

State Land Department

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	130.7	129.7	129.7
Personal Services	6,639,500	7,295,000	7,295,000
Employee Related Expenditures	2,695,200	3,034,300	3,034,300
Professional and Outside Services	1,188,500	1,357,500	1,357,500
Travel - In State	92,300	100,000	100,000
Travel - Out of State	20,300	20,000	20,000
Other Operating Expenditures	3,021,700	3,171,300	3,171,300
Equipment	645,900	180,000	180,000
OPERATING SUBTOTAL	14,303,400	15,158,100	15,158,100
SPECIAL LINE ITEMS			
CAP User Fees	705,700	737,800	737,800
Due Diligence Fund	0	500,000	500,000
Natural Resource Conservation Districts	563,100	650,000	650,000
Scanning and Digitizing Trust Land Records	1,006,200	0	0
AGENCY TOTAL	16,578,400	17,045,900	17,045,900
FUND SOURCES			
General Fund	12,507,700	12,520,500	12,520,500
<u>Other Appropriated Funds</u>			
Due Diligence Fund	0	500,000	500,000
Environmental Special Plate Fund	173,100	260,500	260,500
Trust Land Management Fund	3,897,600	3,764,900	3,764,900
SUBTOTAL - Other Appropriated Funds	4,070,700	4,525,400	4,525,400
SUBTOTAL - Appropriated Funds	16,578,400	17,045,900	17,045,900
Other Non-Appropriated Funds	751,200	850,000	800,000
Federal Funds	698,900	50,000	0
TOTAL - ALL SOURCES	18,028,500	17,945,900	17,845,900

AGENCY DESCRIPTION — The agency manages the state's 9.2 million acres of trust land on behalf of its 13 beneficiaries. In order to generate revenue, the agency plans, leases, and sells trust land. The agency also generates revenue by collecting royalties from the operators of 2 copper mines on state land.

Operating Budget

The Baseline includes \$15,158,100 and 129.7 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$11,392,700
Environmental Special Plate Fund	500
Trust Land Management Fund	3,764,900

These amounts are unchanged from FY 2016.

CAP User Fees

The Baseline includes \$737,800 from the General Fund in FY 2017 for Central Arizona Project (CAP) User Fees. This amount is unchanged from FY 2016.

This funding level assumes that the department will be billed for "capital charges" of \$23 per acre foot on 32,076 acre feet of water in FY 2017 for a total annual charge of \$737,800. This amount would equal the appropriation for CAP user fees for FY 2016.

Pursuant to A.R.S. § 36-106.01, the State Land Department has a long-term contract with the Central Arizona Water Conservation District (CAWCD) (the governing entity for CAP) for the rights to purchase

32,076 acre-feet of CAP water annually for municipal and industrial uses on state trust lands. The department typically does not take delivery of the water, but must still pay capital charges to the CAWCD each year in order to maintain its CAP water rights. (The CAWCD uses revenue from capital charges to fund repayment of federal construction debt for the CAP.) Maintaining CAP water rights on state trust lands increases their market value. When CAP water rights on state trust lands are transferred to a municipality through the sale or lease of state trust lands, the state General Fund is reimbursed for all previous costs associated with the water rights pursuant to A.R.S. § 37-106.01C. *(Please see related General Appropriation Act footnote.)*

Due Diligence Fund

The Baseline includes \$500,000 from the Due Diligence Fund in FY 2017 for this line item. This amount is unchanged from FY 2016.

The State Land Department uses monies in this line item to fund due diligence studies on land that it prepares for auction. The purchasers of state trust land then reimburse the State Land Department for the cost of the studies.

Natural Resource Conservation Districts

The Baseline includes \$650,000 in FY 2017 for Natural Resource Conservation Districts (NRCDS). This amount consists of:

General Fund	390,000
Environmental Special Plate Fund	260,000

These amounts are unchanged from FY 2016.

