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For meeting of July 14, 2016

July 6, 2016

MEMORANDUM

TO: The Commission

FROM: Daniel A. Petalas *DAP*
Acting General Counsel

Adav Noti *AN*
Acting Associate General Counsel

Jessica Selinkoff *JS*
Attorney

Gregory Ketcham-Colwill
Legal Extern *GKC*

Subject: AO 2016-06 (Internet Association) Draft A

Attached is a proposed draft of the subject advisory opinion.

Members of the public may submit written comments on the draft advisory opinion. We are making this draft available for comment until 12:00 pm (Eastern Time) on July 13, 2016.

Members of the public may also attend the Commission meeting at which the draft will be considered. The advisory opinion requestor may appear before the Commission at this meeting to answer questions.

For more information about how to submit comments or attend the Commission meeting, go to <http://www.fec.gov/law/draftaos.shtml>.

Attachment

1 ADVISORY OPINION 2016-06

2

3 Ronald M. Jacobs, Esq.

4 Venable LLP

5 575 7th Street NW

6 Washington, DC 20004

7

DRAFT A

8 Dear Mr. Jacobs:

9 We are responding to your advisory opinion request on behalf of the Internet Association
10 (“IA”) and the Internet Association Political Action Committee (“IAPAC”) concerning the
11 application of the Federal Election Campaign Act, 52 U.S.C. §§ 30101-46 (the “Act”), and
12 Commission regulations to proposed online fundraising events for candidates. The Commission
13 concludes that IAPAC may host and promote the candidate fundraising events as proposed,
14 subject to the applicable contribution limits, but that IA may not pay the costs of the events
15 because those costs would constitute contributions to the participating candidates.

16 ***Background***¹

17 IA is a trade association representing the interests of 36 internet economy companies.² It
18 is a tax-exempt corporation under section 501(c)(6) of the Internal Revenue Code. IAPAC is the
19 separate segregated fund (“SSF”) of IA. IAPAC has no staff of its own and is administered by
20 employees of IA. AOR at AOR002. IAPAC’s publicly available website is hosted as part of
21 IA’s website. AOR008.

22 IAPAC proposes to host interactive online candidate fundraising events for the general
23 public to view on its website. Each fundraising event will feature one candidate, selected by
24 IAPAC, and will be hosted by an IA staff person, likely IA’s president and CEO. AOR003.

¹ The facts presented in this advisory opinion are based on your letter dated May 25 and email dated May 31, 2016 (collectively, “Advisory Opinion Request” or “AOR”) as well as on information from public disclosure reports filed with the Commission.

² IA’s members include internet companies such as Airbnb, Amazon, and Zynga. *See* AOR001.

1 During a fundraising event, the host and the candidate will discuss the internet industry and the
2 candidate's campaign. Viewers will be able to submit questions via a chat function. During a
3 fundraising event, both the host and the candidate might urge viewers to vote for that candidate,
4 and the host and candidate might ask viewers to make contributions to that candidate's
5 campaign. "IA staff as well as the [IAPAC] website itself will solicit voluntary contributions to
6 the candidate attending" an event. AOR006.

7 IA has contracted to customize an existing online platform and integrated it into IA's
8 website for use in hosting the fundraising events. The online event system includes a
9 contribution button through which viewers will be able to contribute to the specific candidate
10 participating in the event. Viewers who click the contribution button will be taken to a new page
11 within the IAPAC website that will be connected to an external payment processing system for
12 making a contribution to that candidate.³ AOR013.

13 IA has incurred costs associated with developing the fundraising event platform,
14 including developer fees, IA staff time, and software license fees. Additional post-development
15 costs will include recurring license fees and the costs of IA staff time. IA staff will provide
16 technical support during the fundraising events, including ensuring the system is operational,
17 tracking and conveying viewer questions, and handling the logistics of the events. AOR003,
18 AOR009, AOR010.

