

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

**500 South, State Office Building
St. Paul, Minnesota**

Tuesday, April 22, 2014 – 10:00 a.m.

**Meeting of the Iron Range Resources and Rehabilitation Board
500 South, State Office Building, St. Paul, Minnesota
Tuesday, April 22, 2014
10:00 a.m.**

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**MEETING OF THE IRON RANGE RESOURCES
AND REHABILITATION BOARD
500 South, State Office Building
St. Paul, Minnesota
Tuesday, April 22, 2014 – 10:00 a.m.**

AGENDA

- 1) Roll Call

- 2) Approval of January 30, 2014, Minutes
See Exhibit A

- 3) Commissioner's Comments

- 4) Segetis, Inc.

- 5) Infrastructure Projects
 - a. City of Gilbert
 - b. Lake County
 - c. City of Mt. Iron

- 6) Other

- 7) Adjournment

Segetis, Inc.



**Iron Range Resources &
Rehabilitation Board**

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

To: Iron Range Resources and Rehabilitation Board

From: Tony Sertich
Commissioner

Date: April 22, 2014

Re: INVESTMENT IN BIOCHEMICAL INDUSTRY - SEGETIS, INC.

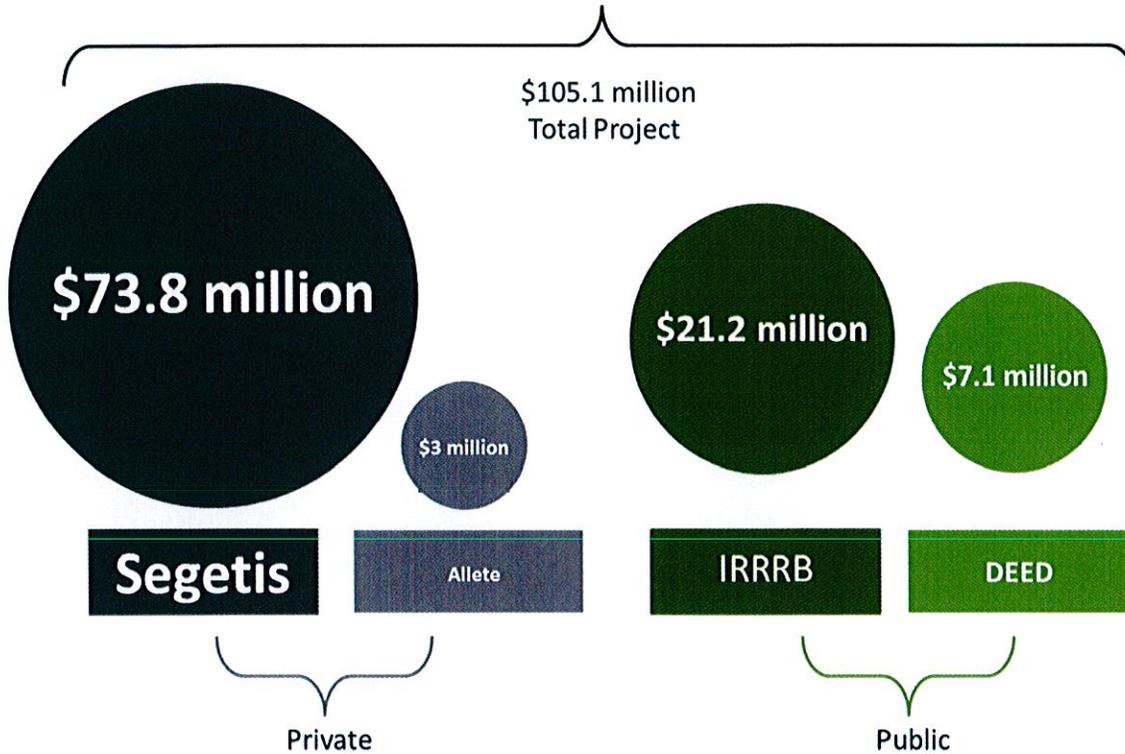
The Iron Range has an opportunity to lead our nation into the future of value added wood products. We are at the cusp of being able to replace many oil based plastics used in everyday life with wood based biochemicals. The Iron Range is perfectly situated to be a leader in the biochemical economy. We have the timber resources, existing wood and forest industry supply chain, available trained workforce, and land needed to succeed in this newly emerging portion of the global economy. Segetis has proven its technology and developed relationships with national companies interested in using their product. I am proposing we take the first step today by partnering with Segetis to further develop their technology here in our region. By doing so, we will be putting our flag in the ground as a region interested in developing a cluster of biochemical businesses willing to use our wood resources, improve our environment, and create good jobs on the Iron Range.

IRRRB's involvement with Segetis dates back to 2006. Agency staff has maintained contact with the company as they have developed their technology.

Proposed Segetis Hoyt Lakes Facility – At a Glance



Project Funding Overview

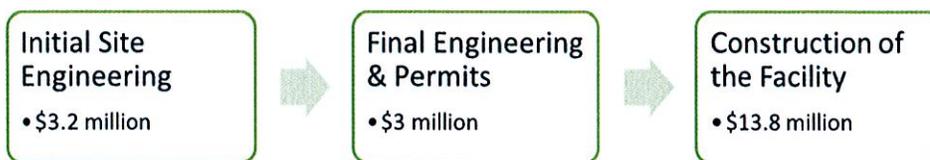


IRRRB will be funding a \$20 million dollar loan from the Douglas J. Johnson Trust Fund. The DJJ fund, as it is commonly known, is a trust fund of local Iron Range tax dollars established in 1977 that supports projects that stimulate employment and encourage diversification of northeastern Minnesota’s economy. The DJJ Fund is to be used for the following purposes:

