

CFI

THE
CAMPAIGN
FINANCE
INSTITUTE

AFFILIATED WITH THE GEORGE WASHINGTON UNIVERSITY

May 22, 2003

2003 MAY 23 A 11:29

RECEIVED
FEDERAL ELECTION
COMMISSION
OFFICE OF GENERAL
COUNSEL

EXECUTIVE DIRECTOR
MICHAEL J. MALBIN

TRUSTEES
F. CHRISTOPHER ARTERTON
JEFFREY BELL
J. KENNETH BLACKWELL
BECKY CAIN
ROD CHANDLER
DAVID COHEN
ANTHONY CORRADO
VIC FAZIO
GEORGE GOULD
C. BOYDEN GRAY
KENNETH A. GROSS
RUTH JONES
PHIL NOBLE
TREVOR POTTER

ACADEMIC ADVISORS
JANET BOX-STEFFENSMEIER
JAMES CAMPBELL
ANTHONY CORRADO
DIANA DWYRE
JOHN C. GREEN
GARY C. JACOBSON
ROBIN KOLODNY
RAY LA RAJA
THOMAS E. MANN
MARK J. ROZELL
CLYDE WILCOX

Ms. Mai T. Dinh
Acting Assistant General Counsel
Federal Election Commission
999 E Street N.W.
Washington, 20463

**Re: Comments on Notice 2003-8: Public Financing of Presidential
Candidates and Nominating Conventions**

Dear Ms. Dinh:

The Campaign Finance Institute, a nonpartisan organization conducting objective research on and policy analysis of campaign finance issues, respectfully submits the attached comments on the Notice of Proposed Rulemaking published at 68 *Federal Register* 18484 (April 15, 2003).

In order to be as helpful as possible, we request an opportunity for Steve Weissman, Associate Director for Policy at CFI, to testify at the hearing proposed for June 6.

Sincerely,



Michael J. Malbin
Executive Director
mmalbin@cfinst.org



Steve Weissman
Associate Director for Policy
sweissman@cfinst.org

Attachment

1990 M Street NW
SUITE 380
WASHINGTON, DC 20036
202-969-8890
202-969-5612 FAX

www.CFInst.org
info@CFInst.org

COMMENTS OF THE CAMPAIGN FINANCE INSTITUTE ON NOTICE 2003-8: PUBLIC FINANCING OF PRESIDENTIAL CANDIDATES AND NOMINATING CONVENTIONS

The Campaign Finance Institute appreciates the opportunity to offer comments on a major component of the Commission's proposed regulations, that dealing with the public financing of national party conventions under BCRA and FECA. We do not offer detailed suggestions in this presentation because CFI's Task Force on Financing Presidential Nominations is currently considering such recommendations and plans to issue its public report in July. Instead, we focus on the broad assumptions about political reality that underlie the Commission's proposals. If these premises are solid, the issues for discussion of the Commission's proposals are mostly matters of legal interpretation. But if the assumptions are shaky, the basic thrust of the proposed rules is open to serious question and should be reconsidered.

We are concerned that the rationale for the Commission's current convention regulations and proposals for the future has become outdated, bypassed by unacknowledged political changes. This was true even before BCRA was enacted last year. Contemporary actors in convention financing do not, we think, behave as the Commission's proposals suppose they do. In particular, it can no longer be presumed that private donations to host committees and municipal funds to defray party convention expenses are "undertaken chiefly to promote economic activity and good will of the host city." (See Commission notice in 68 Fed. Reg. 18501.) And permitted civic host committee and municipal fund spending on party convention costs cannot be meaningfully described as "a very narrow exception" to the expenditure limits accompanying federal convention subsidies (68 Fed. Reg. 18501). To the extent that the Commission accepts some or all of our findings, it should, we believe, reconsider its current proposals and bring forward a revised package.

The necessary starting point for analysis of the Commission's rationale is a review of data on convention financing under FECA.

1. The Evolution of Political Convention Financing

The world of convention finance has changed greatly since the Commission elaborated its basic regulatory framework in the late 1970s. Table 1 below emphasizes the most visible development: the rapid rise of mostly private host committee spending to support conventions and how it has come to predominate the federal grant to the major parties. As the last column shows, host committee spending as a percentage of the federal grant to the major parties has risen in an almost unbroken fashion, from 13% in 1980 to an estimated 297-432% in 2004. (The only anomaly in this progression is a big bump in 1992 spending, the result of a unique financing package for the Atlanta Democratic host committee that included receipt and repayment of large loans and almost total dependence on a City hotel tax.)

