

*Annual Staff Report  
on the  
Management of State School Lands  
Fiscal Year 2013-14*



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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 16<sup>th</sup> and 36<sup>th</sup> 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 2013-14.

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 2013-14**

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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 of California (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 19<sup>th</sup> 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 & 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) 2013-14 was \$8,727,113.35, which represents a decrease of 8.8% compared to FY 2012-13 net revenue. Management expenses for the Program in FY 2013-14 totaled \$1,217,436.18, which represents an increase of 18.3% over FY 2012-13 expenses. The fiscal year-end balance of the SLBF was \$730,008.28 (not

including a \$59,000,000 loan to the General Fund). For a summary, see the table entitled "Financial Summary: Fiscal Year 2013-14" (page 35).

## **GEOTHERMAL, SOLID MINERALS, AND OIL & GAS PROGRAMS**

The MRMD is responsible for the Geothermal, Solid Minerals, and Oil & Gas Programs, which involve the leasing and management of school lands for geothermal, mining, and oil & gas development. These programs strive to maximize royalty revenue while protecting the environment and ensuring public safety. Historically, the majority of annual revenues to STRS from school lands are attributable to the management of the mineral interests. For a summary of this year's revenues, see the table entitled "Summary of Revenue Generated from Geothermal, Solid Minerals, and Oil & Gas Programs – Fiscal Year 2013-14" (page 22).

### **FISCAL YEAR 2013-14 ACTIVITIES**

#### ***GEOTHERMAL PROGRAM***

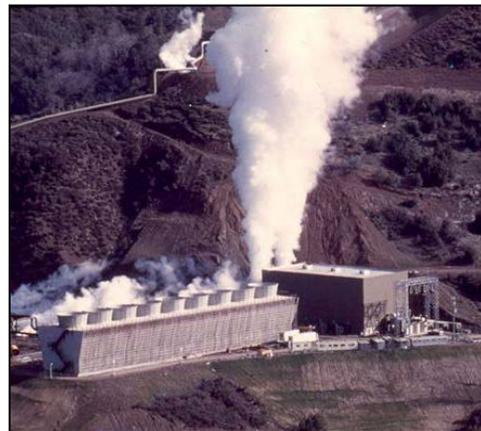
Managing geothermal leasing and development programs on school lands requires staff involvement in several specialized areas. Processing applications and negotiating leases requires input from legal and environmental staff. Drilling proposals require a technical review by engineering staff. Drilling and production operations need to be documented by field inspection staff for surface compliance with the terms and conditions of State leases, and approved drilling plans. 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 is generated 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.

Geothermal revenue totaled \$5,546,556.09 for FY 2013-14, a 14% increase from the prior year.

#### **Geothermal Leases at the Geysers**

The Geysers has operated commercially for 54 years, and is still the largest geothermal energy project in the world. The field generates more than 800 megawatts of electricity annually from approximately 28,000,000 pounds of steam, enough to supply over 900,000 homes. Steam production has been relatively stable since 1995, due to the consolidation of field



operations and increased injection of water into the reservoir. The injection water is piped to the field from nearby reclamation plants in Lake County and the city of Santa Rosa in Sonoma County.

The State owns a 100% mineral interest in 7,247 acres currently under lease at The Geysers, in addition to a 1/16<sup>th</sup> mineral 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, and also through the indemnity selection process in the 1980s. Geysers Power Company LLC, a subsidiary of Calpine Corporation, holds State Lease Nos. 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 Lease Nos. PRC 8556, 8844 and 8950 are held by a different Calpine subsidiary called CPN Wild Horse Geothermal LLC.



In May 2013, Calpine applied to amend State Lease No. PRC 8556, regarding Parcel 3, to hold the lease by injection rather than production. Staff reviewed the application and supporting documents and determined that it would be advantageous to allow Parcel 3 to be held by injection. Staff negotiated a rent increase with Calpine for the 480 acres from \$10 per acre to \$250 per acre. This newly increased rent will remain in place for the duration of the injection term of ten years, plus two 5-year extensions, and will not decrease again to \$10 per acre until there is future production on this parcel. In June 2014, the Commission

approved the lease amendment of State Lease No. PRC 8556. Calpine forked and extended the Aidlin 10 well, so that it penetrates and bottoms into Parcel 4, allowing them to hold the lease until production ceases.

Calpine is preparing to decommission the aging Bear Canyon power plant (State Lease No. PRC 7501) and redirect the State-produced steam to the nearby Unit 16 power plant. The connecting pipeline is nearly completed.

### **Geothermal Lease in Imperial County**

On February 21, 2014, the CSLC approved a Negotiated lease to Imperial Wells Power, LLC, State Lease No. PRC 9115.2, to explore and develop geothermal resources on 40 acres of School lands located within the Wister Wildlife Management Area. The proprietary lease was issued on behalf of the Department of Fish and Wildlife owned lands. Surface occupancy is prohibited pursuant to this lease. The surface disturbances from project components are located in Section 12 of Township 11 South, Range 13 East, and Sections 7 and 18 of Township 11 South, Range 14 East. The royalty is 3% of the value of electricity generated from geothermal resources attributable to the leased land, or 10.5% of the gross revenue received from the sale of steam. The minimum annual royalty is \$100 per acre or \$4,000. The annual land rent is \$50 per acre, but only until the leased land becomes a part of a producing geothermal unit and production royalties are accruing to the State; at which time the rent reduces immediately to \$1 per acre.

### **Geothermal Leasing Proposed in Imperial County (CSLC File No. W 40958)**

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, CSLC staff must coordinate its leasing efforts with Parks, such that the exploration and development does not unreasonably interfere with the use of the lands for recreation.

CSLC staff has attempted to have these lands explored and/or developed for years. Prospecting permits were issued for most of the lands during the early 1980s, followed by a geothermal lease in the late 1980s, but no drilling or development ensued. 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 of which was in 2007. Both nominations were from Ormat Nevada, Inc. (Ormat), but each time, Ormat withdrew its nomination when requested to provide funding for an environmental review. In 2011, Ormat sold its private and federal lease interests to Iceland America Energy, which subsequently sold the leases to NGP.

The State parcels at Truckhaven 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. Since the unit agreement could not be reached, BLM cancelled all three of the geothermal leases this fiscal year, and are planning to make the lands available for nomination with a future lease sale in the fall of 2014.

In 2013, NGP changed their company name to Alternative Energy Resources Inc. (AER), who is the current applicant for the State geothermal Negotiated lease application. AER's application is pending BLM's auction sale to be held in the fall. If AER is the successful bidder for the BLM-owned lands, staff can consider resumption of negotiations for a lease with AER to develop State lands within the Truckhaven area.

### **Geothermal Prospecting Permits**

#### Deep Rose Development, LLC (State Lease No. PRC 8949)

In June 2013, the CSLC issued a two-year extension of State Lease No. PRC 8949, to Deep Rose Development, LLC (Deep Rose), to prospect for geothermal resources on a 640-acre parcel of school lands in Inyo County, near Coso Junction. Deep Rose is working to complete the last mile of an 8 mile road that will be used to construct a well pad for the drill rig. Drilling will follow completion of the road. Rent escalates to \$25 per acre for the third and fourth year of a geothermal prospecting permit. The State parcel is surrounded by the Haiwee Geothermal Lease 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 contain a project that combines State and federal lands.

