

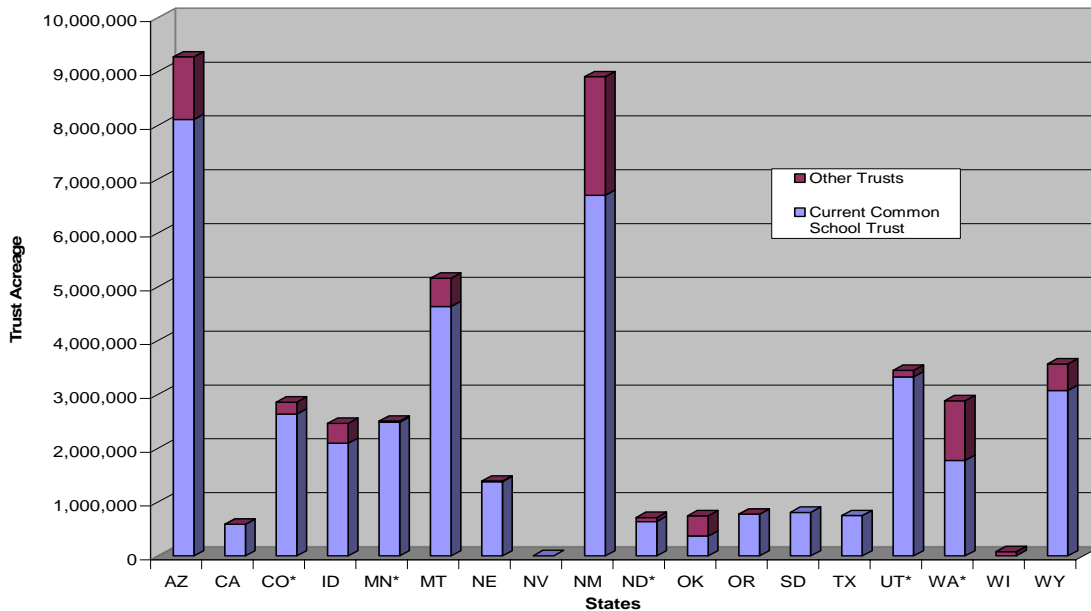
## V. Trust Lands Management Across the West

Twenty-three states continue to hold some quantity of their original state trust land grants: Alaska, Arizona, Arkansas, California, Colorado, Hawaii, Idaho, Louisiana, Minnesota, Mississippi, Montana, Nebraska, New Mexico, Nevada, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington, Wisconsin, and Wyoming. Several of these states have retained only a tiny fraction of the original grant lands; Nevada, for example, retains only around 3,000 acres of its original 2.7 million acre grant. By contrast, Alaska, Arizona, Montana, and Wyoming have each retained between 85 and 90 percent of their original state trust land grants.

### A. State-by-State Comparisons

In the lower forty-eight states, Arizona and New Mexico have by far the largest holdings of state trust lands, with approximately 9.3 million and 9 million acres, respectively; Montana has the third-largest holdings with 5.1 million acres. These three states together hold approximately half of the trust lands in the lower forty-eight states. In fact, nine of the eleven Western states – Arizona, Colorado, Idaho, Montana, New Mexico, Oregon, Utah, Washington, and Wyoming – hold nearly 85 percent, or almost 40 million acres, of the remaining trust lands in the lower forty-eight states. Figure V(A)-1 shows the relative holdings of trust lands between various states that continue to own trust lands.

