



Annual Staff Report on the Management of State School Lands

Fiscal Year 2020-2021



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, 2020 through June 30, 2021.

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Executive Summary

The State Lands Commission manages roughly 458,843 acres of school lands held in fee ownership and the reserved mineral interests of 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 lands. 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 2021-2025 Strategic Plan cites the need to "embrace and safeguard multi-benefit School Lands and resource management stewardship that equitably balances responsible local and regional economic development, supports living wages, environmental protection, and revenue generation."

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 2020-21 was \$6,715,646.20

This report includes addenda for fiscal years 2018-19 and 2019-20. The addendum for 2018-19 provides updates to the expenditures for that fiscal year. The 2019-20 report only included the fiscal data for the first 10-months of Fiscal Year 2019-20. The addendum to this report, on page 26 includes the School Land Bank Fund expenditure and revenue information for the full 12-months of fiscal year 2019-20. The School Land Bank Fund's 12-month year-end balance for fiscal year 2020-21 is \$68,872,955. This represents a slight decrease of 1.4 percent

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."

over the 2019-20 year-end balance of \$69,881,271. For a summary of Fund activities, see the "Financial Summary: Fiscal Year 2020-21" table on page 23.

In 2020, the Governor announced that the COVID-19 pandemic had caused a \$54 billion budget deficit. To help close this deficit, the 2020-21 state budget borrowed \$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, which will be repaid at the end of 2024-25. Accrued interest will be paid out of the Pooled Money Investment Account when the funds transfer back to the School Land Bank Fund. The 2020-21 budget also sets aside \$19.6 million in fund revenue as a reserve for economic uncertainties.

Mineral Resources Management Division (MRMD)

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 2020-2021 Activities

Renewable Energy

Staff responds to inquiries about renewable energy development and reviews the potential to interested parties for renewable energy development. As the State seeks to reduce its carbon footprint, interest and demand for lithium is growing. Lithium is an alkali metal used in ceramics and electronics, such as cell phones and laptops. The metal is also used to produce batteries needed in hybrid and electric cars and energy storage systems. Staff reviewed and updated the lithium potential on school lands using two distinct data sources: Mineral Resources Data System and Bureau of Land Management (BLM) Geology Energy and Minerals dataset. Staff believes that the BLM's Geology Energy and Minerals data is a more reliable system as it is based on actual

mineral data taken from a combination of sampling and surveys over the years. Using this data can help staff more accurately determine where lithium resources could occur near or on state land parcels. As a result of the data source reviews, staff has identified two school land parcels in Inyo County with lithium potential. Staff also participates in the California Energy Commission, Lithium Valley (Blue-Ribbon) monthly meetings to hear and learn about lithium extraction and the potential to develop lithium from the geothermal renewable energy operations at the Salton Sea. The meetings are an opportunity to review, investigate, and analyze opportunities and benefits for lithium recovery and use in the State. The United States Geologic Survey, geothermal operators at the Salton Sea, lithium miners, and academia are researching and conducting pilot studies to determine whether commercial extraction is feasible.

Geothermal (Renewable Energy)

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



Figure 1: Calpine's Geysers Unit 20 power plant at The Geysers. Photo by John Grice, courtesy of the Calpine Corporation

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 \$5,585,490 in fiscal year 2020-2021.

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 639 megawatts of electricity annually from roughly 28,000,000 pounds of steam, which is enough to supply electricity for more than 600,000 homes for a year. The State's 31 percent state share equates to 198 megawatts of electricity annually.

Steam production has been stable since the mid-1990s because 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.



Figure 2: Calpine's Socrates Unit 18 power plant at The Geysers. Photo by John Grice, courtesy of the Calpine Corporation

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 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.

