

Investment and Development Fund Report

Fiscal Year

2016-17

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 2016-17

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 2016-17 financial results of these investments and their impact on the assets that the State Land Board manages. Statute allows the State Land Board to transfer up to \$5 million per year of School Trust revenue into the I&D Fund to support investments in School Trust assets that increase or maintain¹ the value of and/or income from these assets.

This report covers:

- Summary of I&D Fund Investments (Page 2)
- Description of New Investments (Pages 4-7)
- Discussion of Ongoing/Active Investments (Pages 8-10)
- Discussion of Completed Investments (Page 11-12)

SUMMARY OF INVESTMENT PROGRAM RESULTS FOR FY 2016-17

During the past year, the State Land Board authorized the use of \$3.6 million in I&D funds to support 11 projects. In addition, six investments from previous years continue this year and five projects were completed during the year. The State Land Board anticipates that these new and ongoing investments will increase annual revenues by an average \$764,000 and increase asset value by \$31 million. The five completed investments increased average annual revenue by \$197,000 and increased value by \$1.2 million.

During FY 2016-17, the State Land Board Commissioners (Board) authorized 11 new investments, totaling \$3,596,000:

- Sod Farm well repair
- Irrigation well repair
- Hydro-Ax
- Bohart Ranch maintenance
- 1278 Lincoln Phase 2 improvements
- 1278 Lincoln Tenant Improvements and Commission
- Arista Property
- Gutierrez Ranch Commission
- Bald Mountain Commission
- Stock wells
- Campground Improvements

This report discusses in greater detail these investments, projects completed this year, and other ongoing State Land Board I&D Fund investments funded in previous fiscal years.

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.

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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 2017

Project Name			Gross Revenue/Value				Benefit		Return Breakdown				
	Investment Purpose	Year of Investment	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 2016-17	Future
Sod Farm Well Repair	Maintenance	2016		\$57,000	\$56,651				\$56,651				
Irrigation Well Repair	Maintenance	2016		\$71,000	\$15,111				\$71,000				
Hydroaxe	Revenue	2016		\$550,000	\$409,350		5	\$585,250			\$171,750	\$2,754,500	
Bohart Ranch Improvements	Maintenance	2016		\$380,579	\$0				\$380,579				
1278 Lincoln Improvements (all phases included)	Value	2015-16	\$2,415,400	\$3,162,000	\$2,402,076	\$8,479,779	10		\$2,902,379		\$5,577,400	\$8,479,779	
Arista	Value	2016		\$100,000	\$0	\$100,000	1		\$0		\$0		
Bald Mountain Commission	Value	2017	\$1,573,000	\$120,000	\$0	\$1,693,000	1		\$0		\$0		
Stock Well	Revenue	2017		\$47,500	\$0	\$15,480	3	\$15,480			\$15,480	\$30,960	
Campground Improvements	Revenue	2017		\$600,000	\$0	\$48,000	30	\$62,482			\$48,000	\$1,826,458	
Chancellor Infrastructure Improvements	Maintenance	2016		\$230,000	\$193,521	\$101,633	5	\$101,633			\$101,633	\$203,266	
Brett Gray Infrastructure Improvements	Maintenance	2016		\$597,000	\$15,480				\$0	\$230,000		\$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	2015-16	\$11,886,211	\$2,625,000	\$2,625,000	\$18,602,632	2		\$6,716,420		\$11,886,211	\$18,602,632	
Dowd Junction	Value	2009	\$9,025,000	\$400,000	\$102,710	\$20,000,000	10		\$10,975,000		\$9,025,000	\$20,000,000	
Erie	Value	2007	\$3,948,054	\$178,000	\$168,054	\$14,700,000	10		\$10,751,946		\$3,948,054	\$14,700,000	
Lowry Ranch	Revenue	2014	\$18,407	\$420,000	\$303,658	\$164,508	10	\$164,508					
Personnel and Planning (FY 2016-17)					\$485,275								
			\$28,866,072	\$9,838,079	\$6,776,886	\$63,905,032		\$929,353	\$31,345,746	\$1,335,230	\$30,436,665	\$336,863	\$67,194,595

