Would Revising Los Angeles' Campaign Matching Fund System Make a Difference?

Analyzing the Impact of the City's Matching Fund Changes of 2013-15 and the Ethics Commission's Proposals for Further Change

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DISCLAIMER

This report is part of the Campaign Finance Institute's ongoing research program on money in politics. It not been produced at the request or instigation of the Los Angeles Ethics Commission, City Council, or any other agency of government.

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The Campaign Finance Institute

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EXECUTIVE SUMMARY

The city if Los Angeles is one of only about a dozen in the United States to offer candidates partial public financing for municipal elections. Some form of public financing has been in effect since 1990, but the city has tried to heighten the impact by increasing the public matching fund rate from the old one-for-one match to two-to-one in primaries and four-to-one in general elections, effective for the elections of 2013 and 2015. While the four-to-one rate applied to only a few candidates, it was the country's second most generous at the time – exceeded only by New York City's six-to-one rate. This report analyzes the impact of the two-tiered matching fund rates of 2013 and 2015, along with proposals to move Los Angeles to a uniform six-to-one rate in the future.

To understand the impact of the new, two-tiered system, the report compares the two elections preceding the change (2009 and 2011) with the two after (2013 and 2015). It reaches three conclusions with respect to City Council candidates. First, more candidates took part in the voluntary system. Since voluntary participation is a *sine qua non* for public financing to accomplish anything else, this in itself is important. Second, however, <u>the two-tiered matching rate was **not** enough to increase the role of small donors, which was one of the city charter's stated goals for the system.</u> Finally, there does appear to have been a modest improvement in the racial and economic diversity of the neighborhoods producing small donors.

After the 2015 election, the Los Angeles City Ethics Commission recommended that the city adopt six-to-one matching for both primary and general elections. Because the proposed rate would make the Los Angeles system similar to New York City's, this report estimates the potential impact by comparing pre-reform and post-reform elections in both cities. (It also checks the results in an Appendix with a research design that controls for the many differences between the two cities.) <u>The comparative analysis concludes that the commission's recommendations **would** be likely to enhance the role of small donors to city council candidates.</u> However, achieving the same results for mayoral candidates may require stronger incentives and may also require adding a geographic distribution requirement to qualifying contributions, similar to those put in place for council candidates in 2015.

The report builds upon extensive research by the Campaign Finance Institute. CFI is a nonpartisan institute based in Washington DC with a seventeen year record of peer reviewed research on money in politics. Its work is published in peer reviewed academic journals as well as through other outlets.[1] The data used for this paper were supplied by the Los Angeles City Ethics Commission, New York City Campaign Finance Board and National Institute on Money in State Politics.

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[1] See, for example, CFI's 2015 overview publication covering all states and localities: *Citizen Funding for Elections: What we know? What are the effects? What are the options?* It is available on the CFI website, along with many other publications on matching funds in New York City and related subjects. http://cfinst.org.

BACKGROUND

In 1990, the City of Los Angeles enacted a system of voluntary public matching funds to be made available to candidates for city office. In return for agreeing to limit their spending, engage in public debates, and meet other criteria, qualified candidates for the city council received one dollar for each of the first $250 they received from any donor. Candidates for mayor or other citywide office could have their contributions matched up to $500. After nearly two decades, the city decided to increase matching to a 2:1 rate for contributions to qualified candidates in a first round (primary) election, and 4:1 for the second round (general) election. In 2013 and 2015, only five of the city's fifteen council districts had the two rounds of elections needed to make them eligible for 4:1 matching rates for general election fundraising. The other district elections were settled in one round eligible for only a 2:1 match.

The revised system also phased in a new set of rules restricting the contributions that could be matched. From 1993 through 2011, contributions from all "persons" were eligible, including political committees. For 2013, this was restricted to contributions from individual natural persons, but with no geographic constraints. Starting in 2015, matchable contributions had to come from city residents, and city council candidates had to raise at least 200 donations of $5 or more from residents of the districts they were running to represent.

After the 2015 election, the City Ethics Commission recommended that the City Council increase the matching rate to 6:1 for both the first and second round of elections. The commission also recommended an increase in the maximum amount of public funds a candidate may receive, with no increase in the total amount that a candidate may spend. This would increase the maximum proportion of public funds for most offices in a primary from roughly 20%-30% of what a candidate was permitted to spend, to 35%-40%. In a general election, the maximum public funding would increase from 30% to 46% of the spending limit for city council candidates and from 35% to 53% for mayoral candidates.

If Los Angeles adopts the commission's recommendations, the city's public financing system would look like New York City's. For the elections of 1989 through 1997, New York used a 1:1 matching rate for the first $1,000 contributed by an individual to a participating candidate. The rate was changed to 4:1 for the first $250 for 2001-2005, and then to 6:1 for the first $175 beginning in 2009. The maximum in public funds available to New York City candidates is 55% of the spending limit.

DATA AND METHODOLOGY

CFI's research in this paper focuses on the effects that matching fund programs in Los Angeles and New York City have had on the role that small donors play in the fundraising process. Note that we are interested in the role of small donors, not small contributions. A person who gives hundreds of $5 contributions to the same candidate is not a small donor, in our understanding. Our unit of analysis therefore is the donor-candidate dyad, in which donors are classified according to the sum or aggregate of their contributions to a candidate, no matter how many contributions it may take to reach the aggregate (see Malbin *et al.*, 2012.)   We considered small donors to be those who contributed a total of $250 or less to a candidate.

