

Democracy North Carolina

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POLITICAL REPORT CARD FOR 2005 SPOTLIGHTS “THE GOOD, THE BAD, AND THE UGLY”

The Bad: Eye Docs, UNC PAC, Cigarette Firms, Beer Wholesalers

A government watchdog group today cited state legislative action for campaign reform and a record number of investigations into wrongdoing by lobbyists, public officials and campaign donors as reasons why 2005 could be remembered as the “breakthrough year” for major reforms of North Carolina’s political system.

“This year, more agencies conducted more investigations into more aspects of political corruption than at any time in the past 20 years,” said Bob Hall, director of Democracy North Carolina, a nonpartisan center that monitors the influence of money on state politics.

“The continuing revelations of problems involving lobbyists, the lottery, political money, and House Speaker Jim Black add to the routine stories of pay-to-play politics and make it impossible for policymakers to deny that the system is broken,” he added. “Investigations by the State Board of Elections, SBI, Attorney General, FBI and US Attorney are all in motion and what they uncover will add more pressure on lawmakers to take action on ethics and campaign finance reform.”

In a report card titled “2005: Scandal & Reform,” Democracy North Carolina highlights a dozen well-known and lesser-known activities involving politicians, money and special-interest lobbies that are classified as “The Good, The Bad, and The Ugly.”

As examples of “The Bad,” the report card describes four cases of special-interest groups showering legislators with money to gain favorable treatment, especially during the budget writing process. “We see examples of pay-to-play politics every year, but year-round fundraising makes everything worse,” the report said. “From strip club owners to ivory tower trustees, they all think they need to pony up big money to get their case heard.” The report card says:

- Optometrists gave more than \$125,000 to legislative and Council of State candidates in the 2004 election. Fellow optometrist Jim Black received the most – \$59,750 – and was instrumental in getting a provision added to the 2005 budget that requires five-year-olds entering public school to receive an eye exam. School officials, pediatricians, and the N.C. Medical Society point out that school children already receive eye tests and the \$75 or so per exam is a needless burden on parents and an annual windfall of \$8 million-plus for optometrists.

- Citizens for Higher Education PAC, funded by UNC-Chapel Hill trustees, financial backers and Rams Club members, surpassed all other special-interest political action committees in giving to 2004 legislative candidates; it passed out \$337,500, including the maximum \$8,000 to 15 Democratic and Republican legislative leaders. Among other benefits to the PAC’s donors, the 2005 budget included scholarship aid to more out-of-state UNC students, chiefly athletes, thereby saving the Rams Club millions of dollars.

- The beer industry poured \$565,000 into state politics in the last election, including funds from wholesalers across North Carolina and from the NC Beer & Wine Wholesalers PAC. The industry worries about a plethora of issues, from the alcohol content of beer to registration for kegs, but the big one looming is a higher tax on beer. Despite strong support among state Senate leaders to raise the beer tax, the industry's political muscle has repeatedly killed that proposal.

- Malcolm Bailey of Keysville, Virginia, who runs upstart S&M Tobacco, handed out \$4,000 checks to 14 legislators from Sept. 2003 through Jan. 2005 – more big donations than any other individual except John W. Pope of Variety Wholesalers. All totaled, the Bailey family and its firm gave \$272,000 to legislative candidates and their affiliated committees, and it won some battles with Big Tobacco. But Big Tobacco gives, too – \$540,000 in 2003-04 to the Democratic Legislative Campaign Committee alone. In 2005, the state budget included a provision sought by Big Tobacco to require small companies like S&M to pay an expensive new allocation to the state.

As positive achievements for 2005, the report card spotlights several developments:

- The General Assembly adopted stricter regulations of lobbyists in 2005 – the first significant changes since 1991 – and House Speaker Jim Black recently indicated he is ready to see a total ban on gifts from lobbyists, a measure the state Senate leadership has already endorsed.

- Despite objections from the N.C. Bar Association, legislative leaders also agreed to charge attorneys a \$50 annual fee to support a public financing program for appellate judicial elections.

