

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

**Wednesday, February 23, 2011  
5:30 p.m.  
State Office Building, Room 5  
St. Paul, Minnesota**

**MEETING OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD**  
**State Office Building, Room 5, St. Paul, Minnesota**  
**Wednesday, February 23, 2011**  
**5:30 p.m.**

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**MEETING OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD**  
**State Office Building, Room 5**  
**St. Paul, Minnesota**  
**Wednesday, February 23, 2011 – 5:30 p.m.**

**Agenda**

- 1) Roll Call
- 2) Approval of the December 16, 2010, Minutes
- 3) Commissioner's Comments
- 4) Reorganization of the Board (2011-2012)
  - a) Election of Chair and Vice Chair
- 5) Taconite Area Environmental Protection Fund

*Action required: Project approval requires 7 votes*

  - a) Franconia Minerals
- 6) Board Account

*Action required: Project approval requires 7 votes*

  - a) Bois Forte Band of Chippewa
- 7) Other

*Action required: Project approval requires 7 votes*

  - a) Central Iron Range Development Land Options
- 8) Adjournment

# Approval of the December 16, 2010, Minutes

Thursday, December 16, 2010

2:00 p.m.

Iron Range Resources

Eveleth, Minnesota

## I. Roll Call

Senator David Tomassoni, Chair, called the meeting to order at approximately 2:14 p.m. Present: Representative Tom Anzelc, Representative David Dill, Representative Tony Sertich, Senator Tom Saxhaug, Citizen Joe Begich, Representative Tom Rukavina, Citizen Shelley Robinson, Citizen Jack Ryan. Excused: Representative Loren Solberg, Senator Tom Bakk, Senator Yvonne Prettner Solon, Senator Rod Skoe. Minute Taker: Laureen Hall, Executive Assistant. Also present: Sandy Layman, Commissioner; Brian Hiti, Deputy Commissioner; Doug Gregor, Assistant Attorney General; Matt Sjoberg, Development Strategies Director; Jean Dolensek, Chief Financial Officer; Roy Smith, Workforce Development Coordinator; Dave Hart, Loan Officer Sr., Supervisor; Rick Anderson, Loan Officer; Al Becicka, Loan Officer; Richard Walsh, Community Development Representative; Mary Somnis, Community Development Representative; Jim Plummer; Community Development Representative; Janette Paul, Executive Assistant; Sheryl Kochevar, Marketing & Communications Coordinator; Ryan Holman, Principal, Ryan's Rustic Railings; Fred Bills, Principal, Airmark, Inc.; Larry Lehtinen, Chairman of the Board, Magnetation; Tom Ehrbright, President, Disability Specialist, Inc.; Mary Mathews, President, Northeast Entrepreneur Fund; Dean Minardi, CEO, Greenstone Group; Marlene Pospeck, Mayor, City of Hoyt Lakes; Mayor Steve Abrahamson, City of Tower; Keith Nelson, St. Louis County Commissioner; Gary Cerkvenik, Consultant for Silicon Energy; Joe Scipioni, President and CEO and Doug Newby, CFO, PolyMet Mining, Inc.; Jim Weikum, Mayor and Jeff Jacobson, Administrator, City of Biwabik.

## II. Approval of the August 19, 2010, Minutes

*Action required: Approval requires 7 votes*

Motion by Citizen Joe Begich to approve the August 19, 2010, minutes. Seconded by Citizen Shelley Robinson. Motion carried.

**Voting in Favor of the Motion:** Representative Tom Anzelc, Representative David Dill, Representative Tom Rukavina, Representative Tony Sertich, Senator Tom Saxhaug, Senator David Tomassoni, Citizen Joe Begich, Citizen Shelley Robinson, Citizen Jack Ryan

**Voting Against the Motion:** None

**Abstain:** None

**Excused:** Representative Loren Solberg, Senator Tom Bakk, Senator Yvonne Prettner Solon, Senator Rod Skoe

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**5) Douglas J. Johnson Economic Protection Trust Fund**

*Action required: Approval requires 8 votes*

**a) Ryan's Rustic Railings**

Motion by Representative David Dill to approve an expenditure of up to \$118,875 in a real estate participation loan and up to \$102,900 in an equipment participation loan to Ryan's Rustic Railings, as presented, noting a change in the project description below, under PROJECT BREAKDOWN, Iron Range Resources-bank participation loan, ~~15~~ 20 years at formula rate. Seconded by Senator Tom Saxhaug. Motion carried.

**Voting in Favor of the Motion:** Representative Tom Anzelc, Representative David Dill, Representative Tom Rukavina, Representative Tony Sertich, Senator Tom Saxhaug, Senator David Tomassoni, Citizen Joe Begich, Citizen Shelley Robinson, Citizen Jack Ryan

**Voting Against the Motion:** None

**Abstain:** None

**Excused:** Representative Loren Solberg, Senator Tom Bakk, Senator Yvonne Prettner Solon, Senator Rod Skoe

**Ryan's Rustic Railings**  
Bank Participation Loan Program

**APPLICANT:**

Ryan's Rustic Railings & Furniture, Inc.

**PRINCIPAL(S):**

Ryan Holman

**BRIEF PROJECT DESCRIPTION:**

Replace building and equipment destroyed in a fire.

**PROJECT COST:**

\$1,000,134

**PROJECT BREAKDOWN:**

Owner's equity-cash	\$557,184
Bank-real estate loan, 15 years at market rate	118,575
Iron Range Resources-bank participation loan, <del>15</del> <u>20</u> years at formula rate	118,575
Bank-equipment loan, 7 years at market rate	102,900
Iron Range Resources-bank participation loan, 7 years at formula rate	102,900

**COLLATERAL:**

The real estate loans will be secured with a first-position mortgage on the real estate. The equipment loans will be secured with all equipment, subject only to existing liens on existing equipment. All loans will also be personally guaranteed by owner, Ryan Holman.

**JOBS:**

This project will retain 15 full-time and 1 part-time employees and will create 2 new full-time and 2 part-time positions. The full-time positions are to be paid at a rate of \$12 to \$15 per hour.

**CONTINGENCIES:**

Collateral values must meet the bank's loan-to-value ratios. Bank financing, substantially as shown above, must be approved.

**TECHNICAL ADVISORY COMMITTEE RECOMMENDATIONS:**

Recommended approval of the Project at the Committee's December 7, 2010, 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:**

Ryan's Rustic Railings was formed in 1994 as a spin-off from Voyageur Log Homes. The company originally offered log handrail systems to log home buyers and expanded their offerings to include various log furniture items. In 2000, the company relocated to a site on Highway #53 south of Orr.

The company continued to grow and expand its product line. In addition to custom log handrails, they now produce log beds, dressers, tables and chairs. In 2005, the company added another profit center by selling their waste material to landscapers as mulch.

In January 2010, the production facility suffered a major fire. The building and much of the machinery was destroyed. To maintain operations, a small building on the site and a garage at a different location were put into service. This has seriously reduced the company's ability to maintain production.

This project consists of a new production facility and new manufacturing equipment to allow the company to resume full production and continue growth.

**MANAGEMENT TEAM:**

Ryan Holman, President. Mr. Holman is the sole shareholder of the company. He has grown and managed the operation successfully for the past 16 years.

**MARKET OPPORTUNITY:**

Sales of railings and furniture across this country and in Canada indicates there are opportunities to reach commercial and private customers in many market areas. The company has worked with customers from California to Pennsylvania and Louisiana to Montana. In recent years, the company has installed their log railings and stairways at the Minnesota Zoo, the AmericInn in Orr, the Cook branch of the American Bank of the North, the Gander Mountain store in Johnstown, PA and at several Cabella's stores across the country.

The company attends several tradeshows from Illinois to Wyoming, including Wisconsin, Minnesota, Nebraska, North Dakota and South Dakota. Advertisements are placed in trade publications and national magazines, such as Field and Stream, Log Home Living and Cabin Life. They also market their products online with [www.rusticrailings.com](http://www.rusticrailings.com) and [www.rusticcabinshop.com](http://www.rusticcabinshop.com). A wide-spread dealer network gives the company a presence at sites from Minnesota to Michigan, through the Dakotas and into Missouri.

**COLLATERAL REVIEW:**

An appraisal on the real estate has not yet been completed. Existing equipment with a book value of \$455,000 and related debt of \$160,000 (net collateral value of \$295,000) plus \$370,000 of equipment to be purchased with loan proceeds will be pledged as collateral for the equipment loans.

With owner's equity of \$557,000 being injected into the \$1,000,000 project, the collateral is expected to provide adequate collateral coverage for the loans.

**PAST IRON RANGE RESOURCES HISTORY:**

Approximately \$5,000 remains to be paid on a \$150,000 agency bank participation loan. The borrower has been performing in compliance with terms of the agreement.

**b) Airmark, Inc.**

Motion by Senator Tom Saxhaug to approve the Airmark, Inc. project to acquire and install additional processing and handling equipment, add raw material storage and drying capacity and support the required seasonal buildup of raw material inventory, as presented, in an amount not to exceed \$250,000. Seconded by Representative Tony Sertich. Motion carried.

**Voting in Favor of the Motion:** Representative Tom Anzelc, Representative David Dill, Representative Tom Rukavina, Representative Tony Sertich, Senator Tom Saxhaug, Senator David Tomassoni, Citizen Joe Begich, Citizen Shelley Robinson, Citizen Jack Ryan

**Voting Against the Motion:** None

**Abstain:** None

**Excused:** Representative Loren Solberg, Senator Tom Bakk, Senator Yvonne Prettnr Solon, Senator Rod Skoe

**Airmark, Inc.**  
Bank Participation Loan

**APPLICANT:**

Airmark, Inc.  
Cohasset, MN

**PRINCIPAL(S):**

Fred Bills

**BRIEF PROJECT DESCRIPTION:**

Airmark, Inc., doing business as Nelson Wood Shims, manufactures and markets a variety of wood shims. The proposed financing will allow the company to acquire and install additional processing and handling equipment, add raw material storage and drying capacity, and support the required seasonal buildup of raw material inventory.

**PROJECT COST:** \$1,456,000

**PROJECT BREAKDOWN:**

M&I Bank Term Loan (negotiated rate, 5 year term)	\$ 106,000
Iron Range Resources (formula rate, 5 year term)	\$ 250,000
M&I Bank Line of Credit (negotiated rate)	\$ 550,000
Equity	<u>\$ 550,000</u>
Total	\$1,456,000

**COLLATERAL:**

Collateral will consist of a shared first position with the bank on the machinery and equipment to be purchased with the loan proceeds, as well as a subordinated lien to the bank on all existing machinery and equipment. Fred Bills also will provide a personal guarantee.

**JOBS:**

Retention of 20 jobs and the creation of up to 7 new jobs. The average hourly production wage is approximately \$17.00 plus full benefits.

**CONTINGENCIES:**

None.

**TECHNICAL ADVISORY COMMITTEE RECOMMENDATIONS:**

Recommended approval of the Project at the Committee's December 7, 2010, 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:**

Airmark, Inc., doing business as Nelson Wood Shims, manufactures and markets a variety of wood shims. The proposed financing will allow the company to acquire and install additional processing and handling equipment, add raw material storage and drying capacity, and support the required seasonal buildup of raw material inventory.

At the present time, the company utilizes wood species imported from outside of Minnesota for the majority of its production. In addition, a portion of the company's production is currently subcontracted to a manufacturer in China. The proposed financing will allow the company to source all of its wood going forward from northern Minnesota, and allow the company to bring all of its production in house. Efficiencies gained as a result of the project will allow the company to remain globally competitive.

