

# Arizona State Trust Lands: Mineral-Resource Revenues and Activities

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The Arizona State Land Department was established in 1915 to administer lands held in trust for the public schools and other beneficiaries. The department's primary goal is to maximize trust revenues through the sale and leasing of State trust lands. In fiscal year (FY) 1984-85, revenues reached an all-time high of \$53,074,616, a 69 percent increase from the \$31,435,300 generated in FY 1983-84. Of the FY 1984-85 total, \$4,286,137 or 8 percent, came from nonrenewable-resource activities. The highest revenues from nonrenewable resources, \$11,313,970, were generated in FY 1979-80, just prior to the recession. This represented roughly half of all revenues received that year by the Land Department.

The following article explains how the State Land Department was created and describes the activities of its Nonrenewable Resources and Minerals Section. The latter include such diverse duties as issuing leasing permits and protecting archaeological sites.

## BACKGROUND

The Territory of Arizona was established by Congress in 1863. At that time, specific sections of land in each township (sections 16 and 36, if available) were set aside for the benefit of the public schools. In 1910 Congress prepared Arizona for statehood by passing the Enabling Act, which set aside additional land in each township (sections 2 and 32, if available). The act also identified 2,350,000 acres of additional land grants to the State and established a framework by which State lands were to be managed. The act included the following requirements and restrictions, which are still in effect today:

- (1) The lands must be held in trust and used only as specified in the act.
- (2) Revenues received from lease of the lands and natural products of the lands are subject to the same trust as the lands that produce them.
- (3) The lands are not subject to mortgages or other encumbrances.
- (4) Lands and natural products are to be leased or sold only after establishment of fair market or "true value."



Testing gold-recovery equipment at placer operation along the Agua Fria River north of Phoenix.

- (5) Lands and natural products may not be sold except to the highest bidder at public auction after 10 weeks of advertising.

By enactment of the State Land Code, the Arizona State Land Department was created in 1915 to administer State lands held in trust. This law also gave the department authority over stone, gravel, timber, and other natural resources produced from these lands. The trust officer is the State land commissioner. Today the department has more than 140 employees and manages approximately 10 million acres. Its main office is in Phoenix; field offices are maintained in Flagstaff, Prescott, and Tucson.

## NONRENEWABLE-RESOURCE ACTIVITIES

The Nonrenewable Resources and Minerals Section is part of the Natural Resources Division of the State Land Department. Nonrenewable resources include minerals, common mineral materials, oil and gas, geothermal energy, and cultural resources. The section oversees mineral-material sales and issues prospecting permits; mineral, oil and gas, and geothermal leases; and permits for geophysical exploration. Ancillary programs are also conducted, including research on proposed land sales and exchanges, environmental impact studies, review of mining and reclamation plans, and contracting for archaeological surveys and excavations.

The variety of functions performed by the section presents a challenge for its staff members. Decisions regarding land use are not simple or straightforward. Multiple land use is necessary and helps to maximize trust revenues. The section must use management strategies that allow development of nonrenewable resources.

Staff time is mostly spent on processing applications for leases and permits. Application categories are briefly described below. For further information, potential applicants should contact the Nonrenewable Resources and Minerals Section, Arizona State Land Department, 1624 W. Adams St., Phoenix, AZ 85007; telephone: 602-255-4628.

### Prospecting Permits

Permits are issued to individuals or companies who wish to explore for valuable mineral deposits. The section receives approximately 3,000 applications per year. During the 1984-85 fiscal year, prospecting permits covered more than 300,000 acres of State land, indicating a strong interest in exploration for a variety of commodities, especially gold and uranium. Upon receipt of a permit application, the section conducts the necessary land records review, and in most cases, a field review. A bond amount is established and a plan of operation is requested from the applicant. After the application has been processed, the permit is mailed to the applicant for signature. A copy must then be returned to the section with the appropriate rental payment and restoration bond. The permit is issued for 1 year at a time, but may be renewed four times for a total of 5 years. Rentals received from prospecting permits in FY 1984-85 totaled \$454,460, a 31 percent decline from the FY 1983-84 total of \$654,403.

### Mineral Leases

Mineral leases are issued to applicants with proof of valuable mineral discovery. The lease, which may extend to 20 years, confers the right to mine and ship ores and to conduct all support operations. In addition to a nominal annual rental, the State is entitled to 5 percent of the net value of the minerals produced. Net value is defined as the gross value after processing minus transportation costs from production to processing sites, processing costs, and taxes. The normal procedure for issuing a lease is to convert a prospecting permit. The section recommends that sufficient mineral exploration be conducted under a prospecting permit before a mineral-lease application is submitted.

