

*Annual Staff Report
on the
Management of State School Lands
Fiscal Year 2011-12*



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Gavin Newsom, Lieutenant Governor
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Submitted to

Edmund G. Brown Jr., Governor

*The California State Legislature
and
The State Teachers' Retirement System*

Note to the Reader

School Lands were granted to the State of California by the federal government under the Act of March 3, 1853 (10 Stat. 244) for the purpose of supporting public education in California, and consisted of the 16th and 36th sections of land in each township (with the exceptions of lands reserved for public use, lands taken by private land claims, and lands known to be mineral in character). A supplementary act in 1927 extended the grant of mineral lands to the State. No federal patents to the State were required under this grant. Title to the lands vested in the State upon approval of the U.S. Township Survey Plats (subject to the exceptions described above).

Indemnity School Lands (a.k.a. Lieu Lands) - In cases of preemption due to the exceptions described above (i.e., instead of a Section 16 or a Section 36), the State was given the opportunity to select replacement lands from the United States. For each transaction, the process involved several steps. First, the State filed a list with the federal government describing the lands lost to the State due to the exceptions described above. These lands were known as base lands. Then, the State filed a list with the federal government describing other federal lands selected in place of these base lands. When the list of selected replacement lands was approved by United States, a Clear List was issued to the State. The State's rights to the base lands were relinquished back to the federal government, and title to the selected lands became vested in the State. The Clear List was the document of conveyance and there are no patents issued by the federal government.

For the purposes of this Annual Report, the term *school lands* is used to describe both lands obtained under the Act of 1853 and indemnity school lands. References to annual revenues are for Fiscal Year 2011-12.

The **Annual Staff Report on the Management of State School Lands** is prepared pursuant to Public Resources Code Section 6477, which requires that the State Lands Commission report annually to the State legislature and the governor on the management of school lands.

CALIFORNIA STATE LANDS COMMISSION

**ANNUAL STAFF REPORT ON THE MANAGEMENT
OF STATE SCHOOL LANDS**

Fiscal Year 2011-12

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INTRODUCTION

The California State Lands Commission (CSLC), through its State School Lands Management Program (Program), manages approximately 468,600 acres of school lands held in fee ownership by the State, and the reserved mineral interests on approximately 790,000 acres of school lands where the surface estate has been sold. These interests are what remain of the 5.5 million acres granted by Congress in 1853. Most of the lands were sold by the State in the 19th century. Management of the Program is split between two CSLC divisions, the Mineral Resources Management Division (MRMD) and the Land Management Division (LMD). The MRMD is responsible for the Geothermal, Solid Minerals, and Oil and Gas Programs, which involve the leasing of school lands for geothermal resources development, mining activities, and oil and gas development. The LMD is responsible for the Surface Management Program under which all surface resources on school lands, with the exception of mineral activities, are administered.

School lands were placed into a statutory trust in 1984 when the State Legislature approved the School Land Bank Act (Act), created the School Land Bank Fund (SLBF), and designated the CSLC as trustee of the SLBF. The Act added Sections 8700 through 8716 to the Public Resources Code (PRC), which set forth the management guidelines for the Program. The Act directs that school lands be proactively managed and enhanced to provide for an economic base in support of the public school system. PRC Section 8702 spells out specific findings and declarations made by the Legislature, emphasizing the development of school lands into a permanent and productive resource base and requiring that all transactions, including exchanges, sales, and acquisitions, be implemented for revenue generating purposes.

Pursuant to PRC Section 6217.7, all net revenues, monies, and remittances from the sale of school lands are deposited into the State Treasury to the credit of the SLBF. PRC Section 6217.5 directs all net revenues derived from the use of school lands (i.e., royalties, rents, and interest generated from promissory notes) be deposited into the State Treasury to the credit of the Teachers' Retirement Fund, which benefits the State Teachers' Retirement System (STRS).

The CSLC's emphasis in administering the Program has been: 1) the maximization of revenues from school lands assets, 2) protecting the corpus of the trust, and 3) protection of the environment and compliance with the California Environmental Quality Act (CEQA).

Net revenue transferred to STRS during Fiscal Year (FY) 2011-12 was \$5,782,169.43, which represents an increase of 13.5% over the prior year net revenue. Management expenses for the Program in FY 2011-12 totaled \$1,200,555.63, which represents an increase of 15.8% over FY 2010-11 expenses. The fiscal year-end balance of the SLBF was \$1,725,620.18 (not

including a \$59,000,000 loan to the General Fund). For a summary, see the table entitled "Financial Summary: Fiscal Year 2011-12" (page 30).

GEOTHERMAL, SOLID MINERALS, AND OIL & GAS PROGRAMS

The MRMD is responsible for the Geothermal, Solid Minerals, and Oil & Gas Programs. This involves leasing and managing school lands for geothermal, mining, and oil and gas development. These programs strive to maximize royalty revenue while protecting the environment and assuring public safety. Historically, the activities of MRMD have generated more than 95% of the annual revenues to STRS from the management of the SLBF. For a summary of the revenues generated to STRS through these MRMD programs, see the table entitled "Summary of Revenue Generated from Geothermal, Solid Minerals, and Oil & Gas Programs – Fiscal Year 2011-12" (page 18).

FISCAL YEAR 2011-12 ACTIVITIES

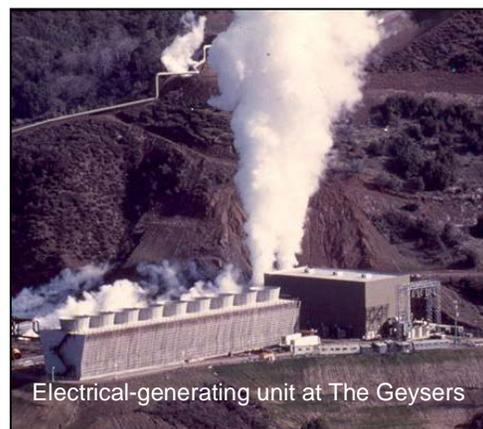
GEOTHERMAL PROGRAM

Managing geothermal leasing and development programs on school lands requires staff involvement in several specialized areas. Processing applications and negotiating leases requires input from legal and environmental staff. Drilling proposals require a technical review by engineering staff. Drilling and production operations are observed by field inspection staff. Production reports, royalty calculations, and payments must be verified by staff with expertise in geothermal operations and lease terms.

At present, all revenue from the geothermal program comes from royalties paid on the production of steam from State leases located at The Geysers geothermal field in Sonoma and Lake Counties. Electricity generated from the steam is sold to the utility and is the basis for determining royalty revenue paid to the State. That revenue totaled \$4,417,993.06 for FY 2011-12, a 2% reduction from the prior year and is related to the price of electricity being tied to the natural gas prices which were depressed for most of the FY.

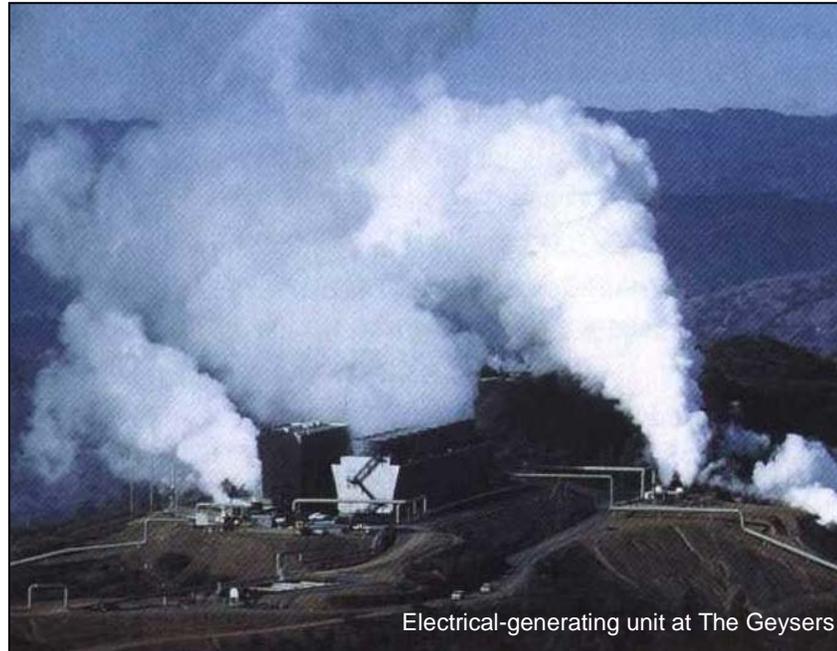
Geothermal Leases at the Geysers

The Geysers has operated commercially for 52 years, and is still the largest geothermal energy project in the world. The field now generates 800 megawatts of electricity, enough to supply one million households. Steam production has been relatively stable since 1995 due to consolidation of field operations and increased injection of water into the reservoir. The injection water is piped to the field from reclamation plants in nearby Lake County and Santa Rosa.



