TRANSCRIPT OF
MEETING OF THE
STATE LANDS COMMISSION

MAY 13, 1957 -- 10:00 A.M.

PRESENT:

THE COMMISSION:
Messrs. John M. Peirce, Chairman
Harold J. Powers
Robert C. Kirkwood

STATE LANDS DIVISION:
Messrs. Rufus W. Putnam, Executive Officer
F. J. Hortig, Assistant Executive Officer
Kenneth C. Smith, Supervising Land Title Abstractor
Edward Werner, Assoc. Real Property Appraiser
and Negotiator
A. W. Pfeil, Mineral Resources Engineer
Mrs. Julia T. Stahl, Secretary
Miss Constance Castruccio, Jr. Legal Counsel

OFFICE OF THE ATTORNEY GENERAL:
Mr. J. L. Shavelson, Deputy Attorney General

********

APPEARANCES:

SENATOR JOHN J. HOLLISTER, JR.
ASSEMBLYMEN JAMES L. HOLMES, ALLEN MILLER and JOSEPH C. SHELL

RE: LONG BEACH
Mr. Harold A. Lingle
Mr. Philip J. Brady

RE: LEGISLATION AB 47, 2237, 3869
Mr. E. E. Pyles, Vice President, Monterey Oil Company

RE: SANTA BARBARA ANNEXATION
Mayor John T. Rickard
Mr. Milton L. Duncan, Summerland
Mr. Oren D. Sexton, Hope Ranch

REPORTER: Louise H. Lillico
Division of Administrative Procedure
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MR. PEIRCE: The meeting will come to order. Colonel Putnam will proceed with the agenda. We will take up certain routine items first and then when Governor Powers arrives we will return to the other items in the agenda.

MR. KIRKWOOD: The minutes look all right.

MR. PEIRCE: I looked over the minutes. They appear to be in order. All right, Mr. Kirkwood?

MR. KIRKWOOD: M-m-mh.

MR. PEIRCE: The minutes will stand approved as written.

MR. PUTNAM: And for the information of the Commission, we found some mistakes in the minutes of January - No. 17 ...

MR. KIRKWOOD: Have they been corrected?

MR. PUTNAM: We will pick that up later. It is an item in here. As to the next Commission meeting, again before the 15th of June, isn't that right, Long Beach?

VOICE: Fine.

MR. PUTNAM: Shall we pick your secretary?

MR. PEIRCE: She will contact the others and pick out a date?

MR. KIRKWOOD: It will be rough up to the 12th, I imagine.

MR. PUTNAM: Now, Ken, is Mr. Stonier here?

MR. SMITH: Not yet.

MR. PUTNAM: Then we better pass to Item 7 on page 2.

MR. PEIRCE: All right - Page 2.

MR. PUTNAM: Frank?

MR. HORTIG: Mr. Groshong has applied for a lease on
submerged lands in the Sacramento River for maintenance of a small wharf, used commercially for serving food, drinks, and servicing and renting boats, and in lieu of furnishing a performance bond it has been determined that equitably instead of the normal $100 rental accompanied by a surety bond for a thousand dollars -- since Mr. Groshong is unable to obtain such a bond except at an exorbitant premium -- it is recommended that there be a rental of $150 annually and the requirement of the surety bond be eliminated.

MR. PEIRCE: Would that establish a precedent?

MR. HORTIG: No, sir.

MR. PUTNAM: We have done that three or four times in the last eight or nine years.

MR. HORTIG: An individual doing business individually has a difficulty in obtaining a surety bond for a long time as normally required in this type of lease.

MR. KIRKWOOD: I guess it is all right.

MR. PEIRCE: O. K. with you?

MR. KIRKWOOD: Yes.

MR. PEIRCE: All right, the recommendation is approved.

MR. SMITH: Page 3, Colonel.

MR. PUTNAM: A slight interlude -- I want to present to the Commission our Junior Counsel, Miss Constance Castruccio.

MR. PEIRCE: We are pleased to have you. You are an
attorney?

MISS CASTRUCCIO: That's correct.

MR. PEIRCE: That's fine. You will give the deputy attorneys general a little competition. It is nice to have you on our staff and we are very glad to have you here today.

MR. PUTNAM: I thought it would be well for her to sit in.

(At this point Lt. Gov. Fowers arrived)

MR. PEIRCE: We just took up page 2, a routine item. Now, perhaps we had better get back ....

MR. PUTNAM: I am just wondering if we have got the representation of Santa Barbara County here complete.

MR. KIRKWOOD: Is the Senator coming up?

MR. PEIRCE: Perhaps we had better wait until he arrives. Also, it may be that Mr. Thomas will be here.

MR. PUTNAM: What I was thinking of was that I wouldn't want to present these things unless we had as many people here as we thought would be coming.

MR. PEIRCE: All right.

MR. PUTNAM: Mr. Stonier is not yere yet?

MR. SMITH: No sir.

MR. PUTNAM: May I also present our new Mineral Resources Engineer, Mr. Pfeil.

MR. PEIRCE: How do you do, Mr. Pfeil. Glad to have you with us also.

MR. PUTNAM: O. K. Will you proceed, Jack?
(Assemblyman Holmes arrived)

MR. PEIRCE: Good morning, Mr. Holmes. Mr. Holmes, we are waiting for a few minutes before we take up the Santa Barbara annexation because there are interested persons who are not here yet.

MR. PFEIL: Prospecting Permit P.R.C. 1509.2 covering the NW¼ of ....

MR. PUTNAM: I think I can present this right offhand because I talked to you about that, Mr. Peirce? This was a prospecting permit of Herman Akers and Harold Eade in San Benito County, P.R.C. 1509.2, where they have proceeded for quite some time under prospecting permit and then applied for a development ....

MR. HORTIG: Preferential mineral lease ...

MR. PUTNAM: .. preferential mineral lease. Our office made an investigation last June to see whether or not the requirements of the preferential mineral lease were being met -- and those requirements have to do with the amount of production and how commercially valuable it is. Our inspector reported back to our office that it would not qualify for one of these preferential leases. We failed, as I told you, to notify the prospecting permittee. Then we got to the deadline of the expiration of the prospecting permit -- and I have had authority conferred upon me by the Commission to extend these things for another year. I did; but I would like confirmation of it because the thing is ....
MR. PEIRCE: This is the instance where Attorney Charles Gilmore interceded in behalf of his clients and you admitted a mistake had been made in the past, so this confirmation is in order ...  

MR. PUTNAM: That's right.  
MR. PEIRCE: I certainly would approve it.  
MR. KIRKWOOD: Nobody can object to it.  
MR. POWERS: That's all right.  
MR. HORTIG: It is authorized ...  
MR. PEIRCE: It has been moved and seconded that the recommendation be approved, so will be the order.  

MR. PUTNAM: Page 2.  
MR. HORTIG: Page 2 is covered.  

MR. PFEIL: There's one on 83, Supplemental Item 23.  
MR. PEIRCE: What page?  
MR. HORTIG: Page 83.  

MR. PFEIL: The City of Long Beach has requested, in the interest of greater clarity, that the words "the cost of said subsidence remedial work" be included in the approval in reference to the nature of the full amount of $959,530 authorized on January 10. In the opinion of the office of the Attorney General, the proposed modification of the wording clarifies the evident meaning of the resolution and does not
constitute a modification of the former action. It is recommended that the Commission authorize revision of the resolution of January 10, 1957, Minute Item 17, to read:

"THE COMMISSION APPROVES THE COSTS PROPOSED TO BE EXPENDED BY THE CITY OF LONG BEACH, INCLUDING SUBSIDENCE REMEDIAL WORK UNDER PROJECT L.B. W.0. 10,005, BETWEEN JANUARY 1, 1957 AND JUNE 30, 1957; THE COST OF SAID SUBSIDENCE REMEDIAL WORK NOT TO EXCEED $959,530; SUBJECT TO THE CONDITIONS, HOWEVER; THAT THE AMOUNTS, IF ANY, OF EACH OF THE ITEMS TO BE ALLOWED ULTIMATELY AS SUBSIDENCE COSTS, DEDUCTIBLE ...."

MR. KIRKWOOD: I vote the approval of the recommendation. It's just the addition of that language.

MR. PFEIL: Yes, sir.

MR. LINGLE: We might interrupt a minute on this. We appreciate very much having this particular correction. There's only one other point, one question solely in the interest of accuracy. The original records refer to an attachment and on the attachment there was an inadvertence. There were two items that indicated that we had gone ahead and did some work prior to Commission approval; and we had discussed that and I think the staff agrees that we have. It is one of these items where part of the work was done in one month, part in another month, and in carrying it forward ... The City did not do any work without prior Commission approval.

MR. PEIRCE: It has been moved and seconded that the motion be approved and so will be the order. (Moved by Mr. Kirkwood, seconded by Mr. Powers.)

MR. PFEIL: Supplemental Item 24, Page 84. Consideration of Subsidence Costs. On April 8, 1957 (Minute Item 7,
The Commission approved the costs proposed to be expended by the City of Long Beach, including subsidence remedial work, during April 1957 and estimated expenditures in the first portion of May 1957 for payrolls and similar items.

The same elements of subsidence costs expenditures which are to be paid during May 1957, accountable under subsidence costs not included in projects approved heretofore by the Commission, will require approval by the Commission if credit is to be received by the City of Long Beach for such costs under the provisions of Section 5(a), Chapter 29, Statutes of 1956, 1st E.S. The staff of the Lands Commission has reviewed statements by the City of Long Beach with respect to expenditures made during May 1957. These amounts are tabulated in Exhibit "A" attached hereto. From a review with the office of the Attorney General relative to costs proposed to be expended in the amount of $410,000 to cover costs of property acquisition, final item in Exhibit "A", it has been concluded that the estimates of the subsidence element in this item should be withheld and that no current approval should be given to further withholding of funds for property purchases. The amounts previously withheld by the City of Long Beach as subsidence deductions may substantially exceed the amounts which will be ultimately allowed. Since Chapter 29 makes no provision for interest on the amounts returned to the State because of the excessive estimates of subsidence...
costs, such estimates should approximate as closely as possible the amounts ultimately to be allowed. Pending an administrative solution of this problem with the City of Long Beach, it is suggested there be no current approval for tentative subsidence deductions, to prevent swelling the amounts already held. The City is, nevertheless, entitled to prior Commission approval of expenditures so as to preserve its right to subsidence deductions to the extent they are found to be legally allowable. In addition, the Long Beach Harb. Department has requested prior approval by the Commission of the amount of $50,000 estimated to be spent during the month of June 1957 for payroll force account and voucher payments other than construction. The subsidence portion of this amount is estimated by the Harbor Department to be 89%.

MR. PEIRCE: Any comments from Long Beach with respect to this recommendation?

MR. LINGLE: We have discussed it extensively — Mr. Shavelson and members of our office. We are not in accord. We believe that all of it ultimately would be allowed as subsidence. However, as there is the suggestion that we can get together and talk this thing over before your next meeting, we want to retain our right, that we don't agree. We believe that it isn't our idea to buy these lands as something we wish to buy. We feel we have to buy them to protect ourselves and because of that, that they are subsidence.
The other, our main objection, is this: That we received notice as of last Monday and they gave us very short order in time to act because we had contracts where we had agreed to purchase some of these properties and we didn't know where we were and how we could efficiently plan our budget. I realize Mr. Shavelson's position exactly, but we wish to maintain our position that we are entitled to these costs and the other point was that we would like to get it ironed out as rapidly as possible because we had planned in making these expenditures of $410,000 and Monday we were told we would not be permitted to make the expenditures; and there were some contracts where we are in the position where we would have had to pay the money whether we got State approval or not because we would be liable to damages and there was no possible way to back out of the thing until we could get your approval on it. So we would like to get together so we can talk the thing over and plan efficiently what we can do.

MR. PUTNAM: Our suggestion is that we continue to work this out as rapidly as possible. On some other item - water pressurization - we haven't been able to come to the complete engineering review that we wanted, so it might be necessary for us to request a special meeting of the Commission -- I mean an interim meeting, around about the 25th of May, to take care of this item, which is a toughy for Long Beach, and this other one, water pressurization.
MR. PEIRCE: Is there any reason why we shouldn't proceed to adopt this recommendation at this time?

MR. PUTNAM: No, because we have separated it, as I take it, the particular matter of purchase of property. That's right.

MR. HORTIG: The only thing that is to be suggested is that the City not withhold moneys but to go ahead and make the expenditures; whether they get them returned will be dependent on the solution in the future.

