

Investment and Development Fund Report

Fiscal Year

2013-14

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 2013-14

INTRODUCTION

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

This report is organized as follows:

- Summary of Investment and Development Fund Results (Page 2-3)
- Description of New Investments in FY 2013-14 (Pages 4-5)
- Discussion of Ongoing/Active Investments (Pages 6-10)
- Appendix A - Discussion of Completed Investments (Pages 12 - 16)
- Appendix B - Definitions (Page 17)

SUMMARY OF INVESTMENT PROGRAM RESULTS

Over the last nine years, the State Land Board has authorized \$14.5 million from the Investment and Development Fund on more than 40 projects and programs. These targeted investments have already directly increased revenues by more than \$99 million, and helped maintain more than \$500,000 in annual revenue from existing leases. Over the next four years, we conservatively expect these same Investment and Development Fund investments to generate \$500,000 in new annual revenue per year, and \$19 million in increased value that can be realized through asset sales. While a large portion of these extraordinary results is attributable to just a few transactions, almost all of the investments to date have had accretive impacts to income and value of the assets, and the use of these I&D funds was integral to those outcomes.

During FY 2013-14, the Board authorized three new investments totaling less than \$700,000:

- 70 Ranch Building
- Yuma County Sprinkler
- Lowry Ranch Infrastructure

These and all of our I&D investments are discussed in more detail in the following pages.

INVESTMENT and DEVELOPMENT FUND

Active Project Analysis Summary

Asset Name	Investment Purpose	Year of Investment	Gross Revenue/Value			Value-Added Benefit			Return Breakdown		
			Beginning Income/Value	Amount Invested I&D Funds Spent	Estimated Ending Income/Value (2)	Analysis Period in Years (1)	Avg Gross Annual Revenue Increase Over Analysis Period	Estimated Net Value Increase	Prior	Current FY 2013-14	Future
70 Ranch Building	Revenue Enhancement	2013	\$0	\$33,707	\$79,200	1	\$79,200		\$0	\$79,200	\$0
Yuma County Sprinkler	Revenue Enhancement	2014	\$46,242	\$222,862	\$76,255	10	\$30,013		\$0	\$30,013	\$270,117
Lowry Ranch	Revenue Enhancement	2014	\$18,407	\$115,505	\$164,508	10	\$164,508		\$0	\$164,508	\$1,480,572
Wetlands Banking	Revenue Enhancement	2013	\$0	\$49,951	\$105,000	15	\$140,000		\$0	\$0	\$2,100,000
Ducks Unlimited	Revenue Enhancement	2013	\$0	\$0	\$47,500	10	\$38,750		\$0	\$0	\$387,500
Mountain to Plains	Revenue Enhancement	2011	\$0	\$87,420	\$63,000	10	\$26,940		\$0	\$63,000	\$206,400
Pueblo	Value Enhancement	2013	\$500,000	\$50,000	\$601,975	1		\$51,975	\$550,000	\$0	\$601,975
Dowd Junction	Value Enhancement	2009	\$8,625,000	\$33,557	\$20,000,000	7		\$10,975,000	\$9,025,000	\$0	\$20,000,000
EBY Section 16	Value Enhancement	2009	\$580,000	\$470,000	\$3,872,000	10		\$2,822,000	\$1,050,000	\$0	\$3,872,000
Lochbuie PUD	Value Enhancement	2007	\$1,292,933	\$285,177	\$3,076,150	9		\$1,473,217	\$1,602,933	\$0	\$3,076,150
Broomfield (Arista)	Value Enhancement	2005	\$770,000	\$13,450	\$2,100,000	11		\$1,316,550	\$783,450	\$0	\$2,100,000
Granby Overlook	Value Enhancement	2007	\$684,360	\$313,633	\$3,566,504	12		\$2,584,644	\$981,860	\$0	\$3,566,504
Large Ranch Investment	Revenue Maintenance	2011	\$274,329	\$243,863	\$500,000	10		\$0	\$0	\$0	\$0
Personnel and Planning		2005-2014		\$3,731,917							
			\$12,791,271	\$5,651,042	\$34,252,092		\$479,411	\$19,223,386	\$13,993,243	\$336,721	\$37,661,218

