APPEARANCES

COMMISSION MEMBERS

Cruz M. Bustamante, Chairperson
Kathleen Connell, Member
B. Timothy Gage, Member, represented by Annette Porini

STAFF

Curtis Fossum, Senior Staff Counsel
Robert Lynch, Chief, Land Management
Pete Pelkofer, Senior Staff Counsel
Jack Rump, Chief Counsel
Sharon Shaw, Executive Secretary II
Paul Thayer, Executive Director

ALSO PRESENT

Dennis Eagan, Deputy Attorney General
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CHAIRPERSON BUSTAMANTE: I'll call the meeting of the State Lands Commission to order. All the representatives of the Commission are present. My name is Cruz Bustamante and I am joined today by Controller Kathleen Connell and Chief Deputy Director of Finance, Annette Porini.

For the benefit of those in the audience, the State Lands Commission was established to administer the sovereignties and submerged lands for the state as well as other public lands, which have been placed under our jurisdiction. Today we'll hear a variety of proposals concerning the management of these public properties in interest.

The first item of business will be the adoption of the minutes from the Commission's last meeting. May I have a motion to approve the minutes.

COMMISSIONER CONNELL: I move.

ACTING COMMISSIONER PORINI: Second.

CHAIRPERSON BUSTAMANTE: The minutes shall be recorded as being adopted unanimously.

The next order of business will be the adoption of the consent calendar. I will call our Acting Executive Officer, Paul Thayer to indicate which items have been removed from the consent calendar.

ASSISTANT EXECUTIVE OFFICER THAYER: Good afternoon,
Mr. Chair and Members of the Commission. There are three items that need to be pulled from the consent calendar. They will be heard at a future meeting. They are C41 Friant Water Users, C65, Output Exploration and C69, approval of amendment to crude oil sales contract from Long Beach.

COMMISSIONER CONNELL: Mr. Chair, I'd also like to move from the consent calendar C55 for discussion.

CHAIRPERSON BUSTAMANTE: Okay. Is there --

COMMISSIONER CONNELL: I move the consent calendar with the amendments.

CHAIRPERSON BUSTAMANTE: Is there anyone in the audience who wishes to speak on any item on the consent calendar?

Seeing none, there is a motion.

ACTING COMMISSIONER PORINI: Second.

CHAIRPERSON BUSTAMANTE: And a second. And it will be recorded that the motion passed unanimously.

This takes us to the regular calendar. Item 55 is off consent and onto a discussion item that will be part of the regular calendar. Mr. Thayer, could you give us some details on this item.

ASSISTANT EXECUTIVE OFFICER THAYER: One of our staff members, Paul Mount, will give the primary presentation. But preliminarily this item involves the Commission hiring a consultant to review safety matters of
Platform Holly off of Santa Barbara. I'd like to ask Paul Mount to explain this item.

COMMISSIONER CONNELL: Mr. Chair, as Paul is coming forward, let me just indicate for the record why I called this as a discussion item rather than consent. I had the opportunity recently to visit Platform Holly, which of course is off the coast of Santa Barbara. And as I did so, I became aware that there are a lot of issues of public safety connected with these oil platforms. As we're well aware of the recent merger of ARCO and BP, more and more of these platforms that we have leases on are being operated by companies that have less reserves than some of the major oil companies that once leased these facilities.

And I am concerned that we look at safety issues, insurance issues. And I just bring this to the attention of the Board because I think that as we go through the period of both your term and mine, Lieutenant Governor, we are going to be faced with the decision as to how we renew these leases.

One of the concerns that I have is whether or not we're dealing with entities that have sufficient financial resources to maintain these facilities. The second concern that I'd like to direct, Paul, to you is whether or not you feel the design life of these facilities was such that we are now at the end of what would be their normal life cycle. And if so, are we going to have to replace significant portions
of these facilities or is continued maintenance adequate to maintain the kind of safety that we need in these facilities?

And then finally, I guess I would raise this question for information. I have recently become aware that the federal government has maintenance and safety standards that are a bit different from the State. And I'd like to have a discussion of whether those standards are more rigorous than ours or if they are, why they are, because obviously with aging facilities, I think we should be very attuned to the potential problems that that aging might represent.

ASSISTANT EXECUTIVE OFFICER THAYER: Before Paul Mount responds on the discussion about the audit today, let me say that this question for a broad application for us can deal generally with them off the coast. And perhaps the best way to deal with these issues is to come back with a more comprehensive report to the Commission on it. But I think we need to be prepared to at least preliminarily deal with some of the responses of Mr. Mount's testimony.

CHAIRPERSON BUSTAMANTE: Why don't we let -- if the Commission doesn't have any problem, why don't we just go ahead and ask you to do that.

ASSISTANT EXECUTIVE OFFICER THAYER: We will do that.

MR. MOUNT: I'm Paul Mount, Chief of Resources
Management Division. I was out there with you on the visits at Platform Holly.

COMMISSIONER CONNELL: Right, with our hats on, our hard hats.

MR. MOUNT: And it wasn't the best day, but it could have been better. We had some concern about Platform Holly. The last time we did an audit was 1991. And generally, when you do an audit to a platform, you find a lot of equipment that needs to be upgraded and updated. You'll find procedures that maybe are outdated and you need to look at those procedures, look at the equipment to see if it meets State standards.

The life of the platforms aren't necessarily specified. They have a design life of maybe 20 to 30 years. However, if they're properly maintained, that life can be extended indefinitely. What's more important to us and what is an issue to us is, is the equipment on board of the platform up to date, is it warn out, does it need to be replaced, are we using state-of-the-art equipment, those types of things.

That's the kind of thing we identify in the audits and we determine if there's equipment that needs to be replaced or needs to be upgraded or changed to state-of-the-art.

As far as the maintenance of Holly goes, one of the
reasons we're doing this is because we do have some concerns that since 1991 there have been standards that have been raised both by the State and the MMS. And by the way, those standards are pretty much identical. The frequency of inspections for the State, for example, is at a greater frequency than what the MMS specifies in the federal regulations.

Otherwise, we both use the API standards, American Petroleum Institute standards. API 14 is what it's called. And we apply those standards, both, to Holly as they do their federal platforms. The only thing that I'm aware of where there is a slight difference is they have cease and desist authority and they also have authority to issue fines, which we do not. Under our leases we use the authority granted under our leases and as per our regulations.

