

**CALIFORNIA STATE
LANDS COMMISSION**

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February 23, 2012

Elaine M. Howle, CPA
State Auditor
555 Capitol Mall, Suite 300
Sacramento, CA 95814

Dear Ms. Howle:

Please find enclosed the State Lands Commission staff's six-month response to the Bureau of State Audits Report: 2010-25 released on August 23, 2011. This is a follow-up response to the earlier response from the Commission's staff dated October 24, 2011. A copy is being transmitted to John Laird, Secretary of the Natural Resources Agency under separate cover.

Please let me know if you have any questions.

Sincerely,


CURTIS L. FOSSUM
Executive Officer

Enclosure

cc: Honorable Lt. Governor Gavin Newsom, Commissioner
Honorable Controller John Chiang, Chair
Director of Finance Ana Matosantos, Commissioner

**STATE LANDS COMMISSION STAFF'S SIX-MONTH RESPONSE TO THE
BUREAU OF STATE AUDIT'S REPORT: 2010-125**

*****Please note that the lettered exhibits identified in the 10/24/11 response were previously provided to the Bureau of State Audits on 10/24/11 as part of the Commission staff's 60-day response and are not reproduced for this six-month response. Only the numbered exhibits identified in the 2/23/11 bolded responses are included.**

Chapter 1 Recommendations

1.1a *To ensure that it manages delinquent leases in an effective and timely manner and collects all the amounts owed to it, the commission should determine the amount of past-due rent that should be included in its accounts receivable account.*

8/11 Response - Staff is aware of past due amounts maintained in its receivable accounts. The report describes \$1.2 million in past due rents as of December 31, 2010. The correct amount of past due revenue receivables reported to the auditor was \$209,389.27 for 210 invoices. Of these, 146 invoices for \$121,433.68 were in excess of 180 days, delinquent as defined by the State Controller's standards. Other invoices included in the total reported past due amount include contingent receivables. These are invoices for which there is some question as to their validity, usually boundary or jurisdiction related. These totaled \$484,189.30 and are purposefully kept, as prescribed by State procedures, in a separate account due to their contingent nature. The remainder of the amount asserted as past due were invoices that were not yet due, based on their actual due dates.

Additionally, Table 1 asserts that the Commission has "lost" \$1,616,936 in delinquent rents. It is unclear how it relates to the \$1.2 million above. Regarding those accounts, the table includes 4 leases to AERA that are to be quitclaimed representing \$501,223. These are pipeline leases associated with the "Molino" lease in the Santa Barbara Channel. While the oil & gas lease was quitclaimed in 1997, these associated pipeline leases were not similarly processed by staff and will be closed out as of that same date. While this does illustrate a process failure, the associated revenues are not valid and should not be considered "lost" due to their not being collected. All 4 accounts have been placed in Contingent Receivables pending completion of the transaction. Also, Ramos Oil Company and Ship A Shore have both been placed into Contingent Receivables until outstanding issues are resolved.

10/24/11 update – Commission staff has proofed the outstanding receivables accounts noted in the report and continues to disagree with the conclusions in the report regarding the magnitude of past due accounts. We do acknowledge that there was confusion between the auditor assigned and Accounting staff in the questions that were being asked and the methodology the auditor used to extract the information in determining which invoices were past due; the most significant being the use of the date the invoice was input into CALSTARS to determine past due, rather than the actual due date specified on the invoice and in the lease. Accounting staff has refined the reports and information it extracts from CALSTARS in monthly reports to provide more succinct date information for determining past due invoices. Staff is also working with Legal to provide better documentation when invoices are placed in Contingent Receivables due to disputes or litigation. See Exhibit A*.

BSA has determined that this recommendation has been fully implemented.

- 1.1b *To ensure that it manages delinquent leases in an effective and timely manner and collects all the amounts owed to it, the commission should develop and adhere to policies and procedures that incorporate the administrative manual's guidance, including the steps staff should take when a lessee is delinquent, time standards for performing those steps, and a process for consistently tracking the status of delinquent leases between divisions.*

8/11 Response - Commission staff agrees and has already begun taking measures to implement this recommendation. While accounting procedures for 30, 60, and 90-day dunning letters are in place, there is a recognized need to better coordinate between Accounting, Land Management and Legal in disposition of delinquent leases should those initial steps fail.

10/24/11 Update – A process has been developed and will be in place by November 1 to address lease compliance issues and specifically coordinate actions regarding delinquent leases. The process involves review of delinquent accounts by senior management meeting on a regular basis to determine the course of action to be taken up to and including litigation and possible ejectment. See Exhibit B*.

BSA has determined that this recommendation has been fully implemented.

- 1.1c *To ensure that it manages delinquent leases in an effective and timely manner and collects all the amounts owed to it, the commission should conduct and document cost-benefit analyses when it contemplates either referring a delinquent lessee to the attorney general or pursuing the delinquent lessee through other means.*

8/11 Response - While no formal written process exists, Commission staff conducts an extensive, informal cost-benefit analysis, including consideration of statewide policy implications, through coordination with senior management, the Executive Officer and the Attorney General's Office, when deciding whether to recommend pursuing litigation to the Commission

10/24/11 Update – All delinquent accounts will be evaluated as part of the Lease Compliance process and will ensure cost/benefit considerations in such documentation of decisions regarding enforcement are referenced in the lease file. Also see response to A (2), above.

BSA has determined that this recommendation has been fully implemented.

- 1.2 *When the commission determines that it will pursue delinquent lessees itself, it should use a collection agency or a program such as the Franchise Tax Board's Interagency Intercept Collections Program.*

8/11 Response - Commission currently does not have the authority to request a taxpayer ID from individuals, which is necessary for participation in the intercept program. As it expands to include Employer ID for businesses, this may become an option. Staff will continue to explore better ways to pursue delinquent accounts including possible legislation or regulation to allow collection of such information.

10/24/11 Update – Staff has contacted Franchise Tax Board staff regarding use of collection agencies and, based on their guidance, is currently conducting an analysis of authorities the Commission currently has and determining whether additional regulations or legislation is needed to authorize such use. Additionally, staff counsel has been assigned to investigate the authority of the Commission to require social security numbers from lessees, which are necessary for participation in the intercept program. Staff did find evidence of a prior legal opinion that concluded the Commission did not have such authority.

2/23/12 Update – Staff has determined that the Commission would need special legislation to obtain individual lessee social security numbers in order to participate in the Franchise Tax Board Interagency (FTB) Intercept Collections Program. Staff has also determined that the liability risks, legal requirements and obligations to keep such private information safe from disclosure outweigh the potential benefits of obtaining such authority to request that kind of information. The FTB Intercept program is of limited usefulness as it can only be used in instances where the lessee is a person. These leases typically have rents of less than \$1,000 a year which makes using the FTB Intercept Program marginally advantageous versus the cost of security.

Higher rents are with companies using an Employer or Taxpayer Identification Number (EIN or TIN) and that is not incorporated in the program. Also, there has been an increasing trend by private lessees to enter into lease as a family or living trust, which is identified by the TIN rather than Social Security number. Additionally, staff has learned from the California Office of Privacy Protection that most state agencies are moving away from the use of social security numbers and trying to minimize their use because of the significant responsibilities to restrict access and comply with numerous state and federal privacy requirements.

Staff continues to research the authority necessary, and the feasibility of, using collection agencies. However, even this approach may require legislation as personally identifiable information would need to be transferred to the contractor for collection purposes.

- 1.3a *To ensure that as few leases as possible go into holdover, the commission should continue to implement its newly established holdover reduction procedures and periodically evaluate whether its new procedures are having their intended effect of reducing the number of leases in holdover.*

8/11 Response- Commission staff agrees and has already implemented this recommendation.

10/24/11 Update –The Bureau’s report states that the new holdover procedures “appear reasonable [however], because the commission only recently implemented them, we were unable at the time of our audit fieldwork to determine whether they would be effective.” Since November 2010, staff has continued to build upon its holdover reduction process. In March 2011, staff: (1) finalized the language for the holdover notification letters for both significant and routine leases as laid out in its holdover reduction procedure; (2) finalized language and formalized the practice of including a provision in the more significant leases that the lessee provide a 2-year lease renewal notification; and (3) finalized the holdover checklist, which identifies the steps and timeframes to be followed by staff. LMD management also continues to hold monthly meetings to discuss the status of holdovers and those leases assigned to contingent receivables. All of these items were discussed in the November 2010 holdover reduction procedures. As was detailed in the Commission staff’s August response to the Bureau’s report, in August 2010 there were 32 leases in holdover status with annual rent greater than \$10,000. As of today, 24 of these 32 holdover leases (75 percent) have been eliminated with only 8 leases remaining in holdover status with annual rent greater than \$10,000. One lease (Selby Slag) involves an ongoing environmental clean-up obligation and will remain in its holdover status indefinitely.

Another lease (Chevron Estero) is in non-operational caretaker status and should be taken off the holdover list once a determination is made as to its final disposition. Four of the remaining six are expected to go to the Commission for consideration in the next eight months. The GP Gypsum lease is scheduled to be considered by the Commission at its October 27, 2011 meeting. The PG&E pipeline master lease is expected to be considered by the Commission in December 2011, and the NuStar Marine Oil Terminal is expected to be considered in early 2012. The Kinder Morgan pipeline master lease is expected to be considered by the Commission in mid-2012. Staff recently received the applications for the two Tesoro marine oil terminals. With the environmental review and compliance with CEQA required to process these applications, it will likely be a few years before these leases can be considered by the Commission. However, rent reviews were conducted in June 2011 and rent rates and payments are up to date for those two leases. See Exhibits C, D, and E.

2/23/12 Update - As reported in staff's 2011 Audit Action Plan, as of October 2011, 24 of the 32 holdover leases identified in the Bureau's report had been eliminated from holdover status. As mentioned before, of the remaining 8 leases, one lease (Selby Slag) involves an ongoing environmental clean-up obligation and will remain in its holdover status indefinitely. Another lease (Chevron Estero) is in non-operational caretaker status and should be taken off the holdover list once a determination is made as to its final disposition. Staff is waiting for an abandonment plan to be submitted.

Since October 2011, one lease (GP Gypsum) was approved by the Commission on October 27, 2011. The PG&E pipeline master lease was split into six separate leases and was approved by the Commission at its January 26, 2012 meeting. The Final EIR for the Nustar marine oil terminal was finalized in mid-January 2012 and staff anticipates bringing the lease and EIR to the Commission for consideration in March 2012. The Kinder Morgan pipeline master lease is expected to be considered by the Commission in mid-2012. The two remaining holdovers are the Tesoro marine oil terminals (Avon and Amorco). Staff has received applications for these terminals and is initiating the environmental review. Staff anticipates this environmental review will take anywhere from one to two years. Once the environmental review is complete, staff will take the lease and environmental document to the Commission for consideration. Rent reviews for these two leases were conducted in June 2011 and rent rates and payments have been brought up to date.

BSA has determined that this recommendation has been fully implemented.

- 1.3b *To ensure that as few leases as possible go into holdover, the commission should consistently assess the 25 percent penalty on expired leases.*

8/11 Response - Commission staff agrees and has already implemented this recommendation.

10/24/11 Update – Application of the 25 percent increase adjustment has been incorporated in the Holdover process mentioned in the above section.

BSA has determined that this recommendation has been fully implemented.

- 1.4a *To complete its rent reviews promptly and obtain a fair rental amount for its leases, the commission should consistently notify lessees of impending rent reviews or rental increases within established timelines.*

8/11 Response - Commission staff agrees with this recommendation. However, in triaging the total lease workload, a prioritization approach has been implemented for high revenue-generating leases. Additional review and increases could be implemented with additional staff.

10/24/11 Update – Commission staff has continued to develop and refine its rent review process. In late 2010, leases due for rent reviews began being pulled one year in advance as opposed to 9 months in advance. In April 2011, the rent review checklist, which identifies steps and timeframes for staff to adhere to, was updated. These changes have been effective in helping staff complete rent reviews in a timely fashion. Additional staffing has also been requested to accommodate this workload. See Exhibits F, G and N*.

2/23/12 Update – The directive to pull leases due for rent reviews one year in advance has actually caused staff to process these rent reviews too efficiently which has resulted in numerous rent reviews being prepared for Commission consideration prematurely. If rent reviews are conducted too early in the process, the Commission may not be able to take advantage of land valuation changes, updated benchmarks, or Consumer Price Index (CPI) adjustments. In November 2011, staff was directed to only bring rent reviews forward for the Commission’s consideration within a 4-month period prior to the effective date of the rent review. See Exhibit 1.

Staff was also successful in securing Administrative approval of staff augmentations in the Governor’s Budget for fiscal year 2012-13. A total of nine positions have been included in the budget for further consideration by the Legislature. These include five lease compliance positions that will be assigned, among other tasks, to ensure that

current appraisals and benchmarks are available and applied to leases subject to rent review.

- 1.4b *To complete its rent reviews promptly and obtain a fair rental amount for its leases, the commission should establish time standards for each step of the rent review process and ensure that all staff adheres to those time standards.*

8/11 Response - Commission staff will explore this recommendation. Staff has already prioritized the rent review process for high revenue-generating leases.

10/24/11 update – As noted in section D (1) above, such process is now in place. See also Exhibit H.

2/23/12 Update – Commission staff has established time standards for each step of the rent review process. See Exhibit 2. Additional compliance staffing should ensure that these standards are met.

- 1.4c *To complete its rent reviews promptly and obtain a fair rental amount for its leases, the commission should develop a methodology for prioritizing its workload that focuses its staff on managing the higher revenue-generating leases until such time as it addresses its workload needs.*

8/11 Response - Commission staff agrees and has already implemented this recommendation.

10/24/11 Update – LMD management has been prioritizing its workload with an emphasis on high value and significant leases. This started with the Holdover Reduction Plan in April 2010, was refined with the Holdover Reduction Procedure in November 2010 and has continued to be expanded and refined with all the additional actions already described in responses above (see response to C (1)). LMD management also continues to hold monthly holdover reduction meetings aimed at reducing the total number of leases already in holdover and preventing existing leases from going into holdover, with an emphasis in both cases on high value leases. While high-value holdovers, long-term holdovers and contingent receivables are the primary focus, these meetings are not restricted to these categories, but rather discuss all holdovers. Evidence of the success is clear by the reduction of high-value holdovers noted in the Commission’s audit response from 32 to 8. See Exhibit I.

2/23/12 Update – Staff has already been prioritizing higher-revenue generating leases for rent reviews as a general practice. This is evidenced by the fact that 18 (or 27%) of the 66 rent reviews that have gone to Commission over the past 18 months were

“significant” leases with rent in excess of \$10,000 in annual rent. By contrast, “significant” leases only comprise about 11% of the total 984 rent-paying leases. Land Management Division management formalized and clarified this prioritization through a memo sent to staff in February 2012. See Exhibit 3.

- 1.4d *To complete its rent reviews promptly and obtain a fair rental amount for its leases, the commission should conduct rent reviews on each fifth anniversary as specified in the lease agreements or consider including provisions in its leases that allow for the use of other strategies, such as adjusting rents annually using an inflation indicator.*

8/11 Response - Commission staff agrees with this recommendation and will be exploring alternatives that are manageable with existing staff resources available.

10/24/11 Update - Staff continues to move forward with a more expanded use of the consumer price index (CPI) in calculating annual rent revisions. Staff has been and will continue to recommend to the Commission the use of the CPI annually in most high-value commercial use, industrial use, and right-of-way use leases. Staff is also exploring the use of the CPI in lower value leases to assist in streamlining the rent review process. This does not obviate the need for additional staffing, which has also been requested to ensure that 5-year rent reviews and appraisals are completed on schedule.

