

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

House Bill 928 (Delegate Hurson, et al.)
Commerce and Government Matters

Election Law - Fair Campaign Financing Act - General Assembly Candidates

This bill expands the Fair Campaign Financing Act to include candidates for election to the General Assembly.

Fiscal Summary

State Effect: General fund revenues could decrease by an indeterminate, minimal amount beginning in FY 1997. General fund expenditures would increase by \$177,500 in FY 1999. Out-year expenditures would increase every General Assembly election year and would reflect inflation. Fair Campaign Financing Fund revenues could increase by \$2.9 million in FY 1997 from the sales and use tax and by an indeterminate amount from contributions.

Local Effect: Local government revenues could decrease by an indeterminate, minimal amount beginning in FY 1997 due to the State individual income tax deduction. Expenditures would not be affected.

Fiscal Analysis

Bill Summary: Beginning with the 1998 general election and each election cycle thereafter, the Comptroller must appropriate sales and use tax revenues derived from the sale of direct mail advertising literature, mail order catalogues, and computerized mailing lists that are distributed outside the State into the Fair Campaign Financing Fund. In order to provide the funds, the bill repeals the sales and use tax exemptions on these items. The sales and use tax revenues would be restricted for use by candidates for election to the General Assembly.

The bill also establishes a per capita expenditure limit that candidates for the House of Delegates and the Senate cannot exceed during a four-year election cycle. Campaign expenditures for a candidate for the House of Delegates cannot exceed 75 cents per capita

based on the population of the candidate's legislative district or subdistrict. Similarly, a candidate for the Senate may not spend more than \$1.50 per capita. These limits will be adjusted annually beginning January 1, 1997 based on the Consumer Price Index. A candidate may exceed the spending limitation if an "independent expenditure" is made on the behalf of a challenger to the extent of the independent expenditure. An independent expenditure is an expenditure made by a person or political committee to promote the success or defeat of any candidate that is not made in coordination with a candidate.

The State Administrative Board of Election Laws (SABEL) must begin distributing the money to candidates for the House of Delegates and the Senate the day after the deadline for filing a certificate of candidacy. A candidate is entitled to a public contribution if (1) the required seed money is raised; (2) the seed money is refundable only when the candidate withdraws; and (3) the seed money is received subsequent to September 1 of the year preceding the election. Eligible candidates must receive \$1 in public funds for every \$1 in eligible private contributions.

For any election, if there are insufficient monies in the Fair Campaign Financing Fund to provide public financing for eligible candidates for the General Assembly, the Comptroller must appropriate monies from the State general fund to cover the deficiency.

In addition, the bill provides for a State individual income tax deduction for individuals who make eligible private contributions. The bill also limits the amount of aggregate transfers from a political committee to 20% of the campaign expenditure limit.

Lastly, the bill defines "eligible private contribution" for candidates for the House of Delegates and the Senate. Eligible private contribution means that portion of a monetary or in-kind contribution from an individual that does not exceed \$100 provided the contribution is from an individual in the candidate's legislative district on or after September 1 of the year preceding the election.

State Revenues: As of January 1, 1996, the Fair Campaign Financing Fund had approximately \$1.8 million in available public funds. Fair Campaign Financing Fund revenues could increase by \$2.9 million in fiscal 1997 due to the repeal of the sales and use tax exemption for sales of direct mail advertising literature and mail order catalogues that will be distributed outside the State. This revenue would be designated for the use of candidates for the General Assembly. Out-year sales and use tax revenues would reflect a 5% annual growth rate.

Fair Campaign Financing Fund revenues could also increase due to an increase in the amount of contributions for the benefit of candidates for the General Assembly. The Office of the Comptroller estimates that approximately \$37,700 would be contributed to the Fair Campaign Financing Fund in calendar 1996. The amount is estimated to peak at \$138,000 in

fiscal 1997, and, thereafter, out-year revenues would decline by 8% annually.

Under the bill, an individual who makes an eligible private contribution to the campaign of an eligible candidate may deduct the amount from their individual State income tax return. At this time, the revenue loss cannot be determined, but it is assumed to be minimal. For instance, if the Fair Campaign Financing Fund receives \$150,000 in contributions for gubernatorial candidates and an additional \$37,700 in contributions for General Assembly candidates, general fund revenues could decrease by \$8,775 in calendar 1996. This estimate assumes that all individual subtractions would be in the 5% income tax rate bracket.

Fiscal Services advises, however, that the amount of contributions for the benefit of candidates for election to the General Assembly and the amount of the State personal income deduction cannot be reliably estimated beforehand. Accordingly, the increase in special fund revenues and decrease in general fund revenues cannot be quantified at this time.

State Expenditures: General fund expenditures could increase by an estimated \$177,483 in fiscal 1999, when the next election for members of the General Assembly will occur. This estimate reflects the cost of hiring one Administrator IV, one Administrative Officer I, and one Data Device Operator II on a contractual basis to administer and disburse monies from the Fair Campaign Financing Fund for candidates for the General Assembly. It includes salaries of \$83,360, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Salaries and Fringe Benefits	\$90,862
Audit of Candidate Campaign Records	59,011
Other Operating Expenses	<u>27,610</u>
Total FY 1997 State Expenditures	\$177,483

Future year expenditures would increase in each succeeding General Assembly election year. These increases would reflect annual increases of 2% in salaries and 2% in ongoing operating expenses.

Any additional administrative duties created by the expansion of the Fair Campaign Financing Act to include candidates for election to the General Assembly could be handled with the Office of the Comptroller's existing personnel.

Under the bill, any deficits in the Fair Campaign Financing Fund must be covered by general fund appropriations. As discussed above, the Fair Campaign Financing Fund had \$1.8 million in available public funds as of January 1, 1996. At this time, it cannot be determined whether these funds would provide the required funding for General Assembly candidates electing to use public funds.

Local Revenues: Local government revenues could decrease due to the allowance of a State individual income tax deduction for an individual who makes an eligible contribution to an eligible candidate. The loss would be approximately 54% of the State's income tax loss. Although the revenue decrease cannot be determined beforehand, it would be minimal.

Information Source(s): State Administrative Board of Election Laws, Office of the Comptroller, Department of Fiscal Services

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