |
| Times Mirror | 23% | 19% | 19% | 13% | 12% | 12% | 13% | 15% | 15% | 20% | 24% | 23% | 23% | | | | | | | | | |
| Tribune | 20% | 21% | 22% | 16% | 24% | 26% | 27% | 28% | 26% | 27% | 30% | 31% | 31% | 28% | 22% | 26% | 26% | 25% | 25% | 24% | 21% | N/A |
| Washington Post | 25% | 23% | 26% | 22% | 17% | 20% | 20% | 21% | 18% | 18% | 23% | 23% | 22% | 20% | 15% | 18% | 19% | 19% | 17% | 15% | 12% | 2% |

**What's the Industry to Do?**
Put another way, industry revenues are down over $11 billion from the peak in 2005, predominately explained by the decline in classifieds. Even worse, there are relatively few direct costs associated with classified advertising, perhaps some minor commissions, making it difficult to react to the revenue decline.

**Improve Revenues**: Clearly, the obvious solution is to improve revenues. As ad revenues represent 75-80% of the total, it presents the biggest opportunity. I remain convinced of two things. Print classifieds will continue to go by the wayside and newspapers need to dramatically upgrade their ad sales departments. If I am right about classifieds, the industry could undergo another drop of $9 billion.

**Aggressively Build Small Businesses Online Presence**: I believe there is still the potential for a strong local online classified business. Newspapers have the ability to heavily promote their online classifieds. They could add a variety of related services and using the classifieds as content that drives page views, sell advertising around it. For example, on a local jobs site, they could link to the web sites of the potential employers so job seekers could investigate benefits, or corporate reputations. Perhaps links to MapQuest so a job seeker could evaluate their potential commute.

**Local Online Listings**: A strategy that the now bankrupt Chicago Sun-Times had employed struck me as the way to go and I am surprised more newspapers haven't tried it. In the early stages of the Internet, they offered a web site creation and hosting service for a nominal amount of money. The web sites were like brochure-ware but it was still the right strategy as it was a creative way to get smaller businesses online. Had it been aggressively pursued it could have created a comprehensive online local yellow pages business and would have been a natural way to drive online classifieds and display advertising.

**Enter the Local Ad Network Business**: No one has really cracked the local ad network code. This could still be a very healthy business over time as well and newspapers are well positioned, given their reach in the local market to achieve dominance. Newspapers could represent other mediums web sites as well.

**Upgrade the Sales Department**: Unfortunately, both the small business listing and local ad network businesses take strong sales forces. As an outside observer, and the daughter of a salesman, it is easy to be critical of newspapers' sales organizations. For years, they were order takers. Even when they started to get serious in the latter part of the 1990's and ventured into hiring commission only salespeople, they still weren't hungry or aggressive enough.

Perhaps due to the very thick wall between editorial and advertising, newspapers have never learned to sell their virtues or promote themselves, most likely for fear of being chastised. The radio industry always had the scrappiest, and most effective, salesforce followed by television. Their respective willingness to put themselves out there and really help sell their clients' goods was something newspapers almost sneered at and often admonished for having "crossed the line".

This is a very important point. The very fact that so much press was given recently to the LA Times decision to run an advertorial on the front page is indicative of a mindset that still exists.

Newspaper managements still don't fully get that this is a battle for survival and that the values they revere are not necessarily shared, or even prized, by their own customers. In fact, newspapers could be much more effective, even while retaining their values.

Notwithstanding the likely cultural reason newspapers have had mediocre sales organizations, now would be a good time to change. There is more talent available than in a long time. Retailers need solutions and a creative organization with the print and online reach of a newspaper should be able to provide the solution.

**Learn to Better Promote the Paper**: Newspapers need to sell from strength; they are still mass market in terms of their local penetration. It is one of the few mediums where the advertising is welcome, unobtrusive, and often construed as content. Some newspaper companies have had more success than others being aggressive in their markets, in particular, Lee. The company does local blitzes where they really try to penetrate the retail market. Aggressive sales people and aggressive goals are necessary.

When I look at the changes that have been made in my local paper, it is downright exciting. The investment in local investigative journalism has people buzzing. Yet, it is hard to change old impressions. I just had lunch with a friend and asked if she read the paper. She said yes but that she didn't think it was very good and only read it because it was the local paper. I asked if she had read a number of specific stories. By the end of the inquisition, she acknowledged that, in fact, I was right, the paper had improved. When the paper reaches out to people on a one on one basis, they convert their readers to loyal subscribers. The local public radio station has a great reputation; they reach out often and aggressively. Newspapers need to do the same.

I would like to see papers do a better job of getting their reporters back into the community and make them minor celebrities, in essence another form of promotion. Columnists achieve this but reporters can as well. Readers enjoy meeting reporters and reporters do a better job when they get to know readers. When readers can relate to the paper, it does better.

**Charge for Online Content?:** A lot has been written about the potential for newspapers to charge for their content online. Given consumers' reluctance to pay for the print product, I am hard pressed to get too optimistic about the potential for online payments. Much is made of *The Wall Street Journal's* success charging for their online content. They are a targeted publication with an audience that needs information to do their job; it isn't a fair comparison to other newspapers. Newspapers could undoubtedly create premium or niche products for which consumers will pay but for all of the effort in this debate, the economic result is likely to be small judging by the fact that circulation revenues represent less than 20% of most newspaper's total revenues.

**Asking Loyal Subscribers for More**: Given that the average newspaper reader is still happy with the print product they receive, another novel (to be read sarcastically) approach might be to convince this constituency to pay more. Unfortunately, even if consumer's paid twice as much for the paper, it might, at best, offset the potential reduction in print classifieds if they do go away entirely as I fear. Raising the cover price or subscription price isn't really what I am recommending. Instead, I am imagining a door to door campaign throughout the footprint of the publication whereby trained individuals try to explain to the community what is at stake if the newspaper were to fold (more on this later), what the economic issues are, and then find out what they might be willing to pay. Incorporated into this approach could be asking for a charitable contribution.  While there are plenty of readers who, despite the unquestionable value they receive each day in the pages of the paper, believe they are paying too much, I suspect many of them have already canceled and moved to the Internet for their news. I genuinely believe there is an untapped market either for charitable contributions to support investigative journalism as well as readers who if faced with the prospect of an online only publication or no publication at all would pay more for the convenience of print.

**Charitable Contributions**: As indicated above, I do believe there are sufficient numbers of individuals who would support their local paper through charitable contributions. There is a growing recognition that newspapers provide a watchdog function. However, while there seems to be increasing awareness that newspapers are struggling financially, most consumers probably aren't as versed in what is at stake if a paper folds. This message needs to be delivered more clearly and broadly. ProPublica is a great example of philanthropy supporting investigative journalism, but it needs to happen locally as well. Moving to become a not for profit will not solve the financial challenges of the industry but finding a way to accept charitable contributions could be fruitful as a new source of revenues.

**More Focused Content:** Newspapers can no longer try to be everything to everyone. They need to focus their dwindling resources. While many still bemoan the loss of overseas news bureaus and DC bureaus, the fact is that the Internet and plethora of new news organizations no longer make it necessary for each local paper to have a presence in so many places. Local papers should focus on local events and let consumers supplement the paper's news with other sources. Regional efforts such as ONO, the Ohio News Organization, should proliferate. There should be more sharing of regional arts critics. Newspapers should devote their resources to providing a local watchdog effort, i.e. local investigative journalism. The *Cleveland Plain Dealer* has done an excellent job in this regard.

**Stop Trying to Attract all Readers**: I do not think print papers should spend a lot of money trying to entice younger readers to the paper; however, I think they can engage younger readers by getting them to contribute content that could appear online and eventually get integrated into print. At the end of the day, everyone loves to see their name in the paper. As younger people have never been big consumers of newspapers, there is no reason to think they would be any more so today, especially with so many other ways to get news and information. However, this should not be confused with a lack of interest in news and information. Cultivating relationships with students who work on their school papers (high school or college), especially covering sports, and perhaps giving them some coverage in the city paper is a great way to get them to get involved and perhaps virally market the paper, electronic version, and/or website.

**Cautious Move to Online Only Papers:** Many newspapers are trying to eliminate costs by moving more towards an online only model. The challenge, near term, is that the core newspaper constituency skews older and prefers a print publication. By moving online to reduce costs, papers risk losing their core reader. By not moving online to reduce costs, newspapers risk the entire franchise. The middle ground, from my point of view, is to slowly migrate folks online. It can be done by section or by day or both. Certain days of the week are more profitable than others. Sunday is by far the most profitable, so at the very least the Sunday print paper should survive. The move to online can best be done with an electronic version. An electronic version replicates the print paper online. It has all the virtues of the paper as I see it: it is edited, content can be located consistently, it retains the serendipity of the paper, and perhaps most importantly, it retains all of the ads. Importantly, if a paper were to move to an online only or electronic version instead of print, I would hope they would reach deep into the community to explain the decision.

**Electronic Version Better Than a Website:** While web sites serve a real purpose, they aren't the same as reading a paper. They are useful for individuals seeking specific content and/or more "snackable" content. The issue is that only the pages viewed can be monetized. Newspapers historically could monetize their entire circulation base as well as the assumption that each reader turned every page. Thus, the concept that print dollars are being turned into digital cents is really one of the inefficiency, from the advertiser's perspective, of the print publication which is eliminated online, i.e. advertisers only pay for the ads that are actually viewed. An electronic version retains all of the ad positions.

So realistically, even if all of a paper's readers followed it online, it is very unlikely that they could generate close to the same revenues as they did in print. Online ad rates are much lower than print and it is unlikely, given a typical three ad impressions per page view, that a paper could ever generate enough page views to replicate the number of ads, albeit dwindling, that is in the paper.

Several months ago, I did a simplistic analysis to see what it would take for *The New York Times* to generate the same revenues online as in print, which was both encouraging and discouraging. Encouraging because it isn't out of the realm of possibilities that they could achieve the number of 1.3 billion monthly pages views it might take. Discouraging as the assumptions might not be fully realistic and that the exercise doesn't necessarily apply to a more local franchise. At the time, we knew that October ad revenues for the New York Times Media Group (essentially the *New York Times)*, were $113.9 million. We assumed the daily paper is about 100 pages a day and 200 on Sunday and that half the pages were advertising. On that basis, we backed into an ad rate cost per thousand (CPM) of $58. Based on ComScore data, nytimes.com had 173 million page views in October. At a $25 CPM, a premium to other sites due to the demographics, this would generate $13 million in ad revenues a month or $40 million in a quarter. In the third quarter, the New York Times Company generated $85 million in online revenues, of which almost $27 million was from About.com. Assuming that nytimes.com generated $40 million of the remaining $58 million is logical. So, on this basis, if nytimes.com could generate 1.3 billion (not too dissimilar from msnbc.com, Yahoo News or AOL News) at the time, it could generate $300 million a quarter, or what, at the time we were forecasting for the New York Times Media Group in the fourth quarter.

**In Conclusion**

So, in essence, I am recommending a variety of tactics. The business model for newspapers has changed dramatically by virtue of their near monopoly in print classifieds. At the peak, according to NAA statistics, it reached 40% of industry ad revenues in 1998 but perhaps more importantly it contributed close to 70% of pretax profits. I think it runs the risk of going pretty close to zero over time. On the other hand, I am highly critical of the newspaper industry on three fronts. They haven't learned how to promote themselves, both in terms of what they do to preserve our democracy, nor on how effective they are for marketers. They have never invested aggressively enough in their sales force and let them take risks. Finally, they haven't recognized that they can't produce the same breadth of editorial that was so nicely funded by classifieds through the years.

While newspapers stand for what is right about democracy and are fierce defenders of democracy, they were never asked to play that role. Interestingly, many readers will indicate that they don't read the paper because it is too negative or all bad news, or worse, yet, about things like war about which they don't want to read. Yet, there is still an expectation that newspapers will deliver after a major story, like 9/11, or will provide a watchdog function in the local community. The challenge is how to economically support the endeavor.

Newspapers need to view their brand as part public service and part consumer packaged good. The latter part tries to reach out and compel consumers to buy the paper, thus a front page that is enticing. The public service part of the paper is trying to create a common language for our society. Perhaps it doesn't matter how many people read the paper as long as the paper can continue to fund its watchdog function.

Bottom line, I think newspapers can survive but they are unlikely to be good investments. They are unlikely to be able to provide the breadth of coverage they do today. It would seem inevitable that they will have to adopt a hybrid strategy of print and online in order to reduce costs but ultimately, they need more revenues.

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# Financing the American Newspaper in the Twenty-First Century

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It would be premature to write the obituary of the American newspaper.[1] But the news about newspapers is surely sobering. Newspaper publishing suffers from a long-term secular decline in readership, due largely to increasing competition from other media that appear to be more appealing to the younger demographics coveted by advertisers; laid on top of that is a severe general recession that, even under optimistic assumptions, threatens to wash many weak companies out of the economy. And newspapers appear to be among the weakest industries in the economy, caught in something of a death spiral: declining readership leads to declining revenue from both circulation and advertising, which leads to desperate cost-cutting, which leads to declining quantity and quality of content, which initiates a new cycle of readership losses.

To many observers, the situation looks hopeless. And perhaps in the long run it is; this may simply be a medium that was well-suited to nineteenth and twentieth century life, but not to an age in which electronic media appear to enjoy strong competitive advantages. But as a middle-aged professional who has looked forward to a retirement of long mornings enriched by coffee and newspapers,[2] I remain hopeful that this lovely medium can survive for at least a few more decades. Newspapers may not be essential forever, but at the moment, they do fill a special niche in the public consciousness. Unlike books or magazines, newspapers have an

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[1] And, given the prominence of newspapers in creating and maintaining that literary form, writing it would necessarily acknowledge the paradox of where to publish it.

[2] The retirement afternoons would presumably be given over to composition of letters to the editors, correcting mistaken assertions of fact or opinion noted during the morning. I don't care for golf.

immediacy that allows them better access to and influence on policy debates. Unlike television, newspapers can bring to their audiences a depth of analysis that extends beyond the thirty-second sound bite. Unlike blogs or talk radio, newspapers generally must present enough balance to achieve broad appeal, especially since most cities can support only a single daily newspaper, at best. And unlike nearly all other media, newspapers' traditional coverage of topics of local interest provides a focus on their geographic communities that would be difficult to replace.

Because the core problem is a financial one–there being no shortage of talented people who wish to pursue careers in journalism–the solutions presumably must come in the form of new financial structures. And a starting point in the search for new financial structures is to recognize that newspapers continue to have some ability to generate revenue, if perhaps not enough revenue to earn profits reliably. Many newspapers appear to be able to cover their operating costs; but nearly all newspapers are likely to have difficulty attracting capital to improve or even maintain their product when the future seems so gloomy. Capitalists want future returns on their investments, and newspapers seem to be an industry with more of a past than a future.

Some capitalists, however, are publicly-spirited enough that they are willing to forego some or all of the financial returns that optimal deployment of their capital might provide. And newspapers have a strong claim to the loyalty of publicly-spirited individuals. But how is the impulse to support daily print journalism to be translated into concrete terms? More particularly, what financial structures can be used to provide necessary support to newspapers in the most effective and least painful ways? The following is a list of the several most prominent possibilities, along with brief assessments of their strengths, weaknesses, and viability.

Existing Corporate Structure

Virtually all large daily newspapers today are operated within the structure of the standard business corporation–either as a stand-alone entity, or as part of a conglomerate that may include other media outlets (such as television or radio stations) or unrelated businesses.

This was a hugely successful model during the first half or so of the twentieth century, when ownership of a newspaper conveyed both wealth and personal power. And it continued to be successful enough until relatively recently. By now, however, this model is beginning to unravel. It is not unraveling so quickly, however, that it could not be sustained in many markets for some time to come, but probably at diminishing levels of profitability or increasing levels of operating losses. Owners who choose to do so could of course simply tolerate this situation, satisfying their taste for public service and altruism in the form of personal absorption of lesser profits or greater losses, within the limits of their resources. And, of course, they can--as most actually do--try to minimize their losses by adapting to changing conditions: adding web-based editions, pooling reporting resources, and the like.

Still, it appears that this is not a sustainable model. There may be a few financial angels who have the resources and the resolve to simply absorb losses indefinitely, but there are (or recently were) about 100 daily newspapers with a circulation of 100,000 copies per day or more. There isn't enough publicly-spirited altruism of this form to go around, and most of these newspapers will fail if they are forced to depend on the willingness of their owners to absorb losses.

There is also a tax problem with the corporate model. Normally, publicly-spirited altruism is rewarded with tax deductions for charitable contributions. But no such deductions would be allowed for newspaper philanthropists who do no more than absorb losses from continued publication of a failing daily newspaper within the context of a for-profit corporation. To the extent that their "contributions" go beyond mere foregone profit, and begin to involve actual losses, deductions of net operating losses may be available in some circumstances. However, owners of a corporate enterprise are not entitled to deduct the enterprise's losses; rather, the standard tax treatment is to carryback operating losses for up to two years, offsetting any income taxes paid in those years, and to carry any remaining (or new) losses forward for up to twenty years, under section 172 of the Internal Revenue Code (the "Code" or "IRC"). If no income appears within those years (or, in any case, insufficient income to absorb the losses), the loss carryovers will eventually expire unused, yielding no tax benefits to anyone. Similarly, new infusions of capital would not produce deductions, but would be treated instead as either contributions to the capital of a corporation, or as subscription prices paid for the issuance of new stock, depending on how the contribution was structured. In either case, the tax treatment would be to give the shareholder additional basis in the amount of the contribution, but no tax deduction.

Limited Liability Companies

Ordinary limited liability companies ("LLCs") operate much like business corporations, but have different tax features.[3] LLCs pool the capital of investor-participants, marshal it for the use of the business, and operate the business pursuant to a written agreement specifying the terms under which operating responsibilities, profits, and losses will be shared (among other things). Because a failing daily newspaper would not likely have a high market value, relatively small amounts of capital pooled in an LLC might be enough to purchase daily newspapers in many markets. If the LLCs subsequently sustained losses through their operations, these losses normally *would* be deductible by the owners of the newspaper–not as charitable contributions, but simply as business losses. However, if an arrangement such as the one described were entered into more or less consciously with the idea of subsidizing publication of the newspaper, out of publicly-spirited altruism, it is likely that the Internal Revenue Service ("IRS") would challenge the deductions under section 183 of the Code, which denies deductions of net losses of "activities not engaged in for profit."[4] It is also true that LLCs appear to be best suited as vehicles for enterprises of modest size, largely due to the difficulty of attracting large amounts of capital when the organizations lacks the convenience of issuing ordinary stock. Many newspapers may find that their capital needs are too great to be comfortably met within the LLC framework.

Nonprofit Corporations

[3] Limited liability companies have an option to be treated for tax purposes like a standard corporation. Most LLCs decline this option, and the discussion here assumes that newspaper LLCs would usually decline this option as well.

[4] If the newspaper has a recent history of profitability, it may be possible to take net loss deductions for a few years, due to the favorable presumption of profit motive embodied in section 183(d) of the Code, which presumes that activities are engaged in for profit if they have in fact been profitable in three of the preceding five years. But even if it qualifies initially, the organization would quickly age out of eligibility for this presumption.

If operating a newspaper is increasingly unprofitable, it seems natural to ask whether it might be better housed in an entity that is specifically intended to operate on a nonprofit basis. A few initial distinctions should be made before detailed consideration of this option. First, although nonprofit corporations–like any other entity form–are largely creatures of the law of the state in which they are incorporated, the most important distinctions among categories of nonprofit organizations are in the Internal Revenue Code. One such distinction is between charitable nonprofits–those that qualify for exemption from federal income tax under section 501(c)(3) of the Code–and non-charitable nonprofits, which may qualify for exemption from income tax under any one of the other 28 paragraphs of section 501(c). While it seems imaginable that a newspaper might be operated as non-charitable nonprofit corporation –most plausibly as a section 501(c)(4) social welfare organization–it is difficult to see any advantages in doing so. Contributions to such organizations are not deductible, nor are losses from operations. Furthermore, unlike business corporations or LLCs, any gains that might accrue could not be distributed to the participants because of the ban on "private inurement" contained in section 501(c)(4).

