

May 9, 2014

Benjamin T. Reyes II
City Attorney
Union City
555 12th Street, Suite 1500
Oakland, CA 94607

Michael S. Lawson
Hayward City Attorney
Office of the City Attorney
777 B Street
Hayward, CA 94541-5007

William L. McClure, City Attorney
Office of the City Attorney
1100 Alma Street
Menlo Park, CA 94025

Orry P. Korb
County Counsel
70 West Hedding Street
East Wing 9th Floor
San Jose, CA 95110-1770

Re: Your Requests for Advice
Our File Nos. A-14-071, 14-072, 14-078 & 14-079

Dear Counsel:

This letter responds to your collective requests for advice regarding the gift provisions of the Political Reform Act (the “Act”).¹ Please note that the Fair Political Practices Commission (the “Commission”) does not act as a finder of fact when it renders advice, (*In re Oglesby* (1975) 1 FPPC Ops. 71), and our advice is based solely on the provisions of the Act.

¹ The Political Reform Act is contained in Government Code Sections 81000 through 91014. All statutory references are to the Government Code, unless otherwise indicated. The regulations of the Fair Political Practices Commission are contained in Sections 18110 through 18997 of Title 2 of the California Code of Regulations. All regulatory references are to Title 2, Division 6 of the California Code of Regulations, unless otherwise indicated.

QUESTION

Are payments for travel, lodging and subsistence made to the Mayors participating in the Silicon Valley Mayors' China Trip in June 2014 subject to reporting and gift limits?²

CONCLUSION

Payments for the Mayors' travel, lodging and subsistence are reportable gifts, not subject to gift limits because they will be provided in connection with a legislative or governmental purpose by both a foreign government and a 501(c)(3) organization. Any other payments will be reportable gifts subject to gift limits.

FACTS

Twelve Mayors have been invited to travel to China from June 16-27, 2014, as part of the Silicon Valley Mayors' China Trip. The purpose of this all-expenses paid trip is to facilitate investment and international trade between China and the Silicon Valley region. While in China, the delegation will visit Beijing, Shanghai, Wuhan and Shenzhen. In addition, they will have the opportunity to participate in meetings with local government officials and CEOs from top local high tech companies.

As mentioned, this is an all-expenses paid trip. The international air travel expenses to and from China, approximately \$2,000 per person, will be covered by the American Asian Economic and Cultural Association ("AAECA"), a 501(c)(3) tax exempt organization. The remaining expenses which include travel, lodging and meals within China, approximately \$3,000 per person, will be paid for by the city governments of the four cities visited by the Mayors. Thus, the estimated market value of the trip is roughly \$5,000 per participant.³

The principal purpose of the trip involves facilitating investment and international trade between China and the Silicon Valley, and the Mayors are attending in their official capacities to

² We received requests for advice on behalf of Mayors Dutra-Vernaci, Mueller and Mayor Pro Tem Salinas. Because the requests all share the same facts and issues, we are treating them as a single request. Also, this advice applies to the remaining Mayors traveling as part of the delegation to China from June 16-27, 2014, assuming the sources of funding are the same as those provided herein.

³ We note that initially there was some confusion as to whether China Silicon Valley Business Development ("China SV") and/or another organization, Chinese People's Association for Friendship with Foreign Countries ("CPAFFC"), were paying for these expenses. However, it was confirmed by counsel for Mayor Dutra-Vernaci that China SV is only coordinating and sponsoring the trip, not providing any funds or services with monetary value. In addition, the city governments of the four cities being visited are coordinating their payments of the participants' expenses while in China through CPAFFC, making the four city governments the true source of those payments. (See Regulation 18945(a) ["The person who makes the gift to the official(s) is the source of the gift unless that person is acting as an intermediary"].) Based on the facts provided, CPAFFC is simply an intermediary for the payments provided by the four city governments.

represent their respective cities. The Invitation Letter for the trip explains the importance behind personal attendance by the Mayors:

As innovation in China takes off, Chinese companies are increasingly looking outside of China for business opportunities and technology partnerships. On the other side of the Pacific, Silicon Valley has attracted top notch researchers, engineers and developers from around the world and has provided a perfect environment for the growth of creative ideas.

Although the potential gains of a closer relationship between Silicon Valley and China may seem obvious, they are far from guaranteed. Of the \$1.3 billion Chinese investment in California since 2000, Silicon Valley/South Bay region is only the third most attractive area for Chinese investment. This is partially due to lack of information exchange and effective people-to-people investment promotion activities that help Chinese investors fully appreciate the abundant opportunities here in Silicon Valley. A traditional hands-off approach is outdated and inadequate. Encouraging support for local initiatives and joint efforts from both government and private sectors are required.