#### Entiv Organic Energy (State Lease No. PRC 8998)

In June 2012, the CSLC approved a two-year permit (State Lease No. PRC 8998) for Entiv Organic Energy, LLC (Entiv), allowing them to deepen a water well located on a 520-acre parcel in Siskiyou County. The parcel was originally a 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. 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 then be sold.

In December 2012, under the permit, Entiv deepened well 9-A to a depth of 1220', and experienced such elevated temperatures that they are evaluating the results to determine if commercial production is viable. If the well is proven commercial, Entiv has the right to apply for a preferential lease. In January 2014, Entiv informed staff that they have made a discovery of geothermal resources in commercial quantities and that they would like to exercise their right for a preferential lease. Staff anticipates submission of an application for a preferential lease before the permit expiration date of November 8, 2014.

#### High Valley LLC (State Lease No. PRC 9001)

The CSLC approved a two-year permit for High Valley, LLC, a subsidiary of U.S. Renewables Group (USRG). The permit (State Lease No. PRC 9001, effective December 1, 2012) includes 1,383 acres of school lands immediately north of The Geysers. High Valley plans to re-enter one or more wells previously drilled during the 1980s, or drill new wells, to confirm the presence of geothermal resources and evaluate its commercial potential. No activity took place during FY 2013-14 and staff is in contact with High Valley to advise them their permit will be expiring in December 2014 if no progress is made or the permit is not renewed. USRG has submitted applications for two other prospecting permits on lands further north in anticipation of successful drilling on the permitted lands. Staff is waiting on additional material to review before issuing a complete letter and moving forward with the applications.

## **SOLID MINERALS PROGRAM**

Revenue from the Solid Minerals program totaled \$1,673,233.85 for FY 2013-14. This represents a 53.2% decrease from the prior year's revenue of \$3,575,009.45. The production decline, on the State lease at the Mesquite Gold Mine, is the primary reason for the marked decrease in royalty revenue. Production on the aggregate leases continues to show improvement as the economy slowly recovers and building and road construction and maintenance improves.

Solid Minerals program staff manage four leases totaling 1,054 acres, one active 1/16th reserved mineral interest parcel totaling 560 acres, and three mineral prospecting permits totaling 1,910 acres. Two of the three, active mineral prospecting permits expired this fiscal year, and the permittees chose not to apply for an extension. CSLC staff has received two new prospecting permit applications for mineral exploration that are being processed. The required reclamation of one lease that had been quitclaimed in 2006 has been completed. In addition to managing these mineral prospecting permits and leases, staff continued responding to numerous mineral inquiries, and addressing abandoned mine hazards that could pose a threat to the public and wildlife.

### **Mineral Extraction Leases**

#### **U.S. Borax (State Lease No. 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 continued to work with Inyo County and the Department of Conservation's 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 a CSLC staff inspection conducted in 2007, all remaining hazardous materials were removed from the underground workings. Since 2006, U.S. Borax continued to work on re-vegetation and minor earthwork. In April 2014, OMR and Inyo County determined during a joint inspection that reclamation has been completed and plans to complete the requisite paperwork to close the mine site.



**Hanson Aggregates (State Lease No. 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 \$7,500, 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 CSLC renewed and amended the lease term through June 30, 2021. Hanson's new lease provides for a higher royalty rate of 6.5% of the gross sales. Hanson has advised that the largest impediment to the resumption of operations is a large waste pile of fine material that Hanson has not been able to sell to date.



**Western Mesquite Mines (State Lease No. PRC 8039)**

In October 2002, Western Mesquite Mines, Inc. (WMMI) was issued a mineral extraction lease on 658 acres of school lands to expand their approximate 5,000 acre Mesquite Gold Mine complex northward, on the southern flank of the Chocolate Mountains of Imperial County. Mining on the state parcel commenced in the fall of 2011 and the State received its first royalty production payment in January 2012.



In 2012, the lease was renewed and amended through September 30, 2022, providing for a sliding scale royalty of 6 to 9 percent of the gross depending on the price of gold.

Staff conducts periodic site inspections to verify the mining and production process and proper payment of royalty. The total revenue generated for this fiscal year is \$1,296,239.00. In this fiscal year, the royalty percentage ranged from 6% to 7%, due to the sliding scale royalty rate and the price of gold.

During the first half of the fiscal year, WMMI did not mine the State parcel. Mining resumed in January and continued through the fiscal year. With gold prices softening and most of the State gold ore removed, mining is expected to taper off. The price of gold during the beginning of 2013 slumped from \$1700 per ounce to only \$1240 per ounce at the beginning of FY13/14. During the fiscal year, gold traded in a tight range, finishing the fiscal year at \$1320 per

ounce as the stock market continued its rally. Gold ore already placed on the heap leach pad will continue to be recovered, and royalty paid. As monthly sales are made, the State is paid at a rate proportional to their ownership of the heap leach pad. After the State's 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 continue for several years, with revenue and future mining highly dependent on future gold prices.

**Vulcan Lands, Inc. (State Lease No. PRC 8253)**

Vulcan Lands, Inc. (Vulcan) holds a 160-acre lease at its Black Angel Quarry southwest of Barstow in San Bernardino County. Periodic inspections reveal continued activity with large stockpiles of sorted aggregate.



During this fiscal year, Vulcan's production nearly doubled and reflects increased economic activity in the economy of the high deserts of Victorville, Apple Valley and Barstow. Revenue generated this fiscal year totaled \$336,559.92.

**Granite Construction, Ludlow Pit (State Lease No. 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 since 2004. Granite has advised staff that it plans to sell the quarry. Since the County's conditional use permit remains valid, staff periodically monitors the site for any mineral production or shipments, but has observed none.



**Protech Minerals (State Lease No. 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. On March 7, 2013, staff inspected the site together with Steve Suitt, a contractor for San Bernardino County, the CEQA lead agency, and OMR, to determine if reclamation was complete. While substantial reclamation has been achieved, the County identified additional grading necessary prior to the approval of final closure. Reclamation was not concluded during the fiscal



year and remains outstanding. Staff will work with San Bernardino County mining geologist George Kenline, as well as OMR reclamation staff.

### **Hi-Grade Materials (State Lease No. PRC 8831)**

Hi-Grade Materials Company (Hi-Grade) holds a 116-acre lease issued in July 2009, to extract sand and gravel at the Hesperia Quarry in the Lucerne Valley of San Bernardino County. Lease production began in July 2010 and revenue for this fiscal year remained steady and only had a 15% reduction in royalty from the last fiscal year. This FY royalty amounted to \$30,562.29. In September 2013, the San Bernardino County Planning Department approved Hi-Grade's Conditional Use/Mining Permit and Reclamation Plan, which permitted the mining of all 116 acres of leased State school lands. This revision will allow mining to continue for several decades.



