

Investment and Development Fund Report

Fiscal Year

2019-20

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 2019-20

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 FY 2019-20 investments made using I&D funds and the resulting impact on trust assets managed by the State Land Board. The State Land Board may transfer up to \$5 million of School Trust revenue per year to the I&D Fund to make investments in School Trust assets that increase the value of, and/or income from these assets. Of the \$5 million authorized, the State Land Board may spend up to \$1 million annually on asset maintenance.

This report covers:

- Summary of I&D Fund Investments
- Description of New Investments
- Discussion of Ongoing/Active Investments
- Discussion of Completed Investments

SUMMARY OF INVESTMENT PROGRAM RESULTS FOR FY 2019-20

During the past year, the State Land Board Commissioners approved the use of \$534,100 of I&D funds to support five projects:

- Agriculture Improvements, Southwest District
- Ken Caryl Office Disposition
- Mesa County Home Repair
- North Mountain Lodge Repair
- ATLAS Project

In addition to the above projects, six investments from previous years continued into this year and four investments were completed. The State Land Board anticipates that these new and ongoing investments will increase values on certain parcels by 12-18% and maintain over \$2.5 million in value through prudent maintenance projects. The four completed investments increased average annual revenue by \$82,950 and increased value by \$168,000, along with maintenance benefits. **Tables 1 & 2** provide additional fiscal detail on all projects. The remainder of this report discusses in greater detail new investments, projects completed this year, and ongoing State Land Board I&D Fund investments approved in previous fiscal years

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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 2020

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)	Avg. Gross Annual Revenue Increase Over Period	Estimated Net Value Increase	Maintenance Benefit (2)
Agriculture Improvements, Southwest District	Maintenance	2019		\$85,600	\$9,350			\$85,600	
Ken Caryl Office Disposition	Maintenance	2019		\$200,000	\$0			\$200,000	
Mesa County Home Repair	Maintenance	2020		\$31,000	\$3,650			\$31,000	
North Mountain Lodge Repair	Maintenance	2020		\$52,500	\$0			\$52,500	
ATLAS Project	Maintenance	2020		\$165,000	\$0			\$165,000	
Sherman Creek Ranch Improvements Phase 2	Maintenance	2019		\$443,500	\$29,117			\$443,500	
Chico Basin Ranch Improvements	Maintenance	2017		\$640,168	\$272,913			\$640,168	
Bohart Ranch Improvements	Maintenance	2016		\$380,579	\$119,951			\$380,579	
Brett Gray Infrastructure Improvements	Maintenance	2016		\$597,000	\$278,811		\$0	\$597,000	
Obtain Legal Access State Parcels	Value	2016	\$0	\$300,000	\$200,000		12-18% average		
Personnel and Planning (FY 2019-20)					\$450,234				
			\$0	\$2,895,347	\$1,364,025	\$0	\$0	\$0	\$2,595,347

Completed Project Analysis Summary for FY 2020

Project Name	Investment Purpose	Year of Investment	Gross Revenue/Value				Benefit		
			Beginning Income/Value	I&D Funds Allocated	Amount Invested- I&D Funds Spent	Ending Income/Value (1)	Avg. Gross Annual Revenue Increase Over Analysis Period	Net Value Increase	Maintenance Benefit (2)
Chancellor Ranch Assets	Revenue	2018		\$820,000	\$779,441		\$82,950		
Lowry Range Asset Management Plan	Value/Revenue	2018	\$0	\$80,000	\$75,300	\$75,300		\$75,300	
National Hog Farm Reclamation	Maintenance	2017		\$225,000	\$203,558			\$203,558	
Crow Hill Demolition	Maintenance	2018		\$90,000	\$79,836			\$79,836	
Bald Mountain Commission	Value	2017	\$1,573,000	\$120,000	\$92,230	\$1,537,161		\$92,230	
			\$1,573,000	\$1,335,000	\$1,230,365	\$1,612,461	\$82,950	\$167,530	\$283,395

(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.

NEW INVESTMENTS IN FY 2019-20

Agriculture Improvements, Southwest District

This is a project spread over three counties in Southwest Colorado for improvements on State Trust properties in irrigation and new wells along with new fencing. These investments will improve the quality of these properties and lead to higher future rentals.

