

# Colorado State Board of Land Commissioners

*Annual Report  
Fiscal Year  
2009-10*



*Colorado State Forest,  
Jackson County*



***State Land Board Leadership Fiscal Year 2009 - 2010***

***Bill Ritter, Jr. , Governor***

***Mike King, Executive Director, Dept. of Natural Resources***

***Board of Land Commissioners***

***Michele A. Bloom, President***

***Tom Hoyt, Vice President***

***Buck Blessing***

***Richard Downey***

***Sandra A. Leinsdorf***

***Lajara Reservoir, Conejos County***



## EXECUTIVE STAFF

*Division Director*  
Vacant

*Deputy Director*  
Tobin Follenweider

*Chief Financial Officer*  
Vacant

*Minerals Director*  
Mark Davis

*Field Operations  
Manager*  
Beverly Rave

*Real Estate Manager*  
Christopher Smith

## DISTRICT OFFICES

*Northwest District*  
Lane Osborn  
Craig, Colorado

*North Central District*  
Matt Pollart  
Eaton, 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

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## Message from the State Land Board

The past fiscal year (FY) of 2009-10 brought tremendous change and transition to the State Land Board. Despite the fact that the State Land Board produced better than expected revenues for trust beneficiaries, many important State Land Board assets were directly impacted by the global financial crisis and the housing collapse. This has forced us to realign projects and priorities.

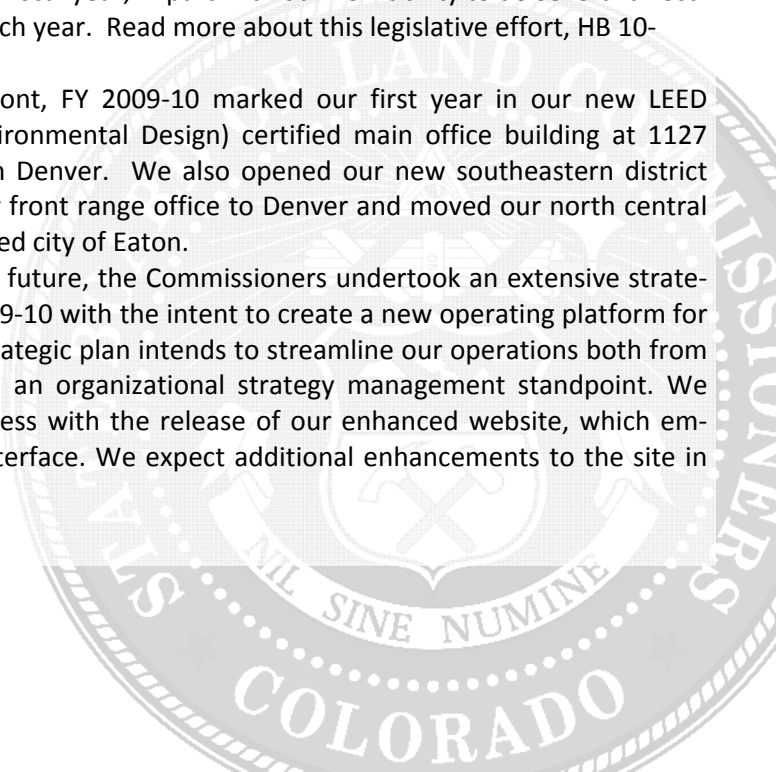
The recession and associated housing collapse severely impacted the value of all of the Board's development parcels particularly parcels on the outskirts of incorporated areas. Most of the Board's residential and commercial development projects experienced declines of fifty percent or more in projected returns. This led to a sizable reduction in the total return from the Board's investment and development fund. It will be years before the markets for our development projects return to levels experienced prior to the crisis.

Notwithstanding the uncertainty in the economic world, the State Land Board was able to maintain good revenue production for trust beneficiaries in FY2009-10. Minerals revenues and agricultural revenue were strong and renewable energy development and commercial revenues increased significantly. Hence while total revenues declined by 10 percent, FY 2009-10 still represented the third highest revenue year on record for the State Land Board. The Board generated \$66.4 million for the School Trust of which \$33.2 was designated from the BEST program that provides capital financing for K-12 facilities. A complete financial review is on page seven of this report.

