Fiscal Impact Statement for Initiative 1464

Summary
During the first six fiscal years, the estimated net new revenues to the state General Fund from the repeal of the nonresident retail sales tax exemption is $173.2 million. The estimated net impact of transfers and expenditures from the state General Fund is $171.5 million. Of this amount, $165.0 million represents transfers from the state General Fund to the Campaign Financing and Enforcement Fund for the Democracy Credit Program. Revenue for the Performance Audits of Government Account would increase by $279,000. Local tax revenue would increase by $67.3 million.

General Assumptions

- The effective date of the initiative is December 8, 2016.
- Unless otherwise noted, estimates use the state's fiscal year (FY) of July 1 through June 30. For example, FY 2018 is July 1, 2017, through June 30, 2018.
- FY 2017 is a partial fiscal year: from December 8, 2016, through June 30, 2017.
- One full-time equivalent (FTE) employee equates to 2,080 hours of work for one calendar year.

State Revenue Assumptions

- Businesses will fully comply with the elimination of the retail sales tax exemption for nonresidents beginning February 1, 2017.
- FY 2017 state retail sales tax revenue reflects four months of collections, from March 2017 through June 2017.

State Revenue Impacts
Initiative 1464 (I-1464) repeals a retail sales tax exemption for certain nonresidents on purchases of tangible personal property, digital goods and digital codes that will not be used in the state. This would increase sales tax revenues deposited in the state General Fund and the Performance Audits of Government Account. Revenues deposited in the state General Fund may be used for any government purpose such as education; social, health and environmental services; and other general government activities.

In addition, the repeal of the nonresident retail sales tax exemption could affect the amount of goods purchased. This could cause price elasticity, which would affect state business and occupation (B&O) tax revenue. Price elasticity is a method used to calculate the change in consumption of a good when price increases or decreases. Due to price elasticity, state B&O tax revenue could decrease with the repeal of the retail sales tax exemption for nonresidents.

Table 1 provides estimates of the new revenue to the state General Fund, reflecting both increased sales tax revenue and decreased B&O tax revenue.

Table 1 – Estimated new revenue deposited in the state General Fund

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Increases in retail sales tax revenue	$9,912,000	$30,813,000	$31,868,000	$32,917,000	$33,904,000	$35,241,000
Decreases in B&O tax revenue	($83,000)	($258,000)	($267,000)	($275,000)	($284,000)	($295,000)
Net new state General Fund revenue	$9,829,000	$30,555,000	$31,601,000	$32,642,000	$33,620,000	$34,946,000

A portion of state retail sales tax revenue is deposited in the state Performance Audits of Government Account (Performance Audit Account). Table 2 provides estimates of the increased retail sales tax revenue over the next six fiscal years to this account. State revenues deposited in the Performance Audit Account are used by the Washington State Auditor to conduct comprehensive performance audits required under RCW 43.09.470.

Table 2 – Estimated new revenue deposited in the Performance Audit Account

FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
$16,000	$49,000	$51,000	$53,000	$54,000	$56,000

State Transfer and Expenditure Assumptions

- FY 2017 expenditures are for January 2017 through June 2017 only.
- 25 percent of the amount transferred to the Campaign Financing and Enforcement Fund (Fund) would be appropriated to cover Public Disclosure Commission (PDC) agency costs. If the amount needed from the Fund for PDC expenses is less than 25 percent of the transfer amount, the remaining amount would be available for the Democracy Credit Program.

Transfers to the Campaign Financing and Enforcement Fund

I-1464 creates the Campaign Financing and Enforcement Fund (Fund). Funds in the account are subject to legislative appropriation and must be used for the Democracy Credit Program and the democracy credit contributions created by I-1464 and to support activities of the PDC.

The Department of Revenue (DOR) would estimate the amount of state revenue resulting from repealing the nonresident retail sales tax exemption and then certify the estimated amount to the State Treasurer. The DOR would make these estimates and certifications on March 1, 2017, and again on June 1, 2017. Subsequently, the DOR would make the estimate and certification by June 1 each year thereafter.

For FY 2017, the State Treasurer is required to transfer $15.0 million from the state General Fund to the Fund. Beginning in FY 2018 and for each fiscal year thereafter, the State Treasurer must transfer $30.0 million from the state General Fund to the Fund.

If repeal of the nonresident retail sales tax generates less revenue than what the State Treasurer is required to transfer, additional state General Fund dollars equal to the difference must be transferred. At least 75 percent of the money in the Fund must be used for democracy credit contributions. The remaining 25 percent may be appropriated by the Legislature to the PDC for program operating costs.

Table 3 shows the required transfers under I-1464 to the Fund and the net impact to the state General Fund before additional state expenditures.

Table 3 – Estimated transfers to the Campaign Financing and Enforcement Fund and net impact to the state General Fund

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Net new state General Fund revenue (from Table 1)	$9,829,000	$30,555,000	$31,601,000	$32,642,000	$33,620,000	$34,946,000
Required transfer to the Campaign Financing and Enforcement Fund	$15,000,000	$30,000,000	$30,000,000	$30,000,000	$30,000,000	$30,000,000
Net impact to the state General Fund	($5,171,000)	$555,000	$1,601,000	$2,642,000	$3,620,000	$4,946,000

State Expenditures
I-1464 would change current campaign finance disclosure laws, set new contribution limits and create the Democracy Credit Program. These changes would result in additional expenditures for the PDC and the Office of the Attorney General (ATG). The greater workload for these agencies would result in higher expenditures, though costs would decrease in the future. The DOR would have higher expenditures in the first two years of implementation. Table 4 summarizes these estimated expenditures by fiscal year.

