

THE STATE CAMPAIGN FUND

by Jessica Runnels, Fiscal Analyst

Most taxpayers recognize the line on the Michigan income tax form asking if they would like \$3 of their taxes to benefit the State Campaign Fund. What is the State Campaign Fund, what does it do, and why is this question on the tax form?

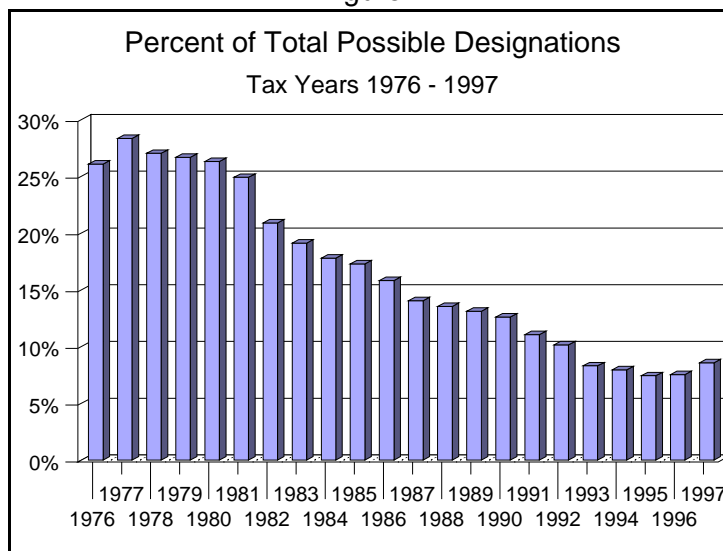
Introduction

The State Campaign Fund was created by Public Act 388 of 1976 in the Michigan Campaign Finance Act (MCL 169.201-169.282). This Act was modeled after the Federal Election Campaign Act of 1971 and incorporated the *Buckley v. Valeo*, 424 U.S. 1 (1976), ruling by the U.S. Supreme Court that campaign spending limits cannot be enforced unless candidates are using public funds. Distributions from the State Campaign Fund are available to qualifying candidates during the primary and general elections for the Office of Governor. By making public funds available and creating incentives for candidates to use them, the State of Michigan can enforce limitations on expenditures by gubernatorial candidates. Designations from Michigan income tax filings provide the sole source of support for the State Campaign Fund.

Administration of the State Campaign Fund

When a taxpayer checks that box on the income tax form, \$3 of his or her taxes paid will be deposited into the State Campaign Fund. Checking this box does not increase a taxpayer's payment, but designates \$3 from the taxes paid for this specific purpose. Deposits are made once a year, on the January 1 following the income tax filing deadline for a tax year. At that time, the total amount of the designations made from the previous tax year is transferred from the State General Fund to the State Campaign Fund. The next deposit will be on January 1, 2002, for the 2000 tax year. The original designation was \$2. Public Act 262 of 1993 increased the designation to \$3. [Table 1](#) presents data on the number of taxpayers designating a contribution to the State Campaign Fund and the revenue received for each tax year since the Fund was created. Totals are given by election cycle. The number of taxpayers choosing to contribute to the Fund has declined steadily over the past 24 years, as [Figure 1](#) demonstrates. This figure shows actual designations as a percentage of the total taxpayers eligible to contribute to the Fund.

Figure 1



| Table 1: State Campaign Fund Designations | | |
|--|-------------------------------|--------------------------------|
| Year | Number of Designations | Dollar Amount Collected |
| 1976 | 1,303,780 | \$2,607,560 |
| 1977 | 1,460,000 | 2,920,000 |
| Total | 2,763,780 | \$5,527,560 |
| 1978 | 1,427,200 | 2,854,400 |
| 1979 | 1,422,100 | 2,844,200 |
| 1980 | 1,357,600 | 2,715,200 |
| 1981 | 1,273,300 | 2,546,600 |
| Total | 5,480,200 | \$10,960,400 |
| 1982 | 1,042,300 | 2,084,600 |
| 1983 | 952,400 | 1,904,800 |
| 1984 | 899,000 | 1,798,000 |
| 1985 | 918,500 | 1,837,000 |
| Total | 3,812,200 | \$7,624,400 |
| 1986 | 887,800 | 1,775,600 |
| 1987 | 787,600 | 1,575,200 |
| 1988 | 779,000 | 1,558,000 |
| 1989 | 767,300 | 1,534,600 |
| Total | 3,221,700 | \$6,443,400 |
| 1990 | 741,900 | 1,483,800 |
| 1991 | 653,000 | 1,306,000 |
| 1992 | 593,000 | 1,186,000 |
| 1993 ^{a)} | 491,300 | 1,473,900 |
| Total | 2,479,200 | \$5,449,700 |
| 1994 | 473,600 | 1,420,800 |
| 1995 | 437,200 | 1,311,600 |
| 1996 | 459,400 | 1,378,200 |
| 1997 | 469,054 | 1,407,162 |
| Total | 1,839,254 | \$5,517,761 |
| 1998 | 429,632 | 1,288,896 |
| 1999 | 393,111 | 1,179,333 |
| 2000 ^{b)} | 494,207 | 1,482,621 |
| 2001 ^{b)} | 466,667 | 1,400,000 |
| Total | 1,783,617 | \$5,350,850 |

