

**Meeting
of the
Iron Range Resources
and
Rehabilitation Board**

**Friday, April 15, 2011
1:30 p.m.
IRRRB
Eveleth, Minnesota**

**MEETING OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD
IRRRB, Eveleth, Minnesota
Friday, April 15, 2011
1:30 p.m.**

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**MEETING OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD
IRRRB
Eveleth, Minnesota
Friday, April 15, 2011 – 1:30 p.m.**

Agenda

- 1) Roll Call
- 2) Approval of the February 23, 2011, Minutes
- 3) Commissioner's Comments
- 4) Douglas J. Johnson Economic Protection Trust Fund
Action required: Project approval requires 10 votes
 - a) PolyMet Mining, Inc.
- 5) Taconite Area Environmental Protection Fund
Action required: Project approval requires 7 votes
 - a) Chisholm Hibbing Airport Authority
 - b) City of Hibbing
 - c) City of Tower
 - d) IRRRB Local Business Loan Guaranty Program
- 6) Adjournment

Approval of the February 23, 2011, Minutes

Wednesday, February 23, 2011

5:30 p.m.

State Office Building, Room 5

St. Paul, Minnesota

I. Roll Call

Senator David Tomassoni, Chair, called the meeting to order at approximately 5:35 p.m. Present: Representative Tom Anzelc, Representative David Dill, Representative Carolyn McElfatrick, Representative Carly Melin, Representative Tom Rukavina, Senator Tom Bakk, Senator John Carlson, Senator Paul Gazelka, Senator Tom Saxhaug, Mr. Joe Begich, Mr. Jack Ryan. Excused: 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; Tom Micheletti, Co-President & CEO, Excelsior Energy, Inc.; John Fedo, Consultant for Iron Range Racing Complex, LLC.

II. Approval of the December 16, 2010, Minutes

Action required: Approval requires 7 votes

Motion by Citizen Joe Begich to approve the December 16, 2010, minutes. Seconded by Representative David Dill. 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 Tom Saxhaug, Senator David Tomassoni, Mr. Joe Begich, Mr. Jack Ryan

Voting Against the Motion: None

Abstain: None

Excused: Senator Tom Bakk, Mr. David Chura

5) Reorganization of the Board (2011-2012)

Action required: Approval requires a majority vote of the quorum present

a. Election of Chair and Vice Chair

Motion by Representative Tom Anzelc to elect Representative Tom Rukavina as Chair and Senator David Tomassoni as Vice Chair of the Iron Range Resources & Rehabilitation Board for 2011-2012. 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 Tom Saxhaug, Senator David Tomassoni, Mr. Joe Begich, Mr. Jack Ryan

Voting Against the Motion: None

Abstain: None

Excused: Senator Tom Bakk, Mr. David Chura

3) Taconite Area Environmental Protection Fund

Action required: Approval requires 7 votes

a) Franconia Minerals – Resolution No. 11-024

Motion by Representative David Dill to authorize the expenditure of up to \$1,000,000 of TEPF Funds for the Franconia Minerals Warrant Exercise Project as presented in Resolution No. 11-024. Seconded by Senator Tom Saxhaug. 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 Tom Saxhaug, Senator David Tomassoni, Mr. Joe Begich, Mr. Jack Ryan

Voting Against the Motion: None

Abstain: None

Excused: Senator Tom Bakk, Mr. David Chura

Franconia Minerals



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To: Iron Range Resources and Rehabilitation Board

From: Tony Sertich
Commissioner

Date: February 23, 2011

Re: FRANCONIA MINERALS WARRANTS

Background

On June 15, 2006, the IRRR Board approved an expenditure of \$1.25 million from the Taconite Area Environmental Protection Fund (TEPF) for a direct loan to Franconia Minerals Corporation (Franconia) as part of a \$10 million project to allow Franconia to proceed with a phase of their project to develop a copper-nickel-platinum group minerals mining operation known as the Birch Lake Project near Babbitt. The Minnesota Department of Employment and Economic Development (DEED) also agreed to lend \$1.25 million to Franconia (as a loan participant), with the remaining \$7.5 million for the phase to come from private equity sources. As partial consideration for the State's loan, Franconia agreed to issue 2,500,000 warrants to the State (divided equally between IRRRB and DEED) at a price indexed to the stock price at the time the loan agreement was executed.

Serving as the lead agency, IRRRB executed a loan agreement with Franconia effective September 29, 2006; however, Franconia did not draw funds on the original loan. Subsequently, DEED agreed to provide Franconia with a \$500,000 grant. The loan agreement was amended on December 15, 2008, reflecting a reduction in the loan amount to \$2 million and a reduction in DEED's participation in the loan to \$750,000. DEED maintained its interest in 50% of the warrants. Franconia drew the entire \$2 million of available loan funds, effectively locking in a warrant exercise price of Canadian (C) \$0.75 per share of common stock. The right to exercise the warrants expires on January 13, 2012.

Since the date Franconia drew the loan funds, its stock has been below the warrant exercise price. However, on December 20, 2010, it was announced that Franconia had entered into an arrangement agreement with Duluth Metals Limited (Duluth) pursuant to which Duluth will acquire 100% of the common stock of Franconia at a price of C\$0.90 per share, pending Franconia shareholder approval, which we expect will occur at a special shareholder meeting scheduled on March 3, 2011.

