

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. Hertig, 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

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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. Lilloco  
Division of Administrative  
Procedure

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1 MR. PEIRCE: The meeting will come to order. Colonel  
2 Putnam will proceed with the agenda. We will take up cer-  
3 tain routine items first and then when Governor Powers  
4 arrives we will return to the other items in the agenda.

5 MR. KIRKWOOD: The minutes look all right.

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

8 MR. KIRKWOOD: M-m-mh.

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

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

12 MR. KIRKWOOD: Have they been corrected?

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

16 VOICE: Fine.

17 MR. PUTNAM: Shall we pick your secretary?

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

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

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

22 MR. SMITH: Not yet.

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

24 MR. PEIRCE: All right - Page 2.

25 MR. PUTNAM: Frank?

26 MR. HORTIG: Mr. Groshong has applied for a lease on

1 submerged lands in the Sacramento River for maintenance  
 2 of a small wharf, used commercially for serving food,  
 3 drinks, and servicing and renting boats, and in lieu of  
 4 furnishing a performance bond it has been determined that  
 5 equitably instead of the normal \$100 rental accompanied  
 6 by a surety bond for a thousand dollars -- since Mr.  
 7 Groshong is unable to obtain such a bond except at an exor-  
 8 bitant premium -- it is recommended that there be a rental  
 9 of \$150 annually and the requirement of the surety bond  
 10 be eliminated.

11 MR. PEIRCE: Would that establish a precedent?

12 MR. HORTIG: No, sir.

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

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

18 MR. KIRKWOOD: I guess it is all right.

19 MR. PEIRCE: O. K. with you?

20 MR. KIRKWOOD: Yes.

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

22 MR. SMITH: Page 3, Colonel.

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

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

1 attorney?

2 MISS CASTRUCCIO: That's correct.

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

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

8 (At this point Lt. Gov. Fowers arrived)

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

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

13 MR. KIRKWOOD: Is the Senator coming up?

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

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

19 MR. PEIRCE: All right.

20 MR. PUTNAM: Mr. Stonier is not here yet?

21 MR. SMITH: No sir.

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

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

26 MR. PUTNAM: O. K. Will you proceed, Jack?

1 (Assemblyman Holmes arrived)

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

6 MR. PFEIL: Prospecting Permit P.R.C. 1509.2 covering  
7 the NW $\frac{1}{4}$  of ....

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

14 MR. HORTIG: Preferential mineral lease ...

15 MR. PUTNAM: .. preferential mineral lease. Our  
16 office made an investigation last June to see whether or not  
17 the requirements of the preferential mineral lease were being  
18 met -- and those requirements have to do with the amount of  
19 production and how commercially valuable it is. Our inspector  
20 reported back to our office that it would not qualify for  
21 one of these preferential leases. We failed, as I told you,  
22 to notify the prospecting permittee. Then we got to the  
23 deadline of the expiration of the prospecting permit -- and  
24 I have had authority conferred upon me by the Commission to  
25 extend these things for another year. I did; but I would  
26 like confirmation of it because the thing is ....



1 MR. PEIRCE: This is the instance where Attorney Charles  
2 Gilmore interceded in behalf of his clients and you admitted  
3 a mistake had been made in the past, so this confirmation  
4 is in order ...

5 MR. PUTNAM: That's right.

6 MR. PEIRCE: I certainly would approve it.

7 MR. KIRKWOOD: Nobody can object to it.

8 MR. POWERS: That's all right.

9 MR. HORTIG: It is authorized ..

10 MR. PEIRCE: It has been moved and seconded that the  
11 recommendation be approved, so will be the order.

12 MR. PUTNAM: Page 2.

13 MR. HORTIG: Page 2 is covered.

14 MR. PUTNAM: How about Long Beach? How about you  
15 people? How soon do you want to get away? Frank, can you  
16 dig up Long Beach? I think that's Jack's.

17 MR. PFEIL: There's one on 83, Supplemental Item 23.

18 MR. PEIRCE: What page?

19 MR. HORTIG: Page 83.

20 MR. PFEIL: The City of Long Beach has requested, in  
21 the interest of greater clarity, that the words "the cost of  
22 said subsidence remedial work" be included in the approval  
23 in reference to the nature of the full amount of \$959,530  
24 authorized on January 10. In the opinion of the office of  
25 the Attorney General, the proposed modification of the wording  
26 clarifies the evident meaning of the resolution and does not

1 constitute a modification of the former action. It is  
2 recommended that the Commission authorize revision of the  
3 resolution of January 10, 1957, Minute Item 17, to read:

4 "THE COMMISSION APPROVES THE COSTS PROPOSED TO BE  
5 EXPENDED BY THE CITY OF LONG BEACH, INCLUDING  
6 SUBSIDENCE REMEDIAL WORK UNDER PROJECT L.B. W.O.  
7 10,005, BETWEEN JANUARY 1, 1957 AND JUNE 30, 1957,  
8 THE COST OF SAID SUBSIDENCE REMEDIAL WORK NOT TO  
9 EXCEED \$959,530; SUBJECT TO THE CONDITIONS, HOWE VER,  
10 THAT THE AMOUNTS, IF ANY, OF EACH OF THE ITEMS TO BE  
11 ALLOWED ULTIMATELY AS SUBSIDENCE COSTS, DEDUCTIBLE " ....

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

14 MR. PFEIL: Yes, sir.

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

26 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. Considera-  
tion of Subsidence Costs. On April 8, 1957 (Minute Item 7,

1 page 3047), The Commission approved the costs proposed to  
 2 be expended by the City of Long Beach, including subsidence  
 3 remedial work, during April 1957 and estimated expenditures  
 4 in the first portion of May 1957 for payrolls and similar  
 5 items.

6         The same elements of subsidence costs expenditures  
 7 which are to be paid during May 1957, accountable under sub-  
 8 sidence costs not included in projects approved heretofore  
 9 by the Commission, will require approval by the Commission  
 10 if credit is to be received by the City of Long Beach for  
 11 such costs under the provisions of Section 5(a), Chapter 29,  
 12 Statutes of 1956, 1st E.S. The staff of the Lands Commission  
 13 has reviewed statements by the City of Long Beach with respect  
 14 to expenditures made during May 1957. These amounts are tabu-  
 15 lated in Exhibit "A" attached hereto. From a review with the  
 16 office of the Attorney General relative to costs proposed to  
 17 be expended in the amount of \$410,000 to cover costs of  
 18 property acquisition, final item in Exhibit "A", it has been  
 19 concluded that the estimates of the subsidence element in  
 20 this item should be withheld and that no current approval  
 21 should be given to further withholding of funds for property  
 22 purchases. The amounts previously withheld by the City of  
 23 Long Beach as subsidence deductions may substantially exceed  
 24 the amounts which will be ultimately allowed. Since Chapter  
 25 29 makes no provision for interest on the amounts returned  
 26 to the State because of the excessive estimates of subsidence

1 costs, such estimates should approximate as closely as  
 2 possible the amounts ultimately to be allowed. Pending an  
 3 administrative solution of this problem with the City of  
 4 Long Beach, it is suggested there be no current approval  
 5 for tentative subsidence deductions, to prevent swelling  
 6 the amounts already held. The City is, nevertheless,  
 7 entitled to prior Commission approval of expenditures so as  
 8 to preserve its right to subsidence deductions to the extent  
 9 they are found to be legally allowable. In addition, the  
 10 Long Beach Harb . Department has requested prior approval by  
 11 the Commission of the amount of \$50,000 estimated to be  
 12 spent during the month of June 1957 for payroll force account  
 13 and voucher payments other than construction. The subsidence  
 14 portion of this amount is estimated by the Harbor Department  
 15 to be 89%.

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

18 MR. LINGLE: We have discussed it extensively -  
 19 Mr. Shavelson and members of our office. We are not in  
 20 accord. We believe that all of it ultimately would be allowed  
 21 as subsidence. However, as there is the suggestion that we  
 22 can get together and talk this thing over before your next  
 23 meeting, we want to retain our right, that we don't agree.  
 24 We believe that it isn't our idea to buy these lands as  
 25 something we wish to buy. We feel we have to buy them to  
 26 protect ourselves and because of that, that they are subsidence.

