

# Investment and Development Fund Report

Fiscal Year

# 2014-15

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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 2014-15

### INTRODUCTION

The Colorado State Board of Land Commissioners (State Land Board) is pleased to present its annual Investment and Development Fund report. 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 that the State Land Board manages for FY 2014-15. 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 or maintain<sup>1</sup> the value and/or income of these assets for the trust.

This report is organized as follows:

- Summary of I&D Fund Investment (Page 2-3)
- Description of New Investments (Pages 4-6)
- Discussion of Ongoing/Active Investments (Pages 7-9)
- Exhibit 1 - Discussion of Completed Investments (Pages 10 - 12)

### SUMMARY OF INVESTMENT PROGRAM RESULTS FOR FY 2014-15

Over the past year, the State Land Board authorized \$4.5 million from the I&D Fund to support four new projects. In addition, there are six ongoing investments from previous years and five projects approved in prior years that were completed in FY 2014-15. The State Land Board anticipates that these new and on-going investments will increase annual revenues by an average amount of \$805,000 and increase asset value by \$25 million. The five completed investments increased average annual revenue by \$225,000 and contributed to an asset value increase of \$102,000.

During FY 2014-15, the State Land Board Commissioners (Board) authorized four new investments, totaling \$4,540,000:

- KOA campground improvements purchase
- 48<sup>th</sup> and Tower site improvements
- Gutierrez Ranch improvements
- 1278 Lincoln improvements

This report discusses these investments, along with all other State Land Board I&D Fund investments from the past fiscal year, in more detail on the following pages.

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<sup>1</sup> The State Land Board is authorized to invest up to \$1 million each year in maintenance projects.

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Tables 1 & 2: Active and Completed I&D Fund Project Analyses

**INVESTMENT and DEVELOPMENT FUND**  
Active Project Analysis Summary as of June 30 2015

Project Name	Investment Purpose	Year of Investment	Gross Revenue/Value				Benefit		
			Beginning Income/Value	I&D Funds Allocated	Amount Invested I&D Funds Spent	Estimated Ending Income/Value (1)	Analysis Period in Years	Avg Gross Annual Revenue Increase Over Period	Estimated Net Value Increase
KOA	Revenue	2014		\$180,000	\$180,000	\$11,500	10	\$11,500	
48th and Tower	Value	2015	\$6,314,130	\$2,500,000		\$9,503,084	1		\$3,188,954
Gutierrez Ranch	Revenue	2015		\$110,000		\$31,328	6	\$31,328	
1278 Lincoln	Revenue	2015		\$1,750,000		\$334,300	10	\$334,300	
Lowry Ranch	Revenue	2014	\$18,407	\$420,000	\$193,840	\$164,508	10	\$164,508	
Wetlands Banking	Revenue	2013		\$132,000	\$75,690	\$105,000	9	\$233,333	
Ducks Unlimited	Revenue	2013		\$40,000		\$41,560	10	\$27,222	
Dowd Junction	Value	2009	\$8,625,000	\$400,000	\$33,557	\$20,000,000	7		\$11,375,000
Erie	Value	2007	\$3,780,000	\$178,000	\$168,054	\$14,700,000	12		\$10,920,000
Personnel and Planning (FY 2014-15)					\$447,979				
			\$18,737,537	\$5,710,000	\$1,099,119	\$44,891,280		\$802,192	\$25,483,954

Completed Project Analysis Summary for FY 2015

Project Name	Investment Purpose	Year of Investment	Gross Revenue/Value				Benefit		
			Beginning Income/Value	I&D Funds Allocated	Amount Invested- I&D Funds Spent	Estimated Ending Income/Value (1)	Analysis Period in Year	Avg Gross Annual Revenue Increase Over Analysis Period	Estimated Net Value Increase
70 Ranch Building	Revenue	2013	\$0	\$35,400	\$33,707	\$79,200	1	\$79,200	
Yuma County Sprinkler	Revenue	2014	\$46,242	\$225,000	\$222,862	\$76,255	10	\$30,013	
Pueblo	Value	2013	\$500,000	\$50,000	\$50,000	\$601,975	1		\$101,975
Large Ranch Improvements	Revenue	2011	\$274,329	\$274,329	\$257,988	\$500,000	10	\$0	\$0
Mountain to Plains	Revenue	2011	\$0	\$100,000	\$87,420	\$220,411	5	\$115,435	
			\$820,571	\$684,729	\$651,977	\$1,477,841		\$224,648	\$101,975

(1). 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.

