COMMISSION DESIGNATES ACTING GENERAL COUNSEL

On March 10, 1987, the Commission designated Lawrence M. Noble, FEC Deputy General Counsel, as the agency's Acting General Counsel. The former General Counsel, Charles N. Steele, resigned in March to accept a position as General Counsel for a nonprofit organization. (For more information on the resignation, see page 1 of the March 1987 Record.)

PUBLIC HEARING ON BANK LOAN RULES CANCELED

On March 12, 1987, the Commission announced in the Federal Register that the agency had canceled a hearing on proposed revisions to its rules governing bank loans made to candidates and political committees. 11 CFR Part 100. In a notice published in the Federal Register on January 22, 1987, the Commission had scheduled the hearing for March 11, 1987. 52 Fed. Reg. 2416. Since, however, the Commission received no requests to appear at the hearing by the February 23 deadline, the agency canceled the hearing.

A summary of the bank loan issues appeared on page 2 of the February 1987 Record.

DELEGATE SELECTION RULES: NOTICE OF PROPOSED RULEMAKING

On March 4, 1987, the Commission published a notice in the Federal Register which sought comments on proposed revisions to its regulations governing contributions and expenditures made in connection with the Presidential delegate selection process. 11 CFR 110.14. In the notice, the agency also announced that it planned to hold a public hearing on April 22, 1987, to consider the proposed revisions and related issues. See 52 Fed. Reg. 6590.

Comments on the notice of proposed rulemaking should be submitted in writing to Ms. Susan E. Propper, Assistant General Counsel, by April 3, 1987. Those interested in testifying at the public hearing should so indicate on their written comments. Ms. Propper may be contacted at: Federal Election Commission, 999 E Street, N.W., Washington, D.C. 20463; or by calling 376-5690 or toll free 800/424-9530.

The Commission's regulation of the delegate selection process stems from its long-standing view that funds received to further the selection of a delegate are contributions and expenditures made to influence a federal election (i.e., a Presidential nominating convention or a primary election held to select delegates). The revisions proposed in the notice distinguish between individual delegates and delegate committees. The continued on p. 2

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proposed revisions to the regulations are summarized below.

The Commission is also seeking comments on several issues concerning affiliation between delegate and Presidential committees and activities conducted by multicandidate and draft committees. (See below.) However, the Commission has not yet published proposed rules to address these issues.

Affiliation Between Delegate Committee and Presidential Principal Campaign Committee (Issue One)

Under the Act and FEC Regulations, affiliated committees are subject to a single contribution limit on both contributions they make and contributions they receive. Committees are considered affiliated if they have been established, financed, maintained or controlled by the same person or group of persons.*

In the delegate selection process, some contact between individuals seeking selection as delegates and a Presidential candidate's authorized committee(s) is necessary. (For example, the Presidential candidate's committee may advise delegates on how to comply with the federal election law.) Several FEC compliance matters** have, however, raised issues concerning contacts that could be viewed as going beyond this necessary interchange to indicate affiliation between delegate committees and a Presidential campaign. While the Commission wishes to continue allowing some cooperation between a Presidential candidate's authorized committees and the delegate committees supporting the candidate, the agency asks:

- What circumstances indicate per se affiliation, or result in a presumption of affiliation, between a delegate committee and a Presidential candidate's authorized committee(s)?
- What types of interaction between a delegate committee and a Presidential candidate's au-

*The Commission's affiliation rules are set forth at 11 CFR 110.3.

**MURs 1667 and 1704 (1984).

Role of Multicandidate Committee Founded by Potential Candidate (Issue Two)

Political committees and unregistered organizations have already begun engaging in activities which anticipate the selection of delegates for Presidential nominating conventions in 1988. In this regard, this notice of proposed rule making seeks comments on issues raised by the activities of multicandidate committees founded by individuals who may become Presidential candidates, i.e., those who may seek their respective parties' Presidential nominations.

In AO 1986-6, the Commission examined the extent to which a multicandidate committee established by an individual could encourage individuals to seek selection as precinct delegates. (At the time, the committee's founder, a federal office holder, was not considering a Presidential candidacy.) The Commission concluded that the multicandidate committee's proposed activities, by themselves, would not constitute "contributions" or "expenditures" for the purpose of influencing the nomination or election of either the committee's founder or any other candidate. Therefore, payments for the activities would not have to be allocated to, nor would they trigger, any candidacy.

Current FEC rules do not address all the issues raised by this advisory opinion or by the delegate selection process generally. The Commission therefore seeks public comments on a full range of issues related to the role of the multicandidate committee in the delegate selection process.