Table 1: Host Committee and Federal Financing of Major Party Conventions 1980-2000 (in millions of dollars)

Convention			Host Committee Spending	Federal Grant	Total Host Committee & Federal Spending	Host Committee Spending as % of Federal Grants by Convention Year
1980	R	Detroit	.7	4.4	5.1	13%
	D	NYC	.4	4.4	4.8	
1984	R	Dallas	.8	8.1	8.9	19%
	D	San Francisco	2.3	8.1	10.4	
1988	R	New Orleans	1.8	9.2	11.0	132%
	D	Atlanta	22.5	9.2	31.7	
1992	R	Houston	9.9	11.0	20.9	75%
	D	NYC	6.7	11.0	17.7	
1996	R	San Diego	24.7	12.4	37.1	184%
	D	Chicago	21.0	12.4	33.4	
2000	R	Philadelphia	60.0	13.5	73.5	374%
	D	Los Angeles	40.9	13.5	54.4	
2004	R	NYC (est.)	53.0-80.0	15.0	68.0-95.0	297-432%
	D	Boston (est.)	36.0-49.5	15.0	51.0-64.5	

Sources: Host committee spending figures for 1980-96 are derived from the FEC audit reports, and federal grant information is from FEC data. Host committee spending figures for 2000 are derived from the 60-day post-convention reports (as amended) filed with the FEC by the Philadelphia and Los Angeles Host Committees and exclude any subsequently reimbursed deposits or loan payments. 2004 convention figures are estimates based on New York City and Boston Host Committee press reports of their contracts with the parties, the possibility that planned local and state spending may occur independently of the Host Committees, and an anticipated increase in the federal grant due to inflation.

To gain a more comprehensive and sophisticated understanding of how conventions are financed, it is necessary to take account of the separate and substantial role of host city (and related local and state) governments. These agencies are allowed to spend their revenues, directly as well as through host committees, on the same activities as host committees. Charting their total spending over the years is not easy however. There was no federal reporting requirement concerning direct local and state government spending before 1994, and the only information the FEC has made available since are city government letters -- even less detailed than host committee reports -- regarding the 2000 conventions. The FEC Office of Public Records was unable to produce similar required letters for the 1996 conventions although there are indications from press and other reports that they were filed.

On the private side of the ledger, a fuller picture emerges by distinguishing private contributions and by adding information on city-sponsored "municipal funds" through which local businesses and others in the private sector have sometimes contributed to conventions. Again, this task is difficult because there

has been no requirement for federal reporting by these funds -- a gap the Commission proposes to fix in its Notice.

Utilizing FEC and other sources, Table 2 below presents data from 1980 through 2004 on state and local government, private, federal, and total contributions to the major party presidential nominating conventions.

**Table 2: Contributions to Major Party Presidential Nominating Conventions
1980-2004 (in millions of dollars)**

Convention			(1) Local & State Gov't Spending (direct & through host committees	(2) Private Contributions (through host committees & "municipal funds")	(3) Federal Grants to Party Convention	(4) Total Convention Contributions	(5) Private Contributions (2) as % of Federal Grants (3) by Convention Year
1980	R	Detroit ¹	5.2	.7	4.4	10.3	13%
	D	NYC ¹	8.0	.4	4.4	12.8	
1984	R	Dallas ¹	1.3	4.3	8.1	13.7	41%
	D	San Francisco ¹	7.6	2.4	8.1	18.1	
1988	R	New Orleans ²	6.7	1.8	9.2	17.7	19%
	D	Atlanta ³	15.8	1.7	9.2	19.0	
1992	R	Houston	7.3	2.2	11.0	20.5	38%
	D	NYC ⁴	21.1	6.2	11.0	38.3	
1996	R	San Diego ⁵	12.8	18.0	12.4	43.2	155%
	D	Chicago ⁶	15.0	20.0	12.4	47.4	
2000	R	Philadelphia	41.8	20.1	13.5	75.4	208%
	D	Los Angeles ⁷	35.8	36.1	13.5	85.4	
2004	R	NYC ⁸	27.0	53.0	15.0	95.0	297%
	D	Boston ⁸	13.5	36.0	15.0	64.5	

Sources: Except where otherwise noted, the contributions data above is derived from the 60-day post-convention reports (as amended) filed by the host committees with the FEC and excludes any refund or loan receipts. Federal grant information is based on FEC data.

¹ All contributions figures are from Herbert E. Alexander, *Financing the 1980 Election* (Lexington, MA: DC Heath, 1983) 271-82; and Herbert E. Alexander and Brian A. Haggerty, *Financing the 1984 Election* (Lexington, MA: DC Heath, 1987) 296-308.

² Local and state spending is estimated based on New Orleans' total financial commitment for the convention (which was reported to be met) minus any confirmed private receipts. See Associated Press, "Louisiana OKs State Funds for Convention," *Houston Chronicle*, 4 Aug. 1988: A14; Phil Gailey, "G.O.P. Panel Picks New Orleans as the Site for the 1988 Convention," *New York Times*, 20 Jan. 1987: 1A; Colin Flaherty and Jacqueline Landes, "The Conventional Wisdom," *San Diego Online*, 2 May 2003 <<http://www.sandiego-online.com/issues/gop/gotgop7.stm>>.

³ Contributions figures were calculated based on the 1987 year-end report, the 60-day post-convention report, the 1988 year-end report (as amended), the 1989 year-end report, the July 1990 quarterly report, the 1990 year-end report, the October 1991 quarterly report, the 1991 year-end report, the July 1992 quarterly report, the 1992 year-end report, the 1993 year-end report, the 1994 year-end report, and the 1995 year-end report. Reference to numerous additional reports was necessary to incorporate substantial hotel tax revenue received subsequent to the filing of the 60-day post-convention report.