^{a)} Amount for designation changed from \$2 to \$3 in 1993. ^{b)} Estimate.

Source: Department of State and Department of Treasury

The balance in the State Campaign Fund does not lapse to the General Fund at the close of each fiscal year, but remains in the Campaign Fund until after the next gubernatorial general election. The money in the Fund is invested as common cash funds and any interest earned is credited to the General Fund, not the State Campaign Fund. Public Act 262 of 1993 added the provision that only the balance in excess of \$10,000,000 will lapse to the General Fund following a gubernatorial election year. Until that amendment was adopted, the entire balance of the Fund lapsed to the General Fund following the election. The gubernatorial election of 1994 was the first year the Campaign Fund balance was carried forward to the next election. As [Table 2](#) shows, the statutory cap of \$10,000,000 on the carryforward balance is millions of dollars greater than any potential carryforward before this provision was enacted.

| Table 2: State Campaign Fund Collections & Expenditures | |
|--|----------------|
| 1976 | |
| Collections | \$5,527,560.00 |
| Expenditures | 2,940,801.74 |
| Balance | 2,586,758.26 |
| 1982 | |
| Collections | 10,960,400.00 |
| Expenditures | 5,760,443.30 |
| Balance | 5,199,956.70 |
| 1986 | |
| Collections | 7,624,400.00 |
| Expenditures | 2,965,846.60 |
| Balance | 4,658,553.40 |
| 1990 | |
| Collections | 6,443,400.00 |
| Expenditures | 4,229,054.44 |
| Balance | 2,214,345.56 |
| 1994 | |
| Collections | 5,449,700.00 |
| Expenditures | 5,368,252.71 |
| Balance | 81,447.29 |
| 1998 | |
| Carryforward | 81,447.29 |
| Collections | 5,517,762.00 |
| Total | 5,599,209.29 |
| Expenditures | 3,415,694.29 |
| Balance | 2,183,515.00 |
| 2002 | |
| Carryforward | 2,183,515.00 |
| Collections | 5,350,850.00 |
| Total | 7,534,365.00 |

Source: Department of State

Disbursements from the Fund are coordinated between the Department of State and the Department of Treasury. The Department of State certifies a candidate committee's request for public funds and Department of Treasury actually releases the funds to the committee following certification. Before any funds are disbursed, representatives from the two departments estimate the public fund requests for the general election. This amount is set aside and the remainder may be distributed to primary candidates. The amount set aside for the general election is twice the maximum available to each major party candidate and an additional amount for minor party candidates. Minor party candidates are entitled to a distribution if their party received at least 5% of the votes cast in the last election for the same office; otherwise, minor party candidates who receive at least 5% of the votes cast in a general election for governor are eligible for reimbursement. The amount received by a minor party candidate is a function of the number of votes received by all the candidates and the amount of public funds distributed to the major party candidates. No disbursement has ever been made to a minor party candidate. The amount set aside for the 2002 general election is \$2,450,000, leaving \$5,084,365 for the primary election. After the general election set aside, if insufficient funding exists to fully match primary candidates' requests, then the funds are distributed on a pro rata basis.

Candidate Responsibilities

Public funds are available to both primary and general election gubernatorial candidates. Candidates who receive public funds must adhere to the election expenditure limits. There is one exception: If a candidate exceeds the personal or family contribution limit of \$340,000 per election cycle, then all of that candidate's opponents may exceed the expenditure limit. This has occurred once in the history of the State Campaign Fund. The Democratic candidate in the 1998 gubernatorial election contributed more than the personal contribution limit during both the primary and general elections and did not receive any public funds. As a result, the Democratic primary candidates and the Republican candidate in the general election were permitted by statute both to receive public funds and to exceed the expenditure limit. In addition, more than \$2.3 million of unused public funding was carried forward for use in the 2002 election. Table 3 details the expenditures during the primary and general elections by political party since the inception of the State Campaign Fund.