2/23/12 Update – Commission staff continues to utilize a more expanded use of the Consumer Price Index (CPI). In November 2011, staff consolidated and simplified the CPI process by using the California CPI (a weighted-index of the Los Angeles and Bay Area CPI indices) as the sole index where feasible on a going-forward basis. See Exhibit 4.

- 1.5 *To ensure that it receives rent from the lessee that reflects the approximate value for the State’s property at those times when a lessee disputes a modification to the rental amount after the commission exercises its right to perform a rent review or because the lease expired, the commission should include in its lease agreements a provision that requires lessees to pay the commission’s proposed increased rental amount, which would be deposited into an account within the Special Deposit Fund. The increased rental amounts deposited, plus the corresponding interest accrued in the account, should then be liquidated in accordance with the amount agreed to in the final lease agreement.*

8/11 Response - Commission staff is investigating this recommendation.

10/24/11 Update – In view of the other strategies implemented such as: 1) notifying lessee two years in advance, 2) the option of applying a new appraisal in holdover

situations and 3) enforcing the 25% rental increase clause, the need to place revenues in a separate account should not be necessary.

2/23/12 Update – The aggressive strategies that staff has been implementing should preclude the need for use of a Special Deposit Fund. Rents placed in special deposit funds are not available to the State whereas rent deposited to the General Fund would be. In those rare instances where a rental rate would be reduced, administrative processes are in place to promptly refund the difference from the current revenue stream. Staff sees no advantage to the State in implementing this recommendation as it would likely result in additional costs in staff time that the Commission would have to absorb. Depositing the rents as revenues does not diminish the lessee’s subsequent appeal rights to the Commission.

- 1.6a *To ensure that it is charging rent based on the most current value of its properties, the commission should appraise its properties as frequently as the lease provisions allow—generally every five years.*

8/11 Response - Commission staff agrees with this recommendation as to those specific situations, such as high revenue-generating leases, where the benefits are likely to exceed the costs of preparing such an appraisal.

10/24/11 Update – Additional staff has been requested to ensure adequate resources are available to conduct appraisals on high value leases and ensure that 5-year rent reviews are completed on schedule. Staff is also exploring the use of the CPI in lower value leases to assist in streamlining the rent review process to ensure adequate staff time is available for appraisals and rent reviews on higher value leases.

2/23/12 Update – Staff has been successful in securing Administrative approval of staff augmentations in the Governor’s Budget for fiscal year 2012-13. A total of nine positions have been included in the budget for further consideration by the Legislature. These include five lease compliance positions. Additionally, Commission staff is already using the consolidated California Consumer Price Index on all new significant leases and rent reviews as appropriate. See Exhibit 4.

- 1.6b *To ensure that it is charging rent based on the most current value of its properties, the commission should use the sales comparison method when it establishes values for leases having the greatest revenue potential, and develop policies that specify when and how often it is appropriate to use the other methods of appraising properties. These policies should address the coordination of leasing staff with appraisal staff as part of the process for determining which appraisal method should be used.*

8/11 Response - Commission staff agrees with this recommendation and is currently developing a procedure to implement this recommendation.

10/24/11 Update – The sales comparison approach is commonly used by appraisal staff to establish rent for high value/significant leases (leases having a rent potential of \$10,000 or more per year). LMD management has directed staff to request appraisals for all high value leases. These valuations are the most time consuming and combined with the current staffing of the appraisal unit (one person) are contributing reasons why other appraisals and 5-year rent reviews have been delayed. Additional staff has been requested to accommodate this workload.

2/23/12 Update – To improve the coordination of leasing and appraisal staff, the Land Management Division has reorganized its structure to provide for more direct supervision and management of appraisal staff. In December 2012, management issued a memo revising the appraisal process. See Exhibit 5.

- 1.7a *To ensure that it does not undervalue certain types of leases, the commission should amend its regulations for establishing pipeline rents on state land as staff recommended in the 2010 survey of methods used by agencies in other states to establish pipeline rents.*

8/11 Response - Commission staff agrees with this recommendation and is awaiting input from this audit before moving forward with the extensive regulatory process to implement this change.

10/24/11 Update – Commission staff is moving forward with the regulatory process to thoroughly revise and update § 2003 of Title 2 of the California Code of regulations dealing with rent, including pipeline rents. Commission staff had delayed progress on this action in hopes that the Bureau’s report would provide additional insight and recommendations, but the report only reiterated the information staff provided the Bureau based on staff’s own research and analysis at the time as to how other states were establishing pipeline rents.

2/23/12 Update – Commission staff is continuing to develop its regulation package to update Section 2003 (rent) of the Commission’s regulations.

- 1.7b *To ensure that it does not undervalue certain types of leases, the commission should implement and follow its plan to regularly update its benchmarks for determining rental amounts.*

8/11 Response - Commission staff agrees and has already begun implementing this recommendation.

10/24/11 Update – Staff has updated and consolidated the San Francisco and Marin County Benchmarks (August 2011) and is progressing on the scheduled periodic updates of the other Benchmarks. See Exhibit J.

2/23/12 Update – Staff has made significant progress in updating its benchmarks. The Wingo benchmark was eliminated as it was no longer applicable. The Southern California recreational benchmark and the Huntington Harbour residential benchmark were updated in December 2011. A new Colorado River recreational benchmark was established in January 2012 and staff is working toward establishing a Lake Tahoe residential benchmark. The Black Point residential benchmark is in the process of being finalized and the Lake Tahoe recreational benchmark will be updated in the next four months. The term residential in this context refers to non-water dependent private use of State property. Once the Black Point benchmark is finalized, all existing benchmarks will have been updated within the past 5 years. Exhibits 6a-6c.

- 1.7c *To ensure that it does not undervalue certain types of leases, the commission should periodically analyze whether collecting oil royalties in cash or in kind would maximize revenues to the State, and use that method to collect its oil royalties.*

8/11 Response - Commission staff agrees with this recommendation. The report correctly describes the current practice of receiving its oil royalties in cash. This was a result of an analysis performed by staff from 2002 through 2005, and further supported by subsequent annual spreadsheet analyses of area oil sales supplied by a consultant. The staff analysis, and those subsequent annual reports, showed receiving royalty in crude oil in-kind and then selling the oil through sell-off contracts, was not in the State's best interest. The report, however, asserts that the current practice of receiving cash for royalty oil is based on the "outdated" analysis of 2002-2005 and may not maximize revenue. Although we agree that the analysis is a few years old, the factors and circumstances upon which those conclusions were based have not changed. We do agree however, as recommended in the report, that those previous conclusions should be periodically retested for confirmation. It should be noted that due to significant reductions to the General Fund-supported Mineral Management Division staff (which is tasked with monitoring and managing a program that generated over \$400,000,000 of non-tax revenue to the General Fund in 2010/11) the Commission no longer has the staff resources to accommodate a sell-off program. Should the circumstances indicate that such an effort would be favorable to the State, additional staff resources would be required.

10/24/11 Update – Conditions remain unchanged in Santa Barbara and Huntington Beach which are adverse to such strategy at this time. Staff has reviewed conditions in Santa Barbara and Huntington Beach and has determined little change from the previous analysis and noted if anything conditions are worse. A letter has been sent to the City of Long Beach, as State’s trustee, regarding the possibility of selloff of that oil. They have responded that it would not be in the State’s interest to do so and noted that such action may be a detriment to the State’s net profits. See Exhibit K.

BSA has determined that this recommendation has been fully implemented.

Chapter 2 Recommendations

2.1a *To improve its monitoring of leases, the commission should create and implement a policy, including provisions for supervisory review, to ensure that the information in ALID is complete, accurate, and consistently entered to allow for the retrieval of reliable lease information. To do so, the commission should consult another public lands leasing entity, such as General Services, to obtain best practices for a lease-tracking database.*

8/11 Response - Commission staff agrees and has already implemented portions of this recommendation.

10/24/11 Update – Action has been taken to improve the accuracy and reliability of the data in the ALID system. Staff has been instructed to complete entry of all Commission actions into the system within 60 days of the meetings. All income-producing leases have been verified for data elements relating to rent amounts, rent review dates, lease term, and lease expiration dates. Non-income leases will be verified upon availability of staff to do so. A programmer has been assigned to work with LMD management to develop management reports and ad hoc reporting capability that will allow ready access to data in a form and format that will be useful for decision making. This should ameliorate the need for and use of local data sources. In addition to this, investigations have begun into the availability of off-the-shelf lease/asset management software packages, either commercially available or from other governmental agencies as suggested in the report, that could provide more extensive and flexible reporting and inquiry capabilities. See Exhibit L.

2/23/12 Update – Commission staff continues to strive to complete entry of all Commission actions into the system within 30-days of the Commission meetings. Further, all income-producing leases are being verified for data elements relating to rent amounts, rent review dates, lease term and lease expiration dates. As part of the quality control process, the two staff entering data into ALID verify and validate the other’s data entry. Also, other staff have been assigned to audit and validate the

information in ALID. In the normal course of their work, Land Management Division management review all input and routinely access the database. As inaccuracies are detected, they immediately correct them.

In January 2012, the Chiefs of Administrative and Information Services Division and the Land Management Division participated in a Little Hoover Commission roundtable discussion with numerous other state agencies that manage significant land holdings. Part of the session was devoted to discussing best practices for tracking State properties. The conclusion drawn from this discussion was that all are suffering from the same challenges regarding timeliness, inadequate staffing, accuracy of data, as well as divergent data sources within their organizations. From that brief insight, the Commission staff appears to be ahead of other agencies in database tracking and by far not the worst off.

Investigations into the availability of off-the-shelf lease/asset management software packages that could provide more extensive and flexible reporting and inquiry capabilities are continuing. Staff has also looked at the Bureau of Land Management database documentation and determined that the system appears robust for their needs but it would not be readily transferrable to the Commission staff needs. Further investigations continue.

- 2.1b *To improve its monitoring of leases, the commission should require all of its divisions to use ALID as its one centralized lease-tracking database.*

8/11 Response - The three divisions (Land Management, Accounting and Legal) involved in lease-tracking do use ALID. Staff recognizes that regular management reports from ALID need to be developed to reduce dependency on division lists and spreadsheets tracking similar information.

10/24/11 Update – Improved accuracy and enhanced reporting capabilities as a result of the steps noted above in section A (1) should reduce staff’s need for multiple data sources.

2/23/12 Update – Staff is working to create standard management reports based on ALID which will assist most of the divisions with prioritizing workload. Attached are draft Land Management Division management report templates for tracking rent reviews, insurance, bond and expiring leases. These are being programmed to be made available on-demand. Such ad hoc reporting capability should preclude the need for multiple lists and data sources currently kept by staff because of access to reports from the database and the difficulty in extracting such information. See Exhibit 7.

2.2a *To adequately monitor its revenue-generating oil and gas leases, the commission should track the recoveries and findings identified in its audits and use this information to develop an audit plan that would focus on leases that have historically generated the most revenue and recoveries for the State, as well as those that historically have had the most problems.*

8/11 Response - Commission staff agrees with this recommendation. The report accurately points out the Commission staff's need to plan formalized and scheduled audits. However, it does not recognize that (in addition to responding to specific issues that arise and/or lease assignment audits) the approach used by Commission staff to select/choose potential audits has been risk-based. As such, Commission staff has been selective in assigning its limited resources to audits where identified potential substantial recoveries exist. "Developing" an audit plan could assist in a more structured approach to conducting audits. However, without addressing staffing requirements it is almost certain that Commission staff would not be able to implement any such plan.

10/24/11 Update – A comprehensive audit plan has been developed placing all mineral leases on a rotating audit schedule based on a combination of relevant factors. This proposed plan considers available staffing and will be severely truncated if no new staff resources are made available as indicated in the chart below. A full plan including all leases can only be implemented if adequate staff resources are available to carry out the work. See Exhibit M*.

Mineral Lease	Current Audit cycle (3 Auditors)	Proposed Audit cycle (7 Auditors)
Tidelands Oil Revenues: Long Beach Unit (LBU) & West Wilmington	LBU: 2 yr. period every other year w reduced scope West Wilmington: None	Yearly
High revenue generating oil and gas leases	Only as necessary for Lease Assignments or identified issues	Every 3 - 3 ½ years
LBU major capital investment projects & yearly oil price adjustments	None	Every 3 - 3 ½ years (For major projects, audit will cover multiyear project based costs)
Northern CA gas leases, low revenue generating oil, gas, solid minerals, dredging, geothermal	None - As needed for Lease Assignments or identified issues	Complete one cycle by 2015 and then determine future audit cycle based on risk
Commercial Leases	None – only most egregious high income if discrepancies identified	Perform risk assessment and determine schedule based on risk

2/23/12 Update – Attached is the Mineral Resources Management Division (MRDM) Financial Audit Process – Exhibit 8. Staff has also begun submitting quarterly reports to the Executive Officer on the status of findings for the completed audits as well as the status of the planned audits. See Exhibit 9*. This process will help staff track its findings identified in audits and any associated recoveries.

Staff was also successful in securing Administration approval of staff augmentations in the Governor's Budget for fiscal year 2012-13. A total of nine positions have been included in the budget for further consideration by the Legislature. These include four mineral and land auditors.

- 2.2b *To adequately monitor its revenue-generating oil and gas leases, the commission should work with lessees that entered into a lease with the commission before 1977 to put in place a reasonable time period within which lessees must resolve other types of deduction claims similar to the regulations already in place for dehydration costs.*

8/11 Response - Since 1977 Public Resources Code §6827 prohibits any deductions for treatment, dehydration, or transportation of royalty oil on new leases. Therefore, a regulation as recommended above is not necessary for new leases.

10/24/11 Update – Public Resources Code section 6108 authorizes the Commission to enact and enforce regulations. Additionally, under our current statutory authority, the Commission can amend its oil/gas leases with the lessee's consent. However, the concern with the Commission's oil and gas leases is that most, if not all, leases contain language that requires the lessee to comply with the laws and regulations in effect at the time the lease/contract was entered into. Commission staff believes that there are strong arguments that promulgating lease regulations that may alter the terms of an existing valid contract may not be legally enforceable. However, should regulations be passed, and if the lessee was amenable, the oil/gas lease could be amended by the parties to the lease to state that the lessee must comply with all laws and regulations in effect at the time of the amendment. This opportunity arises and will be used whenever there is a transfer of ownership as a condition of the Commission accepting the transfer.

2/23/12 Update – Commission staff believes that it has fully implemented this recommendation. Staff will continue to work with lessees when the opportunity arises to implement this recommendation where appropriate and when it is in the best interests of the State. A recent example is the lease assignment from Rosetta Resources to Vintage Petroleum on PRC 415e. See Exhibit 10. As a result, all deductions for the lease have been eliminated and a straight royalty based on monthly revenue has been established. In another recent assignment of certain leases by AERA to Occidental Petroleum, Commission staff also examined the option of removing all deductions. Based on staff's evaluation of the benefits of disallowing certain deductions against the favorable sliding scale royalty already in place, the Commission, in accordance with staff's recommendation, determined that it was in the State's best interest to keep the existing royalty agreement without proposing any

modifications. However, as part of that transaction, staff was able to increase bonding levels and secure an annual management fee of \$125,000. See Exhibit 11.

2.2c *To adequately monitor its revenue-generating oil and gas leases, the commission should explore and take advantage of other approaches to fulfill its auditing responsibilities, such as contracting with an outside consulting firm that could conduct some of its audits on a contingency basis.*

8/11 Response - Commission staff agrees to further explore this recommendation. There are concerns regarding civil service rules involving contracting out as well as the use of contingency as the basis for payment in extending this practice beyond this isolated instance.

10/24/11 Update – The above referenced contract has just been awarded for this one-time unique circumstance. Staff is withholding consideration of this approach until completion of the project and a review of its effectiveness can be determined.

