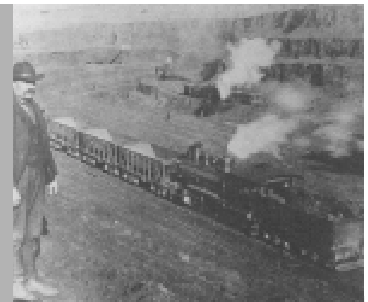
MINNESOTA

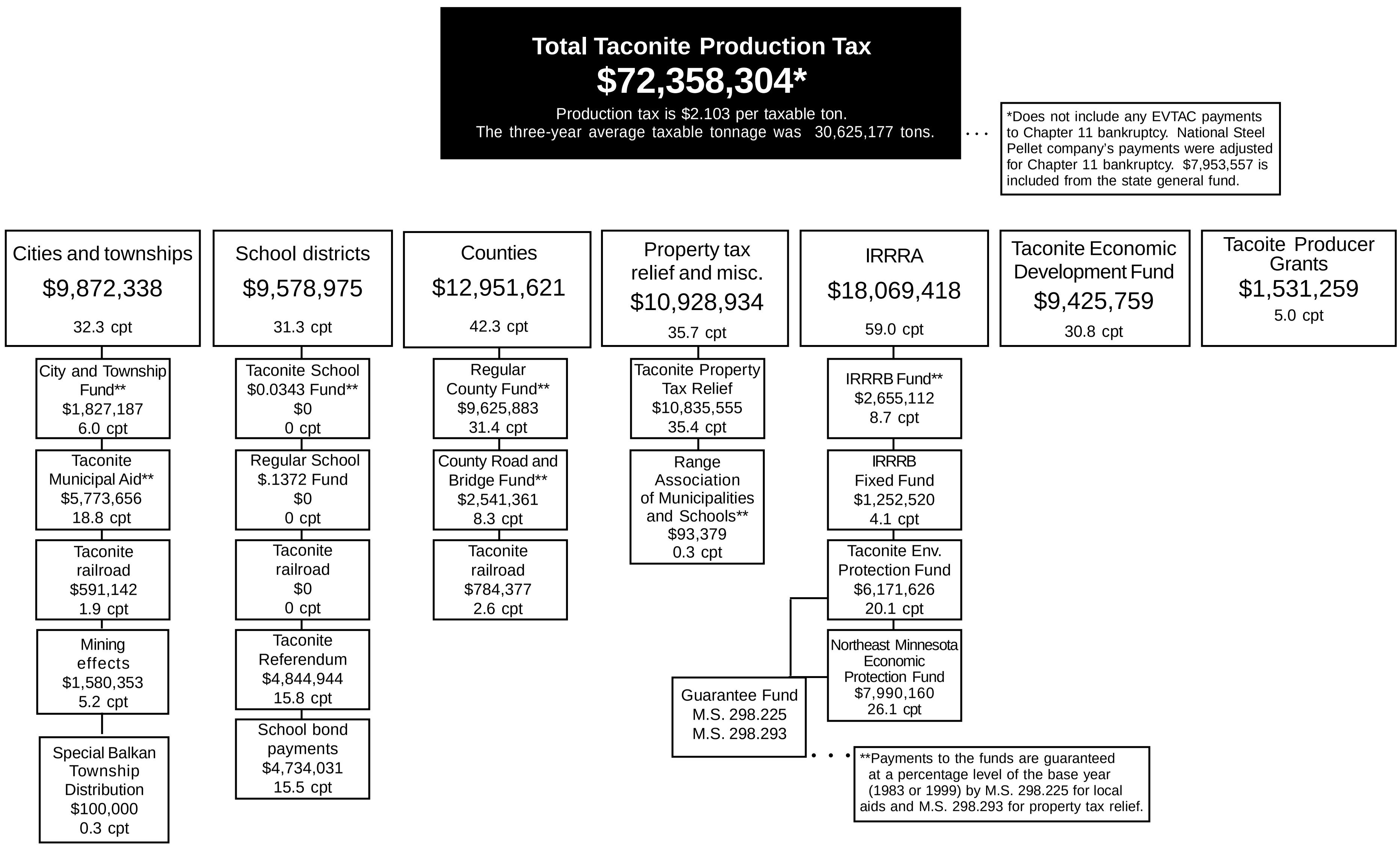
Mining Tax Guide




September 2003

2003 Distribution of Taconite Production Tax

2002 Production Year



cpt = cents per taxable ton

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Introduction

The *Minnesota Mining Tax Guide* is published to identify all Minnesota mining-related taxes paid by the mining industry. This book strives to simplify the complicated tax statutes using language that is easy to understand through non-technical narratives, tables, graphs and flowcharts.

Taconite Production Tax

The taconite production tax is the largest tax paid by the iron mining industry. It is a major source of revenue to the counties, municipalities and school districts within the taconite relief area.

The production tax distributed in 2003 is the tax due for the 2002 production year. The taconite production tax rate for concentrates and pellets produced in 2002 was $2.103 per taxable ton. The taxable tonnage for 2002 is the average tonnage produced in 2000, 2001 and 2002.

The inside of the front cover illustrates where the production tax is distributed. It shows both the cents per ton (cpt) distribution and the total amount distributed to various funds. The cost per ton production tax distribution table was eliminated. The funds to which the production tax are distributed are explained on pages 7 through 10, *Distribution of Funds.*

State Taxes

Other major taxes paid by the mining industry are the occupation tax, similar to an income tax, pages 29 - 37, and sales and use tax, pages 41- 43. These taxes are deposited in the State General Fund.

County Taxes

Other taconite and iron ore ad valorem (property) taxes are paid directly to the counties, pages 47 - 53. These are property taxes assessed on taconite railroads, unmined taconite ore, auxiliary mining lands, unmined natural ore and severed mineral interests.

Taxes on Other Minerals

Taxes on minerals other than taconite or iron, such as gold, silver, copper, nickel, lead and other nonferrous minerals are explained on pages 54 - 56.

Aggregate Material Tax

Aggregate material production tax is explained on pages 45 and 46. Information about collections is provided by counties.

Aggregate Material Sales/Use Tax

An explanation of sales and use tax on aggregate material is found on page 44.

Iron Ore Production Comparison

Figure 1

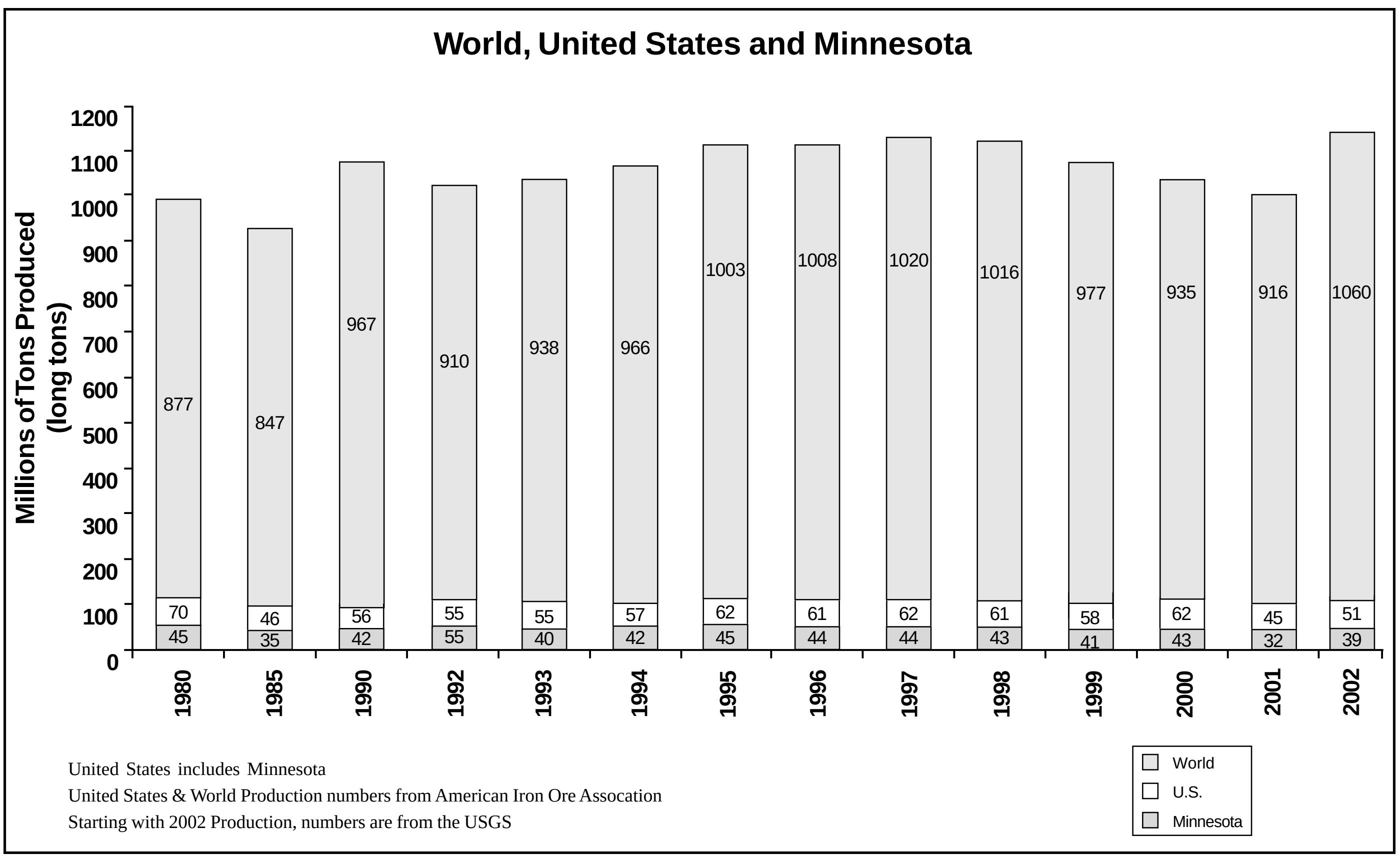
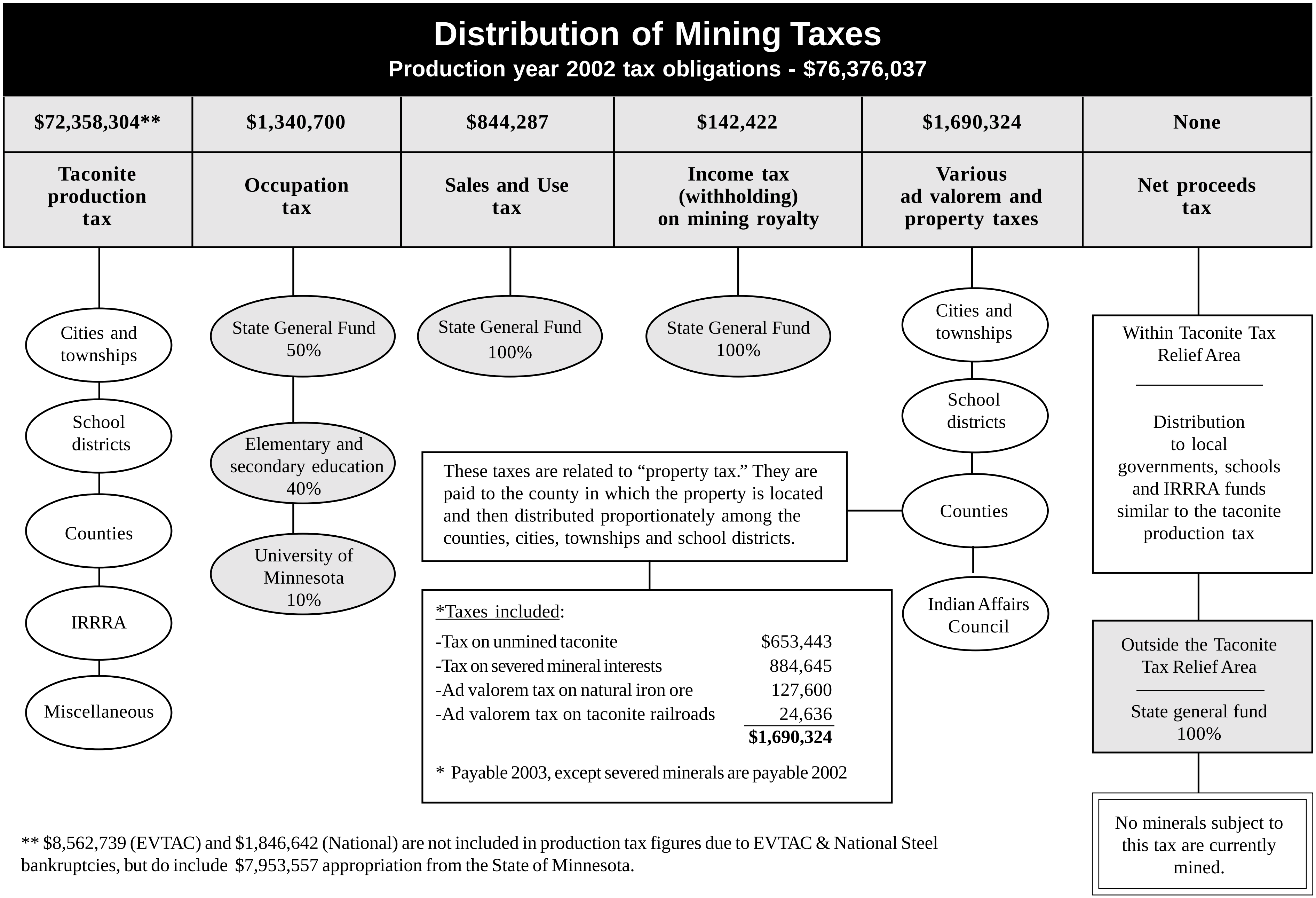


Figure 2



** $8,562,739 (EVTAC) and $1,846,642 (National) are not included in production tax figures due to EVTAC & National Steel bankruptcies, but do include $7,953,557 appropriation from the State of Minnesota.

Figure 3

History of Minnesota Taconite Production

(Taconite production tax report tonnages)

Year	Butler	Eveleth	Hibbing	Ispat	LTV	National	Northshore	USX	Total
1950	–	–	–	–	129,666	–	–	–	129,666
1951	–	–	–	–	99,977	–	–	–	99,977
1952	–	–	–	–	101,325	–	13,071	–	114,396
1953	–	–	–	–	228,499	–	257,435	133,504	619,438
1954	–	–	–	–	180,669	–	316,628	413,059	910,356
1955	–	–	–	–	195,979	–	521,200	623,491	1,340,670
1956	–	–	–	–	211,698	–	4,238,729	618,452	5,068,879
1957	–	–	–	–	487,303	–	5,558,262	766,739	6,812,304
1958	–	–	–	–	2,953,993	–	4,837,258	747,033	8,538,284
1959	–	–	–	–	4,109,000	–	3,763,189	542,106	8,414,295
1960	–	–	–	–	7,144,214	–	5,446,342	799,365	13,389,921
1961	–	–	–	–	6,772,654	–	5,652,522	761,913	13,187,089
1962	–	–	–	–	7,593,349	–	6,153,812	771,890	14,519,051
1963	–	–	–	–	7,852,473	–	8,044,362	798,405	16,695,240
1964	303	–	–	–	8,009,243	–	9,667,975	827,713	18,505,234
1965	10,700	52,826	–	–	8,039,657	–	10,023,520	877,459	19,004,162
1966	70	1,536,370	–	–	8,551,944	–	10,829,799	758,544	21,676,727
1967	1,617,409	1,738,068	–	–	9,900,479	470,918	9,695,533	888,950	24,311,357
1968	2,334,752	1,800,124	–	–	10,718,707	839,663	10,002,064	4,573,743	30,269,053
1969	2,599,906	1,916,899	–	–	10,198,586	2,285,744	10,352,579	6,056,598	33,410,312
1970	2,637,655	1,986,000	–	–	10,743,031	2,728,932	10,825,617	6,426,609	35,347,844
1971	2,647,930	2,055,131	–	–	10,192,628	2,813,242	9,628,920	6,439,695	33,777,546
1972	2,302,971	2,141,233	–	–	9,972,068	2,420,056	9,042,632	8,674,583	34,553,543
1973	2,563,093	2,065,042	–	–	11,657,631	2,578,023	10,424,648	12,540,908	41,829,345
1974	2,523,518	2,171,678	–	–	10,897,352	2,476,793	10,367,742	12,616,204	41,053,287
1975	2,437,411	2,164,677	–	–	10,884,511	2,433,579	10,695,052	12,193,687	40,808,917
1976	2,393,347	2,291,714	303,419	–	10,778,287	2,461,083	10,052,204	12,294,537	40,574,591
1977	1,686,590	2,572,909	2,150,170	232,457	4,646,451	2,621,627	5,033,248	7,428,136	26,371,588
1978	2,507,633	4,924,732	5,408,928	1,925,378	7,424,801	5,096,348	9,154,801	12,927,230	49,369,851
1979	2,552,255	5,604,688	6,250,348	2,238,443	8,820,258	5,367,815	7,033,658	16,492,186	54,359,651
1980	1,575,454	5,778,256	6,800,202	1,407,598	5,679,043	2,896,456	4,582,997	14,147,065	42,867,071
1981	2,194,960	5,879,859	7,125,897	2,385,967	7,943,641	3,424,392	7,643,807	12,381,951	48,980,474
1982	1,040,799	4,611,260	5,703,410	1,792,702	3,963,897	1,291,211	1,520,113	3,307,025	23,230,417
1983	1,556,523	3,265,821	4,205,470	2,136,155	2,045,065	3,270,837	985,318	7,708,073	25,173,262
1984	1,989,952	3,932,117	6,075,049	2,032,164	4,696,117	4,584,782	3,666,288	8,712,123	35,688,592
1985	952,476	2,943,613	5,059,291	1,821,941	4,862,497	4,428,662	3,282,389	9,913,832	33,264,701
1986	Closed	3,455,690	4,881,987	1,807,451	4,232,962	4,021,372	1,433,898	5,617,695	25,451,055
1987	–	3,481,280	7,685,375	2,118,660	6,774,330	4,314,534	Closed	7,668,870	32,043,049
1988	–	4,238,636	8,653,270	2,247,840	7,888,582	4,607,944	–	11,848,960	39,485,232
1989	–	4,910,384	8,186,626	2,269,177	7,372,667	4,745,024	–	11,846,319	39,330,197
1990	–	4,417,255	8,136,923	2,265,876	7,798,292	4,809,930	2,384,061	12,709,299	42,521,636
1991	–	3,374,068	8,016,302	2,337,141	6,887,320	4,850,261	1,986,223	12,470,635	39,921,950
1992	–	3,571,784	7,801,946	2,109,743	6,622,640	4,997,512	1,394,451	12,351,795	38,849,871
1993	–	3,124,040	7,244,015	2,403,766	7,403,623	2,758,923	3,406,029	13,509,891	39,850,287
1994	–	4,862,373	8,192,141	2,511,292	7,470,635	1,732,469	3,434,979	13,473,020	41,676,909
1995	–	5,141,072	8,386,431	2,560,350	7,440,366	5,026,048	3,658,130	12,788,787	45,001,184
1996	–	4,842,571	7,910,004	2,530,053	7,182,697	4,775,999	4,071,680	12,560,634	43,873,638
1997	–	4,964,481	7,479,612	2,388,631	7,168,585	5,108,503	4,059,463	13,646,373	44,815,648
1998	–	4,773,026	7,608,548	2,550,795	6,657,167	5,260,207	4,182,872	13,291,377	44,323,992
1999	–	4,342,770	6,623,571	2,658,663	6,593,497	5,225,632	3,678,803	12,169,971	41,292,907
2000	-	3,850,443	8,008,869	2,698,927	7,305,807	5,459,565	4,075,170	13,561,035	44,959,816
2001	-	4,159,792	5,891,288	2,629,420	69,209	4,371,589	2,648,289	11,858,907	31,628,494
2002	-	4,204,799	7,408,541	2,661,129	0	5,463,637	3,979,283	13,794,178	37,511,567
Totals	40,125,707	133,147,481	177,197,633	56,721,719	323,555,072	132,019,312	263,707,045	390,330,554	1,516,804,523

Numbers after 1986 do not include flux.
Beginning with 1990, all weights are dry.

Figure 4

Minnesota Taxes Levied on Taconite

Production year(s)	Unmined taconite tax	Use tax (net)[1]	Production tax	Occupation tax	Royalty tax	School bonds	Railroad gross earnings tax	Total taxes	Total tons produced[2]	Total taxes per ton
1914-50	–	–	$4,536	–	$3,345	–	–	$7,881	N/A	N/A
1951-55	–	–	178,523	–	57,671	$122,625	$11,083	369,902	N/A	N/A
1956-60	–	–	2,457,832	$1,046,907	1,730,615	6,410,394	2,570,566	14,216,314	42,259,000	$.34
1961-65	–	–	4,884,757	6,830,282	1,926,246	8,372,662	5,843,668	27,857,615	81,923,000	.34
1966-70	$64,000	–	12,558,526	10,726,680	3,519,487	7,518,661	7,982,248	42,369,602	145,015,000	.29
1971-75	64,000	$7,214,111	65,013,384	44,909,601	9,262,076	3,841,750	12,321,573	142,626,495	192,013,000	.74
1976-80	471,966	45,967,313	324,497,931	78,350,978	18,142,273	852,437	14,733,733	483,016,631	214,883,632	2.25
1981-85	1,573,792	36,976,524	376,270,806	63,263,212	20,447,300	2,740,712	10,904,721	512,177,067	166,940,177	3.07
1986	384,697	4,890,472	48,657,782	6,233,533	2,436,402	699,422	1,670,756	64,973,064	25,451,055	2.55
1987	392,614	5,286,947	51,184,126	5,355,872	1,959,251	673,000	1,404,961	66,256,771	32,043,049	2.07
1988	365,244	8,351,535	57,402,070	2,993,234	2,540,422	720,208	1,397,211	73,769,924	39,485,232	1.87
1989	355,065	10,899,500	72,149,188	349,691	2,645,527	862,122	**	87,474,315	39,330,197	2.22
1990	352,935	13,022,869	78,929,646	2,057,281	*	980,368	266,879	95,609,978	42,521,636	2.25
1991	349,551	11,385,280	82,411,317	2,007,906	*	994,841	263,692	97,412,587	39,921,950	2.44
1992	355,596	11,255,028	82,035,382	1,551,335	*	1,010,205	139,193	96,346,739	38,849,871	2.48
1993	352,119	11,683,161	80,195,972	1,708,731	*	1,020,631	143,079	95,103,693	39,850,287	2.39
1994	488,176	13,136,780	81,500,355	2,301,596	*	917,810	140,841	98,485,558	41,676,909	2.36
1995	467,946	14,494,154	85,704,654	3,158,565	*	925,112	233,034	104,983,465	45,001,184	2.33
1996	455,792	11,980,487	90,512,836	2,460,000	*	612,273	123,682	106,145,070	43,873,638	2.42
1997	444,630	11,920,451	94,704,666	2,508,206	*	705,767	122,694	110,406,414	44,815,648	2.46
1998	402,543	8,186,527	94,268,103	2,121,421	*	659,039	121,413	105,759,046	44,323,992	2.39
1999	401,764	4,412,174	93,063,942	2,225,000	*	0	116,326	100,219,206	41,292,907	2.43
2000	397,428	6,131,394	79,773,313	2,183,000	*	0	108,262	88,593,397	44,959,816	1.97
2001	316,140	(1,652,702)	72,842,808	56,153	*	0	71,861	71,634,260	31,628,494	2.26
2002	653,443	844,287	74,814,128	1,340,700	*	0	24,636	77,677,194	37,511,567	2.07

Taxes often levied (assessed) for one year and paid in the following year

* Repealed effective after December 31, 1989.
** Repealed effective after December 31, 1988. Beginning with payable 1990, taconite railroads were taxed on an ad valorem basis.

1. Total use tax less total refunds paid after 1990, see *Figure 36*, page 42.
2. Tons are without flux additive beginning in 1987. Beginning in 1990, production tons are reported dry.

Taconite Production Tax

(Minnesota Statutes 298.24 and 298.28)

General Information

Definition

The taconite production tax is a severance tax paid on concentrates or pellets produced by the taconite companies. It is paid in lieu of ad valorem (property) taxes on taconite and lands containing taconite. Land and structures used in the production of taconite are also excluded from property tax, with some exceptions (see pages 47 and 48). Electric power plants principally devoted to the generation of power for taconite mining and concentrating are considered to be used in the production of taconite (or direct reduced ore) and are covered by the *in lieu exemption* for property taxes. If part of the power is used for other purposes, that proportion of the power plant is subject to the general property tax. The power plant must be owned by a company subject to production tax to qualify for the exemptions.

Tax Rate

The taconite production tax rate for any given year is determined by multiplying the prior year's rate by the percentage change in the Gross Domestic Product Implicit Price Deflator (GDPIPD) from the fourth quarter of the second preceding year to the fourth quarter of the preceding year. The U.S. Department of Commerce publishes the GDPIPD monthly in Survey of Current Business. This escalator takes effect each year unless the rate is frozen or changed by the Legislature. The tax rate was set at $2.103 by the 2001 legislature and frozen through the 2003 production year. The escalator is scheduled to take effect again for concentrates produced in 2004.

Taxable Tons

The production tax is levied on taxable tons, which are the average tons produced during the current year and the previous two production years. This eliminates the peaks and valleys of tax payments by the taconite producers and distribution to the tax recipients. The result is a more stable tax base resembling a property tax.

Distribution

Under Minnesota law, production tax revenues are distributed to various cities, townships, counties and school districts within the Taconite Assistance Area. This is an area comprising the present taconite mining areas plus areas where natural ore was formerly mined.

Funds are also allocated to the Iron Range Resources and Rehabilitation Agency (IRRRA), which administers the Taconite Environmental Protection Fund, the Northeast Minnesota Economic Fund, the Taconite Economic Development Fund (sometimes referred to as the Investment Tax Credit), the Taconite Assistance Program and other loan and grant programs for both the range cities and townships and the taconite industry. More information about the IRRRA can be found on pages 24 - 28.

Payment Dates and Method

In past years the taconite production tax has been due and payable by electronic fund transfer on February 24 each year. If the 24th falls on a weekend or holiday, the payment date is the next regular work day. Beginning with taxes payable in 2003, the payments will be due 50% on February 24th and 50% due on August 25th. The Department of Revenue must notify each taconite producer of its tax obligation by February 15th.

Each taconite producer must make payments to six counties and the IRRRA on or before the due date. Payments are made to Aitkin, Cook, Crow Wing, Itasca, Lake and St. Louis Counties, and to the IRRRA. The county auditors then make payments to cities, townships and school districts.

Producer Grants (M.S. 298.2961)

The producer grant program was not renewed by the 2003 legislation and will sunset after the 2003 distribution. (2002 production year)

Taconite Economic Development Fund (M.S. 298.227)

The Taconite Economic Development Fund (TEDF) was first created for production years 1992 and 1993 at a rate of 10.4 cents per taxable ton (cpt).

