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Please visit our webpage at www.land.az.gov.

ARIZONA STATE LAND DEPARTMENT

ANNUAL REPORT

2002-2003



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, 2003

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 2002-2003 as required by A.R.S. §37-132. The report contains a summary of the Department's management activities and revenue production during the fiscal year.

Beginning with my appointment in January of 2003, I have made it my primary goal to improve the efficiency and operations of all aspects of the State Land Department to increase our ability to generate revenue for the beneficiaries of the State Trust and fulfill the other important missions of the Land Department such as fire suppression and maintaining land and title records as the State Cartographer. Arizona is fortunate that the Land Department staff is a group of talented and dedicated employees who work daily to support the Trust.

In the past, for a variety of reasons, very few bidders (oftentimes only one or none) attended the public auctions of State Trust land. There was no significant competition at the auctions and the property sold for the opening price. The Land Department had to develop tools to increase competition and generate more revenue.

Over the past several months we have focused our activities on bringing the right sized parcel of State Trust land to the market at the right time. In addition, the Land Department has increased our efforts to market the property we lease and sell. We promoted the availability of State Trust land both in Arizona and nationally. I firmly believe that in order to increase competition, the most successful real estate professionals must want to participate in the public auction of State Trust land.

Our efforts have resulted in almost immediate success. In June of this year, over a two day period, the State Land Department held four public auctions of State Trust land in Phoenix and Tucson and generated a record \$56 million. As important as the income earned is the fact that at each auction there were several bidders and significant competition. In attendance were real estate professionals who were bidding at State Trust land public auctions for the first time. One successful bidder was an international real estate developer from Canada.

The steps we have taken were focused on the manner of preparing State Trust land for auction. This is just the beginning of the process of improving operations that is continuing and expanding. We are 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 look forward to reporting on the successful results of those actions in the near future.

Overall, fiscal year 2002-2003 was an extremely productive one for the Land Department, and it was another record year for State Trust land revenues in many areas. First, the Sales Section held 17 successful land sale auctions during FY 2002-2003, resulting in a total selling price of approximately \$126.9 million. Of the total, \$15.6 million was from cash sales. The balance of just over \$111.3 million will be carried on terms by the Department at an average interest rate of 9.64% for an average term of 8.8 years. This year the Department generated a record \$43.2 million in expendable revenue that was sent to beneficiaries for their immediate use. Records were also set in several areas of expendable revenues: sales interest, \$18.9 million; commercial leasing, \$13.7 million; agriculture, \$3.3 million.

The record \$204.1 million revenue generated this year by the Trust has been allocated as follows: \$86.0 million from the sale of land and minerals was deposited into the Trust Permanent Fund, increasing the Fund to \$1,109,961,000; the public schools and institutions received \$43.2 million from land rents and interest income, school leases of \$1.6 million as well as \$58.5 million from the Treasurer's formula distributions; the Treasurer's Office also received \$13.3 million in commercial prepayments that the Land Department will receive back over time as expendable revenue for the beneficiaries; and \$1.5 million was deposited in the General Fund.

The Land Department served Arizona and its citizens in many 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 Aspen Fire, among many others. Forest and Fire Management Staff are continually recognized locally and nationally for their efforts.

The GIS within the Land Department continues to be a leader in delivering real estate mapping information to Arizona communities and its citizens. Land Department staff have volunteered to participate in statewide and national efforts to create accurate maps as a continuing effort for Homeland Security operations statewide.

The Land Department continues to participate in conservation activities throughout the State of Arizona. Over the past year, State Trust land has either been reclassified for conservation or sold for permanent preservation under the Arizona Preserve Initiative in several counties throughout the State. Within the City of Phoenix, several hundred acres of State Trust land was sold to expand the Phoenix Sonoran Desert Preserve.

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

Sincerely,



Mark Winkleman
Arizona State Land Commissioner

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

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 2003 General Fund budget was \$13,698,200 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.

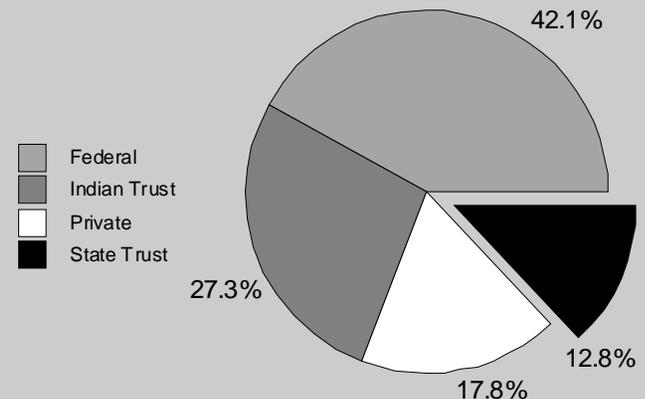
REVENUES

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 2003 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)	8,116,380	\$39,162,449.84	\$53,926,976.00	\$93,089,425.84	\$77,452,775.88
Legislative, Executive, & Judicial Buildings	64,257	\$72,303.06	\$363,779.00	\$436,082.06	\$0.00
State Hospital	71,249	\$251,294.82	\$99,579.00	\$350,873.82	\$22,342.19
Miners' Hospital (Two Grants)	95,458	\$1,123,114.75	\$308,575.00	\$1,431,689.75	\$105,765.37
State Charitable and Penal Institutions	77,563	\$1,713,268.31	\$902,190.00	\$2,615,458.31	\$7,077,417.07
Penitentiaries	76,111	\$778,270.22	\$176,641.00	\$954,911.22	\$645,830.54
Normal Schools	174,798	\$85,475.34	\$96,003.00	\$181,478.34	\$58,527.60
Agricultural and Mechanical Colleges	124,944	\$70,423.85	\$440,584.00	\$511,007.85	\$99,051.11
Military Institutes	80,168	\$63,030.51	\$37,656.00	100,686.51	\$1,204.16
School of Mines	123,559	\$98,241.32	\$425,220.00	523,461.32	\$59,441.47
University Land Code	137,957	\$533,388.28	\$460,023.00	993,411.28	\$220,618.08
University of Arizona (Act of 2-18-1881)	54,239	\$777,952.63	\$1,096,588.00	1,874,540.63	\$220,648.97
School for the Deaf and Blind	82,560	\$116,843.00	\$197,730.00	314,573.00	\$7,181.37
TOTAL	9,279,243	44,846,055.93	58,531,544.00	\$103,377,599.93	\$85,970,803.81

ANNUAL REVENUES COMPARISON: FY 1983 AND FY 2003

	FY 1983	FY 2003	% INCREASE
Land Department			
General Fund	\$936,403.04	\$1,535,537.45	64.0%
Leases & Sales Contract			
Interest	\$10,936,970.71	\$43,198,390.93	295.0%
Permanent Commercial	\$7,186,939.75	\$85,970,803.81	1,096.2%
Prepayment	\$0	\$13,285,378.58	N/A
School Leases	\$0	\$1,647,665.00	N/A
Total Land Department	\$19,060,313.50	\$145,637,775.77	664.1%
State Treasurer			
Treasurer's Formula Distributions	\$14,103,766.00	\$58,531,544.00	315.0%
Grand Total	\$33,164,079.50	\$204,169,319.77	515.6%
Revenue Summary			
General Fund	\$936,403.04	\$1,535,537.45	64.0%
Expendable Permanent	\$25,040,736.71	\$103,377,599.93	267.2%
Commercial Prepayment	\$7,186,939.75	\$85,970,803.81	1096.2%
Prepayment	\$0	\$13,285,378.58	N/A
Grand Total	\$33,164,079.50	\$204,169,319.77	515.6%
Permanent Fund Growth			
	\$150,185,290.00	\$1,109,961,000.00	639.1%
Revenue Growth Categories			
Commercial Land and R/W Sales	\$1,524,276.00	\$13,710,265.14	799.5%
Grazing	\$4,613,110.00	\$82,840,254.69	1,695.8%
Agriculture	\$1,704,818.00	\$2,118,150.38	24.2%
Royalties	\$2,279,410.00	\$3,256,902.92	42.9%
	\$2,818,453.00	\$3,160,876.60	12.1%

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 reimbursement 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

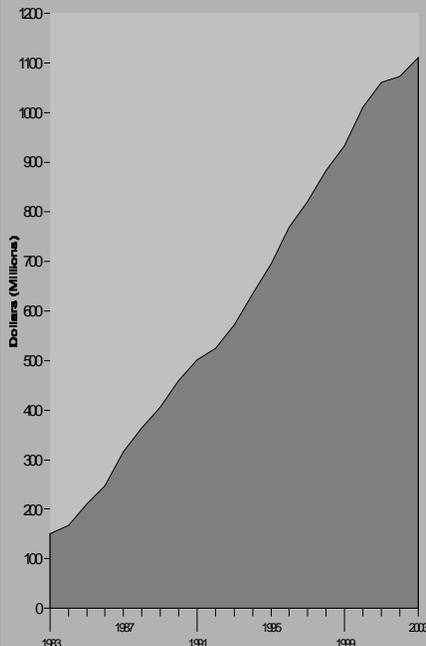
M. Jean Hassell
1987-1997

J. Dennis Wells
1997-1999

Michael E. Anable
1999-2003

PERMANENT FUND

**Growth in Permanent Fund
FY 1983 - FY 2003**



The Permanent Fund, which reached \$1.11 billion at the end of FY 2003, 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 \$1.11 billion by the end of FY 2003.

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 1983.

BENEFICIARY SHARE OF PERMANENT FUND JUNE 30, 2003

	BOOK VALUE	MARKET VALUE
Common Schools	\$1,014,766,000	\$1,022,737,000
Legislative, Executive, and Judicial	\$4,687,000	\$4,656,000
State Hospital	\$3,227,000	\$3,445,000
Miner's Hospital	\$5,156,000	\$5,226,000
State Charitable, Penal, and Reformatory	\$34,022,000	\$35,324,000
Penitentiaries	\$5,471,000	\$5,554,000
Normal Schools	\$1,624,000	\$1,628,000
Agricultural & Mechanical Colleges	\$6,852,000	\$6,751,000
Military Institutes	\$389,000	\$379,000
School of Mines	\$4,860,000	\$4,619,000
University Land Code	\$7,623,000	\$7,693,000
University of Arizona (Act of 2/18/1881)	\$18,246,000	\$18,431,000
School for the Deaf & Blind	\$3,038,000	\$3,058,000
TOTAL	1,109,961,000	1,119,501,000

EXPENDABLE REVENUE BY BENEFICIARY FY 2003

BENEFICIARIES	TREASURER'S FORMULA DISTRIBUTION	LEASE AND SALES CONTRACT INTEREST	TOTAL EXPENDABLE REVENUE
Common Schools (Including lands to Retire County Bonds)	\$53,926,976.00	\$39,162,449.84	\$93,089,425.84
Legislative, Executive & Judicial Buildings	\$363,779.00	\$72,303.06	\$436,082.06
State Hospital	\$99,579.00	\$251,294.82	\$350,873.82
Miners Hospital	\$308,575.00	\$1,123,114.75	\$1,431,689.75
State Charitable, Penal, & Reformatory	\$902,190.00	\$1,713,268.31	\$2,615,458.31
Penitentiaries	\$176,641.00	\$778,270.22	\$954,911.22
Normal Schools	\$96,003.00	\$85,475.34	\$181,478.34
Agriculture and Mechanical Colleges	\$440,584.00	\$70,423.85	\$511,007.85
Military Institutes	\$37,656.00	\$63,030.51	\$100,686.51
School of Mines	\$425,220.00	\$98,241.32	\$523,461.32
University Land Code	\$460,023.00	\$533,388.28	\$993,411.28
University of Arizona (Act of 2/18/1881)	\$1,096,588.00	\$777,952.63	\$1,874,540.63
School for the Deaf and Blind	\$197,730.00	\$116,843.00	\$314,573.00
TOTAL	\$58,531,544.00	\$44,846,055.93	\$103,377,599.93

*The amount for expendable earnings includes the revenue of \$1,647,665.00 from the school leases in accordance with ARS §37-221,D.

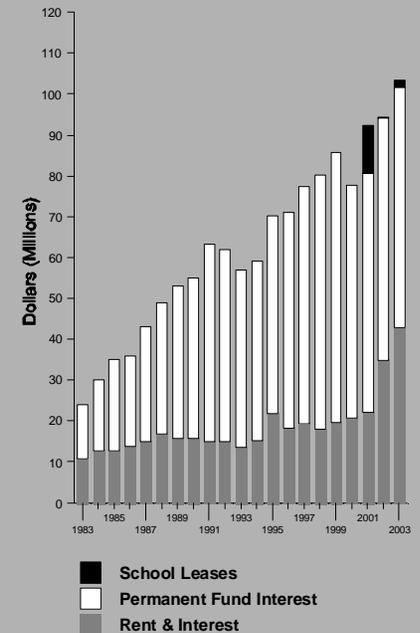
Expendable revenue totaled \$103,377,599.93 in FY 2003 and included lease revenue from Trust land leases and permits, interest earnings from sales contracts administered by the Department, and the Treasurer's formula distribution. Expendable revenues are available to the beneficiaries to use for their operations in the same year they are generated. Over the past 20 years more than \$1.29 billion in expendable revenue has been transferred to the beneficiaries. This consists of \$39 million from lease and sales contract interest and \$9 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 \$103.4 million in FY 2003. 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 2003 expendable revenue for each beneficiary, and the expendable revenue chart to the right shows the growth in revenues since FY 1983.

EXPENDABLE REVENUE

**Total Expendable Revenue
FY 1983 - FY 2003**



AGENCY HIGHLIGHTS

FY 2003 was an excellent year for the Land Department, and tremendous progress was made on many fronts. Following are some of the more notable accomplishments.

TWO DAYS OF RECORD SETTING PUBLIC AUCTIONS TO EARN THE ARIZONA STATE LAND SCHOOL TRUST \$56.7 MILLION

Over a period of two days, the Land Department completed seven sales at public auction of Arizona State Trust land in Tucson and Phoenix which will earn the Arizona State Land Trust \$56.7 million.

Beginning on a Monday morning in Phoenix, three public auctions of small parcels of Arizona State Trust land were held. As a result approximately \$1.1 million was earned for the Trust. Later that day in Tucson, an additional 128 acres of Arizona State Trust land sold at public auction earning the Trust another \$3 million. Competitive bidding at the auction raised the sales price of the property from an opening bid of \$2.5 million to \$3 million. The land will be developed as residential property and the successful bidders were Tucson natives Jim and Bill Campbell.

Concurrently, at the State Land Department offices in Phoenix, a long term commercial lease of approximately 10 acres of Arizona State Trust land located at Thompson Peak Parkway and Bell Road was auctioned. The successful bidder, Byxbee Development Partners, outbid four other parties and paid a first years rent of \$91,130 plus a Bonus Bid of \$1.4 million. The competition for this auction was heated and there were 68 individual bids over the course of the forty-five minute auction. The successful bidder intends to construct a major chain drug store.

The record setting pace continued on Tuesday morning with the sale at public auction of approximately 282 acres of Arizona State Trust land slated for residential use at the corner of Pinnacle Peak

and Cave Creek Road in Phoenix. Several major valley and national homebuilders participated in the bidding. The opening price of \$15.48 million was bid up more than 100 times over the course of an hour with the final bid of \$27.05 million being placed by CHI Construction, an affiliate of Continental Homes.

