COMMISSIONERS PRESENT

Gray Davis, Chairman, State Controller

Nancy Ordway, Commission Alternate
for Jesse R. Huff, Director of Finance

Susan Wallace, Commission Alternate
for Leo T. McCarthy, Lieutenant Governor

STAFF PRESENT

Claire T. Dedrick, Executive Officer

Robert Hight, Chief Counsel

Lance Kiley, Chief, Land Management and Conservation Division

Lisa Beutler, Chief, Enforcement Section

Don Everitts, Assistant Chief, Extractive Development Division

Jane Smith, Commission Secretary

STAFF OF STATE CONTROLLER'S OFFICE

Jim Tucker, Deputy State Controller

ALSO PRESENT

Jan Stevens, Supervising Deputy Attorney General
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CHAIRMAN DAVIS: We'll call this meeting of the State Lands Commission to order.

The first order of business is a confirmation of the minutes of the December 23rd meeting.

COMMISSIONER ORDWAY: Motion.

CHAIRMAN DAVIS: Do we have a second?

COMMISSIONER WALLACE: Yes.

CHAIRMAN DAVIS: Hearing no objection, the minutes are adopted. Also, the special meeting of January 13th.

EXECUTIVE OFFICER DEDRICK: No, those minutes are not yet prepared.

CHAIRMAN DAVIS: The next order is the Report of the Executive Officer.

EXECUTIVE OFFICER DEDRICK: No report this morning.

CHAIRMAN DAVIS: No report.

I guess the next item of business is the Consent Calendar.

EXECUTIVE OFFICER DEDRICK: There isn't an item on the Consent Calendar. I was going to suggest, Commissioners, that we note the items that have been removed from the regular calendar.

CHAIRMAN DAVIS: I've got 16, 17, 18, 19, 21, 15 and 24.
EXECUTIVE OFFICER DEDRICK: That is correct.

CHAIRMAN DAVIS: Does anyone have any questions on the items on the Consent Calendar?

I've got a couple. On Item C12, just a matter of interest. Claire, could you explain to me what the disposal of talus slide material is?

EXECUTIVE OFFICER DEDRICK: Well, talus slide material is the kind of mountainside rock that breaks up and slides down. You know when you see the base of a cliff, there will always be kind of a gravel slope all -- the boulders may be as big as houses in the gravel, but you call that talus and that is the kind of material they need to remove here.

This obviously is a sensitive area and, therefore, there was substantial amounts, as I'm sure you noted, of environmental work done on the issue. But that's what it is. The base of the cliff is always -- it's the rock which shelves off a cliff and piles up at the bottom.

CHAIRMAN DAVIS: Then the item preceding it, could you just explain the nature of that transaction. I couldn't fully understand it.

MR. HIGHT: Mr. Chairman, that is a fishing mooring and pier located at Paradise Cove. The applicant, because of storms, can't use the area. So, he is quitclaiming to us the fishing moorings.
EXECUTIVE OFFICER DEDRICK: He had a lease for the moorings in that area, no longer can use them and, therefore, is quitclaiming back to us his lease property right. The moorings will be removed, I'm sure, if they haven't been already.

Lance, do you know if the moorings have been removed?

MR. KILEY: I don't believe they have, but they will be.

CHAIRMAN DAVIS: What do we propose to do with that property?

EXECUTIVE OFFICER DEDRICK: Nothing until somebody else wants to lease it.

MR. KILEY: It's in a fairly nice location, so it's very likely that some commercial enterprise will come up there in the future.

COMMISSIONER ORDWAY: Unless there are other questions, I'll move Consent Items 1 through 14.

CHAIRMAN DAVIS: I had one other question.

COMMISSIONER ORDWAY: I'm sorry.

CHAIRMAN DAVIS: Twenty-five is off calendar?

COMMISSIONER ORDWAY: Item 25 is not on consent.

EXECUTIVE OFFICER DEDRICK: Yes, 25 is on the regular calendar.

COMMISSIONER ORDWAY: I move Consent Calendar 1
CHAIRMAN DAVIS: I don't have any other questions if no other members do. Is there a second?

