

ANNUAL STAFF REPORT

ON THE MANAGEMENT OF STATE SCHOOL LANDS | FISCAL YEAR 2019-2020



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 could 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 school land parcels; however, have not been surveyed on the ground, so this total is 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, 2019 through June 30, 2020. The School Land Bank Fund expenditures and revenues in this report, however, only include the fiscal data for the first 10-months of Fiscal Year 2019-2020. This is because of the complex challenges associated with converting the Commission's fiscal and budget information into FISCAL. The Commission will submit an addendum to this report once the School Land Bank Fund expenditures for the final 2-months of Fiscal Year 2019-20 have been reconciled.



C A L I F O R N I A S T A T E L A N D S C O M M I S S I O N

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SUBMITTED TO:

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



CALIFORNIA STATE LANDS COMMISSION
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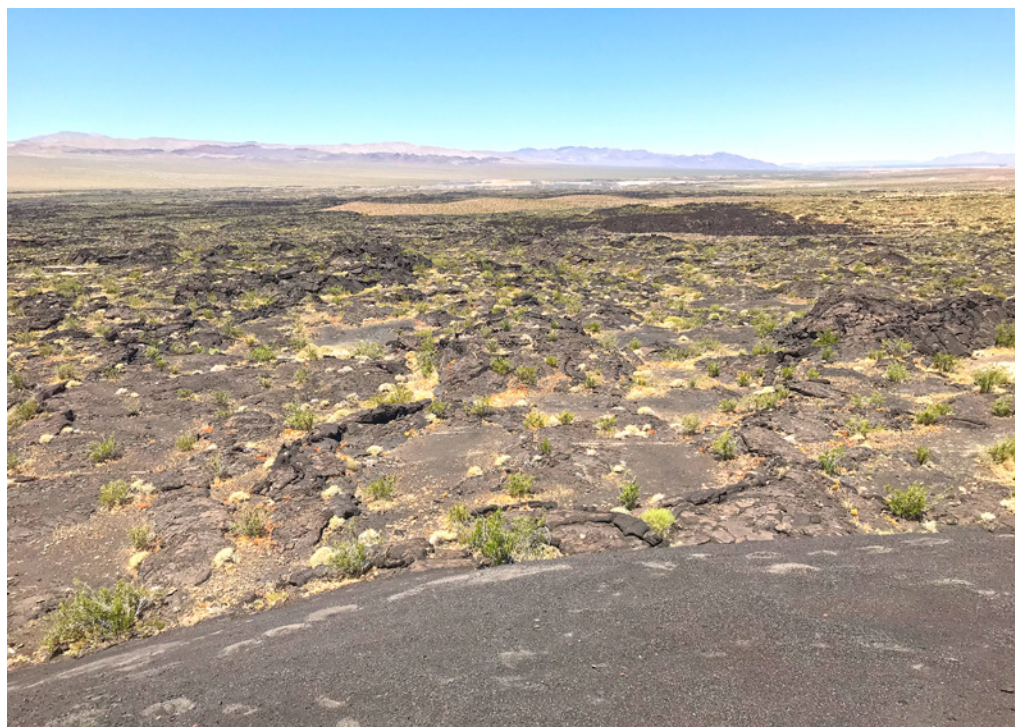
Photo Credits

IFC: Calpine's Geysers Unit 20 power plant at The Geysers. Photo by John Grice, courtesy of Calpine Corporation

Page 4 top: Calpine's Socrates Unit 18 power plant at The Geysers. Photo by John Grice, courtesy of Calpine Corporation

Page 4 bottom: Santa Rosa Geysers Recharge Project, one of two large-scale recycled water injection projects at The Geysers, delivers and distributes approximately 11 million gallons of recycled water daily. Photo by John Grice, courtesy of Calpine Corporation

All other photos provided courtesy of California State Lands Commission staff



EXECUTIVE SUMMARY

The State Lands Commission manages roughly 458,843 acres of school lands held in fee ownership and the reserved mineral interests on roughly 790,000 acres of school lands where the surface estate has been sold. These 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 Commission's 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 land. This work is funded through the School Land Bank Fund (e.g., the Abandoned Mines Program) or reimbursed before remittance of net revenues to the California State Teachers' Retirement Fund.

