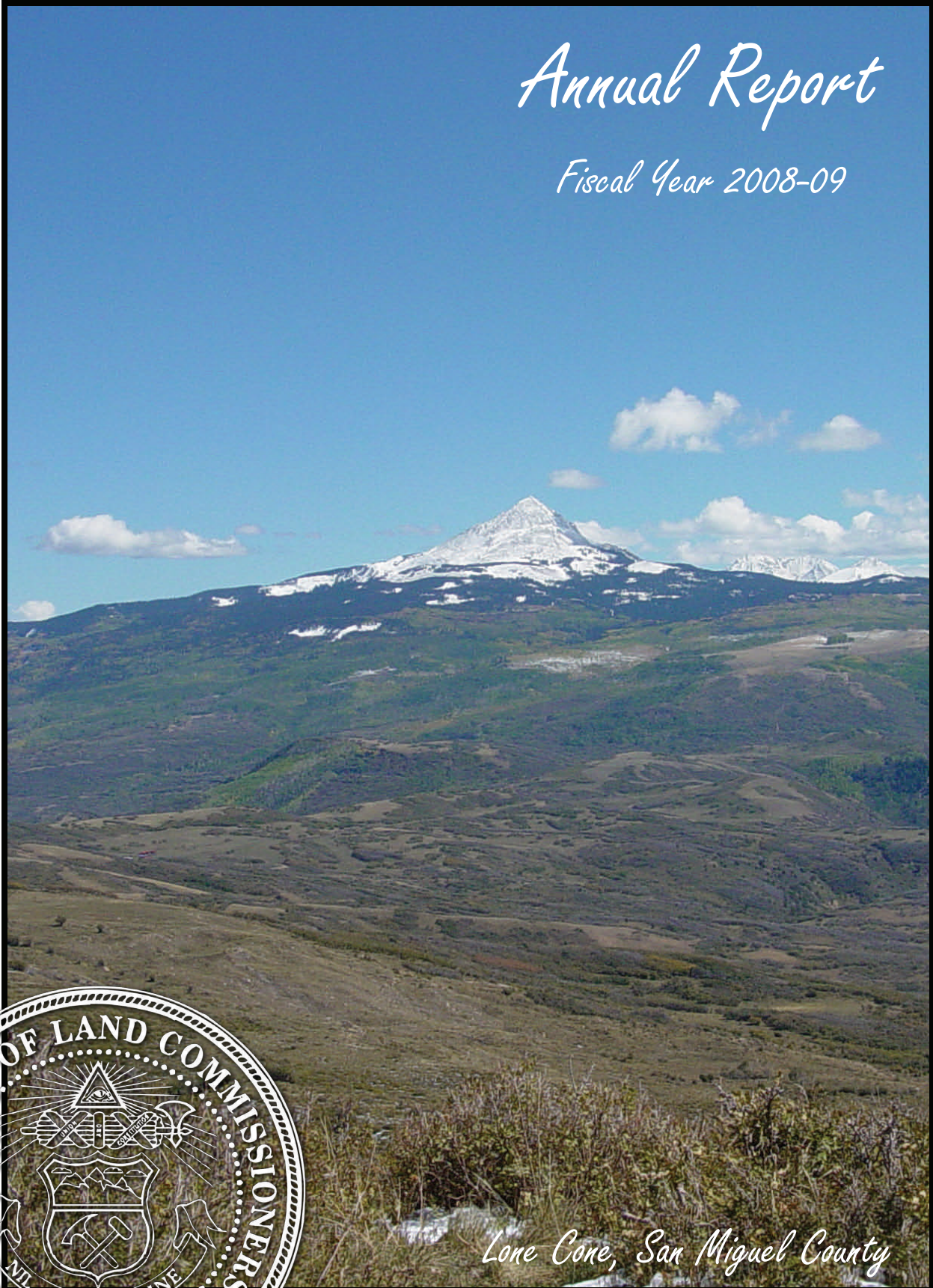


Colorado State Board of Land Commissioners

Annual Report

Fiscal Year 2008-09



Lone Cone, San Miguel County



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Bill Ritter, Jr.