Completed Project Analysis Summary

Asset Name	Investment Purpose	Year of Investment	Gross Revenue/Value			Value-Added Benefit		
			Beginning Income/Value	Amount Invested- I&D Funds Spent	Estimated Ending Income/Value (2)	Analysis Period in Years (1)	Avg Gross Annual Revenue Increase Over Analysis Period	Estimated Net Value Increase
Big Springs Ranch Project	Revenue Enhancement	2010	\$0	\$25,939	\$10,152	10	\$11,638	
Jack Canyon Ranch Project	Revenue Enhancement	2007	\$22,024	\$46,411	\$27,080	20	\$5,056	
Riverside Ditch Pivot	Revenue Enhancement	2005	\$700	\$110,784	\$15,000	10	\$15,000	
San Juan Basin Audit	Revenue Enhancement	2005	\$0	\$64,909	\$170,000	10	\$60,600	
Table Mountain	Revenue Enhancement	2007	\$0	\$39,697	\$59,200	20	\$36,393	
Communication Tower Lease Revenues	Revenue Enhancement	2009	\$0	\$0	\$387,406	10	\$151,996	
Irrigation Well Meters	Revenue Enhancement	2006	\$2,240	\$15,600	\$68,055	10	\$68,055	
Muddy Creek Water System	Revenue Enhancement	2005	\$0	\$38,232	\$7,067	10	\$7,067	
Centennial Hanger	Revenue Enhancement	2008	\$0	\$0	\$65,608	40	\$132,376	
Brett Grey	Revenue Enhancement	2008	\$0	\$235,995	\$43,500	20	\$43,500	
Lowry Range	Value Enhancement	2009	\$63,000,000	\$6,935,068	\$137,000,000	8		\$66,145,000
70 Ranch	Value Enhancement	2012	\$28,190,000	\$61,818	\$60,000,000	5		\$31,710,000
Mason Street Building Remodel	Value Enhancement	1993	\$1,235,000	\$635,474	\$2,200,000	15		\$259,000
1127 Sherman Office Building	Value Enhancement	2006	\$4,410,826	\$491,000	\$5,119,124	3		\$224,298
TJ Bar	Value Enhancement	2006	\$100,000	\$124,000	\$425,000	10		\$301,000
			\$96,960,790	\$8,824,926	\$205,597,193		\$531,682	\$98,639,298

(1). For all revenue enhancement projects, the analysis period is the lease time in years. For value enhancement projects, the time is applicable to a holding

(2). For all revenue enhancement projects, the amount represented is the first year revenues received from the investment. For value enhancement projects, the number is the estimated value at the completion of the analysis period.

ACTIVE PROJECTS

NEW INVESTMENTS IN FY 2013-14

70 Ranch Buildings

Commercial - Revenue and Value Enhancement

This investment funded the renovation of three small vacant buildings on the 70 Ranch property. The State Land Board used \$34,000 to install water and electric service and make minor interior repairs to ready the buildings for occupancy. The oil and gas lessee, Bonanza Creek Energy, will pay \$79,000 to rent the buildings for two years.

Project Summary

Summary	
Status:	Ongoing
Value-added Benefit Estimate:	\$79,200 one-time payment increase in commercial revenues
Investment Assumptions	
I&D Fund:	\$33,707
Other SLB:	N/A
Total SLB:	\$33,707



Yuma County Sprinkler

Agriculture - Revenue Enhancement

This \$225,000 investment funded the replacement of three 40-year-old center pivot sprinklers on state trust land in Yuma County. The new efficient sprinklers not only conserve water, but also allow the State Land Board to increase the annual rent on the parcel from \$46,242 (\$122/acre) to \$76,255 (\$201/acre), resulting in a 7.5 year payback.

Project Summary

Summary	
Status:	Ongoing
Value-added Benefit Estimate:	\$30,013 increase in annual revenue
Investment Assumptions	
I&D Fund:	\$225,000
Other SLB:	N/A
Total SLB:	\$225,000

ACTIVE PROJECTS

Lowry Ranch Infrastructure Improvement *Agriculture - Revenue Enhancement*

This \$420,000 investment will fund the replacement and upgrade of agricultural infrastructure improvements to the State Land Board's 26,000-acre Lowry Ranch property, including corrals, fencing, and a watering system. As a result, the State Land Board was able to lease the property to a holistic agricultural lessee, our first lessee on most of the property in more than five years. The lease rate was 65% in excess of the State Land Board's standard grazing lease rate for land in this region, partially as a result of these infrastructure investments. This lease will generate a total of \$1.6 million in new revenue over its 10-year term.