The raw data from Los Angeles and New York City were supplied by the Los Angeles City Ethics Commission and New York City Campaign Finance Board. State data for California and New York State Assembly candidates were provided by the National Institute on Money in State Politics. To ensure that we compared candidates who were running in similar electoral contexts we limited our dataset to ones who were at least moderately competitive. We defined these as candidates who received at least half of the winner's vote total in either a primary or general election (i.e., one-third of the vote in a two-candidate race).

We also had to account for an important difference in the disclosure rules among the four jurisdictions. New York City provides detailed information for all contributions and donors. Los Angeles, the State of California, and New York State provide similar information only for donors who give $100 or more. This poses a challenge for analyzing the number and proportional role of small donors, requiring us to use estimates. Because New York City discloses all contributions, we were able to determine that donors who gave an aggregate of less than $100 to city council candidates there in fact gave an average of $33. The other three jurisdictions provide information showing how much each candidate received in unitemized contributions. Since the bulk of unitemized contribution come from individuals who give less than $100, we assumed that each of the unitemized donors in these jurisdictions also gave an average of $33. To arrive at the estimated number of unitemized donors, we divided the unitemized total by 33. This is not exact, but the estimate should be close and should not bias the results in favor of any jurisdiction. The estimates were added to the number of disclosed donors who gave $250 or less to a candidate to arrive at the total number of small donors.

In the tables estimating the proportional amount of candidates' total funds for which small donors ($250 or less) were responsible, we allocated public funds to the specific donors responsible for them. Since donors could give more than $250 in Los Angeles and still have the first $250 matched, this means there is some public money allocated to each of the donor categories. (The same procedure was followed in New York City with different matching formulae.) Because Los Angeles applies different matching rates for the primary and general election in 2013 and 2015, we separated the unitemized contributions for each candidate into primary and general election receipts. We then assumed that unitemized contributions to

participating candidates in Los Angeles were matched at a two-to-one rate in the primary in those elections and four-to-one in the general election.

The results will be presented in four parts plus an Appendix. The first part compares the role of small donors in city council elections in Los Angeles before and after multiple matching funds. It concludes that the modest matching fund rate increase in effect for 2013 and 2015 had little or no visible effect on the number and proportional importance of small donors in Los Angeles City Council elections.

The next section compares Los Angeles to New York City, where the six-to-one matching rates equals the level proposed by the Ethics Commission. It concludes that having a six-to-one match did increase the number and proportional role of small donors in New York City. The analysis also finds that requiring participating candidates to raise a reasonable number of qualifying contributions in their districts also contributes to the Los Angeles charter's goals for small donor participation. New York had such a requirement for the entire period studied; Los Angeles introduced them for 2015.

For the third section we geo-coded every itemized donor to Los Angeles and New York City candidates, placing them into the smallest available unit (census block group). This was done to describe the demographic characteristics of the neighborhoods in which the two cities' small donors reside. Because Los Angeles does not disclose the names and addresses of donors who give less than $100 to a candidate, the conclusions are not definitive. However, we were able to compare the neighborhoods of donors who gave $100 or more in Los Angeles before and after multiple matching, and to compare Los Angeles to New York. We conclude that Los Angeles' $100-$250 donors did come from economically and racially more diverse neighborhoods after multiple matching funds than before, but with not quite the economic diversity of New York's.

The fourth section compares mayoral to city council elections. The conclusion is that mayoral elections may need different recommendations from city council candidates in order to achieve comparable results. We end this section with recommendations, followed by a concluding section for the report as a whole.

Finally, the Appendix to this report is based on a control procedure we used to check the possibility that the differences we have ascribed to the two cities' campaign finance laws may instead reflect deeper differences between the two cities' politics and economics. To do this, we used a "difference in differences" procedure that compared the city council candidates in each city to the State Assembly candidates who were running at roughly the same time to represent the same geographic constituencies. The procedure will be described more fully in the Appendix.

LOS ANGELES BEFORE AND AFTER
MULTIPLE MATCHING FUNDS

The analysis begins with a straightforward comparison of city council elections in the years immediately before and after multiple-matching funds. Because Los Angeles holds elections in only half of the city council districts at a time, we paired two sets for the pre- and post-reform comparisons (2009 combined with 2011, and 2013 with 2015). While the same district numbers were up for election in 2009 as in 2013 (and in 2011 as in 2015), redistricting came between 2011 and 2013. The results therefore are subject to fewer distortions if we pool the results over the four year cycles to let us include all of the city's districts combined, pre- and post-reform. The results are summarized in Table 1. In that table, the first pair of columns presents the average number of small donors per candidate (including an estimate for unitemized donors as explained above). This is shown as the number per 100,000 constituents to allow for later comparisons with mayoral candidates and with candidates from New York City. The second pair shows the percentage of total receipts from private sources (excluding self-financing) that came from small donors. The third pair shows the percentage of candidates' money that results from small donors after the public matching funds generated by each donor has been allocated appropriately. The final columns show the number of participating and non-participating candidates. Candidates were considered to be participating if they said they would accept public funds, whether or not they actually received public money.