But generally our operators are very cooperative. They work very closely with us. We work very closely with them. If we request or ask that something be fixed or changed, we will then -- they will then comply and we have not had that problem.

But Holly was set in 1966. Now it's 33 years later. We have been monitoring it. We have checked the design of the platform. We have checked the stability of the platform. We've checked the structure of the platform. It seems to be sound, but we're going to pursue that further.
COMMISSIONER CONNELL: Mr. Chair, may I?

CHAIRPERSON BUSTAMANTE: Please.

COMMISSIONER CONNELL: Thank you. I am concerned as we move forward that we try to put as much information on public record here, Paul. I know there is -- I'm a southern California resident, I know there is continued concern about the safety of these operations. And should this Commission choose to continue leases of these facilities up and down the coast, I think it is very important to establish the facts and the safety record and the maintenance requirements that we, as the State, have on these facilities.

We may not always be able to reach a decision which would be supported by all of the concerns -- the community concerns represented in some of these various regions of the state. But to the extent that we can clarify the fact that we've done due diligence, that we are going to maintain appropriate supervision and monitoring, I think it leads to less fear and concern in these local communities. And that's what I would like to try to establish, Mr. Chair, is a process that we go through the review of these facilities.

In that regard, from a management viewpoint, one of the things that I'm concerned about, going back to my investment banking days, is the transition that is occurring now between large company operation and smaller company
operation of these facilities. I have been impressed by the
quality of the management of some of these smaller entities.
Many of the owners and managers come from the large oil
companies and they certainly have reputable backgrounds and
extensive records.

I am concerned though that we somehow indicate when
we talk about redefining the lease agreements, and this is a
question for the Attorney General, I guess, Dennis, whether
we can put into these lease agreements key management
contract agreements, so that we have specific individuals who
are currently working these facilities, if we can tie our
lease to continuation of those individuals staying on board.

I think the last thing we want to have, because so
many of these operations are very complex and specific
operations, is to lose the value of several years of
experience, in some cases almost two decades on Platform
Holly. We have managers there that have been on board for
that period of time. And these are very labor-intensive
operations. And I would hate to lose the skill base that is
represented in some of these facilities, because with that
skill base goes the continued safety and operation of those
platforms. Would you agree, Paul?

MR. MOUNT: I would agree, and we watch that as
well. Just to let you know Venoco has a large investor in
the company called Enron. Being a multi-billion dollar
corporation, I believe they have that corporation behind them. Also, in the case of Holly, we also have ARCO and Mobile Oil who are the previous owners.

So we have it pretty well covered. In addition, we required them to have a seven and a half million dollar bond to cover performance under the lease agreement and they also have a $251 million liability insurance policy that covers all liabilities. It's a blanket coverage including oil spills. And in addition, they have a $35 million oil spill policy with the State.

COMMISSIONER CONNELL: Do they have key-man insurance in that contract? I don't imagine that you needed to when you had major oil companies, but you've got a different operator today.

MR. MOUNT: Correct.

COMMISSIONER CONNELL: Venoco is a much thinner management team. It's a much smaller company.

Can we, Dennis, include kind of key-man insurance and language that assures us that we're going to have the kind of management team we want at the top of these organizations?

DEPUTY ATTORNEY GENERAL EAGAN: Well, what the Controller is proposing is some type of provision where the predecessor company might have to have some responsibility
for continuity and a transition-type function.

COMMISSIONER CONNELL: Well, not necessarily. I mean I think Venoco is now transferred completely from a large -- it's now, as I understand it, I can look it up in the tax records, but I think it is basically an independent entity now.

My concern here, Dennis, is some senior management people transferred from the original operation to Venoco. They stayed with the new operation, which is called Venoco. My concern is, do they have any obligation -- can we obligate them to stay with Venoco and make it a condition of our lease renewal that that kind of talent pool stay as part of the operation?

We do that, to a large extent, at STRS and PERS in retirement. When we do investments in companies, we carry key-man insurance. And we specifically tie our investment activity to specific partners being part of the operation of a corporate entity. When those partners resign, retire, die, we have an opportunity to automatically renew our investment in that company, because obviously it is sensitive to the continued leadership that might no longer be available.

I'm suggesting a similar pattern here for the oil operations in California.

DEPUTY ATTORNEY GENERAL EAGAN: I don't know the answer to that question. I think staff will have to look
into it.

MR. MOUNT: For your information, Venoco did have key-man insurance when they were an even smaller company, because they had very little depth to their organization. At this time, I don't believe they do because they have a broader organization and a little bit more depth, but we can look into that.

CHAIRPERSON BUSTAMANTE: I think I see where the Controller is going. I would have some concerns; and staff, as you develop some type of report; and I'd like to hear if there's any members of the audience that would like to talk about this particular issue as well.

But just off the top of my head, to have contractual language that specified people, specific people in the contract, that might give folks a bit of leverage in terms of negotiating their own contracts. I don't know to what level it would provide for financing when somebody leaves or not if we're going to pull the contract from somebody.

I think maybe something that would require what they would say and would normally go through anyway is a due diligence to put together the right team. Maybe there's a way of being able to do something generically that would provide us, not a way of micromanaging, but a way of just making sure that our due diligence is set in a way that enables us to be very protective of a very precious resource.
that we have along the coast.

I don't think that they are going to be opposed. I don't think anybody would be opposed to making sure that we are protecting our coastline, but to get involved with micromanaging also is not probably something that we want to do. We just want to make sure that we do our due diligence. So as you go through the process of doing a report, on behalf of the Controller, if you could take those things into account.

ASSISTANT EXECUTIVE OFFICER THAYER: It seems like there's several different mechanisms here by which we can reach the same goal. We'll investigate those and any others that come to our attention and make sure the Commission --

CHAIRPERSON BUSTAMANTE: Make sure and meet with the operators to get a sense of some things that they either do automatically or that they would be interested in doing or things that you feel would be important for us to do in order to be able to make sure that due diligence, as expressed by the Controller, is, in fact, being done.

ASSISTANT EXECUTIVE OFFICER THAYER: Okay.

COMMISSIONER CONNELL: Venoco is -- the people who are managing Venoco are currently the investors in that company. And so I think that you'll find that their interests merge with what I'm discussing here. So Venoco is not a good point. I'm not using them as an example. Venoco
happens to be a company that operates Holly.