Completed Project Analysis Summary for FY 2017

Project Name			Gross Revenue/Value				Benefit		
	Investment Purpose	Year of Investment	Beginning Income/Value	I&D Funds Allocated	Amount Invested- I&D Funds Spent	Ending Income/Value (1)	Analysis Period in Year	Avg Gross Annual Revenue Increase Over Analysis Period	Net Value Increase
Ft. Collins Sprinkler Pivot	Revenue	2015		\$270,000	\$250,476		25	\$32,264	
Gutierrez Ranch (All Investments)	Value	2015-17	\$2,500,000	\$368,000	\$353,162	\$4,100,000	2		\$1,246,838
Wetlands Banking	Revenue	2013		\$132,000	\$108,207		6	\$0	
Ducks Unlimited	Revenue	2013		\$40,000	\$7,805		6	\$0	
			\$2,500,000	\$810,000	\$719,650	\$4,100,000		\$32,264	\$1,246,838

(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.

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Sod Farm Well Repair *Maintenance*

The State Land Board leases state trust land to a commercial sod farm in Larimer County. The lease requires the State Land Board to pay for repair and maintenance of the underground portion of the irrigation system. During the year one of the primary irrigation wells collapsed and was unable to supply adequate irrigation water to the lessee. This maintenance investment was to repair the well.

Table 1: Sod Farm Well Repair Maintenance Summary

Summary	
Status:	Ongoing
Estimated Benefit:	\$56,651
Year of Investment	2016
Investment Assumptions	
I&D Fund:	\$56,651
Other State Land Board:	N/A
Total State Land Board:	\$56,651

Irrigation Well Repair *Maintenance*

The State Land Board acquired property in Yuma County in 1996. The purchase price included 1,033 acres of irrigated cropland, 9 center pivot circular sprinklers, 8 irrigation wells, and a home. Over time, the groundwater level has dropped due to the depletion of the Ogallala Aquifer. As a result, the pumps on the wells needed to be lowered to access adequate water for irrigation. This maintenance investment lowers several irrigation water pumps to improve pumping efficiency and also makes repairs to the house.

Table 2: Irrigation Well Repair Maintenance Summary

Summary	
Status:	Ongoing
Estimated Benefit:	\$71,000
Year of Investment	2016
Investment Assumptions	
I&D Fund:	\$71,000
Other State Land Board:	N/A
Total State Land Board:	\$71,000

Hydro-Ax *Revenue*

The State Land Board generates significant revenue by leasing state trust land for grazing livestock and/or recreational hunting. Many of the landscapes that support these uses are impacted by increased dominance of invasive juniper in what were historically grasslands or grass savannas. Juniper and piñon pine encroachment can substantially alter the benefits of precipitation on rangeland and can reduce plant cover and productivity. Desirable forage grasses are often the most severely affected.

Table 3: Hydro-Ax Revenue Summary

Summary	
Status:	Ongoing
Estimated Future Benefit:	\$585,250 in annual cost savings
Year of Investment	2016
Investment Assumptions	
I&D Fund:	\$550,000
Other State Land Board:	N/A
Total State Land Board:	\$550,00

Historically, the State Land Board has hired independent contractors to remove encroaching juniper and perform sagebrush treatment. However, this approach is inadequate given the scale of the problem and the number of properties that need to be treated. The most efficient way to enhance wildlife habitat and restore the productivity of the land is with mechanical treatments.

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These mechanical treatments are accomplished with a large industrial tractor and attached forestry mulcher (generally referred to as a “Hydro-Ax”). The machine mulches woody plant material into small pieces and spreads it across the landscape. Using this treatment is expected to save \$585,000 in annual costs compared to the alternative of hiring independent contractors.

Bohart Ranch Infrastructure Maintenance *Maintenance*

This project funded maintenance on the 48,000-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.

