REPORTER'S TRANSCRIPT OF PROCEEDINGS OF MEETING
OF THE STATE LANDS COMMISSION, HELD AT AUDITORIUM BUILDING
NO. 1, FARM ADVISOR'S OFFICE, SAN DIEGO, CALIFORNIA, AT
2:00 P.M., JUNE 11, 1958.

COMMISSION MEMBERS:
John M. Peirce, Chairman, State Director of Finance.
Harold J. Powers, Lieutenant Governor.
Robert C. Kirkwood, State Controller.

STAFF:
F. J. Hortig, Executive Officer.
K. C. Smith.
W. E. Bestues.
Jay L. Shavelson, Deputy Attorney General.

Carroll S. Blodgett, Reporter.
CHAIRMAN PEIRCE: This is a meeting of the State Lands Commission. To my right is Lieutenant Governor Powers and to my left is State Controller Robert Kirkwood. I am John Peirce, State Director of Finance.

I believe this is the first meeting we have held in San Diego for a good many years, isn't it, Mr. Hortig?

MR. HORTIG: That is correct, sir. At least eleven.

CHAIRMAN PEIRCE: Yes.

GOV. POWERS: Eleven years.

CHAIRMAN PEIRCE: All right. It is nice to be down here. The first order of business is the approval of the minutes of the meeting of the State Lands Commission which took place in Los Angeles on May 13th. Copies have been mailed to members of the Commission. Are they in order?

GOV. POWERS: I move we approve the minutes as submitted.

MR. KIRKWOOD: Second.

CHAIRMAN PEIRCE: All right. There being no objections, the minutes will stand approved as written.

Now, Mr. Hortig, do you want to take the agenda in order today or are there certain persons who will be accommodated if we move more quickly? Are you prepared to discuss this matter with respect to Southern California Edison Company?

MR. HORTIG: Yes, sir. Actually, I am not completely aware of the travel schedules for the people in attendance
here. I believe we might proceed just as expeditiously
if the calendar be considered in the order in which it is
published.

CHAIRMAN PEIRCE: All right. There are three
representatives from the Edison Company with us, however.
Is this the sort of a routine matter that we can take up
quickly?

MR. HORTIG: As a matter of fact, I believe all of the
items on which there are personal representations are not
controversial, and in deference to those in attendance
could be taken up out of order.

CHAIRMAN PEIRCE: All right.

MR. HORTIG: If you so wish.

CHAIRMAN PEIRCE: Let us take up the Edison Company
matter first.

MR. HORTIG: You gentlemen do not have before you a
written calendar item, inasmuch as the application for this
matter was received from Southern California Edison Company
at 1:45 p.m. this afternoon. It involves, however, an
almost routine application for a right of way easement
in the Pacific Ocean fronting on property owned in fee by
the Southern California Edison Company in Ventura County
at the site of the proposed Mandelay steam plant immediately
up coast from the City of Oxnard in Ventura County. The
normal routine right-of-way easement could be issued by the
Executive Officer under delegation of authority; however,
in this particular instance the Commission has heretofore authorized in connection with other steam plant installations for the Southern California Edison Company certain specific provisions with respect to right-of-way easements for that purpose, and it is therefore desired that we have Commission authorization to use the same form of right-of-way easement for the subject application that was previously authorized by the State Lands Commission in connection with the Huntington Beach steam plant operation of the Southern California Edison Company.

It is recommended that the Commission approve this authorization for the application of this type of easement in connection with the subject request.

CHAIRMAN PEIRCE: This is purely routine and we have done it before, and there is no element of controversy involved?

MR. HORTIG: That is correct, sir. The only thing non routine is a combination of circumstances.

CHAIRMAN PEIRCE: Are there any questions, gentlemen?

MR. KIRKWOOD: Are we taking final action or are we approving the exceptions to the usual procedure and you will take the action as Executive Officer?

MR. HORTIG: You are taking final action in authorizing the use of the same form of right-of-way easement which has previously been authorized for Huntington Beach to be issued in connection with the Ventura County right of ways.
MR. KIRKWOOD: All right. I will so move.

GOV. POWERS: All right. Seconded.

CHAIRMAN PEIRCE: All right. It has been moved and seconded, and the recommendation of the Executive Officer with regard to this matter is approved. Now, Mr. Hortig, if you will proceed with the agenda.

MR. HORTIG: If we may, in view of personal representations, if you gentlemen will refer to page 68 of the agenda, the last published supplemental item. The Commission are aware by reason of authorization of recent amendments and condition approvals of the Monterey Oil Company lease at Seal Beach, which previously had been issued pursuant to competitive public bidding at the last meeting of the Commission, the Commission approved the construction of a wharf adjacent to the drilling island located on the lease to accommodate operating equipment necessary to initiate a pilot water flood. A request has not been received from the Monterey Oil Company for approval of the actual initiation of a pilot water injection flood to be conducted from this wharf, which has already been authorized for construction, the initial operation to be drilling of a water source well with additional wells to come later on in the program. Present consideration is simply for authorization of the drilling of the single well as a water source, which however is an initial step in the pilot water flood operation. The lands adjoining this lease to the east are
tide and submerged lands belonging to the State of California. The lands adjoining subject lease to the west which conceivably might be affected are tide and submerged lands originally granted to the City of Long Beach, quit-claimed by the City of Long Beach to the State for park purposes and now subject of litigation as to who has the mineral rights.

