Regulations

Public Financing of Presidential Primary and General Election Candidates and Conventions; Final Rules

On September 3, 1999, the Commission approved several revisions to its rules concerning the public financing of Presidential primary and general election candidates and Presidential nominating conventions. 11 CFR parts 9001 through 9039. These regulations reflect the Commission’s experience in administering the public funding programs in past elections and seek to resolve some issues that may arise in the 2000 election.\footnote{The Commission has already published final rules modifying the candidate agreement provisions so that federally-financed Presidential committees must electronically file their reports. Those regulations became effective on November 13, 1998. Additionally, the Commission has issued final rules governing the matchability of contributions made by credit and debit cards, including those transmitted over the Internet, which became effective on September 23, 1999. Rules governing coordinated party committee expenditures in the pre-nomination period and reimbursement by the news media for travel expenses are pending before Congress; the effective date will be published following the legislative review period.}

The revised rules were published in the Federal Register on September 13, 1999, and transmitted to Congress for a 30-legislative day review period. The date the regulations take effect will be published in the Federal Register following the review period.
2. Documentation of Disbursements

Section 9003.5 sets out the documentation that publicly financed general election committees must provide for disbursements in excess of $200, including a canceled check negotiated by the payee. The phrase “negotiated by payee” has been added to paragraph (b)(1)(iv)—which refers back to the canceled check—so that it now specifically restates that the check must be negotiated by the payee.

3. Entitlement of Eligible Candidates to Payments; Use of Payments

Winding Down Costs. The Commission amended 11 CFR 9004.4(a)(4)(i) by changing the “or” at the end of that paragraph to “and,” clarifying that the expenses listed in both paragraphs (a)(4)(i) and (ii) are considered winding down costs.

Lost, Misplaced or Stolen Items. The Commission amended paragraph (b)(8) of section 9004.4, which addresses situations where general election campaign equipment is lost or damaged, to include stolen items and to add, as a factor to determine the degree of responsibility, whether a police report was filed.

Capital and Noncapital Assets. Further, section 9004.9(d)(1)(iii) was amended to indicate that an inventory must be prepared when noncapital assets owned by the primary committee are sold to the general election committee.

Additionally, under revised regulations at 11 CFR 9004.9(d), once the general election campaign is over, the value of assets obtained from the primary campaign committee must be listed on the NOQCE (Net Outstanding Qualified Campaign Expenses) statement as 20 percent of the original cost to the primary committee.

Finally, a new sentence added to 9004.9(d) clarifies “capital asset,” stating that, when the components of a system, such as a computer or telecommunications system, are used together and the total cost of the components exceeds $2,000, the entire system is considered a capital asset.

Federal Funding of Nominating Conventions and Host Committees

1. Use of Funds

Section 9008.7 was amended by adding new paragraph (c) to address situations where convention committee equipment is lost, misplaced or stolen. This paragraph is consistent with the change made in paragraphs (b)(8) of 11 CFR 9004.4, discussed above and 9034.4, discussed below.

2. Petitions for Rehearing; Stays of Repayment Determinations

In 11 CFR 9008.14, the phrase “final repayment determinations” was replaced by “repayment determinations.”

3. Receipts and Disbursements by Host Committees: Local Banks and Local Individuals

Section 9008.52(c)(1) was amended to allow local banks to donate funds and make in-kind donations for the limited purposes described in section 9008.52. This new language supersedes, in part, Advisory Opinion (AO) 1995-31.

Additionally, section 9008.52(c)(1) was amended to specify that the individuals who may donate funds to host committees, governments agencies and municipal corporations must either maintain a local residence or work for the local office of a business, of a labor organization or of another organization.
4. Receipts and Disbursements by Government Agencies and Municipal Corporations

The amendments to 11 CFR 9008.53(b)(1) generally follow the revisions to section 9008.52(c)(1) concerning receipts by host committees, discussed above.

Federal Funding of Primary Elections

1. Definition of “State”

Section 9032.11, containing the definition of “State,” was amended to delete Canal Zone and add American Samoa.

2. Documentation of Disbursements

Revisions to 11 CFR 9033.11 follow the “negotiated by payee” language discussed above, concerning documentation of general election disbursements, under 11 CFR 9003.5.

3. Entitlements

Use of Contributions and Matching Payments: Winding Down Costs. The revised rules at 11 CFR 9034.4(a)(3) provide that a publicly funded primary candidate who does not run in the general election may begin to treat 100 percent of salary and overhead expenses as compliance costs after the date of ineligibility. However, federally financed primary candidates who continue on to the general election, as well as non-federally funded primary candidates who accept general election funding, must wait until after the end of the expenditure report period for the general election before they begin treating all salary and overhead expenses as compliance expenses.

