The National Trust for Local News

Proposing a new framework for newspaper ownership and governance that leverages national capital markets and supports accountability and decision-making in local communities

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Summary

The legitimacy risk facing newspapers is entangled in a downward spiral with their business risk. Private capital has increasingly stepped in to help manage the business risk and take advantage of newspapers' asset strength. But the ownership, governance structures, and values of private capital do not allow for either the long-term business transition or the social transition that local newspapers need to make in order to truly serve the present-day information needs of their communities.

The National Trust for Local News would establish a national non-profit entity with a focus on assembling a capital pool of >$1Bn combined with national scale operating expertise to acquire newspapers and work with local groups to build local ownership and support.

The Trust would issue tax-exempt Local News Bonds, which could also be available to small retail investors, community members, and other civic stakeholders to help finance the ownership and governance transitions.

The Trust's vision and structure are inspired and aligned with the movement for more creative and inclusive uses of capital and growing movements to build new democratic institutions.

The Problem

Local newspapers continue to provide the bulk of local news coverage, despite their weakened financial position. Most media watchers assume the viability of their business is the greatest threat to newspapers. But there are two deeper threats to their survival, both of which stem from problems of governance.

Newspaper ownership in the U.S. has been rapidly consolidating over the last 15 years. As of 2018, the largest 25 newspaper owners held about one-third of all titles (with more consolidation since), and about 1,800 titles have been shuttered in the process. The most powerful newspaper owners are now private capital holding companies whose expectations for profit and return have strongly influenced local newsrooms' size, quality, and resource levels.

The existential risks facing the remaining independent local newspapers stem from news consumers' shifting preferences and the social movements for accountability and equity in local communities. The governance and ownership structure of private capital are ill-suited to addressing these risks and, if left unchecked, will destroy the viability and legitimacy of the independent press as a cornerstone institution of our democracy.

Print advertising and circulation revenues have been falling for two decades, but still contribute the majority of revenues to the newspaper industry relative to digital sources. As the print newspaper consumption habit continues its decline, newspapers are making the shift to producing more and better digital products and services.

However, digital subscriptions and digital advertising generate a much smaller business "footprint" than revenue streams supporting a print-based product. Digital advertising rates are generally low for independent publishers. Digital advertising rates are generally low for independent publishers.[1] In addition, consumers' willingness to pay for digital subscriptions is generally lower than subscriptions for print products. Thus a huge challenge facing newspapers is to simultaneously manage the decline of a profitable, high-margin, high-revenue business while investing in the growth of a less-profitable, low-margin, low-revenue digital business. Newspaper publishers have to do this while keeping costs in line with revenues. This is not an easy transition to make.

As managing the unit economics of newspaper publishing has become more and more difficult, the newspaper publishing business has become riskier. Yet because newspapers were historically such profitable businesses, many papers retain long-term assets on their balance sheets that make them attractive acquisition targets. Long-standing relationships with local businesses translate into steady sources of advertising revenue. Print subscribers in many markets continue to pay regularly for home delivery of a print product that is, on a per-unit basis, much more profitable than a digital product subscription. In addition, many local papers own prime real estate — building and land in the center of their communities — which have become more valuable over time.

1 The majority of digital marketing dollars are directed to more efficient and targeted internet platforms

These assets — business relationships, paying subscribers, loyal readers, brand recognition, land, buildings — produce streams of cash which can be combined with extreme cost-cutting measures to make newspapers very profitable short-term and even medium-term investments. And in fact, as the level of consolidation has shown, newspapers as cash-positive assets are even more profitable when operated at a national scale with fixed costs spread over more titles.

Yet successive rounds of cost-cutting and journalist job loss have hurt the enterprise of local journalism as a whole. Indeed, the second existential risk facing newspapers is a legitimacy risk. Newspapers, in their mass-market heyday, were run by mostly white, male leadership. The culture of these newsrooms, the types of coverage they gravitated towards, and their general orientation to their communities, are increasingly out-of-step not just with internet culture but with the social movements towards greater institutional accountability, responsiveness, and engagement.

The legitimacy risk in newspapers is entangled in a downward spiral with the business risk. As newspapers continue to shrink their newsrooms to adjust costs with revenue and meet profit expectations, the quality and responsiveness of their product diminishes. And as their quality and responsiveness diminish, their legitimacy risk becomes even greater. This downward spiral creates a profound risk to the democracy of a weakened independent press. Without the resources and the legitimacy to sustain the trust of communities and hold power to account, the press will truly lose its institutional status in our democracy.