NEW INVESTMENTS IN FY 2014-15

**KOA Campground Improvements**  
*Revenue Enhancement*

This investment purchases improvements from a lessee who operated a KOA campground on state trust land adjacent to the State Forest (Figure 1). The business provides lodging opportunities and visitor services such as grocery, shower and laundry facilities that are not available in the State Forest. The State Land Board released these improvements through a competitive Request for Proposals (RFP) process, which increased the annual revenue that this property generated by approximately \$11,500. In the future, these improvements may become part of the State Forest which would generate additional income and value.

Table 3: KOA Campground Project Summary

<i>Summary</i>	
Status:	Ongoing
Estimated Future Benefit:	\$11,500 in average annual revenue
Year of Investment	2014
<i>Investment Assumptions</i>	
I&D Fund:	\$180,000
Other State Land Board:	N/A
Total State Land Board:	\$180,000

Figure 1. KOA Campground



**48<sup>th</sup> and Tower Road Site Improvements**  
*Value Enhancement*

This investment is for site improvements to the 48<sup>th</sup> and Tower Road property in Denver, Colorado, outlined in red on Figure 2, below.

This transaction is the culmination of a seven-year project with Denver Public Schools (DPS). In 2008, the Board worked with DPS on its first school campus, the Evie Garrett Dennis School at the 48<sup>th</sup> and Tower site. In August 2014, the Board approved a disposition to DPS of 22.43 acres for a middle school campus (outlined in black on the figure below) that will have contiguity with the existing Evie Garrett Dennis School campus (K-12). When the Board approved the 2014 disposition, State Land Board staff (Staff) indicated to the Board that there would be a future I&D Fund request to complete the necessary infrastructure for DPS to access the site with roads and utilities.

This \$2.5 million investment will fund road improvements to the site (outlined in yellow on the figure below). By completing the legal subdivision and related development obligations, including the utility connections and major roadway access that this investment funds, the Board will be in a position to sell the surrounding property at a "finished lot" price, rather than a "raw land" price. The State Land Board estimates this increase in value at \$3,200,000.

Table 4: 48<sup>th</sup> and Tower Project Summary

Summary	
Status:	Ongoing
Estimated Future Benefit:	\$3,188,954 in estimated value creation
Year of Investment	2015
Investment Assumptions	
I&D Fund:	\$2,500,000
Other State Land Board:	N/A
Total State Land Board:	\$2,500,000

Figure 2. 48<sup>th</sup> and Tower Road



**Gutierrez Ranch**  
*Revenue Enhancement*

This investment is for new ranch improvements to the recently acquired Gutierrez Ranch (Figure 3).

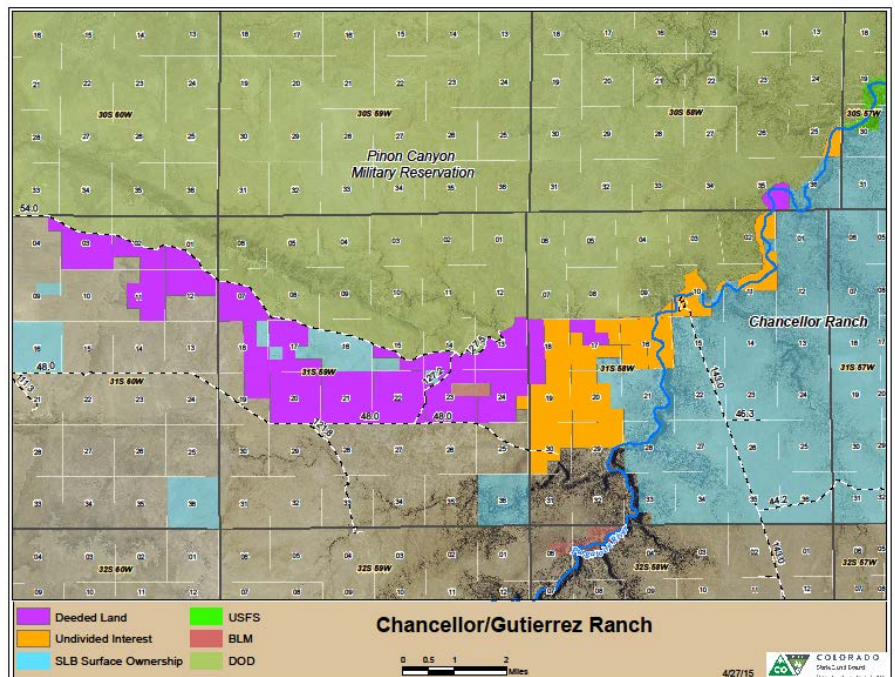
Gutierrez Ranch is located in central Las Animas County, approximately 25 miles northeast of Trinidad, and shares a common boundary with the west side of the State Land

Board’s Chancellor Ranch. The Board acquired the 10,684-acre ranch in May 2015, creating a consolidated ranch totaling 63,640 acres. At the time of the acquisition, the Board approved \$110,000 to address the infrastructure needs of the property, including new stock water, fencing and general cleanup of the property. The State Land Board expects these improvements to increase annual revenue from Gutierrez Ranch by \$31,000. The new improvements will also increase the resale value of the property; the Board intends to consider resale within the next two-to-three years.