Options for Proceeding with Warrants

There are 3 primary options available for consideration:

Option 1 – Do Nothing Until After the Franconia-Duluth Arrangement is Approved. Under the terms of the proposed transaction, if the State chooses to wait and exercise its warrants after the Franconia-Duluth arrangement is approved, for each warrant exercised after the transaction, the State would receive a warrant to purchase .164 shares of Duluth stock and receive additional cash consideration of C\$0.45. Assuming the transaction is consummated and given the current selling price of Duluth stock (\$2.80 as of market close on February 16th), each warrant would have a current cash value of C\$0.92.

However, by waiting and exercising the warrants in Duluth after March 3rd, a six month restriction would be imposed on selling the stock after it is acquired. This restriction would place an inherent risk on the State should the value of Duluth stock drop significantly during that waiting period.

Option 2 – Try to Market the Warrants Prior March 3rd. The State could attempt to market the warrants prior to March 3rd. We are uncertain about the logistics of such a transaction, but have been advised that we could expect a broker to ask for 15-20% of our potential gain as a transaction fee.

Option 3 – Exercise the Warrants Prior to March 3rd. The State could exercise its warrants in Franconia stock prior to March 3rd, thus becoming a shareholder of record before the likely approval of the Franconia-Duluth arrangement. By doing so, no restrictions on resale would be placed on the Duluth stock, which would be marketable immediately. Total cost to exercise the IRRRB's portion of the warrants would be C\$937,500 (0.75 X 1.25M), plus an additional amount for transaction costs. Funds for such an exercise could be taken from the TEPF. At this time it is assumed DEED would also commit an identical amount for transfer to the agency to exercise its portion of the warrants.

If the Franconia-Duluth transaction is approved, the State would have the right to receive cash (at C\$0.90 per Franconia share), Duluth shares (0.328 Duluth shares per Franconia share), or a combination of cash and Duluth shares, subject to proration. Attached is a table depicting the IRRRB's position and various scenarios assuming the IRRRB exercises its warrants in Franconia prior to March 3rd. The shares of Franconia obtained by the State as a result of exercising the warrants would be restricted for six months in the event the Franconia-Duluth transaction is not approved.

I recommend Board approval of Option 3. As a hedge against exchange rate fluctuations and to cover any contingent costs attached to Option 3, such as brokerage fees, my recommendation is for the Board to approve the expenditure of up to \$1 million (U.S.) from the TEPF to allow the IRRRB to exercise the warrants.

Regardless of the decision made about the warrants, it appears that the underlying transaction between Franconia and Duluth will be positive for all parties, including the shareholders of Franconia. The new entity would likely be better positioned to go through the environmental review process and ultimately commercialize the deposits. The agency, by agreeing to allow the surviving entity to "assume" the debt with Franconia, would be demonstrating support of the proposed transaction and underlying mining project.

Franconia/Duluth Transaction

IRRRB Scenarios – Assuming action to exercise warrants prior to March 3, 2011
\$937,500 Investment (Canadian Dollars) Required

- Scenario 1 – Opt to take 100% cash consideration from transaction. This option may be subject to pro-ration.
- Scenario 2 – Opt to immediately recover our cash outlay and take stock for remaining consideration. This option would be subject to pro-ration.

- Scenario 3 – Take half consideration in cash and the other half in stock. This option would be guaranteed, and not subject to pro-ration.
- Scenario 4 – Opt to take 100% stock in Duluth Metals as consideration. This option would be subject to pro-ration.

* Note – All cash proceeds assume Canadian dollars. Exchange rate as of February 17th is \$1

Scenario	Cash Proceeds	# Shares Duluth Metals Stock	Hypothetical Proceeds from Duluth Metals Stock Sale		Hypothetical Total Proceeds		Hypothetical Investment Gain	
			\$2	\$4	\$2	\$4	\$2	\$4
1	\$1,125,000	0	0	0	\$1,125,000	\$1,125,000	\$188,500	\$188,500
2	\$937,500	68,333	\$136,666	\$273,332	\$1,074,166	\$1,210,832	\$136,666	\$273,332
3	\$562,500	205,000	\$410,000	\$820,000	\$972,500	\$1,382,500	\$35,000	\$445,000
4	0	410,000	\$820,000	\$1,640,000	\$820,000	\$1,640,000	-\$117,500	\$702,500

Canadian = \$1.0175 American.

**IRON RANGE RESOURCES AND REHABILITATION BOARD
OF THE STATE OF MINNESOTA
TACONITE AREA ENVIRONMENTAL PROTECTION FUND
FRANCONIA MINERALS CORPORATION PROJECT
STOCK WARRANT EXERCISE FUNDS**

Resolution No.: 11-024

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, Minnesota Statutes Section 298.22, Subd. 6, provides that the Commissioner may acquire an equity interest in any project for which the agency provides funding (the “**Equity Authority**”); and

WHEREAS, the Board on June 15, 2006, and the Governor subsequently approved the expenditure of up to \$2,500,000 of TEPF Funds for a loan (the “**IRRRB Loan**”) to Franconia Minerals Corporation (“**Franconia**”) to provide funds to further Franconia’s development of the Birch Lake copper-nickel-platinum group metals deposit project commonly known as the Birch Lake Project (“**Birch Lake Project**”) within the TAA; and

WHEREAS, the Minnesota Department of Employment and Economic Development (“**DEED**”) has funds made available to it under the provisions of Minnesota Statutes Section 116J.423 (“**Minerals 21st Century Funds**”) which it is authorized to use to make loans, equity investments, and grants under various circumstances to assist in the development of minerals processing facilities; and

