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Janet Napolitano
Governor
State of Arizona

Please visit our website at www.land.state.az.us

Message From the Commissioner

A Written Report to
Governor Janet Napolitano
by the Arizona State Land
Commissioner



Mark Winkleman
Arizona State Land
Commissioner

September 1, 2007

The Honorable Janet Napolitano
Governor of Arizona 1700 W. Washington Street
Phoenix, Arizona 85007

Dear Governor Napolitano:

It is my privilege to deliver to you the State Land Department's Annual Report for fiscal year 2007 as required by A.R.S. §37.132. The report contains a summary of the Department's management activities and, more importantly, the revenue that the Land Department earned during the fiscal year.

It is my primary and continuing goal to increase our ability to generate revenue for the beneficiaries of the State Trust. In this fiscal year, Land Department staff continued their diligent work and sincere dedication to support the Trust. As you are aware, we were extremely successful in generating more revenue for the beneficiaries.

Fiscal year 2007 was one of the most productive years in the history of the Land Department. Several revenue records were broken. The Department had receipts of \$332.3 million. The Department completed 16 land sales auctions, resulting in gross sales of approximately \$453.7 million. In many of these auctions there was intense, competitive bidding that raised the sale price significantly above the appraised value of the land.

Of the total \$453.7 million, \$14.8 million was from cash sales and was directly deposited into the Permanent Fund. The balance of just over \$431.1 million was financed through the Department and will be paid off over time. The beneficiaries will earn interest on the balance at a rate of 8% to 11% for an average term of 7 years. These interest rates are generally higher than market and the total outstanding receivable balance from term sales is a record \$983.9 million, earning interest daily. The money earned on this balance will be paid to our beneficiaries over the next several years. In addition, the remaining principal payments on the sales price for the land will be deposited in the permanent Fund in future years.

This year the Department generated \$122.0 million in expendable revenue that was sent to beneficiaries for their immediate use. An impressive \$58.3 million was generated from sales interest. Records were set in several other areas of expendable revenues: commercial leasing, \$24.6 million; agriculture, \$4.3 million and royalties for natural products, \$9.8 million.

The \$367.8 million revenue generated this year by the Trust has been allowed as follows: \$194.8 million from the sale of land, rights-of-ways and minerals was deposited into the Trust Permanent Fund, increasing the Fund to \$1,935,883,000; The public schools and institutions received a record \$118.9 million from land rents and interest income, school leases of \$3.1 million, as well as \$35.6 million from the Treasurer's formula distributions; the Treasurer's Office also received \$5.6

Message From the Commissioner

million in commercial prepayments that the Land Department will receive back over time as expendable revenue for the beneficiaries; and \$9.9 million was deposited in the General Fund. Of the \$142.3 million in expendable revenue for the schools (K-12), \$72.3 was distributed through the School Aid Formula, \$67.0 million went to the Classroom Site Fund and \$3.1 million was used for school leases.

Since I began in January of 2003, I have made an effort to streamline and improve operations. We are continuing to improve the procedures for our five year plan, conceptual planning, engineering and the terms allowed for financing purchases of State Trust land. We have increased revenues by implementing a gross receipts audit program and a process to track audits for leases and participation sales. I am sure you would agree, the records sales and leases that occurred this year show the success of our actions.

In FY 2007, several actions have been taken to protect the State Trust resources and, in situations where damage has been done, to pursue monetary compensation for the Trust beneficiaries. Additionally, the Department worked hard to clean up after trespassers that illegally dumped trash and other items on State Trust land. For example, the Department contracted to remove the trash from a sinkhole called Dante's Descent near Ashfork and fenced-off the area to prevent further damage. Dante's Descent is a natural sinkhole about 100 feet across and 300 feet deep, which as has been used for the illegal disposal of trash. Also, over 466 tons of trash was removed from State Trust land as the result of community volunteer groups such as the stewards of Public Lands and Eagle Scout projects. More than 1,800 hours were contributed to clean up 36 different sites.

The Forestry Division was challenged by an early onset of fire season this year. Exceptionally severe drought through the fall and winter months set the state for a potentially devastating wildfire season and the agency responded with an aggressive prevention and preparedness strategy that included the 15 inmate fire fighting crews. With the help of an early monsoon and extraordinary effort, the number of fires and acres burned was held to statistically normal values, and no serious losses or injuries were suffered. The foresters also assisted 64 rural communities with hazardous fuel reduction projects treating over 6,000 acres, provided 60 local fire departments with equipment, and helped trained 1,500 firefighters from more than 105 fire departments from across the state in wildland firefighting tactics.

Thank you for the opportunity to serve Arizona and the Trust beneficiaries as State Land Commissioner. The possibilities that exist for the Land Department over the next year are exciting. We intend to continue to prepare and market State Trust land for public auction in a manner to ensure as much competition as possible so as to generate greater revenue for the beneficiaries of the Trust. We will also strive to fulfill the additional and important responsibilities contained in our mission such as fire suppression, mapping, title and conservation for the benefit of the citizens of Arizona.

Sincerely,



Mark Winkleman
Arizona State Land Commissioner

About the Commissioner

On January 6, 2003, Arizona Governor Janet Napolitano appointed Mark Winkleman as the Arizona State Land Commissioner. Mark has the responsibility to act as a trustee in the management of over 9 million acres of State Trust land throughout all of Arizona, including over 500,000 acres in major Arizona cities.

Mark brings over 24 years of commercial real estate experience to the Land Department. When Mark came to the Land Department, his initial goal was to maximize the revenues from the disposition of urban lands through the auction process. After implementing new strategies through the Land Department staff, the intensity of bidders and the prices achieved were unprecedented.

Mark has been a leader in the effort to reform the laws under which the Trust lands are managed. His goal is to encourage reform that will increase revenues to the beneficiaries, primarily public education. He hopes to promote better planning of lands directly in the path of growth and reduce urban sprawl while also providing for better management of the vast rural lands held by the Trust.

Fiscal Year 2007 - A Historic Revenue Year

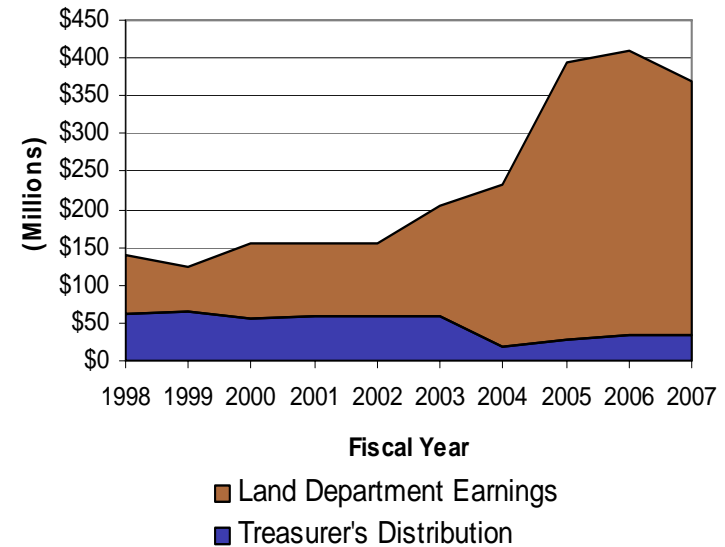
Record Revenues

- FY 2007 was an exceptional year for Trust revenues. The Department received \$332.3 million and the Treasurer distributed \$35.6 million for a grand total of \$367.8 million.
- Sold 4,262.33 acres for \$453.7 million through 16 successful auctions, including 26.33 acres sold for \$28.5 million.
- Auctioned five long-term leases comprising of 12,228.36 acres that will generate at least \$1.25 billion over the terms of the leases.
- The Department deposited \$67.0 million into the Classroom Site Fund, a 276% increase.



Deputy State Land Commissioner
Jamie L. Hogue

Total Trust Revenue
FY 1998 - 2007



FUNDS	FY 2007 TOTAL
Expendable	118,917,499.68
Commercial Prepayment	5,611,921.02
School Leases	3,094,125.00
General	9,860,701.20
Permanent	194,766,598.13
TOTAL LAND DEPARTMENT	<u>332,250,845.03</u>
Treasurer's Formula Distribution	35,572,689.00
GRAND TOTAL - FY 2007	<u>367,823,534.03</u>

Fiscal Year 2007 - A Historic Revenue Year

REVENUES BY BENEFICIARY FY 2007

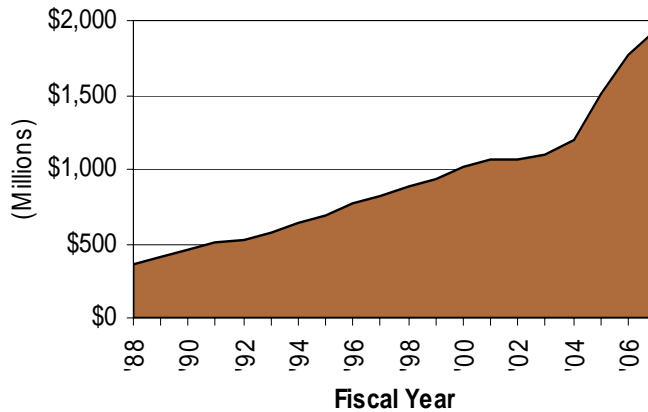
BENEFICIARIES	TRUST ACRES	STATE LAND EXPENDABLE EARNINGS	TREASURER'S FORMULA DISTRIBUTION	TOTAL EXPENDABLE RECEIPTS	TOTAL PERMANENT FUND RECEIPTS	TOTAL RECEIPTS
Common Schools (K - 12) (Includes County Bonds)	8,101,127	109,977,020	32,351,317	142,328,337	182,685,597	325,013,934
Normal Schools	174,798	168,541	46,082	214,623	52,276	266,899
Agricultural & Mechanical Colleges	124,944	102,538	201,319	303,857	10,721	314,578
Military Institutes	80,168	94,485	9,949	104,434	0	104,434
School of Mines	123,254	153,923	133,902	287,825	28,760	316,585
University Land Code	137,908	452,179	226,823	679,002	56,860	735,862
University of Arizona (Act Of 2/18/1881)	54,157	454,598	566,953	1,021,551	412,088	1,433,639
School for the Deaf & Blind	82,560	163,629	87,629	251,258	151,608	402,866
Subtotal Education	8,878,916	\$111,566,913	\$33,623,974	\$145,190,887	\$183,397,910	\$328,588,797
Legislative, Executive & Judicial Buildings	64,257	104,411	122,537	226,948	260,098	487,046
State Hospital	71,248	356,791	124,204	480,995	16,974	497,969
Miners Hospital*	95,431	1,516,377	158,276	1,674,653	554,015	2,228,668
State Charitable, Penal, and Reformatory	76,818	7,483,715	1,403,184	8,886,899	10,453,377	19,340,276
Penitentiary	76,111	983,417	140,515	1,123,932	84,224	1,208,156
TOTAL	9,262,781	\$122,011,624	\$35,572,690	\$157,584,314	\$194,766,598	\$352,350,912

*Miners' Hospital and Miners' 1929 combined.

Permanent Fund

- The Department deposited \$194.8 million into the Permanent Funds in FY 2007, increasing the book value to \$1,935,883,000.
- Principle payments on sales financed through the Department are deposited into the Permanent Funds. The balance of Department managed sales' contracts increased by \$251.5 million resulting in a balance of \$983.9 million.
- The Permanent Funds consist of revenues earned from the sale of State Trust land or assets such as minerals or other natural products.
- Each beneficiary has its own Permanent Fund.
- The State Treasurer manages the Permanent Funds and invests the funds in stocks, bonds and other interest bearing securities. Distributions from the Permanent Funds to the beneficiaries are based on a constitutional formula.

