

WORKING PAPER

How Policy Details Can Affect Major Outcomes:

**Comparing Small Donor Matching Funds
in New York and Los Angeles**

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How Policy Details Can Affect Major Outcomes: Comparing Small Donor Matching Funds in New York and Los Angeles

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Political campaigns are normally financed by people with above average incomes, but the balance has tilted dramatically since the Supreme Court's 2010 decision in *Citizens United v. Federal Election Commission*. A number of jurisdictions have been looking recently to rebalance the incentives through new (or updated) public financing programs or tax incentives to enhance the role of small donors. While a remarkable variety of such programs have been introduced or adopted in recent years, a common starting point for many has been New York City's innovative system that provides \$6 in public matching funds for each of the first \$175 that a city resident donates to a participating candidate. The program has been found to increase both the number of small donors and the proportion of funds that candidates raise from small donors (Malbin et al, 2012). It has also been found to diversify the types of donors that give in local elections (Genn, et al, 2012). Some recent experimental research has raised questions about the causal

mechanisms through which the system accomplishes these ends (Green, et al. 2015), but there can be no doubt about the results themselves.

One problem with holding New York City up as an example, however, has been that it has stood alone until recently as the country's only jurisdiction with an ongoing program that uses matching funds at higher than a two-for-one rate to increase the role of small donors. Without comparative reference points, it has not been possible to sort out what might be idiosyncratic from what might be more general. That has changed. In 2013 the city of Los Angeles held its first election under its own new multiple-matching fund system. With two cities to compare, it is now possible to consider how program details and local conditions might affect the results.

To preview this paper's conclusion: we find clear evidence that that two cities' programs have different effects. In today's presentation, we focus on some of the more general conclusions from our work. These show that small donor matching funds have had powerful effects for New York City Council elections, but not for Los Angeles. Our larger work will offer a series of potential explanations for these results. We feel confident that New York's more generous matching ratios are at least partially responsible, but we also have evidence that other differences in program design contribute to the program's effects. Some of the questions from the longer work appear in this paper's conclusion, with sample tables and figures in the appendix.

Matching Ratios and Program Design

Our longer work in progress identifies three prominent components of the matching fund regimes in New York City and Los Angeles that may affect the impact of the two programs on small donor participation: matching rates, the maximum amount of public funding, and residential requirements for at least a portion of the donors needed for a candidate to qualify to participate in the program.¹ This paper will focus on the first of these.

The defining policy component of small donor matching fund programs is the strength of the matching ratio. The matching ratios have increased over time in both cities. From 1989 to 2013 New York City increased matching rates three times. In the first several elections, the city matched the first \$1,000 in aggregated contributions from a donor to a single candidate with a one-to-one match in public funding. For the 2001 election, the city implemented its first multiple matching ratio. Up to \$250 in aggregated contributions from a donor to a candidate was matched with public funds at a four-to-one rate. For the 2009 election the matching rate was increased again. In 2009 and 2013 the city gave candidates \$6 in public matching funds for the first \$175 dollars that each donor contributed. The first \$175 in contributions from a given donor to a candidate was therefore worth \$1,050 in public funding. A contributor could give more to a candidate, but the city would only match the first \$175.

Matching ratios have been substantially lower in Los Angeles. 2013 was the first election cycle in which Los Angeles implemented a multiple match. Before this, the city provided a one-

¹ New York City Council candidates must raise at least 75 donations of \$10 or more from district residents to qualify for public financing. New York's Mayoral candidates must raise 1,000 qualifying contributions from city residents, but with no geographic distribution requirement within the city. In 2013, Los Angeles had no such geographic requirements. In 2015, Los Angeles began requiring all qualifying contributions to come from city residents. City council candidates also had to raise at least 200 contributions from within their districts beginning in 2015. Council districts in Los Angeles had populations of about 255,000 residents in 2013. New York's city council districts averaged about 157,000.

to-one match on the first \$250 from a donor to a candidate. For 2013, Los Angeles (unlike New York) offered different matching ratios for the two stages of its nonpartisan election process. Most candidates participate only in the first round. If no candidate receives at least fifty percent of the vote in the first round election, then the top two candidates compete in a runoff election. In first round elections in 2013 candidates received \$2 for each of the first \$250 raised from a given donor. In runoff elections, candidates the matching ratio increased to \$4 for each of the first \$250. Candidates could therefore receive a maximum of \$500 dollars in matching funds per donor in first round elections and \$1000 per donor in runoff elections. As in New York, a contributor may give donations to a candidate in excess of the amount matched.

