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## Schools get little extra from state's land sales

*Regular education budget takes bulk of the proceeds*

**Anne Ryman**

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When the state sells off a piece of its lucrative trust land, it often trumpets how much of a boon the money will be for public education.

But a close look at state records shows that little of the money ends up as a bonus for Arizona schools.

Most of the annual proceeds from leases and sales flow into the state's regular education budget, which is money schools are entitled to anyway under a funding formula based on their student enrollments.

About 15 percent of the money in 2005, or \$13 million, ended up as bonus money for K-12 schools.

Schools see a bonus only when leases and interest from land sales exceed \$72.2 million under state law. The bonus is earmarked for teacher salaries and other classroom spending.

The bonus was a fraction of the \$5.4 billion that schools received for operating expenses last year. Over time, the bonus is expected to grow as the state sells and leases more land and land values increase. But it could be years before it equals even 5 percent of the education budget.

The funding system frustrates parents such as Kathy Shook of Scottsdale.

She keeps hearing about record state land-trust sales, including at nearby Desert Ridge. Yet she sees little extra money pouring into her daughter's classroom. Thirteen million dollars for the entire state "doesn't even begin to make a difference in teacher salaries," she said.

With roughly 52,000 teachers in the state, each would have gotten no more than \$248 a year from last year's bonus pool.

Shook said she wishes a lot more extra money would flow to the schools.

### How the system works

Arizona's system for using its trust land to benefit education is complex, confusing even state leaders.

The system's "bank," so to speak, is the 8.1 million acres of trust land assigned to

help schools, or nearly 90 percent of all of the trust land.

Much of the land is suitable only for livestock grazing, but Arizona's growing population has led to more demand and higher prices for urban tracts. The land includes several thousand acres of prime real estate in north Phoenix and Scottsdale and near northern Tucson. Also ripening for sale in coming years is a vast, 275-square-mile tract called Superstition Vistas in Pinal County.

As part of its mission, the Arizona State Land Department sells state trust land, and the Arizona state treasurer invests the money in a permanent fund, the interest on which goes to education. The department also leases land to businesses, often for decades, and those amounts go directly to schools and are not invested.

Last year the trust-land sales reached a record \$514 million. The money from leases also has risen, surpassing the annual interest from the investment fund. In fiscal 2005, interest accounted for \$24 million while leases generated \$61 million.

Some high-profile leases include Desert Ridge Marketplace, the JW Marriott Desert Ridge Resort & Spa and the American Express building in northeast Phoenix.

Deputy State Land Commissioner Richard Hubbard said the Land Department is proud of the money it generates for public education. In the past three years, the agency has become a more sophisticated real estate company, he said, yielding dramatic gains for schools.

## The controversy

For years, the Arizona Legislature's handling of trust fund proceeds was controversial because whatever the amount, lawmakers reduced the education budget by the same. That meant schools saw no additional money from the sale or lease of trust land.

The approach changed in 2001 when a little-known provision in a voter-approved education sales tax froze the amount lawmakers could take from the trust fund, at \$72.2 million a year. Anything extra must go to the Classroom Site Fund, which can be used in six ways: teacher salary increases, reduced class size, AIMS test tutoring, teacher training, dropout prevention or teacher liability insurance in case of lawsuits.

Some education officials say the system isn't ideal because it still allows the Legislature to use the \$72.2 million to offset regular costs. But they say it was the political price for getting the education sales tax passed.

No one has launched an effort to change the system again. But some educators and parents are examining how schools can get additional money from the land-trust fund.

## Posing new questions

Among the questions educators and others are posing about trust-land payouts:

**Would the state be better off if it tapped into the investment fund's principal, now \$1.8 billion?**

Arizona's Constitution prohibits this. The main downside of tapping principal is that it would leave less money available to generate interest, said David Daughtrey, a

senior investment adviser at Copperwynd Financial in Scottsdale.

For example, if the fund reached \$10 billion and was split 60 percent in stocks and 40 percent in bonds, it could earn about 8.4 percent a year, based on historical returns. This would yield about \$840 million a year, he said.

### **Is the state getting enough return on its investment?**

Money from land sales is conservatively invested, with state law prohibiting more than 60 percent in stocks.

Average annual return over the past six years has been 3.78 percent, slightly higher than that of the Arizona State Retirement System, which has a higher percentage invested in stocks.

The Arizona School Boards Association, which lobbies on behalf of school boards, wants legislation next year that would allow the state Treasurer's Office to have more flexibility in investing.

"If we could get the investment performance to even 6 or 7 percent, I think we would see a huge jump in the amount of money going to schools," said Janice Palmer, a lobbyist for the association.

State Sen. Jake Flake, who has been active on efforts to reform laws that control state trust land, said classrooms would get more money if the investment yield from trust land sales were higher.

"The heartburn I have is that the interest earnings from the trust are too low," said Flake, R-Snowflake. "You can go to a bank and get a CD and do better than 3 percent. Heck, I have checking accounts that give me more than that."

Deputy state Treasurer Blaine Vance said the land-trust money is invested equally between stocks and bonds. Vance said a balanced approach helps preserve the safety of the \$1.8 billion investment.

"Do we have the perfect portfolio? No. But we're working to get there," he said.

Daughtrey, who has no affiliation with state land trust investments, said the state would be better off if state law allowed a maximum investment of 70 percent in stocks. Currently, interest rates are rising, which hurts bond returns.

### **Should the law be changed so that more of the \$72.2 million can be earmarked for specific education uses?**

Sen. President Ken Bennett has heard no talk of changing the formula. He's satisfied with the current one and doesn't favor changing it. It would be difficult to change the deal, he said, because it requires a 75 percent majority of the Legislature.

Shook, the Scottsdale parent, said she would like to see more of the \$72 million be a bonus to schools, rather than supplanting part of the regular budget. She doesn't favor putting many restrictions on the bonus money, because each campus has different needs.

As the mother of a 10-year-old, she may not see the biggest payoff from the state land trust while her daughter is in school, but she remains hopeful.

"I'm waiting, waiting, waiting," she said.

Reporters Robbie Sherwood and Russ Wiles contributed to this article.

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