

## COMMISSIONERS OF THE LAND OFFICE

### REGULAR MEETING MINUTES

THURSDAY, AUGUST 13, 2015, AT 2:00 P.M.  
GOVERNOR'S LARGE CONFERENCE ROOM  
STATE CAPITOL BUILDING – SECOND FLOOR  
OKLAHOMA CITY, OKLAHOMA

Notice was posted online with the Secretary of State on November 13, 2014. Public notice was also posted on the Commissioners of the Land Office website and at the Commissioners of the Land Office and Governor's Large Conference Room at the State Capitol Building on Tuesday, August 11, 2015, before 2:00 p.m.

#### PRESENT:

Honorable Mary Fallin, Governor and Chairman  
Honorable Todd Lamb, Lt. Governor and Vice Chair  
Honorable Gary Jones, State Auditor & Inspector and Member  
Honorable Joy Hofmeister, State Superintendent of Public Instruction and Member  
Honorable Jim Reese, President State Board of Agriculture and Member

#### Land Office STAFF PRESENT:

Harry W. Birdwell, Secretary  
Keith Kuhlman, Assistant Secretary  
Debra Sprehe, Executive Assistant  
David Shipman, Director, Minerals Management Division  
Lisa Blodgett, General Counsel  
Steve Diffe, Director, Royalty Compliance  
Ed Reyes, Director, Information Technology  
James Spurgeon, Director, Real Estate Management Division  
Jessica Willis, Director, Communications Division  
Diana Nichols, Internal Auditor  
Karen Johnson, Chief Financial Officer  
Jared Semtner, CLO Staff  
Dan Hake, CLO Staff  
Tranna Fischer, CLO Staff

#### VISITORS:

Keith Beall, Lt. Governor's Office  
Carolyn Thompson, State Dept. of Education  
Michael McNutt, Governor's Office  
Michelle Wynn, Dept. of Environmental Quality  
Rachel Franks, Dept. of Environmental Quality  
Brian Stanila, Dept. of Environmental Quality

Katrina Pollard, Dept. of Environmental Quality  
Ferrelia March, Dept. of Environmental Quality  
Kent Thompson, Dept. of Environmental Quality  
Mark Higgins, RVK  
Tony Hutchinson, Oklahoma State Regents of Higher Education

Governor Fallin called the meeting to order at 2:04 p.m., confirmed proper posting of the meeting notice, ensured the presence of a quorum, and called the roll.

Fallin: Present  
Lamb: Present  
Jones: Present  
Hofmeister: Present  
Reese: Present

## 1. Request Approval of Minutes for Regular Meeting held June 11, 2015

- a. *Presented by Harry W. Birdwell, Secretary*
- b. *Discussion*
- c. *Commission action in which the Board may approve, disapprove or table the matter and/or direct staff to take further action*

This agenda item was presented by Secretary Harry Birdwell. A MOTION was made by Lt. Governor Lamb and seconded by Commissioner Hofmeister to approve the minutes of the June 11, 2015, meeting.

Fallin: Aye  
Lamb: Aye  
Jones: Aye  
Hofmeister: Aye Motion Carried  
Reese: Aye

## 2. Secretary's Comments

- a. Distributions to Beneficiaries for Month of July

Secretary Birdwell reported that July 2015 distributions were strong. Total distributions for the month were \$17.4 million which exceeded July 2014 distributions by \$1 million. Common Education was essentially the same as July 2014. Higher Education beneficiaries received \$1.25 million more than July 2014.

b. Comparative Report on Final Distributions to Beneficiaries for FY2015

The CLO finished the year with the second highest total distribution in history (\$238.9 million). Additionally the five-year rolling average fund was increased to \$10 million giving a cushion to FY2016 in the event it is a bad revenue year.

c. Compare and Contrast 10 Years of Distributions

10 Year CLO Distributions to Public Education

<b>YEAR</b>	<b>COMMON SCHOOLS</b>	<b>HIGHER EDUCATION</b>	<b>TOTAL</b>
FY 2006	\$ 39,020,189	\$14,572,327	\$ 53,592,516
FY 2007	\$ 44,266,172	\$16,427,114	\$ 60,693,286
FY 2008	\$ 53,282,727	\$20,210,299	\$ 73,493,024
FY 2009	\$ 60,341,452	\$22,313,150	\$ 82,654,602
FY 2010	\$ 83,212,998	\$31,160,557	\$114,373,555
Total 5 year	\$280,123,538	\$104,683,447	\$384,806,983
FY 2011	\$ 93,159,520	\$31,009,615	\$124,169,135
FY 2012	\$102,144,986	\$38,464,448	\$140,609,434
FY 2013	\$ 93,000,000	\$35,753,058	\$128,753,406
FY 2014	\$ 93,626,721	\$32,756,058	\$126,382,779
FY 2015	\$ 97,500,001	\$31,464,149	\$128,964,150
Total 5 year	\$479,431,227	\$169,447,328	\$648,878,904