19 Both IA and IAPAC plan to publicize the events through unpaid social media (such as
20 Facebook and Twitter accounts) and IA's and IAPAC's websites. AOR003, AOR011. IAPAC

³ IA has partnered with Democracy Engine, a web-based payment platform, to process contributions for those persons who click the contribute button. AOR004. Contributors who access the Democracy Engine platform via the contribution button from the IAPAC events will, at that point, interact directly with Democracy Engine, making contributions in accordance with the process set forth in Advisory Opinion 2011-06 (Democracy Engine). AOR004. Neither IA nor IAPAC will have contact with any funds transferred in making these contributions. *Id.*

1 might also promote the events by emailing individuals who have opted in to receiving
2 communications from IA. IA itself will promote the events to its member companies, via email,
3 for further communication to those members' restricted classes. AOR011. IAPAC might also
4 pay for online advertisements on third-party sites, including social media sites, to promote the
5 events. Communications about the events will identify IAPAC as the sponsor and include
6 required disclaimers. AOR002.

7 IAPAC will have discussions with participating candidates about the logistics of the
8 events (*e.g.*, concerning the time of an event and the location from which the candidate will
9 appear at an event), which "will satisfy one or more of the conduct prongs of the Commission's
10 coordination regulations," AOR008, but neither IA nor IAPAC will communicate or coordinate
11 with the candidates or the candidates' agents regarding the purchase, content, location, or
12 frequency of any online advertisements promoting the events. AOR003.

13 Finally, IAPAC proposes to archive the events on its website. These archived events
14 would continue to include functioning contribution buttons, allowing the general public to access
15 the Democracy Engine platform to contribute to the candidates IAPAC had hosted.

16 ***Questions Presented***

17 *Question 1. May IAPAC ask candidates to participate in the online events it has planned, and*
18 *encourage listeners to contribute to the candidates?*

19 *Question 2. Does IAPAC have to pay IA for software development costs of the events?*

20 *Question 3. Does IAPAC have to pay IA for staff costs associated with each event?*

21 *Question 4. If IAPAC must pay IA for certain expenses, would any of these costs have to be*
22 *treated as in-kind contributions to the candidates being supported, and if so, how would this be*
23 *calculated?*

1 *Question 5. Will IA or IAPAC have any reporting obligations related to the events?*

2 *Question 6.⁴ May IA send materials (e.g., email) to its members and ask those members to*
3 *disseminate the materials to employees who are within the restricted class of the member*
4 *companies?*

5 *Question 7. Would unpaid social media and online promotion of the events be an in-kind*
6 *contribution or expenditure?*

7 ***Legal Analysis and Conclusions***

8 *Question 1. May IAPAC ask candidates to participate in the online events it has planned, and*
9 *encourage listeners to contribute to the candidates?*

10 *Question 7. Would unpaid social media and online promotion of the events be an in-kind*
11 *contribution or expenditure?*

12 IAPAC may host and promote the fundraising events for the candidates as proposed, but
13 because IAPAC's expenditures for the events would constitute in-kind contributions to the
14 participating candidates, IAPAC's expenditures must remain within the applicable contribution
15 limit for each candidate.

16 A "contribution" includes "any gift, subscription, loan, advance, or deposit of money or
17 anything of value made by any person for the purpose of influencing any election for Federal
18 office." 52 U.S.C. § 30101(8)(A)(i); *see also* 11 C.F.R. §§ 100.52(a), 114.1(a)(1). "Anything of
19 value" includes all in-kind contributions. 11 C.F.R. § 100.52(d)(1). An in-kind contribution
20 includes the provision without charge (or at less than the usual and normal charge) of any goods
21 or services, including, but not limited to, "facilities, equipment, supplies, personnel, advertising

⁴ The request includes two questions identified as "Question 6." *See* AOR011. For clarity, the Commission is designating the first of these as "Question 6" and the second as "Question 7."

1 services, membership lists, and mailing lists.” *Id.* Similarly, the payment by any person of
2 compensation for the personal services of another person is a contribution if those services are
3 rendered without charge to a political committee. 11 C.F.R. § 100.54. In-kind contributions also
4 include any “coordinated expenditure,” which is an expenditure made “in cooperation,
5 consultation, or concert with . . . a candidate [or] a candidate’s authorized committee.”⁵ 11
6 C.F.R. § 109.20(a)-(b). An SSF, like IAPAC, that is not a multicandidate committee may make
7 contributions to candidate committees up to \$2,700 per election for the 2015-16 election cycle.⁶
8 *See* 11 C.F.R. § 110.1(b); fec.gov/pages/brochures/contrib.shtml#Chart.

