

Colorado State Board of Land Commissioners



COLORADO
State Land Board
Department of Natural Resources

FY 2014-15 Annual Report

Director's Message

Supporting Colorado's Schoolchildren

I am proud to present the Colorado State Board of Land Commissioners (State Land Board) FY 2014-15 annual report. FY 2014-15 represents another critical milestone in our intergenerational support of state trust beneficiaries, namely Colorado's K-12 public schools.

During the past five years, we have produced record-breaking revenues and in FY 2014-15, we topped \$191 million. While our record revenues are largely due to oil and gas development, we also increased recurring revenues in renewable energy, recreation, commercial and agriculture.

In FY 2014-15, we also moved forward on our commitment to stewardship. We created new management practices for greater sage-grouse, implemented stewardship requirements for our lines of business, and for the first time since its creation, realigned the Stewardship Trust to include those properties with the highest natural value.

As we face future declining oil and gas revenues, we will increase our efforts to diversify trust revenues, including making investments in commercial and recreation assets, creating long-term leasing opportunities and building strong partnerships.

I would like to recognize our partners and lessees who help us meet our objectives, as well as the outstanding contributions made by our Commissioners and staff. Together we create opportunities to support state trust beneficiaries for generations to come.

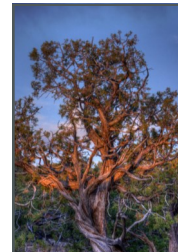
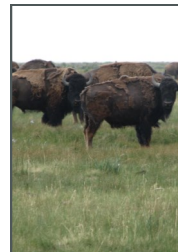
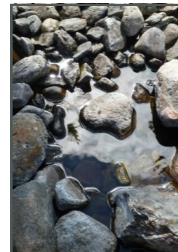
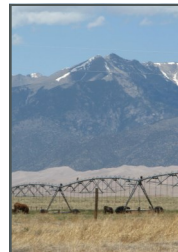
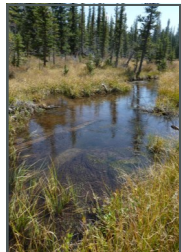
Bill Ryan, Director, Colorado State Board of Land Commissioners



Bill Ryan

FY 2014-15 Highlights

- Record revenues!
- \$93 million to BEST Program
- \$86 million to Permanent Fund
- Acquired two new ranches for agricultural and recreation use
- Realigned Stewardship Trust



About the State Land Board

Our Mission, Our Lands

Our Mission

The State Land Board was created in 1876, at statehood, when the US government designated lands to be held in trust and used for the benefit of common schools. Colorado received approximately 4 million acres of surface and mineral rights, the management of which supports public schools and public institutions. We manage these assets under a dual mission: to produce reasonable and consistent income over time, and to provide sound stewardship of the state trust assets. The Governor of Colorado appoints the Board for their individual expertise in specific areas of our agency activities.

Our Lands and Assets

We are the second-largest landowner in Colorado, following the federal government, currently maintaining 2.8 million surface acres and 4.0 million acres of mineral estate. With six district offices and our main office in Denver, our staff of 47 works state-wide, managing our properties, mineral estate, commercial buildings, and other assets held by the trusts. We are funded entirely by our own operations and do not rely on tax dollars.

Commissioners:

Buck Blessing
President/Citizen-at-large



Michele Bloom
Vice President/Education



Robert Bledsoe
Agriculture



Gary Butterworth
Natural Resources



Tom Gray
Local Government



Agriculture and Trust Lands



Farmers and Ranchers Working the Land

Our relationships with Colorado’s farmers and ranchers are important for the management of state trust lands. Colorado’s state trust lands are working lands leased to generate revenue for trust beneficiaries, and to ensure that the lands remain productive over time. Many lessees in rural parts of Colorado refer to these lands as “school sections,” because the federal government granted them to support common schools.

Our cooperative relationships with the agriculture industry run deep. The State Land Board has over 2,500 agricultural leases with Colorado’s farmers and ranchers. The majority of state trust lands, 2.4 million acres, are leased for grazing livestock, and another 40,000 acres are leased for dryland and irrigated crops. Crops on state trust lands include winter wheat, corn, alfalfa, barley, soybeans, and sorghum. We expect grazing revenues to increase in future years, largely due to elimination of drought credits as recent precipitation has alleviated Colorado’s drought conditions.

Total agricultural revenues were approximately \$10 million from state trust lands in FY 2014-15.

