

# A Review of Publicly Funded Campaign Finance Systems

## **Introduction - The Need For Change:**

Prof. Robert MacDermid's 2016 Campaign Fairness Report points out that "Municipal elections should be fair for all candidates. Those getting financial support from the development industry are more likely to be elected than those who don't get developer money. That's not fair. The playing field should be levelled for those candidates who prioritize the protection of the environment, natural heritage, and the concerns of the electorate over corporate interests... Given the challenges Ontario faces with traffic congestion and the environmental and social impacts of poorly planned growth, the province should take steps to reduce the influence of the development community on planning decisions."

"Citizen engagement in municipal elections is on life support and urgent care is needed. In the 2014 election, less than 0.20% of the population of the 13 municipalities (around Lake Simcoe) contributed an amount greater than \$100 to a candidate. Outside of candidate self-financing, 53% of the total remaining disclosed money was from corporations and 46% was from individuals... This low level of citizen engagement and contributions tells us that change is needed now to reverse the disinterest and disconnection from local government."

In those 13 municipalities, "almost 60% of the corporate contributions to candidates came from outside the municipality where the candidate was running. Furthermore, 73% of all of the money from the development industry came from outside the municipality. This suggests an extraordinary level of influence on local politics by those who live elsewhere."<sup>1</sup>

In 2016, the Wynn Liberals banned corporate contributions from provincial and municipal campaigns, with the exception of third-party advertisers. The flow of corporate dollars into campaigns continued unabated. Studies in Toronto<sup>2</sup> and Ottawa<sup>3</sup> have shown corporate donations funnelling through company executives and their families.

So there is a demonstrated need in Ontario to reduce the influence of big money and corporate donations, improve citizen engagement and encourage candidates to fundraise among small donors. In North America, various forms of public finance are in use: rebates, tax credits, vouchers, block grants, dollar matching and hybrid systems. Which is best suited for Ontario's municipalities?

## **Ontario's Contribution Rebates:**

The Municipal Elections Act currently allows for the public funding of municipal campaigns using rebates. There were eight municipalities offering rebates in the 2018 elections: Ajax, Markham, Vaughan, Oakville, Mississauga, Whitby, Ottawa and Toronto.<sup>4</sup> (Ajax, Markham, Vaughan and Oakville offered them only to donors from within the municipality. In Ajax and Vaughan, only to qualified voters).<sup>5</sup> In 2014, when it was legal for corporations to make donations directly to candidates, the percentage of total donations coming from individuals in Markham was 61% and in Vaughan, 51% while the average from all nine GTA municipalities studied was 39%. That suggests a connection between the paying of rebates and increased donations from individuals there.

In Ajax, which has offered rebates since 2000<sup>6</sup>, the program offered a 75% rebate on contributions of from \$20 to \$225. Its aims were to reduce political barriers to candidates and

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<sup>1</sup> [Campaign Fairness Report, 2016](#)

<sup>2</sup> [Toronto Star](#)

<sup>3</sup> [Horizon Ottawa](#)

<sup>4</sup> [Burlington Mayor Marianne Meed Ward](#)

<sup>5</sup> [Campaign Fairness Report 2016](#)

<sup>6</sup> [Ajax Contribution Rebate Program](#)

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increase civic engagement of voters. But the municipal clerk found no influence on total donations as compared to previous elections when rebates were not offered. So although the program cost a mere \$23,000 in the 2018 elections, Staff recommended discontinuing the program.

Markham offers rebates of 75% for contributions of \$50 to \$300, with the rebate percentage declining to 30% as the contributed amount approaches \$1,200.<sup>7</sup> In 2018, the program cost Markham taxpayers \$550,000, or \$2.71 per elector. That was the highest cost per elector of the eight municipalities which offered rebates. But with an upper limit of \$1,200, the program is clearly not intended to encourage small donors. Which begs the question - why bother?

Indeed, a system of rebates or tax credits, combined with higher contribution limits, can enable the continuation of large donations, like those seen in provincial campaigns. These systems constitute a barrier to entry for candidates without access to wealthy donors. And they encourage candidates with big money connections to focus their fundraising efforts on large donations, reducing the need for fundraising and connecting with small donors and ordinary voters.