MR. SHAVELSON: I just wondered if the reason for this has been made clear as yet. In other words, we were -- the Attorney General was surprised that these lands that were being purchased do have a definite value for purposes other than subsidence. They are purchased for the purpose of tentative subsidence but once purchased they do have a value. We were also told that the final evaluation of these lands couldn't be made in some cases for a period of one or two years, and that is the reason why we acted in this manner. We feel the State is entitled to credit for the value of these lands for purposes other than subsidence. That's why the allowances, although they should get prior approval, may on final engineering review and audit -- they may not be given 100% deduction and for that reason we don't want the amounts withheld to greatly exceed the amounts that are going to be ultimately allowed.

MR. PEIRCE: Any further discussion?
MR. KIRKWOOD: Move the recommendation.

MR. POWERS: I second.

MR. PEIRCE: Mr. Kirkwood moves, Governor Powers seconds the motion that the recommendation be approved. So will be the order.

MR. BRADY: May I interrupt for a moment? My Name is Brady — I am from Long Beach. With reference to the water amendment, is it my understanding that a recommendation will be in order on May 20th and formal action will be taken?

MR. HORTIG: We don't know but we hope action will be taken. There is one thing I did want to clear up in the supplemental report. I think it was very fairly written except for one possible misconstruction. While we feel that the amendment will ameliorate or alleviate subsidence conditions, the amendment under its terms and conditions can legally only be drawn as a secondary recovery measure.

MR. KIRKWOOD: What are we talking about?

MR. HORTIG: We haven't covered this item which Mr. Brady is speaking of.

MR. PUTNAM: We have an item coming up.

MR. HORTIG: Page 80.

MR. PUTNAM: Gentlemen, if you want to cover that right now .......

MR. KIRKWOOD: We might as well cover all of Long Beach.

MR. PFEIL: On February 19, 1957, in compliance with Section 10, Chapter 29, Statutes of California 1956, the
Long Beach Harbor Commission submitted for approval by the State Lands Commission an agreement amending each of the six existing drilling and operating contracts between the Harbor Commission of the City of Long Beach and the Long Beach Oil Development Company. The proposed amendment provided for an expanded water flood operation for the purpose of developing data relative to alleviating subsidence. The proposed operation will provide valuable data relative to the effect of water injection as a remedial measure in subsidence. As a secondary recovery measure, water injection into the aquifer sands will materially increase the ultimate recovery of oil from the reservoir. The proposed amendment is currently being reviewed by the office of the Attorney General as to legal compliance with Chapter 29, 1956, 1st Executive Session, and by the staff as to engineering feasibility.

MR. PUTNAM: That was the item that was also pulled into this and we hope to have some answers on this toward the end of the month and probably request a special meeting, an emergency meeting of the Commission, to take care of this item and the other.

MR. FEIRCE: Is there any further discussion? Do you have anything further to say, Mr. Brady?

MR. BRADY: My only point in discussing the matter was this -- it was the opinion of the City of Long Beach that under the drilling and operating contracts with the Long...
Beach Oil Development Company this amendment could only be entered into as a secondary recovery measure and that while everybody is very optimistic about the outcome and ameliorating the subsidence condition, the amendment as drafted is drafted as a secondary recovery proposal.

MR. JORKWOOD: What does that mean, that Long Beach expects to pick up the whole tab?

MR. BRADY: No sir, under the provisions of our operating contract, we can only reimburse the Long Beach Development Company for those costs incurred in the production of oil in field practice. We felt that it would have to prove itself as good field practice in conjunction with the extraction of oil rather than a poor subsidence measure as long as Long Beach Development Company and Richfield are involved. They are in the oil business, not in an attempt to ameliorate our problem. We hope that any increased oil recovery for the city and State will aid us in fighting the subsidence problem.

MR. PUTNAM: Mr. Chairman, this may be redundant, but under the terms of Chapter 29 of 1956, which govern the State Lands Commission's activities with respect to the City of Long Beach, any amendments to their existing contracts or any new contracts, as I understand it, must be presented to you for your action and that is what is involved here, because they are amendments to those contracts.

MR. PEIRCE: These amendments are in accordance with existing law?
MR. HORTIG: That's the question under study.

MR. PEIRCE: How does this tie into legislation pending before the Legislature dealing with this same question?

MR. HORTIG: Not directly, sir. It's a phase of operations rather than a phase of any new legislation currently under consideration.

MR. PEIRCE: Well, that is for our information — no action is called for at this time?

MR. PUTNAM: That's it.

MR. KIRKWOOD: Is that all on Long Beach?

MR. HORTIG: I believe so.

MR. PEIRCE: Gentlemen from Long Beach, you are welcome to remain but if you have other business we are through with your section of the calendar.

MR. PUTNAM: Santa Barbara ready?

MR. PEIRCE: Senator Hollister is not here. Mr. Thomas is not here. Mr. Holmes, is it your opinion that Senator Hollister desires to be present when we discuss this matter?

ASSEMBLYMAN HOLMES: I haven't talked with Senator Hollister on this. I didn't even know I was going to be here. I have a lull before some bills come up this morning and I am just sitting in.

MR. PEIRCE: What item do you suggest?

MR. HORTIG: Page 81, Item 22.

MR. PEIRCE: I would like to announce the presence of
Assemblyman Allen Miller and Assemblyman Joseph Shell. We are pleased to have you here and hope that you will feel free to participate in our discussion this morning. Shall we hear from Mr. Pyles first?

MR. HORTIG: Probably in connection with this item it would be appropriate.

MR. PEIRCE: All right. You give the background information and then we will have Mr. Pyles.

MR. HORTIG: Seems logical. As you gentlemen already know, at least partially, AB 47 - Mr. Miller, 2237 - Mr. Shell, and 3869 - Mr. Allen (of which amended copies are attached to your calendar following your last page) were considered in the Assembly Committee on Manufacturing, Oil and Mining Industry on April 16 and 23, 1957. The bills were heard in Committee and Mr. Miller's bill and Mr. Shell's bill were withdrawn on April 29 from the Committee. On the following day, the Committee also passed, with no recommendation, Mr. Allen's bill. The three bills were heard on May 7 on special order and all were passed to the Senate and went through by the votes indicated. The comparative effect of these bills is summarized on the following tabulation. All three bills are essentially in agreement on all factors except one, which I can call your attention to -- except two, I should say. The Miller bill and the Allen bill establish a 6-2/3% minimum oil royalty plus a mandatory sliding scale. The Shell bill has 16-2/3% minimum and optional slide; and
item (e) in the Miller and Allen bills is identical, which feature is not included in the Shell bill. Other than that, there are no differences in proposed amendment to the act under any of the three bills.

MR. PEIRCE: Now, before we continue to discuss this matter further, we have with us Mr. E. E. Pyles, Vice President of the Monterey Oil Company, who has expressed a desire to address the Commission; and, if I understand correctly, his statement will supply us with background information of the company's experience in exploring a lease granted to his company at Huntington Beach.

MR. KIRKWOOD: Before we go into that, might I just ask this of the staff? As I understand it, these three bills, together with a bill of Mr. Cunningham, No. 795, amended on May 10 and making, as I understand it, really the only change from 12½ to 16-2/3% -- all bills are to be heard by a Senate subcommittee tonight.

MR. HORTIG: Yes sir. As to the first three, they are on file. I have assumed, as you have there, that Senator Cunningham's bill will be included, although it is not in the written record.

MR. PEIRCE: Mr. Pyles.

MR. PYLES: I have a copy for the Commission of my statement. Mr. Chairman, with your permission I ask that I may be seated at the table to present this.

MR. PEIRCE: Surely.
MR. PYLES: Gentlemen, I appreciate very much the opportunity of appearing before this Commission because I believe that I am in possession of certain facts that are highly relevant to any discussion of royalty rates on leases covering tide and submerged lands. I expect to emphasize and support the contentions of some other operators with some startling figures that I might say have (sic)* been arrived at by deduction, but which are the result of actual experience over the past two years on two State leases, P.R.C. 1549 and P.R.C. 1550. These leases, as I am sure you gentlemen know, lie off shore between Newport Beach and Huntington Beach. Seaboard Oil Company, Humble Oil and Refining Company, and Monterey Oil Company are associated in this joint leasing venture, with Monterey Oil Company being named as operators.

Before these leases were obtained, Humble and Monterey had made a discovery on adjoining tide and submerged lands held under contract with the City of Newport Beach and had successfully completed some six or seven wells. The subsurface information developed during this drilling program was amplified by offshore geophysical and subsea geological surveys on both the underwater land parcels mentioned. On the basis of these combined data, there was good reason to believe that a producing structure underlay the leases. The three companies that were party to the enterprise were in entire accord on this and a request was, therefore, made to

* Typed statement of Mr. Pyle shows "I might say have not been"
the Lands Commission to put the two leases up for bid. Prior to this time and at considerable expense, these companies acquired a number of upland properties including subsurface rights from Willow Land and Water Company, Pacific Electric Railway Company and Mills Land and Water Company. These were required in order to assure on-shore sites for directional drilling operations should we prove to be the successful bidder on the two leases.

Following all this exploratory work and careful planning, the two parcels were put up for bid and the three companies - Seaboard, Humble and Monterey - being high bidders, the successful bids were $3,333,000 some odd dollars for Parcel 1549 and $1,333,000 for Parcel 1550. Almost immediately, from the beginning of the granting of the leases, Monterey as operator began drilling from upland locations on P.R.C. 1549, the parcel nearest to the shore. Four wells were drilled directionally to depths between eight and ten thousand feet bottomed on the lease, but they were all bone dry. Because of this ill fortune, the Commission granted an extension of time to permit the lessees to procure the special construction of and bring a drilling platform around from the Gulf Coast. This was for the purpose of drilling P.R.C. 1550, which lies more than a mile from shore and along the westerly edge of 1549. After the arrival of the platform, core holes were drilled on property covered by this lease, also to depths of eight to ten thousand feet, but these, too, were entirely unproductive.
Now, the cost of this operation was as follows:

- Lease acquisition $4,780,501
- Geophysical and subsea geological expense 45,501
- Rentals 89,622
- Drilling costs 1,773,205

Making a total of $6,694,829

This I said simply to show that here we have three well-established oil companies, having available in their own ranks highly qualified geo-scientific personnel, equipped with the most modern exploration instruments and know-how. Amplifying the findings of these and agreeing with their conclusions were independent geologists and geophysicists of wide experience and excellent repute. That, I am sure you will agree, was justification for something more than mere hope. Coupled with the successfully completed wells drilled by Monterey and Humble on immediately adjoining Newport Beach property, it amounted almost to proof that the lease would produce -- but it didn't.

It seems to me the Commission should take cognizance of these facts and weigh them carefully. They constitute irrefutable proof of the tremendous financial risk that is involved in the search for offshore reservoirs, a risk that is greatly enlarged by the inherent difficulty and increased costs of almost every phase of submerged exploration and drilling. It constitutes proof also that even those properties which the most accurate and complete surveys indicate to be...
the likely repository of oil can still be sore disappointments production-wise.

I would like to point out here, by the way, that the State of California is well protected against improper royalty provisions in its offshore oil leases by the Cunningham-Shell Act. The act permits the leasing of alternate blocks only and the retention of the unleased portions until leased portions have been drilled. If production is developed in any one section, there are, of course, four contiguous sections that can be leased at higher royalties for the benefit of the State.

Finally, I feel it is necessary to accentuate three important conclusions that are justified by the foregoing facts:

1) The financial risk and, in fact, all other types of risk involved in offshore operations are so much greater than any normal upland operations, that the two processes are quite unrelated. One should not, therefore, under any circumstances be used to set a pattern for the other.

Now, at this point ....

I spent some time yesterday, I have a few figures here on a piece of paper that I think will substantiate what I have set forth in paragraph 1, for the purpose of making a comparison of on-shore and offshore. These are actual and factual. First, take the matter of transportation of personnel, which we call water taxis, and at the most favorable
location I think you can have all up and down the coast of California that one item cost a little over $6,000 a month, just to transport the personnel that work from the end of the pier at Seal Beach to the island, which is less than a mile. Now, if you multiply that by 10 or 20, which all of our oil fields in California have a life of that nature, you get into a figure of a million and a half dollars for an item that does not cost you a penny on shore.

Now, mud costs -- To drill a comparable well on shore, the cost of the mud and the transportation of the mud to disposal dumps on shore costs about $6,000 per well. Offshore they have been costing about $18,000 per well.

The four holes drilled on P.R.C. 1550 —— I asked our manager of operations if we were going to drill four core holes on shore in the immediate area of 1550 and we would contract for the same identical machinery to drill them on a daily basis —— which we certainly could get 'em on a contract basis at less price, but operations out in the water are not on a footage basis because there is not enough experience for it and it must be on a daily basis —— to drill on shore it would cost $1100 a day. It actually cost $6145 a day for the drilling of the core holes on 1550, or approximately six times as great.