The 2nd day auction session culminated later Tuesday afternoon in the sale at public auction of approximately 50 acres of Arizona State Trust land located at the entrance of the newly completed J.W. Marriot Desert Ridge Resort and Spa. This parcel had been identified by real estate professionals as some of the most valuable land in the metropolitan Phoenix area. The opening bid for the Desert Ridge parcel was \$12.35 million. The bidding continued for an hour with more than 5 parties making over 150 bids until the final bid of \$24.1 million made by Statesman Properties was accepted.

"The seven public auctions over these two days and the almost \$57 million earned from significant competitive bidding among several parties proves that all the hard work was well worth it." Commissioner Winkleman stated, "This is the most money the Arizona State Land Department has ever generated from this number of public auctions in such a short period of time. I am thrilled for the State and for the school children who will benefit from the sales." The majority of the proceeds from the sales from these two days will be deposited in the Permanent Fund and will provide income to be distributed in perpetuity to the beneficiaries of the fund, primarily Arizona Common Schools, K through 12.

SONORAN DESERT PRESERVE API AUCTION

On January 29, 2003, 629 acres were sold at auction to the City of Phoenix. The



Commissioner Winkleman accepts check from Mayor Skip Rimsza

amount generated for the Trust was \$11.33 million. The property is located in the Union Hills range of North Phoenix and will become part of the City's 13,331 acre Sonoran Desert Preserve.

Arizona Preserve Initiative (API) became law in 1996. It is designed to encourage the preservation of select parcels of State Trust land in and around urban space to benefit future generations. Land can be sold, or leased up to 50 years, for conservation purposes.

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

or lease of State Trust lands for conservation. Monies from this grant program were used by Phoenix to purchase these lands.



(Left to Right) Deputy Commissioner Richard Hubbard, Commissioner Mark Winkleman, and Mayor Skip Rimsza

FIRE HAZARD REDUCTION IN THE WILDLAND/URBAN INTERFACE



What was unthinkable only a few years ago has become common place; Arizona's rural communities are now routinely threatened and burned by wildland fires. The Kinishba Fire, like the Indian Fire last year, caused the evacuation of thousands of citizens from their homes. The Aspen Fire, like the Rodeo/Chediski Fire last year, destroyed hundreds of homes and businesses. Large fires that used to burn hundreds of acres have been supplanted with mega-fires

that burn tens-of-thousands of acres in a single afternoon. Fire potential indices set new record highs each year and the "worst case" scenarios are often exceeded. The inevitable consequence of decades of fuel accumulations and the rapid expansion of the wildland/urban interface, further aggravated by drought, and compounded by nearly a million acres of dead and dying beetle-killed timber have created a catastrophe. Arizona's forests are now in



the midst of a "perfect storm" fueled by insect, disease, and wildfire.

The State Land Department provides the coordination and leadership for fire management efforts on State and private lands throughout Arizona. Assistance provided through the Department's cooperative fire and forestry programs help individual landowners and rural communities treat wildland fuels. The Land Department educates homeowners, builders, and community planners about "FIREWISE Communities" development techniques. The Department assists rural fire departments with training and equipment for controlling wildfires, mobilizes fire departments, and federal firefighting resources throughout the state to assist local communities threatened by wildfire. The State Land Department has initiated several new programs with federal and state emergency funds to address these critical wildfire issues.



Agency Highlights

MARK WINKLEMAN

On January 6, 2003, Arizona Governor Janet Napolitano appointed Mark Winkleman the new Arizona State Land Commissioner.

Mark, a licensed real estate broker and attorney, brings almost 20 years of sophisticated, commercial real estate experience to the Land Department. He has purchased, managed and sold commercial properties all over the Southwest.

"I have specific goals for the Land Department," Mark stated when accepting the Governor's appointment as Land Commissioner. "I want to work with the Department's staff and the real estate industry to bring to public auction urban Arizona State Trust lands at a time and in a manner to promote competitive bidding. This will bring the highest possible price and more money to the Trust."

Commissioner Winkleman will also use effective open space planning to benefit the Trust. "I recognize the fundamental value of meaningful open space in both urban and rural planning and development," Winkleman said. "I have already begun working to achieve view corridors in planning in cities such as Phoenix, Peoria and Tucson."

EMPLOYEE RECOGNITION PROGRAM

EMPLOYEE OF THE YEAR:
Catherine Balzano 2002

EMPLOYEE OF THE QUARTER:
Paulett Baker 4th Qtr 2002
Catherine Balzano 4th Qtr 2002
Jan Laney 1st Qtr 2003
BruceCampbell 2nd Qtr 2003

MERV MASON CUSTOMER SERVICE AWARD:
Linda Fortney 3rd Qtr 2002
Terry Arce 4th Qtr 2002
Carolyn Mucci 4th Qtr 2002
Andy Wright 4th Qtr 2002
Tammy Pike 1st Qtr 2003
Nancy Perry 2nd Qtr 2003

GOVERNOR JANET NAPOLITANO ADDRESSES STATE LAND DEPARTMENT EMPLOYEES.



Arizona State Land Commissioner Mark Winkleman welcomes Arizona Governor Janet Napolitano to the State Land Department's All Employee Meeting held June 25, 2003.

ARIZONA STATE LAND DEPARTMENT

ORGANIZATIONAL CHART

Commissioner's Office
(602) 542-4621

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

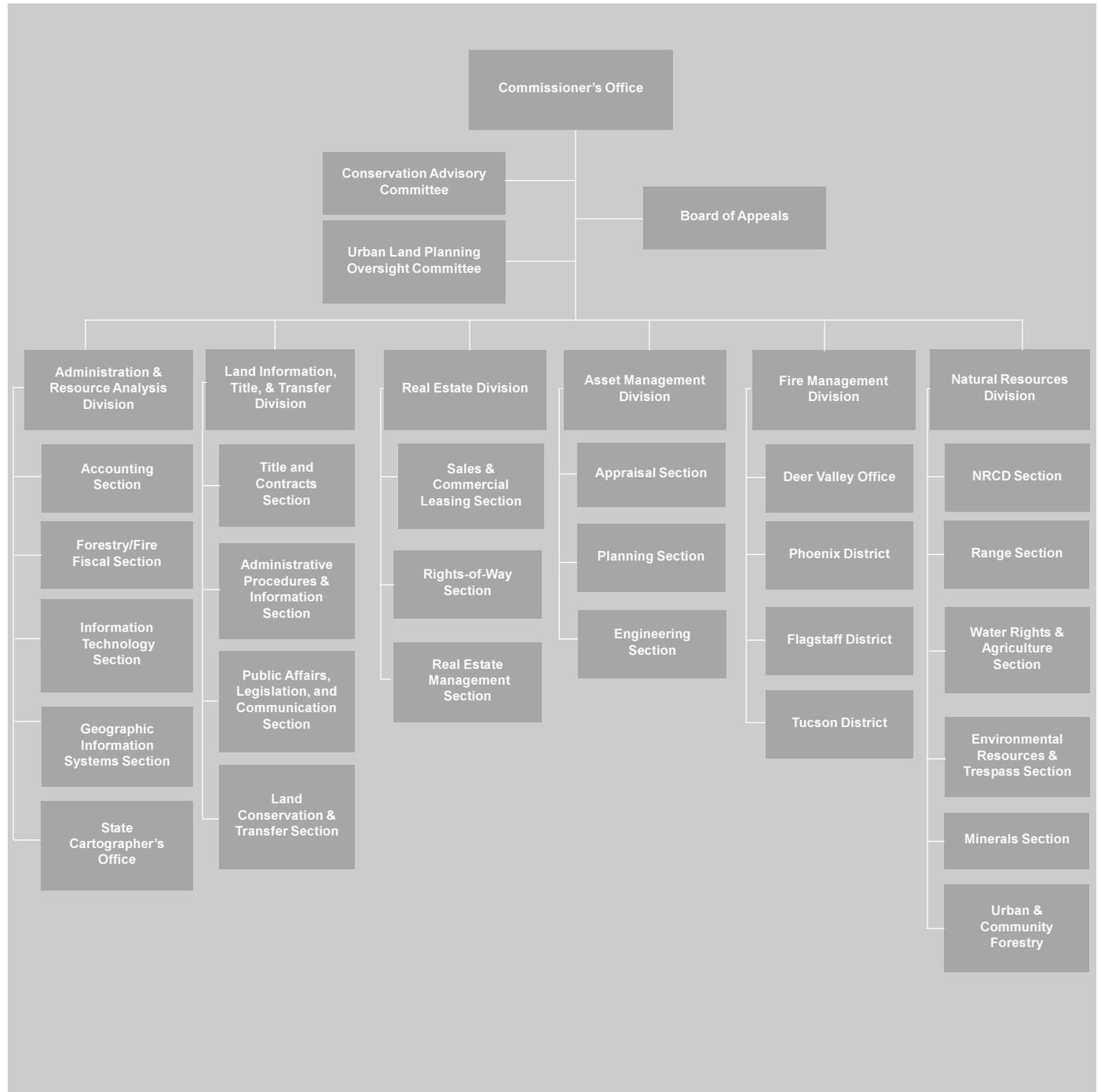
**Land Information, Title,
and Transfer Division**
(602) 542-4602

Real Estate Division
(602) 542-1704

Asset Management Division
(602) 542-3671

Fire Management Division
(602) 255-4059

Natural Resources Division
(602) 542-4625



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 1,277 grazing leases covering more than 8.4 million acres and manages State Trust



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

range land. Duties include: developing 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 wildlife habitat; processing all grazing-related applications for new leases, renewals, and assignments; representing the Department at administrative hearings; preparing billings for grazing-related rentals and

surcharges; and updating grazing leases on changes to law, rule, and policy.

WATER RIGHTS & AGRICULTURE SECTION

The Water Rights & Agriculture Section experienced a dynamic year. Statewide drought conditions presented further challenges to the Section. The activities of the Section are: The Agricultural Leasing program administers 410 leases covering 176,388 acres and 38 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 (NRCDs) which are political subdivisions of the State and administratively

linked to the Land Department. More than 200 supervisors and advisors address natural resource conservation in their respective districts, covering over 85% of the State and serving more than 5,000 cooperators.

The Environmental Special (license) Plate Fund provided monies to the 20 education centers organized by NRCDs and distributed competitive grants. The Arizona Advisory Council on Environmental Education sunset occurred June 30, 2002. The fund oversight is now entirely with the Natural Resource Conservation Section.

MINERALS SECTION

The Minerals Section administers five distinct statewide leasing programs, one of which involves severed mineral estates. During this fiscal year, continued low copper prices resulted in



Reclaimed Drill Site - Union Pass Gold District

production being curtailed to a 17-year low. Although there have been signs of improved economic growth, lower production levels are expected to remain in place for the foreseeable future.

Although base metals have continued to perform poorly, the production of

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

Division Highlights

NATURAL RESOURCES DIVISION

FACTS AND FIGURES

FY 2003

	ACRES	NUMBER OF LEASES
Agriculture*	176,388	410
Mineral Material	2,503	25
Grazing	8,378,940	1,277
Exploration Permits	59,363	164
Mineral	15,268	135
Oil & Gas	363,606	213

NUMBER OF REGISTRATIONS AND WATER RIGHTS CLAIMS

Stockpond Registrations	4,310
Certificated Surface Water Rights	101
Well Registrations	2,670
Adjudication Statements of Claimant	7,023
Water Right Registrations	7,423
Grandfathered Groundwater Rights	236

*Includes Agricultural Use Permits

sand and gravel has continued to offset declining revenues from the hard rock leasing program. As a result of the continued growth in the major urban centers and increased demand for aggregate resources, revenues from the production of sand and gravel from State land have doubled from the previous 10 year average. Generating a total of \$2.9 million in rent and royalty, the sustained growth in this leasing program is expected to continue in tandem with the overall real estate market. In addition to these revenues, the first commercial production of carbon dioxide gas occurred during fiscal year 2003. Producing 21,816 tons or 375 million cubic feet of gas, royalties in the amount of \$21,763 were received by the Department.

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 cleanup 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. Recreation permits are available for individual, family, and group activities.

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

The Community Forestry Section provides technical assistance and grants to Arizona cities and towns, and tree planting assistance to private landowners.

Section staff work closely with the Arizona Community Tree Council, coordinating the Community Challenge Grant Program, the National Arbor Day Foundation poster contest, and the State Arbor Day celebration. The staff also participate in trade shows, consumer education programs, and industry classes and workshops.

Arborist study classes are also coordinated by the staff and the Arizona Community Tree Council, providing training and certification for tree care professionals.

Key to the program's success and viability are partnerships with such organizations as the Arizona Nursery Association and Landscape Contractors' Association, the State's

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.
- Continue to facilitate the execution of Colorado River contracts with the Bureau of Reclamation.
- Continue efforts to educate and support law enforcement agencies throughout the State with training opportunities and information to assist in their efforts to provide enforcement of laws on Trust land.
- Encourage urban forestry through Statewide promotions and educational materials. Provide in-State grant disbursement programs to 10 communities for planting trees.

universities and community colleges, and numerous cities and towns.

DIVISION ACCOMPLISHMENTS

- Produced revenues of \$10.2 million.
- Participated in the development of coordinated resource management plans, monitored existing plans, and produced \$2.5 million in revenue from grazing leases.
- Field inspected all 410 agriculture leases and resolved seven compliance problems, which generated \$48,797 in additional rental revenue. Lease revenue totaled \$3.3 million.
- Field inspected 439 apiary sites on 38 permits plus six compliance problems. Permit revenue totaled \$21,950.
- Participated in 66 Natural Resource Conservation District-related meetings. Provided staff support to the Arizona Association of Conservation Districts and Natural Resources Conservation Service.



The Agricultural Leasing Program manages over 400 state agricultural leases.

- Administered the Environmental Special Plate Fund Grant Program: 235 grants totaling \$273,300.
- Reviewed and commented on approximately 100 rights-of-way applications for native plant and ecological impacts, assessing fees for Natural Products removed. Con-

ducted environmental analysis on four Arizona Preserve Initiative applications. Attended numerous Weed Management Area meetings.

- Administered 537 exploration, mining, oil, and gas leases, producing a total of \$3.2 million. In addition to lease revenues, indirect income in the amount of \$302,000 was generated from mining-related land uses.
- Conducted 117 water resource evaluations for land applications (land purchases/leases); reviewed 31 improvement applications. Completed 101 site investigations related to wells/water facilities, and 34 corrections were made to existing water filings; nine wells were capped/abandoned by lessees, five wells were capped by ASLD, five water rights were assigned, and 17 new water filings were submitted.
- Completed 10 dam safety field investigations for regulatory structures on State Trust land. Staff implemented actions to correct several major deficiencies in an ongoing dam safety project at Wineglass Ranch Dam, near Paulden, including the use of heavy equipment and other means to remove waste tires, solid waste, material blocking the emergency spillway channel, excessive dam vegetation (salt cedar trees) and repair of erosion gullies.
- Negotiated the last settlement with the Harquahala Valley Irrigation and Drainage District over the distribution of HVID CAP buy-out monies. The settlement resulted in the State Trust land beneficiary receiving a payment of \$95,026.
- Reduced outstanding CAP irrigation

district assessment delinquencies by \$4,056 and collected \$34,435 in reimbursements to the Arizona Federal Reclamation Trust Fund.

