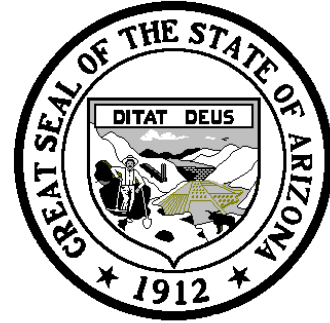


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# Sunset Review of the Arizona State Land Department



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## Report December 2017

### **SENATE MEMBERS**

Senator Gail Griffin, Co-Chair  
Senator Sylvia Allen  
Senator Judy Burges  
Senator Andrea Dalessandro  
Senator Lisa Otondo

### **HOUSE MEMBERS**

Representative Darin Mitchell, Co-Chair  
Representative David L. Cook  
Representative Wenona Benally  
Representative Rosanna Gabaldón  
Representative Becky A. Nutt

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## **Background**

Pursuant to [A.R.S. § 41-2953](#), the Joint Legislative Audit Committee assigned the sunset review of the Arizona State Land Department (Department) to the Senate Natural Resources, Energy and Water and the House of Representatives Land, Agriculture and Rural Affairs Committee of Reference (COR).

The Enabling Act of 1910 granted 10.9 million acres of Trust land to the State for public institutional beneficiaries. There are 13 Trust Beneficiaries, the largest of which is K-12 education. The First Arizona Legislature created a 3-member State Land Commission to assess, evaluate and make recommendations about the land granted to the State by Congress. The original Commission concluded that State Trust lands should be put to their "highest and best use."

The Department was established in 1915 to manage State Trust lands and the natural products derived from those lands. The State Land Commissioner is the executive officer of the State Land Department, appointed by the Governor and confirmed by the Senate. The Department's mission is to manage the Trust lands and maximize revenues for the beneficiaries. Revenue derived from the sale of land or resources (permanent receipts) are maintained in the Permanent Trust Fund, and revenue derived from leases, permits, rentals and interest (expendable receipts) are directly distributed to the beneficiaries. The Department is also responsible for preparing maps of the State, including military restricted airspace, military training routes and ancillary military facilities maps.

The Department has disposed of or exchanged approximately 1.7 million acres of State Trust land, leaving 9.2 million acres of Trust land to be managed by the Department for agricultural, commercial and grazing purposes. Each parcel of State Trust land has a designated beneficiary, so revenue generated from a parcel is dispersed to the corresponding designee. The Arizona State Treasurer manages and invests the monies in the Permanent Fund. Earnings from those investments are distributed to beneficiaries based on a constitutional formula.

In FY 2016, \$101,478,733 was deposited into the Permanent Fund and \$277,442,314 was distributed to the beneficiaries. During that time, the Department managed 10,347 surface leases and 11,448 subsurface leases. Public education is the largest beneficiary of State Trust land, owning approximately 87% of Trust land and receiving almost 90% of the revenue. In FY 2016, \$98 million from sales and royalties was deposited into the Permanent Fund for common schools (K-12) and \$302.7 million was generated in expendable receipts for distribution to the School Facilities Board for revenue bonds, New School Facilities Fund, Basic State Aid and the Classroom Site Fund.

## **Committee of Reference Sunset Review Procedures**

The COR held one public meeting on Wednesday, November 8, 2017, to review and consider the Arizona State Land Department's responses to the sunset factors (See *Appendix A*) and to receive public testimony (See *Appendix C*). Testimony was received from Lisa Atkins, the State Land Commissioner (See *Appendix D*).

A video recording of the committee can found at:

[http://azleg.granicus.com/MediaPlayer.php?clip\\_id=19946](http://azleg.granicus.com/MediaPlayer.php?clip_id=19946)

## **Committee Recommendations**

The Committee of Reference recommended that the Legislature continue the Arizona State Land Department for eight years and that the Department return to the COR with an update on its strategic plan in four years.

Douglas A. Ducey  
Governor



Lisa A. Atkins  
Commissioner

## Arizona State Land Department

September 1, 2017

1616 West Adams, Phoenix, Arizona 85007  
(602) 542-4631

Sharon Carpenter  
Legislative Research Analyst  
Arizona House of Representatives  
1700 West Washington Avenue  
Phoenix, AZ 85007

### RE: Sunset Review Factors – Arizona State Land Department Responses

Ms. Carpenter,

On behalf of the Arizona State Land Department (ASLD), please see the attached responses to the *sunset factors* prescribed in A.R.S. § 41-2954, as requested by Representative Darin Mitchell in the letter dated June 20, 2017.

ASLD serves the Beneficiaries of State Land Trust through prudent management of 9.2 million acres of Trust land and assets pursuant to the Enabling Act of 1912, Arizona Constitution, Title 37 of the Arizona Revised Statutes and subsequent case law. The mission of Trust Fiduciary makes ASLD one of the most distinctive missions of all Arizona State agencies.

Despite the challenges of balancing the management of assets, legal mandates, and limited resources, such as a small workforce, ASLD provides the 13 Trust Beneficiaries with a direct and perpetual revenue source. In the State's past 10 fiscal cycles, ASLD has generated \$2.34 billion in revenue for the Trust.

Serving as the fiduciary and asset manager for the Trust Beneficiaries, ASLD works in good faith with a broad cross section of industry in the State, as an honest broker and as a considerate neighbor. Our work with Trust lessees, most of whom are cattlemen and farmers, ensures that the corpus of the Trust, its land and natural resources, are responsibly managed in a way that enhances communities and employs sound stewardship, guaranteeing the Trust's existence, as intended, for future generations.

Respectfully, we request that the Committee(s) of Reference consider a recommendation for continuation of the ASLD for a 10-year period. We stand at the ready to provide any additional information, or clarification of our responses, to the sunset factors herewith.

Thank you in advance for your consideration.

Sincerely,

Lisa A. Atkins  
Commissioner

**Arizona State Land Department Responses**  
**Sunset Factors (A.R.S. § 41-2954)**  
**September 1, 2017**

---

1. The objective and purpose in establishing the agency and the extent to which the objective and purpose are met by private enterprises in other states.

The Arizona State Legislature established the Arizona State Land Department (Department) in 1915 to ensure proper management and care of state trust lands (Trust Land), which were granted to the State by the federal government to support schools and other public institutions. The Department is responsible for managing the surface and subsurface assets of Trust Land in a manner that produces maximum revenues for the 13 Trust beneficiaries. In producing revenues, the Department sells and leases land to the public for grazing, farming, mining, and commercial development. Revenues derived from those activities are placed into either permanent or expendable trust funds for use by the beneficiaries.

The lands were granted to the State by the federal government at statehood are held in trust for specific public beneficiaries, such as our public-school system, universities, hospitals and penitentiaries. In that regard, Trust Lands are **not** a *public trust* like the doctrine which guides management principles for federal and state public land, parks and wildlife.

Arizona was originally granted 10.9 million acres, to serve as a perpetual funding source for the public institutional beneficiaries, the largest of which is K-12 education. Since the Trust's inception, almost \$2 billion has been distributed to the beneficiaries from the State Trust Land Permanent Endowment Fund formula (Ariz. Const. Art. 10 § 7).

Operationally, all other States' trust lands are managed by public fiduciaries for the benefit of the designated beneficiaries, and none of those portfolios have been privatized. 'Privatizing,' or placing State Trust land under private fee management would be complex because of the State's Enabling Act, Constitution, statutes, and overall cost of transition. Additionally, it is unclear how a private entity would have the same level of incentive or expertise to seek opportunities not only to protect the corpus, but to perform the broad stewardship responsibilities of the Department.

Based upon their resource assets, several other western states work with private industry to more actively manage the corpus of their granted state land because of the natural resources of the Trust. States such as Washington and Idaho have high-value timber resources that provide consistent revenue streams for their beneficiaries through mechanisms such as partnerships with timber and forest product industries. This management tool has not only created revenue for their Trusts, but is an active management tool deployed to thin forests for prevention of catastrophic wildfire. The Department is currently pursuing these strategies as well; however, these pursuits require adherence to Arizona's Enabling Act and Constitution, which are significantly more restrictive than other western states.

Permitted recreation is one of the few services that the Department provides for the general public. In 2016, the recreational permit was made available online for the first time in the history of the Trust making it easy for the public to obtain a permit and comply with the law. Recreational activities have been a delicate balance for the agency to manage, as most Trust land is currently leased for grazing, which accounts for approximately 8.3 million acres of the surface portfolio. State Trust land is often confused for federal public land, and lessees can become frustrated when authorized users leave gates open, or are operating off-highway vehicles (OHVs) through their business operations.

**2. The extent to which the agency has met its statutory objective and purpose and the efficiency with which it has operated.**

The Legislature established the Department to ensure prudent management and care of State Trust land. The Department is uniquely responsible for managing the surface and subsurface estates on State Trust land in a manner that produces maximum revenues for the Trust beneficiaries while safeguarding the income producing viability of Trust assets in perpetuity.

The Department has largely succeeded in meeting its statutory objectives and purpose, even with decreasing general fund appropriations and increasing external pressures. The total of budget expense for the Department in FY-17 was \$17.3 million, and the Department generated approximately \$281.3 million in revenue for the Trust Beneficiaries over the same period. The efficiency ratio for the Department is a spectacularly effective 6.2%, meaning that the State spends only \$0.06 (approximately) for every dollar earned in revenue.

The Department can increase its effectiveness and efficiency by focusing on its recently developed strategic plan that promotes transition from a reactive organization, passively navigating its obligations, to a proactive organization that directs its efforts into key priorities designed to produce optimal outcomes for the Trust beneficiaries and the State.