- Forty-two percent of the House and Senate – 72 Democrats and Republicans – signed on as co-sponsors of the “Voter-Owned Elections Act,” which would provide a public financing option in elections for the agency heads on the Council of State. The bill has received no action, but reformers expect it to be taken up in 2006.

“A growing number of legislators are tired of the money hustle and the damage it does to the reputation of politicians and government in general,” said Hall. “They’d like to have an alternative source of ‘clean’ campaign money so they can reject special-interest donations and end the appearance of participating in a pay-to-play system.”

“The Ugly” section of the Democracy North Carolina report card lists the on-going probes of the apparent false statements of Lottery Commission member Kevin Geddings, the activities of Meredith Norris as Jim Black’s political advisor and paid lobbyist/consultant, and the charges involving illegal video-poker donations made to Black and Michael Decker.

The report also describes a little-noticed investigation of a federal committee affiliated with Black that has been underway for several months, prodded by inquiries from the N.C. Republican Party. “The Board of Elections is essentially investigating whether the Democratic Legislative Campaign Committee engaged in the same kind of laundering of corporate money that Republican leader Tom Delay is charged with doing in Texas,” said Hall. “There are legitimate questions about the source of the \$395,000 the DLCC donated to the House and Senate caucus committees of the state Democratic Party.”

“Jim Black is clearly at the vortex of the swirl of the state and federal investigations proceeding on multiple fronts,” said Hall. “But the report card shows there are other positive and negative reasons, unrelated to Black, for considering 2005 the year that could open the door for significant legislation affecting ethics, lobbying, and campaign financing.”

Democracy North Carolina

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2005: SCANDAL & REFORM

A Political Report Card of “The Good, the Bad and the Ugly”

THE GOOD

Bad news about politics received plenty of press coverage in 2005, but what about the good news? Here are four examples of positive stories worth remembering.

1. ACTION ON LOBBYING North Carolina’s regulations of lobbying earned a deservedly pitiful grade from the Center for Public Integrity in 2004, low enough to prod the Secretary of State into action. One thing led to another and, despite skeptics who said it wouldn’t happen, the 2005 General Assembly adopted sweeping new regulations for lobbyists, the first significant changes since 1991. Much credit goes to the NC Coalition for Lobby Reform, a politically diverse collection of nonprofits, civic leaders and former elected officials – and to the legislative muscle of Rep. Joe Hackney and Sen. Tony Rand.

The new law doesn’t become effective until January 2007, but the present stench from ethical lapses could push a newly appointed study commission to recommend that many provisions become effective as soon as the 2006 legislative session begins.

The new law emphasizes full, timely and accessible disclosure; it plugs the “goodwill lobbying” loophole, begins regulating the lobbying of top executive branch officials, sets a six-month cooling off period before a public official can become a private lobbyist, establishes a “No Gifts” registry, and gives the Secretary of State new enforcement powers and money. More improvements could come in 2006: House Speaker Jim Black recently indicated he’s ready for a total ban on gifts from lobbyists, a measure the state Senate leadership has already endorsed.

2. MONEY FOR PUBLIC FINANCING

In 2005, the first judges elected under a nationally acclaimed system of “Clean Elections” public financing took their seats on the N.C. Supreme Court and Court of Appeals. Rather than rely on private funds, typically from the attorneys and special interests with cases in those courts, 12 of the 16 appellate candidates (and four of the five winners) in 2004 earned the right to use the N.C. Public Campaign Fund for most of their campaign money. About four million Judicial Voter Guides were also sent to households under the program. Continued success requires a stable source of funding. The N.C. Bar Association had agreed to promote the program and pump voluntary contributions from attorneys into the public fund, but that effort was a complete failure. As a consequence, in 2005, lawmakers returned to their original plan and added a \$50 fee to the annual dues of attorneys. Credit goes especially to Rep. Bill Culpepper, Sen. Dan Clodfelter, and Sen. Tony Rand for securing the new source of money, over the stiff opposition of the N.C. Bar Association.