9 Here, IAPAC proposes to host (live and in archived form) and promote fundraising
10 events for candidates. At each such event, the candidate would appear for purposes of
11 advocating his or her election and soliciting funds for his or her own campaign. Thus, the
12 requestors would be providing “facilities, equipment, supplies, personnel,” and other goods and
13 services to host and promote these candidates’ campaign fundraisers. As the Commission has
14 noted in many contexts, a third party’s payment of a candidate’s fundraising costs is a
15 contribution to the candidate because it relieves the participating candidate of those costs. *See,*
16 *e.g., Campaign Guide for Corporations and Labor Organizations* at 31 (Jan. 2007),
17 <http://www.fec.gov/pdf/colagui.pdf> (“[A]n SSF makes an in-kind contribution [to a candidate]
18 when it . . . [s]ponsors a fundraising event benefiting a candidate.”); Advisory Opinion 2015-07
19 (Hillary for America) at 2 (“[R]eimbursement [of event expenses] would constitute an in-kind

⁵ An “expenditure” includes any “purchase, payment, distribution, loan, advance, deposit, or gift of money or anything of value, made by any person for the purpose of influencing any election for Federal office.” 52 U.S.C. § 30101(9)(A)(i); *see also* 11 C.F.R. §§ 100.111(a), 100.111(e)(1), 114.1(a)(1).

⁶ IAPAC has not yet qualified as a multicandidate committee under 11 C.F.R. § 100.5(e)(3) and so cannot yet avail itself of the \$5000 contribution limit applicable to such committees. *See* Internet Association PAC, Amended FEC Form 1 (Aug. 27, 2014), <http://docquery.fec.gov/pdf/731/14950088731/14950088731.pdf>; 11 C.F.R. § 110.2.

1 contribution because it would relieve the committee of an expense that it would otherwise incur.”
2 (citing Advisory Opinion 2007-22 (Hurysz)); Advisory Opinion 2007-08 (King) at n.2
3 (volunteer’s “actual costs” incurred on behalf of candidate to arrange campaign event “would be
4 a contribution to that candidate’s committee”); Advisory Opinion 2007-04 (Atlatl, Inc.) at 5
5 (“[Payments of fundraising costs] are contributions because by paying the [costs], contributors
6 would relieve recipient political committees of a financial obligation that political committees
7 would otherwise have to pay for themselves, thereby providing something of value to these
8 committees.”); Advisory Opinion 2003-23 (WE LEAD) (third party’s direct costs of solicitations
9 to candidate, when coordinated with candidate, constitute in-kind contributions to campaign);
10 Advisory Opinion 1996-11 (National Right to Life Conventions) (corporate payments for events
11 “are campaign-related, and thus result in a contribution” to candidate if events involve
12 solicitation of contributions to candidate or express advocacy); *Campaign Guide for*
13 *Congressional Candidates and Committees* at 49 (June 2014),
14 <http://www.fec.gov/pdf/candgui.pdf> (noting that “[a]ll related costs paid for by” SSF sponsoring
15 candidate fundraising event may count as in-kind contributions to candidate, if coordinated,
16 citing 11 C.F.R. §§ 109.20(b), 100.52(d), 114.5(i)); *cf.* 11 C.F.R. § 100.54 (providing that third-
17 party payments for services rendered to committee are contributions to committee).
18 Accordingly, the Commission concludes that the requestors’ payments and use of resources for
19 the proposed candidate fundraising events would constitute the provision of goods and services
20 without charge to the participating candidates and, therefore, in-kind contributions to the
21 participating candidates.

22 The requestors, relying on Advisory Opinion 2011-14 (Utah Bankers), argue that the
23 costs of the events are not contributions to the participating candidates because the events, which

1 will be hosted on IAPAC's own website, are not "public communications" and therefore cannot
2 be "coordinated communications." *See* AOR008-009 (citing 11 C.F.R. § 100.26 (defining
3 "public communication" to exclude internet communications on person's own website) and 11
4 C.F.R. § 109.21(c) (incorporating definition of "public communication" into definition of
5 coordinated communication)); *see also* 11 C.F.R. § 109.21(b) (providing that payments for
6 coordinated communications are in-kind contributions to candidates with which they are
7 coordinated). While the Commission agrees that IAPAC's online transmissions of the events
8 would not be coordinated communications under 11 C.F.R. § 109.21, this has no bearing on the
9 conclusion that the requestors' provision of "facilities, equipment, supplies, personnel" and other
10 services to the candidates would be "contributions" under 11 C.F.R. § 100.52.