Department of Natural Resources
Executive Director
James Martin

Board of Land Commissioners
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Tom Hoyt, Vice President
Richard Downey
Buck Blessing
Sandy Leinsdorf

Chancellor Ranch, Las Animas County



FY 2008-09 Annual Report

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Division Director
Brownell M. Bailey

Deputy Director
Vacant

Chief Financial Officer
Tobin Follenweider

Minerals Director
Mark Davis

*Field Operations
Manager*
Beverly Rave

Real Estate Manager
Larry Routten

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Craig, Colorado

North Central District
Matt Pollart
Greeley, Colorado

Northeast District
Danny Skalla
Sterling, Colorado

Front Range District
David Rodenberg
Denver, Colorado

Southwest District
Kit Page
Alamosa, Colorado

South Central District
John Valentine,
Pueblo, Colorado

Southeast District
Mike Pollart
Lamar, Colorado

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The Director's Message

During Fiscal Year 2008-09, the Colorado State Board of Land Commissioners established new milestones and grappled with difficult challenges.

The State Land Board's 4 million surface acres and 3 million acres of mineral estate generated record revenues. Management of these assets generated more than \$75 million (see page 7).



However, during FY 2009-10, we expect revenues to drop significantly as coal production at the Twentymile Mine transitions off of the State Land Board leasehold (see page 6). Although the nearby Sage Mine will produce state trust coal in the future, this demonstrates the risk of being overly dependent on mineral revenues and the need to diversify income sources to ensure a consistent return over time for trust beneficiaries.

During the past year, the Land Board has welcomed new Commissioners and bid farewell to a number of familiar faces:

- Commissioners Steve Holdren and Shirley Watson completed their service.
- The Board welcomed new commissioners Buck Blessing and Sandra Leinsdorf.
- Deputy Director John Brejcha moved to the Colorado Division of Wildlife's real estate division after 18 years at the State Land Board.
- Harris Sherman, executive director of the Department of Natural Resources, was appointed to the position of Undersecretary of Natural Resources in the U.S. Department of Agriculture by the Obama administration.

In addition, the recession presented new challenges for Land Board projects:

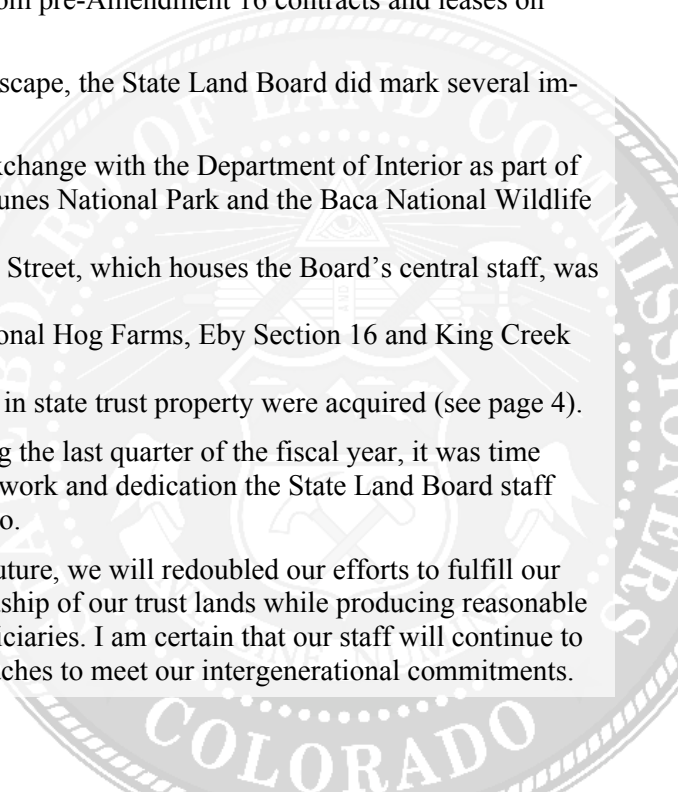
- In January of 2009, Lend Lease Communities LLC terminated its agreement with the State Land Board to develop the Lowry Range Development Parcel.
- The recession dampened land values and compelled the State Land Board to extend development horizons on several important projects.
- Several new issues surfaced from pre-Amendment 16 contracts and leases on valuable state trust property.