- Completed the third stage of the multistage analysis of State Trust lands as required by Gila V to support the State's claims for Federal reserved water rights.
- Amended the Land Department's water rights claims in the Gila River and Little Colorado River systems to reflect our Federal Reserve Water Right claim, 6.2 million acre-feet and 1.7 million acre-feet respectively.
- Through 23 cleanup projects, utilizing over 2,116 hours of volunteer time, Section staff coordinated the removal of 220 tons of trash, 426 tires, and 43 abandoned vehicles. Over 2,800 miles of integrated trails were surveyed for management considerations. Over 1,700 hours of archaeological site monitoring were contributed by Site Steward volunteers. Staff reviewed 337 land use and disposition actions for cultural resource issues; finalized remediation of 20 hazardous materials sites; and issued 6,580 individual, family, and group recreation permits.
- Community Forestry Program activities resulted in 5 communities and seven organizations being awarded 14 grants totaling \$90,000; 4,700 individuals attended Certified Arborist training and tree care clinics. Arbor Day 2003 was celebrated throughout the State of Arizona. The educational component of Arbor Day was the elementary school poster contest, which included 450 participating students from 20 schools.

Division Highlights

NATURAL RESOURCES DIVISION

NATURAL RESOURCES DIVISION REVENUE PRODUCTION

Lease Rentals

Agriculture	\$3,256,903
Mineral Material	\$255,121
Grazing	\$2,118,150
Exploration Permits	\$100,284
Geothermal	\$0
Mineral	\$7,545
Oil & Gas	\$471,569

TOTAL \$6,209,572

Sale of Products

Public Auction	
Water Sales	\$218,158
Lease Water Charges	\$172,850
Mineral Royalties	\$109,834
Natural Products	\$2,660,034
TOTAL	<u><u>\$3,160,876</u></u>

Trespass Revenues

Direct Revenue	\$108,982
Secondary- Lease Revenue	\$712,606

TOTAL \$821,588

GRAND TOTAL \$10,192,036

Division Highlights

ASSET MANAGEMENT DIVISION

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

Division Director
Ron Ruziska

Section Managers

Bill Shaffer, Appraisal
Gordon Taylor, Planning
Ott Chatupron, Engineering

The Asset Management Division was split from the Real Estate Division during the early part of 2003. 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 received 375 appraisal requests this fiscal year. Through staff and contract fee appraiser's the section completed 426 appraisals. In addition, the Appraisal Section reviewed 208 appraisal reports. Several appraisal projects are underway addressing open space issues. The Section continually strives to meet the challenges of under staffing and budget constraints by maintaining our focus on serving the Land Department beneficiaries.

PLANNING SECTION

The Planning Section completed drafts of conceptual plans in Northwest Phoenix, Kingman and Sierra Vista that represented 30,943 acres. 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 389,544 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 the Lake Havasu City General Plan Update Committee, the Prescott East Area committee, and the Davis-Monthan Air Force Base. The Section also processed general plan amendments for Northwest Phoenix and Scottsdale and amended the zoning for the Scottsdale core North/Core South development plans as well as the Camino a Lago development plan in Peoria.

In addition, the Section continued the coordination of multi-modal transportation studies on Trust land at the Loop 101 and Scottsdale Road.

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.

Finally, the Planning Section forwarded six annexation requests, totaling more than 35,000 acres, to the State Selection Board for its December agenda. Pre-annexation and development agreements are now being used to protect existing uses and to secure future development rights. General

Plan Amendments are also being required as another means of safeguarding the long-term best interest of the Trust.

ENGINEERING SECTION

The Section provided the engineering support necessary to prepare nearly 500 acres of Trust land for disposition. These dispositions generated nearly \$57 million to Arizona schools. Two, of the many dispositions, included a sale of approximately 50 acres of prime real estate. The first, located near Marriott Resort in Desert Ridge, resulted in \$24.1 million and the second, located near Pinnacle Peak and Cave Creek Roads, resulted in \$27 million.

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), 401/404 permits and will also assist in future dispositions of parcels in this project area. The Section is also, providing technical review for on-going flood control work of the Flood Control Districts of Maricopa and Pima Counties which impact Trust land.

Natural Resource Support: The Section assisted the Minerals Section with sand and gravel issues on Trust land; Grazing and Agriculture Sections with drainage and reservoir issues; responded to local government and public requests to solve drainage and flood problems on Trust land, and assisted the Environmental and Trespass Section with a number of trespass is-

sues involving drainage and engineering areas.

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

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 ACCOMPLISHMENTS

All appraisals for the Department are processed through the Division’s Appraisal Section. Last year the Section completed 426 appraisals , while reviewing an additional 208 appraisal reports. With record low interest rates the number of applications needing review is increasing, adding additional work to 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. Last year the section completed planning for 30,943 acres in NW Phoenix, Kingman and Sierra Vista. Facing limited funding, the Department partnered with the City of Phoenix to complete the conceptual planning for the balance of Trust land in Phoenix totaling 42,000 acres. This plan has subsequently been approved by the Phoenix City Council. In addition to these accomplishments, the Planning section completed the first draft of the Five Year Plan as mandated by Growing Smarter. Finally, the Section continues to broker annexation agreements with communities seeking to annex Trust land.

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 to 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.

Division Highlights

ASSET MANAGEMENT DIVISION

PLANNING

Completed conceptual plans for:

- Phoenix NW Area
- Sierra Vista
- Kingman
- Tri-City Plan Revisions
- 5-Year Plan
- Luke Air Force Base Joint Land-Use Study

Participated in:

- MAG continuing issues
- SE/Maricopa/Pinal Transportation Committees
- Gateway and Desert View Village Planning Committees
- Flagstaff’s Walnut Canyon Plan
- Ed Fox Group Committee
- Phoenix’s Desert View Village Design Subcommittee
- Davis Montham Air Force Base Perimeter Development Policy Committee
- Scottsdale Crossroads Rezoning
- Maricopa Flood Control District Easement Issue
- Selection Board Coordination
- Prescott Valley/Glassford Hill Development Plan
- Urban Land Institute Arizona Technical Association Panel Coordination

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

REAL ESTATE DIVISION

...meeting the demand for open space, residential, commercial, and industrial properties.

Division Director
James L. Adams

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

SALES AND COMMERCIAL LEASING SECTION

The Sales and Commercial Leasing Section ended a banner year with several highly competitive auctions:

- The most notable auction was the sale of a 49 acre multi-family parcel in the Desert Ridge master planned community. The minimum bid was \$12.35 million; after 156 bids from nine registered bidders, the final sales price was \$24.1 million.

- The Department auctioned a 282 acre parcel in north Phoenix; the minimum bid was \$15.48 million; after 109 bids from five registered bidders, the final bid was \$27.05 million.

- A 128 acre parcel in Pima County just southeast of Tucson was sold at auction. The minimum bid was \$2.5 million; after 10 bids placed by two developers, the final bid and sales price was \$3 million.

- A 65 year lease for approximately 5.5 net acres in northeast Scottsdale was offered at public auction. The parcel was appraised at \$2.43 million, roughly \$10 per net square foot. The first year's rent, and the minimum bid for this lease was \$91.13 thousand. After 68 bids from five registered bidders, the bonus bid for the lease was \$1.48 million.

These three land sale auctions were sold on terms for a total of \$54.15 million with an average annual interest rate of 9.64% for an average term of nine years. The commercial lease will net \$18.86 million over its 65 year life.

Other notable sales included:

- A 1,322 acre parcel in the Stetson Hills master planned community in Phoenix; this sale included 510 acres of open space.

- 689 acres of land classified as suitable for conservation under the Arizona Preserve Initiative were offered at public auction.

In total, approximately 3,570 acres of Trust land were sold. Of that, 1,600 acres were sold for open space under the Arizona Preserve Initiative Program, or was open space located within urban planned parcels sold for residential development in FY 2003.

The Department also auctioned an approximate 25 net acre parcel next to the Scottsdale Princess Resort. The lease will bring in \$288.3 million over its 99 year life. Two leases were auctioned in Lake Havasu City, which together will earn the beneficiaries a minimum of \$36.95 million over their 50 and 65 year terms.

Commercial leases produced revenues of \$30.7 million during FY 2003, including \$13.3 million representing partial prepayments of existing leases. Excluding prepayments, commercial leasing revenues constituted a 34% increase over FY 2002. Sixteen long-term leases were offered at public auction. All auctions were successful, resulting in ground leases for nine school sites, a resort related development, and a neighborhood commercial center in Scottsdale, three commercial developments along the Colorado River, a freeway commercial site along Inter-

state 10, and a highway commercial and boat storage development outside



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

of Page. The auctioned leases, excluding the school sites, will produce in excess of \$346 million over their respective terms.

RIGHTS-OF-WAY SECTION

The Rights-of-Way Section produced revenues of more than \$10.65 million during FY 2003. The Section completed approximately 350 grants for rights-of-ways. The Section grants rights-of-ways to public agencies, utility companies, and private citizens to facilitate development and to accommodate the needs for public roads, power, water, and sewer throughout the State.

REAL ESTATE MANAGEMENT SECTION

The Real Estate Management Section's (REM) main purpose is to support and assist the other Sections within the Division with management issues.

In FY 2003 the Section developed a sales and leasing training manual for the Division's new hires. Over a six week period, ten employees completed the training course. The new

administrators were exposed to all aspects of the Land Department's business issues and how other Divisions and Sections interface with the Real Estate Division daily.

The Section revised its Broker Commission Fee and the Selling and Administrative Fee schedule to bring the fees more in line with what is being offered as a commission to brokers in the private real estate market. Commissions on a long-term lease are now calculated over a cumulative fifteen year basis where in the past commissions were figured on the first five years rental only.

The Section also developed the Real Estate Division's web pages providing general information to the consumer concerning sales, leases and rights-of-way. Selected applications and broker commission information and corresponding forms are now available on the web site. For the first time there is now a list of "Available Properties" on the web site with corresponding site maps for each of the properties.

The REM Section is responsible for preparing all public auction notices, placing the legal notices in the proper papers, marketing the parcels and

conducting the public auctions. In FY 2003 the Section prepared and conducted 68 public auctions. It has made available marketing packages to provide potential bidders with specific information on a parcel that will be offered at public auction. The Section produced mailing lists of single and multi-family residential developers, commercial and retail developers, and industrial users and developers that may have an interest in upcoming auctions.

The Section reviewed and approved four plats, along with their specific take down schedules, on properties sold in FY 2002 as the successful bidders begin production on lands purchased under terms. During FY 2003 the Section completed five partial patents for a total revenue to the Permanent Fund of approximately \$28 million, with interest to the general fund of just over \$900,000. Approval of plats, take down schedules and partial patents will continue as more land sales are sold on terms.

FUTURE GOALS

- Offer for sale and long term lease at public auction Trust lands valued at over \$150 million in FY 2004 at terms favorable to the Trust.
- Continue to negotiate with applicable jurisdictions for orderly extension of infrastructure in a manner that yields economic benefits to Trust lands, and incentives to the marketplace, by providing greater certainty in the disposition of those lands.
- Continue to offer at public auction Trust lands for conservation purposes under the Arizona Preserve Initiative Program.
- Focus human and financial resources on lands that are ready for disposition, demonstrates demand in the marketplace, and have higher revenue generating potential.
- Continue to streamline the rights-of-way application process and the need for rights-of-entry applications.
- Continue to work with other state and local government agencies to meet demands for roadways, power and water, and other municipal land use needs.
- Coordinate the siting of power lines in developing areas earlier in the process to ensure Trust lands are not being adversely affected.
- 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.

DIVISION ACCOMPLISHMENTS

- Land sales principal generated \$73.2 million for the Permanent Fund, a 62% increase over FY 2002. Expendable revenues were generated in the amount of \$18.9 million from land sales interest, a 91% increase over FY 2002. Combined with commercial leasing revenues, approximately \$36.4 million in expendable revenues went directly to the beneficiaries as a result of the sales and commercial leasing program.
- Record setting bidding at two Phoe-

Division Highlights

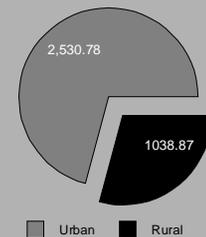
REAL ESTATE DIVISION

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.

FACTS AND FIGURES LAND SOLD FY 2003

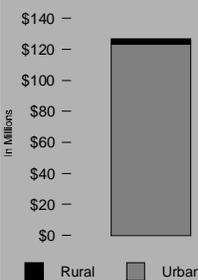
	ACRES SOLD	TOTAL SALES PRICE	AVERAGE PRICE PER ACRE
Urban	2,530.75	\$123,522,200	\$48,809
Rural	1,038.87	\$3,340,380	\$936
Total	3,569.62	\$126,862,580	

Acres Sold

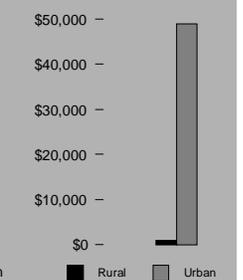


Total Sales Price

In Millions



AVG Price Per Acre

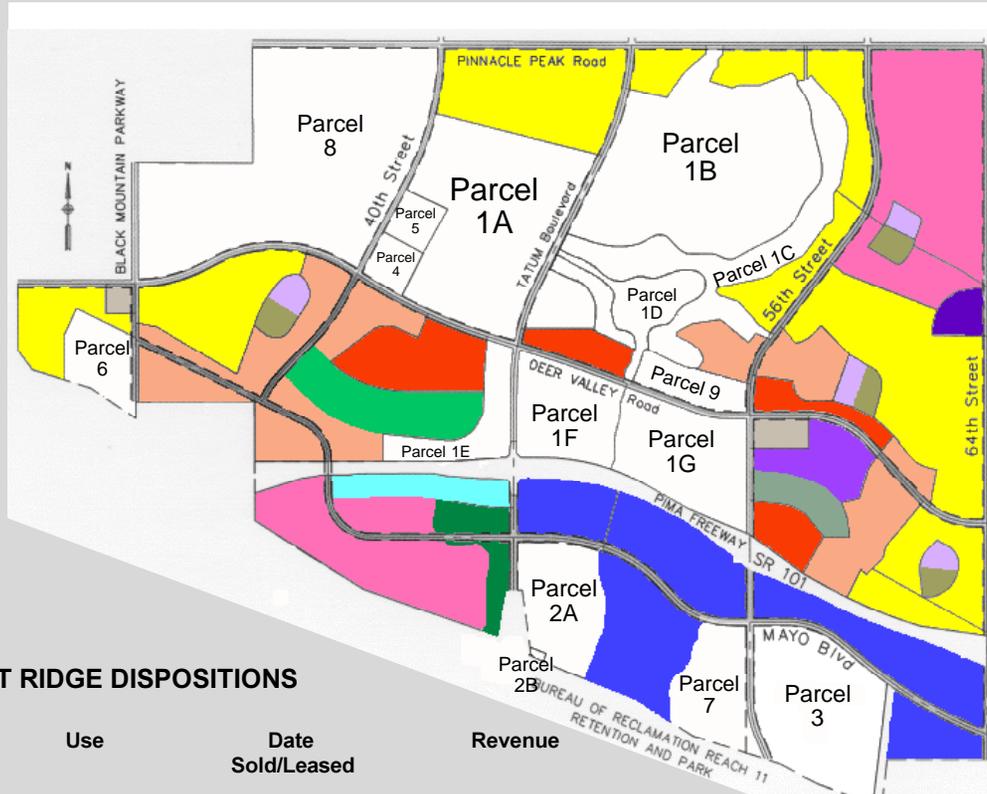


DESERT RIDGE

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

PARCEL 9

156 bids were placed by nine different multi-family residential developers 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.