Table 4 – Estimated state expenditures for I-1464

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
PDC (including ATG costs)	$2,086,000	$8,867,000	$3,983,000	$6,344,000	$3,563,000	$6,385,000
DOR	$64,000	$19,000	$0	$0	$0	$0
Total	**$2,150,000**	**$8,886,000**	**$3,983,000**	**$6,344,000**	**$3,563,000**	**$6,385,000**

Public Disclosure Commission
The PDC would have higher expenditures to implement and operate the Democracy Credit Program and to implement and enforce new lobbying and campaign finance requirements. Table 5 summarizes these estimated expenditures.

Table 5 – PDC's estimated expenditures for staff (FTE) and expenditures by fiscal year

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
FTEs	37.0	37.0	37.0	34.0	34.0	34.0
Agency costs	$1,548,000	$7,844,000	$3,068,000	$5,429,000	$2,648,000	$5,459,000
ATG costs	$538,000	$1,023,000	$915,000	$915,000	$915,000	$926,000
Total Costs	**$2,086,000**	**$8,867,000**	**$3,983,000**	**$6,344,000**	**$3,563,000**	**$6,385,000**

Based on PDC estimated expenditures and the assumption that up to 25 percent of the Fund transfer amount shown in Table 3 would be used to cover these expenditures, there would be a need for additional state General Fund expenditures in FY 2018 of $1.2 million.

Expenditures for Additional Staff

Staff expenditures include campaign finance specialists, investigators, regulatory analysts, a records and rules coordinator, a graphic designer, communications consultants, budget and fiscal analysts, IT specialists, customer service specialists, managers and administrative assistants. As the PDC's current office space is not large enough to accommodate current and new staff, it would need to lease additional office space in Thurston County.

Expenditures for New Lobbying and Campaign Finance Requirements

I-1464 establishes new restrictions on lobbying and lobbyists, on campaign contributions and expenditures, and on disclosure of campaign finance information. It would permit anonymous reporting of violations, requiring the PDC to maintain a telephone tip hotline. I-1464 also requires the PDC and the ATG to prioritize timely enforcement of campaign finance laws and rules.

Expenditures for the Democracy Credit Program

Each even-numbered year, the PDC would mail personalized materials about the program to each registered voter. Currently, there are more than 4 million registered voters in Washington. After the first mailing, and up to 10 days before the general election, the PDC would mail program materials to each newly registered voter. I-1464 sets detailed requirements for what must be included in the mailing. These requirements, and the large number of voters who will receive the materials, contribute to the cost of conducting the mailing. The mailing would require expenditures for paper, printing informational materials and official PDC envelopes, and postage.

Section 16 of I-1464 directs the PDC to contract for the development and implementation of a secure electronic system for conducting all technical aspects of the program. The system must be internet accessible and run on computers and mobile devices. Eligible individuals would use it to make secure democracy credit contributions. Building the system would cost an estimated $2.0 million. This estimate includes contracts with a qualified information technology development firm, IT consultant services, IT quality assurance services and the first year of system maintenance.

The PDC would also have higher expenditures for hiring additional staff to operate the program, conducting the required public outreach and education efforts, maintaining a website for the program that complies with the initiative, maintaining a telephone hotline, auditing the campaign finances of at least 2 percent of the state candidates participating in the program, developing administrative rules and enforcing program requirements. These expenses are included in Table 4 – FTE Costs and Other Costs.

Office of the Attorney General
As the provider of legal services to the PDC, the ATG would have additional expenditures for legal advice, litigation costs and rule making related to the new enforcement mechanisms provided to the PDC, including:

- Increases in the number of complaints for rules violations submitted to the PDC.
- Increases in the number of citizen action complaints to the PDC.
- Rule making to take effect for the 2017 campaign season.

Table 6 provides estimates of the costs of providing these legal services to implement the initiative.

Table 6 – ATG's estimated expenditures for staff (FTEs) to provide legal services to the PDC

	FY 2017	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
FTEs	4.0	7.5	6.8	6.8	6.8	6.8
Dollar costs (from Table 5 paid by the PDC)	$538,000	$1,023,000	$915,000	$915,000	$915,000	$926,000

Section 14(2) of I-1464 requires the ATG to provide an opinion about whether the program can be lawfully expanded in FY 2022. About 90 hours of an Assistant Attorney General's time (0.05 FTE) to develop and issue the legal opinion is estimated.

Department of Revenue
The DOR would incur expenditures of $64,000 in FY 2017 and $19,000 in FY 2018 to implement repeal of the nonresident sales tax exemption. These expenditures would be used to create a special notice to and provide assistance for affected taxpayers.

Local Government Revenue
Local governments assess a local retail sales tax on purchases. Local government revenue would increase from the repeal of the nonresident sales tax exemption. Table 7 provides estimates of increased retail sales tax revenues to local governments.

Table 7 – Estimated local government retail sales tax revenue

FY 2017	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
$3,817,000	$11,865,000	$12,272,000	$12,676,000	$13,056,000	$13,570,000

Local Government Expenditures
No local government expenditures are expected.