NORTH CAROLINA CENTER FOR
PUBLIC POLICY RESEARCH INC.

NEWS RELEASE

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NORTH CAROLINA'S PUBLIC FINANCING PROGRAMS FOR POLITICAL CAMPAIGNS NEED REVISION, N.C. CENTER FINDS

North Carolina's public financing programs for political campaigns aren't working well and need revision, says the N.C. Center for Public Policy Research. In a major evaluation comparing N.C.'s public financing programs with those in 19 other states, the Center says that the state's two public financing programs need changes in order to work as well as those in other states, and that an aggressive public education campaign might increase taxpayer participation in the programs.

"As Will Rogers said, 'Politics has got so expensive, it takes a lot of money even to get beat with.' But despite what many people think, the problem in politics is not too much money. The problem is not enough money, especially for challengers," says Kim Kebschull, policy analyst at the Center and author of the Center's companion study of 50 state campaign disclosure laws. "And the best way to provide better financing of political campaigns is through North Carolina's two little-known public finance programs."

The Center's new 79-page report, second in a series on campaign finance issues, examines the two North Carolina public financing programs -- for political parties and for candidates -- and compares them with programs currently operating in the 19 other states that provide public financing for political activities.

<u>The Center's research concludes that:</u>

* The General Assembly should reduce the 10 Council of State races now eligible for public financing through the Candidates Fund to eight, by removing the more expensive governor's and lieutenant governor's races, and putting the money to better use.

"At current levels of campaign spending, these eight races are better buys for what little money is likely to exist in the Candidates Fund," says Kebschull. "Given that the fund has accumulated only about $56,000, it couldn't pay for a governor's race until the year 2193!"

* In order to boost the level of the Candidates Fund, the 1991 and 1993 General Assembly should appropriate additional revenue from the General Fund for the 1992 and 1996 statewide elections. Until the public becomes more aware of the programs, funding from taxpayer participation alone is unlikely to be sufficient to provide adequate resources for candidates to run effective campaigns.

* State officials should conduct an aggressive public education campaign to increase taxpayer awareness of and participation in North Carolina's public financing programs. The state should also rewrite the explanation for the N.C. Candidates Financing Fund, as it appears in the Individual Income Tax Instruction Booklet, to explain the program more fully.

* The state should continue to support political parties by continuing the N.C. Political Parties Fund, but the General Assembly should revise the law to allow taxpayers to designate their check-off either to a specified political party *or* to a general campaign fund.

GOALS OF PUBLIC FINANCING PROGRAMS

The Center's report examines three specific goals of public financing programs. These are (1) to increase public participation in the electoral process; (2) to encourage more citizens to run for public office by reducing the fundraising burden for candidates who are not independently wealthy; and (3) to strengthen the role of political parties.

Goal #1: To Increase Public Participation in the Electoral Process

Check-off and add-on programs both allow the public to participate financially in the electoral process. Because check-off programs do not cost the taxpayer any of his or her refund, they have higher rates of participation than do add-on programs. North Carolina is the only state that has both a check-off and an add-on program in operation.

N.C. **Political Parties** Financing Fund

Since 1977, North Carolina taxpayers have been allowed to divert $1 of their tax liability from the state's General Fund to the N.C. Political Parties Financing Fund. "This check-off neither increases the tax owed nor decreases the taxpayer's refund," says Kebschull of the N.C. Center. The funds are distributed according to the voter registration levels for the Democratic and Republican parties. The Democratic Party receives one-third of all its funding from the Political Parties Financing Fund, and the Republican Party receives one-fifth of all its monies from the fund. In 1988, the last year in which there were general statewide races, a total of $1,193,537 was distributed to the two parties.

N.C. **Candidates** Financing fund

The new N.C. Candidates Financing Fund appeared for the first time in 1988, near the bottom of the state income tax form. It is an *add-on* program, by which taxpayers may contribute all or part of their income tax *refunds* to the fund. When the fund has accumulated enough money, it is supposed to be used to assist certified candidates for the 10 Council of State seats in their political campaigns. The candidates will have to agree to limit total campaign expenditures and raise qualifying matching contributions in exchange for receiving public funds for their campaigns. The N.C. Candidates Financing Fund has not fared well. The fund had a balance of only $55,633.66 as of October 10, 1990, notes Kebschull.

Goal #2: To Encourage More Citizens to Run for Office By Reducing the Fundraising Burden

Challengers, as well as some incumbents, have traditionally met with difficulty in their efforts to secure sufficient funds to mount a credible campaign. And the expense of running can deter viable candidates from even entering a race. The carrot of public funding, however, could encourage citizens who are not independently wealthy to run for office, and could reduce dependence on special-interest groups for campaign funds.

In 1988, candidates for the eight Council of State races the Center proposes should be eligible for public funding (secretary of state, state treasurer, state auditor, attorney general, commissioner of agriculture, commissioner of insurance, commissioner of labor, and superintendent of public instruction) spent $2,432,015. By limiting the distribution of funds to these races and excluding the candidates for governor and lieutenant governor, the program could have a larger impact on the cost of these campaigns. National political columnist David Broder says that public financing ought to be concentrated in races such as these that receive little public attention, as these candidates "typically have no alternative but to go to special-interest groups for whatever money they need."

As the Candidates Fund currently contains only about $56,000, the N.C. Center recommends that the General Assembly appropriate additional revenue from the General Fund for the 1992 and 1996 statewide elections. Funding from taxpayer participation alone is unlikely to be sufficient until the public becomes more aware of the fund and becomes accustomed to contributing to the program. The Center estimates that $3 million in appropriations from the state (out of an annual budget of $12 billion) would be needed to finance eight Council of State races in 1992.

