

# 1993 GUBERNATORIAL COST INDEX REPORT



DECEMBER, 1992



State of New Jersey

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Dear Members of the Legislature:

Pursuant to its statutory mandate, the Commission presents to you the first "Gubernatorial Cost Index Report." This document is another in a long line of pioneering steps in New Jersey's Gubernatorial Public Financing Program.

In prior years the Commission reported to the Legislature on the costs of New Jersey gubernatorial campaigns and the adequacy of the limits and thresholds contained within the public financing law. As a result of the 1989 amendments to the New Jersey Campaign Contributions and Expenditures Reporting Act (N.J.S.A. 19:44A-1, et seq.), the Commission is required to adjust those limits and thresholds based upon the Commission's determination of an index of costs relevant to gubernatorial campaigns.

The Commission believes that the campaign cost index and the adjustment process are not only innovative but unique to New Jersey. The cost index insures that the Gubernatorial Public Financing Program remains responsive to changes in the economy and therefore to the needs of gubernatorial candidates. The program therefore serves the interest of the citizens of New Jersey.

With this report, the Commission takes another stride in maintaining the national reputation of New Jersey's Gubernatorial Public Financing Program.

Owen V. McNany, III, Chairman

Stanley G. Bedford, Commissioner

David Linett, Commissioner

## ACKNOWLEDGEMENTS

The preparation of this first Gubernatorial Cost Index Report rests upon past as well as current Commission efforts. The historical analysis by the Commission and the staff of the gubernatorial public financing program of gubernatorial elections from 1977 through 1989 was the necessary basis for this work. The Commission therefore wishes to acknowledge the efforts of all those staff members, past and present, whose work is reflected here.

Director of Public Financing and Associate Legal Director Nedda Gold Massar authored this study. Her outstanding work administering the 1989 program as well as her efforts on this report and her analysis of the 1989 election previously published by the Commission are major contributions to the success of New Jersey's nationally acclaimed gubernatorial public financing law.

The Commission's 1988 "Gubernatorial Cost Analysis Report" prepared by Commission Deputy Director Jeffrey M. Brindle was the theoretical and analytical foundation for this document. His support and the review, editing and continuous guidance provided by Executive Director Frederick M. Herrmann and Legal Director Gregory E. Nagy made this report possible.

Economic data was graciously provided to the Commission by the staff of the Office of Economic Research of the New Jersey Department of Commerce. Valuable historical information and direction were supplied by Rodney Nebocat and Robert Coen of McCann-Erickson, Inc.

Without the talents of Senior Secretary Josephine Hall, this text could never have been produced in its polished, professional fashion.

Additional research efforts were provided by Commission Researcher Steven B. Kimmelman. Thanks also must go to Ruth Ford for her clerical support and to Elizabeth Michael for her invaluable assistance.

For further information about gubernatorial public financing in New Jersey and related campaign finance issues, the Commission recommends the "COGEL Campaign Financing and Lobbying Bibliography" compiled by Executive Director Herrmann.

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## 1993 GUBERNATORIAL COST INDEX REPORT

### INTRODUCTION

New Jersey's Gubernatorial Public Financing Program was at the forefront of campaign finance reform when it operated in 1977 as the first such State program in the nation. The program remains crucial in New Jersey where it continues to fulfill the statutory mandate to provide public funds promptly to qualified candidates so that they may conduct their campaigns free from the improper influence of large contributions and so that candidates of limited financial means may seek election to the office of Governor.

Amendments contained in legislation enacted on January 21, 1989, have further contributed to the nationally-recognized and innovative reputation of New Jersey's gubernatorial public financing program. As a response to information developed by the Commission concerning the costs of gubernatorial campaigning in New Jersey over the period 1981 to 1989 and contained in the Commission's June, 1988 "Gubernatorial Cost Analysis Report," not only did the new law adjust upward for 1989 the various limits and thresholds contained in the statute to account for inflation, but the amendments also mandated that the Commission establish a weighted, quadrennial campaign cost adjustment mechanism for future publicly-financed gubernatorial elections. This action was a pioneering and major accomplishment.