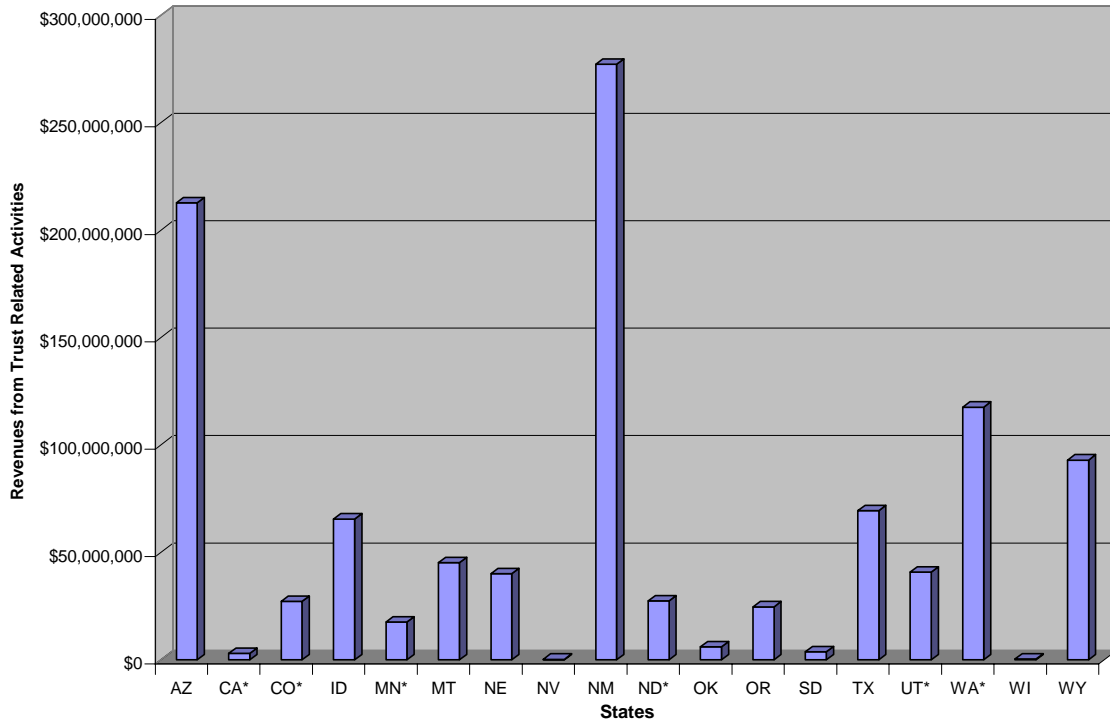
Figure V(A)-1: State Trust Land (Surface Acreage) Holdings, 2004



\* All data were derived from the applicable state's 2004 annual report, except as follows: Data for Colorado were derived from Souder and Fairfax, *supra* note 99. Minnesota and North Dakota land holdings were last reported in their respective 2003 Biennial Reports. Utah's land holdings were last reported in SITLA's 2003 Financial Report. Washington's current holdings are derived from its Draft 2003 Annual Report, which was not yet completed at the time of publication.

Today, state trust lands are actively managed for a diverse range of uses, including timbering, grazing, mining, agriculture, oil and gas, residential and commercial developments, conservation, and recreational uses such as hiking, fishing and hunting. Figure V(A)-2 shows the revenues derived from trust land management activities in fiscal year 2003-2004 (unless otherwise provided).

