

Statement of David Keating President, Center for Competitive Politics

Before the Senate Elections Committee New York State Senate May 7, 2013

Chairman O'Mara, Ranking Member Tkaczyk, and members of the Senate Elections Committee, on behalf of the Center for Competitive Politics, thank you for inviting me to testify before you today regarding a proposal to institute a statewide system of taxpayer-funded political campaigns in New York State modeled after New York City's matching funds program.

The Center for Competitive Politics (CCP) is a nonpartisan, nonprofit 501(c)(3) organization focused on promoting and protecting the First Amendment political rights of speech, assembly, and petition. It was founded in 2005 by Bradley A. Smith, a former Chairman of the Federal Election Commission. In addition to scholarly and educational work, the Center is actively involved in targeted litigation against unconstitutional laws at both the state and federal levels. For instance, we presently represent a nonprofit, incorporated educational association in a challenge to Colorado's campaign finance laws. The Center is also involved in litigation currently before the U.S. Supreme Court.

While proponents of so-called "clean elections" proposals tout these programs as a panacea for eliminating corruption and "fixing government," the experience of three states with similar versions of these programs as well as New York City's own program is very telling. Since the inception of taxpayer financing programs, much research has been devoted to assessing whether these schemes truly realize the many claims made by their proponents or result in better government. In short, there is no evidence to support these claims. These programs have failed to live up to their lofty expectations, while wasting precious taxpayer dollars, and forcing citizens to subsidize the candidacies of individuals with which they may disagree on many issues.

There are a number of issues I highlight in my statement: (I) New York City's matching funds program is fraught with corruption; (II) similar programs in Arizona and Maine have also experienced much corruption; (III) an analysis of Connecticut's taxpayer financing program has demonstrated its failure to change legislative voting patterns; (IV) existing statewide programs have done little to diminish alleged "interest group" influence; (V) a new academic study found no evidence that these programs decrease the incidence of public corruption; (VI) most other claims by advocates of "clean elections" have been shown to be false; and (VII) the cost of such a statewide program in New York is likely to be expensive and rise in cost over time.

I. A September 2011 report published by the Center for Competitive Politics, which examined publicly available information on corruption in Arizona, Maine, and New York City's taxpayer financed campaign systems, found disturbing amounts of corruption in these programs.

CCP published a report in 2011 compiling public data on corruption from news reports and official sources reporting on Arizona, Maine, and New York City's "clean elections" programs. We sought to evaluate the claims of these programs' proponents that "clean elections" programs deter either corruption or the appearance of corruption. The abuse of tax-financed funds is so pervasive, particularly in New York City's program, that such a system cannot possibly live up to the "clean" moniker that has been assigned to it by its proponents. I will quote from some of the most notable stories and data found in our report: "Clean Elections and Scandal: Case Studies from Maine, Arizona, and New York City."¹ Although this report was published in 2011, much of the data remains current, as elections for New York City Council have not been held since 2009.

John Liu's Straw Donors

Before discussing our report, I must note the recent news that two former aides to New York City Comptroller and current mayoral candidate John Liu were convicted and found guilty of conspiracy to commit wire fraud and attempted wire fraud in a straw donor scheme.² Although Liu's involvement and knowledge of this operation is only speculated at this point, it is clear his treasurer and an associated fundraiser were found guilty in a scheme to obtain matching funds in New York City's tax-financed funding program by using fake contributors to loot the matching funds program and evade existing contribution limits. Although uncharged, Liu's former Press Secretary admitted to offering to reimburse potential donors for their contributions to Liu's 2013 mayoral campaign, in her testimony at the trial of Liu's aides.³ As more details surrounding this scheme become available, one thing is certain: the lure of a lavish tax-financed matching funds program appears to have motivated the Comptroller's aides to falsify donors in order to raid tax funds.

The Astonishing Public Cost to Taxpayers of Corruption in New York City

Our study found that between 2001 and 2011, a staggering total of \$13,924,189 in taxpayer dollars was distributed to participating candidates in New York City's "clean elections" program, who were then investigated for – and, in many cases, convicted of – abuse, fraud, and other forms of public corruption.⁴

¹ Jason Farrell, "Clean Elections and Scandal: Case Studies from Maine, Arizona, and New York City," Center for Competitive Politics Issue Review. Available at: http://www.campaignfreedom.org/wp-content/uploads/2012/12/Clean-Elections-and-Scandal.pdf (September 23, 2011).

² Benjamin Weiser, "Two Former Liu Associates Are Found Guilty in Campaign-Finance Scheme," *New York Times*. Retrieved on May 6, 2013. Available at: http://www.nytimes.com/2013/05/03/nyregion/former-liu-associates-convicted-in-fund-raising-case.html (May 3, 2013).

³ Christina Boyle, "Controller John Liu former press secretary admits to offering to reimburse donors," *New York Daily News*. Retrieved on May 6, 2013. Available at: http://www.nydailynews.com/news/politics/ex-liu-press-secretary-admits-offering-reimburse-donors-article-1.1326906 (April 25, 2013).

⁴ New York City Campaign Finance Board Post-Election Reports 1989-2009. Appendices include full campaign finance data. Available at: http://www.nyccfb.info/press/news/per.htm?sm=press_21a.

In 1988, New York City began a voluntary Campaign Finance Program, which provides tax funds to qualifying candidates for mayor, public advocate, comptroller, borough president, and City Council. The details of the program have changed through the years, and the program has offered richer matches, which has led to an increase in its cost. Currently, to qualify, candidates must raise contributions of up to \$175 above an office-specific minimum threshold from individual contributors. Once this threshold is reached, candidates become eligible for matching funds at a ratio of \$6 in tax funds for every \$1 raised from a contributor, with a maximum of \$1,050 in tax funds granted to a participating candidate per individual contributor. In some situations, higher bonus rates may apply if a candidate who participates in the program is running against a non-participating candidate.⁵ To be eligible for tax-financed funds, candidates must have an opponent on the ballot, be on the ballot themselves, and comply with all program regulations, or face fines.

Interestingly enough, by its own account, the New York City Campaign Finance Board (CFB) has come up short in fulfilling the goals of the program to "level the playing field" by assisting candidates with fewer fundraising resources. In a report on the 2003 City Council elections, the CFB lamented that "the program's requirements…appear to have contributed to greater disparities between office holders' and challengers' campaign finances…" The Board further admitted that "the Public Fund has helped to finance possibly unnecessary campaign expenses and uncompetitive campaigns."⁶

Since its inception in 1988, New York City's tax-financed matching system has been abused through a variety of methods by a number of candidates and entities. I detail several major instances of the abuse of millions of dollars in taxpayer funds below.