The State owns a 100% mineral interest in 7,247 acres currently under lease at The Geysers, plus a 1/16th interest in another 895 acres. Most of the State parcels were acquired from the Bureau of Land Management (BLM) as lieu lands in the 1940s or through the indemnity selection process in the 1980s. Geysers Power Company LLC, a subsidiary of Calpine Corporation, holds State leases PRC 4596, 4596 "A", 4597, 5206, 6422, 7845, and 7179. It also owns and operates 17 of the 22 electrical-generating units at The Geysers. State leases PRC 8556, 8844 and 8950 are held by a different Calpine subsidiary called CPN Wild Horse Geothermal LLC.

Although steam production from State leases fell by 2% from the prior year, the State lands still supply more than 28 billion pounds of steam annually, or 20% of the field's total. The electricity generated from State steam is enough to power more than 200,000 average homes.



Electrical-generating unit at The Geysers

Staff approved five drilling projects during the year – one new injector and two conversions to injection, one plug and abandonment, and one conversion to production. The converted producer on PRC 8844 started producing in December 2012 and uses a new CPN Wildhorse pipeline to transport the steam. Three other producers drilled on PRC 8556 two years ago remain idle pending construction of another pipeline. Sonoma County granted approval for two new generating plants, but CPN Wildhorse may opt to send newly developed steam to existing power plants instead.

Geothermal Leasing Proposed in Imperial County (W40958)

In September 2011, NGP Truckhaven, a subsidiary of Nevada Geothermal Power (NGP), submitted an application for a negotiated lease on approximately 4,321 acres of school lands, and another 543 acres of lands owned by the California



Department of Parks and Recreation (Parks), in the Truckhaven area west of the Salton Sea in Imperial County. Much of the land is located within Parks' Ocotillo Wells State Vehicular Recreation Area (SVRA). Pursuant to PRC Section 6924, the CSLC must coordinate its leasing efforts with Parks such that exploration and development does not unreasonably interfere with use of the lands for recreation.

Staff have attempted to get these lands explored and/or developed for years. Prospecting permits were issued for most of the lands in the early 1980s, followed by a geothermal lease in the late 1980s. But no drilling or development occurred under those instruments. In 2001, applications for new permits were submitted, but the applicants failed to follow through. The lands have been nominated two times for lease by competitive bid, the last time in 2007. Both nominations were from Ormat Nevada, Inc., but each time Ormat withdrew its nomination when requested to provide funding for an environmental review. In 2011, Ormat sold its private and federal leases interests to Iceland America Energy, which subsequently sold the leases to NGP.

The State parcels are interspersed with federal and private lands. The BLM issued federal leases in the area in 2009, and required NGP and two other federal lessees to form a unit or cooperative plan of development. The CSLC has advised Parks that the State parcels will also be combined with adjacent lands so that surface disturbance will be minimized.

Staff believes that leasing by direct negotiation with NGP, rather than a competitive lease sale, appears possible now given NGP's consolidated land position. An amendment to the lease and a subsequent environmental review would be required should specific development be proposed later. NGP's lease application is now being processed and a lease could be considered by the CSLC in 2013.

Geothermal Prospecting Permits

In September 2011, the CSLC issued a new two-year permit, PRC 8949, to Deep Rose Development LLC to prospect for geothermal resources on a 640-acre parcel of school lands in Inyo County. Deep Rose intends to drill an exploratory well in the latter part of 2012. The State parcel is surrounded by the Haiwee Geothermal Leasing Area, a collection of federal parcels that may soon be offered for lease by the BLM. If the area contains geothermal resources in commercial quantities, development will likely require a project that combines State and federal lands.

In June 2012, the CSLC approved a two-year permit, PRC 8998, for Entiv Organic Energy LLC (Entiv) to deepen a water well located on a 520-acre parcel in Siskiyou County. The parcel was originally fee-owned school land, but the Federal government acquired the surface through a condemnation action in the 1940s to enlarge the Lower Klamath National Wildlife Refuge. The mineral interests were reserved to the State. In 2001, the U.S. Fish and Wildlife Service (USFWS) drilled a series of shallow wells on the refuge to locate fresh water for habitat improvement. Two wells on the State parcel encountered hot water, 157-192 degrees Fahrenheit. In 2011, the USFWS allowed Entiv access to the test wells. Entiv needs to deepen one well to evaluate the commercial potential. The ultimate goal is to locate water at a sufficient temperature to generate electrical power that would be used on the refuge to pump water. Excess power could be sold.

The CSLC approved a two-year permit for High Valley, LLC, a subsidiary of U.S. Renewables Group (USRG). The permit (PRC 9001, effective December 1, 2012) will cover 1,383 acres of school lands immediately north of The Geysers. High Valley plans to re-enter one or more wells previously drilled in the 1980s, or drill new wells, to confirm the presence of geothermal resources and evaluate its commercial potential. USRG has submitted an application for a second prospecting permit on lands further north in anticipation of successful drilling on the permitted lands.

SOLID MINERALS PROGRAM

Revenue from the solid minerals program totaled \$328,756.10 for FY 2011-12 a 220% increase from the prior fiscal year. The commencement of production on the State lease at the Mesquite Gold Mine is the primary reason for the increase in royalty although production on our aggregates leases has shown steady improvement as the economy slowly recovers.

The solid minerals program manages four leases totaling 1,054 acres, one active 1/16th reserved mineral interest parcel totaling 560 acres, and two mineral prospecting permits totaling 1,477 acres. One of the two prospecting permits issued by the State expired in October. The State currently has one mineral prospecting permit which is under consideration for extension and amendment. There are two leases totaling 465 acres that were quitclaimed several years ago where site reclamation is ongoing. In addition to managing these mineral properties, staff continued processing applications for new permits and leases, responding to mineral inquiries, and addressing abandoned mine hazards (liability reduction).

Mineral Extraction Leases

U.S. Borax (PRC 736)

U.S. Borax, Inc. has mined borates on State lands at the Gerstley Mine for more than 80 years. U.S. Borax, Inc. quitclaimed its 160-acre lease in 2006, and is continuing to work with Inyo County and the Department of Conservation, Office of Mine Reclamation (OMR) to reclaim the site. Mine openings were sealed for public safety in 2005 through the installation of bat-compatible gates at the two main portals, and grates anchored at two air shafts. During an inspection conducted in 2007, all remaining hazardous materials were removed from the underground workings. U.S. Borax has continued to work on reclamation involving re-vegetation and minor earthwork. Staff last met with OMR and Inyo County in May 2011. An additional inspection is anticipated in Spring 2013.



Hanson Aggregates (PRC 7301)

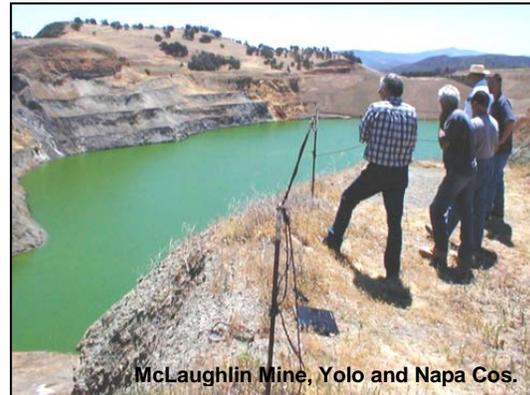
Hanson Aggregates (Hanson) holds a 102-acre lease near Lakeside in northern San Diego County called the Vigilante Aggregate Mine. Revenue from the lease totaled \$10,250.00, which is derived solely from the minimum annual royalty payment required by the lease regardless of production. The



mine has not operated since 2009 due to the recession and downturn in housing and road construction/maintenance. On September 1, 2011, the Commission renewed and amended the lease term through June 30, 2021. Hanson's new lease provides for a slightly higher royalty rate of 6.5% of gross sales.

Homestake Mining Company (PRC 7808)

Homestake Mining Company quitclaimed its 305-acre gold mineral extraction lease in 2002 after it was drilled and found to be non-economic. The lease is located at the McLaughlin Gold Mine in both Yolo and Napa Counties. Staff last inspected the site to evaluate the progress of reclamation work in 2007. Next fiscal year, staff plans to work with Homestake and Napa County, (SMARA lead agency) to confirm that the State Lease area has been properly reclaimed.