The State Land Board completed several important transactions this year. In the following pages, we have more information on the acquisition completed for Colorado State Parks, as well as the closing of the National Sand Dunes/Baca Exchange, which the State Land Board was a critical part of for almost ten years. We hope to continue this positive trend during the next fiscal year, in part with our new ability to do several direct land sales to municipalities each year. Read more about this legislative effort, HB 10-1165, on page six.

On the operations front, FY 2009-10 marked our first year in our new LEED (Leadership in Energy & Environmental Design) certified main office building at 1127 Sherman Street in downtown Denver. We also opened our new southeastern district office in Lamar, relocated our front range office to Denver and moved our north central office into the agriculture-based city of Eaton.

In looking toward the future, the Commissioners undertook an extensive strategic planning process in FY 2009-10 with the intent to create a new operating platform for the State Land Board. The strategic plan intends to streamline our operations both from a portfolio management and an organizational strategy management standpoint. We have already begun this process with the release of our enhanced website, which employs a more user-friendly interface. We expect additional enhancements to the site in the future.



## The Sand Dunes Exchange

### *Our largest project ever creates a new National Park*

**I**t took ten years, four agencies, dozens of people and 51,000 acres of land to achieve the State Land Board's largest land exchange done to date. What is now known as the Great Sand Dunes National Park and the Baca National Wildlife Refuge was previously part of State Land Board holdings.

The State Land Board worked with four different Federal agencies on this exchange, including the National Park Service, Bureau of Land Management, US Fish and Wildlife Service and Department of Interior. The Nature Conservancy also worked on a portion of the exchange, primarily the Baca Ranch acquisition.

Our southwest district manager, Kit Page, started working on the project in 2004, but it actually began five years earlier in 1999 when Kit helped with the initial expansion of the park and the acquisition of a portion of the Baca Ranch. That 5,800 acre transaction then grew into a surface and subsurface (minerals) exchange of 51,000 acres, where the State Land Board helped to complete the boundaries for the new national park. That exchange closed on December 16, 2009.

The State Land Board received over 18,000 acres of surface and subsurface lands in Conejos, Fremont and Saguache Counties, as well as 2,600 acres of subsurface lands in Fremont County on Table Mountain. While the amount of acreage received by the State Land Board was less than the amount exchanged, the State Land Board exchanged a large amount of land with low economic return for more strategically located parcels. Also, the State Land Board had been dealing with operational challenges and the exchange helped both sides gain more control for appropriate management to meet each agency mission and needs.

Now part of the Great Sand Dunes National Park, the former State Land Board lands are part of a truly unique ecosystem. With starkly different elements of water and sand, there are springs and creeks running through the sand dunes which support rare plants and insects known only to this ecosystem. The dunes also support more traditionally seen wildlife in Colorado, such as elk, deer and bighorn sheep.

This has been an exciting project for the State Land Board, requiring a tremendous amount of cooperation and communication with many complex agencies over the years as the project has grown and changed. The Sand Dunes exchange was supported not only by the local community, but by state and nationally-elected officials. For his part in the process, our District Manager, Kit Page, received a Certificate of Special Congressional Recognition from former Congressman Scott McGinnis. Outstanding! That doesn't happen every day, but it's another reason our jobs here at the State Land Board are exciting and can create incredible opportunities for generations to come.

**State Land  
Board Lands  
Acquired on  
Table  
Mountain,  
Fremont  
County**



## Block Eight Mine

*A golden piece of mining history preserved & protected*

**H**ow many organizations can claim holding a lease on a single piece of ground for over a century? As an inter-generational trust in existence since statehood, that's part of the business operations here at the Colorado State Land Board.

However, simply having a lease for over one hundred years is only one component of the story about the Block Eight Mine, which now is a part of mining history.

Located in Teller County, this mine was also referred to as the School Section Mine. State Land Board records indicate that this Section 16 (15S-69W) was segregated into several blocks for mining leases, with the most noteworthy leases being Block Eight and Block Ten in the southwest quarter of the section. Amazingly enough, a lease for Block Eight was first issued by the State Land Board on July 15, 1893.

It just so happened that during a field trip in 2008, State Land Board Minerals Director Mark Davis literally stumbled across a piece of mining history, when he discovered a fairly rusted, but almost completely attached sheave wheel from the Block Eight (School Section) Mine. The head frame at the mine supported the sheave wheel.

