

Meeting of the Iron Range Resources Board

**March 31, 2009
6:00 p.m.
State Capitol, Room 318
St. Paul, MN**

MEETING OF THE IRON RANGE RESOURCES BOARD
State Capitol, Room 318, St. Paul
Tuesday, March 31, 2009
6:00 p.m.

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MEETING OF THE IRON RANGE RESOURCES BOARD
State Capitol, Room 318
St. Paul, Minnesota
Tuesday, March 31, 2009 – 6:00 p.m.

Agenda

- 1) Roll Call
- 2) Approval of the February 18, 2009, Minutes
- 3) Commissioner's Comments
- 4) Iron Range Higher Education Account
Action required: Project approval requires a majority vote of the quorum present
 - a) Iron Range Engineering Program
- 5) Douglas J. Johnson Economic Protection Trust Fund
Action required: Project approval requires 8 votes
 - a) Logger Assistance/Hibbing and Virginia Public Utilities Loan Payments
- 6) Other
- 7) Adjournment

Approval of the February 18, 2009, Minutes

Meeting of the Iron Range Resources Board

Wednesday, February 18, 2009
6:00 p.m.

State Office Building – Room 400 North
St. Paul, Minnesota

I. Roll Call

Representative David Dill, Chair, called the meeting to order at approximately 6:10 p.m. Present: Representative Tom Anzelc, Representative Tom Rukavina, Representative Tony Sertich, Representative Loren Solberg, Senator Tom Bakk, Senator Tom Saxhaug, Senator Rod Skoe, Senator Yvonne Prettner Solon, Senator David Tomassoni, Citizen Joe Begich, Citizen Shelley Robinson. Absent: Citizen Jack Ryan. Also present: Sandy Layman, Commissioner; Brian Hiti, Deputy Commissioner; Doug Gregor, Assistant Attorney General; Matt Sjoberg, Development Strategies Director; Roy Smith, Workforce Development Coordinator; Dan Jordan, Mining Program Supervisor; Jean Dolensek, Chief Financial Officer; Laureen Hall, Executive Assistant; Jack Tuomi, General Manager, United Taconite LLC; Scott Deming, Area manager of Finance, Northshore Mining Company, Bob Bolf, Senior Section Manager Recruiting, Hibbing Taconite Company, Craig Pagel, President, Iron Mining Association of Minnesota.

II. Approval of the December 18, 2008, Minutes

Senator Tom Bakk moved approval of the December 18, 2008, minutes. Seconded by Citizen Joe Begich. Motion carried.

III. Commissioner's Comments

a. Federal Economic Stimulus Plan

Commissioner Sandy Layman addressed the Board regarding agency activity spurred by the federal economic stimulus plan. Iron Range Resources is not a direct recipient of stimulus funds; however, there may be opportunities to coordinate with communities to put forward competitive grants as they relate to economic development. Richard Walsh, Community Development Representative, is the agency point person regarding this initiative and is working with Minnesota Management and Budget, the state agency charged with coordinating stimulus activity with all state agencies.

b. Community Development Position

Commissioner Layman reported that because of hiring restrictions, the agency will leave two of its three open positions unfilled; however, plans are moving forward to interview recent applicants for a Community Development Director position at the agency. Layman said she felt

the position was critical due to the significant projects moving forward in the region and because, in the last couple of years, the agency has substantially increased its activity in the area of grants. In fact, the agency's community development expenditures have exceeded its business development expenditures.

Following Board discussion, Citizen Joe Begich moved that the Board recommend that Commissioner Layman not hire a new person to fill the Community Development Director position. Motion carried.

