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ROUTING AND TRANSMITTAL SLIP

Date 7/21/82

TO: (Name, office symbol, room number, building, Agency/Post)	Initials	Date
1. Mike Uhlmann		
2.		
3.		
4.		
5.		

Action	File	Note and Return
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As Requested	For Correction	Prepare Reply
Circulate	For Your Information	See Me
Comment	Investigate	Signature
Coordination	Justify	

REMARKS

Attached is ^{the} Federal Election Commission's report recommending numerous changes in Federal Election and campaign laws. The report was transmitted simultaneously to Congress for its consideration pursuant to the law.

The numerous recommended changes, especially in the area of campaign finance make this a document well worth review and consideration.

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FROM: (Name, org. symbol, Agency/Post) MAURICE WHITE LEGISLATIVE REFERENCE DIVISION OFFICE OF MANAGEMENT AND BUDGET	Room No.—Bldg. 7220 NEOB
	Phone No. 395-3856

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82/06/09

OFFICE OF MANAGEMENT AND BUDGET
CORRESPONDENCE CONTROL

OMB CONTROL NO: 12921
CORRESPONDENT : CHAIRMAN FRANK REICHE
ORGANIZATION : FED
DATE OF CORR. : 82/05/28

FOR ACTION : LRD

INFO :
OTHER REF : 81812

COMMENTS :

INSTRUCTIONS: TAKE APPROPRIATE ACTION

SUBJECT: LEGISLATION RECOMMENDATION REPORT

REMARKS:

	PREPARED	CLEARED	CLEARED	CLEARED	CLEARED	CLEARED
SURNAME						
AND						
DIVISION						
INITIALS						
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THE WHITE HOUSE OFFICE

REFERRAL

JUNE 9, 1982

TO: OFFICE OF MANAGEMENT AND BUDGET
ATTN: DAVID STOCKMAN

ACTION REQUESTED:
APPROPRIATE ACTION

DESCRIPTION OF INCOMING:

ID: 081812

MEDIA: LETTER, DATED MAY 28, 1982

TO: PRESIDENT REAGAN

FROM: THE HONORABLE FRANK P. REICHE
CHAIRMAN
FEDERAL ELECTION COMMISSION
WASHINGTON DC 20463

SUBJECT: SUBMITS REPORT FOR CONSIDERATION, A NUMBER OF
RECOMMENDATIONS FOR LEGISLATIVE ACTION

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DIRECTOR OF AGENCY LIAISON
PRESIDENTIAL CORRESPONDENCE

DIRECTOR'S
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12921

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Name of Correspondent: Frank P. Reicher

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Subject: Submits Report for consideration, a number of recommendations for legislative action of
FEDERAL ELECTION COMMISSION

ROUTE TO:	ACTION	DISPOSITION
Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD Type of Response Code Completion Date YY/MM/DD
<u>EC Lewis</u>	ORIGINATOR	<u>82106103</u> ^{Py} <u>C</u> <u>82106104</u>
<u>PD JOHN</u>	Referral Note: <u>A</u>	<u>be sure OMB gets copy of recommendations for leg. action</u> <u>82106104</u> <u>C</u> <u>82106108</u>
<u>✓ OMB Stockman</u>	Referral Note: <u>A</u>	<u>82106108</u> <u>1</u> <u>1</u>
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 - F - Furnish Fact Sheet to be used as Enclosure
 - I - Info Copy Only/No Action Necessary
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12921

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- T - Telegram
- V - Telephone
- X - Miscellaneous
- Y - Study



FEDERAL ELECTION COMMISSION
WASHINGTON, D.C. 20463

May 28, 1982

081812

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

In accordance with 2 U.S.C. §438(a)(9), the Federal Election Commission is pleased to submit for your consideration a number of recommendations for legislative action.

In developing its legislative recommendations this year, the Commission attempted to generate discussion on broad topics that seemed to pose problems for political committees, in their effort to comply with the law; for the public, in its effort to utilize campaign finance information which is disclosed; or for the Commission, in its administration of the law. For each recommendation, the Commission has presented an Explanation and Justification, believing that a primary value of the recommendations is an opportunity to acquaint Congress and the public with difficulties that have been encountered. The Commission was less concerned about finding perfect solutions than with defining problems and identifying possible solutions.

The Commission trusts that these proposals will be helpful to deliberations on the Federal Election Campaign Act and the activities of the Federal Election Commission.

