TRANSCRIPT OF MEETING of STATE LANDS COMMISSION · 16 SACRAMENTO, CALIFORNIA °**2**0 May 25, 1967

MEETING 1 STATE LANDS COMMISSION SACRAMENTO, CALIFORNIA May 25, 1967 PARTICIPANTS: 7 THE COMMISSION: 8 Hon. Houston I. Flournoy, Controller, Chairman Hon. Robert H. Finch, Lieutenant Gowernor 10 Hon. Gordon P. Smith, Director of Finance 11 Mr. F. J. Hortig, Executive Officer 12 13 14 APPEARANCE: 15 Harold A. Lingle Deputy City Attorney City of Long Beach 16 17 18 19 20 21 22, 23 34 25 26

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2	Confirmation of minutes of meeting of April 27, 1967		\$ 0	1.,
3	PERMITS, EASEMENTS, RIGHTS- OF-WAY, NO FEE:			
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	(b) City of Napa	28	3	1
	(c) City of Napa	29	5	· 1
	(d) Pacific Tel & Tel Co.	24	7	1
	(e) Marin County Flood Contr and Water Conserv.Distri	ol / ct 40	· 8	1
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	(i) Orange County Harbor Dis		17	0
	(j) State of Calif. Dept. of Fish and Game	41	19	1
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MAY 25, 1967 - 10:17 A.M.

MR. FLOURMOY: The meeting of the State Lands
Commission will come to order.

We will proceed with the calendar as stipulated here.

Am I correct, Mr. Hortig, that we have no indication from anyone in the audience -- with one exception, that there is no desire to testify on any of the items outside of that one instance we just discussed?

MR. HORTIG: That's correct, Mr. Chairman.

MR. FLOURNOY: Let's proceed to confirm the minutes of the meeting of April 27, 1967.

GOV. FINCH: Move approval.

MR. FLOURNOY: Without objection, so approved.

As we have in the past, we will move through these items quickly, unless there is some objection or desire for discussion.

MR. FLOURNOY: Permits, easements, and rights-ofway which are to be granted to public and other agencies at no fee, pursuant to statute -- without objection, those items so listed will be approved as indicated.

MR. SMITH: I move all the items under Number 4.

MR. FLOURNOY: These are permits, easements, leases and rights-of-way issued pursuant to statutes and established rental policies of the Commission. If there is no objection,

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all those items shall be approved as indicated. GOV: FINCH: Move approval of items under "5." MR. FLOURNOY: These are oil-and-gas and mineral leases and permits issued pursuantoto statutes and established policies of the Commission. If there is no objection or dis-6 cussion, all those items shall be approved as indicated. Number 6 ds four items relative to the City of Long 7 Beach. GOV. FINCH: "I'd like to have some explanation of Ŷ this, if you would, please, Mr. Hortig. 10 MR. HORTIG: Yes, Governor -- with respect to all 11 the items or one specific item under "6"? 12 Just the background. GOV. FINCH: 13 The whole background, Governor, is con-MR. HORTIG: 14 tained in the legislative requirements and assignments to the 15 Lands Commission in Chap(29, Statutes of 1956, First Extra 16 Session -- which was the first legislative determination for 17 monitoring and participation by the State in Long Beach tide-18 land operations, as a result of the decision of Mallon versus 19 Long Beach, which indicated that the State and the City were 20 in a trustor-trustee relationship, and the State had an inter-21 est in the Long Beach tidelands. 22 Chapter 29 was established and gave monitoring 23 responsibility to the State Lands Commission for their 24 development. 25 Thereafter, in 1964, by Chapter 138, First Extraordinary 26

APPLAL OF ACCUMENTATIVE PROGRESSES. STATE OF MALIFERIN

Session, the Legislature authorized development of the theretofore undeveloped Long Beach tidelands, designated as the
Long Beach Unit, and provided the mechanism for that development to be through a service contract to be issued to a contractor pursuant to competitive public bidding; the day to
day operations of the contractor to be supervised and directe
by the City of Long Beach as the agent of the State, and the
entire program to be conducted in accordance with an annual
plan and budget approved by the State LandsCommission.

