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ARIZONA STATE LAND DEPARTMENT

ANNUAL REPORT

2003-2004



Janet Napolitano
Governor
State of Arizona

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, 2004

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 2003-2004 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 2003-2004 was the most productive year in the history of the Land Department. Every revenue record was broken. The Sales Section had a record year completing 24 auctions, resulting in gross sales of approximately \$310.6 million. In most of these auctions there was intense, competitive bidding that raised the sale price significantly above the appraised value of the land.

Of the total \$310.6 million, \$43.6 million was from cash sales and was deposited directly into the Permanent Fund. The balance of just over \$267.0 million will be paid off over time and the Land Department will earn interest on the balance at an average interest rate of 9.86% 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 \$432.4 million, which earns 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 a record \$51.0 million in expendable revenue that was sent to beneficiaries for their immediate use. Records were also set in several other areas of expendable revenues: sales interest, \$25.0 million; commercial leasing, \$14.9 million; agriculture, \$3.6 million and natural products, \$3.6 million.

The record \$232.8 million in revenue generated this year by the Trust has been allocated as follows: \$149.3 million from the sale of land, rights-of-ways and minerals was deposited into the Trust Permanent Fund, increasing the Fund to \$1,200,698,000; the public schools and institutions received \$51.0 million from land rents and interest income, school leases of \$6.0 million as well as \$20.1 million from the Treasurer's formula distributions; the Treasurer's Office also received \$2.0 million in commercial prepayments that the Land Department will receive back over time as expendable revenue for the beneficiaries; and a record \$4.4 million was deposited into the General Fund.

The steps we have taken were focused 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 conceptual planning, engineering and the terms of which the Land Department allows financing of the purchase price 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 Land Department served Arizona and its citizens in many other significant ways this past year. The Forest and Fire Management Division continued its tireless efforts to suppress wildland fires and participated in the multi-agency efforts to combat fires across the State including the Nuttall Complex and the Willow Fires, among many others. Forest and Fire Management staff are continually recognized locally and nationally for their accomplishments.

The agency successfully completed a major IT upgrade this year which will greatly enhance our staff efficiency and our ability to continue as a leader in the GIS area. The agency's GIS capability was critical to the State Trust Land Reform effort and Land Department staff have volunteered to participate in statewide and national projects to create accurate maps as a continuing contribution for Homeland Security and the Wildland Fire operations statewide.

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. I expect to be reporting more record-breaking news next fiscal year.

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

LAND DEPARTMENT MISSION STATEMENT

To manage State Trust lands and resources to enhance value and optimize economic return for the Trust beneficiaries, consistent with sound stewardship, conservation, and business management principles supporting socioeconomic goals for citizens here today and generations yet to come. To manage and provide support for resource conservation programs for the well-being of the public and the State's natural environment.

AGENCY GOALS

To implement a progressive asset management process, to improve the quality and efficiency of the Department's decision making, and to meet the requirements of the Growing Smarter and Growing Smarter Plus Acts.

To enhance revenue production.

To improve efficiency in processing revenue production activities.

To meet the growing demands for fire and forestry management programs on State Trust and private lands, especially in the wildland/urban interface.

To incorporate environmental protection into the Department's management actions to enhance the future productivity of the Trust's land and assets.

To continue an effective land conservation of appropriate State lands while ensuring continued economic benefits to the Trust.

To improve the availability of information and to increase the analytical capabilities of the Agency.

To continue to develop and implement measures to improve internal and external customer service.

To improve internal and external communication.

STATE LAND DEPARTMENT FACT SHEET

Revenues derived from lands managed by the State Land Department benefit numerous educational, health, and penal institutions. These beneficiaries have received a portion of the millions of dollars in income that have been earned since the State Land Department was established in 1915.

**State Land
Commissioner**
Mark Winkleman

**Deputy State Land
Commissioner**
Richard R. Hubbard



Richard R. Hubbard
Deputy State Land Commissioner

MISSION

To manage State Trust lands and resources to enhance value and optimize economic return for the Trust beneficiaries, consistent with sound stewardship, conservation, and business management principles supporting socioeconomic goals for citizens here today and generations yet to come. To manage and provide support for resource conservation programs for the well-being of the public and the State's natural environment.

ORGANIZATION AND BUDGET

The Department is organized into six major Divisions: Administration and Resource Analysis; Land Information, Title, and Transfer; Real Estate; Asset Management; Natural Resources; and Fire Management. In addition to these Divisions, a five-member Board of Appeals approves all sales and commercial leases for State lands. The FY 2004 General Fund budget was \$13,554,300 with 174.4 positions.

FUNDS

The Department has a fiduciary responsibility to maximize the income from the sale and use of Trust lands and their products. Funds derived from land transactions are deposited into either a Permanent Fund or classified as Expendable Revenue. Permanent Fund revenues come from the sale of land or royalties from natural products of the land. These funds are not expendable for any purpose; rather, they are invested by

the State Treasurer in stocks, bonds, and other interest-bearing securities. Expendable Revenue includes lease revenue from Trust land leases and permits, interest from sales contracts, and Treasurer's formula distribution on Permanent Fund investments. Expendable Revenue is available to beneficiaries to use directly for their operations.

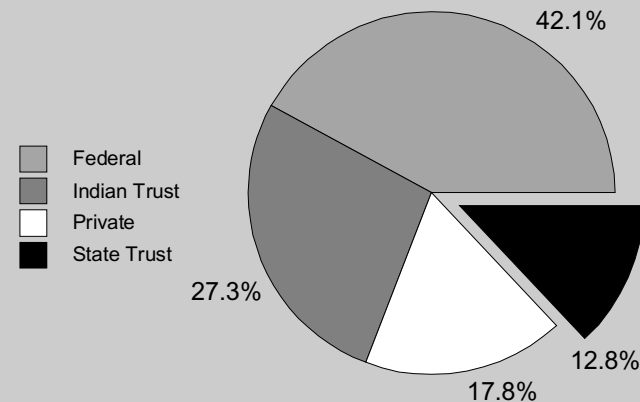
REVENUES

During the first 65 years of Arizona's statehood, its economy was focused

on natural resources, and the Land Department's program was primarily the management of rural lands and natural resources—livestock grazing, agriculture, and mineral production. As urban areas grew and new opportunities arose, the Land Department's program shifted to urban land and commercial development. The dramatic increases in revenues during the last 20 years, reflect this change in emphasis.

LAND OWNERSHIP IN ARIZONA

The State of Arizona contains an estimated 72,931,000 acres, or about 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.

FY 2004 REVENUES BY BENEFICIARY

BENEFICIARIES	TRUST ACRES	STATE LAND EXPENDABLE EARNINGS	TREASURER'S FORMULA DISTRIBUTION	TOTAL EXPENDABLE RECEIPTS	PERMANENT FUND RECEIPTS
Common Schools (Includes County Bonds)	8,108,817	52,331,253.10	18,565,352.00	70,893,605.10	131,272,767.21
Legislative, Executive & Judicial Buildings	64,257	80,751.14	57,893.00	138,644.14	4,888.98
State Hospital	71,248	326,688.07	89,056.00	415,744.07	126,353.52
Miners' Hospital	95,431	1,241,675.52	85,448.00	1,327,123.52	314,727.45
State Charitable, and Penal Insitutions	77,562	536,846.02	528,216.00	1,065,062.02	11,417,018.80
Penitentiaries	76,111	829,100.63	76,540.00	905,640.63	93,624.85
Normal Schools	174,798	103,390.99	25,835.00	129,225.99	305,834.30
Agricultural and Mechanical Colleges	124,944	77,778.69	70,016.00	147,794.69	74,682.93
Military Institutes	80,168	74,214.35	5,589.00	79,803.35	0.00
School of Mines	123,559	110,196.97	18,366.00	128,562.97	56,590.44
University Land Code	137,908	368,562.48	155,432.00	523,994.48	3,623,322.92
University of Arizona (Act of 2/18/1881)	54,218	801,133.87	354,680.00	1,155,813.87	2,009,407.63
School for the Deaf and Blind	82,560	123,905.37	39,220.00	163,125.37	6,631.15
TOTAL	9,271,580	57,005,497.20	20,071,643.00	77,077,140.20	149,305,850.18

ANNUAL REVENUES

COMPARISON: FY 1984 AND FY 2004

	FY 1984	FY 2004	% INCREASE
Land Department			
General Fund	959,637	4,433,646.71	362.0%
Leases and Sales			
Contract Interest	12,982,249	51,012,029.20	292.9%
Permanent Commercial	17,416,483	149,305,850.18	757.3%
Prepayment	0	1,988,978.95	N/A
School Leases	0	5,993,468.00	N/A
Total Land Department	31,358,369	212,733,973.04	578.4%
State Treasurer			
Treasurer's Formula Distribution	16,991,531	20,071,643.00	18.1%
Grand Total	48,349,900	232,805,616.04	381.5%
Revenue Summary			
General Fund	959,637	4,433,646.71	362.0%
Expendable	29,973,780	71,083,672.20	137.2%
Permanent	17,416,483	149,305,850.18	757.3%
Commercial Prepayment	0	1,988,978.95	N/A
Grand Total	48,349,900	226,812,148.04	369.1%
Permanent Fund Growth			
	169,500,000	1,200,698,000.00	608.4%
Growth in Specific Revenue Categories			
Commercial	2,331,438	14,932,591.76	540.5%
Land, R/W Sales	15,259,119	145,143,070.56	851.2%
Grazing	1,704,818	2,168,628.32	27.2%
Agriculture	2,488,800	3,630,218.77	45.9%
Royalties	2,249,613	4,162,779.62	85.0%

HISTORICAL OVERVIEW

The Federal government established State Trust land for the public institutions specified as beneficiaries. The largest beneficiary is the schools (K-12). As a result, the Trust will continue to make a major contribution to the support of these beneficiaries.

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.

CREATION OF THE LAND DEPARTMENT

On May 20, 1912, an act of the First



State Land Commission on south boundary of Santa Teresa division, Crook National Forest. Standing: Senator W.W. Pace. Sitting: left to right: W.A. Moody, Forest Ranger J.H. Kirby, Webster, Cy Byrne.

Legislature created the three-member State Land Commission to serve as the temporary Land Department of the State. The members were Mulford Winsor, Chairman; Cy Byrne,



Secretary; and William A. Moody, member. Appointed by Governor George W. P. Hunt, they were charged with assessing, evaluating, and making recommendations about the land granted by Congress to the State for the Common Schools and other institutions. The Commission was to report back to the Legislature with its findings and conclusions by the end of the second Legislative session.

The Commission concluded that Arizona should not sell its Trust land outright, as other states had done. Instead, it should put the lands to their "highest and best use." The decision to sell or lease the land should be based upon the potential use of each parcel. The Commission recommended the creation of a permanent State Land

Department "... in order that the multitudinous detail attached to the State's varied land interests may have constant attention and to prevent irretrievable loss."

The State Land Department and the system by which Trust lands were to be managed were established in 1915 by the State Land Code. In compliance with the Enabling Act and the State Constitution, the State Land Code gave the Department authority over all Trust lands and the natural products from these Trust lands.

Since the State Land Department's inception, its missions have been to manage the Land Trust and to maximize its revenues for the beneficiaries. All uses of the land must benefit the Trust, a fact that distinguishes it from the way public land, such as parks or national forests, may be used. While public use of Trust land is not prohibited, it is regulated to ensure protection of the land and compensation to the beneficiaries for its use.



State Land Commission riding Crook National Forest boundary (Graham County). Horseman in foreground is Forest Supervisor Swift. Second Horseman is W.A. Moody. Third Horseman is Cy Byrne.

BENEFICIARIES

There are 14 beneficiaries of State Trust land revenues. The Common Schools

is the beneficiary with the largest Trust land acreage, originally receiving about 8.4 million acres of land. Other beneficiaries, which originally received a total of about 2.5 million acres, include the University Land Code; Legislative, Executive, and Judiciary Building Fund; Penitentiary Fund; State Hospital; School for the Deaf and Blind; Normal



(Universities) Schools; State Charitable, Penal, and Reformatory Institutions; Agricultural and Mechanical Colleges; School of Mines; Military Institutions; University of Arizona (Act of 2-18-1881); and two funds for the Miners' Hospital. A 15th beneficiary, County Bonds, was funded by Trust revenues until it was eventually paid. Revenues derived from County Bond lands are now added to the Common Schools' grant.

ENABLING ACT RESTRICTIONS

Certain restrictions for Trust land management are outlined for the State Land Department by the Enabling Act. These restrictions state that Trust lands cannot be mortgaged or encumbered in any way. Land sales or land leases in excess of 10 years must be advertised for 10 weeks prior to public auction. After advertising, the sale or long-term lease of the land is awarded through public auction to the highest and best bidder. Short-term leases of

up to 10 years may be issued without public auction. All lands are to be appraised at fair market value and cannot be disposed of for less than that amount.

TRUST REVENUE

Revenues earned from Trust land are classified as either permanent or expendable. Revenues derived from the sale of State Trust land, the sale of natural products (such as sand, gravel, water, and fuel wood), and royalties from mineral materials are deposited in the Permanent Fund and invested in stocks, bonds, and interest-bearing securities by the State Treasurer. The Treasurer's formula distribution from this fund is subsequently transferred each year for use by the appropriate beneficiary.

All revenues generated from lease rentals are expendable revenue. The beneficiaries may use these funds directly for their operations. The actual expendable revenue accrued each year from the Trust land is derived from the Treasurer's formula distribution and the Department's lease rentals.

State Trust land management priorities



Northern Arizona University c.1913

continually evolve to remain efficient in all areas of the Trust's maintenance. One change that dramatically increased the Department's revenue-generating potential was the passage



State Land Commission in camp near Fort Grant, Graham

of the Urban Lands Act in 1981. The Act allows the Department to increase the value of Trust land in urban areas by planning and zoning it in cooperation with the local governments. The Legislature has also expanded the Department's leasing capabilities, making long-term leases of up to 99 years possible for land that either has been planned under the urban planning process, or is rural commercial land.

PAST ARIZONA STATE LAND COMMISSIONERS

W.A. Moer
1915-1920

Rudolph Kuchler
1921-1922

Vernon Vaughn
1923-1928

Don C. Babbitt
1928-1929

Howard J. Smith
1931-1934

Charles P. Mullen
1934-1937

William P. Alberts
1937-1941

O.C. Williams
1941-1949

W.W. Lane
1949-1953

Rodger Ernst
1953-1957

Obed M. Lassen
1957-1970

Andrew L. Bettwy
1970-1978

Joe T. Fallini
1978-1982

Robert K. Lane
1983-1987

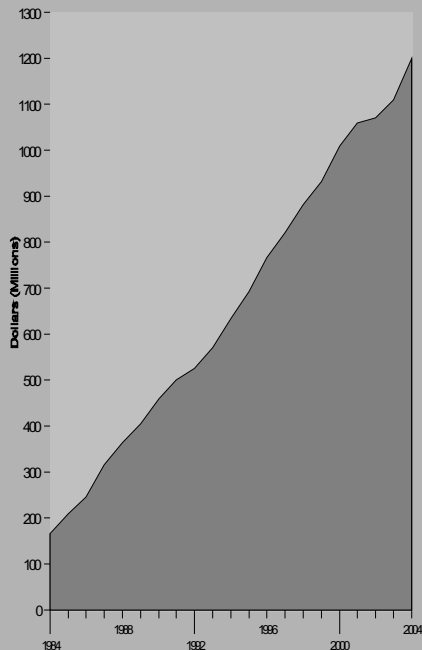
M. Jean Hassell
1987-1997

J. Dennis Wells
1997-1999

Michael E. Anable
1999-2003

PERMANENT FUND

**Growth in Permanent Fund
FY 1984 - FY 2004**



The Permanent Fund, which reached \$1.2 billion at the end of FY 2004, is made up of revenues earned from the sale of State Trust land and the sale of minerals and natural products such as sand, gravel, water, and fuel wood. The corpus of the fund is invested, not spent. The State Treasurer manages the fund and invests it in stocks, bonds, and other interest-bearing securities. The State Treasurer was given the authority in 1998 to invest a portion of the Permanent Fund in stocks and bonds in addition to the annuities already invested. The Permanent Fund earnings are transferred for use by the beneficiary through the Treasurer's formula distribution. Income from sales and royalties continues to earn money for the beneficiaries on a permanent basis, in essence replacing the value of Trust lands or resources that were sold or removed. The Permanent Fund ensures that the Trust is not depleted and will continue to provide the beneficiaries with non-tax dollars into the future.

During the first 65 years of Arizona's statehood, its economy was focused on natural resources. The Land Department's program was primarily the management of rural lands and natural resources — livestock grazing, agriculture, and mineral production. In FY 1982, the book value of the Permanent Fund stood at \$142 million.

As urban areas grew and new industries and opportunities arose, the Land Department's program shifted to urban land and commercial

development. With the passage of the Urban Lands Management Act in 1981, the Department was given new authority and direction to plan, zone, and merchandise the urban Trust lands surrounding the State's major population centers.

In addition, several major reform initiatives were undertaken and staffing levels increased, which enabled more aggressive and effective leasing and sales programs.

The impact of these changes is best illustrated by the dramatic growth in the Permanent Fund in the last two decades. The book value of the Permanent Fund grew from \$142 million in FY 1982 to \$1.2 billion by the end of FY 2004.

The table below shows each beneficiary's share of the total Permanent Fund. The chart to the left shows the growth in the Permanent Fund since FY 1984.

BENEFICIARY SHARE OF PERMANENT FUND JUNE 30, 2004

	BOOK VALUE	MARKET VALUE
Common Schools	1,099,994,000	1,200,149,000
Legislative, Executive, and Judicial	4,618,000	5,066,000
State Hospital	3,286,000	3,817,000
Miner's Hospital	5,481,000	6,051,000
State Charitable, Penal, and Reformatory	33,924,000	38,606,000
Penitentiaries	5,444,000	5,982,000
Normal Schools	1,862,000	2,020,000
Agricultural & Mechanical Colleges	6,828,000	7,419,000
Military Institutes	380,000	413,000
School of Mines	4,854,000	5,145,000
University Land Code	11,313,000	11,935,000
University of Arizona (Act of 2/18/1881)	19,708,000	21,632,000
School for the Deaf & Blind	3,006,000	3,332,000
TOTAL	1,200,698,000	1,311,567,000

EXPENDABLE REVENUE BY BENEFICIARY FY 2004

BENEFICIARIES	TREASURER'S FORMULA DISTRIBUTION	LEASE AND SALES CONTRACT INTEREST	TOTAL EXPENDABLE REVENUE
Common Schools (Including lands to Retire County Bonds)	18,565,352.00	52,331,253.10 *	70,896,605.10
Legislative, Executive & Judicial Buildings	57,893.00	80,751.14	138,644.14
State Hospital	89,056.00	326,688.07	415,744.07
Miners Hospital	85,448.00	1,241,675.52	1,327,123.52
State Chritable, Penal, & Reformatory	528,216.00	536,846.02	1,065,062.02
Penitentiaries	76,540.00	829,100.63	905,640.63
Normal Schools	25,835.00	103,390.99	129,225.99
Agriculture and Mechanical Colleges	70,016.00	77,778.69	147,794.69
Military Institutes	5,589.00	74,214.35	79,803.35
School of Mines	18,366.00	110,196.97	128,562.97
University Land Code	155,432.00	368,562.48	523,994.48
University of Arizona (Act of 2/18/1881)	354,680.00	801,133.87	1,155,813.87
School for the Deaf and Blind	39,220.00	123,905.37	163,125.37
TOTAL	20,071,643.00	57,005,497.20	77,077,140.20

*The amount for expendable earnings includes the revenue of \$5,993,468.00 from the school leases in accordance with ARS §37-221,D.

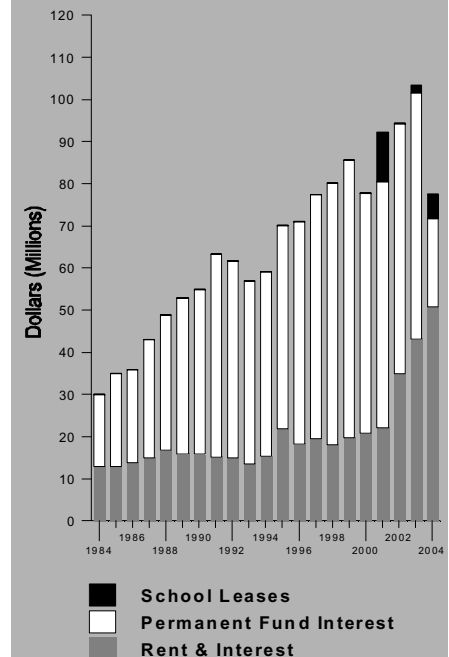
Expendable revenue totaled \$77,077,140.20 in FY 2004 and included lease revenue from Trust land leases and permits, interest earnings from sales contracts administered by the Department, and the Treasurer's formula distribution. Expendable revenues are available to the beneficiaries to use for their operations in the same year they are generated. Over the past 20 years more than \$1.39 billion in expendable revenue has been transferred to the beneficiaries. This consists of \$439 million from lease and sales contract interest and \$900 million from the Treasurer's formula distribution.