- Should the regulations define more precisely when specific activities are part of the delegate selection process governed by the rules?
o Should expenditures made by a multicandidate committee (established by an individual who may later become a Presidential candidate) be chargeable, at a later time, to the Presidential candidate's expenditure limits, if that individual does in fact become a candidate?
o Should activities engaged in by the multicandidate committee during the delegate selection process be viewed as testing-the-waters activities on behalf of the committee's founder or as campaign activities, subject to limits? (In AO 1985-40, for example, the Commission permitted a multicandidate committee to undertake certain activities to assist the testing-the-waters efforts of an individual closely identified with the committee.)

Role of Draft Committee (Issue Three)

A draft committee is organized to gain enough grass roots support for an individual to influence his/her decision to become a federal candidate. Some courts have said that draft committees are not considered political committees, but that they are subject to the Act's reporting requirements. If, however, a draft committee becomes involved in the selection of delegates who support its proposed candidate, such activities may go beyond the narrow range of permissible activities, as defined by the courts. The Commission therefore solicits comments on draft committee activities.
o If a draft committee recruits and assists delegates committed to an individual who later becomes a publicly funded Presidential candidate, would the draft committee's contributions and expenditures for this activity be chargeable to the candidate's expenditure limits?
o How would a disavowal by the potential candidate affect the above situation?

Delegate Selection Rules: Proposed Revisions

Delegates are not considered "candidates" under the federal election law. Therefore, donations to them do not count against the donor's limits for a candidate, and they are not reportable by the delegate. (They do, however, count against an individual donor's annual $25,000 contribution limit, and they are subject to the contribution prohibitions.) By contrast, delegate committees that qualify as political committees are subject to the same registration and reporting requirements and contribution limits as other political committees.

The suggested delegate revisions reorganize current language in order to clearly distinguish between the rules governing individual delegates and those affecting delegate committees. Additionally, the Commission seeks comments on a new provision and on issues raised by "dual purpose" communications.

Contributions and Expenditures in the Delegate Selection Process. A new provision (110.14(c)) makes clear that funds received, or disbursements made, for the purpose of furthering the selection of delegates to a national nominating convention constitute election influencing "contributions" or "expenditures." The new provision follows current 110.14(g) in making two exceptions to this rule: a delegate's fees for ballot access as a delegate and administrative expenses incurred by state parties in connection with delegate selection activity would be exempt from the definitions of "contribution" and "expenditure."

"Dual Purpose" Communications. Under the current rules, delegates and delegate committees may make payments for campaign materials that advocate the delegate's selection and also refer to a Presidential candidate. (These provisions are based on the so-called "coattail" provisions of 2 U.S.C. §431(8)(B)(xli).) Disbursements for these materials are not considered contributions to, or expenditures by, the Presidential candidate, provided: 1) the materials are used in connection with volunteer activities and 2) the disbursements are not made to pay for general public communications or political advertising. Only delegate committees—not individual delegates—are required to report such expenditures.

If, however, these expenditures are made for public political advertising, the current regulations may require the delegate or the delegate committee to consider the portion of the ad which benefits the Presidential candidate as an independent expenditure or an in-kind contribution, depending on the circumstances of the expenditure.

The proposed rules would clarify the distinction between "dual purpose" payments made by delegates and those made by delegate committees. The proposed rules would apply to dual purpose communications that refer to, or provide information on, Presidential candidates or candidates for any other public office (federal, state or local).

The Commission seeks comments on several questions related to dual purpose communications.
o Should a dual purpose communication by a delegate committee automatically be considered either a contribution in-kind to, or an independent expenditure on behalf of, the candidate referred to in the communication, even if the communication is not made through general public political advertising?
o Should lack of coordination with a candidate be considered a valid basis for exempting from the election law's contribution limits payments for continued
dual purpose communications using public political advertising?

- If the current rules are retained, should more criteria be used to determine when a delegate's or a delegate committee's expenditures are in-kind contributions?
- Should the FEC retain the provisions permitting delegates and delegate committees to allocate expenditures for dual purpose communications between the delegate and the Presidential candidate it supports or should the entire amount be considered support of the Presidential candidate? (Concerns have been expressed that, since public political advertising primarily advocates the Presidential candidate, expenditures for such ads should not be allocated.)

**Conforming Amendments.** If the Commission adopts the proposed revisions to the delegate selection regulations, other sections of the regulations could be amended to conform with these provisions. Possible conforming amendments include: 1) revision of the definition of "delegate committee" at 11 CFR 100.5(e)(5), 2) a cross-reference in the rules to the definition of delegate and 3) clarification of the contribution limits in 11 CFR 110.1 and 110.2 as they apply to delegates and delegate committees.