Please bear in mind that these are factual figures. We have heard a lot of statements as to cost of operating in the water and on shore.
Now, here is a transportation cost item. For drilling the same comparable wells on shore, the transportation cost of transporting your casing and your tubing and pumping units and the equipment that is necessary for the well, will run around $1500 per well, with a maximum of about $2000. The transportation cost per well has been $22,000 or eleven times the amount that it is on land.

Now there is one very outstanding thing about all this -- and this is just some items that I took at random, it is not a complete list of all of the costs attached to it, but certainly shows you what the pattern is. Now, we do not get one cent a barrel more for the oil that is produced from the tidelands at several times the cost than we get for the same type of oil that is produced on shore at one-fourth to one-fifth the cost. So I think those are definite figures as to some of the costs of operation. I am sure that the places where we have been operating are the most favorable insofar as cost conditions are concerned; and when the operators begin to operate in other areas of the tidelands, where their distance is greater, that cost is going up. Likewise, we have been operating in water 45 to 70 feet in depth and many of your prospects are in water that is far greater in depth than that, up to two and three hundred feet in depth, and when you start operating in water of that depth then these costs here become very nominal.

2) Even with all the scientific data that can be made
available in these modern times, no person or group of persons can successfully predict the oil possibilities of any subsurface area until enough wells have been drilled to prove or disprove the presence of oil and to give some idea of its quantity and quality.

3) There is nothing to indicate that the experience of three reliable and substantial oil companies cited here will not be repeated by others, regardless of how well they may be informed.

It seems very clear to me in view of these facts that unless the State is willing to offer adequate incentives to encourage industry to assume the great risk involved in offshore exploration and development, or to reduce it to some rational proportion, there is great danger that capital investors will be lured into more lucrative enterprises. The cost is already so great that even the largest oil companies find it expedient to join together to reduce the individual hazard. With prevailing unrest in other parts of the world and the vulnerability of foreign petroleum sources in the East, it would be nothing short of a national catastrophe if California's offshore reserves remain undeveloped for lack of adequate incentive.

Mr. Chairman, those remarks and the statement is one that I certainly felt that I wanted this Commission to know about, because we do have legislation that is pending in the Legislature here and I wanted this Commission to have this
information for its own guide.

MR. PEIRCE: Mr. Pyles, I would like to ask you a question. When your company took its geophysical measurements and concluded that there was a structure capable of holding oil within the boundaries of this lease, did your later drilling prove the existence of the structure that your geophysical studies indicated was there?

MR. PYLES: No sir, they did not. It was contrary to it. We likewise have what I call subsea geologists. In fact, I believe we were the first ones that had these subsea geologists under contract for about two years, doing subsea geology on the floor of the ocean; and geologically and from work on the surface and seismic tests, all we were able to determine was that we had a structure. We had further proof of it because we had producing oil wells across the line in the city of Newport Beach; but the net result was that we drilled eight completely bone dry wells at almost a cost of seven million dollars.

MR. PEIRCE, Any questions, gentlemen? GOVERNOR POWERS? (No response)

MR. KIRKWOOD: I would like to -- on your page 4 --

"I would like to point out here, by the way, that the State of California is well protected against improper royalty provisions in its offshore oil leases by the Cunningham-Shell Act. The act permits the leasing of alternate blocks only and the retention of unleased portions ......
If production is developed in any one section there are four contiguous sections that can be leased ... for the benefit of the State." I do not know what pattern you are suggesting there.

MR. PYLES: It's just what you did offshore of Santa Barbara. There was a request for ten parcels as approximately nine sections and the Commission elected to (unclear to reporter) at the Wild Cat rate of 1/8 and retain the adjoining parcel.

MR. KIRKWOOD: That wouldn't give us four contiguous sections that can be leased.

MR. PYLES: It is sections -- you are thinking of parcels. It is sections of land on both sides of it.

MR. KIRKWOOD: There would only be the two. You are not thinking in terms of a section of land. You are thinking in terms of a block of sections.

MR. PYLES: I didn't have a chance to correct that. It doesn't read quite right. What I am thinking -- you have an offset to the property you have leased and if it proves productive, then you have the opportunity for the State to get a larger bonus and a graduated royalty, as is provided by the Cunningham-Shell bill, because it is proven.

MR. KIRKWOOD: It is not your experience in the area you are talking about, that isn't full protection either to the operator or the State. You can have a block where you moved across the section line and found that wasn't the answer.
MR. PYNES: Certainly if you leased one of these parcels and made a discovery and the one indicated oil, the oil companies would certainly look at it in the same light as we did. We looked at it in the light of proven property. The closest bidders — we outbid them $2,900,000 on that property because we thought we had the information. We had a lot of information, but not good.

MR. KIRKWOOD: As the situation has turned out, you may have an awfully good block in the Newport Harbor City limits, where a high royalty would be justified, and yet right next door you paid a whopping royalty that hasn't proven up. In one case it seems to me the landlord should have been able to protect himself better; in the other case you paid too much without protection. Talking in terms of the last page, you say "reduce it to some rational proportion." That seems to mean that the Shell-Cunningham Act as it stands now prevents us from reducing to rational proportions.

MR. PYNES: I don't think so. I think the Cunningham-Shell Act is meant to give some incentive. Certainly we are interested in the tidelands of California. We, along with other companies have spent money in seismic work, geology and so on, but if we are to not bid on wildcat — if it goes up in such range we would be fortunate to make anything, because when you get into the costs of operating in the waters off California, or anywhere, you are just
multiplying your cost many times. We know that, it isn't
guesswork. So if there is an incentive to make another
try --- and if you are not going to have an incentive you
are not going to have this coastline developed because the
costs I have indicated to you are minor compared to the cost
in deeper water -- if there is any incentive to the companies
to go out and spend money and they are going to drill and
you are going to drill dry holes and therefore when you get
one there is a chance to recoup on all of those bad ones --
No oil business can stay in business, just like any business,
if you can't make more than what you lose you go in bank-
rupcy. Now, companies can't go and just spend all this
money and stay in business. We would just have to quit,
throw in the sponge, if you are going out of reason and I
think we have got facts and figures to substantiate why
you should make it encouraging to the companies.

MR. KIRKWOOD: I don't think there is any question
that we should make it encouraging. I think it is the degree
of encouragement that is in disagreement, perhaps.

MR. PEIRCE: Are there any further questions? Mr.
Miller and Mr. Shell? All right, thank you very much, Mr.
Pyles, for your statement. It will add to our sum total of
information on this very complicated subject.

ASSEMBLYMAN MILLER: Mr. Chairman, I think I should
remark that Mr. Pyle's observation that this was mostly proven
land .... (not clear) .... this was in the field of proven
land — it was just a bad guess.

MR. BRADY: Substantiated by the Commission's own consultants. They recommended it as proven land.

MR. PEIRCE: Mr. Hortig, you presented a progress report on legislation pending, which deals with tidelands oil development?

MR. HORTIG: Yes sir.

MR. PEIRCE: Now, is there anything further that the staff has to report with respect to this legislation at this time?

MR. PUTNAM: I think the only thing further, Mr. Chairman, is that ...

MR. HORTIG: Starting on Page 47 ...

MR. PEIRCE: Is there anything further?

MR. PUTNAM: We made no recommendation on this page 81 and 82 with reference to this legislation. I think we out-recommended ourselves last December.

MR. PEIRCE: Well, the matter is before the Legislature now.

MR. KIRKWOOD: Mr. Chairman, as you know I have given to each of the other members of the Commission, and the authors of the three Assembly bills, some suggested amendments to the Shell-Cunningham Act. I would like to discuss those either now — or you were asking whether perhaps we should dispose of the Santa Barbara situation and then return to this — whichever way the Chair wishes to do on that; but at
this meeting today I would like to have these discussed.

I feel quite strongly that we on the Commission should let the Legislature know what our problems are and what our thinking is, because we did do that two years ago. We recommended this act and if we are having any problems under it and can agree on amendments, I think that's our obligation to make those suggestions. The staff has indicated that it feels some changes are necessary. I think we ought to either support or reject that position of the staff at this time. So I would ask that either now or after the rest of the calendar has been disposed of that we do go into this matter further.

MR. PEIRCE: It will take about thirty minutes to discuss the subject?

MR. KIRKWOOD: I would assume...

MR. PEIRCE: Senator Hollister, you desire to get back to the Senate?

SENATOR HOLLISTER: I don't have to. These Assemblymen may have to get back.

MR. PEIRCE: All right. Now, in order to have a continuity of discussion, let's proceed with discussion of the Cunningham-Shell Act and amendments thereto. Mr. Kirkwood, will you proceed to outline your views with respect to this subject?

MR. KIRKWOOD: Yes, I handed drafts of these suggestions to the two Commission members the other day. I don't know
whether or not you have them. Do you have an extra one of that?

MR. PUTNAM: Yes.

MR. KIRKWOOD: Both of the discussion and the amendments? Mr. Chairman, as you know, from the start of this session I have felt ....

MR. PEIRCE: I have to be excused for three minutes.

MR. KIRKWOOD: I think the Chairman is familiar with this, so I can go on. I have felt that the provisions of the Shell-Cunningham Act were unduly restrictive as far as the State Lands Commission's efforts were concerned to obtain a satisfactory return from the tide and submerged lands, and have gone along with the staff in their suggestions that some changes were needed. I had hoped and had suggested earlier that we try to get some outside expert advice, hoping that by this time in the session that perhaps with that kind of advice we could have made sound suggestions to the Legislature. I apparently took the wrong course in being hopeful that we could do that on a voluntary basis, in that we have tried to get a group together to give us suggestions along that line but it just hasn't worked out for one reason or another, so I am satisfied that what we need, before we enter into an extensive leasing program, or a leasing program which would bind the State as far as what apparently are the most likely oil producing areas offshore are concerned, would bind those by lease, that we should get
probably three advisers on a paid basis, consultants, so
that there would not be a feeling that one of them was
bound by former ties or bound by some commitments; that we
would have three rather than a single person working, advis-
ing us from their experience in this particular area as to
how best the State can be protected.

Now, we haven't had those people working and advising
us to date. Our staff members have been limited in their
time and their experience is naturally limited to California
and the area here, and what they have been able to pick up
by drawing materials together from other areas. They have
not been in a position where they themselves have had to
negotiate agreements of this particular kind. So, again,
I think we can profit by the broader experience that people
who have actually negotiated leases of large properties for
private landlords can bring us.

Trying to pinpoint the areas in the Shell-Cunningham
Act where I felt that we needed discretion, if we were to
take advantage of the advice of experts in this field, I
have prepared..

(Mr. Peirce returned to the Chair.)

MR. KIRKWOOD: .. a number of amendments to the Shell-
Cunningham Act in the hope that perhaps this Commission would
agree with me that they would give us a better basis of opera-
tions and that they would recommend them to the authors of
the bills currently before the legislative session. The
way I have drafted these amendments, they are not drafted to any bill currently before the Legislature. They are actually drafted in the form of a new bill, making amendments to the existing law. However, they do make amendments to the provisions of bills that have been passed by the Assembly.

I have felt that the hands of the Lands Commission were unduly or improperly tied, shall we say, in our ability to get an appropriate royalty which would still be an inducement to the operator and would, at the same time, mean a completely adequate return to the State. Under the existing Cunningham-Snell Act, as I say, I think our hands are improperly tied.

All of the bills which are in apparently concede that 16-2/3% is a more appropriate minimum than 12½. As I understand it, it has developed since the Shell-Cunningham Act was passed two years ago, that 16-2/3% is the royalty which is being exacted in the Gulf for offshore areas, not only by the government but the states operating there. Apparently the Legislature, in its expression of opinion so far, has indicated that they would not want to see this Commission go below 16-2/3%. I think that is a fair statement, so I have incorporated in my suggestions a minimum of 16-2/3%.

Now, that is a digression from the original recommendation of the staff, which was asking for greater flexibility on the part of this Commission and started for that reason.
at 12½, but because of the indication of the Legislature that they feel we should not lease under any circumstances at less than 16-2/3%, I have incorporated that figure instead of 12½.