Western Mesquite Mines (PRC 8039)

In October 2002, Western Mesquite Mines, Inc. (WMMI) was issued a mineral extraction lease on 658 acres to expand their Mesquite Gold Mine Complex to the north, in the Chocolate Mountains of Imperial County. The mine was idled in 2001 due to low prices, but operations resumed in 2007 when gold prices escalated to \$900 per ounce. Production began on the State lease in December 2011 and royalty for the remaining seven months of the fiscal year was \$200,287.



Staff conducts periodic site inspections to verify the mining and production process and proper payment of royalty. Staff is currently negotiating lease renewal and amendment terms to maximize royalties since the primary term of the lease expired on September 30, 2012.

While mining may be concluded in 2013, gold ore placed on the heap leach pad will continue to be recovered and royalty paid. As monthly sales are made, the State is paid proportional to their ownership of the heap leach pad. After State ore is no longer added to the heap leach pad, the State ownership proportion will gradually decrease. However, the State should see revenues from the mine well into 2022.

Vulcan Lands, Inc. (PRC 8253)

Vulcan Lands, Inc. (Vulcan) holds a 160-acre lease at its Black Angel Quarry southwest of Barstow in San Bernardino County. Staff last conducted a formal inspection in April 2011, and observed the mine to be idle with a caretaker guarding the site. Like similar companies, Vulcan was hit hard by the lack of demand for aggregate.



In June 2010, Vulcan received approval of an Interim Management Plan during which time production would either be idled or greatly reduced. During this period, production will not exceed 45,000 tons per year, or 10% of the previous maximum annual production. During this FY, Vulcan commenced mining again but did not exceed the 45,000 tons per year limit. Revenue this year totaled \$77,050.37.

Granite Construction, Ludlow Pit (PRC 8272 - Expired)

The 80-acre lease held by Granite Construction Co. (Granite) near Ludlow, in San Bernardino County, expired in March 2011. The mine has been idle for more than three years. Staff was unsuccessful in negotiating a lease renewal and Granite advised that it plans to sell the quarry.



Since the County's conditional use permit is still valid, staff will continue to monitor the site for any mineral production and reclamation required under the use permit. No activity occurred on this lease during the course of this FY.

Protech Minerals (PRC 8322 - Expired)

The 10-acre lease held by Protech Minerals, Inc. at the Pioneer Talc Mine in the Kingston Range of San Bernardino County expired in April 2011. During the last site inspection in May 2011, an external bat survey showed that a small number of bats are using the abandoned mine workings. Staff will work with San Bernardino County and the OMR to ensure the mine will be properly reclaimed.



Hi-Grade Materials (PRC 8831)

Hi-Grade Materials Company (Hi-Grade) holds a 116-acre lease to extract sand and gravel at the Hesperia Quarry in Lucerne Valley of San Bernardino County. Lease production began in July 2010 and revenue for FY 2011-12 totaled \$25,613.88. Staff is still awaiting the revision of their Conditional Use/Mining Permit and Reclamation Plan. Another site inspection is anticipated.



Granite Construction, Palm Desert Pit (PRC 7945)

Granite extracts sand and gravel from a large open pit mine near Palm Desert in Riverside County. Included within the pit is a 560-acre parcel in which the State owns a 1/16th reserved mineral interest. The State's royalty is fixed at \$0.04 per ton of material mined and sold. Revenue from the parcel totaled \$14,554.85 for the year.

Mineral Prospecting Permits

CPX Uranium, Inc. (PRC 8805)

CPX Uranium, Inc. (CPX) held a prospecting permit on two adjoining State parcels totaling 837 acres in the Coso Range of Inyo County. Exploration by the federal government in the 1960s revealed the presence of uranium deposits in the area. CPX conducted mapping, sampling, and surveying to delineate the extent of the uranium mineralization. The permit expired on October 11, 2011 and CPX chose not to apply for a new permit.

Bagdad Chase, Inc. (PRC 8917)

Bagdad Chase, Inc. (Bagdad) holds a prospecting permit covering a 640-acre parcel of fee-owned school land south of Ludlow in San Bernardino County near the historic Bagdad Chase Gold Mine. The one-year permit was issued effective May 1, 2011. Under the permit, Bagdad conducts geologic mapping and rock chip sampling in hopes of verifying a commercial aggregate deposit. On May 7, 2012, Bagdad submitted an application for a permit extension and amendment to drill two holes on State Lands to explore for precious metals. Staff conducted a site inspection on May 20, 2012, to witness drilling on Bagdad's private lands and discuss the details of the permit. Staff anticipates Commission consideration of the permit extension and amendment in the near future.



Mineral Extraction Lease Applications

Granite Construction, Liberty Quarry (W 40904)

In 2004, Granite Construction (Granite) applied for a mineral extraction lease on a 151-acre parcel south of Temecula in Riverside County. Granite plans to open a new mine, designated the Liberty Quarry, to extract granitic rock for aggregate. The proposed lease and an adjacent 160-acre parcel where the State owns a 1/16th mineral interest will be included in the project. The Riverside County Planning Department, as CEQA lead agency, completed an Environmental Impact Report (EIR) in April 2011. Public hearings were conducted to discuss local concerns. In December 2011, the Riverside County Planning Commission denied the project by a 3-to-2 vote. Granite appealed their decision to the Riverside County Board of Supervisors who also denied the project in February 2012. However, in May 2012, the Board of Supervisors approved the EIR. Granite advised staff that they were evaluating their options.



Update: In July 2012, Granite submitted an application to Riverside County for a reduced project. However, in November 2012, Granite withdrew their application with the County and CSLC.

Bureau of Reclamation (PRC 6735)

The U.S. Bureau of Reclamation (BOR) held a 90-acre lease from October 1, 1984 through September 30, 1994 at the Manchester Quarry in San Bernardino County near the California-Nevada-Arizona border. Operations ceased at the quarry in 1994, upon lease expiration. One month later, with passage of the California Desert Protection Act, the quarry was included in the Dead Mountains Wilderness Area. In 2001, the BOR submitted an application to renew the lease, along with an application to the County to resume mining. The BOR proposed extracting 2.8 million tons of rock over a 25-year period to armor levees along the Colorado River to protect life and property.



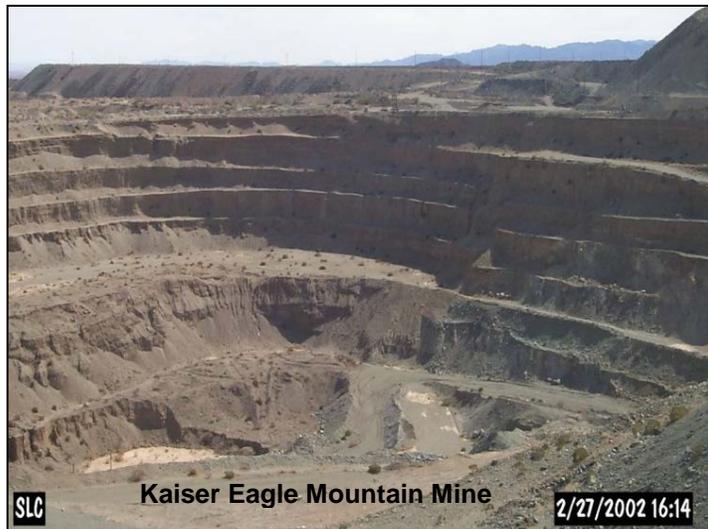
After several years of inaction, the staff met with BOR, San Bernardino County, and the OMR in 2007 to discuss the project. In 2008, a draft CEQA document and a Mining and Reclamation Plan were completed. In 2009, an annual mine inspection by the County, revealed numerous violations and deficiencies and was deemed out of compliance with the Surface Mining and Reclamation Act (SMARA). After much discussion, the BOR recently agreed to either reclaim the parcel in accordance with SMARA or mine it if permitted. Staff would prefer mining, as that would generate revenue for STRS.

Enigma Resources LLC (W 40949)

Enigma Resources LLC (Enigma) submitted an application for a mineral prospecting permit in July 2010 for a 480-acre parcel northeast of Bridgeport in Mono County. A permit covering this parcel was previously issued to Enigma in March 2007, and then assigned to Cougar Gold LLC in April 2007. That permit, PRC 8742, expired in February 2010. Enigma plans to pursue the prospecting that Cougar Gold intended to carry out to demonstrate commercial viability. Enigma's application remains incomplete. Enigma plans to apply to Mono County for a drilling permit. Enigma is also working on a vehicle access agreement with the Flying-M Ranch and the possible use of a helicopter to reduce impacts of prospecting. Staff is awaiting an update.