Monies in this line item are used to provide for natural resource research, activities, and staff at the state’s 30 NRCDS. These districts are established to provide local conservation assistance and education and to coordinate the receipt of federal grants. A.R.S. § 37-1014 requires the department to include in its budget request up to \$40,000 for each NRCDS and \$60,000 for each education center for a 2-year period.

A General Appropriation Act footnote requires that \$30,000 of the total appropriation for NRCDS be used to provide grants to NRCDS environmental education centers. The \$30,000 is divided among the 26 education centers sponsored or cosponsored by 30 NRCDS. Districts that sponsor an education center also receive \$5,000 each year from the Environmental Special Plate Fund, per A.R.S. § 37-1015.

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

The appropriation includes \$737,800 for Central Arizona Project User Fees in FY 2017. For FY 2017, from municipalities that assume their allocation of Central Arizona Project water for every dollar received as reimbursement to the state for past Central Arizona Water Conservation District payments, \$1.00 reverts to the state General Fund in the year that the reimbursement is collected.

Of the amount appropriated for Natural Resource Conservation Districts in FY 2017, \$30,000 shall be used to provide grants to Natural Resource Conservation Districts environmental education centers.

New Footnotes

The state General Fund appropriation to the State Land Department is reduced by \$(7,303,600) in FY 2017 if Senate Concurrent Resolution 1018 or successor legislation is enacted by a vote of the people at the next general election. The sum of \$7,303,600 is appropriated to the State Land Department from the Trust Land Administration Fund in FY 2017 if Senate Concurrent Resolution 1018 or successor legislation is enacted by a vote of the people at the next general election. *(Would revert seven-twelfths of General Fund appropriations if the agency’s self-funding ballot proposition passes, since General Fund funding would no longer be necessary for the 7-month period from December 2016 - June 2017. Would appropriate 7-months of funding from the newly-created Trust Land Administration Fund to offset the reduced General Fund support. Please see the Long-Term Budget Impacts section below for more information.)*

STATUTORY CHANGES

The Baseline would:

- Modify the FY 2016 Environment Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 13) to no longer repeal the Trust Land Management Fund in order to preserve the department’s ability to deposit and use fee monies, and, as permanent law, rename the Trust Land Management Fund as the Land Fee Fund.
- Modify permanent law to establish the Trust Land Administration Fund as a separate, rather than replacement, provision of law from the Trust Land Management Fund.

- As session law, allow Land Fee Fund monies to be used for non-trust land administration purposes for FY 2017.
- As permanent law, limit the Trust Land Administration Fund and the Land Fee Fund fiscal year-end balances each to 50% of the department's operating appropriation for the next fiscal year, rather than 200%.
- As session law, modify Laws 2015, Senate Concurrent Resolution 1018, to clarify that the Land Department Self-Funding plan will allow the department to proportionately withdraw from the permanent funds up to 10% of the permanent receipts total of the second prior fiscal year. *(Please see Self-Funding Agency in the Other Issues section for more information.)*

Other Issues

Long-Term Budget Impacts

As part of the FY 2016 Baseline's 3-year spending plan, the Land Department's General Fund costs were projected to remain unchanged in FY 2017 and decrease by \$(12,520,500) in FY 2018 below FY 2017. These estimates assumed the agency's self-funding proposal in SCR 1018 would receive voter approval in November 2016. To avoid overstating the savings should the ballot proposition fail, however, the 3-year plan did not score the General Fund savings until 2018. Consistent with that approach, the FY 2017 Baseline does not display any savings until FY 2018.

Contingent upon voter approval in November 2016, SCR 1018 could also generate savings to the General Fund in FY 2017. By substituting Land Trust proceeds for General Fund appropriations for the 7-month period from December 2016 to June 2017, the Legislature could reduce the FY 2017 General Fund appropriations \$(7,303,600) below the FY 2017 Baseline. In this case, General Fund monies would be reduced by an additional \$(5,216,900) in FY 2018 below the FY 2017 amount for a total reduction of \$(12,520,500). *(Please see Self-Funding Agency below and the New Footnotes section for more information.)*

Self-Funding Agency

In 2015, the Legislature approved SCR 1018, which will allow voters in the November 2016 general election to decide whether to amend the Arizona Constitution to allow up to 10% of annual proceeds from state trust land to be used for administration and disposition of trust lands. Contingent upon voter approval of this

amendment, the FY 2016 Environment Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 13) would repeal A.R.S. § 37-527, the authorizing language for the existing Trust Land Management Fund, and replace it with a new A.R.S. § 37-527 that creates the Trust Land Administration Fund.

