Date: December 13, 2019

To: Members of the Ethics Commission

From: Pat Ford, Senior Policy and Legislative Affairs Counsel

Re: AGENDA ITEM 6 – Discussion and Possible Action on Proposed Amendments to Regulations Related to Article I, Chapter I of the Campaign and Governmental Conduct Code

Summary: This memo presents a proposed set of amendments to the regulations supporting the Campaign and Governmental Conduct Code (Attachment 1). These amendments implement provisions of the second public financing ordinance approved by the Commission (File 190660) and the Sunlight on Dark Money Initiative (Proposition F).

Action Requested: That the Commission discuss and approve the proposed amendments.

Attached to this memorandum as Attachment 1 is a set of proposed amendments to the regulations supporting Article I, Chapter I of the Campaign and Governmental Conduct Code (known as the Campaign Finance Reform Ordinance). Section I provides background on the recent public financing ordinance and contains a chart summarizing the regulation amendments needed to implement this ordinance. Section II provides background on Proposition F and contains a chart summarizing the amendments needed to implement this measure.

Public notice announcing the potential regulation amendments was published on December 10th. This satisfies the ten-day notice requirement for proposed regulations contained in Charter section 4.104. The Commission is therefore able to approve the amendments at the present meeting if it so chooses. Attachment 1 orders the new amended regulations by regulation number. The amendments related to the public financing ordinance and Proposition F are combined. The charts in this memorandum explain to which piece of legislation each amendment is related.

I. Public Financing Program Review – Phase II

As part of the second phase of the Commission’s review of the City’s public campaign financing program, the Commission approved an ordinance at its May meeting to improve certain aspects of the program. The ordinance consists primarily of the following legislative changes:
- Increases the amount of public funds available to each participant (from $155,000 to $255,000 for supervisorial candidates, and from $975,000 to $1,200,000 for mayoral candidates);
- Increases the initial grants public financed candidates receive (from $20,000 to $60,000 for supervisorial candidates, and from $100,000 to $300,000 for mayoral candidates);
- Increases the matching rate for public funds awarded based on private funds raised (from two-to-one to six-to-one;
- Decreases the amount of any single contribution that can be matched (from $500 to $150); and
- Increases the initial spending limits (from $250,000 to $350,000 for supervisorial candidates, and from $1,475,000 to $1,700,000 for mayoral candidates).

Supervisor Mar introduced the ordinance (File No. 190660) before the Board of Supervisors on June 4th. The ordinance was heard by the Government Audit and Oversight Committee on September 5th, and the committee forwarded the legislation to the full Board with a positive recommendation. The Board unanimously approved the ordinance on September 17th and 24th, and the Mayor signed the ordinance on October 4th. The ordinance will become operative on January 1, 2020.

Because the ordinance changes provisions of law that are addressed in the supporting regulations, it is necessary to update the regulations to reflect these changes.

**Table I.A – Public Financing Ordinance – Implementing Regulations**

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<thead>
<tr>
<th>Number</th>
<th>Type</th>
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<tbody>
<tr>
<td>1.140-2; 1.143-1</td>
<td>Update</td>
<td>Updates the initial levels of a publicly financed candidate’s Individual Expenditure Ceiling (IEC). Each candidate who receives public financing must limit expenditures to that candidate’s current IEC. IECs may be adjusted based on financial activity in the candidate’s race, but each candidate begins with the same IEC. Each mention of the initial IEC levels must be updated to reflect the new initial IEC levels set by the ordinance.</td>
</tr>
<tr>
<td>1.143-2</td>
<td>Update</td>
<td>Updates the initial levels of a publicly financed candidate’s Individual Expenditure Ceiling (IEC). Revises the IEC adjustment examples to reflect the new initial IEC levels. The mechanics of the examples will remain unchanged, but the numbers used must be updated to reflect the new initial IEC levels.</td>
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**II. Sunlight on Dark Money Initiative – Proposition F**

In the November 5, 2019 election, voters approved Proposition F, a measure placed on the ballot by five members of the Board of Supervisors. Proposition F, known as the Sunlight on Dark Money Initiative, consists primarily of the following legislative changes:
• Expands the prohibition on corporations making political contributions to candidates to also cover limited liability partnerships (LLPs) and limited liability companies (LLCs);