Prognosis and Intervention

Private capital has increasingly stepped in to help manage the business risk and take advantage of the asset-strength of newspapers. But the ownership and governance structures of private capital — and vitally, their ownership values — simply do not allow for either the long-term business transition or the social transition that local newspapers need to make in order to truly serve the present-day information needs of their communities. The goal of maximizing returns on capital has put capital owners' values at odds with the value to local communities and value to society of a thriving, well-resourced, independent press.

However, as the economic environment worsens, more distressed local papers are likely to go up for sale. At this moment, large investors with access to capital markets are the only actors well-positioned to purchase and operate local newspapers that find themselves in financial turmoil. Though some philanthropically-minded newspaper owners may opt to convert their papers into community assets, this strategy is by no means well-proven, and sustainability in this model remains a work in progress.

The most powerful intervention in the newspaper industry would create a path for real sustainability and local accountability. What is needed is a new framework for ownership and governance that leverages the power of national capital markets while placing the locus of accountability and decision-making back in local communities. This requires a multi-faceted change strategy: financial, organizational, technical, and cultural.

This kind of intervention also requires new levels of local organizing to create ownership and oversight mechanisms that emphasize the diverse array of needs and experiences in local communities and inclusive participation at all levels of news gathering and news publishing operations. The National Trust for Local News would act as a fulcrum for those efforts and would build analogous experiences in other media markets to address the problems facing local newspapers.

The concept of a National Trust for Local News resonates with the ideas set forth by Steve Waldman in his recent paper, "A Replanting Strategy: Saving Local Newspapers Squeezed by Hedge Funds," published by the Open Market Institute. In the paper, Waldman proposes a large-scale "replanting" approach to transforming local newspaper ownership. Similar to the Trust, a replanting approach would seek to identify promising papers for replanting, help the papers transition to new ownership and operating models, and provide the resources and strategic transformation assistance to help papers succeed. The second part of Waldman's proposal outlines new public policies that would incentivize existing commercial newspaper chains to donate their papers to a national nonprofit entity, as well as slow the pace of industry consolidation.

The Trust would be an ideal vehicle for assembling the social impact capital and expertise needed to implement a large-scale replanting strategy.

National Capital and Operating Structure for Local News — the Public Radio Capital Precedent

The most significant issue faced by local newspaper preservation efforts now is that it is done on a market by market basis and is primarily dependent on a local "angel investor" or "angel philanthropist" with the capacity to fully take on the risk of acquiring and building up the operation of a local newspaper.

A national capital approach would replicate what Public Radio Capital did, starting in 1996, in a parallel effort to preserve and expand public radio. At that time, a market for noncommercial public radio stations was created with the growth of noncommercial religious broadcasters. A majority of public stations are owned by institutions (colleges, universities, or city and state governmental entities) and as those institutions faced financial issues, some decided to sell their public stations.

The primary buyers were fast-growing national religious broadcasters. An example is the Educational Media Foundation (EMF), based in California. Starting with one station, EMF created a national operating and financing structure that efficiently acquired and operated noncommercial stations. They have now grown to be the largest noncommercial station ownership group that owns and operates 415 stations and had $185 million in revenue in 2018.

Public Radio Capital (now Public Media Company) was established to provide a national advisory and capital structure for public radio stations that were being sold — to enable local groups or other public stations to acquire those stations and keep the public radio formats. The national capital structure established for this was tied to an expanded legislative scope of a tax-exempt bond issuer in Colorado, the Colorado Educational and Cultural Facilities Authority (CECFA). When PRC was started, it worked with CECFA to issue tax-exempt bonds to non-profits in Colorado. The proceeds of those bonds could be deployed for projects anywhere in the country.

Since its formal founding in 2001, PRC/PMC has managed acquisitions and financings of over $400 million and has preserved or expanded public radio services to over 85 million people. Absent this national advisory and capital structure, local groups and stations would have faced the same hurdle that groups interested in acquiring or preserving local newspapers face — how to assemble the capital, transaction, and operating expertise needed to acquire a newspaper one market at a time.

Since the time that PRC/PMC worked with CECFA to expand its tax-exempt bond issuing authority, groups like the Nature Conservancy, the Trust for Public Land, and the Allied Jewish Federation have used CECFA for significant bond issues for projects all over the country. The noncommercial religious broadcaster, Educational Media Foundation, has also frequently used CECFA for financings.