Ottawa's rebate program pays 50% for contributions of from \$25 to \$100, with the rebate percentage declining on larger contributions, to a maximum rebate of \$75.<sup>8</sup> In Ottawa's 2018 municipal election, successful campaigns received, on average, 46% of their donations from the development industry.<sup>9</sup>

Toronto's rebate program repays 75% for contributions of \$25 to \$300, with the rebate percentage declining on larger contributions, to a maximum rebate of \$1,000 on contributions of \$2,275 and over. So this is not a rebate system aimed at encouraging small donors. And rebates are available even to out-of-city contributors, with city taxpayers picking up the tab<sup>10</sup>. Although corporate donations were banned from Toronto campaigns in 2009, a 2016 Toronto Star report found them still looming large at City Hall.<sup>11</sup>

Quebec in the wake of the Charbonneau Commission still has no mechanism for the public funding of municipal elections, but the contribution limit is a low \$200 per candidate and the cap on self-funding is only \$1,000.<sup>12</sup>

South of the border, "states such as Minnesota, Virginia, and Oregon have offered small contributors a rebate or tax credit, usually with a \$50 cap. Tallahassee has implemented a similar reform. Although participation in these programs has not been high enough to fundamentally change privately funded elections, they have increased political participation and lowered barriers to running for office."<sup>13</sup>

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<sup>7</sup> [Markham Contribution Rebate Program](#)

<sup>8</sup> [Ottawa.ca](#)

<sup>9</sup> [Follow The Money report pg. 3](#)

<sup>10</sup> [Toronto Rebate Program](#)

<sup>11</sup> [Toronto Star, April 2016](#)

<sup>12</sup> [Elections Quebec](#)

<sup>13</sup> [Brennan Center Report: Components of an Effective Public Financing Law](#)

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### **Tax Credits and Per-Vote Subsidies:**

Would the tax credits currently in use provincially provide a model for use at the municipal level? Ontario offers tax credits of 75% of the first \$372, plus 50% of the next \$868, plus 33% of the next \$1,581. So the maximum credit is \$1,240, which is payable for contributions totalling \$2,821.<sup>14</sup>

Bill 254, Protecting Ontario Elections Act, 2021 increased per-contributor limits to: \$3,300 to party, \$3,300 to riding association and \$3,300 to candidate. (Former limits: \$1,200 to party, \$1,200 to RA, \$1,200 to candidate). Per vote subsidies will continue until Jan. 2025 and increase from \$1.81 to \$2.54 annually, paying \$5.9M into PC coffers and \$672,000 to GPO this year.<sup>15</sup> The bill is expected to disproportionately benefit the PCs, who have more big money donors than their rivals. The bill controversially reduced third-party advertising by extending from six months to twelve the period of third-party spending restrictions. (The controversy was over Ford's use of the Notwithstanding Clause to overcome the Judiciary's finding that the measure was unconstitutional).

For Ontario's 2018 provincial elections, the total per-contributor limit was \$3,600. That limit was clearly insufficient to restrain big donors, as is visible in the plethora of scandals rooted in undue corporate influence over the last three years (e.g. Highway 413, the Holland Marsh Highway, rezoning the Duffins Creek Wetland). In the words of Democracy Watch's Duff Conacher: "A huge amount of taxpayer money is handed out to the wealthy because they get half their large donation back."<sup>16</sup> With contribution limits almost tripled heading into the 2022 elections, there is an ever increasing need for reform of provincial elections finance. This is not an example worth emulating for municipal elections.

### **Donations Transparency:**

No example could be found in Ontario of a database providing a view prior to voting day of campaign donations. The technology exists, but the enabling legislation does not.