⁴ Local and state spending is from Herbert E. Alexander and Anthony Corrado, *Financing the 1992 Election* (Armonk, NY: ME Sharpe, 1995) 98-9.

⁵ Local and state spending is from Maria L. la Ganga and Tony Perry, "The 2000 Democratic National Convention," *Los Angeles Times*, 2 Mar. 2000, which cites a detailed letter filed by the City of San Diego with the FEC. After substantial investigation, CFI could not find such a letter in FEC public records, but believes it was probably filed and used the *Los Angeles Times* figure. Calculations based upon the San Diego Host Committee's 60-day post-convention report, however, revealed spending of only \$6.6 million. Local and state spending is from Assistant Treasurer, Chicago Host Committee, Personal Interview, 30 Apr. 2003.

⁷ FEC, Revised Post-Convention Statement by the City of Los Angeles for the 2000 Democratic National Convention (Jan. 11, 2001); Phone interview, Jody Yoxsimer, Chief Administrative Analyst for City Administrator's office, City of Los Angeles, May 1, 2003.

⁸ All 2004 convention figures are estimates based on reports of host committee contracts with the parties and anticipated increases in the federal grant due to inflation. See "Boston 2004, Inc. Outreach Plan," *Boston 2004 Convention News*, 2 May 2003 <http://www.boston04.com/pdfs/Outreach_Plan.pdf>; David Saltonstall, "New York to Host 2004 Republican National Convention," *New York Daily News*, 7 Jan. 2003; Timothy Williams, "New York to Host 2004 GOP Convention," *AP Online*, 7 Jan. 2003.

Three important conclusions emerge from this data:

First, as Column 1 shows, there have always been substantial contributions to conventions from the public treasuries of host cities and of related state and local agencies. Donations have generally increased over the years, especially from 1996 on, and larger cities have generally been more generous. At times -- particularly in the early part of the period -- these donations have accounted for more than half of the total contributions. They constituted nearly half of all contributions for the 2000 conventions, but only a quarter of the projected total contributions in 2004.

Second, as Column 2 shows, (overwhelmingly corporate) private donations have taken off in recent years. Never exceeding \$6.2 million for a single convention through the 1992 election (mostly hovering around \$2 million), private contributions soared to approximately \$20 million for each of the 1996 conventions, and also the Republican 2000 convention, and hit \$36 million at the 2000 Democratic conclave. Private financing planned for the 2004 conventions amounts to \$53 million for the Republicans and \$36.5 million for the Democrats. Overall, private contributions have increased from \$8.4 million in 1992 to \$56 million in 2000 and a projected \$89.5 million in 2004. As a percentage of the federal grant to the major parties, private contributions have risen steadily from 13% in 1980 to a projected 297% in 2004. (See Column 5.) Although private donations accounted for an average of only 13% of total convention contributions before 1996, they averaged 37% in 1996 and 2000, and are projected to average 56% in 2004.

Third, combining annual data for both parties' conventions from Column 4 shows that total contributions to fund the major party conventions tripled between 1992 and 2000, from \$59 million to \$161 million. Column 3 makes clear that increases in the federal grant (which is adjusted for inflation only) accounted for little of this financial explosion. Thus, the parties themselves have hiked the level of non-federal private and public convention funding. By soliciting higher and higher

host city bids for private and public support of their conventions, the parties have been able to vastly expand their convention activities.

In sum, the financing of the major political party conventions has changed dramatically over the last two decades. Total convention-related private and public contributions have tripled since 1992 alone. Over the years, conventions have become substantially privately financed through host committees (and, to a much lesser extent, through municipal funds). Private money grew from 38% of the federal grant as late as 1992 to 208% in 2000 and a projected 297% in 2004.

Questionable Assumptions I: Private Contributions to Host Committees (or Municipal Funds) Are Intended to Further Host City Commerce.

In its Notice of Proposed Rulemaking (NPRM), the Commission states that its convention financing proposals are "consistent with the Commission's historical treatment of host committees." As the NPRM explains, this tradition has been based on the assumption that private contributions "are presumably not politically motivated but are undertaken chiefly to promote economic activity and good will of the host city." (68 Fed. Reg. 18502, 18501.)

But the recent jump in private donations raises the question of whether this presumption should still hold. Based upon our review of FEC host committee reports for conventions from 1988-2000, AT&T, for example, provided approximately \$100,000 in 1992 and \$1,000,000 in 2000 to each convention's host committee. Similarly, Amway gave the Republican New Orleans Host Committee \$30,000 in 1988 and the Republican San Diego Host Committee \$1,320,000 in 1996. Were these ten and forty-fold increases based on the companies' changing calculations of the benefits of conventions for its business in host cities (and their increased ability to factor in longer range economic effects of the convention under post-1994 regulations), or on their changing evaluations of what would appeal to or satisfy national and other political parties and elected officials?