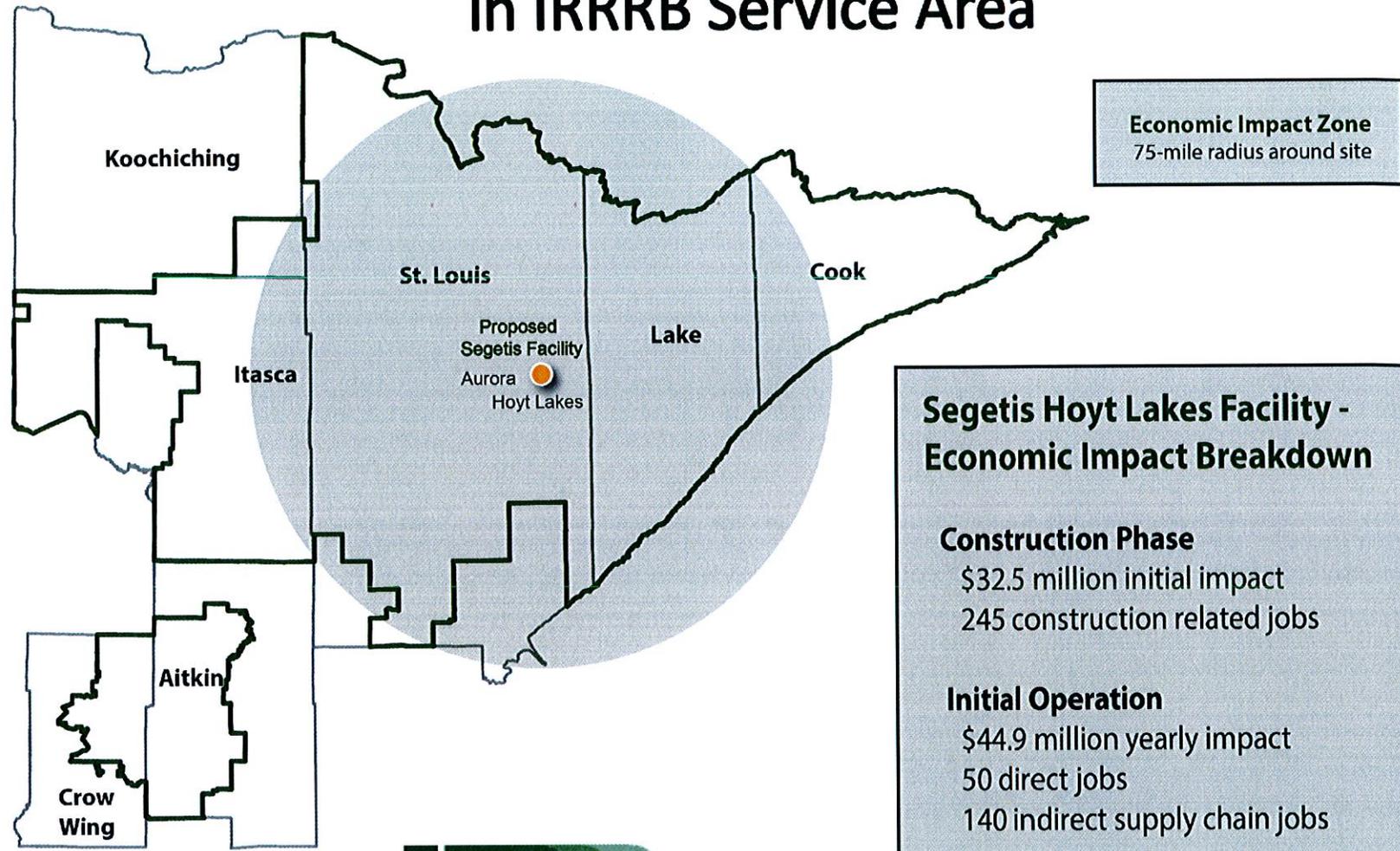
- (1) projects and programs that are designed to create and maintain productive, permanent, skilled employment, including employment in technologically innovative businesses;
- (2) projects and programs to encourage diversification of the economy and to promote the development of minerals, alternative energy sources utilizing indigenous fuels, forestry. . . .

The Segetis project is an ideal fit for both northeastern Minnesota and the DJJ fund as it will create skilled and innovative jobs, diversify the economy while utilizing forest capacity, and is a sustainable, value-added resource opportunity.

\$20 million IRRRB Loan Release – Sequential 3 Steps



Proposed Segetis Hoyt Lakes Facility - Economic Impact in IRRRB Service Area



Economic Impact Zone
75-mile radius around site

Segetis Hoyt Lakes Facility - Economic Impact Breakdown

Construction Phase
\$32.5 million initial impact
245 construction related jobs
Initial Operation
\$44.9 million yearly impact
50 direct jobs
140 indirect supply chain jobs
Conversion to Wood
\$55.1 million yearly impact
Additional 20 direct jobs
230 total indirect supply chain jobs



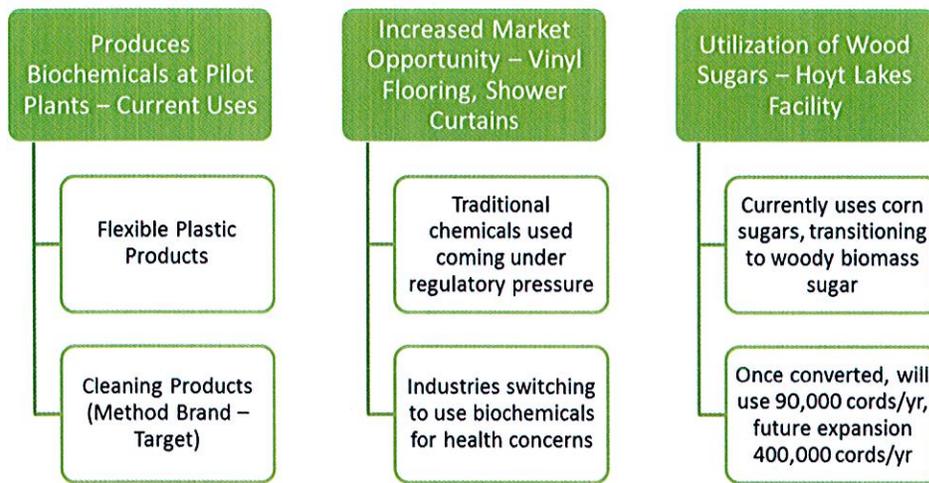


Founded in 2006, Segetis is a renewable biochemical company producing high performance, sustainable materials, reducing the world's dependence on fossil fuel-based petrochemicals. Segetis transforms simple carbohydrates into a chemical building block recognized as a "top 12 value-added chemical from Biomass" by the U.S. Department of Energy.

Segetis' bio-based technology platform is used in flexible plastic products, cleaning products, and a variety of other consumer goods. Method Products, Inc., a manufacturer of home cleaning and laundry products, uses Segetis' materials in a variety of its products that can be purchased at Target stores.

High consumer demand for environmentally friendly and safe chemical products has created a market opportunity of over \$50 billion for these versatile bio-based chemicals. In order to capitalize on this market opportunity, Segetis is proposing to establish their first commercial scale plant in Hoyt Lakes, Minn.

Segetis – Products, Opportunity, Facility



Segetis currently has 30 employees; 23 have technical degrees and seven have PhD's. Segetis has developed broad formulation capabilities across a range of markets supported by in-house expertise.

