



CALIFORNIA NEWS PUBLISHERS ASSOCIATION CNPA Services, Inc.

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April 3, 2020

To: Honorable Governor Gavin Newsom
Honorable President pro Tempore Toni Atkins
Honorable Speaker Anthony Rendon

From: CNPA

Re: **Crisis Facing California News Organizations & Need for Economic Assistance**

The California News Publishers Association (CNPA) represents daily and weekly newspapers, ethnic and community publications and online news outlets throughout California. Our organization is united in the position that for journalism to survive the COVID-19 crisis, it needs your help.

Over the last two months, California news organizations have worked on the front lines of the COVID-19 pandemic inquiring, authenticating and reporting information Californians rely on for a deeper understanding of the threat and to help them make well-informed decisions about their health and safety. In addition to providing real-time information to subscribers, many of our members have dropped their paywalls to provide access to key coronavirus coverage as a public service.

The vital news coverage provided by our state and local news outlets is gravely imperiled, however, by an economic crisis exacerbated by the coronavirus pandemic. Despite the overall decline of advertising in newspapers, advertising sales continue to provide the majority of revenues for many publishers in the state. Our members simply cannot survive declines of as much as 67 percent of this important revenue source caused by the shuttering of many state businesses in response to the state and local emergency stay-at-home orders for non-essential companies.

California news outlets request the swift enactment of a package of remedial measures to address the looming economic disaster. These include prioritizing relief for news organizations in any state loan programs or the state's administration of federal monies disbursed to California; obtaining an extension of AB 170 that allows carriers of newspapers to be classified as independent contractors under the *Borello* standard; placing government outreach advertisements and messages in newspapers; eliminating or suspending the discriminatory state sales tax on newspapers; and providing tax deductions to readers and advertisers for subscribing to newspapers or advertising in them.

Newspapers are essential businesses informing the public about coronavirus and other news.

In a crisis and every day, news organizations play an essential role in California and in local communities. No other industry impacts the well-being of the neighborhoods they serve by keeping their communities informed and up to date on the news. In an age where disinformation has an ever-increasing impact on the lives and decisions made by Californians, the best antidote to disinformation is accurate and authoritative news coverage provided by credible sources like printed newspapers and news websites.

Newspapers and their newsrooms remain the primary way many residents get local news. When people want to know what schools are closed, where hotspots are located, what to do if they suspect they or a loved one is experiencing symptoms of the virus, they turn to their local newspaper. Even local radio stations and television stations often rely on their newspaper as an authoritative source of crucial news and information.

On March 22, the California State Public Health Officer reaffirmed the importance of newspapers as essential businesses by declaring workers who support news media are critical infrastructure workers in the communications sector who may continue their operations during the COVID-19 crisis. We appreciate that the role of news organizations was affirmed in the Executive Order that stated essential critical infrastructure workers are necessary to “protect communities, while ensuring continuity of functions critical to public health and safety, as well as economic and national security.”

The COVID-19 virus, has left the newspaper industry, already struggling financially, gasping for air.

As you know, newspapers are operating under increasing financial pressure. Over the past 15 years, more than one in five papers in the United States has closed down, and the number of journalists has been cut in half, according to the University of North Carolina’s School of Media and Journalism.

The COVID crisis has exacerbated an already precarious situation, with many large businesses putting their advertising on hold – a development that is a crippling blow to California news outlets. Many publishers also rely on events to generate income – events like the Los Angeles Times’ Festival of Books, the nation’s largest book festival, that are now postponed or canceled because of the crisis.

CNPA members reported the following advertising revenue losses for March and projected losses for April and May due to the coronavirus:

Ethnic and Community Newspapers (32 newspapers reporting)

Average loss of print advertising revenue for March – **\$35,000 = 33%**

Average monthly loss of print advertising revenue projected for April/May – **\$56,000 = 56%**

Daily Newspapers (33 newspapers reporting)

Average loss of print advertising revenue for March – **\$1.03M = 34%**

Average monthly loss of print advertising revenue projected for April/May – **\$1.8M = 48%**

Please note, these figures do not reflect other lost revenue from decreased digital advertising or cancellation of events. Also, the impact of the March loss numbers was highest in the last week of the month since the ad cancellations did not take effect until that week. Most print revenue losses drop directly to the bottom line.

In the last few weeks alone, the Sacramento, Reno, and Chico News & Review, the Mountain View Voice, The Almanac in Menlo Park and the Brentwood Press – free distribution newspapers wholly dependent on local advertising -- have suspended operations; other papers, such as the Monterey County Weekly, have laid off many of their employees.

In a story published to the [Tampa Bay Times](#) website, the Times announced it is reducing publications to just twice a week explaining a growth in subscriptions has not been enough to overcome advertising losses stemming from the pandemic that are devastating the media industry. Gannett, which has several California publications, [announced](#) that it will begin furloughing employees over the next three months and ask others to take pay cuts to cut costs during the economic slowdown.

