

Arizona State Land Department

Assessment of Department's agricultural leasing process, groundwater reporting mechanisms, and Fondomonte's leases

18-Month Followup of Special Audit Report 24-101

The February 2024 Arizona State Land Department (Department) special audit found that the Department's agricultural leasing process does not fully align with recommended practices; its agricultural leases, including with Fondomonte, are below market rates and do not require reporting of or payment for groundwater use; and it failed to adjust rental rates for 17 years resulting in more than \$3 million less in potential revenue in calendar year 2023. We made **8** recommendations to the Department.

Department's status in implementing 8 recommendations

Implementation status	Number of recommendations
 In process	6 recommendations
 Not yet applicable	2 recommendations

We will conduct a 30-month followup with the Department on the status of the recommendations that have not yet been implemented.

Recommendations to the Department

Chapter 1: Department's process for determining agricultural rental rates does not fully align with all recommended practices but includes some components and, although peer state practices vary, is consistent with some peer states

1. The Department should continue to review its agricultural leasing processes, including its 50 percent discount, and consider and identify ways to align its processes to recommended practices, such as providing discounts based on the cost of the improvement.

► Status: **Implementation in process.**

As of August 2025, the Department had continued reviewing its agricultural leasing processes, including continuing to develop a draft agricultural leasing policy (draft policy). Pursuant to the draft policy, the Department can offer agricultural lessees rent adjustments based on the value of new improvements placed on the lease by each lessee, with a maximum rent adjustment of 50% off current rental rates for new improvements valued equal to or more than \$100,000. Additionally, pursuant to the draft policy, the Department would reduce the rent adjustment by a specified percentage each year after a lessee placed the new improvements on the lease to account for depreciation in the value of the improvement. If implemented, this policy would more closely align the Department's agricultural leasing process to recommended practices we identified during our special audit. The Department reported that it intends to finalize its draft policy requirements related to rent adjustments by August 2026 after it ensures the draft policy requirements are consistent with its mass appraisal of agricultural State trust land (see explanation for Recommendation 2 for more information about the mass appraisal). We will assess the Department's alignment of its processes to recommended practices, including its finalization and implementation of its draft policy, during our next followup.

Chapter 2: Department failed to conduct mass appraisals or adjust rental rates over 17-year period and incorrectly charged some lessees, resulting in more than \$3.4 million less in potential revenue for trust beneficiaries in calendar year 2023

2. The Department should conduct a mass appraisal of agricultural State trust land that complies with statutory requirements and update its agricultural rental rates accordingly.

► Status: **Implementation in process.**

In June 2025, the Department initiated a process to gather data on Department agricultural leases throughout the State for use in its mass appraisal, as required by A.R.S. §37-282.01(A). The Department requested stakeholder feedback and lease data, such as acreage, crop types, and water sources, from its agricultural lessees and professional organizations representing the State's agricultural community and provided these stakeholders with 90 days to respond to its request. As of September

2025, the Department had received 8 responses to its stakeholder information request. Additionally, in June 2025, the Department contracted with an appraiser to conduct a mass appraisal of agricultural State trust land. Consistent with A.R.S. §37-282.01(D), the Department's mass appraisal contract scope of work requires the appraiser to use the lease data received from the Department's stakeholder outreach and valuation information identified by the appraiser's independent research, and consider different markets for agricultural land use in different areas of the State in developing the mass appraisal. The Department reported that it expects to finalize its mass appraisal by April 2026 and update agricultural rental rates by August 2026, after it has analyzed the mass appraisal and advised agricultural lessees of any changes to rental rates. We will continue to assess the Department's implementation of this recommendation during our next followup.

3. The Department should ensure its agricultural leases are assigned to and charged rental rates for correct farm areas by:
 - a. Redeveloping its farm areas map and associated documentation to ensure that it has clear, specific, and accurate boundaries for all Department farm areas, such as by using Geographic Information Systems (GIS) to clearly delineate the farm areas.

► Status: **Implementation in process.**

The Department has continued to revise its interim farm areas map and, as of September 2025, reported that it would continue to use an interim farm areas map until its mass appraisal of agricultural State trust land is completed (see explanation for Recommendation 2 for more information about the Department's mass appraisal). Although the Department's revised interim farm areas map includes adjusted boundaries for some farm areas, the Department is still working to identify specific farm area boundaries for all parcels of agricultural State trust land. According to the Department, the mass appraisal will enable it to create new farm areas for agricultural State trust land based on similarities in appraised rental values identified by the mass appraisal and delineate the farm areas in its GIS. The Department reported that it anticipates updating its farm areas map by the end of 2026. We will continue to assess the Department's redevelopment of its farm areas map and associated documentation during our next followup.

- b. Developing and implementing policies and procedures for assigning agricultural leases to farm areas.