All of the items that are before you under Item 6 are items that require either nonobjection or approval by the State Lands Commission in advance, pursuant to the statutory requirements of the two statutes I have already referred to.

MR. FLOURNOY: Any further questions or discussion of these four terms under Item 6? (No response)

MR. SMITH: I move that Item 6 be adopted.

MR. FLOURNOY: Without objection, it will be so

Item Number 7 -- Administration; one item, accepting a quitclaim deed. Is there any discussion or question on that matter? (No response) Without objection, that will be approved -- to authorize the acceptance as indicated.

Number 8 is informative only. Are there any questions or discussion with regard to the status of present litigation?

GOV. FINCH: I'd like to know about item 4, the

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ordered.

Pacific Fluorite matter. What can be said publicly about that proposed settlement, Mr. Hortig? MR. HORTIG: I believe the fact that a reasonabl settlement can be recommended by the Office of the Attorney General and the State Lands Division. The grounds for it have been developed and, as reported here, separate stipulations for mentering a judgment as to all defendants are now being prepared, based on the reasonableness of this settlement -in lieu of carrying on the litigation which had to be brought

GOV. FINCH: Does this contemplate that Pacific

by the State because of trespass operations on State lands.

Pluorite will continue to operate?

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MR. HORTIG: No. sir.

GOV. FINCH: They have ceased as of now doing business?

MR. HORTIG: They have ceased doing business as of some time past. Actually, the mineral deposit was not primarily located on State lands, but the processing mill was on State-owned lands without any authorization. They have not been running an economically effective mineral extraction operation, even in trespass, for several years.

GOV. FINCH: O. K.

MR. FLOURMOY: Any further discussion on that item? (No response).

Then we move to Item Number 9 -- Bidding procedure for the purchase of oil field tubular goods, Long Beach Unit,

Wilmington Oil Field.

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Now, at the last meeting of the Lands Commission we agreed that we would not take additional testimony from persons interested in the conclusion of this item. However, in conferring with the other members of the Lands Commission, we had an advance presentation made to us from the City of Long Beach -- that they feel their role as operator and their responsibility for that function has been alluded to in an uncomplimentary way, and they wish to make a brief statement that addresses itself primarily to their role as Unit manager The members have concluded that we will hear this, and this alone.

MR. LINGLE: Mr. Chairman, members of the Commission, I am Harold A. Lingle, Deputy City Attorney of the City of Long Beach.

After review of the transcript of the leat meeting in regard to the policy to be adopted relative to the purchase of tubular goods for the Long Beach Unit, the City of Long Beach does not believe that the statements critical of its economic interests and motives and its recommendation can go unanswered.

You will remember that the City has complied with the existing policy recommended by the Lands Commission, i.e. that all tubular goods be purchased by unrestricted competitive bidding. This spring you asked us for our recommendation concerning your policy and we gave it to you.

OFFICE OF ADMINISTRATIVE PROGROUMS, STATE OF GALAFORNI

The easiest thing in the world for the City of Long
Beach to have done would have been to duck the issue and have
said to you it is a long-range economic policy to be decided
by the State, but as we are the Unit operator and the trustee,
we think we have an obligation to give you our opinions even
through they may invoke criticism. We also had the alternative of ignoring oil field practices in the United States and
recommending that you purchase foreign pipe so as to singularly
benefit our Port income.

Anyone believing that the City of Long Beach does not have an economic interest in the return from the Long Beach Unit, East Wilmington Field, does not understand the contract, the law, or the economics of the oil field. Our engineers tell us that there is a good probability that the nonoperating contractors will be in the net during the period when the City receives 50% of the income from the East Wilming ton oil field, and there is a possibility that THUMS will also be in the net during this period.