As with the Permanent Fund, expendable revenue has grown dramatically in the last two decades, for the same reasons. The Department has taken advantage of the new opportunities arising as urban areas grew and new industries developed. Expendable revenues have increased from \$25.7 million in FY 1982 to \$77.1 million in FY 2004. The Common Schools is the largest beneficiary and, on average, receives approximately 90 percent of the expendable revenue.

The table to the left shows the source of the FY 2004 expendable revenue for each beneficiary, and the expendable revenue chart to the right shows the growth in revenues since FY 1984.

EXPENDABLE REVENUE

**Total Expendable Revenue
FY 1984 - FY 2004**



AGENCY HIGHLIGHTS

FY 2004 was a record-breaking year for the Land Department, and tremendous progress was made on many fronts. Following are some of the more notable accomplishments.

SOLD FOR \$100 Million!! **Pulte Homes Buys State Trust Land At Record Auction**

On May 12, 2004, after an hour of intense bidding, Pulte Homes made the record breaking winning bid of \$100.5 Million to purchase 276 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 \$66.3 million.

"I was optimistic that the \$66.3 million record would be broken," Commissioner Winkleman commented after the auction. "But \$100 million is unbelievable. The record wasn't just broken, it was shattered!" The property auctioned is located at the southwest corner of Deer Valley Drive and 40th Street in the developing Desert Ridge community. The Land Department had previously successfully auctioned for sale or lease the Desert Ridge Marketplace, the J.W. Marriott Desert Ridge Resort and Spa, the Toscana of Desert Ridge luxury community and several residential sites in Desert Ridge.

Toll Brothers Homes, Hancock Homes, Elliott Homes and D.R. Horton Homes aggressively bid against Pulte before a crowd of over 100 people including, State Senator Linda Binder, Phoenix City Council Member Peggy Neely and Phoenix Mayor Phil Gordon. The price was bid up 194 times, a record number. The \$100 Million price breaks down to \$359,095 per acre, another new record for the sale of State Trust Land planned for single family housing.



Desert Ridge State Trust Land Sells for \$32 Million **\$780,500 Per Acre -- A New Record Price**

On May 27, 2004 Gray Development Group made the final bid of \$32 Million to purchase 41 acres of Arizona State Trust Land located at the gateway to the J. W. Marriott Desert Ridge Resort and Spa in Phoenix. The price was approximately \$780,500 per acre, shattering the prior record per acre price for Arizona State Trust Land by nearly \$300,000. The property is located at the northeast corner of Deer Valley Drive and Tatum Boulevard.

"The location of this property at the entrance to the resort and next to the luxury community of Toscana at Desert Ridge makes this a great opportunity for a highly successful project," Deputy State Land Commissioner Richard R. Hubbard commented after the auction. "More importantly,

the competitive bidding that resulted in the high sales price means significantly more money for public education in Arizona."

The previous record per acre price for Arizona State Trust Land of \$482,000 was bid for the parcel directly across the street from the parcel auctioned today. In June of 2003, The Statesman Group paid \$24.1 Million for the 50 acres at 56th Street and Deer Valley Drive. That parcel is emerging as the luxury community of Toscana at Desert Ridge. The Statesman Group was among a group of bidders competing today that included Toll Brothers and Pulte Homes.

STATE TRUST LAND REFORM ACT

A State Trust Land Reform Act (the "Reform Act") has been proposed and is designed to modernize the Functions of the Department and significantly increase the revenues we earn for our beneficiaries. Among other things, the Reform Act proposes to merge 20 years of land management legislation, including the Urban Lands Act (1981), the Arizona Preserve Initiative (1996) as well as elements of the amended Growing Smarter Act (1998) to support the new proposed land management reforms. The form of the Reform Act will be developed with input and direction from the Legislature and the Governor.

In summary, the Reform Act could provide Arizona the ability to optimize returns to the Trust, maintain and strengthen planning efforts with communities, and provide more flexibility in managing Trust lands.

EMPLOYEE RECOGNITION PROGRAM

EMPLOYEE OF THE YEAR:
Richard Oxford 2003

EMPLOYEE OF THE QUARTER:
Lee Robinson 3rd Qtr 2003
Richard Oxford 4th Qtr 2003
Janet Moore 1st Qtr 2004
Steve Ross 1st Qtr 2004

MERV MASON CUSTOMER SERVICE AWARD:
Kathy Diehl 3rd Qtr 2003
Carina Chavira 4th Qtr 2003
Brad Geeck 4th Qtr 2003
Bill Webster 4th Qtr 2003
Kevin Kudo 1st Qtr 2004
Pam White 2nd Qtr 2004
Mary Bryan 2nd Qtr 2004

FIRE HAZARD REDUCTION IN THE WILDLAND/URBAN INTERFACE

The horrific consequences of the Rodeo/Chediski Fire and the terrible losses suffered in Summerhaven have galvanized attention in the state to the need to immediately address the wildfire hazards in the wildland/ urban interface. Statewide, 75,000 acres have been identified as needing treatment in or around 70 communities in all 13 counties. Effective mitigation of the wildfire hazards in the wildland/urban interface will require a cooperative effort of federal, state, county, and community agencies, and private landowners. In addition to meeting the State's own stewardship responsibilities, the State Land Department, is the lead agency for providing wildland fire and forestry assistance to private landowners and rural communities.

Agency Highlights

MARK WINKLEMAN

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 21 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.

"In fiscal year 04, we sold over \$300 million worth of State Trust Land in urban areas in the State," according to Mark. This amount shattered all prior Land Department records and was more than triple the sales revenues averaged by the Land Department during the past few years.

The recent successes have not gone unnoticed by the primary beneficiary of the Trust, Arizona Public Education. Mark stated. "I am thankful for the many messages of appreciation I receive from people involved in Arizona education, especially the teachers and their students. At the end of the day, we know we are working for the continued improvement of education in Arizona."

Mark has been a leader in the effort to reform the laws under which the Trust lands are managed. A proposal is currently under consideration that would permit the Department to greatly increase revenues to the beneficiaries, primarily public education. It would reduce urban sprawl and provide for much better planning of the lands most directly in the path of growth.

Prior to his appointment as State Land Commissioner, Mark founded and operated MGS Realty Partners. Previously, he worked with other real estate companies including Grossman Company Properties and was a partner in the Real Estate Group of the law firm Streich Lang. He was certified as a real estate specialist by the Arizona State Bar, was a frequent speaker at various real estate panels and has published numerous articles. Mark is a member of various real estate organizations, including ULI, ICSC, Lambda Alpha, REIAC and serves on the Board of Valley Partnership. He also holds a real estate broker's license.

Agency Highlights

RECORD REVENUES

Fiscal year 2003-2004 was the most productive year in the history of the Land Department. Every revenue record was broken.

The Sales Section had a record year completing 24 auctions, resulting in gross sales of approximately \$310.6 million.

The Department generated a record \$51.0 million in expendable revenue that was sent to beneficiaries for their immediate use. Records were set in the following specific areas: sales interest, \$25.0 million; commercial leasing, \$14.9 million; agriculture, \$3.6 million and natural products, \$3.6 million.

LISTING OF LARGE SALES

\$17.4 MILLION; Phoenix, September 24, 2003:

- 89 acres was auctioned in urban Phoenix. More than 7 bidders, comprising several commercial developers and most of the valley's homebuilders, competed in the auction.

\$10.1 MILLION; Phoenix, December 11, 2003:

- 123 acres was auctioned in North Scottsdale.

\$49 MILLION; Phoenix, March 30, 2004:

- In the longest auction Department history, 89 acres was auctioned in the master planned community of Desert Ridge. The successful bidder, CHI Construction, a division of D.R. Horton, Inc., outlasted 5 valley homebuilders.

\$100 MILLION; Phoenix, May 12, 2004:

- After an hour of intense bidding, Pulte Homes made the record breaking winning bid of \$100.5 Million to purchase 276 acres in the Desert Ridge Master Planned Community. The bid broke the prior record price of State Trust Land Auction of \$66.3 million.

\$56.2 MILLION; Phoenix, May 19, 2004:

- After nearly 2 hours of intense bidding, CHI Construction made the winning bid of \$56.2 Million to purchase 365 acres in Peoria. The property is located south of Deer Valley Road, west of 96th Avenue. The price was more than double the appraised value of \$24 Million.

\$32 MILLION; Phoenix, May 27, 2004:

- Gray Development Group made the final bid of \$32 Million to purchase 41 acres located at the gateway to the J. W. Marriott Desert Ridge Resort and Spa in Phoenix. The price was approximately \$780,500 per acre, shattering the prior record per acre price for Arizona State Trust Land by nearly \$300,000.

\$23.2 MILLION; Phoenix, September 21, 2004:

- 41 acres located at 56th Street north of Deer Valley Road was auctioned for \$8.5 million over appraised value.

ARIZONA REAL ESTATE BROKERS EARN OVER \$1,000,000 IN RECORD STATE TRUST LAND PUBLIC AUCTIONS

Arizona Real Estate Brokers earned over \$1,000,000 during two days of record setting public auctions. "I firmly believe that participation by Arizona Real Estate Brokers in State Trust Land public auctions increases competition significantly," Commissioner Winkleman stated. "This results in higher sale prices for the property and more money to the Arizona State Trust Land Permanent Fund."

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.

Ross Smith, a Broker with Grubb & Ellis/BRE in Phoenix, represented the successful bidder in a recent auction of State Trust Land where his client bid more than \$27,000,000. "The State Land Department Broker participation program is a great tool to assist my real estate clients in the purchase of State Trust Land," Smith said after the auction. "The Land Department has created an effective program where Brokers bring more bidders to the auctions and let the market determine the best price for the property."

ARIZONA STATE LAND DEPARTMENT

ORGANIZATIONAL CHART

Commissioner's Office
(602) 542-4621

**Administration and
Resource Analysis Division**
(602) 542-4634

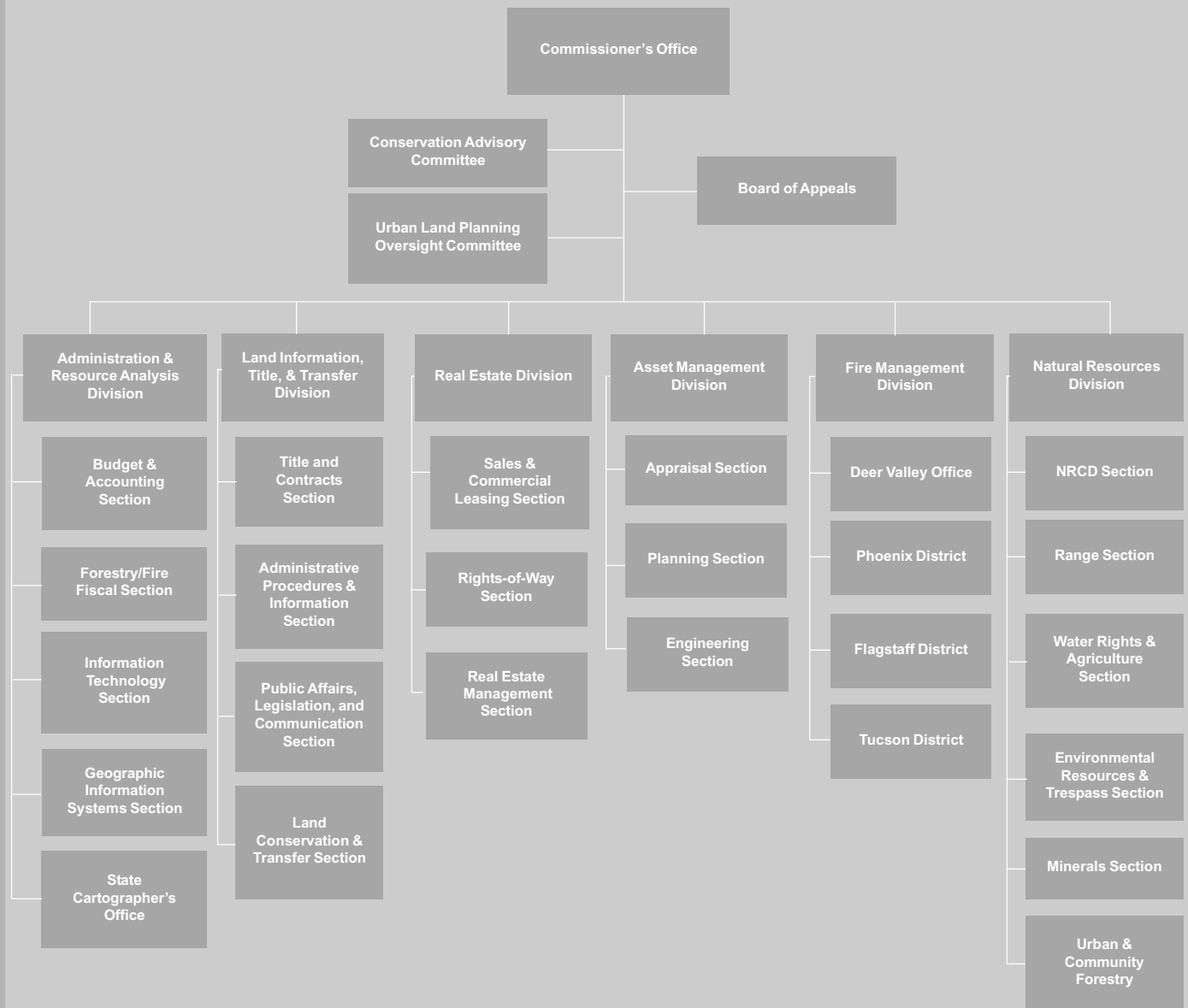
**Land Information, Title,
and Transfer Division**
(602) 542-4602

Real Estate Division
(602) 542-1704

Asset Management Division
(602) 542-3671

Fire Management Division
(602) 255-4059

Natural Resources Division
(602) 542-4625



Division Highlights

REAL ESTATE DIVISION

...meeting the demand for
residential and commercial
growth

Division Director

James L. Adams

Section Managers

Sandy Kelley, Sales and
Commercial Leasing
Linda Beals, Rights-of-Way
Sandy Jacobs,
Real Estate Management



James L. Adams

SALES AND COMMERCIAL LEASING SECTION

The Sales and Commercial Leasing Section shattered Land Department records in virtually every area of disposition:

- Total sales value of lands sold reached \$310,647,731 which represents an approximate 245% increase over the prior fiscal year.

- Out of the 24 land auctions held this fiscal year, 12 of those had competitive bidding.

- Four auctions generated over 100 bids, with one auction generating 248 bids.

- An auction of 279 acres of single family residential (SFR) land in the Desert Ridge Master Planned Community totaled \$100.5 million (land plus rights-of-way) which amounted to \$360,073 per acre or \$8.27 per square foot. This was a record sale for the Land Department and the greater Phoenix metropolitan area.

- Three bidders placed a total of 41 bids for a 65 year commercial lease of 21.96 gross acres (13.00 net acres) in Scottsdale; rent will total a minimum of \$89.98 million over the 65 year term. The bids were based upon land value, beginning at the appraised value of \$6.8 million with a final bid price of \$11.6 million, or \$892,308 per acre (net) or \$20.00 per square foot (net). The increase in land value translates into an increase of almost \$34 million in rent over the term of the lease.

- In fiscal year 2004, 1,875 acres of Trust land were sold at public auction for an average price per acre of \$165,721. Six long-term leases totaling 463 acres were offered at public auction resulting in two school site leases and four other leases for various commercial uses. The auctioned leases, excluding the school sites, will produce revenues in excess of \$110.9 million over their respective terms.

Currently the outstanding Certificate of Purchase balance is \$431,930,000. Within seven years, when the majority of these Certificates of Purchase are paid off, the Permanent Fund will increase by approximately 36% from the payoffs.

The outstanding residential market in the Phoenix area was a significant factor in this year's record breaking successes. The Sales and Commercial Leasing Section reacted to this market opportunity by providing the information and service that developers require to be able to bid the value up to such remarkable levels at the public auction. The due diligence materials for these lands being offered at public auction consist primarily of Phase I Environmental Assessments, Base Line Geotechnical Reports, and ALTA Surveys. All of these reports are provided both in hard copy and digital format to all prospective bidders.

The Section has worked with the As-

CERTIFICATE OF PURCHASE BALANCE



set Management Division of the Land Department and the governing local jurisdictions to address planning and zoning issues, extension of infrastructure and impact or development fee issues so developers and builders are able to bid at the auction with far more certainty.



JW Marriott Desert Ridge, Resort & SPA
Opened November 2002
Parcel 1D

RIGHTS-OF-WAY SECTION

The Rights-of-Way Section continued to meet the challenges created by an extremely active real estate market. The strong housing market statewide created a vigorous demand for additional infrastructure including public roads, electrical power, water and sewer. The rapid expansion of infrastructure has required that the requests for rights-of-way be processed within significantly reduced time frames in order to keep up with the demand created by the market.

The Section worked with numerous

developers, public agencies and utilities to facilitate the proper placement and sizing of the infrastructure placed on/across State Trust land. Many of the easements issued will create opportunities to develop Trust land by providing the necessary utilities and roadways to service future development. Revenues generated by the Rights-of-Way Section were in excess of \$8.8 million during fiscal year 2004. The Section completed 452 grants for rights-of-way during the one year period.

REAL ESTATE MANAGEMENT SECTION

The Real Estate Management Section (REM) continues to support and assist the other Sections within the Division with management issues.

In fiscal year 2004, the Section prepared legal advertising notices for 55 public auctions, including land sales, long-term commercial leases, rights-of-way, mineral materials and water sales. 53 auctions were conducted in 10 of Arizona's 15 counties. Of the 24 land auctions held during FY 2004, 12 auctions had competitive bidding, with seven of those auctions receiving over 50 bids, and four of the seven receiving over 100 bids.

A 366 single family residential site in the Camino a' Lago Master Planned Community received 248 bids from four bidders. Another auction of a 279 acre parcel in the Desert Ridge Master Planned Community received 194 bids from five bidders and was web-

FUTURE GOALS

- Offer for sale and long term lease at public auction Trust lands valued at over \$400 million in FY 2005 at terms favorable to the Trust.
- Continue to provide due diligence information to the prospective bidders to eliminate uncertainties and allow bidding to reach maximum potential.
- Focus human and financial resources on lands that are ready for disposition with demonstrated demand in the marketplace, and with higher revenue generating potential.
- Increase emphasis on higher revenue generating dispositions, term sales, and commercial leases.
- Continue to issue partial patents on lands that have been sold on terms with approved plats and take-down schedules.
- Continue to expand and enhance the Department's marketing program.
- Continue to work with appropriate jurisdictions, along with the Asset Management Division, to provide planning and engineering certainty to auctioned parcels.
- Coordinate efforts with the Arizona Corporation Commission and utility companies to reduce potential conflicts in the siting process of rights-of-way.
- Continue to meet with engineering, planning and development staff statewide to educate potential rights-of-way applicants on the process and requirements for obtaining a rights-of-way on or across State Trust land.

Division Highlights

REAL ESTATE DIVISION

The real estate market continues to be strong in Arizona as a result of the explosive population growth throughout the State. To meet the market demand, the Department offered for lease and sale properties within the growth path of the major metropolitan areas.

DESERT RIDGE

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

PARCEL 11

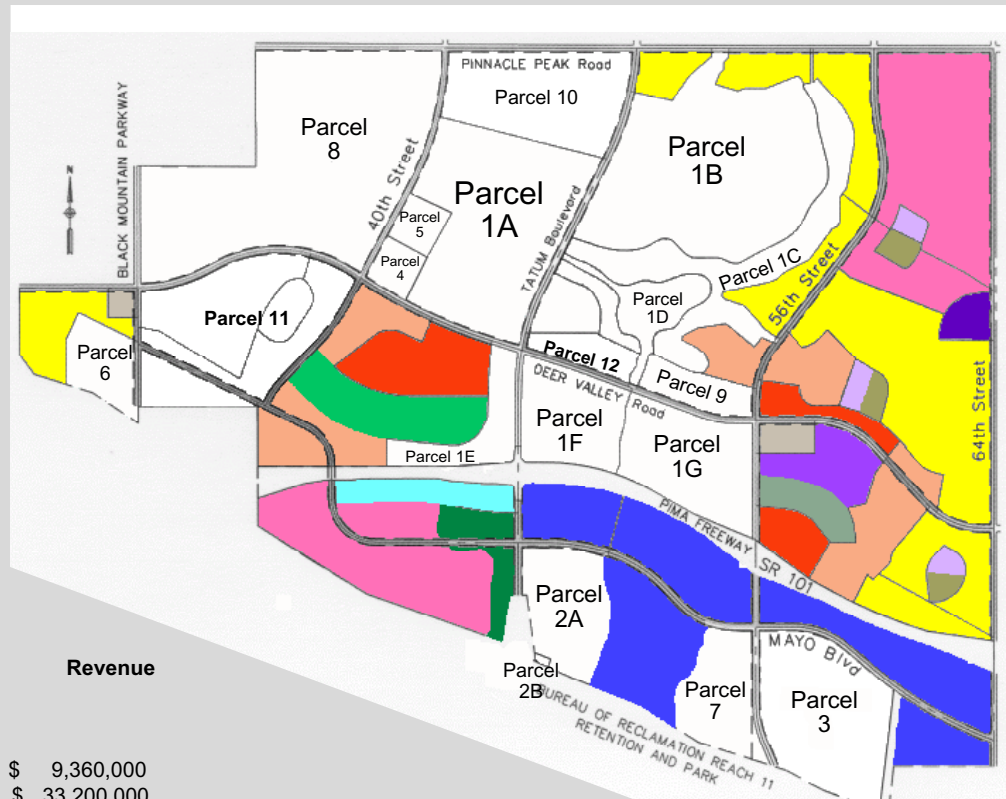
Record breaking sale of 279 acres of single family residential land, including a rights-of-way, sold for \$100,500,000 to Pulte Home Corp. after 5 bidders placed 194 bids at the public auction on May 12, 2004. The parcel had a increase of 185% over the appraised value. This is the highest percentage increase over the appraised value ever received in the history of the Land Department.