• Creates a new prohibition on contributions made by any person with a financial interest in a land use matter to any candidate for Mayor, Supervisor, or City Attorney or to any person currently holding one of those offices (prohibits making, accepting, and soliciting such contributions);

• Requires certain City departments, Boards, and Commissions to publicly post a description of the contribution prohibition regarding land use matters;

• Requires that in any advertisement disclaimer in which the committee paying for the advertisement must list its top three major contributors, the committee must also list the top two major contributors to each of its top three major contributors, if any, and must state the dollar amount contributed by each contributor;

• Changes font and format requirements for advertisement disclaimers;

• Requires committees making independent expenditures to disclose the separate costs associated with any independent expenditure made during the final ninety days before an election; and

• Requires committees making independent expenditures in the form of a mass mailing to disclose the separate costs associated with such mass mailing.

Table II.A – Proposition F – Implementing Regulations

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<th>Number</th>
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<tr>
<td>1.114-1</td>
<td>Update</td>
<td>Updates regulation regarding contributions by corporations to also include contributions by LLPs and LLCs. Clarify rule regarding partnerships with business entity partners. These amendments integrate LLPs and LLCs into the existing framework that applies to corporations.</td>
</tr>
<tr>
<td>1.127-1</td>
<td>New</td>
<td>Creates definitions for developer, discretionary review, and entitlement. Each of these terms is relevant to whether or not a person has a financial interest in a land use matter and is therefore prohibited from making contributions to certain candidate committees.</td>
</tr>
<tr>
<td>1.127-2</td>
<td>New</td>
<td>Clarifies that if a contributor is prohibited from making a contribution to a candidate or officeholder by virtue of having a financial interest in a land use matter, that contributor is also prohibited from making a contribution to any committee controlled by the candidate or officeholder for the purposes of running for another local or state office or supporting or opposing a local or state ballot measure.</td>
</tr>
</tbody>
</table>
This principle already applies to the prohibition on contributions by certain City contractors (section 1.126) and is necessary to carry out the purpose of section 1.127.

1.127-3 New Provides sample language for an attestation by a contributor to a candidate committee that the contributor does not have a financial interest in a land use matter that would make the contribution a violation of section 1.127.

This language can be used by candidate committees on a contributor card to be completed by each contributor. If a contributor signs the card, the committee will not be liable for a violation of 1.127, even if the contributor violated section 1.127 by making the contribution.

1.161-1 Update Updates the mass mailing disclosure requirement to clarify that independent expenditure committee are now subject to the requirement (in addition to candidate committees, which were already subject to this requirement).

This regulation directs filers to use the Form SFEC-161 to comply with this disclosure requirement.

1.161-2 New Clarifies that when a committee makes an independent expenditure during the final ninety days before an election and must therefore file a Form 496, the committee must now include additional information on the Form 496 to disclose the separate costs associated with the independent expenditure.

1.161-3 New Creates formatting requirements for the new content required in certain advertisement disclaimers.

Proposition F requires committees who already list their top three major contributors in an advertisement disclaimer to begin listing each of those contributors’ top two major contributors. However, the measure does not specify the format of this new disclaimer content. This regulation specifies the font and punctuation that must be used for this content. The requirements align with the existing format requirements for disclaimers and ensure a presentation style that makes the newly required information as easy to read as possible.

Staff will also make a sample disclaimer available on the Commission’s website so that committees may refer to it when assessing the formatting requirements.

Staff invites any questions or comments regarding the attached proposed regulation amendments. If the Commission approves the regulations, the regulations will be transmitted to the Board of Supervisors, where they will remain on hold for sixty days to give members of the Board the opportunity to request a hearing or veto the regulations.
Proposed Amendments to Regulations Supporting Campaign and Governmental Conduct Code
Section 1.100 et seq

Regulation 1.114-1: Limits on Contributions from Corporations, Limited Liability Companies, and Limited Liability Partnerships

(a) A corporation, limited liability company, or limited liability partnership that is prohibited by section 1.114(b) from making a contribution to a candidate committee may establish, administer and solicit contributions to a separate segregated fund (“SSF”) to be utilized by the corporation-business entity for making contributions to candidates for City elective office, provided that the SSF is (i) a federal committee, or (ii) a committee that complies with the reporting requirements of state and local law and this section.