Sincerely,

Frank P. Reiche

Frank P. Reiche
Chairman for the Federal
Election Commission

12921

LEGISLATIVE RECOMMENDATIONS -- 1982

Federal Election Commission
June 1, 1982

12921

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DEFINITIONS

LEGISLATIVE RECOMMENDATIONS -- 1982

Draft Committees*

Section: 2 U.S.C. §§431(8)(A)(i), 431(9)(A)(i), 441a(a)(1) and
441b(b)

Beneficiary of Change: Candidates, Commission

Recommendation

Congress should consider the following amendments to the Act in order to prevent a proliferation of "draft" committees and to reaffirm Congressional intent that draft committees are "political committees" subject to the Act's provisions.

1. Bring Funds Raised and Spent for Undeclared Candidates

Within the Act's Purview. Section 431(8)(A)(i) should be amended to include in the definition of "contribution" funds contributed by persons "for the purpose of influencing a clearly identified individual to seek nomination for election or election to federal office...." Section 431(9)(A)(i) should be similarly amended to include within the definition of "expenditure" funds expended by persons on behalf of such "a clearly identified individual."

*This recommendation reiterates the one made by the Commission on August 28, 1981. On that date, the Commission sent a letter to the Speaker of the House and the President of the Senate recommending immediate legislative action on amendments to the election law that would clarify the Act's coverage of the activities of "draft" committees organized to support or influence the nomination of undeclared federal candidates.

2. Restrict Corporate and Labor Organization Support for Undeclared Candidates. Section 441b(b) should be revised to expressly state that corporations, labor organizations and national banks are prohibited from making contributions or expenditures "for the purpose of influencing a clearly identified individual to seek nomination for election or election..." to federal office.

3. Limit Contributions to Draft Committees. The law should include explicit language stating that no person shall make contributions to any committee [including a draft committee] established to influence the nomination or election of a clearly identified individual for any Federal office which, in the aggregate, exceed that person's contribution limit, per candidate, per election.

Explanation and Justification

These proposed amendments were prompted by a recent decision of the U.S. Court of Appeals for the District of Columbia Circuit in FEC v. Machinists Non-Partisan Political League and FEC v. Citizens for Democratic Alternatives in 1980. The appeals court held that the Act, as amended in 1979, regulated only the reporting requirements of draft committees. The Commission sought review of this decision by the Supreme Court, but the Court declined to hear the case. Although the case is binding precedent only in the District of Columbia Circuit, the Commission believes that the appeals court ruling creates a serious imbalance in the election law and the political process because any group organized to gain grass roots support for an undeclared candidate can operate completely outside the strictures of the Federal Election Campaign Act. However, any group organized to support a declared candidate is subject to the Act's registration and reporting requirements and contribution limitations. Therefore, the potential exists for funneling large aggregations of money, both corporate and private, into the federal electoral process through unlimited contributions made to draft committees that support undeclared candidates. These recommendations seek to avert that possibility.

LEGISLATIVE RECOMMENDATIONS -- 1982

Modifying Multicandidate Committees Definition and Limitations

Section: 2 U.S.C. §§438(a)(6)(C), 441a(a)(2) and 441a(a)(4)

Beneficiary of Change: Candidates, Multicandidate political
committees, FEC

Recommendations

Congress should consider modifying those provisions of the Act relating to multicandidate committees in order to reduce the problems encountered by contributor committees in reporting their multicandidate committee status, and by candidate committees and the Commission in verifying the multicandidate committee status of contributor committees. In this regard, Congress might consider requiring political committees to notify the Commission once they have satisfied the three criteria for becoming a multicandidate committee, namely, once a political committee has been registered for not less than 6 months, has received contributions from more than 50 persons and has contributed to at least 5 candidates for Federal office.

Explanation and Justification

Under the current statute, political committees may not contribute more than \$1,000 to each candidate, per election, until they qualify as a multicandidate committee, at which point they may contribute up to \$5,000 per candidate, per election. To qualify for this special status, a committee must meet three standards:

- support five or more Federal candidates;
- receive contributions from more than 50 contributors; and
- be in existence for at least six months.

