

FISCAL YEAR
2017-2018

Annual Report

An innovative land trust funding Colorado schools since 1876.

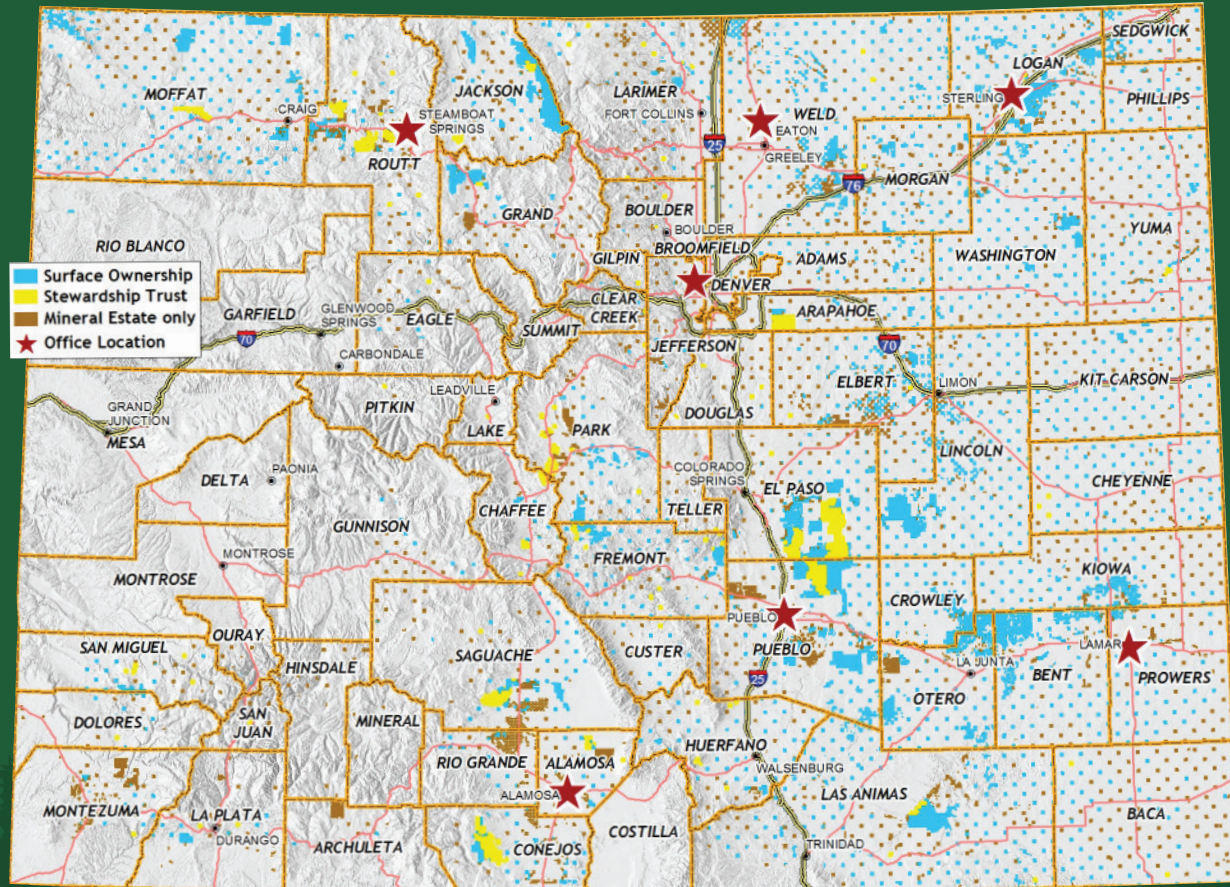


COLORADO
State Land Board

Our Ownership

The state of Colorado covers 66.5 million acres.

The State Land Board owns and stewards 2.8 million acres of that land (pictured below in blue) and 4 million acres of mineral assets (in brown)—called trust lands—, making us the second-largest landowner in Colorado. Ten percent of trust land acreage is specially designated into the Stewardship Trust (in yellow).



Cover (top left): The Otis School District in Washington County received a BEST grant to build a new school.
Cover (bottom): Lowry Ranch in Arapahoe County. Courtesy of Raquel Wertsbaugh.

We generated
\$150.5 million
in FY17-18

We are the second
largest landowner
in Colorado

10% of trust land acreage
is specially designated
into the Stewardship Trust

FY17-18 Annual Report

Greetings,

It's often said, "take care of the land and the land will take care of you."