No distribution is made under the TEDF or the Producer Grant Program in any year in which total industry production falls below 30 million tons. (Note: The 30 million ton minimum was suspended for the 2002 production year only). Any portion of the TEDF fund not released within two years of deposit is divided two-thirds to the Environmental Protection Fund and one-third to the Northeast Minnesota Economic Protection Trust Fund. To date, all funds have been approved and released to the taconite producers before the two-year deadline expired. The 2001 Legislature made the TEDF permanent at 30.1 cents per ton for distributions in 2002 and thereafter.

Each producer has two potential sources of T.E.D.F. money:

1. <u>Acid or flux pellets</u> — The production tax amount credited to each producer's share of the Taconite Economic Development Fund is 30.1 cpt.

2. <u>Pellet chips and fines</u> — This remains the same as last year— an amount, equal to 50 percent of the tax for pellet chips and fines sold not exceeding 5/16-inch, is allocated to each company's share of the Taconite Economic Development Fund. The total amount may not exceed $700,000 for all companies. If the total claimed exceeds $700,000, each company's share will be prorated. The determination of this allocation is based on current production year **sales** of chips, fines and concentrate—

not the three-year average of production. Sales of crushed pellets *do not* qualify for this credit. (M.S. 298.28, Subd. 9(a), paragraph (b).)

Therefore, each company is eligible to receive 30.1 cents per taxable ton plus an additional amount based on current year tons of chips & fines sold. A listing of TEDF-funded projects and yearly distributions TEDF is shown in *Figure 21* on page 26.

Flux Pellets

Flux pellets have limestone or other basic flux additives combined with the iron concentrates before pelletizing. Three companies, Ispat Inland, Northshore and USX produce fluxed pellets, although all have experimented with them. EVTAC, Hibbing Taconite, National and Northshore are producing a partially fluxed pellet containing a low percentage of limestone additives.

M.S. 298.24, Subd. 1, clause (f) allows the weight of flux added to be subtracted from the pellet weight for production tax purposes. All tables in the *Minnesota Mining Tax Guide* with production statistics use an equivalent or calculated weight for fluxed pellets. The taxable weight is the dry weight less the weight of the flux. The weight of the flux is determined by a metallurgical calculation based on the analyses of the finished pellet, the concentrate and the flux stone. Beginning in 1988 (1987 production year), a flux credit was allowed against production tax.

Occupation tax is based on iron units and uses the full weight including flux. A reconciliation of both tonnages and the flux weight is shown on Figure 28, page 34.

Pellet Weighing

Pellet tonnages are reported on a dry weight basis. This began with the 1990 production year.

Definition of Taconite Tax Relief Area

One common prerequisite exists for all taconite aids and grants—the recipient must be within the geographic confines of the Taconite Tax Relief Area or the Taconite Assistance Area. This is defined by state laws (M.S. 273.134 & M.S. 273.1341) as follows:

"Tax relief area" means the geographic area contained within the boundaries of a school district that meets the following qualifications:

(1) It is a school district in which the assessed valuation of unmined iron ore on May 1, 1941, was not less than 40 percent of the assessed valuation of all real property and whose boundaries are within 20 miles of a taconite plant; or

(2) It is a school district in which, on Jan. 1, 1977, or the applicable assessment date, there is a taconite concentrating plant or where taconite is mined or quarried or where there is located an electric generating plant which qualified as a taconite facility.

Definition of Taconite Assistance Area

A "taconite assistance area" means the geographic area that falls within the boundaries of a school district that contains a municipality in which the assessed valuation of unmined iron ore on May 1, 1941, was not less than 40% of the assessed valuation of all real property. Any area within the Taconite Tax Relief Area is also considered to be within the Taconite Assistance Area.

2003 Legislation

Production Tax

The production tax rate was not changed from last year at $2.103 per taxable ton for concentrates produced in 2002 and 2003. In 2004 the rate will again be adjusted according to the Gross Domestic Product Implicit Price Deflator.

Producer Grants (M.S. 298.2961)

The 2003 regular session did not extend the producer grant fund through the 2003 production year. (2004 distribution) Therefore, this distribution ends after the 2003 distribution.

Taconite Economic Development Fund

The Taconite Economic Development Fund (TEDF) continues at 30.1 cents per ton for distributions in 2003 and thereafter. A matching expenditure of at least 50% is required to qualify for the additional 14.7 cents per ton. (above 15.4 cents) The 30 million ton minimum production requirement was suspended for the 2003 distribution only.

Minnesota Minerals 21st Century Fund

This fund had $80 million available in 2002 ($60 million in state funding and $20 million from IRRRA). The Mesabi Nugget project at Northshore was funded at $8 million each from the IRRRA and state portions of this fund. In 2003 $42 million of state money was unallotted and returned to the state to help balance the budget deficit. This leaves $10 million of state funds remaining for mineral development projects which will be matched by IRRRA funds. This remaining funding has been earmarked for the Teck Cominco copper-nickel project.

Balkan Township

The special 2003 distribution of $100,000 to Balkan Township was allowed to sunset.

Distribution of Funds (Minnesota Statute 298.28)

Subd. 2 - Taconite Cities and Towns Fund

(a) The Taconite Cities and Towns Fund allocates 4.5 cents per ton to cities and towns where taconite mining and concentrating occur. Forty percent (1.8 cpt) goes to cities and townships in which mining activity occurs. The remaining 60 percent (2.7 cpt) goes to cities and townships in which concentrating taconite occurs. *Note: This is done on a company-by-company basis.*

If both mining and concentrating take place in a single taxing district, the entire 4.5 cents is allocated there. If mining occurs in more than one city or town, the revenue (1.8 cpt) is divided based on either a percentage of taconite reserves or a four-year production average. Most taconite mines have mining in two or more areas.

If concentrating is split between two or more cities or towns, the revenue (2.7 cpt) is divided by the percentage of hours worked in each. The primary crusher is considered the first stage of concentration. The only current examples are Northshore (Babbitt, Beaver Bay Township and Silver Bay), LTV (Hoyt Lakes and Schroeder Township-LTV powerplant) and EVTAC (Eveleth, Fayal Township, and McDavitt Township). Beaver Bay Township qualifies due to the location of the tailing basin that is part of the concentrating process. Distribution detail is shown in *Figure 10,* page 17.

(b) Mining Effects — Four cents per taxable ton is allocated to cities and organized townships affected by mining because their boundaries are within three miles of a taconite mine pit that was actively mined in at least one of the prior three years. If a city or town is located near more than one mine meeting the criteria, it is eligible to receive aid calculated from only the mine producing the largest taxable tonnage. When more than one municipality qualifies for aid based on one company's production, the aid must be apportioned between the municipalities in proportion to their populations. One-half of the money must be used for infrastructure improvement projects and one-half for projects in which two or more municipalities cooperate.

The IRRRA has provided some guidelines for appropriate use of these funds:

1. One half for infrastructure improvement projects:
   - Public buildings-construction or major maintenance; does not include normal cleaning and maintenance or janitorial services.
   - Water and sewer systems
   - Streets, sidewalks, roads and bridges
   - Parks and recreational facilities
   - Public trails
   - Does not include mobile equipment
2. One-half for cooperative projects between two or more communities:
   - Parks and recreational facilities
   - Public trails
   - Other community facilities
   - Public services such as recreational activities, law enforcement and fire protection
   - Other joint ventures

Use of mining effects fund is not limited to the above examples. Cooperative projects are not limited to communities that receive a mining effects distribution. For example, community A which receives mining effects aid, can undertake a project with community B, which does not.

A community should report to the IRRRA by Jan. 15th of the year following the receipt of the mining effects aid. Reports should be submitted to Richard Walsh, Grants Administrator, IRRRA, 1006 Hwy 53 South, P.O. Box 441, Eveleth, MN 55734.

Subd. 3 - Taconite Municipal Aid Account

(a) The Taconite Municipal Aid is funded at 12.5 cents per taxable ton. The Kinney-White allocation (par. b) and the .2 cent RAMS allocation in Subd. 8 are subtracted from it. The payment is made on September 15. Each city or township first receives the amount it was entitled to receive in 1975 from the occupation tax. The amount is then reduced according to the percentage aid guarantee provisions in M.S. 298.225. For example, if production levels mandate a 90 percent aid guarantee, then the occupation tax grandfather amount is also reduced to 90 percent. The remainder of the aid is distributed according to a complex formula using levies, valuation, population and fiscal need factors.

The first step in this formula is to determine the *fiscal need factor* (FNF). The FNF is a three-year average of the sum of the local government aid (LGA), local levy and production tax revenues received by the community. Next, the local effort tax capacity rate equals the fiscal need factor per capita (FNFPC) divided by 17. If the FNFPC is greater than 350, the local effort tax capacity rate (LETCR) is 350 divided by 17 plus the excess over 350 divided by 15. The minimum allowable LETCR is 8.16. The final step in this formula is to compute the *distribution index* (DI). The distribution index for a community equals its FNF minus LETCR times the adjusted net tax capacity divided by 100.

A distribution index is determined for all eligible communities. A percentage is determined by comparing the distribution index of a particular community to the total of distribution indexes for all eligible communities. This percentage is then multiplied by the amount of available municipal aid to determine an amount for each community. Prior to this calculation, the occupation tax grandfather amounts and special aid for the city of Kinney and township of White are subtracted from the total available to the municipal aid fund.

$$\text{If FNFPC} \leq 350,\ \text{LETCR} = \frac{\text{FNFPC}}{17}$$

$$\text{If FNFPC} > 350,\ \text{LETCR*} = \frac{350}{17} + \frac{(\text{FNFPC} - 350)}{15}$$

$$\text{DI} = {*}(\text{FNF minus LETCR}) \times \frac{\text{Adjust Net Tax capacity}}{100}$$

*** Minimum allowable LETCR = 8.16**

The conditions necessary for a municipality to qualify for this aid are identical to the qualifications for the 66 percent taconite property tax relief listed under Subd. 6 (see page 9). The state laws governing Municipal Aid are M.S. 273.134, M.S. 298.28, Subd. 1, Clause 2, and M.S. 298.282. Distribution detail is *Figure 10*, page 17.

(b) & (c) - Additional money is allocated to cities and townships if more than 75 percent of the city's assessed valuation consisted of iron ore as of Jan. 2, 1980, or if more than 75 percent of the township's assessed valuation consisted of iron ore on Jan. 2, 1982. The distribution is calculated using certified levies, net tax capacities and population. Currently, only White Township and the city of Kinney qualify.

M.S. 126C.48, Subd. 8 - Special Municipal Aid

The special municipal aid that was enacted by the 2001 legislation and distributed in 2002 was repealed. However, new legislation passed in 2002 authorizes some cities & townships to receive aid from money allocated to their school districts for levy reduction to the extent that the levy reductions exceed the schools levy limitations.

Subd. 4 - School Districts

(a) Seventeen and fifteen hundredths cents (17.15) per taxable ton was distributed in 2002 under (b) & (c) plus amount in paragraph (d).

(b) Taconite School Fund (3.43 cents)

A total of 3.43 cents per taxable ton for each taconite company is allocated to school districts in which mining and concentrating occurs. If the mining and concentrating take place in separate districts, 40 percent is allocated to the location of mining and 60 percent to concentrating. In addition, if the mining occurs in more than one school district, the 40 percent portion is further split based on either a four-year average of production or a percentage of taconite reserves. If the concentrating function of a company takes place in more than one school district, the 60 percent portion is further split according to hours worked in each district. The primary crusher, tailings basin and power plant owned by a taconite company are considered part of concentrating. When these are in different school districts than the plant, the hours-worked split is used. Distribution details in *Figure 11*, page 18.

(c) Regular School Fund (13.72 cents)

All taconite companies pay 13.72 cents per taxable ton into a fund that is split among the 15 school districts in the Taconite Relief Area. Each school district receives the amount it was entitled to receive in 1975 from the taconite occupation tax (under M.S. 298.32). This amount may be increased or reduced by the percentage aid guarantee provisions of M.S. 298.225. The remaining amount in the fund is distributed using an index based on pupil units and tax capacities. Generally, districts with larger tax capacities per pupil unit tend to receive a proportionately smaller amount of this fund. Distribution detail is in *Figure 11*, page 18.

The index is calculated as follows: The pupil units for the prior school year are multiplied by the ratio of the average net tax capacity per pupil unit of all taconite districts to the adjusted net tax capacity per pupil unit of the district. Each district receives the portion of the distribution that its index bears to the sum of the indexes for all taconite school districts.

(d) Taconite Referendum Fund (TRF)

Taconite school districts qualify for an additional $175 per pupil unit over and above state aids by passing a special levy referendum equal to 1.8 percent of net tax capacity. The TRF pays the difference between the local levy and $175 per pupil unit. The pupil units used in the computation are the greater of the previous year or the 1983-84 school year units. On July 15,1999, and thereafter, the rate will increase according to the increase in the implicit price deflator as provided in M.S. 298.24. If any money remains in the fund, it is distributed to the Environmental Protection Fund (two-thirds) and the Northeast Minnesota Economic Protection Trust (one-third). *Note: A district receiving money from the TRF must reserve the lesser of $25 or the amount received per pupil unit (of the $175 authorized) for early childhood programs or outcome-based learning programs. The commissioner of the Minnesota Department of Education must approve the outcome-based programs.* Distribution detail is in *Figure 11*, page 18.

(e) Each school district is entitled to receive the amount it received in 1975 under 298.32 (Occupation Tax Grandfather).

Subd. 5 - Counties

(a) The allocation of 26.05 cents per taxable ton to taconite counties (subject to adjustment by M.S. 298.225) is to be distributed under Subd. 5(b) through (d). The amounts listed in (b) and (d) are the statutory amounts prior to any adjustment by M.S. 298.225. Distribution detail is in *Figure 13*, page 19.

(b) Taconite Counties with Mining or Concentrating

An amount of 20.525 cents per taxable ton is distributed to the county in which the taconite is mined or quarried or in which the concentrate is produced (split in the same manner as taconite cities and towns), less any amount distributed in Subd. 5(c). Distribution detail is in *Figure 13*, page 19.

(c) Counties - Electric Power Plant

If an electric power plant owned by and providing the primary source of power for a taconite plant is located in a county other than the county in which the mining and concentrating processes are conducted, one cent of the 13 cents per ton (for that company) is distributed to the county in which the power plant is located. *This one cent is not escalated but is subject to M.S. 298.225 adjustment with variable guarantee*. For the 2002 production year, this amounted to $75,656. The only company whose distribution is affected is LTV Steel, due to its power plant location at Taconite Harbor in Cook County. Its one cent per ton distribution for the 1983 base year was figured on 9,793,639 tons. This amount was carried forward from 1979 based on a previous guarantee. The current year M.S. 298.225 guarantee percentage is always applied.

$97,936 (1983 base) x 77.2504% = $75,656

There is also a transfer of $17,403 from property tax relief to the county fund covered in Subd. 6, (b). Cook County receives a total of $93,059 due to the LTV power plant. ($75,656+ $17,403 = $93,059) The $17,403 amount is calculated: $22,528 (1983 base) x 77.2504% = $17,403.

(d) Taconite County Road and Bridge

Each county receives a portion of the aid that is deposited in the County Road and Bridge Fund in the same manner as taconite cities and towns. The basic allocation is 5.525 cents per taxable ton subject to adjustment as in M.S. 298.225. Distribution detail is in *Figure 13,* page19.

Subd. 6 - Taconite Property Tax Relief

(a) Taconite Property Tax Relief

The amount sent to this fund was set by the 2001 Legislature at 33.9 cents per taxable ton for the 2002 production year. For the production year 2002 and subsequent years, the gross domestic product implicit price deflator will index it. The qualifications and distribution of taconite property tax relief are described in the following paragraphs.

The *Taconite Homestead Credit* reduces the tax paid by owners of certain properties located on the Mesabi and Vermillion ranges located within the taconite relief area. The properties receiving this credit are owner-occupied homes and owner-occupied farms. The tax on all the land comprising the farm is used in determining the amount of credit for a farm. Prior to 1983, the credit on farms was limited to 240 acres.

If an owner-occupied home or farm is located in a city or town that contained at least 40 percent of its valuation as iron ore on May 1, 1941, or which had a taconite mine, processing plant, or electric generating facility on January 1, 1977 or currently has a taconite mine, processing plant, or electric generating facility, the taconite credit is 66 percent of the tax up to a maximum credit of $315.10 for taxes payable in 2003.

If the property is not located in such a city or town, but is located in a school district containing such a city or town, the taconite credit is 57 percent of the tax up to a maximum credit of $289.80.

The total amount of taconite property tax relief paid in each county and school district is listed in Figure 7, page 14. An example of the calculation is shown in Figure 8, page 15.

State laws governing taconite property tax relief are contained in M.S. 273.134 to M.S. 273.136 and M.S. 298.28, Subd. 6. This is guaranteed by the Northeast Minnesota Economic Protection Fund as stated in M.S. 298.293.

b) Electric Power Plant Aid From Property Tax Relief

For any electric power plant located in another county, as described in 5(c), 0.1875 *cent* per taxable ton (cpt) from the Taconite Property Tax Relief account is paid to the county. The distribution is subject to the M.S. 298.225 variable guarantee. For the 2002 production year, $17,403 was distributed, with the entire amount coming from the M.S. 298.225 guarantee. (calculation details on page 9 under (c) counties)

(c) Electric Power Plant Aid from Property Tax Relief

This subdivision allocates 0.4541 *cent* per LTV's taxable tonnage to the Cook County school district due to LTV's power plant in Cook County. The distribution is subject to the M.S. 298.225 guarantee at 31.2 percent or the variable rate, whichever is less. For the 2002 production year, $21,087 was distributed. This is calculated by multiplying the 1983 base of $67,586 x .312 = $21,087.

Subd. 7 — Iron Range Resources & Rehabilitation Board

An amount of 6.5 cents per taxable ton escalated by the Gross National Product Implicit Price Deflator is allocated to the Iron Range Resources and Rehabilitation Board (subject to M.S. 298.225 guarantee). The funds are used by the IRRRA for general operating expenses and community development grants.

Subd. 8 — Range Association of Municipalities & Schools

This 0.2 cent per taxable ton (subject to M.S. 298.225 guarantee) is paid to the Range Association of Municipalities and Schools (RAMS) to provide an area-wide approach to problems that demand coordinated and cooperative actions. All cities, towns and schools in the taconite and iron ore mining area are included. This amount is subtracted from the Taconite Municipal Aid distribution in Subd. 3.

Subd. 9 — Northeast Minnesota Economic Protection Trust Fund

In addition to the amount provided in the remainder after all other distributions are completed, 3.35 cents per taxable ton was allocated to the Northeast Minnesota Economic Protection Trust Fund for production year 1998 and thereafter.

(a) Taconite Economic Development Fund

This subdivision is explained in detail on pages 24 and 26.

Subd. 10 — Indexing

Beginning with distribution in 2000 (1999 production year), the amounts determined under Subd. 6, paragraph (a), Subd. 7 and Subd. 9 are increased in the same proportion as the increase in the implicit price deflator as provided in Section 298.24, Subd. 1.

Subd. 11— Remainder

(a) After distributing all other aid, including school bond credits and payments, taconite railroad, and IRRRA payments, the remainder is distributed two-thirds to the Taconite Environmental Protection Fund and one-third to the Northeast Minnesota Economic Protection Trust Fund. The remainder includes interest earned on money on deposit by the counties prior to the final distribution.

(b) Taconite Railroad

Until 1978, the taconite railroad gross earnings tax was distributed to local units of government based on a formula of 50 percent to school districts, 22 percent city or town, 22 percent county, and six percent state. The respective shares were further split based on miles of track in each government unit. Beginning in 1978, the distributions were frozen at the 1977 level and funded from production tax revenues. The total amount distributed in 2003 is $2,482,454. Taconite railroad aids are not subject to the percentage reduction mandated for other aids by M.S. 298.225. So, taconite railroad aids to often remain constant from year to year. Beginning with the 2002 production year, the taconite railroad distribution to schools is reduced to 62 percent of the 1977 amount.

(c) Occupation Tax Grandfather Amount to IRRRA

In 1978 and each year thereafter, the amount distributed to the IRRRA is the same it received in 1977 from the distribution of the taconite and iron ore occupation taxes: $1,252,520.

Additional Payments

Although the following payments are not included in M.S. 298.28 or its subdivisions, they are subtracted prior to dividing the remainder described in Subd. 11.

These payments are listed in detail on page 18 and consist of school bond payments to school districts within the taconite tax relief area and taconite assistance area. Most are funded 80% taconite and 20% local efforts.

Aid Guarantee (Minnesota Statute 298.225)

The recipients of the taconite production tax, provided in M.S. 298.28, Subds. 2 to 5, Subd. 6, paragraphs (b) and (c) and Subds. 7 and 8, are guaranteed to receive distributions equal to the amount distributed to them with respect to the 1983 production year, provided that production is not less than 42,000,000 taxable tons. If the production is less, the amount distributed from the fund is reduced proportionately by two percent per each 1,000,000 tons by which the taxable tons is less than 42,000,000 tons. For example, if the taxable tonnage (three-year average) is 39,800,000, then the proportionate reduction is 4.4 percent. This is calculated by multiplying two percent times 2.2 million tons. This aid guarantee is funded equally from the initial current year distributions to the Taconite Environmental Protection Fund and the Northeast Minnesota Economic Protection Fund. If the initial distributions are insufficient to fund the difference, the Commissioner of the IRRR makes the payments of any remaining difference from the capital of the Taconite Environmental Protection Fund and the Northeast Minnesota Economic Protection Trust Fund in equal proportions. The Commissioner of the Minnesota Department of Revenue determines this. The aid payments covered by this variable guarantee are listed as follows:

1. 4.5 cents—City and Town Fund
2. 12.3 cents—Taconite Municipal Aid
3. 6.5 cents—escalated to IRRRB
4. 0.2 cent—RAMS
5. 0.1875 cent—power plant transfer from Taconite Property Tax Relief Account to Cook County
6. 4.0 cents - Mining Effects Fund (uses 1999 production year as base year)

The following funds are guaranteed at 75 percent or the variable guarantee, whichever is less:

1. 20.525 cents—Taconite County Fund
2. 5.525 cents—Taconite County Road and Bridge Fund

The following funds are guaranteed at 31.2 percent or the variable guarantee, whichever is less:

1. 13.72 cents—Regular School Fund
2. 3.43 cents—Taconite School Fund
3. Taconite Referendum Fund
4. 0.5625 cent—power plant transfer from Taconite Property Tax Relief Account to School District 166, Cook County

The Taconite Property Tax Relief Account is not covered by M.S. 298.225, but is separately guaranteed by the Economic Protection Fund, as stated in M.S. 298.293.

NOTES

Taconite Production Tax Distribution Calculation

The taconite mining companies make the production tax payments directly to six counties (Cook, Lake, St. Louis, Itasca, Crow Wing, and Aitkin) and the IRRRA. Each county auditor is responsible for making the taconite aid payments to the various jurisdictions within the county. St. Louis County was designated as fiscal agent for the taconite property tax relief account, and issues taconite property tax relief checks to the other counties. The State of Minnesota also made a payment of $0.22 cents per ton (payable 2003). This money was added to the amount available for distribution.

The Minnesota Department of Revenue makes all computations regarding the amount paid by the companies, state and the aid payments due to cities, schools, townships and counties. Interest earnings on undistributed funds are remitted by the counties to the IRRRA.

The proceeds of the 2002 taconite production tax (payable 2003) are distributed by state law as follows (*all figures are cents per taxable ton*):

M.S. 298.28 – Payment recipients		**Cents per ton**
Subd. 2a	**Taconite cities and towns**	**4.5**
Subd. 2b	**Taconite cities and towns (mining effects)**	**4.0**
Subd. 3	**Taconite municipal aid account**	**12.3**
Subd. 4	**School districts**	
	(b) Taconite schools (mining and/or concentrating in the district)	**3.43***
	(c) School districts within the taconite relief area (distributed by formula)	**13.72***
	Basic school district total	**17.15**
	(d) Taconite Referendum Fund	**(formula amount - see page 8)**
Subd. 5	**Counties**	
	(b and c) Taconite counties (includes electric power plant)	**20.525**
	(d) Taconite counties road/bridge	**5.525**
	Counties total:	**26.05**
Subd. 6	**Taconite property tax relief (includes .75 cents for Cook County and Cook County schools)**	**33.9****
Subd. 7	**IRRRA**	**6.5****
Subd. 8	**Range Association of Municipalities and Schools**	**0.2**
Subd. 9	**Northeast Minnesota Economic Protection Fund**	**3.35****
Subd. 9a	**Taconite Economic Development Fund**	**30.1**
Subd. 10	**Indexing provisions**	**—**
Subd. 11	**Distribution of remainder**	**—**

* For distribution in 2003 only, 95 percent was allocated to the Northeast Minnesota Economic Protection Fund. The remaining 5 percent was returned to the State's general fund.

** These funds are escalated using the Gross Domestic Product Implicit Price Deflator. After escalation, the cents per ton for Taconite Property Tax Relief was 35.38 cents, IRRRA was 7.07 cents, and the Northeastern Minnesota Economic Protection Fund was 3.58 cents.

The full amount distributed, including escalation and M.S. 298.225 guarantees, is listed in Figure 10, page 17.

Figure 5

Northeast Minnesota Economic Protection Trust Fund and Environmental Protection Fund

Period ending	Economic Fund balance	Environmental Protection Fund balance
June 30, 1986	31,537,559	
June 30, 1987	31,186,041	
June 30, 1988	31,290,815	
June 30, 1989	31,279,724	
June 30, 1990	36,679,552	$4,027,594
June 30, 1991	42,004,602	4,997,728
June 30, 1992	48,840,406	8,538,918
June 30, 1993	54,084,189	1,459,629
June 30, 1994	57,633,818	1,411,886
June 30, 1995	61,596,404	4,034,811
June 30, 1996	66,451,967	3,638,011
June 30, 1997	61,901,073	4,440,733
June 30, 1998	61,863,771	4,709,999
June 30, 1999	71,863,771	5,003,671
June 30, 2000	78,602,904	4,632,476
June 30, 2001	81,880,519	3,680,925
June 30, 2002	79,621,545	1,079,868
June 30, 2003	$84,572,870	$7,868,073

Economic Fund Major Withdrawals

Sept. 27, 1982	$ 2.50 million	IRRRA Jobs Program
Feb. 3, 1983	5.00 million	IRRRA Jobs Program
May 24, 1983	10.00 million	IRRRA Economic Development
Feb. 25, 1984	2.08 million	Aid guarantees to cities/schools (M.S. 298.225)*
February and May, 1987	.46 million	M.S. 298.225
Sept, 26, 1989	1.90 million	Property tax relief guarantee
July 1, 1996	10.00 million	Producer grant program**
July 1, 2001	.1 million	Mining Effects Extension***
Various 2002 & Jan 2003	2.52 million	M.S. 298.225

* This aid guarantee formula was revised by the 1984 Legislature so that further withdrawals should not be necessary except during serious iron ore industry depression.
** 1996 M.S. 298.2961
*** Section 20 of 2001 legislation amended M.S. 298.225 (aid guarantees) to extend payments for certain cities and townships.

The Taconite Area Environmental Protection Fund (TEPF), M.S. 298.223 and the Northeast Minnesota Economic Protection Trust Fund (NEPF), M.S. 298.291 through 298.294, were established by the 1977 Legislature. These two funds receive the remainder of the production tax revenues after all distributions are made according to M.S. 298.28. The remainder is split with one-third going to the Northeast Minnesota Economic Protection Trust Fund and two-thirds to the Taconite Area Environmental Protection Fund.

