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To <SPW2@fec.gov>
cc
bcc
Subject Observations about state party spending in 2004

Dear Ms. Dinh:

I'm attaching a recent analysis I've done on state and local party spending in the 2004 elections. I have no comments about the proposed changes for regulating state and local parties but I thought this analysis might be useful for your discussion. In brief, I found that state parties spent only 15% soft money in their allocated accounts (down from about 50%), and they did not take advantage of Levin funds. I also found some interesting post-BCRA changes in voter mobilization spending, especially between battleground and non-battleground states.

If you have any questions, feel free to contact me.
Best,

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State Party Spending in the 2004 Federal Elections

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Note to Reader: the analysis presented here is a draft being prepared for a conference sponsored by the Ray C. Bliss Institute of Applied Politics at the University of Akron, Akron, Ohio October 5-7, 2004.

State Party Spending in the 2004 Presidential Elections

In 2004, the 100 major state parties spent, in aggregate, as much on non-media activities as in 2000. Remarkably, they did this using about 85% hard money in contrast to 2000 when half their funds were soft money. There were important differences, however, between Republicans and Democrats and between battleground and non-battleground states. In the first year after the implementation of the BCRA, Republican state parties appear in better shape financially than Democratic parties. Moreover, for Democrats there were significant declines in spending among state parties in non-battleground states, suggesting that Democrats concentrated resources more than ever in battleground contests during the 2004 election.

The most dramatic change from the previous presidential election was that state parties no longer sponsor broadcast advertising in federal elections. In 2004, they spent nominal sums on television and radio advertising, compared to the 2000 election when the Democrats and Republicans spent \$139 million and \$97 million, respectively (see Table 1). Almost all the advertising by state parties in 2000 came in the form of “issue ads” – paid for, in part, with soft money – which were tailored to help candidates without invoking electioneering slogans. The BCRA effectively put an end to this practice by banning soft money that national parties raised and then transferred to state parties to pay for these ads. Instead, national committees paid for advertising directly in 2004, mostly through “independent” expenditures that were not coordinated with their presidential candidates.

[Insert Table 1 here]

In addition to eliminating issue ads, the BCRA sought to encourage state parties to focus on grassroots campaigning. To achieve the latter, the new campaign finance carved out an exception to the soft money ban for state and local parties, allowing them to spend a limited amount of soft money on party building activities. The so-called “Levin Amendment” permitted state and local parties to raise soft money (where state laws permitted) in increments of \$10,000 or less that could be allocated with hard money for grassroots activity. In the end, local and state parties did not take advantage of the Levin Amendment, spending less than \$3 million in Levin funds for the cycle.

In practice, the Levin Amendment proved too complicated to implement, at least in this first election cycle. To exploit this provision, parties would have to keep track of three different accounts: federal, non-federal and Levin. Moreover, the local parties had to raise both the hard and soft money on their own, without the benefit of transfers from state or national parties. It was particularly onerous for local parties to manage the accounting and reporting of Levin funds, as set forth by the Federal Election Commission (FEC). They would have to create multiple accounts, track “home grown” funds versus transfers, and learn the allocation formulas to match hard and soft money. Most local party officials are volunteers who lack expertise and time to understand the details of the BCRA. Instead, party officials opted to “federalize” their campaign operations, i.e., spend only hard money as a way to keep it simple. Many local committees, as in the

past, chose to refrain from spending more than \$5,000 per year for party activity related to federal elections, at which point they would be required to register and file reports with the FEC. In the end, the local parties registered with the FEC spent no more on elections in 2004 than in 2000. This totaled about \$8.5 million.

Among state party committees, Republican gained significant ground on the Democrats in mobilizing voters (as shown in Table 1). While Democrats outspent them in 2000, the Republicans surged ahead, spending \$71 million on mobilization and grassroots compared to \$62 million for Democrats.¹ The differences can be explained by the divergent strategies of the two parties. Democrats pursued a dual strategy of using state parties and 527 organizations to mobilize voters in battleground states. State parties spent hard money, while 527s relied chiefly on soft money to pursue their get-out-the-vote goals. This division of labor reflected concerns by Democratic strategists at the national level that the party could not compete effectively against Republicans in the states with only hard money. Thus, the 527 organizations sought to complement party efforts in battleground states. According to the Center for Responsive Politics, the largest 527 organization, called America Coming Together (ACT), spent at least \$80 million on voter mobilization to help the Democratic nominee, John Kerry.² Partisan donors seeking to support their favored candidate came to understand a simple heuristic: hard money goes to state parties and soft money to 527s.³ Democratic 527 organizations appeared to concentrate on voters in the suburbs while state parties focused on traditional Democratic bastions in urban areas. It is unclear how this division of labor developed, particularly since coordination between state parties, which operate under federal hard money rules, and 527s, which operate primarily with soft money, was illegal under the BCRA. The lack of direct coordination between Democratic parties and 527s may have hampered partisan efforts to mobilize voters. Another problem was that duplicative get-out-the-vote operations probably increased administrative costs for the party and its supporters.