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



Parcel 7: American Express

nix land sales auctions and a Scottsdale commercial lease auction has generated increased interest in the Department's dispositions.

- Negotiation of a development agreement with City of Phoenix to allow excess impact fee credits from a sale parcel to inure to the benefit of adjacent Trust lands.



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

- Sale of 689 acres under the Arizona Preserve Initiative Program.
- Completion of fiber optic policy and rent schedule.
- Continued training program and provided updated manuals for new employees.
- Revision of Selling and Administrative Fees and Broker Commission Fees.

- Creation of "Available Properties" with corresponding site maps on the Division's web page along with an enhanced and focused marketing program.

BOARD OF APPEALS

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:

- Chairperson 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.
- Kathleen M. Holmes, Scottsdale, member-at-large.
- James M. Webb, Phoenix, member-at-large.



Board of Appeals meeting on August 14, 2003. Pictured left to right, Norman Brown, James Webb, William Gray, Nancy Garcia (BOA Coordinator), and Chairperson Sanders Solot. Not Pictured Kathleen Holmes.

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 Flagstaff and one in Apache Junction.

During the fiscal year, the Board approved 41 commercial leases, including sixteen long-term leases, ten for 75 years, two for 65 years, one for 50 years, one for 40 years, one for 35 years, and one for 20 years; 91 rights-of-way sales appraisals; and 19 land sales appraisals, three of which were urban land sales.

Fourteen new appeals were filed with the Board, with 11 pending appeals carried forward. Three appeals modified the Commissioner's decision. Four appeals sustained the Commissioner's decision. Twelve appeals were withdrawn and dismissed by the Board. Presently, six appeals are still pending.

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

TITLE AND CONTRACTS SECTION (T&C)

The Title & Contracts Section (T&C) develops, processes and docketes all surface lease, sale, or use applications. T&C also prepares, drafts and revises all surface lease, permit, right-of-way documents, ensuring compliance with laws, rules and guidelines of the Land Department.

T&C is also accountable for current and accurate records reflecting acquisition, surface use and disposition of the State's 9.3 million acres of State land. T&C provides extensive research data and prepares land use and title reports for all legal actions and special projects addressing Trust lands.

This fiscal year, T&C processed 1,661 new applications, finalized 1,355 pending applications, and researched 4.4 million acres of land associated with the sale, lease, and use of the State's Trust and sovereign lands.

T&C prepared and issued 12 patents totaling 1,201.79 acres from cash sales, five partial patents totaling 307.24 acres, five certificates of purchase totaling 617.03 acres and an additional 19 patents from existing term sales totaling 2,243.20 acres.

T&C regularly works with the public to resolve long standing land title or land use issues. Often these issues span back across time to statehood or territorial days prior to the State obtaining title to certain parcels of land. One such issue involved the Magma Arizona

Railroad located in northern Pinal County. The railroad track was initially constructed as a narrow gauge track under the Federal Act of 1875 which granted rights-of-way on their federal land. In the 1920's the narrow gauge track was replaced with a standard gauge track and patents were subsequently issued to the railroad. The patents issued were based on erroneous surveys made by the federal government, which resulted in erroneous patents being issued on portions of the railroad track.

Through the years, several attempts were made by the Department and the railroad to resolve the issue but were unsuccessful. During this fiscal year, the T&C staff and representatives of the railroad, being equally determined, resolved the decades old problem, thus eliminating potential legal problems and land use problems for the State, the Trust and the railroad.

STATE TRUST LAND USES

	NO. OF LEASES	% OF LEASES	TOTAL ACREAGE	% OF ACREAGE
SURFACE				
Rights-of-Way	6,983	71.68	148,851	1.63
Grazing	1,277	13.11	8,378,940	92.00
Commercial	317	3.25	80,552	0.88
Commercial				
School Leases	6	0.06	498	0.01
Agriculture	410	4.21	176,388	1.94
Use Permits	502	5.15	240,309	2.64
U.S. Government	157	1.61	18,274	0.20
Homesite	13	0.13	67	0.00
Institutional	10	0.10	12,892	0.14
Public Education	0	0.00	0	0.00
Recreational	67	0.69	50,559	0.56
Subtotal (Leases)	9,742	100.00	9,107,330	100.00
SUBSURFACE				
Mineral	135	25.14	15,268	3.46
Mineral Exploration	164	30.54	59,363	13.47
Mineral Material	25	4.66	2,503	0.57
Oil & Gas	213	39.66	363,606	82.50
U.S. Government	0	0.00	0	0.00
Subtotal (Leases)	537	100.00	440,740	100.00
TOTAL LEASES	10,279		9,548,070	

ADMINISTRATIVE PROCEDURES & INFORMATION SECTION (APIS)

The Administrative Procedures & Information Section is responsible for: 1) coordination of administrative hearings and litigation issues with the State's Office of Administrative Hearings; 2) Public Records; and 3) Cadastral survey and land legal descriptions of Trust lands; 4) coordinating issuance of Commissioner's Decisions and Orders; and 5) providing staff and coordination support for the Board of Appeals.

The Department received nine appeals that qualified as appealable agency actions under the State's Office of Administration Hearing criteria. APIS resolved six of the nine appeals (67%)

through settlement conferences. There were 35 major litigation actions involving the Department this fiscal year in which APIS served to coordinate the Department's response to these litigation issues with the State's Attorney General's Office and courts of law.

Based on survey responses addressing customer service and employee satisfaction, the Department made progress to improve ratings in both areas. Favorable customer service ratings increased from 85% in FY 02 to 89% this fiscal year. The Department continues to work towards improving employee work environment and intra-departmental communications in response to the employee survey comments.

The Public Records area is the Department's information and records research center. It provides expertise on an extensive land use database of 9.3 million acres of Trust land. A major role of the Public Records area is to conduct and instruct the public and Departmental staff in land title research procedures and interpretation of title records, both physical and computerized. Public Records assists approximately 4,000 customers a year and receives about 10,000 phone inquiries.

Issuance of recreational permits played a significant role in the routine public inquiries received this year. Approximately 7,761 permits were issued this fiscal year, as compared to 6,000 for the last fiscal year.

In addition, APIS assumed responsibility for the coordination of Board of Appeals meetings. The Board is a public entity consisting of five members appointed by the Governor to review all appraisals and reclassification issues before the Department. All land sales and commercial lease applications must also be approved by the Board. An applicant, or anyone adversely affected by a State Land Commissioner's decision with regard to an appraisal or reclassification issue, may file an appeal with the Board. Once a month the Board meets to review sales and commercial lease applications. At that time, the appellant is given an opportunity to present testimony and evidence justifying an appeal. The Board heard seven appeals this year and two additional appeals were resolved through settlement conferences.

FUTURE GOALS

- Continue the research and input of federal rights-of-way on State land.
- 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 to develop and implement innovative methods to improve customer service and employee satisfaction.
- Continue to improve and expand the Division's response to public and staff information requests.
- 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.
- Strive to alleviate the number of OAH hearings required through the use of settlement conferences.
- Complete the Congressionally approved Federal condemnation authorized under the National Defense Authorization Act of 2000 involving State lands in Fort Huachuca (1,536 surface acres and 14,241 subsurface acres).

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.

98% (9.1 million acres) of the surface is under 9,742 leases and other contracts.

5% (440,700 acres) of the subsurface is under 537 leases and other contracts.

Thirty-one API petitions to reclassify 115,293 acres of Trust land as suitable for conservation purposes have been filed with the Department.

Over 42,425 acres of State Trust land covered in 17 API petitions have been reclassified as suitable for conservation purposes.

Over \$38,989,200 has been added to the Permanent Trust fund through the sale of 2,301 acres that has 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

Maintaining public records and land database information on 10,000 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.

CADASTRAL AND SURVEY UNIT

The Department's Parcel and Land Mapping System (PALMS) State land database is maintained by the Cadastral Unit (Cadastral), a fully computerized land mapping and survey unit. PALMS depicts the current status and availability of State Trust lands. To achieve the goal of the highest possible match rates between the PALMS data base and the OASIS business system, Cadastral resolved 1,495 land legal description issues associated with leases and other land use contracts and plotted approximately 1,550 new parcels. A 98% match rate was achieved this year.

Cadastral also reviewed, verified and/or prepared legal descriptions on over 1,450 applications, including sales, new and renewal leases, permits and rights-of-way.

Cadastral provided computerized mapping services on several on-going projects, including the expansion of the Valencia-Houghton Roads Planning Project in Pima County, the revision of the State Plats for Camino A Lago, Stetson Hills and South Mountain.

Cadastral has produced rights-of-way maps of several areas and developed a composite map of some sites together. A large array of Colorado River sovereign land maps were produced, depicting the ever-changing location of the river banks over time.

Several boundary and survey field operations were conducted this past year

to assist other Divisions in resolving trespass issues, determining ownership for lease and title discrepancies, and locating historic land use areas.

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

- Instrumental in having the public policy measure, securing supplemental Trust revenues for public education funding, approved by the voters in November 2002.

- Developing and strengthening an in-depth working relationship with the Trust's public education beneficiaries.

- Completed the entry of 14,962 subsurface acres and 15,230 surface acres received in December 2002 as payment for the In-Lieu land debt owed the State of Arizona pursuant to the Enabling Act entitlement and the San Carlos Consent Judgement.

- Successfully resolved a long standing title issue with the Magma Arizona Railroad, resulting in numerous affidavits being prepared to clear title on various sections of land.

- Reclassified 164 acres of State Trust land as suitable for conservation purposes, bringing the total to 42,452 acres that have been totally or partially reclassified.

- Created new methods and implemented a number of actions to improve customer relations in response to customer service survey results. Responded to 55,000 customer requests for information relating to Trust lands.

- Continued researching federal rights-of-way on State land.

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. AGIC is a multi-agency, multi-government council responsible for determining areas of

standardization and facilitating cooperative 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.

ACCOUNTING SECTION

The Department received a clean financial audit for the sixth consecutive year. This is a significant accomplishment given the complexity of the Department's financial structure and the fact that over \$100 million in revenue from leases and sales is processed annually.

FORESTRY/FIRE FISCAL SECTION

The Department received close to \$5 million in new Federal grants for fuels treatment projects and other grant projects intended to improve Arizona's capacity to respond to wildland fires. The Section now administers the fiscal workload for 17 different forestry and wildland fire grants. In order to accommodate this additional funding, the Section was required to set up additional accounting structures and work processes.

Another challenge the Section faced was the increased workload due to the second worst wildland fire year in Arizona history. The Section saw a dramatic increase in accounts payable, payroll transactions, fire cost estimating, and pre-positioning costs. In addition, the Section handled close to \$1 million in costs for several out-of-state assists including the Columbia

Shuttle cleanup in Texas and wildland fire assistance in Montana, New Mexico and Oregon.

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 Government Information Technology Agency (GITA) approved the agency Project Investment Justification (PIJ) for the next major upgrade of the Agency's infrastructure, servers, network backbone, Oracle databases, PC hardware, and application software. The major goals of the system upgrade are to expand 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 upgrade of the PCs and network to handle the expanded capacity of the GIS applications and data; and the reprogramming and conversion of Business System and GIS applications to new versions of Oracle, Arc Info, and Arc View. Converting to browser-based applications will advance the Governor's direction to agencies to improve service to customers through expanding the information and services available to the public and businesses through the Internet. The Internet applications will also greatly

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

Dave Bee, Accounting

Roy Myhlhousen, Forestry/Fire
Fiscal

Bill Reed, Information Technology
Gary Irish, Geographic Information
Systems

Eugene Trobia, State
Cartographer's Office

Division Highlights

ADMINISTRATION AND RESOURCE
ANALYSIS DIVISION

The Department received a clean financial audit for the sixth 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.

expand the ability of Land Department staff to conduct their field work and provide information to lessees in the field.

The IT Section began implementation of the systems upgrade by working on rewriting the business system applications and upgrades of the production databases. In addition, the building was rewired and the servers, network equipment and operating systems were purchased, installed and tested. The PC's and user software upgrades will be purchased and installed in the fall of 2003.

The IT Section created a design to 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 expanded the applications available on the Disaster Recovery Server that is located off site and will enable the Department to continue its critical business functions the next day if an emergency occurs. The system backup procedures were also

enhanced. The OASIS business system, all office automation files, and the cadastral databases would all be available on the offsite 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 Governor's Disaster Recovery Office.

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; moving the business system from a client server to a Web based application; deploying the new desktop environment and applications; building an internal information portal; implementing Internet applications, including the public counter; and providing training to end users.
- The ITS will complete the design and testing of the integration of the Fire labor distribution system into the new HRIS Payroll System. HRIS is scheduled to be brought on-line in December, 2003.
- 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 also develop additional parcel layers for PALMS. Support for the API and the Growing Smarter project will continue 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 the development of the Internet map server to provide interactive mapping services that show the locations and aspects of State Trust lands that are of interest to the public. During this fiscal year a project to develop a map service showing leased lands and other data available internally in PALMS will be initiated.

STATE CARTOGRAPHER'S OFFICE

The State Cartographer's 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

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. This past year the Section completed the development of several advanced PALMS training classes and conducted sessions of those classes for the Department staff. Several major enhancements were added to

PALMS this past year. Two major software subsystems were added, a user help system which contains training information, as well as user information about all of the menus and selections available in PALMS, and a metadata subsystem. The metadata subsystem was the culmination of a large project by the GIS Section to upgrade the quality and quantity of its metadata 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 users have access to metadata about GIS data in order for them to use the data appropriately for developing GIS applications and map products. Also, during this past year, many existing data sets were updated in PALMS and two new data sets showing the FEMA flood plain areas and the detailed soils data for most of Arizona were added.

This past year the GIS Section also began developing a new upgraded version of PALMS that will offer users significantly enhanced map production and data access capabilities. This upgrade is part of the Department's project to upgrade its base information technology infrastructure and enterprise software over the next several years. The upgraded PALMS system, along with the upgraded hardware infrastructure, will greatly increase the usability and system throughput of GIS data for Department users.

