

# Special Called Osage Minerals Council Meeting 9/29/2014

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9/30/2014

I was unable to attend this Special Called Meeting, but the audio version was posted on the MC web site shortly after the meeting was over. I have listened to it, as should each of you Shareholders, at: <http://www.osagenation-nsn.gov/who-we-are/minerals-council>. On the left, click on “meeting information.” Six of the Council were present and Joe Cheshewalla and Andrew Yates were absent today.

This meeting was called for the purpose of approving the FY2014 C 395 end of year operating budget, but other matters were discussed as well. This is the first real indication we have had of the direction this 3<sup>rd</sup> Osage Minerals Council will be leading us, so please listen to the audio closely. I will attempt here to highlight some of the issues at hand today.

## **IN MY OPINION:**

After opening, Chairman Waller announced that the purpose of the meeting was for a modification to the existing FY 2014 budget before year end. I believe the intent was to make the budget reflect where the money had been actually used and for what purpose. He said that the FY 2015 budget had already been approved at the last meeting. The 2015 budget had been developed by the budget committee and it completely eliminated the receptionist and two trust clerk positions, but as far as I know, no provision was made to replace or rename those positions. They did say that the three current employees would be welcome to reapply for the new positions, but I never did hear exactly what those new positions would be. Several possibilities were mentioned, but I never heard a decision made. It seems to me like maybe, in their haste to start making changes, they are wielding a meat axe instead of skillfully using a scalpel to trim any excess. One terrible thing that I see this causing, is eliminating an important direct service the MC has provided to the Shareholders for years, by offering us the option to have the preliminary work of information assimilation for the revocable trust documents done by the MC staff before forwarding it to the solicitor’s office for final approval. At one time, 15 or 20 of these trust applications and/or modifications were coming in each week, and it is a time consuming process. Can you even imagine how much longer it will take now for the solicitor’s office to do each trust from scratch. It already took at least 2 years to finalize a trust. Now it will surely take much, much longer.

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I'm sorry, but it just doesn't seem right to me that a 3 or 4 member budget committee should be changing major policy like this out of hand, and then thrusting it upon the Council as a part of a "hurry-up" budget approval resolution. Eliminating this direct service to the Shareholders should have first been brought before the entire Council as a stand-alone issue, and then let the entire Council deliberate for as long as necessary to make their decision on it. At that time, the Council would tell the budget committee what they wanted,---not the budget committee setting major policy like this, almost on their own. This was not a "hurry-up" issue, and the budget could have been modified at any time in the future, once the Council settled upon the proper course of action. Throughout the entire debate on this, I never did hear anyone say whether anyone had even consulted the BIA or the solicitor's office on this matter. I hope they haven't forgotten that the BIA must approve each C 395 budget or budget modification. The vote was 6 yes, 0 no, with 2 absent.

Councilman Talee Redcorn raised an issue concerning the importance of hiring a [Director of Operations] to monitor the many aspects of properly running our Mineral Estate, with particular attention focused on the steadily declining rate of production. Much discussion was held on the matter, and it was tentatively decided that this individual should be a degreed Petroleum Engineer. One Councilperson estimated that the cost would be \$90,000 per year for this position. I certainly agree that this is one of the most important things that we need, but I can almost assure you that \$90,000 won't even come close to the cost of getting a PE onboard and functioning. No one has mentioned office space, computers, software, databases, and at least one skilled data input person to support the activities. Virtually all of the historic production data being archived at Pawhuska BIA will need to be digitalized and/or put into a format acceptable to the new databases and the databases must be compatible with the new web page provided by the Nation. There will be a lot of technical issues to resolve. I believe this will require at least a \$250,000 original investment, and then probably around \$175,000 annually to pay the PE and the input person to retrieve the new data each month and upload it into the system. Once the BIA is changed over completely to their new electronic accounting systems, data retrieval should become much more efficient. BIA is estimating 2 years to implement their new systems, and I really doubt it can be done that quickly but we must get

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started now, and grow with them as they develop. We just absolutely gotta do it, that's all there is to it. Beyond the historical info, there are also digital mapping systems we can add that would be very useful to potential Producers.

I also really doubt that they will ever find a qualified PE with all the necessary skills for \$90,000. We don't need some bright young person fresh out of college who is out to become famous in the oil patch and who would be looking for the ever present higher paying opportunities available to him in the energy industry. We can't compete just based on salary alone. A good PE can make 2 to 3 hundred thousand per year. This must be an older, well settled person who has already established his or her claim to fame, and who is also well versed in computer systems and data bases, as well as being willing to relocate to Pawhuska. That person may be hard to find. Anything less, and they will need to hire yet another highly skilled person to fill the gaps. It won't be cheap---but we must have these things and we have needed them for a long time. One Councilperson today, alluded to the fact that we are becoming the laughing stock of the local energy industry. I agree. And it didn't just start yesterday.

I hope the entire Council will heed Councilman Talee Redcorn's warning, and will come together quickly to get the ball rolling. It will take 2 or 3 years to start realizing a return on the investment, and then improvement will be very subtle at first. But if we don't make the investment now, the value of our Headright interests will soon begin to decline, and that decline won't nearly so subtle. I estimate that it will wind up costing each full Headright about \$400 in the first year, and drop back to much less in the following years. It costs more than that to insure a new automobile for 6 months. The return on the investment will be 10 fold annually in a few years. Times have changed, and we must accept that fact. Our Minerals Council has been trying to operate on a 1970's budget for years, and the well is now dry. We must start spending a little money to help us make a lot of money. There is no acceptable alternative. We just can't let our precious Mineral Estate wither and die on the vine.

Ray McClain, Osage Mineral Estate Beneficiary