Under the Governor's rollout of the Arizona Management System (AMS), the Department has already succeeded in increasing efficiencies through reduced workflow processing timeframes. With continued momentum, the Department will continue refining and standardizing work; below are some examples of beneficial and significant changes that have resulted in implementation of the AMS to date:

- In January 2017, the Department began analyzing its Commercial Sales application process. The existing process was methodically analyzed to understand and identify opportunities for improvement; and we developed a future state where an application to purchase State Trust Land will receive an initial evaluation and business decision by our Executive Management team within 25 days of initial submittal. Significant improvements in decision-making speed and quality is already evident, and the team is continuing to refine the process and developing *standard work*
- Created a multi-disciplinary scoring/review team to review Rights-Of-Way (ROW) applications for what was complexity at the beginning of the process. YTD, lead time for processing new ROW applications has decreased from an average of 571 days to an average of 208 days

- Began deep-dive process improvements on two critical application processes: new ROWs and Mineral Exploration Permits

The Department's new strategic plan is designed to drive important business opportunities by focusing on the following:

- Actively and strategically managing the Trust's portfolio of assets
- Clarifying and making priorities visible
- Creating additional capacity to actively manage Trust assets
- Transitioning to customer-considerate online operations
- Sustaining fiscal responsibility
- Implementing and promoting strategic external relationships

**3. The extent to which the agency serves the entire state rather than specific interests.**

The Department has broad exposure throughout the State by virtue of the Trust land holdings, and diverse business operations. The Trust holds land and resources in all 15 counties, and most cities. The Department's business units include real estate sales, mining, grazing, agriculture, rights-of-ways, and water assets.

The Department manages 9.2 million acres of Trust land which represents 13% of the total surface acreage in Arizona. Distinct from the U.S. Forest Service, and U.S. Bureau of Land Management, State Trust land has 13 specific beneficiaries: Common (public) Schools; University of Arizona; University land Code; Normal Schools; Agricultural and Mechanical Colleges; School of Mines; Military Institutes; State Charitable, Penal, and Reformatory; Miners' Hospital; Penitentiary, Legislative, Executive & Judicial Buildings; State Hospital, and School for the Deaf and Blind. Every parcel of State Trust land has a designated beneficiary (1 of 13), meaning that any revenue generated from a single parcel of Trust land is dispersed to the corresponding designee.

Today, the Department manages more than 21,000 active leases and permits, and over 15,000 recreation permits for authorized use of Trust land. When considering the volume of permits, the area of land affected, and the number of Arizonans who have attended or currently attend public schools and universities, it is highly probable that the Department, as fiduciary for the Trust, has positively touched the lives of most people in the State in some way.

In addition to its Trust-related obligations, the Department supports the Land Commissioner's prescribed statutory duties as State Cartographer and as Commissioner of the Natural Resources Conservation District (A.R.S. § 37-1012), and the Department also manages state sovereign lands not under the jurisdiction of another state entity (A.R.S. § 37-102(B)), such as navigable rivers and surplus floodplain lands (A.R.S. § 37-610).

**4. The extent to which rules adopted by the agency are consistent with the legislative mandate.**

The Department is governed by the rules contained within Title 12, Chapter 5 of the Arizona Administrative Code. The rules are consistent with the legislative mandate. The Department



has not promulgated or amended any of its rules since 2011. In the past year, the Department has expired one rule and is currently seeking to expire another rule. In accordance with the legislative mandate to complete five-year reviews of its rules, the Department reviews subsets of its rules on a rolling basis, at regular intervals, and submits the findings of those reviews are submitted to the Governor's Regulatory Review Council. The Department is aware that the reduction of burdensome regulations has been and is a priority for both the Legislative and Executive branches, and will continue to improve its rules accordingly.

5. The extent to which the agency has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.

The Department last completed a rulemaking in 2011. The Department adheres to the Arizona Administrative Procedures Act, which includes the solicitation and acceptance of public comment during the rulemaking process. Additionally, in accordance with Executive Order 2017-02, the Department sought input from its stakeholders on its established rules, and submitted a report to the Governor summarizing the findings on September 1, 2017.

6. The extent to which the agency has been able to investigate and resolve complaints that are within its jurisdiction.

The Department receives approximately 100 informal inquiries per month, ranging from individuals seeking general information to questions or complaints regarding agency operations or policies. On average, the Department responds to the requests within 3-5 business days. The Department also receives formal inquiries, ranging from detailed public records request to appeals of Commissioner's decisions/orders. The Department receives several public records requests each month, and requests are acknowledged and fulfilled in an efficient and timely manner. Appeals of Commissioner's decisions are generally in relation to the appraisal or classification of a State Trust land parcel. Appeals relating to appraisals or valuations are addressed through the Board of Land Appeals, and all other appeals are handled through the Arizona Office of Administrative Hearings.

7. The extent to which the attorney general or any other applicable agency of state government has the authority to prosecute actions under the enabling legislation.

The Department is not a regulatory agency and has no regulatory authority.

8. The extent to which agencies have addressed deficiencies in their enabling statutes that prevent them from fulfilling their statutory mandate.

The Department has not recently addressed deficiencies in its enabling statutes that prevent it from fulfilling its statutory mandate. There are statutes that could be amended or clarified to improve the Department's effectiveness in carrying out its mission and efficiency in conducting those duties. The Department has sought numerous technical and administrative changes to agency statutes over the years. For example, Laws 1992, Chapter 357 authorized the Department to pay brokerage real estate commissions to private realtors. Laws 1993, Chapter 168 allowed the Department to require earnest deposits from people who apply a second time

for the same piece of land. Further, Laws 1996, Chapter 133 modified the requirements for the planning and disposition of state trust land.

9. The extent to which changes are necessary in the laws of the agency to adequately comply with the factors listed in this subsection.

The Department can adequately comply with its obligations under existing laws

10. The extent to which the termination of the agency would significantly affect the public health, safety or welfare.

Termination of the Department would likely have a harmful impact on the health, safety and welfare of Arizona's citizens, as termination would likely result in reduced management of Trust lands and its assets, and reduced revenue production for the Trust's 13 beneficiaries. The most consequential impact could become evident in the State's overall economic development, under certain conditions.

With more than 9 million acres of Trust land to manage, intermingled among a diverse landscape of private and federal agency land owners, the Department has developed an extraordinary skill set for managing the inherent tensions created by the nature of its primary uses: development and stewardship of its natural resources.

The Department maintains dedicated staff who are trained to accomplish its mission. The Department is one of the smallest state agencies with one of the greatest fiscal impacts to the State, and since its inception, has generated more than \$5 billion for the Trust's Permanent Fund, as well as contributing to the successes of local communities and the State through broad economic development opportunities and as a resource to several industries. Over the last ten fiscal years, the Department generated a total of \$2.34 billion in revenue for its beneficiaries.

The Department works with its grazing and agriculture lessees, the Arizona Department of Forest and Fire Management (DFFM), and the Natural Resources Conservation Districts (NRCs) to ensure that the Trust's land and natural products are treated and disposed of in accordance with the Arizona Constitution. For example, wildfire and post-wildfire damage create vulnerabilities, such as flooding and water contamination; together they pose serious risks to rural communities as well as those residing in the wildland-urban interface (WUI). The Department provides critical coordination data and resources to mitigate and prevent such catastrophes, which have created tragic loss of life and harmed the livelihood of Arizonans across the State.

Nearly 8.5 million acres of Trust Land is currently under grazing leases. The Department has spent great time and effort in building expertise and resources to meet the needs and build strong partnerships with the lessees; the Trust relies heavily upon their knowledge, expertise for beneficial range management and sound stewardship practices contributing to the reduction of excess fuel loads and protection of the watershed. The Department's continued relationship with those ranchers will ensure that the Trust's assets will be consistently managed and able to generate income into the future. The Department also

provides ranchers with a suitable alternative to leasing federal public land for grazing as the federal regulatory processes can be costly and time-consuming.

Another unique expertise the Department provides the Trust and the State is its working relationship with the mining industry providing opportunities to lease trust land for extracting subsurface mineral estate. The Department works with all its lessees, not only to ensure that their needs as a customer are met, but also to coordinate large statewide projects that involve federal land management and regulatory overreach.

**11. The extent to which the level of regulation exercised by the agency compares to other states and is appropriate and whether less or more stringent levels of regulation would be appropriate.**

This question is not applicable to the Department, as it has no prescribed regulatory authority.

**12. The extent to which the agency has used private contractors in the performance of its duties as compared to other states and how more effective use of private contractors could be accomplished.**

The Department's Strategic Plan includes greater reliance on private contractors for work more appropriately performed by relevant industry specialists as part of a greater effort toward reducing costs and inefficiencies for the Trust.

**13. The extent to which the agency potentially creates unexpected negative consequences that might require additional review by the committee of reference, including increasing the price of goods, affecting the availability of services, limiting the abilities of individuals and businesses to operate efficiently and increasing the cost of government.**

The Department is one of the most unique state agencies in Arizona, and its mission and absence of regulatory authority, poses no negative impacts or consequences to the State's economy or public's ability to operate business as a result of its fees, actions and decisions.

Moreover, the Department's appraisals and ability to sell and lease land and resources has a correlative relationship with market conditions and fluctuations; for example, selling the majority of the Trust portfolio would saturate the market and artificially decrease overall land values. Executing prudent decisions includes timing considerations and monitoring market conditions to prevent negative impacts to Arizona's real estate market and causing a destabilization of the economy.

The Department's operations do not increase government intrusion within the private sector. As the fiduciary and asset manager of the Trust, the Department is not establishing fees, licenses and regulations for the public in general; most of the agency's permitting and leasing are contractual in nature and resemble more of a "fee for service" model. Use of Trust lands and its assets require that the Trust to be compensated, and for larger transactions, appraisal and auction are required by the Arizona Constitution.

***“Four additional questions have been added to the same section of statute, and the COR request has numbered them 1-4:***

**1. Identify the problem or the needs that the agency is intended to address.**

The Department is not a regulatory agency, and was not established to address a problem, but rather, established to fulfill a need. The Department is an agency created by the Arizona Legislature at statehood to serve as the Trustee for prudent management of lands granted to the State by the federal government for the benefit of 13 specified beneficiaries, primarily K-12 education.