Nelson Wood Shims began operations approximately 60 years ago in Mt. Iron. Approximately 30 years ago the company was purchased by Jerry Snustad and moved to Cohasset where it continues to operate today. Fred Bills purchased the company from Snustad approximately 15 years ago and has successfully operated the company since then.

**MANAGEMENT TEAM:**

Fred Bills is the sole owner of the company, having purchased it in 1996. Mr. Bills has a 30-plus year history of owning and operating businesses in Minnesota. He essentially serves as the chief executive officer for the company.

Chuck Scherer is the General Manager, having served in this capacity for the past 15 plus years. He oversees production, marketing, sales and other administrative functions. Prior to joining the company, he managed a furniture manufacturing operation in Grand Rapids for approximately nine years.

**MARKET OPPORTUNITY:**

The company has had a long history of providing competitively priced, quality shims to their customers. As shims are a commodity type of product, the market is sensitive to both of these considerations. In recent years, in order to remain competitive on a cost basis, the company has

subcontracted nearly 50% of its production to a Chinese manufacturer. This arrangement has allowed the company to gain market share in North America and survive a flood of cheap imports from other producers. This, however, was viewed as a short term solution.

Over the past few years, the company has researched production efficiencies as well as raw material sourcing. Currently, the majority of the wood they utilize in their domestic production comes from outside of Minnesota. The company discovered through ongoing testing that a wood species native to northern Minnesota will produce a quality shim product at a lower overall cost. This, combined with production enhancements and efficiencies, will reduce costs enough to justify bringing all subcontracted production back in house. This will result in additional direct production jobs as well as additional work for loggers and local sawmills. The investment associated with this strategy also will allow the company to expand the variety of products it will be able to offer to its customers.

**COLLATERAL REVIEW:**

Collateral will consist of a shared first position with the bank on the machinery and equipment to be purchased with the loan proceeds, as well as a subordinated lien to the bank on all existing machinery and equipment. Fred Bills also will provide a personal guarantee.

**PAST IRON RANGE RESOURCES HISTORY:**

None.

**c) Magnetation, Inc. – Resolution No. 11-012**

Motion by Representative Tom Anzelc to approve the Magnetation, Inc. request that Iron Range Resources increase its collateral subordination to \$12,600,000 to accommodate additional financing advances by JP Morgan Chase Bank as well as to extend the Due Date on its Loan A to December 31, 2013, as presented. Seconded by Senator Tom Saxhaug. Motion carried.

**Voting in Favor of the Motion:** Representative Tom Anzelc, Representative David Dill, Representative Tom Rukavina, Representative Tony Sertich, Senator Tom Saxhaug, Senator David Tomassoni, Citizen Joe Begich, Citizen Shelley Robinson, Citizen Jack Ryan

**Voting Against the Motion:** None

**Abstain:** None

**Excused:** Representative Loren Solberg, Senator Tom Bakk, Senator Yvonne Prettner Solon, Senator Rod Skoe

## Magnetation, Inc.



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

**To:** Iron Range Resources Board Members

**From:** Sandy Layman  
Commissioner

**Date:** December 16, 2010

**Re: MAGNETATION, INC. - COLLATERAL SUBORDINATION**

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At the June 17, 2010, Iron Range Resources Board meeting, a request from Magnetation, Inc. was approved whereby Iron Range Resources would subordinate its collateral position to JP Morgan Chase Bank to accommodate \$5,600,000 of new financing from the bank to Magnetation, Inc. The new financing was used to reduce accounts payable, refinance existing bank debt, fund expenses related to a proposed new processing facility and fund capital improvements at the company's Keewatin facility that would help maximize the utilization of the company's new Rev3 Separator.

Magnetation, Inc. is now requesting that Iron Range Resources (IRR) increase its collateral subordination to \$12,600,000 to accommodate additional financing advances by JP Morgan Chase Bank. In addition, Magnetation is requesting that the Due Date on one of its loans with IRR (Loan A, original amount of \$2,000,000 of which 50% was sold to the MN Department of Employment and Economic Development) be extended from December 31, 2011 to December 31, 2013, to allow for the use of available funds in 2011 for various capital projects. The additional financing from JP Morgan Chase Bank will be used as follows to increase the annual capacity at the Keewatin processing facility from the current level of approximately 150,000 tons to 450,000 tons per year:

- **Acquire and install a Ball Mill**  
This will reduce the size of the feed stock (tails) going into the plant, thereby allowing for improved yield of iron units.
- **Build and install a second Rev3 Separator**  
The new separator will be 33% larger than the first machine.

- **Acquire and install a Vacuum Filtration System**

The dewatering system will reduce moisture content of the concentrate to 9% from its current level of 12%, a requirement of their customers. Pay back for this investment will come in the form of an increased per ton sales price.

The need for additional capacity at the Keewatin plant is being driven by the supply contracts with both Mesabi Nugget and Alto Hornos De Mexico (AHMSA), a large Mexican steel producer. Magnetation has a contract to supply 260,000 tons of concentrate to Mesabi Nugget in 2011 and may provide concentrate beyond 2011 should the need be there. In regard to AHMSA, Magnetation has entered into a seven-year supply agreement for 450,000 tons per year commencing in 2012, with an option to increase this to 650,000 tons per year beginning in 2013. Pricing is adjusted quarterly and is indexed to a recognized world pricing source. Based on the AHMSA contract alone, the capacity of the Keewatin plant could be sold out through 2018.

Magnetation currently owes IRR \$4,575,894 and Minnesota Department of Employment and Economic Development (DEED) \$934,221 via four loans advanced to the company beginning in 2008. The funds were generally used for machinery and equipment acquisition and installation, the construction of a fabric building at the company's plant site near Keewatin, and other related expenses. Collateral, which is shared with DEED, includes a real estate mortgage on the approximately 150 acre plant site/tailings basin, all machinery and equipment, other personal property, the building, and the intellectual property (patents, pending patents, copyrights, trademarks, etc.) of the company. In addition, there are personal guarantees from Larry Lehtinen, Thomas Hammerlund, Sr. and other stockholders which in aggregate total \$1,250,000, and an assignment of life insurance from Larry Lehtinen in the amount of \$2,000,000. IRR and DEED will be in a junior position to JP Morgan Chase Bank on the machinery and equipment, other personal property, the building and the intellectual property. IRR and DEED will retain the personal guarantees and the life insurance assignment as originally structured, and remain in a priority position on the real estate.

As part of the initial financing arrangement with Magnetation, both IRR and DEED currently receive royalties as described below and as illustrated in the following table:

- Both IRR and DEED receive a royalty of \$1.00 per dry metric ton of concentrate produced and shipped. This royalty arrangement is for all concentrate produced and shipped by Magnetation, any affiliates and from any licensees. This royalty continues into perpetuity with no time or dollar limitations.
- As an incentive for additional financing to the company in 2009, IRR receives an additional \$0.50 per dry metric ton on the first 5,000,000 tons of concentrate produced and shipped.
- As an incentive for IRR and DEED agreeing to a subordination request approved in June of 2010, Magnetation will continue the additional \$.50 royalty on all tonnages produced and shipped between 5,000,001 and 7,500,000 dry metric tons, which IRR and DEED

will then proportionately share based on the original amount of debt each has loaned to the company.

- As an incentive to provide the current subordination request, Magnetation will pay a specific royalty of \$0.25 per dry metric ton on all tonnages between 7,500,001 and 10,000,000 dry metric, which IRR and DEED will then proportionately share based on the original amount of debt each has loaned to the company. The table below illustrates the agreed upon distributions as noted in the Royalty Agreement and subsequent amendments:

	<b>TONNAGES</b>			
	<b>0 – 5,000,000</b>	<b>5,000,001 – 7,500,000</b>	<b>7,500,001 – 10,000,000</b>	<b>10,000,000+</b>
IRR	\$1.50	\$1.41	\$1.20	\$1.00
DEED	\$1.00	\$1.09	\$1.05	\$1.00

Through September 30, 2010, Magnetation has paid a total of \$328,893 in Royalties, with Iron Range Resources receiving \$197,336 of the total and DEED receiving \$131,557 of the total. Fifty percent (50%) of the amounts received by each have been used to reduce the outstanding loans to both Iron Range Resources and DEED per the terms of the Loan Agreement; however, this provision expires December 31, 2011.

Magnetation currently has approximately 50 direct salaried and hourly employees and 10-15 indirect contract employees (truck drivers and contractors).

**IRON RANGE RESOURCES AND REHABILITATION BOARD  
OF THE STATE OF MINNESOTA  
DOULGAS J. JOHNSONECONOMIC PROTECTION TRUST FUND  
MAGNETATION, INC. SUBORDINATION AGREEMENT**

**Resolution No.: 11-012**

**WHEREAS**, Magnetation, Inc. (the “**Borrower**”) currently owes Iron Range Resources a total outstanding principal balance of \$5,510,115 (plus currently accrued interest) under the terms of four loans (designated Loans A, B, C, and D) that the agency has made in recent years to finance the construction, equipping and operations of certain of Borrower’s facilities and operations (collectively the “**Iron Range Resources Loans**”), \$934,221 of which principal balance is due to the State of Minnesota’s Department of Employment and Economic Development under the terms of a separate agreement by which DEED purchased a 50% participation interest (the “**DEED Loan**”) in Loan A of the Iron Range Resources Loans;

**WHEREAS**, Borrower’s obligations to repay the Iron Range Resources Loans are secured by shared (shared with comparable security and interests and liens securing the repayment of the DEED Loan) security interests and liens in the Borrower’s real estate, machinery and equipment,

other personal property, a processing facility building, and intellectual property interests (collectively, the “**Borrower’s Property**”);

**WHEREAS**, the agency on July 21, 2010 entered into an Intercreditor Agreement with another lender of Borrower, JP Morgan Chase Bank (“**JP Morgan**”), that subsequently on or about November 22, 2010 was amended (such original Intercreditor Agreement and the amendment thereto being referenced as the “**Amended Intercreditor Agreement**”) under the terms of which the priority of the agency’s security interests in portions of Borrower’s Property as more fully described therein (the “**Intercreditor Property**”) was subordinated to JP Morgan’s security interest in such Intercreditor Property to secure the repayment of \$7,600,000 of Borrower’s debt financing obligations to JP Morgan;

**WHEREAS**, Borrower has requested the agency to further subordinate its security interests and liens in the Intercreditor Property to the security interests and liens of JP Morgan Chase Bank in such Intercreditor Property created to secure the repayment of \$12,600,000 of debt financing which the Borrower is seeking to obtain from JP Morgan to fund capital projects to maximize the utilization of Borrower’s Keewatin mineral processing facility (“**Plant 1**”) (the “**New Loan**”);

**WHEREAS**, the Commissioner has requested the Board to approve the Borrower’s request to subordinate the agency’s security interests and liens securing repayment of the Iron Range Resources Loans to the proposed security interests and liens associated with the \$12,600,000 New Loan, and to extend the Due Date for repayment of Borrower’s Loan A from December 31, 2011 to December 31, 2013, in each case on those terms (including Borrower’s agreement to increased royalty rights for the agency and DEED) proposed in the Board packet materials presented at the Board’s December 16, 2010, meeting (the “**Modified Deal Terms**”).

