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STATE LANDS COMMISSION
STATE OF CALIFORNIA

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.

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

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

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

8 CHAIRMAN PEIRCE: Yes.

9 GOV. POWERS: Eleven years.

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

15 GOV. POWERS: I move we approve the minutes as sub-
16 mitted.

17 MR. KIRKWOOD: Second.

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

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

25 MR. HORTIG: Yes, sir. Actually, I am not completely
26 aware of the travel schedules for the people in attendance

1 here. I believe we might proceed just as expeditiously
2 if the calendar be considered in the order in which it is
3 published.

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

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

12 CHAIRMAN PEIRCE: All right.

13 MR. HORTIG: If you so wish.

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

16 MR. HORTIG: You gentlemen do not have before you a
17 written calendar item, inasmuch as the application for this
18 matter was received from Southern California Edison Company
19 at 1:45 p.m. this afternoon. It involves, however, an
20 almost routine application for a right of way easement
21 in the Pacific Ocean fronting on property owned in fee by
22 the Southern California Edison Company in Ventura County
23 at the site of the proposed Mandelay steam plant immediately
24 up coast from the City of Oxnard in Ventura County. The
25 normal routine right-of-way easement could be issued by the
26 Executive Officer under delegation of authority; however,

1 in this particular instance the Commission has heretofore
2 authorized in connection with other steam plant installations
3 for the Southern California Edison Company certain specific
4 provisions with respect to right-of-way easements for that
5 purpose, and it is therefore desired that we have Commission
6 authorization to use the same form of right of-way easement
7 for the subject application that was previously authorized
8 by the State Lands Commission in connection with the Hunting-
9 ton Beach steam plant operation of the Southern California
10 Edison Company.

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

14 CHAIRMAN PEIRCE: This is purely routine and we have
15 done it before, and there is no element of controversy in-
16 volved?

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

19 CHAIRMAN PEIRCE: Are there any questions, gentlemen?

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

23 MR. HORTIG: You are taking final action in authorizing
24 the use of the same form of right-of-way easement which has
25 previously been authorized for Huntington Beach to be
26 issued in connection with the Ventura County right of ways.

1 MR. KIRKWOOD: All right. I will so move.

2 GOV. POWERS: All right. Seconded.

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

7 MR. HORTIG: If we may, in view of personal representa-
8 tions, if you gentlemen will refer to page 68 of the agenda,
9 the last published supplemental item. The Commission are
10 aware by reason of authorization of recent amendments
11 and condition approvals of the Monterey Oil Company lease
12 at Seal Beach, which previously had been issued pursuant
13 to competitive public bidding at the last meeting of the
14 Commission, the Commission approved the construction of a
15 wharf adjacent to the drilling island located on the lease
16 to accommodate operating equipment necessary to initiate a
17 pilot water flood. A request has not been received from
18 the Monterey Oil Company for approval of the actual initia-
19 tion of a pilot water injection flood to be conducted from
20 this wharf, which has already been authorized for con-
21 struction, the initial operation to be drilling of a water
22 source well with additional wells to come later on in the
23 program. Present consideration is simply for authorization
24 of the drilling of the single well as a water source, which
25 however is an initial step in the pilot water flood oper-
26 ation. The lands adjoining this lease to the east are

1 tide and submerged lands belonging to the State of
2 California. The lands adjoining subject lease to the west
3 which conceivably might be affected are tide and submerged
4 lands originally granted to the City of Long Beach, quit-
5 claimed by the City of Long Beach to the State for park
6 purposes and now subject of litigation as to who has the
7 mineral rights.

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

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

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

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

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

24 MR. HORTIG: That is correct, sir.

25 CHAIRMAN PEIRCE: Are there any questions, gentlemen?

26 MR. KIRKWOOD: Does this give the State any authority

1 to maintain this sort of thing, or is this purely a
2 voluntary set-up on the part of the operator and may be
3 discontinued at any time? I mean does this give us any
4 new enforceable rights in this area?

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

6 CHAIRMAN PEIRCE: Any further questions?

7 MR. KIRKWOOD: I move approval.

8 GOV. POWERS: Second.

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

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

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

1 permit to cover this additional area.