In any event, the City Manager of Long Beach has stated his unqualified approval in principle to the initiation of this pilot flood water project, so there is no objection thereto by adjoining land owners.

The staff recommends that the project be authorized, and that is the recommendation.

CHAIRMAN PEIRCE: This could lead to greater ultimate recovery of oil from that field?

MR. HORTIG: As a minimum, from engineering analysis, it will lead to the most effective recovery of oil from the field. It has the additional prospective advantage, even though there has been no evidence of subsidence, if there is any latent tendency toward subsidence in the area, this should certainly forestall this latent tendency.

CHAIRMAN PEIRCE: So it is to the advantage of the State that this be done?

MR. HORTIG: That is correct, sir.

CHAIRMAN PEIRCE: Are there any questions, gentlemen?

MR. KIRKWOOD: Does this give the State any authority
to maintain this sort of thing, or is this purely a voluntary set-up on the part of the operator and may be discontinued at any time? I mean does this give us any new enforceable rights in this area?

MR. HORTIG: No, sir, it does not.

CHAIRMAN PEIRCE: Any further questions?

MR. KIRKWOOD: I move approval.

GOV. POWERS: Second.

CHAIRMAN PEIRCE: It has been moved and seconded, and the recommendation is approved.

MR. HORTIG: Again, in view of personal representation here, another supplemental item for which there is no published item before you gentlemen. This one was received somewhat earlier, at 11:45 a.m. this morning, I believe. It is relatively routine.

Richfield Oil Corporation hold an effective geological survey permit from the State Lands Commission. The original authorization was to conduct such explorations to an easterly line, which is the projection seaward of the Los Angeles Orange County line. Richfield has requested authority to conduct the same type of operations under an extension of this permit, which would permit such operation easterly to a prolongation of the westerly Newport city limits, an area in which the Commission has hitherto as a matter of routine issued other core-drilling permits. This will ultimately result in an extension of the original
permit to cover this additional area.

CHAIRMAN PEIRCE: Any objections been registered to the issuance of the permit?

MR. HORTIG: No, sir. In all fairness, in view of the time I received the application, I don't think anyone had the time to. On the other hand, there has never been any objection voiced to any other permits which have been issued by the Commission as to the same area.

CHAIRMAN PEIRCE: Any questions?

MR. KIRKWOOD: I so move.

GOV. POWERS: Seconded.

CHAIRMAN PEIRCE: The recommendation is approved.

MR. HORTIG: Page 34, gentlemen.

GOV. POWERS: 34?

MR. HORTIG: Yes, sir. If I may give an overall summary, pages 34 to 54 of the calendar present staff recommendation for Commission approval on a fiscal-year basis for the next fiscal year of the majority of the subsidence projects which have been proposed to be conducted by the City of Long Beach with State participation pursuant to the provisions of Chapter 29 of the Statutes of 1956.

All of these proposals on a fiscal-year basis are either an extension of those projects which have heretofore been approved by the Commission on a fiscal-year basis or include the one remaining project heretofore carried by the
Commission on the monthly basis with respect to so-called Town Lot acquisitions, which is being recommended for approval again on the basis restricted to advance approval for the conduct of the project, but without any authorization on the part of the City to withhold any deductions until the actual subsidence increment may be determined in the future, based both on further engineering review and on further legal review.

Going back then to the individual items, on page 34 it is recommended that the project for rehabilitation on Pier A be approved on a fiscal-year basis subject to the standard conditions that the amount of subsidence deductions ultimately allowable will be determined by final engineering and audit review after the work on the project is actually completed.

Would you, Mr. Chairman, desire to take action on these items as a group or individually?

CHAIRMAN PEIRCE: I have gone over these and they are all in order, and I have no further questions to ask.

MR. HORTIG: If the Chairman can give us a one-minute recess here, I have seem to have developed a question.

CHAIRMAN PEIRCE: All right.

(Short recess.)

MR. HORTIG: By way of amplification of the recommendations, Mr. Peirce, the project recommended on page 34 is, should first, a recommendation which probably have independent
action by the Commission, in that it relates to the
remainder of the period June 11th to June 30, 1958, in
order to close out the fiscal year on this project.

CHAIRMAN PEIRCE: On advice of the Deputy Attorney
General, action will be taken on the recommendation on page
34 independently of the other Long Beach subsidence items.
Have you anything to say about this, Mr. Lingle? Is it in
order so far as Long Beach is concerned?

MR. LINGLE: Yes.

MR. KIRKWOOD: So move.

GOV. POWERS: Seconded.

CHAIRMAN PEIRCE: All right, the recommendation on
page 34 is approved.