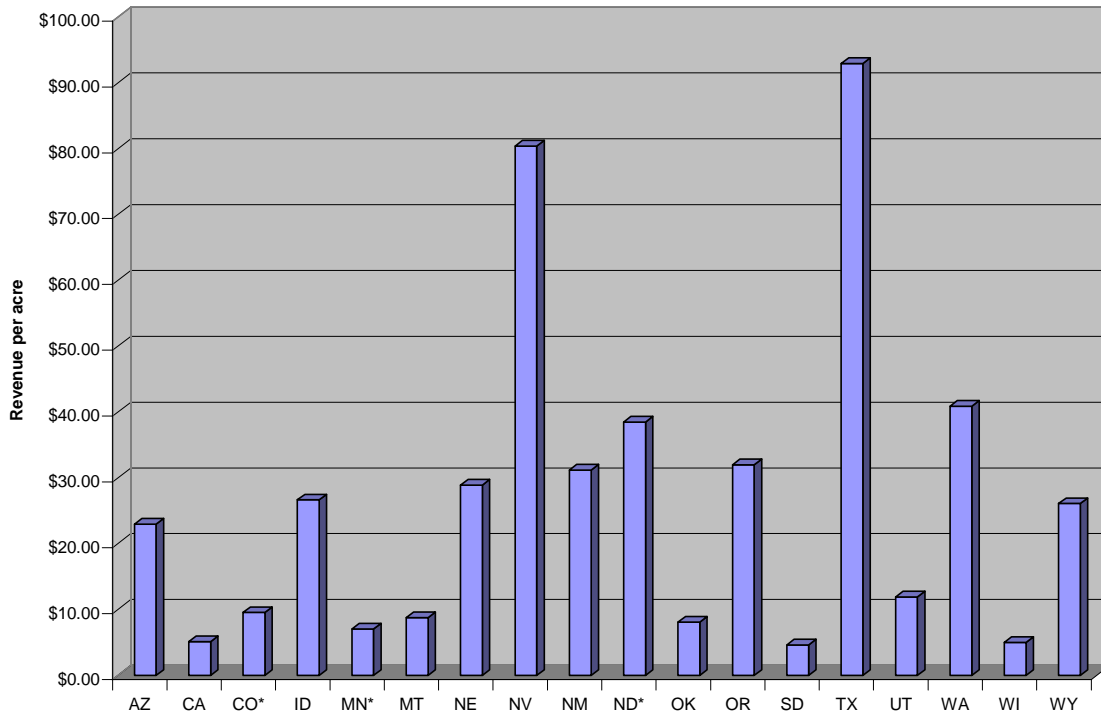
**Figure V(A)-2: Gross Revenues from State Trust Lands, 2003-2004**



\*All data were derived from the applicable state's 2004 annual report, except as follows: California's data are an estimate based on communications with agency staff. Colorado's data are derived from the 2003 Annual Report. Minnesota and North Dakota's data are derived from their respective 2003 Biennial Reports. Utah's data are derived from SITLA's 2003 Financial Report. Washington's data are taken from the Draft 2003 Annual Report, which had not been completed at the time of publication.

As Figure V(A)-2 above suggests, the largest holdings of trust land do not necessarily correlate with the largest revenues. Although states generally do not report revenues on a per-acre basis, Figure V(A)-3 below provides a rough estimate of per-acre revenues.

**Figure V(A)-3: Estimated Revenue per Acre from State Trust Lands**



\* All data were derived from the applicable state's 2004 annual report, except as follows: Colorado's data are derived from the 2003 Annual Report. Minnesota and North Dakota's data are derived from their respective 2003 Biennial Reports. Estimates are derived by dividing gross revenues by total land holdings.

Notably, two of the states with the least land holdings – Nevada and Texas – return the highest revenue per acre of any state as a result of the fact that rich mineral, oil, and gas reserves are located on those lands. Most states that are generating significant revenue from trust lands return the majority of this revenue from a relatively small percentage of their overall portfolio. These include lands that contain high-value timber (Idaho, Montana, Oregon, and Washington), oil and gas reserves (Montana, New Mexico, Texas, Utah, and Wyoming), coal and other mineral deposits (Colorado, Montana, New Mexico, and Utah), or lands with significant potential for commercial and residential development (Arizona and Utah).

For example, Arizona generates nearly 95 percent of its annual revenue from the sale and lease of land for commercial and residential development, although virtually all of this revenue comes from a tiny fraction of its overall land portfolio – in fiscal year 2003 - 2004, Arizona sold only 1,900 acres of its 9.3 million acre portfolio. By contrast, Arizona's next door neighbor, New Mexico, derived just over 95 percent of its revenue from oil and gas, generating practically nothing from commercial and residential uses.

