



## Not for Profit? The *Voice of San Diego* Experiment

By the start of the 21<sup>st</sup> century, the business model that had long sustained American newspapers was broken. The growth of Internet news sources steadily siphoned readers from subscription-based newspapers toward free online content. Advertisers followed, cutting back on print advertising and paying drastically lower fees to advertise on websites, where the practically infinite supply of ad space drove prices down. The net revenue loss to newspapers was crippling.

As the old model crumbled, media entrepreneurs cast about for new revenue sources to support news reporting. Websites had so far proved unable to make enough money to support the high overhead costs of a newspaper, but what if a news organization was Web-only? That would eliminate print and distribution costs. What if it focused on a niche audience, or served a particular demographic? That would reduce the cost of a large reporting staff at the same time that it attracted dollars from targeted advertising. Gradually, new enterprises began to spring up across the country. *Slate* and *Salon* billed themselves as online magazines, covering national politics and culture; so-called “hyperlocal” sites focused on community stories. Many such Web-only ventures were privately owned and for-profit.

But in April 2004, a veteran journalist and a venture capitalist in San Diego, California, decided to try another model: nonprofit. Together, columnist Neil Morgan and investor Buzz Woolley founded *Voice of San Diego* (VOSD). In late 2005, they promoted reporters Andrew Donohue and Scott Lewis to be co-executive editors of the fledgling enterprise. Neither had a business background. But both men believed strongly in the VOSD mission: to pursue local accountability journalism. The website seemed to find an audience that agreed the community needed forceful local reporting. Between 2005 and 2009, *Voice’s* staff grew from four to fourteen while the site broke important local stories and accumulated accolades.

But as in the for-profit news business, finding the money to pay for newsgathering was a perpetual challenge. Further, *Voice* had a legal obligation to demonstrate a diverse funding base to maintain its privileged tax status as a nonprofit. Woolley could not support the site on his own forever. By 2009, VOSD had been able to attract enough support from a combination of

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foundations, community members, and corporate sponsors to expand its annual budget from an initial \$350,000 to roughly \$1 million. Donohue and Lewis had worked hard to raise those operating funds. But could they do so indefinitely? Was it sustainable to depend on philanthropy? Where could *Voice* turn if the foundation support that made up 40 percent of its budget dried up?

Across the country, orchestras, museums, social welfare programs, and schools had learned how to make the nonprofit model work for them. But how, the two young editors pondered, could a news organization persuade readers that what it offered was worth contributing to support? What about a membership model along the lines of National Public Radio? Should the news website host community fundraising events? Should it sell coffee mugs, t-shirts, and other memorabilia? In the long run, could an online, local news outfit make it as a nonprofit?

### Neil Morgan and Buzz Woolley

*Voice of San Diego* was born because, in 2004, the dominant San Diego newspaper, the *Union-Tribune*, fired veteran columnist Neil Morgan. Among the many outraged by the forced retirement after 55 years of a respected editorial voice was philanthropist Buzz Woolley. Like many US newspapers at the turn of the 21<sup>st</sup> century, the *Union-Tribune* had struggled to stay profitable and had cut costs by steadily paring back staff. Morgan, whose byline had appeared in San Diego newspapers for over half a century, was the highest-profile casualty to date. But his departure fit a pattern.

This pattern was precisely what worried Woolley, who had made his fortune as an entrepreneur and venture capitalist in a number of different fields and who, like Morgan, had spent most of his career in San Diego. Woolley was the head of his own charitable foundation, the Girard Foundation, which donated millions to education in the San Diego area. He also had a longstanding concern with the quality of San Diego journalism, which he felt had never been high and was declining to new lows. He recalls:

The *Union-Tribune*, being the only significant newspaper in town, has never been very strong. It's had some serious biases... Its credibility in a lot of areas is shaky. Even though I'm a registered Republican, I recognized that historically it's been fairly far off to right and it's irritated a lot of people... [For example,] there's been a fair amount of corruption and very bad management within our government system... [Yet] nobody knew what they were doing because there wasn't adequate reporting.<sup>1</sup>

Morgan, in Woolley's view, had been one of the few consistently skeptical voices at the *Union-Tribune*. Soon after Morgan's last day at the newspaper in April 2004, Woolley contacted him

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<sup>1</sup> Author's telephone interview with Buzz Woolley in New York, NY, on November 19, 2009. All further quotes from Woolley, unless otherwise attributed, are from this interview.

to suggest that the two team up to start a news venture of their own. Woolley recalls: "I said: 'Neil, we can't lose your voice. Somebody's got to question what's going on.'" After several weeks of discussion, they agreed to create a Web-based outlet for San Diego-focused public service journalism.

The point was not simply to preserve Morgan's column in another venue—though Morgan planned to contribute. Instead, with a small staff of perhaps two or three young reporters at salaries in the \$40,000-\$50,000 range, the two hoped to address some of the *Union-Tribune's* investigative failures at relatively low cost. Woolley would finance the enterprise himself. The bulk of the site's content, they hoped, would be provided by civic-minded San Diegans whom they would convince to write blogs or columns for free. Woolley and Morgan planned to call the site *Voice of San Diego*, in part to emphasize its planned reliance on citizen journalism of this kind.

