

Fiscal Impact Statement for Initiative 594

Initiative 594 is expected to have minimal impact on state and local revenues. The net change cannot be estimated because the impact depends upon optional fees that may be charged by licensed firearms dealers. State expenditures for the Department of Licensing may total an estimated \$921,000 over the next five years, which includes one-time implementation costs, ongoing expenses related to complying with current state pistol transfer laws and new license oversight requirements. State expenditures for enforcing the measure are estimated to be less than \$50,000 per year. Local government expenditures are estimated to be less than \$50,000 per year.

General Assumptions

- The effective date of the initiative is December 4, 2014.
- Estimates are described using the state's fiscal year (FY) of July 1 through June 30. FY 2015 is July 1, 2014, to June 30, 2015.

State Revenue Assumptions

- Licensed firearms dealers may charge a fee for the administrative costs of facilitating the background check and private sale or transfer of a firearm.
- Licensed firearms dealers would be required to pay the state business and occupation tax on any fees charged.
- Licensed firearms dealers would not be required to collect sales or use tax when facilitating a private sale or transfer of a firearm.
- Consistent with current law, a person would continue to be required to pay state use tax when purchasing or transferring a firearm in a private transaction.

State Revenues

Current law requires licensed firearms dealers to collect use tax from the Washington buyer in an interstate firearm sale or transfer. Under Initiative 594 (I-594) licensed dealers would no longer be required to collect use taxes on interstate sales or transfers. State revenues would be decreased minimally by the loss of use taxes on interstate sales or transfers no longer collected by licensed dealers.

I-594 authorizes licensed dealers to charge a fee to cover the administrative cost of facilitating background checks and private firearm sales and transfers. State revenues would be increased by the business and occupation taxes due on any fees charged by licensed firearms dealers. It is unknown how many licensed dealers will charge a fee or what any particular licensed dealer may set as the fee.

Therefore, I-594 would have a minimal impact on state revenues. The change in revenues cannot be estimated without information on whether licensed dealers would charge administrative fees, at what amount fees might be set, how many licensed dealers may charge administrative fees or the number of firearm purchases made each year where use taxes would be due.

State Expenditure Assumptions

- All private pistol sales and transfers would be reported to the Department of Licensing (DOL).
- Private sales or transfers of firearms other than pistols would not be reported to DOL.
- DOL would process more pistol sales and transfer reports each year than it currently does.

- DOL would print more pistol sales and transfer forms each year than it currently does.
- DOL would modify the Business and Professions Firearm Database System to account for private pistol sales and transfers reported by licensed firearms dealers.
- DOL would need additional staff for the increased pistol transfer workload and program administration, and to develop and manage new reporting requirements and license revocation authority.
- About 90 percent of all licensed firearms dealers would report private pistol sales and transfers using paper forms.
- Based on historical pistol sales and transfer data from DOL, the number of pistol sales and transfers reported to the agency would increase an average of 20 percent annually.

State Expenditures

Licensing and Record Keeping

Current law requires licensed firearms dealers to record all pistol sales or transfers with DOL. Firearms dealers may use a paper form or an electronic system to report the sale or transfer. In 2013, 89 percent of all licensed dealers used only paper forms.

Under I-594, licensed firearms dealers would continue to be required to report pistol sales and transfers to DOL. In addition, licensed firearms dealers would be required to report all private pistol sales and transfers they facilitate. The initiative includes exceptions to this requirement, such as transfers between certain family members. Private sales or transfers of firearms other than pistols would not be reported to DOL by a licensed firearms dealer.

Currently, a person who privately sells or transfers a pistol to another person may voluntarily record the change of ownership with DOL. The seller or transferor reports the change of ownership to DOL on a paper form. In August 2013, DOL began tracking the number of reported private pistol sales and transfers. From August 2013 to May 2014, DOL received 1,684 private sales and transfer reports.