WHEREAS, the agency over a period of time in 2009 loaned Franconia \$2,000,000 for its Birch Lake Project, \$1,250,000 of which IRRRB Loan proceeds came from TEPF Funds and \$750,000 of which IRRRB Loan proceeds came from the agency's sale to DEED of a \$750,000 participation interest in the IRRRB Loan, for which purchase DEED used \$750,000 of Minerals 21st Century Fund monies. DEED also provided a grant of \$500,000 of Minerals 21st Century Funds to Franconia for its Birch Lake Project; and

WHEREAS, the terms of the IRRRB Loan as presented to the Board and Governor included Franconia's offer to issue to the State warrants ("**Franconia Warrants**") that would entitle the State to purchase one share of common stock of Franconia for each dollar advanced by the State (whether by DEED or by IRRRB) under the terms of the loan documents associated with the IRRRB Loan, at a price and on related terms as set forth in a Term Sheet that was presented to the Board; and

WHEREAS, Franconia, in consideration of the IRRRB Loan proceeds that were advanced to it, granted the State stock warrants that entitle the State to purchase up to 2,500,000 shares of Franconia stock (that total based upon the \$2 million IRRRB Loan and the \$500,000 DEED Grant) at a certain price and under certain circumstances as more specifically explained in the accompanying Board packet materials, and verbally presented to the Board on the record at the meeting by the Commissioner's staff (collectively, the "**Board Packet Materials**"); and

WHEREAS, the Commissioner has requested the Board to authorize the expenditure of up to \$1,000,000 of TEPF Funds to enable the Commissioner to exercise the stock warrants to purchase outright, or reimburse DEED for the purchase of, up to 1,250,000 shares of Franconia stock (the "**Warrant Exercise Project**"); and

WHEREAS, the Board met in open session at 5:30 p.m. on February 23, 2011, in Room 5 at the State Office Building in St. Paul, to consider, among other matters, the Commissioner's request for approval for the expenditure of up to \$1,000,000 of TEPF Funds for the Warrant Exercise Project; and

WHEREAS, the Board has determined that it would be in the public interest to authorize the expenditure of up to \$1,000,000 of TEPF Funds for the Warrant Exercise Project.

NOW, THEREFORE, IT IS RESOLVED, that the Board hereby approves the expenditure of up to \$1,000,000 of TEPF Funds (the "Authorized TEPF Funds") for either:

- the purchase by the Commissioner of up to 1,250,000 shares of stock in Franconia pursuant to the rights granted in the Franconia Warrants; or,
- to fund any commitment by the Commissioner to DEED to repay DEED for up to one-half of any losses sustained due to stock price or currency fluctuations, if DEED makes available to the Commissioner Minerals 21st Century Funds that are used instead of the Authorized TEPF Funds to purchase the shares of stock in Franconia pursuant to the rights granted in the Franconia Warrants.

BE IT FURTHER RESOLVED, that any such uses of the Authorized TEPF Funds shall be on the terms and subject to the conditions set forth in the Board Packet Materials and that the Authorized TEPF Funds also may be used by the Commissioner to pay any brokerage or other costs related to the purchase or sale of any shares of Franconia stock or of the Duluth Metals stock into which the Franconia stock may be converted.

PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 23RD DAY OF FEBRUARY 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	11	0	0	2

Signed: _____
 Representative Tom Rukavina, Chair

6) Board Account

Action required: Approval requires 7 votes

a) Bois Forte Band of Chippewa – Resolution No. 11-025

Motion by Representative David Dill to approve the Bois Forte Band of Chippewa request as presented in Resolution No. 11-025. 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 Tom Saxhaug, Senator David Tomassoni, Mr. Joe Begich, Mr. Jack Ryan

Voting Against the Motion: None

Abstain: None

Excused: Senator Tom Bakk, Mr. David Chura

Bois Forte Band of Chippewa



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To: Iron Range Resources and Rehabilitation Board

From: Tony Sertich
Commissioner

Date: April 13, 2011

**Re: BOIS FORTE BAND OF CHIPPEWA - \$100,000 GRANT TO CONSTRUCT
INFRASTRUCTURE FOR HOUSING IN THE VILLAGE OF NETT LAKE**

The Bois Forte Band of Chippewa is requesting a \$100,000 grant to be applied toward the cost of streets and storm sewers for 12 units of new housing for low-income and homeless families in the Village of Nett Lake. IRRRB funding would fill the gap in the \$3.141 million project and allow construction to begin this summer, with completion and occupancy by December.

Plans call for six one-story, townhome-style duplexes (six 2-bedroom units and six 3-bedroom units) that would accommodate eight low-income families and four long-term homeless families. The eight low-income units will provide affordable workforce housing with rents of \$450/month for 2-bedroom and \$550/month for 3-bedroom units. The four homeless family units will carry rents set at 30% of residents' incomes.

The units will incorporate "green" design elements, including energy efficient building envelope and windows, high efficiency heating & hot water and Energy Star® lights and appliances. The units will be "stick-built" on-site, with a project labor agreement in force with the Iron Range Building Trades Council for the project, which will create 17 FTE construction jobs.

SOURCES

USES

Minnesota Housing Finance Agency	\$1,414,750	Development Costs	\$1,998,350
Greater Minnesota Housing Fund	120,000	Infrastructure	673,500

Minnesota Chippewa Tribe Finance Corporation (Loan)	400,000	Architectural & Engineering/Legal/Other	292,000
Federal Home Loan Bank	240,000		
Native American Housing and Self Determination Act (Bois Forte)	200,000	Fixtures, Furnishings & Equipment	33,000
Bois Forte land	15,000	Land	15,000
Bois Forte cash	75,000	Contingency	135,400
Indian Health Services	332,500		
Taconite Property Tax Relief Fund (2010 distribution)	250,000		
IRRRB (Infrastructure)	100,000		
Totals	\$3,147,250		\$3,147,250

Funding Authorization

This project is authorized under the provisions of the Iron Range Resources and Rehabilitation Board Account, as codified under Minnesota Statutes Section 298.22 and 298.28, Subdivision 7, in that it supports economic development taking place within or for the benefit of the Taconite Assistance Area defined in section 273.1341.

