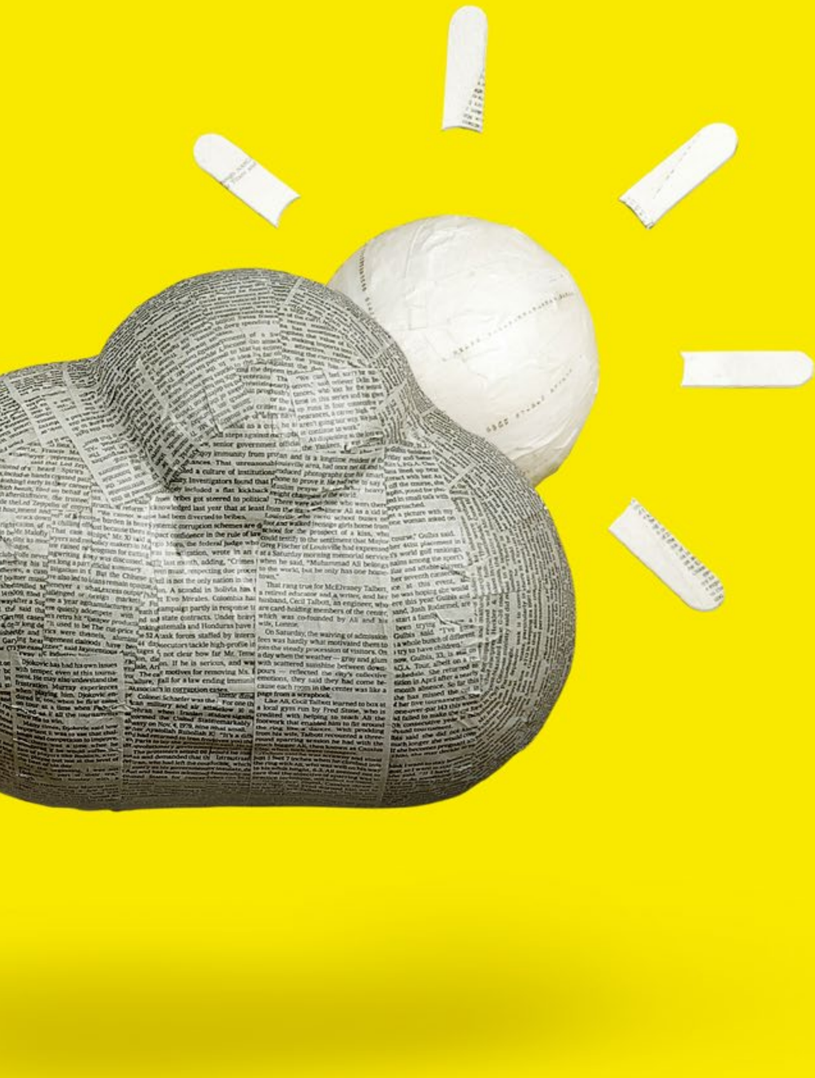


Could it be sunny in Philadelphia?

Philly's newspapers—the latest and the largest entrants into the world of nonprofit news—hope the move offers a fighting chance at long-term survival

Knight Foundation

Summary

The Philadelphia Media Network—the serious broadsheet Inquirer, scrappy tabloid Daily News and digital hub Philly.com—has been the poster child for newspaper ownership turmoil over the past decade. A half-dozen separate owners have shepherded a half-dozen separate strategies, all while the business for major metro papers, including those in Philadelphia, was facing dramatic digital disruption and revenue declines.

Enter Gerry Lenfest, a local cable network owner-turned-major philanthropist, who found himself as the sole owner looking for a better path forward. In January, the 85-year-old Lenfest announced a complex nonprofit/for-profit hybrid structure he believes will give PMN a fighting chance, both at survival after he's gone and at helping to solve the news industry's shared challenges.

Lenfest donated PMN to a newly created Institute for Journalism in New Media, which is housed under the Philadelphia Foundation, and gave $20 million as seed money to help get the institute off the ground. The goal is to grow the endowment (to the tune of $100 million) to fund a potentially wide array of initiatives, including research and development of digital delivery models and specific public-interest journalism projects at PMN and beyond. The institute and PMN are managed by separate boards with separate missions and marching orders.

While PMN is complex and still in an early stage, potential lessons can be learned about its component parts that could be applicable for other newspaper owners, publishers and funders. For example:

» A measure of stability: The arrangement is not a cure-all, but it does offer a couple of advantages, namely, it is less likely to be sold or dismantled by profit-seeking ownership and it reduces profit margin expectations.

» But it is no golden parachute: On a day-to-day basis, the arrangement changes little. It faces all the same business model challenges and economic realities it faced before. And it still needs to make more money than it spends. The institute, by design, cannot fund operational losses at PMN. Some laud this as an advantage, as reliance on philanthropic support could take the urgency out of PMN's need to innovate.

» In the public interest: PMN converted to a public benefit corporation, a designation allowed in some states that gives its leadership a wider berth to consider not just its fiduciary responsibilities but also mission and public-interest concerns.

» Partnership: The institute rolls up under the local community foundation. It is an limited liability company, which gives its leadership some legal protection, but it is a "disregarded entity" for tax purposes. That means it shares the tax designation of its owner (in this case, the Philadelphia Foundation's Special Assets Fund), which is a 501(c)(3) and therefore can accept tax-deductible donations. This partnership allows the institute to seek philanthropic support in a way that is easier than for for-profit news companies.

» Other options: Lenfest and his team chose to create the institute, a new grantmaking organization, to own PMN. But many other options exist, including direct conversion from for-profit to nonprofit, selling to a foundation, creating a charitable trust, and ownership by a school or other existing nonprofit organization, among others.

PMN is very much in its infancy, so many challenges lie ahead for it and the institute. Among them:

» Building a world-class team: The institute board needs to be expanded, needs to hire its first director and needs to work through governance issues among stakeholders.

» Managing expectations and building an institutional strategy: The institute needs to be clear about what it will (and will not) fund and be clear internally and externally about its priorities.

» Cultivating donors: At $20 million, the initial endowment (it has since grown) is meaningful but falls short of the transformative amount needed. Where will the institute turn for funding?

» Staving off undue influence: The institute and PMN will need to deal with new potential for conflict and a heightened need for transparency and disclosure.

» Creating a culture of agility and collaboration: Having lower profit expectations will not matter much if PMN does not become faster, more audience-driven and more digitally focused.

Intro

Constant shuffling of newspaper owners is hardly a new phenomenon. Large media companies over the past decade or two have swapped properties like baseball cards, hunting for harder-to-deliver margins in some cases or to simply stay afloat in others. But there has been a more fundamental shift in who exactly is taking over, with private investment companies and hedge funds getting in while there's still some profit to be made, and wealthy patron owners hoping to save sinking ships and return to profitability.

A growing cadre of nonprofit and nonprofit/for-profit hybrid models, some long-standing and some new, is also entering the news industry. A couple hundred digital startups have sprouted in the past few years, joining public radio and television, and a handful of legacy newspapers, all with unique twists on nonprofit ownership.

Philadelphia's storied papers have now joined their ranks.

The arrangement in Philly isn't a golden parachute, and the leaders of the Philadelphia Media Network know it. They understand that "nonprofit" isn't a business model, that no change in structure will guarantee journalistic or financial success, that to survive—nonprofit or not—they need to take a dramatic leap forward into the digital age and find a smoother road to economic sustainability.

The structure is complex, for sure. But there are lessons to be learned about its component parts that could be applicable for other newspaper owners, publishers and funders. For newspapers looking to make a bold move from for-profit to nonprofit, the approach in Philadelphia and other approaches highlighted in this report are not necessarily the right path or the only path. "There is no single, one-size-fits-all approach to tax-exempt organizations and transactions involving 'regular news' newspapers," said Marcus Owens, a tax attorney.

What follows is an examination of the arrangement in Philadelphia, and other flavors of nonprofit affiliations by legacy newspapers, drawn from more than 30 interviews with key players involved in the transaction and other industry thought leaders. It is intended not to provide answers to the myriad challenges ahead, but to spur discussion among those interested in the arrangement in Philadelphia and elsewhere and to offer potential alternatives to the status quo, as well as illustrate, in the spirit of openness and learning, the challenges these organizations face as they seek a more stable path forward.

Philadelphia Media Network

Organizational Chart

The Inquirer DAILY NEWS philly.com

H.F. "Gerry" Lenfest launches the Institute for Journalism in New Media—donating The Philadelphia Inquirer, Daily News and philly.com to it—and makes a gift of $20 million to a new endowment to help ensure the future of independent journalism.

The Philadelphia Foundation

Founded in 1918 with the mission to improve quality of life in the greater Philadelphia region.

TPF Special Assets Fund
501 (c)(3)

Tax-exempt affiliate of the Philadelphia Foundation, allowing for tax deductible donations.

