

MINUTE ITEM

13. MODIFICATION OF ROYALTY SCHEDULE, MINERAL EXTRACTION LEASES, SAN FRANCISCO BAY AND SIMILAR AREAS - W.O. 4755, GEN. DATA-MINERALS.

After consideration of Calendar Item 18 attached, and upon motion duly made and unanimously carried, the following resolution was adopted:

THE COMMISSION APPROVES AND ADOPTS THE ROYALTY SCHEDULE REFERRED TO AS "EXHIBIT B" (W.O. 4755) ATTACHED AND HEREBY MADE A PART HEREOF AS THE ROYALTY SCHEDULE TO BE UTILIZED FOR MINERAL EXTRACTION LEASES PROVIDING FOR THE EXTRACTION OF SAND AND FILL MATERIAL FROM TIDE AND SUBMERGED LANDS.

Attachments

Exhibit "B" (1 page)
Calendar Item 18 (3 pages)

A 5, 7, 10, 11, 13, 14, 15, 16, 17,
18, 19, 20, 21, 22, 23, 24, 25
S 11, 12, 13, 14, 15, 16, 17, 18, 21

EXHIBIT "B"

PROPOSED ROYALTY SCHEDULE
TO BE UTILIZED FOR SUBMERGED LAND MINERAL EXTRACTION LEASES
PROVIDING FOR THE EXTRACTION OF SAND OR OTHER MATERIAL
FROM TIDE AND SUBMERGED LANDS

For all material extracted:

$$R = A + AB$$

Where R = royalty in dollars and cents per cubic yard of mineral extracted

A = fixed minimum royalty per cubic yard

B = bid factor (expressed as 0.05, 0.10, 0.40, etc.)

The royalty rate under the above schedule shall be increased automatically after the first year of the lease at the rate of five percent (5%) per year for each of the next four years to the end of the lease term. For each successive lease renewal, the royalty rate, and the rate of increase per year (if any), shall be subject to redetermination by the State at the time of renewal.

The maximum royalty for the extraction of sand or other material shall not exceed twenty-five percent (25%) of the gross sales price.

CALENDAR ITEM

18.

MODIFICATION OF ROYALTY SCHEDULE, MINERAL EXTRACTION LEASES, SAN FRANCISCO BAY AND SIMILAR AREAS - W.O. 4755.

The royalty schedule specified in leases issued by the State Lands Commission providing for the extraction of minerals other than oil and gas was adopted by the Commission on October 24, 1951 (Minute Item 20, pages 1471-72). This schedule (see Exhibit "A") was adopted in order to eliminate the necessity of determining average gross sales prices at quarterly or monthly intervals, as required under the formula in use at that time, and to provide for an escalation in royalty rate in the event of an increase in mineral quality or in sales price. At the time this formula was adopted, the gross sales price determination was made at the end of the first lease year and every four years thereafter. However, as a result of the more rapid changes in economic conditions, this determination is now made at the end of each year and, in some instances, quarterly. The determination under the current lease form of the gross sales price of sand extracted from shoal areas in San Francisco Bay requires extensive auditing, as it is necessary to adjust the final gross sales price for transportation costs, material quality, and, in some instances, processing costs. The amount of material extracted, and, accordingly, the royalty received from the average lease of this type, is relatively small; thus, detailed audits are not justifiable in view of their costs. Also, in submitting bids, there is often some question in the mind of a prospective bidder as to the exact definition of gross sales price.

In order to minimize the foregoing problems, a modified royalty schedule (see Exhibit "B") is proposed. At the present time the major cost factors involved in sand extraction operations in the Bay area appear to be labor and equipment. In an attempt to have readily available an appropriate index that would reflect reasonable escalation provisions directly applicable to the royalty schedule, the California Highways' cost index, the consumers' cost index, and average weekly earnings index in nonmetallic extraction operations were each considered. The basic elements of costs reflected in the consumers' index and the Highways' cost index are too broad, in that materials as well as wages and equipment are considered. After full staff consideration of the essential factors influencing the above indexes, it was concluded that a current escalation factor of 5% per year would be reasonable for royalty schedules in the San Francisco Bay area complex. It is proposed that leases in such areas would be issued for a term of five years with a preferential right in the lessee to renew for successive periods of 5 years each.

IT IS RECOMMENDED THAT THE COMMISSION APPROVE AND ADOPT THE ROYALTY SCHEDULE REFERRED TO AS "EXHIBIT B" (W.O. 4755) ATTACHED AND HEREBY MADE A PART HEREOF AS THE ROYALTY SCHEDULE TO BE UTILIZED FOR MINERAL EXTRACTION LEASES PROVIDING FOR THE EXTRACTION OF SAND AND FILL MATERIAL FROM TIDE AND SUBMERGED LANDS.

Attachment
Exhibits "A" and "B"

-1-

A 5, 7, 10, 11, 13, 14, 15, 16, 17,
18, 19, 20, 21, 22, 23, 24, 25
S 11, 12, 13, 14, 15, 16, 17, 18, 21

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EXHIBIT "A"

CURRENT ROYALTY SCHEDULE
IN USE PROVIDING FOR SAND AND FILL MATERIAL EXTRACTION

For all sand extracted:

$$R = A + B (C - D)$$

Where R = royalty in dollars and cents per cubic yard of sand extracted

A = fixed minimum royalty per cubic yard of material extracted

B = bid factor to be inserted below by bidder (expressed as 1.1, or 0.6, etc.).

C = weighted average sales price of sand per cubic yard determined quarterly

D = estimated weighted gross sales value at the beginning of the lease year (currently 0.42 in the Bay area)

The maximum royalty hereunder shall not exceed twenty-five percent (25%) of the weighted average gross sales price.

EXHIBIT "B"

PROPOSED ROYALTY SCHEDULE
TO BE UTILIZED FOR SUBMERGED LAND MINERAL EXTRACTION LEASES
PROVIDING FOR THE EXTRACTION OF SAND OR OTHER MATERIAL
FROM TIDE AND SUBMERGED LANDS

For all material extracted:

$$R = A + AB$$

Where R = royalty in dollars and cents per cubic yard of mineral extracted

A = fixed minimum royalty per cubic yard

B = bid factor (expressed as 0.05, 0.10, 0.40, etc.)

The royalty rate under the above schedule shall be increased automatically after the first year of the lease at the rate of five percent (5%) per year for each of the next four years to the end of the lease term. For each successive lease renewal, the royalty rate, and the rate of increase per year (if any), shall be subject to redetermination by the State at the time of renewal.

The maximum royalty for the extraction of sand or other material shall not exceed twenty-five percent (25%) of the gross sales price.