**IRON RANGE RESOURCES AND REHABILITATION BOARD
 OF THE STATE OF MINNESOTA
 BOARD ACCOUNT
 BOIS FORTE BAND OF CHIPPEWA INFRASTRUCTURE PROJECT
 GRANT APPROVAL**

Resolution No.: 11-025

WHEREAS, the Commissioner is authorized to expend, upon approval of a majority vote of the members of the Iron Range Resources and Rehabilitation Board (“**Board**”), the monies made available under Minnesota Statutes Section 298.22 (“**Board Account 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 that either are located within or which benefit the TAA; and

WHEREAS, the agency’s approved FY 2011 Budget includes a projected Board Account Carry-Forward Balance of \$564,000 as of July 1, 2011 (the “**Carry-Forward Balance**”); and

WHEREAS, the Bois Forte Band of Chippewa (“**Bois Forte Band**”) has requested a grant in the amount of \$100,000 to assist it in constructing streets and storm sewers for 12 units of new housing for low-income and homeless families in the Village of Nett Lake (the “**Housing Infrastructure Project**”); and

WHEREAS, the Commissioner has requested the Board to approve an amendment of the approved FY 2011 Budget that would reallocate \$100,000 of the Carry-Forward Balance to the Business Development Projects account (the “**BDP Account**”) of the approved FY 2011 Budget, and to then approve the expenditure of up to \$100,000 of such additional BDP Account funds to provide a grant for the Housing Infrastructure Project; and

WHEREAS, the Board met in open session at 5:30 p.m. on February 23, 2011, in Room No. 5 of the State Office Building in St. Paul, to consider, among other matters, the proposed amendment of the approved FY 2011 Budget and the proposed expenditure of those additional BDP Account funds for a grant for the Bois Forte Band’s Housing Infrastructure Project and has determined that the expenditure of the requested Board Account Funds for that purpose would be in the public interest and promote economic development within or for the benefit of the TAA.

NOW, THEREFORE, IT IS RESOLVED, that the Board hereby approves the proposed amendment of the approved FY 2011 Budget to reallocate \$100,000 of the Carry-Forward Balance to the BDP Account of the approved FY 2011 Budget, and further approves the expenditure of up to \$100,000 of such additional BDP Account funds to provide a grant \$100,000 to the Bois Forte Band for its Housing Infrastructure Project.

BE IT FURTHER RESOLVED that the Board’s approval for the expenditure of the said funds for the said Housing Infrastructure Project is further contingent upon the agency, in its grant contract, requiring the 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.

PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 23rd DAY OF FEBRUARY 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	11	0	0	2

Signed: _____
 Representative Tom Rukavina, Chair

7) Other

Action required: Project approval requires 7 votes

a) Central Iron Range Development Land Options – Resolution No. 11-026

Motion by Senator Tom Saxhaug to approve the Central Iron Range Development Land Options proposal as presented in Resolution No. 11-026. Seconded by Senator David Tomassoni.

Motion by Representative Tom Anzelc to amend the Saxhaug motion by adding language on Page 2 of Resolution No. 11-026 (as underlined):

***NOW, THEREFORE, IT IS RESOLVED,** that the Board hereby approves the Commissioner’s proposed Option Project to grant, in his capacity as a municipal development authority under the provisions of Minnesota Statutes Sections 298.2211 and Sections 469.152-469.165, an option or options to Excelsior Energy Inc. and/or Iron Range Racing Complex, LLC, for a term not to exceed two years in whatever priority of rights the Commissioner may elect, to entitle such entity or entities to acquire all or portions of the Premises for the economic development projects described in the Board Packet Materials, subject to the further condition that the granting of such option(s) shall otherwise be in compliance with Minnesota Statutes Sections 16B.296, 298.2211 and 469.152-469.165, as the same may be amended from time to time, and the terms of sale of the Premises shall be for an amount or amounts collectively that are no less than the reasonable market value of such Premises lands.*

The Anzelc motion to amend the Saxhaug motion failed.

Senator Tom Saxhaug renewed his motion to approve the Central Iron Range Development Land Options proposal as presented in Resolution No. 11-026. 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 Tom Bakk, Senator John Carlson, Senator Paul Gazelka, Senator Tom Saxhaug, Senator David Tomassoni, Mr. Joe Begich, Mr. Jack Ryan

Voting Against the Motion: None

Abstain: None

Excused: Mr. David Chura

Central Iron Range Development Land Options



IRRRB
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Fax: (218)735-3047

To: Iron Range Resources and Rehabilitation Board

From: Tony Sertich
Commissioner

Date: April 13, 2011

Re: **CENTRAL IRON RANGE DEVELOPMENT LAND OPTIONS**

IRRRB owns approximately 840 acres of land within the boundaries of the city of Hibbing. The land was acquired to support commercial development along the Highway #169 corridor between Hibbing and Chisholm.

IRRRB has entered into negotiations with two organizations pursuing projects on the site:

Iron Range Racing Complex, LLC proposes to develop a facility that includes various motorsports for year-round motorplex operation, horse racing, a card room and a racino, subject to legislative approval. This project will require approximately 615 acres of the site.