Most U.S. municipalities reviewed here have such a database, allowing journalists, community organizations and voters a view of campaign spending and contributor information, including corporate ties, for upcoming elections. An example from Connecticut of the granularity of contributor information reporting: "Name, Address, Lobbyist Status, Principal Occupation and Employer to the extent known, a Statement Indicating Whether the Contributor or Any Business Associated with Contributor Has a Contract for More Than \$5,000 With the Town", to be reported by designated deadlines prior to the election.<sup>17</sup>

Together, donations transparency and small donor public finance have freed candidates from dependency on special interest money. In Ontario, a campaign financial statement must be filed by the last Friday in March following the election, i.e. more than five months after voting day.<sup>18</sup> That is far too late. To provide useful transparency, donations information must be visible to voters, journalists and community organizations well before voting day, as is the case in New York City, Los Angeles and many other U.S. cities, counties and states.<sup>19</sup>

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<sup>14</sup> [Ontario Ministry of Finance](#)

<sup>15</sup> [Politics Today](#)

<sup>16</sup> [Toronto Star](#)

<sup>17</sup> [Connecticut Guide for Municipal Candidates, pp. 52, 58](#)

<sup>18</sup> [2018 Candidates' Guide](#)

<sup>19</sup> Databases for: [Seattle](#), [Connecticut](#), [DC](#), [Berkeley](#), [Montgomery County, California](#), [NYC](#), [Chapel Hill](#), [FEC](#)

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Think of this as a “stick and carrot” approach. The stick is donations transparency, punishing candidates at the polls when they are seen to be too much beholden to big money. The Brennan Center For Justice describes the carrot: “Small donor public financing incentivizes candidates to seek out many supporters, not just a few big donors. It enables more candidates from diverse backgrounds to run and it amplifies the voices of regular people. Designed right, small donor public financing also permits candidates to raise and spend what they need to compete”.<sup>20</sup> “Advocates of public financing argue that despite the up-front cost, public funding ultimately saves taxpayers’ money by reducing wasteful government spending that results from the influence of campaign donors.”<sup>21</sup>

### **Small Donor Public Funding:**

In the U.S., at last count there were 27 states, counties and municipalities using public funding to finance campaigns.<sup>22</sup> Most small donor programs share these characteristics:

- qualifying thresholds: to ensure that only serious, competitive candidates have access to public funds, all candidates must first demonstrate public support for their campaign by collecting a minimum number and dollar amount of donations.
- reduced contribution limits: candidates who choose to participate in a small donor funding program must agree to limit the maximum size of contribution they will accept, to keep the big money out.
- a cap on public funds: each participating candidate can earn public funds up to a limit, but can continue raising private funds thereafter.

### **Vouchers:**

In a voucher system, “citizens receive vouchers they can use to direct public funds to the candidates they favour. Rather than seek big-money donations from a select few donors, politicians instead have the incentive to focus on encouraging many potential small donors to use their vouchers. In 2017, the City of Seattle pioneered this kind of system. Under its ‘Democracy Voucher’ program, each voter receives four \$25 vouchers and qualifying candidates are allowed to accumulate up to \$150,000 in vouchers. The program has diversified the campaign donor pool to better reflect the demographics of Seattle residents, and lower-income residents are making first-time donations, according to public voter participation statistics.”<sup>23</sup> (The greatest number of donors were middle-income and aged 30 to 39, while the greatest number of donors to the mayoral race, which did not run a voucher program, had income above \$150,000 and were aged 50 to 64). The voucher program costs the average homeowner about \$11.50 per year.

The voucher program was made available to candidates for the two council seats being contested, as well as for the office of City Attorney. The winners of all three offices had chosen to participate in the program.

While Seattle maintains a contributor database for upcoming elections,<sup>24</sup> a Seattle Times analysis shows that combining donations transparency with the voucher program has failed to keep big money out of Seattle’s primaries. Although there was a \$500 maximum on contributions, PACs (Political Action Committees) were under no such limitation, so Amazon

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<sup>20</sup> [Brennan Center For Justice](#)

<sup>21</sup> ABC News Video: Obama in 2006 Said Public Financing Saves Taxpayers Money, ( ABC News, June 19, 2008)

<sup>22</sup> [Demos, 2017](#)

<sup>23</sup> [Seattle Times, Oct.13, 2017](#)