But if you look at some of the other platform operators up and down the state, there is now a separation between the investor and the manager. And I think what we have to do is make certain that the management is always reflective of a standard. You don't have to put names in the contracts if you have assurances that the management team is going to represent a certain expertise. That's what we need to do.

In the case of Venoco, they are the team, because they own and operate the facility. That's different than would be true in these others, as you know, Paul, as you look at the other facilities up and down the state. I'm not certain that that merging of interests occurs on any other facility. I'm trying to recall the management arrangements. I don't think it does. I think Venoco may be an exception in that regard, Mr. Chair.

So in that case, it's not a problem with Venoco. It would be more of an issue as we look at other facility leases up and down the coast. But I think the objective here is to protect the continued safety and operation of these facilities. And I think it's more challenging now to operate these facilities, because they're aging and also because they're less profitable. At least Venoco and others will tell you, I mean, they're taking out a lower grade of oil.
from the ocean now and so there's less margin of profit associated with oil drilling than there was in the earlier years.

CHAIRPERSON BUSTAMANTE: Paul, can you tell us if there were any other lessons that you learned after reviewing this facility, something that would help us in establishing or considering other kinds of changes, because -- as you put it, in aging or in out-of-date standards, and how they conflict with today's standards?

MR. MOUNT: I would prefer to make a recommendation after we complete this audit and look at the whole situation. I think we can gain some insight there. Yes, I think we have some concurrent recommendations, but I'd like to combine it all. We do have a set of new regulations we're considering that will consider some of these things and address some of these issues that we have.

You'll be hearing about the joint regulations with the Division of Oil and Gas in the near future, we hope. And those regulations, as well as what we find from these audits, will also help us in addressing the future.

CHAIRPERSON BUSTAMANTE: Okay. Well, what is the process for the issuance of those regulations?

ASSISTANT EXECUTIVE OFFICER THAYER: We have to go through the statewide process that's required of all state agencies in terms of holding public hearings, going through a
process with the Office of Administrative Law, where they ensure that the statutes, in fact, authorize us to adopt these regulations. We can't adopt regulations that are not otherwise authorized.

We have -- I think the regulations that Paul is talking about are joint regulations which we've been working on with the Department of Oil and Gas and the Department of Conservation. There's actually some twin benefits of this, because it consolidates the regulation in a way that there's not duplicative requirements, unnecessary requirements, between the two different agencies. At the same time, it brings them up to date with respect to new innovations. We're very close to finalizing that. We'll probably be bringing that to you later this year.

CHAIRPERSON BUSTAMANTE: So persons of industry or of any groups that are interested in the way these are going to be laid out will have several opportunities to be able to speak on this particular issue.

ASSISTANT EXECUTIVE OFFICER THAYER: They have been intensely involved in all the discussions leading up to the completion of these.

CHAIRPERSON BUSTAMANTE: And do you anticipate those regulations being recommended approximately when?

MR. MOUNT: Later this year.

CHAIRPERSON BUSTAMANTE: June?
MR. MOUNT: No, I'm thinking more in November.

CHAIRPERSON BUSTAMANTE: November. Okay.

COMMISSIONER CONNELL: May I make a suggestion that when we do have the regulations ready for public comment, and I think the Lands Commission, Mr. Chair, has always had a reputation of being very supportive of community involvement in those public hearings, it might be a thought to try to alert the local communities that are immediately adjacent to these facilities so that they can feel, and their governing bodies can feel, that they've had input to that regulation. I'd rather err on the side of being -- you know, proliferating these regulations to every governing body up and down the coast, because it is a sensitive issue, rather than finding out that we're at a point, Mr. Chair, of making a decision and receiving faxes on the day of the decision making from Mayors or Boards of Supervisors of a concern that they might express.

CHAIRPERSON BUSTAMANTE: I think that that's well taken. And if we could have staff make sure and contact at least the counties in order to be able to allow them to issue additional notices of the appearance.

ASSISTANT EXECUTIVE OFFICER THAYER: Absolutely.

CHAIRPERSON BUSTAMANTE: If there are other areas or groups specific --

COMMISSIONER CONNELL: Well, I think we're all aware
from the last go round of this that, you know, we have the
typical groups, Heal The Bay --

ASSISTANT EXECUTIVE OFFICER THAYER: There are
organizations out there that are very involved.

COMMISSIONER CONNELL: There's a very active series
of organizations in Santa Barbara as you go up the coast, you
know, in the San Luis Obispo area. As we go into Santa Cruz,
there's some very strong organizations. And I think all
those are known to us. They have certainly contacted us in
the past. We have to share those names with you. I do want
them to be involved in the process so that they can feel
comfortable with the regulations and the level of protection
provided by them.

ASSISTANT EXECUTIVE OFFICER THAYER: All right.
CHAIRPERSON BUSTAMANTE: Is there any other --
staff, is there anything else?

MR. MOUNT: No further comments.

ASSISTANT EXECUTIVE OFFICER THAYER: I think that
concludes the staff presentation. I don't think there's
anybody in the audience who wants to speak, but you might
want to check.

CHAIRPERSON BUSTAMANTE: Is there anyone in the
audience who would like to speak on this issue?

Okay. Well, what is the pleasure of the Commission?

COMMISSIONER CONNELL: Well, what is the action
we're actually taking on this today?

ASSISTANT EXECUTIVE OFFICER THAYER: Approval of the contract with the consultants so things will go out.

COMMISSIONER CONNELL: I move approval of that.

ACTING COMMISSIONER PORINI: Second.

CHAIRPERSON BUSTAMANTE: Motion and a second. The record will show that it passed unanimously.

And on to the regular agenda beginning with, I believe, number 71 on the agenda.

COMMISSIONER CONNELL: Didn't we have item 41 or is that in consent?

CHAIRPERSON BUSTAMANTE: That item was pulled.

ASSISTANT EXECUTIVE OFFICER THAYER: That was taken off the consent. That was the one on the San Joaquin River. That will be heard in the future.

CHAIRPERSON BUSTAMANTE: That's going to be heard in the future?

ASSISTANT EXECUTIVE OFFICER THAYER: Yes, that's correct.

CHAIRPERSON BUSTAMANTE: Okay.