Voting in Favor of the Motion: Representative Tom Anzelc, Representative David Dill, Representative Tom Rukavina, Representative Tony Sertich, Representative Loren Solberg; Senator Tom Bakk, Senator Tom Saxhaug, Senator Rod Skoe, Senator Yvonne Prettner Solon; Senator David Tomassoni, Citizen Joe Begich, Citizen Shelley Robinson

Voting Against the Motion: None

Abstain: None

Absent: Citizen Jack Ryan

c. Commissioner's Discretionary Fund Grants

Commissioner Layman provided the Board with an update regarding the Commissioner's Discretionary Fund. Of the \$500,000 budgeted for FY09, all but \$100 has been committed for projects.

d. Proposed 2009 Board Meeting Dates

Commissioner Layman proposed the following dates for meetings of the Iron Range Resources Board in 2009:

Thursday, April 16, 2009
Thursday, June 18, 2009
Thursday, August 20, 2009
Thursday, October 15, 2009
Thursday, December 17, 2009

IV. Reorganization of the Board (2009-2010)

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

a. Election of Chair and Vice Chair

Representative Tom Rukavina moved to elect Senator David Tomassoni Chair and Representative Loren Solberg Vice Chair of the Iron Range Resources Board for 2009-2010. Motion carried.

Voting in Favor of the Motion: Representative Tom Anzelc, Representative David Dill, Representative Tom Rukavina, Representative Tony Sertich, Representative Loren Solberg; Senator Tom Bakk, Senator Tom Saxhaug, Senator Rod Skoe, Senator Yvonne Prettner Solon; Senator David Tomassoni, Citizen Joe Begich, Citizen Shelley Robinson

Voting Against the Motion: None

Abstain: None

Absent: Citizen Jack Ryan

Senator Tomassoni then assumed chairmanship of the meeting.

V. Taconite Economic Development Fund

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

- a. Hibbing Taconite Company – Resolution No. 09-025**
- b. Northshore Mining Company – Resolution No. 09-026**
- c. United Taconite LLC – Resolution No. 09-027**

Representative David Dill moved approval of the Taconite Economic Development Fund grant projects (Production Year 2007/Pay 2008), as presented in Resolutions No. 09-025, 09-026 and 09-027. 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, Representative Loren Solberg; Senator Tom Bakk, Senator Tom Saxhaug, Senator Rod Skoe, Senator Yvonne Prettner Solon; Senator David Tomassoni, Citizen Joe Begich, Citizen Shelley Robinson

Voting Against the Motion: None

Abstain: None

Absent: Citizen Jack Ryan

**IRON RANGE RESOURCES AND REHABILITATION BOARD
OF THE STATE OF MINNESOTA
TACONITE ECONOMIC DEVELOPMENT FUND PROJECT APPROVAL:
HIBBING TACONITE COMPANY – PAY 2008 FUND YEAR**

Resolution No.: 09-025

WHEREAS, certain taconite production tax funds are made available to the Commissioner under the provisions of Minnesota Statutes Section 298.28, Subdivision 9a (the “**TEDF Funds**”) to provide grants to taconite producers who provide formulated matching expenditures for projects that involve workforce development and associated public facility improvement, or the

acquisition of plant and stationary mining equipment and facilities, or the funding of research and development in Minnesota on new mining or taconite, iron, or steel production technology (“**Eligible Purposes**”), all in accordance with the provisions of Minnesota Statutes Section 298.227 (the “**TEDF Statute**”); and,

WHEREAS, iron ore producer Hibbing Taconite Company (“**Applicant Producer**”) made application to the Commissioner to receive TEDF Funds for projects described in the attached Addendum A, which the Commissioner has determined are for an Eligible Purpose (the “**Proposed Projects**”); and,

WHEREAS, the TEDF Statute provides that the TEDF Funds available to an applicant producer for any proposed project cannot be released by the Commissioner until (a) a joint committee consisting of an equal number of representatives of the salaried employees and the non-salaried production and maintenance employees of that producer (the “**TEDF Committee**”) has had up to six months to review the Applicant’s proposal for expenditure of the TEDF Funds, and (b) the Board has had an opportunity to review the Proposed Project; and,

WHEREAS, the TEDF Committee of the Applicant Producer on January 7, 2009, indicated to the Commissioner that it has approved the Proposed Projects identified in Addendum A; and,

WHEREAS, the Board met in open session at 6:00 p.m. on February 18, 2009, at the State Office Building in St. Paul to consider the Proposed Projects and the Applicant Producer’s request to receive TEDF Funds for such projects.