The Section also continues to provide

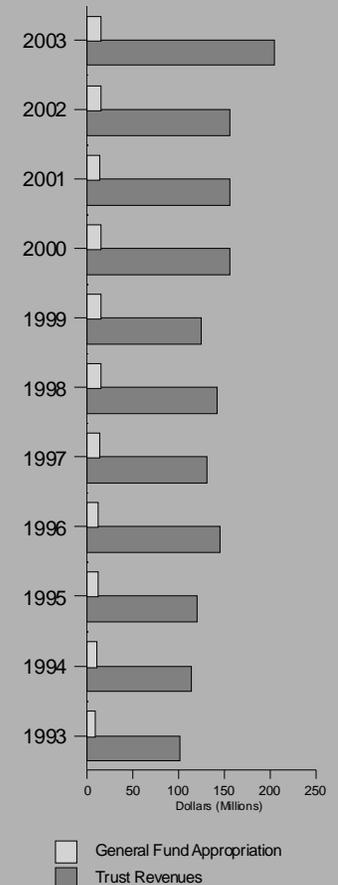
mapping and analysis support for various Department efforts. This past year the Section continued to work on with other Department work units on the Arizona Preserve Initiative and on developing GIS databases to support the development of conceptual plans for priority urban State Trust lands as part of the Department's Growing Smarter project.

The GIS Section also houses the ALRIS Program, which provides statewide support for public agencies in Arizona in the area of GIS technology. During the past year, ALRIS distributed 1,310 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 in Arizona. The ALRIS web site was also upgraded with all new meta data to help customers better understand the program's data holdings. This past year, ALRIS staff continued to maintain and enhance several of its geo-spatial databases such as the public lands data base and the city boundaries data base. ALRIS also enhanced its web based Internet mapping service for public lands by adding a state wide layer for transportation. The detailed transportation layer which contains street and road names along with previously existing township range and section information now offers map service users good locational information about public lands in Arizona.

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

The State Forester (the State Land Commissioner) has the authority to prevent and suppress wildland fires on more than 9 million acres of State Trust land and 13 million acres of private land located outside incorporated municipalities. The Land Department's cadre of professional fire management specialists mobilize firefighters and equipment to and from all parts of Arizona and other states for fire and non-fire emergencies. 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 Department also coordinates the mutual aid activities between the rural fire departments within the State and the cooperating Federal agencies.

FOREST MANAGEMENT PROGRAMS

State Trust lands include nearly 29,000 acres of ponderosa pine forest near Flagstaff, and approximately 4 million acres of pinon-juniper and oak woodlands elsewhere. Most of these lands are managed not only to maximize and sustain income from forest products, but also to enhance wildlife, watershed, range, and open space values. Another prime management concern is reducing the risk of catastrophic wildfires. The agency also manages the Centennial Forest, in close cooperation with Northern Arizona University for research and education related to forest health, maintenance of natural

forest assets and values, and long-term ecological stewardship objectives.



The Land Department also provides technical, educational, and financial assistance to private landowners in the management of their forested lands. Forest Stewardship Plans are written and implemented by natural resource professionals to guide landowners in reducing the risk of wildfire, insect 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 provided management assistance to 1,112 landowners during the fiscal year, bringing the number of acres of private forest land under management to 1,136,800. More than four thousand acres of State and private lands were treated to reduce hazardous fuels.

DIVISION ACCOMPLISHMENTS

- Training is essential for safe, efficient, and cost-effective fire fighting efforts. This was an above average year for the training program. Approximately 1100 students passed through FMD

sponsored courses representing over 130 fire departments. Courses provided include: Basic Wildland (S130, S190, I100, Standards for Survival), Crew & Engine Boss, Basic Air Operations, Billing and Fiscal Procedures, Fire Business Management Principles, Fire Operations in the Urban Interface, Intermediate Fire Behavior, Initial Attack Incident Commander, and Wildfire Power Saws.

- The Division also refurbished and distributed 13 excess Federal fire engines to cooperating rural fire departments. These vehicles are valued at \$804,177. Currently, there are 157 refurbished fire fighting vehicles in rural fire departments Statewide. The Department has



contracts for 12 heavy trucks for future retrofitting, these, along with the equipment already provided to cooperating fire departments, are worth nearly \$8,304,000. Rural fire departments also received refurbished hand-held radios.

- The Division also secured 19 State Fire Assistance Grants for more than \$1,504,000 in federal funds to assist with developing and implementing hazardous fuel reduction plans in communities-at-risk. Another 17 community assistance grants were awarded to rural communities with \$1,245,000 in state emergency monies. Furthermore, \$1,200,000 in federal cooperative forestry funds were acquired to fund forest health projects in northern Arizona. An additional \$795,000 in Volunteer and Rural Fire Assistance Grants was distributed to assist 71 rural fire departments with training and equipment. In total, the Division supported more than 100 rural communities with \$4,750,000 in state and federal grants to improve their ability to prepare for and respond to wildland fires.

- The Division responded to over 855 calls for service, of those, 455 were actual incidents on State jurisdiction which burned 6,239 acres. These fires were contained at less than 100 acres 98% of the time. The Dispatch Center assisted Federal Agencies on 178 Incidents. We also documented 222



False alarms or reports that were acted on, and either nothing was found, or the fires went out before they could be located.

At the height of the season, our Dispatch center had placed over 108 pieces of equipment and over 200 personnel on fires throughout the State. We supported four Type 1 incidents, three Type 2 incidents and were able to dispatch our own initial attack fires at the same time. Our dispatch staff assisted in the Training of 150 students throughout the Southwest Area. Two of our dispatch staff sit on Interagency Training Cadres and one is involved in the Dispatch Steering Committee. Currently, we are hosting the Bureau of Land Management - Phoenix and Kingman Field Office's Dispatchers in our shop. We are working to establish a Interagency Dispatch Center, which will allow our staff and BLM's staff to integrate and provide wildland fire and other "all risk" dispatch coverage to both agencies.

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.



FUTURE GOALS

- Assist private landowners in the wildland/urban interface to reduce the risk of loss from wildfire. Educate and encourage rural residents to protect their property from wildfire. Help prepare local fire departments and develop local zoning and fire codes.

- Mitigate potential losses due to wildland fires in the urban interface. Implement fuel hazard reduction programs on State and private lands in the wildland/urban interface. Reduce the accumulation of natural vegetation and fuels around homes and subdivisions in the interface in a cooperative effort with our Federal partners.

- Provide eight to 10 excess Federal wildland fire trucks to cooperating fire departments each year.

- Train firefighters from cooperating local rural fire departments

in wildland fire suppression strategies and tactics through cooperative programs with the State Fire Marshal's Office, other State and Federal agencies, and in-house courses.

- Encourage and assist with developing an interagency dispatching system that will make more efficient use of fire suppression resources.

- Provide assistance to the Department of Emergency and Military Affairs and other State and Federal agencies to prevent and suppress wildfires and manage other non-fire emergencies.

- Provide prompt cost repayment of expenses incurred for the suppression of wildfires on State-protected lands to cooperating agencies and persons.

**DETERMINATION
OF
STATE
TRUST LAND
LOCATION**

METHODS OF ACQUISITION

Arizona has acquired these lands 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 many 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 91 years since statehood, the State has disposed of about 1,635,988 acres of Trust lands. A total of 9,279,243 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 49 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
\$22,660,906

EdmondsTollConstructionCo
Land Sale Term Payment
53-102901-00
536.27 Acres
\$5,128,971

Desert Ridge Resort LLC
Commercial Lease
03-52416-99
53.73 Acres
\$214,713

The Common, or Public, Schools Grant land comprises about 87 percent of the Trust land holdings and totals 8,116,380 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 southeastern 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:

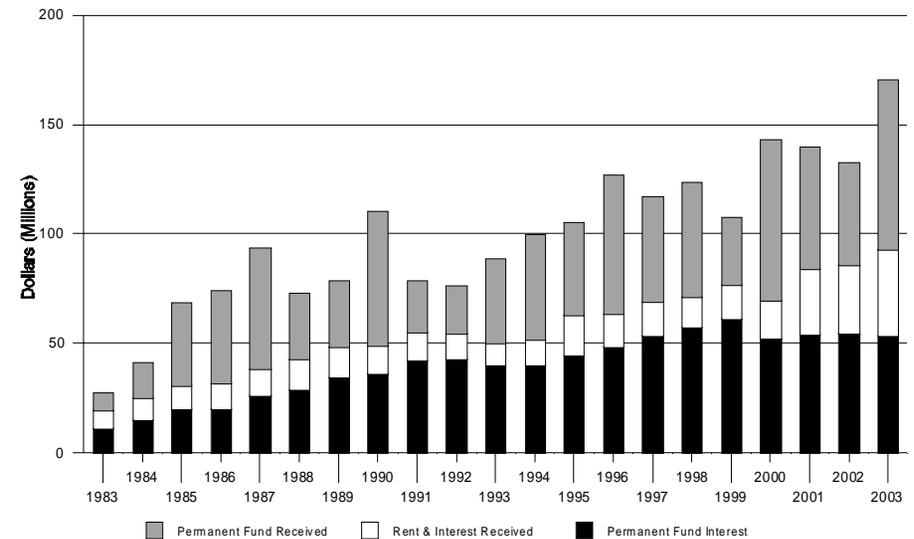
Several hundred thousand acres of urban Trust lands in the north Phoenix and Scottsdale areas and around the northern border of the Tucson metropolitan area;

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 1983-2003



ACRES AND INCOME — FY 2003

SURFACE LEASES	ACRES	INCOME
Agriculture	128,873	\$2,343,280.51
Commercial	23,306	\$10,239,568.57
Grazing	7,379,275	\$1,803,300.99
Homesite	53	\$17,949.00
Rights-of-Way	129,107	\$2,013,332.97
Use Permits	189,204	\$1,482,880.97
Public Education	0	\$0.00
Institutional Taking	5,406	\$120,737.60
U.S. Government	8,447	\$135,046.99
Other	0	\$64,925.97
TOTAL SURFACE	7,863,671	\$18,221,023.57
SUBSURFACE LEASES		
Mineral	14,929	\$6,721.05
Prospecting Permit	57,315	\$85,016.91
Mineral Material	9,355	\$205,778.99
Oil & Gas	363,800	\$434,205.33
U.S. Government	8,447	\$0.00
TOTAL SUBSURFACE	453,846	\$731,722.28
Penalty & Interest		\$45,899.25
Sales Interest		\$18,516,139.74
School Leases		\$1,647,665.00
Treasurer's Formula Distribution		\$53,926,976.00
GRAND TOTAL EXPENDABLE		\$93,089,425.84
Permanent Fund Receipts		\$77,452,775.88
Permanent Fund Balance		\$1,014,766,000.00

Beneficiary Summary

Lease & Sale Highlights:

City of Phoenix
API Land Sale
53-106768-35
629.32 Acres
\$11,330,000

Vestar DRM-OPCO
Commercial Lease
03-105541-99
116.71 Acres
\$220,391

Superstition Crushing LLC
Mineral Lease
04-105164-00
110.27 Acres
\$476,210

56th Street AXP Campus LLC
Commercial Lease
03-105713-99
90.82 Acres
\$1,047,438

Talley Defense Systems Inc.
Commercial Lease
03-093792-65
221.65 Acres
\$472,299

Beneficiary Summary

LEGISLATIVE, EXECUTIVE, AND JUDICIAL BUILDINGS

Lease & Sale Highlights:

Western States
Microwave Trans
Commercial Lease
03-087097-00
3.67 Acres
\$15,000

Trust #8011
Agriculture Lease
01-000296-00
377.16 Acres
\$9,397

Williams Communications
Commercial Lease
03-105169-00
.83 Acres
\$5,090

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 2003

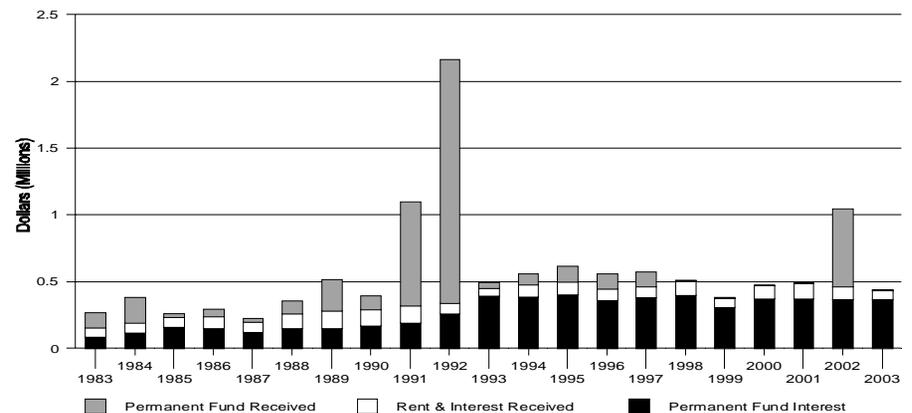
SURFACE LEASES	ACRES	INCOME
Agriculture	2,180	\$25,742.04
Commercial	87	\$23,240.00
Grazing	55,386	\$19,444.59
Homesite	0	\$0.00
Rights-of-Way	1,689	\$1,645.48
Use Permits	5,063	\$1,517.49
Public Education	0	\$0.00
Institutional Taking	0	\$0.00
U.S. Government	0	\$0.00
Other	0	\$0.00
TOTAL SURFACE	64,405	\$71,589.60

SUBSURFACE LEASES		
Mineral	0	\$0.00
Prospecting Permit	639	\$639.32
Mineral Material	0	\$0.00
Oil and Gas	0	\$0.00
U.S. Government	0	\$0.00
TOTAL SUBSURFACE	639	\$639.32

Penalty & Interest	\$74.14
Sales Interest	\$0.00
Treasurer's Formula Distribution	\$363,779.00
GRAND TOTAL EXPENDABLE	\$436,082.06

Permanent Fund Receipts	\$0.00
Permanent Fund Balance	\$4,687,000.00

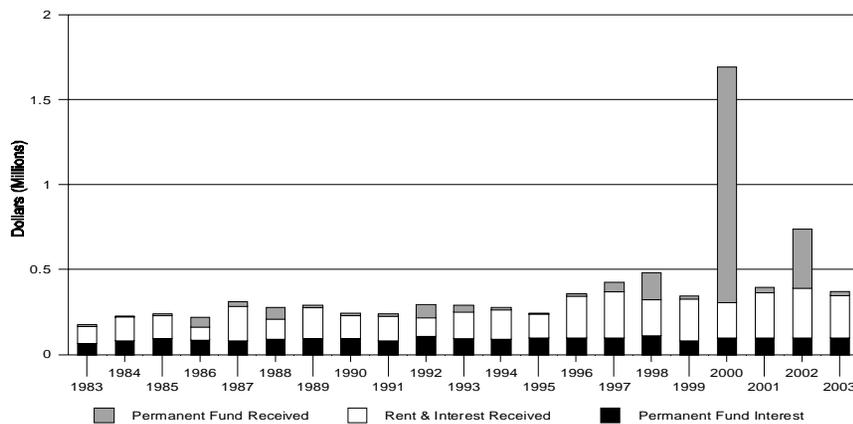
TRUST LAND INCOME FY 1983-2003



ACRES AND INCOME — FY 2003

SURFACE LEASES	ACRES	INCOME
Agriculture	5,487	\$83,679.90
Commercial	270	\$136,268.29
Grazing	58,280	\$19,584.73
Homesite	0	\$0.00
Rights-of-Way	1,150	\$5,576.27
Use Permits	4,922	\$3,885.69
Public Education	0	\$0.00
Institutional Taking	80	\$1,468.50
U.S. Government	0	\$0.00
Other	0	\$15.45
TOTAL SURFACE	70,189	\$250,478.83
SUBSURFACE LEASES		
Mineral	60	\$600.00
Prospecting Permit	0	\$0.00
Mineral Material	0	\$0.00
Oil and Gas	0	\$0.00
U.S. Government	0	\$0.00
TOTAL SUBSURFACE	60	\$600.00
Penalty & Interest		\$215.99
Sales Interest		\$0.00
Treasurer's Formula Distribution		\$99,579.00
GRAND TOTAL EXPENDABLE		\$350,873.82
Permanent Fund Receipts		\$22,342.19
Permanent Fund Balance		\$3,227,000.00

TRUST LAND INCOME FY 1983-2003



The State Hospital Grant lands consist of 71,249 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
\$75,283

Empire Investments
Agriculture Lease
01-053813-00
960.47 Acres
\$19,403

OASIS Recreational Properties
Commercial Lease
03-095873-00
140.91 Acres
\$52,868

Beneficiary Summary

MINERS' HOSPITAL

Lease & Sale Highlights:

Talley Defense Systems Inc
Commercial Lease
03-093792-65
312.10 Acres
\$665,032

Timothy Dunn
Agriculture Lease
01-101315-00
3,260 Acres
\$92,162

Tanner Mining
Mineral Lease
04-104945-00
230 Acres
\$94,148

The 1912 Miners' Hospital for Disabled Miners' Grant, consisting of 47,771 acres, and the 1929 Miners' Hospital Grant, consisting of 47,687 acres, are combined for reporting purposes because they support the same beneficiary.

