

ANNUAL STAFF REPORT

ON THE MANAGEMENT
OF STATE SCHOOL LANDS
FISCAL YEAR 2018-2019



NOTE TO THE READER

School Lands were granted to the State of California on March 3, 1853 by an Act of Congress (Ch. 145, 10 Stat. 244) to support public schools. These lands consisted of the 16th and 36th sections of land in each township, save lands reserved for other public purposes, lands previously conveyed, e.g., rancho lands, sovereign lands, and swamp or overflowed lands, and lands known to be mineral in character. A supplementary act in 1927 expanded the grant to include minerals (Ch. 57, 44 Stat. 1026). No federal patents to the State were required under the grant. Title to the lands was vested in the State upon approval of the U.S. Township Survey Plats.

Indemnity School Lands (also known as Lieu Lands) - When a Section 16 or Section 36 was not granted to California because of an exception, the State was given the opportunity to select replacement lands from the United States (Ch. 81, 19 Stat. 267). Each transaction involved several steps. First, the State filed a list with the federal government describing the lands lost, which were known as base lands. Second, the State filed a list with the federal government describing other federal lands selected in place of the base lands. When the federal government approved replacement lands, it issued the State a Clear List. California's rights to the base lands were relinquished back to the federal government and title to the selected lands became vested in the State. The Clear List was the document of conveyance; the federal government issued no patents.

For this Annual Report, the term *school lands* is used to describe lands obtained under the Act of 1853 and indemnity school lands acquired through the Clear List application process.

The State Lands Commission has jurisdiction over approximately 458,843 acres of fee-owned school lands. This estimate is based on the best available mapping software, survey records, and other information in the Commission's files. Many of the school land parcels, however, have not been surveyed on the ground, so this total is only an estimate and its accuracy is not guaranteed.

The **Annual Staff Report on the Management of State School Lands** is prepared pursuant to Public Resources Code section 6477, which requires the State Lands Commission to report annually to the Legislature and the Governor on the management of school and indemnity lands. The report spans the fiscal year from July 1, 2018 through June 30, 2019.

CALIFORNIA STATE LANDS COMMISSION

ANNUAL STAFF REPORT

ON THE MANAGEMENT OF STATE SCHOOL LANDS

FISCAL YEAR 2018-2019

SUBMITTED TO:

- **HONORABLE GAVIN NEWSOM, GOVERNOR**
- **THE CALIFORNIA STATE LEGISLATURE AND**
- **THE STATE TEACHERS' RETIREMENT SYSTEM**



CALIFORNIA STATE LANDS COMMISSION
ELENI KOUNALAKIS, LIEUTENANT GOVERNOR
BETTY T. YEE, STATE CONTROLLER
KEELY BOSLER, DIRECTOR OF FINANCE
JENNIFER LUCCHESI, EXECUTIVE OFFICER

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A large, stylized number '15' is positioned in the background. The '1' is light gray and the '5' is white, both set against a tan background. The number is partially obscured by a vertical line and the text of the table of contents.

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IN THE CALIFORNIA DESERT**

Photo Credits

Page 2: Calpine's Eagle Rock Unit 11. Photo by John Grice, courtesy of Calpine Corporation

Page 3 top: Calpine's Calistoga Unit 19. Photo by John Grice, courtesy of Calpine Corporation



EXECUTIVE SUMMARY

The State Lands Commission manages approximately 458,843 acres of school lands held in fee ownership and the reserved mineral interests on approximately 790,000 acres of school lands where the surface estate has been sold. These interests are what remain of the 5.5 million acres granted by Congress in 1853. The State sold most of the original school lands during the first 130 years of statehood.

Management of the School Lands Program is divided between the Mineral Resources Management Division and the Land Management Division. The Mineral Resources Management Division is responsible for geothermal resource, solid mineral, and oil and gas activities on school lands. The Land Management Division is responsible for surface activities on school lands. These management activities are funded either through the School Land Bank Fund (e.g., the Abandoned Mines Program) or are reimbursed before remittance of net revenues to the Teachers' Retirement Fund.

School lands were placed into a statutory trust in 1984 when the Legislature enacted the School Land Bank Act (Act) and established the School Land Bank Fund. The Commission is the trustee of the Fund. The Act states that school lands and attendant interests are to be proactively managed and enhanced to provide an economic base in support of public schools. The Act requires the Commission to take all action necessary to fully develop school lands, indemnity interests, and attendant mineral interests into a permanent and productive resource base. Public Resources Code section 8701 emphasizes developing school lands in this manner and underscores that all transactions, including exchanges, sales, and acquisitions, should be implemented for revenue-generating purposes.

Public Resources Code section 6217.7 requires that the Commission deposit all net revenues, monies, and remittances from the sale of school lands into the State Treasury to the credit of the School Land Bank Fund. Public Resources Code section 6217.5 requires, with one exception¹, that all net revenues, monies, and remittances from school and indemnity lands (i.e., royalties, rents, and interest generated from promissory notes) are deposited into the State Treasury to the credit of the Teachers' Retirement Fund, which benefits the State Teachers' Retirement System (STRS).

