

State Land Department

	FY 2021 ACTUAL	FY 2022 ESTIMATE	FY 2023 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	129.7	129.7	131.7
Personal Services	6,829,400	6,821,900	7,684,400
Employee Related Expenditures	2,618,900	2,676,400	3,249,400
Professional and Outside Services	3,468,500	4,479,400	5,979,400
Travel - In State	106,700	112,800	112,800
Travel - Out of State	0	2,600	2,600
Other Operating Expenditures	2,382,600	1,872,700	1,782,100
Equipment	55,700	68,000	68,000
OPERATING SUBTOTAL	15,461,800	16,033,800	18,878,700
SPECIAL LINE ITEMS			
CAP User Fees	1,700,000	1,700,000	1,700,000 ^{1/}
Due Diligence Fund Deposit	0	1,500,000	1,500,000
Due Diligence Program	467,100	5,000,000	5,000,000
Fire Suppression	800,000	800,000	0
Natural Resource Conservation Districts	581,600	650,000	650,000 ^{2/}
Streambed Navigability Litigation	0	220,000	220,000
AGENCY TOTAL	19,010,500	25,903,800	27,948,700 ^{3/}
FUND SOURCES			
General Fund	12,118,400	13,315,100	14,659,300
<u>Other Appropriated Funds</u>			
Due Diligence Fund	467,100	5,000,000	5,000,000
Environmental Special Plate Fund	192,200	260,600	260,600
Trust Land Management Fund	6,232,800	7,328,100	8,028,800
SUBTOTAL - Other Appropriated Funds	6,892,100	12,588,700	13,289,400
SUBTOTAL - Appropriated Funds	19,010,500	25,903,800	27,948,700
Other Non-Appropriated Funds	887,000	942,900	942,900
TOTAL - ALL SOURCES	19,897,500	26,846,700	28,891,600

AGENCY DESCRIPTION — The agency manages the state's 9.2 million acres of trust land on behalf of its 13 beneficiaries. In order to generate revenue, the agency plans, leases, and sells trust land. The agency also generates revenue by collecting royalties from trust land minerals and other natural products.

FOOTNOTES

- ^{1/} The appropriation includes \$1,700,000 for CAP user fees in fiscal year 2022-2023. For fiscal year 2022-2023, from municipalities that assume their allocation of central Arizona project water for every dollar received as reimbursement to this state for past central Arizona water conservation district payments, \$1 reverts to the state general fund in the year that the reimbursement is collected. (General Appropriation Act footnote)
- ^{2/} Of the amount appropriated for natural resource conservation districts in fiscal year 2022-2023, \$30,000 shall be used to provide grants to natural resource conservation districts environmental education centers. (General Appropriation Act footnote)
- ^{3/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The budget includes \$18,878,700 and 131.7 FTE Positions in FY 2023 for the operating budget. These amounts consist of:

	FY 2023
General Fund	\$10,849,300
Environmental Special Plate Fund	600
Trust Land Management Fund	8,028,800

FY 2023 adjustments are as follows:

Digitize Paper Flow One-Time Funding

The budget includes a one-time increase of \$1,500,000 from the Trust Land Management Fund in FY 2023 to continue digitization process including workflows for billing and complete the migration of business applications to a new digital data system.

Additional Staff

The budget includes an increase of \$225,000 and 2 FTE Positions from the General Fund in FY 2023 to support the new digital data system.

Salary Increase

The budget includes an increase of \$853,300 from the General Fund in FY 2023 for a statewide employee salary increase. Of this amount, \$825,500 is for a 10% minimum state employee salary increase and \$27,800 is for selected market adjustments above 10%. *(Please see the Agency Detail and Allocations section.)*

Statewide Adjustments

The budget includes an increase of \$266,600 in FY 2023 for statewide adjustments. This amount consists of:

General Fund	265,900
Trust Land Management Fund	700

(Please see the Agency Detail and Allocations section.)

CAP User Fees

The budget includes \$1,700,000 from the General Fund in FY 2023 for Central Arizona Project (CAP) User Fees. This amount is unchanged from FY 2022.

This funding level is based on the final FY 2023 rate of \$53 per acre-foot on 32,076 acre-feet of water that the department will be billed for "capital charges" in FY 2023. The rate was set at the June 2022 CAP meeting.

