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36 years of experience

Iron Range Resources and Rehabilitation Board

Thomas F. Stinson and Karen A. Vogl*

Expanded mining activity, especially for western coal, has stimulated interest in programs to reduce the adverse local impacts of mineral development. States have established special impact funds financed through the severance tax. Some have even established new boards or agencies to deal with the special problems of those areas where new mining is underway. There is, however, no general agreement on how aid programs should be organized. Indeed, within the last 3 years, 4 states — Colorado, Montana, North Dakota, and Wyoming — have dealt with this problem differently.

Minnesota's Iron Range faced slightly different problems in the late thirties and early forties. The area was in severe economic decline. So severe that in the late 1930's northeastern Minnesota was named one of six permanently depressed areas in the United States. Both lumber and mining employment had dropped dramatically, and the region had no other major sources of jobs. Between 1920 and 1940, employment in iron mining had declined from 12,000 to 4,500. The region's economy had relied heavily on natural resources which, it was thought, had begun to run out.

Among actions taken to aid the Iron Range was establishment of a special state agency, the Iron Range Resources and Rehabilitation Commission. This agency, its name later changed to the Iron Range Resources and Rehabilitation Board (IRRRB), had responsibilities similar to those given today's mining impact agencies. Since its organization in 1943 the IRRRB has spent more than $28 million on projects to aid the area.

During its 36-year history this agency has received little attention. There are, however, good reasons to look closely at its experiences. Conditions on the Iron Range have changed dramatically since 1941. The problems the agency was established to deal with no longer exist, and questions arise on the need for a state agency to encourage the area's development. More important, however, information about the IRRRB's experience may be of use to officials in states where special mining impact funds or agencies have been or are likely to be established.

This report looks at the IRRRB from several perspectives. It begins with a brief description of the agency today, then reviews its evolution from what was originally envisioned in the forties. The third section deals with the advantages and disadvantages of a regional development agency and the special problems in organization such an agency faces. This section draws extensively on information obtained in interviews with both present and former board members and commissioners.

The IRRRB Today

In 1941 the Minnesota Legislature created the post of Commissioner of Iron Range Resources and Rehabilitation and assigned him responsibility for determining whether distress and unemployment existed in any county due to the removal of natural resources or the accompanying decrease in employment. Where such distress was found, the commissioner was authorized to fund programs to develop the area's remaining resources and to provide vocational training and rehabilitation.

Initially the program covered 16 counties. However, since the

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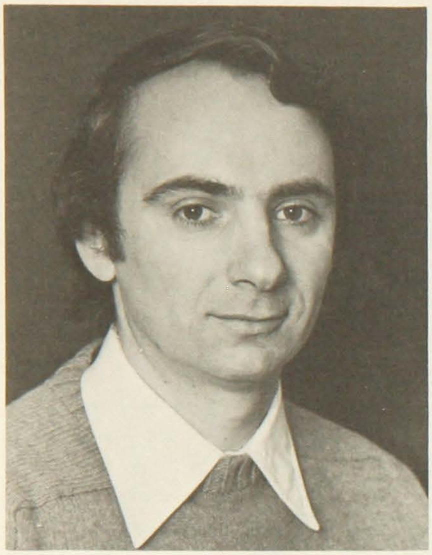


Thomas F. Stinson

legislation requires that a county have distress and unemployment due to the removal of natural resources, the number and involvement of counties have varied over the years. At one time 22 counties were covered by the program: now there are 16 again. Although counties outside northeastern Minnesota are not specifically excluded, the first project funded outside the Iron Range was in 1976 in southeastern Minnesota's Fillmore County where a small amount of iron mining once took place.

Today the IRRRB consists of a commissioner, a deputy commissioner, 11 board members*, and 38 permanent employees staffing the agency's five divisions.