2/23/12 Update – The Commission has successfully implemented this recommendation in one situation. See Exhibit 10. This audit is fully funded by Rosetta Resources and the funding was secured with Rosetta during the assignment of the lease to Vintage Petroleum. A contract was finalized on 12/06/2011 with an audit consulting firm to audit Rosetta Resources. The consulting firm began the audit in January 2012 and has successfully developed a comprehensive plan for the full audit. Under the direction and close supervision of the Mineral Resources Management Division (MRMD) Finance Manager and the assigned mineral and land auditor, the consultant is developing the scope of the audit to ensure the audit meets current MRMD scope standards and processes and carry out the audit in accordance with the audit plan. A field/site visit is scheduled for early March to ensure the consultants have a clear understanding of the field operations while performing their analysis.

There are, however, some concerns about broadly implementing this recommendation including:

*** Availability of a source of funding.**

*** Availability of qualified oil and gas audit consultants in the area. The most recent attempt only provided three proposals with only two qualified candidate firms to choose from.**

*** Availability of qualified oil and gas audit consultants in the area who are willing to work on a contingency basis.**

*** Impact of legal negotiations that can result in “settlement and no recovery” on “contingency basis” consulting and the willingness of consultant to agree with possibility of no recovery. A contingency-based contract requiring a payout to the contractor will negate an extremely powerful negotiating tool in seeking concessions on future royalties or ability to change contract terms in the best interests of the State. This could only be rectified by an alternative funding source which does not exist.**

*** Using contracting out as a first alternative to not hiring civil service staff would be in direct violation of Government Code §19130. In the case of the most recent contract, this was an isolated incident, requested and paid for by the lessee, to render services immediately for their best interests and exception in §19130 (10) was applicable, thereby allowing the use of contracted services. Should similar circumstances occur again, a contract could be considered. Audit work is an ongoing responsibility of the State and to routinely contract out would be a clear attempt to avoid civil service appointments. It is the contracting agency’s responsibility to demonstrate to the State Personnel Board why such a transaction is allowable under the statute. Such contracts could be challenged by the either the State Personnel Board or employee unions, which are required to be notified per Government Code §19131.**

2.3 *The commission should establish a monitoring program to ensure that the funds generated from granted lands are expended in accordance with the public trust.*

8/11 Response - Commission staff agrees with this recommendation, however, Commission staff currently lacks the staff resources necessary to establish and implement such a program. There are more than 300 statutes granting public trust lands to approximately 85 local governments throughout the State. These statutory trust grants include some of the State’s most important major contributors to the local, state and national economies, including the Ports of Long Beach, Los Angeles, Oakland, San Francisco and San Diego. The Commission currently has one staff position assigned to overseeing the management of these state lands and revenues by these local entities.

10/24/11 Update – Staff agrees with the report’s recommendation. However, due to the lack of resources, Commission staff has had to take a reactive approach to carrying out its oversight responsibilities by responding to allegations of improper use of lands and funds rather than proactively identifying and preventing misuse through periodic monitoring. Even in this reactive environment, Commission staff is unable to investigate

all allegations. While staff is currently in the process of working with trustees to submit their annual financial reports, as required by Public Resources Code §6306, in a format that readily identifies the trustee's trust fund and details its income and expenditures, the fact that the Commission still only has one dedicated staff position to review these reports, as well as process authorizations for expenditures of trust funds, review project proposals and respond to requests from trustees, the public and the Legislature concerning issues of appropriate uses of trust lands and revenues, prevents this program from functioning effectively. For example, staff have just been notified that one of the state's local trustees has failed to report its expenditures to the Legislature and the Commission for twenty years. This trustee previously was subject to annual audits by the Auditor General until that requirement was eliminated by the Legislature in 1980. Staff has submitted a request for staffing to restore the Commission's statutory trust grant compliance program, which will include implementing a monitoring program and developing and maintaining a close relationship with the trustees to help facilitate the appropriate management of these State trust lands and assets. See Exhibit O*.

2/23/12 Update – As previously reported, staff requested additional positions to implement the Commission's statutory trust grant compliance program, however, that request was not approved. To improve the Commission's monitoring of the management of public trust lands and assets by the State's grantees, staff has requested summaries of the required Comprehensive Annual Financial Reports (CAFR). This is being done to encourage more detailed reporting by grantees and to streamline staff's analysis of the grantees' finances consistent with Public Resources Code §6306. Staff, with its limited resources, is also making every effort to improve outreach to local trustees and continue to assist them with their waterfront revitalization programs.

- 2.4 *To ensure that all of its oil and gas leases have current surety bonds and liability insurance, as required by law and certain lease agreements, the commission should require lessees to provide documentation of their surety bonds and liability insurance. If the commission believes that assessing a monetary penalty will be effective in encouraging lessees to obtain surety bonds or liability insurance, it should seek legislation to provide this authority. Finally, if it obtains this authority, the commission should enforce it.*

8/11 Response - This is already done on the Commission's offshore oil and gas leases and the bondsmen are required to give at least 90 day notice (some are longer) before they can terminate a bond. Further, staff requires that the offshore lessees show

evidence of current bonding and insurance or a replacement bond for any expiring or terminating bond at the annual meetings with all lessees.

10/24/11 Update – While this is not an issue for oil and gas leases as noted above, it is of concern on other surface leases. Staff has met with DGS Office of Risk Management and received some insights in managing insurance certificates. There are firms that provide such a service but further analysis is required to determine if this would be cost effective. Staff is also exploring regulations to give Commission authority to require penalties for non-compliance with insurance and bonding lease requirements. Additional staffing is being requested to enforce this and other compliance issues. See Exhibit N*.

2/23/12 Update – Staff continues to investigate the availability of insurance in the California market. Preliminary results indicate that such policies naming the State as an additional insured are difficult to secure. Additional research is necessary before any legislation assessing a monetary penalty can be proposed. Such research by staff includes consulting with the Department of Insurance, the Legislature and individual insurance brokers and companies.

Chapter 3 Recommendations

3.1.a *To better demonstrate its need for additional staff, the commission should conduct a workload analysis to identify a reasonable workload for its staff and use this analysis to quantify the need for additional staff.*

8/11 Response - Commission staff has and will continue to develop workload analyses and does submit this information in conjunction with requests for additional staffing.

10/24/11 Update – Workload analyses have been conducted regarding the most urgent staffing needs and have been incorporated in requests for additional positions. A broader analysis of needs will be conducted as further programmatic needs are identified. See Exhibits M*, N* and O*.

BSA has determined that this recommendation has been fully implemented.

3.1b *To better demonstrate its need for additional staff, the commission should quantify the monetary benefits of its staff's duties other than processing lease applications, and consider billing lessees for those activities.*

8/11 Response - Commission staff agrees to explore the expansion of lease management fees.

10/24/11 Update – Staff is exploring legislative and regulatory changes necessary to address this issue. Management fees are being incorporated in larger leases to recoup actual costs. A flat management fee based on any other criteria requires further analysis and possible regulatory or statutory authorities.

2/23/12 Update – The Commission has been able to secure a management fee in certain leases. A listing is attached as Exhibit 12. Staff is also conducting a workload analysis to quantify staff duties as part of its foundational research to establish new minimum rent levels. This will be part of the revision of Section 2003 of the California Code of Regulations. The goal in establishing minimum rents based on this methodology is to ensure that most of the lease maintenance costs not currently captured would at least be offset by annual rents and make administration of the leases cost-neutral to the General Fund.

- 3.1c *To better demonstrate its need for additional staff, the commission should ensure that the workload analysis takes into consideration the additional responsibilities and staffing needs that the commission will receive if the section of the state law that provides for rent-free leases is repealed.*

8/11 response - Commission staff has already addressed this issue and additional staffing needs have been identified.

10/24/11 Update – Additional staffing needs were identified in the enrolled bill report for SB 152/ Chapter 585. The increase in workload will be gradual as leases are renewed. Requests will be submitted when needed in the budget years as indicated in that analysis. See Exhibit P.

BSA has determined that this recommendation has been fully implemented.

- 3.2 *To better address current and potential future staffing shortages, as well as the impending loss of institutional knowledge, the commission should create a succession plan.*

8/11 Response - Commission staff agrees with this recommendation and recognizes its value. In fact, all but one of the current division chief positions have turned over in the past two years bringing the need for a succession plan into sharp focus. However, given current budget dynamics regarding hiring freezes, continual staff reductions and limited staff resources, it is difficult to create and implement any such plan.

10/24/11 Update – Commission staff agrees with this recommendation, recognizes its value and will address it in the future, following adoption of its Strategic Plan update.

2/23/12 Update –A draft succession plan has been developed and is attached as Exhibit 13. Staff is also in the process of updating its Strategic Plan and will revise and update the succession plan as appropriate after the Strategic Plan is approved by the Commission.

*Exhibit 9 is a confidential document and is exempt from public disclosure per Government Code §§ 6254.5(e), 6254(k), 6254 (l) and 6255; and Code of Civil Procedure § 2018.

Brown, Dave@SLC

From: Bugsch, Brian@SLC
Sent: Friday, October 14, 2011 9:35 AM
To: LMD
Subject: RE: Rent Reviews

Staff,

Following up on the email below, I wanted to pass on a message from the Executive Officer. He complimented LMD staff on our improved efficiency in getting to rent reviews in a more timely manner. However, at times, we are being too efficient. Now that rent reviews are being pulled 12 months as opposed to 9 months in advance, a few rent reviews are showing up 8-10 months ahead of their renewal. In light of the changing laws and possible regulatory changes, it is best if we do not get too far out in front of new rent terms in case something changes in the intervening months. Consequently, the Executive Officer has decided that we should not take rent reviews to the Commission that are more than 4 months prior to their effective date. Obviously this should be used as a general guideline and there may be situations where exceptions are allowed if the circumstances deem so. We will continue the policy of pulling rent reviews 12 months in advance, you will just need to manage your workload and triage closer to the deadlines. Having the calendar items already complete and ready to go is fine and we can hold them for a subsequent meeting. However, you will need to hold back your final rent calcs and letters to lessees stating the rent amounts until closer to the deadline.

Thanks and keep up the great work.

Brian

From: Brian Bugsch
Sent: Friday, September 23, 2011 4:06 PM
To: LMD
Subject: Rent Reviews

Staff,

I must compliment staff that we are getting caught up on rent reviews and getting to them very quickly these days. It shows that we are getting caught up and on top of our work. We are also in unique times we have not encountered where property values in California are actually dropping in various parts of the State. In light of the BSA audit that we just lived through and continue to respond to, if after the preliminary work on a rent review, you discover that the rent may decline, please bring that item to the attention of your manager, Colin and myself before moving forward with that item. Also, in light of the fact that property values throughout the State are at all-time lows, unless it is in the 'best interest of the State' we might want to wait closer to the anniversary date (within 4 months of anniversary) before doing the rent reviews. Just to let you know, we are discussing different ways to deal with 'continuation of rent' and we are in the process of working on our regs tied to rent (although this process will probably take another year to go through the entire regulatory process). We will keep you posted as things develop.

Thanks and keep up the great work.

Brian

Brown, Dave@SLC

From: Fossum, Curtis@SLC
Sent: Wednesday, October 12, 2011 5:46 PM
To: Bugsch, Brian@SLC; Connor, Colin@SLC
Cc: Kato, Grace@SLC; Hays, Mary@SLC; Lucchesi, Jennifer@SLC
Subject: Rent Continuations and Rent Reviews

I have decided that we should not be taking the subject items to the Commission at meetings that are more than 4 months prior to their effective date. Due to your highly efficient staff there are several items that were scheduled for the October meeting that were more than 8 months before their effective date. I believe that with changing laws and possible regulation changes it behooves us not to get out too far in front of these new rent terms. Having the calendar items already complete and ready to go is fine and we can hold them for a subsequent meeting, but let's triage workload to the items with closer deadlines. Let me know if this causes any problems. Thanks, Curtis

Curtis L. Fossum
Executive Officer
Calif. State Lands Commission
100 Howe Ave., Suite 100 S.
Sacramento, CA 95825-8202
916-574-1800 (office)
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curtis.fossum@slc.ca.gov
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Time Guidelines for Rent Reviews

File No. _____

Lease Anniversary Date _____

Action

Time Frame

Support staff pulls lease file	12 months prior to anniversary date
File forwarded to Team Leader/Manager	Within 7 days of lease file being pulled
File forwarded to Staff Negotiator	Within 7 days of lease file being pulled
Review file and lease document & determine last date that notice of change of rent can be sent (30-60-90 days before lease anniversary date)	10 months prior to anniversary date
Send 1 st notice of rent review	Same as above
Determine if Appraisal needed & submit Appraisal request	Same as above
Preparation of Appraisal	7 months prior to anniversary date
Review Appraisal/Prepare Rent Memo	6 months prior to anniversary date
Send 2 nd notice of rent revision or continuation (with actual amount);	30-60-90 days before anniversary
Send notice of approved rent after Commission meeting	Within 30 days following Commission action

Note: These are time standard guidelines to help Commission staff manage rent reviews and bring them to the Commission in a timely manner. The actions noted above should be completed no later than the corresponding time frames shown. As laid out in previous memos, rent reviews should be taken to Commission for consideration within a 4 month window prior to the effective date of the rent review. Make sure that final rent calculations and notification letters to lessees with new rental amounts correspond to this time window.

MEMORANDUM

To: Land Management Division Staff

Date: February 17, 2012

File: LMD Memos

Via: Brian Bugsch, Chief
Land Management Division

From: Colin Connor, Assistant Chief
Land Management Division

Subject: **Rent Review Prioritization**

As you know, rent reviews are now being initiated 12 months in advance of the lease anniversary. This memo establishes guidelines for prioritizing rent reviews to prevent potential rent increases from being delayed by one or more years.

In assigning and completing rent reviews, first priority is to be given to “significant” leases. For rent review purposes, “significant leases” are defined as:

- (a) leases that generate \$10,000 or more in annual rent (This rental amount is consistent with the amount used in the Holdover Reduction Procedures memo of November 2010); or
- (b) leases that are currently less than \$10,000 in annual rent, but where there is reason to believe that rent could equal or exceed \$10,000 annually upon rent revision;

Second priority is to be given to those leases with the highest rents below the \$10,000 threshold and/or those leases with the longest gaps between rent reviews.

The lowest priority is given to the routine leases with the lowest rents and/or those leases which can be adjusted quickly and easily using a Benchmark appraisal or application of the California Consumer Price Index.

Appraisals should be performed for those rent reviews that are considered first or second level priorities. In most cases, negotiator staff can perform the lowest priority rent reviews with the methods described above.

Management should be consulted if there is a question as to the priority of a rent review. Negotiators shall keep LMD management informed on the status of the first and second priority rent reviews and the expected timing for consideration at a Commission meeting.

Brown, Dave@SLC

From: Bugsch, Brian@SLC
Sent: Tuesday, November 08, 2011 12:53 PM
To: Hays, Mary@SLC; Kato, Grace@SLC; Lee, Ninette@SLC
Cc: Connor, Colin@SLC; Cano, Cindy@SLC; Brown, Dave@SLC; Fossum, Curtis@SLC
Subject: California CPI

Going forward we will be using the California Consumer Price Index as our sole CPI index. This is an index that is published by the California Department of Industrial Relations (<http://www.dir.ca.gov/dlsr/CPI/EntireCCPI.PDF>). They have the index published bi-monthly (every even number month) and the index goes back to 1955. It is a weighted average of the two CPI indexes that we currently use (LA and SF CPI indexes) published by the US Department of Labor, Bureau of Labor Statistics. This should be used for all rent reviews going forward and be used for all negotiated lease language where we have a CPI adjustment incorporated. Also, just for clarification, when we are negotiating CPI language in leases, the CPI adjustment should be automatic and should not require any notification. This simplifies it for both LMD negotiators and accounting. Please inform your staff of these policy changes.

Thanks and keep up the great work.