NOW, THEREFORE, IT IS RESOLVED that the Board hereby finds that the Proposed Projects specified in Addendum A are for Eligible Purposes and otherwise appear eligible to receive Pay 2008 TEDF Funds from the Commissioner.

PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 18th DAY OF FEBRUARY 2009.

Member	Aye	Nay	Abstain	Absent
Senator Tom Bakk	X			
Senator Tom Saxhaug	X			
Senator Rod Skoe	X			
Senator Yvonne Prettner Solon	X			
Senator Dave Tomassoni	X			
Representative Tom Anzelc	X			
Representative Dave Dill	X			
Representative Tom Rukavina	X			
Representative Tony Sertich	X			
Representative Loren Solberg	X			
Citizen Joe Begich	X			
Citizen Shelley Robinson	X			
Citizen Jack Ryan				X
TOTAL	12	0	0	1

Signed: _____
Senator David Tomassoni, Chair

Addendum A
HIBBING TACONITE COMPANY

Project 1 – Furnace Burner Control Cameras

Hibbing Taconite will purchase and install two optical cameras in the firing zone of the furnace. Each camera will have the ability to measure temperatures at several locations across the pellet bed. The additional data collected will allow better furnace heat control, higher pellet quality and lower natural gas consumption.

TEDF Grant \$87,869
Company \$32,131
Estimated Project Total Cost \$120,000

Project 2 – Reclamation and Dust Control in 2009

Hibbing Taconite will spend funds to reclaim disturbed lands by seeding, mulching and fertilizing the disturbed sites. This project will also include costs for controlling dust through the application of dust suppressants on the tailings basin.

TEDF Grant \$73,224
Company \$26,776
Estimated Project Total Cost \$100,000

Project 3 – Phase One Elevator Upgrade

Hibbing Taconite will upgrade the controls and drive motor on the existing freight elevator in the Phase One pelletizer building. This work will make the elevator compliant with new code standards for freight elevators. The result will be a safer and more reliable elevator.

TEDF Grant \$300,339
Company \$93,661
Estimated Project Total Cost \$394,000

Project 4 – Replacement of Pellet Cars

Hibbing Taconite will purchase 25 new pellet car assemblies. Each furnace line utilizes 124 cars. The Pellet Cars are an essential component of the indurating process and the new pellet cars incorporate the latest technological advances and improved materials, which allows for improvements in product quality and a decrease in energy consumption.

TEDF Grant \$1,115,696
Company \$1,384,304
Estimated Project Total Cost \$2,500,000

**IRON RANGE RESOURCES AND REHABILITATION BOARD
OF THE STATE OF MINNESOTA
TACONITE ECONOMIC DEVELOPMENT FUND PROJECT APPROVAL:
NORTHSHORE MINING COMPANY – PAY 2008 FUND YEAR**

Resolution No.: 09-026

WHEREAS, certain taconite production tax funds are made available to the Commissioner under the provisions of Minnesota Statutes Section 298.28, Subdivision 9a (the “**TEDF Funds**”) to provide grants to taconite producers who provide formulated matching expenditures for projects that involve workforce development and associated public facility improvement, or the acquisition of plant and stationary mining equipment and facilities, or the funding of research and development in Minnesota on new mining or taconite, iron, or steel production technology (“**Eligible Purposes**”), all in accordance with the provisions of Minnesota Statutes Section 298.227 (the “**TEDF Statute**”); and,

WHEREAS, iron ore producer Northshore Mining Company (“**Applicant Producer**”) made application to the Commissioner to receive TEDF Funds for projects described in the attached Addendum A, which the Commissioner has determined are for an Eligible Purpose (the “**Proposed Projects**”); and,

WHEREAS, the TEDF Statute provides that the TEDF Funds available to an applicant producer for any proposed project cannot be released by the Commissioner until (a) a joint committee consisting of an equal number of representatives of the salaried employees and the non-salaried production and maintenance employees of that producer (the “**TEDF Committee**”) has had up to six months to review the Applicant’s proposal for expenditure of the TEDF Funds, and (b) the Board has had an opportunity to review the Proposed Project; and,

WHEREAS, the TEDF Committee of the Applicant Producer on February 5, 2009, indicated to the Commissioner that it has approved the Proposed Projects identified in Addendum A; and,

WHEREAS, the Board met in open session at 6:00 p.m. on February 18, 2009, at the State Office Building in St. Paul to consider the Proposed Projects and the Applicant Producer’s request to receive TEDF Funds for such projects.