For the gubernatorial elections of 1985 and 1989 , the statute had required the Commission to report to the Legislature on the adequacy of the contribution and expenditure limits and to provide recommendations, if economic conditions dictated, for changing those limits. To make the gubernatorial public financing program responsive to the economy therefore required intervention by the Legislature to amend the statutory limits and thresholds.

Based upon the model established in the Commission's 1988 Report, the new statutory language makes the Commission responsible for the production of:

an index reflecting the changes occurring in the general level of prices of particular goods and services, including but not limited to goods and services within such categories of expenditure as mass media and other forms of public communication, personnel, rent, office supplies and equipment, data processing, utilities, travel and entertainment, and legal and accounting services, directly affecting the overall costs of election campaigning in this State. The index shall be weighted in accordance with the impact in the preceding general election for the office of Governor of the respective prices of each of those several goods and services upon those overall costs. (N.J.S.A. 19:44A-7.1).

The following limits and thresholds in the law are to be automatically adjusted by the new mechanism and will therefore reflect changes in the economy without relying upon legislative action prior to every publicly-financed gubernatorial election:

- the contribution limit,
- the primary and general election public funds caps,
- the candidate qualification threshold,
- the amount of private contributions within the qualification threshold which is not subject to match, and;
- the primary and general election expenditure limits.

This campaign cost index is a refinement of the prior Commission recommendation to adjust the law by the Consumer Price Index (CPI). Gubernatorial candidates are required to be advised by ELEC in December of the year before a gubernatorial election of the precise limits which their campaigns will be required to observe. The automatic adjustment process introduces certainty and financial responsiveness into the gubernatorial public financing cycle.

Pursuant to this new statutory mandate, and using the methodology described in the "Gubernatorial Cost Analysis Report" of June, 1988 , the Commission has determined that for the 1993 gubernatorial primary and general elections the campaign cost index multiplier will be 1.1791. Using established indices to measure the changes since the last gubernatorial election, the

Commission has therefore concluded that costs relevant to gubernatorial campaigns have risen in New Jersey by 17.91 percent in the period 1989 to 1993.

Applying the cost index to the various public financing thresholds and caps results in the following changes for 1993:

Contribution Limit:	\$ 1,800.00
Qualification Threshold:	177,000.00
Amount for which no public funds are awarded:	59,000.00
Primary Expenditure Limit:	2,600,000.00
Primary Public Fund Cap:	1,600,000.00
General Expenditure Limit:	5,900,000.00
General Public Fund Cap:	\$3,900,000.00

This report will describe the steps taken to determine the campaign cost index for 1993.



**THE GUBERNATORIAL CAMPAIGN AS CONSUMER:**

**COMPONENTS OF THE INDEX**

Any attempt to measure or quantify the magnitude of change in costs associated with gubernatorial campaigning in order to produce a weighted, campaign cost index first requires that expenditure patterns of campaigns be analyzed. Each gubernatorial campaign is, after all, a consumer of goods and services whose purchases can be studied and quantified.

Data provided by gubernatorial campaigns since 1973 has enabled the Commission to examine their spending patterns and to identify trends in their behavior. Most notable has been the steady shift since 1973 to concentration of campaign spending on mass communications to voters and away from spending on administrative, travel, and fundraising goods and services (Table I). The New Jersey gubernatorial campaign consumer now spends approximately 80 percent of its campaign dollars on efforts to communicate its message to voters. In 1989, the campaign consumer spent less than 20 percent of total campaign funds on items other than mass communications (Table I).