11 In Advisory Opinion 2011-14 (Utah Bankers), an SSF proposed merely to distribute its
12 own solicitations for contributions to candidates via the SSF's website and emails, independently
13 of any candidate. *Id.* at 3. In contrast, the requestors here plan to host and promote events, in
14 coordination with candidates, at which those candidates will appear, advocate, and solicit.
15 Indeed, the requestors themselves analogize their proposed hosting of the events to "a room a
16 PAC rents to hold a fundraiser for a candidate," which the requestors acknowledge must be
17 "treat[ed] . . . as an in-kind contribution to the candidate." AOR008. But just as a political
18 committee could not transform a van rental for a get-out-the-vote effort into a "communication"
19 by live-streaming online the van approaching a polling site, or the costs of a political rally into
20 the costs of a "communication" by uploading a video of the rally to YouTube, the fact that the
21 activity occurring in the requestors' "room" might be concurrently or subsequently transmitted
22 over the internet does not make the costs of that event "communication" costs. *See* 11 C.F.R.
23 § 114.4(c) (providing that corporation's "preparation, contents, and distribution of any of the

1 communications described [in this section] must not include coordinated expenditures as defined
2 in 11 CFR 109.20”); Advisory Opinion 2011-14 (Utah Bankers) at 4 n.3 (noting that coordinated
3 expenditures are “in-kind contributions to the candidates with whom they are coordinated” under
4 11 C.F.R. § 109.20(b)); Factual & Legal Analysis at 6, MUR 6552 (Ohio State Medical
5 Association) (Nov. 1, 2012), <http://eqs.fec.gov/eqsdocsMUR/12044322619.pdf> (concluding that
6 corporation that permissibly invited candidates to give campaign speeches to restricted class had
7 made impermissible contributions or expenditures by placing video recordings of those speeches
8 on corporation’s website, before dismissing as matter of prosecutorial discretion).

9 In sum, the Commission concludes that the development, staff, promotional, and other
10 costs for goods or services that the requestors provide to candidates without charge in connection
11 with the proposed candidate events would be in-kind contributions to the participating
12 candidates. Thus, IAPAC may ask candidates to participate in the events, promote the events,
13 and encourage event viewers to contribute to the candidates as proposed, provided that IAPAC’s
14 expenditures to conduct these activities do not exceed the relevant contribution limits (currently
15 \$2,700 per candidate per election).

16 *Question 2. Does IAPAC have to pay IA for software development costs of the events?*

17 *Question 3. Does IAPAC have to pay IA for staff costs associated with each event?*

18 Yes, IAPAC must pay IA for these costs.

19 Corporations, including incorporated trade associations like IA, are prohibited from
20 making contributions to candidates or their authorized committees. *See* 52 U.S.C. § 30118(a); 11
21 C.F.R. §§ 114.2(b), 114.8(b). Because, as discussed above, the costs of hosting the proposed
22 fundraising events would be in-kind contributions to the participating candidates, IA may not pay

1 such costs. Thus, IAPAC must pay IA's expenses (subject to the limit on contributions from
2 IAPAC to each participating candidate).

3 IA asks the Commission to find that its costs fall within the Act's exception from the
4 definition of "contribution" for costs a corporation incurs in the "establishment, administration,
5 and solicitation of contributions to [an SSF]." 52 U.S.C. § 30118(b)(2)(C); 11 C.F.R.
6 § 114.1(a)(2)(iii). These are the "cost of office space, phones, salaries, utilities, supplies, legal
7 and accounting fees, fund-raising and other expenses incurred in setting up and running" an SSF.
8 11 C.F.R. § 114.1(b). Specifically, IA argues that the costs it incurs in developing the software
9 for and administering the proposed events would be "standard operating expenses," that is,
10 administration costs, of the SSF. AOR009, AOR010.⁷

