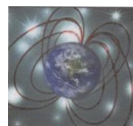


Minnesota Mining Tax Guide

October 2008

Potential New Mining Operations

Increased world-wide demand has resulted in the planned development of a new generation of mining companies. These proposed operations differ from traditional northern Minnesota taconite plants. Essar Steel Minnesota LLC (mining through slab steel production), the Mesabi Nugget Project (iron nuggets produced on-site), Magnetation, Inc. (reclamation of iron from tailings basins) and PolyMet Mining (copper, nickel and precious metals).



Magnetation, Inc.

Location: Keewatin
Status: under construction
Start Date: December, 2008
Investment: \$7 million
Permanent jobs: 49
Construction jobs: 50



Mesabi Nugget

Location: Aurora/Hoyt Lakes
Status: under construction
Start Date: 3 Q 2009
Investment: \$235 million
Permanent jobs: 65
Construction jobs: 300



Essar Steel Minnesota LLC

Location: Nashwauk
Status: under construction
Start Date: 2010
Investment: \$1.65 billion
Permanent jobs: 500
Construction jobs: 2000



PolyMet Mining

Location: Hoyt Lakes (former LTV site)
Status: Proposed
Start Date: 2010
Investment: \$602 million
Permanent jobs: 400
Construction jobs: 550

2008 Distribution of Taconite Production Tax

2007 Production Year

Total Taconite Production Tax

\$94,185,674*

Production tax is \$2.258 per taxable ton.
The three-year average taxable tonnage was 38,822,942 tons.

* Amount is after \$2,017,576 in tax credits have been applied. Also included is \$8,541,047 from the state general fund (22.0 cpt)

cpt = cents per taxable ton

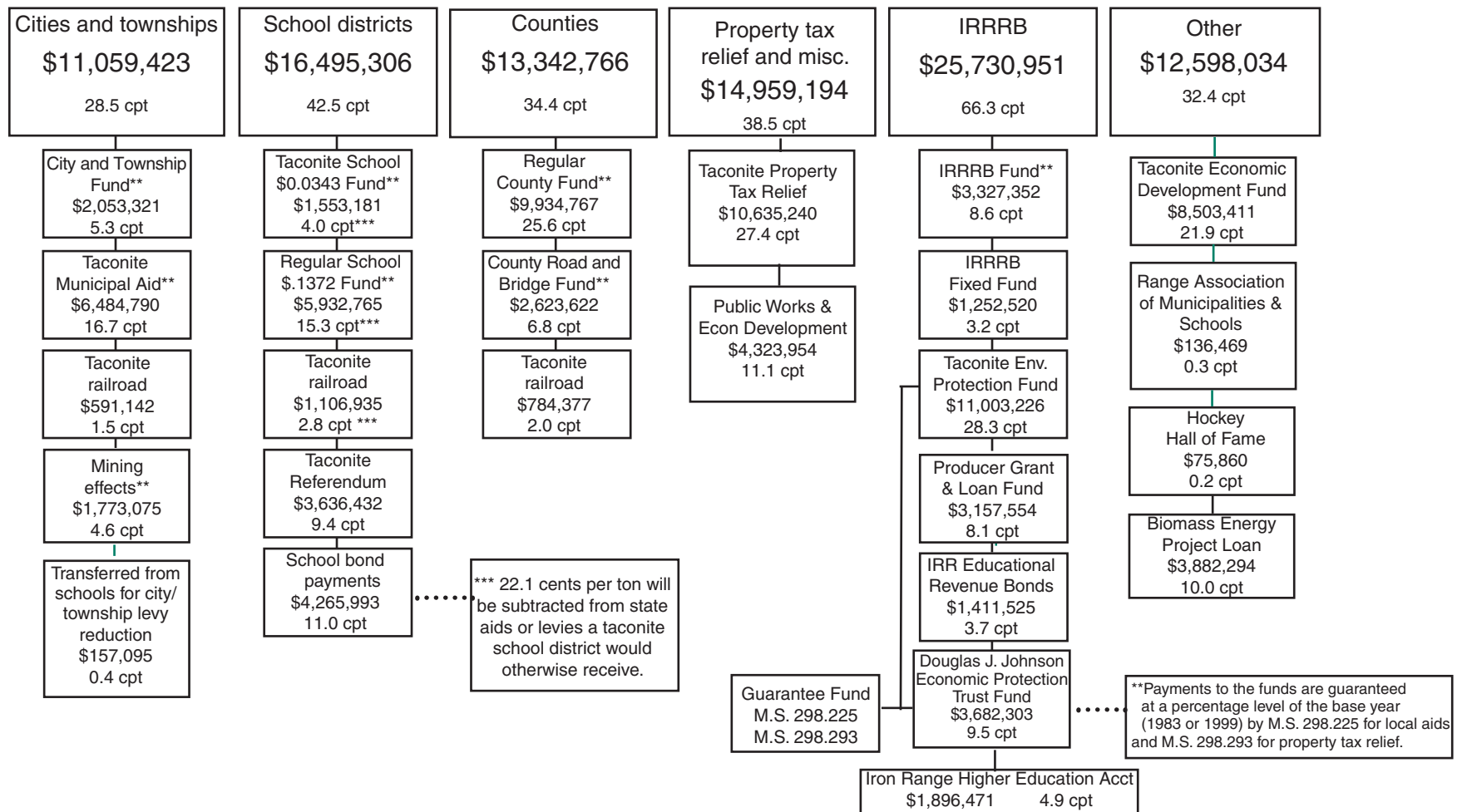


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The *Minnesota Mining Tax Guide* is published by the Minnesota Department of Revenue. Alternative formats for persons with visual impairments or other disabilities are provided upon request.

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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 and 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 assistance area.

The production tax distributed in 2008 is the tax due for the 2007 production year. The taconite production tax rate for concentrates and pellets produced in 2007 was \$2.258 per taxable ton. The taxable tonnage for 2007 is the average tonnage produced in 2005, 2006 and 2007.

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 funds to which the production tax are distributed are explained on pages 7 through 11, *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 45 - 51. 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 52 - 54.

Aggregate Material Sales/Use Tax

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

Figure 1

Iron Ore Production Comparison

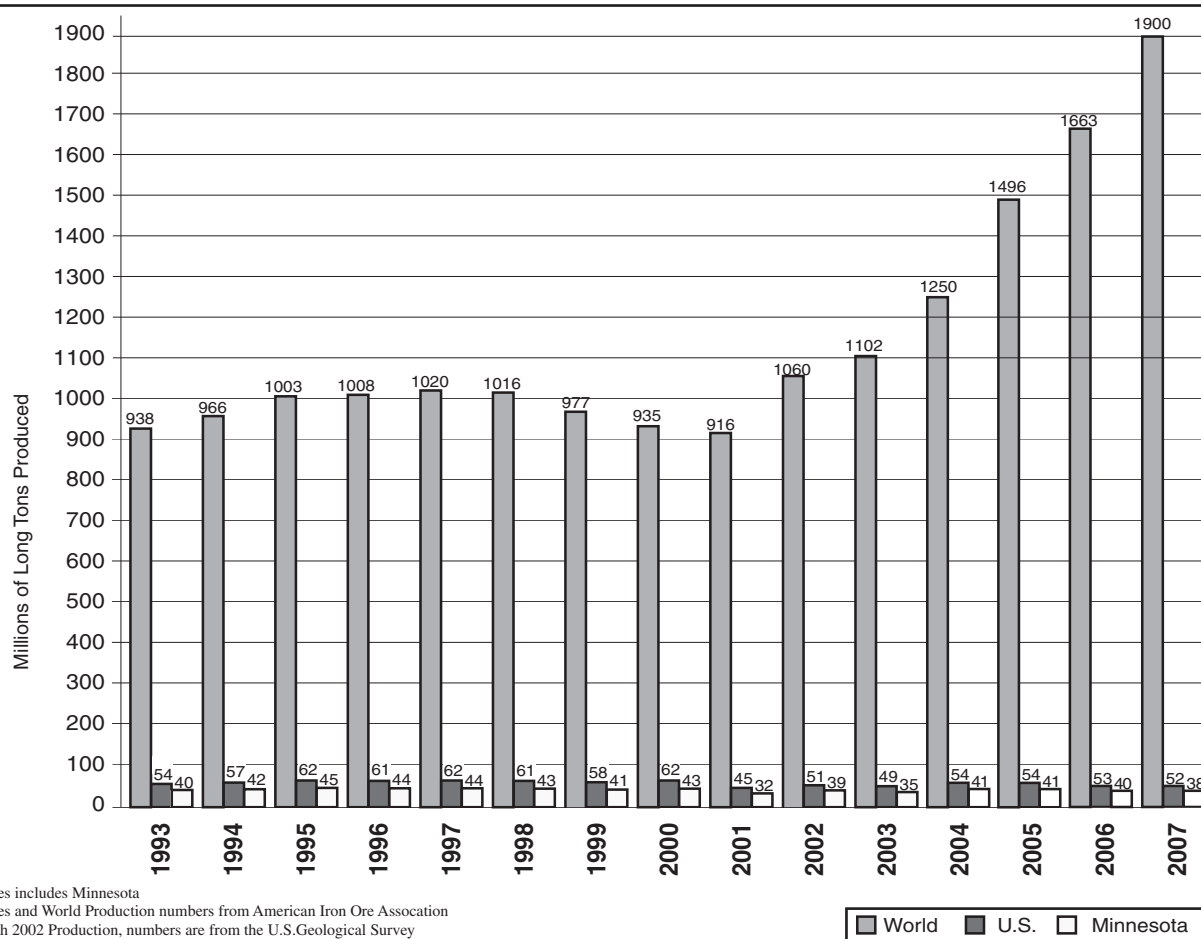
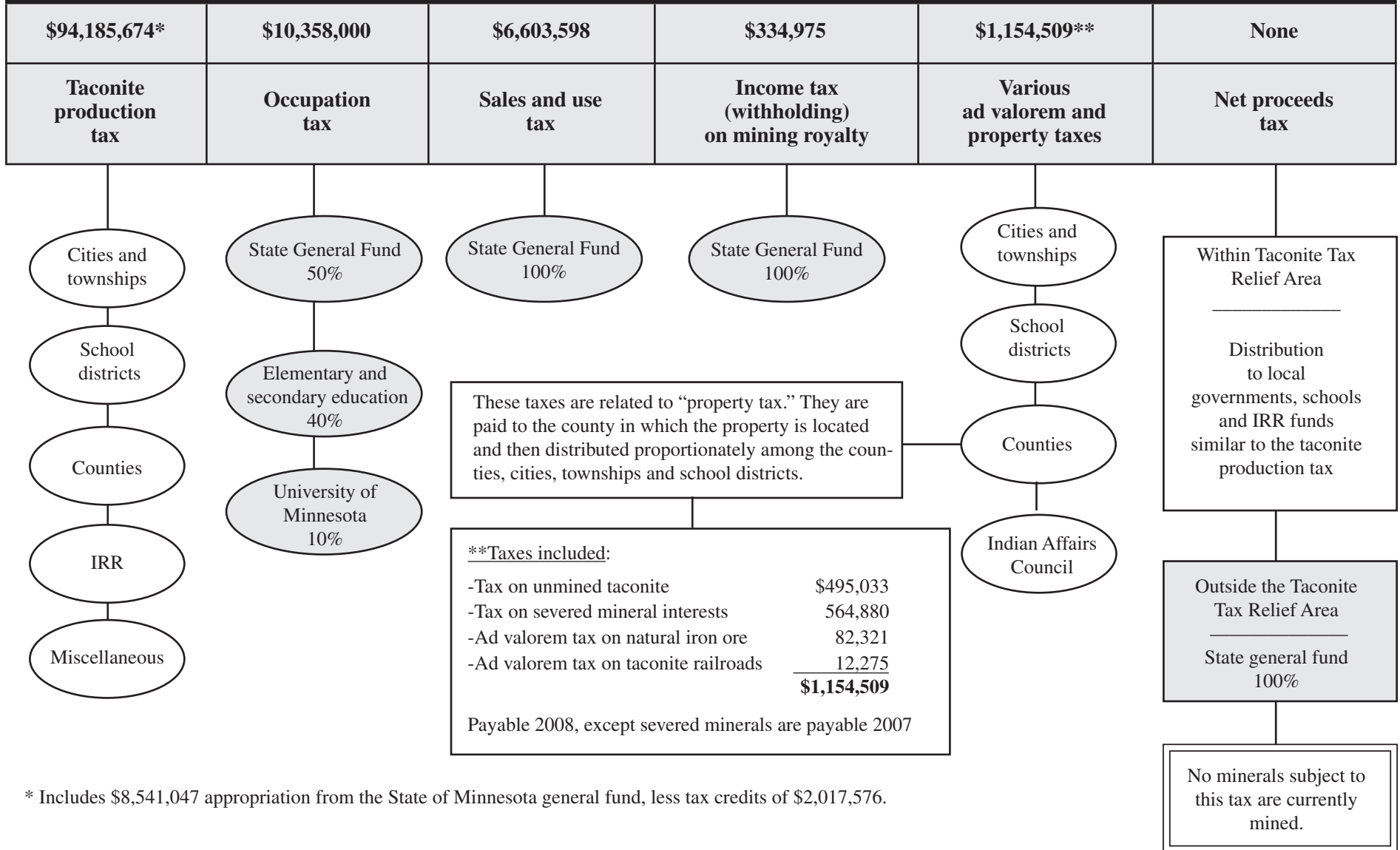


Figure 2

Distribution of Mining Taxes

Production year 2007 tax obligations - \$112,636,756



* Includes \$8,541,047 appropriation from the State of Minnesota general fund, less tax credits of \$2,017,576.

Figure 3

History of Minnesota Taconite Production

| Year | Butler | Eveleth | Hibbing | Inland | Erie | National | Reserve | Minntac | Total |
|-------------------------------|------------|-------------|-------------|------------|-------------|-------------|-------------|-------------|---------------|
| 1951-55 | — | — | — | — | 806,449 | — | 1,108,334 | 1,170,054 | 3,084,837 |
| 1956-58 | — | — | — | — | 3,652,994 | — | 14,634,249 | 2,132,224 | 20,419,467 |
| 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 |
| LTV | | | | | | | | | |
| 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 |
| Cyprus/ Northshore | | | | | | | | | |
| 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 |
| Northshore/CCI | | | | | | | | | |
| 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 | — | 5,463,637 | 3,979,283 | 13,794,178 | 37,511,567 |
| United Taconite | | | | | | | | | |
| 2003 | — | 1,630,242 | 7,769,999 | 2,657,673 | — | 4,376,891 | 4,683,657 | 13,231,018 | 34,349,480 |
| 2004 | — | 4,030,871 | 8,101,948 | 2,693,971 | — | 5,343,915 | 4,912,594 | 14,327,728 | 39,411,027 |
| 2005 | — | 4,836,140 | 8,147,611 | 2,558,197 | — | 5,196,512 | 4,799,887 | 13,996,412 | 39,534,759 |
| Mittal Steel USA | | | | | | | | | |
| 2006 | — | 4,207,096 | 8,125,923 | 2,707,562 | — | 5,234,336 | 4,970,526 | 13,702,701 | 38,948,144 |
| ArcelorMittal | | | | | | | | | |
| 2007 | — | 5,278,708 | 7,265,682 | 2,495,201 | — | 5,220,394 | 4,975,108 | 12,750,828 | 37,985,921 |
| Totals | 40,125,707 | 153,130,538 | 216,608,796 | 69,834,323 | 323,555,072 | 157,391,360 | 288,048,817 | 458,339,241 | 1,707,033,854 |

Numbers after 1986 do not include flux. Beginning with 1990, all weights are dry. Taconite production tax report tonnages are used.

