

FY2016-2017 ANNUAL REPORT



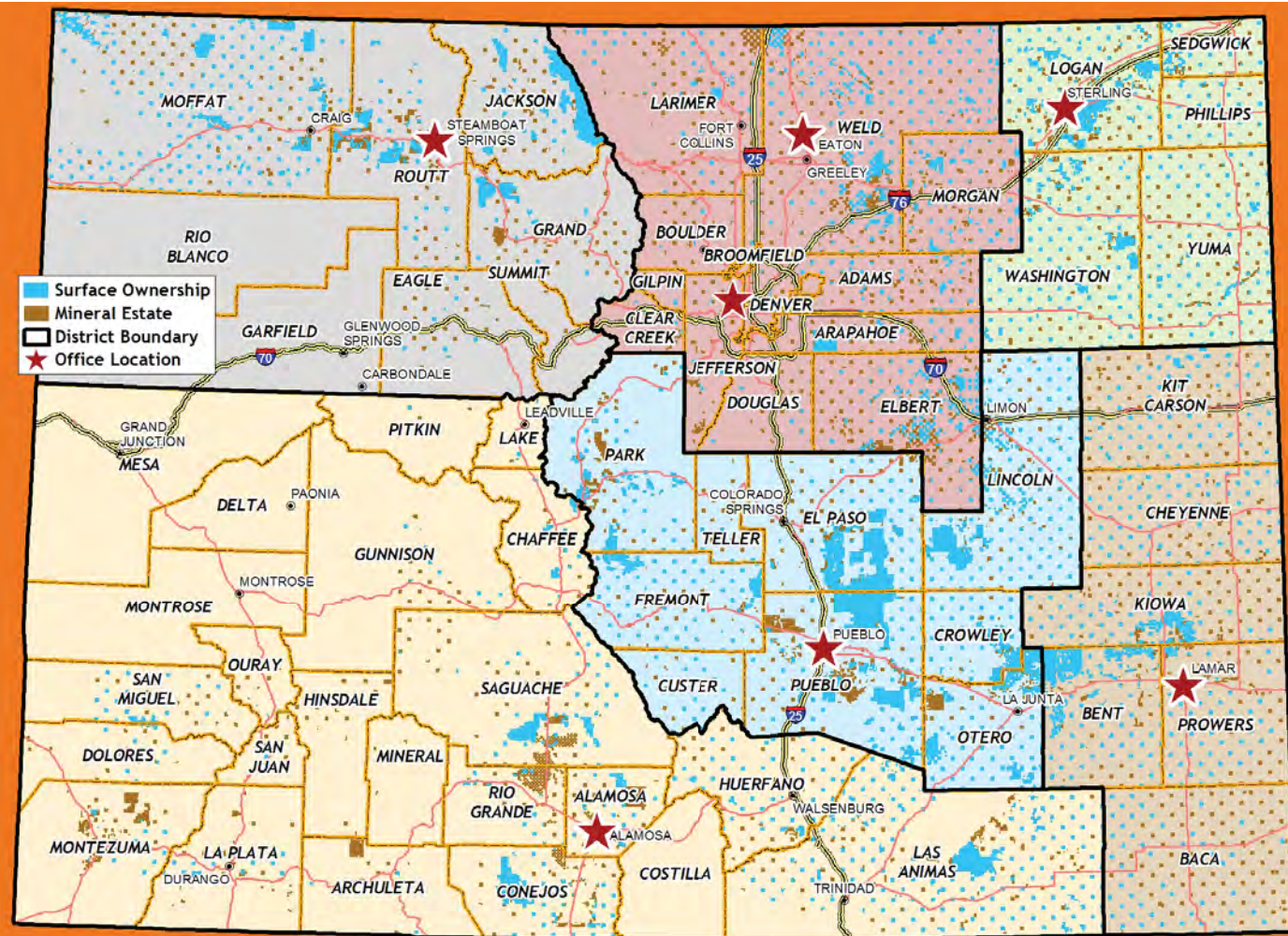
COLORADO
State Land Board

*An innovative land trust funding
Colorado schools since 1876.*



The state of Colorado covers 66.5 million acres. The State Land Board owns and stewards 2.8 million acres of that land and 4 million acres of mineral rights, making us the second-largest landowner in Colorado (4 percent). The federal government owns 36 percent. We have seven offices throughout the state; please visit us!