The Commission's priorities in administering the School Lands Program are to maximize revenue and reserved mineral interests to benefit STRS and to protect the assets of the School Land Bank Fund. Net revenue transferred to the STRS fund during fiscal year 2018-19 was \$6,254,854.46, a decrease of 2 percent compared to fiscal year 2017-18.

The School Land Bank Fund's fiscal year-end balance was \$70,832,399.19. For a summary of Fund activities, see the "Financial Summary: Fiscal Year 2018-19" table on page 15.

¹ The one exception in section 6217.5 is as follows:

"For all lands of the United States which are received by the State Lands Commission as indemnity lands pursuant to Section 851 of Title 43 of the United States Code after July 1, 1980, the revenue received by the state from the leasing of these lands for geothermal development shall be distributed as follows:

- (a) Fifty percent of all revenues shall be deposited in the Geothermal Resources Development Account and disbursed pursuant to this chapter.
- (b) Fifty percent of all revenues shall be deposited in the Teachers' Retirement Fund and shall be expended pursuant to Section 24702 of the Education Code."

GEOHERMAL, SOLID MINERALS AND OIL & GAS

This element of the School Lands Program strives to maximize royalty and rent revenues while protecting the environment, advancing California's climate goals and achieving the highest levels of public safety. Historically, most revenue generated for STRS from school lands were from mineral production interests. For a summary of this fiscal year's revenues, see the table entitled "Revenue Summary" on page 10.

FISCAL YEAR 2018-19 ACTIVITIES



GEOHERMAL

Royalty revenue from geothermal production is derived from the sale of natural steam and produced electricity from State leases at the Geysers Geothermal Field in Sonoma and Lake counties. Electricity generated from steam is sold to local utilities. Current law requires that a portion of the revenue be returned to the State and specifies the formula for apportioning revenue. Geothermal royalties totaled \$5,213,454.56 in fiscal year 2018-2019.

Geothermal Leases at The Geysers

The Geysers, the most extensive geothermal field in the world, has operated commercially for over a half century. The field typically generates about 700 megawatts of electricity annually from roughly 28,000,000 pounds of steam, which is enough to supply electricity for over 700,000 homes for a year. Steam production has been stable since the mid-1990s as a result of consolidating field operations and increased water injection into the reservoir. Nearby reclamation plants in Lake County and the city of Santa Rosa provide injection water to the field.



The Commission owns a 100 percent mineral interest in 7,247 acres under lease at the Geysers and a 1/16th mineral interest in another 895 acres. Most of these parcels were acquired from the Bureau of Land Management through the indemnity selection process. Geysers Power Company LLC and CPN Wild Horse Geothermal LLC, subsidiaries of Calpine Corporation, hold these leases (Lease 4596, 4596 “A,” 4597, 5206, 6422, 7845, 7179, 8556, 8844 and 8950). Geysers Power Company LLC owns and operates 17 of the 22 electrical-generating units at the Geysers.

Other Geothermal Lease and Permit Activity



There are parcels at Truckhaven in Imperial County that are available for leasing. These parcels are interspersed with privately-owned lands, federally-owned lands managed by the BLM, and other State lands owned and managed by the California Department of Parks and Recreation.

In March 2015, an applicant applied for a geophysical permit to conduct a three-dimensional seismic survey to evaluate geothermal resources in the Truckhaven area. The applicant also applied for a geothermal lease in the Truckhaven area. The project involves drilling up to ten geothermal wells, four of which would be located on school lands. The completion of biological, cultural and paleontological surveys are required as part of the environmental review required under the California Environmental Quality Act (CEQA) and the National Environmental Policy Act.

Imperial County will be the CEQA lead agency for this Project. The applicant has applied to Imperial County for a Conditional Use Permit for conducting a seismic survey and to drill. If approved by Imperial County, Commission consideration for issuance of the geophysical permit may occur early in 2020. Commission consideration of the geothermal lease could follow in the spring of 2020.

In September 2017, the Commission approved Permit 9245 with a 2-year permit extension. The permit is located on a 640-acre parcel located in Inyo County. The project includes drilling an exploratory geothermal well—to determine commerciality of the geothermal resource. The parcel is surrounded by the Haiwee Geothermal Lease Area, an assemblage of federal parcels that BLM may offer for lease in the future.

SOLID MINERALS

The solid minerals program generated \$798,385 in revenue, a 5 percent increase from the prior year's revenue. The increase is attributable to Lease 7301 in San Diego County and Lease 8831 in San Bernardino County. Both leases increased their production and revenue. Lease 7301 generated \$636,066 in royalty revenue—80 percent of the total solid mineral revenue. The Commission manages four solid mineral extraction leases and one precious metal lease involving 1,116 acres of land.

Mineral Extraction Leases



Lease 8253, suspended mining in 2016 and the quarry became fallow in 2018. A large quantity of aggregate, however, is stockpiled and sold periodically. The quarry serves the Victorville area in San Bernardino County. Sales did not exceed the lessee's Vulcan minimum annual royalty of \$52,660.