Responsible stewardship matters to the Colorado State Land Board because state trust lands need to generate revenue not only for today's students, but also for future generations of school kids. Our team follows a stewardship framework in order to care for the land. Read about it on page 8 of this report.

We're incredibly proud of the important role our intergenerational trust has in supporting Colorado schools and other public institutions. We generated \$150.5 million for them this year, and \$833 million in the past five years cumulatively.

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

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

Thank you.

Bill Ryan
Director, State Land Board

WHAT YOU WILL FIND IN THIS REPORT

- Agency mission and history..... 2
- Our impact on schools..... 3
- Agency leadership 4
- Contact us..... 5
- Working with us 6
- How revenue flows to schools... 7
- Stewarding the land 8
- FY17-18 fun facts 10
- Finance summary 12
- The trust 14
- Permanent Fund
Investment Board 15
- Income statement 16
- Trust revenue allocations 17

▶ CONTACT US!

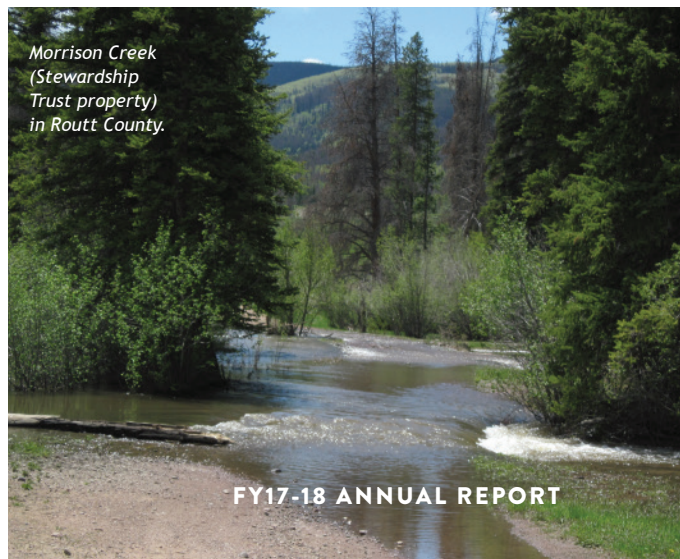


303.866.3454

colorado.gov/statelandboard



Shortgrass prairie wildflowers.



*Morrison Creek
(Stewardship
Trust property)
in Routt County.*

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.
- ✓ Protect and enhance the natural values of state trust lands.



Sunset at Lowry Ranch in Arapahoe County. Courtesy of Raquel Wertsbaugh.



School house in Gilman, CO, circa 1900. Courtesy of Gilman 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.



Altero Salt Creek (Stewardship Trust property) in Park County.

Our Impact on Schools

- Leases on trust lands generated \$131.8 million in revenue in FY17-18 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 \$1.05 billion in FY17-18, which generated \$25.5 million in interest.



“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.”

— Kendra Anderson, Superintendent, Otis School District R-3, recipient of 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.

More than
180,000
Colorado
schoolchildren
have attended
BEST schools.



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

Leadership

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. As fiduciaries, our Commissioners are responsible for prudently taking care of trust assets on behalf of beneficiaries, who are primarily Colorado schoolchildren.

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. Instead, they apply their industry experience when they make decisions on behalf of beneficiaries.

Commissioners are supported by 45 agency employees who are located in seven offices throughout the state.

► Learn more about our leadership @ colorado.gov/statelandboard/commissioners-director



Board tour of Aiken Canyon property in Fremont County.



Board tour of Sherman Creek Ranch in Jackson County.

Our Board of Commissioners



Gary Butterworth
Natural Resources
Colorado Springs, CO



Barbara Bynum
Education
Montrose, CO



Tyler Karney
Agriculture
Ordway, CO



Greg Moffet
Board President
Local Government
Vail, CO



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



Board tour of a mining site in South Central Colorado.



Holistic grazing workshop at Lowry Ranch in Arapahoe County. Courtesy of Raquel Wertsbaugh.

Contact Us



Electronic fence facilitates grazing management at Lowry Ranch in Arapahoe County. Courtesy of Raquel Wertsbaugh.