According to lease records, mining production occurred intermittently on this lease area from 1893 at least until 1947, and possibly into the early 1950's. From that point until the early 1970's, the site was still being used to process gold previously mined from the Block Eight and other mines. The site was idle for about twenty years, but still was under lease for gold mining – and actually remains under lease for gold today, 117 years later.

Currently, mined waste rock from the site is being sold for landscaping. All this waste rock was created, probably one hundred years ago, when the early miners were accessing the gold veins by drifting and cross-cutting from the main shaft. Wouldn't they be surprised to learn that those rock piles are now a source of revenue for Colorado's school children?

After the discovery of this historic sheave wheel was made, the next steps were to find a good home for this 1,600 pound and 6-foot in diameter piece of mining history. Fortunately, the Colorado Mining Museum in Victor, Colorado was only too happy to accept and to display the School Section Block Eight Mine sheave wheel – ironically enough, only a few miles away from where the wheel was originally used at the mine.

The State Land Board staff and Commissioners would particularly like to thank the team at the Colorado Mining Museum, particularly Ruth Zalewski and Jane Mannon for their help in working with the Museum Board to have this donation approved. Also, special thanks to Jon Zalewski, who built a custom frame to display this massive wheel at the museum. This is the best home for a fantastic piece of Colorado's great – and golden – history.



***Saving a rare piece of mining history: Mark Davis, State Land Board Minerals Director & the sheave wheel***

## Supporting Colorado's State Parks

In early 2009, the Board began seeking a way to invest approximately \$3.4 million of expiring Internal Improvement Trust funds for the trust beneficiary, Colorado State Parks. Due to statutory requirements, these funds were set to expire on January 28, 2010.

During summer 2009, State Land Board staff worked with Colorado State Parks staff to assess its needs and wants for investing these funds. Several properties were researched, including sites for new state parks and buffer parcels adjacent to existing State Parks land, but ultimately it was concluded that a stable income-producing asset would serve Parks best in the current budget climate.

After researching the commercial real estate market for several months, State Land Board staff identified two office/industrial buildings in Loveland that were part of a business park known as the Loveland Tech Center. The anchor tenant for the proposed acquisition, Siemens Inc., is a AAA credit, global firm with a strong presence in the renewable energy sector. The second building tenant is Colorado First National Bank, a local bank with a long term presence in this business park.

In January 2010, the State Land Board acquired these two buildings, totaling 30,000 square feet, at a cost of \$3,416,000. The purchase price for this transaction was \$368,000 below appraised value. The net income produced by this investment will return \$365,000 in the first year, and rents will increase annually thereafter. This represents a 10.7% initial cash-on-cash return and a projected unleveraged internal rate of return over a seven-year holding period of 17.84%. Deemed a success by all parties, the State Land Board will track the rate of return and continue with property management and enhancing the overall return of the building.



Loveland Tech Center, Parks Acquisition

## Direct Land Sales Through HB 10-1165

The State Land Board has a unique role and a unique way in which we operate and do business for our trusts. In the 2010 legislative session, a bill was passed which provides us with an opportunity to change the way we can complete a handful of transactions.

Typically, when the State Land Board is involved in the exchange or disposal of a parcel, the parcel is noticed for a public bidding process. There have been a handful of situations where parcels could logically be disposed to another governmental agency, such as a county or municipality. In these situations, a public bidding process is illogical and can be inefficient and an unnecessary cost. To change this, HB 10-1165 (Section 36-1-124.3, C.R.S.), was passed to allow the option to complete a direct disposal of land to another governmental agency.

This bill also contains both a criteria for identifying parcels that are eligible for disposal, as well as outlines a process for the transaction to be completed. Those requirements are that the disposal must be based on fair market value, as identified by an independent appraisal. Also, the disposal must meet at least one of the following requirements: adding value to adjoining or nearby State Trust property; comply with valid local land use regulations as required by Section 10 of Article IX of the State Constitution; or benefit board operations.