Grazing: \$6.4 million | Dryland crop: \$2.1 million | Irrigated crop: \$1.5 million

Bohart Ranch, El Paso County

Tanner Cattle Company

Located on rolling sandstone dunes southeast of Colorado Springs, the 48,000-acre Bohart Ranch is a state trust property with natural biological diversity on a large landscape scale. Bohart Ranch is under a long-term lease to The Nature Conservancy and the Tanner family.

Ranching operations on the Bohart Ranch date back to 1873. The Tanners have been involved with the property since 1942 when Jim Tanner became the ranch manager. Having lived through the Dust Bowl years, Mr. Tanner took a conservative approach to managing the Bohart. He wanted to make sure the property would provide through generations. Jim's ranch management philosophy was, "If you take care of the land, the land will take care of you."

Mr. Tanner's son and grandson, Dick and Nate Tanner, run the ranch today, working closely with representatives from the State Land Board and from The Nature Conservancy. Nate also serves as Chair of the State Trust Lands Committee for the Colorado Cattleman's Association. Though hard-hit by the recent drought, the Tanners' continued care for the property and long-term outlook assures that the Bohart Ranch will meet Jim Tanner's goals.

The partnership with the Tanners is critical to ensure care of this important state trust parcel for years to come.



*Nate Tanner
Tanner Cattle Company*

Highlights from Trust Revenues

Building Schools, Growing the Permanent Fund

FY 2014-15 Overview

State trust revenues broke all records with total revenues of \$191 million, 10% more than the prior fiscal year. While the majority of these revenues came from oil and gas development, most other state trust revenue sources increased as well.

In FY 2014-15, the BEST (Building Excellent Schools Today) Program received \$93 million from the State Land Board. Over the past five years, BEST received more than \$373 million from trust revenues. This money was used to provide financial support for building and renovating schools, primarily in rural Colorado.

In FY 2014-15, the Public School Permanent Fund (Permanent Fund) received \$86 million from the State Land Board. The Permanent Fund's balance increased to \$818 million, compared to \$581 million just five years ago. Despite the expected decrease in future state trust revenues, the Permanent Fund's balance is anticipated to grow to \$1 billion by FY 2017-18. The Public School Permanent Fund is managed by the State Treasurer's Office.

For our complete financial report, please go to our website to see the FY 2014-15 Income and Inventory Report:
<http://trustlands.state.co.us/Pages/AbouttheSLB.aspx>

Where do trust revenues go?



50%

3%

47%



School
Construction

SLB
Operations

Permanent
Fund

Revenue & Asset Highlights FY 2014-15

\$191 million total

\$167 million mineral revenue, mostly oil and gas

\$20 million surface revenue, including grazing, agricultural rents, commercial, tower leases, and renewable energy

10,000 leases and contracts on 2.8 million surface acres and 4.0 million subsurface acres

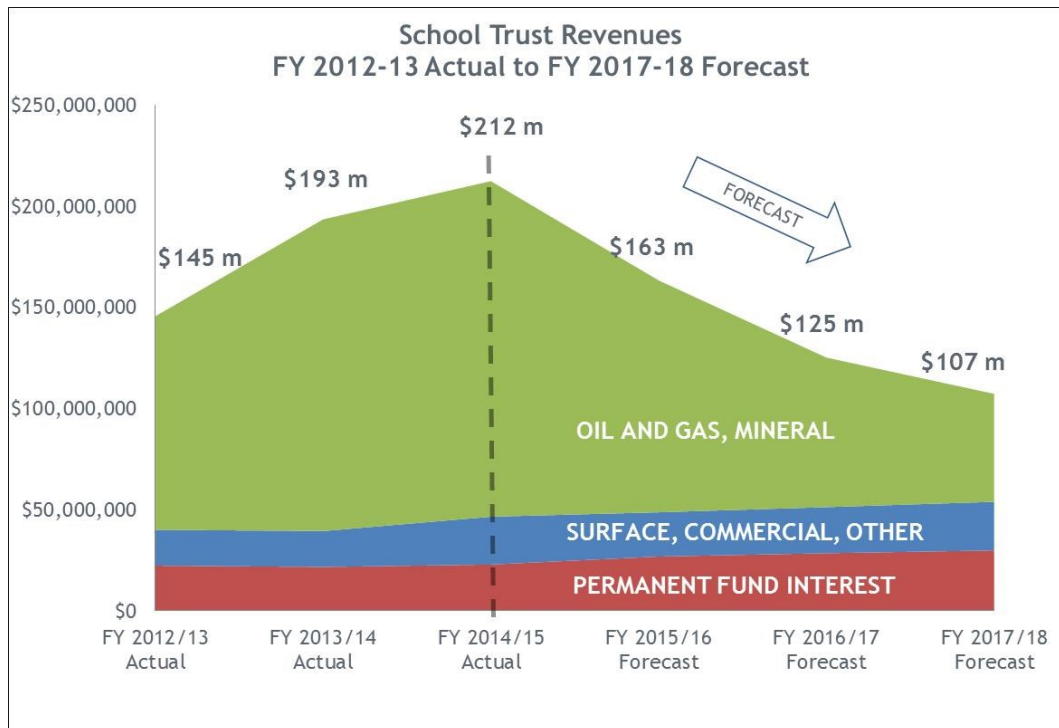
500,000 square feet of commercial lease space

