

IndividualStateAgencyFiscalNote

BillNumber: 1597HB	Title: Changingthepublicaccountancyact.	Agency: 165-StateBoardof Accountancy
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PartI:Estimates

☐ NoFiscalImpact

EstimatedCashReceiptsto:

Fund					
Total					

EstimatedExpendituresfrom:

	FY2002	FY2003	2001-03	2003-05	2005-07
FTEStaffYears	2.2	1.9	2.2	1.9	1.9
Fund					
CertifiedPublicAccountants' Account-State 02J-1	406,180	346,643	752,823	693,286	693,286
Total	\$406,180	\$346,643	\$752,823	\$693,286	\$693,286

Thecashreceiptsandexpenditureestimatesonthispagerepresentthemostlikelyfiscalimpact.Factorsimpactingtheprecisionoftheseestimates, andalternateranges(ifappropriate),areexplainedinPartII.

Checkapplicableboxesandfollowcorrespondinginstructions:

- ☒ Iffiscalimpactisgreaterthan\$50,000perfiscalyearinthecurrentbienniumorinsubsequentbiennia,completeentirefiscalnote formPartsI-V.
- ☐ Iffiscalimpactislessthan\$50,000perfiscalyearinthecurrentbienniumorinsubsequentbiennia,completethispageonly(PartI).
- ☐ Capitalbudgetimpact,completePartIV.
- ☒ Requiresnewrulemaking,completePartV.

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Part II: Narrative Explanation

II.A- Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe, by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

The primary purpose of the legislation appears to be to revise the Public Accountancy Act - (1) to adopt reciprocity provisions that allow Washington CPAs and out-of-state CPAs to conduct cross-border practice with ease and to establish consumer protection provisions to ensure that such practice will be properly regulated. - (2) to allow non-CPAs to obtain an ownership interest in CPA firms - (3) to increase flexibility in the CPA exam process to allow for electronic computerized testing - (4) to clarify what is permitted accounting practice. Most of the actual provisions for the changes are proposed to be deferred to rule-making or administrative processes by the Board of Accountancy. Both the rule-making process to adopt procedures and the results of the increased flexibility in practice will result in increased board expenditures.

II.B- Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumption translates into estimates. Distinguish between one-time and ongoing functions.

The board moved to a three-year fee cycle from a two-year cycle. This will continue to cause a third-year "dip" in revenues for the foreseeable future, which effects two out of every three bienniums. The board's high year biennium produces a cash reserve in the fee fund, which is currently more than adequate to compensate for the low years and continues to grow. (See attachment for revenue projection.) The beginning fee fund balance for 99-01 was 696,000. The current fee fund balance is 957,306. During the next two "low" cycles, the expenditures with this fiscal note will deplete the cushion within the current fee structures, requiring the board to consider an increase in fees.

01-0303-05 05-07

Fee Fund Revenue 1,017,356 1,135,285 1,849,681

Existing Budget 1,333,000 1,333,000 (+) 1,333,000 (+)

Legislation Fiscal Note 752,823 693,286 693,286

II.C- Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provision of the legislation that results in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumption translates into cost estimates. Distinguish between one-time and ongoing functions.

FISCAL IMPACT-02 and continuing

Section 1 & 4: 18.04.015(b)(iv) 18.04.045(9)

Provision: The Board shall provide consumer alerts and public protection information regarding persons who violate the provisions of the Act. It is anticipated that the most effective method to provide such alerts would be to provide notification of violations in newspapers in the area the violation occurred.

FISCAL IMPACT-02 and continuing

Section 1 & 4: 18.04.015(b)(iv) & 18.04.045(9)

Provision: The Board shall provide general consumer protection information to the public. It is anticipated that a general consumer protection program can be undertaken through generation of awareness information published in yellow page information, newspaper postings (during tax season), posting to the agency's website and through providing awareness flyers to CPAs, chamber of commerce, community centers, senior service centers. This information should be published at a minimum in: English, Spanish, Russian, Korean, Japanese, and Chinese.

FISCAL IMPACT-02 and continuing

Section 4 & 19: RCW 18.04.045(10) 18.04.370(3)

Provision: The board may enter into stipulated agreements and orders of assurance with persons who have violated the Act. This provision establishes the need to create Stipulated Agreements and Orders of Assurance when the agency identifies non-CPAs who violate the act.

FISCALIMPACT-02andcontinuing

Section1,4,11&18:18.04.04518.04.29518.04.30518.04.35018.04.195

Provisions:TheBoardshallprovidegeneralconsumerprotectioninformationtothepublic.Non-CPAownersofCPA firmswillbesubjecttotheprovisionsoftheActandBoardregulation,enforcement,andsanction.Onlyindividuals authorizedbytheIRSmayusethe titleEnrolledAgent.TheBoardshall establishrulesgoverningtheuseofaccounting titles.Theboardisrequiredtoinvestigateout-of-stateviolations.