### **Nonprofit or for-profit?**

Woolley then did what he had done throughout decades of starting businesses: due diligence. He hired a consultant in spring 2004. He wanted to know: What was the experience of other news organizations on the Web? Clearly the newspaper business model was failing. Was paper the problem? Could a website, with its comparatively negligible costs of distribution, make enough money through advertising or subscriptions to support a modest staff of reporters? Woolley recalls:

[The consultant] comes back with a report that says no one is making any money out of Web-only.... There was one [site] that had raised \$70 or \$80 million, but she said in four or five years they'd never made any money, and they'd run through all their money.

He reasoned:

If we're going to lose millions of dollars, why don't we just declare it a nonprofit? The goal was not to make money... There are a bunch of advantages to being a nonprofit... And setting up a nonprofit business is not much different than setting up a for-profit business, which I've been doing all my life.

The first task in legally incorporating a business, either for-profit or nonprofit, was to assemble a board of directors. A typical board comprised professionals from a variety of fields, each of whom brought to bear different expertise to set the overall goals of the corporation, oversee its management, and approve major decisions. Many nonprofit board members donated substantial sums to the organization, and were expected to bring in outside donations as well.

*Incorporated.* *Voice of San Diego* officially incorporated in September 2004 as a nonprofit. The VOSD board was unusually hands-on. Woolley had the resources to provide payroll and back-office support for the start-up through his own foundation. He and Morgan agreed Woolley would act as chief executive officer (CEO).<sup>2</sup> While Woolley was willing to finance the start-up, he wanted the board to seek other funding as soon as they had a product to show potential backers. As the remaining three members of the five-member board, he and Morgan selected a marketing and public relations professional, a retired journalist, and an entrepreneur. One would act as chief financial officer (CFO), in charge of keeping the corporation's balance sheet. These five would establish *Voice* as a business entity, hire staff, find office space, engage legal counsel—and raise money. As editor, the board hired Barbara Bry, a former journalist and chief executive officer at a Web start-up, who would help recruit staff.

Morgan's presence on the board of directors, Woolley hoped, would raise *Voice's* local profile. As reporters, the board planned on hiring one or two young San Diego-area journalists. Rent, phones, Internet servers, Web development, and utilities would make up the bulk of the site's other costs. The anticipated price tag was several hundred thousand dollars for the first year. The founders trusted that the site would expand as it found more sources of financial support.

## Nonprofits and news

The term "nonprofit" described a corporation that was not organized for the financial enrichment of private owners or shareholders.<sup>3</sup> Such enterprises were commonly called 501(c)(3)s, after the section of US tax law that governed them. They were exempt from federal income tax. In addition, donations to such organizations were generally tax deductible—that is, a donor could subtract some of the amount of the donation from his or her taxable income. Any excess revenue a nonprofit had after meeting its expenses had to be reinvested back in the company. The most common types of 501(c)(3)s were hospitals, churches, and schools. Prominent US nonprofits included nationwide organizations such as the Girl Scouts and the Salvation Army.

News organizations were not specifically listed as eligible for tax-exempt status under section 501(c)(3). But nonprofit news had several precedents, most notably in broadcast. Both National Public Radio (NPR) and the Public Broadcasting Service (PBS) were nonprofits that relied on a mix of corporate sponsorship, foundation support, member donations, and government funding to provide public affairs programming nationwide.<sup>4</sup> But NPR and PBS were unique

<sup>2</sup> "New Media Makers Toolkit," Knight Citizen News Network, [http://www.kcnn.org/toolkit/impact\\_studies/](http://www.kcnn.org/toolkit/impact_studies/).

<sup>3</sup> Exemption Requirements, United States Internal Revenue Code, Section 501(c)(3), <http://www.irs.gov/charities/charitable/article/0,,id=96099,00.html>.

<sup>4</sup> Leonard Downie, Jr. and Michael Schudson, "The Reconstruction of American Journalism," Columbia Graduate School of Journalism, October 20, 2009, <http://www.journalism.columbia.edu/cs/ContentServer?pagename=JRN/Render/DocURL&binaryid=1212611716626> (PDF).

entities, created under a 1967 US law that committed the federal government to provide some of their funding.<sup>5</sup>

In addition, there were a number of nonprofit news organizations which had no government support. Magazines like *Harper's* and *Mother Jones*, and the Florida newspaper the *St. Petersburg Times*, relied for much of their budget on donations and endowments created by their wealthy founders. Each also brought in some advertising and subscription revenue.<sup>6</sup>

In theory, these varied sources of support gave a news organization financial stability. For-profit news organizations typically earned roughly 80 to 90 percent of their revenue from advertising, which was highly dependent on the business cycle. Donations, particularly foundation grants disbursed over several years, were less volatile—though donations, too, tended to slow down in recessions and pick up in expansions.

Yet nonprofits had their own problems. They devoted a great deal of time to seeking and preserving sources of funding. Some were more successful than others at maintaining editorial independence from their funders.<sup>7</sup> Donors frequently tied support to a specific area of coverage—a hospital might fund a health-reporting position, for example. In contrast, advertisers by tradition were assiduously “walled off” from editorial content.

