

**Meeting
of the
Iron Range Resources Board**

Thursday, October 20, 2005

5:00 p.m.

**Iron Range Resources Administration Building
Eveleth, Minnesota**

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MEETING OF THE IRON RANGE RESOURCES BOARD

Thursday, October 20, 2005

5:00 p.m.

Iron Range Resources Administration Building

Eveleth, Minnesota

Agenda

- 1) Roll Call
- 2) Approval of the August 18, 2005, Minutes
- 3) Commissioner's Comments
 - a) Legislative Audit – Update
 - b) Douglas J. Johnson Trust Fund Investment Policy – Update
 - c) Early Separation Incentive Program – Update
- 4) Board Account

Action required: Project approval requires 7 votes

 - a) Program Grants
 - i) City of Biwabik
 - ii) Greenway Area Business Association
 - iii) Ironworld Development Corporation
 - iv) Minnesota Technology, Inc.
 - v) North Shore Business Enterprise Center
- 5) Taconite Area Environmental Protection Fund

Action required: Project approval requires 7 votes

 - a) City of Buhl – Occupational Development Center, Inc. (ODC)
 - b) Itasca Development Corporation – Speculative Building Project
 - c) Northwest Airlines Bankruptcy Counsel Appropriation
- 6) Douglas J. Johnson Economic Protection Trust Fund

Action required: Project approval requires 8 votes

 - a) Laurentian Energy Authority – Update
 - b) Buhl Economic Development Authority (KidsPeace Corporation) – Amendment
 - c) Staver Foundry
 - d) Davich Properties, Inc.
 - e) CharterWest Mortgage, LLC
 - f) KMDA, Inc.
 - g) Black Iron Rubber Company
 - h) Sunrise Bakery & Gourmet Foods
 - i) Mesabi Nugget, LLC – Debenture Conversion and Amendment of Term Sheet

- 7) Bonding for School Health, Safety & Maintenance Improvements – Update
- 8) Adjournment

Approval of the August 18, 2005, Minutes

Meeting of the Iron Range Resources Board

Thursday, August 18, 2005
5:00 p.m.

Iron Range Resources Administration Building
Eveleth, Minnesota

I. Roll Call

Senator David Tomassoni, Chair, called the meeting to order at approximately 5:11 p.m. Present: Representative Maxine Penas; Representative Tom Rukavina; Representative Tony Sertich; Representative Loren Solberg; Senator Tom Bakk; Senator Tom Saxhaug; Senator Yvonne Prettner Solon; Citizen Joe Begich; Citizen Bill Henning and Citizen Matt Matasich. Absent: Representative David Dill and Senator Becky Lourey. Also present were: Sandy Layman, Commissioner; Brian Hiti, Deputy Commissioner; Doug Gregor, Assistant Attorney General; Matt Sjoberg, Interim Development Strategies Director; Jean Dolensek, Administrative Services Director; Linda Johnson, Director – Giants Ridge; Marianne Bouska, Director – Ironworld Discovery Center; Jack LaVoy, Marketing, Communications and External Affairs Director; Sheryl Kochevar, Executive Assistant; Lauren Hall, Executive Assistant; Jim Varichak, Chisholm School Superintendent; Terry Leoni, Virginia Public Utilities; Jim Kochevar, Hibbing Public Utilities; and Dave Danielson, Hibbing-Chisholm Airport.

II. Approval of the June 16, 2005, Minutes

Representative Rukavina moved approval of the June 16, 2005, minutes. Motion carried.

III. Bonding for School Health, Safety & Maintenance Improvements

Motion by Senator Bakk to authorize the Commissioner to issue revenue bonds in a principal amount of \$15,000,000. The proceeds of the bonds must be used to make grants to school districts located in the taconite assistance area to be used by the school districts to pay for health, safety, and maintenance improvements but only if the school district has levied the maximum amount allowable under law for those purposes. Seconded by Representative Solberg. Motion carried with the understanding that school districts will be notified by the Attorney General's Office not to incur costs without receiving the opinion of bond counsel.

Voting in Favor of the Motion: Representative Maxine Penas, Representative Tom Rukavina, Representative Tony Sertich, Representative Loren Solberg, Senator Tom Bakk, Senator Tom Saxhaug, Senator Yvonne Prettner Solon, Senator David Tomassoni, Citizen Joe Begich and Citizen Bill Henning.

Voting Against the Motion: Citizen Matt Matasich.

Abstain: None.

Absent: Representative David Dill and Senator Becky Lourey.

IV. Laws of Minnesota for 2005, First Special Session, Chapter 1, Article 4, Section 90 – Resolution No.: FY06-002

Motion by Representative Rukavina to approve Resolution No.: FY06-002 related to the 2005 Legislation that provided five cents per ton of the taconite production tax revenues be paid into a grant and loan fund established within the Taconite Area Environmental Protection Fund as well as an amount equal to the amount of taconite production taxes generated by the implicit price deflator for taxes paid in 2005. These combined amounts will be allocated as follows: in 2005 to the city of Virginia for improvements and repairs to the city's steam heating system; in 2006 to the public utilities commissions of the cities of Hibbing and Virginia to convert their electrical generating plants to the use of biomass products; and in 2007 to the city of Tower to be used for the East Two Rivers project. Seconded by Representative Sertich. Motion carried.

Voting in Favor of the Motion: Representative Maxine Penas, Representative Tom Rukavina, Representative Tony Sertich, Representative Loren Solberg, Senator Tom Bakk, Senator Tom Saxhaug, Senator Yvonne Prettner Solon, Senator David Tomassoni, Citizen Joe Begich, Citizen Bill Henning and Citizen Matt Matasich.

Voting Against the Motion: None.

Abstain: None.

Absent: Representative David Dill and Senator Becky Lourey.

**IRON RANGE RESOURCES AND REHABILITATION BOARD
OF THE STATE OF MINNESOTA**

Resolution No.: FY06-002

WHEREAS, Laws of Minnesota for 2005, First Special Session Chapter 1, Article 4, Section 89, provides that five cents per ton of the taconite production tax revenues available for distribution under Minnesota Statutes Section 298.28 (the "**Nickel Funds**"), shall be paid into the taconite environmental fund for use under Minnesota Statutes Section 298.2961, Subd. 4 ("**Subdivision 4**"); and,

WHEREAS, Laws of Minnesota for 2005, First Special Session Chapter 1, Article 4, Section 90, provides that an amount equal to the amount of taconite production taxes generated by the so-called implicit price deflator as therein referenced for taconite production taxes paid in 2005 (the "**Escalator Funds**") shall be distributed in calendar year 2005 and in the years thereafter into the grant and loan fund established in Subdivision 4; and,

WHEREAS, Laws of Minnesota for 2005, First Special Session Chapter 1, Article 4, Section 91 (the "**Act**"), specifies that funds available for distribution under the said Subdivision 4 are to be allocated as follows:

- Distributions received in calendar year 2005 are allocated to the city of Virginia for improvements and repairs to the city's steam heating system (the "**Virginia Project**").
- Distributions received in calendar year 2006 are allocated to a project of the public utilities

commissions of the cities of Hibbing and Virginia to convert their electrical generating plants to the use of biomass products, such as wood (the “**Hibbing Project**”).