FY 2016-2017 ANNUAL REPORT



What you'll find in this report:

- Agency mission and history..... 4
- Leadership letter 5
- Who we are 6
- Contact us..... 7
- Working with us 8
- Stewarding the land 9
- Lessee spotlight 10
- Who we serve..... 12
- FY16-17 by the numbers 15
- Financial summary..... 17
- Trust beneficiary income..... 18
- Income statement 19

Learn more: colorado.gov/statelandboard

Cover Photo: Lowry Ranch in Arapahoe County. Photo courtesy of Raquel Wertsbaugh.

**We generated
\$119.4 million
in FY16-17.**

Our earnings have helped fund capital construction projects for more than 400 Colorado schools.

MISSION AND HISTORY

MISSION

The State Land Board manages an endowment of assets held in perpetual, intergenerational, public trusts for the financial support of Colorado's public schools and other public institutions.

DUAL RESPONSIBILITIES

Generate reasonable and consistent income over time, and protect and enhance the natural values of state trust lands.

VISION

Colorado's trust lands will be recognized as one of the most significant assets in our state, providing value for each generation of beneficiaries.



The State Land Board has extensive ownership of high meadow mountain parks in Colorado, such as Mt. Princeton state trust property in Chaffee County.



Schoolhouse in Gilpin, CO, circa 1900. Courtesy of Gilpin History Museum.

HISTORY

Our agency was created at statehood (1876) when President Ulysses S. Grant signed Proclamation 230 to make Colorado the 38th state to join the Union. Through the Colorado Enabling Act, Congress gave federal land grants to Colorado to support public beneficiaries, primarily public schools.

OUR FIDUCIARY DUTY

The State Land Board, as the trustee, has a legal and ethical obligation to act solely in the best interest of our beneficiaries.



COLORADO
State Land Board

LEADERSHIP LETTER



Ryan at the Bohart Ranch in El Paso County.

Greetings,

Colorado is revered for its abundance of natural resources. Included among these are the nearly three million acres of land and four million acres of mineral rights the State Land Board stewards and utilizes for the benefit of public education in Colorado.

We're proud of the important role that our intergenerational trust has in supporting state trust beneficiaries, principally Colorado's K-12 public schools. This year the State Land Board generated \$119.4 million for our beneficiaries.

The Building Excellent Schools Today (BEST) program, which provides funding in the form of competitive grants to school districts for capital improvement projects, is a meaningful way to see how our work helps beneficiaries. BEST has provided grants to improve more than 400 school facilities located across the state from Alamosa to Craig, affecting nearly 166,000 Colorado schoolchildren.

While extractive resources—particularly oil and gas—have generated the majority of our revenue, we are motivated to be innovative by increasing recurring revenues in renewable energy, recreation, commercial, and agriculture. We accurately predicted volatility in the oil and gas market: our oil and gas revenue in FY16-17 marked a continued decline. Thus, recurring revenues are critical to helping us fulfill our forward looking, intergenerational mission. As an entrepreneurial agency, we are constantly evolving, learning, and developing ways to better serve our beneficiaries and our customers. We welcome your ideas.

The successes you'll read about in this report have been the result of strong teamwork and partnerships. We are grateful to our Commissioners, the exemplary staff, hardworking lessees, engaged citizens, and our many partners across the state.

Thank you. Together we create opportunities to support state trust beneficiaries for generations to come.

Bill Ryan
Director
Colorado State Board of Land Commissioners

WHO WE ARE

Our agency is led by a Board of Commissioners. The Board is made up of five citizen volunteers, chosen by the Governor, and confirmed by the Colorado State Legislature. Commissioners are appointed to four-year terms and are limited to two consecutive terms. Our Commissioners are fiduciaries who hold a legal relationship with beneficiaries - primarily schoolchildren - to prudently take care of trust assets.

Our agency was founded at statehood (1876). The Colorado Constitution requires that four of the five Commissioners have substantial experience in four separate areas: public K-12 education, production agriculture, local government, and natural resources. The fifth Commissioner serves as a citizen-at-large. The Commissioners do not represent the interest of a particular sector. They represent the interest of the beneficiaries.

The Commissioners are supported by Staff Director Bill Ryan and 44 agency employees.



Commissioners tour the Lowry Ranch in Arapahoe County.

FY16-17 Board of Commissioners



Gary Butterworth
Natural Resources
Board President
Colorado Springs, CO



Robert Bledsoe
Agriculture
Hugo, CO



Barbara Bynum
Education
Montrose, CO



Greg Moffet
Local Government
Vail, CO



John M. Shaw
Citizen-at-large
Denver, CO

Checkerspot butterfly on Indian paintbrush

CONTACT US

Are you interested in leasing opportunities? Do you have questions or comments? We want to hear from you.