The Working Families Party/Data and Field Services Scandal

In August 2009, the City of New York began an investigation into the misuse of taxfinanced funds during the 2009 election. Six City Council candidates and public advocate candidate Bill de Blasio were supported by a nonprofit organization called the Working Families Party (WFP) and were investigated for "a complicated web of coordinated activities, shared resources and staff, and quiet money transfers" between WFP and its for-profit affiliate, Data and Field Services (DFS), a company that candidates and WFP paid to do canvassing and other field operations. Allegedly, the campaigns appeared to have found a way to circumvent New York City's campaign finance laws by paying Data and Field Services vastly beyond the \$10,000 limit that candidates can pay to political parties for campaign-related activities.⁷

⁵ "The Bonus Situation—2009 Citywide Elections," NYC Campaign Finance Board. Available at:

http://www.nyccfb.info/candidates/candidates/bonusSituation.aspx?zoom_highlight=the+bonus+situation. (2011). The legality of "the bonus situation" is potentially in question following a Supreme Court Ruling in *Arizona Free Enterprise Club's Freedom PAC v. Bennett*, 131 S. Ct. 2806 (2011).

⁶ "The 2003 City Council Elections: A Report by the Campaign Finance Board," New York City Campaign Finance Board. Available at: http://www.nyccfb.info/PDF/per/2003_PER/PER_complete.pdf (Vol. 1, September 2004), p. 9.

⁷ Edward-Isaac Dovere, "CITY HALL SPECIAL INVESTIGATION REPORT: Six Council Campaigns, De Blasio Campaign, Discovered Using Working Families Staff, Resources, in Test of City Finance Limits," *City Hall News*. Retrieved on July 15, 2011.Available at: http://www.cityhallnews.com/2009/08/city-hall-special-investigative-report-six-council-campaigns-de-blasio-campaign-discovered-using-working-families-staff-resources-in-test-of-city-finance-limits/ (August 9, 2009), p. 1.

According to its founder, WFP attorney Kevin Finnegan, Data and Field Services was created in February 2007 for the very purpose of skirting campaign finance limits. In an interview with the New York Post, Finnegan noted that, by creating a separate operation, candidates don't have to hire WFP, thereby avoiding potential issues with campaign finance laws that limit direct contributions to political parties.⁸

In New York City, the \$10,000 limit applies to donations to nonprofit political entities and parties;⁹ private companies who do for-profit business with campaigns are exempt. By creating a for-profit company that turns no profit, WFP and its favored candidates were able to game the City's campaign finance system to their advantage, drawing the ire of Republican candidates, who asked City Hall to investigate in April 2009. City Hall News reported in August 2009 that WFP and nine candidates it backed transferred over \$800,000 in funds to DFS through mid-July, well beyond the legal limit. Because private companies who work for campaigns are not subject to the same accounting scrutiny by authorities as nonprofits, how DFS actually spent the money was unclear.¹⁰

For example, then-City Council candidate Debi Rose, who was formally endorsed by WFP on February 5, 2009, spent a total of \$45,000 on DFS services. Ms. Rose received taxpayer-funded matching grants of approximately \$88,000.11 Another candidate, Julissa Ferreras spent \$17,000 on DFS services during her successful bid for City Council in a 2009 special election. Ms. Ferreras received \$72,480 in tax-financed matching funds.¹²¹³ A third candidate, Jimmy Van Bramer, paid DFS \$4,700 for signature collection and campaign materials distribution. Although Van Bramer's campaign finance disclosures claimed to have not paid any money to WFP, according to City Hall News, WFP's State Board of Elections campaign finance disclosures show a check from Bramer's campaign for \$4,700, "cashed and logged" on July 7, 2009. City Hall News concluded that Van Bramer's check was likely paid to DFS and cashed by the Working Families Party, further evidence of the blurring together of these supposedly separate entities.¹⁴ Mr. Van Bramer received \$84,122 in tax-financed matching funds.¹⁵

The lines between the two organizations seem to be blurred so much that it is, in fact, highly questionable whether DFS actually exists as a separate entity from WFP. DFS listed its address at 612 2nd Street in the Bronx, the private residence of a supposed former WFP accountant named George Short (as identified by WFP Executive Director Dan Cantor, though he could provide no contact information). The company had no website, phone number, or confirmable employees. It had no ads for employment on Idealist.org or Craigslist, though WFP did have an Idealist.org listing for the types of campaign jobs matching the description of those

⁸ Brendan Scott and David Seifman. "GOP SLAMS WORKING FAMILIES 'GAME' PLAN." New York Post. Retrieved on July 15, 2011. Available at: http://www.nypost.com/p/news/regional/gop_

slams_working_families_game_eAk2I7uyx4hBYXQYAOpjJJ (April 1, 2009).

⁹ Carol Greenberg, "The incestuous relationship between Working Families Party & Data & Field Services-Part II," *Emerging* Corruption. Retrieved on July 15, 2011. Available at: http://www.redstate.com/ladyimpactohio/2010/07/27/the-incestuousrelationship-between-working-families-party-data-field-services/ (July 26, 2010).

¹⁰ *Ibid*. 7, at 2.

¹¹ *Ibid.* 7, at 30.

¹² "New Yorkers Make Their Voices Heard—A Report on the 2009 Elections," New York City Campaign Finance Board. Available at: http://www.nyccfb.info/PDF/per/2009_PER/2009PostElectionReport.pdf (September 2010), p. 118. ¹³ *Ibid*. 7, at 15.

¹⁴ *Ibid*. 7, at 17.