Table 4: Bohart Ranch Infrastructure Maintenance Summary

<i>Summary</i>	
Status:	Ongoing
Estimated Future Benefit:	\$380,579 increase in value offset by \$380,579 investment.
Year of Investment	2016
<i>Investment Assumptions</i>	
I&D Fund:	\$380,579
Other State Land Board:	N/A
Total State Land Board:	\$380,579

1278 Lincoln Improvements *Value Enhancement*

These investments are for building improvements to the Dodge Brothers commercial property to encourage new leasing.

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. These investments repair and/or replace all of the building systems and provide tenant improvements, including new interior walls, and pay for leasing commissions. After these improvements are made, the State Land Board expects the value to increase to \$8.5 million, an increase of \$2.9 million from the current value plus all building improvement costs.

Table 5: 1278 Lincoln Improvements Summary

<i>Summary</i>	
Status:	Ongoing
Estimated Future Benefit:	\$2.9 million increase in value.
Year of Investment	2015-16
<i>Investment Assumptions</i>	
I&D Fund:	\$3.1 million
Other State Land Board:	N/A
Total State Land Board:	\$3.1 million

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Arista Property Planning Value

This 6.2-acre property is located within the Arista development in the City & County of Broomfield. Arista is a 200-acre mixed use development that includes a sports/entertainment arena, hotel, Children’s Hospital Therapy Center, a regional bus hub as well as retail and office space and multifamily residential units.

The property does not currently generate any revenue for the Trust. The Board was approached by Urban Frontier, a local developer, with an offer to reposition and develop this asset on one or more long-term ground leases. Urban Frontier has seen significant interest in that site and believes many of the retail tenants they are meeting with may wish to locate on the east side of Wadsworth, state trust land. Urban Frontier will not be compensated for its up-front due diligence, planning and development efforts until and unless the property is ground leased and vertically developed. The I&D funds requested will be used only to reimburse Urban Frontier for third party planning/development reports and studies.

Table 6: Arista Property Summary

<i>Summary</i>	
Status:	Ongoing
Estimated Future Benefit:	\$100,000 increase in value offset by \$100,000 investment.
Year of Investment	2016
<i>Investment Assumptions</i>	
I&D Fund:	\$100,000
Other State Land Board:	N/A
Total State Land Board:	\$100,000

Bald Mountain Commission Value

The Board owns approximately 237 acres about five miles west of the City of Boulder, in Boulder County on Bald Mountain. In 2015, the Board directed Staff to pursue the disposal of the state trust land encumbered to the County by the Bald Mountain Open Space Park. Subsequent discussions with County representatives determined that the County is only interested in acquiring approximately 146 acres of state trust land.

Table 7: Bald Mountain Summary

<i>Summary</i>	
Status:	Ongoing
Estimated Future Benefit:	\$120,000 increase in value offset by \$120,000 investment.
Year of Investment	2017
<i>Investment Assumptions</i>	
I&D Fund:	\$120,000
Other State Land Board:	N/A
Total State Land Board:	\$120,000

Staff believes the highest and best use of the remaining 91 acres is low-density residential development, consistent with the use and character of surrounding properties. Staff recommended that the services of a real estate broker familiar with both this area and the sale of vacant lots for residential development, be retained to assist the Board in disposing of these remaining parcels. This I&D request will pay for the broker commission.

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Stock Well Installation

Revenue

Staff identified seven parcels of state trust land that are currently vacant, due in large part to the lack of a livestock water source. Currently a strong demand exists for small grazing parcels in these areas and recent competitive bidding processes suggest that these parcels would generate significant annual revenue if made available for lease. Data from recent competitive bid processes indicates that each of these parcels will likely receive bids in excess of \$20/AUM. Once a water source has been developed on these parcels, each of them will be exposed to competitive bidding through a public process. It is expected that this investment will increase revenue by \$15,480 on an annual basis.