School lands were placed into a statutory trust in 1984 when the Legislature enacted the School Land Bank Act and established the School Land Bank Fund. The Commission is the trustee of the Fund. 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 California State Teachers' Retirement System (CalSTRS).

The Commission's priorities in administering the School Lands Program are to maximize revenue and reserved mineral interests to benefit CalSTRS and to protect the assets of the School Land Bank Fund. Net revenue transferred to CalSTRS during fiscal year 2019-20 was \$6,106,840.58.

The School Land Bank Fund expenditures and revenues in this report only include the fiscal data for the first 10-months of Fiscal Year 2019-2020. This is because of the complex challenges associated with converting the Commission's fiscal and budget information into FI\$Cal. The Commission will submit an addendum to this report once the final 2-months of the 2019-20 Fiscal Year have been reconciled. The School Land Bank Fund's 10-month year-end balance was \$71,212,827.93. For a summary of Fund activities, see the "Financial Summary: Fiscal Year 2019-20" table on page 16 .

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."

Earlier this year, the Administration announced that the COVID-19 pandemic had caused a \$54 billion budget deficit. To help close this gap, the 2020-21 state budget borrows \$49 million from the Commission's School Land Bank Fund—bifurcated into two loans. One is a \$17 million loan to the California Earthquake Safety Fund. The other is a \$32 million loan to the General Fund. The repayment date has not been set, but accrued interest will be paid out of the Pooled Money Investment Account when the funds transfer back to the School Land Bank Fund. The state budget also sets aside \$19.6 million of the fund as a reserve for economic uncertainties.

RENEWABLE ENERGY, GEOTHERMAL, SOLID MINERALS, AND OIL & GAS

The Commission strives to maximize royalty and rent revenues while protecting the environment, advancing California's climate and renewable energy production goals, and achieving the highest levels of public safety. Most revenue generated from school lands is from geothermal production.

FISCAL YEAR 2019–2020 ACTIVITIES

RENEWABLE ENERGY

Staff continues to focus on opportunities for renewable energy development, such as solar, wind, and geothermal. Staff continued to evaluate the potential for renewable resources on school lands throughout the state. Staff is also pursuing innovative ways to develop a marketing framework to lease school land resources and help California achieve its renewable energy goals and generate revenue for CalSTRS.

Staff also responds to inquiries about renewable energy development and promotes parcels with solar and wind potential to interested parties for renewable energy development. Staff continues to analyze lithium potential on school lands. The Commission approved one mineral prospecting permit for lithium exploration and staff is processing two additional applications. The first application involves school land near Death Valley that contains lithium within clay deposits. The United States Geologic Survey, lithium miners, and academia are researching and conducting pilot studies to determine whether commercial extraction is feasible. The second application involves school land in Panamint Valley, an area with a geologic environment similar to Silver Peak, Nevada, the only producing lithium mine in the United States.

GEOTHERMAL (RENEWABLE ENERGY)

Geothermal leasing and subsequent exploration and development for geothermal resources helps achieve California's goal of increasing electrical generation from renewable sources.

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, Lake, and Mendocino 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 \$4,972,288 in fiscal year 2019-2020.



Geothermal Leases at the Geysers

The Geysers, the largest 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 more than 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 supplemental 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 (BLM) through the indemnity selection process. Geysers Power Company LLC and CPN Wild Horse Geothermal LLC, subsidiaries of Calpine Corporation,