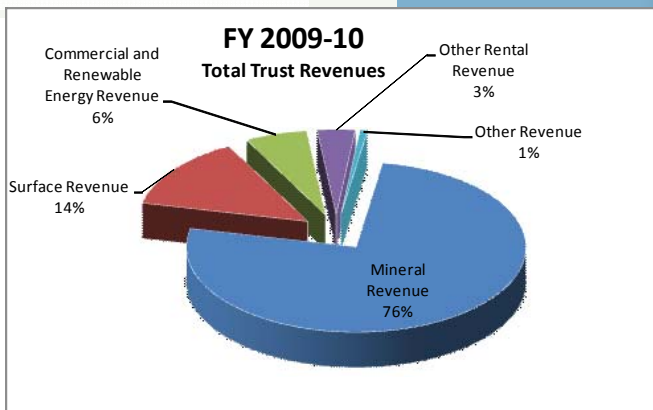
The State Land Board Commissioners also developed additional criteria, which they felt were important as indicators to determine suitability for an 1165 exchange. This criterion includes: duration of relationship with the State Land Board; intensity of need/duration of special concern; public/populations impacted, users, neighbors, community goals; environmental resources likely to be better protected locally, including: the local commitment to stewardship of the land, continuity of local ownership, support for local acquisition from State Land Board, and continuity of local land uses, public access. The final criteria is an evaluation of the "community will" to meet the appraised fair market value. Since this is a new process, more information about pending and completed HB-1165 transactions will be available on our website at [www.colorado.gov/trustlands](http://www.colorado.gov/trustlands).

# Financial Review for FY 2009-10

Total revenues in Fiscal Year 2009-10 were \$67.9 million. The School Trust earned \$66.4 million, with the remaining trusts receiving a total of \$1.5 million. Despite a 10% decrease from the prior fiscal year, FY 2009-10 revenues represents the third highest revenues on record.

Revenue performance was due to the following:

- Historic Oil and Gas lease auction (bonus) revenues
- 11% increase in oil royalty revenues.
- 28% increase in commercial revenues and,
- Strong revenue performance in renewable energy leases and one-time revenue sources.



The State Land Board revenues grew precipitously over the past decade, more than doubling from \$27.8 million in FY 2000-01 to \$67.8 million in FY 2009-10. This is 240% increase or a 24% average annual growth rate.

## Mineral

Mineral revenues were \$51.6 million in FY 2009-10 which is a 15% decrease from the prior fiscal year. However, the decline was not as great as expected primarily due to oil. Oil royalties grew by 11% over the prior fiscal year, as the average price per barrel was approximately \$10 dollar higher than last fiscal year.

Oil was also the major factor in the bonus revenue. Some recent oil drilling successes in northern Colorado drove a record breaking auction in May to over \$12 million. The previous record set in FY 2006-07 was \$4.5 million and most auctions are typically closer to \$2 million.

## Surface

Surface revenues increased by 10% due to the impact of non-agricultural and one-time payments. Several thousand dollars in one-time lease assignment revenues were earned presumably due to the ownership effects of a tight credit market. After a small dip in FY 2008-09, Right-of-way (ROW) revenues also rebounded in FY 2009-10. Ongoing agricultural grazing, crop land revenue and recreation experienced small increases.

## Commercial and Energy

As expected, Commercial and Energy revenues experienced a large increase in FY 2009-10, topping \$4 million and ranking as the best performing year-to-date. Commercial and Energy revenue has posted double digit growth in each of the past three years.

Increases this fiscal year were based on several large one-time payment for tower sites and energy planning leases as well as ongoing revenue from commercial properties. There were lower tenant vacancies and slightly higher rents at 600 Grant and Ken Caryl and higher revenues from parking and industrial properties.