1 The other, our main objection, is this: That we received  
2 notice as of last Monday and they gave us very short order  
3 in time to act because we had contracts where we had agreed  
4 to purchase some of these properties and we didn't know  
5 where we were and how we could efficiently plan our budget.  
6 I realize Mr. Shavelson's position exactly, but we wish to  
7 maintain our position that we are entitled to these costs  
8 and the other point was that we would like to get it ironed  
9 out as rapidly as possible because we had planned in making  
10 these expenditures of \$410,000 and Monday we were told we  
11 would not be permitted to make the expenditures; and there  
12 were some contracts where we are in the position where we  
13 would have had to pay the money whether we got State approval  
14 or not because we would be liable to damages and there was  
15 no possible way to back out of the thing until we could get  
16 your approval on it. So we would like to get together so  
17 we can talk the thing over and plan efficiently what we  
18 can do.

19 MR. PUTNAM: Our suggestion is that we continue to  
20 work this out as rapidly as possible. On someother item -  
21 water pressurization - we haven't been able to come to the  
22 complete engineering review that we wanted, so it might be  
23 necessary for us to request a special meeting of the Com-  
24 mission -- I mean an interim meeting, around about the 25th  
25 of May, to take care of this item, which is a toughy for  
26 Long Beach, and this other one, water pressurization.

1 MR. PEIRCE: Is there any reason why we shouldn't  
2 proceed to adopt this recommendation at this time?

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

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

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

26 MR. PEIRCE: Any further discussion?

1 MR. KIRKWOOD: Move the recommendation.

2 MR. POWERS: I second.

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

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

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

17 MR. KIRKWOOD: What are we talking about?

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

20 MR. PUTNAM: We have an item coming up.

21 MR. HORTIG: Page 80.

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

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

25 MR. PFEIL: On February 19, 1957, in compliance with  
26 Section 10, Chapter 29, Statutes of California 1956, the

1 Long Beach Harbor Commission submitted for approval by the  
2 State Lands Commission an agreement amending each of the  
3 six existing drilling and operating contracts between the  
4 Harbor Commission of the City of Long Beach and the Long  
5 Beach Oil Development Company. The proposed amendment pro-  
6 vided for an expanded water flood operation for the purpose  
7 of developing data relative to alleviating subsidence. The  
8 proposed operation will provide valuable data relative to  
9 the effect of water injection as a remedial measure in sub-  
10 sidence. As a secondary recovery measure, water injection  
11 into the aquifer sands will materially increase the ultimate  
12 recovery of oil from the reservoir. The proposed amendment  
13 is currently being reviewed by the office of the Attorney  
14 General as to legal compliance with Chapter 29, 1956, 1st  
15 Executive Session, and by the staff as to engineering  
16 feasibility.

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

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

24 MR. BRADY: My only point in discussing the matter was  
25 this -- it was the opinion of the City of Long Beach that  
26 under the drilling and operating contracts with the Long



1 Beach Oil Development Company this amendment could only be  
 2 entered into as a secondary recovery measure and that while  
 3 everybody is very optimistic about the outcome and ameliorat-  
 4 ing the subsidence condition, the amendment as drafted is  
 5 drafted as a secondary recovery proposal.

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

8 MR. BRADY: No sir, under the provisions of our operat-  
 9 ing contract, we can only reimburse the Long Beach Develop-  
 10 ment Company for those costs incurred in the production of  
 11 oil in field practice. We felt that it would have to prove  
 12 itself as good field practice in conjunction with the extrac-  
 13 tion of oil rather than a poor subsidence measure as long  
 14 as Long Beach Development Company and Richfield are involved.  
 15 They are in the oil business, not in an attempt to ameliorate  
 16 our problem. We hope that any increased oil recovery for  
 17 the city and State will aid us in fighting the subsidence  
 18 problem.

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

26 MR. PEIRCE: These amendments are in accordance with  
 existing law?

1 MR. HORTIG: That's the question under study.

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

5 MR. HORTIG: Not directly, sir. It's a phase of  
6 operations rather than a phase of any new legislation cur-  
7 rently under consideration.

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

10 MR. PUTNAM: That's it.

11 MR. KIRKWOOD: Is that all on Long Beach?

12 MR. HORTIG: I believe so.

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

16 MR. PUTNAM: Santa Barbara ready?

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

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

24 MR. PEIRCE: What item do you suggest?

25 MR. HORTIG: Page 81, Item 22.

26 MR. PEIRCE: I would like to announce the presence of

1 Assemblyman Allen Miller and Assemblyman Joseph Shell. We  
2 are pleased to have you here and hope that you will feel  
3 free to participate in our discussion this morning. Shall  
4 we hear from Mr. Pyles first?

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

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

9 MR. HORTIG: Seems logical. As you gentlemen already  
10 know, at least partially, AB 47 - Mr. Miller, 2237 - Mr.  
11 Shell, and 3869 - Mr. Allen (of which amended copies are  
12 attached to your calendar following your last page) were  
13 considered in the Assembly Committee on Manufacturing, Oil  
14 and Mining Industry on April 16 and 23, 1957. The bills were  
15 heard in Committee and Mr. Miller's bill and Mr. Shell's  
16 bill were withdrawn on April 29 from the Committee. On the  
17 following day, the Committee also passed, with no recommenda-  
18 tion, Mr. Allen's bill. The three bills were heard on May 7  
19 on special order and all were passed to the Senate and went  
20 through by the votes indicated. The comparative effect of  
21 these bills is summarized on the following tabulation. All  
22 three bills are essentially in agreement on all factors except  
23 one, which I can call your attention to -- except two, I  
24 should say. The Miller bill and the Allen bill establish a  
25 16-2/3% minimum oil royalty plus a mandatory sliding scale.  
26 The Shell bill has 16-2/3% minimum and optional slide; and

16  
1 item (e) in the Miller and Allen bills is identical, which  
2 feature is not included in the Shell bill. Other than that,  
3 there are no differences in proposed amendment to the act  
4 under any of the three bills.

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

12 MR. KIRKWOOD: Before we go into that, might I just  
13 ask this of the staff? As I understand it, these three  
14 bills, together with a bill of Mr. Cunningham, No. 795,  
15 amended on May 10 and making, as I understand it, really  
16 the only change from  $12\frac{1}{2}$  to  $16-2/3\%$  -- all bills are to be  
17 heard by a Senate subcommittee tonight.

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

22 MR. PEIRCE: Mr. Pyles.

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

26 MR. PEIRCE: Surely.

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

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

1 the Lands Commission to put the two leases up for bid. Prior  
2 to this time and at considerable expense, these companies  
3 acquired a number of upland properties including subsurface  
4 rights from Willow Land and Water Company, Pacific Electric  
5 Railway Company and Mills Land and Water Company. These  
6 were required in order to assure on-shore sites for direc-  
7 tional drilling operations should we prove to be the success-  
8 ful bidder on the two leases.

9       Following all this exploratory work and careful  
10 planning, the two parcels were put up for bid and the three  
11 companies - Seaboard, Humble and Monterey - being high  
12 bidders, the successful bids were \$3,333,000 some odd dollars  
13 for Parcel 1549 and \$1,333,000 for Parcel 1550. Almost  
14 immediately, from the beginning of the granting of the  
15 leases, Monterey as operator began drilling from upland  
16 locations on P.R.C. 1549, the parcel nearest to the shore.  
17 Four wells were drilled directionally to depths between  
18 eight and ten thousand feet bottomed on the lease, but they  
19 were all bone dry. Because of this ill fortune, the Com-  
20 mission granted an extension of time to permit the lessees  
21 to procure the special construction of and bring a drilling  
22 platform around from the Gulf Coast. This was for the pur-  
23 pose of drilling P.R.C. 1550, which lies more than a mile  
24 from shore and along the westerly edge of 1549. After the  
25 arrival of the platform, core holes were drilled on property  
26 covered by this lease, also to depths of eight to ten thousand  
~~feet, but these, too, were entirely unproductive.~~

1 Now, the cost of this operation was as follows:

2	Lease acquisition .....	\$4,780,501
3	Geophysical and subsea	
4	geological expense .....	45,501
5	Rentals .....	89,622
6	Drilling costs .....	<u>1,777,205</u>
7	Making a total of .....	\$6,694,829

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

20 It seems to me the Commission should take cognizance  
 21 of these facts and weigh them carefully. They constitute  
 22 irrefutable proof of the tremendous financial risk that is  
 23 involved in the search for offshore reservoirs, a risk that  
 24 is greatly enlarged by the inherent difficulty and increased  
 25 costs of almost every phase of submerged exploration and  
 26 drilling. It constitutes proof also that even those properties  
 which the most accurate and complete surveys indicate to be

1 the likely repository of oil can still be sore disappoint-  
2 ments production-wise.

