

MINUTE ITEM
This Calendar Item No. 90
was approved as Minute Item
No. 90 by the State Lands
Commission by a vote of 3
to 0 at its 02/12/97
meeting.

CALENDAR ITEM
90

A 67
S 35

AD 308 02/12/97
W 25306
R. Ludlow

CONSIDERATION OF THE PURCHASE BY THE CALIFORNIA STATE LANDS COMMISSION, IN ITS CAPACITY AS THE KAPILOFF LAND BANK TRUSTEE, OF APPROXIMATELY 880 ACRES OF THE BOLSA CHICA LOWLANDS SITUATED IN ORANGE COUNTY CALIFORNIA FROM THE SIGNAL BOLSA CORPORATION, A SUBSIDIARY OF KOLL REAL ESTATE GROUP FOR A PURCHASE PRICE OF TWENTY FIVE MILLION DOLLARS. ONCE ACQUIRED A PORTION OF THE PROPERTY WILL BE TRANSFORMED INTO A FULL TIDAL BASIN WITH THE REMAINDER EVENTUALLY RESTORED AS WETLANDS. FUNDS FOR THE PURCHASE AND RESTORATION WILL COME PRIMARILY FROM THE PORTS OF LOS ANGELES AND LONG BEACH IN RETURN FOR MITIGATION CREDITS NECESSARY FOR PORT EXPANSION

SUMMARY

The question before the Commission, acting in its capacity as Kapiloff Land Bank Trustee, is whether to purchase approximately 880 acres of the Boisa Chica Lowlands from the Signal Bolsa Corporation, a wholly owned subsidiary of the Koll Real Estate Group and accept a dedication of an additional 25 acres from the Bolsa Chica Land Trust. The purchase price is \$25,000,000.00. If the Commission decides to acquire the property it will be held in perpetuity as Public Trust Lands for the benefit of the people of the State of California.

This is the second step in a process begun by the Commission at its August 1996 meeting when it approved an agreement between four state agencies, four federal agencies and the Ports of Long Beach and Los Angeles. That agreement, contemplating ultimate expenditures of, at least \$90,000,000.00, provides for a cooperative effort to acquire, restore and manage the Bolsa Chica Lowlands. Under this previously approved agreement the California Coastal Conservancy will contribute \$1,500,000.00, which includes a \$500,000.00 grant from the United States Fish and Wildlife Service, towards the purchase price with the balance shared equally by the Ports of Los Angeles and Long Beach.

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An appraisal has been completed that values the property at \$31,000,000. Contaminants have been identified and will be cleaned up at the expense of the seller and the past and present oil company lessees at no cost to the State. If the Commission authorizes the purchase, closing should take place before the end of February 1997.

BACKGROUND

The Bolsa Chica Lowlands is the remnant of a much larger wetland area that once stretched along the northern Orange County coast. In its present configuration it is bordered on three sides by the City of Huntington Beach and on the fourth by the Pacific Ocean. This wetland area was historically a marsh interlaced with full tidal channels radiating from an ocean inlet. Eventually the natural ocean inlet was blocked. Vast areas of the wetlands were filled and ultimately devoted to housing. For over 50 years the remaining wetlands have been included in an operating oil field. Tidal circulation throughout most of the site has been eliminated and fill was placed on certain areas for use as drilling pads, service roads and levees. Although the lowlands was thus divided and cut off from tidal influence, much of the land between the drill sites and levees still supports wetland habitat, albeit primarily seasonal in nature.

In 1973 the State lands Commission acquired 327 acres of the remaining historic wetlands in settlement of long-standing title claims. 300 acres were leased to the Department of Fish and Game for operation as a state ecological reserve, of which approximately 194 acres have been restored to muted tidal influence. Most of the 880 acres to be purchased from the Signal Bolsa Corporation, and the 25 acres to be dedicated by the Bolsa Chica Land Trust, is presently an active oil and gas field under lease to CalResources Limited Liability Company, a subsidiary of Shell Oil, which operates over 200 oil wells and support facilities on the leases.

The purchase and restoration of the Bolsa Chica Lowlands is being made possible by the Ports of Los Angeles and Long Beach's need to expand their facilities in order to remain competitive into the 21st century. Expansion of port facilities contemplates the filling of submerged lands and the resulting loss of marine habitats. In order to obtain the necessary governmental approvals for the expansion, the ports are required to provide offsetting mitigation for the loss of marine habitat by the creation or restoration of equivalent habitat values. The Bolsa Chica Lowlands is the closest property where appropriate mitigation can take place.

