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Gentlemen:

This report is submitted pursuant to the provisions of Section 84602 (j) of the Government Code, related to the Online Disclosure Act of 1997. These provisions require the Secretary of State to report to the Legislature on the implementation and development of the Act, which mandates a system for the electronic transfer of campaign finance and lobbying payment information for disclosure on the Secretary of State's Internet web site.

The Online Disclosure Act (Chapter 866, Statutes of 1997, as amended by Chapter 433, Statutes of 1999) directed the Secretary of State to develop a system allowing the use of computers and computer software to collect and transmit data for Internet display that previously was only available in paper format in a handful of locations.

I am pleased to report that my office has complied with the Legislature's mandate, and that today millions of Californians now have direct computer access to detailed campaign contribution and expenditure information, and to the sources and amounts of money involved in lobbying state government.

The new system is named CAL-ACCESS (California Automated Lobbying And Campaign Contribution & Expenditure Search System). Anyone with computer access to the Internet need only type in www.ss.ca.gov and the window opens on a wondrous new landscape of campaign and lobbying disclosure.

When California voters approved Proposition 9, the Political Reform Act of 1974, they created one of the most complex and detailed campaign and lobbying disclosure laws in the nation. For state-level candidates, campaign committees and lobbying entities, the law meant disclosing contributions, expenditures, and lobbying payments on paper forms filed with the Secretary of State's office, and some local election officials. The voters had very little access to the data and were thus deprived of vital information that could assist them in making election decisions. The disclosure law was in place, but it wasn't fulfilling its purpose.

In 1995, I appointed an advisory panel to study the potential uses of exploding new computer-age information systems to determine if they were applicable to campaign and lobbying disclosure. The panel concluded that they were—that the data could be captured and presented on the Internet. I then sponsored legislation that eventually lead to the passage of SB 49 (Karnette) in 1997. Known as the Online Disclosure Act of 1997, the new law directed my office to develop an online filing process and to define the standard record formats for the transmission of the data. Unfortunately, the Legislature did not accept my recommendation to permit a dual filing process—one that would allow my office to offer free online filing options to candidates, committees and lobbying entities, and the second that would, as an alternative, allow filers to utilize the services of private software vendors to submit their reports. Only the second option was made available, and the results have been mixed. Many filers have expressed satisfaction with their private vendors, while others have criticized them for poor service and high costs.

It required a Herculean effort by my staff, our program contractors and the private vendors, but we met the deadline to have the online or electronic filing system up and running by January 2000, and in time for the March 2000 Primary Election. For the first

time, Californians, with a click of a mouse, were able to enter the world of political campaign finance. By logging onto the Secretary of State's web site, they were able to learn for themselves what had only previously been hinted at in news media accounts—who contributed to campaigns and how much. At first, only campaign committees with receipts or expenditures of \$100,000 or more were required to file electronically. The same threshold applied to lobbying entities. In mid-2000, the threshold dropped to \$50,000 for campaigns and \$5,000 for the lobbying community.

Today, Californians browsing the Secretary of State's web site can discover who is supporting or opposing statewide ballot measures, who is supporting or opposing constitutional officeholders and candidates, who is support or opposing legislative officeholders and candidates, who is paying for lobbying efforts at the Capitol, how much the hired guns in the big lobbying firms are being paid to influence governmental decisions (even which bills they are lobbying), and they can even view the Directory of Lobbyists, Lobbying Firms, and Lobbyist Employers. Never before has so much light been shined on the workings of California State politics and government. Did Californians express an interest? The web site received more than 3.4 million "hits" during 2000, so the answer must be a resounding "YES!"

Behind the Internet display of campaign and lobbying information we have constructed an infrastructure that in the year 2000 accommodated 11,252 electronic filings—7,225 for campaign committees and 4,027 for lobbying interests. We issued nearly 19,000 passwords and identification numbers to filers as part of our system to guarantee security and privacy, and to protect against "hackers." (Some password requests were duplicates reflecting the nature of lobbyist/lobbyist employer relationships.)