Our investment advisor, RVK, prepares an annual projection of the earnings from the investment portfolio. Five years ago, the expectation was \$70 million. Because of the permanent trust fund growth and the changes in the investment portfolio we expect \$92.2 million from investment earnings in FY2016.

d. July Mineral Lease Bonus

Secretary Birdwell reported that the revenue from the 61 tracts leased at the July mineral sale was \$1.68 million and the average price per acre was \$470. The September auction has 131 tracts for lease which is much larger than the previous auction.

e. Office Move

In late June we moved to newly acquired office space. The CLO address is now 900 City Place. Since CLO now owns the space it occupies, the rent the agency pays will be distributable income that will be sent as beneficiary distribution each month.

f. National Organization Summer Meeting Highlights

The Western States Land Commissioners Association (WSLCA) of which the Land Office is a member state met in Utah with our counterparts in July. We discussed several issues at length including:

- Impact of endangered species rulings by the Federal EPA;
- Concern over rulemaking related to “Waters of the United States” and the impact on state owned and managed lands;
- Keith Kuhlman completed lengthy service as Treasurer of the organization; and
- Secretary Birdwell was chosen as Vice President and President Elect

g. New CLO Website

Secretary Birdwell reported during the past year the Land Office has been redesigning its website. The new website went “live” in late June making more information available to the public than ever before. Soon GIS improvements will be added which will revolutionize public access to the Land Office mineral and land records.

Both of those new systems (website and GIS capability) will be demonstrated to the Commissioners at the September meeting.

h. FY2015 Agency Highlights

The Secretary provided the agency’s highlights for FY2015 using the attached PowerPoint.

**3. Cooperative Restoration of Shawnee Gun Club with Oklahoma Department of Environmental Quality**

Report on cooperative clean-up and restoration of the former site of the Shawnee Gun Club, and introduction and recognition of the Oklahoma Department of Environmental (DEQ) employees.

- a. Presented by Harry W. Birdwell, Secretary*
- b. Discussion*

Secretary Birdwell applauded the cooperative effort between the Oklahoma Department of Environmental Quality (DEQ) and the Land Office in cleaning up the environmentally sensitive site of the Shawnee Gun Club which had formerly been located on Land Office property.

The Land Office inherited a long standing gun range located on CLO land near Shawnee Twin Lakes. This is Shawnee's water supply and encroaching into a growing population area. The Land Office was concerned about the long term implications of the water quality and public safety.

The DEQ Brownfield Program works to ensure the safe redevelopment of contaminated properties. It provides technical assistance, property assessments, and clean-up funding. It also operates a voluntary cleanup program that provides liability relief from state and federal liability upon successful completion.

The Site Cleanup Assistance Program (SCAP) helps state agencies and local governments resolve environmental issues that might prevent reuse of public property. It has successfully cleaned up fifty former National Guard Armories across the state, so the properties can be safely used by the local communities.

Both programs benefit local economies by removing environmental contamination that often delays economic development. DEQ stepped in with funding and expertise to resolve these issues. Approximately 2 acres were restored; more than 600 old tires removed; and 1100 tons of potentially hazardous soil removed and disposed.

Secretary Birdwell thanked DEQ and introduce Scott Thompson, Director of the Oklahoma Department of Environmental Quality, for comments and introduction of his staff who have worked on this clean-up project.

#### **4. Consideration and Possible Action to Approve an Internal Audit Committee Member**

The internal audit committee approved by the Commission in May 2012 was set up to consist of no less than three members. Dr. Steve Whitworth with Oklahoma State University resigned his position on the committee effective May 2015 resulting in a vacant position.

Tony Hutchison, Vice Chancellor for Strategic Planning, Analysis, Workforce and Economic Development, with the Oklahoma State Regents for Higher Education is being suggested as the prospective third member of the internal audit committee. In addition to his current position, Mr. Hutchison has served in senior level positions within Oklahoma state government including the Office of State Finance and the Oklahoma Legislature.

*Recommendation: The Secretary recommends approval of the appointment of Tony Hutchison to serve as the third member of the internal audit committee.*

- a. *Presented by Harry Birdwell, Secretary*
- b. *Discussion*

- c. *Commissioners action in which the Board may approve, disapprove or table the matter and/or direct staff to take further action.*

This agenda item was presented by Secretary Harry Birdwell. A MOTION was made by Lt. Governor Lamb and seconded by Commissioner Hofmeister to approve the appointment of Tony Hutchison to serve as the third member of the internal audit committee.