NOW, THEREFORE, IT IS RESOLVED that the Board hereby finds that the Proposed Projects specified in Addendum A are for Eligible Purposes and otherwise appear eligible to receive Pay 2008 TEDF Funds from the Commissioner.

PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 18th DAY OF FEBRUARY 2009.

Member	Aye	Nay	Abstain	Absent
Senator Tom Bakk	X			
Senator Tom Saxhaug	X			
Senator Rod Skoe	X			

Senator Yvonne Prettner Solon	X			
Senator Dave Tomassoni	X			
Representative Tom Anzelc	X			
Representative Dave Dill	X			
Representative Tom Rukavina	X			
Representative Tony Sertich	X			
Representative Loren Solberg	X			
Citizen Joe Begich	X			
Citizen Shelley Robinson	X			
Citizen Jack Ryan				X
TOTAL	12	0	0	1

Signed: _____
 Senator David Tomassoni, Chair

Addendum A
NORTSHORE MINING COMPANY

Project 1 – New Dust Collector System for Section 9 Concentrator Line

The processing of taconite produces significant amounts of dust, which can impair the health and safety of workers as well as degrade air quality. The Section 9 Concentrator Line had been inactive for a number of years and the existing dust control system was a multi-clone style system that was installed in the 1950's. Current dust control systems utilize high efficiency cartridge style fabric filters that capture 99% of the dust. As part of the reactivation and updating of the Section 9 Concentrator Line, the dust control system for the transfer of ore into the storage bin and eventually into the rod mill was replaced. This project also implemented the Title V Air Permit requirements for the Furnace 5 reactivation project.

TEDF Grant \$179,236
 Company \$50,232
 Estimated Project Total Cost \$229,468

Project 2 – Reactivation of Concentrator Section 9

Northshore Mining has recently reactivated Furnace 5, providing additional pellet production capacity. Consequently, additional concentrate sections are required, since the eleven existing concentrate sections do not have the capacity to supply Furnace 5. This requires the refurbishment of two idle concentrator sections - 9 and 10. These sections, along with Furnace 5, have been idle since the early 80's. Furnace 5 provides an additional 800,000 tons of annual pellet capacity and each concentrator section provides 400,000 tons of concentrate supply capacity.

Currently, Section 9 is providing concentrate feed to furnace 11 and 12. In the near future, this section, along with the other sections, will provide concentrate to Steel Dynamics for the Mesabi Nugget Plant in Hoyt Lakes, MN.

TEDF Grant \$1,072,787
Company \$1,186,346
Estimated Project Total Cost \$2,259,133

**IRON RANGE RESOURCES AND REHABILITATION BOARD
OF THE STATE OF MINNESOTA
TACONITE ECONOMIC DEVELOPMENT FUND PROJECT APPROVAL:
UNITED TACONITE LLC – PAY 2008 FUND YEAR**

Resolution No.: 09-027

WHEREAS, certain taconite production tax funds are made available to the Commissioner under the provisions of Minnesota Statutes Section 298.28, Subdivision 9a (the “**TEDF Funds**”) to provide grants to taconite producers who provide formulated matching expenditures for projects that involve workforce development and associated public facility improvement, or the acquisition of plant and stationary mining equipment and facilities, or the funding of research and development in Minnesota on new mining or taconite, iron, or steel production technology (“**Eligible Purposes**”), all in accordance with the provisions of Minnesota Statutes Section 298.227 (the “**TEDF Statute**”); and,

WHEREAS, iron ore producer United Taconite LLC (“**Applicant Producer**”) made application to the Commissioner to receive TEDF Funds for projects described in the attached Addendum A, which the Commissioner has determined are for an Eligible Purpose (the “**Proposed Projects**”); and,