The Commission is statutorily responsible for maintaining an index of committees that have qualified as multicandidate committees. The index enables recipient candidate committees to

determine whether a given contributor has in fact qualified as a multicandidate committee and therefore is entitled to contribute up to the higher limit. The Commission's Multicandidate Index, however, is not current because it depends upon information filed periodically by political committees. Under the statute, committees inform the Commission that they have qualified as multicandidate committees by checking the appropriate box on their regularly scheduled report. If, however, they qualify shortly after they have filed their report, several months may elapse before they disclose their new status on the next report. With semiannual reporting in a nonelection year, for example, a committee may become a multicandidate committee in August, but the Commission's Index will not reveal this until after the January 31 report has been filed, coded and entered into the Commission's computer.

Because candidate committees cannot totally rely on the Commission's Multicandidate Index for current information, they sometimes ask the contributing committee directly whether the committee is a multicandidate committee. Contributing committees, however, are not always clear as to what it means to be a multicandidate committee. Some committees erroneously believe that they qualify as a multicandidate committee merely because they have contributed to more than one Federal candidate. They are not aware that they must have contributed to five or more federal candidates and also have more than 50 contributors and have been registered for at least six months.

LEGISLATIVE RECOMMENDATIONS -- 1982

Limit Use of Volunteer Professional Services
for Fundraising*

Section: §2 U.S.C. 431(8)(B)

Beneficiary of Charge: Public

Recommendation

Congress may wish to circumscribe the use of volunteer professional services when they are donated solely for fundraising purposes rather than for actual campaigning.

Explanation and Justification

The Act places no limit on the services that a professional may donate to a candidate. For example, a professional entertainer may participate in a concert for the benefit of a candidate without the proceeds of that concert counting toward the entertainer's contribution limitations. Similarly, an artist may donate artwork to a campaign to be used for fundraising or to be disposed of as an asset of the campaign.

*This recommendation reiterates one of the legislative recommendations submitted to Congress in the Commission's 1980 Annual Report. It is repeated because this area has been a continuing problem.

REPORTING

LEGISLATIVE RECOMMENDATIONS -- 1982

Monthly Reporting for Congressional Candidates

Section: 2 U.S.C. §434(a)(2)

Beneficiary of Change: House and Senate campaign candidates

Recommendation

The principal campaign committee of a Congressional candidate should have the option of filing monthly reports in lieu of quarterly reports.

Explanation and Justification

Political committees, other than principal campaign committees, may choose under the Act to file either monthly or quarterly reports during an election year. Committees choose this option when they have a high volume of activity. Under those circumstances, accounting and reporting are easier on a monthly basis because fewer transactions have taken place during that time. Consequently, the committee's reports will be more accurate.

Principal campaign committees can also have a large volume of receipts and expenditures. This is particularly true with Senatorial campaigns. These committees should be able to choose a more frequent filing schedule so that their reporting covers less activity and is easier to do.

LEGISLATIVE RECOMMENDATIONS -- 1982

Insolvency of Political Committees

Section: 2 U.S.C. §433(d)

Beneficiary of Change: Political Committees, Commission and Public

Recommendation

The Commission requests that Congress clarify its intention as to whether the Commission has a role in the determination of insolvency and liquidation of insolvent political committees. 2 U.S.C. §433(d) was amended in 1980 to read: "Nothing in this subsection may be construed to eliminate or limit the authority of the Commission to establish procedures for--(A) the determination of insolvency with respect to any political committee; (B) the orderly liquidation of an insolvent political committee, and the orderly application of its assets for the reduction of outstanding debts; and (C) the termination of an insolvent political committee after such liquidation and application of assets." The phrasing of this provision ("Nothing...may be construed to...limit") suggests that the Commission has such authority in some other provision of the Act. If Congress intended the Commission to have a role in the liquidation of, and application of assets of insolvent political committees, the Commission is unclear as to the source and extent of this authority.

Explanation and Justification

Under 2 U.S.C. §433(d)(1), a political committee may terminate only when it certifies in writing that it will no longer receive any contributions or make any disbursements and

that the committee has no outstanding debts or obligations. The FECA Amendments of 1979 added a provision to the law (2 U.S.C. §433(d)(2)) possibly permitting the Commission to establish procedures for determining insolvency with respect to political committees, as well as the orderly liquidation and termination of insolvent committees. In 1980, the Commission promulgated the "administrative termination" regulations at 11 CFR 102.4 after enactment of the 1979 Amendments, in response to 2 U.S.C. §433(d)(2). However, these procedures do not concern liquidation or application of assets of insolvent political committees.