¹⁵ *Ibid.* 12, at 28.

done by DFS. Campaign finance disclosures from WFP indicated that WFP and DFS had split expenditures totaling over \$42,000 for transporting canvassers to locations by rental car as if they were a single entity. *City Hall News* opined that "in other words, the WFP and DFS do not show clear separations between them—not in office space, not in staffing, not in payroll, not in accounting for expenditures and not in hiring."¹⁶

Many of DFS's supposed employees seemed to actually be employed by Working Families Party. Saba Debesu, who in 2009 was listed in the contact information for WFP's "organizing intern" program on the WFP website and has a WFP email address, was employed by DFS to field calls for WFP-endorsed City Council candidate Jumaane Williams. Mr. Williams' campaign paid \$4,000 to DFS on June 16, 2009. In contrast, his campaign paid a mere \$100 contribution to WFP, according to campaign finance disclosures.¹⁷

Daniel Dromm, another City Council candidate, apparently paid WFP employee Melody Lopez to work as a campaign manager. Lopez told *City Hall News* during the election that she was "on leave" from WFP while working for the campaign and that all of her pay came from the campaign through DFS. She did indicate that her leave was not "official," and she was still receiving her normal salary from WFP. The Dromm campaign's disclosures indicated a \$2,600 payment to DFS, though Dan Cantor of WFP indicated the contract was for a much larger amount and would total over \$40,000 by the end of the campaign.¹⁸

Public advocate candidate Bill de Blasio sent a payment of \$10,435 to DFS on July 2, 2009 with "plans to pay more," according to *City Hall News*. This was in addition to the maximum \$10,000 contribution to WFP de Blasio made in October 2008, approximately two weeks before he decided to run for public advocate. De Blasio was described as a "key player" in the formation of WFP in 1998 by Dan Cantor. "We're friends with everyone else who's running, but we have a special bond to him and we're trying to make sure that that is known."¹⁹ De Blasio was subpoenaed along with WFP in December 2009 by the U.S. Attorney's Office for the Southern District of New York during their probe into WFP's activities.²⁰

Four years hence, the Data and Field Services problem is still ongoing. A May 19, 2011 report in *City Hall News* indicated that DFS recently resisted a court order to separate itself from WFP and fire its Executive Director, or reconstitute as a nonprofit entity. DFS protested that it needs to remain close to WFP in order to stay effective and relies on WFP for the majority of its contracts. According to Randy Mastro, who represents the litigants against DFS: "They never say there's any separation of space or any real separation of personnel...They say the WFP needs the DFS's people there so vitally, so close at hand, that they need to be there...operating in the same office with the same people."²¹ Many issues in this scandal remain unresolved, but, at the

¹⁶ *Ibid*. 7, at 11.

¹⁷ *Ibid*. 7, at 19.

¹⁸ *Ibid*.

¹⁹*Ibid.* 7, at 24, 29.

²⁰ Azi Paybarah, "U.S. Attorney Subpoenas Working Families Party, and Bill de Blasio Too," *New York Observer*. Retrieved on July 18, 2011. Available at: http://www.observer.com/2009/politics/us-attorney-subpoenas-working-families-party-bill-de-blasio (December 15, 2009).

²¹ Jon Lentz, "Data and Field Services Pushes Back Against Judge's Order," *City Hall News*. Retrieved on July 18, 2011. Available at: http://www.cityhallnews.com/2011/05/data-and-field-services-pushes-back-against-judge%E2%80%99s-order/ (May 19, 2011).

very least, it is clear that hundreds of thousands of taxpayer dollars have potentially been used in an illegal manner. Given the myriad ways in which WFP has been able to so heavily exploit New York City's matching funds program, it is unsurprising that they are a driving force behind the effort to implement a statewide taxpayer financed campaign system modeled after New York City's program.²²

1199/SEIU, AFL-CIO Illegal Coordination

New York City Council candidates have been investigated for a number of other potential abuses of the matching funds program, including collusion with New York's Health and Human Services Union, 1199/SEIU, AFL-CIO, known more simply as 1199 SEIU.

SEIU's well-documented involvement with Fernando Ferrer's 2005 mayoral campaign was investigated by the CFB, which found the relationship between the union and the campaign were sufficiently close to question its legality. According to the CFB report:

Notably, key personnel on leave from their positions at 1199 SEIU were involved with organizing the campaign's field operations and get-out-thevote efforts, which extensively utilized 1199 SEIU members. Moreover, 1199 SEIU officials attended a campaign strategy meeting in the month preceding the election with Mr. Ferrer and campaign staff. 1199 SEIU also printed and distributed hundreds of thousands of glossy brochures in support of Ferrer.²³

The Board concluded in July 2009 that SEIU's activity on behalf of the campaign amounted to coordinated activity and assessed a \$10,000 penalty against Ferrer's campaign committee for accepting over-the-limit and in-kind contributions.²⁴

In October 2007, New York City Councilwoman Annabel Palma was fined \$30,000 by the New York City Campaign Finance Board for illegally coordinating with SEIU during her 2003 campaign. CFB found the union provided in-kind contributions in excess of local limits. Ms. Palma claimed no desire at the time to seek tax-financed funding for her campaign in the future, but was a recipient of tax-financed funding through the CFB program during the 2009 election season.²⁵

However, Palma's close relationship with SEIU didn't end in 2003. She managed to receive *twenty times* the legally limited contribution from SEIU, who skirted campaign finance restrictions by donating \$51,675 to her legal defense fund. According to the *New York Post,* individuals, corporations, and unions are ordinarily limited to donating \$2,750 to a City Council candidate per cycle. By routing its cash through Palma's legal defense fund, 1199 was able to give Palma an amount greater than all of her other campaign contributions combined, effectively

²² "Our Issues – Clean Elections" Working Families Party. Retrieved on May 6, 2013. Available at:

http://www.workingfamiliesparty.org/our-issues/clean-elections/ (May 6, 2013).

²³ *Ibid.* 12, at 74.

²⁴ Ibid.

²⁵ Azi Paybarah, "After Fine, Palma Will Reject Matching Funds," *New York Observer*. Retrieved on July 19, 2011. Available at http://www.observer.com/2007/after-fine-palma-will-reject-matching-funds-0 (October 17, 2007).

paying her CFB fine without jeopardizing her eligibility for tax-financed matching funds.²⁶ Palma still sits on the City Council.

Furthermore, as an influential force in New York politics, SEIU has been able to exert so much influence on the City Council that it managed to steer campaign law in its favor. Council Speaker Christine Quinn allowed the City Council to severely limit contributions that were previously allowed from parties "doing business" with the City, with a significant exception for public-sector unions like the SEIU.²⁷

Failure of Candidates to Return Surplus Tax-Financed Funds Post-Election

Despite the fact that candidates who face easy election seldom need the extra funds and at the close of their campaign may return the surplus money back to the taxpayers, candidates rarely show such restraint. In October 2009, the *New York Post* reported on a number of both successful and unsuccessful candidates, who chose to keep the tax-subsidized money after their campaigns had ended.