Fallin:	Aye	
Lamb	Aye	
Jones:	Aye	
Hofmeister:	Aye	Motion Carried
Reese:	Aye	

**5. Presentation of June 30, 2015 Quarterly Investment Performance Report by RVK (informational only)**

- a. *Presented by Mark Higgins, RVK*  
b. *Discussion*

The Land Office portfolio generated an additional \$7.6 million of income for distribution to beneficiaries while taking less risk than other large institutional investors. The annual income in the trailing 12 months exceeded the 7-year average by approximately \$7.5 million. The Land Office has outperformed its target allocation index by 0.55% per year over the last 10 years. Over the next several months, the Committee will evaluate the U.S. equity portfolio and weigh the merits of potential shifts and the potential replacement of one manager. There are two underperforming funds that are attracting greater scrutiny at this moment and the Committee is considering a change over the next few months.

**6. Consideration and Possible Action to Approve an Interagency Agreement Between the Department of Agriculture, Food & Forestry and the Land Office**

Request approval for the Secretary to enter into an Interagency Agreement with the Department of Agriculture, Food & Forestry to set and supervise prescribed burns on Land Office property.

*Recommendation: The Director of Real Estate Management Recommends approval of the Interagency Agreement.*

- a. *Presented by James Spurgeon, Real Estate Management Director*  
b. *Discussion*  
c. *Commissioners action in which the Board may approve, disapprove or table the matter and/or direct staff to take further action.*

This agenda item was presented by James Spurgeon, Real Estate Management Director. A MOTION was made by Lt. Governor Lamb and seconded by Commissioner Hofmeister to approve interagency agreement between the Department of Agriculture and the Land Office to set and supervise prescribed burns on Land Office property.

Fallin: Aye  
 Lamb: Aye  
 Jones: Aye  
 Hofmeister: Aye Motion Carried  
 Reese: Aye

**7. Amendment to Fifty-Five (55) Year Unsubordinated Commercial Ground Lease No. 106367; Contract No. 6839**

Lease No.	Legal Description	Annual Rent	Lessee
106367 - Comanche County	NE/C NE/4 Sec. 36-04N-11WIM containing 0.92 acres more or less	\$4,900.00	Warren & Warren Realty

Lessee recently completed a new survey of the property which shows an as built size of .92 acres. As a result the lease contract legal description and rental needs to be amended. Rental will escalate per the term of the second amendment.

*Recommendation: The Director of the Real Estate Management Division recommends approval of the Fifty-Five (55) Year Unsubordinated Commercial Ground Lease No. 106367; Contract No. 6839.*

- a. *Presented by James Spurgeon, Real Estate Director*
- b. *Discussion*
- c. *Commission action in which the Board may approve, disapprove or table the matter and/or direct staff to take further action*

This agenda item was presented by James Spurgeon, Real Estate Management Director. A MOTION was made by Commissioner Reese and seconded by Commissioner Jones to approve the amendment to the fifty-five (55) year unsubordinated commercial ground lease No. 106367; Contract No. 6839.

Fallin: Aye  
 Lamb: Aye  
 Jones: Aye Motion Carried  
 Hofmeister: Aye  
 Reese: Aye

## 8. Soil Conservation Project

Lease No.	Location	Practice	Cost to CLO	Lessee
101177 – Grady County	NE/4 Sec. 16-8N-8WIM	Repair dike along creek	\$28,350.00	Terry McCool

*Recommendation: The Director of the Real Estate Management Division recommends approval of the soil conservation project.*

- a. Presented by James Spurgeon, Real Estate Director
- b. Discussion
- c. Commission action in which the Board may approve, disapprove or direct staff to take further action

This agenda item was presented by James Spurgeon, Real Estate Management Director. A MOTION was made by Commissioner Reese and seconded by Commissioner Jones to approve soil conservation project as presented.

Fallin: Aye  
Lamb: Aye  
Jones: Aye Motion Carried  
Hofmeister: Aye  
Reese: Aye

## 9. Consent Agenda – Request Approval of May and June 2015 Agency Monthly Division Summary of Activities

*The Agenda items presented on the Consent Agenda are considered as one item for voting purposes. The Consent Agenda includes items that are statutorily or constitutionally required to be performed by the Commissioners of the Land Office or are administrative in nature, which are done as a routine action by the Commissioners of the Land Office. If any member of the Commission or any member of the public requests a particular item or items to be considered individually, the matter or matters shall be considered individually.*

- a. Presented by Harry W. Birdwell, Secretary
- b. Discussion
- c. Commission action in which the Board may approve, disapprove or table the matter and/or direct staff to take further action

*Accounting Division*

1. May 2015
  - a. Claims Paid (routine)
  - b. Expenditure Comparison
2. June 2015
  - a. Claims Paid (routine)
  - b. Expenditure Comparison

