

Investment and Development Fund Report

Fiscal Year

2012-13

Annual review of Investment and Development Fund
investments on state trust lands

Colorado State
Board of Land
Commissioners

Colorado State Board of Land Commissioners

Investment and Development Fund Report | FY 2012-13

Introduction

As required by Section 36-1-153,C.R.S., the Colorado State Land Board is pleased to present its annual Investment and Development Fund report. The Investment and Development Fund was created in 2005 and allows the State Land Board to invest up to \$5 million per year in School Trust revenues back into School Trusts asset in order to increase the value and/or income of these assets for the trust. This report details the financial results of these investments and the impact on the assets we manage.

This report is organized as follows:

- Investment Summary (Page 3)
- Table of Contents (Page 5)
- Completed Investments – FY 2012-13 (Pages 6)
- Ongoing Investments – FY 2012-13 (Pages 7 – 13)
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Colorado State Board of Land Commissioners Investment and Development Fund Report | FY 2012-13

INVESTMENT SUMMARY

Over the last eight years, the State Land Board has authorized \$14 million from the Investment and Development Fund on more than 30 projects and programs. These targeted investments have already directly increased revenues by more than \$100 million, and helped maintain more than \$500,000 in annual revenue from existing leases. Over the next five years, we conservatively expect these same Investment and Development Fund investments to generate \$1 million in new revenue and \$30 million in realized value through asset sales.

FY 2012-13

During FY 2012-13, the State Land Board realized the value of its 70 Ranch Investment and Development Fund investment through issuance of an Oil and Gas lease. The Oil and Gas lease generated bonus revenue totaling \$60 million, more than twice the expected bonus, as a direct result of our Investment and Development Fund investment.

Also in FY 2012-13, the Board authorized five new investments:

- Downtown Pueblo ROW – Block 12
- Large Ranch Investments – Bohart Ranch
- Large Ranch Investments – Brett Gray Ranch
- Conservation Services – Wetlands Banking
- Conservation Services – Ducks Unlimited

Finally, last year the State Land Board opted to make fewer Investment and Development Fund investments and as a result only transferred \$1.25 million of the \$5.0 million authorized amount to the Investment and Development Fund. This allowed \$3.75 million to be deposited into the Permanent Fund.

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SUMMARY OF ACTIVE PROJECT INVESTMENTS FY 2012-13

| | Investment Type | Value Start End | Return Analysis Start-End | Total I&D Fund Expend | Gross Revenue/Value | | | Value-Added Benefit | |
|-------------------------------|-------------------------------|--------------------------------|---------------------------|-----------------------|----------------------|----------------------|----------------------|--|------------------------------|
| | | | | | FY 05-06 to FY 11-12 | FY 12-13 | FY 13-14 to FY 17-18 | Avg Net Annual Revenue Increase Over Analysis Period | Estimated Net Value Increase |
| 70 Ranch | Revenue Enhancement | \$ 28,290,000 \$ 60,000,000 | 2012-2016 | \$ 100,000 | \$ - | \$ 12,000,000 | \$ 48,000,000 | | \$ 31,710,000 |
| Pueblo | Value Enhancement | \$ 500,000 \$ 601,975 | 2013-2014 | \$ 50,000 | \$ - | \$ - | \$ 601,975 | \$ - | \$ 101,975 |
| TJ Bar | Revenue and Value Enhancement | \$ 124,000 \$ 425,000 | 2006-2016 | \$ 124,000 | \$ - | \$ - | \$ 425,000 | \$ - | \$ 301,000 |
| Conservation Services | Revenue Enhancement | | 2012-2022 | \$ 816,000 | \$ - | \$ - | \$ 932,500 | \$ 932,500 | \$ - |
| Dowd Junction | Revenue and Value Enhancement | \$ 8,625,000 \$ 28,000,000 | 2009-2014 | \$ 400,000 | \$ 479,543 | \$ 434,000 | \$ 28,000,000 | \$ - | \$ 19,375,000 |
| Mountain to Plains | Revenue Enhancement | | 2012-2021 | \$ 100,000 | \$ - | \$ - | \$ 196,200 | \$ 39,240 | \$ - |
| EBY Section 16 | Value Enhancement | \$ 580,000 \$ 3,872,000 | 2009-2016 | \$ 470,000 | \$ - | \$ - | \$ 3,872,000 | \$ - | \$ 3,292,000 |
| Lochbuie PUD | Value Enhancement | \$ 1,292,933 \$ 3,076,150 | 2007-2015 | \$ 102,913 | \$ - | \$ - | \$ 3,076,150 | \$ - | \$ 1,783,217 |
| Broomfield (Arista) | Value Enhancement | \$ 770,000 \$ 3,000,000 | 2005-2015 | \$ 13,450 | \$ - | \$ - | \$ 2,230,000 | \$ - | \$ 2,230,000 |
| Granby Overlook | Value Enhancement | \$ 684,360 \$ 3,566,504 | 2006-2019 | \$ 259,000 | \$ - | \$ - | \$ - | \$ - | \$ 2,882,144 |
| Large Ranch Investment | Revenue Maintenance | | 2011-2021 | \$ 299,424 | \$ 500,000 | \$ 500,000 | \$ 2,500,000 | \$ - | \$ - |
| Program Costs | N/A | | 2006-2013 | \$ 2,070,658 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Totals | | | | \$ 4,805,445 | \$ 979,543 | \$ 12,934,000 | \$ 89,833,825 | \$ 971,740 | \$ 61,675,336 |