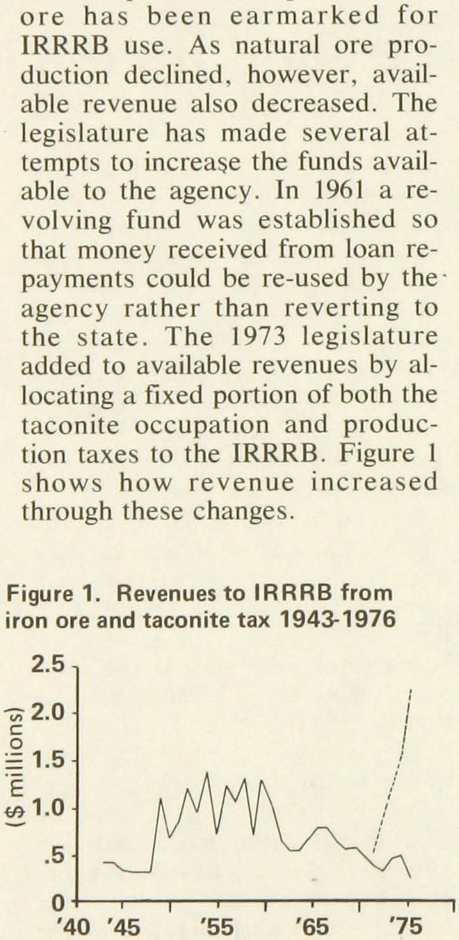
The commissioner, appointed by the Governor to a 4-year term which coincides with the Governor's, has operating responsibility for the agency, and is charged with carrying out its program.

Statutes restrict the board's role to making recommendations to the commissioner regarding agency activities. However, in practice the commissioner has followed the will of the board, and the board has made recommendations on specific projects and programs.

Funding

Until 1973 all state funds for the IRRRB came from occupation taxes collected on natural ore mines. Since 1969, 5 percent of the occupation taxes paid on iron ore has been earmarked for IRRRB use. As natural ore production declined, however, available revenue also decreased. The legislature has made several attempts to increase the funds available to the agency. In 1961 a revolving fund was established so that money received from loan repayments could be re-used by the agency rather than reverting to the state. The 1973 legislature added to available revenues by allocating a fixed portion of both the taconite occupation and production taxes to the IRRRB. Figure 1 shows how revenue increased through these changes.

Figure 1. Revenues to IRRRB from iron ore and taconite tax 1943-1976



The 1977 legislature made additional changes. The board no longer receives 5 percent of the taconite occupation tax. Instead, it receives funding from the taconite production tax. State law now provides for the board to receive an amount equal to that received from the occupation tax in 1977 plus an additional 3 cents per ton of taconite production.

The 1977 legislature also gave the IRRRB responsibility for proposing projects to be funded from the new Taconite Area Environmental Protection and Economic Development Fund. This fund, supported by part of the taconite production tax, provides a source of funds for projects which either reclaim, restore, or reforest mine lands, or promote economic development. The construction of local water and sewer systems is specifically noted as an example of the latter type project. Funds may also be used for monitoring mineral industry related health problems and investigating other matters the board deems appropriate. The fund is in two equal sections: the Environmental Protection Fund and the Economic Development Fund. Revenue in the Economic Development Fund cannot be used until 2002. Revenue available to the entire fund will amount to slightly more than 20 cents per ton of taconite produced.

The board can only suggest projects to use these funds, however. Unlike its regular funds, over which the commissioner has complete control, projects drawing on the Environmental Protection and Economic Development Fund must be approved by the Governor and the Legislative Advisory Committee.

Finally, the IRRRB also administers a special fund for Carlton and Koochiching counties. The 1975 Legislature dedicated 1 cent of the taconite production tax to these two counties. Special funding was provided because these counties were the only ones in State Development Region 3, the region covering northeastern Minnesota, with municipalities not receiving taconite aid. Eligible applicants include local units of government such as cities, counties, and townships. Counties split the funds equally and use them only for environmental improvement projects. Each county screens all applicants before presenting them to the IRRRB.

*The advisory board, established in 1943, originally had seven members. The 1977 Minnesota State Legislature expanded it to 11 (Ch. 423, Minn. Laws 1977). Those serving on the board are the Commissioner of the Department of Natural Resources, five state senators appointed by the Senate Committee on Committees, and five state representatives appointed by the Speaker of the House. The senators and representatives are appointed for 2 years. There are no statutory geographical restrictions on appointment to the board, nor are there any requirements that any special areas of expertise be represented among the board's members.