11 The Commission concludes that IA's payments — including payments for software
12 development, licensing fees, salaries, and other costs — incurred for and attributable to the
13 hosting of fundraising events for candidates are not "administration" costs of IAPAC. To the
14 contrary, these are the costs and expenses of IAPAC's core political activity — advocacy and
15 fundraising for IAPAC's preferred candidates — which the Commission has never found to fall
16 within section 30118(b)(2)(C). *See, e.g., Campaign Guide for Congressional Candidates and*
17 *Committees* at 49 (SSF must pay connected corporation costs of sponsoring candidate
18 fundraising events "to avoid a prohibited contribution" from corporation); Advisory Opinion
19 1984-37 (American Medical Association); Advisory Opinion 1984-24 (Sierra Club). For
20 example, in Advisory Opinion 1984-37, an incorporated membership organization's SSF

⁷ IA does not assert that its costs incurred in connection with the fundraising events are "establishment" or "solicitation" costs of the SSF. Nor could they be such costs: According to reports filed with the Commission, IA established IAPAC over three years ago, *see* Internet Association PAC, FEC Form 1 (Jan. 8, 2013), <http://docquery.fec.gov/pdf/294/13031001294/13031001294.pdf>, and the "solicitation" exception cannot apply here because the requestors do not propose to solicit contributions "to a separate segregated fund." 52 U.S.C. § 30118(b)(2)(C); 11 C.F.R. § 114.1(a)(2)(iii).

1 proposed to “make available” to candidates the corporation’s employees; the corporation and its
2 SSF asked how and when the SSF must compensate the corporation for the corporation’s
3 payment of salary and benefits to these employees while the employees provided services for the
4 candidates. After noting that “a corporation’s payment of compensation to a person who renders
5 services to a . . . candidate would constitute a gift of services as well as an indirect payment or
6 gift of something of value to the candidate,” the Commission made clear that a corporation may
7 not avoid this impermissible corporate contribution by “us[ing] the establishment,
8 administration, and solicitation process as a means of exchanging [corporate] treasury monies for
9 voluntary contributions” to candidates. *Id.* at 3.

10 Similarly here, IA cannot invoke the “administration” cost exception to the definition of
11 “contribution” to use its corporate treasury funds to generate contributions to candidate
12 committees. Because that exception does not apply, IA’s costs incurred for and attributable to
13 the candidate fundraising events would be contributions to the participating candidates, and so
14 IA may not pay these costs without making prohibited corporate contributions. Therefore,
15 IAPAC must pay IA for the costs of the proposed events to avoid violating the Act’s ban on
16 corporate contributions.⁸

17 *Question 4. If IAPAC must pay IA for certain expenses, would any of these costs have to be*
18 *treated as in-kind contributions to the candidates being supported, and if so, how would this be*
19 *calculated?*

20 As discussed above, the costs attributable to the hosting of the candidate fundraising
21 events would be contributions to the participating candidates. As such, any payments IAPAC

⁸ Because the Commission concludes that IA’s expenditures for the fundraising events would be in-kind contributions to the participating candidates, the Commission need not determine whether such spending would also constitute unlawful corporate facilitation of contributions to candidates. *See* 11 C.F.R. § 114.2(f).

1 makes directly for these events, as well as all payments made by IAPAC to IA to cover IA's
2 expenses, are in-kind contributions from IAPAC to the participating candidates.

3 The amount of an in-kind contribution "is the difference between the usual and normal
4 charge for the goods or services at the time of the contribution and the amount charged the
5 political committee." 11 C.F.R. § 100.52(d)(1). The "usual and normal charge" for goods is the
6 price of those goods in the market from which they ordinarily would have been purchased at the
7 time of the contribution. 11 C.F.R. § 100.52(d)(2). The "usual and normal charge" for services
8 is the hourly or piecework charge for the services at a commercially reasonable rate prevailing at
9 the time the services were rendered. *Id.*

10 With respect to staff costs, IAPAC should make advance payment to IA. *See Campaign*
11 *Guide for Congressional Candidates and Committees* at 49 (in hosting candidate fundraising
12 events, "SSF must pay in advance for any use of corporate/labor staff, food service or mailing
13 lists. Additionally, it is advisable that the SSF pay for rooms and equipment in advance to avoid
14 a prohibited contribution from the organization."); *Campaign Guide for Corporations and Labor*
15 *Organizations* at 92-93 (noting advance payment requirement for staff costs, citing Advisory
16 Opinion 1998-16 (Amway)); *see also* Advisory Opinion 1984-37 (American Medical
17 Association) at 3-4 (describing two alternate approaches for payment of staff costs: advance
18 payment or "dual employment," in which staff is on leave from corporation while employed by
19 SSF).