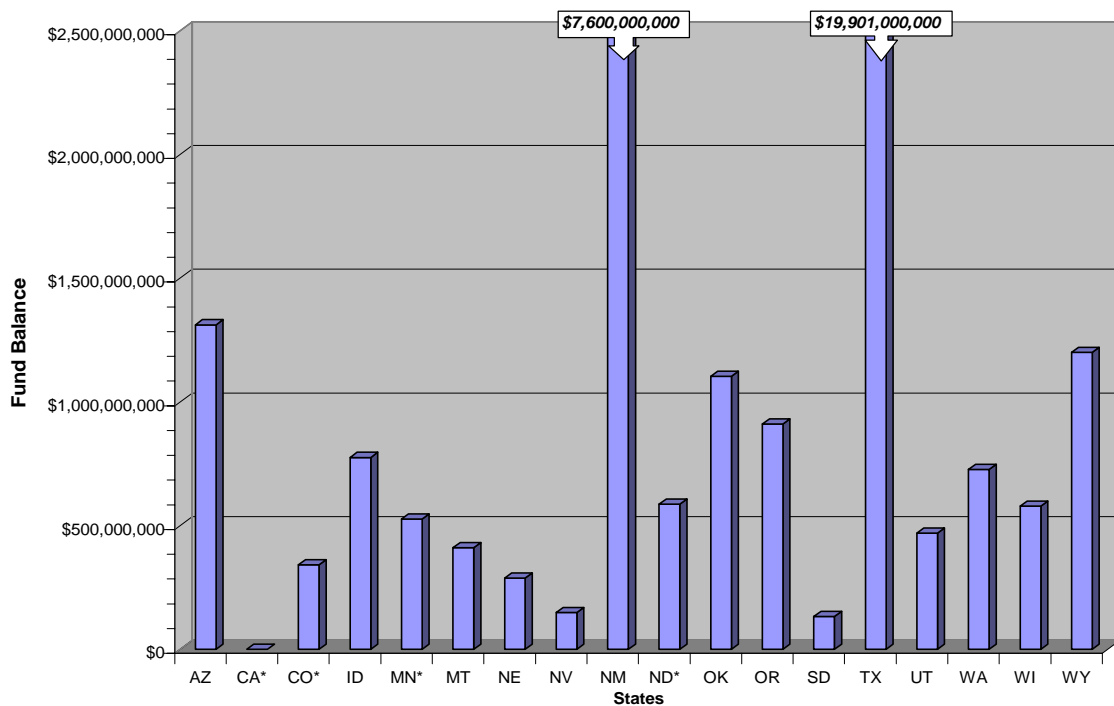
Management in many states is also challenged by land distribution patterns. Although a few states hold large quantities of consolidated lands due to *in lieu* selection programs (such as Arizona, New Mexico, Idaho, and Washington), the vast majority of state trust lands consist of scattered, checkerboard sections distributed across the landscape of the state (such as Wyoming, Montana, Utah, and Colorado). Because of the management challenges associated with these scattered land holdings and the limited utility of many of these parcels, in most states the vast majority of trust lands are used primarily for grazing or agricultural leasing, and do not return significant revenues.

Virtually all of the states that continue to hold trust lands utilize some sort of “permanent fund” mechanism to retain the proceeds from permanent disposals of trust lands or their non-

renewable natural resources (such as oil, gas, and minerals) and thus protect the “corpus” of their trusts. These funds are generally invested in some combination of “safe,” interest-bearing securities, although a few states allow a percentage of their funds to be invested in much more lucrative (and risky) equity-based securities (such as corporate stocks). In some states, a portion of these funds are also used to guarantee school bonds, loans, and other beneficiary-related public debts.

Some of these fund balances are now in the billions of dollars. Texas and New Mexico, which each earn hundreds of millions of dollars annually from oil and gas royalties, have the largest permanent funds of any Western state – New Mexico’s fund is now worth more than \$7.6 billion, while Texas’s fund totals over \$20 billion. Of the non-oil and gas producing states, Arizona has the largest permanent fund, which currently totals over \$1.3 billion, and is rising quickly due to recent, high-value land sales transactions.