Project Summary

Summary	
Status:	Ongoing
Value-added Benefit Estimate:	\$164,000 in average annual revenue
Investment Assumptions	
I&D Fund:	\$420,000
Other SLB:	N/A
Total SLB:	\$420,000



ACTIVE PROJECTS

ONGOING INVESTMENTS MADE PRIOR TO FY 2013-14

Downtown Pueblo ROW - Block 12

Commercial - Value Enhancement

The State Land Board's \$50,000 investment funded the demolition of a dilapidated building that sat on a 1.2 acre state trust property in downtown Pueblo, removing a significant liability, and allowing for the future use and/or redevelopment of the lot. The State Land Board inherited this parcel in 1993 when the railroad abandoned its right-of-way that had bisected an original section 16.

The property is located across the street from the new 175,000-square-foot Pueblo County Justice Center, and demolition of the structures provides the opportunity for near-term redevelopment and/or leasing of the property for surface parking or another structure. Appraisals have indicated that the value for the property is in the \$10/sf range, or \$500,000.



Project Summary

Summary	
Status:	Ongoing
Value-added Benefit:	\$102,000 net increase in land value
Investment Assumptions	
I&D Fund:	\$52,250
Other SLB:	\$500,000 land value
Total SLB:	\$552,250

Conservation Services - Park County Wetlands

Surface - Revenue Enhancement

The State Land Board's investment will identify possible sites on state trust land for a mitigation bank, and then develop a prospectus on the best site. Revenues will be generated by selling credits through an established wetland mitigation exchange.

Phase 1, approved in 2012, evaluated 34 sites and identified 4 with good-to-excellent wetlands banking potential. Phase 2, approved in 2013, will fund the development of a prospectus for a specific Park County property, with the prospectus to be used for creating and registering the site with the US Army Corps (USACE), a complex, multi-year process.

Our underwriting assumes that the State Land Board will be awarded 25 wetlands credits by USACE and then sell these credits over the 15-year life of the project to agencies and business that are required to mitigate their wetlands impacts. We will not know the results of this investment for several more years.

Project Summary

Summary	
Status:	Ongoing
Value-added Benefit Estimate:	\$140,000 average increase in mitigation revenues over 15 years.
Investment Assumptions	
I&D Fund:	\$132,000
Other SLB:	N/A
Total SLB:	\$132,000

ACTIVE PROJECTS

Conservation Services - Ducks Unlimited

Surface - Revenue Enhancement

The Ducks Unlimited Water Augmentation Project is a joint project between the State Land Board and Ducks Unlimited to develop river water augmentation ponds on state trust land in the Platte River Basin.

The State Land Board has approved \$40,000 to date for project feasibility costs, and anticipates an additional \$70,000 in future funding, should the school trust lands prove suitable. Ducks Unlimited is also providing funding for pond engineering, design, and construction costs. The ponds provide a mechanism to re-

time the river flows, and also provide habitat for migratory waterfowl. The State Land Board believes that upon estimated completion in 2017, the project should receive annual river augmentation payments from downstream water users at an average of \$38,750 per year for the following 10 years.

Project Summary

Summary	
Status:	Ongoing
Value-added Benefit Estimate:	\$387,000 increase in revenues through augmentation credits.
Investment Assumptions	
I&D Fund:	\$40,000
Other SLB:	N/A
Total SLB:	\$40,000

Dowd Junction

Commercial Real Estate - Value Enhancement

The State Land Board's Dowd Junction property is an 18 acre parcel along I-70, between Vail and Avon, that is presently encumbered by aging, low density commercial building on ground leases (8 acres) and a CDOT maintenance facility on a perpetual right-of-way (10 acres).

In 2009, the State Land Board approved a \$400,000 investment for the planning and rezoning of the property. Subsequent to the investment approval, Eagle County agreed to spearhead the process, substantially reducing the State Land Board's costs. Eagle County has now approved the master plan and rezoning for this area, at a cost to the State land Board of less than \$35,000.

