

CITY COUNCIL CONFERENCE MINUTES

October 22, 2013

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a conference at 5:30 p.m. in the Municipal Building Conference Room on the 22nd day of October, 2013, and notice and agenda of the meeting were posted at the Municipal Building at 201 West Gray, and the Norman Public Library at 225 North Webster 48 hours prior to the beginning of the meeting.

PRESENT:

Councilmembers Castleberry,
Heiple, Holman, Jungman,
Kovach, Miller, Williams, and
Mayor Pro Tem Griffith

ABSENT:

Mayor Rosenthal

Item 1, being:

CHANGE ORDER NO. ONE TO CONTRACT NO. K-1213-195 WITH DOWNEY CONTRACTING, L.L.C., INCREASING THE CONTRACT AMOUNT BY \$80,966.19 FOR A REVISED CONTRACT AMOUNT OF \$1,405,992.16 FOR THE REHABILITATION OF THE POLICE/FIRE INVESTIGATIONS FACILITY LOCATED AT 1507 WEST LINDSEY STREET.

Ms. Linda Price, Revitalization Manager, said the Joe A. Smalley Army Reserve Center acquisition began a little over seven years ago through the Base Realignment and Closure (BRAC) process from the federal government and the deed was transferred to the City of Norman in September 2012. The building will house the police and fire investigation offices. On July 9, 2013, City Council approved Contract No. K-1213-195 with Downey Contracting, L.L.C., in the amount of \$1,325,500 for the renovation of the Joe A. Smalley Army Reserve Center now known as the Norman Investigations Center. She said during construction the necessary opening of walls and ceilings revealed unanticipated situations and discussions regarding security issues led to a variety of changes needed in the project plans. Change Order No. One will cover the additional costs for rekeying all existing locks; removing paper backed insulation; revising layout and millwork for copy/conference room; removing kitchen hood and grilles; additional hardware; power upgrades for IT room; additional power above security doors; installation of fume hood for crime lab; additional power to doors with wall box; additional costs for hardware; extending fire line work beyond plans; and installing a small bridge over a ditch at the west entry door.

Councilmember Williams asked about the differences between hardware additions and additional costs for hardware and Ms. Price said there is no difference, the quotes were acquired several weeks apart for different items and that is why she listed them separately in the change order. Councilmember Williams asked who provided the initial estimate of costs for the project and Ms. Price said the architect, but the changes that have occurred are due to changes the City has made not the architect.

Councilmember Castleberry asked if door locks will be electronic or if keys will actually be used and Ms. Price said keys will be used for most of the internal doors. Major J.D. Younger, Norman Police Department, said there will be keycard access to the entry and exit doors of the building, but many of the interior offices will have a physical key lock. Ms. Price said electronic locks are expensive and

Item 1, continued:

cost \$1,000 per door. Ms. Joy Hampton, *The Norman Transcript*, asked if the electronic entry and exit doors would also have key backup capability if the building lost power. Mr. Stan Lewis, Architects in Partnership (AIP), said there is a backup generator, but manual keys can be used on the entry and exit doors as well as keycards.

Ms. Price said Change Order No. One also adds fourteen days to the contract for a substantial project completion date of December 21, 2013.

Items submitted for the record

1. Text File No. K-1213-195, Change Order No. One
2. Change Order No. One to Contract No. K-1213-195
3. PowerPoint presentation entitled, "City of Norman Investigations Center"

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Item 2, being:

DISCUSSION REGARDING A PROPOSED OIL AND GAS LEASE WITH BARON EXPLORATION COMPANY FOR PROPERTY LOCATED SOUTH OF HIGHWAY 9 AND EAST OF JENKINS AVENUE.

