

**EVALUATING SAN FRANCISCO'S PARTIAL PUBLIC
CAMPAIGN FINANCING PROGRAM AFTER TWO
ELECTIONS**



**PREPARED FOR THE SAN FRANCISCO ETHICS COMMISSION BY
GINA BANKS, SASHA HORWITZ, ADAM LANG, AND ERNIE TEDESCHI**

**GOLDMAN SCHOOL OF PUBLIC POLICY
UNIVERSITY OF CALIFORNIA, BERKELEY
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EXECUTIVE SUMMARY

San Francisco's public campaign finance (PCF) program for Board of Supervisors candidates is relatively new, and the Ethics Commission has not had the opportunity to perform a thorough program evaluation. This report analyzes the current system.

Based on our findings, we recommend no major changes to the current PCF system. However, we have several suggestions to improve the program's administration.

Specifically, we recommend the following:

- *Allow candidates to qualify for PCF using signatures: the greater of 10 percent of voter turnout or 2,500 signatures;*
- *Allocate funds to the Ethics Commission to complete 100 percent of the audits for PCF candidates and 50 percent of the audits for non-PCF candidates within one year of the election;*
- *Create a PCF trust fund for Board of Supervisors elections into which \$375,000 is allocated per year; and*
- *Indicate PCF participation with a symbol in the Voter's Guide and ballot.*

Our report employs four approaches in assessing PCF: a review of relevant literature, studies of comparable programs in other cities, quantitative analyses, and interviews with candidates who ran for the Board of Supervisors.

We evaluate the program using four criteria. Does the current system:

1. Create opportunities for newcomers to run for office?
2. Allow candidates to spend more time discussing issues?
3. Reduce the amount of time candidates spend fundraising?
4. Reduce spending for all candidates?

We found that PCF reduces fundraising pressures on candidates, and that this most likely means that candidates have more time to spend discussing issues. Overall spending and the number of candidates running remain unchanged. Interviewees expressed widespread approval of the program in its current form.

Given this enthusiasm and the lack of any major opposition to PCF, we believe that the program should remain as is until it is possible to observe how the system operates when incumbents are termed out *en masse*.

INTRODUCTION

As the new millennium began, San Francisco underwent a series of political reform. This was supported on all levels, from grassroots to city elite. The 2000 election marked the return for San Francisco to district elections after 20 years of at-large races.¹ In addition, all 11 seats for the Board were up for election that year. This made it possible for candidates to be more ideologically aligned with their neighborhoods.

The public financing program, in place since 2002, was modified in 2004, further contributing to the ever-changing campaign process. The qualifying threshold and the deadline to apply for public funds changed after the 2002 election cycle.²

In 2004, the city implemented Ranked Choice Voting (RCV), which eliminated the need for runoff elections.³ Ranked Choice Voting sums the first-choice votes; a candidate with at least 50 percent of the vote wins. If none has a majority, the candidate with the fewest votes is dropped and her supporters' second choices are transferred to their second-choice candidate. The process continues until one candidate has a majority of votes. The effect of RCV on elections is unclear, but does not appear to be the boon to newcomers that supporters had hoped. Taken together, these factors all influence the dynamic of San Francisco elections, and it can be difficult to distinguish between the effects of any one change.

GOALS OF PUBLIC CAMPAIGN FINANCING

Partial Public Campaign Financing (PCF) was thus part of a movement with several goals in mind:

1. Create opportunities for newcomers to run for office.

By 2000, voters had grown tired of the corruption and "juice politics"⁴ of Willie Brown's political machine along with excessive independent expenditures, since both led to a stagnancy of ideas. Many believed that newcomers would bring fresh perspectives and invigorated purpose, and better represent the grassroots nature of San Francisco's electorate. Supporters hoped that PCF would encourage more non-elites to run both competitively and effectively.

¹ "Report on San Francisco's Limited Public Campaign Financing Program." San Francisco Ethics Commission. May 9, 2005.

² Ibid.

³ Ibid.

⁴ Willie Brown Inc/ How S.F.'s Mayor Built a City Based on 'Juice' Politics <http://www.sfgate.com/cgi-bin/article.cgi?file=/c/a/2001/04/29/MN162298.DTL>

2. Spend more time discussing issues.

Proponents of PCF argue that increased electoral competition puts greater emphasis on issues, and gives participating candidates the financial freedom with which to discuss them. When elections revolve around issues, voters can evaluate platforms and make informed choices: a mainstay of a healthy democracy. When elections hinge on access to wealthy donors or influential figures, it is difficult to hold officials accountable.

3. Reduce the amount of time that candidates spend fundraising.

Fundraising is a crucial component of every campaign. The concern, however, was that candidates placed too much emphasis on their money-raising activities to the detriment of issue discussion. PCF has the potential to make fundraising more efficient and reduce the need to spend excessive time courting potential donors, especially for outsider candidates who would otherwise be unable to raise competitive sums of money. In addition, it is believed that PCF facilitates public service as an option for people whose daily obligations are otherwise a barrier.

4. Reduce spending for all candidates.

Proponents believe that at reduced levels of spending, more grassroots candidates may compete with wealthy candidates because newcomers can match wealthy candidates' fundraising ability. At high levels of participation in public financing programs, overall spending will decrease as more candidates are subject to spending caps. Public pressure may also encourage candidates who opt-out of the program to limit their spending.

THE CURRENT PROGRAM

All Board of Supervisors candidates must file a Statement of Participation or Non-Participation in the Public Financing Program with the Ethics Commission no later than a predetermined date.⁵ To qualify for public funding the candidate must do the following:

- Raise at least \$5,000 in qualifying contributions from at least 75 residents of San Francisco. The contributions can range from \$10 to \$100.
- Agree to limit spending to \$83,000 in the election.
- Agree to participate in at least one debate.⁶

After a candidate meets the criteria for entry into the program, he receives an initial lump sum of \$5,000. After that payment:

⁵ The deadline for 2006 is August 11.

⁶ "Overview of Public Financing Program- February 2006." [San Francisco Ethics Commission](#).

- For every \$1 raised up to \$5,000, the candidate receives \$4 in public funds.
- The next \$18,500 raised is matched by \$1 up to a total public expenditure of \$43,750.⁷
- Candidates may raise an additional \$10,500 unmatched until they reach the \$83,000 spending limit.