**Permanent Fund Balance
FY 1988 - 2007**



BENEFICIARY SHARE OF PERMANENT FUND JUNE 30, 2007

	BOOK VALUE	MARKET VALUE
Common Schools (K - 12)	1,794,123,000	2,261,161,000
Normal Schools	2,121,000	2,800,000
Agricultural & Mechanical Colleges	6,494,000	8,869,000
Military Institutes	364,000	492,000
School of Mines	7,785,000	9,834,000
University Land Code	11,372,000	14,938,000
University of Arizona (Act of 2/18/1881)	25,777,000	33,530,000
School for the Deaf & Blind	3,072,000	4,166,000
Legislative, Executive, and Judicial	5,412,000	7,090,000
State Hospital	3,064,000	4,440,000
Miners Hospital*	6,658,000	8,751,000
State Charitable, Penal and Reformatory	64,184,000	83,140,000
Penitentiaries	5,458,000	7,424,000
TOTAL**	1,935,883,000	2,446,636,000

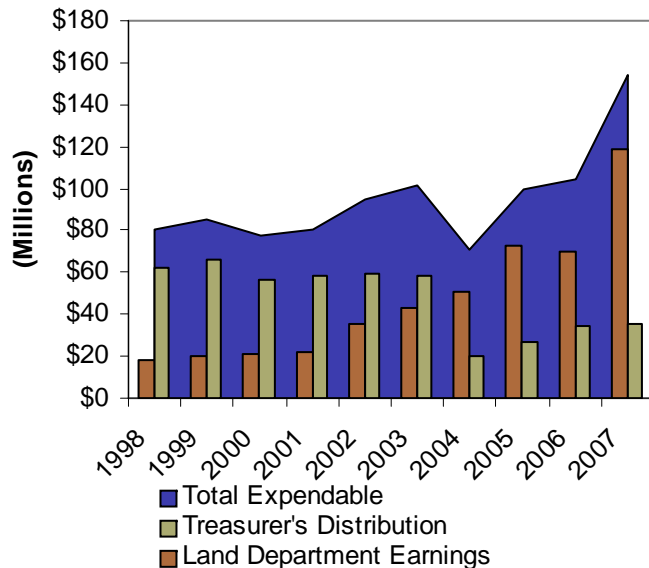
*Miners' Hospital and Miners' 1929 combined.

**Values are provided by the State Treasurer's Office and are rounded to the nearest thousand.

Expendable Revenue

- Expendable revenue includes lease revenue from Trust land leases and permits, interest from sales contracts, and the Treasurer's formula distribution of the Permanent Funds.
- Expendable revenues are distributed directly to the beneficiaries.
- Expendable revenue totaled \$157.6 million in FY 2007.
- Revenue from Trust land leases, permits, and interest earnings from sales financed through the Department totaled \$122.0 million, a 55% increase.
- The Treasurer distributed \$35.6 million based on the constitutional formula based on net return and the market value.

**Trust Expendable Earnings
FY 1998 - 2007**



EXPENDABLE REVENUE BY BENEFICIARY 2007

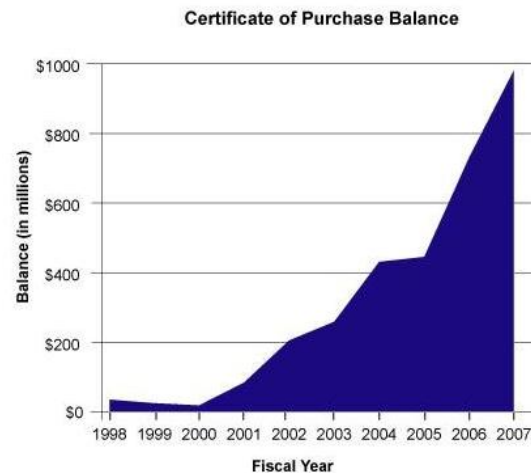
BENEFICIARIES	TREASURER'S FORMULA DISTRIBUTION	LEASE & SALES CONTRACT INTEREST	TOTAL EXPENDABLE REVENUE
Common Schools (K - 12) (Including lands to Retire County Bonds)	32,351,317.00	109,977,019.94	142,328,336.94
Normal Schools	46,082.00	168,541.31	214,623.31
Agricultural and Mechanical Colleges	201,319.00	102,538.26	303,857.26
Military Institutes	9,949.00	94,485.26	104,434.26
School of Mines	133,902.00	153,923.24	287,825.24
University Land Code	226,823.00	452,179.39	679,002.39
University of Arizona (Act of March 18, 1881)	566,953.00	454,597.91	1,021,550.91
School for the Deaf and Blind	87,629.00	163,629.23	251,258.23
Subtotal Education:	33,623,974.00	111,566,914.54	145,190,888.54
Legislative, Executive & Judicial Buildings	122,537.00	104,411.35	226,948.35
State Hospital	124,204.00	356,790.61	480,994.61
Miners' Hospital	158,276.00	1,516,376.58	1,674,652.58
State Charitable, Penal, and Reformatory	1,403,184.00	7,483,714.54	8,886,898.54
Penitentiary Grant	140,515.00	983,417.06	1,123,932.06
TOTAL	35,572,689.00	122,011,624.68	157,584,314.68

*The amount for expendable earnings includes \$3,094,125.00 from the school leases in accordance with 37-221, D.

Real Estate Program

- A total of 24 Sales & Commercial Leases were auctioned leading to an outstanding year with total auctioned value of over \$602 million. In many of these auctions there was intense, competitive bidding. The total sales price was increased by approximately 14% above the appraised value.
- Of the total \$453.7 million in sales, the majority was financed through the Department and will be paid off over time. The beneficiaries will earn interest on the balance at a rate of 10%, to over 11% for an average term of seven years. These interest rates are generally higher than market, and the total outstanding receivable balance from FY 2007 term sales was a record \$441.6 million, earning interest daily. The money earned on this balance will be paid to our beneficiaries over the next several years. In addition, the remaining principal payments on the price for the land will be deposited in the Permanent Fund in future years.

- The chart to the right shows the significant increase in the outstanding certificate of purchase balance in recent years due to the cumulative effect of several very successful sales years. The \$983.9 million balance at the end of the FY 2007, was \$251.5 million higher than the FY 2006 ending balance.



- The interest payment on the certificate of purchase balances was an impressive \$58.3 million in FY 2007. Interest payments are expendable revenue and are available to the beneficiaries for use in their operations during the same year they are generated.
- The beneficiaries also received expendable revenues from commercial leases of \$24.6 million and rights-of-way leases of \$20.7 million. In addition, \$5.6 million in commercial prepayment revenue and \$3.1 million in school facility lease revenue was earned.
- The Department paid approximately \$3.7 million in Broker's commissions in FY 2007. Beginning in 1996, Real Estate Brokers were authorized to represent bidders at State Trust land public auctions by registering according to Land Department Rules. Commissions are paid by the successful bidder as a condition of the public auction. The program has been very successful in bringing more bidders to the auctions and at increasing the sales prices.



- The strong real estate market statewide created a vigorous demand for additional infrastructure, including public roads, electrical power, water and sewer. Revenues from perpetual rights-of-ways generated in excess of \$24.3 million in FY 2007.

Real Estate Program

Major Auctions

- **\$149.45 Million; Phoenix, April 17, 2007:**
Desert Ridge Holdings, LLC, purchased 269 acres of multi-family property in Desert Ridge, located at the Southeast corner of 40th Street and Deer Valley Drive in Phoenix. This is the highest land sale in department history.
- **\$28.5 Million; Phoenix, May 31, 2007:**
With more than 40 bids, Westfield / Greystone Master Partnership, LLC successfully purchased 26 acres of high density residentially-zoned land located on the Northeast corner of Deer Valley Drive and 56th Street in the City of Phoenix. The sale reflects a 36% percent premium above the appraised land value of \$20.5 million and is the state Trust record of \$1.082 million per acre.
- **\$58.6 Million; Apache Junction, December 7, 2006:**
A very exciting auction, with 118 bids for the 1,011 acres of Lost Dutchman Heights. Desert Communities Inc., a subsidiary of Las Vegas-based Rhodes Homes won the auction for a final price that was a 30 percent premium above the appraised value of \$45,250,000. As part of this auction, the State Land Department initiated an innovative process that required the winning bidder to complete a master plan for the surrounding 6,690 acres of State Trust land at an estimated cost of \$6 million. As the winning bidder, Desert Communities Inc. is required to work with City, County and State Land Department in developing a plan that includes infrastructure financing, developing land uses, water sources, waste water treatment and other elements of the master-planned community. The planning process for the area is expected to take 18-24 months to complete.
- **\$110.1 Million; Fountain Hills, March 15, 2007:**
The Ellman Companies provided the winning \$110.1 million bid for 1,276 acres of land in the Town of Fountain Hills, reflecting a 16% premium above the appraised land value of \$95 million. The auction capped a successful planning and annexation effort by ASLD and the Town of Fountain Hills that brought certainty and value to the only remaining vacant tract in the Town.
- **\$61.1 Million; Peoria, February 15, 2007:**
After 89 bids, the last residential tract in the ASLD-master planned community of Camino a Lago was sold to Camino a Lago, LLC (Communities Southwest). This 694 acre parcel is in the heart of north Peoria, adjacent to residential and commercial parcels that are rapidly building out, despite the slowdown in the residential market.
- **\$8.44 Million; Sierra Vista, May 31, 2007:**
Wal-Mart Company was the successful bidder in a competitive auction for 54 acres of land in the center of Sierra Vista. This sale reflects the increasingly successful efforts to market dispositions in the out lying areas.
- **\$875 Million Lease; Scottsdale, April 24, 2007:**
A milestone bid of \$68.5 million in land value for a 99-year lease on 124-acres of commercially-zoned land in Scottsdale that will generate more than \$875 million in minimum lease revenue. Scottsdale Vistella, LLC won the land lease located at the southeast corner of Pima Road and Loop 101 in the City of Scottsdale.
- **\$54 Million Lease; Outside of Gila Bend, December 14, 2006:**
The successful bid for a land value of \$44.8 million, will result in over \$54 million for the trust over the 25 years of the lease. Volkswagen of America, Inc. was the successful bidder on the 11,977 acre parcel of land that had little potential for revenue generation for decades. The land will be used for an automotive test track.



Real Estate Program

Commercial Leases

- A record 5 commercial leases were successfully auctioned in FY 2007 that will generate a minimum of \$1.3 billion in minimum lease revenue over their collective terms. All of the leases have a participation element, and total revenue generated is expected to vastly exceed the minimum. Over \$4.2 million was generated for first year's rent alone from these 5 leases, 15.6% of the total commercial lease revenue for the year. The total land value bid for the leases amounted to \$148.6 million, a significant part of the total \$602 million in land value auctioned during the year. Two of the auctions, for a 20 and 26 acre commercial parcels, were fiercely competitive with 22 and 17 bids respectively. Total acres auctioned were 12,228; however, the vast majority of the acreage (11,977) was for an automotive test tract outside of Gila Bend.



Facts and Figures Land Auctioned FY 2007

	Acres Sold	Total Sales Price	Acres Leased	Minimum Cumulative Lease Revenue
Urban	3,486.83	\$441,700,273.00	250.85	\$1,200,052,533.00
Rural	775.61	\$11,955,000.00	11,977.51	\$54,776,434.00
Total	4,262.44	\$453,655,273.00	12,228.36	\$1,254,828,967.00

New Business Models

The Department continues to develop new business models in order to increase productivity and revenue. The Lost Dutchman Heights project, as previously discussed, provided for the sale of 1,100 acres in the Southeast Valley with the successful bidder being responsible for the planning and entitlement of the adjoining 6,600 of State Trust land.