**2. State, to the extent practicable, in quantitative and qualitative terms, the objectives of the agency and its anticipated accomplishments**

The Department generates revenue for the Trust Beneficiaries, and manages and protects the Trust’s corpus – its natural resources – as an asset. The Department is the fiduciary for a multi-generational, perpetual Trust, exercising sound stewardship principles to ensure the Trust is a viable and productive asset for beneficiaries today and for generations to come.

The following accomplishments of the ALSD have been significant, impactful and sustainable:

- **Authorized permitted recreational Geocaching on Trust land**  
In FY-16, in response to growing community interest, and increasing global engagement in the activity, the Department worked with the Governor to introduce the outdoor recreational activity of geocaching, a minimally invasive activity in which participants use a Global Positioning System (GPS) receiver or mobile device and other navigational techniques to hide and seek small containers, called "geocaches" or "caches", at specific locations on Trust land. This initiative expanded the land available for recreational purposes, and engages beneficiaries with their families in an educational use of their asset.
- **Revenue Generation on behalf of the Beneficiaries**  
A commitment to strategic business principles and prudent stewardship over the past ten years, has resulted in more than \$2.34 billion in total revenue generation over the last 10 fiscal years.
- **Building and implementing a *Zoning Bank***  
Strategic re-zoning and zoning bank initiatives, which were initiated in FY-15 by the Department have supported and improved the land entitlement process and has created an additional inventory of mature assets suitable for sale. A pilot project for this effort includes a pilot project in Pima county (870 acres in Oro Valley) that will be applied as a standard model for expanding appropriate land use entitlements on Trust Land throughout Arizona. This will expand our customer base and significantly reduce timelines to both auction and built products for our customers.
- **Transition to a Digital Age**  
In FY-16, the Department launched an online portal to facilitate the application and

processing of recreational permits, resulting in almost a 40% increase in the number of permits sold in FY-17, and more saliently, it has increased convenience and accessibility for the public, which also promotes compliant use of Trust land.

The following strategic objectives are anticipated to expand business opportunities; create additional capacity to better fulfill the Department Mission; and expand a commitment to fiscal responsibility:

- **Create additional capacity to actively manage Trust assets**  
The agency will continue to identify leadership development opportunities which support seamless succession efforts and ensure mission fulfillment. The current internal agency organizational design will periodically be examined and/or modified as appropriate, to continuously maximize efficiency and reduce waste.
- **Continue to build and implement Zoning Banks**  
A zoning bank supports efforts to entitle land, thereby reducing potential rezoning burdens imposed on the customer post-sale. The zoning bank also contributes to an increased supply of mature assets suitable for sale.
- **Continue the Transition to a Digital Age**  
In September 2017, the agency will implement use of a robust Customer Relation Management (CRM) system designed to transition the Department's application processing system from a paper-based to a digital system, with reporting capabilities. These transactional application processes affect nearly 80% of land management applications (Grazing, Agriculture, Minerals, Rights of Way.) This new CRM system will increase workflow efficiencies, and significantly improve the Department's overall customer service and response times.
- **Increased emphasis on the Per Commissioner Initiative (PCI) Applications**  
An increased emphasis on the PCI system will support the Department's recent efforts to proactively bring parcels to auction, without the cumbersome requirements of prospective customers filing applications. When a determination has been made that the beneficiaries are best served by moving sections of Trust land to auction, the PCI system provides a mechanism to more quickly move that land to auction.
- **Expansion of opportunities which allow for permitting via online portals**  
In total, the agency processes 19 land use application types. By FY-18, nineteen major application processes will be available for processing via online portals. The availability of the online portals will serve to increase internal efficiencies, response time and customer satisfaction.
- **Expand Commitment to Fiscal Responsibility**  
The agency's leadership will continue to vigorously pursue opportunities for alternative funding sources through strategic external partnerships (i.e. federal grants, other public agencies, and constituency groups).

3. Identify any other agencies having similar, conflicting or duplicative objectives, and an explanation of the manner in which the agency avoids duplication or conflict with other such agencies.

There are no other agencies with similar or duplicative objectives as the Department, its operations are more like a private sector trustee, fiduciary and asset manager, which no other state agency, board or commission resembles.

4. Assess the consequences of eliminating the agency or of consolidating it with another agency.

Elimination or division of the Department would likely result in a split of its broad duties among other State agencies that are unfamiliar with the Trust's obligations for managing the diverse transactions and land holdings. Carrying out its mission, the Department's duties are equivalent to a *private trust* as identified in the Restatement (Third) of Trusts. Therefore, any effort to consolidate the Department's duties into other agencies would result in conflicts, as the principle duties of a trustee inherently conflict with those of the State's other natural resource, regulatory or transactional agencies.

The Department has also participated in a process for reorganization and consolidation through the legislative separation of the Department of Forestry and Fire Management a few years ago, which was supported by the Legislature. While some complementary goals exist between the two agencies, their missions are distinct and incompatible.

# ARIZONA STATE LEGISLATURE

## INTERIM MEETING NOTICE OPEN TO THE PUBLIC

### SENATE NATURAL RESOURCES, ENERGY AND WATER AND HOUSE LAND, AGRICULTURE & RURAL AFFAIRS COMMITTEE OF REFERENCE FOR THE SUNSET REVIEW OF THE: ARIZONA STATE LAND DEPARTMENT ARIZONA BEEF COUNCIL

**Date:** Wednesday, November 8, 2017

**Time:** 1:15 P.M. OR UPON ADJOURNMENT OF THE LAND, AGRICULTURE AND  
RURAL AFFAIRS COMMITTEE

**Place:** HHR 1

#### AGENDA

1. Call to Order
2. Roll Call
3. Sunset Review of the Arizona State Land Department
  - Presentation by the Arizona State Land Department
  - Public Testimony
  - Discussion and Recommendations by the Committee of Reference
4. Sunset Review of the Arizona Beef Council
  - Presentation by the Arizona Beef Council
  - Public Testimony
  - Discussion and Recommendations by the Committee of Reference
5. Adjourn

\* Pending appointment by the House Committee on Land, Agriculture and Rural Affairs

#### Members:

Senator Gail Griffin, Co-Chair  
Senator Sylvia Allen  
Senator Judy Burges  
Senator Andrea Dalessandro  
Senator Lisa Otondo

Representative Darin Mitchell, Co-Chair  
Representative David L. Cook  
Representative Wenona Benally\*  
Representative Rosanna Gabaldón  
Representative Becky A. Nutt

10/27/17  
jy

**People with disabilities may request reasonable accommodations such as interpreters, alternative formats, or assistance with physical accessibility. If you require accommodations, please contact the Chief Clerk's Office at (602) 926-3032 or through Arizona Relay Service 7-1-1.**

# ARIZONA STATE LEGISLATURE

## SENATE NATURAL RESOURCES, ENERGY AND WATER AND HOUSE LAND, AGRICULTURE AND RURAL AFFAIRS COMMITTEE OF REFERENCE FOR THE SUNSET REVIEW OF THE: ARIZONA STATE LAND DEPARTMENT ARIZONA BEEF COUNCIL

### Minutes of the Meeting

November 8, 2017

1:15 p.m., or upon adjournment of the Land, Agriculture and  
Rural Affairs Committee, House Hearing Room 1

#### Members Present:

Senator Gail Griffin, Co-Chair  
Senator Sylvia Allen  
Senator Judy Burges  
Senator Lisa Otondo

Representative Darin Mitchell, Co-Chair  
Representative David L. Cook  
Representative Wenona Benally  
Representative Rosanna Gabaldón  
Representative Becky A. Nutt

#### Members Excused:

Senator Andrea Dalessandro

#### Staff:

Kathi Knox, Senate Research Staff  
Sharon Carpenter, House Research Staff

Co-Chairman Mitchell called the meeting to order at 1:24 p.m. and attendance was taken.

### SUNSET REVIEW OF THE ARIZONA STATE LAND DEPARTMENT

#### Presentation by the Arizona State Land Department

**Lisa Atkins, Commissioner, Arizona State Land Department**, distributed and explained a PowerPoint presentation entitled "Arizona State Land Department: Natural Resources" (Attachment A) and stated that the department has joined the Governor's effort for the Arizona Land Management System to standardize work for improved customer service. Commissioner Atkins answered questions posed by the Committee.

The Committee shared their comments for the topic mentioned above.

Representative Mitchell asked the audience for public testimony, however, no one came forward.



## **Recommendation by the Committee of Reference**

Representative Mitchell requested a motion on the continuation of the Arizona State Land Department.

**Senator Griffin moved that the Committee of Reference recommend to the full Legislature that the Arizona State Land Department be continued for 8 years with the following modifications: that they return to this committee with an update on your strategic plan within the next 4 years. The motion CARRIED by voice vote.**

## **SUNSET REVIEW OF THE ARIZONA BEEF COUNCIL**

### **Presentation by the Arizona Beef Council**

**Lauren Maehling, Executive Director, Arizona Beef Council**, distributed and explained a handout entitled "2016 Arizona Beef Council Annual Report" (Attachment B) and further explained that the Arizona Beef Council has been given the authority to establish an industry finance program to develop, promote and maintain the Arizona market for beef and beef products from the Beef Checkoff Program. Ms. Maehling answered questions posed by the Committee.

The Committee shared their comments for the topic mentioned above.

Representative Mitchell asked the audience for public testimony, however, no one came forward.

### **Recommendation by the Committee of Reference**

Representative Mitchell requested a motion on the continuation of the Arizona Beef Council.

**Senator Griffin moved that the Committee of Reference recommend to the full Legislature that the Arizona Beef Council be continued for 8 years. The motion CARRIED by voice vote.**

There being no further business, the meeting was adjourned at 2:15 p.m.