The new Trust Land Administration Fund would be administered by the State Land Commissioner and would consist of up to 10% of the annual proceeds of each beneficiary's trust lands. The Land Commissioner would determine the actual withdrawal percentage in each year. The fund would be subject to legislative appropriation. On notice from the State Land Commissioner, the State Treasurer would invest and divest the monies in the fund pursuant to A.R.S. § 35-313.

Fees

Currently, revenues from application, sales administration, and other fees charged by the Land Department are deposited into the Trust Land Management Fund pursuant to A.R.S. § 37-107. In repealing this fund, however, the conditionally enacted language of the FY 2016 Environment BRB did not provide statutory authority for the Land Department to deposit future fee revenue into an active fund nor transfer existing funds from the Trust Land Management Fund to an active fund upon its repeal.

To maintain the department's ability to deposit fee revenues and utilize the existing balance of fee monies, the JLBC Staff recommends that the 2017 budget undo the conditional repeal of A.R.S. § 37-527, the authorizing language for the Trust Land Management Fund. This will allow the Land Department to continue depositing fee revenues and maintain the existing Trust Land Management Fund balance. The JLBC Staff also recommends renaming the Trust Land Management Fund as the Land Fee Fund to more clearly differentiate it from the Trust Land Administration Fund and to more accurately describe its revenue sources and uses.

As a second step, the Trust Land Administration Fund in A.R.S. § 37-527 in SCR 1018 would be re-designated as A.R.S. § 37-528, such that the Trust Land Administration Fund would complement, rather than replace the Trust Land Management Fund (which would be renamed, as described above). *(Please see Statutory Changes section for more information.)*

Permanent & Expendable Receipts

The constitutional amendments proposed in SCR 1018 leave ambiguous whether the Land Department has authority to use proceeds both from land sales and royalties ("permanent receipts") and from lease revenues

("expendable receipts") for the administration of trust lands. If interpreted to allow the use only of permanent receipts, the amendment could result in available funding that is lower than operating expenditures in years with low land sale proceeds.

Due to the volatility of land sale proceeds and the difficulty of accurately predicting their total in advance, the Land Department has proposed further amending the Arizona Constitution to explicitly grant the authority to use both expendable and permanent receipts for trust land administration.

Utilizing both permanent and expendable receipts would provide greater certainty that available resources would meet operating expenditures each year. Redirecting expendable receipts to trust land administration, however, would have a more immediate and pronounced effect on trust beneficiaries than redirecting permanent receipts alone. Each dollar of redirected permanent receipts reduces the annual amount that beneficiaries would receive in future years by the Treasurer's distribution rate, or 2.5 cents (6.9 cents if Proposition 123 receives voter approval). *(Please see October 2015 Special Session and Proposition 123 section for more information.)* Each dollar of redirected expendable receipts immediately reduces the amount that beneficiaries would receive in that year by the full dollar.

Withdrawal Calculation Base Year

A second issue needing clarification is the base year that is used for calculating trust land administration withdrawals. The existing SCR 1018 language bases the administrative withdrawal on the current year's land trust proceeds.

To allow the use of known—rather than projected—numbers during the budget development process, while ensuring adequate trust land administration funding with minimal budgetary disruptions to beneficiaries, the JLBC Staff recommends basing withdrawals to the Trust Land Administration Fund upon the permanent receipt total of 2 fiscal years prior, rather than the current fiscal year. The Land Commissioner would determine the actual withdrawal percentage in each year, not to exceed 10% of the total permanent receipts.