**NOW, THEREFORE, IT IS HEREBY RESOLVED** that the Board hereby approves the Borrower’s request, as more specifically set forth in the Modified Deal Terms, to extend the Due Date of Loan A from December 31, 2011 to December 31, 2013, and to subordinate the priority of the agency’s security interests and liens in the Intercreditor Property that secure repayment of the Iron Range Resources Loans to the proposed security interests and liens of JP Morgan associated with the \$12,600,000 New Loan, subject to the further understanding that no more than \$12,600,000 of New Loan principal, interest and expenses shall be accorded at any time a first priority security interest and lien position over the agency’s said security and lien positions in the Intercreditor Property and that the subordination agreement (an amended version of the existing Amended Intercreditor Agreement) with JP Morgan include standard State contract terms including those regarding no indemnification or hold harmless obligations imposed on the agency, no waivers of jury trials, statutory audit clause, and provisions for venue and jurisdiction in Minnesota courts.

**PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 16<sup>TH</sup> DAY OF DECEMBER 2010.**

	<b>Member</b>	<b>Aye</b>	<b>Nay</b>	<b>Abstain</b>	<b>Excused</b>
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Senator Tom Bakk				<b>X</b>
Senator Tom Saxhaug	<b>X</b>			
Senator Rod Skoe				<b>X</b>
Senator Yvonne Prettner Solon				<b>X</b>
Senator Dave Tomassoni	<b>X</b>			
Representative Tom Anzelc	<b>X</b>			
Representative Dave Dill	<b>X</b>			
Representative Tom Rukavina	<b>X</b>			
Representative Tony Sertich	<b>X</b>			
Representative Loren Solberg				<b>X</b>
Citizen Joe Begich	<b>X</b>			
Citizen Shelley Robinson	<b>X</b>			
Citizen Jack Ryan	<b>X</b>			
<b>TOTAL</b>	<b>9</b>	<b>0</b>	<b>0</b>	<b>4</b>

Signed: \_\_\_\_\_  
 Senator David Tomassoni, Chair

**d) Disability Specialist, Inc. – Resolution No. 11-022**

Representative David Dill added this project to the agenda by presenting and moving approval of Resolution No. 11-022 that would allow for loan forgiveness in an amount not to exceed \$150,000 to Disability Specialist, Inc. if certain employment goals are met, as presented in the Resolution No. 11-022. Seconded by Representative Tony Sertich. Motion carried.

**Voting in Favor of the Motion:** Representative Tom Anzelc, Representative David Dill, Representative Tom Rukavina, Representative Tony Sertich, Senator Tom Saxhaug, Senator David Tomassoni, Citizen Joe Begich, Citizen Shelley Robinson, Citizen Jack Ryan

**Voting Against the Motion:** None

**Abstain:** None

**Excused:** Representative Loren Solberg, Senator Tom Bakk, Senator Yvonne Prettner Solon, Senator Rod Skoe

**IRON RANGE RESOURCES AND REHABILITATION BOARD  
 OF THE STATE OF MINNESOTA  
 SUPPLEMENTAL TERMS FOR  
 DISABILITY SPECIALIST INC. DIRECT LOAN  
 DOUGLAS J. JOHNSON ECONOMIC PROTECTION TRUST FUND PROJECT**

**Resolution No.: 11-022**

**WHEREAS**, Disability Specialist, Inc. in FY 10 requested financial assistance to make improvements to its facility in the City of Cook so that the company could continue to grow and hire additional employees (the “**Disability Specialist Project**”) and the City of Cook further requested a grant of up to \$200,000 for infrastructure improvements associated with the Project;

**WHEREAS**, at its meeting held on April 15, 2010, the Board approved in its Resolution 10-033 the expenditure of up to \$875,000 of FY 2010 Douglas J. Johnson Economic Protection Trust Fund monies that were designated for economic development projects under a FY10 budget line item category of Business Development Projects, which approved funds were intended to enable the agency to purchase a participation interest of up to \$675,000 in a \$1.35 million loan to be made by a private bank, and to provide a grant of up to \$200,000 to the City of Cook for infrastructure site work costs, both of which sources of financial assistance were intended to support the expansion of Disability Specialist, Inc.; and

**WHEREAS**, at its meeting held on June 17, 2010, the Board through approval of its Resolution 10-040 approved the reduction of the amount of Business Development Funds available for the purchase of the participation loan interest to \$488,750 as well as the expenditure of up to \$486,250 of FY 2010 Business Development Project funds to be used for a direct loan by the agency to Disability Specialist Inc. in support of the Project at an interest rate of 7% and for a loan term of 7 years (84 months) (the “**Direct Loan**”); and,

**WHEREAS**, the Board met starting at 2:00 p.m. on December 16, 2010, in the Board Room located near Eveleth, Minnesota to further consider, among other matters, the status of the Direct Loan and was advised that the agency is making the Direct Loan available to Disability Specialist, Inc. under terms that provide for monthly installment payments to be made in the amount of \$3,000 each for 83 months and for a balloon payment in the 84<sup>th</sup> month (the “**Balloon Date**”) for the entire remaining loan balance; and,

**WHEREAS**, the Board has considered and decided to approve a proposal by which up to \$150,000 of the final payment due on the Balloon Date would be forgiven if Disability Specialist, Inc. meets its goal of employing (no later than one year prior to the Balloon Date) and thereafter maintaining (up to the time of the Balloon Date) at least 50 full-time equivalent employees (“FTEs”, as measured over a one year period) at its headquarters location in Cook.

**NOW, THEREFORE, IT IS RESOLVED**, that the Board approves a modification of the Direct Loan terms to allow \$150,000 of the final payment due on the Balloon Date to be forgiven if Disability Specialist, Inc. meets its goal of employing no later than one year prior to the Balloon Date and thereafter maintaining up to the time of the Balloon Date, at least 50 full-time equivalent employees (“FTEs”, as measured over a one year period) at its headquarters location in Cook.

**PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 16<sup>th</sup> DAY OF DECEMBER 2010.**

Member	Aye	Nay	Abstain	Excused
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Iron Range Resources & Rehabilitation Board Meeting

Wednesday, February 23, 2011

Senator Tom Bakk				<b>X</b>
Senator Tom Saxhaug	<b>X</b>			
Senator Rod Skoe				<b>X</b>
Senator Yvonne Prettner Solon				<b>X</b>
Senator Dave Tomassoni	<b>X</b>			
Representative Tom Anzelc	<b>X</b>			
Representative Dave Dill	<b>X</b>			
Representative Tom Rukavina	<b>X</b>			
Representative Tony Sertich	<b>X</b>			
Representative Loren Solberg				<b>X</b>
Citizen Joe Begich	<b>X</b>			
Citizen Shelley Robinson	<b>X</b>			
Citizen Jack Ryan	<b>X</b>			
<b>TOTAL</b>	<b>9</b>	<b>0</b>	<b>0</b>	<b>4</b>

Signed: \_\_\_\_\_  
 Senator David Tomassoni, Chair

**3) Taconite Area Environmental Protection Fund**

*Action required: Approval requires 7 votes*

**a) Northeast Entrepreneur Fund – Greenstone Group – Resolution No. 11-013**

Senator Tom Saxhaug moved approval of the Northeast Entrepreneur Fund grant request for the Greenstone Group Initiative with the objective of enhancing the skills of area entrepreneurs, helping them grow their businesses and increase the wealth of the region in an amount not to exceed \$70,000, as presented. Seconded by Citizen Jack Ryan. Motion failed with a vote of 6 Ayes, 2 Nays, 1 Abstained and 4 Excused.

**Voting in Favor of the Motion:** Representative Tom Anzelc, Representative David Dill, Senator Tom Saxhaug, Senator David Tomassoni, Citizen Shelley Robinson, Citizen Jack Ryan

**Voting Against the Motion:** Representative Tom Rukavina, Citizen Joe Begich

**Abstain:** Representative Tony Sertich

**Excused:** Representative Loren Solberg, Senator Tom Bakk, Senator Yvonne Prettner Solon, Senator Rod Skoe

**Northeast Entrepreneur Fund – Greenstone Group**



**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 Board

**From:** Sandy Layman  
Commissioner

**Date:** December 16, 2010

**Re: \$70,000 GRANT TO NORTHEAST ENTREPRENEUR FUND FOR THE GREENSTONE GROUP INITIATIVE**

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In 2008, the Northeast Entrepreneur Fund (NEF) launched its Greenstone Group initiative with the objective of enhancing the skills of area entrepreneurs, helping them grow their businesses and increase the wealth of the region. Two of the primary strategies of the Greenstone group are business performance coaching and peer-to-peer coaching groups within the region. Through business performance coaching, entrepreneurs receive one-on-one “coaching” from qualified individuals. The peer-to-peer coaching strategy groups involve entrepreneurs building their skills in a small group setting under the auspices of a coach/facilitator. NEF is seeking a grant in the amount of \$70,000 from Iron Range Resources to enable it to expand the services of the Greenstone Group offered within the Taconite Assistance Area. With the grant and its internal funds, the Greenstone Group intends to offer one-on-one coaching to eight area entrepreneurs and two strategy groups. The total budget for this project is \$107,200. A final report will be required upon completion of the project.

Iron Range Resources previously provided a \$35,000 grant to the NEF for the Greenstone Group initiative in FY08 from the Commissioner Fund. The proceeds of that grant, in part, also paid for coaching services, assisting eight area entrepreneurs in enhancing their skills and growing their businesses.

**IRON RANGE RESOURCES AND REHABILITATION BOARD  
OF THE STATE OF MINNESOTA  
TACONITE AREA ENVIRONMENTAL PROTECTION FUND  
GREENSTONE GROUP PROGRAM GRANT APPROVAL**

**Resolution No.: 11-013**

**Iron Range Resources & Rehabilitation Board Meeting  
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Page 18**

**WHEREAS**, the Commissioner is authorized to expend, upon approval of at least 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 Northeast Entrepreneur Fund (“**NEF**”) has requested a grant in the amount of \$70,000 to enable it to expand the services of its Greenstone Group program within the TAA, so that it can offer one-to-one coaching to eight TAA entrepreneurs and two business strategy groups (the “**Greenstone Group Project**”) and the Commissioner has requested the Board to approve a grant of up to \$70,000 of FY11 TEPF Business Development Funds for that Project; and

**WHEREAS**, the Board met in open session at 2:00 p.m. on December 16, 2010, in the Board Room located near Eveleth, Minnesota, to consider, among other matters, the proposed grant for the Greenstone Group Project and has determined that the expenditure of the requested funds for that purpose would be in the public interest and promote economic development within the TAA.

**NOW, THEREFORE, IT IS RESOLVED**, that the Board hereby approves the expenditure of up to \$70,000 of FY11 TEPF Business Development Funds to provide a grant for NEF’s Greenstone Group Project.

**VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 16<sup>th</sup> DAY OF DECEMBER 2010.**

<b>Member</b>	<b>Aye</b>	<b>Nay</b>	<b>Abstain</b>	<b>Excused</b>
Senator Tom Bakk				<b>X</b>
Senator Tom Saxhaug	<b>X</b>			
Senator Rod Skoe				<b>X</b>
Senator Yvonne Prettner Solon				<b>X</b>
Senator Dave Tomassoni	<b>X</b>			
Representative Tom Anzelc	<b>X</b>			
Representative Dave Dill	<b>X</b>			
Representative Tom Rukavina		<b>X</b>		
Representative Tony Sertich			<b>X</b>	
Representative Loren Solberg				<b>X</b>
Citizen Joe Begich		<b>X</b>		
Citizen Shelley Robinson	<b>X</b>			
Citizen Jack Ryan	<b>X</b>			

<b>TOTAL</b>	<b>6</b>	<b>2</b>	<b>1</b>	<b>4</b>
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The motion failed to receive the minimum required number of affirmative votes (7).