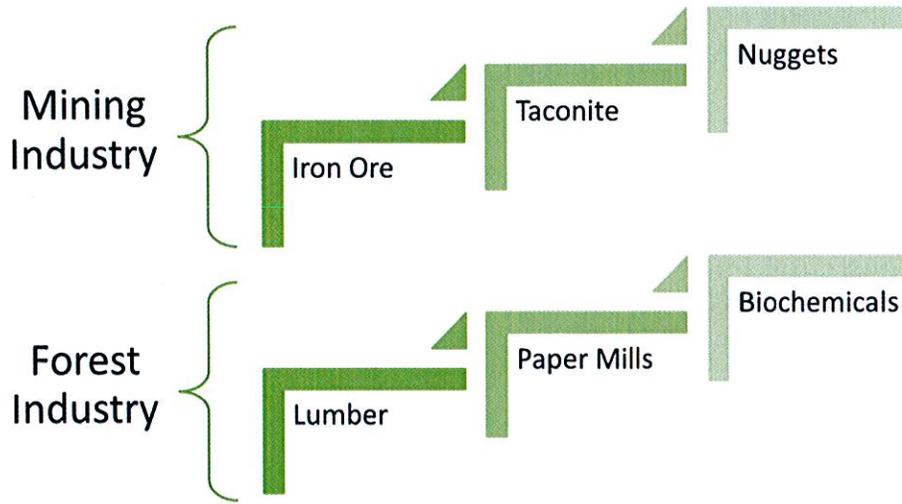
Projected Jobs – Hoyt Lakes Facility



History: IRRRB Investing in Value-Added Natural Resource-Based Industries

Northeastern Minnesota has a legacy of revolutionizing technology to sustain natural resource-based industries. IRRRB has played an instrumental role in this rich history by investing in value-added natural resource-based opportunities throughout our region. Just like the evolution of the mining industry from iron ore to nuggets, the forest industry has expanded to sustainable value-added wood based biochemical opportunities.

Northeastern Minnesota – Natural Resource Technology Evolutions

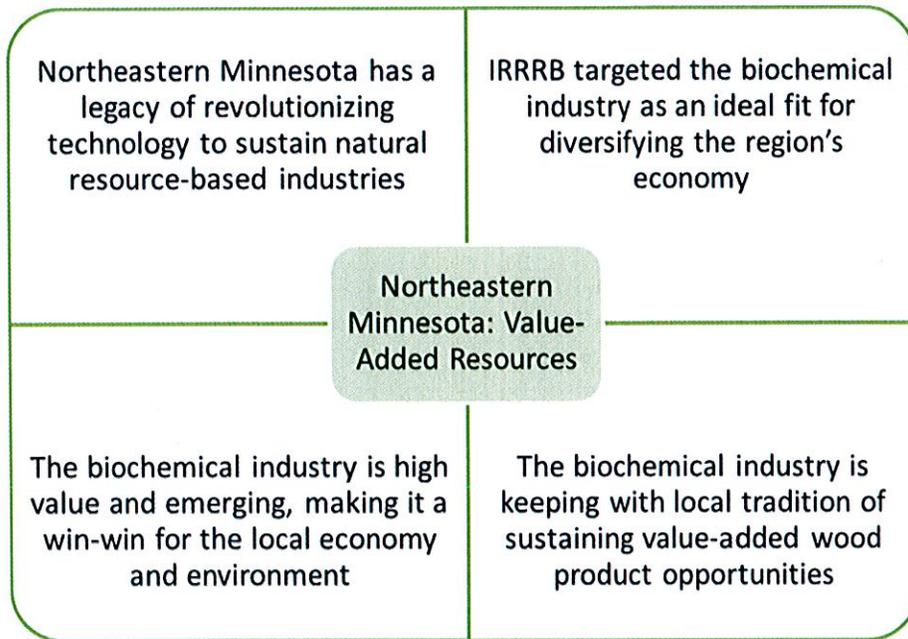


As biochemical development has continued to emerge, IRRRB identified this industry as a main target in the agency’s mission to diversify the economy. This industry is an ideal fit for northeastern Minnesota in many ways. IRRRB’s history in the biochemical industry dates back nearly two decades, with an investment in Larex, Inc in 1995. Larex was acquired by Lonza Group in 2006, which continues to produce biochemical ingredients for food and dietary supplements in Cohasset.

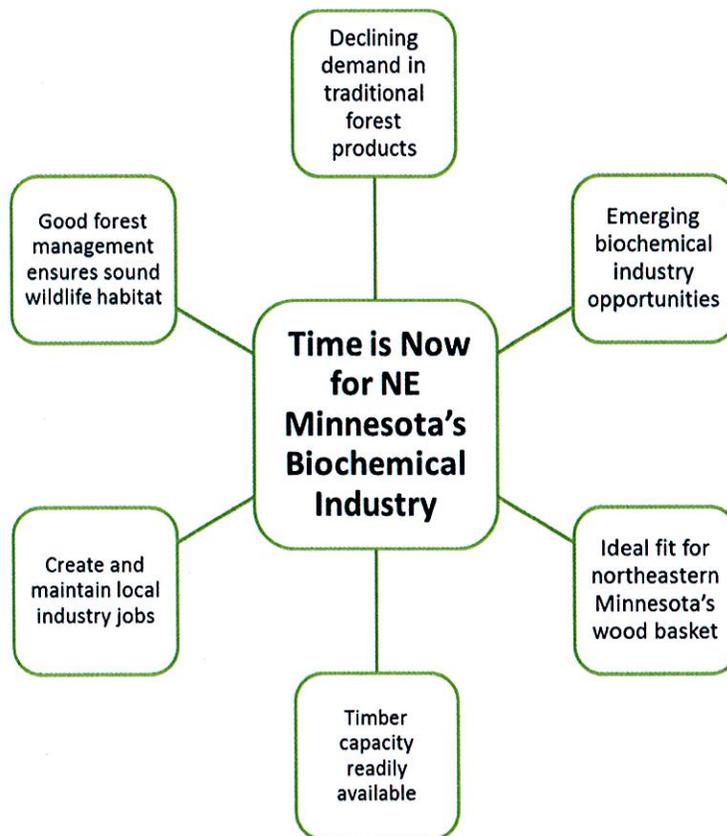
Why Biochemicals in northeastern Minnesota?

Abundant timber resources	Sound environmental stewardship in region	Commercial-scale manufacturing enormous economic opportunity	Co-location of supply chain (companies cluster together)
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Good forest management ensures the continuation of many benefits to the region. These include improved water quality, wildlife species and habitat diversity, recreation, timber, aesthetics and air quality. In addition to these forest and environmental benefits for our region, the emerging economic opportunities from commercial scale biochemical products are an idea fit for northeastern Minnesota as similar companies typically cluster together.



It isn't news that traditional forest products, such as lumber and paper, have seen declining demand in recent years. With a large portion of the state's forest resources in our own backyard, northeastern Minnesota has felt the forest product industry's struggle the hardest. However, this has also provided the area with a strategic advantage as timber capacity is readily available.