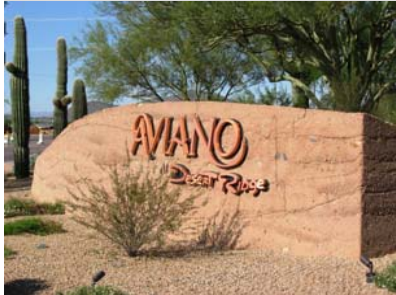
The planning and zoning of Azara, a 6,000 acre project in north Phoenix, was completed during the past year. Department staff utilized professional consultants, under their direct management, to accomplish the entitlement process. The Department will now move forward with its first sale in the project, which will be subject to a participation element. A substantial parcel will be sold at auction and the Department will then receive a percentage of subsequent sales of that parcel.

In Tucson, the Department is utilizing a different model whereby a planning permittee will be granted authority to preliminary plan a large property in the Houghton Road Corridor in the east part of the City. The Department will then move forward with an auction and participation element for a portion of the property, with the successful bidder being responsible for the subsequent detailed planning of the auction property and remaining property.

The Department will consider the continued use of these and other business models as they evolve in order to increase revenues to the beneficiaries.

DESERT RIDGE

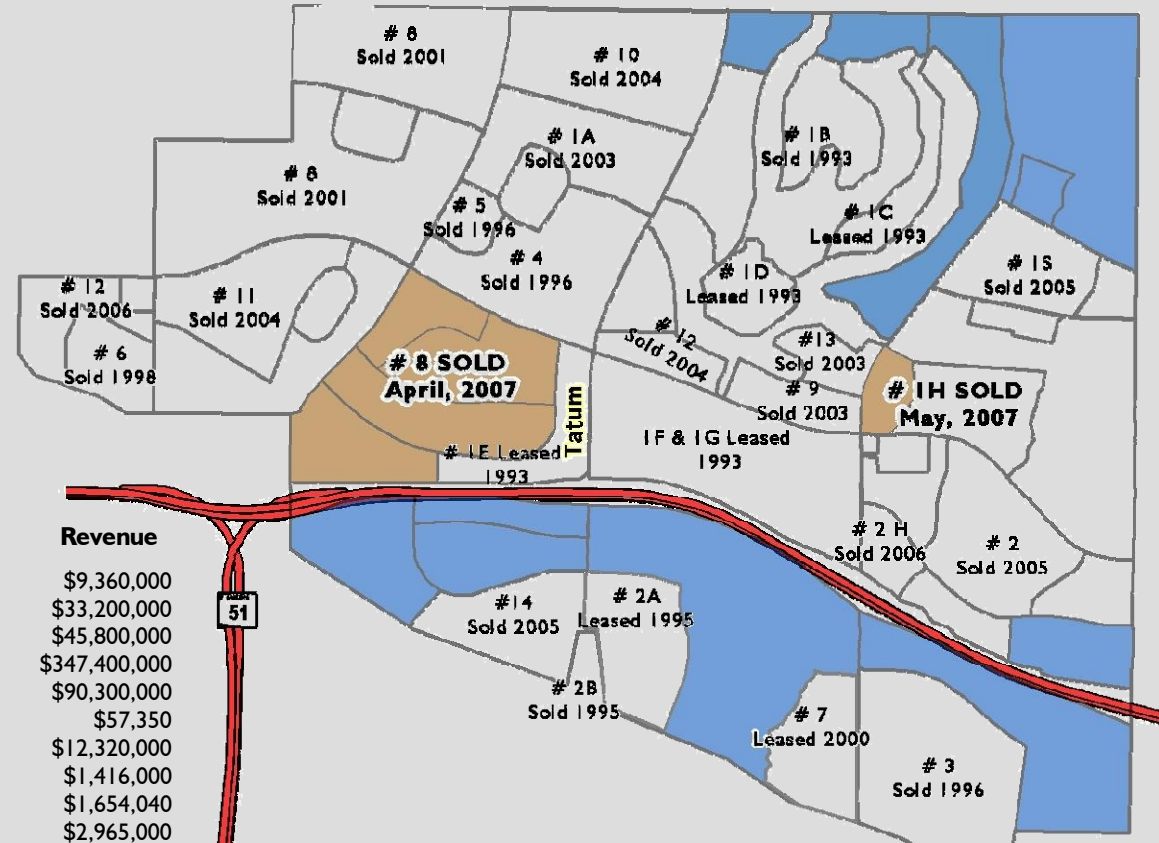
A 5,400-Acre Master Planned Community in North Phoenix



The Aviano at Desert Ridge
Sold in 2001

PARCEL 8

76 bids for 536 acre master planned community that includes semi-custom and condominium housing, a community center and open space areas.



DESERT RIDGE DISPOSITIONS

Parcel No.	Acres	Sold/Leased	Use	Date Sold/Lease	Revenue
IA & IB	780	Sold	Residential/Golf	7/7/1993	\$9,360,000
IC	180	Leased	Resort Golf	7/7/1993	\$33,200,000
ID	54	Leased	Marriott Resort	7/7/1993	\$45,800,000
IE, F& IG	332	Leased	Commercial Retail	7/7/1993	\$347,400,000
2A	106	Leased	Sumitomo Sitix	12/12/1995	\$90,300,000
2B	2	Sold	Utility Pump Station	12/12/1995	\$57,350
3	242	Sold	Mayo Hospital	1/3/1996	\$12,320,000
4	23	Sold	Residential	2/27/1996	\$1,416,000
5	24	Sold	Middle School	2/27/1996	\$1,654,040
6	62	Sold	High School	2/10/1998	\$2,965,000
7	91	Leased	American Express	11/13/2000	\$486,000,000
8	536	Sold	Residential	4/4/2001	\$52,900,000
9	50	Sold	Multi-family	6/24/2003	\$24,102,500
10	189	Sold	Residential	3/30/2004	\$49,300,000
11	279	Sold	Residential	5/12/2004	\$100,500,000
12	41	Sold	Residential	5/27/2004	\$32,000,000
13	40.23	Sold	Residential	9/21/2004	\$23,200,000
14	104	Sold	Mixed Use	5/11/2005	\$38,200,000
2	288	Sold	Residential	7/13/2005	\$92,200,000
1S	502	Sold	Residential	8/18/2005	\$135,000,000
2H	32	Sold	Multi-family	1/19/2006	\$33,400,000
12	81	Sold	Residential	4/6/2006	\$19,700,000
8	269	Sold	Residential	4/17/2007	\$149,450,000
IH	26	Sold	Residential	5/31/2007	\$28,500,000



Toscana at Desert Ridge
Sold in 2003

PARCEL 9

The winning bid of \$24,102,500 was bid up 156 times before The Statesman Group was announced the successful bidder. The 50 acre Toscana community will include luxury condominium housing.

Natural Resources Program

- Range Section
 - Reviews Applications to Place Improvement and Land Treatment Applications, and provides environmental and cultural clearances.
 - Participates in statewide efforts to coordinate rangeland management activities with landowners, lessees and other land management and natural resource management agencies on ranch units with intermingled land ownership patterns.
 - Experienced a 6% increase in the appraised value of forage on State Trust rangeland from the previous year.
- Minerals Section
 - Administers five distinct leasing programs as well as providing mineral resource evaluations and geologic information for land sales, conservation proposals and conceptual plans.
 - Continued improvement in metal prices and urban expansion is reflected in the continued high levels of mineral exploration, aggregate production and oil and gas leasing activity.
 - Revenues from aggregate sales totaled \$5.7 million.
- Natural Resource Conservation Section
 - Provided administrative support to 32 NRCDs and 21 environmental education centers they sponsored. Provided administrative oversight for the formation of 2 new education centers. Served as the clearing house and certified all annual reporting requirements including annual reports, annual plans of operations, quarterly and annual financial reports, and monthly/quarterly notices of public meetings and minutes. Processed 85 requests for supplemental funding including general fund and environmental special license plate funding. Disbursed \$617,500 to NRCDs and \$27,100 to Conservation Ed Centers.



LEASES AND PERMITS FY 2007 Facts & Figures

	Acres	Number of Leases
Agriculture	172,310	396
Mineral Material	1,827	17
Grazing	8,360,471	1,262
Exploration Permits	185,021	401
Mineral	12,605	101
Oil & Gas	482,937	269

Number of Registrations and Water Rights Claims

Stockpond Registrations	4,305
Certificated Surface	
Water Rights	108
Well Registrations	2,857
Adjudication Statements of Claimant	7,027
Water Right Registrations	7,405
Grandfathered	
Groundwater Rights	233

REVENUE PRODUCTION FY 2007 Lease Rentals

Agriculture	\$4,341,570
Mineral Material	\$303,712
Grazing	\$2,531,825
Exploration Permits	\$290,744
Geothermal	\$0
Mineral	\$36,977
Oil & Gas	\$609,353
TOTAL	\$8,114,182

Sale of Products

Public Auction Water Sales	\$297,004
Lease Water Charges	\$277,127
Mineral Royalties	\$3,489,742
Natural Products	\$5,714,578
TOTAL	\$9,778,451

Trespass Revenues

Trespass Revenue	\$192,611
TOTAL*	\$192,611
GRAND TOTAL	\$18,085,244

*In addition \$200,593 was collected as leasing or salary revenue as a result of trespass resolution.

Natural Resources Program

- Participated in 35 local, state and federal meetings involving a variety of natural resource conservation issues ranging from Rapid Watershed Assessments, reclamation and reforestation of wildlife area, and eradication and control of noxious and invasive plants. Represents the agency on the Arizona Advisory Council for Invasive Species (AISAC), established by Governor Napolitano's Executive Order 2007-07.
- Provided technical review and assessment of 15 leases involving the removal of native plants from State Trust lands and issued billing notices totaling \$55,000 for the beneficiaries of the Trust.



• Water Rights & Agriculture Section

- The Land Department's claim for a federal reserved water right for State Trust land was briefed and argued, with the assistance of the Attorney General's Office before the Special Master in the Water Rights Adjudications. In 1979, the Land Department, on behalf of the Trust, first asserted the claim for a federal reserved water right for trust land. The claim has been pending since 1979. If granted, this right would be the first of its kind in the United States. The State is currently waiting for the Special Master's decision.
- Produced increased revenues for Water Sales, Public Auction Water Sales and Agricultural Lease rentals.
- Executed an Irrigation Contract for Central Arizona Project (CAP) water for State Trust lands within the Maricopa Stanfield Irrigation District (9,026 acre-feet) and an amendment for the M&I CAP subcontract (32,076 acre-feet). Will seek court validation for both contracts in FY 2008.

• Environmental Resources and Trespass Section

- Over 466 tons of trash was removed from State Trust land as the result of community volunteer groups such as the Stewards of Public Lands and Eagle Scout projects. More than 1,800 hours were contributed to clean up 36 different sites. Sheriff Arpaio's Inmate Labor Detail and adult probationers from two counties contributed service hours to conduct clean-up activities at five additional sites.

- \$192,611 was collected from 12 different trespass and/or unauthorized use case actions, including \$100,000 from a commercial landscape firm for mesquite trees removed from Trust land without permission.
- Dante's Descent, a natural sinkhole in northern Arizona has for years been an attraction to cavers and climbers and, unfortunately, a target for illegal disposal of household waste by local residents. In May of 2007, ASLD retained an environmental contractor and removed 120 cubic yards of waste from the sinkhole.
- Completed testing of a very rare archaeological site in the Phoenix area. The information will provide a comprehensive understanding of a Middle Archaic site in the Phoenix Basin with a time period between 2572 and 2055 B.C., continuing into the Hohokam time periods.



• Dam Safety Program

- In January 2006, the Dam Safety Program was reorganized and expanded to develop a program for the identification, inventory and management of all water barriers located on Trust land. The program's major objective is to reduce the State's liability associated with jurisdictional and unsafe dams by identifying structural modifications that will allow the Arizona Department of Water Resources to reduce or completely remove the jurisdictional or unsafe classification.
- Major Accomplishments:
 - Wineglass Dam in Yavapai County was retrofitted with two new spillways, designed to reduce the storage capacity below the 50 acre-foot threshold. Subsequently, ADWR classified Wineglass Dam as a Jurisdictional dam.
 - Two unauthorized dams were identified in North Pinal County near Biosphere II. Negotiations over a ten month period resulted in the responsible party assuming all financial costs for the removal of the dams and restoration of the area to pre-existing conditions.