- Distributions received in calendar year 2007 are allocated to the city of Tower to be used for the East Two Rivers project in or near the city of Tower (the “**Tower Project**”); and,

WHEREAS, the Act provides that any grant or loan made pursuant to the provisions of Subdivision 4 must be approved by a majority of the members of the Board;

WHEREAS the Board met in regular session at Eveleth on August 18, 2005, to consider, among other matters, whether, and if so in what form, the funds made available by law under the provisions of Subdivision 4 should be allocated for the Virginia Project, the Hibbing Project and the Tower Project.

NOW, THEREFORE, BE IT RESOLVED THAT the Board hereby approves the distribution of the Nickel Funds and the Escalator Funds made available under Minnesota Statutes Section 298.2961, Subdivision 4, as grants to and for the Virginia Project, the Hibbing Project and the Tower Project, subject to the conditions that the grants are to be:

- Funded and made available to the respective grantees when and as the specified taconite production tax amounts are received and distributed into the Subdivision 4 fund in 2005, 2006 and 2007, and,
- Made by the Commissioner in a form of grant and subject to such grant conditions as are customarily contained in other agency grants of similar amounts and purposes.

PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 18th DAY OF AUGUST, 2005

AYES: 11
NAYS: 0
ABSTENTIONS: 0
ABSENT: 2

Signed : _____
Senator David Tomassoni, Chair

V. Board Account

Action Required: Project approval requires 7 votes

a. Chisholm-Hibbing Airport Speculative Building Project

Motion by Representative Sertich to approve the Chisholm-Hibbing Airport Speculative Building project as presented. Seconded by Senator Solon. Motion carried.

Voting in Favor of the Project: Representative Maxine Penas, Representative Tom Rukavina, Representative Tony Sertich, Representative Loren Solberg, Senator Tom Bakk, Senator Tom Saxhaug, Senator Yvonne Prettner Solon, Senator David Tomassoni, Citizen Joe Begich, Citizen Bill Henning and Citizen Matt Matasich.

Voting Against the Project: None.

Abstain: None.

Absent: Representative David Dill and Senator Becky Lourey.

VI. Douglas J. Johnson Trust Fund Investment Policy

Action Required: Project approval requires 8 votes

Motion by Representative Sertich to approve the Douglas J. Johnson Trust Fund Policy as presented. Seconded by Representative Solberg. Motion carried.

Voting in Favor of the Motion: Representative Maxine Penas, Representative Tom Rukavina, Representative Tony Sertich, Representative Loren Solberg, Senator Tom Bakk, Senator Tom Saxhaug, Senator Yvonne Prettner Solon, Senator David Tomassoni, Citizen Joe Begich, Citizen Bill Henning and Citizen Matt Matasich.

Voting Against the Motion: None.

Abstain: None.

Absent: Representative David Dill and Senator Becky Lourey.

VII. Other – Occupational Development Center

Senator Bakk requested a review of the Occupational Development Center application by the Iron Range Resources Economic Development Liaison group.

VIII. FY06 Investment Plan

Action Required: Project approval requires 8 votes

Motion by Representative Rukavina, with a friendly amendment by Representative Solberg, to approve the Iron Range Resources FY2006 Budget as presented by the Commissioner with a decrease of \$1,000,000 to the Giants Ridge Repair & Investment Fund and periodic reports to the Iron Range Resources Liaison groups regarding Marketing Projects; Communications Projects; Mining, Energy and Minerals Projects; and Technology Projects. Seconded by Representative Sertich. Motion carried.

Voting in Favor of the Motion: Representative Maxine Penas, Representative Tom Rukavina, Representative Tony Sertich, Representative Loren Solberg, Senator Tom Bakk, Senator Tom Saxhaug, Senator Yvonne Prettner Solon, Senator David Tomassoni, Citizen Joe Begich, Citizen Bill Henning and Citizen Matt Matasich.

Voting Against the Motion: None.

Abstain: None.

Absent: Representative David Dill and Senator Becky Lourey.

IX. Ironworld Endowment – Resolution No.: FY06-001

Motion by Representative Sertich to approve Resolution No.: FY06-001 related to an allocation of \$10 million for an endowment to help support and sustain the mission of the Ironworld

Discovery Center with an amendment to the second “Whereas” clause deleting the words “and control” from the statement “...intends to transfer the operation and control of the Ironworld...”
Seconded by Representative Rukavina. Motion carried.

Voting in Favor of the Motion: Representative Maxine Penas, Representative Tom Rukavina, Representative Tony Sertich, Representative Loren Solberg, Senator Tom Bakk, Senator Tom Saxhaug, Senator Yvonne Prettner Solon, Senator David Tomassoni, Citizen Joe Begich, Citizen Bill Henning and Citizen Matt Matasich.

Voting Against the Motion: None.

Abstain: None.

Absent: Representative David Dill and Senator Becky Lourey.

**IRON RANGE RESOURCES AND REHABILITATION BOARD
OF THE STATE OF MINNESOTA**

Resolution No.: FY06-001

WHEREAS, pursuant to Minnesota Statutes Section 298.22 Iron Range Resources owns and operates the Ironworld Discovery Center, which is located near Chisholm; and

WHEREAS, Iron Range Resources intends to transfer the operation of the Ironworld Discovery Center to the Ironworld Development Corporation (“IDC”), a Minnesota non-profit corporation; and

WHEREAS, this transfer was recommended by the Ironworld Task Force report entitled *Ironworld Discovery Center: Recommendations for a Sustainable Future*; and

WHEREAS, the Ironworld Transition Team has recommended that Iron Range Resources establish an endowment to help support and sustain the mission of Ironworld Discovery Center even after the direct agency subsidy ceases; and

WHEREAS, the Commissioner has requested that Iron Range Resources place \$10,000,000 into a permanent endowment for the benefit of IDC; and

WHEREAS, it is intended by this Board that the interest and income from the endowment be used as a revenue source for IDC.