THE EVOLUTION OF THE IRRRB

During the past 36 years the economy of the Iron Range has undergone several major changes. Iron ore demand increased sharply during World War II and Korea, but slumps followed. The local economy mirrored the boom or bust cycle of the iron mining industry. Then in the sixties the taconite industry emerged and began to grow. At the same time increased tourism benefited the region's economy.

Each change had a distinct impact on the region's economy and indirectly on the IRRRB. After each major change the board successfully changed program emphasis in response to the region's needs. Three separate eras in the IRRRB's history where program emphasis differed significantly are discussed in this report.

The Early Years

Initially, the IRRRB organized its activities around four major programs: agriculture, mining, forestry, and vocational training. Since the agency's goal was to increase economic stability in the region, it began by trying to keep existing resource based industries in the region alive. While diversification was considered important, World War II's demands removed any immediate need to attract other types of industry.

Until the middle fifties the board believed it obtained the greatest return on money spent for research. Large sums went for research on forestry, taconite, and peat development.

Almost no funds went directly to industrial development loans. But some projects began as research projects and later became loans as the project became economically viable. Superwood Corp. (formerly called Superior Wood Products) of Duluth which started as an experimental plant in 1948 to produce hardboard from aspen pulpwood is an example. IRRRB invested $367,500 to purchase buildings and equipment. The process proved economically feasible and by 1960 the state had received lease rental payments covering the IRRRB's total investment. Now this firm provides both employment and a new market for Minnesota's abundant supply of aspen pulpwood. Other wood processing plants also started as research projects and became successful industries.

The iron powder plant at Aurora, an attempt to transform low grade ore into iron powder using a process developed at the University of Minnesota, is an example of a project which did not become commercially feasible. IRRRB spent $783,763 on the project over 5 years, then sold the plant in 1951 to the highest bidder for $114,101.

Those IRRRB loans which did not begin as research grants tended to be large during this period. For example, Chun King Sales Inc., Duluth, received $199,983 and the Arrowhead Canning Co., Grand Rapids, received loans totaling $209,765.

Surveys of the type, location, and amount of timber available were conducted in 16 counties in northeastern Minnesota during this time. In addition to providing information necessary for forest management, the inventories helped attract new forest product industries to the area.

Mining research funds from the IRRRB went to the University of Minnesota School of Mines. The process used in mining and concentrating taconite was developed there, and IRRRB funds assisted its development. Other experimental mining processes also were funded and studied.

Northern Minnesota also contains one of the nation's largest supplies of peat. Since 1941 the IRRRB has spent more than $1.5 million studying peat's potential. The agency has mapped peat deposits and funded experimental projects to develop peat's use in horticulture, agriculture, water filtration, and energy production.

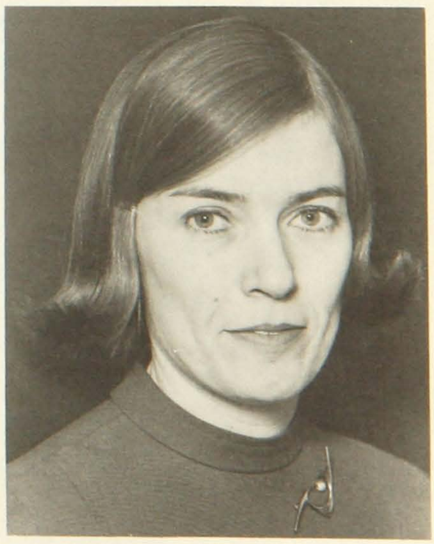
The agency also devoted funds to vocational training and rehabilitation projects during its early years. However, uncertainty about the size of the IRRRB's future budget led the board to finance expansions of the existing program on a project by project basis rather than establish a new vocational school. Projects funded helped train women for positions in the mines as well as in other businesses, including positions that had been held by men prior to the war. The schools also trained area residents to operate power equipment used in local garment factories built during the forties.

Finally, in cooperation with the U.S. Geological Survey, funds were devoted to the topographic mapping and water surveys necessary to plan for development.

