

Investment and Development Fund Report

Fiscal Year

2020-21

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

Colorado State
Board of Land
Commissioners



COLORADO
State Land Board

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 investments made during fiscal year 2020-21 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 projects that are not required to demonstrate a particular return on investment.

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 Results for Fiscal Year 2020-21

During the past year, the State Land Board Commissioners approved the use of \$1,860,000 of I&D funds to support four projects:

- Lowry Ranch Improvements
- Wilson Mesa Disposal
- Retchloff Irrigation Improvements
- Morgan County Irrigation System

In addition to the above new projects, seven investments from previous years continued into this year and three investments were completed this year. The State Land Board anticipates that these new and ongoing investments will increase values on certain parcels by 12-18%, increase revenue, and maintain over \$3.8 million in value through maintenance projects. Of the projects completed in this fiscal year, each invested funds from the maintenance authority to deliver benefits of ongoing revenue and future strengthening of property value. Tables 1&2 provide additional fiscal detail on all projects. The remainder of this report then provides a deeper narrative on each project.

Table 1: Analysis of Active I&D Fund Projects through June 30, 2021

Project Name	Investment Purpose	Year of Investment	I&D Funds Allocated	I&D Funds Spent to Date	Estimated Benefit		
					Annual Revenue Increase Estimated (1)	Estimated Net Value Increase (2)	Maintenance Benefit (3)
Lowry Ranch Improvements	Maintenance	2020	\$775,000	\$61,156			\$775,000
Wilson Mesa Disposal	Maintenance	2020	\$725,000	\$0			\$725,000
Retchloff Irrigation Improvements	Revenue	2021	\$230,000	\$219,369	\$7,000		
Morgan County Irrigation System Replacement	Maintenance	2021	\$130,000	\$124,966			\$130,000
North Mountain Lodge Repair	Maintenance	2020	\$50,000	\$25,180			\$25,180
Sherman Creek Ranch Improvements Phase 2	Maintenance	2019	\$443,500	\$63,190			\$443,500
Agriculture Improvements, Southwest District	Maintenance	2019	\$85,600	\$9,350			\$85,600
Chico Basin Ranch Improvements	Maintenance	2017	\$640,168	\$309,822			\$640,168
Bohart Ranch Improvements	Maintenance	2016	\$380,579	\$151,142			\$380,579
Brett Gray Infrastructure Improvements	Maintenance	2016	\$597,000	\$278,811			\$597,000
Obtain Legal Access State Parcels	Value	2016	\$300,000	\$200,000		12-18% avg per parcel	
Personnel and Planning (FY 2020-21)				\$550,047			
Totals			\$4,356,847	\$1,993,033	\$7,000	\$0	\$3,802,027

Table 2: Analysis Completed I&D Fund Projects through June 30, 2021

Project Name	Investment Purpose	Year of Investment	I&D Funds Allocated	I&D Funds Spent to Date	Estimated Benefit		
					Annual Revenue Increase Estimated (1)	Estimated Net Value Increase (2)	Maintenance Benefit (3)
ATLAS Project	Maintenance	2020	\$165,000	\$154,455			\$154,455
Mesa County Home Repair	Maintenance	2020	\$31,000	\$24,495			\$24,495
Ken Caryl Office Disposition	Maintenance	2019	\$200,000	\$0			\$0
Totals			\$396,000	\$178,950			\$178,950

(1) Revenue projects - first year change in revenues as a result of the investment.

(2) Value projects - the estimated change in value of the target asset at the completion of the project.

(3) Maintenance projects - benefit assumed to equal investment amount unless there is a revenue component that results from maintenance investment.

New Investments During FY 2020-21

Lowry Ranch Improvements

Lowry Ranch consists of 25,955 acres (40-square miles) in unincorporated Arapahoe County near the southeastern edge of the greater Metropolitan Denver area. Seven years ago, a new grazing lease was awarded to Trainor Cattle Company. Inadequate management by the prior lessee and a lack of an operator for several intervening years meant that agriculture infrastructure fell into disrepair. The agency partnered with new lessee Trainor Cattle to replace or repair fencing, corrals, and livestock watering systems on the ranch. Additional improvements are needed including replacing the barn and shop building and securing the primary property access drive. Newly approved funds will provide a new gate and 3,200 square foot lease operator support building.

Wilson Mesa Disposal

Wilson Mesa is a 640 acre parcel located in San Miguel County, approximately 15 miles west of Telluride. The parcel is relatively valuable due to its proximity to Telluride, full-section configuration, and clear aesthetic qualities. However, the existing grazing rent and historic recreation rents have remained very low over time. While the Board has benefitted from significant appreciation in property value, income yields from the asset have plummeted. The disposal of Wilson Mesa results in a clear benefit to the School Trust by disposing of a significantly underperforming income property asset, re-investing the disposal proceeds into other types of assets/investments, and generating long-term revenue for the trust. The use of Investment and Development Funds will be used to pay the real estate broker a commission following a successful closing and to compensate the existing agriculture lessee on the property per Board policy.

