

State Land Department

	FY 2023 ACTUAL	FY 2024 ESTIMATE	FY 2025 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	131.7	131.7	136.7
Personal Services	7,223,000	7,480,000	7,836,300
Employee Related Expenditures	2,913,400	3,005,000	3,378,600
Professional and Outside Services	3,691,300	4,127,800	4,127,800
Travel - In State	190,200	15,000	15,000
Travel - Out of State	10,500	8,800	8,800
Other Operating Expenditures	2,258,400	2,650,400	2,517,500
Equipment	251,900	0	0
OPERATING SUBTOTAL	16,538,700	17,287,000	17,884,000
SPECIAL LINE ITEMS			
Operating Budget Lump Sum Reduction	0	0	(148,000)
CAP User Fees	1,700,000	1,493,300	1,521,500 ^{1/}
Due Diligence Fund Deposit	816,400	0	0
Due Diligence Program	0	5,000,000	5,000,000
Natural Resource Conservation Districts	569,400	650,000	650,000 ^{2/}
Streambed Navigability Litigation	0	220,000	0
AGENCY TOTAL	19,624,500	24,650,300	24,907,500 ^{3/}
FUND SOURCES			
General Fund	13,728,900	12,773,400	12,411,300
<u>Other Appropriated Funds</u>			
Due Diligence Fund	0	5,000,000	5,000,000
Environmental Special Plate Fund	180,000	260,600	260,600
Off-Highway Vehicle Recreation Fund	0	0	177,600
Trust Land Management Fund	5,715,600	6,616,300	7,058,000
SUBTOTAL - Other Appropriated Funds	5,895,600	11,876,900	12,496,200
SUBTOTAL - Appropriated Funds	19,624,500	24,650,300	24,907,500
Other Non-Appropriated Funds	949,900	806,600	806,600
TOTAL - ALL SOURCES	20,574,400	25,456,900	25,714,100

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 trust land minerals and other natural products.

FOOTNOTES

- ^{1/} The appropriation includes \$1,521,500 for CAP user fees in fiscal year 2024-2025. For fiscal year 2024-2025, from municipalities that assume their allocation of central Arizona project water for every dollar received as reimbursement to this state for past central Arizona water conservation district payments, \$1 reverts to the state general fund in the year that the reimbursement is collected. (General Appropriation Act footnote)
- ^{2/} Of the amount appropriated for natural resource conservation districts in fiscal year 2024-2025, \$30,000 shall be used to provide grants to natural resource conservation districts environmental education centers. (General Appropriation Act footnote)
- ^{3/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The budget includes \$17,884,000 and 136.7 FTE Positions in FY 2025 for the operating budget. These amounts consist of:

	<u>FY 2025</u>
General Fund	\$10,648,400
Off-Highway Vehicle Recreation Fund	177,600
Trust Land Management Fund	7,058,000

Adjustments are as follows:

Additional Planning and Real Estate Positions

The budget includes an increase of \$500,000 and 5 FTE Positions from the Trust Land Management Fund in FY 2025 for additional planning and real estate positions to assist in the management and sale of state land.

Operating Fund Shift

The budget includes a decrease of \$(177,600) from the General Fund and a corresponding increase of \$177,600 from the Off-Highway Vehicle Recreation Fund in FY 2025 to shift fund sources for the operating budget.

Statewide Adjustments

The budget includes an increase of \$97,000 in FY 2025 for statewide adjustments. This amount consists of:

General Fund	\$155,300
Trust Land Management Fund	(58,300)

(Please see the Agency Detail and Allocations section.)

Operating Budget Lump Sum Reduction

The budget includes a decrease of \$(148,000) from the General Fund in FY 2025 for a lump sum reduction. Agencies receiving a lump sum reduction will apply the reduction to the operating lump sum appropriation in the FY 2026 budget request submittal. Agencies have discretion in how the reduction in spending is achieved. The FY 2026 *Baseline Book* will incorporate the agency's planned reduction into the operating budget display.

CAP User Fees

The budget includes \$1,521,500 from the General Fund in FY 2025 for Central Arizona Project (CAP) User Fees. Adjustments are as follows:

CAP Rate Adjustment

The budget includes an increase of \$28,200 from the General Fund in FY 2025 for revised CAP water allocations. This assumes that the department will be

billed for "capital charges" of \$54 per acre foot on 28,176 acre feet of water in FY 2025 for a total charge of \$1,521,500 in FY 2025.