NOW, THEREFORE, BE IT RESOLVED, that the Commissioner is authorized to encumber and place \$10,000,000 of the operating reserve into an endowment for the benefit of IDC subject to reasonable terms and conditions for such a transaction which subsequently shall be approved by the Iron Range Resources and Rehabilitation Board.

PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 18th DAY OF AUGUST, 2005.

AYES: 11

NAYS: 0

ABSTENTIONS: 0

ABSENT: 2

Signed: _____
Senator David Tomassoni
Chair of the Board

X. Board Appointment to Ironworld Development Corporation Board

Chairman Tomassoni appointed Representative Sertich to serve as the Iron Range Resources Board's member on the Ironworld Development Corporation Board

XI. Adjournment

Meeting adjourned at 8:55 p.m.

Board Account

Action required: Project approval requires 7 Votes

- a) Program Grants – Commissioner Projects
 - i) City of Biwabik
 - ii) Greenway Area Business Association
 - iii) Ironworld Development Corporation
 - iv) Minnesota Technology, Inc.
 - v) North Shore Business Enterprise Center

Program Grants – Commissioner Projects



Iron Range Resources
P.O. Box 441
4261 Highway 53 South
Eveleth, Minnesota 55734-0441
(218) 744-7400 • 800-765-5043
Fax: (218)744-7403

To: Iron Range Resources Board Members

From: Sandy Layman
Commissioner

Date: October 13, 2005

Re: FY 2006 Program Grants Approval: Five Grants Totaling \$236,000

I recommend approval of the following FY 2006 Program Grants. With the exception of \$96,000 previously approved in FY05, the funding source for these grants is the \$500,000 Commissioner Projects allocation that was approved on August 18, 2005, as a part of the FY 2006 agency budget.

City of Biwabik

\$5,000

Funding will be used to pay for planning services for the city of Biwabik, including rezoning of recently annexed property, codifying of ordinances, updating GIS maps of the city, its infrastructure and its zoning, as well as general planning assistance. Staff from the Arrowhead Regional Development Commission (ARDC) will provide these services. The \$5,000 Iron Range Resources grant will be matched by \$5,000 in ARDC funding.

Greenway Area Business Association

\$10,000

Funding will be used to hire technical support to develop a master plan for the corridor of property in Bovey and Coleraine adjacent to old Highway 169 and the new four lane highway realignment which will begin construction in 2006. The total project cost is \$20,000.

Ironworld Development Corporation

\$146,000¹

\$50,000 from the Commissioner Projects account, along with \$96,000 from the \$300,000 FY05 supplemental appropriation for Ironworld, will be used to fund transition expenses for the Ironworld Development Corporation. IDC was formed in March 2005 for the following purposes: to collect, preserve, interpret and promote the history and cultural heritage of northeastern Minnesota; and to manage, promote, sustain, and develop the assets of Ironworld

¹ Includes \$96,000 in FY05 funding previously approved for Ironworld

Discovery Center for the long-term benefit of area residents and visitors. Prior to entering into an agreement with Iron Range Resources to take over the management of Ironworld Discovery Center, IDC will begin incurring operational start-up costs, including administrative and transition expenses.

Minnesota Technology, Inc.

\$25,000

Iron Range Resources funding will be used to help cover the costs of the second phase of the Minnesota Value Chain Management Program; an effort to learn what companies need from suppliers and to develop initiatives that will improve customer/supplier relationships and overall supplier development. Phase One of this initiative consisted of collecting baseline data through interviews with several of Minnesota's largest original equipment manufacturers (OEM's). Phase Two will address the needs of OEM's and their suppliers to create efficient and mutually beneficial supply chain relationships, whereby contributing to job creation and retention. MTI has budgeted \$150,000 for Phase Two, which is anticipated to last twelve months beginning in October 2005. The Iron Range Resources funding will be used to pay for design team interviews of small Iron Range companies who are suppliers to OEMs within the region or elsewhere in the state. The design team will then identify a small Iron Range company for others to pattern their processes after.

Northshore Business Enterprise Center

\$50,000

Funding will be used for the construction of a new access road and raw material staging area as well as the installation of a new overhead door at NSBEC. These improvements are being done to benefit NaturNorth Technologies, LLC, a new tenant who will be leasing 3,100 square feet of space at NSBEC to house its pilot plant project.

Taconite Area Environmental Protection Fund

Action required: Project approval requires 7 Votes

- a) City of Buhl – Occupational Development Center, Inc. (ODC)
- b) Itasca Development Corporation – Speculative Building Project
- c) Northwest Airlines Bankruptcy Counsel Appropriation

City of Buhl – Occupational Development Center, Inc. (ODC)



Iron Range Resources
P.O. Box 441
4261 Highway 53 South
Eveleth, Minnesota 55734-0441
(218) 744-7400 • 800-765-5043
Fax: (218)744-7403

To: Iron Range Resources Board Members

From: Sandy Layman
Commissioner

Date: October 11, 2012

Re: City of Buhl - Occupational Development Center, Inc. (ODC)

The city of Buhl has approached Iron Range Resources with a request for an additional \$50,000 grant to offset a portion of the infrastructure costs associated with the expansion of the Occupational Development Center, Inc. (ODC) in Buhl. ODC is in the process of constructing a 50,000 square foot building in the new industrial area just south of Highway 169 in Buhl. The total cost of the project is estimated to be \$2.8 million, not including equipment and inventory that ODC will be providing. Iron Range Resources had previously awarded the City of Buhl a grant in the amount of \$40,000 to fund a portion of the infrastructure costs now estimated to be \$230,000. The proceeds of the new grant would be applied to the costs of utility connections to the site.

I recommend that the agency provide an additional grant of \$50,000 to the city for this development project.

Itasca Development Corporation – Speculative Building Project



Iron Range Resources
P.O. Box 441
4261 Highway 53 South
Eveleth, Minnesota 55734-0441
(218) 744-7400 • 800-765-5043
Fax: (218)744-7403

To: Iron Range Resources Board Members

From: Sandy Layman
Commissioner

Date: October 11, 2012

Re: Itasca Development Corporation - Speculative Building Project

The Itasca Development Corporation (IDC) is proposing the construction of a 15,000 square foot office building on approximately three acres of property located adjacent to the Eagle Ridge Golf Course in Coleraine. Although speculative at this point, IDC officials indicate there is a significant need for this type of space in Itasca County. The space will be designed to meet the needs of companies in the technology and or back office services industries.