Forestry Program

- The State Forester (the Forestry Division Director) has the authority to prevent and suppress wildland fires on approximately 30 percent of land throughout the State; more than nine million acres of State Trust land and nearly 13 million acres of private land outside incorporated municipalities. The Land Department mobilizes firefighters and equipment to and from all areas of Arizona and other states for fire and non-fire emergencies.
- The Forestry Division responded to 1,647 wildland fires; 388 were State responsibilities and 1,259 were in support of federal and tribal agencies. Although 98 percent of all Land Department fires were controlled at less than 100 acres, 7,790 acres were burned on State and private lands during the year.
- The Division maintains cooperative agreements with more than 255 local and rural fire departments, other State and Federal agencies, and private companies to control wildfires on State and private lands.
- The Division also sponsored 46 courses in basic and intermediate wildland fire suppression strategies and tactics for approximately 1,500 students from over 105 rural fire departments.



INMATE FIREFIGHTER PROGRAM

Governor Napolitano, with the support of the State Legislature, has taken the initiative to significantly expand the State's Inmate Firefighter Program. There are currently 15 twenty-person Fire/Fuels Crews; 14 are all male crews and one crew is staffed by all-female inmates. These crews are based out of the ten Arizona Department of Corrections Prisons Complexes located around the State. The Fort Grant, Douglas, Lewis and Yuma prison facilities each host one crew. Four prisons each have two crews: Tucson, Florence, Globe and the Perryville Prison. The Perryville facility houses the one female crew and one of the all-male crews. The Winslow Prison Complex, including the smaller



“satellite” facility at Springerville, maintains three crews.

The inmates selected for these Fire/Fuels Crews are the lowest custody inmates in the system. The inmates volunteer for this special work assignment, and all go through a comprehensive review prior to being allowed into the program. Each of the inmates must successfully complete the standard firefighter training and physical fitness testing prior to being allowed to go on fire assignment. When these crews are not involved in fire fighting activities they work various thinning and brush abatement projects to protect our communities at risk from wildfires.



Summary of Rural Fire and Volunteer Fire Assistance Grants

Year	RFA Grant		VFA Grant		Annual Summary	
	Number of Projects	Dollars	Number of Projects	Dollars	Number of Projects	Dollars
2002	37	\$415,000	26	\$300,000	63	\$715,000
2003	33	\$482,000	21	\$298,000	54	\$780,000
2004	42	\$592,000	24	\$300,000	66	\$892,000
2005	38	\$580,000	22	\$283,000	60	\$863,000
2006	42	\$580,000	31	\$254,826	73	\$762,826
2007	3	\$85,000	18	\$223,650	21	\$308,650

Forestry Program

- The Division provides technical, educational, and financial assistance to rural communities and private landowners in the management of their forested lands. Forest Stewardship Plans are written and implemented by natural resource professionals to guide landowners in reducing the risk of wildfire, insects and disease, protecting soil and water quality, providing timber and other forest products, improving fish and wildlife habitat, and maintaining the landscape's natural beauty. The Department supports rural fire departments and communities with State Fire Assistance Grants, Forest Health and Fire Abatement Grants, and Rural and Volunteer Fire Assistance Grants.

SUMMARY OF COMMUNITY ASSISTANCE, 2002 - 2007

Grant	Year	Number	Dollars Provided	Plans	Firewise Programs	Firewise Workshops	Fuel Treatments	Acres Treated	Homes Protected
State Fire Assistance									
	2002	38	\$2,126,215	60	78	50	24	6,537	1095
	2003	19	\$1,458,222	21	13	6	8	4825	1462
	2004	29	\$2,584,532	29	3	-	12	1507	889
	2005	13	\$2,375,574	15	1	2	4	140	84
	2006	19	\$2,063,621	19	1	3	10	1,733	434
	2007	18	\$2,110,365	(18)					
Forest Health Protection									
	2003	7	\$1,089,050	7	4	1	4	1,922	446
Fire Hazard Abatement									
	2003	18	\$1,995,290	20	7	7	11	2,542	804
	2004	3	\$1,498,324	3	7	-	6	800	
Annual Summary									
	2002	38	\$2,126,215	60	78	50	24	6,537	1,095
	2003	44	\$4,542,562	48	29	17	29	9,599	2,729
	2004	32	\$4,082,856	32	10	-	18	7,870	1150
	2005	13	\$2,375,574	15	1	2	10	1280	328
	2006	19	\$2,063,621	19	1	3	10	1,733	434
	2007	18	\$2,110,365	18					
Grand Total		164	\$17,301,193	192	119	72	91	27,019	5,736

- The Division's Urban and Community Forestry Program provides technical assistance and grants to Arizona cities and towns. Staff coordinates the Community Challenge Grant Program, the Arizona Arbor Day celebration and poster contest. They work closely with the Arizona Community Tree Council, participating in trade shows, consumer education programs, and workshops. Arborists study classes are also coordinated by the staff and the Tree Council, providing training for tree care professionals.



- The Division refurbished and distributed six excess federal fire engines valued at \$226,000 to cooperating rural fire departments. The Division developed one



agency type six engine and converted two chipper trucks into dual use vehicles. The vehicles will be used as fire trucks in the summer and chip trucks the rest of the year. There are currently 155 refurbished fire trucks on loan to rural fire departments statewide. The new equipment and equipment already provided to fire departments is valued at nearly \$4,650,000.

Land Information, Title & Transfer Program

The Land Information, Title & Transfer Division ensures the integrity of the State's title to 9.3 million acres of Trust land, is accountable for the accuracy of public records and land surveys, processes applications, finalizes contracts and addresses legal and administrative issues that come before the Department.

- Public Records and Survey Information

State Trust lands have always been associated with the growth of Arizona. Customer demands on Trust land information, whether associated with land use planning, economic development or conservation, have steadily increased with the State's growth. The Department prides itself in its ability to serve all its customers with a State-of-the-art computerized records information system, while at the same time, provide the same level of service to those customers who do not have technological computer use skills. This past year, the Department provided accurate and timely records and survey information on 9.3 million acres of land to over 52,000 public, corporate, and business inquiries.

- Public Response to the Department

The Department continually requests its customers to rate our customer service in order to assist us in improving our customer service skills. Virtually all customers, receiving

assistance or doing business with the Department this past year, rated the Department's customer service as highly satisfactory.

- Legal and Administrative

There can be numerous legal and administrative issues that go hand-in-hand with the administration of land management issues associated with 9.3 million acres of surface and subsurface estate.

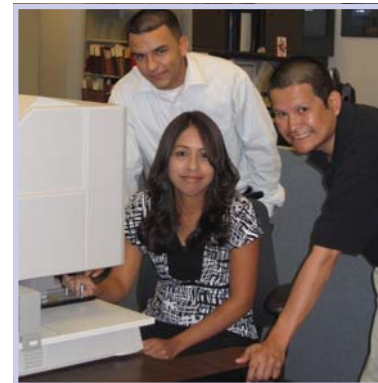
The Department has made advances in bringing to a close, several federal land management actions that affect the Department's management of Trust lands. One such issue addresses approximately 35,000 acres of Trust land now located within the recently expanded boundary of the Petrified Forest National Park. The Department provided Park officials with a right of access to the Trust land proposed for acquisition by the federal government for Park purposes. The Park will provide policing services on the State lands until federal acquisition can be accomplished.

Another issue is the prospect that the State will receive title to approximately 15,000 acres of surface, mineral and oil and gas resources in Apache County as compensation for the federal condemnation of several hundred acres of Trust land within the Fort Huachuca Military Reservation.

- Application and Contract Processing

The Division develops and processes all surface lease, sale, and use applications; and prepares, drafts and revises all surface lease, permit, and right-of-way documents, ensuring compliance with laws, rules and guidelines of the Department; and prepares land use and title reports for all legal actions and special projects addressing Trust lands.

This fiscal year, the Division processed 1,470 new applications, finalized 1,398 contracts, and researched 5.2 million acres of land associated with the sale, lease, use and title records maintenance of the State's Trust and sovereign lands for its customers. The Division was instrumental in completing the reparceling of approximately 500,000 acres of subsurface land in OASIS to allow PALMS to map and analyze parcel information from its business system.



Public Records Room

Board of Appeals

CURRENT BOARD MEMBERS



Jolene U. Dance, Chair
Phoenix
Member-at-Large.



Sanders K. Solot, Vice-Chair
Tucson
Represents the First District, consisting of Pima, Santa Cruz, Cochise, Graham and Greenlee counties.



Jeffrey Covill
Phoenix
Represents the Second District consisting of Maricopa, Pinal, Gila, Yuma and La Paz counties.



Norman R. Brown
St. Johns
Represents the Third District consisting of Mohave, Yavapai, Coconino, Apache and Navajo counties.



Kathleen M. Holmes
Scottsdale
Member-at-Large.

Arizona Revised Statute §37-215 requires all land sales and commercial leases to be approved by the Board of Appeals, which also serves as an Administrative Review Board.

Applicants and lessees may file an appeal with the Board of a final decision of the State Land Commissioner relating to appraisals and classifications.

The State Land Department Board of Appeals consists of five board members selected by the Governor and confirmed by the Senate for six-year terms. Three members represent the 15 counties in the State, which are divided into three districts. Two members hold positions-at-large.

The Board meets once a month unless special circumstances warrant additional sessions. Meetings are usually held in Phoenix.

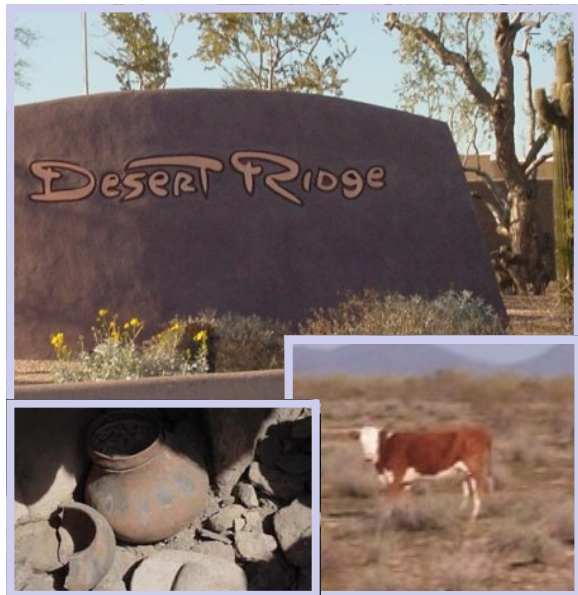
During the fiscal year, the Board approved 42 commercial leases, including seven long-term leases, one for 25 years, two for 50 years, two for 75 years, and two for 99 years; 99 rights-of-way sales appraisals, and 12 land sales appraisals; seven of which were urban land sales.

Twelve new appeals were filed with the Board. One appeal modified the Commissioner's decision. One appeal sustained the Commissioner's decision. Nine appeals were withdrawn and dismissed by the Board. One appeal was carried over to the next fiscal year.

State Trust Land Uses

The State Land Department manages 9.3 million acres of Trust land.