3 I would like to point out here, by the way, that the  
4 State of California is well protected against improper  
5 royalty provisions in its offshore oil leases by the Cun-  
6 ningham-Shell Act. The act permits the leasing of alternate  
7 blocks only and the retention of the unleased portions until  
8 leased portions have been drilled. If production is devel-  
9 oped in any one section, there are, of course, four con-  
10 tiguous sections that can be leased at higher royalties for  
11 the benefit of the State.

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

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

20 Now, at this point ....

21 I spent some time yesterday, I have a few figures here  
22 on a piece of paper that I think will substantiate what I  
23 have set forth in paragraph 1, for the purpose of making a  
24 comparison of on-shore and offshore. These are actual and  
25 factual. First, take the matter of transportation of per-  
26 sonnel, which we call water taxis, and at the most favorable



1 location I think you can have all up and down the coast of  
2 California that one item cost a little over \$6,000 a month,  
3 just to transport the personnel that work from the end of  
4 the pier at Seal Beach to the island, which is less than a  
5 mile. Now, if you multiply that by 10 or 20, which all of  
6 our oil fields in California have a life of that nature,  
7 you get into a figure of a million and a half dollars for  
8 an item that does not cost you a penny on shore.

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

13 The four holes drilled on P.R.C. 1550 --- I asked our  
14 manager of operations if we were going to drill four core  
15 holes on shore in the immediate area of 1550 and we would  
16 contract for the same identical machinery to drill them on  
17 a daily basis -- which we certainly could get 'em on a con-  
18 tract basis at less price, but operations out in the water  
19 are not on a footage basis because there is not enough  
20 experience for it and it must be on a daily basis -- to  
21 drill on shore it would cost \$1100 a day. It actually cost  
22 \$6145 a day for the drilling of the core holes on 1550,  
23 or approximately six times as great.

24 Please bear in mind that these are factual figures.  
25 We have heard a lot of statements as to cost of operating  
26 in the water and on shore.

1 Now, here is a transportation cost item. For drilling  
2 the same comparable wells on shore, the transportation cost  
3 of transporting your casing and your tubing and pumping  
4 units and the equipment that is necessary for the well, will  
5 run around \$1500 per well, with a maximum of about \$2000.  
6 The transportation cost per well has been \$22,000 or eleven  
7 times the amount that it is on land.

8 Now there is one very outstanding thing about all  
9 this -- and this is just some items that I took at random,  
10 it is not a complete list of all of the costs attached to  
11 it, but certainly shows you what the pattern is. Now, we  
12 do not get one cent a barrel more for the oil that is pro-  
13 duced from the tidelands at several times the cost than we  
14 get for the same type of oil that is produced on shore at  
15 one-fourth to one-fifth the cost. So I think those are  
16 definite figures as to some of the costs of operation. I  
17 am sure that the places where we have been operating are the  
18 most favorable insofar as cost conditions are concerned; and  
19 when the operators begin to operate in other areas of the  
20 tidelands, where their distance is greater, that cost is  
21 going up. Likewise, we have been operating in water 45 to  
22 70 feet in depth and many of your prospects are in water  
23 that is far greater in depth than that, up to two and three  
24 hundred feet in depth, and when you start operating in water  
25 of that depth then these costs here become very nominal.

26 2) Even with all the scientific data that can be made

1 available in these modern times, no person or group of  
2 persons can successfully predict the oil possibilities of  
3 any subsurface area until enough wells have been drilled to  
4 prove or disprove the presence of oil and to give some idea  
5 of its quantity and quality.

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

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

23         Mr. Chairman, those remarks and the statement is one  
24 that I certainly felt that I wanted this Commission to know  
25 about, because we do have legislation that is pending in the  
26 Legislature here and I wanted this Commission to have this

1 information for its own guide.

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

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

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

21 MR. KIRKWOOD: I would like to --- on your page 4 ---  
22 "I would like to point out here, by the way, that the State  
23 of California is well protected against improper royalty  
24 provisions in its offshore oil leases by the Cunningham-  
25 Shell Act. The act permits the leasing of alternate  
26 blocks only and the retention of unleased portions .....

1 If production is developed in any one section there are  
2 four contiguous sections that can be leased .... for the  
3 benefit of the State." I do not know what pattern you are  
4 suggesting there.

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

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

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

14 MR. KIRKWOOD: There would only be the two. You are  
15 not thinking in terms of a section of land. You are think-  
16 ing in terms of a block of sections.

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

23 MR. KIRKWOOD: <sup>? do I want</sup> It is not your experience in the area  
24 you are talking about, that isn't full protection either to  
25 the operator or the State. You can have a block where you  
26 you moved across the section line and found that wasn't the  
answer.

1 MR. PYLES: Certainly if you leased one of these  
2 parcels and made a discovery and the one indicated oil, the  
3 oil companies would certainly look at it in the same light  
4 as we did. We looked at it in the light of proven property.  
5 The closest bidders -- we outbid them \$2,900,000 on that  
6 property because we thought we had the information. We  
7 had a lot of information, but not good.

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

19 MR. PYLES: I don't think so. I think the Cunningham-  
20 Shell Act is meant to give some incentive. Certainly we  
21 are interested in the tidelands of California. We, along  
22 with other companies have spent money in seismic work, geo-  
23 logy and so on, but if we are to not bid on wildcat -- if  
24 it goes up in such range we would be fortunate to make any-  
25 thing, because when you get into the costs of operating in  
26 the waters off California, or anyplace, you are just

1 multiplying your cost many times. We know that, it isn't  
 2 guesswork. So if there is an incentive to make another  
 3 try --- and if you are not going to have an incentive you  
 4 are not going to have this coastline developed because the  
 5 costs I have indicated to you are minor compared to the cost  
 6 in deeper water -- if there is any incentive to the companies  
 7 to go out and spend money and they are going to drill and  
 8 you are going to drill dry holes and therefore when you get  
 9 one there is a chance to recoup on all of those bad ones --  
 10 No oil business can stay in business, just like any business,  
 11 if you can't make more than what you lose you go in bank-  
 12 ruptcy. Now, companies can't go and just spend all this  
 13 money and stay in business. We would just have to quit,  
 14 throw in the sponge, if you are going out of reason and I  
 15 think we have got facts and figures to substantiate why  
 16 you should make it encouraging to the companies.

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

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

24 ASSEMBLYMAN MILLER: Mr. Chairman, I think I should  
 25 remark that Mr. Pyle's observation that this was mostly proven  
 26 land .... (not clear) .... this was in the field of proven

1 land -- it was just a bad guess.

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

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

7 MR. HORTIG: Yes sir.

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

11 MR. PUTNAM: I think the only thing further, Mr. Chair--  
12 man, is that ...

13 MR. HORTIG: Starting on Page 47 ...

14 MR. PEIRCE: Is there anything further?

15 MR. PUTNAM: We made no recommendation on this page  
16 81 and 82 with reference to this legislation. I think we  
17 out-recommended ourselves last December.

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

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



1 this meeting today I would like to have these discussed.  
2 I feel quite strongly that we on the Commission should let  
3 the Legislature know what our problems are and what our  
4 thinking is, because we did do that two years ago. We  
5 recommended this act and if we are having any problems  
6 under it and can agree on amendments, I think that's our  
7 obligation to make those suggestions. The staff has indi-  
8 cated that it feels some changes are necessary. I think we  
9 ought to either support or reject that position of the staff  
10 at this time. So I would ask that either now or after the  
11 rest of the calendar has been disposed of that we do go into  
12 this matter further.

13 MR. PEIRCE: It will take about thirty minutes to dis-  
14 cuss the subject?

15 MR. KIRKWOOD: I would assume ..

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

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

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

25 MR. KIRKWOOD: Yes, I handed drafts of these suggestions  
26 to the two Commission members the other day. I don't know

1 whether or not you have them. Do you have an extra one of  
2 that?

3 MR. PUTNAM: Yes.

4 MR. KIRKWOOD: Both of the discussion and the amend-  
5 ments? Mr. Chairman, as you know, from the start of this  
6 session I have felt ....