ASSISTANT EXECUTIVE OFFICER THAYER: I show that the other two consent calendar items that were removed will be brought back to the Commission at a future date rather than put on --

CHAIRPERSON BUSTAMANTE: Okay. Next item for
consideration is the maritime salvage permit to recover further items from Brother Jonathan. Mr. Thayer.

ASSISTANT EXECUTIVE OFFICER THAYER: This, of course, relates to the press conference that all of you were involved in an hour ago. And Mr. Pelkofer will present this item.

SENIOR STAFF COUNSEL PELKOFER: Peter Pelkofer, Senior Counsel of the State Lands Commission. You're all --

COMMISSIONER CONNELL: You're losing your gold coins.

(Laughter.)

COMMISSIONER CONNELL: We don't want you to damage the artifacts. We're very protective.

EXECUTIVE SECRETARY SHAW: Peter, could you speak into the mike, please.

SENIOR STAFF COUNSEL PELKOFER: Knock these over one more time, before I get there.

I don't wish to take a lot of your time. You're quite familiar with the background of this item. This is a salvage permit for Deep Sea Research Incorporated. And they are the salvagers of the Brother Jonathan to this point. They spent considerable time and money in this effort and they wish to return to the site and pick up additional items.

The staff has asked them, as part of the settlement agreement, to provide us with all the required information
and pay the same fees that any other applicant would do and they've done so. They've met all the Commission's requirements and the staff is prepared to recommend that they be granted a permit.

The conditions are in the permit in your packet and they're extensive. I won't try to go through them. But they are the kinds of conditions that we require in an applicant for this type of an operation, keeping in mind that they are dealing with a very historic vessel. We have agreed to an 80/20 percent split for monetary items. The artifacts and historical items will belong exclusively to the State of California. And the staff recommends, as I said, that you authorize the issuance of a permit for them.

COMMISSIONER CONNEL: I move the item.

ACTING COMMISSIONER PORINI: Second.

CHAIRPERSON BUSTAMANTE: Is Deep Sea Research here?

SENIOR STAFF COUNSEL PELKOFER: Yes, your Honor -- your Honor.

(Laughter.)

SENIOR STAFF COUNSEL PELKOFER: Too many years in court, Mr. Chairman. Mr. Fletch Alford, his counsel and Mr. James Wadsley who's the principal in the Deep Sea Research Corporation.

CHAIRPERSON BUSTAMANTE: Would you like to make any comments?
MR. ALFORD: Good afternoon ladies and gentleman of
the Commission, we are happy to be here and happy to have
reached an agreement.

EXECUTIVE SECRETARY SHAW: Would you state your name
for the record.

MR. ALFORD: I'm sorry. My name is Fletcher Alford.
I'm the attorney for Deep Sea Research. Good afternoon,
ladies and gentleman of the Commission. We're happy to be
here and we're glad that we put the litigation behind us and
reached an agreement and look forward to working with the
State Lands Commission in a mutually profitable and
acceptable endeavor.

COMMISSIONER CONNELL: I want to know whether it's
beer or wine in those jugs at the press conference.
(Laughter.)

MR. ALFORD: We drank that on the way over here.
(Laughter.)

COMMISSIONER CONNELL: Don't let them near our
artifacts.
(Laughter.)

MR. WADSLEY: I think you'll find that's vinegar.

COMMISSION CONNELL: Well, I'm glad we didn't sample
it then, Mr. Chair. We were tempted.

EXECUTIVE SECRETARY SHAW: Excuse me, could you
state your name for the record, please.
MR. WADSLEY: I'm Jim Wadsley.

CHAIRPERSON BUSTAMANTE: Well, thank you so much for finally putting this litigation to rest. I think that staff feels very comfortable with what was worked out. It allowed us to maintain a certain integrity in terms of what the State Lands Commission does, and it worked out, I hope, what is an amicable split on all the cache.

It is for historical purposes that we maintain this. I'm glad that you were able to find a way of being able to get to a conclusion on it. We, on behalf of the State of California, thank you for the work that you've done. I know that this is a business and I think that hopefully this resolution will allow you to go and do your business and hopefully we'll be able to do a lot more business in the future.

MR. ALFORD: We look forward to that and thank you for your cooperation.

COMMISSIONER CONNELL: I have one question. Do you ever shoot any video in your under-water salvage operations? I'm thinking, again, of the comments I made at the press conference. You know that to the extent that you would be willing to share any of your videos with us, it could be part of our rotating museum, once we are able to put our artifacts and coins into that.

I don't know if you've heard, but we're trying to do
this rotating museum. It would be nice for the children of California to see how these operations work and to get some sense of the, you know, procedure.

CHAIRPERSON BUSTAMANTE: I understand. I'm sure for a small fee they'd be willing to do that.

(Laughter.)

SENIOR STAFF COUNSEL PELKOFER: We have, as part of our agreement, worked out terms by which they will share with us everything that they have recorded on video and/or any other fashion by which --

COMMISSIONER CONNELL: That's great. It just makes it much more in-depth for --

CHAIRPERSON BUSTAMANTE: And for the website, it would be great.

MR. WADSELY: We view this as a shared adventure with everybody who would like to step up and share this with us.

COMMISSIONER CONNELL: Well, I myself will not be stepping down into the salvage operations.

(Laughter.)

COMMISSIONER CONNELL: While I visited oil wells, I don't quite see myself scuba diving down to those depths.

(Laughter.)

CHAIRPERSON BUSTAMANTE: Thank you. There's a motion and a second. Let the record show that it was
approved unanimously.

MR. WADSLEY: Thank you.

CHAIRPERSON BUSTAMANTE: Thank you both.

Item number 72, sale of school lands to the California Department of Parks and Recreation for -- in addition to the Ocotillo, is that how you pronounce that? Well, for state recreation area.

Staff presentation.

ASSISTANT EXECUTIVE OFFICER THAYER: This item involves the sale of about 2,600 acres of school lands to the Department of Parks and Rec for use as part of an existing off-road vehicle park. The map on the corner over here shows some of the existing parks as well as the lands that would be sold.

The lavender squares up here as well as this small section over here are the lands that are up for sale. The green squares represent sales that have occurred at school lands previously approved by the State Lands Commission on this park. The park itself includes all of these light green areas as well as more land to the west.