In August 2020, the Commission authorized the encumbrance of a loan against the leasehold of geothermal leases 4596, 4597, 5206, 6422, 7845, 8556, 8844, and right-of-way leases 6793, 8090, 8337, and 8610. Historically low interest rates are prompting applicants to encumber their assets, which could help fund projects and maximize royalties to the California State Teachers' Retirement System. The encumbrance will allow the Lessee to pay down higher interest debt, which will improve the Applicant's ability to reinvest into its operations within the Geysers geothermal field.

In July 2021, to enhance production, staff reviewed the Geysers field, California Energy Commission grant application (lease 5206). The proposed project consists of using a steam dominated greenloop technology. The technology is a newly developed sustainable geothermal heat extraction technology to produce electrical power without extracting water from the geothermal resource. Only heat is extracted using a downhole heat exchanger. No water is produced at the surface. Instead, the water is recirculated deep within the geothermal well. If this technology proves to be successful, optimization of these conditions will allow the system to maximize the power production potential of the geothermal well, and therefore increase production and royalty.

Other Geothermal Lease and Permit Activity



Figure 3: 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

There are school lands parcels located at Truckhaven in Imperial County. 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 vibrosis seismic survey to evaluate geothermal resources in the Truckhaven area. The seismic study is complete, and the permit expired in April 2021. In October 2020, the Commission approved a 5-year lease to drill up to four wells on State lands to the same applicant who acquired the geophysical permit in the Truckhaven area. The Truckhaven project involves drilling up to ten geothermal wells, four of which would be located on school lands. In December 2019, Imperial County, the CEQA lead agency for the proposed geothermal development project, adopted a Mitigated Negative Declaration, State Clearinghouse No. 2019119033. Imperial County subsequently issued a Conditional Use Permit to conduct the seismic survey and drill.

Staff is processing a 2-year geothermal prospecting permit application to prospect for geothermal resources in Inyo County. At the Commission's discretion, the permit is subject to 2 additional year extensions. The permit will consist of drilling and testing up to four exploratory geothermal wells. The permit is pending CEQA review and the application is expected to be considered in 2022.

Mineral Extraction Leases

Staff manages five mineral leases totaling 1,116 acres of school land. These include four solid mineral extraction leases for aggregate and one precious metal lease. The mineral leases generated \$823,896 in revenue, a decrease of about 11 percent from the previous Fiscal Year. The decrease is attributable to a reduction in production from lease 7301 in San Diego County and lease 8831 in San Bernardino County. Both leases decreased production because of the COVID-19 pandemic, which affected the associated revenues.

Staff is processing a lease application for borates in San Bernardino County. The application is pending CEQA review.



Figure 4: Vigilante Aggregate Quarry.

Lease 7301, known as the Vigilante Quarry, is in San Diego County near the city of Lakeside. The lease, which is the most significant solid mineral revenue contributor, generated \$662,008 in revenue. Decreased production and sales occurred throughout the year owing to the economic effects from the COVID-19 pandemic.



Figure 5: Hi-Grade Aggregate Quarry.

Lease 8831, which is for an aggregate quarry, is located near Hesperia in San Bernardino County. The royalty was \$77,700. The lessee, Hi-Grade, plans to mine aggregate for the next three decades. The above photo is looking southwest at the southern edge of quarry, with the San Bernardino Mountains in 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. The sales did not exceed the lessee's minimum annual royalty of \$74,000.



Figure 6: Vulcan Aggregate Quarry and Storage Site.

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. The 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 royalty revenues totaled \$932 for the removal of aggregate during the year.



Figure 7: San Bernardino Aggregate Quarry.



Figure 8: Western Mesquite Gold mine pit & excavator.

Lease 8039 comprises the northerly portion of the Mesquite property 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 \$6,316 this past year. During mining operations, the ore was compiled on a heap leach pad. This is a large accumulation of gold ore that is sprinkled with a chemical that dissolves the gold, which is then collected for processing using an impermeable liner. 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. The lessee plans to apply for a new 10-year lease early next year.

