

# Investment and Development Fund Report

Fiscal Year

**2021-22**

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

Colorado State  
Board of Land  
Commissioners



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**COLORADO**  
State Land Board

## Introduction

The Colorado State Board of Land Commissioners (State Land Board) presents 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 2021-22 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 per year of current-year School Trust revenue to the I&D Fund to make investments in School Trust assets that increase the value of, and/or income from these assets. Further, 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 2021-22

During the past year, the State Land Board approved the use of \$5,021,830 of I&D funds to support seven new projects:

- Geologic Carbon Storage Mapping
- SC/SE Ranch Improvements
- ATLAS Project Phase Two
- Cadgene Lease Improvements
- Western Rivers Conservancy
- Morgan County Various Improvements
- North Mountain Ranch Improvements

In addition to the above new projects, seven investments from previous years continued into this year and three investments were completed. The State Land Board anticipates that these new and ongoing investments will increase revenue and values on their respective properties by more than \$7 million and maintain over \$1.5 million in value through maintenance projects. **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 Ongoing I&D Fund Projects through June 30, 2022**

Project Name	Investment Purpose	Year of Investment	I&D Funds Allocated	Amount Invested- I&D Funds Spent	Estimated Benefit			
					Avg. Gross Annual Revenue Increase Over Period (1)	Estimated Net Value Increase (2)	Maintenance Benefit (3)	
Geologic Carbon Storage Mapping	Revenue	2021	\$56,000	\$51,238	\$200,000			
SC/SE Ranch Improvements	Maintenance	2021	\$134,000	\$90,574			\$134,000	
ATLAS Phase Two	Value	2021	\$600,000	\$22,838		\$600,000		
Cadgene Lease Improvements	Value	2021	\$35,975	\$35,975		\$40,000		
Western Rivers Conservancy	Value	2021	\$3,500,000	\$0		\$3,500,000		
Morgan County Various Improvements	Maintenance	2022	\$70,855	\$68,486			\$70,855	
North Mountain Ranch Improvements	Value	2022	\$625,000	\$0		\$800,000		
Lowry Ranch Improvements	Value	2020	\$775,000	\$750,980		\$775,000		
Wilson Mesa Disposal	Value	2020	\$725,000	\$0		\$725,000		
Sherman Creek Ranch Improvements Phase 2	Value	2019	\$443,500	\$133,145		\$500,000		
Chico Basin Ranch Improvements	Maintenance	2017	\$640,168	\$309,822			\$640,168	
Bohart Ranch Improvements	Maintenance	2016	\$380,579	\$159,466			\$380,579	
Brett Gray Infrastructure Improvements	Maintenance	2016	\$309,000	\$44,603			\$309,000	
Obtain Legal Access State Parcels	Value	2016	\$100,000	\$0		12-18% average		
Personnel and Planning (FY 2021-22)				\$370,178				
				<b>\$8,395,077</b>	<b>\$2,037,303</b>	<b>\$200,000</b>	<b>\$7 million +</b>	<b>\$1,534,602</b>

**Table 2: Analysis of Completed I&D Fund Projects through June 30, 2022**

Project Name	Investment Purpose	Year of Investment	I&D Funds Allocated	Amount Invested- I&D Funds Spent	Estimated Benefit			
					Avg. Gross Annual Revenue Increase Over Period (1)	Estimated Net Value Increase (2)	Maintenance Benefit (3)	
Morgan County Irrigation System Replacement	Maintenance	2021	\$130,000	\$124,966			\$124,966	
Agriculture Improvements, Southwest District	Maintenance	2019	\$85,600	\$58,390			\$58,390	
Retchloff Irrigation Improvements	Revenue	2021	\$230,000	\$219,369	\$7,000			
				<b>\$445,600</b>	<b>\$402,725</b>	<b>\$7,000</b>	<b>\$0</b>	<b>\$183,356</b>

(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 2021-22**

### **Geologic Carbon Storage Mapping**

The State Land Board staff is investigating the feasibility of new businesses and revenue earning opportunities that are aligned with a carbon neutral economy. This project funded the use of up to \$56,000 to secure a geologic assessment of state trust land from the Colorado School of Mines. The assessment will identify underground carbon storage potential on State Land Board properties. Revenue potential for the line of business is expected to be a multiple of investments made.