More specifically, in 1989 the gubernatorial general election campaigns spent 76.6 percent of total campaign spending on the purchase of broadcast media time. This 1989 level of spending on media purchases was up from 72.8 percent in the 1985 general election (Table II). This purchasing behavior continued trends observed in 1984 and 1988 by the Commission:

The accent on spending for broadcast media has been increasingly evident since 1977. In fact, it was in this general election that spending on broadcast media first occupied a greater proportion of communications expenditures than all the other types of media expenditures combined. Needless to say, within this broad category of communications spending, a definite trend has emerged toward the use of television and radio and advertising to communicate the candidate's message to the voters. <sup>1</sup>

The Commission had also noted the "near demise of the two print media, i.e. , newspapers and billboards, as vehicles for communicating the candidates' messages " and that the percentage of campaign spending on administration had experienced "a notable decrease " between 1973 and 1981.<sup>2</sup> Evidence of these spending patterns continued in 1985 and 1989 gubernatorial general election campaign spending.

Analysis of the 1985 gubernatorial general election campaigns' spending demonstrated the existence of two key spending components , mass communications expenditures and other campaign costs. These components formed the basis of the weighted formula advanced in the 1988 "Gubernatorial Cost Analysis Report" for calculating the quadrennial change in gubernatorial campaign costs.<sup>3</sup> Similar analysis of spending by the 1989 gubernatorial general election campaigns revealed parallel spending patterns.<sup>4</sup>

Based upon the trends observed and the consistent behavior of the gubernatorial campaign consumers of 1985 and 1989, the Commission has assumed for the purpose of creating the campaign cost index for 1993, that the mix of mass communication and non-communication expenditures components for 1993 campaigns will be similar. The Commission has therefore used the mix of communication and non-communication expenditures exhibited in the 1989 gubernatorial general election as the basis for computing the campaign cost index:

Mass communications expenditures:	82 percent
Other campaign expenditures:	<u>18</u> percent
	100 percent

Having identified the magnitude of spending upon and therefore the relative importance of the two basic components of gubernatorial campaign spending, i.e. , communication costs and other campaign costs, the Commission next examined changes in costs of those elements in order to produce the campaign cost index for 1993 campaigns.

## **COST CHANGES: COMMUNICATION COMPONENT**

The New Jersey gubernatorial campaign consumer purchases a variety of media in its attempt to reach the New Jersey electorate. Of the 82 percent of total campaign expenditures devoted to mass communication, television and radio advertising and direct mail now account for very nearly all the communications component dollars spent by gubernatorial campaigns.

Therefore, in order to determine the magnitude of changes since 1989 of costs associated with the mass communication component of the campaign cost index, it was necessary to locate an established index of costs relevant to advertising in various media. Media advertising costs for television, radio, newspapers, magazines, outdoor media, and direct mail are compiled and indexed by McCann-Erickson, Inc. , New York City.<sup>5</sup> McCann-Erickson has maintained indices of advertising costs since 1945.

McCann-Erickson data formed the basis for the Commission's analysis and subsequent observations in both the 1984<sup>6</sup> and 1988<sup>7</sup> gubernatorial campaign cost analyses that media costs were during the years 1981 to 1989 rising faster than the costs of other products purchased by the campaigns.

The McCann-Erickson Media Cost-Per-Thousand (CPM) Composite measures change in the cost to reach an audience of 1,000 individuals in eight media

relevant to statewide campaigns in New Jersey.<sup>8</sup> Further, it includes data for the New York and Philadelphia media markets.

Examination of the CPM Indexes for the period 1988 to 1992 indicates that media advertising costs are now rising at a much slower pace than in periods previously studied by the Commission. The media cost-per-thousand composite increased by 45.3 percent from 1981 to 1987, but by only 17.4 percent from 1988 to 1992 (Table III).

This 17.4 percent increase in the CPM was determined by the Commission to be an appropriate measure of change in mass communication costs necessary to New Jersey gubernatorial campaigns during the four-year period preceding the 1993 gubernatorial election.

## **COST CHANGES: OTHER CAMPAIGN EXPENDITURES COMPONENT**

In its purchases of supplies, goods, and services, other than mass communications, the gubernatorial campaign is a consumer in a more familiar marketplace. Among other expenses, campaigns pay for: rent, utilities, travel, food, and beverages.