Figure 4

Minnesota Taxes Levied on Taconite

| Production year(s) | Unmined taconite tax | Use tax (net) ¹ | Production tax | Occupation tax ² | Royalty tax ³ | School bonds | Railroad gross earnings tax ⁴ | Total taxes | Total tons produced ⁵ | 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 |
| 1986-88 | 1,142,555 | 18,528,954 | 157,243,978 | 14,582,639 | 6,936,075 | 2,092,630 | 4,472,928 | 204,999,759 | 96,979,336 | 2.11 |
| 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 | 11,991,300 | 80,195,972 | 1,708,731 | — | 1,020,631 | 143,079 | 95,411,832 | 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 | — | — | 116,326 | 100,219,206 | 41,292,907 | 2.43 |
| 2000 | 397,428 | 6,131,394 | 94,540,947* | 2,183,000 | — | — | 108,262 | 103,361,031 | 44,959,816 | 2.30 |
| 2001 | 316,140 | (1,652,702) | 72,842,808* | 56,153 | — | — | 71,861 | 71,634,260 | 31,628,494 | 2.26 |
| 2002 | 317,033 | 844,287 | 74,814,128* | 1,340,700 | — | — | 24,636 | 77,340,784 | 37,511,567 | 2.06 |
| 2003 | 300,173 | 1,197,577 | 72,497,652* | 1,441,500 | — | — | 20,483 | 75,457,385 | 34,349,480 | 2.20 |
| 2004 | 273,601 | 8,514,814 | 79,262,806* | 5,659,500 | — | — | 17,208 | 93,727,929 | 39,411,027 | 2.38 |
| 2005 | 261,687 | 7,825,884 | 78,544,450 | 6,650,000 | — | — | 14,287 | 93,206,308 | 39,534,759 | 2.36 |
| 2006 | 532,102 | 8,744,868 | 84,451,384 | 7,736,000 | — | — | 13,135 | 101,477,489 | 38,948,144 | 2.61 |
| 2007 | 495,033 | 6,603,598 | 85,644,627 | 10,358,000 | — | — | 12,275 | 103,113,533 | 37,985,921 | 2.71 |

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

1. Total use tax less total refunds paid after 1990, see *Figure 34*.
2. Amount Paid (unaudited). Does not include adjustments.
3. Repealed effective after December 31, 1989.
4. Repealed effective after December 31, 1988. Beginning with payable 1990, taconite railroads were taxed on an ad valorem basis.
5. Tons are without flux additive beginning in 1987. Beginning in 1990, production tons are reported dry.

* Full amount of tax levied. Does not include bankruptcy adjustments.

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 45 and 46). 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 (GDPIDP) 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 GDPIDP monthly in Survey of Current Business. This escalator takes effect each year unless the rate is frozen or changed by the Minnesota State Legislature. The tax rate for the 2007 production year was \$2.258 per taxable ton. For concentrates produced in 2008, the rate will be \$2.316 per taxable ton.

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 (IRR), which administers the Taconite Environmental Protection Fund, the Douglas J. Johnson Economic Protection Trust 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 IRR can be found on pages 25 - 28.

Payment Dates and Method

For taxes payable in 2004 and thereafter, the payments are due 50 percent on February 24 and 50 percent on August 24. If the 24th falls on a weekend or holiday, the payment date is the next regular work day. The Department of Revenue must notify each taconite producer of its tax obligation for the year by February 15.

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

Producer Grant and Loan Fund (M.S. 298.2961)

The producer grant program was renewed by the 2005 legislature. The amount allocated is 5 cents per ton (cpt) plus the revenue generated by the tax rate increase for the 2004 production year. The 2005 distribution was entirely allocated to the City of Virginia for the steam heating system. The 2006 distribution was allocated to the cities of Hibbing and Virginia public utilities for biomass conversion. The 2007 distribution was allocated to the City of Tower for the East Two Rivers project. For distributions in 2008, the first \$2,000,000 is allocated to St. Louis County for the relocation of St. Louis County Road 715. The remainder of the 2008 distributions must be paid to St. Louis County for a grant to the city of Virginia for connecting sewer and water lines to the St. Louis County maintenance garage on Highway 135, further extending the lines to interconnect with the city of Gilbert's sewer and water lines. The amounts in 2009 and later, are allocated for projects under the Taconite Area Environmental Protection Fund.

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.

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. Any portion of the TEDF fund not released within two years of deposit is divided, with two-thirds to the Environmental Protection Fund and one-third to the Douglas J. Johnson Economic Protection Trust Fund. To date, all funds have been approved and released to the taconite producers before the two-year deadline expiration. The 2001 legislature made the TEDF permanent at 30.1 cpt for distributions in 2002 and thereafter. The first 15.4 cents (of the 30.1 cents) does not require a matching investment by the company. A matching expenditure of at least 50 percent is required to qualify for the additional 14.7 cents per ton (above 15.4 cents).

In addition: “If a producer uses money from the fund to procure haulage trucks, mobile equipment, or mining shovels, and the producer removes the piece of equipment from the taconite tax relief area defined in section 273.134 within ten years from the date of receipt of the money from the fund, a portion of the money granted from the fund must be repaid to the taconite economic development fund. The portion of the money to be repaid is 100 percent of the grant if the equipment is removed from the taconite tax relief area within 12 months after receipt of the money from the fund, declining by ten percent for each of the subsequent nine years during which the equipment remains within the taconite tax relief area.”

Each producer has two potential sources of TEDF money:

1. **Acid or flux pellets** — The production tax amount credited to each producer’s share of the Taconite Economic Development Fund is 30.1 cpt.
2. **Pellet chips and fines** — 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. 9a(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 and fines sold. A list of TEDF-funded projects and yearly distributions is shown in *Figure 21*.

Flux Pellets

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

M.S. 298.24, subd. 1 (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 26*.

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 and 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 mine or 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 qualifies 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 percent 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.

State Contribution (298.285 State Aid Amount; Appropriation) The commissioner of revenue shall determine a state aid amount equal to a tax of 33 cents per taxable ton of iron ore concentrates for production year 2001 and 22 cents per taxable ton of iron ore concentrates for production years 2002 and thereafter. There is appropriated from the general fund to the commissioner an amount equal to the state aid determined under this section. It must be distributed under M.S. 298.28, as if the aid were production tax revenues.

2008 Legislation

Production Tax

For 2007 Production, Distributions in 2008 only:

1. Ten cents per taxable ton allocated from the non-matching portion of the Taconite Economic Development Fund may be used for a loan for the cost of construction of a biomass energy facility if approved by the Iron Range Resources and Rehabilitation Board. If a loan is not made by July 1, 2009, then the amount that was available must be transferred to the Northeast Minnesota Economic Development Fund.

2. A special fund allocated 11.4 cents per taxable ton from money that otherwise would have been allocated to the Taconite Property Tax Relief Account. The special fund money is allocated for various public works and economic development projects listed on page 10. St. Louis County will act as the fiscal agent.

For Distributions in 2008 and thereafter:

1. Five cents per taxable ton is allocated to Iron Range Resources to be deposited in the new Iron Range Higher Education Account. The money is to be used for higher education programs conducted at educational institutions within the Taconite Assistance Area. All expenditures must be approved by both the Iron Range Higher Education committee and the Iron Range Resources and Rehabilitation Board.
2. The city of Tower was added to the list of recipients eligible to receive money from the Taconite Municipal Aid Account.
3. The Mesabi East School District (ISD 2711) will receive \$500,000 each year for ten years ending with taxes payable in 2017. The money shall be appropriated in equal shares from the Taconite Environmental Protection Fund and the Douglas J. Johnson Economic Protection Trust Fund.

For 2008 Production and Distributions in 2009 and thereafter:

1. A new Township Fund was created for townships located entirely within the taconite tax relief area. For distributions in 2010 and subsequent years, the three cents is escalated in the same proportion as the Implicit Price Deflator as provided in section 298.24 subdivision 1. The money is distributed to the townships on a per capita basis with a maximum of \$50,000 per township. If a township would have received more than \$50,000, the portion that exceeded \$50,000 is redistributed among the townships under \$50,000.
2. Four cents per taxable ton is allocated to specified school districts, based on proximity to a taconite facility, to be used for building maintenance and repairs. The money allocated from each taconite facility shall be apportioned between its recipient school districts based on pupil units.
 - (a) Keewatin Taconite proceeds are allocated to the Coleraine and Nashwauk-Keewatin districts.
 - (b) Hibbing Taconite proceeds are allocated to the Chisholm and Hibbing districts.
 - (c) ArcelorMittal and Minntac proceeds are allocated to the Mountain Iron-Buhl, Virginia, Mesabi East, and Eveleth-Gilbert, districts.
 - (d) Northshore mining proceeds are allocated to the St. Louis County and Lake Superior districts.
 - (e) United Taconite proceeds are allocated to the St. Louis County and Eveleth-Gilbert districts.

This additional money is not subject to the 95 percent levy limitations in section 126C.48, subdivision 8 nor will it reduce state aid.

3. The 13.72 cent school district fund was increased to 15.72 cents per ton. This two cent increase is not subject to the 95 percent levy limitation in section 126C.48, subdivision 8 nor will it reduce state aid.
4. The 20.525 cent County Fund was reduced to 15.525 cents per taxable ton.
5. The 5.525 cent County Road and Bridge Fund was increased to 10.525 cents per taxable ton.
6. Producers of “other iron bearing material” as defined in section 298.405 are subject to the taconite production tax under section 298.24, subdivision 1, except that the tax and its distribution will be applied to the current year’s production and not the three year average of production.

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), former LTV (Hoyt Lakes and Schroeder Township-LTV powerplant), and United Taconite (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*.

- (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 among 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 IRR 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 or 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 IRR by January 15 of the year following the receipt of the mining effects aid. Reports should be submitted to Richard Walsh, Grants Administrator, IRR, 4261 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 .3 cent Range Association of Municipalities and Schools (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 (LETCTCR) is 350 divided by 17 plus the excess over 350 divided by 15. The minimum allowable LETCTCR 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 LETCTCR times the adjusted net tax capacity divided by 100.

$$\begin{aligned} \text{If FNFPC} \leq 350, \text{LETCTCR} &= \frac{\text{FNFPC}}{17} \\ \text{If FNFPC} > 350, \text{LETCTCR}^* &= \frac{350}{17} + \frac{(\text{FNFPC} - 350)}{15} \\ \text{DI} &= (\text{FNF minus LETCTCR}^*) \times \frac{\text{Adjusted Net Tax capacity}}{100} \\ * \text{ Minimum allowable LETCTCR} &= 8.16 \end{aligned}$$

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.

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, 298.28, Subd. 1, Clause 2, and 298.282. Distribution detail is *Figure 10*.

- (b) and (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.

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

Legislation passed in 2002 authorizes some cities and townships to receive aid from money allocated to their school districts for levy reduction to the extent that the levy reductions exceed the school's levy limitations.

Subd. 4 - School Districts

- (a) Seventeen and fifteen-hundredths (17.15) cents per taxable ton was distributed in 2008 under (b) and (c) plus the 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 from the plant, the hours-worked split is used. Distribution details in *Figure 11*.

(c) Regular School Fund (13.72 cents)

A total of 13.72 cents per taxable ton 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*.

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 (21.3 cents)

The Taconite Referendum Fund (TRF) receives an allocation of 21.3 cents per taxable ton. 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 pupil units used in the computation are the greater of the previous year or the 1983-84 school year units. On July 15, the TRF pays the difference between the local levy and \$175 per pupil unit. 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*.

- (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*.

(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*.

(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.* Cook County continues to receive aid based on the former LTV power plant due to the guarantee provided by M.S. 298.225. For the 2007 production year, this amounted to \$89,963. The only company whose distribution is affected is the former 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.

$$\text{\$97,936 (1983 base)} \times 91.858838\% = \text{\$89,963}$$

There is also a transfer of \$20,694 ($\{1983 \text{ base of } \$22,528\} \times 91.858838\%$) to the county fund covered in Subd. 6(b). Therefore, Cook County receives a total of \$110,657 (\$89,963 + \$20,694) due to the LTV power plant.

(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*.

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 fund is subject to indexing by using the Gross Domestic Product Implicit Price Deflator. The indexed amount was 39.44 cents per ton for the 2007 production year. 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.

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 2007.

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*. An example of the calculation is shown in *Figure 8*.

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 2007 production year, \$20,694 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 2007 production year, \$21,087 was distributed. This is calculated by multiplying the 1983 base of \$67,586 x .312 = \$21,087.

For distribution in 2008 only, a special fund is established to receive 11.4 cents per ton that otherwise would be allocated under Minnesota Statutes, section 298.28, subdivision 6. The following amounts are allocated to St. Louis County acting as the fiscal agent for the recipients for the following specified purposes.

1. two cents per ton must be paid to the Hibbing Economic Development Authority to retire bonds and for economic development purposes (\$758,588);
2. one cent per ton must be divided among and paid in equal shares to each of the board of St. Louis County School District No. 2142, the board of Ely School District No. 696, the board of Mountain Iron-Buhl School District No. 712, and the board of Virginia School District No. 706 for each to study the potential for impact of consolidation and streamlining the operations of their schools (\$94,824 each);
3. 0.25 cent per ton must be paid to the city of Grand Rapids, for industrial park work (\$94,824);
4. 0.65 cent per ton must be paid to the city of Aitkin, for sewer and water for housing projects (\$246,541);
5. 0.5 cent per ton must be paid to the city of Crosby, for well and water tower infrastructure (\$189,647);
6. 0.5 cent per ton must be paid to the city of Two Harbors, for well and water tower infrastructure (\$189,647);
7. 1.5 cents per ton must be paid to the city of Silver Bay to pay for health and safety and maintenance improvements at a former elementary school building that is currently owned by the city to be used for economic development purposes (\$568,941);
8. 1.5 cents per ton must be paid to St. Louis County to extend water and sewer lines from the city of Chisholm to the St. Louis County fairgrounds (\$568,941);
9. 1.5 cents per ton must be paid to the White Community Hospital for debt restructuring (\$568,941);
10. 0.5 cent per ton must be paid to the city of Keewatin for street, sewer and water improvements (\$189,647);
11. 0.5 cent per ton must be paid to the city of Calumet for street, sewer and water improvements (\$189,647); and
12. one cent per ton must be paid to Breitung township for sewer and water extensions associated with the development of a state park. If a new state park is not established in Breitung township by July 1, 2009, the money provided in this clause must be transferred to the northeast Minnesota economic development fund established in Minnesota Statutes, section 298.2213 (\$379,294).

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 IRRRB for general operating expenses and community development grants.

Subd. 8 — Range Association of Municipalities & Schools

An amount equal to 0.3 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 — Douglas J. Johnson 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 is allocated to the Douglas J. Johnson Economic Protection Trust Fund for production year 1998 and thereafter.

(9a) Taconite Economic Development Fund

This subdivision is explained in detail on pages 25 and 27.

(9b) Taconite Environment Fund

Five cents per taxable ton must be paid to the taconite environmental fund for use under section 298.2961, subdivision 4. (description is on page 5)

(9c) Temporary Distribution; City of Eveleth

For distributions in 2007 through 2011 only, the City of Eveleth shall receive 0.20 cents per taxable ton for support of the Hockey Hall of Fame provided that an equal amount of donations have been received. Any amount of the 0.20 cent per ton that exceeds the donations shall be distributed to the IRRRB.

(9d) Iron Range Higher Education Account

Five cents per taxable ton must be allocated to the Iron Range Resources and Rehabilitation Board to be deposited in the Iron Range higher education account to be used for higher education programs conducted at educational institutions in the taconite assistance area defined in section 273.1341. The Iron Range Higher Education committee under section 298.2214 and the Iron Range Resources and Rehabilitation Board must approve all expenditures from the account.

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 IRRRB payments, remainder is distributed of the two-thirds to the Taconite Environmental Protection Fund and one-third to the Douglas J. Johnson Economic Protection Trust Fund. The remainder includes interest earned on money on deposit by the counties. The amounts in (b) and (c) are taken from the initial amount prior to making the 2/3 - 1/3 distribution to the two funds.

(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 2008 is \$2,482,454. Taconite railroad aids are not subject to the percentage reduction mandated for other aids by M.S. 298.225 and so remain constant from year to year. Beginning with the 2002 production year, the taconite railroad distribution to schools was reduced to 62 percent of the 1977 amount.

(c) Occupation Tax Grandfather Amount to IRRRB

In 1978 and each year thereafter, the amount distributed to the IRRRB was the same as 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 19 and consist of school bond payments to school districts within the taconite tax relief area and taconite assistance area. Most are funded 80 percent taconite and 20 percent local efforts.