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The ports of California contribute over \$100 billion a year to the state's economy. Expansion of the ports of Long Beach and Los Angeles will result in substantial economic benefits to the Southern California economy. More than 110,000 new jobs will be created with an annual payroll in excess of \$3 billion. In addition, port expansion will provide significant increases in state and local tax revenues.

The agreement approved by the Commission at its August 1996 meeting is between the Commission, the California Department of Fish and Game, the California Coastal Conservancy, the California Resources Agency, the United States Fish and Wildlife Service, the National Marine Fisheries Service, the United States Army Corps Of Engineers, the United States Environmental Protection Agency and The Harbor Commissions of the Cities of Los Angeles and Long Beach. It divides responsibilities for the acquisition and the restoration project. Each of the parties to the Interagency Agreement must agree in advance before the project can go foreword. Using funds supplied by the ports and the Coastal Conservancy, the State Lands Commission is responsible for acquiring the property and acting as the restoration project banker. In addition the Commission will serve as the state lead agency for the CEQA/NEPA process and will obtain all necessary permits for the restoration project to proceed. Design of the project will be undertaken by the Coastal Conservancy while actual construction will be managed by the U. S. Fish and Wildlife Service. After the restoration has been completed either the California Department of Fish and Game or the U.S. Fish and Wildlife Service will manage the property. All phases of planning and construction of the project will be undertaken in close consultation with local government, environmental and community groups and the public.

The restoration plan contemplates the creation of a tidal inlet leading into a 384 acre full tidal basin adjacent to a 220 acre muted or managed tidal area. Eventually the remainder of the property will be restored to full tidal, salt marsh and seasonal ponds. However, this remaining area includes the highest concentration of active oil and gas production facilities and must await depletion of the oil field over the next 15 to 25 years before restoration can begin. Detailed project planning will begin immediately upon acquisition. Environmental clean up will begin shortly thereafter and construction of the tidal inlet and full tidal basin should be completed by the end of 2002.

PROPOSED PURCHASE AGREEMENT

An appraisal of the Bolsa Chica Lowlands has been completed for the purchase of the 880 acres owned by the Signal Bolsa Corporation. This appraisal was done by the independent appraisal firm, Harry B. Holzhauser & Associates of Tustin California. In

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his report Mr. Holzhauser concluded that the highest and best use of the property is as mitigation land with a market value of \$31 million.

The Proposed Purchase Agreement ("the Agreement") provides for a purchase price of \$25 million. The State Lands Commission will purchase the property as the "Land Bank Trustee" under the Kapiloff Land Bank Act (California Public Resources Code Sections 8600 et seq.) Title will be held by the State of California, acting through the State lands Commission, as Sovereign Lands, to be held by the State in perpetuity for the benefit of the people of the state for purposes of ecological restoration and preservation, scientific study, open space, fish and wildlife protection, public education and public viewing.

There are 27 oil and gas related contractual obligations affecting the property being acquired. The three main ones are the North and South Bolsa Leases as amended ("the Leases") and the Bolsa Surface Use Agreement as amended. The North Bolsa Lease was entered into in 1940, the South Bolsa Lease in 1943 and the Bolsa Surface Use Agreement in 1971. These three agreements are the primary instruments that outline the contractual relationship between the owner of the surface and the oil and gas lessee.

The Leases are presently held by CalReasources LLC a subsidiary of Shell Oil Company. They were acquired by Shell from Phillips Petroleum in 1986 and latter assigned to its subsidiary CalReasources. Phillips Petroleum acquired its interest in the Leases through a series of corporate acquisitions and mergers such that its interest dates, for all practical purposes, from the inception of the Leases.

Both of the Leases are currently active and by their terms will remain active so long as they can be operated economically. Under the provisions of the Bolsa Surface Use Agreement the owner of the surface has the right to require the oil lessee to abandon active wells and relocate facilities, all at the expense of the surface owner including payment for the value of lost reserves. Although the State will be acquiring ownership of the minerals, the oil and gas royalty interests were severed by assignment long ago and the state will not receive royalties so long as the Leases remain in effect.