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 2003

SURFACE LEASES	ACRES	INCOME
Agriculture	13,826	\$306,510.05
Commercial	600	\$711,031.74
Grazing	73,875	\$20,767.03
Homesite	8	\$2,500.00
Rights-of-Way	1,982	\$6,412.56
Use Permits	3,088	\$49,189.77
Public Education	0	\$0.00
Institutional Taking	1	\$847.43
U.S. Government	0	\$0.00
Other	0	\$7.65
TOTAL SURFACE	93,380	\$1,097,266.23

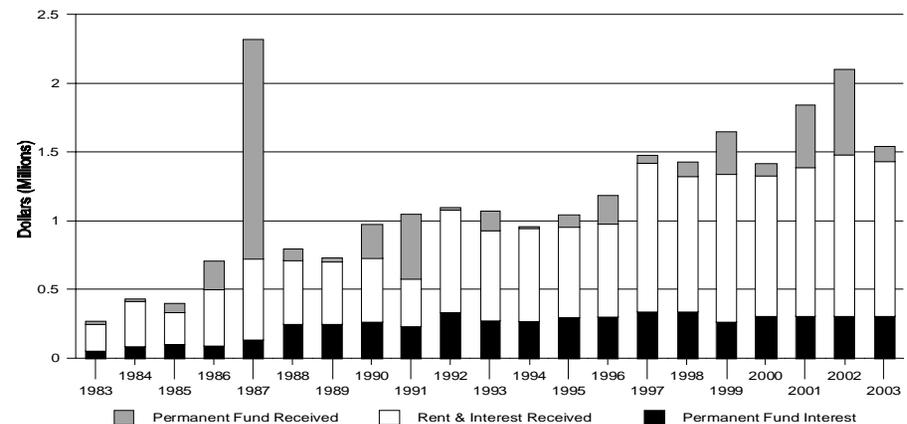
SUBSURFACE LEASES

Mineral	119	\$104.36
Prospecting Permit	1,266	\$3,565.80
Mineral Material	0	\$20,235.60
U.S. Government	0	\$0.00
US Government	0	\$0.00
TOTAL SUBSURFACE	1,385	\$23,905.76

Penalty & Interest	\$1,402.54
Sales Interest	\$540.22
Treasurer's Formula Distribution	\$308,575.00
GRAND TOTAL EXPENDABLE	\$1,431,689.75

Permanent Fund Receipts	\$105,765.37
Permanent Fund Balance	\$5,156,000.00

TRUST LAND INCOME FY 1983-2003



ACRES AND INCOME — FY 2003

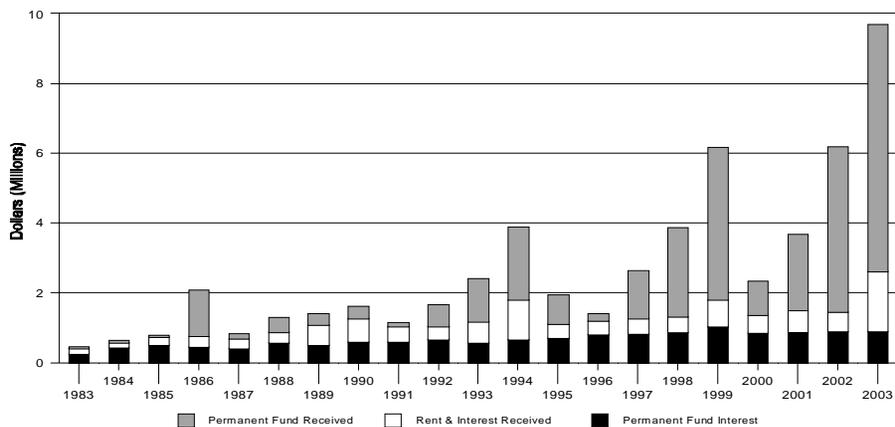
SURFACE LEASES	ACRES	INCOME
Agriculture	3,682	\$77,642.54
Commercial	2,837	\$1,463,889.17
Grazing	63,196	\$20,965.41
Homesite	0	\$0.00
Rights-of-Way	2,563	\$19,235.96
Use Permits	7,036	\$56,250.63
Public Education	0	\$0.00
Institutional Taking	475	\$55,052.61
U.S. Government	0	\$0.00
Other	0	\$8,154.65
TOTAL SURFACE	79,789	\$1,701,190.97

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	0	\$0.00
TOTAL SUBSURFACE	1,477	\$11,130.38

Penalty & Interest	\$946.96
Sales Interest	\$0.00
Treasurer's Formula Distribution	\$902,190.00
GRAND TOTAL EXPENDABLE	\$2,615,458.31

Permanent Fund Receipts	\$7,077,417.07
Permanent Fund Balance	\$34,022,000.00

TRUST LAND INCOME FY 1983-2003



The State Charitable, Penal, and Reformatory Grant lands, totaling 77,563 acres, are shared by the Department of Corrections, the Department of Youth Treatment and Rehabilitation, and the Pioneers' Home 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:

City of Phoenix
Perpetual Rights-of-Way
16-106352-00
4.77 Acres
\$502,396

Vincent Morano
Land Sale
53-106992-00
105.54 Acres
\$6,390,000

Deer Valley Unified School
School Lease
03-105699-28
222.75 Acres
\$1,135,350

Beneficiary Summary

PENITENTIARY GRANT

Most of the 76,111 acres in the Penitentiary Grant are primarily grazing lands in blocks or groups of checkerboard 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:

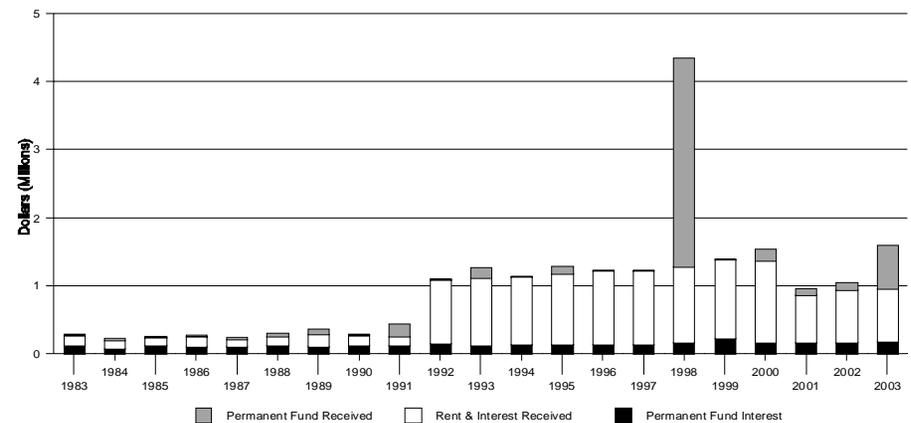
First American Title
Land Sale
53-105616-00
222.52 Acres
\$582,000

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

ACRES AND INCOME — FY 2003

SURFACE LEASES	ACRES	INCOME
Agriculture	4,391	\$152,873.65
Commercial	478	\$528,307.26
Grazing	65,932	\$21,987.02
Homesite	0	\$0.00
Rights-of-Way	595	\$32,045.93
Use Permits	5,762	\$38,739.14
Public Education	0	\$0.00
Institutional Taking	1,778	\$0.00
U.S. Government	0	\$0.00
Other	0	\$9.15
TOTAL SURFACE	78,936	\$773,962.15
SUBSURFACE LEASES		
Mineral	0	\$0.00
Prospecting Permit	833	\$2,551.42
Mineral Material	0	\$0.00
Oil and Gas	0	\$0.00
U.S. Government	0	\$0.00
TOTAL SUBSURFACE	833	\$2,551.42
Penalty & Interest		\$1,756.65
Sales Interest		\$0.00
Treasurer's Formula Distribution		\$176,641.00
GRAND TOTAL EXPENDABLE		\$954,911.22
Permanent Fund Receipts		\$645,830.54
Permanent Fund Balance		\$5,471,000.00

TRUST LAND INCOME FY 1983-2003



ACRES AND INCOME — FY 2003

SURFACE LEASES	ACRES	INCOME
Agriculture	165	\$3,088.69
Commercial	22,539	\$15,407.95
Grazing	146,146	\$43,339.63
Homesite	0	\$0.00
Rights-of-Way	2,232	\$1,709.62
Use Permits	5,778	\$4,411.01
Public Education	0	\$0.00
Institutional Taking	2,721	\$0.00
U.S. Government	40	\$2,000.01
Other	0	\$0.30
TOTAL SURFACE	179,621	\$69,957.21

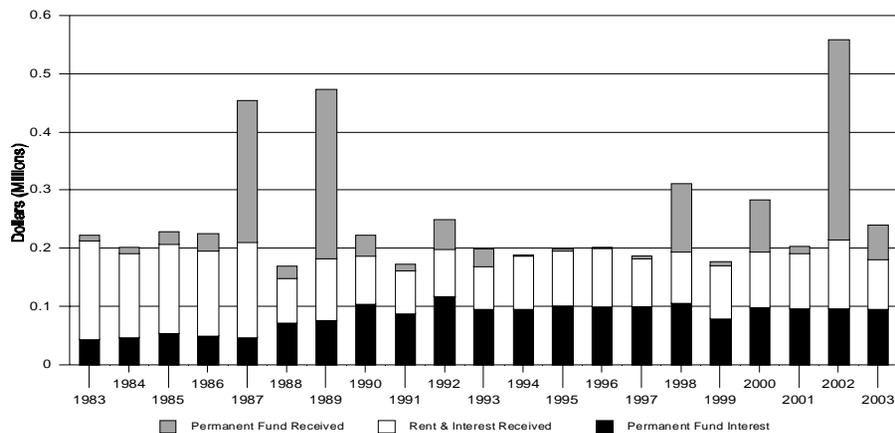
SUBSURFACE LEASES

Mineral	0	\$0.00
Prospecting Permit	0	\$0.00
Mineral Material	0	\$11,764.40
Oil and Gas	2,062	\$3,494.46
U.S. Government	40	\$0.00
TOTAL SUBSURFACE	2,102	\$15,258.86

Penalty & Interest	\$131.19
Sales Interest	\$128.08
Treasurer's Formula Distribution	\$96,003.00
GRAND TOTAL EXPENDABLE	\$181,478.34

Permanent Fund Receipts	\$58,527.60
Permanent Fund Balance	\$1,624,000.00

TRUST LAND INCOME FY 1983-2003



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

18,738.8 Acres

\$7,501

Cataract Livestock Co.

Grazing Lease

05-000216-00

18,247.99 Acres

\$3,600

Beneficiary Summary

AGRICULTURAL AND MECHANICAL COLLEGES

Lease & Sale Highlights:

Clear Channel Outdoor Inc
Sign Permit
23-105292-19
.2 Acres
\$7,622

Red Mountain Mining Inc
Mineral Lease
04-103581-00
20 Acres
\$20,870

Pima County
Perpetual Rights-of-Way
16-106931-00
9.09 Acres
\$76,492

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 2003

SURFACE LEASES	ACRES	INCOME
Agriculture	251	\$2,572.27
Commercial	10,172	\$731.94
Grazing	107,248	\$31,260.35
Homesite	2	\$2,500.00
Rights-of-Way	2,472	\$8,372.90
Use Permits	3,558	\$12,581.13
Public Education	0	\$0.00
Institutional Taking	1,917	\$0.00
U.S. Government	0	\$0.00
Other	0	\$3.90
TOTAL SURFACE	125,620	\$58,022.49

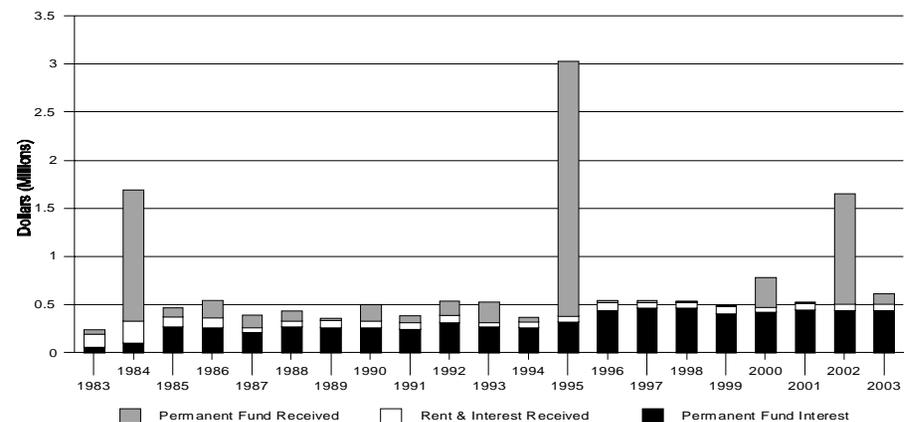
SUBSURFACE LEASES

Mineral	0	\$0.00
Prospecting Permit	720	\$1,440.00
Mineral Material	20	\$1,200.00
Oil and Gas	4,960	\$5,000.44
U.S. Government	0	\$0.00
TOTAL SUBSURFACE	5,700	\$7,640.44

Penalty & Interest	\$4,742.34
Sales Interest	\$18.58
Treasurer's Formula Distribution	\$440,584.00
GRAND TOTAL EXPENDABLE	\$511,007.85

Permanent Fund Receipts	\$99,051.11
Permanent Fund Balance	\$6,852,000.00

TRUST LAND INCOME FY 1983-2003



ACRES AND INCOME — FY 2003

SURFACE LEASES	ACRES	INCOME
Agriculture	0	\$0.00
Commercial	1,935	\$33,814.00
Grazing	76,749	\$27,667.87
Homesite	0	\$0.00
Rights-of-Way	300	\$188.66
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	\$62,970.53