Geological Survey Permits

For activities such as mapping and hand-sampling, staff implemented a new process in which a geological survey permit is the first permit issued before issuing a mineral prospecting permit. Here is a summary of the Commission's new geological survey permit issuance process:

1. Mineral prospecting permits will no longer be issued for activities that have no potential, by themselves, to prove the presence of valuable mineral resources in commercial quantities. This includes geological mapping, electromagnetic exploration, hand sampling, limited augur drilling less than 5 feet deep and 6 inches wide.
2. Commission staff will begin to process such activities under a geological survey permit, as provided for in title 2, California Code of Regulations, section 2100.
 - a. Geological surveys are defined as "a detailed and systematic study of the topography, geology, and mineral resources of an area or country."
 - b. These types of activities may fall within the "information collection" Categorical Exemption under CEQA unless unusual circumstances or potential environmental impacts could occur, and do not promise a preferential right to a lease nor provide any exclusive rights.

3. Drilling, coring, or other activities that could possibly prove the presence of valuable mineral resources in commercial quantities would be suitable for a mineral prospecting permit. These activities would also likely require some level of CEQA analysis prior to an application for a mineral prospecting permit.

This process was refined after analysis of the Commission's existing regulations and statutory framework, and a determination that: a) only activities of a certain intensity, by necessity including drilling, can adequately investigate the geology beneath the ground and produce scientific results capable of proving commerciality; and b) mineral prospecting permits and the preferential leases they may trigger were intended for only activities capable of proving commerciality. Less intensive activities are not capable of proving commerciality, and thus mineral prospecting permits are an inappropriate approach to allow what are usually construed as benign activities. Geological Survey Permits, which are already provided for in regulation, are more suitable for less intensive preliminary exploration activities that cannot prove commerciality.

Mineral Prospecting Permits

Staff managed four mineral prospecting permits, three of which subsequently expired.

- 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. The permit's original term was extended on March 1, 2021, for one final year.
- 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. This permit expired on August 31, 2020.
- 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. These permits expired during July and August of 2021.

- Staff is processing three additional permit applications for precious metals in Imperial County.

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 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.

Staff has remediated roughly three-fourths of the 100 parcels with hazards. Those remaining either pose a lower risk or are in remote locations that are difficult to access.

Staff suspended work for the entire fiscal year because of the COVID-19 pandemic and its associated travel restrictions and social distancing precautions. Staff hopes to resume remediation work when it is safe to do so, and when travel restrictions are lifted. 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

- Remediation Complete = 70 parcels
- Remediation Partially Complete = 6 parcels
- Field Exam Required = 18 parcels
- Chemical Contamination = 6 parcels

Oil & Gas

Royalty revenue from oil and gas production totaled \$639,710 compared to last year's total of \$836,955. Most of the royalty revenue, \$639,027, is from the Round Mountain Parcel, a 160-acre parcel northeast of Bakersfield in Kern County in which the State retains a 1/16th mineral interest. Macpherson Oil Company operates this 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 \$683 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. The Sulfur Crest parcel is also a 1/16th mineral reservation.

Land Management Division - Surface Land Management

The Land Management Division manages 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.

The Land Management Division manages 128 leases, which includes 88 Right-of-Way leases on 986 acres, 15 Agricultural and Grazing leases on 15,544 acres, three Industrial leases on 760 acres, and seven Public Agency/Other types of leases on 13 acres. The Commission acted on eight school lands lease applications and other land management activities in fiscal year 2020-21, including authorizing the Commission's first solar lease, which is discussed below. Staff also received 17 applications that are being processed for Commission consideration at a future meeting.

The Commission's surface lease program involves processing applications for new leases, 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 \$543,566.

School Land Bank Fund – Revenues and Expenses

Accrued Interest on the School Land Bank Fund

The Surplus Money Investment Account generated a total of \$175,164 in interest for the School Land Bank Fund. The accrued interest in this period is substantially lower than the accrued interest in previous years (\$1,267,280 in FY 2019-20 and \$1,764,450 in FY 2018-19). This is because the interest on the \$49 million the State borrowed is accruing separately and will be included when the loans are paid back.