With the new high-density, mixed-use zoning in place, the State Land Board believes that the value of this land will increase significantly, perhaps to as much as \$20 million (\$25/sf) based on recent comparables. However, in order to fully realize this value, the State Land Board will need to invest significant funds to remove the existing buildings as their ground leases expire over the next 3-5 years, and to relocate the aging CDOT maintenance facility. These costs are difficult to estimate at this time, but could total several hundred thousand dollars for building removal, and significantly more for the CDOT relocation. The State Land Board already owns a nearby replacement parcel that could be the location of a new CDOT facility.

Project Summary

Summary	
Status:	Ongoing
Estimated Future Value:	\$20 million (\$25/sf)
Investment Assumptions	
I&D Fund:	\$400,000
Other SLB investment required:	\$8.6 million land value
Total SLB:	\$9.0 million

ACTIVE PROJECTS

Mountain to Plains

Minerals - Revenue Increase

In 2011, the State Land Board approved the investment of \$100,000 to develop a comprehensive surface use management plan in connection with the oil & gas leasing of 15,700 acres of checkerboard mineral estate in northern Larimer County. The surface lands are owned by Fort Collins and Larimer County and contain sensitive natural areas and community open space. The parties agreed to work with the Nature Conservancy develop a

surface use agreement that provides access to State Land Board's mineral estate, with specific strategies for the mineral operator to avoid and minimize surface impacts to these important areas.

The State Land Board believes that this Energy by Design project creates alignment between the surface and mineral owners, a valuable prerequisite to a beneficial lease outcome, as well as providing clarity and certainty for potential oil and gas operators to develop in this sensitive ecological area. The State Land Board also believes that this investment will ultimately lead to increased bonus and royalty rates when the minerals are put up for auction.

Project Summary

Summary	
Status:	Ongoing
Value-added Benefit Estimate:	\$27,000 annual revenues
Investment Assumptions	
I&D Fund:	\$87,420
Other SLB:	N/A
Total SLB:	\$87,420

Eby Section 16

Future Development - Value Enhancement

In 2009, the Board approved a \$470,000 investment to fund the buy-out of an exclusive option to purchase state trust land in Eagle County that had been granted by the State Land Board prior to the passage of Amendment 16 in 1996. The resulting changes to the law, as well as the strong growth in Eagle County, led the State Land Board to believe it would not adequately benefit if the exclusive purchase option was exercised, so it negotiated a buy-out of the option.

With the property no longer subject to the option, we estimate the current value to be \$3.8 million (\$6,000/acre) based on recent comparable sales. Though the property has legal access, the access is physically challenging and will need to be further improved in order to achieve its full value potential.

Project Summary

Summary	
Status:	Ongoing
Value-added Benefit Estimate:	\$2.8 million net in land value
Investment Assumptions	
I&D Fund:	\$476,450
Other SLB:	\$580,000 land value
Total SLB:	\$1,056,450

Lochbuie Planned Unit Development (PUD)

Future Development - Value Enhancement

In 2005-07, the Board authorized a total of \$285,000 to fund the annexation, rezoning, and sale of a 158-acre State Land Board parcel in the town of Lochbuie in Weld County. The Lochbuie PUD was approved by the Town, which granted 20 year vesting rights for mixed-use commercial development and 600+ residential units.

Unfortunately, at the time that the planning work was completed, the development market evaporated, and this area is still in the recovery phase. Nevertheless, the State Land Board believes this change from agricultural to mixed-use zoning added significant value to the underlying land which will be realized upon a sale as dictated by market conditions.

Project Summary

Summary	
Status:	Ongoing
Value-added Benefit Estimate:	\$1.7 million net increase in land value
Investment Assumptions	
I&D Fund:	\$285,000
Other SLB:	\$1.3 million land value
Total SLB:	\$1.4 million

ACTIVE PROJECTS

Broomfield (Arista)

Future Development - Value Enhancement

In 2005, the State Land Board authorized \$13,450 to entitle a seven-acre parcel within the Arista master-planned community in Broomfield between Wadsworth Blvd. and U.S. Highway 36. Our planning efforts capitalize on the significant planning and development work being done on the adjoining 210-acre mixed-use development. All planning on this property is now complete, and the State Land Board will sell the parcel as dictated by the market. Based on recent nearby land sales, we believe this parcel to be worth \$2.1 million ≈ (\$7/sf).



