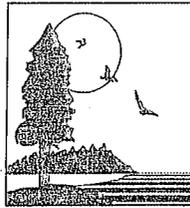


**CALIFORNIA STATE
LANDS COMMISSION**

GAVIN NEWSOM, *Lieutenant Governor*
JOHN CHIANG, *Controller*
ANA J. MATOSANTOS, *Director of Finance*



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August 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 one-year response to the Bureau of State Audits Report: 2010-125 released on August 23, 2011. This is a follow-up response to the earlier response from the Commission's staff dated February 23, 2012. That response was previously included in the BSA report. This response is due August 23, 2012 and 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,

A handwritten signature in black ink, appearing to read 'Curtis L. Fossom', with a long horizontal flourish extending to the right.

CURTIS L. FOSSUM
Executive Officer

Enclosure

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

STATE LANDS COMMISSION STAFF'S ONE-YEAR RESPONSE TO THE

BUREAU OF STATE AUDIT'S REPORT: 2010-125

***Please note that the lettered exhibits identified in the 10/24/11 response and the numbered exhibits identified in 2/23/12 response were previously provided to the Bureau of State Audits (BSA) as part of the Commission staff's 60-day response and the Commission staff's 6-month response, respectively. These exhibits are not reproduced for this one-year response. Only Exhibits I-VI referenced in the 8/23/12 bolded responses are included. At the time this one-year response was submitted to BSA, Commission staff had not received any feedback from BSA on staff's 6-month response.

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.*

8/01/11 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.*

8/01/11 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 ejection. 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.

8/01/11 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.*

8/01/11 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.

8/23/12 Update – Staff's determination detailed in the 2/23/12 update has not changed. As to the feasibility of using collection agencies, the federal restrictions on the purposes for which a social security number (SSN) is required precludes the Commission from requiring a SSN to lease state land. Furthermore, the expenses involved in obtaining and maintaining this private information would provide little additional opportunity or benefit for the Commission to collect on unpaid rent using collection agencies.

Staff has intensified collection efforts currently available to it and has reduced outstanding past due accounts receivable significantly. The June 30, 2012 total is \$868,000 compared to \$1,200,000 identified in the report. Active accounts not classified as contingent are down to \$344,000. Recent actions will reduce the total by another \$225,000. Staff is confident of continuing this trend. The addition of the lease compliance positions in the 2012-13 Budget will further enhance these efforts.

- 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.*

8/01/11 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.

8/23/12 Update – As of August 2012, 27 of the 32 holdover leases identified in BSA’s report have been eliminated from holdover status. The Nustar marine oil terminal lease was approved by the Commission at the May 24, 2012 meeting. Of the remaining 5 holdover leases, one lease (Selby Slag) involves an ongoing environmental clean-up obligation and will remain in its holdover status indefinitely. As mentioned previously, applications for the two Tesoro marine oil terminals have been received, the environmental review has begun, and staff hopes to bring these leases to the Commission in 2013 or 2014 for consideration and approval. During the rent review process for the Chevron Estero petroleum pipeline, for which staff was seeking an abandonment agreement, it was discovered that the pipeline is being used as an outfall pipeline. Staff plans to bring this pipeline under a new lease. Removing these four leases from holdover will not impact rent as all four leases are current at 2012 levels. The final holdover lease is the complex Kinder Morgan pipeline master lease. Staff is currently negotiating this lease and hopes to bring it to Commission for approval by the end of 2012 or early 2013.

- 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.*

8/01/11 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.*

8/01/11 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.

8/23/12 Update – (consolidated response for 1.4a through d) As noted in staff's 2/23/12 update, Commission staff has established time standards for pulling rent reviews and taking them to the Commission for consideration. The process is to pull rent reviews one year in advance, but only to take them to the Commission within a 4-month period prior to the effective date so as to take advantage of updated benchmarks or possible increases in land value. Staff also has a process in place that

prioritizes rent reviews for high value or otherwise significant leases. Commission staff is currently in the process of hiring and training additional staff authorized in the 2012-13 Budget. Five positions have been added for lease compliance purposes and will ensure that rent reviews are completed within the established time frames. However, the Commission is currently without appraisal staff. At the time of the Audit, the Commission had one staff appraiser. That appraiser has since left. Commission staff has attempted without success to fill the position. The process included the placement of an ad with the Appraisal Institute, the leading national professional organization for real estate appraisers. Staff has recently received permission from the State Department of Personnel Administration to reclassify the appraiser position from the Public Land Management Specialist series to the Property Appraiser series. It is believed that having a job series specific to appraising will improve staff's ability to attract, hire, and retain experienced professionals. Staff seeks to fill two appraisal positions by late Summer/early Fall of 2012.