Moreover, in 1994, the Commission dropped its previous restriction that only "local, retail" businesses could make donations to host committees to defray convention expenses and that the amounts contributed had to be proportional to anticipated commercial returns during the life of the convention. (Compare 59 Fed. Reg. 33606, 33610, 33615, 33623, with 44 Fed. Reg. 63041-63042.) Fifteen years earlier, the Commission had established this restriction as "necessary to ensure that such donations are commercially, rather than politically motivated" (44 Fed. Reg. 63038). However, after 1994, "local" business (which included offices, affiliates, and franchises of national organizations) could donate without reference to any defined local economic interests (retail or otherwise).

The apparent impact of this regulatory change was immediate, as CFI's analysis of FEC host committee reports shows. In 1992, no private donor to a host committee gave more than \$501,000 and only six donated more than \$200,000.¹ But in 1996, two donors gave in the \$2.4-2.7 million range, five more gave between \$500,000 and \$2.4 million, and a total of twenty-three contributors gave at least \$200,000.²

Have the onrushing new large corporate donors to conventions -- Ameritech, Microsoft, Motorola, General Motors, etc. -- been as interested in promoting host city commerce as the more locally rooted utilities, hotels, soda bottling companies, and real estate and other firms that were prominent in financing earlier host committees? Or are the newcomers primarily interested in pursuing political access to further their legislative, regulatory, and commercial agendas with national, state, and other local governments -- as they have already done through campaign contributions and lobbying?

In order to further explore whether the earlier presumption that private donations to host committees are not politically motivated still holds today, CFI staff interviewed two leading party figures associated with past and recent convention financing. It also examined press reports and other analyses regarding fundraising practices, donors' expressions of purpose, and the changing environment of conventions. We conclude that it is no longer possible to presume that motivations for giving are nonpolitical and chiefly to advance local commerce. We also suggest that political motivations for contributing are likely to grow, because BCRA now cuts off virtually all the other means for parties and federal candidates to solicit soft money for campaigns.

A. Party and Elected Officials Themselves Help to Raise Host Committee Funds

National and state party officials, presidential candidates, and state and local party leaders and elected officials have played substantial roles in raising host committee money for recent conventions. In 1996, a \$5 million shortfall in the San Diego Host Committee's budget caused "a worried [Republican presidential candidate Robert] Dole camp to tap its donor list."³ On the Democratic side, Chicago Mayor Richard Daley solicited Host Committee contributions from local law firms.⁴ In June 2000, the new Democratic National Committee (DNC) Chairman, Terry McAuliffe, was drafted to raise up to \$7 million for the Los Angeles Host Committee shortly before the convention. There was also a major fundraising breakfast with the sitting Democratic President, Bill Clinton, at Los

¹ See New York '92 Host Committee 60-day post-convention report (as amended); Houston 1992 Host Committee 60-day post-convention report (as amended).

² See Chicago '96 60-day post-convention report (as amended); San Diego Host Committee 60-day post-convention report (as amended).

³ Leslie Wayne, *The Business of Politics*, "Corporations Pour Money into the Political Conventions," *New York Times*, 25 July 2000: C1.

⁴ Paul Merrion, "'96 Convention Countdown," *Crain's Chicago Business*, 21 Aug. 1995.

Angeles Mayor Richard Riordan's home.⁵ Meanwhile, in Philadelphia, state Republican officials, led by Governor Tom Ridge and aided by national party fundraisers, worked to overcome a major Republican host committee shortfall.⁶ Finally, in 2004, Boston won the 2004 Democratic convention partly by producing over \$20 million in early private funding commitments -- pledges largely solicited by Senator Edward Kennedy (D-MA) and Boston Mayor Thomas Menino.⁷

B. Most Host Committee Fundraising Is Conducted by Partisans Associated with the Convention Party

However formally nonpartisan the host committee is, informally there is an inevitable partisan tilt to its appeals, because most of the leading private sector fundraisers are partisans associated with the convention-bound party. Jack Ford, a veteran Republican fundraiser and son of the former President, headed up the San Diego Host Committee for the 1996 convention.⁸ The Committee's leading fundraiser, businessman Alan Parsky, was a former Ford administration official, a Republican Governor Pete Wilson's recent nominee for the University of California Board of Regents, and a significant national GOP contributor.⁹ Businessmen Eli Broad, David Geffen and Ron Burkle, all major national Democratic donors, were three of the four co-chairs of the Host Committee for the Democratic convention in 2000,¹⁰ while David F. Girard-DiCarlo, former adviser to Pennsylvania Republican Governor Tom Ridge, co-chaired the Philadelphia 2000 Host Committee.¹¹ For 2004, the Boston Host Committee is led by Boston Democratic Mayor Menino's former Deputy Chief of Staff, while the Committee's leading private sector fundraiser has been businessman and national Democratic

⁵ Mike Allen, "L.A. Convention Committee Courting Cash," *Washington Post*, 10 June 2000: A8; Glen Johnson, "Pledges Boost Hub Bid on DNC," *Boston Globe*, 10 Nov. 2002: A1; David Karp and Bill Adair, "GOP Money Men Get Ready to Roll," *St. Petersburg Times*, 8 Dec. 2002: 1A; Merrion.

⁶ Jane M. Von Bergen, "Costs for a National Party Add Up, Philadelphia 2000's Report on Republican Convention Tells a \$66 Million Story," *Philadelphia Inquirer*, 22 Oct. 2000: E01.

