



Tony Sertich, Commissioner of the Iron Range Resources and Rehabilitation Board

IRRRB must use incentives to nurture, retain and attract Iron Range businesses

A Civic Caucus Focus on Competitiveness Interview

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Present

Dave Broden (vice chair), Sallie Kemper, Dan Loritz (chair), Dana Schroeder, Clarence Shallbetter. By phone: Janis Clay, Pat Davies, Tony Sertich.

Summary

The Iron Range Resources and Rehabilitation Board (IRRRB), a state economic development agency for northeastern Minnesota founded in 1941 by the Minnesota Legislature and then-Gov. Harold Stassen, has invested \$71.5 million in projects on the Iron Range during the three years in which Tony Sertich has been commissioner of the agency. Originally focused on replacing the depleting natural iron ore industry with the mining of taconite, the IRRRB now promotes and invests in business, community development and workforce development in its service area.

According to Sertich, in the past, the agency focused on trying to attract new businesses to the Iron Range by promising them monetary incentives. Now its first priority is to help existing businesses in the region to grow. It is also focusing on bringing value-added production to the region in mining and wood products and on developing the area's workforce by encouraging improvements in technical education in the high schools and community colleges.

Sertich says the majority of what the IRRRB does is to provide gap-financing loans to companies in the region or companies considering locating there. The loans are generally tied to a commitment from the companies to provide jobs for a certain amount of time at a certain wage level. Sertich finds himself "in-between" in the controversy over how big a role economic incentives to businesses should

play in economic development versus making investments in education, the workforce and infrastructure. He believes both are necessary.

Background

Tony Sertich has served as commissioner of the Iron Range Resources and Rehabilitation Board (IRRRB), a state economic development agency founded by the Legislature in 1941, since his appointment by Gov. Mark Dayton in 2011. A Democrat, he served in the Minnesota House of Representatives for over a decade, representing District 5B, which includes portions of the Iron Range in St. Louis County. At age 30, he became the youngest House Majority Leader in state history.

As a fourth-generation Iron Ranger and a resident of his hometown of Chisholm, Sertich understands the challenges and opportunities facing northeastern Minnesota and works as an advocate for the region. He is the business manager of a family business on the Iron Range. He also is a co-instructor in the Master of Advocacy and Political Leadership program at the University of Minnesota, Duluth. He serves on the Duluth Seaway Port Authority.

Sertich has a B.A. degree in theater and political science from Hamline University in St. Paul.

Discussion

The Iron Range Resources and Rehabilitation Board (IRRRB) is a state economic development agency founded in 1941 by the Minnesota Legislature and Gov. Harold Stassen to rehabilitate the economy of northeastern Minnesota, a region then dependent on natural iron ore mining. In its early years, IRRRB economic development efforts centered on mining research and replacing the depleting natural iron ore industry with the mining of taconite.

By the 1960s, business development and increased diversification of the northeastern Minnesota economy became a key IRRRB mission. Passage of an amendment to the state constitution in 1964, known as the Taconite Amendment, helped establish a stable form of taxation for Iron Range mining companies, enabling the construction of taconite plants across the region and creating thousands of new mining jobs. According to current IRRRB Commissioner Tony Sertich, the agency helped fund the transition from mining iron ore to mining taconite, which "has maintained the vibrancy of our mining industry in Minnesota and in the entire U.S." He said Minnesota mines over 80 percent of the taconite mined in the U.S. today.

The IRRRB serves northeastern Minnesota in a swath between the Crosby-Ironton area and the tip of the Arrowhead, an area roughly the size of West Virginia. The service area, which has a population of 150,000 people, encompasses 140 communities, 15 school districts and parts of seven counties. It includes three iron ranges: the Cuyuna Range, the Mesabi Range and the Vermilion Range.

The taconite production tax, paid by mining companies in lieu of property taxes, has funded the IRRRB since 1971. With IRRRB funding previously based on the occupation tax, which decreased as natural iron ores were depleted, the 1971 Legislature appropriated one-cent-per-ton from the taconite production tax to the IRRRB. The production tax is levied on mining companies

based on how much taconite they take out of the ground. In 1971, the tax generated \$170,000 in revenue to the agency. Today, a portion (22 percent) of the taconite production tax supports IRRRB programs and operations. Sertich said the agency's annual budget is now \$35 million.

Noting that the IRRRB does not receive state funds, Sertich stressed that the taconite production tax is a *local* tax that mining companies pay instead of paying local property taxes. "It goes back to the Taconite Amendment," he said. People sometimes think it's a state tax, he said, because the Legislature sets the production tax level in the state tax bill and the state Department of Revenue collects the tax.

