



## Los Angeles City Ethics Commission

September 14, 2015

The Honorable City Council  
c/o Holly Wolcott, City Clerk  
200 North Spring Street  
City Hall, 3rd Floor  
Los Angeles CA 90012

### **Re: 2015 Matching Funds Review**

#### *FOR COUNCIL CONSIDERATION*

Dear Councilmembers:

This report is provided in response to a request from the Rules, Elections, Intergovernmental Relations and Neighborhoods Committee, asking for an analysis of the new matching funds laws that took effect with the 2015 regular elections.

The report includes an overview of changes to the laws that govern the matching funds program over the last three regular election cycles, an analysis of data from the 2015 elections, and a comparison of the 2015 data with data from the 2011 elections, the last time the same seats were on the ballot. The report also revisits previous recommendations made by the Ethics Commission to improve the matching funds program.

#### **A. Summary**

Every election is unique. They are affected by term limits, public participation, campaign issues, and other factors, such as the change in the election schedule that will take effect for City elections beginning in 2020. Changes to the law can also dramatically affect an election, and it is important to note in assessing data from the 2015 elections that the City's matching funds laws have been different in each of the last three regular election cycles.

Any certainty about the effects of the new matching funds laws will require data from several future election cycles. However, data from the 2015 elections, when compared to the 2011 elections, provides some key initial assessments, which are highlighted in the table on the next two pages.

**Quick Guide to Matching Funds Data**  
*Under Laws Effective With the Regular 2015 Elections*

New Law	Citation	Former Law	Initial Assessment
To qualify for public funds, a candidate must obtain contributions of \$5 or more from 200 district residents or, for Citywide candidates, 200 City residents.	LAMC § 49.7.23(C)(2)	No minimum number of in-district contributions were required.	<p>This law appears to have increased the number of small contributions submitted by qualified candidates to be matched with public funds. Despite the fact that the per-person contribution limit increased from \$500 in 2011 to \$700 in 2015, there were 336% more contributions of \$100 or less and 207% more contributions of \$250 or less in 2015 than in 2011.</p> <p><u>Notes:</u></p> <ol style="list-style-type: none"> <li>1. More small contributions results in more work for candidates and City staff. The total number of contributions of \$100 or less on all requests for matching funds payments was 4,191 in 2015 and 925 in 2011. The total number of all submitted contributions was 7,192 in 2015, compared to 2,706 in 2011. There were nearly twice as many contributions on the average request for matching funds payment in 2015 than in 2011 (93 v. 54).</li> <li>2. Small contributions represent more work for less funding. In 2015, contributions of \$100 or less represented 58% of the number of all contributions submitted but only 10% of the value of all contributions submitted and approximately 3% of the value of all contributions in the election.</li> <li>3. The law increased the staff time required to certify each request for matching funds payment from two minutes per contribution in 2011 to eight minutes per contribution in 2015.</li> </ol>

**Quick Guide to Matching Funds Data**  
*Under Laws Effective With the Regular 2015 Elections*

New Law	Citation	Former Law	Initial Assessment
Contributions used to qualify for or to be matched with public funds must be from City residents.	LAMC § 49.7.2(T)(4)	<p>In 2013, contributions could be from any individual, regardless of residence.</p> <p>In 1993-2011, contributions could be from any person, including businesses and other entities.</p>	<p>This law appears to have increased the number of contributions from City residents that were submitted for matching funds payment. In 2015, all 6,202 matched contributions were in-City, compared to the 2,551 that were matched in 2011 and did not have to be in-City.</p> <p><u>Notes:</u></p> <ol style="list-style-type: none"> <li>1. The increase in in-City contributions does not appear to extend to all contributions. In 2015, 60% of all contributions came from within the City, compared with 56% in 2011. Participating candidates received 57% of their contributions from within the City in 2015 and 60% in 2011. Non-participating candidates received just 2% less in both elections (55% in 2015 and 58% in 2011).</li> <li>2. The law increased the staff time required to certify each request for matching funds payment from two minutes per contribution in 2011 to eight minutes per contribution in 2015.</li> </ol>
<p>To receive public funds at the higher rate of match (2:1 in the primary and 4:1 in the general), a candidate must obtain 1,000 valid signatures from district voters.</p> <p>Without 1,000 valid signatures, candidates receive public funds at a 1:1 rate in both the primary and the general.</p>	LAMC § 49.7.27(B)	<p>All qualified candidates received public funds at the same rate of match.</p> <p>In 2013, the rate was 2:1 in the primary and 4:1 in the general.</p> <p>From 1993-2011, the rate was 1:1 in both the primary and the general.</p>	<p>The law does not appear to have had a significant effect on a candidate's ability to receive the higher rate of match. All but one qualified candidate obtained the signatures required to receive the higher rate.</p> <p><u>Notes:</u></p> <ol style="list-style-type: none"> <li>1. Even with an accelerated match rate of 2:1/4:1, the same percentage of qualified candidates (28%) received the maximum public funding available to them in both 2015 and 2011. However, on average, candidates received \$13,045 more public funding in 2015.</li> <li>2. If the accelerated rate of match had been a universal 6:1 in 2015, all qualified candidates would have received the maximum public funding available to them.</li> <li>3. Candidates reported having to invest far more time in gathering signatures and expressed concern about their ability to do that and also qualify for the ballot.</li> <li>4. The signature requirement increased the staff time required for the City Clerk's office to verify the signatures. In 2015, 13 candidates requested verification of 1,000 signatures, compared with just one candidate in 2011 and 2007.</li> </ol>

These new laws are described in more detail in Section B, and the data associated with them is explained below in Sections C and D.

## **B. Matching Funds Laws**

As noted in the summary above, the City's matching funds laws have been different in each of the three most recent regular election cycles. This section provides an overview of the current laws and how they have changed.

### **1. Background**

In 1990, at the same time that they created the Ethics Commission, City voters adopted a program to provide limited public funds to assist candidates in raising enough money to communicate their views and promote public discussion of the important issues involved in political campaigns. Los Angeles City Charter (Charter) § 471. The City's matching funds program is designed to, among other things, encourage competition for elective office, help limit campaign spending, reduce the need for excessive fundraising, and promote public discussion of the issues that affect voters. Charter § 471(a)(2). To meet these goals, the program provides public dollars to City candidates who meet specific qualification requirements. Los Angeles Municipal Code (LAMC) § 49.7.23; Los Angeles Administrative Code (LAAC) § 24.32.