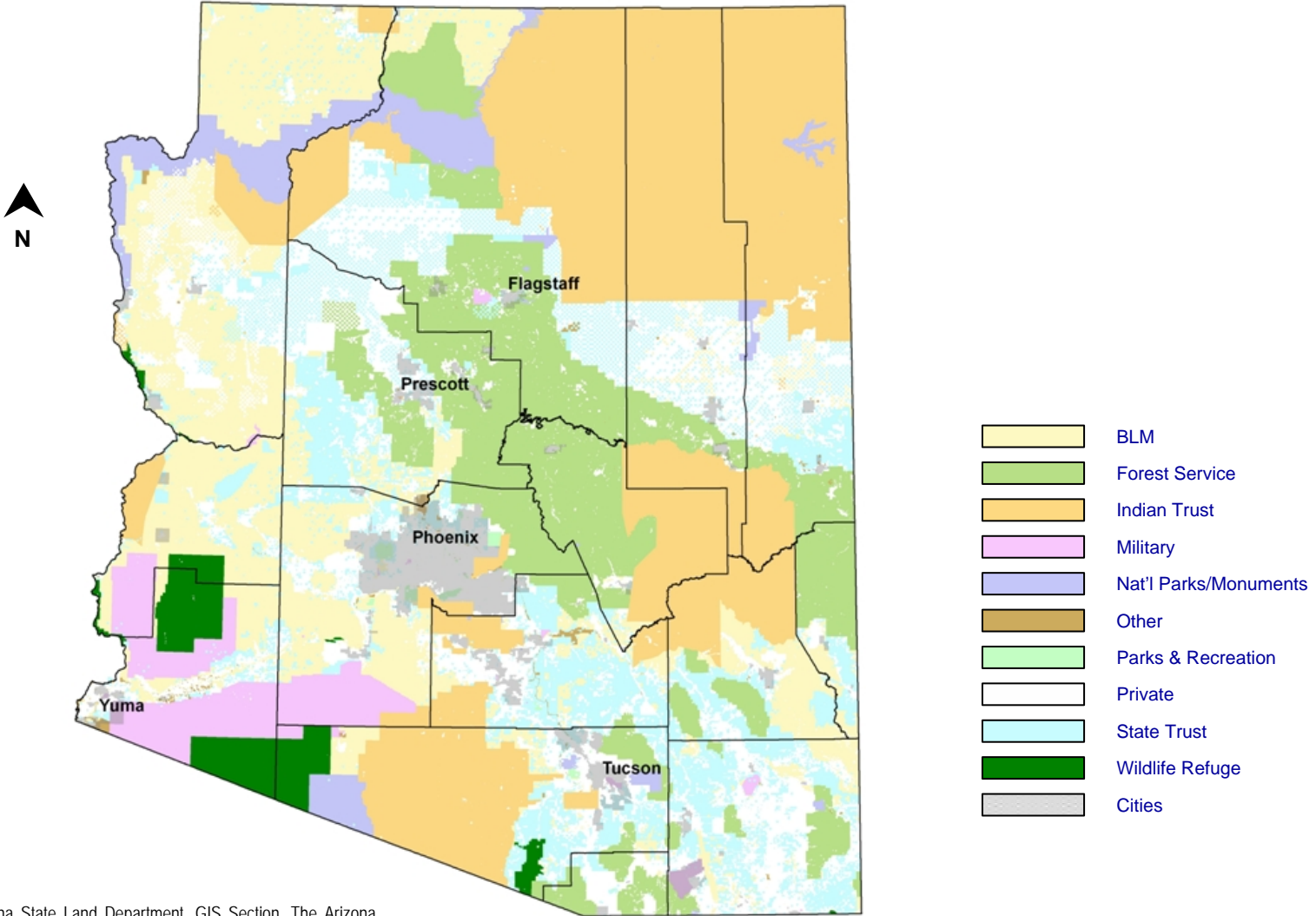
- 9,075,493 acres of the surface are under 10,078 leases and other contracts.
- 682,389 acres of the subsurface are under 788 leases and other contracts.



STATE TRUST LAND USES - FY 2007

	NO. OF LEASES	% OF LEASES	TOTAL ACREAGE	% OF ACREAGE
SURFACE				
Rights-Of-Way	7,289	72.33%	144,109	1.59%
Grazing	1,262	12.52%	8,360,471	92.12%
Commercial	326	3.23%	92,433	1.02%
Commercial School Leases	17	0.17%	878	0.01%
Agricultural	396	3.93%	172,311	1.90%
Use Permits	580	5.76%	223,752	2.47%
U.S. Government	156	1.55%	18,265	0.20%
Homesite	5	0.05%	22	0.00%
Institutional	10	0.10%	12,892	0.14%
Recreational	37	0.37%	50,359	0.55%
Subtotal (Leases)	10,078	100%	9,075,493	100%
SUBSURFACE				
Mineral	101	12.82%	12,605	1.85%
Mineral Exploration	401	50.89%	185,021	27.11%
Mineral Materials	17	2.16%	1,827	0.27%
Oil & Gas	269	34.14%	482,937	70.77%
Subtotal (Leases)	788	100%	682,389	100%
TOTAL LEASES	10,866		9,757,882	

Land Ownership and Management

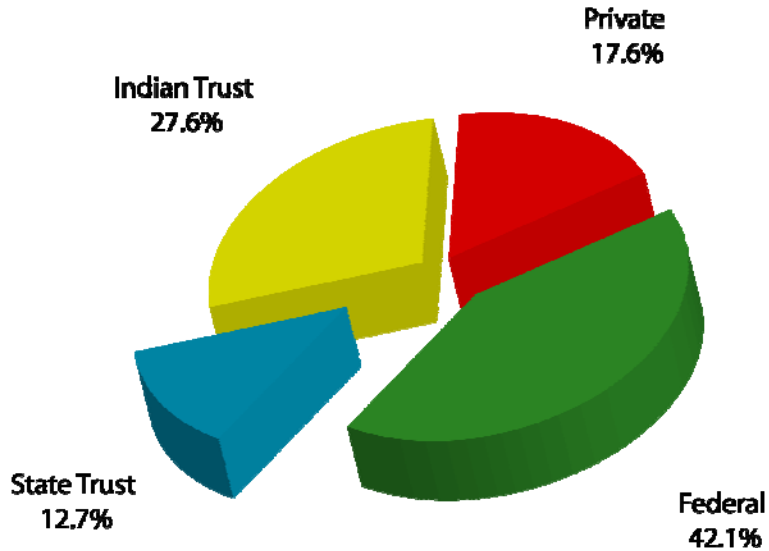


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Land Ownership and Management

Land Ownership in Arizona

The State of Arizona contains an estimated 72,931,000 acres, or approximately 113,417 square miles, making it the sixth largest state in the United States. The surface land ownership in Arizona can be classified in four basic categories.



The percentages are estimates derived from digitized map data. The category called Private is overestimated due to the inclusion of small amounts of land owned by local, State, and Federal agencies.

State Trust Land within Each County

COUNTY	ACRES
Apache	652,660
Cochise	1,371,005
Coconino	1,125,206
Gila	31,231
Graham	496,321
Greenlee	172,104
La Paz	254,411
Maricopa	644,226
Mohave	564,885
Navajo	370,169
Pima	860,756
Pinal	1,205,178
Santa Cruz	61,154
Yavapai	1,264,246
Yuma	186,689
Misc*	2,540
TOTAL	9,262,781

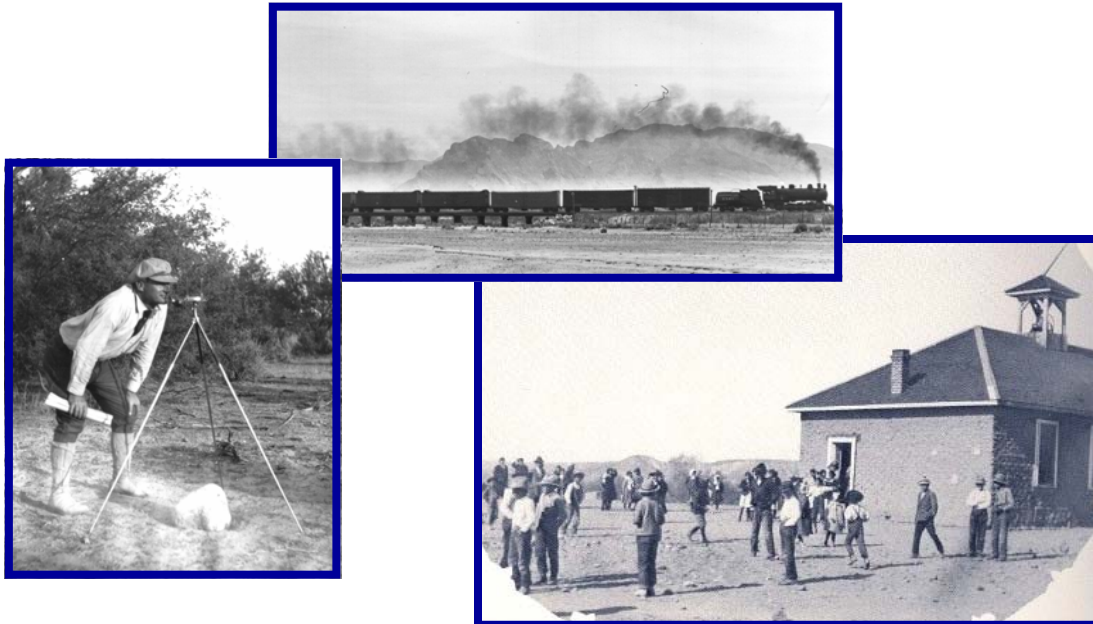
*Trust lands located in California or Nevada due to realignment of Colorado River

Original Land Grant

The Territory of Arizona was established on February 24, 1863, by an Act of Congress. This Act granted sections 16 and 36 of each township for the benefit of the Common Schools. Endowment of public lands for educational purposes was a practice established by the Northwest Ordinance in 1787. Congress quickly recognized the value of the land and the importance of public schools to a developing nation.

The State Enabling Act, passed on June 20, 1910, allowed the Territory of Arizona to prepare for statehood. In addition to the previously designated sections of land, the Enabling Act assigned sections 2 and 32 of each township to be held in trust for the Common Schools. The needs of other public institutions were considered by Congress, and through the Enabling Act, more than two million additional acres were allocated for their use.

Today, the original school section pattern exists only in a few locations such as the remote Arizona Strip. About three-quarters of the school section acreage were relocated through selections and exchanges that have consolidated the Trust lands into large blocks in Pinal, Pima, Graham, Greenlee, and Cochise counties in central and southeastern Arizona; north and northwest of Phoenix in Maricopa and Yavapai counties; and in the checkerboard railroad grant zone across Mohave, Yavapai, Coconino, Navajo, and Apache counties.



6	5	4	3	2	1
7	8	9	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
30	29	28	27	26	25
31	32	33	34	35	36

Land Endowment by Township
 Township = 36 Sections
 Each Section = 1 Square Mile

Management Team



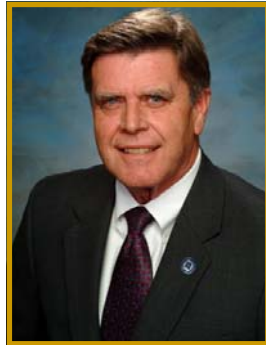
Jim Adams
Director
Real Estate Division



Lynn Larson
Director
Administration &
Resource Analysis
Division



Bill Dowdle
Director
Natural Resources
Division



Richard Oxford
Director
Land Information,
Title, & Transfer
Division



Kirk Rowdabaugh
State Forester
Forestry Division

Fund and Beneficiary Summary

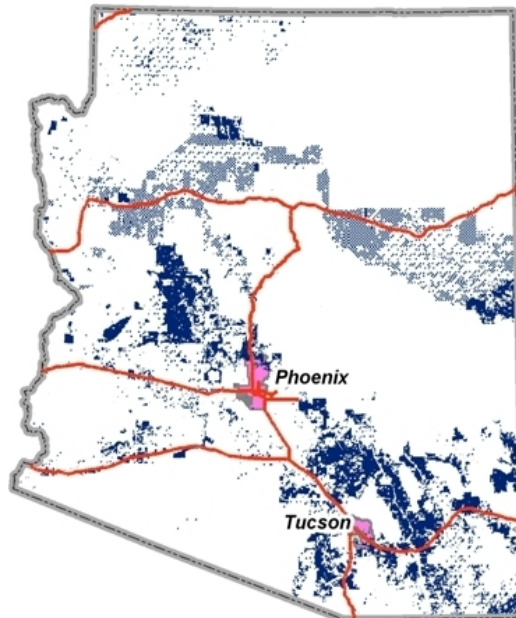
In 2007, State Trust revenues totaled \$367,823,534. A total of \$352,350,912 in receipts were earned for the beneficiaries, \$9,860,701 was deposited in the General Fund, and \$5,611,921 was received as commercial prepayments. Of the beneficiary amount, \$194,766,598 was deposited in the Permanent Funds. The Permanent Funds are managed by the State Treasurer. The remaining \$154,490,189 in receipts were expendable and were distributed to the beneficiaries for use in their operations. Expendable receipts are comprised of lease revenues, interest on the outstanding sales balance and the Treasurer's formula distribution. The table below indicates the number of acres remaining for each grant along with a breakdown on how the expendable receipts are distributed to the beneficiaries.