Lost, Misplaced or Stolen Items. Revisions pertaining to lost, misplaced or stolen items of the primary election campaign similar to the amendments to section 9004.4(b)(8) (pertaining to general election funding) were made to 11 CFR 9034.4(b)(8).

Attributing Expenditures Between Primary and General Election Spending Limits. While the Commission expects to address a variety of issues concerning the distinction between primary and general election expenses at a later date, it did amend paragraph (e) of section 9034.4 to indicate that the provision applies to Presidential campaigns that accept federal funds for either election.

Joint Primary/GELAC Fund Solicitations. Under revisions to 11 CFR 9034.4(e)(6)(i), the GELAC Fund and the primary committees must apportion their joint fundraising costs according to the percentage of contributions each committee receives from the joint fundraising effort. This new provision follows the guidelines given in section 9034.8, pertaining to joint fundraising by unaffiliated committees.

Net Outstanding Qualified Campaign Expenses (NOQCE) and Net Outstanding Campaign Obligations (NOCO); Capital Assets.

Section 9034.5(c)(1) permits a Presidential primary committee to deduct 40 percent of the original cost of capital assets for depreciation in determining its NOCO. Section 9004.9(d)(1) provides for straight 40 percent depreciation for capital assets purchased by general election committees for purposes of its statement of NOQCE. Both sections 9004.5(c)(1) and 9004.9(d)(1) were amended to allow candidates to demonstrate a higher depreciation figure through documentation of the fair market value.

The Commission also amended 11 CFR 9034.5 to say that, where a candidate’s primary committee transfers or sells capital assets to his or her publicly financed general election committee, the minimum fair market value is 60 percent of the original purchase price.

Finally, a new sentence added to section 9034.5(c)(1) is similar to the new language concerning multiple components of a telecommunication system found at section 9004.9(d). See description above.

4. Expenditure Limits; Compliance and Fundraising Exceptions

The rules at 11 CFR 9035.1(c)(1) were amended to allow an amount equal to 15 percent of the candidate’s overall expenditure limit to be excluded as exempt legal and accounting compliance costs under 11 CFR 100.8(b)(15). In addition, as explained above, overhead and salary expenses may be treated as exempt compliance costs after the end of the expenditure report period or after the date of ineligibility.

5. Review of Matching Fund Submissions and Certification of Payments by Commission

Threshold Submission. New language in paragraph (b)(3) of section 9036.1 permits the use of digital imaging for primary committees’ threshold submissions (i.e., committees may make those submissions using digital images on CD ROMs instead of submitting paper photocopies of checks and deposit slips).

Additional Submissions for Matching Fund Payments. Additionally, paragraph (b)(1)(vi) of section 9036.1 was revised to enable primary committees to submit digital images of contributor redesignations, reattributions and supporting statements and materials needed to establish the matchability of contributions.

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Court Cases

FEC v. Friends of Jane Harman

On August 18, 1999, the U.S. District Court for the Central District of California found that Friends of Jane Harman, the principal campaign committee of former Congresswoman Jane Harman, and its treasurer violated the Federal Election Campaign Act (the Act) when they accepted corporate contributions in the form of earmarked contributions collected by a corporate representative and an “advance” from the same corporation.

Background

Hughes Aircraft Company (Hughes), a Los Angeles corporation, sponsored a fundraiser for Ms. Harman at her request during the 1993-1994 election cycle.

Hughes’s chairman and CEO approved the fundraiser and directed Hughes’s employees to carry out the logistics of the fundraiser. Hughes’s executives and employees secured a room at Hughes’s corporate headquarters, hired a caterer, issued invitations and collected and transmitted Hughes employees’ contribution checks to the Harman campaign.

A solicitation letter, sent to Hughes’s employees in tandem with an invitation, requested contributions to Ms. Harman’s campaign. The solicitation letter also requested that personal checks be made out to the campaign and that they be forwarded, via interoffice mail, to a Hughes employee in advance of the event.

On October 29, 1993, Representative Harman appeared at the fundraiser held at Hughes’s corporate headquarters. Hughes’s Director of Public Affairs collected some contributions for the event through interoffice mail prior to the event and collected others from executives at the door. A few days after the fundraiser, a representative of the Harman campaign picked up the checks. Altogether, Hughes collected and forwarded $20,600 to the Harman campaign.