ACTIVE PROJECTS

COMPLETED INVESTMENTS – FY 2012-13

70 Ranch

Project Type: Mineral – Revenue Enhancement

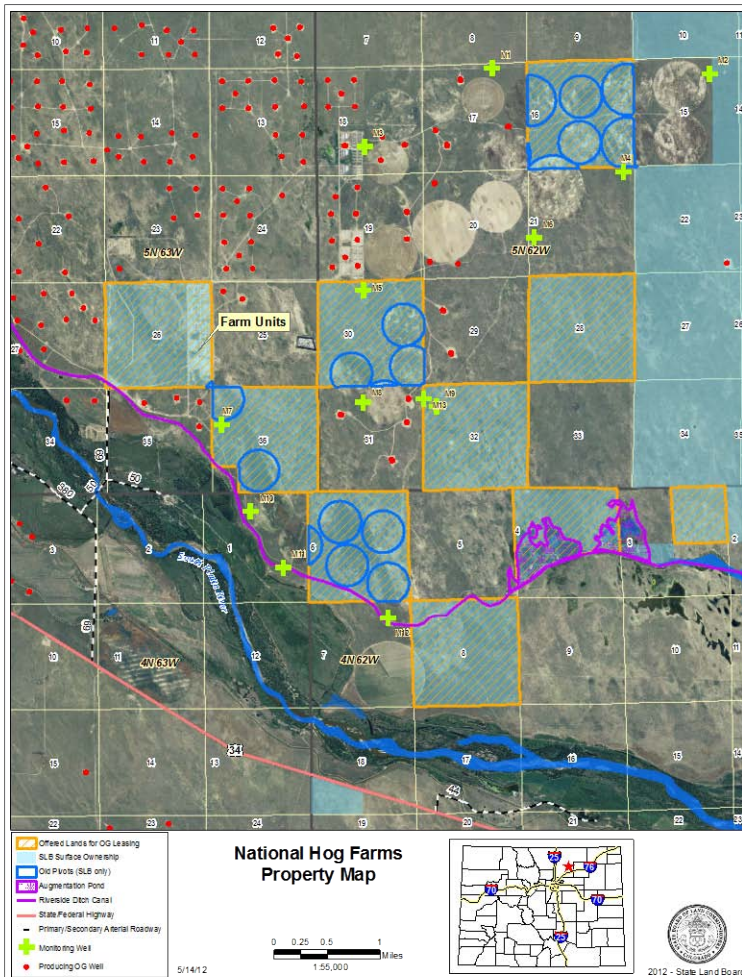
This investment increased oil and gas proceeds generated by leasing the 70 Ranch property.

70 Ranch is located in Weld County approximately 8 miles east of the town of Kersey. The State Land Board owns surface and minerals covering 5,600 acres in ten sections. The State Land Board sections are non-contiguous and are laid out in a checkerboard pattern (see map) with some having section corner contact.

The property was previously part of the National Hog Farm operation that occupied the property from 1989 to 2011. Due to the National Hog Farm operation and the associated lease, this property had not been previously offered for oil and gas leasing.

Project Summary

| Summary | |
|------------------------|--|
| Status: | Complete 2012 |
| Value-added Benefit: | \$31.7 million bonus enhancement |
| Investment Assumptions | |
| I&D Fund: | \$100,000 |
| Other SLB: | \$28.2 million est. standard bonus payment |
| Total SLB: | \$28.3 million |
| Financial Analysis | |
| Return (IRR): | 63.3% |
| Payback (approx): | >1 year |



Based on the success of the Lowry Range property, the State Land Board authorized \$100,000 to hire contractors to assist with managing, marketing, and leasing this unique and highly prospective property.

The Board approved the issuance of an RFP to lease the oil and gas rights under the property in 2012 and received a bid of \$10,650 per acre, or \$60 million, which will be paid to the State Land Board over the next five years.

FINANCIAL DISCUSSION

The State Land Board believed that based on recent leasing activity in the area, the NHF oil and gas lease would produce a bonus of \$5,000 per acre. The successful bid of \$10,650 per acre was two times the estimated bonus.

ACTIVE PROJECTS
ONGOING INVESTMENTS – FY 2012-13

Downtown Pueblo ROW – Block 12

Project Type: Commercial –Value Enhancement

This investment funded the demolition of a dilapidated building that sits on state trust property in downtown Pueblo, removing a significant liability and allowing for the use and/or redevelopment of the lot.

Project Summary

| <i>Summary</i> | |
|-------------------------------|--------------------------------------|
| Status: | Ongoing |
| Value-added Benefit Estimate: | \$102,000 net increase in land value |
| <i>Investment Assumptions</i> | |
| I&D Fund: | \$50,000 |
| Other SLB: | \$500,000 land value |
| Total SLB: | \$550,000 |

The State Land Board’s Section 16 in downtown Pueblo was platted sometime in the late 1880’s. Over the years, the State Land Board sold most of the original section except for a railroad right-of-way. In 1993, the rail company abandoned the right-of-way that cut across the section and the associated land reverted to the State Land Board. Unfortunately, what reverted were mainly partial lots cutting through part of downtown Pueblo.

The 4th and Elizabeth building, which had been constructed on the railroad right-of-way many decades ago, was long vacant. The Board authorized \$50,000 of Investment and Development Funds to demolish the building, providing the opportunity for near-term redevelopment and/or leasing of the property. The property is located across the street from the new 175,000 square feet Pueblo County Justice Center. Based on appraisal, removing the building is anticipated to increase the property value by over \$100,000.