Goal #3: To Strengthen Political Parties

Political observers have documented the decline of political parties in state elections and politics. They warn that when the roles of parties diminish, the roles of single interest groups and political action committees, wealthy and celebrity candidates, incumbents, and political consultants expand. By strengthening the political parties, supporters of this goal hope to reverse the decline in party support.

North Carolina's party officials believe the N.C. Political Parties Financing Fund has made a real difference in the parties' roles. Both major state party organizations have been able to increase staff and centralize services for candidates in party headquarters. "The party's role has been substantially greater since the party fund was established. It has enabled parties to be more of a factor in campaigns," says former Gov. James B. Hunt Jr.

The N.C. Center recommends that the state continue to support political parties by continuing the N.C. Political Parties Financing Fund. Continued support would allow the state Democratic and Republican parties to coordinate campaigns, develop party programs, and organize their get-out-the-vote efforts. Strong bipartisan support for the programs will also ensure a successful campaign to educate the public about financing programs.

However, the Center recommends that the current method of distributing money contributed to the political parties fund be altered. Funds are now distributed according to party voter registration levels, but prior to 1983, contributors could specify which political party would receive their check-off. The rationale given by Democratic lawmakers for the change was that more taxpayers would participate if they did not have to disclose party preference. Republicans, however, charged that the real motivation behing the change was that Democrats wanted to increase their share of funds, as more voters are registered as Democrats than as Republicans. Jack Hawke, chairman of the N.C. Republican Party, contends that "public financing was designed to perpetuate the Democrats' position in power." Although Republican registration has outpaced Democratic registration in recent times, "it will be years before voter registration is even," says Hawke.

The N.C. Center believes that some of this criticism is valid, and under its proposed plan, each political party would receive all funds specifically designated to it. The money contributed to the general campaign fund would be distributed to the political parties according to voter registration. This recommendation is a compromise that would be fair to both political parties and would help garner the bipartisan support that the N.C. Political Parties Fund needs.

The N.C. Center for Public Policy Research is an independent, nonpartisan, nonprofit organization created to examine state government programs and important issues of public policy in North Carolina. The Center is supported in part by grants from the Z. Smith Reynolds and the Mary Reynolds Babcock Foundations, both in Winston-Salem. Other funding comes from 114 corporate contributors and more than 600 individual and organizational members. In addition to publishing *Public Financing of State Political Campaigns* and *Campaign Disclosure Laws*, the Center publishes *Article II: A Guide to the 1989-90 General Assembly* and a quarterly magazine, *North Carolina Insight*.

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Copies of the 79-page report on Public Financing of State Political Campaigns are available for $15.75 (plus $2.00 postage and handling) from the N.C. Center for Public Policy Research, 5 West Hargett St., Suite 701, P.O. Box 430, Raleigh, NC 27602, or call (919) 832-2839.

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	Funds to Candidates(C) or Parties(P)	1987 Tax Year Participation Rate[a]	1987 Tax Year Check-Off Amount[b]	1987 Tax Year Check-Off Total
Hawaii	C	30%	$2	$ 414,756
Idaho	P	10	1	39,328
Iowa	P	13	1.50	234,024
Kentucky	P	5	2[c]	185,832
Michigan	C	14	2	1,575,200
Minnesota	C, P	16	5	1,796,627
New Jersey	C	31	1	1,439,641
North Carolina	**P**	**14**	**1**	**553,554**
Ohio	P	17	1	713,785
Rhode Island	C, P	14	2[d]	66,303
Utah	P	15	1	90,147
Wisconsin	C	13	1	449,211

[a] Figures are rounded off to the nearest percent.
[b] If a joint return is filed, each spouse may designate the amount indicated.
[c] Fifty cents (50¢) of every $2 check-off is given to the party organization of the county of the taxpayer's residence.
[d] Beginning in tax year 1988, Rhode Island's check-off amount increased to $5. The public financing fund receives $3, and the political parties fund receives $2.

Table 2. **Comparison of State Add-On Programs**

	Whether Funds Go to Candidates(C) or Parties(P)	Taxpayer Contribution Limit[a]	1987 Tax Year Rate of Taxpayer Participation	1987 Tax Year Public Financing Fund Total
Alabama	P	$1	1.1%	$15,554
Arizona	P	No Limit ($2 min.)	--	--
California	P	$1, $5, $10 or $25	.3	233,152
Maine	P	No Limit	1.4	20,080
Massachusetts	C	$1	2.3	83,385
Montana	C	$1	.7	2,403
North Carolina	C	No Limit ($1 min.)	--	--
Oregon	P	No Limit	.5	24,192
Virginia	P	$2	1.8	63,368

[a] If a joint return is filed, each spouse may contribute the amount indicated.

-- = The program did not exist during the 1987 tax year.

Table 3. **Trends in Taxpayer Participation Rates**

Check-Off Programs

	Tax Year 1983	Tax Year 1987
Hawaii	54.0%	30.0%
Idaho	15.9	10.4
Iowa	13.0	13.0
Kentucky	9.5	5.2
Michigan	19.1	14.0
Minnesota	17.5	16.0
New Jersey	37.0	31.8
North Carolina	**15.5**	**14.4**
Ohio	--	17.1
Rhode Island	19.0	13.9
Utah	24.5	15.9
Wisconsin	16.0	13.9
State Average	21.9%	16.3%
Presidential Fund	24.0%	21.0%

Add-On Programs

	Tax Year 1983	Tax Year 1987
Alabama	1.5%	1.1%
Arizona	--	--
California	.6	.3
Maine	1.8	1.4
Massachusetts	2.9	2.3
Montana	1.0	.7
North Carolina	--	--
Oregon	--	.5
Virginia	1.4	1.8
State Average	1.5%	1.2%