City Council candidate Inez Dickens, a Democrat, accepted the maximum allowable \$21,031 in matching funds to beat her Republican opponent, despite the fact that no Republican had won her Harlem district "in modern memory."²⁸ In her previous campaign, Ms. Dickens had easily won re-election with 81% of the vote.²⁹ In early 2011, Dickens was found to have owed \$100,000 in back-property taxes dating to 2009 and had been "cited repeatedly for unsafe conditions in Harlem apartment buildings she owns" as well as having been "hiding assets to dodge taxes," according to the *New York Daily News.*³⁰

In all, the *New York Post* counted at least 20 candidates who were coasting toward victory that nonetheless accepted a total of \$482,527 in taxpayer-funded matching grants.³¹

Similarly, NBC reported in April 2011 that out of 140 candidates who accepted matching funds from the New York Campaign Finance Board during the 2009 election cycle, only one returned the entire balance and a paltry 11 returned any money at all. Out of \$27.3 million doled out in matching funds, candidates had paid back just over \$51,000 as of April 1, 2011.

As NBC reported: "Despite the low refund rate, lots of candidates had surplus cash in their campaign accounts after election night. A review of expenditure records shows both winners and losers chose to spend money on all sorts of goods and services – rather than refund taxpayers." New York City public advocate Bill de Blasio, for example, used his surplus cash to

²⁶ Editorial, "Labor's artful dodgers," *New York Post.* Retrieved on July 19, 2011. Available at

http://www.nypost.com/p/news/opinion/editorials/labor_artful_dodgers_74Dc9AfQSZCz23TFW1v77H (June 7, 2010). ²⁷ *Ibid.*

²⁸ Sally Goldenberg and David Seifman, "Council Members Matche\$ Burn City," *New York Post*. Retrieved on July 19, 2011. Available at: http://www.nypost.com/p/news/local/council_members_matche_burn_city_yx2CjwcRAsxjOKVVDcRsnN

⁽October 2, 2009). ²⁹ *Ibid*.

 ³⁰ Erin Einhorn et al., "Dirty Little Secrets: City Council members have skirted laws, bent rules and abused their power," *New York Daily News*. Retrieved on August 9, 2011. Available at: http://www.nydailynews.com/new-york/dirty-secrets-city-council-members-skirted-laws-bent-rules-abused-power-article-1.122011 (March 20, 2011).
 ³¹ *Ibid.* 28.

pay for nine parking tickets and a \$1,083 trip to Puerto Rico. As of April 1, 2011, he had not paid back any of the \$2.2 million dollars in matching funds he received in 2009.

The Conviction of "Cash and Carry Larry" Seabrook

Others who have accepted tax-financed funding for their campaigns have been investigated for unsavory behavior, indicating that the "clean election" tag may be anything but when it comes to New York City politics.

Former Councilman Lawrence Seabrook, known colloquially as "Cash and Carry Larry,"³² was charged with a litany of abuses dating back to at least 2003 in a mammoth 66-page, 13-count federal indictment in February 2010.³³ Seabrook, who was re-elected in 2009 with an overwhelming 90.3% of the vote, accepted \$16,542 in tax-financed funds from the CFB.³⁴

Among other crimes, Seabrook was convicted of accepting bribes, extorting money, and other questionable behavior that netted him approximately \$200,000 in "illegal rent, expenses and payoffs", including extorting a Bronx boiler company executive who collected a \$283,000 Yankee Stadium contract with Seabrook's alleged assistance.³⁵ Seabrook was convicted on nine of twelve counts and was sentenced to five years in prison on January 8, 2013.³⁶

Seabrook's indictment refocused attention on the City Council's "slush fund" issue, a long-standing practice whereby the Council allows its members to direct public funds into favored nonprofit groups, often run by members' friends and relatives. Seabrook was one of the worst offenders, according to investigators, funneling over \$2 million into nonprofit organizations to benefit his girlfriend and close relatives, in violation of city laws.³⁷ The nonprofits apparently then gave \$530,000 to his family and mistress.³⁸

Fraudulent Disclosures, Personal Use of Taxpayer Funds, and Criminal Conspiracy

Recipients of taxpayer dollars under New York City's taxpayer financing program have manipulated the system in a variety of other ways as well.

11/news/27055954_1_slush-fund-nonprofits-discretionary-funds (February 11, 2010).

³² Celeste Katz, "Bronx Councilman 'Cash and Carry Larry' Seabrook in Trouble Again," *New York Daily News*. Retrieved on July 19, 2011. Available at: http://www.nydailynews.com/blogs/dailypolitics/2010/06/ cash-and-carry-larry-seabrook.html (June 25, 2010).

³³ Alison Gendar and Larry McShane, "Bronx City Council member Larry Seabrook hit with laundry list of corruption charges," *New York Daily News*. Retrieved on July 19, 2011. Available at: http://articles.nydailynews.com/2010-02-09/local/27055793_1_list-of-corruption-charges-indictment-bagel (February 9, 2010).

³⁴ *Ibid.* 12, at 119.

³⁵ *Ibid*. 33.

³⁶ Robert Gearty and Ginger Adams Otis, "Former city councilman Larry Seabrook sentenced to five years for misappropriation of funds," *New York Daily News*. Retrieved on May 5, 2013. Available at: http://www.nydailynews.com/new-york/larry-seabrook-sentenced-years-misappropriation-funds-article-1.1235667 (January 8, 2013).

³⁷ Greg B. Smith, "New York City Council chicanery knows no bounds: Slush fund scandal stretches beyond Seabrook," *New York Daily News*. Retrieved on July 19, 2011. Available at: http://articles.nydailynews.com/2010-02-

³⁸ Greg B. Smith, Frank Lombardi, and Adam Lisberg, "Indicted Councilman Larry Seabrook a no-show; Sources say Arroyo targeted in probe," *New York Daily News*. Retrieved on July 19, 2011. Available at: http://articles.nydailynews.com/2010-02-12/news/27056010_1_nonprofits-slush-fund-state-funds (February 12, 2010).