The early years were also characterized by large legislatively mandated transfers of funds from the IRRRB's budget to other agencies or projects. In effect, the legislature took some decision-making power from the board by mandating money be spent on specific projects. The transfers were not great during the early forties, but they increased to 42 percent of the budget by 1950-51, and remained high throughout the fifties. In 1951-52 and 1952-53, 63 percent of the budget was used up by legislative transfers. The dollar value of transfers peaked in 1957-58 at more than $750,000. Forestry and mining research, funded through the University of Minnesota and the Department of Conservation's Divisions of Forestry, and Land and Minerals, benefited most from the transfers.

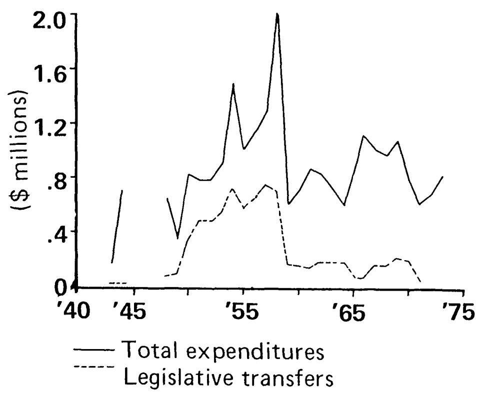
The Declining Years

As natural ore production declined in the late fifties, the



Karen A. Vogl

Figure 2. Total expenditures, IRRRB 1943-1974



board's strategy shifted. New industry became its objective and funding emphasis shifted from research to loans for new or expanding businesses. Many loans were high risk and some were not repaid. The board began by making loans directly to businessmen, but later, to reduce potential losses from default, loans were made using a lease purchase agreement, with the board retaining title until the loan was retired.

From 1959 to 1970 nearly $900,000 in business development and expansion loans were made, most for amounts between $1,000 and $55,000. Six loans were in excess of $55,000, including: $62,758 to Deep River Wood Processing Plant, $72,979 to Minnesota P&O Mfg. Co., $89,557 to Mesabi Drill and Tool Co., $70,207 to Onamia Garment, Inc., $68,492 to Rajala Timber Co., and $74,869 to Malton Electric. In contrast with earlier loans which tended to be large and go to firms in forestry or mining, loans during this period were somewhat smaller to attract firms producing established products.

In addition to providing a source of funds for firms unable to obtain financing through traditional sources, the board's loans were also interest free. It was not until the early seventies that IRRRB started charging interest. The rate, which ranged to 5½ percent, and the repayment schedule were left to the commissioner's discretion.

While industrial loans received most attention, other programs continued (table 1). Forest surveys, county land management, forest industry promotion and timber market development, and applied forest management research were also IRRRB projects. Water survey work, topographic mapping and peat research continued to receive support. A section corner post relocation project was undertaken during this period to correct, improve and update the markers used in identifying land parcels. Lack of markers was a particular problem on public owned land.

Recent Years

Since taconite development began, the IRRRB has focused its attention on tourism and human resources. A business loan program is not needed now because the area has a shortage of workers rather than a shortage of jobs. The Economic Development Agency (EDA) of the U.S. Department of Commerce, and the Upper Great Lakes Regional Commission have also taken over some activities the board once supported. EDA has a business loan program, and while there is no written policy, the board has been out of the loan business for several years.

Tourism is the board's new area of emphasis with 44 percent of the budget currently allocated to tourist related projects. As recently as 1971-72 only token amounts went to this area.

Most funds devoted to this activity have been grants to the Iron Range Interpretative Program. Recipients include the major Iron Range Interpretative Center at Chisholm as well as smaller centers throughout the region. The centers are museums designed to provide visitors with insights into the Iron Range's geology, natural history, history, and culture.

In 1976, $713,915 was spent on tourism: 82 percent of it going to construct and operate the Iron Range Interpretative Center at Chisholm. Additional grants totaling $126,374 were awarded to help fund 11 projects promoting tourism. The grants, which ranged from $582 to $25,000 were used for the development of rest areas, information centers, and interpretative sites. Several required matching funds.

The board's other major activity has been the development of programs to aid the handicapped, elderly, and mentally retarded. In 1976, rehabilitation grants totaling $157,000 were made. A $50,000 grant went for a study of post-secondary educational needs in northeastern Minnesota.