From 1993, when the program was first implemented in City elections, through 2011, the matching funds program experienced very little change. However, significant changes were made to the program prior to the 2013 regular elections. These changes reflected the Ethics Commission's experience in administering the program for 20 years, the experiences of candidates and treasurers in complying with the laws, and decisions of the United States Supreme Court regarding public funding systems in other jurisdictions. Some of the changes to the matching funds laws became effective with the 2013 regular elections, and others did not become effective until the 2015 regular elections. The subsections below compare the various aspects of the City's matching funds program and identify how the laws have changed over the past three regular election cycles.

### **2. Maximum Funding**

Candidates who qualify to receive public funds (*see* subsection B.3, below) are eligible to receive up to a certain amount per election. LAMC § 49.7.29. The maximum amounts are identified in the following table below by seat and by election.

Maximum Matching Funds Per Candidate		
Seat	Primary	General
City Council	\$100,000	\$125,000
Controller	\$267,000	\$300,000
City Attorney	\$300,000	\$350,000
Mayor	\$667,000	\$800,000

The City matches up to \$250 per qualified contribution for City Council candidates and up to \$500 per qualified contribution for Citywide candidates. LAMC § 49.7.27(A). As of the 2015 elections, a qualified contribution is one that, among other things, is received from a City resident. LAMC § 49.7.2(T)(4). This is a significant narrowing of the law. In the 2013 regular elections, a qualified contribution could be received from any individual, regardless of residency. *See* former LAMC § 49.7.2(R)(4) (amended 2013). And from 1993 through 2011, a qualified contribution could be received from any person, including businesses and other non-individual entities. *See* former LAMC § 49.7.2 (amended 2012).

The overall maximums have remained unchanged since the inception of the matching funds program in 1993, despite the Ethics Commission's recommendation that they be increased. *See* subsection E.2, below. The maximum matchable amount per contributor also has not changed since the program's inception. In order to emphasize the value of smaller contributions, the Ethics Commission has not recommended such an increase.

### 3. Qualification Criteria

Candidates who wish to receive matching funds must meet certain criteria, including being certified to appear on the ballot, having an opponent who is certified to appear on the ballot, limiting their overall spending, and limiting the amount of personal money they use for their campaigns. LAMC §§ 49.7.23(C)(3)–(5), 49.7.23(C)(7), 49.7.24; LAAC §§ 24.32(a)(3)(C)–(D), 24.32(c).

#### *a. Minimum Fundraising*

Candidates must also demonstrate that they have a broad base of support by meeting two fundraising criteria. First, they must receive a certain level of private funding from City residents. LAMC §§ 49.7.2(T)(4), 49.7.23(C)(1). The levels vary by seat:

- Mayoral candidates.....\$150,000
- City Attorney/Controller candidates .....\$75,000
- City Council candidates.....\$25,000

To meet these fundraising thresholds, candidates may use only a certain portion of contributions from each private contribution. The portions mirror the matchable amount of a

qualified contribution: City Council candidates may use up to \$250 per contribution toward the fundraising threshold, and Citywide candidates may use up to \$500. LAMC § 49.7.23(C)(1)(a).

These amounts have remained the same since the inception of the matching funds program. They initially represented half of the per-person contribution limit and have purposefully not been increased, even though the per-person contribution limit increases over time based on changes in the Consumer Price Index (CPI). As a result, the limits on the portion per contributor that may be used to qualify for public funds becomes a smaller and smaller percentage of the per-person contribution limit. The goal behind that is to place more emphasis on the value of smaller contributions.

*b. Contributions from Residents*

Effective with the 2015 regular elections, candidates must also receive at least 200 contributions of \$5 or more from residents in their districts or, for Citywide candidates, residents of the City. LAMC § 49.7.23(C)(2). Previously, no minimum number of in-district or in-City contributions was required.

Attachment A is a table that compares the current qualification criteria with the criteria that were in place for the 2013 regular elections and the criteria that applied from 1993 through 2011.

4. Rate of Match

Historically, the matching funds program distributed public money at a rate of one public dollar for every qualified private dollar (1:1). *See* former LAMC § 49.7.20 (amended and renumbered 2012). If certain outside spending triggers were met, candidates could receive funds at an accelerated 3:1 rate. *See* former LAMC § 49.7.22(C) (amended and renumbered 2012). The accelerated rate was a trigger benefit that was removed from City law in 2012 to comply with the United States Supreme Court's ruling that such benefits are unconstitutional in *Arizona Free Enterprise Club's Freedom Club PAC v. Bennett* (*Arizona v. Bennett*), 131 S. Ct. 2806 (2011).

The rate of match was increased to 3:1 in the primary and the general for a 2011 special election. This was done in part to offset the loss of the accelerated trigger rate, but also to ensure that candidates received as much benefit from public funds as quickly as possible.

For the 2013 regular elections, the rate was changed to 2:1 in the primary and 4:1 in the general. *See* former LAMC § 49.7.27(D) (amended 2014). And the rate changed again for the 2015 regular elections. There are now two different rates of match for qualified candidates. A candidate who obtains 1,000 valid signatures from district voters during the ballot nomination period receives public funds at the rates that applied to all candidates in 2013: 2:1 in the primary and 4:1 in the general. However, a candidate who obtains 500 valid signatures from district

voters during the ballot nomination period receives public funds at the previous 1:1 rate. LAMC § 49.7.27(B).

In a general election, qualified candidates receive an initial grant of 20 percent of the maximum available to them in that election. LAMC § 49.7.27(B)(3). All subsequent public dollars are paid based on the applicable rate of match. This has been true since the inception of the program.

The table below illustrates the changes in match rates over time.

