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Supplemental Information on Proposed Changes to the Expenditure Ceiling Adjustment Process

On September 12, the Ethics Commission voted unanimously to approve an ordinance that would make expenditure ceilings in the Public Financing Program stronger and more workable by changing the process by which the ceilings are adjusted (File #250868). The proposed new process makes spending limits more effective while also removing unnecessary burdens on candidates and better utilizing limited City resources. The ordinance will:

- ❖ Hold publicly financed candidates to stronger spending limits when practicable but remove those limits when significant levels of unrestricted spending enter a race.
- * Reduce the administrative burden on candidates by reducing the amount paperwork they need to regularly file with the Ethics Commission, instead allowing them to direct those resources towards engaging with voters.
- **Enable Ethics Commission auditors to spend more time performing audits** and less time calculating and administering unnecessarily complicated ceiling adjustments.

Earlier Ethics Commission findings and recommendations associated with this ordinance were <u>presented</u> to the Ethics Commission in a June report. This document supplements that earlier report with additional analysis regarding the proposed change. If you have questions, please contact Policy & Legislative Affairs Manager, Michael Canning at Michael.A.Canning@sfgov.org.

Why does the current process need to be changed?

The current process applies unique expenditure ceilings to each individual candidate and uses a complicated set of calculations involving the total amounts of funds spent for and against the candidate, to determine if that candidate's ceiling should be raised. This current process:

- * Rarely limits candidate spending: In 2024, ceilings were *adjusted 295 times*, and at the end of the election, the ceilings were *only limiting the spending of a single candidate*. Across races in 2022 and 2020, ceilings were adjusted 66 times and at the end of those elections were only limiting the spending of four candidates in four races.
- Places a high administrative burden on candidates and diverts the time of Ethics Commission auditors: In 2024, mayoral and supervisorial candidates filed 263 threshold statements with the Ethics Commission. These are statements that must be filed on an on-going basis, within 24 hours of passing certain fundraising or expenditure thresholds. Any approach that employs adjustable spending limits requires this constant reporting by candidates. Administering the

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¹ Out of 27 total candidates that were receiving public financing.

current adjustment process also requires Ethics Commission auditors to be regularly pulled away from their primary auditing work, to calculate and process these ongoing ceiling adjustments.

What would the proposed ordinance do?

The proposed ordinance would change how expenditure ceilings are administered to simplify the overall process, allow ceilings to impose stronger limits on candidate ceilings when practicable, and remove the ceilings when they are no longer able to effectively limit spending in a race. The proposed process in the ordinance would do this by:

- 1. Consistently applying ceilings to all candidates in a race, instead of having unique ceilings that are applied and adjusted per candidate.
- 2. Lifting the ceilings in a race entirely if there is a significant level of unrestricted spending² in the race, instead of the current process of gradually increasing the limits multiple times throughout the election.

How would the proposed process have worked in past elections?

To better understand the impact of this change on expenditure ceilings, the attached tables compare how the current process applied in past races to how the proposed process would have applied if it had been in place. Under the proposed process:

- Ceilings would be lifted late in the election or not at all. In seven of the 15 races with publicly financed candidates, the *ceilings would have remained in place* for all participating candidates throughout the election. In another seven races, the *ceilings would have been lifted in October or November*, in some cases just days before the election.
- Fewer adjustments would be made throughout the election. Across the three elections studied, the current process raised candidate ceilings 370 times. Under the proposed process, the ceilings would have instead been lifted in eight of the 15 races.
- Ceilings would be more effective at *actually* limiting spending while in place. The current process only held back the spending of five candidates at the end of their elections. Under the proposed process, the ceilings would have remained in place in four of these races. In the other race, the ceiling would have held spending at a significantly lower amount until just days before the election. In several instances, where there were not significant amounts of independent expenditures being made, the proposed process would have been more effective at limiting the spending of participating candidates. In each election cycle studied, there were races where the current process raised the ceilings so high that they no longer limited spending. Under the proposed process these ceilings would have remained in place and actually limited candidate spending.

² The ceiling in a race would be lifted if aggregate independent expenditures in the race exceed 75% of the current ceiling in that race or if a non-participating candidate in the same race raises more than that amount.

³ Meaning the candidates had raised more money than their final expenditure ceiling allowed them to spend.

⁴ See the District 9 race in 2024, the District 6 race in 2022, and the District 7 race in 2020 in the attached tables.

How would the proposed process account for independent expenditures?