Respectfully submitted,

Imee L. Andrew  
Committee Secretary

(Audio recordings and attachments are on file in the Secretary of the Senate's Office/Resource Center, Room 115. Audio archives are available at <http://www.azleg.gov>)



# Arizona State Land Department

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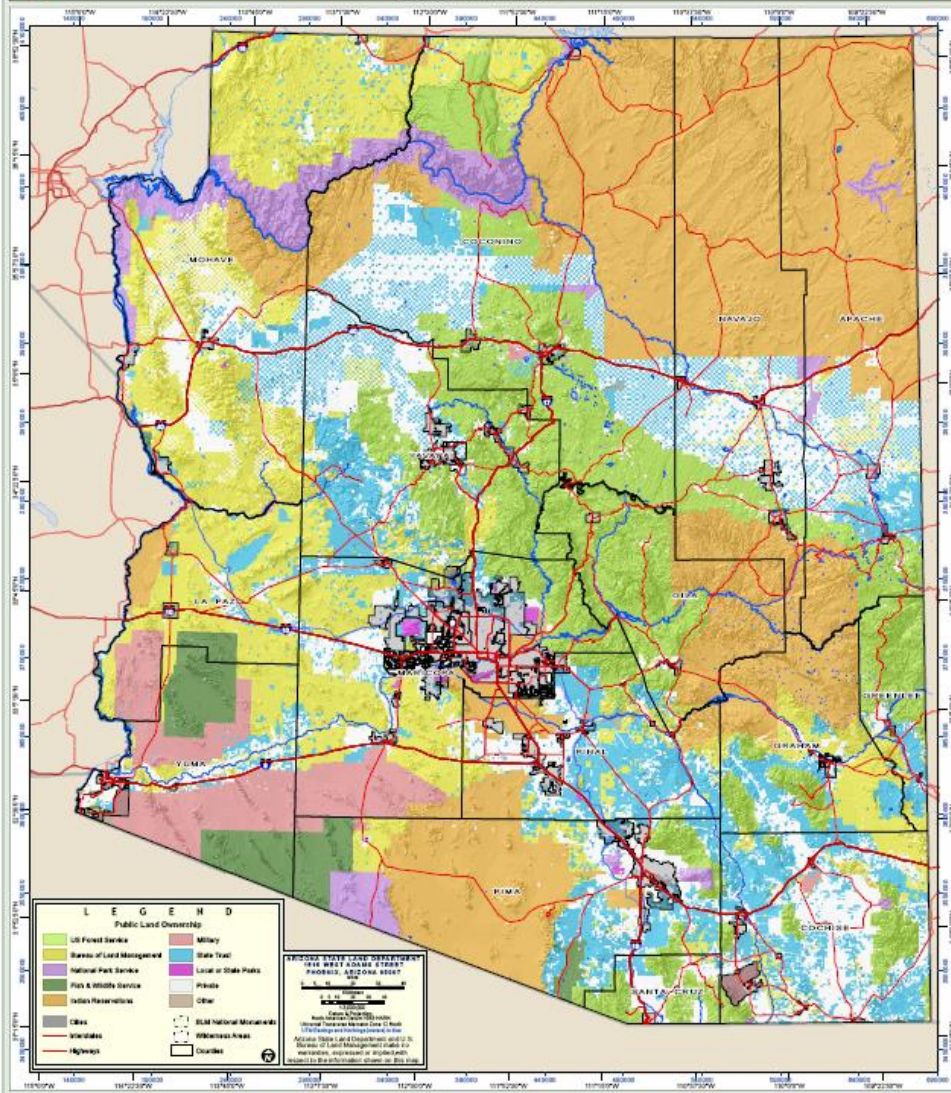
LISA A. ATKINS,  
COMMISSIONER

*November 8, 2017*

# Perspective

## ARIZONA SURFACE MANAGEMENT RESPONSIBILITY

Arizona State Land Department / U.S. Bureau of Land Management  
State and Federal Government Working Together



State Trust land (Blue)

9.2 million acres = 13% of the state

Larger than Rhode Island, Delaware, Connecticut and Hawaii combined.

Would be 42nd largest state

1.6 times larger than Maricopa County

Larger than many countries – is roughly the size of Turkey



# Beneficiaries

Beneficiary	Original Acreage	Remaining Acreage
Commons Schools (K-12)	9,400,000	8,061,037
Normal Schools	200,000	174,786
University Land Code	200,000	137,778
Agricultural & Mechanical Colleges	150,000	124,944
School of Mines	150,000	123,256
School for the Deaf & Blind	150,000	82,558
Military Institutions	100,000	80,168
State Charitable, Penal & Reformatory	200,000	77,225
Penitentiaries	100,000	76,111
State Hospital	100,000	71,248
Legislative, Executive & Judicial Buildings	100,000	64,229
University of Arizona	60,000	49,134
Miners' Hospital (1929)	50,000	47,686
Miners' Hospital	50,000	47,545

