

REBUILD LOCAL NEWS

Written Testimony of Steven Waldman President, Rebuild Local News

California Senate Committee on Revenue and Taxation
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My name is Steve Waldman, and I am President of Rebuild Local News and the Chair of the Rebuild Local News Coalition, an alliance of more than 35 national and state organizations that together represent more than 3,000 local newsrooms, including hundreds in California. It's a broad and bipartisan coalition – publishers and labor unions, ethnic media and rural weeklies, for-profits and nonprofits, philanthropists and business people.

We develop and advocate for public policies that help strengthen community news while preserving the editorial independence of the media. We especially are on the lookout for policies that will help small and medium sized publishers.

We strongly believe that the crisis facing local news in California is now so severe that First-Amendment-friendly government support of local community news is now essential. We have seen 160 newspapers in California close since 2005. We have seen massive layoffs at the *Los Angeles Times*. From 2005 - 2022, there was a 68 percent drop in the number of journalists in California. Communities are suffering as a result.

We thank Sen. Glazer for his leadership in addressing the problem through the fellowship program. And we thank Assemblymember Wicks and Sen. Umberg for their efforts to address the collapse through legislation requiring the tech platforms to compensate news organizations for content that they use. Their efforts and those of the California News Publishers Association and the News / Media Alliance have

given great energy to the cause of helping to save local news while bringing awareness to the obligations tech companies have to help address that crisis.

I am here to describe a few of the other approaches you might consider as well to help local news. It is, of course, essential that public policies be carefully tailored to help support local news without undermining the editorial independence of local media outlets. When Rebuild Local News began in 2020 we created a set of principles for public policy. In our view, policy efforts to help local news should be:

- Content-neutral, nonpartisan, and ensure editorial independence
- Future-friendly, potentially helping both existing local players and innovators
- Medium-neutral
- Helping local news organizations develop sustainable models
- Especially helping community-grounded media including diverse, nonprofit or family-owned news organizations
- Resulting in communities having more local reporters

The local news employment credit – Having studied a variety of different approaches, one idea came out the clear favorite – earning the broadest support from our already very broad coalition: the local news employment credit. On the federal level it has been endorsed by just about every major publisher group, the labor unions, and state press associations. A version of this passed the US House of Representatives in 2021. A new version of the federal bill that includes this proposal has also been endorsed by the National Restaurant Association, 21 Republican cosponsors and 21 Democratic cosponsors.

In effect, the government uses the payroll tax refund system to provide a subsidy to local news organizations based on how many editorial employees they have working on local news. In the federal legislation, the subsidy to the newsroom is equivalent to 50 percent of the local reporter's wage up to a \$50,000 salary. In other words, it can provide news organizations up to \$25,000 per employee.

For example, here in Sacramento you're lucky enough to have the Sacramento Observer, which does an outstanding job covering the Black community. They do great work but struggle to keep their noses above water. Since they have eight editorial staff, they would get around \$190,000 in the first year. Larry Lee, the publisher of the

Observer, tells me that this credit would be tremendously helpful, enabling them to hire more reporters and hold more in person events in the communities around key civic issues.

Note: In the federal version, the provision would sunset after five years, and the benefit drops during years two through five to a maximum of \$15,000 instead of \$25,000. We recommend a California twist on this: maintain the benefit at that level after the first year if newsrooms maintain or grow their staff. This would create a powerful incentive for investing in local reporting jobs.

There's a lot to like about this idea.

It is highly targeted at the core challenge facing local news outlets— the lack of *reporting* on communities. This approach rewards investment in local reporting rather than traffic.

It has good incentives. If a newsroom adds reporters, they get a larger benefit. If they cut staff, they get a smaller benefit. We have been told over and over by small, local newsrooms that such a credit would enable them to maintain or grow local reporting staffs.

It's easily accessible by small media outlets. Newsrooms don't have to hire a grant writer or a lobbyist. If the outlet qualifies, it files for it on its taxes and the next quarter gets a refund.

It's future friendly. It doesn't only help established players. As new models emerge, they could benefit too, as long as they meet the basic criteria.

It helps for profits and nonprofits. The payroll tax credit is the one tax that nonprofits pay.

It is content neutral. Other than targeting it toward local news, it does not involve the government in making discretionary judgments about the quality of local reporting or editorial decisions about what should be covered.

Canada has already passed a similar policy – called the “labor subsidy” – and the early reports show it’s been quite successful, enabling publications to either hire more, or at the very least lay off fewer, reporters than expected. A study by the University of North Carolina Chapel Hill found that all of the small publishers they interviewed reported that the credit “has increased their ability to hire.” “It’s definitely been meaningful for us,” said Jeanette Ageson, publisher of The Tyee.

What would this cost? In the first year, our estimates are that the subsidy would likely be collected on between 2,500 and 3,000 local reporters at just over 450 qualified local newsrooms in California. Based on the model used by the U.S. Joint Tax Committee when it was considering a similar program at the federal level, it would cost roughly \$60 million per year for California if broadcasters are included. But a new estimate would be needed to reflect the California-specific criteria.

We are agnostic on how to pay for this. As a matter of scale, however, we note that a tax of less than a 1% on advertising on Google, Meta and Amazon would cover the entire coast. More information on that in the testimony of R. Kang-Xing Jin and in a paper on the topic of digital taxes prepared by Professor Anya Shiffren of Columbia University’s School of International and Public Affairs.