SEGETIS
680 Mendelssohn Avenue N.
Golden Valley, Minnesota 55427

IRRRB Direct Loan Program

Applicant:	Segetis, Inc.	
Project Location:	Laskin Energy Park Hoyt Lakes, Minnesota 55750	
Principal(s):	Atul Thakrar, President & CEO Andrew Skinner, Vice President, Operations	
Project Description:	Establish a commercial-scale bio-chemical plant. The facility will initially use corn sugars and will transition to using sugars from woody-biomass as its feedstock to produce 25 million pounds of levulinic acid, 9 million pounds of formic acid and 7.5 million pounds of bio-char annually. The transition to use of wood is expected by 2018 and will require 90,000 cords of wood. Construction of the facility is expected to be completed in 2015.	
Market Opportunity:	<p>Segetis has secured letters of interest from current and potential customers for greater than 75% of the planned production of this project.</p> <p>Their primary product, levulinic acid, was classified as one of the top 12 building blocks derived from biomass by the U.S. Department of Energy in 2004. Segetis will use the majority of its levulinic acid in the manufacture of levulinic ketal monomers for use in downstream products. The initial market for this project is the PVC plasticizer market, estimated to be \$14B annually.</p> <p>Strong domestic and foreign markets exist for formic acid and Bio-char.</p>	
Project Investment:		
Private:	Company cash investment	36,800,000
	Commercial debt	37,000,000
	Allete	3,000,000
Public:	IRRRB Direct Loan (20 years at formula rate)	20,000,000
	IRRRB Non-Recourse Loan to Hoyt Lakes (20 years at formula rate)	1,200,000
	DEED 21 st Century Fund Grant	7,100,000
	TOTAL	\$105,100,000

Jobs Projected:	
Construction:	245 construction related jobs estimated at \$12,500,000 total.
Initial operation:	10 new warehouse and support staff jobs at \$33,000 to \$45,000. 30 new skilled craft and plant operator jobs at \$55,000 to \$65,000. 10 new management jobs at \$80,000 to \$130,000. 140 indirect supply chain jobs estimated at \$7,800,000 annually.
Conversion to wood:	20 additional jobs at the project at \$55,000 to \$65,000. 230 indirect supply chain jobs estimated at \$11,900,000 annually.
Collateral:	IRRRB will hold a mortgage on equipment for our first \$6.2 million advanced until the \$37 million of commercial debt is committed. At that time we will release the equipment and receive 5% warrant coverage on our \$15 million remaining to be advanced.
Business History:	Segetis was founded in Golden Valley, MN in 2006 and currently has 30 employees; 23 have technical degrees and 7 have PhD's. Over the past 5 years, Segetis has raised over \$60 million in capital from outside investors for technology, product and market development.
Past IRRRB History:	IRRRB has been in contact with Segetis since 2006.
Contingencies:	IRRRB funds will be restricted to 40% of project costs and disbursement will be contingent on the project reaching certain milestones. \$3,200,000 will be available at the outset of the project for equipment and to complete initial site engineering. When initial engineering is complete, up to \$3,000,000 will be available for final engineering and permitting. This will allow the project to be bid-out on guaranteed prices. At this point, commercial debt funding can be accessed and the remaining \$13,800,000 of IRRRB funding will be available on the 40/60 ratio. Hoyt Lakes applications for infrastructure grant and non-recourse loans must be approved by the Hoyt Lakes City Council and presented to IRRRB.
Technical Advisory Committee Recommendation:	Approval recommended April 17, 2014.
Funding Authorization:	\$7,100,000 - Minnesota Minerals 21 st Century fund \$20,000,000 - DJJ fund (corpus) \$1,200,000 – Current projects budget

PREPARED FOR THE IRRRB
Economic Contribution of Proposed Segetis Facility in Hoyt Lakes, Minnesota

University of Minnesota Extension, with funding from the Great Plains Institute, is in the process of completing a study of the estimated economic contribution of 14 potential bio-based industrial product facilities in Minnesota. Seven proposed facilities were selected as case studies. Each case study was analyzed individually, using data provided by the company proposing the project. One of the facilities included in the analysis was the proposed Segetis facility in Hoyt Lakes, Minnesota. Since Extension had already collected the data and analyzed the information, Extension was asked to compile this short summary report for internal use by the Iron Range Resources and Rehabilitation Board.

SUMMARY OF FINDINGS

Once the Segetis facility in Hoyt Lakes is operating at its full capacity, it is expected the plant will employ 70 individuals and pay \$3.1 million in wages, salaries, and benefits to its workers (table 1). As a result of the activity, an estimated 225 jobs in the 7-county region will be supported. Those jobs will contribute an estimated \$11.5 million in wages, salaries, and benefits to residents of the region.

This analysis is based on the full operations of the facility. The facility is expected to take three years to reach full production. These impacts will be on-going on an annual basis as long as the plant maintains the level of production. Impacts are based only on purchases predicted to be made from local companies.

Table 1: Estimated On-Going Annual Potential Economic Contribution of the Operations the Proposed Segetis Hoyt Lakes Facility on the Economy of the 7-County IRRRB Region

Impact Type		Employment	Labor Income (millions)	Output (millions)
Direct	At the facility	70	\$3.1	\$20.3
Indirect	Business-to-business supply chain	140	\$7.8	\$22.8
Induced	Business-to-consumer supply chain	15	\$0.6	\$1.8
Total		225	\$11.5	\$44.9

Estimates by University of Minnesota Extension Center for Community Vitality. Data for the analysis submitted to Extension by Segetis, no analysis of feasibility was completed by Extension.

Before operations begin, the proposed facility will need to be constructed. While operation impacts will be on-going when the facility begins production, construction impacts will be a one-time impact. Construction impacts will dissipate when construction is completed. It is anticipated construction will occur over a two-year period.

Segetis estimates construction of the facility will cost \$62.0 million. We assumed all construction contract work would be done by local businesses. Land acquisition is not included in economic impact analysis. Since the major equipment for the facility is highly specialized, it was assumed the equipment would not be purchased locally. Therefore, total construction expenditures by Segetis would total \$21.7 million in the region. According to the model, 155 construction workers would be employed to complete the work and be paid \$8.9 million in compensation (table 2).

During the construction phase, the Segetis project would support an estimated 245 jobs and an estimated \$12.5 million in labor income in the region.

Table 2: Estimated One-Time Potential Economic Contribution of the Construction of the Segetis Hoyt Lake Facility on the Economy of the 7-County IRRRB Board Region

Impact Type		Employment	Labor Income (millions)	Output (millions)
Direct	At the facility	155	\$8.9	\$21.7
Indirect	Business-to-business supply chain	40	\$1.6	\$4.6
Induced	Business-to-consumer supply chain	50	\$2.0	\$6.2
Total		245	\$12.5	\$32.5

Estimates by University of Minnesota Extension Center for Community Vitality. Data for the analysis submitted to Extension by Segetis, no analysis of feasibility was completed by Extension.

