

OFFICE OF LEGISLATIVE RESEARCH
PUBLIC ACT SUMMARY



PA 26-27—HB 5039

Government Oversight Committee

**AN ACT REQUIRING TRANSPARENCY AND ADDITIONAL
OVERSIGHT OF THE DISTRIBUTION OF CERTAIN LEGISLATIVELY
DIRECTED FUNDS AND APPROPRIATIONS FOR OTHER EXPENSES**

SUMMARY: This act addresses the management and oversight of legislatively directed funds (LDFs) and agencies' "Other Expenses" appropriations by creating requirements for LDF recipients and subrecipients, administering state agencies (executive branch entities other than public higher education institutions), and the Office of Policy and Management (OPM).

Under the act, an LDF is a specific amount appropriated by the General Assembly by public or special act for a contract or other expenditure with a grant, loan, or other form of economic assistance to a specific entity. It does not include funds authorized by the State Bond Commission or appropriations (1) in response to a natural disaster or emergency; (2) to a state agency, a political subdivision, the Judicial Department, the Legislative Department, or a constituent unit of public higher education as the recipient or subrecipient; or (3) made through a formula or competitive award process (including statutorily defined grant programs).

Specifically, the act:

1. limits state agencies from entering written agreements to give funds to an entity at the direction of the General Assembly, unless the General Assembly includes specific recipient information in legislation or in the Office of Fiscal Analysis' (OFA) budget sheets;
2. requires OPM to adopt policies and procedures for state agencies that administer LDFs to have uniform procedures across agencies and ensure LDFs are distributed in a way that achieves their intended purpose;
3. requires reports and publications by LDF recipients, state agencies, OPM, and the Auditors of Public Accounts (APA); and
4. prohibits certain uses of agencies' Other Expenses appropriations and creates a transition process for certain non-compliant uses.

EFFECTIVE DATE: July 1, 2026

**LEGISLATIVE REQUIREMENTS TO IDENTIFY RECIPIENTS AND USE OF
FUNDS**

The act prohibits state agencies from entering into a written agreement to give funds (such as grants, loans, or incentives) to a specific entity at the direction of the General Assembly unless a public or special act appropriates the funds and the special act, public act, or OFA's budget sheets include the (1) awardee's identity, (2) intended purpose of the funds, and (3) same information described above about any intended subrecipient. The act specifies that these requirements do not apply to

appropriations or funds that are not LDFs as defined by the act.

OPM LDF POLICIES AND PROCEDURES

The act requires OPM to establish policies and procedures for state agencies that administer LDFs. The policies must include how LDFs are distributed to recipients to ensure they are used for the intended purpose. If the policies are adopted or revised on or after July 1, 2026, the act requires the OPM secretary to email the policies and procedures to a committee of the six legislative leaders; the chairpersons and ranking members of the Appropriations; Finance, Revenue and Bonding; and Government Oversight committees; and the chairperson and vice-chairperson of the Black and Puerto Rican Caucus. The adopted or revised policies and procedures are not (1) effective until 60 days after submission, unless waived by a majority of the committee members, and (2) subject to the regulatory process.

LDF Distribution Requirements

The act requires LDFs to be distributed in a uniform procedure as follows:

1. for LDFs up to \$150,000, the funds must be distributed as an initial or advance payment or scheduled disbursement of funds according to a written agreement between the administering state agency and the recipient, including the funds' intended use; and
2. for LDFs greater than \$150,000, the administering state agency may distribute the funds in an initial or advance payment if the state agency consults with the LDF recipient and determines, after considering the appropriation's purpose, that it (a) is necessary to ensure the payments are responsive to the recipient's needs for the LDF's purpose and (b) facilitates startup or procurement costs, with the remaining balance distributed in subsequent payments or as reimbursements based on eligible expenses (distribution must be made according to a written agreement between the administering state agency and the recipient that states the funds' intended use).

Reimbursement Requirements

If an LDF is distributed on a reimbursement basis, the administering state agency's reimbursement procedures must not impose administrative barriers that (1) are inconsistent or more burdensome than required by the act, (2) prevent nonprofits or community-based entities from receiving or using the funds, or (3) jeopardize the funds' intended use and purpose. In addition, the procedures must:

1. have reimbursement determinations within 45 days after a recipient's eligible expense claim is submitted to the administering state agency and
2. allow initial or advance payments to recipients when necessary to ensure the funds are used as intended.

Requirements for Payment to Subrecipient

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Before making any type of payment to a subrecipient (an entity that receives LDFs from a state agency or other pass-through entity for the same authorized purpose, excluding subcontractors), the LDF recipient must obtain the written approval of the administering state agency and the OPM secretary, if required under the OPM policies and procedures.

State Agency Remittance Requirements

Under the act, within 15 days after receiving an LDF request for reimbursement, the administering state agency must either approve the request or issue written acknowledgement of receipt. The act requires the administering state agency to remit payment within 45 days after receiving a properly submitted, undisputed request.