Kaiser Resources (W 40871)

In August 2002 Kaiser Resources applied to exchange the State's reserved mineral interest on a 467-acre parcel of school lands for a percentage interest in a nearby mineral estate. The parcel is located in the Eagle Mountain Mine Complex, a 3,000-acre area of open-pit iron mines in Riverside County. Kaiser held a 145-acre lease within the parcel from 1978 to 2002, but mining of iron ore



ceased in 1982. Mine Reclamation LLC permitted a Class 3 landfill at the site to serve the greater Los Angeles area. Mine Reclamation LLC contracted to sell the landfill to the Los Angeles County Sanitation District, but the sale was delayed due to litigation. In 2009, the U.S. Ninth Circuit Court of Appeals rendered an unfavorable ruling regarding the landfill. This decision was appealed to the full U.S. Ninth Circuit Court of Appeals in 2010, which also rendered an unfavorable verdict. A further appeal to the U.S. Supreme Court in May 2011 remanded the issue back to the BLM to resolve certain issues prior to commencement of the landfill. Mine Reclamation LLC determined that resolution of the issues was unlikely and declared bankruptcy on October 30, 2011. Further discussion on the issue is pending resolution of the bankruptcy.

In 2010, the CSLC was asked to comment on the environmental review for the Eagle Crest Energy Company's Eagle Mountain Pumped Water Storage project, a proposal to pump water from a lower pit to an upper pit at night. The water would flow through turbines to the lower pit during the day when electrical demand is high, generating up to 1,300 megawatts of electricity. Staff provided

information regarding the State's mineral interest at the complex. In June 2012, staff was preparing comments being solicited by the State Water Resources Control Board (SWRCB) for a Draft Water Quality Certification for the project. The SWRCB, which serves as the CEQA lead agency for the project, has not yet certified the Environmental Impact Report.

With rapid escalation of iron ore prices and the reopening of several small iron ore mines in southern California, the Kaiser Eagle Mountain Mine Complex is also being reviewed to determine whether resumption of iron ore mining may now be economic.

Molycorp Minerals (W 40646)

Molycorp Minerals LLC operates the Rare Earth Mine, an open-pit mine near Mountain Pass in the Clark Mountain Range of San Bernardino County. This mine is the only major producing rare earth mine in the United States and is an important supplier of rare earth elements – the 15 lanthanides in the periodic table, plus scandium and yttrium. The mine is currently undergoing expansion and modernization due to the rise in rare earth



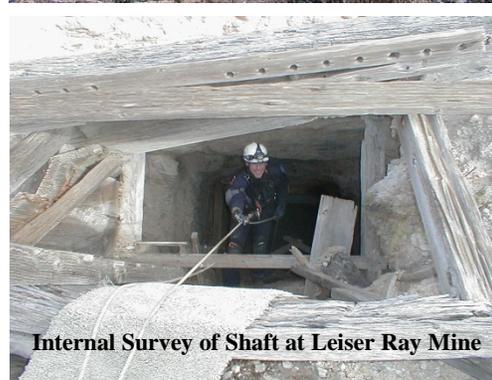
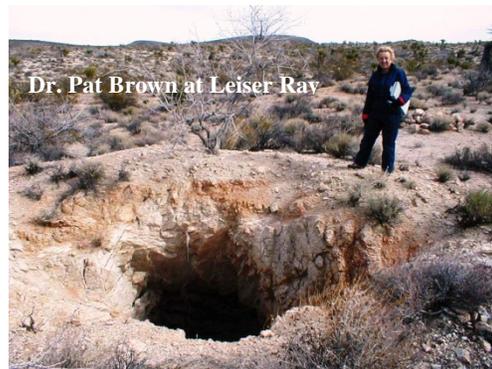
element prices and their criticality to electronics and renewable energy. Four-hundred acres of reserved mineral interest school lands exist south and west of the mine. An EIR prepared for the mine's expansion revealed that Molycorp intended to remove approximately 545,000 tons of rock material from the State parcel. Staff conducted a site inspection in March 2010, and notified Molycorp that a lease agreement would be required. A lengthy written exchange followed, with the conclusion resulting that Molycorp, as the surface owner, can remove rock material without any authorization from the CSLC, provided that removal is limited to overburden material and there is no sale of aggregate or rare earth minerals. Molycorp provided geologic evidence to staff suggesting the site does not contain commercial quantities of rare earth minerals, and staff learned from San Bernardino staff that Molycorp has no plan to market the overburden for aggregate. In September 2011, staff formalized an understanding with Molycorp through a letter requiring that Molycorp agrees to segregate and stockpile the State's mineral resource, and will apply for a lease from the CSLC should the sale of aggregate or rare earth minerals be contemplated. A site inspection to confirm adherence to this agreement is needed.

Abandoned Mine Lands

The CSLC continued its efforts to inventory and remediate abandoned mine features located on school lands. Staff participates in periodic meetings with local, county, State, and federal agencies, as well as contractors, environmental groups, and the public.

A 2009 report by the Natural Resources Agency summarized an inventory of chemical and physical hazards on lands managed by the State, including school lands. The Resources Agency directed the OMR to prioritize and coordinate remediation of the sites. The OMR and the Department of Toxic Substances Control (DTSC) determined that chemical hazards on lands managed by State Parks were of highest priority for remediation. The report states there are 1,213 abandoned mine features located on 143 school land parcels, five of which contain chemical hazards. Staff posted signs on those five parcels in 2009 warning that some form of chemical contamination from past mineral processing may be present.

During FY 2010-11, major efforts were focused on four mines, the Leiser Ray and Pacific Fluorite Mine parcels in San Bernardino County, the Buckeye Mercury Mine in Lake County, and the Crown Uranium Mine in Imperial County. In July 2011, staff was notified that someone vandalized the Crown Uranium Mine bat gate installed in 2005 by cutting one of the steel bars to gain access. A mine exploration club posted photographs on the internet of the exploration of the mine, including a descent to the lower level down a 100-foot wood ladder. In August 2011, staff performed a repair of the gate by welding the bar back into place. Unfortunately, the vandalism was repeated in October 2011. Frontier Environmental Solutions claimed they could complete a more robust repair in conjunction with other work in Imperial County in the near future.



At the Leiser Ray Mine, inventory of the numerous shafts was completed in December 2011 and warning signs were posted. In January 2012, a bat survey was conducted with Dr. Pat Brown, of Brown/Berry Biological Consulting and her assistant revealing that all but the two largest shafts could be backfilled due to lack of use by bats and the poor habitat the shafts provided. Additional bat exit surveys may be conducted to determine if the large shafts that are partially

occluded with debris and could not fully be internally inspected may also be backfilled.

Approaching the end of the fiscal year, staff worked with DTSC to try and obtain a U.S. Environmental Protection Agency (EPA) Brownfield Grant for the Buckeye Mercury Mine in order to complete more studies to characterize the risk and level of contamination. The EPA denied the grant application stating that sufficient information was gathered to make a determination as to whether the mine may qualify as a Superfund Site. The EPA is planning to put out a contract for this work.



Buckeye Mercury Mine



Ted Weasma near mine shaft

At the request of Mojave National Preserve Geologist Ted Weasma, an abandoned mine inventory was conducted at the site of the Pacific Fluorite Mine in the Clark Mountains of San Bernardino County. Due to the large number of abandoned mine features from old silver and fluorite mines, and their geographic remoteness and rugged terrain, further inventory work in the coming months will be required to assess appropriate closure methods.



Deteriorated Wood Shaft Collar



Old Boards Bridging Internal Shaft

OIL & GAS PROGRAM

Revenue from the oil & gas program totaled \$2,105,391.02 for FY 2011-12, reflecting a 49% increase from the prior year. Oil production from the two school lands parcels where the State has a 1/16th reserved mineral interest increased by 19%. The price for the oil averaged \$108.67 per barrel, 25% higher than the prior year. Most of the revenue, equaling \$2,103,969.19, came from



the 160-acre Round Mountain parcel (VA 5310) located northeast of Bakersfield in Kern County. This parcel is part of a unit operated by MacPherson Oil Company. The balance of the revenue, \$1,421.83, came from the seven-acre Sulfur Crest parcel (LA 9252) located in the Ojai oil field in Ventura County.

The designations VA and LA stand for the Visalia and Los Angeles land districts of the old California Surveyor General, a constitutional office until 1929. The sale of school lands was one function of that office, and transactions were typically identified with the district abbreviation and a number. After 1929, the functions of the Surveyor General were transferred to the Division of State Lands within the Department of Finance, then again in 1938 to the CSLC.