Retchloff Irrigation Improvements

In 2020, the State Land Board acquired 192 acres of irrigated farmland and 164 water shares in the Fort Lyon Canal Company (FLCC) in Bent County. FLCC ditch shares have been used to flood irrigate the subject property for at least 80 years. The water is diverted from a ditch that runs along the north side of the property and is distributed across the site by several smaller ditches. Flood irrigation is inefficient, so this investment installs a modern pivot irrigation system in order to make more effective use of scarce water resources and increase agricultural lease revenue. As a result of the increased lease rate, the greater number of acres irrigated, and the ability to lease 40 acres of remaining property as dry cropland, Staff estimates that the annual lease payment will increase approximately 65 percent.

Morgan County Irrigation System Replacement

The State Land Board owns a 153.9-acre property in Morgan County, of which 116.3 acres is under irrigation. The Board acquired the farm, along with valuable senior water rights, in

1997. Since that time, the property has increased in value while producing attractive annual returns. The center-pivot irrigation system that serves the farm has served the property through a typical system lifespan and required replacement. This maintenance investment allows the property to continue producing good returns.

Ongoing Investments During FY 2020-21

Bohart Ranch Infrastructure Maintenance

This project funded maintenance on the 48,000-acre Bohart Ranch located in El Paso County. Deferred maintenance from the past has required substantial ongoing investment in the ranch in recent years. Improvements target modern, efficient livestock support and processing systems. This investment supports a five-year plan to improve water, fencing and facilities.

Chico Basin Ranch Improvements

The Chico Basin Ranch property is an 86,211 acre property located across the El Paso and Pueblo County boundary. This maintenance investment supports 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.

Brett Gray Ranch Infrastructure

This investment funds general livestock handling systems 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.

Obtain Legal Access to State Trust Parcels

The goal of this project is to acquire legal access to more than 100 state trust properties that currently lack it. The inability to access these properties reduces their value by restricting leasing. This Board-approved investment provides funds to compensate neighboring landowners for access through their land for up to 30 trust properties. Based on independent appraisals, the State Land Board expects that providing access to parcels improves the value of those parcels twelve to eighteen percent.

Sherman Creek Ranch Improvements, Phase 2

This second phase of a two-part project continues the improvements on the Sherman Creek ranch. The first project created agriculture and recreation improvements that resulted in increased lease revenue. The second project improves the ecological and functional condition of streams and irrigation ditches on the ranch, supporting the long term stewardship of the

property as a healthy piece of the local ecosystem. The funding provided by the State Land Board for the second project has a leveraged effect, with matching project funds being provided by Ducks Unlimited. Partnerships like this expand the ability of the State Land Board to ensure great stewardship of trust lands while keeping operations overhead to a minimum.

Agriculture Improvements, Southwest District

This investment makes an impact on trust properties in three counties across Southwest Colorado. Funds are being used 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.

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 was failing, and a new well was required to provide a dependable source of potable water.

Investments Completed During FY 2020-21

ATLAS Project

The Automated Trust Land Asset System (ATLAS) is the IT system used by The State Land Board. This project hired a third party vendor to upgrade the system and tailor its development to the more specific needs of the State Land Board and increase the productivity of its users. By building efficiency and additional functionality into the system, trust properties can more easily be made available for leasing, leasing compliance can be more easily monitored and cooperative leasing opportunities can be more easily pursued.

Mesa County Home Repair

The State Land Board owns a two-bedroom house on trust property in Mesa County. The home is leased on a one-year contract. The septic system failed and was replaced to support continued use by the lessee.

Ken Caryl Office Disposition

Funds used to hire a commercial property broker to market and dispose of the Ken Caryl commercial property in Jefferson County. The transaction did not come to fruition and the authorization for the use of the funds was allowed to expire.

Authorized Program Costs

The statute creating the Investment and Development Fund provides flexibility for the

Colorado State Board of Land Commissioners
Investment and Development Fund Report | FY 2020-21

State Land Board to hire staff and contract for services. The State Land Board uses I&D funds to support the costs of 4.0 full-time equivalents and associated program expenditures to support I&D Fund projects. The staff supported with these funds consistently bring additional value to the assets of the trust.

In FY 2020-21, the State Land Board spent a total of \$550,047 on salaries, business planning and property valuation activities. All program costs expenditures support increasing the income and value of School Trust assets.