⁷ Stephanie Ebbert and Ross Kerber, "Many Convention Donors Have Interests Before City," *Boston Globe*, 11 Dec. 2002: A1; Ross Kerber, "On Campaign Finance, A Debate About Law's Reach Corporate Pledges for DNC Convention Provoke an Outcry" *Boston Globe*, 5 Dec. 2002: A3; Ellen J. Silberman, "Ethics Panel Asked to Probe Menino over DNC 'Conflict,'" *Boston Herald*, 12 Dec. 2002: 024; Ellen J. Silberman, "Convention Donors Have Business with City," *Boston Herald*, 11 Dec. 2002: 002.

⁸ William Claiborne, "GOP Convention City San Diego Looks to Strut its Stuff on National Stage," *Washington Post*, 14 July 1996: A17.

⁹ Tom Blair, et al., "The San Diego 50 People to Watch in 1996," *San Diego Magazine*, Jan. 1996; Claiborne A17; Colin Flaherty and Jacqueline Landis, "The Conventional Wisdom," *San Diego Online*, 2 May 2003 <http://www.sandiego-online.com/issues/gop/gotgop7.stm>; and, for Parsky's federal donations, see <http://www.opensecrets.org>.

¹⁰ Wayne C1; Across the Nation, "Developer Gives \$1 Million for Democrats' Convention," *Seattle Times*, 3 Apr. 2000: A4; Jane M. Von Bergen and Nita Lelyveld, "Two Answers to Every Convention Question," *Philadelphia Inquirer*, 29 Mar. 1999: A01. All three businessmen's federal donations can be found at <http://www.opensecrets.org>.

¹¹ Von Bergen and Lelyveld, "Two Answers..." A01.

donor Alan Leventhal.¹² In New York, Lewis Eisenberg recently stepped down as Chairman of the Republican National Finance Committee to become Host Committee Co-Chairman, alongside former Republican Mayor Rudolph Giuliani, with responsibility to "oversee the planning and fundraising for the 2004 convention."¹³

C. Major Host Committee Donors Indicate Their Giving is Largely Focused on Influencing Political Decision Makers (Including Attracting Non-Host City Business)

While representatives of host committees generally assert that private giving is purely to promote civic commerce (the official purpose for such committee spending under Commission regulations), representatives of many of the largest corporate donors publicly acknowledge a broader set of reasons. Even with the political sensitivity surrounding efforts to mobilize government support, they place their major emphasis upon influencing the political process (including promoting their products to officials who may purchase them). The following public statements were made at the time of the 2000 conventions:

- Rick Miller, Public Relations Manager for Microsoft (which gave \$1 million to each host committee in 2000¹⁴), observed, "We believe in the political process and we think the nominating conventions are an important part of electing our leadership in this country and a process we want to be a part of. . . . I think people know that and appreciate our support." Microsoft's aid was also seen as a chance to "help these host committees showcase their cities and put on the best conventions possible," and to show off Microsoft's latest software. Miller acknowledged, "Certainly there is an overarching government affairs objective to our involvement in the political process and this is certainly a part of that. . . . As Washington pays more attention to the high tech industry we -- the industry as a whole and certainly Microsoft as an industry leader -- are also becoming more aware of and involved with the political process."¹⁵

¹² Corey Dade, "Local Agencies \$17.5 M Short for Convention, Mayor Eyes Private Sector in Meeting DNC Deadline," *Boston Globe*, 15 Mar. 2003: A1; Silberman, "Ethics Panel Asked to Probe Menino over DNC 'Conflict'" 024; Silberman, "Convention Donors Have Business with City" 002. Leventhal's federal donations can be found at <http://www.opensecrets.org>.

¹³ Office of the Mayor of New York, "Republican National Leader Lewis M. Eisenberg to Head New York's Preparations for the 2004 Republican Convention," Press Release, 28 Mar. 2003.

¹⁴ These and other contribution figures cited in this section are from Center for Responsive Politics, News Alert July 10, 2000, "GOP Convention Donors" and "Democratic Convention Donors," at www.opensecrets.org/alerts/v5/alert5.

¹⁵ Mike Allen, "Corporate Cash Pours In to Conventions; Watergate-Inspired U.S. Funding Has Become a Relative Pittance," *Washington Post*, 28 July 2000: A16; Josh Goldstein and Jane M. Von Bergen, "Conventions Rake in Business Donations Some Firms Give to Democrats and the GOP. The Support Id Driven by Civic Pride or Strategy," *Philadelphia Inquirer*, 26 Apr. 2000: A01; John Hendren, "Big Corporations Pay Big Chunk of the Bill for Party Conventions," *Seattle Times*, 14 Aug. 2000: A1.