Prior to 1980, the Commission adopted "Debt Settlement Procedures" under which the Commission reviews proposed debt settlements in order to determine whether the settlement will result in a potential violation of the Act. If it does not appear that such a violation will occur, the Commission permits the committee to cease reporting that debt once the settlement and payment are reported. The Commission believes this authority derives from 2 U.S.C. §434 and from its authority to correct and prevent violations of the Act, but it does not appear as a grant of authority beyond a review of the specific debt settlement request, to order application of committee assets.

It has been suggested that approval by the Commission of the settlement of debts owed by political committees at less than face value may lead to the circumvention of the limitations on contributions specified by 2 U.S.C. §§441a and 441b. The amounts involved are frequently substantial, and the creditors are often corporate entities. Concern has also been expressed regarding the possibility that committees could incur further debts after settling some, or that a committee could pay off one creditor at less than the dollar value owed and subsequently raise additional funds to pay off a "friendly" creditor at full value.

LEGISLATIVE RECOMMENDATIONS -- 1982

Commission as Sole Point of Entry
for Disclosure Documents

Section: 2 U.S.C. §432(g)

Beneficiary or Change: Political Committees; Commission;
Public

Recommendation*

The Commission recommends that it be the sole point of entry for all disclosure documents filed by Federal candidates and political committees.

Explanation and Justification

A single point of entry for all disclosure documents filed by political committees would eliminate any confusion about where candidates and committees are to file their reports. It would assist committee treasurers by having one office where they would file reports, address correspondence and ask questions. At present, conflicts may arise when more than one office sends out materials, makes requests for additional information and answers questions relating to the interpretation of the law. A single point of entry would also reduce the costs to the Federal government of maintaining three different offices, especially in the areas of personnel, equipment and data processing.

The Commission has authority to prepare and publish lists of nonfilers. It is extremely difficult to ascertain who has and who has not filed when reports may have been filed at or are in transit between two different offices. Separate points of entry also make it difficult for the Commission to track responses to compliance notices. Many responses and/or amendments may not be received by the Commission in a timely manner, even though they were sent on time by the candidate or committee. The delay in transmittal between two offices sometimes leads the Commission to believe that candidates and committees are not in compliance. A single point of entry would eliminate this confusion. If the Commission received all documents, it would transmit on a daily

*This recommendation reiterates one of the legislative recommendations submitted to Congress in the Commission's 1980 Annual Report.

basis file copies to the Secretary of the Senate and the Clerk of the House, as appropriate. The Commission notes that the report of the Institute of Politics of the John F. Kennedy School of Government at Harvard University, An Analysis of the Impact of the Federal Election Campaign Act, 1972-78, prepared for the House Administration Committee, recommends that all reports be filed directly with the Commission (Committee Print, 96th Cong., 1st Sess., at 122 (1979)).

LOCAL PARTY ACTIVITY

LEGISLATIVE RECOMMENDATIONS -- 1982

Separate §441a(d) Limit for Local Party Committees

Section: 2 U.S.C. §441a(d)

Beneficiary of Change: Local Party Committees

Recommendation

Congress should amend the statute to provide a separate limit under §441(a)(d) for local party committees, especially in Presidential elections.

Explanation and Justification

Local party committees share the state party's §441a(d) limit for Congressional elections but have no statutory role under that section for presidential elections. The 1979 Amendments to the Act did establish certain exemptions for state and local party committees, including a provision for get-out-the-vote activity during the Presidential election. The exemptions, however, are limited to activities involving volunteers. Payments for general public political advertising do not qualify under these provisions. Therefore, a local party committee may only make expenditures outside of these exemptions on behalf of the party's Presidential candidate when authorized to do so under the national party's §441a(d) limit.

Many local committees are unaware of this restriction and make minor expenditures which are difficult for the national committee to track. It would be preferable for the local committees to have a small limit of their own (in addition to the limits given to the state and national party committees). This would aid national committees in administering their own limit and avoid unnecessary compliance actions, while still ensuring that local parties do not introduce significant amounts of unreported (and possibly prohibited) funds into the federal election process. (It is assumed that the national committee would delegate its authority with respect to the state party committees.)

