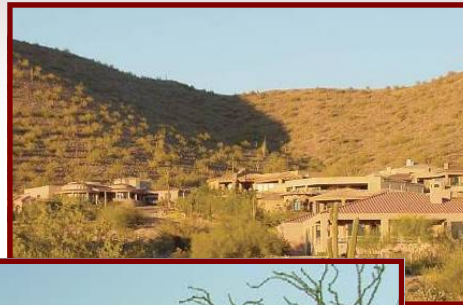


ARIZONA STATE LAND DEPARTMENT

**Annual Report
2005 - 2006**

**Janet Napolitano
Governor**

**Mark Winkleman
State Land Commissioner**



"Serving Arizona's Schools and Public Institutions Since 1915"



Superstition Mountains

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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, 2006

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 2005-2006 as required by A.R.S. §37-132. The report contains a summary of the Department's management activities and, more importantly, record-breaking 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 2005-2006 was the most productive year in the history of the Land Department. Several revenue records were broken. The Department had record receipts of \$374.7 million. The Department had a record year completing 21 auctions, resulting in gross sales of approximately \$544.3 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 \$544.3 million, \$82.4 million was from cash sales and was directly deposited into the Permanent Fund. The balance of just over \$461.9 million was financed through the Department and will be paid off over time. The beneficiaries will earn interest on the balance at a rate averaging from 8% to 10% 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 \$732.2 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 \$78.5 million in expendable revenue that was sent to beneficiaries for their immediate use. An impressive \$32.2 million was generated from sales interest. Records were set in several other areas of expendable revenues: commercial leasing, \$22.2 million; agriculture, \$4.1 million and natural products, \$6.5 million.

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 23 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.

The record \$409.1 million revenue generated this year by the Trust has been allocated as follows: \$284.2 million from the sale of land, rights-of-ways and minerals was deposited into the Trust Permanent Fund, increasing the Fund to \$1,775,522,000; the public schools and institutions received \$69.6 million from land rents and interest income, school leases of \$8.9 million as well as \$34.3 million from the Treasurer's formula distributions; the Treasurer's Office also received \$1.5 million in commercial prepayments that the Land Department will receive back over time as expendable revenue for the beneficiaries; and a record \$10.6 million was deposited in the General Fund. Of the \$99 million in expendable earning for the schools (K-12), \$72.3 was distributed through the School Aid Formula, \$17.8 million went to the Classroom Site Fund and \$8.9 million was used for school leases.

FY 2006 was the first full year of operation of the newly created Southern Arizona Real Estate Office, located in Tucson. This office has been well received by elected officials, government officials and business entities and has completed several successful auctions. The Office has definitely contributed to my goal to improve our management of State Trust lands in Southern Arizona. I also continued to focus on the manner of preparing State Trust land for auction. This is a continuation of the process I began in January of 2003 for improving operations. We are also improving the procedures for our five year plan, conceptual planning, engineering and the terms allowed for financing purchases of State Trust land. I am sure you would agree, the record sales and leases that occurred this year show the success of our actions.

The Forestry Division was challenged by the earliest onset of fire season ever this year. Exceptionally severe drought through the fall and winter months set the stage for a potentially devastating wildfire season and the agency responded with an aggressive prevention and preparedness strategy that included the addition of three new inmate fire fighting crews. With the help of an early monsoon and an 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 18 rural communities with hazardous fuel reduction projects on nearly 6,000 acres, 60 local fire departments with equipment, and helped train over a 1,000 firefighters 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

Fiscal Year 2006 - A Historic Revenue Year

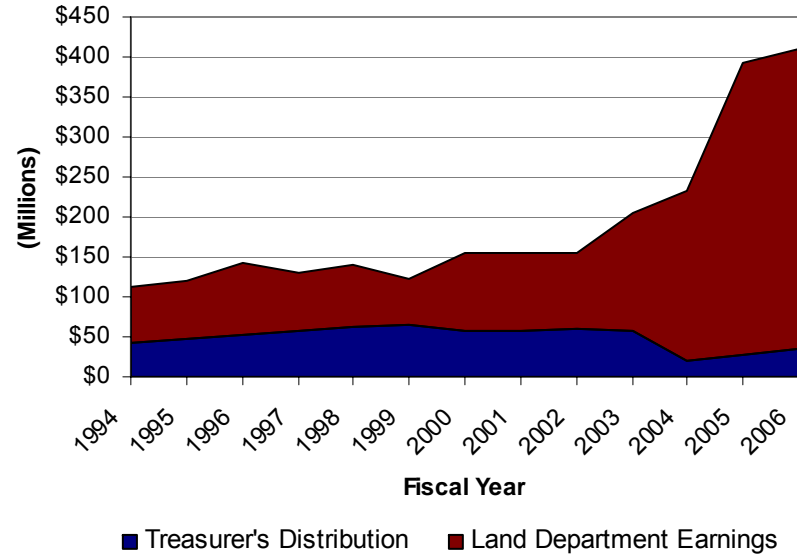
Record Revenues

- FY 2006 was a record year for Trust revenues. The Department produced \$374.7 million and the Treasurer's formula distribution generated \$34.3 million for a grand total of \$409.1 million.
- Educational institutions (universities, schools (K-12) and the School for the Deaf & Blind) received 93.1% of all beneficiary receipts in FY 2006.
- The Department completed 21 land sale auctions resulting in gross sales of approximately \$544.3 million.
- FY 2006 Trust revenues were \$15.5 million higher than FY 2005 revenues and \$176.3 higher than FY 2004 revenues.



Deputy State Land Commissioner
Jamie L. Hogue

Total Trust Revenue



FUNDS	FY 2006 TOTAL
Expendable	69,585,472.38
Commercial Prepayment	1,450,785.54
School Leases	8,946,088.81
General	10,557,638.70
Permanent	284,200,951.41
TOTAL LAND DEPARTMENT	<u>374,740,936.84</u>
Treasurer's Formula Distribution	34,334,560.00
GRAND TOTAL - FY 2006	<u>409,075,496.84</u>

**REVENUES BY BENEFICIARY
FY 2006**

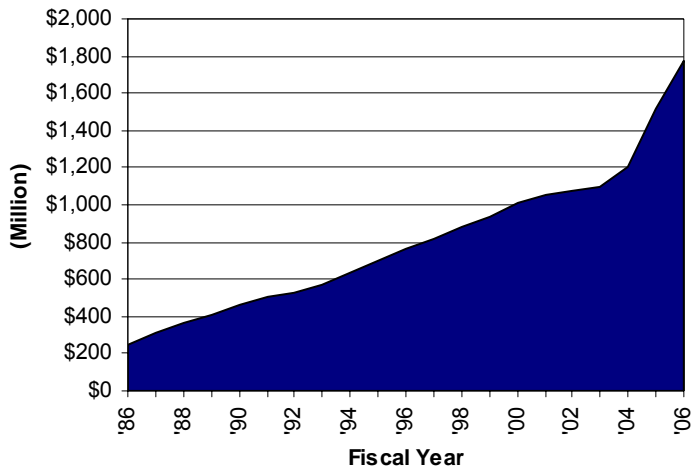
BENEFICIARIES	TRUST ACRES	STATE LAND EXPENDABLE EARNINGS	TREASURER'S FORMULA DISTRIBUTION	TOTAL EXPENDABLE RECEIPTS	TOTAL PERMANENT FUND RECEIPTS	TOTAL RECEIPTS
Common Schools (K -12) (Includes County Bonds)	8,105,550	67,605,995.23	31,437,534.00	99,043,529.23	264,273,649.75	363,317,178.98
Normal Schools	174.798	185,561.95	41,740.00	227,301.95	118,908.44	346,210.39
Agricultural & Mechanical Colleges	124,944	129,929.46	180,233.00	310,162.46	10,012.01	320,174.47
Military Institutes	80,168	73,897.79	9,173.00	83,070.79	3,024.45	86,095.24
School of Mines	123,254	111,284.10	104,439.00	215,723.10	15,663.97	231,387.07
University Land Code	137,908	421,248.34	213,276.00	634,524.34	405,174.85	1,039,699.19
University of Arizona (Act Of 2/18/1881)	54,218	270,407.35	551,950.00	822,357.35	3,218,353.55	4,040,710.90
School for the Deaf & Blind	82,560	162,179.54	77,139.00	239,318.54	43,927.43	283,245.97
Subtotal Education	8,883,400	\$68,960,503.76	\$32,615,484.00	\$101,575,987.76	\$268,088,714.45	\$369,664,702.21
Legislative, Executive & Judicial Buildings	64,257	90,059.25	104,788.00	194,847.25	676,132.69	870,979.94
State Hospital	71,248	330,044.88	147,619.00	477,663.88	10,375.50	488,039.38
Miners' Hospital*	95,431	1,558,754.58	165,791.00	1,724,545.58	105,549.33	1,830,094.91
State Charitable, Penal, and Reformatory	76,930	6,078,196.96	1,182,283.00	7,260,479.69	15,304,982.25	22,565,461.94
Penitentiary	76,111	1,514,002.03	118,596.00	1,632,598.03	15,197.19	1,647,795.22
TOTAL	9,267,377	\$78,531,561.19	\$34,334,561.00	\$112,866,122.19	\$284,200,951.41	\$397,067,073.60

*Miners' Hospital and Miners' 1929 combined.