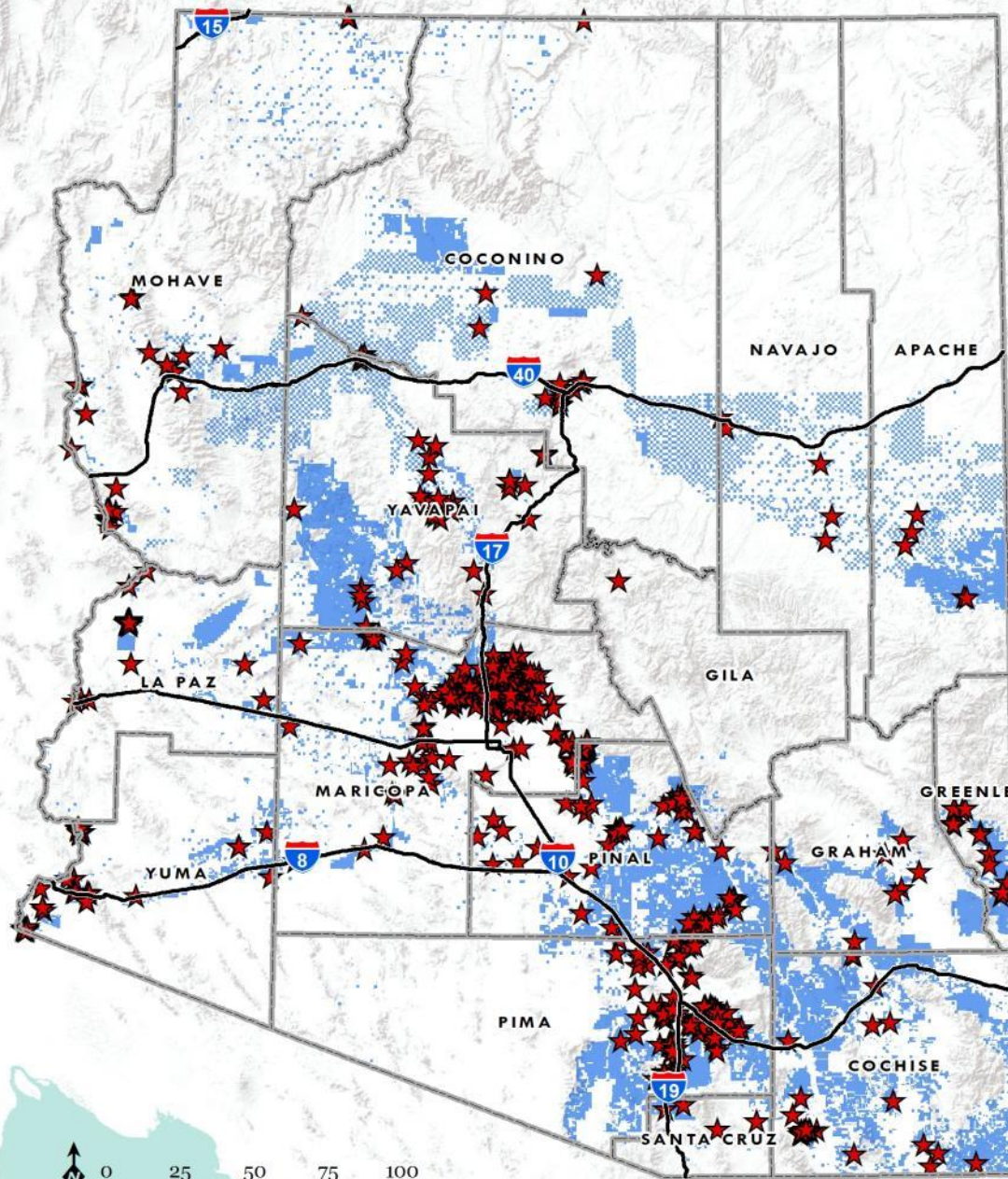


# Land Uses on Trust Land

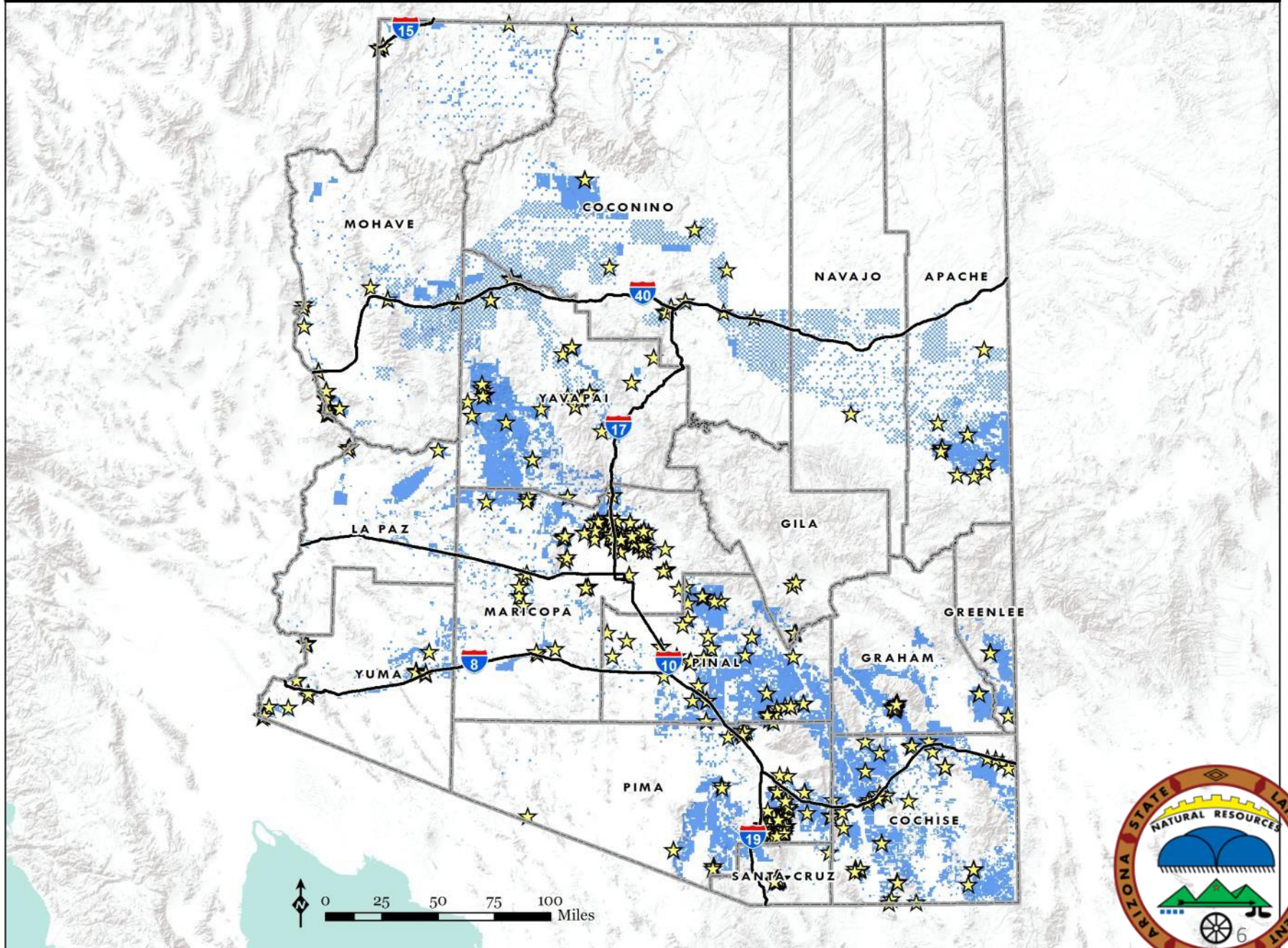
LEASES	NO. OF LEASES	% OF LEASES	TOTAL ACREAGE	% OF ACREAGE
Grazing	1,196	10.80%	8,323,685.95	80.25%
Use Permits	639	5.77%	451,003.36	4.35%
Rights of Way	7,650	69.08%	259,639.45	2.50%
Agriculture	341	3.08%	153,517.38	1.48%
Commercial	295	2.66%	69,984.10	0.67%
Minerals, Oil & Gas	953	8.61%	1,114,231.00	10.74%
<b>TOTAL</b>	<b>11,074</b>		<b>10,372,061</b>	