Thebilldirectstheboardtopublishanddistributeconsumeralert/publicawarenessinformationregardingtheservicethe boardprovides.And,italsoprovidesfor non-CPAownershipofCPA firms.Thegeneralpublicisrelativelyunawareof theBoardofAccountancyanditsenforcementauthority.Weanticipatetheseprovisionswill significantlyincrease the numberofcomplaintstheboardreceives.Non-CPAownerswhoarenotededucatedinCPAtechnicalandethicalstandards willincrease the potentialfor non-compliancebyCPA firms.(ThebillalsoprovidedforCPAsto self-reportany current or pendingactionthatwouldbethebasisfordisciplinaryactionoftheboard,althoughthatlanguage maybe removedby thesubstitutedraft.)Additionallywearebelievethenumberofcomplaintsandinvestigationswillincreasefromthenew provisionscallingfor(1)individualsusingthetitleEnrolledAgenttobeenrolledintheIRS,and(2)theboardtoestablish arulegoverningtheuseofnon-accountingtitles.(3)out-of-stateviolations.

Wewouldestimatethatcomplaintswillataminimumincreaseby50%andinvestigationsandprosecutingAG resourcerequirementstoincreasebythesamepercentage.

FISCALIMPACT-02

Section1:-RCW18.04.015(2)

Provision:ThepurposeistorevisetheAct,fortifypublicprotectionprovisions,establishonesetofqualificationstobe a licensee,revise theregulationsofCPAs,reviseownershipofCPA firms,assuresubstantialequivalencybetweenstates, andclarifytheboard'sauthority.

ThebillanticipatesrevisionstoallsectionswithintheAct.TheActcurrentlyimpacts14,000CPAsandtoensure compliancewiththepublicprotectionprovisionsoftheActWashington'sCPAs,ataminimum,mustbeprovidedwitha copyofthenewlegislation.StaffingmustsupportdraftingandpostingFAQsontheagency'swebsite,respondingto phoneande-mailinquiriesregardingthenewprovisionsoftheActandtheimpactofthoseprovisionsonCPAs,licensees, CPAfirms,andnon-CPAs.

FISCALIMPACT-02andcontinuing

Section3:RCW18.04.035(1)

Provision:EffectiveJune30,2001,theBoardshallconsistofninemembers.Thisincreasesthenumberofboard membersfromseventonine,increasingthenumberofnon-CPAmembersqualifiedtorepresentthegeneralpublicandthe interestsofusersoffinancialdata.

FISCALIMPACT-02

Section(all): RCW18.04

Provisions: All

Thebillreviseseverysectionofstatute.AllruleswillrequirestaffreviewandreviewbytheBoard'slegalcounseland prosecutingattorneygeneral.Apreliminaryreviewindicatesvirtuallyallruleswillneedtobe amended.Additionally,all forms,instructions,andwebsiteinformationwillneedtobe amended to reflectthenewrules;and,toensureand encouragecompliance,all14,000CPAshouldreceiveacopyoftherules.

FISCALIMPACT-02

Section11:RCW18.04.195

Provisions:Allowsfor non-CPAownershipofCPA firms.WeanticipatetheneedtoprovidenoticetoWashington's 1,970CPA firmsandrespondtophoneande-mailinquiriesregardingthenewprovisions,newforms,newinstructionsfor applyingforafirmlicensewithnon-CPAownershipintheCPA firm.

FISCALIMPACT-02

Section 11 & 12: RCW 18.04.195(8) and (9) 18.04.205
Provisions: Require non-CPA owners to register with the firm and meet board established ethics examination, registration and ethics continuing education requirements. This provision creates the need to establish a system for registering non-CPA owners and auditing compliance with the board's continuing education requirements.

FISCAL IMPACT-02
Section 18: RCW 18.04.350(19)
Provision: Require the Board to establish a rule regarding what titles can be used by non-CPAs.
This provision: (1) Prohibits the use of the title Enrolled Agent unless an individual is enrolled in the IRS
(2) Requires the Board to create rules over use of title by non-CPAs.

This is an entirely new area of rule making for the board and although we anticipate crafting broad language which would be very inclusive, the new rule requirement will impact a substantial number of stakeholder groups.