It thus seems that a charitable nonprofit corporation, eligible for exemption under section 501(c)(3) of the Code is more promising, largely because contributions to such organizations are ordinarily deductible[5]–a major incentive to those who might be willing to support such an organization out of altruistic impulses. A further subdivision within the charitable nonprofit category between so-called "public charities" and "private foundations" is also salient, largely because the latter subcategory is subject to some special limitations that make them particularly problematic as owners of newspapers. It will be more convenient to note these difficulties at the conclusion of this section, which will otherwise presume that the charitable corporation will qualify as a "public charity."

Public Charities Directly Operating Newspapers–A charitable nonprofit corporation might be able to operate a newspaper directly, by which I mean as a business owned by the

[5] The deduction is authorized by section 170(c)(2) of the Code; however, the language of that provision regarding deductibility closely parallels the language of section 501(c)(3) governing the exemption of the organization from income tax.

nonprofit corporation, rather than through a subsidiary business corporation owned by the nonprofit. But there are several concerns raised by this possibility. The first is whether operation of a newspaper serves a valid charitable purpose. Section 501(c)(3) organizations are allowed to pursue only purposes specifically described in that section, including those that are "religious, charitable[6], scientific, literary or educational . . . ."[7] Can publication of a daily newspaper be said to advance any of these purposes?

Possibly so. Newspapers might be said to be educational. This is a category that is substantially elaborated in Treasury regulations, and certainly goes far beyond formal education of the sort conducted by schools. The Treasury regulations explaining this concept speak of purposes that include: "The instruction of the public on subjects useful to the individual and beneficial to the community."[8] Certainly some parts of a daily newspaper–such as those describing bills introduced in Congress, public safety improvements proposed by the city council or police chief, and the like–would easily meet this definition. Other parts–comic pages, bridge columns, horoscopes–might have more difficulty measuring up, in which case the *primary* purposes served by the newspaper might have to be assessed before concluding that it was within the definition of "educational" on an overall basis.

It is fair to say that publication of a newspaper has not traditionally been thought to be educational, but that is quite possibly because such enterprises have ordinarily preferred commercial status, if only so that profits could be distributed to the entrepreneurs who have invested in them. In situations where such returns seem unlikely, educational status has

[6] The word "charitable" is, confusingly, used in two rather distinct senses in the nonprofit context. It is often used to describe the entire universe of organizations (or purposes) that qualify for favorable tax treatment under sections 170(c)(2) and 501(c)(3) (as in the phrase "charitable contributions"); but it is also one of the specific purposes for which such organizations can be formed and operated. In the latter, more narrow sense, it refers, generally, to those organizations that serve to relieve the effects of poverty or other distress, such as soup kitchens, hospitals, disaster relief organizations, and the like.

[7] Section 501(c)(3) of the Code. There are a few other approved purposes of less interest in the present context, such as fostering of amateur sports competition, testing for public safety, and the like. The reader may be assured that any purpose that could remotely include publication of a daily newspaper has been included in the quotation in the text.

[8] Treas. Regs. § 1.501(c)(3)-1(d)(3).

sometimes been recognized. For example, in *Big Mama Rag v. United States*,[9] an organization was recognized as exempt–albeit over the objection of the IRS[10]–where the primary activity of the organization was the publication of the eponymous "Rag," which was a monthly newspaper containing "articles, editorials, calendars of events, and other information of interest to women."[11] The IRS has also recognized that an organization whose purpose was to provide support to the then-emerging "free press" in former Soviet satellite countries in the early 1990s was qualified for exemption as an educational organization.[12] Similarly, it has recognized that a public affairs magazine could be operated as a qualified educational organization.[13]

Another possibility would be that newspapers could be "charitable" in the narrower sense of relieving poverty or distress. That doesn't sound very much like what newspapers ordinarily do, but the concept of "charitable" as defined in the Treasury regulations contains some promising threads. Among the examples mentioned in the regulations are "lessening the burdens of government;" "advancement of education or science;" and "promotion of social welfare."[14] Newspapers certainly serve important roles in explaining governmental programs and policies to readers, which might otherwise need to be done by government itself, at its own expense.[15] Assuring the integrity of public institutions is also an internal obligation of

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[9] 631 F.2d 1030 (D.C. Cir., 1980).

[10]The IRS objection was not based on the idea that a newspaper was inherently not educational, but rather that this particular journal offered primarily propaganda rather than information.

[11] 631 F2d at 1032.

[12] The finding that this was a valid charitable purpose is implicit in the finding that it can be supported through a program-related investment (a concept explained in the text below), in a private letter ruling issued following the collapse of the Soviet Union. See PLR 9223054 (1992).

[13] Gen. Couns. Mem. 38845 (May 4, 1982).

[14] Treas. Regs. § 1.501(c)(3)-1(d)(2). Note that the last phrase quoted in the text—promotion of social welfare—adds "by organizations designed to accomplish any of the above purposes . . ." Thus, it would appear that an organization would need not merely to promote social welfare, but to also achieve one of the other purposes noted in the text.

[15] Examples abound: notices about days of operation of the public schools; trash

governmental bodies, and the "burden" of doing so is often greatly aided by a vigilant free press. Finally, providing information about the operation and integrity of government, and providing a medium of communication among merchants and potential customers, would seem to "advance education and promote social welfare."

A final possibility is that newspapers might serve "literary" purposes. While this seems in some ways a more natural category than "charitable," it is in fact probably less promising. First, the Treasury regulations offer no definition at all of the "literary" concept, and the case law is exceedingly sparse. More importantly, the word "literary" ordinarily connotes "writings… of an imaginative or critical character …"[16] While newspapers often contain book reviews, and less commonly works of fiction or poetry, these items would rarely constitute a substantial portion of any daily newspaper that I am familiar with.

But an organization need only have one purpose that qualifies, so whether the "literary" category applies or not, newspapers would seem to have a reasonably good claim to being either "educational" or "charitable," and thus should be able to satisfy the first of several hurdles to exempt status. The next hurdle on the course is a doctrine that the IRS imposes–without compelling support in the Code–as something of a negative condition for exempt status under section 501(c)(3): the so-called "commerciality" doctrine. The doctrine is quite vague, and has a tangled history, but reflects at its core an interpretation of the Code requirement that an exempt organization be organized and operated *exclusively* for exempt purposes.[17] If the

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collection; hearings on foreclosure actions; openings and closings of public offices, museums, municipal parks and stadiums; proceedings of city council meetings, etc.

[16] This language is taken from the definition of "literature," the noun to which "literary" refers, from Webster's New Twentieth Century Dictionary, (2d ed., 1979). I do note, however, that I myself referred earlier in this paper to the obituary, which is neither imaginative nor critical, as a "literary form," so the term may have more plasticity than this dictionary definition suggests.

[17] The Code is understood not to mean "exclusively" too literally, just as ordinary and "necessary" business expenses don't need to be strictly necessary to be deductible under section 162 of the Code. As the regulations explain, "An organization will be regarded as 'operated exclusively' for one or more exempt purposes only if it engages primarily in activities which accomplish one or more of such exempt purposes . . ." Treas. Regs. § 1.501(c)(3)-1(c)(1). Thus, the regulations baldly (but reasonably) substitute "primarily" for "exclusively."

organization also operates a business that is unrelated to its exempt purpose, and if that business is substantial in comparison to scope of the pursuit of its exempt purposes, then exempt status would be denied under this doctrine.

One might think that this issue had already been addressed: if it can be concluded that operating a newspaper can be a legitimate exempt purpose, then surely all aspects of those operations are related to that purpose. Perhaps, but the law on unrelated business activities is not so straightforward, and unfortunately for newspapers, their principal source of revenue–advertising charges–has proven particularly problematic. In *United States v. American College of Physicians,*[18] the Supreme Court found that even if a publication (in this case, the Annals of Internal Medicine) serves an exempt purpose–namely, publishing scholarly articles about developments in internal medicine–it does not mean that the business of soliciting and placing advertisements within the publication is a business that is related to that exempt purpose. Rather, the advertising part of the publication was found to be an unrelated trade or business, subject to the tax, at the regular for-profit corporate tax rate, on unrelated business income enjoyed by a nonprofit organization under section 511 of the Code.

The unrelated business income tax (or "UBIT") may be directly a problem for some newspapers, but probably not for most. This is because it is, as an income tax, subject to deductions for the reasonable expenses of operating the business, and the general background assumption of this article is that a newspaper thinking about organizing as a nonprofit is one whose expenses will ordinarily equal or exceed its *total* revenue, and hence *a fortiori* must exceed its advertising revenue. But if the advertising business is unrelated to the educational aspects of publishing a newspaper that give rise to its claim for exempt status, and are substantial in relation to the pursuit of the educational mission, does this mean that the conduct of the newspaper as a whole is too tainted by commerciality to pass muster as an entity organized and operated exclusively for exempt purposes?

[18] 475 U.S. 834 (1986).

That is, unfortunately, the position that the IRS has taken in the one ruling most on point. In Revenue Ruling 77-4,[19] a nonprofit organization's only activities were the publication of a weekly newspaper emphasizing items of interest to an unspecified "ethnic group." The IRS found that the operations were "indistinguishable from ordinary commercial publishing practices. Accordingly, it is not operated exclusively for charitable and educational purposes."[20] This passage suggests that the IRS view is that operations that strongly resemble those of for-profit competitors are sufficient grounds in themselves to deny section 501(c)(3) status, but it is not clear why that should be so, nor that it is in fact so. It would not be difficult, for example, to find pairs of hospitals, one nonprofit and the other for-profit, whose operations were not distinguishable except by reference to whether their managers were seeking to make a profit.

Outside of the newspaper field, several cases have found that organizations whose operations resemble those of for-profit competitors in the same field could nevertheless qualify for section 501(c)(3) status if their purposes were charitable or educational. *Goldsboro Art League v. Commissioner*,[21] involved an organization whose activities included operation of two public art galleries displaying works of art that were for sale to the public. The League took a twenty percent commission on sales, remitting the balance to the artists who created the works. The League also conducted a number of educational programs, such as offering classes in drawing, sculpture, and the like. But the IRS argued that the operation of public art galleries in a manner indistinguishable from the operation of commercial art galleries meant that the organization was "operated in furtherance of a substantial commercial purpose,"[22] and was therefore not qualified for exemption as a charitable organization. The Tax Court found otherwise, however, due in part to the non-gallery activities of the organization, but also because the Court found that the sales activities were "secondary and incidental to furthering [the league's] exempt purpose."[23]

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[19] 1977-1 C.B. 141

[20] Id.

[21] 75 T.C. 337 (1980).

[22] Id., at 338.

[23] Id., at 344-45.

Similarly, in the *Big Mama Rag* case noted previously, the IRS denied exemption for the organization on several separate grounds, one of which was that it was indistinguishable from an ordinary commercial publication.[24] This view was rejected by the District Court that heard that case, and was not specifically addressed by the D.C. Circuit on appeal. A cautionary note, however, is that the District Court findings on this question were influenced by the fact that Big Mama Rag operated with substantial contributions of free labor, and also distributed most of its copies without charge, facts that would likely not routinely be true of daily newspapers that were seeking to convert to nonprofit status.

The IRS also initially resisted the participation of section 501(c)(3) organizations in joint ventures with profit-seeking firms, arguing that such participation furthered a substantial commercial purpose. After this position was rejected by the Tax Court in *Plumstead Theatre Society, Inc. v. Commissioner,*[25] the IRS relaxed its position, and now examines such joint ventures on a case-by-case basis, using a test that asks whether the joint venture furthers the exempt purposes of the participating charity, and whether the structure of the joint venture permits operation of the charity for its exempt purposes and not for the private benefit of one or more non-exempt parties.[26]

While the *Goldsboro Art League, Big Mama Rag, and Plumstead Theatre Society* cases do not directly overrule the IRS position expressed in Revenue Ruling 77-4, they do suggest that courts have been more willing than the IRS to allow nonprofit purposes of an organization to trump an operational pattern that in other respects might be thought to resemble patterns seen in the for-profit world. Nevertheless, the opposition of the IRS, which apparently continues, to the idea of qualifying newspaper operations as a charitable or educational activity, is a substantial obstacle. It means that in all likelihood a newspaper seeking such status would have

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[24] 631 F.2d 1030, 1033 (D.C. Cir. 1980).

[25] 74 T.C. 1324 (1980).

[26] See, e.g., GCM 39005 (1983).

to be prepared to litigate the issue with the IRS, under circumstances where victory was far from certain.

Finally, it must be noted that section 501(c)(3) organizations are prohibited from "attempting to influence legislation," (except to an insubstantial degree) and barred completely from participation in political campaigns. While balanced accounts of newsworthy events, such as Congressional debates over pending legislation, would not be proscribed by this language, it would seem that much editorial commentary might well be regarded as grass-roots lobbying, and explicit endorsement of candidates for public office would likewise be considered participation in a campaign. If operation of a newspaper were to be conducted directly by a organization exempt under section 501(c)(3), it would probably need to incorporate some important modifications to its usual practices—modifications that, unfortunately, might make it more difficult for the newspaper to serve its important function as a critic of governmental policies.

Public Charities Operating a Newspaper through a Taxable Subsidiary–A charity wishing to operate a newspaper might consider an alternative approach: creating (or acquiring) a taxable subsidiary corporation, and operating the newspaper through the subsidiary. Any profits of the newspaper would be subject to the corporate income tax, but, by the assumptions of this paper, few if any profits would be earned.[27] This is the model that has been adopted by the Poynter Institute, which owns the corporation that operates the *St. Petersburg Times*. One might assume that the very existence of the Poynter Institute-*St. Petersburg Times* relationship would prove the viability, or at least the permissibility, of this structure. However, there are some special circumstances in this case that make it difficult to know whether their experience can be generalized.

The Poynter Institute is indeed an educational organization, but its educational purpose consists not of publishing a paper *per* se, but rather of instructing journalists (or would-be

[27] Of course, there may be fluctuations in profitability that might lead to profits in some years and losses in others. However, if the overall tendency is to lose money, the net operating loss carryback and carryover provisions of section 172 of the Code should allow any temporary profits to be shielded from taxability in the long run.

journalists) in their craft. The purpose is *not* to educate the general public about public policy issues, as it presumably would be in the usual case of a charity that exists to publish a daily newspaper. The Institute's most recent Form 990 explains that it is "a school dedicated to the teaching and inspiring of journalists and media leaders."[28] In addition to offering courses at its Florida campus, the Institute offers a number of on-line courses to journalists, and publishes various guides for the use of journalists. The extent and range of the Institute's programs might be replicable in a few instances, but presumably would not be undertaken by every organization that might wish to operate a daily newspaper.

If a charitable nonprofit organization were to exist solely to hold the stock of a for-profit corporation that operated a newspaper, two concerns might arise. The first was foreshadowed by the previous section: could this organization be said to be organized and operated exclusively for a charitable purpose if its only activity is to be a holding company of the stock of a business corporation? Second, if the stated purpose is to hold the stock of a failing business, so as to allow the charitable organization to subsidize that business and thereby keep it afloat, the charitable organization might be thought to be imprudently managing its assets. Under state laws, such as those imposed by the Uniform Management of Institutional Funds Act ("UMIFA") model legislation, investments must be chosen with prudence, and with an eye toward preservation of the capital of the organization.[29] If the very reason for creating the charitable organization is to aid a dying business corporation, one wonders how the investment of the organization's funds in such a vehicle could be defended against charges that it is imprudent. The defense would have to be, I think, that despite the investment structure, the ownership of the stock of the corporation isn't really intended for investment purposes, but rather for the charitable purpose of educating the public on current events of interest, or for the purpose of providing a community with the information exchange that it needs in order properly to function, thereby relieving government of the obligation it might otherwise have to bear. This

[28] Poynter Institute 2007 Form 990, Pt. III, at 3.

[29] UMIFA was adopted by the Commission on Uniform State Laws in 1972, and has been adopted in 48 states. A revised version, by the name of Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), was proposed in 2007, and has been enacted in several states already.

argument, of course, leads back to some of the problems noted in the previous section about the ability to qualify such a purpose as charitable for purposes of section 501(c)(3).

Additional Concerns for Private Foundations–As noted above, the charitable nonprofit sector is divided between public charities and private foundations, with the latter being burdened by strictures—largely added by the Tax Reform Act of 1969--that were thought by Congress to be necessary to constrain otherwise problematic behavior. For our purposes, it is sufficient to say that the Code now presumes private foundation status for each charitable nonprofit organization, unless it affirmatively qualifies as a public charity. An organization can so qualify on the basis of the sort of organization it is: the Code specifically excepts from private foundation status churches, schools, and hospitals, for example.[30] Also excluded are other organizations that can meet a "public support" test, either because they receive donations from a broad range of donors,[31] or because they receive a substantial percentage of their support from gross receipts obtained in connection with performance of its exempt functions.[32]

The restrictions on private foundations take the form of punitive excise taxes imposed on specified types of foundation misbehavior. At least three of these excise taxes are problematic in this context. Each is individually powerful enough to make it difficult if not impossible for a private foundation to own and operate a newspaper business; collectively, they seem virtually prohibitive. The first is that a private foundation is generally required to distribute for charitable purposes an amount equal to five percent of its assets each year.[33] If it is receiving little or no income because it is operating a newspaper business at a loss, it would be difficult also to surrender five percent of its assets each year for other charitable grants.

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[30] IRC § 509(a)(1) excepts from private foundation status those organizations that are described in § 170(b)(1)(A), which include the types of organizations mentioned in the text.

[31] IRC § 170(b)(1)(A)(vi).

[32] IRC § 509(a)(2).

[33] IRC § 4942.

A private foundation is also generally prohibited from holding more than 20% of the voting stock, or other similar interest, in a business organization.[34] These so-called “excess business holdings” rules are designed to prohibit foundations from exercising control over business organizations, and would effectively preclude ownership of a controlling interest in a business that operates a daily newspaper. Finally, a private foundation is prohibited from making investments that, because of their excessive risk, might jeopardize the ability of the foundation to discharge its charitable purposes.[35] As noted in the foregoing section, investment in a failing newspaper would be difficult to defend in the face of such a rule.

There is one possible escape from these conclusions. If operation of the newspaper business were found to be “functionally related” to the exempt charitable purposes of the foundation, then it would be excepted from the excess business holdings rules.[36] Similarly, if the foundation conducts, as substantially its entire operations, a functionally related business, it would be an “operating foundation,”[37] and as such exempt from the requirement to distribute five percent of its income.[38] Finally, if the newspaper business were operated by the foundation directly rather than held as an investment, the jeopardizing investment rules would presumably not apply. This escape route depends on acceptance of the idea that operating a newspaper can constitute an exempt function, however, and so circles around to the set of considerations regarding such a purpose discussed above.

As the foregoing discussion makes clear, there is a reasonable chance that publishing a newspaper could constitute a charitable purpose, and a more than reasonable policy argument that it should. There are risks, however, that a charitable organization whose primary activity is publishing a newspaper could be caught in a nether world, with too much commercial taint to pass muster as a charitable purpose itself, and too little in the way of profitability to pass muster

[34] IRC § 4943.

[35] IRC § 4944.

[36] IRC § 4943(d)(3).

[37] IRC § 4942(j)(3).

[38] IRC § 4942(a)(1).

as a legitimate investment of a charitable organization that is charged–as all are–with fiduciary obligations to preserve the value of its assets.

Low-Profit Limited Liability Company

In the spring of 2008, Vermont passed the first legislation authorizing creation of a new form of limited liability company, the low-profit limited liability company ("L3C"), following development and forceful advocacy of the idea by the Mannweiler Foundation, a small New York foundation. Three more states–Michigan, Wyoming, and North Dakota have joined Vermont in the months since, and several other states are actively considering bills that would accomplish this purpose. Of course, even a single state is enough, since an organization created under the laws of any state can legally conduct operations in any other as well.

The Vermont legislation[39] authorizes creation of companies that meet the following conditions:

> (A) The company:
>
> (i) significantly furthers the accomplishment of one or more charitable or educational purposes within the meaning of Section 170(c)(2)(B) of the Internal Revenue Code of 1986, 26 U.S.C. 170(c)(2)(B); and
>
> (ii) would not have been formed but for the company's relationship to the accomplishment of charitable or educational purposes.
>
> (B) No significant purpose of the company is the production of income or the appreciation of property; provided, however, that the fact that a person produces significant income or capital appreciation shall not, in the absence of other factors, be conclusive evidence of a significant purpose involving the production of income or the appreciation of property.