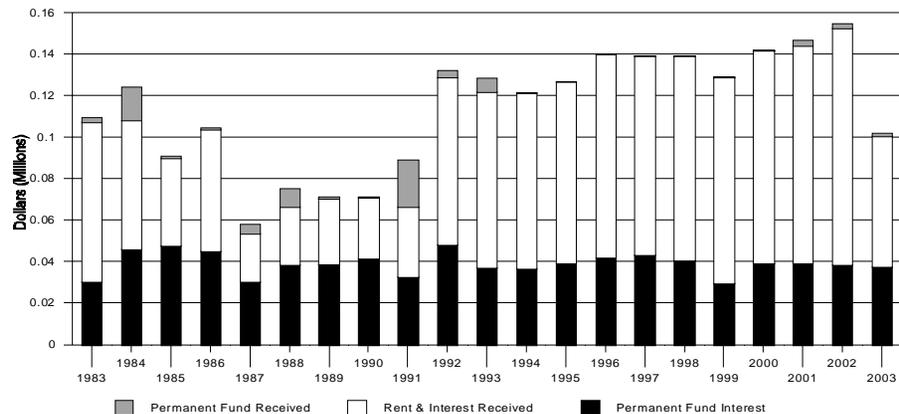
SUBSURFACE LEASES

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	\$59.98
Sales Interest	\$0.00
Treasurer's Formula Distribution	\$37,656.00
GRAND TOTAL EXPENDABLE	\$100,686.51

Permanent Fund Receipts	\$1,204.16
Permanent Fund Balance	\$389,000.00

TRUST LAND INCOME FY 1983-2003



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
\$31,814

Babbitt Ranches LLC
Grazing Lease
05-000252-00
18,384.12 Acres
\$2,993

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:

Pinal County
Perpetual Rights-of-Way
16-102848-00
12.12 Acres
\$52,967

Seibert Land Co LLC
Grazing Lease
05-000541-00
15,210.83 Acres
\$6,086

ACRES AND INCOME — FY 2003

SURFACE LEASES	ACRES	INCOME
Agriculture	2,485	\$31,027.35
Commercial	8,483	\$5,031.13
Grazing	111,207	\$36,848.77
Homesite	0	\$0.00
Rights-of-Way	1,305	\$8,173.74
Use Permits	1,591	\$985.86
Public Education	0	\$0.00
Institutional Taking	0	\$0.00
U.S. Government	0	\$0.00
Other	0	\$16.95
TOTAL SURFACE	125,071	\$82,083.80

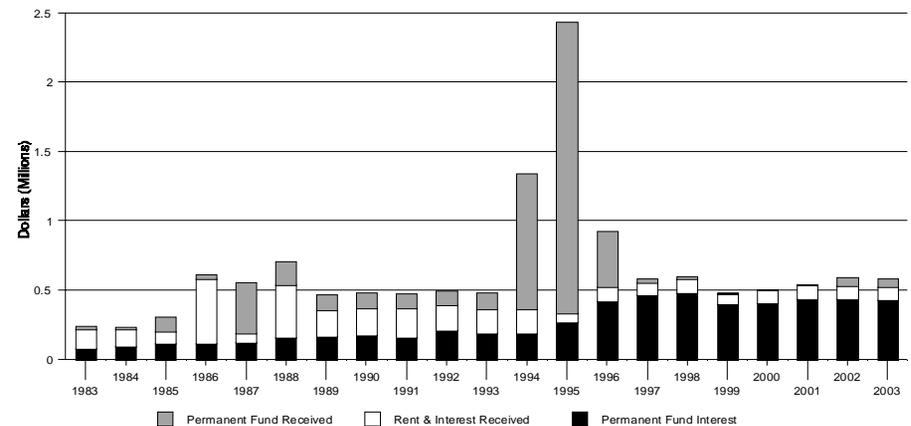
SUBSURFACE LEASES

Mineral	0	\$0.00
Prospecting Permit	1,271	\$1,270.68
Mineral Material	0	\$0.00
Oil and Gas	11,483	\$14,501.61
U.S. Government	0	\$0.00
TOTAL SUBSURFACE	12,754	\$15,772.29

Penalty & Interest	\$328.50
Sales Interest	\$56.73
Treasurer's Formula Distribution	\$425,220.00
GRAND TOTAL EXPENDABLE	\$523,461.32

Permanent Fund Receipts	\$59,441.47
Permanent Fund Balance	\$4,860,000.00

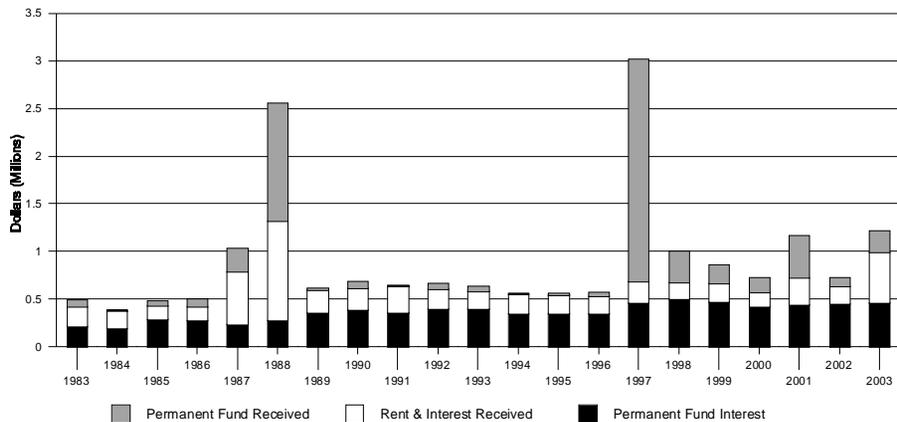
TRUST LAND INCOME FY 1983-2003



ACRES AND INCOME — FY 2003

SURFACE LEASES	ACRES	INCOME
Agriculture	4,598	\$49,617.28
Commercial	8,238	\$382,599.28
Grazing	117,868	\$37,158.70
Homesite	0	\$0.00
Rights-of-Way	2,813	\$13,501.44
Use Permits	6,166	\$26,590.59
Public Education	0	\$0.00
Institutional Taking	107	\$624.29
U.S. Government	0	\$0.00
Other	0	\$9,587.73
TOTAL SURFACE	139,790	\$519,679.31
SUBSURFACE LEASES		
Mineral	0	\$0.00
Prospecting Permit	2,620	\$5,479.74
Mineral Material	0	\$0.00
Oil and Gas	7,395	\$8,140.66
U.S. Government	0	\$0.00
TOTAL SUBSURFACE	10,015	\$13,620.40
Penalty & Interest		\$79.05
Sales Interest		\$9.52
Treasurer's Formula Distribution		\$460,023.00
GRAND TOTAL EXPENDABLE		\$993,411.28
Permanent Fund Receipts		\$220,618.08
Permanent Fund Balance		\$7,623,000.00

TRUST LAND INCOME FY 1983-2003



The University Land Code Grant lands total 137,957 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:

David McGee
Land Sale
53-104485-00
80 Acres
\$175,000

CP Hotels LLC
Commercial Lease
03-106716-99
35.48 Acres
\$504,799

Beneficiary Summary

UNIVERSITY OF ARIZONA 1881 GRANT

Lease & Sale Highlights:

City of Flagstaff
Perpetual Rights-of-Way
16-107292-00
.54 Acres
\$81,496

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

Nearly all of the University of Arizona Grant lands, consisting of 54,239 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 2003

SURFACE LEASES	ACRES	INCOME
Agriculture	7,083	\$121,902.61
Commercial	114	\$139,404.27
Grazing	41,540	\$11,093.37
Homesite	4	\$4,885.00
Rights-of-Way	1,033	\$15,625.74
Use Permits	2,159	\$40,573.35
Public Education	0	\$0.00
Institutional Taking	406	\$0.00
U.S. Government	0	\$0.00
Other	0	\$26,715.89
TOTAL SURFACE	52,339	\$360,200.23

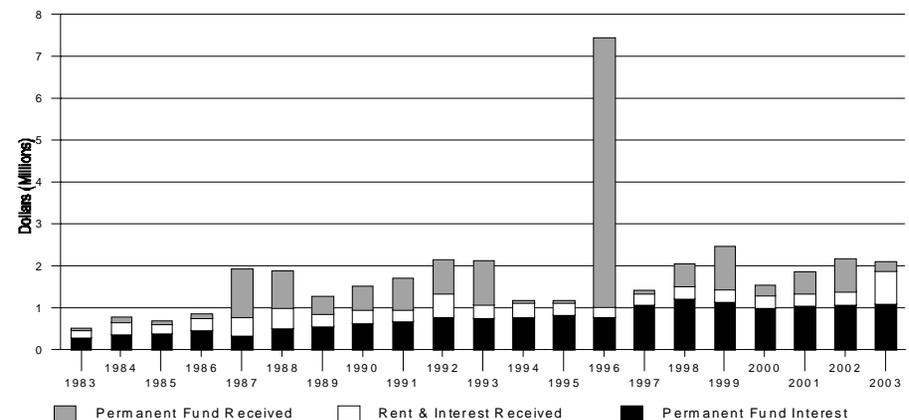
SUBSURFACE LEASES

Mineral	0	\$0.00
Prospecting Permit	0	\$0.00
Mineral Material	160	\$6,400.00
Oil and Gas	120	\$119.99
U.S. Government	0	\$0.00
TOTAL SUBSURFACE	280	\$6,519.99

Penalty & Interest	\$85.95
Sales Interest	\$411,146.46
Treasurer's Formula Distribution	\$1,096,588.00
GRAND TOTAL EXPENDABLE	\$1,874,540.63

Permanent Fund Receipts	\$220,648.97
Permanent Fund Balance	\$18,246,000.00

TRUST LAND INCOME FY 1983-2003



ACRES AND INCOME — FY 2003

SURFACE LEASES	ACRES	INCOME
Agriculture	2,819	\$55,125.41
Commercial	1,453	\$19,206.54
Grazing	72,580	\$21,857.73
Homesite	0	\$0.00
Rights-of-Way	1,285	\$9,768.99
Use Permits	5,914	\$4,008.06
Public Education	0	\$0.00
Institutional Taking	1	\$1,071.41
U.S. Government	0	\$0.00
Other	0	\$2.25
TOTAL SURFACE	84,051	\$111,040.39
SUBSURFACE LEASES		
Mineral	0	\$0.00
Prospecting Permit	160	\$320.00
Mineral Material	0	\$0.00
Oil and Gas	4,838	\$4,838.01
U.S. Government	0	\$0.00
TOTAL SUBSURFACE	4,998	\$5,158.01
Penalty & Interest		\$377.20
Sales Interest		\$267.40
Treasurer's Formula Distribution		\$197,730.00
GRAND TOTAL EXPENDABLE		\$314,573.00
Permanent Fund Receipts		\$7,181.37
Permanent Fund Balance		\$3,038,000.00

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.

Beneficiary Summary

SCHOOL FOR THE DEAF AND BLIND GRANT

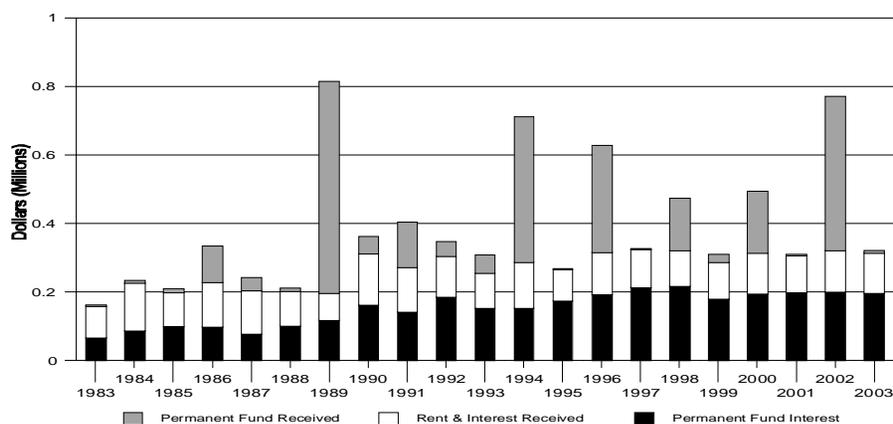
Lease & Sale Highlights:

Abitibi Consolidated Sales
Commercial Lease

03-000553-00
320 Acres
\$10,394

Kai Farms - Redrock LLC
Agriculture Lease
01-105222-00
457.28 Acres
\$11,043

TRUST LAND INCOME FY 1983-2003



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.

**ARIZONA
STATE LAND
DEPARTMENT**

FY 2003

RENTAL ACREAGE AND RECEIPTS

FY 2003

By Type of Lease

SURFACE LEASES	ACRES	RECEIPTS
Agriculture	176,388	3,256,902.92
Commercial	80,552	13,710,265.14
School Leases	*	1,647,665.00
Grazing	8,378,940	2,118,150.38
Homesite	67	27,834.00
Rights-of-Way	148,851	2,148,111.26
Use Permits	240,309	1,756,665.86
Public Education	0	0.00
Institutional Taking	12,892	179,801.84
U.S. Government	8,487	137,047.00
Other	0	109,439.89
TOTAL SURFACE	9,046,486	25,091,883.29
SUBSURFACE LEASES		
Mineral	15,268	7,545.41
Prospecting Permit	59,363	100,283.87
Mineral Material	2,503	255,121.00
Oil and Gas	363,606	471,568.87
U.S. Government	0	0.00
TOTAL SUBSURFACE	440,740	834,519.15
NON-LEASE REVENUES		
Penalty & Interest		56,383.85
Sales Interest		18,928,306.73
Royalty		3,160,876.60
Land Sales Principal		73,235,099.18
Rights-of-Way Sales Principal		8,502,328.52
Settlements		1,102,793.55
Commercial Prepayments		13,285,378.58
Fees		1,440,206.32
TOTAL NON-LEASE REVENUES		119,711,373.33
GRAND TOTAL		145,637,775.77