Table 1: Agricultural Improvements, SW District Summary

<i>Summary</i>	
Status:	Ongoing
Estimated Benefit:	\$85,600
Year of Investment	2019
<i>Investment Assumptions</i>	
I&D Fund:	\$85,600
Other:	\$0
Total State Land Board:	\$85,600

Ken Caryl Office Disposition

This is an expenditure to hire a commercial property broker to market and dispose of the Ken Caryl commercial property in Jefferson County.

Table 2: Ken Caryl Office Disposition Summary

<i>Summary</i>	
Status:	Ongoing
Estimated Benefit:	\$200,000
Year of Investment	2019
<i>Investment Assumptions</i>	
I&D Fund:	\$200,000
Other:	\$0
Total State Land Board:	\$200,000

Mesa County Home Repair

The State Land Board owns a two-bedroom house in Mesa County. The home is leased on a one-year contract. The septic system has failed and needs to be replaced so the home can be occupied by the current tenant. These improvements will ensure that the home can continue to be leased.

Table 3: Mesa County Home Repair Summary

<i>Summary</i>	
Status:	Ongoing
Estimated Benefit:	\$31,000
Year of Investment	2020
<i>Investment Assumptions</i>	
I&D Fund:	\$31,000
Other:	\$0
Total State Land Board:	\$31,000

North Mountain Lodge Repair

The State Land Board owns a partial interest in a hunting lodge in Dolores County that will convert to sole ownership in 2021. The existing water well is failing, and a new well is required to provide a dependable source of potable water.

Table 4: North Mountain Lodge Repair Summary

<i>Summary</i>	
Status:	Ongoing
Estimated Benefit:	\$52,500
Year of Investment	2020
<i>Investment Assumptions</i>	
I&D Fund:	\$52,500
Other:	\$0
Total State Land Board:	\$52,500

ATLAS Project

The Automated Trust Land Asset System (ATLAS) is the IT system used by The State Land Board. This project will hire a 3rd party vendor to upgrade the system and tailor its development to more specific needs of the State Land Board and increase the productivity of its users.

Table 5: ATLAS Project Summary

<i>Summary</i>	
Status:	Ongoing
Estimated Benefit:	\$165,000
Year of Investment	2020
<i>Investment Assumptions</i>	
I&D Fund:	\$165,000
Other:	\$0
Total State Land Board:	\$165,000

ONGOING INVESTMENTS IN FY 2019-20

Sherman Creek Ranch Improvements, Phase 2

This is a two-part project to continue the improvements on the Sherman Creek ranch. The first project creates agriculture and recreation improvements that will maintain and eventually increase lease revenue. The second project improves the ecological and functional condition of streams and irrigation ditches on the ranch. The funding provided by the State Land Board for the second project will be matched with grant funds from Ducks Unlimited.

Table 6: Sherman Creek, Phase 2 Summary

<i>Summary</i>	
Status:	Ongoing
Estimated Benefit:	\$443,500
Year of Investment	2019
<i>Investment Assumptions</i>	
I&D Fund:	\$443,500
Other:	\$72,000
Total State Land Board:	\$443,500

Chico Basin Ranch Improvements

The Chico Basin Ranch property is an 86,211 acre parcel located in El Paso and Pueblo Counties. This maintenance expenditure will occur over a five-year plan developed with the lessee to prioritize a list of infrastructure improvements that are necessary to maintain and potentially increase the value of the ranch. Improvements will be made on the water distribution systems, fencing and facilities infrastructure.

Table 7: Chico Basin Summary

Summary	
Status:	Ongoing
Estimated Benefit:	\$640,168
Year of Investment	2017
Investment Assumptions	
I&D Fund:	\$640,168
Other State Land Board:	N/A
Total State Land Board:	\$640,168

Bohart Ranch Infrastructure Maintenance

This project funded maintenance on the 48,000-acre Bohart Ranch located in El Paso 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 8: Bohart Ranch Infrastructure Summary

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

Brett Gray Ranch Infrastructure

This project funded maintenance on the 49,000-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 9: Brett Gray Ranch Infrastructure Project Summary

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

Obtain Legal Access to State Trust Parcels

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 10: 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

PRIOR INVESTMENTS COMPLETED IN FY 2019-20

Chancellor Ranch Assets

This project funded 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.) and repairs to the three homes on site. Upon award of the lease and further investigation by State Land Board staff, it was determined that the homes were in such poor condition that repair and renovation was not feasible and the proper course of action was to demolish the homes. This investment was used to build two ranch staff residential homes that replaced the homes that were demolished.

