CALIFORNIA STATE AUDITOR
Elaine M. Howle, State Auditor
FACT SHEET

Date: **August 23, 2011** **Report: 2010-125**

The California State Auditor released the following report today:

State Lands Commission

Because It Has Not Managed Public Lands Effectively,
the State Has Lost Millions in Revenue for the General Fund

BACKGROUND

Responsible for managing millions of acres of tidelands and submerged lands, and other lands that must be used to benefit public education, the three-member State Lands Commission (commission) meets periodically to make decisions regarding leases and other matters. An executive officer—appointed by the commissioners—manages the commission's daily operations and its employees. Its divisions oversee and manage more than 4,000 leases, including approximately 900 agricultural, commercial, industrial, right-of-way, and recreational leases; 85 revenue-generating oil and gas, geothermal, and mineral leases; and 3,200 rent-free leases.

KEY FINDINGS

Our audit of the commission's management of leases revealed that it did not effectively manage or monitor leases:

- Some lessees remained on state land for years, sometimes decades, without paying rent. Of the 10 delinquent leases we reviewed nearly half were more than 17 years past due. The commission generally does not evict or pursue other remedies against lessees who do not pay rent—in total, the State lost $1.6 million from those 10 delinquent leases we reviewed.
- About 140 of its nearly 1,000 revenue-generating leases are in *holdover,* meaning the leases had expired and the lessee continued to pay the rental amount stipulated in the expired lease. The commission could have collected an additional $269,000 in rent for 10 expired leases we reviewed had it merely adjusted the leases to reflect the Consumer Price Index.
- The commission failed to perform timely rent reviews even though many of its lease agreements allow it to review and modify the rental amount every five years. For 18 of the 35 leases we reviewed, it could have collected an additional $6.3 million had it conducted timely rent reviews.
- Properties are not appraised regularly—of the 35 leases we reviewed, four had not been appraised in 20 years and another nine had not been appraised for at least 10 years.
- The commission may be undervaluing certain types of leases because it is using a rate to establish rent for pipelines on state property that has not been adjusted for more than 30 years.
- It lost track of one of its leases and failed to bill a lessee for 12 years while the lessee remained on state property. This was likely due to an incorrect entry in the commission's database.
- Even though audits of oil and gas leases can result in millions of dollars in revenue to the State, the commission does not consistently conduct these audits nor does it conduct audits of 85 properties granted to local governments to ensure that they spend the funds generated from those lands as permitted.

KEY RECOMMENDATIONS

We make numerous recommendations to the commission including that it manage delinquent leases in a timely manner and that it ensure that as few leases as possible are in holdover by implementing its newly established procedures and periodically evaluating their effectiveness. Further, we recommend it conduct rent reviews promptly, appraise its properties as frequently as permissible to obtain a fair rental value for its leases, and amend outdated regulations for establishing pipeline rents. Additionally, to improve its monitoring of leases, we recommend the commission ensure its database is complete and accurate for retrieval of reliable lease information, and to require all divisions to use it. Moreover, it should develop an audit schedule that focuses on leases that historically generate the most revenue and recoveries to the State.