More layoffs, furloughs and pay cuts will come. At least four additional community newspapers and one ethnic newspaper report they plan to close their doors beginning in May and there will inevitably be more.

State of the industry before COVID -19: Evolving to digital, but financially vulnerable

The COVID-19 crisis could not have come at a worse time for newspapers. The financial decline of the newspaper business has been well documented. According to Pew Research Center, from 2003 to 2018, with the migration of advertising dollars to the internet, newspaper advertising revenue declined by 69%. Nationally, newspaper ad revenue in 2000 was \$65 billion. That number dropped to \$14.8 billion in 2019, with \$9.3 billion in print revenue and \$5.4 billion in digital revenue. Additionally, for every \$1 in digital revenue the industry secures, \$7 in print revenue is lost.

While digital revenue is growing, print revenue is still the lifeblood of the industry.

Nationwide, newsroom employees have declined from 114,000 in 2008 to 78,000 in 2019, with 7,800 jobs lost last year alone. In the Bay Area, when the San Francisco Chronicle and Examiner were merged in 2000 there were over 600 reporters; today that number is 150.

Nowhere is the financial impact on the newspaper business more evident than in Sacramento. As you know, the McClatchy Company has declared bankruptcy and has dropped Saturday print publications at many of its properties. Throughout the state, the

industry has experienced significant consolidation of what were once locally owned newspapers as publishers cope with huge revenue reductions. Dozens of once locally owned newspapers in the Bay Area and Southern California are now owned by one company.

Without financial assistance to address the revenue losses the industry is experiencing as a result of the pandemic, many newspapers will close, more ownerships will consolidate, leading to less reporting of key developments in our communities.

From a business and financial standpoint, the news industry has suffered through a similar disruption that has impacted other industry sectors and has adapted by taking measures that allow for continued operation while transition strategies are being developed. But regardless of the change in operations and the efforts to create new revenue sources, the industry in large part continues to rely on traditional newspaper advertising sales and delivery. Currently, there is no alternative platform for communities that provides the variety and depth of information critical to local neighborhoods. As we have shown, the coronavirus crisis has essentially cut off the industry's lifeblood.

Revenue losses caused by the pandemic coupled with increased costs for newspaper carriers will wreak havoc on the industry

Independent contractors have performed newspaper delivery for centuries. The *Borello* standards in place prior to the adoption of the ABC test by the State Supreme Court required very strict adherence that newspaper publishers followed, subject to audit, in order to ensure that carriers were independent contractors, not employees.

Many publishers would fail the Supreme Court's ABC test because they would not be able to show that delivering newspapers "is outside the usual course of the hiring entity's business" (the "B" part of the test). As a result, publishers face eliminating delivery of print newspapers or paying for huge increases in costs that almost all publishers in this distressed industry cannot afford.

Even without the catastrophic revenue loss caused by the pandemic, based on the following increase in expenses of hiring news carriers as employees, likely outcomes would include:

1. A significant part of the publishing industry will cease to exist, with the most significant impact on small daily and weekly publications. Ironically, a large segment of the very workers the ABC test was meant to protect will end up without a job.
2. For companies that can continue to operate with carriers as employees, the analysis indicates that the cost increases will require significant job reductions, including journalists and carriers, which would harm individuals and their families who depend on these positions for income at a time when few other options for work exist.
3. Most daily newspapers will eliminate one or more print publication days per week.

4. The most expensive delivery routes will be eliminated, which will fall hardest on rural communities due to low housing density and higher distribution costs. Many of these communities may have little to no information access if they are in areas where the digital divide persists.

Data shows a devastating increase in costs for hiring carriers as employees

The graphs below, prepared by FTI Consulting in Denver, Colorado, represent aggregate cost increases to the major metropolitan daily newspapers in Northern and Southern California and show the range of increases for newspapers if they are required to hire carriers as employees.

The first graph assumes that newspapers would continue to publish seven days a week, which, given the drastic increases in the model, is highly unlikely since the seventh day would require overtime wages. The second graph shows what the cost increases would be if newspapers reduced their publication schedules to only six days a week.

7 Days Business Model

	Est. Annual Cost Increase*	Low	High
Northern California Newspapers	60%-105%	60%	105%
Southern California Newspapers	42%-87%	42%	87%

* Key inputs are provided by the publishers in estimating AB5 cost

6 Days Business Model

	Est. Annual Cost Increase*	Low	High
Northern California Newspapers	50%-61%	50%	61%
Southern California Newspapers	35%-61%	35%	61%

* Key inputs are provided by the publishers in estimating AB5 cost

In the models above, FTI determined the significant increase in the delivery costs for California newspapers operating under the ABC test are driven by these factors:

- If delivery carriers are to remain part-time, they cannot work more than 30 hours per week, which constrains carriers on how many papers they can deliver. Fewer papers to deliver means more carriers to employ.
- Current [contractor] carriers work seven days per week or have arrangements with friends or family to cover the seventh day, sick days, etc. In an employee model, it is assumed that employees would have one day off in seven, which means newspapers would need to pay a premium for that relief day, at great expense, plus cover sick days, which is not done for contractor carriers.