Another challenge was attracting a diverse funding base. Section 501(c)(3) distinguished between “private foundations” and “public charities.” A news organization fell into the latter category. Public charity status could mean thousands of dollars in tax breaks annually. But to qualify, a corporation had to demonstrate within a stipulated period that it was either a church, school, hospital, or governmental unit, or that it received a broad base of financial support from the general public. The IRS sent *Voice* a letter setting December 31, 2008 as the end of its trial period. That meant Woolley could act as its primary financier for no more than four years; thereafter, *Voice* would have to seek other sources of support.

### Assembling a staff

Among those who got wind of the project in summer 2004 were two young reporters named Scott Lewis and Andrew Donohue. Donohue had been on the City Hall beat at the *Daily Transcript*, a San Diego business newspaper, and had made a reputation for himself as the city's finances and power structure began to unravel in spectacular fashion. In August 2003, three San

<sup>5</sup> The federal government provided roughly \$400 million a year to public broadcasting through the private, non-profit Corporation for Public Broadcasting. Downie and Schudson, “The Reconstruction of American Journalism,” p. 78.

<sup>6</sup> See, for example, *Mother Jones*' funding structure: “Mojo's Financials,” <http://motherjones.com/about/why-donate-mother-jones/mojos-financials>.

<sup>7</sup> Jack Shafer, “Nonprofit Journalism Comes at a Cost,” *Slate*, September 30, 2009, <http://www.slate.com/id/2231009/>.

Diego City Council members were indicted under federal law for corruption. They stood accused of accepting campaign contributions and favors from a strip club owner seeking looser regulation of his business.<sup>8</sup> When Donohue left to take a communications job in Costa Rica at the end of 2003, Lewis took over the beat. Meanwhile, retirees had sued the city over its unfunded pension obligations, and in January 2004, the city admitted that “errors and omissions” in its financial statements had concealed a deficit of over a billion dollars in its pension fund. The next month, the city came under federal investigation for accounting fraud and corruption.

As a result, San Diego’s credit rating fell, making it nearly impossible for the city to secure financing for large projects such as a planned baseball stadium and federally mandated sewer upgrades.<sup>9</sup> By September 2004, San Diego’s nickname in the national media was “Enron by the Sea,” a reference to an energy corporation that had collapsed amid an accounting scandal in 2001. The *Union-Tribune*’s editorial board opined in October: “Never has the city faced such a dark and troubled financial morass.”<sup>10</sup>

In the thick of covering the morass for the *Transcript*, Lewis contacted *Voice* Editor Bry to inquire about the planned website. Bry and the board soon offered Lewis a job as *Voice*’s first reporter—though inclined to accept, Lewis had to relocate to South Carolina for the year for his wife’s job. Knowing that his former colleague Donohue was eager to resume a journalism career in San Diego, Lewis recommended that the board contact him; in November 2004, the board hired Donohue, and he moved back from Costa Rica. Lewis hoped to contribute to the site from South Carolina and perhaps take on a full-time role when he returned to San Diego the following year.

In addition to Donohue, the board hired another young reporter, Evan McLaughlin, and an office manager. By the end of 2004, *Voice of San Diego* had a salaried four-member staff, including Bry as editor, working toward a planned launch on February 9, 2005.

## Early days

Donohue’s primary task before the launch was to reestablish contact with sources from his days covering city politics for the *Daily Transcript*. In doing so, he explained that *Voice of San Diego* was a nonprofit website devoted to investigative and public service reporting. Donohue recalls:

[The project] met with a lot of skepticism. The people who know me best and who are my best sources [said], OK, cool, great, I’m just glad you’re

<sup>8</sup> Kelly Thornton, Caitlin Rother, and Ray Huard, “INDICTED; City councilmen charged with taking part in scheme to relax no-touch rule at San Diego strip clubs,” *San Diego Union-Tribune*, August 29, 2003. One defendant, Councilman Charles Lewis, died at age 37 in August 2004 while awaiting trial.

<sup>9</sup> “Pension Troubles: A Timeline,” *San Diego Union-Tribune*, <http://www.signonsandiego.com/news/metro/pension/pensontimeline.html>.

<sup>10</sup> “Re-elect Murphy,” *San Diego Union-Tribune*, October 25, 2004, [http://legacy.signonsandiego.com/uniontrib/20041025/news\\_mz1ed25top.html](http://legacy.signonsandiego.com/uniontrib/20041025/news_mz1ed25top.html).

back in town and writing. But other people who I didn't know extremely well were just [dismissive, wondering]... "Is it going to be a blog?"... Blog was still kind of a dirty word back then. "Are you guys going to be controlled by some sort of outside forces?"... In [early 2005], I can't tell you how many complaints we got that we [would not be] printed, and then how skeptical everybody was that you could run a nonprofit like this... There was public radio and public television to think about, but there was no model to follow doing text-based journalism online and just funding it from a nonprofit standpoint.<sup>11</sup>

Donohue found his former colleague Lewis, now residing in South Carolina, a valuable resource as he got up to speed on city politics. There would be plenty to cover. Legal challenges to the outcome of November's mayoral election—in which incumbent Mayor Dick Murphy seemed in danger of losing his seat to a write-in candidate—dragged on for weeks. At issue was the very legality of a write-in candidacy, on which two applicable San Diego laws contradicted each other.<sup>12</sup> Mayor Murphy took the oath of office to begin his second term on December 8, over a month after the election, and only after a court invalidated 5,500 ballots.<sup>13</sup> New legal challenges to Murphy's reelection spilled into the next year. All the while, San Diego remained hamstrung by bad credit, unable to borrow badly needed funds for municipal projects.