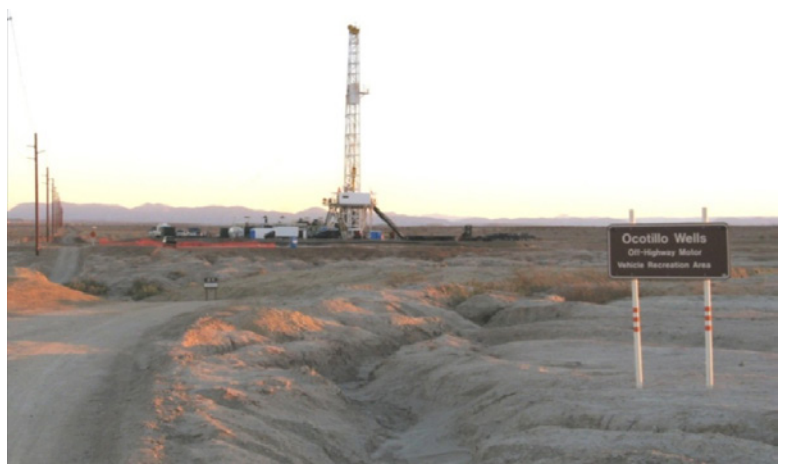
hold these leases (Lease 4596, 4596 "A," 4597, 5206, 6422, 7845, 7179, 8556, 8844 and 8950). Geysers Power Company LLC owns and operates 17 of the 22 electrical-generating units at the Geysers.

Lease 8844 includes two parcels with established primary development periods. For Parcel 1, the lessee satisfied the primary drilling term by developing one well. In August 2019, the Commission extended the drilling term for Parcel 2 for an additional 10 years. As part of the lease extension, the Commission required the lessee to increase its annual rent from \$10 to \$15 per acre for 5 years, and to \$25 per acre thereafter. The Commission also required the lessee to submit a one-time payment of \$40 per acre, resulting in \$8,000 in revenue.

Other Geothermal Lease and Permit Activity

There are school lands 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 April 2020, the Commission approved a 1-year geophysical survey permit to conduct a three-dimensional vibroseis seismic survey to evaluate geothermal resources in the Truckhaven area. The same applicant who acquired this permit also applied for a geothermal lease in the Truckhaven area. The proposed project involves drilling up to ten geothermal wells, four of which would be located on school lands. Imperial County, the CEQA lead agency for the proposed geothermal development project, adopted a Mitigated Negative Declaration, State Clearinghouse No. 2019119033, in December 2019. Imperial County subsequently issued a Conditional Use Permit to conduct a seismic survey and to drill.



SOLID MINERALS

Staff manages four solid mineral extraction leases for aggregate and one precious metal lease, with all five totaling 1,116 acres of land. The solid mineral leases generated \$912,490 in 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 associated revenues.

Mineral Extraction Leases

Lease 7301, known as the Vigilante Quarry, is in San Diego County near the city of Lakeside. The lease, which is our most significant solid mineral revenue contributor, generated \$709,677 in revenue. Production and sales decreased during the second half of the year due to winter rains and the Covid-19 pandemic.



Lease 8831, which is for an aggregate quarry, is located near Hesperia in San Bernardino County. The royalty was \$118,239. The lessee, Hi-Grade, plans to mine aggregate for the next three decades.

The photo on the right, is looking southwest at the southern edge of quarry. The San Bernardino Mountains are the background.



In 2016, the lessee for Lease 8253 suspended mining operations. A large quantity of various sized aggregate, however, has been stockpiled by Vulcan Lands and is sold periodically as marketing opportunities arise. The quarry serves the greater Victorville/Barstow area in San Bernardino County. Sales did not exceed the lessee's minimum annual royalty of \$72,000.



In April 2018, following purchase of surface land from Granite Construction, the Commission approved mineral extraction Lease 9451 to San Bernardino County for an idle aggregate quarry located near Ludlow. San Bernardino County periodically extracts aggregate for public use, such as road maintenance on the historic Route 66, and sells aggregate to Caltrans to widen or maintain Interstate 40. The lease resulted in the mining of 800 tons of aggregate during the year.



Lease 8039 comprises the northerly portion of the Mesquite area and is within a larger gold mine in Imperial County, east of the city of El Centro. There has not been any active gold mining on the 658-acre parcel since 2014, but the Commission receives royalty from monthly gold sales, including \$12,574 this past year. During mining operations, the ore was compiled on a heap leach pad, which is a large accumulation of gold ore that is sprinkled with a chemical that dissolves the gold that is collected with an impermeable liner for processing.