In December 2008, the CFB won its case against former City Council member and then Senate Majority Leader Pedro Espada, Jr. regarding improprieties in his 2001 campaign for Bronx Borough President. The CFB found, among other violations, that Espada had not properly disclosed the use of corporate contributions and had repeatedly failed to provide full disclosure of campaign expenditures. He was summarily denied tax-financed matching funds due to the violations, but during the post-election audit, the CFB discovered additional violations, including the campaign's acceptance of in-kind contributions from entities controlled by Espada, such as Soundview Health Care Network, whose employees had been reimbursed for their contributions to his campaign. The Board found Espada to be in violation of 22 campaign finance laws and assessed his campaign \$61,750 in penalties. After months of legal wrangling during which Espada unsuccessfully sued CFB and demanded payment to his campaign of the \$173,000 in matching funds he had originally qualified for, Espada paid the penalties in August 2009.³⁹

Similarly, former City Councilman Miguel Martinez was granted \$128,786 in taxfinanced matching funds for his 2001 campaign. During routine audits by the CFB, Martinez failed to disclose documentation that justified his use of public funds. The CFB issued a draft audit report finding that the campaign had been unable to document any qualified expenditures and would have to repay all the public funds received. In response, the campaign subsequently produced documents that appeared to have been fabricated, "including apparently altered invoices, discrepancies in signatures, and false endorsements of checks." The CFB fined Martinez \$44,780 and demanded he return all \$128,786 in received public funds. Martinez sued, but CFB won the case in December 2008. Martinez later pleaded guilty to federal corruption charges alleging that he converted over \$100,000 in taxpayer funds to personal use through various illegal schemes in which he approved and submitted fabricated documents to the City. He was sentenced to five years in prison.⁴⁰

CFB audited Michael Roth, a 2005 City Council candidate, who received \$20,392 in taxfinanced funds, and found that he converted \$17,223 for personal use. CFB claimed he made eighty expenditures from campaign funds totaling \$8,035 that were unrelated to his election, such as payments for groceries, gas, car expenses, and MetroCards. After the election, Roth spent an additional \$9,188 on airline tickets to Florida, tickets to tourist attractions in Florida, restaurant bills, MetroCards, and phone bills. The Board assessed \$20,000 in penalties against Roth in December 2008 for failing to prove that the expenditures were campaign-related and for knowingly making fraudulent expenditures. After the CFB received a judgment against Roth in June 2010, he repaid all the public funds.⁴¹

Veteran City Councilman Sheldon Leffler of District 23 was convicted in New York Supreme Court in November 2003 on charges of "attempting to defraud the CFB of \$38,000 in tax-financed funds," during his 2001 bid for Queens Borough President. According to Queens real estate executive Rita Stark, she and Leffler schemed to divide her \$10,000 contribution into "clean elections"-compliant \$250 contributions to qualify for the then-current \$4 to \$1 match in tax-financed funds. The Board noticed "irregularities" in the campaign's documentation and Leffler was denied public funds and eventually indicted on 13 counts of criminal conspiracy,

³⁹ *Ibid.* 12, at 73-74.

⁴⁰ *Ibid.* 12, at 74-75.

⁴¹ *Ibid*. 12, at 76.

attempted grand larceny, forgery, and filing of false documents. He was found guilty on seven counts, was sentenced to five years of probation, ordered to pay a \$5,000 fine, and serve 540 hours of community service.⁴²

Lastly, the Advance Group, a political consulting firm, which had collaborated with John Fratta's 2001 gubernatorial campaign, was assessed \$3,157 in penalties for "various violations of the Campaign Finance Act, including late disclosure statement filings." The 2003 ruling was the first time the CFB assigned penalties on a group other than the candidate's campaign, as it had assumed responsibility for the candidate's compliance. The ruling was upheld by New York's Supreme Court.⁴³

II. Corruption and misuse of tax-financed funds is not limited to New York City, as the experience of Arizona and Maine's statewide "clean elections" programs demonstrate.

It is instructive to note that both Arizona and Maine have suffered from corruption in their statewide taxpayer financed campaign programs as well.

Arizona's Citizens Clean Elections Act (CCEA)

The thirteen-year-old CCEA has been expertly gamed by Arizona candidates, political action committees, political parties, and other interest groups, who have found myriad ways to not only evade reporting requirements and spending limits, but have actually used state campaign finance laws to their advantage, contrary to the intent of the campaign finance system.

One such legislative candidate, Yurikino Centit "Yuri" Downing, was criminally indicted on six felony counts in July 2004, claiming he misused over \$100,000 in public matching funds during his campaign and the campaigns of his two friends, Trevor Clevenger and Paul DeDonati, for which he served as treasurer. Downing, who claimed to be running a "youth oriented" libertarian campaign when he ran for state legislator in 2002, spent campaign money on parties at Scottsdale night clubs and restaurants, on vehicle rentals, and to purchase expensive office equipment. Colleen Connor, Executive Director of the Arizona Citizens' Clean Elections Commission, said in April 2003 that she could find no evidence that there was a serious bid for public office by Downing or the other two candidates, Clevenger and DeDonati. Downing and the other candidates were ordered by the Commission to repay the entire sum of the public funding they received, but both Clevenger and DeDonati managed to have their fines reduced to \$15,000 each.⁴⁴

Unsuccessful Republican state senate candidate Andre Campos ran in 2008 and was granted \$35,841⁴⁵ in tax-financed funds, spending \$23,155 of his funding at a company he

 $^{^{42}}$ *Ibid.* 6, at 8.

⁴³ *Ibid.*, p. 7-8.

⁴⁴ "Failed Candidate Indicted Over Use of Campaign Funds," *Arizona Capitol Times*. Retrieved on July 15, 2011. Available at http://azcapitoltimes.com/news/2004/07/23/failed-candidate-indicted-over-use-of-campaign-funds/ (July 23, 2004).