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.*

8/01/11 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.

8/23/12 Update – see consolidated response under 1.4a above.

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.*

8/01/11 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.

8/23/12 Update – see consolidated response under 1.4a above.

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.*

8/01/11 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.

8/23/12 Update – see consolidated response under 1.4a above.

- 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.*

8/01/11 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.

8/23/12 Update - Including such a hold harmless clause in the leases would undermine the leverage achieved by the 25% increase that the BSA has also recommended be enforced. (see 1.3b) Staff sees no advantage to implementing such a practice but is concerned that the additional workload and costs to the Commission would detract from other more urgent work. Adequate authorities are in place to refund any overcharges that may result from such practice.

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.*

8/01/11 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.

8/23/12 Update – (consolidated response to 1.6a and b) As noted in staff’s 2/23/12 update, Commission staff has reorganized its structure to provide for more direct management of appraisal staff. As part of this, the Appraisal Request Form was also updated and released with a memo from management (see Exhibit 5 of the 2/23/12 update) on how to complete the form. The memo also instructed staff to submit an appraisal request, even in areas where a benchmark is available, if there is reason to believe that a land value appraisal would result in a higher rent than the benchmark. These steps have and will continue to improve the coordination and communication between leasing staff and appraisal staff and ensure that appraisals are completed as frequently as the lease provisions allow (generally every 5 years). The implementation of these measures will be temporarily affected by the current lack of appraisal staff (see the 8/23/12 response to 1.4a-d above). Staff hopes to fill two appraisal positions by late Summer/early Fall of 2012.

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.

8/01/11 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.

8/23/12 Update – see consolidated response under 1.6a above.

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.*

8/01/11 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.

8/23/12 Update – Commission staff has a team actively working on a regulations package to update Sections 1900, 2002 and 2003 of Title 2 of the California Code of Regulations for submission to the Office of Administrative Law (OAL). Staff plans to submit this package in September 2012. Once complete, staff will provide BSA with a copy of the regulations package submitted to OAL. As part of these regulations, Commission staff is recommending an increasing the pipeline rents from 2-cents per diameter inch per lineal foot to 5-cents per diameter inch per lineal foot.

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.*

8/01/11 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.

8/23/12 Update – The Lake Tahoe recreational benchmark was finalized in July 2012 (Exhibit I). Because the Lake Tahoe *residential* benchmark will be a more complicated and time consuming process, it is on hold until the Appraisal Unit is fully staffed with two positions (the Commission is currently without any appraisal staff; see the 8/23/12 update to 1.4a-d above). The Black Point benchmark is also on hold until Commission staff completes its evaluation of jurisdiction in the area. Commission staff may also be establishing a Colorado River residential benchmark if it is found that there are sufficient new leases in the area to warrant the current and potential future expenditure of staff time.

- 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.*

8/01/11 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.*

8/01/11 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.

8/23/12 Update – Accuracy continues to improve. Staff is currently upgrading the database from MS Access to a .Net web interface to improve accessibility by all staff. A Request for Offer to solicit potential consultants is currently being developed.

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.*

8/01/11 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.

8/23/12 Update – Staff has created five new management reports from information contained in ALID. There are four specific reports for Rent Reviews, Expiring Leases, Holdover Leases, and Bond/Insurance Status, and one Master Report containing general lease information (Exhibit II). These reports will better assist management in tracking leases and prioritizing lease compliance issues.

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.*

8/01/11 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.

8/23/12 Update- Staff continues to conduct it's FY 2012-2013 audits according to the submitted audit plan and continues to provide quarterly status updates to the

Executive Officer (Exhibit III*). Moreover, earlier in 2012, staff conducted an extensive search for qualified candidates for mineral and land auditor positions. Despite posting ads in relevant online and print journals for an extended period of time, only two qualified candidates with oil and gas experience were identified. Staff is now focusing on hiring General Auditor positions and training them in oil and gas operations and audit process. Additional hiring delays and training requirements, however, will affect the productivity and the number of audits that can be completed during this fiscal year. Over the next few months, staff will consider innovative approaches within its audit process (i.e. reduce audit scope when appropriate to focus on items with highest impact) so the planned number of audits can be accomplished.

- 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.*

8/01/11 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.

8/23/12 Update – Commission staff continues to maintain that it has fully implemented this recommendation. Staff will also continue to work with lessees when opportunities arise to implement this recommendation where appropriate and when it is in the best interest of the State.