I have felt in my own mind at least, and after some discussion with people who are far more familiar than I with this problem, that the sliding scale royalty as it has been used, and as I believe it is spelled out in the bills presently before the Legislature, may not be the best answer as far as giving inducement to the operator and at the same time protecting the State; that there are other ways of possibly providing that protection; and I would feel that the Lands Commission should have the ability to turn to the most effective way, after consultation with experts in the field. So I have suggested in these amendments that as an alternative we be able to go to a step scale, based on the gross production under the lease. In other words, we could say that the 16-2/3% would apply for a certain million barrels of oil, that after that for another few million barrels it would be at a higher rate, and so on. This, I think, has some advantages because, again after consultation with the experts, we could attempt to make adjustments for the sort of thing that Mr. Pyles was talking about -- the problem of extra costs for drilling offshore. We could set the number of millions before the adjustment was made, in order to take care of that sort of situation. I think it has a
possible advantage there -- I think it has a possible advan-
tage over the average rate of production per well, as far
as the policing, as it were (that isn't a good term) of
this particular situation. In other words, we wouldn't
have to be seeing that the oil company or the operator was
producing a well at the maximum efficiency rate. That
would achieve or have no importance in this sort of scale,
so I think there we might have fewer arguments with the
operator over the period of the lease.

I have indicated in this amendment that you could
have a combination of the two types of scale, so that after
a field was fully developed and the average production per
well began to drop back to the point where, at the high
royalty rate, it might not be profitable, that we could put
the scale downward at that time so as to take care of that
particular situation. That, as I say, is an effort to find
a basis to be passed upon before it would be incorporated
in any lease, whereby we can remove some of this gamble and
whereby the State can take care of some of these extra costs
that we have offshore, but at the same time still assure the
State, in the event of a major find under a particular lease,
of a fair return.

Now, I have also made some suggestions as far as the
rental is concerned, during the period when the operator
is not required to commence drilling. Under the present law
that can go up to five years. Under the suggestion of at
least two of the bills passed in the Assembly, that period is cut to three years. One of the things we have heard constantly in meetings of this Commission is that we need to know what our reserves are, we need to develop as quickly as possible, we need to give employment to the drillers, to the ship yards, and so on; and we can only do that, it seems to me, if we embark on a thorough-going program of leasing. We can’t hold up blocks, hold them back five or ten years from lease, and still satisfy these pressures that have been brought to the Commission. So I felt that there should be some means of calling for immediate follow-through on any property that was put out to lease. I understand that that is done in other lease agreements by having the rentals during this period high, so that there is an incentive to keep going. It could be that instead of having a single cash payment made, that the cash bonus would be based on a percentage increase of, say, the first five years of rental that is charged under the lease.

These are areas where I have amended — and it is something that has not been reviewed by the Attorney General’s office, developed solely in our office, and I would want it to be approved by the Attorney General, see that it does what we think it does — so that the doors are not closed on the recommendations those experts can make to us; that they do have elements of choice, all of which would lead, however, to something more than the minimum royalty set out
in the bill.

Now, this would also permit the alternate type of bid that is incorporated in the Miller and Allen bills on a royalty bid rather than a cash bonus bid. The amendments would permit, if this type of bid is resorted to, for us to fix a minimum cash bonus in terms of payment to be made at the start of the lease, which would not be permitted under the present Shell-Cunningham Act. I felt, in the language which I had originally suggested to Mr. Allen with reference to this alternate of a royalty bid, that it did not reopen the possibility of a bid factor. Either Mr. Allen or Mr. Miller, in the discussion in the committee the other night, indicated that they thought the language in their bills did permit a bid factor. I had not so intended it in my language. I think they have picked it up from a suggestion of mine. It should be clarified one way or the other. I wonder about using a bid factor myself. I don’t think our experience has been too good. I think a constantly over-riding royalty would give us more flexibility, so I certainly would have no objection if that language were adopted by the Legislature.

I think that covers the amendments to the first part, the royalty and bonus provisions. One thing we don’t have currently under the act is the right, at the end of the lease or on cancellation, of any surrender of any part of leased area, to acquire any operating equipment that the
operator may have on that property. It may well be that the particular operator can't continue at a profit but that another operator taking over could. It seems to me that in the original lease we should spell out a basis under which the State could acquire the operating properties and then be in a position to negotiate with a new lessee. This would be a permissive thing -- it would not be a requirement. I haven't attempted to spell out the terms. They would have to be spelled out in the offering of the lease.

The drilling term I mentioned a little bit earlier. Two of the acts cut this term down from a maximum of five years to a maximum of three. Both leave discretion in the Commission to expand on this drilling term. My reaction is that we might just as well leave it at the five, as long as in our rental provisions we have some discretion there and can exert some pressure in that way. At the present time we are restricted under the act to a dollar a year and I think the incentive in this particular case is perhaps pulled out. So I think we ought to have flexibility there.

Basically, I think that that covers the amendments that I have suggested that are new and are not included in the Allen, Miller or Shell bills. There are other essential amendments that are presently covered by all of those three bills that I think should be adopted.

My position, I would say, was in disagreement with the bill which Senator Cunningham has just introduced, which
has the effect really of doing nothing except to move the royalty on wildcat areas from 12½ to 16-2/3%. In some respects, the amendments that I have prepared are closer to the Allen and Miller bills than they are to the Shell bill, in that this would require us to exact something more than 16-2/3% in one form or another. However, again it is my feeling that this Commission should exact something more and should be able to without removing the incentive to the operator. On the other hand, if the Legislature felt that this is an area where we should wait and have maximum discretion in order that we can take advantage of the advice of the consultants, I would feel that there was no objection to making the alternate provision that there should be "16-2/3% or -- " and have flexibility there. This reflects my own opinion that in the long run we are going to find that we can exact something more than 16-2/3 and that is the reason this bill is written in the form it is here.

Mr. Chairman, not too briefly I have outlined the provisions of these bills and the thinking I have behind it. I'd like -- what I will plan to do is to move that the Lands Commission join me in recommending a bill in this form to the Legislature, not saying whose bill it is but recommending this as a principle, because I think it does give us more discretion, because I think in the long run we will be able to do a better job for the State of California than we would either under the existing law or any one of the current bills before the Legislature.

(RECESS 11:25 to 11:33 a.m.)
Mr. Peirce: The meeting will come to order. We have before us some recommendations submitted by Mr. Kirkwood, which he thinks the Lands Commission may wish to recommend to the Legislature.

Speaking for myself, I haven't had a chance to read the amendments. I only read the memorandum this morning and I don't feel that I am prepared to express an opinion as one member of the State Lands Commission with respect to these particular proposals. However, that does not preclude Mr. Kirkwood and Governor Powers from submitting a recommendation on this subject or a series of recommendations; or Mr. Kirkwood submitting them in his own behalf, so that the Legislature may have the advantage of his thinking on this very important and very complicated subject.

Governor Powers, have you any comments to make with regard to Mr. Kirkwood's recommendations and his suggestion that we take some action with regard thereto?

Mr. Powers: Well, Mr. Chairman, I am not fully pleased with all the provisions of the present Shell-Cunningham Act and perhaps it needs changing -- and we have these bills to change it; but I think, in view of the fact that we have just received these recommendations, that Bob better present them to the Subcommittee tonight himself, because I certainly am not qualified -- I haven't studied your recommendations, Bob. I saw them probably five minutes before the meeting here today, probably ten minutes to ten, and for me to pass...
on them in ten minutes, I would say if I were to pass on them it probably wouldn't be a very competent act, and wouldn't assist you any.

MR. KIRKWOOD: I agree that's a problem.

MR. POWERS: You may have a lot of good points there but there are some points I am not absolutely sure I agree on.

MR. KIRKWOOD: I think basically the problem that faces us is whether we, as a Commission, want to have our hands tied to a certain leasing program. The suggestion, certainly, of the Cunningham bill is that we have no discretion whatever except to put out by block, that we would withhold areas from any lease, and I am not sure how wide our discretion would be there without additional provisions in the law. We would be restricted, certainly, to a minimum of 1920 acres under that act as the minimum block that we could put out under the bill, as I see it here. I just looked at it hurriedly. I just haven't had a chance to talk to you, Butch, about this. John and I talked about it a bit, tried to, and we did at least talk about the volunteers, asking them to make some suggestions to us; but John indicated that he felt that we should -- and I don't mean to put words in your mouth, John; if I am, correct me -- that we would do well to propose hiring of three consultants, men who have had experience in preparing leases for private landlords, and get their recommendations.
Well, if all we have is the Cunningham amendments to the Cunningham-Shell Act, I think we would be wasting money in hiring consultants because they wouldn't be able to suggest anything we would have the ability to adopt. What I have tried to do here is to give us that ability, at least within some limits -- I wish we had greater discretion -- but to give us some ability to get the highest return and which people who have had experience feel is proper, giving proper inducement to the operator and at the same time giving us the other half of the picture -- proper return to the State; and the return to the State is our prime responsibility.

MR. POWERS: I realize that we should have, probably, more discretion; but there is one other line that I think should be explored further and that is on the checkerboarding. It seems to me that -- you say it is 1920 acres ...

MR. PEIRCE: Minimum.

MR. POWERS: .. minimum at the present time. I have given this some thought, but not actually any constructive work on it, that if that was cut to a much smaller acreage than that, that we would retain, in case of a discovery we would get more revenue than any other way. That is a line I think we should pursue further. I do not know whether Mr. Miller or Mr. Shell have given any thought to that. It seems to me if you cut that to 400 acres or 200 acres and you made a discovery, you would have a known field you could lease out on a sliding scale. You would have a known gravity
and an oil company would know what they were bidding on.

MR. PEIRCE: Mr. Shell.

ASSEMBLYMAN SHELL: Mr. Powers, in answer to the
Lieutenant Governor's question -- I had question here I
wanted to ask Mr. Kirkwood following his statement concern-
ing lease size, concerning whether he considered changing
the size of the lease.

MR. KIRKWOOD: All three of the bills that have passed
the Assembly have such a provision in them and I approve of
them, after consultation.

MR. SHELL: And you approve of that?

MR. KIRKWOOD: Yes, I feel that is a proper provision
and is a necessary amendment to the law.

MR. SHELL: Actually, under current law, Bob, there is
no legislation necessary to permit you to hire consultants.

MR. KIRKWOOD: No.

MR. SHELL: You can do it when you want to, when you
see fit to do it. Mr. Peirce, a couple of other questions,
may I?

MR. PEIRCE: Surely.

MR. SHELL: I know Mr. Miller and I have discussed it
separately and together with other people, concerning the
possibility of reducing the size of the leaseholds. Bob,
my question is this: I think that under 2237 the first
portion of your recommendation on these step royalties could
be accomplished. That's my bill. I wish you would check
and see if it could not be accomplished under the step royalties.

MR. KIRKWOOD: That is the one to propose to the A.G. then. I want to be sure. I am afraid in some of this language we are not clear enough and are asking for trouble and if that's intended, let's clarify it.

MR. SHELL: That's right. I did want to bring up a couple of items, that I know you could not have known the machinery behind, and that is on page 2 of your explanation here.

MR. KIRKWOOD: That's the draft of the explanation.

MR. SHELL: The draft, where the drilling term is cut from five to three years. Actually, I think all of the bills came originally from the same source, from the recommendations of your staff. Those items were left out. When I reached that realization it was not quite the time in the legislative machinery to amend it and I did put in a spot bill AB 4141, which contains that, and actually amendments are being drafted and they will be in the bill on the other side.

Then, on the last paragraph, these amendments would permit the Commission to fix a minimum cash bonus. Under all the bills now, that is clarified under all three bills, is it not?

MR. KIRKWOOD: I would doubt it and I have prepared this draft and have kicked around the meaning of the language.
and we raise doubts as to whether that is feasible. I would like to say again, the Attorney General should clarify on all of these things and if there is unanimity of opinion as to what we are aiming at, let's ..... 

MR. SHELL: My other question here is concerning the State's right to purchase equipment. I just got your copy here ten minutes before I came up and my question would be this: Would the opportunity to take over equipment be limited to production equipment or would it include exploratory equipment?

MR. KIRKWOOD: I would think it would be production equipment. That's something, again, that we developed without expert advice. I can't quite see the need for our taking over exploratory equipment.

MR. SHELL: The language says "on the abandonment of the lease" and it could, therefore, be abandoned either in the exploratory period or immediately after production started. I was just wondering your intention on that.

MR. KIRKWOOD: Well - so if there was an operable well we could continue to have the machinery to go on with it.

MR. SHELL: Say it was a well but it was decided it was too small to be commercial.

MR. KIRKWOOD: Now you are getting down to technicalities that I would have trouble with, Joe.

MR. SHELL: It was just a question I had, Bob, as to
whether it would be production and exploratory, or only production.