Since the lease area is mined out, the Commission's gold ounce percentage on the heap leach pad diminishes annually. With the price of gold approaching \$2,000 an ounce, resumption of mining on the State lease is anticipated as lower grade ore becomes economical to mine.

Mineral Prospecting Permits

Staff manages four mineral prospecting permits on school lands.

- Permit 9305 – Precious metals. The permit area is located northeast of the city of Baker in San Bernardino County and contains the Arrow Gold Mine, a small underground mine last operated in the 1930s.
- Permit 9390 – Lithium minerals. This permit involves geologic mapping and rock sampling on a remote parcel located 8 miles south of the ghost town of Ballarat in Panamint Valley, Inyo County.
- Permit 9551 and Permit 9581 – Precious Metals. The Commission issued these permits to Lincoln Gold to prospect the old gold mining district located in the Cargo Muchacho Mountains of Imperial County. Lincoln also has substantial mining claims on adjacent federal lands managed by BLM.
- Staff is processing six additional applications for precious metals, lithium, and borates that the Commission will consider in the future.

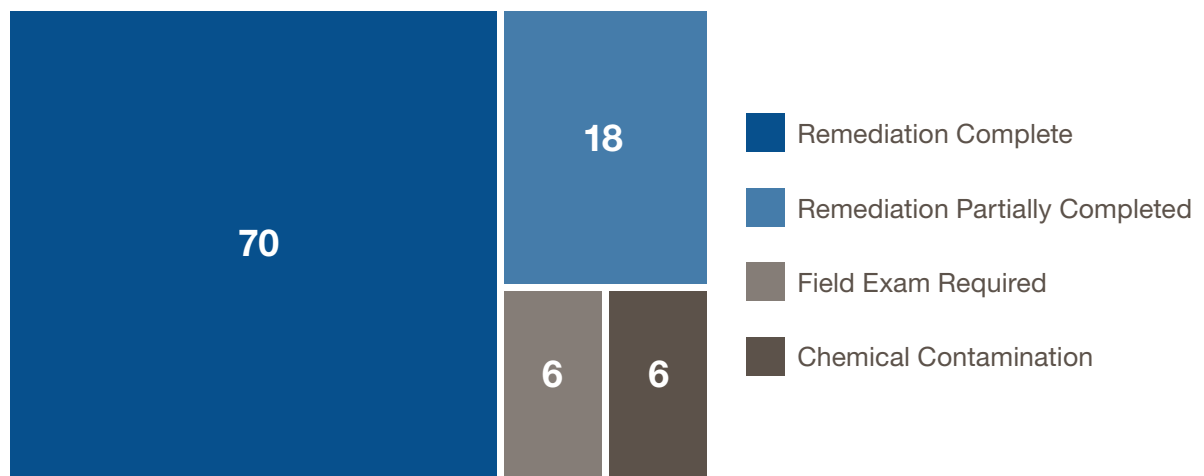
ABANDONED MINES

Staff continued its efforts to inventory and remediate 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 ArcGIS 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, installing fences, bat gates, cupolas, and foam plugs. Staff collaborates closely with the Department of Conservation's Division of Mine Reclamation.

Approximately three-fourths of these parcels have been remediated. Those remaining either pose a lower risk or are in remote locations that are difficult to access. For example, after applying for and receiving an access permit from the Needles BLM Resource Area office, staff remediated two remote parcels, in October 2019, within the Whipple Mountain Wilderness Area. Staff installed five abandoned mined land warning signs, two of which were installed on adits and three of which were installed on shafts. In January 2020, staff installed two warning signs at a parcel with an abandoned volcanic rock quarry near the small town of Amboy in San Bernardino County. Following consultation with the California Department of Fish and Wildlife and the State Historic Preservation Office for biologic and historic resources, the Division of Mine Reclamation signed a contract with Joshua Tree National Park to install a steel cupola on a vertical mine shaft just outside the Park border.

In February 2019, staff suspended work because of the COVID-19 pandemic and the ensuing budget deficit. Staff hopes to resume remediation work when it is safe to do so. As remediations decrease, staff plans to implement a more intensive inspection program to mitigate vandalism. Examples of previously observed vandalism include the breach of the steel structures and theft or destruction of warning signs.