MR. HORTIG: Considering the pages 36 through 54 as a
group of fiscal-year projects, it is desired to call the
attention of the Commission to the tabulation on page 37
at the bottom. Item 14 reports with respect to a
restaurant site preparation, filling. It is desired to
have the record reflect, with the concurrence of the City
of Long Beach, that with respect to the specific item,
"Point Pacific Restaurant Site Preparation, Filling," the
recommendation is a conditional one for advance approval
with subsequent determination as to the allowance of any
subsidence costs, either on the legal basis or upon a policy
basis by the State Lands Commission, to be determined in
the future.
Are there any objections to that one reservation, Mr. Lingle?

MR. LINGLE: No, no objections.

MR. HORTIG: That being the case, the staff recommendation is that the items appearing on pages 36 through 54, inclusive, representing the balance of subsidence projects proposed to be undertaken by the City of Long Beach for the fiscal year 1958-59 be approved by the State Lands Commission subject to the standard reservations relative to future allowance of subsidence costs.

MR. KIRKWOOD: Does this require change in the language of the recommendation on page 36?

MR. HORTIG: I believe not, sir, but it was the suggestion of the Attorney General's office to have the record reflect clearly that this was the intent of the conditional approval as indicated by the tabulation.

CHAIRMAN PEIRCE: What about the recommendation on page 53, should it be acted upon separately?

MR. HORTIG: It is also a project on a fiscal-year basis.

CHAIRMAN PEIRCE: In other words, it falls into the same category?

MR. HORTIG: It falls in the same category, the same type of operation, it is simply unique as to its geographical location and purpose of the project.

CHAIRMAN PEIRCE: Does it meet with your approval,
Mr. Shavelson?

MR. SHAVELSON: Yes. On this restaurant, we haven't written our opinion yet. It is just a question as to the scope of the authority of the Commission, what discretion it can exercise in approving or disapproving that, and it was our idea that it would perhaps be desirable that the discretion be defined before the Commission irrevocably commits itself on the matter of policy there.

CHAIRMAN PEIRCE: The recommendation on page 53, which was included in your statement, Mr. Hortig, doesn't relate to the restaurant, it relates to a different item?

MR. HORTIG: No, that is true, sir.

MR. KIRKWOOD: There is another intermediate item, sir?

MR. HORTIG: We are referring to the entire series between pages 36 and 53.

CHAIRMAN PEIRCE: All right.

MR. KIRKWOOD: I move the various items 11 to 27, or whatever they are—the matters included in pages 36 through 54, inclusive, I move approval of the recommendations as submitted.

GOV. POWERS: Second.

CHAIRMAN PEIRCE: All right. The three staff recommendations set forth in the agenda on pages 36 through 54, inclusive, with the explanatory detail, are approved.

Next item, Mr. Hortig.
Does that take care of Long Beach?

MR. HORTIG: Yes. If the Chairman will request if anyone else is present who desires to make any representation.

CHAIRMAN PEIRCE: Is there anyone present who desires to appear in connection with any of the items of the agenda? That does not include Mr. MacLachlen.

MR. PYLES: Yes.

CHAIRMAN PEIRCE: Mr. Pyles.

MR. PYLES: This isn't on the agenda, but through the press and my visit with you when I came in, I understand that this might be the last meeting of the Lends Commission at which you might be present. On behalf of the Monterey Oil Company and myself, and I am sure the other members of the industry join with me in saying to you that during the period of time that you have been the Director of Finance and in that capacity as a member and Chairman of the State Lends Commission, that we have thoroughly enjoyed working with you and your members of the Commission. We know that it has been a trying period. We feel that you have at all times fairly administered the affairs of the Commission in your capacity as Chairman.

We naturally hate to see you leave; at the same time, we do not wish that you pass up the opportunity that I understand has been presented to you. On behalf of my company and myself and members of the industry, we all wish
you God speed and the utmost of success, and that this
will bring a great deal of happiness to you in working on
this project that you are going to undertake.

(Applause.)

CHAIRMAN PEIRCE: Thank you, Mr. Pyles. It is very
gracious of you to give recognition to the fact that this
is in all probability my last meeting as a member of the
State Lands Commission, and I regret very much that on the
15th day of July I shall leave my office as State Director
of Finance, which I have occupied for nearly five years.
It has been the happiest period of my professional life,
giving me great satisfaction. I have been working with a
grand group of people, and the objective always foremost
in my mind has been to serve and protect the best interests
of the people of the State of California, and in that
regard I have had full co-operation from everybody con-
cerned. So please know, Mr. Pyles, that I appreciate very
much your very generous expression of good wishes.

Now, Mr. Hortig, if you will proceed with the agenda,
please.

MR. HORTIG: Page 32, please.

MR. PYLES: We hope to see you in your new job.

CHAIRMAN PEIRCE: Righto.

MR. PYLES: And, of course, the other two members,
we will be seeing them.