Table 1: Los Angeles City Council Results for Incumbents, Non-Incumbents, and all Participating Candidates, Before and After Matching Fund Changes								
Candidate Type	**Avg. # of small donors per 100k constituents**		**Avg. % of funds from small donors (private only)**		**Avg. % of funds from small donors (private + public)**		**Number of Candidates**	
	2009-11	2013-15	2009-11	2013-15	2009-11	2013-15	2009-11	2013-15
Participants								
Incumbent	141	76**	16%	6%**	20%	11%*	6	4
Non-Incumbent	191	175	23%	19%	28%	28%	12	25
All Participants	174	161	21%	17%	25%	26%	18	29
Non-participants								
Incumbents	119	28	11%	2%*	11%	2%*	7	2
Non-incumbent	78	no data	12%	no data	12%	no data	2	no data
Note 1: Includes candidates with half as many votes as the winner in a primary or general election.								
Note 2: The number of small donors includes an estimate for those who gave less than $100. It assumes an average of $33 per donor, which was the actual average in New York City.								
Note 3: Independent samples two tailed t-tests calculated to compare post-reform election to pre-reform election by candidate type. *p<0.1; **p<0.05; ***p<0.01								

Beginning with the right hand side of the table ("Candidates"), we see an increase in the percentage of candidates participating in the system. This is a crucially important first step, because no voluntary system can accomplish anything unless candidates opt into it. Most viable non-incumbents participated in all years, but the percentage of incumbents went up from fewer than half of the total running (6 of 13) to two-thirds (4 of 6). It is not clear that the new matching fund rates were responsible but, if so, then to that extent they could be called a success.

However, the other columns tell a different story. In the first column of numbers, we can see that participating candidates under the old 1:1 system had an average of 174 small donors per 100,000 constituents. This is almost exactly the same rate as New York City's in its final election with a one-for-one formula (see Table 2). One reason for increasing the matching rate was to increase the role of small donors. Surprisingly, the actual results were the opposite. All categories of candidates had fewer small donors after the reform than before. The percentage of private money coming from small donors also went down, while the percentage including public funds essentially stayed even. The percentage differences to all candidates and for non-incumbents were not statistically significant. The decline for incumbents was statistically significant, but the matching rate is not likely to have been responsible. (They should have been a force in the opposite direction.) We can only conclude that Los Angeles' modest, two-tiered increase in matching fund rates had little to no impact on the number and proportional role of small donors.

NEW YORK CITY COUNCIL CANDIDATES COMPARED

These impressions are reinforced when we compare Los Angeles to New York City council elections. Two considerations about New York City seem important for this comparison. First, New York increased the matching fund rates in two steps, starting with the same 1:1 rate as Los Angeles, then 4:1, and then to the 6:1 rate being recommended by the Ethics Commission. Second, New York has long allowed the maximum amount of public funding to equal more than half of a candidate's spending limit. Increasing the public funding proportion is also one of the Ethic Commission's recommendations for Los Angeles. While it is not possible from available evidence to sort out the effects of each change separately, the New York comparison suggests that they have a strong effect combined. Matching funds do not work on donors spontaneously. They work by giving candidates a stronger incentive to seek contributions from small donors. With most candidates in Los Angeles working with only a 2:1 match (the rate in effect for the primary) the previous tables showed that this was not enough to shift the incentives away from what they were with a 1:1 match. In contrast, shifting from a 1:1 match to 4:1 in both primary and general elections (and then shifting again to 6:1) did result in a noticeable change for candidates to the New York City Council.

Table 2: New York City Council Candidates Before and After Matching Fund Changes									
Candidate Type	Avg. # of small donors per 100k constituents			Avg.% of funds from small donors (private only)			Avg. % of funds from small donors (private + public)		
	1997	2001-2005	2009-2013	1997	2001-2005	2009-2013	1997	2001-2005	2009-2013
	1:1 match	4:1 match	6:1 match	1:1 match	4:1 match	6:1 match	1:1 match	4:1 match	6:1 match
Incumbent	155	173	215**	31%	31%	34%	42%	49%*	55%***
Non-Incumbent	200	215	222	38%	50%***	45%**	47%	67%***	68%***
All	176	197	218***	35%	42%***	41%***	45%	59%***	63%***

Note 1: Includes candidates with half as many votes as the winner in either a primary or general election.

Note 2: Independent samples two tailed t-tests calculated comparing candidates in 2001-2005 and 2009-2013, respectively to 1997.   *p<0.1;   **p<0.05;   ***p<0.01

As Table 2 shows, city council candidates in New York in 1997, with a 1:1 ratio, had an average of 176 small donors per 100,000 participants, almost exactly the same as the 174 for Los Angeles. But the number of small donors in New York increased with a 4:1 match (2001-05) and again with a 6:1 match (2009-13). The increases between 1997 and 2009-13 (6:1 match) were statistically significant for incumbents and for all candidates. The candidates also raised a higher proportion of their money from small donors under both a 4:1 and a 6:1 match. The increase was statistically significant for non-incumbents and for all candidates, whether looking at private money alone or private and public money combined. It was statistically significant for incumbents at both 4:1 and 6:1 with public funds included. This latter point is important in policy terms, because it means that office holders (incumbents) depended on small donors for a majority of their funds (and are reciprocally less dependent on large donors).