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

8 MR. KIRKWOOD: I think the Chairman is familiar with  
9 this, so I can go on. I have felt that the provisions of  
10 the Shell-Cunningham Act were unduly restrictive as far as  
11 the State Lands Commission's efforts were concerned to  
12 obtain a satisfactory return from the tide and submerged  
13 lands, and have gone along with the staff in their suggestions  
14 that some changes were needed. I had hoped and had suggested  
15 earlier that we try to get some outside expert advice, hoping  
16 that by this time in the session that perhaps with that  
17 kind of advice we could have made sound suggestions to the  
18 Legislature. I apparently took the wrong course in being  
19 hopeful that we could do that on a voluntary basis, in that  
20 we have tried to get a group together to give us suggestions  
21 along that line but it just hasn't worked out for one reason  
22 or another, so I am satisfied that what we need, before we  
23 enter into an extensive leasing program, or a leasing pro-  
24 gram which would bind the State as far as what apparently  
25 are the most likely oil producing areas offshore are con-  
26 cerned, would bind those by lease, that we should get

1 probably three advisers on a paid basis, consultants, so  
 2 that there would not be a feeling that one of them was  
 3 bound by former ties or bound by some commitments; that we  
 4 would have three rather than a single person working, advis-  
 5 ing us from their experience in this particular area as to  
 6 how best the State can be protected.

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

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

21 (Mr. Peirce returned to the Chair.)

22 MR. KIRKWOOD: .. a number of amendments to the Shell-  
 23 Cunningham Act in the hope that perhaps this Commission would  
 24 agree with me that they would give us a better basis of opera-  
 25 tions and that they would recommend them to the authors of  
 26 the bills currently before the legislative session. The

1 way I have drafted these amendments, they are not drafted  
2 to any bill currently before the Legislature. They are  
3 actually drafted in the form of a new bill, making amendments  
4 to the existing law. However, they do make amendments to  
5 the provisions of bills that have been passed by the  
6 Assembly.

7 I have felt that the hands of the Lands Commission  
8 were unduly or improperly tied, shall we say, in our ability  
9 to get an appropriate royalty which would still be an induce-  
10 ment to the operator and would, at the same time, mean a  
11 completely adequate return to the State. Under the existing  
12 Cunningham-Saell Act, as I say, I think our hands are im-  
13 properly tied.

14 All of the bills which are in apparently concede that  
15  $16\frac{2}{3}\%$  is a more appropriate minimum than  $12\frac{1}{2}\%$ . As I under-  
16 stand it, it has developed since the Shell-Cunningham Act  
17 was passed two years ago, that  $16\frac{2}{3}\%$  is the royalty which  
18 is being exacted in the Gulf for offshore areas, not only  
19 by the government but the states operating there. Apparently  
20 the Legislature, in its expression of opinion so far, has  
21 indicated that they would not want to see this Commission go  
22 below  $16\frac{2}{3}\%$ . I think that is a fair statement, so I have  
23 incorporated in my suggestions a minimum of  $16\frac{2}{3}\%$ .

24 Now, that is a digression from the original recommenda-  
25 tion of the staff, which was asking for greater flexibility  
26 on the part of this Commission and started for that reason

1 at  $12\frac{1}{2}$ , but because of the indication of the Legislature  
2 that they feel we should not lease under any circumstances  
3 at less than  $16-2/3\%$ , I have incorporated that figure instead  
4 of  $12\frac{1}{2}$ .

5 I have felt in my own mind at least, and after some  
6 discussion with people who are far more familiar than I  
7 with this problem, that the sliding scale royalty as it has  
8 been used, and as I believe it is spelled out in the bills  
9 presently before the Legislature, may not be the best answer  
10 as far as giving inducement to the operator and at the same  
11 time protecting the State; that there are other ways of  
12 possibly providing that protection; and I would feel that  
13 the Lands Commission should have the ability to turn to the  
14 most effective way, after consultation with experts in the  
15 field. So I have suggested in these amendments that as an  
16 alternative we be able to go to a step scale, based on the  
17 gross production under the lease. In other words, we could  
18 say that the  $16-2/3\%$  would apply for a certain million bar-  
19 rels of oil, that after that for another few million barrels  
20 it would be at a higher rate, and so on. This, I think,  
21 has some advantages because, again after consultation with  
22 the experts, we could attempt to make adjustments for the  
23 sort of thing that Mr. Pyles was talking about -- the problem  
24 of extra costs for drilling offshore. We could set the  
25 number of millions before the adjustment was made, in order  
26 to take care of that sort of situation. I think it has a

1 possible advantage there -- I think it has a possible advantage  
2 tage over the average rate of production per well, as far  
3 as the policing, as it were (that isn't a good term) of  
4 this particular situation. In other words, we wouldn't  
5 have to be seeing that the oil company or the operator was  
6 producing a well at the maximum efficiency rate. That  
7 would achieve or have no importance in this sort of scale,  
8 so I think there we might have fewer arguments with the  
9 operator over the period of the lease.

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

23 Now, I have also made some suggestions as far as the  
24 rental is concerned, during the period when the operator  
25 is not required to commence drilling. Under the present law  
26 that can go up to five years. Under the suggestion of at

1 least two of the bills passed in the Assembly, that period  
2 is cut to three years. One of the things we have heard  
3 constantly in meetings of this Commission is that we need  
4 to know what our reserves are, we need to develop as  
5 quickly as possible, we need to give employment to the  
6 drillers, to the ship yards, and so on; and we can only  
7 do that, it seems to me, if we embark on a thorough-going  
8 program of leasing. We can't hold up blocks, hold them back  
9 five or ten years from lease, and still satisfy these pres-  
10 sures that have been brought to the Commission. So I  
11 felt that there should be some means of calling for imme-  
12 diate follow-through on any property that was put out to  
13 lease. I understand that that is done in other lease agree-  
14 ments by having the rentals during this period high, so that  
15 there is an incentive to keep going. It could be that in-  
16 stead of having a single cash payment made, that the cash  
17 bonus would be based on a percentage increase of, say, the  
18 first five years of rental that is charged under the lease.

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

1 in the bill.

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

22 I think that covers the amendments to the first part,  
23 the royalty and bonus provisions. One thing we don't have  
24 currently under the act is the right, at the end of the  
25 lease or on cancellation, of any surrender of any part of  
26 leased area, to acquire any operating equipment that the



1 operator may have on that property. It may well be that the  
2 particular operator can't continue at a profit but that  
3 another operator taking over could. It seems to me that in  
4 the original lease we should spell out a basis under which  
5 the State could acquire the operating properties and then  
6 be in a position to negotiate with a new lessee. This would  
7 be a permissive thing -- it would not be a requirement. I  
8 haven't attempted to spell out the terms. They would have  
9 to be spelled out in the offering of the lease.

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

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

25 My position, I would say, was in disagreement with  
26 the bill which Senator Cunningham has just introduced, which

1 has the effect really of doing nothing except to move the  
 2 royalty on wildcat areas from 12½ to 16-2/3%. In some re-  
 3 spects, the amendments that I have prepared are closer to  
 4 the Allen and Miller bills than they are to the Shell bill,  
 5 in that this would require us to exact something more than  
 6 16-2/3% in one form or another. However, again it is my  
 7 feeling that this Commission should exact something more and  
 8 should be able to without removing the incentive to the  
 9 operator. On the other hand, if the Legislature felt that  
 10 this is an area where we should wait and have maximum  
 11 discretion in order that we can take advantage of the advice  
 12 of the consultants, I would feel that there was no objection  
 13 to making the alternate provision that there should be  
 14 "16-2/3% or - - " and have flexibility there. This reflects  
 15 my own opinion that in the long run we are going to find that  
 16 we can exact something more than 16-2/3 and that is the  
 17 reason this bill is written in the form it is here.

18 Mr. Chairman, not too briefly I have outlined the  
 19 provisions of these bills and the thinking I have behind  
 20 it. I'd like -- what I will plan to do is to move that the  
 21 Lands Commission join me in recommending a bill in this form  
 22 to the Legislature, not saying whose bill it is but recom-  
 23 mending this as a principle, because I think it does give  
 24 us more discretion, because I think in the long run we will  
 25 be able to do a better job for the State of California than  
 26 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.)

1 MR. PEIRCE: The meeting will come to order. We have  
2 before us some recommendations submitted by Mr. Kirkwood,  
3 which he thinks the Lands Commission may wish to recommend  
4 to the Legislature.

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

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

18 MR. POWERS: Well, Mr. Chairman, I am not fully pleased  
19 with all the provisions of the present Shell-Cunningham Act  
20 and perhaps it needs changing -- and we have these bills to  
21 change it; but I think, in view of the fact that we have  
22 just received these recommendations, that Bob better present  
23 them to the Subcommittee tonight himself, because I certainly  
24 am not qualified -- I haven't studied your recommendations,  
25 Bob. I saw them probably five minutes before the meeting  
26 here today, probably ten minutes to ten, and for me to pass

1 on them in ten minutes, I would say if I were to pass on them  
2 it probably wouldn't be a very competent act, and wouldn't  
3 assist you any.