*Launch.* The *Voice of San Diego* launched as planned on February 9, 2005. Donohue and McLaughlin settled into a rhythm of posting two to four stories a day on "mayhem at City Hall," in Donohue's words. The site featured Morgan as a columnist, and other local writers known to the staff or board offered their perspective on city issues as well, mostly for free. In May 2005, Lewis began contributing a regular column from South Carolina.

Other than San Diego, however, there was no unifying theme to the site. Opinion writers commented on whatever they wished to, and Editor Bry gladly accepted the content. Meanwhile, Donohue and McLaughlin had already started breaking stories related to the city's troubled pension fund. But as the months progressed, Donohue began to worry that the site lacked a "personality"—a clear perspective or motivation. Lewis, with whom Donohue was in regular touch, agreed; he thought the site was "chaotic." Lewis reflects:

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<sup>11</sup> Author's interview with Andrew Donohue in San Diego, California, on September 15, 2009. All further quotes from Donohue, unless otherwise attributed, are from this interview.

<sup>12</sup> There was a discrepancy between the municipal code and the city charter.

<sup>13</sup> The court threw out ballots on which voters had written the write-in candidate's name without filling in the corresponding bubble.

I think a broader problem that a lot of new media entrepreneurs faced during this period... is the desire to replicate the newspaper online, in the sense of be everything to everybody, but better.<sup>14</sup>

The result was an unfocused hodgepodge. *Voice of San Diego* had a staff of only four and an annual budget in the hundreds of thousands. By comparison, the *Union-Tribune*, whose coverage gaps *Voice of San Diego* was founded to address, still had hundreds of editorial employees and a multimillion-dollar yearly budget.<sup>15</sup>

## New leadership

In July 2005, five months after *Voice's* launch, Editor Bry stepped down. Her replacement, Glenn Rabinowitz, took the helm at a time when *Voice's* founding principle—to hold San Diego's leaders to account—seemed more crucial than ever for the city. "The city's entire power structure was collapsing," says Donohue. On July 15, Mayor Murphy stepped down a mere seven months into his second term. His replacement, Deputy Mayor Michael Zucchet, was under indictment for corruption—his conviction was handed down the same day he took office, and he had to relinquish his hours-old mayoralty immediately. A special election was called. All the while, Lewis notes, the *Union-Tribune* had no Metro columnist to make sense of the mess—the paper had not replaced Morgan. Says Lewis: "Every city has somebody that puts things in perspective. There was just none of that" in San Diego.

At the same time, *Voice* was expanding. Will Carless joined the staff midyear; in fall, Lewis returned from South Carolina to join *Voice* full time as a reporter. In November, Lewis spent three weeks in South Carolina to wrap up moving; at a morning news meeting while Lewis was gone, Rabinowitz announced his immediate resignation as editor, four months after joining *Voice*.

Donohue called Lewis to break the news. The two were anxious about the site's future. Two editors had quit *Voice* in its first year. Was that a vote of no confidence? What if the board—and crucially, Woolley—decided the experiment had failed? Lewis recalls, "This place was pretty clearly in danger of folding." Still, *Voice's* reporters—Donohue, Carless, McLaughlin, and Lewis—were not altogether rudderless in the absence of an editor. Neither Bry nor Rabinowitz had been especially hands-on, and Donohue had over time assumed many of the functions of a managing editor in addition to his writing responsibilities.

Lewis and Donohue spent hours on the phone for days at a time trying to hash out a future for the website. They were unwilling to abandon *Voice*, and it seemed to them that the nonprofit business model could sustain it—the main challenge was to fix the editorial product. There were

<sup>14</sup> Author's interview with Scott Lewis in San Diego, California, on September 15, 2009. All further quotes from Lewis, unless otherwise attributed, are from this interview.

<sup>15</sup> Leonard Downie and Michael Schudson, "The Reconstruction of American Journalism."



several areas they thought needed immediate changes. Lewis recalls: “We described [the website] then as a jungle you felt like taking a big machete to.”

*Layout.* For example, the site was an ill-defined jumble of news and opinion, laid out almost arbitrarily. Lewis and Donohue thought they needed to separate clearly news from opinion and cull some of the lighter fare such as the society and food columns *Voice* occasionally published. Giving opinion writers their own section of the site would also, in their view, help VOSD showcase its contributors and capitalize on what they saw as a lack of good opinion writing in San Diego. But VOSD had to enlist better opinion writers, too. In Lewis and Donohue’s view, Morgan and Woolley had overestimated the ease of attracting worthwhile contributions to the site. Lewis explains:

There was a basic theory... that there would be a whole bunch of civic thinkers who would provide... a substantial portion of the site’s content... But since then I think our definition of citizen journalism has become healthier. What the “crowd” can do for you is obviously something very valuable. But you can’t just hand them a pen. You’ve got to do something more... You’ve got to direct them, or you’ve got to assign them... But you can’t simply just say, OK, now write for us.