The Institute for Journalism in New Media, LLC

Single-member PA LLC of TPF Special Assets Fund formed for charitable & educational services.

The institute's endowment proceeds will support specific journalism grants to PMN and the development of journalism delivered through new media.

Philadelphia Media Network, PBC Charitable Trust

Trustees are the same individuals as directors of PMN and PBC

PMN, PBC Charitable Trust protects editorial independence of The Philadelphia Inquirer, Daily News and philly.com

Philadelphia Media Network ("PMN," "PBC")

A Delaware ublic benefit corporation

This structure reflects the organization's public mission. The complete independence of the journalism is maintained.

Newspaper, LLC
Philadelphia Inquirer and Daily News

Digital, LLC
philly.com

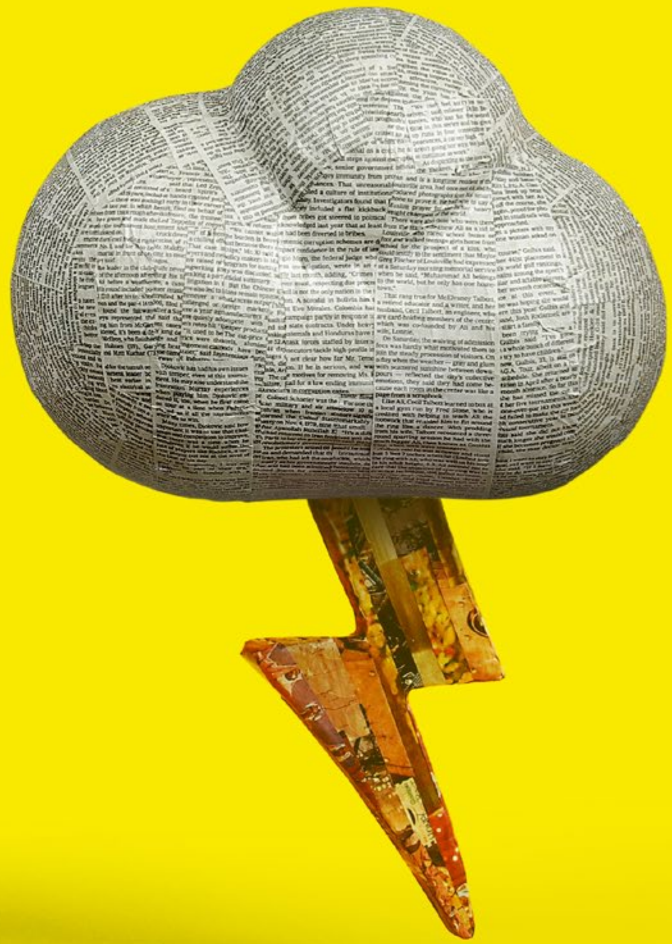
Conshohocken, LLC
Printing Plant & Facility

*PMN, PBC is formed under Delaware law by converting Philadelphia Media Network, LLC ("PMN, LLC") to a public benefit corporation. PMN, PBC is considered the same legal entity as PMN, LLC

Turmoil in Philly

The metropolitan daily newspaper industry in the past decade-plus is the quintessential victim in Clayton Christensen's theory of disruptive innovation, the process by which established companies are eaten alive by faster, cheaper, more nimble competitors. But there might not be a more haunting example than the newspaper market in Philadelphia. The city's print legacy news organizations—the serious broadsheet Inquirer and the spunky tabloid Daily News, along with their digital sibling Philly.com—have endured a brutal succession of ownership changes, executive shakeups, bankruptcy and layoffs that would make even the most cynical newsrooms wince.

The Inquirer and Daily News moved to McClatchy as part of the Knight Ridder sale in 2006, but were promptly sold to Philadelphia Media Holdings and former PR executive Brian Tierney for $515 million. Three years and 400 eliminated jobs later, the company filed for bankruptcy. More than a year of lawsuits and union battles ensued, ultimately leading to a successful 2010 bid—of $139 million—by hedge funds and banks that held the company's debt. In 2012, six local business leaders, via the holding company Interstate General Media, bought the papers for $55 million—roughly the same price John S. Knight paid for them in 1969. The new owners included George Norcross, Lewis Katz and H.F. "Gerry" Lenfest.



"We've been the epicenter of media disruption."

Stan Wischnowski
Senior VP and
Executive Editor for
The Philadelphia Inquirer,
Daily News and Philly.com

Further drama unfolded during the next two years, including widely publicized and contentious infighting among the owners over meddling in editorial decisions and the firing of editor Bill Marimow (for the second time). Marimow was ultimately reinstated but the schism among owners led to the papers once again being put up for sale in 2014, this time in an auction between two groups of its owners. Lenfest and Katz, the minority owners in the group, won (paying $88 million) and essentially bought out Norcross and his partners.

"Of all the ventures I have been involved with in my life, nothing is more important than preserving the journalism that has been delivered by these storied news organizations."

H.F. "Gerry" Lenfest
Former owner of the
Philadelphia Media Network

"One party got a wonderful return on his investment," Katz said at the time, "and the other party has the privilege to give the newspaper all it deserves."

Finally facing a respite from the ownership ping-pong, and with two owners who seemed committed less to profitability and more to the survival of the enterprise, the saga took yet another horrific turn: Four days after winning the papers, Katz died in a plane crash.

Left as the sole owner,[1] the now 86-year-old Lenfest began to set in motion a plan he believes will give Philadelphia's newspapers a fighting chance, both at survival after he's gone and at helping to solve the news industry's shared challenges.

Gerry's Gift

On Jan. 13, 2016, at a ceremony at the National Constitution Center in Philadelphia, full of pomp and circumstance unusual these days in newspaperland, Lenfest unveiled a plan. At his side were his newly installed CEO, Terry Egger, and the relatively new CEO of the Philadelphia Foundation, Pedro Ramos. Together, they described a complex structure that puts Philadelphia's biggest news organization in the hands of a nonprofit.

Here's how it works, in a nutshell:

Lenfest donated the assets of the Philadelphia Media Network (PMN), namely the Inquirer, the Daily News and Philly.com, to a newly formed Institute for Journalism in New Media, which in turn was given to the Philadelphia Foundation, as part of its Special Assets Fund.[2] PMN remains a for-profit business, with all the revenue and expense challenges that come with it. The institute and PMN are managed by separate boards (although Lenfest and former Columbia Law School dean David Schizer sit on both) with separate missions and marching orders. The institute, with a $20 million initial endowment by Lenfest, is designed to support public-interest journalism projects and to "explore and research new media delivery models that can step into the role of printed newspapers."

* * * *

Lenfest is the epitome of the self-made man. He bought a small cable company in 1974, transformed it into a powerhouse and made a fortune from its sale to Comcast in 2000. He's famously known for keeping the 2,800-square-foot house he and his wife, Marguerite, bought in 1966 for $35,000 (and for which, only last year, he installed air conditioning). His friends and confidants are amazed that he still flies coach, that he eats bologna sandwiches and that he's dedicated to giving away virtually his entire fortune.

The Lenfest Foundation has since donated more than $1 billion, primarily to the arts (more than $60 million to the Curtis Institute of Music, for example) and education programs (tens of millions to his law school alma mater, Columbia, and millions more in scholarships to students in need in and around Philly). The Lenfests have said they intend for their foundation to spend itself down and shutter within 10 years of their deaths. So the decision to donate PMN was a logical choice, Gerry Lenfest said.

"When I became familiar with it and saw advertising go down year after year and revenues go

1 Two weeks after the crash, Katz's son, Drew, sold his shares to Lenfest
2 Despite some speculation to the contrary, Lenfest gets no tax benefit from the gift of PMN to the institute or the $20 million endowment. He essentially capped that benefit with massive previous gifts.

down, I started to think about the value of these institutions. No radio station or TV station or dot-com, no other medium, supplies this kind of journalism. What would happen if Philadelphia didn't have the Inquirer and the Daily News? So that was the germ of the idea."

Lenfest enlisted the help of Richard Fox, an accomplished Dilworth Paxson lawyer who focuses on charitable giving, private foundations and tax-exempt organizations.

Joining Lenfest and Fox was Schizer, dean emeritus at Columbia Law, a professor of law and economics, and an expert on tax law and governance issues. In 2011, Schizer wrote in the Journal of Legal Analysis a case "for news organizations to make greater use of the nonprofit form." The three men spent the better part of a year grappling with the best way to give PMN a nonprofit home.

To be clear: PMN is not a nonprofit.[3] It's a for-profit taxable business. As part of this arrangement, it was converted to a public benefit corporation, or PBC, a corporate status allowed in most states (in this case, Delaware, where PMN is registered) that mandates its board balance profit and purpose.[4] PBCs "broaden the duty of a company beyond maximizing shareholder value to include maximizing stakeholder value." Amendments to Delaware's corporate law in 2015 allowed socially conscious companies to convert to PBCs. Prior to the change, wrote John Montgomery, chairman of the venture capital firm Startworks, it would be difficult for companies "to legally pursue a heroic purpose...Unless such goals are an instrument to creating stockholder wealth, directors risk breaching their fiduciary duty pursuing them. If directors aren't careful, it may be illegal to do the right thing."