(b) References to Federal Law. All references to federal statutes and regulations in section 1.114(b) include any existing or subsequent amendments, modifications, and formal judicial or federal administrative interpretation of those statutes and regulations.

c) Definitions.
(1) Connected Organization. For the purpose of this regulation, “connected organization” shall have the meaning set forth in 2 U.S.C. § 431(7).
(2) Corporation. For the purpose of section 1.114, “corporation” shall mean any corporation organized pursuant to the laws of the state of California, the United States, or any other state, territory, or foreign country, whether for profit or not, except as set forth in subsection (c)(2)(A) through (DB).
(A) Limited Liability Companies. A limited liability company (LLC) that elects to be treated as a partnership under the Internal Revenue Code is not a “corporation” for the purposes of section 1.114(b). A limited liability company that elects to be treated as a corporation under the Internal Revenue Code is a “corporation” for the purposes of section 1.114(b).
(B) Partnerships with corporate members. A partnership whose only members are corporations is a “corporation” for the purposes of section 1.114(b). A partnership or an LLC with one or more members that are corporations and one or more members that are not corporations may contribute to a candidate for City elective officer under section 1.114(b) if the contributions are attributable exclusively to sources that are not corporations.
(AC) Professional corporations. A professional corporation is a “corporation” for the purposes of section 1.114(b).
(BD) Nonprofit corporations. A nonprofit corporation is a “corporation” for the purposes of section 1.114(b), provided, however, that a nonprofit corporation may make a contribution to a candidate for City elective office without violating the prohibitions set forth in section 1.114(b) if (1) it is a “qualifying nonprofit corporation” as defined in 11 C.F.R. section 114.10(c), and (2) it complies with 11 C.F.R. section 114.10(f).
(3) Limited Liability Company. For the purpose of section 1.114, “limited liability company” shall mean any limited liability company organized pursuant to the laws of the state of California, the United States, or any other state, territory, or foreign country, whether for profit or not.
(4) Limited Liability Partnership. For the purpose of section 1.114, “limited liability partnership” shall mean any limited liability partnership organized pursuant to the laws of the state of California, the United States, or any other state, territory, or foreign country, whether for profit or not.

d) SSF Name. Every SSF must adopt a name in compliance with 2 U.S.C. section 432(e)(5) and 11 C.F.R. section 102.14(c).
(e) Treasurer. Each SSF must have a treasurer pursuant to California Government Code section 84100 and the CFRO. No contribution or expenditure shall be accepted or made by or on behalf of an SSF during any period in which the office of treasurer is vacant. No expenditure shall be made for or on behalf of an SSF without the authorization of the treasurer or his or her designated agent. The treasurer shall be responsible for compliance with applicable provisions in the Political Reform Act and this Chapter.

(f) Administration of SSF.  
(1) Funds paid by a connected organization for purposes described in 11 C.F.R. section 114.1(a)(2)(i)-(iii) shall not be contributions subject to the limits set forth in section 1.114(b).  
(2) Commingling Funds. Each SSF and connected organization must comply with 2 U.S.C. section 432(b)(3) and 11 C.F.R. section 102.15. 
(3) Soliciting and Accepting Contributions. When soliciting or accepting contributions, the SSF must comply with 11 C.F.R. section 114.5(a)- (c), (g)(1), (h)-(k); 11 C.F.R. section 114.6(a), (c)-(e); and 11 C.F.R. section 114.7. 
(4) An SSF may act as a conduit for an earmarked donation from a person to a candidate, subject to the provisions of 11 C.F.R. section 110.6(a), (b) and (d). 
(5) If an SSF receives a contribution that appears to be prohibited under this Chapter, the SSF shall comply with 11 C.F.R. section 103.3(b), the Political Reform Act, and the CFRO. 

(g) Affiliation. If two or more SSFs are “affiliated” under 11 C.F.R. section 110.3(a) or the CFRO, those SSFs shall be treated as a single affiliated committee for the purposes of section 1.114(b).