CHAIRPERSON BUSTAMANTE: I find it a very thoughtful approach being able to do that. I love the little squares on this. It's sort of a thoughtful way of --

ASSISTANT EXECUTIVE OFFICER THAYER: Well, it also demonstrates --
CHAIRPERSON BUSTAMANTE: -- outlining the geographic boundaries.

ASSISTANT EXECUTIVE OFFICER THAYER: It also demonstrates the difficulty we have in administering the school lands, because instead of -- the federal government did not give us one block of land, they gave us lots of little squares like this. They're all over the desert and it's very difficult to deal with. But that bracket displays that problem.

We eventually -- the present park is about 50,000 acres. And the eventual park, with all the additions including this, will total 75,000 acres. Several of the Commissioners were concerned about the environmental impacts that might come from this. And those issues have been discussed and treated with documents. One is a negative declaration, which was prepared specifically for this acquisition by the Parks.

Another one is a general plan prepared in '80 for the park as a whole, required of all parks. Finally, an EIR was prepared.

All three of these documents generally require the Department of Parks and Recreation to survey biological and cultural resources and adopt mitigation to address any potential impacts from the use. Parks and Rec has already conducted the survey on this site on the proposed sale area.
and found no inhibited species. One potential cultural site was discovered and the Department is working with the State Office of Preservation to determine the best treatment for that area.

But with respect to the overall environmental issues, the sale to the Parks and Recreation would be a great overall benefit. This is because the site already is being used by off-road vehicles and in a way that hasn't been controlled. And the result of the sale will be causing this land to come under the management of the Department of Parks and Recreation. They have on-site personnel already that are experienced in this use and on-site environmental personnel for the impacts.

There's no opposition to the proposed sale and staff recommends commission approval. There are three staff here from the Department of Parks and Rec in case there are any questions.

CHAIRPERSON BUSTAMANTE: Any comments by the Commission Members?

COMMISSIONER CONNELL: No, I move approval.

ACTING COMMISSIONER PORINI: Second.

CHAIRPERSON BUSTAMANTE: Any comments by anybody in the public?

Motion and a second. Let the record show that the motion passes unanimously.
Item number 73. Item for lease to the U.S. Fish and Wildlife Service of lands in San Diego were discussed at our last meeting.

Presentation by staff.

ASSISTANT EXECUTIVE OFFICER THAYER: As the Chairman pointed out this is the lease that we discussed really recently at our last meeting in San Diego. At that time, the item for the Commission was the sale of the Western Salt Lands to the Commission or to the Port to the Commission as well as the quitclaim of the Western Salts lease.

This is the implementation of the ultimate plan proposed here to lease this property to the Fish and Wildlife Service for their use as a refuge. And Curtis Fossum of our staff will make the presentation.

I should also point out that we have -- while he's coming up, there are two who wish to speak on this item. One from -- a representative from the applicant from Fish and Wildlife Service, Dean Rundel.

SENIOR STAFF COUNSEL FOSSUM: Chairman Bustamante, Commissioner Connell and Commissioner Porini, good afternoon. I'm Curtis Fossum, Senior Staff Counsel for the Commission. Item 73 requests your approval of a public agency public benefit lease to the United States Department of the Interior Fish and Wildlife Service.

The lease involves 2,200 acres of state owned public
trust lands included in the South San Diego bay unit in the San Diego National Wildlife refuge.

This constitutes about 56 percent of the total area that's indicated in red on this map that the Commission will be leasing. There's three particular areas that will be the leasing area of purchase, in the dark here and the dark area from the Western Salt area that was previously leased to Western Salt and then another additional area on the northwest area bay. That's shallow bay area.

First of all, I'd like to congratulate you. On April 1st the Commission took title to the largest privately owned functioning wetland and saltwater habitat in southern California. That transaction was approved, as previously stated by you, at the last meeting. The 722-acre acquisition together with the leasehold area acquired from Western Salt comprises 60 percent of the lands for both to be leased by the Commission.

The 2,200-acre area proposed. Significantly, this acquisition was not paid for by any State tax, revenues or bonds but by port district airport user fees designated for environmental mitigation for critically needed expansion of the field. This transaction constitutes a major win both for the environment and the regional transportation in San Diego county.

Because south San Diego bay holds a large share of
remaining estuary and wetlands, channel waters and other coastal habitat existing on the south coast of California, the refuge is international. It serves as a critical link in the Pacific flyway by providing habitat for hundreds of thousands of migrating shore birds and wintering water foul.

The creation of the refuge is an important step towards protecting endangered species, especially the California Least Tern. This will be done by facilitating enhancement of their nesting and foraging habitat. This action exemplifies the type of action that is needed if we are to restore and mitigate the loss of thousands of acres of wetlands that we've lost over the last 150 years.

I'd like to take special thanks -- or a special opportunity to thank our previous Executive Officer, Robert Hight, for his pivotal role in the success of this project. He gave us great guidance in bringing these actions to you.

In closing, I would like to thank the Port of San Diego and the Fish and Wildlife Service and the public interest groups for their participation and support and read a few excerpts from the letters of support for this lease.

First of all, from the Environmental Health Coalition. "This is the single most important conservation effort that has ever been undertaken for San Diego Bay. This action demonstrates a strong commitment on the part of the

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Commission to help the bay and the natural resources that depend on it. We thank you for that."

CHAIRPERSON BUSTAMANTE: Any comments from the Members of the Commission?

COMMISSIONER CONNELL: I am delighted that we can expand, Mr. Chair, on what we've already done in San Diego. And I think the ability to preserve habitat is a continuing major objective of this Commission. It's my understanding that we are comfortable with the necessary permits, is that correct, under CEQA?

SENIOR STAFF COUNSEL FOSSUM: Yes.

COMMISSION CONNELL: Then I will move, Mr. Chair, staff recommendation.

ACTING COMMISSIONER PORINI: Second.

CHAIRPERSON BUSTAMANTE: Is there any comment from anyone in the public?

There is, my understanding, two people, Laura Hunter and Dean Rundel who would like to speak.

Please come forward.

MR. RUNDEL: Thank you, Mr. Chairman and Commissioners. My name is Dean Rundel and I'm with the U.S. Fish and Wildlife Service. And, as Curtis mentioned, we're here today to hopefully continue, what I think, is a landmark action which you started in January. And I appreciate your action in bringing this important wetlands and habitat into
public ownership.