In Laws 2005, Chapter 152, Article 1, Sec. 39 the legislature authorized the Commissioner of IRRRB to issue \$15,000,000 in revenue bonds to make grants to school districts in the taconite relief area or taconite assistance area. The bonds are to be used by the school districts to pay for health, safety and maintenance improvements. The bonds are funded in equal shares from the Taconite Environmental Protection Fund and the Douglas J. Johnson Economic Fund. Minor amendments were made by the 2006 legislature.

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 are 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 IRR 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 the amounts. The aid payments covered by this variable guarantee are listed as follows:

1. 4.5 cents—City and Town Fund
2. 12.2 cents—Taconite Municipal Aid
3. 21.3 cents— Taconite Referendum Fund
4. 6.5 cents—escalated to IRRRB
5. 0.3 cent—RAMS
6. 0.1875 cent—power plant transfer from Taconite Property Tax Relief Account to Cook County
7. 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. 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.

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 IRR. 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 taxable ton (payable 2008). 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 IRR.

The proceeds of the 2007 taconite production tax (payable 2008) are distributed by state law as follows (*all figures are cents per taxable ton*):

| <u>M.S. 298.28 – Payment recipients</u> | | <u>Cents per ton</u> |
|--|---|-------------------------------|
| Subd. 2a | Taconite cities and towns | 4.5 |
| Subd. 2b | Taconite cities and towns (mining effects) | 4.0 |
| Subd. 3 | Taconite municipal aid account | 12.2 |
| 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 9) |
| 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 .6416 cents for Cook County and Cook County Schools) | 33.9* |
| Subd. 7 | IRRRB | 6.5* |
| Subd. 8 | Range Association of Municipalities and Schools | 0.3 |
| Subd. 9 | Douglas J. Johnson Economic Protection Trust Fund | 3.35* |
| Subd. 9a | Taconite Economic Development Fund (reduced for pay 2008 only) | 20.1 |
| Subd. 9b | Taconite Environmental Fund for use in Producer Grant & Loan Fund | 5.0** |
| Subd. 9c | City of Eveleth (for Hockey Hall of Fame) | 0.2*** |
| Subd. 9d | Iron Range Higher Education Account | 5.0 |
| Subd. 10 | Indexing provisions | - |
| Subd. 11 | Distribution of remainder | - |

* These funds are escalated using the Gross Domestic Product Implicit Price Deflator. After escalation, the cents per ton for Taconite Property Tax Relief was 39.44 cents, IRRRB was 7.88 cents, and the Northeastern Minnesota Economic Protection Fund was 3.99 cents.

** Plus amount of revenue due to tax increase generated in pay 2005.

*** Provided through 2010 production year.

The full amount distributed, including escalation and M.S. 298.225 guarantees, is listed in Figure 9.

Figure 5

Douglas J. Johnson Economic Protection Trust Fund and Environmental Protection Fund

| Period ending | Douglas J. Johnson Fund balance | Taconite Environmental Fund balance |
|---------------|---------------------------------|-------------------------------------|
| 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 | 81,880,819 | 3,680,925 |
| June 30, 2002 | 79,621,545 | 1,079,868 |
| June 30, 2003 | 84,572,870 | 7,868,073 |
| June 30, 2004 | 86,298,384 | 6,709,194 |
| June 30, 2005 | 83,433,221 | 15,691,497 |
| June 30, 2006 | 80,394,959 | 9,234,489 |
| June 30, 2007 | 84,478,169 | 9,659,460 |
| June 30, 2008 | \$88,971,850 | \$8,332,921 |

| Douglas J. Johnson Fund Major Withdrawals | | |
|---|-----------------|-------------------------------|
| 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 |
| Sept. 2004 | 5.00 million | Loan to Mesabi Nugget |
| Dec. 2004 | 3.00 million | Loan to MN Steel Industries |
| Feb. 2006 | \$6.488 million | Loan to Mesabi Nugget |

* 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 Douglas J. Johnson Economic Protection Trust Fund (DJJ), formerly known as Northeast Minnesota Economic Protection Trust Fund, 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 DJJ and two-thirds to the TEPF.

The TEPF 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 Iron Range Resources commissioner administers the fund. The Iron Range Resources Board and the governor must approve projects.

The DJJ is somewhat different in that only interest and dividends earned by the fund may be spent before January 1, 2028. Expenditures from the principal may be made with approval from the Iron Range Resources Board for economic development projects.

Taconite Property Tax Relief

The taconite homestead credits described on page 10 are administered by the county auditors. The amounts payable in 2007 are listed in *Figure 7* below. Distribution is determined by the formula described on page 16. 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 Douglas J. Johnson Economic Protection Fund. The last time this occurred was in 1989.

Figure 6

| Taconite Property Tax Relief Fund Balance | | | | |
|---|------------------------------------|------------------------|---------------------------|---------------------|
| Year payable | Payments into account ¹ | Interest & other | Payments out (by formula) | Balance December 31 |
| 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 ² | 23,950,183 ³ | 19,209,484 |
| 2003 | 10,835,555 | 415,669 | 11,300,470 | 19,160,238 |
| 2004 | 16,119,076 ⁴ | 412,123 | 11,257,422 | 24,434,015 |
| 2005 | 13,567,734 ⁴ | 398,393 | 11,254,494 | 27,145,288 |
| 2006 | 14,449,177 ⁴ | 941,169 | 11,400,696 | 31,134,938 |
| 2007 | 14,753,800 | 1,336,342 | 22,435,332 ⁵ | 24,789,748 |
| 2008 est. | \$16,271,275 ⁴ | \$720,000 | \$15,900,000 ⁶ | \$25,881,000 |

¹ Listed under year payable; therefore, 2007 payments result from 2006 production.

² Includes reimbursement from state for overpayment in Aitkin, Crosby-Ironton and Grand Rapids School Districts.

³ \$10,857,566 of Special Municipal aid was also paid out of homestead credit funds as a one time payment.

⁴ Includes \$4,940,000 from National bankruptcy settlement in 2004 & \$49,173 for United Taconite in 2005, \$729,423 from LTV in 2006 and \$1,312,081 from EVTAC in 2008.

⁵ Includes \$10,887,059 in public works and local economic development projects.

⁶ Includes \$4,323,954 in public works and local economic development projects.

Figure 7

| Taconite Property Tax Relief Fund Distribution | | | | | | |
|--|-----------------|---------------------|----------------------------------|-----------------|---------------------|---------------------|
| Total listed by school district area | | | Total listed by county area | | | |
| School district | Mobile home | Real property | County | Mobile home | Real property | Grand total |
| 166 - Cook County | \$380 | \$481,646 | (69) St. Louis | \$21,149 | \$8,628,706 | \$8,649,855 |
| 316 - Coleraine | 3,025 | 857,571 | (31) Itasca | 4,580 | 1,247,454 | 1,252,034 |
| 319 - Nashwauk-Keewatin | 1,555 | 389,883 | (38) Lake | 655 | 1,159,641 | 1,160,296 |
| 381 - Lake Superior | 1,022 | 1,428,024 | (16) Cook | 380 | 481,646 | 482,026 |
| 695 - Chisholm | 143 | 631,687 | (36) Koochiching | 4 | 4,058 | 4,062 |
| 696 - Ely | 1,136 | 582,346 | Total: (Payable 2007) | \$26,768 | \$11,521,505 | \$11,548,273 |
| 701 - Hibbing | 9,793 | 1,839,393 | | | | |
| 706 - Virginia | 809 | 1,057,581 | | | | |
| 712 - Mt. Iron-Buhl | 3,566 | 463,730 | | | | |
| 2142 - St. Louis County | 2,972 | 1,917,333 | | | | |
| 2154 - Eveleth-Gilbert | 1,186 | 941,902 | | | | |
| 2711 - Mesabi East | 1,181 | 930,409 | | | | |
| Total (Payable 2007) | \$26,768 | \$11,521,505 | | | | |

Mobile homes are taxed differently from 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.

Taconite Residential Homestead Credit Examples

Taxes payable 2008

| Gross tax computation | 66% Example 1 | 66% Example 2 |
|--|---------------|---------------|
| 1. Total Market Value | \$50,000.00 | \$100,000.00 |
| 2. Net Tax Capacity | \$500.00 | \$1,000.00 |
| 3. Local Tax Rate | 130.000% | 130.000% |
| 4. Net Tax Capacity Tax (2 x 3) | \$650.00 | \$1,300.00 |
| 5. Referendum Tax Rate | 0.09500% | 0.09500% |
| 6. Referendum (5 x 1) | \$47.50 | \$95.00 |
| 7. Total Gross Tax (4 + 6) | \$697.50 | \$1,395.00 |
| Residential homestead market value credit computation | | |
| 8. Homestead Market Value Credit | | |
| a) Initial Credit (1st \$76,000 of 1x0.40%) | \$200.00 | \$304.00 |
| b) Credit Phase Out (0.09% x (1-\$76,000)) | \$0 | \$21.60 |
| c) Final Credit (8a-8b) | \$200.00 | \$282.40 |
| Final net tax and taconite credit computation | | |
| 9. Adjusted Gross Tax (7 - 8) | \$497.50 | \$1,112.60 |
| 10. Taconite Credit (9 x 66%, \$315.10 maximum) | \$315.10 | \$315.10 |
| 11. Net Tax (9 - 10) | \$182.40 | \$797.50 |

| Gross tax computation | 57% Example 1 | 57% Example 2 |
|--|---------------|---------------|
| 1. Total Market Value | \$50,000.00 | \$100,000.00 |
| 2. Net Tax Capacity | \$500.00 | \$1,000.00 |
| 3. Local Tax Rate | 130.000% | 130.000% |
| 4. Net Tax Capacity Tax (2 x 3) | \$650.00 | \$1,300.00 |
| 5. Referendum Tax Rate | 0.09500% | 0.09500% |
| 6. Referendum (5 x 1) | \$47.50 | \$95.00 |
| 7. Total Gross Tax (4 + 6) | \$697.50 | \$1,395.00 |
| Residential homestead market value credit computation | | |
| 8. Homestead Market Value Credit | | |
| a) Initial Credit (1st \$76,000 of 1 x 0.40%) | \$200.00 | \$304.00 |
| b) Credit Phase Out (0.09% x (1-\$76,000)) | \$0 | \$21.60 |
| c) Final Credit (8a-8b) | \$200.00 | \$282.40 |
| Final net tax and taconite credit computation | | |
| 9. Adjusted Gross Tax (7 - 8) | \$497.50 | \$1,112.60 |
| 10. Taconite Credit (9 x 57%, \$289.80 maximum) | \$283.58 | \$289.80 |
| 11. Net Tax (9-10) | \$213.92 | \$822.80 |

Figure 9

Taconite Production Tax Distribution*

| Production year | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| City and township | \$1,827,187 | \$1,858,302 | \$2,045,317 | \$2,047,900 | \$2,091,131 | \$2,053,321 |
| Taconite municipal aid | 5,773,656 | 5,843,362 | 6,453,011 | 6,454,084 | 6,588,041 | 6,484,790 |
| Mining effects | 1,580,353 | 1,607,243 | 1,766,911 | 1,769,593 | 1,806,224 | 1,773,075 |
| School district — regular | 0 | 1,399,421 | 1,524,414 | 1,512,883 | 1,567,083 | 1,553,181 |
| School district fund | 0 | 5,301,098 | 5,797,758 | 5,928,663 | 6,134,022 | 5,932,765 |
| Taconite Referendum Fund | 4,844,944 | 4,688,992 | 4,469,529 | 4,218,742 | 3,985,816 | 3,636,432 |
| County | 9,625,883 | 9,690,602 | 10,084,303 | 9,984,746 | 10,112,692 | 9,934,767 |
| County road and bridge | 2,541,361 | 2,558,701 | 2,663,977 | 2,637,217 | 2,671,467 | 2,623,622 |
| Taconite Property Tax Relief | 10,835,555 | 11,227,023 | 13,518,201 | 13,719,754 | 33,269 | 10,635,240 |
| IRRRB (\$.03 Indexed) | 2,655,112 | 2,724,158 | 3,033,394 | 3,071,150 | 3,289,341 | 3,327,352 |
| Range Association of Municipalities and Schools | 93,379 | 94,695 | 104,390 | 104,092 | 137,886 | 136,469 |
| Taconite railroad (fixed) | 1,375,519 | 2,482,454 | 2,482,454 | 2,482,454 | 2,482,454 | 2,482,454 |
| IRRRB (fixed) | 1,252,520 | 1,252,520 | 1,252,520 | 1,252,520 | 1,252,520 | 1,252,520 |
| School bond payments | 4,734,031 | 4,755,935 | 4,634,733 | 4,767,129 | 3,747,420 | 4,265,993 |
| Taconite Environmental Protection Fund | 6,171,626 | 7,009,851 | 9,929,923 | 9,417,968 | 11,537,116 | 11,003,226 |
| Producer Grant & Loan Fund | — | — | 3,115,619 | 3,098,810 | 3,177,818 | 3,157,554 |
| Douglas J. Johnson Economic Protection Trust Fund | 7,990,160 | 836,345 | 3,140,064 | 2,864,404 | 4,001,532 | 3,682,303 |
| IRR Educational Revenue Bonds | — | — | — | — | 1,415,106 | 1,411,525 |
| Iron Range Higher Education Acct | — | — | — | — | — | 1,896,471 |
| Biomass Energy Project Loan | — | — | — | — | — | 3,882,294 |
| Taconite Economic Development Fund | 9,425,759 | 9,771,605 | 11,684,231 | 11,520,660 | 12,257,357 | 8,503,411 |
| Producer grants | 1,531,259 | — | — | — | — | — |
| Hockey Hall of Fame | — | — | — | — | 76,669 | 75,860 |
| Transfer from schools to cities** | — | 314,121 | 177,026 | — | 11,444 | 157,095 |
| Balkan Township | — | 100,000 | — | — | — | — |
| Public Works & Local Economic Development Fund | — | — | — | — | 14,720,531 | 4,323,954 |
| Total | \$72,358,304 | \$73,416,428 | \$87,422,758 | \$86,852,769 | \$93,096,939 | \$94,185,674 |

* The production tax is collected and distributed in the year following production. For example, the 2007 production tax was collected and distributed during 2008.

** This is excess school levy reduction money that will be used to reduce levies of cities and townships within the school district.