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.*

8/01/11 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 either the State Personnel Board or employee unions, which are required to be notified per Government Code §19131.

8/23/12 Update- Staff is continuing to successfully implement this recommendation in one situation (Rosetta Resources). Under the direction and close supervision of the Mineral Resources Management Division (MRMD) Audit Supervisor and one assigned mineral and land auditor, the consultant is conducting the audit in accordance with the audit plan. Bi-weekly status updates are held with the consulting firm to ensure work is completed in a timely manner and according to applicable audit standards. This audit is due for completion at the end of October 2012. This approach has proven

to be successful and will continue to be an option if qualified Auditors cannot be found and circumstances allow. Staff can only use outside audit resources if labor issues are addressed and then only if funding for the outside consultant becomes available.

- 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.*

8/01/11 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.

8/23/12 Update – At its August 14, 2012 meeting, the Commission voted to support state legislation (AB 2620, Achadjian) requiring the Commission to prepare a workload analysis to ensure that it is fulfilling its oversight responsibilities over legislatively granted public trust lands, codifying trustee duties in connection with granted lands, and requiring the annual financial statement filed with the Commission to be accompanied by a standardized form developed by the Commission (Exhibit IV). Staff is also exploring potential funding sources for its granted lands program pursuant to a request by the Senate and Assembly Budget Committees. The Executive Officer has also directed a reorganization of those currently working on granted lands issues within a new External Affairs Division (Exhibit V). This is intended to focus attention to this area and result in closer coordination between all divisions on granted lands issues. Staff continues, albeit on a limited basis given constrained resources, to improve outreach to local trustees and 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.*

8/01/11 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.

8/23/12 Update - Staff has contacted Federal, State, and local agencies with leasing responsibilities, both in California and in other states. Many agencies indicated that they do not require insurance of any kind when leasing to private individuals. Those that do require insurance communicated significant difficulty in obtaining insurance compliance. Staff's communications with the insurance industry indicate there is no stand-alone product available that covers recreational piers.

Insurance companies appear to be reluctant to name the state as an additional insured and to provide notice of cancellation to the state. In some instances lessees can obtain insurance, but this appears to be an exception that the companies make to retain clients with large insurance portfolios.

Staff is currently exploring options including: 1) strengthening the indemnity provisions in the lease language; 2) contacting the insurance industry and educating them on the market for an insurance product that covers recreational piers; and 3) contacting various insurance companies and attempting to create a pilot program providing insurance coverage.

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.*

8/01/11 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.*

8/01/11 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.

8/23/12 Update – Staff is actively seeking such management fees from oil, gas and geothermal producers as well as larger industrial leases. Commission currently has over 22 such agreements in place with annual maximums totaling over \$800,000 and indexed for inflation. Additional positions supported by these fees are being pursued as part of the 2013-14 Budget process. (Exhibit VI)

- 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.

8/01/11 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.*

8/01/11 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.

8/23/12 Update – Work on the updated strategic plan continues with a target date for completion by the end of this calendar year. Upon completion of the strategic plan, the succession plan will be updated to coincide with its goals and objectives.

*These exhibits are confidential documents and are exempt from public disclosure per Government Code §§ 6254.5(e), 6254(k), 6254 (l) and 6255; and Code of Civil Procedure § 2018.

Update Lake Tahoe Benchmark

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Date of Report: July 3, 2012

Memorandum

Date: July 3, 2012
 File: W 26584

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

From: Colin Connor & Larry Bellucci
 Appraisal Section, Land Management Division

Subject: Update to Lake Tahoe Benchmark

This is the 2012 update to the Lake Tahoe Benchmark. Benchmarks are uniform rental rates that are established for specific geographic areas with large concentrations of similar facilities, such as private recreational piers and mooring buoys. The use of benchmarks establishes equity and consistency in the determination of rental rates within the geographic area. Benchmarks are intended to be updated every five years, consistent with the standard rent review provision in most General Leases. The Lake Tahoe Benchmark was last updated by staff of the California State Lands Commission (CSLC) in February 2007. The current update follows essentially the same methodology used in prior updates. This methodology was approved by the Commissioners at the May 24, 2012 public meeting following extensive public discussion.

The recommended benchmarks are summarized in the following table with the 2007 benchmarks.

BENCHMARK SUMMARY		
Benchmark Date	2007	2012
Piers		
Rental Rate (Per Sq. Ft.)	\$0.804	\$0.79
Buoys		
Per Mooring Buoy	\$340	\$377

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 annual lease rates to be used in the Lake Tahoe area. The research is intended to be used by CSLC staff in negotiations with lessees.