MR. HORTIG: As the Commission will recall, service
contracts with the Audit Division of the Department of Finance have been authorized heretofore for the dual purpose of post-auditing operations by the City of Long Beach as required by Chapter 29 of the Statutes of 1956, and for the purpose of developing an audit program which could be followed in the future, either by staff assignment within the State Lands Division, or under continuing service contract with the Division of Audits of the Department of Finance.

Now, the work which has been performed by the Audit Division under these contracts has resulted in many exceptions to oil and gas production costs deducted from oil and gas revenue prior to distribution. There are substantial increases in the revenue to the State when these exceptions are resolved. Typical examples are the type of charge deemed questionable, such as the "land use" charge, which the City had included for the cost of oil and gas production. This amounted to $41,000 monthly since February, 1956. Exception to this charge resulted in its reduction in February, 1958, to $11,000 per month. In settlement of the previous overcharges the City remitted additional revenues of $690,000 plus interest to the State. Likewise, gas production costs were reduced by $6000 monthly during 1957 as a result of auditing. It is apparent that the services that have been rendered have been highly productive.
Auditing services contracts for the fiscal year '57 to '58 amount to $15,000. These funds were fully expended as of March 31, 1958. Services presently being rendered (for the remainder of the fiscal year to June 30th) are estimated at $7000.

In summary, it should be pointed out:

(1) That the work being performed has had highly beneficial results,

(2) That a considerable backlog of work still exists. For these reasons it appears desirable that there be a continuance of the services being rendered.

It is the recommendation that the Executive Officer be authorized to enter into and execute interagency contracts with the Audit Division, Department of Finance, as follows:

1. A supplementary agreement providing for additional services for the fiscal year 1957-58 at a cost of $7000; thus making the total services for the current fiscal year $22,000;

2. An interagency agreement providing for the furnishing of auditing services in connection with operations under Chapter 29/56 first E.S., for the fiscal year 1958-59 in an amount not to exceed $15,000.

CHAIRMAN PEIRCE: You have heard the recommendation as submitted by Mr. Hortig, with the explanatory material in support thereof. We have with us today Mr. Eric Mac-
Lachlen, who is Chief of the Audit Division of the Department of Finance, and also his Southern California Chief, and if there are any questions with respect to this matter they will be glad to provide any answers thereto. Are there any questions, gentlemen?

MR. KIRKWOOD: I am curious as to what we are getting into here, as I have been from the start, John. Just reading this, it seems to me that we were ineffect contracting a part of the management function rather than what I understand to be the normal function of the Audit Division.

I don't know, Eric, what exactly these--there is no question but what somebody has to perform the function. I think it is a question as to where it is performed and how it is performed.

MR. MACLACHLEN: I just handed to your Executive Officer a letter to the Commission and two copies of a complete audit program as we have developed it up to date. I think it is pretty apparent now in our minds and actually in the Audit Division of the Department--I mean the Division of Lands, that this type of auditing be done on a concentrated basis and not on a year-around basis. The auditing progress really breaks down into four phases, three of them are pretty well interrelated, that is, the audit by your department of expenditures of the City of Long Beach, Petroleum Section, a review of the petroleum production companies' records to see that their production charges
and expenses have been properly accounted for and are allowable in settlements with the City, and thirdly, a review of the trust fund expenditures, which is the responsibility of the Lands Commission under Chapter 29/1956. All of these can best be done on a post-audit basis in a concentrated effort. Now, the ground rules, or at least some of the definitions, as to what is allowable for State purposes as against what was previously allowable where the only party at interest was Long Beach, have been pretty well laid. This has taken a long time, because every time we turned around it is a matter for legal opinion or engineering advice. Now that those things have been defined, we feel the best way to do this audit is to throw eight or ten men into the audit, get it done, and get out of Long Beach's hair for six or nine months of the year.

The fourth part of this program is a review of the subsidence expenditures. Due to the very nature of the subsidence expenditure approvals which you are giving here, which are tentative, subject to change and do change, we feel there is no point in auditing those expenditures until the project is completed, at which time the definitions are made as to what is allowable and what isn't allowable. So we feel that is a program that depends upon the completion of the projects, which so far have only been about four or five, hasn't it, in the two-year period?

MR. BASTUES: We have only processed four through
the Commission as being finally complete. There are a
number being carried on.

MR. MacLACHLEN: There is no point in auditing those
until those are completed. Really, you are not accomplish-
ing anything in auditing ahead of time, because when the
ground rules change we have to go back and audit again. So
we feel that there is a limited field for a continuous
program, so that we think it is most economical, and also
for the reasons I gave in the letter there, the most ad-
visable procedure for us to do it on a contract basis or a
seasonal basis, and get in there and get out of Long Beach's
hair, which we have been in for--

MR. KIRKWOOD: What is this "land use" charge?

MR. MacLACHLEN: That was a charge that they concocted
based on two cents a foot for certain areas in pier levels
and one cent in other areas, which we questioned and had a
consultation with the City of Long Beach and our own
attorneys, and I think Mr. Hortig was on that conference,
about a year go--not quite, last August. After a consider-
able length of time they came up and revised the "land use"
charge down to $11,000, thereby recovering for the State
approximately $30,000 a month, spread back over the past
two years.