More than 600 mineral leases are currently held on State land for commodities such as copper, silver, gold, iron, tin, uranium, limestone, marble, gypsum, zeolites, pumice, bentonite/silica sand, building stone, mica, clay, slate, fire agate, onyx, and pipestone. Exploration for uranium has increased in the past few years. Most activity is occurring north of Flagstaff and in the Arizona Strip north of the Grand Canyon. The bulk of royalty revenues comes from four copper-mining operations in Pima County: Magma in San Manuel; and ASARCO, Eisenhower, and Cypress-Pima near Green Valley. During the past several years, mineral royalties have diminished significantly because of decreased copper prices and reduced production. Total royalties from mineral leases in FY 1984-85 were \$1,246,661. This represents a 42 percent increase from the \$879,053 generated in FY 1983-84, but an 86 percent decline from the \$9,061,000 generated in FY 1979-80.

### Mineral-Material Sales

Common mineral materials, classified as natural products of the land, are sold at public auction. Resources in this category include sand, gravel, rock, common building stone, riprap, cinders, decomposed granite, topsoil, and any other mineral material used in the construction industry. Sales agreements with the highest bidder extend a maximum of 10 years.

After the section receives an application to purchase natural products, a section appraiser determines the surface land value of the parcel in question. The land value is used to determine an annual minimum guaranteed royalty to the State trust. A minimum royalty rate is also established, which is expressed as a price per ton of material, the price at which bidding begins. The annual royalty and the price per ton are computed based on the following factors: location of the site; quality and quantity of material; marketability; access to the site and the market; surface land value; residual value of the extraction area; past production, if applicable; and length of the term. Once the annual royalty and price per ton are determined, notification of the auction is published in newspapers for 10 weeks. The successful bidder must pay all appropriate administration and advertising fees and submit a plan of operations to the section. Prior to pit entry, the purchaser must survey and stake the leased area, including the haul road.

There are currently more than 300 active sales agreements. During FY 1984-85, royalties from mineral-material sales totaled \$1,154,819, a 7 percent increase over the previous year's total of \$1,078,366.

### Oil and Gas Leases

Leases are issued to allow exploration for and production of oil and gas. Although no producing wells are currently on State land, interest in exploration is active in Cochise, Coconino, Mohave, and Yuma Counties. During the last 5 years, the total acreage under lease has fluctuated greatly, but is now stable at approximately 1.6 million acres. The section issues noncompetitive leases on a first-come, first-served basis. If oil or gas is discovered on State land, a "known geological structure" of a producing field is identified by defining the trap or accumulation of oil or gas. All acreage presumed to have production potential is designated. This acreage is then subject to competitive leasing, which involves submission of sealed bids by interested applicants. After the section establishes leasing terms, the State Oil and Gas Conservation Commission regulates exploration and production procedures.

Leases are issued for an initial term of 5 years. If oil or gas is produced, the trust receives a royalty of 12½ percent of the value (excluding oil or gas used in operations), minus the cost of dehydrating the oil and extracting liquid products from the gas. Annual rentals for initial lease terms are \$1.00/acre/year and increase to \$1.50/acre/year if the lessee renews the lease. In FY 1984-85, oil and gas leases paid \$1,233,164 in revenues to the State, a 20 percent decline from the FY 1983-84 total of \$1,547,364. In FY 1979-80, oil and gas leases paid \$1,822,144.

### Geothermal Leases

Regulations regarding geothermal leasing on State land are essentially the same as those for oil and gas leasing, with one major

difference: the initial term for geothermal leases is 10 years. The Oil and Gas Conservation Commission regulates geothermal exploration and production in Arizona. There is currently one geothermal lease on State land near Agua Caliente.

### Special Land Use Permits

This permit category is normally administered by another unit in the State Land Department because a variety of land-use activities are included within it. The Nonrenewable Resources and Minerals Section does, however, process Special Land Use Permits (SLUPs) that allow large-scale geophysical surveys on land not otherwise leased by the applicant. In addition to the application fee, rentals are due based upon the total number of sections to be traversed during exploration. Statewide permits are also available within the SLUP category.

### OTHER PROGRAMS

#### Land Exchanges

Selected State trust lands are currently being exchanged with Federal agencies, private firms, and individuals. The exchanges, which are administered by two other units within the State Land Department, are conducted for several reasons:

- (1) To consolidate surface and subsurface ownership;
- (2) To remove State ownership from national parks and monuments, wildlife refuges, and wilderness areas;
- (3) To consolidate "checkerboard" land ownership for more effective land management; and
- (4) To acquire high-value land that will provide revenue to the State trust.

To support the program, the Nonrenewable Resources and Minerals Section researches the mineral potential of the land involved. State lands are not exchanged unless the land to be acquired is at least equal in value to the land to be sold. Major land exchanges allow the State Land Department to manage resources more effectively by "blocking up" landholdings. This involves trading sections of land that are dispersed throughout Arizona for contiguous sections of land.

#### Environmental Impact Studies

Prior to surface disturbance, lessees and permittees are required to submit a plan of operations for exploration or mining and for subsequent reclamation. The section determines potential impacts of proposed operations and works with lessees to determine appropriate land-reclamation activities.

#### Cultural Resource Program

The section represents the State Land Department in matters related to archaeological sites. Because the sites are protected by law, land-use planning must consider the location and significance of each site. The section has received several grants to conduct research at archaeological sites and to intervene when sites are threatened by leasing activities.



Crushing marble north of Tucson.