Brian

MEMORANDUM

To: LMD Staff
Legal Staff

Date: December 12, 2011

Via: Brian Bugsch, Chief, LMD
Colin Connor, Assistant Chief, LMD

From: Mary Hays
Public Land Manager

Subject: Procedure for Requesting Appraisals

The following provides staff with the procedures for requesting an appraisal from the Appraisal Unit. The attached Appraisal Request form must be completed when requesting an appraisal, review of outside appraisal, updating an appraisal, and all other market analysis you are requesting to be performed by the Appraisal Unit. An appraisal will typically be required for a new lease, amendment of lease, rent review, title settlement, land exchange, and boundary line agreement. The Appraisal Request form is located in G:\Lmdforms\FRM_AppraisRequest.docx.

If you are working on an application in an area where a benchmark may be available, please submit an appraisal request in order for the appraisal unit to do research to determine if the use of land values would bring a higher rent. There are times where the rent may be based on two different approaches depending on the improvements and use. Please discuss with your supervisor if you have any questions.

When completing the Appraisal Request form, indicate the estimated completion date and/or Commission meeting deadline. Review the lease provisions to see what notification to Lessee may be needed and ask for completion in time to get appraisal back and make notification deadline. Indicate on the form in the "Comment" section or attach a separate page describing the lease area (size) and what the use and improvements consist of. If the lease area has multiple uses, please identify each with associated land area as several valuations may be needed.

The request form should be accompanied by the lease files and any documentation the appraiser may need in the appraisal process. It is helpful to tag pertinent prior appraisals and rent reviews in the file for the appraisers benefit or provide the rent history in the "Comment" section. For title settlements, please identify the types of property interest in the real property to be appraised (fee simple, public trust), and the purpose of the valuation, along with all pertinent associated documentation.

Please submit all completed Appraisal Requests forms directly to me along with the lease file or other pertinent information related to the request for assigned to an appraiser. There is an inbox titled Appraisal in my office.

Page 2

If the negotiator or counsel believes an appraisal assignment might be complex, prior to finalizing an estimate of overall staff costs and completing the reimbursement agreement, please contact the appraisal unit or myself to provide an estimate of staff costs to complete the appraisal assignment.

If you have any questions, please contact me or your supervisor.

Attachment: Appraisal Request Form

State of California

State Lands Commission

Memorandum

Date: January 18, 2012

To: *PBB* Brian Bugsch, Chief
Land Management Division

From: *JB* Larry Bellucci
Public Land Management Specialist
Appraisal Section, LMD

Subject: Benchmark
General Permit – Recreational Use
Colorado River

As requested, I have prepared a benchmark for recreational use of sovereign land in the Colorado River. This is a new benchmark created by staff of the California State Lands Commission (CSLC). This benchmark follows essentially the same methodology as used in other recreational use benchmarks.

The recommended benchmark is summarized in the following table.

COLOROAD RIVER BENCHMARK SUMMARY	
Benchmark Date	2012
Land Value (Per Acre)	\$70,664
Rental Rate (Per Sq. Ft.)	\$0.146

It should be noted that this research does not constitute an appraisal as defined by either the Uniform Standards of Professional Appraisal Practice (USPAP) or the Appraisal Institute. Rather, this research represents a correlation of a range of market rents into a single annual lease rate to be used as the benchmark for the Colorado River area. The research is intended to be used by CSLC staff in negotiations with lessees.

Introduction

Benchmark rental rates are used by Commission staff in geographic areas where there are a large number of similar facilities that either are already under lease or could potentially come under lease. Benchmarks are intended to provide a level of staff efficiency and consistency in the application of lease rates within the geographic area.

The benchmark rental rate is based on the principle of substitution. If a boat owner did not have the use of a private recreational pier, it is fair to assume that the boat owner would consider renting a berth or slip in a commercial marina because the marina

provides similar utility (i.e., boat dockage, boat storage, and loading and offloading of passengers and recreational equipment).

Scope

The scope of the research included the following:

- Identifying marinas in the Colorado River area.
- Surveying the marinas as to the number of berths/slips, occupancy rate, mooring sizes and rates.
- Compiling the survey results into averages for slip size and rate.
- Using the Layout and Design Guidelines for Marina Berthing Facilities publication (July 2005) from the State Department of Boating and Waterways to determine the amount of submerged land area necessary to accommodate a given berthing size.
- Calculating the annual rental rate(s) using the above information and State valuation guidelines.

A total of ten marinas were identified. Of these, one is a private club and so, does not have berthing rates similar to the public marinas, while two marinas did not return phone calls, nor was adequate information available on-line. As a result, berthing information was obtained from seven marinas and was deemed adequate for use in completing this benchmark. While not inclusive of every marina identified, this survey is believed to be representative of marinas in the study area.

Berth/Slip Rent

The survey found that average berth size was approximately 25 linear feet. Berthing rates are reported on a per lineal foot basis. The berthing rate based on data collected ranged from \$4.50 to \$9.92 per linear foot and had an average of \$6.50 per lineal foot.

The benchmark rental rate for berths is calculated by multiplying the average berth length by the average rental rate. This product is then multiplied by 12 months to arrive at the gross annual income. The gross annual income is multiplied by an annual rate of return of 5% to get the income attributable to the submerged land. The income attributable to the submerged land is then divided by the amount of submerged land needed to accommodate the average berth length within a marina.

The submerged land area needed to accommodate an average berth is found in a publication entitled "Layout and Design Guidelines for Marina Berthing Facilities" published by the State Department of Boating and Waterways. This publication provides formulas and tables for calculating the submerged land area needed to accommodate various sizes and layouts of berths in marinas. Among other variables, the formulas take into account the berth length, berth layout (single vs. double), and the type of vessel (powerboat vs. sailboat). The submerged land area used in this

benchmark analysis is based on a combination of single and double berth layouts for both powerboats and sailboats.

From the tables in the publication, a submerged area of 666 square feet is shown as being necessary to accommodate the 25-foot average slip length. Taking all of the aforementioned inputs into account, the current benchmark rental rate and land value for the Colorado River is calculated as follows:

- Average berth rate: \$6.50/linear foot
- Average Colorado River Area boat length: 25 linear feet
- Submerged land area necessary to accommodate a typical boat slip: 666 sq. ft.
- CSLC administratively set rate of return: nine percent (9%)

$25' \times \$6.50/\text{linear foot} \times 12 \text{ months} = \$1,950$

$\$1,950 \times 5\% \text{ of gross income} = \97.50

$\$97.50 \div 666 \text{ square feet} = \$0.146 \text{ square foot rental rate}$

$\$0.146/\text{square foot} \times 43,560 \text{ square feet} = \$6,359.76 \text{ rent/acre}$

$\$6,359.76 \div 9\% = \$70,664/\text{acre or } \$1.62/\text{square foot value}$

Benchmark Rental Rate = \$0.146 per sq. ft.

Benchmark Land Value = \$70,664 per acre

The indicated benchmark rental rate for the Colorado River area is **\$0.146** per square foot.

Colorado River Marinas							
Name	Address	City	County	Phone Number	Slip Length (LF)	Rental Rate (per LF)	Comments
Pirate Cove Resort	100 Park Moabi Rd	Needles	San Bernardino	760-326-9000	25'	\$8.00	All slips are 25' and cost \$200 per month. Boats over 9.5' wide assigned 2 slips and are charged \$400 per month.
Needles Marina Park	100 Marina Drive	Needles	San Bernardino	760-326-2197	25'	\$5.00	\$20 per day rent is charged. Used data from Havasu Landing Resort & Casino to calculate similar monthly rate.
Havasu Landing Resort & Casino	1 Main	Needles	San Bernardino	760-858-4130	25'	\$5.20	Rent is \$21/day or \$130/mo. Monthly rate is 20.63% (per l.f.) of daily rate.
Topock Marin	14999 Hwy. 95	Topock, AZ	Mohave	928-768-2325	23'	\$4.45	Will use this data to estimate monthly rates for marinas where only daily rate is used.
Lake Havasu Marina	1100 McCullogh Blvd. N	Lake Havasu City, AZ	Mohave	928-855-2159	26'	\$7.50	All slips are \$100 per month. Average length determined to be 22.5 l.f.
London Bridge Resort	1477 Queens Bay	Lake Havasu City, AZ	Mohave	928-855-0888	25'	\$9.92	Rates calculated based on an average of these monthly rates provided by marina operator. 30' = \$220, 26' = \$180 and 20' = \$168
Island Marina	801 Beachcomber Blvd.	Lake Havasu City, AZ	Mohave	928-680-2000	27'	\$5.40	Monthly rate is calculated using the daily rate of \$40, monthly rate percentage from Havasu Landing Resort & Casino, and an average slip length of 25'.
Average					25'	\$6.50	Used a combination of daily rate (\$20.00) and summer (\$180)/winter (\$90) monthly rates to calculate an average.

Update Southern California Benchmark

(General Lease – Recreational Use)

Prepared by:

Larry Bellucci
The Appraisal Section, Land Management Division
California State Lands Commission

Prepared for:

California State Lands Commission
100 Howe Avenue, Suite 100 South
Sacramento, California 95825

Date of Report: December 5, 2011

Memorandum

Date: December 5, 2011

To: Brian Bugsch, Chief *PBB*
Land Management Division

From: Larry Bellucci
Public Land Management Specialist
Appraisal Section, LMD

Subject: Benchmark Update
General Lease – Recreational Use
Southern California

As requested, I have updated the benchmark for General Lease – Recreational Use for Southern California. The benchmark was last updated by staff of the California State Lands Commission (CSLC) in February 2005. The current update follows the same methodology as the prior benchmark. Reference is made to the 2005 study for additional background material that may be needed for the reader to more fully understand what the benchmark is used for and how it is set.

The recommended benchmark is summarized in the following table with the 2005 benchmarks.

BENCHMARK SUMMARY		
Benchmark	2005	2011
Land Value (Per Acre)	\$108,416	\$160,200
Rental Rate (Per Sq. Ft.)	\$0.224	\$0.331

It should be noted that this research does not constitute an appraisal as defined by either the Uniform Standards of Professional Appraisal Practice (USPAP) or the Appraisal Institute. Rather, this research represents a correlation of a range of market rents into a single annual lease rate to be used as the benchmark for Southern California. The research is intended to be used by CSLC staff in negotiations with applicants and lessees.

Introduction

General Lease – Recreational Use leases are typically issued by the California State Lands Commission (CSLC) for private docks and piers and other mooring related facilities. These privately-owned facilities offer many of the same amenities as a commercial marina, such as a place for boat storage or the loading and unloading of equipment and passengers.

Because such privately-owned facilities are a substitute for a commercial marina slip, the method of valuation used in estimating a fair return and a fair rental value in this analysis is based on what an individual would pay for a comparable substitute site in a commercial marina. The real estate principle that this method of valuation is based upon is known as the “Principle of Substitution”.

The principle of substitution states that “when several similar or commensurate commodities, goods, or services are available, the one with the lowest price will attract the greatest demand and widest distribution.”¹

Since a State Lands lease site for a privately-owned pier or dock is a fairly good substitute for a marina slip, the lessee of the State land should pay an equivalent amount for the leased site as the State would receive for leasing the land to a commercial marina.

Scope

The scope of the research included the following:

- Identifying marinas in Southern California.
- Surveying the marinas as to the number of berths/slips, occupancy rate, mooring sizes and rates.
- Compiling the survey results into averages for slip size and rate.
- Using the Layout and Design Guidelines for Marina Berthing Facilities publication (July 2005) from the State Department of Boating and Waterways to determine the amount of submerged land area necessary to accommodate a given berthing size.
- Calculating the annual rental rate(s) using the above information and State valuation guidelines.

A total of 103 marinas in Southern California were identified. Of these, staff collected data from 53. Others either declined to respond or were excluded because these facilities were for the exclusive use of members of the military and had subsidized rates. In addition, the short time frame in which the information was collected precluded staff from surveying more marinas.

¹ The Dictionary of Real Estate, Fourth Edition, page 281, Appraisal Institute, 2002.

The responding marinas reported a total of 16,076 berths or slips, or an average of 303 berths/slips per marina. The average occupancy was reported at 87.5%, a significant decrease from the 97.4% reported in 2005.

Rent for berths and slips is commonly expressed in terms of dollars per linear foot. The survey indicated average rental rates ranging from \$9.25/LF to \$42.00/LF. The lower rents were generally found in marinas in Oxnard and Ventura, Ventura County; Wilmington, Long Beach and San Diego, San Diego County; and San Pedro in Los Angeles County. The highest rents were found in marinas in Newport Beach in Orange County. The average surveyed rent is \$18.09 per linear foot. This represents a 54% increase over the \$11.72/LF used in the 2005 Benchmark Update.

The State Department of Boating and Waterways was contacted to determine if there had been any changes to their 2005 publication entitled "Layout and Design Guidelines for Small Craft and Berthing Facilities". This publication provides tables showing submerged land area needed to accommodate various sized berths. The tables also differentiate between powerboats and sailboats as well as single and double-berth layouts. And while the publication has been updated, the tables have not changed. The survey found that the average size of a berth or slip in Southern California was 36.3 feet. A 35-foot average length was used in the 2005 Benchmark Update. For purposes of this update, the average berth size was rounded down from the surveyed 36.3 linear feet to 36 feet. Based on an even mix of power and sailboats, and single and double-berth layouts, it is estimated that a submerged area of 1,180 square feet is needed to accommodate a 36-foot berth.

Taking all of the aforementioned inputs into account, the current benchmark rental rate and land value are calculated as follows:

36' average berth size x \$18.09/LF avg. berth rate =	\$651.24/berth/month
\$651.24/berth x 12 months =	\$7,814.88/berth/year
\$7,814.88 x 5% of gross income =	\$390.74
\$390.74 ÷ 1,180 sq. ft. =	\$0.331/sq. ft.
BENCHMARK RENTAL RATE =	\$0.331/sq. ft.

\$0.331/sq. ft. x 43,560 sq. ft. =	\$14,418/acre
\$14,418 ÷ 0.09 State mandated rate of return =	\$160,200/acre
BENCHMARK LAND VALUE =	\$160,200/acre

The indicated benchmark rental rate is \$0.331 per square foot. By contrast, the 2005 benchmark was \$0.224 per square foot. The new benchmark therefore represents an overall increase of less than 11 cents (\$0.107) over the 6-year period between the two benchmarks. However, the two benchmarks are not directly comparable. The current benchmark is based on a 36' average berth length and submerged land area of 1,180 square feet while the prior benchmark was based on a 35' average berth length and a submerged land area of 1,100 square feet. The net result is a 48% increase in the rent per square foot between 2005 and the current update.