Data and Methodology

This presentation focuses on the overall effects that the matching fund programs in New York City and Los Angeles have on the role that small donors play in the fundraising process. Note that we are interested in the role of small donors, not small contributions. A person who gives hundreds of \$5 contributions to the same candidate is not a small donor, in our understanding. Our unit of analysis therefore is the donor-candidate dyad, in which donors are classified according to the sum or aggregate of their contributions to a candidate, no matter how many contributions it may take to reach the aggregate (see Malbin *et al.*, 2012.) We considered small donors to be those who contributed a total of \$250 or less to a candidate.

The raw data from New York City and Los Angeles were gathered directly from each city's campaign finance bureau; data for the New York and California State Assemblies were provided by the National Institute on Money in State Politics. To ensure that we compared

candidates who were running in similar electoral contexts we limited our dataset to ones who were at least moderately competitive. We defined these as candidates who received at least half of the winner's vote total in a primary or general election (i.e., one-third of the vote in a two-candidate race).

In our longer work in progress, the results will be presented in three sections. The first – which is the only one discussed here – will present our difference in differences tests. The second will be a demographic analysis of the census block groups in which the geo-coded small donors reside (previewed in the Appendix to this paper on p. 22). The third is a more descriptive statistical comparison across offices and cities (also previewed in the Appendix).

The difference in differences section begins by comparing changes in the role of small donors over time (before and after multiple matching funds) in New York and Los Angeles city council elections. To guard against the possibility that observed differences result from differences in the local contexts, the municipal elections are not only compared to each other. We also compare city council candidates in each city to state Assembly candidates who are running to represent the same geographic space.

Difference in differences analysis is a quasi-experimental research design. We observe the difference between small donor participation in city council and state assembly elections before and after a policy change has been implemented. The policy change is the equivalent of a treatment, with participating city council candidates comprising the treatment group. Assembly candidates are the control group. Because we measured change over time among city council candidates, and then separately measured change among state assembly candidates, any effects specific to the office are being held constant. Similarly, because we are looking at

two offices representing the same geographic space, local economic and demographic characteristics are also largely being held constant. If the role of small donors went up or down across the two offices at more or less the same rate, then a reform introduced for only one set of offices cannot be the explanation. We can only be confident that a reform may be the source of a particular result if there is change in the treatment group and not in the control group.

The first section of our results therefore compares changes in small donor fundraising by New York City Council candidates over time, with changes over the same time period by New York State Assembly candidates. The New York City Council elections we studied were those of 1997 (1:1 matching rate for the first \$1,000), 2005 (4:1 for the first \$250) and 2013 (6:1 for the first \$175). The three nearest three State Assembly elections for which data are available were those of 2000, 2006 and 2010.

The analysis goes through the same process for the Los Angeles City Council and California State Assembly, with one additional step. Because Los Angeles elects only half of its city council at a time, we pooled the data for two adjacent election years to get coverage of the full city. Having full city coverage was necessary because decennial redistricting made it impossible to compare pre-reform districts with post-reform districts across the two legislatures on a district-by-district basis. There is not a similar problem with comparing all of the city's districts pooled together over a four year span, since the whole city is covered even if specific district lines may have changed. We therefore compared all Los Angeles City Council races in 2009 and 2011 (1:1 matching) with 2013 and 2015 (2:1 match in first round elections; 4:1 match in runoff elections). As a comparison, we looked at State Assembly districts for the

whole city in the elections of 2010 and 2014. Redistricting was put into effect for both legislative bodies in 2012.

Results

The Number and Proportional Importance of Small Donors

The threshold question for small donor matching funds is whether they in fact increase the number and proportional role of small donors. Our answers are presented through six line graphs. Each uses a solid line to represent City Council candidates and dashes for Assembly candidates whose districts substantially overlap with the city. Figures 1 through 3, for New York, appear on the next page. Figures 4 through 6, for Los Angeles, are on pages 13-14.