**Figure V(A)-4: Permanent Fund Balances, 2004**

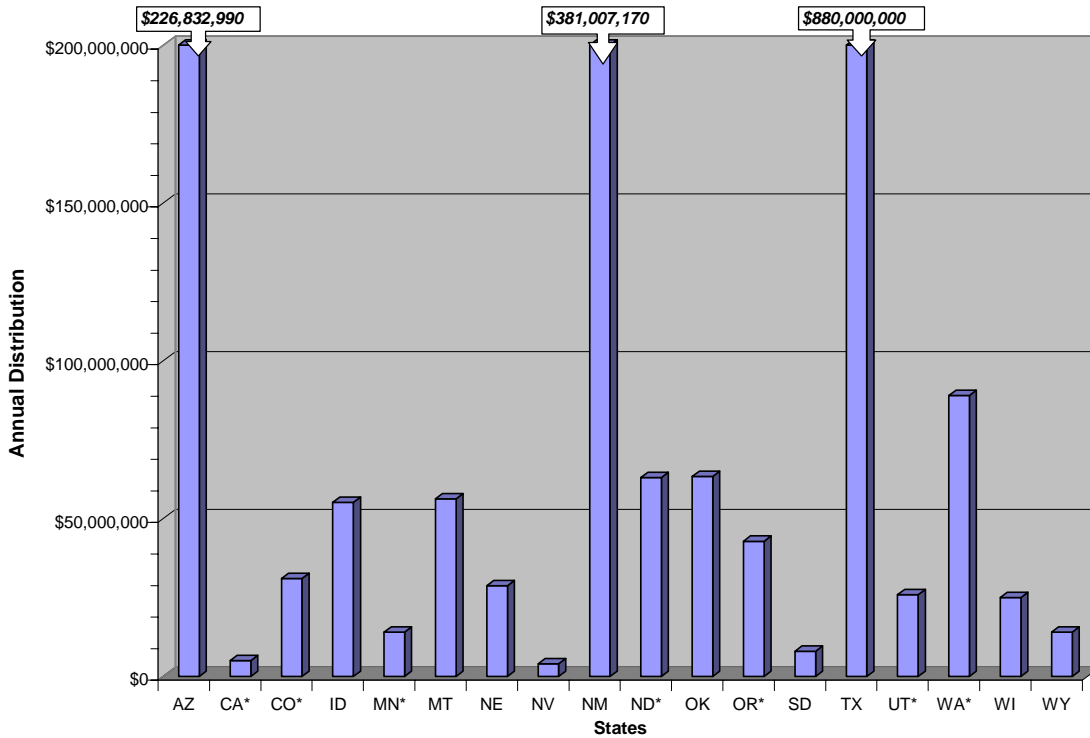


\* All data were derived from the applicable state’s 2004 annual report, except as follows: California’s permanent fund data is based on an estimate derived from conversations with agency staff. Colorado last reported permanent fund holdings in its 2003 Annual Report, while Minnesota and North Dakota reported permanent fund holdings in their respective 2003 Biennial Reports.

The interest derived from these funds is generally combined with the “expendable revenues” generated by trust land administration (revenues derived from leasing, permitting, and other “renewable” activities on trust lands) for distribution to the trust beneficiaries. Although in many states – particularly those with minimal land holdings – these distributions do not represent a particularly significant portion of institutional budgets, in a few states they reach into the hundreds of millions of dollars annually.

Figure V(A)-5 shows the total distributions to beneficiaries for fiscal year 2004 (unless otherwise provided).

**Figure V(A)-5: Annual Distributions to Beneficiaries**



\* All data were derived from the applicable 2004 annual reports, except as follows: California's data are an estimate based on conversations with agency staff. Colorado's data are derived from its 2003 Annual Report, while Minnesota, North Dakota, and Oregon's data are taken from their 2003 Biennial Reports. Utah's data is derived from SITLA's 2003 Financial Report. Washington data is taken from its Draft 2003 Annual Report, which was not yet completed at the time of publication.

