Reality, as I See It

http://www.Osages-You-Need-To-Know.com **October 5, 2014**

The following report was, for the most part, assembled in March of 2013, but the Council was so busy with the CFR negotiated rulemaking activities, I was unable to get anyone interested enough to listen at the time. However, I knew that it would be just a matter of time until someone would realize just how much trouble we had allowed ourselves to get into. It didn't take Councilman Talee Redcorn but a couple of months to bring the issue of hiring a Petroleum Engineer to the attention of the Council, and he has done an excellent job of presenting his case, so far. The following report, written nearly two years ago, goes a little deeper into the necessity of getting professional help on board. My report dated 2014-09-30 contains some tentative estimates of the support necessary for the PE and the associated costs of it all. Also, I said in that report that BIA approval for C 395 budgets was required. I had forgotten that the BIA Supt. had told us sometime back, that their approval was NOT required, and never really ever was. The Council had operated for years thinking that BIA approval was necessary. Sorry about the mistake.

****

The first drawdown of funds from oil and gas royalty and other revenue made available for operating expenses for the Osage Tribe was $30,000 in 1906. As far as I can tell, the Councils' total annual operating budget has never reached the maximum available, and any part of that not used each year has always been left in, or returned to, the Shareholder's account for distribution.

In 1906, the entire Tribal income from oil and gas was only $624,112.00 and it was even less than that 9 years later. The mechanics of adjusting the drawdown proposed and accepted by our wise elders was no doubt a subject of much discussion in the beginning, but the results of their vision and wisdom has served us very well for 106 years. Now it's time to look ahead again, at least into our immediate future, and prepare to keep abreast with the reality of a world that is changing much more rapidly than ever before.

The chart below shows where we have been in several previous years, and hopefully it might be a helpful indicator of where we are headed. 1906 was the beginning. 1915 was the worst year on record. 1923 was the best year ever when 2012 inflation is applied to the total (not shown, but over $158,000 p/ HR.) 2008 has been the best year in recent times. 2007 thru 2011 have been averaged for a fair comparison.

Yr	Annual HR pymt in actual dollars	Drawdown amt not adj. f/ inflation	Annual total payout not adjusted f/infla.	Drawdown amt as a % of tot. yr. payout
1906	$ 280.00	$ 30,000	$ 624,112.00	4.80%
1915	$ 170.25	$ 30,000?	$ 379,483.00	8.58%
1923	$ 11,800.00	$ 30,000?	$ 26,302,000.00	1.14%
2002	$ 7,675.00		$ 17,107,375.00	
2008	$ 40,130.00	$ 1,000,000	$ 89,489,000.00	1.11%
2012	$ 39,445.00	$ 1,000,000	$ 87,934,820.00	1.13%
previous 5 yr avg 2007 thru 2011	$ 30,404.00		$ 67,770,500.00	1.47%

The 30,000 dollars from 1906, adjusted forward for inflation, would now have a value of 815,620 in 2012 dollars(not shown). That is a 2,700% plus increase due to inflation in 106 years. Also, you will see that the 2012 head right payment in actual dollars, not adjusted for inflation, is 334% higher than our best year, also not adjusted, of 1923. Is it any wonder that at one time, we were the wealthiest group of people in the world. These are amazing statistics.

But, what's even more amazing is that we have allowed the drawdown for operation of this now $4 Billion dollar+ Mineral Estate value to dwindle to about 1.13% of the revenue collected, or about 1/4th of what it was 106 years ago. Rent, utilities, office supplies, wages, insurance, and even the occasional donut have all gone up at a rate very closely following the rate of inflation which was an astounding 2,700% from 1906 to 2012. It is still taking more and more to operate each year, and now it has taken so much more just to keep up with inflation, there is very little cushion left in the drawdown for emergencies. The last raise was in 2002, when it went to 1,000,000. The inflation rate has gone up another 27% since 2002, making it a stretch to keep within the limits.

Now look at oil prices for a moment. They have gone from probably less than $3.00 p/bbl back in the day, to well over $80 today, and it spiked at $135 at one time. Calculated using $3 and $80, that is over 2,600% for an increase in the payout base for the Shareholders. Yet we have expected our Minerals Council to manage this business with very little increase for expenses over the last 106 years. I think we could safely assume that increases were made occasionally, but those records are buried somewhere in the archives, so in the interest of time, let's work with what we have available.