Call our main number at 303-866-3454 and we will direct your call accordingly. Or you can call us by location or by type of business.

LOCATIONS

We have seven offices throughout the state.

Alamosa | Southwest
719.589.2360

Denver | Main Office
303.866.3454

Eaton | North Central
970.454.5279

Lamar | Southeast
719.336.3031

Pueblo | South Central
719.543.7403

Steamboat Springs | Northwest
970.879.9992

Sterling | Northeast
970.522.0975

LINES OF BUSINESS

Agriculture
303.866.3454 x3325

Commercial Leasing
303.866.3454 x3327

Ecosystem Services
303.866.3454 x3318

Mining
303.866.3454 x3313

Oil and Gas
303.866.3454 x3326

Recreation
303.866.3454 x3342

Renewable Energy
303.866.3454 x3335

Rights-of-way
303.866.3454 x3328

Tower Sites
303.866.3454 x3328

Burrowing owl on yucca plant.

WHAT WE DO

The State Land Board generates revenue for schoolchildren and other beneficiaries by leasing state-owned trust lands and minerals. Ninety-five percent of lease payments pass to beneficiaries. In FY16-17 we had 8,098 active leases and we earned \$119.4 million.

We are entrepreneurial in our pursuit of income. While our recent success remains largely due to extractive leases, such as oil and gas development, we are pushing ourselves to be innovative by increasing recurring revenues.

The growth of recurring long-term revenue streams is critical to helping our agency fulfill our forward looking, intergenerational mission. That's why we have expanded renewable energy, recreation, ecosystem services, commercial real estate, and agriculture leasing.

We also layer leases as a strategy to maximize revenue. For instance, one parcel of land might have an agricultural cattle grazing lease as well as a right-of-way lease for a power line. We ensure that layered leases have minimal impact on one another.

LINES OF BUSINESS

- Agriculture (grazing, dry land crop production, and irrigated farming)
- Commercial real estate
- Ecosystem services (environmental mitigation of water, biodiversity, and carbon)
- Mining (limestone, gypsum, coal, precious metals, and more)
- Oil and gas
- Recreation (hunting, fishing, hiking, horseback riding, and more)
- Renewable energy (solar, wind, hydropower, geothermal, and biomass/bioenergy)
- Rights-of-way
- Tower sites
- Water resources

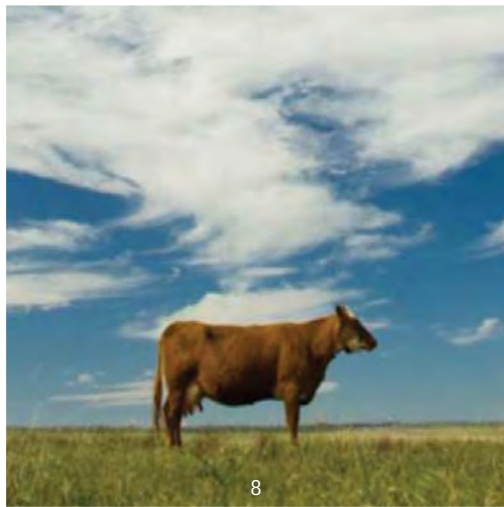
STEWARDING TRUST LANDS FOR GENERATIONS TO COME

We are responsible for carefully managing trust lands and assets for all generations. We have a dual mandate:

- 1) generate reasonable and consistent income over time, and
- 2) protect and enhance the natural values of state trust lands.

“It’s often said, ‘take care of the land and the land will take care of you.’ Responsible stewardship matters to us because state trust lands need to generate revenue not just for today’s students, but also for future generations of students.”

— Mindy Gottsegen
Conservation Services Manager
State Land Board



LESSEE SPOTLIGHT: FIVE GENERATIONS WITH THE MCCOY WIESER FAMILY



Claude and Rosette McCoy.
Photo courtesy of Judy Wieser.

In 1903, Claude McCoy (1878-1956) boldly boarded a one-way train from Illinois and took it as far west as it would go—Nebraska.

McCoy kept moving west. He did three things when he arrived at the Centennial state: he acquired a horse, purchased a pistol, and found a job as a ranch hand at the Bar T Ranch in eastern Colorado. It was a smart plan because at the ranch he met his future wife Rosette Gerber (1884-1988), a Swiss immigrant who worked as the ranch cook.