Despite the challenging economic landscape, the State Land Board did mark several important successes during the past year:

- A 70,000-acre land-for-land exchange with the Department of Interior as part of the formation of Great Sand Dunes National Park and the Baca National Wildlife Refuge was completed.
- Construction of 1127 Sherman Street, which houses the Board's central staff, was completed (see page 5).
- Longstanding issues with National Hog Farms, Eby Section 16 and King Creek were resolved.
- Number of private in-holdings in state trust property were acquired (see page 4).

While my term as director began during the last quarter of the fiscal year, it was time enough to come to appreciate the hard work and dedication the State Land Board staff brings to bear on the many things we do.

As the State Land Board looks to the future, we will redoubled our efforts to fulfill our mission to provide responsible stewardship of our trust lands while producing reasonable and consistent revenues for trust beneficiaries. I am certain that our staff will continue to find new opportunities and new approaches to meet our intergenerational commitments.

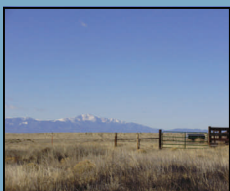


The Board is the second-largest land owner in the state after the federal government.



Inside the Centennial Airport Hanger—State Plane

The CSP Centennial Hangar is 7,200 square feet and holds five of CSP's planes.



View from Big Springs Ranch

FY 2008-09 Property Transactions



Centennial Hanger, Douglas County

Centennial Airport Hanger

In cooperation with the Colorado State Patrol, the State Land Board acquired a hanger at Centennial Airport and subsequently leased it to CSP in July 2009.

The CSP Centennial Hangar is 7,200 square feet and holds five of CSP's planes including the State Plane. The hangar was under a five-year lease to the CSP which was set to expire June 30, 2008. The lease terms provided the tenant or another State agency the option to purchase the hangar at the expiration of the lease.

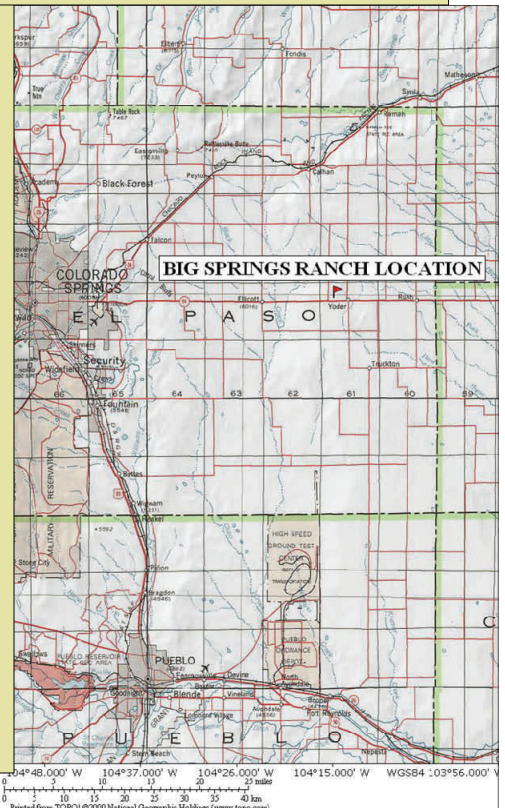
The Centennial Airport hangar generates nearly \$100,000 of annual revenue for the school trust. This represents a 13% annual revenue return on the school trust's investment in the property.

Big Springs Ranch Acquisition

The Big Spring Ranch acquisition was a consolidation of trust property in eastern El Paso County. The transaction created an 8,600 acre stand-alone ranching property. The Board acquired 3,300 acres of private in-holdings from one owner.