For example, for FY 2017, the Land Department could withdraw up to 10% of the \$136.3 million of FY 2015 permanent receipts, or \$13,634,800, into the Trust Land Administration Fund.

The \$13,634,800 starting balance would be reduced \$(7,303,600) by the FY 2017 Trust Land Administration Fund appropriation for the post-election period December 2016 – June 2017. *(Please see New Footnotes section*

above for more information.) The FY 2017 ending balance of \$6,331,200 would remain as non-lapsing monies available for future use if permanent receipts were subsequently insufficient to fully fund Trust Land Administration Fund appropriations.

Maximum Non-Lapsing Balance

As conditionally enacted by SRC 1018, Trust Land Administration Fund monies would be non-lapsing. If the balance in the fund at the end of any fiscal year exceeded 2 times the budget of the department for the administration of trust lands for the next fiscal year, however, the excess amount would be credited proportionately to each beneficiary's permanent fund based on the previous year's deposits.

The JLBC Staff recommends limiting the fiscal year-end balance to 50% of the department's operating appropriation for the next fiscal year, rather than 200%, in order to more quickly return funds to trust beneficiaries. In addition, this threshold will still allow the department to carry forward balances of up to approximately \$7.5 million in the Trust Land Administration Fund. Combined with the approximately \$7.5 million the department will be able to carry forward in the Land Fee Fund as well, this amount should be sufficient to supplement years with low cash flows. *(Please see Non-Trust Land Administration Funding section below for more information.)*

Non-Trust Land Administration Funding

The State Land Department is mandated by statute to conduct activities beyond trust land administration, but under the current self-funding plan, it may be unable to fund them.

Pursuant to A.R.S. § 37-173, for example, the department's Resource Analysis Division includes the Office of State Cartographer and must provide geographic information system (GIS) services to public institutions in the state. Currently, this function and other department activities such as the administration of NRCs are partially funded by state General Fund monies. *(Please see the National Resource Conservation Districts section above for more information.)*

If state General Fund appropriations are eliminated under the self-funding plan, however, these activities may no longer have sufficient allowable funding sources, as the offsetting monies in the conditionally enacted Trust Land Administration Fund would be constitutionally restricted to trust land administration purposes. Pursuant to A.R.S. § 37-527, fee monies in the Trust Land Management Fund (which would be renamed as the Land Fee Fund as described above) are statutorily also restricted to trust land administration.

The department currently receives \$390,000 in state General Fund appropriations for NRCDs and also budgeted \$184,800 of state General Fund monies for GIS programs in FY 2016. The JLBC Staff is currently analyzing other functions that may rely on General Fund support that would require alternate funding sources if state General Fund monies are eliminated.

The Legislature has at least 3 options to ensure that these functions continue to receive adequate funding in FY 2017:

1. Allow application, sales administration, and other fees levied by the department to support non-trust land administration uses.
2. Maintain state General Fund appropriations for the department's non-trust land administration functions.
3. Instruct the department to institute new fees related to non-trust land administration functions.

Because programs such as the NRCDs may have difficulty in raising sufficient funds through added fees, the JLBC Staff recommends temporarily adopting option 1, such that Land Fee Fund monies could be used in FY 2017 to support these activities. To more closely align fee revenues and uses, however, or maintain state General Fund support, the Legislature may wish to consider alternatives as a long term solution.

Currently, if the fiscal year-end balance in the Trust Land Management Fund (Land Fee Fund) exceeds twice the department's budget for the administration of trust lands for the next fiscal year, the excess amount must be credited proportionately to each trust beneficiary's permanent fund based on the previous year's deposits.

The JLBC Staff recommends limiting the fiscal year-end balance of the Land Fee Fund to 50% of the department's operating appropriation for the next fiscal, as with the Trust Land Administration Fund. The fund's balance at the end of FY 2015 was \$7.8 million, and the department projects a FY 2016 ending balance of \$9.8 million. *(Please see Maximum Non-Lapsing Balance section above for more information.)*

October 2015 Special Session and Proposition 123

Conditional upon voter approval of Proposition 123 in May 2016, the October 2015 Special Session legislation (Laws 2015, 1st Special Session, Chapters 1 and 2 and HCR 2001) increases the annual distribution rate from the State Land Trust Permanent Fund from 2.5% to 6.9% from FY 2016 through FY 2025.