Starting with the FY 2023 budget, this line item will be adjusted based on the provisional rate for the upcoming year unless a final rate is known. The Central Arizona Project board determines a final rate for the upcoming

year and a provisional rate for the following year in June. On June 2, 2022, the CAP Board set the final rate for FY 2023 at \$53 and the provisional rate for FY 2024 at \$53. Due to the length of session, the initial provisional rate of \$56 for FY 2023 was adjusted and finalized before session ended. Given that the final rate was known at the time the budget was enacted, this line item was adjusted to reflect the final rate for FY 2023 of \$53. For the FY 2024 Baseline, the line item will be based on the 2024 provisional rate of \$53, unless final data becomes available before the budget is enacted.

Previously, this line item was typically based on the final rate for the previous year. For example, the FY 2022 appropriation set the line item at \$1,796,300 to align with the FY 2021 final rate of \$53. The final FY 2022 rate was eventually set at the level of \$50, however, the FY 2022 appropriation remained at the dollar level to fund a \$53 charge.

Pursuant to A.R.S. § 37-106.01, the State Land Department has a long-term contract with the Central Arizona Water Conservation District (CAWCD) (the governing entity for CAP) for the rights to purchase 32,076 acre-feet of CAP water annually for municipal and industrial uses on state trust lands. The department typically does not take delivery of the water, but must still pay capital charges to the CAWCD each year to maintain its CAP water rights. (The CAWCD uses revenue from capital charges to fund repayment of federal construction debt for the CAP.) Maintaining CAP water rights on state trust lands increases their market value. When CAP water rights on state trust lands are transferred to a municipality through the sale or lease of state trust lands, the state General Fund is reimbursed for all previous costs associated with the water rights pursuant to A.R.S. § 37-106.01C&G. *(Please see related General Appropriation Act footnote.)*

Due Diligence Fund Deposit

The budget includes \$1,500,000 from the General Fund in FY 2023 for the Due Diligence Fund Deposit line item. This amount is unchanged from FY 2022.

The FY 2022 budget included an increase of \$1,500,000 from the General Fund in FY 2022 to be deposited into the department's Due Diligence Fund. The budget's 3-year spending plan includes a continuation of the \$1,500,000 deposit in FY 2023, and no deposit in FY 2024.

Due Diligence Program

The budget includes \$5,000,000 from the Due Diligence Fund in FY 2023 to fund this line item. This amount is unchanged from FY 2022.

The State Land Department uses monies in this line item to fund due diligence studies on land that it prepares for auction. The purchasers of state trust land then reimburse the State Land Department for the cost of the studies.

Fire Suppression

The budget includes no funding in FY 2023 for the Fire Suppression line item. FY 2023 adjustments are as follows:

Remove Fire Suppression Funding

The budget includes a decrease of \$(800,000) from the Trust Land Management Fund to remove funding to pay for an interagency service agreement (ISA) between the State Land Department and the Arizona Department of Forestry and Fire Management to fund fire suppression activity on state trust lands. The FY 2023 budget includes \$65.0 million of additional funding from the General Fund in the Arizona Department of Forestry and Fire Management budget that will be used for overall fire suppression purposes. *(Please see the Arizona Department of Forestry and Fire Management narrative for more information.)*

Natural Resource Conservation Districts

The budget includes \$650,000 in FY 2023 for Natural Resource Conservation Districts (NRCs).

This amount consists of:

General Fund	390,000
Environmental Special Plate Fund	260,000

These amounts are unchanged from FY 2022.

This line item funds natural resource research, activities, and staff at the state’s 30 NRCs. These districts are established to provide local conservation assistance and education and to coordinate the receipt of federal grants. A.R.S. § 37-1014 requires the department to include in its budget request up to \$40,000 for each NRC and \$60,000 for each education center for a 2-year period.

A General Appropriation Act footnote continues to require that \$30,000 of the total appropriation for NRCs be used to provide grants to NRC environmental education centers. The \$30,000 is divided among the 26 education centers sponsored or cosponsored by 30 NRCs. Districts that sponsor an education center also receive \$5,000 each year from the Environmental Special Plate Fund, per A.R.S. § 37-1015.

Streambed Navigability Litigation

The budget includes \$220,000 from the General Fund in FY 2023 for Streambed Navigability Litigation. This amount is unchanged from FY 2022.

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

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

Other Issues

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, State Land Department's General Fund costs are projected to decrease by \$(1,500,000) in FY 2024 compared to FY 2023, due to the \$1,500,000 for the Due Diligence Fund Deposit line item not being continued into FY 2024. The State Land Department's funding level would be unchanged for FY 2025.