The total estimated cost of the completed 15,000 square foot building, including land cost, preliminary site development, financing fees and contingencies is \$1,950,000. Of that total, IDC is requesting a non-recourse loan of \$350,000 from Iron Range Resources. The loan will be for a term of up to fifteen (15) years at our Direct Loan rate (currently 3.5%). IDC will provide \$350,000 of financing for the project with the balance of the financing projected to come from the Northland Foundation and private banks in Grand Rapids and/or Coleraine. Repayment of the loans will come from revenues generated through the lease or eventual sale of the building.

My recommendation is to provide a \$350,000 non-recourse loan to IDC for the construction of this building.

Northwest Airlines Bankruptcy Counsel Appropriation



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(218) 744-7400 • 800-765-5043
Fax: (218)744-7403

To: Iron Range Resources Board Members

From: Sandy Layman
Commissioner

Date: October 11, 2012

Re: Northwest Airlines Bankruptcy Counsel Appropriation

As you are aware, Northwest Airlines, Inc. on September 14, 2005, filed a petition in the Bankruptcy Court for the Southern District of New York seeking protection under Chapter 11 of the Bankruptcy Code. Iron Range Resources is a secured creditor of Northwest in regard to the \$9.6 million of loan financing that the agency provided to the company for the construction and initial equipping of the Iron Range Reservation Center at Chisholm. Other State agencies, the Metropolitan Airports Commission (“MAC”), the City of Duluth and St. Louis County also have financial claims to assert in the bankruptcy proceedings. The MAC and County have determined that they will independently pursue the claims that they have against the company. The Department of Finance, Department of Revenue, the City of Duluth and Iron Range Resources (collectively the “Joint Parties”) determined that it would be most economical and effective to pursue their individual claims collectively.

The first objective of the Joint Parties is to retain the services of a bankruptcy attorney officed in New York City who could appear on behalf of, and assert the claims of, the Joint Parties in the numerous court proceedings that will take place over time before the New York Bankruptcy Court. The Attorney General will appoint that firm as special counsel to the State. The City of Duluth is anticipated also to retain that New York firm as special counsel. To equitably distribute the costs of obtaining the New York counsel and asserting the necessary claims in the bankruptcy proceedings, the Joint Parties and the Minnesota Attorney General are negotiating a “joint powers” agreement. Under the terms of the proposed Joint Powers Agreement, financial responsibility for the estimated bankruptcy counsel fees of \$250,000 will be allocated as follows:

- Minnesota Department of Finance: \$100,000
- City of Duluth: \$75,000
- Iron Range Resources: \$50,000
- Minnesota Department of Revenue: \$25,000

I am seeking your authorization to expend up to \$50,000 of Taconite Area Environmental Protection Fund (“TEPF”) monies to fund the agency’s commitment under the terms of the anticipated joint powers agreement. Agency staff and our Assistant Attorney General will be available at the meeting to answer any questions that you might have about the terms of the joint powers agreement or the agency’s claims in the bankruptcy proceedings.

Thank you for your consideration of this matter.

Douglas J. Johnson Economic Protection Trust Fund

Action required: Project approval requires 8 Votes

- a) Laurentian Energy Authority – Update
- b) Buhl Economic Development Authority (KidsPeace Corporation) – Amendment
- c) Staver Foundry
- d) Davich Properties, Inc.
- e) CharterWest Mortgage, LLC
- f) KMDA, Inc.
- g) Black Iron Rubber Company
- h) Sunrise Bakery & Gourmet Foods
- i) Mesabi Nugget, LLC – Debenture Conversion and Amendment of Term Sheet

**Representatives from the
Laurentian Energy Authority
will provide an oral update to
the Board and Commissioner
regarding the status of the
project.**

**Buhl Economic Development Authority (KidsPeace Corporation) –
Amendment**



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To: Iron Range Resources Board Members

From: Sandy Layman
Commissioner

Date: October 11, 2012

Re: KidsPeace Corporation

On March 11, 1998, the Iron Range Resources Board approved two loans for \$500,000 each to the Buhl Economic Development Authority as part of a \$7 million project by which the former Martin Hughes School building in Buhl was developed into a juvenile treatment facility by KidsPeace Corporation. The loans were closed and funded on August 31, 1999, about which time Mesabi Academy, owned by KidsPeace, began operations.

The terms of the first loan call for regular payments of principal and interest, through the lease with the operating entity. Payments have been made as agreed and the loan has a current principal balance of approximately \$450,000. The second loan had a forgivable feature, by which principal and interest would be forgiven should the operator of the project meet certain covenants - namely have a minimum of 50 "eligible" full-time employees by the second anniversary of the loan, 100 "eligible" full-time employees by the fourth anniversary of the loan, and 130 "eligible" employees by the fifth anniversary of the loan. The project operator met the requirements to have the first two portions of the loan, totaling \$300,000 in principal, forgiven.

KidsPeace closed the charter school that it was operating on-site after the end of the school year in 2003, turning over the responsibility to provide educational services to its residents to the Mountain Iron-Buhl school district. This, combined with a small reduction in staff attributed to lower than projected census numbers, resulted in KidsPeace failing to meet the threshold for forgiveness of the final \$200,000 of the loan. For the pertinent period, the second quarter of 2004, KidsPeace provided documentation that it had 108 direct employees, as compared to the 130 to be eligible for full forgiveness. This number would increase to 128 employees, two shy of the requirement, if the 20 employees of the school district working at the site were considered. KidsPeace envisioned operating a charter school on-site, and

counting the employees towards the forgiveness thresholds, when the project was negotiated and approved.

KidsPeace has requested that the terms of the agreement be amended to provide forgiveness of the final amount should they continue to employ a minimum of 90 direct employees, not including employees of the school district, through the year 2009. Staff has discussed this issue with both the Buhl EDA and the Mountain Iron-Buhl school district, both of which are very supportive. I support this request as KidsPeace will be required to maintain employment levels - albeit at a slightly smaller level than originally agreed - for five full additional years to be eligible for the forgiveness of the final portion of this loan.

Thank you for your consideration of this request.

Staver Foundry, Inc.

Direct Loan Program

APPLICANT:

Staver Foundry, Inc.

PRINCIPAL(S):

John Staver

BRIEF PROJECT DESCRIPTION:

Plant and equipment renovations and operating capital.

PROJECT COST:

\$550,000

PROJECT BREAKDOWN:

Bank Loan (negotiated rate)	\$250,000
Iron Range Resources (direct loan, 7 years, formula rate)	250,000
Equity	<u>50,000</u>
Total	\$550,000

COLLATERAL:

Product molds and patterns.