(h) Termination. An SSF may terminate when: 
(1) it no longer intends to receive contributions or make expenditures; 
(2) neither the committee seeking to terminate nor any affiliated committee has any outstanding debts or obligations; and 
(3) the committee is not involved in any enforcement action, audit or litigation with the Ethics Commission. 

(i) Each SSF shall comply with all applicable campaign registration and reporting requirements in the Political Reform Act, the Campaign and Governmental Conduct Code and these regulations.

(jj) Partnerships with business entity members. A partnership whose only members are corporations, limited liability companies, or limited liability partnerships is prohibited under section 1.114(b) from making a contribution to a candidate committee. A partnership with one or more members that are corporations, limited liability companies, or limited liability partnerships and one or more members that are not corporations, limited liability companies, or limited liability partnerships may make a contribution to a candidate for City elective office under section 1.114(b) if the contributions are attributable exclusively to sources that are not corporations, limited liability companies, or limited liability partnerships.

**Regulation 1.127-1: Contributions by Persons with a Financial Interest in a Land Use Matter – Definitions.**

(a) Developer. “Developer” means a person or entity that owns, or is contractually entitled to obtain ownership of, real property and seeks to carry out a construction project on such property for the purpose of selling or leasing the property to another party or retaining such property for use by the developer.
(b) Discretionary Review. “Discretionary Review” means the process by which the Planning Commission conducts a public hearing for an application for an entitlement that would not otherwise require a hearing in order to determine whether the entitlement warrants modification or disapproval.

(c) Entitlement. “Entitlement” means the authorization, when required, for a construction project on a parcel of real property given through the Planning Commission, Historic Preservation Commission, Port Commission, Treasure Island Development Authority Board of Directors, or Commission on Community Investment and Infrastructure. A building permit does not constitute an entitlement.

Regulation 1.127-2: Contributions by Persons with a Financial Interest in a Land Use Matter - Party that is Subject to the Prohibition.

(a) For the purposes of section 1.127, a “prohibited contribution” includes a contribution to any committee controlled by a member of the Board of Supervisors, the Mayor, or the City Attorney formed to support that individual’s candidacy to a local or state elective office.
(b) For the purposes of section 1.127, a “prohibited contribution” includes a contribution to any committee controlled by a member of the Board of Supervisors, the Mayor, or the City Attorney formed either to support or oppose a candidate for local or state elective office or to support or oppose a local or state ballot measure.
(c) For purposes of section 1.127, an “affiliated entity” includes any business entity that is directed and controlled by a person who has a financial interest in a land use matter.


A candidate will meet the due diligence requirements of section 1.127(c) if the contributor certifies in writing to the candidate at the time the contribution is made that the following is true:

I do not have a financial interest in a land use matter that is currently pending before the Board of Appeals, Board of Supervisors, Building Inspection Commission, Commission on Community Investment and Infrastructure, Historic Preservation Commission, Planning Commission, Port Commission, or Treasure Island Development Authority Board of Directors, nor have I had a financial interest in any such land use matter for which any of these boards or commissions has rendered a final decision or ruling within the last twelve months.


A candidate who submits an application for public financing under section 1.142 but who is not yet certified as eligible to receive public financing is bound by the individual expenditure ceiling of $250,000 for candidates for the Board of Supervisors or $1,475,000 for candidates for Mayor until the earlier of the following occurs:
(a) The Executive Director certifies the candidate as eligible to receive public funds and adjusts the individual expenditure ceiling of the candidate pursuant to section 1.143; or
(b) The Executive Director declines to certify the candidate as eligible to receive public funds and the...
candidate no longer wishes to participate in the public financing program; or
(c) The candidate withdraws and does not refile his or her application for public funds.

**Regulation 1.143-1: Individual Expenditure Ceilings for Candidates.**

A candidate for the Board of Supervisors or Mayor who has been certified as eligible for public funding may have his or her individual expenditure ceiling raised in accordance with section 1.143. Any such candidate for the Board of Supervisors whose individual expenditure ceiling has been raised may make or incur total qualified campaign expenditures that exceed $250,000 to $350,000 and any such candidate for Mayor whose individual expenditure ceiling has been raised may make or incur total qualified campaign expenditures that exceed $1,475,000 to $1,700,000, provided that such expenditures may not exceed the candidate’s individual expenditure ceiling.