Lease 8831, is for operation of an aggregate quarry near Hesperia in San Bernardino County. The royalty is \$87,022.82, a 59 percent increase from the previous fiscal year. The lessee, Hi-Grade, plans to mine aggregate for the next three decades.



Lease 7301, is in San Diego County. The lease generated \$636,066 in revenue and is our largest solid mineral revenue contributor. The lessee's, Hanson Aggregate, other nearby quarry was mined out and closed, and steady aggregate sales are expected from this site, known as the Vigilante Quarry.



Lease 8039, is for a gold mine in Imperial County. There has not been any active gold mining on the 658-acre parcel since 2014. As of March 2019, 277 ounces of the State's gold ore remains on the heap leach pad for recovery and sale. The Commission received \$22,637 in royalty for the sale of the gold ore. It is estimated that the Commission will receive its final royalty payment within the next few years, since the State is paid when the product is sold.



On April 19, 2018, the Commission approved mineral extraction Lease 9451 for an existing quarry located near Ludlow. The lease is intended to mine aggregate for public use, such as road maintenance on the historic Route 66 and may sell aggregate to maintain roadways and bridges. The lessee did not mine, use or sell any aggregate but used the site for vehicle and equipment storage.

Mineral Prospecting Permits

The Commission manages seven mineral prospecting permits on school lands.

- Permit 9305 – Precious metals. This permit is for a parcel northeast of Baker in San Bernardino County that contains the Arrow Gold Mine—a small gold mine last operated in the 1930s for gold and silver.
- Permit 9441 – Precious and base metals. This permit is for a parcel in the Mescal Mountains of San Bernardino County that contains the Iron Horse Mine, which was active during the 1940s for precious and base metals.
- Permit 9516 – Lithium minerals. This permit expired in October 2019. No prospecting activities were reported. The parcel is in a remote part of Inyo County near an unincorporated region called Scranton, near the Nevada border.
- Permit 9378 – Precious metals. This permit is for a parcel that is located near the town of Randsburg in Kern County. The permittee discovered a small amount of placer gold, but not in any commercial quantities.
- Permit 9419 – Precious metals. This permit is for a remote parcel in north of the old gold mining town of Bodie in Mono County. Geological mapping and sampling have revealed promising areas for additional exploration.
- Permit 9385 – Lithium minerals. This permit expired in December 2018, and no activities were reported during the permit term. The parcel is located one mile south of Ballarat in Panamint Valley, Inyo County.
- Permit 9390 – Lithium minerals. This permit for geologic mapping and rock sampling expired in April 2019 with no activities reported. The parcel is located 8 miles south of Ballarat in Panamint Valley, Inyo County.

RENEWABLE ENERGY

The Commission continues to pursue opportunities for renewable resource development, such as solar, wind, geothermal, and biomass. The Commission also responds to external inquiries about renewable energy development and continues to promote parcels with solar and wind potential to interested parties for responsible renewable energy development. Additional information is below.

- **Renewable Energy Development Marketing:** Staff developed a marketing strategy proposal to showcase and exhibit high potential school land parcels for renewable energy development. The marketing plan was inspired by renewable energy market efforts undertaken in other states - particularly Nevada and Arizona. These states have developed renewable energy maps featured on their website that illustrate swaths of lands with renewable energy development potential. Specific renewable energy development, such as wind or solar projects, is initially sited by staff and displayed as discreet areas that have been segregated and identified as polygons in the Commission's map on its website depicting renewable energy potential. This interactive map allows the user to click on areas that the Commission has determined as suitable for renewable energy, enabling potential developers to begin a feasibility analysis. Commission staff may develop and disseminate marketing dashboards and brochures about the Commission's renewable energy program.
- **Electric Vehicle Charging Station** Staff initiated a statewide analysis of the feasibility of installing electric vehicle (EV) charging stations on school lands. Staff contacted several companies and conducted a proximity analysis to identify state parcels near roads and high traffic corridors where EV stations could be located. The EV charging companies staff contacted are EVBox, Blink, Greenlots, and ChargePoint. The proximity analysis, using a half-mile buffer distance, found that the cities of Barstow and Baker were the best candidates for EV charging stations. Staff believes that the continuing electrification of the transportation sector will create additional opportunities.
- **Lithium Potential of State Lands:** Staff continued to research lithium potential on state lands. In addition to its three mineral prospecting permits for lithium exploration, staff is researching other school lands that may possess potential for lithium extraction. Staff has identified parcels that contained varying concentrations of lithium within clay deposits that are presently difficult to commercially extract. Two of our lithium exploration permits, located in Panamint Valley, possess a similar geologic environment to that of Silver Peak, Nevada, the only producing lithium mine in the United States. In addition to being one of the major elements required for the production of modern batteries, lithium has also been used extensively in the metal and textile industries since the early 1900s.
- In May 2018, staff met with US Borax to discuss lithium potential at the Gerstley Mine. While lithium potential does exist in certain areas of Owens Lake, which is sovereign land, US Borax has no plans to pursue this at the present time. Also in May, staff participated in a workshop in the city of El Centro conducted by the California Energy Commission to discuss the ongoing pursuit of lithium extraction from geothermal brines. Several companies indicated they have developed processes that may result in the commercial extraction of lithium from geothermal brine. If this technology is proven to be profitable, additional school land parcels may become viable for the extraction of lithium and other elements.