Technically, the institute isn't a nonprofit either. It's an LLC, or limited liability company. From a legal perspective, that offers some advantages, including insulating the individuals running it, to some extent, from being held personally accountable for debt, legal action and other unpleasantries. It also remains a distinct legal entity for state law purposes. But from a tax perspective, it's considered a "disregarded entity"—meaning its tax status is determined by, and its taxes are filed on behalf of, its single owner. In this case, that's the Philadelphia Foundation's Special Assets Fund, which is a 501(c)(3) and a public charity.

A 'Public Benefit' Corporation

One could argue that the past 10 years of disruption have left Philadelphia's newspapers even further behind the curve than their metro paper brethren, even slower to adopt its products, processes and revenue to digital realities.

PMN doesn't publicly share its financials. But, Egger says, the company has lost about 60 percent of its total ad revenue over the past six years, and circulation revenue is now a greater contributor to the bottom line. In a report published by Philadelphia magazine, revenue declines at PMN surpassed industry averages in the period from 2000 to 2012. And, according to a Philly.com report in late 2015, the company has lost $90 million in revenue since 2010.

"Every time you hit rock bottom, you can't believe there's another bottom," said Howard Gensler, a Daily News columnist and president of the Newspaper Guild of Greater Philadelphia. "When you're in a dying industry, for lack of a better word, you need some stability and a plan. Whenever a new group came in, the new guys dumped the old guys' plans and started their own... Everyone has their own ideas. Now, of course, no one has good ideas. But at least with a consistent strategy your plan has a chance."

As recently as December 2015, PMN took another whack at its expenses, to the tune of 46 layoffs: 17 at Philly.com, 17 at the Daily News and a dozen at the Inquirer. Despite those cuts, you could argue that PMN has a chance at operating from a position of strength: Still roughly 250 journalists and a newsroom budget of about $30 million.

"We're committed to paying our own bills."

Terry Egger
CEO of the Philadelphia Media Network

3 "Nonprofit" doesn't imply an organization can't make a profit, but rather that profit must go back to the organization, not to shareholders or investors. In this case, if PMN were to turn a profit, it could choose to either reinvest in itself or send funds up the chain to the institute. PMN leadership recognizes that would be a wonderful dilemma to have.
4 PBCs must fulfill a handful of additional requirements, including providing a statement of the company's success at meeting and promoting its public benefits and interests.

Still an important and vibrant region (Philly itself is the fifth-largest city in the country), rich with news, culture and sports, a top-notch higher education community and a growing journalism ecosystem, with dozens of independent news organizations. And still 23 combined Pulitzer Prizes to PMN's credit and a history of meaningful investigative reporting.

It also has some distinct complexities. It's heavily unionized, for example, which requires a push-and-pull some other major metro papers don't have to contend with. It maintains three essentially distinct brands and, until recently, operated three separate newsrooms.

The newsroom consolidation project is attempting to break down walls—literally and figuratively—that have existed for decades. PMN is, in essence, attempting to bring together three different cultures in a way that betters all three brands. No small feat, but one that its leaders and outsiders acknowledge as essential for its survival.

* * * *

On a day-to-day basis, the new arrangement, including its conversion to a PBC, won't affect how PMN operates. It will continue to face the same economic realities that have plagued it, and most other newspapers: circulation declines and rapid loss of ad revenue on the print side; meanwhile, downward pressure on ad rates and a struggle to monetize its consumer base digitally.

"This change in form is more than a Band-Aid but less than a brain transplant," Schizer said. "It makes a difference, but it doesn't solve everything. If this is all we were doing, it wouldn't be enough."

Put more bluntly: "Sprinkling some nonprofit pixie dust won't save the newspaper industry," said Ken Doctor, news analyst and author of the Newsonomics blog.

The Institute for Journalism in New Media, by design, can't bail PMN out of a jam. Its founding documents read: "The Institute will not transfer any funds as contributions to the capital of PMN for general operating expenses or to cover deficits. The Institute can only serve as a philanthropic resource to PMN, in furtherance of its educational mission to fund certain news coverage that serves the public interest, which might not otherwise be covered due to lack of funding at PMN."

"We are committed to paying our own bills," Egger said. "This only accelerates our entrepreneurial attitude, not the other way around. There's not a chance in hell that we would be less aggressive."

But the ownership structure does offer a couple of very important advantages. For starters, it should provide a measure of stability, at least relative to the ownership carousel of the past decade. The newspapers can be sold again, but that is considerably less likely.[5] Secondly, it can take some of the pressure off on delivering returns. The structure "gets us away from a monomaniacal focus on margins," said Marimow, the Inquirer editor. "We need to have a viable business, but we don't need to have an 18.3 percent margin."

Under this structure, PMN has the same profit expectations as, say, the growing pool of primarily digital nonprofit news organizations across the country, namely, to make more money than they spend. Positive cash flow is a necessity, regardless of the organization's tax status.

"One of the most meaningful components is that they've stayed with a for-profit taxable model," said Feather Houstoun, senior adviser for journalism and public media for the Wyncote Foundation. "That creates a sense of obligation, a separateness of the paper and the enterprise from the nonprofit owner such that they still have to make it work." The ability to take foundation dollars and other philanthropic support "can be distracting from the imperative to make journalism sustain itself," she said.

Egger said December's layoffs were done with an eye toward the future, cutting substantially now to avoid cutting again and again in the future. In part because of those cuts, the company did show a positive EBITDA (earnings before interest, taxes, depreciation and amortization) last year. And, Egger says, PMN's plan calls for carrying a margin in 2016, '17, and '18—a three-year runway "to give us room to experiment and evolve."

The arrangement "buys us time to figure it out," Senior VP and Executive Editor Stan Wischnowski said. "With 250-plus journalists, we still have the ability to do really amazing public-service journalism. But the cost of that is extremely high."

5 The board can take actions it deems necessary, Fox said, including "mergers, consolidations, joint ventures, conversion to tax-exempt status" but with "protections built into a sales agreement to continue the journalism provided by PMN." In the unlikely event of a sale, proceeds would be given to the institute.

In 2012, for example, the Inquirer won a Pulitzer for its "Assault on Learning" project, an investigation into widespread and underreported violence in city schools. The effort took most of the staff's education team's focus for about 18 months.

"There was a price to be paid," Wischnowski said. "We had to walk away from some things. Going forward, this gives us stronger possibilities that we can do both civic-minded projects and still keep our eye on the ball on a daily basis."

Not everyone is optimistic.

"I don't see any rays of hope in [the arrangement]," said Gensler, from the newspaper guild. "Media companies are going to survive—or not survive—based on the quality of information they provide and the people making the decisions about how it's provided and who provides it. If we don't figure out a way to right the ship and we don't stop hemorrhaging money ...then I don't see it making much of a difference, to be honest."

"Journalism isn't on life support, but it does need nourishment."

Stan Wischnowski
Senior VP and
Executive Editor for The
Philadelphia Inquirer,
Daily News and Philly.com

The Institute for Journalism in New Media

Everyone involved agrees the Institute for Journalism in New Media has enormous potential. But what exactly its ambitions and goals might be, and who will lead the institute to achieve them, remains somewhat unclear. After the announcement in January, some observers opined that it would save journalism in Philadelphia, or even save journalism altogether. The leadership at PMN seems to agree that's a stretch, and that as a new idea it is, by definition, ambiguous.

The institute could be designed to fund any of four broad areas: specific journalism (for example, reporting beats or investigative projects); experimentation in the practice of journalism (ways to grow and engage audiences, improvements to storytelling techniques, or product development to improve the consumer user experience); business model and new revenue initiatives (monetizing live events, creating paid digital products and services); or technology (tools or infrastructure that make things easier, better, faster). These are not mutually exclusive concepts, of course, so the institute also could, theoretically, pursue funding of projects that hit on all four. Imagine a new data reporting mechanism, for example, that resulted in an in-depth investigative piece, enabled a new method to gather and curate data, and was organized with other news organizations as a pooled resource to share costs.

The institute has a broad enough mandate to potentially tackle pieces of any or all of these challenges. But a handful of principles are specifically called out in the institute's founding documents. Among them:

1. Explore and research new media delivery models that can step into the role of printed newspapers in providing journalism through socially valuable coverage.

2. Draw upon the research and development efforts of universities and other tax-exempt educational organizations (and, where appropriate, taxable organizations) while leveraging the platforms of the Inquirer, Daily News and Philly.com as a resource and a case study on how to do so.

3. Make grants to PMN to support specific journalism projects to achieve the dual goals of serving the public interest in sustaining this type of reporting and delivering the work product through new media to explore and push the boundaries of traditional journalism business models, as well as grants to other organizations.