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

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

9 CHAIRMAN PEIRCE: Any questions?

10 MR. KIRKWOOD: I so move.

11 GOV. POWERS: Seconded.

12 CHAIRMAN PERICE: The recommendation is approved.

13 MR. HORTIG: Page 34, gentlemen.

14 GOV. POWERS: 34?

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

23 All of these proposals on a fiscal-year basis are
24 either an extension of those projects which have heretofore
25 been approved by the Commission on a fiscal-year basis or
26 include the one remaining project heretofore carried by the

1 Commission on the monthly basis with respect to so-called
2 Town Lot acquisitions, which is being recommended for
3 approval again on the basis restricted to advance approval
4 for the conduct of the project, but without any authoriza-
5 tion on the part of the City to withhold any deductions
6 until the actual subsidence increment may be determined
7 in the future, based both on further engineering review
8 and on further legal review.

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

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

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

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

22 CHAIRMAN PEIRCE: All right.

23 (Short recess.)

24 MR. HORTIG: By way of amplification of the recommenda-
25 tions, Mr. Peirce, the project recommended on page 34 is,
26 first, a recommendation which probably ^{should} have independent

1 action by the Commission, in that it relates to the
2 remainder of the period June 11th to June 30, 1958, in
3 order to close out the fiscal year on this project.

4 CHAIRMAN PEIRCE: On advice of the Deputy Attorney
5 General, action will be taken on the recommendation on page
6 34 independently of the other Long Beach subsidence items.
7 Have you anything to say about this, Mr. Lingle? Is it in
8 order so far as Long Beach is concerned?

9 MR. LINGLE: Yes.

10 MR. KIRKWOOD: So move.

11 GOV. POWERS: Seconded.

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

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

1 Are there any objections to that one reservation,
2 Mr. Lingle?

3 MR. LINGLE: No, no objections.

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

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

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

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

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

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

23 MR. HORTIG: It falls in the same category, the same
24 type of operation, it is simply unique as to its geo-
25 graphical location and purpose of the project.

26 CHAIRMAN PEIRCE: Does it meet with your approval,

1 Mr. Shavelson?

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

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

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

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

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

17 CHAIRMAN PEIRCE: All right.

18 MR. KIRKWOOD: I move the various items 11 to 27, or
19 whatever they are--the matters included in pages 36 through
20 54, inclusive, I move approval of the recommendations as
21 submitted.

22 GOV. POWERS: Second.

23 CHAIRMAN PEIRCE: All right. The three staff recommenda-
24 tions set forth in the agenda on pages 36 through 54, in-
25 clusive, with the explanatory detail, are approved.

26 Next item, Mr. Hortig.

1 Does that take care of Long Beach?

2 MR. HORTIG: Yes. If the Chairman will request if
3 anyone else is present who desires to make any representa-
4 tion.

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

8 MR. PYLES: Yes.

9 CHAIRMAN PEIRCE: Mr. Pyles.

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

23 We naturally hate to see you leave; at the same time,
24 we do not wish that you pass up the opportunity that I
25 understand has been presented to you. On behalf of my
26 company and myself and members of the industry, we all wish

1 you God speed and the utmost of success, and that this
2 will bring a great deal of happiness to you in working on
3 this project that you are going to undertake.

4 (Applause.)

5 CHAIRMAN PEIRCE: Thank you, Mr. Pyles. It is very
6 gracious of you to give recognition to the fact that this
7 is in all probability my last meeting as a member of the
8 State Lands Commission, and I regret very much that on the
9 15th day of July I shall leave my office as State Director
10 of Finance, which I have occupied for nearly five years.
11 It has been the happiest period of my professional life,
12 giving me great satisfaction. I have been working with a
13 grand group of people, and the objective always foremost
14 in my mind has been to serve and protect the best interests
15 of the people of the State of California, and in that
16 regard I have had full co-operation from everybody con-
17 cerned. So please know, Mr. Pyles, that I appreciate very
18 much your very generous expression of good wishes.

