

Thursday, June 16, 2011
9:00 a.m.
Iron Range Resources & Rehabilitation Board
Eveleth, Minnesota

1) Roll Call

Representative Tom Rukavina, Chair, called the meeting to order at approximately 9:02 a.m. Present: Representative Tom Anzelc, Representative David Dill, Representative Carolyn McElfatrick, Representative Carly Melin, Senator John Carlson, Senator Paul Gazelka, Senator David Tomassoni, Mr. Joe Begich, Mr. David Chura. Minute Taker: Laureen Hall, Executive Assistant. Also present: Tony Sertich, Commissioner; Doug Gregor, Assistant Attorney General; Matt Sjoberg, Development Strategies Director; Dave Hart, Loan Officer Sr., Al Becicka, Loan Officer; Brian Hiti, Community Development Director; Jean Dolensek, Chief Financial Officer, Roy Smith, Workforce Development Coordinator; Sheryl Kochevar, Communications and Marketing Coordinator; Janette Paul, Executive Assistant; John Tourville, City Operations Director, City of Virginia; Vance Fiegel, President & CEO, Embro Corporation; Mike White, Vice President of Operations, Occupational Development Center, Inc.; Ken Smith, Plant Controller, Sure-Fab LLC, Danica Salisbury, Vice President Finance, Arrowhead Promotion & Fulfillment Company, Inc.

2) Approval of the April 15, 2011, Minutes

Action required: Approval requires 7 votes

Mr. David Chura move approval of the April 15, 2011, minutes. Motion carried.

Voting in Favor of the Motion: Representative Tom Anzelc, Representative David Dill, Representative Carolyn McElfatrick, Representative Carly Melin, Representative Tom Rukavina, Senator John Carlson, Senator Paul Gazelka, Senator David Tomassoni, Mr. Joe Begich, Mr. David Chura

Voting Against the Motion: None

Abstain: None

Excused: Senator Tom Bakk, Senator Tom Saxhaug, Mr. Jack Ryan

3) Taconite Area Environmental Protection Fund

Action required: Approval requires 7 votes

a) City of Two Harbors – Resolution No. 11-036

Motion by Representative David Dill to approve the City of Two Harbors project, as presented in Resolution No. 11-036, in an amount not to exceed \$300,000. Seconded by Mr. Joe Begich. Motion carried.

Voting in Favor of the Motion: Representative Tom Anzelc, Representative David Dill, Representative Carolyn McElfatrick, Representative Carly Melin, Representative Tom Rukavina, Senator John Carlson, Senator Paul Gazelka, Senator David Tomassoni, Mr. Joe Begich, Mr. David Chura

Voting Against the Motion: None

Abstain: None

Excused: Senator Tom Bakk, Senator Tom Saxhaug, Mr. Jack Ryan

City of Two Harbors



Iron Range Resources
P.O. Box 441
4261 Highway 53 South
Eveleth, Minnesota 55734-0441
(218) 735-3000 • 800-765-5043
Fax: (218)735-3047

To: Iron Range Resources and Rehabilitation Board

From: Tony Sertich
Commissioner

Date: June 10, 2011

Re: \$300,000 GRANT TO THE CITY OF TWO HARBORS

The City of Two Harbors is requesting a \$300,000 grant to extend and improve CSAH 26 where it crosses Highway 61. IRRRB and other funding will be used for property acquisition, a new access road, elimination of uncontrolled access areas and upgrades and extensions of water and sewer. These improvements will facilitate Northshore Manufacturing's expansion and benefit several other businesses in the area.

The project also includes new signal lights and turning lanes on Highway 61, which will help alleviate traffic congestion, improve safety, and accommodate new growth. This is especially important due to the tourist traffic handled by Highway 61, which reaches 20,000 vehicles per day during peak season.

Other Funders

Two Harbors has secured \$840,000 from MNDOT and \$162,400 from the Department of Employment and Economic Development (DEED) under DEED's Transportation Economic Development (TED) Grant program. (Two Harbors is the only city in northeastern Minnesota which was awarded funds under this program this year.)

Matching funds must be secured by June 30, 2011, which is the primary reason the City is seeking funds before the agency officially opens its 2011 Public Works grants cycle.

Background

Northshore Manufacturing, which manufactures custom, knuckle-boom material handlers and attachments for use in the waste reduction and recycling industries, was founded in 1989. The company currently employs 75 people and plans to increase its complement to

125 in the next five years. Annual wages average more than \$50,000 per position. Completion of this project will help the business streamline its shipping and receiving, as well as benefit several other businesses, including professional offices that will be relocated to the old Sonju building, Country Inn Suites, McDonald's and the Lake County Recycling Center.

<u>USES</u>	<u>SOURCES</u>		
Access Road	\$780,000	IRRRB 2011	\$300,000
Infrastructure	210,000	City/Assessments	287,600
Traffic Signal Modification	130,000	DEED grant	162,400
Property Acquisition	400,000	MN DOT grant	840,000
A&E	170,000	Lake County	100,000
TOTAL	\$1,690,000	TOTAL	\$1,690,000

Funding Authorization

This project is authorized under the provisions of the Taconite Area Environmental Protection Fund, as codified under Minnesota Statutes, Section 298.223, by supporting local economic development and public works projects located within the Taconite Assistance Area defined in Section 273.1341.

**IRON RANGE RESOURCES AND REHABILITATION BOARD
OF THE STATE OF MINNESOTA
TACONITE AREA ENVIRONMENTAL PROTECTION FUND
CITY OF TWO HARBORS PUBLIC WORKS PROJECT APPROVAL**

Resolution No.: 11-036

WHEREAS, the Commissioner is authorized to expend, upon approval of seven members of the members of the Board, the Taconite Area Environmental Protection Fund monies made available under Minnesota Statutes Section 298.223 (“**TEPF Funds**”) to promote the economic development of the Taconite Assistance Area designated in Minnesota Statutes Section 273.1341 (“**TAA**”), by investing in local economic development projects within the TAA; and

WHEREAS, the agency’s approved FY 2011 Budget includes the allocation of \$8,000,000 of TEPF Funds for Business development Projects (“**TEPF Business Development Funds**”); and

WHEREAS, the Commissioner has received proposals for the expenditure of up to \$300,000 of such TEPF Business Development Funds for that certain community and economic development project for the TAA City of Two Harbors that is more specifically described in Exhibit A, which is attached hereto and incorporated by reference (“**Proposed Two Harbors Project**”); and

WHEREAS, the Board met in open session at 9:00 a.m. on June 16, 2011, in the Board Room at the Joe Begich Building located near Eveleth, Minnesota, to consider, among other matters, the Proposed Two Harbors Project and has determined that the expenditure

of up to \$300,000 of TEPF Funds for the Proposed Two Harbors Project would be in the public interest and promote economic development within the TAA; and

NOW, THEREFORE, IT IS RESOLVED, that the Board hereby approves the expenditure of up to \$300,000 of FY11 TEPF Business Development Funds to provide grants for the Proposed Two Harbors Project for the purposes set forth in Exhibit A.

BE IT FURTHER RESOLVED that the Board’s approval for the expenditure of TEPF Funds for the Proposed Two Harbors Project is contingent upon the agency, in its grant contract, requiring such grantee entity to commit to the payment of prevailing wages for the funded project as indicated in, and to the extent required in, the Board’s Resolution 96-005.

BE IT FURTHER RESOLVED that the Board’s approval for the expenditure of TEPF Funds for the Proposed Two Harbors Project is further contingent upon all such project financing being in place before the agency’s funds are released.

PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 16th DAY OF JUNE 2011.