MR. KIRKWOOD: I would assume it would be only production. I haven't had time to go over these with Mr. Frank Hortig. I did attempt to get it up to the three authors and the two members of the Commission on Friday, realizing that you all wouldn't have a chance to look at it until today, but the others I had not even delivered until this morning.

MR. SHELL: Those were the questions in my mind that were not clear to me.

MR. PEIRCE: Mr. Miller, have you any questions you would like to ask?

ASSEMBLYMAN MILLER: Not much in the form of questions. Very frankly, I am very happy to have Mr. Kirkwood's viewpoints expressed in as definite form as he has now and I was rather hopeful this might have occurred before this...

MR. KIRKWOOD: So was I.

MR. MILLER: ... when I was in the drafting stage. One bill I am handling, one Mr. Allen is handling, and a lot of our thinking was influenced by your staff, trying to fit in with the administration and still do justice to the people of the State and the industry too. Just casually commenting on the suggestions in the form Mr. Kirkwood has presented them, they do encompass the broader aspect of the possibility of widening the thing out. It was thought in
our bills, and he points it up too, that by giving a little bit more discretion, particularly in relation to the alternate method of bidding, that we might have more competition and as a result of that competition certain people are prevented, very frankly, from getting into this game by the bonus factor alone. We feel that is one of the vices of the present act. If you have additional discretion given you through either these bills or Mr. Kirkwood's suggestion to broaden it, and more people could get in, competition would be greatly increased. We feel Mr. Kirkwood's suggestions go to that broader policy and it would be beneficial to the State and to the industry. Mr. Kirkwood has pointed it up. I haven't sat down with the Attorney General's department to find out the specific interpretation of some of these suggestions. In fact, one — the wording of one of the alternate phrases, we might have differences as to how it is to be used. Tonight we will try to get those opinions as far as we can but we welcome Mr. Kirkwood's suggestions and we hope they may be incorporated. We have three more weeks to go.

Mr. Chairman, I thought with sincerity that on the discretion of the Land Commission, there might be a matter of degree here. Probably the maximum discretion would be minimum royalties and lease up to the Lands Commission. I do not know how the Lands Commission would feel about that — I don't know whether anyone has given it consideration.
We get down to a matter of degree. I have no qualms at all on the Lands Commission having authority to operate it and I think under proper limits that discretion should be there.

MR. PEIRCE: Mr. Holmes.

ASSEMBLYMAN HOLMES: I made a note here that you wanted to hire three consultants to recommend any changes and I was just wondering why you waited for so long in asking for that recommendation. We only have a short time to go. The bills are imperative. I am interested, too, as a member of the Legislature, in voting correctly on the bills.

MR. KIRKWOOD: Mr. Holmes, let me explain that because that is certainly a very valid question and certainly one that Mr. Shell and Mr. Allen to some extent have raised too. This is, as you will recognize, a very difficult and important area and one where experts are few in number outside of the immediate operators and people who have these problems constantly before them. We do have, I think, an extremely competent staff and they have made recommendations asking for discretion. They did two years ago. I think they have hesitated -- their withdrawals from asking for complete discretion have been more on the basis that "We aren't going to get it" than on the basis that "We would like to have it." Our experts have indicated that we should be doing something more than we are able to do under the Shell-Cunningham Act.

I might say that some of these things I have hit out of the dark in a sense, as we moved on through the
Shell-Cunningham Act and making it effective. I think I can take credit for originally suggesting checkerboarding. If it had not been for my suggestion, they wouldn't have done it. It was for industry. Now they say that is the only way we can do it, that perhaps instead of nine square miles it should have been three. That wasn't suggested by the industry. I think I can say I was the one that made the suggestion. We had the committee say the othernight that no change should be made, that 12\(\frac{1}{2}\)% was all right. Now we seem to have agreement that 16-\(\frac{2}{3}\)% is a perfectly proper royalty to ask.

What I am pointing out -- we are up against experts ourselves, who know their field, and we have been without expert advice. My suggestion to meet that, before the legislative session, was that we ask some of the major landlords in California to make available to us their landmen, the people that have had the experience making leases of this sort, to tell us what sort of leases we should be granting, so we could recommend to the Legislature what discretion we needed. I made a mistake at that time in recommending that we go out and pay for somebody, because it is just impossible to get a voluntary group together and get them concentrating on something. That is the problem we have run into. So instead of having those recommendations, I am sort of blindly, without that expert advice, making some suggestions here that would not be binding, we would not have
to act on them, but we could at least ....

I plan before we adjourn today to move that we do hire three men and that we ask the staff to recommend particular people to us. When we have something to work with ....

MR. HOLMES: Would that be a recommendation for this session or two years from now?

MR. KIRKWOOD: As far as the hiring of experts is concerned, we can do that without legislative action. All we need is a bill to put into effect the recommendations of the experts.

MR. HOLMES: What I am getting at — these recommendations that these three experts would make, would that be for this session?

MR. KIRKWOOD: No, they would be for the interim, under the terms of the legislation to move forward properly on the basis of expert advice.

MR. SHELL: Bob, can I ask one more question? I am confused. Is the term "step scale" the regularly used term? For some reason I have failed to come across it.

MR. KIRKWOOD: Again, I don't know and Mr. Schmidt can maybe clarify that with one of the form books, and the only forms we can find are the operators' forms — or that he could on a quick look — and we don't have the other types of leases. Whether that is the appropriate thing — it seems to me that with the explanation I made, with an
example, it indicated what I was driving at. If we can
find a better term that means that, we can use it.

MR. PEIRCE: Gentlemen, may I interrupt our proceedings?
The press desires to take a picture. Any further questions?
Senator Hollister.

SENATOR HOLLISTER: Mr. Kirkwood, when you abandon a
well, it does not say when it's being abandoned, I suggest
that you include the island involved in that abandonment.
That's the most expensive part of it. The other equipment,
I do not know how you would do that. The island, I think,
is the most important. I think they would have to destroy
that. I think that is the only part that should go in on it.

MR. PUTNAM: I take it, Mr. Kirkwood, you would like to
have us consult the Attorney General and let us have a chance
to look at it and report back to a late May meeting?

MR. KIRKWOOD: Getting close.

MR. PUTNAM: Well, we have two other items.

MR. KIRKWOOD: I would assume .... Let me say, John,
you may want to discuss this further today, but I assume
from the reactions of the other two members that because of
the fact they haven't had this long enough to give it full
consideration, that I wouldn't get a second for my vote and
as a practical matter I would be better off not to press my
motion today; but I would ask that the Commission give this
consideration. I do feel that we have run into problems of
administration that in my opinion justify our taking a
position that some changes are essential in the Shell- 
Cunningham Act and I think under those circumstances we 
owe it to the Legislature to let them know what those changes 
are. I would hope that we would get together soon and see 
if we can't get some agreement on a recommendation. Mean-
time, the staff check with the A.G.'s office as to whether 
this language and the language in the bills currently moving 
means what it means.

MR. PEIRCE: Mr. Pyles, have you anything further?

MR. PYLES: Yes. In looking around, I am probably the 
only operating man that's up here today. Certainly the 
operating industry weren't aware of Mr. Kirkwood's proposals. 
I think I would be amiss if I didn't attempt to make one 
expression here on behalf of the industry -- on which I am 
sure I am on solid ground.

Governor Powers thought possibly 400 acres or 200 
acres ...

MR. POWERS: I am just talking fictitious figures ...

MR. PYLES: I want to make a remark on that. Your 
present minimum is 1920 some odd acres -- if the State has it. 
If you have only a hundred acres, you can lease it if you 
have it. In Texas, Louisiana and the Federal Government they 
have a larger minimum and if you cut that minimum, I want 
to emphasize again, gentleman, if you cut that minimum and 
ask the oil industry to go out in a hundred or two hundred 
feet of water and drill on a smaller piece of ground, I am
almost positive I can make a statement for the industry—you wouldn't get any bids. So please don't do that. You certainly have got to give a minimum of incentive on acreage.

MR. PEIRCE: Any further discussion?

MR. KIRKWOOD: Might I just say this, John? I recognize these amendments in this form have come in at the last minute. I would like to point out, however, that I did make a motion at the last meeting that this be a calendar item and it was understood this was to be a calendar item, and I did have a statement a week ago indicating my general trend of thinking. I am sorry this has been so delayed in coming, but I have attempted to explain the reasons why ... 

MR. PEIRCE: I would like to say, in fairness to Mr. Kirkwood, he made a recommendation several months ago that we obtain advice of consultants, particularly those individuals who represent private land owners because they would have the land owner viewpoint, and we endeavored to arrange for the appointment of a voluntary committee of five such consultants. Through various circumstances we finally ended up with two of these five being available to us, so that effort which was suggested by Mr. Kirkwood and approved by the Commission has gone on the rocks because of our inability to get these men on a voluntary basis. So I think Mr. Kirkwood is correct in observing that if we are to obtain consultants even during the interim it probably will have to be on some kind of a fee basis, so we can command their performance and
not expect them to voluntarily appear when it is convenient for them to do so.

MR. PUTNAM: May I ask the Department of Finance for some money to cover this when it happens?

MR. KIRKWOOD: I would like to suggest, Mr. Chairman, and I would make this motion, that we do as a Commission make whatever fund transfer is necessary and that we do state as our intention the hiring of three men who have had experience in this area of leases of large properties and wildcat areas, who would be consultants to us and they could either report to us individually or as a group. I think we need that kind of expert advice and I think we owe it to the oil industry to move along as fast as we can. So I would like to see that thing adopted today and ask the staff members to make recommendations as to people we might seek out; and I know in your experience you certainly would be familiar with people who would be good, Mr. Chairman. I think that is something we should move along, because I feel we need it regardless of where we move from here.

MR. PEIRCE: Do I understand it correctly that you are speaking of the employment of such consultants to advise the Commission as to whatever provisions will be passed by the Legislature this session?

MR. KIRKWOOD: Definitely.

MR. PEIRCE: Mr. Kirkwood has made a motion ... MR. POWERS: Why not two? Why did you settle on three?
MR. KIRKWOOD: Two might be sufficient. I think we might want more than one.

MR. POWERS: Well, I will second your motion. I don't know why you want three, but if you want three it's all right with me.

MR. KIRKWOOD: Let's get the names, the background and experience, and see what we need. Let's get it moving.

MR. PUTNAM: Something for me to work on.

MR. KIRKWOOD: If we are going to get any value out of their opinion, we have to have it to know what land to lease.

MR. POWERS: You should have at least two.

MR. KIRKWOOD: Let's make it two.

MR. PEIRCE: The motion has been made and seconded that the staff compile a list of qualified experts in the field of oil leasing and oil land management, so that from that list of names we may select two or more qualified individuals to advise us with respect to carrying out the provisions of law concerning tideland oil development under our jurisdiction. Is that correctly stated?

MR. KIRKWOOD: Yes.

MR. PEIRCE: And that meets with your approval?

MR. POWERS: That's right.

MR. PEIRCE: All right. The recommendation is approved. Now, if there is no further discussion on this subject shall we now go on to Santa Barbara?

MR. PUTNAM: I would think so.

MR. PEIRCE: Mr. Shell and Mr. Miller, we appreciate very much your presence today and your counsel.
MR. PUTNAM: You are familiar with the fact that during our last meeting on April 8 we reported to you the imminent annexation of lands offshore of Santa Barbara and extending easterly and westerly along the coast, in accordance with the map shown attached to page 86. Since that time the County Boundary Commission has taken action on this and if I am correct there has been an adverse recommendation.

MR. HORTIG: Well, the County Boundary Commission approved the proposed boundaries for proposed annexation but did append an unusual item in that they added an adverse recommendation, that the city not proceed.

MR. KIRKWOOD: But they have no power.

MR. HORTIG: No.

MR. PUTNAM: Meanwhile, we put two questions to the Attorney General's office. Mr. J. Shavelson has the answers up his sleeve. The No. 1 question was - Did the State Lands Commission have the authority - Frank, please ...

MR. HORTIG: Does the State Lands Commission qualify as an owner of lands within the area proposed to be annexed, so as to be able to file an effective protest within the applicable Government Code provisions?

MR. PUTNAM: The answer to that is we do definitely.

MR. HORTIG: The second question, in brief, what would be the nature and scope of the city's jurisdiction to regulate and tax within the State-owned tidelands proposed to be annexed?
MR. HORTIG: Should I read the answer?

MR. PUTNAM: The answer to that is a little more lengthy. The answer, in general, is to the effect that the city could tax any oil developments, oil production, in this area proposed to be annexed laterally and seawardly of their present city limits. We have had an inventory made, a study made, of the possibilities and the value of oil development in the area proposed to be annexed and have come up with an answer, which we will probably have to justify if we get before the city council, of $40,000,000.