Rates of Match				
	2015	2013	2011 Special	1993-2011
<b>Rate</b>	<u>1,000 signatures:</u> <ul style="list-style-type: none"> <li>• 2:1 in primary</li> <li>• 4:1 in general</li> </ul> <u>&lt; 1,000 signatures:</u> <ul style="list-style-type: none"> <li>• 1:1 in primary</li> <li>• 1:1 in general</li> </ul>	<ul style="list-style-type: none"> <li>• 2:1 in primary</li> <li>• 4:1 in general</li> </ul>	<ul style="list-style-type: none"> <li>• 3:1 in primary</li> <li>• 3:1 in general</li> </ul>	<ul style="list-style-type: none"> <li>• 1:1 in primary</li> <li>• 1:1 in general</li> </ul>
<b>Accelerated Rate</b>	None	None	None	3:1 if certain third party spending occurred
<b>Initial Grant in General</b>	20% of maximum	20% of maximum	20% of maximum.	20% of maximum

## 5. Processing Payments

To receive public funds, qualified candidates must submit requests for payment to the Ethics Commission. Form 22 must be completed to make a request, and it must identify and provide supporting documentation (e.g., a copy of a check, a credit card transaction receipt, etc.) for every contribution for which public funds are requested. LAAC §§ 24.34(a)(7)–(8). Both the candidate and the treasurer must sign Form 22 under penalty of perjury to certify that all contributions were deposited into the candidate's campaign checking account and that, to the best of their knowledge, all the supporting documentation is accurate and all contributions are from City residents. LAAC § 24.34(a)(9).

Ethics Commission staff is required to review each Form 22 and its contributions and supporting documentation, to determine the amount of public funds that should be paid. LAMC § 49.7.30(A); LAAC § 24.34(d)(1). The review must be completed within four business days of receiving all necessary claim information. LAMC § 49.7.30(A); LAAC 24.34(d)(1)(C). The Controller then has two business days to make the payment in the amount of public funds certified by the Ethics Commission. LAMC § 49.7.30(B); LAAC §§ 24.34(e), 24.34(f)(1).

**C. Data: 2015**

In an effort to better understand the effects of the new matching funds laws, we analyzed various data points associated with the 2015 regular elections. Key points about that data include the following:

1. Voter Turnout

The seven even-numbered City Council seats appeared on 2015 regular primary ballot. Incumbents ran for reelection in five of those races. Because of term limits, two seats (Council Districts 4 and 8) were open, meaning an incumbent was not running for reelection.

In total, 31 candidates were certified to appear on the primary ballot, and 107,422 votes were cast for those candidates in the primary elections. This represents a voter turnout rate of 12.2 percent. The total amount spent by both candidates and non-candidates was \$7,767,417, which results in a per-vote cost of \$72.31.

Six of the seven races were decided in the primary, and one race (Council District 4) went to a general run-off election. In that election, 24,408 votes were cast, representing 15.9 percent of registered voters. Candidates and non-candidates spent a total of \$1,390,806 in that election, resulting in a cost per vote of \$56.98.

2. Participation Rate

There were 28 candidates (90.3 percent of those certified to appear on the ballot) who agreed to participate in the matching funds program, and 14 of those candidates (50.0 percent) actually received public funds. Five of the seven winning candidates (71.4 percent) were matching funds participants.

3. Payments

A total of \$1,317,315 in public funds was paid to 14 qualified candidates in the 2015 regular elections. The following table identifies the amount of public funds paid by City Council district and by election.

Matching Funds Payments 2015 City Elections		
Seat	Primary	General
Council District 2	\$44,004	--
Council District 4	\$580,083	\$235,244
Council District 6	\$115,276	--
Council District 8	\$100,000	--
Council District 10	\$57,382	--
Council District 12	\$0	--
Council District 14	\$185,326	--
<b>TOTAL</b>	<b>\$1,082,071</b>	<b>\$235,244</b>

Of the 14 candidates who qualified to receive public funds, 13 received those funds at the accelerated rate of 2:1 in the primary and 4:1 in the general, because they obtained 1,000 valid voter signatures during the ballot nomination period.

Four candidates received the maximum public funding available to them. This represents 28.6 percent of the qualified candidates and 14.3 percent of the participating candidates.

On average, each qualified candidate received \$77,291 in public funds in the primary election and \$117,622 in the general election. These averages represent 77.3 percent and 94.1 percent of the maximums available to candidate in those elections.

#### 4. Matched Contributions

During the 2015 regular election cycle, qualified candidates submitted a total of 77 requests for matching funds payment and amendments. The requests contained 7,192 contributions for which public matching funds were requested, an average of approximately 93 contributions per request or amendment. Of those contributions, 6,202 (86.2 percent) were actually matched with public funds.

Three quarters (75.3 percent) of all contributions submitted by qualified candidates were valued at \$250 or less. And most of those (57.9 percent) were valued at \$100 or less. Just 24.7 percent of the contributions were valued at \$251 or more.

The total dollar value of submitted contributions that were \$100 or less was \$158,754, whereas the dollar value of contributions valued at \$251 or more was \$1,106,668. All 2015 submitted contributions combined were valued at \$1,541,322, which means that contributions valued at \$100 or less (58.3 percent of all submitted contributions) generated 10.3 percent of the value of all submitted contributions.

5. Processing Time

As noted above in Section B.5, Ethics Commission staff is required to review every request for matching funds to determine how much should be paid to each candidate. During the 2015 regular elections, it took the staff approximately eight minutes per contribution to verify eligibility for matching funds payment. In addition to the financial verification required to pay public funds, verification also now requires a determination that the contribution was from an individual and that the address was both a residence and within City (or City Council district) limits.

Each request for payment or amendment contained an average of approximately 96 contributions and, therefore, took Ethics Commission staff approximately 12.8 hours to review. In addition, staff invested considerable additional time in working with candidates and treasurers to explain the new laws and ensure that each Form 22 was accurate and complete.

**D. Data: 2015 v. 2011**

To provide some context for the data from the 2015 regular elections, we compared it with data from the 2011 regular elections. Because of term limits, changes in the law, and other factors, each election cycle is different. However, 2011 was the last time that the same even-numbered City Council seats were on the ballot and provides the closest baseline for the 2015 elections.