Draft Itinerary

The Mayors are scheduled to leave from San Francisco to China on June 16, 2014, and return on June 27. As mentioned, they will visit Beijing, Shanghai, Wuhan and Shenzhen during the 11-day trip. The details are as follows:

Beijing: Arrival on June 17

June 18 Morning – Chinese national officials and city officials of Beijing Municipality meet with SV Mayors: during the meetings, SV Mayors will listen to the general introduction to the “China Dream” policies, and provide suggestions and recommendations as to how Silicon Valley can be involved in the development of China.

June 18 Afternoon – Visit the Ministry of Technology, Ministry of Commerce and the Ministry of Education: during the meetings, SV Mayors will introduce the invention, promotion and encouragement policies adopted by each of the Silicon Valley cities and discuss the possible cooperation among the parties.

June 19 Morning – Zhongguancun – Silicon Valley Innovation Round Table Conference: during the meetings, SV Mayors and the representatives from high-tech enterprises will visit the major high-tech enterprises located in Zhongguancun, and will have meetings with the CEOs from the major high-tech enterprises.

June 19 Afternoon – Free time.

Shanghai: Arrival on June 20

June 20 Afternoon – Meetings with city officials of Shanghai Municipality.

June 21 Morning – Visit Shanghai Free Trade Zone: during the visit, SV Mayors and the representatives from high-tech enterprises will take a tour in Shanghai Free Trade Zone and will have meetings with the officials of Shanghai Free Trade Zone and representatives from enterprises located in Shanghai Free Trade Zone to discuss the local policies and the development of Shanghai Free Trade Zone, and the possible cooperation among the parties.

June 21 Afternoon – Sino-US Financial and Venture Investment Conference: representatives from Silicon Valley financial institutions will introduce their successful experiences of providing funding support for innovative companies, and will discuss the possibility of establishing a platform for financial communication between Silicon Valley and Shanghai.

June 22 Morning – Free Time.

Wuhan: Arrival on June 22

June 23 Morning – Meetings with officials from Overseas Chinese Affairs Office of the State Council, and from Hubei Province and Wuhan Municipality: SV Mayors will listen to an introduction to Conference on Overseas Chinese Pioneering and Developing in China (“OCPD”), and discuss the possible cooperation between Silicon Valley and Optics Valley in Wuhan.

June 23 Afternoon – Silicon Valley and OCPD Innovation Round Table Conference: SV Mayors and representatives from high-tech enterprises will introduce the successful experiences of Silicon Valley and roles and responsibilities of government and private enterprises in the development of Silicon Valley.

June 24 Morning – Meetings with Mayors from cities around Wuhan: SV Mayors will learn the development of the third-tier cities in China from introductory report made by city Mayors in China. SV Mayors will also introduce the successful experiences of Silicon Valley and promote the city-level communication.

June 24 Afternoon – Free time.

Shenzhen: Arrival on June 25

June 25 Afternoon – Meetings with city officials.

June 26 – Visit Tecent, TCL and BYD. One of the similarities between Silicon Valley and Shenzhen is that both embrace multiple well-known high-tech enterprises. Hopefully, these visits and face-to-face discussions will encourage the outbound investment by Chinese companies.

June 27 Afternoon – Free time; fly back

ANALYSIS

Gifts, Generally

A gift is defined under Section 82028(a) as “any payment that confers a personal benefit on the recipient, to the extent that consideration of equal or greater value is not received and includes a rebate or discount in the price of anything of value unless the rebate or discount is made in the regular course of business to members of the public without regard to official status.”

In an effort to reduce improper influences on public officials, the Act regulates the receipt of gifts by local public officials in three ways:

First, the Act places limitations on the acceptance of gifts by certain public officials. The current limit is \$440 from a single source in a calendar year. (Section 89503; Regulation 18940.2.) This gift limit applies to all Mayors, among others. (Sections 89503(a) & 87200.)

Second, so that the public is made aware of any potential influences from gifts, the Act imposes reporting obligations on certain public officials, including Mayors, requiring that any gift (or any gifts that aggregate to \$50 or more from the same source) received during the calendar year are disclosed on the officials’ statements of economic interests. (Sections 87200 – 87210.)

Third, the Act prohibits any public official from making, participating in making, or using his or her position to influence the outcome of a governmental decision involving the donor of a gift or gifts with an aggregate value of \$440 or more provided to, received by, or promised to the official within the 12 months prior to the date the decision is made. (Sections 87100 & 87103(e); Regulations 18700 & 18703.4.)

Gifts of Travel

Under the Act and unless stated otherwise in Commission regulations not applicable here (see footnote 4), any travel is presumed to confer some personal benefit on a public official. In addition, travel costs paid for by a third party generally are reportable gifts under the Act. Therefore, absent an exception, the value of all travel-related expenses to China will be considered a reportable gift to each of the Mayors. (Section 82028; *Gault* Advice Letter, No. A-07-158.)