Permanent Fund

- Record Permanent Fund receipts of \$284,200,951 increased the total of the Fund to \$1,775,521,000 (Book Value) in FY 2006.
- The Permanent Fund consists of revenues earned from the sale of State Trust land combined with the sale of minerals and natural products.
- The State Treasurer manages the Permanent Fund and invests the funds in stocks, bonds and other interest bearing securities. The earnings are transferred, through a formula distribution, to the beneficiaries for their use.
- Educational institutions including schools (K-12), the Universities and the School for the Deaf and Blind were the beneficiaries for over 95.4% of the Permanent Fund as of the end of FY 2006.
- Due to the growing value of urban Trust land, its strategic location and an increase in agency resources, the Department estimates that Trust beneficiaries will continue to see significant revenue growth to the Permanent Fund in future years.

**Permanent Fund Balance
FY 1986 - 2006**



BENEFICIARY SHARE OF PERMANENT FUND JUNE 30, 2006

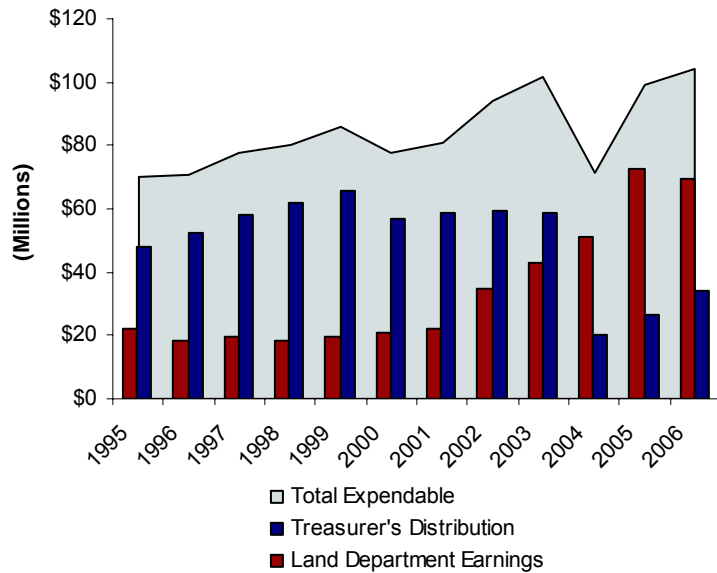
	BOOK VALUE	MARKET VALUE
Common Schools (K - 12)	1,639,382,000	1,873,142,000
Normal Schools	2,098,000	2,479,000
Agricultural & Mechanical Colleges	6,624,000	8,035,000
Military Institutes	370,000	446,000
School of Mines	7,861,000	8,816,000
University Land Code	11,499,000	13,433,000
University of Arizona (Act of 2/18/1881)	23,491,000	27,763,000
School for the Deaf & Blind	2,965,000	3,647,000
Legislative, Executive, and Judicial	5,219,000	6,155,000
State Hospital	3,128,000	4,032,000
Miners' Hospital*	6,182,000	7,394,000
State Charitable, Penal and Reformatory	61,244,000	71,138,000
Penitentiaries	5,458,000	6,643,000
TOTAL	1,775,521,000	2,033,123,000

*Miners' Hospital and Miners' 1929 combined.

Expendable Revenue

- Expendable revenue totaled \$112,866,122 in FY 2006 and included lease revenue from Trust land leases and permits, interest earnings from sales' contracts administered by the Department and the Treasurer's formula distribution.
- Expendable revenues are available to the beneficiaries for use in their operations during the same year they are generated.
- The \$78,531,561 of expendable revenue the Department generated was in large part due to the increase balance of Department managed sales' contracts which increased to \$732.2 million and generated \$32.2 million in interest earnings.
- As a result of the growing value of urban Trust land, its strategic location and an increase in agency resources, the Department estimates that Trust beneficiaries will see significant expendable revenue growth in future years.

**Trust Expendable Earnings
FY 1994 - 2006**



EXPENDABLE REVENUE BY BENEFICIARY 2006

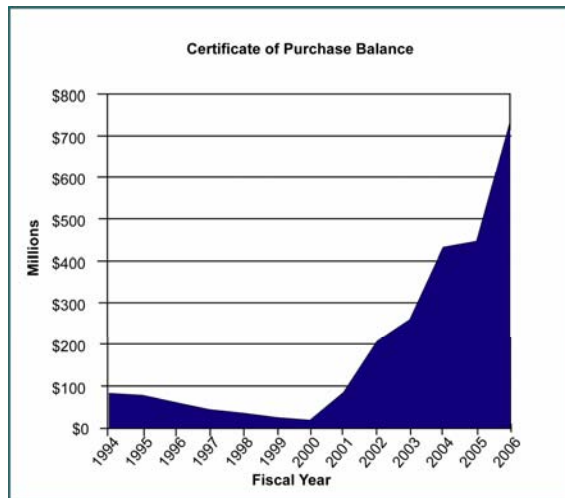
BENEFICIARIES	TREASURER'S FORMULA DISTRIBUTION	LEASE AND SALES CONTRACT INTEREST	TOTAL EXPENDABLE REVENUE
Common Schools (K – 12) (Including lands to Retire County Bonds)	31,437,534.00	67,605,995.23*	99,043,529.23
Normal Schools	41,740.00	185,561.95	227,301.95
Agricultural and Mechanical Colleges	180,233.00	129,929.46	310,162.46
Military Institutes	9,173.00	73,897.79	83,070.79
School of Mines	104,439.00	111,284.10	215,723.10
University Land Code University of Arizona (Act of March 18, 1881)	213,276.00	421,248.34	634,524.34
School for the Deaf and Blind	77,139.00	162,179.54	239,318.54
Subtotal Education:	32,615,484.00	1,354,508.53	101,575,987.76
Legislative, Executive & Judicial Buildings	104,788.00	90,059.25	194,847.25
State Hospital	147,619.00	330,044.88	477,663.88
Miners' Hospital State Charitable, Penal, and Reformatory Penitentiary Grant	1,182,283.00	6,078,196.69	7,260,479.69
	118,596.00	1,514,002.03	1,632,598.03
TOTAL	34,334,561.00	10,925,565.96	112,866,122.19

*The amount for expendable earnings includes the revenue of \$8,946,088.81 from the school leases in accordance with § 37-221, D.

Real Estate Program

- A total of 21 Sales & Commercial Leases were auctioned leading to an outstanding record year with gross sales of \$544.3 million. In many of these auctions there was intense, competitive bidding. The total sales price was increased by approximately 10.5% above the appraised value.
- Of the total \$544.3 million, \$82.4 million was from cash sales and was directly deposited into the Permanent Fund. The balance of just over \$461.9 million was financed through the Department and will be paid off over time. The beneficiaries will earn interest on the balance at a rate averaging from 8% to 11% for an average term of seven years. These interest rates are generally higher than market, and the total outstanding receivable balance from term sales was a record \$732.2 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 \$732.2 million balance at the end of the FY06 was \$283.9 million higher than the FY05 ending bal-



- The interest payments on the certificate of purchase balances was an impressive \$32.2 million in FY 2006. 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 \$22.2 million and rights-of-way leases of \$7.5 million. In addition, \$1.5 million in commercial prepayment revenue and \$8.9 million in school facility lease revenue was earned.
- The Department paid approximately 3.0 million in Broker's commissions in FY 2006. 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 rights-of-ways generated in excess of \$20.0 million in FY 2006.

Real Estate Program



Major Auctions

- \$92.2 Million; Phoenix, July 13, 2005:
After the sales price was raised 33 times, Meritage Homes made the winning bid to purchase 288 acres of Arizona State Trust Land in the Desert Ridge Master Planned Community.
- \$135 Million; Phoenix, August 18, 2005:
A joint venture of Pulte Homes and Toll Brothers Homes made the record breaking winning bid to purchase 502 acres of Arizona State Trust Land in the Desert Ridge Master Planned Community. The bid broke the prior record price of State Trust Land Auction of \$100 Million.
- \$47.2 Million; Scottsdale, September 15, 2005:
The City of Scottsdale was the successful bidder for 80 acres of prime State Trust Land in Scottsdale located on the north side of Bell Road at the intersection of 94th Street.
- \$350 Million Lease; Peoria, September 15, 2005:
An auction for a long term ground lease for a 55 acre parcel of State Trust Land in Peoria for property located at the intersection of Happy Valley Road and Lake Pleasant Parkway in Peoria.
- \$14.1 Million; Tucson, October 19, 2005:
KB Homes was the successful bidder for 209 acres in Wingate.
- \$33.4 Million; Phoenix, January 19, 2006:
Sonoran Desert Investors, L.L.C., purchased 32 acres of multi-family property in Desert Ridge located at the intersection of the 101 Freeway and 56th Street in Phoenix.
- \$239 Million Lease; Phoenix, March 28, 2006:
An auction for a long term ground lease for a 60 acre parcel of infill State Trust Land in Phoenix located at the intersection of State Route 202 and 40th Street in Phoenix.
- \$19.7 Million; Phoenix, April 6, 2006:
Toll Brothers Homes purchased 81 acres of Arizona State Trust Land located in the Desert Ridge Master Planned Community in Phoenix located south of the Deer Valley Drive alignment and west of Black Mountain Parkway.
- \$102.5 Million; Peoria, June 22, 2006:
Two parcels of Arizona State Trust Land in Peoria were successfully sold for a combined \$102.5 Million.