While it remains unclear what types of exploration and research the institute might prioritize in this space, it's safe to assume it will include digital audience growth and engagement, and specific product development in social and mobile. "One thing that we've been clear about is that it would not make sense to be committed indefinitely to delivering news in a particular form," Schizer said. "It sure seems likely that the print version of news is going to disappear or be significantly smaller. The social value of newspapers will continue even if the print form doesn't."

One such project is already underway, begun well before the institute was formed. What started as a research-minded class at Drexel University, funded by Lenfest, turned into $1 million-plus grant from him to turn those ideas into action.

"Gerry came to me and asked, 'What could Drexel students do to help with the business and civic problem of connecting with young people?'" said Rosalind Remer, vice provost and Lenfest Executive Director of the Center for Cultural Partnerships at Drexel, and a charter member of the institute's board.

A course led by two local entrepreneurs conducted research on news reading habits and brainstormed potential mobile products for younger readers. What resulted is a beta iOS app that takes in a feed of PMN's content, with personalization and real-time notifications, similar to The New York Times's NYTNow. The app is powered on the back end by a tool that allowed students to curate, edit and A/B test content. It's ready and waiting to be deployed, Remer said, and will ultimately be operated by the institute, where it could be open-sourced, licensed or given away to select development partners.

For her part, Remer is looking for these kind of bold experiments in the projects the institute funds. Revolution, not evolution. "If you don't show how [the idea] is going to change the way you do business, in a fundamental way, it's not going to fly."

David Boardman, an institute board member, dean of the School of Media and Communication at Temple University and former executive editor of the Seattle Times, said the greatest caution needs to be on funding journalism and specific journalism projects, unless they are particularly innovative. "It has to push the envelope on technology, audience engagement, etc.," he said. "It has to represent something different: some new approach, some new useful tool, some new revenue opportunity."

David Haas, another institute board member, agreed. Haas is vice chair of the Wyncote Foundation and a longtime supporter and funder of public-interest journalism. "I do believe covering beats is the last thing they should be funding right now," he said. "It's an important area for philanthropy to support, in general, but I'm very reluctant to lead with that, unless we're talking about targeted beats that have some sort of [journalism innovation] as a component because it would undermine the business model change needed there now in a big way." Raising money for topic-based coverage at the outset would be detrimental to the sense of urgency around journalism and revenue experimentation internally at PMN, he said.

"Funding journalism alone in the absence of driving new revenue to support the business is shortsighted," said Sandra Shea, who holds the combined role of editorial page editor for the Daily News and new director of strategic partnerships for PMN. "That'll just allow us to do more stories, but it will all go away if we haven't figured out the business model."

With any approach, those involved recognize they're going to need a lot more money to make a meaningful contribution to the cause. Lenfest's initial gift—the $20 million endowment—would provide, at most, $1.2 million per year. The first obligations of that endowment are to pay for the operation of the institute itself: a fee in the form of a small portion of the endowment (not to exceed $75,000 per year) to the Philadelphia Foundation, salaries of the institute's director and any support staff, and other administrative costs. What's left will likely be a few hundred thousand dollars; not insignificant by any means, but well short of the influx of cash needed for transformational change.

Board members and others are committed to growing the endowment—many have floated the goal of $100 million—and attracting gifts that live outside the endowment. Lenfest's financial contribution will continue as well; he said he's committed to matching funds from other investors to help get closer. "Anyone can specify a different purpose and I'll match it," Lenfest said.

While it remains unclear what the funding sources would be—or the priorities among them—the institute will likely draw from the same philanthropic avenues pursued by most nonprofit news organizations: national foundations that support journalism; national foundations that help fund specific causes (awareness of issues in inequality or improving the health-care system, for example); local and regional foundations focused on improving quality of life in the city; wealthy individuals who believe in the need to support local media; and the public itself, via recurring memberships, one-time donations or ad hoc crowdfunding campaigns.

Board members have maintained that the institute, when funded in a more substantial way, ideally should be not only a lab for innovation at PMN but also a catalyst for transformation across the industry. That message is no doubt altruistic; what's good for PMN is theoretically good for the rest of the metro newspaper world. But it's also a practical and more compelling message to funders: Invest in innovation here and have a greater effect on journalism writ large.

* * * *

Although the institute owns PMN, the structure is designed to keep decision-making—business and editorial—out of the institute's hands.

PMN maintains its own management team and separate board of directors. PMN's stock was divided into two parts: 9,999 shares to the institute, with no voting rights, and one share, with 100 percent of the voting rights, to a charitable trust; its trustees are the same as the members of PMN's board of directors, effectively putting control in the hands of the PMN board. It was particularly important to Lenfest, given his history on this subject, to prevent the institute from intruding in the newsroom. Per his gift agreement: "The editorial function and news coverage of PMN shall at all times remain independent of the Institute and the Institute shall not attempt to influence or interfere with the editorial policies or decisions of PMN."

Editors, board members and business leaders at PMN spoke of the symbiotic relationship and the need to understand each other's priorities but also keep out of each other's way. Managing that dynamic relationship will be a challenge, they say.

"There's a built-in tension," Wischnowski said. "PMN has the ability to say no if an idea comes down [from the institute] that doesn't fit. Likewise if an idea goes up from PMN to the institute, they have the right to say no. That potentially creates really healthy checkpoints."

"It was really clear that this is important to Philadelphia."

Pedro Ramos
CEO of the
Philadelphia Foundation

The Role of the Community Foundation

The Philadelphia Foundation, like many of the hundreds of similar community foundations throughout the country, is intended to pool and grow funds to be redistributed to a variety of community-minded causes. The institute is housed under the foundation's Special Assets Fund, which was created to take non-traditional gifts (think real estate, stock and the like).

It's a logical fit. Fox, the attorney whom Lenfest has called the architect of the plan, recommended it to him as a potential home for the institute after a similar arrangement fell through at another nonprofit host. That organization had concerns about risk and liability; specifically, if PMN went under, would creditors or unions come after the nonprofit? Pedro Ramos, who has been the Philadelphia Foundation's CEO since August and is now a charter member of the institute's board, didn't share those concerns.

"Our organization was sort of known as being on the higher end of risk averse," he said. "One lens says, 'Wow, this is a tough business, it's heavily unionized, there are lots of issues and it's only going to get harder; do you guys really want to be involved in this?' Well, taking risks and taking shots once in a while comes with the territory. And if this is our mission and our space and we're protected financially and legally, at that point it's really easy...for me to go to the board with this."

There were two key objectives Fox and team wanted in to get out of a nonprofit host. First, they wanted to partner with an existing public charity, allowing the institute to immediately reap the benefits of that affiliation, including that it could attract philanthropic support and that those gifts would be tax-deductible. Second, they wanted an organization that understood it could have no involvement on the ground at PMN, in editorial, managerial or governance decisions.

So what's in it for the Philadelphia Foundation? Optics, certainly. Taking on something of this scale raises the foundation's profile and it hopes will encourage other philanthropic support for community funding. There's also a strategic reason. The foundation's investments are heavily weighted toward the most disenfranchised, Ramos said, so there's an element of funding diversity. And there's a small income opportunity; the gift agreement calls for up to $75,000 a year in administrative fees from the endowment to be paid to the foundation. But, Ramos said, primarily the decision was about mission fit.

"For us, this presented a moment where we were forced to come to appreciate much more quickly than we otherwise would have the extent to which the Fourth Estate could actually be gone," he said. "We would... realize very quickly what happens to our idea of the civic space... and the well-being of the community when locally oriented independent journalism ceases or is materially depleted."