Now, we have further found that there is a small corridor there of about 800 feet in width, Frank?

MR. HORTIG: Yes sir.

MR. PUTNAM . . between the areas proposed to be annexed at the westerly end and the airport, that belongs to University of California, and we have further evaluated as best we could the lands proposed to be annexed in the airport, and doubling our figures we come up with about a million dollars as against $40,000,000.

Now, on that basis the Commission is authorized to appear before the city council at its meeting set for next May 23 and oppose the annexation; and if the Commission can establish that it owns and controls over half the value of the land proposed to be annexed, the annexation cannot be made.

So we have made this recommendation -- would you read it, please, Frank?
MR. HORTIG: It is recommended that the Commission authorize the executive officer to appear before the council of the City of Santa Barbara, at its meeting on May 23, 1974, and oppose the annexation indicated on Exhibit "A" attached hereto, on the grounds that: (a) The State of California is the owner of over fifty percent of the value of the lands proposed to be annexed; and (b) the annexation will be against the interests of the State.

MR. PUTNAM: Now, as to (b), Jack, you might elaborate a little bit because one principal interest, of course, is the fact that they will have taxation power over the production and I believe, Jack, you have found out that down in Huntington Beach areas that have been annexed there was at least a million dollars a year of taxation?

MR. SHAVELSON: That's right.

MR. PUTNAM: Against the oil production. And our thought in that respect is that certainly will affect at some time in the future the income of the State. We do not want to take for granted, and the Attorney General advises us accordingly, that the sanctuary will be a sanctuary forever. Some day they will learn how to -- they are getting close to it -- to drill from submerged barges things not visible from the coast and cap off their wells, and the restrictions in the Cunningham-Shell Act may no longer be appropriate. From that particular point of view, I made this recommendation that the annexation will be against the
interests of the State. I think you have one or two other things.

MR. SHADELSON: Well, I think really not. Of course, we haven't presumed to make any appraisal. This is a policy matter, but we do feel that the taxing power of the city on these lands as against the private properties of the lessees will be the same as in the ordinary city limits of the uplands of the city; and as far as the regulatory power, certainly this Monterey Oil Company case indicated that no city can .... With lesser regulations, relating to health and welfare we think, especially a charter city such as Santa Barbara, may have even greater powers than the City of Seal Beach in this Monterey case and to the extent that these are matters of local concern traditionally, certainly they have some regulatory power. It is difficult in the abstract to define it. Certainly it is quite extensive. It certainly falls short of complete prohibition. Once you set that limit, I think there are certainly important regulatory powers they would have in this area.

We also pointed out in our opinion the language of the resolution of the City of Santa Barbara, stating the city "acknowledges and assumes its responsibility to aid the State of California in protecting the lands within the sanctuary so as to carry out the object and purpose thereof" and pointing out "the main purpose of the sanctuary is to exclude oil operations therefrom ..." We feel whether or not oil
operations are conducted, here is a matter of statewide policy, that so long as oil operations cannot be conducted there is very little the city can do to maintain the sanctuary and should the policy change this could have a hindering effect; again speaking in the abstract, not giving an exact statement of what we might expect, but we do feel the problem very well might arise.

MR. PEIRCE: Mr. Shavelson, I would like to ask you this question: Who, under the law, is responsible for determining the value of the area proposed to be annexed? Is that our responsibility or is that the city's responsibility?

MR. SHAVELSON: That is the city's responsibility.

MR. PEIRCE: What if the city determines that that value is $100,000 instead of $40,000,000?

MR. SHAVELSON: I believe if their finding is not supported by substantial evidence I think we can get a court review of their finding, and from the indications that we have had so far, it doesn't seem they could reasonably make such a finding; and if they couldn't, then I don't think they could have a record before them that would be immune from judicial action and review.

MR. PEIRCE: Mr. Shavelson.

MR. HOLMES: I would like to know the basis at the present time on which you are setting such an enormous amount for the sanctuary. I would like to know the basis, not necessarily for the City of Santa Barbara; but what is your
basis? This may also have effect on your leases, as to what you are actually basing your valuation on.

MR. PUTNAM: The valuation was based on our experience in leases in the Summerland area, which is to the east, and our experience in the Elwood area to the west.

MR. HOLMES: That is purely a tangible or intangible amount. The Monterey Oil Company pointed out that although there was a lease below and they anticipated oil .... How could you possibly put a valuation on a lease of any kind when you don't know absolutely there is oil there?

MR. PUTNAM: All I can tell you -- in Summerland, $7,250,000 in bonuses. Heaven knows how much oil is in there, but the State got the income. Down in the area Mr. Pyles was talking about, we got over $5,000,000 bonus and that's income to the State.

MR. HORTIG: As a result, we valued the land .... in addition, this tremendous acreage just as real estate has a value -- over 30,000 acres involved.

MR. HOLMES: Wouldn't be considered real estate -- under water land?

MR. HORTIG: It is available for piers, commercial purposes and otherwise, which aggregate considerable income to the State up and down the coast.

MR. HOLMES: This is merely an opinion, that is, the Commission met and voted before they still had something definite?
MR. KIRKWOOD: Could I ask Mr. Shavelson a question?

MR. PEIRCE: Yes.

MR. KIRKWOOD: What happens if we are to protest here and the Council find that the value of the total piece is more than the value of the airport or the on-shore property, the other lands involved in the annexation, does that automatically toss the whole thing out the window? Or can the City Council then cut down the amount of the proposed annexation to a point where our protest would be of less than half the value?

MR. SHAPELSON: I don't -- first of all, procedurally, I think, if I recall, they would have to start a new proceeding.

MR. KIRKWOOD: Are they bound by a year's wait on that? Maybe the Mayor knows the answer on that.

MR. SHAPELSON: I believe that before they could annex any of this territory they would be -- I just don't want to give an off-the-cuff answer. That's one of the aspects I have not personally looked into.

MR. PEIRCE: Senator Hollister, have you anything to say at this time?

SENATOR HOLLISTER: No, I was thinking this bill which I put in -- which has nothing to do with these deliberations here -- would be an attempt to try to control the limits to which a city could go sideways, was done for the same purpose that the Attorney General's office has suggested, that it
might hurt the State's leasing program. I don't know either, those are questions I do not know. I was glad to hear the Attorney General agree that there might be some trouble there and that was the only purpose of putting the bill in.

MR. PEIRCE: Now, we have a recommendation before us...

MR. PUTNAM: We have the Mayor here.

MR. PEIRCE: I am going to call on him in a minute.

And this recommendation is that we authorize the executive officer to appear before the City Council of Santa Barbara and oppose the annexation. Now we have heard from Mayor Rickard at length at the last meeting and now, specifically with respect to this recommendation, Mayor Rickard, we would be pleased to hear from you further.

MAYOR RICKARD: Mr. Chairman, in respect to this recommendation I don't believe that I should comment to the Commission. I appeared last time before this board to explain the nature of the annexation as proposed, the intentions of the City of Santa Barbara, our underlying purpose and reasoning, and extended an invitation to this Commission to appear before the City Council so they might inform the Council if in any way the city's proposal might interfere with the State interest.

Now, then, you have a recommendation which is to the effect that the Commission should file a written protest with the City Council at its hearing on May 23rd. I am the chairman of that body. That protest will be addressed to
me and my six co-councilmen. It would not be appropriate for me to express an opinion now.

I think I could answer Mr. Kirkwood's question on procedure. The procedure is, of course, that the Commission if it so elected would file a written protest, stating what in their opinion the value of their land was to the City Council, and the Council would be sitting as a body, evaluating the sufficiency and validity of the protest, both as to value and as to the effect it might have upon the State. Not more than 5% of the territory can be deleted from the proposed annexation from now on without destroying the petition and the city would under law be forced to wait one full year before re-initiating any proceeding.

Directly in answer to your question, not more than 5% could be taken away by the Council from its proposed territory without destroying the validity of the proceedings and waiting for another year. I think, Mr. Chairman, I should not comment any further about the recommendation.

MR. PEIRCE: Are there others who wish to be heard with respect to this recommendation?

SENATOR HOLLISTER: Mr. Peirce, I was interested in the question there - "Are there people here who are interested personally in this deal." You have heard from some of them in previous meetings here. The Board of Supervisors are not represented here. They were in opposition to this.

MR. PEIRCE: They were notified of the meeting.
SENATOR HOLLISTER: They were notified?

MR. PUTNAM: We sent out that telegram.

SENATOR HOLLISTER: That $40,000,000 evaluation as it has to do with placing the value on undeveloped oil lands — that's the only reason I am ... This is purely a local fight and the only thing I am doing is to set up the laws.

MR. PEIRCE: Are there any others who wish to be heard today with regard to the recommendation?

MILTON DUNCAN: I won't take much of your time. I am Milton Duncan of Summerland, and Mr. Sexton is here. The two of us are, in our small way, representing the four incorporated communities. There has been constant reference during these hearings to the effect that it is a local squabble. I think the recommendation of the staff is sufficient answer to that. Certainly the militiamen at Concord and Lexington thought it was a local problem too but it turned out it was the basis of a whole country's heritage, and since questions have also been brought up if this basis of valuation could apply to other places, therefore that takes it out of the local realm. I don't believe that has any validity.

I would like to state that I, personally, and my people in Summerland want to thank the Commission and the staff for all of the care and attention you have given to this. We feel somewhat in the position of a person who, not much of a card expert, tosses a mess of cards down on the table and someone who knows card hands picks them up and shuffles them.
into the proper hands that will have weight in a game; and we have felt all along that, small as we were, and vital as the local situation was to us, that it was a matter of State importance. Apparently the findings of your staff and the Attorney General's office have verified, our, what we call, common sense thinking. It's amazing to some of us little fellows who don't operate at this State level and in your realm at all, to find out how often the law and administrative procedures tend to corroborate just plain horse sense that we are using to operate on, with no particular claim to expertness on our part. Again, I wish to thank you. Anything you may do to effectuate this staff's recommendation will certainly be appreciated by all of us and I think it will be of great effect in the State.

MR. PEIRCE: All right, Mr. Duncan. Are there any others who would like to be heard with regard to this question?

MR. HOLMES: I would like to say one thing in closing, then have to leave. As far as the valuation is concerned, it does have statewide effect. I would like to say this, that the State Legislature and the Shell-Cunningham Act two years ago set up an oil sanctuary and as such no oil can be drilled, so as a result there is no lease that would be valid in the method of determining a value on it because it's against the law to even consider the drilling of oil wells in that respect; but putting a valuation of
$40,000,000 on a piece of property where it is impossible to drill for oil, because it is interesting to know in the future they can assess the valuation at that time when they are making the leases and it could not in any stretch of the imagination be assumed that it is wildcat or developed lands, one or the other — it is far reaching as far as the State is concerned; but in this particular area it is still a local fight, only assurances are made that it will affect the entire coastline.

MR. PEIRCE: Thank you, Mr. Holmes. Mr. Duncan?

MR. DUNCAN: I certainly do not want to keep on and on and do not intend to. I can hardly let that go, from my simple thinking. It's a great deal like the value one puts on one's children. If we were asked by a kidnapper to put a value on our children — in other words, if we were asked for $50,000 and we were able to obtain that sum and there was no recourse where the law would be effective, it would be apparent that anyone of us would give that $50,000. Therefore, you would be placing a valuation. One does not go out and say that one's child has a certain valuation any more than we say an oil sanctuary has a certain valuation; but if one could obtain under future conditions $40,000,000 for that, then certainly you have a basis for determining a valuation upon that area, I would think. Of course, we have said time and again, which provoked the little map here, we are sure that you gentlemen and the
State intend to keep this sanctuary. We cannot put as much faith in a future city council as to what pressure they might bring against you. Certainly, this city council and any we may foresee, knowing the men, would not bring that pressure; but we cannot put our faith in a future city council like we can in the State to retain this oil sanctuary. If this annexation were to go ahead and our faith were destroyed by some future city council, then the very picture on this Alice-in-Wonderland map is, I believe, a possibility that they could then go on. There is Summerland, the very first step next door, and there is a valuation like that on it. I must not belabor this point. I am quite sure you have sufficient knowledge of the situation so you can arrive at your decision — maybe I am amiss.

SENATOR HOLLISTER: I did talk to one of the city councilmen Saturday, I believe it was, and he admitted that he thought the city could go further sidewise if they could pick up an uninhabited valuation some other place, so there does not seem to be any limit. That was one of the attorneys on the City Council; perhaps the Mayor could refute that position. My thought was, suppose they have this annexation and it is successful, if they wanted to go up a further distance up the coast and some private property was willing to come in as uninhabited, they could move in there and if there was no property offshore, that property could control that valuation. He seemed to think that was
possible. That's one of your own city councilmen.