RECEIVE OUR E-NEWSLETTER

Stay in touch! Please contact us to sign up to receive our quarterly e-newsletter, *Field Notes*. View our past issues @ colorado.gov/statelandboard/fieldnotes



PDF of the Spring 2018 edition of Field Notes



Sheep Pen Canyon (Stewardship Trust property) in Las Animas County.

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 x3328

Rights-of-way
303.866.3454 x3328

Tower Sites
303.866.3454 x3328

Working With Us

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 FY17-18 we had 7,698 active leases and we earned \$131.8 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

6

Visit us @ colorado.gov/statelandboard

agriculture



commercial real estate



ecosystem services



mining



oil and gas



recreation



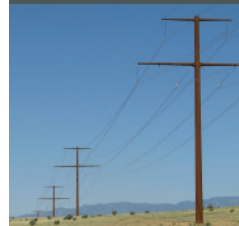
renewable energy



rights-of-way



tower sites



water resources



Lease Payments Support Colorado Schools

“Grazing leases are a huge part of land stewardship for us. Grazing improves the land over time if you do it right. We expect lessees to maintain the long-term quality of trust lands because our agency needs to earn money not only for today’s students, but also for future generations of children.”

— Kit Page, District Manager for the Southwestern region of the state

We're proud that...

95% of our income supports beneficiaries; we use only

5% to fund our operations.



Buffalo Creek in Park County.

 Your lease payment supports Colorado schools!



1 State Land Board leases trust lands and/or minerals to lessees.

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

3 Revenue from lease payments directly supports Colorado K-12 schoolchildren.

Our earnings have helped fund capital construction projects for more than 400 Colorado schools. Read more on page 3.



Magic Forest fen (Stewardship Trust property) in Park County.

Stewarding Trust Lands for Generations to Come

The State Land Board is 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.

The State Land Board uses a stewardship framework comprised of multiple tools for the responsible management of important natural values on state trust lands. All of the tools provide the agency with the opportunity to generate revenue for our beneficiaries. Our Commissioners strive to find a balance of both stewarding the land and earning income from it.

■ STEWARDSHIP TRUST

A special management designation placed by our Board on 10 percent of state trust lands with the highest natural values to preserve the long-term benefits of, and returns from, those assets to the trusts. The Stewardship Trust was created by Amendment 16 to the state Constitution.

■ COLORADO DESIGNATED NATURAL AREAS

The Colorado Parks and Wildlife (CPW) program that recognizes and monitors the state's finest examples of biodiversity, rarest plants, and geological or paleontological features.

■ ASSET MANAGEMENT PLANS

A management plan prepared by our agency for a specific state trust property (generally a large property asset of 25,000 acres or more).

■ STEWARDSHIP ACTION PLANS

A management plan prepared by our agency for a specific species or resource of concern on a landscape scale (i.e. greater than 20,000 acres).

■ LEASE STIPULATIONS

Timing and surface use stipulations applied to new leases, typically oil & gas leases, to protect wildlife and/or rare plants. The lessee is in violation of the lease and subject to termination if the stipulations aren't followed.

■ BEST MANAGEMENT PRACTICES

BMPs are on-the-ground practices or procedures that lead to enhanced stewardship outcomes on state trust lands.



Nokhu Crags at the State Forest State Park in Jackson County.

10%
percent of trust
lands in the
Stewardship
Trust

104
of properties
in Stewardship
Trust

296,131

of acres in the
Stewardship Trust

Stewardship

the office, duties, and obligations of a steward; the conducting, supervising, or managing of something; especially the careful and responsible management of something entrusted to one's care.

— Merriam-Webster



Burrowing owl on yucca plant
in Arapahoe County.

Amendment 16, Section 10

In 1996, the passage of Amendment 16 to the state Constitution by Colorado voters established a new emphasis in how our agency carries out our mission, particularly with regard to long-term productivity and sound stewardship of state trust lands. Amendment 16 specifically directed the Board to develop new tools that would promote sound stewardship and land management practices; long-term agricultural productivity; community stability; natural resource management practice; and conservation easements.



2,780,316

of trust acres
in Colorado



Protected Natural Values Include:

- ▶ Rare plants
- ▶ Important wildlife habitat
- ▶ Geologic formations
- ▶ Important cultural sites
- ▶ Important archaeological sites
- ▶ Beauty

9

“In the management of all state trust lands—and the Stewardship Trust in particular—the Board has a unique responsibility to assure intergenerational equity. Amendment 16 put particular emphasis on intergenerational equity. As trustees of a perpetual trust, we should recognize and seek balance between the needs of today’s schoolchildren and the needs of the generations of children to come. Responsible stewardship of the land assets protects those assets and their value for both current and future generations of beneficiaries.”