Prior to the completion of this transaction, the State Land Board's existing ownership of 5,300 acres was split in two blocks, bifurcated by private ownership. The private owner had most of the riparian area along Big Springs Creek and all the ranching improvements.

The improvements the Board acquired in the transaction consisted of a 1,735 square-foot home including an attached garage, equipment shed, and various small out-buildings and corrals. There are also five wells and two septic systems.



FY 2008-09 Capital Investment

1127 Sherman Street

In FY 2008-09, The State Land Board transformed a small urban parking lot into a three-story energy efficient office building which now houses the State Land Board's central staff.

The 1127 Sherman Street property was a small monthly parking lot wedged between two apartment buildings.

The 1127 Sherman building took two and half years of planning and construction. The building was designed by the State Land Board and includes construction material taken from state trust property. The building has been certified by the U.S. Green Building Council Leadership in Energy and Environmental Design (LEED®).

Currently the State Land Board's central offices occupy the second and third floors.



1127 Sherman, Denver County

600 Grant Improvements

Purchased by the Board in 2000, the nine-story, 115,000-square foot office building at 600 Grant is home to a variety of businesses, including Coldwell Banker's central Denver offices. The 600 Grant building has generated \$13 million of School Trust revenues over the past nine years.

Over the last five years, the State Land Board invested \$1.25 million in capital improvement projects to the 600 Grant building. All of the building's corridors and restrooms have been remodeled. The elevators were overhauled to increase their efficiency and bring them into compliance with current codes. The roof was replaced with a new energy-efficient membrane roofing system. Also the HVAC system was upgraded, plumbing fixtures were updated and electrical systems were enhanced.

As a result of these improvements, the building is well on its way to receiving Energy Star certification with lower power consumption.



600 Grant, Denver County

The Board manages 2.8 million acres of surface property which is roughly the size of Connecticut.



1127 Sherman Street Pictures



The 600 Grant building has generated \$13 million of School Trust revenues over the past nine years.



600 Grant Pictures



The Board manages 4.0 million mineral acres which is roughly the size of Connecticut and Delaware together.

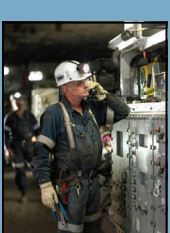


Longwall Mining System



Continuous Miner

The Twentymile Mine holds the world production record for both monthly and annual production from an underground coal mine.



Underground Mine Foreman

The Twentymile Coal Mine

In the 135-year history of the State Land Board, no single lease has been as important to the Land Board's mission as the Twentymile Mine in Routt County.

Located in the Yampa Coal Field, the Twentymile Mine supplies coal to Xcel Energy's 440-megawatt Hayden Station power plant as well as other buyers in the U.S. and abroad. Over the past 20 years, total royalty payments to the School Trust from this one lease have topped an astonishing \$90 million. The property has rich natural resource values as well, which is reflected in its designation into the Stewardship Trust.

Stewardship Trust

As required by Amendment 16 passed by voters in 1996, the Colorado Constitution requires the establishment and maintenance of the Stewardship Trust — 295,000 to 300,000 acres of state trust land. These lands are managed "to maximize options for continued stewardship, public use or future disposition" by protecting and enhancing the "beauty, natural values, open space and wildlife habitat" on these parcels.

Land in this trust continues to generate revenues, including grazing, crop production, oil and gas production and mining — as long as the uses are compatible with the long-term protection of the land's natural resource values.

The State Land Board has completed a baseline inventory of Stewardship Trust parcels and that inventory is periodically updated and reevaluated. A management plan is also required for designated parcels. From time to time, designated lands are reviewed to determine if they continue to meet the criteria for which they were designated.

Land can be removed from the Stewardship Trust by a vote of four of the five commissioners, but the Board must simultaneously designate a new parcel of equal or greater acreage.