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

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

8 MR. KIRKWOOD: I think basically the problem that faces  
9 us is whether we, as a Commission, want to have our hands  
10 tied to a certain leasing program. The suggestion, certainly,  
11 of the Cunningham bill is that we have no discretion what-  
12 ever except to put out by block, that we would withhold  
13 areas from any lease, and I am not sure how wide our dis-  
14 cretion would be there without additional provisions in  
15 the law. We would be restricted, certainly, to a minimum  
16 of 1920 acres under that act as the minimum block that we  
17 could put out under the bill, as I see it here. I just  
18 looked at it hurriedly. I just haven't had a chance to  
19 talk to you, Butch, about this. John and I talked about  
20 it a bit, tried to, and we did at least talk about the  
21 volunteers, asking them to make some suggestions to us;  
22 but John indicated that he felt that we should -- and I  
23 don't mean to put words in your mouth, John; if I am,  
24 correct me -- that we would do well to propose hiring of  
25 three consultants, men who have had experience in preparing  
26 leases for private landlords, and get their recommendations.

1 Well, if all we have is the Cunningham amendments to the  
2 Cunningham-Shell Act, I think we would be wasting money in  
3 hiring consultants because they wouldn't be able to suggest  
4 anything we would have the ability to adopt. What I have  
5 tried to do here is to give us that ability, at least within  
6 some limits -- I wish we had greater discretion -- but to  
7 give us some ability to get the highest return and which  
8 people who have had experience feel is proper, giving proper  
9 inducement to the operator and at the same time giving us  
10 the other half of the picture -- proper return to the State;  
11 and the return to the State is our prime responsibility.

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

16 MR. PEIRCE: Minimum.

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

1 and an oil company would know what they were bidding on.

2 MR. PEIRCE: Mr. Shell.

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

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

11 MR. SHELL: And you approve of that?

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

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

16 MR. KIRKWOOD: No.

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

20 MR. PEIRCE: Surely.

21 MR. SHELL: I know Mr. Miller and I have discussed it  
22 separately and together with other people, concerning the  
23 possibility of reducing the size of the leaseholds. Bob,  
24 my question is this: I think that under 2237 the first  
25 portion of your recommendation on these step royalties could  
26 be accomplished. That's my bill. I wish you would check

1 and see if it could not be accomplished under the step  
2 royalties.

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

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

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

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

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

25 MR. KIRKWOOD: I would doubt it and I have prepared  
26 this draft and have kicked around the meaning of the language

1 and we raise doubts as to whether that is feasible. I  
2 would like to say again, the Attorney General should clarify  
3 on all of these things and if there is unanimity of opinion  
4 as to what we are aiming at, let's .....

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

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

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

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

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

24 MR. KIRKWOOD: Now you are getting down to techni-  
25 calities that I would have trouble with, Joe.

26 MR. SHELL: It was just a question I had, Bob, as to



1 whether it would be production and exploratory, or only  
2 production.

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

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

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

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

18 MR. KIRKWOOD: So was I .

19 MR. MILLER: ... when I was in the drafting stage.  
20 One bill I am handling, one Mr. Allen is handling, and a  
21 lot of our thinking was influenced by your staff, trying to  
22 fit in with the administration and still do justice to the  
23 people of the State and the industry too. Just casually  
24 commenting on the suggestions in the form Mr. Kirkwood has  
25 presented them, they do encompass the broader aspect of the  
26 possibility of widening the thing out. It was thought in

1 our bills, and he points it up too, that by giving a little  
 2 bit more discretion, particularly in relation to the alter-  
 3 nate method of bidding, that we might have more competition  
 4 and as a result of that competition certain people are pre-  
 5 vented, very frankly, from getting into this game by the  
 6 bonus factor alone. We feel that is one of the vices of the  
 7 present act. If you have additional discretion given you  
 8 through either these bills or Mr. Kirkwood's suggestion  
 9 to broaden it, and more people could get in, competition  
 10 would be greatly increased. We feel Mr. Kirkwood's sugges-  
 11 tions go to that broader policy and it would be beneficial  
 12 to the State and to the industry. Mr. Kirkwood has pointed  
 13 it up. I haven't sat down with the Attorney General's de-  
 14 partment to findout the specific interpretation of some of  
 15 these suggestions. In fact, one -- the wording of one of  
 16 the alternate phrases, we might have differences as to how  
 17 it is to be used. Tonight we will try to get those opinions  
 18 as far as we can but we welcome Mr. Kirkwood's suggestions  
 19 and we hope they may be incorporated. We have three more  
 20 weeks to go.

21 Mr. Chairman, I thought with sincerity that on the  
 22 discretion of the Land Commission, there might be a matter  
 23 of degree here. Probably the maximum discretion would be  
 24 minimum royalties and lease up to the Lands Commission. I  
 25 do not know how the Lands Commission would feel about that  
 26 I don't know whether anyone has given it consideration.

1 We get down to a matter of degree. I have no qualms at all  
2 on the Lands Commission having authority to operate it and  
3 I think under proper limits that discretion should be there.

4 MR. PEIRCE: Mr. Holmes.

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

11 MR. KIRKWOOD: Mr. Holmes, let me explain that because  
12 that is certainly a very valid question and certainly one  
13 that Mr. Shell and Mr. Allen to some extent have raised too.  
14 This is, as you will recognize, a very difficult and important  
15 area and one where experts are few in number outside of the  
16 immediate operators and people who have these problems con-  
17 stantly before them. We do have, I think, an extremely com-  
18 petent staff and they have made recommendations asking for  
19 discretion. They did two years ago. I think they have  
20 hesitated -- their withdrawals from asking for complete dis-  
21 cretion have been more on the basis that "We aren't going  
22 to get it" than on the basis that "We would like to have it."  
23 Our experts have indicated that we should be doing something  
24 more than we are able to do under the Shell-Cunningham Act.  
25 I might say that some of these things I have hit on  
26 out of the dark in a sense, as we moved on through the

1 Shell-Cunningham Act and making it effective. I think I  
2 can take credit for originally suggesting checkerboarding.  
3 If it had not been for my suggestion, they wouldn't have  
4 done it. It was for industry. Now they say that is the  
5 only way we can do it, that perhaps instead of nine square  
6 miles it should have been three. That wasn't suggested  
7 by the industry. I think I can say I was the one that made  
8 the suggestion. We had the committee say the other night  
9 that no change should be made, that  $12\frac{1}{2}\%$  was all right.  
10 Now we seem to have agreement that  $16\frac{2}{3}\%$  is a perfectly  
11 proper royalty to ask.

12 What I am pointing out -- we are up against experts  
13 ourselves, who know their field, and we have been without  
14 expert advice. My suggestion to meet that, before the  
15 legislative session, was that we ask some of the major  
16 landlords in California to make available to us their lands  
17 men, the people that have had the experience making leases  
18 of this sort, to tell us what sort of leases we should be  
19 granting, so we could recommend to the Legislature what dis-  
20 cretion we needed. I made a mistake at that time in/recom-  
21 mending that we go out and pay for somebody, because it is  
22 just impossible to get a voluntary group together and get  
23 them concentrating on something. That is the problem we have  
24 run into. So instead of having those recommendations, I am  
25 sort of blindly, without that expert advice, making some  
26 suggestions here that would not be binding, we would not have

1 to act on them, but we could at least ....

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

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

8 MR. KIRKWOOD: As far as the hiring of experts is con-  
9 cerned, we can do that without legislative action. All we  
10 need is a bill to put into effect the recommendations of  
11 the experts.

12 MR. HOLMES: What I am getting at --- these recommenda-  
13 tions that these three experts would make, would that be  
14 for this session?

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

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

21 MR. KIRKWOOD: Again, I don't know and Mr. Schmidt  
22 can maybe clarify that with one of the form books, and the  
23 only forms we can find are the operators' forms --- or that  
24 he could on a quick look -- and we don't have the other  
25 types of leases. Whether that is the appropriate thing --  
26 it seems to me that with the explanation I made, with an

1 example, it indicated what I was driving at. If we can  
2 find a better term that means that, we can use it.