Presented on the following pages are the scope of the current research and discussions of the pertinent findings resulting in the new benchmark rental rates.

LAKE TAHOE BENCHMARK (continued)

Introduction

Private piers, buoys, and other mooring-related facilities located on sovereign land 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 these facilities could reasonably be considered a substitute for a berth in a commercial marina, the method of valuation used in estimating 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

Therefore, since a lease of sovereign land 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 with boat slips and/or buoy fields in Lake Tahoe
- Surveying the marinas as to the number and type of mooring (berths/slips/buoys), occupancy rate, mooring sizes, and rates
- Compiling the survey results into averages for slip and buoy 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 mooring size.
- Calculating the annual benchmark rental rate(s) using the above information.

A total of 12 marinas and/or buoy fields in Lake Tahoe were identified. All of these were contacted in the course of the survey and all but two cooperated to varying degrees.

Berth/Slip Rent

According to the survey, there are eight marinas with berths or slips available to the public². These marinas reported a total of 682 berths³, or an average of 85 berths per marina. The average marina occupancy rate was reported at 96%, with four of the marinas reporting full (100%) occupancy. The survey found that most marina berths at

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

² Note: Slip and berth are used interchangeably in the text hereafter.

³ Ski Run Marina reported 69 slips, but because they are all reserved for use by rental boats and fishing boats, they are not included in the count above.

LAKE TAHOE BENCHMARK (continued)

Lake Tahoe range from 20 to 32 feet in length, with an average berth size of approximately 26 feet.

Rent for berths is commonly expressed in terms of dollars per lineal foot. Most marinas rent berths on a monthly basis; however, at Lake Tahoe berths are more commonly rented on a seasonal basis. The seasonal rates reported range from \$1,650 to \$7,500, with an average of \$4,331. It should be noted that seasonal rates for marinas at the south end of Lake Tahoe (El Dorado County) are considerably lower than the seasonal rates for marinas at the north end (Placer County). This is reportedly attributed to shallower water depths in south Lake Tahoe.

According to the survey respondents, the rental season ranges from four to six months, with most reporting an approximate five-month season (May – September). In this analysis, the seasonal rate for each marina is divided by the number of months reported in the season to arrive at a monthly rate. The monthly rate is then divided by the average slip length reported to arrive at an equivalent per lineal foot rate. Based on this, the average monthly rental rates range from \$16.50 to \$52.50 per lineal foot. The average is \$33.66 per linear foot.

The benchmark rental rate for berths is calculated by multiplying the average berth length by the average rental rate. The product is then multiplied by 12 months to arrive at the gross annual income. The gross annual income is multiplied by 5%⁴ 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 Small Craft and Berthing Facilities" 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 double berth layout (on the premise that it was the most economically efficient for the marina operator) and represents an average of the powerboat and sailboat areas.

From the tables in the publication, a submerged area of 666 square feet is shown as being necessary to accommodate the 26-foot average slip length indicated by the survey.

Taking all of the aforementioned inputs into account, the current benchmark rental rate

⁴ 5% is the rate of return intended to reflect the State's contribution, the submerged land, towards the marina enterprise.

LAKE TAHOE BENCHMARK (continued)

and land value are calculated as follows:

26' avg. berth size x \$33.66/LF avg. berth rate =	\$875.16/berth/month
\$875.16/berth x 12 months =	\$10,502/berth/year
\$10,502 x 5% of gross income =	\$525.10
\$525.10 ÷ 666 sq. ft. =	\$0.788/sq. ft.
BENCHMARK RENTAL RATE =	\$0.79/sq. ft.
\$0.79/sq. ft. x 43,560 sq. ft. =	\$34,412/acre
\$34,412 ÷ 0.09 =	\$382,356/acre
BENCHMARK LAND VALUE =	\$382,356/acre

The indicated benchmark rental rate is \$0.79 per square foot. In comparison, the 2007 benchmark was \$0.804 per square foot. The new benchmark therefore represents a slight decrease (\$0.014/SF) from the 2007 Benchmark.

Buoy Rent

The survey revealed that there were 10 marina facilities in California on Lake Tahoe with mooring buoys. These facilities reported a total of 539 buoys. The reported occupancy rates ranged from 30% to 100%, with an average occupancy rate of 92%. Seven of these facilities reported occupancy rates of 100%, one reported 95%, and another 90%. The lowest reported occupancy rate (30%) is from a marina located on the south shore with very shallow water depths, which influence the ability to moor boats, especially during low water periods.