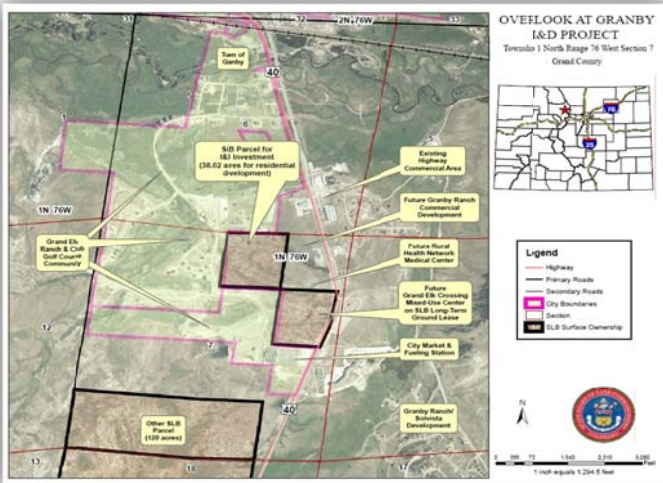
Project Summary

Summary	
Status:	Ongoing
Value-added Benefit Estimate:	\$1.3 million increase in net value
Investment Assumptions	
I&D Fund:	\$13,450
Other SLB:	\$770,000 land value
Total SLB:	\$800,750

Granby Overlook

Future Development - Value Enhancement

In 2005 and 2007, the State Land Board approved investments totaling \$293,000 to complete a development plan and plat for Granby Overlook, a 38-acre parcel on the south side of the Town of Granby in Grand County. This approved preliminary plan has 10-year vesting (thru 2019) and allows for a mix of single-family and multi-family residential and limited retail uses.



Project Summary

Summary	
Status:	Ongoing
Value-added Benefit Estimate:	\$2.5 million net increase in value
Investment Assumptions	
I&D Fund:	
Other SLB:	\$684,000 land value \$1.7 million future planning costs
Total SLB:	\$2.7 million

The Grand County market is still recovering from the recent economic downturn and the site is not being actively marketed due to the current low values. We intend to monetize this asset when the market more fully recovers.

ACTIVE PROJECTS

Large Ranch Investments

Agricultural - Revenue Maintenance & Value Enhancement

The State Land Board owns several large “managed” ranches in South Central Colorado - the Chico Basin Ranch (86,393 acres), the 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 \$500,000 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

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

The Board has authorized I&D Fund projects totaling \$300,000 over the past several years to maintain and upgrade the infrastructure necessary to keep the on-site lessees in place, and thereby preserve the current income stream and assure the continuing long-term value increases as a result of the good stewardship of the assets.

Program Costs

Program Expenditures

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

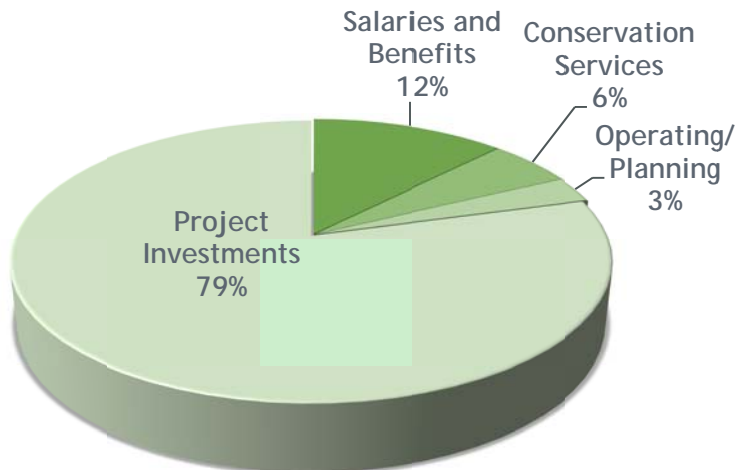
The State Land Board has authorized 4.0 full-time employees (FTE) and associated program expenditures to support I&D Fund projects. From FY 2005-06 (when the Fund was created) to FY 2013-14, the State Land Board spent a total of \$2.3 million on salaries and on business planning and property valuation activities. The Board has also authorized and spent \$800,000 for a Stewardship Trust Inventory and conservation services studies. In total, the State Land Board has authorized approximately 20% of its total I&D Fund for program costs. All program costs expenditures are used to support increasing the income and the value of School Trust assets.

