Ensuring Community News Coverage: Nonprofits and Other Models of Success — and Failure

Dozens of news organizations survive on more than sheer determination to provide neighborhood news

By Tom Davidson, for Center for Journalism & Liberty

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INTRODUCTION

When a veteran Maryland legislator was sentenced to prison on bribery charges in late July, the story led the home pages of the usual journalism heavyweights of Baltimore: The Baltimore Sun, dominant television broadcaster WBAL, a couple other television-news organizations.

But reporters from lesser known publications, namely Baltimore Brew, Maryland Matters and Baltimore Fishbowl, detailed efforts by prosecutors who charged Rep. Cheryl Glenn with taking $33,750 in payoffs, and telling an informant that the best way to get a cannabis license in Maryland was to know “God and Cheryl Glenn.”

The economic collapse of local newspapers is a sad, oft-told story. (The Sun had more than 250 unionized newsroom employees in 2007; today, with downsizing and centralization, fewer than 90 remain.)

Less told are the stories of the local-news organizations arising – and struggling – to fill the void: digital nonprofit startups, legacy publications reinventing themselves to chase philanthropic dollars, even groups that borrow lessons from dairy farmers’ 18th Century battles against railroad robber barons.

A decade into the transformation of local news, there’s no single template for success.

But there are emerging patterns – organization structures and financial models — being tried in community after community. There’ve been spectacular successes, failures that passed without notice – all told, hundreds of local experiments.

Combined, they offer insights that can help local entrepreneurs, journalists and policymakers decide what models create the best chance to reinvent local news in their community. With benefits from the Paycheck Protection Program running out in newsrooms across America, the pandemic has accelerated the need to fashion solutions to support local news.
NONPROFIT STARTUPS

**Suited for:** Lean, nimble niche sites.

**Challenges:** Raising initial capital; devoting resources to continual fundraising – and resulting volatility in finances; growing beyond a mere handful of reporters

Fifteen years in, the nonprofit startup Voice of San Diego is venerated as an exemplary local news startup. It breaks news; its work leads to criminal investigations; broadcasters clamor to put VOSD’s reporters on the air.

It’s easy to forget that its first year was a mess: Neither of its first two editors lasted more than six months. One of the pillars of initial strategy – content from unpaid community contributors! – flopped. And the IRS hung a big condition on its grant of VOSD’s nonprofit status: It had five years to diversify its financing from its founding donor, retired San Diego venture capitalist Buzz Wooley.

“If you think about what the threats were, first and foremost was just surviving that first year or two,” recalls Andrew Donohue, who was the first reporter hired at VOSD and became co-executive editor a year later. “One of our biggest fears was that Buzz would consider it a failure and just walk away.”

Donohoe and his co-executive editor, Scott Lewis, remade the organization – eliminating an expensive national wire service, dumping the free-contributor model, relentlessly focusing on enterprise reporting and investigations – even at the expense of ignoring breaking news chased by nearly every other local news organization.

Foundations, philanthropists and individual donors responded; VOSD’s budget rose from Wooley’s initial $350,000 to roughly $2 million per year.

“There’s something really powerful in the way we were forced to do it – which is just starting off and creating a unique identity in one specific area,” Donohue says. That mirrors the winding path of most local nonprofit news sites, says Sue Cross, executive director of the Institute for Nonprofit News, an industry association. “They barely hang on by their fingernails for a year ... and when I talk to them a year later, they’ve gone from one to two (reporters)” Cross says. “And the next year they’ve gone from two to four, and four to six.”

**INN**, working hard during the pandemic with various strategies, has more than 300 members, up 25% in the past year alone. They include heralded nonprofit successes ProPublica (with more than $25 million in annual revenue, and a newsroom of 100) and the Texas Tribune (which has more reporters covering state government than all other organizations combined).
But INN’s annual census of its members shows three distinct tiers: major national sites like Pro Publica; large statewide or regional sites like the Texas Tribune; and small, financially precarious local sites. Only 15 percent of INN members surveyed have annual revenues of $2 million or higher; fully a third get by on less than $250,000 a year.

