

Memo

To: Commissioners

From: Wayne Barnett

Date: January 2, 2008

Re: Inflation Adjustment

ISSUE

The Elections Code provision mandating an automatic biennial inflation adjustment to the contribution limit and the cash contribution limit expired in 2007. Councilmember Clark is seeking the Commission's opinion on what action the City Council should take. Does the Commission:

- Recommend against renewal of inflation adjustment
- Recommend renewal of inflation adjustment with no changes to formulas
- Recommend renewal of inflation adjustment with changes to formulas

ORDINANCE LANGUAGE

Section 2.04.370 sets the limit for contributions to City campaigns. Section 2.04.370.E reads as follows:

E. Adjustment Index.

1. In March of each even-numbered calendar year, the Commission shall promulgate a rule in accordance with Chapter 3.02 of the Seattle Municipal Code. This Rule may increase the dollar amount in subsection A based on changes in economic conditions as reflected by the Implicit Price Deflator of the United States Domestic Product as published by the United States Department of Commerce Bureau of Economic Analysis (IPD). If application of the IPD would result in a decrease in the dollar amount, the dollar amount shall remain unchanged.

2. The new dollar amounts established by the Commission shall be determined by multiplying the base amount provided in this section (Six Hundred Dollars \$600) *[sic]* by the percentage change in the most recently published IPD since January 1, 2000. The resulting amount shall be added to the amount derived from the multiplication of the base amount, and the amount resulting from that calculation shall be rounded to the nearest whole dollar amount that can be divided by fifty

(50). In cases where the unrounded amount derived from this procedure is exactly Twenty-five Dollars (\$25) different from the two (2) nearest numbers evenly divisible by Fifty Dollars (\$50), the amount shall be rounded up to the next number evenly divisible by Fifty Dollars (\$50). The new dollar amount shall become effective May 1st of the even-numbered calendar year. Once adopted, any increase in the contribution limit shall be effective for all election cycles that have not ended by May 1st of that even-numbered year.

3. This subsection shall expire six (6) years after the effective date of the enabling ordinance.

Section 2.04.180 sets the limit for cash contributions to City campaigns. Section 2.04.180.C reads as follows:

C. Changes in Contribution Amount.

1. In March of each even-numbered calendar year, the Commission shall promulgate a rule in accordance with Chapter 3.02 of the Seattle Municipal Code. This rule may increase the dollar amount in subsection A based on changes in economic conditions as reflected by the Implicit Price Deflator for the United States Gross Domestic Product as produced by the United States Department of Commerce Bureau of Economic Analysis ("IPD"). If application of the IPD would result in a decrease in the dollar amount, the dollar amount shall remain unchanged.

2. The new dollar amounts established by the Commission shall be determined by multiplying a base amount of Fifty-five Dollars (\$55) by the percentage change in the IPD between the base year of 2000 and the most recently published IPD. The resulting amount shall be added to the base amount, and the amount resulting shall be rounded to the nearest amount convenient for the public. Once adopted, any increase in the cash contribution limit shall be effective for all election cycles that have not ended by May 1 of that even-numbered year.

3. This subsection C shall expire six (6) years after the effective date of Ordinance 120433.

FIRST RECOMMENDATION: DO NOT RENEW THE AUTOMATIC INFLATION ADJUSTMENT

The chief argument against the inflation adjustment is the fact that, over the three election cycles in which the inflation adjuster has been in effect, donations to campaigns, and especially small donations to campaigns – which I'll define as contributions of less than \$100 – have declined dramatically. For 2003, the election cycle in which the inflation adjustment increased the contribution limit from \$600 to \$650, there were a total of 11,687 contributors, of whom 6,277 contributed less than \$100. For 2007, when the inflation adjustment increased the contribution limit to \$700, there were a total of just 7,412 donors, of whom only 2,742 gave less than \$100. The decline in the total

number of donors to City Council campaigns over just these three election cycles measures almost 37 percent. The decline in the number of small donations measures more than 56 percent.

Looking at the issue from another angle, the average contribution size stood at \$115 in 2001, when the City Council raised the contribution limit to \$600. For 2007, the average contribution totaled \$210, almost doubling in three election cycles. (The average contribution size excludes contributions from candidates, so it is not skewed by candidates who spent large sums of money on their own campaigns.) And one final observation – the average contribution size increased by 24 percent between 2001 and 2003, 19 percent between 2003 and 2005, and 24 percent again between 2005 and 2007. In contrast, it increased by just five percent between 1993 and 1995, seven percent between 1995 and 1997, 14 percent between 1997 and 1999, and seven percent between 1999 and 2001.