The Taconite Environmental Protection Fund was *created for the purpose of reclaiming, restoring and enhancing those areas of Minnesota that are adversely affected by environmentally damaging operations involved in mining and producing taconite and iron ore concentrate*. The scope of activities includes local economic development projects. The IRRR commissioner administers the fund. The IRRR and the governor must approve projects.

The Northeast Minnesota Economic Protection Trust Fund is somewhat different in that only interest and dividends earned by the fund may be spent before Jan. 1, 2004. Approval for expenditures from the principal may be made prior to 2004 with authorization from the Legislature. This has been done on several occasions as shown in *Figure 5* above.

Taconite Property Tax Relief

The taconite homestead credits described on page 9 are administered by the county auditors. The amounts payable in 2002 are listed in *Figure 7* below. Distribution is determined by the formula described on page 15. The amounts do not equal the total production tax allocated for property tax relief shown in the tables as collections or payments. The difference is carried in the Taconite Property Tax Relief Fund balance with St. Louis County as fiscal agent. If the fund balance and production tax collections are not sufficient to make the payments, the deficit is made up from the Economic Protection Fund. The last time this occurred was in 1989.

Figure 6

Taconite Property Tax Relief Fund Balance

Year payable	Payments into account*	Interest & other**	Payments out (by formula)	Balance December 31
1988	$9,727,800	$325,700	$10,883,300	$79,000
1989	5,904,200	214,400	8,081,000	9,211
1990	9,569,872	438,580	7,651,586	2,366,077
1991	10,848,818	505,139	7,914,709	5,805,325
1992	10,891,942	411,356	8,308,617	8,800,006
1993	10,847,642	437,219	8,980,640	11,104,227
1994	11,783,383	712,838	11,136,577	12,463,871
1995	12,143,854	1,087,081	11,758,988	13,935,818
1996	13,055,526	1,080,173	11,600,147	16,471,370
1997	12,924,447	1,039,106	11,809,166	18,832,791
1998	13,555,273	1,416,146	11,269,163	22,535,047
1999	16,237,808	1,379,053	14,867,173	25,284,735
2000	16,078,849	2,040,283	15,041,042	28,362,825
2001	13,850,869	2,488,790	15,339,725	29,362,759
2002	10,293,022	5,552,323 ***	23,950,183****	19,209,484
2003 Est.	10,835,555	500,000	12,000,000	18,545,039

* Listed under year payable; therefore, 2002 payments result from 2001 production.
** St. Louis County began as the fiscal agent in 1986. *Note: It includes amounts of incorrect homestead claims repaid and other adjustments.*
*** Includes reimbursement from state for overpayment in Aitkin, Crosby-Irontons and Grand Rapids School Districts.
**** $10,857,566 of Special Municipal aid was also paid out of homestead credit funds as a one time payment.

Figure 7

Taconite Property Tax Relief Fund Distribution

Total listed by school district area:

School district	Mobile home	Real property
166 - Cook County	1,316	433,921
316 - Coleraine	8,320	825,793
319 - Nashwauk-Keewatin	1,414	329,067
381 - Lake Superior	2,078	1,324,194
695 - Chisholm	291	623,370
696 - Ely	1,215	560,146
701 - Hibbing	10,715	1,765,629
706 - Virginia	1,440	1,068,227
712 - Mt. Iron-Buhl	3,831	439,454
2142 - St. Louis County	4,704	1,791,711
2154 - Eveleth-Gilbert	2,301	909,758
2711 - Mesabi East	1,788	893,800
Total (Payable 2002)	**$39,413**	**$10,965,070**

Total listed by county area:

County	Mobile home	Real property	Grand total
(69) St. Louis	$26,813	$8,292,108	**$8,318,921**
(31) Itasca	9,734	1,154,860	**1,164,594**
(38) Lake	1,545	1,079,374	**1,080,919**
(16) Cook	1,316	433,921	**435,237**
(36) Koochiching	5	4,807	**4,812**
Total: (Payable 2002)	**$39,413**	**$10,965,070**	**$11,004,483**

Mobile homes are taxed differently than other real estate in that they are assessed and taxed in the same year.

The supplemental property tax relief paid from the State General Fund revenue to Deer River (Itasca Co.), Floodwood (St. Louis Co.), Aitkin, Crosby-Ironton and Grand Rapids is not included in any of the production tax tables.

The aid amounts in Figures 10, 11 and 13 do not include taconite property tax relief.

Figure 8

Taconite Residential Homestead Credit Examples

Taxes payable 2003

Gross tax computation	66% Example 1	66% Example 2
1. Total Market Value	$30,000.00	$70,000.00
2. Net Tax Capacity	$300.00	$700.00
3. Local Tax Rate	110.000%	110.000%
4. Net Tax Capacity Tax (2 x 3)	$330.00	$770.00
5. Referendum Tax Rate	0.09500%	0.09500%
6. Referendum (5 x 1)	$28.50	$66.50
7. Total Gross Tax (4 + 6)	$358.50	$836.50
Residential homestead market value credit computation		
8. Homestead Market Value Credit		
a) Initial Credit (1st $76,000 of 1x0.40%: max. $304)	$120.00	$280.00
b) Credit Phase Out (0.09% x (1-$76,000))	$0	$0
c) Final Credit (8a-8b)	$120.00	$280.00
Final net tax and taconite credit computation		
9. Adjusted Gross Tax (7 - 8)	$238.50	$556.50
10. Taconite Credit (9 x 66%, $315.10 maximum) *	$157.41	$315.10
11. Net Tax (9 - 10)	$81.09	$241.40

Gross tax computation	57% Example 1	57% Example 2
1. Total Market Value	$30,000.00	$70,000.00
2. Net Tax Capacity	$300.00	$700.00
3. Local Tax Rate	110.000%	110.000%
4. Net Tax Capacity Tax (2 x 3)	$330.00	$770.00
5. Referendum Tax Rate	0.09500%	0.09500%
6. Referendum (5 x 1)	$28.50	$66.50
7. Total Gross Tax (4 + 6)	$358.50	$836.50
Residential homestead market value credit computation		
8. Homestead Market Value Credit		
a) Initial Credit (1st $76,000 of 1 x 0.40%: max. $304)	$120.00	$280.00
b) Credit Phase Out (0.09% x (1-$76,000))	$0	$0
c) Final Credit (8a-8b)	$120.00	$280.00
Final net tax and taconite credit computation		
9. Adjusted Gross Tax (7 - 8)	$238.50	$556.50
10. Taconite Credit (9 x 57%, $289.80 maximum) *	$135.95	$289.80
11. Net Tax (9-10)	$102.55	$266.70

* Taconite credit cannot be less than $10.

Figure 9

Taconite Production Tax Distribution*

Production year	1997	1998	1999	2000	2001	2002
City and township	$2,083,419	$2,065,390	$2,032,122	$1,925,473	$1,881,213	1,827,187
Taconite municipal aid	6,951,616	6,920,140	6,885,798	6,351,449	$6,047,128	5,773,656
Mining effects	–	–	1,738,702	1,468,445	1,617,671	1,580,353
School district — regular	2,605,249	2,580,893	2,058,150	1,970,471	1,903,309	0
School district fund	10,111,969	10,047,818	7,987,559	7,684,905	7,416,561	0
Taconite Referendum Fund	4,877,652	4,906,500	4,830,625	4,698,761	4,533,342	4,844,944
County	10,021,984	9,941,015	9,823,470	9,894,721	9,626,663	9,625,883
County road and bridge	2,673,631	2,651,492	2,610,639	2,613,261	2,541,344	2,541,361
Taconite Property Tax Relief	13,555,273	16,237,808	16,078,849	13,850,869	10,293,022	10,835,555
State	75,000	75,000	–	–	–	–
IRRRB ($.03 Indexed)	3,061,057	3,069,671	3,043,644	2,840,770	2,760,975	2,655,112
Range Association of Municipalities and Schools	110,660	110,135	109,342	102,158	97,447	93,379
Taconite railroad (fixed)	3,160,899	3,160,899	2,821,677	2,821,677	2,821,677	1,375,519
IRRRB (fixed)	1,252,520	1,252,520	1,252,520	1,252,520	1,252,520	1,252,520
Other school bond payments	4,195,324	3,953,647	4,850,823	4,424,030	4,568,703	4,734,031
Taconite Environmental Protection Fund	12,904,541	11,000,476	12,171,632	7,910,648	6,842,730	6,171,626
Northeast Minnesota Economic Protection Fund	5,296,396	4,507,132	5,487,705	2,134,870	345,983	7,990,160
Taconite Economic Development Fund	7,444,818	7,476,195	7,107,309	5,992,728	9,223,714	9,425,759
Producer grants	2,228,174	2,216,888	2,173,376	1,835,557	1,480,932	1,531,259
Hoyt Lakes Industrial Park	2,094,484	–	–	–	–	–
Chisholm-Hibbing Industrial Park	–	2,094,484	–	–	–	–
Balkan Township	–	–	–	–	–	100,000
Total	**$94,704,666**	**$94,268,103**	**$93,063,942**	**$79,773,313**	**$75,254,934**	**$72,358,304**

* The production tax is collected and distributed in the year following production. For example, the 2002 production tax was collected and distributed during 2003.

Figure 10

Taconite Production Tax Distribution to Cities & Townships - 2003

(Based on 2002 production year tax revenues—not including Taconite Property Tax Relief dollars)

Name	4.5 cent mining and conc.	4.0 cent mining effects	Taconite railroad*	Taconite municipal aid	Total
COOK COUNTY					
Schroeder Township	$8,234	$–	$47,700	$0	**$55,934**
CROW WING COUNTY					
Crosby	–	–	–	150,194	**150,194**
Ironton	–	–	–	37,122	**37,122**
Riverton	–	–	–	4,417	**4,417**
Trommald	–	–	–	3,549	**3,549**
Irondale Township	–	–	–	25,884	**25,884**
Rabbitt Lake Township	–	–	–	3,085	**3,085**
Wolford	–	–	–	4,116	**4,116**
ITASCA COUNTY					
Bovey	–	–	–	66,543	**66,543**
Calumet	–	–	–	32,220	**32,220**
Cohasset	–	–	–	0	**0**
Coleraine	–	–	–	87,332	**87,332**
Keewatin	26,688	58,453	–	113,399	**198,540**
Marble	–	–	–	51,370	**51,370**
Nashwauk	11,517	47,417	–	97,409	**156,343**
Taconite	–	–	–	30,308	**30,308**
Grand Rapids Township	–	–	–	32,933	**32,933**
Greenway Township	14,666	–	–	23,420	**38,086**
Iron Range Township	–	–	–	10,062	**10,062**
Lone Pine Township	4,805	26,606	–	2,178	**33,589**
Nashwauk Township	67,553	36,331	–	35,617	**139,501**
LAKE COUNTY					
Silver Bay	89,896	–	152,706	197,729	**440,331**
Beaver Bay Township	2,536	–	12,565	0	**15,101**
Crystal Bay Township	–	–	6,951	–	**6,951**
Silver Creek Township	–	–	20,612	–	**20,612**
Stony River Township	–	–	19,943	–	**19,943**
ST. LOUIS COUNTY					
Aurora	10,789	66,508	–	151,891	**229,188**
Babbitt	68,109	138,535	166,767	225,616	**599,027**
Biwabik	–	26,511	–	102,361	**128,872**
Buhl	–	36,144	–	92,855	**128,999**
Chisholm	–	61,540	–	426,708	**488,248**
Ely	–	–	–	257,995	**257,995**
Eveleth	46,938	81,837	–	317,919	**446,694**
Gilbert	47,937	51,975	–	185,381	**285,293**
Hibbing	433,598	212,500	–	1,222,239	**1,868,337**
Hoyt Lakes	199,550	74,369	152,153	242,522	**668,594**
Kinney	9,882	7,009	–	62,052**	**78,943**
Leonidas	3,720	1,266	–	8,238	**13,224**
McKinley	–	2,294	–	10,820	**13,114**
Mountain Iron	562,748	109,018	–	311,221	**982,987**
Virginia	25,908	335,054	–	732,262	**1,093,224**
Balkan Township	–	10,076	–	136,941***	**147,017**
Bassett Township	–	4,168	11,745	–	**15,913**
Biwabik Township	0	25,746	–	29,079	**54,825**
Breitung Township	–	–	–	5,496	**5,496**
Clinton Township	–	21,800	–	–	**21,800**
Eagle's Nest Township	–	–	–	0	**0**
Fayal Township	2,154	40,124	–	32,317	**74,595**
Great Scott Township	16,235	15,522	–	18,069	**49,826**
McDavitt Township	83,783	–	–	20,525	**104,308**
Waasa Township	–	10,614	–	–	**10,614**
White Township	18,036	58,828	–	259,621**	**336,485**
Wuori Township	71,905	20,108	–	12,641	**104,654**
Total	**$1,827,187**	**$1,580,353**	**$591,142**	**$5,873,656**	**$9,872,338**

* Fixed amount based on 1977 Taconite railroad gross earnings tax distributions.
** Includes amount from M.S. 298.28, Subd. 1, Clause (2) (b).
*** Includes amount from M.S. 298.28, Subd. 11, Clause (e).

— Indicates not eligible.
0 Indicates eligible, but no payment at current valuation and production.

Figure 11

Taconite Production Tax Distributions to School Districts - 2003

School districts		$.0343 Taconite School Fund	$.1372 Regular School Fund	Taconite railroad	Taconite Referendum	Total
001	Aitkin	–	$0	–	$157,946	$157,946
166	Cook County	$0	0	$0	25,460	25,460
182	Crosby–Ironton	–	0	–	177,840	177,840
316	Greenway	0	0	–	322,337	322,337
318	Grand Rapids	–	0	–	618,752	618,752
319	Nashwauk–Keewatin	0	0	–	158,081	158,081
381	Lake Superior	0	0	0	387,873	387,873
695	Chisholm	–	0	–	223,673	223,673
696	Ely	–	0	–	148,784	148,784
701	Hibbing	0	0	–	657,156	657,156
706	Virginia	0	0	–	362,240	362,240
712	Mtn. Iron–Buhl	0	0	–	226,601	226,601
2142	St. Louis County	0	0	0	621,900	621,900
2154	Eveleth–Gilbert	0	0	–	358,534	358,534
2711	Mesabi East	0	0	0	397,767	397,767
Totals		**$0**	**$0**	**$0**	**$4,844,944**	**$4,844,944**

Figure 12

Taconite Production Tax School Bond Payments

School districts		Year authorized[1]	Final payment year[2]	Payment	Outstanding balance[3]
166	Cook County[4]	1996	2016	$531,611	$5,159,000
316	Greenway	1990	2009	69,947	359,446
316	Greenway	1996	2008	39,896	292,000
316	Greenway	2000	2019	156,684	1,788,000
318	Grand Rapids	1996	2010	477,774	3,072,000
381	Lake Superior	1992	2003	81,688	77,312
381	Lake Superior	2000	2022	296,077	4,800,000
695	Chisholm	1990	2005	309,824	832,000
695	Chisholm	2000	2020	197,066	3,959,716
696	Ely	1996	2015	67,370	640,000
701	Hibbing	1996	2011	209,646	1,512,000
706	Virginia	1996	2016	825,315	7,478,291
712	Mt. Iron-Buhl	1998	2017	328,292	3,476,000
2142	St. Louis County (Tower)	1988	2003	83,412	80,000
2142	St. Louis County[4]	1988	2003	104,265	190,000
2142	St. Louis County	1996	2005	316,520	868,000
2154	Eveleth-Gilbert[5]	1990	2009	384,000	886,246
2154	Eveleth-Gilbert	1996	2017	191,512	2,716,000
2711	Mesabi East	1996	2011	63,132	436,000
Totals:				$4,734,031	$38,622,011

1 Legislative year in which taconite funding was enacted.

2 Production year from which final bond payment will be deducted.

3 Estimated portion of outstanding bond balance to be paid by taconite funds (not including interest).

4 All taconite bonds funded at 80 percent taconite, 20 percent local effort, unless otherwise noted: St. Louis County—1988, 100 percent; and Cook County—1996, 70 percent.

5 Eveleth-Gilbert 2006 bond was combined with Eveleth-Gilbert 2009 bond in 2002.

Figure 13

Taconite Production Tax Distribution to Counties - 2003

Production year 2002

(Does not include dollars from taconite property tax relief)

County	Regular county 13 cents	Road and bridge 3.5 cents	Taconite railroad	Total
Cook	$ 93,059	–	$187,190	$ 280,249
Itasca	710,373	$ 187,173	–	897,546
Lake	745,792	192,463	243,034	1,181,289
St. Louis	8,076,659	2,161,725	354,153	10,592,537
Total	**$9,625,883**	**$2,541,361**	**$784,377**	**$12,951,621**

Figure 14

Taconite Production and Tax Revenue by Company

Production year 2002

Company	Production tons	Taxable tonnage*	Production tax rate	Tax assessed
EVTAC	4,204,799	4,071,678	$2.103	$ 8,562,739***
Hibbing	7,408,541	7,102,899	2.103	14,937,397
Ispat Inland	2,661,129	2,663,159	2.103	5,600,623
National	2,829,341**	4,220,165	2.103	8,875,007
Northshore	3,979,283	3,567,581	2.103	7,502,623
USX	13,794,178	13,071,373	2.103	27,489,097
Total	**34,877,271**	**34,696,855**	**$2.103**	**$72,967,486**

* The taxable tonnage is the average production of the current year and previous two years.
** Post-petition tonnage.
*** Has not been collected. EVTAC filed for Chapter 11 bankruptcy after tax was assessed.

Figure 15

2002 Production by Product Type

	Pellets			Chips and Fines			
Company	**Acid**	**Flux**	**Partial flux***	**Acid**	**Flux**	**Fine conc.**	
Eveleth	–	–	3,967,551	–	237,248	–	4,204,799
Hibbing	–	–	7,408,541	–	–	–	7,408,541
Ispat Island	24,514	2,550,567	–	–	86,048	–	2,661,129
National	–	5,415,675	–	–	36,683	11,279	5,463,637
Northshore	–	1,223,208	2,756,075	–	–	–	3,979,283
USX	2,493,147	11,301,031	–	–	–	–	13,794,178
Total:	2,517,661	20,490,481	14,132,167	–	359,979	11,279	37,511,567

Acid production:	2,517,661
Flux production:	34,993,906
Total	37,511,567

Total pellets:	37,140,309
Total chips and fines:	371,258
Grand total:	**37,511,567**

(dry with flux included)

*Partial flux pellets contain less than two percent flux.

Figure 16

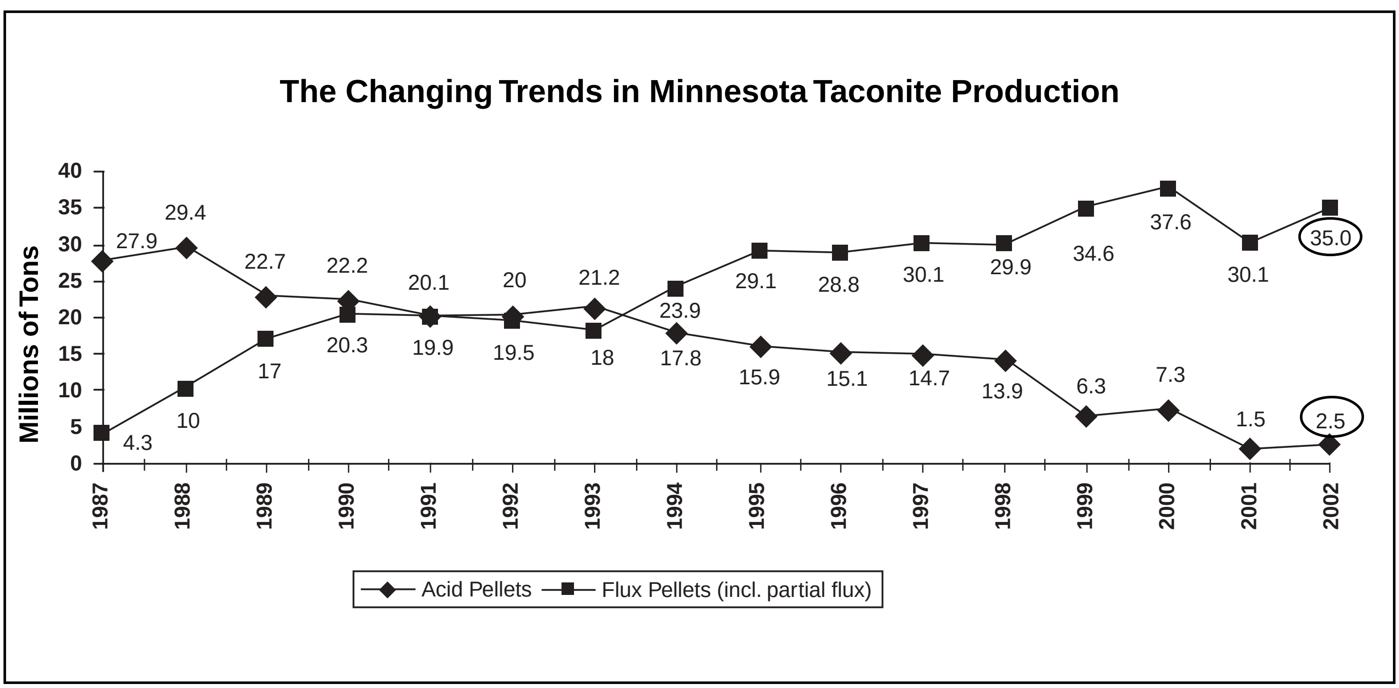


Figure 17

Production Tax Rate History and Index Summary

Production Year	Statutory	Fe (iron)	Inflation	Total	TEDF	Producer Grants
1941	5.0 - cents	0.5 - cents	None	5.5 - cents	0	0
1969	11.5 - cents	0.5 - cents	0 (WPI*)	12.0 - cents	0	0
1970	11.5 - cents	0.5 - cents	0 (WPI)	12.0 - cents	0	0
1971	15.5 - cents	0.5 - cents	0.4 (WPI) cents	16.4 - cents	0	0
1972	18.5 - cents	0.5 - cents	1.3 (WPI) cents	20.3 - cents	0	0
1973	20.5 - cents	1.0 - cents	2.8 (WPI) cents	24.3 - cents	0	0
1974	20.5 - cents	1.0 - cents	8.2 (WPI) cents	29.7 - cents	0	0
1975	60.5 - cents	1.0 - cents	13.4 (WPI) cents	74.9 - cents	0	0
1976	60.5 - cents	1.0 - cents	15.5 (WPI) cents	76.5 - cents	0	0
1977	125.0 - cents	4.5 - cents	0 (SMPI**) cents	129.5 - cents	0	0
1978	125.0 - cents	6.0 - cents	8.9 (SMPI) cents	139.9 - cents	0	0
1979	125.0 - cents	6.0 - cents	28.8 (SMPI) cents	159.8 - cents	0	0
1980	125.0 - cents	6.0 - cents	42.2 (SMPI) cents	173.3 - cents	0	0
1981	125.0 - cents	6.0 - cents	60.6 (SMPI) cents	191.6 - cents	0	0
1982	125.0 - cents	6.0 - cents	76.8 (SMPI) cents	207.8 - cents	0	0
1983	125.0 - cents	6.0 - cents	73.7 (SMPI) cents	204.7 - cents	0	0
1984	125.0 - cents	6.0 - cents	79.7 (SMPI) cents	210.7 - cents	0	0
1985	125.0 - cents	3.0 - cents	76.8 (SMPI) cents	204.8 - cents	0	0
1986	190.0 - cents	0	Frozen (IPD***)	190.0 - cents	0	0
1987	190.0 - cents	0	Frozen (IPD)	190.0 - cents	0	0
1988	190.0 - cents	0	Frozen (IPD)	190.0 - cents	0	0
1989	190.0 - cents	0	7.5 (IPD) cents	197.5 - cents	0	0
1990	190.0 - cents	0	◆7.5 (IPD) cents	197.5 - cents	0	0
1991	190.0 - cents	0	15.4 (IPD) cents	205.4 - cents	0	0
1992	190.0 - cents	0	◆15.4 (IPD) cents	205.4 - cents	10.4 - cents	0
1993	190.0 - cents	0	◆15.4 (IPD) cents	205.4 - cents	15.4 - cents	0
1994	190.0 - cents	0	◆15.4 (IPD) cents	205.4 - cents	15.4 - cents	0
1995	190.0 - cents	0	◆15.4 (IPD) cents	205.4 - cents	15.4 - cents	0
1996	190.0 - cents	0	19.4 (IPD) cents	209.4 - cents	20.4 - cents	0
1997	190.0 - cents	0	24.1 (IPD) cents	214.1 - cents	15.4 - cents	5.0 - cents
1998	190.0 - cents	0	24.1 (IPD) cents	214.1 - cents	15.4 - cents	5.0 - cents
1999	190.0 - cents	0	24.1 (IPD) cents	214.1 - cents	15.4 - cents	5.0 - cents
2000	190.0 - cents	0	27.3 (IPD) cents	217.3 - cents	15.4 - cents	5.0 - cents
2001	210.3 - cents	0	0 (IPD) cents	210.3 - cents	30.1 - cents	5.0 - cents
2002	210.3 - cents	0	0 (IPD) cents	210.3 - cents	30.1 - cents	5.0 - cents
2003	210.3 - cents	0	0 (IPD) cents	210.3 - cents	30.1 - cents	0.0 - cents

* Wholesale price index
** Steel mill products index
*** Gross national product implicit price deflator
◆ In years following 1989 and 1991 when the inflation index was unchanged, it was frozen by legislative action.

Figure 18

Taconite Produced and Production Tax Collected

Year	Production tons	Production tax collected (000s)	Collected rate per production ton	Taxable tons*	Tax rate per taxable ton
1957	6,812	397	0.058		
1958	8,574	500	0.058		
1959	8,414	528	0.063		
1960	13,390	735	0.055		
1961	13,187	766	0.058		
1962	14,526	842	0.058		
1963	16,701	972	0.058		
1964	18,505	1,075	0.058		
1965	19,004	1,104	0.058		
1966	21,677	1,257	0.058		
1967	24,311	1,427	0.059		
1968	30,269	1,782	0.059		
1969	33,410	3,778	0.113		
1970	35,348	4,253	0.120		
1971	33,778	5,539	0.164		
1972	34,544	7,002	0.203		
1973	41,829	10,159	0.243		
1974	41,053	11,952	0.291		
1975	40,809	30,347	0.744		
1976	40,575	30,857	0.760		
1977	26,372	48,891	1.854	37,759	$1.295*
1978	49,545	69,394	1.401	49,614	1.399*
1979	55,333	88,485	1.599	55,373	1.598*
1980	43,060	87,179	2.025	50,296	1.733*
1981	49,369	99,018	2.006	51,799	1.916*
1982	23,445	80,305	3.425	38,624	2.078*
1983	25,173	67,341	2.675	33,302	2.047*
1984	35,689	64,514	1.876	35,689	2.107
1985	33,265	65,092	1.957	34,477	2.048
1986	25,451	48,658	1.912	31,468	1.900
1987	32,043	51,184	1.597	29,039	1.900
1988	39,485	57,402	1.454	32,326	1.900
1989	39,375	72,149	1.832	36,968	1.975
1990	42,522	78,930	1.856	40,461	1.975
1991	39,922	82,411	2.064	40,606	2.054
1992	38,850	82,035	2.112	40,431	2.054
1993	39,850	80,196	2.012	39,541	2.054
1994	41,677	81,500	1.956	40,126	2.054
1995	45,001	85,705	1.904	42,176	2.054
1996	43,874	90,513	2.063	43,517	2.094
1997	44,816	94,705	2.113	44,563	2.141
1998	44,324	94,268	2.126	44,338	2.141
1999	41,293	93,064	2.254	43,468	2.141
2000	37,785	79,773	2.111	36,711	2.173
2001	31,628	62,288	1.969	34,638	2.103
2002	37,512	64,405	1.717	35,575	2.103

* The 1977 law was the first to apply the production tax rate against *taxable tons*, the greater of the current year's production, or the three-year average of production tons. Due to a negotiated settlement of court cases, the taxable tonnage for 1984 was the current year only. The taxable tonnage for 1985 was the average tonnage for 1984 and 1985. A three-year average is used for 1986 and beyond.