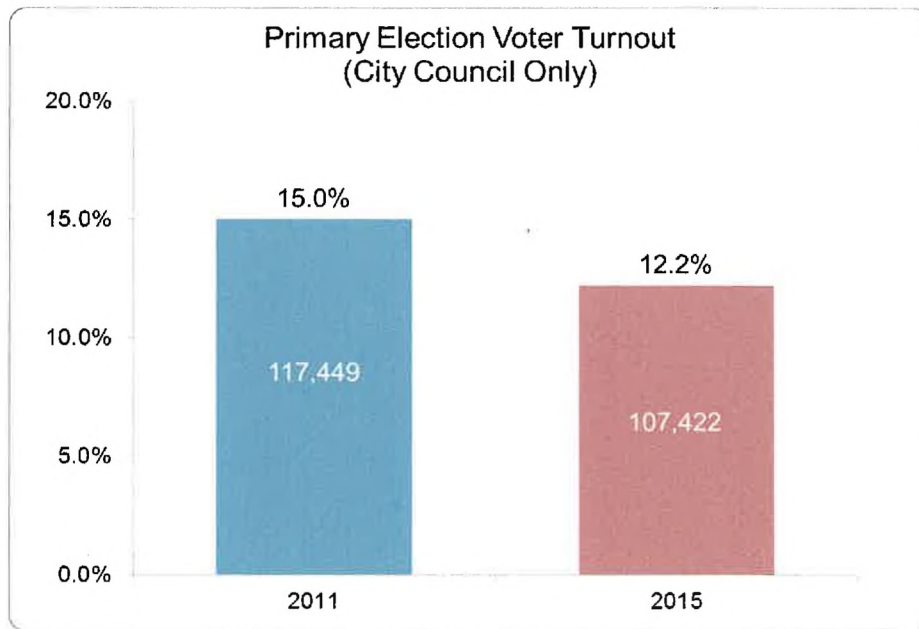
1. Voter Turnout

In 2011, incumbents ran for reelection in six of the seven seats on the ballot, compared with five seats in 2015. One seat (Council District 12) was open in 2011, compared with two open seats in 2015. A total of 26 candidates were certified to appear on the ballot in 2011, whereas 31 candidates were certified in 2015.

Each of the races on the 2011 ballot was decided in the primary, while one race proceeded to a general election in 2015. In the 2011 regular primary elections, 117,449 votes were cast for the 26 City Council candidates on the ballot. This represents 15.0 percent of registered voters. The voter turnout fell in the 2015 regular primary elections to 12.2 percent but was slightly higher, at 15.9 percent, in the 2015 general election.

In 2011, the total amount spent on the regular elections by both candidates and non-candidates was \$5,216,938. That results in a cost of \$44.42 per vote, compared to a cost of \$72.31 in the 2015 primary elections and \$56.98 in the 2015 general election.

The graph below shows the number of votes cast and the voter turnout rates in the regular primary elections held in 2011 and 2015.



## 2. Participation Rate

In the 2011 regular elections, 18 (69.2 percent) of the 26 candidates on the ballot participated in the matching funds program, compared to 90.3 percent in 2015. Of the 18 participating candidates, seven (38.9 percent) actually received matching funds, compared to 50.0 percent in 2015. Of the seven winning candidates in 2011, four were matching funds participants, compared to five in 2015.

The table below compares the participation rates in the 2015 and 2011 regular primary elections.

Matching Funds Program Participation Rates Regular Primary Elections		
	2015	2011
Candidates Certified for Ballot	31	26
Candidates Participating in Program	28 90.3% of certified	18 69.2% of certified
Candidates Receiving Public Funds	14 50.0% of participants 45.2% of certified	7 38.9% of participants 26.9% of certified
Winning Candidates Accepting Public Funds	5 of 7	4 of 7

### 3. Payments

A total of \$449,719 in public funds was paid to the seven qualified candidates in the 2011 regular elections. Two candidates received the maximum available to them. This represents 28.6 percent of qualified candidates and 11.1 percent of participating candidates, compared to 28.6 percent of qualified candidates and 14.3 percent of participating candidates in 2015. On average, each of the qualified candidates received \$64,246 in public funds, which represents 64.2 percent of the maximum available to them.

The table below compares matching funds payments in the 2015 and 2011 regular primary elections. More matching funds were paid in 2015 than in 2011, because there was an additional open seat, more candidates were on the ballot, and more candidates qualified to receive public funds. It is interesting to note that, although 13 out of 14 qualified 2015 candidates received public funds at an accelerated rate of match, the average amount of public funds paid per candidate in the 2015 regular primary elections represents an increase of just 12.5 percent over the average amount paid in the 2011 regular primary elections, when the match rate was 1:1 for all candidates.

Matching Funds Payments Regular Primary Elections		
	2015	2011
Total Matching Funds Paid	\$1,082,071	\$449,719
Average Paid per Candidate	\$77,291	\$64,246
Candidates Receiving Maximum	4 28.6% of qualified 14.3% of participating	2 28.6% of qualified 11.1% of participating

### 4. Matched Contributions

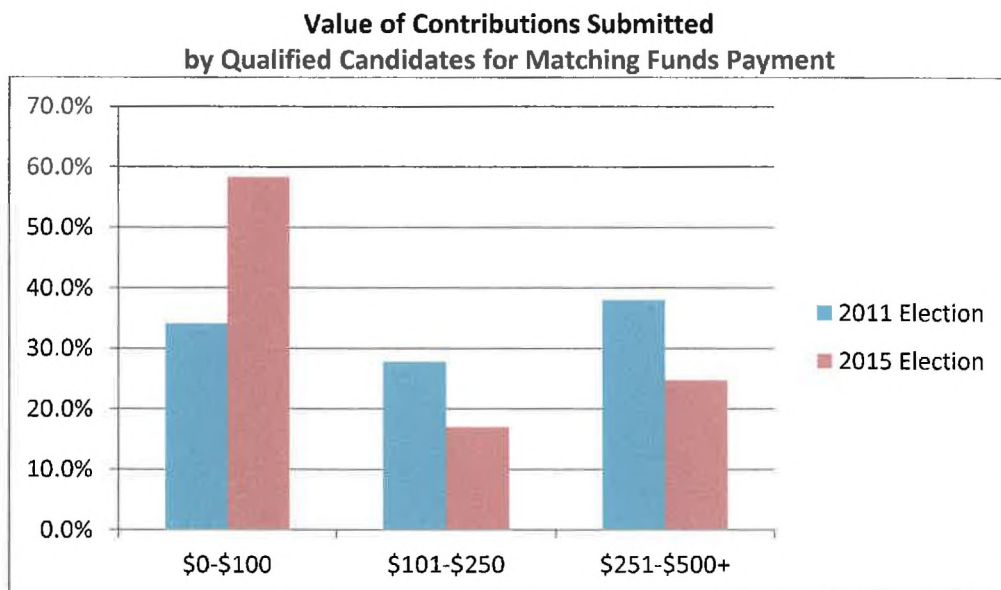
During the 2011 regular elections, qualified candidates submitted a total of 50 requests for matching funds payments and related amendments. The requests contained 2,706 contributions for which public funds were requested, an average of approximately 54 contributions per request or amendment. Of those contributions, 2,551 (94.3 percent) were actually matched with public funds.