Revenue Trends

Oil and Gas Development Impacts

Future Revenue Overview

During the past 5 years, revenues from Colorado's state trust lands increased substantially as oil and gas bonus payments and royalties escalated to record levels. However, Colorado oil prices have now dropped by more than fifty percent and oil and gas companies have significantly decreased oil and gas production in Colorado. Because our revenues are dependent on oil prices and production, these changes will negatively impact future state trust revenues.



During the next three years, state trust revenues are expected to drop by half. Bonus revenues will decline as leases with multi-year bonus payments expire. Royalty revenues are anticipated to decrease to less than \$40 million by FY 2017-18.

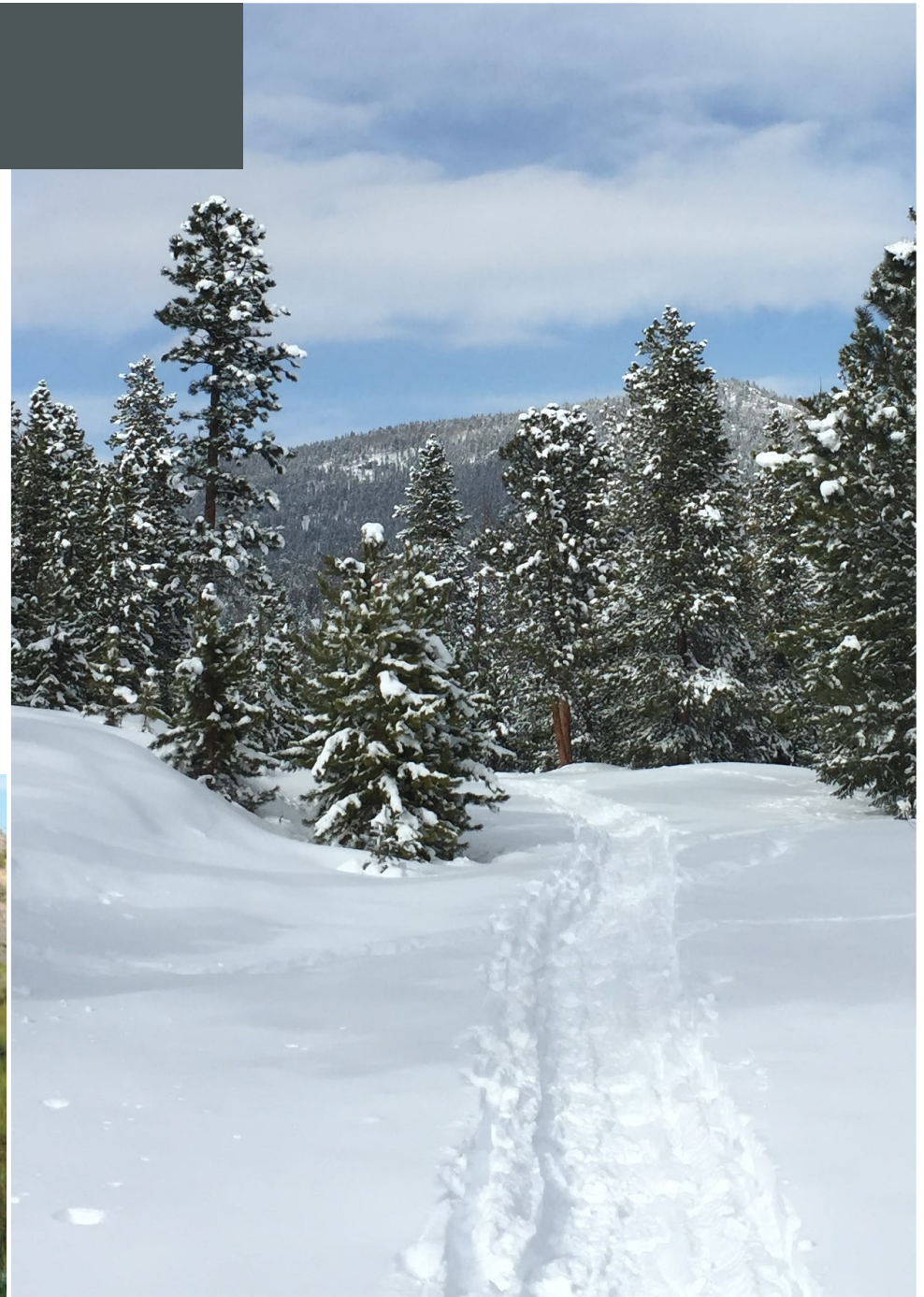
To address the oil and gas impacts, we are actively diversifying leases to generate more consistent income for trust beneficiaries. We pursue new lease revenue from recreational, renewable energy, commercial properties, and other recurring uses.