*Minerals Management Division*

1. May 2015
  - a. 5/13/2015 Oil and Gas Lease Tabulation
  - b. Assignments of Oil and Gas Leases
  - c. Division Orders
2. June 2015
  - a. 5/13/2015 Award of Oil and Gas Leases
  - b. Tracts Offered for Lease on 7/8/2015
  - c. Assignments of Oil and Gas Leases
  - d. Division Orders

*Real Estate Management Division*

1. May 2015
  - a. 20 Year Easements
  - b. Short Term Commercial Lease Assignments
  - c. Short-Term Commercial Lease Renewals
  - d. Easement Assignments
  - e. Soil Conservation Projects
  - f. 6/18/15 Sealed Bid Lease Auction Results
2. June 2015
  - a. Surface Lease Assignments
  - b. 20 Year Easements
  - c. New Short Term Commercial Leases
  - d. Soil Conservation Projects
  - e. Patent Issued

This agenda item was presented by Secretary Harry Birdwell. A MOTION was made by Lt. Governor Lamb and seconded by Commissioner Reese to approve the consent agenda as presented.

Fallin: Aye  
Lamb: Aye  
Jones: Aye  
Hofmeister: Aye  
Reese: Aye Motion Carried

## 10. Financial Information Regarding Investments and Monthly Distributions (informational purposes only)

### *Investments*

- a. Market Value Comparison July 2015

### *Accounting*

- a. May and June 2015 Distribution by District and Month

## 11. Executive Session

- A. Executive Session may be convened to discuss, evaluate, and take possible action pursuant to 25 O.S. § 307(B)(4) allowing confidential communications between the Commission and its attorney concerning pending investigations, claims, or actions on recommendation that disclosure will seriously impair the ability of the Commission to process them in the public interest regarding the following matters:

*CLO v. Pointe Vista Development, CJ-2014-152 & Olympia Oil v. CLO, CJ-2015-1563*

- a. *Recommendation of Lisa Blodgett, General Counsel*
- b. *Motion and Vote to Convene Executive Session*
- c. *Executive Session*
- d. *Motion and Vote to Return to Regular Session*

This agenda item was presented by Lisa Blodgett, General Counsel who recommends an executive session be convened.

A MOTION was made by Commissioner Jones and seconded by Lt. Governor Lamb to adjourn to an executive session at 2:40 p.m.

Fallin:	Aye	
Lamb	Aye	Motion Carried
Jones:	Aye	
Hofmeister:	Aye	
Reese:	Aye	

Note: Recording stopped

A MOTION was made by Commissioner Hofmeister and seconded by Lt. Governor Lamb to return to the regular session at 3:12 p.m.

Fallin:	Aye	
Lamb	Aye	Motion Carried
Jones:	Aye	
Hofmeister:	Aye	
Reese:	Aye	

Note: Recording started

## 12. Proposed Action on Executive Session Items

The Commission may further consider and take action in open session related to executive session agenda items.

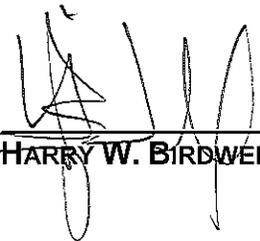
- a. *Commission action in which the Board may approve, disapprove or table the matter and/or direct staff to take further action*

No action was taken by the Commissioners.

## 13. New Business

The Commission may discuss, consider and take possible action regarding new business that could not have been reasonably anticipated or was unknown prior to the regular meeting.

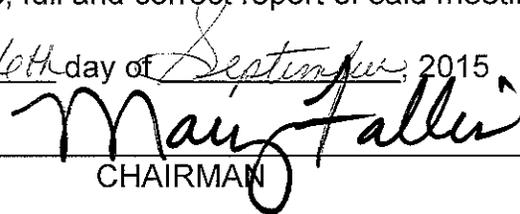
No new business was presented.

  
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HARRY W. BIRDWELL, SECRETARY

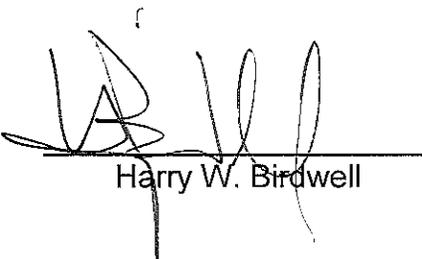
The meeting was adjourned at 3:13 p.m.

I HEREBY CERTIFY that the foregoing is a true, full and correct report of said meeting.

WITNESS my hand and official signature this 16th day of September, 2015

  
\_\_\_\_\_  
CHAIRMAN



  
\_\_\_\_\_  
Harry W. Birdwell