The table below compares contributions submitted by qualified candidates in the 2015 and 2011 regular elections. It is interesting to note that, under the new laws, more contributions were submitted in total, per candidate, and per request for payment. This is likely because the new laws require a minimum number of contributions from in-district residents and encourage smaller contributions (*see* “Value of Contributions Submitted by Qualified Candidates for Matching Funds Payment” chart on the next page).

Requests and Contributions Submitted by Qualified Candidates		
	2015	2011
Number of Requests and Amendments Submitted	77	50
Number of Contributions Submitted	7,192	2,706
Number of Contributions Matched	6,202 <i>86.2% of submitted</i>	2,551 <i>94.3% of submitted</i>
Average Contributions Submitted Per Candidate	514	451
Average Contributions Per Request or Amendment	93	54

In the 2011 regular elections, 34.2 percent of all contributions submitted by qualified candidates were valued at \$100 or less, compared to 58.3 percent in 2015. Contributions valued at \$250 or less represented 62.0 percent in 2011 and 75.3 percent in 2015. The largest contributions (those valued at more than \$250) represented 38.0 percent of the 2011 contributions and 24.7 percent of the 2015 contributions.

These percentages are indicated in the follow chart. It is interesting to note that the percentage of small contributions increased significantly in 2015, despite the fact that the per-person contribution limit increased from \$500 in 2011 to \$700 in 2015. Also of note is the fact that one contributor may make more than one contribution, as long as they do not cumulatively exceed the per-person contribution limit.



## 5. Processing Time

From 1993 through 2011, there were no jurisdictional restrictions on matchable contributions. During that time, it took Ethics Commission staff an average of two minutes to

verify each contribution submitted by qualified candidates to determine whether public funds could be paid and, if so, how much.

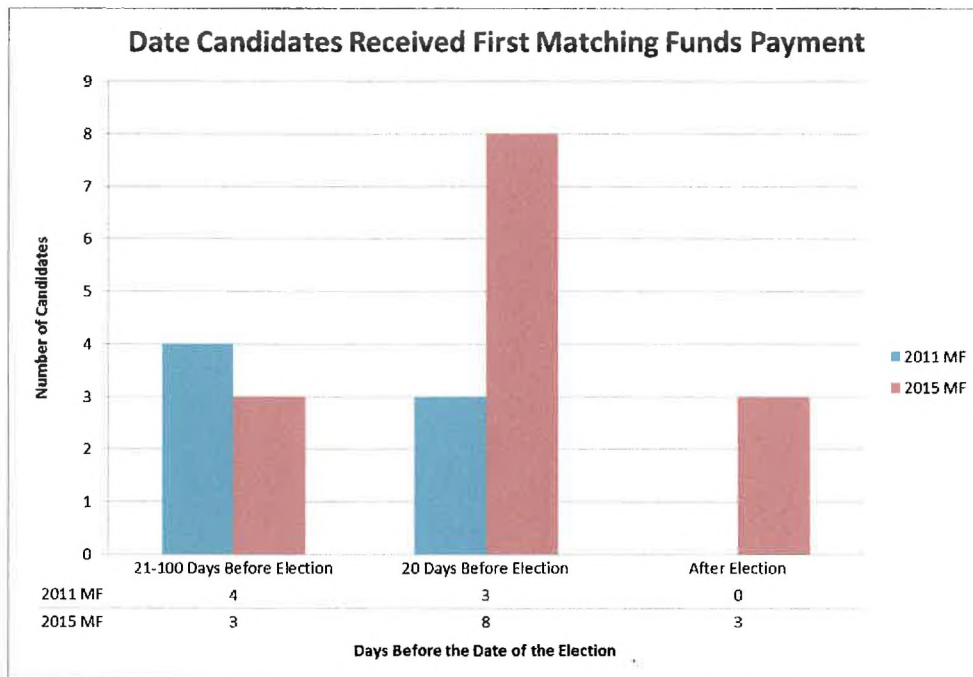
Beginning with the 2015 regular elections, contributions may be matched only if they are received from individuals residing in the City. *See* LAMC § 49.7.2(T). In its review of requests for matching funds payments, the Ethics Commission staff is now required to verify that each contribution was received from an individual, that the address provided is within City (or City Council district) limits, and that the address provided is a residence address. As a result, it now takes an average of eight minutes to verify each contribution, which is a four-fold increase in the verification time.

The table below compares the estimated staff time required to verify contributions in the 2015 and 2011 regular elections, based on the number of contributions submitted for matching funds payment (*see* “Requests and Contributions Submitted by Qualified Candidates” table on previous page).

Processing Times		
	2015	2011
Number of Contributions Submitted by Qualified Candidates	7,192	2,706
Approximate Time to Verify Average Contribution	8 minutes	2 minutes
Average Contributions per Request or Amendment	96	42
Approximate Time To Verify Average Request or Amendment	12.8 hours	1.4 hours
Number of Requests and Amendments	75	64
Approximate Time to Verify All Requests and Amendments	960 hours	90 hours

While the number of requests for payment and associated amendments increased by just under 15 percent between 2011 and 2015, the number of contributions per request and the time needed to verify those contributions increased substantially. This increase can be directly attributed to the new City and district residency requirements.