WHEREAS, the TEDF Statute provides that the TEDF Funds available to an applicant producer for any proposed project cannot be released by the Commissioner until (a) a joint committee consisting of an equal number of representatives of the salaried employees and the non-salaried production and maintenance employees of that producer (the “**TEDF Committee**”) has had up to six months to review the Applicant’s proposal for expenditure of the TEDF Funds, and (b) the Board has had an opportunity to review the Proposed Project; and,

WHEREAS, the TEDF Committee of the Applicant Producer on January 15, 2009, indicated to the Commissioner that it has approved the Proposed Projects identified in Addendum A; and,

WHEREAS, the Board met in open session at 6:00 p.m. on February 18, 2009, at the State Office Building in St. Paul to consider the Proposed Projects and the Applicant Producer’s request to receive TEDF Funds for such projects.

NOW, THEREFORE, IT IS RESOLVED that the Board hereby finds that the Proposed Projects specified in Addendum A are for Eligible Purposes and otherwise appear eligible to receive Pay 2008 TEDF Funds from the Commissioner.

PASSED AND ADOPTED BY VOTE OF THE IRON RANGE RESOURCES AND REHABILITATION BOARD THIS 18th DAY OF FEBRUARY 2009.

Member	Aye	Nay	Abstain	Absent
Senator Tom Bakk	X			
Senator Tom Saxhaug	X			
Senator Rod Skoe	X			
Senator Yvonne Prettner Solon	X			
Senator Dave Tomassoni	X			
Representative Tom Anzelc	X			
Representative Dave Dill	X			
Representative Tom Rukavina	X			
Representative Tony Sertich	X			
Representative Loren Solberg	X			
Citizen Joe Begich	X			
Citizen Shelley Robinson	X			
Citizen Jack Ryan				X
TOTAL	12	0	0	1

Signed: _____
 Senator David Tomassoni, Chair

**Addendum A
 UNITED TACONITE LLC**

Project 1 –Coarse Crusher Dust Collection System

United Taconite has four separate stages of crushing. The first two stages occur at the Thunderbird Mine site in Eveleth. The processing procedures for taconite may pose hazards to workers and the environment because, during the crushing process, silica in the ore is liberated and has the potential to become air-borne. United Taconite’s crushing process incorporates dust collectors to collect the air-borne silica and dust to provide a safe working environment in the facility. Dust collectors are also required by the Minnesota Pollution Control Agency to limit airborne emissions of dust to the environment. United Taconite replaced the dust collection system number 2 in the Coarse Crusher located at Thunderbird Mine. The existing unit was installed in the mid 1960’s and had reached the end of its useful life. The unit had deteriorated to the point that repairs were no longer effective, the air quality had become impaired and the area served by this collector became a designated restricted area that required personnel working there to use respirators. This project improved both the air quality environment, as well as the safety and comfort of the employees.

TEDF Grant \$1,252,023
 Company \$683,393
 Estimated Project Total Cost \$1,935,416

Senator Tom Bakk acknowledged that Bill Whiteside, Hibbing businessman, was in the audience and brought up the topic of utilization of local vendors by the mining industry. Representative Tony Sertich asked Craig Pagel, President, Iron Mining Association, what the taconite industry's plans were to utilize local vendors. Pagel noted that a mining impact study was being conducted by Jim Skurla of the UMD Bureau of Business and Economic Research, and is expected to be completed within a month's time. Pagel explained that the study will show the significant direct and indirect impact that mining has on area vendors and suppliers, as well as the regional and state economies. Senator Bakk encouraged Mr. Pagel and the other mining officials present to do their best to utilize local vendors and suppliers whenever possible.

VIII. Adjournment

Meeting adjourned at 7:10 p.m.

Iron Range Higher Education Account

Action required: Project approval requires a majority vote of the quorum present

- a) Iron Range Engineering Program

Iron Range Engineering Program



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: March 27, 2009

Re: Iron Range Higher Education Committee: Iron Range Engineering Program

The Iron Range Higher Education Committee (IRHEC) is a legislatively created committee (Minnesota Statutes Section 298.2214) charged to advise the Commissioner of Iron Range Resources on providing higher education programs in the Taconite Assistance Area (TAA).