JOBS:

Retention of 25 full-time jobs. Creation of 15 full-time jobs at \$12 per hour.

CONTINGENCIES:

Funding as listed above must be provided to the company.

TECHNICAL ADVISORY COMMITTEE RECOMMENDATIONS:

Approval recommended at the October 13, 2005, 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:

Staver Foundry, Inc. is a family owned business located in Virginia, MN. Since 1920, Staver has provided steel castings for the mining companies, railroads, paper mills and utility companies. Over recent years, due to mining company bankruptcies and closings and reduced mining related sales, plant maintenance and upgrades have been deferred. Demand now has increased for Staver's products; however, their plant currently is not capable of meeting the increased demand. The Virginia plant is in need of approximately \$250,000 worth of major maintenance and upgrades. This will allow the plant to return to two, and possibly three, shifts per day.

MANAGEMENT TEAM:

John Staver, owner, is retired and is not involved in the daily operations of the company. Rene Capra has been with Staver Foundry since 1974. She became president of the operation in 2000. Tom Keppel, a graduate of U of M Carlson School with a B.S.B in Finance, joined Staver Foundry in 2002 as the plant manager.

MARKET OPPORTUNITY:

With the current increased demand for steel worldwide, local taconite producers have increased demand for Staver Foundry's products. Staver Foundry also has begun to develop new customers outside of the taconite industry, but they are not able to meet demand with their plant needing extensive maintenance and upgrades.

COLLATERAL REVIEW:

The company will pledge assets consisting of current foundry molds for products sold to Minntac, Keetac, Hibtac, Utac, Inland and Northshore Mining. The cost of these molds is \$250,000.

PAST IRON RANGE RESOURCES HISTORY:

Iron Range Resources has an outstanding loan of \$200,000 dated August 1, 2002. The loan is due August 1, 2009.

Davich Properties, Inc.

Direct Loan Program

APPLICANT:

Davich Properties, Inc.

PRINCIPAL(S):

Roberta A. Collins, Owner

Barry B. Collins, Owner

BRIEF PROJECT DESCRIPTION:

Purchase the former Family Resource Center building in Hibbing and additional equipment to facilitate growth of Advantage Billing Concepts, Inc. (Advantage), which provides third party support for the billing function of healthcare facilities and ambulance services in Minnesota, Wisconsin, and Illinois. Advantage, with common ownership to applicant, will lease approximately 8,000 square feet in the facility with the remaining 22,000 square feet being leased to the existing tenants.

PROJECT COST:

\$940,000

PROJECT BREAKDOWN:

Hibbing Economic Development Authority (15 years, 5.5%)	\$705,000
Iron Range Resources (7 years, formula rate)	215,000
Equity	<u>20,000</u>
Total	\$940,000

COLLATERAL:

Shared first position (between Iron Range Resources and the Hibbing Economic Development Authority) on 30,000 s.f. commercial real estate and equipment to be purchased with the loan proceeds. Personal guarantee of Barry & Roberta Collins. Corporate guarantee of Advantage Billing Concepts, Inc.

JOBS:

15 FTE's created, 15 FTE's retained, at an average wage of \$12.25/hour plus benefits.

CONTINGENCIES:

None

TECHNICAL ADVISORY COMMITTEE RECOMMENDATIONS:

Approval recommended at the October 13, 2005, 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:

Davich Properties, Inc., is a real estate holding company being formed to purchase the former Family Resource Center in Hibbing. About 8,000 square feet of space in the building will be leased to Advantage Billing Concepts, Inc. (Advantage), with the remaining 22,000 square feet of space leased to other tenants (currently a day care center and State offices). Advantage was founded by the present management and owners of Davich Properties in 1997 to provide accounts receivable management services in the healthcare field to medical practitioners and ambulance services. The company currently has seventeen employees (fifteen full-time equivalents) at its Hibbing offices, and is seeking Iron Range Resources participation in a financing package that will facilitate additional growth. The proposed project will entail relocating from their 1st Avenue offices (which are two residences and inadequate to house continued growth) and purchasing additional equipment and working capital. The facility will provide adequate space to allow Advantage to continue its growth into the foreseeable future.

MANAGEMENT TEAM:

Roberta Collins is the CEO and founder of Advantage Billing Concepts/Davich Properties, Inc. Prior to founding the company, Ms. Collins had 23 years of experience in the medical coding field including five years as the director of billing for Healthline Billing (a Fairview Hospital owned billing service). She grew Healthline from 3 to 26 clients during her tenure. Ms. Collins currently teaches Medical Coding through Anoka-Hennepin Community College. She is a Certified Professional Coder (CPC) through the American Academy of Professional Coders (AAPC) and a Certified Clinical Accounts Technician (CCAT) through the American Association of Healthcare Administrative Managers (AAHAM).

Barry Collins, the husband of Roberta, is a Certified Public Accountant with 18 years of prior business background, serves as the CFO of Davich Properties, Inc. and is the co-founder of Advantage Billing Concepts. His business background includes accounting positions as a government auditor and a controller for a printer manufacturer. He operated his own CPA practice and owned and operated Galaxy Software in Hibbing. Mr. Collins is very knowledgeable in computer hardware and software applications. He has a Bachelor of Science degree with a major in Accounting and a minor in Economics.

Dana Young, who is very experienced in the healthcare billing service, has been with the company since its inception. She is responsible for the day-to-day operations and is currently the Vice President of Operations.

MARKET OPPORTUNITY:

The market for Advantage is any health care-delivery system that utilizes the CMS-1500 or UB92 formats for submission of claims. Their customers will focus on physicians/specialists, psychologists/psychiatrists, and ambulance services located in the midwest United States. The most important group of potential customers are doctors who are going into private practice but are not affiliated with clinic systems. Another untapped market possibility is small rural hospitals. The primary competition for Advantage in northern Minnesota is a major hospital-based billing company, and a couple of home-based billing operations in Grand Rapids and

Cohasset. There are many billers in the Twin Cities area, and Advantage is attempting to break into this market.

COLLATERAL REVIEW:

The loan will be secured with a first secured position mortgage on real estate (shared with Hibbing EDA), appraised at \$1.8 million in 2000. Total first position debt will not exceed \$1 million. The loan also will be secured with equipment purchased with a portion of the loan proceeds estimated to be \$50,000. Personal guarantee of Barry and Roberta Collins. Corporate guarantee of Advantage Billing Concepts, Inc.