**PUBLIC APPEARANCES**

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**ADVISORY OPINIONS**

**ALTERNATE DISPOSITION OF ADVISORY OPINION REQUEST**

AO 1986-43: Services Provided to Campaign by Corporation Owned by Candidate and His Wife

On February 27, 1987, the General Counsel notified the requester by letter that the Commission had considered two proposed responses to his advisory opinion request but failed to approve an opinion by the requisite four-vote majority.

**ADVISORY OPINION REQUESTS**

The following chart lists a recent request for an advisory opinion. The full text of the AOR is available to the public in the Commission's Office of Public Records.

**AOR** | Subject
--- | ---
1987-8 | International corporation as advertising sponsor for news corporation's multimedia presentation of 1988 Presidential campaign interviews. (Date made public: March 11, 1987; Length: 13 pages, plus 26-page supplement)

**ADVISORY OPINIONS: SUMMARIES**

An Advisory Opinion (AO) issued by the Commission provides guidance with regard to the specific situation described in the AOR. Any qualified person who has requested an AO and acts in accordance with the opinion will not be subject to any sanctions under the Act. Other persons may rely on the opinion if they are involved in a specific activity which is indistinguishable in all material aspects from the activity discussed in the AO. Those seeking guidance for their own activity, however, should consult the full text of an AO and not rely only on the summary given here.

AO 1986-45: Interest Payments by Principal Campaign Committee to Candidate (Lender)

The Jeff Bingaman for U.S. Senate Committee (the 1982 Committee), Senator Bingaman's principal campaign committee for his 1982 New Mexico Senate campaign, may pay interest to Senator Bingaman on loans which he made to the Committee from personal funds beginning in 1981. The 1982 Committee may pay an annual interest rate of nine percent on the outstanding loan balance.
reported by the 1982 Committee as of August 1986 (i.e., $272,623.41). The 1982 Committee must report and itemize the interest payments as operating expenses. See 2 U.S.C. §434(b)(5)(A); 11 CFR 104.3(b)(4).

Senator Bingaman began making loans of personal funds to the 1982 Committee in 1981. Although Senator Bingaman and the 1982 Committee had no written agreement concerning the loan transactions, the Committee's treasurer disclosed a 13 percent interest rate on the loans, beginning with the Committee's 1982 October quarterly report. By August 1986, however, the 1982 Committee had not made any interest payments to Senator Bingaman. At that time, the 1982 Committee set up a loan liquidation schedule and agreed to pay an annual interest rate of nine percent on the outstanding loan balance. (The nine percent rate was slightly lower than the prime lending rate of a local New Mexico bank.)

Neither the Act nor FEC Regulations specifically address a campaign's payment of interest on loans made by the candidate from personal funds. However, the Regulations permit a candidate to use unlimited personal funds for making campaign expenditures (including campaign loans), and the regulations allow campaigns to pay interest on loans at a commercially reasonable rate. 11 CFR 100.7(a)(1)(i)(C); 100.8(a)(1)(i)(f).

At the same time, although the Act and FEC Regulations prohibit a candidate from converting excess campaign funds to personal use, the Regulations specifically permit a candidate's campaign to use excess campaign funds to repay loans from the candidate. 2 U.S.C. §439a; 11 CFR 113.2(d). Finally, the nine percent interest does not exceed a commercially reasonable rate.

The Commission distinguished this opinion from AO 1977-58, in which the Commission had concluded that the principal campaign committee could not retroactively report a candidate gift to the committee as a candidate loan, and thereby justify committee repayments of the loan to the candidate. (Date issued: February 6, 1987; Length: 5 pages)

AO 1987-1: Campaign's Compensation of Lost Wages to Candidate Prohibited
Friends of Jim Dawson (the Committee), Mr. Dawson's principal campaign committee for his 1986 House campaign, may not use its excess campaign funds to compensate Mr. Dawson for wages he lost as a result of his candidacy. The Committee's payment of Mr. Dawson's claim for the wages would constitute a prohibited conversion of excess campaign funds to the candidate's personal use. (The lost wages amounted to $7,000.)

Under the Act and FEC Regulations, a campaign may use its excess campaign funds for a variety of lawful purposes, but it may not convert the funds to the candidate's personal use. 2 U.S.C. §439a; 11 CFR 113.2.

