

Investment and Development Fund Report

Fiscal Year

2015-16

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

Colorado State
Board of Land
Commissioners

INTRODUCTION

The Colorado State Board of Land Commissioners (State Land Board) is pleased to present its annual Investment and Development (I&D) Fund report. As required by Section 36-1-153, C.R.S., this report details the FY 2015-16 financial results of these investments and their impact on the assets that the State Land Board manages. The 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 maintain¹ the value and/or income of these assets for the trust.

This report covers:

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

SUMMARY OF INVESTMENT PROGRAM RESULTS FOR FY 2015-16

During the past year, the State Land Board authorized \$1.5 million from the I&D Fund to support five projects. In addition, there are seven ongoing investments from previous years and one project approved in 2014 that was completed in FY 2015-16. The State Land Board anticipates that these new and ongoing investments will increase annual revenues by an average amount of \$800,000 and increase asset value by \$25 million. The one completed investment increased average annual revenue by \$11,500.

During FY 2015-16, the State Land Board commissioners (Board) authorized five new investments, totaling \$1,522,000:

- Ft. Collins sprinkler pivot
- Chancellor Ranch fence and infrastructure maintenance
- Brett Gray Ranch infrastructure maintenance
- Obtain legal access to state trust parcels
- 48th and Tower Road improvements

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

¹ Under the same statute, the State Land Board is authorized to invest up to \$1 million each year in maintenance projects on School Trust assets.

Colorado State Board of Land Commissioners

Investment and Development Fund Report | FY 2015-16

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

INVESTMENT and DEVELOPMENT FUND

Active Project Analysis Summary as of June 30 2016

Project Name	Investment Purpose	Year of Investment	Gross Revenue/Value				Benefit			Return Breakdown		
			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	Maintenance Benefit (2)	Prior	Current FY 2015-16
Ft. Collins Sprinkler Pivot	Revenue	2016		\$270,000	\$250,476	\$21,331	25	\$32,264				\$806,607
Chancellor Infrastructure Improvements	Maintenance	2016		\$230,000	\$0	\$101,633	5	\$101,633			\$101,633	\$406,532
Brett Gray Infrastructure Improvements	Maintenance	2016		\$597,000	\$0	\$0	5		\$597,000			\$597,000
Obtain Legal Access State Parcels	Value	2016		\$300,000	\$0		2		12-18% average per parcel			12-18% average per parcel
48th and Tower Road Improvements	Value	2015-2016	\$6,314,130	\$2,625,000	\$2,500,000	\$9,503,084	1		\$3,188,954	\$6,314,130		\$9,503,084
Gutierrez Ranch	Revenue	2015		\$110,000	\$8,433	\$31,328	6	\$31,328			\$31,328	\$156,639
1278 Lincoln	Revenue	2015		\$1,750,000	\$1,021,946	\$334,300	10	\$334,300				\$3,343,000
Lowry Ranch	Revenue	2014	\$18,407	\$420,000	\$257,424	\$164,508	10	\$164,508		\$164,508	\$164,508	\$1,316,064
Wetlands Banking	Revenue	2013		\$132,000	\$108,207	\$75,000	13	\$105,769				\$1,375,000
Ducks Unlimited	Revenue	2013		\$40,000	\$7,805	\$41,560	10	\$27,222				\$272,224
Dowd Junction	Value	2009	\$8,625,000	\$400,000	\$77,905	\$20,000,000	8		\$11,375,000	\$8,625,000		\$20,000,000
Erie	Value	2007	\$3,780,000	\$178,000	\$168,054	\$14,700,000	10		\$10,920,000	\$3,780,000		\$14,700,000
Personnel and Planning (FY 2015-16)					\$486,733							
			\$18,737,537	\$7,052,000	\$4,886,982	\$44,972,744		\$797,025	\$25,483,954	\$18,883,638	\$297,469	\$52,476,150

Completed Project Analysis Summary for FY 2016

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
KOA Campground Assets	Revenue	2014		\$180,000	\$180,000	\$11,500	10	\$11,500	
			\$0	\$180,000	\$180,000	\$11,500		\$11,500	\$0

(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.

(2). For maintenance projects, any benefit is equal to outlay, unless there is a revenue component that is directly attributable to the maintenance outlay.

Colorado State Board of Land Commissioners
 Investment and Development Fund Report | FY 2015-16
 NEW INVESTMENTS IN FY 2015-16

Ft. Collins Sprinkler Pivot
Revenue Enhancement

The State Land Board owns land near Fort Collins that has historically been farmed using flood irrigation practices. Flood-irrigated properties require more labor and water than sprinkler irrigation. To maximize the revenue potential of the property and optimize water usage, the State Land Board will invest \$270,000 from the I&D Fund to convert this property to center-pivot irrigation (Figure 1). This investment will result in a substantial increase in annual lease revenue.

Figure 1. Ft. Collins Pivot



Chancellor Ranch Infrastructure
Maintenance
Maintenance

This project funds maintenance improvements that the State Land Board strategically aligned with a new lease of Chancellor Ranch. The State Land Board issued a Chancellor Ranch lease RFP in late 2015. As directed, RFP respondents submitted bids with the understanding that the State Land Board would invest in the existing improvements on the ranch (fences, water lines and wells, etc.). As a result, the new lease will generate \$195,000, annually, an increase of \$102,000 in annual rent from the prior lease.