Proposition 123 would provide \$172,081,000 in incremental funds to K-12 schools in FY 2016, or an estimated \$2,155,186,400 over 10 years. *(Please see October 2015 Special Session and Proposition 123 section in the Department of Education section for more information.)*

As *Table 1* shows below, Proposition 123 would also increase distributions to other public institutions. Non-K-12 beneficiaries received \$5,745,100 in distributions under the 2.5% rate in FY 2015 and would receive \$18,176,200 under the 6.9% distribution rate in FY 2016. Over 10 years, non-K-12 beneficiaries would receive an estimated \$159,721,000 in additional distributions under Proposition 123.

Environmental Special Plate Fund

The revenue deposited in the Environmental Special Plate Fund consists of \$17 of the \$25 fee for environmental license plates. Current levels of Environmental Special Plate Fund revenue do not permit expenditure of the full appropriation. Revenue for FY 2015 totaled \$147,800 and will not be able to fund the appropriated amount, which is set at \$260,000. The revenue generated from the Environmental Special Plate Fund has trended downward and license plate sales have not reached \$260,000 since FY 2007.

	FY 2015 (2.5% Distribution)	FY 2016 (6.9% Distribution)	10-Year Incremental Distributions
Military Institute	12,800	38,600	280,200
Normal Schools ASU/NAU	82,100	256,600	2,128,700
A & M Colleges	228,000	695,200	5,220,000
School of Mines	258,000	786,000	5,896,400
University Fund	429,000	1,335,000	11,090,000
U of A Land - 1881	1,129,200	3,868,200	43,604,400
Universities Subtotal	2,139,100	6,979,600	68,219,700
State Hospital	138,400	431,100	3,510,900
Legal, Executive, & Judicial Buildings	185,200	566,900	4,360,400
Miners' Hospital (Pioneers' Home)	389,000	1,302,000	13,680,100
Penitentiaries (Dept. of Corrections)	282,500	906,300	8,486,500
School for Deaf & Blind	116,300	362,000	2,925,900
State Charitable (50% Pioneers' Home, 25% Dept. of Corrections, 25% Dept. of Juvenile Corrections)	2,494,600	7,628,300	58,537,500
Non-K-12 Beneficiaries Total	5,745,100	18,176,200	159,721,000

^{1/} Assumes 6.9% annual investment returns.
^{2/} Assumes \$11 million annual non-K-12 Land Trust sale proceeds.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
CAP Municipal and Industrial Repayment Fund (LDA2129/A.R.S. § 37-526)		Non-Appropriated
Source of Revenue: Reimbursements to the state for back water payments when cities assume their allocation of Central Arizona Project (CAP) water, legislative appropriations.		
Purpose of Fund: To make CAP water fee payments for urban state trust land. Monies remaining in the fund revert to the General Fund after the CAP subcontract obligations are met.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Due Diligence Fund (LDA2526/A.R.S. § 37-110)		Appropriated
Source of Revenue: Reimbursements from successful bidders on state lands for expenses incurred by the department to fund due diligence studies.		
Purpose of Fund: To prepare land for sales, leases, rights-of-ways, or other use-permits.		
Funds Expended	0	500,000
Year-End Fund Balance	41,800	41,800
Environmental Special Plate Fund (LDA2274/A.R.S. § 37-1015)		Appropriated
Source of Revenue: \$17 of the \$25 fee for environmental license plates.		
Purpose of Fund: To provide grants for environmental education projects. Funds Natural Resource Conservation Districts (NRCs) and the education centers they sponsor. An amount of \$5,000 is distributed to each NRC that sponsors an education center. Additionally, funds are distributed to NRCs and education centers based on appropriation.		
Funds Expended	173,100	260,500
Year-End Fund Balance*	48,000	(82,200)