⁴⁵ "2008 Primary and General Election Summaries," Arizona Citizens Clean Elections Commission. Retrieved on August 3, 2011. Available at: http://www.azcleanelections.gov/forms-pubs/archive/2008/publications.aspx.

owned, Image Design Communications.⁴⁶ Another Republican candidate for state representative, John Fillmore, paid himself \$2,861 in "petty cash/miscellaneous" expenses from his matching funds, ostensibly to avoid his bank's checking fees. He also paid \$17,350 to an attorney, Daniel Washburn, for vaguely listed "communications."⁴⁷

Margarite Dale ran for the Arizona House of Representatives on the Green Party ticket in the 2008 election cycle, as a part of an apparent Republican tactic to fund Green Party candidates in order to siphon votes away from Democratic opponents. Dale qualified for \$68,531 in tax-financed funds and was found to have given money to consultants affiliated with Republican State Representative Jim Weiers, Senator Linda Gray, and former Representative Douglas Quelland. Dale was assisted in meeting qualifications for matching funds by Weiers, Quelland, and State Representative Kimberly Yee and/or their families. Upon receiving her tax-financed funding, Dale purchased a camera, two computers, and a full set of computer software totaling over \$4,000, which she then kept after the campaign had concluded.⁴⁸ Much of the remaining funding was used to attack Democratic candidate Jackie Thrasher, although an additional \$10,500 was spent on "polling/research," which is rare for a legislative campaign.⁴⁹ The Republicans involved in Dale's campaign have stated they were merely interested in working toward "results" and had benign bipartisan interests at heart in supporting Dale's campaign. The Green Party actively campaigned against Dale, claiming she did not actually support their ideals.⁵⁰

In November 2010, former Arizona Senate candidate Robert Green was indicted for submitting false documents with the Arizona Clean Elections Fund to collect more than \$21,000 in tax-financed matching funds.⁵¹ Green had actually been removed from the matching funds program the previous May by the Citizens Clean Election Commission and ordered to repay \$20,000.⁵² According to the indictment, Green lied about receiving qualifying contributions, knowingly accepted contributions in the name of one person when they were made by another, and lied to the Committee to obscure the violations.⁵³ On February 1, 2011, Green signed a plea agreement that sentenced him to probation and ordered him to pay a \$9,479 fine to the Anti-Racketeering Fund and over \$11,000 in restitution to the Arizona Secretary of State and the Citizens' Clean Election Commission.⁵⁴

The above is just a sampling of the abuse and corruption surrounding Arizona's Citizens Clean Elections Act. Taken together, **\$1,428,919** in tax-financed funds was granted to

⁴⁶ Sarah Fenske, "The Dirty Truth about 'Clean' Elections," *Phoenix New Times*. Retrieved on July 6, 2011. Available at: http://www.phoenixnewtimes.com/2009-04-02/news/the-dirty-truth-about-clean-elections/ (April 2, 2009), p. 3.

⁴⁷ *Îbid*.

⁴⁸ *Ibid.*, p. 1.

⁴⁹ *Ibid.*, p. 4.

⁵⁰ Mary Jo Pitzl, "Dems expect Statehouse gains from W. Valley," *The Arizona Republic*. Retrieved July 6, 2011. Available at: http://azcentral.com/news/articles/2008/10/25/20081025westsideraces1025.html (October 25, 2008).

⁵¹ The Arizona Republic, "Former Legislature candidate indicted on fraud, theft charges," AZCentral.com. Retrieved on July 15, 2011. Available at: http://www.azcentral.com/news/articles/20101102former-arizona-legislature-candidate-indicted02-ON.html (November 2, 2010).
⁵² Nathan Thomas, "Arizona Republican kicked off campaign financing for fraud," Democratic Legislative Campaign

 ⁵² Nathan Thomas, "Arizona Republican kicked off campaign financing for fraud," Democratic Legislative Campaign Committee. Retrieved on July 29, 2011. Available at: http://www. dlcc.org/node/1957 (May 28, 2010).
 ⁵³ Ibid. 51.

⁵⁴ *The State of Arizona v. Robert Mark Green.* Case No: CR 2010-007636-001DT. Retrieved on July 15, 2011. Available at: http://www.azag.gov/press_releases/feb/2011/Green%20Plea%20Agreement.pdf (February 1, 2011).

participating candidates in Arizona who were investigated for campaign finance abuses between 2001 and 2011.⁵⁵ In similar fashion to New York City, nearly 1.5 million dollars in taxpayer money was spent on frivolous purchases, was used for personal expenses, or was obtained fraudulently.

Maine's Clean Elections Act

As with New York City and Arizona, Maine's Clean Elections Program has dealt with its share of corruption as well. A 2007 report on the Maine Clean Election Act, prepared by the Maine Commission on Governmental Ethics and Election Practices, detailed numerous cases of corruption.

Examples ranged from relatively minor instances of candidates inappropriately using funding to pay for personal expenses, like car maintenance costs,⁵⁶ to a variety of serious misdeeds, like the forging of signatures in order to meet the qualifying contribution requirement.⁵⁷ In another incident that at least raises the appearance of corruption, a gubernatorial candidate in Maine paid her husband over \$100,000 in campaign consulting fees using taxpayer dollars.⁵⁸

While less staggering than in New York City and Arizona, a total of **\$127,241** in taxfinanced funds was granted to Maine "clean elections" candidates, who were later investigated for abuses of taxpayer dollars between 2001 and 2011.⁵⁹

III. Taxpayer financed campaign programs fail to change legislative voting patterns in any meaningful manner.

Advocates of tax-financed campaigns systems often claim that such a program will reduce the impact of special interests. However, there is no evidence to support this claim. In October 2012, CCP published an update to our March 2010 preliminary report that measured changes in the voting patterns of legislators who served in the Connecticut General Assembly during the 2007-2008 and 2009-2010 legislative sessions and accepted taxpayer dollars for their 2008 re-election campaign through the state's Citizens' Election Program (CEP).⁶⁰ The Center compared the voting records of "clean elections" participant legislators in the session before the state's tax financing program went into effect and in the session afterwards with the priority legislation of the top five interest groups in the state.

⁵⁵ Figure compiled from Arizona Citizens Clean Elections Commission candidate reports, available at: http://www.azcleanelections.gov/election-data/search.aspx#.

⁵⁶ 2007 Study Report: Has Public Funding Improved Maine Elections?," Maine Commission on Governmental Ethics and Election Practices. Available at: http://www.mainecleanelections.org/assets/files/2007_study_report.pdf (April 2007), p. 92. ⁵⁷ *Ibid.*, p. 94.

⁵⁸ "Amended Minutes of the July 16, 2007 Meeting of the Commission on Governmental Ethics and Election Practices," Maine Commission on Governmental Ethics and Elections Practices. Available at:

http://www.maine.gov/ethics/pdf/meetings/20070716/20070716minutes.pdf (July 16, 2007), p. 12.