ACTIVE PROJECTS

TJ Bar Ranch

Project Type: Recreation –Value Enhancement

The TJ Bar Ranch is a 7,000 acre state trust property located in western San Miguel property. In the early 2000s, the State Land Board acquired several properties in and around existing state trust land and created a large recreational/agricultural property. The property has access to surrounding national forests and state wildlife areas.

Project Summary

| <i>Summary</i> | |
|-------------------------------|---------------------------------|
| Status: | Ongoing |
| Value-added Benefit Estimate: | \$300,000 increase in net value |
| <i>Investment Assumptions</i> | |
| I&D Fund: | \$124,000 |
| Other SLB: | N/A |
| Total SLB: | \$124,000 |

The State Land Board has funded two Investment and Development Fund investments at the TJ Bar Ranch. The first funded the construction of a 4,300 square foot recreational lodge that was completed in 2007. The State Land Board contributed \$100,000 to the project and the lessee built and maintains the lodge.

In 2013, the Board authorized \$24,000 for road improvements. The road improvement provided year-round, all weather access to the lodge and the surrounding property, enhancing the recreational use of the property.

The investments in the TJ Bar property will increase the State Land Board’s equity in the lodge from 30 percent to 100 percent. This is anticipated to produce a value added benefit of \$300,000 based on an estimated value of the lodge of \$425,000.

Conservation Services

Project Type: Surface – Revenue Enhancement

Conservation Services projects funded through the Investment and Development Fund provide the foundation for the State Land Board’s goal of strengthening long-term sustainability and stewardship of all state trust lands while generating reasonable and consistent revenue over time for its trust beneficiaries.

Project Summary

| <i>Summary</i> | |
|-------------------------------|--|
| Status: | Ongoing |
| Value-added Benefit Estimate: | \$930,000 increase in conservation lease and mitigation revenues |
| <i>Investment Assumptions</i> | |
| I&D Fund: | \$816,000 |
| Other SLB: | N/A |
| Total SLB: | \$816,000 |

The State Land Board’s first step towards this goal was to identify and assess threatened and critical natural resources through a series of new field inventories. These inventories will assist with the realignment of the Stewardship Trust using new biological data, new tools and inventorying techniques, and a new understanding of the role of biodiversity to support the long-term sustainability and resiliency of its lands for future beneficiaries.



The second step is to use the field inventories to develop new revenue streams through new and emerging regulatory programs and other conservation revenue opportunities. The Board approved funding from the Investment and Development Fund for a demand analysis for ecosystem services that provided up-to-date information about the market for different types of ecosystem services and specific recommendations for entering these emerging markets.

ACTIVE PROJECTS

The Board also approved an in-depth, functional analysis of its wetland properties in Park County to further explore potential for a wetland mitigation bank in this area. This analysis is an example of the natural outcome of the field inventories described above: a more in-depth evaluation of state trust lands that demonstrate high potential to generate revenue through compensable ecosystem services – including wetland, stream and wildlife habitat mitigation banks or programs.



The State Land Board anticipates future revenue from sales of mitigation credits and/or conservation leases to be at least \$930,000 over the next five years or \$115,000 more than expenditures. Conservation services is a long-term program and additional revenues and expenditures are expected beyond FY 2017-18. These investments also strongly support the stewardship part of the State Land Board’s mission.

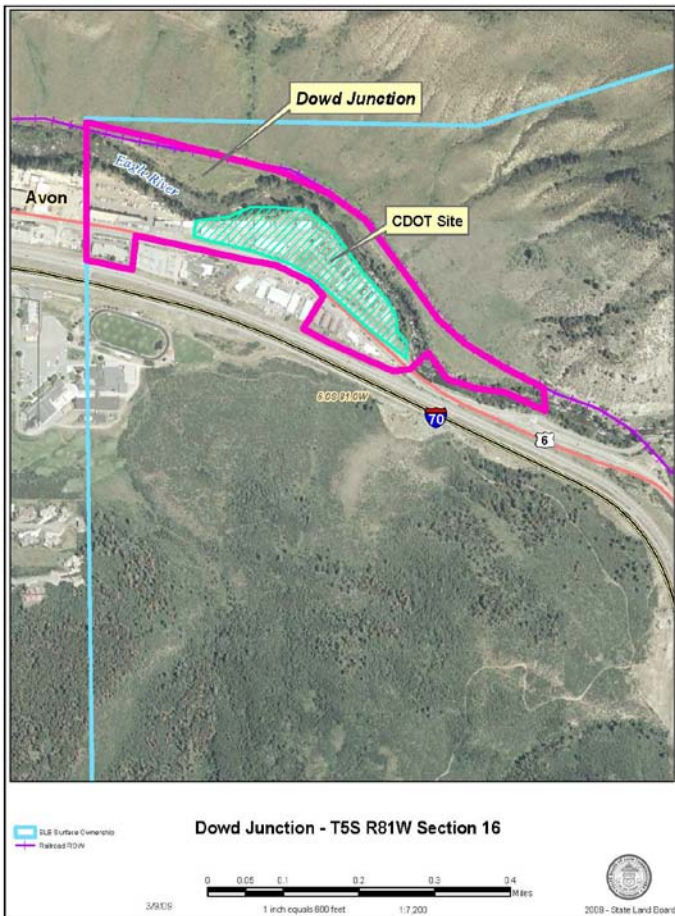
Dowd Junction

Project Type: Development –Value Enhancement

The Dowd Junction project involves the planning and redevelopment of approximately 18 acres at Dowd Junction between Vail and Avon in Eagle County. Given its proximity to I-70, Highway 6, and the Eagle River, the Dowd Junction parcel is greatly under-utilized with aging commercial development.