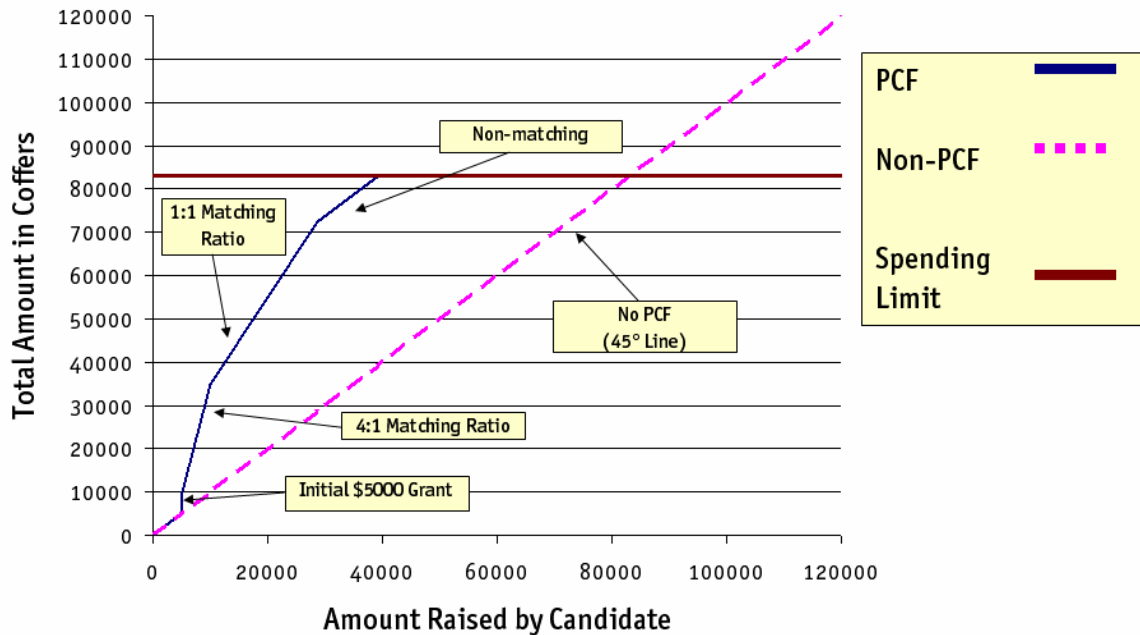


Figure 1: Amount raised by candidate & total amount in campaign coffers, PCF v. Non-PCF Candidates

PROBLEM DEFINITION: *San Francisco's public campaign finance program is relatively new, and the Ethics Commission has not had the opportunity to perform a thorough analysis of the system. While conventional wisdom indicates that PCF works well, we evaluated the program's effectiveness in achieving the aforementioned goals.*

METHODOLOGY

Our report employs four approaches in assessing PCF: a review of relevant literature, studies of comparable programs in other cities, quantitative analyses, and interviews with former Board of Supervisors candidates.

⁷ Ibid.

LITERATURE REVIEW

We reviewed scholarly work on Congressional elections to better understand the influence of money on legislative contests. We determined the effect of incumbency under limited spending. In addition, we examined the factors that influence high turnout: education, age, income and a strong mayor system. San Francisco's endowment of these attributes explains much the city's distinct political culture.

CASE STUDIES

We evaluated four cities with and one city without a partial public financing system. Assessing best practices from these cities, we investigated the following questions: What was the program's qualifying threshold? What was the participation rate? How did the matching schedule function? How does PCF limit the amount of money spent in an election? Does the city have a unique feature that could be applied San Francisco's program?

QUANTITATIVE AND QUALITATIVE ANALYSES

We used two methods to evaluate San Francisco's PCF program based on the original rationale behind PCF: a quantitative analysis and interviews with Board of Supervisor candidates. Since each method has different strengths and weaknesses, our aim was to perform complementary analyses.

Quantitative Data

We compiled data from Ethics Commission and Department of Elections records on 117 candidates who ran for the San Francisco Board of Supervisors between 2000 and 2004. For each candidate, we recorded both continuous measures (amount of money raised and spent, number of competitors, number of votes received in the November election, etc.) and dichotomous measures (whether the candidate was an incumbent, whether he opted into PCF, etc.). We then performed specific statistical tests based on the criterion in question, ranging from a simple comparison of means (t-test) to more sophisticated regression analyses.

Advantages

A quantitative approach separated competing effects from one another. It helped answer questions like, "what portion of a candidate's 7,000 votes was due to her incumbency as opposed to her fundraising prowess?" It was critical to isolate effects of interest when evaluating a complex system.

Weaknesses

The large number of influences on elections necessarily limited the effectiveness of quantitative analysis. We could measure the handful of variables that most likely

matter most, such as the amount each candidate spent or whether he had won an election before. We could not measure other important factors, such as how much time was spent discussing issues.

Although information was available on candidates who ran prior to 2000, at-large constituencies prevented an apples-to-apples comparison of pre-2000 and post-2000 data. The trade-off was a lower sample size, which sacrificed some precision from our effect estimates. Nevertheless, we believed that only post-2000 data was relevant to San Francisco's current system because the dynamics of district elections changed dramatically. In the context of partial campaign finance, one insurmountable challenge was the limited scope of PCF, which had only been in effect since 2002. Each district thus experienced one election without PCF and one with PCF since 2000.

Interviews with candidates

We interviewed 16 of the 93 candidates who participated in the 2002 and 2004 San Francisco Board of Supervisor elections. These interviews were conducted by phone, face-to-face, and via email. Three of the interviewees are current members of the Board of Supervisors. Of the 93 total supervisorial candidates, 32 accepted public campaign financing, while five out of our 16 interviewees participated in the PCF program. A copy of the interview questionnaire may be found in Appendix A.

Advantages

Since most of the candidates we interviewed had small, or no, staff, they possessed first-hand knowledge of the PCF system. Interviews gave us information that would not have been available through a literature review or quantitative analysis, such as issues associated with auditing PCF candidates and "gaming" the system. The interview process also allowed us to understand the human elements of the program in a way that cannot be captured by other means.