Local Governance and Stakeholder Structure

A key element of the Trust strategy and structure is to identify a diverse and inclusive set of local stakeholders to play a role in governance and ownership, along a continuum of participation and control. A commitment to authentic local participation in governance is important to draw community support, provide accountability, and ensure editorial responsiveness in the newsroom. It is also a competitive advantage compared to private ownership from afar.

There is precedent for the creation of entirely new systems of local media governance and ownership that builds on local strengths and assets. The public broadcasting system in the U.S. was built atop a network of educational broadcasters, centered in the nation's school districts, local colleges, and universities. These were local institutions with educational missions and strong civic ties to their communities. The Trust would similarly seek to identify and convene diverse groups of stakeholders who could take on the governance and accountability work to ensure their local newspapers are able to meet standards of accountability, equity, diversity, and responsiveness to their local communities.

If we applied the same structure and concept to newspaper acquisitions, the steps would be similar to both the now 20-year history of PRC/PMC and to the Trust for Public Land and the Nature Conservancy. The key pieces are:

1. Establish a national non-profit entity with a focus on assembling a capital pool combined with national scale operating expertise to acquire newspapers and work with local groups to build local ownership and support.

2. The capital structure would consist of:

- Establishing a capital reserve that would provide a backstop for a tax-exempt bond issue for newspaper acquisitions. This reserve would be similar to a bank letter of credit facility that would only be tapped if there was a default on one of the acquisitions. Since this reserve would be national, the risk is mitigated by capital allocated to multiple markets.

- Tax-exempt bonds could be issued through traditional investment banks active in the tax-exempt markets and or could be done as private placements — sold to investors aligned with the national mission of acquiring and preserving local newspapers.

- The scale of this should be large enough to compete with or acquire newspaper groups from venture or private equity owners — so likely at least $1.0 billion in the reserve and a bond issue of at least $500 million.

- The National Trust for Local News entity should house the capacity to do complex financial and business analysis of the newspapers to identify viable financial structures and operating models to make the local newspapers successful.

- Given the rates on tax-exempt bond financing, the EBIDTA needed to pay debts would be significantly less than the current debt payments and expected investment returns imposed by PE/venture groups.

- Similar to the structures of the Nature Conservancy or the Trust for Public Land, a Trust for Local News would bring all of the capital, analytic skills, and operating expertise needed to negotiate and complete a newspaper group acquisition.

The Role of Public Media

In the communities in which local news is truly a market failure — e.g. where the local newspaper's economic fundamentals do not meet a minimum threshold for profitability — the Trust would support local papers' transition from commercial forms to philanthropic forms. The Trust envisions that a key piece of that strategy would be collaboration and coordination with local public broadcasters. Many local public broadcasters have deep expertise in small and large-dollar donor development and maintain robust broadcast audiences. The Trust would create a framework for how local papers and local public broadcasters could share technical infrastructure, reporting and publishing resources, and coordinate their philanthropic activities such that the overall ecosystem of local media would be strengthened. In the strongest form of coordination, the local public broadcaster would become the local paper's receiving entity. The goal would be to assemble a more connected local news infrastructure that is platform agnostic.

Open Questions

A number of open questions about this model require further exploration and development, including:

- What would be the ideal mix of local and national governance in the capital-issuing entity? How best could the Trust support scaled national infrastructure and local decision-making and autonomy?
- How could the Trust use bankruptcy laws and process to streamline balance sheets, re-calibrate ownership shares, and prepare newspapers for sustainability under new ownership and governance?
- What would be the return structure of the Trust and of the local ownership groups? How would operating costs, subsidies, and profits be shared in the network, if at all?
- How might hybrid organizational models (non-profit/for-profit), B-corp, co-ops, and other novel structures be used to balance social mission, wealth creation (particularly for historically disenfranchised groups), and philanthropic need in the Trust's papers?
- What local secondary and supporting community institutions can play key roles, including minority-owned financial and legal firms?
- What role could public policy at the state and national levels play in encouraging transition of ownership out of the hands of private capital?
- What role could internet platforms play in this new regime?
- How could existing local public broadcasting and ethnic media institutions play a productive role in these ownership transitions?
- How could the Trust create a market for its bond products? Could these products be marketed and sold in such a way that they could become assets owned by local citizens?