The District at Desert Ridge Marketplace
Opened December 2001
Parcels 1E, 1F, and 1G

DESERT RIDGE DISPOSITIONS

Parcel No.	Acres	Sold or Leased	Use	Date Sold/Leased	Revenue
1A & 1B	780	Sold	Residential/Golf	07/07/93	\$ 9,360,000
1C	180	Leased	Resort Golf	07/07/93	\$ 33,200,000
1D	54	Leased	Marriott Resort	07/07/93	\$ 45,800,000
1E, 1F & 1G	332	Leased	Commercial Retail	07/07/93	\$ 347,400,000
2A	106	Leased	Sumitomo Sitix	12/12/95	\$ 90,300,000
2B	2	Sold	Utility Pump Station	12/12/95	\$ 57,350
3	242	Sold	Mayo Hospital	01/03/96	\$ 12,320,000
4	23	Sold	Residential	02/27/96	\$ 1,416,000
5	24	Sold	Middle School	02/27/96	\$ 1,654,040
6	62	Sold	High School	02/10/98	\$ 2,965,000
7	91	Leased	American Express	11/13/00	\$ 486,000,000
8	536	Sold	Residential	04/04/01	\$ 52,900,000
9	50	Sold	Multi-family	06/24/03	\$ 24,102,500
10	189	Sold	Residential	03/30/04	\$ 49,300,000
11	279	Sold	Residential	05/12/04	\$ 100,500,00
12	41	Sold	Residential	05/27/04	\$ 32,00,000



Parcel 7: American Express

PARCEL 9

156 bids were placed by nine different multi-family residential developers in FY03 on a 49.78 acre parcel in the Desert Ridge planned community. The appraised value of \$12,346,500 was bid up by 95% with the final bid price of \$24,102,500.

cast throughout the United States. The auction was seen by approximately 1000 interested viewers. This was the Department's first attempt at web-casting one of their public auctions and proved to be successful. The Department will continue to web-cast major auctions in the future.

The Section negotiated and finalized five partial patents generating a total revenue of approximately \$31 million.

The Section contracted with an independent marketing consultant/graphic designer to create and produce updated marketing/advertising materials to promote State Trust lands targeted by the Department for disposition over the next few years. Marketing packets were created providing due diligence materials, site and topographical maps, auction notices, broker information and sample contracts for 12 major parcels offered at public auction in FY 2004. The Section also contracted with a graphic sign company to design, produce and install 4' x 8' advertising signs on State Trust lands that are offered for sale or lease throughout the metro Phoenix area.

Various reports were prepared during the fiscal year for both internal and external use by the Department. The Section continues to gather and disseminate information and statistics to be used by the Department for various projects.

DIVISION ACCOMPLISHMENTS

- Land sales principal generated over

\$138.3 million for the Permanent Fund, an 89% increase over FY 2003. Expendable revenues were generated in the amount of \$25.0 million from land sales interest, a 32% increase over FY 2003. Combined with commercial leasing and rights-of-way revenues, approximately \$44.2 million in expendable revenues went directly to the beneficiaries.

- Land sales totaled \$310,647,731, an increase of approximately 116% over the appraised value of the lands.

- Of the 24 land sales held in this fiscal year, 13 were sold on terms at an average interest rate of 9.86% for an average term of seven years.

- The Department paid approximately \$3.5 million in broker's commissions in FY 2004.

- Applicants are now responsible for submitting due diligence packages for land sales and long term leases, and for paying the actual cost for an appraisal on proposed land sales, long term leases and rights-of-ways.

- Successful bidders are given an opportunity to select from different scenarios regarding interest rates at the time of auction.

- Quarterly installments rather than annual installments are now required on all term sales and interest is compounded daily rather than annually.

- Creation of new marketing materials for the sales and commercial leasing program.

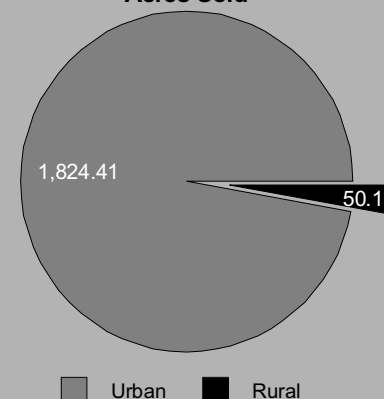
Division Highlights

REAL ESTATE DIVISION

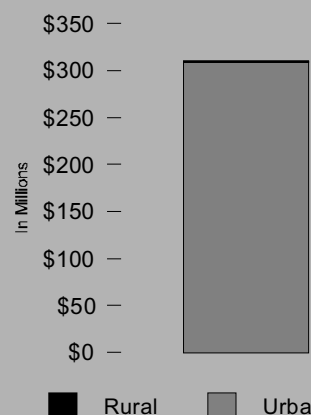
FACTS AND FIGURES LAND SOLD FY 2004

	ACRES SOLD	TOTAL SALES PRICE	AVERAGE PRICE PER ACRE
Urban	1,824.41	\$309,940,931	\$169,886
Rural	50.11	\$706,800	\$14,105
Total	1,874.52	\$310,647,731	

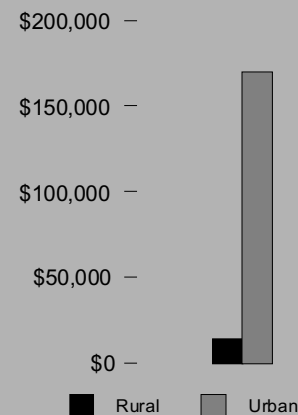
Acres Sold



Total Sales Price



AVG Price Per Acre



Division Highlights

ASSET MANAGEMENT DIVISION

...developing conceptual plans, providing master planning, appraisals, and engineering for the Trust .

Division Director
Ron Ruziska

Section Managers

Stan Toal, Appraisal
Gordon Taylor, Planning
Ott Chatupron, Engineering



Ron Ruziska

The Asset Management Division oversees the Department's planning, engineering and appraisal activities. Each section contributes to the Agency mission and plays vital roles in assessing the Trust's real estate assets for current and future land dispositions.

APPRAISAL SECTION

The Appraisal Section's active workload during the fiscal year 2004 was 732 appraisal requests. The Section, through the performance of staff appraisers and procurement of independent contract fee appraisers, completed 644 appraisal assignments. Each appraisal required an administrative or technical review. The appraisals and reviews were prepared for use by the State Land Commissioner in setting values and reaching agreements on Land Department transactions. In an effort to improve the efficiency, oversight, and reporting requirements, the Appraisal Section began implementing new internal reporting, review, and appraisal approval procedures during the fiscal year. The Section continued to strive to meet the challenges from under staffing to provide a wide range of advisory, technical support, specific appraisal and administrative services to the Commissioner, Department, and Trust beneficiaries.

PLANNING SECTION

The Planning Section completed drafts of conceptual plans in Bullhead City, Lake Havasu City, Goodyear, Deer Valley Airport Area (Phoenix) and Desert Hills/Cave Creek/Carefree. These conceptual plans continue the series of plans assessing the

allocation of land uses on the Trust's urban lands which began in FY 2000.

Since 1999, the Planning Section has managed the completion of conceptual plans for 433,885 acres of urban State Trust land.

The Section also assisted the Maricopa Association of Governments in its preliminary assessment of land uses and transportation systems in the Southwest Valley and northeastern Pinal County. The Planning Section continued its efforts to critique general plan updates throughout the State, providing committee assistance to Goodyear, Tucson, Santa Cruz County, Davis Monthan Air Force Base and Luke Air Force Base Auxillary Field I. The Section also processed general plan amendments for Trust lands in Surprise and amended zoning for two commercial properties, one in Peoria and one in Scottsdale.

Now that conceptual plans have been completed for almost all of the major cities in the state, the Planning Section will continue its efforts to integrate these draft conceptual plans into local general plans. Building on this successful program, efforts during the coming year will focus on local general plan growth areas with an emphasis towards a more detailed asset management approach.

Over the past year, the Planning Section, together with the Engineering Section, completed the disposition plan for 2005 and completed the Draft Five Year Plan for the Agency as mandated by Growing Smarter. When completed, this plan will provide a logical program for its Planning and Engineer-

ing sections as well as a disposition plan for sales and leasing.

In addition to these activities, the Department completed several zoning amendments to the Desert Ridge, Paradise Ridge, Grayhawk and Core South master-planned communities. These zoning amendments bring the plans into compliance with the respective community's general plans. The Planning Section continues to process general plan and minor plan amendments as needed in Desert Ridge, Stetson Hills and in the City of Scottsdale.

ENGINEERING SECTION

The Engineering Section provided the technical support that enabled the State Land Department to break a number of land sales records at public auctions held in March and May, 2004. In March, 189 acres in Desert Ridge, Phoenix, sold for \$49.3 million; in May 276 acres in Desert Ridge sold for \$100.5 million, 41 acres in Desert Ridge sold for \$32.0 million and 365 acres in Camino A lago, Peoria, sold for \$56.2 million dollars. The engineering support in preparing these parcels for disposition was crucial to each sale. Proceeds were delivered to the beneficiaries of the Trust, primarily the Arizona Common Schools K-12.

The Section continues to direct the master drainage work for the Paradise Ridge Project (located north of the Central Arizona Project Canal, west of Scottsdale Road, east of 64th Street and south of Pinnacle Peak Road), U.S. Army Corps of Engineers 401/404 permits will assist in future dispositions of parcels in this project area. The

Engineering Section is also providing technical review for on-going flood control work being performed by the Flood Control Districts of Maricopa and Pima Counties which impact Trust land.

The Section continues to assist the Natural Resources Division in the following ways: the Minerals Section with sand and gravel issues, the Grazing and Agriculture Sections with drainage and reservoir issues; respond to local government and public requests to solve drainage and flood problems on Trust land, and assist the Environmental and Trespass Section with trespass cases involving drainage and engineering.

Streambeds: Under the Streambed

Navigability Program, all major and minor water courses under former legislative bills have been completed. Revision of these study reports will be undertaken by the section under Senate Bill 1275. In addition, public hearings are in progress for the 22 major watercourses and the small and minor watercourses in the 15 counties which will determine navigability.

DIVISION ACCOMPLISHMENTS

All appraisals for the Department are processed through the Division's Appraisal Section. Last year the Section completed 644 appraisals while reviewing an additional 59 appraisal reports. With record low interest rates the number of applications requiring review is

increasing, increasing the work load of the Appraisal staff.

Planning maintains an active presence throughout the state focusing much of its staff time to immediate issues within Maricopa, Pima and Pinal counties. The Section completed planning for Bullhead City, Lake Havasu City, Goodyear, Deer Valley Airport and Carefree/Cave Creek. In addition to these accomplishments, the Planning section completed the final draft of the Five Year Plan as mandated by Growing Smarter. Finally, the Section completed major plan amendments for Desert Ridge, Paradise Ridge, Grayhawk and Core South and continues to broker annexation agreements with communities seeking Trust land annexation.

Engineering continues to concentrate on pre-disposition issues such as drainage and infrastructure. Last year the Section was able to complete the 404/401 permitting process for Core North and Core South. This final approval completes the 404/401 planning process for a block of Trust land totaling 10,000 acres between Cave Creek Road and Bell Road along the 101 Freeway in Phoenix and Scottsdale. In addition, the Section continues to identify navigable water courses under Senate Bill 1275.

With more urban land positioned in the path of development, there will be an increased focus on Trust land to satisfy the demand for new development. This will increase the demands on staff to meter land in order to keep up the market demand for land. This increase will create new challenges in the management of these lands.

FUTURE GOALS

- Continue to offer, at public auction, Trust lands for conservation purposes under the Arizona Preserve Initiative Program.
- Continue to produce appraisals and consulting services in a timely manner.
- Coordinate the planning and siting of power lines in developing areas earlier in the process to ensure Trust lands are not being adversely affected.
- Coordinate and integrate all State planning and engineering issues with city/town general plans and county comprehensive plans.
- Continue the preparation of conceptual plans for Urban Trust lands as mandated by Growing Smarter.
- Continue working with communities on annexation issues and safeguarding the interest of the Trust.
- Continue working on the Agency's Five Year Plan.
- Continue to work with communities on General Plan issues and zoning issues to protect the long-term interest of the land as well as to enhance the market utility of the land.
- Continue to focus on the planning, engineering, and development of Trust lands that will lead to profitable disposition strategies for higher-quality and higher-revenue-producing sales and leases.
- Coordinate with the Maricopa County Flood Control District and the cities of Phoenix and Scottsdale for a regional solution to the drainage problems in the northern Maricopa County area.

Division Highlights

ASSET MANAGEMENT DIVISION

PLANNING

Completed Conceptual Plans for:

- Bullhead City
- Lake Havasu City
- Goodyear
- Deer Valley Airport Area (Phoenix)
- Desert Hills – Cave Creek/Carefree Other Projects
- Draft 5-Year Disposition Plan
- 2005 Disposition Plan
- Davis Monthan Air Force Base Joint Land-Use Study
- Luke Air Force Base Auxillary Field I Joint Land Use study

Participated in:

- MAG continuing issues
- SE/Maricopa/Pinal Transportation Committees
- Gateway and Desert View Village Planning Committees
- State Trust Land Reform Committee
- Maricopa Flood Control District Easement Issue
- Selection Board Coordination
- Houghton Road Master Plan
- U.S. 60 bypass Study
- Meridian Rd. Corridor Study
- Williams Gateway extension study
- City of Phoenix Edge Ordinance adoption

ENGINEERING

- Under Senate Bill 1275, provided technical evidence for the determination of navigability of watercourses in the State.
- Continued to provide technical and expert witness services for litigation cases.
- Assisted in the disposition of urban land in Camino a Lago (Peoria), Desert Ridge, and other areas in the state by providing infrastructure assessments.
- Completed the 401/404 permit process for Core North and Core South.

Division Highlights

BOARD OF APPEALS

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 Board meets once a month unless special circumstances warrant additional sessions. Meetings are usually held in Phoenix. This fiscal year the Board held one meeting in Tucson.

During the fiscal year, the Board approved 51 commercial leases, including seven long-term leases, three for 75 years, one for 65 years, one for 25 years, one for 20 years, and one for 15 years; 100 rights-of-way sale appraisals; and 24 land sale appraisals, eight of which were urban land sales.

Fourteen new appeals were filed with the Board, with six pending appeals carried forward. Three appeals modified the Commissioner's decision. Seven appeals sustained the Commissioner's decision. Eight appeals were withdrawn and dismissed by the Board. Presently, two appeals are pending.

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 is divided into three districts. Two members hold positions-at-large. The Board members are as follows:

- Sanders K. Solot, Tucson, represents the First District, consisting of Pima, Santa Cruz, Cochise, Graham, and Greenlee counties.
- 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 Dance, Phoenix, and Kathleen M. Holmes, Phoenix, are members-at-large.



Pictured left to right, Norman R. Brown (Vice Chairperson), Kathleen M. Holmes, William R. Gray (Chairperson), Jolene U. Dance, and Sanders K. Solot.

Division Highlights

NATURAL RESOURCES DIVISION

...administers all natural resource-related leases, Natural Resource Conservation Districts, and any natural resource issue that affects State Trust land.

Division Director
Bill Dowdle

Section Managers

Jody Latimer, NRC
Stephen Williams, Range
Cynthia Stefanovic,
Water Rights & Agriculture
Chuck Hudson, Environmental
Mike Rice, Minerals
Ron Romatzke,
Community Forestry



Bill Dowdle

Leasing categories in the Natural Resources Division include grazing, agriculture, mineral, mineral material, exploration, and apiary. Other areas of natural resource administration include water sales, mineral material sales, water rights administration, trespass, recreational permits, environmental contamination, and cultural resources. The following six sections manage the Division's programs.

RANGE SECTION

The Range Section administers 1,279 grazing leases covering more than 8.4 million acres and manages State Trust range land. Duties include: develop-



Personnel in the Range Section and Water Rights Management Section ensure the long-term viability of State grazing lands and water rights.

ing coordinated management plans; monitoring range land; reviewing land treatment and range improvement projects; ensuring that appropriate laws, rules, and guidelines are followed when range improvements affect protected plants, archaeological resources, and sensitive wildlife species habitat; processing all grazing-related applications for new leases, renewals, and assignments; preparing billings for grazing rentals and sublease surcharges; and reviewing conflicting grazing lease applications.

WATER RIGHTS & AGRICULTURE SECTION

The Water Rights & Agriculture Section experienced another dynamic year. The continuing drought conditions presented further challenges to the Section. The activities of the Section are: The Agricultural Leasing program administers 415 leases covering 176,938 acres and 39 apiary permits on 439 sites. The Water Rights program continues the management of the following: surface water rights (including applications, permits, certificates, and registrations), grandfathered groundwater rights, wells, a Central Arizona Project (CAP) allocation of 32,076 acre-feet, and an irrigation Colorado River contract for State Trust lands. Additional Water Rights program responsibilities include: assessing water charges on leases; facilitating public auction water sales; administration of water reporting for Colorado River contracts; and managing the Trust's CAP water allocation. The Section conducts site investigations for the following purposes: leases/permits, improvements, new uses, safety, trespass, location verifications, etc.

NATURAL RESOURCE CONSERVATION SECTION

The Natural Resource Conservation Section continues to support 32 Natural Resource Conservation Districts (NRCs) which are political subdivisions of the State and administratively linked to the Land Department. More than 200 supervisors and advisors ad-

dress natural resource conservation and environmental education in their respective districts, covering over 85% of the State and serving more than 5,000 cooperators.

MINERALS SECTION

The Minerals Section administers five distinct statewide leasing programs, one of which involves severed mineral estates. During the last fiscal year, the continued rise in copper and gold prices spurred significant increases in exploration on State Trust lands. As a result, 99,822 acres of land were permitted for exploration generating \$161,468 in rent, the highest total in nearly a decade. Of special note is the Resolution Copper deposit just east of Superior, which is estimated to contain over 1 billion tons of high grade ore approximately 7,000 feet



Reclaimed Drill Site - Union Pass Gold District

below the surface. The exact boundaries of the deposit are not defined, but it appears the southern portion may extend onto State Trust land. Exploration permits covering over 11,000 acres of State Trust land were issued for the area.

As a result of continued growth in the major urban centers and increased

Division Highlights

NATURAL RESOURCES DIVISION

FACTS AND FIGURES

FY 2004

	ACRES	NUMBER OF LEASES
Agriculture*	176,938	415
Mineral Material	2,805	26
Grazing	8,389,309	1,279
Exploration Permits	99,822	241
Mineral	11,268	126
Oil & Gas	382,127	228

NUMBER OF REGISTRATIONS AND WATER RIGHTS CLAIMS

Stockpond Registrations	4,308
Certificated Surface Water Rights	104
Well Registrations	2,683
Adjudication Statements of Claimant	7,026
Water Right Registrations	7,405
Grandfathered Groundwater Rights	242

*Includes Agricultural Use Permits

demand for aggregate resources, revenues from the production of sand and gravel on State Trust land have increased 30% from last fiscal year. Generating \$3.8 million in rent and royalty, the program eclipsed last fiscal year's record of \$2.9 million and set a new high for the Mineral Materials leasing program. The sustained growth in this leasing program is expected to continue in tandem with the overall real estate market.

ENVIRONMENTAL RESOURCES AND TRESPASS SECTION

The Environmental Resources and Trespass Section manages five areas of responsibility:

Trespass — Investigates and resolves unauthorized and illegal use of State Trust land, and manages the Land Maintenance Fund for clean-up and protection projects.

Environmental Contamination Prevention and Remediation — Provides oversight and manages remediation projects.

Cultural Resources Management — Coordinates interagency review of proposed revenue-producing Trust land use to ensure compliance with the State Historic Preservation Act.

Recreational Permits — Encompasses off-highway vehicle management and recreational permitting. The primary goal is to conserve the land asset while providing opportunities for recreational pursuits.

Dust Abatement — Manages fugitive dust problems on Trust land from unpaved roads and parking lots and from vehicle use in open spaces.