New York:

In Figure 1, the solid line shows the average number of small donors per 100,000 constituents per candidate for viable city council candidates in New York who participated in each city's public matching program. As is obvious from the graph, there was a marked increase in the number of small donors after 1997. In 1997, the average candidate had 176 small donors per 100,000 constituents. The average for 2005 (4:1 match) was 220 and for 2013 (6:1 match) was 207. The values for each of the later years were higher than 1997's at or above the 90 percent confidence level, but the difference between 2005 and 2013 was not significant.

Figures 1-3: New York

Figure 1: Avg. Number of Small Donors per Candidate (per 100k Constituents) in City Council and State Assembly Races Over Time

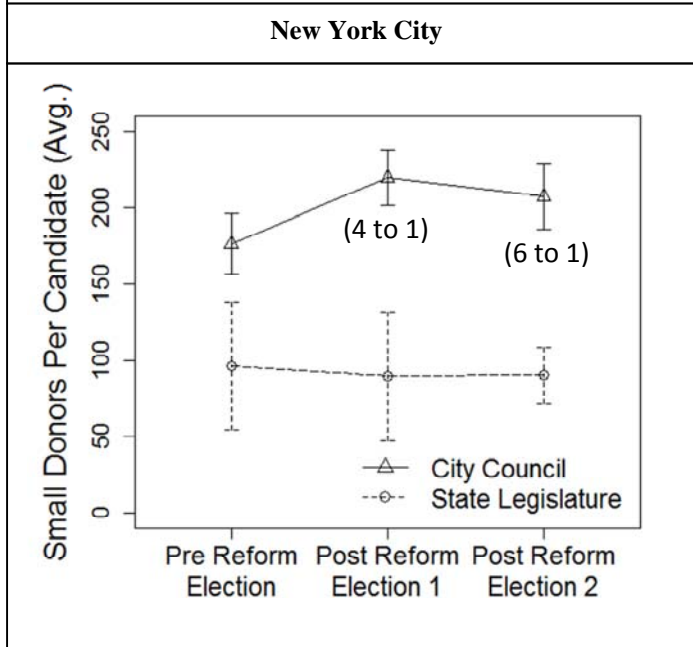


Figure 2: Avg. Percent of Total Private Fundraising from Small Donors per Candidate in City Council and State Assembly Races Over Time

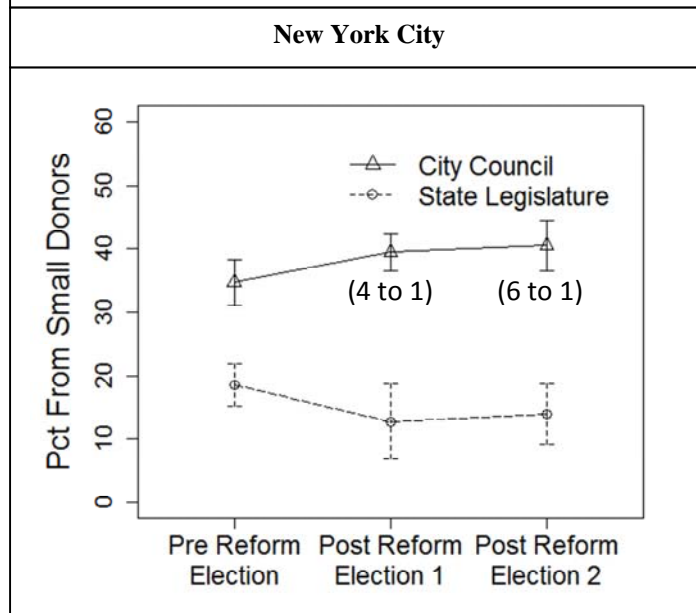
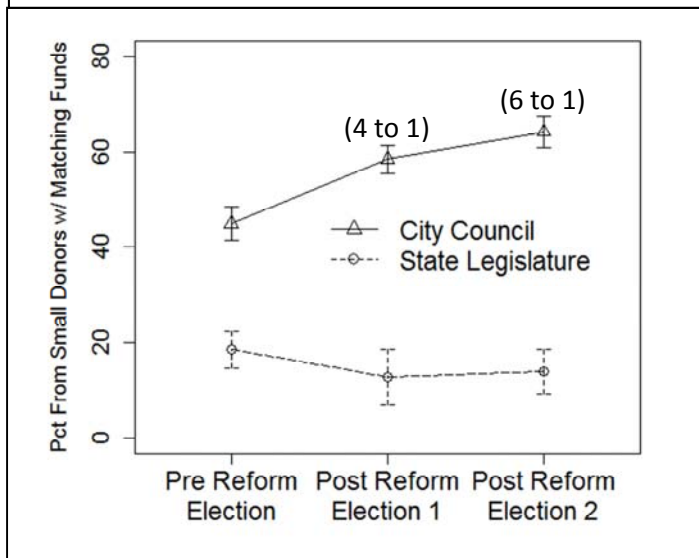