The newlyweds signed a lease with the State Land Board in 1906* for a 640-acre parcel of land in Idalia, CO. Together they successfully worked the eastern Colorado land for decades. They endured the dust bowl, the Arickaree River floods, the Great Depression, and two world wars. And they celebrated the births of four more generations of children.

Today, their young great-great grandchildren still live on the property. The McCoy's 111-year-old grazing lease is now managed by their great grandson Dennis Wieser.

During the family's tenure on the property, the land has become included in the Sandy Bluffs Wildlife Area and the Colorado Natural Areas Program. The Arickaree River runs through the property and is flanked by dozens of cottonwood trees: the

land is a prime sportsmen recreation area, and the State Land Board has layered private recreation leases with the family's grazing leases. Mr. Wieser recently added a wildlife-friendly crossing over the Arickaree.

The McCoy-Wieser family has been recognized at the state Capitol as great land stewards. In 2009, Governor Ritter honored the family with a Centennial Farms Award, which is the first awards program in America to honor families who have owned their farms and ranches for more than 100 years.

"Dennis is one of the best lessees on trust land, and it's really special to know that he and his family have been good stewards of the land for such a long time. The history of their family and the history of the property are woven together," said Wilbur Strickert, northeast district manager.

*Approximation based on available records.

Agriculture leases typically expire every 10 years. Per Colorado statute 36-1-118(c), lessees who are in good standing have a competitive advantage to renew their lease when it comes up for public bid. 118 rights foster continuity in land stewardship and help provide financial stability for families.

Judy (McCoy) Wieser reminisces about her grandparents while viewing a family photo album in her Kirk, CO, home with her husband Chester Wieser, pictured left, and son Dennis Wieser.

PARTNERING WITH LESSEES

HOW WE DO IT TOGETHER

95 percent of all lease payments pass directly to beneficiaries, primarily Colorado schools. Trust lands have generated \$1.6 billion for our schools in the last decade.



Photo courtesy of National Cancer Institute; photo by Michael Anderson

1 State Land Board leases land to lessees.

2 Lessees operate and take care of the land. Lessees make annual lease payments.

3 Revenue from lease payments directly supports beneficiaries, primarily (K-12) schoolchildren.

OUR IMPACT: SUPPORTING COLORADO SCHOOLCHILDREN

Leases on trust lands generated \$119.4 million in revenue in FY16-17 to support trust beneficiaries, primarily K-12 schoolchildren in Colorado.

Since 2008, the State Land Board has contributed nearly \$600 million to the Department of Education's Building Excellent Schools Today (BEST) program. BEST offers competitive grants to schools districts for the construction of new schools or the renovation of existing facilities.

The balance of revenue after BEST contributions and agency operations flows to the Public School Permanent Fund, which is an inviolable cash endowment managed by the State Treasurer's Office. The interest from the fund goes toward the state's education budget: the fund reached \$967 million in FY16-17, which generated \$21.3 million in interest.

The majority of BEST grant recipients are located in rural areas of the state.



Lake County High School in Leadville, CO, received a BEST grant for its \$26 million new facility.



A teacher helps a student at Otis School District R-3, which received a \$17 million grant to build a new pre K-12 school.

BEST GOALS

- Give students superior learning opportunities.
- Equip teachers with the best modern teaching tools.
- Build safe, secure, and healthy 21st-century, high-performing facilities.



"Our new school is a source of pride for our community. Students come to a safe and healthy environment each day and have access to technologies that they didn't have in the old facilities. The district has doubled in students living in poverty in just a few years. For some students, this is the nicest environment that they exist in. It is the largest and most modern building in town and the taxpayers are proud of their contributions to their town and youth."

— Kendra Anderson, Superintendent,
Otis School District R-3, recipient of a \$17 million grant to build a new pre K-12 school.

More than 166,000 Colorado schoolchildren have attended BEST schools.