PAST IRON RANGE RESOURCES HISTORY:

The Agency previously funded Advantage Billing Concepts, Inc., in the amount of \$50,000, on October 17, 2003. The loan has been paid as agreed and has a current principal balance of \$38,722.

CharterWest Mortgage, LLC

Direct Loan Program

APPLICANT:

CharterWest Mortgage, LLC

PRINCIPAL(S):

Christopher Boelter

Julie Jolstad

BRIEF PROJECT DESCRIPTION:

CharterWest Mortgage, LLC, a residential mortgage banker and broker headquartered in Golden, Colorado, proposes to establish a loan service center in the Grand Rapids area. The proposed loan service center will provide underwriting, processing and document preparation functions for mortgage loans originated by CharterWest Mortgage representatives in approximately 20 different states.

PROJECT COST:

\$882,000

PROJECT BREAKDOWN:

Iron Range Resources (6 years, formula rate, forgivable)*	\$ 250,000
Equity and Other Sources**	<u>\$ 632,000</u>
Total	\$ 882,000

* \$50,000 plus accrued interest will be forgiven annually beginning in 2007 based upon the company achieving employment milestones as follows: 25 jobs by year end 2007, 60 jobs by year end 2008 and then maintaining a minimum of 60 jobs for the following three years (2009-2011).

** Includes cash from the company from future operations and/or from other sources to accommodate employee training.

COLLATERAL:

Collateral for the proposed loan will consist of a lien on the furniture, fixtures, office equipment and computers purchased with the loan proceeds plus the personal guarantees of the principals.

JOBS:

Management projects that the loan service center will result in the addition of 36 jobs by year end 2006 and 98 jobs by year end 2007. Management projects that 25% of the jobs will have an annual compensation package averaging \$75,000 with the balance of the service center jobs earning annual compensation packages of between \$24,000 and \$46,000.

CONTINGENCIES:

Forgiveness is contingent upon the company locating and maintaining its loan service center within the boundaries of the Taconite Assistance Area.

TECHNICAL ADVISORY COMMITTEE RECOMMENDATIONS:

Approval recommended at the October 13, 2005, 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:

CharterWest Mortgage, LLC (CWM), headquartered in Golden, Colorado, is a privately owned and operated company that began operations as a residential mortgage broker in 1999. Since inception, CWM has expanded its operations into 18 states and currently employs more than 100 individuals.

The founders and senior managers of the company are Christopher Boelter and Julie Jolstad, both of whom are natives of Grand Rapids. Both have been actively and successfully involved in the mortgage industry throughout their careers.

CWM has operated successfully as a residential mortgage broker and will continue with its original mission while the company launches its new initiative called the Mortgage Alliance Program (MAP). The new initiative has been under development over the past year and has been functional since March 2005. This program provides an onsite financing option for dealerships that sell factory built housing. The financing offerings will include both construction loan and permanent loan options. Within three years, CWM projects that it will be working directly with 350 dealerships in 14 different states. The anticipated loan volumes generated by this new initiative will require the establishment of a loan service center where loan related functions such as application review, underwriting, loan documentation, title work and interim servicing will occur.

The proposed loan service center will result in the addition of 36 jobs by year end 2006 and 98 jobs by year end 2007. Management projects that 25% of the jobs will have an annual compensation package averaging \$75,000 with the balance of the service center jobs earning annual compensation packages of between \$24,000 and \$46,000. The milestones for forgiveness are the achievement of 25 jobs by year end 2007, 60 jobs by year end 2008 and then maintaining a minimum of 60 jobs for the following three years (2009 – 2011).

In addition to the Grand Rapids area, management is considering locating the facility in either Colorado or the Brainerd area. The proposed financing package from Iron Range Resources is designed to provide a favorable incentive to locate the facility in our region.

MANAGEMENT TEAM:

Christopher Boelter and Julie Jolstad are the owners of the company and oversee all corporate functions. Boelter has held increasingly responsible positions in the mortgage industry since 1995 having worked for two large firms prior to starting CWM. Jolstad has followed a similar career path and has worked in the industry since 1991.

The new Mortgage Alliance Program and the loan service center will be managed by Brad Gallop. Mr. Gallop has worked in consumer and mortgage lending since 1987. He has worked with Boelter and Jolstad at two other mortgage finance companies prior to joining them at CWM. Since joining CWM, he has maintained an office in Grand Rapids serving as a division manager.

CWM will be recruiting individuals with demonstrated lending experience to help lead their loan service center. The company will also work with the Department of Employment and Economic Development and the local community college system on training needs.

MARKET OPPORTUNITY:

For the past year or so, CWM has been researching the factory built housing market and has found it to be greatly underserved by the mortgage industry due to long standing perceptions in the financial community about the construction quality of the homes and the creditworthiness of the buyers of such homes. CWM has also found that consumer demand for these units is on the rise as is the quality of construction itself. As such, CWM feels their new financing initiative can fill a current void in the market. The reaction of manufacturers and dealers at initial meetings reportedly has been very positive.

CWM's Mortgage Alliance Program is designed to meet the financing needs of families seeking to purchase a factory built home. In addition, manufacturers and dealers will have a readily available financing tool to assist them in closing more deals. Briefly, a dealer, or a group of dealers, will have a loan originator either on staff or in the region who would work directly with customers on their financing needs. The dealers would retain the origination fee on all loans. With the assistance of the dealers, CWM will do both construction and permanent loans via this program. The loan service center would provide underwriting, loan documentation and interim servicing. Permanent loans would be packaged and sold in the investment markets.

COLLATERAL REVIEW:

CWM will use the loan funds to purchase computers, printers, fax machines, copiers, workstations (desks, tables chairs, etc.) a telephone system and other related office equipment in support of its staffing needs through 2006. Collateral for the proposed loan from Iron Range Resources will consist of a lien on the purchased equipment plus the personal guarantees of the principals.

PAST IRON RANGE RESOURCES HISTORY:

None.

KMDA, Inc.
Bank Participation Loan Program

APPLICANT:
KMDA, Inc.

PRINCIPAL(S):
Derek Vekich
Mike Vekich

BRIEF PROJECT DESCRIPTION:
Purchase and renovation of an existing building in Bovey, MN that would be used to relocate and expand the applicant's fishing tackle manufacturing business.

PROJECT COST:
\$99,000

PROJECT BREAKDOWN:	
Iron Range Resources (15 years, formula rate)	\$43,000
First National Bank of Coleraine (15 years, negotiated rate)	43,000
Equity	<u>\$13,000</u>
Total	\$99,000

COLLATERAL:
Shared first mortgage on the building in Bovey with an appraised value of \$115,000 following the completion of the planned renovations. The principals also will provide personal guarantees.