Staff continues to evaluate the potential for renewable resources throughout the State, and other innovative ways to develop a marketing framework to responsibly lease school land resources to help California achieve its renewable energy goals and generate revenue for STRS.

OIL & GAS

Royalty revenue from oil and gas production totaled \$871,933, which is an 18.5 percent increase from the prior year. This increase is attributed to an increase in the price of oil. Most of the royalty is from the Round Mountain Parcel, a 160-acre parcel northeast of Bakersfield in Kern County. The State retains a 1/16th mineral interest in the Round Mountain Parcel (VA5310). The 15/16th mineral owner has entered into a unit agreement operated by Macpherson Oil Company. The State is paid for its 1/16th mineral reservation, which amounts to roughly 0.6 percent of the unit royalty. The remaining \$985 in revenue is from the seven-acre Sulfur Crest parcel in the Ojai Oil Field that is operated by Termo Oil Company in Ventura County (LA 9252). The Sulfur Crest parcel is also a 1/16th mineral reservation.

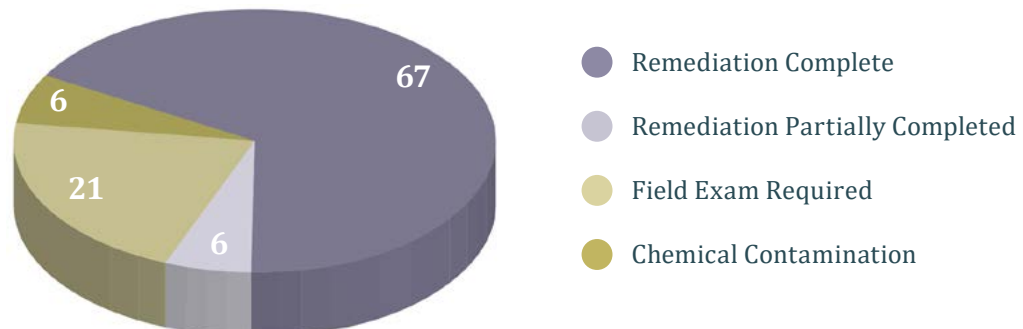
ABANDONED MINES

Staff inventories and remediates abandoned mine features on school lands that may threaten public health and safety, pose dangers to wildlife, or present liability risk to the State. Staff collaborates with other governmental entities, contractors, environmental organizations, and the public and provides information about the physical and chemical hazards and latest remediation techniques used to safeguard abandoned mines. Staff also coordinates with others to remediate abandoned mine features on school lands. An Arc GIS study performed by Commission staff found that there are 100 school land parcels possessing one or more abandoned mine features that may pose a hazard. Staff uses a variety of remediation techniques depending on the attributes of the individual mine features, including posting warning signs, and installing fences, bat gates, cupolas and foam plugs. Staff collaborates with the Department of Conservation's Division of Mine Reclamation.

Staff installed 17 warning signs on seven parcels in the past fiscal year. Staff repaired the Crown Uranium Mine bat gate after vandals cut high strength bolts to attempt entry. Efforts are underway to work with Joshua Tree National Park such that their staff will install a steel cupola on a shaft located on a parcel contiguous to the national park. This work can only be completed following consultation with the State Historic Preservation Office and the California Department of Fish and Wildlife to preserve cultural and biological resources.

Approximately 75 percent of the state parcels have been remediated. Those remaining either pose a lower risk or are in remote, difficult to access locations. For example, two of the un-remediated parcels are located within the Whipple Mountain Wilderness Area. The terrain is too treacherous to hike. An access permit was sought and obtained from the Needles BLM Resource Office so that work will be undertaken as soon as the weather cools sufficiently allowing the safe conduct of field work. As resources permit, mine features that pose a lesser hazard may be considered for remediation with fencing or additional signage. In addition, a more intensive inspection program must be instituted as vandalism is not uncommon either with breach of the steel structures or by vandalism of warning signs.