LOCATION OF PARCELS ASSOCIATED WITH GEOTHERMAL, SOLID MINERALS, AND OIL & GAS PROGRAMS



**SUMMARY OF REVENUE GENERATED FROM GEOTHERMAL,
SOLID MINERALS, AND OIL & GAS PROGRAMS -
FISCAL YEAR 2011-12**

STRS FUND

Geothermal Royalties:

Royalties from producing leases:	\$ 4,077,784.06
Royalties from 1/16 th interest parcel:	\$ 90,379.45
Supplemental Royalty from one lease:	\$ 249,829.55
Geothermal Total:	\$ 4,417,993.06

Solid Minerals Royalties:

Royalties from leases:	\$ 314,201.25
Royalties from 1/16 th interest parcels:	\$ 14,554.85
Solid Minerals Total:	\$ 328,756.10

Oil & Gas Royalties:

Oil & Gas Total:	\$ 2,105,391.02
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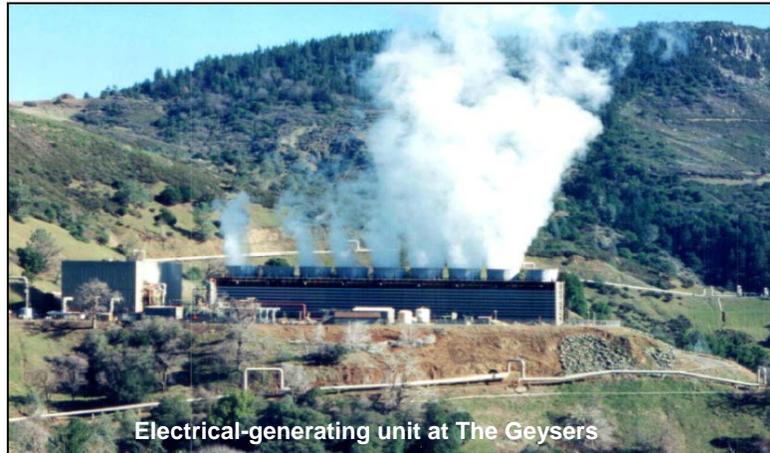
TOTAL GROSS REVENUE: \$ 6,852,140.18

FISCAL YEAR 2012-13 PLANNED ACTIVITIES

GEOTHERMAL PROGRAM

The Geysers

Staff estimates revenue from school lands geothermal leases at The Geysers will be approximately \$4.0 million in FY 2012-13. Steam production on developed leases is expected to decline slightly, while prices for electrical power (and natural gas) are expected to remain



stable or increase slightly. Leases PRC 8556 and PRC 8844 could see further development during the year, but any new production will have only a minor impact on the overall level of production and revenue from the field.

Geothermal Permits

Staff plans to monitor proposed exploratory drilling on Deep Rose's permit PRC 8949 in Inyo County and Entiv's permit PRC 8998 in Siskiyou County. Successful drilling could lead to proposed conversion of the permits into leases, subject to CSLC approval. Staff expects a permit to be issued to High Valley, LLC, on school lands north of The Geysers and exploratory drilling could also occur there during the fiscal year.

Geothermal Applications

Staff expects to seek CSLC approval of a negotiated lease with NGP Truckhaven in the Truckhaven area of Imperial County. If a lease is issued, it will most likely join with leases on federal and private lands in a geothermal unit for exploration and possible future development. Staff will coordinate this leasing effort with staff of Parks so that geothermal activities do not interfere with recreation within the Ocotillo Wells SVRA.

SOLID MINERALS PROGRAM

Mineral Lease Management

Staff anticipates revenue from solid mineral leases will likely exceed \$2.0 million in FY 2012-13 due to the commencement of precious metals mining by WMMI at the Mesquite Mine. The WMMI lease, PRC 8039, will be up for a 10-year renewal in November 2012. Staff is working on the lease renewal and amendment for Commission consideration. As monthly sales are made, the State is paid proportional to their ownership of the heap leach pad. After State ore is no longer added to the heap leach pad, the State ownership proportion will gradually decrease over time. After mining is completed, the payments will be paid within the 10-year lease renewal as the State is paid when ounces are sold. The property was acquired under an exchange with the BLM as part of the California Desert Protection Act of 1994. The federal government will receive an equal value of State inholdings within park and wilderness areas for all royalties received.

The downturn in the economy has taken a significant toll on aggregate mines in southern California. The State currently only has four school land aggregate leases of which three are producing at a low rate. The Hanson mine in San Diego County remains idle and the Vulcan Black Angel Quarry is under an Interim Management Plan for idled or reduced production. Staff anticipates an increase in demand for aggregate for road construction and housing as we recover from the recession.

Mineral Applications

Staff continues to pursue a new Mineral Extraction Lease with the Bureau of Reclamation, for the Manchester Quarry. Staff will work with San Bernardino County as the CEQA lead agency during its environmental review, which potentially could result in revenue in excess of \$5.0 million to the State over a 25-year project life.

Staff will continue to monitor, extend, and issue new mineral prospecting permits. Staff encourages new applicants to extend or amend their permits and Staff continually assists with new mineral inquiries. Staff is currently working on the Bagdad Chase mineral prospecting permit extension and amendment. Staff anticipates this item being ready for the Commission's consideration in the near future.

With regard to Kaiser's application for a mineral exchange, it will have to remain in abeyance pending the outcome of legal obstacles to a proposed landfill, environmental review of a proposed pumped storage project, and the possibility of renewed mining of iron ore.

With the passage of AB 982, Commission staff is directed to enter into an MOU with the BLM to exchange State school lands for federal lands suitable for renewable energy development. It is envisioned that MRMD staff will be involved in the identification and valuation of school lands with high mineral potential that may enhance their appraised value.

Abandoned Mine Lands

Staff desires to continue work with the OMR on the inventory and remediation of hazardous mine features on school lands parcels. However, during the last several years, the OMR's contractual obligations with the BLM and National Park Service to conduct abandoned mine land inventory and remediation project management substantially slowed efforts with the CSLC.

At the Pacific Fluorite Mine parcel, staff plans to complete the abandoned mine inventory with the Mojave National Preserve Geologist and determine appropriate signage, fencing, and closures.

At the Leiser Ray Mine, staff intends to complete consultation with CDFG and SHPO so that the mines can be closed either in the Fall of 2012 or 2013, so that maternity season can be avoided. Additional bat exit survey work on the two large shafts in Spring 2013 may permit their closure along with 10 smaller shafts such that all work could be completed at one time.

Staff will ensure that the Crown Uranium Mine that was vandalized twice, will once again be repaired and reinforced to preclude human access while protecting the bat colony.

As time permits, additional inventory work will be conducted. Abandoned mine warning signs will be installed and efforts will be made to determine if fencing, bat compatible or hard closures, are suitable to protect the public and wildlife.

OIL & GAS PROGRAM

Staff estimates revenue from the two school lands oil & gas parcels is expected to remain near \$2.0 million during FY 2012-13, as high levels of oil production and high prices are expected to continue.

SURFACE MANAGEMENT PROGRAM

The LMD is responsible for the Surface Management Program, which oversees all surface activities on school lands with the exception of mineral activities. These activities include land exchanges and sale of school lands parcels to public and private entities, acquisitions of lands to enhance the resource base, and the issuance of leases for various purposes such as the production of renewable energy, agriculture, grazing, and rights-of-way for roads, oil and gas pipelines, and electrical transmission lines. The objectives of the Surface Management Program are to manage surface uses to generate revenue, assure ongoing viability of the resource, protect the corpus of the trust, enhance local economic development, and protect the environment. These goals are accomplished through management and development techniques that maximize the economic return to STRS and the SLBF. For a summary of the revenues generated to STRS and the SLBF through the Surface Management Program, see the table entitled "Summary of Revenue Generated From Surface Management Program - Fiscal Year 2011-12" (page 25).

FISCAL YEAR 2011-12 ACTIVITIES

STATE TEACHERS' RETIREMENT SYSTEM FUND REVENUES

Surface Rental Income and Revenues

General surface leasing involves ongoing activities, including processing new applications, re-issuing expiring leases, processing lease assignments and amendments, conducting rent reviews, terminating old leases, and conducting other surface management activities. The majority of the 468,600± acres of school lands are isolated, landlocked parcels, with many being non-revenue generating desert lands. However, close to a quarter of the total school land acreage is leased for revenue generating purposes.