Residential requirements for qualifying contributions: One additional regulation seems important for explaining the results. New York City's higher matching rate of 6:1, combined with a higher maximum amount of public funding (55% of total funds) means that candidates can reach a higher proportion of the spending limit just through small qualifying contributions. This in turn reduces the need, and incentive, to seek as many large contributions from outside the district. But other legal incentives also appear to be playing a role. New York's city council candidates have long had to raise 75 contributions from within their districts to qualify for public matching funds. Los Angeles had no such rule until 2015, when the law began requiring candidates to raise at least 200 contributions from residents of that city's council districts to qualify.[2] The theory is that the requirement will do more than just change candidates' fundraising tactics. It should also help to change the way candidates spend their time, build

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[2] Council districts in Los Angeles had populations of about 255,000 residents in 2013. New York's city council districts averaged about 157,000.

their volunteer organizations, and campaign. While we do not have direct evidence about campaign organizations and volunteering, Table 3 shows the apparent effects of the requirement on small contributions within the district.

Table 3: What Percentage of the Average City Council Candidate's Itemized Small Donors are Constituents?				
	LA 2013 ($100+ donors)	LA 2015 ($100+ donors)	NYC 2013 (All donors)	NYC 2013 ($100+ donors)
% of small donors who are also constituents	**14%**	**25%***	**44%*****	**34%*****
% of all donors who are also constituents	**12%**	**21%***	**42%*****	**33*****
Note: Statistical significance was calculated by comparing the percentage of small donors per participating candidate for city council in LA in 2013 to NYC in 2013 and to LA in 2015 respectively, using one tailed independent samples t-tests. Candidates in the database were limited to those with at least half of the winner's vote in a primary or general election. *p<0.1; **p<0.05; ***p<0.01				

The table shows that the percentage of small donors coming from within a constituency in Los Angeles significantly increased between 2013 and 2015. The results are not as strong as New York's, even when we limit the analysis to New York donors who gave $100 or more. However, New York's programs had at least three different incentives working in the same direction: higher matching rate, higher maximum level of public money (as a percentage of total spending), and the residential requirement. That Los Angeles showed a significant increase at all with only one of these incentives suggests the potential importance of residential qualifying rules as an under-appreciated contributor to results.

DONOR DIVERSITY IN CITY COUNCIL ELECTIONS

The evidence so far tells us that the rules for matching funds can affect the number and proportional role of small donors. It does not tell us whether the donors are any different *in kind*. To get at that question, the Campaign Finance Institute geo-coded all disclosed donors' addresses and placed them into their respective census block groups (CBG). According to the U.S. Census Bureau, block groups "are generally defined to contain between 600 and 3,000 people"[3] This is much smaller than a zip code. This number of people could live on one city block of densely populated apartment houses or a cluster of blocks with smaller dwelling units. It would be preferable for analysis, of course, if we knew the income and racial identity of individual donors, but this is not possible. Therefore, knowing something about the fine-grained neighborhoods in which small donors ($250 or less) reside will have to stand as a reasonable surrogate. Because Los Angeles only gives name and address information for donors who give $100 or more, the information for New York City is presented in columns showing all who gave $250 or less, and then showing the results for donors who gave $100-$250. The bottom three rows show the median household incomes, poverty rates, and nonwhite population rates for small-donor CBGs as percentages of the citywide mean. Large donors typically come from wealthier and disproportionately white neighborhoods.

Table 4: Small Donor Diversity in City Council Elections: Comparing LA and NYC Census Block Groups (CBGs) in which Small Donors Live				
	Los Angeles 2009-2011 ($100-$250 donors)	Los Angeles 2013-2015 ($100-250 donors)	New York City 2013 ($0-250 donors)	New York City 2013 ($100-250 donors)
% of each city's CBGs with small donors	43%	57%	90%	73%
Average small donor aggregate contribution amount	$170	$164	$76	$152
Median household income in small donor CBGs as % of citywide median	131%***	116%***	99%	108%***
% in poverty in small donor CBGs as a % of citywide poverty rate	59%***	76%***	100%	87%***
% nonwhite in small donor CBGs as a % of citywide nonwhite population rate	79%***	92%***	98%	93%***

Note: Measures whether values for small donor CBGs are statistically different from values in each city as a whole.
*p<0.1; **p<0.05; ***p<0.01

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[3] U.S. Census Bureau, "Geographic Terms and Concepts – Block Groups." Available at
http://www.census.gov/geo/reference/gtc/gtc_bg.html. Accessed July 27, 2016.

The first row in Table 4 shows that more than half of Los Angeles' CBGs have $100-$250 donors living in them. The percentage of CBGs represented went up during the multiple matching fund years, but not to the 73% level for comparable donors in New York. Importantly, New York shows nearly blanket coverage when all donors are included. Comparable numbers are not available for Los Angeles.

The second row shows that $100-$250 donors each gave about the same amount to city council candidates in each city. The small donor average in New York drops by about half when all donors are included, but no comparable figure is available for Los Angeles.