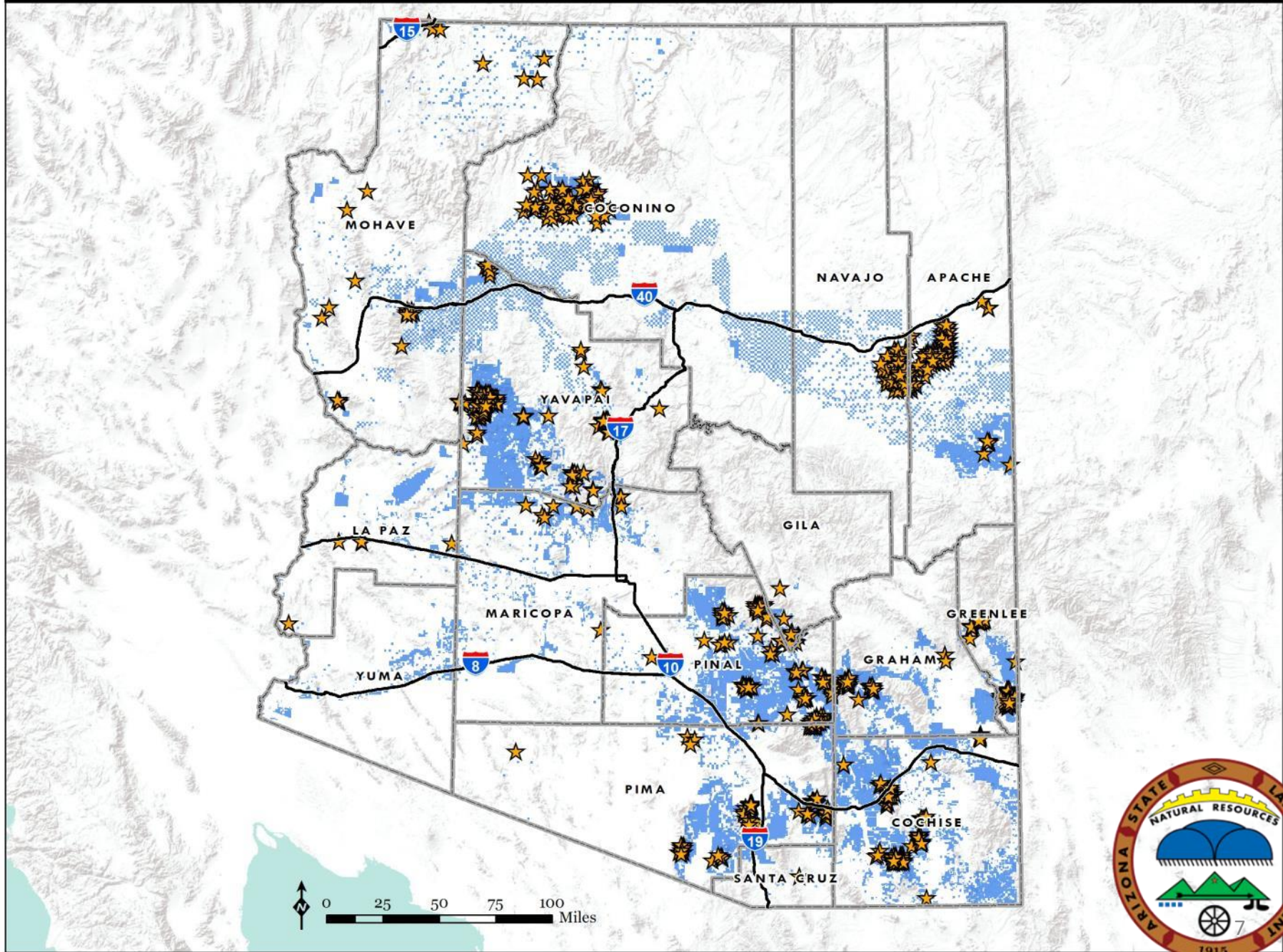
# STATE TRUST LAND & COMMERCIAL SALES



# STATE TRUST LAND & COMMERCIAL LEASES

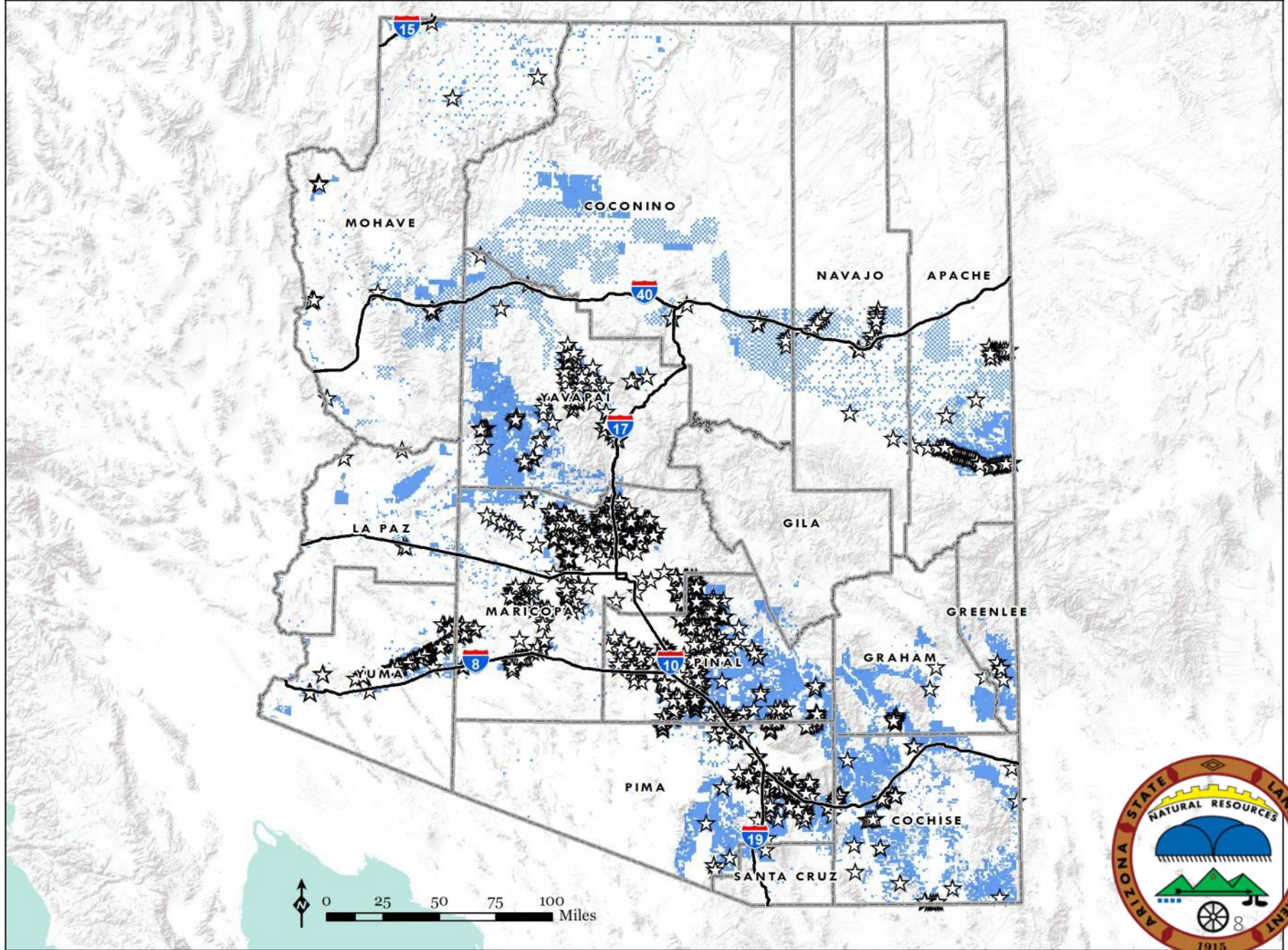


# STATE TRUST LAND & MINERAL LEASES

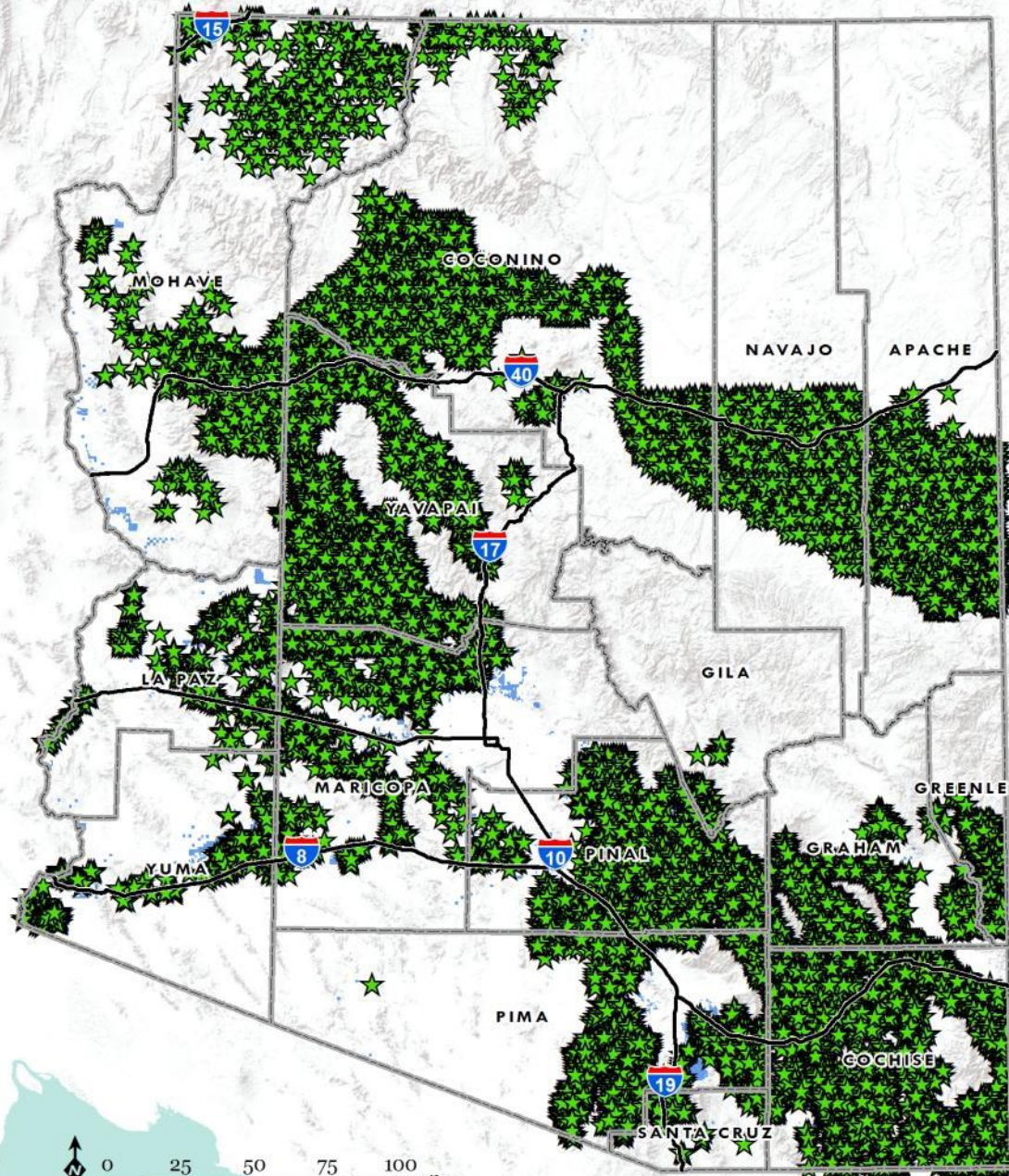




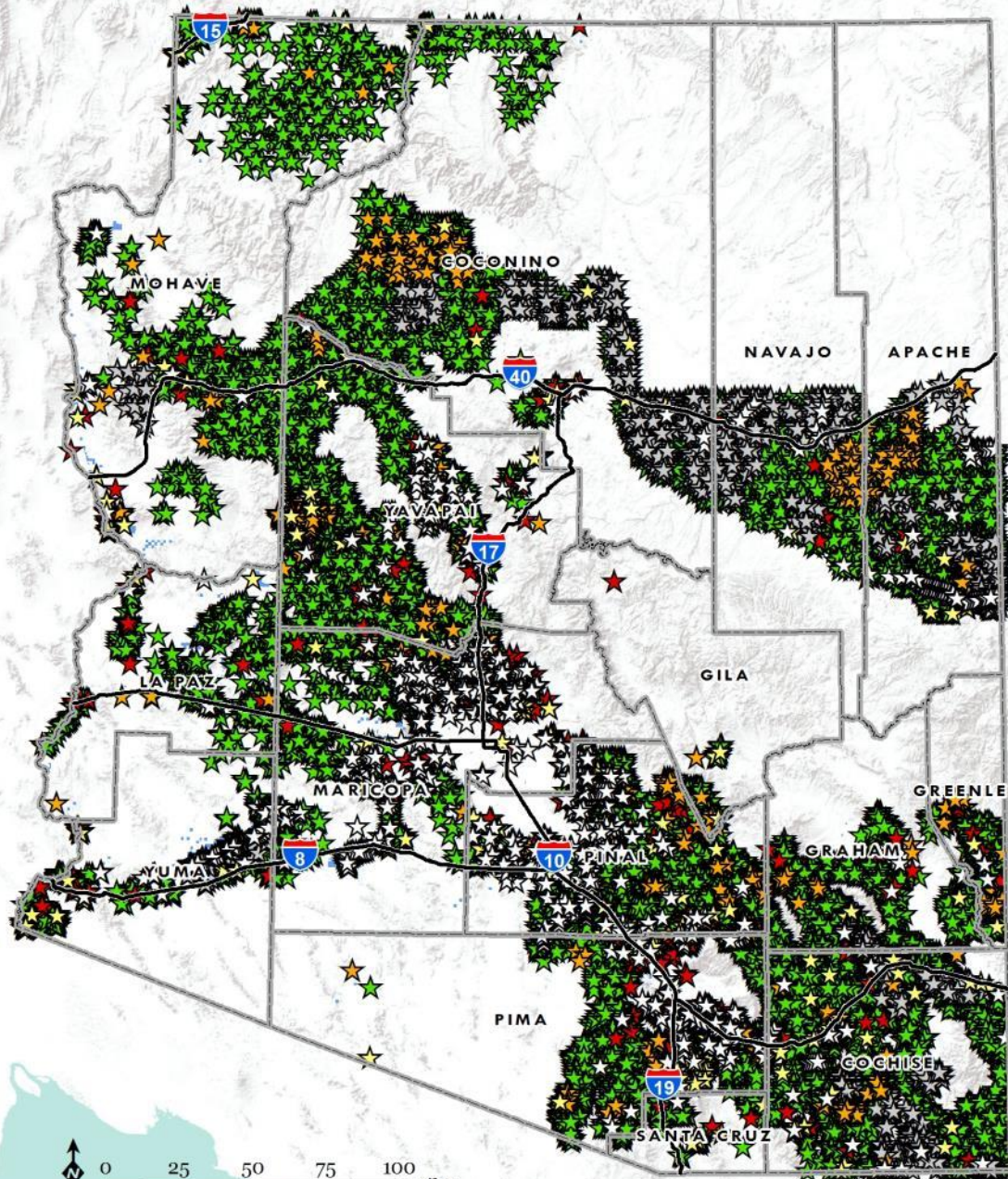
# STATE TRUST LAND & RIGHTS OF WAY



# STATE TRUST LAND & AGRICULTURE AND GRAZING LEASES



# STATE TRUST LAND: LEASING AND SALES ACTIVITY





# Strategic Plan

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**Vision**  
A professionally managed trust, proactively engaged in its mission, responsive to the needs of the State, in pursuit of a better Arizona.

### Executive Summary

The overriding strategic goal of the State Land Department is to transition from a reactive organization passively navigating its obligations, to a proactive organization that directs its efforts into key priorities designed to produce optimal outcomes for the Trust beneficiaries and the State.

Strategic priorities are designed to drive important business opportunities by focusing on the following :

- Clarifying and Making Priorities visible
- Creating Additional Capacity to Better Fulfill Mission
- Transitioning to Customer-Friendly Online Operations
- Sustaining Fiscal Responsibility
- Promoting and Implementing Strategic External Relationships

### Mission

To responsibly manage the assets of a multi-generational perpetual Trust in alignment with the interests of the beneficiaries and Arizona's future.

### Agency Description

ASLD manages more than 9 million acres of State Trust land and resources on behalf of 13 beneficiaries. As the fiduciary, ASLD generates revenue for the Beneficiaries through the selling of, leasing of, and minerals royalty generation on State Trust land. ASLD also exercises sound stewardship principles to ensure the Trust is a viable and productive asset for beneficiaries today and for generations to come.