The bill also provides that an L3C cannot engage in lobbying or political campaigns and, upon ceasing subsequently to qualify, will be considered to be an ordinary limited liability company.[40]

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[39] The language quoted is from 11 V.S.A. 3001(23).

[40] 11 V.S.A. 3001(23)(C) and (D) respectively.

The purpose of the L3C is not immediately apparent from this legislative language, but it is essentially to create a hybrid entity form that is positioned to accept investment both from foundations that seek to use the entity to further charitable purposes, and ordinary investors who may seek normal market returns on their investments (as well as those investors whose motives may fall between these two poles).

An investment in an L3C made by a foundation would be in the form of a "program-related investment," a special concept created as part of the jeopardizing investment rules of Code section 4944.[41] Essentially, a program-related investment ("PRI") is an investment made to advance a charitable purpose of the organization rather than to produce income or gains. The regulations promulgated pursuant to this rule offer ten examples of investments that may (or in one of the examples, will not) qualify as PRIs.[42] The first several examples involve small businesses located in a "deteriorated urban area," that are "owned by members of an economically disadvantaged minority group."[43] Later examples make it clear, however, that even larger enterprises that are "financially secure" and whose stock is traded on a national exchange can be vehicles for qualified PRIs. The core idea is not to help small or minority owned businesses, but to help any business make an investment that would serve a charitable interest, but which would not be (or might not be) economically viable without the provision of capital from an entity that was not seeking a market rate of return. The means adopted by Congress and the Treasury to assure that this condition is satisfied is the test stated in section 4944(c) of the Code, namely, that the primary purpose of the investment must be "to accomplish one or more of the purposed described in section 170(c)(2)(B)"–the section defining "charitable" for purposes of the rules permitting deduction of charitable contributions--and that neither "production of income [n]or the appreciation of property" be a significant purpose of the

[41] IRC § 4944(c) specifically exempts program-related investments from the other rules of this section.

[42] In fact, one of the ten is a negative example, and another is an example involving appropriate responses if a once-good PRI goes bad. So there are eight affirmative examples of qualifying PRIs.

[43] See, *e.g.*, Treas. Regs. § 53.4944-3(b), examples 1-3.

investment.  As may be noted, the Vermont legislative language quoted above closely (and quite consciously) parallels this language, so that an entity organized under those Vermont provisions would presumptively qualify for receipt of program-related investments.

This is true conceptually: one would hope that since the L3C has been specifically designed to meet the standards of PRIs, investments in such entities would indeed qualify.  But PRI qualification of investments in L3Cs is not automatic at the present time.  That is, there hasn't yet been any amendment, regulation, or ruling by Congress, Treasury, or the IRS assuring that investments made in an L3C by a private foundation would necessarily qualify as PRIs.[44] Until further developments take place, one must assume that the usual process for determining PRI qualification would be followed.  That process involves evaluation by the investing foundation of the facts and circumstances surrounding the investment, and concluding by their own judgment, by opinion letter from counsel, or by private letter ruling from the IRS, that the conditions for a PRI are satisfied.

While section 4944 of the Code is the only private foundation excise tax provision to mention program-related investments specifically, the regulations make it clear that such investments are also exempt from the "excess business holdings" rules of section 4943,[45] and will count as "qualifying distributions" under the mandatory five-percent distribution rules of section 4942 in the year in which the investment is made, and will thereafter be taken out of the denominator by which the five-percent requirement is measured.[46]

The ideal financial structure of an L3C can be inferred the idea of the hybrid entity, with foundations contributing a base layer of capital that would be the most junior in terms of the foundation's rights to distributions upon dissolution, and hence at most risk if the enterprise were to fail.  However, while junior tiers of capital in most entity financial structures are compensated for accepting greater risk by receiving greater returns if the enterprise is

[44] Indeed, it has been observed that an L3C doesn't accomplish anything that could not be accomplished by an ordinary limited liability company, and this seems to be largely true.

[45] Treas. Regs. § 53.4943-10(b).

[46] Treas. Regs. § 53.4942(a)-3(a)(2)(i).

successful, this would not be so in an L3C. While some participation in any upside gains would not be inappropriate, the idea of the foundation investment is to permit otherwise marginal enterprises to improve their balance sheets to a point where other capital can be attracted on more or less market terms and rates. Thus, if the market rate of return generally is 10%, and a socially beneficial enterprise projects that it can only pay a return of 6% on the capital it needs, it can be financially viable if it can attract half of its capital from a private foundation as a PRI, paying a 2% return, and the other half from market sources, paying the usual 10% market rate of return. The core idea is not unlike tax-exempt bond financing, which has long been available to charitable nonprofit organizations;[47] but it is much more flexible, because it does not depend on the market rates for tax-exempt bond investments.

Indeed, the financial structure seems flexible enough to allow a foundation to pour as much capital as it is willing to into an enterprise that has or develops financial needs. This makes it appealing as a structure in which one or more foundations could partner with a newspaper that would, if left on its own, have only marginal financial prospects. And one notes, significantly, that this structure provides indirect tax benefits to the foundation’s donors: their contributions funding the foundation are generally tax-deductible. Thus, unlike any of the purely business structures considered at the outset of this paper, individuals who wish altruistically to support continued publication of a newspaper would be able to enjoy the appropriate reward for their altruism: a charitable contribution deduction.

This hybrid profit/nonprofit structure also seems to provide a significant insulation against IRS concerns about commerciality. Because it is understood that the entity itself is not barred from earning a profit in a PRI situation, it would seem as though operations of a typically commercial sort would not be problematic.

This leaves only one major question–the question that runs through the analysis of this paper at every turn: can publishing a newspaper be a charitable purpose under sections 170(c)(2) and 501(c)(3) of the Code? This is an essential question even under the L3C structure, because an L3C cannot be formed primarily to operate or hold a newspaper business unless doing so qualifies as a “charitable or educational” purpose. Similarly, an investment from a

[47] See IRC § 145 (“Qualified section 501(c)(3) bonds”).

foundation cannot be a program-related investment unless it advances some appropriate charitable purpose. So, finally, does it in fact do so?

There does not appear to be a definitive answer to this question. The IRS position, as explained above, is generally negative. The regulations under section 501(c)(3) offer some guidance, but the language that might be taken to support the idea that publishing a newspaper can be charitable is quite general–either that it is "educational," or that it achieves a "lessening [of] the burdens of government;" "advancement of education and science;" and "promotion of social welfare." Publication of a newspaper at its best would do all of these things, but it is certainly true as well that many popular features of a daily newspaper would be hard put to defend their existence in these terms, leaving the difficult question of whether the charitable and educational aspects of a newspaper can truly and in general be said to be the primary purposes of publishing a daily newspaper.

The regulation that explains what "charitable" means does provide more detail, but when it does, its principal focus seems to be elsewhere, largely on relief of poverty or other malignant social conditions. The regulations speak of "eliminat[ing] prejudice and discrimination;" of "lessen[ing] neighborhood tensions;" and of "combat[ing] community deterioration and juvenile delinquency."[48] Some of these sound almost quaint ("neighborhood tensions" and "juvenile delinquency" are not phrases much in use in this century), and all reflect the social concerns that were most on the minds of the writers of the regulations when they were developing them in the late 1950s. It is time, surely, for a reconceptualization of the "charitable" idea, and for a revision of these fusty regulations. But until that happens, what does charitable mean?

If an L3C is the vehicle used, another branch of the regulations come into play: those promulgated under section 4944 that explain what can qualify as a PRI, and offer eight affirmative examples. One searches those in vain, however, for anything that sounds very much like publication of a newspaper. All, in fact, involve "economically disadvantaged minority" groups; employment of "low-income persons" (or "low-income farmers" in one example); "deteriorated urban areas" and the like. Though they were written in 1972, more than a decade

[48] All examples are drawn from Treas. Regs. § 1.501(c)(3)-1(d)(2).

after the section 501(c)(3) regulations were promulgated, they echo the concerns that are palpable in the latter regulations.

So we are left saying, I think, simply that publication of a newspaper *should* qualify as a valid charitable objective. This is an activity that involves tremendous positive externalities that cannot be easily captured by the publisher, but which are essential to the political, economic, and social health of the community served by the particular newspaper. This is so clear to many individuals that they would be willing altruistically to support the publication of the newspaper with disinterested contributions. And newspaper publishing is perhaps the single best example of an activity that is in the public interest, but which should nevertheless not be conducted by the government, since criticism of government performance is one of its greatest services, and accomplishment of that goal would be compromised by government ownership and operation.

There are several means by which affirmation of these observations, and concomitant clarification of the law, could be obtained. Unilateral declaration by the IRS, in the form of a ruling, would almost certainly be enough: generally no one other than the IRS would have standing to challenge the exempt status of a newspaper that is published ostensibly for educational or charitable purposes; so if the IRS announces that it wishes to make no such challenge, the controversy effectively ends at that point. If the IRS is unwilling to do this, a variety of legislative solutions are available, and some in Congress have already evidenced their intention to achieve clarification of this general sort. By one means or another, one hopes this will be done.

**Duke Conference on Nonprofit Media**
**May 4-5, 2009**

## A Nonprofit Model for The New York Times?

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*"Arthur (Sulzberger) Jr. must reinvent the Times just as his great-grandfather did in 1896, using the same tools: a talent for leadership, an idealistic vision leavened by rigorous pragmatism and the nerves of a gambler. . . . He is bolstered by a family that has willingly sacrificed wealth and personal ambition for the sake of the institution that is both their obligation and their glory. Now, his task is to preserve the Times, and all it represents, and pass it on to yet another generation."*

*The Trust,* Susan E. Tifft and Alex S. Jones

When the authors of *The Trust* wrote those concluding words in 1999, The New York Times was one of the newspaper industry's "Big Three" – along with The Wall Street Journal and The Washington Post. All three newspapers were owned by "publicly traded" companies that had established family trusts designed to preserve and protect the journalistic legacies of those institutions. A dual class of stock gave the majority of the voting rights to those trusts.

A mere decade later, the Journal and its parent company, Dow Jones, have been subsumed by Rupert Murdoch's much larger News Corporation, ending a century of independence and stewardship by the Bancroft family. And both the Washington Post and The New York Times have been hit by an economic double whammy crippling the newspaper industry – the worst advertising recession in decades, coupled with the internet's capacity to wreak destruction on long-standing business models.

The Graham family and the Post are insulated somewhat from the destruction assaulting newspapers because of the fortuitous 1984 purchase of Kaplan Inc., which has served as a growth engine in recent years. The online education company represented more than 50% of The Washington Post Company's revenues of $4.5 billion in 2008, and its profit of $206 million offset losses of $193 million at the newspaper.

But The New York Times Company, which sold its magazine division and television stations over the last decade, is primarily a newspaper company. Approximately 87 percent of its 2008 revenues – $2.6 billion – came from its print newspapers (including The Boston Globe and a dozen or so small to mid-sized regional newspapers in New England, the South and the West) and $236.4 million from web sites associated with its newspapers. About.com, purchased by the Times in 2005 for $410 million, contributed the only non-newspaper revenue – $115 million. The Times Company's 2008 operating loss of $41 million included $160 million in charges to write down the value of the Globe and the New England Media Group. The Times acquired the Globe in 1993 for $1.1 billion. After several impairment charges over the years, the Globe is currently carried on the books for less than $100 million.

In addition to being more exposed to the vicissitudes of the newspaper industry than some of its peers, the Times Company is saddled with heavy costs and debt. Suddenly, the family trust, set up in the 20th century and designed to protect and preserve a "national treasure," is under assault.

A number of writers and industry observers have proposed both nonprofit and for-profit arrangements that might conceivably "save" the Times – or least preserve and protect its unique journalism and watchdog role in the 21st century. This paper examines four of those proposals:

1. Establishment of an endowment that would provide funds to support the Times news department's annual $200 million budget.
2. Foundational support for some portion of the Times' journalistic endeavor – perhaps its foreign or cultural coverage.
3. Purchase of the Times by an educational institution or university.
4. Sale of the Times to an "angel" investor, who would be willing both to adequately compensate the Sulzberger family members and to assume or retire the debt and other liabilities.

The first three proposals – establishment of an endowment, foundational support and purchase by an educational institution – are nonprofit solutions. The fourth – purchase by an angel investor – could reside in the hybrid world of L3Cs (low-profit limited-liability corporations) or the for-profit arena.

## A Financial Primer: Why the Times Is Unique

While the Times suffers from many of the same economic woes afflicting the industry, it has a unique financial profile. For much of the last decade, many Wall Street analysts and industry peers have admired or envied those assets (including its dual revenue streams from advertising and circulation that totaled $1.7 billion in 2008 and dwarfed all competitors), even as they winced at some of its liabilities (heavy fixed costs that weigh down the profit margins).

It is important to understand what makes the Times unique when considering alternative business models – and to consider the implications this has for future success in either the profit or nonprofit arena. (For an overview of the Times' 2008 financial performance, please see Appendix A.)

**The Revenue Picture**

While the typical newspaper receives between 80-85 % of its revenue from advertising, and the rest from circulation, The New York Times Media Group (composed of the Times, the International Herald Tribune, nytimes.com and iht.com) has in recent years received 55-60% from advertising, 30-35% from circulation, and the remainder from other sources (including licensing and syndication of Times-branded content.)

***The New York Times Media Group Revenue***
***(includes The New York Times, nytimes.com and International Herald Tribune)***

| *(in millions)* | *2008* | *2007* | *% Change* |
|---|---|---|---|
| *Advertising* | *1,076.6* | *1,222.8* | *-12.0* |
| *Circulation* | *668.1* | *646.0* | *3.4* |
| *Other* | *180.9* | *183.1* | *-1.2* |
| *Total* | *1,925.6* | *2,051.9* | *-6.2* |

Source: The New York Times Company 10-K for the fiscal year ended December 28, 2008

Both advertising and circulation rates for the print edition of the Times are among the highest – if not the highest – in the print industry. Times executives talk of a "virtuous circle" (or cycle) that has sustained the print version for at least the last two decades. Simply put, it posits that premium content (news and analysis) created by the news department has attracted a premium audience, willing to pay a premium price ($600-$700 for an annual subscription). And this, in turn, has attracted advertisers willing to pay a premium rate to reach this very affluent and very engaged audience. (The noncontract rate for a full-page, full-color ad in the Sunday Times is more than $200,000.) A significant portion of profits from these premium prices has been reinvested in the premium content – which has begun the cycle, or "virtuous circle," anew.

While ad revenues for the average newspaper declined 18% in 2008 vs. 2007, the Times Media Group experienced a less severe 12% drop, in part because only 15% of its advertising dollars are currently derived from classified advertising, the category that has been most decimated by the switch from print to online alternatives.

The Times advertising mix is more similar to that of a national-circulation magazine than a typical newspaper – with 70% of 2008 ad revenues of $1.1 billion coming from national advertisers (such as entertainment, financial and technology companies). While the Times does not disclose how much of its ad revenue is attributable to the Sunday paper, industry analysts calculate that at least half of a typical newspaper's revenues and profits come from this one edition, and the Sunday Times is legendary for its size and heft.

The Times attributes much of the 2008 decline in national print advertising to the severe economic downturn (and not to a secular switch from print to digital alternatives). While the Times has enjoyed, until recently, double-digit growth of online advertising, that advertising is priced at a fraction of the print rates. Therefore, it accounts for only an estimated 10-15% of total Times advertising revenues. Recently, its growth has slowed considerably, and even declined in the fourth quarter of 2008 and first quarter of 2009.

Circulation revenue in 2008 grew more than 3% due to rate increases (an annual daily subscription to the Times print version is now more than four times as expensive as a subscription to the print version of the Wall Street Journal, for example). But circulation continued a steady decade-long decline to 1.5 million on Sunday (down 15% from its peak) and roughly 1 million on weekdays. As the print circulation decline continues, analysts point out that revenue will also eventually decline since the online version of the Times – nytimes.com with 20 million visitors a month – remains free to non-subscribers.

**Implications and Questions**:

- Is it possible for the Times to manage an eventual profitable migration of much of its national print advertising to online, establishing a digital version of the "virtuous circle", similar to one that nurtured the print edition? Can ad rates be priced on the efficiency of reaching a smaller, premium audience vs. a large audience of "eyeballs"?

- Can nytimes.com begin to charge nonsubscribers for access to its content – implementing either a micropayment system (advocated by Steven Brill in recent articles) or, alternatively, placing some of its proprietary content behind a pay wall? (The Journal, which charges non-subscribers $100 for yearly access to proprietary content on wsj.com, recently reported combined paid online/print circulation of 2 million. Annual circulation revenues for both the print Journal and the online Journal were an estimated $300 million in 2008. This is substantially less than the Times because the cost of the print subscription is so much less – $120 for the print Journal vs. $600-700 for the print version of the Times. But the Journal has been able to offset losses in print circulation revenue with online circulation revenue because most of wsj.com content is behind a pay wall.)

## The Cost Side and Profit Picture

While the Times revenue muscle is extraordinary, there is not a corresponding benefit to the bottom line. Analysts have estimated that as much as 90% of the Times operating costs are fixed. As a result, even in “good” years, the Times Company has operating margins considerably below the industry average of 20-30%. In 2007, the operating margin for the Times Company, which included results from the Globe and the regional newspapers, was 11%.

Much attention has been focused on the cost of the Times news operation (which supports both the print and online editions) – publicly reported to be $200 million annually, or roughly 10% of operating revenue of the Times Media Group. But much more of the Times cost structure is associated with supporting a legacy printing and distribution system. Although the Times does not itemize production costs, industry observers estimate that as much as 50% of operating costs support its printing and distribution system.

**REVENUES AND COSTS: The New York Times Company**

| *(in millions)* | ***2008*** | ***2007*** |
|---|---|---|
| ***Revenues*** | | |
| *Total* | ***2,948.9*** | *3,195.1* |
| ***Operating Costs*** | | |
| *Total production costs* | ***1,315.1*** | *1,341.1* |
| *Selling, general and administrative costs* | ***1,332.1*** | *1,397.4* |
| *Depreciation and amortization* | ***144.4*** | *189.6* |
| *Total operating costs* | ***2,791.6*** | *2,928.1* |

Source: The New York Times Company 10-K for the fiscal year ended December 28, 2008

Labor costs to support production and distribution, as well as the creation of news, are largely determined by union contracts, some of which extend beyond 2011 and, in some cases, specify manning of equipment and lifetime guarantees, as well as pay scale. In recent weeks, the Times has enacted 5% pay cuts for nonunion employees and asked its unions for similar rollbacks. In its first quarter 2009 earnings release, the Times Company said it expects to save $330 million in operating costs this year. But analysts point out that the ad revenue decline—down 27% for the first quarter -- is outpacing the cost cutting. Dramatic restructuring of costs will still be needed to compete in a digital world.

### Implications and Questions:

- Is there any way, short of bankruptcy or sale, for the company to renegotiate and restructure its costs?

- At what point in the future should the Times consider discontinuing printing on certain weekdays – especially if they are unprofitable – and rely solely on digital transmission of its content at nytimes.com on those days?

## Debt and Other Liabilities

In addition to being saddled with higher costs than most newspapers, the Times is also carrying heavy debt – $1 billion. The Times debt rating was recently downgraded to "junk" status by Standard & Poor's and Moody's.

Most analysts believe that recent actions – "mortgaging" the new headquarters and refinancing $250 million in debt with Mexican telecommunications entrepreneur Carlos Slim Helu at 14% interest – "bought" the Times two years, when the next major debt payment is due.

But barring an unexpected turn-around in ad revenues, the Times Company may have to sell most of its assets to meet the next set of debt obligations. These assets include the New England papers (including the Globe), the regional papers, radio station WQXR and equity interests in a variety of businesses, including the Boston Red Sox. Estimates on how much these properties would bring to the Times range from $250 million to $450 million – or as much at $1 billion if About.com (valued at between $450 million and $675 million) is included.

"The New York Times as a product is likely to be a survivor. Although they have a very heavy and inflexible cost structure, they have significant reach and a loyal audience that represents an attractive demographic for advertisers," said Mike Simonton, senior director and media analyst with Fitch Ratings. "That said, the New York Times as a company may not be able to survive over the long-term, given its significant debt load."

In addition to its debt, the Times must address underfunding of $535 million in pension obligations, caused by the stock market decline.

