

# Fiscal Note

**BILL #** SB 1079

**TITLE:** state land auctions; electronic means

**SPONSOR:** Kerr

**STATUS:** Senate Engrossed

**PREPARED BY:** Gordon Robertson

## Description

The bill would allow the Arizona State Land Department (ASLD) to accept electronic bids at a public auction for the sale of state trust land. In addition, the bill would require ASLD to develop rules to verify a person is legally eligible and has sufficient monies to bid at an auction.

## Estimated Impact

We estimate that the bill's impact could range from: 1) No net cost if ASLD declines to use the bill's permissive authority to setup electronic bidding; or 2) Up to \$7.5 million per year, if ASLD decides to contract with a third party to administer electronic bidding.

If the department decides to establish an electronic bidding process, ASLD could incur additional per-transaction costs if they choose to contract with a third party to administer electronic bidding. If ASLD instead chose to develop the electronic bidding system in-house, the agency would incur additional IT development and operating expenses. These costs could be partially offset by potential increases in land trust revenues if electronic bidding generates increased competition as a result of more bidders participating in auctions. We cannot estimate in advance the precise agency cost to implement electronic bidding or how electronic bidding would affect the final sale price of state trust land.

ASLD did not provide a specific estimated cost of the bill and reported that any cost would depend on the agency electing to implement electronic bidding. ASLD indicated this decision would be based on: overall costs, agency rulemaking, and availability of agency resources (including staff time).

## Analysis

Under current practice, public auctions for the sale of state trust land are conducted in-person, typically in the county where the parcel is located. In terms of bidder verification, prospective bidders are required to show ASLD staff a cashier's check payable to the agency in the amount specified in the auction notice.

If ASLD chose to adopt rules to accept electronic bidding, the department would likely proceed by either: 1) Contracting with a third-party vendor to administer online bidding; or 2) Develop an online bidding system in-house. Based on a review of vendors, it appears that third-party auction vendors typically charge between 2% and 5% for entities with a sales volume similar to ASLD. Given the agency's FY 2023 land sales amount of \$373 million, a 2% vendor fee would result in increased annual costs of \$7.5 million. If ASLD instead chooses to develop the electronic bidding system in-house, the development costs and ongoing maintenance costs would depend on the technical specifications and procurement process, which cannot be estimated in advance.

In addition, if ASLD decides to establish electronic bidding, the bill would require the agency to establish rules to: 1) Prove that bidders hold sufficient monies and are legally eligible to bid; 2) Requiring each location where state lands are

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auctioned to include internet access. We estimate that the rulemaking process itself may increase ASLD staffing costs, and that the bill may generate additional one-time costs to establish appropriate processes and infrastructure. The actual cost of these changes would depend on the level of information ASLD would need to collect from potential bidders and if ASLD would need to equip any sites with internet access for the purpose of online bidding.

Increasing access to state trust land auctions by allowing these transactions to occur online could increase competitiveness of these auctions, which in turn could increase the final sale price of state trust land. However, we lack sufficient data from other states to gauge the effect of online bidding on competitiveness of auctions or final sale outcomes of those auctions.

#### **Local Government Impact**

School districts and some state entities are beneficiaries of state land trust revenue distributions. As noted above, electronic bidding may impact the final sales price of state land, which in turn could impact the level of future beneficiary distributions.

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