Figure 3: Avg. Percent of Total Private Fundraising from Small Donors per Candidate City Council and State Assembly Races Over Time

New York City



The solid lines in Figures 2 and 3 make essentially the same points as Figure 1. In 2005 and 2013, New York City Council candidates raised a greater proportion of their private funds from small donors than in 1997 (Fig. 2), and they also received a greater proportion of their total funds from small donors when public funds are allocated to the donors responsible for generating them (Fig. 3). While the relationships between 2005 (the 4:1 match) and 2013 (6:1 match) are not always the same, both 2005 and 2013 are at a significantly higher level than 1997 in each of the three figures. Additionally, the post-reform increase in the proportion of candidates' funds coming from small donors plus allocated matching funds was statistically significant at or above the 99 percent confidence level. At a glance, therefore, it does seem as if the introduction of multiple matching funds in New York City was associated with significant increases in the number and proportional importance of small donors.

Yet, there is something about this answer that does not quite satisfy. For example, what if the later elections years coincided with better economic times or gentrified neighborhoods? Might this explain an increase in the number who are willing to give? That is, even though the increase from pre-reform to post-reform years was statistically significant, might this have been caused by some outside consideration that had nothing to do with the matching funds?

The dashed lines in each of these three figures (for the Assembly candidates representing New York City constituencies) help to resolve these problems. In each, the Assembly lines are lower than those for the city council. This tells us that, for whatever reason, small donors have tended to be more interested in the city council than in the assembly during all of the elections covered by our graph – whether before or after the multiple matching fund

“treatment”. But which line is above or below is not most important for our analysis. What is important is whether the *relative* distance between the two lines changed after the treatment. If the State Assembly’ small donors had gone up at the same rate as the city council’s, then the reform introduced for city council elections could not be the explanation. But that is not what happened. In all three of the figures, the city council lines went up, while the Assembly lines covering the same geographic space all went down or were stagnant. For city council candidates, the average number of small donors per 100,000 constituents showed a net increase of 31 donors per candidate between 1997 and 2013. Over the same years, Assembly candidates experienced a net change of -8. The net change in the difference between the two (i.e., the difference in differences) over time was 39. The next step is to see whether the net change was significant statistically. Perhaps surprisingly, it was not quite significant.² The change was in the right direction but fell just short of significance. The explanation probably lies in the high level of variation one sees in the number of small donors per Assembly candidate in the first two elections. As a result, we cannot reach the hypothesized conclusion for the effect of the treatment on this particular measure.

However, the results are positive and statistically significant for the other two measures – the percentage of a candidate’s money coming from small donors (Figure 2) and the percentage coming from small donors plus the public funds that result from small donors (Figure 3). The average percent of money that city council candidates raised from small donors

² Statistical significance for difference in differences was calculated in the following manner. We first calculated the 95 percent confidence interval for independent samples difference in means t-tests for pre and post-reform elections for city council candidates. Then we calculated the 95 percent confidence interval for independent samples difference in means t-tests for pre and post-reform elections for assembly candidates. If the 95 percent confidence interval for the mean difference in pre and post-reform council candidates was larger and statistically different from the 95 percent confidence level for the mean difference for assembly candidates, then the difference in differences to be statistically significant.

went up by 6 percentage points between 1997 and 2013. Over the same years, Assembly candidates experienced a decrease of 5 percentage points. The net change in the difference between the two (i.e.-the difference in differences) over time was 11 percentage points. This difference was statistically significant at or above the 90 percent confidence level.