Member	Aye	Nay	Abstain	Excused
Senator Tom Bakk				X
Senator John Carlson	X			
Senator Paul Gazelka	X			
Senator Tom Saxhaug				X
Senator Dave Tomassoni	X			
Representative Tom Anzelc	X			
Representative Dave Dill	X			
Representative Carolyn McElpatrick	X			
Representative Carly Melin	X			
Representative Tom Rukavina	X			
Citizen Joe Begich	X			
Citizen David Chura	X			
Citizen Jack Ryan				X
TOTAL	10	0	0	3

Signed: _____
Tom Rukavina, Chair

EXHIBIT A

PUBLIC WORKS GRANT FY11 - June

City of Two Harbors

Grant amount: \$300,000

The City of Two Harbors is requesting a \$300,000 grant to extend and improve CSAH 26 where it crosses Highway 61. IRRRB and other funding will be used for property acquisition, a new access road, elimination of uncontrolled access areas and upgrades and extensions of water and sewer. These improvements will facilitate Northshore

Manufacturing's expansion and benefit several other businesses in the area. The project also includes new signal lights and turning lanes on Highway 61, which will help alleviate traffic congestion, improve safety, and accommodate new growth. The project is anticipated to create 11 FTE construction jobs and up to 50 permanent jobs.

<u>USES</u>		<u>SOURCES</u>	
Access Road	\$780,000	IRRRB 2011	\$300,000
Infrastructure	210,000	City/Assessments	287,600
Traffic Signal Modification	130,000	DEED grant	162,400
Property Acquisition	400,000	MN DOT grant	840,000
A&E	170,000	Lake County	100,000
TOTAL		TOTAL	
	\$1,690,000		\$1,690,000

b) City of Virginia – Resolution No. 11-036A

Motion by Senator David Tomassoni to approve the City of Virginia project, as presented in Resolution No. 11-036A, in an amount not to exceed \$350,000. Seconded by Senator John Carlson. Motion carried.

Voting in Favor of the Motion: Representative Tom Anzelc, Representative David Dill, Representative Carolyn McElfattrick, Representative Carly Melin, Representative Tom Rukavina, Senator John Carlson, Senator Paul Gazelka, Senator David Tomassoni, Mr. Joe Begich, Mr. David Chura

Voting Against the Motion: None

Abstain: None

Excused: Senator Tom Bakk, Senator Tom Saxhaug, Mr. Jack Ryan

City of Virginia



Iron Range Resources
P.O. Box 441
4261 Highway 53 South
Eveleth, Minnesota 55734-0441
(218) 735-3000 • 800-765-5043
Fax: (218)735-3047

To: Iron Range Resources and Rehabilitation Board

From: Tony Sertich
Commissioner

Date: June 10, 2011

Re: \$350,000 GRANT TO THE CITY OF VIRGINIA

The City of Virginia is requesting a \$350,000 grant to complete upgrades and extensions of water, sewer, gas, electric, roads and site improvements on 9th Avenue Northwest. These infrastructural improvements will support the expansion of IDEA Drilling as well as serve Seppi Concrete, Kirscher Trucking or other companies interested in expanding or relocating to this part of the city. The project consists of two phases. Phase 1 is the completion of the basic infrastructural improvements which extend to the IDEA Drilling site, as well as the other businesses mentioned. \$250,000 of the IRRRB grant will be spent to complete Phase 1. Phase 2 of the project is the IDEA Drilling expansion. The remaining \$100,000 of the IRRRB grant will be reserved for infrastructure and other site improvements directly associated with Phase 2, the IDEA expansion.

Because Virginia is somewhat “landlocked” by mining activity or other municipalities, upgrading the 9th Avenue Northwest area is an important part of the city’s overall economic development strategy.

Other Funders

Virginia has secured \$300,000 in Department of Employment and Economic Development (DEED) Business Infrastructure funds and \$309,000 in Federal Economic Development (EDA) Public Works funds for this project, contingent upon the project starting this summer, which is the primary reason the city is seeking funds before the agency officially opens its 2011 Public Works grant cycle.

Background

IDEA Drilling is a growing operation that provides exploration and delineation drilling services for a number of mining companies on the Iron Range and in Michigan. They have done work for many of the large scale mining projects under development, including PolyMet, Franconia Minerals and Duluth Metals. IDEA currently employs about 85 people and plans to increase its complement to 120 full-time equivalents. Operator and Shop Labor wages annually average \$40,000 - \$60,000. The company plans to renovate its existing facility, adding additional space and purchasing equipment at a total cost of \$2 million.

<u>USES</u>		<u>SOURCES</u>	
Building/Equipment	\$2,000,000	IRRRB 2011	\$350,000
Infrastructure/Roads	859,000	DEED grant	300,000
Site improvements	100,000	EDA grant	309,000
		Private	2,000,000
TOTAL	\$2,959,000	TOTAL	\$2,959,000

Funding Authorization

This project is authorized under the provisions of the Taconite Area Environmental Protection Fund, as codified under Minnesota Statutes, Section 298.223, by supporting local economic development and public works projects located within the Taconite Assistance Area defined in Section 273.1341.

**IRON RANGE RESOURCES AND REHABILITATION BOARD
OF THE STATE OF MINNESOTA
TACONITE AREA ENVIRONMENTAL PROTECTION FUND**

CITY OF VIRGINIA PUBLIC WORKS PROJECT APPROVAL

Resolution No.: 11-036A

WHEREAS, the Commissioner is authorized to expend, upon approval of seven members of the members of the Board, the Taconite Area Environmental Protection Fund monies made available under Minnesota Statutes Section 298.223 (“**TEPF Funds**”) to promote the economic development of the Taconite Assistance Area designated in Minnesota Statutes Section 273.1341 (“**TAA**”), by investing in local economic development projects within the TAA; and

WHEREAS, the agency’s approved FY 2011 Budget includes the allocation of \$8,000,000 of TEPF Funds for Business development Projects (“**TEPF Business Development Funds**”); and

WHEREAS, the Commissioner has received proposals for the expenditure of up to \$350,000 of such TEPF Business Development Funds for that certain community and economic development project for the TAA City of Virginia that is more specifically described in Exhibit A, which is attached hereto and incorporated by reference (“**Proposed Virginia Project**”); and

WHEREAS, the Board met in open session at 9:00 a.m. on June 16, 2011, in the Board Room at the Joe Begich Building located near Eveleth, Minnesota, to consider, among other matters, the Proposed Virginia Project and has determined that the expenditure of up to \$350,000 of TEPF Funds for the Proposed Virginia Project would be in the public interest and promote economic development within the TAA; and

NOW, THEREFORE, IT IS RESOLVED, that the Board hereby approves the expenditure of up to \$350,000 of FY11 TEPF Business Development Funds to provide grants for the Proposed Virginia Project for the purposes set forth in Exhibit A.

BE IT FURTHER RESOLVED that the Board’s approval for the expenditure of TEPF Funds for the Proposed Virginia Project is contingent upon the agency, in its grant contract, requiring such grantee entity to commit to the payment of prevailing wages for the funded project as indicated in, and to the extent required in, the Board’s Resolution 96-005.

BE IT FURTHER RESOLVED that the Board’s approval for the expenditure of TEPF Funds for the Proposed Virginia Project is further contingent upon all such project financing being in place before the agency’s funds are released.

PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 16th DAY OF JUNE 2011.

Member	Aye	Nay	Abstain	Excused
Senator Tom Bakk				X
Senator John Carlson	X			
Senator Paul Gazelka	X			
Senator Tom Saxhaug				X

Senator Dave Tomassoni	X			
Representative Tom Anzelc	X			
Representative Dave Dill	X			
Representative Carolyn McElfatrick	X			
Representative Carly Melin	X			
Representative Tom Rukavina	X			
Citizen Joe Begich	X			
Citizen David Chura	X			
Citizen Jack Ryan				X
TOTAL	10	0	0	3

Signed: _____
Tom Rukavina, Chair

**EXHIBIT A
PUBLIC WORKS GRANT FY11 - June**

City of Virginia

Grant Amount: \$350,000

The City of Virginia is requesting a \$350,000 grant to complete upgrades and extensions of water, sewer, gas, electric, roads and site improvements on 9th Avenue Northwest. These infrastructural improvements will support the expansion of IDEA Drilling as well as serve Seppi Concrete, Kirscher Trucking or other companies interested in expanding or relocating to this part of the city. The project consists of two phases. Phase 1 is the completion of the basic infrastructural improvements which extend to the IDEA Drilling site, as well as the other businesses mentioned. \$250,000 of the IRRRB grant will be spent to complete Phase 1. Phase 2 of the project is the IDEA Drilling expansion. The remaining \$100,000 of the IRRRB grant will be reserved for infrastructure and other site improvements directly associated with Phase 2, the IDEA expansion. The project is anticipated to create 19 FTE construction jobs and up to 35 permanent jobs.