COMMUNITY FORESTRY SECTION

Community Forestry Program activities resulted in 14 communities in Arizona designated as Tree City, USA, communities. Two utility companies were awarded the Tree Line USA award. The Community Challenge Grant program awarded \$110,000 to 14 organizations to promote and enhance community forestry. The Arizona Community Tree Council's Trees for the Rim program was given an international award for its program assisting private property owner recovering from the Rodeo-Chediski Fire of 2001. The educational training classes held by the Urban and Community Forestry Program trained 1,475 people in Tree Care and Arboriculture. The elementary poster contest, which was the edu-

cational component of Arbor Day 2004, included 763 participating students from 30 schools.

DIVISION ACCOMPLISHMENTS

- Produced revenues of \$10.5 million.
- Participated in the development of coordinated resource management plans, monitored existing plans, and produced over \$2 million in revenue from grazing leases.
- Field inspected all 415 agriculture leases and resolved nine compliance problems, which generated \$63,344 in additional rental revenue. Lease revenue totaled \$3.6 million.
- Field inspected 439 apiary sites on 39 permits plus two compliance problems.

FUTURE GOALS

- Encourage lessee stewardship of State Trust range land through coordinated planning activities.
- Encourage competition in the grazing lease program through annual advertisement of expiring leases.
- Develop and implement a strategic plan for the sustainable development of mineral wealth.
- Execute a Domestic Use Colorado River contract with the Bureau of Reclamation, and continue negotiations on a Colorado River contract for the lands on the California portion of the Yuma Island.
- Continue to participate in cooperative efforts with other public agencies, special interest groups and lessees to promote programs that will enhance and protect Trust land values.
- Continue to seek and develop partnerships with local and State groups to deal with increasing incidents of dumping and trespass to accomplish cleanups, build and repair fences and generally deal with management efforts otherwise impossible due to staff reductions and lower budgets.
- Seek funding to support local law enforcement agencies in protection and enforcement on Trust properties through training and hiring off duty officers.
- Promote and enhance Community Forestry throughout the State of Arizona by increasing the number of Tree City USA communities to 20 from 14 and educate and train an additional 50 Arborists in 2005.

Permit revenue totaled \$21,950.

- Conducted 76 water resource evaluations for land applications (land purchases/leases); reviewed 53 improvement applications. Completed 154 site investigations related to wells/water facilities, 38 corrections to existing water filings; six wells were capped/abandoned by lessees, two wells were capped by ASLD, four water rights were assigned, and 23 new water filings were submitted.

- Completed 16 dam safety field investigations for regulatory structures on State Trust land. Negotiated and executed an Intergovernmental Agreement with Yavapai County to contract for a study to examine the options related to an ongoing Dam Safety project at Wineglass Ranch Dam near Paulden.



The Agricultural Leasing Program manages over 400 state agricultural leases.

- Reduced outstanding CAP irrigation district assessment delinquencies by \$6,040 and collected \$6,539 in reimbursements to the Arizona Federal Reclamation Trust Fund.

- Completed the fourth stage of the multi-stage analysis of State Trust lands to support the State's claims for Federal reserved water rights.

- Participated in 55 Natural Resource Conservation District-related meetings. Provided staff support to the Arizona Association of Conservation Districts and Natural Resources Conservation Service.

- Reviewed and commented on approximately 25 rights-of-way applications involving extensive amounts of vegetation or other unique situations for native plant and ecological impacts, assessing fees for Natural Products removed.

- Coordinated elections for 32 NRCDs.

- Participated in Coordinated Weed Management Area meetings.

- Administered 537 exploration, mining, oil, and gas leases, producing a total of \$3.6 million. In addition to lease revenues, indirect income in the amount of \$302,000 was generated from mining-related land uses.

- Through 31 clean-up projects, utilizing over 2,322 hours of volunteer time, Section staff coordinated the removal of 131 tons of trash, 462 tires, and 83 abandoned vehicles. Over 1,405 hours of archaeological site monitoring were contributed by Site Steward volunteers. Staff reviewed 504 land use and disposition actions for cultural resource issues; finalized remediation of six hazardous materials sites; and issued over 7,000 individual, family, and group recreation permits.

- Established the Desert Wells Multi-Use Management Area on 87,106 acres in northern Pinal county in co-operation with 13 other State and lo-

cal agencies, user groups and lessees, to protect Trust land values.

- Entered into agreements with other agencies to share resources to maximize value to Trust interests and the public in general. Examples include Site Stewards to monitor archaeological sites (State Parks); control and closure of unauthorized roads (Arizona Game and Fish, US Border Patrol and US Dept. of Homeland Security); inventory and sign roads and trails, and print access guides (BLM).

- Investigated several major trespass situations such as mineral materials and boulder theft which resulted in felony convictions, fines and restitution in excess of \$245,000, settlement of a 1979 road trespass after a long bout of court actions, and addressed countless minor infractions and public concerns regarding use of Trust land.

- Participation in the development and presentation of programs and training to enhance the ability of State law enforcement officers, prosecutors and court staff regarding cultural resource crimes has resulted in increased awareness and legal actions initiated.

- Five communities and seven organizations were awarded 14 grants totaling \$90,000 and 4,700 individuals attended Certified Arborist training and tree care clinics as a result of Community Forestry Program activities. Arbor Day 2004 was celebrated throughout the State of Arizona. The educational component of Arbor Day was the elementary school poster contest, which included 763 participating students from 30 schools.

Division Highlights

NATURAL RESOURCES DIVISION

NATURAL RESOURCES DIVISION REVENUE PRODUCTION

Lease Rentals

Agriculture	\$3,630,219
Mineral Material	\$169,287
Grazing	\$2,168,628
Exploration Permits	\$161,468
Geothermal	\$0
Mineral	\$4,517
Oil & Gas	\$482,648

TOTAL	\$6,616,767
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Sale of Products

Public Auction	
Water Sales	\$312,600
Lease Water Charges	\$126,566
Mineral Royalties	\$89,296
Natural Products	\$3,629,474
TOTAL	\$4,157,936

Trespass Revenues

Direct Revenue	\$100,481
Secondary-Lease Revenue	\$183,364

TOTAL	\$283,845
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GRAND TOTAL	\$11,058,548
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Division Highlights

LAND INFORMATION, TITLE, AND TRANSFER DIVISION

...ensuring the integrity and quality of the State's land ownership, public relations, communication, and public records as well as the coordination of applications and preparation of contracts associated with the surface use of the State's 9.3 million acres of Trust land.

Division Director

Richard Oxford

Section Managers

Terry Arce, Title & Contracts
Rozanna Sedillo, Administrative
Procedures & Information
Lillian Moodey,
Land Conservation & Transfer



Richard Oxford

TITLE AND CONTRACTS SECTION (T&C)

The Title & Contracts Section functions, in part, as a "Title Company" for State owned Trust lands. In that role, T&C is accountable for accurate Trust land title records reflecting acquisition, surface use and disposition of the State's 9.3 million acres of Trust land. T&C provides extensive research data and prepares land use and title reports for all legal actions, special projects and leasing and sales of Trust lands.

T&C develops, processes and docket all surface lease, sale, or use applications as well as prepares drafts and revises all surface lease, permit, and rights-of-way documents, ensuring compliance with laws, rules and guidelines of the Land Department. The Section processed 1,667 new applications and finalized 1,625 pending applications involving 4.8 million acres of land. In addition, the Section updated the title records to 8 million acres.

T&C prepared and issued 15 patents totaling 1,069.61 acres from cash sales, 3 partial patents totaling 279.32 acres, 9 certificates of purchase totaling 1,237.35 acres and an additional 16 patents from existing term sales totaling 812.14 acres.

T&C continuously works to update millions of land title and land use records for the State's 9.3 million Trust acres that have accumulated since prior to statehood (1912). As each generation of management passed through the Department, the evolution

of record maintenance reflected the record keeping methods available at the time, i.e. handwritten ledgers or "tract books," typed records, early "electronic key punched" records and, since 1990, computerized records. The staff continues to consolidate the menagerie of some 90 years of land title and use record keeping methods into a single source computerized system. The updated computer records will provide a single point source location of millions of data

records for public and staff use.

ADMINISTRATIVE PROCEDURES & INFORMATION SECTION (APIS)

The Administrative Procedures & Information Section (APIS) is comprised of three specific areas: Administrative Procedures, Public Records, and the Cadastral and Survey Unit.

Administrative Procedures is responsible for the 1) coordination and tracking of administrative hearings and litigation issues with the State's Office

STATE TRUST LAND USES

	NO. OF LEASES	% OF LEASES	TOTAL ACREAGE	% OF ACREAGE
SURFACE				
Rights-of-Way	6,974	71.62	133,612	1.47
Grazing	1,279	13.14	8,389,309	92.42
Commercial	314	3.22	80,044	0.88
Commercial				
School Leases	8	0.08	714	0.01
Agriculture	415	4.26	176,938	1.95
Use Permits	516	5.30	239,712	2.64
U.S. Government	158	1.62	18,274	0.20
Homesite	12	0.12	66	0.00
Institutional	10	0.10	12,892	0.14
Public Education	0	0.00	0	0.00
Recreational	51	0.52	26,064	0.29
Subtotal (Leases)	9,737	100.00	9,077,623	100.00
SUBSURFACE				
Mineral	126	20.29	11,268	2.27
Mineral Exploration	241	38.81	99,822	20.12
Mineral Material	26	4.19	2,805	0.57
Oil & Gas	228	36.71	382,127	77.04
U.S. Government	0	0.00	0	0.00
Subtotal (Leases)	621	100.00	496,022	100.00
TOTAL LEASES	10,358		9,573,645	

of Administrative Hearings and the Attorney General's Office; 2) coordination and tracking of Commissioner's Decisions and Orders; and 3) administrative staff support for the Board of Appeals.

This fiscal year, APIS addressed 19 new administrative issues pending before the Department. Four issues were appealable agency actions under the State's Office of Administration Hearing criteria. APIS was able to resolve three of the four appeals through formal or administrative settlement conferences. Two appealable agency actions carried over from last year, and one was resolved via a settlement conference. Seven administrative issues were resolved administratively and APIS

continues working towards resolution of the remaining seven. During this fiscal year, APIS coordinated the Department's response with the State's Attorney General's Office and courts of law on 15 major litigation actions involving the Department.

Administrative Procedures is also responsible for the coordination of Board of Appeals issues. The Board, a public entity consisting of 5 members appointed by the Governor, reviews all appraisal and reclassification issues before the Department. All land sales and commercial leases are reviewed and approved by the Board. Anyone adversely affected by a State Land Commissioner's decision, with regard to appraisal or classification issues, may file an appeal with the Board. At

the Board's monthly meeting the appellant is provided an opportunity to present testimony and evidence supporting their appeal. Fourteen appeals were filed with the Board this fiscal year.

The Public Records area is the Department's records research center. The primary role of Public Records is to conduct and instruct both the public and Department staff in land title research procedures and the interpretation of title records, both physical and computerized. Public Records provides expert assistance to approximately 4,500 customers a year and receives about 10,000 phone inquiries. A substantial amount of time is spent in customer assistance and the issuance of recreational use permits. This fiscal year over 6,000 recreational use permits were issued.

The Department strives to continuously improve service to its customers. The primary objectives of the Department's customer service program is to provide excellent professional, administrative and technical service, educate the customer, define issues, resolve problems, and maintain open, continuous and effective communication benefiting both the customer and the Department.

The Department continues to monitor its customer service program through the use of surveys. The survey requests the customer to rate the agency within ten categories that addresses the Department's professional, administrative and technical assistance on a scale of 1

FUTURE GOALS

- Continue the enhancement of current and historical land acquisition and disposition records to provide our customers and staff clarity in which to gather needed land use and ownership information.
- Continue consolidation of historical land records into a single point source to aid in research.
- Continue to develop and implement innovative methods to improve customer service and employee satisfaction.
- Continue to evaluate and administer the conservation potential of qualified parcels of State Trust land for open space to benefit future generations, without compromising the benefits to the Trust beneficiaries.
- Continue to reduce the number of hearings conducted by the Office of Administrative Hearings through the use of settlement conferences.
- Complete the Congressionally approved federal land condemnation of 1,536 surface acres and 14,200 subsurface acres within Fort Huachuca Military Reservation.

Division Highlights

LAND INFORMATION, TITLE,
AND TRANSFER DIVISION

DIVISION

FACTS AND FIGURES

The State Land Department manages 9.3 million surface acres of Trust land and 9.0 million acres of subsurface or mineral estate.

9,077,623 acres of the surface is under 9,737 leases and other contracts.

496,022 acres of the subsurface is under 621 leases and other contracts.

Thirty-three API petitions to reclassify 120,032 acres of trust land as suitable for conservation purposes have been filed with the department.

Over 42,511 acres of state trust land covered in eighteen API petitions have been reclassified as suitable for conservation purposes.

Over \$39,944,200 have been added to the permanent Trust fund through the sale of 2,331 acres that have been reclassified as suitable for conservation purposes under the API program.

Division Highlights

LAND INFORMATION, TITLE, AND TRANSFER DIVISION

The Division is responsible for a variety of administrative land management functions, including:

Land title, ownership, and use of 9.3 million acres

Coordination of processing applications and preparation of contracts for lease and use of Trust surface lands

Maintains public records and land database information on 10,358 active contracts

Land surveys, plat maps, and legal descriptions of land

Processing Federal land condemnations

Coordination of administrative hearings, Board of Appeal meetings, appeals, and litigation issues

Coordinates and processes API petitions and land conservation issues

Promulgation of rules and policy development.

(lowest) through 5 (highest). A three year analysis (FY 02, 03, 04) of returned surveys indicated that 86% of the Department's external customers rated the Department's professional, administrative and technical assistance at the high end of the rating scale (4 or better).

CADASTRAL AND SURVEY UNIT

The Cadastral and Survey Unit is a fully computerized land mapping and survey unit. Cadastral is responsible for maintaining the Department's Parcel and Land Mapping System (PALMS) State land database which, in map form, displays the current status and availability of State Trust lands. OASIS (Oracle Arizona State Information System) is the Department's computerized text information system. The Unit is responsible for insuring consistency in the PALMS (mapping) and OASIS (text) databases which allow the 9.3 million Trust acres to be leased under 10,000 contracts without overlapping or conflicting acreage. This fiscal year, the Unit reviewed, verified, or prepared land legal descriptions for 1,465 applications, resolved approximately 1,500 land legal description issues and plotted 1,200 new parcels involving approximately one million acres.

The Unit also provided computerized mapping services for the Department which included several on-going land use and planning projects or litigation issues. The Unit produced numerous sales and lease composite maps of important commercial development projects including the Valencia-

Houghton Road Planning Project in Pima County, and Desert Ridge, Paradise Ridge, Core North, and Core South in Maricopa County. In addition, the Unit produced and maintained numerous maps assisting in the location of rights-of-ways, Colorado River sovereign land, and locating historic land use areas as well as special land management mapping projects.

LAND CONSERVATION AND TRANSFER SECTION

The Land Conservation and Transfer Section administers the Arizona Preserve Initiative (API) Program, the Sovereign Lands Management Program, and State-Federal Land Management Programs, including Congressionally approved land condemnations.

API became law in 1996. The law provides a process by which urban Trust land that meets specific criteria can be petitioned for reclassification as suitable for conservation, and subsequently leased for up to 50 years or sold for conservation purposes at public auction. In 1998, the voters passed Proposition 303, which included a matching grant program created under the auspices of the State Parks Board for the acquisition of urban State Trust lands for conservation.

Sovereign land is land that is owned by the State but is not part of the Trust land granted to Arizona at Statehood. The Trust obligations contained in the Arizona Constitution have no direct relationship to the management of

sovereign lands. This Section is responsible for three of the four types of sovereign lands: 169 acres of Federal Emergency Management Administration (FEMA) lands, 24 acres of land from other State agencies, and 82 acres of escheat (deeded) lands.

DIVISION ACCOMPLISHMENTS

Streamlined processing procedures for Recreational Use Permits.

Processed 1,667 new applications and finalized 1,625 pending applications for lease, sale or use of Trust land.

Issued 31 patents to 2,161 acres of State land and nine Certificates of Purchase on 1,237 acres of State land.

Reclassified 4,544 acres of State Trust land as suitable for conservation purposes, bringing the total to 42,511 acres that have been totally or partially reclassified.

An extensive analysis of the Department's employee satisfaction surveys provided the Division Directors and Section Managers tools by which to improve management-staff communications and create an atmosphere conducive to employee recognition.

Successfully completed the research and input of federal rights-of-way on State Trust land.

Completed a review of 61 Departmental rules, eliminating 12 as no longer necessary. Amended the Department's Real Estate Broker Rule which allows the Commissioner to pay a commission on certain real estate transactions involving State land.

Division Highlights

ADMINISTRATION AND RESOURCE ANALYSIS DIVISION

...responsible for the administrative functions of the Department, including the computer information systems.

Division Director

Lynn Larson

Section Managers

Gary Irish, Geographic Information Systems
Bill Reed, Information Technology
Eugene Trobia, State Cartographer's Office
Roy Myhlhousen, Forestry/Fire Fiscal
Keith Fallstrom, Budget and Accounting



Lynn Larson

The Administration and Resource Analysis Division is responsible for the administrative functions of the Department. The Division is also responsible for managing the Department's computerized business and administrative systems, managing Geographic Information Systems (GIS) systems, and administering the Arizona Land Resource Information System (ALRIS) and the State Cartographer's Office (SCO).

The business and administrative systems are designed to provide automated capabilities for processing data related to ownership, title, sales, and lease transactions, as well as financial operations and internal accounting for the Department.

The ALRIS Program was established by the Legislature to provide a GIS service center for government agencies in Arizona. ALRIS maintains a GIS facility, creates and maintains data layers, provides training, transfers data, and provides technical assistance.

The SCO was created by the Legislature to provide the framework for a coordinated development of GIS technology in Arizona through the development of standards, facilitation of cooperative efforts, and improvement of access to geo-spatial databases.

ALRIS and the SCO work closely with the Arizona Geographic Information Council (AGIC) and provide it with technical support. The AGIC is a multi-agency, multi-government council responsible for determining areas of standardization and facilitating coop-

erative data and system development for GIS.

DIVISION ACCOMPLISHMENTS

The Division experienced an extremely busy year and has several notable accomplishments in both the fiscal and computer systems areas.

BUDGET & ACCOUNTING SECTION

The Department received a clean financial audit for the seventh consecutive year. This is a significant accomplishment given the complexity of the Department's financial structure and the fact that over \$212 million in revenue from leases and sales was processed in FY 2004.

FORESTRY/FIRE FISCAL SECTION

The Legislature passed the Forest Health Bill, increased the appropriation and added 14 positions to increase the number of prison crews that are staffed and equipped to work on the Fuels Treatment Program. The Fiscal Section developed mechanisms to track and account for the new program funds.

INFORMATION TECHNOLOGY SECTION (ITS)

The Agency has a totally automated Windows-based business system (OASIS), programmed in Oracle, which is accessed on desktop PCs. Both Department employees and private sector firms, such as title companies, use the system extensively.

The IT Section completed the upgrade of the Agency's infrastructure, servers, network backbone, Oracle databases, PC hardware, and application software. The major benefits of the sys-

tem upgrade include; expanded system capacity to deal with the planned additional GIS databases; the conversion of OASIS (Oracle business system) from client server to the Web; the development and implementation of Internet-based applications; the added functionality of the Oracle Discoverer tool; upgraded PCs and network able to handle the expanded capacity of the GIS applications and data; and the re-programming and conversion of Business System and GIS applications to new versions of Oracle, Arc Info, and Arc View. The conversion to browser-based applications improves service to customers through expanding the information and services available to the public and businesses through the Internet. The Internet applications will also greatly expand the ability of Land Department staff to conduct their field work and provide information to lessees in the field.

The IT Section worked with HRIS staff to successfully incorporate the fire labor distribution system into the new Human Resource Information System(HRIS) pay system. This will eliminate the need for double entry and reconciliation.

The IT Section upgraded its disaster recovery servers and software that are located off-site to be consistent with the upgrades completed on the main system. The disaster system will enable the Department to continue its critical business functions the next day if an emergency occurs. The OASIS business system, all office automation files, and the cadastral databases would all be available on the off-site

Division Highlights

ADMINISTRATION AND RESOURCE ANALYSIS DIVISION

The Department received a clean financial audit for the seventh consecutive year

The Department received the highest readiness ranking by GITA and the Arizona Office of Homeland Security for our Disaster Recovery Plan

The Department has been recognized in two national computer magazines for innovative use of computer technology in the latest system upgrade.

disaster recovery server. In the event that the Department could not access the main office, critical functions such as billing, receiving receipts, work on critical lease and sales projects, auctions, etc. could continue. The Department's plan received the highest readiness ranking by GITA and the Governors Disaster Recovery Office.

The IT Section developed the capability to telecast the agency auctions on the Internet. The first auction telecast was a huge success with over 1,000 viewers. The

marketing benefit from telecasting this \$100 million dollar sale was significant.