TRUST ACRES	GRANT	BENEFICIARY
8,101,127	Common Schools (K - 12) (Includes County Bonds)	1st \$72.3 million of expendable receipts → State Aid Formula for K - 12 Receipts over \$72.3 million → Classroom Site Fund
174,798	Normal Schools	Board of Regents to Distribute to Universities
124,944	Agricultural & Mechanical Colleges	
80,168	Military Institutes	
123,254	School of Mines	
137,908	University Land Code	
54,157	University of Arizona (Act Of 2/18/1881)	
82,560	School for the Deaf & Blind	School for the Deaf & Blind
64,257	Legislative, Executive & Judicial Buildings	Legislature, Executive & Judicial Branch
71,248	State Hospital	State Hospital
95,431	Miners' Hospital (2 Grants)	Pioneers' Home
76,818	State Charitable, Penal, and Reformatory	50% Pioneers' Home 25% Department of Corrections 25% Department of Juvenile Corrections
76,111	Penitentiary	
9,262,781	TOTAL	

Fund and Beneficiary Summary

Common Schools (K-12)

- Public education is by far the largest beneficiary of Trust land managed by the Department. Congress granted two sections of each township to common schools when Arizona became a territory and another two sections when Arizona became a state. The State was able to select Federal lands equal to the sections that could not be granted due to the establishment of Federal forests, parks and Indian reservations. Today, approximately 7.8 million acres remains in the Trust for common schools.
- In FY 2007, a \$182.7 million from sales and royalties was deposited in the Permanent Fund for common schools bringing the total balance to \$1,794,123,000.
- In FY 2007, a record 142.3 million was generated in expendable receipts from leases, interest on the outstanding sales balance and from the Treasurer's formula distribution. Of this total, \$3.1 million was transferred to the School Facilities Board, \$72.3 million was distributed through the School Aid Formula and \$67.0 million was deposited into the Classroom Site Fund, which will be used for teacher raises, classroom size reduction and dropout prevention programs.
- The location of common school grant lands are shown in the above map. As a result of the large number of acres that are strategically located around urban areas, substantial revenues are expected to be generated in future years on behalf of the schools.



COMMON SCHOOLS (K - 12) ACRES AND INCOME - FY 2007

SURFACE LEASES	ACRES	INCOME
Agriculture	126,668	\$3,034,569.36
Commercial	34,460	\$21,517,178.98
Grazing	7,365,245	\$2,179,453.36
Homesite	22	\$9,409.00
Rights of Way	105,050	\$20,286,405.59
Use Permits	179,133	\$1,660,535.26
Institutional Taking	5,406	\$190,215.08
U.S. Government	17,426	\$278,167.97
Other	0	\$4,290,853.10
TOTAL SURFACE	7,833,409	\$53,446,787.70
SUBSURFACE LEASES		
Mineral	12,265	\$36,257.33
Prospecting Permit	168,112	\$267,039.70
Mineral Material	1,270	\$164,228.01
Oil & Gas	420,510	\$521,108.99
U.S. Government	17,426	\$0.00
TOTAL SUBSURFACE	619,583	\$988,634.03
Penalty & Interest		\$263,776.73
Sales Interest		\$52,183,696.48
School Leases		\$3,094,125.00
Treasurer's Formula Distribution		\$32,351,317.00
GRAND TOTAL EXPENDABLE		\$142,328,336.94
Permanent Fund Receipts		\$182,685,596.70
Permanent Fund Balance		\$1,794,123,000.00

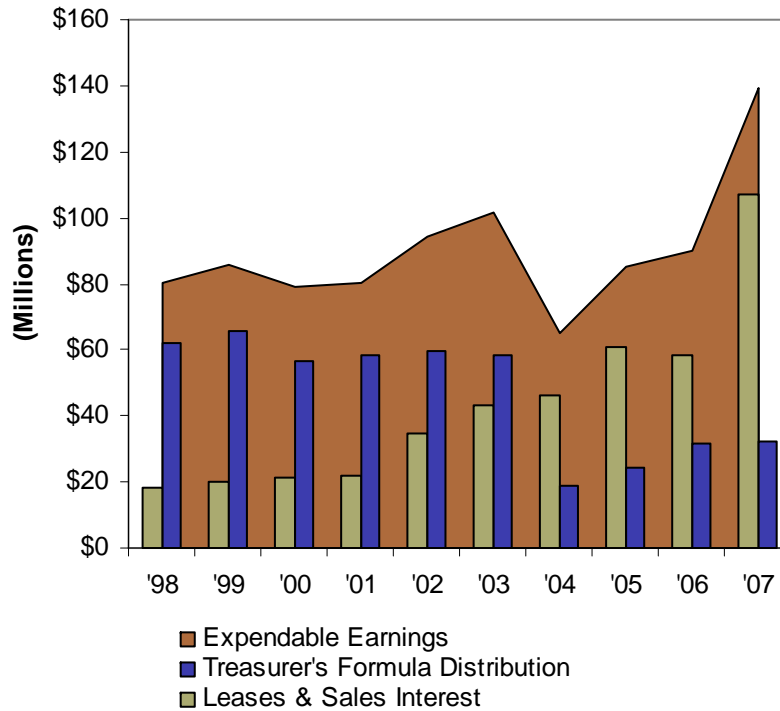
Fund and Beneficiary Summary Common Schools (K-12)

Proposition 310 (passed by voters in the 2000 election) created a Classroom Site Fund whereby particular sources of funds, including revenue from the fiduciary management of State Trust land, are directed to fund such items as teacher salaries, classroom size reduction and dropout prevention programs. According to Proposition 301, the first \$72.3 million in expendable revenue for common schools is used to fund the basic state aid formula, which funds education. Expendable revenue in excess of \$72.3 million is deposited into the Classroom Site Fund.

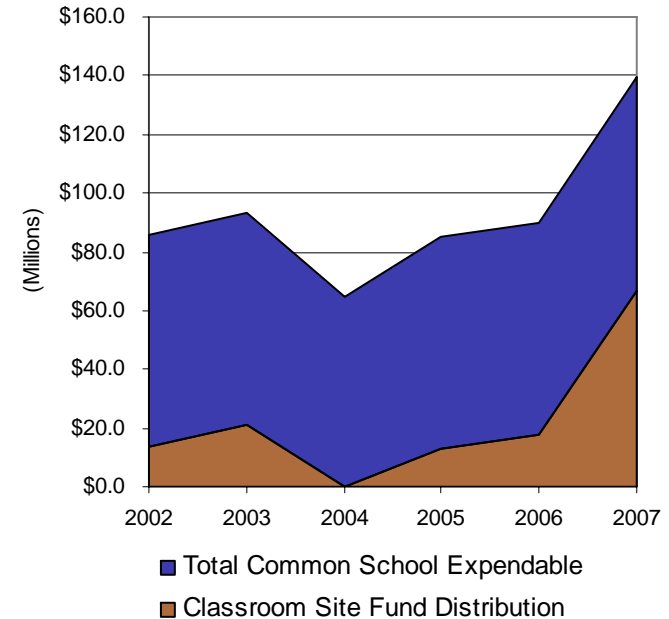
Classroom Site Fund Actual

Fiscal Year	2002	2003	2004	2005	2006	2007
Permanent Fund Revenue	46.7	77.5	131.3	264.4	264.3	182.7
Treasurer's Distribution	54.8	53.9	18.6	24.4	31.4	32.4
Rent & Interest Received	31.1	39.2	46.3	60.8	58.7	106.9
Expendable Received	85.9	93.1	64.9	85.2	90.1	139.2
Base Year Amount	(72.3)	(72.3)	(72.3)	(72.3)	(72.3)	(72.3)
Classroom Site Fund	13.6	20.8	-	12.9	17.8	67.0

Common Schools Expendable Earnings FY 1998 - 2007



Classroom Site Fund FY 2002 - 2007



Fund and Beneficiary Summary

University Grants

- Arizona's three universities (Arizona State University, Northern Arizona University, and University of Arizona) are the beneficiaries of six Trust grants.
- The total expendable revenue that was distributed to the Board of Regents and then to the universities to fund their operations was \$2.6 million in FY 2007. An additional \$560.7 thousand was earned and added to the permanent funds for the six grants bringing the total permanent fund balance to \$53.9 million.
- The Board of Regents distributes the expendable earnings from the six grants to the University of Arizona, Northern Arizona University and Arizona State University as follows:

Board of Regents Distribution of Trust Revenues to the Universities

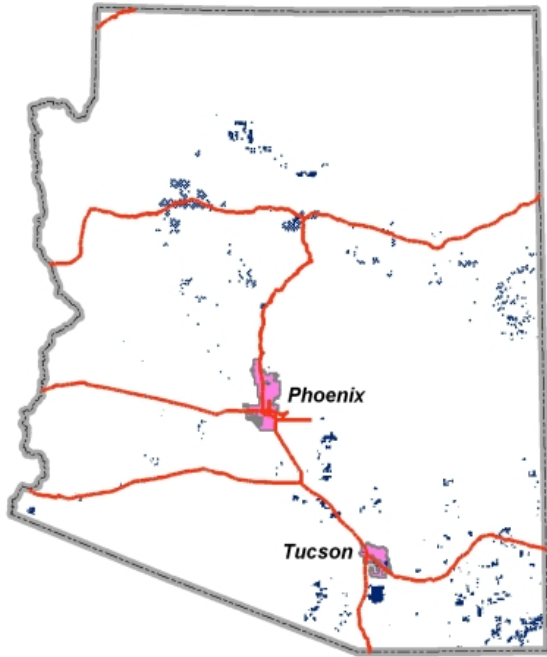
Grant	Distribution
Agricultural & Mechanical Colleges	1/2 to UofA and the other 1/2 split between the 3 Universities based on Engineering Credit hours
Military Institutes Grant	Split between the 3 Universities based on Credit hours
University Land Code	Split between the 3 Universities based on Credit hours
Normal Schools	1/3 to each University
UofA 1881 Grants	UofA
School of Mines Grant	UofA

TOTAL UNIVERSITY GRANTS FY 2007

SURFACE LEASES	ACRES	INCOME
Agriculture	14,764	\$372,288.47
Commercial	51,737	\$399,801.61
Grazing	596,364	\$214,323.38
Homesite	0	\$5,153.00
Rights-of-Way	7,725	\$206,503.31
Use Permits	13,760	\$117,189.87
Institutional Taking	5,151	\$702.65
U.S. Government	299	\$6,000.03
Other	0	\$1,592.87
TOTAL SURFACE	689,799	\$1,323,555.19
SUBSURFACE LEASES		
Prospecting Permit	6,168	\$10,380.72
Mineral Material	140	\$11,760.09
Oil & Gas	49,488	\$60,362.47
U.S. Government	299	\$0.00
TOTAL SUBSURFACE	56,095	\$82,503.28
Penalty & Interest		\$20,206.90
Treasurer's Formula Distribution		\$1,185,028.00
GRAND TOTAL EXPENDABLE		\$2,611,293.37
Permanent Fund Receipts		\$560,705.00
Permanent Fund Balance		\$53,913,000.00

Fund and Beneficiary Summary

University Grants



Location of University Trust Grant land

Arizona State University (ASU) is, along with the University of Arizona and Northern Arizona University, beneficiary of six Trust grants. ASU was established in Tempe in 1885 by an act of the Thirteenth Territorial Legislature, and was initially formed as a teachers college. The curriculum and degrees offered increased and by 1958 the college performed all the functions of a university, and received authorization by an act of the governor to become Arizona State University. It is now one of the premier metropolitan research universities in the nation.