Abandoned Mine Lands Summary Fiscal Year 2018-2019

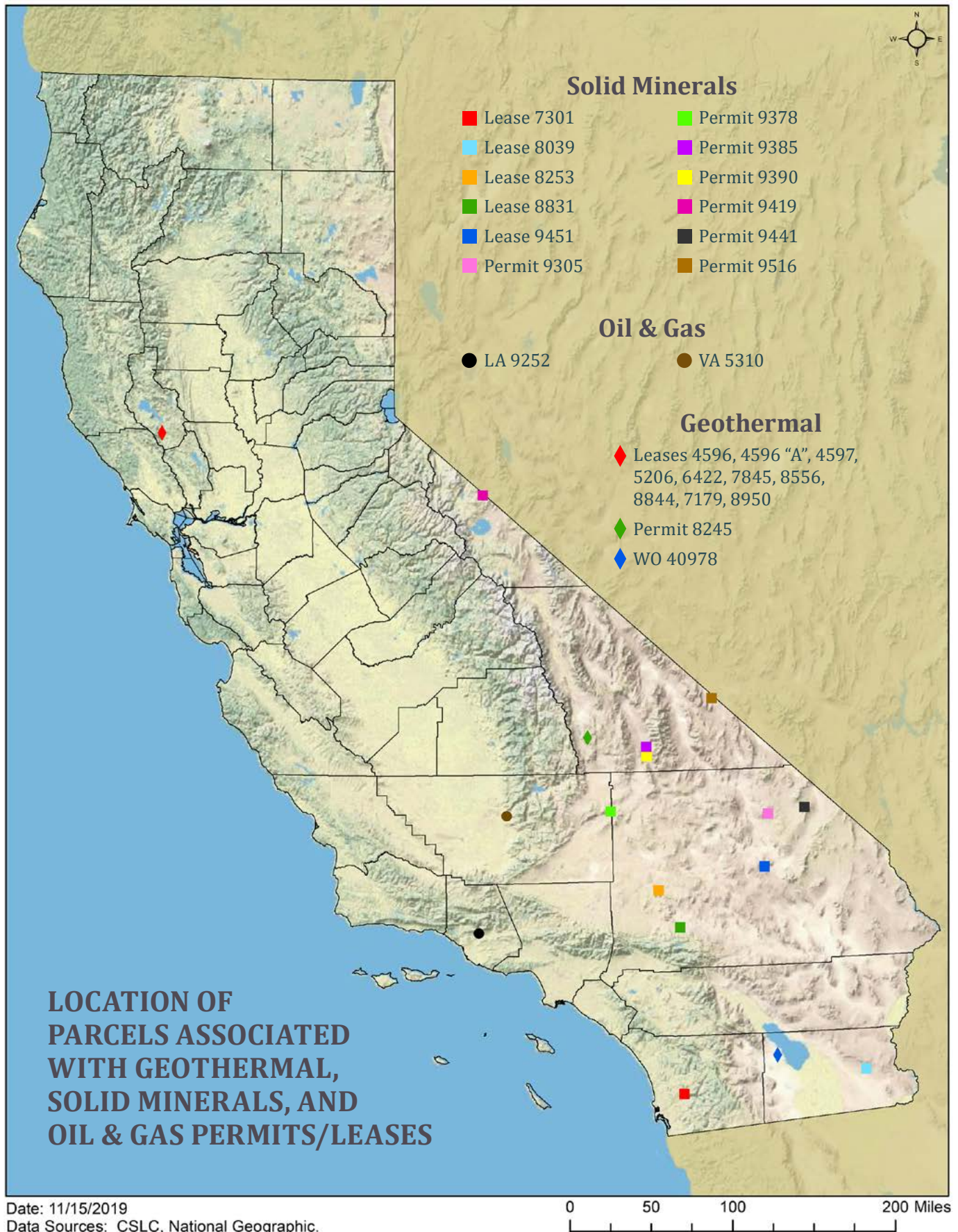




Unstable gold mine in the Chuckwalla Mountains where a warning sign was installed



A warning sign was installed on an open cut of an abandoned asbestos mine



REVENUE SUMMARY

Geothermal Royalties

Regular Royalties.....	\$ 4,974,905.16
Supplemental Royalties.....	\$ 238,549.40
Fractional RMI Royalties.....	\$ 0.00
Geothermal Total	\$5,213,454.56

Solid Minerals Royalties

Royalties from leases	\$ 798,385.51
Royalties from 1/16th interest parcels.....	\$ 0.00
Royalties from permits	\$ 0.00
Solid Minerals Total	\$ 798,385.51

Oil & Gas Royalties

Oil & Gas Total.....	\$ 871,932.92
(Royalties from 1/16th interest parcels)	

TOTAL GROSS REVENUE.....	\$6,883,772.99
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LAND MANAGEMENT DIVISION – SURFACE LAND MANAGEMENT

The Land Management Division oversees surface activities on school lands, including land exchanges, the sale of school lands parcels to public or private entities, land acquisitions to enhance the resource base, and administering leases for renewable energy production, agriculture, grazing, and rights-of-way for roads, oil and gas pipelines, and electrical transmission lines. The objectives are to generate revenue to benefit the Teachers' Retirement Fund, assure the ongoing viability of the State's resources, protect the assets of the trust, enhance local economic development, and protect the environment.

Surface leasing involves processing new applications, processing lease assignments and amendments, conducting rent reviews, terminating old leases, and conducting other surface management activities. Most school lands are isolated landlocked parcels, many of which are non-revenue generating desert lands and lands inside national parks or federal wilderness areas.