    I won't try to reiterate too much the incredible benefits of this area. I will say that since our January -- since your January meeting the south bay has been designated an international significant important bird area by the National Audubon Society. And just last week it was recognized for designation as part of the Western Hemisphere Shore Bird Reserve System.

    And so with some significant humility, I hope that you approve this lease to us. It is a lot to ask. And I just wanted to tell you that myself, my staff and my agency are very dedicated to public trust in this area. We will try to take care of this land as if it were our own. And we look forward very much to working with you and the Commission's staff in a long, productive partnership.

    I'd like to reiterate what Curtis said to thank former Director Hight and his efforts and also to thank the staff and especially Senior Counsel Curtis Fossum who's been an incredibly wonderful partner in moving this for us.

    Thank you very much.

CHAIRPERSON BUSTAMANTE: Thank you.

Do you have a question?

COMMISSIONER CONNELL: No.

MS. HUNTER: Hello. My name is Laura Hunter from the Environmental Health Coalition. It's a pleasure to be
here, again, today. And it's good to finally sit on this
tside of the dais for a change. I just wanted to reiterate
our support for this lease. We have had the pleasure of
speaking before you when you came to San Diego. This is such
an important part of our natural infrastructure, if you will,
for San Diego bay.

    Again, I just would ask you to support this today.
Maybe I'll give you two little examples that may help people
understand just how important this is. One is as a stop on
the Pacific Flyway. As the salt and the sea continues to
crash and cause a lot of ecological trouble, the ability to
have a stop in the Pacific Flyway in the same area as San
Diego bay will be critically important as the years go by.
If we're not able to save the sea, we're going to desperately
need San Diego bay.

    And the other thing I just wanted to point out, that
it's not only people that love San Diego in the winter. I
was out doing the Christmas bird count this year and I saw a
Red-Throated Loon that likes to winter in San Diego bay. And
this was the same kind of bird that you go -- when you go on,
you know, wild kyaking trips and river trips in northern
Alaska up above the Arctic circle, that's where that species
spends the summer. But in the winter, they're down in our
urban area in San Diego. So it's a very important area.

    Thanks for putting us on the map. And we're going
to work hard to finish the refuge. And we have a standing
invitation to all of you to come down and tour our resource
as soon as we get those signs up. So we'd love to host you.
Thank you.

COMMISSIONER CONNELL: Don't disappear, Laura. I
have a question for you. You're going to get the theme of my
questions today.

Is there a way that the activity that is going on in
San Diego bay now can be shared with the children of
California? Again, going back to my point, that if we can
put more of this in terms of photos and habitat and the care
for the environment and the importance of preserving
reserves, if we can educate our children, as the next
generation of Californians, with respect for the environment,
I think we do ourselves a tremendous service and create a
legacy.

So I'm wondering what we can do with our web site to
enhance the children's knowledge of this reserve, now that
we've created it and expanded it.

MS. HUNTER: I think there's a lot of things that we
can do. Lots of people have web sites that are following
this issue. So I think it's not only the State Lands
Commission web site, but it's the Environmental Health
Coalition web site, it's the Nature Center web site that we
should be developing these programs.
The other thing that's great about this refuge is it is so close to an urban area, so it will be heavily used by schools and classrooms that are in urbanized areas. So you don't have to go very far to see nature in San Diego bay and in San Diego anymore. So we intend to do that once we get the resources to protect it, and that's very much a part of the grand plan, if you will, for how we want to exploit this resource.

COMMISSIONER CONNELL: Thank you.
CHAIRPERSON BUSTAMANTE: Thank you so much. Any other comments from the public, staff?

There is a motion and a second. Let the record show that it passes unanimously.

Going on to item number 74. This issue is being brought up by me as a result of the Governor's executive order dealing with the phasing out of MTBE in 2002. The stewardship means that we need to understand what condition our land is going to be in and to what degree we need to work with either vendors or other folks involved in the stewardship of the land to ensure that the cleanup is done and that further mitigation and damage is not being done. And so we've asked the staff to put together a presentation on how we might be able to deal with this particular issue.

Mr. Thayer.

ASSISTANT EXECUTIVE OFFICER THAYER: Thank you, Mr.
Chairman. As you pointed out, you requested that we look into whether or not there were facilities under the jurisdiction of the State Lands Commission that might contribute to the problem of MTBE contamination that we've heard a lot about recently.

We conducted that investigation and therefore brought back this item to you in response to your inquiry. As you are aware, the presence of MTBE in the ground and surface waters has become a major environmental concern. MTBE is a gasoline additive originally intended to improve air quality by causing the fuel to burn more cleanly as an oxygen additive.

Unfortunately, since it was introduced in 1996 gas has contained this additive, which has been found in storage tanks and pipelines, in wells and waterways throughout the state. The problem seems to be a particular issue at gas stations and storage tanks.

This problem also has the potential of occurring from certain facilities located on lands under the Commission's jurisdiction and marina fuel docks. In some respects, these refueling facilities are exactly the same as gas stations that provide products.

Currently, there are -- we've found 36 of these facilities directly under the jurisdiction of the Commission. So there are a fair number of facilities that are under this
category.

While we have no specific reports, at this time, that there are leaks from these facilities, there is certainly a possibility of gas leaks from other tanks or pipelines or docks. Of particular concern are the ten docks at Lake Tahoe. In order to take all steps necessary to prohibit MTBE into the state waterways, staff is proposing that the Commission undertake an inspection of all of those refueling facilities. The inspection would determine if there's any leakage or any possibility of leakage from wearing or getting old, whether there's contamination of soil adjacent to waterways and what action is necessary.

Now, we're still working on some of the particulars in this program, but we certainly intend to inspect all of those 36 marinas. We expect to make use of the talent and skill and experience that we have in the Commission. We already examined related issues with respect to water prevention of major marine terminals at all our ports, so we do have expertise and we will apply that to the marinas.

CHAIRPERSON BUSTAMANTE: It's really unfortunate that the marinas and the operators are saddled with the problem that was created by another industry. But good stewardship requires both the operators and us to ensure that if there is any way of being able to mitigate the problem, that we make sure that we do all we can to make that happen.
Is there any questions by Members of the Commission?

COMMISSIONER CONNELL: Mr. Chair. Do we have any idea, Paul, what the cost will be for this investigation?