Project Summary

| Summary | |
|-------------------------------|---|
| Status: | Ongoing |
| Value-added Benefit Estimate: | \$20 million net increase in land value |
| Investment Assumptions | |
| I&D Fund: | \$400,000 |
| Other SLB: | \$8.6 million land value |
| Total SLB: | \$9.0 million |



This parcel is bordered by Avon and by US Forest Service land. It is approximately one mile west of Vail and half a mile northwest of Minturn. While this parcel is a full Section 16, much of the parcel is undevelopable due to mountainous terrain, geologic hazards, and lack of access. Currently, only 18 acres is being utilized for commercial purposes.

The State Land Board believes the current commercial uses at Dowd Junction are not the highest and best use of this ground. This entitlement project seeks to rezone the property for mixed use (commercial and residential) consistent with changes being made by Eagle County to their comprehensive plan. This would increase the density allowed on this site ten-fold.

This project also seeks to clean up the current encumbrances on the property to prepare for redevelopment. The largest encumbrance is a 9.7 acre perpetual right-of-way, granted in 1968 to the Colorado Department of Transportation. As part of a parallel exchange with Eagle County and the US Forest Service, the State Land Board acquired a more appropriate parcel to which this CDOT facility can be relocated.

ACTIVE PROJECTS

The Board authorized \$400,000 of Investment and Development Funds at its March 2009 meeting for this planning effort. Based on appraisals, the State Land Board expects this project to more than quadruple the value of the Dowd Junction parcel from \$8.6 million to more than \$35 million once entitlement and density changes are complete.

Mountain to Plains

Project Type: Mineral – Revenue Increase

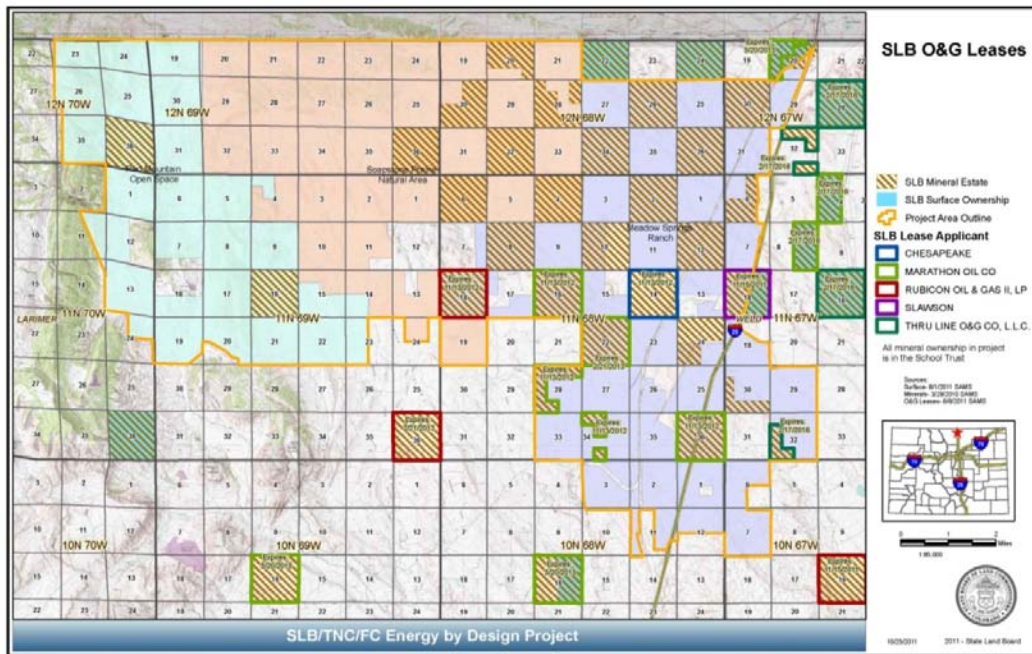
This project is an effort to lease oil and gas mineral estate in a high-profile area where the State Land Board does not own the surface estate (termed “severed mineral estate”).

The State Land Board owns approximately 15,718 acres of severed mineral estate in Larimer County underlying three open space parcels covering nearly 60,000 acres along the Colorado/Wyoming border. Most of these open space parcels are owned by Larimer County and the City of Fort Collins.

The open space parcels are ranked by Colorado Natural Heritage Program as having “very high” (B2) and “high” (B3) biodiversity significance and are identified by the Colorado Oil and Gas Conservation as “Sensitive Wildlife Areas” for mule deer critical winter range, elk production areas, and pronghorn winter concentration areas. The City of Ft. Collins and Larimer County have developed recreational infrastructure on two of the parcels and have compiled inventories of natural and cultural resources.