Table 11: Chancellor Ranch Assets Summary

<i>Summary</i>	
Status:	Complete
Estimated Future Benefit:	\$82,950 in average annual revenue
Year of Investment	2018
<i>Investment Assumptions</i>	
I&D Fund:	\$779,441
Other State Land Board:	N/A
Total State Land Board:	\$779,441

Lowry Range Asset Management Plan

The Lowry Range is a 25,955-acre state trust land property in unincorporated Arapahoe County near the southeastern edge of the greater Metropolitan Denver area. Lowry Range is one of the last, largest contiguous undeveloped parcels along Colorado’s Front Range. The property’s size, location, significant natural values, and economic value make it unique among State Land Board assets and, as a result, more than 21,000 acres of the Ranch are designated into the Stewardship Trust. The State Land Board has published an updated Asset Management Plan for the Range. The management plan is a tool that guides the State Land Board’s leasing and asset management decisions on the property. The plan establishes management priorities and enables the State Land Board to achieve its planned goals in a complex and dynamic financial, environmental, and social context. This expenditure funded the development and implementation of the plan.

Table 12: Lowry Range Asset Management Summary

<i>Summary</i>	
Status:	Complete
Estimated Benefit:	\$75,300 in value offset by \$75,300 in investment.
Year of Investment	2018
<i>Investment Assumptions</i>	
I&D Fund:	\$75,300
Other State Land Board:	N/A
Total State Land Board:	\$75,300

National Hog Farm Reclamation

In 1989 the State Land Board issued a 50-year commercial lease to National Hog Farms, Inc. consisting of 5,528 acres of state trust land. In 2000, Colorado voters passed amendments to the constitution that strictly limited the operations of these facilities on state trust land. As a result, National Hog Farms ceased operations at the facility and stopped making payments on their lease. Due to liability concerns, the State Land Board was reluctant to cancel the lease until the groundwater contamination reached acceptable levels. When contamination subsided a cancellation agreement was agreed upon which specified that the State Land Board forgave the delinquent rent, National Hog Farms retained the liability for any ongoing contamination issues, and the State Land Board received the infrastructure left on property. This maintenance expenditure was used to complete site cleanup.

Table 13: National Hog Farm Reclamation Summary

<i>Summary</i>	
Status:	Complete
Estimated Benefit:	\$203,558
Year of Investment	2017
<i>Investment Assumptions</i>	
I&D Fund:	\$203,558
Other State Land Board:	N/A
Total State Land Board:	\$203,558

Crow Hill Demolition

The property is part of an original Section 16 held in the School Trust. It is located directly southeast of U.S. Highway 285 approximately 45 miles southwest of Denver. Improvements on the property included a small house, a large barn, and five outbuildings. All of the improvements were in very poor condition. The structures presented a nuisance and carried a risk of injury to staff, lessees or trespassers. Regular vandalism and graffiti tagging occurred on the buildings. These funds were used to remove these structures from the property.

Table 14: Crow Hill Demolition

<i>Summary</i>	
Status:	Complete
Estimated Benefit:	\$79,836
Year of Investment	2018
<i>Investment Assumptions</i>	
I&D Fund:	\$79,836
Other State Land Board:	N/A
Total State Land Board:	\$79,836

Bald Mountain Commission

The Board owns approximately 237 acres five miles west of the City of Boulder. 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. 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 paid for the broker commission.

Table 15: Bald Mountain Summary

<i>Summary</i>	
Status:	Complete
Estimated Future Benefit:	\$92,230 increase in value offset by \$92,230 investment.
Year of Investment	2017
<i>Investment Assumptions</i>	
I&D Fund:	\$92,230
Other State Land Board:	N/A
Total State Land Board:	\$92,230

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 2019-20, the State Land Board spent a total of \$450,234 on salaries, business planning and property valuation activities. All program costs expenditures support increasing the income and the value of School Trust assets.