Figure 10

Taconite Production Tax Distribution to Cities and Townships – 2008

(Based on 2007 production year tax revenues—not including Taconite Property Tax Relief dollars)

| Name | 4.5 cent mining & conc. | 4.0 cent mining effects | Taconite railroad* | Taconite municipal aid | From schools for 2009 levy reduction | Total |
|-------------------------|----------------------------|----------------------------|-----------------------|---------------------------|---|---------------------|
| COOK COUNTY | | | | | | |
| Schroeder Township | \$9,791 | \$ – | \$47,700 | \$0 | \$ – | \$57,491 |
| CROW WING COUNTY | | | | | | |
| Crosby | – | – | – | 215,737 | – | 215,737 |
| Ironton | – | – | – | 43,561 | – | 43,561 |
| Riverton | – | – | – | 4,516 | – | 4,516 |
| Trommald | – | – | – | 3,193 | – | 3,193 |
| Irondale Township | – | – | – | 22,921 | – | 22,921 |
| Rabbitt Lake Township | – | – | – | 0 | – | 0 |
| Wolford | – | – | – | 0 | – | 0 |
| ITASCA COUNTY | | | | | | |
| Bovey | – | – | – | 61,466 | – | 61,466 |
| Calumet | – | – | – | 34,920 | – | 34,920 |
| Cohasset | – | – | – | 0 | – | 0 |
| Coleraine | – | – | – | 94,098 | – | 94,098 |
| Keewatin | 55,350 | 67,465 | – | 123,822 | – | 246,637 |
| Marble | – | – | – | 54,255 | – | 54,255 |
| Nashwauk | 13,695 | 54,628 | – | 104,845 | – | 173,168 |
| Taconite | – | – | – | 27,170 | – | 27,170 |
| Grand Rapids Township | – | – | – | 32,828 | – | 32,828 |
| Greenway Township | 17,439 | – | – | 23,510 | – | 40,949 |
| Iron Range Township | – | – | – | 5,164 | – | 5,164 |
| Lone Pine Township | 5,714 | 28,264 | – | 2,590 | – | 36,568 |
| Nashwauk Township | 51,442 | 40,640 | – | 16,781 | – | 108,863 |
| LAKE COUNTY | | | | | | |
| Silver Bay | 124,125 | – | 152,706 | 218,323 | – | 495,154 |
| Beaver Bay Township | 3,853 | – | 12,565 | 0 | – | 16,418 |
| 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 | 12,830 | 80,129 | – | 177,582 | – | 270,541 |
| Babbitt | 93,205 | 191,496 | 166,767 | 190,874 | – | 642,342 |
| Biwabik | 0 | 25,484 | – | 92,305 | – | 117,789 |
| Buhl | – | 38,806 | – | 95,349 | 15,621 | 149,776 |
| Chisholm | – | 67,556 | – | 537,773 | – | 605,329 |
| Ely | – | – | – | 285,880 | – | 285,880 |
| Eveleth | 53,970 | 101,327 | – | 408,564 | – | 563,861 |
| Gilbert | 44,182 | 51,609 | – | 193,010 | – | 288,801 |
| Hibbing | 482,931 | 235,248 | – | 1,506,355 | – | 2,224,534 |
| Hoyt Lakes | 237,287 | 86,907 | 152,153 | 237,896 | – | 714,243 |
| Kinney | 10,193 | 6,790 | – | 65,539** | 2,635 | 85,157 |
| Leonidas | 4,584 | 1,479 | – | 7,870 | – | 13,933 |
| McKinley | – | 2,446 | – | 8,667 | – | 11,113 |
| Mountain Iron | 580,614 | 112,233 | – | 381,145 | 91,774 | 1,165,766 |
| Tower | – | – | – | 30,072 | – | 30,072 |
| Virginia | 31,927 | 346,449 | – | 838,081 | 3,404 | 1,219,861 |
| Balkan Township | – | 11,052 | – | 18,784 | – | 29,836 |
| Bassett Township | – | 5,111 | 11,745 | – | – | 16,856 |
| Biwabik Township | 2,384 | 23,940 | – | 16,448 | – | 42,772 |
| Breitung Township | – | – | – | 0 | – | 0 |
| Clinton Township | – | 25,813 | – | – | – | 25,813 |
| Eagle's Nest Township | – | – | – | 0 | – | 0 |
| Fayal Township | 2,654 | 50,092 | – | 28,272 | – | 81,018 |
| Great Scott Township | 16,746 | 15,514 | – | 14,108 | 21,651 | 68,019 |
| McDavitt Township | 107,111 | – | – | 19,493 | – | 126,604 |
| Waasa Township | – | 12,954 | – | – | – | 12,954 |
| White Township | 21,446 | 70,102 | – | 233,910** | – | 325,458 |
| Wuori Township | 69,848 | 19,541 | – | 7,113 | – | 96,502 |
| UnOrg 09-Balkan (712) | – | – | – | – | 22,010 | 22,010 |
| Total | \$2,053,321 | \$1,773,075 | \$591,142 | \$6,484,790 | \$157,095 | \$11,059,423 |

* Fixed amount based on 1977 Taconite railroad gross earnings tax distributions. — Indicates not eligible.

** Includes amount from M.S. 298.28, subd. 2(b).

0 Indicates eligible, but no payment at current valuation and production.

Figure 11

Taconite Production Tax Distributions to School Districts - 2008

| School districts | \$.0343 Taconite School Fund | \$.1372 Regular School Fund | Taconite railroad | \$.213 Taconite Referendum | Total |
|-----------------------|---------------------------------|--------------------------------|----------------------|-------------------------------|---------------------|
| 001 Aitkin | – | \$164,524 | – | \$26,800 | \$191,324 |
| 166 Cook County | \$21,087 | 50,568 | \$264,977 | 0 | 336,632 |
| 182 Crosby-Ironton | – | 193,168 | – | 0 | 193,168 |
| 316 Greenway | 32,431 | 597,642 | – | 281,077 | 911,150 |
| 318 Grand Rapids | – | 654,600 | – | 379,997 | 1,034,597 |
| 319 Nashwauk-Keewatin | 116,299 | 257,178 | – | 132,094 | 505,571 |
| 381 Lake Superior | 97,547 | 341,929 | 342,720 | 240,337 | 1,022,533 |
| 695 Chisholm | – | 465,848 | – | 213,366 | 679,214 |
| 696 Ely | – | 70,363 | – | 101,048 | 171,411 |
| 701 Hibbing | 326,981 | 950,124 | – | 607,135 | 1,884,240 |
| 706 Virginia | 86,269 | 591,831 | – | 337,641 | 1,015,741 |
| 712 Mtn. Iron-Buhl | 454,397 | 189,757* | – | 212,618 | 856,772 |
| 2142 St. Louis County | 152,685 | 414,092 | 284,841 | 404,878 | 1,256,496 |
| 2154 Eveleth-Gilbert | 82,148 | 622,390 | – | 333,061 | 1,037,599 |
| 2711 Mesabi East | 183,337 | 368,751 | 214,397 | 366,380 | 1,132,865 |
| Totals | \$1,553,181 | \$5,932,765 | \$1,106,935 | \$3,636,432 | \$12,229,313 |

*After \$157,095 was transferred to cities/townships within school district for levy reduction.

Figure 12

Taconite Production Tax School Bond Payments

| School districts | Year authorized ¹ | Final payment year ² | Payment ³ | Outstanding balance ⁴ |
|------------------------------|------------------------------|------------------------------------|----------------------|-------------------------------------|
| 166 Cook County ⁵ | 1996 | 2016 | \$503,020 | \$3,780,000 |
| 316 Greenway | 1990 | 2009 | 65,298 | 75,333 |
| 316 Greenway | 1996 | 2008 | 44,700 | 132,000 |
| 316 Greenway | 2000 | 2019 | 153,876 | 1,396,000 |
| 318 Grand Rapids | 1996 | 2010 | 479,226 | 1,292,000 |
| 381 Lake Superior | 2000 | 2022 | 397,979 | 4,185,127 |
| 695 Chisholm | 2000 | 2020 | 305,347 | 2,975,671 |
| 696 Ely | 1996 | 2015 | 62,404 | 456,000 |
| 701 Hibbing | 1996 | 2011 | 208,849 | 760,000 |
| 706 Virginia | 1996 | 2016 | 869,966 | 4,204,883 |
| 712 Mt. Iron-Buhl | 1998 | 2017 | 324,332 | 2,552,000 |
| 2154 Eveleth-Gilbert | 1990 | 2009 | 76,000 | 79,095 |
| 2154 Eveleth-Gilbert | 1996 | 2017 | 214,502 | 2,436,000 |
| 2711 Mesabi East | 1996 | 2011 | 60,494 | 220,000 |
| 2711 Mesabi East | 2008 | 2016 | 500,000 | -- |
| Totals: | | | \$4,265,993 | \$24,544,109 |

1 Legislative year in which taconite funding was enacted.

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

3 Payments for 2007 production year.

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

5 All taconite bonds funded at 80 percent taconite, 20 percent local effort, unless otherwise noted: Cook County – 1996, 70 percent
Mesabi East – 2008, \$500,000

Figure 13

Taconite Production Tax Distribution to Counties - 2008

Production year 2007

(Does not include dollars from taconite property tax relief)

| County | Regular county 20.525 cents | Road and bridge 5.525 cents | Taconite railroad | Total |
|--------------|--------------------------------|--------------------------------|----------------------|---------------------|
| Cook | \$ 110,657 | — | \$187,190 | \$ 297,847 |
| Itasca | 740,041 | \$ 195,159 | — | 935,200 |
| Lake | 749,492 | 193,418 | 243,034 | 1,185,944 |
| St. Louis | 8,334,577 | 2,235,045 | 354,153 | 10,923,775 |
| Total | \$9,934,767 | \$2,623,622 | \$784,377 | \$13,342,766 |

Figure 14

Taconite Production and Tax Revenue by Company

Production year 2007

| Company | Production Tons | Taxable Tonnage* | Production Tax Rate | Tax Assessed | Credits | Net Tax |
|------------------|--------------------|---------------------|------------------------|---------------------|----------------------|---------------------|
| Hibbing Taconite | 7,265,682 | 7,846,405 | \$2.258 | \$ 17,717,182 | \$0 | \$17,717,182 |
| ArcelorMittal | 2,495,201 | 2,586,987 | 2.258 | 5,841,417 | 0 | 5,841,417 |
| Northshore | 4,975,108 | 4,915,174 | 2.258 | 11,098,463 | 0 | 11,098,463 |
| USS-Keetac | 5,220,394 | 5,217,081 | 2.258 | 11,780,169 | (1,326,147) | 10,454,022 |
| USS-Minntac | 12,750,828 | 13,483,314 | 2.258 | 30,445,323 | 0 | 30,445,323 |
| United Taconite | 5,278,708 | 4,773,981 | 2.258 | 10,779,649 | (691,429) | 10,088,220 |
| Total | 37,985,921 | 38,822,942 | \$2.258 | \$87,662,203 | (\$2,017,576) | \$85,644,627 |

* The taxable tonnage is the average production of the current year and previous two years.

Figure 15

2007 Production by Product Type

| Company | Pellets | | | Chips and Fines | | | |
|-----------------|-----------|------------|---------------|-----------------|---------------|--------|------------|
| | Acid | Flux | Partial flux* | Acid | Partial Flux* | Conc. | |
| Hibbing | — | — | 7,265,682 | — | — | — | 7,265,682 |
| ArcelorMittal | — | 2,439,252 | — | — | 55,949 | — | 2,495,201 |
| Northshore | — | — | 4,958,850 | — | — | 16,258 | 4,975,108 |
| USS - Keetac | — | — | 5,035,758 | — | 167,788 | 16,848 | 5,220,394 |
| USS - Minntac | 2,287,423 | 10,463,405 | — | — | — | — | 12,750,828 |
| United Taconite | — | — | 4,981,884 | — | 250,332 | 46,492 | 5,278,708 |
| Total: | 2,287,423 | 12,902,657 | 22,242,174 | — | 474,069 | 79,598 | 37,985,921 |

*Partial flux pellets contain less than two percent flux.

Figure 16

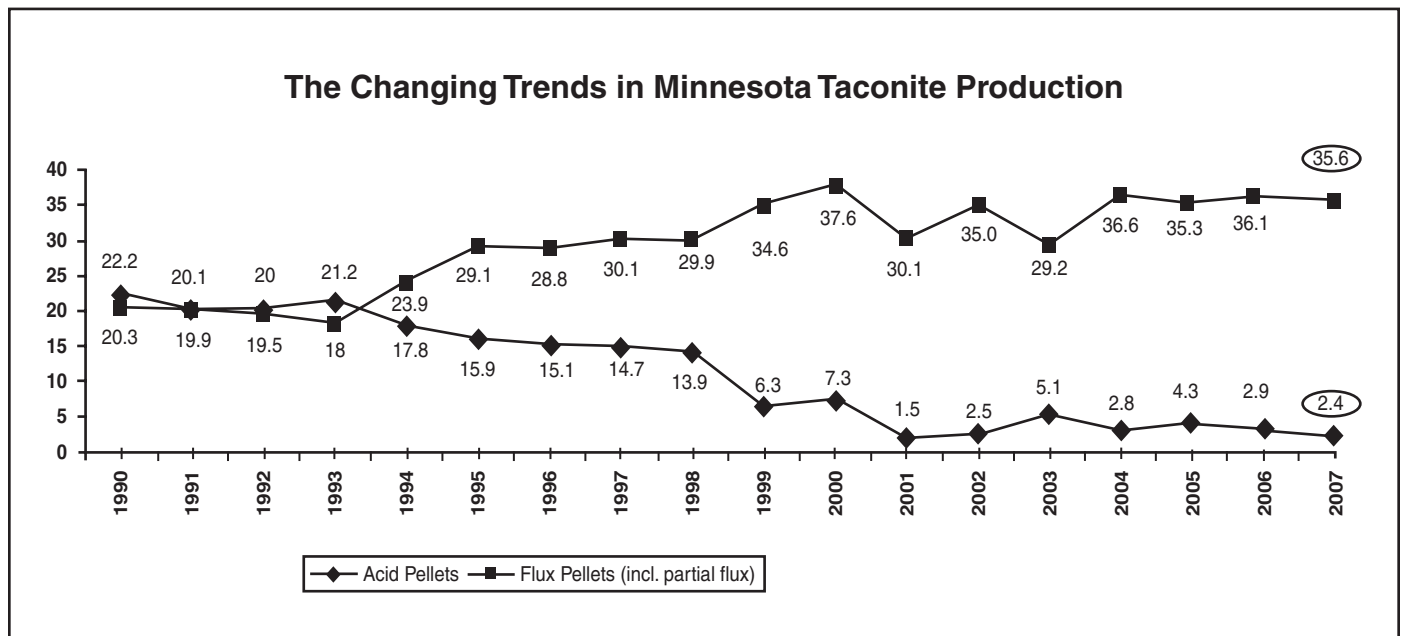


Figure 17

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 |
| 1969-70 | 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 |
| 1987-88 | 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 |
| 1993-94 | 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 |
| 2004 | 210.3 cents | 0 | 3.4 (IPD) cents | 213.7 - cents | 30.1 cents | 0.0 cents |
| 2005 | 210.3 cents | 0 | 3.4 (IPD) cents | 213.7 - cents | 30.1 cents | 0.0 cents |
| 2006 | 210.3 cents | 0 | 10.0 (IPD) cents | 220.3 - cents | 30.1 cents | 0.0 cents |
| 2007 | 210.3 cents | 0 | 15.5 (IPD) cents | 225.8 - cents | 20.1 cents | 0.0 cents |
| 2008 | 210.3 cents | 0 | 21.3 (IPD) cents | 231.6 - cents | 30.1 cents | 0.0 cents |

* Wholesale price index

** Steel mill products index

*** Gross national product implicit price deflator, gross domestic implicit price deflator beginning in 2000.

◆ 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 (000's) | Production tax collected (000s) | Collected rate per production ton | | |
|---------|----------------------------|------------------------------------|--------------------------------------|---------------|--------------|
| 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 | | |
| 1967-68 | 54,580 | 3,209 | 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 | Taxable tons* | Tax rate per |
| 1978 | 49,545 | 69,394 | 1.401 | (000's) | taxable ton |
| 1979 | 55,333 | 88,485 | 1.599 | 37,759 | \$1.295 |
| 1980 | 43,060 | 87,179 | 2.025 | 49,614 | 1.399* |
| 1981 | 49,369 | 99,018 | 2.006 | 55,373 | 1.598* |
| 1982 | 23,445 | 80,305 | 3.425 | 50,296 | 1.733* |
| 1983 | 25,173 | 67,341 | 2.675 | 51,799 | 1.916* |
| 1984 | 35,689 | 64,514 | 1.876 | 38,624 | 2.078* |
| 1985 | 33,265 | 65,092 | 1.957 | 33,302 | 2.047* |
| 1986 | 25,451 | 48,658 | 1.912 | 35,689 | 2.107 |
| 1987 | 32,043 | 51,184 | 1.597 | 34,477 | 2.048 |
| 1988 | 39,485 | 57,402 | 1.454 | 31,468 | 1.900 |
| 1989 | 39,375 | 72,149 | 1.832 | 29,039 | 1.900 |
| 1990 | 42,522 | 78,930 | 1.856 | 32,326 | 1.900 |
| 1991 | 39,922 | 82,411 | 2.064 | 36,968 | 1.975 |
| 1992 | 38,850 | 82,035 | 2.112 | 40,461 | 1.975 |
| 1993 | 39,850 | 80,196 | 2.012 | 40,606 | 2.054 |
| 1994 | 41,677 | 81,500 | 1.956 | 40,431 | 2.054 |
| 1995 | 45,001 | 85,705 | 1.904 | 39,541 | 2.054 |
| 1996 | 43,874 | 90,513 | 2.063 | 40,126 | 2.054 |
| 1997 | 44,816 | 94,705 | 2.113 | 42,176 | 2.054 |
| 1998 | 44,324 | 94,268 | 2.126 | 43,517 | 2.094 |
| 1999 | 41,293 | 93,064 | 2.254 | 44,563 | 2.141 |
| 2000 | 37,785 | 79,773 | 2.111 | 44,338 | 2.141 |
| 2001 | 31,628 | 62,288 | 1.969 | 43,468 | 2.141 |
| 2002 | 37,512 | 64,405 | 1.717 | 36,711 | 2.173 |
| 2003 | 34,349 | 65,546 | 1.908 | 34,638 | 2.103 |
| 2004 | 39,411 | 79,263 | 2.011 | 35,575 | 2.103 |
| 2005 | 39,535 | 78,544 | 1.987 | 31,302 | 2.103 |
| 2006 | 38,948 | 84,451 | 2.168 | 37,091 | 2.137 |
| 2007 | 37,986 | 85,645 | 2.255 | 36,755 | 2.137 |
| | | | | 38,335 | 2.203 |
| | | | | 37,929 | 2.258 |

* 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. 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)

DRI production in Minnesota is close to becoming a reality. The Mesabi Nugget project, a joint venture between Steel Dynamics of Indiana and Kobe Steel of Japan involves the construction of an iron nugget manufacturing facility at the former LTV Steel Mining Company in Hoyt Lakes.