Three months later, the Harman campaign paid $857 to the corporation to cover Hughes’s labor costs and the cost of using Hughes’s facilities. The campaign paid the food caterer for the event directly.

Earmarked Contributions

The Act prohibits corporations from making contributions or expenditures in connection with any federal election. 2 U.S.C. §441b(a). Because Hughes, as a corporation, was prohibited from making a contribution to a federal campaign, it was also prohibited under FEC regulations from acting as a conduit for contributions that are earmarked to candidates or their authorized committees. 11 CFR 110.6(b)(2). Additionally, 2 U.S.C. §441b(a) prohibits candidates or their committees from knowingly accepting “anything of value” from a corporation.

The court found that the collection of contributions by a Hughes employee in her official capacity as Director of Public Relations conferred a benefit on the campaign from the corporation. Therefore, when the Harman campaign received the checks collected, it violated the §441b(a) prohibition against accepting anything of value from a corporation.

Reimbursement of Staff Labor Costs

Section 441a(b)(2) of the Act provides that a “contribution” includes an advance. On the other hand, 11 CFR 114.9(2) (an FEC regulation) permits campaigns to reimburse corporations for the use of corporate facilities within a commercially reasonable time. The FEC maintained that this regulation covers reimbursement for the use of facilities but not reimbursement for the labor costs of corporate employees.

Deferring to the FEC’s interpretation of the Act and its regulations, the court concluded that, “because the Harman Campaign did not pay for the use of employee services until after the event occurred,” the $731 value of the employees’ labor constituted an advance of corporate funds and was, therefore, an impermissible corporate contribution violating 2 U.S.C §441b(a).

Remedy

While the court found that the committee knowingly violated the Act, the court denied the FEC’s request to require the committee to disgorge to the U.S. Treasury an amount equal to the prohibited contributions, to assess a civil penalty against the committee or to enjoin the committee from accepting corporate contributions in violation of 2 U.S.C. Section 441b(a).

The court stated that there was no evidence that the defendants believed, at the time of the fundraiser, that they were not complying with the law. The court also stated that the FEC subsequently clarified its regulations surrounding the use of corporate staff; the regulations now specifically state that the use of corporate staff to “plan, organize or carry out [a] fundraising project” requires payment of the fair market value of the services in advance. 11 CFR 114.2(f)(2)(i)(A). The court did not issue an injunction because the likelihood of future violations of the Act by the campaign or its treasurer was remote since the Harman campaign is no longer in existence and Representative Harman is no longer in office.

U.S. District Court for the Central District of California, 98-7691-CAS(JGx), August 18, 1999.
New Litigation

**John Jay Hooker v. FEC**

John Jay Hooker, a registered voter and “qualified candidate for the United States Senate,” asks the court to declare the Federal Election Campaign Act (the Act) unconstitutional. Mr. Hooker alleges that the Act preempts state laws that would prohibit interstate contributions to federal candidates. He asserts that interstate contributions interfere with the rights of the people of Tennessee to elect their two U.S. Senators.

Mr. Hooker also asks the court to declare that the Act and the “matching funds” provisions (“26 U.S.C. §9001 et seq.”) are “outside the power of Congress and are in violation of the state’s constitutional prerogatives in the Presidential election process.”

U.S. District Court for the Middle District of Tennessee, 99-0794, August 18, 1999.

**Virginia Society for Human Life, Inc. v. FEC**

Virginia Society for Human Life, Inc. (VSHL) asks the court to:

- Declare that the FEC regulation found at 11 CFR 100.22(b) is unconstitutionally overbroad, vague and contrary to law;
- Overturn the FEC’s decision not to act on VSHL’s petition for rulemaking, in which VSHL had asked the FEC to repeal the regulation;
- Set aside the regulation; and
- Permanently enjoin the FEC from enforcing the regulation.

VSHL is a nonprofit, membership corporation in Virginia, which does accept donations from other corporations. The group intends to make communications to the general public using voter guides that tabulate federal candidates’ positions on abortion-related issues. The voter guides would indicate VSHL’s official position on these issues and, in some cases, would indicate that one of the candidates for a particular office agreed with VSHL’s position while his or her opponent did not. VSHL would not coordinate the guides with any candidate.

Subsection (b) of 11 CFR 100.22—the section opposed by VSHL—defines express advocacy as a communication that, when taken as a whole and with limited reference to external events (such as proximity to an election), can only be interpreted by a reasonable person as unambiguously advocating the election or defeat of a clearly identified candidate.