<u>USES</u>		<u>SOURCES</u>	
Building/Equipment	\$2,000,000	IRRRB 2011	\$350,000
Infrastructure/Roads	859,000	DEED grant	300,000
Site improvements	100,000	EDA grant	309,000
		Private	2,000,000
TOTAL	\$2,959,000	TOTAL	\$2,959,000

c) Embro Corporation – Resolution No. 11-037

Motion by Representative Carly Melin to approve the Embro Corporation project, as presented in Resolution No. 11-037, in an amount not to exceed \$125,000. Seconded by Mr. Joe Begich. Motion carried.

Voting in Favor of the Motion: Representative Tom Anzelc, Representative David Dill, Representative Carolyn McElfatrick, Representative Carly Melin, Representative Tom Rukavina, Senator John Carlson, Senator Paul Gazelka, Senator David Tomassoni, Mr. Joe Begich, Mr. David Chura

Voting Against the Motion: None

Abstain: None

Excused: Senator Tom Bakk, Senator Tom Saxhaug, Mr. Jack Ryan

Embryo Corporation



IRRRB
P.O. Box 441
4261 Highway 53 South
Eveleth, Minnesota 55734-0441
(218) 735-3000 • 800-765-5043
Fax: (218)735-3047

To: Iron Range Resources & Rehabilitation Board

From: Tony Sertich
Commissioner

Date: October 18, 2011

**Re: \$125,000 GRANT TO EMBRO CORPORATION FOR A FEASIBILITY
STUDY ON THE USE OF A NATIVE MINNESOTA SPHAGNUM MOSS**

Introduction & Overview

Embryo Corporation of St. Louis Park, Minnesota is requesting a \$125,000 grant to undertake a \$326,690 project to determine if a native Minnesota species of sphagnum moss, *Sphagnum papillosum* (hereafter S.P.), possesses the same unique characteristics as *Sphagnum cristatum* (hereafter S.C.), a native New Zealand sphagnum moss which exhibits anti-microbial effects on bacteria, algae, mold, yeast and fungus. S.C. also inhibits the growth of bacteria, suppresses biofilm growth, and can remove and inhibit scale formation. If it is proven that the Minnesota moss is an acceptable alternative for the New Zealand moss, then Embryo Corporation plans to establish a harvesting, processing and packaging facility within the Taconite Assistance Area (TAA) to support its commercial pool and spa products company, which could result in the creation of 10 full-time and 12 seasonal part-time jobs in the TAA.

Background & History

Embro Corporation is a privately held research and development S corporation incorporated in 1993 by its principals, David R. Knighton, M.D. and Vance D. Fiegel. In 2002, Embro Corporation began researching the role of Sphagnum moss to act as an antimicrobial. Their initial R&D was done on Minnesota moss with the assistance of the Natural Resources Research Institute. When the decision was made to commercialize the Sphagnum moss technology, Embro licensed the technology to Creative Water Solutions, LLC (CWS), another company owned by Knighton and Fiegel. The early research on Sphagnum moss was done using the S.P. species obtained from northern Minnesota but ultimately the product development work switched to the S.C. species of moss, which was obtained from New Zealand. The reason for the switch to the New Zealand moss was driven by two factors: one was the green color given off when the Minnesota moss was exposed to water in a spa/hot tub application and the other factor was the commercial availability of the New Zealand moss, as New Zealand has a mature moss harvesting industry and Sphagnum moss is easily obtained. CWS established a relationship with a New Zealand moss supplier and has developed its commercial products using the New Zealand moss source. CWS has developed the following commercial pool and spa products (SpaNaturally®, SpaNaturally® Plus, Pool Naturally®, Pool Naturally® Plus, Breakaway® and Breakaway® Plus) for residential and commercial pools and spas. CWS currently uses moss from New Zealand for all of these products but for obvious reasons would like to have a source closer to their Twin Cities headquarters. Utilizing new drying and processing methods, Embro is addressing the green color issue. The color issue will only impact spa and hot tub uses.

Project Description

This feasibility analysis will be divided into 5 tasks that include: identifying 5 different sites for collecting S.P.; extensive lab testing; field testing the efficacy in pools, spas, cooling towers, ponds and mining company effluent; and identifying large tracts of S.P. that would be available for harvesting. The analytical data, along with the moss performance, will be closely monitored and if the results prove that the Minnesota moss is not equal to or superior to the New Zealand moss, then the remainder of the project will be cancelled and no additional funds will be expended. If S.P.'s performance is as expected and the data support a positive conclusion, then Embro has committed to pursuing the development of a harvesting, processing and packaging operation in the TAA.

<u>USES</u>		<u>SOURCES</u>	
Collect S.P. samples	\$13,003	IRRRB 2011	\$125,000
Lab testing of S.P. samples	103,820	NRRI	40,640
Field testing of S.P. samples	59,631	Embro (cash)	43,252
Collect & dry moss from site	17,884	Embro (in-kind)	48,844
Estimate S.P. resource in MN	14,553	CWS (in-kind)	68,954
CWS & Embro	117,798		
TOTAL	\$326,690	TOTAL	\$326,690

Establishment of a Facility and Jobs in the TAA

If the Minnesota moss proves to be a suitable alternative to the New Zealand moss, Embro agrees to establish a moss processing facility, including warehouse, within the TAA. Embro agrees to establish this harvesting operation and facility within two (2) years from the completion of this feasibility study. If they do not proceed within the 2-year window, Embro will repay the grant with interest over a 12-month period. The

harvesting and processing facility is expected to employ 10 full-time equivalent positions and 12 part-time seasonal harvesters.

Funding Authorization

This project is authorized under the provisions of the Taconite Area Environmental Protection Fund, as codified under Minnesota Statutes, Section 298.223, by supporting local economic development and public works projects located within the Taconite Assistance Area defined in Section 273.1341.

IRON RANGE RESOURCES AND REHABILITATION BOARD OF THE STATE OF MINNESOTA SPHAGNUM MOSS RESEARCH PROJECT APPROVAL

Resolution No.: 11-037

WHEREAS, the Commissioner is authorized to expend, upon approval of at least seven members of the Board, the Taconite Area Environmental Protection Fund monies made available under Minnesota Statutes Section 298.223 (“**TEPF Funds**”) to promote the economic development of the Taconite Assistance Area designated in Minnesota Statutes Section 273.1341 (“**TAA**”), by investing in local economic development projects within the TAA; and

WHEREAS, the agency’s approved FY 2011 Budget includes the allocation of \$8,000,000 of TEPF Funds for Business development Projects (“**TEPF Business Development Funds**”); and

WHEREAS, Embro Corporation has requested a grant of \$125,000 from the agency to fund a portion of the cost of conducting a \$326,690 research project, as more specifically described in the materials provided to the Board (“**Board Packet Materials**”), to determine whether a native Minnesota species of sphagnum moss possesses substantially the same anti-microbial potential as a native New Zealand sphagnum moss species it is using commercially to combat water-related bacteria, algae, mold, yeast and fungus, and also whether the Minnesota species, like the New Zealand species, can suppress biofilm growth and remove and inhibit water scale formation (“**Proposed Project**”); and

WHEREAS, the Commissioner has requested the Board to approve the expenditure of up to \$125,000 of FY11 TEPF Business Development Funds to provide a potentially repayable grant to Embro Corporation for the Proposed Project; and

WHEREAS, the Board met in open session at 9:00 a.m. on June 16, 2011, in the Board Room at the Joe Begich Building located near Eveleth, Minnesota, to consider, among other matters, the Proposed Project and has determined that the expenditure of \$125,000 of TEPF Funds for the Project, in the amounts and subject to the conditions specified in the Board Packet Materials, would be in the public interest and promote economic development within the TAA; and

NOW, THEREFORE, IT IS RESOLVED, that the Board hereby approves the expenditure of up to \$125,000 of FY11 TEPF Business Development Funds to provide a grant (which is potentially repayable) to Embro Corporation for the Proposed Project in

the amounts, for the purposes, and subject to the conditions set forth in the Board Packet Materials.

PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 16th DAY OF JUNE 2011.

Member	Aye	Nay	Abstain	Excused
Senator Tom Bakk				X
Senator John Carlson	X			
Senator Paul Gazelka	X			
Senator Tom Saxhaug				X
Senator Dave Tomassoni	X			
Representative Tom Anzelc	X			
Representative Dave Dill	X			
Representative Carolyn McElfatrick	X			
Representative Carly Melin	X			
Representative Tom Rukavina	X			
Citizen Joe Begich	X			
Citizen David Chura	X			
Citizen Jack Ryan				X
TOTAL	10	0	0	3

Signed: _____
Tom Rukavina, Chair

d) Occupational Development Center – Resolution No. 11-038

Motion by Mr. Joe Begich to approve the Occupational Development Center project, as presented in Resolution No. 11-038, in an amount not to exceed \$75,000. Seconded by Senator David Tomassoni. Motion carried.

Voting in Favor of the Motion: Representative Tom Anzelc, Representative David Dill, Representative Carolyn McElfatrick, Representative Carly Melin, Representative Tom Rukavina, Senator John Carlson, Senator Paul Gazelka, Senator David Tomassoni, Mr. Joe Begich, Mr. David Chura

Voting Against the Motion: None

Abstain: None

Excused: Senator Tom Bakk, Senator Tom Saxhaug, Mr. Jack Ryan

Occupational Development Center, Inc.
Direct Loan Program

APPLICANT:
Occupational Development Center, Inc.

PRINCIPAL(S):

Peter Levalier, President/CEO

BRIEF PROJECT DESCRIPTION:

Construction of a storage facility, purchase of equipment and related site preparation and installation costs to allow an expansion of the manufacturing operation in Buhl.

PROJECT COST:

\$165,000

PROJECT BREAKDOWN:

IRRRB - Direct Loan, 7 years at 0% interest	\$75,000
Northland Foundation – Direct Loan	75,000
Owner’s equity	15,000

COLLATERAL:

Collateral for the IRRRB loan will consist of the new equipment being purchased, including a CNC router and a wood chipper.

JOBS:

The expansion project is anticipated to require the addition of 16 full-time employees in Buhl at wages of \$7.25 to \$10.00 per hour plus a full benefit package.

CONTINGENCIES:

Funding must be approved by the other lender.

TECHNICAL ADVISORY COMMITTEE RECOMMENDATIONS:

The project was recommended for approval at the June 13, 2011, Technical Advisory Committee meeting.

FUNDING AUTHORIZATION:

This project is authorized under the provisions of the Taconite Area Environmental Protection Fund, as codified under Minnesota Statutes, Section 298.223, by supporting local economic development projects located within the Taconite Assistance Area defined in Section 273.1341.

PROJECT DESCRIPTION:

Formed in 1967, the Occupational Development Center, Inc. (ODC) is a 501(c)(3) non-profit corporation that provides job opportunities for individuals with disabilities and other employment barriers. The majority of their clients are referred from the State of Minnesota, Department of Employment and Economic Development, and from the various county social services offices.

Their services include job coaching, advocacy, safety training, career guidance and disabilities training to employers. Last year, ODC served 805 clients throughout northern Minnesota.

Through their various programs, they have placed many people with disabilities in various working environments from cleaning and janitorial work to receptionist, office,

retail sales, recycling, product sorting, general labor and restaurant work. Employees also have the opportunity to work in custom product manufacturing and subcontracting within one of the ODC facilities. The products they produce include: wood or metal crating, stake and lathe, bird toys and fire starters. There also are many assembly jobs. A few of their key customers are: Arctic Cat, Electrolux, Menards, Marvin Windows and Polaris.

At the beginning of 2011, ODC employed 20 staff and 79 employees on the east range. Of these 79 individuals, 63 work mainly in their facility in Buhl, but may work in the community as well. The other 16 individuals work solely at various local businesses. Since the beginning of the year, ODC has added 18 staff to their Buhl facility due to increased business from Electrolux.

Since 2005, ODC has been providing product to Electrolux. This April, one of Electrolux's suppliers went out of business and ODC was asked to increase production. In order to meet this increased demand, ODC must construct a storage facility for raw materials and finished goods and they need to purchase manufacturing equipment, including a CNC router and a wood chipper.

The increased production will require the addition of 16 employees. This expansion project is critical to maintaining the additional business.

MANAGEMENT TEAM:

ODC, Inc. is governed by an independent Board of Directors. The President/CEO oversees all of programs and production facilities through key members of their Leadership team.

Peter Lavalier – President/CEO
J. Michael White – Vice President of Operations
Clayton Liend – Vice President Program Services
Ron Reiersen – Director of Accounting

MARKET OPPORTUNITY:

In 2005, ODC acquired a small company that was making shipping bases for the Freezer Division of Electrolux Major Appliances NA. They moved the production of these shipping bases to Buhl and have been producing them there since. Electrolux had two suppliers of shipping bases during this time. In April of this year, the other supplier went out of business and Electrolux has given ODC all of their business.

Last year, ODC sold in excess of \$1,100,000 of shipping bases to Electrolux. With the increased production, sales are expected to double. In addition to the shipping bases, Electrolux has recently given ODC a "full frame base" to produce.

COLLATERAL REVIEW:

The new equipment being purchased has an installed cost of \$70,000.

PAST IRON RANGE RESOURCES HISTORY:

A previous loan of \$100,000 has been paid-in-full.

IRON RANGE RESOURCES AND REHABILITATION BOARD

**OF THE STATE OF MINNESOTA
TACONITE AREA ENVIRONMENTAL PROTECTION FUND
OCCUPATIONAL DEVELOPMENT CENTER FUNDING APPROVAL**

Resolution No.: 11-038

WHEREAS, the Commissioner is authorized to expend, upon approval of at least seven members of the Board, the Taconite Area Environmental Protection Fund monies made available under Minnesota Statutes Section 298.223 (“**TEPF Funds**”) to promote the economic development of the Taconite Assistance Area designated in Minnesota Statutes Section 273.1341 (“**TAA**”), by investing in local economic development projects within the TAA; and

WHEREAS, the agency’s approved FY 2011 Budget includes the allocation of \$8,000,000 of TEPF Funds for Business Development Projects (“**TEPF Business Development Funds**”); and

WHEREAS, the Occupational Development Center, Inc. (“**ODC**”), a Minnesota non-profit corporation with facilities in Buhl and elsewhere throughout Minnesota, has requested a direct loan in the amount of \$75,000 to provide funding which, in combination with other private sources of funding, will enable the company to undertake a \$165,000 project to expand and further equip Buhl operations and employ an estimated 16 additional full-time employees (the “**Proposed Project**”); and

WHEREAS, the Commissioner has requested the Board to approve the expenditure of up to \$75,000 of FY11 TEPF Business Development Funds to provide a direct loan to ODC for the Project on the terms and subject to the conditions set forth in the materials and information related to the project that were presented to the Board (“**Board Packet Materials**”); and

WHEREAS, the Board met in open session at 9:00 a.m. on June 16, 2011, in the Board Room at the Joe Begich Building located near Eveleth, Minnesota, to consider, among other matters, the Proposed Project and has determined that the expenditure of \$75,000 of TEPF Funds as a direct loan for the Project, subject to the conditions specified in the Board Packet Materials, would be in the public interest and promote economic development within the TAA; and

NOW, THEREFORE, IT IS RESOLVED, that the Board hereby approves the expenditure of up to \$75,000 of FY11 TEPF Business Development Funds to provide a direct loan to ODC for the Proposed Project purposes, and subject to the conditions, set forth in the Board Packet Materials.

PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 16th DAY OF JUNE 2011.

Member	Aye	Nay	Abstain	Excused
Senator Tom Bakk				X
Senator John Carlson	X			
Senator Paul Gazelka	X			

Senator Tom Saxhaug				X
Senator Dave Tomassoni	X			
Representative Tom Anzelc	X			
Representative Dave Dill	X			
Representative Carolyn McElfatrick	X			
Representative Carly Melin	X			
Representative Tom Rukavina	X			
Citizen Joe Begich	X			
Citizen David Chura	X			
Citizen Jack Ryan				X
TOTAL	10	0	0	3

Signed: _____
Tom Rukavina, Chair

5) Douglas J. Johnson Economic Protection Trust Fund

Action required: Approval requires 8 votes

a) Sure-Fab, LLC – Resolution No. 11-034

Motion by Representative David Dill to approve the Sure-Fab, LLC, bank participation loan request, as presented in Resolution No. 11-034, in an amount not to exceed \$250,000. Seconded by Mr. David Chura. Motion carried.

Voting in Favor of the Motion: Representative Tom Anzelc, Representative David Dill, Representative Carolyn McElfatrick, Representative Carly Melin, Representative Tom Rukavina, Senator John Carlson, Senator Paul Gazelka, Senator David Tomassoni, Mr. Joe Begich, Mr. David Chura

Voting Against the Motion: None

Abstain: None

Excused: Senator Tom Bakk, Senator Tom Saxhaug, Mr. Jack Ryan

Sure-Fab, LLC
Bank Participation Loan

APPLICANT:

Sure-Fab, LLC, a Minnesota Limited Liability Company located in Two Harbors.

PRINCIPAL:

Joe Hraban, President

BRIEF PROJECT DESCRIPTION:

Sure-Fab, LLC began operations in 2002 with one welding machine and one employee. The business now owns nine welding machines and employs 30 people full-time.

The proposed financing will allow Sure-Fab to expand its operations with the acquisition of additional equipment. There is sufficient floor space at Sure-Fab's operating facility to accommodate the equipment.

PROJECT COST: \$850,000

PROJECT BREAKDOWN:

Northland Found. Bank Participation Loan (rate and terms to be negotiated) ¹	\$ 250,000
ARDC Bank Participation Loan (rate and terms to be negotiated) ¹	\$ 250,000
IRRRB Bank Participation Loan (7 year term, formula rate) ¹	\$ 250,000
Equity	<u>\$ 100,000</u>
Total	\$ 850,000

¹ Represents participation in a \$750,000 loan through The Lake Bank (Two Harbors). Collateral will consist of the \$850,000 in equipment purchased and a personal guaranty from Joe Hraban. IRRRB will take a first position in all equipment collateral over the other lenders.

COLLATERAL:

- Horizontal boring mill and crane with bridge (approx. cost including installation = \$450,000)
- Oxygen burn system & plasma cutter with bridge (approx. cost including installation = \$200,000)
- Two robotic welding arms and ferris wheel positioner (approx. cost including installation = \$200,000)

Total asset value after installation and delivery is \$680,000. IRRRB will take a first position in all equipment financed through this loan. ARDC and Northland Foundation will share a 2nd position.

The loan will be personally guaranteed by Joe Hraban.

JOBS:

Sure-Fab currently has 30 employees earning between \$12 and \$28 per hour, with an average blended wage of \$20.50 per hour plus benefits. The proposed additional equipment will result in up to 15 full-time equivalent new employees with hourly wages ranging from \$16 to \$22 per hour, plus benefits.

CONTINGENCIES:

Prior to closing, Sure-Fab will provide an appraisal of the equipment to be acquired with loan proceeds.

Beginning with its financial statements for fiscal year 2011, Sure-Fab will provide CPA reviewed balance sheets, income statements and cash flow statements within 120 days of year-end.

Within 120 days of closing, or at an agreed upon time thereafter, Sure-Fab will provide documentation evidencing that all of the proposed equity input into the project has been invested into equipment at its Two Harbors facility.

TECHNICAL ADVISORY COMMITTEE RECOMMENDATIONS:

The project was recommended for approval at the June 13, 2011, Technical Advisory Committee meeting.

FUNDING AUTHORIZATION:

Douglas J. Johnson Economic Protection Trust Fund: This project is authorized under the provisions of the Douglas J. Johnson Economic Protection Trust Fund Act (Minnesota Statutes sections 298.291-298.298) pertaining to expenditures of Douglas J. Johnson Economic Protection Trust Fund monies for economic development projects in that these statutes authorize small business development loans to private enterprises for the purposes of job creation and economic development within the Taconite Assistance Area defined in Minnesota Statutes Section 273.1341.

PROJECT DESCRIPTION:

Joe Hraban founded Sure-Fab and began operations in 2002 with one employee. At the time, Mr. Hraban had a combined ten years of experience in operations and project management with LaBounty and Two Harbors Machine.

Since founding the business, Sure-Fab has operated successfully and has grown the employee base to approximately 30 full-time employees. In 2008, Mr. Hraban bought out the interests of his business partners through a debt transaction. Shortly thereafter, the economic downturn hit the business hard, resulting in a drop of revenues from \$4.3 million in 2008 to \$966,000 in 2009. The business weathered the storm without laying off any employees, with revenues rebounding to \$2.0 million in 2010. Through the 1st quarter of 2011, Sure-Fab is on pace to exceed \$2.75 million in revenues. The proposed equipment (horizontal boring mill, two additional robotic welding cells and a burn center) will enable Sure-Fab to accept larger jobs (bigger fabricating projects) with better margins, and enter new business markets, resulting in a more profitable operation along with the addition of up to 15 new full-time employees. The manufacturing facility has the space available to accommodate the new equipment.

MANAGEMENT TEAM:

The management team consists of Joe Hraban, owner and president of Sure-Fab. Mr. Hraban started and has worked at Sure-Fab for nine years. Previous employment has been in various management positions at fabricating companies in the Two Harbors region. In addition, Ken Smith assumes some management responsibilities and is responsible for information technology, human resources and financial reporting. Mr. Smith has been employed at Sure-Fab for approximately three years.

MARKET OPPORTUNITY:

Sure-Fab currently receives the bulk of its business from OEMs – LaBounty is its largest single customer. Most of Sure-Fab's work is concentrated in contract manufacturing for heavy equipment components used in scrap steel, transportation, logging, long-reach booms, mining and equipment towing industries. However, an increasing number of jobs require Sure-Fab to subcontract with other fabricators that have capacity to handle larger fabricating processes. Beside losing the profit margin on the bigger fabrication processes

that it must subcontract, too often it has been Sure-Fab's experience that the work it sub-out is inferior, requiring Sure-Fab to expend additional resources on bringing those parts of the project into compliance with job specifications.

The proposed project and additional equipment will allow Sure-Fab to bid and work on bigger jobs, keeping higher margin work in-house. Further, Sure-Fab has been exploring additional industries where it could perform work for OEMs, and with the additional equipment it believes it will become capable of producing components or sub-weldments for renewable energy companies. Another business market it anticipates entering is military manufacturing. With the OEM marketplace demanding that its suppliers provide a full range of fabricating capacity, Sure-Fab views the equipment expansion as a strategic move that will ensure its longevity in the market.