Part III: Expenditure Detail

III.A-Expenditures By Object Or Purpose

	FY2002	FY2003	2001-03	2003-05	2005-07
FTE Staff Years	2.2	1.9	2.2	1.9	1.9
A-Salaries and Wages	90,800	82,750	173,550	165,500	165,500
B-Employee Benefits	22,409	19,502	41,911	39,004	39,004
C-Personal Service Contracts	10,950	2,462	13,412	4,924	4,924
E-Goods and Services	238,063	222,824	460,887	445,648	445,648
G-Travel	43,958	19,105	63,063	38,210	38,210
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
Total:	\$406,180	\$346,643	\$752,823	\$693,286	\$693,286

III.B-FTE Detail: List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA.

Job Classification	Salary	FY2002	FY2003	2001-03	2003-05	2005-07
Bd Member	12,500	.3	.2	.3	.2	.2
Investigator	50,000	.5	.8	.7	.8	.8
Paralegal	50,000	.8	.5	.7	.5	.5
Secretary Senior	30,000	.5	.3	.4	.3	.3
Technical Writer	48,250	.1	.1	.1	.1	.1
Total		2.2	1.9	2.2	1.9	1.9

Part IV: Capital Budget Impact

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules.

Section 1 articulates that the purpose is to enact broad and sweeping reform of the Act and regulation of certified public accountants- almost every existing rule will be necessarily altered, many will be substantially altered and new rules will need to be adopted where the statute directs. Fees 4-25-530 will need to be revised based on new expenditures and authorized fees. Definitions in WAC 4-25-410 parallel existing language that will change.

Sections 5, 6, 7, 11, 12 & 13: reflecting new language for examination, certification, licensure, registration, resident nonlicensee partners, and ethical/educational obligations of non-CPA owners and competency requirements for firms will affect 17 existing rules on licensure or certification requirements and procedures and require careful consideration for

adoption of new rules pertaining to non-CPAs.

Section 7 requires adoption of new rules on transitioning to a new examination structure or new media for administering the examination.

Section 9: Nine members, instead of seven, and three of them public members, will require restructuring of WAC 4-25-510

Section 18 requires the board to establish the rules for nonresident practice in the state, including notification requirements, verification of qualifications and setting fees and rules for use of accounting titles sanctioned by recognized national entities.

FISCAL YEAR REVENUE PROJECTION	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
	Projection	Projection	Projection	Projection	Projection	Projection	Projection	Projection	Projection
Cyclical Revenue (3 Year)									
CPA License Renewals - \$120	\$409,680	\$0	\$403,680	\$433,320	\$23,640	\$427,320	\$456,960	\$47,280	\$450,960
CPA Certificate Renewals - \$40	\$170,360		\$182,680	\$205,000	\$34,640	\$217,320	\$239,640	\$69,280	\$251,960
Firm License Renewals - \$90	\$37,710	\$0	\$56,880	\$45,180	\$7,470	\$64,350	\$52,650	\$14,940	\$71,820
Subtotals	\$617,750	\$0	\$643,240	\$683,500	\$65,750	\$708,990	\$749,250	\$131,500	\$774,740
Non-Cyclical Revenue									
New CPA Licenses Issued - \$120	\$10,560	\$10,560	\$10,560	\$10,560	\$10,560	\$10,560	\$10,560	\$10,560	\$10,560
New CPA Reciprocity Licenses Issued - \$225	\$24,525	\$24,525	\$24,525	\$24,525	\$24,525	\$24,525	\$24,525	\$24,525	\$24,525
New CPA Certificates Issued - \$75	\$64,950	\$64,950	\$64,950	\$64,950	\$64,950	\$64,950	\$64,950	\$64,950	\$64,950
Upgrading & Reinstatement Fees	\$11,779	\$11,779	\$11,779	\$11,779	\$11,779	\$11,779	\$11,779	\$11,779	\$11,779
New Firm Licenses Issued - Other - \$90	\$7,470	\$7,470	\$7,470	\$7,470	\$7,470	\$7,470	\$7,470	\$7,470	\$7,470
Late/Miscellaneous Fees	\$37,849	\$37,849	\$37,849	\$37,849	\$37,849	\$37,849	\$37,849	\$37,849	\$37,849
Quality Assurance Review Fees	\$44,550	\$27,225	\$32,625	\$44,550	\$27,225	\$32,625	\$44,550	\$27,225	\$32,625
Subtotal	\$201,683	\$184,358	\$189,758	\$201,683	\$184,358	\$189,758	\$201,683	\$184,358	\$189,758
TOTAL	\$819,433	\$184,358	\$832,998	\$885,183	\$250,108	\$898,748	\$950,933	\$315,858	\$964,498
Increase Amount - 2.98%	\$24,419	\$5,494	\$24,823	\$26,378	\$7,453	\$26,783	\$28,338	\$9,413	\$28,742
Total - 2.98% Increase	\$843,852	\$189,852	\$857,821	\$911,561	\$257,561	\$925,531	\$979,271	\$325,271	\$993,240