⁵⁹ Figure compiled from Maine Commission on Governmental Ethics and Election Practices reports, available at:

http://www.mainecampaignfinance.com/Public/SearchPages/ContributionSearch.aspx?SearchType=Basic&Entity=CAN. ⁶⁰ Jason Farrell, Sean Parnell, & Brett Sullivan, "Meet the New Legislature, Same as the Old Legislature: A Quantitative Analysis of the Connecticut Citizens' Election Program," Center for Competitive Politics Issue Review. Available at: http://www.campaignfreedom.org/wp-content/uploads/2012/11/Connecticut-Clean-Elections.pdf (October 22, 2012), p. 3.

The report concluded that the CEP had not changed the frequency with which state legislators voted in favor of the positions of organized interest groups.⁶¹ In many cases, the number of times that legislators voted in favor of the interest groups' studied actually rose after Connecticut's Citizens' Election Program went into effect.⁶² These findings were consistent with an earlier study of voting patterns of state legislators in Arizona the first year after that state offered taxpayer financed political campaigns, and which also found that Arizona's program had no effect on the voting patterns of its participant legislators.⁶³

Contrary to the contentions of "clean elections" advocates that taxpayer financed campaign programs change legislative behavior by decreasing the influence of "special interests," the experience of both Connecticut and Arizona strongly suggest otherwise.

IV. Tax-financed campaign programs have not diminished interest group involvement in campaigns.

Proponents of "clean elections" regularly claim that these programs will decrease the amount of interest group involvement in campaigns. However, states with similar programs have continued to witness considerable interest group involvement in campaigns, as these groups often organize to help candidates raise the required qualifying contributions necessary to receive tax-financed funding. This has happened in Arizona and Maine, as well as in New Jersey's failed pilot project. In Arizona's statewide tax financing program, this practice is so widespread that one news report noted that "…special interest groups routinely collect the necessary number of \$5 contributions to help candidates qualify for tax-financed funding."⁶⁴

For evidence of these programs' failures, New Yorkers need look no further than neighboring New Jersey, which experimented with a pilot program for taxpayer financed campaigns for statewide candidates in a limited number of legislative districts in 2007. In "Appendix 5: Conclusions and Recommendations on New Jersey's 'Clean Election' Experiment," CCP compared the program's outcomes with its stated goals in order to determine whether the program was a success.⁶⁵ Our research demonstrated that the pilot program failed to achieve the majority of its stated goals, and the New Jersey Legislature wisely decided to abandon the program in 2008.

V. An April 2013 academic study found that state-level campaign finance reforms, such as taxpayer financed campaigns, failed to decrease the incidence of public corruption.

⁶¹ *Ibid.*, p. 9.

⁶² *Ibid.*, p. 10.

⁶³ Robert Franciosi, "Is Cleanliness Political Goodliness?," The Goldwater Institute. Available at:

http://www.goldwaterinstitute.org/article/899 (November 2001), p. 2.

⁶⁴ Christian Palmer, "Clean Elections Institute loses national money stream, seeks donations," *Arizona Capitol Times*, December 29, 2008.

⁶⁵ Sean Parnell, "Appendix 5: Conclusions & Recommendations on New Jersey's 'Clean Election' Experiment," Center for Competitive Politics Policy Briefing No. 1. Available at: http://www.campaignfreedom.org/research/detail/appendix-5-conclusions-recommendations-on-new-jerseys-clean-elections-experiment (May 27, 2008).

Just last month, CCP Academic Advisor and Professor of Economics at the University of Missouri, Jeff Milyo, and Adriana Cordis, Assistant Professor of Economics at the University of South Carolina Upstate, released a study in conjunction with the Mercatus Center at George Mason University, which systematically examined the effects of campaign finance laws on actual corruption rates in the states.⁶⁶ In addition to other reform measures, the report specifically evaluated the corruption convictions of state public officials in states with existing tax-financed campaign programs in its analysis of the effects of campaign finance laws.⁶⁷

Cordis and Milyo assessed the effects of state campaign finance reforms on both convictions and filings in cases of public corruption over the past 25 years. Ultimately, the authors found "no strong or convincing evidence that state campaign finance reforms reduce public corruption."⁶⁸ Earlier research from Milyo and fellow CCP Academic Advisor, David Primo, a Professor of Political Science and Business Administration at the University of Rochester, also found that state campaign finance reforms fail to increase public trust and confidence in government in any meaningful way.⁶⁹ Taken together, this research further calls into question both the claims of "clean elections" proponents and the likely long-term effects of the implementation of a statewide taxpayer financed campaign program in this state.

VI. Additional research has proven that other claims of "clean elections" advocates are false.

Supporters of taxpayer-funded campaign programs often argue that replacing private contributions with taxpayer dollars will lead to a decrease in both the number of lobbyists and the influence of "special interests." In 2008, the Center tested this claim by examining lobbyist registrations in Arizona and Maine both before and after their "clean elections" programs went into effect.⁷⁰ Our analysis found no relationship between the existence of "clean elections" programs and changes in the number of registered lobbyists.⁷¹

Proponents of "clean elections" also argue that these programs will lead to more diverse legislatures featuring "non-traditional candidates," commonly defined as those candidates lacking backgrounds in either law or business. The Center also scrutinized this claim by surveying the occupations of legislators in both Arizona and Maine, both before and after each state's taxpayer financing programs went into effect.⁷² We witnessed no decline in the number of legislators from "traditional" backgrounds, and concluded that "there is no evidence that

⁶⁶ Adriana Cordis and Jeff Milyo, "Working Paper No. 13-09: Do State Campaign Finance Reforms Reduce Public Corruption?" Mercatus Center at George Mason University. Retrieved on May 6, 2013. Available at:

mercatus.org/sites/default/files/Milyo_CampaignFinanceReforms_v2.pdf (April 2013).

⁶⁷ *Ibid.*, p. 18.

⁶⁸ *Ibid.*, p. 2.

⁶⁹ David M. Primo and Jeffrey Milyo, "Campaign Finance Laws and Political Efficacy: Evidence from the States," *Election Law Journal Volume 5, No. 1*. Retrieved on May 6, 2013. Available at: http://www.rochester.edu/college/psc/primo/primomilyoelj.pdf (2006), p. 1.

⁷⁰ Laura Renz & Sean Parnell, "Do 'Clean Elections' Reduce Lobbyist and Special Interest Influence?" Center for Competitive Politics Issue Analysis No. 1 Retrieved on May 6, 2013. Available at:

http://www.campaignfreedom.org/doclib/20080327_Issue_Analysis_1.pdf (March 2008).