Weaknesses

Our interviews were limited because we were unable to reach and speak to the political consultants that we contacted. Consultants generally possess a higher level of understanding of political strategy and effective campaign management than candidates. Another interviewing limitation is an absence of hard quantitative data. While each interviewee was forthcoming with information, we encountered a wide range of answers, and it was impossible to draw causal inferences from this qualitative data. Finally, most of the candidates we interviewed were enthusiastic about PCF and may have overstated the true benefits and effects of the program

SCHOLARLY WORK

The effect of incumbency on electoral success appears to be insurmountable. Incumbents won 100 percent of the nine races in which they ran since PCF was implemented in San Francisco. However, empirical literature says that challengers are more competitive per dollar at equal levels of spending in legislative races. The incumbency advantage is therefore a proxy for a greater ability to fundraise. Incumbents raise more money, which translates to success on Election Day.⁸

Gary Jacobson's research analyzes Congressional House races.⁹ It suggests that if a challenger spends as much as a high spending incumbent (two to three times the amount of the average race), she will double her name recognition among voters. This does not imply the challenger will be equally competitive because incumbents begin with a substantial advantage. A challenger must therefore vastly outspend an incumbent to achieve a comparable level of competitiveness.

Jacobson says:

[T]he unmistakable conclusion to be drawn from this is that, in general, any increase in spending by both candidates will benefit the challenger. Public subsidies—or any other policy which gets money into the hands of challengers—should make House elections more competitive...On the other hand, any reform measure which decreases spending by the candidates will favor incumbents.¹⁰

We see no reason why this would not generalize to Board of Supervisors races. Limiting spending does *not* level the playing field.

Raymond Wolfinger and Steven Rosenstone's landmark book "Who Votes?" analyzed population survey data to isolate determinants of high turnout. After an exhaustive quantitative analysis, the authors find three variables strongly predict turnout: years of education, wealth, and age.

Education: Individuals who do not graduate from high school vote at the lowest rates. People with some college experience vote at higher rates, and those with bachelors or graduate degrees have the highest turnout.

⁸ Jacobson, Gary. *The Politics of Congressional Elections* 5th ed.. Addison Wesley Educational Publishers Inc. New York. 2001

⁹ Jacobson, Gary. *The effects of campaign spending in congressional elections*. The American political science review. 1978. vol:72 iss:2 pg:469 -491.

¹⁰ Ibid

Wealth: As wealth increases, the likelihood of voting also increases. The effect is strongest in people earning over \$45,000.¹¹

Age: Turnout is highest among individuals older than 32, and lowest among 18-24 year olds. This increase in tendency to vote rises with age, but peaks at age 78. Turnout decreases sharply for those above age 79.

Curtis Wood's research on small/medium-sized cities analyzes the effect of city government on voter turnout. Wood found that a strong mayoral system, along with the separation of power between the mayor and the council "are likely contributors to higher voter turnout in city elections."¹²

CASE STUDIES

Tucson

The public campaign financing program in Tucson, Arizona began in 1987 and is widely considered the most successful public campaign finance program in the country.¹³ Tucson's population is about two-thirds the size of San Francisco's. It is divided into six city council districts with a weak mayor system. Tucson also has a unique candidate selection system in which candidates run by district in the primary, but at-large in the general election. Elections occur biennially on non-presidential years. Council members serve four-year terms and are not term-limited; half of the districts are up for election in a given year.

Candidates must raise at least \$10 from 200 city residents to qualify. Spending limits were set at \$79,222 in 2005. The program is funded by an annual budgeting process that goes through the city manager, a non-political position.

Tucson's program has achieved 100 percent participation throughout the last three elections, and every candidate elected to office since 1991 has been publicly financed. With a simple 1:1 matching schedule, the popularity of the system has made participation a *de facto* necessity. Yet, unregulated independent expenditures have made the last weeks of campaigning less competitive because opponents may be bound by spending caps and unable to respond.

¹¹ In 2005 dollars.

¹² Wood, Curtis, "Voter Turnout in City Elections" *Urban Affairs Review*, Vol. 38, No. 2, November 2002 209-231.

¹³ Political Reform that Works: Public Campaign Financing Blooms in Tucson. Center for Governmental Studies. http://cgs.org/publications/docs/Political_Reform_That_Works.pdf accessed 5/10/06

Los Angeles

We selected Los Angeles because, like San Francisco, it is a diverse California city with expansive media markets. L.A. has the second largest population in the country. For our analysis, we relied solely on city council data. The city established a public finance program in 1989 for all citywide offices, but this did not go into effect for council races until 1993. Elections occur biennially on non-presidential years. The 15 Council members serve four-year terms and have a two-term limit; half stand for election in a given year. L.A. has a strong mayor system.

Candidates must raise \$25,000 to qualify for the program. Spending limits are much higher than San Francisco: \$330,000 for the primary and \$275,000 for the general. Two million dollars in public funds are appropriated annually to a trust, lending to a smooth program funding process.

Candidate participation in the program has been above 80 percent for all but one of the last seven races. With a simple 1:1 matching schedule and electronic reporting, the system is highly regarded and easy to navigate. It contains wealthy candidate provisions to protect other candidates from self-financers that significantly break spending limits. Yet, high spending is still problematic, as are independent expenditures. Excessive outside spending is weakly regulated and threatens the matching funds program.¹⁴

New York

New York City first implemented its public financing system in the 1989 election. Public perception of the program is mixed, and the public financing program has faced political and legal challenges. The city has adapted the system to address problems with matching rates and the ways in which candidates “game” the independent expenditure process. Like San Francisco, New York has a well-educated population with regions of great affluence and an active political culture. The city council is a 51 member legislative body, with four-year terms and two term-limits. When new seats are created or council members are termed out, the number of candidates increases approximately three fold.¹⁵ NYC has a strong mayor system.

To qualify for public financing candidates must raise \$5,000 from at least 75 natural residents of the district in amounts between \$10 and \$250. Spending limits are set at \$150,000. Appropriations are made annually to fund the program.

¹⁴ Eleven Years of Reform: Many Successes—More to be Done. Center for Governmental Studies. http://www.cgs.org/publications/docs/lacamp_fin.pdf accessed 5/10/06

¹⁵ Kraus, Jeffrey. “Campaign Finance Reform Reconsidered.” The Forum. Berkeley Electronic Press. Vol. 3 Issue:4, 2006

Participation among NYC candidates has remained at about 75 percent or above since 2001 and is higher among eligible candidates. Contributions are matched 4:1 up to 55 percent of the spending limit in normal circumstances (currently \$82,500). Extenuating circumstances are those in which a candidate exceeds the spending cap by 50 percent. In such cases, the matching rate is increased to 5:1. If a candidate exceeds the spending cap by 300 percent, the matching rate becomes 6:1.¹⁶

Oakland

Oakland's public finance system was passed in 1999, and it receives low marks. The city has a smaller population than San Francisco and is divided into seven districts (plus one council member elected at-large) with a strong mayor system. City races coincide with Presidential elections, and, as a result, turnout rates are higher than in other cities. Council members are not term-limited.