<sup>24</sup> [Seattle Ethics and Elections Commission Database](#)

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dumped \$250,000 into a PAC (and \$1.5M the following year)<sup>25</sup>, with other corporations and unions following suit.<sup>26</sup>

In Ontario, corporations may contribute up to \$5,000 to third-party advertisers, whose spending limit in any given municipality is \$5,000 plus \$.05 per elector, to a maximum of \$25,000<sup>27</sup>. This is on par with candidate spending in Ottawa, where in 2018 the spend was on average \$24,000 per elected councillor.<sup>28</sup> Is it fair that third-parties sponsored by corporations and the wealthy should be allowed a voice equal to that of candidates?

If Ontario were to institute a voucher system like Seattle's - or any other form of public funding - we might find it just as difficult to keep big money in check unless corporate contributions to third-party advertisers were significantly reduced from current levels.

Albuquerque, NM voted in November, 2019 against a charter amendment to introduce "Democracy Dollars" (vouchers) to city elections. Opposed by the Albuquerque Journal, the Proposition would have made Albuquerque only the second jurisdiction in the U.S. (after Seattle) to adopt a voucher program.

### **Block Grants:**

From 2006 to 2010, Portland, OR tried a block grant system.<sup>29</sup> The system provided all the funding a candidate needed for their campaign and included a spending cap. To qualify, the candidate must have raised small donations from a broad base of people. "Portland stands out among big cities in that all of its councillors are elected at-large, and the council is relatively small - just four councillors plus the mayor."

One of the candidates and her campaign consultant were convicted of falsifying donations signatures and other felony offences, resulting in much negative publicity for the program. As a result, in 2010 residents voted to terminate the program of publicly funded grants. In 2016, a new system of public finance was inaugurated, using 6:1 dollar matching based on the New York City model.

Connecticut's Citizens' Election Program, started in 2008, pays qualifying candidates for State Senate grants of up to \$75,000 for the primary and up to \$85,000 for the general election. To qualify, candidates must gather 150 contributions of \$5 to \$100. 72% of eligible candidates opted in to the program in the 2016 election.<sup>30</sup> A 2013 study found that public financing allowed legislators to spend more time interacting with constituents, increased the number of donors, reduced lobbyists' influence on legislators, increased representatives' diversity and improved alignment between legislation and the public's preferences.<sup>31</sup>

Washington, D.C. was a classic example of big money flooding a jurisdiction from outside its borders. A 2016 study<sup>32</sup> found that less than 40% of funds came from DC residents. In response, the Citizens Fair Elections Act, which took effect for the 2020 elections, established

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<sup>25</sup> [Clean Campaigns Act, 2019](#)

<sup>26</sup> [The Columbian, July 16 2021](#)

<sup>27</sup> <https://www.ontario.ca/document/2018-guide-third-party-advertisers/finance-rules>

<sup>28</sup> <https://development.money/wp-content/uploads/2020/05/Follow-The-Money.pdf>

<sup>29</sup> [SSRN.com](#)

<sup>30</sup> [Center For American Progress](#)

<sup>31</sup> [Demos, 2013](#)

<sup>32</sup> [Empowering Small Donors in DC Elections](#)

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a hybrid small donor program offering \$40,000 grants, combined with matching funds. Small donor contributions of \$50 or less are matched at 5:1 for qualifying council candidates.<sup>33</sup> A 2016 poll found that 80% of residents favoured the system. We await a study of the effectiveness of DC's new system.