LEGISLATIVE RECOMMENDATIONS - - 1982

Administration of a State or Local Party
Committee's Federal Account

Section: 2 U.S.C. §§431(8) and (9) and 441b

Beneficiary of Change: Party Organizations

Recommendation*

The Commission recommends that State and local party organizations which choose to establish a separate federal account for the funding of activity in connection with federal elections, not be required to allocate costs of administration or fundraising between the Federal accounts and other segments of the organization. Such costs could be paid from any funds available to the party.

Explanation and Justification

State and local party organizations are permitted to establish a separate "Federal account" for the purpose of accepting contributions and making expenditures in connection with federal elections. A party organization that has established such an account is required to report the receipts and disbursements of the Federal account only. One of the most cumbersome regulations flowing from this organizational structure is the requirement that committees allocate their overhead and solicitation expenses between their federal and nonfederal accounts. Specifically, committees must pay a portion of their administrative costs from the federal account and a portion from the nonfederal account.

Our audits of party organizations have frequently contained findings concerning the party's failure to make these allocations and have recommended that the nonfederal part of the organization be reimbursed from the Federal account for a reasonable share of the party's administrative costs. Failure to do so has been considered a violation of the 11 C.F.R. 102.5 prohibition on

*Commissioners Harris and McDonald oppose this recommendation on the ground that it would allow corporations and unions to finance with general treasury funds a substantial portion of
(continued)

transferring funds from the party's nonfederal accounts to the federal account and, in those states where corporate and/or labor contributions are permitted for use in State and local elections, a possible violation of 2 U.S.C. §441(b), the ban on corporation/union funds in connection with Federal elections. To help party committees avoid these potential violations, the Commission has approved of at least two allocation systems, with a provision that the committee may formulate any other reasonable method. The application of these systems is, however, burdensome since technically the allocation percentage can change from report to report necessitating frequent recalculations. Moreover, the accumulation, allocation and reporting of the administrative expenses are time consuming. Further, the resulting allocations are somewhat arbitrary and serve only to provide a recognition that a portion of the costs are indirectly connected to federal elections.

To alleviate these problems, the Commission recommends that party committees not be required to allocate their administrative expenses between their federal and nonfederal accounts. While this proposal might permit some corporate and labor funds to enter the Federal election process indirectly, this risk is outweighed by the substantial reduction of administrative burdens. Moreover, it is important to remember that, because of the imprecise nature of the allocation systems now in use, even under our present requirements, federal party activity may incidentally benefit from corporate/labor funds.

Note that this recommendation would not apply to expenditures made on behalf of a clearly identified candidate, nor to registration and get-out-the-vote activities.

the costs associated with a party committee's federal activity. The argument that dispensing with the need to allocate will free party committees of an administrative burden is undercut by that part of the recommendation which retains the requirement to allocate when party expenditures are made for registration and get-out-the-vote activities or when expenditures are made on behalf of a clearly identified federal candidate. The long-time Congressional policy of banning corporate and union funds from federal elections (except for PAC contributions) and administrative simplicity would both be better served by banning all corporate and union contributions to party committees which actively participate in federal elections.

CORPORATE/LABOR ACTIVITY

LEGISLATIVE RECOMMENDATIONS -- 1982

Remove One-Year Limit on Corporate Approval
of Trade Association Solicitations*

Section: 2 U.S.C. §441b(b)(4)(D)

Beneficiary of Change: Trade Associations

Recommendation:

The one-year limit on corporate approval of solicitations by trade associations should be removed.

Explanation and Justification

Trade association political action committees must annually obtain the separate and specific approval of each member corporation to solicit their executive and administrative personnel. Some trade associations have thousands of members, and it is a considerable burden to obtain approval to solicit every year. The one-year limitation should be removed, permitting the trade association to solicit until the corporation revokes its approval.

*This recommendation reiterates one of the legislative recommendations submitted to Congress in the Commission's 1980 Annual Report. It is repeated because this area is a continuing problem.

COMMISSION SERVICES: OUTREACH

LEGISLATIVE RECOMMENDATIONS -- 1982

Budget Reimbursement Fund

Section: 2 U.S.C. §438

Beneficiary of Change: Public, Commission

Recommendation

1. The Commission recommends that Congress establish a reimbursement account for the Commission so that expenses incurred in preparing copies of documents, publications and computer tapes sold to the public are recovered by the Commission. Similarly, costs awarded to the Commission in litigation (e.g., printing, but not civil penalties) and payments for Commission expenses incurred in responding to Freedom of Information Act requests should be payable to the reimbursement fund. The Commission should be able to use such reimbursements to cover its costs for these services, without fiscal year limitation, and without a reduction in the Commission's appropriation.