POTENTIAL IMPACTS OF WOOD-BASED SUGAR AS A FEEDSTOCK

The proposed Segetis facility in Hoyt Lakes is anticipated to begin operations using sugar from corn. The corn-based sugar would be imported into the region from southern Minnesota. If available, the plant could use wood-based sugar in its production process. Corn production in the region is not predicted to increase as a result of the facility operating. However, if the plant used a wood-based sugar, logging could potentially increase in the region.

Therefore, we ran the analysis assuming 90,000 cords of wood were converted into sugar for use in the plant. The results are shown in table 3. We assumed 80 percent of the wood used would be logged in the 7-county region.

Table 3: Estimated On-Going Annual Potential Economic Contribution of the Operations the Proposed Segetis Hoyt Lakes Facility on the Economy of the 7-County IRRRB Region Using Wood-Based Sugar

Impact Type		Employment	Labor Income (millions)	Output (millions)
Direct	At the facility	70	\$3.1	\$26.6
Indirect	Business-to-business supply chain	230	\$11.9	\$26.7
Induced	Business-to-consumer supply chain	15	\$0.6	\$1.8
Total		315	\$15.6	\$55.1

Estimates by University of Minnesota Extension Center for Community Vitality. Data for the analysis submitted to Extension by Segetis, no analysis of feasibility was completed by Extension.

ASSUMPTIONS AND CAUTIONS

- Findings are based on information submitted to Extension by Segetis. The construction and operation costs are valid as of 4/3/14. Extension did not explore the feasibility of the proposed project or vet the proposed expenditures.
- Construction activities were assumed to be performed by local contractors. Land purchases are not included in the analysis. Specialized equipment purchases are also not included in the analysis.
- No additional production was modeled for corn-based sugar feedstocks (i.e. corn production would not increase, rather corn would be diverted from other uses).
- All efforts were made to include only operational purchases that would likely be made from companies located in the 7-county region. For example, utilities are typically provided by a local service provider. On the other hand, the facility purchases goods through a wholesaler located outside the region. Those purchases are not included in this impact.
- Profits were not modeled in the economic impact.
- The research was conducted following standard input-output theory and methodology. This methodology does not consider long-term price or long-term market changes.
- The input-output model IMPLAN (IMPLAN Group LLC) was used in this analysis. We used version 3.0 and 2012 data.

PREPARED BY

Brigid Tuck, Economic Impact Analyst, University of Minnesota Extension, tuckb@umn.edu, or 507-389-6979

APPENDIX 1: DEFINITION OF TERMS

Output

Output is measured in dollars. Direct output is equal to total expenditures by the company in the 7-county region.

Employment

Employment includes full- and part-time workers and is measured in annual average jobs. Total wage and salaried employees as well as the self-employed are included in employment estimates in IMPLAN. Because employment is measured in jobs and not in dollar values, it tends to be a very stable metric.

Direct Impact

The direct impact is equivalent to the initial change in the economy by the facility. Here it is spending directly by Segetis in the 7-county region.

Indirect Impact

The indirect impact is the summation of changes in the local economy that occur due to **spending for inputs** (goods and services) by the industry or industries directly impacted. For instance, if employment in a manufacturing plant increases by 100 jobs, this implies a corresponding increase in output by the plant. As the plant increases output, it must also purchase more of its inputs, such as electricity, steel, and equipment. As it increases its purchase of these items, its suppliers must also increase their production, and so forth. As these ripples move through the economy, they can be captured and measured. Ripples related to the purchase of goods and services are indirect impacts.

Induced Impact

The induced impact is the summation of changes in the local economy that occur due to **spending by labor** – by the employees in the industry or industries directly impacted. For instance, if employment in a manufacturing plant increases by 100 jobs, the new employees will have money to spend to purchase housing, buy groceries, and go out to dinner. As they spend their new income, more activity occurs in the local economy. This can be quantified and is called the induced impact.

Total Impact

The total impact is the summation of the direct, indirect and induced impacts

FY14 Infrastructure Projects



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

To: Iron Range Resources & Rehabilitation Board

From: Tony Sertich
Commissioner

Date: April 22, 2014

Re: FY14 INFRASTRUCTURE PROJECTS TOTALING \$590,000

City of Gilbert

Grant Amount: \$250,000

The project is comprised of infrastructure and site work for the expansion of Mesabi Bituminous in the city of Gilbert. This project will provide leverage for a new 5,200 square-foot expansion. The project is expected to create 11 permanent jobs.

<u>USES</u>		<u>SOURCES</u>	
Building	\$65,000	IRRRB	\$250,000
Site work and roads	602,300	City	35,000
		Private	130,000
		DNR	252,300
TOTAL	\$667,300	TOTAL	\$667,300

Lake County

Grant Amount: \$90,000

The project is comprised of new water and sewer line connections to service the expansion of an existing business in Lake County. This project will provide leverage for a new 10,000 square-foot expansion. The project is expected to create 12 permanent jobs.

<u>USES</u>		<u>SOURCES</u>	
Buildings	\$1,197,000	IRRRB	\$90,000
Water, sewer and roads	80,000	Private	1,197,000
A & E	10,000		
TOTAL	\$1,287,000	TOTAL	\$1,287,000

City of Mt. Iron

Grant Amount: \$250,000

The project is comprised of the total reconstruction of Mt. Iron Drive from Highway 53 to the Canadian National Railroad crossing.

USES

SOURCES

Storm sewers and roads	\$650,000	IRRRB	\$250,000
		City	400,000
TOTAL	\$650,000	TOTAL	\$650,000

Exhibit A – IRRRB January 30, 2014, Meeting Minutes

1:00 p.m.

IRRRB, Eveleth, Minnesota

1) Roll Call

Senator David Tomassoni, Board chair, called the meeting to order at approximately 1:12 p.m. Present: Representative Tom Anzelc, Representative David Dill, Representative Carly Melin, Representative Jason Metsa, Representative Joe Radinovich, Senator Tom Bakk, Senator Tom Saxhaug, Senator Rod Skoe. Minute Taker: Laureen Hall, Executive Assistant. Also present: Tony Sertich, Commissioner; Al Becicka, IRRRB Legal Counsel; Marianne Bouska, Chief Operating Officer; Sheryl Kochevar, Communications and Marketing Coordinator; Janette Paul, Executive Assistant; Ron Dicklich, Better IRRRB Task Force Chairman; Britta Bloomquist, Jordan Richards, Rick Cannata, Vicki Hagberg, Better IRRRB Task Force members.