In the Baltimore example, two of the emerging players are in that smaller category of local nonprofit startups: Baltimore Brew, a news and opinion site founded in 2010 and housed under the financial sponsorship of a larger nonprofit; and Maryland Matters, an independent 501c3 that focuses on statehouse and political coverage. Because of how they’re organized, neither has yet published their revenues; each has fewer than a dozen paid staff or regular editorial contributors.

However, even when local startups succeed journalistically, financial sustainability can be elusive.

The Chi-Town Daily News produced stories that led to indictments – but shuttered in 2009, with earnest board members quickly astonished by the difficulties of fundraising. The St. Louis Beacon made impact with deep reporting on topics like the mortgage crisis – but struggled financially until it merged with St. Louis Public Radio in 2013.

The collective experience of the hundreds of local startups hints at the power and shortcomings of the model: Great journalism isn’t enough. Successful organizations devote a third or more of their resources to fundraising and audience building, not just journalism; and they work relentlessly to expand their funding beyond major foundations down to donations as small as $5 a month, plus advertising, sponsored events and other sources.

“They are truly nimble,” Cross says. “They have no qualms about saying, ‘We tried that. It didn’t work. I’m going to experiment with this next.’”

At Voice of San Diego, that need to concentrate on business affairs eventually led to a division of labor: Donohue and Lewis initially shared the title of executive editor. But as fundraising ramped up and other business-side challenges arose, “we found ourselves in a lot of the same meetings all the time ... it felt redundant and not necessarily efficient.” Lewis took on the title of CEO; Donohue remained executive editor. (He left VOSD in 2012 for a journalism fellowship, and now is managing editor at another successful nonprofit, Reveal: The Center for Investigative Reporting in San Francisco.)

Even after success at two different nonprofit newsrooms, Donohue acknowledges that the model isn’t a universal answer.
“I grew kind of disillusioned” in the mid-2010s, he says. Plenty of organizations were trying to emulate VOSD’s model – but they struggled to build sustainability. The lack of profit motive inherently limits the funding to philanthropy, not investment capital. Maybe, he thought, that hurdle was just too high.

Then Covid-19 hit and local advertising took another dizzying decline.

“If you look at it today? The way people have just been crushed by advertising?” he says. “I’d be back to the idea that it should be a nonprofit.”
LEGACY ORGANIZATIONS CONVERTED TO NONPROFITS

Suited for: Existing organizations seeking to bolster their current, declining, revenue streams with foundation and philanthropic funding.

Challenges: Finding the capital to buy out the existing organization (or an owner willing to donate it); building the infrastructure to pursue donations.

When Joe Smyth pondered the future of his family media company in 1970, he didn’t like what he saw.

He had taken over the operation – a smattering of community papers, including the state-capitol daily serving Delaware – from his father. Because those publications were virtually the only local news and advertising sources for communities like Dover, Del., they were profitable – highly so.

But Smyth started thinking about the next generation – he and his three sisters’ kids.

“Between the four of us, we eventually had 14 children. There would clearly be too many family members demanding too much money,” Smyth recalls. “I didn’t think we could get through another generation.”

The classic answer at the time: Cash out, usually by selling to one of the acquisitive chains. Companies like Knight-Ridder, Gannett, Tribune, Thomson and more were on buying sprees – flush with the free cash flow of their growing operations, many also backed up by capital available from the stock markets. Humble community papers unknown outside their hometowns were being snapped up for tens, even hundreds, of millions of dollars.

But Smyth didn’t like the idea of his family company being handed over to “financial wizards” who were only interested in community journalism for the profits it could generate.

“Brokers often called, but we always said ‘not interested’ before they could mention any figures,” he says. “Perhaps I was afraid to know what they would offer.”

Instead, he had an idea: Buy out his sisters, then figure out how to transfer ownership of the company to a nonprofit holding company – a public trust absent of the incentives to maximize profits at the expense of community service.
It took him 15 years (and plenty of lawyers) to convince the IRS that the structure wasn’t just a tax dodge. Decades along, the publications of Independent Newsmedia Inc. still pay taxes on their profits – but as the for-profit arm of an umbrella nonprofit run by a board of directors committed to maintaining the papers as a public trust.

