

BALLOT PROPOSITION #103 **Conserving Arizona's Water and Land**

FISCAL ANALYSIS

Description

Proposition 103 would do the following:

1. Designate approximately 570,000 acres of state trust land as permanent conservation lands, which are restricted against development, and which can be sold to a state agency, county, city or town without advertisement or public auction, provided that the terms of the sale require that the land be restricted against development, be used in a manner consistent with conservation, and be subject to reasonable public access.
2. Allow rights-of-way or easements for roadways, trails, rail, drainage, flood control, buffer zones, national security or utility purposes to be conveyed without advertisement or public auction.
3. Allow appraisals of the value of lands to account for non-monetary value received if the land was sold, leased, or otherwise disposed, as the presence of conservation lands may have non-monetary affects on the surrounding area, and may also affect the values of surrounding lands.
4. Require the state to prepare plans for the development of state trust land in cooperation with the county, city or town in which the land is located pursuant to the generally applicable regulations that apply equally to similar private property.
5. Allow a percentage of the monies derived from rentals, interest or installment sales and distributions from the permanent fund to be used to enhance or maintain the value of state trust land or the revenues derived from the land. The percentage is not specified in the proposition and would be set by the Legislature. The monies would be subject to appropriation by the Legislature. These monies would have otherwise been invested for or transmitted directly to the beneficiaries.
6. Would not become fully effective unless Congress amends the Arizona-New Mexico Enabling Act by December 31, 2014 to allow the state to implement the initiative.

Estimated Impact

Proposition 103 contains provisions that may increase future revenues to state trust land beneficiaries and other provisions that may reduce revenues that otherwise may have been received by these beneficiaries. The proposition allows an unspecified percentage of the revenues received from trust land rentals, interest or installment sales to be used to enhance, maintain or protect state trust land or the revenues derived from its rental or sale. Any monies used under this provision would have otherwise been invested for or distributed directly to the beneficiaries. This additional funding may permit the state to prepare trust land for sale or lease more quickly, which may accelerate revenues to beneficiaries and the Permanent Fund. The value of land generally appreciates over time. If state trust land is sold earlier, the longer term fiscal impact may depend in part on the rate of investment returns of the accelerated revenue compared to the sale price at a later date.

The proposition would designate certain parcels of state trust land as permanent conservation lands, restricted against development. These lands could be sold to state agencies, counties, cities or towns for their true values without advertising or auction. Since auctions can produce returns higher than the appraised value, eliminating the auction requirement in some instances may result in a reduction in the returns realized from lands sold without auctions.

Designating these lands as conservation lands may affect their monetary and non-monetary value. The designation may also affect the values of surrounding lands. It is difficult to predict in advance how the proposition will affect the sales prices of those lands, which would in turn affect the revenues available to the beneficiaries.

The State Land Department estimates that the initiative would result in General Fund savings of about \$15 million per year and would generate about \$69 million in additional revenue for the beneficiaries each year. The department's assumptions regarding the implementation of the initiative are speculative, given that it is difficult to determine the level of trust management funding and the magnitude of land sales in advance.

Analysis

State trust lands were granted to the state by the federal government at the time of statehood. These 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 public auction at a minimum of the appraised or “true” value. Revenues from the sales 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 dollar value of the permanent fund is \$2.2 billion. Estimated FY 2008 distributions to beneficiaries were \$114.2 million.

Designate State Trust Land as “Permanent Conservation Lands”

The proposition would designate 570,000 acres of state trust land as permanent conservation lands. These lands would be restricted against development. The lands could be sold without advertising or public auction to state agencies, counties, cities or towns under the condition that they remain restricted against development and be used for conservation purposes. The conservation designation may affect the value of the land such that selling the land may affect the revenues from state trust land to the beneficiaries. The impact of this designation would depend on the value of the land that could otherwise be sold or leased. Under current requirements, this land would be zoned for its best use and would be sold or leased at a public auction to the highest bidder.

In addition, the conservation designation may have a non-monetary value for state trust lands, such as any benefit that potential residents may derive from the open space of nearby conservation lands if the surrounding land is developed. As such, the conservation designation may affect the values of adjacent lands. The proposition allows any such affects to be considered in the appraisal and disposition of conservation lands.

Existing leases or rights-of-way would be allowed to continue and be renewed.

Auction Requirements

The proposition would allow the state in certain instances to convey trust lands with or without public auction. Auctions for the sale or lease of trust land can produce returns higher than the appraised value. In FY 2006, about 14% of State Land auctions resulted in a price higher than the appraised minimum value, adding a total of \$39 million to the trust land revenues that year. That premium may have also reflected the acceleration in land prices during that time. The acceleration of land prices has slowed, and in FY 2008 no State Land auction resulted in a sales price higher than the appraised value of the land. Regardless of whether or not trust lands are sold at auction, the lands must be sold at or above the appraised value. Without auction, however, there is the potential of forgoing any gains above the appraised price. As mentioned above, the conservation designation and the restriction against development may affect the appraised value of some state trust lands.

Trust Land Planning

The proposition requires land use plans for state trust land to be prepared in conjunction with local governments’ 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.

Trust Land Management

The proposition allows a reasonable percentage of the revenues received from trust land rentals, interest or installment sales to be used to enhance, maintain or protect state trust land or the revenues derived from its sale. The provision requires that the percentage would be specified by the Legislature. These funds would be subject to legislative appropriation.

As this provision diverts monies that would otherwise be deposited in the trust, it decreases overall revenues in the short term. Additional resources, however, may allow the state to bring parcels to sale more quickly, which may accelerate revenues to beneficiaries and to the Permanent Fund. Land is an asset, however, that usually appreciates. By holding lands for a longer time there is greater potential for higher land sales. If the land is sold earlier, the ultimate impact will depend on the rate of investment returns of the Permanent fund versus a later sale with a higher land price.

State Land Department Estimate

In its estimate, the State Land Department acknowledges that its estimated earnings for the beneficiaries and savings to the General Fund are dependent on the legislative action. The Land Department has assumed that the Legislature would set the reasonable percentage at a rate that would eliminate the existing \$15 million General Fund appropriation and replace it with

an equivalent amount of money from land trust earnings, growing by \$3 million per year for 5 to 6 years. That decision, however, would not be made until passage of the proposition.

The department also assumes that the net increase of \$3 million per year in trust management resources for 5 to 6 years would enable it to dispose of more trust land more quickly, which would result in additional revenues in the short term. As noted previously, if the land is sold earlier, the ultimate impact will depend on the rate of investment returns of the Permanent fund versus a later sale with a higher land price. The department notes that over the last 10 years it has disposed of an average of about 3,350 acres of trust land per year. If the initiative is implemented according to the Land Department's assumptions, the department speculates that it would be able to dispose of an additional 4,800 acres per year valued at about \$600 million.

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 leased and developed for commercial purposes, the new landholders become responsible for paying property taxes in that jurisdiction. Other economic activity is also associated with converting undeveloped land into developed land. If land is conveyed for conservation purposes, local governments may experience forgone 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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This estimate was prepared by Jay Chilton (602-926-5491).