

MINUTE ITEM

This Calendar Item No. 38
was approved as Minute Item
No. 38 by the State Lands
Commission by a vote of 2
to 0 at its 2/9/82
meeting.

MINUTE ITEM
38

2/9/82
WP 5678
West

DENIAL OF ENCUMBRANCE ON LEASE

During consideration of Item 38, attached, Mr. Fielding Lane, attorney for Kaiser Steel Corporation, made an appearance to ask the Commission to consent to the encumbering of lease PRC 5678.2, to satisfy an outstanding Indenture of Trust and Mortgage with the Bank of America.

Mr. Lane stated that he could not assure the Commission that any borrowed funds would be used for this specific lease.

Mr. David Ackerman, Commission-Alternate, asked if there was any precedent in allowing the encumbrance of mineral leases.

Mr. James Trout, Assistant Executive Officer, indicated encumbrances had been allowed on surface leases. Staff's concern about Kaiser Steel emanated from recent news publicity mentioning the status of Kaiser Steel. Mr. Lane could not comment on this matter.

Chairman Cory agreed with staff's recommendations to deny the request without prejudice. Chairman Cory also expressed his belief that Kaiser Steel is a viable corporation and that his decision was not intended to be a reflection of Kaiser Steel's ability to continue doing business.

Mr. Ackerman stated that his concern was over the fact that the request of Kaiser was made merely two years after the lease was negotiated. He did not feel it would be proper to consider the request at this time.

There being no further discussion and upon motion duly made and carried, the recommendations in Item 38 were approved as presented.

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CALENDAR ITEM

38

1/28/82
WP 5678
West

DENIAL OF ENCUMBRANCE ON LEASE

BACKGROUND:

On September 24, 1980, the Commission approved a Preferential Mineral Extraction Lease, PRC 5678.2, to Kaiser Steel Corporation for the extraction of iron ore from the Eagle Mountain area in Riverside County, California. The lease began on December 9, 1980, with a term of 20 years and two ten-year renewals.

Kaiser Steel has requested that the State Lands Commission consent to the encumbering of the lease to Bank of America NT&SA in order to satisfy Kaiser's obligations under an Indenture of Mortgage and Trust made to Bank of America in November, 1950.

In the past, the Commission has approved requests for encumbering leases for the purpose of allowing lessees to directly develop and improve their leasehold.

OTHER PERTINENT INFORMATION:

In the current situation, Kaiser Steel has responded to staff's request for justifications of the encumbrance by stating that the encumbrance is not for the purpose of directly or indirectly improving the leasehold. Staff was told that pledging the lease to Bank of America will not insure that any leasehold improvements or developments will be made. Kaiser has stated that they are asking for this consent as an accommodation of their obligations to the Bank of America.

The staff believes that it is not in the best interests of the State to allow an encumbrance of the lease because the State would be burdening the lease with a third-party security interest. This would impair the State's ability to release and develop

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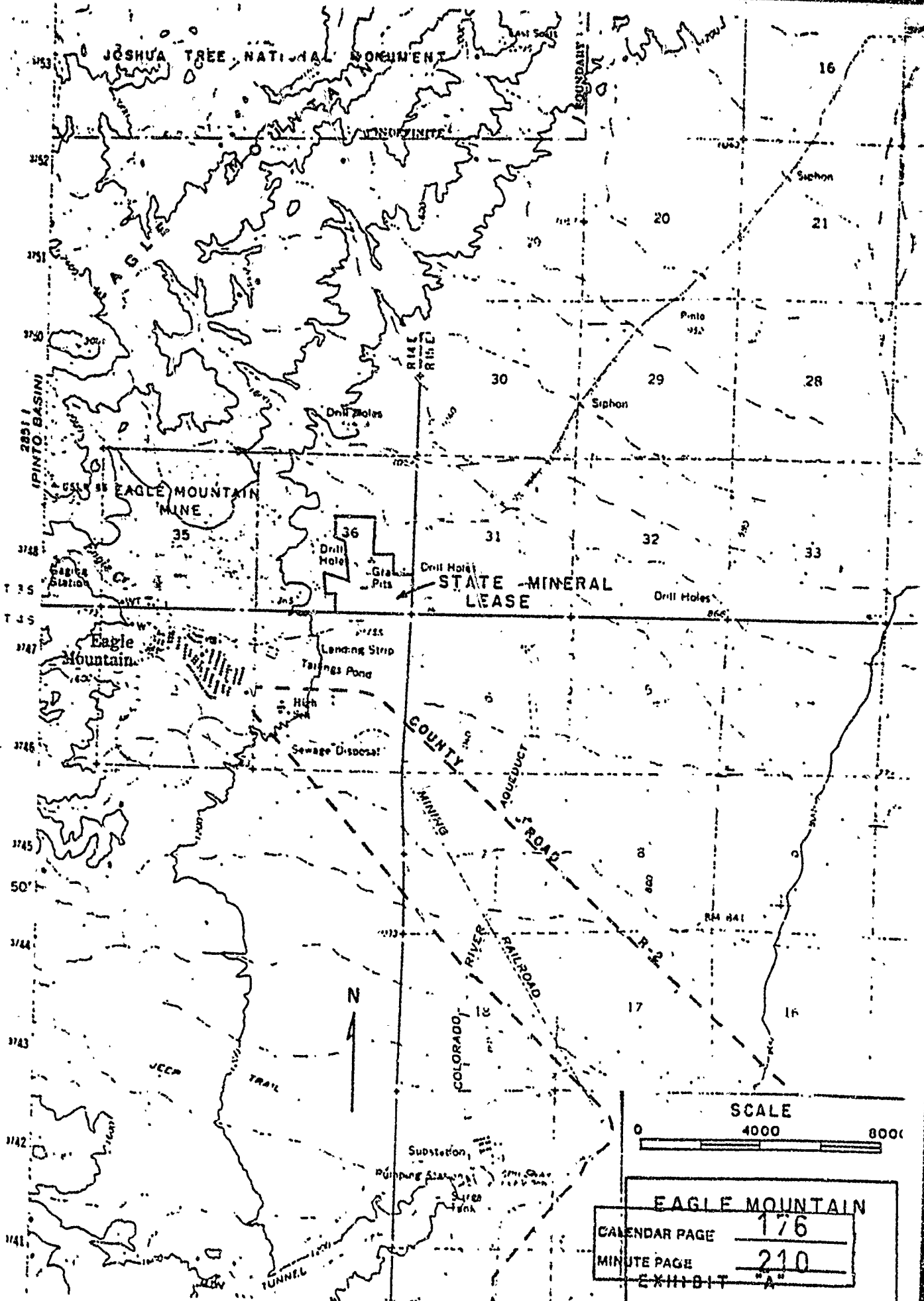
the lands if there was a default by Kaiser.
There is no corresponding benefit to the
State from this encumbrance.

AB 884: N/A.

EXHIBIT: A. Site Map.

IT IS RECOMMENDED THAT THE COMMISSION:

1. DETERMINE THAT AN ENVIRONMENTAL DOCUMENT HAS NOT BEEN PREPARED FOR THIS ACTIVITY AS SUCH REPORT IS NOT REQUIRED UNDER THE PROVISIONS OF P.R.C. SECTION 21065, AND 14 CAL. ADM. CODE SECTIONS 15037 AND 15060.
2. DENY THE REQUEST FOR CONSENT TO ENCUMBERING LEASE PRC 5678.2 BECAUSE IT WOULD BURDEN STATE LANDS WITH NO COMPENSATING BENEFITS.



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