“Nobody has an incentive or motivation to rip it off, or to try to maximize the value and get rich off it,” Smyth says. “Nobody can sell it now. Nobody can profit from it. That’s why I think it can last a long time.”

Until the 2008 financial downturn, the very idea that a newspaper would want to become a nonprofit seemed absurd. Only a smattering even tried – perhaps most noteworthy, the St. Petersburg Times, whose owner, Nelson Poynter, set up a nonprofit to ensure the paper’s profits would flow to a journalism educational institution, the Poynter Institute for Media Studies.

But now, with advertising revenues in freefall and profits sustained only with continual expense cutting, other legacy organizations are exploring conversions.

In 2016, the Philadelphia Inquirer was donated by its owner, Gerry Lenfest, to the nonprofit Lenfest Institute (although, like Smyth’s papers, the publication itself pays taxes on any profits; it’s organized as a public benefit corporation, blending elements of a for-profit and nonprofit).

And earlier this year, the Salt Lake Tribune completed a conversion to nonprofit status.

The Tribune traces its roots to 1871 frontier Utah. For decades, the Tribune positioned itself as an independent watchdog – an explicit check against the power of the state’s dominant religious organization, the Church of Jesus Christ of Latter-Day Saints, which owns the other major publication in the state, the Deseret News, and its broadcast brethren, KSL-TV and radio. The Tribune won a Pulitzer in 2017 for its coverage of how sexual assaults were mishandled at the church’s Brigham Young University, for example.

But, as with nonprofit startups, journalistic success doesn’t automatically equate to financial sustainability. The paper had a succession of owners from 1997 onward; Utah financier Paul Huntsman (brother of John, a former governor, U.S. ambassador and presidential candidate) bought the publication in 2016.

Facing stiffening financial headwinds, Huntsman began the process in 2019 to donate the paper’s assets (but not its debts, which his company is covering) to a nonprofit.

“We’re a 130-year-old startup,” jokes Fraser Nelson, a nonprofit leader in Utah
who joined the paper as its vice president of business innovation in 2019. Unlike true startups, the Tribune had lucrative, if declining, revenue streams that it had to protect, namely existing subscribers and advertisers whose dollars the publication simply couldn’t afford to lose.

“As a person who has been in the nonprofit sector for 30-some years, you don’t want to give away any revenue that you have,” Nelson says.

So the publication still carries all the digital and print ads it can get. Standard subscriptions haven’t changed, but recently introduced was a subscription tier at roughly double the price.

“We have subscribers who pay what we have valued the product at - it happens to be $7.99 a month or $79 a year,” Nelson says. “What we’re asking (donors) to do is pay more for the same thing” via memberships at $15 a month or $150 a year.

What do those members get, besides the knowledge that they’re helping journalism?

“A pin - and that’s it. You’re really not getting a whole heck of a lot more.”

In that regard, the Tribune is attempting to blend the best elements of non-commercial public radio stations and the historic revenue lines of for-profit newspapers. By July, the Tribune had received 3,000 individual donations – encouraging, but far from assured sustainability.

“We are very adolescent,” Nelson says. “It’s been a very complicated and heavy lift.”

Still, the initial successes mean The Tribune’s conversion is closely watched by the journalism trade press. Nelson says plenty of people have called her to see if a similar conversion might work in their community.

She quickly explains that the conversions will work only when there’s a clear source of money to buy out an existing publication – or, as in Huntsman’s case, an owner is willing to simply give it away.

“That stops most of them,” she says.
PUBLIC BENEFIT CORPORATIONS AND
EMPLOYEE STOCK OWNERSHIP PLANS

**Suited for:** Specialized situations – such as where retiring owners want to pass the company to its employees, or a startup where initial funders are willing to accept a lower rate of return in exchange for the community good.

**Challenges:** Relatively few examples make it difficult to apply these approaches elsewhere.

Two other organizational structures are worth noting for organizations considering new models:

Public-benefit corporations (often shortened to “B Corps”) are for-profit companies but organized under state laws that give boards and managers the right to consider the broader social good and public benefit – not just profits. In theory, that explicit authorization – and the protection it gives from shareholder lawsuits – allows managers to make more-holistic decisions.