2. The Commission recommends that costs be recovered for FEC Clearinghouse seminars, workshops, research materials and other services, and that reimbursements be used to cover some of the costs of these activities, including costs of development, production, overhead and other related expenses.

Explanation and Justification

At the present time, copies of reports, microfilm, and computer tapes are sold to the public at the Commission's cost. However, instead of the funds being used to reimburse the Commission for its expenses in producing the materials, they are

credited to the U.S. Treasury. The effect on the Commission of selling materials is thus the same as if the materials had been given away. The Commission absorbs the entire cost. In FY 1980, in return for services and materials it offered the public, the FEC collected and transferred \$37,343.73 in miscellaneous receipts to the Treasury. In FY 1981, the amount was \$57,544.37, and for the first six months of FY 1982, \$27,100.23 was transferred to the Treasury. Establishment of a reimbursement fund, into which fees for such materials would be paid, would permit this money to be applied to further dissemination of information. Note, however, that a reimbursement fund would not be applied to the distribution of FEC informational materials to candidates and registered political committees. They would continue to receive free publications that help them comply with the federal election laws.

There is also the possibility that the Commission could recover costs of FEC Clearinghouse workshops and seminars, research materials, and reports that are now sold by the Government Printing Office and National Technical Information Service. Approximately \$15,000 was collected in FY 1981 by GPO and NTIS on account of sales of Clearinghouse documents.

There should be no restriction on the use of reimbursed funds in a particular year to avoid the possibility of having funds lapse.

ENFORCEMENT

LEGISLATIVE RECOMMENDATIONS -- 1982

Modifying "Reason to Believe" Finding

Section: 2 U.S.C. §437g

Beneficiary of Change: Respondents, Press, Public

Recommendation

Congress should consider modifying the language pertaining to "reason to believe," contained in 2 U.S.C. §437g, in order to reduce the confusion sometimes experienced by respondents, the press and the public. One possible approach would be to change the statutory language from "the Commission finds reason to believe a violation of the Act has occurred" to "the Commission finds reason to believe a violation of the Act may have occurred." Or Congress may wish to use some other less invidious language.

Explanation and Justification

Under the present statute, the Commission is required to make a finding that there is "reason to believe a violation has occurred" before it may investigate. Only then may the Commission request specific information from a respondent to determine whether, in fact, a violation has occurred. The statutory phrase "reason to believe" is misleading and does a disservice to both the Commission and the respondent. It implies that the Commission has evaluated the evidence and concluded that the respondent has violated the Act. In fact, however, a "reason to believe" finding simply means that the Commission believes a violation may have occurred if the facts as described in the complaint are true. An investigation permits the Commission to evaluate the validity of the facts as alleged.

If the problem is, in part, one of semantics, it would be helpful to substitute words that sound less accusatory and that more accurately reflect what, in fact, the Commission is doing at this early phase of enforcement.

In order to avoid perpetuating the erroneous conclusion that the Commission believes a respondent has violated the law everytime it finds "reason to believe," the statute should be amended.

PUBLIC FINANCING

LEGISLATIVE RECOMMENDATIONS - - 1982

Repeal the State Expenditure Limitations
for Publicly Financed Presidential Campaigns

Section: 2 U.S.C. §441a

Beneficiary of Change: Presidential Candidate Committees
and Commission

Recommendation

The Commission recommends that the state-by-state limitations on expenditures for publicly financed presidential primary candidates be eliminated.

Explanation and Justification

The Commission has now seen two presidential elections under the state expenditure limitations. Based on our experience, we believe that the limitations could be removed with no material impact on the process.

Our experience has shown that the limitations have little impact on campaign spending in a given state, with the exception of Iowa and New Hampshire. In most other states, campaigns are unable or do not wish to expend an amount equal to the limitation. In effect, then, the administration of the entire program results in limiting disbursements in these two primaries alone.

If the limitations were removed, the level of disbursements in these states would obviously increase. With an increasing number of primaries vying for a campaign's limited resources, however, it would not be possible to spend very large amounts in these early primaries and still have adequate funds available for the later primaries. Thus, the overall national limit would serve as a constraint on state spending, even in the early primaries. At the same time, candidates would have broader discretion in the running of their campaigns.