Real Estate Program

Commercial Leases

- Two major commercial leases were auctioned in FY 2006. In Peoria, at the Northeast corner of Lake Pleasant Parkway and Happy Valley Road, a 55 acre regional commercial site was auctioned in September of 2005. After 20 bids, the value was bid up from \$10.8 million to \$13.5 million, resulting in an additional \$71.3 million to the trust over the 99 year term of the lease, for a total of an almost \$357 million minimum revenue stream. In March of 2006, 33 bids were placed for 59 acres in Phoenix, at the Southeast corner of 40th and McDowell. The value was raised from \$15.64 million to \$21 million, which in turn increased the minimum revenue stream almost \$60 million over the 65 year lease term, from \$177.8 million to just under \$239 million. Both leases have participation elements whereby the Trust beneficiaries participate in the gross revenues of the developer lessee.



Facts and Figures Land Auctioned FY 2006

	Arces Sold	Total Sales Price	Acres Leased*	Minimum Cumulative Lease Revenue
Urban	2538.84	\$484,497,800.00	114.37	\$595,773,834.54
Rural	887.20	\$59,832,501.00		
Total	3426.04	\$544,330,301.00	114.37	\$595,773,834.54

Southern Arizona Office

In its first year of operation, the Southern Arizona Office located in Tucson was successful and busy. In October, KB Homes was the successful bidder for 209 acres in Wingate. Then, in June, the office held four successful sales auctions totaling 188.9 acres at a total sales price of \$9.2 Million. One of these sales had 47 bids and another 27 bids.

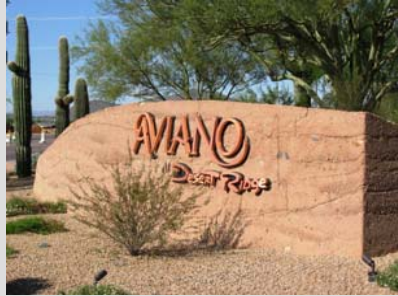
The Southern Arizona Office was created to increase the accessibility of Department staff to local officials, businesses and the public and to increase the Department's attention to the issues concerning the valuable State Trust land in Pima County, Cochise County, and the portion of Pinal County south of Picacho Peak. The fast-growing areas in Tucson, particularly the Houghton Road area, are a high priority for the Department.

DESERT RIDGE

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

PARCEL 8

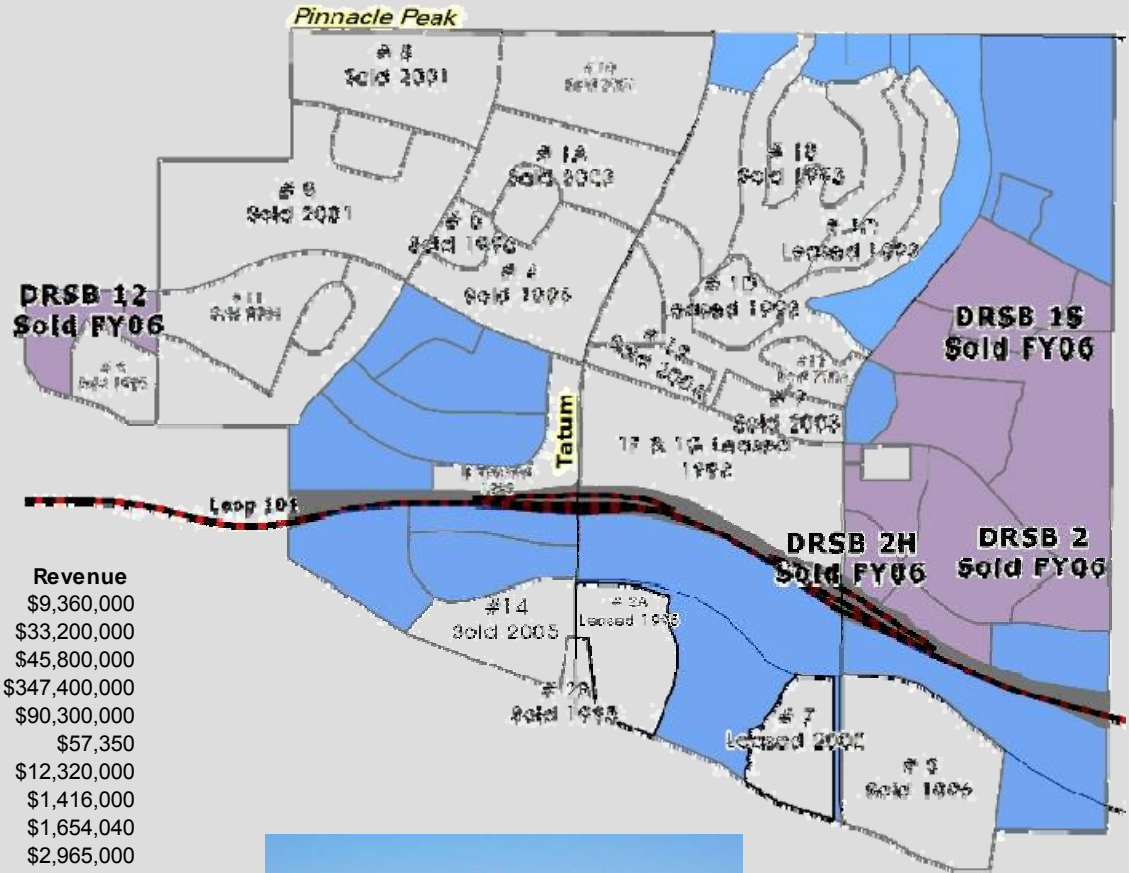
76 bids for 536 acre master planned community that includes semi-custom and condominium housing, a community center and open space areas.



The Aviano at Desert Ridge
Sold in 2001

DESERT RIDGE DISPOSITIONS

Parcel No.	Acres	Sold/Leased	Use	Date	Revenue
1A & 1B	780	Sold	Residential/Golf	7/7/1993	\$9,360,000
1C	180	Leased	Resort Golf	7/7/1993	\$33,200,000
1D	54	Leased	Marriott Resort	7/7/1993	\$45,800,000
1E, F& 1G	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	\$ 100,500,00
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



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.
 - Recorded its eleventh straight year of increased grazing fees since the Land Commissioner adopted the recommendation of the Grazing Land Valuation Commission in 1995.
- 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 increased 35% to \$6.2 million dollars during the fiscal year.
- Natural Resource Conservation Section
 - Provided administrative support to 32 NRCs and the 21 environmental education centers they sponsor, including coordination of 32 special district elections and processing oaths of office for the 153 newly elected and appointed supervisors.
 - Conducted two training sessions covering NRC statutory authorities, personnel management and proper use of public funds.



NATURAL RESOURCE LEASES AND PERMITS

Facts & Figures		
	Acres	Number of Leases
Agriculture	178,512	410
Mineral Material	2,054	21
Grazing	8,393,639	1,277
Exploration Permits	89,886	234
Mineral	12,244	119
Oil & Gas	335,268	202
Number of Registrations and Water Rights Claims		
Stockpond Registrations		4,305
Certificated Surface Water Rights		106
Well Registrations		2,962
Adjudication Statements of Claimant		7,027
Water Right Registrations		7,405
Grandfathered Groundwater Rights		242

NATURAL RESOURCE REVENUES

Lease Rentals	
Agriculture	\$4,097,439
Mineral Material	\$241,931
Grazing	\$2,652,728
Exploration Permits	\$93,531
Geothermal	\$0
Mineral	\$4,779
Oil & Gas	\$398,810
TOTAL	\$7,489,218
Sale of Products	
Public Auction Water Sales	\$229,555
Lease Water Charges	\$61,671
Mineral Royalties	\$34,352
Natural Products	\$6,204,825
TOTAL	\$6,697,699
Trespass Revenues	
Trespass Revenue	\$114,937
TOTAL	\$114,937
GRAND TOTAL	\$14,301,854

Natural Resources Program

- Represented the Agency on the Arizona Advisory Council on Invasive Species (AISAC), established by the executive order of Governor Napolitano. Provided technical review of 3 trespass cases and 76 leases that involved removal of native plants.

- Water Rights & Agriculture Section

- Executed agreements with Yavapai County to contract for the modification of Wineglass Dam and maintenance of the structure. The Department received a legislative appropriation, a grant from the Arizona Department of Water Resources and funding from Yavapai County. These combined sources provided the necessary funding to contract for the modification of Wineglass Dam, altering the dam's status from jurisdictional to non-jurisdictional. The Department created a position to administer jurisdictional dams, and this program was transferred to another area in the division.
- Completed a Water Conservation Plan for the State Trust lands which was included in a Bureau of Reclamation contract for the delivery of Colorado River water for irrigation.
- Agricultural leases issued this fiscal year were significantly modified to provide additional protection to the State Trust. Four agricultural leases were approved for the planting of date palm trees in the Yuma Mesa area; the improvements were authorized with several provisions including the future ability to collect rent based on the gross receipts for the dates.