OPM PRE-AWARD CONFERENCE FOR LDF RECIPIENTS

The act requires the OPM secretary to annually hold a pre-award conference for LDF recipients by August 1. Administering state agencies must designate at least one employee to attend the conference. The conference must be recorded, and the recording and any written conference materials must be posted on OPM's website. The conference must include:

1. instruction on policies and procedures for administering LDFs;
2. contact information of at least one administering state agency employee whom LDF recipients may contact for fiscal and programmatic questions;
3. a description of any monitoring, audit, or compliance review processes; and
4. relevant written materials.

LDF REPORTING AND NOTICE REQUIREMENTS

The act creates the following reporting and publishing requirements:

1. beginning by October 1, 2027, OPM must quarterly report to the Appropriations; Finance, Revenue and Bonding; and Government Oversight committees by providing (a) an overview of LDF statuses for the current fiscal year, (b) an accounting of the funds disbursed since the last report (or since the start of the fiscal year for the first report), and (c) a disbursement plan for any remaining LDFs;
2. beginning by January 1, 2028, each LDF recipient must annually report to the administering state agency describing how the LDFs were used in the preceding fiscal year and how any subrecipient used funds, in a manner set by the OPM secretary;
3. beginning by March 1, 2028, each state agency must annually report to OPM summarizing LDFs it administered in the prior fiscal year and any LDF recipient reports, or a statement that the agency does not administer any LDFs, in a manner set by the OPM secretary;
4. beginning by June 30, 2028, OPM must annually publish a publicly

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accessible online database listing LDFs administered by each state agency in the previous fiscal year, including summaries from the annual reports described above; and

5. OPM must submit a preliminary report by June 30, 2028, and annual reports beginning by January 1, 2029, to the Appropriations; Finance, Revenue and Bonding; and Government Oversight committees summarizing the reports submitted by the administering state agencies and LDF recipients.

LDF Allotment Reductions Notice

If the governor reduces an allotment requisition or allotment in force related to an LDF, the act requires the OPM secretary to give the six legislative leaders written notice, including an explanation for the reduction, within seven days.

“OTHER EXPENSES” IN THE STATE BUDGET

The act prohibits state agencies (executive branch entities other than public higher education institutions) from using any funds appropriated for Other Expenses (a category of their budget accounts that generally includes contractual services, commodities, and sundry charges) as grants or pass-through payments unless the (1) General Assembly passes a public or special act that appropriates funds for Other Expenses for this purpose or (2) funds are used according to a written agreement in effect on July 1, 2026, to fulfill a transitional non-compliant Other Expenses obligation (see below).

Transitional Non-Compliant Other Expenses Obligations

Transitional non-compliant Other Expenses obligations are expenditures or obligations of funds from Other Expenses that provide financial assistance, a grant, or other payment to a recipient (in this context, recipients do not include a state agency, a political subdivision of the state, the Judicial Department, the Legislative Department, or a constituent unit of public higher education) and do not qualify for the first exception above. The act prohibits expanding, renewing, or increasing funding for transitional non-compliant Other Expenses obligations past the amount and duration authorized as of July 1, 2026.

The act requires state agencies, by January 1, 2027, to review any expenditures of funds from Other Expenses and designate any transitional non-compliant Other Expenses obligations. By the same date, the OPM secretary, in consultation with OFA, must create a plan to reclassify or reallocate each transitional non-compliant Other Expenses obligation in an appropriate way and submit the plan to the Appropriations; Finance, Revenue and Bonding; and Government Oversight committees.

Beginning July 1, 2027, the act prohibits state agencies from continuing or entering into any new agreement or obligation that would qualify as a transitional non-compliant Other Expenses obligation, unless the obligation has been reclassified or reauthorized by the General Assembly.

Reporting and Review for Other Expenses

If a state agency, on or after July 1, 2026, makes an expenditure from Other Expenses to a municipality or nonprofit, the act requires the agency to submit a statement to OPM that includes (1) the expenditure's purpose, (2) the statutory or program guidelines authorizing the expenditure, and (3) whether the expenditure is financial assistance or a grant award. Any budget document or report submitted by the governor to the General Assembly must include these expenditures and the information in the statement submitted to OPM. If any budget document or report recommends that an expenditure be made annually, the act requires the expenditure to be included as an individual appropriation, not in Other Expenses.

Within 30 days after the results of any state agency APA report, the act requires OPM to submit a report to the Appropriations; Finance, Revenue and Bonding; and Government Oversight committees listing expenditures over \$10,000 from Other Expenses made by each agency, including the recipient's name, expenditure amount and purpose, and date of approval from the secretary, if required.

Additionally, APA must annually review each state agency's Other Expenses expenditures and report to the OPM secretary and the Appropriations; Finance, Revenue and Bonding; and Government Oversight committees. The report must identify any expenditures inconsistent with these provisions, including any expenditures that are a grant award. If APA identifies inconsistent expenditures, the act requires the OPM secretary to write a letter to the appropriate state agency department head providing corrective action to prevent reoccurrence. The expenditure must be subject to recoupment or lapse and may result in a reduction in following Other Expenses appropriations.