Santa Fe, NM also combines grants with dollar matching. Mayoral candidates who qualify can receive a \$60,000 grant and 1:1 dollar matching of \$30,000 in donations. Their campaign spending is capped at \$120,000. Qualifying council candidates can receive a \$15,000 grant and 1:1 dollar matching on \$3,750 for a spending cap of \$22,500.<sup>34</sup>

In Santa Fe's 2014 mayoral election, the top three candidates participated in the city's public campaign finance program. But the winner benefited from PAC spending in his favour of over \$64,000. As a result of this imbalance, in the 2018 mayoral election only one of five candidates in the race participated in the program. "Sixty thousand dollars in public financing was not enough to win in the eyes of the other candidates."<sup>35</sup> Ultimately, "the privately financed campaign of Mayor Alan Webber...was more than five times richer than the \$60,000 allotment received by runner-up Ron Trujillo, the only publicly financed candidate."<sup>36</sup> As has been the experience in L.A. and NYC, dollar matching ratios of 1:1, 2:1 and 4:1 have failed to produce aimed-for results, while the ratio of \$6 in public funds for every \$1 raised privately allowed candidates to run competitive campaigns. Another factor in Santa Fe was the lack of donations transparency, with contributor information only visible to voters after the election.

### **Dollar Matching:**

Berkeley, CA created a voluntary matching funds program in 2016, available to mayoral or Council candidates. Contributions above \$50 are banned. "The ultimate goal of the program is to foster community support for candidates, rather than solicit big-money donors. It also seeks to remove barriers to entry for potential candidates."<sup>37</sup> The program offers 6-to-1 matching funds on qualifying contributions up to \$50. Qualifying candidates can receive up to \$43,000 in public funds (Council candidates) or \$129,000 (mayoral candidates).<sup>38</sup> Public funds are disbursed from a Fair Elections Fund, at a cost of \$4.00 per resident.<sup>39</sup> Berkeley maintains a Public Portal for Lobbyist and Campaign Finance Disclosure for past and upcoming elections.<sup>40</sup>

The program was judged a success after Berkeley's 2018 elections. All four of the council seats up for grabs were won by candidates who had opted in to the program. (Ten of fourteen candidates had opted in). Public financing made up two-thirds of all campaign funding in the 2018 elections, displacing PAC spending firmly into the back seat.

Portland, OR, having tried and rejected a program of block grants a decade earlier, adopted a voluntary matching funds program for the elections of 2019 and 2020. Based on NYC's tried-and-true program that has been running for over 30 years, qualifying candidates have contributions of up to \$50 matched at a rate of 6:1, in exchange for agreeing to limit

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<sup>33</sup> [Ibid](#)

<sup>34</sup> [Santa Fe New Mexican, Dec 12, 2018](#)

<sup>35</sup> [Albuquerque Journal, Nov. 30, 2017](#)

<sup>36</sup> [AP News, Aug. 20, 2018](#)

<sup>37</sup> [StampStampede.org](#)

<sup>38</sup> [Berkeley Public Financing Program](#)

<sup>39</sup> [Berkeley Funding For Public Campaign Finance](#)

<sup>40</sup> [Berkeley Public Portal](#)

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contributions to \$250 and accept expenditure limits.<sup>41</sup> There is also a donations transparency requirement that a candidate's top five donors be identified on their website during the campaign.<sup>42</sup> Portland limits PAC contributions to \$10,000 per election.<sup>43</sup>

Montgomery County, Maryland ran a matching funds program for the 2018 election cycle, "to encourage greater voter participation in County elections, increase opportunities for more residents to run for office, and reduce the influence of large contributions from businesses, political action groups, and other large organizations."<sup>44</sup> The maximum allowable contribution was \$150.<sup>45</sup> For Council candidates, contributed funds were matched at 1:4 for the first \$50, 1:3 for the next \$50 and 1:2 for the final \$50.

The program was successful, in that "Small donations accounted for 94 percent of total fundraising dollars raised by candidates receiving matching funds, versus only 8 percent for those not participating in the program."<sup>46</sup> Donations transparency is provided via the Maryland Campaign Reporting Information System.<sup>47</sup> Of the 10 elected offices eligible to participate, seven were attained by a candidate participating in the program.