MARINA SURVEY 2011
Southern California

No.	Name	Address	City	County	Total Berths	Occupancy Rate	Occupied Berths	Average Length	Total Berth LF	Average Rate
1	Bahia Cabrillo Yacht Landing	4200 S. Harbor Blvd.	Oxnard	Ventura	84	66%	55	37.5	3,150	\$15.75
2	Channel Islands Harbor Marina	3650 Harbor Boulevard	Oxnard	Ventura	415	60%	249	38	15,770	\$15.66
3	Peninsula Yacht Anchorage	3700 Peninsula Road	Oxnard	Ventura	362	51%	185	35	12,670	\$13.37
4	Vintage Marina	2950 S. Harbor Blvd.	Oxnard	Ventura	385	70%	270	44.5	17,133	\$15.59
5	Ventura Harbor Village Marina	1583 Spinnaker Drive	Ventura	Ventura	167	70%	117	38	6,346	\$11.74
6	Ventura Isle Marina	1363 Spinnaker Drive	Ventura	Ventura	580	66%	383	38	22,040	\$14.35
7	Ventura West Marina	1198 Navigator Drive	Ventura	Ventura	550	80%	440	35	19,250	\$12.83
8										
9										
10										
19	Cabrillo Way Marina	2800 Milner Street	San Pedro	Los Angeles	340	99%	337	47.9	16,286	\$17.27
20	Holiday Harbor Marina	241 Watchorn Walk, Berth 34	San Pedro	Los Angeles	287	95%	273	36.2	10,389	\$13.57
21	San Pedro Marina	950 Sampson Way	San Pedro	Los Angeles	85	97%	82	45	3,825	\$10.00
22	A Sunroad Resort Marina	955 Harbor Island Dr.	San Diego	San Diego	582	80%	466	41.9	24,386	\$20.11
23	Bay Club Marina	2131 Shelter Island Dr.	San Diego	San Diego	134	100%	134	36.6	4,904	\$17.28
24	Cabrillo Isle Marina	1450 Harbor Island Dr.	San Diego	San Diego	411	60%	247	39.5	16,235	\$21.51
25	Chula Vista Marina & RV Resort	550 Marina Parkway	Chula Vista	San Diego	531	70%	372	35.5	18,851	\$13.67
26	Glorietta Bay Marina	1715 Strand Way	Coronado	San Diego	100	100%	100	37.8	3,780	\$17.74
27	Harbor Island West Marina	2040 Harbor Island Drive	San Diego	San Diego	577	80%	462	36.7	21,176	\$16.70
28	Marina Cortez	1880 Harbor Island Drive	San Diego	San Diego	477	80%	382	38.1	18,174	\$16.85
29	Marrlott Marina	333 West Harbor Drive	San Diego	San Diego	405	100%	405	44.3	17,942	\$21.44
30	Shelter Cove Marina	2240 Shelter Island Drive	San Diego	San Diego	149	82%	122	38	5,662	\$18.43
31	Shelter Island Marina	2071 Shelter Island Drive	San Diego	San Diego	188	94%	177	46.2	8,686	\$21.10
32	Sun Harbor Marina	5104 N. Harbor Drive	San Diego	San Diego	94	96%	90	44.9	4,221	\$17.03
33	Campland on the Bay	2211 Pacific Beach Drive	San Diego	San Diego	120	90%	108	25	3,000	\$11.63
34	Driscoll Marina	1500 Quivira Way	San Diego	San Diego	170	95%	162	37.3	6,341	\$11.44
35	Marina Village Marina	1936 Quivira Way	San Diego	San Diego	497	89%	442	30.4	15,109	\$12.40
36	Sea World Marina	1660 South Shores Road	San Diego	San Diego	208	90%	187	26	5,408	\$10.50
37	Seaforth Marina	1677 Quivira Road	San Diego	San Diego	232	96%	223	33.9	7,865	\$11.91
38	Oceanside Harbor	1540 Harbor Drive North	Oceanside	San Diego	783	100%	783	32.1	25,134	\$11.86
39	Dana West Marina	24500 Dana Point Harbor Drive	Dana Point	Orange	980	93%	911	28.5	27,930	\$16.10
40	Newport Dunes Resort Marina	101 North Bayside Drive	Newport Beach	Orange	450	92%	414	33	14,850	\$29.00
41	Davenport Marina	4052 Davenport Drive	Huntington Beach	Orange	65	95%	62	29	1,885	\$12.50
42	Harbor Marina	3335 West Coast Highway	Newport Beach	Orange	52	96%	50	40	2,080	\$37.50
43	Swales Anchorage	2888 Bayside Drive	Newport Beach	Orange	56	100%	56	34	1,904	\$17.50
44	Lido Marina Village	3400 Via Oporto #14	Newport Beach	Orange	75	92%	69	52	3,900	\$42.00
45	Bayside Marina	101 Shipyard Way, St. G	Newport Beach	Orange	134	98%	131	40	5,360	\$35.00
46	Villa Cove Marina	101 Shipyard Way, St. G	Newport Beach	Orange	42	98%	41	35	1,470	\$31.50
47	Balboa Marina	101 Shipyard Way, St. G	Newport Beach	Orange	132	98%	129	35	4,620	\$34.00
48	Bayside Marina	101 Shipyard Way, St. G	Newport Beach	Orange	102	98%	100	40	4,080	\$37.53
49	Lido Yacht Anchorage	101 Shipyard Way, St. G	Newport Beach	Orange	251	100%	251	40	10,040	\$40.00
50	DeAnza Bayside Marina	300 East Coast Highway	Newport Beach	Orange	219	80%	175	30	6,570	\$24.00
51	Balboa Yacht Basin	829 Harbor Island Drive	Newport Beach	Orange	172	100%	172	37	6,364	\$24.03
52	Dana Point Marina Company	34555 Castias Place	Dana Point	Orange	1,365	98%	1,338	30	40,950	\$16.77

MARINA SURVEY 2011
 Southern California

No.	Name	Address	City	County	Total Berths	Occupancy Rate	Occupied Berths	Average Length	Total LF	Average Rate
53	Peter's Landing Marina	16400 PCH St. 108	Huntington Beach	Orange	325	94%	306	36.5	11,863	\$14.00
<u>Totals</u>					13,333	69.6%	11,456	29.4	477,596	\$15.53

State of California

State Lands Commission

Memorandum

Date: December 9, 2011

File: PRC N/A

To: Brian Bugsch *RBB*
Chief, Land Management Division
Land Management Division

From: Larry Bellucci
Public Land Management Specialist
Appraisal Section, LMD

Subject: Fair market rent for private decks extending beyond the bulkhead line in
Huntington Harbour, Orange County, California

As requested, I have conducted research relevant to establishing the fair market rent for private decks extending beyond the bulkhead line in the Huntington Harbour area of the City of Huntington Beach, Orange County, California. The decks which are the subject of this research are being built so as to extend out past the bulkhead and over the water into the Public Trust area. These decks essentially form extensions of the usable area of the adjoining residential lots. Due to the exclusive private use of the decks by the property owners, rent must be charged for the use of the underlying Public Trust area.

The basis of the research is estimating the market value of the adjoining residential land. However, because the decks extend beyond the bulkhead and out over water, the value of the leased area is something less than the value of the upland area. In other words, the decks do contribute towards the overall value of the property, but not to the same extent as the upland. Therefore, the annual rent is based on the *contributory value* of the deck area to the overall property value. The contributory value concept is explained in more detail hereinafter. The contributory value is then used as the basis for the annual rent, which, as stipulated in State leasing guidelines, is based on a 9% rate of return on the market value of the land.

It should be noted that this research does not constitute an appraisal of a specific property as defined by either the Uniform Standards of Professional Appraisal Practice (USPAP) or the Appraisal Institute. Rather, this research is an attempt to provide a general range of land value to be used as the basis for establishing annual lease rates. The research is intended to be used by California State Lands Commission staff in negotiations with applicants and lessees.

HUNTINGTON HARBOUR MEMO (continued)

Introduction

Huntington Harbour is an exclusive waterfront development located in the City of Huntington Beach in northwestern Orange County. The development is predominantly single family residential in nature and consists of several man-made islands and peninsulas situated around a series of channels. The islands and peninsulas have been developed with high-end waterfront homes, many of which have boat docks.

The development was originally designed by the Huntington Harbour Corporation in the early 1960s. It was created by dredging and filling the sloughs and marshlands lying in and around Sunset Bay. Prior to commencement of the project, the developer entered into two agreements (Boundary Line Agreement 18 and Sovereign Lands Location 34) with the State Lands Commission. From these agreements, the State Lands Commission retained fee ownership of the Main and Midway Channels, while most of the remaining water-covered and land areas were fee-owned by the Huntington Harbour Corporation.

Methodology

The Public Resources Code authorizes the California State Lands Commission to set the annual rent at 9% of the appraised land value. In this case, the land to be leased is the submerged land beyond the bulkhead. Since there is not an active real estate market for submerged land, the basis for the annual market rent is the adjoining upland property. The market value of the adjoining upland is typically estimated through use of the Sales Comparison Approach to value. In this approach, recent sales and current listings of similar properties are compared to the subject on the basis of pertinent factors such as location, size, shape, etc. An indication of value is then concluded based on a comparative analysis of these factors.

Based on the single family residential nature of the upland property, a search was made for recent sales of vacant lots in the Huntington Harbour area. However, due to its built-up nature, no comparable sales of vacant lots were found in the area. Rather than use comparable sales from outside the area, which would necessitate adjustments for location, a residual technique is employed. In this analysis, residential land values are extracted from recent sales of single family houses in the Huntington Harbour area through use of the improvement percentage assigned by the Orange County Assessor's Office. For instance, if a house sold for \$1,000,000 and had an improvement percentage of 40%, then the allocated value of the land is 60%, or \$600,000. For analysis purposes, the unit of comparison used is the price per square foot of land area.

From the residual analysis, the market value of the upland property can be estimated. Since the decks are essentially extensions of the usable upland lots, annual rent is based on the upland value. However, it is recognized that because the deck area is over water the value of the deck area is not the same as the upland area. Thus, while contributing to the overall value of the upland property, the deck areas do not share the

HUNTINGTON HARBOUR MEMO (continued)

same unit value as the upland property. This concept is known as contributory value. It is defined as:

The concept that the value of a particular component is measured in terms of its contribution to the value of the whole property, or as the amount that its absence would detract from the value of the whole.¹

The factors that typically influence the contributory value include:

- 1) Physical characteristics (e.g., size, shape, location)
- 2) Potential for economic use
- 3) Provide an amenity
- 4) Provide protection (e.g., beach erosion, bluff stabilization, etc.)
- 5) Provide additional development entitlements for upland property

Generally speaking, the greater the number of positive attributes, the higher the contributory value will be. In contrast, the fewer the number of attributes, or the more pronounced the negative factors are, then the lower the contributory value will be.

Therefore, in summary, the method of valuation used first involves estimating the market value of the upland residential lots. After concluding a reasonable unit value for the upland property, the contributory effect of the private deck (i.e., the underlying submerged land) on the market value of the larger parcel is determined. The contribution is typically measured as either a percentage of the concluded unit value or as a percentage of the total value. The percentage is then applied to the market value of the upland property to arrive at the contributory value of the private deck.

Market Value of Upland Property

Summarized in the following table are the pertinent details of 19 sales of single family homes in the Huntington Harbour development. The sales took place between January 2010 and December 2011. The lot sizes range from 1,428 to 9,600 square feet, with a mean of 5,078 square feet.

The sale prices for the improved properties ranged from a low of \$800,000 to a high of \$3,390,000, with a mean of \$1,605,158. According to the Assessor's allocations, the value of the land in these transactions accounted for between 20.01% and 88.3% of the total price. Based on these percentages, the value of the unimproved land lies between \$68 and \$389 per square foot. The mean unit value is \$230 per square foot, while the median is \$243 per square foot. Based on the data gathered, a range of **\$230 to \$240** per square foot is concluded as reasonable for the upland residential property.

Market Value of Upland Property

\$230 to \$240 per square foot

¹ Dictionary of Real Estate Appraisal, Third Edition, page 76.

Contributory Value of Submerged Land

The submerged land contributes to the overall value of the upland property by providing additional usable lot area and a visual amenity. However, the additional area can only be used for recreation or enjoyment; it does not permit the property owners to develop additional building area on their lot. Taking these factors into consideration, the question then becomes what is the extent of the contributory value of the submerged land on the upland property.

In prior research, the appraisal staff of the California State Lands Commission found that the contributory value of limited use parcels purchased by adjoining land owners ranged from 7% to 36% of the value of the adjoining land. This research involved strip and remnant parcels purchased by adjoining residential property owners in the City of La Jolla, San Diego County.

Overall, the submerged land is deemed to provide substantial benefits to the upland property. Accordingly, a contributory value near the upper end of the indicated range is considered appropriate. A contributory value of 25% of the indicated upland value range is therefore concluded for the submerged land. On a per unit basis, the market value of the submerged land ranges from \$57.50 to \$60.00 per square foot.²

Market Value of Submerged Land **\$57.50 to \$60.00** per square foot

HUNTINGTON HARBOUR BENCHMARK SUMMARY	
2004 Rental Rate (Per SF)	\$45.00 - \$50.00
2011 Rental Rate (Per SF)	\$57.50 - \$60.00

² Calculated as \$230/SF x 0.25 = \$57.50 per square foot and \$240/SF x 0.25 = \$60.00 per square foot.

COMPARABLE LAND SALES TABLE
Huntington Harbour

Sale No.	Location	1	2	3	4
	4071 Figaro Circle		3476 Windspun Drive	3552 Courtside Circle	10 Figaro Circle
City	Huntington Beach	Huntington Beach	Huntington Beach	Huntington Beach	Huntington Beach
County	Orange	Orange	Orange	Orange	Orange
APN	178-363-22	178-702-27	178-652-14	434-281-21	
Recording Date	09/29/2011	09/21/2011	07/19/2011	06/10/2011	
Document No.	484344	466783	348500	286020	
Grantor	Shapiro, Leonard Trust	Holdaway, Glenn R. & Grace L.	Aho, Christopher J.	Jhee, Alan & Hena	
Grantee	Long, Claudine D. & Michael T.	Townslay J & J Family 2002 Trust	Souza, Anthony & Diana C.	Rashtid, Mehdi & Nazanin	
Parcel Size (SF)	5,300	1,428	9,600	6,715	
Parcel Size (Acres)	0.12	0.03	0.22	0.15	
Zoning District	Residential	Residential	Residential	Residential	
Shape	Rectangular	Rectangular	Rectangular	Rectangular	
Topography	Level	Level	Level	Level	
Public Utilities	Available	Available	Available	Available	
Sale Price	\$2,109,500	\$815,000	\$2,475,000	\$825,000	
Allocated Land Value	\$422,111	\$555,015	\$2,123,303	\$457,793	
Price Per SF	\$80.00	\$389.00	\$221.00	\$68.00	

Value Indications:

Low - \$68
High - \$389
Mean - \$230

COMPARABLE LAND SALES TABLE
Huntington Harbour

Sale No.	Location	City	County	APN	Recording Date	Document No.	Grantor	Grantee	Parcel Size (SF)	Parcel Size (Acres)	Zoning District	Shape	Topography	Public Utilities	Sale Price	Allocated Land Value	Price Per SF
5	16751 Coral Cay Lane	Huntington Beach	Orange	178-562-07	05/02/2011	220455	Hagan Family Trust	Lee, StevenLee, Kevin	6,380	0.15	Residential	Rectangular	Level	Available	\$2,050,000	\$1,396,255	\$219.00
6	3596 Windspun Drive	Huntington Beach	Orange	178-701-04	04/02/2011	184406	Duncan, Donald A.	Goodrich, Bradford H. & Sheri L.	2,182	0.05	Residential	Rectangular	Level	Available	\$915,000	\$640,134	\$293.00
7	16442 Barnstable Circle	Huntington Beach	Orange	178-062-17	12/17/2010	697361	Wells Fargo Bank NA	Nguyen, Nadine	5,000	0.11	Residential	Rectangular	Level	Available	\$1,950,000	\$1,400,855	\$280
8	3165 Portofino Circle	Huntington Beach	Orange	178-791-21	12/06/2010	654978	Cuhna, Joseph W. & Cheryl	Melroy, William E. & Marissa A.	4,590	0.11	Residential	Rectangular	Level	Available	\$1,325,000	\$719,475	\$157
9	3171 Portofino Circle	Huntington Beach	Orange	178-791-20	11/08/2010	592252	Wolfram, Patricia	Tran, Tu	4,590	0.11	Residential	Rectangular	Level	Available	\$1,315,000	\$667,899	\$146

Value Indications:

Low - \$68
High - \$389
Mean - \$230

COMPARABLE LAND SALES TABLE
Huntington Harbour

Sale No.	10
Location	16421 Barnstable Circle
City	Huntington Beach
County	Orange
APN	178-062-05
Recording Date	10/19/2010
Document No.	548308
Grantor	Mohr, Curtis D. & Valerie R.
Grantee	Silberman, Scott D.
Parcel Size (SF)	5,000
Parcel Size (Acres)	0.11
Zoning District	Residential
Shape	Rectangular
Topography	Level
Public Utilities	Available
Sale Price	\$1,850,000
Allocated Land Value	\$1,452,620
Price Per SF	\$291