General Information

Because 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 as would 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.

The 2004 legislature authorized a streamlined environmental permitting procedure to allow a DRI plant to be built at the closed LTV site near Hoyt Lakes, and the IRR is engaged in negotiations concerning an economic incentive package.

Reduced Production Tax Rate for DRI

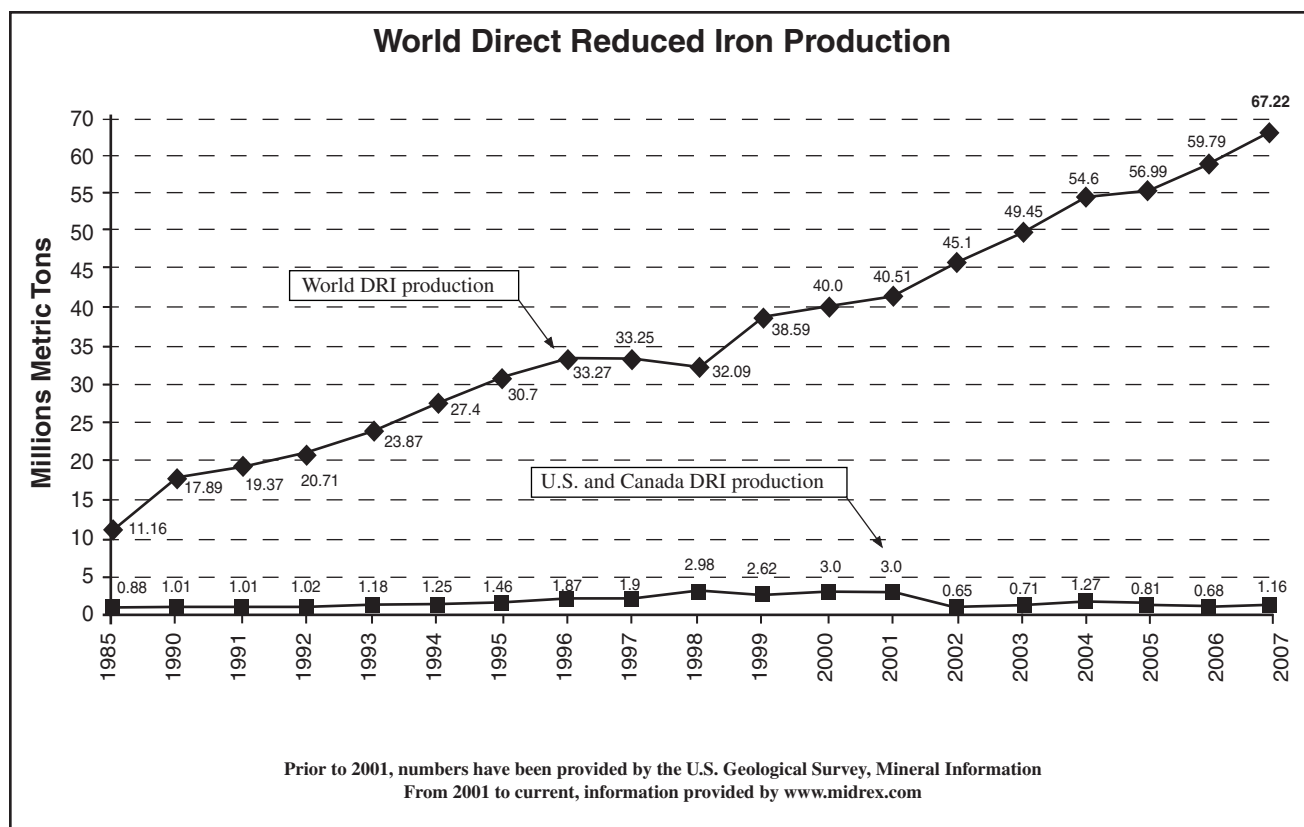
The first five years of a DRI plant's commercial production are subject to reduced tax rates. Commercial production is defined as more than 50,000 tons.

| <u>Years of operation</u> | <u>% of regular rate</u> | <u>Years of operation</u> | <u>% of regular rate</u> |
|---------------------------|--------------------------|---------------------------|--------------------------|
| 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 3 cents per gross ton for each 1 percent that the iron content exceeds 72 percent when dried at 212 degrees Fahrenheit. Thus, at a base production tax rate for 2008 at \$2.316 per ton, the tax rate for 90 percent iron DRI would be \$2.856. The rate for 95 percent DRI would be \$3.006.

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

Figure 19



Iron Range Resources

Iron Range Resources 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. Iron Range Resources 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, which are paid by mining companies in lieu of local property taxes. The agency receives no direct operational funding from the State of Minnesota General Fund. The production tax essentially replaces the local tax obligations that the taconite producers otherwise would 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 Iron Range Resources to serve northeastern Minnesota.

Iron Range Resources 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 Iron Range Resources' main focus, the agency also owns two tourism facilities, Giants Ridge Golf and Ski Resort in the city of Biwabik, and Ironworld Discovery Center located in Chisholm. Giants Ridge operates two 18-hole championship golf courses and a winter sports area to standards that have earned national recognition. Giants Ridge offers 35 alpine ski runs, more than 60 km of cross-country ski trails and easy access to lakes, mountain bike trails and snowmobile trails.

The Ironworld Discovery Center history museum is managed by the nonprofit Ironworld Discovery Corporation. The change in management occurred in 2007.

The Ironworld campus is also home to Iron Range Resources' Mineland Reclamation Program which undertakes safety, environmental and economic development projects on abandoned minelands of the pre-taconite era, often in cooperation with adjacent communities. In 2007, Mineland Reclamation grew 300,000 containerized seedlings for planting on the Mesabi, Vermilion and Cuyuna iron ranges.

Iron Range Resources funds destination marketing activities in cooperation with many community and regional tourism partners in both the public and private sectors. The agency provides technical assistance to tourism development organizations to enhance tourism and quality of life.

Iron Range Resources 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. Mesabi Nugget is one of these projects. Mesabi Nugget will produce 96 percent pure iron nuggets directly from iron ore, which then can be shipped to electric furnaces, basic oxygen furnaces and foundries to make steel, which would allow Minnesota to expand its iron ore customer base. Construction of the production-scale iron nugget plant at the Cliffs Erie site near Aurora-Hoyt Lakes has begun and is scheduled to be completed in 2009. Minnesota Steel, another value-added project, continues to move towards building a slab steel production facility in Itasca County near Nashauk. The ground breaking for this project was held on September 19, 2008. A \$1.7 million project to analyze, test market and promote taconite by-products for use in the Midwest aggregate industry is underway as well.

Iron Range Resources also is enthusiastic about the possibilities non-ferrous minerals development holds for Minnesota. The deposits that show the greatest commercial potential are PolyMet's NorthMet Project, Teck Cominco's Mesaba Project, Franconia Minerals' Birch Lake Project and Duluth Metals' Nokomis Deposit. Each of these deposits are potential copper, nickel, and precious metals commercial projects that will require additional financing, exploration and mineral processing development.

For fiscal year 2008, the Iron Range Resources Board has approved an operating budget of \$25,695,061 to deliver the projects, programs and activities previously mentioned. The agency proposes to do so with a budgeted complement of 55 full-time employees as well as a number of temporary and seasonal personnel.

Iron Range Resources also assists the taconite industry, including \$180,329,144 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 an additional \$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 Iron Range Resources provided grants to taconite producers for environmentally unique reclamation projects and facility improvements.

During 1993-2007, Iron Range Resources has reinvested a total of \$171,825,733 in the Minnesota taconite industry through the above programs.

Figure 20

FY 09 Iron Range Resources Budget

(As approved by the Iron Range Resources Board on August 28, 2008)

| Source of funds: | All accounts ¹ | Board ² | TEPF ³ | DJJ ⁴ | Supp tax ⁵ |
|---|---------------------------|---------------------|---------------------|--------------------|-----------------------|
| Unobligated Operating Reserve In | \$7,556,634 | \$1,906,970 | \$130,142 | \$5,519,522 | |
| Taconite Production Taxes | \$15,583,098 | \$4,579,872 | \$11,003,226 | | |
| Investment Earnings | 2,031,340 | 186,436 | 591,907 | 1,252,997 | |
| Loan Revenues | 2,493,142 | 574,218 | | 1,918,924 | |
| Facilities Revenue | 5,005,137 | 4,865,140 | | 139,997 | |
| Occupation Tax Region III | 582,344 | | | | \$582,344 |
| Total - Current Year Revenues | \$25,695,061 | \$10,205,666 | \$11,595,133 | \$3,311,918 | \$582,344 |
| Total Resources Available | \$33,251,695 | \$12,112,636 | \$11,725,275 | \$8,831,411 | \$582,344 |
| Budgeted uses of funds: | All accounts | Board | TEPF | DJJ | Supp tax |
| Administrative Services | \$2,653,791 | \$2,290,591 | \$363,200 | | |
| Attorney General Services | 374,238 | 238,943 | | \$135,295 | |
| Marketing, Communications & External Affairs | 1,272,817 | | 1,272,817 | | |
| Development Strategies | 2,075,183 | | 652,630 | 1,422,553 | |
| Facilities | | | | | |
| Giants Ridge Golf & Ski Resort | 8,925,691 | 8,925,691 | | | |
| Ironworld Discovery Center | 1,650,000 | | 1,650,000 | | |
| Programs | | | | | |
| Operating Projects | 2,350,000 | 550,000 | 1,800,000 | | |
| Region III Carlton/Koochiching Counties | 582,344 | | | | \$582,344 |
| Projects | | | | | |
| Development Projects | 11,906,041 | | 5,656,041 | 6,250,000 | |
| Total Budgeted Uses of Funds | \$31,790,105 | \$12,005,225 | \$11,394,688 | \$7,807,848 | \$582,344 |
| Unobligated Operating Reserve Out | \$1,461,590 | \$107,411 | \$330,587 | \$1,023,592 | |
| | All Accounts | Board | TEPF | DJJ | Supp tax |

1) FY 2008 is for the period July 1, 2008 through June 30, 2009.

2) Board is an amount appropriated to Iron Range Resources from production tax, page 10, subd. 7 and subd. 11 (c), page 11.

3) TEPF is the Taconite Area Environmental Protection Fund, page 14.

4) DJJ is the Douglas J. Johnson Economic Protection Trust Fund, page 14.

5) Supplemental Tax is an amount appropriated from Occupation Tax for Koochiching and Carlton Counties, page 29.

Figure 21

Taconite Economic Development Fund Distribution to Northeast Minnesota Taconite Producers*

Summary

Payable 1993 through 2007 (on 1992 through 2007 production)

| Company | 1993 - 2007 | 2008 project description | 2008 Amount | Total per company |
|--|----------------------|---|--------------------|------------------------|
| United Taconite ⁽¹⁾ (former EVTAC Mining) | \$111,618,135 | Pending | \$1,252,023 | \$12,870,158 |
| Hibbing Taconite Company | \$24,411,603 | Pending | \$1,577,128 | \$25,988,731 |
| ArcelorMittal Minorca Mine (former Ispat Inland Mining Company) | \$9,107,588 | Pending | \$575,109 | \$9,682,697 |
| LTV Steel Mining Company | \$11,361,981 | Facility permanently closed in January 2001 | 0 | \$11,361,981 |
| U.S. Steel - KeeTac ⁽²⁾ (former National Steel Pellet Company) | \$13,542,444 | Pending | \$1,230,550 | \$14,772,994 |
| Northshore | \$13,020,121 | Pending | \$1,158,455 | \$14,178,576 |
| U.S. Steel - Minntac | \$42,374,300 | Pending | \$2,710,146 | \$45,084,446 |
| Totals | \$125,436,172 | | \$8,503,411 | \$133,939,583** |

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 in 2002 & thereafter

Note: cpt = cents per ton

* In accordance with M.S. 298.227.

** Figure includes amounts pending

A brief explanation of the TEDF is included on page 5.

⁽¹⁾2004 TEDF amount reduced \$14,083 to \$33,997 and 2005 TEDF amount reduced \$202,163 to \$922,583

⁽²⁾2004 TEDF amount reduced \$208,333 to \$1,289,110 and 2005 TEDF amount reduced \$252,854 to \$1,374,096

Figure 22

Taconite Industry Investments 1993 through 2008

| Company | Taconite Assistance Program | Taconite Economic Development Fund | Producer Grant Program | Other assistance | Total |
|--|-----------------------------|------------------------------------|------------------------|---------------------|-----------------------|
| United Taconite (former EVTAC Mining) | \$2,000,000 | \$12,870,158 | \$2,263,294 | \$1,500,000 | \$18,633,452 |
| Hibbing Taconite Company | 2,000,000 | \$25,988,731 | \$4,026,531 | \$1,000,000 | \$33,015,262 |
| Mittal Steel USA Minorca Mine (former Ispat Mining Company) | 2,000,000 | \$9,682,697 | \$1,328,226 | | \$13,010,923 |
| LTV Steel Mining Company (Permanently closed in January 2001) | 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 | \$14,772,994 | \$2,327,192 | \$6,173,375 | \$25,273,561 |
| Northshore Mining Company | 2,000,000 | \$14,178,576 | \$2,033,805 | | \$18,212,381 |
| U.S. Steel - Minntac | 2,000,000 | \$45,084,446 | \$6,811,172 | \$2,250,000 | \$56,145,618 |
| Total Investment | \$14,000,000 | \$133,939,583 | \$21,466,186 | \$10,923,375 | \$180,329,144* |
| Grand total | \$180,329,144* | | | | |

* Figure includes amounts pending.

Occupation Tax on Taconite and Iron Ore

(Minnesota Statute 298.01, 298.16 — 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. The AMT for occupation tax was repealed in 2006. Transition provisions allow for unused AMT credit amounts against occupation tax due after December 31, 2005.

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

M.S. 290.05 Exempt individuals, organizations, estates, trusts. Subdivision 1. Exempt entities.

The following corporations, individuals, estates, trusts, and organizations shall be exempted from taxation under this chapter, provided that every such person or corporation claiming exemption under this chapter, in whole or in part, must establish to the satisfaction of the commissioner the taxable status of any income or activity: corporations, individuals, estates, and trusts engaged in the business of mining or producing iron ore and other ores the mining or production of which is subject to the occupation tax imposed by section 298.01; but if any such corporation, individual, estate, or trust engages in any other business or activity or has income from any property not used in such business it shall be subject to this tax computed on the net income from such property or such other business or activity. Royalty shall not be considered as income from the business of mining or producing iron ore within the meaning of this section.

In 2006 the legislature amended M.S. 298.01, subdivision 3 to define all sales as Minnesota sales. So 100 percent of net income is assigned to Minnesota. The rate is 2.45 percent. This change results in no additional tax and is effective for tax years beginning after December 31, 2005.

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.

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 1 of the following year but companies may choose a seven-month extension to file.