STATE CARTOGRAPHER'S OFFICE

The State Cartographers Office (SCO) accomplishments this last year include: completing statewide aerial photo coverage of Arizona in Digital Ortho Quarter Quads (DOQQs) format and providing this product to users on CD and through the web; developing a prototype Arizona Geodata Portal to provide GIS data, information and

applications to the Arizona GIS community; beginning to develop the Geospatial Data Network as part of a State GIS Enterprise in support of State departments and Arizona Homeland Security efforts; conducting a successful annual GIS conference (AGIC GIS Education & Training Symposium) which focused on GIS training; and continuing to provide the Arizona NGS Advisor to assist Arizona counties to improve geodetic control with which to better register land based GIS data.

GEOGRAPHIC INFORMATION SYSTEMS

FUTURE GOALS

- The Forestry/Fire Fiscal Section will review its current program to ensure that adequate accounting controls and procurement procedures are in place. As activity and funding for the Fire program grows, it becomes more important to ensure that the Department is in compliance with all State and Federal laws, regulations, and policies.
- The ITS will continue to implement the system upgrade by converting GIS data; upgrading databases; deploying additional applications; enhancing the internal information portal; implementing Internet applications, including the public counter; and providing training to end users.
- The ITS will complete migration of the office automation software to Word, complete a security audit and implement recommendations, and enhance the marketing of Trust lands by expanding the capability to telecast auctions on the Internet.
- The SCO will enhance the GeoServer web site to include more local survey control data and will continue to pursue the use of web sites as a way to improve access to GIS data for public agencies. The SCO will continue to work with the AGIC Homeland Security Committee to develop the Arizona Geodata Portal, the Arizona Geospatial Data Network and develop framework data layers, such as imagery, street center lines and geodetic control which support state GIS and Homeland Security needs.
- The SCO will work with the Arizona National Geodetic Survey State Advisor, the Arizona Office of the Bureau of Land

Management, county and local surveyors and other interested groups to perform an Arizona Height Modernization (HM) Project. The HM Project will provide high level geodetic control which can be used to greatly improve the accuracy Global Positioning Satellite Systems (GPS) in Arizona and will provide a spatial framework to improve cadastral integration and flood control activities, among others, in the state.

- The GIS Section will continue its development work on a major upgrade of the PALMS application during the coming fiscal year and will initiate the development of an Internet based version of this application. The Section will also continue to provide support for State Trust Land reform work, planning of State Trust lands, as well as other Department efforts during the coming fiscal year. Many of the data sets developed by these projects will then be incorporated into PALMS for widespread access throughout the Department.

- The GIS Section will also continue to maintain important spatial data bases for use by the Department and government agencies throughout the state. During this coming fiscal year major sets of GIS data related to topography and based on enhanced elevation data for Arizona will be developed and made available to GIS users throughout the state.

- In this coming fiscal year the ALRIS program will continue to work on development of a GIS portal to enhance the efficiency and effectiveness in delivering GIS data sets to its customers throughout Arizona.

The Geographic Information Systems (GIS) Section provides GIS products (such as GIS databases, maps, tabular data sets, and GIS software) for assisting Department staff and management with analyzing and managing State Trust lands. The Section also develops and manages PALMS, the Department's enterprise wide GIS system used by staff throughout the Department and it houses the Arizona Land Resources Information System (ALRIS) program which provides GIS support for state and other government agencies throughout Arizona.

This past year the Section undertook a large data conversion and migration job by moving hundreds of thousands of GIS related files from the Department's old computer network infrastructure to a new network infrastructure. Project files and software were modified to insure that GIS applications continued to function properly on the new network system.

As part of the GIS data file migration process the Section also modernized the spatial reference of all GIS data used by the Department by upgrading all GIS data files to the North American Datum of 1983 (HARN - High Accuracy Reference Network). While this work does not increase the spatial accuracy of the GIS data it does place it on the most current datum which makes the data compatible with data obtained from modern Geographic Positioning Systems and places the Department's GIS data on the Datum used by many local governments in Arizona.

During this past year, the GIS Section also completed the development of metadata files for all GIS data library holdings. Metadata is data about data and consists of files which describe the contents of the GIS data sets, spatial reference information and information on the history and maintenance of the data. Because the structure and contents of GIS data bases can be complex, it is important that both internal and external users have access to metadata about GIS data in order for them to use the data appropriately for developing GIS applications and map products.

This past year the GIS Section continued developing a new upgraded version of PALMS that will offer users significantly enhanced map production and data access capabilities. The upgraded PALMS system, along with the new upgraded hardware infrastructure, will greatly increase the usability and system throughput of GIS data for Department users in the coming years.

The Section also continues to provide mapping and analysis support for various Department efforts. This past year the Section provided assistance to the Department staff, State Trust Beneficiaries and other stakeholders across the State by developing GIS data bases and holding interactive mapping sessions to support the development of a draft set of State Trust parcels which might be directly effected by proposed State Trust Land reforms. The interactive sessions, held at the Department, allowed participants to view the proposed

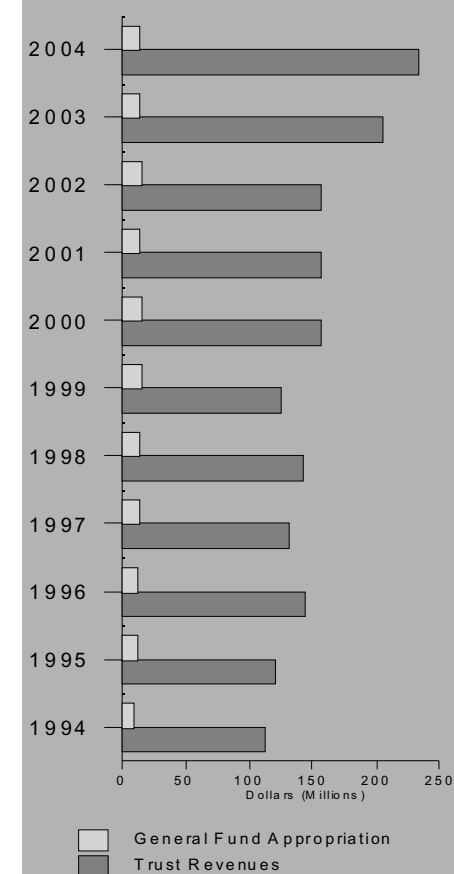
effected parcels in a spatial environment which included, administrative boundaries, slope, flood plain information and numerous other GIS data sets which were important for participants in assessing various State Trust parcels. These sessions played a key role in the Department's ability to assess all of Arizona's State Trust lands in relation to the proposed reform measures.

This past year the ALRIS program continued its data distribution work by distributing 1,110 sets of GIS data from its geo-spatial data library to program customers throughout the State, providing benefits to a variety of public agencies and private organizations throughout Arizona. ALRIS staff also continued to maintain and enhance several of its key geo-spatial databases such as the public lands data base and the city boundaries data base. In conjunction with the State Cartographer's Office ALRIS began working on a GIS data portal, an internet based system to allow increased self service for data customers. The GIS portal will greatly increase customer service by allowing users to download data on their own time schedules and provide them with information on data updates and new data availability.

Division Highlights

ADMINISTRATION AND RESOURCE ANALYSIS DIVISION

GENERAL FUND APPROPRIATION & TRUST REVENUE



Only the Department of Revenue and the Arizona Lottery generate more revenue than the State Land Department.

Division Highlights

FIRE MANAGEMENT DIVISION

...preventing and suppressing wildland fires on 9.3 million acres of State Trust land and 13 million acres of private land.

Division Director

Kirk Rowdabaugh

Section Managers

Dave Behrens, Deer Valley Office
Scott Hunt, Phoenix District
Kevin Boness, Flagstaff District
Brian Lauber, Tucson District
Al Hendricks, Forestry Programs



Kirk Rowdabaugh

The State Forester (the State Land Commissioner) has the authority to prevent and suppress wildland fires on approximately 30 percent of 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 agency responded to 861 fire reports; 444 were State responsibilities and 214 were in support of federal and tribal agencies. Although 98 percent of all Land Department fires were controlled at less than 100 acres, 6,880 acres were burned on State and private lands during the year.

The Department maintains cooperative agreements with more than 200 local and rural fire departments, other State and Federal agencies, and private companies to control wildfires on State and private lands. The U.S. Bureau of Land Management and Fish and Wildlife Service were incorporated into the Land Department dispatch office, making it the first interagency dispatch office in the state. State dispatchers helped train more the 150 dispatchers from all wildland fire management agencies across the state. The Department 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.

The Land Department 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



Summary of Rural Fire and Volunteer Fire Assistances Grants 2001 - 2004

Grant Provided	Year	Number of Projects	Dollars
RFA	2001	33	\$413,526
	2002	37	\$415,000
	2003	33	\$482,000
	2004	42	\$592,000
Total for RFA		145	\$1,902,562
VFA	2001	32	\$265,000
	2002	26	\$300,000
	2003	21	\$298,000
	2004	24	\$300,000
Total for VFA		103	\$1,163,000
Annual Summary	2001	65	\$ 678,526
	2002	63	\$ 715,000
	2003	54	\$ 780,000
	2004	66	\$ 892,000
Four Year Total for RFA & VFA		248	\$3,065,526

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.



The Division refurbished and distributed hand-held radios, as well as eight excess federal fire engines valued at \$489,000, to cooperating rural fire departments. Currently, there are 171 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 \$8,793,000.

SUMMARY OF COMMUNITY ASSISTANCE GRANTS, 2001 - 2004

Grant	Year	Number	Dollars Provided
State Fire Assistance	2001	21	\$ 1,190,500
	2002	38	\$ 2,126,215
	2003	19	\$ 1,458,222
	2004	29	\$ 2,584,532
4 Year SFA Totals		107	\$ 7,359,469
Forest Health Protection	2003	7	\$ 1,089,050
Fire Hazard Abatement	2003	18	\$ 1,995,290
	2004	3	\$ 1,498,324
Annual Summary	2001	21	\$ 1,190,500
	2002	38	\$ 2,126,215
	2003	44	\$ 4,542,562
	2004	32	\$ 4,082,856
4 Year Summary		135	\$11,942,133

SUMMARY OF COMMUNITY ASSISTANCE ACCOMPLISHMENTS 2001 - 2004

Grant	Year	Plans	Pgrms	Firewise Workshops	Fuel Treatments	Acres Treated	Homes Protected
State Fire Assistance	2001	773	126	131	117	4,649	2,281
	2002	57	63	45	12	2,371	845
	2003	19	5	1	2	336	521
	2004	29					
SFA Totals		878	194	177	131	7,356	3,647
Forest Health Protection	2003	7				323	62
Fire Hazard Abatement	2003	20	6	6	7	1,295	729
	2004	3					
Annual Summary	2001	773	126	131	117	4,649	2,281
	2002	57	63	45	12	2,371	845
	2003	46	11	7	9	1,954	1,312
	2004	32		in progress	in progress	in progress	in progress
4 Year Summary		908	200	183	138	8,974	4,438

Division Highlights

FIRE MANAGEMENT DIVISION

Providing fire protection to rural Arizona is becoming increasingly more difficult. Much of Arizona's recent population growth and home building activity have occurred in rural and previously undeveloped areas. Decades of wildland fire suppression and historic land use activities have led to increasing fuel accumulations, allowing fires to burn hotter, faster, further, and more frequently. Wildfires are becoming more expensive to suppress and are a greater risk to the State's natural resources, its citizens, and their property. The Land Department will continue to be proactive and innovative in meeting its ever-increasing wildland fire management responsibilities.



Beneficiary Summary

DETERMINATION OF STATE TRUST LAND LOCATION

METHODS OF ACQUISITION

Arizona has acquired State Trust land in four types of transactions:

1. School Sections in Place: As land surveys were completed by the Federal government, title to four school sections in each township — Sections 2, 16, 32, and 36 — automatically passed to the State.

2. Indemnity in Lieu Selections: When school section lands were not available to the State because they had been previously claimed by homesteaders or miners or because they fell within a Federal reservation for a national forest, park, or Indian reservation, the State was given the right to select an equal acreage of Federal public domain land as indemnity in lieu of the school sections the State should have received.

3. Quantity Grant Selections: The State selected the specified acreage of Federal lands for the County Bonds and each of the individual institutional Trusts.

4. Land Exchanges: After acquiring title to the Trust lands, the State traded some of the lands for other Federal or private lands of equal value in order to relocate and block up Trust land holdings.

The State acquired its School Sections in Place wherever the land surveys placed them. The State chose the lands acquired in the Indemnity in Lieu Selections, Quantity Grant Selections, and Land Exchange processes.

These choices were made by the State Selection Board, which consists of the Governor, State Attorney General, and State Land Commissioner. The Land Commissioner in recent years has been replaced on the Board by the State Treasurer. Most of the selections were made in the 1915-1960 era, with

the selection program being finally completed in 1982. Since the State was precluded by Federal laws from acquiring mineral lands, and since the homesteaders had already acquired most of the potential agricultural lands, the State focused on choosing the best grazing lands. Most of the acreage

Determination of Beneficiaries and Acres

At the time of statehood, Arizona was granted nearly 10.8 million acres to be held in trust for lease and sale to produce revenues for the support of public schools and other public institutions.

An 1881 Act had already granted the Territory of Arizona about 60,000 acres for the University of Arizona Grant.

A 1929 Act authorized an additional 50,000 acres for the Miners' Hospital Grant.

This brought the total Trust grants to over 10.9 million acres. These Trust grants are:

Acres *

Common Schools Grant	8,400,000
University Grant	200,000
Legislative, Executive, & Judicial Building Grant	100,000
Penitentiary Grant	100,000
State Hospital Grant	100,000
School for the Deaf & Blind Grant	100,000
Miners' Hospital for Disabled Miners' Grant	100,000
Normal Schools Grant	200,000
Charitable, Penal, & Reformatory Institutions Grant	200,000
Agricultural & Mechanical Colleges Grant	150,000
School of Mines Grant	150,000
Military Institute Grant	100,000
County Bond Grant	1,000,000
Total	10,900,000

*Approximate

chosen during the 1915-1960 era was in central and southeastern Arizona, and in the checkerboard land area along the railroad across north-central Arizona. As agriculture developed in Arizona, later selections were made in irrigated areas in the Harquahala Valley and the Gila River Valley. The final selections concentrated on commercial and agricultural lands along the Colorado River.

Land exchanges in the 1935-1985 era relocated most of the school section lands out of the western deserts and into areas close to Phoenix and Tucson and into better grazing lands in such areas as western Yavapai County.

LOCATION OF STATE TRUST LAND

Most of Arizona Trust lands are currently usable only for livestock grazing purposes. Fortunately, several hundred thousand acres of these grazing lands have become urban lands as Phoenix, Tucson, and other cities and towns have expanded. The Urban Lands Act, passed in 1981, enabled the Trust to capitalize on the large increase that planning and zoning adds to raw land values. Today the Land Department's urban lands lease and sale program is the largest revenue producer for the Trust.

Nearly all of the most valuable urban Trust lands around the northern border of the Phoenix metropolitan area

and north and west of Tucson are Common Schools Trust lands. The large block of Trust lands on the south and southeast sides of the Tucson metropolitan area is divided amongst the various institutional Trusts. The University of Arizona Trust owns a large amount of timbered land acreage in the Flagstaff area and agricultural lands near Yuma. However, the majority of the acreage in the other individual institutional Trusts are rural grazing lands. Some agricultural potential is located primarily in Cochise County; the Altar Valley of Pima County; the Picacho, Red Rock, Oracle Junction, and Florence areas of Pinal County; the St. Johns and Springerville areas of Apache County; and the checkerboard areas of western Coconino and Yavapai counties.

In the 92 years since statehood, the State has disposed of about 1,644,651 acres of Trust lands. A total of 9,270,580 acres of Trust Land remains. Almost all of the lands are under one or more leases for natural resource uses and commercial development purposes. About 87 percent of the Trust lands are in the Common School Grant and approximately 90 percent of the Trust revenues go to that Grant.

DESCRIPTION OF INDIVIDUAL GRANTS

Descriptions of the Trust lands in the individual institutional grants follow. *The acreage cited in the different land*

areas is only approximate. However, the data will give some indication of the income potential of the individual Trust resources. The total acreage of the lease categories listed for each grant is greater than the acreage in each grant because in many cases, there is more than one lease on the same parcel of land.

No description is given of the County Bond grant lands, because now that the bonds have been paid, the revenues from these grant lands go into the Common Schools Grant.

Included on page 51 of this publication is a map of Arizona with all Trust lands identified by the owning Trust beneficiary.

Beneficiary Summary

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

Beneficiary Summary

COMMON SCHOOLS GRANT

Lease & Sale Highlights:

EdmondsTollConstructionCo
Land Sale Partial Patents
53-102901-00
152.47 Acres
\$20,540,979

Statesman Group LLC
Land Sale Payoff
53-106938-00
49.78 Acres
\$24,773,672

Toro Properties Arizona I
LLC
Land Sale Payoff
53-105481-00
253.64 Acres
\$22,812,151

The Common, or Public, Schools Grant land comprises about 87 percent of the Trust land holdings and totals 8,108,817 acres. Most of the Common Schools lands are grazing lands scattered throughout the rural areas of the State. The original four-school-section-per-township land pattern still exists in a few places like north of the Grand Canyon on the remote Arizona Strip, but most of the Common Schools lands have been relocated and consolidated by land selection and exchanges.

The largest concentrations of acreage are:

In the Bagdad, Yarnell, and Wickenburg areas of western Yavapai and Maricopa counties;

In the checkerboard land area along Interstate 40 across north-central Arizona and near Kingman, Seligman, Winslow, Holbrook, and St. Johns;

Between Florence and Oracle in south-eastern Pinal County;

Along the San Pedro River Valley between Benson and Winkelman; and

In the Klondyke area of southwestern Graham County.



The Common Schools Trust also holds most of the highest value and developable Trust lands. Included are:

Several hundred thousand acres of urban Trust lands in the north Phoenix and Scottsdale areas and around the northern border of the Tucson metropolitan area;

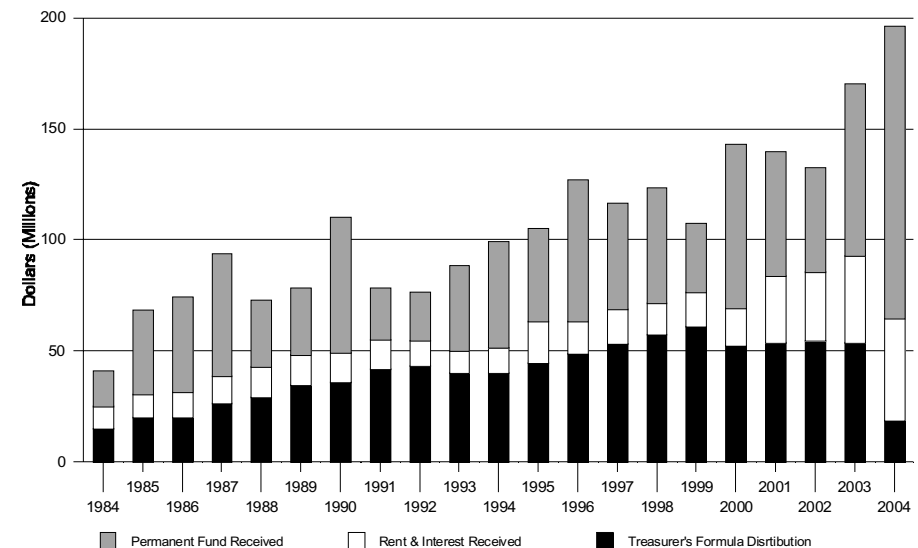
More than 100,000 acres of agricultural lands throughout the State;



Two major copper deposits in the Tucson and San Manuel areas; and

Commercial properties along the Colorado River in the Yuma, Ehrenberg, Parker, Lake Havasu City, Topoc, and Bullhead City areas.

TRUST LAND INCOME FY 1984-2004



ACRES AND INCOME — FY 2004

SURFACE LEASES	ACRES	INCOME
Agriculture	129,064	\$2,600,451.07
Commercial	23,512	\$12,808,292.68
Grazing	7,388,522	\$1,860,082.43
Homesite	51	\$15,725.00
Rights-of-Way	124,404	\$1,686,533.63
Use Permits	189,202	\$1,622,361.11
Public Education	0	\$0.00
Institutional Taking	5,406	\$123,788.61
U.S. Government	17,434	\$93,566.99
Other	0	\$87,142.28
TOTAL SURFACE	7,877,596	\$20,897,943.80

SUBSURFACE LEASES		
Mineral	10,929	\$3,782.57
Prospecting Permit	106,324	\$153,381.34
Mineral Material	10,066	\$119,624.99
Oil & Gas	381,336	\$426,220.51
U.S. Government	17,129	\$0.00
TOTAL SUBSURFACE	525,784	\$703,009.41

Penalty & Interest	\$111,792.17
Sales Interest	\$24,625,039.72
School Leases	\$5,993,468.00
Treasurer's Formula Distribution	\$18,565,352.00
GRAND TOTAL EXPENDABLE	\$70,896,605.10

Permanent Fund Receipts	\$131,272,767.21
Permanent Fund Balance	\$1,099,994,000.00

Beneficiary Summary

Lease & Sale Highlights:

Exponent of Delaware Inc
Commercial Lease
03-053542-00
146.49 Acres
\$531,759

Phoenix Agro-Invest
Agriculture Lease
01-001093-00
9,127.89 Acres
\$104,653

United Metro Materials
Mineral Lease
04-105164-00
110.27 Acres
\$1,160,878

City of Phoenix
Perpetual Rights-of-Way
16-107279-00
10.07 Acres
\$527,418

Roles Inc
Commercial Lease
03-105712-99
109.86 Acres
\$439,814

Beneficiary Summary

LEGISLATIVE, EXECUTIVE, AND JUDICIAL BUILDINGS

Lease & Sale Highlights:

Broadwing Communications
Commercial Lease
03-087097-00
3.67 Acres
\$15,000

Trust #8011
Agriculture Lease
01-000296-00
377.16 Acres
\$7,232

Williams Communications
Commercial Lease
03-105169-00
.83 Acres
\$5,146

There are 64,257 acres in the Legislative, Executive, and Judicial Buildings Land Grant. These lands consist of primarily rural grazing lands, with some parcels having agricultural, commercial, and mineral material potential.