Abandoned Mine Lands Remediation Summary



OIL & GAS

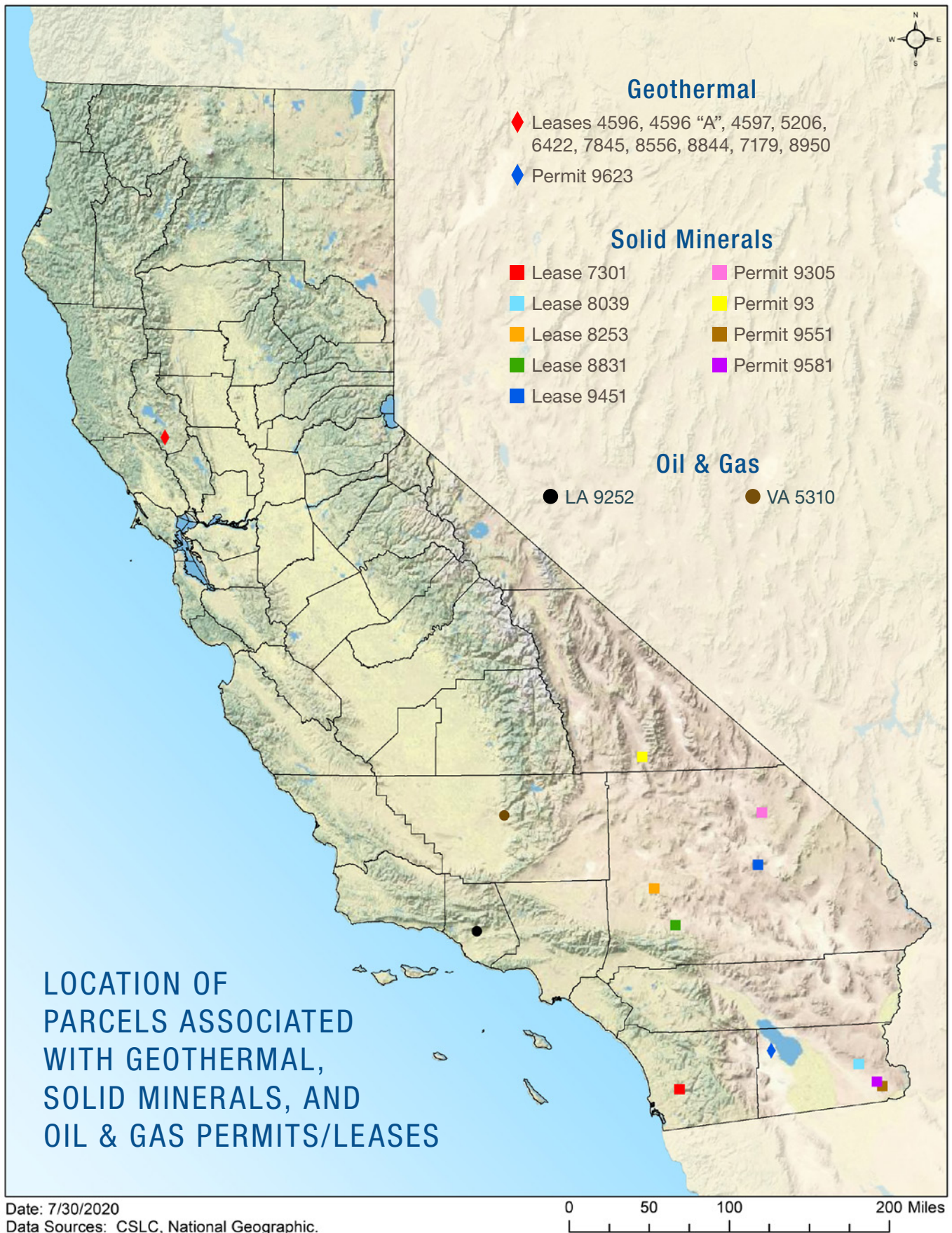
Royalty revenue from oil and gas production totaled \$836,955.20 compared to last year's total of \$871,933. Most of the royalty revenue is from the Round Mountain Parcel, a 160-acre parcel northeast of Bakersfield in Kern County, which the State retains a 1/16th mineral interest (VA5310). Macpherson Oil Company is the operator of the unit agreement. The State is paid for its 1/16th mineral reserves, which amounts to roughly 0.6 percent of the unit royalty. The remaining \$604 in revenue is from the seven-acre Sulfur Crest parcel in the Ojai Oil Field in Ventura County, which is operated by Termo Oil Company (LA 9252). The Sulfur Crest parcel is also a 1/16th mineral reservation.