Lewis and Donohue also felt that the site did not take advantage of the Web’s potential to engage readers. They wanted to create space on the home page for readers to discuss San Diego issues—maybe with a daily debate topic. They also saw the potential to engage readers as reporters by using the site to post queries and solicit sources.

*Proposal to board.* Inspired, the two agreed to submit their ideas to the board, with themselves as leaders of the proposed changes. Neither had run an organization before, but they felt strongly that they understood *Voice*’s goals and its needs better than anyone. Lewis returned to San Diego in late November, and he and Donohue hammered out a detailed 15-page proposal, which they submitted to the board.

Under their plan, Donohue would continue as news editor, a role he had all but taken over in the preceding weeks. Lewis—so far a columnist—proposed to oversee the technical and personnel aspects of creating a separate opinion section and improving the site’s interactive component. They agreed to take the titles of co-executive editors, neither overseeing the other, and both reporting ultimately to the board. They wrote:

The founders of the *Voice of San Diego* had an incredible idea one year ago. While the *Voice* has achieved more than many imagined since going live in February 2005, much of the vision of the founders remains just an idea. No one, to date, has taken this vision and made it a reality. We are going to give you the website that you envisioned when *Voice* was born. It won’t be

costly and it won't be complicated. Like reporting itself, the tools needed are simple: energy, communication and hard work.<sup>16</sup>

In sum, Lewis and Donohue proposed that the new *Voice* "should stand on three legs": news, opinion, and reader interactivity. They summarized their plans:

**Goal:** To build a website as known and recognized for the variety of opinions it provides—and the opportunities it offers in engaging readers—as we have been for our news coverage, while also freeing up resources to expand on our news coverage of both education and arts. To [pare] down our weakest content, focus on quality, diverse, intelligent submissions.

**Result:** To make the *Voice of San Diego* vibrant. To make *Voice* the true town forum envisioned originally.<sup>17</sup>

### Starting over

The board accepted Lewis and Donohue's proposal in early December. Indeed, it was the most detailed business plan for *Voice* to date, and they were running out of options. Woolley in particular was anxious to see the project succeed and was willing to invest in leadership. As of December 2005, *Voice of San Diego* had been in operation for less than a year, and still relied on Woolley for most of its funding—which had so far come to almost \$700,000 in startup costs and operating expenses.<sup>18</sup> Lewis notes: "That isn't a lot of money in the grand scheme of what philanthropists are accustomed to doing in communities." But it was still a substantial amount to spend on an enterprise that had yet to prove itself.

Despite *Voice's* difficulty finding its feet, there was reason for hope. Start-ups of all kinds—for-profit, nonprofit, Web-based, or otherwise—typically spent a good deal more money than they earned in their first two to five years.<sup>19</sup> *Voice's* nonprofit status theoretically bought Lewis and Donohue even more time to experiment with the format. Lewis explains: "There's never a point where a nonprofit has to go out of business" as long as its backers remain willing to provide funds.

However, under the 501(c)(3) public charity provision for diversified sources of funding, VOSD could not rely on Woolley as its main backer beyond December 2008—the date the IRS had set. So Lewis and Donohue had to fix two urgent problems: rationalize the editorial product and diversify the funding base. They decided to focus first on editorial issues. Then in their mid-twenties, the two were poised to take over an experiment in the future of news, and it was still

<sup>16</sup> Andrew Donohue and Scott Lewis, "Voice of SD Proposal from Scott and Andy," November 2005.

<sup>17</sup> Donohue and Lewis, "Voice of SD Proposal from Scott and Andy."

<sup>18</sup> IRS Form 990, *Voice of San Diego*, 2006.

<sup>19</sup> Mark Hendricks, "Charting Your Business Timeline," *Entrepreneur*, <http://www.entrepreneur.com/growyourbusiness/business/timeline/article81266.html>.

unclear whether the model would work. With the board's approval of their plan came sudden responsibility for a range of interlocking financial, technological, and editorial decisions.

*Cutting costs.* They got started at the end of 2005. While they could count on Woolley for the next year's funding, the purse was not bottomless. The board required Lewis and Donohue to remain within a budget of \$300,000. If they wanted to improve the news product by hiring more reporters, that meant cutting other costs. Both felt that, given their budget constraints, a tight focus on reporting should be their guiding principle. Donohue explains: "We are not a technology company... The gap we were created to fill is the gap in high quality news. And we need to find the cheapest and most efficient way of doing that."

They started by canceling the Associated Press news feed the site displayed, which cost \$1,200 a month and showed national, rather than San Diego-specific, headlines. They also decided to lay off an administrative assistant, whose salary they felt would be better spent on a reporter. Moreover, they were paying \$3,000–\$4,000 a month in Web development and maintenance costs to an outside contractor. By switching to a rented website template and content management system, they reduced that expense to \$900 a month. This last decision yielded savings, but also unintended consequences. Lewis recalls:

I had a night where the site went down, and I didn't know what to do... I had no clue, and it just made me fundamentally, to my bone, nervous that I didn't understand it at all.