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:

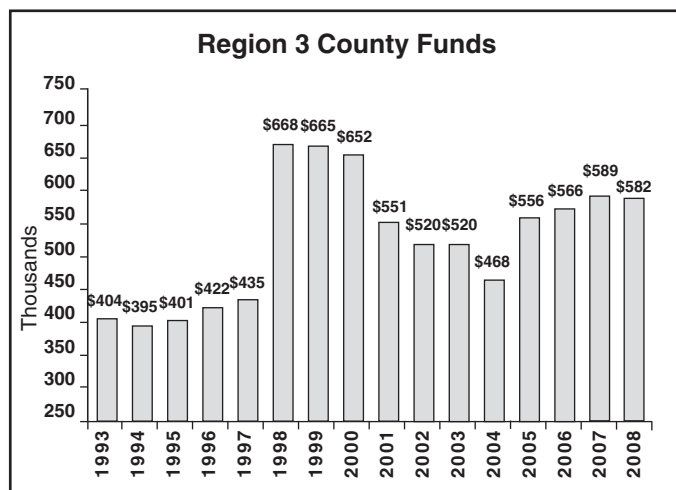
- 1) Seventy-five percent of the change in mine value is based on the change in the Steel Mill Products Index (SMPI) from June of the previous year to June of the current year; and
- 2) Twenty-five percent of the change in mine value reflects the actual transaction prices of taconite pellets sold in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

A copy of the *Final Directive* and backup for 2007 are on the following two pages. They show how the value per Fe (iron) unit is determined.

Occupation Tax Distribution

All occupation tax revenue (per M.S. 298.17) is credited to the general fund. Of this amount 10 percent is used for the general support of the University of Minnesota and four-ninths of 90 percent is used for elementary and secondary schools. (10% to university + 40% to schools + 50% remaining)

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. These funds must be used to provide economic or environmental loans or grants. The amount distributed in 2008 was \$582,344 based on 38,822,942 taxable tons produced in 2007. Prior to 1998, the amount distributed was based on one cent per taxable ton. If the remaining 50 percent is insufficient to equal the 1-1/2 cents per ton after the constitutional distribution to education, the remainder to the two counties is reduced.



Final Directive - 2007 Occupation Tax

Basic data for preparing 2007 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.

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

Non-arms-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 2007 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 | |
|---|--|
| <i>Pellet price per Fe (iron) unit (per dry gross ton) for the period Jan. 1, 2007 through Dec. 31, 2007:</i> | |
| Taconite product | Mine value |
| Acid pellets | \$0.923 per iron unit |
| Pellet chips (fines) and concentrate | 75% of acid or fluxed pellet price |
| Flux Pellets – partial flux (.1% – 1.99% flux)* | $\$0.923 + \$0.015 = \$0.938$ |
| Flux (2.00% and higher flux) * | $\$0.923 + \0.015 per iron unit for each 1% flux |
| Example: Pellet with 4.8% flux in finished pellet: $4.0 \times \$0.015 = \0.060 | |
| Mine value: $\$0.923 + \$0.060 = \$0.983$ | |

* 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 2007 Data to Final Directive

2007 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 2006 SMPI (174.1) and final, adjusted June 2007 SMPI (191.5). 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 2006 and June 2007 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, 2006 SMPI (Final) | 174.1 | 2006 Mine Value | | \$0.826 |
| June, 2007 SMPI (Final) | 191.5 | 2007 SMPI % of 2006 Value | x | 109.994% |
| 191.5 ÷ 174.1 | = | 109.994% | 2007 SMPI Factor | \$0.909 |

| Non-equity Sales | | |
|---|--------------------------|---|
| Weighted average all pellet sales price | Total Fe (iron) units | Weighted average sales price per Fe (iron) unit |
| \$457,637,046 | 475,849,193 | = \$0.962 |

| Acid Pellet Mine Value | | |
|------------------------|------------------------------|--|
| SMPI | \$0.909 x 75% = \$0.682 | 2007 acid pellet mine value \$0.923 per Fe (iron) unit |
| Nonequity sales | \$0.962 x 25% = <u>0.241</u> | |
| | \$0.923 | |

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 \$0.015 per Fe (iron) unit higher than acid pellets:

$$\$0.923 + \$0.015 = \$0.938$$

Flux - Pellets containing two percent flux or more will be valued at \$.015 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 \$.015

*(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: $\$0.923 + \$0.060 = \$0.983$ 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 23

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 |
|-----------|----------------------------------|---|------------|---|----------------------------|------------------------|---|------------|
| 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 Acid | Flux | | Mine value Acid | Flux |
|------------|----------------------------------|-----------|-----------------|----------------------------------|---|--------------------|------|----|--------------------|---------|
| 1988-1989 | Acid | \$0.37344 | | | | x | 65 | = | \$24.27 | |
| | Flux (1%) | 0.37344 | + | .062 | = | \$.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 |
| 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 |
| 2003 | Acid | 0.47315 | | | | x | 65 | = | 30.75 | |
| | Flux (4%) | 0.47315 | + | .062 | = | .53515 | x | 62 | = | 33.18 |
| 2004 | Acid | 0.62617 | | | | x | 65 | = | 40.70 | |
| | Flux (4%) | 0.62617 | + | .062 | = | .68817 | x | 62 | = | 42.67 |
| 2005 | Acid | 0.7102 | | | | x | 65 | = | 46.16 | |
| | Flux (4%) | 0.7102 | + | .062 | = | .7722 | x | 62 | = | 47.88 |
| 2006 | Acid | 0.826 | | | | x | 65 | = | 53.69 | |
| | Flux (4%) | 0.826 | + | .060 | = | .886 | x | 62 | = | 54.93 |
| 2007 | Acid | 0.923 | | | | x | 65 | = | 60.00 | |
| | Flux (4%) | 0.923 | + | .060 | = | .983 | x | 62 | = | 60.95 |

* Beginning in 1991, the value of flux pellets was modified to \$.0155 per each one percent flux in the pellets. Starting in 2006, this was changed to \$.015.

A lower value of 75 percent of the pellet price is allowed for chips and fines.

Figure 24

Occupation Tax Mine Value and Occupation Tax Paid

Production year

| Company | Employment | | 2007 tons produced | 2007 mine value | Occupation tax paid ¹ (preliminary) |
|---------------------------|--------------|--------------|-----------------------|------------------------|--|
| | 2006 | 2007 | | | |
| Hibbing Taconite | 725 | 706 | 7,286,726 | \$451,310,662 | \$2,260,000 |
| Arcelor-Mittal Steel | 335 | 336 | 2,640,452 | 167,519,770 | 680,000 |
| Northshore | 507 | 515 | 4,996,844 | 303,901,066 | 832,000 |
| USS-Keetac | 396 | 407 | 5,251,618 | 317,267,943 | |
| USS-Minntac | 1,267 | 1,255 | 13,210,750 | 820,646,702 | 5,500,000* |
| United Taconite | 484 | 505 | 5,300,212 | 312,881,399 | 1,086,000 |
| Taconite totals | 3,714 | 3,724 | 38,686,602 | \$2,373,527,542 | \$10,358,000 |
| Natural ore: | 0 | 0 | 0 | 0 | 0 |
| Natural ore totals | 0 | 0 | 0 | \$0 | \$0 |
| Grand total | 3,714 | 3,724 | 38,686,602 | \$2,373,527,542 | \$10,358,000 |

¹ 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.

* This amount includes both Minntac and Keewatin Taconite.

Figure 25

Occupation Tax Paid by Company

| Taconite | 2000 (000's) | 2001 (000's) | 2002 (000's) | 2003 (000's) | 2004 (000's) | 2005 (000's) | 2006 (000's) | 2007 (000's) |
|--------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Hibbing Tac | \$309 | \$0 | \$0 | \$7 | \$1,141 | \$1,525 | \$2,175 | \$2,260 |
| Arcelor-Mittal | 0 | 0 | 15 | 35 | 124 | 240 | 130 | 680 |
| National Steel* | 0 | 0 | 26 | 0 | 0 | 0 | 0 | 0 |
| Northshore | 0 | 0 | 0 | 0 | 41 | 25 | 280 | 832 |
| United Tac | 0 | 0 | 0 | 0 | 354 | 770 | 151 | 1,086 |
| USS - Minntac | 1,032 | 0 | 1,300 | 1,400 | 3,104 | 4,000** | 5,000** | 5,500** |
| USS - Keetac | 0 | 0 | 0 | 0 | 147 | | | |
| Taconite total | \$1,341 | \$0 | \$1,341 | \$1,442 | \$4,911 | \$6,560 | \$7,736 | \$10,358 |
| Natural ore | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| Auburn | \$168 | \$60 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Natural ore total | \$0 | \$168 | \$60 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total tax paid | \$1,509 | \$60 | \$1,341 | \$1,442 | \$4,911 | \$6,560 | \$7,736 | \$10,358 |

*The former National Steel is now USS-Keewatin Taconite (Keetac).

** USS-Minntac & USS-Keetac file a combined return.

Figure 26

Reconciliation of Occupation Tax and Production Tax Tonnages - 2007*

| Acid pellets, chips, and fines | | | | | |
|--------------------------------|--------------------|----------------|---|------------------|--------------------------------|
| Company | Gross natural tons | Less: moisture | Occupation tax production tons (dry weight) | Less: flux | Production tax production tons |
| Northshore | 16,258 | 0.00% | 16,258 | 0 | 16,258 |
| USS-Minntac | 2,334,749 | 2.03% | 2,287,423 | 0 | 2,287,423 |
| United Taconite | <u>50,403</u> | 7.76% | <u>46,492</u> | <u>0</u> | <u>46,492</u> |
| Subtotal | 2,401,410 | | 2,350,173 | 0 | 2,350,173 |
| Flux pellets, chips, and fines | | | | | |
| Hibbing | 7,342,278 | 0.76% | 7,286,726 | (21,044) | 7,265,682 |
| ArcelorMittal | 2,920,736 | 2.00% | 2,640,452 | (145,251) | 2,495,201 |
| Northshore | 4,980,586 | 0.00% | 4,980,586 | (21,736) | 4,958,850 |
| USS-Keetac | 5,327,050 | 1.42% | 5,251,618 | (31,224) | 5,220,394 |
| USS-Minntac | 11,145,213 | 2.00% | 10,923,327 | (459,922) | 10,463,405 |
| United Taconite | <u>5,342,615</u> | 1.72% | <u>5,253,720</u> | <u>(21,504)</u> | <u>5,232,216</u> |
| Subtotal | 36,832,081 | | 36,336,429 | (700,681) | 35,635,748 |
| Total production summary | | | | | |
| Acid | 2,401,410 | | 2,350,173 | 0 | 2,350,173 |
| Flux | 36,832,081 | | 36,336,429 | (700,681) | 35,635,748 |
| Totals: | 39,233,491 | | 38,686,602 | (700,681) | 37,985,921 |

* 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. Tons are combined total of pellets, chips and fines.

Figure 27

Crude Ore Mined

| Company | 2003 | 2004 | 2005 | 2006 | 2007 |
|-----------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| EVTAC | 4,757,441 | 0 | 0 | 0 | 0 |
| Hibbing | 28,138,485 | 29,393,678 | 29,774,201 | 30,112,137 | 26,933,580 |
| ArcelorMittal | 8,239,770 | 8,514,334 | 8,661,460 | 8,399,603 | 8,410,874 |
| National | 6,341,785 | 0 | 0 | 0 | 0 |
| Northshore | 14,124,206 | 13,927,252 | 13,784,964 | 14,673,313 | 14,726,050 |
| USS-Keetac | 9,663,022 | 18,943,162 | 18,777,399 | 19,027,394 | 18,469,209 |
| USS-Minntac | 49,423,806 | 51,952,504 | 49,842,750 | 49,243,592 | 46,507,446 |
| United Taconite | 438,980 | 13,397,820 | 14,697,390 | 13,217,150 | 15,333,917 |
| Totals: | 121,127,495 | 136,128,750 | 135,538,164 | 134,673,189 | 130,381,076 |

Figure 28

Occupation Tax Collected on Iron Ore and Taconite Production

| Year | Iron ore | | Taconite | | Totals | |
|------|-------------------------|--------------------------|-------------------------|--------------------------|-------------------------|--------------------------|
| | 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 |
| 1972 | 14,439 | 6,376 | 34,554 | 3,659 | 48,993 | 10,035 |
| 1974 | 17,654 | 9,698 | 41,053 | 10,092 | 58,707 | 19,790 |
| 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 |
| 2003 | 0 | 0 | 34,935 | 1,442 | 34,935 | 1,442 |
| 2004 | 0 | 0 | 40,178 | 4,911 | 40,178 | 4,911 |
| 2005 | 0 | 0 | 40,202 | 6,560 | 40,202 | 6,560 |
| 2006 | 0 | 0 | 39,668 | 7,736 | 39,668 | 7,736 |
| 2007 | 0 | 0 | 38,687 | 10,358 | 38,687 | 10,358 |

* 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 26* — Beginning with 1990 production, the Minnesota Department of Revenue changed from natural weight to dry weight.

Figure 29

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 |
|------|--------------------------|----------------------------|-----------------------------|------------------------------------|-----------------------------|-------------|------------------------------|------------------------|--------------------------|---------|-----------------------------|---------------------|
| 1979 | 55,333 | 41.31 | 9.93 | 16.09 | 4.26 | 1.76 | 0.25 | 0.23 | 1.30 | 1.32 | 6.17 | 0.44 |
| 1980 | 43,060 | 46.37 | 10.68 | 20.87 | 5.03 | 2.01 | 0.30 | 0.21 | 1.52 | 1.44 | 4.31 | 0.32 |
| 1981 | 49,369 | 51.11 | 13.31 | 20.99 | 5.52 | 2.16 | 0.27 | 0.19 | 2.15 | 1.71 | 4.84 | 0.26 |
| 1982 | 23,445 | 53.95 | 12.66 | 31.01 | 6.23 | 2.21 | 0.42 | 0.27 | 4.44 | 2.08 | (5.37) | 0.14 |
| 1983 | 25,173 | 56.19 | 13.03 | 26.62 | 4.95 | 1.49 | 0.37 | 0.19 | 4.82 | 1.83 | 2.88 | 0.45 |
| 1984 | 35,689 | 56.48 | 13.08 | 19.85 | 4.23 | 2.00 | 0.27 | 0.20 | 4.53 | 1.69 | 10.63 | 0.84 |
| 1985 | 33,265 | 47.10 | 13.06 | 19.29 | 4.24 | 1.57 | 0.29 | 0.19 | 4.40 | 1.65 | 2.41 | 0.30 |
| 1986 | 24,017 | 47.14 | 13.02 | 18.47 | 4.32 | 0.90 | 0.32 | 0.22 | 4.48 | 1.50 | 3.69 | 0.26 |
| 1987 | 32,109 | 26.77 | 0.05 | 15.60 | 3.28 | 0.56 | 1.68 | 0.18 | 3.38 | 1.28 | 0.76 | 0.17 |
| 1988 | 39,786 | 24.33 | | 14.90 | 3.56 | 0.86 | 1.52 | 0.19 | 2.73 | 1.18 | (0.61) | 0.08 |
| 1989 | 39,882 | 24.42 | | 15.90 | 4.16 | 1.08 | 1.83 | 0.23 | 3.02 | 1.16 | (2.97) | 0.01 |
| 1990 | 43,176 | 27.44 | | 16.29 | 4.51 | 1.08 | 1.93 | 0.26 | 3.01 | 1.13 | (0.76) | 0.05 |
| 1991 | 40,619 | 28.75 | | 16.84 | 4.67 | 1.36 | 2.10 | 0.27 | 3.53 | 1.16 | (1.17) | 0.05 |
| 1992 | 39,428 | 28.86 | | 17.00 | 4.49 | 1.43 | 2.10 | 0.27 | 4.28 | 1.29 | (1.99) | 0.04 |
| 1993 | 40,485 | 28.98 | | 16.09 | 4.49 | 1.26 | 1.94 | 0.27 | 4.05 | 1.08 | (0.21) | 0.04 |
| 1994 | 42,448 | 30.14 | | 16.43 | 4.71 | 1.58 | 1.94 | 0.27 | 3.76 | 1.09 | 0.38 | 0.05 |
| 1995 | 45,857 | 32.53 | | 16.62 | 4.70 | 1.56 | 1.85 | 0.25 | 3.71 | 1.22 | 2.63 | 0.07 |
| 1996 | 44,618 | 31.75 | | 18.01 | 5.28 | 1.68 | 2.04 | 0.27 | 4.02 | 1.27 | (0.83) | 0.06 |
| 1997 | 45,659 | 32.50 | | 17.50 | 4.95 | 1.82 | 2.04 | 0.22 | 3.91 | 1.18 | 0.89 | 0.06 |
| 1998 | 45,196 | 32.69 | | 17.58 | 4.94 | 1.64 | 2.03 | 0.03 | 3.90 | 1.19 | 1.25 | 0.05 |
| 1999 | 42,125 | 31.02 | | 18.17 | 5.42 | 1.62 | 2.11 | 0.08 | 3.96 | 1.19 | (1.57) | 0.03 |
| 2000 | 45,762 | 32.03 | | 19.14 | 4.98 | 1.62 | 2.13 | 0.12 | 3.55 | 1.32 | (0.86) | 0.03 |
| 2001 | 32,291 | 30.75 | | 19.25 | 5.88 | 1.15 | 2.35 | 0.09 | 4.88 | 1.25 | (4.09) | 0.00 |
| 2002 | 38,313 | 31.68 | | 16.74 | 5.16 | 1.27 | 1.92* | 0.07 | 3.24 | 1.11 | 2.18 | 0.04 |
| 2003 | 34,935 | 33.37 | | 16.11 | 5.74 | 1.05 | 1.72 | 0.08 | 3.73 | 1.24 | (0.37) | 0.04 |
| 2004 | 40,178 | 42.15 | | 18.30 | 6.06 | 0.94 | 2.00 | 0.04 | 4.35 | 1.52 | 8.95 | 0.14 |
| 2005 | 40,202 | 47.60 | | 20.94 | 6.68 | 1.24 | 1.91 | 0.11 | 4.67 | 2.17 | 9.89 | 0.16 |
| 2006 | 39,668 | 54.97 | - | 22.85 | 7.61 | 1.47 | 2.02 | 0.14 | 5.45 | 2.22 | 13.21 | 0.20 |
| 2007 | 38,687 | 61.35 | | 25.25 | 8.17 | 1.40 | 2.09 | 0.14 | 5.65 | 2.55 | 16.10 | 0.27 |

1. This average value will not match the values on *Figure 24*, 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 30*.
4. Cost of mining is the total mining labor, mining supplies and depreciation, *Figure 30*.