The 25-foot swing area used in the 2007 benchmark will continue to be used in this update. The swing area is the distance that a boat can pivot around on its mooring axis ("anchor center") without running the risk of drifting into other boats. This swing area is consistent with the Tahoe Regional Planning Agency (TRPA) requirement for private buoys on Lake Tahoe.

Like boat slips, mooring buoys on Lake Tahoe are commonly rented on a seasonal basis, with the typical season running from May through September, a period of five months. Consequently, rents are typically quoted on a seasonal basis. The survey indicated that seasonal rates on Lake Tahoe range from \$1,100 to \$6,500. Based on the number of months in the reported season, the equivalent monthly rates range from \$179 to \$1,300. The average of the surveyed rents is \$601 per month.

The average surveyed rent is approximately 11% higher (10.9%) than the average monthly rent reported in the 2007 Benchmark (\$541.82). Applying this rate of increase to the prior benchmark rate of \$340 per buoy results in a new benchmark rate of \$377 (\$340 x 1.11)

LAKE TAHOE SURVEY
Buoys

No.	Name	County	Total Buoys	Swing Area (Feet)	In-Season	In-Season (Months)	In-Season Occupancy Rate	In-Season Rates	Rate Per Month	Comments
1	Lakeside Marina	EI Dorado	10	75	May - September	5	100%	\$1,100	\$220	Buoy shuttle service provided.
2	Ski Run Marina	EI Dorado	71	50	April - October	7	30%	\$1,250	\$179	Buoy tender and pumpout provided.
3	Timber Cove Marina	EI Dorado	80	75	May - September	5	90%	\$1,650	\$330	Buoy shuttle service provided.
4	Tahoe Keys Marina	EI Dorado	N/A	N/A			N/A	N/A	N/A	No buoy field.
5	Camp Richardson Marina	EI Dorado	110	75	May - September	5	95%	\$1,650	\$330	Buoy shuttle service provided.
6	Meeks Bay Marina	EI Dorado	N/A	N/A			N/A	N/A	N/A	No buoy field.
7	Obexer's Boat Company	Placer	15	N/A	May - October	6	100%	\$3,058	\$510	No additional services included. In-season rate is an average of range provided by Sara Obexer.
8	Homewood Marina	Placer	125	62	May - September	5	100%	\$6,500	\$1,300	Tender service available during and after business hours. Buoy swing area is a rough estimate provided by contact. Rental rate is an average of exact rates provided for various swing areas and the estimate of those swing Buoy tender 8 AM to 6 PM.
9	Sunnyside Marina	Placer	24	50	June - September	4	100%	\$2,950	\$738	
10	Tahoe City Marina	Placer	41	75	May - September	5	100%	\$3,600	\$720	Buoy tender service. Tender available for use after hours. \$3,600 is an average for charge of boats up to 27' (\$3,350) and those over 27' (\$3,850).
11	Sierra Boat Company	Placer	15	65	June - September	4	100%	N/A	\$725	Does not have seasonal rate; rents monthly.
12	North Tahoe Marina	Placer	48	N/A	May - September	5	100%	\$4,800	\$960	In season rate estimated based on reported range of \$4,540 - \$8,110.
Totals			539	66		5	92%	\$2,951	\$601	
Average			54							

LAKE TAHOE SURVEY
Boat Slips

No.	Name	County	# Slips	Avg. Length (feet)	In-Season	Season (Months)	In-season Occupancy Rate	In-Season Rates	Equivalent Rate (\$/LF/Mo.)	Comments
1	Lakeside Marina	El Dorado	63	20	May - September	5	95%	\$1,650	\$16.50	
2	Ski Run Marina	El Dorado	69	N/A	N/A	N/A	N/A	N/A	N/A	No public slips available. All slips are reserved for rental boats and fishing boats.
3	Timber Cove Marina	El Dorado	0	N/A	N/A	N/A	N/A	N/A	N/A	No slips available. Buoy field only.
4	Tahoe Keys Marina	El Dorado	206	25	May - September	5	Unknown	\$3,125	\$25.00	Marina not on State Lands. Marina operator declined to participate in survey. Obtained information from their web-site. In-season assumed to be May thru September.
5	Camp Richardson	El Dorado	0	N/A	N/A	N/A	N/A	N/A	N/A	No slips available. Buoy field only.
6	Meeks Bay Marina	El Dorado	119	20	May - September	5	99%	\$2,700	\$27.00	No buoy field - slips only. One launch in and out for seasonal slip holders. In-season assumed to be May thru September.
7	Obexer's Boat	Placer	55	30	May - October	6	100%	\$5,509	\$30.61	Berths not available during off-season.
8	Homewood Marina	Placer	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Has dry boat storage on upland.
9	Sunnyside Marina	Placer	24	24	June - September	4	100%	\$5,040	\$52.50	Berths not available during off-season. Slip rate includes in & out. Winter storage is additional \$90 per LF
10	Tahoe City Marina	Placer	81	32	May - September	5	80%	\$7,500	\$46.88	Daily, weekly, monthly, and seasonal rates given for all boat lengths. Calculated rates based on average boat length of 32'. Dock person available to help fuel boats. Marina includes a club house. Rebate up to \$500 given if boaters join yacht club.
11	Sierra Boat Company	Placer	117	24	June - September	4	100%	\$3,320	\$34.58	Batteries charged on trickle chargers in battery room.
12	North Tahoe Marina	Placer	17	32	May - September	5	100%	\$5,800	\$36.25	In-season rate is an estimate based on reported range of \$5,200 - \$9,385.