Challenges Ahead

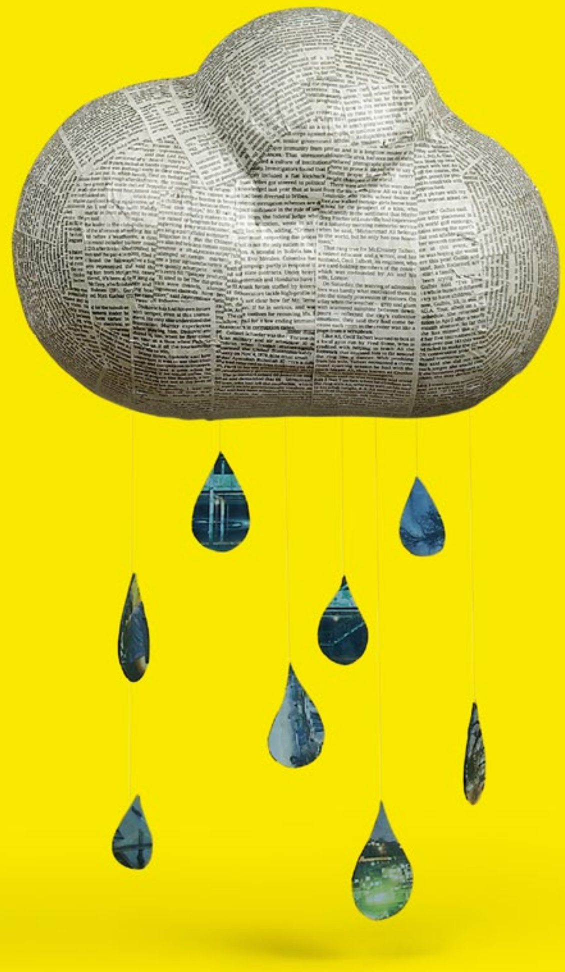
As the institute and PMN's new ownership structure evolve, the entities will likely grapple with a number of strategic challenges. Among them:

1. BUILDING A WORLD-CLASS LEADERSHIP TEAM

The institute's inaugural board of managers, handpicked by Lenfest, includes representatives from the world of philanthropy (Ramos, from the Philadelphia Foundation; Haas, from the Wyncote Foundation; and Leonard Tow, founder and chairman of the Tow Foundation) and six leaders in academia (Boardman, from Temple; Schizer, from Columbia; Sarah Bartlett, dean of the graduate School of Journalism at the City University of New York; Sheila Coronel,[6] a professor and dean of academic affairs at Columbia; Michael X. Delli Carpini, dean of the Annenberg School for Communication at the University of Pennsylvania; and Remer, from Drexel).

Observers have noted the initial makeup is heavily weighted toward academics.

"We're going to get balance to the board," Lenfest said. It needs representation from people involved in the evolution of digital media and journalism, as well as people with deep business innovation experience, he said.



"To me, it's a race against time."

Lenfest

6 Steve Coll, dean of the Columbia University Graduate School of Journalism, was in the original lineup but stepped down and was replaced by Coronel.

The first challenge Lenfest and the board face, however, is finding an executive director to run it. Board members have said they want someone with a deep understanding of what's happening to the field of journalism, with strong digital chops, clear vision, a gift for navigating various constituencies, and at least some fundraising experience.

But regardless of whom they choose, the arrangement, as expected in a newly established organization, is ripe for ambiguity. There are decisions to be made around funding and grantmaking (for example, What will it fund? What process will it use to make those decisions? How will it prioritize other funding sources?), collaboration (How will it work with funders, news organizations and universities in developing new programs?) and perhaps most importantly, in governance (How will the institute work with folks on the ground at PMN? How will the two boards interact?).

The latter will be no small feat; it will be critical for the institute and PMN boards to establish a productive and healthy working relationship. Ruth McCambridge, editor-in-chief of Nonprofit Quarterly, wrote about the arrangement in Philadelphia: "A note of caution: NPQ has recently covered a few stories...about the problems that can occur between related institutions with separate governing bodies awkwardly patched together."

Said Houstoun, of the Wyncote Foundation: "Unless the institute has the right executive director and a board who's balanced and thoughtful about solving the problem, it's going to fall way short about what it should do."

Both organizations, but the institute in particular, will also need to grapple with how to move effectively from being individually driven to institutionally driven. The ownership structure has been Lenfest's vision, and the way it's been constructed has been largely at his request. It will need to find its own voice over time, via the board and staff, a point not lost on Lenfest.

"My concern is my age," he said. "I've got to turn over the reins to somebody, find an executive director, grow the board, find a new chair of the board. To me, it's a race against time."[7]

2. MANAGING EXPECTATIONS AND DEVELOPING AN INSTITUTIONAL STRATEGY

The institute and PMN in its new form as a public benegit corporation have much to figure out. But senior leaders are particularly concerned in the early days about clarity of purpose. Haas called it a "vast area of mushiness"; the institute has to be painstakingly clear about its mission, and develop and articulate a strategic path going forward.

For example, while the high-level stated objective is to support innovation at PMN and beyond, none of the provisions laid out by the founding documents or the board thus far specifically mandate a geographic focus on the Philadelphia region. Should that be a stated objective, or should the institute have no prejudice to make grants to Philly-based ventures? Another: What happens when a PMN competitor seeks funding from the institute? The details could be messy.

"That is a central issue," Bartlett said. "How do we accelerate PMN's embrace of digital and adoption of those platforms? What's the business model underlying that, and how do we support it? Where I think that gets tricky is... is the mission to support PMN or to support innovation [more broadly]? If there's a day that the board views PMN as weaker than a competitor, what do we do about that? Or if the management of PMN proves not to be nimble enough or farsighted enough to be a real digital player, what do we do about that?"

Where, in the landscape of organizations whose purpose is to advance journalism innovation, should the institute sit?

"There is a space, it seems to me," said Tom Rosenstiel, executive director of the American Press Institute, "between the training model [of the Poynter Institute]...and the MIT Media Lab, which frees dreamers from technology and other fields who imagine a media future that leaps ahead, only some of which are practical." He said there's a natural tension between research and development, which is focused on leading-edge experiments, and training, which is focused on established behaviors and sharing of best practices. "It may be more useful [for the institute] to think about R&D and outreach of new ideas."

On one hand, the institute's charter has left plenty of wiggle room to navigate these kinds of issues. On the other hand, as mentioned, the charter is loaded with ambiguity. "Everyone projects their own vision about what it will be," Shea said. "So we need to spend a lot of time clarifying and communicating."

Another challenge: managing expectations internally and in the journalism world writ large. What can we expect from the institute in the short term? When will it begin to make grants? How will it share its findings?

7 Lenfest took a major step toward completing these goals May 31 when he handed over the reins of the PMN board to the well-regarded venture capitalist Josh Kopelman. Kopelman is the founder and managing director of First Round Capital, an early-stage funder of companies like Uber, Square and Blue Apron. He's routinely on Forbes' "Midas List" of the world's smartest tech investors. Many of PMN's leaders see the move as a strong signal about the company's commitment to innovation. Lenfest, for now, will remain chair of the institute's board.

"[We need to make sure] it's not perceived as a silver bullet for all of journalism's problems," Bartlett said. "If there was a magic bullet, we probably would already know about it."

3. CULTIVATING DONORS

If a $20 million endowment is widely seen as substantial but not enough, what will it take? Is the $100 million target sufficient? Is it realistic to get there? And where will the institute turn for support?

For starters, enter David Haas. In April, he added $1 million to Lenfest's endowment as a personal gift, plus a pledge of an additional $500,000 a year through 2020. Separately, his foundation, Wyncote, has committed to investing $500,000 a year through 2020. Together, that will be a $5 million boost to the endowment.

"I believe very strongly in this," Haas said. "We don't know exactly how the evolution will go, but it's so important for the city. It ought to have enough fuel in the tank to be able to focus on strategy."

In an op-ed for PMN, Haas wrote that foundation support for journalism has "expanded significantly over the last 10 years in response to the weakening of the Fourth Estate and the resulting threat to democracy."

He cited statistics from Media Impact Funders and the Foundation Center: More than 800 foundations gave roughly $700 million to the space between 2009 and 2013; annual foundation support for journalism grew from $108 million in 2009 to $143 million in 2013. But, he argued, the bulk of that funding went to public broadcast and nonprofit digital startups, not legacy metro newspapers.

Houstoun said it's important to help persuade other foundations to invest in journalism and journalism innovation, but that is not always an easy sell.

"Most foundations will get there the same way we did," Houstoun said, referring to her time as president of the William Penn Foundation from 2005 to 2011. "If you don't broaden the conversation about whatever issue you care about, you are never going to get anywhere…If you have any interest in changing public perception, public policy, changing behaviors, think about people who are only vaguely aware. You're never going to move the issue [if you only speak to the echo chamber]. This is why you underwrite journalism. Not because you want to control the information, but because you want information out there among the general public."

It's a daunting challenge for institutions that don't typically invest in journalism, Houstoun said, because of the complexities of the industry and the sometimes difficult prospects of gauging a project's impact. "Generally [foundations] want to put money into things they understand and think they know what will happen," she said. "This is unchartered territory. Gerry [Lenfest] and David [Haas] are special people willing to step up and make big bets."

Local and national foundations, particularly those that already include journalism in their funding portfolios, already invest in a number of nonprofit (and, in some cases, for-profit) journalism and journalism innovation projects, which means the Institute for Journalism in New Media is theoretically competing with local nonprofits such as WHYY and the Public School Notebook, for-profits like Billy Penn that seek philanthropic support and national nonprofits like NPR and ProPublica.

Foundations, national and local, will be on the institute's fundraising radar. So will wealthy individuals and, potentially, the community at large. With a significant arts and public media scene already in place in Philadelphia, is there enough philanthropic support to go around?

William Marrazzo, president and CEO of the large dual radio-television station WHYY, thinks so. "I'm more pleased than anxious," he said. "We'll all learn from what they're doing. If they're interested, we'd be interested, in collaborating, not competing."