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Federal Funds (LDA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal grants for urban and rural forestry, resource conservation, development of forest lands, insect and disease control, fire training and protection of forests, and other forestry projects.		
Purpose of Fund: For resource conservation and development, in accordance with the requirements of each grant.		
Funds Expended	96,600	50,000
Year-End Fund Balance	0	0
Federal Grants - American Recovery and Reinvestment Act (ARRA) (LDA2999/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: One-time Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).		
Purpose of Fund: One-time Federal Funds to be used by the department for renewable energy and mapping projects.		
Funds Expended	602,300	0
Year-End Fund Balance	0	0
Federal Reclamation Trust Fund (LDA2024/A.R.S. § 37-106)		Non-Appropriated
Source of Revenue: Reimbursements from lessees and interest.		
Purpose of Fund: To make payments for federal reclamation project assessments when state land lessees are delinquent.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Interagency Agreements Fund (LDA2212/A.R.S. § 35-148)		Non-Appropriated
Source of Revenue: Collections from other state agencies for services and products provided by the State Land Department.		
Purpose of Fund: To pay for joint projects based upon interagency agreements with other state agencies.		
Funds Expended	0	0
Year-End Fund Balance	148,200	160,200
Off-Highway Vehicle Recreation Fund (LDA2253/A.R.S. § 28-1176)		Non-Appropriated
Source of Revenue: The Land Department receives 5% of the total Off-Highway Vehicle Fund revenue, which consists of fees for off-highway vehicle decals issued by the Department of Transportation and 0.55% of the motor fuel tax revenue.		
Purpose of Fund: To mitigate damage to land, to fund enforcement of off-highway vehicle laws, and for necessary environmental, historical, and cultural clearance or compliance activities.		
Funds Expended	365,800	365,000
Year-End Fund Balance	296,300	156,300
Resource Analysis Division Revolving Fund (LDA4009/A.R.S. § 37-176)		Non-Appropriated
Source of Revenue: Receipts from the provision of Geographic Information Systems (GIS) products and services.		
Purpose of Fund: To offset the costs of GIS supplies and support.		
Funds Expended	17,600	110,000
Year-End Fund Balance	111,400	111,400

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
State Land Department Fund (LDA2451/A.R.S. § 37-107)		Non-Appropriated
Source of Revenue: Reimbursements from successful bidders on state trust lands for expenses incurred to advertise land sales and for zoning application fees.		
Purpose of Fund: To fund expenses incurred from the advertisement of state trust land sales and to pay zoning fees for new projects.		
Funds Expended	367,800	375,000
Year-End Fund Balance	2,566,800	2,576,800
Trust Land Administration Fund (LDA8908/A.R.S. § 37-527; Version 2)		Appropriated
Source of Revenue: The FY 2016 Environment Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 13) repeals the Trust Land Management Fund and establishes the Trust Land Administration Fund in FY 2017, conditional upon voter approval of SCR 1018 in November 2016. Up to 10% of the proceeds from the sale of State Trust land and natural resources shall be deposited to the fund. The total balance of the fund is capped at 2 times the trust land administration budget for the following fiscal year.		
Purpose of Fund: To administer and dispose of State Trust lands as prescribed by law.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Trust Land Management Fund (LDA3146/A.R.S. § 37-527)		Appropriated
Source of Revenue: Fees charged by the department. The total balance of the fund is capped at 2 times the trust land management budget for the following fiscal year. The FY 2016 Environment BRB repeals the fund, conditional upon voter approval of SCR 1018 in November 2016. Conditional upon voter approval, the Trust Land Administration Fund will replace this fund.		
Purpose of Fund: To fund the management of the approximately 9 million acres of State Trust land throughout the state.		
Funds Expended	3,897,600	3,764,900
Year-End Fund Balance	7,795,300	9,815,700

*As reported by the agency. Actual ending balance will not be negative.