Simultaneously, we built a "back-office" Agency Management System (AMS) that allows us to track filing histories, compliance with filing deadlines, assessment of late-filing penalties, and to conduct required reviews of filing documents. We reviewed and certified the software filing programs of 21 vendors or service providers (about half are available to the public and half are for private clients). And, during the 2000 Primary and General Elections, we manually entered the data from "late-contribution" and "late-

independent expenditure" reports that were not electronically filed in order to provide voters access to that key 11th-hour campaign finance information.

As previously indicated, the private vendors whose filing software programs must be utilized by campaign committees and lobbying organizations, have a mixed track record. The most common complaint received by my office is that some of the vendors fail to provide their clients timely support services during stressful filing deadline periods. The vendors who offer bargain prices for their services often are operating on a shoestring budget and cannot afford an adequate customer support staff. The larger vendors, however, made considerable progress during the year in improving their customer service. We do not recommend specific vendors, but we do urge filers to shop around to determine which services are best suited to their needs.

The second most often voiced complaint concerns fees charged by the filing vendors. Our research indicates some services are available for as little as \$25 per month, while others for major statewide campaign organizations may exceed \$25,000 per year. Some of the more costly programs include campaign management services that exceed basic filing requirements. The options are many and varied, and again our advice to filers is to shop around.

Other filers have expressed legitimate objections to paying any fee, large or small, to submit a government-required disclosure report. The Legislature moved to address this concern last year when it passed SB 1874 (Polanco), which would have required my office to develop free online filing options. While I supported the bill in concept, I could not endorse it specifically because it lacked an appropriation and its development timelines were unrealistic. The Governor agreed, and vetoed the bill. This year I am supporting Assemblyman John Longville's AB 696, which calls for free online filing. Its phased-in implementation deadlines are realistic, and once funding issues are resolved I look forward to making this option a reality.

Filers may turn to the Secretary of State's web site for a [complete listing of certified electronic filing vendors in California](#). [Applications to obtain log-on passwords also may be downloaded](#) from the site. Copies also are attached to this report in [Appendix A](#).

I believe that the development of CAL-ACCESS and our efforts to implement the Online Disclosure Act of 1997 represent a notable success. But we still face a number of significant challenges. High on my list of priorities this year is a continuing effort to make the campaign finance web site more user friendly. Californians visiting the site should not have to struggle to track contributors and contributions, nor should they have to endure long waits to view an entire list of contributors. I assure the Legislature that we are aware of these problems and we are addressing them.

The other major new challenge involves implementation of Proposition 34, the "Campaign Contribution and Voluntary Expenditure Limits Without Taxpayer Financing Amendments to the Political Reform Act of 1974." This comprehensive new political reform measure was placed on the November 2000 ballot by the Legislature and it won overwhelming voter support. I am committed to implementing the Legislature's and the voters' will with regard to Proposition 34, but its many new campaign reporting requirements will require a major revamping of the CAL-ACCESS filing system. It amounts to changing the rules in the middle of the game. It will take another Herculean effort to modify the basic file format and to upgrade our database and Internet display in time for the first pre-election filings in October of this year that are due in connection with the 2002 March Primary Election. I urge the Legislature to support funding for this project so that it may be ready in time. Otherwise, we face the unfortunate choice of informing the voters that the changes they imposed via Proposition 34 will not be reflected on the Internet. Additionally, I remind the Legislature that we are at the mercy of the Fair Political Practices Commission with respect to form changes. Any change to an existing form or creation of a new form impacts the CAL-ACCESS system in a significant way -- it triggers changes to the electronic filing CAL format, print engine, parser, and validator; the AMS back-end system; and the web page components. We are striving to move away from a form-based system to a data-capturing system to make modifications to the CAL-ACCESS system much easier and faster to implement. Our excellent working relationship with the Fair Political Practices Commission has

made the change process as smooth as possible, and we have the Commission's support for attempts to move away from paper-based form capturing as we transition to a paperless system in the next few years.

Working with the Legislature to make online filing and Internet disclosure a success has been one of the most satisfying endeavors I have undertaken as Secretary of State. I look forward to working with the Legislature to further improve the system and to resolve any difficulties.

Respectfully submitted,

BILL JONES

Secretary of State