COLLATERAL REVIEW:

Collateral coverage on the proposed loans to Sure-Fab by the IRRRB is as follows:

- \$250,000 Bank Participation Loan will be secured by a sole first position interest on all collateral purchased under this proposed project. The collateral will secure a total of up to \$750,000 of debt issued by Lake Bank; Northland Foundation and ARDC will share a second position on the collateral.
- Mr. Hraban will provide a personal guaranty. The personal guaranty may be of marginal value, since Mr. Hraban has provided a personal guaranty on his term loan and revolving loan from the Lake Bank.

PAST IRON RANGE RESOURCES HISTORY:

IRRRB funded a \$150,000 bank participation loan in 2002. That loan has been paid in full.

**IRON RANGE RESOURCES AND REHABILITATION BOARD
OF THE STATE OF MINNESOTA
DOUGLAS J JOHNSON ECONOMIC PROTECTION TRUST FUND
PURCHASE OF PARTICIPATION LOAN INTEREST FOR
SURE-FAB, LLC PROJECT**

Resolution No.: 11-034

WHEREAS, the Commissioner is authorized to expend, upon approval of eight members of the Board, the Douglas J. Johnson Economic Protection Trust Fund monies made available under Minnesota Statutes Sections 298.291-298.294 and Minnesota Statute Section 298.28, subdivision 11 ("**DJJ Funds**"), to provide loans and participate with private sources in providing financing for various projects located within the Taconite Assistance Area defined in Minnesota Statutes Section 273.1341 ("**TAA**") which will serve the purposes detailed in Minnesota Statutes Section 298.292, subdivision 1; and

WHEREAS, the agency's FY 2011 Investment Plan includes provision for the use of certain DJJ Funds for economic development projects under a budget line item category of DJJ Business Development Projects; and

WHEREAS, Sure-Fab, LLC, a Minnesota limited liability company, has made application to the Commissioner for financial assistance to enable it, in combination with funds provided from other sources, to acquire additional equipment for the expansion of its welding operations in Two Harbors, which is located within the TAA; and

WHEREAS, the Commissioner has requested the Board to approve the expenditure of up to \$250,000 of FY2011 DJJ Business Development Project funds to purchase a \$250,000 participation loan interest in a \$750,000 equipment loan which is being made by The Lake Bank of Two Harbors to Sure-Fab to finance the purchase of the new plant equipment (the “Project”), which participation interest purchase would be on the terms and subject to the conditions set forth in the Board packet materials and as otherwise discussed at the meeting (the “Board Packet Materials”); and

WHEREAS, the technical advisory committee appointed by the Commissioner under the provisions of Minnesota Statutes Section 298.297 to review the terms and conditions of the proposed Project, met on June 13, 2011, and unanimously recommended going forward with the Project and the proposed agency funding for it; and

WHEREAS, the Board met in open session at 9:00 a.m. on June 16, 2011, in the Board Room at the Joe Begich Building located near Eveleth, Minnesota, to consider, among other matters, Sure-Fab’s request for financial assistance for the Project; and

WHEREAS, the Board has determined that it would be in the public interest to approve the expenditure of DJJ Funds for the Sure-Fab Project, and that the granting of the requested financial assistance would promote economic development in the TAA.

NOW, THEREFORE, IT IS RESOLVED, that the Board approves the expenditure of up to \$250,000 of FY2011 DJJ Business Development Project funds to purchase a \$250,000 participation loan interest in a \$750,000 equipment loan which is being made by The Lake Bank of Two Harbors to Sure-Fab for the Project, the purchase of which loan participation interest shall be on the terms and subject to the conditions set forth in the Board Packet Materials.

PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 16th DAY OF JUNE 2011.

Member	Aye	Nay	Abstain	Excused
Senator Tom Bakk				X
Senator John Carlson	X			
Senator Paul Gazelka	X			
Senator Tom Saxhaug				X
Senator Dave Tomassoni	X			
Representative Tom Anzelc	X			
Representative Dave Dill	X			
Representative Carolyn McElfatrick	X			
Representative Carly Melin	X			
Representative Tom Rukavina	X			
Citizen Joe Begich	X			
Citizen David Chura	X			

Citizen Jack Ryan				X
TOTAL	10	0	0	3

Signed: _____
Tom Rukavina, Chair

6) Iron Range Higher Education Account

Action required: Approval requires 7 votes

a) Iron Range Higher Education Programs – Resolution No. 11-039

Motion by Representative Carly Melin to approve the Iron Range Higher Education Committee’s request for an expenditure in an amount up to \$1,000,000 of the Higher Education Account funds to provide a grant to the Northeast Higher Education District (NHED) for use by the Arrowhead University Consortium (AUC) for the continued development of a higher education program that, in collaboration with private industry, will allow students to earn a Bachelor’s of Science degree in engineering from Minnesota State University Mankato; and up to \$620,000 of the Higher Education Account funds to provide a grant to NHED for the continued development of the Arrowhead Institute of Technology, and higher education programs in Industrial Systems Technology, Process Automation Systems, Chemical Technology, Executive Office Management and Industrial Construction, as presented in Resolution No. 11-039. Seconded by Representative Tom Rukavina. Motion carried.

Voting in Favor of the Motion: Representative Tom Anzelc, Representative David Dill, Representative Carolyn McElfattrick, Representative Carly Melin, Representative Tom Rukavina, Senator John Carlson, Senator Paul Gazelka, Senator David Tomassoni, Mr. Joe Begich, Mr. David Chura

Voting Against the Motion: None

Abstain: None

Excused: Senator Tom Bakk, Senator Tom Saxhaug, Mr. Jack Ryan

Iron Range Higher Education Programs



IRRRB
P.O. Box 441
4261 Highway 53 South
Eveleth, Minnesota 55734-0441
(218) 735-3000 • 800-765-5043
Fax: (218)735-3047

To: Iron Range Resources & Rehabilitation Board

From: Iron Range Higher Education Committee

Date: October 18, 2011

Re: Iron Range Higher Education Programs

The Iron Range Higher Education Committee (IRHEC) has approved an expenditure of up to \$1,000,000 of the Higher Education Account funds to provide a grant to the Northeast Higher Education District (NHED) for use by the Arrowhead University Consortium (AUC) for the continued development of a higher education program that, in collaboration with private industry, will allow students to earn a Bachelor's of Science degree in engineering from Minnesota State University Mankato. In addition, the IRHEC approved expenditure of up to \$620,000 for the continued development of the Arrowhead Institute of Technology, and higher education programs in Industrial Systems Technology, Process Automation Systems, Chemical Technology, Executive Office Management and Industrial Construction.

This IRHEC FY12 allocation of \$1,620,000 is contingent upon the Agency's receipt of the second half of production year 2010 taconite taxes in the projected amount of \$760,942.

Funding Authorization:

This expenditure is authorized under the provisions of the Iron Range Higher Education Committee and the Iron Range Higher Education Account as codified under Minnesota Statutes, Section 298.2214 and 298.28, subdivision 9d, respectively.