**b) Eveleth Area Community Foundation – Resolution No. 11-014**

Motion by Representative Tom Rukavina to approve the Eveleth Area Community Foundation grant request to help them build their foundation corpus in an amount not to exceed \$50,000, as presented. Seconded by Citizen Joe Begich. Motion carried.

**Voting in Favor of the Motion:** Representative Tom Anzelc, Representative David Dill, Representative Tom Rukavina, Representative Tony Sertich, Senator Tom Saxhaug, Senator David Tomassoni, Citizen Joe Begich, Citizen Shelley Robinson, Citizen Jack Ryan

**Voting Against the Motion:** None

**Abstain:** None

**Excused:** Representative Loren Solberg, Senator Tom Bakk, Senator Yvonne Prettner Solon, Senator Rod Skoe

**Eveleth Area Community Foundation**



**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 Resource Board

**From:** Sandy Layman  
Commissioner

**Date:** November 30, 2010

**Re: EVELETH AREA COMMUNITY FOUNDATION GRANT OF \$50,000**

The Eveleth Area Community Foundation (EACF) is requesting a \$50,000 grant to help them build their foundation corpus.

Iron Range Resources does not have a program to fund community foundations, per se; however, over the past fifteen years the agency has provided \$50,000 in matching seed funding to each of

the following community foundations: Chisholm, Grand Rapids, Hibbing, Two Harbors and Virginia.

The agency established community foundation guidelines in 1993 when it made its first community foundation grant to the Virginia Foundation. The guidelines require a foundation to raise the minimum lead money of \$100,000 before the agency provides a \$50,000 matching grant to help it build its corpus.

The EACF now has raised the minimum \$100,000 required to receive a \$50,000 matching grant from Iron Range Resources. They hope to build their corpus to \$250,000 by the end of calendar year 2011, with an ultimate corpus goal of \$600,000 - \$700,000, which will allow them to support annual grants of \$20,000 - \$25,000 for community projects. EACF has an advisory board of seven people, all from the Eveleth area.

**IRON RANGE RESOURCES AND REHABILITATION BOARD  
OF THE STATE OF MINNESOTA  
TACONITE AREA ENVIRONMENTAL PROTECTION FUND  
EVELETH AREA COMMUNITY FOUNDATION GRANT APPROVAL**

**Resolution No.: 11-014**

**WHEREAS**, the Commissioner is authorized to expend, upon approval of at least 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 Eveleth Area Community Foundation (“**EACF**”) has requested a grant in the amount of \$50,000 to assist the Foundation in building its corpus so that it can create a sustained funding source for community projects (the “**EACF Project**”) and the Commissioner has requested the Board to approve a grant of up to \$50,000 of FY11 TEPF Business Development Funds for that Project; and

**WHEREAS**, the Board met in open session at 2:00 p.m. on December 16, 2010, in the Board Room located near Eveleth, Minnesota, to consider, among other matters, the proposed grant for the EACF Project and has determined that the expenditure of the requested funds for that purpose would be in the public interest and promote economic development within the TAA.

**NOW, THEREFORE, IT IS RESOLVED**, that the Board hereby approves the expenditure of up to \$50,000 of FY11 TEPF Business Development Funds to provide a grant for the EACF Project.

**PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 16<sup>th</sup> DAY OF DECEMBER 2010.**

<b>Member</b>	<b>Aye</b>	<b>Nay</b>	<b>Abstain</b>	<b>Excused</b>
Senator Tom Bakk				<b>X</b>
Senator Tom Saxhaug	<b>X</b>			
Senator Rod Skoe				<b>X</b>
Senator Yvonne Prettner Solon				<b>X</b>
Senator Dave Tomassoni	<b>X</b>			
Representative Tom Anzelc	<b>X</b>			
Representative Dave Dill	<b>X</b>			
Representative Tom Rukavina	<b>X</b>			
Representative Tony Sertich	<b>X</b>			
Representative Loren Solberg				<b>X</b>
Citizen Joe Begich	<b>X</b>			
Citizen Shelley Robinson	<b>X</b>			
Citizen Jack Ryan	<b>X</b>			
<b>TOTAL</b>	<b>9</b>	<b>0</b>	<b>0</b>	<b>4</b>

Signed: \_\_\_\_\_  
 Senator David Tomassoni, Chair

**c) East Range Joint Powers Board – Resolution No. 11-015**

Motion by Representative Tom Rukavina to approve the East Range Joint Powers Board grant request to support collaborative efforts of Gilbert, Biwabik, Aurora and Hoyt Lakes to prepare for major developments facing the East Range area in an amount not to exceed \$50,000, as presented. Seconded by Representative David Dill. Motion carried.

**Voting in Favor of the Motion:** Representative Tom Anzelc, Representative David Dill, Representative Tom Rukavina, Representative Tony Sertich, Senator Tom Saxhaug, Senator David Tomassoni, Citizen Joe Begich, Citizen Shelley Robinson, Citizen Jack Ryan

**Voting Against the Motion:** None

**Abstain:** None

**Excused:** Representative Loren Solberg, Senator Tom Bakk, Senator Yvonne Prettner Solon, Senator Rod Skoe

## East Range Joint Powers Board



**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 Resource Board

**From:** Sandy Layman  
Commissioner

**Date:** November 30, 2010

**Re: EAST RANGE JOINT POWERS BOARD GRANT REQUEST FOR \$50,000**

The East Range Joint Powers Board (ERJB) is requesting a grant of \$50,000 to support collaborative efforts of Gilbert, Biwabik, Aurora and Hoyt Lakes to prepare for major developments facing the East Range area, including the PolyMet project, development at Giants Ridge in accordance with its Master Plan, ancillary business development and new employment opportunities associated with upcoming workforce retirements.

Cuts in local government aid have left participating cities in a position where they must make difficult expenditure decisions. Discussions over the continued operational viability of the ERJB have intensified over the past year, and the ERJB currently is reorganizing by adding two new partners, the cities of Gilbert and Biwabik.

For more than two decades, the ERJB has partnered with Iron Range Resources in addressing the community and economic development needs on the East Range. Accomplishments include:

- Construction of the \$250 million dollar Mesabi Nugget plant, with 65 good paying jobs
- Stabilization and growth in the Mesabi East school district
- Reorganization and stabilization of the White Community hospital
- Number of new housing units on the East Range
- New business development in several industrial parks
- Significant development at Giants Ridge.

New opportunities include:

### **PolyMet**

The PolyMet Mining project continues to proceed through permitting with its proposed open pit mining development. Once operational, PolyMet Mining will mine 32,000 tons of material per

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day. Copper would be processed into high grade copper cathode onsite. Other metals would be processed, concentrated, and shipped off site for final processing. The project will create 400 new permanent jobs, 500 spin-off jobs and hundreds of construction jobs, as well as other development opportunities that will feed off PolyMet.

### **Giants Ridge**

Giant Ridge recently unveiled a 20-year master plan, which holds the potential of unprecedented residential and commercial growth in northeastern Minnesota. The master plan envisions a mixed use, base-resort village with 340 new units and a mountain-top village with 300 new units, as well as additional lodging, retail shops, restaurants, single family homes, townhouses, condominiums, fractional ownership properties and parks, beaches, public and private boat landings.

### **Budget**

The ERJB collaborative effort will need to be expanded to address the economic development opportunities outlined above, focusing on community readiness, water & wastewater needs, housing and workforce development. The total annual budget for the ERJB, starting January 1, 2011, is \$99,000. The four partnering cities are seeking \$50,000 from Iron Range Resources, to be matched by their \$49,000, to help them re-launch their economic and community development activities in the coming year.

**IRON RANGE RESOURCES AND REHABILITATION BOARD  
OF THE STATE OF MINNESOTA  
TACONITE AREA ENVIRONMENTAL PROTECTION FUND  
EAST RANGE JOINT POWERS BOARD GRANT APPROVAL**

### **Resolution No.: 11-015**

**WHEREAS**, the Commissioner is authorized to expend, upon approval of at least 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 East Range Joint Powers Board (“**ERJPB**”) has requested a grant in the amount of \$50,000 to support collaborative efforts among four East Range communities to prepare for major developments facing the East Range area of the TAA, such as the PolyMet and Giants Ridge master development plans and ancillary development as more specifically described in the Board meeting packet materials (the “**ERJPB Project**”) and the Commissioner has requested the Board to approve a grant of up to \$50,000 of FY11 TEPF Business Development Funds for that Project; and

**WHEREAS**, the Board met in open session at 2:00 p.m. on December 16, 2010, in the Board Room located near Eveleth, Minnesota, to consider, among other matters, the proposed grant for the ERJPB Project and has determined that the expenditure of the requested funds for that purpose would be in the public interest and promote economic development within the TAA.

**NOW, THEREFORE, IT IS RESOLVED**, that the Board hereby approves the expenditure of up to \$50,000 of FY11 TEPF Business Development Funds to provide a grant for the ERJPB Project.

**PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 16<sup>th</sup> DAY OF DECEMBER 2010.**

<b>Member</b>	<b>Aye</b>	<b>Nay</b>	<b>Abstain</b>	<b>Excused</b>
Senator Tom Bakk				<b>X</b>
Senator Tom Saxhaug	<b>X</b>			
Senator Rod Skoe				<b>X</b>
Senator Yvonne Prettner Solon				<b>X</b>
Senator Dave Tomassoni	<b>X</b>			
Representative Tom Anzelc	<b>X</b>			
Representative Dave Dill	<b>X</b>			
Representative Tom Rukavina	<b>X</b>			
Representative Tony Sertich	<b>X</b>			
Representative Loren Solberg				<b>X</b>
Citizen Joe Begich	<b>X</b>			
Citizen Shelley Robinson	<b>X</b>			
Citizen Jack Ryan	<b>X</b>			
<b>TOTAL</b>	<b>9</b>	<b>0</b>	<b>0</b>	<b>4</b>

Signed: \_\_\_\_\_  
 Senator David Tomassoni, Chair

**d) City of Eveleth – Resolution No. 11-016**

Motion by Representative Tom Rukavina to approve the City of Eveleth request to reallocate the entire \$800,000 of its FY08 \$300,000 and FY10 \$500,000 Public Works grants for remodeling of Eveleth Health Services to add assisted living units, as presented. Seconded by Citizen Joe Begich. Motion carried.

**Voting in Favor of the Motion:** Representative Tom Anzelc, Representative David Dill, Representative Tom Rukavina, Senator Tom Saxhaug, Senator David Tomassoni, Citizen Joe Begich, Citizen Shelley Robinson, Citizen Jack Ryan

**Voting Against the Motion:** None

**Abstain:** None

**Excused:** Representative Tony Sertich, Representative Loren Solberg, Senator Tom Bakk, Senator Yvonne Prettner Solon, Senator Rod Skoe

## City of Eveleth



**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 Resource Board Members

**From:** Sandy Layman  
Commissioner

**Date:** December 16, 2010

**Re: City of Eveleth Amendment to Reallocate the Entire \$800,000 of its FY08 \$300,000 and FY10 \$500,000 Public Works Grants (Hotel Infrastructure) for Remodeling of Eveleth Health Services (EHS) to add Assisted Living units**

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At the August 20, 2009, IRR Board meeting, a \$500,000 FY10 Public Works grant was awarded to the city of Eveleth for infrastructure and site work to a 110-unit hotel on Highway #53. At the same IRR board meeting, the entire amount of a \$300,000 FY08 Public Works grant for housing infrastructure at Station #44 was reallocated by amendment for infrastructure and site work for the hotel project as well.

