

# Arizona Trust Lands & Education Funding

As new states entered the union, Congress made land grants to those states to provide support for a variety of public institutions, principally public schools. These lands were accepted through ratification of state constitutions that contained provisions guiding the state's management of these lands. Unlike public lands, state trust lands are held in trust by the state for designated beneficiaries. As trustees, state land managers have a fiduciary duty to manage the lands for the benefit of the beneficiaries of the trust grant. They lease and sell these lands for a diverse range of uses to meet that responsibility – generating revenue for the designated beneficiaries, today and for future generations.

There are approximately 9.3 million surface acres and 9 million mineral acres of trust land in Arizona.<sup>1</sup> Surface acres include land that is managed for commercial and residential development uses, agricultural uses and grazing. The mineral acres contain deposits of precious minerals, oil, gas, and minerals used as aggregate or fill.<sup>2</sup> There are trust lands throughout the state, but unlike many western states, many trust lands in Arizona are held in large, contiguous blocks. Approximately one million acres of trust land occur within a 60 minute or less drive of the Phoenix and Tucson metro areas.

## State Trust Lands in Arizona



Light blue designates state trust land.

*Due to sale activities for given trust lands, maps may not reflect the most current holdings of a given state trust land agency.*

*Map: Sonoran Institute*

## How are trust lands in Arizona managed?



Photo: Diana Rhoades

Trust lands in Arizona are managed by the Arizona State Land Department (ASLD), which is directed by the State Land Commissioner. The State Land Commissioner is appointed by the Governor. The Board of Appeals, a five-member board appointed by the Governor for six-year terms, acts as a review and approval entity with decision-making authority when decisions of the Commissioner are contested.<sup>3</sup> The Arizona Revised Statutes require that the ASLD “hold the public lands of this state in trust for the benefit of the people of this state and shall manage them in an orderly and beneficial manner consistent with the public policy declared in subsection B.”<sup>4</sup>

The ASLD is responsible for the management, lease and sale of trust lands, the receipt of revenues from trust land activities, and the subsequent transfer of these funds to the State Treasurer. Their mission is “To manage State Trust lands and resources to enhance value and optimize economic return for the trust beneficiaries, consistent with sound stewardship, conservation, and business management principles supporting socioeconomic goals for citizens here today and generations to come. To manage and provide support for resource conservation programs for the well-being of the public and the State’s natural environment.”<sup>5</sup>

## Who are the beneficiaries of trust lands in Arizona?

Revenues generated from Arizona's trust lands are deposited into fourteen separate trust funds that support eleven beneficiary groups. A specific acreage of trust lands was granted to each beneficiary, and the revenue generated from those lands is deposited into the corresponding fund.

Public schools are the designee of 87.5% of the trust land in Arizona and receive the majority of the revenue generated by trust land in the state.

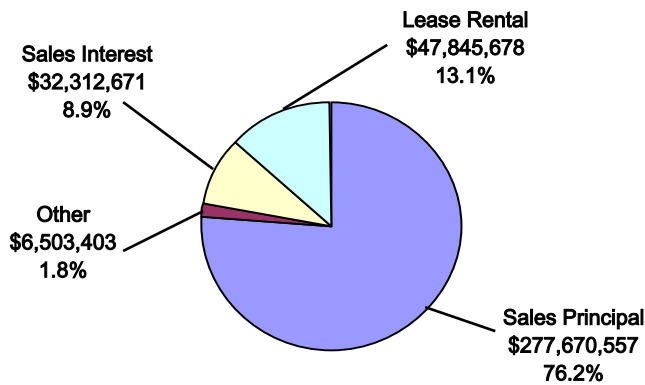
### Arizona Trust Land Beneficiary Funds and Acreage Dedicated to Each<sup>6</sup>

<b>Fund</b>	<b>Beneficiary</b>	<b>Surfaces Acres in Fund</b>	<b>% Acres</b>
Agricultural and Mechanical Colleges	Engineering Programs at University of Arizona (UA) Arizona State University (ASU) Northern Arizona University (NAU)*	124,944	1.3%
Common Schools (K-12)	Public Schools	8,105,550	87.5%
Legislative, Executive and Judicial Buildings	Department of Administration for Bonds **	64,257	0.7%
Military Institutes	ROTC Programs at ASU, NAU, and UA *	80,168	0.9%
Miners' Hospital (2 Grants)	Pioneers' Home	95,431	1.0%
Normal Schools (teacher colleges)	ASU, NAU, and UA *	174,798	1.9%
Penitentiary	Penitentiary	76,111	0.8%
School for the Deaf and Blind	School for the Deaf and Blind	82,560	0.9%
School of Mines	University of Arizona	123,254	1.3%
State Charitable, Penal and Reformatory	Juvenile Corrections – 25% Department Of Corrections – 25% Pioneers' Home – 50%	76,930	0.8%
State Hospital	Arizona State Hospital	71,248	0.8%
University Land Code	ASU, NAU, and UA *	137,908	1.5%
University of Arizona 1881	UA	54,218	0.6%
<b>Total</b>		<b>9,267,377</b>	<b>100.0%</b>

\* Distribution determined by enrollment

\*\* For financing public buildings

## How are revenues generated from trust lands?



Revenue Streams from Arizona Trust Lands for All Beneficiaries Combined, FY 2006<sup>7</sup>

Arizona trust land managers generate revenue from these lands in a number of ways, including land sales, residential and commercial leases, agriculture, grazing and right-of-way leases. The three largest sources of revenues from trust lands in fiscal year 2006 were from land sale principal and interest and lease rental revenue.