**Regulation 1.143-2: Lifting of Individual Expenditure Ceiling.**

(a) The Executive Director will raise the individual expenditure ceiling of a candidate for the Board of Supervisors who has been certified as eligible to receive public funding when the sum of the highest total supportive funds of any other candidate and the total opposition spending against the candidate exceeds $250,000 to $350,000 by any amount. The Executive Director may only raise an individual expenditure ceiling in increments of $50,000. The Executive Director will review information provided on Forms SFEC-152 and, in his or her discretion, any other relevant information to determine whether it is appropriate to raise an individual expenditure ceiling.

(b) The Executive Director will raise the individual expenditure ceiling of a candidate for Mayor who has been certified eligible to receive public funding when the sum of the highest total supportive funds of any other candidate and the total opposition spending against the candidate exceeds $1,475,000 to $1,700,000 by any amount. The Executive Director may only raise an individual expenditure ceiling in increments of $250,000. The Executive Director will review information provided on Forms SFEC-152 and, in his or her discretion, any other relevant information to determine whether it is appropriate to raise an individual expenditure ceiling.

Example 1: The Ethics Commission has certified two candidates running to represent District 1 on the Board of Supervisors as eligible to receive public funding. Reports filed at the Ethics Commission indicate that Candidate Alvin’s supportive funds total $255,000 to $355,000 and Candidate Beatrice’s supportive funds total $305,000 to $405,000. The Executive Director will raise the individual expenditure ceilings for Alvin by $100,000 to $350,000 to $450,000. The Executive Director will raise the individual expenditure ceilings for Beatrice by $50,000 to $300,000 to $400,000.

Example 2: Under the same facts as Example 1, assume total opposition spending against Beatrice reaches $48,000. To determine Beatrice’s individual expenditure ceiling, the Executive Director first considers the highest level of supportive funding received by a competing candidate. Here, Alvin has the highest level of supportive funding received by a competing candidate – $255,000 to $355,000. The Executive Director then adds the total opposition spending against Beatrice, or $48,000, to obtain a sum of $263,000 to $403,000. Based on these amounts the Executive Director will raise Beatrice’s individual expenditure ceiling to $300,000. The Executive Director will now raise Beatrice’s individual expenditure ceiling to $350,000.
Example 3: The Ethics Commission has certified two candidates running for Mayor as eligible to receive public funding. Reports filed at the Ethics Commission indicate that Candidate Ava’s supportive funds total $1,800,000; Candidate Barry’s supportive funds total $1,975,000. The Executive Director will raise the individual expenditure ceilings of Ava by $500,000 to $1,725,000; the Executive Director will raise the individual expenditure ceiling of Barry by $250,000 to $1,850,000.

Example 4: The individual expenditure ceiling of James, a candidate to represent District 2 on the Board of Supervisors who has been certified as eligible to receive public funding, is $250,000. Adam, James’s only opponent, reports total contributions of $150,000; several committees also report spending a total of $40,000 to support Adam. The Executive Director may not raise the individual expenditure ceiling of James based solely upon Adam’s total supportive funds because his total supportive funds, $90,000, do not exceed James’s individual expenditure ceiling.

Example 5: Under the same facts as Example 4, assume Adam has now raised an additional $235,000 in contributions, making his candidate supportive funds equal $385,000. When the $40,000 of third party spending is added, that makes Adam’s total supportive funds equal $425,000. The Executive Director will now raise James’s individual expenditure ceiling to $350,000 because Adam’s total supportive funds exceed James’s individual expenditure ceiling.

Example 6: Under the same facts as Examples 4 and 5, assume several committees make independent expenditures to oppose James; by September 2018, their reported expenditures total $35,000. To determine James’s individual expenditure ceiling, the Executive Director adds Adam’s total supportive funding, $425,000, to the total opposition spending against James, $35,000, to obtain a sum of $460,000. The Executive Director will raise James’s individual expenditure ceiling to $400,000.