The Committee's compensation of lost wages cannot be viewed as the payment of a campaign obligation. The Committee had no preexisting written contract with Mr. Dawson to compensate him for the lost wages or to compensate him for any valuable services performed for the campaign. Nor had Mr. Dawson incurred a debt or an obligation for his living expenses during the campaign (e.g., an outstanding bank loan), which the Committee could lawfully assume. (The Commission distinguished this view from its conclusion in AO 1982-64. In that opinion, the Commission allowed a candidate's committee to assume, and solicit contributions to repay, a bank loan the candidate had obtained to cover living expenses during his campaign.) (Date issued: February 20, 1987; Length: 2 pages)

AO 1987-2: Campaign's Purchase of Car for Candidate's Reelection and Official Duties
The Florio '88 Committee (the Florio Committee), Representative James J. Florio's principal campaign committee for his 1988 reelection campaign, may purchase a car that will be used by Mr. Florio and others for travel related to both the campaign and his official duties of office, provided the Florio Committee pays the usual and normal charge for the car. 11 CFR 100.7(a)(1)(iii) and AOs 1985-42, 1984-59, 1977-1 and 1976-64.

The Act and FEC Regulations permit candidates and their campaigns to decide which types of expenditures will most effectively influence their nominations and elections. Further, the Act provides that candidates may use excess campaign funds for "ordinary and necessary expenses incurred in connection with" their official duties. 2 U.S.C. §439a; 11 CFR 113.2.

Although the law prohibits candidates from converting excess campaign funds to personal use, this prohibition does not apply to individuals, such as Representative Florio, who were Members of Congress on January 8, 1980. Thus, the Florio Committee may pay for Representative Florio's use of the car even if his travel expenses to use the car are incurred for personal purposes.

Reporting Requirements
The Florio Committee should report payments for the purchase of the car as disbursements. If the car is to be used primarily for campaign purposes, the Committee should disclose these disbursements as campaign operating expenditures. 2 U.S.C. §434(b)(5)(a) and (6)(A).

The expense of using the car for campaign-related activity should also be reported as "operating expenditures." 2 U.S.C. §434(b)(4)(A); 11 CFR 100.7(a)(1)(iii).
CPR 104.3(b)(4)(i) and 106.3(a). However, the Committee should report use of the car for official duties or personal purposes as "other disbursements." 2 U.S.C. §434(b)(6)(A); 11 CFR 104.3(b)(4)(i). (Date issued: February 20, 1987; Length: 3 pages)

AO 1987-3: Refund for Terminated Presidential Campaign Remitted by Media Firm to U.S. Treasurer

Mr. Harry O'Connor, the president of a firm which made media buys for the Reagan for President Committee (RPC), must remit a check to the U.S. Treasurer (for deposit in the Presidential Election Campaign Fund) for the full amount of a refund which, in 1980, he received from CBS Radio Network (CBS) on behalf of RPC.

RPC was the principal campaign committee for Mr. Reagan's publicly funded Presidential primary campaign in 1980. In late 1979, Mr. O'Connor and his firm, O'Connor Creative Services, represented RPC in buying broadcast time from CBS for a nationwide airing of a five-minute radio address by Mr. Reagan. CBS subsequently refunded $5,350.92 to the O'Connor firm because several CBS radio affiliates did not air the Reagan address. Although the O'Connor firm received the refund check in 1981, for various reasons it failed to transmit the refund to RPC before RPC terminated several years ago.

Had the refund been made to RPC in 1980 or 1981, before it terminated, the Commission would have required RPC to make a repayment, in part, to the U.S. Treasury, not to others.

The Commission noted that there was no basis for permitting Mr. O'Connor to submit the refund to RPC or any of its former officers. Since RPC terminated without ever receiving the refund, the refund may not now be treated as the committee's excess campaign funds. 2 U.S.C. §439a; 11 CFR 113.3(e). Moreover, the three-year period during which the Commission could have demanded RPC's repayment of the refund expired in 1984.* See 26 U.S.C. §9038(b)(2) and (b)(3). (Date issued: March 3, 1987; Length: 3 pages)

*Under the public funding statutes, a publicly funded Presidential primary campaign must return unspent primary matching funds to the U.S. Treasurer, within the period designated by the statute. See 26 U.S.C. Section 9038(c).

FEC RECOMMENDS CHANGES IN ELECTION LAWS

On March 4, 1987, the Commission transmitted to Congress and the President 24 recommendations for legislative changes in federal election laws. The recommendations would enhance the agency's ability to administer election laws. The Commission is statutorily mandated to submit recommendations each year "for any legislative or other action the Commission considers appropriate. . . ." 2 U.S.C. §438(a)(9).