Table 3: Ft. Collins Sprinkler Pivot Project Summary

<i>Summary</i>	
Status:	Ongoing
Estimated Future Benefit:	\$32,264 in average annual revenue
Year of Investment	2015
<i>Investment Assumptions</i>	
I&D Fund:	\$270,000
Other State Land Board:	N/A
Total State Land Board:	\$270,000

Table 4: Chancellor Ranch Infrastructure Maintenance Summary

<i>Summary</i>	
Status:	Ongoing
Estimated Future Benefit:	\$102,000 in average annual revenue
Year of Investment	2015
<i>Investment Assumptions</i>	
I&D Fund:	230,000
Other State Land Board:	N/A
Total State Land Board:	\$230,000

Brett Gray Ranch Infrastructure Maintenance

Maintenance

This project funded maintenance on the 47,000-acre Brett Gray Ranch located in Lincoln County. Due to deferred maintenance items, the ranch required substantial investment to bring the property up-to-date and to provide efficient use of resources. This is a five-year plan to improve water, fencing and facilities.

Figure 3. Brett Gray Ranch Fence



Table 5: Brett Gray Ranch Infrastructure Maintenance Project Summary

<i>Summary</i>	
Status:	Ongoing
Estimated Future Benefit:	\$597,000 increase in value offset by \$597,000 investment.
Year of Investment	2016
<i>Investment Assumptions</i>	
I&D Fund:	\$597,000
Other State Land Board:	N/A
Total State Land Board:	\$597,000

Obtain Legal Access to State Trust Parcels

Value Enhancement

The goal of this project is to acquire legal access to state trust properties that currently lack it. The State Land Board has more than 100 parcels without legal access. The inability to access these properties reduces their value and limits the ability to competitively bid the leases. The Board approved funding to acquire access to approximately 20 to 30 properties. After the initial results are known and successful, future funding may be provided to acquire access to the other parcels. Based on independent appraisals, the State Land Board believes that providing access to parcels will generate value increases of between 12 and 18 percent.

Table 6: Obtain Legal Access to State Trust Parcels Project Summary

<i>Summary</i>	
Status:	Ongoing
Estimated Future Benefit:	Potential 12-18% increase in land value
Year of Investment	2016
<i>Investment Assumptions</i>	
I&D Fund:	\$300,000
Other State Land Board:	N/A
Total State Land Board:	\$300,000

48th and Tower Improvements
Value Enhancement

This investment is for infrastructure improvements to the State Land Board parcel located at 48th (Green Valley Ranch) and Tower Road. The State Land Board approved \$2.5 million in 2015 and \$125,000 in 2016.

The total investment of \$2.6 million is for improvements necessary for future development for the 48th and Tower property. Improvements include roads, water and sewer lines, and platting. The State Land Board anticipates that this project will increase the value of the property by at least \$3.2 million, based on recent valuations of entitled and improved development parcels in the area.

Table 7: 48th and Tower Improvements Project Summary

<i>Summary</i>	
Status:	Ongoing
Estimated Future Benefit:	\$3,188,954 in estimated value increase
Year of Investment	2015-2016
<i>Investment Assumptions</i>	
I&D Fund:	\$2,625,000
Other State Land Board:	N/A
Total State Land Board:	\$2,625,000

ONGOING INVESTMENTS IN FY 2015-16

Gutierrez Ranch
Revenue Enhancement

This investment is for new ranch improvements to Gutierrez Ranch.

Gutierrez Ranch is located in central Las Animas County, approximately 25 miles northeast of Trinidad, and shares a common boundary with the State Land Board’s Chancellor Ranch property. The Board acquired the 10,684-acre ranch in May 2015, which created a consolidated ranch totaling 63,640 acres. At the time of 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, and the Board intends to undertake the sale of Gutierrez Ranch later this year.

Table 8: Gutierrez Ranch Project Summary

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

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.

The State Land Board owns a two-story building at 1278 Lincoln Street, 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 tenant moved its operations to a new facility. While structurally sound, the building’s systems and interior space required complete replacement. This investment repairs and/or replaces all of the building systems and provides tenant improvements, including new interior walls. After these

Table 9: 1278 Lincoln Project Summary

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

Colorado State Board of Land Commissioners
Investment and Development Fund Report | FY 2015-16

improvements are made, the State Land Board expects the rental rate to be approximately \$21 per square foot, \$334,000 in annual revenue.

Lowry Ranch Infrastructure Improvement
Revenue Enhancement

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

Due to this investment, the State Land Board leased the property to agricultural lessee through an RFP process. The lease rate was 65 percent 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 during its 10-year term.

Table 10: 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

This investment identifies possible sites on state trust land for a wetlands 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, develops a prospectus for a specific Park County property to create and register the site with the US Army Corps (USACE), a complex, multi-year process.

State Land Board 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 (during the 13-year life of the project) to agencies and businesses that are required to mitigate their own wetlands impacts.

Table 11: Park County Wetlands Project Summary

<i>Summary</i>	
Status:	Ongoing
Estimated Future Benefit:	\$106,000 average increase in mitigation revenues, over 13 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 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,

Table 12: 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

Colorado State Board of Land Commissioners
Investment and Development Fund Report | FY 2015-16

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 10-year analysis period.

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, 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.

Table 13: 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 rezoning 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 14: 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

Colorado State Board of Land Commissioners
Investment and Development Fund Report | FY 2015-16

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 2015-16, the State Land Board spent a total of \$486,733 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 2015-16

KOA Campground Asset Improvements

Revenue Enhancement

This investment purchased improvements from a lessee who operated a KOA campground on state trust land adjacent to the State Forest. 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 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 15: KOA Campground Asset Improvements Project Summary

<i>Summary</i>	
Status:	Complete
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