**IRON RANGE RESOURCES AND REHABILITATION BOARD
OF THE STATE OF MINNESOTA
IRON RANGE HIGHER EDUCATION ACCOUNT EXPENDITURE APPROVAL**

Resolution No.: 11-039

WHEREAS, Minnesota Statutes Section 298.28, subd. 9d allocates 5 cents per taxable ton of taconite taxes to the agency to be deposited in an Iron Range higher education account ("**Higher Education Account**") to be used for higher education programs conducted at educational institutions in the Taconite Assistance Area designated in Minnesota Statutes Section 297.1341 ("**TAA**"); and

WHEREAS, Minnesota Statutes Section 298.2214 created the Iron Range Higher Education Committee ("**Committee**") to advise the commissioner of Iron Range Resources on providing higher education programs within the TAA; and

WHEREAS, pursuant to 298.28, subd. 9d, both the Iron Range Resources and Rehabilitation Board ("**Board**") and the Committee must approve all expenditures from the Higher Education Account; and

WHEREAS, the Committee has recommended the expenditure of:

- A) Up to \$1,000,000 of the Higher Education Account funds to provide a grant to the Northeast Higher Education District (NHED) for use by the Arrowhead University Consortium (AUC) for the continued development of a higher education program that, in collaboration with private industry, will allow students

to earn a Bachelor's of Science degree in engineering from Minnesota State University Mankato; and

- B) Up to \$620,000 of the Higher Education Account funds to provide a grant to NHED for the continued development of the Arrowhead Institute of Technology, and higher education programs in Industrial Systems Technology, Process Automation Systems, Chemical Technology, Executive Office Management and Industrial Construction;
(collectively such grant projects being referenced as the “**Proposed Projects**”);

and

WHEREAS, in order to provide the aforementioned grants of the Higher Education Account funds to the NHED for the Proposed Projects, it is necessary for at least seven members of the Board to approve the proposed expenditures of funds from the Higher Education Account; and

WHEREAS, the Board met in open session starting at 9:00 a.m. on June 16, 2011, in the Board Room at the Joe Begich Building located near Eveleth, Minnesota to consider, among other matters, the proposed expenditure of up to \$1,620,000 of Higher Education Account funds for the purpose of providing two grants to the NHED to fund the Proposed Projects within the TAA and has determined that the proposed expenditure would be in the public interest.

NOW, THEREFORE, IT IS RESOLVED that the Board hereby approves the expenditure of up to \$1,620,000 of Higher Education Account funds for two grants to the NHED to be used for the Proposed Projects, subject, in the case of the disbursement of second half of the funds for each grant, to the precondition that the agency has received in its financial accounts the distribution of the second half of production year 2010 taconite taxes in the projected amount of \$760,942.

PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 16th DAY OF JUNE 2011.

Member	Aye	Nay	Abstain	Excused
Senator Tom Bakk				X
Senator John Carlson	X			
Senator Paul Gazelka	X			
Senator Tom Saxhaug				X
Senator Dave Tomassoni	X			
Representative Tom Anzelc	X			
Representative Dave Dill	X			
Representative Carolyn McElfatrick	X			
Representative Carly Melin	X			
Representative Tom Rukavina	X			
Citizen Joe Begich	X			
Citizen David Chura	X			
Citizen Jack Ryan				X
TOTAL	10	0	0	3

Signed: _____

David Tomassoni, Vice Chair

7) Douglas J. Johnson Economic Protection Trust Fund (continued)

Action required: Approval requires 8 votes

b) Arrowhead Promotion and Fulfillment Company – Resolution No. 11-035

Motion by Representative Carolyn McElfattrick to approve the Arrowhead Promotion and Fulfillment Company bank participation loan request, as presented in Resolution No. 11-035, in an amount not to exceed \$250,000. Seconded by Representative Tom Anzelc. Motion carried.

Voting in Favor of the Motion: Representative Tom Anzelc, Representative David Dill, Representative Carolyn McElfattrick, Representative Carly Melin, Representative Tom Rukavina, Senator John Carlson, Senator Paul Gazelka, Senator David Tomassoni, Mr. Joe Begich, Mr. David Chura

Voting Against the Motion: None

Abstain: None

Excused: Senator Tom Bakk, Senator Tom Saxhaug, Mr. Jack Ryan

Arrowhead Promotion & Fulfillment Company, Inc.

Bank Participation Loan

APPLICANT:

Arrowhead Promotion & Fulfillment Company, Inc.

PRINCIPAL(S):

Katherine Prokop-Christmas, CEO

Tim Flood, President

BRIEF PROJECT DESCRIPTION:

Increased working capital, to allow large increase in clients.

PROJECT COST:

\$1,550,000

PROJECT BREAKDOWN:

American Bank – real estate loan, 11-year term at market rate \$1,300,000

IRRRB – Bank Participation Loan, 11-year term at formula rate 250,000

COLLATERAL:

Second mortgage on the commercial facility (first mortgage is held by American Bank) and personal guaranties of Tim Flood, Katherine Prokop-Christmas and Meg Naugle.

JOBS:

This expansion is anticipated to add 63 full-time and 13 part-time employees to the current compliment of 129 full-time and 135 part-time employees.

CONTINGENCIES:

None

TECHNICAL ADVISORY COMMITTEE RECOMMENDATIONS:

The project was recommended for approval at the June 13, 2011, Technical Advisory Committee meeting.

FUNDING AUTHORIZATION:

Douglas J. Johnson Economic Protection Trust Fund: This project is authorized under the provisions of the Douglas J. Johnson Economic Protection Trust Fund Act (Minnesota Statutes sections 298.291-298.298) pertaining to expenditures of Douglas J. Johnson Economic Protection Trust Fund monies for economic development projects in that these statutes authorize small business development loans to private enterprises for the purposes of job creation and economic development within the Taconite Assistance Area defined in Minnesota Statutes Section 273.1341.

PROJECT DESCRIPTION:

Arrowhead Promotion & Fulfillment Company, Inc. (Arrowhead) was founded in 1982 by Keith Arnold and is now one of the largest fulfillment operations in the country. They process consumer refunds and rebates; provide premium fulfillment; process coupons for manufacturers and specific stores; administer contests, games and sweepstakes; and they provide various teleservices to their clients. Other services offered include: internet applications, e-commerce, data entry, database management, direct marketing and product samples/distribution.

Arrowhead's customer list includes: Campbell Soup Company, GlaxoSmithKline, 3M, Costco and several others.

Arrowhead has an opportunity to acquire the client base of a former competitor that is now focusing on other markets. Under an arrangement with that company, clients will be transitioned to Arrowhead for a fee. Servicing these additional clients requires arrowhead to increase its workforce by approximately 70 employees. This will also place a large demand on cash flow during the growth period.

The bank has previously increased Arrowhead's operating line-of-credit loan to \$1,000,000. In addition, the bank has approved a \$1,550,000 term loan, secured with real estate, which is the loan IRRRB is being asked to participate in with \$250,000.

MANAGEMENT TEAM:

Katherine Prokop-Christmas, CEO, has been with Arrowhead since 1989. In addition to her CEO duties, Katherine manages the procurement division and works with suppliers on client's promotional needs.

Tim Flood, President, has been with Arrowhead since 1989. Prior to assuming his role as president, he was responsible for sales and marketing at Arrowhead.

Other members of the management team include:

Deb Young, V.P. Human Resources.

Tim McDonald, V.P. Operations.

Nancy Saxhaug, V.P. Contact Center.

Danica Salisbury, V.P. Finance.
Dan Pallin, V.P. Business Development.
Bud Schneider, V.P. Account Support.
Jane Garske, V.P. Information Services.
Meg Naugle, Account V.P. /Secretary/Treasurer.

MARKET OPPORTUNITY:

A former competitor company is exiting the fulfillment market and has entered into an agreement to transfer its clients to Arrowhead. This will allow Arrowhead to greatly expand its customer base and increase employment in Grand Rapids.

COLLATERAL REVIEW:

Collateral for the loan will consist of a mortgage on the commercial property that houses Arrowhead Promotion & Fulfillment Company, Inc. The property, valued at \$7,750,000, also secures other debts at the bank, totaling \$3,252,000. Including the proposed loan of \$1,550,000, the collateral coverage ratio is 161%.

In addition, the loan is secured with all equipment, inventory and receivables, as well as the personal guaranties of Tim Flood, Meg Naugle and Katherine Prokop-Christmas.

PAST IRON RANGE RESOURCES HISTORY:

Over the past 15 years, IRRRB has assisted Arrowhead with three bank participation loans totaling \$680,000. All have been fully paid.