Republican partisans worked mostly through the state party structure to mobilize voters in 2004. Building on strategy developed in 2002 election they exploited a massive voter database, which linked party staff with volunteer networks in neighborhoods. Led by the RNC, the party mined consumer data, hunting license registrations and magazine subscriptions to identify likely Republican donors and voters. Their system, known as “Voter Vault” built a database of 175 million names, and integrated a web-based grassroots organizing tool that allowed campaign volunteers to establish their own “precincts.” Much of this work was coordinated with state and local parties.

Armed with these voter profiles, the national and state parties inundated likely Republican voters with direct mail and phone calls. The increase in these two activities was particularly striking. Republican state parties spent almost \$50 million on direct mail

¹ These spending data were collected from the FEC and coded by the author into various categories of spending. Special thanks to Bob Biersack for making them available.

² See <http://www.opensecrets.org/527s/527cmtes.asp?level=C&cycle=2004>

³ See Steve Weissman and Ruth Hassan, “527 Groups and the BCRA,” in *The Election after Reform Money, Politics, and the Bipartisan Campaign Reform Act*, edited by Michael J. Malbin (forthcoming from Rowman and Littlefield)

in 2004, while they spent less than half that amount (\$22 million) in 2000. Similarly, they more than doubled their spending on phone banks from \$3.6 million in 2000 to \$8.6 million in 2004, building on a trend they started at least a decade earlier. Not to be outdone by traditionally strong Democratic field operations, Republicans also doubled expenditures on field canvassing to \$18 million in 2004 (GOP canvassing operations have also been doubling every cycle since 1992). Paradoxically, while expenditures on voter contacts increased, party staff costs declined. In 2004, Republican state parties spent \$33 million on staff in 2004, which was \$10 million less than in 2000. Staff costs may have decreased due to outsourcing voter contact activity or because parties achieved productivity gains by relying more heavily on volunteer networks.

Democrats experienced greater declines in staff costs than Republicans, spending \$30 million in 2004 on salaries, benefits and related costs compared to \$69 million in 2000. This is one indication that the size of Democratic campaign organizations may have shrunk, in part, due to their dual strategy of using 527 organizations. In key battleground states, 527 organizations recruited talented campaigners early in the process before state parties had their wheels turning for the presidential campaign. Nonetheless, Democratic state parties managed to hold steady their spending in a number of areas. Relying on campaign tactics developed in previous presidential elections, they organized “coordinated campaigns” that emphasized canvassing with paid staff and volunteers in heavily Democratic areas. Spending on field operations was \$15 million, about the same as in 2000. Similarly, they spent the same amount on phone banks (\$6 million) as the previous presidential election. Democrats, however, increased spending on direct mail, from \$36 to \$43 million. They also significantly augmented office related expenditures from \$33 million to \$68 million. Office-related expenditures include utilities, travel, equipment, rent and computers. Most likely, a significant portion of Democratic spending was related to amassing and managing a large database. Like the RNC, the DNC wanted to exploit information technology to reach targeted voters. The DNC system combined a voter file called DataMart with another database called Demzilla, which compiled information about donors, activists, volunteers and local party leaders. To assemble these databases required massive amounts of data collection. State parties may have played an important role in putting together the databases, which might account for the surge in office related expenses.⁴

One important effect of the BCRA on state parties was that it concentrated spending more in battleground states. In most presidential elections, the parties pursue an Electoral College strategy which focuses on the large swing states. In 2004, the concentration of funds in battleground states was even greater than in 2000. Table 2 compares spending on voter mobilization in the same ten battleground states between 1992 and 2004. These states were chosen because the outcome of the presidential contest in 2000 and 2004 was as close as 5 percentage points or less between the rival candidates. In 2000, Democrats spent half their funds on voter mobilization in these ten states and the other half in the remaining 40 states. In 2004, however, they spent 59% of their voter contact funds in these same battleground states. Republicans also concentrated efforts more in

⁴ See Brian Reich, “Please Standby...The DNC is Still Experiencing Technical Difficulties,” *Personal Democracy Forum*, posted at www.personaldemocracy.com/node/536 on April 18, 2005.

battleground states. In 2000, they spent 35% of funds in these ten states while in 2004 this portion increased to 43%.