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

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

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

16 MR. KIRKWOOD: Getting close.

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

18 MR. KIRKWOOD: I would assume .... Let me say, John,  
19 you may want to discuss this further today, but I assume  
20 from the reactions of the other two members that because of  
21 the fact they haven't had this long enough to give it full  
22 consideration, that I wouldn't get a second for my vote and  
23 as a practical matter I would be better off not to press my  
24 motion today; but I would ask that the Commission give this  
25 consideration. I do feel that we have run into problems of  
26 administration that in my opinion justify our taking a

1 position that some changes are essential in the Shell-  
2 Cunningham Act and I think under those circumstances we  
3 owe it to the Legislature to let them know what those changes  
4 are. I would hope that we would get together soon and see  
5 if we can't get some agreement on a recommendation. Mean-  
6 time, the staff check with the A.G.'s office as to whether  
7 this language and the language in the bills currently moving  
8 means what it means.

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

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

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

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

19 MR. PYLES: I want to make a remark on that. Your  
20 present minimum is 1920 some odd acres -- if the State has it.  
21 If you have only a hundred acres, you can lease it if you  
22 have it. In Texas, Louisiana and the Federal Government they  
23 have a larger minimum and if you cut that minimum, I want  
24 to emphasize again, gentlemen, if you cut that minimum and  
25 ask the oil industry to go out in a hundred or two hundred  
26 feet of water and drill on a smaller piece of ground, I am

1 almost positive I can make a statement forthe industry --  
2 you wouldn't get any bids. So please don't do that. You  
3 certainly have got to give a minimum of incentive on acreage.

4 MR. PEIRCE: Any further discussion?

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

13 MR. PEIRCE: I would like to say, in fairness to Mr.  
14 Kirkwood, he made a recommendation several months ago that  
15 we obtain advice of consultants, particularly those indi-  
16 viduals who represent private land owners because they would  
17 have the land owner viewpoint, and we endeavored to arrange  
18 for the appointment of a voluntary committee of five such  
19 consultants. Through various circumstances we finally ended  
20 up with two of these five being available to us, so that  
21 effort which was suggested by Mr. Kirkwood and approved by  
22 the Commission has gone on the rocks because of our inability  
23 to get these men on a voluntary basis. So I think Mr. Kirkwood  
24 is correct in observing that if we are to obtain consultants  
25 even during the interim it probably will have to be on some  
26 kind of a fee basis, so we can command their performance and



1 not expect them to voluntarily appear when it is convenient  
2 for them to do so.

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

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

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

24 MR. KIRKWOOD: Definitely.

25 MR. PEIRCE: Mr. Kirkwood has made a motion ...

26 MR. POWERS: Why not two? Why did you settle on three?

1 MR. KIRKWOOD: Two might be sufficient. I think we  
2 might want more than one.

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

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

8 MR. PUTNAM: Something for me to work on.

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

11 MR. POWERS: You should have at least two.

12 MR. KIRKWOOD: Let's make it two.

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

20 MR. KIRKWOOD: Yes.

21 MR. PEIRCE: And that meets with your approval?

22 MR. POWERS: That's right.

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

26 MR. PUTNAM: I would think so.

MR. PEIRCE: Mr. Shell and Mr. Miller, we appreciate very  
much your presence today and your counsel.

1 MR. PUTNAM: You are familiar with the fact that  
2 during our last meeting on April 8 we reported to you the  
3 imminent annexation of lands offshore of Santa Barbara and  
4 extending easterly and westerly along the coast, in accord-  
5 ance with the map shown attached to page 86. Since that  
6 time the County Boundary Commission has taken action on  
7 this and if I am correct there has been an adverse recom-  
8 mendation.

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

13 MR. KIRKWOOD: But they have no power.

14 MR. HORTIG: No.

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

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

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

24 MR. HORTIG: The second question, in brief, what would  
25 be the nature and scope of the city's jurisdiction to regu-  
26 late and tax within the State-owned tidelands proposed to be  
annexed?

1 MR. HORTIG: Should I read the answer?

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

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

13 MR. HORTIG: Yes sir.

14 MR. PUTNAM .. between the areas proposed to be annexed  
15 at the westerly end and the airport, that belongs to Uni-  
16 versity of California, and we have further evaluated as best  
17 we could the lands proposed to be annexed in the airport,  
18 and doubling our figures we come up with about a million  
19 dollars as against \$40,000,000.

20 Now, on that basis the Commission is authorized to  
21 appear before the city council at its meeting set for next  
22 May 23 and oppose the annexation; and if the Commission can  
23 establish that it owns and controls over half the value of  
24 the land proposed to be annexed, the annexation cannot be made.  
25 So we have made this recommendation -- would you read it,  
26 please, Frank?

1 MR. HORTIG: It is recommended that the Commission  
2 authorize the executive officer to appear before the council  
3 of the City of Santa Barbara, at its meeting on May 23, 1957,  
4 and oppose the annexation indicated on Exhibit "A" attached  
5 hereto, on the grounds that: (a) The State of California is  
6 the owner of over fifty percent of the value of the lands  
7 proposed to be annexed; and (b) the annexation will be  
8 against the interests of the State.

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

15 MR. SHAVELSON: That's right.

16 MR. PUTNAM: Against the oil production. And our  
17 thought in that respect is that certainly will affect at  
18 some time in the future the income of the State. We do not  
19 want to take for granted, and the Attorney General advises  
20 us accordingly, that the sanctuary will be a sanctuary for-  
21 ever. Some day they will learn how to -- they are getting  
22 close to it -- to drill from submerged barges things not  
23 visible from the coast and cap off their wells, and the  
24 restrictions in the Cunningham-Shell Act may no longer be  
25 appropriate. From that particular point of view, I made  
26 this recommendation that the annexation will be against the

1 interests of the State. I think you have one or two other  
2 things.

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

20 We also pointed out in our opinion the language of the  
21 resolution of the City of Santa Barbara, stating the city  
22 "acknowledges and assumes its responsibility to aid the State  
23 of California in protecting the lands within the sanctuary  
24 so as to carry out the object and purpose thereof" and  
25 pointing out "the main purpose of the sanctuary is to exclude  
26 oil operations therefrom ...". We feel whether or not oil

1 operations are conducted, here is a matter of statewide  
 2 policy, that so long as oil operations cannot be conducted  
 3 there is very little the city can do to maintain the  
 4 sanctuary and should the policy change this could have a  
 5 hindering effect; again speaking in the abstract, not giving  
 6 an exact statement of what we might expect, but we do feel  
 7 the problem very well might arise.

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

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

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

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

22 MR. PEIRCE: Mr. Holmes.

23 MR. HOLMES: I would like to know the basis at the  
 24 present time on which you are setting such an enormous amount  
 25 for the sanctuary. I would like to know the basis, not  
 26 necessarily for the City of Santa Barbara; but what is your

1 basis? This may also have effect on your leases, as to  
2 what you are actually basing your valuation on.

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

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

11 MR. PUTNAM: All I can tell you -- in Summerland,  
12 \$7,250,000 in bonuses. Heaven knows how much oil is in  
13 there, but the State got the income. Down in the area Mr.  
14 Pyles was talking about, we got over \$5,000,000 bonus and  
15 that's income to the State.

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

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

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

24 MR. HOLMES: This is merely an opinion, that is, the  
25 Commission met and voted before they still had something  
26 definite?



1 MR. KIRKWOOD: Could I ask Mr. Shavelson a question?

2 MR. PEIRCE: Yes.

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

11 MR. SHAVELSON: I don't - - - first of all, procedur-  
12 ally, I think, if I recall, they would have to start a new  
13 proceeding.

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

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

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

22 SENATOR HOLLISTER: No, I was thinking this bill which  
23 I put in -- which has nothing to do with these deliberations  
24 here -- would be an attempt to try to control the limits to  
25 which a city could go sideways, was done for the same purpose  
26 that the Attorney General's office has suggested, that it

1 might hurt the State's leasing program. I don't know either,  
2 those are questions I do not know. I was glad to hear the  
3 Attorney General agree that there might be some trouble  
4 there and that was the only purpose of putting the bill in.

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

6 MR. PUTNAM: We have the Mayor here.

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

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

14 MAYOR RICKARD: Mr. Chairman, in respect to this recom-  
15 mendation I don't believe that I should comment to the Com-  
16 mission. I appeared last time before this board to explain  
17 the nature of the annexation as proposed, the intentions of  
18 the City of Santa Barbara, our underlying purpose and reason-  
19 ing, and extended an invitation to this Commission to appear  
20 before the City Council so they might inform the Council if  
21 in any way the city's proposal might interfere with the  
22 State interest.