- Based on looking at competitive opportunities for part-time employees, it is believed that pay per hour and automobile usage rates would need to be higher than distributors now compensate their independent contractors.

Note that these models do not reflect the potential increased costs to community or ethnic newspapers, which may face even higher increases if they are required to hire an employee for home delivery of a weekly newspaper that typically takes only 2-4 hours a week to complete.

Most newspapers operate on a single-digit margin of profit. Many operate at break-even and some are currently at a loss. Delivery costs usually encompass approximately 10% of revenues, meaning that if costs are doubled as projected, most newspapers would move into unprofitable territory.

Request for state action to save the newspaper industry

Given the financial devastation experienced by the newspaper industry as a result of the pandemic, the members of CNPA respectfully request your help to alleviate some of the economic dislocations caused by state and local emergency orders in the following areas:

1. Priority and Streamlined Access to Available Funds

To the extent California offers its own economic assistance programs or is tasked by the federal government with distributing funds available to businesses affected by COVID-19, CNPA requests that the state provide priority funding to California news organizations, including access to grants, low interest, EIDL and other loans available to businesses to deal with losses incurred during the pandemic.

2. Relief from the ABC Test for Newspaper Carriers

CNPA urges the state to grant an extension of the exemption for newspaper carriers in California Labor Code Section 2750.3 (b)(7)(B), which is currently scheduled to sunset on January 1, 2021. The catastrophic loss of advertising coupled with the increase in costs associated with hiring newspaper carriers would cripple a large number of big and small news organizations.

3. Advertising – Government Outreach Ads

As the March 25 letter submitted by the ethnic and community publications outlined, California news organizations would directly benefit from the preferred placement of government outreach advertisements by agencies to inform the public about COVID-19 resources and key public health information as well as the myriad of other messages agencies seek to disseminate to communities throughout the state. CNPA urges the state to prioritize news organizations for placement of these advertisements.

4. Sales Tax Relief

We request the sales tax exemption for California newspapers be restored or, in the alternative, suspended until the economy recovers from the crisis. California newspapers are the only news medium that pays a tax on the sale of information they provide to California readers. The amount that newspapers paid in sales tax to the state last year was \$13.5 million. Removal of the sales tax on newspapers would eliminate a major impediment to subscription and single-copy sales of newspapers and increase circulation of newspapers in California communities, allowing many elderly folks to continue to be able to receive their newspapers.

5. Tax Deductions

CNPA encourages the state to incentivize residents to become subscribers to news organizations by offering them tax deductions if they subscribe to their local California news organization. Similarly, to incentivize advertisers to continue to place their messages in printed and published newspapers, the state should also offer tax deductions to advertisers who continue to support their local news organizations.

If newsrooms are forced to shut their doors, they will likely never reopen. If local news organizations are shuttered, communities will be on their own when it comes to essential information about how to survive the next pandemic, fire, or earthquake. CNPA respectfully requests that you, as the state's leaders, give news organizations your highest priority when considering how to protect one of the most vital industry sectors of the state.

Thank you for your consideration. We look forward to meeting and working with you to help the all newspapers survive this crisis. Please contact CNPA General Counsel Jim Ewert at jim@cnpa.com or by phone at 916-288-6013 to schedule a meeting or answer any questions.

Sincerely,



Simon Grieve
CNPA President, Publisher, Gazette Newspapers, Long Beach

cc: Lenny Mendonca, Director, California Office of Business and Economic Development
Honorable Bob Hertzberg, Senate Majority Leader
Honorable Ian Calderon, Assembly Majority Leader
Honorable Holly Mitchell, Chairwoman, Senate Budget Committee
Honorable Phil Ting, Chairman, Assembly Budget Committee
Honorable Lorena Gonzalez, Chairwoman, Assembly Appropriations Committee
Honorable Anthony Portantino, Chairman, Senate Appropriations Committee
Honorable Mike McGuire, Chairman, Senate Governance and Finance Committee

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April 3, 2020
Page 8

Honorable Autumn Burke, Chairwoman, Assembly Revenue and Tax Committee
Honorable Jerry Hill, Chairman, Senate Labor Committee
Honorable Ash Kalra, Chairman, Assembly Labor Committee
Jeff Glasser, CNPA Governmental Affairs Committee Co-Chairman, Senior Vice President and General Counsel, *Los Angeles Times*
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