Project Summary

Summary	
Status:	Ongoing
Value-added Benefit:	Program Support
Expenditures	
I&D Fund:	\$2.3 million (FY06 -FY14)
Stewardship Trust:	\$803,000
Total SLB:	\$3.1 million

I&D Fund Expenditures

FY 2005-06 to FY 2013-14



APPENDIX A

**PAST
COMPLETED
INVESTMENTS**

APPENDIX A

COMPLETED INVESTMENTS

Mason Street Building Remodel

Commercial - Value Enhancement

In 2006, the State Land Board invested \$635,000 in the remodel of a vacant 21,364 square-foot office building in Fort Collins. Based on this investment, the State Land Board was able to sell the property in 2007 for \$2.2 million, \$1 million more than the appraised value prior to the I&D investment.

Project Summary

Summary	
Status:	Complete 2007
Value-added Benefit:	\$259,000 net
I&D Fund Investment:	\$635,000
Other SLB Investment:	\$1.2 million real estate value
Payback (approx):	2 years
Return (IRR):	20%

Centennial Hanger

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 full-time employees 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 Hangar for \$650,295 with non-simultaneous exchange (NSE) 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

Commercial - Value/Revenue Enhancement

This 2006 I&D 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 NSE 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:	\$297,450
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

Agricultural - Revenue Increase

This 2010 investment funded a remodel of the existing ranch house, installed cross fences, replaced a livestock pump, and installed pipeline and stock tanks at the State Land Board's Big Springs Ranch in south central El Paso County. This project increased annual revenues by an average of \$12,000 per year based on a 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:	\$26,000
Other SLB Investment:	N/A
Payback (approx):	5 years
Return (IRR):	14%

Lowry Range

Mineral - Revenue Enhancement

The State Land Board funded two investments that have enabled the realization of significant revenues from oil & gas development at Lowry Ranch, a 26,000 acre (40-square mile) parcel of School Trust property on the southeastern side of Metro Denver. The first investment funded the purchase of due diligence materials and settlement of a potential lawsuit with the former real estate developer, Lend Lease, after their development contract terminated in 2008.

Project Summary

Summary	
Status:	Complete 2012
Value-added Benefit:	\$66 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%

Subsequent to the developer terminating, the Board invested in a re-visioning process for the property. The State Land Board worked with The Nature Conservancy and other stakeholders to develop a resource management plan to preserve valuable natural areas, while still allowing revenue-generating activities to occur. Finally, we worked with several special advisory firms to craft a specialized oil and gas development lease that was put out for auction. As a result of all of this planning work, the offering received a bonus bid of \$6,500/acre (\$137 million), more than twice the highest previous record in this part of the Niobrara play (\$3,000/acre).

While this extraordinary result can be attributed to several factors, including the large contiguous nature of the surface and mineral ownership and good timing, it is also clear that all of the State Land Board pre-planning investments using I&D Funds made the success of this offering possible.

Jack Canyon Ranch Project

Agricultural - Revenue Enhancement

In 2007, the State Land Board approved a \$45,000 investment to increase the livestock carrying capacity at the State Land Board's Jack Canyon Ranch Project in Otero County. The project funded new 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, which resulted in increased rent and improved long-term value for the asset.

Project Summary

Summary	
Status:	Complete 2010
Value-added Benefit:	\$5,000 revenue increase
I&D Fund Investment:	\$46,000
Other SLB Investment:	N/A
Payback (approx):	8 years
Return (IRR):	9.4%

APPENDIX A

Brett Gray Water

Agricultural - Revenue Enhancement

Similar to our other large ranch investments, State Land Board I&D Funds were used to expand the existing livestock watering system on the Brett Gray ranch resulting in an annual rental rate increase of 4,200 AUM's.

Project Summary

Summary	
Status:	Complete 2011
Value-added Benefit:	\$43,500 revenue increase
I&D Fund Investment:	\$235,995
Other SLB Investment:	N/A
Payback (approx):	6 years
Return (IRR):	26.0%

Riverside Ditch Pivot

Agricultural - Revenue Enhancement

This investment funded a sprinkler irrigation system 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, resulting in a revenue increase of \$15,000 per year.