The IRHEC has approved and I support an expenditure of up to \$1,144,700 of the Higher Education Account funds to provide a grant to the Northeast Higher Education District (NHED) for use by the Arrowhead University Consortium (AUC) to develop a higher education program that, in collaboration with private industry, will allow students to earn a Bachelor's of Science degree in engineering from Minnesota State University at Mankato.

This approved expenditure will cover the first year of costs for the Engineering Degree Program, for which it is projected that total costs for the development and implementation of the Program will be \$3,097,852 over the course of four years, and for which it is further anticipated that the Program will begin to generate revenues in excess of costs starting with the fifth year after it has been implemented.



IRON  RANGE
ENGINEERING

- Launch a transformational, project-based 3rd and 4th year curriculum for community college graduates to earn an engineering degree
- Capitalizes on the success of Itasca Community College's Engineering Program
- Graduates will be a local resource for economic expansion
- Partner with industry to develop and deliver *innovative* project-based learning



2

The industries sites in northeastern Minnesota will become part of the classroom

- Plan a blast at Northshore Mine
- Manage equipment install at Polymet
- Take research data at Soudan Underground Lab
- Analyze the outflow at Canisteo Pit
- Design a new pavilion at a State Park
- And more...



3

IRON RANGE ENGINEERING Program Details

- Guided by faculty and engineers from industry, students will develop their abilities with respect to outcomes (e.g. ABET or Engineer 2020)
- Faculty members guide students to assess development with respect to outcomes.
- Degree granted by MSU-Mankato with ABET accreditation leadership coordinated through MNCEME
- 12-15 students to enroll in Fall 2009, 25 the following fall.



4

- There is a mismatch between the skills and attributes that an engineer needs in practice and those currently taught in most engineering programs. (National Academy for Engineering: Engineer 2020)
- Current teaching practices reflect how the faculty were taught as students in a bygone era, and do not reflect what is now known about learning theory. (Journal of Engineering Education)
- Incremental changes to the current model will not work, it is time for transformational change. There are pockets of innovation, these along with new findings in learning science enable new programs to be developed to more effectively prepare students to meet the new demands of professional practice. (Carnegie Foundation for Advancement of Teaching)

“The engineers this program should produce will be exactly the type of engineers PolyMet will need. We will need engineers that not only can solve problems on paper, but will be able to apply the solutions in the field.” **Latisha Geitzen, Polymet**

“Hibbing Taconite is very interested in this program. I would personally encourage members of our engineering staff to help guide the direction of this program and support these students. We would definitely open up our facility to support the development of these students and would interview them with the expectation of filling future vacancies .” **Ed LaTendresse, Cliffs Natural Resources**

“We see a need for this program in this area and support the concept. We are interested in hiring students who are able to participate in solving clients’ complex problems, both independently and as part of a team.” **Paula Jackson, Barr Engineering**

“This approach to developing engineering talent seems much more consistent with my own beliefs and the strategy we use here at Rockwell Automation Industrial Plant Services (IPS).” **Rodney VanBaalen, Rockwell Automation, IPS**

	Year 1 (12-15 students)	Year 2 (37 students)	Year 3 (62 students)	Year 4 (65 students)
Faculty (2.5)	\$451,600	\$463,648	\$476,057	\$488,839
Staff (1.5)	\$110,000	\$113,300	\$116,699	\$120,200
Visiting Experts	\$67,500	\$52,000	\$52,000	\$52,000
Equipment	\$250,000	\$75,000	\$75,000	\$75,000
Student Work	\$100,000	\$150,000	\$100,000	\$75,000
Student Services (travel to sites, student life, etc)	\$115,000	\$179,000	\$240,000	\$260,000
Other Services (IT, Evaluation, Accreditation, Advisory Board, Faculty Dev., Facility Costs)	\$125,000	\$160,000	\$170,000	\$145,000
Tuition Revenue	(\$74,400)	(\$236,282)	(\$361,767)	(\$427,543)
Grant/Corporate Sponsor		(\$75,000)	(\$125,000)	(\$200,000)
State Allocation				(\$260,000)
Balance to be Funded	\$1,144,700	\$881,666	\$742,990	\$328,496
		3 Year funding total	\$2,769,356	