The final three rows tell an interesting story. These show household incomes, poverty rates, and the percentages of nonwhite residents in the CBGs with small donors – all expressed as percentages of the citywide rate. New York City's small donor CBGs almost perfectly reflects the city's diversity as a whole when all donors are included. When the analysis is limited to donors who gave $100-$250, the CBGs represented were less diverse – not by a large amount, but by one large enough to be statistically noticeable. In Los Angeles, the CBGs for $100-$250 donors were substantially less diverse in the elections before multiple matching funds (2009-2011). During the two-tiered matching fund years, the diversity of Los Angeles' CBGs approached New York's for comparable donors. While we cannot be definitive on this point, we would therefore expect that introducing a six-to-one match (together with the 2015 residential requirements for qualifying contributions) would move Los Angeles further toward the racial and economic diversity that we see in New York City's small donor CBGs.

CITY COUNCIL AND MAYORAL CANDIDATES COMPARED: DIFFERENT OFFICES MAY NEED DIFFERENT RULES

Earlier we discussed the potential importance of residential requirements for qualifying contributions. This is supported when we compare mayoral to city council races in both cities. However, other important differences between the offices also need to be taken into account. Together, these suggest that modifying the rules for mayor along the same lines as the Ethics Commission's recommendations may help move results somewhat in the general direction of the Charter's goals, but it may be necessary to do more for mayoral candidates to attain the same level of results. Consider the following table, which shows some of the same information we have being seeing so far about small donor participation, but with mayoral elections for both cities included together with those for city council. As with previous tables, the money from unitemized Los Angeles donors is included in the two columns at the right, with the number of unitemized Los Angeles donors estimated, using procedures described earlier.

	# Small Donors per 100K constituents	% of contribution receipts from small donors (Private $ only)	% of $ from small donors (Private + allocated match)
Table 5: Los Angeles and New York: City Council and Mayor			
LA Mayor, 2013	95	12%	17%
NYC Mayor, 2013	61	9%	25%
LA City Council, 2013-15	161	17%	27%
NYC Council, 2013	207	41%	64%

Note: Includes all participating candidates with half as many votes as the winner in either a primary or general election. Because only a handful of candidates run for Mayor, these data also include the third and fourth place finishers in Los Angeles in 2013, who earned 49% and 48% of the winner's vote total. As with previous tables, the number of $100-or-less donors in Los Angeles was estimated by dividing the unitemized dollar total by an assumed $33 per donor.

Table 5 shows that city council candidates in both cities have more small donors (per 100,000 constituents) than mayoral candidates and raise proportionally more of their money from small donors. With about only 10% of their private money coming from small donors, the mayoral candidates look more or less like the average state legislative candidate nationally without public financing. Small donors become relatively more important with matching funds included, but they still represent a quarter or less of the candidates' funds.

There are a number of plausible explanations for what it going on, but it is not possible to weigh their relative importance with the information available. Since we expect that several factors contribute, we simply list three.

- Mayors are more powerful and more visible than individual city council members. Their decisions are more consequential for potential large donors, who therefore feel more of a stake in the election results and are more willing to give.

- Neither city requires mayoral candidates to raise qualifying contributions from geographically dispersed neighborhoods. This frees mayoral candidates to focus their fundraising on wealthy neighborhoods or downtown business sectors. The matching fund rate is not sufficient to counter this incentive.

- While the maximum public funds for New York's mayoral candidates is the same 55% of the spending limit as it is for New York's city council candidates, the sheer amount of money that mayoral candidates have to raise is much greater. With the contribution limit for mayoral candidates in both cities set at double the limit for city council candidates, it is easier for the mayoral candidates to raise what they need from large donors. This also helps shift the incentives toward larger donors in both cities.

Recommendations for citywide races: The following three recommendations are designed to strengthen the small donor incentives for mayoral and other citywide candidates. They assume one is trying to accomplish the same goals as the Los Angeles Ethics Commission's. They also assume a system with a 6:1 matching rate for city council candidates, together with the commission's recommendation for increasing the maximum amount of public funds per candidate. Based on the findings just presented, the details may have to vary to accomplish the same results across different offices.

- Introduce geographic requirements for qualifying contributions for all offices. The presidential public financing system requires candidates to raise money from twenty states (40% of all states) to qualify for matching funds. A proportionally equivalent requirement would be to require mayoral candidates in Los Angeles to raise a threshold number of qualifying contribution from six of the council's fifteen districts. In New York, they would have to qualify in twenty of the city's 51 council districts.

- Lower the contribution limit to a level nearer (or equal) to that for council candidates. To make up for lost revenue, this recommendation could be coupled with the next.

- Increase the matching fund rate and public fund maximum for mayoral and other citywide candidates. If the matching rate is to be 6:1 for city council candidates, one might consider 9:1 for mayoral candidates.

CONCLUSIONS

The Los Angeles Ethics Commission recommends raising the matching fund rate to 6:1 for both primary and general elections. It also recommends raising the maximum public funds allowed to each candidate. This study concludes that adopting these recommendations would be likely to increase the number of small donors per candidate, the proportional importance of small donors, and the demographic diversity of the neighborhoods from which small donors are recruited.