2) Approval of the December 20, 2013, Minutes

Action required: Approval requires a simple majority of the quorum

Representative Tom Anzelc moved approval of the December 20, 2013, minutes. Seconded by Representative Jason Metsa. Motion carried.

Voting in Favor of the Motion: Representative Tom Anzelc, Representative David Dill, Representative Carly Melin, Representative Jason Metsa, Representative Joe Radinovich, Senator Tom Bakk, Senator Tom Saxhaug, Senator Rod Skoe, Senator David Tomassoni

Voting Against the Motion: None

Abstain: None

Excused: None

3) Toward a Better IRRRB – Recommendations of the Better IRRRB Task Force

Better IRRRB Task Force chairman Ron Dicklich explained the formation of the Task Force, described its work and gave a presentation regarding its recommendations. Also, Task Force members Britta Bloomquist, Jordan Richards, Rick Cannata and Vicki Hagberg were on hand to address questions from the Board.

After discussion by the Board, Commissioner Sertich said that it was his hope that some sort of decision would be made by June 2014.

Mr. Dicklich gave the following presentation:

TOWARD A BETTER IRRRB

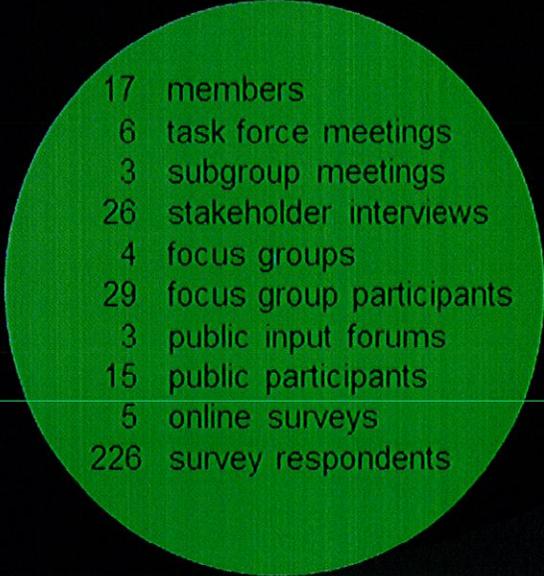
Recommendations of the Better IRRRB Task Force

Protecting. Improving. Evolving.

Better IRRRB Task Force

Charged with protecting IRRRB resources, improving the agency and helping it evolve with the times.

Better IRRRB Task Force



17 members
6 task force meetings
3 subgroup meetings
26 stakeholder interviews
4 focus groups
29 focus group participants
3 public input forums
15 public participants
5 online surveys
226 survey respondents

Guiding Principles

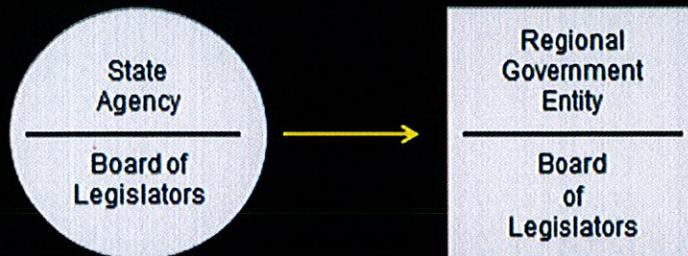
DJJ Fund

- ⊙ Protected and focused on economic development and diversification
- ⊙ Prefer local governance
- ⊙ A unanimous vote be required of the local governing body before withdrawals from the corpus of the trust are made
- ⊙ Ensure that ongoing contributions are made to the fund

Reshaping IRRRB as an agency

- ⊙ IRRRB should have a more direct role in the selection of its chief executive to ensure greater accountability
- ⊙ Want the region to play a more direct role in the collection of taconite production taxes – i.e. utilize existing county systems for production tax collection.
- ⊙ Ensure that IRRRB staff members' salaries, benefits and pensions are protected through any changes in the agency.

Option A Move Away from State Government



- Hire chief executive
- Set production tax rate
- Final approval of agency budgets
- Manage the DJJ Fund & expenditures

Option A Move Away from State Government

IRRRB would be re-formed as a regional, public governmental entity governed by a board of legislators who represent districts in which one-third or more of the residents reside within the Taconite Assistance Area.

The board's roles would include several functions for which it is not responsible today:

- Hiring and evaluating the chief executive of the agency
- Setting the taconite production tax rate, and
- Providing final approval for the agency's budgets.

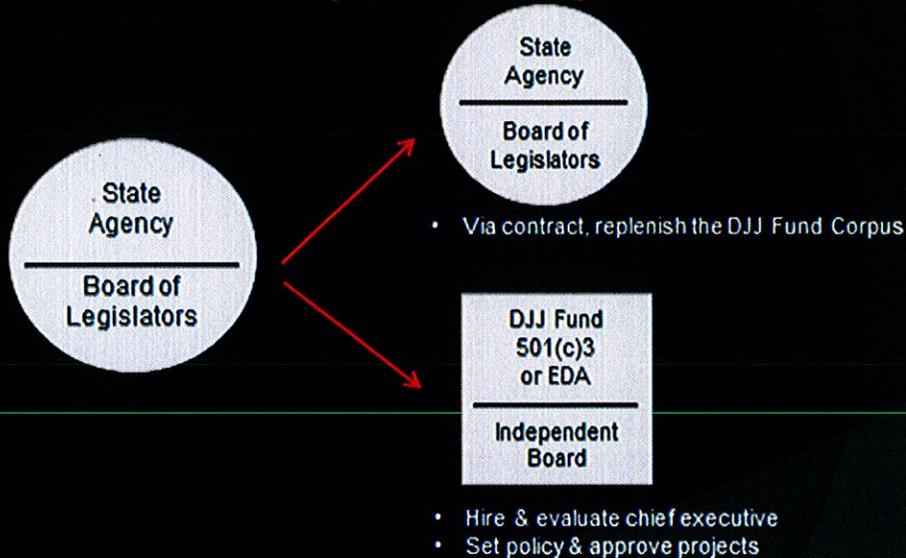
The board would retain some of its current responsibilities:

- Approving projects, and
- Managing the DJJ Fund for economic development and diversification.

The board would be accountable to the electorate in each legislative district, while the chief executive would report to the board itself.

This option would keep the DJJ Fund part of the IRRRB, so decisions about investment and other economic development activities would be made by the IRRRB Board.

Option B Trust Fund as Separate Entity



Option B Trust Fund as Separate Entity

IRRRB would remain a state agency governed by a board of legislators who represent districts in which one-third or more of the residents reside within the Taconite Assistance Area.

While the board would approve the agency's budget, it would delegate economic development project decisions to a new board overseeing the DJJ Fund. The IRRRB would approve a contract with the DJJ Fund board and determine when and to what extent to allocate additional contributions to the DJJ Fund.

