

Fiscal Note

BILL # SB 1079

TITLE: state land auctions; electronic means

SPONSOR: Kerr

STATUS: House Engrossed

PREPARED BY: Gordon Robertson

Revised

Explanation of Revision

We have revised the Fiscal Note to reflect the latest version of the bill as well as additional information about the bidding process.

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 fiscal impact of the bill will depend on if, and how, ASLD implements online bidding. If ASLD chooses to use online bidding, the fiscal impact could affect Land Trust Permanent Fund revenues as well as generate new administrative costs.

Online bidding may generate additional bids for state trust land. These additional bids could potentially raise the purchase price of the land which would increase Land Trust Permanent Fund revenues. We are not aware of any studies that have analyzed the quantitative impact of online bidding on state trust land sales.

Any potential costs would depend on how ASLD implements online bidding. The bill does not specify the mechanism for implementing this system. ASLD could choose to develop the system in-house or use a vendor. We do not have an estimate of how much an in-house system would cost to implement. ASLD could also choose to contract for this service. Based on a review of vendors, the transaction fee is typically 2% to 5% of the sales price for entities with a sales volume similar to ASLD.

ASLD's trust land administrative costs are typically covered by its Trust Land Management Fund (TLMF). In selling state trust land, ASLD pays for its expenses by levying charges on the winning bidder that are deposited into the TLMF. Since the bill does not specify the means of financing the online bidding process, ASLD would ultimately determine whether to use existing TLMF revenues or pass along the online bidding administrative cost to the users of the system. Due to a lack of information on the topic, we have not attempted to quantify how bid prices would be affected by any new potential charge on the bidders.

We asked ASLD for their perspective on the fiscal impact of the bill. Their response did not provide insight into how they would implement the bill. They reported that the fiscal impact 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).

(Continued)



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 chooses to implement 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, third-party auction vendors typically charge a transaction fee between 2% and 5% at ASLD's volume of activity.

ASLD would need to determine whether to use existing TLMF revenues or pass along this fee to bidders. While we understand that the normal practice would be to require the winning bidder to pay ASLD's administrative costs, we do not know in this circumstance whether ASLD would charge the fee to any winning bidder or only winning bidders who use the online system. Given the agency's FY 2023 land sales amount of \$373 million, a 2% transaction fee applied to all land sales would generate up to \$7.5 million of costs to the winning bidders.

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.

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. We lack sufficient data from other states to gauge the effect of online bidding on competitiveness of auctions or the 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.

5/6/24