ASSISTANT EXECUTIVE OFFICER THAYER: We're working on that. And, as a matter of fact, the Chair had specifically asked us to find out whether or not what the expense to the Commission would be, what the expense to the marina operators would be and whether or not the manufacturers of MTBE bear any legal responsibility for that. And we're reviewing all that.

We think, though, that at least as a first cut, that the expense to the staff will be absorbed. We have the staff. We won't have to hire consultants to help us. We have the staff on board that have expertise in working with this, so that we're hoping to be able to conduct this with the Commission resources.

We certainly will report back to the Commission the results of this. Since we don't have that, I expect at our next meeting and the following meeting we'll be able to report back to you.

COMMISSIONER CONNELL: You anticipate that you'll report back at the next meeting?

ASSISTANT EXECUTIVE OFFICER THAYER: Or the following, I'm not sure.

COMMISSIONER CONNELL: Thank you. Mr. Chair, I
approve the investigation.

CHAIRPERSON BUSTAMANTE: There's a motion.

ACTING COMMISSIONER PORINI: Second.

CHAIRPERSON BUSTAMANTE: Is there any comments by members of the public regarding this issue?

None. I think that the prudent course would be that we, in fact, pursue this investigation. I think it would be important. However, what I'd like to do is I'd like for you to also, in your report, make sure and check to see if there are any existing State or federal funding mechanisms for cleanup. I think from everything from the Superfund to any other pieces that might be out there that we'll qualify for, to assist either the operators or the State in ensuring cleanup activities that will take place.

With that in mind, there's been a motion and a second, and let the record show that the motion passed unanimously to, in fact, undertake the investigation that would be done with absorbable costs by staff.

CHAIRPERSON BUSTAMANTE: Item number 75, consideration of replacement of the Executive Officer. As Robert Hight has departed to the Department of Fish and Game, the Commission has a vacancy to fill the position of the Executive Officer. This item presents an opportunity for the Commission to discuss their desires in filling that position.
May I hear from my fellow Commissioners.

COMMISSIONER CONNELL: Yes. As I think the only seasoned member of this board at this point -- it's amazing what term limits does. I've only been here for four years. I had an opportunity to work with Paul Thayer and certainly had the greatest respect for him. I think his credibility with the environmental community, his respect with the business community, his thoroughness of presentation, his ability to present all sides of an argument have been evidenced again and again through my four years of tenure on this board.

I have done my due diligence with the groups that I have represented and they have his respect and credibility. And I would be willing to approve the appointment of and recommend the appointment of Paul Thayer as our Executive Director.

ACTING COMMISSIONER PORINI: As the newest person on the Commission, I feel the same way and would be delighted to second a motion, if it's made, to go ahead and approve Paul Thayer.

CHAIRPERSON BUSTAMANTE: I think a motion was made.

COMMISSIONER CONNELL: Yes.

ACTING COMMISSIONER PORINI: Second.

CHAIRPERSON BUSTAMANTE: There is a motion and a second. Quite Frankly, Members, I was very concerned about
the process. This particular agency has been taken, I think, to an extremely competent level. The question is could we find, in fact, the best person in the country to replace Bob Hight.

There has been a long stewardship as we were able to look back for the last 20, 25 years of people who have taken this particular position and have taken it to an extremely important level. To maintain that kind of quality was an extremely important issue on my mind, the issue and integrity of the system. And I thought about the possibility of a search, and other searches both not only within the state but also outside the state.

I did also do some due diligence in contacting a few people, including somebody that I respect highly, the former Executive Director, and asked, well, can he do the job, Bob?

(Laughter.)

CHAIRPERSON BUSTAMANTE: Give it to me straight. No BS, let me have it.

And I think through that conversation and others that I've had with people about the integrity of Mr. Thayer, I believe that people are not only -- have had a chance to see him work, but they believe that his work is not just some end of a political spectrum, but somebody who is going to step up to the plate and work hard to make sure that every
case is dealt with with due diligence, but also with the proper reviews and science, and that he will move courageously further, and I think in the words of Bob Hight, "will take it to a level far beyond even me."

I will, in that instance -- there's a motion and a second, and let the record show that the motion passes unanimously. Mr. Thayer, congratulations for being the new Executive Director.

EXECUTIVE OFFICER THAYER: I'd like to thank the Commission and all the Commissioners individually for their vote of support. And obviously, I look forward to working with all of you. And I hope that I can exceed your expectations.

Obviously, I'm interested in pursuing a program that we can work together on to the mutual benefit of all Californians. And I know that's the goal of the Commissioners and I'd like that to be my goal as well.

Thank you so very much for this.

COMMISSIONER CONNELL: Thank you. And I certainly hope you don't get to the level of rhetoric that our former Executive Director does in his flattery.

(Laughter.)

COMMISSIONER CONNELL: Or we're going to have to have a prose contest here.

CHAIRPERSON BUSTAMANTE: We were told that, Mr.
Hight, that Mr. Thayer was going to have big shoes to fill. But I was also told that Mr. Hight only has an eight and a half.

(Laughter.)

CHAIRPERSON BUSTAMANTE: So it should be an easy fit.

(Laughter.)

EXECUTIVE OFFICER THAYER: I think you're absolutely right.

(Laughter.)

CHAIRPERSON BUSTAMANTE: Your modesty is just amazing.

Can I ask Mr. Hight to please come up.

On behalf of the Commission, I would ask the Controller to join me as well as Annette to join me in making this presentation to you.

It is a beautiful plaque that is only a symbol of the kind of work that you have done here for the last 26 years. There's really no way to put 26 years of work on a plaque. We do it every day in government and the private sector represented by a little wood and a little metal. Hopefully it does, in fact, represent, however, to the legacy of Bob Hight, a legacy of extreme professionalism and a legacy of so many projects in the state that provides, not only us, but our children and our children's children an
opportunity to have a better California.

So on behalf of the State Lands Commission, on behalf of the people of the state of California, let me present this to Bob Hight. "In recognition," excuse me, "of 27 years of service to the Commission and to the people of California, to the future generations of Americans, for your stewardship of the State's public trust and other natural resources. Presented by the State Lands Commission, myself, Kathleen Connell, Member, State Controller and B. Timothy Gage, Member, Director of Finance." It is my pleasure.

(Applause.)