Direct Reduced Iron (DRI)

The recent world-wide interest in direct reduced iron (DRI) has caused some taconite producers to explore the possibility of building a DRI plant in Minnesota. Recognizing this trend, the Legislature has taken action to encourage DRI production in Minnesota.

Reduced Production Tax Rate for DRI

The first five years of a DRI plant's production are subject to reduced tax rates:

Years of operation	% of regular rate	Years of operation	% of regular rate
1	0%	4	50%
2	0%	5	75%
3	25%	6	100%

The taconite production tax rate for DRI is the regular rate plus an additional tax of 3 cents per gross ton for each one percent that the iron content exceeds 72 percent when dried at 212 degrees Fahrenheit. Thus, at a base production tax rate projected for 2004 at $2.103 per ton, the tax rate for 80% iron DRI would be $2.343. The rate for 90% DRI would be $2.643.

A number of economic development packages to build a DRI plant or a non-ferrous plant are offered by the State of Minnesota and the Iron Range Resources and Rehabilitation Board (IRRRB) and the U.S. Government. These are detailed on the IRRRA page.

General Information

Due to the fact that it is subject to the taconite production tax, a DRI production plant and facilities is exempt from regular ad valorem property taxes. The taxable tonnage is based on a three-year production average. Pig iron is considered DRI for the purpose of production tax and incentives.

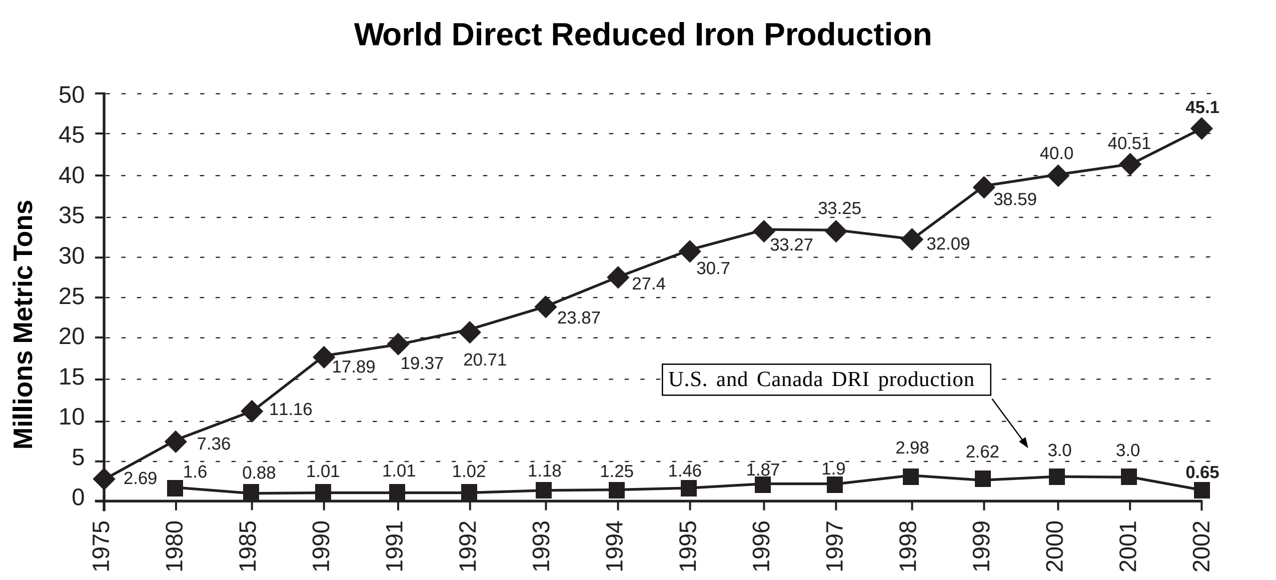
A steel plant or a non-ferrous (base or precious metal) mine or plant would be subject to ad valorem (property) taxes like any other business. If a steel plant were in conjunction with DRI plant, the DRI portion would be subject to the taconite production tax, thus exempt from ad valorem (property) taxes.

Electric Power Plant Personal Property Exemption (M.S. 272.027, Subd. 3)

Tools, implements and machinery of an electric generating facility are exempt if all the following requirements are met:

1. The electric generating facility has a capacity of at least 450 megawatts;
2. The electric generating facility is adjacent to a taconite mine direct reduction steel mill; and
3. The electric generating facility supplies more than 60 percent of its electricity in the prior year to the adjacent direct reduction plant and steel mill.

Figure 19



Since 1996, numbers have been provided by the U.S. Geological Survey, Mineral Information
2001 & 2002 information from: www.midrex.com

Iron Range Resources and Rehabilitation Agency

TThe IRRRA is a unique Minnesota state agency charged with the economic development and diversification of a region in northeastern Minnesota defined by Minnesota Statute §273.134 as the Taconite Assistance Area (TAA), including all or parts of Cook, Lake, St. Louis, Itasca, Aitkin and Crow Wing Counties. The IRRRA was created in 1941 as part of a legislative compromise to limit ad valorem taxes on mining. It was funded from occupation taxes for its first 30 years. It is now funded by taconite production taxes levied on mining operations in lieu of local property taxes. The agency receives no operational funding from the State General Fund. The production tax essentially replaces the local tax obligations that the taconite producers would otherwise have to local governments. That, coupled with the TAA's dependence on the taconite industry and the cyclical nature of the steel industry it serves, caused the State Legislature to create the IRRRA to serve northeastern Minnesota.

The IRRRA is headquartered in Eveleth. A commissioner, who is appointed by the governor, directs the agency. Effective July 1, 1999, the commissioner is advised by a board comprised of five state senators, appointed by the Senate majority leader, and five state representatives, appointed by the House speaker, a majority of whom must come from TAA districts. Three citizens from the TAA also are appointed, one each by the Senate majority leader, House speaker and governor.

While economic development of the TAA through loans and grants to businesses and local governments is the IRRRA's main focus, the agency also owns and operates two tourism facilities, Giants Ridge Golf and Ski Resort in the town of Biwabik, and Ironworld Discovery Center located in Chisholm. Giants Ridge has been a quality alpine and Nordic skiing facility since 1984; however, with the opening of its new 18-hole golf course in June 1997, it became a year-round resort. The newest addition to Giants Ridge is a second 18-hole golf course that opened in July 2003.

Ironworld Discovery Center is a history museum that preserves the story of Iron Range mining and culture. Ironworld's museum, trolley operation and living history site are open seasonally while the Iron Range Research Center (library and archive) is open year around. Ironworld also is home to the IRRRA's Mineland Reclamation Division which undertakes safety, environmental and economic development projects on abandoned minelands of the pre-taconite era, often in cooperation with adjacent communities. In 2003, Mineland Reclamation will grow and plant 150,000 containerized seedlings on the Mesabi, Vermilion and Cuyuna iron ranges.

The IRRRA funds tourism promotional activities in cooperation with the Northern Lights Tourism Alliance. The agency provides technical assistance to snowmobile, off-highway vehicle, hiking and biking trails groups to enhance tourism and quality of life. It operates a building demolition program that razes dilapidated structures to make room for new development, thereby enhancing the local tax base.

The IRRRA also is helping to diversify Minnesota's iron mining industry by supporting the development of value-added iron and steel products and non-ferrous minerals. One of the latest developments is a demonstration plant aimed at producing a high-purity iron at the Northshore Mining taconite plant in Silver Bay, Minnesota. The Mesabi Nugget project will produce 95% pure iron nuggets directly from iron ore, which can then be shipped to electric furnaces, basic oxygen furnaces and foundries to make steel, which would allow Minnesota to expand its iron ore customer base. The first step is already underway and includes the construction and operation of a 25,000-ton per year pilot demonstration plant that will demonstrate that the process is technically and economically feasible for a commercial-sized plant.

The IRRRA is working with Teck Cominco American Incorporated on a project which is in the pre-feasibility stage. Teck Cominco would develop a mine at a copper-nickel reserve located near Babbitt and then rail the ore to the idled LTV Steel Mining Company plant in Hoyt Lakes to crush, grind and process the ore into a concentrate. A research prototype facility will be built at another location and, in the meantime, a 50,000-ton bulk ore sample from the potential mine site will be collected and processed in preparation for development of the full-scale operations. The full-scale operation would employ 1,000 or more in the mine, mill and hydrometallurgical plant.

For fiscal year 2004, the IRRR Board has approved an operating budget of $21,771,705 to deliver the projects, programs and activities previously mentioned. The agency proposes to do so with a budgeted complement of 77 full-time employees as well as a number of temporary and seasonal personnel.

The IRRRA also assists the taconite industry, including $80,879,852 made available since 1993 to the Minnesota taconite producers for investments in new equipment, facilities and research. This is made possible through the rebate of production taxes from the Taconite Economic Development Fund (TEDF, Minnesota Statute §298.227). In 2001, the Legislature made the TEDF permanent and increased the distribution by 14.7-cents per ton to 30.1-cents beginning in 2002.

The agency has provided $46,389,561 since 1993 to the taconite producers through its Taconite Assistance Program, Producer Grant Program (PGP, Minnesota Statute §298.2961) and other assistance. This amount includes $10 million appropriated in 1996 from the Douglas J. Johnson Trust Fund for the PGP through which the IRRRA makes grants to taconite producers for environmentally unique reclamation projects and facility improvements. In 1997, the Legislature redirected a nickel of the 20.4-cents per ton rebated to the taconite producers, or approximately $2 million each year that otherwise would flow to the TEDF, to the PGP. In 2002, the Legislature extended the 5-cents PGP allocation for grants in 2000 through 2003.

Between 1993-2003, the IRRRA has reinvested a total of $127,269,413 in the Minnesota taconite industry through the above programs. These dollars have leveraged over $133 million from the producers to undertake projects exceeding $260 million.

Figure 20

FY 04 IRRRA Budget

(As approved by the Iron Range Resources and Rehabilitation Board on June 19, 2003)

Source of funds:	**All accounts[1]**	**Board[2]**	**TEPF[3]**	**NEPF[4]**	**Supp tax[5]**	**IRP Funds[6]**
Carry forward monies from prior years	17,674,099	8,497,998	4,704,452	4,471,649	0	
Taconite Production Taxes	9,912,947	3,907,632	6,005,315			
Investment Earnings	2,019,343	448,978	455,792	1,114,573		
Loan Revenues	2,270,471	38,536		2,231,935		
Contingent Revenue-IRP funds	750,000					750,000
Facilities Revenue	5,538,491	5,476,499		61,992		
Building Demolition	10,000	10,000				
Occupation Tax Region III	520,453				520,453	
Total sources of funds	**38,695,804**	**18,379,643**	**11,165,559**	**7,880,149**	**520,453**	**750,000**
Budgeted uses of funds:	**All accounts**	**Board**	**TEPF**	**NEPF**	**Supp tax**	**IRP Funds**
Marketing, Communications & External Affairs						
Marketing	873,493		873,493			
Communications	242,740	242,740				
Tourism	177,195		177,195			
Development Strategies						
Business Development/Recruitment	689,146			689,146		
Mining, Energy & Minerals Operations	333,641	333,641				
Mineland Reclamation	478,918		478,918			
Technology	138,290	138,290				
Building Demolition	85,999	85,999				
Facilities						
Giants Ridge Golf & Ski Resort	5,231,679	5,231,679				
Ironworld Discovery Center	1,710,514		1,710,514			
Agency Projects						
Development Projects	6,387,000	1,852,000		4,535,000		
Operating Projects	1,470,000	775,000	695,000			
Region III Carlton/Koochiching Counties	520,453				520,453	
Administrative Services Division						
General support	1,325,600	1,325,600				
Human Resources	966,364		966,364			
Information systems	358,032	290,559				
Maintenance/Shop	472,579	472,579				
Legal Services	377,535	300,521		77,014		
Total budgeted uses of funds	**21,771,705**	**11,048,608**	**4,901,484**	**5,301,160**	**520,453**	
Development Projects Reserve	**8,500,000**	**4,250,000**	**4,250,000**			
Carry fwd to FY 2005	**8,424,099**	**3,081,035**	**2,014,075**	**2,578,989**	**0**	**750,000**
	All Accounts	**Board**	**TEPF**	**NEPF**	**Supp tax**	**IRP Funds**

1) FY 04 is for the period July 1, 2003 through June 30, 2004.
2) Board is specific amount appropriated to the IRRR from Production Tax, pages 9 and 10, subd. 7 and subd. 11 (c).
3) TEPF is the Taconite Area Environmental Protection Fund, page 13.
4) NEPF is the Northeast Minnesota Economic Protection Trust Fund, page 13.
5) Supplemental Tax is an amount appropriated from Occupation Tax for Koochiching and Carlton Counties, page 29.
6) In FY 2002, the Business and Community Development Program was awarded a 1%, $750,000 federal loan through the U.S. Department of Agriculture Intermediary Relending Program (IRP). Under this program, $750,000 potentially is available each year over a 20-year period for a total of $15 million.

Figure 21

Taconite Economic Development Fund Distribution to Northeast Minnesota Taconite Producers*

Summary

Payable 1993 through 2003 (on 1992 through 2002 production)

Company	1993 - 2002	2003 project description	2003 amount	Total per company
EVTAC Mining Company	$8,168,496	2001 production taxes not paid due to EVTAC filing for Chapter 11 bankruptcy protection	0	$8,168,496
Hibbing Taconite Company	12,920,190	Replacement of pallet car furnace assemblies	2,155,220	15,075,410
Ispat Inland Mining Company	4,844,241	Pending	892,089	5,736,330
LTV Steel Mining Company	11,361,981	Facility permanently closed in January 2001	0	11,361,981
U. S. Steel - Keewatin Taconite (former National Steel Pellet Company)	6,265,646	Pending	1,320,701	7,586,347
Northshore Mining Company	6,112,423	Purchase of a new CAT 994D production loader	1,123,266	7,235,689
U.S. Steel - Minntac	21,781,116	Agglomerator ported kiln & Concentrator facility improvements	3,934,483	25,715,599
Totals	**$71,454,093**		**$9,425,759**	**$80,879,852****

10.4 cpt in 1993
15.4 cpt in 1994,1995 & 1996
20.4 cpt in 1997
15.4 cpt in 1998, 1999, 2000 & 2001
30.1 cpt i 2002 & thereafter
Note: cpt = cents per ton

30.1 cpt:	$9,218,175
Chips and fines credit:	207,584
Total:	**$9,425,759**

* In accordance with M.S. 298.227.
** Figure includes amounts pending

A brief explanation of the TEDF is included on page 6.

Figure 22

IRRRA Producer Grant Program

Minnesota Statute 298.2961 (1996)

In 1996 the Minnesota Legislature appropriated $10 million from the IRRRA's Douglas J. Johnson Economic Protection Trust Fund for grants to the taconite producers for: 1) environmentally unique reclamation projects; or 2) pit or plant repairs, expansions or modernizations other than for a value-added iron products plant, including but not limited to, haulage trucks and equipment and mining shovels. After the initial distribution, the Legislature allocated 5 cents per ton for Producer Grants to be distributed in 1998 through 2003.

The guidelines for projects funded under the program are: 1) Project Review – Producer Grant projects must be reviewed by a joint committee consisting of an equal number of salaried and nonsalaried employees; 2) Company Match – Each company must match its Producer Grant dollars by a ratio of 65 percent company funds to 35 percent grant funds; and 3) Company Consideration – Each company must provide lands or some other item(s) of consideration equal to at least 15 percent of the amount of its Producer Grant.

Company	1997-2002	2003 Project Description	2003 Amount	Total per company
EVTAC Mining	$2,263,294	2001 production taxes not paid due to EVTAC filing for Chapter 11 bankruptcy protection	$0	$2,263,294
Hibbing Taconite Company	3,671,386	Replacement of pallet car furnace assemblies	355,145	4,026,531
Ispat Inland Mining Company	1,195,068	Pending	133,158	1,328,226
LTV Steel Mining Company	2,675,966	Facility permanently closed in January 2001	0	2,675,966
U.S. Steel - Keewatin Taconite (former National Steel Pellet Company)	2,116,184	Pending	211,008	2,327,192
Northshore Mining Company	1,855,426	New CAT 994D production loader	178,379	2,033,805
U.S. Steel - Minntac	6,157,603	Agglomerator equipment improvements	653,569	6,811,172
Totals	**$19,934,927**		**$1,531,259**	**$21,466,186***

*Figure includes amounts pending

Figure 23

Taconite Industry Investments 1993 through 2003

Company	Taconite Assistance Program	Taconite Economic Development Fund	Producer Grant Program	Other assistance	Total
EVTAC Mining	$2,000,000	$8,168,496	$2,263,294	$1,500,000	$13,931,790
Hibbing Taconite Company	2,000,000	15,075,410	4,026,531	1,000,000	22,101,941
Ispat Inland Mining Company	2,000,000	5,736,330	1,328,226		9,064,556
LTV Steel Mining Company	2,000,000	11,361,981	2,675,966		16,037,947
U.S. Steel - Keewatin Taconite (former National Steel Pellet Company)	2,000,000	7,586,347	2,327,192	6,173,375	18,086,914
Northshore Mining Company	2,000,000	7,235,689	2,033,805		11,269,494
U.S. Steel - Minntac	2,000,000	25,715,599	6,811,172	2,250,000	36,776,771
Total Investment	**$14,000,000**	**$80,879,852**	**$21,466,186**	**$10,923,375**	**$127,269,413***

Grand total **$127,269,413***

* Figure includes amounts pending.

Occupation Tax on Taconite and Iron Ore

(Minnesota Statute 298.01 — 298.18)

The Minnesota Constitution mandates that the state impose an occupation tax on the business of mining. In order to meet this constitutional requirement, the occupation tax is generally computed in accordance with the Minnesota corporate franchise (income) tax, including the alternative minimum tax (AMT).

The occupation tax is paid in lieu of the corporate franchise tax; therefore, *mining companies are exempt from corporate income tax.*

Change in Apportionment

The 1999 Legislature changed the apportionment formula from 70-15-15 to 75-12.5-12.5. This represents sales, payroll and property factors. *The law becomes effective for tax years beginning after December 31, 2000.* All transfers in accordance with the statutes to out-of-state steel plants are considered non-Minnesota sales. This means that for production in 2001 and future years, the mining income subject to the 9.8 percent corporate franchise tax rate will be reduced from 30 percent to 25 percent. This reduces the effective tax rate from 2.94 percent to 2.45 percent.

Occupation Tax Return

The starting value of the occupation tax is the mine value, determined by the commissioner of the Minnesota Department of Revenue and published in the annual *Occupation Tax Directive*.

Generally occupation tax is determined in the same manner as the corporate franchise tax imposed by M.S. Section 290.02 but there are two exceptions:

1) The tax is *nonunitary* because it applies only to the Minnesota mine and plant.
2) Mining companies are allowed percentage depletion. This deduction is a tax preference item for the alternative minimum tax calculation.

The occupation tax applies to both ferrous and nonferrous minerals, including not only taconite and iron ore, but other minerals such as gold, silver, copper, nickel and titanium. The occupation tax due date is May 1st of the following year but companies may choose a seven month extension to file.

Readers with questions about the occupation tax mine value or how the return is prepared are invited to contact the Minnesota Department of Revenue, Minerals Tax Office, Eveleth.

Mine Value

The procedure to determine any change in mine value was developed by the Minnesota Department of Revenue and representatives from the taconite industry. The procedure used since December 1990 is:

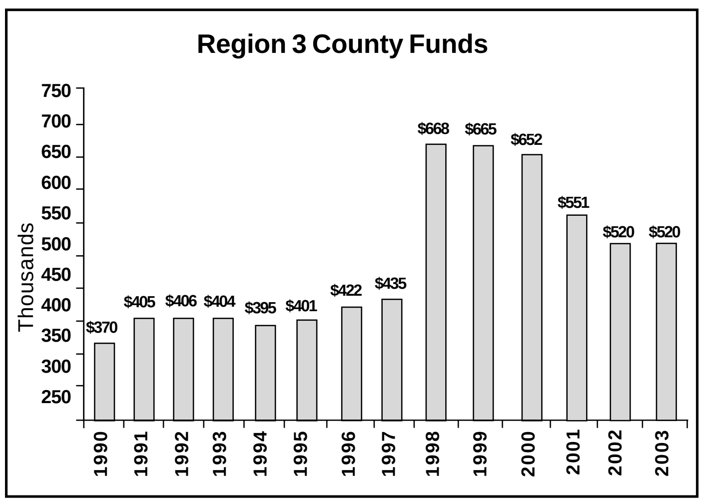
1) Seventy-five percent of the change in mine value is based on the change in the Steel Mill Products Index (SMPI) from June of the previous year to June of the current year; and
2) Twenty-five percent of the change in mine value reflects the actual transaction prices of taconite pellets sold in nonequity sales.

A copy of the *Final Directive* and backup for 2002 are on the following two pages. They show how the value per Fe (iron) unit is determined.

Occupation Tax Distribution

All occupation tax is deposited in the State General Fund. Fifty percent is dedicated to education. Forty percent of the occupation tax is distributed to elementary and secondary schools and ten percent to the University of Minnesota.

Region 3: An amount equal to one and one-half cents per taxable taconite ton is appropriated from the occupation tax to the IRRR for counties in Region 3 not qualifying for taconite property tax relief. Only Carlton and Koochiching Counties qualify. This money must be used to provide economic or environmental loans or grants. *The amount distributed in 2003 was $520,453 based on 34,696,855 taxable tons produced in 2002. Prior to 1998, the amount distributed was based on one cent per taxable ton. If the remaining 50% is insufficient to equal the 1 1/2 cents per ton after the constitional distribution to educaiton, the remainder to the two counties is reduced.*



Final Directive - 2002 Occupation Tax

Basic data for preparing 2002 occupation tax reports

Taconite

The starting point for occupation tax is the mine value, such as the value of taconite pellets *after* beneficiation or processing, but *prior* to any stockpiling, transportation, marketing and marine insurance, loading or unloading costs.

Dry basis reporting. The production tonnage for both occupation tax and production tax must be reported on a dry basis. The reported weights and analysis must correspond. For example, the weighing and sampling *must* take place at or near the same location. No moisture addition or drying should occur between the points of sampling and weighing. Weighing at a location removed from the point of sampling may be used with approval and verification of the Minnesota Department of Revenue.

Nonarms-length transactions. When taconite pellets, chips or concentrate are used by the producer or disposed of or sold in a *nonarms-length transaction*, the mine value must be determined using the values below.

Nonarms-length transactions include, but are not limited to, any sales or shipments to: 1) any steel producer having any ownership interest in the selling or shipping company, or 2) any steel producer affiliated or associated with any firm having any ownership or other financial interest in the selling or shipping company.

Non-equity (arms-length) transactions. When taconite (pellets or concentrate) is sold by the producer in a non-equity or arms-length transaction, the mine value (for occupation tax purposes) must be either: 1) the actual sales price (f.o.b. mine); *or* 2) the mine value as determined using the prices below.

The mining company may elect either option, but *once it selects an option, it must continue to use that option for all arms-length transactions.*

Taconite producers with nonequity sales since 1990 have made their election. Only those with first-time nonequity sales in 2002 may select the actual sales price option for the first time. Any request for a change in the option elected must receive approval from the Minnesota Department of Revenue. Transactions must meet the definition of non-equity (arms-length) transactions previously defined.

Flux Pellets. Any company utilizing the *production tax weight reduction for flux additives must* use the flux pellet value for that production. The fluxed pellet production weight must include the weight of the flux additive for occupation tax purposes only.

Chips, Fines and Concentrate. A separate mine value for pellet chips (fines) and concentrate is used. The value of acid pellet chips or concentrate is 75 percent of the value of acid pellets. Flux pellet chips or concentrate is valued at 75 percent of the producers' flux pellet value. In order to qualify for this lower mine value, pellet chips must qualify for the Taconite Economic Development Fund. The chips or concentrate can be stockpiled or shipped, but the chips cannot be commingled with or shipped with regular pellets. All production or shipments not meeting this definition must be valued at the appropriate higher pellet value.

Taconite Values

Pellet price per Fe (iron) unit (per dry gross ton) for the period Jan. l, 2002 through Dec. 31, 2002:

Taconite product	Mine value
Acid pellets	$.45735 per iron unit
Pellet chips (fines) and concentrate	75% of acid or fluxed pellet price
Flux Pellets - partial flux (.1% - 1.99% flux)*	$.45735 + $.0155 = $.47285
Flux (2.00% and higher flux) *	$.45735 + $.0155 per iron unit for each 1% flux

<ins>Example:</ins> Pellet with 4.8% flux in finished pellet: 4.0 x $.0155 = $.062

Mine value: $.45735 + $.062 = $.51935

* The percentage of flux in the pellets for occupation tax purposes will be as determined by the formula for the production tax flux credit.

Backup 2002 Data to Final Directive
2002 Occupation Tax Report

Backup data

Final Directive

The 1990 agreement between the taconite producers and the Minnesota Department of Revenue provided that any change in mine value would be determined by two factors:

1. the change in the Steel Mill Products Index (SMPI) from June of the prior year to June of the current year (75 percent); and
2. the change in the actual selling price of non-equity sales (25 percent).

The directive was determined using the final adjusted June 2001 SMPI (101.3) and final, adjusted June 2002 SMPI (104.5). The nonequity sales factor was developed from completed reports provided by the taconite producers and steel companies making *nonequity sales and/or purchases of taconite pellets*.

Acid Pellets — How Value is Determined

The mine value of acid pellets is determined by the change in the SMPI between June 2001 and June 2002 and the non-equity sales per dry gross ton Fe (iron) unit. The price of all non-equity pellet sales is converted to an acid sales price.

