

MINUTE ITEM

This Calendar Item No. 25
was approved as Minute Item
No. 25 by the State Lands
Commission by a vote of 2
to 0 at its 7-24-80
meeting.

MINUTE ITEM

7-24-80
W 40165
Gonzalez
PRC 5871

25. AWARD OF MINERAL EXTRACTION LEASE

During consideration of Calendar Item 25 attached, Commission-Alternate Susanne Morgan questioned whether Olin Jones was registered as a small business with the Department of General Services. Staff stated they would report back to her on this matter.

Upon motion duly made and carried, the resolution as presented in Calendar Item 25 was adopted by a vote of 2-0.

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CALENDAR ITEM

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7/80
W 40165
Gonzalez

AWARD OF MINERAL EXTRACTION LEASE

On January 24, 1980, the Commission authorized staff to offer for lease by competitive bid, a portion of Alcatraz Shoal, San Francisco Bay, for the extraction of minerals other than oil, gas and geothermal resources. The area is known to contain commercially-valuable sand and gravel deposits. In accordance with this authorization, a Notice of Intention to Lease was published on February 28, 1980, in the San Francisco Examiner calling for bids on March 19, 1980.

On March 19, 1980, bids were opened in the Commission's Long Beach Office.

Olin Jones Sand Company was the high bidder with a bid factor of 6.54. Other bids received were Haviside-Heastings, Inc., bid factor of 3.11, and Tidewater Sand and Gravel, Inc. with a bid factor of 2.0. Haviside-Heastings, Inc. later withdrew its bid. The bid factor 6.54 is to be applied to the royalty formula attached as Exhibit "B" hereto. The bid factor operates as a multiplier to the lease royalty formula which will effectively result in the payment of royalties at 65.4% of the weighted average sales price.

The minimum annual production is 50,000 cubic yards per year and the minimum royalty shall not be less than \$0.30 per cubic yard resulting in a minimum royalty of \$15,000 per year.

The lease has a primary term of 5 years, with an option of one 5-year renewal period upon such reasonable terms and conditions as may be prescribed by the State.

Comments by the Audit staff of the financial statements submitted with the bid of Olin Jones include:

1. The bidder will not be able to meet its current obligations according to its unaudited Balance Sheet dated January 31, 1980.
2. It is questionable whether or not the company will be able to sell the extracted sand at a price sufficient to cover the costs of dredging, transporting, processing and marketing.

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3. The company has submitted an unsupported, highly optimistic (\$.17 net profit before taxes of every sales dollar) purported Plan of Development.

Lease Operations staff agrees that there is an element of risk in dealing with smaller companies or entrepreneurs of limited financial strength and net worth, however, the lease performance bond requirements (\$15,000) and close supervision of lease operations by the Audit and Engineering Staffs should ensure compliance with the lease terms and conditions. Olin Jones Sand Co. is successfully operating at the Bulls Head Bar Lease PRC 5733.1, and during the first two quarters of operations ending March, 1980, has paid royalty to the State of approximately \$12,000. This amount represents production and sale in this 6 months of nearly 80% of the annual minimum extraction under that lease. The management of Olin Jones has stated that operations at San Francisco will generate additional revenue for the company and reduce idle time of the dredge.

Staff has confirmed that the bidder has the equipment and personnel to perform dredging operations. In addition, the bidder has obtained outlets and dock space to serve the San Francisco market for construction sand. Furthermore, the bidder has an on-going successful sand and gravel business at Martinez. Finally, the bidder has cooperated with the staff during the evaluation process which included two technical inspection visits to Martinez and a meeting with the staff in Long Beach.

The Office of the Attorney General, pursuant to Section 6890 of the P.R.C., has reviewed and approved the bid of Olin Jones Sand Co. as to conformance with the requirements specified in the Commission's proposal to enter into a Mineral Extraction Lease on those specified sovereign lands in San Francisco Bay, and as to compliance with the applicable provisions of law and the rules and regulations of the State Lands Commission.

An EIRND No. 250, SCH 79092514, was prepared by the State Lands Commission staff pursuant to CEQA and implementing regulations, and was certified by the Commission on October 29, 1979. The project is situated on submerged lands identified as possessing significant environmental values pursuant to P.R.C., Section 6370.1, and is classified in a use category, Class C, which authorizes Multiple Use. Staff has coordinated this project with those agencies concerned with the use of this site, and has determined that there will be no significant effect on the identified environmental values.