FY16-17 BY THE NUMBERS

\$119,402,334
Total revenue

19.4
Percentage increase
in renewable
energy revenue

8,098
Number of
active leases

13
Number of
public meetings

295,979
Acres of land in the
Stewardship Trust

5
Number of Commissioners

2,805,919
Acres of surface
land managed

3,995,064
Acres of sub-surface
land managed

95
Percentage of lease
payments that pass
directly to beneficiaries

\$21,260,018
Interest generated for
schools from the \$967
million Public School
Permanent Fund

18,406
Number of miles driven by
Wilbur Strickert, Northeast
District Manager

7
Number of offices
across the state

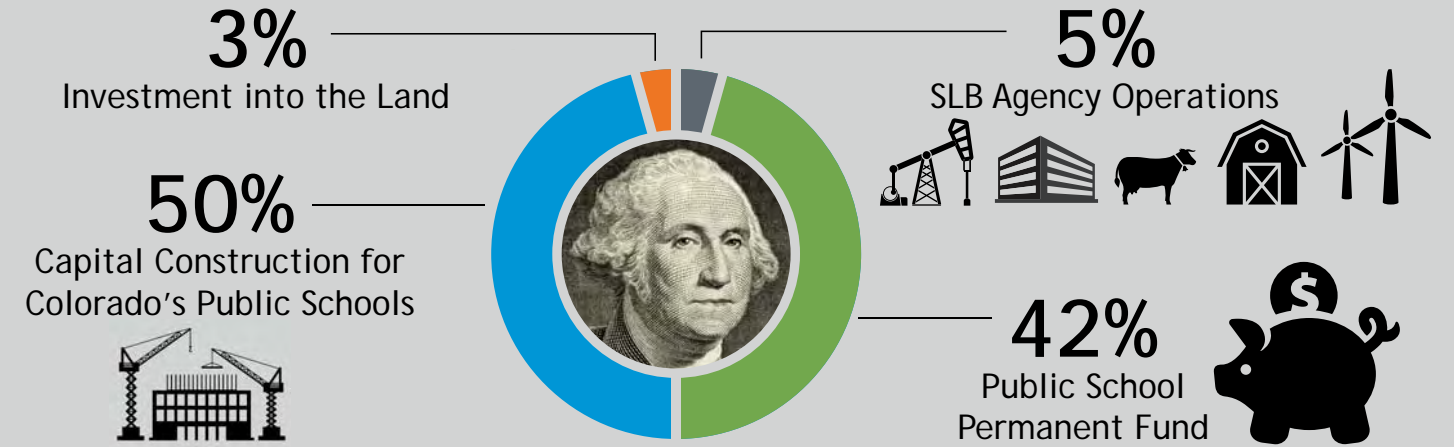
FY16-17 FINANCIAL OVERVIEW

Colorado state trust lands generated \$119.4 million in revenue in FY16-17 via more than 8,000 active leases. This revenue flows to eight trust beneficiaries, primarily Colorado schools.

As we anticipated, the continued downturn in the oil and gas markets resulted in a decrease in mineral revenues: mineral revenues were \$95 million, a 12.2 percent decrease from the previous fiscal year. The volatility of those markets underscores our agency's strategic efforts to diversify our revenue streams.

In fact, our decline in revenues from extractive resources was partially offset by the continued steady increase of recurring revenue streams, which had strong growth in FY16-17. Commercial revenues increased nearly 25 percent to \$2.9 million. Renewable energy increased 19.4 percent to nearly \$1 million. Grazing revenue increased 6.3 percent to \$8.3 million.

View the complete income and investment report: colorado.gov/statelandboard



FY16-17 Trust Revenue Allocations

50% = Capital construction for Colorado's public schools

Since 2008, 50 percent of our revenue has been directed to the Building Excellent Schools Today (BEST) program. We generated \$58.5 million for the BEST program in FY16-17. (See page 12 for a description of BEST.)

5% = Agency operations

The State Land Board is a self-funded state agency. We receive no taxpayer dollars. Rather, money for our operations comes entirely from trust gross revenues. The State Land Board employed 45 people and had \$6.4 million in operating expenses in FY16-17.

3% = Investment and Development Fund

Per statute, the I&D Fund allows the agency to invest up to \$5 million per year of School Trust revenue back into School Trust assets in order to increase or maintain the value and/or income of these assets for the trust. In FY16-17 the I&D Fund held \$4 million.

42% = Public School Permanent Fund

Every year, the balance of revenue after BEST contributions and agency operations flows to the Public School Permanent Fund (Permanent Fund). We deposited \$50 million into the fund in FY16-17, which brought the year-end balance to \$967 million. We anticipate that it will reach \$1 billion by FY17-18. This endowment fund is managed by the State Treasurer's Office. The body of the permanent fund is inviolable; the interest it generates is used to support K-12 education annually. In FY16-17 the Permanent Fund generated \$21 million in interest.