Totals 751
Average 68

5 96% \$4,331 \$33.66

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Exhibit III

Exhibit III is a confidential document and exempt from public disclosure per Government Code §§ 6254.5(e), 6254(k), 6254 (l) and 6255; and Code of Civil Procedure § 2018. Exhibit III was transmitted to the Bureau of State Audits under a separate confidential cover.

**CALENDAR ITEM
C97**

A Statewide

08/14/12

S Statewide

S. Pemberton

CONSIDER SUPPORTING STATE LEGISLATION REQUIRING THE COMMISSION TO PREPARE A WORKLOAD ANALYSIS TO ENSURE THAT IT IS FULFILLING ITS OVERSIGHT RESPONSIBILITIES OVER LEGISLATIVELY GRANTED PUBLIC TRUST LANDS, CODIFYING TRUSTEE DUTIES IN CONNECTION WITH GRANTED LANDS, AND REQUIRING THE ANNUAL FINANCIAL STATEMENT FILED WITH THE COMMISSION TO BE ACCOMPANIED BY A STANDARDIZED REPORTING FORM DEVELOPED BY THE COMMISSION

INTRODUCTION:

State Lands Commission staff has been reviewing various legislative proposals introduced in the 2011-12 legislative session that involve lands under the Commission's jurisdiction. This report describes proposed legislation (AB 2620 – Achadjian) that would require the Commission to prepare a workload analysis to ensure that it is fulfilling its oversight responsibilities over legislatively granted public trust lands, codify trustee duties in connection with granted lands, and require the annual financial statement trustees file with the Commission to be accompanied by a standardized reporting form developed by the Commission. This report further proposes that the Commission consider adopting a support position on this legislation.

LEGISLATIVE PROPOSAL:

AB 2620 (Achadjian): Tidelands and submerged lands: granted public trust lands

SUMMARY:

AB 2620 would require the Commission to prepare a workload analysis to ensure that it is fulfilling its oversight responsibilities relative to legislatively granted public trust lands. This bill would also improve the Commission's oversight over granted lands by codifying trustee duties, authorizing the Commission to create a standardized reporting form, and allowing the Commission to post on its website trustee statements detailing revenues and expenditures relating to its trust lands and assets.

CALENDAR ITEM NO. C97 (CONT'D)

BACKGROUND:

Over 80 local jurisdictions have been granted state public trust lands. Existing law requires the Commission to oversee these granted public trust lands and ensure that their use is consistent with the Public Trust Doctrine and applicable statutory grant. Existing law requires each local trustee to file with the Commission a detailed statement of all revenues and expenditures relating to its trust lands and assets, including obligations incurred but unpaid, and covering the fiscal year preceding submission of the statement. The statement must be prepared in accordance with generally accepted accounting principles and may take the form of an annual audit prepared by or for the local trustee.

AB 2620 does three things. First, it creates a new section of law with a series of findings and declarations relative to the Commission's duty to oversee granted public trust lands and the fiduciary duties of local trustees that are applicable under common law trust principles. These include: 1) the duty of loyalty; 2) the duty of care; 3) the duty of full disclosure; 4) the duty to keep clear and adequate records and accounts; 5) the duty to administer the trust solely in the interest of the beneficiaries; 6) the duty to act impartially in managing the trust property; 7) the duty to not use or deal with trust property for the trustee's own profit or for any other purpose unconnected with the trust; 8) the duty to take reasonable steps under the circumstances to take and keep control of and to preserve the trust property; 9) the duty to make the trust property productive under the circumstances and furtherance of the purposes of the trust; 10) the duty to keep the trust property separate from other property not subject to the trust and the duty to see that the trust property is designated as property of the trust; 11) the duty to take reasonable steps to enforce claims that are part of the trust property; 12) the duty to take reasonable steps to defend actions that may result in a loss to the trust; and, 13) the duty to not delegate to others the performance of acts that the trustee can reasonably be required to perform and to not transfer the administration of the trust to a co-trustee.