Thirty-six states currently allow some form of public-benefit organization. Among media entities, *The Philadelphia Inquirer* is organized as a B Corp.

David Bralow is a legal director of the Press Freedom Defense Fund and a former corporate lawyer for publishers like Tribune Co. and Media News. He notes that public-benefit corporations don’t need to go through the extensive IRS review process to receive tax-free status, nor must they publicly publish their tax returns: “A B Corp., being a private corporation, doesn’t have that same statutory review.”

On the other hand, public-benefit corporations are still relatively new (they began to emerge in the mid-2000s) and there’s no consensus on whether their blended goals make them more any effective at attracting customers, employees and investors.

The second model – employee stock ownership plans – are retirement accounts funded by companies in the form of stock shares.

Taken together, those shares can amount to partial or complete ownership of the company. ESOPs are frequently used by retiring company owners to transition ownership to employees – instead of simply selling the company to someone else or shuttering it. That typically happens by borrowing money to buy out some or all of the existing stock; the debt is paid back using profits in the future years.”
Here’s this magic thing that you don’t have to put any money into.” That’s how ESOPs are described by Patrick Mirza, communications director of The ESOP Association, a trade group that studies and promotes the structure.

Done well, ESOPs make companies more attractive to employees, and tap employee-owners’ collective expertise to improve operations. In reality, some ESOPs are little more than clever financing models that offer some tax advantages for leveraged buy-outs, and don’t guarantee employees any say in day-to-day operations.

Milwaukee’s Journal Communications – one-time owner and publisher of the Milwaukee Journal-Sentinel – was employee-owned; when the Journal’s founder, Lucius Nieman, died in 1935, the paper’s management organized a plan to have employees buy the paper. In various forms, that ownership structure lasted until Journal Communications merged with E.W. Scripps in 2014 – a sale driven by the Journal’s growing struggle to maintain financial viable as an independent.

Tribune Co. twice used ESOPs as part of restructurings. A 1989 ESOP loaded the company with enough debt to help fend off a hostile takeover bid – and over the next 15 years, employees received stock that amounted to hundreds of thousands of dollars for most. An ESOP was also a component of the financing for the 2007 leveraged buyout of Tribune by real-estate investor Sam Zell. That version didn’t fare nearly as well, and employees’ equity ownership were wiped out in the subsequent bankruptcy during the 2008 financial downturn.

ESOPs work best, Mirza points out, when there’s a financially stable underlying business, and the ESOP is part of a broader ownership restructuring.

“What we’ve seen is the best prospects for ESOP companies – the owner has been in ownership for a while, is proud of the company that he or she has built, is proud of the culture, and wants to reward the employees,” Mirza says.

“They’re building toward something,” he says. “When it’s done to stop a hostile takeover, or because revenues are declining, they’ve moving away from something ... to expect the management or culture would change probably isn’t reasonable.”

Put another way: ESOPs can be part of an answer for a financially stable existing for-profit business. They aren’t as useful when finances are deteriorating (there’s less or no profit in those future years to repay the initial debt financing) or to raise startup capital (because there’s no history of profitability to convince lenders to put up cash).
COOPERATIVES

**Suited for:** Startups in communities that don’t have large philanthropic communities but do have an engaged community of supporter/members large enough to raise initial funding.

**Challenges:** While well established in agri-business, news cooperatives are new and relatively untested.

Chris Horne has a gimlet-eyed view of the golden age of print journalism – that stretch from the mid-1960s to the turn of the century in which regional dailies became powerhouses of great journalism.

“Structures affect outcomes. What was the machine built to do?” asks Horne, publisher (and now former owner) of the Devil Strip, an arts and culture website in Akron, Ohio.

Those local print dynamos? They had powerful economic barriers (high fixed costs) that prevented competitors from arising. Those barriers meant they could make massive profits from key advertising categories, profits that just happened to allow funding big newsrooms.

For-profit print organizations “accidentally became a public service. It’s still done lots of good, I’m not demeaning that – but it was an accident.”

Horne doesn’t have time to wait for new happy accidents to keep his publication afloat.