23 Now, then, you have a recommendation which is to the  
24 effect that the Commission should file a written protest  
25 with the City Council at its hearing on May 23rd. I am  
26 the chairman of that body. That protest will be addressed to

1 me and my six co-councilmen. It would not be appropriate  
2 for me to express an opinion now.

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

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

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

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

26 MR. PEIRCE: They were notified of the meeting.

1 SENATOR HOLLISTER: They were notified?

2 MR. PUTNAM: We sent out that telegram.

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

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

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

21 I would like to state that I, personally, and my people  
22 in Summerland want to thank the Commission and the staff for  
23 all of the care and attention you have given to this. We  
24 feel somewhat in the position of a person who, not much of a  
25 card expert, tosses a mess of cards down on the table and  
26 someone who knows card hands picks them up and shuffles them

1 into the proper hands that will have weight in a game; and  
2 we have felt all along that, small as we were, and vital as  
3 the local situation was to us, that it was a matter of  
4 State importance. Apparently the findings of your staff  
5 and the Attorney General's office have verified, our, what  
6 we call, common sense thinking. It's amazing to some of us  
7 little fellows who don't operate at this State level and in  
8 your realm at all, to find out how often the law and admin-  
9 istrative procedures tend to corroborate just plain horse  
10 sense that we are using to operate on, with no particular  
11 claim to expertness on our part. Again, I wish to thank  
12 you. Anything you may do to effectuate this staff's recom-  
13 mendation will certainly be appreciated by all of us and I  
14 think it will be of great effect in the State.

15 MR. PEIRCE: All right, Mr. Duncan. Are there any  
16 others who would like to be heard with regard to this ques-  
17 tion?

18 MR. HOLMES: I would like to say one thing in closing,  
19 then have to leave. As far as the valuation is concerned,  
20 it does have statewide effect. I would like to say this,  
21 that the State Legislature and the Shell-Cunningham Act  
22 two years ago set up an oil sanctuary and as such no oil  
23 can be drilled, so as a result there is no lease that would  
24 be valid in the method of determining a value on it  
25 because it's against the law to even consider the drilling  
26 of oil wells in that respect; but putting a valuation of

1 \$40,000,000 on a piece of property where it is impossible  
2 to drill for oil, because it is interesting to know in the  
3 future they can assess the valuation at that time when they  
4 are making the leases and it could not in any stretch of  
5 the imagination be assumed that it is wildcat or developed  
6 lands, one or the other -- it is far reaching as far as  
7 the State is concerned; but in this particular area it is  
8 still a local fight, only assurances are made that it will  
9 affect the entire coastline.

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

11 MR. DUNCAN: I certainly do not want to keep on and on  
12 and do not intend to. I can hardly let that go, from my  
13 simple thinking. It's a great deal like the value one puts  
14 on one's children. If we were asked by a kidnapper to put  
15 a value on our children -- in other words, if we were asked  
16 for \$50,000 and we were able to obtain that sum and there  
17 was no recourse where the law would be effective, it would  
18 be apparent that anyone of us would give that \$50,000.  
19 Therefore, you would be placing a valuation. One does not  
20 go out and say that one's child has a certain valuation  
21 any more than we say an oil sanctuary has a certain valua-  
22 tion; but if one could obtain under future conditions  
23 \$40,000,000 for that, then certainly you have a basis for  
24 determining a valuation upon that area, I would think. Of  
25 course, we have said time and again, which provoked the  
26 little map here, we are sure that you gentlemen and the

1 State intend to keep this sanctuary. We cannot put as  
 2 much faith in a future city council as to what pressure  
 3 they might bring against you. Certainly, this city council  
 4 and any we may foresee, knowing the men, would not bring  
 5 that pressure; but we cannot put our faith in a future  
 6 city council like we can in the State to retain this oil  
 7 sanctuary. If this annexation were to go ahead and our  
 8 faith were destroyed by some future city council, then the  
 9 very picture on this Alice-in-Wonderland map is, I believe,  
 10 a possibility that they could then go on. There is Summer-  
 11 land, the very first step next door, and there is a valua-  
 12 tion like that on it. I must not belabor this point. I  
 13 am quite sure you have sufficient knowledge of the situation  
 14 so you can arrive at your decision -- maybe I am amiss.

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

1 possible. That's one of your own city councilmen.

2 MAYOR RICKARD: Mr. Senator, that's one of the senti-  
3 ments appropriate to the Purdy (phonetic) bill, not the  
4 Land Commission. This is pertinent -- as you know, Santa  
5 Barbara is dependent on production of oil inland and could  
6 get some relief from oil offshore, indirectly perhaps, but  
7 there would be some relief from that production, I would  
8 think, to help the taxpayers in the area. We are not talk-  
9 ing about the sanctuary now, but outside of that.

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

19 MR. SHAVELSON: That certainly wasn't intended. There  
20 has been no intent here to indicate what policy decision  
21 should be made. We wanted to point out that certainly when-  
22 ever a city annexes tidelands it does have power of taxation  
23 and regulation. Now, I believe it is up to the Commission  
24 to determine, perhaps, in a case such as this, whether the  
25 municipal service that could be provided these areas would  
26 compensate for the additional burdens which might come



1 upon them. Certainly, there is no intent to indicate  
2 that the Commission should disapprove annexation of  
3 tidelands under any circumstances. I think certainly each  
4 case must be looked at separately. In many instances, of  
5 course, it might be quite proper for a State's lessees  
6 to be subject to ....

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

18 On the other hand, if we act, as I read this Section  
19 35313, just the filing of the protest is sufficient to  
20 block the proceeding unless the City Council find that the  
21 value is less than one-half. In other words, they can't  
22 pass on the validity of the protest -- all they can pass on  
23 is the value of the property for which the protest takes  
24 place.

25 MR. SHAVELSON: You mean they can't pass on the standing  
26 of the State to protest.

1 MR. KIRKWOOD: Yes, I suppose the legal question  
2 they could raise, but the grounds for filing the protest  
3 are nothing they can challenge.

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

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

18 MR. KIRKWOOD: What about San Diego?

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

22 MR. KIRKWOOD: What about San Diego?

23 MR. PUTNAM: No, that was never done.

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

26 MR. PUTNAM: That was voted down by the people. We  
back-checked that.

1 MR. KIRKWOOD: But we filed no protest.

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

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

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

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

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

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

26 MR. SHAVELSON: If it equals.

1 MR. PEIRCE: Mr. Holmes.

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

11 MR. PEIRCE: Senator Hollister.

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

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

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

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

1 MR. PUTNAM: Outside the present city limits.

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

14 SENATOR HOLLISTER: Would there be any reason for pro-  
15 testing unless you have a value there? There would be no  
16 reason to protest.

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

19 SENATOR HOLLISTER: The only thing that bothers me in  
20 the whole thing has nothing to do with Santa Barbara. If  
21 every city on the coast went out and annexed tidelands off-  
22 shore and could interfere with drilling for oil, there a lot  
23 of small places that could incorporate for just that purpose.  
24 I know some of the other members of the Legislature are  
25 worried about this. They do not care about Santa Barbara.  
26 They don't come from there and do not care, but they have

1 worried about what would happen to the whole coast line as  
2 these cities annexed. I think you could get in some real  
3 trouble statewide. The water plan is depending on this  
4 royalty. I am just wondering if the State Lands Commission  
5 wouldn't --- that would come under their jurisdiction in  
6 any city. They can all do it. I have heard there is one  
7 other started already. I haven't heard it corroborated.

8 MR. SHAVELSON: May I make a comment?

9 MR. PEIRCE: Yes.

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

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

25 MR. KIRKWOOD: I think that would necessarily follow.

26 MR. POWERS: You are just thinking of seaward from

1 the Santa Barbara limits? We have nothing to do with that,

2 MR. KIRKWOOD: We do.

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

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

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

10 MR. PEIRCE: In other words, another corridor?

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

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

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

1 are having our skirts trimmed off and don't have anything  
2 much to say about it.