Excelsior Energy, Inc. proposes to develop an electrical generation facility on the site. This site is included in Excelsior Energy's development plan as one of three possible project sites. This project will require approximately 225 acres of the site.

The two organizations have agreed that both projects could locate on the site and have requested purchase options for the real estate so their planning and development can proceed. The proposed terms are for 48-month options with a \$25,000 payment. Sale price, if the options are exercised, will be based on market value of the property to be purchased.

The IRRRB has a long history of involvement with both of these projects. The land was originally acquired as part of our participation in the original motorplex project. We are also involved with Excelsior Energy with loans funding a portion of their development costs. In support of the IRRRB's mission to create jobs and to enhance the economy of the region, I am requesting Board approval to enter

into purchase options in continued support of these two projects. If approved, these options will be contingent on support of the city of Hibbing.

**IRON RANGE RESOURCES AND REHABILITATION BOARD
OF THE STATE OF MINNESOTA
CENTRAL IRON RANGE DEVELOPMENT LAND OPTIONS APPROVAL**

Resolution No.: 11-026

WHEREAS, the State of Minnesota acting by and through its Office of the Commissioner of Iron Range Resources and Rehabilitation (“**Commissioner**”) is the owner of certain real property located in the City of Hibbing, County of St. Louis, State of Minnesota; as more fully described in the attached Exhibit A, the contents of which are incorporated herein by reference (herein below described and defined as the “**Premises**”); which lie within the Taconite Assistance Area (“TAA”) defined in Minnesota Statutes Section 273.1341; and,

WHEREAS, Commissioner has been granted authority by Minnesota Statutes, Section 298.22, Subdivision 3 to acquire real property interests and by Minnesota Statutes Section 298.2211, subdivision 1 to act as a municipal industrial development authority for the purposes specified in Sections 469.152 to 469.165, and, in such capacities, for such purposes and under such authority, is authorized to acquire and convey interests in real property for economic development projects within the TAA; and,

WHEREAS, Excelsior Energy Inc., a Minnesota corporation and Iron Range Racing Complex, LLC, a Minnesota limited liability company, each has requested the Commissioner to grant it an option to acquire some or all portions of the Premises as the site for the construction and development of economic development projects as more specifically set forth in the Board informational packet materials that were distributed to the Board and in the statements made to the Board at its February 23, 2011, meeting (collectively, the “**Board Packet Materials**”) which each entity hopes to undertake within the TAA; and,

WHEREAS, the Commissioner has determined that the granting of the requested purchase option(s) to either or both of the potential optionee entities for the potential economic development of all or portions of the Premises in the manner, for the purposes, and on the terms set forth in the Board Packet Materials will promote and assist in the economic development of the TAA by: (i) increasing the local tax base and (ii) creating and maintaining productive, permanent and skilled employment;

WHEREAS, the Board met in open session at 5:30 p.m. on February 23, 2011, in Room No. 5 of the State Office Building in St. Paul, to consider, among other matters, the Commissioner’s proposal to grant an option or options to Excelsior Energy Inc. and/or Iron Range Racing Complex, LLC, for their proposed development(s) of the Premises and has determined that the Commissioner’s proposed Project to grant options to such entities to purchase all or certain portions of the Premises on the terms proposed in the Board Packet Materials (the “**Option Project**”) would be in the public interest and promote economic development within the TAA.

NOW, THEREFORE, IT IS RESOLVED, that the Board hereby approves the Commissioner's proposed Option Project to grant, in his capacity as a municipal development authority under the provisions of Minnesota Statutes Sections 298.2211 and Sections 469.152-469.165, an option or options to Excelsior Energy Inc. and/or Iron Range Racing Complex, LLC, in whatever priority of rights the Commissioner may elect, to entitle such entity or entities to acquire all or portions of the Premises for the economic development projects described in the Board Packet Materials, subject to the further condition that the granting of such option(s) shall otherwise be in compliance with Minnesota Statutes Sections 16B.296, 298.2211 and 469.152-469.165, as the same may be amended from time to time, and the terms of sale of the Premises shall be for an amount or amounts collectively that are no less than the reasonable market value of such Premises lands.

PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 23rd DAY OF FEBRUARY 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	12	0	0	1

Signed: _____
 Representative Tom Rukavina, Chair

8) Adjournment

The meeting adjourned at 6:50 p.m.

Douglas J. Johnson Economic Protection Trust Fund

Action required: Project approval requires 10 votes

- a) PolyMet Mining, Inc.

PolyMet Mining, Inc.
Direct Loan

APPLICANT:

Poly Met Mining, Inc. (PolyMet), a wholly owned Minnesota subsidiary of PolyMet Mining Corp., which is incorporated in Canada.

PRINCIPALS:

Mr. Joe Scipioni, President and CEO
Mr. Douglas Newby, CFO

BRIEF PROJECT DESCRIPTION:

Ongoing project development costs including purchase of land, which PolyMet will exchange with the U.S. Forest Service for lands at its proposed mining site.

PROJECT COST:

\$34,000,000

PROJECT BREAKDOWN:

Glencore AG, equity investment	\$30,000,000
Iron Range Resources Direct Loan, 5 yrs @ 5%	<u>\$ 4,000,000</u>
Total	\$34,000,000

COLLATERAL:

Iron Range Resources loan will be secured with a first-priority mortgage on the land. PolyMet will be obligated to transfer title to the parcels to the IRRRB should it fail to exchange the land with the U.S. Forest Service on or before June 30, 2016. PolyMet Mining Corp. will provide a corporate guarantee for the full amount of debt. The agency will also receive warrants allowing it to purchase 400,000 shares of PolyMet Mining Corp. common stock traded on the New York Stock Exchange at an exercise price of \$2.50 per share.

