

BALLOT PROPOSITION #105

State Trust Land Reform

FISCAL ANALYSIS

Description

Proposition 105 would do the following:

1. Requires the Legislature to create a method whereby up to 400,000 acres of rural trust land are designated as conservation lands, which can be conveyed to a city, town or county without receiving compensation. This particular provision is conditional on voters failing to pass Proposition 106, entitled Conserving Arizona's Future.
2. Allows urban trust lands classified or eligible for designation as suitable for conservation under the Arizona Preserve Initiative (API), to be conveyed to local governments for purposes of conservation. Before these lands are conveyed, compensation equal to the true value of the conveyed land must be provided to the land's designated beneficiary.
3. Allows trust land, beyond the acreage listed above, to be designated for conservation purposes for monetary or non-monetary compensation equal to the true value of the land.
4. Allows public rights of way to be conveyed to federal, state or local governments without auction.
5. Grants rights of way for public roadways originating prior to and having been used or maintained since 1968 without further consideration.
6. Allows leases with a term of less than 10 years (or 20 years for mineral leases excluding hydrocarbons) to be granted without auction.
7. Changes the advertisement period for public auctions from 10 to 5 weeks prior to the auction and adds a requirement for notice on the State Land Department's website.
8. Does not become effective unless Congress amends the Arizona-New Mexico Enabling Act by December 31, 2008 to allow the state to implement the initiative.

Estimated Impact

Proposition 105 contains provisions that may reduce revenues that otherwise would have been received by state trust land beneficiaries. The proposition would permit certain parcels of trust land to be used for conservation without compensation. In this circumstance, the trust beneficiaries would not receive the proceeds from the sale of this land. The level of foregone revenue is difficult to predict in advance. The State Land Department has no estimate of the fiscal impact of this proposition.

Analysis

State trust lands were granted to the state by the federal government at the time of statehood. Those lands are held in trust for specific beneficiaries, including public schools and universities and other public institutions and state agencies. Revenues derived from land leases or sales are used to fund the beneficiaries of the specific parcel that generated the revenue. Currently, lands must be dispositioned at auction at a minimum of the appraised or "true" value. Revenues from the sale of lands are deposited into a Permanent Fund, which earns interest. Interest from the Permanent Fund, as well as proceeds from leases, mineral royalties, rights-of-way, interest on financed sales and other non-permanent dispositions, is distributed directly to the beneficiaries. Currently, the permanent fund is \$1.7 billion. Estimated FY 2006 distributions to beneficiaries were \$102.8 million.

Designating Rural State Trust Land as Conservation Land

The proposition requires that up to 400,000 acres of rural state trust land be designated as conservation lands, which will be conveyed without consideration to a local government and must be used and managed for conservation. Under current requirements, this land would otherwise be zoned for its best use and sold or leased at an auction to the highest bidder. Providing the land for no consideration would result in foregone revenues from state trust land to the beneficiaries. The impact of this reduction would depend on value of the land that could otherwise be sold or leased. Existing leases or rights of way would be allowed to continue and be renewed. Mineral rights are also reserved for the trust on these lands.

Lands outside of Maricopa or Pima counties were sold or granted perpetual right of way at an average value of \$18,700 per acre in FY 2006. These prices do not necessarily reflect the value of the designated lands. The value of the land is highly dependent on its location, timing of the sale, how developable the land is, and the manner in which the land is disposed (i.e. leased, sold, mined, grazed, etc).

Designating Urban API State Trust Land for Conservation

The proposition would designate certain urban API lands for conservation. The lands must have either been classified as suitable for conservation, or have had an application for such designation, prior to January 1, 2005. The State Land Department reports that 39,441 acres have been designated suitable for conservation. Also, 46,334 additional acres have a valid application but have not been designated. Lands with only an application require legislative approval for designation as conservation lands. These lands can be set aside for conservation without auction for compensation equal to the true value of the land. This means that the trust will have to receive value for the lands equal to the minimum price that could be paid for the lands at auction. (*See Auction Requirements section below for additional details.*)

Auction Requirements

Several provisions would allow the state to decide whether to convey certain trust lands with or without a public auction. Auctions for the sale or lease of state trust land can produce returns above the appraised value. For example, in FY 2006, 14% of State Land auctions resulted in a price higher than the appraised minimum value, adding a total of \$39 million or 10.5% to the trust land revenues that year. This premium may have also reflected the substantial acceleration in land prices during the last several years. The state may opt to continue to use auctions. If the state foregoes an auction, it would still be required to sell the land at the appraised price. Without the auction, however, there is the potential of foregoing gains above the appraised price.

Trust Land Planning

The proposition requires commercially planned urban state trust land to be planned in conjunction with local government's rules, regulations and ordinances, as long as those ordinances apply equally to private land. A local government may require a percentage of land to be set aside for conservation beyond the requirements of this proposition, which could result in foregone revenue to the trust land beneficiaries as state trust land cannot be set aside for conservation currently. The proposition allows additional land to be set aside for conservation without auction in a land use plan if the designation of additional lands does not affect the total true value of the land, within certain limits. To the extent that compensation is provided, this provision may have no effect on state trust land revenues. These lands may be conveyed without auction.

Rights-of-Way

The proposition allows rights-of-way be conveyed to federal, state or local governments without auction. The proposition also grants public rights of way for public roadways that were in existence prior to 1968 and have been used or maintained since that time.

Short-Term Leases

The proposition allows leases with a term of less than 10 years to be granted without auction. It also allows leases with a term of 20 years or less to be granted without auction if the lease is for mineral purposes, excluding hydrocarbons such as oil and natural gas. Compensation is required at the appraised value. As mentioned previously, a lease without auction presents the possibility of foregone revenues, as a higher lease price might otherwise be obtained through competitive bidding.

Advertising Requirements

The Provision decreases the required advertising time from 10 weeks to 5 weeks prior to public auction. This may result in some cost savings as less advertising will need to be purchased. It also requires the State Land Department to advertise auctions on their website for 5 weeks prior to auction. As the State Land Department already posts public auctions on their website, this should not produce additional costs.

Local Government Impact

The fiscal impact on local governments cannot be determined with certainty due to the complexity that exists between state trust land and local governments. When state trust land is sold and developed for commercial purposes, the new land owners become responsible for paying property taxes, in that jurisdiction. Also, a variety of other economic activity is associated with converting undeveloped land into developed land. If land is conveyed for conservation purposes, local governments can experience foregone revenue from the lack of property tax on the land and the lack of other economic development associated with developing land.

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