### Principles / Values

- **Beneficiary Focused:** The State Land Trust is a multi-generational, perpetual trust. ASLD's work serves the Trust Beneficiaries, the largest of which is K-12 education.
- **State Focused:** Aligning current and future interests of the beneficiaries with State interests to produce optimal outcomes.
- **Efficient Resource Utilization:** Maximize the utility of taxpayer support by efficiently using resources in pursuit of the Trust mission.
- **Collaboration:** Cultivate outside relationships and partnerships (customers, interest groups, other land owners and municipalities) to help facilitate and coordinate planning in recognition of limited resources and broad mandate.
- **Customer Commitment:** Create and encourage a professional work environment to continue to develop exceptional employees who provide excellent customer service.
- **Proactive Management:** Effective management and planning strategies to enhance the value of the holdings of the Trust.

Resource Assumptions <small>(dollars in thousands)</small>	FY 2018 Appropriations	FY 2019 Budget Request	FY 2020 Estimate	FY 2021 Estimate	FY 2022 Estimate
Full-Time Equivalent	129.7	129.7	129.7	129.7	129.7
General Fund	\$12,365.9	\$13,342.6	\$13,342.6	\$13,342.6	\$13,342.6
Other Appropriated Funds	\$7,250.0	\$7,500.0	\$7,500.0	\$7,500.0	\$7,500.0
Non-Appropriated Funds	\$871.0	\$871.0	\$871.0	\$871.0	\$871.0
Federal Funds	\$0.0	\$0.0	\$50.0	\$100.0	\$150.0
<b>Total Agency Funds</b>	<b>\$20,486.9</b>	<b>\$21,360.7</b>	<b>\$21,410.7</b>	<b>\$21,460.7</b>	<b>\$21,510.7</b>



# Arizona Management System (AMS) Implementation

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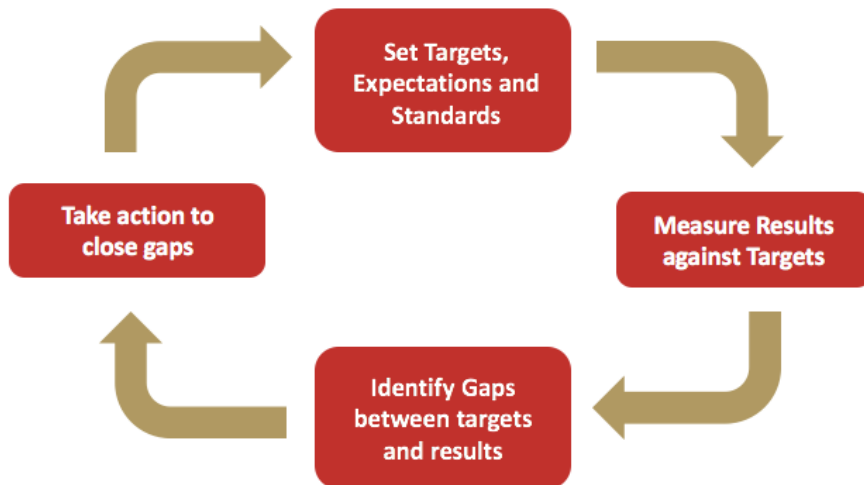
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# AMS: Improving Our Work

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What is the Arizona Management System (AMS) to ASLD?

- A systematic approach to work that emphasizes effectiveness and high-quality results
- The system we use to *do* our work, not an add-on or additional work
- A framework for us to most efficiently utilize resources and to better serve our customers and beneficiaries

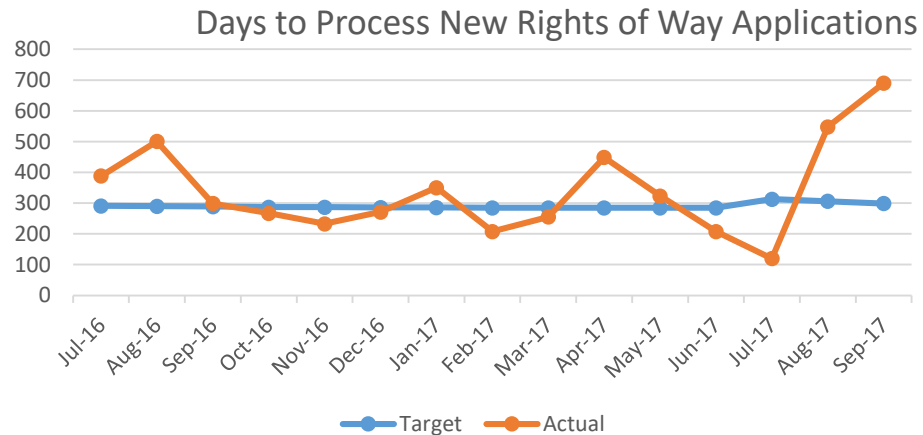


*AMS allows us to take the time to understand our work in order to improve and refine it over time to produce better results*



# Overall AMS Progress to Date

- Significant lead-time reduction to multiple core business processes
- Creation and revision of standardized work, ensuring a consistent customer experience and high-quality work products
- Increased open communication and feedback with customers and stakeholders
- Visibility of numerous opportunities for improvement that were previously hidden or not visible
- Empowering ASLD staff to solve problems and make improvements



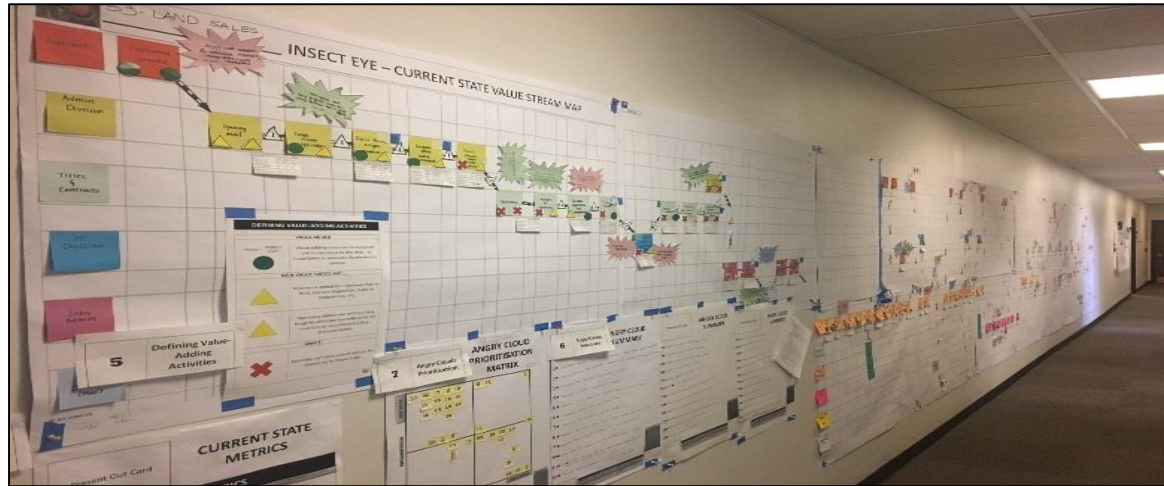


# Rights of Way: Deep-Dive Improvement Effort

- Breakthrough Effort started 7/2016
- Formed Scoring Team to ensure business decisions were made early in the process
- Developed an internal Business Review Team Concept which created immediate impact on ROW simplicity and effectiveness
- Second phase underway and aimed at standard work



# Commercial Sales: Deep Dive Improvement Effort



## Commercial Sales

### Before-activity condition:

- 130 unique process steps, 80 handoffs, 1.5 miles travel.
- Lead time: 193 days (paper)
- Actual touch-time: 2.8 days
- Lack of clear decision points

### Post Deep Dive Condition

- Lead time: 86 days (paper)
- Actual touch-time: 1.5 days
- 55% improvement in lead time over Current State
- Clear decision points
- Multi-disciplinary approach w/ Business Review Team, and Comment Conference



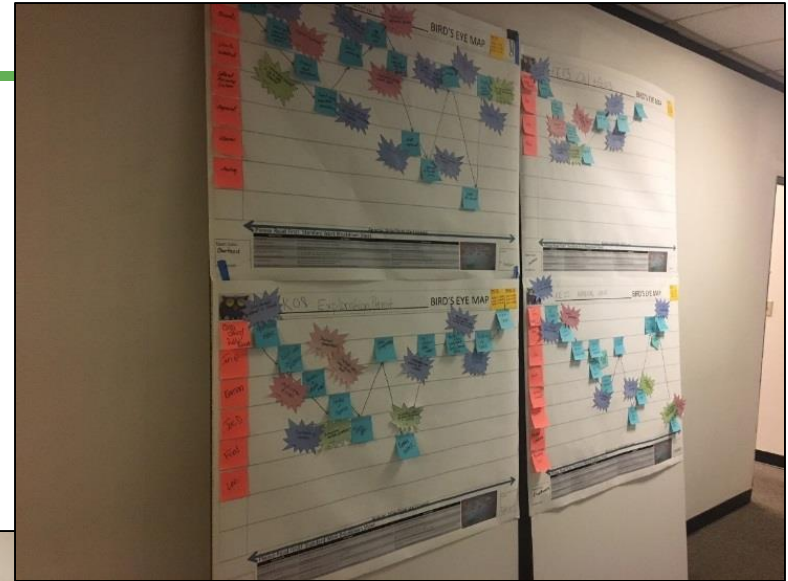
Project tracker shows real-time status, updates weekly.



# Minerals: Deep Dive Improvement Effort

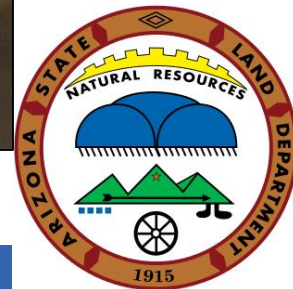
## Existing Condition

- Inconsistent with other application processes (T&C performed by Minerals Section).
- Processes isolated and sequential, leading to longer lead times, work silos and loss of application trackability.