[insert Table 2 here]

It is difficult to determine whether the new campaign finance law encouraged parties to concentrate voter mobilization activity in selected states. Going back to at least 1992 (when these financial data became available), parties were moving toward a strategy of greater concentration of campaign efforts in “swing” states. In the past decade, with the help of technology parties have enhanced their capacity to identify likely partisan voters in key contests throughout the nation. Under the BCRA, it may be true that parties are less inclined to “waste” hard money on states that are not critical to an election, since hard money is more difficult to raise than soft money. An analysis of national party hard money transfers to state parties in 2004 shows that the RNC and DNC gave more of their money to expected battleground states than in the past. Party leaders in Washington may have instructed donors to focus on these same battleground states when giving hard money. Any of these behaviors may have contributed to a greater imbalance in voter mobilization activity in competitive and non-competitive states, but it cannot be attributed definitively to the BCRA.

A more detailed analysis of non-battleground states reveals another pattern post-BCRA. States with campaign finance laws that permit unlimited contributions to the parties fared worse under the new federal system than states that had regimes with contribution caps (in some form) that were similar to the BCRA. In other words, soft money states did not appear to make the transition to BCRA as well as hard money states. Figures 1 and 2 compare total party spending (non-media) in non-battleground states in 2000 and 2004. For Democrats, Figure 1 demonstrates that parties in soft money states experienced a significant decline in spending for federal elections. These 16 Democratic state parties spent \$87 million in 2000 but only \$38 million in 2004. In contrast, states that had laws limiting party fundraising experienced an increase in party spending. These 24 states spent \$25 million in 2000 and roughly \$52 million in 2004. These differences suggest that the BCRA may have a different impact on state parties depending on how much state laws vary from BCRA hard money limits. In states where the party was accustomed to raising soft money for state elections, the Democratic organizations appear to have greater difficulty campaigning in federal elections under the BCRA.

[Insert Figures 1 and 2 here]

For Republicans, the transition to BCRA did not appear as difficult for soft money states. In states with no limits, the parties spent slightly more in 2004 than in 2000 (see Figure 2). However, in states where the campaign finance laws appeared more similar to the BCRA, Republican parties increased their spending even more, from \$31.9 million to \$53.4 million. It appears, then, that the BCRA might have contingent effects on state parties, hurting Democratic parties more than Republican state parties. Among Democratic parties, the difficulties appear greater in states with few limits on party fundraising, i.e., soft money states.

Conclusion

In the first year of presidential elections under the BCRA, the parties were able to augment voter mobilization strategies, continuing a trend which developed in the 1990s. They deployed expensive new technologies to identify and contact likely partisan voters. With the ban on national party soft money, state parties no longer sponsor issue ads, which were carried out under the direction and resources of the national committees. State parties, however, continue to receive transfers of hard money from the national parties to support state party mobilization efforts, though these amounts are targeted more heavily to battleground states than in the past.

Republicans state parties have made the transition to BCRA better than Democrats. They raised more money and outspent them on voter mobilization activities in 2004. Democrats, however, pursued a dual strategy that relied heavily on outside 527 organizations to campaign for the Democratic presidential nominee. If 527 activities are included (funded largely with soft money), Democratic partisans may have outspent Republicans. Democrats, however, probably suffered from their inability to coordinate activities.

In assessing the impact of BCRA on state parties, one important distinction is whether the party organization operated in a battleground state. It appears that state parties in battleground states were equally active in 2000, if not more so, than in the previous election. In non-battleground states, however, especially where state campaign finance laws allow soft money, the parties fared worse than parties in states with laws similar to the BCRA. This was particularly true for Democrats parties, which probably rely more heavily on soft money than their Republican counterparts. The use of Levin funds -- which was supposed to allow parties to use some soft money for grassroots activity -- was not exploited, primarily because of the complexity of accounting for these funds to the FEC.