Project Summary

| Summary | |
|-------------------------------|--------------------------|
| Status: | Ongoing |
| Value-added Benefit Estimate: | \$39,000 annual revenues |
| Investment Assumptions | |
| I&D Fund: | \$100,000 |
| Other SLB: | N/A |
| Total SLB: | \$100,000 |



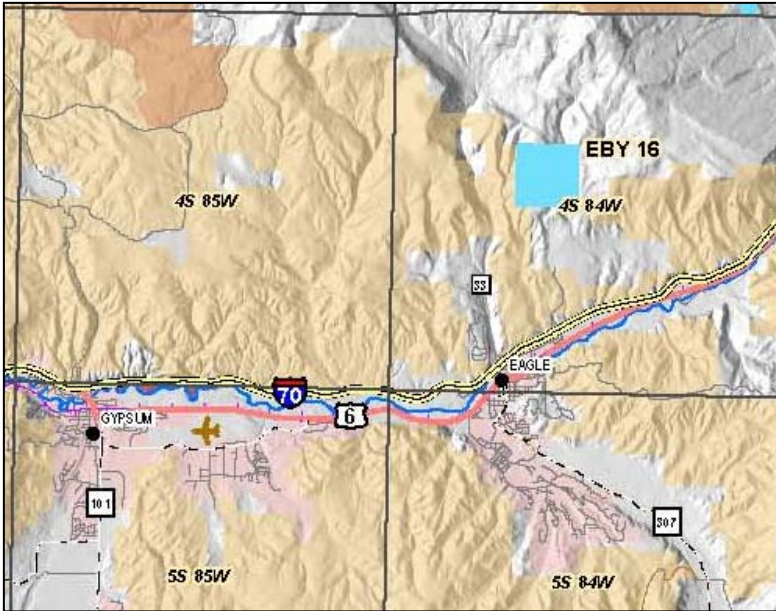
In order to pursue oil and gas leasing and generate the associated revenues, the State Land Board contracted with The Nature Conservancy to lead a collaborative effort with the surface owners (Larimer County and the City of Fort Collins) for oil and gas development, and a surface use agreement that provides access to the state’s mineral estate, with specific strategies to avoid and minimize surface impacts to key natural and cultural resource values. The project cost for this Energy by Design Project is \$100,000 and the State Land Board expects to lease the property in the next several years. Over the next five years, the State Land Board expects to earn about \$39,000 (\$2.50 per acre for 15,700 acres) annually from oil and gas rent. There is a potential for oil and gas royalty revenue once developed.

ACTIVE PROJECTS

EBY Section 16

Project Type: Development – Value Enhancement

This investment funded the buy-out of an exclusive option to purchase state trust land in Eagle County. With the property no longer subject to this contract option, the Board is able to dispose of the Eby Section 16 property at its current market value.



Project Summary

| Summary | |
|-------------------------------|--|
| Status: | Ongoing |
| Value-added Benefit Estimate: | \$3.2 million net increase in land value |
| Investment Assumptions | |
| I&D Fund: | \$470,000 |
| Other SLB: | \$580,000 land value |
| Total SLB: | \$1.0 million |

In 1996, the Board granted a private party an exclusive option to purchase the Eby Section 16 parcel for \$580,000. This was a projected value based on the assumption that the private party would entitle the property without assistance by or cost to the Board, and yet the Board would receive the benefit of a higher value property.

The State Land Board negotiated to buy the option contract and thus avoid having to sell Eby Section 16 for less than market value. As such, the Board expended \$470,000 from the Investment and Development Fund in 2009.

The buyout cost was much less than the value of the property. Based on independent appraisals of parcels in Eagle County, the Eby Section 16 parcel is estimated to be worth \$6,000 per acre or \$3.8 million.

Lochbuie PUD

Project Type: Development – Value Enhancement

The Lochbuie PUD (Planned Unit Development) project involves the annexation, rezoning, and disposal of a 158-acre State Land Board parcel north of the town of Lochbuie in Weld County. All planning has been completed and the property has been rezoned and annexed by the Town of Lochbuie.

Project Summary

| Summary | |
|-------------------------------|--|
| Status: | Ongoing |
| Value-added Benefit Estimate: | \$1.7 million net increase in land value |
| Investment Assumptions | |
| I&D Fund: | \$103,000 |
| Other SLB: | \$1.3 million land value |
| Total SLB: | \$1.4 million |

The property was rezoned as Commercial Mixed Use with a Planned Unit Development. Development rights were vested for twenty years. We estimate the value of the property to be around \$3.0 million which represents a 200% increase as a result of the State Land Board’s rezoning efforts.

ACTIVE PROJECTS

Broomfield (Arista)

Project Type: Development - Value Enhancement

This project consisted of the Planned Urban Development (PUD) entitlement of a seven-acre parcel in Broomfield located between Wadsworth Blvd. and U.S. Highway 36. All planning on this property is now complete.

The State Land Board had been working on this property prior to the creation of the Investment and Development Fund and was attempting to take advantage of development plans on adjoining private property. Initial planning efforts by the private developer did not include the State Land Board parcel.



The Board authorized Investment and Development funding in order to complete the negotiation with the neighboring developer – Park 36 – which allowed the property to be included in the Broomfield Urban Transit Village PUD in 2005.

The State Land Board expects to realize an increase to the property's value from \$770,000 to \$3.0 million.

