

BALLOT PROPOSITION #106
No Taxpayer Money for Politicians Act

FISCAL ANALYSIS

Description

Proposition 106 would amend the Arizona Constitution to prohibit the use of "taxpayer money" to fund any candidate for a statewide or state legislative election. "Taxpayer money" is defined as any revenue collected by state or local governments and any amount eligible for a state tax reduction, donation, or other tax feature. Proposition 106 also provides that the surcharge, penalty, and other money in the Clean Elections Fund on and after the effective date of Proposition 106 shall be deposited in the state General Fund.

Funding for the publicly funded campaign system, known as the Citizens Clean Elections Act, comes from a 10% surcharge on civil penalties and criminal fines, penalties arising from election law finance violations, \$5 contributions collected by candidates, and other voluntary donations. Taxpayers who donate are eligible for a tax credit in the amount of the donation up to 20% of the tax owed or \$550, whichever is greater. This proposition has the effect of removing the dedicated funding source for the Citizens Clean Elections Commission.

Estimated Impact

The JLBC Staff forecasts that Proposition 106 would result in a one-time deposit of approximately \$14 million into the General Fund in 2004 and would result in annual General Fund deposits of approximately \$11 million to \$16 million.

Analysis

Expenditures

The proposition defines "taxpayer money" to include: 1) any tax, fee, assessment, surcharge, forfeiture, penalty, fine, or other revenue or funds collected by the state or local governments; and 2) any contribution, donation or expenditure that would be eligible for a state tax reduction, deduction, exemption, exclusion, credit, donation, check-off or other tax feature.

Table 1 below details the Commission's estimated expenditures over the next three years. Spending varies greatly from year to year due to election cycles. In CY 2004, all legislative seats and a few statewide seats are up for election. There are no elections in CY 2005, while all legislative seats and almost all statewide seats will be up for election in CY 2006.

Table 1: Clean Elections Commission Estimated Expenditures			
	<u>CY 2004</u>	<u>CY 2005</u>	<u>CY 2006</u>
Administration & Enforcement	\$ 902,300	\$ 925,300	\$ 943,800
Voter Education	2,009,500	1,542,100	1,572,900
Campaign Funding	<u>5,770,000</u>	<u>0</u>	<u>14,792,300</u>
TOTAL EXPENDITURES	<u>\$8,681,800</u>	<u>\$2,467,400</u>	<u>\$17,309,000</u>

Upon the effective date of the act, all monies in the Citizens Clean Elections Fund would be transferred to the General Fund. We assume the act would become effective December 1, 2004. In its CY 2004 adopted budget, the Commission projects almost all of its \$8,681,800 budget to be expended by that time.

Proposition 106 does not address the responsibilities of the Citizens Clean Elections Commission but does have the effect of removing the Commission's dedicated funding source. The proposition does not identify a substitute funding source for future Commission expenditures. While no funding sources are identified, some potential sources are private donations or legislative appropriations (either from the General Fund or some other source identified by the Legislature). As shown in Table 1, the Commission estimates its CY 2005 and CY 2006 expenditures at \$2,467,400 and \$17,309,000 respectively. Future funding levels are uncertain and will depend on how the proposition is interpreted regarding the state's ongoing funding responsibilities for the Commission.

Revenues

The Commission’s Clean Elections Fund currently generates revenues from several sources, including: 1) a 10% surcharge on certain civil penalties and criminal fines; 2) a \$5 state income tax check-off box; 3) donations; 4) candidate \$5 qualifying contributions; and 5) campaign fines.

Upon the effective date of the proposition, monies currently in the fund or received in future years would be transferred to the General Fund. Including the CY 2004 beginning fund balance and CY 2004 revenues, the Commission estimates a total of \$22,519,600 available in that year. Less the Commission’s estimate of \$8,681,800 in expenditures, the JLBC Staff forecasts that the proposition would result in \$13,837,800 being transferred from the Clean Elections Fund to the General Fund at the end of CY 2004.

Table 2 below details the Commission’s estimated revenues over the next two years in the absence of Proposition 106.

