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FISCAL IMPACT REPORT

SPONSOR <u>McQueen</u>	LAST UPDATED <u>03/11/25</u>
	ORIGINAL DATE <u>1/22/25</u>
SHORT TITLE <u>Land Grant-Merced Assistance Fund Changes</u>	BILL NUMBER <u>House Bill 21</u>
	ANALYST <u>Graeser</u>

REVENUE* (dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
	\$0.0	(\$64.5)	(\$66.7)	(\$68.6)	(\$71.0)	Recurring	General Fund
	\$0.0	\$64.5	\$66.7	\$68.6	\$71.0	Recurring	Land Grant-Merced Assistance Fund

Parentheses () indicate revenue decreases.

*Amounts reflect the most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
State Auditor, DFA, Indian Affairs	\$0.0	\$0.0	\$0.0	\$0.0	Recurring	General Fund

*Amounts reflect the most recent analysis of this legislation.

Sources of Information

LFC Files

Office of State Auditor land grant-merced audits for 2023 and 2024

Agency Analysis was Received From

Office of the State Auditor (OSA)

Department of Finance and Administration (DFA)

SUMMARY

Synopsis of House Bill 21

House Bill 21 makes two changes to the distributions of the land grant-merced assistance fund created in 2022 (Laws 2022, Chapter 32). The 100 percent class ceiling is increased from annual audited revenue of \$50 thousand to \$100 thousand. The balance in the fund at the end of the fiscal year will no longer revert to the general fund.

The effective date of this bill is July 1, 2025.

FISCAL IMPLICATIONS

The land grant-merced assistance fund receives .05 percent of the net receipts attributable to gross receipts tax after distribution. Distributions from the fund are made to land grants-mercedes based on their annual income exclusive of capital outlay, federal revenue, or private grants. A 100 percent qualifying share is calculated by dividing the total revenue in the fund by the number of qualifying land grants-mercedes. The following table shows the distribution levels for land grants-mercedes as amended by HB21.

HB21 Qualifications based on Annual Audited Revenue of the Land Grant Merced	
(1) less than \$100,000	100% distribution
(2) at least (\$100,000) but less than \$250,000	75% distribution
(3) at least \$250,000) but less than \$500,000	50% distribution
(4) \$500,000 or more	25% distribution

The Department of Finance and Administration (DFA) is tasked with administering the land grant-merced assistance fund. DFA receives a list of Audit Act-compliant land grants-mercedes and their compliance levels from the state auditor by September 1 each year. Within thirty days of receiving this list, the Land Grant Council will determine which land grants-mercedes are assistance-qualified and their distribution categories. DFA, along with the state treasurer, will then distribute the appropriate funds to each qualified land grant-merced.

DFA highlights that, by increasing the 100 percent distribution threshold, HB21 would increase the number of land grants-mercedes receiving 100 percent distributions and, subsequently, disbursements from the land-grant merced assistance fund. The department notes:

The proposed legislation would have increased the total land grant distributions in FY25 by \$61.5 thousand. Overall, between FY23 and FY25, the revenue thresholds under HB21 would have increased the distribution to the land grants by \$110,540 by having four land grants receive a full distribution instead of a 75% distribution.

DFA also provides the table included in Attachment 1.

The bill does not include a recurring appropriation but diverts or “earmarks” revenue, representing a recurring loss from the general fund. LFC has concerns with including continuing distribution language in the statutory provisions for funds because earmarking reduces the ability of the Legislature to establish spending priorities.

SIGNIFICANT ISSUES

The 2022 law now provides a source of recurring revenues as a share of roughly \$2 million. As more land grants-mercedes begin submitting annual audits, the amount each land grant-merced will receive will decline.

PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met because the Taxation and Revenue Department is not required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the earmarked revenue. This earmark could be considered a tax expenditure, but because land grants-mercedes are political subdivisions of the

state, a more proper interpretation is along the lines of the food and medical services hold harmless distributions to counties and municipalities of gross receipts taxes. Data is easily available for the observer to determine the total amount of money transferred monthly to the land grant merced assistance fund, but data on distributions to individual land grants-mercedes is obscure and not transparent.

OTHER SUBSTANTIVE ISSUES

In assessing all tax legislation, LFC staff considers whether the proposal is aligned with committee-adopted tax policy principles. Those five principles:

- **Adequacy:** Revenue should be adequate to fund needed government services.
- **Efficiency:** Tax base should be as broad as possible and avoid excess reliance on one tax.
- **Equity:** Different taxpayers should be treated fairly.
- **Simplicity:** Collection should be simple and easily understood.
- **Accountability:** Preferences should be easy to monitor and evaluate

In addition, staff reviews whether the bill meets principles specific to tax expenditures. Notably, this is an earmark of general fund revenue but is not considered a tax expenditure.

Attachments

1. DFA Analysis of Land Grant-Merced Assistance Fund Impact

AD/LG/hj/hg

Attachment 1:

	Current Legislation				Under HB21 Proposed Legislation			
	FY23	FY24	FY25	Total	FY23	FY24	FY25	Total
Amount available for Distribution	\$2,000,000.00	\$2,016,605.00	\$2,093,065.00	\$6,109,670.00	\$2,000,000.00	\$2,016,605.00	\$2,093,065.00	\$6,109,670.00
# Land Grants who received 75%	1	4	2	7	1	2	0	3
75% Distribution Amount	\$83,333.00	\$73,470.00	\$92,341.00	\$249,144.00	\$83,333.00	\$73,470.00	\$92,341.00	\$249,144.00
Total amount distributed at 75%	\$83,333.00	\$293,880.00	\$184,682.00	\$561,895.00	\$83,333.00	\$146,940.00	\$0.00	\$230,273.00
# Land Grants who received 100%	17	13	15	45	17	15	17	49
100% Distribution Amount	\$111,111.00	\$97,960.00	\$123,121.00	\$332,192.00	\$111,111.00	\$97,960.00	\$123,121.00	\$332,192.00
Total amount distributed at 100%	\$1,888,887.00	\$1,273,480.00	\$1,846,815.00	\$5,009,182.00	\$1,888,887.00	\$1,469,400.00	\$2,093,057.00	\$5,451,344.00
Total Land Grants	18	17	17	52	18	17	17	52
Total Distribution	\$1,972,220.00	\$1,567,360.00	\$2,031,497.00	\$5,571,077.00	\$1,972,220.00	\$1,616,340.00	\$2,093,057.00	\$5,681,617.00
Amount Reverted	\$27,780.00	\$449,245.00	\$61,568.00	\$538,593.00	\$27,780.00	\$400,265.00	\$8.00	\$428,053.00