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

21 MR. HORTIG: Page 32, please.

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

23 CHAIRMAN PEIRCE: Righto.

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

26 MR. HORTIG: As the Commission will recall, service

1 contracts with the Audit Division of the Department of
2 Finance have been authorized heretofore for the dual
3 purpose of post-auditing operations by the City of Long
4 Beach as required by Chapter 29 of the Statutes of 1956,
5 and for the purpose of developing an audit program which
6 could be followed in the future, either by staff assignment
7 within the State Lands Division, or under continuing
8 service contract with the Division of Audits of the Depart-
9 ment of Finance.

10 Now, the work which has been performed by the Audit
11 Division under these contracts has resulted in many
12 exceptions to oil and gas production costs deducted from
13 oil and gas revenue prior to distribution. There are
14 substantial increases in the revenue to the State when
15 these exceptions are resolved. Typical examples are the
16 type of charge deemed questionable, such as the "land use"
17 charge, which the City had included for the cost of oil
18 and gas production. This amounted to \$41,000 monthly since
19 February, 1956. Exception to this charge resulted in its
20 reduction in February, 1958, to \$11,000 per month. In
21 settlement of the previous overcharges the City remitted
22 additional revenues of \$690,000 plus interest to the State.
23 Likewise, gas production costs were reduced by \$6000
24 monthly during 1957 as a result of auditing. It is apparent
25 that the services that have been rendered have been highly
26 productive.

1 Auditing services contracts for the fiscal year '57 to
2 '58 amount to \$15,000. These funds were fully expended
3 as of March 31, 1958. Services presently being rendered
4 (for the remainder of the fiscal year to June 30th) are
5 estimated at \$7000.

6 In summary, it should be pointed out:

- 7 (1) That the work being performed has had highly
8 beneficial results,
9 (2) That a considerable backlog of work still exists.

10 For these reasons it appears desirable that there be
11 a continuance of the services being rendered.

12 It is the recommendation that the Executive Officer
13 be authorized to enter into and execute interagency con-
14 tracts with the Audit Division, Department of Finance,
15 as follows:

16 1. A supplementary agreement providing for additional
17 services for the fiscal year 1957-58 at a cost of \$7000;
18 thus making the total services for the current fiscal year
19 \$22,000;

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

24 CHAIRMAN PEIRCE: You have heard the recommendation
25 as submitted by Mr. Hortig, with the explanatory material
26 in support thereof. We have with us today Mr. Eric Mac-

1 Lachlen, who is Chief of the Audit Division of the
2 Department of Finance, and also his Southern California
3 Chief, and if there are any questions with respect to this
4 matter they will be glad to provide any answers thereto.
5 Are there any questions, gentlemen?

6 MR. KIRKWOOD: I am curious as to what we are getting
7 into here, as I have been from the start, John. Just read-
8 ing this, it seems to me that we were ineffect contracting
9 a part of the management function rather than what I under-
10 stand to be the normal function of the Audit Division.

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

15 MR. MacLACHLEN: I just handed to your executive
16 Officer a letter to the Commission and two copies of a
17 complete audit program as we have developed it up to date.
18 I think it is pretty apparent now in our minds and actually
19 in the Audit Division of the Department--I mean the Division
20 of Lands, that this type of auditing be done on a concen-
21 trated basis and not on a year-around basis. The auditing
22 progress really breaks down into four phases, three of them
23 are pretty well interrelated, that is, the audit by your
24 department of expenditures of the City of Long Beach,
25 Petroleum Section, a review of the petroleum production
26 companies' records to see that their production charges

1 and expenses have been properly accounted for and are
2 allowable in settlements with the City, and thirdly, a
3 review of the trust fund expenditures, which is the respon-
4 sibility of the Lands Commission under Chapter 29/1956.
5 All of these can best be done on a post-audit basis in a
6 concentrated effort. Now, the ground rules, or at least
7 some of the definitions, as to what is allowable for State
8 purposes as against what was previously allowable where
9 the only party at interest was Long Beach, have been pretty
10 well laid. This has taken a long time, because every time
11 we turned around it is a matter for legal opinion or en-
12 gineering advice. Now that those things have been defined,
13 we feel the best way to do this audit is to throw eight or
14 ten men into the audit, get it done, and get out of Long
15 Beach's hair for six or nine months^{out} of the year.