### **Assisted Living**

The city now is requesting that the agency reallocate the entire \$800,000 of its FY08 \$300,000 and FY10 \$500,000 Public Works grants for hotel infrastructure and site work to remodel EHS to add a 10-bed assisted living unit. A FY10 Public Works grant of \$350,000 already has been provided for the project, making a total of \$1,150,000 in IRR funds available for remodeling for assisted living. The total remodeling project costs are estimated to be \$1,504,000 and the city will provide up to \$354,000 in matching funds.

### **Range Mental Health**

In the fall of 2009, the State of Minnesota Department of Health and Human Services notified EHS that it would be closing its 16-bed State Mental Health Unit, resulting in a \$98,112 annual revenue loss to EHS.

Range Mental Health is developing a proposal for a 16 crisis-bed mental health unit at EHS, which would occupy the space of the old State Mental Health unit and generate replacement revenue for the facility.

### **Jobs**

The assisted living project will result in 10 new jobs. The Range Mental Health project will result in 11 new jobs. Together both projects will support the retention of 63 existing jobs.

### **Long-term Viability**

Other opportunities relating to revenue enhancements and cost reduction must be explored by EHS in addition to the assisted living and crisis mental health beds outlined above in order to make the EHS financially viable over the long term. Without filling the space of the old State Mental Health unit and finding other viable operations for the old dialysis area and office space area (assisted living), EHS would no longer be a financially viable operation.

### **Recommendation**

I recommend that the FY08 and FY10 grants totaling \$800,000 (hotel infrastructure) be reallocated for the assisted living remodeling project at EHS and that the expiration date of both grant agreements be extended until December 31, 2011, to allow for the completion of the project. This amendment would be subject to EHS receiving a permit for the assisted living units and a commitment to the actual construction of the units. IRR funds would not be released until the agency receives an updated business plan for the project. Also the grant would be contingent upon the agency receiving a semi-annual report which addresses financial and operational issues cited in a recent study completed by the Rural Health Resource Center and Eide Bailly. The agency also will encourage EHS to seek other funding for ADA bathrooms and memory unit construction from other sources.

**IRON RANGE RESOURCES AND REHABILITATION BOARD  
OF THE STATE OF MINNESOTA  
TACONITE AREA ENVIRONMENTAL PROTECTION FUND  
EVELETH HEALTH SERVICES PARK REMODELING PROJECT GRANT  
APPROVAL**

### **Resolution No.: 11-016**

**WHEREAS**, the Commissioner is authorized to expend, upon approval of at least 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 Board on August 20, 2009, approved the proposed expenditure of \$800,000 of TEPF Funds to enable the City of Eveleth to undertake infrastructure and site work for a hotel project, \$500,000 of which funds came from currently available FY10 Public Works funds and the remaining \$300,000 of which was re-allocated from a prior grant of FY08 Public Works funds that had been approved for the City (collectively, such \$800,000 sum is referenced as the “Prior Grant Funds”); and,

**WHEREAS**, the City has requested the Commissioner to re-allocate the entire \$800,000 of Prior Grant Funds to provide funding for a new project that would add a 10-bed assisted living unit to the Eveleth Health Services (“EHS”) facility which is located on City-owned land within the TAA (the “EHS Project”); and

**WHEREAS**, the Commissioner in the Board’s meeting packet materials has requested the Board to approve the re-allocation of the \$800,000 of the Prior Grant Funds to provide funding to the City for its new EHS Project; and

**WHEREAS**, the Board met in open session at 2:00 p.m. on December 16, 2010, in the Board Room located near Eveleth, Minnesota, to consider, among other matters, the proposed re-allocation of the Prior Grant Funds for the City of Eveleth’s new EHS Project and has determined that the re-allocation and expenditure of the requested funds for that purpose and as requested would be in the public interest and promote economic development within the TAA.

**NOW, THEREFORE, IT IS RESOLVED**, that the Board hereby approves the re-allocation of the entire \$800,000 amount of the Prior Grant Funds (TEPF Funds) to the City of Eveleth for its EHS Project, as requested by the Commissioner in the Board meeting packet materials, and subject to the preconditions to release of such grant funds as therein specified.

**PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 16<sup>th</sup> DAY OF DECEMBER 2010.**

<b>Member</b>	<b>Aye</b>	<b>Nay</b>	<b>Abstain</b>	<b>Excused</b>
Senator Tom Bakk				<b>X</b>
Senator Tom Saxhaug	<b>X</b>			
Senator Rod Skoe				<b>X</b>
Senator Yvonne Prettner Solon				<b>X</b>
Senator Dave Tomassoni	<b>X</b>			
Representative Tom Anzelc	<b>X</b>			
Representative Dave Dill	<b>X</b>			
Representative Tom Rukavina	<b>X</b>			
Representative Tony Sertich				<b>X</b>
Representative Loren Solberg				<b>X</b>
Citizen Joe Begich	<b>X</b>			
Citizen Shelley Robinson	<b>X</b>			

Citizen Jack Ryan	<b>X</b>			
<b>TOTAL</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>5</b>

Signed: \_\_\_\_\_  
 Senator David Tomassoni, Chair

**e) City of Tower – Resolution No. 11-018**

Motion by Representative David Dill to approve the City of Tower grant request to pay costs associated with Phase I of its East Two Rivers harbor development project, including those costs associated with the new Highway #169 bridge and the re-routing of Highway #135 in an amount not to exceed \$120,000, as presented. Seconded by Representative Tom Rukavina. Motion carried.

**Voting in Favor of the Motion:** Representative Tom Anzelc, Representative David Dill, Representative Tom Rukavina, Representative Tony Sertich, Senator Tom Saxhaug, Senator David Tomassoni, Citizen Joe Begich, Citizen Shelley Robinson, Citizen Jack Ryan

**Voting Against the Motion:** None

**Abstain:** None

**Excused:** Representative Loren Solberg, Senator Tom Bakk, Senator Yvonne Prettner Solon, Senator Rod Skoe

**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 Board

**From:** Sandy Layman  
 Commissioner

**Date:** December 16, 2010

**Re:** CITY OF TOWER ECONOMIC DEVELOPMENT GRANT TOTALING \$120,000

**PURPOSE**

The Economic Development funds are for cities and townships that can be used specifically for infrastructure and site work that support community and economic development.

**CRITERIA**

- A. Economic Impact – Priority #1
- B. Jobs Created – Priority #2
- C. Leverage – Priority # 3
- D. Project Readiness – Priority # 4
- E. Need – Priority # 5

**City of Tower**

**Grant Amount: \$120,000**

Phase 1 of Tower’s \$5.7 million East Two Rivers harbor development project includes 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 agency grant is contingent on matching funds of \$250,000 from St. Louis County.

The project also includes 90 units of housing, a refurbished riverfront park with a performance pavilion, 2,500 feet of new trails, as well as 95,000 square feet of commercial space, including 45,000 square feet on Main Street.

<u>USES</u>		<u>SOURCES</u>	
Hwy #169 & new bridge	\$4,121,328	Iron Range Resources	\$120,000
Hwy #135 reroute			
A&E and professional fees	1,588,395	Applicant	8,676
		Federal Hwy Admin/MN	1,538,249
		DOT	
		Taconite tax – Nickel	3,177,818
		funds	
		City – IRR release of CD*	130,000
		St. Louis County	400,000
		DEED – BDPI	249,980
		Interest earned	85,000
<hr/>		<hr/>	
<b>TOTAL</b>	<b>\$5,709,723</b>	<b>TOTAL</b>	<b>\$5,709,723</b>

\*Certificate of Deposit from another city economic development project.

**IRON RANGE RESOURCES AND REHABILITATION BOARD  
OF THE STATE OF MINNESOTA  
TACONITE AREA ENVIRONMENTAL PROTECTION FUND  
CITY OF TOWER EAST TWO RIVERS HARBOR DEVELOPMENT PROJECT**

**Resolution No.: 11-018**

**WHEREAS**, the Commissioner is authorized to expend, upon approval of at least 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 City of Tower (“**Tower**”) has requested a grant in the amount of \$120,000 to pay costs associated with Phase I of its East Two Rivers harbor development project, including those costs associated with the new Highway #169 bridge and the re-routing of Highway #135 (the “**East Two Rivers Project**”) and the Commissioner has requested the Board to approve a grant of up to \$120,000 of FY11 TEPF Business Development Funds for that Project; and

**WHEREAS**, the Board met in open session at 2:00 p.m. on December 16, 2010, in the Board Room located near Eveleth, Minnesota, to consider, among other matters, the proposed grant for the East Two Rivers Project and has determined that the expenditure of the requested funds for that purpose would be in the public interest and promote economic development within the TAA.

**NOW, THEREFORE, IT IS RESOLVED**, that the Board hereby approves the expenditure of up to \$120,000 of FY11 TEPF Business Development Funds to provide a grant for Tower’s East Two Rivers Project, subject to the understanding that no funds will be released to the City unless the grantee first receives matching funds from St. Louis County of at least \$250,000 for the Phase I project.

**PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 16<sup>th</sup> DAY OF DECEMBER 2010.**

<b>Member</b>	<b>Aye</b>	<b>Nay</b>	<b>Abstain</b>	<b>Excused</b>
Senator Tom Bakk				<b>X</b>
Senator Tom Saxhaug	<b>X</b>			
Senator Rod Skoe				<b>X</b>
Senator Yvonne Prettner Solon				<b>X</b>
Senator Dave Tomassoni	<b>X</b>			
Representative Tom Anzelc	<b>X</b>			

Representative Dave Dill	<b>X</b>			
Representative Tom Rukavina	<b>X</b>			
Representative Tony Sertich	<b>X</b>			
Representative Loren Solberg				<b>X</b>
Citizen Joe Begich	<b>X</b>			
Citizen Shelley Robinson	<b>X</b>			
Citizen Jack Ryan	<b>X</b>			
<b>TOTAL</b>	<b>9</b>	<b>0</b>	<b>0</b>	<b>4</b>

Signed: \_\_\_\_\_  
 Senator David Tomassoni, Chair

**f) City of Mt. Iron – Resolution No. 11-017**

Motion by Representative Tom Rukavina to approve the City of Mt. Iron grant request to assist it in installing 14 kilowatts of solar panels on the Mountain Iron Community Center in an amount not to exceed \$150,000, as presented. Seconded by Representative Tony Sertich. Motion carried.

**Voting in Favor of the Motion:** Representative Tom Anzelc, Representative David Dill, Representative Tom Rukavina, Representative Tony Sertich, Senator Tom Saxhaug, Senator David Tomassoni, Citizen Joe Begich, Citizen Shelley Robinson, Citizen Jack Ryan

**Voting Against the Motion:** None

**Abstain:** None

**Excused:** Representative Loren Solberg, Senator Tom Bakk, Senator Yvonne Prettner Solon, Senator Rod Skoe

**City of Mt. Iron**



**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 Board Members

**From:** Sandy Layman  
 Commissioner

**Date:** December 16, 2010

**Re: CITY OF MOUNTAIN IRON FY11 GRANT FOR INSTALLING SOLAR PANELS  
TOTALING \$150,000**

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**City of Mountain Iron  
Grant amount: \$150,000**

The project is an installation of 14 kilowatts of solar panels on the Mountain Iron Community Center. The project will showcase the product of Silicon Energy, the newest business in Mountain Iron's energy park. The city and the State of Minnesota provided over \$900,000 to develop the energy park.