Ms. Leah Messner, Assistant City Attorney, said the City of Norman owns 340 acres, with mineral rights, located south of Highway 9 and east of Jenkins Avenue. Currently, the City leases a portion of the property for a sand mining operation and uses a portion for the City's Compost Facility. In July 2006, the City leased the property to Hughes Oil Company for an oil and gas well for a three year term and 3/16th royalties; however, Hughes never drilled a well and the lease expired. After the lease expired with Hughes, City Staff began to take steps to determine if there was any interest to lease the same site for oil and gas purposes with another company. The City advertised proposals in *The Norman Transcript* on October 5 and 12, 2013. Bid documents were prepared with assistance from the Oklahoma City law firm of Elias, Books, Brown, and Nelson who specialize in oil and gas law.

The City received one proposal from Baron Exploration Company (Baron). Ms. Messner said Baron is a well-established Oklahoma based oil and gas operator that is entirely debt free, self-financed, and family owned. Baron drilled their first well in 1958 on North Pennsylvania Avenue in Oklahoma City and has drilled more than 75 wells in the greater Oklahoma City metro area with the vast majority being directional or horizontal wells. Baron has an unsurpassed record of successfully drilling and operating wells in municipalities, including on airports, church properties, college and public school campuses, as well as private land and municipal lands. Baron has earned and maintains its highly regarded standing with all governmental regulatory bodies, including Oklahoma City, Bethany, and Edmond.

Ms. Messner highlighted the terms of the lease that includes 160 acres of mineral rights; primary three year term with first year drilling obligation (if no well is drilled within first year the lease will terminate); continuation of lease as long as well is producing; 3/16th royalty payment on oil and gas production; bonus payment of \$100/acre (total one-time payment of \$16,000); and surface damages payment of \$300 per month over term of lease.

Item 2, continued:

Ms. Messner said the City would be granting an exclusive drilling and production site to Baron including the right to lay a natural gas pipeline on City property to pipe gas from the well site. The City will be able to specify how Baron will access the well site and Baron must comply with all state and City laws. Baron will have to apply for and receive a drilling permit. Since the location is in a floodplain, Baron has already obtained a floodplain permit from the City of Norman Floodplain Permit Committee.

Ms. Messner said the lease agreement is scheduled for Council's review on their November 12, 2013, agenda.

Councilmember Kovach asked if there will be restrictions on the type of drilling they are allowed to do such as hydraulic fracturing (fracking) and Ms. Messner said that is not addressed in the lease, but Staff will ask that question.

Mayor Pro Tem Griffith asked if there is a particular reason only 160 acres of the 340 acres is being leased for oil and gas production and Ms. Robin Weins Campbell, attorney with Elias, Books, Brown, and Nelson, said Baron looked at the site and made a guess as to where the oil may be and are only interested in the 160 acres. Mayor Pro Tem Griffith asked if Baron has an option to lease additional acres if they choose to and Ms. Messner said the lease does not include that option.

Councilmember Castleberry asked what a typical lease bonus would be and Ms. Campbell said it varies dependent upon location. She has had no experience in Cleveland County, but has done a lot of leases in McClain County and they do not put bonus information in their leases. She said the lease with Baron seems to be pretty standard and since Baron bid on the rights they probably put their best fair market value in the bid not knowing whether or not they would be the lowest and best bid. She did not see anything unfair in the lease agreement.

Mr. Jeff Bryant, City Attorney, said Staff discussed taking a lower bonus payment or reducing the amount of surface damage with the possibility of getting a higher royalty percentage, but the interplay with that is it is a gamble. If Baron drills a well and there is no oil then the City gets nothing so with the surface damage payment and the bonus payment the City is guaranteed at least some payment.

Councilmember Castleberry asked if the City has done any seismic work to see how much oil is in the ground and Mr. Bryant said Baron will do that. Councilmember Castleberry felt the bonus payment was low. Mayor Pro Tem Griffith said at the end of the three year lease if the well is successful is it possible to renegotiate and Ms. Campbell said no. Ms. Campbell said cities being statutorily pooled at the Corporation Commission that want one-fourth or one-fifth in royalties usually do not get a bonus payment. Councilmember Castleberry said since the City owns the 160 acres being proposed for leasing the City will not be pooled. Ms. Campbell said she is just trying to explain that the property owner would have to make their case to the Corporation Commission. Mr. Bryant said the City has the advantage of owning the 160 acres, but if there were a situation where the City was pooled, the Corporation Commission would set the rates and terms they believe are fair. Councilmember Castleberry asked if the City currently has oil and gas wells within the city limits. Ms. Linda Price, Revitalization Manager, said there are a couple of wells on the east side and a couple on the west side and the ones on the east side have been producing.