Project Summary

| Summary | |
|-------------------------------|-------------------------------------|
| Status: | Ongoing |
| Value-added Benefit Estimate: | \$2.2 million increase in net value |
| Investment Assumptions | |
| I&D Fund: | \$13,000 |
| Other SLB: | \$770,000 land value |
| Total SLB: | \$783,000 |

Granby Overlook

Project Type: Development – Value Enhancement

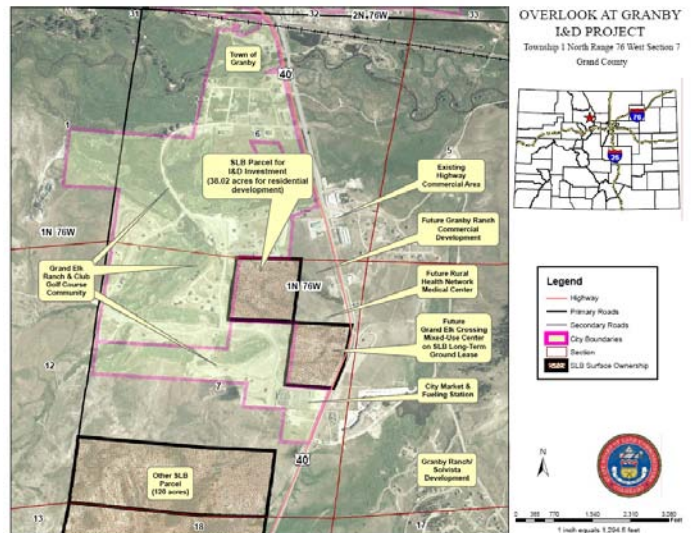
The Granby Overlook project is a 38-acre parcel on the south side of the Town of Granby in Grand County. This investment allowed the State Land Board to complete the final development plan (right) and final plat with the Town of Granby. The development plan calls for a mix of single-family detached homes and multi-family residential and commercial uses. All planning has been completed and development approval has been vested for 10 years (until July 2019).

The property is well positioned for development and has been annexed into Granby. Winter Park Resort, the state's fifth largest ski area, is 15 miles south, and Rocky Mountain National Park lies 15 miles north. The property has good access to commercial development and sits on a high point in the area.

The total project cost will be about \$2 million, with \$259,000 from the Investment and Development Fund, and \$1.7 million in future fees to be paid to the Town of Granby at the time building permits are issued. Based on current prices in the surrounding area and the approved density of the project, we currently estimate the potential value to be in excess of \$3.5 million.

Project Summary

| Summary | |
|-------------------------------|---|
| Status: | Ongoing |
| Value-added Benefit Estimate: | \$1 increase in net value |
| Investment Assumptions | |
| I&D Fund: | \$260,000 |
| Other SLB: | \$684,000 land value \$1.7 million future planning costs |
| Total SLB: | \$2.6 million |



ACTIVE PROJECTS

Large Ranch Investments

Project Type: Agricultural – Revenue Maintenance

The State Land Board owns several large “managed” ranches in South Central Colorado – Chico Basin Ranch (86,393 acres), Bohart Ranch (47,859, acres), and the Brett Gray Ranch (47,858 acres). Over the past 15 years, these properties were subject to a number of land transactions that consolidated state trust land on the eastern plains. The large ranches have significant natural values and produce annual income of \$0.5 million from grazing and recreation. The State Land Board owns the land and all of the improvements while leasing the agricultural operation to a third party.

| Project Summary | |
|-------------------------------|----------------------------------|
| <i>Summary</i> | |
| Status: | Ongoing |
| Value-added Benefit: | \$500,000 annual revenue support |
| <i>Investment Assumptions</i> | |
| I&D Fund: | \$300,000 |
| Other SLB: | N/A |
| Total SLB: | \$300,000 |

The Board authorized several Investment and Development projects for these ranches. The projects target maintenance and upgrade of infrastructure in order to maintain the current income of \$500,000 as well as increase the value of these assets over the long term.

Large “Managed” Ranch Investments FY 2009-10 to FY 2012-13

| PROJECT NAME | YEAR | AMOUNT | NOTES |
|--|------|-----------|--|
| Bohart Bathrooms | 2013 | \$10,000 | Complete bathroom remodel |
| Brett Gray Livestock Handling Facilities | 2013 | \$10,000 | Replacement of livestock loading chutes |
| Brett Gray Agricultural Infrastructure | 2011 | \$236,017 | Repair livestock water and irrigation systems including reservoir, pipes, windmills, and two pivots. NRCS/Lessee provided matching funds |
| Chico Basin Water Project | 2011 | \$43,407 | Install a water distribution system (storage tanks, pipeline, and a well) and cross fence. NRCS/Lessee provided matching funds. |
| TOTAL | | \$299,424 | |

Program Costs

Project Type: Program Expenditures

The Investment and Development Statute provides flexibility for the State Land Board to hire staff and contract for services that increase income for and value of School Trust assets.

For the past several years, the State Land Board has utilized 4.0 FTE and associated program expenditures to support Investment and Development Fund projects. From FY 2005-06 (when the Fund was created) to FY 2012-13, the State Land Board has spent \$2.0 million on salaries and business planning activities from the Investment and Development Fund. All expenditures are used to support increasing income and value of School Trust assets.

| Project Summary | |
|-------------------------------|--------------------------|
| <i>Summary</i> | |
| Status: | Ongoing |
| Value-added Benefit: | Program Support |
| <i>Investment Assumptions</i> | |
| I&D Fund: | \$2 million (FY06 -FY13) |
| Other SLB: | N/A |
| Total SLB: | \$2 million |

APPENDIX A

**PAST COMPLETED
INVESTMENTS**

APPENDIX A

PAST COMPLETED INVESTMENTS

Mason Street Building Remodel

Project Type: Commercial – Value Enhancement

This investment funded the remodel and subsequent disposal of a vacant office building in Fort Collins. The Board approved the project to remodel the Mason Street Building in September 2006 which included the installation of an elevator. Due to market conditions, the State Land Board sold the property in 2007 for \$2.2 million or \$1 million more than the appraised value prior to the Investment and Development Fund investment.