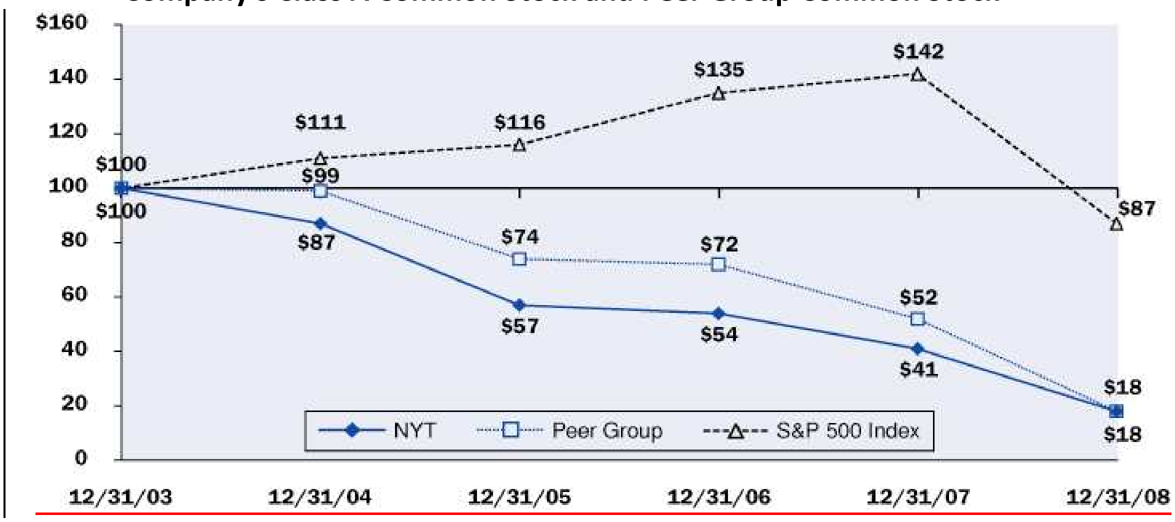
**Implications and Questions:**

- Will the Times be able to retire or meet its obligations without the support of an "angel" investor? In the current economy, many investors with cash are extending debt with covenants that dictate a conversion to preferred equity, putting them first in the line of creditors if bankruptcy occurs. Carlos Slim has the option to convert his debt to preferred shares.

**Stock History and Current Valuations**

In 2002, New York Times stock peaked at more than $52 a share, giving the company a market value of more than $5 billion. In April 2009, the stock has been trading at roughly $5 a share, which translates into a market value of $700 million.

**Stock Performance Comparison Between S&P 500, The New York Times Company's Class A Common Stock and Peer Group Common Stock**




Source: The New York Times Company 10-K for the fiscal year ended December 28, 2008

Recent debt rating services have valued the Times newspaper at between $900 million and $1.2 billion. The $1.2 billion valuation represents a premium of over 70 percent, comparable to the premium paid by News Corp for Dow Jones in 2007.

**Implications and Questions:**

- Short of liquidity issues that force a bankruptcy (which seems unlikely in the short-term), would the family be willing to sell the Times at any price?
- If the family was willing to consider selling, would it need to be compensated at a higher rate than the other owners of the common shares? If the Times were sold at $1.2 billion (the high end of the current valuation), the family, which owns 19% of the shares, would realize roughly $240 million, which at a 5% annual payout to members of the trust would yield only $12 million. (Until the dividends were suspended in December, the family trust annually received roughly $25 million, distributed to the 40 or so cousins. This suggests that the family would need to realize at least double the $240 million valuation of their shares.)

- Assuming the current debt holders would allow it, would an angel investor also assume responsibility for the outstanding liabilities and obligations ($1 billion in debt and $535 million in pension underfunding)? If so, this would bring the sales price closer to $3 billion (depending on whether the family received a "premium" for its shares)?

### Macroeconomic Issues

The newspaper industry, in general, and the Times, very specifically, are caught in the middle of an economic paradox commonly referred to as "creative destruction." The internet and all that it has wrought has wreaked havoc on the revenue models of traditional media companies (starting with classified ads, but now threatening the national advertising model, too) and rendered the cost structure antiquated and obsolete.

Companies in the midst of such large-scale economic turmoil have traditionally had three options, according to Richard Foster, Yale School of Management senior faculty fellow and co-author of *Creative Destruction: Why Companies That Are Built to Last Underperform the Market:*

"They can attempt to keep growing, changing the profitable bits and shedding the unprofitable operations. But if a company waits too long to begin this, all they can do is the reverse – i.e. sell the profitable bits. They can sell to either a private equity firm, or to another similar company, such as Polaroid could have done with Kodak. Or they can declare bankruptcy and shut down, a difficult row to hoe, not to mention, humiliating."

**Implications and Questions**:

- How is the Times best positioned to withstand the gales of destruction, transforming and adapting its current business model for the digital age – as a nonprofit or for-profit institution?

## Exploring Four Potential Options for The Times

The options represented here seek to address one or more of the financial issues discussed in the previous section. Two of them – setting up an endowment or seeking foundational support – focus solely on ways to protect or insulate the Times news department from economic turmoil.

The other two options – purchase by an educational institution or by an "angel" investor – take a broader look at ways to shore up the finances of the entire institution, either by taking advantage of the tax breaks for nonprofits, or by restructuring the revenue models and legacy production costs to bring delivery of the Times fully into the digital age − most likely a for-profit solution. (These four alternatives do not consider the legal implications, only the financial ones.)

**Alternative 1: Establishment of an endowment that would provide funds to support the news department's annual $200 million budget.**

*"Aside from providing stability, an endowment would promote journalistic independence. The best-run news organizations insulate reporters from pressures to produce profits or to placate advertisers. But endowed news organizations would be in an ideal situation – with no pressure from stockholders or advertisers at all."*

"News You Can Endow," David Swensen and Michael Schmidt
--*The New York Times, Jan. 28, 2009*

In a Times Op Ed piece, the chief investment officer at Yale admonished "enlightened philanthropists" to "act now or watch a vital component of American democracy fade into irrelevance." He calculated the price tag for endowing the Times news-gathering operations, with annual costs of $200 million, at $5 billion, assuming a 5 % annual payout from the endowment.

In addition to providing stability and journalistic independence, endowments, the authors argued, would allow newspapers, which serve a public good, to benefit from tax breaks for nonprofit organizations.

The article acknowledged at least one constraint – the need to refrain from endorsing candidates for public office, which could be a major stumbling block since newspapers owners have historically viewed the editorial page as a vehicle for influencing political discourse and been willing to pay a premium for that podium. Numerous articles and blog posts have articulated several other drawbacks, including concerns about a lack of accountability with nonprofit boards of directors.

But the strongest arguments against the endowment option take issue with the economics of the proposal. Even heavily endowed universities have suffered significant declines in their investment portfolios this past year. The Yale University endowment, for example, dropped 25% between June and December 2008. Such significant declines decrease the available annual payout. This means that while endowments might insulate reporters from pressure from stockholders or advertisers, they would not be protected from macroeconomic pressures and downturns.

And then there is the matter of who exactly would fund an endowment of $5 billion? On the most recent Forbes list of the world's wealthiest individuals, only six have a net worth of more than $20 billion. The top two wealthiest – Bill Gates and Warren Buffet – have already committed the majority of their fortunes to another cause. The third wealthiest is Carlos Slim Helu, worth $22.5 billion. He has already invested $127 million in the Times, buying 6% of the shares in September 2008 at $15 a share. He also recently extended the $250 million loan. New York Mayor Michael Bloomberg, number 17 on the Forbes list at $16 billion net worth, is also frequently cited as a potential "angel" investor.

But why would these investors establish an endowment of $5 billion that would support in perpetuity the salaries and related benefits of the news operation *if* there was the opportunity to buy *all* the assets of the Times for less (based on current valuations) and restructure the costs and debt load for the 21st century?

**Alternative 2: Foundational support for some portion of the Times journalistic endeavor – perhaps its foreign or cultural coverage.**

The annual $200 million news budget for the Times supports a veritable high-end supermarket of both the print and online news franchises – ranging from investigative reporting to fashion and book reviews. Given the high price tag of endowing the entire Times news operation, would it be possible to provide nonprofit support to one or more of its valuable "watchdog" news franchises – such as international reporting or national politics – or one of its unique consumer news franchises – such as cultural or science coverage?

While the Times does not break out the costs for individual news desks or sections, some industry observers have estimated that the most expensive Times news operation, probably the foreign desk, consumes a third of the annual budget, or $60-70 million annually. This would require an endowment from an "enlightened philanthropist" of slightly more than $1 billion – or annual bequests from a variety of large and small contributors that would total more than $60 million.

There are a number of nonprofit foundational news-gathering organizations in existence – ranging from MinnPost to NPR. Some depend solely on annual grants, some on a combination of grants and contributions, and some on a combination of endowments, grants and contributions.

The Council on Foreign Relations is an example of a nonprofit that receives roughly $68 million in revenue and support annually and might serve as a proxy for how a foundation that supports the Times foreign operation might generate annual financial support.

The financial support for operations at the Council comes from a variety of sources: memberships and annual giving ($17 million), grants and fellowships ($29 million), Foreign Affairs, book sales, meetings and rentals ($13 million) and funds derived from investments of a $250 million endowment ($9 million). (For a complete breakdown of The Council on Foreign Relations' 2008 revenues, see Appendix C.)

This alternative – creating a nonprofit foundation to support a specific journalistic endeavor – comes with a much lower price tag and initial cash outlay than the pure endowment alternative, and it opens up the possibility of pursuing funding from a variety of sources.

However, accountability is a significant concern. Who determines, for example, what is a foreign desk expense vs. a national desk expense? Are the salary and expenses of the reporter who covers the State Department assigned to the foreign desk or the Washington bureau?

The Council on Foreign Relations model also has other economic and management drawbacks. As Joel Kramer of MinnPost points out, most grants from philanthropic organizations are time-specific (i.e. they do not continue in perpetuity), which means the nonprofit foundation head has to continually seek new funding sources to replace the grants that are expiring. And the size of grants – as well as of charitable contributions and individual memberships – can fluctuate significantly, depending on the economy.

**Alternative 3: Purchase of the Times by an educational institution or university.**

The St. Petersburg Times/Poynter Institute is the best known pairing of a newspaper with a nonprofit educational institution.

But this alternative contemplates a different scenario. Instead of creating a university-sized endowment to support the news operations, suppose a university or a consortium of universities used money from their endowments to purchase the Times and incorporate it as a nonprofit company. It could be similar in structure to the Harvard Business School Publishing Company, whose publishing enterprises include the Harvard Business Review, Harvard Case Studies and Harvard Business School Press. All proceeds from HBSP are returned to Harvard Business School, which typically uses the funds to pay operating expenses.

Under this scenario, the New York Times could remain an independent, professionally run corporation with competitive compensation for employees. (HBSP, for example, has a CEO, as well as publishers and editors for the various publications.) It would also be free to continue to charge for subscriptions and advertising.

Another university-sponsored alternative could be the model used by WARF, short for the Wisconsin Alumni Research Foundation. WARF holds patents on all University of Wisconsin research, and returns the money from those patents to the university as annual unrestricted grants. In addition, it raises money from alumni for the university's research. Could there be a similar nonprofit organization composed of both of civic-minded individuals and philanthropic organizations collectively supporting the Times and its "research" mission?

If a university were to consider either of these two options, it would have to determine that the Times (without such financial obligations as taxes, debt and cash dividends to shareholders) could provide an acceptable ROI (return on investment) – in other words, annual earnings that could be reinvested in the supporting educational institution.

EBITDA (earnings before interest, taxes, depreciation and amortization) and net cash from continuing operations (which reflects income before dividends) give some indication of past performance, and potential future income. In 2008, even with a significant decline in print advertising revenue across all divisions, EBITDA for the Times Company was $300 million, and cash from continuing operations was $248 million. Assuming the Times newspaper shoulders a disproportionate share of the costs for the company, it would appear that EBITDA or cash from continuing operations for the newspaper alone was in the $100 million to $150 million range.

However, analysts are estimating that EBITDA will decline again in 2009 and possibly beyond, barring a significant turn-around in ad revenue or a restructuring of costs. If a university determined that the Times would not be an immediate cash drain, it would still have to devote considerable management bandwidth to transforming the Times business model, on both the revenue and cost side, in order to get the ROI more in line with other alternative investments it might pursue. Even in the best of economic times, managing and operating one of the nation's largest daily newspapers is infinitely more complicated than overseeing a periodical and book company (Harvard Business School Publishing) with a fraction of the Times' revenues.

**Alternative 4: Sale of the Times to an "angel" investor, who would be willing both to adequately compensate the Sulzberger family members and to assume or retire the debt and other liabilities.**

Given the management and administrative concerns that a university or institutional purchaser might encounter, would a single investor fare any better?

One of the main advantages of a sale to either an institution or an individual is that it might well precipitate a renegotiation with the unions and result in a restructuring of the Times' costs to make it more competitive and better able to survive and thrive in the digital age. Certainly an individual investor would have a better chance of maintaining the laser-like focus needed to implement transformational change.

A number of bloggers and journalists have suggested that the “perfect” angel is Michael Bloomberg. They point to his success at Bloomberg LP (which electronically delivers business news across multiple platforms from radio to online) and his public service track record as mayor of New York (as indication of his appreciation for the work of nonprofit institutions). Bloomberg has indicated on several occasions that he is not a “newspaper person” and knows “nothing about the production of a newspaper” but optimists point out that he has not definitively ruled out the possibility.

But what would be the advantage to Bloomberg of incorporating the Times as a nonprofit or an L3C (low-profit limited-liability company), if he could realign the cost structure – or align it with Bloomberg LP operations – so that The Times could compete and profit in the conversion from print to digital delivery of news?

The other potential “angel” is Carlos Slim Helu, who has the option of converting his recent $250 million loan to the Times into preferred shares, giving him ownership of 18% of Times’ common shares (roughly equivalent in number, but not voting power, to the Sulzberger family’s). He lost two-thirds of his original investment in the shares he purchased September 2008. His preferred shares would give him the option, if the company were forced into bankruptcy, of weighing in on alternatives. Presumably he would prefer alternatives that maximize his investment – most likely a for-profit solution. Or he might even prefer to purchase the Times himself.

## For Profit or Nonprofit?

“*Jonathan Knee, director of the media programme at Columbia Business School, likens newspapers’ ‘antiquated’ cost structures to those in the airline industry. Labour unions, the inefficient use of printing plants and distribution networks and journalists’ frequent reluctance to ask whether what they want to cover serves the interests of readers have all kept costs high, he argues.”*

> “When Newspapers Fold,” Andrew Edgecliffe-Johnson, *Financial Times, March 16, 2009*

So would the perfect “angel” be an investor with an old-fashioned, for-profit eye on the bottom line and a commercial vision for how to catapult newspaper management into the 21st century?

Richard Foster of Yale argues that, historically, companies in the throes of creative destruction have been much more likely to achieve transformational change if they stay in the for-profit arena.  For-profit investors are much more likely to have "the nerves of a gambler" (cited in *The Trust* as a desirable Times leadership trait) and a gambler's heightened sense of risk and return.

There have been numerous suggestions – in both the print and digital world – for "saving" the Times as a commercially viable enterprise.  Ironically, one of the more radical comes from the glossy pages of the 152-year-old Atlantic magazine, which cut its monthly publication to 10 times annually in 2003.

"Most likely, the interim step for The Times and other newspapers will be to move to digital-only distribution (perhaps preserving the more profitable Sunday editions)," wrote Michael Hirschorn in "End Times" in the January/February issue of Atlantic. "Already, most readers of The Times are consuming it online."

Fortune reporter Richard Siklos recently admitted on cnnmoney.com to cheering for anyone offering a solution for "saving" newspapers, including a Maryland Senator who introduced a proposal to give newspapers nonprofit status.  But after reviewing the obstacles inherent with the Senator's proposal and other nonprofit suggestions, he concluded:

*"How odd it would be if some papers opted for not-profit status, only to discover that others that did not, stuck it out and eventually thrived as for-profit businesses.  On paper—pardon the expression – endowed investigative news organizations like ProPublica and a similar endeavor just announced by The Huffington Post actually make more practical sense for now than endowed newspapers."*

*Non-profit newspapers? Not very likely,* Richard Siklos, *cnnmoney.com, March 30, 2009*

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**Appendix A**
**The New York Times Company 10-K, fiscal year ended December 28, 2008**

CONSOLIDATED STATEMENTS OF OPERATIONS

| (In thousands) | December 28, 2008 |
|---|---|
| ***Revenues*** | |
| Advertising | **$1,779,699** |
| Circulation | **910,154** |
| Other | **259,003** |
| Total | **2,948,856** |
| ***Operating Costs*** | |
| Production costs | |
| Raw materials | **250,843** |
| Wages and benefits | **622,692** |
| Other | **441,585** |
| Total production costs | **1,315,120** |
| Selling, general and administrative costs | **1,332,084** |
| Depreciation and amortization | **144,409** |
| Total operating costs | **2,791,613** |
| Impairment of assets | **197,879** |
| Net loss on sale of assets | **-** |
| Gain on sale of WQEW-AM | **-** |
| ***Operating Profit/(Loss)*** | **(40,636)** |
| Net income/(loss) from joint ventures | **17,062** |
| Interest Expense/Net | **47,790** |
| (Loss)/income from continuing operations before income taxes and minority interest | **(71,364)** |
| Income tax (benefit)/expense | **(5,726)** |
| Minority interest in net (income)/loss of subsidiaries | **(501)** |
| (Loss)/income from continuing operations | **(66,139)** |
| Discontinued Operations, Broadcast Media Group: | |
| Income from discontinued operations, net of income taxes | **-** |
| Discontinued operations, net of income taxes | **8,300** |
| ***Net (loss)/income*** | **(57,839)** |

**Appendix A (cont.)**
**The New York Times Company 10-K, fiscal year ended December 28, 2008**

CONSOLIDATED BALANCE SHEETS

| (In thousands) | December 28, 2008 |
|---|---|
| ***Assets*** | |
| ***Current Assets*** | |
| Cash and cash equivalents | **$56,784** |
| Accounts receivable (net of allowances: 2008 - $33,838; 2007 - $38,405 | **403,830** |
| Inventories | **24,830** |
| Deferred income taxes | **51,732** |
| Other current assets | **87,024** |
| Total current assets | **624,200** |
| ***Investments in Joint Ventures*** | **112,596** |
| ***Property, Plant and Equipment*** | |
| Land | **131,547** |
| Buildings, building equipment and improvements | **901,698** |
| Equipment | **1,158,218** |
| Construction and equipment installations in progress | **100,586** |
| Total - at cost | **2,292,049** |
| Less: accumulated depreciation and amortization | **(938,430)** |
| Property, plant and equipment - net | **1,353,619** |
| ***Intangible Assets Acquired*** | |
| Goodwill | **661,201** |
| Other intangible assets acquired (less accumulated amortization of $53,260 in 2008 and $232,771 in 2007) | **51,407** |
| Total intangible assets acquired | **712,608** |
| ***Deferred Income Taxes*** | **377,237** |
| ***Miscellaneous Assets*** | **221,420** |
| ***Total Assets*** | **$3,401,680** |
| ***Liabilities and Stockholders' Equity*** | |
| ***Current Liabilities*** | |
| Commercial paper outstanding | **$ -** |
| Borrowings under revolving credit agreements | **380,000** |
| Accounts payable | **174,858** |
| Accrued payroll and other related liabilities | **104,183** |
| Accrued expenses | **194,703** |
| Unexpired subscriptions | **80,523** |
| Current portion of long-term debt and capital lease | **98,969** |

| | |
|---|---|
| obligations | |
| Total current liabilities | **1,033,236** |
| ***Other Liabilities*** | |
| Long-term debt | **573,760** |
| Capital lease obligations | **6,646** |
| Pension benefits obligation | **855,667** |
| Postretirement benefits obligation | **149,727** |
| Other | **275,615** |
| Total other liabilities | **1,861,415** |
| Minority Interest | **3,066** |