While the trend toward fewer and larger contributions cannot be attributed solely to increases in the contribution limit, it seems safe to say that the increases are a contributing factor. Because SMC 2.04.150.A.8 declares it to be the “public policy of the City that small contributions by individual contributors are to be encouraged,” I cannot at this time, given developments in the last three election cycles, recommend that the Commission recommend to the City Council allowing further automatic increases to the contribution limit.

The chief argument in favor of an automatic inflation adjustment is that the “increases” to the contribution limit aren’t really increases at all – they are adjustments that allow the purchasing power of a maximum contribution to keep pace with inflation. And the use of automatic inflation adjustments is widespread. Federal and state campaign contribution limits include an automatic inflation adjustment, and Congressional salaries, City salaries, social security benefits and the like also automatically adjust for inflation.

SECOND RECOMMENDATION: IF THE INFLATION ADJUSTMENT IS RENEWED, THE FORMULAS FOR PERFORMING THE ADJUSTMENT SHOULD BE ALIGNED, AND THE BASE AMOUNT OF THE CASH CONTRIBUTION SET AT \$60.

If the Council does renew the inflation adjustment, it would be easier to administer the rules if there was just one formula instead of two. There is no sound policy reason for using “the percentage change in the most recently published IPD since January 1, 2000” when computing the contribution limit and “the percentage change in the IPD between the base year of 2000 and the most recently published IPD” when calculating the cash contribution limit.

And the cash contribution limit would be easier for campaigns and contributors to remember if it was calculated in such a way that it was always 10 percent of the total contribution limit. Washington state’s cash contribution limit has long been 10 percent of the contribution limit, while in the 2007 election cycle Seattle’s contribution limit was \$700 and its cash contribution limit was \$60. At least one campaign had to refund \$10 to several individuals who contributed \$70 in cash.

Accordingly, I would recommend making the following changes to the Elections Code if the decision is made to renew the inflation adjustment.

[SMC 2.04.370.]E. Adjustment Index.

1. In March of each even-numbered calendar year, the Commission shall promulgate a rule in accordance with Chapter 3.02 of the Seattle Municipal Code. This Rule may increase the dollar amount in subsection A based on changes in economic conditions as reflected by the Implicit Price Deflator of the United States Domestic Product as published by the United States Department of Commerce Bureau of Economic Analysis (IPD). If application of the IPD would result in a decrease in the dollar amount, the dollar amount shall remain unchanged.

2. The new dollar amounts established by the Commission shall be determined by multiplying ~~the a~~ a base amount ~~provided in this section (of Six Hundred Dollars (\$600))~~ by the percentage change in the ~~most recently published IPD since January 1, 2000~~ IPD between the base year of 2000 and the most recently published IPD. The resulting amount shall be added to the base amount ~~derived from the multiplication of the base amount~~, and ~~the amount resulting from that calculation shall be~~ rounded to the nearest whole dollar amount that can be divided by fifty (50). ~~In cases where the unrounded amount derived from this procedure is exactly Twenty five Dollars (\$25) different from the two (2) nearest numbers evenly divisible by Fifty Dollars (\$50), the amount shall be rounded up to the next number evenly divisible by Fifty Dollars (\$50).~~ The new dollar amount shall become effective May 1st of the even-numbered calendar year. Once adopted, any increase in the contribution limit shall be effective for all election cycles that have not ended by May 1st of that even-numbered year.

3. No adjustments shall be made pursuant to this subsection after the adjustment effective May 1, 2012. ~~This subsection shall expire six (6) years after the effective date of the enabling ordinance.~~

[SMC 2.04.180.]C. Changes in Contribution Amount.

1. In March of each even-numbered calendar year, the Commission shall promulgate a rule in accordance with Chapter 3.02 of the Seattle Municipal Code. This rule may increase the dollar amount in subsection A based on changes in economic conditions as reflected by the Implicit Price Deflator for the United States Gross Domestic Product as produced by the United States Department of Commerce Bureau of Economic Analysis ("IPD"). If application of the IPD would result in a decrease in the dollar amount, the dollar amount shall remain unchanged.

2. The new dollar amounts established by the Commission shall be determined by multiplying a base amount of ~~Fifty five Dollars (\$55)~~ Sixty Dollars (\$60) by the percentage change in the IPD between the base year of 2000 and the most recently published IPD. The resulting amount shall be added to the base amount, and the

amount resulting shall be rounded to the nearest amount convenient for the public. Once adopted, any increase in the cash contribution limit shall be effective for all election cycles that have not ended by May 1 of that even-numbered year.

3. No adjustments shall be made pursuant to this subsection after the adjustment effective May 1, 2012. This subsection C shall expire six (6) years after the effective date of Ordinance 120433.