The increase in time is also reflected in when qualified candidates received payments in response to their first requests. In 2011, 57.2 percent of candidates received payments for their first requests 21 or more days prior to the primary election, while 42.8 percent received payments 0 to 20 days prior to the primary. In contrast, only 21.4 percent of 2015 candidates received payments for their first requests 21 or more days prior to the primary election. Most of the 2015 candidates (57.1 percent) received payments 0 to 20 days prior to the primary, and 21.4 percent received payments after the election was held. The following chart shows these differences, which are likely due to the length of time required to verify each contribution under the new 2015 laws and the greater number of contributions submitted by 2015 candidates.



## E. Prior Recommendations

In 2014, the Ethics Commission approved a series of recommendations to improve the matching funds program. While the City Council adopted the vast majority of those recommendations, two key proposals were not included in the final ordinance.

First, the Ethics Commission recommended eliminating the signature requirement and replacing it with a uniform 6:1 rate of match for all qualified candidates in both the primary and general elections. Second, the Ethics Commission recommended increasing the maximum amount of matching funds available to qualified candidates by approximately 50 percent. Each of the recommendations is explained below.

### 1. Rate of Match

#### *a. Remove Additional Signature Requirement*

As part of its 2013-2014 review of the City's campaign finance laws, the Ethics Commission recommended eliminating the requirement that matching funds candidates submit 1,000 valid signatures of registered voters in their districts to receive a higher rate of match. This recommendation was made, in part, because the Ethics Commission does not believe that the requirement furthers the purposes of the matching funds program.

The program is meant to, among other things, avoid corruption or the appearance of corruption, reduce candidate reliance on private funding by assisting them in raising enough money to communicate their views, increase the value of smaller contributions, encourage more

candidates to seek public office, and reduce the excessive fundraising advantage of incumbents. Charter § 471(a)(2). A higher rate of match furthers the purposes of the program by allowing candidates to receive money more quickly, increasing the value of smaller contributions, and helping candidates to communicate their views without heavy reliance on private funding. It also creates efficiencies for both candidates and staff. Imposing a challenging hurdle to receiving a higher rate of match works against these goals.

In addition, the signature requirement has increased the workload for the City Clerk's office, at precisely the time that their elections work is already increased, because that office is required to verify the signatures submitted for matching funds purposes in the same way that they verify signatures for ballot certification purposes. Historically, the vast majority of all candidates have qualified to appear on the ballot with 500 signatures. For example, just one candidate in each of the 2007 and 2011 regular election cycles submitted 1,000 signatures for review by the City Clerk's office. In 2015, however, this number increased dramatically to 13. Each candidate that submits 1,000 signatures in an attempt to qualify for the higher rate of match doubles the amount of work required of the City Clerk's office during the very short ballot certification period.

The Ethics Commission also raised concerns about the matching funds program treating qualified candidates differently. This concern was illustrated in the 2015 City Council District 4 general election. Both candidates in that election were qualified to receive matching funds. One candidate submitted 136 contributions and received the maximum public funding available, while the other submitted 581 contributions but did not receive the maximum. The first candidate received more public funding faster and with far fewer contributions, which created a disparity in the amount of work required of the two candidates and their availability to focus on communicating with voters rather than engaging in fundraising.

*b. Increase Match Rate*

In place of the additional signature requirement's two-tiered rate of match, the Ethics Commission recommended that all qualified contributions be matched at a 6:1 rate during both primary elections and general elections.

One of the purposes of the matching funds program is to assist candidates in adequately communicating their views and positions without the need to raise large campaign funds and promoting public discussion of important issues facing the City. Charter §§ 471(a)(2)(A)–(B). Providing public funds to qualified candidates at a faster rate enables them to spend less time fundraising and more time communicating with voters, to both explain their campaign platforms and respond to independent expenditures. Candidates and treasurers have provided universally positive feedback about the effect that the increased rate of match has had on their ability to engage in campaigning, rather than in fundraising.

In addition to giving qualified candidates more opportunity to communicate with voters, increasing the rate of match results in fewer matching funds claims. This makes the program

more efficient for both candidates and City staff and is particularly important now that the matching funds program requires candidates to obtain at least 200 in-district contributions, which tend to be smaller in value. A faster rate of match may also be critical when the City's elections are moved to the state and federal schedule and may prove more expensive and challenging for candidates.

## 2. Maximum Matching Funds

In addition to increasing the rate at which matching funds are distributed to qualified candidates, the Ethics Commission recommended increasing by approximately 50 percent the maximum amount of matching funds available to qualified candidates. The current maximums were set when the matching funds program was established in 1991 and have never been increased. The current and recommended maximums are identified in the following table.

Maximum Matching Funds Per Candidate		
	Current	Recommended
City Council	\$100,000 in primary \$125,000 in general	\$150,000 in primary \$187,000 in general
Controller	\$267,000 in primary \$300,000 in general	\$400,000 in primary \$450,000 in general
City Attorney	\$300,000 in primary \$350,000 in general	\$450,000 in primary \$475,000 in general
Mayor	\$667,000 in primary \$800,000 in general	\$1,000,000 in primary \$1,200,000 in general

The recommended maximums represent 30.7 to 35.1 percent of the expenditure ceilings that currently apply to matching funds candidates in primary elections. In general elections, they represent 45.8 to 52.6 percent of the expenditure ceilings. The recommended maximums are in keeping with the original ratios of 29 to 30 percent in primary elections and 44 to 45 percent in general elections and will keep pace as the expenditure ceilings increase for CPI.

To fund the matching funds program, the City is required to make a minimum annual appropriation to the Public Matching Funds Trust Fund (the Trust Fund), unless a fiscal emergency is declared. Charter § 471(c). If no changes are made to the matching funds laws, the Ethics Commission anticipates that the Trust Fund will run a substantial surplus for the next 10 years and have a balance of over \$21,500,000 following the 2026 City elections. See Attachment B. This is a far larger balance than any in the Trust Fund's history.