We reached these conclusions by comparing Los Angeles to itself before and after multiple matching funds, and by comparing Los Angeles to New York. Some will object to these conclusions be saying the two cities have different underlying politics and economics. They therefore may reject this study's comparisons. To anticipate these objections, the Appendix to this report uses a "difference in differences" methodology to validate the basic finding.

However, we do need to acknowledge that the city councils are different. The Los Angeles city council is smaller and collectively more powerful than New York's. In addition, term limits apply to both state and city offices in California, while they apply only to city offices in New York. Between term limits and institutional power, the two city councils occupy different spots on political career ladders. About half of the Los Angeles city council has served in the state legislature; only one member of the current 51-member city council in New York has done the same. Different career paths mean the candidates have different fundraising capacities. Because of this, the Ethics Committee's recommendation might not result in Los Angeles having as much small donor participation as New York's. Despite this, we would expect a significant increase.

At the same time, we expect that mayoral elections in both cities will require stronger medicine to achieve the same results. The recommendations offered above could help address that situation.

APPENDIX: STATISTICAL TEST TO CONTROL FOR DIFFERENCES BETWEEN LOS ANGELES AND NEW YORK CITY

Most of this paper has compared the Los Angeles and New York City Councils to themselves over time, or to each other, or to the respective cities' mayoral candidates. However, there is an important problem with all of the preceding analysis. What if the results this report has attributed to multiple matching funds really stem from other underlying differences between the two cities that in turn affect disposable contribution income? Fortunately, there is a way to test for this possibility. Instead of simply comparing one city's council elections to another's, we can also compare them to elections for other offices that represent the same geographical space at the same time. This Appendix will compare city council elections to elections for districts in the State Assembly that are largely within city boundaries. If the claims we made earlier about the impact of matching funds really were brought about by something else (such as the economy or housing values), then we should see the same effects on Assembly candidates too.

The technique we use is called a difference in differences test. This is a bit like a quasi-experimental research design. As used here, the procedure measures the difference between small donor participation in both city council and state assembly elections before and after a matching fund policy change has been implemented for the city council. The policy change is the equivalent of a treatment, with participating city council candidates being the treatment group. Assembly candidates are the control group. For this analysis, the absolute role of small donors is not important. What counts is the relative change across the two offices. If the role of small donors went up or down across the two offices at more or less the same rate, then the reform introduced for only one set of offices cannot be the explanation. We can only be confident that a reform may be the source if there is positive change in the treatment group relative to the control group.

The first section of our results therefore compares changes in small donor fundraising for the Los Angeles City Council and California State Assembly over time. As we have done throughout this report, adjacent city council elections were combined to cover the whole city. We compared Los Angeles City Council races in 2009 and 2011 (1:1 matching) with the State Assembly elections of 2010 (no matching funds). We then compared the City Council elections of 2013 and 2015 (two-tiered matching) with the State Assembly elections of 2014 (no matching). Similarly, we compared: New York City Council candidates of 1997 (1:1 matching) with State Assembly candidates in 2000 (the first year for which we could get electronic records); City Council candidates of 2005 (4:1 matching) with State Assembly candidates of 2006; and City Council candidates of 2013 with State Assembly candidates of 2014. If higher matching fund rates had a positive impact, controlling for other factors, then we should see the gap between the two offices change over time in a way that is more positive for the city

council. The results portrayed in the following six figures confirm the claim that the reforms were having a positive effect for New York City Council, but not for Los Angeles.

As with our previous analyses, we had to estimate the number of donors who gave unitemized contributions. Three of the four jurisdictions require itemizing only for donors who give $100 or more (Los Angeles, the State of California and New York State). New York City candidates itemize all of their donors. We therefore were able to calculate $100-and-under donors in New York City as having given an average total per candidate of $33 per donor. We then used the same $33 as our estimate for the other three legislatures.

In Figures 1-3 below, the number of small donors declined at essentially the same rate over the years for Los Angeles City Council candidates and for State Assembly candidates representing the city of Los Angeles. The small donors' proportion of private money declined less for the city council than state legislature. With matching funds included, the proportional importance of small donors did increase slightly in Los Angeles City Council elections, but none of the three difference-in-differences tests reached the level of statistical significance.

In contrast, all of the three lines for City Council races in Figures 4-6 moved in the expected upward direction in New York City Council races, while the lines for the State Assembly declined or stayed flat. Moreover, the difference-in-differences measures relating to the proportional role of small donors (figures 5 and 6) were both statistically significant. The upward shift for City Council elections New York City therefore was *not* because of conditions that also applied state candidates from the city. The gap between the two offices grew significantly. We conclude, therefore that the results we present in the main body of this report are robust, after controlling for differences between the cities' economies and between the two sets of offices.