This gas production costs, this was just the question
of determining what overhead charges were charged in the
charges against petroleum production.
MR. KIRKWOOD: Isn't that wholly a management problem that should have been explored by management in the beginning, rather than picked up by audit subsequently, Eric?

MR. MacLACHLEN: Well, yes and no. In the first place, management has to know what is the basis of the thing and whether it is considered a proper charge before they can question it.

MR. KIRKWOOD: How do you submit these questions? To the A. G's office?

MR. MacLACHLEN: Through Mr. Hortig.

MR. HORTIG: Via the State Lands Commission.

MR. MacLACHLEN: We are working for the Lands Commission under this contract, just as any public accountant would be working for them, I might point out.

MR. KIRKWOOD: It is a unique set-up? It would be a unique set-up for any department?

MR. MacLACHLEN: Oh, no, it isn't. We do the same thing for other State agencies and have done so for years.

MR. KIRKWOOD: You end up normally as a post-auditing agency for other agencies, and here you are auditing yourself.

MR. MacLACHLEN: Mr. Kirkwood, I want to point out that we are now in an administrative auditing agency.

MR. KIRKWOOD: With a post audit by the Auditor General?

MR. MacLACHLEN: We are known as what is called an
inter-auditing agency. We report to the chief executive through the Director of Finance. We are working for the administration. We are independent of any one department, but we are working for the State as a whole. We furnish these services, and have for years, to all agencies where an internal auditing unit attached to the agency is not economical, and have done it for a number of years. It is not unique in our history at all. The point is that the advantage is that we have the biggest staff of trained accountants that there is available to the State, that is, on a post-auditing basis. This has been an advantage in many ways and much more economical because we have trained technicians of a high degree, whereas an individual agency could not secure those services. Does that explain what I am trying to get at here?

CHAIRMAN PEIRCE: I think Mr. Kirkwood as State Controller naturally has a viewpoint with respect to auditing that should demand our respect. I do observe, however, from what Mr. Hortig has told me from time to time, as one member of the Commission, and on the basis of my discussions with you, Eric, that the system that we have used under this interagency contract has apparently worked and has been satisfactory, and that, of course, brings certain merit to the recommendation that is now before us.

Frank, what is your observation? Has this been entirely satisfactory so far as working operation is concerned?
MR. HORTIG: I believe it has been the most effective and efficient procedure. However, undoubtedly there are other bases which certainly can be contended and could be demonstrated, where the work could be done equally as efficiently on other bases. Fundamentally, we have three problems.

MR. KIRKWOOD: Do you have copies of the letter which you gave Mr. Hortig?

MR. MacLACHLEN: Yes, I left five of them.

MR. HORTIG: Which I have not yet read, incidentally.

MR. KIRKWOOD: This is a calendar item which I went over the first time this morning, and I haven't had a chance to really discuss with you or with anyone.

MR. HORTIG: I should, for the benefit of the Commission, like to outline these problem areas as we see them and why we came to the Commission at this time with a recommendation in the form in which we do have it.

We have three broad areas requiring accounting and auditing specialties. One which the Division of Audits is completing for us under service contract, which is a study of what the audit program, continuing audit program, should be for the future; two, the City Harbor Commission are required annually, as of a date of October 1, to submit financial statements of the harbor operations independent of the oil and gas operations, as to the expenditure of the City's fifty per cent of the tidelands funds which require,
obviously, a post audit. This operation as of up to now has been conducted under service contract by the Division of Audits, and I believe I would recommend that a service contract of employment for this type of operation be continued on a service contract. We have had the question raised, as Mr. Kirkwood is very well aware, and we have discussed it in general terms as to whether the third phase, the current audit—current accounting, day-by-day following of a subsidence project and the final audit and engineering review, whether they should be completed in toto by the State Lands Division staff in distinction to this function being carried on by auditors under service contract. We have had a staff of two auditors up to this date, and as of this moment still propose to continue such auditors for that purpose within the State Lands Division. The question was whether that staff should be augmented in order to carry out the audit program as developed by the Division of Audits or whether the service contract with Division of Audits should be extended into the future to carry out that type of work.

We were unable at this meeting to make a recommendation as between the two types of procedures and only recommend a continuation of what has been our past practice for at least an interim period, inasmuch as Mr. MacLachlan has stated that we this afternoon received the draft of the report, and recommendations and bases which we have not been able to analyze to present to the Commission. However,
inasmuch as we are against a dead line of the fiscal year and a requirement of what we do during the months of July and August as a minimum, that we propose this type of procedure to the Commission this afternoon.

CHAIRMAN PEIRCE: This can be reviewed later on?

MR. HORTIG: And amended.

CHAIRMAN PEIRCE: During the year, and it can be amended, can be canceled?

MR. HORTIG: It would be proposed, and I would include in the recommendation that this be a condition, that there be further report by the State Lands Division representing a complete summary and presentation to the Commission of the Staff's position, augmented by this mass of data received this afternoon from the Audit Division.