Public funds must be maintained in a bank account separate from private contributions and may be spent only on approved expenses. "Qualified campaign expenditure" means "an expenditure for services, materials, facilities, or other things of value by the candidate committee to further the candidate's nomination or election to office during the year in which the primary or general election in which the candidate seeks nomination or election is held" (MCL 169.266). Certain expenses are not qualified; these include payments to a business the candidate or a relative is associated with, any portion of the salary of an employee earning more than \$5,000 per month, payments from petty cash, gifts, and incidental expenses for the elected office once the candidate is elected. Private funds may be used for unqualified expenses.

| Year | Primary Election | | | General Election | | | Grand Total |
|------|------------------|--------------|-----------------|------------------|--------------|-----------------|-----------------|
| | Democrat | Republican | Total | Democrat | Republican | Total | |
| 1978 | \$1,280,156.16 | \$161,389.82 | \$ 1,441,545.98 | \$749,481.66 | \$749,774.10 | \$ 1,499,255.76 | \$ 2,940,801.74 |
| 1982 | 2,217,279.93 | 2,044,250.24 | 4,261,530.17 | 748,913.13 | 750,000.00 | 1,498,913.13 | 5,760,443.30 |
| 1986 | 660,000.00 | 805,846.60 | 1,465,846.60 | 750,000.00 | 750,000.00 | 1,500,000.00 | 2,965,846.60 |
| 1990 | 989,054.44 | 990,000.00 | 1,979,054.44 | 1,125,000.00 | 1,125,000.00 | 2,250,000.00 | 4,229,054.44 |
| 1994 | 2,229,135.51 | 889,117.20 | 3,118,252.71 | 1,125,000.00 | 1,125,000.00 | 2,250,000.00 | 5,368,252.71 |
| 1998 | 1,300,694.29 | 990,000.00 | 2,297,200.30 | 0.00 | 1,125,000.00 | 1,125,000.00 | 3,415,694.29 |

Source: Department of State

Some expenses, such as those incurred for compliance with campaign finance regulations, are exempt from the spending cap. Any public funds remaining after 60 days following the election for which they were received must be refunded and credited to the State Campaign Fund. Any interest earned on public funds while in the bank account of a candidate committee must be credited to the State Campaign Fund and may not be used by the committee for campaign purposes.

Primary Election. During the primary, public funds are available for a two-to-one match, meaning that every \$1 of individual contributions is eligible for a \$2 public funds match, for a total of \$3. Candidates must demonstrate \$75,000 in qualified contributions to receive the first matching public funds during the primary election. Qualified contributions must be made by written instruments by an individual Michigan resident in an amount of \$100 or less in the calendar year of the gubernatorial election or after April 1 of the year immediately preceding it. Subsequent requests for funds may be in smaller amounts. Primary candidates may receive up to \$990,000 in public funds, which would require a candidate to demonstrate at least \$495,000 in qualified contributions. The total expenditure cap for the primary election is \$2,000,000 per candidate.

Candidates are eligible to receive public funds if they have filed a statement of organization in accordance with the Michigan Campaign Finance Act (MCL 169.224). Disbursements are made to the committee when a listing of qualified contributions is certified by the Department of State Bureau of Elections. A candidate committee

submits the contribution list to the Bureau, which reviews the name, address, signature, and other information for individual contributions. This process may take a few days if the contributor list is long or incorrect. Once approved, the funds are released by the Department of Treasury to the candidate's committee. For initial disbursements, the public funds may be allotted on a pro rata basis. Future disbursements may compensate for the unmatched qualified contributions depending on the actual funds available closer to the primary election.

General Election. Each of the major party candidates chosen at the primary election receives \$1,125,000 from the State Campaign Fund. The candidates are not required to submit matching contributions to receive this money and private funds remaining from the primary election may be carried over for expenditure in the general election for eligible candidates. Unused public funds received for use in the primary election must be returned to the State Campaign Fund, even by the winner of the primary election.

Candidates receive funds from the State Campaign Fund for use in the general election after the results of the August primary are certified. If unofficial results demonstrate a clear winner in the primary by at least 2% of the votes cast for the top two candidates, the winner may receive \$56,250 of the public funding for the general election within 10 days of the primary election. The balance must be transmitted to the candidate's committee within three days of the official certification of the primary election results.

There is an expenditure cap of \$2,000,000 for the general election. A candidate accepting public funds may spend a total of \$4,000,000 during the primary and general elections. If a candidate exceeds the expenditure cap for the primary election, the candidate still may receive public funds in the general election if he or she agrees not to exceed the cap for the general election.