- Environmental Resources and Trespass Section

- Conducted 26 clean-up projects utilizing more than 1,716 volunteer hours and resulting in 80 tons of trash and 862 tires being removed from State Trust land.

- Collected \$114,937 from trespass and/or unauthorized use penalties in 21 different case actions. An Arizona corporation and two individuals were convicted of felonies related to unauthorized removal of rock products from 20 acres of Trust land.



- Oversaw the completion of remediation of a pesticide contaminated airstrip in Cochise County and remediation of land surrounding a former gold mining operation in the Phoenix area.
- Completed the second phase of multi-year remediation for a pesticide contaminated airstrip in Pinal County and a farm airstrip in Maricopa County.

- 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.
- Research, identify and apply for available Federal and State grants to secure funds needed to implement the structural improvements or mitigation actions necessary for the declassification of the dams.
- Develop a systematic process to identify, inventory and manage a comprehensive database linked with GIS identifying the jurisdictional, non-jurisdictional and unsafe dams located on Trust land.
- Review and comment on applications for structural improvements on State leases that could result in the creation of new jurisdictional or unsafe dams.
- Completed the Wineglass Dam construction phase and the Arizona Department of Water Resources issued the declassification document identifying Wineglass Dam as non-jurisdictional.

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 1,231 wildland fires; 857 were State responsibilities and 374 were in support of federal and tribal agencies. Although 94 percent of all Land Department fires were controlled at less than 100 acres, 67,567 acres were burned on State and private lands during the year.
- The Division maintains cooperative agreements with more than 250 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 44 courses in basic and intermediate wildland fire suppression strategies and tactics for approximately 1,200 students from over 135 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	38	\$580,000	22	\$283,000	60	\$863,000

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 - 2006

Grant	Year	Number	Dollars Provided	Plans	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	13	\$2,375,574	15	1	2	4	140	84
Forest Health Protection									
	2003	7	\$1,089,050	7	2	1	4	1725	301
Fire Hazard Abatement									
	2003	18	\$1,995,290	20	6	6	7	1,295	729
	2004	3	\$1,498,324	3					
Annual Summary									
	2002	38	\$2,126,215	60	78	50	24	6,537	1,095
	2003	44	\$4,542,562	48	21	14	19	9,092	2,567
	2004	32	\$4,082,856	32	10	-	18	2,307	889
	2005	13	\$2,375,574	15	1	2	4	140	84
	2006	13	\$2,375,574	15	1	2	4	140	84

- 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 hand-held radios, as well as nine excess federal fire engines valued at \$326,916, to cooperating rural fire departments. Currently, there are 155 refurbished fire fighting vehicles in rural fire departments statewide. The Department has contracts for future retrofitting of three heavy trucks. These trucks, along with the equipment already provided to cooperating fire departments, are valued at nearly \$4,613,118.



Land Information, Title & Transfer Program

The Land Information, Title & Transfer Division ensures the integrity of the State's title to 9.2 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 9.2 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 9.2 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 1,700 new applications, finalized 1,500 contracts, and researched 8.7 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. In addition, the Department's right of way applications were updated to expedite the processing time for rights of way on Trust lands.



Public Records Room

Board of Appeals

CURRENT BOARD MEMBERS

- **Sanders K. Solot**
Tucson
Represents the First District, consisting of Pima, Santa Cruz, Cochise, Graham and Greenlee counties.
- **Kathleen M. Holmes, Chair**
Scottsdale
Member-at-Large.
- **William R. Gray**
Scottsdale
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.
- **Jolene U. Dance**
Phoenix
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 appeal to the Board a final decision of the State Land Commissioner that relates 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.

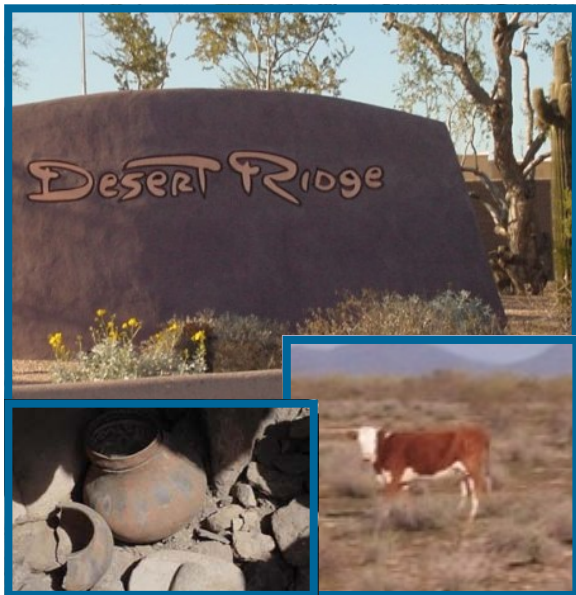
During the fiscal year, the Board approved 40 commercial leases, including five long-term leases, three for 65 years, one for 75 years, and one for 99 years; 125 rights-of-way sales appraisals, and 18 land sales appraisals; eight of which were urban land sales.

Eighteen new appeals were filed with the Board. Two appeals modified the Commissioner's decision. Six appeals sustained the Commissioner's decision. Nine appeals were withdrawn and dismissed by the Board. One appeal was resolved with a settlement conference.

State Trust Land Uses

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

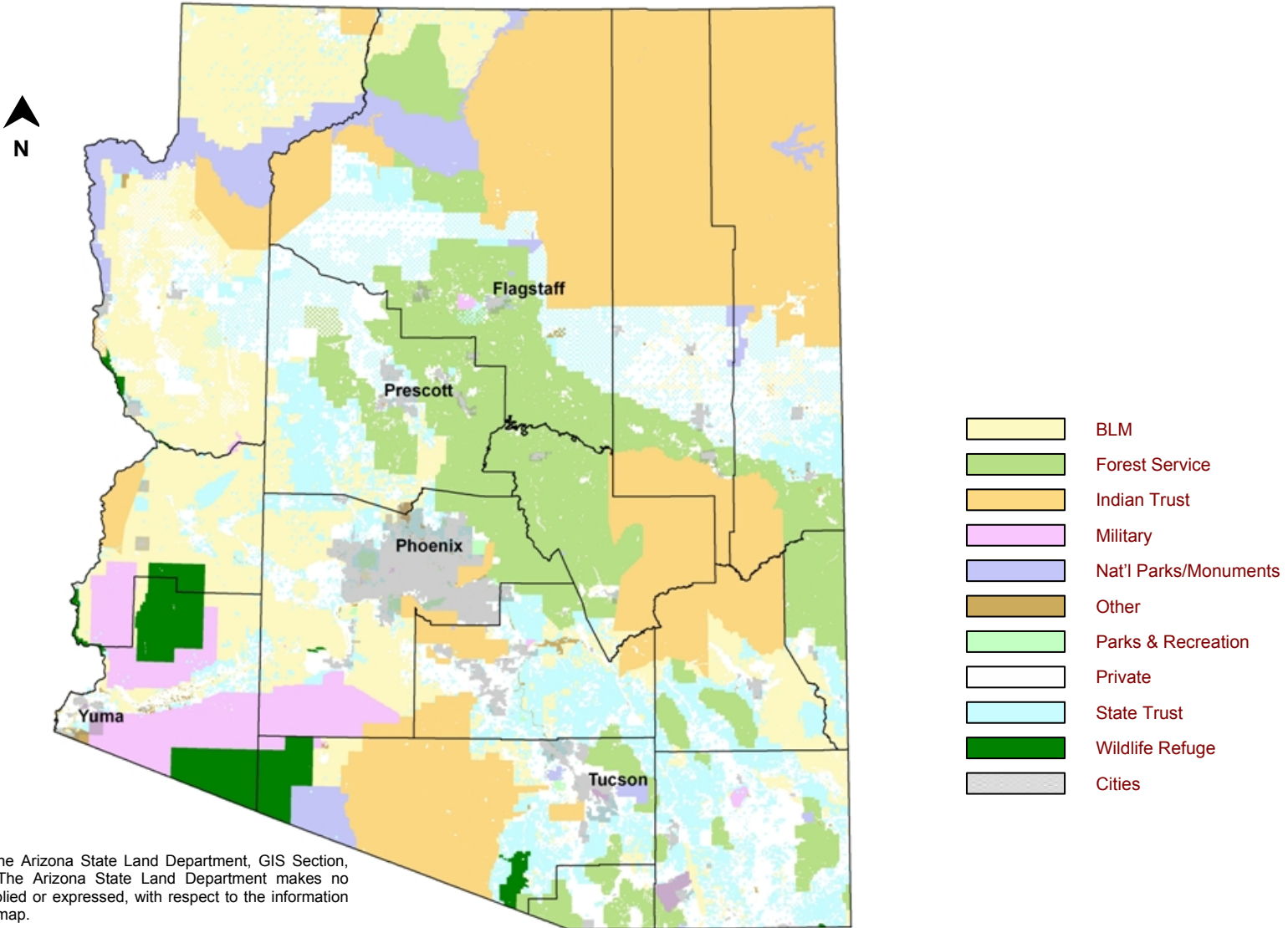
- 9,084,559 acres of the surface are under 9,989 leases and other contracts.
- 439,452 acres of the subsurface are under 576 leases and other contracts.