JOBS:
The company currently employs the two principals and three (3) part-time employees. The expansion will allow the company to add an additional two (2) full-time employees and 1 part-time at hourly wages ranging from \$8.50 to \$11.50 per hour.

CONTINGENCIES:
None.

TECHNICAL ADVISORY COMMITTEE RECOMMENDATIONS:
Approval recommended at the October 13, 2005, 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:

Derek and Mike Vekich have been business partners since 2000 when they purchased the assets of a canoe accessories manufacturing company and began operations as Colonial Castings, Inc. In 2003, the company acquired a small fishing lure business and began manufacturing and marketing lures under the name of INHALER Fishing Tackle. This acquisition was viewed as a complementary line of business for the canoe accessories business. An additional line of lures was purchased in 2004. The fishing tackle division's growth outpaced the canoe accessories division and by late 2004 the decision was made to sell the canoe accessories division. At that time the company's name was changed to KMDA, Inc. Today, KMDA, Inc. markets a line of over 250 fishing related products that are sold in 40 states and 5 countries. All products are sold under the INHALER trademark name and include lures for many species of fresh water fish. Major retailers selling the company's products include Gander Mountain, Mills Fleet Farm, Scheels All Sports, Cabelas and Walmart.

To date, all manufacturing, assembly and marketing operations have been done out of Derek Vekich's home and garage in Bovey. The proposed financing will assist the company with the acquisition and renovation of an existing building in Bovey that will allow the company to relocate its operations as well as allow for future growth and the addition of at least 2.5 FTE's.

MANAGEMENT TEAM:

Derek Vekich is the majority owner and President of the company. His duties are wide and varied according to the needs of the company on a given day. Prior to his start in business he worked for approximately seven years as a teacher in the Greenway School District. He is a 1993 graduate of Bemidji State University with a degree in Physical Education.

Mike Vekich, younger brother to Derek, is a 1999 graduate of UMD with a degree in Community Health and Exercise Science. Mike's main responsibility in the company is assembly, packaging and shipping. He assists Derek with marketing duties as well as represents the company at various trade shows throughout the Midwest.

Both Derek and Mike are avid outdoorsmen and understand the needs of the customers to whom they sell their products.

MARKET OPPORTUNITY:

KMDA has grown its revenues and product offerings by acquiring the assets and product rights of other small lure manufacturers. For example, the INHALER name and muskie lure designs were acquired from an individual in Rochester, MN who manufactured and marketed lures on a part-time basis until he decided to retire. The company also has developed many lure designs on their own as well as designed at least two fishing related products that are patent pending.

The fishing tackle industry is very competitive and dominated by a handful of large companies. As a commodity, a sizeable portion of fishing tackle manufacturing is being done in lower wage countries such as China. That is a significant challenge for a small company like KMDA that must develop niche markets and provide superior customer service. Marketing is done in a hands-on way by Derek and Mike at regional trade shows. The company also advertises in

industry related publications. Beyond that, the company relies on a network of sales representatives who cover various parts of the U.S. and Canada.

COLLATERAL REVIEW:

Collateral will consist of a shared first mortgage on the building in Bovey. The building was appraised in September 2005 at \$115,000, conditioned upon the completion of the planned renovations. KMDA will lease the entire lower level of the building, or approximately 3,000 square feet. The upper level contains three apartments. Both Derek and Mike Vekich will provide joint and several personal guarantees.

PAST IRON RANGE RESOURCES HISTORY:

In 1999, Iron Range Resources provided a \$21,500 Bank Participation Loan to Colonial Castings, Inc. as part of a \$91,500 financing package to purchase the canoe accessories manufacturing business from an individual in New Hampshire. In 2001, Iron Range Resources provided a \$35,000 Bank Participation Loan to Colonial Castings, Inc. as part of a \$105,000 financing package to purchase the INHALER line of fishing lures from an individual in Rochester, MN. Both of the participation loans were paid in full in March 2004 via a refinancing.

Black Iron Rubber Company
Bank Participation Loan Program

APPLICANT:

Black Iron Rubber Company (BIRCO)

PRINCIPAL(S):

Don Lindstrom
Becky Lindstrom

BRIEF PROJECT DESCRIPTION:

Purchase the commercial real estate and update plant equipment.

PROJECT COST:

\$270,000

PROJECT BREAKDOWN:

Bank Loan (15 years, negotiated rate)	\$135,000
Iron Range Resources Participation Loan (15 years, formula rate)	<u>135,000</u>
Total	\$270,000

COLLATERAL:

Shared first mortgage on the property being purchased.
Personal guarantees of Don and Becky Lindstrom.

JOBS:

Retain 9 full-time positions with full benefit packages and wages of \$8.50 to \$19 per hour.

CONTINGENCIES:

Financing package must be approved by the participating bank.

TECHNICAL ADVISORY COMMITTEE RECOMMENDATIONS:

Approval recommended at the October 13, 2005, meeting.

FUNDING AUTHORIZATION:

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PROJECT DESCRIPTION:

Iron Range Resources loaned the city of Babbitt \$250,000 to purchase this real estate in 2001. The property is leased to BIRCO and lease payments flow through the city to Iron Range Resources as repayment on the loan. The lease included terms for BIRCO to purchase the real estate from the city. This project is for the purchase of the real estate and for renovations to the building. The existing Iron Range Resources loan to the city of Babbitt, which has a balance of approximately \$201,000, will be paid off.

MANAGEMENT TEAM:

Don Lindstrom served as general manager at this facility from 1994 through 2000 under different ownership. He purchased the business in 2001.

MARKET OPPORTUNITY:

BIRCO produces a variety of products using waste rubber, primarily from recycled tires. They have a diversified product and customer base. Anti-fatigue mats produced for the dairy industry are marketed through a dairy equipment company that serves the Midwest, New England and Canada. Rubber panels and blocks are produced for ballistic control use by the military (the rubber captures bullets fired during training exercises). Athletic and other anti-fatigue mats are produced for companies located in Minnesota, Iowa, Wisconsin and New Jersey.

COLLATERAL REVIEW:

An independent appraisal lists the property at \$375,000.

PAST IRON RANGE RESOURCES HISTORY:

The Iron Range Resources loan to the city of Babbitt for this property has been serviced through BIRCO lease payments since 2001. All payments have been made as agreed.

Sunrise Bakery & Gourmet Foods

Bank Participation Loan Program

APPLICANT:

Sunrise Gourmet Foods & Gifts Ltd.