Recreation on Trust Lands

Increasing Opportunities

As part of the agency's overall plan to diversify revenue sources, State Land Board staff has expanded recreation opportunities on state trust lands during the past few years. Currently, there are recreation leases on state trust lands for hunting, fishing, horseback riding and camping. Leases from these activities generate approximately \$1.3 million each year.

The State Land Board is proactive about new recreation opportunities and will look to increase revenue through uses such as additional camping/lodging opportunities, working with outfitters, recreation groups, and short-duration events on state trust lands.



TJ Bar & Gray Ranches

Recreation and Ranching

Located in San Miguel and Dolores Counties in southwest Colorado, the State Land Board owns two adjacent ranches, the TJ Bar and Gray Ranches covering approximately 11,000 acres. These picturesque ranches have steep topography, timbered hillsides, large open meadows, views of mountain vistas and excellent large game habitat. The ranches are located between 8,400 and 10,000 feet in elevation and have several cabins and a modern lodge to support the grazing and hunting operations. The State Land Board assembled these properties for their exceptional recreation values and to diversify state trust holdings across Colorado.



Stewardship Trust

Realignment of the Trust

In 1996, Colorado voters approved Amendment 16, which created the State Land Board's Stewardship Trust. Approximately 10% of the agency's three million acres are designated into the Stewardship Trust, based on outstanding beauty, high natural values, critically important wildlife habitat and/or open space.

In 2011, we began the process to review the Stewardship Trust. The review process included:

1. Establish a clear understanding of the purpose and role of the Stewardship Trust
2. Develop a set of criteria for evaluating properties currently designated into the Stewardship Trust as well as for assessing properties for potential future designation
3. Complete scientific inventory of all Stewardship Trust properties
4. Solicit stakeholder input on anticipated changes to the Stewardship Trust

In May 2015, the Board voted to remove 11 properties (22,400 acres) and to designate 22 new properties (22,510 acres) into the Stewardship Trust.





Tools For Stewardship

To meet stewardship objectives, the State Land Board utilizes a robust set of management tools:

Stewardship Trust

Amendment 16 to the State Constitution created the Stewardship Trust, a special management designation placed (by the Board) on the state trust lands with the highest natural values to preserve the long-term benefits of, and returns from, those assets to the trusts.

Asset Management Plan (AMP)

For parcels which are 25,000 acres or more in size, the State Land Board develops AMPs to create management visions for specific properties that factor in financial, environmental and social conditions. AMPs help manage the natural resources existing on the parcels and often encourage multiple uses on these assets.

Colorado Natural Areas Program (CNAP)

CNAP is the Colorado Parks and Wildlife program for recognition and protection of areas that contain the rarest plants and geologic or paleontological features, which are annually monitored by citizen scientists to document natural conditions. 23 state trust parcels are designated natural areas.

Lease Terms and Special Stipulations

All State Land Board leases require lessees to act as good stewards of state trust assets. The State Land Board often adds additional conditions and stipulations to address the specific stewardship needs of a particular property.

Stewardship Action Plan (SAP)

The newest tool, SAPs address circumstances in which critical plant or animal species exist on non-contiguous state trust lands. SAPs are adaptive, developed in conjunction with lessees and experts, and serve as a management plan for state trust lands across large landscapes.



State Land Board Main Office
1127 Sherman Street, Suite 300
Denver, CO 80203
303.866.3454
www.colorado.gov/trustlands