Example 7: The individual expenditure ceiling of Jane, a candidate for Mayor who has been certified as eligible to receive public funding, is $1,700,000. Ann, an opponent of Jane, reports total contributions of $1,300,000; several committees also report spending a total of $500,000 to support Ann, making Ann’s total supportive funds $1,800,000. The Executive Director will raise Jane’s individual expenditure ceiling by $250,000 to $1,950,000.

Example 8: Under the same facts as Example 7, assume several committees make independent expenditures to oppose Jane; by September 2018, their reported expenditures total $300,000. To determine Jane’s individual expenditure ceiling, the Executive Director adds Ann’s total supportive funds, $1,800,000, to the total opposition spending against Jane, $300,000, to obtain a sum of $2,100,000. The Executive Director will raise Jane’s individual expenditure ceiling by $250,000 to $1,975,000.

Regulation 1.161-1: Filing Requirements for Mass Mailings by Candidates.

(a) To comply with the filing requirements set forth in sections 1.161(b)(2) and (3), candidates-filers must use Form SFEC-161.
(b) For the purposes of section 1.161(b)(2), “working day” shall mean “business day.”
(c) Estimated Costs of Mass Mailings. Candidates-filers who do not know actual costs associated with a mass mailing when they file Form SFEC-161 may provide a good faith estimate, provided that they amend the statement within 48 hours of receiving more information about the actual costs of the mass.
mailing. (d) Date of the Mailing. For the purposes of section 1.161(b)(2), the phrase, “date of the mailing” shall mean the date on which the candidate-filer or the candidate’s-filer’s agent delivers the mass mailing to the United States Postal Service for delivery.

Regulation 1.161-2: Filing Requirements for Independent Expenditure Advertisements

To comply with the filing requirements set forth in section 1.161(b)(1), a filer must use the Form 496 to disclose the separate costs associated with the advertisement, including but not limited to photography, design, production, printing, distribution, and postage.

Regulation 1.161-3: Disclaimers – Top Three Contributors

(a) To comply with the requirements of section 1.161(a)(1), a committee must adhere to the following disclaimer formatting requirements, in addition to any and all formatting requirements imposed by the Political Reform Act or Campaign and Governmental Conduct Code:

(1) Each of the committee’s top three major contributors must be numbered by placing the numerals 1, 2, and 3, respectively, before each major contributor’s name. Each numeral must appear in the same font and size as the names of the major contributors and each numeral must be separated from the corresponding name of the major contributor by one period and one space.

(2) For any major contributor that is a recipient committee, the names of the top two major contributors of $5,000 or more to that committee (“secondary major contributors”) must be included immediately following the name of the relevant major contributor. The names of secondary major contributors must appear in the same font and size as the names of the major contributors and must be separated from the name of and dollar amount contributed by the corresponding major contributor by one space, followed by one em dash, followed by one space, followed by the words “contributors include,” followed by one space.

(3) If two secondary major contributors must be included for a single major contributor, the secondary major contributor who has contributed more to the major contributor shall be listed before the other secondary major contributor; the name of and dollar amount contributed by the first secondary major contributor must be separated from the name of and dollar amount contributed by the second secondary major contributor by a single comma followed by a single space.

(4) Whenever a major contributor or secondary major contributor is included in a disclaimer, the amount of relevant contributions made by that major contributor or secondary major contributor must appear in the same font and size as the names of the major contributors. This dollar amount must immediately follow the name of the corresponding major contributor or secondary major contributor, must be placed inside parentheses, and must include the dollar symbol immediately before the numerals indicating the amount. Each set of three numerals in the dollar amount must be separated by a comma.

(b) If a major contributor included in a disclaimer is a recipient committee and secondary major contributors must therefore be included in the disclaimer, the committee paying for the advertisement shall seek in writing the names of and dollar amounts contributed by the secondary major contributors to that major contributor at the time of the major contributor’s last contribution to the committee.
paying for the advertisement. If the committee paying for the advertisement requests such information from the major contributor in writing but does not receive such information as of the time the advertisement is printed or otherwise produced, the committee may rely on public disclosures filed by the major contributor to discern the names of and dollar amounts contributed by the major contributor’s secondary major contributors.