This Calendar Item No. C12
was submitted for information
only, no action thereon
being necessary.

INFORMATIONAL
CALENDAR ITEM

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03/27/90
W 23691
Beutler
Robinson

P.R.C. Section 6477 provides for the preparation of an Annual Report on the Management of School Lands by the Commission for transmittal to the State Teachers' Retirement Board and the Legislature.

The report prepared by staff discusses Commission management of the school lands asset, composed of approximately 550,000 acres of school land, 760,000 acres of reserved mineral interest, and 52,000 acres of lieu land entitlement. Current revenues from the lands are dedicated to the Teachers' Retirement Fund. Proceeds from land sales are deposited in the School Land Bank Fund for eventual re-investment. In fiscal year 88/89, surface and mineral leases produced a net revenue of $3,900,000 to the benefit of California's retired teachers. Land sales produced a net income of $600,000 for the School Land Bank Fund.

The report was submitted to State Teachers' Retirement Board and to the Legislature on January 19, 1990.

A copy of the report overview is attached as Exhibit "A". Copies of the report are available to the public for $4 at the Commission's main office, located at 1807 - 13th Street, Sacramento, California 95814.

AB 884: N/A.

EXHIBIT: A. Overview.

EXHIBIT "A"

OVERVIEW

Shortly after statehood California received a significant land grant from the federal government to benefit the public schools. These lands, called "school lands," were the sixteenth and thirty-sixth section of each township, or two square miles per township. The grant resulted in a checkerboard pattern of school land ownership throughout the state, covering nearly 5.5 million acres.

Stewardship of these lands originally rested with the State Surveyor General, a constitutional officer. A little over fifty years ago management of these and other federally granted lands came to the State Lands Commission, composed of the Lieutenant Governor, the State Controller, and the State Director of Finance.

The philosophy for management of school lands changed dramatically over time from wholesale disposal at the turn of the century to a cautioned and protective approach for the land in the 1970's. In the mid 1980's the Legislature established a new relationship. Revenues from the school lands were dedicated to California's retired teachers. Since this time the Commission has worked to proactively manage the lands for revenue production. During Fiscal Year (FY) 88/89 school lands produced a net return to the California Teachers Retirement Fund of $3,913,645.

What remains of the original land grant, after massive sales in the 1800's and early 1900's, is approximately 550,000 acres of school lands, plus 760,000 acres in reserved mineral interest, and 52,000 acres of land still owed[1] to California by the United States. As part of this entitlement the state also claims title to two sections in the Elk Hills Navel Petroleum Reserve No. 1. (Figure 1, page 6, illustrates the remaining locations of school lands.)

Since passage of the 1984 Act[2] transferring revenues of the school lands from the General Fund to the Teachers Retirement Fund,[3] other important changes in law have occurred. In 1985 the Legislature provided that proceeds from any sale of school lands would be placed in the School Land Bank Fund.[4] This fund, with a current balance of over 3.4 million dollars, is available for acquisition of future land assets.

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[1]Text of all relevant statutes is contained within Appendix A. 43 USC Section 851 discusses state school land entitlement.

[2]Public Resources Code, Section 6217.5

[3]Education Code 24702

[4]Public Resources Code, Section 8700 et. seq.

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The Land Bank Act also contained legislative findings on management of the land asset. For example, the Legislature directed that consolidation of holdings, where feasible, was a desired goal.[5] Still other codes and regulations affect management of the school lands. Along with rules and regulations developed by the Commission,[6] the California Environmental Quality Act, the Z'berg-Nejedly Forest Practice Act, the Application Time Frames Act,[7] and various Mineral Leasing Acts set the parameters under which school land projects are structured.

In addition to a revenue emphasis for school lands management, the Commission as a resource protection agency always holds school lands projects to the highest environmental standards. While short term gains could be made with less stringent requirements, the long term benefit to the resource produces a higher quality revenue asset. Good environmental management is good economics.

Management of the School lands falls into four general Commission programs:

GEOTHERMAL DEVELOPMENT
HARD ROCK MINERAL EXPLORATION AND DEVELOPMENT
OIL AND GAS EXTRACTION
LAND MANAGEMENT

Geothermal leasing produces the vast majority of school lands revenue. School lands development at the Geysers Geothermal Field grossed over five million dollars during FY 88/89. The Hard Rock Mineral program, which grossed close to $65,000 during FY 88/89, also works to identify the mineral potentials of school land holdings. Oil and Gas management, returning approximately $22,000 annually from one lease, is primarily involved in resolution of Elk Hills issues. The Land Management staff attends to surface leasing, exchanges, sales, and forestry, grossing revenue of over a quarter million dollars during FY 88/89 and land sales of over $300,000 in the same period.

The future of the school lands could change dramatically by resolution of several issues involving the federal government. A significant issue is the extent of the State's entitlement to Sections 16 & 36 located inside a United States Naval Petroleum Reserve at Elk Hills. These parcels, valued at one billion dollars and producing over fifty million dollars annually, were withdrawn from the State's school land interest for national security energy needs. Recent events indicate that national security is no longer served by the site and that it should return to the State. The Commission is pursuing the matter through both legislation and litigation.

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[5] Public Resources Code, Section 8702 (f)

[6] Public Resources Code Section 6108
California Code of Regulations, Title 2

[7] (AB 884) Government Code Section 65920 et. seq.

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A second issue is proposed federal legislation called the Desert Protection Act. From 75,000 to 350,000 acres of school lands (depending on the various versions of the bill) could be contained within the boundaries of areas set aside for special environmental protection. The Commission is working with the authors of the Desert Bill to develop a process that would allow the acquisition of federal lands in exchange for the school lands contained within protected areas. The outcome of exchanges could dramatically reshape the configuration and types of school land holdings.

When dedicating school land revenues to the retired teachers in 1984, the Legislature also required that annual and quarterly reports be transmitted to both the State Teachers Retirement System (STRS) and the Legislature. These reports advise on the revenue status of the program and address program progress. This FY 88/89 Annual Report was developed in consultation with staff of STRS. Staff members of both agencies now have a better understanding of the questions and answers commonly involving the School Lands Program.

The FY 88/89 Annual Report outlines both the problems and opportunities faced by the School Lands Program. The impact of technical production problems and declining resources at the Geysers Geothermal Field is addressed along with actions such as data sharing and contracted mathematical modeling of the reservoir being developed to study the problem. The rationale and costs of evaluating the mineral values of school lands property are outlined. Strategies to reduce the impacts of low or non-revenue programs are considered. Finally a discussion of the two most important federal issues facing the program are presented.

Staff believes that future reports will validate the investments made in the School Lands Program during FY 88/89. Although revenue is unlikely to increase dramatically in the short term, improvements in return will be readily substantiated.