The Twentymile Mine started as an underground mine in 1983 and produces state, federal, and private coal. It is a world-class operation that mines approximately 8.5 million tons of quality low-sulfur, low-ash, high-Btu coal each year. Peabody Coal, the mine operator, uses a technologically-advanced longwall system that mines coal panels which are approximately 1,000 feet wide and more than three miles long. The engineering of this longwall system, located between 1,000 and 1,700 feet below the surface, has allowed the Twentymile Mine to establish world records for both monthly and annual production from an underground coal mine.

The Twentymile Mine is a major contributor to the state and to local economies. With a workforce of more than 500 employees, Peabody Coal is also a major regional employer.

As FY 2008-2009 drew to a close, Peabody's mining operations followed the coal seam off State Land Board land and on neighboring ownerships. Over the next several years, coal revenue from the Twentymile will taper off. At the same time, revenues from a new mine nearby, the Sage Creek mine, are expected to ramp up as construction and development leads to full production in about 2016.

Once mining has ceased, reclamation activities funded by the Twentymile's underground riches will help to restore the property's superb above-ground resources and wildlife habitat.

2004
2005
2006
2007
2008
2009
2010
2011
2012
2013

TWENTYMILE COAL CO
FOIDEL CREEK MINE
2004 TIMING FORECAST
1,000 FOOT FACE
1,500
3,000

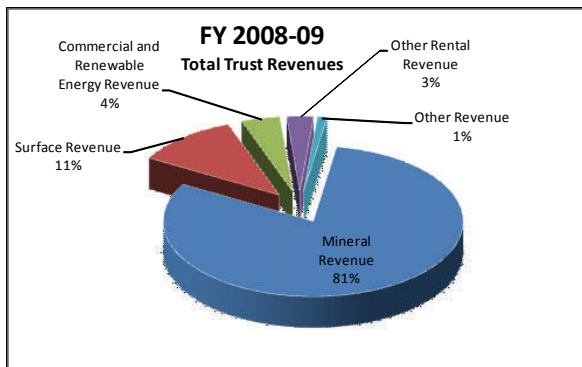


FY 2008-09 Financial Performance

The FY 2008-09 total trust revenues of \$75.6 million represents the highest revenue year on record.

The FY 2008-09 revenue performance was the result of:

- High coal royalty revenues.
- Strong oil, gas, and bonus revenues.
- Significant increase in commercial revenue.
- New renewable energy revenue.



The Board manages 3,500 separate surface leases and rights-of-way as well as 2,700 mineral leases.

Mineral

Mineral revenues set a record of \$61 million in FY 2008-09.

Coal royalty revenues, which grew nearly 60%, were solely responsible for the mineral revenue growth and offset flat growth in other mineral revenue streams. The strong coal royalty revenue performance was the result of significant production increases at the Twentymile Mine (see page 6). The mine accounts for over 75% of the Board's coal revenues and 33% of the Board's total mineral revenues.

Future

Although all State Land Board revenues have increased sharply over the past decade, the source of this growth — mineral royalties— is subject to extreme fluctuations. As identified above, revenues from oil, gas, and coal represent four-fifths (80%) of the Board's annual revenues. The State Land Board's future revenue performance unfortunately remains highly dependent on these volatile mineral revenue sources. Only in time can commercial or other surface revenues offset the heavy reliance on mineral revenues.

The FY 2008-09 total trust revenues of \$75.6 million represents the highest revenue year on record.