The Ethics Commission projects that the Trust Fund will be able to sustain the recommended 6:1 rate of match and the increased maximums while also maintaining an adequate reserve each year in case of unanticipated costs or reduced appropriations. Its projections are based on historic qualification and distribution rates, historic campaign expenditures, anticipated

appropriations, and anticipated special elections. Outcomes cannot be guaranteed, but the projections are based on conservative assumptions. Taking all the various factors into consideration, the Ethics Commission expects the Trust Fund to have a balance of over \$2,800,000 following the 2026 City elections if the match rate is 6:1 and the maximum matching funds are increased as recommended. *See Attachment B.*

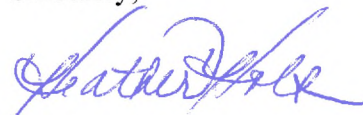
## **F. Conclusion**

The matching funds laws have been different in each of the last three regular City election cycles. This naturally creates a level of instability for candidates, treasurers, and City staff. Other factors, such as the term limits that have been in effect for many years and the change to the election schedule that will take effect in 2020, also affect the nature of certain races. For these reasons, the effects of the latest laws cannot be precisely assessed until they have applied in more elections.

However, the matching funds laws that became effective in 2015 appear to have had positive initial effects, such as increasing the number of small contributions received by qualified candidates and the number of in-City contributions submitted by qualified candidates for match. At the same time, the laws appear to require more staff resources to administer and to create disparity between qualified candidates by matching similar contributions at different rates and creating more work for candidates who received public funds at a slower rate.

The Ethics Commission appreciates your consideration of the City's matching funds program. We will be available during meetings at which the matching funds program is discussed, and we would be happy to answer questions at any time. Please feel free to contact me or Director of Policy Mike Altschule at (213) 978-1960.

Sincerely,



Heather Holt  
Executive Director

### *Attachments:*

- A Matching Funds Program Qualification Criteria*
- B Matching Funds Trust Funds Projections 2016-2026*

Matching Funds Program Qualification Criteria			
	2015	2013	1993-2011
<b>Fundraising Threshold</b>	<p>Must receive from <u>City residents</u>.</p> <p>City Council:</p> <ul style="list-style-type: none"> <li>• \$25,000</li> <li>• Up to \$250 per contributor.</li> </ul> <p>City Attorney and Controller:</p> <ul style="list-style-type: none"> <li>• \$75,000</li> <li>• Up to \$500 per contributor.</li> </ul> <p>Mayor:</p> <ul style="list-style-type: none"> <li>• \$150,000</li> <li>• Up to \$500 per contributor.</li> </ul>	<p>Must receive from <u>individuals</u>.</p> <p>City Council:</p> <ul style="list-style-type: none"> <li>• \$25,000</li> <li>• Up to \$250 per contributor.</li> </ul> <p>City Attorney and Controller:</p> <ul style="list-style-type: none"> <li>• \$75,000</li> <li>• Up to \$500 per contributor.</li> </ul> <p>Mayor:</p> <ul style="list-style-type: none"> <li>• \$150,000</li> <li>• Up to \$500 per contributor.</li> </ul>	<p>Must receive from <u>any person</u>.</p> <p>City Council:</p> <ul style="list-style-type: none"> <li>• \$25,000</li> <li>• Up to \$250 per contributor.</li> </ul> <p>City Attorney and Controller:</p> <ul style="list-style-type: none"> <li>• \$75,000</li> <li>• Up to \$500 per contributor.</li> </ul> <p>Mayor:</p> <ul style="list-style-type: none"> <li>• \$150,000</li> <li>• Up to \$500 per contributor.</li> </ul>
<b>Ballot Requirement</b>	<p>Must be certified to appear on ballot.</p> <p>Must be opposed by a candidate certified to appear on ballot.</p>	<p>Must be certified to appear on ballot.</p> <p>Must be opposed by a candidate certified to appear on ballot.</p>	<p>No ballot requirement.</p> <p>Must be opposed by candidate qualified to receive matching funds or with a certain amount of private funding.</p>
<b>In-district Contributions</b>	Must obtain at least 200 contributions of \$5 or more from district residents.	None.	None.
<b>Personal Funds</b>	<p>May not contribute more than the following (adjusted annually for CPI) to own campaign:</p> <ul style="list-style-type: none"> <li>• \$31,700 City Council</li> <li>• \$126,900 Citywide</li> </ul>	<p>May not contribute more than the following (adjusted annually for CPI) to own campaign:</p> <ul style="list-style-type: none"> <li>• \$31,100 City Council</li> <li>• \$124,500 Citywide</li> </ul>	<p>May not contribute more than the following to own campaign:</p> <ul style="list-style-type: none"> <li>• \$25,000 City Council</li> <li>• \$100,000 Citywide</li> </ul>
<b>Filing Requirements</b>	Must file all campaign statements required by City and state.	Must file all campaign statements required by City and state.	Must file all campaign statements required by City and state.
<b>Debates</b>	Must agree to one debate in primary and two debates in general.	Must agree to one debate in primary and two debates in general.	Must agree to one debate in primary and two debates in general.
<b>Training</b>	Candidate and treasurer must attend training.	Candidate and treasurer must attend training.	Candidate and treasurer must attend training.

Matching Funds Program Qualification Criteria			
	2015	2013	1993-2011
<b>Expenditure Ceiling</b>	<p>May not exceed the following (adjusted annually for CPI) in primary:</p> <ul style="list-style-type: none"> <li>• \$489,000 City Council</li> <li>• \$1,141,000 Controller</li> <li>• \$1,283,000 City Atty</li> <li>• \$2,852,000 Mayor</li> </ul> <p>May not exceed the following (adjusted annually for CPI) in general:</p> <ul style="list-style-type: none"> <li>• \$408,000 City Council</li> <li>• \$856,000 Controller</li> <li>• \$998,000 City Atty</li> <li>• \$2,280,000 Mayor</li> </ul>	<p>May not exceed the following (adjusted annually for CPI) in primary:</p> <ul style="list-style-type: none"> <li>• \$480,000 City Council</li> <li>• \$1,119,000 Controller</li> <li>• \$1,259,000 City Atty</li> <li>• \$2,798,000 Mayor</li> </ul> <p>May not exceed the following (adjusted annually for CPI) in general:</p> <ul style="list-style-type: none"> <li>• \$400,000 City Council</li> <li>• \$840,000 Controller</li> <li>• \$979,000 City Atty</li> <li>• \$2,237,000 Mayor</li> </ul>	<p>May not exceed the following in primary:</p> <ul style="list-style-type: none"> <li>• \$330,000 City Council</li> <li>• \$900,000 Controller</li> <li>• \$1,013,000 City Atty</li> <li>• \$2,251,000 Mayor</li> </ul> <p>May not exceed the following in general:</p> <ul style="list-style-type: none"> <li>• \$275,000 City Council</li> <li>• \$676,000 Controller</li> <li>• \$788,000 City Atty</li> <li>• \$1,800,000 Mayor</li> </ul>
<b>Use of Public Funds</b>	May not use in violation of federal, state, or City law. May not use for fines, penalties, or inauguration expenses.	May not use in violation of federal, state, or City law. May not use for fines, penalties, or inauguration expenses.	May use only for qualified campaign expenditures.
<b>Program Terms</b>	Must abide by terms of program.	Must abide by terms of program.	Must meet all qualification requirements.