The Music Building is home to the ASU School of Music. Frank Lloyd-Wright's son-in-law designed the building which is a neighbor to Lloyd-Wright's Gammage Auditorium. The Hayden Library, built in 1966, is the largest library at ASU. The library is named for Charles Hayden, the first president of the board of the Arizona Territorial Normal School.



Music Building



Hayden Library

Fund and Beneficiary Summary University Grants

NORMAL SCHOOLS GRANT ACRES AND INCOME - FY 2007

SURFACE LEASES	ACRES	INCOME
Agriculture	165	\$3,014.01
Commercial	22,539	\$20,458.69
Grazing	145,409	\$51,887.02
Rights-of-Way	1,527	\$47,244.89
Use Permits	3,364	\$15,771.01
Institutional Taking	2,721	\$0.00
U.S. Government	184	\$6,000.03
TOTAL SURFACE	<u>175,909</u>	<u>\$144,375.65</u>
SUBSURFACE LEASES		
Prospecting Permit	2,290	\$5,948.20
Mineral Material	120	\$10,560.09
Oil & Gas	1,982	\$6,065.76
U.S. Government	184	\$0.00
TOTAL SUBSURFACE	<u>4,576</u>	<u>\$22,574.05</u>
Penalty & Interest		\$1,591.61
Treasurer's Formula Distribution		<u>\$46,082.00</u>
GRAND TOTAL EXPENDABLE		<u>\$214,623.31</u>
Permanent Fund Receipts		\$52,276.01
Permanent Fund Balance		\$2,121,000.00

AGRICULTURAL & MECHANICAL COLLEGES ACRES AND INCOME - FY 2007

SURFACE LEASES	ACRES	INCOME
Agriculture	251	\$2,911.78
Commercial	10,172	\$1,567.72
Grazing	106,443	\$37,521.70
Rights-of-Way	1,876	\$33,880.53
Use Permits	2,920	\$15,085.40
Institutional Taking	1,917	\$0.00
U.S. Government	86	\$0.00
Other	0	\$92.87
TOTAL SURFACE	<u>123,664</u>	<u>\$91,060.00</u>
SUBSURFACE LEASES		
Prospecting Permit	60	\$60.00
Mineral Material	20	\$1,200.00
Oil & Gas	7,421	\$9,698.01
U.S. Government	86	\$0.00
TOTAL SUBSURFACE	<u>7,587</u>	<u>\$10,958.01</u>
Penalty & Interest		\$520.25
Treasurer's Formula Distribution		<u>\$201,319.00</u>
GRAND TOTAL EXPENDABLE		<u>\$303,857.26</u>
Permanent Fund Receipts		\$10,721.25
Permanent Fund Balance		\$6,494,000.00

MILITARY INSTITUTES ACRES AND INCOME - FY 2007

SURFACE LEASES	ACRES	INCOME
Agriculture	480	\$960.00
Commercial	1,935	\$37,737.00
Grazing	76,749	\$31,613.66
Rights-of-Way	259	\$3,668.09
Use Permits	40	\$179.06
Other	0	\$1,500.00
TOTAL SURFACE	<u>79,463</u>	<u>\$75,657.81</u>
SUBSURFACE LEASES		
Oil & Gas	16,551	\$16,550.81
TOTAL SUBSURFACE	<u>16,551</u>	<u>\$16,550.81</u>
Penalty & Interest		\$2,276.64
Treasurer's Formula Distribution		<u>\$9,949.00</u>
GRAND TOTAL EXPENDABLE		<u>\$104,434.26</u>
Permanent Fund Receipts		\$0.00
Permanent Fund Balance		\$364,000.00

Fund and Beneficiary Summary University Grants

SCHOOL OF MINES ACRES AND INCOME - FY 2007

SURFACE LEASES	ACRES	INCOME
Agriculture	2,485	\$37,992.12
Commercial	8,483	\$9,213.52
Grazing	111,207	\$40,773.87
Rights-of-Way	1,040	\$46,752.62
Use Permits	1,286	\$2,173.58
U.S. Government	17	\$0.00
TOTAL SURFACE	<u>124,518</u>	<u>\$136,905.71</u>
SUBSURFACE LEASES		
Prospecting Permit	1,271	\$1,270.68
Oil & Gas	11,737	\$14,388.58
U.S. Government	17	\$0.00
TOTAL SUBSURFACE	<u>13,025</u>	<u>\$15,659.26</u>
Penalty & Interest		\$1,358.27
Treasurer's Formula Distribution		\$133,902.00
GRAND TOTAL EXPENDABLE		<u>\$287,825.24</u>
Permanent Fund Receipts		\$28,759.87
Permanent Fund Balance		\$7,785,000.00

UNIVERSITY LAND CODE ACRES AND INCOME - FY 2007

SURFACE LEASES	ACRES	INCOME
Agriculture	4,276	\$84,985.18
Commercial	8,238	\$257,158.55
Grazing	117,681	\$40,364.44
Rights-of-Way	2,218	\$18,066.83
Use Permits	4,249	\$32,841.72
Institutional Taking	107	\$702.65
U.S. Government	8	\$0.00
TOTAL SURFACE	<u>136,777</u>	<u>\$434,119.37</u>
SUBSURFACE LEASES		
Prospecting Permit	2,513	\$3,031.71
Oil & Gas	11,677	\$13,419.31
U.S. Government	8	\$0.00
TOTAL SUBSURFACE	<u>14,198</u>	<u>\$16,451.02</u>
Penalty & Interest		\$1,609.00
Treasurer's Formula Distribution		\$226,823.00
GRAND TOTAL EXPENDABLE		<u>\$679,002.39</u>
Permanent Fund Receipts		\$56,860.11
Permanent Fund Balance		\$11,372,000.00

UNIVERSITY OF ARIZONA - 1881 ACRES AND INCOME - FY 2007

SURFACE LEASES	ACRES	INCOME
Agriculture	7,107	\$242,425.38
Commercial	369	\$73,666.13
Grazing	38,876	\$12,162.69
Homesite	0	\$5,153.00
Rights-of-Way	791	\$56,890.35
Use Permits	1,901	\$51,139.10
Institutional Taking	406	\$0.00
U.S. Government	4	\$0.00
Other	0	\$0.00
TOTAL SURFACE	<u>49,455</u>	<u>\$441,436.65</u>
SUBSURFACE LEASES		
Prospecting Permit	35	\$70.13
Oil & Gas	120	\$240.00
U.S. Government	4	\$0.00
TOTAL SUBSURFACE	<u>159</u>	<u>\$310.13</u>
Penalty & Interest		\$12,851.13
Treasurer's Formula Distribution		\$566,953.00
GRAND TOTAL EXPENDABLE		<u>\$1,021,550.91</u>
Permanent Fund Receipts		\$412,087.76
Permanent Fund Balance		\$25,777,000.00

Fund and Beneficiary Summary

Other Grants

- The remaining six Trust grants have as their beneficiaries the School for the Deaf & Blind, the Legislative, Executive and Judicial Buildings, the State Hospital, the Pioneers' Home, the Department of Juvenile Corrections and the Department of Corrections. These six grants were authorized in the Enabling Act and received 100,000 acres, except for the State Charitable Grant which received 200,000 acres. A chart showing the connection between the grants and the beneficiaries is provided below.
- The Pioneers' Home received a total of \$6,118,102 in expendable receipts and \$5,780,703 in Permanent Fund receipts in FY 2007.
- The Department of Juvenile Corrections received a total of \$2,221,725 in expendable receipts and \$2,613,344 in Permanent Fund receipts in FY 2007.
- The Department of Corrections received a total of \$3,345,657 in expendable receipts and \$2,697,569 in Permanent Fund receipts in FY 2007.

<u>Grant</u>	<u>Beneficiary</u>
School for Deaf & Blind.....	School for Deaf & Blind
Legislative, Executive & Judicial Buildings.....	Legislature, Executive & Judicial Branch
State Hospital.....	State Hospital
Miners' Hospital (2 Grants).....	Pioneers' Home
State Charitable, Penal & Reformatory	50% Pioneers' Home
	25% Dept. of Juvenile Corrections
	25% Dept. of Corrections
Penitentiary.....	Dept. of Corrections



Arizona State School for the Deaf and the Blind - Tucson Campus



Arizona Pioneers' Home
Prescott, Arizona

Fund and Beneficiary Summary Other Grants

SCHOOL FOR THE DEAF & BLIND ACRES AND INCOME - FY 2007

SURFACE LEASES	ACRES	INCOME
Agriculture	2,638	\$67,348.16
Commercial	1,453	\$21,055.57
Grazing	72,540	\$25,500.36
Rights-of-Way	802	\$26,006.95
Use Permits	5,956	\$4,525.52
Institutional Taking	1	\$1,163.02
U.S. Government	32	\$0.00
TOTAL SURFACE	<u>83,421</u>	<u>\$145,599.58</u>
SUBSURFACE LEASES		
Prospecting Permit	2,692	\$3,462.72
Oil & Gas	6,102	\$13,616.03
U.S. Government	32	\$0.00
TOTAL SUBSURFACE	<u>8,826</u>	<u>\$17,078.75</u>
Penalty & Interest		\$950.90
Treasurer's Formula Distribution		\$87,629.00
GRAND TOTAL EXPENDABLE		<u>\$251,258.23</u>
Permanent Fund Receipts		\$151,608.07
Permanent Fund Balance		\$3,072,000.00

LEGISLATIVE, EXECUTIVE, & JUDICIAL BUILDINGS ACRES AND INCOME - FY 2007

SURFACE LEASES	ACRES	INCOME
Agriculture	2,180	\$31,623.46
Commercial	5	\$31,300.00
Grazing	56,406	\$20,736.73
Rights-of-Way	1,392	\$16,011.80
Use Permits	5,062	\$2,326.51
U.S. Government	92	\$0.00
TOTAL SURFACE	<u>65,137</u>	<u>\$101,998.50</u>
SUBSURFACE LEASES		
Prospecting Permit	863	\$686.53
U.S. Government	92	0
TOTAL SUBSURFACE	<u>955</u>	<u>\$686.53</u>
Penalty & Interest		\$1,726.32
Treasurer's Formula Distribution		\$122,537.00
GRAND TOTAL EXPENDABLE		<u>\$226,948.35</u>
Permanent Fund Receipts		\$260,097.99
Permanent Fund Balance		\$5,412,000.00

STATE HOSPITAL ACRES AND INCOME - FY 2007

SURFACE LEASES	ACRES	INCOME
Agriculture	4,251	\$104,686.92
Commercial	269	\$199,683.01
Grazing	58,121	\$20,607.29
Rights-of-Way	869	\$3,775.58
Use Permits	4,961	\$9,515.43
Institutional Taking	80	\$4,673.88
U.S. Government	108	\$0.00
TOTAL SURFACE	<u>68,660</u>	<u>\$342,942.11</u>
SUBSURFACE LEASES		
Mineral	60	\$600.00
Prospecting Permit	53	\$106.77
Oil & Gas	755	\$3,257.64
U.S. Government	108	\$0.00
TOTAL SUBSURFACE	<u>976</u>	<u>\$3,964.41</u>
Penalty & Interest		\$9,884.09
Treasurer's Formula Distribution		\$124,204.00
GRAND TOTAL EXPENDABLE		<u>\$480,994.61</u>
Permanent Fund Receipts		\$16,974.16
Permanent Fund Balance		\$3,064,000.00