On Appeal?

**FEC v. Christian Coalition**

On September 22, 1999, the Commission decided not to appeal the recent decision by the U.S. District Court for the District of Columbia in FEC v. Christian Coalition. See the September 1999 Record, page 4.

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Rules Addressed at a Later Date
The rulemaking also touched upon five other topics, which the Commission expects to address at a later date. Those topics are:

• Coordination between candidates and party committees on political ads, polling, media production, consulting services and sharing of employees;
• Modifications to the audit process;
• Bases for primary repayment determinations;
• A “bright line” between primary expenses and general election expenses; and
• Forming Vice Presidential committees prior to nomination. 

Information

Preliminary Primary Dates for 2000 Available
A chart on the tentative dates for the 2000 Presidential and Congressional primaries is available on the FEC Web site and also on the FEC’s automated FAXLINE. Readers should note that the dates are tentative, and will be updated as more information becomes available.

To access the chart on the FEC’s Web site (http://www.fec.gov), click first on “What’s New!” and then on “Preliminary List of 2000 Primary Dates Published.” To order the chart from FAXLINE, call 202/501-3413 and request document #650. 

Outreach

FEC conducts Monthly Roundtable Session
The FEC will conduct a monthly roundtable for the regulated community on November 3, 1999, from 9:30 to 11:00 a.m. at its offices in Washington. The session will focus on new FEC regulations including:

• Definition of member; and
• Contributions from limited liability companies (LLCs).

The session is limited to 12 participants and the intended audience includes:

• Trade and member PACs;
• Recipients of contributions from LLCs (e.g., PACs and campaigns);
• LLCs; and
• Lawyers, accountants and consultants to the above groups.

Registration is $25 and will be accepted on a first-come, first-served basis. Please call the FEC before registering or sending money to be sure that openings remain. Prepayment is required. The registration code number is 1190. The registration form is available at the FEC’s Web site—http://www.fec.gov—and from Faxline, the FEC’s automated fax system (202/501-3413, request document 590). For more information, call 800/424-9530 or 202/694-1100. 

FEC Conference Schedule
The FEC continues its series of conferences on campaign finance this fall. See below for details. To register for any conference, call Sylvester Management at 800/246-7277 or send an e-mail to tsylvester@worldnet.att.net. For program information, call the FEC’s Information Division at 800/424-9530 or 202/694-1100. A regularly updated schedule for the conferences and a downloadable invitation/registration form appear at the FEC’s Web site. Go to http://www.fec.gov/pages/infosvc.htm for the latest information.

Regional Conference (includes candidate, corporate/labor and party workshops)
Date: November 15-17, 1999
Location: San Francisco
(Grand Hyatt)
Registration: $250

Candidate Conference
Date: February 10-11, 2000
Location: Washington, DC
(Hyatt Regency Capitol Hill)
Registration: To be determined

Corporate and Labor Conference
Date: May 2000
Location: Washington, DC
Registration: To be determined

Membership and Trade Association Conference
Date: June 2000
Location: Washington, DC
Registration: To be determined
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testamentary trusts, in which the trust was considered the legal successor of the testator and therefore the source of the contribution. AOs 1999-14 and 1988-8.
Issued: August 25, 1999; Length: 2 pages

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AOR 1999-22
Use of merchant ID number by company that collects and forwards credit card contributions made through Internet to multiple candidates (Aristotle Publishing, Inc., August 3, 1999; 10 pages)

AOR 1999-23
Replacement of PAC contribution check originally made in the previous year but lost and never received by recipient (Arvest Bank Group, Inc. PAC and Arkansas Bankers Association PAC, Inc., August 27, 1999; 6 pages)

AOR 1999-24
Use of Web site to provide questions to, and answers from, candidates of selected political races, candidate “chats” and an online debate forum (Election Zone LLC, August 23, 1999; 6 pages)

AOR 1999-25
Use of Web site to encourage voting and voter registration, to provide interactive means for candidate “online debates”, and for web site visitors to pose questions and comments to candidates (Democracy Network, September 1, 1999; 18 pages plus 3-page attachment)

AOR 1999-26
Status of committee as state committee of a political party (Virginia Taxpayers Party, September 1, 1999; 6 pages plus 14-page attachment)

AOR 1999-27
Allocation of expenses for presidential candidate straw poll conducted on behalf of State party organization (Alaska Federation of Republican Women, August 4, 1999; 14 pages plus 32-page attachment)

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