### **Granite Construction, Palm Desert Pit (State Lease No. 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 retains a 1/16<sup>th</sup> reserved mineral interest. The State's royalty rate is fixed at \$0.04 per ton of material mined and sold. During the next 2<sup>nd</sup> quarter of the FY, staff was notified by Granite that they will no longer be mining the 560-acre parcel. The revenue for this fiscal year totaled \$2,372.64 since no production has occurred since December 2013.

### **Bureau of Reclamation (State Lease No. 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.



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 were 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, and be a part of the necessary reclamation to decrease the existing mine slopes for safety, rendering them safe.

On April 17, 2013, a meeting was convened at the BLM Needles office between the BOR, BLM, OMR, San Bernardino County and CSLC staff. At that meeting, BOR expressed their desire to reclaim the mine but could not agree with the County and OMR on the appropriate level of reclamation. Following the meeting, a field inspection was conducted by a County inspector in accordance with SMARA. The field inspector determined that the mine remains out of compliance due to an excessive pit slope angle and detrital fouling of the stream drainage. San Bernardino County is in the process of determining what form of permit exclusive of mining may be suitable for reclamation. In April 2014, BOR submitted an application to reclaim the mine to San Bernardino County which was subsequently approved. Work is scheduled to commence in the fall of 2014.

### **Eagle Crest Pumped Energy Storage Project (SCH #2009011010)**

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 which involves the east pit formerly leased to Kaiser Steel Corporation from 1980 through 2002. The basic proposal is to flood the upper and lower pits and pump water from the lower east pit to the upper pit at night when electrical usage is low. 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 466.6 acre reserved mineral interest at the complex. In July 2012, staff sent comments to the State Water Resources Control Board (SWRCB) for a Draft Water Quality Certification for the project. In May 2013, staff reviewed the final draft EIR and sent comments to the SWRCB, which serves as the CEQA lead agency for the project, petitioning the SWRCB not to certify the EIR due to cited deficiencies, and also because the State would be precluded from the ability to develop the iron ore resource on behalf of STRS. However, in July 2013, the State Water Resources Control Board (SWRCB) certified the EIR and issued a water quality certification pursuant to Section 401 of the Clean Water Act. In September 2013, the SWRCB received timely petition from three parties, including Kaiser, to reconsider its water quality certification. In June 2014, the Federal Energy Regulatory Commission (FERC) approved the project. Kaiser was planning to appeal FERC's decision.



With the reopening of several small iron ore mines in the southern California desert, the Kaiser Eagle Mountain Mine Complex is under review to determine whether resumption of iron ore mining is economically feasible.

## Mineral Prospecting Permits

### **Bagdad Chase, Inc. (State Lease No. PRC 8917)**

Bagdad Chase, Inc. (Bagdad), held 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. A one-year permit was issued effective May 1, 2011.

Under the permit, Bagdad conducted geologic mapping and rock chip sampling in the hopes of identifying 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 inspect the State permit area. On August 14, 2012, the CSLC approved Bagdad's Mineral Prospecting Permit Extension and Amendment to prospect for solid minerals and to drill two new exploration holes on state fee-owned school lands. The effective date of the permit was retroactive to May 1, 2012 and expired on April 30, 2014. The permittee chose not to submit an application to renew the prospecting permit for an additional year.



### **Robert G. Wetzel (State Lease No. PRC 9026)**

On May 31, 2012, staff received an application from Robert G. Wetzel (Wetzel) to prospect for solid minerals on approximately 633 acres of State fee-owned lands described as Section 16, T15N, R10E, SBM, San Bernardino County, about 10 miles northeast of Baker. Wetzel proposes to conduct geologic mapping and hand sampling to help determine if the state parcel contains a commercial gold and/or silver deposit. On October 19, 2012, the Commission approved Wetzel's Mineral Prospecting Permit effective November 1, 2012.



Following favorable hand sampling results, on January 27, 2013, Wetzel submitted an application for an extension and amendment to the existing permit. Wetzel proposes to drill six holes underneath the section, all of which will be drilled from adjacent BLM land, with the exception of one being drilled directly on State lands. On June 22, 2013, the CSLC approved the permit amendment and extension through October 31, 2014. On December 19, 2012 and January 4, 2013, staff conducted site inspections, met the permittee, and reviewed the proposed drill sites. The permit will expire on October 31, 2014 unless an application to extend is received and approved.

### **Robert G. Wetzel (State Lease No. PRC 9027) Iron Horse Mine**

On June 20, 2012, staff received an application from Wetzel to prospect for solid minerals on 640 acres of State fee-owned school lands described as Section 36, T16N,R13E, SBM, San Bernardino County, about two miles south of the Mountain Pass Exit on 1-15. Wetzel's purpose for seeking a prospecting permit is to conduct geological mapping and hand sampling to help determine if the State parcel contains commercial base



(copper, iron, zinc) or precious metals (gold or silver). The parcel contains the Iron Horse Mine (last active during WWII) that was developed by two deep shafts, which staff has fenced for the protection of the public. On October 19, 2012, the CSLC approved Wetzel's Mineral Prospecting Permit to prospect for solid minerals on State fee-owned school lands. The effective date of the permit is November 1, 2012 and expired on October 31, 2013. The permittee chose not to apply for the one year permit extension. While staff inspections show the fences remain in good condition, more permanent closures are planned as part of the abandoned mine program.

### **Mineral Prospecting Permit Applications**

#### **Enigma Resources LLC (CSLC File No. 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. The permit, PRC 8742, expired in February 2010. Enigma planned to pursue the prospecting proposed by Cougar Gold, in an attempt to demonstrate commercial viability. Enigma's application remained incomplete for several years as Enigma tried to secure a vehicle access agreement with the Flying M Ranch, an adjacent land owner. Lacking adequate progress coupled with delinquent payments owed under the terms of the Reimbursement Agreement, the CSLC denied the permit application at its April 23, 2014 meeting.

#### **Gerald W. Baughman (CSLC File No. W 40976)**

Mr. Gerald W. Baughman submitted an application for a mineral prospecting permit on March 3, 2014, to prospect for precious minerals on the same 480 acre school land parcel described under Enigma (above). The CSLC acknowledged the application and informed Mr. Baughman that the CSLC's consideration of the application was contingent upon the CSLC's denial of Enigma's permit. After the CSLC denied the Enigma permit application, staff processed Mr. Baughman's new application to prospect for gold and/or silver deposits. The CSLC staff

deemed the application complete on June 23, 2014 and the item is expected to receive Commission consideration at the beginning of the next fiscal year.

**Green Materials International, LLC (CSLC File No. W 40972, State Lease No. PRC 9138.2)**

Green Materials International, LLC, (Green Materials) submitted an application for a mineral prospecting permit on October 11, 2014, to prospect for Xenotime, a rare earth mineral, and other minerals on approximately 640 acres of State fee-owned school lands. The parcel is located in Music Valley and includes all of Section 16, T2S, R10E, SBM, Riverside County, adjacent to Joshua Tree National Park. Green Materials' purpose for seeking a prospecting permit is to conduct geological mapping, hand sampling, and the use of a hand-held Geiger counter to help determine if the parcel contains commercial rare earth deposits. Music valley is believed to contain rare earth deposits as supported by previous and ongoing studies by the California Division of Mines and Geology, the United States Geological Survey and others. On June 19, 2014, the Commission approved the permit that will be effective from July 1, 2014 through June 30, 2015.