Surface

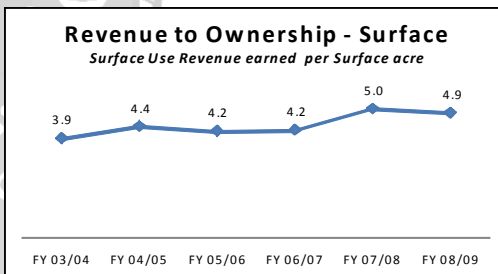
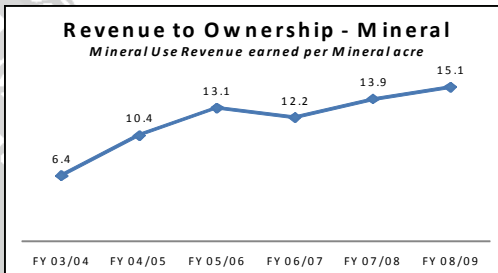
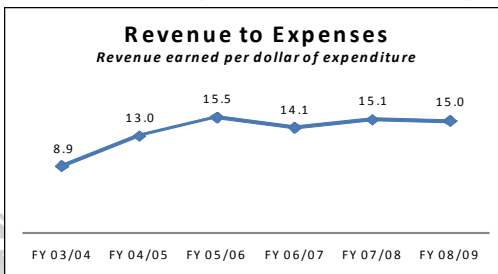
Surface revenues dropped 9% due primarily to declining non-agricultural revenues. In the prior fiscal year (FY 2007-08), the Board received a significant increase in one-time payments from surface impact fees, lease assignment fees, and right-of-ways. Other surface revenues, such as grazing, grew at a very modest rate in FY 2008-09.

Commercial and Energy

Commercial and Energy revenues experienced a large increase in FY 2008-09. Commercial and energy revenues topped \$3 million for the first time since FY 2006-07. This revenue stream has posted double-digit growth in the past two years.

The FY 2008-09 increases were due to new commercial acquisitions, new tower site leases, and lower capital costs outlays and higher office occupancies.

FINANCIAL RATIOS



For each \$1 of expenditure, the Board earns \$10 to \$15 for its trust beneficiaries.

Revenue by Trust and Source - Fiscal Year 2008-09

	School	CU	CSU	Internal			Public		Other Revenue	TOTAL
				Improvements	Saline	Penitentiary	Buildings	Hesperus		
Mineral Rental Income	1,739,678	1,440	23,377	42	-	-	3,510	-	-	1,768,047
Mineral Royalty and Bonus	58,327,085	-	826,886	-	-	-	68,935	-	-	59,222,906
Surface Rental Income	8,305,534	16,549	36,314	89,871	18,272	6,555	8,764	-	19,095	8,500,955
Commercial Revenue	2,768,181	408	350	738	-	-	-	-	-	2,769,676
Renewable Energy Income	342,976	-	-	21,417	-	-	-	-	-	364,393
Other Rental Income	2,098,965	5,931	12,238	46,952	9,592	5,689	500	-	-	2,179,867
Timber Sales	56,458	3,059	2,675	6,962	2,946	-	-	8	-	72,110
Land Sales	3,250	-	-	-	-	-	-	-	-	3,250
Interest Income	381,501	71	4,229	740	(25)	(38)	215,472	-	38	601,988
Fee Revenue									79,729	79,729
Total Income	74,023,629	27,458	906,069	166,723	30,785	12,207	297,182	8	98,862	75,562,922
Operating Expenses	4,749,185	1,242	64,923	8,267	2,200	874	17,097	2	1,101	4,844,890
Fund Transfers	1,000,000									1,000,000
Net Income	68,274,444	26,217	841,146	158,457	28,584	11,333	280,084	6	18,032	69,638,303

Closed Real Estate Acquisitions - Fiscal Year 2008-09

NAME	COUNTY	ACRES	AMOUNT	PATENT	CLOSED	TRUST	LOCATION
Grand Junction	Mesa	80	\$39,205	N/A	11/12/2008	SCHOOL	SW4NW4 and NW4SW4, Sec 34, T1N, R1E; AND SE4NE2, Sec. 33, T1N, R1E
Ken Caryl	Jefferson	3.99	\$4,826,172	N/A	12/24/2008	SCHOOL	Lots 1-3, & 7A Block 5, Ken-Caryl Ranch "Plains" Phase VIII-B Exemption Survey, Amend #1.
Alkali Arroyo/Davidson	Bent	640.00	\$112,000	N/A	2/17/2009	SCHOOL	W2SW, Sec. 19, W2NW; SW; S2SE, Sec. 30, & N2NE; NW, Sec. 31, T23S, R52W, 6th P.M.
1127 Sherman Street	Denver	0.22	\$4,402,117	N/A	3/31/2009	SCHOOL	Crown's 2nd Addition exc rear 8 feet;
Big Springs Ranch	El Paso	3,311.99	\$2,814,191	N/A	6/22/2009	SCHOOL	25 miles east of Colorado Springs on Highway 94;
Rock Creek Hill/Brown	Pueblo	1640	\$289,814	N/A	6/4/2009	SCHOOL	Sec. 25, SE4, Sec 36; T9S, R58W, 6th; E2, Sec. 1, T10S, R58W, 6th; NE, E2NW, SWNW S2, Sec. 23; W2SW, Sec. 24, T10S, R59W, 6th P.M.
TOTAL		5,676.20	\$12,483,499				