Pursuant to A.R.S. § 37-106.01, 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 CAP water annually for municipal and industrial uses on state trust lands. Since 1997, the department has made a number of reductions to the contracted allocation of CAP water held for state trust lands as the lands are sold. During recent years, the department has been responsible for costs associated with 32,076 acre-feet of CAP water.

Most recently, in November 2021, the department signed an agreement to release 3,900 acre-feet to the City of Phoenix, reducing the department's total allocation from 32,076 to 28,176 beginning in FY 2024.

The Central Arizona Project board determines a final rate for the upcoming year and a provisional rate for the following year each June. The FY 2024 budget enacted in May 2023 funded this line item at \$1,700,000, based on the prior allocation of 32,076 acre-feet and an assumed rate of \$53 (the provisional rate from June 2022).

On June 1, 2023, the CAP Board set the final rate for FY 2024 at \$53 (matching the assumption noted above) and the provisional rate for FY 2025 at \$54. The FY 2025 budget amount for this line item is \$1,521,500, based on the new water allocation of 28,176 acre feet and the \$54 provisional rate for FY 2025.

The budget includes a supplemental reduction from the General Fund to reflect FY 2024 savings from the lower acre-feet CAP water allocation. *(Please see Other Issues for more information.)*

Background - The department typically does not take delivery of the water, but must still pay capital charges to the CAWCD each year 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&G. *(Please see related General Appropriation Act footnote.)*

Due Diligence Program

The budget includes \$5,000,000 from the Due Diligence Fund in FY 2025 for the Due Diligence Program. This amount is unchanged from FY 2024.

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 budget includes \$650,000 in FY 2025 for Natural Resource Conservation Districts (NRCDs). This amount consists of:

General Fund	389,400
Environmental Special Plate Fund	260,600

These amounts are unchanged from FY 2024.

This line item funds natural resource research, activities, and staff at the state’s 32 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 NRCD and \$60,000 for each education center for a 2-year period.

A General Appropriation Act footnote continues to require that \$30,000 of the total appropriation for NRCDs be used to provide grants to NRCD environmental education centers. The \$30,000 is divided among the 26 education centers sponsored or cosponsored by the 32 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.

In the 2024 legislative session, Laws 2024, Chapter 258 establishes a new state agency the NRCD Board and transfers the authority over the NRCDs, including grants to the districts, as well as the administration of the Environmental Special Plate Fund, from the State Land Department to the NRCD Board as of January 1, 2025.

Streambed Navigability Litigation

The budget includes no funding in FY 2025 for Streambed Navigability Litigation. Adjustments are as follows:

Eliminate Streambed Navigability Funding

The budget includes a decrease of \$(220,000) from the General Fund in FY 2025 to remove funding for Streambed Navigability Litigation.

Pursuant to A.R.S. § 37-1123 and A.R.S. § 37-1124, the State Land Department is required to provide evidence to the Arizona Navigable Stream Adjudication Commission (ANSAC) to help resolve litigation regarding the navigability of watercourses in the state.

The State Land Department uses this line item to fund expert witness services, technical examinations, and associated legal costs incurred in connection with ongoing hearings and appeals processes.

The FY 2025 funding has been eliminated as the department's role in the adjudication process has been completed.

Other Issues

This section includes information on the following topics:

- FY 2024 Supplemental Reduction
- Proposition 123
- Fund Transfers

FY 2024 Supplemental Reduction

The budget includes an FY 2024 supplemental reduction of \$(206,700) from the General Fund for lower-than-expected CAP User Fees. The FY 2024 budget funded the CAP User Fees line item at \$1,700,000, based on the prior allocation of 32,076 acre-feet and an assumed rate of \$53 (the provisional rate from June 2022).