STATE TEACHERS' RETIREMENT FUND REVENUES

Surface Rental Revenues

The Commission has over one hundred revenue-generating surface leases on school lands. Revenues deposited into the Teachers' Retirement Fund from these leases totaled \$364,511.27.

SCHOOL LAND BANK FUND – REVENUES AND EXPENSES

Accrued Interest on the School Land Bank Fund

The Surplus Money Investment Account generated a total of \$1,764,449.95 in interest for the School Land Bank Fund.

Expenses Charged to the School Land Bank Fund

Expenses totaled \$560,567.88. Of this amount, \$244,872.58 was charged to MRMD and \$245,089.30 was charged to LMD. Miscellaneous charges for statewide assessment totaled \$70,606.00.

STRS Fund Projections for Fiscal Year 2019-20

Staff estimates that revenues from surface use leases on school lands parcels will increase over the prior year due to rent revisions, adjustment to existing leases, and the commencement of at least one significant renewable energy lease. Staff estimates that the school land revenue next year from solid minerals will be \$850,000. Staff anticipates that revenue from geothermal leases at the Geysers will remain stable. Staff is processing new prospecting permit applications for lithium and other minerals that could result in the development of state mineral resources.

OTHER SCHOOL LANDS BANK FUND ACTIVITIES

Timber Harvests

In October 2019, the Commission authorized a fire-damaged timber salvage sale contract for parcels burned in the 2018 Delta Fire in Shasta County. Proceeds are expected to exceed \$100,000 when the sale is completed in early 2020. There also is potential for income from other timber salvage and cleanup operations. These operations are conducted periodically due to losses from natural causes such as fire, high winds, insect infestation, and disease. Because of the irregular nature of these operations, the amount of additional income from these sources is difficult to predict.

Renewable Energy

Staff expects more interest in the long-term leasing of school lands for renewable energy projects in the coming year. Some projects may involve using wind as an energy source and may require the installation and operation of wind turbines to generate electricity. Other renewable energy projects proposed on school lands may involve solar technology, such as photovoltaic cells and solar-concentrating systems.

Wind Energy

In 2016, the Commission approved the Pacific Wind Development's Tule Wind project in San Diego County. The project, however, is on hold while the lessee seeks to obtain property rights from adjacent landowners that will improve the project's financial feasibility. Construction is not expected to begin until 2020 or 2021. The lessee will continue to pay annual base rent to the State, which was \$143,145.67 in 2018.

Solar Energy

Staff will continue processing three applications for solar energy leases that together would cover approximately 3,148 acres of school lands. The proposed projects are Aurora Solar, which is located in San Bernardino County, and Windhub Solar B and EDF Renewable Development, which are located in Kern County. Aurora Solar is proceeding with preliminary surveys pursuant to the preparation of an Environmental Impact Report (EIR). EDF Renewable Development released a Draft EIR for their project in July 2019 and the document is available for public review and comments. Kern County approved Windhub Solar B's EIR but the project is on hold for financial reasons. If these three solar projects are completed as proposed, they will have a total capacity of up to 240 megawatts and should generate significant revenues for the State Teachers' Retirement Fund.

Potential School Land Bank Fund Revenues and Activities

Staff is processing applications for the projects discussed below and Commission consideration is contemplated for 2020. Staff also expects applicants to submit new requests for land exchanges and sales in the coming year.

California Department of Transportation Land Sale

In May 2019, the Department of Transportation (Caltrans) applied to purchase 17.13 acres of school lands for the U.S. Highway 395 widening and improvement project. The project, located in Inyo County north of the community of Cartago, is expected to improve safety for the traveling public by separating opposing traffic, reducing access points, and widening shoulders. The project would also provide increased capacity, ease peak traffic congestion, improve drainage, and provide facility

continuity between existing sections of four-lane divided expressway on either end of the proposed project. The proposed sale was approved by the Commission at its meeting in December 2019. The sale will generate \$7,700 for the School Land Bank Fund.

Proposed Sale of Land in Barstow to Barstow Spanish Trail, LLC

In 2013, staff learned that the BLM intended to declare certain federal lands in Barstow as surplus and available for disposition. The lands, totaling roughly 43.75 acres, are included in the proposed *Spanish Trail Specific Plan*, a joint commercial development between the City of Barstow and developers.

Under the CDPA, the Commission has first right of refusal on lands declared surplus within the area covered by the CDPA and has the right to file an indemnity lands application with BLM to acquire the surplus lands if it chooses. Because of the high potential for commercial use of these lands, staff filed an indemnity application with the BLM in May 2015. The Commission approved the acquisition later that year. In exchange for the BLM lands, the application submitted the rights to 320 acres of base lands¹ in Imperial County.

In April 2017, Barstow Spanish Trail, LLC applied to purchase these lands, together with two other nearby school land parcels. The application included lands totaling 63.3 gross acres. In 2017, the Commission approved sale of the lands for a purchase price of \$4,538,200. Closing, however, is delayed because the development plan is under revision. In December 2018, the Commission approved an extension of the sales contract to June 2020. If the sale does not close by that date, the applicant will forfeit its non-refundable \$45,000 down payment, which will be deposited into the School Land Bank Fund.