Our experience has also shown that the limitations have been only partially successful in limiting expenditures in the early primary states. The use of the fundraising limitation, the compliance cost exemption, the volunteer service provisions, the

unreimbursed personnel travel expense provisions, the use of a personal residence in volunteer activity exemption, and a complex series of allocation schemes have developed into an art which when skillfully practiced can partially circumvent the state limitations.

Finally, the allocation of expenditures to the states has proven a significant accounting burden for campaigns and an equally difficult audit and enforcement task for the Commission.

Given our experience to date, we believe that this change to the Act would be of substantial benefit to all parties concerned.

LEGISLATIVE RECOMMENDATIONS - - 1982

Repeal the Fundraising Limitation for
Publicly Financed Presidential Primary Campaigns
and Add an Equivalent amount to the
Overall Expenditure Limitation

Section: 2 U.S.C. §§431(2) (A) (vi) and 441a

Beneficiary of Change: Candidates, Commission

Recommendation

The Commission recommends that the separate fundraising limitation provided to publicly financed Presidential primary campaigns be combined with the overall limit. Thus, instead of a candidate's having a \$10 million (plus COLA*) limit for campaign expenditures and a \$2 million (plus COLA) limit for fundraising (20 percent of overall limit), each candidate would have one \$12 million (plus COLA) limit for all campaign expenditures.

Explanation and Justification

Campaigns that have sufficient funds to spend up to the overall limit usually allocate some of their expenditures to the fundraising category. These campaigns come close to spending the maximum permitted under both their overall limit and their special fundraising limit. Hence, by combining the two limits, Congress would not substantially alter spending amounts or patterns. For those campaigns which do not spend up to the overall expenditure limit, the separate fundraising limit is meaningless. Many smaller campaigns do not even bother to use it, except in one or two states where the expenditure limit is low, e.g., Iowa and New Hampshire. Assuming that the state limitations are eliminated or appropriately adjusted, this recommendation would have little impact on the election process.

The advantages of the recommendation, however, are substantial. They include a reduction in accounting burdens and a simplification in reporting requirements for campaigns, and a reduction in the Commission's auditing task.

*Spending limits are increased by the cost-of-living adjustment (COLA), which the Department of Labor calculates annually.

CONTRIBUTIONS

LEGISLATIVE RECOMMENDATIONS -- 1982

Application of Contribution Limitations
to Family Members

Section: 2 U.S.C. §441a

Beneficiary of Change: Candidates, FEC

Recommendation

The Commission recommends that Congress examine the application of the contribution limitations to immediate family members.

Explanation and Justification

Under the current posture of the law, a family member is limited to contributing \$1,000 per election to a candidate. This limitation applies to spouses and parents, as well as other immediate family members. [See S. Conf. Rep. No. 93-1237, 93rd Cong., 2nd Sess., 58 (1974) and Buckley v. Valeo, 424 U.S. 1, 51 (footnote 57) (1976).] This limitation has caused the Commission substantial problems in attempting to implement and enforce the contribution limitations.

First, a disparity of treatment occurs between candidates living in community property states and those living in non-community property states. The Commission has viewed candidates living in community property states as having the right to use, for campaign purposes, their own property, as well as the entire property of the spouse. In non-community property states, the candidate is viewed as having the right to use property held in his or her own name, but not property held solely in the name of the spouse. If the candidate and spouse own property as tenants in common or as joint tenants, the candidate may use one half of the property. However, this rule does not apply to bank accounts, held in joint tenancy, where each spouse may draw out the entire amount of the account.

Second, application of the law has caused difficulties in a situation where a candidate has obtained a campaign loan which is secured by real property owned by the candidate and spouse. For example, if a candidate takes out a \$30,000 loan secured by the family residence which the candidate and spouse own in joint tenancy, the spouse, under the law, has made a \$15,000 contribution to the candidate. This result is unfair and inequitable. Many candidates who borrow money for their campaigns have no choice but to use their residence to secure a loan.

Third, problems have arisen in enforcing the limitations where a candidate uses assets belonging to a parent. A candidate may draw on his or her anticipated inheritance from a parent, with this draw then being deducted from the amount the candidate inherits.

The Commission recommends that Congress consider the difficulties arising from application of the contribution limitations to immediate family members.