Under I-594, the majority of private pistol sales and transfers would be reported to DOL through licensed firearms dealers. In an attempt to estimate the fiscal impact of this change, DOL reviewed data in Colorado on the number of private sales and transfers of pistols through licensed dealers. In 2014, Colorado implemented a law requiring all private pistol sales and transfers be processed through a licensed firearms dealer. The dealer must also conduct a background check on the buyer. Based on data from Colorado, DOL could receive about 12,900 private pistol sales and transfer reports in 2015.

DOL would experience increased expenditures and costs for printing and distributing more pistol sales and transfer forms, modifying the Business and Professions Firearm Database System, hiring a minimal number of staff to handle the additional paper forms submitted by dealers, hiring minimal program administration staff for developing and managing new reporting requirements and license revocation authority, and for rule making. The estimated total cost for these activities over the next five years is \$921,000. Table 1 shows DOL estimated costs over the next five fiscal years.

Fiscal Year	2015	2016	2017	2018	2019	TOTAL
Cost	\$191,000	\$180,000	\$180,000	\$185,000	\$185,000	\$921,000

Law Enforcement

I-594 would create two new crimes. A person who knowingly violates Section 3 of the initiative could be subject to a gross misdemeanor, punishable under Chapter 9A.20 RCW. A person who knowingly violates Section 3 a second time, or more, is subject to a class C felony, punishable under Chapter 9A.20 RCW.

The sentence for the class C felony created in the initiative has a standard range of 0 to 12 months. Sentences of fewer than 12 months are typically served in county jail facilities. There would be no increase in state expenditures in cases where the sentence is served in a county facility.

Depending on the circumstances of the case, a judge may impose an aggravated exceptional sentence. If this results in a sentence that exceeds 12 months, the time would be served in a state prison facility and the state would experience increased costs. Assuming the number of cases where an aggravated exceptional sentence would be imposed does not exceed four per year, the Department of Corrections estimates the cost to be less than \$50,000 a year.

Local Government Revenue Assumptions

- Forty cities currently impose a local business and occupation tax. Licensed firearms dealers located in these cities would be required to pay a local business and occupation tax on any fees charged to facilitate a private firearm sale or transfer.
- Licensed firearms dealers would not be required to collect sales or use tax when facilitating a private sale or transfer of a firearm.
- Consistent with current law, a person would continue to be required to pay state use tax when purchasing or transferring a firearm in a private transaction.

Local Government Revenues

Local government revenues would be increased by the business and occupation taxes owed on any fees charged by a licensed firearms dealer facilitating background checks and firearms transfers in the 40 cities currently imposing a local business and occupation tax. Licensed dealers are not required to charge a fee. If there is a fee, it is set by the dealer. It is unknown how many dealers would charge a fee or what a particular dealer might set as the fee. Local government revenues would be decreased by the loss of use taxes no longer required to be collected by licensed firearms dealers.

Therefore, I-594 would have a minimal impact on local government revenues. The change in revenues cannot be estimated without information on whether licensed dealers would charge administrative fees, at what amount fees might be set, how many licensed dealers may charge administrative fees or the number of firearm purchases made each year where use taxes are due.

Local Government Expenditure Assumptions

- No data are available to estimate the number of potential cases that would be investigated and charged for violations of I-594.
- Other criminal justice cost data are available. These data were used to set a maximum number of cases that could occur statewide before local governments experience significant cost increases.
 - The maximum number of gross misdemeanor cases is 400 each year.
 - The maximum number of felony cases is 65 each year.

Local Government Expenditures

District and municipal courts (counties and cities) may experience increased costs for hearing additional gross misdemeanor cases. Superior courts (counties) may experience similar increased costs for hearing additional felony cases. The Administrative Office of the Courts estimates the fiscal impact of these cases to be less than \$50,000 per fiscal year if there are fewer than 400 additional gross misdemeanor cases statewide each year and fewer than 65 additional felony cases statewide each year.