## Improvement Efforts to Date

- Future State for 08s Mapped
- Standard work completed through Comment Conference
- Draft Instructional Memo Complete
- Next Steps: Complete Standard Work and move to implement





# Project LEAP: Going Digital

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# ASLD Digital Roadmap

Q3 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Go Live with Salesforce Digital Application System	Electronic Payments, Unified Integration Platform between OASIS and Salesforce	GIS Integration, TRS, Legal Description Changes, ICM Integration	Out of scope apps, land treatments, Customer enhancements (renew off leases, etc.)	E-Signature/ E-Notary, Billing and Financial Integration

Continued customer experience improvements



# State Trust Land Stewardship

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- Ranchers and farmers utilize over 90% of State Trust land – they are our management partners and stewards
- 18 months ago we only had two Range Resource Area Managers (RRAMs) for the entire state. In direct reflection of the value we place on ranching and farming on Trust land, we are now fully staffed at 5 RRAMs and working on more, including a NRC Manager
- Trespass and Environmental stewardship – partnerships with public, private, NGOs to prevent trespassing, clean dump sites, prevent illegal activities
- Recreation Permits – increasing legal access, educating the public



# Grassland Restoration and Forest Management

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Fuels reduction, compensation and biomass

Working with external partners to prevent landscape-scale wildfire

Developing a Trust Land-specific programmatic fuel reduction program

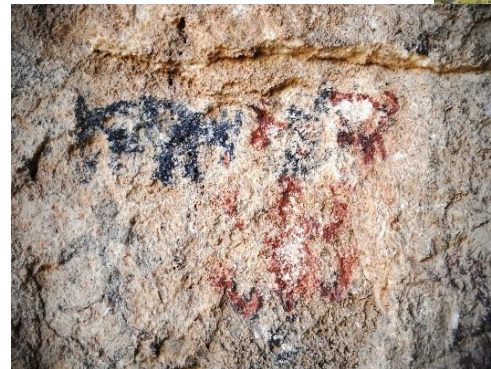
Ensuring the method is consistent with constitutional mandates

Next steps involve working with Eastern Arizona Counties (ECO) to standardize valuation methods for product removed



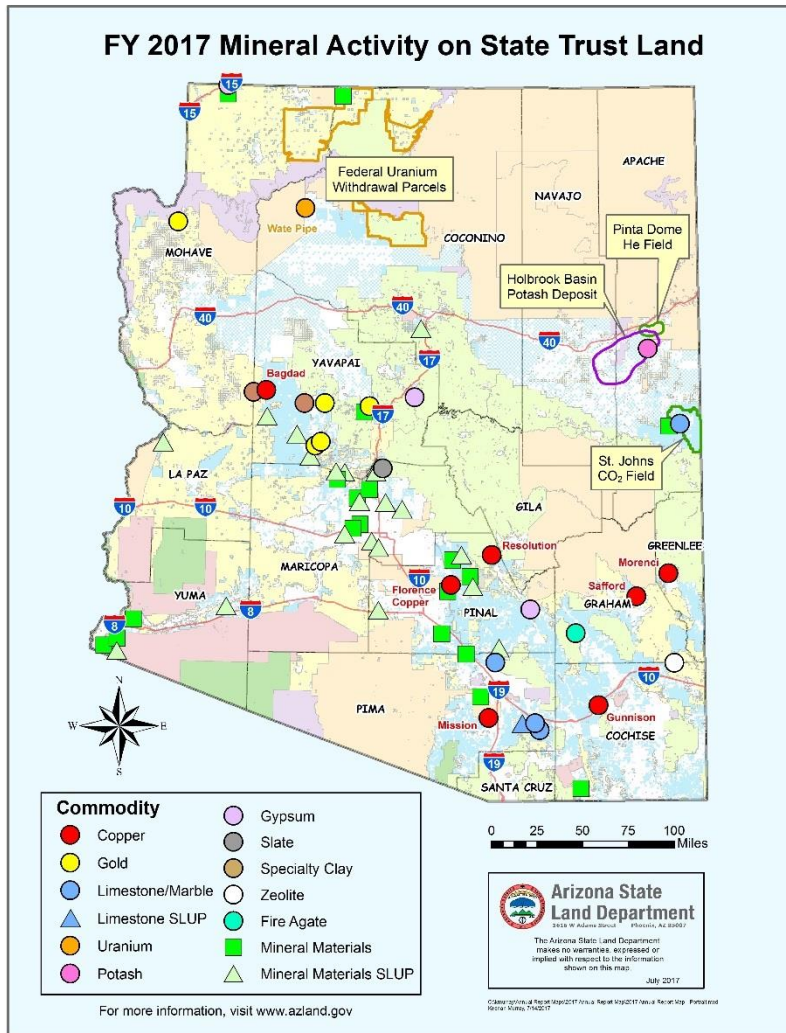
# Cultural Resources

- ASLD-NRCS-SHPO Programmatic Agreement
  - Streamlined consultation protocol should reduce amount of concurrent reviews conducted at SHPO and ASLD
  - Prior MOUs left some doubt for lessees as to which agency (ASLD or NRCS) would be doing cultural work for their project; this agreement resolves all confusion by making NRCS responsible for survey, freeing up RRAMs to do their other duties.





# Mineral Leasing and Permitting



Largest revenue producer in the Natural Resources Division

\$10.47 million in FY 2017

- \$3.4 mineral material
- \$0.6 exploration
- \$1.1 oil and gas
- \$5.1 mineral leases
- \$0.3 mineral SLUPs



# Congressional Engagement

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Federal Designations –working collaboratively with others to solve continued land tenure and land designation restrictions without compensation

Federal Regulations – seeking ways to reduce regulatory burdens through reducing federal rules that harm land values and economic growth







# Economic Development Role Infrastructure Development, Roadways

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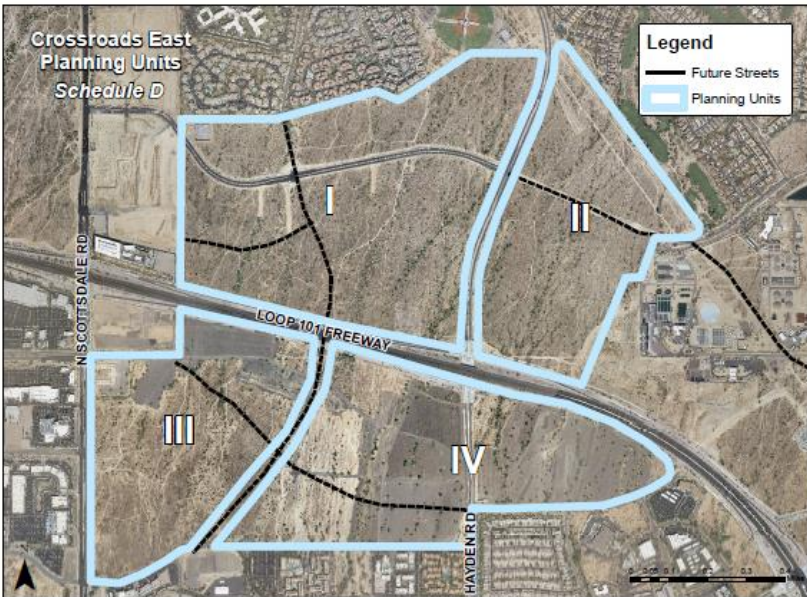
# PROACTIVE MANAGEMENT EFFORTS:

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**Zoning Banks  
& Commissioner Initiated  
Sales**

# Opportunities: Zoning Bank

- Mission Element: ASLD will better serve its customers by ensuring assets are market ready.
- Obstacle: Customers have complained that Trust Land is unready for purchase because it is not entitled with proper zoning. This results in a time impact to our customers, and greatly increases their carry cost and risk exposure.



## HISTORICAL TIMELINE

18 months ASLD application



18 months rezone and plat



6-9 months to first homes/building.



Total is 42-45 months

## TIMELINE W/ZONING BANK

9 months application



4-6 months plat,



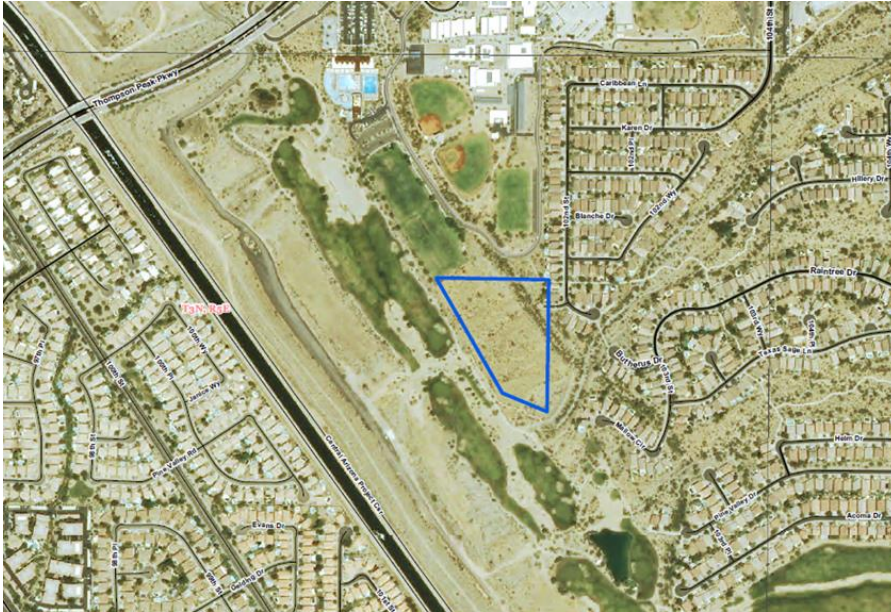
6-9 months to first homes



Total is 19 to 24 months



# Commissioner Initiated Sales



Problem: Many potential customers will not devote resources to engage ASLD regarding potential sales because of risks associated with uncertainty in ASLD's processes.

Solution: Bring market ready parcels to market without any applicant.

## Success! ASLD's First PCI Sale Auction

- South of McDowell Mtn. Ranch Rd. & West of 102<sup>nd</sup> St.
- 7.55 Acres
- \$2,625,000 Sold at Auction on 11/16/16
- \$347,682 per acre





# Questions and Answers

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