But the state sends the production tax revenue directly back to the Iron Range, where it is distributed by a formula established in state law. Twenty-two percent goes to the IRRRB. The rest goes to the cities, counties and school districts in the region, since they get no property tax income from the mining companies, and to property tax relief for Iron Range homeowners. "Every dollar of it is raised on the Iron Range and every dollar comes back to the Iron Range," Sertich said.

He added that, in addition to the local production tax, the taconite mines also pay an occupation tax to the state, in lieu of the state corporate income tax, and pay into the University of Minnesota trust fund.

The Taconite Amendment, which passed in 1964 and governed the taxation of taconite mining and production, expired in 1989, after its 25-year time limit. The amendment is still in the state Constitution, but no longer limits the ability of the legislature and the governor to impose occupation taxes on taconite mining and production. In fact, the legislature has made a number of changes in taconite occupation taxes since 1990.

The IRRRB is a unique state agency. According to Sertich, it is the only state agency headquartered in rural Minnesota (in the city of Eveleth), the only state agency that serves only a portion of the state, and the only state agency that gets no state funding. He said the IRRRB differs from economic development districts created by cities, because it was created by the Legislature, is multi-jurisdictional, and has more authority and flexibility in how its funds can be spent.

The agency's board consists of the state senators and representatives elected from state senatorial or legislative districts in which one-third or more of the residents reside within the IRRRB service area. One additional state senator is appointed by the Senate's Committee on Rules and Administration.

Today, the IRRRB's mission is to promote and invest in business, community development and workforce development in northeastern Minnesota. Sertich said the agency invests in business by giving economic incentives, mostly forgivable loans, to businesses to locate or expand in the region. It invests in community development in cities in the region by helping fund water and sewer systems, roads and other infrastructure. And it works with colleges and high schools and it funds programs to make sure the region has a well-trained workforce into the future.

Minnesota has historically figured out a balance between foundational competitiveness (things like quality of education, the workforce, infrastructure, etc.) and investment attractiveness. "There's no one silver bullet," Sertich said. "We have to make sure we have a mix. There must be a balance between taxation and regulation and investment in research and development, education, and infrastructure."

Sertich said a multibillion-dollar Indian company, Essar Steel, is looking at developing a taconite plant in northeastern Minnesota and producing value-added by potentially making steel. When company officials came to Minnesota, they first wanted to go to the site where the mine would be located. Next, they wanted to see the high school and the community college to find out where their workforce was going to come from, what sort of capacity is there and where their kids would go to school. The third place they wanted to see was the hospital to see if it was prepared to respond to a mining accident and how their workers would be treated.

Only after that, Sertich said, did the Essar officials want to sit down to talk about taxes and regulations. "That was the order of importance," he said.

He noted that over the past five or six years, many companies have off-loaded the decision-making process of site selection. "They hire other companies to do due diligence about where they should expand or locate," he said. "So engineers, former regulators and others go around and size up communities, but they can't tell us what the project is or who the company is. It's kind of frustrating for us, because our biggest pitch is what do you need to succeed and we can tailor our support to you."

The IRRRB's first priority is to help existing businesses in the region to grow. "Much of our strategy had been taking our checkbook and offering businesses money to come to northern Minnesota," Sertich said. "We were trying to sell ourselves as a checkbook, rather than as a place with a strong workforce."

"We were traveling all over trying to hit a home run, when we already have a bunch of companies here," he continued. "Instead of looking for that one company that will bring 500 jobs, I'd rather look internally and see if we can help 50 companies create five jobs apiece. We would have a broader economic base and the smaller companies are already here. We don't have to convince them to come here. There's a lot less need for financial incentives, because they're already invested here. It's an easier sell."

The second IRRRB priority is pursuing value-added production in minerals and in timber. Sertich said value-added production would add to the region's economic stability and more high wage, high skilled jobs. "We're looking at value-added in wood products, just like in minerals," he said. "Sugars in wood could replace some oil-based plastics in a whole host of products all across the world. We don't have to just use wood for biomass or fuel."

The third priority for the IRRRB is focusing on the many companies in the region that are producing products and services for outdoor recreation.

The fourth priority is figuring out how the region can attract businesses where people can work from home. "We haven't been able to fully crack that nut yet," Sertich said. "You need broadband and connectivity. More people would like to look out and see a lake with a loon than see a parking ramp and face traffic. I think we're going to eventually win that argument, but I think we're at the front end of that discussion."