A Level II Preacquisition Environmental Contaminants Survey was recently completed By Tetra Tech, Inc. under a funding agreement among the State Lands Commission, California Coastal Conservancy, The U.S. Fish and Wildlife Service, CalReasources LLC, Koll Real Estate Group, the Fish and Wildlife Foundation and the Port of Long Beach. Tetra Tech performed over 1600 analysis for various constituents from samples

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taken from predetermined locations on the property. The Tetra Tech Survey indicates that the main area of concern is the clean up of soils contaminated with oil and metals at elevated concentrations. These soils are predominantly found in the former sumps and beneath oil and wet gas pipelines. In addition, continued remediation needs to occur in soil and sediments in the area around the former gas plant. However, there were no surprises found. While all contamination can be cleaned up using common remediation techniques, the cost of clean up is heavily dependent on the volume of soil that must be remediated. The Tetra Tech survey was inconclusive as to those volumes. In order to resolve the contaminants issue and protect the state, the seller, Signal Bolsa Corporation, the current oil lessee, CalReasources LLC, and the prior oil lessee, Phillips Petroleum have agreed to clean up the property at no expense to the state.

It is contemplated that all state and federal agencies which must give their approval before the ports can fund the acquisition will have made their decision prior to the California State Lands Commission meeting.

PERMIT STREAMLINING ACT DEADLINE:

N/A

OTHER PERTINENT INFORMATION

1. Pursuant to the Commission's delegation of authority, the staff has determined that this activity is statutorily exempt from the CEQA pursuant to California Public Resources Code Section 8631.
2. On November 14, 1996 a Notice of Potential land Acquisition was mailed as required by California Public Resources Code Section 8622.

IF THE COMMISSION DECIDES TO ACQUIRE THE BOLSA CHICA LOWLANDS THEN IT IS RECOMMENDED THAT THE COMMISSION:

1. FIND THAT THIS ACTIVITY IS EXEMPT FROM THE REQUIREMENTS OF THE CEQA PURSUANT TO 14 CAL. CODE REGS. 15061 AS A STATUTORILY EXEMPT PROJECT PURSUANT TO CALIFORNIA PUBLIC RESOURCES CODE SECTION 8631.
2. FIND THAT THE COMMISSION IS ACTING IN ITS CAPACITY AS LAND BANK TRUSTEE UNDER THE KAPILOFF LAND BANK ACT.

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3. FIND THAT THE PURCHASE PRICE OF \$25,000,000.00 DOES NOT EXCEED THE FAIR MARKET VALUE OF THE INTEREST IN THE BOLSA CHICA LOWLANDS BEING ACQUIRED BY THE STATE.
4. FIND THAT THE PROPERTY BEING ACQUIRED IS SUBJECT TO CERTAIN PRE-EXISTING OIL AND GAS LEASES AND RELATED AGREEMENTS AND THEREFOR ADOPT THE FINDINGS CONTAINED IN PUBLIC RESOURCES CODE SECTION 8623.
5. AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE AN AGREEMENT FOR THE PURCHASE OF THE BOLSA CHICA LOWLANDS FROM THE SIGNAL BOLSA COMPANY SUBSTANTIALLY IN THE FORM ON FILE WITH THE COMMISSION AND TO EXECUTE ALL OTHER DOCUMENTS AND TO TAKE SUCH OTHER ACTIONS AS ARE REASONABLY NECESSARY TO COMPLETE THE ACQUISITION AND TO CONVEY THE LANDS BEING ACQUIRED TO THE STATE, OR MAY BE NECESSARY TO COMPLETE THE RESTORATION. IN ADDITION, AUTHORIZE THE LEGAL STAFF OF THE COMMISSION AND THE ATTORNEY GENERAL'S OFFICE TO TAKE SUCH OTHER ACTIONS, INCLUDING LITIGATION, TO ENSURE THE SUCCESSFUL COMPLETION OF THE PURCHASE AND RESTORATION.
6. AUTHORIZE THE CONSTRUCTIVE ACCEPTANCE INTO THE LAND BANK FUND OF THE SUM OF \$25 MILLION FROM THE CALIFORNIA COASTAL CONSERVANCY AND THE PORTS OF LOS ANGELES AND LONG BEACH AND THE EXPENDITURE OF THOSE FUNDS FOR THE ACQUISITION OF THE BOLSA CHICA LOWLANDS FROM THE SIGNAL BOLSA COMPANY.
7. AUTHORIZE THE ACCEPTANCE INTO THE LAND BANK FUND FROM THE PORTS OF LOS ANGELES AND LONG BEACH OF THE SUM OF APPROXIMATELY \$55,700,000.00, PLUS SUCH OTHER FUNDS AS MAY FROM TIME TO TIME BECOME AVAILABLE FOR THE PROJECT AND THE EXPENDITURE OF THOSE FUNDS FOR THE PURPOSE OF RESTORATION AND MANAGEMENT OF THE BOLSA CHICA LOWLANDS.