Second, it changes the manner in which trustees provide revenue and use information to the Commission. This is the information that the Commission relies on to fulfill its oversight responsibilities. The bill authorizes the Commission to require that a standardized reporting form from local trustees be filed with the Commission along with their detailed annual statement. The Commission may either use an existing reporting form previously developed for this purpose or develop a reporting form that requires trustees to report on all of the following: 1) a summary of all funds received or generated from trust lands or assets; 2) a summary of all spending of funds received or generated from trust lands or assets; 3) any other disposition of funds received or generated from trust lands or assets or of the trust lands or assets themselves; 4) a description of the manner in which the statement required under current law and the accompanying reporting form is organized; and, 5) any other information that the Commission deems should be included in the accounting of granted lands.

CALENDAR ITEM NO. C97 (CONT'D)

This part of the bill also requires that grantees segregate all funds received or generated from trust lands or assets in separate accounts from non-trust funds, and states that all forms and supporting statements submitted are public records and shall be made available on the Commission's web site.

Third, this bill requires the Commission to prepare a workload analysis by September 1, 2013, that summarizes the resources necessary for the Commission to fulfill its oversight responsibilities relative to legislatively granted public trust lands.

OTHER PERTINENT INFORMATION:

AB 2620 is intended to ensure that the Commission is meeting its oversight responsibilities with respect to granted lands and their assets, and to ensure that the revenue generated from granted lands and their assets are expended in accordance with the common law Public Trust Doctrine and terms of the applicable statutory grant.

Additionally, the findings and declarations that are in this bill are beneficial because they make a trustee's responsibilities explicit. This is helpful because, although these fiduciary duties are identified in case law and individual granting statutes, they are not organized and placed together in one location. AB 2620 creates an organized list that appropriately frames the section of current law requiring that revenues received from trust lands and assets be expended only for trust consistent uses. This will help trustees understand their obligation to the trust and act as a deterrent against misuse of funds dedicated for public trust uses.

The Commission staff invests a significant amount of time and resources responding to and addressing inquiries from trustees about appropriate use of trust resources. In an effort to be more proactive and to improve its financial statement review process, Commission staff recently sent letters to all trustees asking that they also provide a summary annual report detailing gross revenues generated within public trust lands and all expenditures of those revenues beginning with the 2010-11 fiscal reporting year. In the letter, staff stated that another alternative would be for the trustee to pinpoint the areas of their Comprehensive Annual Financial Report that are associated with the revenues and expenditures of public trust assets. The authority in AB 2620 to create a standardized form that requires a trustee to include a summary of funds received or generated from trust lands or assets is consistent with these efforts.

AB 2620 was approved by the Assembly on May 25, 2012, on a 70-0 vote, and by the Senate Natural Resources and Water Committee on June 26, 2012, on a 9-0 vote. It is awaiting consideration on the Senate floor. It is sponsored by the Pacific Merchant Shipping Association and has received no opposition.

CALENDAR ITEM NO. C97 (CONT'D)

RECOMMENDED ACTION:

IT IS RECOMMENDED THAT THE COMMISSION:

1. Adopt a support position on AB 2620 (Achadjian).

MEMORANDUM

Date: August 16, 2012

To: STATE LANDS COMMISSION STAFF

From: Curtis L. Fossum
Executive OfficerSubject: **External Affairs Division and Granted Public Trust Lands Program**

This memo outlines the establishment of the External Affairs Division (EAD) and the restructuring of the Commission's Granted Public Trust Lands Program. The Granted Public Trust Lands Program over the last four decades has been operated within both the Planning and Land Management Divisions of the Commission. Issues involving local government grantees often rise quickly to Executive and Commission level and have been an area of staff focus that includes significant involvement of the Legal Division and the Executive Office (including the Legislative Liaison). We sometimes forget that our MRMD and MFD staffs also spend significant time dealing with grantees, as well; most often in Long Beach for MRMD, but MFD at terminals and ports throughout the state. In fact over \$420 million dollars was deposited by the Commission in the State's General Fund for fiscal year 2011-12 from Granted Public Trust Lands in Long Beach.

So while each of the divisions have, and will remain, involved in issues including legal land use, boundary, environmental, auditing and accounting, oil operations, and the prevention of oil spills and introduction of invasive species involving grants, the Granted Public Trust Lands Program will be managed within the Commission's EAD. I have attached an organization chart to this memo depicting the general arrangement of the respective responsibilities within the EAD.