JOBS:

360 full-time positions when in production, plus 1.25 million hours of pre-operations construction work.

CONTINGENCIES:

Independent appraisal of collateral must be sufficient to support the loan. New York Stock Exchange must authorize the issuance and terms of the warrants.

TECHNICAL ADVISORY COMMITTEE RECOMMENDATIONS:

Recommended approval of the project at the Committee's Monday, April 11, 2011, meeting.

FUNDING AUTHORIZATION

DJJ: This project is authorized under the provisions of the Douglas J. Johnson Economic Protection Trust Fund (“DJJ”), as codified under Minnesota Statutes Sections 298.291-298.298, by providing funds to participate with private sources in financing for a project located within the Taconite Assistance Area designated in Minnesota Statutes Section 273.1341 (“TAA”) which will serve the purposes detailed in Minnesota Statutes Section 298.292, subdivision 1. Funding is sought from the DJJ corpus under the authority of 298.296, subd. 2(c).

PROJECT DESCRIPTION:

PolyMet intends to develop the first non-ferrous mine within the Taconite Assistance Area (TAA) as defined in Minn. Stat. Sec. 273.1341. PolyMet plans to mine copper, nickel and other precious metals near Babbitt and ship the materials along an already existing rail line to the former LTV Steel plant in Hoyt Lakes (collectively, the “NorthMet” project) for processing and refining into shippable product. PolyMet began the environmental review process in 2005 and expects to receive all regulatory approvals necessary to begin operations in 2013. To date PolyMet has invested over \$110 million in pre-operation activities. In addition, in November 2010, Glencore AG committed to provide up to \$30 million in equity for this phase of the project.

PolyMet has purchased options to acquire land, which it would exchange with the U.S. Forest Service for lands at the NorthMet site. One tract is 5,272 acres near Biwabik, with a purchase price of \$3,250,000. The other tract consists of 32 acres near McFarland Lake in Cook County, with a purchase price of \$750,000. PolyMet is seeking financing from the agency to enable it to exercise the land purchase options. Agency funds will be released in tranches as PolyMet executes each transaction.

MANAGEMENT TEAM:

Mr. Joe Scipioni, President and CEO, is a native of the Iron Range and has over 30 years of management experience in the local mining industry. Mr. Scipioni began working for PolyMet in July, 2006.

Mr. Douglas Newby, CFO, has 30 years of experience in mining finance and has worked for companies and in positions throughout the world. Mr. Newby began working for PolyMet in November, 2005.

Ms. LaTisha Gietzen, Vice President, is a native of the Iron Range and has over 10-years experience in environmental and government affairs. She is responsible for all regulatory affairs and interactions with permitting agencies. Ms. Gietzen began working for PolyMet in August, 2007.

COLLATERAL REVIEW:

Market value of collateral pledged to loan appears to be sufficient.

PAST IRON RANGE RESOURCES FUNDING HISTORY

The IRRRB approved financing for the land purchase at its December 16, 2010 meeting. However, prior to receiving Governor's Approval as required under Minnesota Statute Section 298.296, subd. 1, a lawsuit was filed against the IRRRB to stop the agency from financing the loan, claiming the agency's action violated Minnesota Statutes Section 116D.04. On March 3, 2011, Governor Dayton signed 2011 Minnesota Laws Chapter 4, which, in part, amended 116D.04 by clarifying that as an economic development agency without a regulatory role, the IRRRB may invest in projects in which environmental permitting applications had been initiated but not yet approved. In anticipation of IRRRB action under the provisions of the new law, the lawsuit was withdrawn on March 24, 2011.

POLY MET MINING, INC.
NORTHMET DEVELOPMENT PROJECT
DRAFT TERM SHEET

This draft term sheet is meant solely to facilitate continued discussions between the parties for a proposed loan from the Iron Range Resources and Rehabilitation Board to Poly Met Mining, Inc. and is not intended to constitute any type of offer from one party to the other. No investment will be made until both parties complete due diligence, obtain any and all necessary approvals, and enter into a formal loan agreement. All aspects of the transaction and credit documents will be in a form and substance acceptable to the Iron Range Resources and Rehabilitation Board and Poly Met Mining, Inc.

Lender: Iron Range Resources and Rehabilitation Board (“IRRRB” or “Lender”).

Borrower: Poly Met Mining, Inc. (“PolyMet” or “Borrower”), a Minnesota corporation that is a wholly owned subsidiary of PolyMet Mining Corp (“Parent”).

Guarantor: The Loan will be guaranteed by the Parent.

Amount: Up to \$4,000,000 (the “Loan”).

Project: PolyMet is seeking permits to commence production of copper, nickel, cobalt and precious metals at its NorthMet project near Hoyt Lakes, MN. PolyMet projects the project will employ approximately 360 full-time professional, skilled and semi-skilled people for a minimum of 20 years. Construction will require approximately an additional 1.25 million construction labor hours over a two year period.

Closing Date: Closing will take place in one or more tranches on or before June 30, 2011.

Due Date: All outstanding amounts of principal and accrued interest will be due on the earlier of June 30, 2016, or when the Loan is accelerated per the terms of the Loan Agreement.