The IRRR Board members would remain accountable to the electorate in each legislative district and the commissioner would remain accountable to the Governor.

The DJJ Fund would be a separate, non-governmental entity, such as a 501(c)3 nonprofit or an economic development authority, or similar entity focused on economic development. The Fund would be governed by a board from within the Taconite Assistance Area and would have an IRRRB liaison.

The DJJ Fund board would hire and evaluate the Fund's chief executive, set policy and direction and approve projects. The Fund board would be accountable to the IRRRB via a contract and be subject to the IRRRB's approval of continued replenishment of its corpus from the proceeds of the mining production taxes.

Better IRRRB Task Force

Charged with protecting IRRRB resources, improving the agency and helping it evolve with the times.

Better IRRRB Task Force

- | | |
|-------------|---|
| 1941 | Agency created |
| 1977 | Trust Fund created |
| 2014 | Trust Fund protected for future generations |



**Iron Range Resources &
Rehabilitation Board**

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To: Iron Range Resources and Rehabilitation Board

From: Tony Sertich
Commissioner

Date: January 24, 2014

Re: Better IRRRB Task Force Report

Almost 40 years ago, Iron Range legislators along with Governor Rudy Perpich established a “rainy day” fund at the IRRRB. They knew of the volatility and limits of our mining economy. Those leaders looked to the future and set aside a portion of the local production tax that would be wisely invested and made it into a trust fund for future generations. Years later this fund—now named the Douglas J Johnson Economic Protection Trust Fund—has a value of approximately \$150 million.

Previous Iron Range leaders left for us a nest egg which has been used as emergency resources in tough times but also a catalyst to leverage new technologies to create jobs all across the Iron Range.

Iron Range legislators were not satisfied with the status quo. They knew that we needed to evolve with the times. They looked decades into the future and made decisions not just for themselves, but for their children and grandchildren.

We owe each of them a debt of gratitude.

We also owe them our best efforts at this time.

Over the past decade, the Iron Range has seen attempts to raid our local trust fund by some elected officials from other parts of the state. Thankfully we have been able to thwart off every attempt thus far. I am convinced there will come a time when we will not be successful and the money that has been set aside for the people of the Iron Range for the past 40 years will be gone without anything to show for it. If we do nothing, we will continue to play a high stakes game of Russian roulette with \$150 million—and we will lose it all.

Some have asked that Iron Range legislators just pass a law to prevent the taking of our funds. This idea does not go far enough. The problem is future legislators could change such a law at any time to access our Range monies.

We need to make a more dramatic change to ensure that these resources stay where they came from and stay where they were originally intended to be invested--on the Iron Range.

This is why I put together a task force of local citizens to research solutions to this issue and present them to our board. Their main goal was to present us with options to preserve the DJJ Trust Fund into the future and protect it from potential political raids.

The Better IRRRB Task Force spent the past months gathering input from a wide variety of stakeholders--including businesses, employees, past commissioners, board members and the general public.

What you have today is the executive summary of their report. Essentially in order to protect our investments, we must move the fund away from state government. The task force has presented us with at least two options. One is to move our agency further away from state government. The second is to move the trust fund to a separate entity. Each option has its advantages and disadvantages. Each option fulfills the charge of protecting our resources for the future. The task force also made some suggestions on improvements to the agency's operations regardless of which choice we make. I have yet to make up my own mind on which is the best option.

I am not expecting us to make any decisions at today's meeting. This meeting is a time to listen to those who took the time to do the research, ask questions, and be thoughtful. Over the next couple of months, it is my hope to work with you to find consensus on the direction we should go. My goal is to have our work finalized by the time we adopt our annual budget in June.

Here at the IRRRB, we will continue to knock on doors, work hard to create jobs, invest in our communities and our people. But from time to time, we must look up at the horizon, dream of where we should go and plan for the future. Now is one of those times. I ask for your best thoughts and best work in the coming months for the future of the Iron Range.

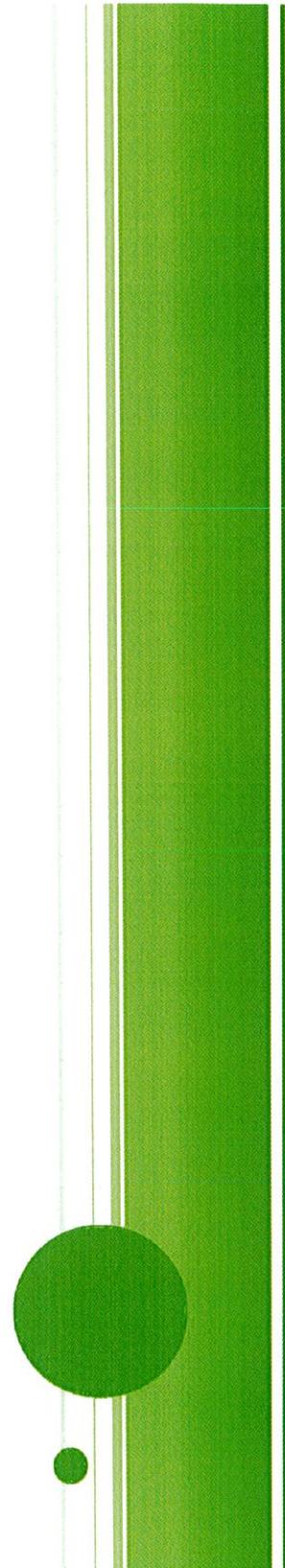
Thank you.

TOWARD A BETTER IRRRB

Recommendations of the Better IRRRB Task Force

Protecting. Improving. Evolving.

Glumac Executive Enterprise and Zabinski Consulting LLC
December 2013



Executive Summary

TOWARD A BETTER IRRRB

Recommendations of the Better IRRRB Task Force

EXECUTIVE SUMMARY

Background

Created in 1941, the Iron Range Resources and Rehabilitation Board (IRRRB) is an anomaly among state agencies.

On one hand, IRRRB looks much like any other state agency: the Commissioner is appointed by the Governor, confirmed by the Minnesota Senate, and is a member of the Governor's Cabinet. The IRRRB's budget is reviewed by – though not controlled by – budget committees within the Minnesota Legislature.

On the other hand, it operates as a local entity: IRRRB revenues come from taxes levied on taconite mining operations in lieu of local property taxes, and the agency spends revenues in Northeastern Minnesota in a region defined as the Taconite Assistance Area.

The IRRRB's governing board is comprised of legislators who represent districts in which one-third or more of the residents reside within the Taconite Assistance Area. And while the board approves the budget and expenditures for specific economic development projects, no money can be spent until the Commissioner decides to transmit the expenditures to the Governor, who must sign off on most expenditures.