Steel Mill Products Index (SMPI)				
June, 2001 SMPI (Final)		101.3	2001 Mine Value	$ .44033
June, 2002 SMPI (Final)		104.5	2002 SMPI % of 1999 Value	x 103.159%
104.5÷101.3	=	103.159%	2002 SMPI Factor	$ .45424

Non-equity Sales						
Weighted average all pellet sales price		Weighted average all pellet sales price per long ton		Weighted average all pellet sales **dry Fe (iron) analysis**		Weighted average sales price **per Fe (iron) unit**
$207,822,427 / 6,877,606 Tons sold	=	$30.2173	÷	64.75	=	$0.46668

Acid Pellet Mine Value				
SMPI	$.45424	x 75%	= $ .34068	**2002 acid pellet mine value**
Nonequity sales	$.46668	x 25%	= .11667	
			$.45735	$.45735 per Fe (iron) unit

Flux Pellets - How to Determine Value

The value of flux pellets is determined by the amount of flux in the finished pellet as determined for production tax purposes.

Partial flux - Pellets with 1.99 percent or less flux will be valued at $.0155 per Fe (iron) unit higher than acid pellets:

$.45735 + $.0155 = $.47285

Flux - Pellets containing two percent flux or more will be valued at $.0155 per Fe (iron) unit *per each one percent of flux* in the finished pellet. Percentages are: 2% - 2.99%; 3% - 3.99%, etc.

Percent (%) flux in finished pellet (4.8%)* 4.0 x $.0155

*(From page 1 - *Production Tax Report*) rounded down to the closest percent, for example, 4.82% rounded to 4%.

The Mine Value of Flux Pellets (4.82% Flux) is: $.45735 + $.062 = $.51935 per Fe (iron) unit.

Mine Value - Chips and Concentrates

A pellet chip and concentrate value is included for companies selling pellet chips or concentrate. Acid chips or concentrate is valued at 75 percent of the acid pellet price. Flux chips or concentrate is valued at 75 percent of the flux pellet value. Concentrate sold or shipped without being processed into pellets uses the same value as chips.

Figure 24

Occupation Tax Mine Value-Taconite (Historical Summary)

Year	Acid pellet price per Fe unit		Percent Fe		Lake Erie value per ton	Less transportation		Mine value
1965	$0.25200	x	65.00%	=	$16.38	$3.64	=	$12.740
1970	0.26600	x	65.00%	=	17.29	4.05	=	13.240
1975	0.46020	x	65.00%	=	29.91	6.83	=	23.080
1980	0.72890	x	65.00%	=	47.38	10.70	=	36.680
1982-1984	0.86900	x	65.00%	=	56.49	12.69	=	43.800
1985-1987	0.72500	x	65.00%	=	47.13	13.07	=	34.060

Year		Acid pellet price per Fe unit		Flux premium		Flux pellet price per Fe unit		Percent Fe			Mine value	
								Acid	Flux		Acid	Flux
1987-1989	Acid	$0.37344					x	65		=	$24.27	
	Flux (1%)					$.38888	x		62	=		$24.11
1990-1992*	Acid	0.42000					x	65		=	27.30	
	Flux (4%)	0.42000	+	.062	=	.48200	x		62	=		29.884
1994	Acid	0.43900					x	65		=	28.535	
	Flux (4%)	0.43900	+	.062	=	.50100	x		62	=		31.062
1996	Acid	0.46400					x	65		=	30.16	
	Flux (4%)	0.46400	+	.062	=	.52600	x		62	=		32.612
1998	Acid	0.47400					x	65		=	30.81	
	Flux (4%)	0.47400	+	.062	=	.53600	x		62	=		33.23
1999	Acid	0.44800					x	65		=	29.12	
	Flux (4%)	0.44800	+	.062	=	.51000	x		62	=		31.62
2000	Acid	0.46600					x	65		=	30.29	
	Flux (4%)	0.46600	+	.062	=	.52800	x		62	=		32.74
2001	Acid	0.44000					x	65		=	28.60	
	Flux (4%)	0.44000	+	.062	=	.50200	x		62	=		31.12
2002	Acid	0.45735					x	65		=	29.73	
	Flux (4%)	0.45735	+	.062	=	.51935	x		62	=		32.20

Some numbers are corrected from prior years' *Minnesota Mining Tax Guides*.

* Beginning in 1991, the value of flux pellets was modified to $.0155 per each one percent flux in the pellets. A lower value of 75 percent of the pellet price is allowed for chips and fines.

Figure 25

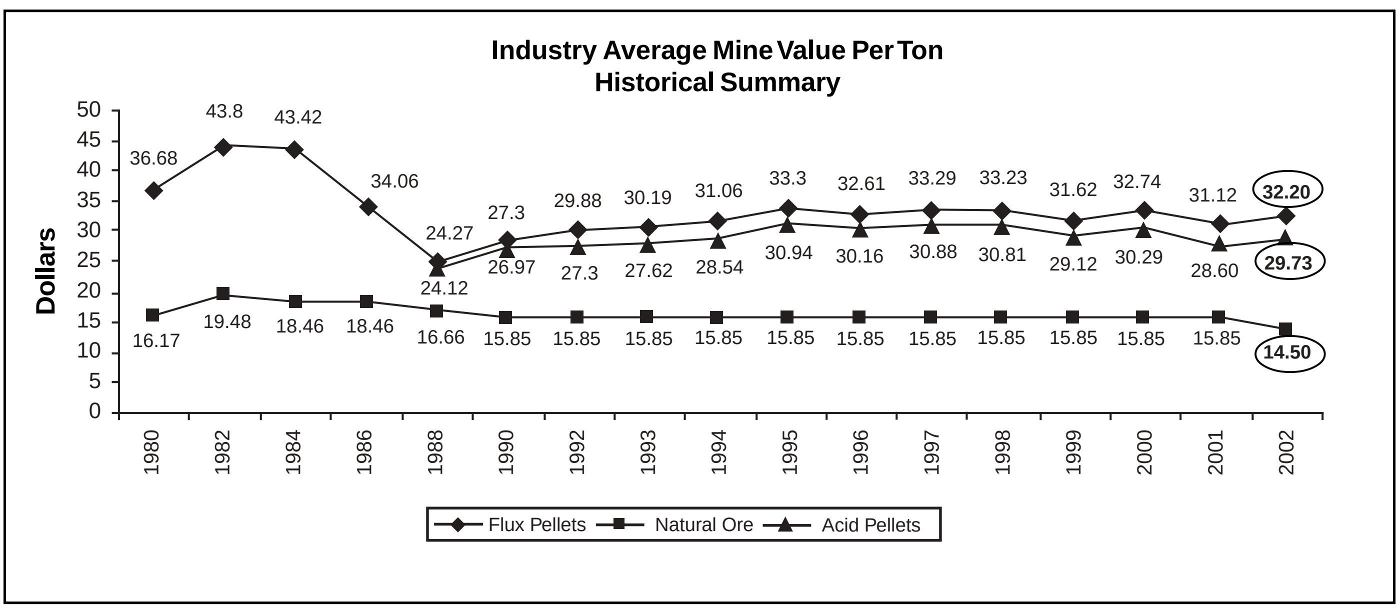


Figure 26

Occupation Tax Mine Value and Occupation Tax Paid

Production year

Company	Employment* 2001	Employment* 2002	2002 tons produced	2002 mine value	Occupation tax paid** (preliminary)
Taconite:					
Cliffs Erie LLC	77	12	0	0	0
EVTAC	475	438	4,226,785	$128,443,935	0
Hibbing	783	746	7,422,860	231,768,797	0
Ispat	362	352	2,812,988	94,000,180	15,000
National	465	471	5,494,210	168,318,891	25,700
Northshore	515	500	4,045,840	126,827,115	0
USX	1,543	1,502	14,309,862	464,044,915	1,300,000
Taconite totals	**4,220**	**4,021**	**38,312,545**	**$1,213,403,833**	**$1,340,700**
Natural ore:					
Auburn Minerals, L.L.C.	22	15	160,888	$2,332,876	$0
Natural ore totals	22	15	**160,888**	**$2,332,876**	**$0**
Grand total	**4,242**	**4,036**	**38,473,433**	**$1,215,736,709**	**$1,340,700**

* Employment information from *St. Louis County Mine Inspector Annual Report - 2002*.
** An automatic seven-month extension is granted if 90 percent of the tax is paid May 1. The exact tax liability for the year will not be known until December 1.

Figure 27

Occupation Tax Paid by Company

Taconite	1992	**1994**	**1996**	**1998**	**1999**	**2000**	**2001**	**2002**
EVTAC	$ 0	$ 0	$ 0	$ 0	$ 0	$0	$0	$ 0
Hibbing Tac	489	502	483	466	39	309	0	0
Inland Steel	0	0	0	0	30	0	0	15
National Steel	0	0	0	0	18	0	0	26
Northshore	0	71	148	71	75	0	0	0
USX	1,062	1,545	1,087	1,612	1,144	1,032	0	1,300
Taconite total	**$1,551**	**$2,118**	**$1,718**	**$2,197**	**$1,183**	**$1,341**	**$0**	**$1,341**
Natural ore	**1992**	**1994**	**1996**	**1998**	**1999**	**2000**	**2001**	**2002**
Auburn	NA	$47	$175	$87	0	168	60	0
Natural ore total	**$$9**	**$69**	**$175**	**$87**	**$0**	**$168**	**$60**	**$0**
Total tax paid	**$1,560**	**$1,709**	**$1,893**	**$2,284**	**1,183**	**$1,509**	**$60**	**$1,341**

Figure 28

Reconciliation of Occupation Tax and Production Tax Tonnages - 2002*

Company	Gross natural tons	Less: moisture	Occupation tax production tons (dry weight)	Less: flux	Production tax production tons
Acid pellets, chips, and fines					
Ispat	25,014	2.00%	24,514	0	24,514
USX Corp.	2,550,058	2.23%	2,493,147	0	2,493,147
Flux pellets, chips, and fines					
EVTAC	4,281,468	1.27%	4,226,785	(21,986)	4,204,799
Hibbing	7,510,968	1.17%	7,422,860	(14,319)	7,408,541
Ispat	2,845,384	2.00%	2,788,474	(151,859)	2,636,615
National	5,562,735	1.23%	5,494,210	(30,573)	5,463,637
Northshore	4,045,840	0.00%	4,045,840	(66,557)	3,979,283
USX Corp.	12,091,133	2.27%	11,816,715	(515,684)	11,301,031
Subtotal	36,337,528		35,794,884	(800,978)	34,993,906
Total production summary					
Acid	2,575,072		2,517,661	0	2,517,661
Flux	36,337,528		35,794,884	(800,978)	34,993,906
Totals:	**38,912,600**		**38,312,545**	**(800,978)**	**37,511,567**

* The taconite production tax and the occupation tax use different production tonnages. This table is a reconciliation showing the total production for each company, *including* flux and moisture and *excluding* flux and moisture.

Figure 29

Crude Ore Mined

Company	1998	1999	2000	2001	2002
EVTAC	15,291,580	14,005,931	12,692,100	13,449,311	13,283,572
Hibbing	29,579,704	26,557,214	30,533,879	22,458,384	26,415,447
Ispat	8,233,999	8,081,731	8,630,112	8,211,395	8,319,510
LTV	22,403,375	21,989,868	22,879,131	0	0
National	19,803,145	20,329,303	19,759,549	16,836,232	19,068,584
Northshore	12,882,338	11,940,849	12,373,033	8,603,443	12,129,604
USX	48,980,515	44,651,316	50,291,700	45,303,626	50,902,144
Totals:	**157,174,656**	**147,556,212**	**157,159,504**	**114,862,391**	**130,118,861**

Figure 30

Occupation Tax Collected on Iron Ore and Taconite Production

	Iron ore		Taconite		Totals	
Year	**Tons produced (000s)**	**Occupation tax (000s)**	**Tons produced (000s)**	**Occupation tax (000s)**	**Tons produced (000s)**	**Occupation tax (000s)**
1960	44,042	$20,655	13,390	$638	57,432	$21,293
1965	33,462	15,646	19,004	1,740	52,466	17,386
1967	25,480	12,646	24,311	1,611	49,791	14,257
1969	22,511	10,968	33,410	2,285	55,921	13,253
1970	21,172	9,278	35,348	3,161	56,520	12,439
1971	17,530	7,301	33,778	5,379	51,308	12,680
1972	14,439	6,376	34,554	3,659	48,993	10,035
1973	17,941	8,836	41,829	6,824	59,770	15,660
1974	17,654	9,698	41,053	10,092	58,707	19,790
1975	10,227	5,038	40,809	18,955	51,036	23,993
1976	9,494	6,480	40,575	18,270	50,069	24,750
1977	4,647	2,641	26,372	3,190	31,019	5,831
1978	5,905	3,937	49,545	19,266	55,450	23,203
1979	4,230	2,663	55,333	23,856	59,563	26,519
1980	2,221	1,000	43,060	13,808*	45,281	14,808
1981	1,664	1,232	49,369	11,372*	51,033	12,604
1982	789	719	23,445	0*	24,234	719
1983	851	499	25,173	2,386*	26,024	2,885
1984	850	442	35,689	10,606*	36,539	11,048
1985	1,465	394	33,265	4,070*	34,730	4,464
1986	1,122	343	25,451	5,866*	26,573	6,209
1987	1,403	789	32,109	5,356	33,512	6,145
1988	743	294	39,772	2,993	40,515	3,287
1989	603	160	39,882	350	40,485	510
1990	417	11	42,522**	2,057	43,593	2,068
1991	406	32	39,922**	2,008	40,328	2,040
1992	528	38	38,850**	1,551	39,956	1,589
1993	145	0	40,485**	1,709	40,630	1,709
1994	318	22	42,448**	2,302	42,766	2,324
1995	349	87	45,857**	3,072	46,206	3,159
1996	441	176	44,711**	2,460	45,152	2,636
1997	501	213	45,688**	2,508	46,007	2,721
1998	392	87	45,196**	2,152	45,588	2,238
1999	235	0	42,156**	1,183	42,391	1,183
2000	400	168	45,762**	1,341	46,162	1,509
2001	150	56	32,360**	0	32,510	56
2002	161	0	38,313**	1,341	38,473	1,341

* Actual tax collected as adjusted by the provisions of M.S. 298.40. For additional information, see the 1991 *Minnesota Mining Tax Guide* or contact the Minnesota Department of Revenue, Minerals Tax Office, Eveleth.

** Refer to *Figure 28,* page 34 — Beginning with 1990 production, the Minnesota Department of Revenue changed from natural weight to dry weight. The taconite production tonnage shown is a net dry weight without moisture or flux.

Figure 31

Taconite Industry Occupation Tax Report Averages on a Per Ton Basis

Year	Tons produced (000 tons)	Average value[1]	Transportation[2]	Cost of beneficiation[3]	Cost of mining[4]	Development	Taconite & property tax paid	Sales and use tax paid	Admin. and misc. expense	Royalty	Taxable value of production	Occupation tax paid
1975	40,809	28.846	6.887	9.499	2.799	0.891	0.250	0.177	0.621	0.976	6.746	0.464
1976	40,575	32.200	7.609	11.334	3.254	1.219	0.250	0.183	0.778	1.077	6.496	0.450
1977	26,372	34.827	8.127	17.376	4.816	1.415	0.366	0.280	1.368	1.110	0.031	0.121
1978	49,545	37.080	8.766	14.725	4.096	1.497	0.254	0.173	1.076	1.259	5.234	0.388
1979	55,333	41.306	9.929	16.094	4.260	1.760	0.253	0.227	1.297	1.320	6.166	0.435
1980	43,060	46.365	10.679	20.867	5.028	2.006	0.298	0.214	1.519	1.444	4.310	0.321
1981	49,369	51.107	13.307	20.986	5.515	2.155	0.266	0.187	2.150	1.705	4.836	0.257
1982	23,445	53.946	12.658	31.007	6.228	2.213	0.419	0.274	4.441	2.078	(5.372)	0.140
1983	25,173	56.178	13.034	26.624	4.952	1.485	0.365	0.186	4.819	1.832	2.881	0.453
1984	35,689	56.480	13.077	19.852	4.227	1.997	0.270	0.204	4.534	1.691	10.628	0.838
1985	33,265	47.102	13.064	19.289	4.235	1.568	0.285	0.194	4.399	1.654	2.414	0.297
1986	24,017	47.143	13.024	18.474	4.317	0.902	0.321	0.222	4.479	1.498	3.690	0.259
1987	32,109	26.766	0.053	15.595	3.278	0.556	1.684	0.179	3.384	1.281	0.756	0.167
1988	39,786	24.325		14.901	3.559	0.864	1.524	0.192	2.718	1.180	(0.613)	0.075
1989	39,882	24.424		15.895	4.163	1.083	1.830	0.233	3.024	1.161	(2.965)	0.009
1990	43,176	27.444		16.286	4.513	1.076	1.928	0.256	3.013	1.129	(0.757)	0.048
1991	40,619	28.754		16.837	4.667	1.358	2.102	0.272	3.530	1.156	(1.168)	0.049
1992	39,428	28.863		17.001	4.489	1.425	2.103	0.269	4.275	1.286	(1.985)	0.039
1993	40,485	28.976		16.089	4.491	1.261	1.941	0.265	4.050	1.083	(0.205)	0.042
1994	42,448	30.144		16.429	4.709	1.575	1.936	0.270	3.757	1.092	0.376	0.054
1995	45,857	32.527		16.618	4.690	1.563	1.849	0.245	3.712	1.218	2.632	0.067
1996	44,618	31.748		18.013	5.275	1.684	2.042	0.271	4.022	1.268	(0.827)	0.061
1997	45,659	32.504		17.500	4.945	1.822	2.038	0.224	3.906	1.183	0.886	0.055
1998	45,196	32.689		17.582	4.943	1.639	2.031	0.028	3.895	1.185	1.245	0.048
1999	42,125	31.020		18.172	5.422	1.615	2.114	0.081	3.955	1.194	(1.569)	0.028
2000	45,762	32.034		19.138	4.984	1.621	2.128	0.120	3.547	1.315	(0.864)	0.029
2001	32,291	30.748		19.251	5.876	1.151	2.349	0.077	4.883	1.253	(4.092)	0.002
2002	38,313	31.683		16.742	5.163	1.267	1.918*	0.066	3.240	1.108	2.179	0.035

* The 2002 Taconite Production Tax paid include the tax due, but not paid by EVTAC as a result of filing for Chapter 11 Bankruptcy.

1. This average value will not match the values on *Figure 24*, page 32, because this is an average of all taconite produced (acid, flux, chips, concentrate).
2. Transportation consists of the rail and lake transportation allowance and marketing and marine insurance from the occupation tax directives through April 30, 1987.
3. Cost of beneficiation includes beneficiation labor, supplies, depreciation, interest, and miscellaneous, *Figure 32*, page 37.
4. Cost of mining is the total mining labor, mining supplies and depreciation, *Figure 32*.

Beginning with 1990, the information on the above table comes from the *Production Cost Summary Information Report* (based on the pre-1990 *Occupation Tax Report*).

Figure 32

Taconite Industry Occupation Tax Report Average Cost Per Ton

Beneficiation

Year	Tons produced (000 tons)	Beneficiation labor (000s)	Per ton	Beneficiation supplies (000s)	Per ton	Beneficiation depr. and int. (000s)	Per ton	Beneficiation/ miscellaneous per ton	Total beneficiation per ton
1982	23,445	153,361	6.541	366,730	15.642	188,239	8.029	0.795	31.007
1984	35,689	112,415	3.150	419,708	11.760	173,211	4.854	0.088	19.852
1986*	24,017	64,990	2.706	259,928	10.823	116,637	4.857	0.088	18.474
1988	39,786	90,047	2.263	389,070	9.779	109,732	2.758	0.101	14.901
1990*	43,176	116,305	2.694	471,931	10.930	110,641	2.562	0.100	16.286
1992	39,428	137,850	3.496	412,429	10.460	101,392	2.572	0.473	17.001
1994	42,448	123,354	2.906	469,106	11.051	98,752	2.327	0.145	16.429
1996	44,618	151,535	3.396	545,974	12.237	97,451	2.184	0.196	18.013
1997	45,659	149,575	3.276	550,717	12.062	88,165	1.931	0.231	17.500
1998	45,196	152,743	3.380	552,479	12.224	84,750	1.875	0.103	17.582
1999	42,125	140,787	3.342	532,013	12.629	88,746	2.106	0.095	18.172
2000	45,762	159,066	3.476	628,526	13.735	79,856	1.745	0.182	19.138
2001	32,291	102,021	3.159	434,459	13.455	75,445	2.337	0.300	19.251
2002	**38,313**	**102,497**	**2.675**	**457,091**	**11.930**	**72,639**	**1.896**	**0.241**	**16.742**

Mining

Year	Tons produced (000s)	Mining labor (000s)	Per ton	Mining supplies (000s)	Per ton	Cost of mining	Mining depreciation (per ton)	Total mining costs per ton
1982	23,445	56,247	2.399	57,952	2.472	4.871	1.357	6.228
1984	35,689	60,957	1.708	63,600	1.782	3.49	0.737	4.227
1986*	24,017	39,162	1.631	43,290	1.802	3.433	0.884	4.317
1988	39,786	55,238	1.388	67,491	1.696	3.084	0.474	3.559
1990*	43,176	70,770	1.639	105,330	2.44	4.079	0.434	4.513
1992	39,428	75,363	1.911	87,287	2.214	4.125	0.364	4.489
1994	42,448	81,778	1.927	101,974	2.402	4.329	0.38	4.709
1996	44,618	83,441	1.870	131,305	2.943	4.813	0.462	5.275
1997	45,659	81,413	1.783	128,129	2.806	4.589	0.356	4.945
1998	45,196	81,703	1.808	127,659	2.825	4.633	0.310	4.943
1999	42,125	78,321	1.859	132,620	3.148	5.007	0.415	5.422
2000	45,762	72,608	1.587	140,198	3.064	4.651	0.333	4.984
2001**	32,291	61,996	1.920	113,732	3.522	5.442	0.434	5.876
2002	**38,313**	**68,142**	**1.779**	**113,560**	**2.964**	**4.743**	**0.420**	**5.163**

Beginning with 1990, the information on this table is based on the *Production Cost Summary Information Report* (from the pre-1990 *Occupation Tax Report*).

* The 1986 numbers do not include Reserve Mining, which ceased production in August 1986, due to bankruptcy. The 1990 numbers include Northshore Mining Company, which reopened the former Reserve Mining Company in January 1990.

** The 2001 numbers do not include LTV Production and related costs. LTV filed bankruptcy and closed permanently January 5, 2001.

Income Tax Withholding on Mining and Exploration Royalty

(Minnesota Statute 290.923)

Income tax withholding is a 6.25-percent tax assessed on exploration and/or mining royalty income. This section defines royalty, identifies who must pay the tax, and outlines the statutory requirements of both the royalty payer and the royalty recipient. Also included is the royalty cost by company per ton of pellets produced (*Figure 34*) and the industry-wide cumulative total royalty paid and income tax withholding *Figure 33*, page 39.

Royalty is defined as any amount (in money or value of property) received by any person having any right, title or interest in or to any tract of land in Minnesota for permission to explore, mine, take out or remove ore. Ores subject to withholding are iron, taconite, and other minerals (copper, nickel, gold, etc.) subject to the net proceeds tax. Royalties may include rents, bonus payments, and non-recoverable lease payments.

Royalty Payers

All payers of mining and/or exploration royalty are required to withhold and remit an income tax of 6.25 percent on royalty paid for use of Minnesota lands effective Jan. 1, 2001.

Royalty payers have the option to apply for a separate Minnesota tax identification number used for reporting income tax withholding on mining/exploration royalty, rather than combining it with the wage/salary withholding. To apply for a separate identification number, an *Application for Business Registration*, *Form ABR*, must be completed and submitted to the Minnesota Department of Revenue. When reporting royalty withholding under its own identification, separate returns must be used — *MW-1: Quarterly Withholding Return*; *MW-5: Minnesota Income Tax Withholding Deposit Form*; and *MW-6: Annual Reconciliation of Income Tax Withheld*. **(Starting July 2001, MW-1's and MW-6's must be filed electronically. See our website at www.taxes.state.mn.us for more information.)**

Royalty payers are obligated to inform recipients of their withholding tax requirement and must provide them with a federal form *W-4*, exemption certificate. The State of Minnesota uses the federal form. The W-4 informs the payer whether to withhold tax from the recipient. Unless the payer receives a W-4 indicating an exempt status, the payer is obligated to withhold tax. Copies of W-4s received from royalty recipients must be sent to the Minnesota Department of Revenue, Minerals Tax Office, 612 Pierce Street, Eveleth, MN 55734-1611.

Royalty payments made to the State of Minnesota or other government units are not subject to withholding income tax. A W-4 is not required.

Royalty payers must provide each royalty recipient with a federal form *1099 MISC* by January 31 for the royalty paid during the previous year. The form has areas to report amounts of royalty paid, tax withheld, and to identify the state where the royalty was incurred.

Royalty Paid to a Trust

Royalty paid to a simple trust (a trust that distributes all the royalty income to its beneficiaries) is exempt from having tax withheld by the payer, unless it elects to have the withholding tax deducted. The trust is entitled to that option but must inform the royalty payer by using a W-4 or letter of its decision. If the trust chooses the tax-exempt status, it becomes the royalty payer and is subject to the same obligations as previously discussed. The trust:

1. Becomes responsible for withholding from the beneficiaries;
2. Informs the beneficiaries of the requirements to withhold tax and provide them with a W-4;
3. Provides each beneficiary with the 1099 MISC by January 31 of the following year; and
4. Prepares and submits required withholding returns—MW-1, MW-5, and MW-6 to the State of Minnesota.

Royalty Reports

The *MW-6, Annual Reconciliation of Income Tax Withheld*, must be submitted to the Minnesota Department of Revenue by February 28, even if tax is not withheld. The 1099 MISC forms must accompany the MW-6 for each recipient. Royalty payers with more than 250 recipients must provide the department with the 1099 MISC information on magnetic tape. Royalty payers with less than 250 recipients may submit the 1099 MISC information on disc or paper copy. It must, however, be consistent with the federal format.

If a separate identification number is only used for royalty withholding, the MW-6 and 1099 MISC, where applicable, must be submitted to:

Minnesota Department of Revenue
Minerals Office
612 Pierce Street
Eveleth, MN 55734-1611

If the same identification number is used for both wages and royalty withholding, submit the MW-6 and the 1099 MISC, where applicable to:

Minnesota Department of Revenue
Withholding Tax
Mail Station 1195
St. Paul, MN 55146-1195

Where wages and royalty withholding are combined, a copy of the MW-6 and the 1099 MISCs must also be sent to the Minnesota Department of Revenue, Minerals Tax Office in Eveleth.

Royalty Recipients

Individuals who had no Minnesota income tax liability in the preceding year and reasonably expect to have no liability for the current year are exempt from the withholding tax. Nonresident individuals will not incur a Minnesota income tax liability for 2003 and are not required to file a Minnesota individual income tax return if their Minnesota assignable gross income is less than $7,800. A W-4 exemption certificate must be filed with the royalty payer so that Minnesota income tax will not be withheld from the royalties received.

If tax is incorrectly withheld by the royalty payer, the royalty recipient must file a Minnesota income tax return, M-1NR, to obtain a refund. Royalty recipients *are not* eligible to use percentage depletion on their individual income tax returns.

Questions/Forms

Inquiries should be directed to the Minnesota Department of Revenue, Minerals Tax Office, Eveleth.