MR. MacLACHLEN: I will have a complete report in your hands in about three weeks of what we have done to date, all the questions that have been raised, and what the staff and the Attorney General's opinions, decisions, have been, to present to you, and I hope that will bring out that much of this stuff that we have encountered is not a matter of administration and could have been found out without an audit review. The final decisions are in your hands.

MR. KIRKWOOD: Of course the original springboard here, I mean the thing from which the whole administration had to be launched, had to result from an audit which you conducted,
and I imagine a lot of it stems back to that, doesn't it, Eric?

MR. MacLACHLEN: Yes.

MR. HORTIG: We started three months after the fact and are almost--

MR. MacLACHLEN: As we have moved along there have been more questions that required legal point of view, and the advice of your staff, and in the final analysis we will present them to you in this audit report for your approval, so then it is an administrative decision and not an auditor's decision being made here.

MR. KIRKWOOD: I think that certainly we have to continue the thing until we have all the material for a final answer, and I go along with this on that basis. I didn't know what had been filed to date.

MR. MacLACHLEN: I have also left with Mr. Hortig a part of our final report for his review and transmittal to each of the members for their information, but there are additional sections to be finished yet.

CHAIRMAN PEIRCE: Do you approve?

MR. KIRKWOOD: So move.

GOV. POWERS: Second.

CHAIRMAN PEIRCE: The recommendation of the staff in this record is approved.

Now, back to page 1.

MR. HORTIG: Page 1, gentlemen;
MR. SMITH: Page 1 is Sale of Sovereign Lands.

Chapter 1701, Statutes of 1957, authorizes the State Lands Commission to sell for value, sovereign lands under the jurisdiction of the Commission situated within the bed of Guadalupe Canal, San Mateo County, California. The lands were advertised for sale; no competitive bids were received based upon the appraised value.

It is recommended that the Commission authorize the sale of those certain lands described in Exhibit A attached hereto and hereby made a part hereof, to the single applicant, Crocker Estate Company, at an appraised cash price of $28,644, subject to all statutory reservations, including minerals.

CHAIRMAN PEIRCE: Any questions? Any objections been registered with respect to this?

MR. SMITH: No, sir.

MR. KIRKWOOD: This is O.K. with Crocker, too?

MR. HORTIG: Off the record.

(Discussion off the record.)

MR. SMITH: The County of San Mateo is in full agreement with this project.

CHAIRMAN PEIRCE: Do you so move?

GOV. POWERS: Yes.

MR. KIRKWOOD: Seconded.

CHAIRMAN PEIRCE: The recommendation is approved.

MR. SMITH: Page 3. In January, 1958, two applications
to purchase three sections of vacant State school land were
in San Bernardino County received and filed. These sections, among other lands, were embraced in a lease between the State and the United States during World War II. The entire area was used by the Army for bombing, practice firing and other military maneuvers which resulted in contamination of certain areas with unexploded bombs and artillery shells.

The Army, on April 7, 1958, reported that two of the sections had been cleared only to the extent of safe surface use. The clearance of possible buried duds has not yet been completed. In view of this condition, sale of the land should not be consummated until advice has been received from the Army that the subsurface has been cleared.

It is recommended that the two sections of State school lands be withdrawn from public sale pending receipt of advice from the United States Army Corps of Engineers that the subsurface of the land has been cleared of all duds and is safe for occupancy, and that the applications of Dalton C. Smith et al, and the application of Clarence C. Rikhoff be rejected as to said lands and all deposits refunded except the $5 filing fee.

CHAIRMAN PEIRCE: O.K.
GOV. POWERS: So move.
MR. KIRKWOOD: This withdraws all of the lands similarly situated?
MR. HORTIG: Yes, which we have been informed by the Army as to being unsafe and not having been cleared.

MR. KIRKWOOD: And we will be preventing anybody from spending another five bucks on filing fees?

MR. SMITH: It applies to these two sections of school land.

CHAIRMAN PEIRCE: Recommendation is approved.

MR. SMITH: Page 4. An offer has been received to purchase 240 acres of vacant State school land in San Bernardino County. Subsequently the northwest one-quarter of Section 16, containing 160 acres, was eliminated from the application on the basis of affidavits received from the United States Army, indicating that this area was still considered dangerous and contained possible duds as the result of the use of the land for bombing purposes during World War II.

It is recommended that the Commission find that the 73.16 acres in San Bernardino County is not suitable for cultivation without artificial irrigation and authorize the sale of said land to the highest bona fide bidder, Buren B. Day, at a cash price of $1075, subject to all statutory reservations including minerals and withdraw from public sale the northwest one-quarter of Section 16, pending clearance from the United States--

MR. KIRKWOOD: Any particular problem here?

MR. SMITH: No, there is not.
MR. KIRKWOOD: So move.

GOV. POWERS: Second.

CHAIRMAN PEIRCE: The recommendation is approved.