The largest concentrations of grazing lands are 12,000 acres in the Altar Valley southwest of Tucson; 10,000 acres near Bonita in Graham County; 5,000 acres east of the Picacho Mountains in Pinal County; and 4,000 acres of checkerboard lands west of Seligman in Yavapai County.

Other holdings are located as follows: 4,000 acres near Willcox in Cochise County; 1,000 acres near Marana in Pima County; 3,500 acres near Florence in Pinal County; 4,000 acres near Mohawk in the Gila River Valley of Yuma County; and 4,000 acres near Gleason in Cochise County.

Probably the most valuable lands are the 5,300 acres on the southern border of the Tucson metropolitan area; 3,700 acres at Colossal Cave in Pima County; 800 acres at Picacho Peak in Pinal County; and 4,000 acres in scattered parcels in the Douglas area of Cochise County.

ACRES AND INCOME — FY 2004

SURFACE LEASES	ACRES	INCOME
Agriculture	2,180	\$25,340.24
Commercial	87	\$23,296.00
Grazing	56,406	\$18,234.25
Homesite	0	\$0.00
Rights-of-Way	1,606	\$7,849.85
Use Permits	5,062	\$1,174.09
Public Education	0	\$0.00
Institutional Taking	0	\$0.00
U.S. Government	92	\$0.00
Other	0	\$0.00
TOTAL SURFACE	65,433	\$75,894.43

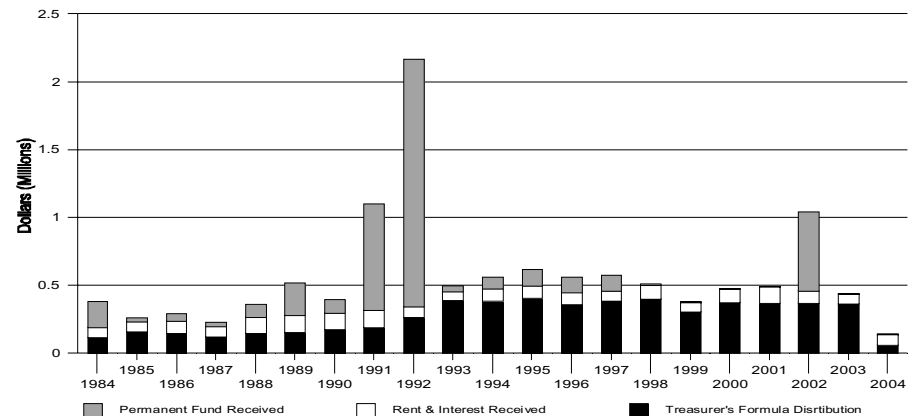
SUBSURFACE LEASES

Mineral	0	\$0.00
Prospecting Permit	1,479	\$2,319.32
Mineral Material	0	\$0.00
Oil and Gas	0	\$2,365.76
U.S. Government	92	\$0.00
TOTAL SUBSURFACE	1,571	\$4,685.08

Penalty & Interest	\$171.63
Sales Interest	\$0.00
Treasurer's Formula Distribution	\$57,893.00
GRAND TOTAL EXPENDABLE	\$138,644.14

Permanent Fund Receipts	\$4,888.98
Permanent Fund Balance	\$4,618,000.00

TRUST LAND INCOME FY 1984-2004



ACRES AND INCOME — FY 2004

SURFACE LEASES	ACRES	INCOME
Agriculture	5,447	\$119,474.65
Commercial	270	\$148,656.71
Grazing	58,280	\$17,815.17
Homesite	0	\$0.00
Rights-of-Way	1,101	\$35,804.26
Use Permits	4,922	\$2,106.86
Public Education	0	\$0.00
Institutional Taking	80	\$1,512.56
U.S. Government	108	\$0.00
Other	0	\$0.00
TOTAL SURFACE	70,208	\$325,370.21

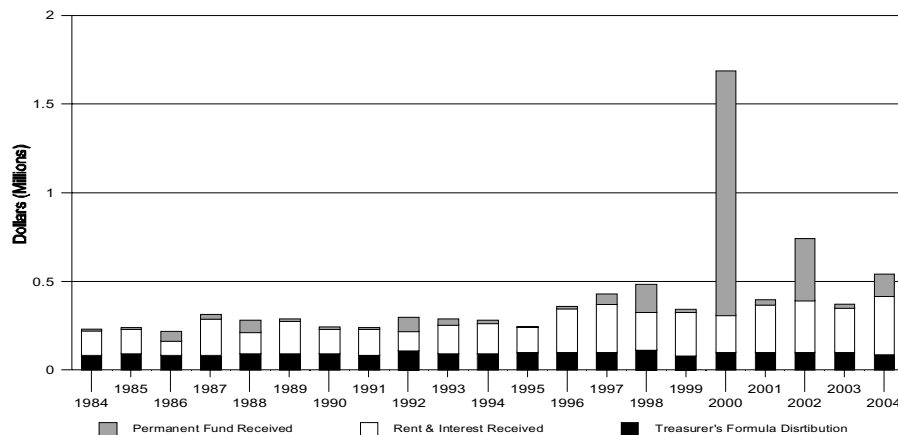
SUBSURFACE LEASES

Mineral	60	\$600.00
Prospecting Permit	0	\$0.00
Mineral Material	0	\$0.00
Oil and Gas	440	\$410.41
U.S. Government	108	\$0.00
TOTAL SUBSURFACE	608	\$1,010.41

Penalty & Interest	\$307.45
Sales Interest	\$0.00
Treasurer's Formula Distribution	\$89,056.00
GRAND TOTAL EXPENDABLE	\$415,744.07

Permanent Fund Receipts	\$126,353.52
Permanent Fund Balance	\$3,286,000.00

TRUST LAND INCOME FY 1984-2004



The State Hospital Grant lands consist of 71,248 acres, primarily blocks and checkerboard grazing lands in Pinal, Pima, Cochise, and Yavapai counties.

The largest concentration of grazing lands totals about 15,000 acres in the checkerboard area of Yavapai County west of Paulden; 9,000 acres in the Altar Valley southwest of Tucson in Pima County; 7,000 acres near Gleason; and 6,000 acres in the San Bernardino Valley in Cochise County.

Lands with some agricultural as well as grazing potential include 5,000 acres in the Magma area and 9,000 acres near Picacho in Pinal County; 1,200 acres near San Simon; and 6,000 acres near Bonita in Graham County.

There are scattered land parcels with some development potential near Prescott in Yavapai County, Topock and Littlefield in Mohave County, and Cave Creek in Maricopa County, and a 4,800-acre block near Sahuarita in Pima County.

Beneficiary Summary

STATE HOSPITAL GRANT

Lease & Sale Highlights:

Phoenix Golf School
Commercial Lease
03-097540-00
44.74 Acres
\$75,357

Empire Investments
Agriculture Lease
01-053813-00
960.47 Acres
\$21,269

OASIS Recreational Properties
Commercial Lease
03-095873-00
180.91 Acres
\$63,441

Beneficiary Summary

MINERS' HOSPITAL

Lease & Sale Highlights:

Talley Defense Systems Inc
Commercial Lease
03-093792-65
312.1 Acres
\$745,610

Dunn Family Trust
Agriculture Lease
01-101315-00
2,980 Acres
\$90,034

Tanner Mining
Mineral Lease
04-104945-00
230 Acres
\$100,082

The 1912 Miners' Hospital for Disabled Miners' Grant, consisting of 47,745 acres, and the 1929 Miners' Hospital Grant, consisting of 47,686 acres, are combined for reporting purposes because they support the same beneficiary, the Pioneer's Home in Prescott.

The grant lands are more dispersed (and in some areas there is more development potential) as compared to most of the other quantity grants. This fact is reflected in the higher agricultural, commercial, and special-use revenues from these grant lands.

The 1912 grant consists primarily of blocks of grazing lands in seven areas: 11,500 acres near Picacho Peak and 10,000 acres in the Florence Junction and Magma areas of Pinal County; 1,800 acres near Skull Valley in Yavapai County; 3,800 acres near Vail in Pima County; 5,400 acres north of the San Francisco Peaks in Coconino County; 6,200 acres near Bonita in Graham County; and 5,100 acres near Gleason in Cochise County. Some of the Picacho Peak, Vail, and Magma area lands have commercial and agricultural potential.

The 1929 grant consists of smaller parcels scattered throughout nearly all of the counties. Many small but valuable parcels have development potential, particularly in the Casa Grande, Mesa, San Luis, Topock, Lake Havasu City, Buckeye, and Mammoth areas. The Trust also owns a partial interest in Colorado River-front lands at Bullhead City.

The State's Enabling Act was amended in 1999 to allow for the long-standing practice of and to clarify the legality of sending money earned from the Miners' Hospital Grant to the Pioneer's Home.

ACRES AND INCOME — FY 2004

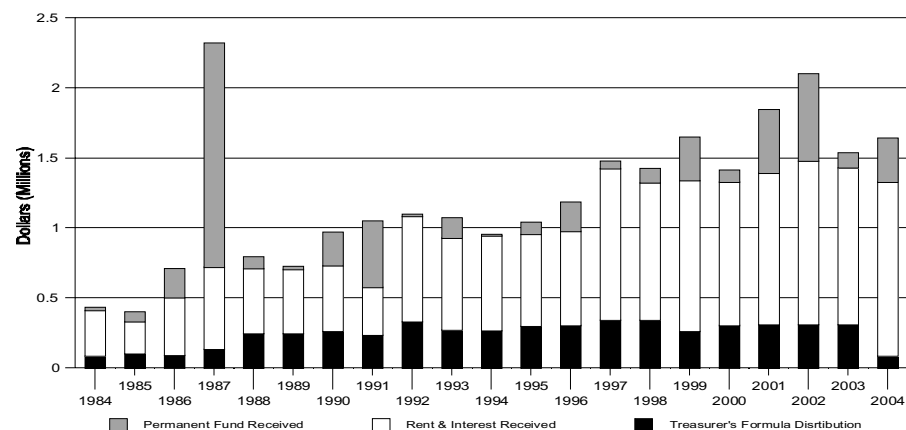
SURFACE LEASES	ACRES	INCOME
Agriculture	13,855	\$318,368.88
Commercial	600	\$776,649.48
Grazing	73,875	\$19,159.84
Homesite	8	\$0.00
Rights-of-Way	1,966	\$23,475.61
Use Permits	3,090	\$76,234.95
Public Education	0	\$0.00
Institutional Taking	1	\$873.03
U.S. Government	168	\$0.00
Other	0	\$400.00
TOTAL SURFACE	93,562	\$1,215,161.79

SUBSURFACE LEASES	ACRES	INCOME
Mineral	119	\$14.91
Prospecting Permit	3,319	\$3,561.08
Mineral Material	230	\$20,239.91
Oil and Gas	254	\$312.57
U.S. Government	168	\$0.00
TOTAL SUBSURFACE	4,091	\$24,128.47

Penalty & Interest	\$2,385.26
Sales Interest	\$0.00
Treasurer's Formula Distribution	\$85,448.00
GRAND TOTAL EXPENDABLE	\$1,327,123.52

Permanent Fund Receipts	\$314,727.45
Permanent Fund Balance	\$5,481,000.00

TRUST LAND INCOME FY 1984-2004



ACRES AND INCOME — FY 2004

SURFACE LEASES	ACRES	INCOME
Agriculture	3,682	\$98,576.23
Commercial	2,836	\$212,148.25
Grazing	63,196	\$22,349.32
Homesite	0	\$0.00
Rights-of-Way	2,476	\$41,200.37
Use Permits	7,103	\$60,369.28
Public Education	0	\$0.00
Institutional Taking	475	\$56,516.80
U.S. Government	117	\$0.00
Other	0	\$5,856.00
TOTAL SURFACE	79,886	\$497,016.25

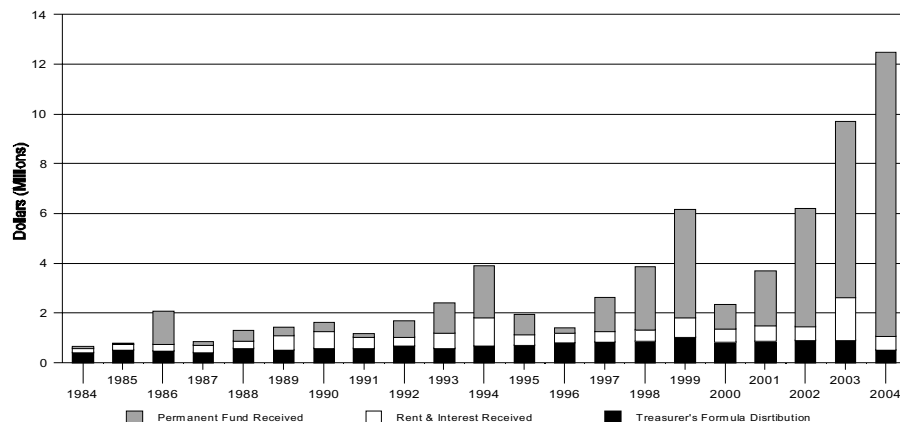
SUBSURFACE LEASES

Mineral	160	\$120.00
Prospecting Permit	0	\$0.00
Mineral Material	49	\$9,742.01
Oil and Gas	1,268	\$1,268.37
U.S. Government	117	\$0.00
TOTAL SUBSURFACE	1,594	\$11,130.38

Penalty & Interest	\$5,372.51
Sales Interest	\$23,326.88
Treasurer's Formula Distribution	\$528,216.00
GRAND TOTAL EXPENDABLE	\$1,065,062.02

Permanent Fund Receipts	\$11,417,018.80
Permanent Fund Balance	\$33,924,000.00

TRUST LAND INCOME FY 1984-2004



The State Charitable, Penal, and Reformatory Grant lands, totaling 77,562 acres, are shared by the Department of Corrections (25%), the Department of Juvenile Corrections (25%), and the Pioneers' Home (50%) as beneficiaries. This acreage includes a mix of agricultural and commercial properties along with the usual dominance of grazing lands.

Potential development lands include: 1,700 acres in the Deer Valley and Surprise areas of the Phoenix metropolitan area; 600 acres along Irvington Road in southeast Tucson; 10,000 acres in the Picacho, Red Rock, and Marana Airport area of Pinal County; 6,200 acres south of Tucson; 480 acres near Casa Grande; and 760 acres in the Butler Valley groundwater storage area in La Paz County.

Over 2,700 acres of these Trust lands at Florence and Fort Grant are leased for prison facilities. The Trust also owns a partial interest in lands that surround the Patagonia Lake State Park.

Grazing lands include 13,000 acres in the San Bernardino Valley in Cochise County; 7,000 acres in the Bonita and Willcox areas of Graham and Cochise counties; 8,000 acres in the Empire Cienega Ranch in southeast Pima County; and 7,500 acres in the Altar Valley of Pima County. The grant also has 3,200 acres of checkerboard grazing lands in Coconino County; 1,200 acres near Oracle Junction; 7,500 acres near Florence Junction in Pinal County; and 2,500 acres of scattered parcels in the Dragoon and Gleason areas of Cochise County.

Beneficiary Summary

STATE CHARITABLE, PENAL, AND REFORMATORY

Lease & Sale Highlights:

Harrison-Irvington Properties
Commercial Lease
03-089865-65
119 Acres
\$132,510

England Sr Et Al
Agricultural Lease
01-000214-00
1,120.82 Acres
\$30,897

Chi Construction Company
Land Sale Down Payment
53-107965-00
365.63 Acres
\$10,148,488

Beneficiary Summary

PENITENTIARY GRANT

Most of the 76,111 acres in the Penitentiary Grant are primarily grazing lands in blocks or groups of checker-board sections in some of the more productive ranching areas of the State. More than 9,000 acres are located in the Altar Valley between Three Points and Sasabe in southern Pima County. Elsewhere, holdings of 1,000 to 8,600 acres in size are located near Sierra Vista, Pearce, and Douglas in Cochise County; north of Florence and east of Picacho Peak in Pinal County; near Paulden in Yavapai County; in Valentine in Mohave County; and west of Williams in Coconino County.

Some Penitentiary Grant lands are leased for agriculture, with the largest area being nearly 2,000 acres several miles northeast of Yuma. These lands are additions to the old Yuma Prison Grant that was given to the State in the 1890s for a garden for the prison. Today, this is a productive farm area.

Perhaps the most valuable Penitentiary Grant lands are two parcels in the Phoenix metropolitan area, one south of Tucson and one near Globe. They are leased for the Perryville, Santa Rita, and Rincon prisons and the Adobe Mountain and Pinal Mountain juvenile correction facilities.

Lease & Sale Highlights:

Heile Leroy
Agricultural Lease
01-085149-00
98.08 Acres
\$6,589

Arnott Duncan
Agricultural Permit
23-105725-01
1,283.33 Acres
\$35,693

ACRES AND INCOME — FY 2004

SURFACE LEASES	ACRES	INCOME
Agriculture	4,717	\$182,712.12
Commercial	478	\$549,712.96
Grazing	65,932	\$21,773.56
Homesite	0	\$0.00
Rights-of-Way	589	\$30,332.07
Use Permits	5,763	\$39,047.06
Public Education	0	\$0.00
Institutional Taking	1,778	\$0.00
U.S. Government	5	\$0.00
Other	0	\$0.00
TOTAL SURFACE	79,261	\$823,577.77

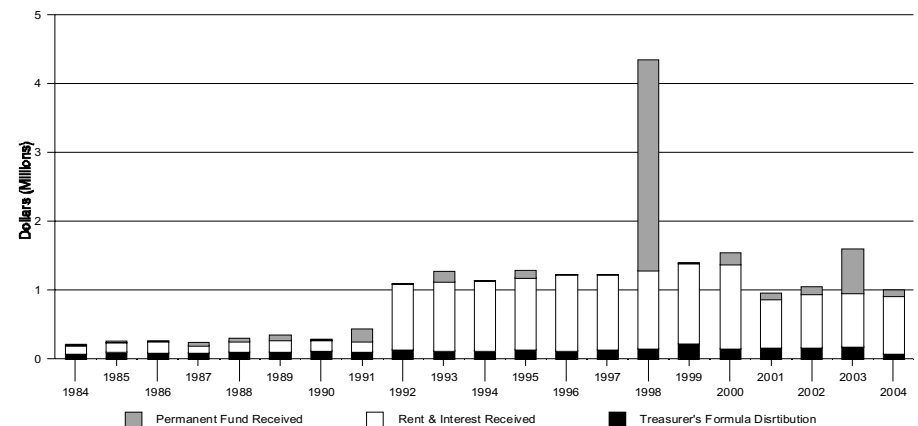
SUBSURFACE LEASES

Mineral	0	\$0.00
Prospecting Permit	914	\$0.00
Mineral Material	0	\$0.00
Oil and Gas	0	\$2,339.34
U.S. Government	5	\$0.00
TOTAL SUBSURFACE	919	\$2,339.34

Penalty & Interest	\$3,183.52
Sales Interest	\$0.00
Treasurer's Formula Distribution	\$76,540.00
GRAND TOTAL EXPENDABLE	\$905,640.63

Permanent Fund Receipts	\$93,624.85
Permanent Fund Balance	\$5,444,000.00

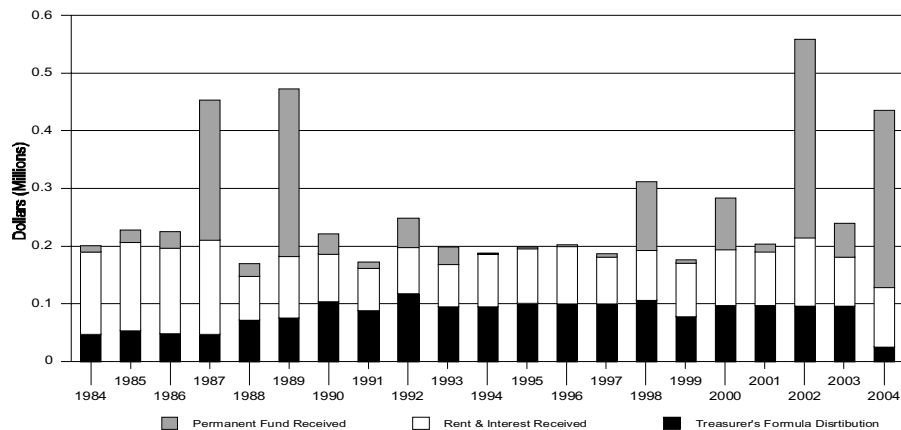
TRUST LAND INCOME FY 1984-2004



ACRES AND INCOME — FY 2004

SURFACE LEASES	ACRES	INCOME
Agriculture	165	\$3,232.19
Commercial	22,539	\$14,665.83
Grazing	146,186	\$46,110.81
Homesite	0	\$0.00
Rights-of-Way	2,151	\$13,239.57
Use Permits	5,781	\$5,281.64
Public Education	0	\$0.00
Institutional Taking	2,721	\$0.00
U.S. Government	184	\$2,000.01
Other	0	\$0.00
TOTAL SURFACE	179,726	\$84,530.05
SUBSURFACE LEASES		
Mineral	0	\$0.00
Prospecting Permit	256	\$511.46
Mineral Material	160	\$12,080.09
Oil and Gas	3,807	\$5,159.62
U.S. Government	184	\$0.00
TOTAL SUBSURFACE	4,407	\$17,751.17
Penalty & Interest		\$1,089.74
Sales Interest		\$20.03
Treasurer's Formula Distribution		\$25,835.00
GRAND TOTAL EXPENDABLE		\$129,225.99
Permanent Fund Receipts		\$305,834.30
Permanent Fund Balance		\$1,862,000.00

TRUST LAND INCOME FY 1984-2004



Most of the 174,798 acres of the Normal Schools Grant lands are rural grazing lands. The largest concentrations are in the checkerboard area across Coconino, Yavapai, Navajo, and Apache counties, which contain about 50,000 acres of Normal Schools Grant lands in individual sections. Another 30,000 acres are in larger blocks south of the Grand Canyon.