**Ronald Martin (CSLC File No. W 40975)**

Mr. Ronald James Martin submitted an application for a mineral prospecting permit on April 10, 2014, to prospect for precious metals. The prospecting area is located on fee-owned school lands described as Section 36, T25.5S, R40E, MDM, Kern County. Staff conducted a site inspection on March 18, 2014 and discovered abandoned mine features located north of the parcel on BLM lands. The CSLC sent an incomplete letter dated on May 8, 2014 and is awaiting a response with additional information. Staff anticipates Commission consideration during the next fiscal year.

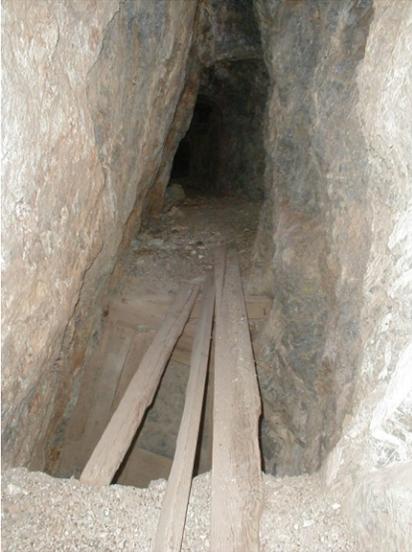
## **Abandoned Mine Lands**

Staff continued its efforts to inventory and remediate abandoned mine features located on school lands that may pose a threat to the public and wildlife. Staff participates in periodic meetings with local, county, State, and federal agencies, as well as contractors, environmental groups, and the public to share information on assessment and remediation of physical and chemical hazards associated with abandoned mines.

A 2009 report by the Natural Resources Agency summarized an inventory of chemical and physical hazards on lands managed by the State, including State school lands. The Resources Agency directed the OMR to prioritize and coordinate the remediation of these 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 that 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 2013-14, efforts were focused on continued inventory of abandoned mine sites, as well as the initial stages of cooperative remediation work plans with OMR. In November 2013, MRMD staff inspected the Golden Bee Mine closure located on State school lands with geologist Luke Sabala of Joshua Tree National Park. The previously completed closures were evaluated for integrity and vandalism, observing that the closures were still functional in protecting the public while continuing to allow wildlife access.

In March 2014, MRMD staff conducted a site inspection and mine feature inventory at the Piper Mountain Copper Mine on State school lands located in Inyo County. This site was one of a number of abandoned mine sites that were deemed to possess a high risk to public safety – according to data provided by OMR. The results of the inspection revealed that there was at least one adit that should be considered for a bat gate construction, due to the extensive nature of the underground workings, coupled with the presence of bat guano. The logistical aspects and possible challenges were noted with regards to gaining the necessary vehicle access that would be required for the closure.



In April 2014, MRMD staff conducted multiple site inspections and inventories with OMR staff. During the site inspections, six abandoned mine sites were visited; the Iron Horse, Lorman, Fremont Peak, Gunsight, Shadow Mountain, and New Deal mines. The primary purpose of this inspection was to determine exactly which mine features from each site were suitable for remediation work in the future. MRMD staff also began discussions with OMR regarding the processes involved in awarding contracting work for the closures, as well as the availability of funds provided by OMR for the remediation of mine features. Just before the end of FY 2013-14, MRMD staff began to draft the necessary consultation letters to the California Department of

Fish and Wildlife (CDFW), and the State Historic Preservation Office (SHPO), so as to not unduly impact biologic or historic resources. Mine remediation work is constrained to late summer and early fall so as not to interfere with bat maternity or hibernation season.

#### Buckeye Mercury Mine

In 2008, OMR contracted DTSC to sample mine tailings at the Buckeye Mercury Mine to determine if it contained unacceptable concentrations of mercury. Results of the sampling indicated the mercury levels within relatively small tailing piles exceeded the Human Health Screening Criteria established by DTSC. DTSC sought the assistance of the Environmental Protection Agency (EPA) to help determine whether the abandoned mine may qualify as a Superfund Site. In August 2012, the EPA issued a contract to Weston Solutions to conduct a Preliminary Assessment to determine if the site qualifies for the National Priorities List as a Superfund Site. Staff assisted Weston with essential background information. In September 2012, a staff conducted a site visit with the EPA, Weston Solutions, DTSC, and OMR. The EPA subsequently sent a letter on March 18, 2013, advising that the results of the Preliminary Assessment reveal that the site does not qualify for placement on the National Priorities List as a Superfund Site. However, EPA suggested that State Lands should consult with the DTSC to determine if they believe any additional studies are warranted. AML warning signs have been posted at the mine and processing sites. Additional work remains to safeguard the physical hazards, including the adit shown above.



## **OIL & GAS PROGRAM**

Revenue from the oil & gas program totaled \$2,492,346.57 for FY 2013-14, a 25.8% increase from the prior year. Most of the revenue, \$1,927,638.35, 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. Oil production from this parcel reached 3,228,930 bbls, which is a 9.7% decrease from the previous year. The price for the oil averaged \$101.09 per barrel, 1.1% lower than the prior year. The balance of the revenue came from the seven-acre Sulfur Crest parcel (LA 9252) located in the Ojai Oil Field in Ventura County, which is leased by the Termo Company.