These items are part of the established "market basket" of goods and services whose prices are monitored in the Consumer Price Indexes (CPI) maintained by the United States Bureau of Labor Statistics (BLS). As defined by the BLS, the CPI measures the average change in prices over time for a fixed array, or "market basket," of goods and services purchased either by urban wage earners and clerical workers (CPI-W) or by all urban consumers (CPI-U). The CPI-U, which covers approximately 80 percent of the total population, is more representative of price changes in New Jersey than is the CPI-W which only covers data for 32 percent of the total population.

The United States Bureau of Labor Statistics samples prices of the "market basket" items in various geographic regions and publishes CPI results for those regions and for the entire United States. CPI data relevant to New Jersey are incorporated into statistics for two regions: New York - Northern New Jersey (NY/NJ) and Pennsylvania - New Jersey (PA/NJ).

CPI results are used as a standard measure of price increases or inflation, and have been used by the Commission in its analyses of campaign cost changes for items other than media. In the preparation of this report the Commission has therefore relied upon CPI data for the NY/NJ and PA/NJ regions to measure the change in the campaign cost index component for campaign expenditures other than communications.<sup>9</sup>

While month-to-month changes in the CPI are often published as a measure of inflation, a more accurate indication of inflation is provided by a comparison of the CPI from a given month in one year to the CPI for the same month in another year or years. The Commission therefore used the CPI index numbers for the months of December 1988 through 1991 for the NY/NJ and PA/NJ regions and used mathematically projected index numbers for December of 1992 to determine the percent increase in consumer prices for the two regions which included New Jersey (Table IV).

The percentage change in the two regional numbers was then weighted at a ratio of two-to-one to reflect the heavier population in the NY/NJ region. The 20.7 percent change in the Index Number for the period 1988 to 1992 for the New York/New Jersey region was multiplied by two and added to the 19.2 percent change in the Index Number for the same period in the Pennsylvania/New Jersey region. The result of 60.6 percent was divided by three (3) to yield the weighted CPI-U of 20.2 percent for all of New Jersey. The Commission therefore found that the resulting increase in the CPI-U in New Jersey for campaign costs other than mass communications was 20.2 percent.

## CALCULATION OF THE 1993 GUBERNATORIAL CAMPAIGN COST INDEX

Having examined the existing indexes and determined the magnitude of change in costs for the two components of gubernatorial campaign spending, the Commission calculated the 1993 campaign cost index by applying the formula described in the June, 1988 "Gubernatorial Cost Analysis Report"<sup>10</sup> as follows:

1. The 17.4 percent increase in media costs was applied to the proportion of all 1989 general election expenditures on mass communications, or 82 percent, to yield a Campaign Cost Index communication cost component of 14.27 ( $.82 \times 17.4 = 14.27$ ).

2. The 20.2 percent increase in the CPI was applied to the proportion of all 1989 general election expenditures on other campaign items, or 18 percent, to yield a Campaign Cost Index component for other costs of 3.64 ( $.18 \times 20.2 = 3.64$ ).

3. The components for mass communications (Step 1) and other costs (Step 2) were combined as follows to indicate that campaign costs in New Jersey increased by 17.91 percent:



<u>Expenditure Category</u>	<u>% of 1989 General Election Spending</u>	<u>Four-year change in costs</u>	<u>Component of Campaign Cost Index</u>
Mass communications:	82%	17.4 =	14.27
Other campaign costs:	18%	20.2 =	<u>3.64</u>
		Campaign Cost Increase	17.91

The Commission therefore reports that the cost index multiplier for the limits and thresholds of the gubernatorial public financing program in 1993 is 1.1791. Applying the index to the public financing thresholds and caps, and rounding off the sum as required by a formula contained in the statute, results in the following statutorily required adjustments for 1993:

	<u>1989</u>	<u>Cost Index Multiplier</u>	<u>Sum</u>	<u>1993 Rounded-off Figure</u>
Contribution Limit:	\$ 1,500	1.1791	\$ 1,768.65	\$ 1,800.00
Qualification Threshold:	150,000	1.1791	176,865.00	177,000.00
Amount for which no public funds are awarded:	50,000	1.1791	58,955.00	59,000.00
Primary Expenditure Limit:	2,200,000	1.1791	2,594,020.00	2,600,000.00
Primary Public Fund Cap:	1,350,000	1.1791	1,591,785.00	1,600,000.00
General Expenditure Limit:	5,000,000	1.1791	5,895,500.00	5,900,000.00
General Public Fund Cap:	\$3,300,000	1.1791	\$3,891,030.00	\$3,900,000.00

## CONCLUSION

The automatic adjustment process for the Gubernatorial Public Financing Program described in this report acknowledges that a gubernatorial campaign is a consumer making purchases in different markets which are subject to changes and pressures in the economy.

By being responsive to the economy and by advising potential candidates on a fixed date of the limits and thresholds of the Gubernatorial Public Financing Program, candidate participation is encouraged. The goals of Gubernatorial Public Financing in New Jersey are therefore advanced when certainty and financial responsiveness are introduced into the gubernatorial election process.

The Commission believes that the citizens of New Jersey have been well served by the Gubernatorial Public Financing Program and that the program is further enhanced by the gubernatorial campaign cost adjustment process.

The Commission recommended that the campaign cost adjustment process be undertaken and therefore welcomes the opportunity to produce this report.

## NOTES

1. ELEC, "Gubernatorial Cost Analysis Report," (June, 1988) p. 9.
2. ELEC, "Analysis of Costs of Election Campaigning and Recommendations for Altering Contribution and Expenditure Limits for Gubernatorial Elections," (May, 1984) p. 6.
3. Op. cit., "Cost Analysis Report," p. 22.
4. ELEC, "New Jersey Gubernatorial Public Financing Revised: 1989 and Beyond," (March, 1992) pp. 73-74.
5. McCann-Erickson, Inc., 750 Third Avenue, New York City, New York, 10017.
6. Op. cit., "Analysis of Costs of Election Campaigning," p. 8.
7. Op.cit., "Cost Analysis Report" p. 20.
8. McCann-Erickson Media Cost-Per-Thousand Indexes, Table III, May, 1992.
9. United States Bureau of Labor Statistics Monthly Index Numbers - All Urban Consumers, as maintained by New Jersey Department of Commerce, Office of Economic Research, Trenton, New Jersey.
10. Op. cit., "Cost Analysis Report," p. 23.

**TABLE I**

**Major Expenditure Components as a Percentage of  
Total Campaign Expenditures: 1973-1989 Gubernatorial General Elections**

	<u>1973</u>	<u>1977</u>	<u>1981</u>	<u>1985</u>	<u>1989</u>
Mass communication Expenditures	53.1%	62.3%	76.0%	83.9%	81.9%
Other Expenditures (Including Administration, Travel, and Fundraising)	46.9%	37.0%	24.3%	15.8%	18.0%

NOTE: Percentages may not total 100.0 because of rounding

Source: *New Jersey Election Law Enforcement Commission, "New Jersey Gubernatorial Public Financing Revised: 1989 and Beyond," Table X, p. 90, "New Jersey Public Financing: 1985 Gubernatorial Elections," Table K, P. 44, and "New Jersey Public Financing: 1981 Gubernatorial Elections," Table 6.1, p. 6.7.*

TABLE II

Comparison of Expenditures by Type of Expenditure (Net)  
for 1985 and 1989 General Election Gubernatorial Publicly-Funded Candidates