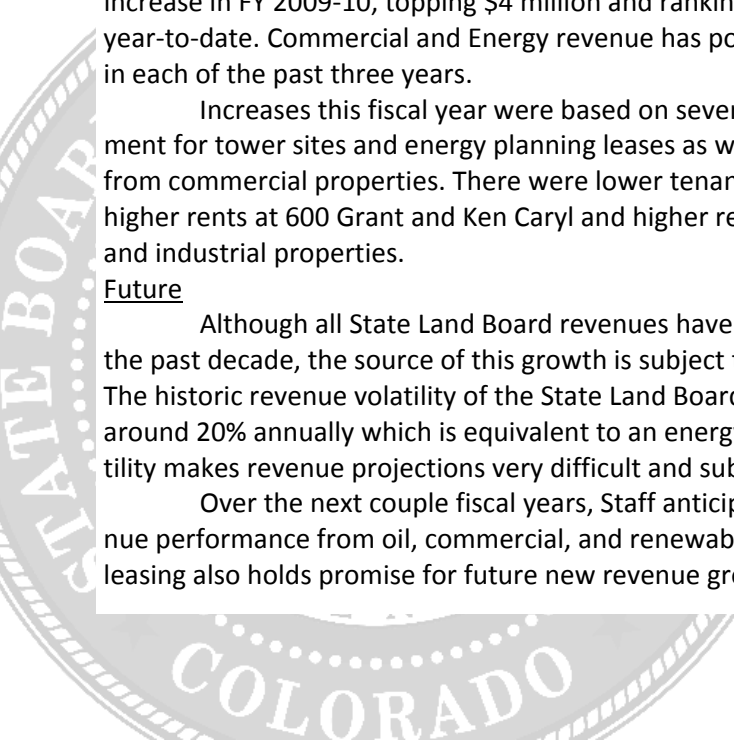
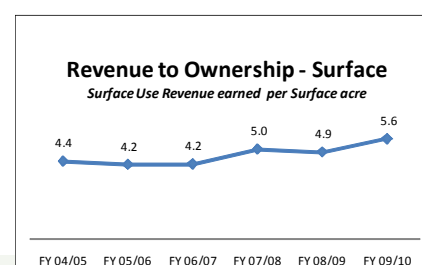
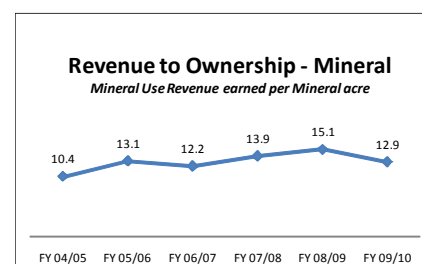
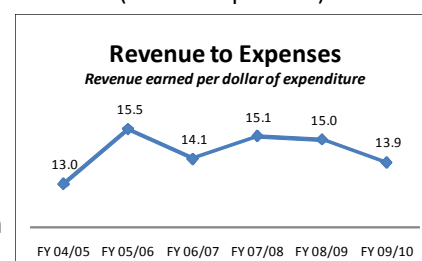
## Future

Although all State Land Board revenues have increased sharply over the past decade, the source of this growth is subject to extreme variability. The historic revenue volatility of the State Land Board revenues has been around 20% annually which is equivalent to an energy hedge fund. This volatility makes revenue projections very difficult and subject to sizable errors.

Over the next couple fiscal years, Staff anticipates good future revenue performance from oil, commercial, and renewable energy. Recreation leasing also holds promise for future new revenue growth.

## FINANCIAL RATIOS

(in dollars per unit)



## Revenue by Trust and Source - Fiscal Year 2009-10

			Internal			Public			Other		TOTAL
	School	CU	CSU	Improvements	Saline	Penitentiary	Buildings	Hesperus	Revenue		
Mineral Rental Income	1,729,683	1,920	29,513	42	-	-	2,872	-	-	1,764,030	
Mineral Royalty and Bonus	49,049,789	1,920	736,124	-	-	-	28,399	-	-	49,816,232	
Surface Rental Income	9,157,949	16,678	36,096	116,453	13,209	6,555	11,153	-	9,595	9,367,688	
Commercial Revenue	3,389,085	413	354	142,484	500	-	-	-	-	3,532,836	
Renewable Energy Income	469,211	-	-	17,603	-	-	-	-	-	486,814	
Other Rental Income	2,352,391	10,276	14,842	38,191	10,103	5,459	500	6,000	-	2,437,762	
Timber Sales	-	-	-	-	-	-	-	-	-	-	
Land Sales	4,095	-	1,888	5,778	-	-	-	-	-	11,762	
Interest Income	209,720	46	2,906	752	11	2	172,478	(5)	5	385,914	
Fee Revenue	-	-	-	-	-	-	-	-	79,729	79,729	
<b>Total Income</b>	<b>66,361,924</b>	<b>31,253</b>	<b>821,723</b>	<b>321,302</b>	<b>23,823</b>	<b>12,017</b>	<b>215,402</b>	<b>5,995</b>	<b>89,328</b>	<b>67,882,767</b>	
Operating Expenses	4,694,982	2,720	62,158	26,315	2,432	1,216	43,054	468	894	4,834,240	
Fund Transfers	2,964,552	-	-	-	-	(53)	-	(5)	-	2,964,494	
<b>Net Income</b>	<b>58,702,389</b>	<b>28,533</b>	<b>759,565</b>	<b>294,987</b>	<b>21,391</b>	<b>10,855</b>	<b>172,347</b>	<b>5,532</b>	<b>88,434</b>	<b>60,084,033</b>	