3. SUPPORT FOR VOTER-OWNED ELECTIONS

The success of the judicial public financing program – and of programs for other offices in several states – demonstrates that alternatives to the chase for campaign money are working. A growing number of N.C. legislators are fed up with the money chase and ready to adopt public financing for more offices. In 2005, 51 members of the state House and 21 members of the state Senate signed up to co-sponsor the next step for “Clean Elections” reform in North Carolina – “The Voter-Owned Elections Act of 2005.” The bill would provide a public financing option in elections for the agency

heads on the Council of State (Secretary of State, Auditor, Treasurer, Agriculture Commissioner, etc.). The key sponsors run the political gambit: Reps. Martha Alexander, Walter Church, Beverly Earle, and Tracy Walker in the House and Sens. Dan Clodfelter and Stan Bingham in the Senate. More details in the bill will be worked out in 2006, and the hovering scandals could add momentum for adopting public financing in legislative races.

4. CITIZEN ACTIVISM FOR REFORM In 2005, the NC Coalition for Lobby Reform and NC Voters for Clean Elections – two broad coalitions aimed at reforming the political system - engaged thousands of citizens in petition drives, letter writing, meetings with legislators, etc. That work helped produce the positive results for lobby reform and public financing. The public is disgusted with politics-as-usual but has a hard time believing the system can change. They don't hear stories about the successful outcomes of reforms; the media focuses on the glitches and "gotcha" stories and reinforces a general anti-government cynicism. One positive story in 2005: About 10% more taxpayers than in 2004 checked the box to earmark \$3 of their state taxes for the judicial public financing program and voter guide, which adds about \$1.2 million to the Public Campaign Fund.

THE BAD

We see examples of pay-to-play politics every year, but year-round fundraising makes everything worse. The pressure to obtain more donations ripples through the political and legislative process. From strip club owners to ivory tower trustees, they all think they need to pony up big money to get their case heard. Here are four examples of special-interest lobbies that paid and played – sometimes winning big and sometimes not.

1. GREEDY EYES Optometrists gave more than \$125,000 to legislative and Council of State candidates in the 2004 election. Fellow optometrist Jim Black received the most – \$59,750 – and was instrumental in getting a provision added to the 2005 budget that requires five-year-olds entering public school to receive an eye exam. School officials, pediatricians, and the N.C. Medical Society opposed the measure, pointing out that

school children already receive eye tests and the cost of the test (at least \$75 per exam) is a needless burden on parents and an annual windfall of \$8 million-plus for optometrists.

2. WRONG LESSON Citizens for Higher Education PAC began in 2002 to promote the agenda of the UNC-Chapel Hill campus and, effectively, to gain more independence from the UNC Board of Governors. It is largely funded by UNC-Chapel Hill trustees, financial backers and Rams Club members. In the 2004 election, it surpassed all other special-interest PACs in contributions to legislative candidates, handing out \$337,500, including the \$8,000 maximum to 15 legislative leaders of both parties. Among other benefits to the PAC's donors, the 2005 budget included scholarship aid to more out-of-state UNC students, chiefly athletes, thereby reportedly saving the Rams Club millions of dollars.

3. DRUNKS WIN Beer wholesalers poured \$565,000 into state politics in the last election, including funds from wholesalers across North Carolina and from the NC Beer & Wine Wholesalers PAC. The industry worries about a plethora of issues, from the alcohol content of beer to registration for kegs, but the big issue looming is a higher tax on beer. Despite strong support among state Senate leaders to raise the beer tax and earmark the money for health care programs, the industry's political muscle has repeatedly killed that proposal.

4. TOBACCO WARS Malcolm Bailey of Keysville, Virginia, who runs upstart S&M Tobacco, handed out \$4,000 checks to 14 legislators from Sept. 2003 through January 2005 – more big donations than any other individual except John W. Pope of Variety Wholesalers. All totaled, the Bailey family and its firm gave \$272,000 to legislative candidates and their affiliated committees, with then Co-Speaker Richard Morgan leading the list. The money may have helped in the war between Big Tobacco and the upstarts; S&M beat a Senate plan in 2003 to put an extra tax increase on the new brands. But Big Tobacco donates, too, about \$540,000 in 2003-04 just to the Democratic Legislative Campaign Committee. In 2005, the budget included a provision sought by Big Tobacco to require small companies like S&M to pay an expensive new allocation to the state.