Type of Expenditure	1985 General-Total		1989 General-Total	
	Net	Net %	Net	Net %
Expenditures Exempt from Limit:				
Candidate Travel	\$ 18,984.50	0.4	\$ 194,323.38	1.8
Food and Beverage/Fundraising	41,292.92	1.0	163,626.93	1.5
Election Night Activities	10,177.95	0.2	95,502.34	0.9
Compliance-Legal/Accounting	111,635.96	2.6	503,687.20	4.5
Total Expenditures Exempt from Limit:	\$ 182,091.33	4.3	\$ 957,139.85	8.7
Expenditures Subject to Limit:				
Administration:				
Telephone	\$ 32,635.53	0.8	\$ 81,305.46	0.7
Personnel/Taxes	158,931.84	3.8	602,125.77	5.5
Other	294,201.39	6.9	333,868.29	3.1
Total Administration	\$ 485,768.768	11.5	\$ 1,017,299.52	9.3
Communication:				
Media Time	\$ 3,082,045.19	72.8	\$ 8,380,700.00	76.6
Advertising Production	419,384.02	9.9	520,354.79	4.8
Newspaper Advertising	2,210.29	0.1	12,627.99	0.1
Billboards	3,204.30	0.1	0.0	0.0
Printing Literature	41,794.48	1.0	33,777.11	0.3
Mailing Literature	6,736.34	0.2	16,641.90	0.2
Total Communication Expenditures	\$ 3,555,374.62	83.9	\$ 8,964,101.79	81.9
Total Expenditures by Others*	\$ 11,949.55	.03	\$ 4,268.44	0.0
Total Expenditures Subject to Limit	\$ 4,053,092.93	95.7 **	\$ 9,985,669.75 ***	91.3
Total Campaign Expenditures	\$ 4,235,184.26	100.0	\$10,942,809.60	100.0

SOURCE: *New Jersey Election Law Enforcement Commission, "New Jersey Gubernatorial Public Financing Revised: 1989 and Beyond," Table X, p. 90 and "New Jersey Public Financing: 1985 Gubernatorial Elections," Table K, p.44.*

\* "In-kind" contributions

\*\* The 1985 general election expenditure limit was \$2,252,503.40 per candidate

\*\*\* The 1989 general election expenditure limit was \$5,000,000.00 per candidate

**TABLE III**  
**Cost-Per-Thousand**  
**Mass Communication Percentage Increases**

<u>Media Type</u>	1981-1987 Percentage Increase	1988-1992 Percentage Increase
<u>Broadcast</u>		
- Network TV	66.7	13.2
- Spot TV	54.2	12.9
- Network Radio	41.7	19.1
- Spot Radio	29.9	12.1
<u>Print</u>		
- Newspapers	56.0	19.3
- Magazines	48.2	28.2
- Outdoor	44.7	9.4
- Direct Mail	20.7	20.0
<u>Composite</u> *	45.3	17.4

\* Based on national and local budgets in all eight media

Source: McCann-Erickson Cost Indexes (May, 1992), Table III, Media Cost-Per-Thousand Indexes

TABLE IV

Consumer Price Index for All Urban Consumers:  
 Monthly Index Number for December<sup>1</sup>

	<u>United States</u>	<u>New York/New Jersey</u> <sup>2</sup>	<u>Pennsylvania/New Jersey</u> <sup>3</sup>
December, 1988	120.5	126.0	125.6
December, 1989	126.1	133.3	129.9
December, 1990	133.8	141.6	139.4
December, 1991	137.9	146.6	144.6
December, 1992 <sup>4</sup>	142.5	152.1	149.7
Percent Change 1988 to 1992:	18.3	20.7	19.2

1. United States Bureau of Labor Statistics, Monthly Index Numbers - All Urban Consumers, as maintained by New Jersey Department Of Commerce, Office of Economic Research.
2. Includes 12 New Jersey counties: Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex, and Union.
3. Includes 6 New Jersey counties: Burlington, Camden, Cumberland, Gloucester, Mercer, and Salem. Three counties are not included in any region: Atlantic, Cape May, and Warren.
4. Mathematical projection based upon average monthly increase for January through July, 1992.