Table 8: Stock Well Installation Summary

<i>Summary</i>	
Status:	Ongoing
Estimated Benefit:	\$15,480 increase in annual revenue
Year of Investment	2017
<i>Investment Assumptions</i>	
I&D Fund:	\$47,500
Other State Land Board:	N/A
Total State Land Board:	\$47,500

Campground Improvements

Revenue

This investment will be used to develop a luxury campground on a 51-acre parcel located in Boulder County that is currently under contract to be bought by the State Land Board. The Board will invest in the development of site infrastructure (roads, utilities, trails, etc.) using these funds. The property will be leased to a private contractor for a period of 30 years, who will develop the site for their use and operate the property as a luxury camping resort. The lessee will pay the Board an annual minimum lease rate of 8 percent of the Board's invested capital. A CPI based escalator will be applied to the lease rate beginning in year four and will continue through the term of the lease. At the end of the lease, all fixed improvements will become the full property of the Board. It is expected this investment will generate \$62,482 in annual revenue.

Table 9: Campground Improvements Summary

<i>Summary</i>	
Status:	Ongoing
Estimated Benefit:	\$62,482 increase in annual revenue
Year of Investment	2017
<i>Investment Assumptions</i>	
I&D Fund:	\$600,000
Other State Land Board:	N/A
Total State Land Board:	\$600,000

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ONGOING INVESTMENTS IN FY 2016-17

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 10: 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.

Table 11: 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.

Table 12: 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

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Based on independent appraisals, the State Land Board believes that providing access to parcels will generate value increases of between 12 and 18 percent.

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 at 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 \$6 million based on recent valuations of entitled and improved development parcels in the area.

Table 13: 48th and Tower Improvements
Project Summary

<i>Summary</i>	
Status:	Ongoing
Estimated Future Benefit:	\$6 million in estimated value increase
Year of Investment	2015-2016
<i>Investment Assumptions</i>	
I&D Fund:	\$2,625,000
Other State Land Board:	\$2,925,000
Total State Land Board:	\$5,550,000

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, 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 14: 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

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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 15: 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

Lowry Ranch Infrastructure Improvement *Revenue Enhancement*

This investment funded 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 an 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 16: 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

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PRIOR INVESTMENTS COMPLETED IN FY 2016-17

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 invested \$250,476 from the I&D Fund to convert this property to center-pivot irrigation. New lease has been signed and anticipated revenue achieved.

Table 17: Ft. Collins Sprinkler Pivot Conversion Project Summary

<i>Summary</i>	
Status:	Complete
Benefit:	\$32,264 in average annual revenue
Year of Investment	2015
<i>Investment Assumptions</i>	
I&D Fund:	\$250,476
Other State Land Board:	N/A
Total State Land Board:	\$250,476

Gutierrez Ranch

Value Enhancement

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 for \$2.5 million, 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. These new improvements were undertaken to increase the resale value of the property, which the Board approved this year. The ranch sold for \$4.1 million, realizing \$1.2 million in additional property value from the investment.

Table 18: Gutierrez Ranch Project Summary

<i>Summary</i>	
Status:	Complete
Benefit:	\$1.2 million in value
Year of Investment	2015-16
<i>Investment Assumptions</i>	
I&D Fund:	\$353,162
Other State Land Board:	\$2.5 million
Total State Land Board:	\$2.85 million

Conservation Services - Park County Wetlands

Revenue Enhancement

This investment was to identify possible sites on state trust land for a wetlands mitigation bank, and then develop a prospectus on the best site. Credits sold through an established wetland mitigation exchange would generate revenues to repay the investment. This project has ended.

Table 19: Park County Wetlands Project Summary

<i>Summary</i>	
Status:	Complete
Benefit:	\$0
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

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Conservation Services - Ducks Unlimited *Revenue Enhancement*

The Ducks Unlimited Water Augmentation Project was 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. This project has ended.

Table 20: Ducks Unlimited Project Summary

<i>Summary</i>	
Status:	Complete
Benefit:	\$0
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

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 2016-17, the State Land Board spent a total of \$485,275 on salaries, business planning and property valuation activities. All program costs expenditures support increasing the income and the value of School Trust assets.