Project Summary

| Summary | |
|-----------------------|---------------------------------|
| Status: | Complete 2007 |
| Value-added Benefit: | \$1.0 million net |
| I&D Fund Investment: | \$631,000 |
| Other SLB Investment: | \$1.2 million real estate value |
| Payback (approx): | 2 years |
| Return (IRR): | 15% |

Centennial Hanger

Project Type: Commercial – Revenue Enhancement

This project facilitated the acquisition of the Centennial Hanger, which generates \$100,000 in average annual revenue for the School Trust. It also gives the Colorado State Patrol a long-term home for its aircraft fleet, including the State Plane. This project was managed by FTE funded by the Investment and Development Fund. In cooperation with the Colorado State Patrol, the Governor's Office, and Department of Personnel and Administration, the Board authorized the acquisition of the Centennial Airport Hanger for \$650,295 with non-simultaneous exchange funds, as well as the subsequent lease to the Colorado State Patrol.

Project Summary

| Summary | |
|-----------------------|--------------------------------------|
| Status: | Complete 2008 |
| Value-added Benefit: | \$100,000 increase in annual revenue |
| I&D Fund Investment: | \$0 (FTE only) |
| Other SLB Investment: | \$650,000 NSE funds |
| Payback (approx): | 6.5 years |
| Return (IRR): | 12% |

1127 Sherman Office Building

Project Type: Commercial – Value/Revenue Enhancement

This investment funded the planning associated with construction of an 18,000 square foot LEED¹ certified office building at 1127 Sherman in Denver. Once completed by the developer, the building was acquired for \$5.1 million with non-simultaneous exchange funds. This project increased the Board's annual revenue by over \$300,000 through a combination of a lease savings from State Land Board central offices as well as new lease revenues from third party tenants.

Project Summary

| Summary | |
|-----------------------|------------------------------------|
| Status: | Complete 2009 |
| Value-added Benefit: | \$300,000 annual savings & revenue |
| I&D Fund Investment: | \$250,000 |
| Other SLB Investment: | \$4.5 million NSE funds |
| Payback (approx): | 16 years |
| Return (IRR): | 11% |

¹ LEED is Leadership in Energy and Environmental Design

APPENDIX A

Big Springs Ranch Project

Project Type: Agricultural – Revenue Increase

The Big Springs Ranch is located in south central El Paso County, two miles east of the Town of Ellicott. This investment funded a remodel of the existing ranch house, installed cross fences, replaced a livestock pump, and installed pipeline and stock tanks.

This project increased annual revenues by an average of \$12,000 per year based on a fifty percent (50%) increase in the property's carrying capacity and a new rental stream from the remodeled house (\$500/month).

Project Summary

| Summary | |
|-----------------------|---------------------------|
| Status: | Complete 2011 |
| Value-added Benefit: | \$12,000 revenue increase |
| I&D Fund Investment: | \$60,000 |
| Other SLB Investment: | N/A |
| Payback (approx): | 5 years |
| Return (IRR): | 14% |

Lowry Range

Project Type: Mineral – Revenue Enhancement

The Lowry Range is a 26,000 acre/40-square mile parcel of School Trust property on the southeastern side of Metro Denver, just east of Aurora in unincorporated Arapahoe County. The Lowry Range has been the subject of two planning and leasing investments. Beginning in 2006, the first investment concerned the master planned development of the property with over three-fourths of the property set aside as an open space amenity for the residents. Development prospects diminished significantly after 2008 and the Board's development contract was terminated.

Starting in 2011, the State Land Board developed a specialized oil and gas lease document, and a leasing auction process that resulted in a long-term oil and gas development partner on the Lowry Range property. The State Land Board's goal was to capitalize on the Niobrara oil and gas development play and yet have a thoughtful steward, respecting the property's natural values and the Board's long term goals. This oil and gas lease was awarded in 2012 at a bonus of \$6,500/acre (\$134 million) or more than twice the highest previous record in this area of \$3,000/acre (\$63 million).

Project Summary

| Summary | |
|-----------------------|--|
| Status: | Complete 2012 |
| Value-added Benefit: | \$71 million oil and gas bonus enhancement |
| I&D Fund Investment: | \$8.0 million |
| Other SLB Investment: | \$63 million standard bonus |
| Payback (approx): | 3 years |
| Return (IRR): | 41% |

Jack Canyon Ranch Project

Project Type: Agricultural – Revenue Enhancement

The Jack Canyon Ranch Project was aimed at increasing the carrying capacity for grazing on state trust land in Otero County. The 6,300 acre Jack Canyon Ranch is south of La Junta and just north of the Purgatoire River. The project funded cross fencing, water spring development, and a new pumping system, pipelines, and additional stock tanks. Natural Resources Conservation Service (NRCS) and the lessee contributed funds to this project.

Project Summary

| Summary | |
|-----------------------|--------------------------|
| Status: | Complete 2010 |
| Value-added Benefit: | \$5,000 revenue increase |
| I&D Fund Investment: | \$45,000 |
| Other SLB Investment: | N/A |
| Payback (approx): | 8 years |
| Return (IRR): | 8% |

APPENDIX A

Riverside Ditch Pivot

Project Type: Agricultural – Revenue Enhancement

This project involved a sprinkler irrigation investment on a 130-acre parcel located in north central Morgan County. Two center pivot sprinklers and associated infrastructure were installed on the property to irrigate 100 acres.