STATE TRUST LAND USES

	NO. OF LEASES	% OF LEASES	TOTAL ACREAGE	% OF ACREAGE
SURFACE				
Rights-of-Way	7,193	72.01	139,641	1.54
Grazing	1,277	12.78	8,393,639	92.39
Commercial	321	3.21	82,147	0.90
Commercial School Leases	17	0.17	878	0.01
Agricultural	410	4.10	178,512	1.97
Use Permits	551	5.52	220,190	2.42
U.S. Government	159	1.59	18,274	0.20
Homesite	6	0.06	27	0
Institutional	10	0.10	12,892	0.14
Recreational	45	0.45	38,359	0.42
Subtotal (Leases)	9,989	100	9,084,559	100
SUBSURFACE				
Mineral	119	20.66	12,244	2.79
Mineral Exploration	234	40.63	89,886	20.45
Mineral Materials	21	3.65	2,054	0.47
Oil & Gas	202	35.07	335,268	76.29
Subtotal (Leases)	576	100	439,452	100
TOTAL LEASES	10,565		9,524,011	

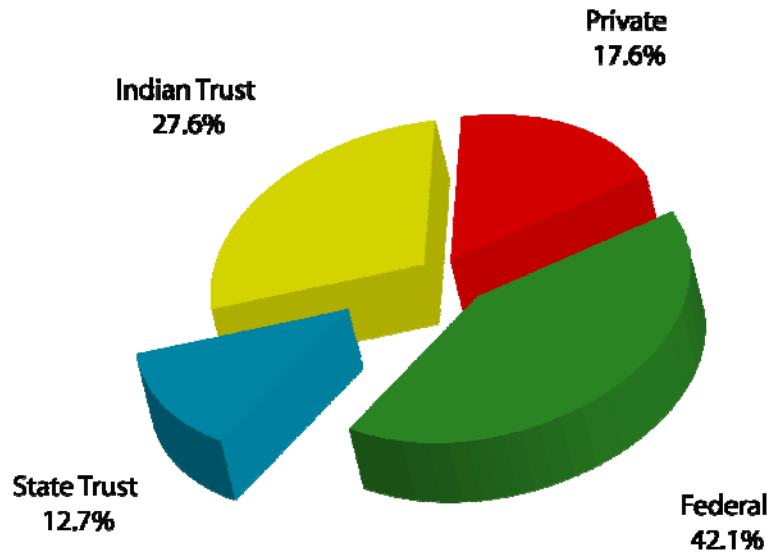
State Trust Land - Surface Management Responsibility



Produced by the Arizona State Land Department, GIS Section, March 2006. The Arizona State Land Department makes no warranties, implied or expressed, with respect to the information shown on this map.

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

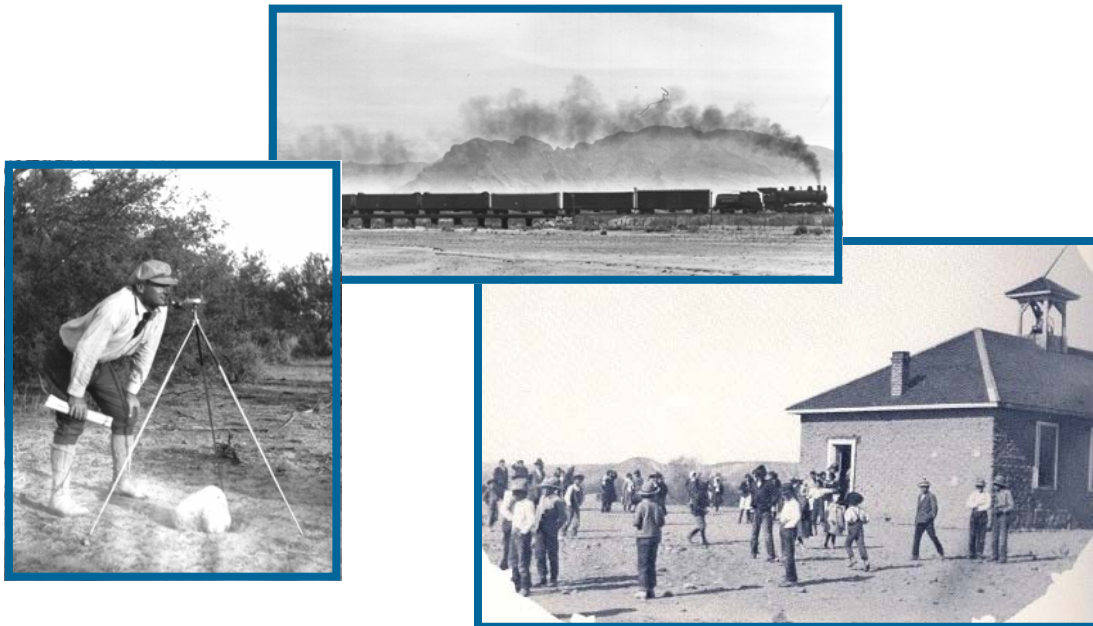
COUNTY	ACRES
Apache	653,321
Cochise	1,371,104
Coconino	1,125,267
Gila	31,231
Graham	496,321
Greenlee	172,104
La Paz	254,411
Maricopa	646,432
Mohave	565,355
Navajo	370,169
Pima	860,846
Pinal	1,206,188
Santa Cruz	61,154
Yavapai	1,264,245
Yuma	186,689
Misc*	2,540
TOTAL	<u>9,267,377</u>

*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 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



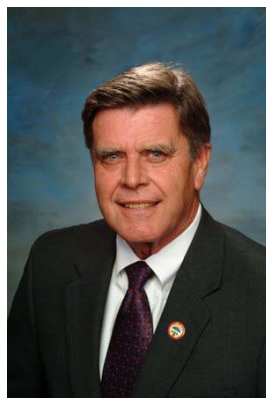
Lynn Larson
Director
Administration &
Resource Analysis
Division



Bill Dowdle
Director
Natural Resources
Division



Ron Ruziska
Director
Southern Arizona
Real Estate Division



Richard Oxford
Director
Land Information,
Title, & Transfer
Division



Kirk Rowdabaugh
State Forester
Forestry Division

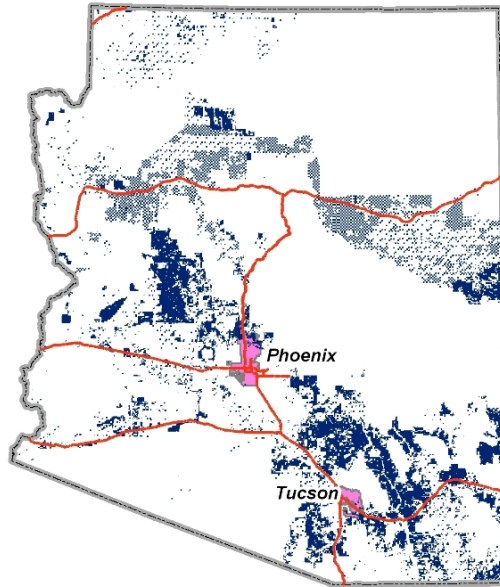
Fund and Beneficiary Summary

In 2006, State Trust revenues totaled \$409,075,497. A total of \$397,067,073 in receipts were earned for the beneficiaries, \$10,557,639 was deposited in the General Fund, and \$1,249,464 was received as commercial prepayments. Of the beneficiary amount, \$284,200,951 was deposited in the Permanent Fund. The Permanent Fund is managed by the State Treasurer. The remaining \$112,866,121 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
8,105,550	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	
54,218	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
76,930	State Charitable, Penal, and Reformatory	{ 50% Pioneers' Home 25% Department of Corrections 25% Department of Juvenile Corrections
76,111	Penitentiary	
<u>9,267,377</u>	TOTAL	

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 8.1 million acres remains in the Trust for common schools.
- In FY 2006, a record \$264.3 million from sales and royalties was deposited in the Permanent Fund for common schools bringing the total balance to \$1,639,382,000.
- In FY 2006, 99.0 million was generated in expendable receipts from leases, interest on the outstanding sales balance and from the Treasurer's formula distribution. Of this total, \$8.9 million was transferred to the School Facilities Board, \$72.3 million was distributed through the School Aid Formula and \$17.8 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 2006