For 1990 and later, the information on the above table comes from the *Production Cost Summary Information Report* (based on the pre-1990 *Occupation Tax Report*). *Occupation Tax Report* no longer provides this detail.

Figure 30

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 |
|-------------|--------------------------|----------------------------|-------------|-------------------------------|--------------|-------------------------------------|-------------|-------------------------------------|-----------------------------|
| 1988 | 39,786 | 90,047 | 2.26 | 389,070 | 9.78 | 109,732 | 2.76 | 0.10 | 14.90 |
| 1990 | 43,176 | 116,305 | 2.69 | 471,931 | 10.93 | 110,641 | 2.56 | 0.10 | 16.29 |
| 1992 | 39,428 | 137,850 | 3.50 | 412,429 | 10.46 | 101,392 | 2.57 | 0.47 | 17.00 |
| 1994 | 42,448 | 123,354 | 2.91 | 469,106 | 11.05 | 98,752 | 2.33 | 0.15 | 16.43 |
| 1996 | 44,618 | 151,535 | 3.40 | 545,974 | 12.24 | 97,451 | 2.18 | 0.20 | 18.01 |
| 1998 | 45,196 | 152,743 | 3.38 | 552,479 | 12.22 | 84,750 | 1.86 | 0.10 | 17.58 |
| 2000 | 45,762 | 159,066 | 3.48 | 628,526 | 13.74 | 79,856 | 1.75 | 0.18 | 19.14 |
| 2001 | 32,291 | 102,021 | 3.16 | 434,459 | 13.46 | 75,445 | 2.34 | 0.30 | 19.25 |
| 2002 | 38,313 | 102,497 | 2.68 | 457,091 | 11.93 | 72,639 | 1.90 | 0.24 | 16.74 |
| 2003 | 34,935 | 89,851 | 2.57 | 396,029 | 11.34 | 58,627 | 1.68 | 0.52 | 16.11 |
| 2004 | 40,178 | 101,019 | 2.51 | 541,982 | 13.49 | 63,834 | 1.59 | 0.71 | 18.30 |
| 2005 | 40,202 | 106,520 | 2.65 | 621,453 | 15.46 | 63,565 | 1.58 | 1.26 | 20.94 |
| 2006 | 39,668 | 114,256 | 2.88 | 668,441 | 16.85 | 71,194 | 1.79 | 1.33 | 22.85 |
| 2007 | 38,687 | 119,093 | 3.08 | 695,995 | 17.99 | 76,203 | 1.97 | 2.21 | 25.25 |

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 |
|-------------|----------------------|---------------------|-------------|------------------------|-------------|----------------|-------------------------------|----------------------------|
| 1988 | 39,786 | 55,238 | 1.39 | 67,491 | 1.70 | 3.08 | 0.47 | 3.56 |
| 1990 | 43,176 | 70,770 | 1.64 | 105,330 | 2.44 | 4.08 | 0.43 | 4.51 |
| 1992 | 39,428 | 75,363 | 1.91 | 87,287 | 2.21 | 4.13 | 0.36 | 4.49 |
| 1994 | 42,448 | 81,778 | 1.93 | 101,974 | 2.40 | 4.33 | 0.38 | 4.71 |
| 1996 | 44,618 | 83,441 | 1.87 | 131,305 | 2.94 | 4.81 | 0.46 | 5.28 |
| 1998 | 45,196 | 81,703 | 1.81 | 127,659 | 2.83 | 4.63 | 0.31 | 4.94 |
| 2000 | 45,762 | 72,608 | 1.58 | 140,198 | 3.06 | 4.65 | 0.33 | 4.98 |
| 2001 | 32,291 | 61,996 | 1.92 | 113,732 | 3.52 | 5.44 | 0.43 | 5.88 |
| 2002 | 38,313 | 68,142 | 1.78 | 113,560 | 2.96 | 4.74 | 0.42 | 5.16 |
| 2003 | 34,935 | 61,008 | 1.75 | 123,612 | 3.54 | 5.28 | 0.45 | 5.74 |
| 2004 | 40,178 | 82,485 | 2.05 | 142,550 | 3.55 | 5.60 | 0.46 | 6.06 |
| 2005 | 40,202 | 74,735 | 1.86 | 170,292 | 4.23 | 6.09 | 0.59 | 6.68 |
| 2006 | 39,668 | 80,686 | 2.03 | 189,791 | 4.78 | 6.81 | 0.80 | 7.61 |
| 2007 | 38,687 | 81,108 | 2.10 | 199,594 | 5.16 | 7.26 | 0.91 | 8.17 |

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

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 32*) and the industry-wide cumulative total royalty paid and income tax withholding (*Figure 31*).

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.

Withholding Income Tax on Royalties

All payers of mining or exploration royalties are required to withhold and remit an income tax of 6.25 percent on royalties paid for use of Minnesota lands (effective Jan. 1, 2001). **Note:** This does not include royalties paid to partnerships, S corporations and C corporations. Royalties paid to these entities should not have income tax withheld. See below for information on royalties paid to trusts.

Royalty payers have the option of reporting royalty withholding with their regular wage/salary withholding, or reporting it under a separate Minnesota tax ID number used for royalty withholding only. If you choose to report royalty withholding separately, you must first register for a separate ID number. Go to the department's website at www.taxes.state.mn.us and register for an ID number online or call 651-282-5225. Then, file your royalty withholding returns separately from your wage/salary withholding. All withholding returns must be filed electronically through the department's e-File Minnesota system. Go to the department's website for more information.

Federal Form W-4. Royalty payers must have all new employees complete federal Form W-4 to determine their federal and Minnesota withholding allowances. For Minnesota, employees may claim up to, but not more than, the number of federal allowances they claim.

Keep all W-4 forms in your records.

If they choose the same number of federal and Minnesota withholding allowances, only one W-4 form is necessary. If they claim fewer Minnesota withholding allowances than federal allowances, they must complete a second W-4 form listing the Minnesota allowances (write "Minnesota Only" across the top of the Minnesota allowances form). If the employee does not provide a completed W-4 before the first wage payment, withhold tax as if he or she is single with no withholding allowances.

You are not required to verify the number of withholding allowances claimed by each employee. You should honor each W-4 form unless we notify you that it is not valid.

You must, however, send the department a copy of any W-4 form on which:

- an employee claims more than 10 withholding allowances;
 - an employee claims to be exempt from Minnesota withholding and you reasonably expect the wages to exceed \$200 per week, unless he or she has completed Form MWR, *Reciprocity Exemption/Affidavit of Residency*;
- or
- you believe an employee is not entitled to the number of exemptions he or she claimed.

Send required W-4 copies to: Minnesota Revenue, 612 Pierce St., Eveleth, MN 55734-1611.

If you don't send us a copy of Form W-4 when required, you are subject to a \$50 penalty for each required certificate you do not send. An employee who knowingly files an incorrect W-4 form will be subject to a \$500 penalty for each incorrect certificate filed.

Federal Form 1099 MISC. Royalty payers must also provide each royalty recipient with a federal Form 1099 MISC by January 31 for royalties paid during the previous year. Follow the federal requirements to issue 1099s to persons to whom you made payments. Enter MN in the "State" space, and fill in the amount of Minnesota income tax withheld for that royalty recipient during the year.

Mail the 1099s by March 1 to: Minnesota Revenue, Mail Station 1173, St. Paul, MN 55146-1173. Also mail a copy to: Minnesota Revenue, 612 Pierce St., Eveleth, MN 55734-1611.

Magnetic Media Reporting. Royalty payers who are required to send federal W-2 wage detail and 1099 information on magnetic media are required to submit that information to Minnesota on magnetic media as well. Use Social Security Administration (SSA) Publication (MMREF-1), IRS Publication 1220, and the department's Fact Sheet 2 to prepare your magnetic media for Minnesota. Minnesota accepts returns on magnetic media allowed by the federal government, except reel-to-reel tapes and cartridges.

Royalties Paid to Trusts

Simple trusts (i.e., trusts that distribute all royalty income to their beneficiaries) are exempt from withholding on royalties unless they elect to have tax withheld by the royalty payer. If the trust elects to have tax withheld, it must notify the royalty payer of its decision by providing the payer with a federal W-4 form. If the trust chooses tax-exempt status, the trust becomes the "royalty payer" and is responsible for withholding tax from its beneficiaries as well as complying with all withholding tax requirements, including:

- Informing beneficiaries of the requirements to withhold tax and providing them with W-4 forms;

- Providing beneficiaries with 1099 MISC forms each year by January 31 for royalties received the previous year; and
- Filing all required withholding returns electronically with the State of Minnesota.

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 2008 and are not required to file a Minnesota individual income tax return if their Minnesota assignable gross income is less than \$8,950. 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

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

An instruction booklet, *Minnesota Income Tax Withholding*, is available on the department's website. Although the booklet is designed for withholding on Minnesota wages, the general filing requirements also pertain to royalty withholding.

Royalty Tables

The royalty costs per ton beginning in 1976 to the present are shown in *Figure 33*.

Figure 31

| Royalty Paid and Income Tax Withheld (Taconite, natural ore and others) | | |
|--|--------------|---------------------|
| Year | Royalty paid | Income tax withheld |
| 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 |
| 2003 | \$45,173,508 | \$216,629 |
| 2004 | \$56,726,329 | \$214,962 |
| 2005 | \$77,298,269 | \$332,015 |
| 2006 | \$86,238,285 | \$238,142 |
| 2007 | \$87,148,349 | \$334,975 |

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 are distributed to school districts throughout the state. Interest and dividends from the permanent university fund are split between a scholarship account for students at the University of Minnesota and for minerals research conducted by the Natural Resources Research Institute.

Revenue from mining on tax forfeited lands is split between the state's general fund (20 percent) and local taxing districts (80 percent). From the 80 percent distributed to local taxing districts, 3/9 of the revenue goes to the county, 4/9 to the school district and 2/9 to the township or city where the mining occurs.

For more information, contact the Transactions Section, Lands and Minerals Division, DNR, in St. Paul (see address and phone information before the table of contents).

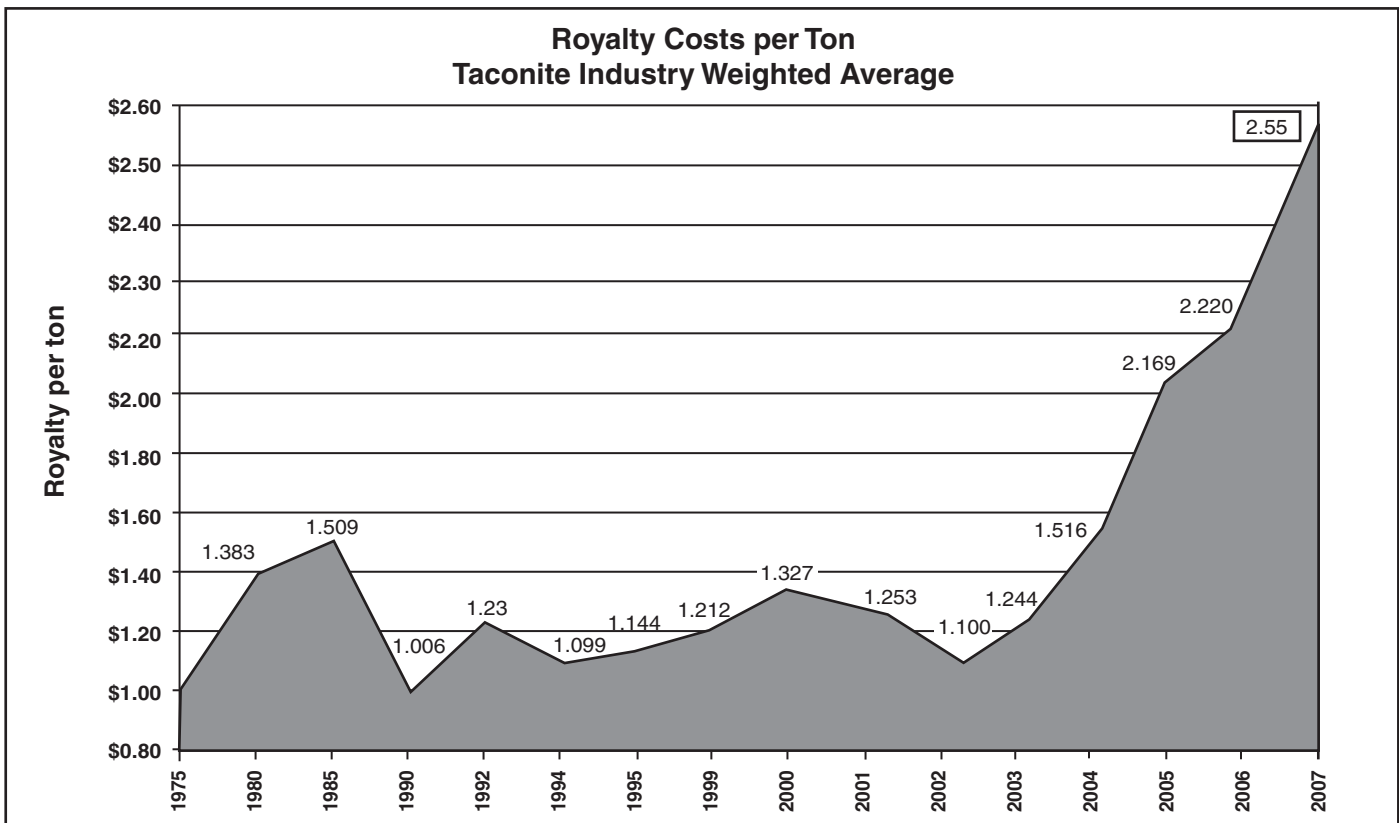
Figure 32

| Average Royalty Cost Per Ton of Pellets Produced | | | | | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|------|
| | 1985 | 1990 | 1995 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| Industry Production (millions of tons) | 33.3 | 43.2 | 45.9 | 44.9 | 32.2 | 38.3 | 34.9 | 39.4 | 40.2 | 39.7 | 38.7 |
| Eveleth/EVTAC*** | 2.621 | 1.644 | 1.416 | 1.986 | 1.733 | 1.287 | NA | NA | NA | NA | NA |
| Hibbing*** | 0.772 | 0.805 | 1.495 | 1.561 | 1.867 | 1.338 | 1.492 | 1.631 | 2.045 | 1.92 | 2.19 |
| ArcelorMittal (formerly Ispat Inland) | 1.801 | 1.396 | 0.810 | 0.997 | 1.055 | 1.056 | 1.097 | 1.298 | 1.819 | 1.73 | 2.11 |
| National | 2.001 | 2.041 | 1.606 | 0.943 | 1.064 | 0.943 | 1.114 | NA | NA | NA | NA |
| Northshore** | 3.087 | 1.35 | 1.472 | 1.690 | 1.459 | 1.614 | 1.716 | 2.659 | 5.481 | 5.08 | 5.02 |
| United Taconite | – | – | – | – | – | – | – | 1.333 | 1.724 | 1.84 | 2.16 |
| USS – Minntac | 0.334 | 0.239 | 0.397 | 0.948 | 0.840 | 0.844 | 0.990 | 1.180 | 1.498 | 1.63 | 2.13 |
| USS – Keewatin | – | – | – | – | – | – | 1.217 | 1.463 | 1.740 | 2.14 | 2.40 |
| Industry Average – Weighted | 1.509 | 1.006 | 1.144 | 1.327 | 1.253 | 1.100 | 1.244 | 1.516 | 2.169 | 2.22 | 2.55 |
| Arithmetic | 1.857 | 1.252 | 1.249 | 1.394 | 1.336 | 1.180 | 1.271 | 1.594 | 2.384 | 2.39 | 2.67 |

** 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 33



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.