This isn't going to work much longer. Really, it's not working all that well right now. Something must be done. We are nearly at the end of this long rope of hope and wishful thinking, and there's just about enough rope left for a noose. And guess who's necks will be in that noose. Yeah, the Shareholders' necks. And, if we don't all support an increase to keep up with expenses, we will be tying this noose ourselves. When we start cutting expense by letting valuable, trained, and very necessary employees get away and not being replaced, things quickly get out of control, and it eventually takes even more money to bring things back up to snuff again.

I can't speak for what was done before 2006, but it is evident that MC1 and MC2 have both pinched every penny they could have been reasonably expected to pinch, but we may have paid a terrific price for this austerity. They have allowed attrition to diminish a valuable asset called "staff." They had well trained, dedicated people there to take care of business at one time, but due to low wages and an increasingly difficult working environment where very little appreciation was shown for their efforts, they have all either left or were fired. Every last one of them! Operations director/engineer Joe Hughlett passed away in 2008 or 2009, and has never been replaced. That $70 or $80 thousand dollars each year for salary for that position was saved, and probably used for other steadily rising expenses. But now, there is no one driving our "technology train." Most of our current Councilmen are doing the best they can to compensate for this huge gap in the staff, but since the "oil boom" has been squarely upon us the last few years, geologists and engineers are being snapped up by the petroleum industry before the ink is dry on their degrees, and at well over $100,000 per year fresh out of school. Depending on experience and project history, salaries for these jobs will now pay as much as $200,000 and more, and that doesn't include the hiring bonuses and other perks, etc. that the majors pay.

Minerals Councils 1 and 2 have been extremely busy, first with just setting up a Minerals Council, then settling the HPP Trust Case, and then, dealing with the Negotiated Rulemaking Committee on the CFR's, not to mention the wind farm issue, and now, MC 3 has the Donalson lawsuit to deal with. All of this was, and still is, very important and very time consuming, and it all costs money. This is in addition to the other normal activities of running the business. On top of that, they have had to investigate complaints and respond to numerous Shareholders and producers who have had problems with the past inadequate service afforded by the BIA. This all takes a lot of time, and the money is just not there to hire enough qualified help and to expand into this highly technical world we live in today.

No politician wants to be even in the same room where this issue is being discussed, much less talk about it themselves, and when this information is published, you will see why. There will be a few screaming the loudest who will refuse to even consider this as a reality. And a few more will say “keep pinching the pennies.” One recent Osage political candidate was even suggesting that the ONG is going to get all the money. Well, that ain’t gonn’a happen either. The ONG has nothing to do with this. Any funds available for drawdown not used each year will, as always before, be left in or returned to the Shareholders’ account for distribution. It does not accumulate. It will simply be available if and when they need it. Also remember, approved budgets are always available to the public. So the checks and balances are all still in place.

The reality is that this 3rd Minerals Council is going to need to step up to the plate, and initiate proceedings to request that the US Congress amend the 1906 Act again, this time to allow an increase in the drawdown for Minerals Council operations. “How much?” you say. That will be a decision for our Minerals Council, and it will surely be made considering the advice of the Chief. This issue will certainly put THEIR vision and wisdom to the test now, as well as their political courage. But, if something isn’t done, sooner or later (and probably sooner) they will come upon a major bridge missing somewhere on the road to bringing our Minerals Council operations and the continued development of our Minerals Estate into the 21st century. They must have the resources available to replace that bridge and keep moving forward. If they can’t replace it, they can probably still get to the end of the road anyway, but they will have to walk or go by horseback, like it was done in the late 18th century. When they finally get there, they might just find this Minerals Estate sucked dry, and many barrels and many MCF’s missing and unaccounted for that we should have been paid for. Then, here will come another lawsuit that we won’t have the money to support this time, or the information and records available to support our claims just like the last time. Surely we learned something from that. We went from several billion alleged (and probably true), to 380 million provable. The Trust Team told us “if you can’t prove it, you can’t get it.” They were right! “Probably” just doesn’t work well in court, and “probably” is about all we will have if a proper in house monitoring and accounting system isn’t set up and properly maintained.

I have brought you some of the good, and some of the bad. Now we must face up to some of the ugly I was talking about. I assure you, the professional politicians won’t be much interested in this. This is reality!

Ray McClain, Osage Mineral Estate Beneficiary