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

26 MR. BASTUES: We have only processed four through

1 the Commission as being finally complete. There are a
2 number being carried on.

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

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

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

24 This gas production costs, this was just the question
25 of determining what overhead charges were charged in the
26 charges against petroleum production.

1 MR. KIRKWOOD: Isn't that wholly a management problem
2 that should have been explored by management in the beginning,
3 rather than picked up by audit subsequently, Eric?

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

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

10 MR. MacLACHLEN: Through Mr. Hortig.

11 MR. HORTIG: Via the State Lands Commission.

12 MR. MacLACHLEN: We are working for the Lands Commis-
13 sion under this contract, just as any public accountant
14 would be working for them, I might point out.

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

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

19 MR. KIRKWOOD: You end up normally as a post-auditing
20 agency for other agencies, and here you are auditing your-
21 self.

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

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

26 MR. MacLACHLEN: We are known as what is called an

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

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

25 Frank, what is your observation? Has this been en-
26 tirely satisfactory so far as working operation is concerned?

1 MR. HORTIG: I believe it has been the most effective
2 and efficient procedure. However, undoubtedly there are
3 other bases which certainly can be contended and could
4 be demonstrated, where the work could be done equally as
5 efficiently on other bases. Fundamentally, we have three
6 problems.

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

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

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

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

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

18 We have three broad areas requiring accounting and
19 auditing specialties. One which the Division of Audits is
20 completing for us under service contract, which is a study
21 of what the audit program, continuing audit program, should
22 be for the future; two, the City Harbor Commission are
23 required annually, as of a date of October 1, to submit
24 financial statements of the harbor operations independent of
25 the oil and gas operations, as to the expenditure of the
26 City's fifty per cent of the tidelands funds which require,

1 obviously, a post audit. This operation as of up to now
2 has been conducted under service contract by the Division of
3 Audits, and I believe I would recommend that a service con-
4 tract of employment for this type of operation be continued
5 on a service contract. We have had the question raised,
6 as Mr. Kirkwood is very well aware, and we have discussed it
7 in general terms as to whether the third phase, the current
8 audit--current accounting, day-by-day following of a sub-
9 sidence project and the final audit and engineering review,
10 whether they should be completed in toto by the State Lands
11 Division staff in distinction to this function being carried
12 on by auditors under service contract. We have had a staff
13 of two auditors up to this date, and as of this moment still
14 propose to continue such auditors for that purpose within
15 the State Lands Division. The question was whether that
16 staff should be augmented in order to carry out the audit
17 program as developed by the Division of Audits or whether
18 the service contract with Division of Audits should be
19 extended into the future to carry out that type of work.

20 We were unable at this meeting to make a recommenda-
21 tion as between the two types of procedures and only
22 recommend a continuation of what has been our past practice
23 for at least an interim period, inasmuch as Mr. MacLachlen
24 has stated that we this afternoon received the draft of the
25 report, and recommendations and bases which we have not been
26 able to analyze to present to the Commission However,

1 inasmuch as we are against a dead line of the fiscal year
2 and a requirement of what we do during the months of July
3 and August as a minimum, that we propose this type of
4 procedure to the Commission this afternoon.

5 CHAIRMAN PEIRCE: This can be reviewed later on?

6 MR. HORTIG: And amended.

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

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

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

24 MR. KIRKWOOD: Of course the original springboard here,
25 I mean the thing from which the whole administration had to
26 be launched, had to result from an audit which you conducted,

1 and I imagine a lot of it stems back to that, doesn't it,
2 Eric?

3 MR. MacLACHLEN: Yes.

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

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

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

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

20 CHAIRMAN PEIRCE: Do you approve?

21 MR. KIRKWOOD: So move.

22 GOV. POWERS: Second.

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

25 Now, back to page 1.

26 MR. HORTIG: Page 1, gentlemen;

1 MR. SMITH: Page 1 is Sale of Sovereign Lands.

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

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

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

16 MR. SMITH: No, sir.

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

18 MR. HORTIG: Off the record.

19 (Discussion off the record.)