To qualify for public financing, candidates must raise five percent of the spending cap from Oakland residents. The cap varies for each district depending on size and ranges from \$98,000 to \$113,000.¹⁷ Publicly financed candidates are matched 1:1 up to 30 percent of the spending cap. Only the first \$100 of each contribution is matched. Funding is determined for each election by the city council and is required to sufficiently meet the need of public financing the candidates.

Like San Francisco, Oakland's public financing system has been in effect for a short while. Unlike San Francisco, it is riddled with problems. The program has gone under funded or unfunded twice because of budget deficits and is viewed critically by its own Ethics Commission.¹⁸ We expected Oakland, a neighboring Bay Area city, to provide information on regional variation in the programs. Unfortunately, this information does not exist.

San Jose

San Jose was selected as a control because it is a Bay Area city with similar demographics to San Francisco, but does not have a public campaign financing system. It is slightly more populous and has a ten-member city council with a weak mayor system.

¹⁶ Public Finance Laws in Local Jurisdictions. Center for Governmental Studies.
<http://www.cgs.org/publications/docs/PublicFinancingLaws2005.pdf> accessed 5/12/06

¹⁷ Ibid.

¹⁸ Daniel Purnell, Exec. Dir. Oakland Public Ethics Commission, Pers. Comm. 4/23/06

FINDINGS FROM SCHOLARLY WORK AND CASE STUDIES

Other cities' programs inform how to interpret San Francisco's administration and its unique attributes. Scholarly research suggests that San Francisco's turnout is high because of its well-educated, wealthy constituency and its strong mayor system. In the 2002 election, 50.1 percent of eligible San Francisco residents voted. Almost 74.3 percent of San Francisco voters cast ballots in 2004.

The longer a public campaign finance system is in place, the more candidates opt-in to the system because candidates' knowledge of the system increases their willingness to participate. By the third election cycle, participation rates in New York and Tucson increased substantially. Los Angeles's participation rates began high and have remained fairly constant. In addition, in every city we researched, more candidates ran in open districts (in New York at three to four times the rate) than in races in which an incumbent ran. See Appendix B.

The best PCF programs utilize a financing scheme that does not involve political entities, such as the mayor or city council. The failure of Oakland's program in 2004 can be partly attributed the mayor's and council's decision not to fund it.

In many cities, independent expenditures are problematic and threaten the program's ability to limit wealthy individuals or groups from donating large sums of money. San Francisco does not appear to have the same problem with independent expenditures. Under *Buckley v. Valeo*,¹⁹ contributions from independent groups cannot be limited; however, individual contributions may be capped. San Francisco has limited individual contributions at \$500 to a committee and a maximum of \$3,000 beginning in 1999. The Ethics Commission also requires committees that support or oppose a candidate to report these contributions.

CRITERIA AND EVALUATION

Evaluating the current PCF system

With a paucity of San Francisco data and the inability to compare vastly different public financing systems side to side, we are forced to evaluate the impact of the program on several normative criteria. These criteria have been developed from the aforementioned goals of a successful public campaign financing system.

¹⁹ *Buckley et al. v Valeo, Secretary of the United States Senate, et Jensen et al.* 424 U.S. 1

Evaluative Criteria

1. Is the program cost-effective?
2. Has the system created opportunities for newcomers to run for office?
3. Do candidates spend more time discussing issues than before PCF?
4. Are candidates relieved from some of the pressures of fundraising?
5. Has the program limited overall spending in Board of Supervisor elections?
6. Does the incumbency factor overwhelm the opportunities created by PCF?

This section evaluates the current system across these criteria first quantitatively and then qualitatively. The quantitative analysis omits the cost-effectiveness evaluation, while the qualitative analysis does not address incumbency. The remaining criteria are evaluated using both methods.

Quantitative analysis of the current system

Has the system created opportunities for newcomers to run for office?

We aggregated the candidate data at the district level, leaving us with a macro data set of 23 entries: one pre-PCF and one post-PCF cell for each of San Francisco's 11 districts. District 2 represented an outlier because former Supervisor Gavin Newsom vacated his seat to run for mayor.

The results of our four analyses are summarized below in Table 1. We compared the average number of candidates running per district in 2000 with the average for 2002/2004, looking at both all candidates and "credible" candidates (defined as those who reported raising or spending any amount of money on their campaigns) and both total seats and open (non-incumbent) seats. None of these models generated a statistically significant difference (at 95 percent confidence level) between the two periods in question; in other words, we have no evidence to support the claim that elections since PCF had more candidates running per district, regardless of the credibility of the candidate or whether or not the seat is open.

The conventional wisdom among political scientists and officials familiar with election systems is that PCF is more effective at motivating candidates to run in open districts than in closed ones. To test this assumption, we must wait for more elections with open seats to pass without significant changes to PCF. After the 2010 election, most supervisorial districts will have begun their next term-limit cycle, which will be an opportune time to revisit the issue. Moreover, we may never be able to isolate the unique impact of PCF, since open seats see more competition regardless of the presence of campaign finance.

	(1) All Candidates (All Seats)	(2) All Candidates (Open Seats)	(3) Credible Candidates (All Seats)	(4) Credible Candidates (Open Seats)
2000	7.727	12.667	4.455	5
2002 & 2004	7.833	12	5.583	9
Difference	+0.106	-0.667	+1.129	+4
t-score	0.054	-0.129	0.873	1.188
N	23	6	23	6

Table 1: Average # of candidates per district, 2000 vs. 2002 & 2004 (Significant when $t > 1.96$)

Are candidates relieved from some of the pressures of fundraising and do they spend more time discussing issues?

We lack any quantitative measure of the number of hours each candidate spends fundraising. However, we *can* measure a close proxy: if a candidate's return to fundraising increases as a result of PCF – that is, if he receives more votes per dollar raised and spent thanks to PCF – then presumably he will be under less pressure to fundraise.

To test this hypothesis, we constructed a model measuring the average number of dollars each candidate raised individually (that is, not counting the public funds that PCF participants receive) per vote against a series of individual measures of interest. First, we indicated whether the candidate accepted PCF. Since perhaps incumbents were more efficient at fundraising than challengers, we also included a signal of incumbency, as well as a special interaction term for when a candidate was both an incumbent *and* a PCF participant. After running this analysis, we observed that candidates face a declining return of votes-to-dollars: that is, on the margin, a candidate must raise and spend more money for each additional vote as overall spending rises. One might call this “decreasing returns to fundraising.”²⁰

²⁰ A clarification: we use dollars raised in lieu of dollars spent for two reasons. First, the two indicators are highly correlated with one another, so including both would reduce the precision of our model. Second, since PCF matching is tied to fundraising, not spending, we thought money raised was the more relevant measure.