Fund and Beneficiary Summary Other Grants

MINERS' HOSPITAL* ACRES AND INCOME - FY 2007

SURFACE LEASES	ACRES	INCOME
Agriculture	13,031	\$394,843.37
Commercial	590	\$950,935.95
Grazing	73,835	\$22,386.03
Rights-of-Way	1,521	\$43,772.55
Use Permits	3,571	\$65,070.80
Institutional Taking	1	\$919.89
U.S. Government	168	\$0.00
Other	0	\$2,100.00
TOTAL SURFACE	<u>92,717</u>	<u>\$1,480,028.59</u>
SUBSURFACE LEASES		
Mineral	119	\$0.00
Prospecting Permit	6,143	\$7,517.19
Mineral Material	230	\$20,239.91
Oil & Gas	4,809	\$5,765.76
U.S. Government	168	\$0.00
TOTAL SUBSURFACE	<u>11,469</u>	<u>\$33,522.86</u>
Penalty & Interest		\$2,825.13
Treasurer's Formula Distribution		\$158,276.00
GRAND TOTAL EXPENDABLE		<u>\$1,674,652.58</u>
Permanent Fund Receipts		\$554,014.65
Permanent Fund Balance		\$6,658,000.00

STATE CHARITABLE, PENAL, & REFORMATORY ACRES AND INCOME - FY 2007

SURFACE LEASES	ACRES	INCOME
Agriculture	3,997	\$102,680.61
Commercial	3,401	\$849,014.73
Grazing	62,369	\$24,040.61
Rights-of-Way	1,801	\$82,016.15
Use Permits	5,467	\$98,884.23
Institutional Taking	475	\$61,147.39
U.S. Government	117	\$0.00
Other	0	\$0.00
TOTAL SURFACE	<u>77,627</u>	<u>\$1,217,783.72</u>
SUBSURFACE LEASES		
Mineral	160	\$120.00
Mineral Material	186	\$107,484.34
Oil & Gas	1,268	\$5,237.05
U.S. Government	117	\$0.00
TOTAL SUBSURFACE	<u>1,732</u>	<u>\$112,841.39</u>
Penalty & Interest		\$35,589.35
Sales Interest		\$6,117,500.08
Treasurer's Formula Distribution		\$1,403,184.00
GRAND TOTAL EXPENDABLE		<u>\$8,886,898.54</u>
Permanent Fund Receipts		\$10,453,377.37
Permanent Fund Balance		\$64,184,000.00

PENITENTIARY ACRES AND INCOME - FY 2007

SURFACE LEASES	ACRES	INCOME
Agriculture	4,673	\$226,479.96
Commercial	478	\$617,348.10
Grazing	65,932	\$21,688.08
Rights-of-Way	495	\$56,408.26
Use Permits	5,783	\$56,436.83
Institutional Taking	1,778	\$0.00
U.S. Government	5	\$0.00
TOTAL SURFACE	<u>79,143</u>	<u>\$978,361.23</u>
SUBSURFACE LEASES		
Prospecting Permit	990	\$1,550.52
U.S. Government	5	\$0.00
TOTAL SUBSURFACE	<u>995</u>	<u>\$1,550.52</u>
Penalty & Interest		\$3,505.31
Treasurer's Formula Distribution		\$140,515.00
GRAND TOTAL EXPENDABLE		<u>\$1,123,932.06</u>
Permanent Fund Receipts		\$84,224.23
Permanent Fund Balance		\$5,458,000.00

*Miners' Hospital and Miners' 1929 combined

Financial Schedules



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Financial Schedules

RECEIPTS BY CATEGORY - FY 2007

	ROYALTY	SALES PRINCIPAL	SALES INTEREST	LEASE RENTAL	PENALTY & INTEREST	OTHER RECEIPTS	TOTAL
Common Schools (K - 12)	8,725,632.62	173,959,964.04	52,183,696.48	54,435,421.73	263,776.73	0.00	289,568,491.60
Normal Schools	52,179.52	96.49	0.00	166,949.70	1,591.61	0.00	220,817.32
A&M Colleges	10,721.25	0.00	0.00	102,018.01	520.25	0.00	113,259.51
Military Institutes	0.00	0.00	0.00	92,208.62	2,276.64	0.00	94,485.26
School of Mines	23,886.14	4,873.73	0.00	152,564.97	1,358.27	0.00	182,683.11
University Land Code	7,654.74	49,205.37	0.00	450,570.39	1,609.00	0.00	509,039.50
U of A (Act of 2/18/1881)	207,087.76	205,000.00	0.00	441,746.78	12,851.13	0.00	866,685.67
School for the Deaf & Blind	6,695.57	144,912.50	0.00	162,678.33	950.90	0.00	315,237.30
Leg., Exec & Judicial	1,317.99	258,780.00	0.00	102,685.03	1,726.32	0.00	364,509.34
State Hospital	16,974.16	0.00	0.00	346,906.52	9,884.09	0.00	373,764.77
Miners' Hospital	82,832.26	471,182.39	0.00	1,513,551.45	2,825.13	0.00	2,070,391.23
St Char., Pen. & Ref	553,498.79	9,899,878.58	6,117,500.08	1,330,625.11	35,589.35	0.00	17,937,091.91
Penitentiaries	71,047.23	13,177.00	0.00	979,911.75	3,505.31	0.00	1,067,641.29
School Leases	0.00	0.00	0.00	3,094,125.00	0.00	0.00	3,094,125.00
Commercial Prepayment	0.00	0.00	0.00	0.00	0.00	5,611,921.02	5,611,921.02
Total Schools & Institutions	9,759,528.03	185,007,070.10	58,301,196.56	63,371,963.39	338,464.73	5,611,921.02	322,390,143.83
GENERAL FUND							
F.E.M.A. Lands	0.00	0.00	0.00	29,880.00	93.15	0.00	29,973.15
Farm Loan Lands	0.00	0.00	0.00	4,789.61	74.24	0.00	4,863.85
Navigable Streambeds	0.00	0.00	0.00	101,973.17	361.80	0.00	102,334.97
Lands Held in Trust	0.00	0.00	0.00	9,368.07	0.00	0.00	9,368.07
Fees: Lease, Sale & Misc	0.00	0.00	0.00	0.00	0.00	9,714,161.16	9,714,161.16
Total General Fund	0.00	0.00	0.00	146,010.85	529.19	9,714,161.16	9,860,701.20
Riparian Trust Fund	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL RECEIPTS	9,759,528.03	185,007,070.10	58,301,196.56	63,517,974.24	338,993.92	15,326,082.18	332,250,845.03

*Miners' Hospital and Miners' 1929 combined

Financial Schedules

RENTAL ACREAGE AND RECEIPTS
 FY 2007
 BY TYPE OF LEASE

SURFACE LEASES	ACRES	RECEIPTS
Agriculture	172,311	4,341,570.33
Commercial	92,433	24,618,076.32
School Leases	*	3,094,125.00
Grazing	8,360,471	2,531,825.45
Homesite	22	14,562.00
Rights-of-Way	119,787	20,743,961.82
Use Permits	223,753	2,095,530.97
Institutional Taking	12,892	258,821.91
U.S. Government	18,265	284,168.00
Other	0	4,294,545.97
TOTAL SURFACE	8,999,934	\$62,277,187.77
SUBSURFACE LEASES		
Mineral	12,605	36,977.33
Prospecting Permit	185,021	290,744.15
Mineral Material	1,827	303,712.35
Oil and Gas	482,937	609,352.64
U.S. Government	18,265	0.00
TOTAL SUBSURFACE	700,655	\$1,240,786.47
NON-LEASE REVENUES		
Penalty & Interest		338,993.92
Sales Interest		58,301,196.56
Royalty		9,759,528.03
Land Sales Principal		160,484,765.56
Rights-of-Way Sales Principal		24,345,307.54
Settlements		176,997.00
Commercial Prepayments		5,611,921.02
Fees		9,714,161.16
TOTAL NON-LEASE REVENUES		268,732,870.79
GRAND TOTAL		\$332,250,845.03

*The acres for School Leases are included in the total for Commercial acres.

Financial Schedules

TREASURER'S FORMULA DISTRIBUTION*

	YEAR ENDING JUNE 30 FY 2006	YEAR ENDING JUNE 30 FY 2007	INCREASE (DECREASE)	5/12/1912 TO DATE
Common Schools	31,437,534	32,351,317	913,783	1,022,765,475
Normal Schools Grant	41,740	46,082	4,342	2,300,697
Agricultural & Mechanical Colleges	180,233	201,319	21,086	7,779,967
Military Institutes Grant	9,173	9,949	776	1,169,470
School of Mines Grant	104,439	133,902	29,463	6,408,434
University Land Code	213,276	226,823	13,547	10,161,389
University of Arizona (Act Of 2/18/1881)	551,950	566,953	15,003	20,743,221
School for the Deaf & Blind	77,139	87,629	10,490	4,130,403
Legislative, Executive & Judicial Buildings	104,788	122,537	17,749	6,696,979
State Hospital Grant	147,619	124,204	(23,415)	3,147,134
Miners' Hospital Grant**	165,791	158,276	(7,515)	6,238,067
State Charitable, Penal, and Reformatory	1,182,283	1,403,184	220,901	20,813,971
Penitentiary Grant	118,596	140,515	21,919	3,920,443
TOTAL	34,334,561	35,572,690	1,238,129	1,116,275,650

*Information from the State Treasurer

**Miners' Hospital & Miners' Hospital 1929 combined

Financial Schedules

STATE TRUST LAND ACREAGE BY BENEFICIARY TRUST ACRES

BENEFICIARY	FY 1978	FY 2007
Common Schools (K - 12)*	8,342,469	8,101,127
Normal Schools Grant	172,405	174,798
Agricultural & Mechanical Colleges	134,469	124,944
Military Institutes Grant	82,945	80,168
School of Mines Grant	132,882	123,254
University Land Code	166,354	137,908
University of Arizona (Act Of 2-18-1881)	62,216	54,157
School for the Deaf & Blind	84,209	82,560
Legislative, Executive & Judicial Buildings	66,660	64,257
State Hospital Grant	79,198	71,248
Miners' Hospital	48,648	47,745
Miners' Hospital (1929)	53,311	47,686
State Charitable, Penal, and Reformatory	80,010	76,818
Penitentiary Grant	80,830	76,111
TOTAL	9,586,606	9,262,781

*Includes County Bonds

Financial Schedules

**AUCTIONS OF LEASES WITH AND WITHOUT THE
PREFERRED RIGHT TO MATCH THE HIGHEST BID
(REPORT REQUIRED BY A.R.S.§37-132)**

AUCTION DATE	LEASE #	PARCEL LOCATION	PREFERRED RIGHT	NO. OF BIDDERS	PREFERENCE EXERCISED REVENUE	MINIMUM BID	BONUS BID	SUM BASE RENTAL
10/12/2006	03-108115	7th Ave and Rose Garden Lane, Phoenix	No	1	NA	\$21,200,000	NA	\$216,921,636
12/14/2006	03-110288	10 miles w est of Gila Bend	No	1	NA	\$44,835,000	NA	\$54,776,432
1/23/2007	03-109627	39th Ave and Happy Valley Rd., Phoenix	No	2	NA	\$5,627,000	\$2,773,000	\$52,777,158
5/24/2007	03-108992	NEC of East Bell Road and Loop 101, Scottsdale	No	1	NA	\$68,500,000	NA	\$875,239,955
6/19/2007	03-110179	Happy Valley Road and Lake Pleasant Parkway, Peoria	No	2	NA	\$3,400,000	\$2,300,000	\$55,133,783

*Minimum bid at auction based on appraised land value rather than 1st year rent.