Forms are available by contacting:

Minnesota Department of Revenue
Forms Distribution
600 North Robert Street
Mail Station 1421
St. Paul, MN 55146-1421

A Minnesota *Income Tax Withholding Instruction Booklet* is available for assistance in complying with the state withholding laws. Although designed for withholding on Minnesota wages, the general filing requirements also pertain to royalty withholding.

Royalty Tables

The royalty costs per ton beginning in 1970 to the present are shown in *Figures 34 & 35*, page 40.

Figure 33

Royalty Paid and Income Tax Withheld
(Taconite, natural ore and others)

Year	Royalty paid	Income tax withheld
1993	$46,889,065	$347,227
1994	$40,067,385	$347,996
1995	$48,160,466	$302,067
1996	$53,751,312	$452,575
1997	$53,902,838	$582,936
1998	$52,945,700	$446,258
1999	$49,904,447	$493,350
2000	$54,225,938	$414,658
2001	$45,448,947	$265,587
2002	$37,903,733	$142,422

Royalties paid to the state on state managed mineral lands are not subject to withholding tax. However, these revenues are allocated by law primarily for educational purposes.

The Minnesota Department of Natural Resources manages state-owned mineral rights for the permanent school fund, permanent university fund, and taxing districts throughout the state. Interest and dividends from the permanent school fund is distributed to school districts through the state. Interest and dividends from the revenue to the permanent university fund from state mineral leases is now split between a scholarship account for students at the four campuses of the University and for minerals research by the Natural Resources Research Institute.

Revenue from mining on tax forfeited lands is split 20% to the state's general fund and 80% to the local taxing districts. The 80% is split 3/9 to the county, 4/9 to the school district and 2/9 to the township or city where the mining occurs.

For further information, contact the Transactions Section, Lands and Minerals Division, DNR, in St. Paul. Their address and telephone is listed with publication information before the table of contents.

Figure 34

Average Royalty Cost Per Ton of Pellets Produced

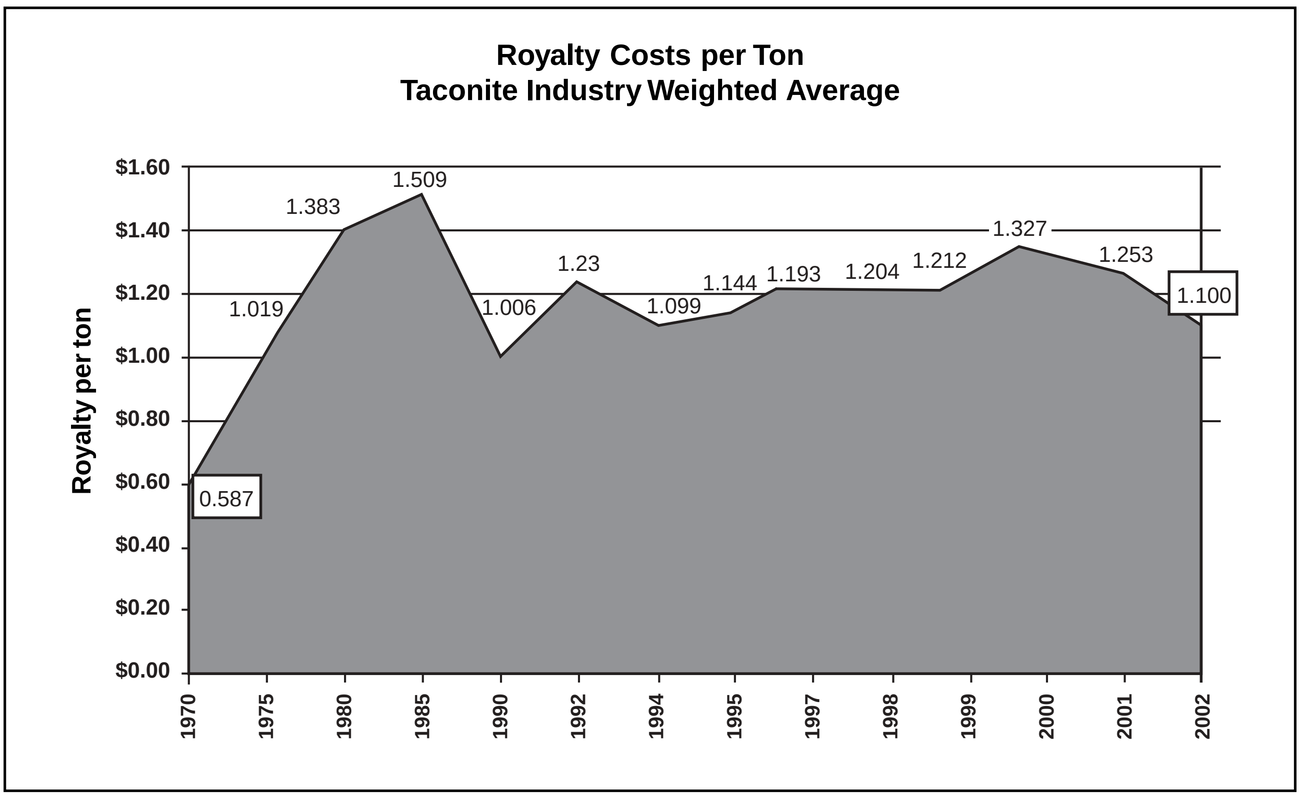
	1975	1980	1985	1990	1995	1997	1998	1999	2000	2001	2002
Industry Production (millions of tons)	40.8	42.9	33.3	43.2	45.9	44.8	44.3	41.3	44.9	32.2	38.3
Butler	1.139	1.815	1.954	Closed	Closed	Closed	Closed	Closed	Closed	Closed	Closed
Erie (LTV)	0.954	1.749	2.289	1.288	1.545	1.418	1.419	1.387	1.631	0	0
Eveleth***	2.218	3.578	2.621	1.644	1.416	1.453	1.459	1.742	1.986	1.733	1.287
Hibbing***	*	0.398	0.772	0.805	1.495	1.800	1.646	1.608	1.561	1.867	1.338
Inland	*	1.212	1.801	1.396	0.810	1.083	1.087	0.920	0.997	1.055	1.056
National	0.974	1.525	2.001	2.041	1.606	1.226	0.960	0.985	0.943	1.064	0.943
Reserve/Northshore**	1.919	2.82	3.087	1.35	1.472	1.826	1.846	1.611	1.690	1.459	1.614
USX-Minntac	0.171	0.288	0.334	0.239	0.397	0.465	0.667	0.754	0.948	0.840	0.844
Industry Average— Weighted	1.019	1.383	1.509	1.006	1.144	1.193	1.204	1.212	1.327	1.253	1.100
Arithmetic	1.229	1.673	1.857	1.252	1.249	1.325	1.298	1.287	1.394	1.336	1.180

* Plant not yet in production.

** Reserve's/Northshore's royalty costs per ton are based primarily on shipments, not production.

*** Royalty stated on a calendar year (cash) basis with overrides to partners subtracted since 1980. Tonnages used are a "dry" basis, which began in 1990.

Figure 35



Sales and Use Tax
Taconite and Iron Ore

(Minnesota Statute 297A)

The general Minnesota sales and use tax is a broad-based tax on consumer expenditures. The tax is imposed on the sale of tangible personal property or services to the final consumer. A number of exemptions reduce the size of the actual sales and use tax base. In addition, different tax rates apply to several products.

The current sales tax rate is 6.5 percent. First adopted in 1967, Minnesota's sales and use tax is now the second largest source of state tax revenue, yielding *$3.806 billion in fiscal year 2002.*

Sales and use taxes are essentially identical taxation of tangible personal property. Sales tax is assessed by the seller at the time of the sale. Use tax is paid by purchaser, or user when no sales tax is paid at the time of the sale.

Industrial Production Exemption

The industrial production exemption, M.S. 297A.25, Subd. 9, allows industry to exempt items from sales and use tax that are used or consumed in the production of personal property intended to be sold ultimately at retail, whether or not the item used becomes an ingredient or constituent part of the property produced. Items included in the exemption are chemicals, fuels, petroleum products, lubricants, packaging materials, electricity, gas, and steam. Explosives, a major item for the mining industry, are exempt under the chemical classification. Note: A fact sheet, *Taconite and Iron Mining, number 147,* is available from the Minnesota Department of Revenue or on the Web.

The 1971 Minnesota Legislature approved the production materials exemption M.S. 297A.25, Subd. 15, exclusively for the taconite mining industry. This statute allows for the exemption from sales tax of grinding rods, grinding balls, and mill liners that are substantially consumed in the production of taconite. During the process, this material is added to and becomes a part of the product processed. For the purpose of the exemption, the term *mill* includes all facilities used to reduce and process ore.

In 1974, the Minnesota Legislature amended the industrial production exemption M.S. 297A.25, Subd. 9, to cover accessory tools. The accessory tool exemption is available to all manufacturing-type businesses. The Legislature, in defining what qualifies as an accessory tool, set three standards that must be met: 1) an item must be separate and detachable; 2) it must have a direct effect on the product; and 3) it must have a useful life of less than twelve months. In mining, shovel dipper teeth, shovel bucket lip and lower wing shrouds, cat and grader blade cutting edges, drill bits and reamers qualify for this exemption.

The 1994 Legislature expanded the law to exempt materials including chemicals, fuels and electricity purchased by persons engaged in industrial production to treat production process waste.

Beginning July 1, 2001 all sales and use tax information must be filed electronically, using either the Internet (www.taxes.state.mn.us) or the phone (1-800-570-3329).

Capital Equipment Refund

If you buy or lease qualifying capital equipment or replacement capital equipment for use in Minnesota you are eligible for a refund of all, or a part of, the Minnesota and any local sales or use tax you paid.

Capital equipment means machinery and equipment used by the purchaser or lessee primarily for manufacturing, fabricating, mining, or refining a product to be sold ultimately at retail. Both purchasers and lessees of capital equipment are eligible for a full refund of the sales or use tax.

Replacement capital equipment means machinery and equipment to replace qualifying capital equipment, and repair and replacement parts, accessories and upgrades to qualifying equipment, foundations for qualifying equipment, and special purpose buildings. Purchasers or lessees are eligible for a partial refund of the sales or use tax paid on replacement capital equipment purchased or leased between July 1, 1994 and June 30, 1998. Beginning July 1, 1998, purchases or lessees of replacement capital equipment are eligible for a **full** refund of the sales and use tax paid.

You must pay sales tax when you buy or lease capital or replacement capital equipment. If the seller does not charge you sales tax, you must report and pay use tax on the equipment. To get a refund of sales or use tax paid you must file a Capital Equipment Refund Claim Form ST-11. You may file no more than two capital equipment refund claims in a calendar year.

A claim must be filed within three and one half years from the due date of the return or within one year of the date of an order assessing liability (if the liability has been paid in full) whichever is longer.

The term capital equipment is not the same as capitalized assets. Items capitalized for accounting purposes do not automatically qualify as capital equipment. Items that you expense for accounting purposes, such as leased equipment, may be considered capital equipment for refund purposes.

Capital equipment does not include:

- Agriculture, aquaculture, and logging equipment
- Motor vehicles taxed under Minnesota Statutes, section 297B (vehicles for road use)

Electronic Funds Transfer

Starting in calendar year 1994, companies with a sales and use tax liability of $120,000 per fiscal year (July 1 through June 30) are required to remit the tax using electronic funds transfer. The due date for remitting the tax is the 14th of the month following the month of the sale. The return must be filed by the 25th of the month.

If actual amounts are not available by the 14th of the month, an estimate of the net amount to be paid may be remitted by using one of the following options:

- 100 percent of the previous month's sales and use tax;
- 100 percent of the tax paid in the same month of the previous year; or
- 95 percent of the actual amount.

The balance is due on the 25th of the month. You must also make this payment electronically. If there is an overpayment of tax, we will issue a refund. Do not take credit on any other return for an overpayment.

Voluntary EFT payers are companies not required to file electronically but electing to do so. The returns and payments are due on the 20th of the month following the filing month. If a taxpayer is required to pay any business tax to the Department of Revenue by EFT, the taxpayer must pay all business taxes by EFT.

Effective for returns due after 1994, the June estimated payment will only be required from those who are required to pay by electronic funds transfer. Other filers who are not required to pay electronically are no longer required to file an estimated June return. All filers required to pay electronically must make an estimated payment for their June tax liabilities. The estimate must be 75 percent of the June liability and must be made two business days before June 30.

Figure 36

Use Tax Paid

Year	Use tax	M.S. 298.40 Occupation tax offset (tax not collected)	Refund claims*	Net use tax
1984	7,110,166	4,283,181		2,826,985
1985	6,476,570	4,216,360		2,260,210
1986	4,890,472	2,399,142		2,491,330
1987	5,286,947	1,827,482		3,459,465
1988	8,351,535	1,149,975		7,201,560
1989	11,112,722	129,744	$ 83,478	10,899,500
1990	13,127,042	0	104,173	13,022,869
1991	11,860,378	0	475,098	11,385,280
1992	11,702,398	0	447,370	11,255,028
1993	11,991,300	0	328,139	11,663,161
1994	14,200,022	0	1,063,242	13,136,780
1995	15,929,989	0	1,435,835	14,494,154
1996	16,821,715	0	4,841,228	11,980,487
1997	18,535,506	0	6,615,055	11,920,451
1998	17,361,851	0	9,175,324	8,186,527
1999	16,806,784	0	12,394,610	4,412,174
2000	18,829,904	0	12,698,510	6,131,394
2001	14,123,142	0	15,775,844	(1,652,702)
2002	13,694,774	0	12,850,487	844,287
2003 Est.	11,500,000	0	9,000,000	2,500,000

* These are capital equipment refund claims allowed, not including interest, for new or expanding businesses and for repair and replacement parts.

Capital Equipment Exemptions & Refunds

Title	Company responsibility	Refund procedure
Industrial Production Exemption M.S. 297A.25, Subd. 9	File Exemption Certificate (ST-3) or Direct Pay Permit with vendor	No tax collected
Taconite Production Material Exemption* M.S. 297A.25, Subd. 15	File Exemption Certificate (ST-3) or Direct Pay Permit with vendor	No tax collected
Capital Equipment Exemption (refund) M.S. 297A.01, Subd. 16 (definition) M.S. 297A.25, Subd. 42	Must pay the sales tax or assess use tax	File for 6.5% refund on Form ST-11
Replacement Capital Equipment (refund) (Taconite mining company only)* M.S. 297A.01, Subd. 16F	Must pay the sales tax or assess use tax	File for 6.5% refund on Form ST-11
Replacement Equipment (refund) M.S. 297A.01, Subd. 20 (definition) M.S. 297A.02, Subd. 5 (imposition of tax)	Must pay the sales tax or assess use tax	File for 6.5% refund on Form ST-11
Minerals Production Facilities Exemption M.S. 297A.2573 (refund)	Must pay the sales tax or assess use tax	File for 6.5% refund on Form ST-11

What is the Mineral Production Facilities Exemption?

The Mineral Production Facilities exemption was enacted by the 1994 Legislature and says that the purchase of materials to construct *any* of the following types of facilities is exempt. This includes materials to construct buildings to house the equipment even though the buildings, when completed, become real property.

1. A value-added iron products plant that may be either a new plant or facilities incorporated into an existing facility that produces iron upgraded to a minimum of 75 percent iron content or any iron alloy with a minimum metallic content of 90 percent.
2. A facility used for the manufacture of fluxed taconite pellets.
3. A new capital project that has a total cost of more than $40,000,000 that is directly related to production, cost or quality at an existing taconite facility that does not qualify under 1 or 2 listed above.
4. A new mine or mineral processing plant for any mineral subject to the net proceeds tax.

* The sections above apply only to taconite mines and plants, not to any other mine or plant.

Aggregate Material
Sales and Use Tax

(Minnesota Statute 297A)

Aggregate material is nonmetallic natural mineral aggregate including, but not limited to sand, silica sand, gravel, stone, boulders, crushed and uncrushed rock, including landscape rock, rip-rap, crushed granite and crushed limestone.

Industrial Production Exemption

Aggregate producers are allowed to make purchases exempt from the sales or use tax if they are used or consumed in the production of personal property intended to be sold ultimately at retail. This includes chemicals, fuels, petroleum products, lubricants, gas and electricity.

Capital Equipment Refund

New or used original or replacement capital equipment, repair, replacement and spare parts, accessories, special purpose buildings and foundations for capital equipment qualify for the capital equipment refund of the 6.5 percent sales tax paid.

Aggregate Materials Sales

Sales to Contractors

Taxable: Generally, purchases of aggregate by a contractor are taxable since it will be used as an improvement to real property. This requires that the contractor deliver and spread the aggregate in such a way that no further leveling is required by the purchaser. This includes situations where it is leveled while being unloaded from the back of a moving truck without the use of any other equipment.

Nontaxable: The purchase of aggregate by a contractor from a pit owner for resale is exempt from sales tax if the contractor provides the pit owner with a completed *ST-3*. A retail sale by a contractor involves only the dumping of aggregate; no leveling, spreading, or further action by the contractor is provided. The contractor must charge sales tax to the end user of the aggregate. **Effective January 1, 2002 all delivery charges are subject to sales tax.**

Sales to Townships

Purchases by townships of aggregate,machinery, equipment and accessories **used exclusively for road and bridge maintenance** are exempt from sales tax. Purchases of aggregate, machinery, equipment and accessories used for parking lots, playgrounds, trails, etc. are subject to sales tax. Also all culverts, bridge decking or railing, structural steel and any road surfaces, such as asphalt, concrete or chloride are subject to sales tax.

Sales to Cities, Counties or Special Taxing Districts

All sales or aggregate to cities, counties or special taxing districts are ***subject to sales tax*** when they are used by these entities, unless they will be resold in the same form. No exemption is allowed for purchases used for road and bridge maintenance.

Aggregate Pit Owned by a Government Unit

If a pit is owned or leased by a government unit, aggregate removed for its own use **is not subject to sales tax**. However, all aggregate sold to others is ***subject to sales tax***, unless the purchaser provides an exemption certificate.

Aggregate Crushing and Screening

Screening and crushing of aggregate is fabrication labor subject to sales tax. Fabrication labor is the making or creating of a new product or altering an existing product into a new or changed product, even when the customer provides the materials to be screened or crushed.

Sales Tax on Purchases-Ready-Mix Concrete Producers

Nontaxable Purchases: The purchase of aggregate by a ready-mix concrete producer to be used in making the product is exempt from the sales tax if the producer provides a completed exemption certificate (ST-3) to the aggregate seller. Ready-mix concrete producers are not classified as contractors.

Nontaxable Purchases: If a ready-mix producer makes retail sales of aggregate, the aggregate may be purchased exempt from sales tax if they provide a completed resale exemption certificate (ST-5) to the aggregate seller.

Sales Tax on Purchases-Bituminous Producers

Taxable Purchases: All purchases of aggregate are taxable if the bituminous producer is primarily a contractor (makes and installs the product).*

Exempt Purchases: If a bituminous producer is primarily a retailer and makes retail sales of bituminous product (does not include installation), the purchase of the aggregate is exempt from sales tax provided the retailer provides a completed resale exemption certificate (ST-3) to the aggregate seller.

Note: If the bituminous producer is a contractor-retailer, it must decide which function constitutes at least 50% of the business. If the producer is primarily a contractor, it must pay sales tax on all purchases. If the producer is primarily a retailer, it may purchase aggregate exempt from sales tax if a completed exemption certificate (ST-3) is provided to the aggregate seller.

* Purchases by a contractor while acting as a purchasing agent for exempt entities may be purchased without paying sales tax only if the contractor has a written agreement with the exempt entity. This written agreement must contain certain criteria. For more information regarding purchasing agreement criteria, contact the Department of Revenue.

Aggregate Material Production Tax

(Minnesota Statute 298.75)

Introduction

Aggregate material is subject to two taxes 1) the sales and use tax (M.S. 297A) and 2) the aggregate material production tax (M.S. 298.75). The sales tax applies statewide while the aggregate applies only in the counties (townships) imposing the tax.

The aggregate material tax is a production tax on the removal of aggregate material. *The tax imposed on importers and operators is **up to** ten cents per cubic yard or seven cents per short ton. Aggregate material must be measured or weighed after extraction from a pit, quarry or deposit.*

Since 1986, this tax has been in effect in 22 counties: Becker, Benton, Big Stone, Carver, Clay, Dakota, Hennepin, Kittson, LeSueur, Mahnomen, Marshall, Norman, Pennington, Polk, Ramsey, Red Lake, Scott, Sherburne, Sibley, Stearns, Washington and Wilkin. Pope County imposed the tax in 1998. Canosia, Solway and Midway Townships in St. Louis County imposed the tax in 1999. Grand Lake Township imposed the tax in 2001 and terminated the tax as of May 13, 2003. Dodge, Goodhue, Meeker and Benton Counties imposed the tax in 2002. Wright County and Rock County imposed the tax as of January 2, 2003.

After August 1, 2001 any county may impose this tax **if** the "county board has voted after a public hearing to impose the tax... and has notified the Commissioner of Revenue of the imposition of this tax."

2003 Legislation

The 2003 Legislature clarified the definition of borrow subject to the Aggregate Tax: "Effective July 1, 2003 the definition of "borrow" shall mean granular borrow, consisting of durable particles of gravel and sand, crushed quarry or mine rock, crushed gravel or stone, or any combination thereof, the ratio of the portion passing the (#200) sieve divided by the portion passing the (1 inch) sieve may not exceed 20 percent by mass." Borrow meeting this definition will be subject to the tax **only** if it is transported on a public road, street or highway.

Aggregate Definition

In order to provide assistance to producers, importers, consumers and county/ township officials administering this tax, the following definitions are offered about what is and what is not aggregate material for purposes of the tax.

Aggregate material is nonmetallic natural mineral aggregate including, but not limited to sand, silica sand, gravel, stone, boulders, crushed and uncrushed rock, including landscape rock, rip-rap, crushed granite, crushed limestone *and borrow but only if transported on a public road, street or highway.*

Aggregate material is not dimension stone, dimension granite, building stone, agricultural lime and limestone used in taconite production of flux pellets.

Coarse tailings from the taconite plants are being tested and marketed as aggregate. Under current law, these would be considered aggregate and subject to the tax on the importer if it were imported into a county imposing the aggregate tax.

Tax Administration

Collection of the aggregate material tax is the responsibility of the county auditor (township clerk). They are required to develop the tax reports, correspond with aggregate operators or importers and collect the tax. They have the authority to audit and inspect all books and records of any aggregate material operator or importer.

Any operator/importer has 30 days ***after*** the tax has been paid to object to the amount of tax determined to be due.

The law requires the county to distribute the tax as follows: 60% – County Road and Bridge Fund, 30% – Township or City Road and Bridge Fund as determined by the County Board, and 10% – Reserve Fund for Pit Restoration of abandoned pits or quarries on public and tax forfeited lands. No such mandate exists for Canosia, Midway and Solway townships.

The tax is first collected by the county (township) where the aggregate is produced. If two counties (townships) both impose the tax, the county (township) into which the aggregate is imported **cannot** collect or impose the tax. The only exception is: if the aggregate material is transported directly from the extraction site by a waterway or railway, the tax imposed shall be apportioned equally between the county (township) of extraction and the county (township) of destination.

Reporting Requirements

By April 14, July 14, October 14 and January 14, operators or importers must file a quarterly report and payment with the county auditor (township clerk) in the county or township in which the aggregate material is removed or imported. If no report is filed, the county auditor (township clerk) must estimate the amount of tax due. Any operator has 30 days after the tax has been paid to appeal any estimate.

Reserve Fund for Pit Restoration

M.S. 298.75, Subd. 7(c) mandates ten percent of the tax be distributed to a special reserve fund for the restoration of abandoned pits, quarries or deposits located on public and tax forfeited lands within the county.

Aggregate Tax Questions & Examples

Q: If aggregate is shipped by rail directly from the pit out of the state, does any of the distribution go to the township of origin?

A: YES. The township of origin is entitled to 30% of the tax on the aggregate shipped, with 60% to the County Road and Bridge Fund and 10% to the County Reserve Fund for pit restoration.

Q: If a county hires a part-time person specifically to administer the aggregate tax, can the county subtract this cost from the tax collections prior to distributing the tax?

A: NO.

Q: Is it correct for a producer to show the aggregate tax separately on the sales invoice?

A: NO. The aggregate tax should not be shown separately on the sales invoice. This is a tax the producer or importer pays directly to the county. It is part of the producer's or importer's cost of doing business.

However, the sales tax MUST be shown separately on all retail sales. Effective January 1, 2002 all delivery charges are subject to sales tax.

Q: Is crushed limestone used for driveways and landscaping aggregate material subject to the tax?

A: YES, crushed limestone used for driveways and landscaping is considered "aggregate material" and is subject to the aggregate production tax.

However, limestone processed into agricultural lime does not fall within the meaning of "aggregate material" as defined in M.S. 298.75, subd. 3.

Q: Who must pay the tax on aggregate imported into a county imposing the tax?

A: "Importer" shall mean any person who BUYS aggregate material produced from a county not imposing the tax.

No Tax Imposed Examples

⇒ If a governmental unit owns or leases an aggregate pit and removes aggregate for its own use, no aggregate material tax is due. *(Attorney General's opinion to Kanabec County Attorney, May 13, 1983.)*

⇒ If a farmer removes aggregate for personal use from a pit located on the farmer's property, no tax is due.

Tax Imposed Examples

⇒ A governmental unit-owner or privately owned aggregate pit sells gravel to an individual or contractor, either picked up or delivered. The tax is imposed on the pit operator.

⇒ A privately owned aggregate pit sells aggregate to a township, city, county or the State of Minnesota. The tax is imposed on the pit operator.

⇒ Aggregate transported directly from the extraction site to a destination by off-highway vehicles never using public roads is subject to the tax.

Ready mix and bituminous producers who own their own aggregate pits must pay the tax to the county. If they purchase aggregate, the aggregate producer or importer pays the tax.

In addition to the aggregate materials tax, sales of aggregate are subject to state sales and use tax of 6.5 percent and possibly additional city or county sales tax. While sales tax exemptions may apply to the sales tax imposed, they do not apply to aggregate materials tax.

The aggregate tax is not a sales tax. It is a production tax on aggregate produced in a county (township) or imported into the county (township).