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

RECEIPTS BY CATEGORY — FY 2003

	ROYALTY	SALES PRINCIPAL	SALES INTEREST	LEASE RENTAL	PENALTY & INTEREST	OTHER RECEIPTS	TOTAL
Common Schools	\$2,686,556.43	\$74,766,219.45	\$18,516,139.74	\$18,952,745.85	\$45,899.25	\$0.00	\$114,967,560.72
Leg., Exec. & Judicial	\$0.00	\$0.00	\$0.00	\$72,228.92	\$74.14	\$0.00	\$72,303.06
State Hospital	\$10,230.80	\$12,111.39	\$0.00	\$251,078.83	\$215.99	\$0.00	\$273,637.01
Miners' Hospital*	\$74,425.45	\$31,339.92	\$540.22	\$1,121,171.99	\$1,402.54	\$0.00	\$1,228,880.12
St Char., Pen. & Ref.	\$149,970.59	\$6,927,446.48	\$0.00	\$1,712,321.35	\$946.96	\$0.00	\$8,790,685.38
Penitentiaries	\$63,830.54	\$582,000.00	\$0.00	\$776,513.57	\$1,756.65	\$0.00	\$1,424,100.76
Normal Schools	\$51,624.97	\$6,902.63	\$128.08	\$85,216.07	\$131.19	\$0.00	\$144,002.94
A&M Colleges	\$21,899.31	\$77,151.80	\$18.58	\$65,662.93	\$4,742.34	\$0.00	\$169,474.96
Military Institutes	\$0.00	\$1,204.16	\$0.00	\$62,970.53	\$59.98	\$0.00	\$64,234.67
School of Mines	\$6,474.95	\$52,966.52	\$56.73	\$97,856.09	\$328.50	\$0.00	\$157,682.79
University Land Code U of A	\$0.00	\$220,618.08	\$9.52	\$533,299.71	\$79.05	\$0.00	\$754,006.36
(Act of 2/18/1881)	\$91,037.81	\$129,611.16	\$411,146.46	\$366,720.22	\$85.95	\$0.00	\$998,601.60
School for the Deaf & Blind	\$1,635.75	\$5,545.62	\$267.40	\$116,198.40	\$377.20	\$0.00	\$124,024.37
School Leases	\$0.00	\$0.00	\$0.00	\$1,647,665.00	\$0.00	\$0.00	\$1,647,665.00
Commercial Prepayments	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$13,285,378.58	\$13,285,378.58
Total Schools & Institutions	\$3,157,686.60	\$82,813,117.21	\$18,928,306.73	\$25,861,649.46	\$56,099.74	\$13,285,378.58	\$144,102,238.32
GENERAL FUND							
F.E.M.A Lands	\$0.00	\$24,704.04	\$0.00	\$16,229.00	\$209.02	\$0.00	\$41,142.06
Farm Loan Lands	\$3,190.00	\$33.44	\$0.00	\$3,190.75	\$0.00	\$0.00	\$6,414.19
Navigable Streambeds	\$0.00	\$2,400.00	\$0.00	\$45,299.79	\$75.09	\$0.00	\$47,774.88
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	\$0.00	\$0.00	\$0.00	\$0.00
Fees: Lease, Sale & Misc	\$0.00	\$0.00	\$0.00	\$100.00	\$0.00	\$1,440,106.32	\$1,440,206.32
Total General Fund	\$3,190.00	\$27,137.48	\$0.00	\$64,819.54	\$284.11	\$1,440,106.32	\$1,535,537.45
TOTAL RECEIPTS	\$3,160,876.60	\$82,840,254.69	\$18,928,306.73	\$25,926,469.00	\$56,383.85	\$14,725,484.90	\$145,637,775.77

*Miners' Hospital & Miners' Hospital 1929 Combined

ARIZONA STATE LAND DEPARTMENT

FY 2003

**ARIZONA
STATE LAND
DEPARTMENT**

FY 2003

TREASURER'S FORMULA DISTRIBUTION*

	YEAR ENDING JUNE 30 FY 2002	YEAR ENDING JUNE 30 FY 2003	INCREASE (DECREASE)	MAY 12,1912 TO DATE
Common Schools	54,781,906	53,926,976	-854,930	915,980,743
Legislative, Executive & Judicial Buildings	366,999	363,779	-3,220	6,336,746
State Hospital Grant	99,864	99,579	-285	2,670,429
Miners' Hospital Grant**	307,779	308,575	796	5,705,335
State Charitable, Penal, and Reformatory	891,234	902,190	10,956	16,928,788
Penitentiary Grant	169,813	176,641	6,828	3,508,286
Normal Schools Grant	96,710	96,003	-707	2,155,020
Agricultural & Mechanical Colleges	444,795	440,584	-4,211	7,185,093
Military Institutes Grant	38,530	37,656	-874	1,136,978
School of Mines Grant	431,523	425,220	-6,303	6,074,755
University Land Code	454,344	460,023	5,679	9,394,669
University of Arizona (Act of 2/18/1881)	1,087,677	1,096,588	8,911	18,838,653
School for the Deaf & Blind	200,268	197,730	-2,538	3,872,606
	59,371,442	58,531,544	-839,898	999,788,101

*Information from the State Treasurer

**Miner's Hospital & Miners Hospital 1929 Combined

ARIZONA STATE LAND DEPARTMENT

FY 2003

STATE TRUST LAND ACREAGE BY BENEFICIARY

Beneficiary	Trust Acres	
	FY 1978	FY 2003
Common Schools*	8,342,469	8,116,380
Legislative, Executive & Judicial Buildings	66,660	64,257
State Hospital Grant	79,198	71,249
Miners' Hospital	48,648	47,771
Miners' Hospital (1929)	53,311	47,687
State Charitable, Penal & Reformatory Institutions	80,010	77,563
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	137,957
University of Arizona (Act of 2-18-1881)	62,216	54,239
School for the Deaf & Blind	84,209	82,560
TOTAL	<u>9,586,606</u>	<u>9,279,243</u>

*Includes County Bonds

Financial Schedules

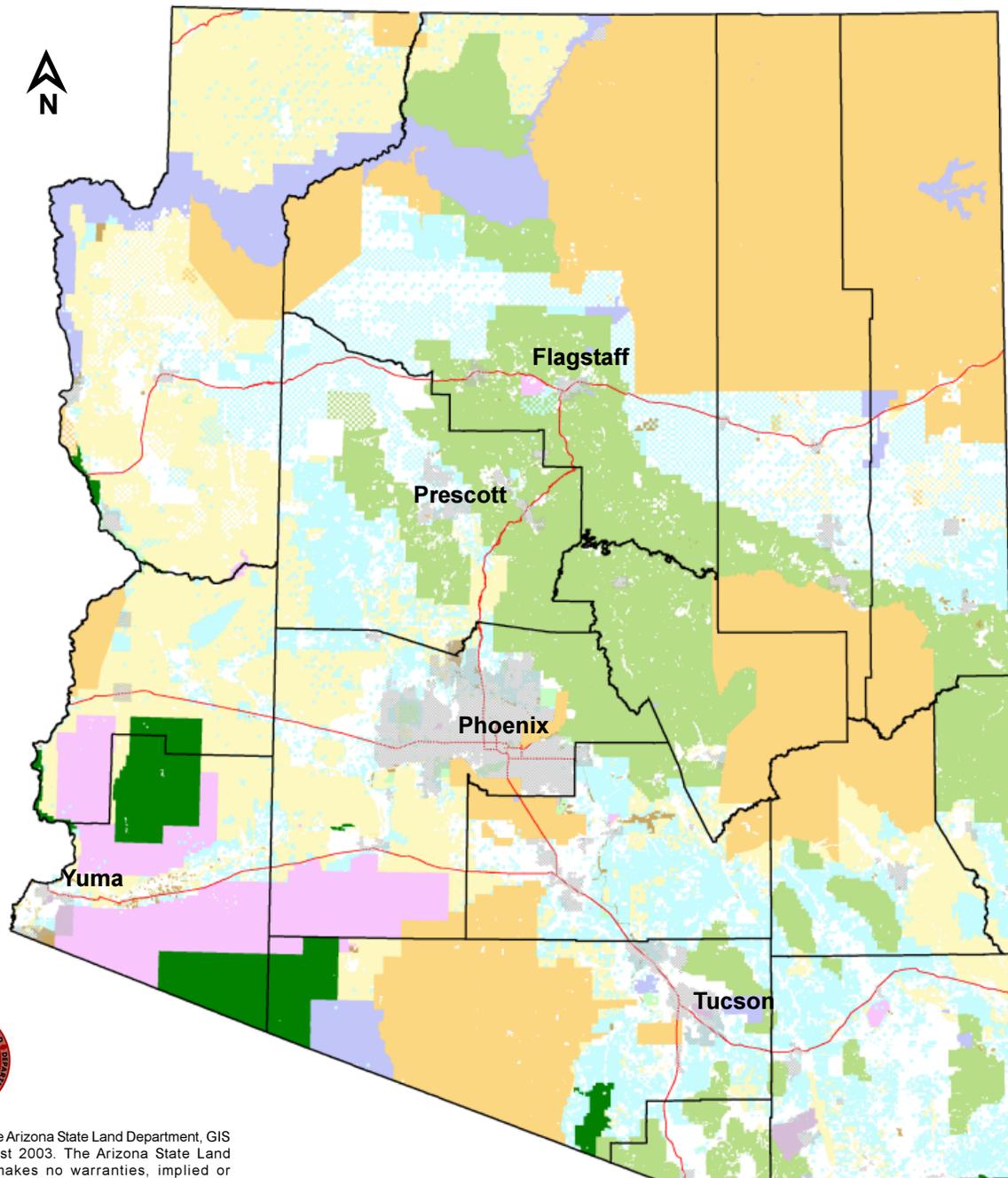
ARIZONA
STATE LAND
DEPARTMENT

FY 2003

**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
06/23/03	03-104798	NW of Thompson Peak Parkway and Bell Road; Maricopa County	No	5	N/A	\$91,125.00	\$1,433,875.00	\$17,376,887
06/18/03	03-105506	South side of Pittsburg Point, SW side of Lake Havasu City	No	1	N/A	\$190,800.00	\$0.00	\$20,704,189
06/18/03	03-106489	NE of London Bridge Road and Industrial Blvd.; Lake Havasu City	No	1	N/A	\$193,000.00	\$0.00	\$16,244,150
05/21/03	03-107605	1 mile N of Tombstone and 1/2 mile E of State Hwy 80	No	1	N/A	\$15,225.00	\$0.00	\$2,418,680
04/30/03	03-105199	8 miles NW of Page	No	1	N/A	\$92,800.00	\$0.00	\$1,438,735
04/23/03	03-107496	2 miles E of Globe	No	1	N/A	\$22,983.00	\$0.00	\$3,651,070
02/20/03	03-105728	NW of 51st Ave. and Happy Valley Rd., Stetson Hills; Maricopa County	No	1	N/A	\$92,438.00	\$0.00	\$14,684,253
02/19/03	03-105501	Along Colorado River, N of Parker	No	2	N/A	\$8,000.00	\$5,000.00	\$304,000
01/14/03	03-105058	NEC of I-10 Picacho Peak Interchange	No	1	N/A	\$21,684.00	\$0.00	\$1,028,585
01/08/03	03-106940	NEC of Juan Sanchez Blvd. and 6th Ave., NE San Luis	No	1	N/A	\$32,625.00	\$0.00	\$1,582,880
01/08/03	03-106939	NEC of Juan Sanchez Blvd. and 8th Ave., NE San Luis	No	1	N/A	\$36,250.00	\$0.00	\$5,758,762
12/02/02	03-105995	1/4 W of Hwy. 260 and Del Rio Drive; Cottonwood	No	1	N/A	\$36,250.00	\$0.00	\$5,758,762
11/16/02	03-105956	1/2 mile S of Hwy. 60; adjacent to Wickenburg	No	1	N/A	\$15,950.00	\$0.00	\$2,533,855
10/17/02	03-107065	SEC Vista Monte Dr. and Houghton Road Alignment; Pima County	No	1	N/A	\$8,337.50	\$0.00	\$1,324,515
10/17/02	03-105888	SEC Vista Monte Dr. and Houghton Road Alignment; Pima County	No	1	N/A	\$22,620.00	\$0.00	\$3,593,468
08/20/02	03-106716	SEC of Scottsdale Road. and Princess Blvd.; Maricopa County	No	1	N/A	\$500,000.00	\$0.00	\$288,370,660

SURFACE MANAGEMENT RESPONSIBILITY



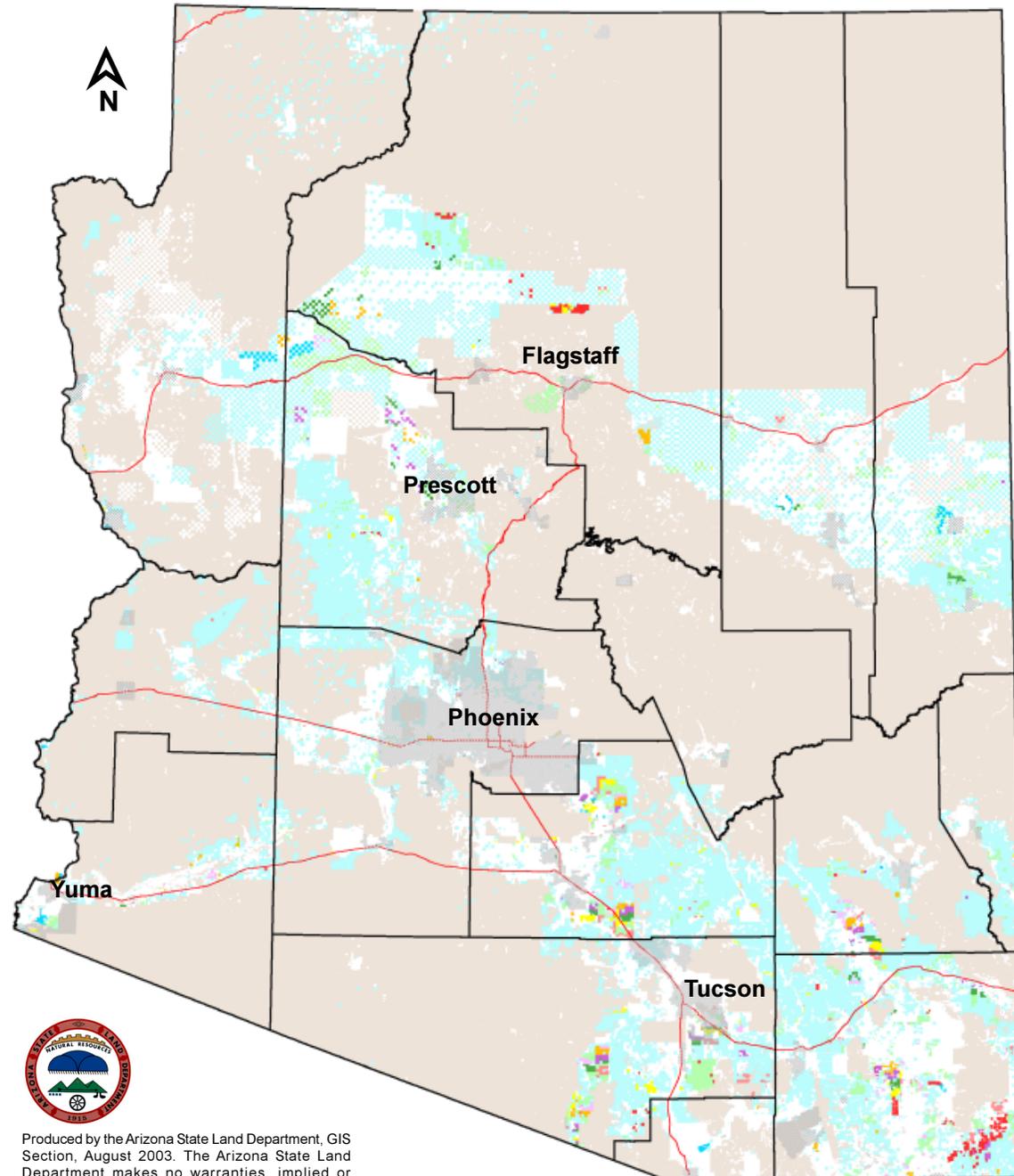
- BLM
- Forest Service
- Indian Reservation
- Military
- Natl Parks/Monuments
- Other
- Parks & Recreation
- Private
- State Trust
- Wildlife Refuge
- Cities



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