### **SE/SC Ranch Improvements**

This project approved funding to drill livestock water wells and install solar pumps, stock tanks, and pipelines on five different parcels of state trust land located in four different counties. This project includes both required maintenance of existing improvements and new improvements that will increase revenue by improving the viability of leasing state trust land for grazing.

### **ATLAS Project Phase Two**

The Automated Trust Land Asset System (ATLAS) is the IT system used by The State Land Board. Following the completion of Phase One, in which system maintenance was performed ahead of new development, Phase Two turns its focus to system enhancement with particular attention being paid to the cash management workflows, processes and tools relied upon by State Land Board's Finance team. Value of the investment is determined on a replacement basis.

### **Cadgene Lease Improvements**

This transaction involved the compensation to a former lessee for the cancellation of the lease and purchase of lessee-funded improvements made to trust property. Per Colorado statute and the terms of the lease, the State Land Board can compensate a lessee for the unused portion of the lease term and for any authorized agriculture improvements that will remain on the state trust land. In this case, the improvements included a wire livestock fence, two shallow spring-fed stock ponds, road base/gravel placed on the State Land Board's road, and a corral/loading chute, determined to have a combined value of \$35,975.

### **Western Rivers Conservancy**

The State Land Board owns and manages a 45,650-acre property in Conejos County commonly referred to as the La Jara Property. In 2017, the State Land Board prepared an Asset Management Plan for the property. A key finding of that plan was that the interests of the School Trust beneficiaries will be best served if the State Land Board disposes of the property

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and reinvests the proceeds into either alternative real property assets or the Permanent Fund. The State Land Board does not possess the resources or expertise to identify potential buyers and/or structure a complex, multi-party, conservation-oriented transaction at this scale. Engaging a third party allows the Board to dispose of the property in a way that fulfills the State Land Board's mission and fiduciary duties while activating additional potential in the property. Value reflects a return of the investment entirely upon disposition of the property.

### **Morgan County Various Improvements**

This project will fund improvements on two parcels of state trust land in Morgan County. The project will include upgrades to fencing and improvements to water assets. These funds will allow for improved stewardship practices and increase the productivity of the land.

### **North Mountain Ranch Improvements**

The 10,894 acre North Mountain Ranch spans the San Miguel and Dolores County line approximately 15 miles southwest of Norwood and 25 miles due west of Telluride and is leased for both recreation and agriculture. This investment funds four projects to facilitate year-round recreational use of the property, improve agricultural activity, and enhance long-term stewardship of the ranch. The improvements among others include completing a domestic water project, repairing and replacing deteriorated agricultural fencing, and moving existing cabins to a more functional location on the ranch and cleaning up the existing cabin site. Value reflects the permanent improvements made to the property.

## **Ongoing Investments during FY 2021-22**

### **Lowry Ranch Improvements**

Lowry Ranch consists of 25,955 acres (40-square miles) in unincorporated Arapahoe County near the southeastern edge of greater Metropolitan Denver. The barn and shop building is in need of replacement and additional security is needed for the primary property access road. Newly approved funds will provide a new gate and 3,200 square foot lease operator support building. Value reflects the addition of permanent improvements to the property.

### **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 and resulting views, and its size. However, the existing grazing rent and historic recreation rents have remained very low over time. While the Board has benefitted from

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significant appreciation in property value, relative income from the property has 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. Investment and Development Funds are 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. Value reflects immediate return of investment upon disposing of the property.

### **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 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.

## Investments Completed during FY 2021-22

### **Agriculture Improvements, Southwest District**

This investment covers trust properties in three counties across Southwest Colorado. Funds were used for improvements to irrigation and the establishment of new water wells, as well as new fencing.

### **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 allowed the property to continue producing good returns.

### **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 installed 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, the annual lease payment increased approximately 65 percent.

### **Authorized Program Costs**

The statute creating the Investment and Development Fund provides flexibility for the 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 2021-22, the State Land Board spent a total of \$370,178 on salaries, business planning and property valuation activities. All such program expenditures support increasing the income and value of School Trust assets.