3 MR. POWERS: That's right, too.

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

7 MR. SEXTON: That's right.

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

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

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

17 MR. KIRKWOOD: Well, are we?

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

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

21 MR. PEIRCE: Yes, Mr. Duncan.

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



1 recourse was to go to the Commission which did have juris-  
 2 dictions over this land; and it seems to me that it has  
 3 been amply demonstrated that no matter what eventuates,  
 4 if this annexation takes place it will adversely affect  
 5 this Commission's jurisdiction of State lands. Now, it is  
 6 true I am from Summerland and he is from Hope Ranch, but  
 7 we are citizens of California and when a set aside group,  
 8 a municipality separate from us, acquires rights which all  
 9 of us, rightly or wrongly, assume are inherent -- that is,  
 10 our riparian rights in front of our properties -- it does  
 11 seem to us that you are involved in an effort to protect  
 12 us whether you wish to or not, so long as your particular  
 13 field is invaded. Now, we have been discussing oil. Am  
 14 I right in assuming that your Commission also has something  
 15 to do with harbors? Do you?

16 MR. PUTNAM: Yes, we have.

17 MR. DUNCAN: I would like to point out -- it is collateral  
 18 to this matter -- there has been discussion that has never  
 19 come to a given conclusion, as to the possibility or desir-  
 20 ability of a harbor at Goleta. I would think the resolution  
 21 of the City Council with respect to this particular annexa-  
 22 tion should be plain enough as to what might possibly happen,  
 23 what opposition there might be, if you found it feasible  
 24 to put a harbor in Goleta, because their very resolution,  
 25 here is the wording in it: that they are the only safe  
 26 harbor in this area and that it is necessary for them to

1 give constant protection to the small craft venturing  
2 forth through that harbor as it proceeds up and down this  
3 oil sanctuary, which extends to Goleta; and that they intend  
4 to apply regulations to the surface of those navigable  
5 waters as regards these small craft.

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

20 Why should not Lompoc come out and annex their areas  
21 there? You have no leases there, you could not put a  
22 value on it. You would have the same definition -- areas  
23 without a certain value. They don't become of a certain  
24 value until they or adjacent territory is bid on and estab-  
25 lishes a certain value. There is no reason whatever to  
26 believe that if this annexation takes place you won't have

1 Lompoc and Santa Maria coming out and spreading each way.  
2 It's just human nature that they would do that.

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

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

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

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

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

16 MAYOR RICKARD: Mr. Chairman?

17 MR. PEIRCE: Mayor Rickard.

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

26 MR. PEIRCE: Mr. Shavelson?

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

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

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

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

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

21 MR. SHAVELSON: The 23rd.

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

26 MR. SHAVELSON: No sir. I believe the City Council's

1 evaluation must be based on substantial evidence and will  
2 be passed on by a court, giving considerable deference to  
3 the city's findings but it nevertheless would have to be  
4 a reasonable finding.

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

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

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

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

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

18 MR. SHAVELSON: That's right.

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

21 MR. PEIRCE: Governor Powers has moved that the recom-  
22 mendation of the staff be approved.

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

26 MR. PEIRCE: Motion has been seconded by Mr. Kirkwood.

1 Is there any further discussion? The recommendation is  
2 approved.

3 MR. SHAVELSON: May I?

4 MR. PEIRCE: Mr. Shavelson.

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

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

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

18 MR. PUTNAM: That was the recommendation.

19 MR. PEIRCE: All right.

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

22 (continued on page 83 -

23 Page 82 completes portion  
24 re Santa Barbara Annexation )  
25  
26

1 MR. PUTNAM: Page 3 is standard - a standard sale.

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

4 MR. KIRKWOOD: Yes, I guess so.

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

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

11 MR. SMITH: Recommendation is that the extensions here-  
12 tofore granted to May 13, 1957, during which the applicant  
13 is allowed to meet the appraised value of the land, be  
14 confirmed; and, further, that the Commission determine that  
15 it is to the advantage of the State to select the land;  
16 that the Commission find the said land is not suitable for  
17 cultivation; that the Commission approve the selection and  
18 authorize the sale to James K. Stonier, the applicant, at  
19 \$5,407.93, subject to all statutory reservations including  
20 minerals. In the event the applicant does not meet the  
21 appraised value, it is recommended that the Commission  
22 determine that it is to the advantage of the State to select  
23 the land and approve the selection, and authorize the sale  
24 thereof pursuant to the rules and regulations governing the  
25 sale of vacant state school land on the conveyance of the  
26 land to the State by the Federal Government.

1 MR. PUTNAM: Boiled down, if the guy doesn't put up  
2 his \$1.25 per acre by this evening .....

3 MR. SMITH: That's about it.

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

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

13 MR. POWERS: O. K. with me.

14 MR. PEIRCE: Bob? MR. KIRKWOOD: Yes.

15 MR. PEIRCE: The recommendation is approved.

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

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

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

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



1 MR. KIRKWOOD: Move the recommendation.

2 MR. PEIRCE: O.K.? MR. POWERS: Yes.

3 MR. PEIRCE: Recommendation approved.

4 MR. PUTNAM: Anything special about this Knight  
5 application?

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

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

10 MR. SMITH: It is recommended that the Commission  
11 reject the application of Knight to purchase the 80 acres  
12 in Glenn County and authorize refund of deposits except the  
13 \$5 filing fee which was earned at the time the application  
14 was filed. It is further recommended that the Commission  
15 withdraw said lands from public sale until December 31, 1958  
16 and authorize the executive officer to undertake negotiations  
17 with the appropriate Federal agency to work out an exchange  
18 of the land for other vacant Federal lands.

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

21 MR. SMITH: A partly submerged dam site.

22 MR. PEIRCE: Any recommendation?

23 MR. KIRKWOOD: M-m-mh.

24 MR. PEIRCE: Recommendation is approved.

25 MR. HORTIG: Page 17. The Commission previously  
26 authorized the termination of a small commercial lease for

1 small craft berthing, but we did not include in the recom-  
2 mendation specific date of termination. In order to clear  
3 accounting records we need to add "June 13, 1956."

4 MR. KIRKWOOD: Moved.

5 MR. PEIRCE: Correction is approved.

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

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

1 MR. PEIRCE: Any objections?

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

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

5 MR. PEIRCE: Recommendations are approved.

6 MR. HORTIG: Crescent City.

7 MR. PUTNAM: This is another long deal.

8 MR. PEIRCE: Any controversy?

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

12 MR. KIRKWOOD: Move it .....

13 MR. POWERS: Seconded.

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

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

21 MR. KIRKWOOD: M-m-mh. MR. POWERS: O.K.

22 MR. PEIRCE: Recommendation is approved.

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

25 MR. PUTNAM: The Commission will recall that in con-  
26 nection with our Long Beach operations we have had a service

1 contract with the Division of Audits to bring us down to  
2 an audit certain and also to resolve some of the problems  
3 attendant on set-up of a regular accounting set-up in the  
4 operation. The Audits Division has, out of force of necessity  
5 and the tremendous scope of the project, run out of both time  
6 and money, and it is recommended that the executive officer  
7 be authorized to execute an amendment to the service contract  
8 of the Division of Audits to increase the amount of the  
9 contract to a total of \$15,000, which would be an increase  
10 at this time of \$5000, which it is hoped will give sufficient  
11 time to complete all phases of the operation desired.

12 MR. PEIRCE: Any discussion?

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

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

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

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

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

20 MR. POWERS: Yes.

21 MR. PEIRCE: Recommendation approved.

22 MR. HORTIG: Once upon a time we had a right of way  
23 issued for a pipe line in Imperial County and the corporation  
24 who had the easement, the corporation was dissolved and  
25 in order to get the title clouds off our lands we had to  
26 get a quitclaim and we found a remaining surviving officer

1 who was willing to sign; and we are recommending the Com-  
2 mission accept the quitclaim in order to clear title.

3 MESSRS. POWERS and KIRKWOOD: O.K.

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

6 MR. PUTNAM: These are all little pesky things.

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

8 MR. POWERS: M-m-mh.

9 MR. PEIRCE: Bob? MR. KIRKWOOD: M-m-mh.

10 MR. PEIRCE: All right. Recommendation approved.

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

20 MR. PEIRCE: Extends the list.

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

22 A.B. 2073, which appears on Page 67 is Assemblyman Brown's  
23 bill which was discussed at length at the last Commission  
24 meeting, which would require making meetings and records of  
25 the State Lands Commission open to the public, Pursuant to  
26 the State Lands Commission's directive, I consulted with

1 Assemblyman Brown and he agreed to and did amend his bill  
2 as to open records. There is no reference to it in the bill  
3 as it stands now.

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

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

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

15 MR. HORTIG: No sir.

16 )Off the record discussion(

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

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

23 MR. PUTNAM: No.

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

26 MR. SHAVELSON: The right to protest ....

MR. PEIRCE: Will include the valuation figures.

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ADJOURNED AT 1:15 P. M.

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