Value Indications:

Low - \$68

High - \$389

Mean - \$230

COMPARABLE LAND SALES TABLE
Huntington Harbour

Sale No.	11	12	13	14
Location	16752 Coral Cay Lane	16422 Barnstable Circle	4051 Figaro Circle	4052 Diablo Circle
City	Huntington Beach	Huntington Beach	Huntington Beach	Huntington Beach
County	Orange	Orange	Orange	Orange
APN	178-652-39	178-062-19	178-363-24	178-363-51
Recording Date	09/09/2010	07/19/2010	07/09/2010	06/22/2010
Document No.	446165	340394	324602	293848
Grantor	Makler, Stuart & Mary	Nguyen, Thong	Lenardson, Jeffrey S. & Darcy	Paul Family Trust
Grantee	Bacon M&KL Family Trust	Yulinta, Uding	Ho, Tony C. & Melody R.	Rosentail, Joseph & Amy
Parcel Size (SF)	7,800	5,124	5,300	5,049
Parcel Size (Acres)	0.18	0.12	0.12	0.12
Zoning District	Residential	Residential	Residential	Residential
Shape	Rectangular	Rectangular	Rectangular	Rectangular
Topography	Level	Level	Level	Level
Public Utilities	Available	Available	Available	Available
Sale Price	\$3,390,000	\$1,223,500	\$1,670,000	\$1,400,000
Allocated Land Value	\$2,409,951	\$1,069,951	\$1,287,737	\$1,119,300
Price Per SF	\$309	\$209	\$243	\$222

Value Indications:

Low - \$68
High - \$389
Mean - \$230

COMPARABLE LAND SALES TABLE
Huntington Harbour

Sale No.	15	16	17	18	19
Location	3506 Bravata Drive	16972 Ensign Circle	3561 Courtside Circle	16711 Edgewater Lane	3571 Windspun Drive
City	Huntington Beach	Huntington Beach	Huntington Beach	Huntington Beach	Huntington Beach
County	Orange	Orange	Orange	Orange	Orange
APN	178-703-15	178-053-41	178-652-23	178-983-20	178-701-24
Recording Date	06/17/2010	06/01/2010	03/26/2010	01/14/2011	01/14/2010
Document No.	284628	256405	141794	21045	21222
Grantor	Benjamin LR 2009 Trust Nguyen, Trinh	Preston, Robert L. & Carrie Freer, Lynn	Zarrilli LW 1993 Trust Elias, Ramy N. & Dina	Shannon Family Trust Horn, Ronald L. & Glory M.	Porter Family Trust Dinkel, Milton L. & Leslie B.
Grantee					
Parcel Size (SF)	2,932	5,000	7,080	5,000	2,402
Parcel Size (Acres)	0.07	0.11	0.16	0.11	0.06
Zoning District	Residential	Residential	Residential	Residential	Residential
Shape	Generally Rectangular	Rectangular	Rectangular	Rectangular	Rectangular
Topography	Level	Level	Level	Level	Level
Public Utilities	Available	Available	Available	Available	Available
Sale Price	\$800,000	\$1,460,000	\$2,250,000	\$1,800,000	\$875,000
Allocated Land Value	\$437,120	\$1,299,764	\$1,809,225	\$1,526,760	\$644,263
Price Per SF	\$150	\$258	\$256	\$305	\$268

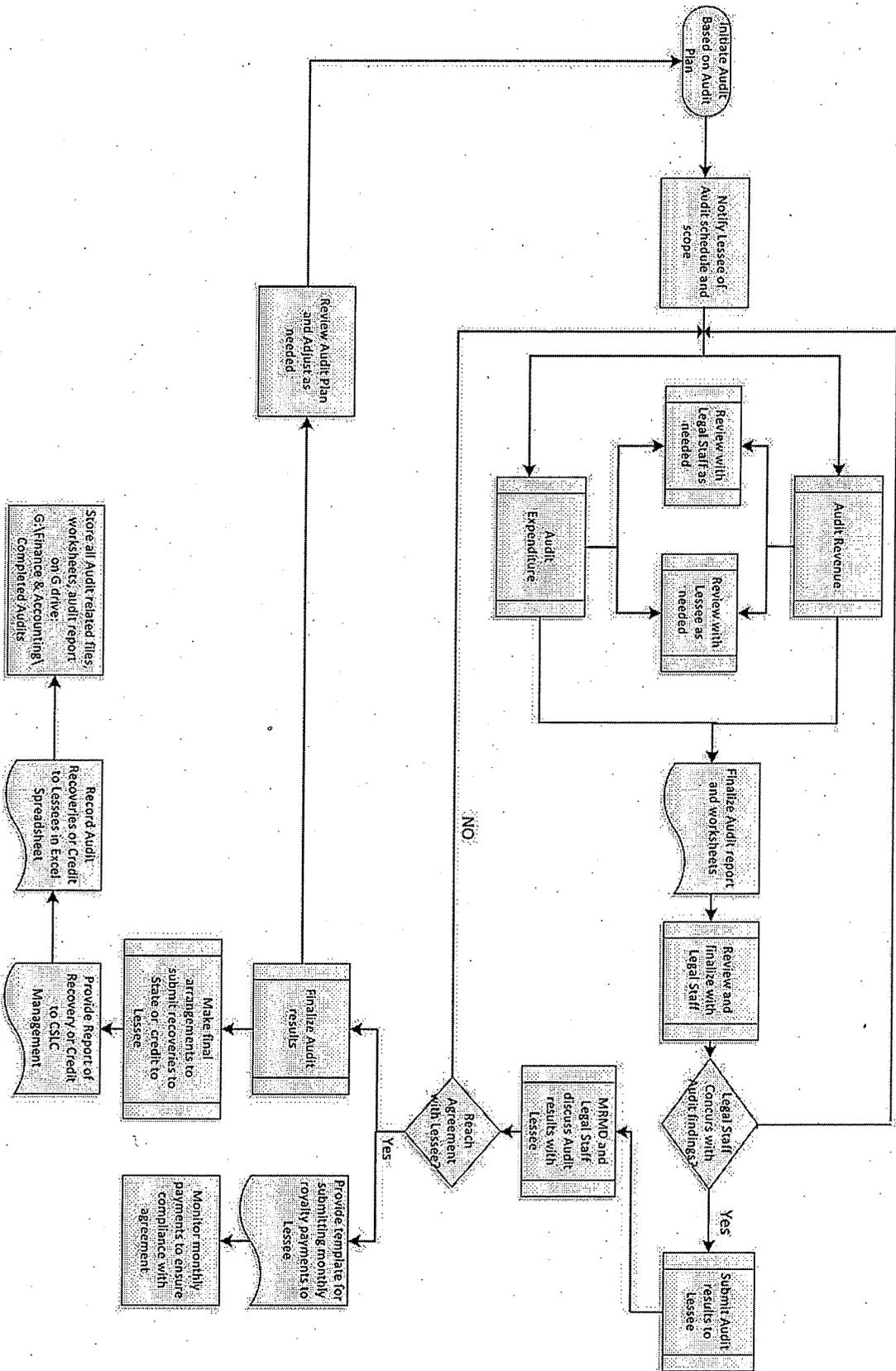
Value Indications:

Low - \$68
High - \$339
Mean - \$230

Exhibit 7

Management Report Templates

Exhibit 1
MRMD Financial Audit Process



**CALENDAR ITEM
C130**

A 8, 11, 15

06/23/2011
PRC E-415.1
M. Le Clair
J. Planck

S 2, 5 7

**CONSIDER APPROVAL OF A LEASE AMENDMENT AND ASSIGNMENT,
AS PROVIDED FOR IN THE ASSIGNMENT CONSENT AGREEMENT, FROM
ROSETTA RESOURCES OPERATING LP'S 100 PERCENT INTEREST IN
OIL AND GAS LEASE NO. PRC E-415.1 TO VINTAGE PETROLEUM, LLC,
RIO VISTA GAS FIELD, CONTRA COSTA, SAN JOAQUIN,
SACRAMENTO AND SOLANO COUNTIES**

ASSIGNOR:

Rosetta Resources Operating LP
Attn.: Mr. Michael J. Rosinski
717 Texas, Suite 2800
Houston, TX 77002

ASSIGNEE:

Vintage Petroleum, LLC
Attn.: Mr. Michael D. Gooding
9600 Ming Avenue, Suite 300
Bakersfield, CA 93311

AREA, LAND TYPE, AND LOCATION:

Oil and Gas Lease No. PRC E-415.1 contains approximately 2,827 acres, more or less, of State land that encompasses portions of the beds of the Sacramento, San Joaquin, Mokelumne, Old, and False Rivers and other tide and submerged lands within the area designated by Agreement for Easement No. 415 dated June 3, 1940 (Location Map attached as Exhibit A).

BACKGROUND:

Agreement for Easement No. 415 was issued to Standard Oil Company of California ("Standard," presently Chevron Corporation) on June 3, 1940. On December 20, 1963, the California State Lands Commission (Commission)

CALENDAR ITEM NO. **C130** (CONT'D)

approved Standard's request for a new lease designated as PRC E-415.1 (Lease) in exchange for Agreement for Easement No. 415. Calpine Corporation eventually succeeded to the lessee's interest under the Lease. Calpine and its affiliated entities entered into a Purchase and Sale Agreement (PSA) dated July 7, 2005, with Rosetta Resources, Inc. and its affiliates. The Commission approved the assignment of, and amendment to, the lease to Rosetta Resources Operating LP (Rosetta), a Delaware limited partnership on October 30, 2007. On February 24, 2011, Rosetta entered into a Purchase and Sale Agreement with Vintage Petroleum, LLC (Vintage), a Delaware limited liability corporation, and subsidiary of Occidental Petroleum Corporation, for all of its California assets including Lease No. PRC E-415.1.

Commission staff received a letter dated March 1, 2011, containing an application for Commission approval of the assignment of Rosetta's interest in the Lease to Vintage. As part of the assignment review process, staff performed a financial review of Vintage's assets to ensure its performance of the terms of the Lease. Staff determined that, in addition to a performance bond, Vintage's parent, Occidental Oil and Gas Holding Corporation (OOGHC), a California Corporation, would be required to sign a parental guarantee (in a form substantially similar to that set forth in Exhibit C) and take financial responsibility for the Lease obligations.

Staff determined that the original 1940 easement as amended by the current Lease entered into on December 20, 1963, and by an amendment entered into on October 30, 2007, should be further amended to provide additional protection of the State's interests in the leased lands. Staff also believes that verification of the accuracy of the cost allocations within the complex net profits provisions had become too expensive and too burdensome to manage.

The parties agreed that changing the existing 30 percent royalty plus a percentage of net profits to a flat royalty would be mutually beneficial, provided that the State would remain whole. In furtherance of that goal, staff and Vintage agreed to amend the Lease to provide for a flat royalty rate of 35 percent of the production of gas substances from the State's interest in all wells in the Rio Vista Gas Unit (RVGU), which is contained within the lease boundary, and from all current non-unit wells within State sovereign land below the RVGU, for the remaining economic life of the Lease. Staff and Vintage also agreed to a flat 25 percent royalty on gas substances produced from new wells drilled outside the boundaries of, or below, the RVGU into State sovereign land. These are the highest royalty rates in the area.

CALENDAR ITEM NO. **C130** (CONT'D)

The amendments and agreements between the parties are contained in the Assignment Consent Agreement on file with the Commission in a form substantially similar to the document attached as Exhibit B.

Some of the more significant new terms are:

1. Changing the current fixed royalty rate plus net profits to a higher fixed royalty rate;
2. A requirement that Vintage develop offset wells to protect State lands from drainage or, alternatively, provide a compensatory royalty for any drainage that is occurring. Vintage is, under certain circumstance, to quitclaim particular areas the Lease so that the State may enter into a lease with the other operators;
3. A requirement that Vintage provide compensation for any well it drills through State land that does not produce from the State land (known as a "pass-through" provision);
4. An increase in the rental rate for the leased land, the bond and the insurance provisions, with a five-year review of each of these terms;
5. A requirement that Vintage, within three years of the date of the approval of the assignment, provide to the State a development plan and a description of all the surface leases Vintage has or will acquire and quitclaim any land it does not intend or have the ability to develop, and that it develop or quitclaim three distinct non-unit areas within the lease boundaries;
6. A requirement that Vintage adhere to all current regulations and any regulations promulgated during the remaining life of the Lease; and
7. A requirement that Vintage submit an annual report of Lease activity and projection for the continued development of the Lease.

Having a flat royalty rate instead of the current complicated net profits arrangement, which has resulted in payment of only the minimum 30 percent

CALENDAR ITEM NO. **C130** (CONT'D)

royalty since 2006, will simplify the accounting and auditing functions associated with the Lease.

Staff and Vintage have also agreed to increase the bonding requirement from the current amount of \$1.5 million to \$2.0 million. The rental rate for the 2,827 acres will increase from the \$1,500 annual rental that is credited against subsequent royalties to a minimum annual rental of \$20.00 per acre (amounting to \$56,540.00), which will be in addition to any royalties. Both the bond amount and the annual rental are subject to review every five years.

In order to protect the State's resources from drainage and to allow leasing to other operators, staff has also added to the lease a term which would require the lessee to review and identify its surface holdings and a development plan within the boundaries of the lease within 36 months. Vintage will be required to quitclaim back to the State any sovereign land that is not included as part of the development plan, or in which it cannot protect the State's interest, so that the State may lease these areas to other interested parties.

STATUTORY AND OTHER REFERENCES:

- A. Section 2 (o) and Section 8 of the Lease.
- B. Public Resources Code section 6804

OTHER PERTINENT INFORMATION

1. Pursuant to the Commission's delegation of authority and State CEQA Guidelines [Title 14, California Code of Regulations, section 15060(c)(3)], the staff has determined that this activity is not subject to the provisions of CEQA because it is not a "project" as defined by CEQA and State CEQA Guidelines.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060 (c)(3) and 15378.

2. Assignment forms have been provided and prerequisite filing fees have been paid by Rosetta.
3. This activity involves lands identified as possessing significant environmental values pursuant to Public Resources Code section 6370 et seq., but such activity will not affect those significant lands.

CALENDAR ITEM NO. **C130** (CONT'D)

4. Upon approval of the transfer, Lease No. PRC E-415.1 shall be amended pursuant to the Assignment Consent Agreement in a form and substantially similar to the document attached as Exhibit B.
5. Performance bonds totaling \$2.0 million are on file at the Commission's Long Beach office.
6. Occidental Oil and Gas Holding Corporation has executed an irrevocable and unconditional guaranty of Vintage Petroleum, LLC's performance of the terms of the Lease. Occidental Oil and Gas Holding Corporation has submitted corporate and financial data which were reviewed by Commission staff. Based on the results of the reviews and the fact that Occidental Oil and Gas Holding Corporation has other entities with leases with the State, Commission staff has determined that Occidental Oil and Gas Holding Corporation possesses the financial resources to meet the requirements and obligations under the terms of Lease No. PRC E-415.1
7. Staff will conduct an exit audit to ensure that all amounts due from the prior lessee, Rosetta, have been paid. Rosetta has agreed to increase its lease performance bond to four million dollars in order to secure payment of any amount found by the audit to be owed to the State. In addition, Rosetta has agreed to pay up to one hundred and fifty thousand dollars of the State's audit costs.