Use of Proceeds: Borrower may use the proceeds of the Loan as follows: Tranche 1 – up to \$3,250,000 to purchase the “Hay Lake Parcel” as further described in Exhibit A of this agreement; Tranche 2 – up to \$750,000 to purchase the “McFarland Lake Parcel” as further described in Exhibit B of this agreement, (together the “Parcels”). Borrower plans to use these Parcels to exchange with the U.S. Forest Service (“USFS”) for lands located at the site of Borrower’s mining project (the “Land Exchange”). Upon receiving necessary approvals, Borrower shall complete the Land Exchange. In the

event Borrower fails to complete the Land Exchange on or before June 30, 2016, Lender shall have the option to require Borrower to transfer title to the Parcels to Lender in lieu of repayment of the Loan.

Loan Funds

Disbursement: The proceeds of the Loan will be disbursed upon closing of the purchase of the respective parcels of land with respect to Tranche 1 and Tranche 2. Proceeds will be disbursed at request of Borrower in the event that either parcel of land is purchased by the Borrower with other funds subsequent to the execution of this term sheet.

Loan Repayment

And Interest Rate: Interest will accrue on any outstanding principal balance of the Loan at a rate of five percent (5.00%) per annum until the Due Date. Interest will accrue on any outstanding sums after the Due Date at a rate of 10-year obligations of the US Treasury plus five percent (5.00%) per annum, adjusted annually. All accrued interest will be capitalized and added to the principal balance on January 1 of every year in which any principal is outstanding.

Loan Prepayment: There will be no penalties or restrictions for early repayment of the Loan after such time as Borrower obtains all approvals necessary to complete the Land Exchange.

Loan Default: The Loan Agreement will provide for conditions of default, notice of default, reasonable cure opportunity and remedies.

Security: Borrower agrees to grant to Lender a first priority lien position in the real property purchased with the proceeds of the Loan, including the Hay Lake Parcel and the McFarland Lake Parcel. The Borrower will be obligated to transfer title to the parcels to Lender should Borrower fail to obtain all necessary approvals to complete the Land Exchange on or before June 30, 2016.

Warrant Coverage: Upon execution of the Loan Agreement, Parent shall issue to the IRRRB warrants to purchase 400,000 shares of common stock of Parent at a price not to exceed \$2.50 (US) per share. These warrants are to carry a cashless exercise option, standard anti-dilution language, and shall not expire prior to the earlier of the one year anniversary of issuance of all permits needed to commence construction of the Project or June 30, 2016.

Confidentiality: Lender will maintain the confidentiality of all data obtained from Borrower to the fullest extent permitted under the Laws of the State of Minnesota.

Representations,
Covenants and
Warranties:

The Loan agreement will contain representations, covenants and warranties mutually agreed to by Lender and Borrower.

Information Rights: Lender shall receive annual audited financial statements of Parent, internally prepared quarterly financial reports of Borrower, and any other information reasonably requested. Lender will also receive standard inspection and visitation rights.

Fees: Each party shall be responsible for its own legal and other fees related to the closing of the transaction.

This term sheet shall expire June 30, 2011.

Taconite Area Environmental Protection Fund

Action required: Project approval requires 7 votes

- a) Chisholm Hibbing Airport Authority
- b) City of Hibbing
- c) City of Tower
- d) IRRRB Local Business Loan Guaranty Program

Chisholm Hibbing Airport Authority



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: April 15, 2011

Re: \$100,000 GRANT TO THE CHISHOLM-HIBBING AIRPORT AUTHORITY

The Chisholm-Hibbing Airport Authority (CHAA) is requesting \$100,000 to be used for the replacement or major rehabilitation of the 100 foot x 20 foot door for the Arrowhead hanger building, which will house Life Link III, a medical transport business that operates out of the Chisholm-Hibbing Airport. This money is in addition to funding previously provided by the agency for the project last summer.

Background

On August 19, 2010, the IRRR Board approved a \$300,000 Public Works grant for the remodeling and restoration of the 12,000 square foot Arrowhead hanger building and road access/apron to accommodate Life Link III. The project includes replacement of the hanger floor, insulation of exterior walls, as well as installation of in-floor heating, a sprinkler system, new wiring and outlets, air handling equipment, floor drain, water piping, new windows and doors and a new ceiling. In addition to the building renovation, a new access road, parking lot and aircraft apron will be constructed. Since the August 2010 Board meeting, CHAA was informed that it would need to replace or completely rehabilitate the 100 foot x 20 foot hanger door, increasing the cost of the project. CHAA also has secured an additional \$150,000 grant from the Department of Employment and Economic Development (DEED) Business Infrastructure grant program to help fund additional infrastructure costs associated with the project.

Life Link III

Life Link III is a national leader in ground and air medical transportation, providing critical care, advanced life support and basic life support transportation for patients in northeastern Minnesota and throughout the nation. They operate out of eight locations and employ 25 people in the Midwest region, and their Chisholm-Hibbing Airport operation is their busiest Midwest facility. Life Link currently is housed in a temporary facility at the airport but seeks to expand into the renovated space in the Arrowhead hangar building, where they will house one or two helicopters and a jet. Their Chisholm-Hibbing base serves a 50 mile radius from the airport and backs up other bases in Wisconsin, western and central Minnesota and eastern North Dakota. The expansion at the Chisholm-Hibbing Airport is expected to create seven FTE construction jobs and 10 new permanent jobs.

USES

SOURCES

Building renovation	\$409,800	IRRRB 2011	\$100,000
Infrastructure	301,000	IRRRB 2010	300,000
A & E	234,200	Private	2,025,000
Equipment	2,000,000	DEED grants	400,000
Hanger Door	175,000	MN DOT Grant	95,000
		Applicant	200,000
TOTAL	\$3,120,000	TOTAL	\$3,120,000

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.