The City has no guarantee in this oil field. Our only restriction is as to maximum; and oil fields being cil fields, it is always possible that the maximum might not be reached. Thus, over the long pull, we have every incentive to bend every effort to guarantee a high return to the City and State. We are a part of the State of California, and what is good for the State is good for the City.

The City receives a 1% overhead fee in lieu of

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attempting to itemize many of its management costs. Those who argue that our 1% overhead allowance will be increased by

the purchase of more expensive items overlook the feet that anything that we gained by this 1% overhead all mance will be

offset by the increased costs attributable to operation of

6 | our Townlot properties. In this instance, the estimated in-7 | crease in our administrative allowance would amount to

\$60,000 or \$1,714 per year over the life of the contract.

Does anyone seriously think that the City of Long Beach, after our history in Sacramento, would jeopardize its position by

11 advocating the purchase of unnecessarily expensive items?

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Prior to our recommendations to you we made an intensive investigation as to the oil companies' purchasing policies. We asked for the THUMS parent company policies. We asked the policies of our other tideland operators, and we asked the policy of all the oil companies who participate in the Long Beach Unit. We found that they all follow the practice of buying demestic tubular goods in their own operations including State tideland leases.

Long Beach has permitted the development of this field, realizing its importance to the State's economy -- while other tideland cities have declined to allow tideland development. We think the Long Beach Unit is a showcase of urban oil development, and we believe that other tideland cities will permit development of their oil fields when they see how we have pioneered. Long Beach led the fight from

California in the Congress for the return of the tidelands to the states. The Long Beach oil contracts have resulted in hundreds of millions of dollars of State revenue to date, with more than anestimated billion dollars yet to come. Long Beach overcame a disastrous subsidence and sponsored the legislation permitting repressurization and unitization of the Long Beach tidelend fields. These laws will give the State additional hundreds of millions of dollars. These same laws permitted the tremendously advantageous THUMS net profit contract. We are proud of our administration of these tideland fields.

Mr. A. C. Rubel, in an address in 1966 relative to the tideland development of California, said:

"The City of Long Beach early realized the importance of the harbor oil potential and in spite of many obstacles imposed by the State, has done a fantastic job of development."

In closing, we think the maximum benefit from the Long Beach Unit can only be achieved with the cooperation and mutual understanding of the State, the City, and THUMS. On the whole, we think that THUMS, under our supervision, has done a creditable job. We would like to have you come to Long Beach to see for yourselves the job Long Beach is doing.

MR. FLOURNOY: Thank you very much.

goods is before the Lands Commission for our action and discussion. . I defer to the Director of Finance.

MR. SMITH: Mr. Chairman, I do have a motion to make

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and perhaps you would like to have discussion on the motion.

MR. FLOURNOY: Very good.

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MR. SMITH: After studying the issue of whether or not the resolution of the State Lands Commission of September 23, 1965, requiring open competitive bidding on oil well casing, tubing and line pipe products for the Long Beach Unit development program and requiring the awarding of contracts to the lowest possible bidder; and after listening carefully to the presentation made here today and previous days, and reading all the material from both sides on that issue, I am convinced that the question presently before the State Lands Commission is not one of free trade versus Buy-American.

The question before us is the degree to which the State Lands Commission, a governmental body, should involve itself in the operating details of private business with which it has a direct or indirect relationship.

In other words, the real problem before us is whether the State Lands Commission, under the September 23,196 resolution, is in fact unnecessarily encroaching upon the inherent rights of American companies now operating in a free enterprise system -- a system which is indeed more the basis of our heritage than a purchasing principle.

I am convinced that the companies involved have long experience in determining pipe purchasing policy in their highly technical industry -- far more than the State Lands Commission. Although I have firm convictions and am a firm

believer in competitive bidding, I have an even firmer conviction with regard to free enterprise.

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There is no doubt that the State Lands Commission must assure the people of the State of California that the State will receive maximum economic recovery from this field; but this assurance should not be dictated by encroachment on free enterprise -- for if we encroach upon free enterprise and all applicable laws, we all will suffer a great loss and that loss will be the loss of the free enterprise system.