While the operations of the IRRRB have seen numerous refinements over its more than seven decades, the mission of diversifying and expanding the economy of the region has remained constant – as has the funding of the agency through taxes levied on local mining operations. Instead of paying local property taxes to surrounding communities, mining companies pay a tax levied on each ton of taconite pellets, iron ore concentrate or iron nuggets produced, and proceeds are distributed to local units of government, property taxpayers and the IRRRB. Iron mining companies also pay occupation taxes – similar to corporate income taxes – to the State of Minnesota.

A portion of the tax also is set aside in a trust fund established in 1977 to help the Iron Range rebuild its economy after the then-anticipated decline of the taconite mining industry around 2002. Initially known as the 2002 Trust Fund, the fund subsequently was named the Douglas J. Johnson Economic Protection Fund, or DJJ Fund, and extended to 2028. Withdrawals of nearly \$73 million have been made over the years for 11 projects and programs to stimulate and encourage diversification of Northeastern Minnesota's economy.

The Iron Range Resources and Rehabilitation Board is an anomaly among state agencies.

Despite the concerns of the mid-1970s, mining remains a thriving industry that continues to pay tens of millions of dollars in production taxes annually. The DJJ Fund currently sits at about \$150 million, tempting state lawmakers searching for money to help balance the state budget, even though the trust fund essentially is local property tax dollars.

After several unsuccessful attempts to raid the fund over the last decade, IRRRB Commissioner Tony Sertich decided to explore how to protect the agency's resources, including the DJJ Fund. In June 2013, Sertich appointed a citizen task force and gave it a major assignment:

The Better IRRRB Task Force is charged with protecting IRRRB resources, improving the agency and helping it evolve with the times.

THE BETTER IRRRB PROCESS

From July through December the 17-member Better IRRRB Task Force researched and debated the history, issues and opportunities facing the agency through a robust process that gave them access to experts and to the opinions and ideas of others as they considered their ultimate recommendations.

Task Force Meetings

The Task Force held in-depth meetings monthly from July through December 2013; three subgroups charged with more detailed discussion and research also met to study IRRRB governance, the agency's structure and the DJJ Fund.

Stakeholder Interviews

Task Force facilitators conducted interviews with 26 former IRRRB commissioners, board members and regional partners to gather perspectives on what the agency does well and what it might do differently.

Focus Groups

Four focus groups comprised of specific stakeholders in the fields of education, economic development, labor and mining were convened to gather insights in an informal research mode.

Better IRRRB Task Force *By the numbers*

17	members
6	task force meetings
3	subgroup meetings
26	stakeholder interviews
4	focus groups
29	focus group participants
3	public input forums
15	public participants
5	online surveys
226	survey respondents



Public Surveys

On-line public surveys were developed to gather citizen input. Surveys were targeted at key stakeholder groups: education leaders, mining industry leaders, IRRRB staff, business and economic development leaders and local elected officials. Additionally, links to the survey were posted on the IRRRB website and disseminated through social media channels so that anyone could participate.

Public Input Forums

Once preliminary Task Force insights regarding recommendations came together in November, three public input forums allowed citizens to provide their observations, comments and ideas on the options identified:

- Monday, November 18 (Mountain Iron)
- Tuesday, November 19 (Grand Rapids)
- Tuesday, November 26 (Babbitt)

RECOMMENDATIONS

After the processes described above, the Better IRRRB Task Force faced perhaps its largest and most difficult challenge – developing recommendations to be shared with the Commissioner and members of the IRRRB.

Ultimately, Task Force members decided to provide the Commissioner and Board with two options, each of which included a number of possible action steps.

Guiding Principles

The Task Force asked that certain principles guide the discussion and choices for the best set of options going forward.

Regarding the DJJ Fund, Task Force members suggested the following concepts:

- **The fund should be protected and focused on economic development and diversification.**
- **Task Force members prefer local governance.**
- **The Task Force supports the concept that a unanimous vote be required of the local governing body before withdrawals from the corpus of the trust are made.**
- **Finally, Task Force members want to ensure that ongoing contributions are made to the fund.**



The Task Force agreed on the following guiding principles for reshaping IRRRB as an agency:

- **The Task Force believes the IRRRB should have a more direct role in the selection of its chief executive to ensure greater accountability.**
- **Task Force members want the region to play a more direct role in the collection of taconite production taxes – i.e. utilize existing county systems for production tax collection.**
- **The Task Force wants to ensure that IRRRB staff members' salaries, benefits and pensions are protected through any changes in the agency.**

With these principles as a guide, the Task Force offered two options for the structure and governance of the Douglas J. Johnson Trust Fund and the IRRRB.

The central difference between the two is the structure of the IRRRB: the agency could be re-formed as a regional, public governmental entity (Option A) or remain a State agency (Option B). The options and their key features are explained in more detail below.

Option A:

IRRRB would be re-formed as a regional, public governmental entity governed by a board of legislators who represent districts in which one-third or more of the residents reside within the Taconite Assistance Area.

The board's roles would include several functions for which it is *not* responsible today:

- hiring and evaluating the chief executive of the agency,
- setting the taconite production tax rate, and
- providing final approval for the agency's budgets.

The board would retain some of its current responsibilities:

- approving projects, and
- managing the DJJ Fund for economic development and diversification.

The board would be accountable to the electorate in each legislative district, while the chief executive would report to the board itself.

This option would keep the DJJ Fund part of the IRRRB, so decisions about investment and other economic development activities would be made by the IRRR Board.

Option B:

IRRRB would remain a state agency governed by a board of legislators who represent districts in which one-third or more of the residents reside within the Taconite Assistance Area.



While the board would approve the agency's budget, it would delegate economic development project decisions to a new board overseeing the DJJ Fund. The IRRRB would approve a contract with the DJJ Fund board and determine when and to what extent to allocate additional contributions to the DJJ Fund.

The IRRR Board members would remain accountable to the electorate in each legislative district and the commissioner would remain accountable to the Governor.

The DJJ Fund would be a separate, non-governmental entity, such as a 501(c) 3 nonprofit or an economic development authority, or similar entity focused on economic development. The Fund would be governed by a board from within the Taconite Assistance Area and would have an IRRRB liaison.

The DJJ Fund board would hire and evaluate the Fund's chief executive, set policy and direction and approve projects. The Fund board would be accountable to the IRRRB via a contract and be subject to the IRRRB's approval of continued replenishment of its corpus from the proceeds of the mining production taxes.

The options presented, combined with the guiding principles Task Force members developed, ensured that they met the charge originally provided by the Commissioner – to protect the agency's resources, to improve its operations and to help it evolve with the times.

8) Adjournment

The meeting adjourned at 2:20 p.m.