Table 1. Expenditures by major functional area: Minnesota IRRRB, selected years

Functional area	1949-1950	1960-1961	1975-1976
Administration	$ 34,317	$ 80,836	$ 239,040
Agriculture and food processing	12,027	2,614	
Forestry	121,314	280,353[1]	283,434
Peat research	14,983	10,000	51,622[2]
Vocational training and human resource rehabilitation	6,059	3,857	157,500
Mining and resource inventory	171,179	310,799	
Economic development		181,278	52,494
Tourism			753,212
Other		7,799	83,708[3]
	$359,879	$877,536	$1,621,010

1. Includes $57,000 for the Hardboard Project, Duluth, a research project started in 1947 to convert waste aspen into a commercial hardboard. It eventually became a successful wood processing industry.
2. Includes salaries, supplies, and expenses for administration of junk car removal, land ownership map preparation, peat research, building demolition, and trails.
3. Other — $72,392 for expenses connected with building demolition and $11,314 for research and beautification projects.

Table 2. Employment by major functional area: Minnesota IRRRB, selected years

Functional area	1949-1950	1960-1961	1975-1976
		Number of workers	
Administration	5	6	9.5
Forestry	24	29	14
Agriculture	2	5	
Peat and mineral research	[1]	14	[2]
Field operations		80[3]	46[4]
Tourism			5.5
Research and beautification			10
Economic improvement and development			1

1. There were temporary employees for a Peat for Heat project.
2. Peat research was included under Research and Beautification.
3. All were emergency and part-time seasonal employees.
4. All were temporary laborers and temporary youth laborers.

Despite these two new activities, other programs still retain funding (table 2). Forestry is still important, receiving more than $250,000. The board also finances building demolition, junk car removal, and restoration and beautification programs.

36 YEARS' EXPERIENCE: WHAT HAVE WE LEARNED?

When a region has, or is expected to have, severe economic problems, there is a great temptation for legislators to establish a new agency focused specifically on the region and its problems. That agency will draw attention to the issue. And, it can be cited as an example of efforts to solve the problem, even if it may not be effective.

This section presents guidelines on the organization of a regionally oriented agency. While it is based on interviews with present and former board members and commissioners, it is not intended to be an evaluation of the IRRRB. Instead, the objective is to make information about the agency's experience available to those in other states considering establishment of a similar agency.

New Agency or Expansion of Existing Programs?

If the legislature decides to act it has three alternatives: establish a new statewide agency, establish a new agency with a regional focus, or expand existing programs in one or more established agencies.

If the problems are not peculiar to a particular region of the state, there is little likelihood that a regional agency will be created. Most legislators will not allow their district to be excluded from new programs if there is any possibility that they can benefit from them. Vocational training and aid for the handicapped are examples of programs with statewide coverage. Even the promotion of tourism, which may have a strong regional component, usually is coordinated at the state level. Normally, statewide support for the promotion of tourism in a single region is not attainable.

Even when the problem has distinct geographic limits, often because of conditions in a resource based industry, the question of whether a new agency should be created remains. Often the decision between a new agency and expansion of existing programs will be based on the preferences of the state's leaders. However, arguments for both courses of action can be made.

Those favoring establishment of a new agency usually stress three advantages: greater organizational flexibility, a chance to consolidate existing programs from other agencies and focus them on the problem, and high visibility for attempts to deal with the problems. Other reasons sometimes given for a separate regional agency are that such an agency is more likely to be in tune with the specific needs of the area, and that existing agencies have goals which may not be completely compatible with effective action toward eliminating the region's problems.

Arguments for using existing agencies are usually based on the similarity of interests between the agency and the region, and on the existing agency's expertise. Often programs proposed for a new agency duplicate or closely parallel those of existing agencies creating potential disputes over responsibilities and boundaries. Establishing many small agencies also restricts the Governor's flexibility to re-allocate resources and personnel in line with his priorities. Finally, it is easier to phase out a program within a department when it has served its purpose than it is to abolish an established agency. In general, expansion of an existing agency's programs will probably be the preferred choice.

Specific or General Enabling Legislation?