Even without a “payfor,” lawmakers should seriously consider this employment credit approach. Local news has all sorts of civic benefits that I think our next speaker will mention. I would just add one other point: local reporting routinely saves governments and consumers billions of dollars -- whether its uncovering waste in government, prodding hospitals to forgive debt for lower income residents, or finding malfeasance that governments use to collect fines from companies. On a societal level, offering a tax credit for local news employment will pay for itself.

The trick with legislation like this, of course, is defining what counts as a local reporter. A lot of work went into the federal legislation to create definitions that are clear and pass First Amendment friendly. It is modeled after the Federal shield law and covers employees involved in “gathering, preparing, directing the recording of, producing, collecting, photographing, recording, writing, editing, reporting, presenting, or publishing original local community news for dissemination to the local community.”

The eligibility for the program should be:

- For full-time, local editorial personnel, primarily covering a community, local region or the state (using definitions in the [Local Journalism Sustainability Act](#)).
- Owner-operators at small publications would be eligible to receive the subsidy as long as they contribute to the editorial product.
- Eligible local media include newspapers, digital outlets, television and radio (both public and commercial).
- To keep the bill from violating the First Amendment, conditions for qualifying for the subsidy should be based on content-neutral metrics, such as financial independence, transparency, presence of a local employee that covers the community, etc.
- We need protections against counterfeit “pink slime” sites from benefiting. The bill would exclude organizations that get the majority of their funds from Section 527 organizations (PACs), require that outlets disclose their ownership and carry media liability insurance alongside [other safeguards](#).

This policy, it should be noted, does not attempt to police the quality or ideology of newsrooms. Some tax benefits would no doubt end up supporting local reporting by publications or TV stations that we might not personally like. We believe that such a broad-minded approach is necessary to preserve editorial independence. But we believe that it would give the newsrooms an excellent shot at better covering their communities. From there, they still have to make the case to the residents in their area that they’re worthy of support.

We’d like to mention some other tax related ideas that we believe could also help rebuild local news in California.

Tax credits for small businesses that advertise in local news. This is the other half of the Community News and Small Business Support Act (the first part being the employment credit). It provides a tax credit to restaurants, grocery stores or other small businesses that advertise in local news. Under the federal bill, the credit would be 50% of the value up to \$10,000 ad spend. So if a small business purchased \$5000 with a local news outlet, they would get a \$2500 corporate income tax rebate from the government. No government agency decides who gets the ads; the small businesses make that decision themselves. In Wisconsin, the approach was endorsed by small

businesses, banks, restaurants, dentists and other small business groups. We like this concept because it's a two-fer: it helps both news organizations and small businesses. My wife is a small business owner and I know that one of the first things that gets cut in hard time is the marketing budget. This could help those small businesses – and strengthen that essential symbiotic relationship that needs to exist between Main Street businesses and local news.

Tax credit for subscriptions. The original Local Journalism Sustainability Act included a tax credit for individuals to subscribe to a news organization or donate to a nonprofit. In principle, we love this idea. It is probably the most First Amendment friendly concept out there, as it merely empowers consumers to support the local news that they choose.

The legislation had a few flaws, though. It would only be available for those who itemize their taxes and there was the possibility that most of the tax benefit would go to people who were already subscribing. To be honest, we have not been able to solve those glitches yet but we would be happy to work with you if you felt there could be a way.

Recently, a bill was introduced in the District of Columbia that would solve that problem by creating a coupon system. Residents would get five coupons that they could then “spend” on local news outlets. The government would then offer grants to those news outlets based on the decisions of consumers.

Tax credits for “replanting newspapers.” One could use the employment tax credit system as a way of creating incentives for newspapers to remain in local hands. We would suggest three components to such a strategy:

- Tax credits for local nonprofits for public benefit corporations that are acquiring a local newspaper
- Tax credits for newspaper owners that sell or donate newspapers to such local entities.
- 120 waiting period on the sale of a local newspaper to an out of state corporation, in order to give communities time to organize local ownership bids.

For the record, we would like to mention that there are also some non-tax ideas worth considering:

A revised version of the California Journalism Preservation Act – We commend Assembly Member Wicks and Senator Umberg for crafting a proposal that would attempt to get tech companies to help pay for the local news crisis. While we enthusiastically agree with the goal of having tech companies help pay for the rebuilding of local news, we feel that the payments in the bill should be targeted *local* news. We would recommend that the system:

- 1) Target the payments toward news organizations that cover California communities. The crisis is in *local* news. Benefits can be targeted to media covering California in ways that do not violate the dormant commerce clause.
- 2) Adopt Canada’s approach and have funds distributed on the basis of head count – the number of editorial employees – rather than on page views or traffic metrics. In Canada, it comes to about \$20,000 per reporter or editor in Canadian dollars. Do the same in California.
- 3) It should be accompanied by other actions like the employment tax credit that are *complementary* with the CJPA and targeted toward local news.

Pushing more government advertising spending toward community and ethnic media. We like the AB1511, which would push more government advertising toward community and ethnic media. This actually would have a minimal budgetary impact because it is about taking money the government is already spending on media and ensuring that more of it gets to community and ethnic media. It has worked quite well in New York City.

California Local News Fellowships – You probably don't need convincing that expanding the California fellowship would be a good idea. As the cofounder of Report for America, I'm obviously a big believer in this model.

Grants to local news outlets through community foundations – We have a general skittishness when it comes to grant programs that are administered by elected officials or their direct designees. The prospects for favoritism or the undermining of

editorial independence are real. But in California one approach to consider would be running them through the network of California's excellent community foundations. These organizations are on the ground, increasingly developing a nuanced understanding of the information needs of communities.

Elaboration on any of these ideas can be found on RebuildLocalNews.org's "policy menu."