COMMISSIONER WALLACE: Yes.

CHAIRMAN DAVIS: Hearing no objection, the Consent Calendar is adopted.

On our regular calendar the first item is No. 16.

EXECUTIVE OFFICER DEDRICK: The first item that's still on the calendar, I believe, Mr. Chairman, is No. 20.

CHAIRMAN DAVIS: I stand corrected. Item No. 20.

EXECUTIVE OFFICER DEDRICK: Would you like me to present these items, Mr. Chairman?

CHAIRMAN DAVIS: If you could.

EXECUTIVE OFFICER DEDRICK: The Applicant is Mauri- Enderle, dba Enderle Group. It's a request for approval of a one-year Salvage Permit with an option to extend one additional year for the recovery and salvage of what really amounts to a stagecoach which is reputed to have sunk in Owens Lake in the days when it was a navigable lake and is reputed also to contain gold.

This is the second applicant to whom we are granting a permit, a Salvage Permit, for the same historical item. However, they are different locations. So, these two people will be exploring out in that area.

The background work has all been done and to my
knowledge there are no objections to the granting of the
Salvage Permit.

COMMISSIONER ORDWAY: Motion.
CHAIRMAN DAVIS: Second?
Hearing no objection, the item is unanimously
approved.

COMMISSIONER ORDWAY: Don't they know that
stagecoaches don't swim?
CHAIRMAN DAVIS: These people could be on Good
Morning America. They are going to the big time.

EXECUTIVE OFFICER DEDRICK: There used to be a
regular stage route on barges --
COMMISSIONER ORDWAY: Right through the lake.
EXECUTIVE OFFICER DEDRICK: Well, they were sailing
on boats at the time.
CHAIRMAN DAVIS: Item No. 22, could you explain
that?
EXECUTIVE OFFICER DEDRICK: Yes. Item 22 is an
informative item for the Commissioners and by error there are
recommendations at the end of that item. We would like you
to delete those recommendations.
The purpose of the item is to inform you that we are
entering into negotiations for an exchange of 50,000 acres
with BLM. This has been our consolidation program. We have
in holdings in BLM properties -- because of the way the state
received its school lands, there's two sections in each township. So, we have a checkerboard pattern.

We have an ongoing program with BLM of consolidating ownership where we exchange lands that they can best manage. For example, many of them are in desert/wildlife conservation areas or ecological preserves and that sort of thing where it's really impossible for us to do anything with our section. We exchange title for those lands for lands it is difficult for BLM to manage.

Since these lands generate income that serves the State Teachers' Retirement System, in that process we try to arrive at an exchange which gives them a better opportunity for revenue production on the lands we receive in return.

You see big differentials in the acreages, because we're giving up acres in the center of the desert and acquiring perhaps potential development land near Barstow or forested lands and so forth. So, the value for value, which is a requirement that equal value be exchanged, can result in gigantic differences in the acreage in question.

We're going forward with this. Before, of course, any agreement is made, the Commission would have to take action. So, we'd be back to you with anything that occurs in the process. Also, I try to keep the Commission informed as to how the negotiations are progressing to make sure that we're not going in any directions that the Commission doesn't
want us to go in.

The next item, Item 23 is -- excuse me.

COMMISSIONER ORDWAY: I have a question generally.

EXECUTIVE OFFICER DEDRICK: Yes.

COMMISSIONER ORDWAY: It came to my attention late yesterday afternoon that there is the desire to have BLM have a new focus and that their new focus will no longer be environmentally oriented. I believe it was in a letter from either BLM or a letter from the Secretary of the Interior indicating that there are enough environmentally-oriented agencies under the federal government and that was no longer proposed to be BLM's charge and BLM's charge was now to maximize the resources.

I was wondering, first of all, if you were aware of it.

EXECUTIVE OFFICER DEDRICK: No, ma'am, that's news.

COMMISSIONER ORDWAY: You may want to check into it. Also, I know that we have had a very cordial and responsive relationship with BLM here.