He's optimistic that a fundraising partnership, potentially, could mean one plus one equaling more than two. If a combined play could attract philanthropic support WHYY couldn't secure on its own, even better. "If the institute is a sufficient point of leverage and we could be a part of that, that would be terrific," he said.

In terms of smaller dollar donors, the institute will face the same challenge that other nonprofit news organizations have: explaining that journalism can, in fact, be a charitable cause worthy of support, a la museums, after-school programs, pet shelters and ballet troupes.

4. STAVING OFF UNDUE INFLUENCE

Skeptics of the new arrangement between PMN and the institute have questioned whether a news organization can truly avoid conflicts of interest by taking philanthropic dollars.

The potential for conflict is certainly real; a study by Media Impact Funders, a network of organizations that support media production, journalism, technology and other causes, found in interviews that some funders "are not funding media for media's sake, but rather funding social or systemic change and using media to advance specific goals."

In a wide-ranging study released in April, the American Press Institute found similar results. The authors ask: "To what extent are media funders and their media grantees and partners in this for the same ends? Journalists usually see themselves in the business of making information public—though some of their work can be described as close to advocacy when they function as watchdog or investigator exposing wrongdoing. Funders and foundations, on the other hand, may want to inform the public, but they may also be trying to drive toward particular policy outcomes."

These issues are much more complicated, the report concluded, in cases where grants are intended to pay for coverage of specific topics, as opposed to unrestricted general operating support.

That means the Institute for Journalism in New Media will have to understand the intentions and aspirations of particular funders and their alignment with the institute's own goals. But it's far from uncharted territory. Public media and digital nonprofit news organizations deal with these specific issues every day, and news companies of all sorts have similar conflict potential in advertising relationships.

"Allowing charitable foundations to pay for the news might be risky," Philip Meyer wrote in "The Vanishing Newspaper: Saving Journalism in the Information Age." "But it can't be any worse than letting advertisers pay for it."

Marimow, the Inquirer editor, sees a distinction, however. "Advertisers understand the bright line because those relationships have existed for generations," he said. "Individual funders are less accustomed to the notion that funding doesn't necessarily guarantee a result."

Egger said the potential for conflict heightens awareness among the team. "Just the fact that the question is there would make it impossible," he said. "Your nerve endings alert you like an alarm system. If it raises that question more, good."

PMN will need to think through how it handles transparency of new funding sources, its editors said. Most of the new breed of nonprofit news organizations disclose donors on their sites (some even in real time) with their gift amounts and, in the case of funding for a specific project, the nature of their support. Some sites include a footnote disclaimer in any story that references a major individual or foundation donor.

The institute needs to be deliberate in its thinking about these issues, Haas said, and should be documenting its policies from the start. API's report shows this is not typically happening elsewhere: "Fewer than half of nonprofit news organizations [four in 10] said they have written guidelines about what kind of funding they will accept. A third have written guidelines about what level of communication with funders is appropriate. As for funders, just 10 percent of those responding to the survey said they required grantees to have written guidelines detailing their editorial independence."

5. CREATING A CULTURE OF AGILITY AND COLLABORATION

Having lower profit expectations and a parent organization with significant funding to invest in innovation won't matter much if PMN doesn't become faster, more agile, more audience-driven and digitally focused.

"The future is already here, and it's called the Internet," Doctor wrote on his Newsonomics blog, in reference to the Philly ownership change. "There are now thousands of people—though mainly working outside of newspapers, companies that have so discouraged the inside innovators with red tape, blue-penciled budgets, and white flags of surrender—who have mastered the digital arts of innovative products, viral distribution, and, yes, emerging business models that produce new streams of income. There just aren't enough of them working in places like Philadelphia's daily papers."

This is certainly true not only in Philadelphia. Reinvention is a pressing need at most metro newspapers across the country. To wit: The Dallas Morning News is in the midst of a physical and cultural reset of its newsroom. The DMN said it "urgently needs sweeping change. Because we haven't had sufficient evolution, we now need a revolution." And Boston Globe editor Brian McGrory recently shared plans for a "no-sacred-cows analysis of the newsroom and what the Globe should look like in the future."

"There are important issues to raise and explore in what I'll call a reinvention initiative," he wrote in a memo to the newsroom staff. "Do we have the right technology? Do we train staff in the right way? Should we remain in the current print format that we have now, same size, same sections? Do we have the right departments? Is our beat structure outdated? How can our workflows improve? Do we have too many of XX and not enough Ys? Should we publish seven days a week? Do print and digital relate in the right ways? The questions could go on and on. They could become bolder still."

The point is not lost on Egger and team. "I think, in general, the sins of our whole industry have been lack of experimentation, particularly during the years when we had the resources to do it," Egger said. "But that's in the rear-view mirror. It's imperative that we try new things, diversify our revenue streams and improve the user experience in print and online."

But PMN can't do it alone. The name of the game now will be collaboration—within PMN, between PMN and the institute, with other organizations in Philadelphia, and within the larger journalism ecosystem.

"A handful of papers are going to figure out pieces of it," Houstoun said. "And as a collective community, they can make real progress. Whether it's sharing innovative applications or [scaled advertising programs], that has to be part of the solution."

"Partnerships are still a real missing link in journalism," said Jim Brady, CEO of Spirited Media, Billy Penn's parent company. "Everything else seems to be moving toward a sharing economy, and working together will work better than all of us as individuals." As an example, he cited a hypothetical partnership on Philly education: "Let's all agree that it's something that needs to be fixed. What would happen if you got the Inquirer and Philly Mag and the Notebook and Billy Penn all together. Let's start tackling the things that need to be fixed instead of saying that collaboration is too hard or too complicated. The world as it is now is not going to have cities with 150-person newsrooms, so let's figure out how we can get things done."

"We're all open to the idea that there will be many forms and sources of journalism in a local ecosystem," Boardman said. "But we also believe that it's to the benefit of the whole community if there are larger and highly credible institutions at the center of that ecosystem, and PMN can and should be that." He said collaboration is not yet part of the culture of PMN to the degree it needs to be but that the institute can help foster it.

The Drexel-developed curation app is an example of what was and what could be. The initial beta lacked a formal owner within PMN to experiment with it, let alone implement it, and the idea met some resistance in the newsroom. Now owned by the institute, the app has the potential to be used not only by PMN but also by other metro market papers. It was recently demonstrated to newsroom leaders in Philadelphia, Miami, Dallas and Minneapolis as part of the Knight-Temple Table Stakes Project, a collaboration designed to cultivate digital best practices for legacy newsrooms.

There are dozens of flavors of nonprofit ownership of print papers (some tried, some not), none of which is a slam dunk for news organizations. Among the variations:

» Converting from for-profit to nonprofit directly. Several old tax laws make such a conversion cumbersome at best. If either a) the IRS were to change its rulings, or b) a company were to make a successful case and set a new precedent, this would be the cleanest path for newspapers to take.

» Creating a nonprofit newsroom division, separate from the for-profit aspects of a commercial newspaper. This is loaded with potential logistical barriers, but could be a way to insulate public-interest reporting from the rest of the enterprise.

» Ownership by a foundation: essentially the model in Philadelphia and a new purchase in Alaska, which gives the organization nonprofit or for-profit options to manage its business, as well as an easier road to generating philanthropic support. But, of course, it requires a symbiosis between the missions and visions of a foundation and a newspaper that may not exist in many markets.

» Ownership by a school: has many of the same characteristics of foundation ownership, except a school is by definition a public charity, which offers some advantages. It also has many of the same limitations of foundation ownership, however.

» Ownership by a trust: again, similar in some ways to foundation ownership, but a trust can also mandate certain ways in which the business is run or the way journalism is pursued. The biggest challenge with this approach is finding an owner willing to forgo his or her own fortune to establish it in the first place.

Other Nonprofit Ownership Models

Perhaps the most obvious nonprofit ownership model would be the one that hasn't yet happened for a daily metro paper: direct conversion from for-profit to nonprofit. There have been several recommendations to make that transition easier, but to date no legislation has been adopted to amend IRS rules to specifically allow for tax-exempt status[8] to local newspapers. So making a direct change would be complex.

The Internal Revenue Service "had trouble articulating why lecturing on art history is educational but lecturing on what happened in the world yesterday is commercial."

Marcus Owens
Attorney specializing
in nonprofit tax law

8 There were particular cases where these issues were overcome, including Harper's Magazine, although not with general interest local newspapers.

First, as pointed out in a 2013 report by the Council on Foundations, a direct conversion like this could "create a significant tax liability for the for-profit converting entity because it's treated as 'deemed sale.' Changing this would require legislation pertaining to both tax, and possibly, bankruptcy law."

Second, the newspaper would need to prove that it is organized and operated for educational purposes (there are other tax-exempt 501[c][3] purposes—religious, scientific, literary, testing for public safety, etc.—but educational is the closest fit for news organizations).