20 MR. SMITH: The County of San Mateo is in full agree-
21 ment with this project.

22 CHAIRMAN PEIRCE: Do you so move?

23 GOV. POWERS: Yes.

24 MR. KIRKWOOD: Seconded.

25 CHAIRMAN PEIRCE: The recommendation is approved.

26 MR. SMITH: Page 3. In January, 1958, two applications

1 to purchase three sections of vacant State school land
2 in San Bernardino County ^{were} received and filed. These
3 sections, among other lands, were embraced in a lease
4 between the State and the United States during World War II.
5 The entire area was used by the Army for bombing, practice
6 firing and other military maneuvers which resulted in con-
7 tamination of certain areas with unexploded bombs and
8 artillery shells.

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

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

23 CHAIRMAN PEIRCE: O.K.

24 GOV. POWERS: So move.

25 MR. KIRKWOOD: This withdraws all of the lands
26 similarly situated?

1 MR. HORTIG: Yes, which we have been informed by the
2 Army as to being unsafe and not having been cleared.

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

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

7 CHAIRMAN PEIRCE: Recommendation is approved.

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

17 It is recommended that the Commission find that the
18 73.16 acres in San Bernardino County is not suitable for
19 cultivation without artificial irrigation and authorize
20 the sale of said land to the highest bona fide bidder,
21 Buren B. Day, at a cash price of \$1075, subject to all
22 statutory reservations including minerals and withdraw
23 from public sale the northwest one-quarter of Section 16,
24 pending clearance from the United States--

25 MR. KIRKWOOD: Any particular problem here?

26 MR. SMITH: No, there is not.

1 MR. KIRKWOOD: So move.

2 GOV. POWERS: Second.

3 CHAIRMAN PEIRCE: The recommendation is approved.

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

11 MR. HORTIG: Through page 17.

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

14 MR. KIRKWOOD: No. So move.

15 GOV. POWERS: Approved.

16 CHAIRMAN PEIRCE: The recommendation is approved.

17 MR. SMITH: Page 18. Selection of vacant Federal
18 land. It is recommended that the Commission determine that
19 it is to the advantage of the State to select 186.44 acres
20 in Imperial County; that the Commission find said land is
21 not suitable for cultivation without artificial irrigation;
22 that the Commission approve the selection of said land and
23 authorize the sale thereof pursuant to the rules and
24 regulations governing the sale of vacant State school land.
25 And it is further recommended that the Commission confirm
26 the two 20-day extension periods granted the applicant,

1 Cecil De Etta Nelson, within which to deposit additional
2 funds to meet the appraised value.

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

6 CHAIRMAN PEIRCE: Any questions?

7 MR. KIRKWOOD: Move the recommendation.

8 CHAIRMAN PEIRCE: The recommendation is approved.

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

22 The applicant has been notified of the appraised value,
23 which has been established at \$63,250. He has indicated
24 he does not wish to meet that. It is recommended that the
25 Commission determine that it is to the advantage of the
26 State to select the three 40-acre parcels, and that the

1 Commission find that said land is not suitable for culti-
2 vation without artificial irrigation; that the Commission
3 approve the selection of said land and authorize the sale
4 thereof pursuant to the rules and regulations governing the
5 sale of vacant State school lands.

6 MR. KIRKWOOD: A fast sale is contemplated here?

7 MR. SMITH: A quick sale in order to salvage the
8 timber on the basis of--

9 MR. KIRKWOOD: It will have to be at this price?

10 MR. SMITH: That is the minimum price, and that is the
11 minimum some individuals have indicated they are willing to
12 pay.