**Appendix A (cont.)**
**The New York Times Company 10-K, fiscal year ended December 28, 2008**

CONSOLIDATED STATEMENTS OF CASH FLOWS

| (In thousands) | December 28, 2008 |
|---|---|
| ***Cash Flows from Operating Activities*** | |
| Net (loss)/income | **(57,839)** |
| Adjustment to reconcile net (loss)/income to net cash provided by operating activities: | |
| Impairment of assets | **197,879** |
| Depreciation | **127,656** |
| Amortization | **16,753** |
| Stock-based compensation | **15,431** |
| Excess distributed earnings/(undistributed earnings) of affiliates | **957** |
| Minority interest in net income/(loss) of subsidiaries | **501** |
| Deferred income taxes | **(18,958)** |
| Long-term retirement benefit obligations | **(2,981)** |
| Gain on sale of Broadcast Media Group | **-** |
| Loss on sale of assets | **-** |
| Gain on sale of WQEW-AM | **-** |
| Excess tax benefits from stock-based awards | **-** |
| Other-net | **(17,196)** |
| Changes in operating assets and liabilities, net of acquisitions/dispositions | |
| Accounts receivable - net | **42,093** |
| Inventories | **2,065** |
| Other current assets | **2,752** |
| Accounts payable | **10,779** |
| Accrued payroll and accrued expenses | **(48,571)** |
| Accrued income taxes | **(23,170)** |
| Unexpired subscriptions | **(587)** |
| Net cash provided by operating activities | **247,564** |
| ***Cash Flows from Investing Activities*** | |
| Proceeds from the sale of the Broadcast Media Group | **-** |
| Proceeds from the sale of WQEW-AM | **-** |
| Proceeds from the sale of Edison, N.J., assets | **-** |
| Capital expenditures | **(166,990)** |
| Payment for purchase of Edison, N.J., facility | **-** |

| | |
|---|---|
| Acquisitions, net of cash acquired of $2,353 in 2008 and $1,190 in 2007 | **(5,737)** |
| Investments sold | **-** |
| Other investing payments | **(2,784)** |
| Net cash (used in)/provided by investing activities | **(175,511)** |
| ***Cash Flows from Financing Activities*** | |
| Commercial paper borrowings - net | **(111,741)** |
| Borrowings under revolving credit agreements - net | **185,000** |
| Construction loan | **-** |
| Long-term obligations: | |
| Reduction | **(49,561)** |
| Capital shares: | |
| Issuance | **-** |
| Repurchases | **(231)** |
| Dividends paid to stockholders | **(108,541)** |
| Excess tax benefits from stock-based awards | **-** |
| Other financing proceeds - net | **17,715** |
| Net cash used in financing activities | **(67,359)** |
| Net increase/(decrease) in cash and cash equivalents | **4,694** |
| Effect of exchange rate changes on cash and cash equivalents | **558** |
| Cash and cash equivalents at the beginning of the year | **51,532** |
| Cash and cash equivalents at the end of the year | **56,784** |

**Appendix B**

## World's Richest Billionaires (Forbes 03/11/09)

| Rank | Name | Citizenship | Age | Net Worth ($bil) | Residence |
|---|---|---|---|---|---|
| 1 | William Gates III | United States | 53 | 40.0 | United States |
| 2 | Warren Buffett | United States | 78 | 37.0 | United States |
| 3 | Carlos Slim Helu & family | Mexico | 69 | 35.0 | Mexico |
| 4 | Lawrence Ellison | United States | 64 | 22.5 | United States |
| 5 | Ingvar Kamprad & family | Sweden | 83 | 22.0 | Switzerland |
| 6 | Karl Albrecht | Germany | 89 | 21.5 | Germany |
| 7 | Mukesh Ambani | India | 51 | 19.5 | India |
| 8 | Lakshmi Mittal | India | 58 | 19.3 | United Kingdom |
| 9 | Theo Albrecht | Germany | 87 | 18.8 | Germany |
| 10 | Amancio Ortega | Spain | 73 | 18.3 | Spain |
| 11 | Jim Walton | United States | 61 | 17.8 | United States |
| 12 | Alice Walton | United States | 59 | 17.6 | United States |
| 12 | Christy Walton & family | United States | 54 | 17.6 | United States |
| 12 | S. Robson Walton | United States | 65 | 17.6 | United States |
| 15 | Bernard Arnault | France | 60 | 16.5 | France |
| 16 | Li Ka-shing | Hong Kong | 80 | 16.2 | Hong Kong |
| 17 | Michael Bloomberg | United States | 67 | 16.0 | United States |
| 18 | Stefan Persson | Sweden | 61 | 14.5 | Sweden |
| 19 | Charles Koch | United States | 73 | 14.0 | United States |
| 19 | David Koch | United States | 68 | 14.0 | United States |
| 21 | Liliane Bettencourt | France | 86 | 13.4 | France |
| 22 | Prince Alwaleed Bin Talal Alsaud | Saudi Arabia | 54 | 13.3 | Saudi Arabia |
| 23 | Michael Otto & family | Germany | 65 | 13.2 | Germany |
| 24 | David Thomson & family | Canada | 51 | 13.0 | Canada |
| 25 | Michael Dell | United States | 44 | 12.3 | United States |
| 26 | Donald Bren | United States | 76 | 12.0 | United States |
| 26 | Sergey Brin | United States | 35 | 12.0 | United States |
| 26 | Larry Page | United States | 36 | 12.0 | United States |
| 29 | Steven Ballmer | United States | 53 | 11.0 | United States |
| 29 | Gerald Cavendish Grosvenor & family | United Kingdom | 57 | 11.0 | United Kingdom |
| 29 | George Soros | United States | 78 | 11.0 | United States |
| 32 | Paul Allen | United States | 56 | 10.5 | United States |
| 32 | Kwok family | Hong Kong | NA | 10.5 | Hong Kong |
| 34 | Anil Ambani | India | 49 | 10.1 | India |
| 35 | Abigail Johnson | United States | 47 | 10.0 | United States |
| 35 | Susanne Klatten | Germany | 46 | 10.0 | Germany |
| 35 | Ronald Perelman | United States | 66 | 10.0 | United States |
| 35 | Hans Rausing | Sweden | 83 | 10.0 | United Kingdom |

Source: http://www.forbes.com/lists/2009/10/billionaires-2009-richest-people_The-Worlds-Billionaires_Rank.html (accessed April 15, 2009)

**Appendix C**

**The Council on Foreign Relations Annual Report for the fiscal year ended June 30, 2008**

| | 2008 Total |
|---|---|
| ***Operating revenue and support*** | |
| Membership dues | **$4,827,400** |
| Annual giving | **5,701,100** |
| Corporate membership and related income | **6,892,100** |
| Meetings | **1,196,800** |
| DC meetings | **674,300** |
| International Affairs Fellowship | **236,600** |
| Grants and contributions for Studies | **17,750,900** |
| Other grants and contributions | **10,581,900** |
| *Foreign Affairs* publications | **7,924,800** |
| Book publications | **53,600** |
| Investment return used for current operation | **9,405,500** |
| Rental income | **1,771,500** |
| Miscellaneous | **891,700** |
| ***Total operating revenue and support*** | **67,908,200** |
| Net assets released from restrictions | **-** |
| ***Total operating revenue and support*** | **67,908,200** |

**Duke Conference on Nonprofit Media**
**May 4-5, 2009**

## Subsidizing the Watchdog: What would it Cost to Support Investigative Journalism at a Large Metropolitan Daily Newspaper?

James T. Hamilton
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The website Paper Cuts tracks the almost weekly decline in the number of working newspaper journalists in the US. Aggregating the reports of layoffs and buyouts, the site reported that at least 15,970 newspaper jobs disappeared in 2008 and more than 8,484 had been eliminated through April in 2009.[1] If you believe that the public interest is defined by the public's interest, these job losses are part of the friction involved in creative destruction. The firings are simply a painful adjustment as, in the language of economics, workers relocate to their next best alternative use from society's perspective.

An alternative viewpoint rooted in economics is that the public affairs information provided by newspapers has always been subject to market failure.[2] For news that helps you in your role as a worker, purchaser, or consumer of entertaining fare, you seek out the information because if you miss out on reading it you miss out on its benefits. For news that would help you make a better voting decision, however, many people choose to remain rationally ignorant about politics. Given the low likelihood that your individual vote will matter, many people choose not to invest the time to follow what is going at the local courthouse, state capitol, or federal agency. This gap between what people want to know as readers and need to know as citizens means that newspapers do not face a strong demand for accountability or watchdog coverage.

If you go back 120 years, coverage of politics and government was directly subsidized by political parties in the US. If you go back 30 years, some of the families and individuals who owned papers were willing to trade off a measure of profits for expanded coverage which helped their communities. In a world where profit rates were high, you could do well and do good at the same time. Even managers in publicly traded companies had some leeway in arguing for a need to maintain public service journalism.

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[1] For an updated count of US newspapers jobs lost, see http://graphicdesignr.net/papercuts/.

[2] For more on the economics of public affairs coverage, see James T. Hamilton, *All the News That's Fit to Sell: How the Market Transforms Information Into News*, (Princeton, NJ: Princeton University Press, 2004). Discussions that examine nonprofit news ventures as solutions to market failures include *News in the Public Interest: A Free and Subsidized Press,* the 2004 Breaux Symposium, and *New Models for News*, the 2008 Breaux Symposium, available at http://www.lsu.edu/reillycenter/Breaux_NewModels-News_Web.pdf.

Those days are gone. The reasons for the financial straits of many large metropolitan daily newspapers are numerous: flight of classified advertising to the web, the inability to charge for information on the web if there are multiple sources for the news, the low rates for ads on the Internet, and the dismal advertising decline caused by the recent economic downturn.

The journalism most at risk at many daily newspapers may be watchdog investigative pieces and accountability coverage of local and state governments. This type of news is very expensive to create. Once the investigations are conducted and news revealed, the information circulates freely. These stories can have great impact, leading to changes in laws and in who holds office. Yet if these stories are more expensive to create, they are less likely to be undertaken. Potential readers who will benefit from the policy changes are most often willing to be free-riders. Why take the time to follow state government or local city council meetings? Unless those reports are inherently interesting to a reader, most will pass and go on to a different set of stories.

Newspapers serve a watchdog function through beat reporting on state and local government and through stories produced by investigative reporters. Survey evidence suggests both types of coverage are not faring well. A recent survey by the *American Journalism Review* found:

… only 355 full-time newspaper reporters at the nation's state capitols, a 32 percent decrease from just six years ago. It discovered that 44 statehouses have fewer full-time reporters than they did six years ago.[3]

A 2005 survey by Arizona State University students of journalists at the top 100 newspapers in the US found that, "Newspapers care about investigative stories, but frequently don't back that up with resources that reporters say they need to do in-depth work."[4] As many metro dailies reposition themselves to focus more on local news, some do choose to differentiate their news offerings by focusing more on investigative reporting. A 2008 survey released by the Project for Excellence in Journalism found that almost a third of the newsroom executives surveyed said they were devoting more resources to investigative reporting than three years ago.[5] The rapid decrease in journalists staffing many of the beats associated with government, however, suggests that overall the watchdog function of local newspapers is threatened.

If the decline in reporters at large daily metro newspapers does translate into less watchdog and accountability coverage, nonprofits may have a role to play in helping to correct this market failure. This discussion paper examines how nonprofits might subsidize the creation of information by commercial media outlets. To illustrate how this might work, I will analyze

[3] See "Statehouse Exodus" at http://www.ajr.org/Article.asp?id=4721. The assessment of statehouse coverage also noted that some online sites devoted to state capitol coverage were being founded to help fill the void left by newspaper staff reductions.
[4] See "Today's Investigative Reporters Lack Resources" at http://www.azcentral.com/specials/special01/0528bolles-stateofreporting.html.
[5] See "Changing Content: What Topics Are Losing Space and Resources" at http://www.journalism.org/node/11963.

how nonprofits could support accountability journalism at a hometown source for people in the Research Triangle area – *The News & Observer* (*N&O*).[6]

The Raleigh *News and Observer* has an illustrious history and a strong reputation for innovative, effective news coverage. The editorial page each day reprints a quotation from the will of former editor and publisher Josephus Daniels (editor and publisher from 1894-1948):
I advise and enjoin those who direct the paper in the tomorrows never to advocate any cause for personal profit or preferment. I would wish it always to be 'the tocsin' and to devote itself to the policies of equality and justice to the underprivileged. If the paper should at anytime be the voice of self-interest or become the spokesman of privilege or selfishness it would be untrue to its history.

When Leonard Downie Jr. and Robert Kaiser published the *News about the News* in 2002, they profiled the *N&O* in their discussion of how newspapers originate most of the news in local markets. Assessing the paper, whose 165,000 daily circulation at the time made it the 67th largest newspaper in the country, Downie and Kaiser noted (p. 75):

The *News & Observer* stands out from most American newspapers because of its ambition and its execution. … Raleigh, its region and the state of North Carolina are all better communities because the *News & Observer* is their paper. The paper challenges resident officials to confront serious issues. It creates a sense of shared experience that strengthens the connections among individuals and institutions in its area. Not incidentally, it enables readers to know what's happening that could affect their lives.

The newspaper today has the same aspirations, but radically fewer resources due to the economic factors affecting large metro dailies everywhere. In 2004 the *N&O* newsroom had 250 employees. By fall 2006 that dropped to 233. By the end of April 2009, the number of newsroom employees stood at 132.

When the newsroom staff declines by nearly a half, this translates into stories that the paper cannot discover or tell because of limited resources. One way to think about what stories are less likely to be told today is to look at the slots no longer filled: Durham Courts Reporter; Durham Schools Reporter; Legal Affairs Reporter; Agriculture Reporter; Lead Growth Reporter; Science Reporter; Environment Reporter; and Statewide Public Education Reporter. A Workplace Reporter once produced stories on illegal immigrants in NC, visa violations, and companies avoiding unemployment taxes. The full-time Banking Reporter wrote about Fannie Mae and Freddie Mac's mortgage ties in the Triangle and about predatory lending in the state. The full-time Tech Reporter covered the Research Triangle Park companies, and the Pharma

[6] Residents of Durham, North Carolina have at least three newspapers that provide coverage of local government. The Durham *Herald Sun* had an average (Monday-Friday) circulation of 29,449 in Fall 2008, according to the Audit Bureau of Circulation. The Raleigh *News and Observer* had an average circulation of 158,573 in that time period. The *Independent Weekly*, a locally owned alternative weekly which has won many national investigative awards, had an audited circulation of 44,392 in June 2008. This discussion paper will focus on the *News and Observer*, but nonprofits and foundations interested in supporting accountability coverage in the Triangle area would also consider these other outlets as potential sources for stories to support.

Reporter covered local drug and health companies. With all those full-time reporters gone, the odds of similar series and stories being written have declined.

The topics at the heart of the local accountability coverage now reduced by the *N & O* – education, environment, immigration, growth, poverty – are the same topics that are of concern for many local nonprofits and foundations in North Carolina. If a nonprofit or foundation were interested in subsidizing particular types of coverage in the paper, one question that emerges is what different levels of funding might generate. Likely scenarios might include:

*Funding a beat reporter for one year* *$61,500*

A reporter making $50,000 (and generating a benefits charge of 22%) could be funded to write about a particular beat, such as local courts or the environment.

*Funding an investigative reporting unit for one year* *$500,000*

A strong investigative unit might include an editor, three reporters, a researcher, and travel and legal expenses. The unit might generate 2-3 extended investigative series per year. To develop the 2-3 series, the unit would also engage in explorations that sometimes result in shorter, or no, stories.

*Funding a dedicated page each week* *$106,000*

With print and ink, a printed page in the *N&O* costs $750. Multiplied by 52 weeks a year, the printing costs come to $39,000. If a page took 2/3 of a reporter to produce each week and 1/5 of an editor, this would translate into writing costs of nearly $67,000. This could support a weekly science or education page.

*Funding an investigative series* *$200,000*

In December 2008 the *N&O* published a three-day series on the operation of the probation system in North Carolina, which found since the beginning of 2000 that 580 NC probationers had killed people.[7] The series intensified the debate over the probation system, a debate which led the new governor to propose expanded funding and program changes. A series like that might involve the time of one reporter for six months, two reporters and an editor for three months, a database researcher for two months, another researcher and photographer for a month, and legal and travel expenses. While a three-day series might involve ten initial articles that were expensive to develop, there would be many (lower-cost) follow-up stories as policymakers reacted to the problems identified or as new tips came in.

The benefits of the accountability coverage by the *N&O* are widely distributed across the residents of the Research Triangle area and (for its state government coverage) the state of North Carolina. These benefits are often unrecognized. If the probation system had worked more efficiently in North Carolina, many of the victims of homicides committed by people who were in violation of their probation terms would still be alive today. But they would never know

[7] The December 2008 probation series in the *News and Observer* can be found at http://www.newsobserver.com/probation/.

their good fortune was attributable to a well functioning probation system. Even when people recognize that a newspaper generates a public good, such as better educational outcomes in the public school system generated by media scrutiny, they have the incentive to sit back and free ride. If the stories are written, local residents will benefit regardless of whether they read the paper (and generated revenue through subscriptions, or the sale of their attention to advertisers).

Nonprofits and foundations in North Carolina exist in part to help overcome these public goods problems. They aggregate contributions and bequests and target their resources to help remedy problems not solved easily by the market or government. Potential contributors to subsidies for the *N&O* face an interesting set of questions as they consider how their support for the watchdog function might work:

*Uncertainty*: Funders of a beat reporter or investigative unit would not know when making their grant what stories will be produced. The general area might be specified (e.g., environment, education), but the actual output would be uncertain. In part this is because for investigative reporting the *N&O* will often have to explore many leads that prove unpromising before settling on a series topic. Even if funders could envision the content of stories, the articles produced are part of a long chain of causation in the policy process. Once information is revealed, there still remains the uncertainty about how it will be used and the impact it will have on policymakers.

*Expansion, not substitution:* When subsidies are given for one area of coverage, the temptation might be to draw down current staffing in that area and simply substitute nonprofit funds for current newspaper resources. If this happened then overall coverage of an issue might not increase at a paper. This suggests that funders might want to pick areas that are clearly not supported now in current coverage, or want to link their support to a given level of matching effort by the newspaper. If one were interested in increasing investigative coverage, for example, the support might specify that funds would go to creation of more reporting slots in addition to the currently maintained level of the investigative unit.[8] Support for coverage might best be provided in at least a two-year commitment, since this would allow the paper time to hire and plan and would allow the funder time to see how the arrangement was working.

*Support metro daily, or an organization focused on accountability reporting:* The *N&O* has many comparative advantages in producing watchdog coverage: wide circulation in print and the web; a brand-name reputation for accuracy and excellence; experienced reporters; and the ability to spread fixed costs such a legal work, liability coverage, database costs, and editors across many types of stories. A stand-alone reporting organization focused on local public affairs, organized as a nonprofit, and publishing only on the web would not have these advantages. But the stand-alone unit would have another set of benefits: ability to focus on public affairs coverage; ability to hire reporters at lower cost (and free-ride off experience these journalists may have gained at metro dailies); and freedom from costs associated with parent company debt or printing and distribution costs.

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[8] In April 2009 the *N&O* announced it was shifting a reporter from another beat to the investigative unit, which gave the unit three reporters. In an era of declining resources overall, the *N&O* is increasing the share of resources available to investigative reporting.

*Commercial media versus nonprofit media support:* The large reduction in news staffs across the country in 2008 did not mean that each of the newspapers cutting staff was unprofitable. For some metro dailies, cuts were made to enable the newspaper to send profits back to the parent company to pay for debt service generated by media property acquisitions made when industry outlooks were much brighter. This means that subsidies by nonprofits and foundations could be going to some newspapers that were profitable in 2008 or are still profitable in 2009. To prevent the subsidies from simply allowing a paper to substitute nonprofit funds for company resources and send the gain back as profit to a parent company to pay off debt, nonprofits and foundations would want to make sure that their support went to generate accountability coverage that otherwise would not exist. This could be done by specifying particular beats and topic areas, or requiring a given level of matching funding by the newspaper. Support for nonprofit media would not entail these concerns.

The *News & Observer* also faces an interesting set of questions if it were to consider accepting grants from nonprofits or foundations. (Note that this background paper does not consider the legal requirements associated with foundation support for a commercial enterprise, which might entail the foundation grant being made to a nonprofit, which would then contract with the metro daily newspaper). Assuming that there were funders willing to support the watchdog coverage by the *N&O*, the newspaper would consider many factors to make sure the support were consistent with its Ethics Policy, a code that begins with this statement:

For the News & Observer to be the Triangle's primary source for news and information, we must have the trust and confidence of our readers. Readers must know that the newspaper that arrives at their doorstep every morning is there to serve them – not politicians of a certain stripe, not special interest groups. That puts the burden on us – editors, reporters, copy editors, news researchers, photographers, designers, graphic artists and support personnel – to avoid conflicts of interest or even the appearance of such conflicts.