Stricter Limits when Appropriate

The proposal would increase the threshold at which independent expenditures could trigger a change to expenditure ceilings. The ceilings would only be lifted if nearly \$300,000 in independent spending was put into the race. Under current law, *any amount* of independent spending can trigger a cascade of ceiling adjustments for candidates, *including for the candidate who was supported by the initial independent spending*. The proposed process makes spending limits stronger in races in which there is less than \$300,000 in independent spending, which is where spending limits have the greatest impact.

More Efficient Process for Responding to Independent Expenditures

Additionally, years of data from recent elections clearly show that once large amounts of independent spending are present in a race, expenditure ceilings are not effective tools for limiting spending in that race. The current process recognizes that in such races, publicly financed candidates need the ability to spend more money to react to the independent expenditures being made. This is an important element of the program. However, the current process attempts to achieve this through an inefficient approach that consistently fails to limit spending, as it regularly raises spending limits for candidates well beyond the amounts they have been able to raise. Instead of complicated, unending adjustments that are not effective at limiting spending, the *proposed process focuses on the aggregate level of independent spending in a race and lifts the ceiling for the entire race when that spending reaches a significantly high level (\$300,000)*. This process is simpler and still allows candidates to react to the independent spending in their race, but without unnecessarily consuming candidate and City resources.

Do these changes align with the purposes of the City's Campaign Finance Reform Ordinance?

Yes, this ordinance would retain and strengthen the City's expenditure ceilings, which help limit overall expenditures in campaigns. The proposed process will also reduce the complexity of the program and lower administrative hurdles, which will help enable candidates to spend less of their time on fundraising and bureaucracy, and more time engaging with voters on important issues.

Can the current process of applying unique ceilings to each candidate just be tweaked?

The City has experimented with candidate-specific ceilings for the last 25 years, and they have been overly complicated, burdensome, and ineffective. In 2018, the Ethics Commission considered moving to a process similar to what is being proposed by the current ordinance. However, after concerns were raised by certain advocates, the Commission compromised and instead of fully reforming the ceiling adjustment process, the Commission agreed to just increase the increments by which the individual ceilings were adjusted. Today, many of those same advocates are promoting another minor tweak, which would complicate the current process further and keep the same flaws of the current process in place.

It is imperative that the City transition away from the flawed system of candidate-specific expenditure ceilings that are gradually raised indefinitely throughout the election. <u>The proposed new process</u> achieves better policy benefits without unnecessarily burdening candidates or diverting City resources.

Attachment

Table 1: Comparison of Expenditure Ceiling Adjustments Under the Current and Proposed Processes (2020-2024)

	Races with	Curr	ent Adjustment Process	Ethics Proposed New Adjustment Process			
Year	Public Financing	Adjustments Made Summary of Outcomes		Adjustments Made	Summary of Outcomes		
2020	5	46	Across 3 races, the spending of 3 candidates was limited at the end of the election. For all other candidates, ceilings were adjusted beyond what the candidates raised.	2	The initial ceilings would have remained in place for 3 races, limiting the spending of 6 candidates at the end of the election. In the other two races, the ceilings would have been lifted days before the election.		
2022	3	20	In 1 race, the spending of 1 candidate was limited at the end of the election. For all other candidates, ceilings were adjusted beyond what the candidates raised.	1	The initial ceilings would have remained in place for 2 races, limiting the spending of 3 candidates at the end of the election. In the other race, the ceiling would have been lifted in mid-October.		
2024	7	295	In 1 race, the spending of 1 candidate was limited at the end of the election. For all other candidates, ceilings were adjusted beyond what the candidates raised.	5	The initial ceilings would have remained in place for 3 races, limiting the spending of 6 candidates at the end of the election. In the other two races, the ceilings would have been lifted days before the election.		

Table 2: 2020 Expenditure Ceiling Adjustments Under Current and Proposed Processes

