

Date of Hearing: July 7, 2021

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Lorena Gonzalez, Chair

SB 686 (Glazer) – As Amended June 23, 2021

Policy Committee: Elections

Vote: 6 - 1

Urgency: No

State Mandated Local Program: Yes

Reimbursable: No

SUMMARY:

This bill requires a limited liability company (LLC) that makes contributions or expenditures in connection with California elections to publicly disclose the identities of its members.

Specifically, this bill requires an LLC that qualifies as a committee or a sponsor of a committee pursuant to the Political Reform Act (PRA) to file a statement of members with the Secretary of State (SOS) listing those with an interest in the LLC equal to or greater than 10% as well as each person that made a contribution of over \$10,000 to the committee or committee sponsor, as specified, including information on the responsible officer.

FISCAL EFFECT:

First year SOS General Fund costs of approximately \$560,000, and \$120,000 annually thereafter, to implement the provisions of the bill.

Ongoing annual FPPC General Fund costs of approximately \$120,000.

COMMENTS:

- 1) **Rationale.** An LLC is a popular type of business structure that combines the benefits of a partnership and a corporation. LLCs, whose owners are referred to as members, may be formed to run a business, or simply to hold assets. There are numerous legitimate business reasons why a business may incorporate as an LLC as opposed to a different corporate structure. Advantages include protecting the members from personal liability for business debts and claims, fewer formalities and less paperwork, avoiding double-taxation, no restrictions on the number and types of owners and no specific required management structure. For these reasons, many different types of businesses, from small family businesses to some of the world's largest companies, choose to incorporate as LLCs.

Currently, limited liability companies can make large campaign contributions and expenditures in elections in the state without any meaningful disclosure to the public about the true source of those funds. Often, these LLCs are formed or purchased shortly before an election.

LLCs are attractive vehicles for disguising the true source of political activity. An LLC can make campaign contributions or independent expenditures solely in the name of the LLC

without disclosing any information about, or providing a way to determine, the source of the funds expended by the LLC and individuals responsible for operating the LLC.

This bill, sponsored by the FPPC, increases transparency in the political process by providing the public with more information about the individuals behind LLCs, and regulates their campaign activities the same way other businesses are regulated

- 2) **Background.** In June 2020, the FPPC adopted two regulations requiring LLCs to disclose specified information about who is making political decisions on the LLC's behalf. The first regulation defined "responsible officer" for an LLC that qualifies as an independent expenditure or major donor committee as "the individual primarily responsible for approving the political activity of the LLC." This change provided the public a more accurate portrayal regarding who is directing an LLC's expenditures and contributions. Previously, a registered agent or professional manager with no actual authority or control of the LLC would have been typically listed. The second regulation required additional information from a committee that receives a contribution from an LLC. The committee receiving the contribution would be required to provide the name of the individual responsible for the LLC's political activity in addition to reporting the name of the LLC. It should be noted that the individual varies depending on whether the LLC is a committee under the PRA and the type of committee.
- 3) **Related Legislation:** AB 236 (Berman), is similar to this bill. AB 236 is on the inactive file on the Assembly Floor.
- 4) **Political Reform Act of 1974 (PRA).** California voters passed an initiative, Proposition 9, in 1974 that created the FPPC and codified significant restrictions and prohibitions on candidates, officeholders and lobbyists. That initiative is commonly known as the PRA. Amendments to the PRA that are not submitted to the voters, such as those contained in this bill, must further the purposes of the initiative and require a two-thirds vote of both houses of the Legislature.