Expenses Charged to the School Land Bank Fund

Expenses charged during the Fiscal Year totaled \$1,119,972. Of this amount, \$615,984 was charged to the Mineral Resources Management Division and \$212,795 was charged to Land Management Division. Overhead and distributed charges totaled \$291,193.

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 because of 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 \$834,000. Staff anticipates that revenue from geothermal leases at the Geysers will slightly increase due to new well work that will increase injection and production. Revenue from the five solid mineral leases is not anticipated to deviate much from the present fiscal year because of the ongoing pandemic.

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. After adjacent landowners raised concerns about the hazards of leaving standing dead timber on State lands that could fall or contribute to additional wildland fire, Commission staff found a contractor willing to fell the dead trees. In the interests of public safety, the fire hazard was mitigated in March 2021 at a cost to the Fund of \$39,413.

Recent 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.

Renewable Energy

Staff expects more interest in the long-term leasing of school lands for renewable energy projects in the coming years. 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 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 lease 9379 for 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 \$148,173 in 2020 and \$152,250 in 2021.



Figure 9. A group of wind turbines. Photo courtesy of Avangrid Renewables, LLC.

Solar Energy

In August 2020, the Commission authorized its first solar energy project on school lands. Lease 9637 was authorized to BigBeau Solar, LLC. EDF Renewables, Inc, the project sponsor, is 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.
- Current annual base rent for this lease is \$44,021. When fully built out, the rent from electricity generated by BigBeau is estimated to be more than \$90,000 annually.



Figure 10. Beacon Point Solar Panel Array in Barstow, California. Photo courtesy Los Angeles Department of Water and Power/photographer Chris Corsmeier.

Staff continues to process two other applications for solar energy leases that together would span roughly 2,940 acres of school lands and generate up to 220 megawatts of renewable electrical energy. 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 and staff published the Draft Environmental Impact Report in October 2021. 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 2022. Staff also expects 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 California. 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 state budget, the Commission received an authorized position to proactively manage its forested lands. The Commission anticipates filling this position in 2022. The position will assist in a comprehensive inventory of the Commission's forested land to assess tree 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 the 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.

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.

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 the 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 initial 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. The sale did not close by that date, and the applicant forfeited its second non-refundable deposit down payment, which was also deposited into the Fund. In June 2021, the Commission approved the Fifth Extension of the sales contract, and the applicant deposited a third non-refundable deposit in the amount of \$46,054 to extend the close of escrow to June 30, 2022.

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. 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.

School Land Bank Fund Investment Report

Staff is developing a plan to invest 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 with Aginvest International to develop an investment strategy. Aginvest's final report draft has been submitted to staff for review, and staff anticipates that review will conclude before the end of this year.

The report is intended 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. In addition to in-depth discussion of various real estate investment types, the report includes 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. [AB 1390 \(Boerner-Horvath\)](#) Chapter 715, Statutes of 2021, provides the Commission with additional tools to facilitate real estate investments and grow the School Land Bank Fund.

Bureau of Land Management California Desert Protection Act Land Exchange

In October 1994, the California Desert Protection Act 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.

Financial Summary: Fiscal Year 2020-2021

CalSTRS Fund

Revenues and Expenses

Revenues:

Surface (LMD)	\$ 543,565.61
Surface (MRMD)	\$ 242,822.72
Geothermal (MRMD)	\$ 5,585,490.14
Solid minerals (MRMD)	\$ 823,895.87
Oil and gas (MRMD)	\$ 639,710.47
Miscellaneous	\$ 132.93
Total Revenues:	\$ 7,835,617.74

Expenses:

Mineral Resources Management	\$ 615,984.35
Land Management	\$ 212,794.59
Overhead/Distributed	\$ 291,192.60
Total Expenses:	\$ 1,119,971.54
Net Revenue to CalSTRS Fund:	\$ 6,715,646.20

School Land Bank Fund

Balance as of July 1, 2020	\$ 69,881,270.78
Revenues from Land Sales	\$ 0.00
Surplus Money Investment Fund Interest Earned	\$ 175,164.28
Less: Expenses	\$ <1,183,479.84>
Fund Balance as of June 30, 2021	\$ 68,872,955.22

Addenda

Addendum to the 2018-2019 Annual Report on the Management of State School Lands

This addendum includes School Land Bank Fund expenditure revisions for the 2018-2019 fiscal year. The final expenditures for the 2018-2019 fiscal year are \$1,149,688.95. Interest for the 2018-2019 fiscal year was revised by <\$288,004.77>, bringing the total School Land Bank Fund interest for the 2018-2019 fiscal year to \$1,476,445.18.

Revised School Land Bank Fund Balance for 2018-2019 fiscal year.

School Land Bank Fund Balance as of July 1, 2018	\$ 69,628,517.12
Revenues from Land Sales	\$ 0.00
Interest Earned in Fiscal Year 2018-2019	\$ 1,476,445.18
Less: Expenses	\$ <1,149,688.95>
Balance of Fund as of June 30, 2019	\$ 69,955,273.35

Addendum to the 2019-2020 Annual Report on the Management of State School Lands

This addendum includes School Land Bank Fund expenditures for the final 2 months of the 2019-2020 fiscal year. The final 2-month expenditures for the 2019-2020 fiscal year are \$454,431.31, bringing the total School Land Bank Fund expenses for the 2019-2020 fiscal year to \$1,378,232.69. No additional revenue was reported during the final 2 months of the year.

Revised School Land Bank Fund Balance for 2019-2020 fiscal year.

School Land Bank Fund Balance as of July 1, 2019	\$ 69,955,273.35
Revenues from Land Sales	\$ 36,950.00
Interest Earned in Fiscal Year 2019-2020	\$ 1,267,280.12
Less: Expenses	\$ <1,378,232.69>
Balance of Fund as of June 30, 2020	\$ 69,881,270.78

Addendum

Status of School Land Consolidation Efforts in the California Desert:

As with the last fiscal year, there are no new activities to report because no land consolidation efforts or exchanges related to the Desert Renewable Energy Conservation Plan (DRECP) Land Use Plan Amendment (LUPA) as envisioned by the School Land Bank Act have occurred. The Bureau of Land Management has not proceeded with a DRECP LUPA amendment nor provided updated information on this process since 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.

In last year's report, the Commission noted that 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. But other than issuing the notice and convening several public scoping meetings, BLM has not proceeded with any further formal actions to amend the DRECP LUPA.

As background, In September 2011, 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. In 2016, 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 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.

Most 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 each parcel 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](#) sought to help resolve this issue 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 to make large-scale renewable energy development feasible.

Generally, the Commission's objective in participating in the development of the DRECP was to ensure that the 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. Pursuant to Chapter 485, the Commission and BLM California entered into a Memorandum of Agreement that set forth the objectives and commitments of the Commission and BLM, including information sharing, minerals evaluation and appraisal, streamlining of the land exchange process, and commitments to prioritize completion of exchanges. Commission staff engaged with the BLM, California Department of Fish and Wildlife, and other state and federal agencies to develop a Phase 1 land exchange proposal, agreed on in 2015, and consisting 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 BLM wilderness area, as well as lands proposed for national conservation landscape designations under the DRECP.

In 2016, then-Interior Secretary Sally Jewell and then 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, prioritize processing applications for renewable energy development in areas that are consistent with the DRECP, and complete the Phase 1 land exchange proposal by December 2018. The Phase I land exchange, however, was not completed by this date owing to shifting priorities of the federal administration at that time.