- Brian Roberts, Chairman of Comcast and Co-Chair of Philadelphia Host Committee (to which his company donated \$1 million) made this observation about Comcast's overall involvement in the Republican convention, held at the corporation's First Union Center: "These are people who have to make important decisions, and they are coming to our house. This exposure may enhance our own credibility when we are explaining new technologies, and it's a unique, one time opportunity for elected officials to see Comcast. Policymakers can meet us first and remember our names, our faces, and our products. And, for Philadelphia, it's our Super Bowl, our Olympics."¹⁶
- Tony Celluci, Republican Convention Director of AT&T (another \$1 million donor to both host committees), reflected, "Every four years, we have the opportunity to showcase our technological prowess before an important audience."¹⁷
- Tad Segal, Director of Corporate Public Affairs for United Parcel Service (which gave \$1 million to each host committee), explained that the draw was "brand exposure and business development."¹⁸
- Hugh Burns, Director of Public Relations for Lockheed Martin (which donated \$100,000 to each host committee), said the contributions were "part of good government. . . . We support the democratic process."¹⁹
- Tim Neale, Aviation Safety Communications Manager for Boeing (which gave \$100,000 to each committee), explained, "We're active politically . . . because the government does make a lot of decisions that are important to our future. And they are not just important to the Boeing Corporation, but they are important to the livelihoods of a lot of people that we employ."²⁰

Furthermore, in a March 1999 private communication to a "high level Fortune 100 corporate executive" -- quoted by two judges in the recent Federal District Court ruling in *McConnell v. FEC* -- members of the company's government affairs staff were blunt about the political motivations for giving soft money for conventions:

[Th]e next Administration will also be determined in this election cycle. Consequently, we will be asked to use soft money contributions to support both national parties at an even greater

¹⁶ Leslie Wayne, "The 2000 Campaign: The Republican Convention: Telecommunications Show May Eclipse G.O.P.," *New York Times*, 2 July 2000: 12.

¹⁷ Wayne 12.

¹⁸ Allen A16.

¹⁹ Allen A16.

²⁰ Hendren A1.

level than during a non-Presidential year. Funding for the requests should be anticipated in this year's budget and contributed when appropriate to foster the development of relationships with the key officials of the next Administration.²¹

D. Political Access for Host Committee Donors Has Recently Become a Major Convention Feature

During recent conventions, the parties have provided major host committee donors with privileged access to elected officials at the convention. For example, major contributors to the Chicago '96 Host Committee received "'first rights' to choose what delegate events or other aspects of the Democratic convention they wished to sponsor, such as VIP hospitality areas."²² At the Republicans' Philadelphia conclave, \$100,000 donors "could receive a 'VIP golf outing,' a reservation at a choice hotel, and the right to host a reception for a state delegation, which typically included the state's governor and congressional members." And \$1 million donors were treated to "exclusive dinners with Washington dignitaries and face time with the presidential nominee."²³

This development is just one part of the broader transformation of the convention environment to emphasize social interaction between large donors and party leaders, including elected officials. "Just imagine one big reception," said a Washington lobbyist describing the Republican National Convention.²⁴ Since the large host committee donors are typically also major contributors to candidates and parties, and their representatives at the convention are busy fêting and being fêted by the party's leaders, it would be surprising if the purely "civic" aspects of host committee giving were not significantly attenuated.

E. Party Veterans See Political Motivations for Giving to Host Committees at Least as Important as Civic Ones

In CFI interviews, two leading party figures, who have been deeply involved with conventions over at least the last two decades, acknowledged the critical role of politics in contemporary convention giving. According to Richard Davis -- who played leading official roles in the management of the 1984, 1988, and 1996 Republican conventions -- "the primary reason for giving to host committees is political rather than civic and commercial. . . . There was some civic pride motivation for giving in Detroit in 1980 and Dallas in 1984. But I think this has

²¹ *McConnell v. FEC, et al.*, <<http://www.dcd.uscourts.gov/mcconnell-2002-ruling.html>> at 170-72, 237 (D.D.C. May 1, 2003) (Kollar-Kotelly, J., mem. op.); *id.* at 237 (Leon, J., mem. op.).

²² Merrion.

²³ Karp and Adair 1A.

²⁴ Richard Whittle, "For Lobbyists a Political Convention Is the Super Bowl of Schmooze," *Dallas Morning News*, 3 Aug. 2000. See also Bruce Nichols, "Many Cities Decline to Bid on Costly Political Conventions," *Dallas Morning News*, 3 June 2002 ("The conventions... have become places where corporations, labor unions and other interest groups spend money to entertain party leaders and elected officials.").

been drowned out since by the demand for bigger and bigger donations.”²⁵ Don Fowler, who chaired the DNC in 1995 and 1996 and was officially involved in managing the 1980, 1988, 1992 and 1996 conventions, maintained that private donors have “both political and civic promotion motives. I can’t say if it’s 50-50 or 60-40, but it’s both.” Furthermore, he stated that “political activism is a greater part of the motivation to be involved than it used to be.”²⁶

F. Political Incentives for Contributing to Host Committees Are Likely to Increase in the Post-BCRA Period

Whatever political access or influence large donations to host committees (and municipal funds) for presidential conventions may have generated in the past, party professionals and host committee fundraisers agree that it was less than the favor spawned by similar “soft money” donations to parties and candidate committees. The parties were more grateful for soft money, because it could be used for almost anything of the party’s choosing -- not just conventions -- and was largely solicited by officeholders and party leaders. Under BCRA, however, parties and candidates may no longer benefit politically from these unlimited corporate, union, and other contributions -- except for contributions supplied to host committees and municipal funds. It is therefore likely that such convention donors will receive increased access and attention from politicians, reinforcing the political, as opposed to civic, motivations for giving.