EXECUTIVE OFFICER DEDRICK: In California that's quite true.

COMMISSIONER ORDWAY: In California. Not necessarily other states with BLM, but California has been very good. The Lands Commission particularly has had a very nice relationship. I was wondering if that's going to have
any impact on us.

EXECUTIVE OFFICER DEDRICK: I certainly hope not. That is news to me. We hadn't heard that. As I understood the Organic Act -- and I think I do understand the Organic Act and I see Mr. Stevens is nodding -- they cannot --

COMMISSIONER ORDWAY: I raised the issue that maybe it was illegal to change them midstream without Congress acting. But the words that were transmitted to me yesterday indicate that their focus will be to maximize the resource and maximize development and they will no longer be an advocate for the environmental --

EXECUTIVE OFFICER DEDRICK: Well, I certainly will check into that and I appreciate your letting us know. We haven't heard anything like that.

COMMISSIONER ORDWAY: It popped into my mind because of the BLM issues.

CHAIRMAN DAVIS: Just on the general subject of land swaps. Who determines for the state that we're getting equivalent value?

EXECUTIVE OFFICER DEDRICK: We have appraisals.

CHAIRMAN DAVIS: The Board of Public Works?

EXECUTIVE OFFICER DEDRICK: No, the Commission -- I'll let Bob give you the exact legal situation, Commissioners, but we do our own appraisals and have that authority.
Bob, maybe you could give the Commissioners the legal basis.

MR. HIGHT: In regard to the School Act, the Commission has exclusive jurisdiction over those lands and it is the agency, with staff input, that determines the value that we get or give up.

EXECUTIVE OFFICER DEDRICK: We have a staff of appraisers and we also -- in negotiations with BLM --

CHAIRMAN DAVIS: But basically this Commission determines whether or not --

EXECUTIVE OFFICER DEDRICK: That is correct. We have both that authority and responsibility.

I started to tell you that the second item, Item 23, is related to Item 22 and is a Memorandum of Understanding between the state and the Bureau of Land Management that deals with the process of making these sorts of exchanges. We have had such a Memorandum of Understanding for several years. This is essentially an updating of that memorandum which includes some changes in the basic BLM process and improves our escrow provisions.

So, Item 22 I'm not asking you to take any action on it, I just wanted you to know what's going on. Item 23 we would like your authorization to execute that Memorandum of Understanding.

COMMISSIONER ORDWAY: I'll move Item 23.
CHAIRMAN DAVIS: Is there a second?

COMMISSIONER WALLACE: Yes.

CHAIRMAN DAVIS: All right, that item is approved unanimously.

Item 24 is off calendar. That brings us to Item 25.

EXECUTIVE OFFICER DEDRICK: Yes, this is the gas purchase agreement which is more or less -- it's the closest thing to a ministerial act that I think this Commission has to undergo.

You had a question, I think.

CHAIRMAN DAVIS: I just wanted to understand the nature of the transaction.

EXECUTIVE OFFICER DEDRICK: Well, the problem here is that our lessee --

CHAIRMAN DAVIS: And, I guess, why it has to come to us.

EXECUTIVE OFFICER DEDRICK: Oh, I see. Well, it has to come to you -- that's a good question. I'm going to let Bob answer the why part.

The fact is that there is really only one purchaser of gas in Northern California and that's Pacific Gas and Electric Company. Our lessees, therefore, sell to PG&E. They have no other choice.

Regularly over the years the Commission has expressed concern that the Public Utilities Commission's
priority policies are such that the state land's gas is being underpriced, but that the savings are not necessarily passed on directly to the ratepayers.

Prior to my coming to work for this Commission, as you know, I served on the Public Utilities Commission the last time this came up. Your predecessor in the Controller's Office felt very strongly about this and tried to do something about it. I was on the PUC and tried to help. The bottom line is that's how it comes out. We tried again in this last year to get more clarification.

The fact is that the issue is at the Public Utilities Commission pricing level exceedingly complex. It is very, very difficult to extract anything functional from it in a way that you could recognize clearly that the savings realized by lower prices when they occur for state-owned gas are truly passed on directly to the ratepayer.