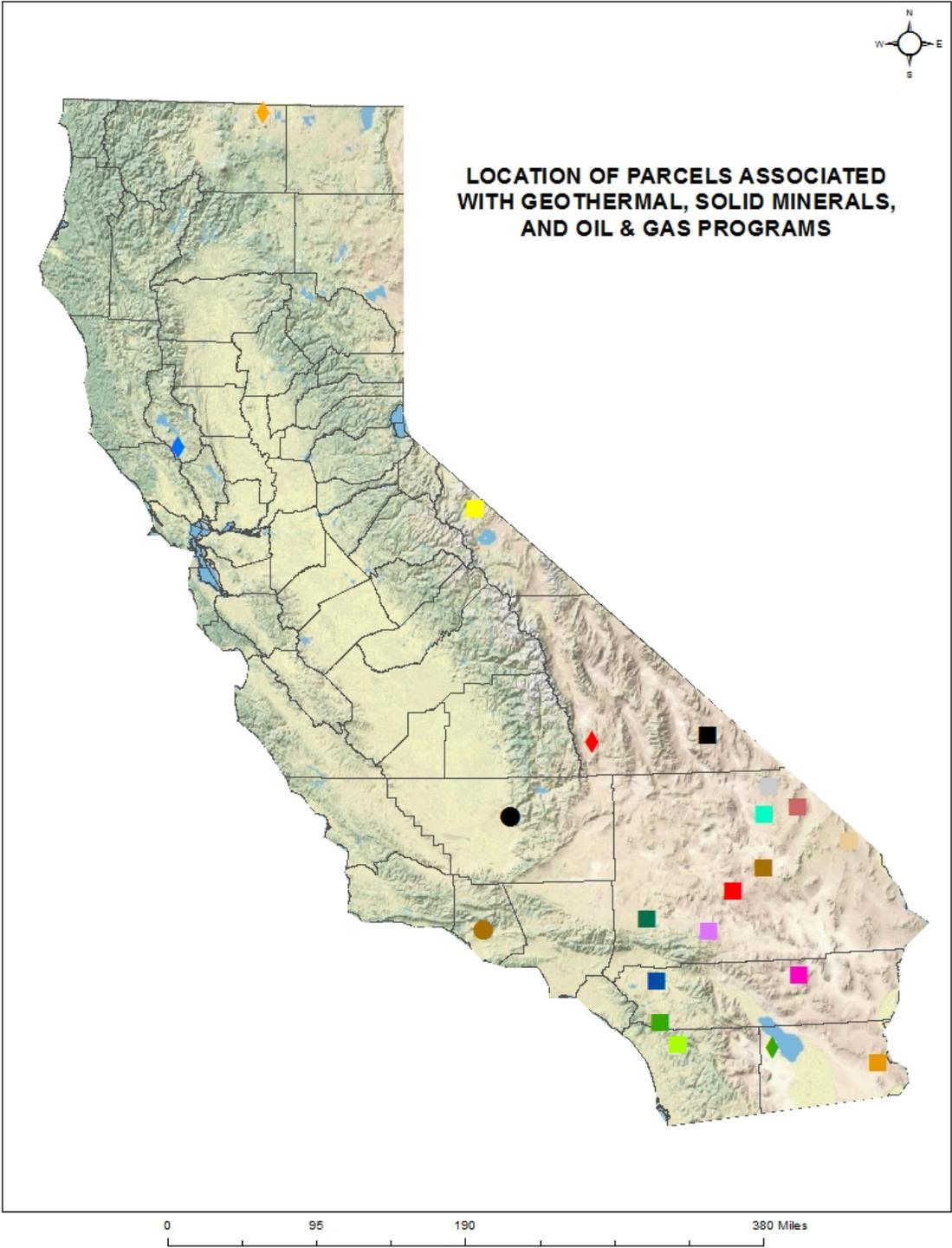
The designations VA and LA stand for the Visalia and Los Angeles land districts of the old California Surveyor General, a constitutional office until 1929. The sale of school lands was one function of that office and transactions were typically identified with the district abbreviation and a number. 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 California State Lands Commission.

## **AB 982/Desert Renewable Energy Conservation Plan**

Staff's efforts regarding AB 982 and the Desert Renewable Energy Conservation Plan (DRECP) are discussed in further detail in the Surface Management Program of this report. AB 982, which became law in 2011, directed the CSLC and the Department of the Interior to enter into a Memorandum of Agreement (MOA) designed to facilitate land exchanges to consolidate State school land parcels consistent with renewable energy development of the DRECP. CSLC staff provided input into the draft Environmental Impact Statement/Environmental Impact Report (EIS/EIR) that will guide land exchanges between the State and the Bureau of Land Management, for the purpose of protecting valuable biological and cultural resources in the desert while paving the way for renewable energy development. This initiative was enacted, in part, to facilitate the Governor's desire to achieve 33% renewable energy by 2020. During FY 2013-14, staff continued efforts to support the DRECP planning process by maintaining a GIS database of land ownership, mineral resources, biological resources, historical resources, and renewable energy resources and providing comments relative to mineral potential and value.

Under the established MOA, the CSLC had previously provided a complete list of school lands it would be willing to exchange that are within the geographic boundaries of the DRECP. During FY 2013-14, a preliminary list of State school land parcels were requested by the BLM as part of the exchange for implementation of the DRECP. This list of parcels was compiled and submitted because they were located primarily in BLM managed Wilderness Areas that are highly desired for acquisition. BLM requested approximately 68,139 acres. MRMD mineral staff evaluated these and found that roughly 60% of the requested parcels by BLM were deemed to be of low mineral potential and available for exchange for alternative energy lands.

The majority of the in-office research regarding the mineral potential of fee-owned school land parcels was conducted using GIS software, geologic reports, and other data provided publically through the USGS, California Geological Survey, and the BLM.



## Legend

### Geothermal

- ◆ Deep Rose Development, LLC: PRC # 8949
- ◆ Entiv Organic Energy: PRC # 8998
- ◆ Geothermal Leasing Proposed Project - Nevada Geothermal Power: WO # 40958
- ◆ The Geysers: PRC # 4596, 4596 "A", 4597, 5206, 6422, 7845, 8556, 8844, 7179, 8950, 9000

### Oil & Gas

- MacPherson Oil Company: VA # 5310
- Termo Oil Company: LA # 9252

### Solid Minerals

- Bagdad Chase, Inc.: PRC # 8917
- Bureau of Reclamation: PRC # 6735
- Enigma Resources LLC: WO # 40949
- Granite Construction, Liberty Quarry: WO # 40904
- Granite Construction, Ludlow Pit: PRC # 8272 - Expired
- Granite Construction, Palm Desert Pit: PRC # 7945
- Hanson Aggregates: PRC # 7301
- Hi-Grade Materials: PRC # 8831
- Kaiser Resources: WO # 40871
- Protech Minerals: PRC # 8322 - Expired
- Robert G. Wetzel: PRC # 9026.2
- Robert G. Wetzel: PRC # 9027.2
- U.S. Borax: PRC # 736
- Vulcan Lands, Inc.: PRC # 8253
- Western Mesquite Mines: PRC # 8039

**SUMMARY OF REVENUE GENERATED FROM GEOTHERMAL,  
SOLID MINERALS, AND OIL & GAS PROGRAMS -  
FISCAL YEAR 2013-14**

**STRS FUND**

Geothermal Royalties:

Regular PRC Royalties:	\$ 5,018,615.43
Supplemental PRC Royalties:	\$ 282,002.23
Fractional RMI Royalties:	\$ 215,541.64
Deposit to GRDA fund 034:	\$ 30,396.79
<b>Total PRC/RMI Royalties:</b>	<b>\$ 5,546,556.09</b>

Solid Minerals Royalties:

Royalties from leases:	\$ 1,670,861.21
Royalties from 1/16 <sup>th</sup> interest parcels:	\$ 2,372.64
<b>Solid Minerals Total:</b>	<b>\$ 1,673,233.85</b>

Oil & Gas Royalties:

<b>Oil &amp; Gas Total:</b>	<b>\$ 2,492,346.57</b>
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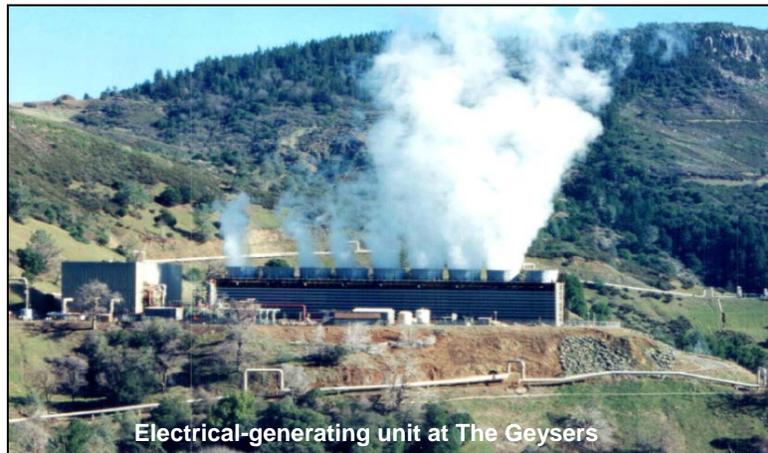
**TOTAL GROSS REVENUE: \$ 9,712,136.51**

## FISCAL YEAR 2014-15 PLANNED ACTIVITIES

### ***GEOHERMAL PROGRAM***

#### **The Geysers**

Staff estimates that revenue from school lands geothermal leases at The Geysers should remain in the range of \$5-6 million during FY 2014-15. Steam production on developed leases is expected to decline slightly, while prices for electrical power – underlain by those for natural gas -



are expected to increase slightly. The scarcity of capital may compromise new exploration activity taking place in the near term. Staff will monitor steam production surrounding State Lease No. PRC 8556 Parcel 3; that is now being held by production, to confirm that an overall increase in volume has occurred resulting in an increase royalty. LF-22, an injection well in State Lease No. PRC 4597, is anticipated to be completed in the summer 2014.

#### **Geothermal Permits**

Staff plans to monitor proposed exploratory drilling on Deep Rose's permit State Lease NO. PRC 8949 in Inyo County, Entiv's permit State Lease No. PRC 8998 in Siskiyou County, and High Valley, LLC's permit State Lease No. PRC 9001.2 in Lake and Mendocino counties. Successful drilling and discovery of commercial geothermal energy could lead to proposed conversion of the permits into leases, subject to CSLC approval.

#### **Geothermal Applications**

Staff hopes to seek CSLC approval of a Negotiated lease with Alternative Earth Resources (AER), formally Nevada Geothermal Power Inc., in the Truckhaven area of Imperial County. AER's current leasehold interest covers approximately 4,027 gross acres of federal and private leases. During this FY, the BLM cancelled AER's leases within the Truckhaven area since they could not form a unit agreement with two other parties. AER requested that the CSLC keep their application open, pending a new BLM auction to be held in the fall of 2014. AER has nominated four BLM sections within the Truckhaven area and is hoping to be the successful bidder.

Staff will continue to monitor, amend, and issue new geothermal leases. Staff encourages new applicants, and continually assists with answering any questions regarding geothermal development.

## ***SOLID MINERALS PROGRAM***

### **Mineral Lease Management**

During FY 2013-14, royalty revenue amounted to a total of \$1,673,233.85, with \$1,296,239 of that revenue (77%) generated from WMMI at the Mesquite Gold Mine. The reduction to \$1.3 million was due to a reduced level of mining and lower gold prices. It is anticipated that mining of State ore at the Mesquite Mine will be concluded in FY 2014-15. Although aggregate sales are picking up slowly with the economy, we estimate school land revenue from solid minerals to be approximately \$1 million, with that amount highly dependent on variables at the Mesquite Mine and the price of gold.

As monthly sales are made at the Mesquite Mine, the State is paid proportional to its ownership of the heap leach pad. Once mining on the State parcel is officially mined out, State ore will no longer be added to the heap leach pad and the State's proportion will gradually decrease over time, which is what is occurring now. The payments will be received within the 10-year lease renewal, because the State is paid when ounces are sold. The property was acquired under an exchange with the BLM as a part of the California Desert Protection Act of 1994. The federal government, under the MOU, will receive an equal value of state inholdings within park and wilderness areas for all royalty revenues received.

The slow economy continues to affect aggregate mining in southern California. The State currently only has three school land aggregate leases. While the Hanson mine in San Diego County remains idle, the Vulcan Black Angel Quarry and the Hi-Grade Lucerne Valley Pit continue to show marked improvement in sales. Staff anticipates an increase in demand for aggregate for road construction and housing as recovery from the recession continues.

Staff is waiting to see what action FERC takes in petitions to review the approval of the Eagle Crest Pumped Water Storage Project. Approval would be adverse to the CSLC ever permitting the large iron ore reserves that remain within the project area.

### **Mineral Applications**

Staff anticipates that reclamation of the Manchester Quarry will be achieved this fiscal year by the Bureau of Reclamation (BOR) following approval of their permit by San Bernardino County. It is also hoped that the CSLC will consider and approve mineral prospecting permits for Gerald Baughman and Ron Martin in FY 2014-15.

Staff will continue to manage, extend, and issue new mineral prospecting permits. Staff encourages new applicants to extend or amend their permits as required, and continually assists with new mineral inquiries to foster and encourage environmentally sound mineral exploration and development.

### **Desert Renewable Energy Conservation Plan**

Under the MOA, BLM and CSLC staff plan to continue to discuss lands suitable for exchange by each agency. At present, the BLM is not willing to exchange lands with geothermal resource potential. During FY 2014-15, staff hopes to negotiate the first exchange that the CSLC could consider, probably in FY 2015-16. Staff anticipates the release of the draft DRECP EIS/EIR that will guide the agencies in their exchange negotiations, such that the BLM acquires lands suitable for the preservation of biological and cultural values, and that the CSLC acquire lands suitable for alternative energy development.

### **Abandoned Mine Lands**

During the approaching FY 2014-15, efforts will be focused on continuing the necessary interagency consultation with CDFW and SHPO that will be required as a prerequisite to any remediation work that is planned to occur in late summer, early fall of 2014. Staff anticipates that at least several of the six mine closure sites that were inventoried in April 2014 will be approved for remediation during the approaching biologic window. Following the end of the biologic window, and the concurrent construction work allowable during that timeframe, CSLC staff will continue to inventory and assess abandoned mine features on school lands throughout the earlier part of the next calendar year. In addition to this, the remaining approved closure sites will likely be revisited and reassessed to determine the best sequence for site remediations earmarked for the next biologic window timeframe. Previous closures completed at the end of 2014 will also likely be revisited and inspected for integrity. Staff expects to perform the installation of fences and warning signs as warranted.

Staff will continue to inspect the Crown Uranium Mine and other mines that have received signage, fencing, bat gates, cupolas, backfills, or other protective measures, to ensure their continued integrity from adverse weather and/or vandals. Staff will continue to participate in periodic abandoned mine meetings that OMR hosts in order to share information concerning AML efforts of local, State, and federal agencies.

### ***OIL & GAS PROGRAM***

Staff estimates that revenue from the two school lands oil & gas parcels is expected to decline to approximately \$1.5 million during FY 2014-15, as existing levels of oil production continue, but it appears oil prices may be softening.