2. Questionable Assumptions II: Defrayal of Convention Expenses by Privately Financed Host Committees (and Municipal Funds) Is a “Very Narrow Exception” to Convention Committee Spending Limits

The Commission’s proposals to more precisely define and limit the areas of host committee and municipal fund spending are designed to “ensure” that non-federal funds are not spent “on behalf of convention expenses beyond the ‘very narrow’ host committee/municipal fund exception to the convention committee’s expenditure limit” (68 Fed. Reg. 18504). However, the NPRM-recommended changes are “based substantially” on the current regulations, to which they would add “clarity” and “specificity” (partly through codifying previous Commission auditing decisions) (68 Fed. Reg. 18509). The Commission thereby assumes that the regulatory status quo is basically consistent with historical treatment of this spending as a “very narrow exception” to the federal ceiling.

Again, the jump in private contributions raises a serious question about the applicability of these historical assumptions. As described earlier, private contributions to host committees and municipal funds rose from 38% of the federal convention grant in 1992 to 155%, 208%, and 297% in 1996, 2000, and

²⁵ Richard Davis, CFI staff interview, 22 Apr. 2003.

²⁶ Don Fowler, CFI staff phone interview, 18 Apr. 2003.

2004 (projected), respectively. It therefore seems that it is the party's spending of federal funds that is a "narrow exception" to host committees' and municipal funds' subsidization of convention expenses, rather than vice versa.

What specific activities have been undertaken through this vastly increased private funding? Is it possible that they relate mainly to "promoting the city and its commerce," a host committee function the Commission previously distinguished from its other "narrow" role of "defraying convention expenses"? Once again, limits to FEC disclosure complicate the task of obtaining adequate information. Disclosure forms request purely open-ended descriptions of the purposes of itemized expenditures by host committees. Host committees are not required to subsume these expenditures under the FEC's regulatory purposes for permitted spending, such as "administrative expenses," "construction and convention-related services related to the convention center" (including "use of an auditorium or convention center," "office equipment," etc.), or "welcoming the convention attendees." Therefore, our analysis is, by necessity, based on the often fragmentary and mixed descriptions of purpose supplied by the host committees themselves. The FEC's addition of specific "category" codes on its latest FEC 4 forms helps little, since most of the codes are irrelevant to host committees (e.g. "polling," "campaign event expenses," "political contributions," and "advertising expenses.")

A rough indication of contemporary activities is provided by Tables 3A and 3B below which categorize 2000 convention host committee expenditures.

**Table 3A: Expenditures of Philadelphia 2000 Host Committee
(By Category)**

1 : Administrative	\$6,517,000
• Host Committee Meetings, Transportation, Golf Venue Deposits	
• Staff Housing, Salaries	
• Photocopying, Printing	
• Office Expenses	
• Fundraising Expenses	
• Legal/Accounting Consulting Services	
• Postage, Overnight Delivery	
• Bid Preparation, Site Selection	
2 : Direct Convention Activities	\$24,174,000
• Convention Facility, PoliticalFest Production, Consulting, Labor, Rental	
• Lighted Boat Parade	
• Construction	
• Credentialing	
• TV production, Media Guide	
• Radio System	
• Arrival/Departure Ceremonies	
• Convention Appreciation Day	
• Architectural Services	
• Comcast Spectacor	
• Telecommunications Infrastructure	
3 : Computer Equipment, Consulting, Software	\$3,979,000
4 : Volunteer Expenses	\$770,000
5 : Security	\$13,366,000
6 : Convention Transportation	\$6,954,000
7 : Parties/Receptions	\$731,000
8 : Media/Public Relations	\$1,578,000
9 : Miscellaneous	\$1,040,000
• Insurance	
• Youth Convention	
• Other	
TOTAL:	\$59,109,000

Source: Philadelphia 2000 60-day post-convention report (as amended).

**Table 3B: Expenditures of LA Host and LA Convention 2000 Host Committees
(By Category)**

1 : Administrative	\$8,085,000
• Airfare, Travel Expenses	
• Printing, Mail	
• Office Space, Supplies, Phones, Furniture	
• Staff Salaries, Executive on Loan, Payroll Taxes	
• Consulting, Fundraising, Legal/Administrative Fees/Services	
• "Expenses" (employees)	
• Employee Insurance	
• Food and beverages (generic)	
2 : Direct Convention Activities	\$26,238,000
• Electricity	
• Technical Goods/Services	
• Signs, Decorations	
• Arena	
• Communications Equipment/Support	
• Production Infrastructure	
• TV Engineering/Design, Videos, Transcripts	
• Construction Services	
• Equipment Rental	
3 : Computer Equipment, Consulting, Software	\$1,908,000
4 : Volunteer Expenses, Training	\$116,000
5 : Security	\$132,000
6 : Convention Transportation, Parking	\$34,000
7 : Parties/Receptions	\$1,043,000
• Delegate Receptions	
8 : Media/Public Relations	\$2,089,000
• Advertising	
• Media Reception	
9 : Miscellaneous	\$871,000
• Insurance	
• Welcome Buttons	
• Visitors Guide	
• Merchandise Products	
Total:	\$40,516,000

Sources: LA Convention 2000 and LA Host 2000 60-day post-convention reports (as amended).