THE UGLY

The media has provided ample details of the ugly maneuverings of lottery vendor Scientific Games and the relationship between House Speaker Jim Black and Republican Michael Decker. The year 2005 saw the Secretary of State, N.C. Ethics Commission, N.C. Attorney General, State Bureau of Investigation, local district attorneys, the FBI, other federal investigators, and the U.S. Attorney probing a variety of possible violations related to political corruption. If scandal is the mother of reform, 2006 should see the birth of important developments in ethics, lobbying and campaign finance regulations.

1. KEVIN GEDDINGS What was this man thinking? Did he really think he could forever hide the nearly \$25,000 he received from Scientific Games in the months before – and the day after – he was appointed to the N.C. Lottery Commission? Or did he think his skills as a public relations wizard would allow him to spin his way through such a blatant exercise in self-dealing? The N.C. Ethics Commission gave Geddings two chances to fill out his disclosure statement to reveal his ties to Scientific Games, but he chose to provide a carefully worded statement that caused the Commission to conclude his relationship with lottery vendors had ended five years earlier. News of the payments finally emerged, as Scientific Games came under scrutiny from state and federal officials. Geddings resigned in disgrace, dropped out of sight, and may well find himself before a federal grand jury.

2. MEREDITH NORRIS Meredith Norris is described by some insiders as naïve, by others as savvy. She knew how to make powerful people feel comfortable and is now in trouble for working both ends of the street: She served as political advisor and sometimes fundraiser for House Speaker Jim Black, using his computer to instruct legislative employees how to handle legislation and appointments – and she served as the sometimes registered, sometimes unregistered lobbyist for a variety of private clients who wanted insider access to advance their agendas. Caught for hiding its payments to Norris, Scientific Games finally disclosed her compensation and the cost of numerous meals she arranged for the company with top legislative leaders.

3. BLACK & DECKER This is not the brand name for a chain saw. It identifies an unseemly relationship between a powerful Democratic House Speaker and a little-noticed conservative Republican who each found ways to profit, politically or literally, by their odd coupling. New aspects of the relationship continue to unfold, including Decker's personal use of more than \$30,000 provided by Black allies – most prominently, donors tied to the video-poker industry. Those donations and many from the \$108,000 video-poker donors gave Black in the 2002 campaign received more attention in 2005, as the State Board of Elections examined the apparent illegal use of straw donors and corporate funds to get the money to Black and Decker. A hearing on those donations in 2006 could reveal more about the ugly side of the money chase in our state.

4. DEMOCRATIC LEGISLATIVE CAMPAIGN COMMITTEE One of the many continuing investigations at the State Board of Elections involves the DLCC, a 527-committee which supports the election of Democratic state legislators across the country. Jim Black has recently served as its finance chair, and a major annual fund-raising event has been held at a Pinehurst country club, netting large contributions for the DLCC from payday lenders, gaming companies, beer wholesalers, tobacco firms, drug companies, and many others with a vested interest in N.C. legislation. A national Republican 527 committee has also received attention by the Elections Board, which ultimately ruled that it illegally used corporate funds to promote the election of Patrick Ballantine in 2004. The N.C. Republican Party protests that ruling but wants the Board to examine the DLCC for a similar violation: How could the DLCC's North Carolina affiliate donate \$395,000 to the state House and Senate committees of the N.C. Democratic Party during 2004 without being subsidized by the corporate funds in the main DLCC account? All this may seem like partisan bickering, but in each case North Carolina's law against the intrusion of corporate money into state politics is being seriously tested. If that law falls or becomes unenforceable, we will surely see even uglier political campaigns and more people turning up (or holding) their noses when they consider participating in North Carolina elections.