MR. SMITH: Page 5. It is recommended that the Commission authorize the sale of vacant State school land for cash, at the highest offer, in accordance with the following tabulation, such sales to be subject to all statutory reservations, including minerals, and following that is a tabulation of ten individual sales which are routine.

MR. HORTIG: Through page 17.

CHAIRMAN PEIRCE: All routine sales. Any questions with regard to these items, gentlemen?

MR. KIRKWOOD: No. So move.

GOV. POWERS: Approved.

CHAIRMAN PEIRCE: The recommendation is approved.

MR. SMITH: Page 18. Selection of vacant Federal land. It is recommended that the Commission determine that it is to the advantage of the State to select 186.44 acres in Imperial County; that the Commission find said land is not suitable for cultivation without artificial irrigation; that the Commission approve the selection of said land and authorize the sale thereof pursuant to the rules and regulations governing the sale of vacant State school land. And it is further recommended that the Commission confirm the two 20-day extension periods granted the applicant,
Cecil De Etta Nelson, within which to deposit additional funds to meet the appraised value.

The applicant canceled by failing to meet the appraisal, not objecting to the value, however, but unable to raise the funds.

CHAIRMAN PEIRCE: Any questions?

MR. KIRKWOOD: Move the recommendation.

CHAIRMAN PEIRCE: The recommendation is approved.

MR. SMITH: This is the selection of vacant Federal land in Humboldt County. An application has been received for the purchase of 280 acres. Three parcels of land containing 120 acres out of the 280 acres were severely burned and damaged by fire in 1955. The timber thereon, containing two million, seven hundred thousand board feet of Douglas fir, can be salvaged if cut during the current year. If allowed to remain until next year, the salvage of the burned timber will be impossible. In view of the urgency and necessity of disposing of these three parcels at the earliest possible date, an appraisal has been completed and a sale of the land will be handled separately from the remaining parcels of land in the application.

The applicant has been notified of the appraised value, which has been established at $63,250. He has indicated he does not wish to meet that. It is recommended that the Commission determine that it is to the advantage of the State to select the three 40-acre parcels, and that the
Commission find that said land is not suitable for cultivation without artificial irrigation; that the Commission approve the selection of said land and authorize the sale thereof pursuant to the rules and regulations governing the sale of vacant State school lands.

MR. KIRKWOOD: A fast sale is contemplated here?
MR. SMITH: A quick sale in order to salvage the timber on the basis of--
MR. KIRKWOOD: It will have to be at this price?
MR. SMITH: That is the minimum price, and that is the minimum some individuals have indicated they are willing to pay.

MR. HORTIG: It will be bid under the State school land regulations.
MR. KIRKWOOD: This will be the minimum amount?
MR. HORTIG: Yes, sir.
MR. KIRKWOOD: So there will be a prompt follow-up on it?
MR. HORTIG: Will have to be a prompt follow-up if it is to be of any advantage to the State.
MR. KIRKWOOD: O.K.
GOV. POWERS: Approve.
CHAIRMAN PEIRCE: All right, the recommendation is approved.
MR. SMITH: Page 20. This is the sale of vacant Federal land. It is recommended that the Commission
determine that it is to the advantage of the State to select the Federal lands comprised in the following cases; that the Commission find that said Federal lands are not suitable for cultivation; and that the Commission select and authorize the sale of lands, for cash, at the total appraised value, in accordance with the following tabulation, such sales to be subject to all statutory reservations, including minerals.

MR. KIRKWOOD: These are routine?

MR. HORTIG: Yes, sir.

CHAIRMAN PEIRCE: All right. The recommendation is approved.

MR. HORTIG: Page 23. The Commission had previously issued a lease for log storage in Del Norte County. Lessee has failed to pay the rent, doesn't respond to any notices. It is recommended that the Commission authorize the cancellation of the lease as of this date, due to failure of lessee to comply with the terms of the lease and to pay the required rent, and to provide that the last year's rental, which was paid in advance at the time of the issuance of the lease, be applied to cover the third annual delinquent rental which is now on the books of the Commission.

CHAIRMAN PEIRCE: Any questions?

MR. KIRKWOOD: This clears off his obligation?

MR. HORTIG: That is right.

MR. KIRKWOOD: All right.
GOV. POWERS: Approved.

CHAIRMAN PEIRCE: The item is approved.

MR. HORTIG: In very brief summary, the staff of the State Personnel Board, in reviewing a position classification of the established position of Supervising Land Title Examiner, which is the position occupied by the Supervisor of our Sacramento office, has pointed out to the Division two things, one, that the salary range for Supervising Land Title Examiner, as such, should be increased, and, two, that the position occupied by our present incumbent is not properly classified, and that there should be a new, higher classification for the position occupied, and then leave this suspended in mid-air with a final recommendation in spite of the fact there should be a new, higher classification for our Supervisor of our Sacramento office, suggest there shouldn't be any higher salary for this new, higher classification.

It is therefore recommended, inasmuch as this report will be presented to the State Personnel Board, that the Commission authorize the Executive Officer to discuss this seeming inconsistency with the State Personnel Board.