Despite that experience, Lewis felt VOSD could not afford in-house technical support; the salary alone was the equivalent of two reporters' salaries. Their solution was for Lewis to devote himself to learning as much as he could about running the website. "That was a crucial point for us," notes Lewis. "It became clear that [site maintenance] wasn't necessarily Chinese. I could maybe break this code a little bit."

By September 2006, nearing the end of their first year in charge of *Voice of San Diego*, Lewis and Donohue had managed to cut nearly \$30,000 from their annual Web development budget and had squeezed out thousands of dollars in savings elsewhere. Their reward: they were able to hire an additional reporter.

### **"The money-getting operation"**

As 2006 drew to a close, *Voice* had been in operation nearly two years. Through their first full year running *Voice*, Donohue and Lewis had concentrated on the editorial side. Overseeing a small but growing staff, Donohue had enforced, in his words, a "relentless focus" on San Diego quality of life issues. He assigned reporter Rob Davis to cover environment, Kelly Bennett to cover housing and the economy, and Emily Alpert to cover education. Evan McLaughlin, who along

with Donohue had been one of *Voice's* first hires, focused on City Hall and politics. Donohue himself also wrote about city government while strategizing about future investigative projects. Lewis, while maintaining his weekly column, had become the website manager.

But a different clock had been ticking. December 2008 was the end of the grace period during which Woolley could bear most of the site's costs himself if *Voice* wanted to qualify as a public charity. *Voice* was a long way from weaning itself off Woolley, who still provided some three-fourths of the site's operating budget. Thus far, Lewis and Donohue had largely left financial questions to the board and had only a hazy grasp of what Donohue calls "the general money-getting operation." For example, explains Lewis, "it took us literally a year to understand that marketing, fundraising and [selling] advertising were three completely different things." They had learned this mostly through trial and error. Lewis says:

We kept hoping, and the board kept hoping, that we were going to find this magic businessperson, this marketing person that would come in and just shape us up... But for \$40,000 or \$50,000, you're not going to find the magic person that does all these things, that can come in, feel the passion of the organization and translate that into [money].

At first, the board thought *Voice* needed a marketing specialist—someone who, Donohue explains, "could get [our name] out at the street fair. But then they were also expected to get advertising funds and to get fundraising dollars." The board hired and fired two different marketing specialists between 2005 and 2006; neither had the skills or background to take on fundraising and ad sales in addition to marketing. It dawned on Lewis and Donohue that the board might be recruiting for the wrong job. Just because their reporters were successfully multi-tasking did not necessarily mean they would find someone able to market, fundraise, and sell advertising with equal competence.

Lewis and Donohue themselves had so far proven more adept at saving money than at finding new sources of it, and they knew they needed help. Though the board had brought in some additional sources of funding—mostly from local foundations and philanthropists—to supplement Woolley's backing, *Voice* had no one dedicated full-time to development as the site entered its third year in 2007.

It was imperative to diversify the funding base. In consultation with the board, Lewis and Donohue determined that their priority should be fundraising, rather than marketing or an ad campaign. Concretely, this meant persuading organizations or individuals to contribute. So Lewis took charge of grants and funding drives. In mid-2007, the board hired Camille Gustafson as development director to assist Lewis in those efforts. She joined *Voice* with a sense, she says, that

“there was some foundation money out there, and we should try to find out how to tap into some of that.”<sup>20</sup>

It was in some ways harder to find donors than investors, who could expect at least some return on their money. Lewis explains:

For-profits can raise a lot of investment money, and I think that we’ve been told several times that if we were... somehow able to switch to a for-profit, we could raise literally millions... But we never understood how to return that investment, how to make money on it. And Buzz [Woolley] has said, “If [Voice] were a for-profit, I would have walked away.”

## Money Sources

*Foundations.* The news site’s leadership decided to go first and foremost after foundations. These disbursed large sums of money through project-based grants. A grant could extend over several years and fund major expenses such as salaries. But there was a catch. Lewis says: “[Foundations] don’t just give you money and then you figure out what to do with it.” Locating foundations with goals similar to *Voice*’s own, crafting a written proposal that would convince them to donate, and then periodically reporting back to them on how their money was being spent was more than a full-time job. Through 2007, Lewis committed more and more of his time to fundraising along with Gustafson.

They were thrilled when, in January 2008, they secured a grant from a local science foundation, Legler Benbough, committed to promoting science knowledge in San Diego. The \$70,000 grant was intended to fund a science reporter for two years. Gustafson recalls:

I was able to look at some of their goals and mission and say you know, if you funded a science and technology writer for us it really would help you with all of your goals in the science area.

But to his dismay, Lewis soon learned that \$35,000 a year could not fully fund a reporter. He says:

Even if the employee’s only going to cost you \$40,000 [a year], you need to raise a lot more than just that before you hire them... A \$40,000 employee comes with about \$10,000 in benefits and costs associated, and then about \$10,000 in equipment and other expenses, and then about another \$15-\$20,000 in supervisory issues and such. So if you hire a \$40,000 person, you’d better get a grant for about \$80 or \$90[000].

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<sup>20</sup> Author’s telephone interview with Camille Gustafson in New York, NY, on September 21, 2009. All further quotes from Gustafson, unless otherwise attributed, are from this interview.