Figure 37

Aggregate tax collected

1981	-	$104,693	1992	-	$1,895,260
1982	-	$236,039	1993	-	$2,045,794
1983	-	$1,503,599	1994	-	$2,272,272
1984	-	$1,731,600	1995	-	$2,114,823
1985	-	$1,783,940	1996	-	$2,330,664
1986	-	$1,938,702	1997	-	$2,658,567
1987	-	$2,115,649	1998	-	$2,881,418
1988	-	$1,830,535	1999	-	$2,885,716
1989	-	$2,003,391	2000	-	$2,943,768
1990	-	$1,939,276	2001	-	$2,851,434
1991	-	$1,783,301	2002	-	$2,981,133

Aggregate tax collected by county - 2002

Becker	$172,181	Pennington	17,490
Benton	10,926	Polk	73,975
Big Stone	65,091	Pope	36,702
Carver	91,991	Ramsey	59,875
Clay	193,039	Red Lake	16,814
Dakota	674,349	Scott	260,510
Hennepin	269,386	Sherburne	225,299
Kittson	33,235	Sibley	41,311
Le Sueur	199,477	Stearns	170,077
Mahnomen	3,837	Washington	315,198
Marshall	26,050	Wilkin	3,036
Norman	12,724		
Subtotal			**$2,972,573**
Townships			
Midway	$2,025	Solway	$3,852
Canosia	0	Grand Lake	2,683
Subtotal			**$8,560**
Grand total			**$2,981,133**

Ad Valorem Tax on Auxiliary Mining Lands for Taconite Operations

(Minnesota Statute 272.01)

Lands and structures actively used for taconite production are exempt from the ad valorem tax and are subject to the production tax *in lieu* of property tax. Actively used lands include the plant site, mining pit, stockpiles, tailings pond and water reservoirs. Also included are lands stripped and ready for mining, but not lands merely cleared of trees. Exemptions are granted on a parcel basis to the nearest five acres. It is important to note that this exemption applies only to the ad valorem tax on the land and buildings and **not to the unmined taconite tax** described on the following page. Lands adjacent to these facilities, commonly referred to as auxiliary mining lands, are subject to assessment of ad valorem tax administered by the county.

The county assessor is responsible for estimating the market value of auxiliary mining lands and classifying them into one of several property classifications established by Minnesota law. The two most common property classifications used on auxiliary mining lands are industrial and timber. In general, lands in close proximity to active taconite operations are assigned the industrial classification while those further away are classified as timber. The classification of property is covered in M.S. 273.13.

Each property classification has a legislatively set percentage called the class rate that is multiplied by the assessor's estimated market value (EMV) to calculate tax capacity. For payable 2004 taxes, the class rate for timber is 1.00 percent of the estimated market value. For the industrial classification, there are two class rates: 1.50 percent for the first $150,000 of the estimated market value (EMV); and 2.0 percent for the value over $150,000.

Property taxes are calculated by multiplying a property's tax capacity times the tax extension rate for the jurisdiction where it is located. Tax extension rates are determined by county, local government and school district spending. In St. Louis County for payable 2003, they range from a low of approximately 110% to a high of approximately 258%. In addition, the market value times the referendum rate must be added to the tax determined above if there is a referendum in the taxing district. For industrial class property the state general tax rate of 57.9% applies in addition to the local tax rate.

The following schedule provides for adjustments in both the valuations and classifications of auxiliary mining lands located on the iron formation versus off-formation lands as well as further refinements based on the proximity of these lands to active mining operations. It outlines valuation adjustments to be made on excess lands where they are located as market conditions and/or Minnesota statutes dictate — see below. This schedule will be updated based on market conditions for the 2004 assessment.

St. Louis County Mining Land Assessment Schedule

1. Iron formation land	Value ($/acre)	Classification
A. Land within ¼ mile of active pit	$650	Industrial
B. Excess land (more than ¼ mile from mining activity or outside 15-year pit limit).		
1. Undisturbed	same as other private land	Timber or current use
2. Disturbed		
a. Stockpiles	75% of other private land	Timber or current use
b. Abandoned Pits	50% of other private land	Timber or current use
2. Off-formation land		
A. Land within ¼ mile of mining activity	$325	Industrial
B. Excess land (more than ¼ mile from mining activity		
1. Stockpiles	75% of other private land	Timber or current use
2. Tailings Ponds	30% of other private land	Timber or current use

Ad Valorem Tax on Unmined Taconite

(Minnesota Statute 298.26)

A tax not exceeding $15 per acre may be assessed on the taconite or iron sulfides in any 40-acre tract from which the production of iron ore concentrate is less than 1,000 tons.

The heading in the statute is somewhat misleading since it refers to a *Tax on Unmined Iron Ore or Iron Sulfides*. The tax clearly applies to unmined taconite and has been administered in that manner. The wording " iron ore" does not refer to high-grade natural ore in this instance.

The tax, as presently administered, applies to all iron formation lands on the Mesabi Range. The statutory exemption administered by the county assessor provides that in any year in which at least 1,000 tons of iron ore concentrates are produced from a 40-acre tract or government lot, the tract or lot are exempt from the unmined taconite tax. The county assessors have also exempted actual platted townsites that are occupied.

The iron formation lands on the Mesabi Range are divided into two categories by the engineering section of the Minnesota Department of Revenue, Minerals Tax Office. This is done through the evaluation of exploration drill hole data submitted by the mining companies.

The categories are listed as follows:

1) *Lands that are underlain by magnetic taconite of sufficient quantity and grade to be currently economic:* They are considered to be *economic* taconite and are given a market value of $500 per acre.

2) *Lands either not believed or not known to be underlain by magnetic taconite or current economic quantity, quality quality and grade:* They are considered to be *uneconomic* taconite and are given a market value of $25 per acre.

To be classified as economic taconite, category 1, the taconite must pass the following criteria:

— contain more than 16 percent magnetic iron with the Davis tube test;

— contain less than 10 percent concentrate silica (SiO_2) with the Davis tube test;

— have a 15- to 25-foot minimum mining thickness; and

— have a stripping ratio of less than four-to-one (waste/concentrate), calculated as follows:

A) Surface (ft.) x 1.5= Equiv. Ft. Surface

B) Rock (ft.) x 2.25 = Equiv. Ft. Waste

C) $\frac{\text{Ore (ft.) x 2.5}}{3}$ = Equiv. Ft. Concentrate

Stripping Ratio $= \frac{A + B}{C}$

If the material fails any of the above criteria, then it is considered to be *uneconomic* taconite and classified as category 2. Some lands may also be considered as uneconomic due to environmental restrictions.

For payable 2003 the tax is calculated by multiplying the market value for the parcel of land by the 2.00% class rate to obtain the tax capacity. The special rate on the 1st $150,000 of market value that applies to class 3 commercial/industrial property does not apply to to class 5 unmined taconite. This is then multiplyed by the local tax rate plus the state general property tax rate of 54.447% for payable 2003. In addition, if a referendum is present the referandum rate is multiplyed by the full market value (not tax capacity). *Note: call your county auditor for more information.*

Figure 38

Unmined Taconite Tax Paid

(Year payable)

County	1996	1997	1998	1999	2000	2001	2002	2003
Itasca	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
St. Louis	467,946	455,792	444,630	402,543	401,764	397,428	316,140	317,033
Totals	**$467,946**	**$455,792**	**$444,630**	**$402,543**	**$401,764**	**$397,428**	**$316,140**	**$317,033**

Ad Valorem Tax on Unmined Natural Iron Ore

(Minnesota Statutes 272.03, 273.02, 273.12, 273.13, 273.165, 273.1104)

Since 1909, Minnesota's natural iron ore reserves have been estimated and assessed by the state for ad valorem tax purposes. The actual ad valorem tax levy is set by the county, the school district and the local township or municipality. The county auditor collects the tax levy.

A Minnesota Supreme Court decision in 1936 established the present worth of future profits method for valuing the iron ore reserves. This is accomplished through the use of a complex formula known as the Hoskold Formula. The formula takes into account ore prices and all the various cost factors in determining the value of the unmined ore.

Each year, the Minnesota Department of Revenue uses a five-year average for allowable costs taken from the occupation tax report. A five-year average of the Lake Erie iron ore market value is also used. These averages are used to help reduce fluctuation of value due to sudden cost/price changes.

The following expenses are allowed as deductions from the Lake Erie market value on the computation of present worth, which is known as the Hoskold Formula:

1a. Mining, normal costs
1b. Mining, special costs
2. Beneficiation
3. Miscellaneous (property tax, medical ins., etc.
4. Development (future)
5. Plant and equipment (future) Plant
6. Freight and marine insurance
7. Marketing expense
8. Social Security tax*
9. Ad valorem tax (by formula)
10. Occupation tax
11. Federal income tax
12. Interest on development and working capital

* Since 1987, Social Security Tax has been included under miscellaneous.

These twelve allowable expense items are deducted from the Lake Erie market value to give the estimated future income (per ton). Note that although royalty is allowable as an occupation tax deduction, it is not allowable on Minnesota's ad valorem tax.

The present worth is then determined by multiplying the estimated future income (per ton) by the Hoskold Factor. The department presently allows a 12 percent risk rate and six percent safe rate that yields the .33971 Hoskold factor when used with a 20-year life. A 20-year life has been used since 1968 as representative of the remaining life of Minnesota's natural iron ore reserves. The resulting value is considered the market value by the Minnesota Department of Revenue.

The term class rate was introduced for taxes payable in 1990. For 2002 and there after this rate is reduced to 2.0%.

The tax capacity is the product of the class rate and the market value. The product of the market value and class rate must then be multiplied by the local tax rate plus the state general property tax rate to determine the tax. In addition, the market value times the referendum rate must be added if there is a referendum in the taxing district.

Local tax rates are a function of county, local government, and school district spending. For example, for payable 2003, they ranged from a low of approximately .9 to a high of approximately 2.8 not including the state general property tax rate of .54 in St. Louis County. The following class rates were in effect through 2001:

CLASS RATES

Payable 1995	4.60%
Payable 1996	4.60%
Payable 1997	4.60%
Payable 1998	4.00%
Payable 1999	3.50%
Payable 2000	3.40%
Payable 2001	3.40%
Payable 2002	2.00%
Payable 2003	2.00%
Payable 2004	2.00%

The special rate on the first $150,000 of market value that applies to class 3 commercial/industrial property does not apply to unmined iron ore that are class 5 properties.

A statewide general property tax levy was established beginning with taxes payable in 2002. It applies to most types of property with the exception of agricultural and homestead. For payable 2002 this increased the property tax on unmined iron ore by $39,182 in total. The rate was 54.447% for payable in 2003.

The Minnesota Department of Revenue has tried to maintain all ores on the tax rolls, including the uneconomic, underground and unavailable classifications. A schedule of minimum rates was established in 1963 and revised in 1974, 1986, 1988, 1992 and 1999. The market values for iron ores that do not show a value with the Hoskold Formula are determined from the schedule of minimum rates. The table on the following page lists the current schedule of minimum rates.

Figure 39

Minimum Rates

Ore classification	Market value/ton (cents)	
	Itasca and St. Louis Counties	Crow Wing County
Wash Ore Concentrate (OPC)	12.0	6.0
Heavy Media Concentrate (HMC)	9.0	4.5
Low Grade (OPPRC)	3.0	1.5
Underground uneconomic (Stripping ratio greater than 5 to 1)		
Underground Concentrate > 60% Fe (UGC)	2.4	1.2
Underground Concentrate < 60% Fe (UGC)	1.8	.9
Underground Heavy Media (UGHM)	1.5	.75
Low grade (UGPRC)	.9	.45
Low grade (UGR)	.9	.45

Open pit ores too high cost to show a value with the Hoskold Formula are assigned minimum values from the open pit classification. Underground and uneconomic ores with stripping ratios exceeding five-to-one are assigned minimum values from underground uneconomic classification.

Beginning with the 1999 assessment, the minimum rates for determining market values in Crow Wing Co. were reduced by 50%. This simply recognizes the potential for mining of iron ore is substantially less in Crow Wing Co. than on the Mesabi Range in St. Louis or Itasca counties.

Figure 40

Iron Ore Ad Valorem Tax Payable

Year assessed	Market value	Payable	Year estimated tax payable			Total
			Crow Wing	Itasca	St. Louis	
1988	5,771,300	1989	$19,365	$46,426	$812,665	$878,456
1989	5,808,900	1990	18,633	44,130	811,489	874,252
1990	4,190,200	1991	17,712	41,199	584,779	643,690
1991	3,401,700	1992	18,966	45,019	429,850	493,835
1992	5,785,900	1993	19,600	46,000	276,300	341,900
1993	5,476,900	1994	20,900	47,400	254,600	322,900
1994	5,071,600	1995	14,000	34,800	262,400	311,200
1995	4,823,000	1996	12,100	32,600	237,600	282,300
1996	4,448,800	1997	10,900	34,900	226,200	272,000
1997	4,175,400	1998	10,400	23,500	244,900	278,800
1998	4,020,900	1999	8,200	18,900	188,100	215,200
1999	3,781,800	2000	4,200	20,200	181,800	206,200
2000	3,765,800	2001	3,900	18,600	159,400	181,900
2001	3,637,400	2002	3,500	17,600	147,200	168,300
2002	2,720,400	2003	3,500	16,900	107,200	127,600
2003	2,734,200	2004				

A notice of the market value of unmined ore shall be sent to each person subject to the tax and to each taxing district affected on or before May 1st. (MS 273.1104)

According to the provisions of M.S. 273.1104, a public hearing to review the valuations of unmined iron ore must be held on the first secular day following May 20. This hearing provides an opportunity for mining company and taxing district representatives to formally protest any of the ore estimates or valuation procedures they believe to be incorrect.

In addition, current conditions and future trends in the iron ore industry are discussed. Iron ore ad valorem taxes are expected to continue their long decline as remaining economic deposits are mined or allowed to go tax forfeit. Reserves in old flooded pits converted to recreational use are classified as underground, low-grade recreational (UGR).

Ad Valorem Tax on Taconite Railroads

(Minnesota Statute 270.80 - 270.88)

Beginning with the Jan. 2, 1989 assessment, taconite railroads were included in the definitions of *common carrier* railroads and were assessed and taxed on an ad valorem basis according to Minnesota law. LTV and Northshore were the only railroads classified as taconite railroads.

The Minnesota Department of Revenue developed rules governing the valuation of railroad operating property. The rules have been in effect since 1979 when common carrier railroads went off the gross earnings tax. Each railroad is required to file an annual report containing the necessary information.

The valuation process utilizes the unit value concept of appraisal. For taconite railroads, this involves calculating a weighted cost indicator of value allowing for depreciation and obsolescence. Personal property is then deducted from the net cost indicator to yield a Minnesota taxable value.

This value is then *apportioned* to the various taxing districts where the taconite railroad owns property. The amount of value each taxing district receives is based on an apportionment formula involving three factors: land, miles of track and the cost of buildings over $10,000.

After the market value is apportioned to each taxing district, the value is equalized with the other commercial and industrial property on a county-wide basis using an estimated median commercial and industrial sales ratio. A commercial and industrial ratio is developed for each county and applied to that county's taconite railroad market values.

Figure 41

Taconite Railroad Ad Valorem Tax Assessed

Year payable	Assessed	St. Louis County	Lake County	Cook County	Total tax
1990	1989	$105,167	$156,675	$5,037	$266,879
1991	1990	112,800	145,573	5,319	263,692
1992	1991	53,409	80,720	5,064	139,193
1993	1992	38,454	99,919	4,706	143,079
1994	1993	48,655	87,248	4,938	140,841
1995	1994	78,281	140,300	14,454	233,034
1996	1995	64,516	116,143	14,456	195,115
1997	1996	49,283	61,107	13,292	123,682
1998	1997	46,250	66,114	10,330	122,694
1999	1998	43,891	68,874	8,648	121,413
2000	1999	42,340	65,444	8,542	116,326
2001	2000	35,467	64,295	8,500	108,262
2002	2001	27,323	37,336	7,202	71,861
2003	2002	6,746	17,890	0	24,636

Ad Valorem Tax on Severed Mineral Interest

(Minnesota Statutes 272.039, 272.04, 273.165)

Definition

Severed mineral interests are those separately owned from the title to surface interests in real estate. Severed mineral interests are taxed under Minnesota law at 40 cents per acre per year times the fractional interest owned. The minimum tax on any mineral interest (usually 40-acre tracts or government lots) regardless of the fractional interest owned, is $3.20 per tract. No tax is due on mineral interests taxed under other laws relating to the taxation of minerals, such as unmined taconite or iron ore, or mineral interests exempt from taxation under constitutional or related statutory provisions.

Ownership of a specific mineral or group of minerals, such as energy minerals or precious metals, rather than an actual *fractional interest* of all the minerals does not constitute a fractional interest. Thus, if one individual reserved all minerals except gas, oil and hydrocarbons, and a second entity reserved the hydrocarbons, each owner would be subject to the full 40 cents per acre tax.

The severed mineral tax is a property tax that is levied by local taxing authorities in the same manner as other local property taxes. Proceeds from the tax are distributed in this manner: 80 percent is returned by the county to local taxing districts where the property is located in the same proportion that the local tax rate each taxing district bears to the total surface tax rate in the area; and 20 percent to the Indian Business Loan Account in the State Treasury for business loans to Indians by the Indian Affairs Council under M.S. 116J.64.

The registration and taxation of severed mineral interests is a county function. The severed mineral interests are registered with the county recorder in the county where the interest is located. The county auditor sends a tax statement similar to any other real estate interest. The tax is normally collected in two increments payable in May and October. If the severed mineral interest tax is less than $50, the taxpayer is required to pay in full with the May payment.

Nonpayment Penalty-Forfeiture

The eventual penalty for not paying the tax is forfeiture. Policies vary somewhat between counties. Specific questions about the tax, interest, or penalties should be directed to the county recorder and auditor in the county where the minerals are located.

Tax Imposed

The tax on severed mineral interests was enacted in 1973 as part of an act that required owners to file a document with the county recorder where the interests were located describing the mineral interest and asserting an ownership claim to the minerals. The purpose of this requirement was to *identify and clarify the obscure and divided ownership conditions of severed mineral inter*ests *in this state(* M.S. 93.52). Failure to record severed mineral interests within time limits established by the law results in forfeiture to the state (M.S. 93.55).

History of Litigation

In 1979, the Minnesota Supreme Court ruled that the tax, the recording requirements and the penalty of forfeiture for failing to timely record were constitutional, but also ruled that forfeiture procedures were unconstitutional for lack of sufficient notice and opportunity for hearing. This decision is cited as Contos, Burlington Northern, Inc. U.S. Steel, et al. v. Herbst, Commissioner of Natural Resources, Korda, St. Louis County Auditor, Roemer, Commissioner of Revenue, and the Minnesota Chippewa Tribe, et al., 278 N.W. 2d 732 (1979). The U.S. Supreme Court refused to hear an appeal requested by the plaintiffs. Shortly after this decision, the Legislature amended the law to require notice to the last owner of record and a court hearing before a forfeiture for failure to timely record becomes complete. Under these requirements, court orders have been obtained by the state in several counties declaring the forfeiture of particular severed mineral interests to be complete and giving title to the state.

Figure 42

Tax Collection and Distribution

Period ending	80% retained by local government	20% payment to Indian Business Loan Account	Total collections of affected counties
Dec. 31, 1994	$342,068	$85,517	$427,585
Dec. 31, 1995	547,372	136,843	684,215
Dec. 31, 1996	571,436	142,859	714,295
Dec. 31, 1997	517,268	129,317	646,585
Dec. 31, 1998	470,472	117,618	588,090
Dec. 31, 1999	606,560	151,640	758,200
Dec. 31, 2000	468,068	117,017	585,085
Dec. 31, 2001	201,952	50,488	252,440
Dec. 31, 2002	707,716	176,929	884,645

In 1988, the Legislature amended the law to allow the commissioner of the Minnesota Department of Natural Resources to lease unregistered severed mineral interests before entry of the court order determining the forfeiture to be complete. However, mining may not commence under such a lease until the court determines that the forfeiture is complete.

In a 1983 case, the Minnesota Supreme Court ruled that severed mineral interests owned by the Federal Land Bank of St. Paul were exempt from the state severed mineral tax under a federal law exempting Land Bank real estate from local property taxes.

Indian Business Loan Account

The 20 percent portion of the severed mineral interest tax that is allocated to the Indian Affairs Council is reported by the county auditors on the *Abstract of Tax Settlement Form*. This is a special form used for remitting several property-related taxes to the state, including the severed mineral interest tax. Normally, the form is submitted twice each year to correspond with payment of property taxes.

The money deposited in the severed mineral interest account is distributed to the Indian Affairs Council at the end of each month.

A copy of the *Abstract of Tax Settlement* form is below:

Figure 43

ABSTRACT OF TAX SETTLEMENT

Mail To: Minnesota Department of Revenue
Special Taxes Division
P. O. Box 7033
St. Paul, Minnesota 55107
(651) 297-1882 Fax: (651) 297-1939

Name of County	Period of Report From , 20 to , 20

STATE'S SHARE OF THE FOLLOWING:

Reimbursement of Homestead Benefits .... $________

$5.00 County Conservation Fee (M.S. 40.A152, Subd. 1) .... ________

State Deed Fees (M.S. 282.09) .... ________

Repurchased Deed Fees (M.S. 282.241-.324) .... ________

Severed Mineral Interest .... ________

Total .... $________

Acknowledged Correct

Signature of County Treasurer Date

Signature of County Auditor Date

This form is to be used only for those settlements that are payable to the Commissioner of Revenue. Items payable to the State Treasurer, for example, real estate assurance account, should not be shown or remitted with this report.

Remittance should accompany each settlement and should be made by one warrant equal to the total shown above and payable to the Commissioner of Revenue.

Department of Revenue

The processing and payment of the Severed Mineral Interest Tax is handled by the Tax Operations Division of the Minnesota Department of Revenue. (651) 296-3480 (Janice Beck)

Indian Affairs Council

The Indian Affairs Council, which administers the 20 percent portion of the tax allocated for the Indian Business Loan Account, may be contacted in Bemidji at (218) 755-3223 (Laura Straw). Address: Indian Affairs Council, 3801 Bemidji Avenue, Suite 5, Bemidji, MN 56601.

Taxes on Other Mining and /or Exploration

This section will identify and explain the taxes that apply to the exploration and/or mining of materials other than iron ore. *Figure 44* identifies each tax by statute number and references each of them in this publication.

Base Metals	***Precious Metals***	***Energy Minerals***
Copper, Nickel, Lead, Zinc, Titanium	Gold, Silver, Platinum Group	Coal, Oil, Gas, Uranium

Figure 44

Index of Other Mining/Exploration Taxes

Tax	Current laws	Mining Tax Guide Page No.
Ad valorem tax (smelter and plant facilities only)	M.S. 272 and 273	Page 54
Net Proceeds tax	M.S. 298.015-298.018 — 2%	Page 55
Occupation tax	M.S. 298.01 — 9.8%	Pages 29 and 56
Sales and Use tax	M.S. 297A — 6.5%	Pages 41 and 56
Severed Mineral Interest	M.S. 272.039, 272.04, 273.165	Page 52
Withholding tax on royalty payments	M.S. 290.923 — 6.25%	Pages 38 and 56

Ad Valorem Tax (M.S. 272-273)

The 1991 Legislature amended the definition of real property in M.S. 272.03, Subd. 1, (c)(i), to specifically *exclude* mine shafts, tunnels, and other underground openings used to extract ores and minerals taxed under Chapter 298. The tax on ore reserves, other than taconite and iron ore, was specifically removed in 1987, M.S. 273.12, 1987, c. 268, art. 957. The 1997 Legislature amended M.S. 273.12 to continue this exemption. Companies mining any of the minerals listed are subject to property tax like other businesses, such as taxation of land and building values.

Machinery such as pumps, motors, grinding mills, etc., is considered personal property and *not subject to ad valorem tax*. In 2003 the St. Louis County assessor indicated that new large buildings were typically valued at $25 to $30 per square foot for ad valorem tax purposes. Storage buildings could be assessed as low as $9 or $10 per square foot. Tax rates are set by the county, local communities and school districts according to state law, and the tax is administered and collected by the county. There is also a state wide property tax levy set by the legislature which applies to commercial-industrial and some other type of property.

Minnesota's property taxes are computed as follows:
For commercial and industrial property, the assessor's estimated market value is multiplied by a class rate to obtain gross tax capacity. *See class rate chart*. The first $150,000 of value is 1.50 percent while a 2% rate applies over $150,000. The product of the market value and class rate must be multiplied by the local tax rate plus the 54.447% state general property tax rate for payable 2003 to determine the tax. In St. Louis County, where the majority of Minnesota's mining industry is located, the local tax rates in 2003 varied from 111% to approximately 167%. If a referendum tax is passed, the referendum rate times the full market value must be added.

A list of recent rates follows:

CLASS RATES

	Over $150,000	First $150,000
Payable 1998	4.00%	2.70%
Payable 2000	3.40%	2.40%
Payable 2002	2.00%	1.50%
Payable 2003	2.00%	1.50%
Payable 2004	2.00%	1.50%

There are some special policies that apply to metallic mineral leases (Minn. Rules, parts 6125.0100 - .0700) issued by the Minnesota Department of Natural Resources (DNR). The Commissioner of Revenue has advised all county auditors and assessors that leases issued by the DNR constitute a taxable interest in real estate, M.S. 272.01, Subd. 2(a) & (b). The taxes are to be assessed and collected as personal property taxes and do not become a lien against the real property. The commissioner further advised that when activities under the leases during the initial years are limited to **exploration,** the tax should not exceed the severed minerals interest tax. For all taxes levied in 1994 and thereafter the tax should not exceed 40 cents per acre while the lease activities constitute exploration. Specific leases may vary, but the tax is to be determined based on the number of acres made available to the lessee and the fractional interest, if any, that is leased.

Contact the DNR, Minerals Division, to determine the status of activities under any state metallic minerals lease.

Net Proceeds Tax (M.S. 298.015-298.018)

A tax equal to two percent of the net proceeds from mining in Minnesota applies to all mineral and energy resources except sand, silica sand, gravel, building stone, all clays, crushed rock, limestone, granite, dimension stone, horticultural peat, soil, iron ore and taconite. Net proceeds are the gross proceeds from mining less allowable deductions. The net proceeds tax has been in effect since 1987 and is due on June 15 of the year succeeding the calendar year of the report.

Additional information is available from the Minnesota Department of Revenue, Minerals Tax Office, Eveleth.

Gross Proceeds

1) If the minerals are sold in an arms-length transaction, the gross proceeds are the proceeds from the sale.
2) If the minerals are used by the taxpayer or disposed of in a nonarms-length transaction, such as shipments to a wholly-owned smelter or transactions between affiliated companies, the gross proceeds are determined as follows:
   a) Prices are determined using the average annual price in the *Engineering and Mining Journal*. If there is no average annual price for the mineral, then an arithmetic average of the monthly or weekly prices published in the *Engineering and Mining Journal* is used. For minerals not listed in the *Journal*, another recognized published price as determined by the commissioner of Revenue will be used; and
   b) the price as determined above is multiplied by the amount of the mineral credited or paid by the smelter. Any special smelter charges included in this price are deducted. The resulting amounts are the gross proceeds for tax calculation.

Net Proceeds

The net proceeds tax was designed to apply to mining and beneficiation, generally to the point of a saleable product. In the case of some hydrometallurgical processes, the saleable product may be a refined metal.

Net proceeds are gross proceeds less certain deductions. Not all expenses, however, are allowed as deductions. The following is a comprehensive list of unallowable deductions and allowable deductions:

Unallowable Deductions Include:

— sales, marketing, and interest expense;

— insurance and tax expense not specifically allowed;

— administrative expense outside Minnesota;

— research expense prior to production;

— reserve for reclamation costs after production ends; and

— royalty expense, depletion allowances, and the cost of mining land.