November 3, 2020 Election											
		Total		Current Process:				Proposed Process:			
Race	Candidate ¹	Candidate Funds (TCF) Raised	Aggregate 3 rd Party Spending	Initial Ceiling	# Adjust ments	Final Ceiling	TCF % of Final Ceiling	Initial Ceiling ²	Final Ceiling ³	TCF % of Initial Ceiling	
BOS1	Chan, Connie	\$379,702		\$350,000	5	\$650,000	58.4%	\$350,000		108.5%	
BOS1	Lee, David	\$325,530	\$285,267	\$350,000	3	\$500,000	65.1%	\$350,000	Lifted between 10/29-11/2.	93.0%	
BOS1	Philhour, Marjan	\$448,723	\$205,207	\$350,000	3	\$500,000	89.7%	\$350,000		128.2%	
BOS1	Shinzato, Veronica	\$95,207		\$350,000	3	\$500,000	19.0%	\$350,000		27.2%	
BOS3	Peskin, Aaron	\$400,470	\$ 13,809	\$350,000	0	\$350,000	114.4%	\$350,000	Ceiling would have remained in place.	114.4%	
BOS3	Sauter, Danny	\$322,957		\$350,000	1	\$400,000	80.7%	\$350,000		92.3%	
BOS5	Brown, Vallie	\$501,449	¢270.745	\$350,000	2	\$500,000	100.3%	\$350,000	Lifted between 10/27-10/29.	143.3%	
BOS5	Preston, Dean	\$487,175	\$279,745	\$350,000	5	\$750,000	65.0%	\$350,000		139.2%	
BOS7	Engardio, Joel	\$445,845		\$350,000	3	\$500,000	89.2%	\$350,000		127.4%	
BOS7	Martin-Pinto, Stephen	\$132,808		\$350,000	3	\$500,000	26.6%	\$350,000	-	37.9%	
BOS7	Matranga, Ben	\$249,918	¢244 025	\$350,000	3	\$500,000	50.0%	\$350,000		71.4%	
BOS7	Melgar, Myrna	\$425,681	\$211,035	\$350,000	3	\$500,000	85.1%	\$350,000	remained in place.	121.6%	
BOS7	Murase, Emily	\$345,622		\$350,000	3	\$500,000	69.1%	\$350,000	-	98.7%	
BOS7	Nguyen, Vilaska	\$441,378		\$350,000	5	\$600,000	73.6%	\$350,000		126.1%	
BOS11	Avalos, John	\$378,941	¢196.0E2	\$350,000	3	\$550,000	68.9%	\$350,000	Ceiling held.	108.3%	
BOS11	Safai, Ahsha	\$414,018	\$186,953	\$350,000	1	\$400,000	103.5%	\$350,000		118.3%	

¹Only includes candidates who participated in the Public Financing Program – there was no public financing in BOS9 as incumbent Hilary Ronen ran unopposed.

² Ceiling was set at \$350,000 via <u>Ordinance 218-19</u> in 2019.

³ Ceiling removal is triggered by aggregate 3rd party or non-participating candidate fundraising or spending going beyond 75% of the initial ceiling – this limit would have been \$262,500 in 2020.

Table 3: 2022 Expenditure Ceiling Adjustments Under Current and Proposed Processes

	November 8, 2022 Election										
		Total		Current Process:				Proposed Process:			
Race	Candidate ¹	Candidate Funds Raised (TCF)	Aggregate 3 rd Party Spending	Initial Ceiling	# Adjust ments	Final Ceiling	TCF % of Final Ceiling	Initial Ceiling ²	Final Ceiling ³	TCF % of Initial Ceiling	
BOS4	Engardio, Joel	\$434,967	\$242,060	\$350,000	5	\$700,000	62.1%	\$370,000	Lifted between	117.6%	
BOS4	Mar, Gordon	\$445,585	\$343,060	\$350,000	6	\$600,000	74.3%	\$370,000	10/18-10/19.	120.4%	
BOS6	Dorsey, Matt	\$507,320	6127.024	\$350,000	5	\$650,000	78.0%	\$370,000	Ceiling would have	137.1%	
BOS6	Mahogany, Honey	\$532,070	\$127,024	\$350,000	4	\$550,000	96.7%	\$370,000	remained in place.	143.8%	
BOS8	Mandelman, Rafael	\$376,883	\$4,700	\$350,000	0	\$350,000	107.7%	\$370,000	Ceiling would have remained in place.	101.9%	

¹ Only includes candidates who participated in the Public Financing Program – there was no public financing in BOS2 as incumbent Catherine Stefani ran unopposed, and no public financing in D10 as neither incumbent Shamann Walton nor Brian Adam opted into the program.

² Ceiling was set at \$350,000 via <u>Ordinance 218-19</u> in 2019, adjusting for inflation would have set the 2022 ceiling at \$370,000.

³ Ceiling removal is triggered by aggregate 3rd party or non-participating candidate fundraising or spending going beyond 75% of the initial ceiling – this limit would have been \$277,500 in 2022.