Therefore, with due respect for the ingenuity of the Japanese industry and its various manufacturing components, and even its participation in free trade, I move that the resolution of September 23, 1965 be rescinded.

I hasten to add that this resolution is not intended to mean that oil well casing, tubing, and line pipe requirements should not be purchased from foreign sources; but that the companies in the Long Beach development program be permitted to make their own decisions, acceptable to their practice in the past, as to where to purchase these goods.

general to the statement made by the Director of Finance. I have been very ambivalent about this issue. I am torn between the economic repercussions.

I have no question about our jurisdiction. I discard entirely the argument of the proponents of Buy-American that we had no real jurisdiction. I think that's not even a

question.

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I do believe that we have entered into this agreement with this consortium in what is an independent agency. We have rightly or wrongly given them that managerial responsibility. If we were to lay down this imposition, we would open up the door to deciding what their salaries and their other managing criteria would be.

I must say, on the basis of their performance, I have serious doubts as to whether they are doing a good job; but the point is that they have that responsibility and, therefore, we must let them discharge it.

I am further motivated by the fact that i am given to believe that in terms of supporting an obligation, they must consider the competitive situation and I believe that with their relations with Japan, the Japanese tubing will be given fair consideration; and I think that the whole climate engendered by the recently concluded Geneva Treaty will be an incentive in this direction.

So what we are doing here is saying it is up to them to produce, and produce better than they are; and I second the move to rescind the prior order.

MR. FLOURNOY: Before calling for a vote on this matter I would merely like to make my position clear in this regard.

In the first instance, I feel that there is absolutely no question about the legal authority of the Lands

CORRECT OF ADMINISTRATIVE PROCESSION, STATE OF GALFFORN

Commission under the law to have a responsibility for the general economic control and development of the operations, and that we have the responsibility and the capacity and the statutory authority to decide this question -- either as a part of the economic plan or as apart from the economic plan; and, therefore, I think we cannot in any way avoid a responsibility for decision.

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In the second place, I think there has been absolutely no demonstration, and I think all the evidence is to the contrary, that there is any substantive difference in quality of the material, availability of service, deliverability, and the like, and it is not a question of whether or not there is a substantive material advantage between one product and the other.

I think, thirdly, that there has been absolutely no proof that there is a non-price economic advantage to the State of California from buying domestic; and I think that the economic analyses that we have received from both sides in this controversy to my satisfaction tend very strongly to support the fact that, all other things being equal, and they are relatively so, there is still a substantial price differential and there is a substantial cost to the State of California in the return that we receive from the THUMS operation by limiting bidding to domestic companies, which is the effect, in my view, of a decision to rescind the order -- and I feel that this is unjustified in terms of our responsibility to the

taxpayer; I think it is unjustified in terms of our responsibility for the development of the field for maximum economic recovery, and I must, therefore, with due regard for the judgment of my colleagues on the Commission, oppose this motion

Any further discussion before I call for the

Any further discussion before I call for the question: (No response)

All of those in favor?

GOV. FINCH: Aye.

MR. SMITH: Aye.

MR. FLOURNOY: Opposed? No.

The "ayes" have it -- the motion is carried.

The only remaining item before the Commission today is to reconfirm the date, time and place of the next Commission meeting, set for Thursday, June 22nd, ten o'clock in Sacramento.

GOV. FINCH: I'd like to, for the record, say that since the Legislature has not seen fit to provide me with a Deputy, as my colleagues have, I will not be present at the next meeting as I have to be at a meeting of the State colleges. I'd like the record to show that.

(Adjourned 10:40 a.m.)

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CERTIFICATE OF REPORTER

I, LOUISE H. LILLICO, reporter for the Office of Administrative Procedure, hereby certify that the foregoing pages one through thirteen contain a full, true, and accurate transcript of the shorthand notes taken by me in the meeting of the STATE LANDS COMMISSION held at Sacramento, California on May 25, 1967.

Dated: Los Angeles, California, May 29, 1967.

James I Lallice