Over the last five years, the biggest source of income for the public schools has come from land sales principal, with lease rentals generally being second. Beginning in fiscal year 2004, sales interest became third, overtaking royalties.

## How does the revenue get to the beneficiaries?

Each year, revenues generated from trust land uses are deposited into the given beneficiary group's Permanent Fund or distributed directly to the beneficiaries depending on the source of the revenue. Permanent Funds receive revenues from non-renewable sources, such as land sales and mineral royalties.<sup>8</sup> Revenues from renewable sources, such as lease rental revenues, permits and interest from the deferred payments associated with land sales, are distributed directly to the beneficiaries. By the end of FY 2006, the market value of the Permanent Common School Fund totaled \$1.9 billion.<sup>9</sup> In fiscal year 2006, Arizona school trust lands generated approximately \$363 million, of which \$264 million was deposited into the Permanent Common School Fund and \$99 million distributed to the Department of Education.<sup>10</sup>

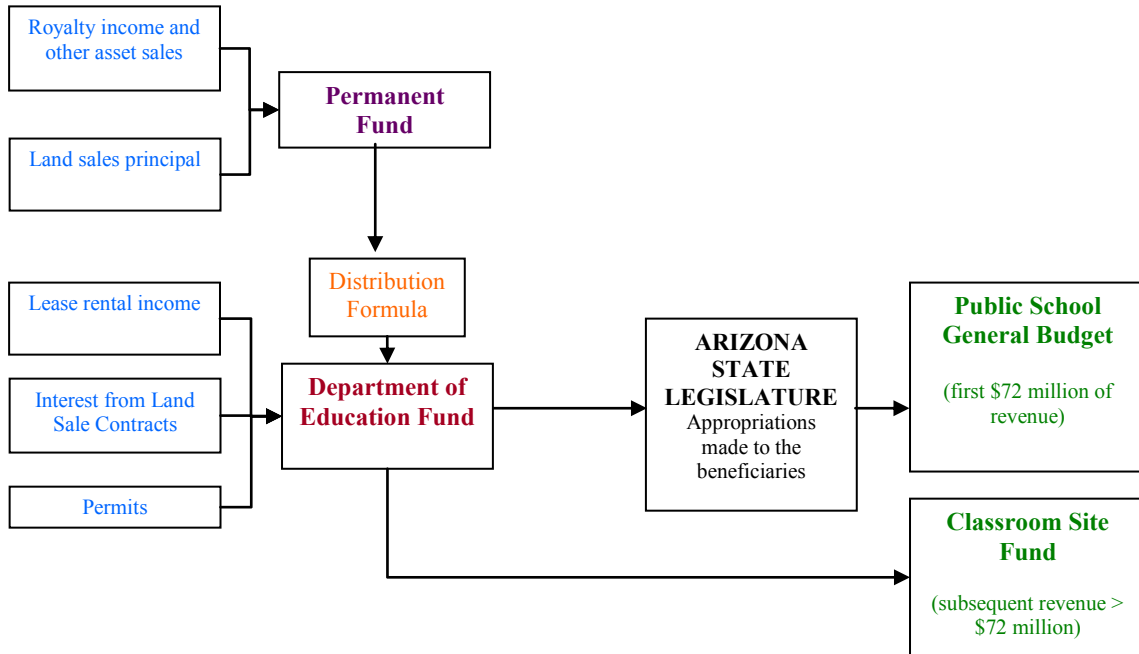
Permanent Land Funds are managed and invested by the State Treasurer.<sup>11</sup> The State Treasurer distributes funds to the beneficiaries from the permanent fund according to a constitutional formula. The formula distributes the preceding five-year net return (accounting for inflation) multiplied by the average monthly market value of the preceding five years. This ensures the fund will grow with inflation.

All trust land revenues that are distributed to the beneficiaries, both from the State Treasurer as well as from the Arizona State Legislature, with the exception of the public schools, are used by the beneficiary. In the case of public schools, the first \$72 million of revenue are combined with general fund revenue and distributed to the schools. Any amount over \$72 million is distributed to the Classroom Site Fund.