Certainly, all savings are passed on to the ratepayers, but the argument that we have lower-priced gas in order to keep gas prices down is one that I have never been able to satisfy my own concerns about in either direction.

That's a very unsatisfactory report and all I can say is it's a very unsatisfactory situation for the staff of the Commission and for the Commissioners. What you're being asked to do here is to authorize Chevron selling gas to PG&E at the price set by PG&E.
I'll practice law without a license for a second and say that I don't believe after two years of trying — and Bob would, I'm sure, like to tell you more about this. Whether you do it or not, I don't think it makes a darn bit of difference. But Chevron is more comfortable if you've done it.

MR. HIGHT: The Commission's leases for oil and gas or for gas in the Delta have provisions that the Commission shall approve sales contracts by which the lessees sell the gas. That is the reason this item is before you today. We have to approve the sales contract pursuant to the lease terms. The problem is, as Claire stated, PG&E and the PUC set the price.

EXECUTIVE OFFICER DEDRICK: So, you don't approve, you rubber stamp.

CHAIRMAN DAVIS: All right, do I hear a motion?

EXECUTIVE OFFICER DEDRICK: Not everybody's favorite sport who sits at that desk.

CHAIRMAN DAVIS: Do I have a motion to rubber stamp?

COMMISSIONER ORDWAY: A pro forma motion for a pro forma action.

COMMISSIONER WALLACE: A pro forma second.

CHAIRMAN DAVIS: A pro forma unanimous vote.

Twenty-six.

EXECUTIVE OFFICER DEDRICK: Item 26 is a Proposed
Sale of Royalty Crude Oil from the leases in Orange County.

This is -- as part of our leases, part of the payment to the state, the state has the option of taking part of its royalty share in oil.

When we do that -- the purpose of doing that is to sell it at a price above the posted price so that more revenue will flow to the state than if it simply was sold at the posted price. Sometimes those prices are very high and it's to some extent an indication of what the market's doing. At any rate, this sale is proposed to go out with a minimum of 25 cents over posted price and we'll see what we get.

COMMISSIONER ORDWAY: Motion.

CHAIRMAN DAVIS: The motion unanimously passes.

EXECUTIVE OFFICER DEDRICK: The next, Item 27, is the award of a royalty oil sale to Caljet of a package of oil from Huntington Beach. This also had a 25-cent minimum. The sale price on this parcel was twenty-nine and a half cents.

COMMISSIONER ORDWAY: Better than 25.

EXECUTIVE OFFICER DEDRICK: Well, it beats the 21 that we were offered last time.

COMMISSIONER ORDWAY: Motion.

CHAIRMAN DAVIS: Motion is unanimously approved.

Item 28.

EXECUTIVE OFFICER DEDRICK: Item 28. We regularly put on a report on what really was the Elder bill, AB 2568,
of a year ago, which I believe you're all well-informed on at this -- at least informed about. I don't know whether well works.

At any rate, there's nothing to report this time. I regularly calendar that in case something comes up as really kind of a service to the other equity holders so that they know if they have something to say, they can always have a spot on the calendar.

CHAIRMAN DAVIS: Is there anyone here that wants to comment on Item 28?

EXECUTIVE OFFICER DEDRICK: Item 29 is your request for approval of the issuance of a negotiated subsurface oil and gas lease in Potato and White Sloughs. The reason for the negotiation is that the lessee, proposed lessee, Santa Fe, is the adjacent property owner and there's no way we could get to our property -- there's no way another lessee could get to our property to develop the gas.

COMMISSIONER ORDWAY: Motion.

COMMISSIONER WALLACE: Second.

CHAIRMAN DAVIS: All right, that motion is also unanimously approved.

EXECUTIVE OFFICER DEDRICK: Item 30 is the approval of a three-year Geological Survey Permit to Ecosystems. This
is the type of offshore kind of surface exploration that is done just for the purpose of finding what kind of surface rocks there are under the water. What this person does is travels in a small vessel and takes grab samples similar to biologic samples. This is a very non-impacting type of action.