Table 5: Gutierrez Ranch Project Summary

Summary	
Status:	Ongoing
Estimated Future Benefit:	\$31,328 increase in estimated annual revenue
Year of Investment	2015
Investment Assumptions	
I&D Fund:	\$110,000
Other State Land Board:	N/A
Total State Land Board:	\$110,000

Figure 3. Gutierrez Ranch



**1278 Lincoln Improvements**  
*Revenue Enhancement*

This investment is for building improvements to the Dodge Brothers commercial property so that the State Land Board can lease the property as an office or to a similar tenant.

The State Land Board owns a two-story building at 1278 Lincoln St., near downtown Denver. The Dodge Brothers building is 24,000 square feet, with an additional 6,900-square-foot basement. The building has been vacant since August 2014 when a 25-year-long tenant moved its operations to a new facility. While structurally sound, the building’s systems and interior space required replacement.

This investment repairs and/or replaces all of the building systems and provides tenant improvements, including new interior walls. After these improvements are made, the expected rental rate will be approximately \$21/sq. ft. gross, approximately \$334,000 in annual net operating income.

Table 6: 1278 Lincoln Project Summary

Summary	
Status:	Ongoing
Estimated Future Benefit:	\$334,300 increase in estimated annual revenue
Year of Investment	2015
Investment Assumptions	
I&D Fund:	\$1,750,000
Other State Land Board:	N/A
Total State Land Board:	\$1,750,000

ONGOING INVESTMENTS

**Lowry Ranch Infrastructure Improvement**  
*Revenue Enhancement*

This investment funds the replacement and upgrade of agricultural infrastructure improvements to the State Land Board’s 26,000-acre Lowry Ranch property. These improvements include new corrals, fencing and a watering system.

Because of this investment, the State Land Board has been 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.

Table 7: Lowry Ranch Project Summary

<i>Summary</i>	
Status:	Ongoing
Estimated Future Benefit:	\$164,500 in average annual revenue
Year of Investment	2014
<i>Investment Assumptions</i>	
I&D Fund:	\$420,000
Other State Land Board:	N/A
Total State Land Board:	\$420,000

**Conservation Services - Park County Wetlands**

*Revenue Enhancement*

The State Land Board’s investment identifies possible sites on state trust land for a mitigation bank, and then develops a prospectus on the best site. Credits sold through an established wetland mitigation exchange will generate revenues to repay the investment.

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

Staff analysis assumes that the USACE will award 25 wetlands credits to the State Land Board, and then the State Land Board will sell these credits (over the nine-year life of the project) to agencies and businesses that are required to mitigate their own wetlands impacts.

Table 8: Park County Wetlands Project Summary

<i>Summary</i>	
Status:	Ongoing
Estimated Future Benefit:	\$233,333 average increase in mitigation revenues, over nine years
Year of Investment	2013
<i>Investment Assumptions</i>	
I&D Fund:	\$132,000
Other State Land Board:	N/A
Total State Land Board:	\$132,000

**Conservation Services - Ducks Unlimited**  
*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 for project feasibility costs, and anticipates an additional \$70,000 in future funding. 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 will receive annual river augmentation payments from downstream water users at an average of \$27,222 per year for the following 10 years.

**Table 9: Ducks Unlimited Project Summary**

<i>Summary</i>	
Status:	Ongoing
Estimated Future Benefit:	\$27,222 average increase in mitigation revenues over 10 years
Year of Investment	2013
<i>Investment Assumptions</i>	
I&D Fund:	\$40,000
Other State Land Board:	N/A
Total State Land Board:	\$40,000

**Dowd Junction**  
*Value Enhancement*

The Dowd Junction property is an 18-acre parcel, along I-70 between Vail and Avon, presently encumbered by an 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 of less than \$35,000 to the State Land Board.

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 three-to-five 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.

**Table 10: Dowd Junction Project Summary**

<i>Summary</i>	
Status:	Ongoing
Estimated Future Benefit:	\$20 million (\$25/sf)
Year of Investment	2009
<i>Investment Assumptions</i>	
I&D Fund:	\$400,000
Other State Land Board investment required:	\$8.6 million land value
Total State Land Board:	\$9.0 million



**Erie Entitlement**  
*Value Enhancement*

The Erie entitlement project annexes and rezones a 420-acre parcel in Weld County.