Project Summary

Summary	
Status:	Complete 2006
Value-added Benefit:	\$15,000 revenue increase
I&D Fund Investment:	\$110,783
Other SLB Investment:	N/A
Payback (approx):	7.5 years
Return (IRR):	8.0%

San Juan Basin Audit

Mineral - Revenue Enhancement

This investment funded 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

Minerals - Revenue Enhancement

This investment funded due diligence (performed by Colorado Geologic Survey) on a mineral gypsum deposit in northern Fremont County. The subsequent lease auction resulted in a gypsum lease that provided a one-time lease bonus of \$62,000 and \$50,000 in annual royalties over 10 years.

Project Summary

Summary	
Status:	Complete 2008
Value-added Benefit:	\$60,000 bonus payment and \$36,000 in annual royalties.
I&D Fund Investment:	\$39,700
Other SLB Investment:	N/A
Payback (approx):	<1 year
Return (IRR):	83%

APPENDIX A

Communications Tower Lease Revenues

Programs - Revenue Enhancement

The State Land Board used I&D Funds to fund a position to develop a new communications tower leasing program. In the first two years of the program, the State Land Board completed six new cell tower leases with Verizon, AT&T, T-Mobile, and Cricket Wireless, generating initial payments of \$330,000 as well as on-going lease payments of \$110,000 annually for the terms of the leases.

Project Summary

Summary	
Status:	Complete 2011
Value-added Benefit:	\$152,000 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

Irrigation Well Meters

Agricultural - Revenue Maintenance

This investment funded the installation of irrigation well meters required by a court order and the Division of Water Resources. These meters enabled the State Land Board to continue to use the land for irrigated crops, rather than reducing the rates to those charged for grazing (non-irrigated) lands.

Project Summary

Summary	
Status:	Complete 2007
Value-added Benefit:	\$68,000 revenue maintenance
I&D Fund Investment:	\$15,600
Other SLB Investment:	N/A
Payback (approx):	<1 year
Return (IRR):	400%

Muddy Creek Water System

Agricultural - Revenue Maintenance

This investment funded a water distribution system on a 1,080-acre parcel in Morgan County, which produces approximately \$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 A

70 Ranch

Mineral - Revenue Enhancement

On the heels of the successful Lowry Ranch oil and gas lease, the State Land Board approved a \$62,000 I&D Fund investment to hire specialized consultants to assist in the lease development and natural values assessment for a 5,600-acre mineral lease on non-contiguous checkerboard State Land Board lands in Weld County.

Similar to the Lowry Ranch oil & gas lease, the State Land Board achieved outstanding results on this transaction, yielding a bonus bid of \$10,650 per acre (\$60 million), roughly double the State Land Board’s previous record bonus for a Niobrara play lease. At least a portion of this success was directly attributable to the I&D Fund investments that were made to develop a specialized lease that provided the certainty needed by the operators.

Project Summary

Summary	
Status:	Complete 2012
Value-added Benefit:	\$31.7 million bonus enhancement
I&D Fund:	\$61,818
Other SLB:	\$28.2 million est. standard bonus payment
Total SLB:	\$28.3 million
Return (IRR):	63.3%
Payback (approx):	>1 year

TJ Bar Ranch

Project Type: Recreation - Revenue and Value Enhancement

The State Land Board has made two investments at its TJ Bar Ranch in San Miguel County. The first, a \$100,000 investment in 2007, funded part of a 4,300 square foot recreational lodge that was constructed, maintained, and partially funded by the lessee. The State Land Board will have 100% ownership of the lodge at lease termination. The second investment (\$24,000 in 2013) funded road improvements so that the lodge would have year-round, all-weather access, enhancing the recreational use of the property. This has resulted in increased rents of \$42,500 annually over the 10-year term.

Project Summary

Summary	
Status:	Complete 2013
Value-added Benefit:	\$300,000 increase in net value
I&D Fund Investment:	\$124,000
Other SLB Investment:	N/A
Return (IRR):	14.5%
Payback (approx):	7 years

APPENDIX B

DEFINITIONS

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

Investment Types

The following are types of Investment and Development investments:

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

Investment Assumptions

In order to calculate the net or value-added benefit of increased 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 rezoning and platting allows the property to be subdivided and developed. This process is termed "entitling property."