CHAIRMAN PEIRCE: Very much in order.

MR. KIRKWOOD: I am baffled a little bit about it. I thought they were recommending a two-step adjustment.

MR. HORTIG: For the classification Supervising Land Title Examiner. Then, additionally, a new class at a
higher level because of the higher duties and responsibilities of the position which we have in Sacramento over and above the class of Supervising Land Title Examiner, then having reached that new plateau, recommend the same salary range for the new, higher class that they are recommending for elevation of Supervising Land Title Examiner.

CHAIRMAN PEIRCE: It is inconsistent.

MR. HORTIG: Yes. It left us similarly confused for some time until we had their assurance verbally that this is what they meant.

CHAIRMAN PEIRCE: You propose to discuss this with the Personnel Board and get the matter straightened out?

MR. HORTIG: Yes, present the facts as we see them to the Board rather than have the report of the Personnel Board staff go uncontroverted.

CHAIRMAN PEIRCE: Yes.

MR. KIRKWOOD: So move.

CHAIRMAN PEIRCE: All right.

GOV. POWERS: Second.

CHAIRMAN PEIRCE: Recommendation approved.

MR. HORTIG: Page 29.

CHAIRMAN PEIRCE: These are technical corrections?

MR. HORTIG: That is correct.

MR. KIRKWOOD: So move.

CHAIRMAN PEIRCE: All right. Approved.

MR. HORTIG: Page 30. Similarly, a technical
correction. We had Mr. Kirkwood's words in the transcript but never got them into the resolution as published relating to damage to other shoreline property. To conform to the transcript in the manner in which the resolution was recommended by Mr. Kirkwood, it is proposed the minutes be amended.

CHAIRMAN PEIRCE: O.K.?

MR. KIRKWOOD: Yes. I don't specifically recall.

CHAIRMAN PEIRCE: It ought to be. All right, the recommendation is approved.

MR. HORTIG: Page 31. The Commission will recall the service contracts that have been in existence with the firm of Keplinger & Wanemacher and Dr. Herman H. Kavaler, which is terminating on June 30th of this year, and it is recommended that these contracts be extended tentatively for the 1958-59 Fiscal Year with the total amounts for consulting services payable under each contract not to exceed $5000, for services to be rendered or consulting advice respecting oil and gas leasing policies, and the possible evaluation of lease bids which the Commission staff will have before it shortly.

CHAIRMAN PEIRCE: As the year goes on, if you find you require more service from these consultants, the matter can be brought back to the Commission?

MR. HORTIG: Yes, with a recommendation to amend it.

CHAIRMAN PEIRCE: Any questions? Do you so move?
GOV. POWERS: That is right.

CHAIRMAN PEIRCE: The recommendation is approved.

Does that conclude the agenda?

MR. HORTIG: If I may have a moment to check, Mr. Chairman.

MR. KIRKWOOD: Have we approved your actions for the past month?

MR. HORTIG: No, you have not. Page 55.

CHAIRMAN PEIRCE: Through 66.

MR. HORTIG: 55 through 66.

CHAIRMAN PEIRCE: They all appear to be in order.

MR. KIRKWOOD: I second or move, or whatever you want me to do.

GOV. POWERS: Second.

CHAIRMAN PEIRCE: All right. It has been moved and seconded, and the recommendation on page 66 affirming the action of the Executive Officer is approved.

MR. HORTIG: Page 67, gentlemen. This is the time of the year again when a contract for reproduction services for the next fiscal year is required. Bids have been solicited and our prior vendor, Metropolitan Blueprint Company, was again the low bidder. Contract services in excess of $2000 require Commission approval. The estimated cost under the contract is $4000. Authority to enter into the contract for the services at a cost not to exceed $4000 is recommended.
MR. KIRKWOOD: What was it budgeted for?

MR. HORTIG: Five, if I recall. We are within our budget appropriation.

MR. KIRKWOOD: Move approval.

GOV. POWERS: Yes.

CHAIRMAN PEIRCE: All right, the recommendation is approved. Any further business?

MR. HORTIG: Not on the agenda today, Mr. Chairman.

CHAIRMAN PEIRCE: All right. The next meeting of the Commission was left open pending future developments. You take care of the checking with the members of the Commission in that regard, Mr. Hortig.

MR. HORTIG: All right.

MR. KIRKWOOD: Is there anything to bring up on this suit of the Federal government at Long Beach, or is there nothing that is ready for discussion?

MR. HORTIG: Not for Commission action. Off the record.

(Discussion off the record.)

CHAIRMAN PEIRCE: There being no further business, the meeting stands adjourned.

(whereupon, at 3:25 p.m., the meeting was adjourned.)
REPORTER'S CERTIFICATE

I hereby certify that the foregoing is a full, true and correct transcript of the shorthand notes taken by me as shorthand reporter for the State Lands Commission, at the time and place hereinbefore set forth, and that the same is a full, true and correct record of the proceeding had at said hearing.

Dated at Los Angeles, California, this _1_ day of June, 1958.

[Signature]
Shorthand Reporter