Importantly, no 501(c)(3) organization can participate or intervene in any political campaign. So nonprofit news organizations are not permitted to endorse political candidates, although some argue this is a surmountable hurdle. "Electioneering is a clear no-no," Schizer said. "There are things that you could do that come really close but don't violate the law. 'Candidate A would be terrific for the economy,' for example. Everything but the last sentence, like '...and therefore you should vote for him or her,' is fair game. So it's probably not as big of a deal as it's made out to be."

And perhaps the most complex issue: A newspaper wanting to convert from for-profit to nonprofit also must show that the "manner in which the distribution is accomplished is distinguishable from ordinary commercial publishing practices." This raises an obvious question: In a digital era, and with legacy news organizations struggling to stay afloat, let alone make a profit, what is considered "commercial"?

"The IRS has had guidance in place since the 1950s and '60s regarding newspapers," said Marcus Owens, a Washington-based attorney at the firm Loeb & Loeb. He spent 25 years at the IRS in the nonprofit division and has worked on media-related cases both inside and outside the IRS. "At the time, the IRS felt that tax-exempt status for an educational institution is different from tax-exempt status for a commercial enterprise. They had trouble articulating why lecturing on art history is educational but lecturing on what happened in the world yesterday is commercial. So what they hit on in the 1960s was looking at how the information was disseminated. Is the publication sold on newsstands? Subscription sales looked kind of commercial. So the IRS position was fashioned around looking at your average commercial newspaper in terms of content, delivery and funding, and any activity that had those characteristics was considered commercial and not eligible for tax-exempt status."

Those decades-old rulings make little sense, Schizer said. "By market capitalization one of the largest nonprofit categories is hospitals, and many are for-profit and many are nonprofit. If asked to tell the difference, you'd be hard-pressed."

In the mid- to late 2000s, as the recession devastated local news organizations, digital-only news organizations began forming and looked to the IRS for nonprofit status. "The IRS struggled with them," Owens said. "For years they had suspended applications for exemptions. Finally the IRS decided to approve tax-exempt status if they find they're supported at least in part by grants and donations. That broke the logjam."

Owens and others strongly believe local newspapers ought to qualify.

"It doesn't matter whether it's reporting what Obama said yesterday or what Kim Kardashian said. One reflects policy and politics, the other reflects popular culture, but it shouldn't matter," Owens said. "It's all information. If what's written is what the writers and editors believe the public ought to know, if that's your mission, it ought to be exempt. If their purpose is to make money, they ought to be a for-profit....The focusing on a systematic process for deciding what is important for the public to know is where you should draw the line. Not so much what you end up publishing, but about whether it's done with the intention of informing the public to be better citizens."

Because there's never been a direct challenge, general interest local newspapers are left to navigate compliance on their own.

"No one really took the IRS straight on in this point," Owens said. "I thought, even when I was at the IRS, that it was vulnerable. But no one has taken it on."

So what would it take open the door? There are two approaches: Have a tax lawyer write an opinion or go to the IRS to get a ruling. "It's good practice to get the government to give you a ruling," Schizer said. There are two kinds of rulings, he said: published and unpublished (although it's a misnomer because both are accessible on databases). Published means the government is intending to make a policy change. Unpublished means the ruling applies only to the specific case. "But typically if it happens once," he said, "it'll happen again."

* * * *

Another option that remains mostly untried: spinning off a newsroom's public-interest and investigative reporting team as its own 501(c)(3), essentially creating a new division of public-benefit journalism, funded by public contributions and other philanthropic support, and keeping it separate from the rest of the enterprise.

That raises all sorts of practical and operational considerations about just how separate these groups would need to be. But if those logistical issues can be resolved, Schizer said, it's a logical model. "If you take an existing newsroom and draw a red line down the middle of it, everyone on the left is nonprofit and everyone on the right is for-profit and nothing else changes," he said. "The government could say we're just going to analyze it as one entity... so you'd want to do more. For example, one of the things you would do is that the investigative group would share with anyone who wanted it, a la ProPublica, so that it can't be claimed that it's only done for commercial reasons."

The closest corollary might be the Huffington Post Investigative Fund, a relatively short-lived, not-for-profit arm of HuffPo. It failed to attract long-term funding and ultimately merged with the Center for Public Integrity.

* * * *

Philadelphia is the largest and most recent example of nonprofit ownership structure. But there are, of course, many variations. The Christian Science Monitor has been owned by the First Church of Christ, Scientist, and subsidized by the church for most of its history. National Geographic was owned by the National Geographic Society from 1888 until last year, when it dramatically expanded its for-profit partnership with Fox. Consumer Reports has been a nonprofit entity since 1936 (owned until 2012 by Consumers Union). Harper's Magazine created its own foundation rather than connecting with an existing one. Mother Jones was spawned from the Foundation for National Progress. And, while not strictly speaking nonprofit, there have been several employee-owned newspapers over the years, although most have since reverted to more traditional structures (the Omaha World-Herald, for example, was sold to Warren Buffett and Berkshire Hathaway in 2011).

Three approaches offer something of a model for daily newspapers: ownership by foundations, schools and trusts.

FOUNDATION-OWNED

The Fairbanks, Alaska, News-Miner was owned by C.W. "Bill" and Helen Snedden from 1950 until 1992, when it was sold to Dean Singleton and Richard Scudder. When Helen Snedden died in 2012, she willed her fortune to two funds: a family foundation, with about $1 million earmarked for park improvements and beautification, and the Helen E. Snedden Foundation, with about $9 million in assets.

In December 2015, Singleton put the News-Miner and its sister paper, the Kodiak Daily Mirror, up for sale. Virginia Farmier, the sole trustee of the Snedden foundation, pounced.

"I kept looking for the right attorney," she said, "but they kept telling me I couldn't [buy] it." Lawyers told her it wouldn't be possible, due to rules about a foundation owning more than a small percentage of a business.[9]

Then she found Owens, the Loeb & Loeb attorney and nonprofit tax specialist. A purchase could be considered a program-related investment, he said, which would allow the foundation to buy and own the papers as an LLC and treat them as disregarded entities.

"We took the position that there's a constitutional right to information," Owens said. "And these newspapers are virtually the only way the average person in Fairbanks and Kodiak would know what was going on and their way to be educated. If [they were] sold to a big chain, that . . . would disappear. And it would be USA Today with a slightly different front page. We were ready to go to the mat on that with the IRS. We went into the IRS, and they folded. They said, 'Sounds good to us!'"

The papers will no longer endorse political candidates, a fairly rare practice in Alaska anyway, but otherwise readers will see relatively few changes, Farmier said.

She said the foundation bought the papers for two reasons: number one, "we want to increase quality, which means you sometimes have to put a little money into it, and two, for the employees. [The prior] owners had cut the staff so thin. We don't want blood, we want a product."

"I think we found the perfect owner," Singleton said at the time. "It is gratifying to our families that the Snedden legacy will continue to inform and educate the people these newspapers serve."

* * * *

In 2010, Jerome and Nancy Kohlberg, seasonal residents of Martha's Vineyard, bought the local weekly, The Vineyard Gazette. They saw the paper as a community asset, not just because of its newsgathering ability. It's in a historic property, with a treasure trove archive and a rustic printing press (it still prints in black and white, on a seven-column broadsheet). The island's artists, historians and writers are welcomed in the paper's archive, on Fridays the newsroom is open to the public, and kids are invited to watch the press in action.

9 There are broadly two types of foundations: private foundations and public charities.
Private foundations are subject to stricter rules, including limitations on having a controlling interest in businesses.

Jerome Kohlberg was 87 at the time of the purchase and wanted to ensure it was going to survive and maintain its value in the long term, said Nancy McCabe, executive director of the Kohlberg Foundation. In 2013, Kohlberg gave the Gazette to a private operating foundation (separate and apart from the Kohlberg Foundation) that operates the newspaper and in addition creates historic preservation programs, book festivals and in-depth environmental programs. Like the Institute for Journalism in New Media in Philadelphia and the Snedden-owned papers in Alaska, the newspaper is a for-profit LLC. Any surplus, McCabe said, is reinvested in the operations of the paper.

The difference between the Alaska and Martha's Vineyard arrangements is in the classification of its owner: a private foundation vs. a private operating foundation.

SCHOOL-OWNED

The Tampa Bay Times is perhaps the most familiar example of a nonprofit-affiliated local newspaper in the country. It's been owned since 1978 by the Poynter Institute for Media Studies,[10] a journalism education center and think tank created by Nelson Poynter, then owner and chairman of the St. Petersburg Times. He willed the Times Publishing Co. to the Poynter Institute to protect it from chain ownership.

Like the examples above, the Poynter Institute is the nonprofit owner but the newspaper is a for-profit LLC. Unlike those examples, Poynter is a school; an educational institution, with a campus and faculty and other markers, qualifies as a public charity as opposed to a private foundation, and therefore is not as heavily regulated.