Revenue in the Classroom Site Fund is allocated to each school district on a per-pupil basis and is not subject to legislative appropriation; instead there are statutory requirements on how the districts can allocate the revenue.<sup>12</sup> Sixty percent is allocated for teaching compensation, twenty percent of which is to increase teachers' base pay and forty percent compensates teacher performance. The remaining forty percent is termed menu monies and can be spent on a number of other needs including student performance interventions, class size reduction, dropout prevention, additional teacher compensation, professional development, and teacher liability insurance.<sup>13</sup> The Arizona Revised Statutes require that "Monies designated by law as special state funds shall not be considered a part of the general fund" and that "School districts and charter schools may not supplant existing school site funding with revenues from the fund."<sup>14</sup>

District Steering committees comprised mostly of teachers help determine how the districts will allocate the money. The largest portion of the Classroom Site Fund, about 93% in FY 2004, was spent for teacher base pay increases and performance compensation, followed by professional development.

### Public School Funding Chart<sup>15</sup>



Public schools in Arizona receive funding from a combination of federal, state and local funds. State funding provides 45% of total education funding, and of the state’s portion, trust land revenues make up approximately 3.5% of that amount.

### FY 2003 Public School Funding Source Diagram<sup>16</sup>

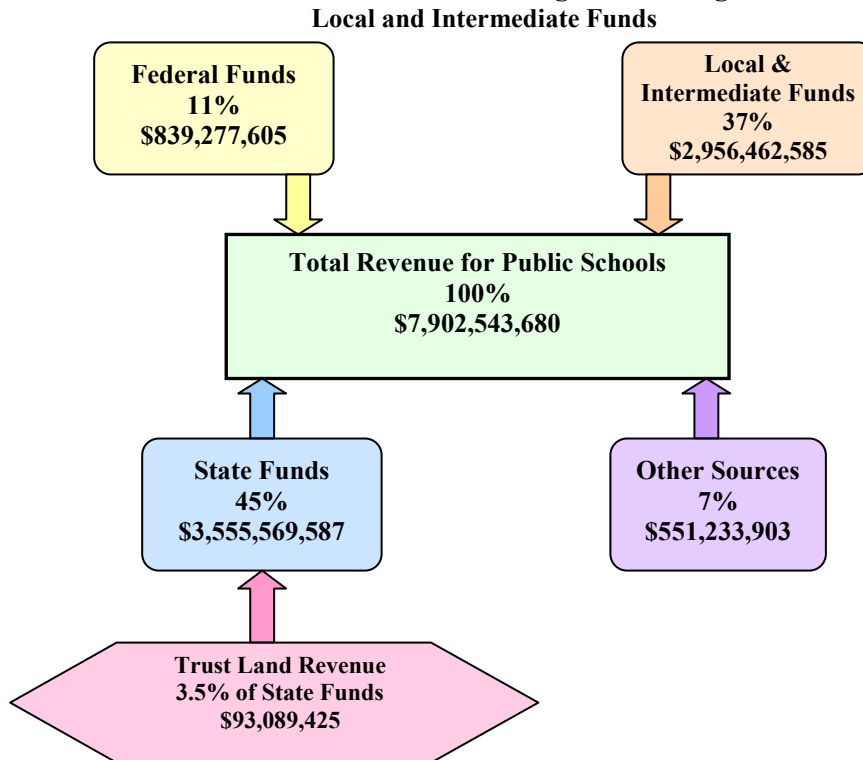




Photo: The Nature Conservancy

## Sources:

<sup>1</sup>Arizona State Land Department, Annual Report 2003-2004.

<sup>2</sup>Telephone Interview with Sharon Gulden, Chief Accountant at the Arizona State Land Department (2005).

<sup>3</sup>Arizona Revised Statutes § 37-132 and § 37-213.

<sup>4</sup>Arizona Revised Statutes § 37-902.

<sup>5</sup>Arizona State Land Department webpage [http://www.land.state.az.us/support/mission\\_goals.htm](http://www.land.state.az.us/support/mission_goals.htm). (March 11, 2007).

<sup>6</sup>Arizona State Land Department, Annual Report 2005-2006.

<sup>7</sup>Arizona State Land Department, Keith Fallstrom, Budget and Accounting Manager, Personal Communication (July 2007).

<sup>8</sup>Telephone Interview with Sharon Gulden, Chief Accountant at the Arizona State Land Department (2005).

<sup>9</sup>Arizona State Land Department, Annual Report 2005-2006.

<sup>10</sup>Ibid.

<sup>11</sup>Arizona Revised Statutes §§ 37-521 through 37-526.

<sup>12</sup>Arizona Revised Statutes § 15-943.

<sup>13</sup>Arizona Revised Statutes § 15-977.

<sup>14</sup>Arizona Revised Statutes § 35-142 and § 15-977.

<sup>15</sup>Arizona Revised Statutes §§ 37-521 through 37-526.

<sup>16</sup> FY 2003 data from National Center for Education Statistics (NCES) with the exception of the Trust Land Revenue data, which comes from the Arizona State Land Department *Annual Report 2003*. "Other Sources" is defined as "Revenue from bond principal and premiums, sale of school property, or compensation from loss of fixed assets." NCES Database, Glossary, <http://nces.ed.gov/ccd/bat/Glossary.Asp?letter=O>.

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