City of Hibbing



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 and Rehabilitation Board

From: Tony Sertich
Commissioner

Date: April 13, 2011

**Re: A \$99,200 GRANT TO THE CITY OF HIBBING TO REPAIR STORM SEWER
INFRASTRUCTURE**

Background

The City of Hibbing is requesting a \$99,200 grant to correct stormwater infrastructure problems affecting the Davich Building and the recently acquired Center for Independent Living in Northeast Minnesota property (Center for Independent Living), which was formerly known as UBC Lumber. The subject properties are contiguous and are located at the junction of Highways 169 and 37 in Hibbing. The IRRRB grant will result in repairing long-standing stormwater problems in this area of the city.

The Davich Building houses several businesses including the Minnesota Workforce Center, Global Minerals, Kiddy Karousel and Advantage Billing Concepts; and a total of 77 full-time employees work in this office complex.

The Center for Independent Living has outgrown their existing office near downtown Hibbing, and will be moving to their new and expanded facility after the ongoing building renovation and stormwater projects are complete. The new Center for Independent Living office will house 25 full-time employees.

Project Details

Site-elevation problems are causing water to flow into the new Center for Independent Living building from the parking lot and adjacent streets and properties. Before the extensive remodeling of the building interior may begin, the water infiltration problem must be resolved.

A plan has been developed to remove, lower and re-grade the entire parking lot and area surrounding the building. A drainage swale will be constructed and stormwater will be directed to a collection point located between the Center for Independent Living and Davich properties.

On the Davich site, part of the storm sewer and catch basin have collapsed, and a storm-sewer pipe that runs through the parking lot is protruding above grade, causing a safety hazard which obstructs access to building patrons. Improvements include removing and relocating the storm sewer 25 feet to the west, which will allow the pipe to be buried at a deeper elevation. In addition to the stormwater repairs, the building owner is repaving the entire parking lot. Upon completion of the project, the City of Hibbing will be granted an easement through the Davich property, and the storm sewer will become public infrastructure.

<u>USES</u>		<u>SOURCES</u>	
Stormwater Improvements - Davich	\$49,200	Davich Property	\$63,585
Parking lot Improvements - Davich	\$63,585	Center for Independent Living	\$64,600
Stormwater and Site Improvements - Center for Independent Living	\$114,600	Hibbing (In Kind)	\$15,000
Professional Services - Hibbing	\$15,000	IRRRB	\$99,200
TOTAL	\$242,385	TOTAL	\$242,385

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 projects, including construction of sewer and water systems located within the Taconite Assistance Area defined in section 273.1341.

City of Tower



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: April 15, 2011

Re: AMENDMENT OF THE CITY OF TOWER'S \$120,000 FY11 EAST TWO RIVERS PROJECT GRANT TO REPLACE MATCHING FUNDS FROM ST. LOUIS COUNTY WITH DEPARTMENT OF EMPLOYMENT AND ECONOMIC DEVELOPMENT (DEED) MATCHING FUNDS

Background

At the December 16, 2010, IRRR Board meeting, a \$120,000 FY11 grant was awarded to the city of Tower for the construction of Phase 1 of a \$5.7 million East Two Rivers harbor development project, including the new Highway #169 bridge and the rerouting of Highway #135. Phase 2 is approximately a \$2 million project that will complete the 2.3 acre riverfront development, including a marina with a docking facility for approximately 100 boats as well as the dredging of the river channel. It is projected that the completion of Phases 1 & 2 will lever another \$40 million in private investment. The project also includes 90 units of housing, a refurbished riverfront park with a performance pavilion, 2,500 feet of new trails and 95,000 square feet of commercial space, including 45,000 square feet on Main Street. IRRRB's grant was approved contingent on the City receiving matching funds of at least \$250,000 from St. Louis County.

The sources and uses for the project break out as follows:

Table with 2 columns: USES and SOURCES. Rows include Hwy #169 & new bridge, Hwy #135 reroute, and A&E and professional fees, with corresponding dollar amounts and source names like Iron Range Resources, Applicant, and Federal Hwy Admin/MN DOT.

		Taconite tax – Nickel funds	3,177,818
		City – IRR release of CD*	130,000
		DEED - 2006 Redevelopment	400,000
		DEED – Business Development Public Infrastructure	249,980
		Interest earned	85,000
TOTAL	\$5,709,723	TOTAL	\$5,709,723

Amendment

The City of Tower is requesting that the IRRRB allow the City to replace the \$400,000 of St. Louis County matching monies with \$400,000 in matching funds from the DEED Redevelopment Program.

I recommend that the City be allowed to replace the County matching funds with DEED funding.

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.

IRRRB Local Business Loan Guaranty Program



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: April 12, 2011

Re: LOCAL BUSINESS LOAN GUARANTY PROGRAM

The inability of many local businesses to access capital has been identified as a serious obstacle to economic growth in our region. This situation has been exacerbated in recent years with the recession and tightening of credit markets. I propose the implementation of an IRRRB Local Business Loan Guaranty Program to address this issue.

Guidelines for the loan guaranty program were developed with the assistance of many of our financial partners and other stakeholders. Under this program, the IRRRB will guaranty up to \$75,000 of a new \$100,000 loan to an eligible business. The program will assist a minimum of 13 businesses by providing access to in excess of \$1.3 million in bank financing, assuming it is fully subscribed.

I recommend approval of the program with an initial capitalization of \$1 million out of FY 11 Business Development Project budget funds in the TEPF.