MAYOR RICKARD: Mr. Senator, that's one of the sentiments appropriate to the Purdy (phonetic) bill, not the Land Commission. This is pertinent — as you know, Santa Barbara is dependent on production of oil inland and could get some relief from oil offshore, indirectly perhaps, but there would be some relief from that production, I would think, to help the taxpayers in the area. We are not talking about the sanctuary now, but outside of that.

MR. KIRKWOOD: I am faced with an unhappy situation myself. I feel we are getting in the middle of a local hassle and I can't see any way to get out of it insofar as the Attorney General's opinion. I did not know how deeply we have to get into it and I would like to explore it a little bit. My understanding is that the A. G.'s opinion is that probably we ought to protest the whole darn thing, we ought to protest any annexation of tidelands would be the logical interpretation.

MR. SHAVELSON: That certainly wasn't intended. There has been no intent here to indicate what policy decision should be made. We wanted to point out that certainly whenever a city annexes tidelands it does have power of taxation and regulation. Now, I believe it is up to the Commission to determine, perhaps, in a case such as this, whether the municipal service that could be provided these areas would compensate for the additional burdens which might come
upon them. Certainly, there is no intent to indicate that the Commission should disapprove annexation of tidelands under any circumstances. I think certainly each case must be looked at separately. In many instances, of course, it might be quite proper for a State's lessees to be subject to ....

MR. KIRKWOOD: I must admit that I have felt in this area, without trying to find a pattern that would be applicable statewide, I have thought that perhaps the Commission should protest as to areas where beyond-the-seaward limits were involved. We would have trouble saying a city shouldn't annex directly offshore from its city limits. We have heretofore never protested, as I understand it, and there have been annexations that haven't been directly on offshore limits. But here we do have opposition and unless we do protest, that opposition has no voice whatever and they have no grounds for protest unless we act.

On the other hand, if we act, as I read this Section 35313, just the filing of the protest is sufficient to block the proceeding unless the City Council find that the value is less than one-half. In other words, they can't pass on the validity of the protest -- all they can pass on is the value of the property for which the protest takes place.

MR. SHAVELSON: You mean they can't pass on the standing of the State to protest.
MR. KIRKWOOD: Yes, I suppose the legal question they could raise, but the grounds for filing the protest are nothing they can challenge.

MR. SHAVELSON: That's the way we wrote it.

MR. PUTNAM: We would have a different picture and a different problem if the city were to extend its written boundaries normally to the shore line, to the three mile limit, for instance. As I recall it, I believe Mayor Rickard made some statements a little over a month ago before the Commission with reference to annexations either approved or acknowledged, where nothing was done with respect to them. We made some research since then. The only annexations that have been acknowledged have been normal to the shoreline and for school districts, except in one case. I want to give you the whole picture. That case was at Huntington Beach and there they went laterally up coast and took in quite a bit of area.

MR. KIRKWOOD: What about San Diego?

MR. PUTNAM: They attempted to go laterally down coast and they were stopped by a court case brought by one of the oil companies.

MR. KIRKWOOD: What about San Diego?

MR. PUTNAM: No, that was never done.

MR. KIRKWOOD: Didn't they reach right around National City?

MR. PUTNAM: That was voted down by the people. We back-checked that.
MR. KIRKWOOD: But we filed no protest.

MR. PUTNAM: The Commission didn't have to file a protest in that case because the people did it.

MR. KIRKWOOD: That wasn't in the uninhabited area?

MR. HORTIG: No, it was in the uplands.

MR. PEIRCE: Any further discussion? Are you prepared as members of the Commission to approve or disapprove the recommendations of the staff in regard to this annexation?

MR. KIRKWOOD: I am reluctant to see us go in and establish a value for this property or for us to make any official finding as to the value of the property. I don't think we have the material before us to ourselves say this is the value. I am darned reluctant to shut off the people at Summerland and up the coast, when I think they have a major interest in this thing. My reaction first was that we should just file an official protest, which I was thinking would then open up the -- give the ability to the citizens who really were the protestants to make a case on the thing. I do not know that that's the answer, under the A.G.'s opinion or under the practical problem.

MR. PEIRCE: The decision rests within our hands, but there is question with respect to the valuation. In other words, if the valuation offshore exceeds 50% of the total valuation of the area to be annexed, our protest as land owners would automatically stop the annexation. Is that true?

MR. SHAPELSON: If it equals.
MR. PEIRCE: Mr. Holmes.

MR. HOLMES: I believe the valuation as concerns the unoccupied territory is land versus land. I don't believe the leases would be a determining factor in the valuation as far as selling the property, because leases have nothing to do with it at all, with the valuation of the property. That is only a by-product of the actual cost. I just want you to keep that in mind. I think what has been brought out about bonuses and all that, that has nothing to do with the valuation of the properties themselves.

MR. PEIRCE: Senator Hollister.

SENATOR HOLLISTER: Well, on that basis, if the city is fairly certain they have a valuation there, why don't you enter a protest and let the cards fall where they should fall? Why don't you do it that way? There might not be any valuation out there, as Assemblyman Holmes has said.

MR. KIRKWOOD: And there might be $40,000,000.

MR. PUTNAM: And there might be $40,000,000. Let's find out.

MR. KIRKWOOD: I'll get my neck out, John. I think we get it off, whatever way we move. I would move that the Lands Commission protest as to that part of the area to be annexed which lies either easterly or westerly of shoreward limits of the city extended out, if you know what I am talking about.
MR. PUTNAM: Outside the present city limits.

MR. KIRKWOOD: In other words, I would feel the city could move out directly three miles off its shore, both as a matter of policy and comity. We probably, on the basis of the objections the Attorney General points out -- we would go along on that area, but we would protest on the other parts of it. Now, I would not say that our staff should go down and attempt to justify the valuation. Maybe we should. It seems to me that's up to the people that live along the shore. If we are, however, following consistently the A. G.'s opinion, we would under the circumstances ask our staff to go down and attempt a valuation and make a real protest on our behalf. I am doubtful about going that far.

SENATOR HOLLISTER: Would there be any reason for protesting unless you have a value there? There would be no reason to protest.

MR. KIRKWOOD: Well, the citizens would go in and protest the value.

SENATOR HOLLISTER: The only thing that bothers me in the whole thing has nothing to do with Santa Barbara. If every city on the coast went out and annexed tidelands offshore and could interfere with drilling for oil, there a lot of small places that could incorporate for just that purpose. I know some of the other members of the Legislature are worried about this. They do not care about Santa Barbara. They don't come from there and do not care, but they have
worried about what would happen to the whole coast line as these cities annexed. I think you could get in some real trouble statewide. The water plan is depending on this royalty. I am just wondering if the State Lands Commission wouldn't -- that would come under their jurisdiction in any city. They can all do it. I have heard there is one other started already. I haven't heard it corroborated.

MR. SHAVELSON: May I make a comment?

MR. PEIRCE: Yes.

MR. SHAVELSON: As I read the act, I think determination has to be made as to whether or not to file a protest. I don't quite know what the effect will be of filing a protest as to the annexation of certain lands and not as to others. I believe that we have to look at the annexation as a whole and either protest or not, as a whole. Certainly that would be a basis -- that might be a basis for protesting against the whole. I believe the protest if filed would be to the whole annexation necessarily, as I read the act.

This might raise the question as to whether or not the citizens, or whoever wanted to raise the question on valuation, would have to exclude the value of the territory directly fronting the city. Would that be the intent of such a resolution -- to exclude that value from the computation?

MR. KIRKWOOD: I think that would necessarily follow.

MR. POWERS: You are just thinking of seaward from
the Santa Barbara limits? We have nothing to do with that.

MR. KIRKWOOD: We do.

MR. POWERS: We have nothing to do with that.

MR. KIRKWOOD: I wouldn't want to protest it.

MR. HOLLISTER: The only reason I am suggesting that the cities could go off shore a mile and do exactly what they wanted without this taking in of the whole area in both directions — I just wondered if they wouldn't have another annexation proceeding that would not be ....

MR. PEIRCE: In other words, another corridor?

MR. HOLLISTER: They don't have to take the whole thing in. They do not have to bother the beaches there. They could have gone off a quarter mile and had the same thing. I just wondered why they took the whole area and that's what made me fearful of the whole business, which taxwise I think is important.

MR. PEIRCE: Any further discussion? Yes, Mr. Sexton.

MR. SEXTON: If you do protest and don't appear, how are we, as representative landholders there, not having an interest in the tidelands, going to appear before the Council and be able to establish any values or do anything any more than talk? We would have no authority. Legally, we have no possibility for us to oppose this. That's why we have taken the stand of coming here — that it is kind of a split deal. We are doing it for one thing and asking you to look at it from another standpoint. We just lack authority. We
are having our skirts trimmed off and don't have anything much to say about it.

MR. POWERS: That's right, too.

MR. PEIRCE: Our position is to take whatever action is deemed necessary in our judgment to protect the State's interests.

MR. Sexton: That's right.

MR. PEIRCE: And under the law I do not believe that we have any responsibility with regard to protecting the interests of the land owners on shore. That is your responsibility; with regard to how you protect yourselves, that is something upon which we cannot pass.

MR. KIRKWOOD: They can't protect themselves unless we protest. That's the catch.

MR. PEIRCE: We are not protesting in their behalf. We are protesting in behalf of the State.

MR. KIRKWOOD: Well, are we?

MR. HOLLISTER: I think you are -- at least that's my position and it has been my only position up to now.

MR. POWERS: There's a gentleman .......

MR. PEIRCE: Yes, Mr. Duncan.

MR. DUNCAN: I wish the Commission to fully understand that while we are appearing as Oren says, and I have said, because we have no other place to turn, we would not expect you -- you are not a court of last resort to speak for us. You are not appointed for that, but we realized that our only
recourse was to go to the Commission which did have jurisdic-

tions over this land; and it seems to me that it has

been amply demonstrated that no matter what eventuates,

if this annexation takes place it will adversely affect

this Commission's jurisdiction of State lands. Now, it is

ture I am from Summerland and he is from Hope Ranch, but

we are citizens of California and when a set aside group,

a municipality separate from us, acquires rights which all

of us, rightly or wrongly, assume are inherent -- that is,

our riparian rights in front of our properties -- it does

seem to us that you are involved in an effort to protect

us whether you wish to or not, so long as your particular

field is invaded. Now, we have been discussing oil. Am

I right in assuming that your Commission also has something

to do with harbors? Do you?

MR. PUTNAM: Yes, we have.

MR. DUNCAN: I would like to point out -- it is collateral

to this matter -- there has been discussion that has never

come to a given conclusion, as to the possibility or desir-

ability of a harbor at Goleta. I would think the resolution

of the City Council with respect to this particular annexa-

tion should be plain enough as to what might possibly happen,

what opposition there might be, if you found it feasible

to put a harbor in Goleta, because their very resolution,

here is the wording in it: that they are the only safe

harbor in this area and that it is necessary for them to
give constant protection to the small craft venturing forth through that harbor as it proceeds up and down this oil sanctuary, which extends to Goleta; and that they intend to apply regulations to the surface of those navigable waters as regards these small craft.

That is one of the things that has been mentioned as being one of those things that doesn't have to be spelled out or shouldn't possibly be spelled out. At any rate, it should be apparent in the exercise of your duties towards harbors, that you might well, as you can imagine, that you might find yourselves involved with city regulations and with city regulations in front of Goleta. Goleta, if it did incorporate, or if it didn't, would be in no position to have a good harbor there. That would seem to be only common sense. So from the long view, again I refer to the silly little map I drew, if you don't protest this annexation, later they can get annexation directly offshore. If you do not stop this, I just do not see how it will be possible to prevent a score of these.

Why should not Lompoc come out and annex their areas there? You have no leases there, you could not put a value on it. You would have the same definition — areas without a certain value. They don't become of a certain value until they or adjacent territory is bid on and establishes a certain value. There is no reason whatever to believe that if this annexation takes place you won't have
Lompoc and Santa Maria coming out and spreading each way.
It's just human nature that they would do that.

MR. PEIRCE: If we approve your recommendation, Colonel, is it possible that the matter will have to be resolved in all probability by the courts?

MR. PUTNAM: I would think if we got into too much of a dispute as to valuations with the City Council it would have to be resolved by the courts.

MR. PEIRCE: What do you think, Mr. Shavelson?

MR. SHAVELSON: I agree with the Colonel's statement. Certainly, as you brought out before, it is up to the City Council to make this valuation and should they make a determination with which we did not agree, we would be in the courts. They might have a motivation for doing so.