CALENDAR ITEM NO. 25. (CONTD)

EXHIBITS: A. Legal Description. B. Royalty Formula,
 C. Location Map.

IT IS RECOMMENDED THAT THE COMMISSION, IN ACCORDANCE WITH THE PROVISIONS OF DIVISION 6 OF THE P.R.C.:

1. FIND THAT THE COMMISSION, ON OCTOBER 29, 1979, CERTIFIED THAT THE EIRND NO. 250, SCH 79092514, WAS COMPLETED IN COMPLIANCE WITH CEQA AS AMENDED AND WITH THE STATE GUIDELINES, AND THAT THE COMMISSION HAS REVIEWED AND CONSIDERED THE INFORMATION CONTAINED THEREIN.
2. FIND THAT OLIN JONES SAND CO., HAVING SUBMITTED A BID WITH A BID FACTOR OF 6.54, IS THE HIGHEST QUALIFIED AND RESPONSIBLE BIDDER AMONG THOSE PRESENTING BIDS FOR THE SUBJECT LEASE.
3. AUTHORIZE THE ISSUANCE OF A 5-YEAR MINERAL EXTRACTION LEASE TO OLIN JONES SAND CO. ON 513 ACRES OF SUBMERGED LANDS AT ALCATRAZ SHOAL, SAN FRANCISCO BAY, SAN FRANCISCO COUNTY, MORE PARTICULARLY DESCRIBED IN EXHIBIT "A" ATTACHED HERETO AND BY REFERENCE MADE A PART HEREOF; AT A ROYALTY DETERMINED IN ACCORDANCE WITH THE FORMULA ATTACHED HERETO AS EXHIBIT "B" AND THE OTHER TERMS AND CONDITIONS AS SET FORTH IN THE LEASE OFFERING.

EXHIBIT "A"

LAND DESCRIPTION

W 40165

A parcel of submerged land in the bed of San Francisco Bay, City of San Francisco, County of San Francisco, California, described as follows:

BEGINNING at the point of 37° 50' 00" latitude, 122° 26' 00" longitude; thence through the following four courses:

1. West to the point 37° 50' 00" lat., 122° 26' 45" long.;
2. South to the point 37° 48' 47" lat., 122° 26' 45" long.;
3. East to the point 37° 48' 47" lat., 122° 26' 00" long.;
4. North to the point 37° 49' 10" lat., 122° 26' 00" long.;

thence northeasterly to the intersection of 122° 25' 21" longitude with the -12 foot MLLW contour around Alcatraz Island; thence following said -12 foot MLLW contour northwesterly and northeasterly to its intersection with the westerly edge of a cable area as shown on the "San Francisco Entrance" nautical chart, No. 18649, 46th Edition, January 27/79; thence northwesterly along said westerly edge of the cable area to its intersection with latitude 37° 50' 00"; thence westerly along latitude 37° 50' 00" to the point of beginning.

EXCEPTING THEREFROM any portion presently under lease to Construction Aggregates Corp. (State Lease PRC 709.1).

ALSO EXCEPTING THEREFROM any portion lying within the cable areas as shown on the above-mentioned nautical chart 18649.

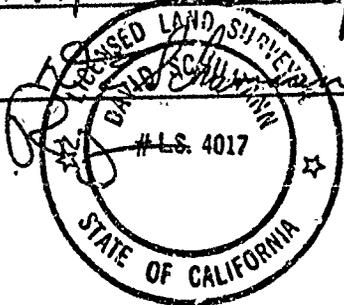
END OF DESCRIPTION

Prepared *M. P. Shaper*

Checked *J. K. G. Jensen*

Reviewed *[Signature]*

Date *7/17/79*



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EXHIBIT B

STATE OF CALIFORNIA
STATE LANDS COMMISSION

W 40165
PRC _____

Section 3

CONSIDERATION:

Royalties for the mineral resources produced or extracted are to be determined according to the following formula:

$$R = B \sqrt[0.10 W (Y)]$$

Where R = royalty in dollars and cents paid to the State.

B = bid factor of _____, which shall be greater than or equal to 1.0.

W = weighted average lease quarter sales price, f.o.b. the dock, per yard.

Y = total lease quarter yardage sold.