In Los Angeles, dollar matching ratios of 1:1, 2:1 and 4:1 have been tried and found to be insufficient to increase the role of small donors. After the 2015 election, the ratio was upped to 6:1 on the first \$114 donated, with the stipulation that candidates must participate in a public debate.<sup>48</sup> "In Los Angeles...only \$114 can be matched per individual donor. Candidates who participate in the Los Angeles program are limited to spending \$537,000 in primary elections and \$448,000 in general elections. Candidates can also only self-fund up to \$34,800 per election cycle."<sup>49</sup>

For LA's 2020 elections, contributions to candidates totalled \$9.2M and matching funds were \$2.0M, but both were outpaced by independent (PAC) spending of \$19.6M.<sup>50</sup>

"On April 3, 2020, New York State enacted...a voluntary program of small donor public financing for its elections. This program will provide a multiple match on small contributions from New York residents to candidates who opt in."<sup>51</sup> "The new public financing program will allow candidates for state legislature and statewide offices who opt in to receive a multiple match on small contributions (\$5 to \$250) they raise from constituents, if they first prove their eligibility and abide by the program's rules. The size of the match and maximum amount of public matching funds a candidate can receive vary by office. If they reach their public financing maximum, candidates may continue to raise unmatched private contributions. The

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<sup>41</sup> [OPB, Dec. 14, 2016](#)

<sup>42</sup> [OPB, Apr. 21, 2020](#)

<sup>43</sup> [OPB, Nov. 6, 2018](#)

<sup>44</sup> [Montgomery County Public Election Fund](#)

<sup>45</sup> [CampaignLegal.org](#)

<sup>46</sup> [Maryland PIRG Foundation](#)

<sup>47</sup> [Maryland Campaign Reporting Information System](#)

<sup>48</sup> [Common Cause](#)

<sup>49</sup> [Open Secrets, June 21, 2021](#)

<sup>50</sup> [LA City Ethics Commission](#)

<sup>51</sup> [New York State's Small Donor Public Financing System](#)

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new law reduces contribution limits for all candidates, whether or not they participate in public financing.”<sup>52</sup> The program starts in November, 2022.

### **Where It All Started - New York City:**

In 1987, in response to a corruption scandal, NYC introduced a system of donor transparency and small donor matching funds. The system evolved over the years to its present form, which has inspired similar systems in Los Angeles, Berkeley, Portland, New York State and federally in the For The People Act, passed this year in the U.S. House of Representatives.

Participation is voluntary and candidates must agree to expenditure limits. From 2009 until the rate was increased in 2018, the system featured matching of private funds to public at the rate of 1:6 for donations of up to \$175. Council candidates must first qualify by collecting 75 contributions, totalling at least \$5,000. Public funds available are capped at 55% of the candidate’s spending maximum.

The system has robust participation levels, has increased the supply of and demand for small donors, made challenger campaigns more competitive and reduced the influence of big money and corporate money in campaigns.<sup>53</sup>

A description of how NYC’s system could be implemented in Ontario is available in this [comparative study](#).

### **Conclusions:**

Rebates and tax credits, as used now in Ontario, have given rise to well documented examples of developer funded politics and undue corporate influence.

Vouchers, while improving some aspects of Seattle’s elections, failed to keep the big money out. Ontario’s current rules impose minimal restraints on third-party advertisers. Would vouchers work any better here?

Block grants missed the mark in Portland, but have been successful for over a decade in Connecticut.

A hybrid system of grants and dollar matching failed in Santa Fe, but the jury is still out on DC’s attempt last year.

Dollar matching has been successful in Berkeley, Montgomery County and NYC. Time will tell how well it works in New York State next year.

Donations transparency was present everywhere that publicly funded campaign finance proved an effective antidote to big money politics: Connecticut, Berkeley, Montgomery County and NYC.

All of the small donor systems reviewed here have potential to be major advances over the rebates and tax credits now offered in Ontario. Yet these are relatively recent systems. The oldest, NYC’s dollar-matching, did not cause a majority of incumbent candidates to opt in until the dollar match was sweetened to 6:1 for the elections of 2009 - 2013. So further evolution seems likely as these systems mature. Rather than attempt to pick a winner at this early stage, Ontario could establish donations transparency, then set out some basic guidelines and resources to assist municipalities in choosing their own form of small donor public funding.

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<sup>52</sup> *ibid*

<sup>53</sup> [“Small Donor Matching Funds: The NYC Election Experience”](#)