Originally started in 2007, this project envisioned capitalizing on the strong real estate market at the time. With the downturn in the economy in late 2008 and into 2009, the State Land Board halted with Erie, feeling the annexation and rezoning was premature until the return of the housing market. With the recovery of the housing market, this project has become feasible again.

The State Land Board invested \$168,000 in funds to move the property through the entitlement process and capture the increase in value from agriculture land to development land. A recent appraisal has determined the value of this parcel at \$35,000 per acre, approximately \$14.7 million.

Table 11: Erie Project Summary

<i>Summary</i>	
Status:	Ongoing
Estimated Future Benefit:	\$14.7 million \$35,000/acre
Year of Investment	2007
<i>Investment Assumptions</i>	
I&D Fund:	\$168,054
Other State Land Board investment required:	\$3.9 million land value
Total State Land Board:	\$4.0 million

**Program Costs**

*Program Expenditures*

The Investment and Development Statute provides flexibility for the State Land Board to hire Staff and contract for services. The State Land Board has authorized 4.0 full-time employees (FTE) and associated program expenditures to support I&D Fund projects.

In FY 2014-15, the State Land Board spent a total of \$447,979 on salaries, business planning and property valuation activities. All program costs expenditures support increasing the income and the value of School Trust assets.

PRIOR INVESTMENTS COMPLETED IN FY 2014-15

**70 Ranch Buildings**

*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 to make minor interior repairs to ready the buildings for occupancy. The oil and gas lessee, Bonanza Creek Energy, paid \$79,000 to rent the buildings in 2014.

Table 12: 70 Ranch Project Summary

<i>Summary</i>	
Status:	Complete
Benefit:	\$79,200 one-time payment increase in commercial revenues
Year of Investment	2013
<i>Investment Assumptions</i>	
I&D Fund:	\$33,707
Other State Land Board:	N/A
Total State Land Board:	\$33,707

**Yuma County Sprinkler**

*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 conserve water and 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.

Table 13: Yuma County Project Summary

<i>Summary</i>	
Status:	Complete
Benefit:	\$30,013 increase in annual revenue
Year of Investment	2014
<i>Investment Assumptions</i>	
I&D Fund:	\$222,862
Other State Land Board:	N/A
Total State Land Board:	\$222,862

**Downtown Pueblo ROW - Block 12**

*Value Enhancement*

The State Land Board’s \$50,000 investment funded the demolition of a dilapidated building that sat on 1.2 acres of 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.

Table 14: Pueblo ROW Project Summary

<i>Summary</i>	
Status:	Complete
Benefit:	\$102,000 net increase in land value
Year of Investment	2013
<i>Investment Assumptions</i>	
I&D Fund:	\$50,000
Other State Land Board:	\$500,000 land value
Total State Land Board:	\$550,000

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 show that the value of the property with demolition now completed is \$602,000.

## Large Ranch Investments

### Revenue Maintenance & Value Enhancement

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 Brett Gray Ranch (47,858 acres). Over the past 15 years, these properties have been 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.

The Board has authorized I&D Fund projects totaling \$254,000 over the past several years to maintain and upgrade the infrastructure necessary to keep the on-site lessees in place, preserving the current income stream and assuring the continuing long-term value increases that are a result of the good stewardship of the assets.

Table 15: Large Ranches Project Summary

<i>Summary</i>	
Status:	Complete
Benefit:	\$500,000 annual revenue support
Year of Investment	2011
<i>Investment Assumptions</i>	
I&D Fund:	\$257,988
Other State Land Board:	N/A
Total State Land Board:	\$257,988

## Mountain to Plains

### Revenue Increase

In 2011, the State Land Board approved the investment of \$87,420 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. Larimer County and the City of Fort Collins own the surface lands, which contain sensitive natural areas and community open space. The parties agreed to work with the Nature Conservancy to develop a surface use agreement that provides access to the State Land Board’s mineral

estate, with specific strategies for the mineral operator to avoid and minimize surface impacts to these important areas. In FY 2014-15, with these stipulations in place, the State Land Board auction a lease for a portion of these minerals receiving \$222,000 in bonus revenue and will receive \$89,000 in annual rental payments during the next five years.

Table 16: Mountains to Plains Project Summary

<i>Summary</i>	
Status:	Complete
Benefit:	\$221,615 in one-time bonus payment and \$88,890 in annual rent
Year of Investment	2011
<i>Investment Assumptions</i>	
I&D Fund:	\$87,420
Other State Land Board:	N/A
Total State Land Board:	\$87,420