Cochise County has about 24,000 acres of primarily grazing lands, mainly in the San Simon and Bowie area and in the Sulphur Springs Valley. The grant also has 22,000 acres inside the Santa Rita Experimental Range south of Tucson that are leased to the University of Arizona for ecological and range land research. Other grazing groups include: 7,000 acres in Altar Valley and 4,000 acres in the Empire and Whetstone Mountain areas of Pima County; 3,000 acres near Duncan in Greenlee County; 5,000 acres near Cordes Junction in Yavapai County; and 9,000 acres near Oracle Junction in Pinal County.

Normal Schools Grant lands with greater potential for other uses include: 8,000 acres in the Chino Valley and Prescott Valley area; 1,700 acres near Florence and 7,000 acres at Florence Junction; 7,000 acres in the Vail and Cienega Creek area southeast of Tucson; and 12,000 acres in the Picacho Peak and Red Rock areas of Pinal County.

Beneficiary Summary

NORMAL SCHOOLS GRANT

Lease & Sale Highlights:

Seibert Land Co LLC
Grazing Lease
05-000541-00
18,747.57 Acres
\$7,817

Salt River Project
Perpetual Rights-of-Way
16-107631-00
25.62 Acres
\$137,340

Tanner Mining Inc
Mineral Lease
04-104945-00
120 Acres
\$52,218

Beneficiary Summary

AGRICULTURAL AND MECHANICAL COLLEGES

Lease & Sale Highlights:

Clear Channel Outdoor Inc
Sign Permit
23-105292-19
.2 Acres
\$8,118

Red Mountain Mining Inc
Mineral Lease
04-103581-00
20 Acres
\$32,643

Seibert Land Co LLC
Grazing Lease
05-000541-00
11,414.15 Acres
\$4,927

The 124,944 acres of the Agricultural and Mechanical Colleges Grant lands are predominantly rural grazing lands, but some parcels and blocks are located near communities and may have potential for other future uses.

The largest concentrations of Agricultural and Mechanical Colleges Grant lands, totaling more than 66,000 acres, are in the checkerboard land areas of Navajo, Apache, Coconino, and Yavapai counties, and in the Boquillos Ranch area just south of the Grand Canyon. Another 20,000 acres are located in Cochise County primarily in the Sulphur Springs and San Bernardino valleys. The grant also has 10,000 acres inside the Santa Rita Experimental Range south of Tucson that have been leased to the University of Arizona for ecological and range land research.

Lands closer to communities include: 6,000 acres in scattered parcels along U.S. Highway 60 between Phoenix and Wickenburg, and west of Phoenix in the Buckeye and Arlington areas; 4,200 acres at Florence in blocks; 6,000 acres at Florence Junction and 2,000 acres at Red Rock in Pinal County; and 8,500 acres located in the Vail and Cienega Creek area south-east of Tucson.

ACRES AND INCOME — FY 2004

SURFACE LEASES	ACRES	INCOME
Agriculture	251	\$2,729.70
Commercial	10,172	\$1,102.21
Grazing	107,323	\$31,122.63
Homesite	2	\$2,500.00
Rights-of-Way	2,394	\$22,030.21
Use Permits	3,560	\$11,873.16
Public Education	0	\$0.00
Institutional Taking	1,917	\$0.00
U.S. Government	86	\$0.00
Other	0	\$147.00
TOTAL SURFACE	125,704	\$71,504.91

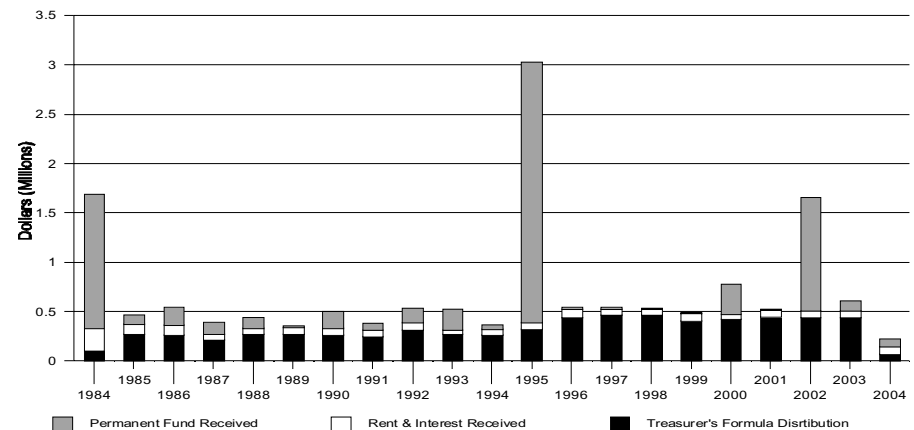
SUBSURFACE LEASES

Mineral	0	\$0.00
Prospecting Permit	0	\$0.00
Mineral Material	20	\$1,200.00
Oil and Gas	4,960	\$4,960.44
U.S. Government	86	\$0.00
TOTAL SUBSURFACE	5,066	\$6,160.44

Penalty & Interest	\$100.95
Sales Interest	\$12.39
Treasurer's Formula Distribution	\$70,016.00
GRAND TOTAL EXPENDABLE	\$147,794.69

Permanent Fund Receipts	\$74,682.93
Permanent Fund Balance	\$6,828,000.00

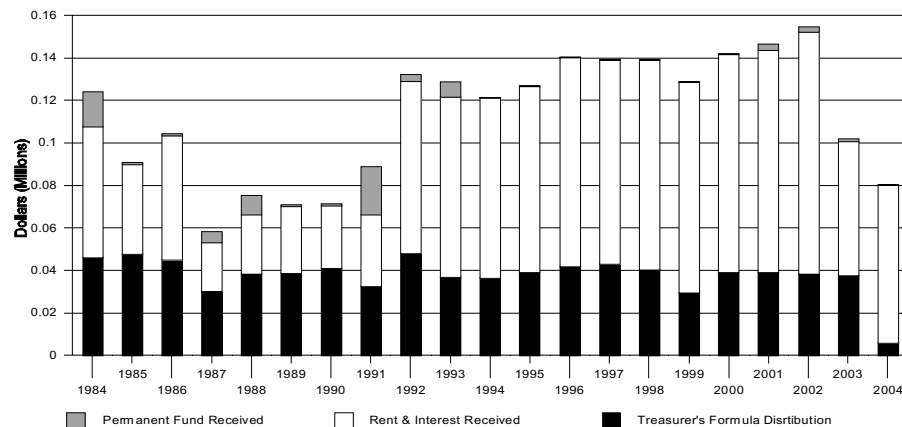
TRUST LAND INCOME FY 1984-2004



ACRES AND INCOME — FY 2004

SURFACE LEASES	ACRES	INCOME
Agriculture	0	\$0.00
Commercial	1,935	\$34,660.00
Grazing	76,749	\$25,955.76
Homesite	0	\$0.00
Rights-of-Way	300	\$12,136.46
Use Permits	40	\$1,300.00
Public Education	0	\$0.00
Institutional Taking	0	\$0.00
U.S. Government	0	\$0.00
Other	0	\$0.00
TOTAL SURFACE	79,024	\$74,052.22
SUBSURFACE LEASES		
Mineral	0	\$0.00
Prospecting Permit	0	\$0.00
Mineral Material	0	\$0.00
Oil and Gas	0	\$0.00
U.S. Government	0	\$0.00
TOTAL SUBSURFACE	0	\$0.00
Penalty & Interest		\$162.13
Sales Interest		\$0.00
Treasurer's Formula Distribution		\$5,589.00
GRAND TOTAL EXPENDABLE		\$79,803.35
Permanent Fund Receipts		\$0.00
Permanent Fund Balance		\$380,000.00

TRUST LAND INCOME FY 1984-2004



Military Institutes Grant lands total 80,168 acres and are primarily grazing lands concentrated in two areas.

More than 25,000 acres are located in Coconino County in the area between the San Francisco Peaks and the Grand Canyon National Park.

There are about 45,000 acres in Cochise County. This includes about 35,000 acres in the San Bernardino Valley area in the southeastern corner of Cochise County; 5,800 acres near Gleason; 2,700 acres near Sunizona; and scattered parcels near Dos Cabezas and Cascabel.

There are 3,000 acres near Arivaca; a few scattered sections near Hillside in Yavapai County; in Safford in Graham County; and in Oro Blanco in Santa Cruz County.

One section near Apache Junction in Pinal County has residential development potential. The grant also includes 1,600 acres inside the Santa Rita Experimental Range south of Tucson, which is leased to the University of Arizona for ecological and range land research.

Beneficiary Summary

MILITARY INSTITUTES GRANT

Lease & Sale Highlights:

AZ State Parks Board
Commercial Lease
03-94695-00
258.30 Acres
\$32,660

Babbitt Ranches LLC
Grazing Lease
05-000252-00
18,520.70 Acres
\$4,569

El Paso Natural Gas Co
Rights-of-Way
14-105173-00
29.23 Acres
11,861

Beneficiary Summary

SCHOOL OF MINES GRANT

Most of the 123,559 acres of the School of Mines Grant lands are used for grazing. Nearly half of the acreage is located in the checkerboard areas near Seligman and Ashfork, in Coconino and Yavapai counties respectively; south of Winslow in Navajo County; and in the St. Johns and Springerville areas of Apache County. There are about 26,000 acres near Douglas, Tombstone, and Dos Cabezas in Cochise County; and about 4,000 acres west of Safford in Graham County. The grant also has 8,400 acres inside the Santa Rita Experimental Range south of Tucson that have been leased to the University of Arizona for ecological and range land research.

Lands that may have greater potential for future development include: 10,500 acres in the Florence and Florence Junction areas; 5,500 acres near Sahuarita in Pima County; 6,000 acres in the Casa Grande area; 1,600 acres along I-10 southeast of Tucson; 640 acres at Apache Junction; and 320 acres near New River in Maricopa County.

Lease & Sale Highlights:

Lake Havasu City
Land Sale
53-106791
.1466 Acres
\$29,832

Seibert Land Co LLC
Grazing Lease
05-000541-00
14,288.39 Acres
\$6,342

ACRES AND INCOME — FY 2004

SURFACE LEASES	ACRES	INCOME
Agriculture	2,485	\$32,492.10
Commercial	8,483	\$6,640.38
Grazing	111,207	\$34,572.01
Homesite	0	\$0.00
Rights-of-Way	1,292	\$14,492.18
Use Permits	1,592	\$967.80
Public Education	0	\$0.00
Institutional Taking	0	\$0.00
U.S. Government	17	\$0.00
Other	0	\$0.00
TOTAL SURFACE	125,076	\$89,164.47

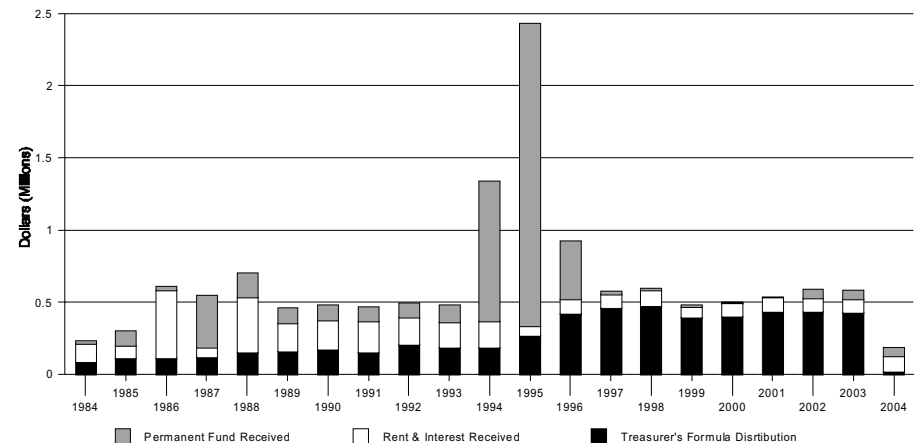
SUBSURFACE LEASES

Mineral	0	\$0.00
Prospecting Permit	1,271	\$1,270.68
Mineral Material	0	\$0.00
Oil and Gas	12,273	\$19,183.83
U.S. Government	17	\$0.00
TOTAL SUBSURFACE	13,561	\$20,454.51

Penalty & Interest	\$540.17
Sales Interest	\$37.82
Treasurer's Formula Distribution	\$18,366.00
GRAND TOTAL EXPENDABLE	\$128,562.97

Permanent Fund Receipts	\$56,590.44
Permanent Fund Balance	\$4,854,000.00

TRUST LAND INCOME FY 1984-2004



ACRES AND INCOME — FY 2004

SURFACE LEASES	ACRES	INCOME
Agriculture	4,616	\$53,363.40
Commercial	8,238	\$196,781.59
Grazing	117,855	\$36,776.14
Homesite	0	\$0.00
Rights-of-Way	2,815	\$29,913.39
Use Permits	5,495	\$35,051.67
Public Education	0	\$0.00
Institutional Taking	107	\$643.03
U.S. Government	8	\$0.00
Other	0	\$0.00
TOTAL SURFACE	139,134	\$352,529.22

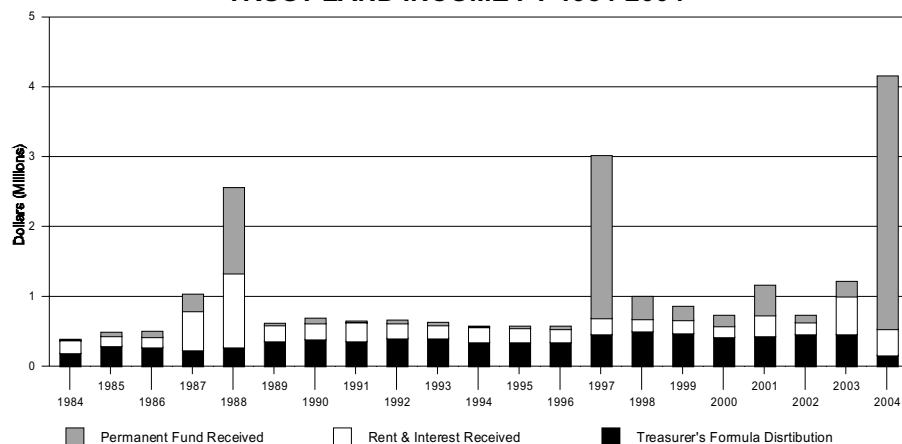
SUBSURFACE LEASES

Mineral	0	\$0.00
Prospecting Permit	874	\$389.08
Mineral Material	0	\$0.00
Oil and Gas	8,035	\$15,429.28
U.S. Government	8	\$0.00
TOTAL SUBSURFACE	8,917	\$15,818.36

Penalty & Interest	\$208.55
Sales Interest	\$6.35
Treasurer's Formula Distribution	\$155,432.00
GRAND TOTAL EXPENDABLE	\$523,994.48

Permanent Fund Receipts	\$3,623,322.92
Permanent Fund Balance	\$11,313,000.00

TRUST LAND INCOME FY 1984-2004



The University Land Code Grant lands total 137,908 acres and are more scattered than the lands of many of the other grants.

The grant holdings include: small but very valuable commercial and potentially commercial parcels in north Scottsdale and near the Deer Valley Airport in the Phoenix metropolitan area; 3,800 acres along Houghton Road southeast of Tucson; 2,500 acres around the Bisbee-Douglas Airport; 6,500 acres in the Prescott and Prescott Valley area; 3,600 acres in the Sonoita area of Cochise County; 4,000 acres of agricultural and potentially developable land in the Casa Grande, Arizona City, and Picacho area of Pinal County; 3,000 acres inside the Goldwater Air Force Gunnery Range in Yuma County that are leased by the Federal government for military training purposes; and 8,100 acres inside the Santa Rita Experimental Range south of Tucson, leased to the University of Arizona for ecological and range land research.

The largest concentrations of grazing lands are about 38,000 acres in scattered tracts in Cochise County. There are about 23,000 acres of scattered parcels in Apache County near St. Johns, Springerville, and Eager, with some of these parcels having development potential. A block of 10,000 acres of grazing lands is located northeast of Oracle Junction, and two other blocks totaling about 13,000 acres are in the Florence area, all in Pinal County.

Beneficiary Summary

UNIVERSITY LAND CODE

Lease & Sale Highlights:

Vail School District #20
Land Sale
53-107159-00
11.95 Acres
\$711,987

CP Hotels LLC
Commercial Lease
03-106716-99
24.47 Acres
\$159,799

Waste Management AZ
Commercial Lease
03-093702-00
18.17 Acres
\$30,668

Beneficiary Summary

UNIVERSITY OF ARIZONA 1881 GRANT

Lease & Sale Highlights:

FRGC Development
Land Sale Payoff
53-104818-00
48.96 Acres
\$852,155

Railhead Associates LLC
Commercial Lease
03-104732-00
92.18 Acres
\$100,000

Canyon Del Rio Investors
Land Sales
53-104702-00
277.1 Acres
\$1,080,335

Nearly all of the University of Arizona Grant lands, consisting of 54,218 acres, are concentrated in seven areas. There are approximately 28,700 acres of timbered lands in a checkerboard land pattern in the Flagstaff area. The majority are located southwest of Flagstaff in the Rogers Lake area where they are intermingled with Federal National Forest lands and are managed for sustained yield timber production. Some of the sections near Flagstaff and along State Highway 89 south of Flagstaff have residential and commercial development potential.

About 13,000 acres are located near Yuma. Most of those lands are on the South Yuma Mesa and either are currently in agricultural leases or have potential for future agricultural use. Several hundred acres near San Luis have residential and commercial development potential.

Most of the remaining grant lands are grazing lands, with about 5,000 acres in scattered parcels near Clifton, Duncan, and York in southern Greenlee County; 5,500 acres in two blocks near the Winchester Mountains and Little Dragoon Mountains in Cochise County; and 1,300 acres north of Oracle Junction in Pinal County.

The Trust also owns a partial interest in valuable Colorado River-front lands at Bullhead City. One 200-acre parcel is part of the University of Arizona's Tumamoc Hill Desert Research Laboratory at Tucson.