13 MR. HORTIG: It will be bid under the State school
14 land regulations.

15 MR. KIRKWOOD: This will be the minimum amount?

16 MR. HORTIG: Yes, sir.

17 MR. KIRKWOOD: So there will be a prompt follow-up on
18 it?

19 MR. HORTIG: Will have to be a prompt follow-up if it
20 is to be of any advantage to the State.

21 MR. KIRKWOOD: O.K.

22 GOV. POWERS: Approve.

23 CHAIRMAN PEIRCE: All right, the recommendation is
24 approved.

25 MR. SMITH: Page 20. This is the sale of vacant
26 Federal land. It is recommended that the Commission

1 determine that it is to the advantage of the State to
2 select the Federal lands comprised in the following cases;
3 that the Commission find that said Federal lands are not
4 suitable for cultivation; and that the Commission select
5 and authorize the sale of lands, for cash, at the total
6 appraised value, in accordance with the following tabula-
7 tion, such sales to be subject to all statutory reservations,
8 including minerals.

9 MR. KIRKWOOD: These are routine?

10 MR. HORTIG: Yes, sir.

11 CHAIRMAN PEIRCE: All right. The recommendation is
12 approved.

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

23 CHAIRMAN PEIRCE: Any questions?

24 MR. KIRKWOOD: This clears off his obligation?

25 MR. HORTIG: That is right.

26 MR. KIRKWOOD: All right.

1 GOV. POWERS: Approved.

2 CHAIRMAN PEIRCE: The item is approved.

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

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

22 CHAIRMAN PEIRCE: Very much in order.

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

25 MR. HORTIG: For the classification Supervising Land
26 Title Examiner. Then, additionally, a new class at a

1 higher level because of the higher duties and responsi-
2 bilities of the position which we have in Sacramento over
3 and above the class of Supervising Land Title Examiner, then
4 having reached that new plateau, recommend the same salary
5 range for the new, higher class that they are recommending for
6 elevation of Supervising Land Title Examiner.

7 CHAIRMAN PEIRCE: It is inconsistent.

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

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

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

16 CHAIRMAN PEIRCE: Yes.

17 MR. KIRKWOOD: So move.

18 CHAIRMAN PEIRCE: All right.

19 GOV. POWERS: Second.

20 CHAIRMAN PEIRCE: Recommendation approved.

21 MR. HORTIG: Page 29.

22 CHAIRMAN PEIRCE: These are technical corrections?

23 MR. HORTIG: That is correct.

24 MR. KIRKWOOD: So move.

25 CHAIRMAN PEIRCE: All right. Approved.

26 MR. HORTIG: Page 30. Similarly, a technical

1 correction. We had Mr. Kirkwood's words in the transcript
2 but never got them into the resolution as published relating
3 to damage to other shoreline property. To conform to the
4 transcript in the manner in which the resolution was
5 recommended by Mr. Kirkwood, it is proposed the minutes be
6 amended.

7 CHAIRMAN PEIRCE: O.K.?

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

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

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

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

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

26 CHAIRMAN PEIRCE: Any questions? Do you so move?

1 GOV. POWERS: That is right.

2 CHAIRMAN PEIRCE: The recommendation is approved.
3 Does that conclude the agenda?

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

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

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

9 CHAIRMAN PEIRCE: Through 66.

10 MR. HORTIG: 55 through 66.

11 CHAIRMAN PEIRCE: They all appear to be in order.

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

14 GOV. POWERS: Second.

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

18 MR. HORTIG: Page 67, gentlemen. This is the time of
19 the year again when a contract for reproduction services
20 for the next fiscal year is required. Bids have been
21 solicited and our prior vendor, Metropolitan Blueprint
22 Company, was again the low bidder. Contract services in
23 excess of \$2000 require Commission approval. The estimated
24 cost under the contract is \$4000. Authority to enter into
25 the contract for the services at a cost not to exceed
26 \$4000 is recommended.

1 MR. KIRKWOOD: What was it budgeted for?

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

4 MR. KIRKWOOD: Move approval.

5 GOV. POWERS: Yes.

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

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

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

13 MR. HORTIG: All right.

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

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

19 (Discussion off the record.)

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

22 (Whereupon, at 3:25 p.m., the meeting was adjourned.)

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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 23rd day of June, 1958.

Fannetta Blodgett
Shorthand Reporter