► Status: **Not yet applicable.**

The Department reported that it has yet to initiate its development of policies and procedures for assigning agricultural leases to farm areas because it is still in the process of redeveloping its farm areas map (see explanation for Recommendation 3a). As discussed in our initial followup report, redeveloping its farm areas map would be necessary for the Department to fully develop and implement the recommended policies and procedures. A farm areas map that includes detailed and specific farm area boundaries, including any changes to farm area

boundaries, would help ensure the Department develops appropriate policies and procedures for assigning agricultural leases to the correct farm areas. As such, this recommendation is not yet applicable. The Department reported that it will develop procedures for assigning agricultural leases to farm areas once the mass appraisal is completed. Therefore, we will assess the Department's development and implementation of policies and procedures for assigning agricultural leases to farm areas during our next followup.

- c.** After redeveloping its farm area maps, review lease documentation to ensure that all Department agricultural lessees are assigned to the appropriate farm area, and correct any erroneously assigned lessees, as applicable.

► Status: **Not yet applicable.**

The Department has not yet completed redeveloping its farm area maps (see explanation for Recommendation 3a). Therefore, this recommendation is not yet applicable.

- 4.** The Department should develop and implement policies and procedures that outline steps that Department staff must take when lessees fail to submit annual agricultural questionnaires required by the Department's agricultural leases, such as reaching out to lessees to request the questionnaire or take action consistent with its agricultural lease terms if lessees refuse to respond to Department requests and/or provide questionnaires.

► Status: **Implementation in process.**

The Department developed a draft policy that, consistent with its agricultural lease terms, requires Department staff to bill lessees for the maximum farmable acreage on a lease if the lessee fails to submit or submits an incomplete annual agricultural questionnaire. As of August 2025, the Department had also revised its procedures for processing annual agricultural questionnaires to include steps for reaching out to lessees that have not submitted annual agricultural questionnaires and for billing lessees the maximum farmable acreage on a lease if the lessee fails to submit a questionnaire. As previously discussed in recommendation 1, the Department reported that it intends to finalize its draft policy by the end of calendar year 2025 and reported it will implement its revised procedures for processing annual agricultural questionnaires when it bills lessees for annual rent in February 2026. We will assess the Department's continued development and implementation of its draft policy, including its revised agricultural questionnaire procedures, during our next followup.

- 5.** The Department should develop and implement policies and procedures to apply the subleasing charge to agricultural lessees that sublease land.

► Status: **Implementation in process.**

As of September 2025, the Department reported that it had begun billing subleasing charges to lessees that reported a sublease in their annual questionnaire. Additionally, as of October 2025, the Department had developed a process in the IT system it

uses to bill lessees to automatically apply the subleasing charge to the annual rent of agricultural lessees that sublease land. However, the Department drafted policies and procedures in August 2025 for its annual billing process that do not outline a process for Department staff to ensure that a subleasing charge should be applied to a lessee's annual rent, such as verifying the accuracy of subleasing information provided by the lessee in response to the Department's annual agricultural questionnaire. In addition, the Department's draft procedure for processing annual agricultural questionnaires indicates that agricultural staff are responsible for notifying billing staff that a subleasing charge is required, which is inconsistent with its process for automatically applying the subleasing charge in the IT system it uses to bill lessees. We will assess the Department's continued development and implementation of its draft policy and billing procedures, including its process for applying subleasing charges to lessees, during our next followup.

Chapter 3: Our review of peer state and recommended practices did not identify relevant groundwater-pumping-reporting mechanisms, but Department requires groundwater reporting from some nonagricultural lessees

This chapter did not include any recommendations.

Chapter 4: Department's agricultural leases, including those with Fondomonte, provide lease costs for land below market rates and do not require payment for water use

This chapter did not include any recommendations.

Chapter 5: Department's agricultural leases, including with Fondomonte, do not include provisions to protect water basin levels, and although they require agricultural lessees to use water in the most efficient manner possible, Department does not monitor or ensure efficient water use

6. The Department should develop and implement policies and procedures for determining, measuring, and enforcing compliance with its lease term that lessees use water in the most efficient manner possible.

► Status: **Implementation in process.**

Although we reported in our prior followup that the Department's draft policy included a mechanism for lessees to potentially receive annual rent adjustments if they provided proof of using water-conserving irrigation methods, as of December 2025, the Department reported that it will gather stakeholder input before further developing and finalizing policy requirements related to water use. Specifically, pursuant to its fiscal years 2025 through 2029 strategic plan objectives, the Department intends to hold stakeholder input meetings to help guide the development and implementation of policies and procedures for determining, measuring, and enforcing compliance with the lease requirement that lessees use water in the most efficient manner possible.

In February and September 2025, the Department held meetings with the Governor's Office, the Arizona Department of Water Resources, and the Arizona Department of Agriculture for the reported purpose of planning stakeholder outreach with Department agricultural lessees. According to the Department, it intends to hold 3 to 4 public meetings with its agricultural lessees and various organizations representing the State's agricultural community to gather stakeholder input and anticipates holding the first meeting in December 2025. The Department reported that it expects to finalize requirements related to water use and incorporate them into its draft policy by the end of calendar year 2026. We will assess the Department's continued development and implementation of its policies and procedures related to its lease term to use water in the most efficient manner possible during our next followup.