

Investment and Development Fund Report

Fiscal Year

2022-23

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

Colorado State
Board of Land
Commissioners



CO L O R A D O
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 2022-23 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 2022-23

During the past year, the State Land Board approved the use of \$655,000 of I&D funds to support six new projects:

- Penitente Canyon Improvements
- Bear Creek Ranch Acquisition
- Dowd Junction Planning
- Carbon Capture Research
- Yuma County Irrigation Pivots
- Williams Park Acquisition

In addition to the above new projects, ten 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 revenue and values on their respective properties by more than \$7 million and maintain over \$1.9 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, 2023

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)
Penitente Canyon Improvements	Maintenance	2022	\$35,000	\$0			\$35,000
Bear Creek Ranch Acquisitions	Maintenance	2022	\$50,000	\$0			\$50,000
Dowd Junction Planning	Value	2022	\$350,000	\$0		\$350,000	
Carbon Capture Research	Value	2022	\$90,000	\$0		\$90,000	
Yuma County Irrigation Pivots	Maintenance	2023	\$80,000	\$0			\$80,000
Williams Park Acquisition	Maintenance	2023	\$50,000	\$0			\$50,000
North Mountain Ranch Improvements	Value	2022	\$625,000	\$502,277		\$625,000	
SC/SE Ranch Improvements	Maintenance	2021	\$134,000	\$62,755			\$134,000
ATLAS Phase Two	Value	2021	\$600,000	\$174,720		\$600,000	
Western Rivers Conservancy	Value	2021	\$3,500,000	\$0		\$3,500,000	
Lowry Ranch Improvements	Value	2020	\$875,000	\$778,277		\$875,000	
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	\$460,426			\$640,168
Bohart Ranch Improvements	Maintenance	2016	\$380,579	\$274,732			\$380,579
Brett Gray Infrastructure Improvements	Maintenance	2016	\$597,000	\$536,022			\$597,000
Personnel and Planning (FY 2022-23)				\$408,536			
			\$9,175,247	\$3,330,890	\$0	\$7,265,000	\$1,966,747

Table 2: Analysis of Completed I&D Fund Projects through June 30, 2023

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		
Cadgane Lease Improvements	Value	2021	\$35,975	\$35,975		\$40,000	
Morgan County Various Improvements	Maintenance	2022	\$70,855	\$68,486			\$68,486
Obtain Legal Access State Parcels	Value	2016	\$100,000	\$0			
			\$262,830	\$155,698	\$200,000	\$40,000	\$68,486

(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 2022-23

Penitente Canyon Improvements

The Penitente Canyon state trust land abuts the west side of the Penitente Canyon Recreation Area, a 4,552-acre federal Bureau of Land Management recreation area. The area provides year-round outdoor recreation opportunities for mountain bikers, climbers, hikers and equestrians. Heritage tourism draws people to the area to see the largest concentration of Native American pictographs (painted rock art) in the San Luis Valley. The investment of \$35,000 will facilitate the placement of five small cabins on state trust land in Saguache County. The cabins will be available for short-term rental and managed by San Luis Valley Outdoors. The use of the funds will result in improved stewardship and enhanced revenue on the property.

Bear Creek Ranch Acquisition

The State Land Board is in the process of acquiring the 2,100 +/- acre Bear Creek Ranch in Huerfano County. The acquisition supports the agency's efforts to acquire high quality rangeland suitably positioned for long-term value appreciation. Benefitting from its size and location, the property will also serve as the initial acreage for an annual grazing lease program that has been a longstanding agency business goal. While the ranch and improvements are in good condition, the \$50,000 in funds will be utilized to make minor improvements or repairs to the property as may be required during the first two years of Board ownership. Experience has shown that all acquisitions require some degree of investment to improve the function and safety of existing infrastructure.

Dowd Junction Planning

The State Land Board manages a parcel of land in Eagle County that has high potential for redevelopment as a mixed-use neighborhood that can accommodate a significant component of workforce housing. The land is partially occupied by a Colorado Department of Transportation maintenance facility and housing for about 12 CDOT employees. The existing maintenance facilities and employee housing have to be relocated to facilitate the redevelopment of the site. This investment pays for land planning and engineering services associated with the potential redevelopment of the Dowd Junction parcel.

Carbon Capture Research

The carbon capture and storage (CCS) market is in its nascent stages and growing rapidly. State Land Board participation in the CCS market will involve leasing land and underground pore space to project developers and operators who capture carbon dioxide (CO₂) out of the atmosphere or at a source of emissions, such as power or cement plants, and transporting the CO₂ via pipeline to a location where it can be stored underground. To achieve the optimum outcome for the trusts, State Land Board staff requires an in-depth understanding of CCS market dynamics. These funds were used to hire a consulting organization that can help Staff obtain relevant industry information, minimize leasing risks, and optimize financial outcomes for the trusts.

Yuma County Irrigation Pivots

The State Land Board owns nine center pivot sprinklers that irrigate 1,033 acres of state trust

land in Yuma County. The funds will be used to address needed repairs on three of the pivots prior to the upcoming growing season.

Williams Park Acquisition

The State Land Board is in the process of acquiring the 7,320 +/- acre Williams Park Ranch in Routt County. The acquisition supports the agency's efforts to acquire high quality ranchland suitably positioned for long-term value appreciation. Acquisition of the Ranch will also achieve several agency goals and objectives, including geographic diversification of the land portfolio and growth of the Recreation line of business and water rights portfolio. Similar to the Bear Creek acquisition, the funds will be utilized to make minor improvements or repairs to the property as may be required during the first years of Board ownership.

Ongoing Investments during FY 2022-23

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 built by The State Land Board to manage all aspects of leasing, accounting and the portfolio of assets. 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. The state value of the investment is determined on a replacement basis.

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 and reinvests the proceeds into other 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 with these funds 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. The stated value reflects a return of the investment entirely upon disposition of the property.

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

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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. The stated value reflects the permanent improvements made to the property.

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 needed replacement and additional security is needed for the primary property access roads. Newly approved funds will provide a new gate and 3,200 square foot lease-operator support building. Stated 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 the panoramic views from the site, and its size. However, the existing grazing rent and historic recreation rents achieved from the property have remained very low over time. While the Board has benefitted from 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. Stated 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 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.

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 2022-23

Obtain Legal Access to State Trust Parcels

The goal of this project was to acquire legal access to more than 100 state trust properties that currently lack it. Due to lack of progress the project was allowed to expire with no expenditures from the Fund.

Morgan County Various Improvements

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

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.

Geologic Carbon Storage Mapping

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 identified underground carbon storage potential on State Land Board properties.