MR. PEIRCE: It is not easy to make this decision.

MAYOR RICKARD: Mr. Chairman?

MR. PEIRCE: Mayor Rickard.

MAYOR RICKARD: May I make a comment on procedure? I believe the law states that the owner of public lands has a right to file a protest with the City Council. The law is cited: "The owner of public land shall either submit evidence of the value of his land...." I don't know whether the Commission believes at the moment that their protest must include the valuation. You might ask your Attorney General whether the law includes....

MR. PEIRCE: Mr. Shavelson?
MR. SHAVELSON: I am glad that has been brought out. There is an unfortunate statement in the first part of our opinion. The actual wording was a little hasty. We didn't mean to state that the State is not qualified to file a protest unless it owns half of the property. The protest is effective only if the State alone or in conjunction with others has more than half of the property. The valuation has nothing to do with the ability to file a protest.

SENATOR HOLLISTER: What he means -- if he files a protest without a valuation, it is just academic.

MR. SHAVELSON: No, I don't believe it is up to the State Lands Commission at all to consider the question of valuation except as a practical matter in predicting whether or not its valuation is going to be affected. In other words, I think the act says the City Council is to determine valuation and that there is no necessity of the State Lands Commission making any final determination about that.

SENATOR HOLLISTER: I am more confused than I was before. Then what is the point?

MR. KIRKWOOD: When is the hearing of the City Council?

MR. SHAVELSON: The 23rd.

SENATOR HOLLISTER: What is the point of putting on a valuation if there is no good -- in other words, the City Council is the only one that can put a valuation on State-owned property.

MR. SHAVELSON: No sir. I believe the City Council's
evaluation must be based on substantial evidence and will be passed on by a court, giving considerable deference to the city's findings but it nevertheless would have to be a reasonable finding.

MR. KIRKWOOD: Where there is uninhabited area that is taken this way, does there have to be a base on shore? This isn't an ordinary strip annexation. You don't have that problem to have that much on shore. Would there be anything to prevent them from going south or east, or whatever it is, another ten miles?

MR. SHAVELSON: No sir, it has to be contiguous.

MR. KIRKWOOD: It has to be contiguous but is not one of those situations where you have to reach out and have a certain area at the end of annexation?

MR. KIRKWOOD: No sir, having the airport ....

MR. SHAVELSON: If the airport weren't here they could still ....

MR. SHAVELSON: That's right.

MR. POWERS: I think we will have to protect the State, so I make the motion that we accept the recommendation.

MR. PEIRCE: Governor Powers has moved that the recommendation of the staff be approved.

MR. KIRKWOOD: Well, I am inclined to think with the A. G.'s opinion that we don't have much discretion as to what to do. I will second.

MR. PEIRCE: Motion has been seconded by Mr. Kirkwood.
Is there any further discussion? The recommendation is approved.

MR. SHAVELSON: May I?

MR. PEIRCE: Mr. Shavelson.

MR. SHAVELSON: Do I understand, then, that this protest will be by the State of only all of the lands within the area to be annexed which are under the jurisdiction of the Lands Commission? Is that correct?

MR. KIRKWOOD: That's my understanding. You say we have no choice.

MR. SHAVELSON: What I meant to say, that the protest would have to be to the entire annexation. Perhaps the State may well segregate its interests and protest to the entire annexation but only as owner of certain areas. For example, only of those areas that are not fronting the city. That may be a possibility. That was all I meant to say, but the protest has to be to the entire annexation.

MR. PUTNAM: That was the recommendation.

MR. PEIRCE: All right.

MR. PUTNAM: We have a few land problems here. Not problems ....

(continued on page 83 -
Page 82 completes portion re Santa Barbara Annexation )
MR. PUTNAM: Page 3 is standard – a standard sale.

MR. PEIRCE: Any questions on Page 3, gentlemen? Page 3 is a standard recommendation. Is it O.K.

MR. KIRKWOOD: Yes, I guess so.

MR. PEIRCE: All right. The recommendation on page 3 is approved. Page 4?

MR. PUTNAM: Page 4 – the only difference there is that the applicant don’t want to pay $9.25 an acre -- all he wants to pay is $8 an acre and he was given an opportunity to appear. So, what’s the recommendation, Ken?

MR. SMITH: Recommendation is that the extensions heretofore granted to May 13, 1957, during which the applicant is allowed to meet the appraised value of the land, be confirmed; and, further, that the Commission determine that it is to the advantage of the State to select the land; that the Commission find the said land is not suitable for cultivation; that the Commission approve the selection and authorize the sale to James K. Stonier, the applicant, at $5,407.93, subject to all statutory reservations including minerals. In the event the applicant does not meet the appraised value, it is recommended that the Commission determine that it is to the advantage of the State to select the land and approve the selection, and authorize the sale thereof pursuant to the rules and regulations governing the sale of vacant state school land on the conveyance of the land to the State by the Federal Government.
MR. PUTNAM: Boiled down, if the guy doesn’t put up his $1.25 per acre by this evening ....

MR. SMITH: That’s about it.

MR. PUTNAM: If this approved, why the State would select and he would have a chance to .... I might point out Calendar Item 13, Page 13. There is a sale of identical land at $10 an acre and those lands are contiguous and adjoin the lands in the particular application we are discussing, and the applicant has put up the total appraised price of $10.

MR. PEIRCE: The point is you are not going to sell this land for less than appraised value?

MR. POWERS: O. K. with me.


MR. PEIRCE: The recommendation is approved.

MR. PUTNAM: There’s a bunch of them coming up here -- all standard -- two batches of them. No dispute, no trouble.

MR. PEIRCE: Any questions concerning them? If not, they will stand approved.

MR. PUTNAM: Now turn to Page 15. Just read the recommendation.

MR. SMITH: It is a request for withdrawal of vacant school land in view of a right of way granted and not identified (?). Under the Public Resources Code we must reserve the areas embraced in rights of way and it is to tie this down specifically. It is recommended ....
MR. KIRKWOOD: Move the recommendation.


MR. PEIRCE: Recommendation approved.

MR. PUTNAM: Anything special about this Knight application?

MR. SMITH: Yes, that's a conflict with the Bureau of Reclamation.

MR. PUTNAM: Oh, that's where the Bureau want to move in. Just read the explanation.

MR. SMITH: It is recommended that the Commission reject the application of Knight to purchase the 80 acres in Glenn County and authorize refund of deposits except the $5 filing fee which was earned at the time the application was filed. It is further recommended that the Commission withdraw said lands from public sale until December 31, 1958 and authorize the executive officer to undertake negotiations with the appropriate Federal agency to work out an exchange of the land for other vacant Federal lands.

MR. PUTNAM: That's that little piece of land at the upper end of a lake.

MR. SMITH: A partly submerged dam site.

MR. PEIRCE: Any recommendation?

MR. KIRKWOOD: M-m-mh.

MR. PEIRCE: Recommendation is approved.

MR. HORTIG: Page 17. The Commission previously authorized the termination of a small commercial lease for
small craft berthing, but we did not include in the recommendation specific date of termination. In order to clear accounting records we need to add "June 13, 1956."

MR. KIRKWOOD: Moved.

MR. PEIRCE: Correction is approved.

MR. HORTIG: Page 18, Calendar Item 5. The Commission heretofore is authorized in their statutory reservation for an exchange of lands adjoining the Corte Madera Canal. There are two conditions of performance in connection with that exchange which the Commission must approve.

The first recommendation appears on Page 18. It is recommended that the executive officer be authorized to consent to the deed of Schultz Construction Co. to the State of California of the property that is to be conveyed to the State. At the top of Page 20, it is further recommended that in exchange for the land above described and the payment of $2860, which has been received, for value in excess of the value of the lands to be conveyed by Schultz, issuance of a patent to Schultz Construction Co. be approved; and on the lower portion of Page 24, as a condition of this exchange, wherein a portion of former Corte Madera canal has been deeded to Schultz Construction Co., they have dredged a new channel and will convey the title to the new channel in lieu of the old. It is recommended that the executive officer be authorized to accept the exchange of the new channel.
MR. PEIRCE: Any objections?

MR. PUTNAM: This is in accordance with the statutory specifications.

MR. KIRKWOOD: Moved. MR. POWERS: Second.

MR. PEIRCE: Recommendations are approved.

MR. HORTIG: Crescent City.

MR. PUTNAM: This is another long deal.

MR. PEIRCE: Any controversy?

MR. PUTNAM: Not a bit. It has been through the Attorney General's office in San Francisco for several years and it's just authorization of the exchange of lands.

MR. KIRKWOOD: Move it ....

MR. POWERS: Seconded.

MR. PEIRCE: Moved and seconded. The recommendation is approved.

MR. HORTIG: Page 28. A tideland survey has been re-surveyed by the State Lands Division and it is recommended the executive officer be authorized to approve the re-survey and amended description and have it recorded in accordance with standard procedure authorized by law.

MR. KIRKWOOD: M-m-m-h. MR. POWERS: O.K.

MR. PEIRCE: Recommendation is approved.

MR. HORTIG: Audits contract -- Page 29. Do you want to take that, Colonel?

MR. PUTNAM: The Commission will recall that in connection with our Long Beach operations we have had a service
contract with the Division of Audits to bring us down to an audit certain and also to resolve some of the problems attendant on set-up of a regular accounting set-up in the operation. The Audits Division has, out of force of necessity and the tremendous scope of the project, run out of both time and money, and it is recommended that the executive officer be authorized to execute an amendment to the service contract of the Division of Audits to increase the amount of the contract to a total of $15,000, which would be an increase at this time of $5000, which it is hoped will give sufficient time to complete all phases of the operation desired.

MR. PEIRCE: Any discussion?

MR. KIRKWOOD: In the budget, do we have an audit setup?

MR. HORTIG: Yes, we have an audit staff of two.

MR. KIRKWOOD: This is just the close-out.

MR. PUTNAM: This is just the close-out, that came up behind us.

MR. PEIRCE: For this year. O. K., Butch?

MR. POWERS: Yes.

MR. PEIRCE: Recommendation approved.

MR. HORTIG: Once upon a time we had a right of way issued for a pipe line in Imperial County and the corporation who had the easement, the corporation was dissolved and in order to get the title clouds off our lands we had to get a quitclaim and we found a remaining surviving officer
who was willing to sign; and we are recommending the Com-
mission accept the quitclaim in order to clear title.

MESSRS. POWERS and KIRKWOOD: O.K.

MR. PEIRCE: Recommendation is approved. The others
are all routine transactions?

MR. PUTNAM: These are all little pesky things.

MR. PEIRCE: Any discussion? O.K. Butch?

MR. POWERS: M-m-mh.


MR. PEIRCE: All right. Recommendation approved.

MR. HORTIG: If I may summarize, gentlemen, from 47 on
is the report on status of legislation other than the oil and
gas items already covered. At Page 78 is listed a number of
bills which had not heretofore been reported to the Commission
as probably affecting administrative cognizance and there-
fore it is recommended that the Commission authorize the
staff for the purpose of reporting facts and administrative
procedure relative thereto, in an identical manner in which
the Commission has authorized before.

MR. PEIRCE: Extends the list.

MR. HORTIG: Extends the list. I have one comment.

A.B. 2073, which appears on Page 67 is Assemblyman Brown's
bill which was discussed at length at the last Commission
meeting, which would require making meetings and records of
the State Lands Commission open to the public, Pursuant to
the State Lands Commission's directive, I consulted with
Assemblyman Brown and he agreed to and did amend his bill as to open records. There is no reference to it in the bill as it stands now.

MR. KIRKWOOD: What's happened on similar bills? Is the provision going in?

MR. HORTIG: They are variable, depending upon whether the particular agency discussed it ... several other agencies have had the provision with respect to records removed from their bills, I don't know exactly what others.

MR. KIRKWOOD: Haven't they incorporated in some of these a provision that if the matter is one which by law has to be kept confidential, that then the board can cover it in executive session? Do we have any things that would be affected by that, or don't we need that?

MR. HORTIG: No sir.

(Off the record discussion)

MR. PEIRCE: Any further business? Mr. Shavelson.

MR. SHAVELSON: I don't want to delay everybody but I would just like to say that it is my understanding on the Santa Barbara resolution that the staff is authorized to file a protest but is not authorized to bring evidence as to value before the City Council?

MR. PUTNAM: No.

MR. KIRKWOOD: No, we approved the recommendation of the staff. Regretfully, I might say.

MR. SHAVELSON: The right to protest ....
MR. PEIRCE: Will include the valuation figures.

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ADJOURNED AT 1:15 P. M.