Salvation Mountain, Inc. Land Sale and Slab City Community Group Inc. Land Sale

Among the 1,200± parcels of land held under the School Land Bank Fund is a 610-acre parcel near the Salton Sea in Imperial County that is known as Slab City. Formerly under the jurisdiction of the Commission, this parcel was condemned by the federal government and developed and used for military purposes in World War II as part of Camp Dunlap, a training facility. When Camp Dunlap closed, the Department of Defense cleared the site, and the parcel was quitclaimed back to the Commission in 1961. Numerous concrete building foundations were left in the ground, hence the name Slab City. Over the years, the property became a destination for tourists, seasonal campers, and transients and had a long history of environmental, legal and social issues, including unauthorized occupancy and illegal dumping.

Included in the southwest quarter of the section is a popular tourist attraction known as Salvation Mountain, which was constructed over a period of many years out of hay bales, stucco, and paint by a now deceased resident. Salvation Mountain Inc., a nonprofit corporation, has preserved and maintained the monument. Staff is processing a purchase application from Salvation Mountain, Inc. for the southwest quarter of the property (160 acres). Slab City Community Group Inc., a group of residents, has applied to purchase the remainder of the 610-acre property. Staff will continue to work on these applications during the coming year.

¹ The term “base lands” refers to the debt in real property still owed to the State under the original Act of 1853 and subsequent legislation. (For more information on the indemnity selection process, please see “**Note to the Reader**” prior to the Table of Contents at the beginning of this report.) In the case of this indemnity selection, the base lands used accrued to the State due to a loss from a fractional township. In effect, the only thing given up by the Commission was a property right, and not actual physical real estate.

School Land Bank Fund Investment Report

Staff is developing a plan to begin investing School Land Bank Fund monies in California real estate, with the goal of acquiring new revenue-generating properties for the Fund. The Commission awarded a contract to William Mott to develop an investment strategy.

The report is expected to help the Commission identify, evaluate, and compare land investment options in California and the short and long-term benefits and risks associated with each type of investment option. The report also will provide a rating system of qualifying factors to assist in ranking the suitability of each land investment that is proposed for acquisition and to compare competing properties.

Staff received the first partial draft of the report in July 2019 and expects to have a final report in early 2020.

Bureau of Land Management California Desert Protection Act Land Exchange

In October 1994, the California Desert Protection Act (CDPA) was signed into law, designating 3.6 million acres in Southern California as federal wilderness and four million acres in Southern California for inclusion in the national park system. Five exchanges were completed during the 1990s. Completion of a sixth exchange has been delayed after the federal General Accountability Office issued a report questioning the procedures followed by the BLM in the exchange process. The future of this exchange is uncertain until these legal issues are resolved. For more information see the Annual Staff [Report on the Management of State School Lands – Fiscal Year 2017-18](#).

FINANCIAL SUMMARY: FISCAL YEAR 2018-19

STRS FUND REVENUES AND EXPENSES

Revenues

Surface (LMD)	\$	364,511.27
Surface (MRMD)	\$	201,896.00
Geothermal (MRMD)	\$	5,213,454.56
Solid Minerals (MRMD)	\$	798,385.51
Oil and Gas (MRMD)	\$	871,932.92
Miscellaneous	\$	1,318.57
TOTAL REVENUES	\$	7,451,498.83

Expenses

Mineral Resources Management	\$	669,000.79
Land Management	\$	221,845.24
Overhead/Distributed	\$	305,798.34
TOTAL EXPENSES	\$	1,196,644.37¹

NET REVENUE TO STRS FUND \$ 6,254,854.46

SCHOOL LAND BANK FUND

Balance as of July 1, 2018	\$	69,628,517.12
Revenues from Land Sales	\$	0.00
Interest Earned Fiscal Year 2018-19	\$	1,764,449.95
Less: Expenses	\$	<560,567.88> ²
BALANCE OF FUND AS OF JUNE 30, 2019	\$	\$70,832,399.19

¹ These expenses are reimbursed by revenues before remittance to the Teachers' Retirement Fund.

² These expenses are funded directly from the School Land Bank Fund.



ADDENDUM

STATUS OF SCHOOL LAND CONSOLIDATION EFFORTS IN THE CALIFORNIA DESERT

FISCAL YEAR 2018-19 UPDATE

Commission staff has no new activities to report for the fiscal year ending June 30, 2019. As noted below, the BLM California office published a notice with the Federal Register on February 2, 2018 stating its intent to amend the Desert Renewable Energy Conservation Plan (DRECP or Plan) and its associated Land Use Plan Amendment (LUPA). Staff is following this process closely; however, since issuance of the notice and convening of several public scoping meetings, the BLM has not proceeded with any further formal actions to proceed with amending the DRECP LUPA. Because no land consolidation efforts or exchanges related to the DRECP LUPA as envisioned by the School Land Bank Act have occurred, Commission staff is again referencing the 2017-18 addendum to this introductory statement.