A Georgetown University study found that by 2018, 70 percent of the new jobs in Minnesota will require education and training beyond a high school diploma. "Gone are the days when you can walk out of high school and get a job to support a family in a mine or a paper mill," Sertich said.

"Our mining industry is requiring something more than high school. They're working with tech schools and colleges on things like computer-simulated training for truck drivers and shovel operators."

"The mining industry of today is more technical than in the past," he continued. "Everything has been digitized and automated. It's phenomenally complicated. These industries have evolved. We're definitely generations away from the pick and shovel."

The IRRRB owns two tourist sites: the former Ironworld, now the Minnesota Discovery Center, and the Giant's Ridge ski hill and golf courses. The agency used to operate Ironworld, but a local nonprofit board now runs the renamed Minnesota Discovery Center, bringing more stability to its operation.

More exploration has shown that northeast Minnesota has one of largest deposits of copper, nickel, palladium and cobalt in the world. According to Sertich, nonferrous copper-nickel mining is a potential new development for the Iron Range, because higher prices have made it more economically viable. PolyMet Mining, Inc., is focused on developing its NorthMet copper-nickel-precious metals project on the Iron Range.

He said the NorthMet proposal has been going through an environmental review process, which is looking at the impacts of specific proposals. "They're at the tail end of that," he said. "In a few weeks that report will come out and Minnesotans will have chance to question and comment on the proposal." He said if the project can move forward, the permitting process will begin and the project will then go to construction.

"Timeliness is an issue," Sertich said. "When investors are at the table, they're investing in a window of opportunity that is beneficial for them. Timeliness is very important to the future of economic development."

"Gov. Dayton is frustrated by inefficient bureaucracy," Sertich continued. "He wants a fair process, making sure our regulators are our referees and that we see all the data before making a decision. But he wants the process to be more efficient. It's been in the review process now for eight years."

The IRRRB is encouraging improvements in K-12 education in the region to prepare a workforce trained in the more technical skills needed for today's jobs. Sertich said the agency is working on bringing more hands-on, applied learning classes back into the schools. What used to be "shop" classes are now things like pre-engineering, welding, nursing, working with computers. "Those are the first programs that get cut, because they are very expensive," he said.

The IRRRB has partnered with local high schools, the five local community colleges and local industries to "bolster up" those classes in K-12 schools. The agency has provided some funding directly to deliver those classroom opportunities. "We can make kids aware of industry at younger ages," he said.

The agency is involved with the Applied Learning Initiative, which offers applied classes in high schools, with students getting college credit through the community colleges. "We work with our community partners to make sure students are learning what they need to know and are using up-to-date equipment," Sertich said.

It's important not to ignore existing companies in the area. An interviewer asked how local and state investments in existing Minnesota companies like 3M and the Mayo Clinic compare with what the IRRRB is doing on the Iron Range.

"It's a slap in the face to existing companies if we ignore them and look over their heads," Sertich responded. "We can't forget about existing companies. But don't ignore those companies coming in. It's a multi-pronged effort."

There is disagreement over how big a role economic incentives to businesses should play in economic development efforts. "Some people think we should stop providing economic incentives and spend all our money on education, research and infrastructure," Sertich said. "Others say we must provide more economic incentives because we're competing with other states and globally to attract businesses. I'm somewhere in-between. It's not an exact science. There is the potential to go overboard and overpay for economic development."

"Minnesota has had a more broad and progressive policy of investing in the workforce, education and infrastructure, but also giving economic incentives," he continued. "We can't be radically off the board on the indicators they're looking at. We must play in every area, but we must play to our strengths. We can't have a big fat zero on economic incentives or we're going to lose a lot more than we win."

The majority of what the IRRRB does is to provide "gap financing" loans tied to job creation . Many are tied to a commitment to provide jobs at a certain wage level. He said the agency doesn't incentivize low-wage jobs. Most of the agency's loans are under \$500,000.

"We usually don't give loans to mining or existing paper industries," he said. "The vast majority of our funding goes to manufacturing and other industries that are exporting out of our region. They're putting their own capital in and getting some from banks. We're the gap financing. We're trying to be more and more strategic. We're trying to invest in those companies who are committed to the area."

Not every business that has received a monetary incentive from the IRRRB has succeeded.

"Not every economic incentive is going to work," Sertich said. "We're going to invest in businesses that fail. We must get comfortable with that fact. Not every business succeeds; that's a fact of life. We shouldn't get reckless, but it's happened in the past and it will happen again"

Over the last three years, the IRRRB has funded about \$71.5 million in projects. Sertich said the total public and private investment in the area during that time has been \$436 million, which has created 4,000 new jobs in the region.