20 With respect to the software development costs and ongoing licensing costs, the
21 requestors ask whether they should apportion the costs per unit of licensing time or whether
22 IAPAC could pay IA the full costs as a one-time payment attributable to the platform's first use.
23 *See* AOR013 (stating that contribution links in software would be used only to provide

1 contributions to participating candidates). The Commission notes that its regulations do not
2 mandate any particular method of apportionment or calculation, as long as IAPAC pays IA the
3 “usual and normal charge,” as defined at section 100.52(d)(2), for IAPAC’s use of the software
4 for the proposed candidate events.

5 *Question 6. May IA send materials (e.g., email) to its members and ask those members to*
6 *disseminate the materials to employees who are within the restricted class of the member*
7 *companies?*

8 Yes, IA may promote the events to its members via email as proposed.

9 A trade association may make communications (other than solicitations to its SSF) with
10 its members on any subject, including communications containing express advocacy. *See* 11
11 C.F.R. §§ 114.1(a)(2)(i) (excluding communications to restricted class from definition of
12 “contribution”), 114.3(a)(1) (describing permissible communications to restricted class),
13 114.8(h) (describing permissible trade association communications to members). When making
14 communications to a member which is a corporation, a trade association may communicate with
15 the representatives with whom it normally conducts the association’s activities. 11 C.F.R. §
16 114.8(h). Moreover, a trade association may ask its organizational members to disseminate its
17 communications to those members’ restricted classes. *See* Advisory Opinion 1997-22 (Business
18 Council of Alabama) (extending this principle to membership organizations).

19 IA proposes to send emails to its corporate members for those members to forward to
20 their restricted classes. The emails would invite the restricted class employees to view the
21 fundraising events. Presuming that IA communicates with the member representatives with
22 whom it normally conducts the association’s activities, IA’s proposal is consistent with
23 Commission regulations.

1 *Question 5. Will IA or IAPAC have any reporting obligations related to the events?*

2 Political committees, including SSFs, must file reports of their receipts and
3 disbursements. *See* 52 U.S.C. § 30104(a)(1); 11 C.F.R. § 104.1. As a political committee,
4 IAPAC must therefore report its disbursements (including disbursements to IA or to vendors
5 related to the development, promotion, and production of the fundraising events and any other
6 in-kind contributions it makes to the participating candidates) on its regularly scheduled reports.
7 IAPAC will not be required to file a report as a conduit or intermediary, *see* 11 C.F.R.
8 § 110.6(c), for contributions made by event viewers because such contributions will not be
9 “earmarked” within the meaning of that section and IAPAC will not meet the definition of
10 “conduit” under that section. *See, e.g.*, Advisory Opinion 2012-22 (Skimmerhat) at 10
11 (concluding that contributions transmitted through commercial processing platform are direct
12 contributions to candidate, not contributions earmarked for candidate through intermediary or
13 conduit); Advisory Opinion 2004-19 (DollarVote.org).

14 As a non-political-committee, IA is not required to file regular reports of receipts and
15 disbursements. The request does not indicate whether IA proposes to make communications to
16 its members or restricted class in amounts that would trigger other, transaction-specific reporting
17 obligations. *See* 11 C.F.R. § 100.134 (describing reporting obligations for restricted class
18 communications whose costs exceed \$2,000 per election). If IA does trigger these reporting
19 obligations, it will be required to report the relevant disbursements on FEC Form 7. *Id.*

20 Finally, because any expenditures at issue in this request would be in-kind contributions
21 to the candidates participating in the events, neither requestor would be required to file any
22 reports of independent expenditures. *See* 52 U.S.C. § 30104(c), (f); 11 C.F.R. §§ 104.20, 109.10.