	(1)	(2)	(3)	(4)
Effect of PCF	-4.095	-3.570	***-12.98	***-17.159
Incumbent PCF	--	4.259	8.300	--
R ²	0.010	0.378	0.410	0.790
N	117	117	67	27

Table 2: Effect of PCF on Fundraising Efficiency

- (1) All years, all districts, no controls
- (2) All years, all districts, incumbency & total raised controls
- (3) 2002 & 2004, all districts, incumbency & total raised controls
- (4) 2002 & 2004, open districts, total raised controls

*** significant at 99% level of confidence

** significant at 95% level of confidence

Our results are shown in Table 2. We ran four models: Model 1 regressed amount raised per vote only against the PCF indicator for all years and all districts. The effect was negative, indicating efficiency gains from PCF, but insignificant. Similar results came from Model 2, which tweaked Model 1 to include controls and interactions for incumbency and overall fundraising. Once we took Model 2 and restricted it to just the years in which PCF was in force, 2002 and 2004, we found the significant effects outlined in Model 3 above and illustrated below in Figure 2. Holding other factors constant, both incumbents and challengers, especially the latter, were more efficient at fundraising for votes when they accepted PCF. Challengers who opted-in on average must raise \$13 less per vote than non-PCF challengers. Incumbents' benefits from PCF were less than those to challengers: on average, incumbents saved about \$4.70 more than non-PCF incumbents, though this difference was not significant.

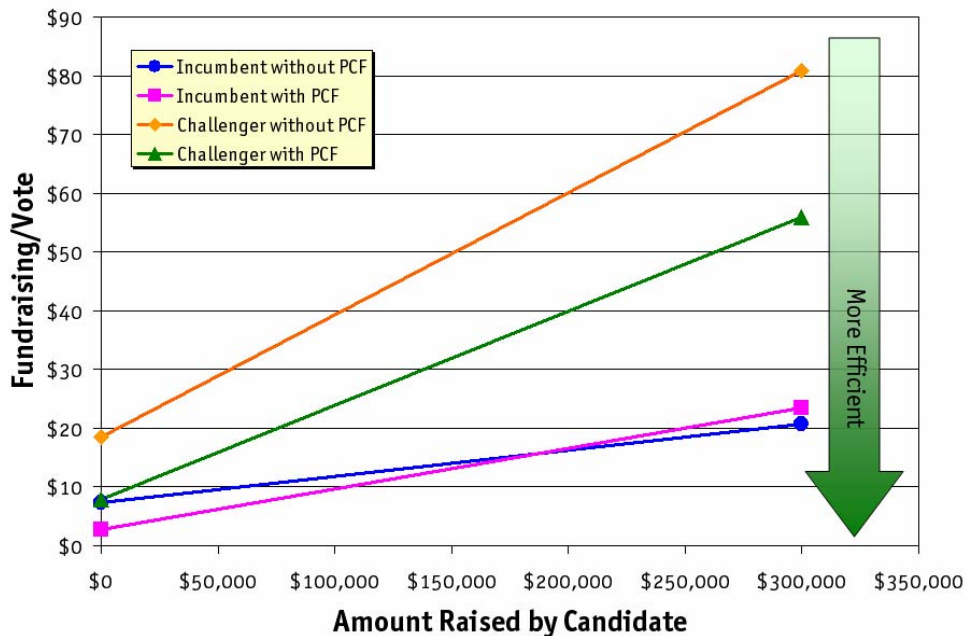


Figure 2: Fundraising efficiency, incumbents v. challengers, 2002 & 2004 (Model 3)

The result that accepting PCF led to efficiency gains in terms of dollars raised per vote makes intuitive sense. PCF candidates were more efficient because they fundraised less for more total money.²¹ If they both raised \$500 at a one hour fundraiser, then the PCF candidate has exceeded the other in terms of fundraising efficiency, because may have received as much as \$2,000 in additional matching funds from the city, pushing her campaign well ahead of her rival's in terms of money raised per hour. We concluded from this result that San Francisco's PCF program does relieve participating candidates from some of the pressures of fundraising.

Does the incumbency factor overwhelm the opportunities created by PCF?

The consensus on an incumbent's electoral advantage is near unanimous: whether a political scientist or a professional politician, everyone agrees that incumbency is the strongest predictor of victory on Election Day. In some ways, this fact reflects well on our democracy: the electorate clearly has continued confidence in most of their public officials. Many people worry, however, that the institutional advantage incumbents enjoy prevents the ascendancy of challengers with fresh ideas. This concern was a motivating factor behind San Francisco's PCF, predicated on the belief that instituting campaign finance would erode the incumbency premium.

We measured the effect of incumbency, and by extension any potential "halo effect" from PCF separate from the public funding effect, by crafting a model and applying it to different years. We again employed the PCF indicator; however, instead of using only those funds raised directly by the candidate, we employed a measure of total funds, which included the public grants PCF participants received. We made this change because we wanted the PCF variable to glean only the external effects of opting into the program that are independent of the advantages from extra funding. A challenger indicator replaced the incumbent indicator here, because we also wanted to include an interaction variable capturing those challengers who also accepted PCF, on the hypothesis that they may have experienced a unique benefit against incumbents that non-PCF challengers and PCF incumbents did not. Finally, we included a variable measuring the number of other credible candidates appearing on the ballot.

²¹ Note: In our model, we included only money raised directly by the candidates themselves, not total money received.

	(1) All candidates All districts All years	(2) All candidates All districts 2000	(3) All candidates All districts 2002 & 2004	(4) Non- incumbents All districts 2002 & 2004	(5) Non- incumbents Open districts 2002 & 2004
PCF	-0.106 [.234]		-0.034 [.281]	.196 [.172]	.301 [.235]
Challenger	***-.756 [.175]	***-.894 [.253]	***-.926 [.240]		
PCF	.207		.285		
Challenger	[.267]		[.310]		
R^2	0.651	0.682	0.680	0.521	0.757
N	117	50	67	58	27

Table 3: Effect on ln(votes), coefficients with [robust standard errors].
 *** Significant at 95% level.