## **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 2013-14" (page 29).

## **FISCAL YEAR 2013-14 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 2013-14 totaled \$262,809.81, which represented an increase of 17.4% from FY 2012-13 and a total increase of over 28% since FY 2011-12. Surface rent rates are usually tied directly to land values, which have been slowly improving. LMD surface leases typically require rent reviews every five years, and the numerous rent reviews that were completed during the year reflect these higher land values. Several new right-of-way leases were also completed.

## **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 (CSLC File No. 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 2013-14, work continued on a sixth CDPA land exchange 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 2014-15, 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 33.

### **Department of Parks and Recreation Land Sale (CSLC File No. 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. The sale will add \$2,324,000 to the SLBF.

### **United States of America Land Sale (CSLC File No. SA 5767)**

On January 14, 2014, the United States of America, acting through the Department of the Navy, submitted an application to purchase portions of seven sections of school lands and indemnity school lands as part of the expansion project for the Marine Corps Air Ground Combat Center at Twentynine Palms. The sale involves approximately 2,563 acres and when completed will generate \$806,500 for the SLBF.

### **California Department of Transportation Land Sale (CSLC File No. SA 5770)**

On June 26, 2014, staff received an application from the Department of Transportation to purchase approximately 0.48-acre for the State Highway 247 widening project. When completed, \$3,100 will be deposited into the SLBF from this sale.

### **Accrued Interest on the School Land Bank Fund**

A total of \$2,742.04 in interest was generated by the PMIA to the SLBF during FY 2013-14. Interest accruals decreased from the previous year due the lower overall Fund balance.

### **Expenses Charged to the School Land Bank Fund**

Expenses during FY 2013-14 totaled \$530,238.62. Of this amount, \$228,739.31 was charged to the Renewable Energy Program and \$278,623.36 was incurred by the Abandoned Mine Remediation Program. There was also a total of \$22,875.95 in charges to the Fund for statewide administrative services.

## **SUMMARY OF REVENUE GENERATED FROM SURFACE MANAGEMENT PROGRAM - FISCAL YEAR 2013-14**

### **STRS FUND**

#### Surface Rentals:

Surface Rentals:	\$ 262,809.81
Timber Sales:	\$ 0.00
<b>TOTAL GROSS REVENUE GENERATED TO STRS FUND:</b>	<b>\$ 262,809.81</b>

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### **SCHOOL LAND BANK FUND**

GROSS REVENUE GENERATED TO SCHOOL LAND BANK FUND:	\$ 2,742.04
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#### EXPENSES

Statewide Administrative Services (Pro Rata):	\$ -17,804.00
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Statewide Administrative Services (Fi\$Cal):	\$ -5,000.00
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Program 10 Statewide Administrative Services (Teale):	\$ -71.95
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Program 10 – Abandoned Mine Closure Program:	\$ -278,623.36
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Renewable Energy Program:	<u>\$ -228,739.31</u>
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<b>NET REVENUE GENERATED TO SCHOOL LAND BANK FUND:</b>	<b>\$ -527,496.58</b>
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## **FISCAL YEAR 2014-15 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 2014-15 will increase again during FY 2013-14 due to overall increasing land values. Also, staff expended considerable time and effort in gaining legislative approval for new higher base rents, which were approved by the Legislature and became effective on July 1, 2014.

#### **Timber Harvests**

There is potential for income from timber salvage and sanitation operations in FY 2014-15. 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 Phase I of the project which is located primarily on federal lands. Separate authorization from the

Bureau of Indian Affairs (BIA) for development for Phase II of the project on the nearby tribal lands was obtained in December 2013. The proposed development of seven turbines on the State school land parcel is included in the proposed Phase II project. Staff currently is awaiting the completion of an appraisal of the subject property. 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 2016-17.

## **SOLAR**

Staff will continue processing two applications for solar energy leases that together would cover almost 4,641 acres of school lands. The two proposed projects, Sorrel Solar Farm and Windhub Solar, will each be subject to environmental reviews under CEQA. Both of these projects are on temporary hold while the DRECP (see discussion below) is completed and new transmission line projects are reviewed and approved. If these two solar projects are successfully completed and the leases are issued, staff anticipates significant revenue from these leases beginning in FY 2017-18.

## **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, now California Department of Fish & Wildlife, CDFW) 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 2014-15, 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 entering into a proposed land exchange agreement during the last half of FY 2014-15. There has been ongoing discussion between CSLC and the BLM regarding the need for appropriate compensation associated with the exchange of lands possessing mineral, biological, renewable energy, and historical resources. For more information, see the Addendum, *Report to the California State Legislature on the Status of School Land Consolidation Efforts in the California Desert - 2014*.

### **POTENTIAL SCHOOL LAND BANK FUND REVENUES AND ACTIVITIES**

Applications for the following projects are currently under consideration and will be actively processed in FY 2014-15. Staff also anticipates new requests for land exchanges and land sales will be received during the year.

### **CDPA/BLM Land Exchange (CSLC File No. 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 has already provided a payment of \$56,492.29 to balance the transaction. Regardless, this transaction was stalled due to a federal audit by the General Accountability Office (GAO). Staff hopes to complete this transaction during FY 2014-15. 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.

### **Department of Parks and Recreation Land Sale (CSLC File No. SA 5763)**

After lengthy delays, this sale (see page 28) was completed early in FY 2014-15 and added \$2,324,000 to the SLBF. The proceeds from this sale will be included in next year's financial summary.

### **Heinz Ranch Land Exchange (CSLC File No. 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. The applicant currently is attempting to acquire mineral rights which will be required as part of the exchange agreement.

### **Salvation Mountain, Inc. Land Sale (CSLC File No. SA 5769), Chasterus Foundation Land Sale (CSLC File No. SA 5771) and Slab City Community Group Inc. Land Sale (CSLC File No. SA 5768)**

Among the 1,200± parcels of land held within the SLBF is a 640-acre parcel near the Salton Sea in Imperial County known as "Slab City". Originally under the jurisdiction of the Commission, this parcel was condemned by the federal government in 1952 and was developed and used for military purposes as part of Camp Dunlap. When Camp Dunlap was deemed to be no longer needed, the Department of Defense cleared the site and the entire parcel was quitclaimed back to the CSLC in 1961. However numerous concrete building foundations

were left in the ground. Over the intervening years, the property slowly became a destination for tourists, intermittent campers, and transients and has experienced a long history of environmental, legal and social issues, including unauthorized occupancy and illegal dumping.

Included in the southwest quarter of the section is a tourist mecca known as "Salvation Mountain", which was slowly constructed out of hay bales, stucco and paint over many years by a local resident named Leonard Knight as a testament to his personal faith. Although Mr. Knight passed away early in 2014, his monument currently is being preserved and maintained by the Salvation Mountain, Inc., a non-profit corporation.

Also included within the section and located along the northern perimeter of the parcel is an unauthorized development known as "East Jesus" which is maintained by a non-profit corporation, Chasterus Foundation. This 30-acre site also was constructed over many years and includes an "artist colony" devoted to teaching self-sufficiency and sustainable living.