Lewis also worried about what would happen when the grant ran out. Would *Voice* have to fire the science reporter? Would reliance on similar time-limited grants endanger the entire organization? Eleven months later, the dollar amount was geometrically larger, but the issues similar, when VOSD in December 2008 obtained a major grant from the John S. and James L. Knight Foundation, a Florida-based foundation dedicated to funding news innovation.<sup>21</sup>

Knight gave *Voice* a two-year, \$100,000 grant. That allowed VOSD to expand its reporting staff by still another reporter—this one dedicated to covering neighborhoods. Moreover, Lewis hoped for an ongoing relationship with Knight. In late 2008, for example, Knight had plans in the works to match the grants of local foundations interested in funding news projects. *Voice* thought it likely that it could persuade the San Diego Foundation, with which Woolley had a strong relationship, to create such a partnership.<sup>22</sup>

*Donations.* Lewis and Gustafson also threw themselves into winning financial support from their growing base of readers. By 2008, *Voice* had a small audience of 18,000 or so unique visitors a month—compared to over a million unique monthly visitors to the San Diego *Union-Tribune's* website.<sup>23</sup> *Voice* also had a modest but growing fan base on the social networking site Facebook.

The challenge was to turn readers into donors. Though less lucrative than foundation grants, a large number of small donations from individuals could provide leverage in persuading larger funders to support *Voice*. Moreover, even though small donations only slightly impacted the site's overall financial health, they contributed valuable proof of its ideological independence. Lewis explains:

The overall goal is to get as many different sources of revenue as possible... Even if it's just a \$35 gift, it still helps to illustrate our attractiveness to a very diverse group of people... If a libertarian gives us money, and a Democrat gives us money, and a conservative gives us money, and if you can get the full myriad of sources, then you can be seen as a strong organization that isn't just pushing the agenda of a few individuals. So our goal is to diversify as much as possible.

PBS and NPR offered instructive examples of strategies for convincing readers to donate. Lewis and Gustafson learned that only about one-tenth of viewers or listeners donated money to NPR and PBS, prodded by the funding drives that periodically superseded regular programming, offering items such as coffee mugs or t-shirts in exchange for donations. Among *Voice's* visitors,

<sup>21</sup> The Knight Foundation also funds the Knight Case Studies Initiative at Columbia University Graduate School of Journalism, which produced this case study.

<sup>22</sup> The Knight Foundation encouraged community foundations to fund local journalism projects through an initiative it called the Knight News Challenge. Community foundations were akin to banks—they operated accounts for local donors and made charitable contributions on those donors' behalf.

<sup>23</sup> Richard Pérez-Peña, "Web Sites That Dig For News Rise as Watchdogs," *New York Times*, November 17, 2008, [http://www.nytimes.com/2008/11/18/business/media/18voice.html?\\_r=1&ref=todayspaper&pagewanted=all](http://www.nytimes.com/2008/11/18/business/media/18voice.html?_r=1&ref=todayspaper&pagewanted=all).

internal traffic statistics showed that about 10,000 spent more than four minutes at a time on the site. Gustafson and Lewis reasoned they should be able to get 10 percent of these readers to donate.

But as a website, *Voice* could not achieve the same sense of urgency NPR and PBS did through interruptions in service. They would have to make do with email solicitations and announcements on their website. Further, after disappointment in early experimentation sending mugs to donors, Lewis and Gustafson decided *Voice* should find a way to give their donors intangible benefits unavailable elsewhere. But, Gustafson wondered, “what can you share with people that makes them feel like they’re really getting involved with your organization?”

She decided to design social incentives for donors. In February 2008, she hosted an open house and tour of the newsroom for members to meet the staff—and nearly 250 people showed up. In July 2008, she launched a monthly coffee series with Lewis and Donohue as a way for members to see how the site was run. She explains: “I think it’s important when you’re an online organization primarily that you do things to have an offline personality and get people engaged.”

*Advertising.* A third obvious source of potential revenue was advertisers. Most for-profit media organizations, particularly Web-based ones, relied on advertising for the majority of their revenues. *Voice*, by contrast, devoted few resources to selling ads, and in 2008, money from advertising made up less than five percent of its operating budget. It was difficult to earn much from online-only advertising—a painful lesson news organizations across the country had been learning for years, and a major reason Woolley had founded *Voice* as a nonprofit. Yet ads were an attractive source of revenue, Lewis says, because they came “without strings attached as far as editorial initiatives... It is actually money you can use for the kinds of things that you need, like writers and insurance.”

By the end of 2008, the *Voice* leadership team had met its goal: the funding base was diversified. At the same time, it was increasingly clear to Lewis and Donohue that one of them should take over full-time responsibility for fundraising and business operations. Though Lewis had largely become the de facto business manager, there remained significant overlap between his and Donohue’s roles; they attended many of the same meetings and checked with one another on major decisions. The two decided to submit a proposal to the board to formalize their division of labor: Lewis would be CEO, in charge of fundraising, business, and the website, and Donohue would remain in charge of content. The board approved the proposal in December 2008.