Warning sign installed at a horizontal mine adit in the Whipple Mountain Wilderness Area.

A warning sign installed at an abandoned volcanic rock quarry near Amboy.





SURFACE LAND MANAGEMENT

The Land Management Division oversees surface activities on school lands, including land exchanges, the sale of school land parcels, 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 forests and 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 \$275,823.04.

SCHOOL LAND BANK FUND – REVENUES AND EXPENSES

Accrued Interest on the School Land Bank Fund

The Surplus Money Investment Account generated a total of \$1,267,280.12 in interest for the School Land Bank Fund.

Expenses Charged to the School Land Bank Fund

Expenses totaled \$923,801.38. Of this amount, \$506,280.21 was charged to the Mineral Resources Management Division and \$326,869.30 was charged to Land Management Division. Miscellaneous charges for statewide assessments totaled \$90,651.87.

CalSTRS Fund Projections for Fiscal Year 2020-21

Staff estimates that revenues from surface use leases on school land parcels will increase over the prior year due to rent revisions, adjustment to existing leases, and the issuance of at least one significant renewable energy lease. Staff estimates that the school land revenue next year from solid minerals will be roughly \$900,000. Staff anticipates that revenue from geothermal leases at the Geysers will slightly increase due to new well work that will increase injection and production. Staff is processing new prospecting permit applications for lithium and precious metals that could result in the development of State mineral resources. Due to impacts of the Covid-19 pandemic and State budget challenges, revenue from the five solid mineral leases is not anticipated to deviate much from the present fiscal year.

OTHER SCHOOL LAND 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. Staff received no bids for the timber since it had deteriorated in quality in the intervening two years. Adjacent landowners have raised concerns about the hazards of leaving standing dead timber on State lands that could fall or contribute to additional wildland fire. In the interests of public safety, staff is in the process of obtaining bids to remove the dead timber in Shasta County.

Staff has contacted CalFire and learned that the 2020 wildfires have likely burned additional forested school lands. If wildland fires have destroyed timber on northern California school lands, the potential for income from the timber salvage and cleanup operations exists. Because of the irregular nature of these operations, the amount of additional income from these sources is difficult to predict.

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 will 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 Commission approved the sale in December 2019.

As part of this action, the Commission returned roughly 40 acres of land in Inyo County to the Lone Pine Paiute-Shoshone Reservation to preserve and protect tribal cultural resources. The parcel that Caltrans purchased in connection with the U.S. Highway 396 widening project has significant cultural value to the Reservation and is within their ancestral territory. The Lone Pine Paiute-Shoshone Reservation identified adjacent land, the roughly 40 acres returned, that would preserve the Tribes' connection to the site and protect it from potential future harm. The sale generated \$7,700 for the School Land Bank Fund.

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, solar-concentrating systems, and battery energy storage systems to store electricity in batteries for sale at a later time.

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. Although construction of the project has not commenced, the lessee continues to pay annual base rent to the State, which was \$143,145.67 in 2019.

Solar Energy

In August 2020, the Commission authorized its first solar energy project on school lands. BigBeau Solar, LLC, a project sponsored by EDF Renewables, involves constructing up to 17 megawatts of renewable electrical energy on 120 acres in Kern County, west of Mojave. In addition to helping achieve the state's greenhouse gas emission reduction targets, the BigBeau Solar project will:

- Generate enough energy to supply the energy needs for roughly 64,000 California homes annually.
- Reduce greenhouse gas emissions to the equivalent of 67,000 passenger vehicles annually.
- When fully built out, the rent from electricity generated by BigBeau is estimated to be more than \$90,000 annually.