PRINCIPAL(S):

Virginia Forti

BRIEF PROJECT DESCRIPTION:

Sunrise Bakery is a Minnesota Corporation solely owned by Virginia Forti. It was founded in 1913 and incorporated in 1973. The business consists of manufacturing, retail storefront, and wholesale sales. The Bakery also sells products to Sunrise Gourmet Foods. Sunrise Gourmet Foods is an S Corporation solely owned by Virginia Forti, which was founded and incorporated in 1991. This business consists of wholesale and mail order sales of gourmet foods, such as potica, strudel, biscotti, etc. Both companies are located in Hibbing, MN.

PROJECT COST:

\$550,000

PROJECT BREAKDOWN:

Security State Bank (line of credit)	\$100,000
Security State Bank (equipment loan, negotiated rate)	\$175,000
Iron Range Resources (equipment loan, formula rate)	\$175,000
Equity	<u>\$100,000</u>
Total	\$550,000

COLLATERAL:

The collateral for this loan will consist of a building appraised at \$2,000,000; equipment (new and used) at \$230,000; and accounts receivable at \$40,000. Personal guarantee of Virginia Forti.

JOBS:

Create 4 jobs; retain 12 jobs; average wage over \$10.50/hour plus benefits

CONTINGENCIES:

None

TECHNICAL ADVISORY COMMITTEE RECOMMENDATIONS:

Approval recommended at the October 13, 2005, 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:

Sunrise Bakery and Sunrise Gourmet Foods are solely owned by Virginia Forti. Sunrise Bakery consists of manufacturing, retail storefront, and wholesale sales. The Bakery also sells products to Sunrise Gourmet Foods. Sunrise Gourmet Foods consists of wholesale and mail order sales of gourmet foods, such as potica, strudel, biscotti, etc; and is currently selling through catalogs, their internet site, and several large grocery store chains. The proposed financing will allow the company to purchase and expand into the Jefferson school building in Hibbing, thereby streamlining all operations in one location. The expansion will allow the companies to retain 12 employees and hire an additional 3-4 employees.

MANAGEMENT TEAM:

Sunrise Bakery is a Minnesota Corporation, founded in 1913 and incorporated in 1973, solely owned by Virginia Forti, the third generation to own the bakery. Sunrise Gourmet Foods is an S Corporation, founded and incorporated in 1991, solely owned by Virginia Forti.

MARKET OPPORTUNITY:

Sunrise Bakery sells through its storefront in Hibbing and on wholesale truck routes across the Iron Range area to grocery stores and restaurants. Sunrise Gourmet Foods has customers in every state of the U.S. and Canada. The implementation of new bilingual label packaging allows the companies to export into Canada, with additional markets to be added in the future. The wholesale market will be expanded to include Lund's, Byerly's, Kowalski's, and Buon Giorno Market. The companies also will be adding Upper Lakes Foods and a major distributor. Their target customers tend to purchase upscale items. Sales have risen by 27-30% per year, which shows a market trend towards upscale food items. The high quality of preservative free products makes Sunrise unique and able to sell at a favorable retail price. Sunrise also offers private labeling, bulk packaging, customized gift items, and credit terms. Advertising consists of print advertising, broadcast advertising, store sampling, brochure mailings, and yellow page ads. During the next year, Sunrise will focus on the strongest sellers and streamline into only producing a few products. This strategy will allow Sunrise to increase product lines into several different sizes, depending on the market. It also will allow them to focus on higher profit areas, such as corporate gift programs.

Projections for the combined operation show (after a year of relatively flat sales during a transition year of 2006) sales increasing to \$1.4 million in 2007 and \$1.6 million in 2008. Net income is projected to exceed \$300,000 by 2008. It is anticipated that all growth of the company will come from the Sunrise Gourmet Foods end of the business, particularly internet-based sales, with the retail operation accounting for a smaller portion of sales.

COLLATERAL REVIEW:

The loan would be secured with a first mortgage position on the real estate, equipment to be purchased with loan proceeds, and existing equipment. The real estate has been appraised at \$2 million and the value of equipment (on a cost basis) is \$200,000. Total first position debt will not exceed \$350,000. Personal guarantee of Virginia Forti.

PAST IRON RANGE RESOURCES HISTORY: None.

Mesabi Nugget, LLC – Debenture Conversion and Amendment of Term Sheet



Iron Range Resources
P.O. Box 441
4261 Highway 53 South
Eveleth, Minnesota 55734-0441
(218) 744-7400 • 800-765-5043
Fax: (218)744-7403

To: Iron Range Resources Board Members

From: Sandy Layman
Commissioner

Date: October 11, 2012

Re: Mesabi Nugget, LLC

At its July 2, 2001, Board meeting, the Iron Range Resources Board approved a \$500,000 convertible debenture to Mesabi Nugget, LLC. The terms of the debenture give Iron Range Resources the ability to convert any sums due under it to units of the corporation any time on or before the October 30, 2005, due date of the debenture. The agreement stipulates that the initial conversion price would be \$1.00 per unit, with the price dropping to \$.50 per unit should the agency make an additional \$7.5 million loan to the company. As you all know, the agency made an additional \$7.5 million loan to the company that closed on March 28, 2002. The effective price per unit is \$.50 should Iron Range Resources choose to convert this loan. As of the due date, approximately \$560,000 will be due under this debenture giving the agency the right to convert to approximately 1.1 million units of the company. 1.1 million units would equal 7.3% of the ownership of Mesabi Nugget given its current capitalization. All sums due under the note will be due and payable on the due date should the agency opt not to convert. The interest rate will increase to Prime + 3% on any sums not paid by the due date.

Mesabi Nugget successfully demonstrated the ITmk3 technology during the pilot plant phase of the project. The company has successfully obtained all permits necessary to construct and operate a large scale demonstration plant at the former Cliffs-Erie site in Hoyt Lakes and appears ready to make a final determination to proceed with the project in the very near future. The last ownership units in the company were issued in April of 2005 for \$1.00 per unit. I recommend that the agency exercise its option and convert principal and interest due under the loan to membership units.

I would also like to take this opportunity to advise you that Mesabi Nugget has approached the agency with a request that the terms of an additional agency loan, as part of the financing package to construct the large-scale demonstration plant that was approved by the Board on September 23, 2004, be amended. The purpose of the request is to make the overall operating costs of the plant economically feasible. We are in close communication with management of Mesabi Nugget and I may bring a request to amend our existing term sheet for your consideration at the Board meeting.

Thank you for your attention to this matter.