ACRES AND INCOME — FY 2004

SURFACE LEASES	ACRES	INCOME
Agriculture	7,107	\$129,476.23
Commercial	114	\$128,512.71
Grazing	41,540	\$11,501.74
Homesite	4	\$4,988.00
Rights-of-Way	1,044	\$35,868.96
Use Permits	2,159	\$64,597.20
Public Education	0	\$0.00
Institutional Taking	406	\$0.00
U.S. Government	4	\$0.00
Other	0	\$25,316.61
TOTAL SURFACE	52,379	\$400,261.45

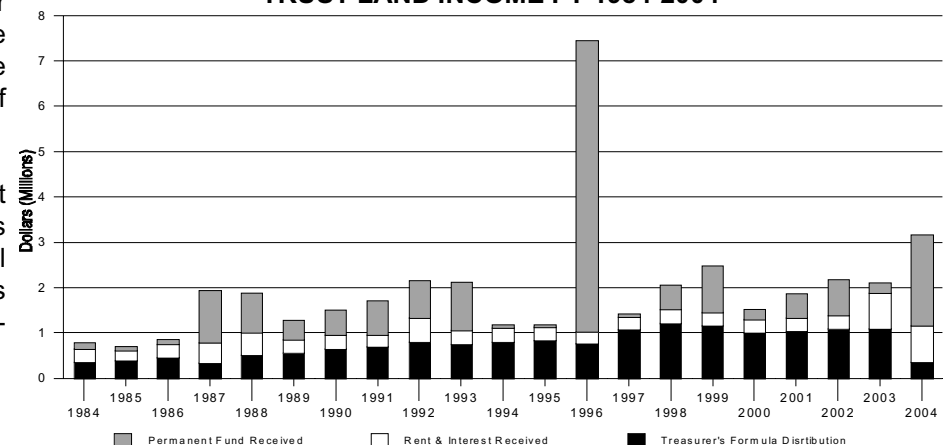
SUBSURFACE LEASES

Mineral	0	\$0.00
Prospecting Permit	0	\$35.32
Mineral Material	160	\$6,400.00
Oil and Gas	120	\$119.99
U.S. Government	4	\$0.00
TOTAL SUBSURFACE	284	\$6,555.31

Penalty & Interest	\$609.85
Sales Interest	\$393,707.26
Treasurer's Formula Distribution	\$354,680.00
GRAND TOTAL EXPENDABLE	\$1,155,813.87

Permanent Fund Receipts	\$2,009,407.63
Permanent Fund Balance	\$19,708,000.00

TRUST LAND INCOME FY 1984-2004



ACRES AND INCOME — FY 2004

SURFACE LEASES	ACRES	INCOME
Agriculture	2,819	\$56,065.17
Commercial	1,453	\$19,594.96
Grazing	72,580	\$20,132.44
Homesite	0	\$0.00
Rights-of-Way	1,253	\$17,847.04
Use Permits	5,914	\$3,927.46
Public Education	0	\$0.00
Institutional Taking	1	\$1,103.79
U.S. Government	32	\$0.00
Other	0	\$0.00
TOTAL SURFACE	84,052	\$118,670.86

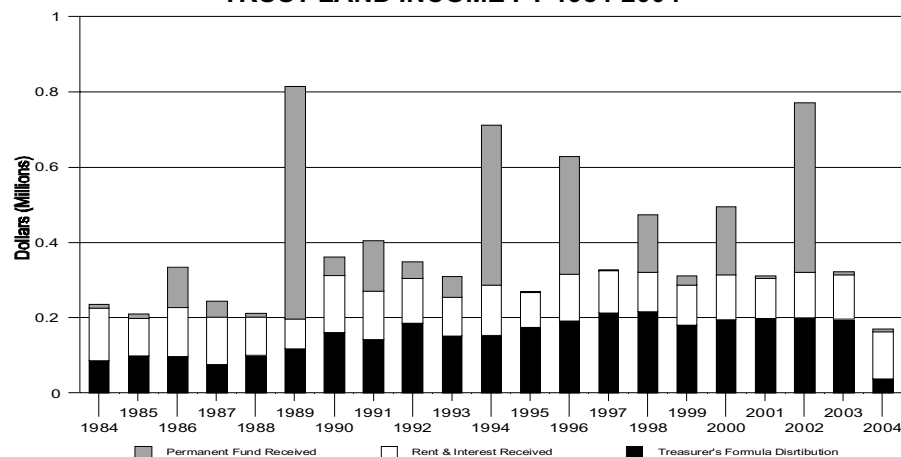
SUBSURFACE LEASES

Mineral	0	\$0.00
Prospecting Permit	160	\$0.00
Mineral Material	0	\$0.00
Oil and Gas	4,878	\$4,878.02
U.S. Government	32	\$0.00
TOTAL SUBSURFACE	5,070	\$4,878.02

Penalty & Interest	\$356.49
Sales Interest	\$0.00
Treasurer's Formula Distribution	\$39,220.00
GRAND TOTAL EXPENDABLE	\$163,125.37

Permanent Fund Receipts	\$6,631.15
Permanent Fund Balance	\$3,006,000.00

TRUST LAND INCOME FY 1984-2004



Most of the 82,560 acres for the School for the Deaf and Blind Grant lands are currently valuable only for grazing uses. The largest groups of the grazing land parcels are in the checkerboard land areas: 19,000 acres in the Boquillos Ranch west of Flagstaff; 5,000 acres in Yavapai County west of Paulden; and 3,000 acres south of Holbrook in Navajo County. There are blocks of about 6,000 acres between St. Johns and Springerville in Apache County; 7,000 acres near Bonita in Graham County; 6,000 acres in the Altar Valley of Pima County; 4,000 acres south of San Simon; 3,500 acres west of Willcox; and 4,000 acres near Gleason.

The more valuable lands in the grant include: 8,500 acres in the Picacho and Red Rock area of Pinal County; 6,000 acres on the south side of the Tucson metropolitan area; 1,600 acres near Wellton in the Lower Gila River Valley in Yuma County; and 5,500 acres of checkerboard lands near the Prescott Airport in Yavapai County.

One 320-acre parcel near Casa Grande in Pinal County is urban Trust land being planned for residential and commercial uses. A 10-acre parcel of the School for the Deaf and Blind Grant lands near Flagstaff is being used by the School for outdoor education camp programs.

Beneficiary Summary

SCHOOL FOR THE DEAF AND BLIND GRANT

Lease & Sale Highlights:

Abitibi Consolidated Sales
Commercial Lease
03-000553-00
320 Acres
\$10,394

Kai Farms - Redrock LLC
Agriculture Lease
01-105222-00
457.28 Acres
\$11,031

**ARIZONA
STATE LAND
DEPARTMENT**

FY 2004

RENTAL ACREAGE AND RECEIPTS

FY 2004

By Type of Lease

SURFACE LEASES	ACRES	RECEIPTS
Agriculture	176,938	3,630,218.77
Commercial	80,758	14,932,591.76
School Leases	**	5,993,468.00
Grazing	8,389,309	2,168,628.32
Homesite	66	23,213.00
Rights-of-Way	143,700	2,005,762.44
Use Permits	239,712	1,955,294.45
Public Education	0	0.00
Institutional Taking	12,892	184,437.82
U.S. Government	18,274	95,567.00
Other	0	118,861.89
TOTAL SURFACE	9,061,647	31,108,043.45
SUBSURFACE LEASES		
Mineral	11,268	4,517.48
Prospecting Permit	99,822	161,468.28
Mineral Material	2,805	169,287.00
Oil and Gas	382,127	482,648.14
U.S. Government	0	0.00
TOTAL SUBSURFACE	496,022	817,920.90
NON-LEASE REVENUES		
Penalty & Interest		126,414.55
Sales Interest		25,042,150.45
Royalty		4,162,779.62
Land Sales Principal		138,319,546.87
Rights-of-Way Sales Principal		6,823,523.69
Settlements		0.00
Commercial Prepayments		1,988,978.95
Fees		4,344,614.56
TOTAL NON-LEASE REVENUES		180,808,008.69
GRAND TOTAL		212,733,973.04

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

RECEIPTS BY CATEGORY — FY 2004

	ROYALTY	SALES PRINCIPAL	SALES INTEREST	LEASE RENTAL	PENALTY & INTEREST	OTHER RECEIPTS	TOTAL
Common Schools	3,320,488.68	127,952,278.53	24,625,039.72	21,600,953.21	111,792.17	0.00	177,610,552.31
Leg., Exec. & Judicial	0.00	4,888.98	0.00	80,579.51	171.63	0.00	85,640.12
State Hospital	16,883.23	109,470.29	0.00	326,380.62	307.45	0.00	453,041.59
Miners' Hospital*	94,925.07	219,802.38	0.00	1,239,290.26	2,385.26	0.00	1,556,402.97
St Char., Pen. & Ref.	211,286.56	11,205,732.24	23,326.88	508,146.63	5,372.51	0.00	11,953,864.82
Penitentiaries	72,152.85	21,472.00	0.00	825,917.11	3,183.52	0.00	922,725.48
Normal Schools	65,860.72	239,973.58	20.03	102,281.22	1,089.74	0.00	409,225.29
A&M Colleges	31,529.63	43,153.30	12.39	77,665.35	100.95	0.00	152,461.62
Military Institutes	0.00	0.00	0.00	74,052.22	162.13	0.00	74,214.35
School of Mines	241.44	56,349.00	37.82	109,618.98	540.17	0.00	166,787.41
University Land Code U of A	0.00	3,623,322.92	6.35	368,347.58	208.55	0.00	3,991,885.40
(Act of 2/18/1881)	348,060.29	1,661,347.34	393,707.26	406,816.76	609.85	0.00	2,810,541.50
School for the Deaf & Blind	1,351.15	5,280.00	0.00	123,548.88	356.49	0.00	130,536.52
School Leases	0.00	0.00	0.00	5,993,468.00	0.00	0.00	5,993,468.00
Comercial Prepayments	0.00	0.00	0.00	0.00	0.00	1,988,978.95	1,988,978.95
Total Schools & Institutions	4,162,779.62	145,143,070.56	25,042,150.45	31,837,066.33	126,280.42	1,988,978.95	208,300,326.33
GENERAL FUND							
F.E.M.A Lands	0.00	0.00	0.00	13,479.00	0.00	0.00	13,479.00
Farm Loan Lands	0.00	0.00	0.00	3,678.06	29.82	0.00	3,707.88
Navigable Streambeds	0.00	0.00	0.00	71,140.96	104.31	0.00	71,245.27
Non-Navigable Streambeds	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Lands Held in Trust	0.00	0.00	0.00	600.00	0.00	0.00	600.00
Fees: Lease, Sale & Misc	0.00	0.00	0.00	0.00	0.00	4,344,614.56	4,344,614.56
Total General Fund	0.00	0.00	0.00	88,898.02	134.13	4,344,614.56	4,433,646.71
TOTAL RECEIPTS	4,162,779.62	145,143,070.56	25,042,150.45	31,925,964.35	126,414.55	6,333,593.51	212,733,973.04

*Miners' Hospital & Miners' Hospital 1929 Combined

Financial Schedules

ARIZONA STATE LAND DEPARTMENT

FY 2004

**ARIZONA
STATE LAND
DEPARTMENT**

FY 2004

TREASURER'S FORMULA DISTRIBUTION*

	YEAR ENDING JUNE 30 FY 2003	FY 2004	INCREASE (DECREASE)	MAY 12, 1912 TO DATE
Common Schools	53,926,976	18,565,352	(35,361,624)	934,546,095
Legislative, Executive & Judicial Buildings	363,779	57,893	(305,886)	6,394,639
State Hospital Grant	99,579	89,056	(10,523)	2,759,485
Miners' Hospital Grant**	308,575	85,448	(223,127)	5,790,783
State Charitable, Penal, and Reformatory	902,191	528,216	(373,975)	17,457,004
Penitentiary Grant	176,641	76,540	(100,101)	3,584,826
Normal Schools Grant	96,003	25,835	(70,168)	2,180,855
Agricultural & Mechanical Colleges	440,584	70,016	(370,568)	7,255,109
Military Institutes Grant	37,656	5,589	(32,067)	1,142,567
School of Mines Grant	425,220	18,366	(406,854)	6,093,121
University Land Code	460,023	155,432	(304,591)	9,550,101
University of Arizona (Act of 2/18/1881)	1,096,588	354,680	(741,908)	19,193,333
School for the Deaf & Blind	197,730	39,220	(158,510)	3,911,826
TOTAL	58,531,545	20,071,643	(38,459,902)	1,019,859,744

*Information from the State Treasurer

**Miner's Hospital & Miners Hospital 1929 Combined

ARIZONA STATE LAND DEPARTMENT

FY 2004

STATE TRUST LAND ACREAGE BY BENEFICIARY

Beneficiary	Trust Acres	
	FY 1978	FY 2004
Common Schools*	8,342,469	8,108,817
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 & Reformatory Institutions	80,010	77,562
Penitentiary Grant	80,830	76,111
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	123,559
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
TOTAL	<u>9,586,606</u>	<u>9,271,580</u>

*Includes County Bonds

Financial Schedules

ARIZONA STATE LAND DEPARTMENT

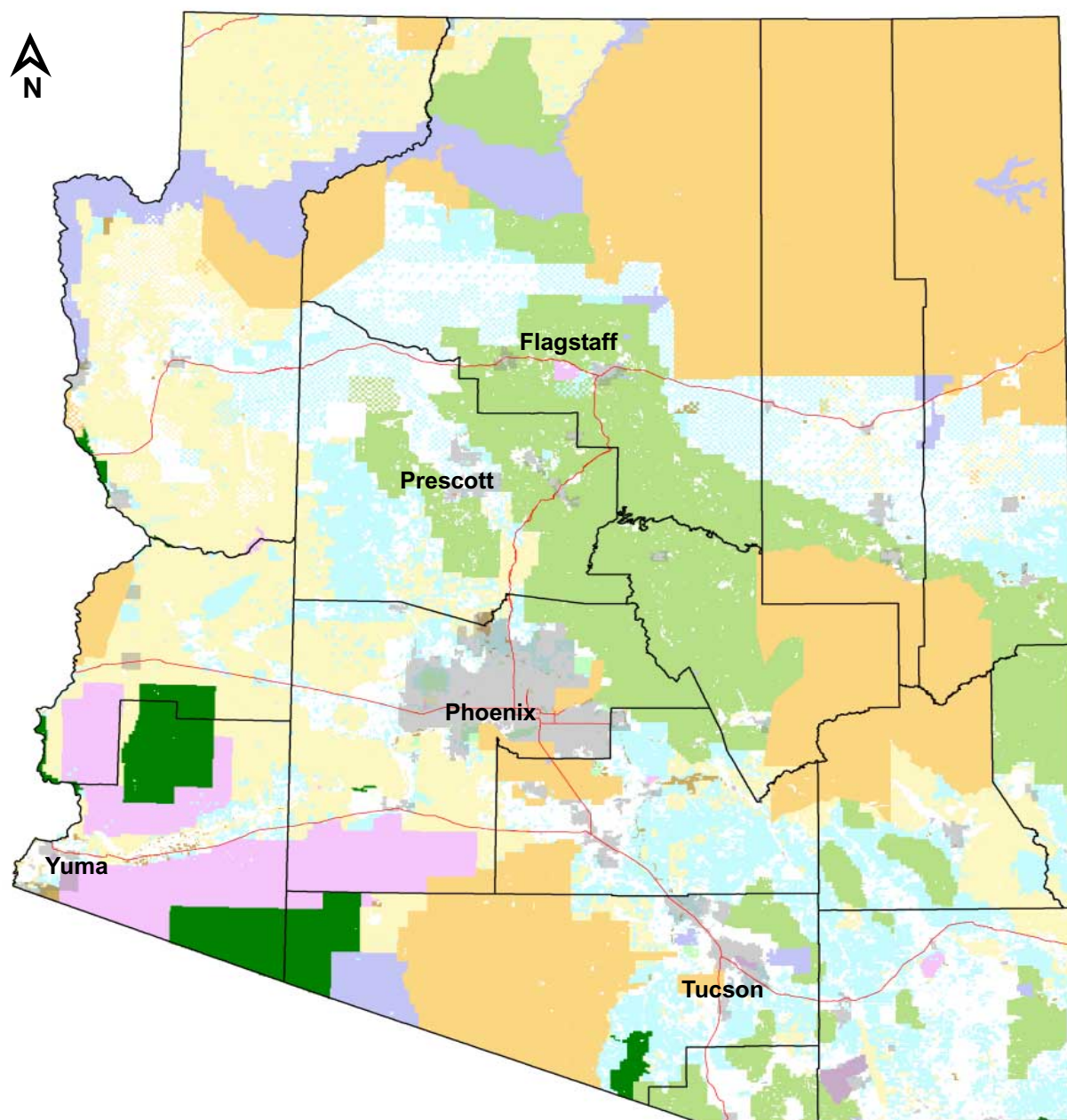
FY 2004

AUCTIONS OF LEASES WITH AND WITHOUT THE PREFERRED RIGHT TO MATCH THE HIGHEST BID (REPORT REQUIRED BY A.R.S. §37-132,A.10)

AUCTION DATE	LEASE #	PARCEL LOCATION	PREFERRED RIGHT	NO. OF BIDDERS	PREFERENCE EXERCISED REVENUE	MINIMUM BID	BONUS BID	SUM BASE RENTAL
06/22/04	03-107962	SEC of Thompson Peak Parkway and Hayden Rd.; Maricopa County	Yes	3	No	\$6,800,000	4,800,000	\$81,983,032*
05/12/04	03-107107	W of Grand Ave. on Deer Valley Rd. Align.; Maricopa County	No	1	N/A	\$64,860	\$0.00	\$12,825,720
04/27/04	03-107447	N of Parker, along Colorado River (ParkerStrip); La Paz County	No	1	N/A	\$28,500	\$0.00	\$1,146,054
04/29/04	03-106005	SW of the align. of Gary & Silverdale Rds.; Pinal County	No	1	N/A	\$95,917.50	\$0.00	\$15,237,680
01/07/04	03-105236	SEC of A & 2 nd Streets; San Luis, Yuma County	No	1	N/A	\$49,000	\$0.00	\$14,971,750
7/29/03	03-106249	NWC of 56 th ST. & Jomax Align.; Maricopa County	No	1	N/A	\$653,225	\$0.00	\$180,016,297

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

SURFACE MANAGEMENT RESPONSIBILITY

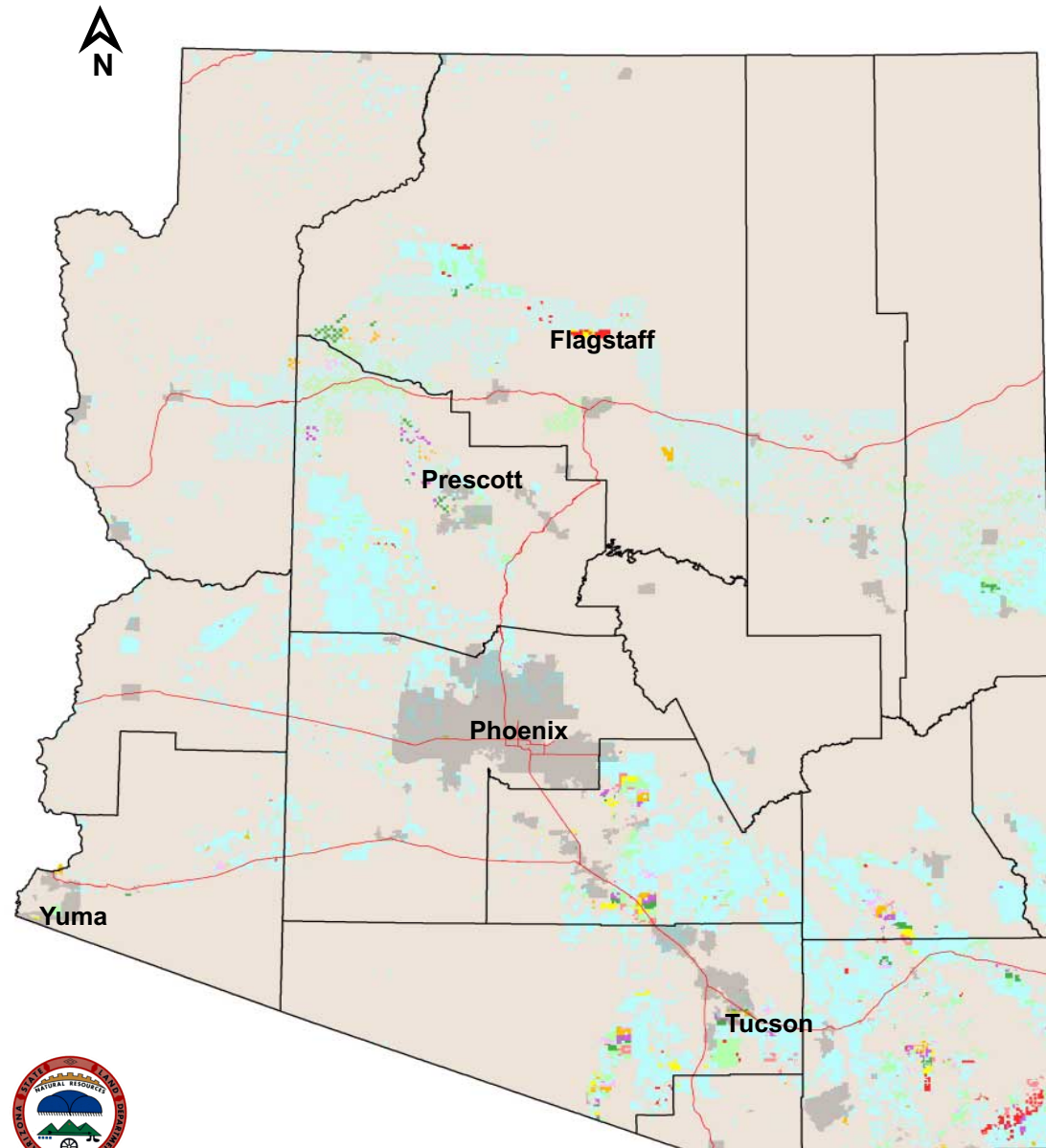


- BLM
- Forest Service
- Indian Reservation
- Military
- Natl Parks/Monuments
- Other
- Parks & Recreation
- Private
- State Trust
- Wildlife Refuge
- Cities



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STATE TRUST LAND BENEFICIARY DISTRIBUTION



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