Also, Poynter's original intent, at least in part, was to funnel proceeds from the paper into the institute. For decades, it did just that. And it has been, in some ways, the envy of for-profit newsrooms: It punched above its weight class seemingly because of its singular focus on quality journalism (indeed, it recently won two more Pulitzers, for local and investigative reporting). But even Poynter isn't immune to the economic realities of the news industry.

"So often the Times/Poynter arrangement looks easy to outsiders," Karen Dunlap, the former president of Poynter, wrote in a 2011 report for the Reuters Institute for the Study of Journalism. "They see a business freed of public ownership and corporate pressures. They don't see that free of those pressures a for-profit still has to succeed in a difficult environment. They see a respected school drawing income from the newspaper it owns. They fail to see the press for additional funding similar to that undertaken by many nonprofits."

Poynter reported losses of $3.5 million in 2013 and $2.2 million in 2014. With less stable prospects of cash flowing up from the newspaper, Poynter is even more reliant on diversified revenue experimentation and philanthropic fundraising.

Another example is the Manchester-based Union Leader and New Hampshire Sunday News. In 1999, Nackey Loeb, a granddaughter of E.W. Scripps, then-president and publisher of the papers, founded the nonprofit Nackey S. Loeb School of Communications. The school is designed to "inspire interest, integrity and excellence in journalism and other forms of communication. It also promotes understanding of and appreciation for the First Amendment."

After Loeb died in 2000, her daughters gave controlling stock in the papers to the school.

The primarily free curriculum is intended for students of all ages; courses cover such topics as multimedia storytelling, digital audio production, First Amendment law and travel writing. The school also hosts special workshops on "telling your family story," "cartooning for kids" and similar topics.

TRUST-OWNED

While trust-owned newspapers are more common in the U.K. than in the U.S. (The Guardian, owned since 1936 by the Scott Trust, is perhaps the most well known) there are some examples domestically.

The Day in New London, Connecticut, is one such example. It's been owned by a split-interest trust, which operates the newspaper and a foundation (the Bodenwein Public Benevolent Foundation), since the 1930s, following the death of its founder, Theodore Bodenwein. Profits from the paper have historically gone to the foundation, which in turn used those proceeds to support philanthropic causes in the region. In 2015, it provided more than $100,000 to a wide range of grantees, including local homeless shelters, children's arts programs and even community sailing lessons.

"I believe a newspaper should be more than a business enterprise," reads Bodenwein's will. "It should also be the champion and protector of the public interest and defender of the people's rights."

His will was written in exacting detail to help ward off potential threats to its intent. "He could look to examples of what had not worked," Dunlap wrote in the Reuters Institute report. "Joseph Pulitzer's will said his New York World could not be sold, but in 1931 the paper was losing money and courts broke the will allowing a sale. Bodenwein took great care in the writing of his will making clear every plan and back-up plan. After he died challenges came from family and the government, but the will stood."

10 It was originally called the Modern Media Institute; trustees changed its name posthumously.

Another example is Independent Newsmedia, which owns the Delaware State News and a few other papers in Arizona, Florida and Maryland. In 1991, Independent's owner, Joe Smyth, gave 100 percent of its stock to a newly established non-profit company, INI Holdings. The structure was created "to ensure the perpetual independence of the company, so that it could always be operated in a spirit of public trust. The holding company's purpose is to exercise, promote and help preserve the principles contained in the First Amendment of the Constitution."

And in March, Tribune Publishing Chairman Michael Ferro donated his stake in the Chicago Sun-Times to an unnamed charitable trust in California. Unlike the examples above, the Sun-Times parent company (Wrapports) will keep voting rights and organizational authority. The charitable organization, however, would reap a financial benefit if the paper were ever sold.

What advantages does a trust offer, and why might it be an appropriate path for a newspaper owner? Wrote Robert Picard, a researcher, lecturer, and author of the report "Is There a Better Structure for News Providers?": "The trust may dictate business and financial dealings, may require adherence to certain standards and traditions, or may require loyalty to certain political, social, or religious viewpoints. They may or may not be created as charities and many trusts are created to avoid some tax payments, particularly inheritance taxes. The primary rationale for journalistic trusts is to create managerial and editorial independence."

In reference to the establishment of a trust by John Russell Scott in 1936, Victor Keegan wrote in the same report: "This act of philanthropy has proved a dilemma for other newspapers or media groups interested in adopting the Guardian's trust model for themselves. First, you have to find someone prepared to give up their own fortune for the continued existence of the paper. Such people do not grow on trees."

Conclusion

Lenfest's generous gift and PMN's new organizational structure are sure to be dissected and evaluated over the coming months and years. Whether the moves are considered a success for Philadelphia media and the larger journalism world–and whether other communities adopt a similar model–remains to be seen.

But the early components of the arrangement offer lessons in and of themselves for other newspaper owners, publishers, community leaders and journalism funders, as well as questions to consider over time. Among them:

» Balancing stability with a sense of urgency: The PMN arrangement is far from a silver bullet, although it does offer a couple of advantages (it is less likely to be sold or dismantled by profit-seeking ownership, for example, and it reduces profit margin expectations.) But PMN today faces all the same business model challenges and economic realities it faced a year ago. It still needs to make more money than it spends. And the institute, by design, can't fund operational losses. Some laud this as an advantage, as reliance on philanthropic support could take the urgency out of PMN's need to innovate. In what ways can other news organizations balance economic stability with the need to be more bold and experimental?

» Journalistic transparency: The institute and PMN are managed by separate boards with separate missions and marching orders. The structure was deliberate to keep business and news decisions in the hands of PMN and away from the institute. But it will require a heightened attention to disclosure and transparency of funding for each entity. What can other funders and news organizations learn from the Philadelphia Foundation, the institute and PMN in how they chart these waters?

» In the public interest: PMN converted to a public benefit corporation, a designation allowed in some states that gives its leadership a wider berth to consider not just its fiduciary responsibilities but also mission and public-interest concerns. Could this be a useful designation for news organizations in other markets?

» Partnership: The institute rolls up under the local community foundation. This partnership allows the institute to seek philanthropic support in a way that is much more difficult than for for-profit news companies. The Snedden Foundation's recent purchase of papers in Alaska is another example of partnering for the benefit of a region's journalism health. How could other local foundations and news organizations work together for the greater good?

» Other options: Lenfest and his team chose to create the institute, a new grant-making organization, to own PMN. But many other options exist, including creating a charitable trust and ownership by a school or other existing nonprofit organization. Will we see other local news organizations moving to nonprofit or hybrid models? And will a newspaper choose to take on the IRS to directly convert from for-profit to nonprofit?

Of course, every market won't have a wealthy media owner donating the company and a small fortune to endow local journalism experimentation. But aspects of the Philly approach, such as these, will certainly have broader relevance and the opportunity to learn.

All eyes will be watching to see if it's finally sunny in Philadelphia.

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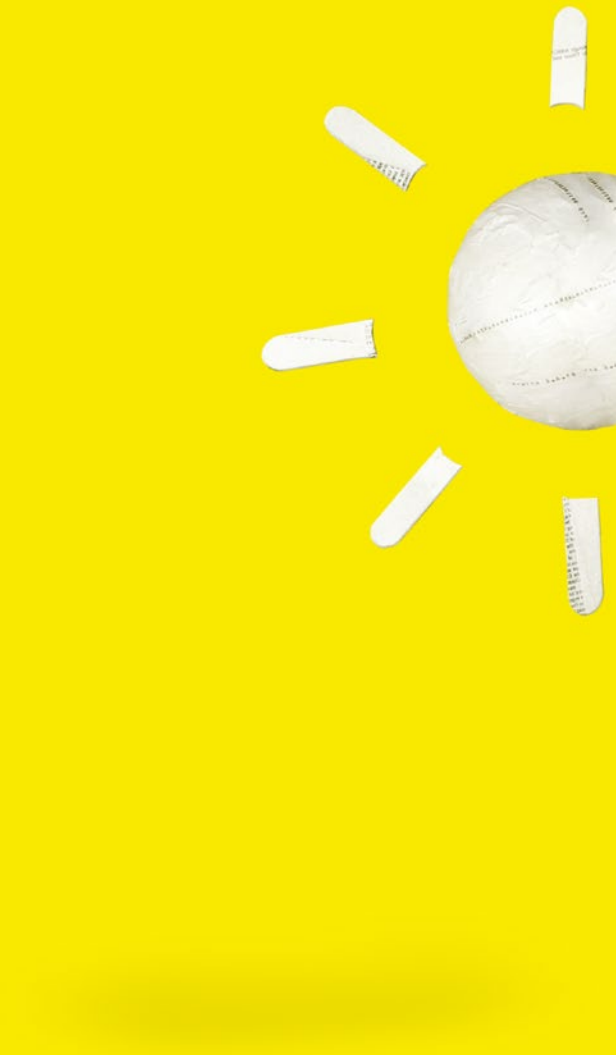

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