Figures 1-3: Los Angeles

Figure 1: Avg. Number of Small Donors per Candidate (per 100k Constituents) in City Council and State Assembly Races over Time
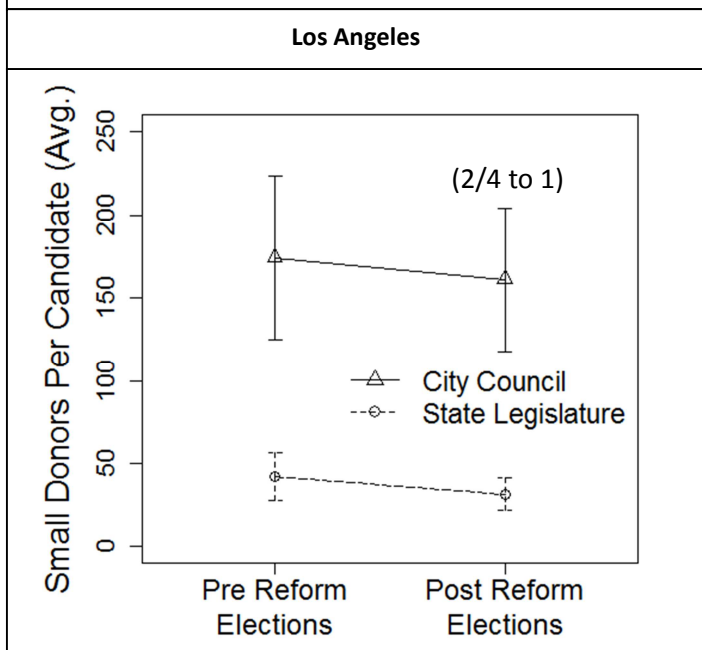
Los Angeles