Table 4: 2024 Expenditure Ceiling Adjustments Under Current and Proposed Processes

	November 5, 2024 Election									
		Candidata			Current	Process:		Proposed Process:		
Race	Candidate ¹	Candidate Funds Raised (TCF)	Aggregate 3 rd Party Spending	Initial Ceiling	# Adjust ments	Final Ceiling	TCF % of Final Ceiling	Initial Ceiling ²	Final Ceiling ³	TCF % of Initial Ceiling
BOS1	Chan, Connie	\$429,385		\$350,000	8	\$850,000	50.5%	\$398,000	Lifted between — 10/1-10/2. —	107.9%
BOS1	Nossokoff, Jen	\$98,614	\$1,582,322	\$350,000	11	\$1,250,000	7.9%	\$398,000		24.8%
BOS1	Philhour, Marjan	\$511,583		\$350,000	17	\$1,700,000	30.1%	\$398,000	10/1-10/2.	128.5%
BOS3	Jamil, Moe	\$423,509		\$350,000	7	\$750,000	56.5%	\$398,000		106.4%
BOS3	Lai, Sharon	\$448,059		\$350,000	6	\$700,000	64.0%	\$398,000	Lifted between - 10/22-10/28.	112.6%
BOS3	Navarro, Eduard	\$96,679	\$357,393	\$350,000	6	\$700,000	13.8%	\$398,000		24.3%
BOS3	Sauter, Danny	\$444,336		\$350,000	4	\$550,000	80.8%	\$398,000		111.6%
BOS3	Susk, Matthew	\$261,934		\$350,000	6	\$600,000	37.4%	\$398,000		65.8%
BOS5	Jacobs, Scotty	\$267,655		\$350,000	4	\$650,000	41.2%	\$398,000	Lifted between 10/18-10/23.	67.3%
BOS5	Looijen, Autumn	\$156,172	\$534,375	\$350,000	4	\$650,000	24.0%	\$398,000		39.2%
BOS5	Mahmood, Bilal	\$509,049		\$350,000	5	\$850,000	59.9%	\$398,000		127.9%
BOS5	Preston, Dean	\$603,062		\$350,000	4	\$750,000	80.4%	\$398,000		151.5%
BOS7	Boschetto, Matthew	\$416,413		\$350,000	1	\$400,000	104.1%	\$398,000	Ceiling would have remained in place.	104.6%
BOS7	Martin-Pinto, Stephen	\$186,227	\$114,012	\$350,000	3	\$500,000	37.2%	\$398,000		46.8%
BOS7	Melgar, Myrna	\$394,176		\$350,000	3	\$500,000	78.8%	\$398,000		99.0%
BOS9	Chandler, Trevor	\$426,701		\$350,000	2	\$550,000	77.6%	\$398,000		107.2%
BOS9	Fielder, Jackie	\$474,607	¢176 162	\$350,000	3	\$550,000	86.3%	\$398,000	Ceiling would have	119.2%
BOS9	Hernandez, Roberto	\$390,533	\$176,163	\$350,000	3	\$550,000	71.0%	\$398,000	remained in place.	98.1%
BOS9	Torres, Stephen	\$117,101		\$350,000	3	\$550,000	21.3%	\$398,000		29.4%
BOS11	Chen, Chyanne	\$399,261		\$350,000	6	\$800,000	49.9%	\$398,000		100.3%
BOS11	Chisti, Adlah	\$106,729	¢002.215	\$350,000	6	\$800,000	13.3%	\$398,000	Lifted between	26.8%
BOS11	Jones, Ernest "EJ"	\$369,447	\$982,215	\$350,000	6	\$800,000	46.2%	\$398,000	10/8-10/9.	92.8%
BOS11	Lai, Michael	\$510,311		\$350,000	8	\$1,000,000	51.0%	\$398,000		128.2%

MYR	Lurie, Daniel*	\$10,478,237		n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
MYR	Breed, London	\$2,398,294	\$15,209,542	\$1,700,000	46	\$16,050,000	14.9%	\$1,936,000			123.9%
MYR	Farrell, Mark	\$2,187,084		\$1,700,000	35	\$16,300,000	13.4%	\$1,936,000	Lifted between		113.0%
MYR	Peskin, Aaron	\$1,844,736		\$1,700,000	43	\$16,050,000	11.5%	\$1,936,000	6/28-7/1	L5.	95.3%
MYR	Safai, Ahsha	\$1,076,929		\$1,700,000	45	\$15,800,000	6.8%	\$1,936,000			55.6%

^{1*}Only includes candidates who participated in the Public Financing Program – however, then-candidate Daniel Lurie was the first instance of non-participating candidate fundraising/spending being sufficient to warrant a ceiling lift his information is included.

²Ceiling was set at \$350,000 for supervisor candidates and \$1,700,000 for Mayoral candidates via <u>Ordinance 218-19</u> in 2019, adjusting for inflation would have set the 2024 ceiling at \$398,000 for supervisor candidates and \$1,936,000 for mayoral candidates.

³ Ceiling removal is triggered by aggregate 3rd party or non-participating candidate fundraising or spending going beyond 75% of the initial ceiling – this limit would have been \$298,500 for supervisor candidates and \$1,452,000 for mayoral candidates in 2024.