Revenues deposited into the STRS fund from more than 100 revenue-generating surface leases in FY 2011-12 totaled \$188,486.13, which represented an increase of 3% from FY 2010-11. Surface rent rates are usually tied directly to land values, which have been in decline due to the recent recession. However, revenues from LMD surface leases actually increased in FY 2011-12 because several new right-of-way leases were completed. Also, some older leases from the 1960s expired and were renegotiated at current market rent rates. There was also \$14,727.45 in revenue generated from a small timber salvage sale from a forest fire in Yuba County.

SCHOOL LAND BANK FUND - LOAN TO THE GENERAL FUND, REVENUES, AND EXPENSES

Loan to the General Fund

In response to the State's severe budget crisis, the Legislature borrowed from numerous State funds during FY 2008-09, including \$59,000,000 from the SLBF. This loan to the General Fund was part of the Budget Act of 2008, as amended by Chapter 2, Statutes of 2009 Third Extraordinary Session. The loan is scheduled to be repaid no later than June 30, 2016. During the term of the loan, interest will accrue based on the rate utilized by the Pooled Money Investment Account (PMIA).

Bureau of Land Management CDPA Land Exchange (AD 556)

On October 31, 1994, the California Desert Protection Act (CDPA) was signed into law by the President of the United States (Public Law 103-433). The CDPA designated 3.6 million acres in southern California as wilderness to be administered primarily by the U.S. Bureau of Land Management (BLM), and designated an additional four million acres in southern California to be included in the national park system. The purpose of the CDPA is to preserve areas in the California desert to protect its natural, cultural, scenic, and historical values and to provide for public enjoyment. Four hundred forty-two parcels (approximately 251,000 acres) of fee-owned school lands and more than 100 parcels encumbered by the State's reservation of mineral interests were initially identified to be within the boundaries of the CDPA.

Section 707 of the CDPA provides for the exchange of school lands located within these designated areas for other federal lands located outside of these areas. The CSLC receives compensation for the exchange of its fee and mineral interests on a value-for-value basis as determined by fair market appraisals. Compensation for the State's assets may be made in various forms, including cash or exchange for other lands. To date, there have been five CDPA land exchange transactions completed with the BLM. These five exchanges have resulted in the transfer of more than 66,000 acres of school lands to the BLM and deposits totaling more than \$14.7 million into the SLBF.

During FY 2011-12, work continued on a sixth CDPA land exchange. Staff completed the negotiations on a Binding Exchange Agreement with the BLM, involving 69 parcels of school lands totaling approximately 38,434 acres. All of these properties are located within national parks, national monuments, or federal wilderness areas. It is hoped that the sixth CDPA land exchange will be completed in FY 2012-13, and will result in a total deposit of \$7,994,925 into the SLBF. As part of this transaction, a partial payment of \$56,492.29 was deposited into the SLBF during FY 2009-10. For more information on this exchange, see page 28.

Accrued Interest on the School Land Bank Fund

A total of \$7,087.45 in interest was generated by the PMIA to the SLBF during FY 2011-12. Interest accruals decreased slightly from the previous year due to the lower interest rates that resulted from a general downturn in economic conditions.

Expenses Charged to the School Land Bank Fund

Expenses during FY 2011-12 totaled \$211,524.20. Of this amount, \$132,801.55 was charged to the Renewable Energy Program and \$67,416.65 was incurred by the Abandoned Mine Remediation Program. There also was a total of \$11,306 in charges to the Fund for statewide administrative services.

SUMMARY OF REVENUE GENERATED FROM SURFACE MANAGEMENT PROGRAM - FISCAL YEAR 2011-12

STRS FUND

Surface Rentals:

Surface Rentals:	\$ 188,486.13
Timber Fire Salvage Sales:	\$ 14,727.45
TOTAL GROSS REVENUE GENERATED TO STRS FUND:	\$ 203,213.58

SCHOOL LAND BANK FUND

GROSS REVENUE GENERATED TO SCHOOL LAND BANK FUND:	\$ 7,087.45
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EXPENSES

Statewide Administrative Services (Pro Rata):	\$ -11,306.00
Program 10 – Abandoned Mine Closure Program:	\$ -67,416.65
Renewable Energy Program:	<u>\$ -132,801.55</u>

NET REVENUE GENERATED TO SCHOOL LAND BANK FUND:	\$ -204,436.75
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FISCAL YEAR 2012-13 PLANNED ACTIVITIES

POTENTIAL STATE TEACHERS' RETIREMENT SYSTEM FUND REVENUES

Surface Rentals Income

Staff estimates that surface rentals from existing and new surface use leases on school lands parcels during FY 2012-13 will remain relatively unchanged from FY 2011-12.

Timber Harvests

There is potential for income from timber salvage and sanitation operations in FY 2012-13. These operations are conducted periodically due to losses from natural causes such as fire, high winds, insect infestation, and diseases. Because of the irregular nature of these operations, the amount of additional income from these sources is difficult to predict.

Renewable Energy Projects

With the passage of Assembly Bill (AB) 32, the increase in public awareness about climate change, and the rise in energy prices, staff expects more interest in the long-term leasing of school lands for renewable energy projects. Some of these projects will involve utilization of wind as an energy source. These projects require the installation and operation of wind turbines that, if installed, would generate electricity that would be placed into the State's electrical grid. Other renewable energy projects will utilize solar technology such as photovoltaic cells and solar-concentrating systems (troughs, towers, or dishes).

WIND

Staff plans to continue processing an application for a wind energy lease known as the Tule Wind Project, which was filed with the CSLC in 2007. This proposed project involves more than 12,000 acres of lands located in eastern San Diego County, including federal lands administered by the BLM, private lands, tribal reservation lands of the Ewiiapaayp Band of Kumeyaay Indians, and 640 acres of school lands.

The Tule Wind Project was analyzed in a joint Environmental Impact Report/Environmental Impact Statement (EIR/EIS) prepared by the California Public Utilities Commission (as the lead agency under CEQA) and the BLM (as the Lead Agency under the National Environmental Policy Act). In December 2011, the BLM issued a Record of Decision authorizing the portion of the project located on federal lands. But new transmission lines and access roads necessary for the project require separate authorization from the Bureau of Indian Affairs (BIA) for development on the tribal lands and by the CSLC for

development on the school lands. The BIA and the CSLC are separately analyzing the proposed project on their respective lands, particularly with regards to potential impacts on golden eagles. If the project ultimately is approved by the CSLC and the lease is issued to allow construction and operation of the wind turbines, staff anticipates significant revenue from this lease beginning in FY 2014-15.

SOLAR

Staff will continue processing two applications for solar energy leases in San Bernardino County that together would cover almost 11,400 acres of school lands. The two proposed projects, Johnson Valley SEGS and Sorrel Solar Farm, will each be subject to environmental reviews under CEQA. If these projects are successfully completed and the leases are issued, staff anticipates significant revenue from these leases beginning in FY 2014-15.

Desert Renewable Energy Conservation Plan/Renewable Energy Action Team (DRECP/REAT)

On November 17, 2008, Governor Schwarzenegger signed Executive Order S-14-08 (Order), establishing a Renewable Portfolio Standard (RPS) for California, whereby retail sellers of electricity must serve 33 % of their load with renewable energy by 2020. The Order directed State agencies to take all appropriate actions to implement this target in all regulatory proceedings, including siting, permitting, and procurement for renewable energy power plants and transmission.

Also on November 17, 2008, the California Energy Commission and the California Department of Fish and Game (CDFG) signed a Memorandum of Understanding (MOU) formalizing the Renewable Energy Action Team (REAT) to facilitate the planning and realization of this RPS. The Order, among other things, directed the REAT to create a "one-stop" process for permitting renewable energy generation power plants and to work with the BLM and USFWS to create a Desert Renewable Energy Conservation Plan (DRECP or the Plan) that, generally speaking, encompasses portions of the Mojave and Colorado deserts in California. The primary goals of the DRECP are to provide for the long-term conservation and management of sensitive species and the natural communities and ecosystems on which they depend, identify the most appropriate locations in the Plan area for renewable energy development, and provide a coordinated and standardized mitigation requirement strategy that creates a more efficient process by which project applicants may obtain the necessary regulatory authorizations.

On September 1, 2011, CSLC entered into an MOU with the REAT to facilitate coordination between CSLC staff and the REAT Agencies to ensure that REAT and DRECP goals for renewable energy development and environmental protection are accomplished in a manner that is consistent with and advances

CSLC's management objectives for school lands in the DRECP Planning Area. The execution of this MOU, along with the passage of AB 982, discussed below, enhances the CSLC's role in the development of the DRECP and helps facilitate the exchange of lands between the CSLC and the BLM, resulting in the consolidation of land ownership patterns to the benefit of both agencies. During FY 2012-13, staff will continue to actively participate in the DRECP for the purpose of improving the potential development of school lands for renewable energy projects involving both revenue-generation purposes and habitat mitigation and thereby maximize the value of the lands within the SLBF.