SURFACE LEASES	ACRES	INCOME
Agriculture	130,317	\$2,997,928.99
Commercial	24,185	\$17,372,310.33
Grazing	7,396,701	\$2,252,394.61
Homesite	22	\$10,594.00
Rights-of-Way	101,706	\$6,232,609.33
Use Permits	175,763	\$1,727,999.35
Institutional Taking	5,406	\$137,750.38
U.S. Government	17,434	\$64,799.99
Other	0	\$88,409.30
TOTAL SURFACE	7,851,536	\$30,884,796.28
SUBSURFACE LEASES		
Mineral	11,905	\$4,058.77
Prospecting Permit	77,190	\$83,242.22
Mineral Material	1,457	\$113,931.00
Oil & Gas	296,822	\$353,795.64
TOTAL SUBSURFACE	387,374	\$555,027.63
Penalty & Interest		\$106,715.36
Sales Interest		\$27,113,367.15
School Leases		\$8,946,088.81
Treasurer's Formula Distribution		\$31,437,534.00
GRAND TOTAL EXPENDABLE		\$99,043,529.23
Permanent Fund Receipts		\$264,273,649.75
Permanent Fund Balance		\$1,639,382,000.00

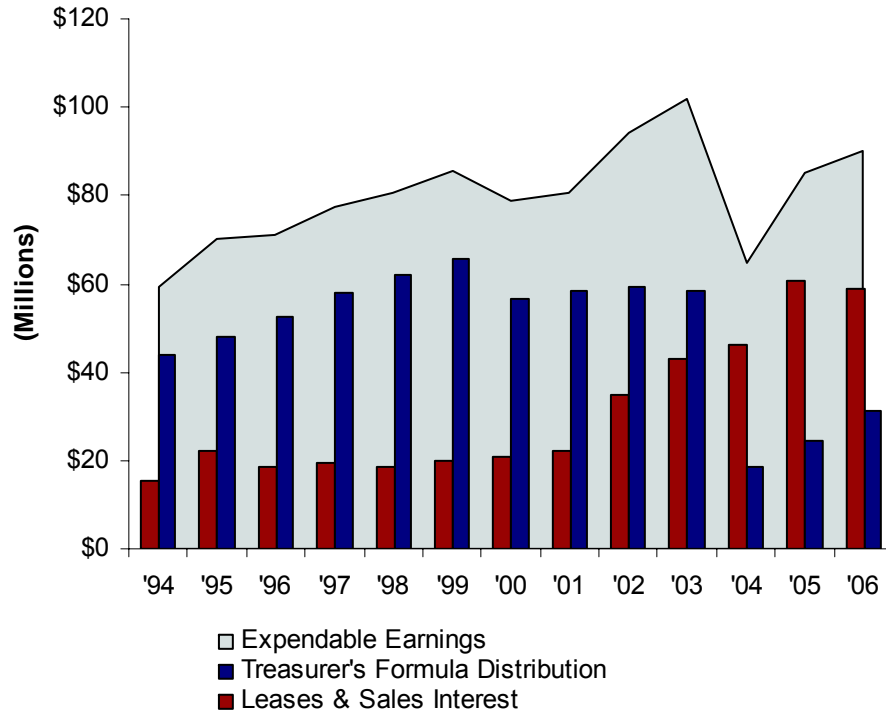
Beneficiary Summary - Common Schools (K-12)

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.

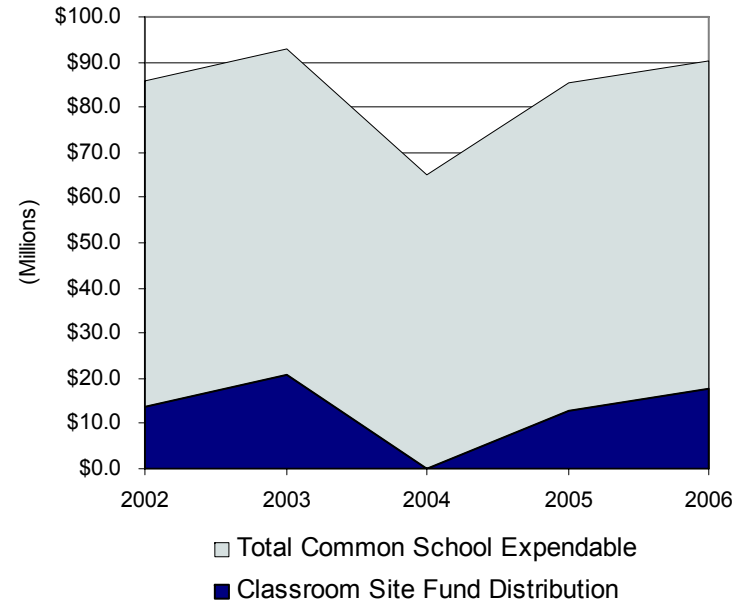
Classroom Site Fund Actual

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

Common Schools Expendable Earnings FY 1994 - 2006



Classroom Site Fund FY 2002 - 2006



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 \$2.3 million in FY 2006. An additional \$3.8 million was earned and added to the permanent funds for the six grants bringing the total permanent fund balance to \$51.9 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:

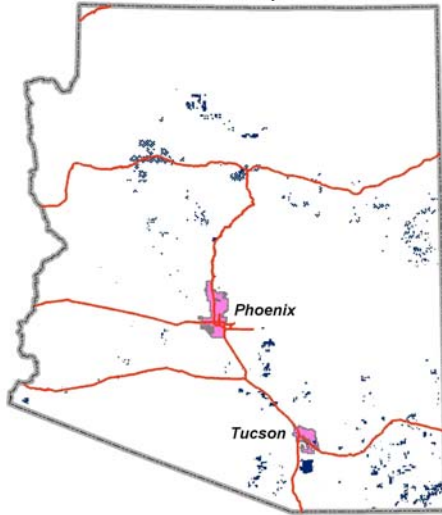
Board of Regents Distribution of Trust Revenues to the Universities

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 2006

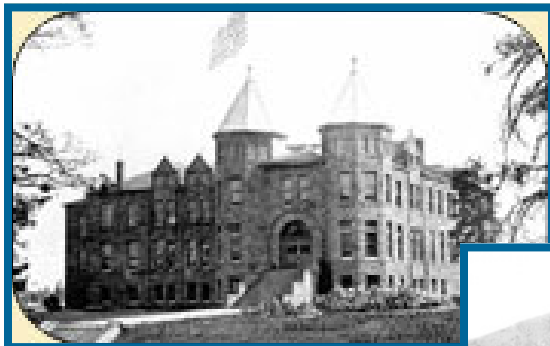
SURFACE LEASES	ACRES	INCOME
Agriculture	14,764	\$158,159.77
Commercial	51,737	\$458,403.97
Grazing	597,408	\$234,471.25
Homesite	4	\$0.00
Rights-of-Way	7,717	\$190,189.56
Use Permits	13,610	\$92,270.24
Institutional Taking	5,151	\$918.48
U.S. Government	299	\$1,600.01
Other	0	\$1,384.00
TOTAL SURFACE	690,690	\$1,137,397.28
SUBSURFACE LEASES		
Prospecting Permit	5,321	\$2,714.54
Mineral Material	180	\$11,760.09
Oil & Gas	30,690	\$36,628.22
TOTAL SUBSURFACE	36,191	\$51,102.85
Penalty & Interest		\$3,828.86
Treasurer's Formula Distribution		\$1,100,811.00
GRAND TOTAL EXPENDABLE		\$2,293,139.99
Permanent Fund Receipts		\$3,771,137.27
Permanent Fund Balance		\$51,943,000.00

Location of University Trust Grant land



Northern Arizona University (NAU) is, along with the University of Arizona and Arizona State University, beneficiary of six Trust grants. The 1913 historic photo on the bottom right shows the first buildings on the campus in Flagstaff with the San Francisco Peaks in the background. The building on the left behind the trees is 'Old Main' which opened its doors in 1899 with twenty-three students and one professor. This photo was taken by the three member Land Commission created by the First Legislature in 1912. This Commission was charged with assessing, evaluating and making recommendations about the land granted by Congress to the State. This Commission took pictures as it traveled the State on horseback and in its automobile. The photo to the left is of 'Old Main' taken from the front in 1901. Directly below is a current photo of the NAU campus.