Item 2, continued:

Councilmember Miller said she loves enterprises that benefit the other; however, she cannot tell by the map how close the well would be to the river, but she does know there are oil wells near the river. She asked what the City would do to ensure there will be no environmental problems with the water source from the well and Mr. Bryant said the City's oil and gas ordinance requires insurance and bonding with any company that drills anywhere within the City. Ms. Messner said the well would be approximately one half mile from the river.

Councilmember Kovach asked if Staff had reviewed future plans of the south wastewater plant in regards to reclaimed water to make sure there will be no problems with an oil pipeline in the area and Mr. Ken Komiske, Director of Utilities, said yes.

Councilmember Holman asked who would be responsible for the security of the oil well site and Mr. Bryant said the drilling operator will be responsible, which is also dictated by the City's oil and gas ordinance. Councilmember Holman asked if there would be a fence around the perimeter and Ms. Messner said a fence would only be required if the well is within 600 feet of a residence, but the nearest residence is over 2,000 feet away. She said the ordinance gives the oil and gas inspector the discretion to require a fence if he feels a fence is needed. Councilmember Heiple said a lot of homeless people near the river in that area so a fence should definitely be required.

Councilmember Jungman asked the typical water supply needs of a drilling operation and Mr. David Woods, Oil and Gas Inspector, said the drilling contractor obtains a meter from the City of Norman, but generally a lot of water is not used. He said the drilling contractors also do a good job of reclaiming and reusing mud. Councilmember Jungman asked Mr. Woods if he is assuming the drilling company will not be doing a lot of fracking when answering that question and Mr. Woods said he is assuming they are not. Councilmember Jungman asked if a lot of water is needed when fracking wells and Mr. Woods said yes. Councilmember Kovach asked Staff to find out if Baron is planning on fracking and, if so, can they use non-potable water.

Councilmember Kovach asked if Staff has any revenue projections on the high and low sides and Mr. Bryant said no, because oil drilling is very unpredictable and sometimes wells produce for a very long time and other times they produce for a short time. Councilmember Castleberry said with the technology available today there are very few dry holes. He said most companies know if there is oil there before drilling.

Mayor Pro Tem Griffith asked if there is consensus to move forward with a lease and Mr. Steve Lewis, City Manager, said he would like get answers to some of the questions asked by Council and bring the item back for another informal session.

Mayor Pro Tem Griffith said he would like more information on the possibility of obtaining a higher bonus and some assurances from Baron that if fracking is involved, a non-potable water source could be used.

Ms. Joy Hampton, *The Norman Transcript*, asked why the City waited so long to let a bid when the lease with Hughes Oil Company expired in 2009. Mr. Woods said when the lease with Hughes was awarded in 2006, a representative from the United States Geological Survey Department (USGS) came forward and claimed USGS had an open ended lease for the 160 acres to study and monitor water flow as research for several universities throughout the United States including the University of Oklahoma. USGS stated an extended lease with Hughes would impact their research. In an effort

Item 2, continued:

to settle the issue, Council granted USGS the right to continue their studies by extending the Hughes lease an additional a three years for a total of six years. That agreement expired in early 2013, and at that time, Mr. Woods began to take steps to determine if there was any interest among oil and gas companies to lease the same area for a well.

Items submitted for the record

1. Memorandum dated October 17, 2013, from Leah Messner, Assistant City Attorney, through Jeff Bryant, City Attorney, to Mayor and City Councilmembers
2. Location map
3. PowerPoint presentation entitled, "Proposed Oil and Gas Lease with Baron Exploration Company," City Council Conference, October 22, 2013

The meeting adjourned at 6:05 p.m.

ATTEST:

City Clerk

Mayor