The \$6.85 million Silicon Energy Minnesota facility, located in the energy park, will manufacture photovoltaic solar panels, similar to their operation in Marysville, Washington. Silicon Energy expects to create 15 manufacturing jobs at \$13 per hour plus benefits. In addition, crews will be hired and trained to install the panels.

At the June 17, 2010, Iron Range Resources Board meeting, \$5.1 million in loans were approved to support the expansion of Silicon Energy to Mountain Iron. In 2010, the Minnesota legislature passed a \$21 million solar energy rebate program to encourage the installation and manufacturing of solar panels in Minnesota.

<u>USES</u>		<u>SOURCES</u>	
Solar panels	\$73,500	Iron Range Resources	\$150,000
Miscellaneous equipment	7,800		
Engineering/permitting	6,200		
Labor	62,500		
<b>TOTAL</b>	<b>\$150,000</b>	<b>TOTAL</b>	<b>\$150,000</b>

**IRON RANGE RESOURCES AND REHABILITATION BOARD  
OF THE STATE OF MINNESOTA  
TACONITE AREA ENVIRONMENTAL PROTECTION FUND  
MT. IRON SOLAR PANEL PROJECT GRANT APPROVAL**

**Resolution No.: 11-017**

**WHEREAS**, the Commissioner is authorized to expend, upon approval of at least 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 City of Mountain Iron (“**Mt. Iron**”) has requested a grant in the amount of \$150,000 to assist it in installing 14 kilowatts of solar panels on the Mountain Iron Community Center (the “**Solar Panel Project**”) and the Commissioner has requested the Board to approve a grant of up to \$150,000 of FY11 TEPF Business Development Funds for that Project; and

**WHEREAS**, the Board met in open session at 2:00 p.m. on December 16, 2010, in the Board Room located near Eveleth, Minnesota, to consider, among other matters, the proposed grant for the Solar Panel Project and has determined that the expenditure of the requested funds for that purpose would be in the public interest and promote economic development within the TAA.

**NOW, THEREFORE, IT IS RESOLVED**, that the Board hereby approves the expenditure of up to \$150,000 of FY11 TEPF Business Development Funds to provide a grant for the City of Mountain Iron’s Solar Panel Project.

**PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 16<sup>th</sup> DAY OF DECEMBER 2010.**

<b>Member</b>	<b>Aye</b>	<b>Nay</b>	<b>Abstain</b>	<b>Excused</b>
Senator Tom Bakk				<b>X</b>
Senator Tom Saxhaug	<b>X</b>			
Senator Rod Skoe				<b>X</b>
Senator Yvonne Prettner Solon				<b>X</b>
Senator Dave Tomassoni	<b>X</b>			
Representative Tom Anzelc	<b>X</b>			
Representative Dave Dill	<b>X</b>			
Representative Tom Rukavina	<b>X</b>			
Representative Tony Sertich	<b>X</b>			
Representative Loren Solberg				<b>X</b>
Citizen Joe Begich	<b>X</b>			
Citizen Shelley Robinson	<b>X</b>			
Citizen Jack Ryan	<b>X</b>			
<b>TOTAL</b>	<b>9</b>	<b>0</b>	<b>0</b>	<b>4</b>

Signed: \_\_\_\_\_  
 Senator David Tomassoni, Chair

**g) PolyMet Mining, Inc. – Resolution No. 11-019**

Motion by Representative Tom Rukavina to approve the PolyMet Mining, Inc. direct loan request for ongoing project development costs, including the purchase of land, in an amount not to exceed \$4,000,000, as presented. Seconded by Representative David Dill. Motion carried.

**Voting in Favor of the Motion:** Representative Tom Anzelc, Representative David Dill, Representative Tom Rukavina, Representative Tony Sertich, Senator Tom Saxhaug, Senator David Tomassoni, Citizen Joe Begich, Citizen Shelley Robinson, Citizen Jack Ryan

**Voting Against the Motion:** None

**Abstain:** None

**Excused:** Representative Loren Solberg, Senator Tom Bakk, Senator Yvonne Prettner Solon, Senator Rod Skoe

**PolyMet Mining, Inc.**  
Direct Loan

**APPLICANT:**

PolyMet 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. Doug Newby, CFO

**BRIEF PROJECT DESCRIPTION:**

Ongoing project development costs, including purchase of land. This phase of the project is funded partially by \$30,000,000 committed by Glencore AG in November 2010.

**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 Mining Corporation will provide a corporate guarantee for the full amount of debt. The agency also will receive warrants allowing it to purchase 400,000 shares of PolyMet common stock traded on the Toronto Stock Exchange at an exercise price of \$2.50 per share.

**JOBS:**

400 full-time positions when in production, plus 1.5 million hours of pre-operations construction work.

**CONTINGENCIES:**

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

**TECHNICAL ADVISORY COMMITTEE RECOMMENDATIONS:**

Approved at the Tuesday, December 7, 2010, TAC meeting.

**FUNDING AUTHORIZATION**

TEPF: This project is authorized under the provisions of the Taconite Area Environmental Protection Fund (“TEPF”), as codified under Minnesota Statutes Section 298.223, by promoting the economic development of the TAA through the investment of TEPF monies in a local economic development project within the TAA.

**PROJECT DESCRIPTION:**

PolyMet intends to develop the first non-ferrous mine within the Taconite Assistance Area (TAA) as defined in Minnesota Statute Section 273.1341. PolyMet plans to mine copper, nickel and 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. Doug 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**

None.

**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 Iron Range Resources 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 Iron Range Resources and Poly Met Mining, Inc.

Lender: Iron Range Resources (“IRR”).

Borrower: Poly Met Mining, Inc. (“PolyMet” or “Borrower”), a Minnesota corporation that is a wholly owned subsidiary of PolyMet Mining Corporation (“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 at its NorthMet project near Hoyt Lakes, MN. PolyMet anticipates the project will employ approximately 400 full-time professional, skilled and semi-skilled people for a minimum of 20 years. Construction is estimated to require an additional 1.5 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 December 31, 2015, 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, and; Tranche 2 – up to \$750,000 to purchase

the “McFarland Lake Parcel” as further described in Exhibit A of this agreement.

**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.

**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 repay advances, together with accrued and capitalized interest, upon sale or other disposition of the real property in a land exchange with the U.S. Forest Service. Should the Borrower ultimately be unsuccessful in transferring the real property to the U.S. Forest Service on or before the Due Date, Lender shall have the option to require Borrower to assign and convey its title interest in either or both parcels to the Lender, given the public policy value such lands would hold for the Lender for other economic development purposes.

**Warrant Coverage:** Upon execution of the Loan Agreement, Parent shall issue to the Lender 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 December 31, 2015.

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: IRR shall receive annual audited financial statements of Parent, internally prepared quarterly financial reports of Borrower, and any other information reasonably requested. IRR also will 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 March 31, 2011.

**IRON RANGE RESOURCES AND REHABILITATION BOARD  
OF THE STATE OF MINNESOTA  
TACONITE AREA ENVIRONMENTAL PROTECTION FUND  
POLYMET MINING, INC. DIRECT LOAN FOR NORTHMET PROJECT**

**Resolution No.: 11-019**

**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 Commissioner is authorized under the provisions of Minnesota Statutes Section 298.22, Subd. 5a, to acquire forest lands in the TAA to be held in trust for the benefit of the citizens of the TAA as part of the Iron Range Miners’ Memorial Forest as therein defined (“**TAA Forest Development Project**”); and,

**WHEREAS**, the Commissioner is authorized under the provisions of Minnesota Statutes Section 298.22, Subd. 7 to acquire interests in lands within the Giants Ridge Recreation Area as therein defined (“**Recreation Area Project**”); and,

**WHEREAS**, the Commissioner periodically since at least 1998 has been in negotiations with the United States Department of Agriculture, Forest Service (“**Forest Service**”) to acquire title to large tracts of Forest Service lands that lie west and north of the Giants Ridge Golf & Ski Resort as part of the Recreation Area Project; and,

**WHEREAS**, PolyMet Mining, Inc. (“**PolyMet**”) is proposing to construct and operate a non-ferrous mine and processing facility at a refurbished and modified taconite processing facility located at the former LTV Steel Mining Company site near Hoyt Lake in an area that lies within the TAA (the “**NorthMet Project**”); and,

**WHEREAS**, adjacent to the site of the NorthMet Project are certain lands owned by the Forest Service (the “**Available USFS Lands**”) the title to which the Forest Service is willing to transfer to PolyMet in exchange for acquiring title to the more desirable Exchange Lands described below; and,

**WHEREAS**, in furtherance of the NorthMet Project PolyMet has negotiated options to acquire approximately 5,300 acres of lands (referenced as the Hay Lake Parcels and the McFarland Lake Parcels, herein the “**Option Lands**”) which the Forest Service has identified as lands to which it is willing to accept title in exchange for granting PolyMet title to the Available USFS Lands to further the Forest Service’s forest development goals; and,

**WHEREAS**, PolyMet has made application to the Commissioner for a loan of up to \$4 million to enable it to exercise its options to acquire title to the Option Lands (the “**Loan**”) so that it can, when necessary and appropriate, transfer its title interests in such lands to the Forest Service in exchange for receiving title to the Available USFS Lands; and,

**WHEREAS**, PolyMet has offered as collateral for the Loan a first priority security interest in the Option Lands and in PolyMet’s options to acquire title thereto, and, as an additional incentive for making the Loan, has offered to grant the agency stock warrants for the purchase of up to 400,000 shares of PolyMet common stock; and,

**WHEREAS**, PolyMet, in further consideration for granting the requested Loan, has offered to grant the Commissioner the right (but not the obligation) to acquire all of PolyMet’s rights, title and interests in the Option Lands if the lands are not transferred by PolyMet to the Forest Service within the term of the Loan; and,

**WHEREAS**, the Board met in open session at 2:00 p.m. on December 16, 2010, in the Board Room located near Eveleth, Minnesota, to consider, among other matters, PolyMet’s request for the Loan; and

**WHEREAS**, the Board has determined that it would be in the public interest to make the requested Loan of TEPF Funds to PolyMet on the terms proposed in the informational materials presented to the Board (the “**Board Packet Materials**”), and that the granting of the Loan on such terms would promote economic development in the TAA either:

- By assisting PolyMet to undertake the NorthMet Project; or

- By enabling the agency to achieve its own public policy objectives of acquiring lands for its TAA Forest Development Project or for the contemplated land exchanges to expand the Recreation Area Project; or,
- By facilitating the public acquisition of the Option Lands so that they could remain available for transfer to the Forest Service at some later date so that the Forest Service can achieve its public policy objectives of divesting itself of the Available USFS Lands and acquiring the more desirable Option Lands.