Figure 2: Avg. Percent of Total Private Fundraising from Small Donors per Candidate in City Council and State Assembly Races over Time
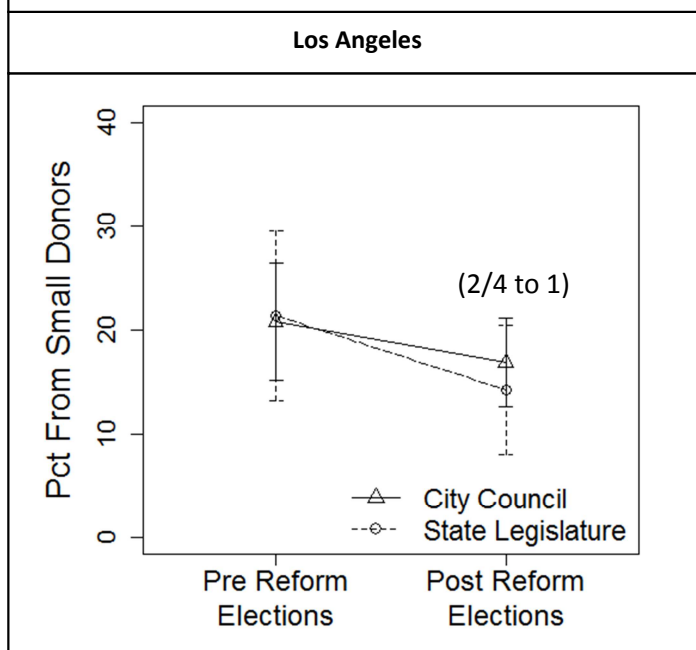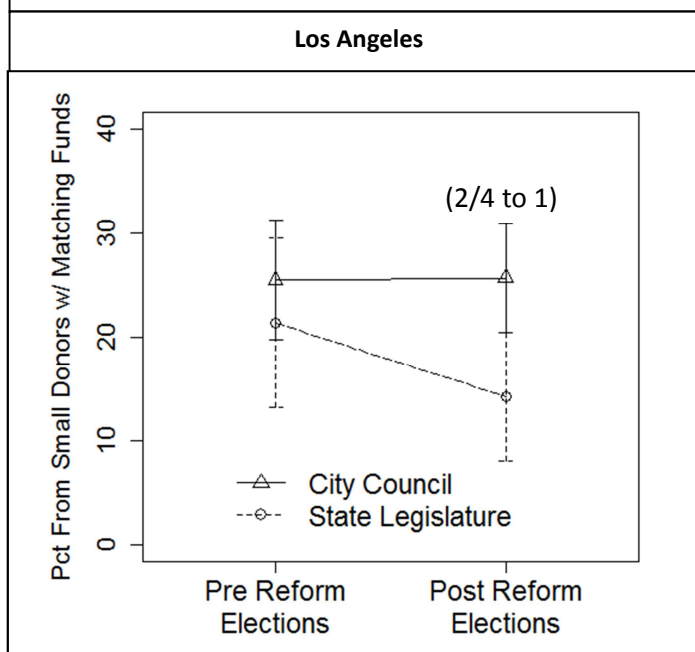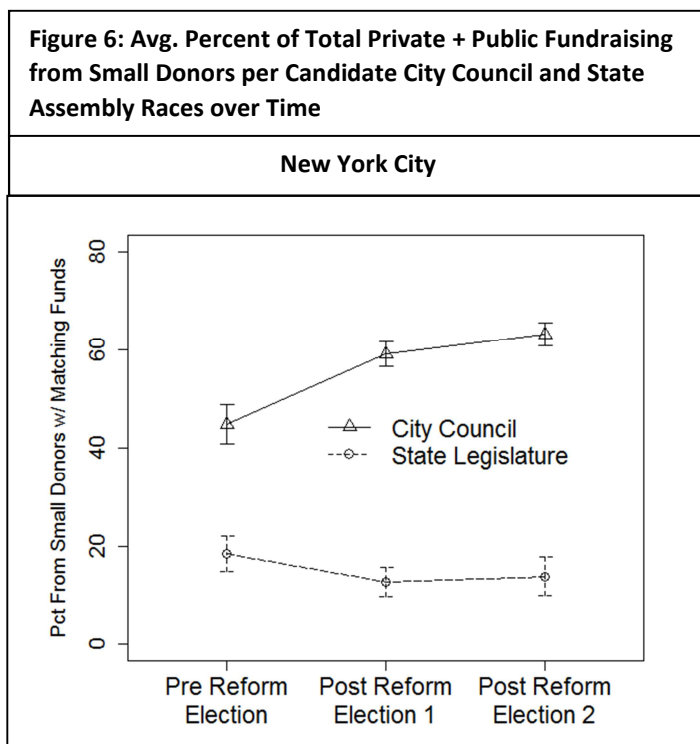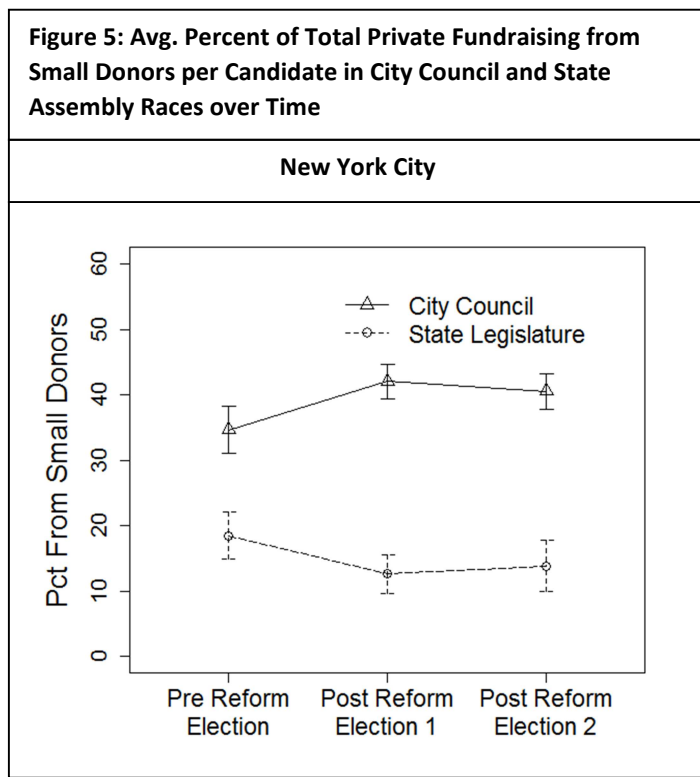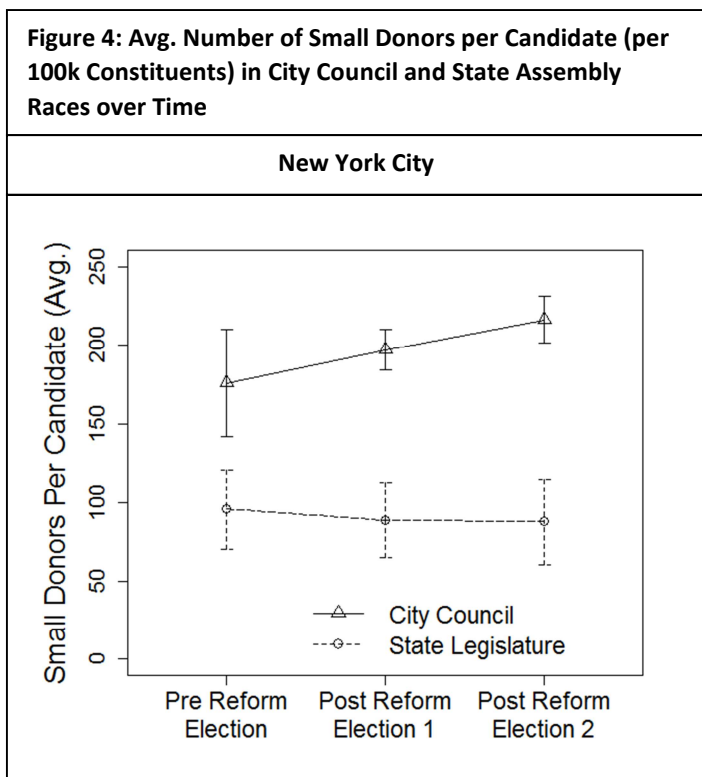
Los Angeles

Figure 3: Avg. Percent of Total Private + Public Fundraising from Small Donors per Candidate City Council and State Assembly Races over Time

Los Angeles

Figures 4-6: New York

Figure 4: Avg. Number of Small Donors per Candidate (per 100k Constituents) in City Council and State Assembly Races over Time

New York City

Figure 5: Avg. Percent of Total Private Fundraising from Small Donors per Candidate in City Council and State Assembly Races over Time

New York City

Figure 6: Avg. Percent of Total Private + Public Fundraising from Small Donors per Candidate City Council and State Assembly Races over Time

New York City

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