Proposition 123

As approved by voters at the May 2016 election, Proposition 123 implements the October 2015 Special Session legislation (Laws 2015, 1st Special Session, Chapters 1 and 2 and HCR 2001) to increase the annual distribution rate from the State Land Trust Permanent Fund from 2.5% to 6.9% from FY 2016 through FY 2025.

Proposition 123 provided \$228,349,600 in incremental land trust funds to K-12 schools in FY 2021 and \$237,569,400 in FY 2022. The 4.4% incremental funding increase will provide \$247,303,400 in incremental funds in FY 2023. *(Please see the October 2015 Special Session and Proposition 123 section of the Department of Education narrative in the FY 2017 Appropriations Report for more information on Proposition 123.)*

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

Table 1

State Land Trust: Non-K12 Beneficiaries' Revenues, Balances, and Appropriation Authority

<u>Beneficiary/Fund</u>	<u>FY 2015 Total Revenue</u> ^{1/}	<u>FY 2022 Ending Balance</u>	<u>FY 2023 Total Revenue</u> ^{2/}	<u>FY 2023 Appropriation</u>
Universities ^{3/}				
Military Institute	\$ 83,800		\$ 97,800	
Normal Schools ASU/NAU	296,600		599,200	
A & M Colleges	445,100		1,648,500	
School of Mines	499,800		1,325,000	
University Fund	2,175,400		2,573,500	
U of A Land - 1881	<u>1,659,400</u>		<u>8,170,700</u>	
Subtotal	\$ 5,160,100		\$14,414,700	
Schools for the Deaf and the Blind ^{4/}	\$ 424,400		\$ 763,800	
State Hospital	\$ 701,000	\$ 1,491,500	\$ 1,177,100	\$ 650,000
Legislative, Executive, & Judicial Buildings ^{5/}	\$ 386,300	\$ 4,340,700	\$ 1,032,600	\$ 0
Corrections				
Penitentiaries	\$ 1,382,600	\$ 3,620,700	\$ 3,287,300	\$ 2,777,600
State Charitable (25%)	<u>1,452,500</u>	<u>2,609,500</u>	<u>3,832,600</u>	<u>2,665,100</u>
Subtotal	\$ 2,835,100	\$ 6,230,200	\$ 7,119,900	\$ 5,442,700
Pioneers' Home				
Miners' Hospital	\$ 1,981,400	\$ 9,095,300	\$ 3,935,300	\$ 2,318,600
State Charitable (50%)	<u>2,905,000</u>	<u>\$16,797,600</u>	<u>7,665,200</u>	<u>6,421,200</u>
Subtotal	\$ 4,886,400	\$25,892,900	\$11,600,500	\$ 8,739,800
Juvenile Corrections (State Charitable 25%)	\$ 1,452,500	\$ 851,700	\$ 3,832,600	\$ 4,125,400
Non-K-12 Beneficiaries Total	\$15,845,800		\$39,941,200	

^{1/} Includes actual Treasurer's distributions and lease revenues. The FY 2015 revenues reflect the 2.5% Treasurer's distribution rate in effect prior to Proposition 123.

^{2/} Includes both Treasurer's distributions and lease revenues. The Treasurer's distributions are known numbers based on the funding formula. Projected FY 2023 lease revenues reflect actual FY 2021 amounts.

^{3/} University land trust funds are non-appropriated. As a result, budget appropriations and balance amounts are not included. (Please see ABOR section for more information.)

^{4/} Arizona State Schools for the Deaf and the Blind (ASDB) land trust monies are appropriated as part of the Schools for the Deaf and the Blind Fund, which also receives revenues from the Arizona Department of Education. The FY 2022 General Appropriation Act and FY 2023 Baseline allow monies in this fund to be expended in excess of the appropriated amount. As a result, FY 2022 ending balance and FY 2023 appropriation amounts are not included.

^{5/} The expenditure for the Legislative, Executive, and Judicial Buildings land trust monies requires a legislative appropriation. A.R.S § 35-142 requires land fund monies to be expended only as authorized, regulated, and controlled by the General Appropriation Act or other act of the Legislature. A.R.S § 35-154 also requires that no person shall incur, order, or vote for the incurrence of any obligation against the state or for any expenditure not authorized by an appropriation and an allotment.