— Mike Bloom, Former Commissioner (2007-2015), State Land Board



Lupine and Indian paintbrush
wildflowers on the prairie.

FY17-18 By the Numbers

296,131
acres in the
Stewardship Trust



1,045,232,107
dollars in the corpus
of the Permanent Fund,
an inviolate endowment

997,421
number of acres
leased for
recreation

1
number of days the
extracted trust land oil
supported country-wide
US oil consumption

\$150,490,364
= Total Revenue

10


585,590
Animal Unit Month
(AUM) on active
leases


12
number of public
meetings


2,780,316
acres of surface
land owned


5
number of
Governor-appointed
commissioners

7
number of
offices throughout
the state

0
number of trust
land acres available
for public access if
there weren't any
recreation leases

3,693
number of lessees

87%
percent increase in
renewable energy
annual revenue


8 
number of interns

409 
number of schools that
received a BEST grant
since 2008


20,699
number of miles
driven by Steve Freese,
oil and gas technician,
while performing
site audits


45
number of
full-time
employees


7,698
number of active leases


3,990,099
acres of sub-surface
land managed

FY17-18 Financial Overview

Colorado state trust lands generated \$131.8 million in revenue in FY17-18 via 7,698 active leases. This revenue flows to eight trust beneficiaries, primarily Colorado schools. In total, we generated \$150.5 million, which reflects gross leasing revenue and Permanent Fund interest. View the annual income statement on page 17.

As we anticipated, the oil and gas markets continued to generally decline relative to the boom from 2008. More importantly, the markets continue to be unpredictable. Mineral revenues were \$103.5 million, which reflects a 9 percent increase from the previous fiscal year and a 61 percent decrease from four years ago.

The volatility of those markets underscores our agency's strategic efforts to diversify our revenue streams. In fact, our volatility in revenues from extractive resources was partially offset by the continued steady increase of recurring revenue streams, which had strong growth in FY17-18.

- **Commercial building revenues increased** nearly 33 percent to \$3.9 million.
- **Renewable energy increased** 87 percent to nearly \$1.8 million.
- **Grazing revenue increased** 6 percent to \$8.9 million.

NON-RECURRING REVENUE

= income earned from extractive resources, such as leases for solid minerals, oil, and gas.

RECURRING REVENUE

= income earned from renewable resources, such as leases for wind turbines, solar gardens, commercial real estate, and agriculture.



Mountain bluebells in Routt County.

VIEW OUR COMPLETE INCOME AND INVESTMENT REPORT @ colorado.gov/statelandboard/reports-2



Chalk Bluffs (Stewardship Trust property) in Weld County.

The State Land Board generated
\$150.5M
in FY17-18

12%
annual increase
in revenue

TRUST REVENUE ALLOCATIONS



FY17-18 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 \$64.9 million for the BEST program in FY17-18. See page 3 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 \$7 million in operating expenses in FY17-18.

■ 2% = 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 FY17-18 the I&D Fund held \$3.8 million.

■ 43% = 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 FY17-18, which brought the year-end balance to \$1.05 billion. 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 FY17-18 the Permanent Fund generated \$25.5 million in interest. Read more on page 15.