Because it has been deemed to have no long term revenue-generating potential, staff is actively investigating the feasibility of divesting the entire 640-acre property. To that end, staff is currently processing three separate purchase applications: Salvation Mountain, Inc. (southwest quarter), Chasterus Foundation (30 acres), and Slab City Community Group Inc. (remainder of the section), and hopes to complete these sales in FY 2014-15.

#### **United States of America Land Sale (CSLC File No. SA 5767)**

This sale is expected to close in FY 2014-15 and the proceeds will be included in next year's Annual Report. The sale will generate \$806,500 for the SLBF.

#### **California Department of Transportation Land Sale (CSLC File No. SA 5770)**

This sale closed early in FY 2014-15. The sale generated \$3,100 which was deposited into the SLBF and will be included in next year's Annual Report.

## FINANCIAL SUMMARY: FISCAL YEAR 2013-14

### STRS FUND

#### REVENUES AND EXPENSES

##### Revenues:

Surface Rentals .....	\$	262,809.81
Geothermal .....	\$	5,546,556.09
Solid Minerals .....	\$	1,673,233.85
Oil and Gas .....	\$	2,492,346.57
 GROSS REVENUES .....	\$	 9,974,946.32
 Less: Geothermal Resource Development Account (GRDA) Deposits.....	\$	 <30,396.79>
(Public Resources Code Section 3826)		
 <b>TOTAL .....</b>	<b>\$</b>	<b>9,944,549.53</b>

##### EXPENSES: Net Management Costs

Land Management.....	\$	400,192.26
Geothermal .....	\$	661,465.70
Solid Minerals .....	\$	215,941.25
Oil and Gas .....	\$	0.00
Ownership Determination .....	\$	14,076.03
 GROSS EXPENSES .....	\$	 1,291,675.24
 Less: Reimbursement Recovery .....	\$	 <74,239.06>
 <b>TOTAL EXPENSES .....</b>	<b>\$</b>	<b>1,217,436.18</b>
 <b>NET REVENUE TO STRS .....</b>	<b>\$</b>	<b>8,727,113.35</b>

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### SCHOOL LAND BANK FUND

Balance as of July 1, 2013 ( <i>after year-end accounting adjustment</i> ) ....	\$	1,257,504.86
SMIF Interest Earned Fiscal Year 2013-14.....	\$	2,742.04
Less: Expenses.....	\$	<530,238.62>
<b>BALANCE OF FUND AS OF JUNE 30, 2014.....</b>	<b>\$</b>	<b>730,008.28</b>

(Note: Does not include \$59,000,000 loan to General Fund, due 6/30/16)

## ABBREVIATIONS AND ACRONYMS

AB	Assembly Bill
AD	Acquisition Disposition
AER	Alternative Energy Resources, Inc.
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
CDFW	California Department of Fish and Wildlife
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

### **Status of School Land Consolidation Efforts in the California Desert - 2014**

#### *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)<sup>1</sup> 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,<sup>2</sup> 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 16<sup>th</sup> and 36<sup>th</sup> 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 Fund<sup>3</sup> and designating the Commission as trustee of the Fund. In enacting the School Land Bank

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<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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 provisions of the School Land Bank Act enacted 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. This MOA was signed by the Commission’s Executive Officer and the California Director of the BLM on May 21, 2012. 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 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.

#### *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

continues to actively participate 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 have participated in efforts 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 below 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](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.

Additionally, as an integral part of these coordination efforts, Commission and REAT staffs developed a draft "general conservation plan" (GCP) that specifies the manner in which participants or applicants could obtain incidental take authorization pursuant to section 10 of the Federal Endangered Species Act based on their jurisdiction and proposed activities within the overall DRECP. The Commission authorized participation in the DRECP as an applicant on September 20, 2013 (C 119), and on September 10, 2014, Commission staff submitted its formal application for a federal incidental take permit using the GCP framework. This step is significant because if the DRECP is eventually approved and the incidental take permit is issued to the Commission, it would allow the Commission to streamline its leasing of school lands for DRECP-compliant projects located in designated development areas. This streamlining benefit would dramatically increase the marketability of these school lands to renewable energy developers and result in increased revenue, while at the same time ensuring that development occurs in compliance with the conservation requirements of the DRECP, consistent with the goals of Assembly Bill 982.

### *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.” (Ca. Pub. Resources Code, § 8723, subd. (a)) Consistent with this direction, the Commission’s Executive Officer submitted an initial proposal to the BLM on January 15, 2013. The initial proposal requested BLM-owned lands generally located adjacent to or near existing school lands and with high potential for successful development, or those which are located within areas designated in the administrative draft DRECP as Development Focus Areas (DFAs) and with reasonable development potential due to low biological resource conflicts and access to transmission. Commission staff sent a list to BLM of approximately 184,000 acres in 338 parcels of school lands and requested the BLM prioritize the list for acquisition in the exchange.

Throughout 2013 and 2014, Commission and BLM staffs met regularly to refine the exchange and prioritize parcel selection. Also during this time, the design and content of the DRECP has continued to progress, allowing the exchange discussions to benefit from information related to biological resources (species, habitats, corridors, etc.), Department of Defense considerations, and access to existing or future transmission. An important milestone in the DRECP planning process was reached on September 26, when the Draft DRECP environmental impact report/environmental impact statement (EIR/EIS) was released for public review and comment. The draft EIR/EIS reflects the Commission’s input with regard to school land ownership and development potential and describes a “preferred alternative” that includes several areas of consolidated school land holdings within designated DFAs. Public workshops for the Draft DRECP and EIR/EIS were held in late October and early November 2014, and the public comment period will end on February 23, 2015.

In August 2014, BLM and Commission staffs reached consensus on an exchange proposal framework that consists of approximately 7,000 acres of BLM-owned lands, and approximately 42,500 acres of school lands. Consistent with Assembly Bill 982 and the MOA, the BLM lands consist of parcels with a high likelihood of commercial-scale renewable energy development, and the school lands consist of 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. This framework proposal has been submitted to the BLM Office of Valuation Services, and a contract with a land appraiser has been executed to perform a “value consultation,” which will determine whether the respective values are comparable. Depending on the outcome of this consultation, the Commission may need to add parcels to its offered lands list in order to equalize the exchange value, or the BLM may have to add to its offered lands list, prior to moving forward with detailed environmental review and parcel appraisal. Commission staff anticipates completion of the value consultation in the first quarter of 2015 and initiation of an Agreement to Enter into a Land Exchange with BLM thereafter.

Additionally, REAT staff has expressed a desire to include in the exchange school land parcels in areas of “high conservation priority” under the DRECP even where those parcels are not currently in wilderness designations. Commission staff anticipates these additional parcels will be added to the proposal, or future phases of the exchange effort, once they are identified.

*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. Staff coordinates 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. For Fiscal year 2013-14, expenditures from the School Land Bank Fund attributable to developing the exchange proposal and conducting the necessary coordination with CDFW were \$451,135.27. 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 DRECP completion by the end of 2015, and expects significant progress will be made toward completion of the land exchange. Depending on the duration of any additional permitting and environmental review processes, within 5 to 7 years revenues benefitting the State Teachers' Retirement Fund should realize a significant increase.