Gift of Travel - Exceptions

Under some circumstances, even though a payment for transportation, lodging, and subsistence may be a reportable gift under the Act, the gift is not subject to the Act's current \$440 gift limit. In this regard, Section 89506(a) provides an exception from the gift limits for certain travel payments:

(a) Payments, advances, or reimbursements, for travel, including actual transportation and related lodging and subsistence that is reasonably related to a legislative or governmental purpose, or to an issue of state, national, or international public policy, are not prohibited or limited by this chapter if either of the following apply:

(1) The travel is in connection with a speech given by the elected state officer, local elected officeholder, candidate for elected state office or local elected office, an individual specified in Section 87200, member of a state board or commission, or designated employee of a state or local government agency, the lodging and subsistence expenses are limited to the day immediately preceding, the day of, and the day immediately following the speech, and the travel is within the United States.

(2) The travel is provided by a government, a governmental agency, a foreign government, a governmental authority, a bona fide public or private educational institution, as defined in Section 203 of the Revenue and Taxation Code, a nonprofit charitable or religious organization which is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code, or by a person domiciled outside the United States which substantially satisfies the requirements for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

To summarize, gifts of travel are generally reportable and subject to limits unless the travel falls under an exception. Relevant to the present situation is Section 89506(a)(2), which provides that travel expenses reasonably related to a legislative or governmental purpose, or to an issue of state, national, or international policy, are *not prohibited or limited* if they are provided by certain specified sources such as governmental agencies, bona fide public or private educational institutions, or non-profit 501(c)(3) organizations.

1. *Are the travel expenses reasonably related to a legislative or governmental purpose, or to an issue of state, national, or international public policy?*

According to the facts, the twelve Mayors will travel to China for the specific purpose of facilitating investment and international trade between China and the Silicon Valley cities. The invitation explains that Silicon Valley region has only been the third most popular area in California for Chinese investment since 2000, and that face-to-face meetings with the Chinese people will be important in helping them to fully appreciate the significant opportunities in the Silicon Valley region. Moreover, the draft itinerary for the trip indicates that the Mayors will have several meetings with Chinese officials and business leaders in Beijing, Shanghai, Wuhan and Shenzhen in order to promote their respective cities, among other things. It is plain, therefore, that the Silicon Valley Mayors' China Trip is directly related to a legislative or governmental purpose.

2. *Are the travel expenses being provided by an entity described in Section 89506(a)(2)?*

According to the facts, two separate sources will provide funding for the expenses involved with the trip. The payment for the international air travel will be covered by AAECA, which is a 501(c)(3) tax exempt organization. The remaining expenses incurred while in China will be paid through an intermediary, CPAFFC, by the city governments of the four cities visited by the Mayors. Therefore, the sources of funding for the Mayors' travel, the AAECA and the foreign city governments, fall within the purview of Section 89506(a)(2).

Accordingly, payments provided by AAECA and the foreign government entities through CPAFFC for the Mayors' transportation (airfare) to China, transportation during their stay, and any lodging or subsistence are reportable gifts that are not subject to gift limits pursuant to Section 89506(a)(2). Please note, however, that any payments made for items other than travel and related lodging and subsistence may be considered a reportable gift subject to the \$440 gift limit and the conflict of interest provisions of the Act, because those items would not be related to a legislative or governmental purpose.⁴

The "Informational Material" Exception

Regardless of the source, not all goods and services supplied to program participants are necessarily "gifts." The Act excludes from its definition of "gift" items classed as "informational material," a term that includes "any item which serves primarily to convey information and which is provided for the purpose of assisting the recipient in the performance

⁴ There was a suggestion that Regulation 18950.1 may apply to the present situation. Regulation 18950.1 provides criteria for determining when payments for travel made in conjunction with official agency business have no personal benefit to an official and do not constitute gifts or income to the official. Based on the facts you have provided, we do not view this situation as one that comes within the reach of that Regulation. In any event, Regulation 18950.1 is inapplicable by virtue of our finding that the payments to the Mayors, although not prohibited or limited by the Act's gift limits, are nonetheless gifts under the Act.

of his or her official duties or of the elective office he or she seeks.” (Section 82028(b)(1); Regulation 18942.1.) “Informational material” may include “[b]ooks, reports, pamphlets, calendars, periodicals, videotapes, or free or discounted admission to informational conferences or seminars.” (Regulation 18942.1(a).) This does not, of course, include payments for travel, which would include costs of transportation, lodging or subsistence. (Section 82028(b)(1).) You have provided no facts relevant to this gift exception so we do not address it further.

Conflict of Interest Disqualification

As mentioned, a public official who receives gift(s) of \$440 or more may have a financial conflict of interest under the Act. (Sections 87100 et seq.) The official must disqualify himself or herself from voting or otherwise participating in a governmental decision affecting that source, if the payment was received or promised to the official within 12 months preceding the decision. Therefore, if the Mayors accept gifts from the sources identified above valued at \$440 or more, they may be prohibited from participating in governmental decisions affecting those sources. If this occurs, they should seek further assistance.

If you have other questions on this matter, please contact me at (916) 322-5660.

Sincerely,

Zackery P. Morazzini
General Counsel

By: Jack Woodside
Senior Counsel, Legal Division

JW:jgl