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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.