When matching funds are accounted for, this small donor fundraising gap (not unsurprisingly) widens. The average percent of private and allocated public money that city council candidates raised from small donors increased by 19 percentage points between 1997 and 2013. Over the same years, Assembly candidates experienced a decrease of 5 percentage points. The net change in the difference between the two (i.e., the difference in differences) over time was 24 percentage points. This difference was statistically significant at or above the 95 percent confidence level.

These results are consistent with what has been published previously about New York City (Malbin, *et al.*, 2012). However, we did not previously know whether simply introducing a multiple matching fund system would produce similar results elsewhere. Figures 4 through 6 show this not to be so.

Figures 4-6: Los Angeles

Figure 4: Avg. Number of Small Donors Per Candidate (Per 100k Constituents) in City Council and State Assembly Races Over Time

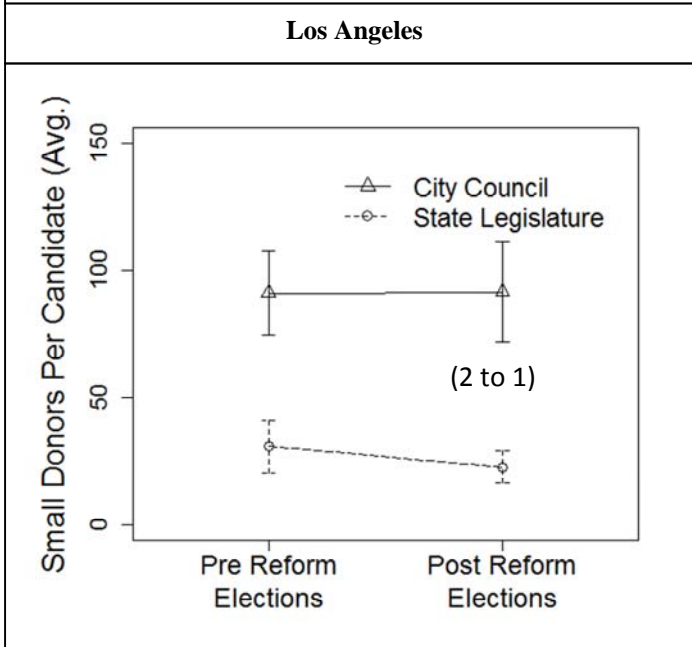


Figure 5: Avg. Percent of Total Private Fundraising from Small Donors Per Candidate in City Council and State Assembly Races Over Time

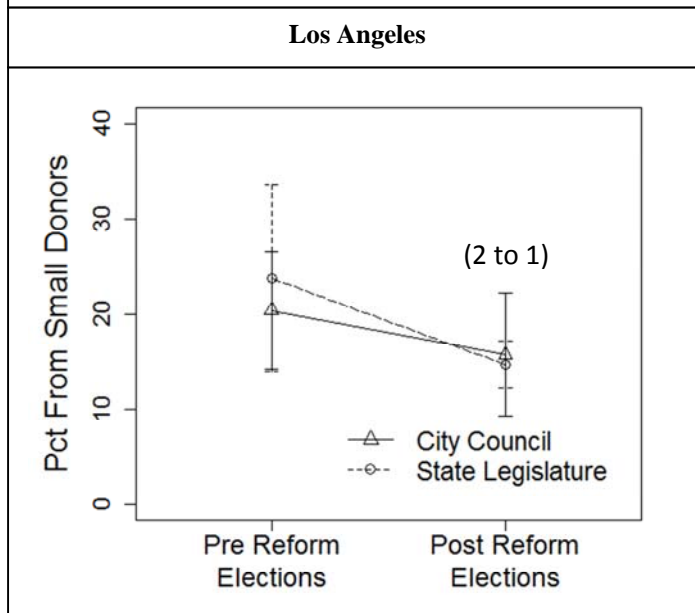
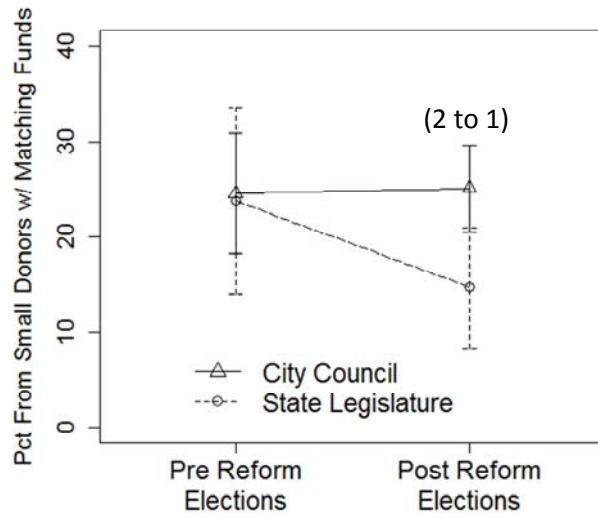