Table 2: Clean Elections Commission Estimated Revenues		
	<u>CY 2005</u>	<u>CY 2006</u>
10% Surcharge	\$ 7,179,200	\$ 7,394,600
\$5 Check-Off Box	4,141,500	4,265,800
Donations	110,800	114,000
Qualifying Contributions	0	500,000
Campaign Fines ^{1/}	0	0
TOTAL REVENUES	\$11,431,500	\$12,274,400

^{1/} The Commission does not project forward the amount of fines it will assess. The Commission collected \$19,500 in fines in CY 2002 and \$16,900 in CY 2003.

If the proposition is approved, JLBC Staff is unable to determine whether there would be revenues generated from qualifying contributions or campaign fines in future years, which will depend on how many candidates choose to participate in public financing. The other following sources of current revenue would be deposited in the General Fund:

10% Surcharge

The Commission estimates \$7,179,200 in 10% surcharge revenues in CY 2005. If the proposition is approved, these monies would be deposited in the General Fund.

Tax Credits

Currently, taxpayers may make a donation to the Commission and claim a dollar for dollar tax credit. The Commission reports that approximately \$100,000 in donations is received annually. The proposition would prohibit the Commission from using tax credit donations to finance campaigns. If taxpayers no longer take the tax credit, General Fund revenues would increase by \$100,000.

\$5 Check-Off

The state income tax form has a \$5 check-off box for campaign financing. Any taxpayer that marks the \$5 check-off box receives a \$5 reduction in the amount of taxes owed, and designates a \$5 contribution to the Commission. The total loss in General Fund revenues for each taxpayer that currently checks the box, therefore, is \$10. Without the proposition, the General Fund revenue loss from the box is estimated to be \$8,283,000 in CY 2005, of which half would be distributed to the Commission and half distributed to taxpayers who check the box. If the proposition is approved, taxpayers may continue to take advantage of the check-off because they would still have a financial incentive to do so. Under this scenario, the proposition would result in \$4,141,500 in revenues being deposited in the General Fund. If, however, taxpayers do not continue to mark the box, \$8,283,000 would be deposited in the General Fund.

Table 3 below shows the JLBC Staff forecast of monies that would be transferred from the Clean Elections Fund to the General Fund in future years.

Table 3: Estimated Impact to General Fund		
	<u>CY 2005</u>	<u>CY 2006</u>
10% Surcharge ^{1/}	\$ 7,179,200	\$ 7,394,600
Tax Credits For Donations ^{2/}	100,000	100,000
\$5 Check-Off Box (Commission) ^{1/}	4,141,500	4,265,800
TOTAL – Scenario 1 ^{3/}	11,420,700	11,760,400
\$5 Check-Off Box (Taxpayers) ^{2/}	4,141,500	4,265,800
TOTAL – Scenario 2 ^{4/}	\$15,562,200	\$16,026,200
^{1/} Represents revenues that would otherwise be distributed to Clean Elections. ^{2/} Represents revenues that would otherwise be distributed to state taxpayers. ^{3/} Assumes taxpayers would continue to choose the \$5 check-off box. ^{4/} Assumes taxpayers would no longer choose the \$5 check-off box.		

The projected General Fund increase resulting from the proposition would be \$11,420,700 in CY 2005 and \$11,760,400 in CY 2006 if taxpayers would continue to take advantage of the \$5 check-off box to reduce their amount of taxes owed.

The increase to the General Fund from the proposition would be \$15,562,200 in CY 2005 and \$16,026,200 in CY 2006 if taxpayers would no longer take advantage of the \$5 check-off box.

The Commission is currently required to project how Clean Elections Fund revenues over the next four years will compare to the statutory spending cap and remit any projected excess revenues to the General Fund. The Commission transferred \$1,774,600 to the General Fund in its CY 2003 budget and \$3,825,600 in the CY 2004 budget. The JLBC Staff has used Commission figures in this analysis that do not reflect any revertsments. If there were to be future revertsments, the net impact of the proposition on the General Fund would be reduced.

Local Government Impact

Incorporated cities and towns receive 15% of income taxes collected two years prior in the Urban Revenue Sharing system. The proposition would increase state income taxes by eliminating the tax credit for donations. State income taxes could also be increased if taxpayers do not continue to mark the \$5 check-off box. Local government revenues, therefore, would be increased by between \$636,200 and \$1,257,500 in CY 2007.

7/14/04

This estimate was prepared by Jake Corey (602-542-5491).