Issues the *N&O* would likely consider include:

*Transparency*: If a reporter, investigative unit, page, or series were supported by funds by a nonprofit or foundation, the newspaper would acknowledge this when the stories produced were printed. This would ensure that readers would understand that outside resources made the work possible.

*Nonpartisanship:* The set of nonprofits and foundations the paper would likely accept funding from would not include those with a partisan reputation or affiliation. Since the paper guards its reputation as a nonpartisan source for information about politics and government, accepting support from groups active in politics would violate its ethics code. Likely funders would probably look like a subset of current nonprofits and foundations that support local public radio.
*Independence:* All support for the creation of information comes with a cost. Subscription revenues focus attention on reader interests, and advertising flows make the attention of particular demographic groups desirable. Nonprofits and foundations providing support for newspapers do have the goal of changing the set of information created and consumed by people. It will be true that a newspaper will be more likely to cover a topic if it accepts support from a nonprofit or foundation. Yet the paper could retain its commitment to independence by

not promising particular outcomes in its stories and by not allowing funders to prescreen reports.

Working out whether nonprofits and foundations in North Carolina would be willing to support accountability/investigative work by the *News & Observer*, and how the paper might be willing to accept such support, will involve discussions that currently are not taking place. The *N&O* does now accept interns supported by some outside groups, such as a foundation supporting work by an intern writing about science or an intern sponsored by a group promoting the work of female sports writers. Indirectly these internships do help accountability coverage, because they free up the time of paid staffers who would otherwise be doing work performed by the interns. With the steep decline in the number of newsroom staff, however, nonprofit leaders in North Carolina and management at the *News & Observer* may want to consider whether now is the time to discuss whether outside grants to the newspaper would represent a desirable and feasible way to support the watchdog function in the Triangle area.

**Duke Conference on Nonprofit Media**
**May 4-5, 2009**

# The First Draft: Emerging Models for Regional and State Non-Profit Investigative Journalism Centers

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Over the past year a non-profit model for investigative and public service journalism at a state and local level has been developing across the U.S. In many ways the model follows the usual scenario of grassroots non-profit efforts: A few believers with little money join together to establish an organization to promote a particular cause.

In this case, the cause is investigative journalism. The believers are investigative reporters who have quit, been bought out, or laid off from traditional newspapers or broadcast stations. Often, the reporters are already disillusioned about pursuing investigations within the for-profit corporate setting because of the diminishing resources and management support over the past decade.

The reporters have already embraced the digital world and intend for their organizations to use computer-assisted reporting techniques – data analysis and visual representation of that analysis. They foresee their work as being presented first and foremost on the Web with the idea that the investigations can be spun off into print or broadcast products.

The reporters are attracted to a non-profit model because they believe it will allow them to focus more on their investigative work with fewer impediments and a truer mission.

They are encouraged by the successes of long-time national non-profits such as the Center for Investigative Reporting, the Center for Public Integrity and Investigative Reporters and Editors. In addition, they are aware of the models offered by new investigative journalism ventures such as Pro Publica, the Stabile Investigative Journalism Center at Columbia University, the Schuster Institute at Brandeis University and the Investigative Reporting Workshop at American University.

The reporters often approach a journalism department at a local university for part of their initial support. The reporters seek free office space and help with overhead, access to student help and interns, and significant institutional endorsement of their efforts. The departments are willing to enter into the collaboration because the reporters bring practical experience to the university. The reporters can teach classes and possibly create high profile projects that will bring attention to the university and improve the education of the students. They can provide internships at a time when news organizations are eliminating those positions and they can attract funding for projects that benefit both the centers and the universities.

The universities, however, generally cannot offer sufficient money for salaries and overhead. The reporters seek start-up money from foundations and individual donors that have supported investigative journalism in the past. The centers also consider whether to form independent 501(c)3 nonprofits that can enter into contracts with their host universities rather than be a part of the university.

**First steps**
In January, two centers announced their existence and each had followed a version of the scenario outlined above. The Wisconsin Center for Investigative Journalism began in Madison with an office at the University of Wisconsin and soon received a $100,000 grant from the Ethics and Excellence in Journalism Foundation. The Wisconsin center is not a part of the university, but had applied for 501(c)3 status, which it recently received.

The center's executive director is Andy Hall, a long-time investigative journalist who left his job at the Wisconsin State Journal. He has a five member board – four are journalists - of which I am president. His wife assists him on a volunteer basis and he is in the process of hiring three student interns. He plans to collaborate on investigative work with university classes, mainstream media outlets and nonprofit newsrooms.

The New England Center for Investigative Reporting established itself at Boston University as a part of the Journalism School with a $250,000 grant from the James S. and John L. Knight Foundation. The center's founders are Joe Bergantino and Maggie Mulvihill, both long-time investigative reporters. Their operations are run through the university's journalism school and they have a journalism advisory board of which I am a member.

Investigative reporters throughout the U.S. have contacted the founders of these two organizations and reporters, who were recently laid off from the Seattle Post-Intelligencer, are close to establishing a center at the University of Washington. Reporters who lost their jobs when the Rocky Mountain News closed also are in ongoing discussions with the journalism department at the University of Colorado. Similar efforts are underway in several other states by reporters who have not yet left their jobs.

Although the reporters have expressed dismay at the lack of resources for investigations in mainstream news organizations, they plan to collaborate with those organizations and hope to supplement the mainstream offerings. They also plan to collaborate with other non-profit journalism organizations - from the local NPR and PBS stations to the national non-profit investigative reporting centers.

To be sure, there are other state and regional models. The Texas Watchdog group, which formed last year with major funding from one Chicago foundation, has no university affiliation. The Voice of San Diego began with the contribution of one donor, but is working to be self-sustaining through other revenue.
In another example, Walter Robinson, a former investigative editor at the Boston Globe now at Northeastern University, produces investigative stories with his students that appear in the Globe. Many other journalists turned professors at other schools also develop investigative stories that are published in a newspaper, are broadcast or appear on the Web.

**The Challenges**
The obvious challenge for all these efforts is sustainability and all the underlying factors.

**The Under-funded Start-Up**
The centers are under-funded. The grants they receive are not intended to ensure much more than a year, if that, of operation. The grants allow the reporters to have a salary while they build the organization. But that also ensures that the reporters will have to juggle their time so that they can produce investigative stories (their mission) while attending to administrative and fundraising duties.

**Fundraising**
The new centers again follow the model of the traditional grass-roots nonprofits, where success partly depends on knowledgeable professional volunteers who can help with fundraising. In general, the investigative reporters have had little experience with fundraising and the first start-up grant is often the first grant they have worked on and been awarded. This means they must simultaneously learn how to fundraise while working on investigative stories.

**Management Experience**
Many of the centers are being established by reporters who have little management experience in a newsroom, but important, have little or no management experience in non-profit businesses or in the university environment.

This means that the reporters may be further drawn away from their primary work by learning about accounting systems, working with boards and deans, managing interns and staff, and bringing in revenue to pay expenses.

**The University Setting**
By being in a university setting - whether as an independent nonprofit or being a part of a university - the centers will have to deal with a traditional bureaucracy that has the potential to slow grant processing and contracts for months. Despite the public entreaties of chancellors and provosts to university middle managers to become nimble, quick and entrepreneurial, university offices can take weeks and sometimes months to process grants, approve hires and contracts. Without support from top administrators, centers can lose precious time to get mundane tasks done.

In addition, university lawyers often are not familiar with media law and also may worry about the safety of students in doing projects. Because of that, they may be so cautious that it is not practical to carry out some investigative projects. In one recent case, an investigative journalism project – funded by a private foundation - decided to move from a university to an independent investigative center because of the university’s concern over libel and safety issues.

**Administration of the Independent Non-Profit**
The independent 501(c)3s also have their special challenges. If they are not a part of the university, they face a host of business and funding issues.

The founders of independent centers have more administrative tasks, even if they are able to move on them faster than a university. Those tasks range from accounting to the need for insurance - both media insurance and insurance to cover any errors and omissions by the organization.

They also have to make pro bono arrangements with attorneys. In addition, they must create boards, which can bring their own challenges, ranging from too involved to too uninvolved.

**Needs and solutions**
Despite the wide array of challenges, regional and state centers are encouraged by the aforementioned national models that show that non-profit investigative journalism organizations can be successful and enduring. But the regional and state centers will have to deviate somewhat from those models.

**Pooling resources**
The independent nonprofit centers could benefit from sharing some management and accounting services. The processing of checks, benefits, and payments could be handled by one organization, such as the Tides Center or through a consortium. Management guidance could be ongoing online through seminars and discussions run by a management team.

While each of the centers has and will have data analysis expertise, it can be time-consuming to obtain data and to analyze it. Initially, the centers might consider teaming with national organizations on collaborating on data-heavy projects until the centers build up enough staff. The centers might each contribute to establishing a data institute that works with the national centers since national centers might be straining under their own workload.

In addition, the centers could also distribute each other's work and that of the national centers' to enhance their offerings and there is now wide discussion on how a national network could go forward.

**Sustainability through diverse revenue**
The pooling of resources and management advice, however, are expense-cutting and time-saving measures and do not address the primary questions of how to raise revenue to sustain ongoing, independent watchdog journalism.

Strategies are forming that combine traditional non-profit approaches with advances in online technology that can create and expand community support in several ways.

While national foundations have the funds to donate considerable money for start-ups, the regional and state centers will need to seek long-term support from community and family foundations and local individual donors. That show of support establishes the need for the centers and their credibility and will be necessary to attract further donations, matching or otherwise, from national foundations and major donors.

The centers also may consider memberships (in the NPR and PBS models) or online payments through subscriptions. (Thus far, micro-transactions for online stories have not proven successful, going back as far as the mid-90s, when writer Jon Franklin teamed with Investigative Reporters and Editors to form Bylines.net and offer specific stories for a small fee.)

While there has been some doubt about online subscriptions, Premesh Chandran, the head of the Malaysian online news organization, said at a recent conference that the subscription method had worked at his $1 million a year organization. He said that $600,000 in revenue now comes from subscriptions, $200,000 in grants, and $200,000 in advertising. He said the subscriptions were based on asking subscribers to support a free and independent media that would offer credible stories.

The centers may also consider the special topic newsletter model, where some subscribers pay extra fees for more value-added information or special access. This is an ongoing practice at Guidestar.org, which offers data and services on nonprofits nationwide, and at Investigative Reporters and Editors, where members get more access to Web resources.

Other specific sources of revenue could include special data analysis work done under contract or agreement – a service Investigative Reporters and Editors provides for journalism organizations. The Wisconsin center is considering a “rent a reporter” service, where a local newspaper could hire the center to work on a particular story.

The centers can also augment their revenue by accepting advertising as many nonprofit organizations already do. As demonstrated by Malaysiakini, the advertising does not have to be the dominant source of revenue, but can provide crucial income.

Revenues can also be project specific not only in donations from a foundation for a particular topic, but through numerous individual online donations for particular coverage by the center. Spot.us in San Francisco is working through this model and trying to fine-tune this method. The method has the added advantage of being a marketing tool for the organization and increasing public awareness and support for the organization.

**New business opportunities**

The centers also have a business opportunity they need to consider. Recent articles in trade magazines have publicized the drastic cuts in Washington D.C. bureaus and statehouse bureaus.

Establishing a service that provides both weekly and long-time watchdog stories on the statehouse and local Congressional delegations may provide both interest and additional revenue streams for the centers that can support the overall operations.

The overall challenge, as it is for many nonprofits, will be to produce revenue without drifting from the primary mission.

**Duke Conference on Nonprofit Media**
**May 4-5, 2009**

# A Donor Collaborative to Support Not-for-Profit Public Affairs Journalism


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**EXECUTIVE SUMMARY:**


With the business model of for-profit journalism rapidly and sharply deteriorating, many not-for-profit enterprises have been started in recent years to do public-affairs journalism, some with a local focus and some national/international. Some of these have demonstrated their ability to raise significant dollars, despite having minimal resources for development, but in general they remain quite small organizations and need substantially more dollars to fulfill their ambitious missions.

At the same time, numerous foundations and individual philanthropists have begun to recognize the important case for supporting public-affairs journalism, and some have already begun doing so.

To minimize the competition for funds among these journalism enterprises, and to simplify the task for philanthropists interested in this burgeoning field, we propose the creation of a donor collaborative to help finance these not-for-profit public affairs journalism enterprises. The dollars available would be distributed based on a formula related to the previous year's revenue of each organization.

The formula would be designed to reward enterprises for building their own revenue streams, with a minimum size to ensure that the organizations can have impact, and a cap to ensure that the larger enterprises don't suck up all the oxygen. The use of a formula approach would minimize the administrative expenses for both funders and recipients, and put the emphasis on sustaining journalism initiatives that have met clearly defined objective tests.

We envision the donor collaborative as a complement, not a replacement, for other philanthropic support. There is nothing in this proposal that would preclude a non-profit journalism organization from seeking direct, specific support from a foundation or an individual, or that would constrain in any way discretionary grants by donors. Foundations and donors can supplement such targeted giving by investing a portion of their dollars in a pool that serves as a kind of mutual fund for nonprofit journalism enterprises, while other funders can use it as their initial foray into a field that is new for them.

This proposal has circulated among representatives of many of the not-for-profit enterprises cited below and benefits from their suggestions. We have not sought endorsements of the proposal at this time. It is our hope that this document can be the basis for further discussion, and for development of a consensus on building a funding mechanism that will benefit both donors and potential recipients.

**BACKGROUND:**

**The business model of for-profit journalism is rapidly and sharply deteriorating throughout the U.S.**

Newspapers, which have always been the enterprises that employed the most professional journalists, have seen double-digit revenue declines for several years in a row, and many have now turned cash-flow negative. Several owners are in bankruptcy, and others are close. Thousands of journalists have lost their jobs, and new buyouts and layoffs of journalists are announced virtually every week. The problem is most severe at the major metro newspapers, but has also affected prominent national newspapers such as The New York Times. The same is happening in other businesses that employ journalists, including news magazines, weekly newspapers, and television news.

As a consequence, foreign bureaus and Washington bureaus are being closed or sharply shrunk. Statehouse coverage is way down. Despite the reductions, there are still good investigative reporting projects being done, but they are fewer in number and less ambitious in scope.

The cause of the collapse of the business model is the impact of the Internet on the world of advertising, which has always supplied 80% or more of the revenue of media. In brief, the rise of the Internet has given advertisers many more ways to spend marketing dollars and much better tools for assessing the efficacy of their advertising.

Three things have happened as a result that are bad for journalism:

1. A sharp increase in advertisers' use of advertising vehicles that are wholly unconnected to content creation, such as Google Search or Craigslist.
2. A similar increase in advertisers' bypassing advertising altogether, by emailing their customers and driving them to the firm's own website.
3. The rapid proliferation of new publishers online, because of the low barrier to entry. This means that for those advertising dollars still spend on adjacency to content, the supply of ad inventory grows faster than demand, sharply eroding the pricing power of the publishers.

Meanwhile, in addition to the declining price they can command for their print ads, the publishers of print newspapers also face the problem of declining circulation (in part because they give the content away for free online and in part because younger adults favor the Internet as the way to get their news.)

Unable to make up for these losses with online advertising, publishers are now discussing whether they can charge for their content online. But so far, this has proven very difficult to make work.

**As a result of the shrinkage of journalism resources and ambitions, many not-for-profit enterprises have been started to fill the gap in public-affairs journalism, both locally and nationally/internationally.**

At the local level, these range from extremely small shops -- often one person, and often with no business model other than keeping content creation cost near zero – to larger organizations with staffs of more than a dozen and annual budgets of more than $1 million. Six substantial locally oriented startups, all of which publish only on the Web, have formed a consortium. This includes MinnPost (more than a dozen professional staff, $1.2 million annual budget); the St. Louis Beacon (17 on staff, $1 million budget); Voice of San Diego (a pioneer, founded in 2005); Chi-Town Daily News; New Haven Independent; and Crosscut (serving Seattle and newly converted to a non-profit). These enterprises have varying business models, but a number of them are investing significant energy in developing revenue streams beyond foundations and wealthy angel donors. These include either advertising or sponsorship or both, membership, fundraising events, and possibly syndication.

Other state or local nonprofits include the New England Center for Investigative Reporting and the Wisconsin Center for Investigative Journalism; other start-ups are underway in Colorado, Puerto Rico, Texas, Washington, and California. University-based efforts include the Stabile Center at Columbia University, the Schuster Institute at Brandeis, and the Investigative Reporting Workshop at American University.

Nationally, the nonprofits range from organizations that are international and national in their scope to state or local organizations that often are based at - or collaborating with - journalism schools at universities. Well-known nonprofits at the national/international level include ProPublica, the Pulitzer Center on Crisis Reporting, the Center for Investigative Reporting, the Center for Public Integrity, the International Reporting Project, The Nation Institute, The Fund for Investigative Journalism, and the Alicia Patterson Foundation.

In addition, there are independent non-profit Web-based investigative reporting sites such as Spot.Us in San Francisco, which is funded by the Knight Foundation, and news services like the Kaiser Health News Service sponsored by the Kaiser Foundation.

Last, there are non-profit organizations for investigative reporting that play a key role in the field by providing training and resources such as data libraries with the lead organization being Investigative Reporters and Editors

**Philanthropists are becoming increasingly interested in the concept of supporting public-affairs journalism as not-for-profit activity.**

The Knight Foundation has led the way, spending millions of dollars on journalism innovation including support for a number of the not-for-profit enterprises mentioned above. Spurred by a match from Knight, many community foundations have now begun identifying community needs for information and funding those trying to meet them. In addition, the Irvine and Hewlett Foundations have recently committed over $2 million to the Center for Investigative Reporting to establish a reporting bureau in Sacramento focused on state issues. The William Penn Foundation has funded specific local reporting projects in Philadelphia and the Triangle

Community Foundation has undertaken similar work in the Research Triangle area. The Berks County (PA) Community Foundation finds itself the principal shareholder in Reading's sole remaining newspapers. Other national and local foundations are dipping their toes into this water and individual philanthropists are stepping up, too.

**Without an intervention to avoid it, the not-for-profit enterprises doing public affairs journalism will need to spend substantial resources, of both their leaders and hired professional development staff, to compete for available philanthropic dollars.**

Those in wealthier markets will have an advantage. In addition, because so many foundations prefer programmatic to operating support, the journalism enterprises will need to invest in managing the multiple programs they have committed to doing and reporting to foundations on their progress on each program – at a time when the critical need for most of these enterprises is core general support that would permit the scaling up of distinctive models with demonstrated success.

**On the other side of the equation, philanthropists interested in entering this arena will face a very large number of fund-seekers, almost all of them fairly early-stage enterprises.**

It will require substantial effort on their part to make sense of the landscape and decide which enterprises to support. Because of the low barrier to entry, there will be many new startups in this space, and many of them may not have the skill or capacity to diversify their revenue streams, so they will be dependent on their foundation supporters for their survival.

**To address these issues faced both by the not-for-profit journalism enterprises and the funders, we make this proposal: Create a collaborative of funders committed to supporting qualifying not-for-profit public affairs journalism enterprises, using a formula based on these enterprises' demonstrated ability to raise revenues from other sources.**

There is a partial precedent for this initiative in the Challenge Fund for Journalism, a joint initiative of Knight, Ford, McCormick and the Ethics and Excellence in Journalism Foundation. The Challenge Fund has entailed significant eligibility constraints that make it less "objective" than the revenue model we proposal, however, and its overall size is much more modest.

There are many variations in how the qualifying criteria and the funding formula could be established. Here is our proposal for discussion:

**QUALIFYING ENTERPRISES:**

1. Independent not-for-profit journalism enterprise. Not a subsidiary or a project of an organization with a mission other than public-affairs journalism. Not an organization with a commitment to any ideology except reporting the truth on matters of public importance. Qualifying groups that are under one governing organization would count as only enterprise.
2. Not a recipient of government funding through the public broadcasting system on the grounds that public broadcasting operations are well established and because of their number and size, their inclusion would overwhelm the new breed of nonprofits this funding mechanism is designed to support.

3. At least one full fiscal year of operation before applying, with a minimum of $400,000 in annual revenue during its most recent year.
4. Any qualifying enterprise would agree to full public disclosure of all its funding sources.