If the decision to establish a new regional agency is made, the organizational structure and financing must be specified. One of the first and most important questions facing decisionmakers is how specific to make the legislation authorizing the agency.

The IRRRB was given a very general authorization by the legislature. Without it, the board would not have been able to adjust to the changing needs of the area without returning to the legislature for additional statutory authority. The legislation also allowed for the number of counties included in the board's program to vary. As a result, the agency has had more freedom than usual in dealing with problems on the boundary of the area and in allocating funds among counties.

Some interviewed felt that the legislation should have been more specific. They suggest that the board has had too much freedom to change its programs and that the lack of specific directions in the statutes permitted, and possibly even encouraged, the board to expand its activities beyond those originally intended. Some argued that the legislature would not approve a special agency to serve the area as it exists today. By not being more specific, the legislature created an agency with the potential to remain active after its basic task was fulfilled.

The problem of public agencies outliving their usefulness or changing their program emphasis in order to attack more immediately relevant problems is not limited to agencies dealing with regional issues, however. Agencies providing other services behave similarly. Most quickly develop a clientele and a life of their own, and in the absence of "sunset legislation," which gives new programs an ending date, it is not likely that an agency will be abolished.

Unless periodic review of the agency and its goals is written into the legislation, such as that provided for North Dakota's Coal Impact Office (established for only a 2-year period), it appears a general authorization is best. With a set of general guidelines, the agency has the freedom to move within limits to meet the changing needs of the area it is designed to serve. Lacking that flexibility, the agency can quickly become obsolete and useless to the people.

Earmarked or Appropriated Revenues?

Through 1972, funds available to the IRRRB depended directly on the amount of natural ore mined. More recently revenue has been based on the level of taconite production, too. No provisions exist for averaging revenues over bad years and good years, nor are there any explicit provisions allowing funds to carry over from one biennium to another. The result of this type of funding has been that during periods of economic decline, when the need for job development and retraining was the greatest, agency revenues were the lowest.

In general this form of funding, called earmarking, is not considered to be a good practice. While it has the advantage of tieing the proposed program directly to a revenue source, often one derived from the industry or activity that created the need for the service, it interferes with the decisionmaking process. It forces a specific amount of money to be spent on a particular activity whether or not it is in the public's interest. When revenues exceed actual program needs, the agency will fund projects with benefits less than those obtained by other agencies' projects. When revenues are low, the opposite happens with high benefit agency projects going unfunded. As a practical matter, earmarking reduces the Governor's flexibility to allocate funds for statewide needs. It also makes it harder for agency heads to plan for the future when revenues are tied to a fluctuating tax base.

Most important for agencies dealing with problems caused by resource extraction, however, is that earmarked revenues do not peak at the same time as the region's needs. In the Iron Range when employment in the natural ore mines declined, the revenues dedicated to dealing with the problems of unemployment declined, too. For agencies dealing with fiscal impacts of coal development the construction period usually creates the biggest impact, and yet no special tax revenues are being generated at that time. Typically, revenues from the special mineral taxes do not reach any appreciable size until after full scale production begins, leaving the agency with no funds to assist the community during the development period.

While it is both popular and politically acceptable to tie the funding for a program to the revenue generated by a special tax on the affected industry, this is not an efficient way to determine the funds needed by the agency. Financing a regional agency through the state general fund and the normal appropriations process appears to be more desirable.

Funding or Program Agency?

Regional problems can be dealt with in two ways. An agency can fund work to be done by others, or it can provide services and information using its own staff. Often the type of problems facing the agency determines its structure. If proposed projects require a wide range of special information and skills, or if the main purpose of the agency is to be a clearinghouse for aid requests, the agency usually will just process requests for funds. But, if the agency also has responsibility for projects requiring less specialized personnel, or projects which are constantly recurring, it may choose to provide the service itself. The IRRRB's forest management and interpretative center programs are examples.

Agencies which assume operating responsibility for programs risk being accused of duplicating the work of an existing agency or creating unfair competition for local businesses. Enabling legislation must be carefully drawn to avoid these charges.

Advisory Board or Autonomous Department Head?