Figure 6: Avg. Percent of Total Private Fundraising from Small Donors Per Candidate City Council and State Assembly Races Over Time

Los Angeles



Los Angeles:

The results for Los Angeles do not show similar trends. Figures 4-6 do not reveal evidence that city council candidates in post-reform elections raised more money from more small donors than candidates in pre-reform elections. Instead, we find that candidates in post-reform elections in Los Angeles raised money from an almost identical number of small donors as candidates in pre-reform elections (Figure 4). State assembly candidates who received no matching fund incentives to approach small donors saw a very slight decrease in small donors over a similar time period. In city council elections the number of small donors per candidate rose by 0.4 donors between pre- and post-reform elections. Over the same time period the number of small donors per assembly candidate decreased by 8 donors. The net change was statistically indistinguishable between city council and assembly candidates at 8.4 small donors.

The proportion of private money that city council candidates raised from small donor contributions was actually lower for post-reform candidates than it was for pre-reform candidates (Figure 5). Pre-reform candidates for city council raised 20 percent of their campaign funds from small donor contributions while post-reform candidates raised 15 Percent, a 5 percentage point decrease. It always possible, of course, that the matching funds prevented an even bigger decline, since candidates for the Assembly experienced a 9 percentage point decrease. Yet it is important to note that the net difference of 4.5 percentage points in favor of the city council races, was not significant or even approaching the 90 percent confidence level.

The strongest descriptive evidence that the Los Angeles campaign finance approach increased small donor participation is in Figure 6, which documents the change in the

percentage of money for which small donors were responsible when matching funds are added to private contributions. After including public funds we find that post-reform city council candidates raised about 1 percentage point more than pre-reform candidates. Over similar time periods assembly candidates raised 9 percentage points less from small donor contributions. The net change was 10 percentage points for council and assembly candidates. However, even this finding did not come close to approaching statistical significance at or above the 90 percent confidence level. Thus, we saw no clear evidence that recent changes in the Los Angeles matching fund program increased the number or proportional role of small donors.

Conclusion

The above results offer evidence that public matching systems are not all created equal. In the next steps of this project, we intend to dig into ways in which policy details can influence small donor participation. In addition to matching ratios, our longer work will consider:

- What may be the effects of putting geographic requirements on a significant portion of qualifying contributions (see Appendix, pp. 19-21)?
- Why do the programs work differently for citywide candidates in New York than for Council candidates (see Appendix, p.18)?
- Why do small donors in New York City come from census block groups that are more diverse racially and economically than their counterparts in Los Angeles (see p. 22)?

The larger project will also include controls for incumbency status and electoral competitiveness.

At this stage, however, we want to emphasize one major point. Too often scholars and practitioners ask whether a broad policy approach, such as public financing, “works”. Yet we know that programs may accomplish some of their original goals better than others. In our project, we argue that even when we are clear about goals, it is crucial to remain sensitive to a program’s particularities. Our larger project will present evidence that matching rates, the proportion of public money that candidates receive, the character of the office, and the presence or absence of geographical qualification thresholds, all affect the number of small donors and their diversity.

This paper offers the first systematic comparison of two matching fund programs on donor participation. From it, we have come to believe that many of the generalizations we hear in policy debates are, well, too general. To take just one example, there have been some claims about the likely effect of public financing, writ large, on political polarization. In contrast, we suspect that provisions such as geographical requirements could have a profound effect on the moderation or extremism of the donor pool. We suspect that having no geographic requirements in a highly visible and competitive race would favor fundraising by polarizing, national bundlers, while we suspect that requiring a significant number of in-district donors would have a politically moderating effect on the donor pool. This conclusion is speculative, but the general observation is not. To speak about public financing in the abstract, whether negatively or positively, might work for political campaigning. Serious program design and analysis call for paying attention to details. And paying attention to details in turn calls for applied, policy research. Neither theorizing nor slogans will do the job.