**FUNDING FORMULA**:

1. Revenue-Based. A fixed percentage of last year's revenue, with a cap based on a $2 million budget. Thus, if the grant percentage established for the first year is 25%, a qualifying organization that had $500,000 in revenue from all sources the previous year would receive $125,000. Organizations with annual revenue in excess of $2 million in revenue would receive $500,000.
2. Match for increasing donations from individuals. Since donations from individuals represent a great path to sustainability, the collaborative could match any *increase* in revenues from individual donors in the upcoming 12 months, compared with the previous 12 months. Depending on the overall size of the donor collaborative this match could also be capped, perhaps at $100,000 per organization.
3. Separate, dedicated funding from the donor collaborative, to provide technical and in-kind support to all participants on building web audience and ways of monetizing content. We see this as an element uniquely suited to funding by organizations such as Google, Microsoft, YouTube or Yahoo, all of which are grappling with ways to sustain creation of original journalism content as traditional news outlets wither. Among potential participants we have encountered a range of views as to the importance of creating a new website showcasing the work of participant organizations, with some strongly favoring this approach and others opposed on grounds that a separate site would dilute their own traffic. A possible compromise solution: creation of a widget embeddable on the site of each participant that would include RSS feeds from participating organizations, grouped by subject area for ease of use by interested outside parties. The widget could include tools that organized news stories by subject area, a potentially attractive target for funding by advocacy and other groups with an interest in those subjects.

**ADMINISTRATION:**

The funding formula is designed to simplify decisions as to which organizations qualify and the amount of dollars distributed to each. An advisory committee with representatives of the donors and of the not-for-profit participants could be charged with reviewing applications as to conformity with the eligibility requirements; the funds themselves could be distributed via an organization such as Tides Foundation. Coordination of the technical support aspect of this proposal and creation of a widget and/or website would entail additional staff time but we do not anticipate this being a major expense – most likely no more than a single staff position housed at one of the lead donor organizations.

**EXAMINING THE NUMBERS:**

We are not sure precisely how many not-for-profit public affairs journalism enterprises would qualify for these grants in Year 1. One unpublished list identifies about three dozen not-for-profit journalism entities of significant size. But some of these are operations of organizations whose primary mission is not journalism, such as Consumer Reports and AARP's magazine. Others share a common governing structure (Center for Independent Media.) So we might be talking about 15 to 20 organizations that could qualify for this program in the first year.

Assume these organizations had an average revenue of $900,000 (where ProPublica, for example, counted as only $2 million, since that's where the cap kicks in). A grant equal to 25% of last year's revenue would equal $225,000, and if there were 20 grantees, the total grantmaking in the first year would be $4.5 million. The additional grant to match increased donations from individual might pay an average of $50,000 per organization, or $1 million, making the total grants in the first year $5.5 million (not counting the additional proposed support for a common widget and/or website and in-kind support to build audience and monetize content).

This number would rise as (a) the revenue of the initial grantees grew, and (b) additional startups qualified for the grants.

If the collaborative ends up raising less than the amount suggested, then the percentage of last year's revenue granted would decline, and the cap on the match for additional donations from individuals could be lowered.

An annual commitment of $5.5 million is substantial but we do not consider it beyond reach. At the Duke conference Jan Schaffer referenced the preliminary results of a J-LAB survey of philanthropic investments in non-profit journalism. In the past four years alone, she said, such contributions exceed $110 million.

**ADVANTAGES OF THIS PROPOSAL:**

1. For recipients: Access to significant funding with minimal commitment of resources to development. The formula would eliminate the need to approach the many funders separately. And because the grants would be for operations, with no strings attached, they would not require the time-consuming and often frustrating and distracting process of crafting individual programs for each funder. Also, the formula would give recipients the incentive to build their own revenue sources, including local foundations, individual donors and advertising and sponsorship, since these revenues would increase their grant from the collaborative.
2. For donors: A simple way to support the whole movement of not-for-profit public-affairs journalism in the U.S., both local and national in scope. It avoids requiring each donor to assess every enterprise. The donors are assured that they are backing social entrepreneurs who have demonstrated an ability to raise money for their cause, increasing the likelihood that these innovative startups will survive long-term.
3. For democracy: Avoids big bets on a few large enterprises (such as would be achieved by endowing *The New York Times*, for example, or even by placing the bulk of philanthropic dollars in just a handful of non-profit news organizations.) Recognizes the importance of small, entrepreneurial players in the Internet world, and thus contributes to combating consolidation. At the Duke conference Vince Stehle of Surdna drew an analogy to the health care and theater sectors, where relatively small non-profits have created important and influential models. "You don't have to begin," he said, "with Madison Square Garden."

**POSSIBLE ISSUES FOR DISCUSSION:**

1. Eligibility. Any set of eligibility criteria could exclude some worthy initiatives. For example, an investigative journalism unit created in a university would not qualify under the criteria described above, because the parent organization's mission is not journalism. Several potential participants have suggested a lower threshold level for funding eligibility, on the grounds that start-ups are the groups most in need of help. Our view is that making the threshold lower than $400,000 puts the donor collaborative in the business of funding many initiatives that might not be sustainable, thus diluting the impact of its dollars – and also complicating decisions as to which organizations qualify for support. But the appropriate threshold for eligibility is clearly a subject that warrants further discussion.
2. Overlap with existing grants/funding sources. Some not-for-profits have already established funding relationships with donors who might join the proposed collaborative; others have requests pending. The fact that a donor chooses to support this movement generally, through participation in the collaborative, should not preclude specific additional support for individual enterprises. The donor collaborative itself could be viewed as a way to familiarize donors with the work of organizations that especially complement their own objectives. The prospect of this additional specific funding should also allay the concerns of potential participants who consider the proposed cap on formula funding as arbitrarily low. There is no limit herein proposed to the overall size of any beneficiary organization; merely a cap on the amount of funds available through this particular mechanism.
3. Corporate and/or government support. The funding mechanism described herein supports the principle of journalistic independence. Donors would be supporting the nationwide movement of not-for-profit journalism, not any particular organization or reporting project, thus putting less pressure on the firewall between journalists and their enterprises' revenue sources. This at least opens the door to a discussion of including corporations or government agencies among the donors.
4. Endowment/sustainability. Could the collaborative be endowed? An endowment of $200 million would probably fund all the existing eligible organizations, and accommodate significant growth. In any case a commitment of several years to the donor collaborative, preferably a minimum of five years, would be key to giving successful startups the funds they need for hiring and growth.
5. Relative weight of using last year's revenue and matching new donations from individuals. The proposed formula provides most of the dollars in a way that is neutral on how the organization raised its revenues. An argument could be made that more weight should be placed on matching individual donors, since (a) this acknowledges that the foundation pool is limited and not adequate to sustain robust journalism; and (b) it would tap into the promise that readers should (and will) pay for public-service journalism.

# Appendix 2

**Duke Conference on Nonprofit Media**
**May 4-5, 2009**

## Participant Biographical Profiles

**Penelope (Penny) Muse Abernathy** is the Knight Chair in Journalism and Digital Media Economics at the UNC School of Journalism and Mass Communication in. Abernathy, a former executive at *The Wall Street Journal* and *The New York Times*, specializes in preserving quality journalism by helping the news business succeed economically in the digital media environment. She has also served as vice president and executive director of industry programs at the Paley Center for Media. Abernathy served as a reporter or editor at several daily newspapers, including *The Charlotte Observer* and the *Dallas Times Herald*. At Carolina, Abernathy focuses her expertise on 21st-century economic models that will improve the ability of journalists to produce news in the public interest. She is creating innovative new courses and practical research, and shares her work widely to help journalists and media industry managers take on the industry's economic challenges Abernathy was inducted to the N.C. Journalism Hall of Fame in 1998.

**Andrea Bazán** is president of Triangle Community Foundation, where she oversees approximately $140 million in assets housed in nearly 700 charitable funds. Previously, she was executive director and chief lobbyist for El Pueblo, a statewide advocacy and public policy organization. Bazán served as the first Latina lobbyist at the North Carolina General Assembly and also lobbied at the federal level. One of a handful of Latina heads of philanthropic foundations in the country, she is a frequent speaker at local, state and national meetings. Bazán is the Chair of the National Council of La Raza, the nation's largest Hispanic civil rights group, based in Washington DC, and serves on a several other boards, including BlueCross BlueShield of North Carolina and Wachovia Wells Fargo in Raleigh. She was named one of the Country's Top 100 Influential Hispanics by *US Hispanic Business Magazine* in 2008 and has received numerous awards for her work in public health, community development and mentoring. She holds a master's degree in social work and in public health from University of North Carolina at Chapel Hill.

**Phil Bennett** is Senior Advisor on Media Projects at *The Washington Post*, having stepped down from his position as managing editor in January. Bennett joined *The Post* in 1997 as deputy national editor, became assistant managing editor for foreign news in 1999, overseeing 20 international bureaus, and rose to managing editor in 2005. He directed *The Post's* coverage of wars in Kosovo, Afghanistan and Iraq. During his tenure as managing editor, *The Post* investigated secret CIA prisons abroad and the wide influence of Vice President Dick Cheney. He also helped lead the team whose reporting on shoddy care of veterans at Walter Reed Army Hospital won the coveted Pulitzer Prize for Public Service in 2008. It was one of six Pulitzers *The Post* won last year, the largest number in the paper's history. From 1984 to 1997 Bennett held a series of positions at *The Boston Globe*, including Latin America correspondent and Mexico bureau chief (1986-1990), immigration and race reporter, and foreign editor. Bennett began his journalism career as a reporter and then editor for *The Lima Times* in Peru, and has a special interest in journalism in and about Latin America. He earned a bachelor's degree in history at Harvard College in 1981. In recent years, Bennett has lectured at universities and conferences on subjects ranging from the press in the digital age to covering war and Islam. In July, Bennett will join the faculty of the DeWitt Wallace Center for Media and Democracy, within the Sanford Institute for Public Policy at Duke University.

**Charles Clotfelter** is Z. Smith Reynolds Professor of Public Policy Studies and Professor of Economics and Law at Duke University. He is also Director of the Center for the Study of Philanthropy and Voluntarism at Duke and is a Research Associate of the National Bureau of Economic Research. His research has covered the economics of education, public finance, the economics of gambling and state lotteries, tax policy and charitable behavior, and policies related to the nonprofit sector. He taught at the University of Maryland and was a Brookings Economic Policy Fellow at the U.S. Treasury's Office of Tax Analysis. While at Duke, he has served as Vice Provost for Academic Policy and Planning, Vice Chancellor, and Vice Provost for Academic Programs. He has also served as President of the Southern Economic Association and was a visiting scholar at the Russell Sage Foundation.

**Leonard Downie Jr.** is vice president at large of *The Washington Post* Co. During a 45-year career at *The Post*, he was an investigative reporter, deputy Metro editor, assistant managing editor for Metro News, London correspondent, National editor, Managing Editor (1984-1991) and Executive Editor (1991-2008). In August, 2009, he will become Weil Family Professor of Journalism at the Walter Cronkite School at Arizona State University. He is currently working on a research project for the Columbia University Graduate School of Journalism on the future of news reporting. He is the author of five books, including <u>The News About the News: American Journalism in Peril</u> (with Robert G. Kaiser), and his first novel, <u>The Rules of the Game</u>, published by Knopf earlier this year.

**John Drescher** was a reporter from 1983 to 1986 at *The Raleigh News & Observer*, where he covered state and local government. He then worked for 12 years at *The Charlotte Observer* as a state capitol reporter and later in several editing jobs, including government editor, metro editor, regional editor and front-page editor. In 2000, he was named managing editor of *The State* newspaper in Columbia, S.C. In 2002, he became managing editor of *The Raleigh News & Observer* (The N&O). In 2007, he was named executive editor of The N&O, the seventh person to hold that job since the paper was launched in 1894. His book, <u>Triumph of Good Will: How Terry Sanford Beat a Champion of Segregation and Reshaped the South</u>, was published in 2000 by the University Press of Mississippi.

**Rick Edmonds** is Media Business Analyst for the Poynter Institute, where he tracks the latest industry developments in his online column, *The Biz Blog.* He also is co-author of the newspaper chapter of the annual *State of the News Media* electronic yearbook published by Pew's Project for Excellence in Journalism. Edmonds worked as a reporter and editor at the *Philadelphia Inquirer*, 1977-1982, and as an editor and publisher for the *St. Petersburg Times* organization, 1982-1993.

**Stephen Engelberg** is the managing editor of ProPublica. Previously, he served as managing editor of *The Oregonian.* Before joining *The Oregonian*, Engelberg worked for *The New York Times* for 18 years, including stints in Washington, DC and Warsaw, Poland. He also reported for the *Virginian-Pilot* and *The Dallas Morning News*. Engelberg started *The Times'* investigative unit in 1999 and supervised Pulitzer Prize-winning projects on Mexican corruption and the rise of Al Qaeda. He was awarded two George Polk awards, with the first in 1989 on nuclear proliferation, and the second, in 1994, for articles on U.S. immigration. During his time at *The Oregonian*, the paper won the Pulitzer for breaking news. He is the co-author of 2001's Germs: Biological Weapons and America's Secret War.

**Lauren Rich Fine** is Director of Research at ContentNext, a digital media company. She is also a Practitioner in Residence at Kent State University's College of Communication & Information. Lauren left Merrill Lynch in April, 2007 as a Managing Director in Equity Research. She serves on the Boards of Brand Muscle, the Cleveland Film Society, the Cleveland Jewish News, the Chautauqua Foundation, Dolan Media, In Counsel with Women, Laurel School, and the Urban Community School. She is on the Advisory Board of Dix & Eaton, the Leadership Board of the Lerner Research Institute, and, until recently, the Poynter Institute Advisory Board, and on committees at Citizens Academy, The Cleveland Museum of Art, and The Gathering Place. Lauren was part of the Leadership Cleveland class of 2007.

**Margaret Wolf Freivogel** is the founding editor of the *St. Louis Beacon*, an online-only, non-profit news site that launched last spring. The Beacon focuses on news that matters to the St. Louis region, especially the economy, politics, education, health and the arts. Previously, she worked for 34 years at the *St. Louis Post-Dispatch* as a reporter, Washington correspondent and assistant managing editor. She led creation of the paper's NewsWatch news analysis section and of its ethics and sourcing policies. Her Washington reporting won several awards, including the National Press Club Washington Correspondent's Award and the American Bar Association Gavel Award. She was president of Journalism and Women Symposium, a national organization.

**David Haas** has served as board chair (since 1998) and board member (since 1982) of the William Penn Foundation (www.williampennfoundation.org), a regional grantmaker based in the greater Philadelphia area, founded in 1945 by Otto and Phoebe Haas. The Foundation funds in the areas of Children, Youth & Families, Environment & Communities, and Arts & Culture. He is also a trustee of the Phoebe Haas Charitable Trust B, which supports a range of nonprofit organizations, including media projects. Haas has served as steering committee chair, now board chair, of Grantmakers in Film and Electronic Media (www.gfem.org) since 2002. GFEM is an association of grantmakers committed to advancing the field of media arts and public interest media funding. It serves as a resource for grantmakers who fund media content, infrastructure, and policy, those who employ media to further their program goals. From 1989 to 1997, Haas worked as coordinator of the Philadelphia Independent Film/Video Association (PIFVA), a service organization for independent film, video and audio makers based in the Greater Philadelphia area (www.pifva.org). In addition to the William Penn Foundation and GFEM, he currently serves on the board of directors of the Philadelphia Museum of Art, WYBE Public Television and Philadelphia Public Access Corporation.

**Andrew Haeg** is a Knight Fellow at Stanford University, on leave from his job as senior producer and analyst at American Public Media. In 2003, Haeg co-founded Public Insight Journalism, an online initiative which systematically incorporates the knowledge and insights of the audience into daily public radio journalism. Today, more than 75,000 people are part of the Public Insight Network, and every day they inform stories and programs across American Public Media and at several partner stations throughout the country. Haeg helped lead a team that won two Batten

Awards for Innovation in Journalism, and the Inaugural Knight EPpy Award for Innovation in Journalism. After earning his master's in journalism from Columbia University, he returned to Minnesota as a reporter for Minnesota Public Radio and as a freelance writer for *The Economist*.

**Mark Hallett** is a senior program officer in the journalism program of the McCormick Foundation. Mark joined the foundation in May 1995, and contributes to grantmaking in a number of areas, including youth journalism, free press in the U.S. and Latin America, diversity in journalism, and First Amendment initiatives. Prior to coming to McCormick, Hallett was an editor at *Safety + Health* magazine, where he launched an international edition and researched, assigned and wrote stories on workplace safety and environmental issues. Mark has led workshops on nonprofit communications, internet-based research and Web site development, and has worked with several nonprofits to create their Web sites. He is an avid photographer and speaks fluent Spanish and Portuguese. He has traveled extensively and has lived in Mexico, Norway and Spain.

**James "Jay" Hamilton** is the Director of the DeWitt Wallace Center for Media and Democracy, within Duke's Terry Sanford Institute for Public Policy, a role he assumed in 2008. He currently serves as the Charles S. Sydnor Professor of Public Policy at Duke University, as well as a professor of economics and political science. Hamilton joined Duke's faculty in 1991 and has held a number of titles since then including Oscar L. Tang Family Professor of Public Policy, Economics, and Political Science (2003-04), assistant director of Sanford Institute (2001-2002), director of the Duke Program on Violence and the Media (1993-2000), and director of undergraduate studies in Public Policy (2004-2007). Hamilton's scholarly work and numerous publications reflect his interests in the economics of regulation, public choice/political economy, environmental policy and the media. He has written or coauthored six books, including All the News That's Fit to Sell: How the Market Transforms Information into News*;* and Regulation Through Revelation: The Origin and Impacts of the Toxics Release Inventory Program*.* For his accomplishments in teaching and research, Hamilton has received awards such as the David N. Kershaw Award from the Association for Public Policy Analysis and Management (2001), the Kennedy School of Government's Goldsmith Book Prize from the Shorenstein Center (1999), and Trinity College's (Duke) Distinguished Teaching Award (1993). Hamilton earned a BA in economics and government in 1983 and a PhD in economics in 1991, both from Harvard.

**Brant Houston** is the Knight Chair in Investigative and Enterprise Reporting at the University of Illinois in Urbana-Champaign where he teaches investigative and advanced reporting. He is the co-author of *The Investigative Reporter's Handbook* and author of *Computer-Assisted Reporting: A Practical Guide.* Houston is co-founder and coordinator of the Global Investigative Journalism Network, board president of the Wisconsin Center for Investigative Journalism, and a member of the board of the Fund for Investigative Journalism. He also is working with journalists in several states who are forming investigative journalism centers and trying to develop successful business models. Before becoming the Knight Chair, Houston was executive director of Investigative Reporters and Editors (IRE) and the National Institute for Computer-Assisted Reporting (NICAR) for 12 years. Houston was a daily journalist for 17 years before he joined IRE. He was an award-winning investigative reporter at *The Hartford Courant* and at *The Kansas City Star* where he was part of the newsroom staff that won the Pulitzer Prize for its coverage of a hotel building collapse.

**Feather Houstoun** leads the William Penn Foundation, which has in recent years made significant investments in local journalism to support its strategic plan priorities in education reform, planning and development, issue development in elections and public budgeting. Houstoun served in the Cabinets of Governors Tom Ridge (Pennsylvania) and Tom Kean (New Jersey). She was a senior visiting scholar at the University of Pennsylvania teaching and conducting research on public management issues. She has written and published extensively on growth management, gubernatorial leadership, housing, smart growth and community development. She is a regular contributor to *Governing Magazine OnLine*. She was elected a Fellow of the National Academy of Public Administration in 1991.

**Don Kimelman** manages the Pew Charitable Trust's information initiatives, which through nonpartisan, rigorous research, enlighten citizens, journalists and policy makers about contemporary issues and trends reflecting public opinion and attitudes. In addition, Kimelman oversees the Philadelphia Program, which includes Pew's Culture program, its Philadelphia-based Civic Initiatives and the Pew Fund for Health and Human Services. Upon arriving at Pew in 1997, Kimelman had more than 25 years' experience in journalism. In 1979 he joined *The Philadelphia Inquirer*, where he had a mix of local, national, foreign and investigative assignments, and then turned to editing. He served as an *Inquirer* national correspondent based in Houston, Texas, and as the newspaper's Moscow correspondent covering the period of transition from Brezhnev's death to Gorbachev's ascension. Kimelman was a member of the paper's editorial board for seven years, where he wrote frequently on urban issues and social policy. Previously he worked at the *Annapolis Evening Capital* and *The Baltimore Sun*. He is a graduate of Yale University and of the Columbia University Graduate School of Journalism. He chairs the board of the Pew Research Center and serves on the board of the nonprofit Independence Visitor Center.