After struggling to figure out a viable for-profit model, he studied, pondered – and gave up. Instead, earlier this year, he transferred ownership of the Devil Strip (named after the local nickname for the patch of ground between the street and the sidewalk) to a community-owned cooperative.

Co-ops are member-owned organizations more common to the world of agriculture than media.

They emerged in the late 19th Century to allow disparate groups – like dairy farmers – to work together for common benefit, often in ways that would be considered illegal collusion without special exemptions in state laws, says Courtney Berner, director of the University of Wisconsin’s Center for Cooperatives.
Farmers, for example, can band together to own the local dairy bottling plant – or negotiate collectively against the monopoly railroad that could choke off distribution of their grains. Or local consumers could band together to form an organic grocery store and gain access to products their local supermarket chain won’t stock.

The key elements: Cooperatives are owned by the members, and members elect the controlling board of directors, usually on a “one member, one vote” basis. That contrasts with for-profit entities (where major shareholders have more voting power than someone who owns only a single share of stock) and traditional nonprofits (where the boards of directors, appointed according to bylaws, have all power).

“Co-ops are businesses,” Berner notes. “It’s more about the business structure … What does it mean when the users own the business?”

For Horne at Devil Strip, it means a chance to build an organization designed expressly to serve its members first.

“The only thing I could find that could creative the accountability … was the co-op,” he says. “The multi-stakeholder co-op is really flexible.”

So in his case, community members – readers, in other words – have the opportunity to provide financial support by buying memberships. But under the one-member, one-vote system, no single member can dominate.

Workers, both full-time staff but also freelancers, have the power to elect a board member to ensure the journalists’ perspectives are represented.

Applying the co-op model is relatively rare in the media world.

The Associated Press has always been a member-owned cooperative (initially, only newspapers could be owner/members). Among local publications, there’s Horne’s Devil Strip, and another digital-only publication, the Mendo Voice in Mendocino County, California.

Voice founders Kate B. Maxwell and Adrian Fernandez Baumann find the co-op model better than another alternative, a traditional nonprofit.

“The reality of our coverage area is there’s not significant philanthropic, local funding resources,” notes Maxwell, the site’s publisher. Mendocino is relatively small (population 86,749, according to the census) and relatively poor (median household income of $49,233 versus a California median of $71,228).

The few donors who exist are focused on basic needs like wildfire recovery and community hunger, she says.
Moreover, her founding team wanted to find an ownership structure that could focus on everyone in the sprawling county, not just the better-off residents of the handful of towns and cities.

“Having democratic accountability and transparency -- assuring this is a local outlet that is owned here, and is serving the needs of the readers -- was something we felt could best be realized through a cooperative model,” Maxwell says.

One example of that focus: Mendo Voice’s coverage of a topic traditional media mostly ignored – Mendocino County’s economic reliance on marijuana.

Mendocino is part of the so-called “Emerald Triangle,” a three-county region of far-northern California that is among the nation’s largest centers of marijuana growing.

“The entire economy ran on weed, and the newspapers covered weed strictly as a crime issue,” says Adrian Fernandez Baumann, Mendo Voice’s co-founder and managing editor.

Both are in the early stages of transitioning to the co-operative structure; it’s too soon to tell if the expected benefits will pan out, and the Covid pandemic complicates things further. Horne notes that his just-formed board met in person only once before pandemic lockdowns.

Still, he’s hopeful.

“We’ve built an audience of people who give a shit about Akron,” he says. “The membership program itself should be a pathway to action – it should be a pathway to civic engagement."

Economic sustainability “will happen as a byproduct of the thing that we should have been doing all along,” he adds.

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So which of these are the “best” structure?

Bralow, the lawyer, has faced this question many times during his career on corporate staffs, and now helping independent organizations with legal questions.

Like most good lawyers, his answer boils down to: It depends.
“The general issues are: Is there debt? Are there assets? How do you value the assets?” he says. “It depends on the structure.”

He and other media lawyers are organizing an initiative at the Vance Center for International Justice, part of the New York City Bar Association. Their goal: Provide free or low-cost legal advice to media organizations looking for new paths to sustainability.

“These are not unknown issues,” he explains. “These are just straight-up corporate issues that need to have someone pay attention to.”
ABOUT THE AUTHOR

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