We present the results in Table 3. The first three models ascertain whether the dominance of incumbency has been consistent since the transition to PCF in 2002. Model 1 looks at all three elections, Model 2 at just 2000, and Model 3 at 2002 and 2004. The effects borne out by these models and summarized below in Figure 3 show that the relative advantage of incumbents over challengers has been preserved, though the model predicts a decrease in the absolute number of votes won by each.

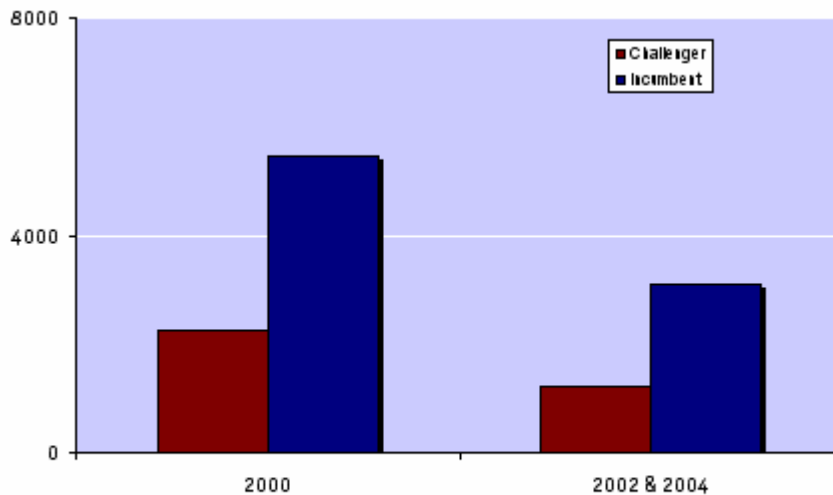


Figure 3: Predicted advantages (votes with controls), incumbents v. challengers, Models 2 & 3

Has the program limited overall spending in Board of Supervisor elections?

Candidates who opt-in to San Francisco's PCF system agree to strict spending limits that are only lifted in the event someone else running in their district breaks the cap.

Does the presence of this cap serve to limit campaign spending among all candidates, even those unbound by PCF?

To test this hypothesis, we first performed a statistical test called an ANOVA that compared the average amount spent per candidate in 2000 (pre-PCF) with the average spent in 2002 and 2004 (post-PCF). Spending after the city put the PCF system into place dropped an average of \$2,000, and the range of observations was so wide that this estimate was highly insignificant. Statistically, this difference was the same as zero, or no change. When we performed a linear regression and held incumbency and competition constant, we found an insignificant, but *positive* change in spending between the two periods for challengers (still negative and insignificant for incumbents).

In conclusion, we found no evidence to suggest that candidate spending had fallen in the two elections since PCF began.

Qualitative analysis of the current system

Is the program cost-effective?

All respondents believe that the benefits of the public campaign financing program outweigh the costs of not having the system in place. According to District 3 Supervisor Aaron Peskin, PCF is important because San Francisco is leading by example and public campaign financing is spreading to the mayoral race and possibly the rest of California.²²

Has the system created opportunities for newcomers to run for office?

Only one candidate out of the 16 interviewed said that public campaign financing influenced his decision to run for Board of Supervisors. Alternately, a survey administered by the Ethics Commission to 2002 participants showed that public funding influenced all five respondents' choice to enter their races. While we are unable to say that public campaign financing significantly influenced candidates' decisions to run, it did, according to one candidate, "encourage me to run stronger."²³

Do candidates spend more time discussing issues than before PCF?

Most interviewees did not feel that their participation in the public campaign finance program gave them more time to discuss issues with their voters. However, the extra money did allow them to produce more door hangers, signs, and mailers. Since these methods of communication – not debates – are the main form of interaction between candidates and the electorate in Board of Supervisor elections, we concluded that

²² Interview with Supervisor Peskin (4/4/06)

²³ Interview with 2004 candidate from District 3 (4/11/06)

public campaign financing allowed participants to converse more often with their voters.

Are candidates relieved from some of the pressures of fundraising?

Many candidates reported that participation in public campaign financing made fundraising easier. Barry Hermanson, a 2002 candidate in District 4, said the 4:1 match was powerful to encourage voters to contribute money, therefore making “dialing for dollars” easier.²⁴

Does the incumbency factor overwhelm the opportunities created by PCF?

While some respondents believed that public campaign financing helps diminish the “incumbency factor,” they all recognized that Board of Supervisor incumbents won re-election 100 percent of the time in San Francisco. According to Julian Davis, a 2004 District 5 candidate, “[incumbents] win with or without public campaign financing, but because of term-limits, this isn’t as big of an issue.”²⁵ A few interviewees felt that candidates would pose more of a challenge to incumbents if they were permitted to spend more money than incumbents. These respondents also noted equity concerns with this potential arrangement.

Has the program limited overall spending for Board of Supervisor elections?

The vast majority of the candidates we interviewed who opted into the PCF system did not raise enough money to reach the spending cap. One sitting Supervisor who opted out of the program raised and spent money in excess of the spending cap (\$259,739 total), which lifted the \$83,000 spending limit for all his opponents as well. Based on our limited information, it appears that PCF does not influence privately financed candidates to spend less money on their campaigns.

²⁴ Interview with Barry Hermanson (4/4/06)

²⁵ Interview with Julian Davis (4/11/06)

Criterion	Quantitative	Interviews
1) Cost effectiveness	N/A	Benefits outweigh costs
2) Opportunities for newcomers	No evidence	No evidence
3) Reduced fundraising pressures	Yes	Yes
4) More time on issues	Possible	Yes, if more mailers = more issues
5) Limit candidate spending	No evidence	No evidence, too much variation
6) Incumbency still dominant	Yes	Yes

Table 4: summary of quantitative and qualitative analyses

EVALUATING OTHER POLICY ALTERNATIVES

In this section, we evaluate the following policy alternatives against the aforementioned criteria. We omit obvious cases in which the alternative does not address a specific criterion. Since these alternatives cannot be observed in a way directly applicable to San Francisco, quantitative analysis cannot inform our evaluations. Therefore, what follows is our best estimate of the cost effectiveness of each option.

1. Eliminate San Francisco's public campaign finance program

This alternative would eliminate San Francisco's public campaign financing program, saving the city money (\$757,678 was spent in 2004). However, it does nothing to encourage political newcomers to run for office – one of the major goals of public campaign financing. Without the benefit of public funds, candidates would spend more time fundraising, and they would have less time and resources to debate issues and communicate with their electorate.