**Susan Robinson King** is vice president of external affairs and director of the Journalism Initiative, Special initiatives and Strategy, at the Carnegie Corporation of New York. She is responsible for the Corporation's relations with outside groups and leads the Corporation's Journalism Initiative, which focuses on university based journalism education, its role in America's research universities, in preparing the next generation of media leaders and its commitment to strengthening journalism's seminal position in a democratic society. Before joining the foundation, King served as Assistant Secretary for Public Affairs at the Department of Labor. She also has 20-yeaars of experience as a journalist, including working as an anchor for ABC News and serving as a White House correspondent during the Reagan administration. She has reported for CNN and served as host for CNBC's Equal Time, NPR's Talk of the Nation and WAMU's Diane Rehm Show. She began her career working for Walter Cronkite. She has won numerous journalism awards including Emmies for her reporting from Lebanon and for Coverstory, three National Women's Political Caucus awards, and recognition from American Women in Communications and Sigma Delta Chi. In 1999, she was DC's Women in Communication's Matrix awardee.

King serves on the Board of Trustees of the BBC World Service Trust, the Council on Excellence in Government, the International Women's Forum and the National Leadership Roundtable on Church Management. She is a member of the Advisory Commission of the Center for International Media Assistance which is a project of the National Endowment for Democracy. King is a founder of the International Women's Media Foundation and until recently served on its board. She has worked in the philanthropic world with the Independent Sector and the

Council on Foundation's Media and Public Affairs Committees. King is a member of the Council on Foreign Relations.

**Joel Kramer** is Editor and CEO of MinnPost, a nonprofit journalism enterprise which he helped found in 2007. MinnPost publishes *MinnPost.com*. MinnPost's mission is to provide high-quality journalism for news-intense people who care about Minnesota. Kramer has worked as a writer or editor for *Science Magazine, Newsday* and the *Buffalo Courier-Express*. In 1983, he became editor of the *Star Tribune*, and in 1992, was named publisher and president. After the newspaper was sold to McClatchy in 1998, he taught as a senior fellow at the University of Minnesota School of Journalism and Mass Communication. In 2003, Kramer started a think tank called Growth & Justice, focusing on state policy that simultaneously creates economic growth, does so sustainably, and shares the fruits of the growth broadly. He served as executive director until the spring of 2007, when he became board chair

**Charles "Chuck" Lewis** is the distinguished journalist in residence and founding executive editor of the new Investigative Reporting Workshop at the American University School of Communication, in Washington, D.C. He has been a national investigative journalist for nearly 30 years. He left a successful career as an investigative producer for ABC News and the CBS News program 60 Minutes to begin the Center for Public Integrity, which under his leadership from 1989 to 2004 published roughly 300 investigative reports, including 14 books, and honored more than 30 times by national journalism organizations. He began the Center's International Consortium of Investigative Journalists, the world's first working network of premier reporters producing content across borders, in late 1997. In 2008, he created, directed and co-authored Iraq: The War Card, a 380,000-word chronology and analysis of the pre-war rhetoric made by leading members of the Bush administration. A co-author of five books, including national the bestseller The Buying of the President, Lewis was awarded a MacArthur Fellowship in 1998 and received the PEN USA First Amendment award in 2004. Since 2005, Lewis co-founded Global Integrity, which tracks governance and corruption trends around the world, and he has served as founding president of the Fund for Independence in Journalism in Washington, an endowment and legal defense support organization for the Center for Public Integrity. He was a Ferris Professor at Princeton University in 2005, and a Shorenstein Fellow at Harvard University in the spring of 2006.

**Bill Mitchell** leads the News Transformation initiative at the Poynter Institute, and writes the *NewsPay* blog (www.poynter.org/newspay) tracking emerging economic models for news. Previously, Bill directed the Institute's Web site, Poynter Online, for 10 years. Before joining Poynter, Mitchell worked as editor of Universal New Media and director of electronic publishing at the *San Jose Mercury News*. Previously he spent nearly 20 years at the *Detroit Free Press* as a reporter, an editor, Washington correspondent, and European correspondent. He also served as Detroit bureau chief for *TIME Magazine*. Mitchell was a Pulitzer juror in 2002 and 2003. He is a graduate of the University of Notre Dame with a B.A. in Theology.

**Kevin Murphy** is President of the Berks County Community Foundation, where he started as its first employee in 1994. During his time as president, the Community Foundation has grown to manage more than $45 million in assets and distribute more than $2 million in grants each year. In 2007, Murphy was named secretary of the board of The Funders Network for Smart Growth and Livable Communities. Murphy also served two terms as president of Community Foundations for Pennsylvania. Murphy serves on the board of directors of The Council on

Foundations, and on its community foundation leadership, governance and executive committees.

In February of this year, the John S. and James L. Knight Foundation awarded the Berks County Community Foundation a $255,000 challenge grant to create a web-based Community Information Hub through the nonprofit Berks Community Television (BCTV).The purpose of the Hub is to provide in-depth information on topics such as education, the environment, arts and culture and healthcare. Berks County residents will be able to access the Hub on the internet regardless of their ability to receive the BCTV cable signal.

In December of 2008, Berks County Community Foundation was notified that it was the major beneficiary of a gift from the estate of Mrs. Myrtle Quier of Reading. Mrs. Quier was the Publisher Emeritus of The Reading Eagle and the Chairman of the Board of Reading Eagle Company. Mrs. Quiers' estate included approximately 27% of the stock of Reading Eagle Company, which is now held directly or indirectly by Berks County Community Foundation.

**Peter Osnos** is the Founder and Editor-at-large of PublicAffairs Books. He was a reporter and foreign correspondent for *The Washington Post,* as well as its foreign and national editor. Mr. Osnos was Vice President, Associate Publisher, and senior editor at Random House and publisher of Random House's Times Books division. In 1997, he founded PublicAffairs, serving as Publisher and CEO until 2005. Osnos has been a commentator and host for NPR and a contributor to *Foreign Affairs*, *The Atlantic,* and *The New Republic.* He has served as Chair of the Trade Division of the Association of American Publishers and on the board of Human Rights Watch. He is executive director of The Caravan Project, Vice Chairman of the *Columbia Journalism Review* and writes a regular media column distributed by the Century Foundation (TCF.org), where he is a Senior Fellow. He is a member of The Council on Foreign Relations.

**Marcus S. Owens** is a member in Caplin & Drysdale's Washington, D.C. office. He joined the firm in February 2000. Prior to that, Mr. Owens was employed by the Exempt Organizations Division of the Internal Revenue Service and served as the division's director for the last ten years. In that capacity, he was the chief decision maker regarding design and implementation of federal tax rulings and enforcement programs for exempt organizations, unrelated business income tax, private foundation excise taxes, hospital reorganizations, college and university guidelines, political organizations, and tax-exempt bonds. He also served as the IRS's primary liaison with other federal agencies, Congress, and state regulators on exempt organizations issues. Since joining Caplin & Drysdale, Mr. Owens has been representing a broad range of nonprofit organizations including private foundations, charities, U.S. affiliates of foreign charities, and trade associations.

**George K. Rahdert**, a partner in the law firm of Rahdert, Steele & Reynolds, P.A. in St. Petersburg, Florida, practices law in both the fields of communications law and tax exempt organizations. He serves as outside general counsel to Times Publishing Company, publisher of the *St. Petersburg Times* and *Congressional Quarterly*, and to the Poynter Institute for Media Studies. Mr. Rahdert successfully defended the *St. Petersburg Times* from a takeover attempt led by Robert M. Bass and also defended the Poynter Institute from a tax-exempt status challenge. He has litigated numerous cases in Florida establishing press rights in the fields of access to courtrooms, access to public records, protection of reporters from subpoenas, and defense of libel litigation.

**Kenneth Rogerson** is the director of undergraduate studies for the Duke University's Department of Public Policy and is a lecturer in the Sanford Institute of Public Policy. He is the co-director of the Policy Journalism and Media Studies Certificate program. He received his Ph.D. from the University of South Carolina in 2000 and currently teaches and researches on technology policy, news media and international communications.

**Jon Sawyer** is the founding director of the Pulitzer Center on Crisis Reporting, a non-profit organization that funds independent reporting with the intent of raising the standard of media coverage and engaging the broadest possible public in global affairs. The Center has funded over 90 reporting projects in five dozen countries, partnering with major newspapers, magazines and broadcast outlets. The Center is a major supplier of video documentaries for public television and creator of the innovative educational outreach program Global Gateway. The Center's website is www.pulitzercenter.org. Jon was previously the Washington bureau chief for the *St. Louis Post-Dispatch*, for which he reported from five dozen countries. He is a graduate of Yale University and has held fellowships at Princeton and Harvard Universities.

**Jan Schaffer** is executive director of J-Lab: The Institute for Interactive Journalism of American University's School of Communication and a leading thinker in the journalism reform movement. She left daily journalism in 1994 to lead pioneering journalism initiatives in civic journalism, interactive and participatory journalism, and citizen media ventures. Schaffer previously directed the Pew Center for Civic Journalism. She is a former Business Editor and a Pulitzer Prize winner for *The Philadelphia Inquirer,* where she worked for 22 years as a reporter and editor. At the Inquirer, she helped write a series of stories leading to the civil rights convictions of six Philadelphia homicide detectives and broke the Philadelphia Abscam story. For refusing to reveal her sources, she was sentenced to jail for six months. The sentence was stayed on appeal.

**Steve Schewel** graduated magna cum laude from Duke in 1973. He earned a master's in English from Columbia University in 1974 and a Ph.D. in education from Duke in 1982. In 1983, he founded the Durham-based *Independent* newspaper. The weekly paper has won some of the most prestigious awards in American journalism, including the George Polk Award for environmental reporting, the Investigative Reporters and Editors national award, the H.L. Mencken Writing Award, and the Thurgood Marshall Award. Schewel stepped down as publisher in 1999, but continues to be president and board chair of the company that publishes The Independent. A former English teacher and current high school soccer coach, Schewel served on the board of education of Durham Public Schools from 2004-2008. He joined the Sanford Institute's Hart Leadership Program in 2000 and has taught "Leadership, Policy and Change," "Moral Leadership in Vietnam" and "Border Crossing: Leadership, Values Conflict and Public Life."

**Richard Schmalbeck** is the Simpson Thacher & Bartlett Professor of Law at Duke University. He was Dean of the University of Illinois College of Law, and a visiting professor on the University of Michigan and Northwestern University law faculties. His recent scholarly work has focused on issues involving nonprofit organizations, and the federal estate and gift taxes. He has also served as an advisor to the Russian Federation in connection with its tax reform efforts. The second edition of his federal income tax casebook, co-authored with Lawrence Zelenak, published in 2007. He received his BA and JD degrees from the University of Chicago, where he was Associate Editor of the *University of Chicago Law Review*. He also serves as of counsel to the Washington law firm of Caplin & Drysdale.

**Josh Silver** is the executive director and co-founder of the nonpartisan *Free Press*, the leading national organization working on media and technology policy in the public interest. Mr. Silver was previously campaign manager for the successful Clean Elections in Arizona ballot initiative; director of development for the cultural arm of the Smithsonian Institution in Washington, D.C.; and director of an international youth exchange program. He has published widely on media, telecommunications, campaign finance and other public policy issues. Josh has been profiled the *Wall Street Journal* and featured in outlets including the *New York Times*, *Washington Post*, *USA Today*, *Newsweek*, *Los Angeles Times*, *Christian Science Monitor, Salon,* C-SPAN and NPR. He speaks regularly on media and technology issues and blogs at *The Huffington Post*.

**Edward Skloot** is Director of the Center for Strategic Philanthropy and Civil Society and Professor of the Practice of Public Policy at Duke University. In June 2007, he retired as President of the $1 billion Surdna Foundation where he had served as its first CEO, beginning in 1989. Skloot has served as President (and founder) of New Ventures and currently, serves on the board of directors of Independent Sector, Venture Philanthropy Partners, The National Council for Palliative Care, and TROSA, the largest residential therapeutic community in North Carolina. He is a member of the advisory board of The Bridgespan Group. Skloot has written and spoken widely on the subjects of nonprofit management, social venturing and sectoral leadership. Surdna has just published a compilation of his recent speeches (Beyond the Money) and he was the principal writer and editor of The Nonprofit Entrepreneur, published by the Foundation Center.

**Vincent Stehle** is the Program Director for Nonprofit Sector Support at the Surdna Foundation, a family foundation based in New York City with more than $700 million in assets. Mr. Stehle is Chair of the Board of Directors of Philanthropy New York (formerly known as New York Regional Association of Grantmakers, NYRAG) and also serves on the Board of Directors of Grantmakers in Film and Electronic Media. In addition, he is a member of the advisory board for the Center for Effective Philanthropy. Before joining Surdna, Mr. Stehle worked for ten years as a reporter for the *Chronicle of Philanthropy*, where he covered fundraising and management issues for the nonprofit sector.

**Paul Tash** is the editor of the *St. Petersburg Times* and the CEO of the Times Publishing Company. Tash is also currently the chairman of the Poynter Institute for Media Studies and serves on the board of the Pulitzer Prizes, the Committee to Protect Journalists and the Newspaper Association of America. He began his career with *The Times* in the fall of 1978 as a local news reporter and eventually worked as a Tallahassee reporter, the city editor, metropolitan editor, Washington bureau chief and executive editor for *The Times.* In addition to his work at *The Times,* Tash also served at the editor and publisher of *Florida Trend* from 1990-91. Paul is active in First Amendment issues, as chairman of the Florida First Amendment Foundation and a director of the Committee to Protect Journalists.

**Ted Vaden** is Deputy Secretary for Communications with the N.C. Department of Transportation. Before joining the department in March 2009, he had been a reporter, editor and manager at *The Raleigh News & Observer*, most recently as Public Editor. He previously worked for *Congressional Quarterly* in Washington, D.C. Vaden has been a visiting lecturer at

Duke University for the last two years, teaching courses in media ethics and a seminar titled "Saving Public Service Journalism."  He is a graduate of Washington and Lee University with a master's in journalism from the University of Missouri.

**Ted Venetoulis** is currently chairman of Corridor Media Inc., a newspaper publishing and marketing company. He has served as Chairman of the Baltimore Media Group and as Visiting Professor on Media and Politics at Johns Hopkins University, Goucher College, and the University of Maryland. Venetoulis has also served in Washington, D.C. as a Congressional Administrative Assistant.  He was elected and served four years as Baltimore County Executive and is the Founder and Board of Directors Co-Chairman of The Columbia Bank. He was also appointed Commissioner of the Maryland Port Authority and is author of two books on presidential and urban politics.

## Duke Conference on Nonprofit Media
## May 4-5, 2009

Sponsored by:
The DeWitt Wallace Center for Media and Democracy
The Duke Center for Strategic Philanthropy and Civil Society
The Duke Center for the Study of Philanthropy and Voluntarism

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The conference is designed to maximize discussion. Background papers are provided to help spark debate. Please read them before the conference. Each session will be run as a discussion among participants and focus on a given set of questions.
After the conference, Jay Hamilton will write a short report which lays out ideas discussed at the event. The report will focus on what can be done to overcome the barriers to nonprofit or foundation ownership of media outlets and the barriers to nonprofit or foundation subsidies for the creation of information by the media. We plan to circulate the background pieces and report widely to audiences in foundations, nonprofits, commercial media, and readers on the web by early summer 2009, so that the ideas discussed at the conference can contribute to current debates.

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## Conference Agenda

**May 4th**

**3:40 pm** Participants should begin walking, or meet the driver in front of the hotel for transportation to the conference room on the Duke campus: Terry Sanford Institute for Public Policy, Room 223 (2nd floor). The conference room is a twelve minute walk from the hotel.

**4 –5:45 pm** **Session 1: Nonprofit or Foundation Ownership of Media Outlets**
**Background papers:** *Financing the American Newspaper in the Twenty-first Century*, by Richard Schmalbeck and *Bad Public Relations or Is This a Real Crisis: YES* by Lauren Rich Fine

What hurdles do nonprofit media outlets face if they are created as startups? Are there ways to increase the flow of grants, donations, advertising, and (possibly) subscriptions to these outlets?

How can for-profit media enterprises make a transition to nonprofit status, and what would the feasibility and desirability be for private owners and/or shareholders?
Does the L3C ownership structure, a low-profit limited liability company, offer a new operating form that would allow media companies to attract investment from foundations, socially conscious investors, and shareholders seeking a market rate of return?
If a media firm has declared bankruptcy, how might this affect the desirability of a transition to nonprofit ownership, L3C ownership, or the possibility of Program Related Investments (PRIs) from foundations in the firm?

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| | Could foundations today make Program Related Investments in for-profit media companies that are ailing? Would this be a good idea? What regulatory or policy changes would be required?<br>How do nonprofit news organizations measure their success? |
| **5:50 pm** | **Group will walk back to the hotel.** (The driver will also be available.) |
| **7:00 pm** | **Dinner and Presentation at the Washington Duke Inn, Fairview Dining Room**<br>Presentation on the challenges of starting a nonprofit media outlet.<br>by Stephen Engelberg, Managing Editor, ProPublica |
| **May 5th** | |
| **8:00 am** | Breakfast on your own at the Washington Duke Inn, Vista Dining Room. The hotel will provide a voucher for breakfast at check-in. (The dining room opens at 7:00 am for breakfast.) |
| **8:45 am** | Participants should begin walking, or meet the driver in front of the hotel for transportation to the conference room: Terry Sanford Institute for Public Policy, Room 223 (2nd floor). |
| **9-10:15 am** | **Session 2: Case Study: Alternative ownership structures for *The New York Times***<br>**Background Paper:** *A Nonprofit Model for The New York Times?,* by Penelope Muse Abernathy<br>Assume that *The New York Times* was in financial jeopardy. What would be the feasibility and/or desirability of an alternative form of ownership, including nonprofit status, L3C, or foundation PRI in the firm? What would a transition look like from the current dual-class stock ownership organization? How might control/influence be shared across stakeholders in new arrangements? Is there a new format that separates ownership and control but preserves family influence? What types of revenue scenarios would you assume that would allow you to cost out foundation/nonprofit purchase? |
| **10:30-Noon** | **Session 3: Nonprofit or Foundation Subsidies for Information Creation**<br>**Background Paper:** *Subsidizing the Watchdog: What Would it Cost to Support Investigative Journalism at a Large Metropolitan Daily Newspaper?* by James T. Hamilton<br><br>How could community foundations channel resources to local newspapers for watchdog/accountability journalism? What types of donors/organizations might contribute to community foundation funds that go to local media?<br>What would newspapers be willing to accept outside funding for: general support, area specific coverage, dedicated reporter, specific series of articles?<br>How can one balance the missions of donor organizations versus the tradition of editorial independence in news organizations?<br>How can foundations or nonprofits generate information that will be taken up by for-profit companies? Would the contributions be monetary? Be in-kind contributions (e.g., creation of information to give to media outlets)? Involve joint production (e.g., nonprofit/foundation partner with media outlet)? Involve dedicated/endowed reporting units? |
| **Noon:** | **Lunch and Discussion of morning sessions** (Lunch provided in the conference room.) |

**1:30-3pm** **Session 4: Creating support for nonprofit /foundation ownership or subsidies for media outlets**

**Background Papers:** *The First Draft: Emerging Models for Regional and State Non-Profit Investigative Journalism Centers*, by Brant Houston and *Donor Collaborative to Support Not-for-Profit Public Affairs Journalism,* by Joel Kramer and Jon Sawyer

How do the prospects for nonprofit/foundation support vary by city size? What lessons should one learn from local public radio support/organization? Are there common problems that nonprofit media startups face that could be alleviated through one-time investments that cover the fixed costs of answering regulatory or business operation questions? Are there common resources whose fixed costs could be shared across nonprofit media outlets? Are there reporting resources with high fixed costs that could be funded by nonprofits/foundations and then widely shared across commercial media? What might these be (e.g., datasets and algorithms to analyze, with local media outlets providing local angles on these stories)?

**3:00 pm** **Conference concludes**