**NOW, THEREFORE, IT IS RESOLVED,** that the Board approves the expenditure of up to \$4 million of TEPF Funds for the requested Loan to PolyMet to enable it to acquire the Option Lands for its proposed NorthMet Project, 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 16<sup>th</sup> DAY OF DECEMBER 2010.**

<b>Member</b>	<b>Aye</b>	<b>Nay</b>	<b>Abstain</b>	<b>Excused</b>
Senator Tom Bakk				<b>X</b>
Senator Tom Saxhaug	<b>X</b>			
Senator Rod Skoe				<b>X</b>
Senator Yvonne Prettner Solon				<b>X</b>
Senator Dave Tomassoni	<b>X</b>			
Representative Tom Anzelc	<b>X</b>			
Representative Dave Dill	<b>X</b>			
Representative Tom Rukavina	<b>X</b>			
Representative Tony Sertich	<b>X</b>			
Representative Loren Solberg				<b>X</b>
Citizen Joe Begich	<b>X</b>			
Citizen Shelley Robinson	<b>X</b>			
Citizen Jack Ryan	<b>X</b>			
<b>TOTAL</b>	<b>9</b>	<b>0</b>	<b>0</b>	<b>4</b>

Signed: \_\_\_\_\_  
 Senator David Tomassoni, Chair

**6) Other**

*Action required: Approval requires 7 votes*

**a) Giants Ridge® Taxing Authority – Resolution No. 11-020**

Motion by Senator Tom Saxhaug to approve the Giants Ridge® Recreation Area Taxing Authority request, as presented. Seconded by Representative Tom Anzelc. Motion carried.

**Voting in Favor of the Motion:** Representative Tom Anzelc, Representative Tom Rukavina, Representative Tony Sertich, Senator Tom Saxhaug, Senator David Tomassoni, Citizen Joe Begich, Citizen Shelley Robinson, Citizen Jack Ryan

**Voting Against the Motion:** None

**Abstain:** None

**Excused:** Representative David Dill, Representative Loren Solberg, Senator Tom Bakk, Senator Yvonne Prettner Solon, Senator Rod Skoe

### **Giants Ridge® Taxing 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 Board Members

**From:** Sandy Layman  
Commissioner

**Date:** December 9, 2010

**Re:** Giants Ridge Recreation Area Taxing Authority

Pursuant to the Laws of Minnesota for 2010, Chapter 389, Article 5, Section 7, the city of Biwabik, upon approval both by its governing body and by the vote of at least seven members of the Iron Range Resources and Rehabilitation Board, may impose any or all the taxes described in the statute.

The agency goal and purpose of the tax is to assist in financing a new Event Center/Chalet and/or other major capital improvements such as a chair lift.

The taxes shall only be imposed on lands within the Giants Ridge Recreation Area as defined in Minnesota Statutes Section 298.22, Subd. 7.

On October 13, 2010, the city of Biwabik approved Resolution No. 2010-19 accepting the Giants Ridge Recreation Area Taxing Authority, and filed a Certificate of Approval along with the

Resolution with the Secretary of State's office, pursuant to Minnesota Statutes Section 645.021, Subdivision 3.

In accordance with the requirements of the city of Biwabik, the city Council is scheduled on December 13, 2010 to hear the first of two required readings of the local Ordinance. The Ordinance is titled the Tax on Admissions and Recreation, Lodging and Food and Beverage, and allows a tax for the following amounts and purposes:

- **Lodging Tax Rate:** Two Percent (2%) tax on the gross receipts, subject to lodging tax under Minnesota Statutes Section 469.190;
- **Admissions and Recreation Tax Rate:** Two Percent (2%) tax on admission receipts to entertainment and recreational facilities and on receipts from the rental of recreational equipment, excepting receipts from purchases of season tickets or passes;
- **Food and Beverage Tax Rate:** One percent (1%) sales tax on gross receipts of food and beverages sold, whether they are consumed on or off the premises, by restaurants and places of refreshment as such establishments may be defined by the City in its ordinance.

**Laws of Minnesota for 2010, Chapter 389 (HF No. 3729/SF3327), Article 5, Section 7  
Presented to the Governor on May 18, 2010**

**ARTICLE 5  
LOCAL SALES TAX**

**Sec. 7. GIANTS RIDGE RECREATION AREA TAXING AUTHORITY.**

Subdivision 1. **Additional taxes authorized.** Notwithstanding Minnesota Statutes, section 477A.016, or any other law, ordinance, or charter provision to the contrary, the city of Biwabik, upon approval both by its governing body and by the vote of at least seven members of the Iron Range Resources and Rehabilitation Board, may impose any or all of the taxes described in this section.

Subd. 2. **Use of proceeds.** The proceeds of any taxes imposed under this section, less refunds and costs of collection, must be deposited into the Iron Range Resources and Rehabilitation Board account enterprise fund created under the provisions of Minnesota Statutes, section 298.221, paragraph (c), and must be dedicated and expended by the commissioner of the Iron Range Resources and Rehabilitation Board, upon approval by the vote of at least seven members of the Iron Range Resources and Rehabilitation Board, to pay costs for the construction, renovation, improvement, expansion, and maintenance of public recreational facilities located in those portions of the city within the Giants Ridge Recreation Area as defined in Minnesota Statutes, section 298.22, subdivision 7, or to pay any principal, interest, or premium on any bond issued to finance the construction, renovation, improvement, or expansion of such public recreational facilities.

Subd. 3. **Lodging tax.** The city of Biwabik, upon approval both by its governing body and by the vote of at least seven members of the Iron Range Resources and Rehabilitation

Board, may impose, by ordinance, a tax of not more than five percent on the gross receipts subject to the lodging tax under Minnesota Statutes, section 469.190. This tax is in addition to any tax imposed under Minnesota Statutes, section 469.190, and may be imposed only on gross lodging receipts generated within the Giants Ridge Recreation Area as defined in Minnesota Statutes, section 298.22, subdivision 7.

Subd. 4. **Admissions and recreation tax.** (a) The city of Biwabik, upon approval both by its governing body and by the vote of at least seven members of the Iron Range Resources and Rehabilitation Board, may impose, by ordinance, a tax of not more than five percent on admission receipts to entertainment and recreational facilities and on receipts from the rental of recreation equipment, at sites within the Giants Ridge Recreation Area as defined in Minnesota Statutes, section 298.22, subdivision 7. The provisions of Minnesota Statutes, section 297A.99, except for subdivisions 2 and 3, govern the imposition, administration, collection, and enforcement of the tax authorized in this subdivision.

(b) If the city imposes the tax under paragraph (a), it must include in the ordinance an exemption for purchases of season tickets or passes.

Subd. 5. **Food and beverage tax.** The city of Biwabik, upon approval both by its governing body and by the vote of at least seven members of the Iron Range Resources and Rehabilitation Board, may impose, by ordinance, an additional sales tax of not more than one percent on gross receipts of food and beverages sold whether it is consumed on or off the premises by restaurants and places of refreshment as defined by resolution of the city within the Giants Ridge Recreation Area as defined in Minnesota Statutes, section 298.22, subdivision 7. The provisions of Minnesota Statutes, section 297A.99, except for subdivisions 2 and 3, govern the imposition, administration, collection, and enforcement of the tax authorized in this subdivision.

**EFFECTIVE DATE.** This section shall be effective the day after compliance with Minnesota Statutes, section 645.021, subdivisions 2 and 3, by the governing body of the city of Biwabik. Notwithstanding Minnesota Statutes, section 645.021, subdivision 3, the city may comply with Minnesota Statutes, section 645.021, at any time before January 1, 2012.

December 10, 2010

Dan Salomone  
Acting Commissioner of Revenue  
Mail Station 7100  
St Paul, MN 55146-7100

Dear Mr. Salomone,

The City of Biwabik is in the process of enacting an ordinance which will impose a tax on admissions, recreation, and food and beverage within the Giants Ridge Recreation Area. We would like this tax to be collected starting April 1, 2011. We would also like these taxes to be administered, collected and enforced by the Commissioner of Revenue. Please let me know if there is anything else you need from me to begin this process.

Sincerely,

Jeff Jacobson  
City Administrator

CC: George Hoyum, Director of Sales & Use Tax  
Bridget Solberg, Sales & Use Tax Division

**IRON RANGE RESOURCES AND REHABILITATION BOARD  
OF THE STATE OF MINNESOTA  
CITY OF BIWABIK LOCAL TAX ORDINANCE APPROVAL**

**Resolution No.: 11-020**

**WHEREAS**, Laws of Minnesota for 2010, Regular Session, Chapter 389, Article 5, Section 7, (the “**Biwabik Tax Law**”) authorized the City of Biwabik (“**City**”) to enact ordinances that impose local lodging, admissions, recreational activities, and food and beverage taxes on commercial transactions that occur within the Giants Ridge Recreation Area designated in Minnesota Statutes Section 298.22, Subd. 7 (the “**Recreation Area**”); and,

**WHEREAS**, Subdivision 1 of the Biwabik Tax Law requires the Board, by a vote of at least seven of its members, to approve the City’s imposition of any taxes authorized therein before any such taxes become effective; and,

**WHEREAS**, the City has prepared the attached proposed ordinance for adoption to impose local taxes within the Recreation Area as authorized in the Biwabik Tax Law; and,

**WHEREAS**, the Board met in open session at 2:00 p.m. on December 16, 2010, in the Board Room located near Eveleth, Minnesota, to consider, among other matters, the City’s proposed imposition of its local taxes within the Recreation Area pursuant to the authority granted in the Biwabik Tax Law and the City’s request that the Board approve the imposition of such taxes as required in Subdivision 1 of the Law.

**NOW, THEREFORE, IT IS RESOLVED**, that the Board hereby approves, pursuant to the requirements of Laws of Minnesota for 2010, Chapter 389, Article 5, Section 7, Subdivision 2, the imposition by the City of Biwabik by ordinance of the following local taxes on transactions occurring within the Giants Ridge Recreation Area as defined in Minnesota Statutes Section 298.22, Subd. 7, in the following amounts and for the following purposes:

- Lodging Tax Rate: Two Percent (2%) tax on the gross receipts subject to lodging tax under Minnesota Statutes Section 469.190;

- Admissions and Recreation Tax Rate: Two Percent (2%) tax on admission receipts to entertainment and recreational facilities and on receipts from the rental of recreational equipment, excepting receipts from purchases of season tickets or passes;
- Food and Beverage Tax Rate: One percent (1%) sales tax on gross receipts of food and beverages sold, whether they are consumed on or off the premises, by restaurants and places of refreshment as such establishments may be defined by the City in its ordinance.

**BE IT FURTHER RESOLVED**, that the Board’s approval is subject to the understanding that such local taxes shall be in addition to and not in lieu of any local taxes currently imposed upon receipts from transactions occurring within the said Recreation Area, and that the net proceeds thereof of these new local taxes will be deposited into the Iron Range Resources and Rehabilitation Board Account enterprise fund created under the provisions of Minnesota Statutes Section 298.221 Paragraph (c) pursuant to the requirements of Subdivision 2 of the Biwabik Tax Law.

**PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 16<sup>th</sup> DAY OF DECEMBER 2010.**

<b>Member</b>	<b>Aye</b>	<b>Nay</b>	<b>Abstain</b>	<b>Excused</b>
Senator Tom Bakk				<b>X</b>
Senator Tom Saxhaug	<b>X</b>			
Senator Rod Skoe				<b>X</b>
Senator Yvonne Prettner Solon				<b>X</b>
Senator Dave Tomassoni	<b>X</b>			
Representative Tom Anzelc	<b>X</b>			
Representative Dave Dill				<b>X</b>
Representative Tom Rukavina	<b>X</b>			
Representative Tony Sertich	<b>X</b>			
Representative Loren Solberg				<b>X</b>
Citizen Joe Begich	<b>X</b>			
Citizen Shelley Robinson	<b>X</b>			
Citizen Jack Ryan	<b>X</b>			
<b>TOTAL</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>5</b>

Signed: \_\_\_\_\_  
 Senator David Tomassoni, Chair

**b) Cuyuna Country State Recreation Area Citizens Advisory Council Appointment  
 – Resolution No. 11-021**

Motion by Senator Tom Saxhaug to approve the Cuyuna Country State Recreation Area Citizens Advisory Council Appointment, as presented in Resolution No. 11-021. Seconded by Citizen Jack Ryan. Motion carried.

**Voting in Favor of the Motion:** Representative Tom Anzelc, Representative Tom Rukavina, Representative Tony Sertich, Senator Tom Saxhaug, Senator David Tomassoni, Citizen Joe Begich, Citizen Shelley Robinson, Citizen Jack Ryan

**Voting Against the Motion:** None

**Abstain:** None

**Excused:** Representative David Dill, Representative Loren Solberg, Senator Tom Bakk, Senator Yvonne Prettner Solon, Senator Rod Skoe

## **Cuyuna Country State Recreation Area Citizens Advisory Council Appointment**



**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 Board Members

**From:** Sandy Layman  
Commissioner

**Date:** December 13, 2010

**Re: Cuyuna Country State Recreation Area Citizens Advisory Council Appointment**

Minnesota Statutes Section 85.0146 established the Cuyuna Country State Recreation Area Citizens Advisory Council (the Council) to provide comments and advice for consideration by the area manager before major decisions are implemented within the Cuyuna Country State Recreation Area.

The statute provides that the membership of the Council shall include “a designee of the Iron Range Resources and Rehabilitation Board”. In the past, agency staff has been designated to the Council.

At the February 18, 2010, meeting of the Iron Range Resources and Rehabilitation Board, the Board approved Resolution No. 10-031 delegating to the Commissioner the power to designate a staff member to serve as the Board’s designee while reserving the right to designate another

person at a later time. From the Board's discussion at the meeting, it appeared it was the intent of the Board to designate a local person from the Cuyuna Range to represent the agency.

I recently received an application from Jennifer (Jenny) Smith, a resident and business owner from Crosby. My recommendation is to designate Jenny Smith as the representative of Iron Range Resources and Rehabilitation Board to the Council.

**Sec. 40. [85.0146] CUYUNA COUNTRY STATE RECREATION AREA;  
CITIZENS ADVISORY COUNCIL.**

Subdivision 1. **Advisory council created.** The Cuyuna Country State Recreation Area Citizens Advisory Council is established. Membership on the advisory council shall include:

- (1) a representative of the Cuyuna Range Mineland Recreation Area Joint Powers Board;
- (2) a representative of the Croft Mine Historical Park Joint Powers Board;
- (3) a designee of the Cuyuna Range Mineland Reclamation Committee who has worked as a miner in the local area;
- (4) a representative of the Crow Wing County Board;
- (5) an elected state official;
- (6) a representative of the Grand Rapids regional office of the Department of Natural Resources;
- (7) a designee of the Iron Range Resources and Rehabilitation Board;
- (8) a designee of the local business community selected by the area chambers of commerce;
- (9) a designee of the local environmental community selected by the Crow Wing County District 5 commissioner;
- (10) a designee of a local education organization selected by the Crosby-Ironton School Board;
- (11) a designee of one of the recreation area user groups selected by the Cuyuna Range Chamber of Commerce; and
- (12) a member of the Cuyuna Country Heritage Preservation Society.

Subd. 2. **Administration.** (a) The advisory council must meet at least four times annually. The council shall elect a chair and meetings shall be at the call of the chair.

(b) Members of the advisory council shall serve as volunteers for two-year terms with the ability to be reappointed. Members shall accept no per diem.

(c) The state recreation area manager may attend the council meetings and advise the council of issues in management of the recreation area.

(d) Before a major decision is implemented in the Cuyuna Country State Recreation Area, the area manager must consult with the council and take into consideration any council comments or advice that may impact the major decision.

**IRON RANGE RESOURCES AND REHABILITATION BOARD  
OF THE STATE OF MINNESOTA  
CUYUNA COUNTRY STATE RECREATION AREA  
CITIZENS ADVISORY COUNCIL APPOINTMENT**

**Resolution No.: 11-021**

**WHEREAS**, Minnesota Statutes Section 85.0146 (enacted in 2007, the “**Act**”) established a citizens committee designated as the “Cuyuna Country State Recreation Area Citizens Advisory Council” (the “**Council**”) to advise the Minnesota Department of Natural Resources’ area manager in regard to major decisions that affect the management, administration or development of the Cuyuna Country State Recreation Area; and

**WHEREAS**, the Act provides that the membership of the Council shall include “a designee of the Iron Range Resources and Rehabilitation Board”; and,

**WHEREAS**, the Commissioner has indicated that she has received an application from Jennifer (Jenny) Smith, a resident and business owner from Crosby, that she would be interested in serving as the Board’s appointed representative on the Council and that she is recommending the appointment of Ms. Smith to the Council; and,

**WHEREAS**, the Board met in open session at 2:00 p.m. on December 16, 2010, in the Board Room located near Eveleth, Minnesota, to consider, among other matters, the Commissioner’s recommendation that Jennifer Smith be appointed as the Board’s designated representative on the Council.

**NOW, THEREFORE, IT IS HEREBY RESOLVED** that the Board hereby appoints Jennifer Smith to serve as the Board’s designated representative on the Cuyuna Country State Recreation Area Citizens Advisory Council, until such time as she resigns or her appointment thereto is otherwise terminated.

**PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 16<sup>th</sup> DAY OF DECEMBER 2010.**

<b>Member</b>	<b>Aye</b>	<b>Nay</b>	<b>Abstain</b>	<b>Excused</b>
Senator Tom Bakk				<b>X</b>
Senator Tom Saxhaug	<b>X</b>			
Senator Rod Skoe				<b>X</b>
Senator Yvonne Prettner Solon				<b>X</b>
Senator Dave Tomassoni	<b>X</b>			
Representative Tom Anzelc	<b>X</b>			
Representative Dave Dill				<b>X</b>
Representative Tom Rukavina	<b>X</b>			
Representative Tony Sertich	<b>X</b>			

Representative Loren Solberg				<b>X</b>
Citizen Joe Begich	<b>X</b>			
Citizen Shelley Robinson	<b>X</b>			
Citizen Jack Ryan	<b>X</b>			
<b>TOTAL</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>5</b>

Signed: \_\_\_\_\_  
 Senator David Tomassoni, Chair

**c) Commissioner’s Program Expenditure Authorization – Resolution No. 11-023**  
 Chairman David Tomassoni added to the agenda and distributed Resolution No. 11-023 for discussion. Motion by Representative Tom Anzelc to approve the Commissioner Program Expenditure Authorization of the remaining \$250,000 (of \$500,000) of FY11 Budget funds for the Commissioner’s Program, as presented in Resolution No. 11-023. Seconded by Representative Tom Rukavina. Motion carried.

**Voting in Favor of the Motion:** Representative Tom Anzelc, Representative Tom Rukavina, Representative Tony Sertich, Senator Tom Saxhaug, Senator David Tomassoni, Citizen Joe Begich, Citizen Shelley Robinson, Citizen Jack Ryan

**Voting Against the Motion:** None

**Abstain:** None

**Excused:** Representative David Dill, Representative Loren Solberg, Senator Tom Bakk, Senator Yvonne Prettner Solon, Senator Rod Skoe

**IRON RANGE RESOURCES AND REHABILITATION BOARD  
 OF THE STATE OF MINNESOTA  
 COMMISSIONER’S PROGRAM EXPENDITURE AUTHORIZATION**

**Resolution No.: 11-023**

**WHEREAS**, the Board at its June 2010 meeting approved the agency’s FY11 Agency Investment Plan (the “FY 11 Budget”), subject to certain modifications contained in the Board’s Resolution 10-046; and,

**WHEREAS**, the FY11 Budget, under the Programs/Grants portion of the funding authorizations, approved the expenditure of up to \$500,000 for the Commissioner’s Program, which is a program by which funds are made available to the Commissioner to make small grants to respond quickly to emergency situations or to support development opportunities that may not meet other agency program requirements; and,

**WHEREAS**, the Board’s Resolution 10-046, provided that the Commissioner could expend the

first \$250,000 portion of the budgeted Program amount without further Board approval, but that expenditure of the remaining \$250,000 of the budgeted Program amount was subject to further Board approval; and,

**WHEREAS**, the Board is satisfied with the manner and purposes for which the Commissioner has expended funds from the first \$250,000 of Program funds and wishes now to authorize the expenditure of the remaining \$250,000 of FY11 Budget funds for the Commissioner’s Program.

**NOW, THEREFORE, BE IT RESOLVED** that the Board hereby approves, for grants and encumbrancing on or after January 4, 2011, the expenditure of the remaining \$250,000 portion of the Commissioner Program funds in the approved FY11 Budget.

**PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 16<sup>th</sup> DAY OF DECEMBER 2010.**

<b>Member</b>	<b>Aye</b>	<b>Nay</b>	<b>Abstain</b>	<b>Excused</b>
Senator Tom Bakk				<b>X</b>
Senator Tom Saxhaug	<b>X</b>			
Senator Rod Skoe				<b>X</b>
Senator Yvonne Prettner Solon				<b>X</b>
Senator Dave Tomassoni	<b>X</b>			
Representative Tom Anzelc	<b>X</b>			
Representative Dave Dill				<b>X</b>
Representative Tom Rukavina	<b>X</b>			
Representative Tony Sertich	<b>X</b>			
Representative Loren Solberg				<b>X</b>
Citizen Joe Begich	<b>X</b>			
Citizen Shelley Robinson	<b>X</b>			
Citizen Jack Ryan	<b>X</b>			
<b>TOTAL</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>5</b>

Signed: \_\_\_\_\_  
 Senator David Tomassoni, Chair

**7) Adjournment**

The meeting adjourned at 4:15 p.m.

## **Reorganization of the Board (2011-2012)**

- a) Election of Chair and Vice Chair

## **Taconite Area Environmental Protection Fund**

*Action required: Project approval requires 7 votes*

- a) Franconia Minerals

## 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

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### 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 3<sup>rd</sup>.** 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 3<sup>rd</sup>.** 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	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

- 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 17<sup>th</sup> is \$1 Canadian = \$1.0175 American.

## **Board Account**

*Action required: Project approval requires 7 votes*

- a) Bois Forte Band of Chippewa

**Bois Forte Band of Chippewa**



**IRRRB**  
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4261 Highway 53 South  
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(218) 735-3000 • 800-765-5043  
Fax: (218)735-3047

**To:** Iron Range Resources and Rehabilitation Board

**From:** Tony Sertich  
Commissioner

**Date:** February 23, 2011

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

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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.

<u>SOURCES</u>		<u>USES</u>	
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		
<b>Totals</b>	<b>\$3,147,250</b>		<b>\$3,147,250</b>

### **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.

## **Other**

*Action required: Project approval requires 7 votes*

- a) Central Iron Range Development Land Options

## Central Iron Range Development Land Options



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Fax: (218)735-3047

**To:** Iron Range Resources and Rehabilitation Board

**From:** Tony Sertich  
Commissioner

**Date:** February 23, 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.