

HOUSE BILL REPORT

HB 1426

As Reported by House Committee On:
State Government & Tribal Relations

Title: An act relating to campaign contributions by controlled entities.

Brief Description: Concerning campaign contributions by controlled entities.

Sponsors: Representatives Mena, Reed, Fosse, Street, Simmons, Bateman, Ramel, Pollet and Ormsby.

Brief History:

Committee Activity:

State Government & Tribal Relations: 1/27/23, 2/1/23 [DPS].

Brief Summary of Substitute Bill

- Specifies that political campaign contributions made by different entities are aggregated for purposes of campaign contribution limits when the entities are majority-owned, established, financed, maintained, or controlled by the same individual or the majority of the same persons.
- Provides that a limited liability company may make campaign contributions only if it has been in existence for at least a year and has filed a declaration that the company is a legitimate business, not created for the sole purpose of making campaign contributions.

HOUSE COMMITTEE ON STATE GOVERNMENT & TRIBAL RELATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 4 members: Representatives Ramos, Chair; Stearns, Vice Chair; Gregerson and Mena.

Minority Report: Do not pass. Signed by 3 members: Representatives Abbarno, Ranking Minority Member; Christian, Assistant Ranking Minority Member; Low.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Staff: Jason Zolle (786-7124).

Background:

State law limits the amount of money that individuals and groups, including corporations and political committees, may contribute to a candidate who is running for office. Those limits are set in statute and adjusted for inflation by the Public Disclosure Commission (PDC). Currently, the limits are set at \$2,000 per election for statewide executive, judicial, and port commissioner candidates, and \$1,000 per election for state legislative and local office candidates.

Contributions by one person or entity, including a political committee, may be aggregated for purposes of the campaign contribution limit in certain circumstances:

- A contribution by a political committee is attributed to a person or entity if the funds have all been contributed by one person or entity and that person or entity exercises exclusive control over the distribution of the funds.
- Two or more entities are treated as a single entity if one of them is a subsidiary, branch, or department of the other.
- Contributions made by a person or entity, including a political committee, that are financed, maintained, or controlled by a trade association, labor union, or collective bargaining organization, are attributed to that organization.

The PDC has enacted rules to clarify when two entities are treated as a single entity and share a contribution limit. Examples of affiliated entities include: a corporation and its subsidiary; a national union and a state body of the union; and a trade association and a local unit of the association. In addition, two or more entities are treated as a single entity if one is established, financed, maintained, or controlled by the other. The PDC uses a multifactor test to determine this, which includes consideration of the ownership of voting stock, the authority to participate in governance, overlapping membership, and the provision or funding of goods and services for less than full value.

Summary of Substitute Bill:

Additional provisions are created to aggregate certain contributions for purposes of campaign contribution limits:

- The contribution of any entity is aggregated with the contributions made by each individual who owns or holds a majority interest in the entity.
- Two or more entities are treated as a single entity and share a contribution limit if each is established, financed, maintained, or controlled by the same person or majority of persons.

Any limited liability company (LLC) that has registered with the Secretary of State, and is not classified as a corporation under federal tax codes, may make campaign contributions

only if the company has: (1) been in existence for at least a year; and (2) electronically filed a declaration with the PDC stating that the LLC is a legitimate business with a legitimate business interest, and it was not created for the sole purpose of making contributions. The PDC must develop a method for filing this declaration and it must be made public on its website.

Substitute Bill Compared to Original Bill:

The substitute bill removes provisions that aggregate contributions based on whether an individual or entity "directs or controls" another entity. It replaces them with provisions that aggregate contributions based on whether an entity is majority-owned, established, financed, maintained, or controlled by an individual or majority of persons.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) This bill is a targeted and surgical fix to end a loophole in campaign finance laws. A single donor can create shell LLCs, donate to them, and then have all the LLCs max out their contribution to the same candidate. That effectively allows one donor to go over the limit by spreading donations out through different entities. This bill would required aggregation of campaign contributions to prevent that. The state must continue to lead in campaign finance transparency and combat undue influence to enable more equitable elections.

(Opposed) None.

Persons Testifying: Representative Sharlett Mena, prime sponsor; Cindy Black, Fix Democracy First; and Cindy Madigan, League of Women Voters of Washington.

Persons Signed In To Testify But Not Testifying: None.