The elimination of PCF may also increase overall spending for Board of Supervisor campaigns because there would be little incentive for well-funded candidates to limit their spending to appear comparable with publicly financed candidates. In addition, this option is not politically feasible. Proposition O, which created PCF, was passed by San Francisco voters just six years ago, and there have been no vocal calls for its repeal.

2. Move to Clean Elections

Clean Elections is a system in which candidates are fully publicly financed once they raise sufficient money to meet a qualifying threshold. It offers qualified candidates a limited and equal amount of public funds. Most candidates we interviewed support a move toward Clean Elections as a system that would encourage more people to run for office, reduce corruption, and create more diversity in district campaigns.

However, several candidates disagree with the idea of Clean Elections because they feel that the system would induce too many people to run for office and, according to 2002 District 6 candidate Garrett Jenkins, "in difficult financial times, there should be a limit as to how much money can be spent for public campaign financing."²⁶

A Clean Elections system would be more costly than the current partial campaign-financing program assuming per candidate spending remains the same. For example, there was one open seat in the 2004 election, and we estimate that had Clean Elections been implemented, the total public expense would have been \$3.65 million given the number of candidates who participated. As supervisors are termed-out in both 2008 and 2010, there will be five open seats in each election, thereby greatly increasing public expense from our 2004 estimate.

Any benefits derived from Clean Elections may be mitigated by potential drawbacks. First, Clean Elections may encourage so many people to run that it becomes difficult for voters to distinguish one candidate from another. This may give an added advantage to incumbents, as name recognition becomes more valuable in a larger field. In addition, rather than creating an incentive for consensus candidates, Clean Elections may promote special interest and niche candidates. Once these participants receive a small amount of support from their core constituency to qualify for full public funding, they are financed at the same rate as candidates with more widespread support. While they would be relieved from its pressures, fundraising is an important part of campaigning because it allows candidates to meet directly with their constituents and discuss issues that are important to the electorate.

Ultimately, the feasibility of Clean Elections depends on the amount of public funds available to candidates. If funds are limited, each participant may receive significantly less money for her campaign than the amount of money raised by candidates who opt out of the system. Serious candidates may decide not to participate for fear that they will be unable to compete with privately financed candidates.

²⁶ Interview with Garrett Jenkins (4/11/06)

To combat this problem, the city would have to allocate substantial funds for Clean Elections so that candidates who opt-in to the system may run viable campaigns. However, there is a limit as to how much the public is willing and able to contribute to publicly financed elections, and these costs may be prohibitively high. Finally, although some reformers have discussed Clean Elections, there has been little interest in this reform as of yet.

3. Raise/lower spending caps

Currently, candidates who opt-in to the PCF system agree to a spending cap of \$83,000. The caps are lifted when either a non-PCF candidate raises or spends in excess of \$83,000 or a third party or parties spends money to support or oppose a candidate that exceeds \$83,000. Alternatively, if a third party targets a particular candidate with a negative ad and the total amount spent exceeds the spending cap, all candidates' spending caps in that district are lifted. Once the spending limit is lifted in a district, it is lifted for all candidates in the district, which means that all candidates, whether PCF or non-PCF, may spend more than \$83,000.

The issue of raising or lowering spending caps arose several times during our interviews, and there was a large discrepancy between sitting members of the Board of Supervisors and their challengers. Some of the grassroots candidates believed that the current spending cap of \$83,000 was too high. According to 2002 District 4 candidate Krista Spence Loretto, "I think that the spending caps should be lower because the amount of money currently spent is a disgusting amount of money."²⁷ Hermanson said that the Ethics Commission should levy a more severe penalty for breaking the spending limits because candidates are not keeping their promise and "no matter what the current limits are, people will spend what they want."²⁸

Conversely, Supervisor Peskin believes that "you can run an effective, grassroots, district campaign for \$90,000, but it would be a shoestring campaign."²⁹ In the 2006 election, District 6 Supervisor Daly plans to wait until the last minute to declare whether or not he will accept public funds and the spending limit. If he believes that his opponents will break the spending caps early, he will participate because this will give him adequate time to raise money to respond to their spending. Otherwise, he will not participate in PCF because he does not want to be left with little time to respond.³⁰ As election cycles continue and candidates learn the details of public campaign financing, we anticipate more people will "game" the system in this way. Supervisors did not believe that the caps should be changed because they are usually

²⁷ Interview with Krista Spence Loretto (4/11/06)

²⁸ Hermanson

²⁹ Peskin

³⁰ Interview with Supervisor Daly (4/4/06)

lifted in competitive races, which allows PCF candidates to remain competitive with non-PCF candidates.

Raise caps

This option encourages candidates to participate in the program who believe the current limit is prohibitively low. Raising spending limits would likely increase overall spending in Board of Supervisor campaigns because more candidates would participate. Any additional benefits resulting from this increase in spending may not exceed the costs incurred with a higher limit.

Lower caps

Grassroots candidates supported lowering spending limits because they believe it will level the playing field. However, lowering the spending cap may decrease the number of serious candidates who accept PCF because they will be unable to compete with privately financed candidates. This would reduce the number of candidates who are publicly funded, thereby decreasing overall spending on the program. If a major goal of the PCF program is to create real opportunities for newcomers, lowering the caps does not accomplish this objective.

4. Raise/lower qualifying threshold

The current qualifying threshold is set at \$5,000, a decrease from \$7,500 in 2002. Most of the candidates we interviewed feel that the qualifying threshold for public funding is about the right amount. According to Supervisor Peskin, this threshold is low enough for viable candidates to reach with moderate difficulty but “high enough to weed out the goofballs.”³¹ Julian Davis adds that a lower threshold would encourage too many people to run, thereby straining the program.³² Alternately, Krista Spence Loretto agrees with the threshold amount, but she feels that candidates should have more time to raise qualifying funds.³³

Raise the qualifying threshold

By raising the amount of money necessary to participate in the PCF program, fewer total candidates (including fewer non-serious candidates) would qualify for public funding, which would reduce overall public expenditures. This will not create an incentive for those previously opting-out of PCF to opt-in; it simply makes it more difficult to qualify and does not address non-participating candidates' competitiveness concerns.

³¹ Peskin

³² Davis

³³ Loretto

Lowering the qualifying threshold

This encourages more candidates to opt-in to the PCF system, and it increases the number of non-serious candidates who qualify for public funds. Because more non-serious candidates would qualify, the city could be wasting public funds. In addition, overall public finance expenditures will increase.