Commission staff believes the federal parcels identified during the Commission- BLM Phase 1 effort (described below) may still be considered for acquisition using another mechanism, such as through the indemnity selection process. Staff will continue to research these alternatives.

FISCAL YEAR 2017-18 ADDENDUM

INTRODUCTION AND PURPOSE

In September 2011, the Executive Officer of the California State Lands Commission, with authority from the Commission, executed a memorandum of understanding with the four agencies comprising the Renewable Energy Action Team (REAT) expressing the agencies' intent to coordinate and cooperate on development of the DRECP in the Mojave and Colorado Desert regions of the State. On September 14, 2016, the BLM signed a Record of Decision on the DRECP's Land Use Plan Amendment, which covered the 10 million acres of BLM-managed lands in the DRECP plan area and marked the completion of Phase 1. The goal of the DRECP is to provide for effective protection and conservation of desert ecosystems while allowing for the appropriate development of renewable energy projects. In addition to the REAT agencies and the Commission, the planning process involved numerous other state and federal agencies, including the California Public Utilities Commission, California Department of Parks and Recreation, National Parks Service, and the Department of Defense, as well as interested stakeholders including cities, counties, tribal interests, industry and utilities, and non-governmental environmental organizations.

Assembly Bill 982 (Skinner), enacted as Chapter 2 of the School Land Bank Act, Land Exchanges for Renewable Energy- Related Projects (Chapter 485, Statutes of 2011 and codified in California Public Resources Code §§ 8720-8723), builds on this ongoing cooperative relationship. Pursuant to the requirements of Chapter 485, Commission staff is submitting this report on its school land consolidation efforts in the California desert, including the status of DRECP and progress made on a Phase 1 exchange proposal.

BACKGROUND

The majority of the over 340,000 acres of school land under the jurisdiction of the Commission in the California desert are fragmented and isolated, and the size of the individual parcels is insufficient for development of renewable energy projects. Significant portions of these parcels are located within national parks, preserves, monuments, and forests. Although these lands retain significant conservation value, their location and physical characteristics limit development potential. Chapter 485 seeks to help resolve this by requiring the Commission to work cooperatively with the Department of the Interior, through the BLM, to consolidate the Commission's landholdings in the California desert such that renewable energy development would be more feasible.

Generally, the Commission's objective in participating in the development of the DRECP is to ensure that DRECP goals for renewable energy and environmental protection are accomplished in a manner that is consistent with and advances the statutory and fiduciary responsibilities for management of school lands in the California desert area. Pursuant to Chapter 485, the Commission and BLM California entered into an MOA which set forth the objectives and commitments of the Commission and the BLM, including information sharing, minerals evaluation and appraisal, streamlining of the land exchange process, and commitments to prioritize completion of exchanges. Commission staff has engaged the BLM, California Department of Fish and Wildlife, and other state and federal agencies to develop a Phase 1 land exchange proposal, which was agreed on in July 2015, and consists of approximately 5,600 acres of BLM owned lands, and approximately 61,000 acres of school lands (based on estimated comparative land values for the identified parcels). The BLM lands include parcels with a high potential for large-scale renewable energy development, including an area with an operating solar facility, and the school lands consist of scattered inholdings located within currently designated BLM wilderness, as well as lands proposed for national conservation landscape designations under the DRECP.

STATUS OF THE PHASE 1 EXCHANGE EFFORTS

At the end of 2016, then-Interior Secretary Sally Jewell and Governor Jerry Brown executed a Memorandum of Understanding regarding renewable energy in California which, among other provisions, directed the State and the Department of the Interior to continue to maintain the Renewable Energy Action Team, place priority on processing applications for renewable energy development in areas that are consistent with the DRECP, and complete the Phase 1 land exchange proposal by December 31, 2018. However, the Phase I land exchange was not completed by this date due to shifting priorities of the federal administration.

PROPOSED DRECP AMENDMENT

On February 2, 2018, the BLM published in the Federal Register a *Notice of Intent to Amend the California Desert Conservation Area, Bakersfield, and Bishop Resource Management Plans and Prepare Associated Environmental Impact Statements or Environmental Assessments*. Ostensibly in response to the President's Executive Order 13783 – Promoting Energy Independence and Economic Growth, the Notice offered little in the way of specific amendments being sought or issues needing to be resolved; rather, it simply stated the BLM was seeking “comments on increasing opportunities for increased renewable energy development, recreational and off-highway vehicle (OHV) access, mining access, and grazing.”

Commission staff submitted comments to the BLM in response to the Notice, suggesting the BLM instead consider administrative pathways, including forming an “implementation group” to facilitate implementation of the DRECP and resolve differences in interpretation of Plan components. In addition to staff's comment letter, the Commission also adopted, at its February 27, 2018 meeting, a resolution entitled *Resolution by the California State Lands Commission Opposing Federal Actions which would Undermine the Desert Renewable Energy Conservation Plan by Amending the California Desert Conservation Area and the Bakersfield and Bishop Resource Management Plans to Allow Development in Areas Designated for Conservation*.