Lewis would henceforth be directly responsible to the site’s funders. He says: “Now when I wake up in the morning, my entire goal is to provide the fuel for the engine that [the editorial side is] running.” With the addition of the Knight funding to start in 2009, foundation money would account for 40 percent of VOSD funding. Another 30 percent came from major individual donors and the remaining 30 percent from small donors and advertising. With these numbers,

VOSD qualified for public charity status. But no sooner had they achieved this ambitious goal than they confronted its corollary: could they keep it up?

### **Is it sustainable?**

Donohue and Lewis spent 2009 trying to answer that question. With the division of labor they had established—Donohue leading the editorial piece, Lewis directing the business and technology side—VOSD was building a sturdy reputation on a fairly solid financial foundation. The site's influence extended far beyond its relatively modest audience of about 100,000 unique visitors a month—one *Voice* investigation had, for example, brought to light conflicts of interest in a city redevelopment agency, leading to one firing and one high-level resignation. Partnerships with the local NBC affiliate and two local radio stations—on which *Voice* reporters appeared frequently to discuss their stories—brought them even greater exposure, but no additional revenue.

To their regret, however, Lewis and Donohue themselves were increasingly distant from the accountability reporting that had made them so passionate about *Voice* in the first place. Lewis continued to write a political blog—“Scott Lewis on Politics,” nicknamed SLOP. But he rarely had time to squeeze in writing during the day and sometimes wrote his column at four in the morning the day it was due. As editor, Donohue says, “I’m involved in journalism, but I don’t write anymore either. That’s just a sacrifice we both had to make.” The two were still adjusting to their unaccustomed leadership roles, but the news site—and with it, their livelihoods and those of nearly a dozen other staffers—depended on their ability to perform those roles well.

Meanwhile Gustafson continued to stitch together community initiatives to draw in members. In January 2009, Lewis and Gustafson came up with a novel way to use some of the site's marketing budget: they hosted an essay contest for a \$2,500 scholarship.<sup>24</sup> Gustafson remarks:

We could have just bought an ad in *San Diego Magazine* for \$2,500 and hope someone saw it and went to the website. But in [having a contest] you guarantee that you’ve got people at least interested enough to actually go to your website and see what you’re all about. And then you’ve got people saying nice, this is fantastic to be able to give a student scholarship.

*Voice*'s second open house in June 2009 was free for members and \$20 for non-members, and over 20 new members joined. That, and continuing quarterly email funding drives, meant *Voice* was on track to hit 1,000 contributing members by mid-2009—a modest number by the standards of public radio and public broadcasting, but a milestone for *Voice*.

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<sup>24</sup> Students could write an essay on any of three local debates: 1. Should taxpayers fund a new football stadium for the San Diego Chargers? 2. Should the local children's pool continue to host seals? 3. Should teachers be paid based on the quality of their performance, and if so, how should the teachers be evaluated?



At the same time, the staff had grown to eight staff writers and a handful of freelancers, focused on water, housing, science, and environmental issues. Their stories had brought to light misleading crime statistics, excessive water use by a reputedly environmentalist local politician, and the devastating poverty of migrant camps along the Mexican border, among other things. *Voice* had won awards from such national organizations as Sigma Delta Chi and Investigative Reporters and Editors. It had been featured in a front-page story in the *New York Times*, which described the site as a potential model for the future of news. Other organizations were experimenting with the nonprofit website model themselves—such sites had sprung up in St. Louis, New Haven, and Minnesota. Lewis and Donohue frequently advised the new start-ups.

In 2009, *Voice's* revenue stream continued to be 40/30/30 from foundations, major individual donors and small donors. On the expense side, *Voice* had upended the business model of the typical newspaper. Where newspapers typically spent up to 70 percent of their budget on distribution, *Voice* spent 70 percent of its budget on reporting—with about 14 percent devoted to marketing and 16 percent to administrative expenses. “Almost every single dollar that we’ve had has been invested in reporting,” says Lewis.

But was *Voice*, with its relatively small audience and small donor base, really a success? What did success mean in the absence of profits? In the for-profit world of ad-supported content, site traffic had a direct effect on how much a site could charge for ads, and hence on profits. In the nonprofit world of *Voice*, foundations cared as much about intangibles like “influence” as they did about measurable traffic statistics. Judging by the national attention it had received and the policy changes its reporting had effected, *Voice* arguably exercised influence that far outweighed its traffic statistics; at around 80,000 unique monthly visitors in 2009, the numbers were modest compared to those of newspaper sites, including the *Union-Tribune's*, that often counted unique visitors in the millions. Was that the measure of success?

Finally, could charitable contributions, grants, and advertising really sustain a local news business the way they sustained museums, symphonies, and other cultural centers? Grants ran out, contributions were fickle, and advertising dollars typically were low. The tricky question was whether the public valued local news as highly as it valued art, music, and education. Lewis says:

Probably our single biggest concern and challenge going forward is that some of these [foundation] grants are only one, two or three years. So what happens when they run out? The good thing is that we’re obviously attracting more interest from different people, different foundations... Everybody asks me, are you sustainable? I don’t know what that means. I don’t know any small business, for instance... who could say that within two years we’re going to be around no matter what. On the other hand, we still need to prove that in two years, if all these grants run out, that we have other sources of revenue... So that’s the kind of issue that we’re

working through right now. What is the definition of sustainable? How big do we grow?

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