CHAIRPERSON BUSTAMANTE: One last opportunity --

COMMISSIONER CONNELL: Before you do that, Mr. Chair, let me just add my comments to those of yours. I sit as a member of 57 boards and commissions, and when we were having our last meeting last year as Chair of the Commission, we gave a number of these plaques out. As you remember, Bob, we gave them to, at that time, the Director of Finance, who was representing Governor Pete Wilson on the Board. We gave it to Gray Davis for his service on the Board as both Controller for eight years and for Lieutenant Governor for four.

And I asked, at that point, when I would get my plaque.

(Laughter.)
COMMISSIONER CONNELL: I still have not gotten my plaque and here we are giving another plaque today.

CHAIRPERSON BUSTAMANTE: The normal one takes a little longer.

(Laughter.)

COMMISSIONER CONNELL: In terms of your tenure, I think it's just important for the audience to review some of the more important accomplishments that you've had just even over the last four years. As I was looking back on our work together, I think one of the most amazing ones was the Elk Hills Petroleum Reserve activity. And I sit with the Director of Finance on the STRS Board. And STRS is the Teachers Retirement System for those of you who are not familiar with the acronym.

And Bob worked for years in trying to put together an agreement that represented an opportunity for the teachers to receive what was truly their just due in terms of financial settlement for the land, which was involved in Elk Hills. And as a result of that, retired teachers are now receiving $324 million as a result of the Elk Hills settlement. And we're going to be having an opportunity to discuss that next week.

And I know how long you worked on that and the long nights and the many meetings that that represented. And I think that was truly one of your major accomplishments.
I think back on Bolsa Chica. I never thought that we would get that deal done. We worked on that for hours. Gray joined me in the conference room, the executive session. We had people flying in from Washington down in Orange County, and to agree in pen kind of what represented the solvent agreement as was drafted by the Board in public session.

That represented at least ten, maybe fifteen years of work with the local community group and the federal government. A major piece of environmental achievement to southern California, certainly to Orange County.

You've been instrumental in terms of the federal government relationship to the Desert Protection Act. And I think all of us in this room certainly appreciate what that means for future generations of Californians.

You've been involved in the transfer of federal bases. I think there are about 15 of them now, at last count, in California. And those have been closed. And what that represents to the opportunity for the State Lands Commission, and the environmental community in California.

And I just, you know, refer to those, Bob. There have been dozens more that preceded my tenure on this board. And I want to thank you for your leadership. I want to thank you for your schooling. I want to thank you for your friendship. And I think you deserve another standing
ovation. Thank you.

(Appplause.)

COMMISSIONER CONNELL: And now some comments.

ACTING COMMISSIONER PORINI: Well, I'll just add one thing. I do want to add my congratulations to those of the other Commissioners. But I'll just switch hats a little bit. I regret not having been able to work with you. I know that many people in the state, in fact 22 different states, elected you the President of The Association of Land Commissioners. But from Finance's point of view, in addition to Elk Hills, which is wonderful for the teachers that we have the pleasure of representing, I just want to congratulate you too on the settlement you were able to achieve in terms of Tide Lands Oil in Long Beach. That was $320 million. So from Finance's perspective, we'll miss you.

(Laughter.)

CHAIRPERSON BUSTAMANTE: Bob, it sounds like you earned your pay.

(Laughter.)

MR. HIGHT: Well, thank you very much. I mean it's been an honor to work for you and this body for 28 years. Clearly, when the Governor called, it was the hardest decision that I'd ever made in my life, because the Lands Commission and what the Lands Commission does has been my life ever since I graduated from law school.
All of the things that you've talked about here and that have been successes could not have been possible but for the superb staff. I mean I was the band leader that led them to do all the things. I mean you have an excellent staff. I want to be the first to compliment you and congratulate you on selecting Paul Thayer as the new Executive Officer.

Annette and I will have the opportunity to work together on the Wildlife Conservation Board. And there, I'm sure, we'll be able to find additional opportunities to join with the Wildlife Conservation Board for the Lands Commission to buy new wetlands. I have a new appreciation of wetlands and flyways having to do with, you know, ducks and geese and the other fowl.

(Laughter.)

MR. HIGHT: As an aside, I've been invited to three dinners already and they've served duck.

(Laughter.)

MR. HIGHT: I'm not a big fan of duck, but I guess --

(Laughter.)

MR. HIGHT: It's been a pleasure working with you. We've had an immense amount of fun and accomplished some very major, major accomplishments. As you said, Controller, I think the personal relationships probably rank number one with me. I'll never forget you and I'm not very far away.
So I'm here to help.

COMMISSIONER CONNELL: Just don't invite us to those duck dinners.

(Laughter.)

MR. HIGHT: Thank you very much.

COMMISSIONER CONNELL: Do you want to introduce any members of your family?

MR. HIGHT: My wife is here. And most of the staff knows my wife.

COMMISSIONER CONNELL: Thank you for sharing, Bob, with us.

(Laughter.)

MR. HIGHT: There's a fact you probably don't know.

CHAIRPERSON BUSTAMANTE: Who's that guy in the red tie?

MR. CAMPBELL: Your driver.

CHAIRPERSON BUSTAMANTE: Former Assemblyman Bob Campbell.

MR. HIGHT: Well, I was going to say, there's a fact you don't know. My wife continues to work for you. She works for the Commission.

MRS. HIGHT: He didn't hire me.

(Laughter.)

COMMISSIONER CONNELL: That's good. Thank you very much.
CHAIRPERSON BUSTAMANTE: Is there anything else to come before the Commission?

EXECUTIVE OFFICER THAYER: No, Mr. Chairman, that concludes the agenda.

CHAIRPERSON BUSTAMANTE: Do we have an executive session?

EXECUTIVE OFFICER THAYER: Yes, we do. We have a closed session, which I believe will be held in the Department of Finance conference room. So we're able to leave here and go to that one.

CHAIRPERSON BUSTAMANTE: Well, then I think that makes us adjourned.

(Thereupon the State Lands Commission was adjourned at 3:10 p.m.)
CERTIFICATE OF REPORTER

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, and Registered Professional Reporter, do hereby certify:

That I am a disinterested person herein; that the foregoing proceedings from the State Lands Commission meeting was reported in shorthand by me, James F. Peters, 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 15th day of April, 1999.

JAMES F. PETERS, CSR, RPR
Certified Shorthand Reporter
License No. 10063