Land Exchanges to Facilitate Renewable Energy Projects – AB 982

During the 2011 legislative session, the Legislature passed and Governor Brown signed AB 982 (enacting chapter 2 of Division 7.7 of the Public Resources Code). The new law requires CSLC staff, with the cooperation of the Department of the Interior, to enter into a memorandum of agreement to facilitate land exchanges that consolidate school land parcels into contiguous holdings. AB 982 also provides that in preparing any land exchange proposal, priority must be given to exchanges that are best suited for renewable energy development projects and that are consistent with the DRECP. This law went into effect on January 1, 2012. Furthermore, the law requires that environmentally-sensitive lands and lands with extraordinary cultural or biological resources be identified, with the intent of consolidating these lands and providing for their long-term protection.

The CSLC and BLM staffs have already met to begin this process, and anticipate significant progress on this project during FY 2012-13. For more information, see the Addendum, *Report to the California State Legislature on the Status of School Land Consolidation Efforts in the California Desert*.

Geographic Information Systems (GIS)

Geographic Information Systems (GIS) is software that provides a powerful mapping tool that is widely used by public agencies and private industry for resource analysis and planning. During FY 2011-12, as part of its Renewable Energy Program, staff expended considerable time and resources to update the school lands GIS data. New and improved maps of school lands resources are now available on the Commission's website. Going forward, this improved data should improve overall management of school lands and increase staff's ability to market its renewable energy resources.

POTENTIAL SCHOOL LAND BANK FUND REVENUES AND ACTIVITIES

Applications for the following projects are currently under consideration and will be actively processed in FY 2012-13. Staff also anticipates new requests for land exchanges and land sales will be received during the year.

CDPA/BLM Land Exchange (AD 556)

Prior CDPA land exchanges between the CSLC and the BLM have resulted in an unequal balance between the values of the lands previously exchanged. Currently, the CSLC owes the BLM lands worth \$2,154,675. The BLM has available, through the General Services Administration, \$7,938,432.71 from surplus federal land sales designated for CDPA land purchases from the CSLC. Staff continues to work with BLM on a new proposed "Ledger Balancing Land Exchange" whereby the CSLC will transfer school lands of approximately \$10,149,600 in value to the BLM and National Park Service (NPS) to eliminate the outstanding balance and facilitate the completion of the terms of the original CDPA legislation. As part of the transaction, the NPS was already provided a payment of \$56,492.29 to balance the transaction (see page 23). Regardless, this transaction was stalled due to a federal audit by the General Accountability Office (GAO). Staff hopes to complete this transaction during FY 2012-13. However, the legal dispute between the GAO solicitor and the Department of the Interior solicitors is beyond the CSLC's control. It remains uncertain if and when this dispute will be resolved. When completed as proposed, staff anticipates a total of \$7,994,925 will be deposited into the SLBF from this exchange.

State Parks Land Sale (SA 5763)

The California Department of Parks and Recreation (Parks) submitted an application in FY 2005-06 to purchase 5,758 acres of school lands for a State Vehicle Recreation Area (SVRA). The land consists of nine full sections located in Imperial County west of the Salton Sea. Parks already completed an acquisition involving 4,000 acres of privately-owned land for the project, and the nine sections of school lands are arranged in a checkerboard pattern amid this previously acquired property. Since originally proposed, the purpose of this sale was modified. Parks now will obtain the School land property as part of a mitigation measure for a development project under construction by San Diego Gas & Electric (SDG&E). SDG&E will provide the funds for the transaction. Approximately half of the transferred school lands will be used by Parks to expand Anza Borrego State Park and the remainder will be used by Parks Off-Highway Vehicle Division for the SVRA. After lengthy delays, the sale is expected to be completed in late FY 2012-13 or early FY 2013-14, and will add more than \$2,300,000 to the SLBF.

Heinz Ranch Land Exchange (W 26524)

Staff will continue to process an application for a land exchange that was received in December 2011. This project involves school lands located near Honey Lake in Lassen County. Under the proposed exchange, 2,745 acres of school lands will be exchanged for 2,876 acres of private lands located in the same area. The CSLC will also receive a cash payment of \$42,500, which will be deposited into the SLBF.

FINANCIAL SUMMARY: FISCAL YEAR 2011-12

STRS FUND

REVENUES AND EXPENSES

Revenues:

Surface Rentals	\$	188,486.13
Surface Revenue – Timber Salvage Sale	\$	14,727.45
Geothermal	\$	4,417,993.06
Solid Minerals	\$	328,756.10
Oil and Gas	\$	2,105,391.02
GROSS REVENUES	\$	7,055,353.76
Less: Geothermal Resource Development Account (GRDA) Deposits.....	\$	<72,628.70>
(Public Resources Code Section 3826)		
TOTAL	\$	6,982,725.06

EXPENSES: Net Management Costs

Land Management.....	\$	395,357.90
Geothermal	\$	485,879.73
Solid Minerals	\$	348,728.42
Oil and Gas	\$	4,493.97
Ownership Determination	\$	100,122.23
GROSS EXPENSES	\$	1,334,582.15
Less: Reimbursement Recovery	\$	<134,026.52>
TOTAL EXPENSES	\$	1,200,555.63
NET REVENUE TO STRS	\$	5,782,169.43

SCHOOL LAND BANK FUND

Balance as of July 1, 2011 (<i>after year-end accounting adjustment</i>)	\$	1,930,056.93
SMIF Interest Earned Fiscal Year 2011-12.....	\$	7,087.45
Less: Expenses.....	\$	<211,524.20>
BALANCE OF FUND AS OF JUNE 30, 2012.....	\$	1,725,620.18
<i>(Note: Does not include \$59,000,000 loan to General Fund, due 6/30/13)</i>		

ABBREVIATIONS AND ACRONYMS

AB	Assembly Bill
AD	Acquisition Disposition
BIA	Bureau of Indian Affairs
BLM	U.S. Bureau of Land Management
BOR	U.S. Bureau of Reclamation
CDFG	California Department of Fish and Game
CDPA	California Desert Protection Act
CDOGGR	California Division of Oil, Gas, and Geothermal Resources
CEQA	California Environmental Quality Act
CPX	CPX Uranium, Inc.
CSLC	California State Lands Commission
DRECP	Desert Renewable Energy Conservation Plan
EIR	Environmental Impact Report
EIS	Environmental Impact Statement
ENTIV	Entiv Organic Energy LLC
EPA	United States Environmental Protection Agency
FY	Fiscal Year
GIS	Geographic Information Systems
IAE	Iceland America Energy
IMP	Interim Management Plan
LA	Los Angeles (an old State Land Office land district designation)
LLC	Limited Liability Corporation
LMD	Land Management Division
MRMD	Mineral Resources Management Division
MOU	Memorandum of Understanding
NEPA	National Environmental Policy Act
NGP	Nevada Geothermal Power
NPS	U.S. National Park Service
OMR	California Department of Conservation, Office of Mine Reclamation

Parks	California Department of Parks and Recreation
PMIA	Pooled Money Investment Account
PRC	California Public Resources Code
REAT	Renewable Energy Action Team
RPS	Renewable Portfolio Standard
SDG&E	San Diego Gas & Electric
SLBF	School Land Bank Fund
SMARA	Surface Mining and Reclamation Act
STRS	State Teachers' Retirement System
SVRA	State Vehicular Recreation Area
USFWS	United States Fish and Wildlife Service
USRG	U.S. Renewables Group
VA	Visalia (an old Surveyor General land district designation)
WMMI	Western Mesquite Mines, Inc.

ADDENDUM

Report to the California State Legislature on the Status of School Land Consolidation Efforts in the California Desert

Introduction and Purpose

In September 2011, the Executive Officer of the California State Lands Commission (Commission), with authority from the Commission, executed a memorandum of understanding with the four agencies comprising the Renewable Energy Action Team (REAT)¹ expressing the agencies' intent to coordinate and cooperate on development of the Desert Renewable Energy Conservation Plan (DRECP or Plan) in the Mojave and Colorado Desert regions of the State. The goal of the DRECP is to provide for effective protection and conservation of desert ecosystems while allowing for the appropriate development of renewable energy projects. In addition to the REAT agencies and the Commission, the planning process involves several other state and federal agencies, including the California Public Utilities Commission, California Department of Parks and Recreation, National Parks Service, and the Department of Defense, as well as interested stakeholders including cities, counties, tribal interests, industry and utilities, and non-governmental environmental organizations.