In addition to the Granted Public Trust Lands Program, the EAD, together with the Executive Office, will transition to assuming responsibility for finalizing the Commission's meeting agenda and calendar items. The EAD Chief will also be the Commission's Information Officer and coordinate requests for information from outside the office. Management of the contents of the Commission's webpage will also be the responsibility of the EAD. The EAD Chief will coordinate the Commission's participation on various boards and commissions, including but not limited to the Coastal Commission, SF Bay Conservation and Development Commission, Delta Protection Commission, San Joaquin River Conservancy, and the Western States Land Commissioners Association. The EAD Chief will continue to be the Commission Legislative Liaison, responsible for monitoring and coordinating state and federal legislation affecting the Commission, developing resolutions for the Commission's consideration and drafting press releases as needed. Some office location changes will take place during the next two weeks.

I understand that change can be difficult, but the need to focus additional attention and resources on these areas is overdue. The Bureau of State Audits report on the Commission's operations criticized the Commission for not being more pro-active regarding its responsibilities involving the Granted Public Trust Lands Program, and it is my hope and belief that this structure will afford the opportunity to move in that direction.

Management Fees -
Current Agreements and Annual Maximums

RA Number	Name	Agreement Type	Field (Oil & Gas Leases)	Lease / PRC No.	Current Maximum Amount	Annual Renewal Increase	O&G	School	LMC
15493	Calpine / Geysers	Field Inspections	Geysers	5206	\$15,033.00	CPI		\$15,033.00	
00994	PXP (DCOR)	Lease Management	HB Offshore/Eva	3033/3413	\$149,449.00	CPI	\$ 149,449.00		
25394	Calpine	Field Inspections	Geysers	7845	\$7,321.00	CPI		\$7,321.00	
23098	Calpine / Geysers	Inspections	Geysers	4596/4597	\$33,633.00	CPI		\$33,633.00	
14105	Rosetta Resources	Management fees	Rio Vista	E-415.1	\$27,318.18	3%	\$27,318.18		
09406	Oxy Long Beach	Management fees	Belmont	186/3095	\$55,123.00	CPI	\$55,123.00		
09906	Geysers Power	Inspections	Geysers	8556.2	\$21,550.05	CPI		\$21,550.05	
11806	Stream Energy	Management fees	W. Thornton-Walnut Grove	8618	\$2,185.00	3%	\$2,185.00		
08207	Sunset Exploration	Management fees	W. Thornton-Walnut Grove	8395	\$2,185.00	3%	\$2,185.00		
17207	Western Metals Corp.	Management fees	Lindsey Slough	5995	\$2,185.00	3%	\$2,185.00		
15908	Venoco	Management fees	Montalvo	3314	\$55,053.50	3%	\$55,053.50		
16008	Venoco	Management fees	Montalvo	735	\$27,318.18	3%	\$27,318.18		
12910	Cirque Resources	Management fees	Kern	8884	\$5,000.00	3%	\$5,150.00		
13010	Gill Ranch Storage	Management fees	San Joaquin	8885	\$5,000.00	3%	\$5,150.00		
04911	OXY USA Inc.	Management Fees	Orange HB/Bolsa	various	\$125,000.00	5%	\$125,000.00		
05212	Oxy Long Beach	Management Fees	LA/ Long Beach	Various	\$200,000.00	none	\$200,000.00		
14911	VENOCO	Project Compliance	Coal Oil Pt.	3120/3242	\$75,000.00	none	\$ 75,000.00		
03212	Venoco	Management Fees	Solano	8990	\$5,000.00	3%	\$5,000.00		
03112	Foothill Energy	Management Fees	Colusa/Sutter	8988	\$5,000.00	3%	\$5,000.00		
05112	Venoco	Management Fees	Colusa/Sutter Grimes	8989	\$5,000.00	3%	\$5,000.00		
05012	Summit Exploration	Management Fees	Sacramento Taylor Slough	9008	\$5,000.00	3%	\$5,000.00		
05897	PG&E	Management Fees		5438	\$100,000.00	none			\$100,000.00
Fixed Amount									
16108	Poseidon (Channelside)	Lease Compliance		8727	\$250,000.00	*			\$250,000.00
23909	LADWP	Lease Compliance		8079	\$25,000.00	*			\$25,000.00
22011	Orange County Flood Contr	Lease Compliance	Orange Co.	8888	\$40,000.00	*			\$40,000.00
							\$ 751,116.86	\$ 77,537.05	\$ 415,000.00

* Fixed Total Agreement