Douglas J. Johnson Economic Protection Trust Fund

Action required: Project approval requires 8 votes

- a) Logger Assistance/Hibbing and Virginia Public Utilities Loan Payments

Logger Assistance/Hibbing and Virginia Public Utilities Loan Payments



Iron Range Resources
P.O. Box 441
4261 Highway 53 South
Eveleth, Minnesota 55734-0441
(218) 744-7400 • 800-765-5043
Fax: (218)744-7402

To: Iron Range Resources Board Members

From: Sandy Layman
Commissioner

Date: October 10, 2012

Re: LOGGER ASSISTANCE / HIBBING AND VIRGINIA PUBLIC UTILITIES LOAN
PAYMENTS

In 2007, Iron Range Resources provided a \$2 million grant to increase the price loggers received for wood sold to Laurentian Energy Authority. \$1,160,189 of the grant was used to purchase 35,698 cords of wood. The purpose of this funding was to assist the logging industry through what was hoped to be a short downturn. However, the downturn persists and the timber industry continues to suffer.

One local market for wood continues to grow. The Hibbing and Virginia Public Utilities have exceeded the minimum requirements for use of biomass fuel in their facilities in 2007 and 2008 and project the ability to continue to increase the use of biomass fuel in 2009. Although the utilities have not experienced short-term fuel shortages, with the downturn in the wood products industry, loggers have reduced their harvest and less biomass is projected to be available in the future. Also, some of the logging operations have closed permanently. Additional closures of logging operations will have a lasting impact on the future of any wood-products based industry in our region.

To support our timber industry through this difficult economic time, I propose the April 1, 2009, through January 1, 2010, loan payments due to Iron Range Resources from the Hibbing and Virginia Public Utilities be redirected to the purchase of additional wood to be utilized as fuel in their operations. The scheduled loan payments would be considered paid if the two utilities purchase a minimum of 30,000 cords of wood above the amount of wood they purchased in 2008.

Total cost to Iron Range Resources under this project is \$720,000 and, at 30,000 cords of wood, will have an impact similar to the 2007 grant.

This project is authorized under the provisions of 298.292 paragraph (2).

FOREST INDUSTRY ASSISTANCE PROGRAM

2007 GRANT

\$2,000,000 grant to Laurentian Energy Authority (LEA). This grant required LEA to purchase wood at \$62.50 per cord. Total wood purchased under this grant was 35,698 cords at \$32.50 cost per cord and total grant funds advanced by the agency of \$1,160,188.

Per Scott Dane of Associated Contract Loggers & Truckers, loggers realize between \$5 and \$10 per-cord profit. On the high side, this equates to \$356,980 of assistance to the loggers (only 30% of the grant funds). With stumpage prices averaging from \$35 to \$45 per cord in 2006 (for harvest in 2007), the bulk of the funds went to the sellers of the stumpage. The sellers are primarily the MN DNR, MN counties and the US Government with some private landowners as well.

Summary:

Cost to agency:	\$1,160,188
Number of cords:	35,698
Cost per cord	\$32.50

2009 PROPOSAL

Allow the Hibbing Public Utilities Commission and the Virginia Department of Public Utilities to redirect their quarterly loan payments due to Iron Range Resources to the purchase of additional wood. To qualify for the ability to redirect their loan payments, the two utilities must increase their wood purchases by 30,000 cords (combined) over their 2008 purchases. The wood will be purchased and consumed in lieu of coal.

Annual payments from the two utilities total approximately \$720,000. At a minimum purchase of 30,000 cords, this equals a subsidy of \$24 per cord. At 50,000 cords purchased, the subsidy is \$14.40 per cord to result in approximately the same impact on the logging industry as the 2007 grant program.

Summary:

Cost to agency:	\$720,000	
Number of cords:	30,000	50,000
Cost per cord:	\$24.00	\$14.40