

MINUTE ITEM
This Calendar Item No. 36
was approved as Minute Item
No. 36 by the State Lands
Commission by a vote of 2
to 0 at its 10/29/90
meeting.

MINUTE ITEM
36

10/29/90
W 23484
Kiley

APPROVE INVESTMENT CRITERIA FOR INVESTMENT
OF MONEY ON DEPOSIT IN THE SCHOOL LAND BANK FUND

Lance Kiley, Division Chief of Land Management and Conservation, presented Calendar item 36. Mr. Kiley reported Item 36 is a result of about a year's worth of discussion between himself, his staff, and several consultants. Staff is asking, at this time, for the Commission to approve a set of criteria for investment of money that has been accumulating in the School Land Bank Fund. Staff would then come back in the future for a specific process to invest the money using these criteria as a guide.

The Commission voted 2-0 to approve the item as presented.

Attachment: Calendar Item 36.

A)
S) N/A
)

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CALENDAR ITEM

A)
) N/A
S)

- 36

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**APPROVE INVESTMENT CRITERIA FOR INVESTMENT OF
MONEY ON DEPOSIT IN THE SCHOOL LAND BANK FUND**

PARTY:

State Lands Commission
1807 - 13th Street
Sacramento, California 95814

BACKGROUND:

The School Land Bank Act (Division 7.7 of the P.R.C.) sets forth a procedure for holding and reinvesting funds generated through transfers of school lands to private parties and other public entities. The staff has worked with consultants from the firm of Williams-Kuebelbeck & Associates, Inc. to develop criteria for investment of funds on deposit in the School Land Bank Fund.

The staff requests the Commission's approval of the proposed investment criteria. If the criteria are approved, the staff, with the help of the consultants, will develop a proposed process for bringing investment opportunities conforming with the criteria before the Commission.

AB 884: N/A.

OTHER PERTINENT INFORMATION:

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines (14 Cal. Code Regs. 15061), the staff has determined that this activity is exempt from the requirements of the CEQA because the activity is not a "project" as defined by CEQA and the State CEQA Guidelines.

(ADDED pgs. 144-144.2)

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CALENDAR ITEM NO. 36 (CONT'D)

Authority: P.R.C. 21065 and 14 Cal. Code
Regs. 15378.

EXHIBIT: A. Proposed Investment Criteria.

1. FIND THAT THE ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. CODE REGS. 15061 BECAUSE THE ACTIVITY IS NOT A PROJECT AS DEFINED BY P.R.C. 21065 AND 14 CAL. CODE REGS. 15378.
2. APPROVE THE INVESTMENT CRITERIA ATTACHED AS EXHIBIT "A".
3. DIRECT THE STAFF TO DEVELOP A PROPOSED PROCESS FOR ANALYZING INVESTMENT OPPORTUNITIES FOR MONIES IN THE SCHOOL LAND BANK FUND USING THE INVESTMENT CRITERIA AND FOR SUBMITTING THOSE OPPORTUNITIES TO THE COMMISSION FOR CONSIDERATION.

EXHIBIT "A"

SCHOOL LAND BANK FUND INVESTMENT CRITERIA

- I. Long-Term Investment Goal: to increase both the amount and the security of the net income from school lands.
- II. Eligibility Screen for All New Investments.
- A. Properties must be fully improved
 - B. Properties must be substantially leased
 - C. Properties must be professionally managed
 - D. Properties must be appropriate for SLC ownership
 1. Simple transaction; no lengthy negotiations required
 2. No additional SLC staff required to manage property
 3. No potential conflicts with tenants or community (no residential properties or nonconforming uses)
 4. No subordination or pledge of the State interest in the property
 5. State must be free to demand highest rents market will bear (State cannot be a tenant)
- III. Soundness of Investment
- A. Legal soundness
 1. State must obtain clear title
 2. State must obtain right to use property profitably for its intended purposes
 - B. Physical soundness
 1. Property must be in sound, leasable condition
 2. Property must conform with applicable codes and ordinances
 3. Deferred maintenance, needed repairs, or other hidden costs must be identified and budgeted for
 4. Ongoing maintenance must be reasonable and budgeted for
 5. Property must be warranted by seller to be free of health and safety hazards, including asbestos and toxic waste residues
 - C. Economic soundness
 1. Strong present and long-term market demand
 2. Strong competitive position relative to competing supply
 3. Favorable lease terms
 - a. high market rent levels
 - b. reasonable inflation sensitivity or ability to replace tenants to sustain market rent levels
 - c. owner control of use and occupancy
 - d. adequate security against defaults
 4. Strong resale or redevelopment value beyond term of lease(s)
 5. Reasonably predictable costs
(budget must include amounts to cure present defects and maintain improvements in marketable condition)
 6. Offer amount must not exceed any of the following:
 - a. replacement cost
 - b. market value based on comparable sales
 - c. investment value to State based on quality of expected income stream and opportunity cost of invested funds.
- IV. Guidelines for Initial Investments
- A. Investment amount: \$2-4 million each property