5. Maintain the Status Quo

By most accounts, the current PCF program is working well, and candidates found the system relatively easy to navigate. Candidates who accepted public financing believed that the Ethics Commission handled the program fairly throughout their races. Participants who ran in 2002 noted that the Ethics Commission was still working through many of the details of the new program and could not accurately answer all of their questions. Alternatively, most 2004 candidates praised the Ethics Commission for their helpfulness and expertise. District 9 Supervisor Ammiano noted, however, that during his 2004 campaign, there was some turmoil within the Ethics Commission as they restructured their department. He also said that management has improved since the time those changes were made.³⁴

There have been only two election cycles and one open seat in San Francisco since PCF was implemented in 2002. As previously mentioned, the five open seats in both the 2008 and 2010 elections will induce more candidates to run for Supervisor and provide a good test for the current system. We therefore recommend that the Ethics Commission make no major changes to the program until they have evaluated the effects of PCF on the 2008 and 2010 races. We do, however, recommend the following minor changes to the program's administration.

RECOMMENDATIONS

1. Allow candidates to qualify for public funding by gathering signatures.
2. The city should allocate more funds to the Ethics Commission for auditing.
3. The city should create an Elections Trust to fund the program.
4. The Board of Elections should include a symbol on the ballot and Voter's Guide to denote candidates who accept public funds.

1. Allow candidates to qualify for public funding by gathering signatures.

We recommend that the Ethics Commission adds an alternative qualifying method to the public financing program: signatures. We believe that while the city has set the monetary threshold at the correct amount, some candidates with grassroots support

³⁴ Interview with Supervisor Ammiano (4/13/06)

still lack the social network to raise \$5,000. Under our proposal, a candidate may collect signatures from her own district to ensure that she has sufficient neighborhood support. We recommend the minimum number of required signatures be the greater of two thresholds a) 10 percent of the total votes cast in the previous district election; b) 2,500 signatures.

This safeguard guarantees that the signature method would only be used by candidates truly unable to reach the monetary threshold. This figure must be flexible to account for different district sizes and voter turnouts. Odd numbered districts will generally require more signatures than even numbered districts, because these coincide with presidential elections. However, we do not expect this to disadvantage odd numbered districts because they consistently coincide with high turnouts.

One inevitable complication is the hiring of professional signature gatherers on a pay-per-signature basis. If we conservatively assume that the “market” price for a signature is \$2,³⁵ then given the existing \$5,000 qualifying threshold, the number of required signatures should be at least 2,500.

2. The city should allocate more funds to the Ethics Commission for auditing.

The city should raise auditing performance standards and provide the appropriations necessary to achieve them. These standards should enable the Ethics Commission to audit 100 percent of PCF candidates and 50 percent of non-PCF candidates within one year of the election.

Currently, publicly financed candidates face a disparity in transaction costs because they are audited 100 percent of the time. Non-publicly financed candidates are audited between 10 percent and 20 percent of the time contingent on the amount of funds available after auditing PCF candidates. Additionally, as Supervisors become termed out in 2008 and 2010, we expect more candidates to run, which will increase the resource burden on the Ethics Commission. This creates a disincentive for candidates to participate in the PCF program. It also increases the likelihood of fraud by non-PCF candidates.

³⁵ Based on media review.

3. The city should create an Elections Trust to fund the program.

We recommend the city appropriates \$375,000³⁶ annually, adjusted for inflation, to a trust for supervisorial races comparable to the mayoral public financing trust. Currently, funding for supervisorial races involves a cumbersome year-long budgetary process that is riddled with conflicts of interest: the mayor recommends, and the Board of Supervisors passes, the Ethics Commission's budget. They may therefore decide to starve the Commission of funds in order to lower the number of audits conducted. Alternatively, they may slash the appropriations slated for PCF candidates who may be running against a sitting Supervisor or Mayor. By shifting to an annual appropriation process we remove funding for the PCF program from the political process. In addition, the establishment of a trust allows PCF to withstand significant shifts in the number of participating candidates.

4. The Board of Elections should include a symbol on the ballot and Voter's Guide to denote candidates who accept public funds.

Candidates who agree to voluntary spending limits are identified on the Voter's Guide and the ballot. However, candidates who participate in public campaign financing are not noted in either document. We recommend that the Ethics Commission requests that the Department of Elections adds a symbol in both the Voter's Guide and the ballot to denote candidates who have accepted public campaign financing. This will increase voter awareness of the program and highlight which candidates participate in PCF. Adding a simple, clear indication in these documents would be both easy and inexpensive.

³⁶ The legal maximum that may be appropriated to the Supervisorial Election Campaign Fund is \$2 per San Francisco resident per year: or about \$1.5 million per year (approximately 750,000 residents in San Francisco). However total public funding in 2004 amounted to only \$757,678, or about \$1 per resident per biennial election. The figure \$375,000, therefore, reflects current spending levels calculated on an annual basis.

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APPENDIX A: INTERVIEW QUESTIONNAIRE

General PCF Questions

- What is your general understanding of the PCF program?
- How did you hear about PCF?
- Was the system easy to navigate/understand?
- Did you feel like you had adequate support throughout the PCF process?
- Did the Ethics Commission handle the program fairly and effectively throughout your campaign?
- Why did you participate or not participate in PCF?
- Was this your first time running for the Board of Supervisors? If so, did PCF influence your decision to run?
- (If on the Board), would you accept PCF in your next race?
- Do you believe there is a premium attached to PCF in terms of voter attitudes?
- Is that “halo effect” negatively affected if a participating candidate breaks the spending limits?

Qualifying Threshold

- Was it difficult for you to raise the \$5,000 qualifying threshold? Should this be lowered? Raised? Or, is it the right amount?
- Do you feel like the benefits that citizens and candidates received from the PCF program outweigh the costs of the program?

Spending Limits

- Did you raise more than the spending limit in anticipation of the caps being lifted?
- If so, do you feel as if this improved your chances of competing or winning?
- Do you think spending caps should be higher? Lower? Why?

Goals of PCF

- Did participating in PCF somewhat free you from the pressures of fundraising?
- Did you have more time to discuss issues?
- Do you think the incumbency factor overwhelms PCF?

Policy Alternatives

- Do you believe independent expenditures overpower PCF because there are no limits to spending? If so, what are ways that this can be improved?
- Would you support a move to Clean Elections – a system in which candidates are fully publicly financed?

APPENDIX B: PCF PARTICIPATION RATES OVER TIME