**IRON RANGE RESOURCES AND REHABILITATION BOARD
OF THE STATE OF MINNESOTA
DOUGLAS J JOHNSON ECONOMIC PROTECTION TRUST FUND
PURCHASE OF PARTICIPATION LOAN INTEREST FOR
ARROWHEAD PROMOTION & FULFILLMENT COMPANY PROJECT**

Resolution No.: 11-035

WHEREAS, the Commissioner is authorized to expend, upon approval of eight members of the Board, the Douglas J. Johnson Economic Protection Trust Fund monies made available under Minnesota Statutes Sections 298.291-298.294 and Minnesota Statute Section 298.28, subdivision 11 (“**DJJ Funds**”), to provide loans and participate with private sources in providing financing for various projects located within the Taconite Assistance Area defined in Minnesota Statutes Section 273.1341 (“**TAA**”) which will serve the purposes detailed in Minnesota Statutes Section 298.292, subdivision 1; and

WHEREAS, the agency’s FY 2011 Investment Plan includes provision for the use of certain DJJ Funds for economic development projects under a budget line item category of DJJ Business Development Projects; and

WHEREAS, Arrowhead Promotion and Fulfillment Company, Inc., a Minnesota business corporation (“Arrowhead”), has made application to the Commissioner for financial assistance to enable it, in combination with funds provided from other sources, to increase its working capital so that it can expand its customer base and increase operations at its facilities in Grand Rapids, which is located within the TAA; and

WHEREAS, the Commissioner has requested the Board to approve the expenditure of up to \$250,000 of FY2011 DJJ Business Development Project funds to purchase a \$250,000 participation loan interest in a \$1,550,000 loan which is being made by American Bank to Arrowhead to increase the company’s working capital (the “**Project**”), which participation interest purchase would be on the terms and subject to the conditions set forth in the Board packet materials and as otherwise discussed at the meeting (the “**Board Packet Materials**”); and

WHEREAS, the technical advisory committee appointed by the Commissioner under the provisions of Minnesota Statutes Section 298.297 to review the terms and conditions of the proposed Project, met on June 13, 2011, and unanimously recommended going forward with the Project and the proposed agency funding for it; and

WHEREAS, the Board met in open session at 9:00 a.m. on June 16, 2011, in the Board Room at the Joe Begich Building located near Eveleth, Minnesota, to consider, among other matters, Arrowhead’s request for financial assistance for the Project; and

WHEREAS, the Board has determined that it would be in the public interest to approve the expenditure of DJJ Funds for the Arrowhead Project, and that the granting of the requested financial assistance would promote economic development in the TAA.

NOW, THEREFORE, IT IS RESOLVED, that the Board approves the expenditure of up to \$250,000 of FY2011 DJJ Business Development Project funds to purchase a \$250,000 participation loan interest in a \$1,550,000 loan which is being made by the American Bank of the North to Arrowhead for the Project, the purchase of which loan participation interest shall be on the terms and subject to the conditions set forth in the Board Packet Materials.

PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 16th DAY OF JUNE 2011.

Member	Aye	Nay	Abstain	Excused
Senator Tom Bakk				X
Senator John Carlson	X			
Senator Paul Gazelka	X			
Senator Tom Saxhaug				X
Senator Dave Tomassoni	X			
Representative Tom Anzelc	X			
Representative Dave Dill	X			
Representative Carolyn McElpatrick	X			
Representative Carly Melin	X			
Representative Tom Rukavina	X			
Citizen Joe Begich	X			
Citizen David Chura	X			
Citizen Jack Ryan				X
TOTAL	10	0	0	3

Signed: _____
Tom Rukavina, Chair

8) Interim FY12 Budget

Action required: Approval requires 8 votes

a) Interim FY12 Expenditure Budget Request – Resolution No. 11-033

Motion by Representative Carly Melin to approve the Interim FY12 Budget request, as presented in Resolution No. 11-033. Seconded by Representative Tom Anzelc. Motion carried.

Voting in Favor of the Motion: Representative Tom Anzelc, Representative David Dill, Representative Carolyn McElpatrick, Representative Carly Melin, Representative Tom Rukavina, Senator John Carlson, Senator Paul Gazelka, Senator David Tomassoni, Mr. Joe Begich, Mr. David Chura

Voting Against the Motion: None

Abstain: None

Excused: Senator Tom Bakk, Senator Tom Saxhaug, Mr. Jack Ryan

Interim FY12 Budget Memo



IRRRB
P.O. Box 441
4261 Highway 53 South
Eveleth, Minnesota 55734-0441
(218) 735-3000 • 800-765-5043
Fax: (218)735-3047

To: Iron Range Resources & Rehabilitation Board

From: Tony Sertich
Commissioner

Date: October 18, 2011

Re: Fiscal Year 2012 Interim Budget

I am presenting you with an Interim Budget for the first quarter of Fiscal Year 2012. There are three main reasons I am seeking your approval of an interim budget:

1. With the lack of agreement on an overall budget for state government, I feel it is premature to develop our IRRRB budget. Decisions on the state budget may have a direct, or indirect, impact on our agency's budget. I feel that it is prudent to wait until there is resolution to the overall state budget before we finalize our budget to better assess any funding impacts that we would have to address.
2. After input from our stakeholders, I am in the final steps of a process of a complete assessment of the personnel and financial resources of our agency. In the coming month,

- I will be making changes to better align our resources to the goals and mission of our agency. I would hope that a final FY2012 budget would include these improvements.
3. Given the length of the past legislative session and considering that the work is not yet complete, I feel it is important to provide adequate time for board members to provide input for a final agency budget. This is especially true given almost 40% of our board are new members.

The proposal before you funds our core agency functions for the first quarter of Fiscal Year 2012. They include any grant or programmatic payments that are normally due during the first quarter.

It is my intention to adopt a final FY2012 budget soon after there is overall agreement of the state budget.

**IRON RANGE RESOURCES AND REHABILITATION BOARD
Interim FY12 Expenditure Budget Request**

	Interim FY12 Budget Request
Expenditures	
Operations:	
Administrative Services	\$425,532
Human Resources & Strategic Results	216,880
Attorney General	96,156
Marketing & Communications	134,680
Giants Ridge Golf & Ski Resort	1,998,024
Community Development	225,047
Business Development	172,545
Workforce	11,496
Programs	
Workforce Development	\$100,000
Commissioner	125,000
Culture & Tourism: Minnesota Discovery Center	1,123,000
Total	\$4,628,360

**IRON RANGE RESOURCES AND REHABILITATION BOARD
OF THE STATE OF MINNESOTA
INTERIM FY12 OPERATIONAL EXPENDITURE FUNDING APPROVAL**

Resolution No.: 11-033

IT IS HEREBY RESOLVED, that the Board approves the expenditure of agency funds for those operations and programs of the Office of the Commissioner of Iron Range Resources and Rehabilitation agency for the purposes and in the amounts proposed by the Commissioner, with such approval to remain effective until the earlier of the date of September 30, 2011, or the date the Board formally approves a FY12 budget for the agency's operations, programs and projects at a subsequent meeting of the Board and with such approved sums to be expended at rates and for purposes substantially similar to the manner in which such operational and program funds were expended during comparable periods of FY11.

PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 16th DAY OF JUNE 2011.

Member	Aye	Nay	Abstain	Excused
Senator Tom Bakk				X
Senator John Carlson	X			
Senator Paul Gazelka	X			
Senator Tom Saxhaug				X
Senator Dave Tomassoni	X			
Representative Tom Anzelc	X			
Representative Dave Dill	X			
Representative Carolyn McElfatrick	X			
Representative Carly Melin	X			
Representative Tom Rukavina	X			
Mr. Joe Begich	X			
Mr. David Chura	X			
Mr. Jack Ryan				X
TOTAL	10	0	0	3

Signed: _____
Tom Rukavina, Chair

Senator Paul Gazelka requested that staff provide additional information regarding the proposed legislative changes related to the taconite production tax. Senator John Carlson asked for a side-by-side comparison of the FY11 budget versus the FY12 budget request for Quarter 1.

5) Adjournment

The meeting adjourned at 10:45 a.m.