The weighted average sales price (WASP) per lease quarter shall include consideration of wholesale and retail sales and is subject to approval and audit by the State. The royalty rate for a lease quarter shall be based upon the WASP for that quarter. In place sales shall not be permitted.

The annual minimum extraction volume shall be 50,000 cubic yards. The minimum royalty per cubic yard shall not be less than \$0.30.

All terms and conditions of the royalty schedule shall be subject to review and possible readjustment at the end of the third year of the primary lease term.

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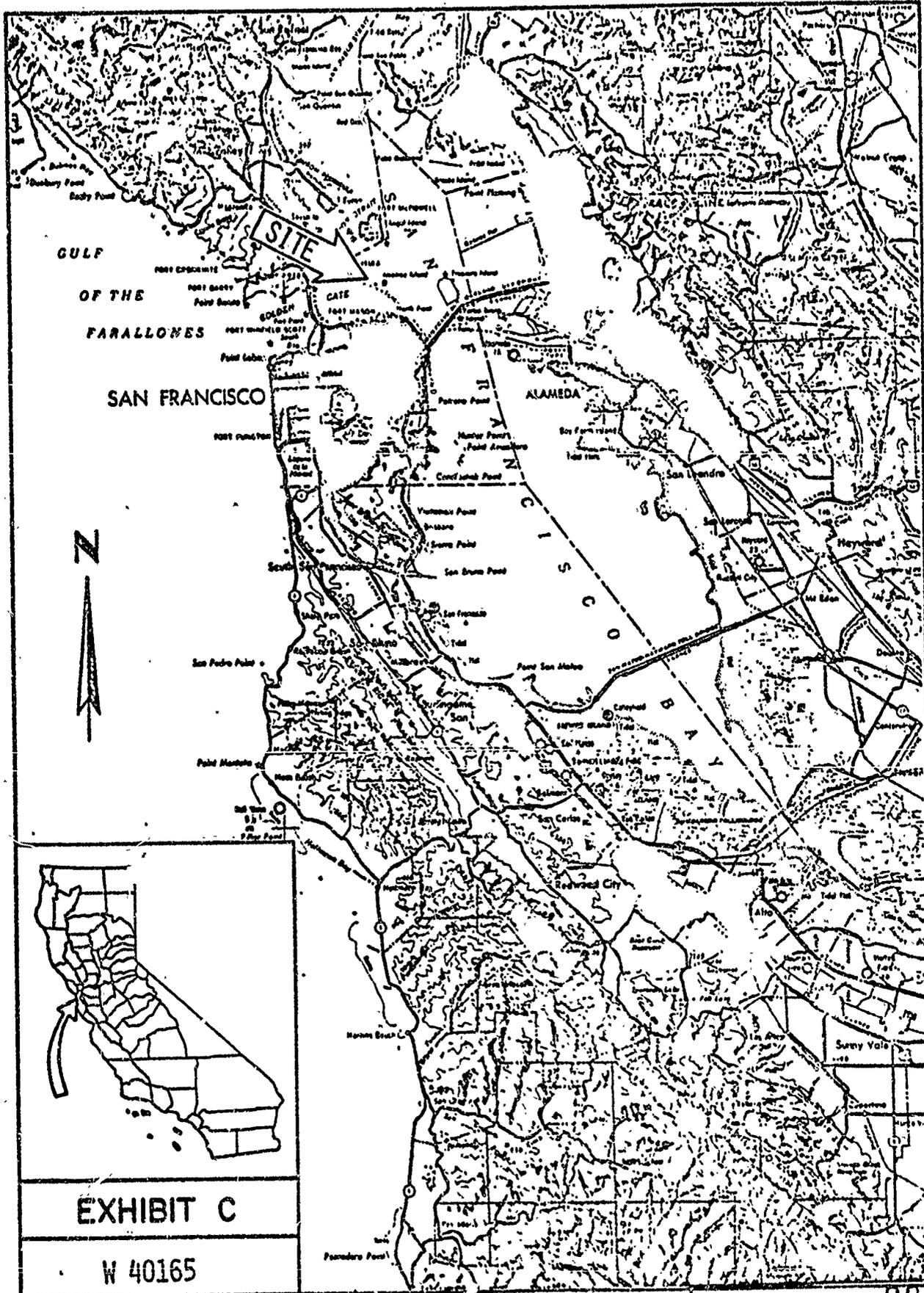


EXHIBIT C

W 40165

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