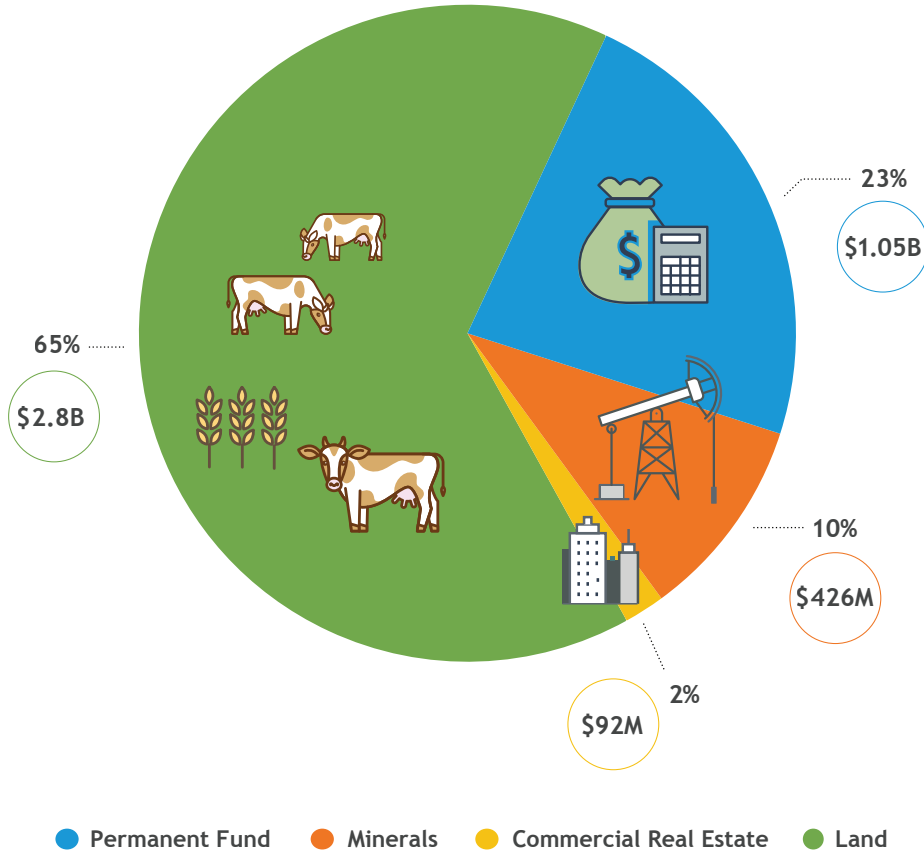
\$1.05 billion

amount in the Public School Permanent Fund



The Trust

The Colorado State Land Board manages trust assets that are valued at \$4.3 billion. We earn income annually for beneficiaries by managing the assets that comprise the trust: land, minerals, commercial real estate, and the Permanent Fund.



The Trust is valued at **\$4.3 billion**



A **TRUST** is an agreement in which one entity (**trustor/federal government**) agrees to transfer assets (land and mineral estate) to another entity (**trustee/Colorado State Board of Land Commissioners**) who manages the assets for the benefit of a third party (**beneficiary/Colorado schools**).

The Public School Permanent Fund

The Public School Permanent Fund is the financial component of the State Land Board's trust.


As of June 30, 2018, the endowment totaled \$1.05 billion. These funds are managed by the State Treasurer's Office and the Permanent Fund Investment Board (PFIB).

The corpus of the Permanent Fund is inviolable. The interest and earnings generated from the endowment is used to support beneficiaries (K-12 public schools) annually. Every year, the balance of the State Land Board's annual revenue after BEST contributions and agency operations flows into the Permanent Fund. Excise tax from marijuana sales also flows into this endowment.

The PFIB was created in 2016 to ensure reasonable growth of the endowment. The board directs the State Treasurer on how to securely invest the money for the intergenerational benefit of Colorado's public schools. The board members have a fiduciary duty to preserve, protect, and grow the principal of the endowment with a prudent level of risk over a long-term horizon.

The PFIB reports to the Commissioners of the State Land Board. Per Statute, the chair of the PFIB is the State Treasurer, and one member is a Commissioner from the State Land Board. The remaining three positions are filled by industry experts.




The \$1.05 billion
Permanent Fund
endowment generated
\$25.5 million
in interest in FY17-18.

FY17-18 PERMANENT FUND INVESTMENT BOARD MEMBERS:

- Walker Stapleton
Colorado State Treasurer
(Board Chair)
- Jackie M. Hawkey
Black Creek Group
- John Hereford
Oakleaf Energy Partners
- Greg Moffet
Representative from the State
Land Board
- Frederick Taylor
Northstar Investment Advisors

Beneficiary Income

Gross Revenue for Trust Beneficiaries (FY17-18)

TRUST	BENEFICIARY	FY17-18 REVENUES	% OF TOTAL
School Trust	Common Schools	\$129,789,483	98.49%
Internal Improvements Trust	Colorado Parks and Wildlife	\$1,022,514	0.78%
CSU Trust Common Schools	Colorado State University	\$748,765	0.57%
CU Trust	University of Colorado	\$61,975	0.05%
Forest	Multiple	\$46,766	0.04%
Saline Trust	Colorado Parks and Wildlife	\$42,795	0.03%
Public Buildings Trust	Public Buildings	\$42,303	0.03%
Penitentiary Trust	Colorado Department of Corrections	\$17,790	0.01%
Hesperus Trust	Fort Lewis College	\$12,316	0.01%
Total Trust Revenues		\$131,784,705	100.00%

MESSAGE FROM OUR CFO

“The data presented in this annual report have been prepared in accordance with generally accepted government accounting standards by the hardworking staff of the Colorado State Land Board and the Office of the Treasurer. This report accurately represents the activity of the trust assets during fiscal year 2018.”