It is evident that these committees have progressed far beyond the purely local commerce promotion activities -- such as: small-scale welcoming parties, information booths, and downtown shuttle services -- that characterized their efforts in the early 1980s. The overwhelming majority of private funds was devoted to defraying expenses more directly associated with the convention's business. In each city, the largest category of spending consisted of about \$25 million for what we group as "Direct Convention Activities." These constituted the very infrastructure of the meetings: construction, utilities, communications, TV and other productions, signs, credentialing, arrival/departure ceremonies, and so on. (Much of the substantial \$1.9 to 4.0 million for "Computers" probably falls under this rubric as well.) Administrative expenses -- in the \$6.5 to \$8.1 million range -- were considerable. Both cities' committees also spent significantly on media/public relations and parties/receptions. Finally, Philadelphia Host Committee spent its second and third largest amounts on security and transportation (reflecting the City Government's decision to channel such spending through the Host Committee), whereas the City of Los Angeles accounted for these services directly.

This data makes clear that the main dynamic behind the convention spending explosion has not been increased civic promotion, but rather unbridled party competition to present presidential candidates in the most attractive production possible, in an effort to overcome lagging media and public attention to conventions. Due to the increasingly "front loaded" presidential primary system, the convention has lost its function and allure as a theater of candidate choice. Thus, coverage by the major television networks has declined from 12 hours a week in 1984 to 5 hours a week in 2000. And since 1988, average prime time ratings have declined from 19% to 13% of television households.²⁷

What has been the parties' response to this problem? "The convention has become a four-day testimonial designed to cast the winner in the strongest possible light," writes one noted political scientist.²⁸ Democrat Don Fowler observes, "Conventions used to be a way of selecting, inspiring enthusiasm about and defining the candidate. Now directors, speechwriters, coaches, makeup, lighting, and design people are used to build the candidate politically and put an American flag behind it."²⁹ And Republican Richard Davis notes, "You spend \$10 million to build out a hall to accommodate the networks, pay for other things outside the halls, put up huge tents, press support, corporate parks."³⁰

Fowler and Davis also emphasize that much of the "sumptuousness" and "extravagance" of modern host committee entertainment is focused on a wide range of donors including those to the host committee.³¹ This includes creating

²⁷ Thomas E. Patterson, *The Vanishing Voter: Public Involvement in an Age of Uncertainty* (New York: Alfred A. Knopf, 2002) 118-19.

²⁸ Patterson 118.

²⁹ Fowler.

³⁰ Davis.

³¹ Davis; Fowler.

and renovating comfortable skyboxes in the convention hall, helping finance elaborate delegate receptions, and fêting donors.

Specific Commission decisions (which would be codified under the proposed regulations) have contributed somewhat to the transformation of the "very narrow exception." The Commission has increasingly allowed host committees to finance expenditures in areas where their permitted functions overlap with those of convention committees or where serving a distinct host committee function also serves another distinct convention function. Overruling auditor and general counsel recommendations regarding 1996 convention spending, the Commission, mainly by very close votes, permitted host committees to largely subsidize television production of the party "messages" and pay for color-coded credential badges and an electronic voting tabulation system.

Under either the current or proposed regulations, party competition and donor cultivation seem likely to lead to a continuation of recent spending trends. For example, host committees have begun to invest heavily in Internet production/communications and elaborate "welcoming" events that go beyond promoting civic commerce, such as the Philadelphia Republicans' 2000 "Lighted Boat Parade and Fireworks" and "PoliticalFest" (the "World's Fair of Politics").

3. Conclusion

Although CFI is not submitting specific recommendations at this time given that such recommendations are currently under considered by our Task Force on Financing Presidential Nominations, we are convinced that the foundation of the Commission's current and proposed convention regulations is faulty. We therefore urge the Commission to take whatever time is necessary to reconsider its approach and to revise its proposals. Our critique is based on changes in political behavior that have caused the assumptions made by the Commission in interpreting FECA to become outdated. It is not primarily based on BCRA. However, we also present evidence that the current approach to convention regulations could significantly weaken BCRA's statutory ban on national party soft money.

Finally, as the Commission ultimately approaches the relevant substantive issues, it must improve its disclosure practices -- otherwise, both the Commission and the general public will have unnecessary difficulty in understanding the financing of national party conventions. In particular, we have pointed to the need for:

- local and state governments to report in more detail about their direct expenditures and for such reports to be publicly available;
- privately sponsored municipal funds to file disclosure reports similar to those of host committees, as the Commission suggests;

- host committees to include, in their disclosure reports, summary information distinguishing between private and local/state government contributions; and
- host committees, municipal funds, and local and state governments disclose their itemized expenditures in terms of the categories of permissible spending found in Commission regulations.