Among the many important questions in anticipation of the next election is whether Republicans will increase their advantages over Democratic state parties. Another is whether Democrats will continue to pursue a dual strategy, relying on both 527 group soft money and state party hard money to mobilize voters. Much depends on decisions made by the FEC regarding the status of 527 organizations, and whether they will be regulated like PACs, which would compel them to use hard money. One concern for Democrats going into the next election is whether the national and state parties will inherit the voter data and campaign expertise of 527 groups like ACT.

Finally, it is worth considered the relative health of the national and state parties. The national parties broke all records for raising hard money. While state parties held their own collectively, it cannot be said that they fared as well as their national committee counterparts. It remains to be seen whether they can raise hard money from national

constituencies that may prefer to give to federal candidates and national committees in Washington. Further research should explore whether the constraints of hard money fundraising for federal elections affects the breadth of state party activities in state elections, especially where state laws differ considerably from the BCRA.

**Table 1. State Party Spending in Presidential Elections, 1992-2004
(in millions of dollars)**

	1992	1996	2000	2004
Republicans				
Media	0	26	97	1
Mobil & Grassroots	7	16	39	71
Administrative	32	53	103	122
Unidentified	2	4	6	4
Total	42	99	244	198
Democrats				
Media	3	73	139	3
Mobil & Grassroots	12	16	51	62
Administrative	36	54	107	108
Unidentified	3	7	32	6
Total	54	150	329	179

Data Source: Federal Election Commission; coded by author

**Table 2. State Party Expenditures on Voter Mobilization (in millions)
 Battleground vs Non-Battleground, 1992-2004**

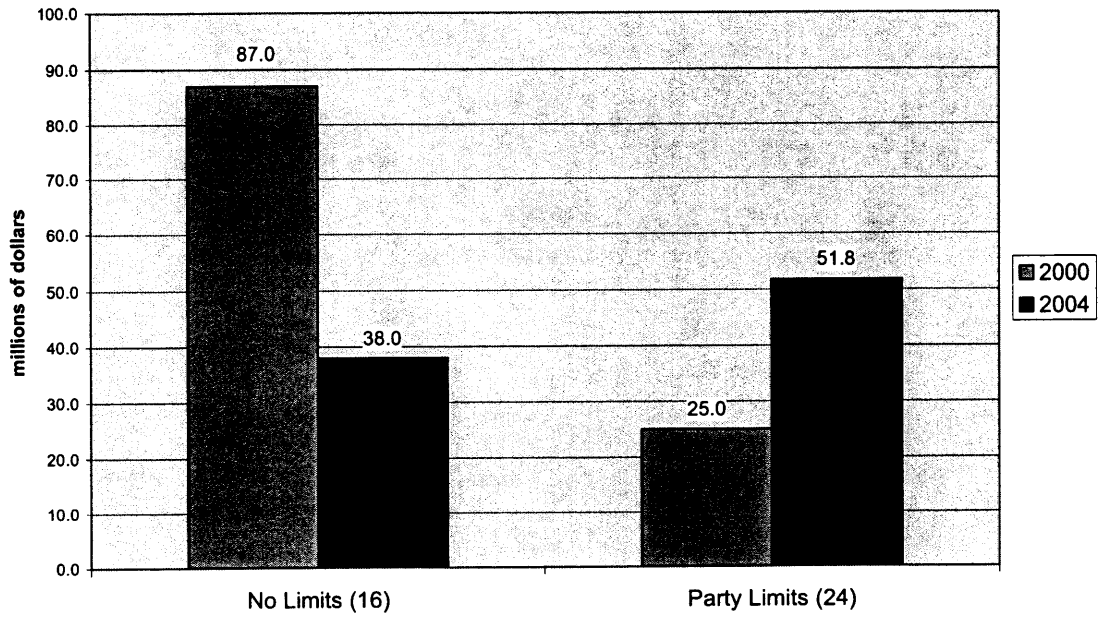
		Non- Battleground	Battleground	% Battleground
Republicans				
	1992	5	2	27%
	1996	11	5	32%
	2000	25	14	35%
	2004	40	31	43%
Democrats				
	1992	9	3	23%
	1996	12	5	29%
	2000	26	25	48%
	2004	25	37	59%

Data Source: Federal Election Commission; coded by author

Note: Battleground defined here as the same 10 states in which major party candidates finished 5 or fewer percentage points in both 2000 and 2004.

These states include: FL, IA, OH, MI, MN, NH, NV, OR, PA, WI

**Figure 1. Democratic State Party Spending in Non-Battleground States
2000 and 2004**



**Figure 2. Republican State Party Spending in Non-Battleground States
2000 and 2004**