Assembly Bill 982 (Skinner), enacted as Chapter 2 of the School Land Bank Act, Land Exchanges for Renewable Energy-Related Projects (Chapter 485, Statutes of 2011 and codified in California Public Resources Code §§ 8720-8723), builds on this ongoing cooperative relationship. Pursuant to the requirements of Chapter 485, Commission staff is submitting this report on its school land consolidation efforts in the California desert,² including the status of the memorandum of agreement (MOA) between the Commission and the United States Department of the Interior, Bureau of Land Management (BLM) described in subdivision (a) of section 8722.

Background

School lands were granted to the State of California by the federal government in 1853 and consisted of the 16th and 36th sections of land in each township. A supplementary act in 1927 extended the grant of mineral lands to the State. Today, the Commission manages approximately 468,000 acres of school lands held in fee ownership by the State, and the reserved mineral interests on approximately 790,000 acres of school lands where the surface estate has been sold.

School lands were placed into a statutory trust in 1984 when the State Legislature approved the School Land Bank Act, creating the School Land Bank Fund³ and designating the Commission as trustee of the Fund. In enacting the School Land Bank

¹ The REAT was established pursuant to a memorandum of understanding among the California Energy Commission, the California Department of Fish and Wildlife, the U.S. Department of Interior Bureau of Land Management, and the U.S. Fish and Wildlife Service, dated November 17, 2008.

² The "California desert" in this report means the California Desert Conservation Area as described in Section 1781 of Title 43 of the United States Code.

³ The School Land Bank Fund was created pursuant to section 8711 of the California Public Resources Code.

Act, the Legislature directed the Commission to “take all action necessary to fully develop school lands, indemnity interests, and attendant mineral interests into a permanent and productive resource base” to provide economic support of the public school system (California Public Resources Code § 8701). Today, all net revenue derived from the use of school lands (i.e., royalties, rents, and interest generated from promissory notes) must be deposited into the State Treasury to the credit of the Teachers’ Retirement Fund, which benefits the California State Teachers’ Retirement System.

The majority of the over 340,000 acres of school land under the jurisdiction of the Commission in the California desert are fragmented and isolated, and the size of the individual parcels is insufficient for development of renewable energy projects. In addition, significant portions of these parcels are located within national parks, preserves, monuments, and forests. Although these lands retain significant conservation value, their location and physical characteristics limit development potential.

Generally, the Commission’s objective in participating in the development of the DRECP is to ensure that DRECP goals for renewable energy and environmental protection are accomplished in a manner that is consistent with and advances the statutory responsibilities described above for management of school lands in the California desert area. Assembly Bill 982 supports this effort because it articulates the important role of land consolidation efforts in achieving a successful DRECP and improving revenue generation on school lands. Specific activities and accomplishments related to this objective and the provisions of Assembly Bill 982 are described below.

Memorandum of Agreement

The new provisions of the School Land Bank Act (via Assembly Bill 982) direct the Commission to consolidate school lands through exchanges with the Department of Interior, represented by the BLM, in the California desert area, which includes the DRECP Plan Area. Section 8722, subdivision (a) requires the Commission to enter into an MOA with the BLM by April 1, 2012, to facilitate and prioritize these exchanges such that the resulting contiguous school land holdings are suitable for large-scale renewable energy projects. Commission staff coordinated with BLM staff on the MOA to ensure the commitments made therein meet both agencies’ needs and policies, and the resultant MOA was signed by the Commission’s Executive Officer and the California Director of the BLM on May 21, 2012 (copy enclosed). The MOA formalizes the working relationship between the two agencies and provides a process for cooperation to prioritize, enter into, and complete one or more mutually beneficial land exchanges.

The MOA sets forth the objectives and commitments of the Commission and the BLM, including information sharing, minerals evaluation and appraisal, streamlining of the land exchange process, and commitments to prioritize completion of exchanges. As discussed below, through its participation in the DRECP development process, Commission staff is already engaged in discussions with the BLM, California Department of Fish and Wildlife (CDFW), and other state and federal agencies that will assist in developing a successful land exchange proposal.

Exchange Proposal

Assembly Bill 982, directed the Commission to prepare and submit, within 240 days from the execution of the MOA, "...a proposal for land exchanges that consolidate school land parcels in the California desert into contiguous holdings that are suitable for large-scale renewable energy-related projects." (California Public Resources Code, § 8723, subdivision (a)) Consistent with this direction, Commission land management and environmental management and planning staffs have been working with BLM and DRECP staffs to identify parcels to include in an initial exchange.

On August 14, 2012, the California Director of the BLM provided a preliminary list of BLM-owned lands, totaling approximately 5,800 acres, for the Commission staff's consideration and possible inclusion in the land exchange proposal. Generally, the offered BLM lands are located adjacent to or near existing school lands; one parcel has an existing BLM right-of-way (ROW) authorizing use of the lands for renewable energy purposes, and several others have pending applications for renewable energy ROWs. Commission staff is reviewing these offered lands for consistency with the School Land Bank Act's statutory provisions and preliminary configuration of the DRECP development and conservation areas. Commission staff is also preparing a prioritized list of school land parcels to include in the exchange proposal, with an emphasis on the scattered inholdings located within federally protected areas, such as wilderness and national parks. The State parcels are also prioritized according to whether mineral resource evaluations have been conducted.

The Commission's proposal will be submitted to the BLM on or before January 16, 2013, in order to meet the statutory requirement in Assembly Bill 982. However, it is expected, as memorialized in the MOA, that school land consolidation will involve multiple discrete land exchange agreements carried out over time as the DRECP is finalized and implemented, as a means of ensuring land consolidation is carried out in a manner that maximizes development potential.

DRECP Development and CDFW consultation

The DRECP Planning Area contains extensive school lands under the Commission's jurisdiction, and the development of the DRECP will affect these lands and the potential to generate revenue benefiting the State Teachers' Retirement System. Commission staff has been actively participating in the DRECP planning process to ensure the Commission's interests and mandated school land development responsibilities are adequately represented in the Plan. As part of this effort, staffs from the Commission's Land Management and Environmental Planning and Management Divisions participate on inter-agency committees and working groups to develop conservation actions, define development boundaries, ensure scientific integrity, and write and review draft material for consistency with the School Land Bank Act, the MOA, and other Commission policies and practices. Importantly, as required by Assembly Bill 982, participation on these groups provides Commission staff the opportunity to consult with CDFW staff to ensure land exchanges and subsequent development of school lands will be

consistent with the proposed or adopted provisions of the Plan, either for their development potential or their conservation value. The exchange proposal discussed above reflects these coordination efforts and can be refined and adjusted as the DRECP moves forward to ensure this provision is satisfied.

The Commission's Mineral Resources Management Division staff has also provided expertise and guidance on the Commission's authorities and constraints related to mineral resources, including geothermal resources, that may exist in the California desert to ensure the DRECP and the land exchanges proceed in a manner consistent with Commission jurisdiction and revenue responsibilities. Finally, Commission Geographic Information Systems (GIS) and Title staffs have been able to refine and improve the Commission's mapping of school land parcels in coordination with GIS staffs from other participating agencies (see http://www.slc.ca.gov/GIS/GIS_Downloads.html). This improved mapping will not only benefit the School Land Bank generally, but will also assist in developing proposals for sale or exchange of parcels to consolidate school land ownership, consistent with the provisions of Assembly Bill 982.

Staff resources and accounting

Assembly Bill 982 allows the Commission to use School Land Bank Fund monies for costs and expenses attributable to the exchange process, and allows the Legislature to appropriate funds to reimburse the School Land Bank Fund from revenues derived from future project development. In addition, the 2012-13 Budget Act authorized six (6) additional staff positions to implement the provisions of Assembly Bill 982. These new positions will provide the Commission with the staff necessary to coordinate with the BLM, CDFW, and other agencies as appropriate to ensure the completion of land exchanges in compliance with the new sections of the School Land Bank Act. As of December 2012, expenditures from the School Land Bank Fund attributable to developing the exchange proposal and conducting the necessary coordination with CDFW are \$224,591. Revenues resulting from leasing existing and consolidated school lands for purpose of renewable energy projects are expected to well exceed the initial costs to the School Land Bank Fund and would be deposited into the State Treasury to benefit the State Teachers' Retirement Fund. Commission staff estimates that with successful completion of the DRECP in 2014, and depending on the duration of any additional permitting and environmental review processes, within 5 to 7 years revenues benefitting the State Teachers' Retirement Fund could realize a significant increase.