⁷¹ *Ibid.*, p. 3.

⁷² Laura Renz, "Legislator Occupations – Change or Status Quo After Clean Elections?" Center for Competitive Politics Issue Analysis No. 2. Retrieved on May 6, 2013. Available at:

http://www.campaignfreedom.org/doclib/20091014_IssueAnalysis2.pdf. (April 2008).

taxpayer-funded political campaigns in Arizona or Maine have had any impact in the number of legislators from 'non-traditional' backgrounds."⁷³

Tax-financed funding advocates also assert that "clean elections" programs increase the proportion of women in state legislatures. Again, the Center examined this claim by examining the number of female legislators in Arizona and Maine, both before and after their taxpayerfunded campaign programs began.⁷⁴ We found that the average number of female legislators in both states actually declined slightly after Arizona and Maine began providing taxpayer dollars to state legislative candidates.⁷⁵

Finally, champions of tax-financed funding programs have alleged that such programs actually save taxpayer dollars due to the alleged decrease in so-called "special interest" influence. The Center tested this theory by evaluating the tax burdens and the rate of growth in government spending in Arizona and Maine both before and after each state's "clean elections" program went into effect.⁷⁶ The Center found that "once legislators began relying upon taxpayer dollars to fund their political campaigns, both states' spending grew at a faster rate than the national average."⁷⁷ As a result, we concluded that "there is no evidence to support the claim that replacing private, voluntary contributions to candidates with tax-financed funds will lead to savings for taxpayers."78

A statewide tax-financed program in New York is likely to be expensive and VII. rise in cost over time.

While cost estimates for a statewide taxpayer financed campaign program in New York State admittedly vary widely, at the very least, it is believed a statewide program would cost Empire State taxpayers between \$25 million⁷⁹ and \$331 million⁸⁰ dollars, depending on the program's participation rate. Both of these estimates are still likely conservative given the unknown nature of the administrative and enforcement costs that the State would incur through the creation of such a program.

Additionally, the history of such programs illustrates the cost increases over time as supporters greatly expand the original program. For example, New York City's program started with a \$1 to \$1 match, which is now a \$6 to \$1 match today.⁸¹

⁷³ *Ibid.*, p. 3.

⁷⁴ Laura Renz, "Do 'Clean Elections' Laws Increase Women in State Legislatures?" Center for Competitive Politics Issue Analysis No. 3. Retrieved on May 6, 2013. Available at: http://www.campaignfreedom.org/doclib/20091014_IssueAnalysis3.pdf (August 2008). ⁷⁵ *Ibid.*, p. 3.

⁷⁶ Sean Parnell, "Do Taxpayer-Funded Campaigns Actually Save Taxpayer Dollars?" Center for Competitive Politics Issue Analysis No. 4. Retrieved on May 6, 2013. Available at:

http://www.campaignfreedom.org/doclib/20080930_Issue_Analysis_4.pdf (September 2008).

⁷⁷ *Ibid.*, p. 3.

⁷⁸ *Ibid.*, p. 3.

⁷⁹ Jimmy Vielkind, "Can public financing taint ballot?" *Times Union*. Retrieved on May 6, 2013. Available at:

http://www.timesunion.com/local/article/Can-public-financing-taint-ballot-4443207.php (April 18, 2013).

⁸⁰ Glenn Blain, "NY Gov. Cuomo Taking Another Look At The Cost of Public Financing of Elections," New York Daily News. Retrieved on May 6, 2013. Available at: http://www.nvdailynews.com/blogs/dailypolitics/2013/04/ny-gov-cuomo-takinganother-look-at-the-cost-of-public-financing-of-elections (April 26, 2013).

⁸¹ "A Brief History of the CFB: 1989," New York City Campaign Finance Board. Retrieved on May 6, 2013. Available at: http://www.nyccfb.info/press/info/history.aspx (2012).

As another example, the Presidential Election Campaign Fund started with a \$1 check off, which is now \$3 per taxpayer and there are proposals to increase the amount to \$5 or \$10 per taxpayer. Participation in this program by taxpayers has been falling dramatically. According to the Federal Election Commission, "participation in the tax checkoff program has declined each year, from a high of 28.7% for 1980 returns, to 6.6% for returns filed with the Internal Revenue Service (IRS) in 2010."⁸²

Although there has been some discussion of finding a different revenue source to support a statewide system of taxpayer financed campaigns, doing so would require the diversion of funds from other state programs.⁸³

* * *

A litany of information exists to dismiss nearly all claims of those who desire to implement a statewide system of taxpayer-funded campaigns in New York State. Furthermore, one need only look to the experience of New York City – let alone Arizona, Connecticut, or Maine – to realize these systems breed new forms of corruption.

In discussing taxpayer financing proposals, perhaps CCP Academic Advisor, author, and Director of the Center for Representative Government at the Cato Institute, John Samples, said it best in an essay in his book, *Welfare for Politicians? Taxpayer Financing of Campaigns*: "Such proposals, especially the 'clean elections' variant, simply transfer wealth from taxpayers to a preferred set of candidates and causes....Far from being a reform, government financing offers more 'politics as usual..."⁸⁴ Certainly, members of this Legislature should seek to avoid "more 'politics as usual..." I conclude my testimony with a final thought on this issue from Thomas Jefferson: "To compel a man to furnish contributions of money for the propagation of opinions which he disbelieves, is sinful and tyrannical."⁸⁵

Thank you for affording me the opportunity to testify before you today.

⁸² "Presidential Election Campaign Fund (PECF)," Federal Election Commission. Retrieved May 6, 2013. Available at: http://www.fec.gov/press/bkgnd/fund.shtml (2013).

⁸³ Jon Campbell, "Campaign finance debate heats up in Albany," *Poughkeepsie Journal*. Retrieved on May 6, 2013. Available at: http://www.poughkeepsiejournal.com/article/20130429/NEWS/304290030/Campaign-finance-debate-heats-up-Albany (April 29, 2013), p. 3.

⁸⁴ John Samples, "Introduction: Taxpayer Financing of Campaigns," in *Welfare for Politicians? Taxpayer Financing of Campaigns*, ed. John Samples (the Cato Institute, 2005), p. 17.

⁸⁵ Thomas Jefferson, "A Bill for Establishing Religious Freedom," in *The Portable Thomas Jefferson*, ed. Merrill D. Peterson (New York: Viking Press, 1975), p. 252.