While the final rate established by CAP conformed to the \$53 assumption, the state's CAP water allocation has been reduced to 28,176 acre-feet. This resulted in an FY 2024 funding level of \$1,493,300 for the CAP User Fees line item. *(Please see CAP User Fees line item for more information.)*

Proposition 123

As approved by voters at the May 2016 election, Proposition 123 implements the October 2015 Special Session legislation (Laws 2015, 1st Special Session, Chapters 1 and 2 and HCR 2001) to increase 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 provided \$256,632,600 in incremental land trust funds to K-12 schools in FY 2023 and \$270,534,400 in FY 2024. The 4.4% incremental funding increase will provide \$285,333,600 in incremental funds in FY 2025. *(Please see the October 2015 Special Session and Proposition 123 section of the Department of Education narrative in the FY 2017 Appropriations Report for more information on Proposition 123.)*

Proposition 123 also increases distributions to other public institutions *See Table 1.*

Fund Transfers

The budget includes the following transfers from this agency's funds to the General Fund:

	<u>FY 2024</u>
IGA and ISA Fund	\$24,000
Risk Management Fund	343,000
Trust Land Management Fund	34,000,000

<u>Beneficiary/Fund</u>	<u>FY 2015 Total Revenue</u> ^{1/}	<u>FY 2024 Ending Balance</u>	<u>FY 2025 Total Revenue</u> ^{2/}	<u>FY 2025 Appropriation</u>
Universities^{3/}				
Military Institute	\$ 83,800		\$ 109,600	
Normal Schools ASU/NAU	296,600		766,600	
A & M Colleges	445,100		2,082,500	
School of Mines	499,800		1,320,400	
University Fund	2,175,400		5,791,900	
U of A Land - 1881	<u>1,659,400</u>		<u>9,456,600</u>	
Subtotal	\$ 5,160,100		\$19,527,600	
Schools for the Deaf and the Blind^{4/}				
State Hospital	\$ 424,400		\$ 810,800	
State Hospital	\$ 701,000	\$ 4,052,100	\$ 1,354,100	\$ 650,000
Legislative, Executive, & Judicial Buildings ^{5/}	\$ 386,300	\$ 5,568,600	\$ 1,008,400	\$ 0
Corrections				
Penitentiaries	\$ 1,382,600	\$ 3,685,400	\$ 3,533,800	\$ 3,466,000
State Charitable (25%)	<u>1,452,500</u>	<u>3,987,600</u>	<u>3,977,900</u>	<u>3,733,100</u>
Subtotal	\$ 2,835,100	\$ 7,673,000	\$ 7,511,600	\$ 7,199,100
Pioneers' Home				
Miners' Hospital	\$ 1,981,400	\$ 17,414,000	\$ 4,682,000	\$ 2,363,700
State Charitable (50%)	<u>2,905,000</u>	<u>\$ 18,361,500</u>	<u>7,955,700</u>	<u>6,128,400</u>
Subtotal	\$ 4,886,400	\$ 35,775,500	\$12,637,700	\$ 8,492,100
Juvenile Corrections (State Charitable 25%)	\$ 1,452,500	\$ 2,362,900	\$ 3,977,900	\$ 4,881,100
Non-K-12 Beneficiaries Total	\$15,845,800		\$46,828,000	
^{1/} Includes actual Treasurer's distributions and lease revenues. The FY 2015 revenues reflect the 2.5% Treasurer's distribution rate in effect prior to Proposition 123. ^{2/} Includes both Treasurer's distributions and lease revenues. The Treasurer's distributions are known numbers based on the funding formula. Projected FY 2025 lease revenues reflect actual FY 2023 amounts. ^{3/} University land trust funds are non-appropriated. As a result, budget appropriations and balance amounts are not included. (Please see ABOR section for more information.) An FY 2025 budget footnote allocates 100% of the Universities School of Mines Land Fund revenue to the University of Arizona School of Mining and Mineral Resources. ^{4/} Arizona State Schools for the Deaf and the Blind (ASDB) land trust monies are appropriated as part of the Schools for the Deaf and the Blind Fund, which also receives revenues from the Arizona Department of Education. The FY 2025 General Appropriation Act allows monies in this fund to be expended in excess of the appropriated amount. As a result, the FY 2024 ending balance and FY 2025 appropriation amounts are not included. ^{5/} The expenditure for the Legislative, Executive, and Judicial Buildings land trust monies requires a legislative appropriation. A.R.S § 35-142 requires land fund monies to be expended only as authorized, regulated, and controlled by the General Appropriation Act or other act of the Legislature. A.R.S § 35-154 also requires that no person shall incur, order, or vote for the incurrence of any obligation against the state or for any expenditure not authorized by an appropriation and an allotment.				