Current photo of NAU campus



Old Main (NAU) 1901



1913 of First buildings on NAU campus (originally the Northern Arizona Normal School)

Beneficiary Summary - University Grants

NORMAL SCHOOLS GRANT ACRES AND INCOME - FY 2006

SURFACE LEASES	ACRES	INCOME
Agriculture	165	\$4,194.01
Commercial	22,539	\$15,352.52
Grazing	145,569	\$58,496.35
Rights-of-Way	1,521	\$84,643.49
Use Permits	3,217	\$5,397.05
Institutional Taking	2,721	\$0.00
U.S. Government	184	\$1,600.01
Other	0	\$1,200.00
TOTAL SURFACE	<u>175,916</u>	<u>\$170,883.43</u>
SUBSURFACE LEASES		
Prospecting Permit	376	\$0.00
Mineral Material	160	\$10,560.09
Oil & Gas	2,938	\$3,366.41
TOTAL SUBSURFACE	<u>3,473</u>	<u>\$13,926.50</u>
Penalty & Interest		\$752.02
Treasurer's Formula Distribution		<u>\$41,740.00</u>
GRAND TOTAL EXPENDABLE		<u>\$227,301.95</u>
Permanent Fund Receipts		\$118,908.44
Permanent Fund Balance		\$2,098,000.00

AGRICULTURAL & MECHANICAL COLLEGES ACRES AND INCOME - FY 2006

SURFACE LEASES	ACRES	INCOME
Agriculture	251	\$2,911.78
Commercial	10,172	\$1,417.90
Grazing	107,323	\$43,998.25
Rights-of-Way	1,870	\$58,610.39
Use Permits	2,920	\$13,729.00
Institutional Taking	1,917	\$0.00
U.S. Government	86	\$0.00
Other	0	\$184.00
TOTAL SURFACE	<u>124,538</u>	<u>\$120,851.32</u>
SUBSURFACE LEASES		
Prospecting Permit	60	\$0.00
Mineral Material	20	\$1,200.00
Oil & Gas	7,421	\$7,580.95
U.S. Government	86	\$0.00
TOTAL SUBSURFACE	<u>7,587</u>	<u>\$8,780.95</u>
Penalty & Interest		\$297.19
Treasurer's Formula Distribution		<u>\$180,233.00</u>
GRAND TOTAL EXPENDABLE		<u>\$310,162.46</u>
Permanent Fund Receipts		\$10,012.01
Permanent Fund Balance		\$6,624,000.00

MILITARY INSTITUTES ACRES AND INCOME - FY 2006

SURFACE LEASES	ACRES	INCOME
Agriculture	480	\$960.00
Commercial	1,935	\$36,821.00
Grazing	76,749	\$33,258.26
Rights-of-Way	259	\$2,237.76
Use Permits	40	\$100.00
TOTAL SURFACE	<u>79,463</u>	<u>\$73,377.02</u>
Penalty & Interest		\$520.77
Treasurer's Formula Distribution		<u>\$9,173.00</u>
GRAND TOTAL EXPENDABLE		<u>\$83,070.79</u>
Permanent Fund Receipts		\$3,024.45
Permanent Fund Balance		\$370,000.00

Beneficiary Summary - University Grants

SCHOOL OF MINES ACRES AND INCOME - FY 2006

SURFACE LEASES	ACRES	INCOME
Agriculture	2,485	\$42,199.28
Commercial	8,483	\$8,562.35
Grazing	111,207	\$41,753.22
Rights-of-Way	1,044	\$2,072.70
Use Permits	1,285	\$1,123.99
U.S. Government	17	\$0.00
TOTAL SURFACE	<u>124,520</u>	<u>\$95,711.54</u>
SUBSURFACE LEASES		
Prospecting Permit	1,271	\$0.00
Oil & Gas	11,737	\$14,752.42
U.S. Government	17	\$0.00
TOTAL SUBSURFACE	<u>13,025</u>	<u>\$14,752.42</u>
Penalty & Interest		\$820.14
Treasurer's Formula Distribution		\$104,439.00
GRAND TOTAL EXPENDABLE		<u>\$215,723.10</u>
Permanent Fund Receipts		\$15,663.97
Permanent Fund Balance		\$7,861,000.00

UNIVERSITY LAND CODE ACRES AND INCOME - FY 2006

SURFACE LEASES	ACRES	INCOME
Agriculture	4,276	\$51,322.38
Commercial	8,238	\$259,895.35
Grazing	117,681	\$44,715.85
Rights-of-Way	2,217	\$22,357.63
Use Permits	4,237	\$27,322.97
Institutional Taking	107	\$918.48
U.S. Government	8	\$0.00
Other	0	\$0.00
TOTAL SURFACE	<u>136,764</u>	<u>\$406,532.66</u>
SUBSURFACE LEASES		
Prospecting Permit	3,614	\$2,714.54
Oil & Gas	8,474	\$10,808.45
U.S. Government	8	\$0.00
TOTAL SUBSURFACE	<u>12,097</u>	<u>\$13,522.99</u>
Penalty & Interest		\$1,192.69
Treasurer's Formula Distribution		\$213,276.00
GRAND TOTAL EXPENDABLE		<u>\$634,524.34</u>
Permanent Fund Receipts		\$405,174.85
Permanent Fund Balance		\$11,499,000.00

UNIVERSITY OF ARIZONA - 1881 ACRES AND INCOME - FY 2006

SURFACE LEASES	ACRES	INCOME
Agriculture	7,107	\$56,572.32
Commercial	369	\$136,354.85
Grazing	38,880	\$12,249.32
Home Site	4	\$0.00
Rights-of-Way	793	\$20,267.59
Use Permits	1,911	\$44,597.23
Institutional Taking	406	\$0.00
U.S. Government	4	\$0.00
Other	0	\$0.00
TOTAL SURFACE	<u>49,475</u>	<u>\$270,041.31</u>
SUBSURFACE LEASES		
Oil & Gas	120	\$119.99
U.S. Government	4	\$0.00
TOTAL SUBSURFACE	<u>124</u>	<u>\$119.99</u>
Penalty & Interest		\$246.05
Treasurer's Formula Distribution		\$551,950.00
GRAND TOTAL EXPENDABLE		<u>\$822,357.35</u>
Permanent Fund Receipts		\$3,218,353.55
Permanent Fund Balance		\$23,491,000.00

Beneficiary Summary - Other

- 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 \$5,354,785 in expendable receipts and \$7,758,040 in Permanent Fund receipts in FY 2006.
- The Department of Juvenile Corrections received a total of \$1,815,120 in expendable receipts and \$3,826,246 in Permanent Fund receipts in FY 2006.
- The Department of Corrections received a total of \$3,447,718 in expendable receipts and \$3,841,443 in Permanent Fund receipts in FY 2006.

<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

Beneficiary Summary - Other

SCHOOL FOR THE DEAF & BLIND ACRES AND INCOME - FY 2006

SURFACE LEASES	ACRES	INCOME
Agriculture	2,819	\$70,674.03
Commercial	1,453	\$20,441.52
Grazing	72,540	\$27,960.34
Rights-of-Way	796	\$25,845.11
Use Permits	5,954	\$6,408.91
Institutional Taking	1	\$1,163.02
U.S. Government	32	\$0.00
TOTAL SURFACE	<u>83,594</u>	<u>\$152,492.93</u>
SUBSURFACE LEASES		
Prospecting Permit	800	\$1,920.00
Oil & Gas	6,102	\$6,662.46
U.S. Government	32	\$0.00
TOTAL SUBSURFACE	<u>6,934</u>	<u>\$8,582.46</u>
Penalty & Interest		\$1,104.15
Treasurer's Formula Distribution		\$77,139.00
GRAND TOTAL EXPENDABLE		<u>\$239,318.54</u>
Permanent Fund Receipts		\$43,927.43
Permanent Fund Balance		\$2,965,000.00

LEGISLATIVE, EXECUTIVE, & JUDICIAL BUILDINGS ACRES AND INCOME - FY 2006

SURFACE LEASES	ACRES	INCOME
Agriculture	2,180	\$23,536.19
Commercial	6	\$19,800.00
Grazing	56,406	\$26,268.70
Rights-of-Way	1,399	\$17,039.37
Use Permits	5,062	\$1,510.61
U.S. Government	92	\$0.00
TOTAL SURFACE	<u>65,145</u>	<u>\$88,154.87</u>
SUBSURFACE LEASES		
Prospecting Permit	1,479	\$1,280.00
TOTAL SUBSURFACE	<u>1,479</u>	<u>\$1,280.00</u>
Penalty & Interest		\$624.38
Treasurer's Formula Distribution		\$104,788.00
GRAND TOTAL EXPENDABLE		<u>\$194,847.25</u>
Permanent Fund Receipts		\$676,132.69
Permanent Fund Balance		\$5,219,000.00

STATE HOSPITAL ACRES AND INCOME - FY 2006

SURFACE LEASES	ACRES	INCOME
Agriculture	5,367	\$97,548.79
Commercial	269	\$177,453.27
Grazing	58,121	\$23,085.56
Rights-of-Way	869	\$18,610.13
Use Permits	4,960	\$8,937.46
Institutional Taking	80	\$1,557.96
U.S. Government	108	\$0.00
TOTAL SURFACE	<u>69,775</u>	<u>\$327,193.17</u>
SUBSURFACE LEASES		
Mineral	60	\$600.00
Oil & Gas	755	\$440.00
U.S. Government	108	\$0.00
TOTAL SUBSURFACE	<u>923</u>	<u>\$1,040.00</u>
Penalty & Interest		\$1,811.71
Treasurer's Formula Distribution		\$147,619.00
GRAND TOTAL EXPENDABLE		<u>\$477,663.88</u>
Permanent Fund Receipts		\$10,375.50
Permanent Fund Balance		\$3,128,000.00

Beneficiary Summary - Other

MINERS' HOSPITAL* ACRES AND INCOME - FY 2006

SURFACE LEASES	ACRES	INCOME
Agriculture	13,845	\$413,083.79
Commercial	600	\$779,502.87
Grazing	73,835	\$28,332.70
Home Site	0	\$1,800.00
Rights-of-Way	1,506	\$236,074.18
Use Permits	3,055	\$54,452.02
Institutional Taking	1	\$919.89
U.S. Government	168	\$0.00
Other	0	\$17,000.00
TOTAL SURFACE	93,010	\$1,531,165.45
SUBSURFACE LEASES		
Mineral	119	\$0.00
Prospecting Permit	4,107	\$3,541.07
Mineral Material	230	\$20,239.91
Oil & Gas	254	\$0.00
U.S. Government	168	\$0.00
TOTAL SUBSURFACE	4,878	\$23,780.98
Penalty & Interest		\$3,808.15
Treasurer's Formula Distribution		\$165,791.00
GRAND TOTAL EXPENDABLE		\$1,724,545.58
Permanent Fund Receipts		\$105,549.33
Permanent Fund Balance		\$6,182,000.00