It is worth noting in many states, these revenues are not significantly contributing to overall funding for public education (the largest beneficiary of state trust lands in every state). Table V(A) (following page) presents the total trust distributions to *all* trust beneficiaries in each state in comparison to those states' reported K-12 school budgets. Because obtaining detailed information from many states to break out trust contributions to school funding versus other beneficiaries is difficult, this chart tends to over-report trust contributions to public education (since the distribution figures include revenues distributed to beneficiaries other than the common schools). The figure nevertheless provides a rough sense of how significant (or insignificant) these revenues may be to common school budgets in each state.

**Table V(A): Distributions (all Beneficiaries) vs. Common School Budgets**

	Annual Distribution to Trust Beneficiaries (Approximate)	Annual K-12 School budget**	Percentage of distributed trust dollars to overall school budget
AZ	\$226,382,990	\$6,210,287,000	3.65%
CA*	\$5,000,000	\$57,409,629,000	0.01%
CO*	\$31,000,000	\$6,644,305,000	0.47%
ID	\$55,100,000	\$1,726,941,000	3.19%
MN*	\$14,000,000	\$8,662,366,000	0.16%
MT	\$56,262,861	\$1,208,058,000	4.66%
NE	\$28,730,430	\$2,594,892,000	1.11%
NV	\$3,937,227	\$3,008,639,000	0.13%
NM	\$381,007,170	\$2,658,140,000	14.33%
ND*	\$62,991,376	\$839,780,000	7.50%
OK	\$63,299,796	\$4,371,189,000	1.45%
OR*	\$42,790,208	\$4,960,253,000	0.86%
SD	\$7,909,091	\$982,450,000	0.81%
TX	\$880,000,000	\$37,207,366,000	2.37%
UT*	\$25,829,389	\$2,957,874,000	0.87%
WA*	\$89,000,000	\$8,778,224,000	1.01%
WI	\$25,000,000	\$9,039,211,000	0.28%
WY	\$14,010,146	\$910,319,000	1.54%

\* Beneficiary distribution figures were derived from the applicable 2004 annual reports, except as follows: California's data are an estimate based on conversations with agency staff. Colorado's data are derived from its 2003 Annual Report, while Minnesota, North Dakota, and Oregon's data are taken from their 2003 Biennial Reports. Utah's data is derived from SITLA's 2003 Financial Report. Washington data is taken from its Draft 2003 Annual Report, which was not yet completed at the time of publication.

\*\* Data on annual K-12 school budgets are derived from the *Annual Survey of Local Government Finances 2002-2003, Summary of Public School System Finances for Elementary-Secondary Education by State*, U.S. CENSUS BUREAU (2005), available at: <http://www.census.gov>.

As noted above, nine of the eleven Western states – Arizona, Colorado, Idaho, Montana, New Mexico, Oregon, Washington, and Wyoming – hold approximately 85 percent of the remaining trust lands in the lower forty-eight states. For purposes of this report, these states have been selected to provide the focus for a comprehensive report on trust land management frameworks in the Western United States. Although these states are all located in the West, they provide a reasonably representative cross section of trust characteristics, land distribution patterns, policy issues, management strategies, and management challenges that have broader relevance to trust managers elsewhere in the United States.

The sections that follow provide, for each of these states: (1) a description of the land grants received by each state; (2) a description of the nature of the state trust and associated legal restrictions; (3) a description of the administrative structure for trust land governance; (4) an overview of the state's trust management strategies, including surface leasing, subsurface activities, land sales and other non-lease surface uses, and revenue breakdowns from each of these uses; (5) an overview of the mechanisms for revenue distributions to trust beneficiaries; and (6) highlights of recent developments and emerging issues for trust land managers in the state.