Allowable Deductions

Certain ordinary and necessary expenses actually paid for mining, production, processing, beneficiation, smelting or refining are allowed as deductions:

— labor, including wages, salaries, fringe benefits, unemployment and Workers' Compensation insurance;

— operating equipment and supplies, including sales and use tax paid. Cost of machinery, equipment, and supplies of a capital nature is deductible as depreciation expense only, per Section 167 of the Internal Revenue Code;

— transportation of minerals, if the expense is included in the sales price;

— administrative expense inside Minnesota;

— exploration, research, or development expense in Minnesota is deductible in the year paid;

— exploration and development expense in Minnesota incurred prior to production must be capitalized and deducted on a straight-line basis over the first five years of production; and

— reclamation costs paid in a year of production.

The carryback or carryforward of deductions is not allowed.

Distribution

The net proceeds tax on minerals and energy resources mined or extracted within the taconite tax relief area must be distributed according to the formula provided by M.S. 298.018. Tax paid on minerals and energy resources mined outside the taconite tax relief area is deposited in the State General Fund. A summary of M.S. 298.018 distribution is listed:

(1) Five percent to the city or town where the minerals are mined or extracted

(2) Ten percent to the Municipal Aid Account

(3) Ten percent to the school district where mining or extraction occurred

(4) Twenty percent to the Regular School Fund (13.72 cents)

(5) Twenty percent to the county where mining or extraction occurred

(6) Twenty percent to Taconite Property Tax Relief, using St. Louis County as fiscal agent

(7) Five percent to the IRRRA

(8) Five percent to the Northeast Minnesota Economic Protection Trust Fund (2028 Fund)

(9) Five percent to the Taconite Environmental Protection Fund

The proceeds must be distributed on July 15.

Economic Development Incentives

The maximum grants and loans any new mine or processing plant subject to the net proceeds tax could receive are:

— $10 million loan or equity investment - state general fund (Minnesota Minerals 21st Century Fund)

— $10 million match from IRRRA which can be either a loan or equity investment.

Occupation Tax-Corporate Income Tax (M.S. 298.01)

The Minnesota Constitution mandates the state impose an occupation tax on the mining business. In order to meet this constitutional requirement, the occupation tax is computed in accordance with the Minnesota corporate franchise (income) tax.

The corporate income tax rate is 9.8 percent and contains an alternative minimum tax. For production years 2001 and beyond, the mining income subject the 9.8 percent corporate franchise tax rate will be reduced from 30 percent to 25 percent. This lowers the effective tax rate from 2.94 percent to 2.45 percent.

For more information about the Occupation Tax, contact the Minnesota Department of Revenue, Minerals Tax Office, Eveleth.

Withholding Tax on Royalty(M.S. 290.923)

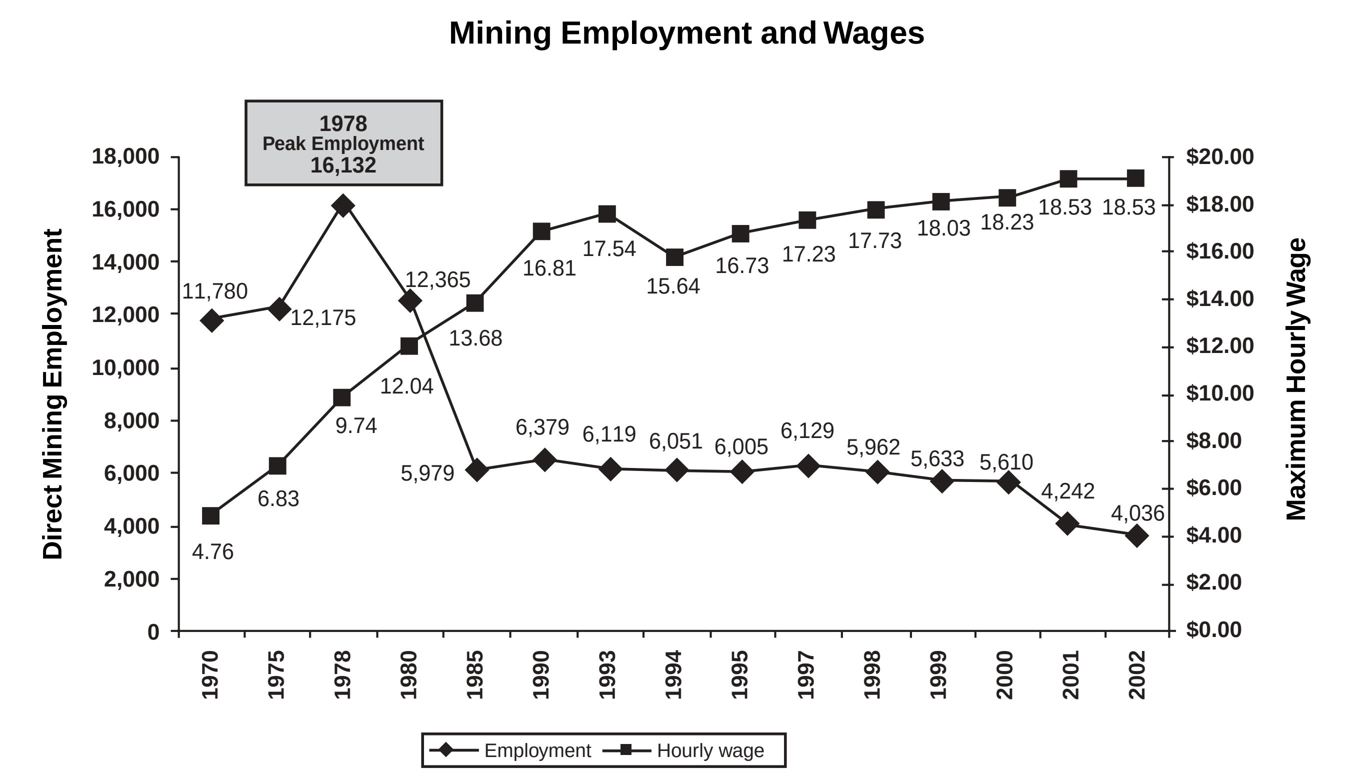
Beginning Jan. 1, 2001, all persons or companies paying royalty are required to withhold Minnesota income tax from royalty payments (6.25 percent) and remit the withholding tax and applicable information to the Minnesota Department of Revenue. See the section on *Income Tax Withholding on Mining and Exploration Royalty*, page 38.

Sales and Use Tax (M.S. 297A)

All firms involved in the mining or processing of minerals are subject to the 6.5 percent sales and use tax on all purchases, except those qualifying for the Industrial Production Exemption. This exemption covers items that are used or consumed in the production of *tangible* personal property to be ultimately sold at retail. Classification of items included in this exemption are chemicals, fuels, petroleum products, lubricants, packing materials, electricity, gas and steam. Explosives, a major expense for mining, are exempt under the chemcial classifications. Any new mining and/or processing facility would qualify for a refund of the 6.5 percent sales or use tax paid on capital equipment used to manufacture, fabricate, mine or refine tangible personal property ultimately sold at retail. For more information see page 44 and contact the Minnesota Department of Revenue, Minerals Tax Office, Eveleth.

The specific exemption of mill liners applies only to the taconite industry. Purchases of liners or lining materials by other mining operations would be subject to sale and use tax unless they qualify for the industrial production exemption.

Figure 45



Information in this chart is included in the annual *St. Louis County Mine Inspector Report*. The maximum hourly wage includes incentive pay through 1993. Starting in 1994, the maximum hourly wage does not include incentive pay.

Glossary of Terms

Acid pellets —Taconite pellets comprised of iron, oxygen and silica held together by a binder such as bentonite (clay) or peridor (organic).

Agglomeration — The term describing the preparation and heat treatment used to prepare iron ore pellets or other iron ore products for shipment and use in a blast furnace.

Arms-length transaction — A sale of iron ore or pellets representing a true free market transaction when the buyer normally does not have an ownership or other special relationship with the seller.

BOF—Basic oxygen furnace—A steel- making furnace invented in Austria. It began to replace open hearth furnaces in the 1960s. It is currently the standard furnace used by the integrated steel producers in the United States.

Beneficiation —The process of improving the grade of or by removing impurities through concentrating or other preparation for smelting, such as drying, gravity, flotation or magnetic separation. In taconite operations, this includes the first stage of magnetic separation and converting the concentrate into taconite pellets for use in making steel.

Concentrate —The finely ground iron-bearing particles that remain after separation from silica and other impurities.

DRI —direct reduced iron — A relatively pure form of iron (usually 90 percent + Fe), which is produced by heating iron ore in a furnace or kiln with a reducing agent such as certain gases or coal.

Dry weight —The weight of iron ore or pellets excluding moisture. For pellets, the dry weight is normally one to two percent less than the natural weight.

EF, EAF — Electric Arc Furnace — A furnace in which an electric current is passed through the charge. These furnaces are much smaller than the conventional BOFs used by the integrated steel producers.

Economic Protection Fund — Often referred to as the 2002 Fund—A portion of taconite production tax revenues is allocated to this fund with the idea that it would be used after the year 2002 to diversify and stabilize the long-range economy of the Iron Range.

Fe unit — Commonly referred to as an iron unit. An iron unit is a term of measurement denoting one ton containing one percent iron. Iron ore and taconite produced in the United States is measured in long tons (see definition). One long ton of taconite containing 65 percent iron also contains 65 *long ton* iron units.

Historically, this measurement was and is used for the selling price quoted in cents per iron unit. One example is a currently published price of acid pellets FOB mine at 37.344 cents per dry gross ton iron unit *or* $.37344 per iron unit.

Fiduciary —An individual or organization holding something in trust for another. Sales tax collection, for example, establishes a fiduciary relationship between the collector and the State of Minnesota.

Flux pellets —Taconite pellets containing limestone or another basic flux additive. Flux pellets eliminate the need to add limestone in the blast furnace, improving productivity and quality. Adding flux reduces the iron content of a pellet. Flux pellets, as used in this guide, mean pellets containing two percent or more limestone or other flux.

Partial flux pellets — Flux pellets containing 1.99 percent or less limestone or other flux additive.

Gross National Product Implicit Price Deflator (GNPIPD) — An index maintained by the U.S. Department of Commerce measuring inflation in the overall economy. The taconite production tax rate is adjusted annually based on the change in this index.

Integrated steel producer — Term used to describe older steel companies that produce steel by starting with raw iron ore, reducing it to molten iron in a blast furnace, and producing steel with a BOF, open hearth, or electric furnace.

Lake Erie value — The traditional and quoted price of iron ore from the earliest days of iron ore mining in Minnesota and Michigan. This price per iron unit included delivery, mainly rail and lake transportation, from the mine to a Lake Erie port.

This was the starting point for occupation tax since its 1921 beginning. It was the standard method of pricing domestic iron ore and taconite for occupation tax until the mid-1980s *See Mine Value*.

Long ton — The standard unit of weighing for iron ore and taconite in the United States. A long ton is 2,240 pounds.

M.S. 298.225 — A Minnesota statute (law) guaranteeing the taconite production tax aids received by municipalities, counties, schools and the IRRRA. The aid levels are adjusted according to a sliding scale based on production levels.

Metric ton — Standard unit for weighing iron ore and taconite in most areas of the world. A metric ton equals 1,000 kilograms or 2,204.6 pounds.

Mine value — The value of iron or pellets at the mine. This became the starting point for occupation tax in 1987. This value per iron unit *does not* include any rail or lake transportation beyond the mine.

Mini mill — A small steel mill using an electric furnace that produces steel from scrap iron. The electric furnace portion of raw steel production reached 50.7% in March 2002, up from 46.2 in March 2001.

Natural ore — Iron ore that can be fed to a blast furnace with less complicated processing than taconite requires. Natural ore typically contains 50 percent +Fe (iron) in its natural state.

Natural weight — The weight of iron ore or pellets including moisture.

Net proceeds tax — A tax equal to two percent of net proceeds from mining. Net proceeds are determined by subtracting certain basic deductions such as labor, equipment, supplies and depreciation from gross proceeds or sales.

Non-equity sales — See Arms-length transaction.

Open hearth — An obsolete steel making furnace still used in some Eastern European and Third World countries. No open hearth furnaces are presently operating in the United States.

Pellet chip — Broken pellets often cannot be sold as pellets and instead are sold at a reduced price for sinter plants and other uses. For occupation tax purposes, chips are defined as *individual shipments or stockpiles containing at least 85 percent of pellet chips smaller than one-fourth inch*. Such chips cannot be shipped or commingled with regular pellets.

For occupation tax purposes, pellet chips are valued at 75 percent of the value of the unbroken pellets.

Percentage depletion — A taxable income *deduction* representing a return on capital investment on a *wasting* asset subject to a gradual reduction in reserves. This deduction applies to income derived from various mining or oil and gas properties. For iron ore, the *deduction* is a flat percentage of 15 percent of income from the iron ore only mined on a specific property. This deduction, however, cannot exceed 50 percent of taxable income from the property computed without the depletion deduction.

Range Association of Municipalities and Schools (RAMS) — An association representing all Iron Range cities, towns and schools receiving any funding from the taconite production tax. An office is maintained in Buhl, Minn.

Royalty — Any amount (money or value of property) received for granting permission to explore, mine, take out or remove ore.

Short ton — Standard for weighing many commodities in the United States. It equals 2,000 pounds.

Steel Mill Products Index (SMPI) — A United States government index tracking the actual selling price of all steel products in the United States. This index is published monthly by the U.S. Department of Labor. It is part of the formula used to determine a mine value for occupation tax purposes each year.

Taconite — Taconite is defined in Minnesota statutes as ferruginous chert or ferruginous slate in the form of compact, siliceous rock in which the iron oxide is so finely disseminated that substantially all of the iron-bearing particles are smaller than 20 mesh.

It is not merchantable in its natural state, and it cannot be made mechantable by simple methods of beneficiation involving only crushing, jigging, washing and drying.

Tailing — Small rock particles containing little or no iron, which are separated during various stages of crushing, grinding, and concentration. Most of the separation is done with magnetic separators. Silica is the main mineral constituent of tailings.

Taxable tons — The *three-year average* of the current and prior two years production. The taconite production tax is based on taxable tons. The weight is on a dry basis without any flux additives.

Mining Industry Tax Calendar

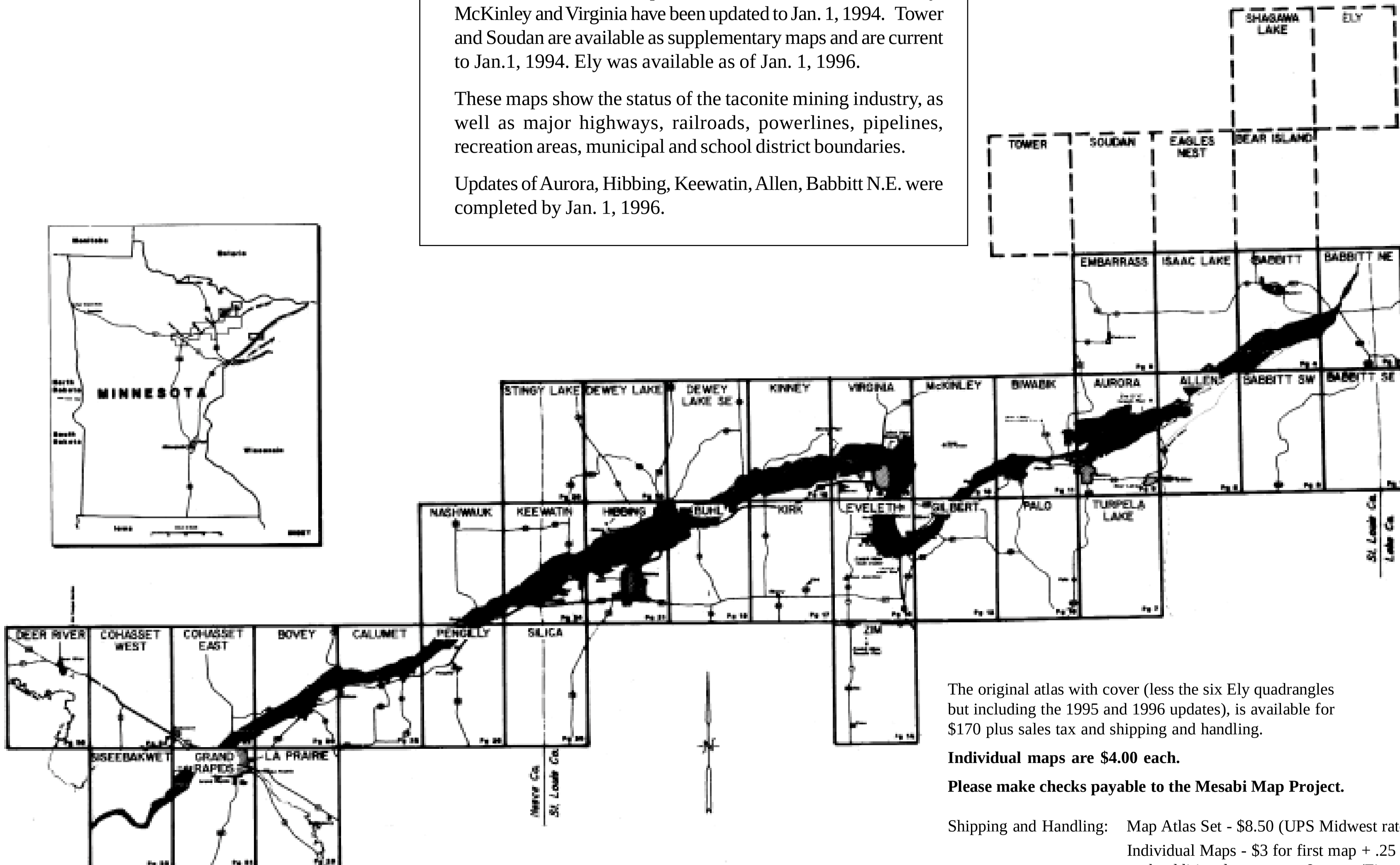
January	February	March	April
– Ad Valorem Tax Reports mailed to companies – Ad valorem estimates submitted by companies (January - February) 15 Form MT-11, Taconite and Semi-Taconite Tax Report mailed to companies with memorandum 31 Form MW-1, Minnesota Employers Quarterly Withholding Return Due **Sales and use tax** – Electronic funds transfers (all months) 14 Payments must be made 25 Return mailed to St. Paul, MN	1 Taconite Production Tax Report due from companies 15 Taconite production tax determinations mailed to companies – Printout listing 100% production tax payment sent to county auditors – School bond payment schedule mailed to Itasca, Lake and St. Louis counties – Notice of taconite production tax aids mailed to recipients 24 Taconite production tax payment (50%) due in county offices by electronic fund transfer 25 Distribution of taconite production tax by counties (collected February 24) 28 Form MW-6, Minnesota Annual Reconciliation of Income Tax Withheld due 28 Royalty/Withholding Tax Paid Report, MT2-RW, due	1 Taconite Municipal Aid amounts mailed to cities or to RAMS	1 Owner or lessee of mineral rights submits specific data on drill hole logs and lab tests during previous year for unmined taconite tax 15 Ad valorem tax present worth estimates mailed to companies 30 Form MW-1, Minnesota Employers Quarterly Withholding Return due
May	**June**	**July**	**August**
1 Occupation tax return and payment due 15 First half of property tax on taconite railroad property due to counties 20 Ad valorem tax hearing held on first business day after May 20th 31 Production Cost Summary Tax Report (goldenrod form) due	30 Ad valorem tax final adjustments to property equalization sheets mailed to county assessors	1 Comissioner of Revenue certifies amount of Taconite Municipal Aid to municipality 15 Taconite referendum distribution to school districts of taconite production tax made by the counties 31 Form MW-1, Minnesota Employers Quarterly Withholding Return due	1 Form MW-5 and payment of income tax withheld due at varying times each month depending on amount of tax due, i.e.: eight month period or monthly 24 Taconite production tax payment (remaining 50%) due in county offices by electronic fund transfer.
September	**October**	**November**	**December**
15 Taconite Municipal Aid account funds distributed by counties – *Minnesota Mining Tax Guide* available	10 Taconite production tax estimates due from companies 15 Second half of property tax on taconite railroad property due to counties 31 Form MW-1, Minnesota Employers Quarterly Withholding Return due	1 Letters sent to six counties and the IRRRA to verify their electronic funds transfer data	1 Minerals Tax Office submits Unmined Taconite Tax Reports to county assessors 1 Production tax forms mailed to companies 30 Occupation tax forms mailed to companies 30 Royalty/Withholding Tax Paid Report, MT2-RW, mailed to companies

Index Map - Minnesota Mesabi Map Set

This index map indicates the 35 quadrangles included in the Minnesota Mesabi Map Set. Eveleth, Gilbert, Kinney, McKinley and Virginia have been updated to Jan. 1, 1994. Tower and Soudan are available as supplementary maps and are current to Jan.1, 1994. Ely was available as of Jan. 1, 1996.

These maps show the status of the taconite mining industry, as well as major highways, railroads, powerlines, pipelines, recreation areas, municipal and school district boundaries.

Updates of Aurora, Hibbing, Keewatin, Allen, Babbitt N.E. were completed by Jan. 1, 1996.



The original atlas with cover (less the six Ely quadrangles but including the 1995 and 1996 updates), is available for $170 plus sales tax and shipping and handling.

Individual maps are $4.00 each.

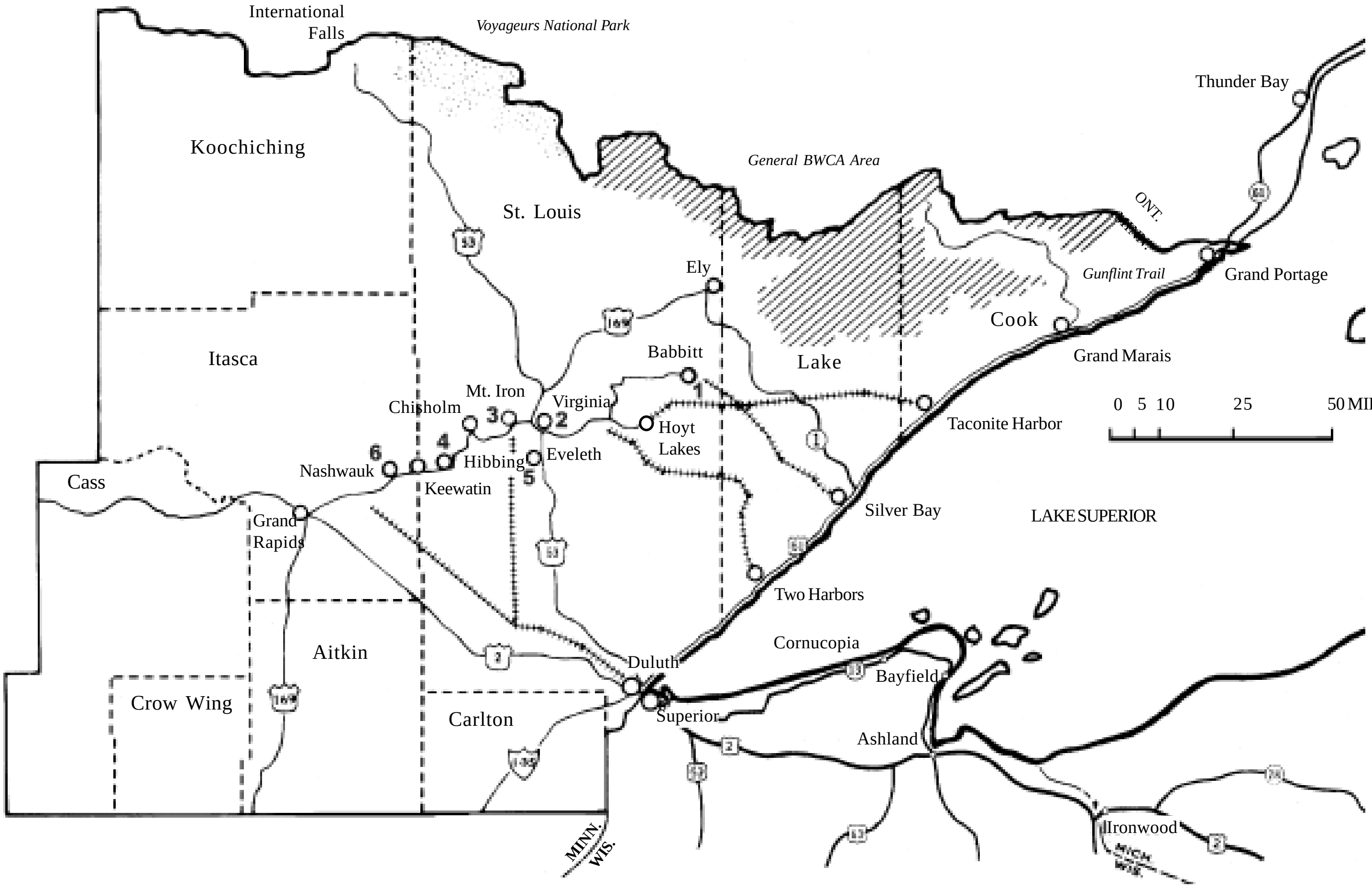
Please make checks payable to the Mesabi Map Project.

Shipping and Handling: Map Atlas Set - $8.50 (UPS Midwest rate)
Individual Maps - $3 for first map + .25 cents for each additional map up to 9 maps (First Class Mail).

Orders can be placed with the Minnesota Department of Revenue, Minerals Tax Office, P. O. Box 481, Eveleth, MN 55734.
Phone (218) 744-7420, Fax (218) 744-7421.

Map of Northeastern Minnesota

Taconite Company Locations
Ownership and General Information



Effective Capacity*
—(million tons)

1. NORTHSHORE MINING COMPANY 4.7
Owner: Cliffs Mining Company (100%)
Cleveland, Ohio

2. MINORCA PLANT 2.5—
Owner: Ispat Inland Mining Company (100%)
Rotterdam, Netherlands

3. MINNTAC PLANT 15.0
Owner: USX Corporation (100%)
Pittsburgh, Pennsylvania

4. HIBBING TACONITE COMPANY 8.5
Cliffs Mining Company, Managing Agent
Owners: International Steel Group (ISG) (62.3%)
Bethlehem, Pennsylvania
Cliffs Mining Company (23%)
Cleveland, Ohio
Steel Company of Canada, Ltd. (Stelco) (14.7%)
Hamilton, Ontario

Effective Capacity*
(million tons)

5. EVTAC ** 5.4
Owners: Rouge Steel Company (45%)
Detroit, Michigan
Virginia Horn Taconite (A-K Steel) (40%)
Middletown, Ohio
Ontario Eveleth Company (Stelco) (15%)
Hamilton, Ontario

6. KEEWATIN TACONITE COMPANY *** 4.7
— Owner: USX Corporation (100%)
Pittsburgh, Pennslyvania

TOTAL EFFECTIVE CAPACITY: 40.8

Without EVTAC 35.4

* Effective capacity is the annual production capacity in natural long tons (including flux) that can be sustained under normal operating conditions.

** EVTAC filed bankruptcy May 1, 2003. As of the publication on this Mining Tax Guide in September, 2003 the plant remained closed.

*** National Steel Pellet Company was purchased, effective May 20, 2003, by USX in bankruptcy proceedings.

The ownership percentages shown are the ultimate percentages controlled by parent steel and mining companies.
In some instances, various other partnerships and subsidiaries are listed on legal corporate documents.

NOTES