STATE CHARITABLE, PENAL, & REFORMATORY ACRES AND INCOME - FY 2006

SURFACE LEASES	ACRES	INCOME
Agriculture	3,997	\$121,485.77
Commercial	3,380	\$420,377.04
Grazing	63,035	\$32,390.56
Rights-of-Way	1,759	\$174,468.08
Use Permits	5,240	\$62,504.74
Institutional Taking	475	\$59,563.18
U.S. Government	117	\$0.00
Other	0	\$5,000.00
TOTAL SURFACE	78,003	\$875,789.37
SUBSURFACE LEASES		
Mineral	160	\$120.00
Mineral Material	186	\$96,000.00
Oil & Gas	640	\$1,279.44
U.S. Government	117	\$0.00
TOTAL SUBSURFACE	1,103	\$97,399.44
Penalty & Interest		\$5,704.36
Sales Interest		\$5,099,303.52
Treasurer's Formula Distribution		\$1,182,283.00
GRAND TOTAL EXPENDABLE		\$7,260,479.69
Permanent Fund Receipts		\$15,304,982.25
Permanent Fund Balance		\$61,244,000.00

PENITENTIARY ACRES AND INCOME - FY 2006

SURFACE LEASES	ACRES	INCOME
Agriculture	4,673	\$208,351.19
Commercial	478	\$593,961.56
Grazing	65,932	\$24,674.69
Rights-of-Way	494	\$617,389.33
Use Permits	6,514	\$66,185.63
Institutional Taking	1,778	\$0.00
U.S. Government	5	\$0.00
TOTAL SURFACE	79,874	\$1,510,562.40
SUBSURFACE LEASES		
Prospecting Permit	990	\$832.74
U.S. Government	5	\$0.00
TOTAL SUBSURFACE	995	\$832.74
Penalty & Interest		\$2,606.89
Treasurer's Formula Distribution		\$118,596.00
GRAND TOTAL EXPENDABLE		\$1,632,598.03
Permanent Fund Receipts		\$15,197.19
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 2006

	ROYALTY	SALES PRINCIPAL	SALES INTEREST	LEASE RENTAL	PENALTY & INTEREST	OTHER RECEIPTS	TOTAL
Common Schools (K - 12)	5,881,798.50	258,391,851.25	27,113,367.15	31,439,823.91	106,715.36	0.00	322,933,556.17
Normal Schools	77,117.28	41,791.16	0.00	184,809.93	752.02	0.00	304,470.39
A&M Colleges	9,153.77	858.24	0.00	129,632.27	297.19	0.00	139,941.47
Military Institutes	0.00	3,024.45	0.00	73,377.02	520.77	0.00	76,922.24
School of Mines	14,443.57	1,220.40	0.00	110,463.96	820.14	0.00	126,948.07
University Land Code	3,127.09	402,047.76	0.00	420,055.65	1,192.69	0.00	826,423.19
U of A (Act of 2/18/1881)	164,433.92	3,053,919.63	0.00	270,161.30	246.05	0.00	3,488,760.90
School for the Deaf & Blind	4,666.37	39,261.06	0.00	161,075.39	1,104.15	0.00	206,106.97
Leg., Exec & Judicial	293.42	675,839.27	0.00	89,434.87	624.38	0.00	766,191.94
State Hospital	9,263.10	1,112.40	0.00	328,233.17	1,811.71	0.00	340,420.38
Miners' Hospital	91,521.83	14,027.50	0.00	1,554,946.43	3,808.15	0.00	1,664,303.91
St Char., Pen. & Ref	260,351.12	15,044,631.13	5,099,303.52	973,188.81	5,704.36	0.00	21,383,178.94
Penitentiaries	14,232.75	964.44	0.00	1,511,395.14	2,606.89	0.00	1,529,199.22
School Leases	0.00	0.00	0.00	8,946,088.81	0.00	0.00	8,946,088.81
Commercial Prepayment	0.00	0.00	0.00	0.00	0.00	1,450,785.54	1,450,785.54
Total Schools & Institutions	6,530,402.72	277,670,548.69	32,212,670.67	46,192,686.66	126,203.86	1,450,785.54	364,183,298.14
GENERAL FUND							
F.E.M.A. Lands	0.00	0.00	0.00	15,695.99	0.00	0.00	15,695.99
Farm Loan Lands	0.00	7.92	0.00	3,649.17	4.85	0.00	3,661.94
Navigable Streambeds	0.00	0.00	0.00	54,951.90	96.73	0.00	55,048.63
Lands Held in Trust	0.00	0.00	0.00	1,603.68	0.00	0.00	1,603.68
Fees: Lease, Sale & Misc	0.00	0.00	0.00	0.00	0.00	10,481,628.46	10,481,628.46
Total General Fund	0.00	7.92	0.00	75,900.74	101.58	10,481,628.46	10,557,638.70
Riparian Trust Fund	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL RECEIPTS	6,530,402.72	277,670,556.61	32,212,670.67	46,268,587.40	126,305.44	11,932,414.00	374,740,936.84

*Miners' Hospital and Miners' 1929 combined

**RENTAL ACREAGE AND RECEIPTS
FY 2006
BY TYPE OF LEASE**

SURFACE LEASES	ACRES	RECEIPTS
Agriculture	178,512	4,097,438.85
Commercial	82,147	19,860,647.54
School Leases	*	8,946,088.81
Grazing	8,393,639	2,652,727.58
Homesite	27	12,394.00
Rights-of-Way	116,380	7,521,602.48
Use Permits	220,190	2,058,571.13
Institutional Taking	12,892	201,872.91
U.S. Government	18,274	66,400.00
Other	0	111,793.30
TOTAL SURFACE	<u>9,022,061</u>	<u>\$45,529,536.60</u>
SUBSURFACE LEASES		
Mineral	12,244	4,778.77
Prospecting Permit	89,886	93,530.57
Mineral Material	2,054	241,931.00
Oil and Gas	335,268	398,810.46
TOTAL SUBSURFACE	<u>439,452</u>	<u>\$739,050.80</u>
NON-LEASE REVENUES		
Penalty & Interest		126,305.44
Sales Interest		32,212,670.67
Royalty		6,530,402.72
Land Sales Principal		265,132,783.10
Rights-of-Way Sales Principal		12,522,622.92
Settlements		15,150.59
Commercial Prepayments		1,450,785.54
Fees		10,481,628.46
TOTAL NON-LEASE REVENUES		<u>328,472,349.44</u>
GRAND TOTAL		<u>\$374,740,936.84</u>

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

Financial Schedules

TREASURER'S FORMULA DISTRIBUTION *

	YEAR ENDING JUNE 30 FY 2005	YEAR ENDING JUNE 30 FY 2006	INCREASE (DECREASE)	5/12/1912 TO DATE
Common Schools	24,430,529	31,437,534	7,007,005	990,414,158
Normal Schools Grant	32,020	41,740	9,720	2,254,615
Agricultural & Mechanical Colleges	143,306	180,233	36,927	7,578,648
Military Institutes Grant	7,781	9,173	1,392	1,159,521
School of Mines Grant	76,972	104,439	27,467	6,274,532
University Land Code	171,189	213,276	42,087	9,934,566
University of Arizona (Act Of 2/18/1881)	430,985	551,950	120,965	20,176,268
School for the Deaf & Blind	53,809	77,139	23,330	4,042,774
Legislative, Executive & Judicial Buildings	75,015	104,788	29,773	6,574,442
State Hospital Grant	115,826	147,619	31,793	3,022,930
Miners' Hospital Grant**	123,217	165,791	42,574	6,079,791
State Charitable, Penal, and Reformatory	771,500	1,182,283	410,783	19,410,787
Penitentiary Grant	76,506	118,596	42,090	3,779,928
TOTAL	26,508,655	34,334,561	7,825,906	1,080,702,960

*Information from the State Treasurer

**Miners' Hospital & Miners' Hospital 1929 combined

**STATE TRUST LAND ACREAGE BY BENEFICIARY
TRUST ACRES**

BENEFICIARY	FY 1978	FY 2006
Common Schools (K - 12)*	8,342,469	8,105,550
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	54,218
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	76,930
Penitentiary Grant	80,830	76,111
TOTAL	<u>9,586,606</u>	<u>9,267,377</u>

*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
09/14/05	03-107734	NEC of Happy Valley Road and Lake Pleasant Pkwy., Peoria, Maricopa County	No	2	No	\$10,800,000*	\$2,700,000*	\$356,934,780.90
03/28/06	03-105720	SWC Loop 202 and 40th Street, Phoenix, Maricopa County	No	2	No	\$15,640,000*	\$5,360,000*	\$238,839,053.64

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



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