### CLOSED REAL ESTATE ACQUISITIONS FISCAL YEAR 2009-10

NAME	COUNTY	ACRES	AMOUNT	CLOSED	TRUST
Lazy D	Weld	2,240.00	\$ 1,455,600	12/14/2009	School
BLM-Sand Dunes <sup>1</sup>	Alamosa Conejos Fremont Saguache	9,623.26	\$ 5,043,460	12/16/2009	School
BLM-Sand Dunes <sup>1</sup>	Alamosa Fremont	2,680.00	\$ 68,000		School
Platte River	Logan	203.02	\$ 58,997	11/10/2009	School
<b>Total School Trust</b>		<b>14,746.28</b>	<b>\$ 6,626,057</b>		
Parks/Seimens Building	Larimer	1.32	\$ 3,678,644	01/27/2010	Parks
BLM-Sand Dunes <sup>1</sup>	Alamosa Conejos Fremont Saguache	2,680.00	\$ 2,686,540	12/16/2009	Parks
<b>Total Parks Trust</b>		<b>2,681.32</b>	<b>\$ 6,365,184</b>		
NPIC Water Shares	Larimer	n/a	\$ 105,000	03/24/2010	CSU
<b>Total CSU Trust</b>		<b>-</b>	<b>\$ 105,000</b>		

<sup>1</sup> The BLM-Sand Dunes Transaction is listed three times in the Disposal category in order to account for the distinction between surface and mineral lands.



**CLOSED REAL ESTATE DISPOSITIONS FISCAL YEAR 2009-10**

NAME	COUNTY	ACRES	VALUE	CLOSED	TRUST
SE Lincoln County-Pfost	Lincoln	40.00	\$ 5,000	01/27/2010	School
SE Lincoln County-Robert Norris	Lincoln	800.00	\$ 112,000	01/20/2010	School
North Hartman	Prowers	640.00	\$ 202,880	12/11/2009	School
Lazy D	Weld	4,852.08	\$ 2,002,393	12/14/2009	School
BLM-Sand Dunes <sup>1</sup>	Alamosa Saguache	30,558.23	\$ 4,579,762	12/16/2009	School
BLM-Sand Dunes <sup>1</sup>	Alamosa Saguache	26,496.88	\$ 533,698		School
Platte River	Logan	235.99	\$ 64,763	11/10/2009	School
City of Creede	Mineral	0.65	\$ 100	11/12/2009	School
Pecos	Adams	1.52	\$ 475,000	09/09/2009	School
Arvada Cemetery (Kipling)	Jefferson	4.26	\$ 65,100	10/16/2009	School
Logan County Landfill	Logan	165.72	\$ 571,466	08/31/2009	School
Logan County Board of Co. Comm	Logan	100.00	\$ 150,757	04/30/2010	School
<b>School Trust Dispositions Total</b>		<b>63,895.33</b>	<b>\$ 8,762,919</b>		
BLM-Sand Dunes <sup>1</sup>	Alamosa Saguache	20,686.38	\$ 2,685,540	12/16/2009	Parks
<b>Parks Dispositions Total</b>		<b>20,686.38</b>	<b>\$ 2,685,540</b>		
CERTIFICATE OF PURCHASE PAYOFF					
CP S-544	Gill	Pueblo	80.00	04/23/2010	School

<sup>1</sup> The BLM-Sand Dunes Transaction is listed three times in the Disposal category in order to account for the distinction between surface and mineral lands.



Colorado State Board of  
Land Commissioners

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***The Mission of the State Land Board:  
Protecting and Enhancing Permanent  
Endowment Assets  
for the Reasonable,  
Consistent and Ongoing  
Benefit of Public Schools and  
Public Facilities***

We're on the web!  
<http://colorado.gov/trustlands>