Staff continues to process two other applications for solar energy leases that together would span roughly 2,940 acres of school lands. The proposed projects are Stagecoach Solar, located in San Bernardino County, and Windhub Solar B, located in Kern County. Stagecoach Solar has completed preliminary environmental surveys in anticipation of preparing an Environmental Impact Report (EIR). Kern County certified the Windhub Solar B's EIR on December 13, 2018.

Potential School Land Bank Fund Revenues and Activities

Staff is processing applications for the projects discussed below and Commission consideration is contemplated for 2021. Staff also expects applicants to submit new requests for land exchanges and sales in the coming year.

Forested Lands Inventory and Management

The Commission manages approximately 55,000 acres of forested land scattered throughout the state. Until the late 1990s, the Commission had staff foresters managing its forested school lands. Since then, retirements and staff redirection have led to the Commission having no staff available to manage its forested lands. In the 2019-20 budget, the Commission received an authorized position to manage its forested lands proactively. The Commission anticipates filling this position in the coming year. The position will assist in a planned comprehensive inventory of the Commission's forested land to assess their health, species, size, and density and help develop a comprehensive forest management plan. The Commission will use the inventory and management plan to institute remedial and proactive forest health measures.

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

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

Under the federal California Desert Protection Act, the Commission has first right of refusal on lands declared surplus within the covered area 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 2015. The Commission approved the acquisition later that year with Barstow Spanish Trail, LLC. In exchange for the BLM lands, the applicant submitted the rights to 320 acres of base lands¹ in Imperial County.

In April 2017, Barstow Spanish Trail, LLC applied to purchase those 320 acres in Imperial County, 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. In December 2018, the Commission approved an extension of the sales contract to June 2020. The sale did not close by that date, and the applicant forfeited its non-refundable \$45,000 down payment, which was deposited into the School Land Bank Fund. In April 2020, the Commission approved an extension of the sales contract and Barstow Spanish Trail, LLC deposited a second non-refundable \$45,000 down payment to extend the sale date to June 30, 2021.

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 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. Staff received the first draft of the report in July 2019 and expects to have a final report in early 2021.

The investment strategy will yield a report that is expected to help staff 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 will also 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.

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 2018-19](#).

FINANCIAL SUMMARY: FISCAL YEAR 2019-2020

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CaISTRS FUND REVENUES AND EXPENSES

Revenues:

Surface (LMD)	\$ 275,823.04
Surface (MRMD)	\$ 203,826.86
Geothermal (MRMD)	\$ 4,972,288.25
Solid Minerals (MRMD)	\$ 912,489.93
Oil and Gas (MRMD)	\$ 836,955.20
Miscellaneous	\$ 25,449.26
TOTAL REVENUES.....	\$ 7,226,832.54

Expenses:

Mineral Resources Management	\$ 615,995.58
Land Management	\$ 212,798.48
Overhead/Distributed	\$ 291,197.90

TOTAL EXPENSES..... **\$ 1,119,991.96¹**

NET REVENUE TO CaISTRS FUND **\$ 6,106,840.58**

SCHOOL LAND BANK FUND

Balance as of July 1, 2019	\$ 70,832,399.19
Revenues from Land Sales	\$ 36,950.00
Surplus Money Investment Fund Interest Earned.....	\$ 1,267,280.12
Less: Expenses	\$ <923,801.38> ²

FUND BALANCE AS OF JUNE 30, 2020..... **\$71,212,827.93**

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 2019-20 UPDATE

As with fiscal year 2018-2019, Commission staff has no new activities to report for the fiscal year ending June 30, 2020. Because no land consolidation efforts or exchanges related to the Desert Renewable Energy Conservation Plan (DRECP or Plan) Land Use Plan Amendment (LUPA) as envisioned by the School Land Bank Act have occurred, Commission staff is again referencing the 2017-18 addendum to this introductory statement. Likewise, BLM has not proceeded with a DRECP LUPA amendment nor provided updated information on this potential process since February 2018.

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 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 DRECP and its associated 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.

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*.