EXHIBITS:

- A. Location Map
- B. Proposed Assignment Consent Agreement
- C. Proposed "Parental" Guarantee of Occidental Oil and Gas Holding Corporation

PERMIT STREAMLINING ACT DEADLINE:

N/A

RECOMMENDED ACTION:

It is recommended that the Commission:

CEQA FINDING:

1. Find that the activity is not subject to the requirements of the CEQA pursuant to Title 14, California Code Of Regulations, Section 15060(C)(3) because the activity is not a project as defined by

CALENDAR ITEM NO. **C130** (CONT'D)

Public Resources Code Section 21065 and Title 14, California Code Of Regulations, Section 15378.

2. Find that this activity is consistent with the use classification designated by the Commission for land pursuant to Public Resources Code Sections 6370, et seq.

AUTHORIZATION:

1. Approve the Assignment Consent Agreement of Oil and Gas Lease No. PRC E-415.1, in a form substantially similar to that set forth in Exhibit B of this calendar item.
2. Approve the Parental Guarantee of Occidental Oil and Gas Holding Corporation, in a form substantially similar to that set forth in Exhibit C of this calendar item.
3. Consent to the assignment of 100 percent interest in Oil and Gas Lease No. PRC E-415.1 from Rosetta Resources Operating LP to Vintage Petroleum, LLC, effective upon execution of all implementing documents, with the assignee to be bound by all the terms and conditions of the Lease as amended.
4. Authorize the Executive Officer or his designee to execute any documents necessary to implement this assignment .

**CALENDAR ITEM
C53**

A 67

10/27/11

PRC 91, PRC 163, PRC E392
PRC E400, PRC E401, PRC 425
PRC 426, PRC 919, PRC 920
PRC 977, PRC 980, PRC 983
PRC 985, PRC 986, PRC 989
PRC 997, PRC 999, PRC 1329
PRC 1331, PRC 1332, PRC 1333
PRC 1334, PRC 1336, PRC 1337
PRC 1340, PRC 1345, PRC 4736
PRC 4887, PRC 5663

S 35

M. Le Clair
J. L. Smith

CONSIDER APPROVAL OF:

- 1) A LEASE AMENDMENT AND ASSIGNMENT OF 100 PERCENT OF AERA ENERGY LLC'S INTEREST IN OIL AND GAS ASE NOS. PRC 91, PRC 163, PRC E-392, PRC 425, PRC 426 AND PRC 4736;**
- 2) APPROVAL OF AN ASSIGNMENT OF 100 PERCENT OF AERA ENERGY LLC'S INTEREST IN OIL AND GAS LEASE EXTENSION AND RENEWAL AGREEMENT NOS. PRC E-400, PRC E-401, PRC 919, PRC 920, PRC 977, PRC 980, PRC 983, PRC 985, PRC 986, PRC 989, PRC 997, PRC 999, PRC 1329, PRC 1331, PRC 1332, PRC 1333, PRC 1334, PRC 1336, PRC 1337, PRC 1340, AND PRC 1345 ;**
- 3) APPROVAL OF AN ASSIGNMENT OF 100 PERCENT OF AERA ENERGY LLC'S INTEREST IN DRILL SITE AGREEMENT NO. PRC 4887; AND**
- 4) APPROVAL OF AN ASSIGNMENT OF AERA ENERGY LLC'S AGREEMENT FOR USE OF EASEMENTS NO. PRC 5663 OF STATE OWNED LANDS AT BOLSA CHICA STATE BEACH , ALL TO OXY USA INC., ORANGE COUNTY**

ASSIGNOR:

Aera Energy LLC
Attn.: Mr. J.C. Boyd, Attorney-in-Fact
P. O. Box 11164
Bakersfield, CA 93389-1164

ASSIGNEE:

OXY USA Inc.
Attn.: Mr. Mike Gooding, Attorney-in-Fact
10889 Wilshire Boulevard
Los Angeles, CA 90024

AREA, LAND TYPE, AND LOCATION:

Twenty-nine (29) leases and/or agreements comprise Aera Energy LLC's (Aera's) interest in the Huntington Beach Oil Field in Orange County, consisting of: Six (6) State Oil and Gas Leases which currently produce State resources in the offshore portion of the field, and are developed from wells both at onshore drilling sites as well as from offshore Platform Emmy; Twenty-one (21) Oil and Gas Extension and Renewal Agreements, which are former "one-well easement" leases that have been unitized to provide for the cooperative waterflood development of the Main Zone portion of Oil and Gas Lease No. PRC 91; One (1) Drill Site Agreement that provides an onshore location for the purposes of drilling, exploring and prospecting for, producing, developing, extracting, and removing oil, gas, oil shale and other hydrocarbon substances in or underlying the offshore lands; and One (1) Agreement for Use of Easements (PRC 5663) that provides an area for a pipeline crossing under Bolsa Chica State Beach (Location Map, attached as Exhibit A).

BACKGROUND:

Aera is the current operator and majority working interest owner in the 29 leases and/or agreements (Leases) as part of this offshore oil and gas operation. All of these Leases were issued between September 26, 1938 and January 25, 1973, and, through a number of assignments and mesne conveyances, Aera is the current lessee of record for all of the Leases.

Commission staff received a letter dated August 15, 2011, containing an application for the California State Lands Commission (Commission) approval of the assignment of 100 percent (100%) of Aera's interest in the aforementioned Leases to OXY USA Inc. (OXY), a Delaware corporation. As part of the assignment review process, staff performed a financial review of OXY's assets to ensure its performance of the terms of the Leases. Staff determined that, in addition to an increased performance bond, OXY's parent, Occidental Oil and Gas Holding Corporation (OOGHC), a California corporation, would be required to sign, and has signed, a parental guarantee (in a form substantially similar to that set forth in Exhibit B, attached) and take ultimate financial responsibility for the Lease obligations.

Staff determined that the Leases should be amended to provide additional protection of the State's interests in the leased lands. The amendments to the leases and agreements are contained in the Amendment on file with the Commission in a form substantially similar to the document attached as Exhibit

CALENDAR ITEM NO. **C53** (CONT'D)

C.

Some of the more significant new lease terms are:

1. An increase in the bond provisions from the current amount of \$250,000 to \$30 million, with a five-year review of the bonding terms;
2. A requirement that OXY sign a lease management fee reimbursable agreement with the Commission to cover staff costs associated with lease administration;
3. A requirement that OXY adhere to all current regulations and any regulations promulgated during the remaining life of the Leases;
4. A requirement that OXY make capital expenditures not less than \$18 million in the first year following assignment and \$30 million per year in each of the flowing three (3) years on the state leases, contingent on the price of oil remaining stable above \$70 per barrel;
5. A requirement that OXY will diligently work with Southern California Gas (SoCal Gas) and the Bolsa Chica Lowlands Restoration Project to facilitate repair of the Long Beach Gas sales pipeline, and that OXY shall request a Capacity Study from SoCal Gas in order to ascertain if an interconnect is feasible and if so, if it can accept gas deliveries on a firm basis in order to limit the amount of gas that is flared; and,
6. A requirement that OXY will consent to the current Safety Audit schedule and submit to a Safety and Management Systems (SAMS) Audit at any time upon the request of the Commission staff.

STATUTORY AND OTHER REFERENCES:

- A. Section 4 of the leases PRC 91, PRC 163, PRC 425 and PRC 426.
- B. Section 2(n) of lease PRC E-392
- C. Article 3.4 and 11.8 of lease PRC 4736
- D. Public Resources Code section 6804.

OTHER PERTINENT INFORMATION

1. Pursuant to the Commission's delegation of authority and the State CEQA Guidelines, California Code of Regulations, Title 14, Section 15060, subdivision (c)(3), the staff has determined that this activity is not subject

CALENDAR ITEM NO. **C53** (CONT'D)

to the provisions of CEQA because it is not a “project” as defined by CEQA and the State CEQA Guidelines.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060 (c)(3) and 15378.

2. This activity involves lands identified as possessing significant environmental values pursuant to Public Resources Code section 6370, et seq., but such activity will not affect those significant lands. Based upon the staff’s consultation with the persons nominating such lands and through the CEQA review process, it is the staff’s opinion that the project, as proposed, is consistent with its use classification.
3. Assignment forms have been provided and prerequisite filing fees have been paid by Aera.
4. Upon approval of the assignment, the six (6) State Oil & Gas Lease Nos. PRC 91, PRC 163, PRC E-392, PRC 425, PRC 426, and PRC 4736, and the twenty-one (21) Oil and Gas Lease Extension and Renewal Agreement Nos. PRC E-400, PRC E-401, PRC 919, PRC 920, PRC 977, PRC 980, PRC 983, PRC 985, PRC 986, PRC 989, PRC 997, PRC 999, PRC 1329, PRC 1331, PRC 1332, PRC 1333, PRC 1334, PRC 1336, PRC 1337, PRC 1340, and PRC 1345, and the one (1) Drill Site Agreement No. PRC 4887 and the one (1) Agreement for Use of Easements No. PRC 5663 shall be amended in a form substantially similar to the Amendment document attached as Exhibit C.
5. Performance Bonds totaling \$30 million are on file at the Commission’s Long Beach office.
6. Occidental Oil and Gas Holding Company has executed an irrevocable and unconditional guaranty of OXY USA Inc.’s performance of the terms of the Lease. Occidental Oil and Gas Holding Company has submitted corporate and financial data which were reviewed by Commission staff. Based on the results of the reviews and that Occidental Oil and Gas Holding Company’s other entities have current leases with the State, Commission staff has determined that Occidental Oil and Gas Holding Company possesses the financial resources to meet the requirements and obligations under the terms of the six (6) State Oil & Gas Lease Nos. PRC 91, PRC 163, PRC E-392, PRC 425, PRC 426, and PRC 4736, and of the twenty-one (21) Oil and Gas Lease Extension and Renewal Agreement

CALENDAR ITEM NO. **C53** (CONT'D)

Nos. PRC E-400, PRC E-401, PRC 919, PRC 920, PRC 977, PRC 980, PRC 983, PRC 985, PRC 986, PRC 989, PRC 997, PRC 999, PRC 1329, PRC 1331, PRC 1332, PRC 1333, PRC 1334, PRC 1336, PRC 1337, PRC 1340, and PRC 1345, and of the one (1) Drill Site Agreement No. PRC 4887 and of the one (1) Agreement for Use of Easements No. PRC 5663.

7. OXY USA Inc. shall uphold the precedent dictated by Aera Energy LLC of paying rent on behalf of the working interest owners for the following eight (8) Oil and Gas Lease Extension and Renewal Agreement Nos. PRC 988, PRC 991, PRC 992, PRC 993, PRC 1335, PRC 1338, PRC 1339, and PRC 1346.
8. The surface of the upland area included in or in the vicinity of the 29 leases is owned and managed by the Commission and has been restored to marine and wetland habitat. In 1973 the Commission obtained 320 acres as part of a title settlement agreement. In 1997, the Commission acquired approximately 880 additional acres for inclusion in the Bolsa Chica Lowlands Restoration Project (Project). This area and the previously acquired lands are managed under leases to the California Department of Fish and Game (PRC 4733, PRC 4734, and PRC 8704) as part of the Bolsa Chica Ecological Reserve.
9. When the Commission acquired the 880 acres for the Project, it took title subject to the existing non-State North and South Bolsa oil and gas leases. However, the consent of the Commission is not required for the assignment of the North and South Bolsa leases and the various agreements related to these leases that provide for the coordination of activities between the surface owner (now the Commission) and the oil and gas operator. Although the Commission's consent for the assignment of the North and South Bolsa leases and related agreements is not required, they will be assigned to OXY by Aera. As the assignee and/or successor-in-interest, OXY will be required to fulfill the obligations contained in those leases and various agreements. The assignment of the North and South Bolsa leases and related agreements from Aera to OXY does not release Aera, or its predecessors in interest, from any obligations imposed on them by the leases and related agreements, or as otherwise imposed by law.

EXHIBITS:

- A. Location Map
- B. Proposed "Parental" Guarantee of Occidental Oil and Gas Holding Corporation
- C. Proposed Lease Amendment

CALENDAR ITEM NO. **C53** (CONT'D)

RECOMMENDED ACTION:

It is recommended that the Commission:

CEQA FINDING:

1. Find that the activity is not subject to the requirements of CEQA pursuant to Title 14, California Code of Regulations, section 15060(c)(3) because the activity is not a project as defined by Public Resources Code section 21065 and Title 14, California Code of Regulations, section 15378.
2. Find that this activity is consistent with the use classification designated by the Commission for the land pursuant to Public Resources Code section 6370, et seq.

AUTHORIZATION:

1. Consent to the assignment of 100 percent of Aera Energy LLC's interest in Leases Nos. PRC 91, PRC 163, PRC E392, PRC E400, PRC E401, PRC 425, PRC 426, PRC 919, PRC 920, PRC 977, PRC 980, PRC 983, PRC 985, PRC 986, PRC 989, PRC 997, PRC 999, PRC 1329, PRC 1331, PRC 1332, PRC 1333, PRC 1334, PRC 1336, PRC 1337, PRC 1340, PRC 1345, PRC 4736, PRC 4887, and PRC 5663 to OXY USA, Inc., with the assignee to be bound by all the terms and conditions of the Leases.
2. Approve the Parental Guarantee of Occidental Oil and Gas Holding Corporation in a form substantially similar to that set forth in Exhibit B of this calendar item.
3. Approve the Lease Amendment for the six (6) State Oil and Gas Leases, the twenty-one (21) Oil and Gas Extension and Renewal Agreements, the one (1) Drill Site Agreement and the one (1) Agreement for Use of Easements in a form substantially similar to that set forth in Exhibit C of this calendar item.
4. Authorize the Executive Officer or his designee to execute any documents necessary to implement this assignment and lease amendment.

Exhibit 12

RA Number	Name	Agreement Type	Field (Oil & Gas Leases)	Period	Lease / PRC No.	Maximum Annual Amount	Annual Renewal Increase
15493	Calpine / Geysers	Field Inspections		2/2011-1/2012	5206	\$15,033.00	CPI
00994	PXP (DCOR)	Mitigation Monitoring		7/2010-6/2011	W40585?	\$99,500 (1) \$31,000 (2)	
25394	Calpine	Field Inspections		7/2011 - 6/2012	7845	\$7,321.00	CPI
23098	Calpine / Geysers	Inspections		5/2011-4/2012	4596/4597	\$33,633.00	CPI
14105	Rosetta Resources	Management fees	Rio Vista	1/2011-12/2011	E-415.1	\$27,318.18	3%
09406	Oxy Long Beach	Management fees	Belmont	1/2011 - 12/2011	186	\$50,000.00	CPI
09906	Geysers Power	Inspections		9/2011-8/2012	8556.2	\$21,550.05	CPI
11806	Stream Energy	Management fees	W. Thornton-Walnut Grove	4/2011-3/2012	8618	\$2,185.00	3%
08207	Sunset Exploration	Management fees	W. Thornton-Walnut Grove	4/2011-3/2012	8395	\$2,185.00	3%
17207	Western Metals Corp.	Management fees	Lindsey Slough	4/2011-3/2012	5995	\$2,185.00	3%
15908	Venoco	Management fees	Montalvo	1/2010 - 12/2010	3314	\$55,053.50	3%
16008	Venoco	Management fees	Montalvo	1/2010-12/2010	735	\$27,318.18	3%
16108	Poseidon (Channelside)	Lease Compliance			8727	\$25,000.00	*
21708	Venoco	Mitigation Monitoring			3904	\$5,000.00	*
23909	LADWP	Lease Compliance		5/1/10-4/30/19	8079	\$25,000.00	**
12910	Cirque Resources	Administration Fees		11/2010-10/2011	8884	\$5,000.00	3%
13010	Gill Ranch Storage	Management fees		7/2011-6/2012	8885	\$5,000.00	3%
09411	Oxy Long Beach	Management fees	Orange Co.	11/2011-10/2012	Various	\$125,000.00	5%
5897	PG&E	Management Fees		1/2012-12/2020	5438	\$100,000.00	**
To Be Removed from List							
28908	Carone	Management fees-EIR	Federal Platform Hogan		7911 & 4000		

* Surety amount, no annual amount or increase

**Agreement amount, no annual amount or increase

Revised 1/5/12

**CALIFORNIA STATE LANDS COMMISSION
Succession Planning & Leadership Development Plan**

Succession Planning: Vision

The California State Lands Commission recognizes the critical need to have well qualified employees for its leadership positions. The Commission needs well qualified individuals that not only possess the needed abilities, characteristics, competencies and skills required of their positions, but also display a commitment to the Commission's mission to provide stewardship of the lands, waterways, and resources entrusted to its care through economic development, protection, preservation, and restoration. The Commission's leaders must model teamwork and strive to set the standard for excellence in public land management and resource protection to ensure the future quality of the environment and balanced use of the lands and resources entrusted to their care.