— Nick Massie, CFO-COO, Colorado State Land Board



Indian paintbrush, yucca, and coreopsis wildflowers.

Trust Revenue Allocations

Annual Income Statement for All Trusts (Cash Basis)					
REVENUE	FY13-14	FY14-15	FY15-16	FY16-17	FY17-18
Minerals					
Oil Royalties	\$76,606,584	\$79,241,180	\$42,071,794	\$44,023,788	56,046,618
Gas Royalties	\$23,469,305	\$26,126,529	\$17,481,817	\$20,714,628	25,154,539
Oil and Gas Rentals	\$2,348,291	\$1,970,488	\$1,616,604	\$1,185,520	1,296,410
Solids Royalties and Rentals (coal, limestone, sand, gravel, water)	\$2,744,543	\$9,112,913	\$4,536,874	\$8,942,276	5,689,805
Bonus	\$50,038,376	\$50,700,406	\$42,675,252	\$20,292,014	15,343,624
Total Mineral Revenue	\$155,207,099	\$167,151,516	\$108,382,341	\$95,158,225	\$103,530,996
Surface					
Agricultural Rental	\$3,168,492	\$3,657,610	\$3,876,351	\$3,908,112	3,866,369
Grazing Rental	\$5,687,364	\$6,570,484	\$7,850,888	\$8,348,545	8,887,053
Recreation	\$1,024,853	\$1,330,075	\$1,649,409	\$1,717,003	2,111,253
Rights-of-Way	\$1,351,680	\$1,802,261	\$2,348,797	\$1,301,113	\$2,833,525
Other (interest, land sales, etc.)	\$2,349,072	\$7,045,544	\$8,706,926	\$3,665,988	\$3,374,331
Total Surface Revenue	\$13,581,461	\$20,405,974	\$24,432,370	\$18,940,761	\$21,072,531
Commercial					
Buildings	\$2,745,932	\$2,099,478	\$2,372,291	\$2,962,950	\$3,930,976
Ground Lease	\$1,038,490	\$745,110	\$897,290	\$1,022,149	\$1,095,940
Tower Sites (cell, etc.)	\$346,549	\$302,614	\$390,892	\$361,809	\$362,276
Renewable Energy	\$683,974	\$650,134	\$801,217	\$956,440	\$1,791,986
Total Commercial Revenue	\$4,814,944	\$3,797,336	\$4,461,690	\$5,303,349	\$7,181,178
Total Trust Gross Revenue	\$173,603,504	\$191,354,826	\$137,276,402	\$119,402,334	\$131,784,705
Non-Trust Fee Revenue[^]	\$135,693	\$100,145	\$117,811	\$102,324	\$140,435
Total Agency Revenue[^]	\$173,739,198	\$191,454,971	\$137,394,213	\$119,504,659	\$131,925,140
Operating Expenses	\$7,064,903	\$6,449,210	\$6,654,083	\$6,394,613	\$6,971,524
Net Operating Income	\$166,674,295	\$185,005,761	\$130,740,130	\$113,110,046	\$124,953,616
Permanent Fund Interest*	\$21,610,649	\$22,448,806	\$22,486,730	\$21,260,018	\$25,536,748
Total Revenue ~	\$188,284,944	\$207,454,567	\$153,226,860	\$134,370,064	\$150,490,364
5-Year Cumulative					\$833,826,799

[^] Revenue earned from non-trust sources. New reporting as of this fiscal year.
Past years' numbers are adjusted accordingly in this publication.

* This trust asset is managed by the State Treasurer.

- Net operating income + Permanent Fund interest.



COLORADO
State Land Board

An innovative land trust funding Colorado schools since 1876. | 303.866.3454 | colorado.gov/statelandboard

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. Check our website for details.

Wilson Mesa (Stewardship Trust property) in San Miguel County.