LEGISLATIVE RECOMMENDATIONS -- 1982

Foreign Nationals

Section: 2 U.S.C. §441e

Beneficiary of Change: Foreign Nationals, Candidates

Recommendation

Congress should define the extent to which foreign nationals may participate, if at all, in connection with elections to any political office.

Explanation and Justification

This question has presented problems for the Commission and candidates, particularly since the legislative history is unclear in this area.

Several issues have arisen during the Commission's administration of this provision. First, the law, as interpreted by Commission Advisory Opinions, permits an American subsidiary of a foreign registered corporation to form a separate segregated fund (SSF) provided foreign nationals neither contribute to the SSF nor control the SSF's expenditures. At the same time, the Commission has, in another Advisory Opinion, interpreted the Act to mean that a foreign national may not volunteer his services to a campaign. The standard under section 441e bars contributions by a foreign national that are "in connection with" (rather than "for the purpose of influencing") a federal election. It is unclear whether this distinction is intended to create a broader prohibition in the case of foreign nationals than for other activities under the Act.

Since this is a provision which relates to state and local as well as federal elections, its clarification would aid many candidates and political committees.

LEGISLATIVE RECOMMENDATIONS -- 1982

Acceptance of Cash Contributions

Section: 2 U.S.C. §441g

Beneficiary of Change: Committees, Commission

Recommendation

Congress may wish to modify the statute to make the treatment of 2 U.S.C. §441g, concerning cash contributions, consistent with other provisions of the Act. As currently drafted, 2 U.S.C. §441g prohibits only the making of cash contributions which, in the aggregate, exceed \$100 per candidate, per election. It does not address the issue of accepting cash contributions in excess of \$100 per candidate, per election.

Explanation and Justification

Currently this provision focuses only on persons making the cash contributions. However, these cases generally come to light when a committee has accepted these funds. Yet the Commission has no recourse to the committee in such cases. This can be a problem, particularly where primary matching funds are received on the basis of such contributions.

While the Commission, in its regulations at 11 CFR 110.4(c)(2), has included a provision requiring a committee receiving such a cash contribution to promptly return the excess over \$100, the statute does not explicitly make acceptance of these cash contributions a violation. The other sections of the Act dealing with prohibited contributions (i.e., sections 441b on corporate and labor union contributions, 441c on contributions by government contractors, 441e on contributions by foreign nationals, and 441f on contributions in the name of another) all prohibit both the making and accepting of such contributions.

LEGISLATIVE RECOMMENDATIONS - 1982

Fraudulent Solicitation of Funds

Section: 2 U.S.C. §441h

Beneficiary of Change: Political Candidates, Parties
and Contributors

Recommendation

The current 441h prohibits fraudulent misrepresentation such as speaking, writing or acting on behalf of a candidate or committee on a matter which is damaging to such candidate or committee. It does not, however, prohibit persons from fraudulently soliciting contributions. A provision should be added to this section prohibiting persons from fraudulently misrepresenting themselves as representatives of candidates or political parties for the purpose of soliciting contributions which are never forwarded to or used by or on behalf of the candidate or party.

Explanation and Justification

The Commission has received a number of complaints charging that substantial amounts of money were raised fraudulently by persons or committees purporting to act on behalf of candidates. Candidates have complained that contributions which people believed were going for the benefit of the candidate were diverted for other purposes. Both the candidates and the contributors were harmed by such diversion. The candidates received less money because people desirous of contributing believed they had already done so, and the contributors' funds had been misused in a manner in which they did not intend. The Commission has been unable to take any action on these matters because the statute gives it no authority in this area.

LEGISLATIVE RECOMMENDATIONS -- 1982

Honoraria

Section: 2 U.S.C. §§431(8)(B)(xiv) and 441i

Beneficiary of Change: Federal Officers and Employees
Officeholders, Commission

Explanation

The Commission offers two suggestions concerning honoraria.

1. The entire provision concerning honoraria should be placed under the Ethics in Government Act.
2. As technical amendments, Sections (c) and (d), which pertain to the annual limit on receiving honoraria (now repealed), should be repealed. Additionally, 2 U.S.C. §431(8)(B)(xiv), which refers to the definition of honorarium in Section 441i, should be modified to contain the definition itself.

Explanation and Justification

Congress eliminated the \$25,000 annual limit on the amount of honoraria that could be accepted, but it did not take out these two sections, which only apply to the \$25,000 limit. This clarification would eliminate confusion for officeholders and thereby help the Commission in its administration of the Act.