Project Summary

| Summary | |
|-----------------------|---------------------------|
| Status: | Complete 2006 |
| Value-added Benefit: | \$15,000 revenue increase |
| I&D Fund Investment: | \$108,000 |
| Other SLB Investment: | N/A |
| Payback (approx): | 7.5 years |
| Return (IRR): | 10% |

San Juan Basin Audit

Project Type: Mineral – Revenue Enhancement

This project concerned a complex audit of the School Trust’s coal bed methane gas leases with BP Amoco in the San Juan Basin. The audit resulted in a one-time payment of \$170,000 and a revenue increase of \$61,000 per year, due to the elimination of improper deductions and product volume issues.

Project Summary

| Summary | |
|-----------------------|--|
| Status: | Complete 2008 |
| Value-added Benefit: | \$60,600 increase in revenues and bonus payment of \$170,000 |
| I&D Fund Investment: | \$64,000 |
| Other SLB Investment: | N/A |
| Payback (approx): | <1 year |
| Return (IRR): | 128% |

Table Mountain

Project Type: Mineral – Revenue Enhancement

This investment resulted in a gypsum lease on a state trust mineral deposit in northern Fremont County. The subsequent lease produced a one-time lease bonus of \$62,000 and \$50,000 in annual royalties. With the assistance of the Colorado Geological Study (CGS), the State Land Board conducted due diligence on the mineral gypsum deposit which was made available to all interested parties for lease bidding purposes.

Project Summary

| Summary | |
|-----------------------|--|
| Status: | Complete 2008 |
| Value-added Benefit: | \$62,000 bonus payment and \$50,000 in annual royalties. |
| I&D Fund Investment: | \$53,000 |
| Other SLB Investment: | N/A |
| Payback (approx): | <1 year |
| Return (IRR): | 83% |

Communications Tower Lease Revenues

Project Type: Program – Revenue Enhancement

This project concerned increasing to School Trust revenues through a communications tower leasing program managed by Investment and Development Fund positions. These revenues could not have been developed without FTE staff support. In FY 2009-10 and FY 2010-11, State Land Board completed six new tower leases with Verizon, AT&T, T-Mobile, and Cricket Wireless. These leases generated initial payments of \$330,000 in 2009 and 2010, and continue to generate \$110,000 in average annual revenue for the School Trust throughout the terms of the leases

Project Summary

| Summary | |
|-----------------------|--|
| Status: | Complete 2011 |
| Value-added Benefit: | \$110,000 net increase in annual revenue |
| I&D Fund Investment: | \$0 (FTE only) |
| Other SLB Investment: | N/A |
| Payback (approx): | N/A |
| Return (IRR): | N/A |

APPENDIX A

Irrigation Well Meters

Project Type: Agricultural – Revenue Maintenance

This project provided funding for the installation of irrigation well meters required by a court order and the Division of Water Resources. Without these meters, the State Land Board would not be able to irrigate the affected School Trust properties and the associated leases would be reduced to grazing rates.

Project Summary

| Summary | |
|-----------------------|------------------------------|
| Status: | Complete 2007 |
| Value-added Benefit: | \$66,000 revenue maintenance |
| I&D Fund Investment: | \$16,000 |
| Other SLB Investment: | N/A |
| Payback (approx): | <1 year |
| Return (IRR): | 400% |

Muddy Creek Water System

Project Type: Agricultural – Revenue Maintenance

This investment funded a water distribution system on a 1,080-acre parcel in Morgan County, which produces about \$7,000 annually in grazing revenue. The water system included a well, pump, pipeline, water tanks, and the electricity necessary to run the system. Part of the project's total cost was paid for by the United States Department of Agriculture's EQUIP program.

Project Summary

| Summary | |
|-----------------------|-----------------------------|
| Status: | Complete 2006 |
| Value-added Benefit: | \$7,000 revenue maintenance |
| I&D Fund Investment: | \$40,000 |
| Other SLB Investment: | N/A |
| Payback (approx): | <1 year |
| Return (IRR): | 15% |

APPENDIX B

DEFINITIONS

The following is an explanation of the analysis and terms used in this report.

Investment Types

The following are type of Investment and Development investments:

- *Revenue Enhancement* – Increases Income
- *Revenue Maintenance* – Supports existing income (avoid loss of income)
- *Value Enhancement* – Increases Asset Value

Investment Assumptions

In order to calculate the net or **value-added benefit** of increased in income or value, the financial analysis in this report generally includes the following investments:

- The Investment and Development Fund investment,
- Actual or estimated School Trust asset value or lease income prior to the investment, and/or
- Other sources of School Trust investment (e.g. NSE funds).

Financial Measures of Performance

Tables in this report show the investment's **Internal Rate of Rate Return** (IRR). The IRR measures the annualized, effective compound rate of return over the term of the project, taking into account all cash inflows (e.g. revenues) and outflows (e.g. expenses and opportunity costs). For example, an IRR of 15% means that future revenues generate an average annual return of 15% over the life of the investment. IRR is reported when the investment is realized.

Tables also reports on an investment's **payback** period. This is a rough estimate of the number of years is takes for an investment to earn revenue equivalent to Investment and Development Fund investment. Payback is reported when the investment is realized.

Program Costs

There 4 FTE currently funded by the Investment and Development fund, as well as operating and planning expenses. However individual project expenditures do not reflect these costs.

Land Value and Entitlement

Annexation, rezoning, and platting increase the value of property through land use "entitlements." Annexation guarantees governmental services including water and wastewater while the rezoning and platting allows the property to be subdivided and developed. This process is termed "entitling property".