In order to ensure leadership continuity, a well-considered succession plan is necessary. This involves encouraging individual development and enhancing the Commission's staff pool of leadership candidates. Implementing a leadership development and succession plan will require a strong commitment from the Commission staff's current leadership. This document is the initial framework for the Commission's succession planning efforts. It is not intended to be all-inclusive of the various methods available to achieve the goal of organizational continuity and succession planning. It is hoped that this document will be revisited and revised as we learn more about effective succession planning for the Commission staff.

What is Succession Planning?

Succession Planning (SP) is any effort designed to ensure the continued effective performance of an organization, division, or work group, by planning for the development and replacement of leaders over time. A SP program is a deliberate and systematic effort by an organization to encourage individual advancement and ensure leadership continuity in key positions. The goal of the Commission's SP program is to match the available (present) talent to the future needs for talent, to be made aware of any talent gaps, to ensure that the Commission staff's institutional memory will be preserved, and to achieve continuous improvement in work results.

Current Situation

The Commission has and continues to face the loss of a large percentage of its experienced workers due to its significant percentage of baby-boomers who are approaching or have reached retirement age. The Commission is also susceptible to losing employees to other work opportunities with other governmental or private employers. Statistics for the Commission indicate that approximately **XXX%** of the management and supervisory employees are eligible for retirement in the next five years. The following charts demonstrate the current situation. In order for the Commission to continue implementing its mission, we must establish and implement a leadership development and succession plan and make it a priority of the Commission.

Charts

Mgmt Classification, # ees in class, #ees w/l 5 years??, % of incumbents

Supv Classification, # ees in class, #ees w/l 5 years??, % of incumbents

Commitment to the Future

Fortunately, there are a number of proactive steps the Commission staff can take to implement succession planning and promote leadership development from within its ranks. The Commission staff's leadership is committed to providing the guidance, support and oversight needed to promote employee development. Staff leadership encourages managers and supervisors to develop a culture of continually advancing organizational competence and excellence through the development of their employees. The following plan provides strategies to assist managers and supervisors in taking the necessary steps to implement this plan and encourage employee development.

Leadership Development and Succession Plan

Goal 1: To promote the core leadership competencies identified by the HR Modernization's State of California Leadership Competency Model published in June of 2011.

Strategy

The Commission recognizes employees as the most valuable asset available to accomplish its unique mission. In order to ensure workforce and leadership continuity within the Commission's relatively small staff, a plan to develop employees to serve as managers and leaders has been developed. In doing so, it is critical that the Commission strives to develop leaders with the core competencies identified as critical in the June 2011 State of California Leadership Competency Model. These competencies (shown below) are defined as knowledge, skill, ability or personal characteristic statements as shown below. Successful behaviors which demonstrate these competencies at the various levels are available by reviewing the State of California Leadership Competency Model.

Competency	Definition	Competency Category
<i>Analytical Thinking</i>	The ability to approach a problem by using a logical, systematic, sequential approach.	Core Competency – Applies to all Leadership Levels
<i>Change Leadership</i>	The ability to manage, lead, and enable the process of change and transition while helping others to deal with their effects.	Core Competency – Applies to all Leadership Levels
<i>Communication</i>	The ability to listen to others and communicate in an effective manner. The ability to communicate ideas, thoughts, and facts in writing. The ability/skill to use correct grammar, correct spelling, sentence and document structure,	Core Competency – Applies to all Leadership Levels

	accepted document formatting, and special literary techniques to communicate a message in writing.	
<i>Conflict Management</i>	The ability to prevent, manage, and/or resolve conflict.	Manager/Supervisor Competency
<i>Customer Focus</i>	The ability to identify and respond to current and future customer's needs. The ability to provide excellent service to internal and external customers.	Manager/Supervisor Competency
<i>Decision Making</i>	The ability to make decisions and solve problems involving varied levels of complexity, ambiguity, and risk.	Core Competency – Applies to all Leadership Levels
<i>Developing Others</i>	The ability and willingness to delegate responsibility, work with others, and coach them to develop their capabilities.	Manager/Supervisor Competency
<i>Ethics and Integrity</i>	The degree of trustworthiness and ethical behavior of an individual with consideration for the knowledge one has of the impact and consequences when making a decision or taking action.	Core Competency – Applies to all Leadership Levels
<i>Flexibility</i>	The ability to adapt to and work with a variety of situations, individuals and groups. The ability to be open to different and new ways of doing things. The	Executive Competency

willingness to modify one's preferred way of doing things.

Forward Thinking

The ability to anticipate the implications and consequences of situations and take appropriate action to be prepared for possible contingencies.

Executive Competency

Fostering Diversity

The ability to promote equal and fair treatment and opportunity for all. The ability to effectively promote equal opportunity in employment and maintain a work environment that is free of discrimination and harassment. The ability to demonstrate the knowledge of a supervisor's responsibility for promoting equal opportunity in hiring and employee development and promotion.

Core Competency – Applies to all Leadership Levels

Global Perspective

The ability to recognize and address issues that are outside of the local perspective. The ability to view issues without any pre-set biases or limitations. The ability to see the "big" picture.

Executive Competency

Influencing Others

The ability to gain others' support for ideas, proposals, projects, and solutions.

Executive Competency

Interpersonal Skills

The ability to get along and interact positively with

Core Competency – Applies to all Leadership

	coworkers. The degree and style of understanding and relating to others.	Levels
<i>Organizational Awareness</i>	The ability to understand the workings, structure, and culture of the organization as well as the political, social, and economic issues affecting the organization.	Executive Competency
<i>Personal Credibility</i>	Demonstrating concern that one be perceived as responsible, reliable, and trustworthy.	Core Competency – Applies to all Leadership Levels
<i>Planning and Organizing</i>	The ability to define tasks and milestones to achieve objectives, while ensuring the optimal use of resources to meet those objectives.	Manager/Supervisor Competency
<i>Relationship Building</i>	The ability to develop, maintain, and strengthen relationships with others inside or outside of the organization who can provide information, assistance, and support.	Executive Competency
<i>Results Orientation</i>	The ability to focus personal efforts on achieving results consistent with the organization's objectives.	Executive Competency
<i>Team Leadership</i>	The ability to effectively manage and guide group efforts. This includes providing the appropriate level of feedback concerning group progress.	Core Competency – Applies to all Leadership Levels

Thoroughness

The ability to ensure that one's own and other's work and information are complete and accurate. The ability to carefully prepare for meetings and presentations. The ability to follow up with others to ensure that agreements and commitments have been fulfilled.

Manager/Supervisor Competency

Vision and Strategic Thinking

The ability to support, promote, and ensure alignment with the organization's vision and values. The ability to understand how an organization must change in light of internal and external trends and influences.

Core Competency – Applies to all Leadership Levels

Workforce Management

The ability to effectively recruit, select, develop, and retain competent staff; includes making appropriate assignments and managing staff performance.

Core Competency – Applies to all Leadership Levels

Goal 2: To provide traditional training and development opportunities to enable employees to acquire the competencies necessary to perform in leadership positions.

Strategy

While the Commission staff does not have its own training program, we have identified the following sequence of outside learning opportunities that develop the core competencies that are the building blocks for successful leadership development:

- ❖ Lead Person Training – courses designed for employees in lead positions to clarify the role of the lead person and delineate responsibilities of lead persons and supervisors.
- ❖ Supervision Exploration – courses designed for employees exploring the career path of supervision. Introduces the work of supervision to employees so that they can make an informed career decision. Identifies the challenges and benefits of supervision and the competencies needed to become an effective supervisor.
- ❖ Basic Supervision Classes – the State requires all newly appointed supervisors complete 80 hours of supervisory training. These classes are designed to introduce basic leadership competencies as well as practical information regarding the State's practices.
- ❖ Management Development – designed for incumbent managers, the Commission utilizes a series of courses presented by either the California State University at Sacramento or the University of California at Davis. These series focus on developing effective managers who are better able to lead, manage and empower their employees. These series are also augmented by coursework from other providers.
- ❖ Leadership Development – the Commission utilizes the CSUS and UCD Executive Development programs to develop their mid-managers so that they are ready to assume increasing leadership

responsibilities within the Commission. These programs address concepts such as self-mastery, collaborative negotiation, innovative leadership, leadership styles, leading change, crisis leadership, and ethics.

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Goal 3: Managers and supervisors will encourage employees to explore non-traditional training and development opportunities.

Strategy

The Commission's staff leadership recognizes that there are alternative methods for obtaining necessary job skills and organizational continuity. The following alternatives should be explored with employees, where appropriate, in order to accomplish future leadership development and to meet the needs of the Commission and the employees' career development goals.

- ❖ Rotational Assignments – designed to allow managerial and supervisory employees in specific classifications to broaden their skills, gain knowledge, enhance their personal and professional growth and gain a broader understanding of the Commission's programs, mission and goals.
- ❖ Online Learning – continued learning opportunities for employees, supervisors and managers to further their leadership development without leaving the office. This may include, amongst other options, on-line classes, webinars, or review of materials contained in the Department of Personnel Administration's training website.
- ❖ Training and Development Assignments (T&D) – these assignments allow for the temporary loan or assignment of employees within or between units or programs for periods not to exceed two years.

T&D assignments are used for three primary purposes:

- a) To broaden the work experience of an employee with the intent of increasing their skills and abilities in the performance of their present occupation.
- b) To broaden the work experience of an employee through exposure to other occupational areas with the intent to prepare for a career in a different occupational field.
- c) To broaden the work experience of an employee through exposure to other occupational areas to enhance opportunities for upward mobility.

- ❖ Job Shadowing – involves working closely with an employee for an agreed period of time in order to learn how aspects of that job are performed in a different (but often similar) working environment.

Job shadowing is most effective when it is:

- Used as part of a longer term professional development plan
- Focused to develop specific skills or competencies for the participant

Job shadowing can be used to broaden a skill base and assist with career development by having the participant observe, ask questions and take part in planned hands-on activities. Skills developed can be related to professional practice or general business development and include areas such as customer service, finance and/or management.

- ❖ Mentoring – mentoring is a professional relationship in which an experienced employee (“mentor”) assists another (“mentored”) employee in developing specific skills and knowledge to enhance the mentored employee’s professional and personal growth. Mentoring can be either a formal assignment agreed to in writing or informal with the approval of both employees’ supervisors. The objective should be to develop the employee’s skill base to meet an organizational need.

- ❖ Task Forces, Committees, Boards, and Special Projects – encourage employees to explore opportunities to serve on commission or external task forces, committees and/or boards. Provide special projects to employees to promote their career growth.

Goal 4: Expand Recruitment and Retention Efforts

Strategy

The Human Resources (HR) Office and the Commission's various divisions' managers need to work cooperatively to develop and offer the most effective and timely recruiting methods. These recruitments should be focused on identifying individuals with high leadership potential. Additionally, the Commission staff needs to invest in retaining well qualified staff. In order to fully implement the following recommendations, additional HR staff resources may be required.

- The HR Office shall continue to collaborate with and support each division's recruitment activities.
- Evaluate the existing condition of the Commission's staff classification specifications. Perform job analyses and classification revisions where necessary.
- Strive to meet the demand for frequent examinations while offering effective testing methods that identify candidates with high leadership potential.
- Continue to work with the control agencies to address pay inequities between similar job classifications and between rank and file and supervisory classifications.
- Encourage the divisions to emphasize staff development as well as recognition for superior performance in order to enhance and promote employee morale and job satisfaction.

How to Get Started

Goal 1: Assess each division's current degree of leadership development.

Strategy

Until the implementation of this Leadership Development and Succession Plan, each division within the Commission has largely been left to their own devices to oversee their own leadership development and succession planning. The first order of business needs to be an evaluation of each division's current degree of development and planning so that an action plan can be developed to ensure that each division is on track with meeting the goals of this plan.

Goal 2: To provide employees, supervisors and managers with employee development resources.

Strategy

Staff is currently identifying employee development resources. Once finished, the collection of resources will be shown on the Commission's staff Intranet site and be made available to all employees. The resources will include information on career development, including steps to preparing employee performance evaluations and development plans. Also included will be listings of both traditional and non-traditional training and employee development opportunities available for staff at various stages of leadership development. It is anticipated that this collection of resources will draw heavily on the resources and training opportunities already compiled on the State Personnel Board, Department of Personnel Administration, and Cooperative Personnel Services web sites.

Goal 3: To encourage employee career development toward core competencies through the use of Performance Reviews and Development Plans.

Strategy

Commission staff leadership recognizes that employees want to be challenged to grow, to develop their skills, abilities and professional expertise. The professional growth and development of our employees is directly related to the accomplishment of the Commission's mission and strategic objectives and promotes organizational continuity.

An important first step in developing any employee is the regular, honest assessment of their current performance. This evaluation not only points out any areas needing extra attention, but also helps to identify those high performers who may have the potential to move into positions of more responsibility and leadership. The Commission staff currently uses the Employee Performance Appraisal System (EPAS) as well as a Commission specific management appraisal form instead of the statewide standard Individual Development Plan (IDP). These forms address both performance review and development planning. In light of the recently released Leadership Competency Model, these forms should be reviewed and revised to ensure that they provide an effective competency assessment and provide adequate discussion of development needs.

In the career development process, an employee, cooperating with a supervisor, prepares and initiates an action plan leading to increased development and use of talents and skills. This, in turn, should result in greater career satisfaction and employee retention. Supervisors should encourage employees to identify training needs, work with them to develop their skills and competencies and prepare a written career plan. The Development Plan is a tool employees and supervisors should use to accomplish this purpose.

The Development Plan is a useful leadership development and succession planning tool because it provides:

- a logical and structured framework for assessing the needs of both the individual and the organization;
- a method of identifying core group training for work units;
- an opportunity to review and schedule mandatory training such as Ethics, Sexual Harassment Preventions, Supervisory, and Defensive Driver's Training;
- a method for organizing developmental experiences instead of committing time and money on training and development which may not be of future benefit to the Commission's or employee's goals.

Conclusion

The State Lands Commission has a diverse staff which must balance the many responsibilities associated with being good stewards of the lands and resources entrusted to its care. As such, it is critical that there be a well laid plan for ensuring that the staff has well qualified, effective leadership in place to continue this important work well into the future. Staff must apply forethought in its approach to ensuring that the leadership and workforce resources needed in order to accomplish the Commission's objectives are available.

Accordingly, it is essential to the Commission's success in meeting its mission to have this Leadership Development and Succession Plan in place in order to deal with the challenges it faces in a planned, systematic and logical manner. The role of succession planning in an organization is simply to put in place a strategy to prepare for the leadership vacuum that occurs when leadership positions become vacant.

While this plan attempts to address organizational continuity within the agency, it is really only a starting point. The ability to meet these objectives requires a commitment on the part of each employee, supervisor, and manager within the Commission's staff. It also requires an investment in time and resources that is not only necessary, but vital to success as an organization that values the legacy of the programs and policies developed and implemented every day.