The next calendar item is the type that you all know a lot about.

COMMISSIONER ORDWAY: Question. What permit regions?

EXECUTIVE OFFICER DEDRICK: That's for the coast. That's all five.

COMMISSIONER ORDWAY: All five regions. All four regions. Motion.

CHAIRMAN DAVIS: All right, item 30 is unanimously approved.

Item 31.

EXECUTIVE OFFICER DEDRICK: Item 31 is a Geophysical Survey Permit and it is a geophysical survey that, as you know, results in the use of sonic -- or of the air guns, the acoustical devices to do deep exploration.

Just as an informative matter this subject raises, the Commission three years ago had a very extensive series of hearings in developing the basic geophysical program. That had a three-year time lock on it and will terminate this
spring. We are in the process now of doing environmental work, I think, circulating the initial study on that survey permit program. This particular permit, therefore, is written in such a way that it will expire along with the other permits in May; essentially a three-month permit.

COMMISSIONER ORDWAY: Question. Am I correct in reading that this is really only for two very specific -- or three very specific tracks for Wilmington and Fault Blocks for Unit IV?

EXECUTIVE OFFICER DEDRICK: Don Everitts, who is Deputy Chief of the Extractive Division -- I'm putting in more information than I normally do, but I thought you'd like to know who the people are -- can comment on that.

MR. EVERITTS: I think Ms. Ordway is talking about a proposed sell-off. I thought you were talking about the geophysical survey. I think you're on different calendar items.

EXECUTIVE OFFICER DEDRICK: No, we're on 31.

COMMISSIONER ORDWAY: We're on 31.

EXECUTIVE OFFICER DEDRICK: Item 31, page 139.

MR. EVERITTS: All right, 31, I beg your pardon. That's the geophysical --

COMMISSIONER ORDWAY: Right.

MR. EVERITTS: I believe this Fault Block IV, that's a sell. That's the next one.
COMMISSIONER ORDWAY: I'm sorry.

EXECUTIVE OFFICER DEDRICK: Oh, I see. I don't think this is a limited one, Nancy.

COMMISSIONER ORDWAY: Is this for the entire --

MR. EVERITTS: The geophysical survey is for the four regions.

COMMISSIONER ORDWAY: So, it's for the entire coast.

MR. EVERITTS: Yes, the entire coast. They have a specific job they want to do. They're basically doing environmental work.

EXECUTIVE OFFICER DEDRICK: Page 139 is the page.

COMMISSIONER ORDWAY: I'm missing page 140.

EXECUTIVE OFFICER DEDRICK: Oh, are you?

COMMISSIONER ORDWAY: Motion.

CHAIRMAN DAVIS: Let me just ask a question. How was this contract initially awarded?

MR. EVERITTS: This is not a contract. This is just a permit. It's a general permit, non-exclusive permit, that's issued to any authorized or any qualified company or individual. They are a company that has a boat that does geophysical work, does the survey work itself. They're asking for a permit to survey on state lands.

EXECUTIVE OFFICER DEDRICK: We have roughly, what, 30 permittees? Some of them are oil companies, most of them -- well, prior to the drop in oil prices most of them
were geophysical exploration companies who were hired by the oil companies. When the price of oil dropped, a great many of those went bankrupt. I don't know for sure how many we have now. We had about 30 at the time we had very extensive hearings and a long series of discussions with the fishermen and came up with a process which is in place now.

The purpose, of course, of letting it go three years and then coming back was to see if we could improve it or whether things were working. That's why we're in this. We will be in May in another round of discussions and hearings on this thing.

MR. EVERITTS: This particular applicant is really an environmental company. They do a lot of -- most of their work is done, for example, for the City of San Diego, Department of Fish and Game, that type of person in conjunction with biological surveys.

CHAIRMAN DAVIS: Fine. Do we have a motion to this item?

Is there a second?

Item 31 is unanimously approved.

EXECUTIVE OFFICER DEDRICK: I was going to say this activity is not limited to oil exploration. Universities, all sorts of people need to know that kind of information.