If the new agency is funded through traditional channels rather than through earmarked revenues, it may not need a special advisory board. The appropriations committees of the state legislature will provide supervision and, in effect, serve as its advisory board. Creation of a special board only creates an additional level of authority further complicating decisionmaking.

However, if the agency is financed through "earmarked" revenues, outside the regular appropriation process, an advisory board with considerable authority appears essential. Such a board can supervise the agency and serve as a check on its powers. Without such a board the agency may develop a life of its own and be responsible to no one in state government.

If an advisory board exists, many argue that some guidelines for qualifications, party affiliation, and regional representation should be included in its authorization. Each of these issues will be considered here.

The qualifications issue is the most difficult. Since the board may oversee programs providing specific services there is reason to expect that some board members have a background in that service, but how much is difficult to determine. Is familiarity with the region and its problems enough? Or is there a need for special experience in education, planning, vocational training or business finance? Each state and agency will have to decide how much expertise is needed to implement their program; there are no general rules. It appears, however, that the more specialized an agency is, the greater the need for board member experience in its area of specialization.

Another question arises: should the advisory board be composed entirely of legislators, or should it include private citizens? Those favoring citizen representation argue that it reduces the potential for partisan political activity in the decisionmaking process. Others argue that the increasing time required by legislative duties does not leave state legislators time to effectively carry out the duties of advisory board members. Nonpolitical representation might also be more in tune with the needs of the entire region rather than the needs of a single legislative district.

Those favoring restricting board membership to legislators rely heavily on the argument that citizens lack the political power needed to bring the agency into line or support it against attack. Concern was also expressed that citizen members of a mixed board might become second class members due to a lack of a political power base.

Those interviewed expressed strong support for representation from outside the region on any advisory board. It was felt that the board needs the influence of members who do not have pressure from constituents to fund a given project. While there was no agreement about how many should be from outside the affected area, usually two or three legislative members were suggested.

For Minnesota's IRRRB all but the commissioner of the Department of Natural Resources are presently from the Iron Range. This, however, is a reflection of state politics. Since five board members were appointed by the Senate Committee on Committees and five are appointed by the Speaker of the House, the board's composition reflects the party in power in each of the houses. Prior to 1973, the Republican Party always controlled the senate and often controlled the house as well. Since the Iron Range area is dominated politically by the Democratic Farmer Labor Party, few if any Iron Range legislators were available for appointment by Republicans. As a result board members were appointed from outside the area in the past.

Formal Guidelines or Informal Priorities?

All agencies have decisionmaking rules which help them screen possible projects and decide which activities to fund. In some agencies formal written guidelines exist, in others there is an unwritten set of rules. Those favoring written guidelines argue that they are needed to provide for continuity in the agency. Without them, changes in board composition or replacement of the commissioner may produce major changes in the types of projects approved and the agency's activities may appear erratic. Generally, most interviewed favored written policies with only a few contending that a strong commissioner does not need guidelines to follow.

The IRRRB's authorization contains no formal restrictions on the agency's spending. Nor has the board ever formally defined any broad program priorities. In 1974, however, formal guidelines spelling out conditions for individual projects to be eligible for funding were established. In general priorities have been allowed to vary depending on the interests of the board and current needs. Each project has been considered on its individual merit and projects funded "until the money runs out." No one claimed this was an efficient practice or one that other states should follow. It is just "the way things have always been done."

Fixed or Indefinite Life?

When an agency is established it is impossible to know how long it will be needed; provisions need to be made for periodic evaluation of the need for all agencies, especially those specifically oriented toward regional problems. The problems and needs of an area can change rapidly, and agencies can quickly become outdated and useless. Minnesota and other states are considering enacting "sunset" (cutoff) legislation to provide for a formal review for all governmental agencies, but without such a statewide program, special requirements for review and reauthorization should be included in the legislation establishing any regional agency.

CONCLUSION

Special agencies charged with reducing the impact of economic changes on a region offer a possibility for dealing more effectively with these problems. Because they exist only to help the region, all their efforts can be concentrated on the area's problems. These agencies may have problems in both organization and funding, however. States considering establishing such agencies need to pay special attention to providing funding through the regular appropriations process rather than through earmarked revenues, and providing for periodic re-evaluation.

Jerome W. Hammond . . . . . . Editor

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