Among the 24 proposals submitted this year, four would affect Presidential elections. These proposals contain recommendations that Congress:

o Eliminate state-by-state spending limits for publicly funded Presidential primary candidates. The Commission believes that the overall national limit would serve as a constraint on state spending.

o Combine the overall spending limit for Presidential primary candidates with the spending limit for fundraising. This proposal would simplify reporting requirements, reduce accounting burdens for committees and simplify the Commission's auditing procedures.

o Require the U.S. Treasurer to deposit in the Presidential Election Campaign Fund all repayments required by publicly funded Presidential nominating conventions and Presidential nominees. Currently, the Fund receives only those repayments made by publicly funded Presidential primary candidates.

o Reaffirm Congressional intent that draft committees are subject to the provisions of the Federal Election Campaign Act.

Other proposals aimed at enhancing public disclosure would:

o Require House and Senate campaigns to report their financial activity for an entire election cycle. They currently report on a calendar year basis.

o Give Congressional campaigns the option to file monthly reports.

o Require monthly filers to file their reports closer to the closing date of a reporting period in order to make information more timely.

o Eliminate the requirement that potential committees file copies of their reports with the Secretaries of State. Instead, the Commission proposes a system whereby the Secretaries of State would have direct access to this information through the FEC's computerized disclosure data base.

Included among the Commission's remaining 16 recommendations were suggestions that Congress:
o Make the FEC the sole point of entry for all disclosure documents filed by federal candidates and political committees; and

o Establish a reimbursement account for the FEC that would enable the agency to offset expenses incurred from reproducing documents and tapes purchased by requesters.

The full text of the recommendations will be published in the Commission's 1986 Annual Report. Copies of the recommendations are also available from the FEC's Public Records Office, 999 E Street, N.W., Washington, D.C. 20463.

FEC v. ERNEST HALTER AND AMERICAN INTERNATIONAL DEMOGRAPHIC SERVICES, INC.

On February 2, 1987, the U.S. Court of Appeals for the Fourth Circuit dismissed FEC v. Ernest Halter and American International Demographic Services, Inc. (Appeal No. 86-1560). The court's action responded to Mr. Halter's request for a dismissal of his appeal.

On March 31, 1986, American International Demographic Services, Inc. and its Vice President, Ernest Halter, had appealed an order issued by the U.S. District Court for the Eastern District of Virginia. In the February 10, 1986, order, the district court had permanently enjoined the defendants from using FEC campaign finance information for commercial purposes. The district court had also imposed a $3,500 civil penalty on the defendants for illegal use of the information. (For a summary of the suit, see pages 8-9 of the April 1986 Record.)

FEC v. MARK BARRY

On February 10, 1987, the U.S. District Court for the District of Massachusetts granted the FEC's application for entry of default against Mark Barry. (FEC v. Mark Barry; Civil Action No. 86-2807-C)

Mr. Barry was the assistant treasurer for Mickey Edwards' 1982 and 1984 House campaigns. In filing suit against him in September 1986, the FEC asked the court to declare that he knowingly and willfully violated the Act and FEC Regulations by:

- Failing to maintain adequate records for approximately $164,784 in disbursements that he made on behalf of the Edwards in '82 Committee, the principal campaign committee for Mr. Edwards' 1982 House campaign (11 CFR 102.9 (b)(1)); and
- Making an excessive contribution* of $1,587.60 to the Edwards in '82 Committee (2 U.S.C. §441a(a)(1)(A)).

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*Under the Act, an individual may contribute up to $1,000 to a candidate per election.
FEDERAL REGISTER

FEDERAL REGISTER NOTICES
Copies of notices are available in the Public Records Office.

Notice Title

1987-1 11 CFR Parts 100, 102, 103, 104 and 110: Contribution and Expenditure Limitations and Prohibitions; Contributions by Persons and Multicandidate Political Committees; Final Rules Transmitted to Congress (52 Fed. Reg. 760, January 9, 1987)


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FEDERAL ELECTION COMMISSION
999 E Street, NW
Washington, D.C. 20463

Official Business

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FEC WILL CO-HOST CONFERENCE IN ST. LOUIS

On May 1, 1987, a one-day conference on federal campaign finance laws will be held in St. Louis, Missouri. Co-sponsored by the FEC and the Missouri Secretary of State's Office, the conference will provide an overview of federal campaign finance laws and include sessions on: corporate and labor involvement in federal elections through PACs and other activities; party committees' support of federal candidates; political committees' registration, recordkeeping and reporting requirements; and case studies that focus on corporate, labor and party committee participation in federal elections.

For more information on the conference, contact the FEC toll free at 800/424-9530 or the Missouri Division of Campaign Reporting at 314/751-1831.