### Matching Funds Trust Fund Projections 2016-2026

#### Current Program

Election	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
City Council	\$0	\$643,184	\$0	\$0	\$1,317,316	\$0	\$1,020,449	\$0	\$1,317,316	\$0	\$3,284,039
Controller	\$0	\$267,000	\$0	\$0	\$0	\$0	\$1,134,000	\$0	\$0	\$0	\$267,000
City Attorney	\$0	\$300,000	\$0	\$0	\$0	\$0	\$1,300,000	\$0	\$0	\$0	\$300,000
Mayor	\$0	\$3,468,000	\$0	\$0	\$0	\$0	\$4,935,000	\$0	\$0	\$0	\$3,468,000
Council Special	\$457,663	\$0	\$457,663	\$457,663	\$0	\$457,663	\$0	\$457,663	\$0	\$457,663	\$0
<b>Total Distributions</b>	<b>\$457,663</b>	<b>\$4,678,184</b>	<b>\$457,663</b>	<b>\$457,663</b>	<b>\$1,317,316</b>	<b>\$457,663</b>	<b>\$8,389,449</b>	<b>\$457,663</b>	<b>\$1,317,316</b>	<b>\$457,663</b>	<b>\$7,319,039</b>
<b>Starting Balance</b>	<b>\$7,792,271</b>	<b>\$10,528,672</b>	<b>\$9,217,513</b>	<b>\$12,139,136</b>	<b>\$15,128,345</b>	<b>\$17,326,837</b>	<b>\$20,455,300</b>	<b>\$15,723,698</b>	<b>\$18,997,040</b>	<b>\$21,909,423</b>	<b>\$24,909,423</b>
Appropriation	\$3,248,064	\$3,313,025	\$3,379,286	\$3,446,872	\$3,515,809	\$3,586,125	\$3,657,848	\$3,731,005	\$3,805,625	\$3,881,737	\$3,959,372
Total Distributions	(\$457,663)	(\$4,678,184)	(\$457,663)	(\$457,663)	(\$1,317,316)	(\$457,663)	(\$8,389,449)	(\$457,663)	(\$1,317,316)	(\$457,663)	(\$7,319,039)
<b>Ending Balance</b>	<b>\$10,582,672</b>	<b>\$9,217,513</b>	<b>\$12,139,136</b>	<b>\$15,128,345</b>	<b>\$17,326,837</b>	<b>\$20,455,300</b>	<b>\$15,723,698</b>	<b>\$18,997,040</b>	<b>\$21,485,348</b>	<b>\$24,909,423</b>	<b>\$21,549,755</b>

Appropriation assumes 2% annual growth. Per-election costs based on 2015 average distribution for City Council and historic average distributions for Citywide.

### Matching Funds Trust Fund Projections 2016-2026

#### 6:1 Match with Increased Maximum Payments

Election	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Council	\$0	\$1,200,000	\$0	\$0	\$2,698,000	\$0	\$2,024,000	\$0	\$2,698,000	\$0	\$6,968,000
Controller	\$0	\$400,000	\$0	\$0	\$0	\$0	\$1,700,000	\$0	\$0	\$0	\$400,000
City Attorney	\$0	\$450,000	\$0	\$0	\$0	\$0	\$1,850,000	\$0	\$0	\$0	\$450,000
Mayor	\$0	\$5,200,000	\$0	\$0	\$0	\$0	\$7,400,000	\$0	\$0	\$0	\$5,200,000
Council Special	\$974,000	\$0	\$974,000	\$974,000	\$0	\$974,000	\$0	\$974,000	\$0	\$974,000	\$0
<b>Total Distributions</b>	<b>\$974,000</b>	<b>\$7,250,000</b>	<b>\$974,000</b>	<b>\$974,000</b>	<b>\$2,698,000</b>	<b>\$974,000</b>	<b>\$12,974,000</b>	<b>\$974,000</b>	<b>\$2,698,000</b>	<b>\$974,000</b>	<b>\$13,018,000</b>
<b>Starting Balance</b>	<b>\$7,792,271</b>	<b>\$10,066,335</b>	<b>\$6,129,360</b>	<b>\$8,534,646</b>	<b>\$11,007,518</b>	<b>\$11,825,326</b>	<b>\$14,437,452</b>	<b>\$5,121,299</b>	<b>\$7,878,304</b>	<b>\$8,985,928</b>	<b>\$11,893,666</b>
Appropriation	\$3,248,064	\$3,313,025	\$3,379,286	\$3,446,872	\$3,515,809	\$3,586,125	\$3,657,848	\$3,731,005	\$3,805,625	\$3,881,737	\$3,959,372
Total Distributions	(\$974,000)	(\$7,250,000)	(\$974,000)	(\$974,000)	(\$2,698,000)	(\$974,000)	(\$12,974,000)	\$974,000	\$2,698,000	\$974,000	\$13,018,000
<b>Ending Balance</b>	<b>\$10,066,335</b>	<b>\$6,129,360</b>	<b>\$8,534,646</b>	<b>\$11,007,518</b>	<b>\$11,825,326</b>	<b>\$14,437,452</b>	<b>\$5,121,299</b>	<b>\$7,878,304</b>	<b>\$8,985,928</b>	<b>\$11,893,666</b>	<b>\$2,835,037</b>

Appropriation assumes 2% annual growth. Per-election costs based on historic average distributions for City Council and Citywide.