Land Sales (Certificates of Participation - Fiscal Year 2008-09)

NAME	COUNTY	ACRES	AMOUNT	PATENT	CLOSED	TRUST	LOCATION
Fritzler	Logan	160.00	N/A	8435	11/6/2008	SCHOOL	P.M.
TOTAL		160.00	\$0				

Closed Real Estate Dispositions - Fiscal Year 2008-09

NAME	COUNTY	ACRES	AMOUNT	PATENT	CLOSED	TRUST	LOCATION
OmniVest/Pueblo	Pueblo	1.83	\$866,263	8425	8/5/2008	SCHOOL	Lots 3-6&15-16, Block 18 & Lots 9-11, B. 19, Addition to Pueblo, Sec. 36, T20S, R65W
King Creek/Eberl Ranch	Routt	640.00	\$1,152,000	8426	9/23/2008	SCHOOL	Section 36, T1N, R85W, 6th, P.M.
Frenchman/Starkebaum	Phillips	5.10	\$10,000	8427	10/3/2008	SCHOOL	Part of SW4, Sec. 36, T8N, R47W, 6th P.M.
Edision School District	El Paso	9.47	\$7,000	8429	11/8/2008	SCHOOL	Part of SENE, Sec. 36, T16S, R61W, 6th P.M.
Cedarwood/Schmitt	Pueblo	640.00	\$192,000	8432	11/12/2008	SCHOOL	Section 36, T24S, R65W, 6th P.M.
Grand Junction Regional Airport	Mesa	120.00	\$39,205	8431	11/12/2008	SCHOOL	SENE; NESE, Sec. 32, T1N, R1E, Ute Meridian;
Battle Creek	Routt	18.10	\$130,000	8430	11/17/2008	SCHOOL	Part of Tract 45, Secs. 16 & 17, T12N, R88W, 6th P.M.
St. Petersburg/Smith	Logan	13.58	\$14,500	8424	11/21/2008	SCHOOL	Part of W2, Sec. 36, T8N, R49W, 6th P.M.
DPS	Denver	35.73	\$0	8428	2/6/2009	SCHOOL	Part of SE4, Sec. 16, T3S, R66W, 6th P.M.
Cotton Mesa/Carter	Las Animas	640.00	\$150,000	8434	2/10/2009	SCHOOL	Sec. 36, T34S, R55W, 6th P.M.
Alkali Arroyo/Davidson	Bent	640.00	\$128,000	8433	2/17/2009	SCHOOL	Sec. 36, T24S, R53W, 6th P.M.
Durango School District	La Plata	73.68	\$700,072	8439	6/11/2009	SCHOOL	Part of SE4, Sec. 36, T35N, R9W, N.M.P.M.
Edith/Morris	Archuleta	640	\$912,950	8437	5/21/2009	SCHOOL	Sec. 16, T32N, R1W, N.M.P.M.
Rock Creek Hill/Brown	Pueblo	640	\$289,814	8438	6/4/2009	SCHOOL	Sec. 36, T23S, R68W, 6th P.M.
Hale Homesite	Phillips	18.37	\$25,000	8436	6/25/2009	SCHOOL	Sec. 16, T6N, R44W, 6th P.M.
TOTAL		4,135.86	\$4,616,804				



Brett Grey Ranch, Lincoln County

**Colorado State Board of
Land Commissioners**

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Benefit of Public Schools and
Public Facilities*

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