Taxpayers Lose in the Bond Market When Local Newspapers Close.

- **Academics find interest costs rise when newspapers close**
- **With less local oversight, investors may foresee more risk**

On March 14, employees at the Denver Post were ushered into a meeting and told that the paper's owner, hedge fund Alden Global Capital, was implementing a fresh round of cost cuts at the Pulitzer Prize-winning daily that would eliminate nearly a third of the newsroom staff.

That retrenchment isn't just costing employees their jobs. It may also cost Denver taxpayers the next time the city raises money in the bond market.

A study by economists from the University of Notre Dame and the University of Illinois at Chicago found that investors demand higher yields to buy the bonds of governments in metropolitan areas where newspapers have shut down. They argue that's likely because reducing the number of reporters rooting out mismanagement and corruption allows governments to run less efficiently, which is reflected in bond-market prices.

Pengjie Gao, a professor at Notre Dame's business college, and Dermot Murphy and Chang Lee of the University of Illinois analyzed the results from 204 counties where the number of newspapers dropped to two or less between 1996 and 2015. They then compared the yields on bonds from governments in those locales with those from counties that didn't see such closures.

They concluded that the shutdowns caused bond yields to rise between 0.05 and 0.11 of a percentage point. While that appears small, it can add up to a lot in a market where state and local governments borrow hundreds of billions of dollars a year. For a $65 million debt issue, that amounts to about $71,500 annually — enough to cover a teacher's salary — or about $2 million over the life of a 30-year bond.

"That increase can really represent a higher cost to be paid to raise the same amount of money," Lee said.

The local newspaper industry has been decimated by the rise of the Internet. The industry lost more than half its jobs from 2001 through September 2016, cutting employment to about 174,000 from 412,000, according to the U.S. Labor Department.

That's left a major gap. It was the Los Angeles Times, not local law enforcement, that revealed that officials in Bell, an impoverished suburb, were rewarding themselves with massive pay packages — resulting in criminal charges. The Securities and Exchange Commission also came down on Harvey, Illinois after the Chicago Tribune ran a series of articles documenting mismanagement in the crime-ridden suburb.

JT Thompson, a portfolio manager at Aquila Group of Funds who oversees about $400 million in Utah bonds, said he relies on local newspapers when judging whether there's support for a project being financed by municipal bonds — something that would diminish the risk of the project failing.

“There has been some really good finds that you can pick up because there’s support in the community for a redevelopment area, and knowing that you know the tax base will be behind it – there’s the value in the local papers,” he said.

The cuts at the Denver Post comes less than a decade after its major rival, the Rocky Mountain News, shut its doors.

When newspapers can’t bring their resources to local communities issues go uncovered, said Jesse Paul, politics reporter at the Denver Post. He called the business of journalism a food chain, in which a local paper reports on a topic, then it’s expanded upon by a statewide paper such as the Denver Post and nationalized by a paper with multi state reach.

“If that food chain gets disrupted – whether it’s on the small weekly newspaper level, up to the Denver Post, these towns become black holes.”

Bloomberg Markets

By Danielle Moran

June 5, 2018, 5:52 AM PDT