

**STAFF REPORT
INFORMATIONAL
92**

A	Statewide	06/28/19
S	Statewide	G. Kato

NEW MINIMUM ANNUAL RENTS

BACKGROUND:

The Commission is required to recalculate minimum annual rents every 5 years for the various surface use lease and permit categories it authorizes. The minimum annual rent applies when the calculated rent is lower than the minimum rent. These rents do not apply to the exploration or extraction of natural resources such as minerals, oil, gas, or other hydrocarbons, or geothermal resources.

The regulatory provision mandating the recalculated rents is contained in section 2003, subdivision (c), of title 2 of the California Code of Regulations:

Effective July 1, 2014, the minimum annual rents for the various lease/permit categories will be recalculated every five (5) years, at the end of June, using the adjustment formula identified in section 1900(m). Regardless of whether the application of the Adjustment Formula results in an adjusted minimum annual rent that is greater or lesser value than the previous year's rent, the adjusted minimum annual rent will never be lower than the minimum annual rents set in section 2003(b).

The adjustment formula in section 1900(m) uses the Consumer Price Index published periodically by the California Department of Industrial Relations.

The Commission has broad discretion in all aspects of leasing State-owned lands, including sovereign and school lands under its jurisdiction. Sovereign land generally includes natural, navigable waterways, and tide and submerged lands within the State's boundaries. School lands include lands granted to California in 1853 by the federal government to benefit public education.

The California Constitution, article XVI, section 6, expressly prohibits the Legislature from making or authorizing any gift of public money or thing of value to any individual, municipality, or corporation. A "thing of value" includes the use of State-owned land, and to allow its use for private benefit with no rent or consideration would constitute an impermissible gift.

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The calculation method or amount of rent that is most appropriate, and how rent should be adjusted during the lease term, must be in the best interests of the State, and is generally based on one or more of the following methods:

- 9 percent of the appraised value of the leased land;
- A percentage of annual gross income, where the percentage is based on an analysis of the market for like uses and other relevant factors;
- A comparison to rents for other similar land or facilities;
- Benchmarks for regions with large concentrations of similar facilities, with benchmark rental rates based on an analysis of similar or substitute facilities in the local area;
- Other methods or information that are based on commonly accepted appraisal practices and principles; and
- For leases for recreational piers or buoys, rent is based on local conditions and local fair annual rental values.

In the event that calculated rent does not reach the threshold of the minimum rent for the relevant lease category, the minimum rent would apply. More information about the Commission's leasing and rent-setting authority may be found in the Public Resources Code, sections 6501.1, 6503, and 6503.5; and in the California Code of Regulations, title 2, sections [2000](#) and [2003](#)

RECALCULATION OF MINIMUM ANNUAL RENTS:

The minimum annual rents for the various lease and permit categories are set forth in section 2003, subdivision (b) of title 2, the California Code of Regulations.

The new, recalculated minimum annual rents have been established as prescribed in the regulations, using the most recently published California Consumer Price Index, as shown in the table below.

Lease Category	Current	Effective July 1, 2019
Commercial	\$600	\$671
Industrial	\$600	\$671
Right-of-Way	\$450	\$503
Grazing	\$600	\$671
Agricultural	\$600	\$671
Recreational	\$125	\$140
Public Agency	\$125	\$140
Protective Structure	\$125	\$140
Dredging	\$125	\$140
Other	\$125	\$140

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The new minimum annual rents will be in effect for 5 years, until June 30, 2024, when they will be recalculated again.