Cattle grazing generates revenue and serves an important stewardship role in maintaining grassland health.

BENEFICIARY INCOME

Gross Revenue for Trust Beneficiaries (FY16-17)

TRUST	BENEFICIARY	FY16-17 REVENUES	% of total
School Trust	Common Schools	\$118,356,860	99.12%
CSU Trust	Colorado State University	\$721,346	0.60%
Internal Improvements Trust	Colorado Parks and Wildlife	\$144,427	0.12%
CU Trust	University of Colorado	\$46,584	0.04%
Public Buildings Trust	Public Buildings	\$38,361	0.03%
Saline Trust	Colorado Parks and Wildlife	\$38,687	0.03%
Forest	Multiple	\$33,934	0.03%
Penitentiary Trust	Colorado Department of Corrections	\$18,100	0.02%
Hesperus Trust	Fort Lewis College	\$4,036	0.00%
TOTAL TRUST REVENUES		\$119,402,334	100.00%



TRUST REVENUE ALLOCATIONS

Annual Income Statement for All Trusts (Cash Basis)

REVENUE	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY2016-17
MINERALS					
Oil Royalties	\$34,041,139	\$76,606,584	\$79,241,180	\$42,071,794	\$44,023,788
Gas Royalties	\$13,803,886	\$23,469,305	\$26,126,529	\$17,481,817	\$20,714,628
Oil and Gas Rentals	\$2,621,722	\$2,348,291	\$1,970,488	\$1,616,604	\$1,185,520
Solids Royalties and Rentals <small>(coal, limestone, sand, gravel, water)</small>	\$2,922,434	\$2,744,543	\$9,112,913	\$4,536,874	\$8,942,276
Bonus	\$53,183,032	\$50,038,376	\$50,700,406	\$42,675,252	\$20,292,014
TOTAL MINERALS	\$106,572,213	\$155,207,099	\$167,151,516	\$108,382,341	\$95,158,225
SURFACE					
Agricultural Rental	\$2,684,459	\$3,168,492	\$3,657,610	\$3,876,351	\$3,908,112
Grazing Rental	\$6,458,486	\$5,687,364	\$6,570,484	\$7,850,888	\$8,348,545
Recreation	\$981,450	\$1,024,853	\$1,330,075	\$1,649,409	\$1,717,003
Right of Way	\$1,615,938	\$1,351,680	\$1,802,261	\$2,348,797	\$1,301,113
Other (interest, land sales, etc.)	\$2,253,305	\$2,349,072	\$7,045,544	\$8,706,926	\$2,924,460
TOTAL SURFACE	\$13,993,638	\$13,581,461	\$20,405,974	\$24,432,370	\$18,199,233
COMMERCIAL					
Buildings	\$2,884,474	\$2,745,932	\$2,099,478	\$2,372,291	\$2,962,950
Ground Lease	\$622,147	\$1,038,490	\$745,110	\$897,290	\$1,022,149
Tower Sites (cell, etc.)	\$265,548	\$346,549	\$302,614	\$390,892	\$361,809
Renewable Energy	\$601,382	\$683,974	\$650,134	\$801,217	\$956,440
TOTAL COMMERCIAL	\$4,373,550	\$4,814,944	\$3,797,336	\$4,461,690	\$5,303,349
TOTAL REVENUE	\$124,939,401	\$173,603,504	\$191,354,826	\$137,276,402	\$119,402,334
Operating Expenses	\$5,106,935	\$7,064,903	\$6,449,210	\$6,654,083	\$6,394,613
NET OPERATING INCOME	\$119,832,466	\$166,538,601	\$184,905,617	\$130,622,318	\$113,007,722
Permanent Fund Interest*	\$21,738,351	\$21,610,649	\$22,448,806	\$22,486,730	\$21,260,018
TOTAL REVENUE~	\$141,570,806	\$188,149,267	\$207,354,423	\$153,101,658	\$134,267,740

* Managed by the State Treasurer.
~ Net operating income + Permanent Fund interest

5-Year Cumulative Total Revenue \$824,183,876



COLORADO
State Land Board

colorado.gov/statelandboard
303-866-3454

1127 Sherman Street, Suite 300
Denver, CO 80203

The State Land Board Staff and Commissioners appreciate your partnership and welcome your feedback. Visit us at one of our seven offices throughout the state or join us at one of our monthly board meetings, which take place in alternating Colorado counties during the summer. Check our website for details.