Item 32 is another royalty oil sell-off. But it's a more complex one, because in the first it's in the Wilmington
field. So, it's physically complex. Hence the reference to fault blocks, which describes the portion of the field that the oil's coming from; which gives you some information, if you happen to know these things, which I don't, as to what kind of oil it is.

The other reason it's complex is because it's under Section 138. So, it is -- or Chapter 138. So, it is a city sell-off. The city, as you know, is the operator of the field and we oversee them. But they come to us for permission to do these kinds of things. There are long lead times on this.

COMMISSIONER ORDWAY: This will go out for open bid in March?

EXECUTIVE OFFICER DEDRICK: Yes, that's the proposal if you approve.

COMMISSIONER ORDWAY: Motion.

CHAIRMAN DAVA: All right, Item 32 is unanimously approved.

EXECUTIVE OFFICER DEDRICK: Bob Right will do the legal item.

MR. HIGHT: Item 33, Mr. Chairman, is a proposal to settle a 20-acre parcel of land in the City of South San Francisco. The Commission will be sitting as Lands Commission and as Land Bank trustee and will accept $300,000 in lieu of the state's claim.
This area is filled and there was historic sovereign lands in the area and the parties and the Commission staff has agreed to the value of that fill area is $300,000. It will go into the Land Bank, which can be used to purchase additional lands which would become sovereign lands. The City of San Francisco approved this proposal last night.

EXECUTIVE OFFICER DEDRICK: And, Commissioners, in accepting this money you are acting in your capacity as Sovereign Land Bank trustees as well as Commissioners.

CHAIRMAN DAVIS: You mean the City of San Francisco approved it?

MR. HIGHT: South San Francisco.

CHAIRMAN DAVIS: Is there a City of South San Francisco?

COMMISSIONER ORDWAY: Yes.

CHAIRMAN DAVIS: There's actually a City of South San Francisco? Obviously not determinative to statewide election.

(Laughter.)

CHAIRMAN DAVIS: I never knew that.

EXECUTIVE OFFICER DEDRICK: Democrats, too. It's immediately south of San Bruno Mountain. You know where that big thing is up on the -- it says "South San Francisco, The Industrial City" there by the airport. It's my hometown.

CHAIRMAN DAVIS: Is it part of the county or is
EXECUTIVE DIRECTOR DEDRICK: San Mateo County. No, it's a city; an old city.

COMMISSIONER ORDWAY: It's part of San Mateo County.

EXECUTIVE OFFICER DEDRICK: Brisbane is between it and San Francisco at one end and Daly City is between it and San Francisco on the other, San Bruno Mountain is between it and San Francisco in the middle.

COMMISSIONER ORDWAY: Obviously, it's her district.

EXECUTIVE OFFICER DEDRICK: Used to be my district. It's Jackie Speiers' district.

COMMISSIONER ORDWAY: If this is the parcel I'm thinking about, my congratulations to the staff for finally settling it. And the amount seems real appropriate.

EXECUTIVE OFFICER DEDRICK: Thank you very much. We're very proud of our staff on this one.

COMMISSIONER ORDWAY: It's nice to finally see it come to some resolution. So, I'll move it.

COMMISSIONER WALLACE: Second.

CHAIRMAN DAVIS: Item 33 is unanimously approved.

EXECUTIVE OFFICER DEDRICK: That's all the business that we have.

CHAIRMAN DAVIS: Any other items Commissioners want to bring up?

Staff?
EXECUTIVE OFFICER DEDRICK: No, that's it.

CHAIRMAN DAVIS: All right, stand adjourned.

(Thereupon the meeting of the State Lands Commission was adjourned at 10:54 a.m.)

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CERTIFICATE OF SHORTHAND REPORTER

I, EILEEN JENNINGS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing meeting was reported in shorthand by me, Eileen Jennings, a Certified Shorthand Reporter of the State of California, and thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 22nd day of January, 1987.

EILEEN JENNINGS
Certified Shorthand Reporter
License No. 5122