APPENDIX: SAMPLE OF FIGURES AND TABLES FROM THE LONGER WORK

Figures A1 – A2: Results Differ across Offices as well as across Cities

Figure A1: Comparing NYC with LA – City Council and Mayoral Avg. Number of Small Donors per Candidate per 100,000 Constituents

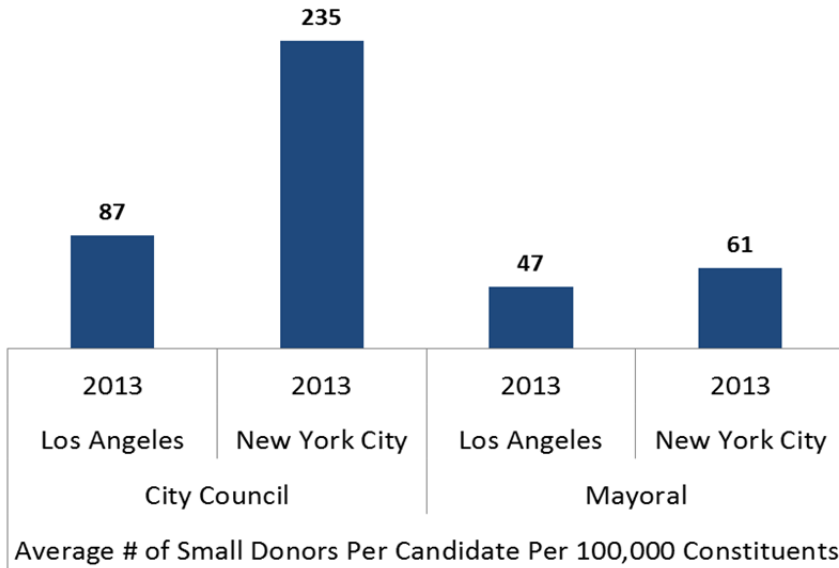


Figure A2: Comparing NYC with LA – City Council and Mayoral Avg. % of Candidates’ Money from Small Donors

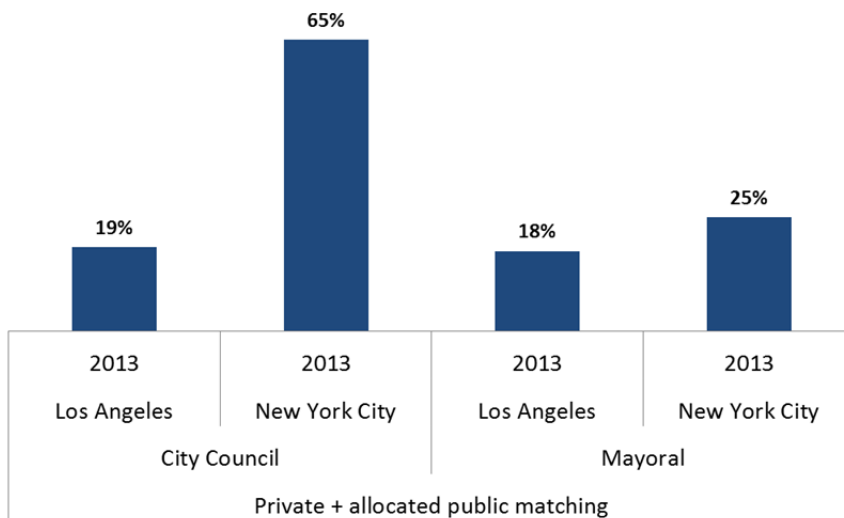


Table A1 and Figures A2-A4:

Potential Impact of Geographic Requirements

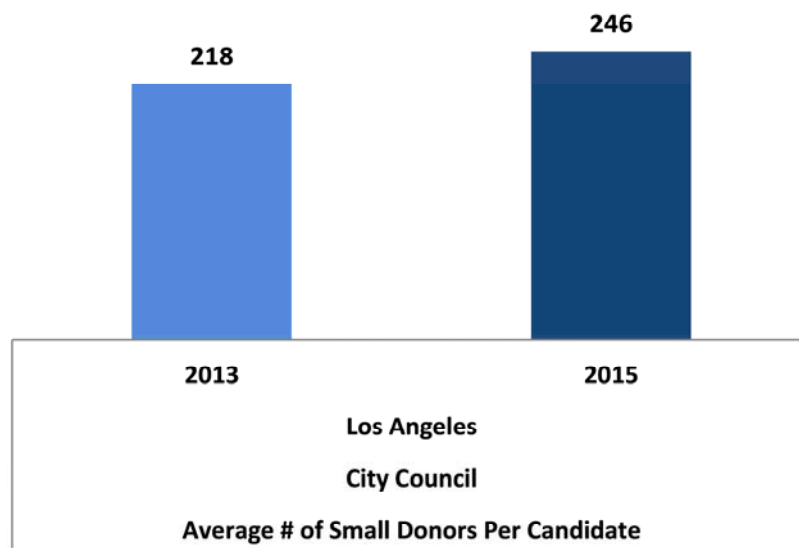
Table A1: What Percentage of the Average Candidate’s Donors are Constituents in New York City and Los Angeles?

Avg. percent of viable participating candidate’s small donors that were district residents

	NYC 2013	LA 2013	LA 2015
% of small donors who are also constituents	44%***	14%	25%*
% of total donors who are also constituents	42%***	12%	21%*

Note: Statistical significance calculated comparing percent of small donors per viable participating candidate for city council in NYC in 2013 and LA in 2015 respectively to LA in 2013 using one tailed independent samples t-tests. *p<0.1; **p<0.05; ***p<0.01

**Figure A3: Los Angeles City Council Candidates:
Small Donors / Candidate Increased After Geographic
Qualification Requirements in 2015**
First round and runoff elections, viable participating candidates only

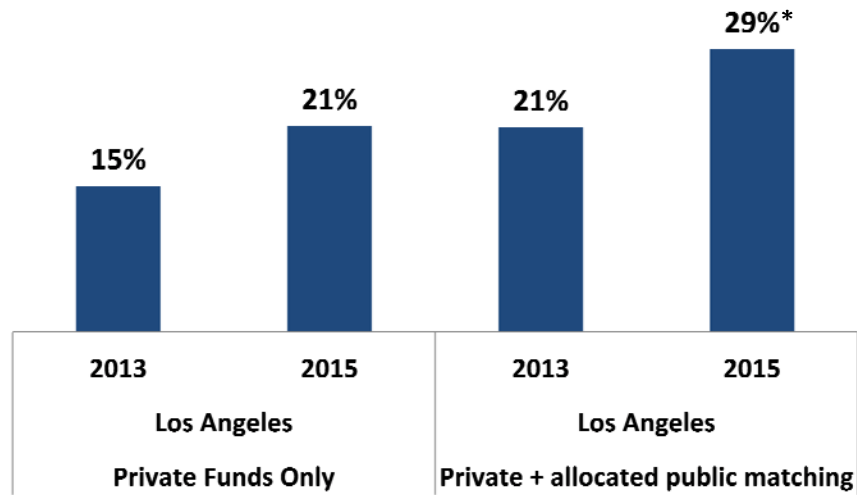


Note:

*p<0.1; **p<0.05; ***p<0.01

Figure A4: Los Angeles City Council: Avg. % of Candidates' Money from Small Donors, 2013 and 2015

First round and runoff elections, viable participating candidates only



Note:

*p<0.1; **p<0.05; ***p<0.01

**Table A2: Greater Racial and Economic Diversity of
Small Donors' Neighborhoods in New York than Los Angeles**

Table A2: Small Donor Diversity, 2013 Comparing NYC and LA Census Block Groups (CBGs)		
	NYC	LA
% of CBGs in districts up for reelection with small donors	90%	51%
Average small donor aggregate contribution amount	\$76	\$161
Median household <u>income</u> in small donor CBGs as % of income for CBGs in districts up for election	99%	125%**
% <u>poverty</u> in small donor CBGs as a % of rate for CBGs in districts up for election	100%	75%***
% <u>nonwhite</u> in small donor CBGs as a % of rate for CBGs in districts up for election	98%	83%***
Note:	*p<0.1; **p<0.05; ***p<0.01	

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