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 the 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 on the department's website.

The 1971 Minnesota legislature approved the production materials exemption (M.S. 297A.25, Subd. 15) exclusively for the taconite mining industry. This statute allows an exemption from sales tax on 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 fewer 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 over the Internet (www.taxes.state.mn.us) or by 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 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; repair and replacement parts, accessories and upgrades to qualifying equipment; foundations for qualifying equipment; and special purpose buildings. Beginning July 1, 1998, purchases or leases 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.

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; or
- Motor vehicles taxed under Minnesota Statutes, section 297B (vehicles for road use).

Electronic Funds Transfer

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 (EFT). 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 25 of the month. You must also make this payment electronically. If there is an overpayment of tax, the Department of Revenue 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 elect to do so. The returns and payments are due on the 20 of the month following the filing month. If you are required to pay any business tax to the Department of Revenue by EFT, you 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 EFT. 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 34

| Use Tax Paid | | | |
|--------------|--------------|----------------|-----------------------|
| Year | Use tax | Refund claims* | Net use tax collected |
| 1992 | \$11,702,398 | \$447,370 | \$11,255,028 |
| 1993 | 11,991,300 | 328,139 | 11,663,161 |
| 1994 | 14,200,022 | 1,063,242 | 13,136,780 |
| 1995 | 15,929,989 | 1,435,835 | 14,494,154 |
| 1996 | 16,821,715 | 4,841,228 | 11,980,487 |
| 1997 | 18,535,506 | 6,615,055 | 11,920,451 |
| 1998 | 17,361,851 | 9,175,324 | 8,186,527 |
| 1999 | 16,806,784 | 12,394,610 | 4,412,174 |
| 2000 | 18,829,904 | 12,698,510 | 6,131,394 |
| 2001 | 14,123,142 | 15,775,844 | (1,652,702) |
| 2002 | 13,694,774 | 12,850,487 | 844,287 |
| 2003 | 12,435,693 | 11,238,116 | 1,197,577 |
| 2004 | 17,139,316 | 8,624,502 | 8,514,814 |
| 2005 | 20,219,218 | 12,393,334 | 7,825,884 |
| 2006 | 23,191,259 | 14,446,391 | 8,744,868 |
| 2007 | 25,795,536 | 19,191,938 | 6,603,598 |

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

Capital Equipment Exemptions and 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, above.
4. A new mine or mineral processing plant for any mineral subject to the net proceeds tax.

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; and 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 sales or use tax if the purchases 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, sales tax does not apply when contractors make improvements to real property and purchases of aggregate by a contractor to make the improvement to real property are taxable. Generally, charges by third parties to deliver of aggregate are subject to the tax. If the person delivering aggregate materials has a contract requiring both the delivery and the depositing substantially in place of the aggregate materials, the transaction will be treated as an improvement to realty. The aggregate material will be considered to be deposited substantially in place if the aggregate material is deposited directly from the transporting vehicle or through spreaders from the transporting vehicle at the actual place where it will be graded or compacted. If the aggregate material is merely dumped in a pile, the delivery charges are subject to sales tax.

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 exemption certificate, Form ST3. 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 Jan. 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. Charges to deliver gravel to a township are also exempt. 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 of 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 sales tax if the producer provides a completed exemption certificate (ST3) 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 exemption certificate (ST3) 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 (ST3) to the aggregate seller.

Note: If the bituminous producer is a contractor-retailer, it must decide which function constitutes at least 50 percent 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 (ST3) 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.

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 2008

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 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 within the mining area for taxes payable in 2008, they range from a low of approximately 77 percent to a high of approximately 261 percent. 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 45.949 percent 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 was updated based on market conditions for the 2008 assessment.

St. Louis County Mining Land Assessment Schedule

| 1. Iron formation land | Value (\$/acre) | Classification |
|--|----------------------------|-----------------------|
| A. Land within ¼ mile of active pit | \$1000 | 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 | \$700 | Industrial |
| B. Excess Land | | |
| 1. Undisturbed | Same as other private land | Timber or current use |
| 2. Tailings Ponds | | |
| a. Stockpiles | 75% of other private land | Timber or current use |
| b. 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 term “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 townships that are occupied.

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

The categories are:

- 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 of current economic quantity, 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 (SiO₂) 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:

$$A) \text{ Surface (ft.)} \times 1.5 = \frac{\text{Equiv. Ft.}}{\text{Surface}}$$

$$B) \text{ Rock (ft.)} \times 2.25 = \frac{\text{Equiv. Ft.}}{\text{Waste}}$$

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

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

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 taxes payable in 2008, the tax is calculated by multiplying the market value for the parcel of land by the 2.00 percent class rate to obtain the tax capacity. The special rate on the first \$150,000 of market value that applies to class 3 commercial/industrial property does not apply to class 5 unmined taconite. This is then multiplied by the local tax rate plus the state general property tax rate of 45.949 percent for taxes payable in 2008. In addition, if a referendum is present, the referendum rate is multiplied by the full market value (not tax capacity). *Note: call your county auditor for more information.*

Figure 35

Unmined Taconite Tax Paid

(Year payable)

| County | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Itasca | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| St. Louis | 397,428 | 316,140 | 317,033 | 300,173 | 273,601 | 261,687 | 532,102 | 495,033 |
| Totals | \$397,428 | \$316,140 | \$317,033 | \$300,173 | \$273,601 | \$261,687 | \$532,102 | \$495,033 |

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 | 6. Freight and marine insurance |
| 1b. Mining, special costs | 7. Marketing expense |
| 2. Beneficiation | 8. Social Security tax* |
| 3. Miscellaneous (property tax, medical ins., etc. | 9. Ad valorem tax (by formula) |
| 4. Development (future) | 10. Occupation tax |
| 5. Plant and equipment (future) | 11. Federal income tax |
| Plant | 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 6 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 thereafter, this rate is reduced to 2.0 percent.

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. In addition, a statewide general property tax levy applies to most types of property with the exception of agricultural and homestead properties. For example, for taxes payable in 2008, tax rates ranged from a low of approximately 77 percent to a high of approximately 261 percent (not including the state general property tax rate of 45.949 percent) in St. Louis County. The following class rates were in effect through 2008:

CLASS RATES

| | |
|--------------|-------|
| 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% |
| Payable 2005 | 2.00% |
| Payable 2006 | 2.00% |
| Payable 2007 | 2.00% |
| Payable 2008 | 2.00% |
| Payable 2009 | 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.

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. Most of the iron ore value remaining today was determined using the schedule of minimum rates.

Figure 36

| 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 | 0.9 |
| Underground Heavy Media (UGHM) | 1.5 | 0.75 |
| Low grade (UGPRC) | 0.9 | 0.45 |
| Low grade (UGR) | 0.9 | 0.45 |

Open pit ores with too high of a 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 County were reduced by 50 percent. This simply recognizes that the potential for mining iron ore is substantially less in Crow Wing County than on the Mesabi Range in St. Louis or Itasca counties.

Figure 37

| Iron Ore Ad Valorem Tax Payable | | | | | | |
|---------------------------------|--------------|---------|----------------------------|--------|-----------|---------|
| Year assessed | Market value | Payable | Year estimated tax payable | | | Total |
| | | | Crow Wing | Itasca | St. Louis | |
| 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 | 3,300 | 15,400 | 101,600 | 120,300 |
| 2004 | 2,529,200 | 2005 | 2,700 | 14,100 | 87,300 | 104,100 |
| 2005 | 2,355,700 | 2006 | 2,700 | 13,300 | 77,400 | 93,400 |
| 2006 | 2,350,100 | 2007 | 2,500 | 12,700 | 79,100 | 94,300 |
| 2007 | 2,255,300 | 2008 | 2,300 | 11,600 | 68,400 | 82,300 |
| 2008 | 2,345,800 | 2009 | | | | |

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 (M.S. 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 have been 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. Since the 2003 assessment Northshore Mining is the only operating railroad.

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 38

Taconite Railroad Ad Valorem Tax Assessed

| Year payable | Assessed | St. Louis County | Lake County | Cook County | Total tax |
|--------------|----------|------------------|-------------|-------------|-----------|
| 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 |
| 2004 | 2003 | 4,519 | 15,964 | 0 | 20,483 |
| 2005 | 2004 | 3,896 | 13,312 | 0 | 17,208 |
| 2006 | 2005 | 3,366 | 10,921 | 0 | 14,287 |
| 2007 | 2006 | 3,054 | 10,081 | 0 | 13,135 |
| 2008 | 2007 | 3,212 | 9,063 | 0 | 12,275 |

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 of 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 made to Indians by the Department of Employment and Economic Development.

The Registration and taxation of severed mineral interests is a county function. 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 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 among 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 interests 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 39

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, 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 |
| Dec. 31, 2003 | 461,456 | 115,364 | 576,820 |
| Dec. 31, 2004 | 342,468 | 85,617 | 428,085 |
| Dec. 31, 2005 | 542,524 | 135,631 | 678,155 |
| Dec. 31, 2006 | 341,884 | 85,471 | 427,355 |
| Dec. 31, 2007 | 451,904 | 112,976 | 564,880 |

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. The U.S. Supreme Court denied a petition by the State of Minnesota to review the case.

DNR Lease

If someone buys a DNR mining lease of 3 or more years duration,

the severed mineral interest tax of 40 cents per acre applies. More detail is available on page 52 (5th paragraph) under Ad Valorem Tax.

Indian Business Loan Account

The 20 percent portion of the severed mineral interest tax that is allocated to the Indian Loan Program is reported by the county auditors on the *Severed Mineral Interest Return*. 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 Loan Program at the end of each month.

A copy of the *Severed Mineral Interest Return* form is below:

Figure 40

| MINNESOTA • REVENUE SEVERED MINERAL INTEREST RETURN | |
|---|-------------------------|
| County: _____ | Minnesota tax ID: _____ |
| Contact person: _____ | Daytime phone: _____ |
| Year: _____ | |
| Period (Circle One): January to June July to December | |
| <p>You must file this return each quarter to report Minnesota's share of the fee you collect. Returns are due on or before the 20 day of the following month. You must pay the amount you owe by check. If you have any questions, call 651-556-4721 or Minnesota Relay (TTY) 711.</p> | |
| Severed Mineral Interest | |
| • Total Severed Mineral Interest collected | 1. _____ |
| • Multiply line 1 by 80% (.80) | 2. _____ |
| • Subtract line 2 from line 1. This is the state's share of the tax | 3. _____ |
| <p>Mail to: Minnesota Revenue, Mail Station 3331, St. Paul, MN 55146-3331. Send your payment with this return.</p> | |

Department of Revenue

The processing and payment of the severed mineral interest tax is handled by the Special Taxes Division of the Minnesota Department of Revenue. Phone: (651) 556-4721.

Loan Program

The Indian Business Loan Program is administered by the Department of Employment and Economic Development, 500 Metro Square, 121 7th Place East, St. Paul, MN 55101. Phone: (651) 297-1170.

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 41 identifies each tax by statute number and references each of them in this publication.

Base Metals
Copper, Nickel,
Lead, Zinc, Titanium

Precious Metals
Gold, Silver,
Platinum Group

Energy Minerals
Coal, Oil, Gas,
Uranium

Figure 41

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 52 |
| Net Proceeds tax | M.S. 298.015-298.018 — 2% | Page 53 |
| Occupation tax | M.S. 298.01 — 2.45% | Pages 29 and 54 |
| Sales and Use tax | M.S. 297A — 6.5% | Pages 41 and 54 |
| Severed Mineral Interest | M.S. 272.039, 272.04, 273.165 | Page 50 |
| Withholding tax on royalty payments | M.S. 290.923 — 6.25% | Pages 38 and 54 |

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

A list of recent rates follows:

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 exemption was further clarified by 2005 legislature in M.S. 272.02, Subd. 73, Par. (b). 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 2005 the St. Louis County assessor indicated that new large buildings were typically valued at \$26 to \$32 per square foot for ad valorem tax purposes. Storage buildings could be assessed as low as \$10 or \$14 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 statewide property tax levy set by the legislature which applies to commercial-industrial and some other types 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 1.5 percent while a 2 percent rate applies over \$150,000. To determine the tax, the product of the market value and class rate must be multiplied by the local tax rate plus the 45.949 percent state general property tax rate for taxes payable in 2008. In St. Louis County, where the majority of Minnesota's mining industry is located, the local tax rates payable in 2008 varied from a low of 77 percent to a high of approximately 261 percent. If a referendum

| | CLASS RATES | |
|--------------|----------------|-----------------|
| | Over \$150,000 | First \$150,000 |
| Payable 2000 | 3.40% | 2.40% |
| Payable 2002 | 2.00% | 1.50% |
| Payable 2004 | 2.00% | 1.50% |
| Payable 2005 | 2.00% | 1.50% |
| Payable 2006 | 2.00% | 1.50% |
| Payable 2007 | 2.00% | 1.50% |
| Payable 2008 | 2.00% | 1.50% |

tax is passed, the referendum rate times the full market value must be added.

Special policies issued by the Minnesota Department of Natural Resources (DNR) apply to metallic mineral leases (Minn. Rules, parts 6125.0100 - .0700). 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] and [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 2 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 non-arms-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 assistance 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 assistance area is deposited in the state general fund. A summary of M.S. 298.018 distribution is listed:

- (1) 5 percent to the city or town where the minerals are mined or extracted
- (2) 10 percent to the Municipal Aid Account
- (3) 10 percent to the school district where mining or extraction occurred
- (4) 20 percent to the Regular School Fund (15.72 cents)
- (5) 20 percent to the county where mining or extraction occurred
- (6) 20 percent to Taconite Property Tax Relief, using St. Louis County as fiscal agent
- (7) 5 percent to the IRRRB
- (8) Five percent to the Douglas J. Johnson Economic Protection Trust Fund
- (9) 5 percent to the Taconite Environmental Protection Fund

The proceeds must be distributed on July 15.

Economic Development Incentives

Various grants and loans have been available in the past for mineral development projects, although budget considerations in 2003 and 2004 have reduced the number available. Anyone contemplating a new operation should consult with the IRR.

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

All mining companies, ferrous or non-ferrous, are subject to the Minnesota Occupation tax. Please refer to page 28 for a general overview of the occupation tax on taconite and iron ore.

Although gross income for tax is calculated differently for non-ferrous minerals, the section "Occupation Tax Return" applies to all mining. Also note that the alternative minimum tax was repealed for mining after December 31, 2005.

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)

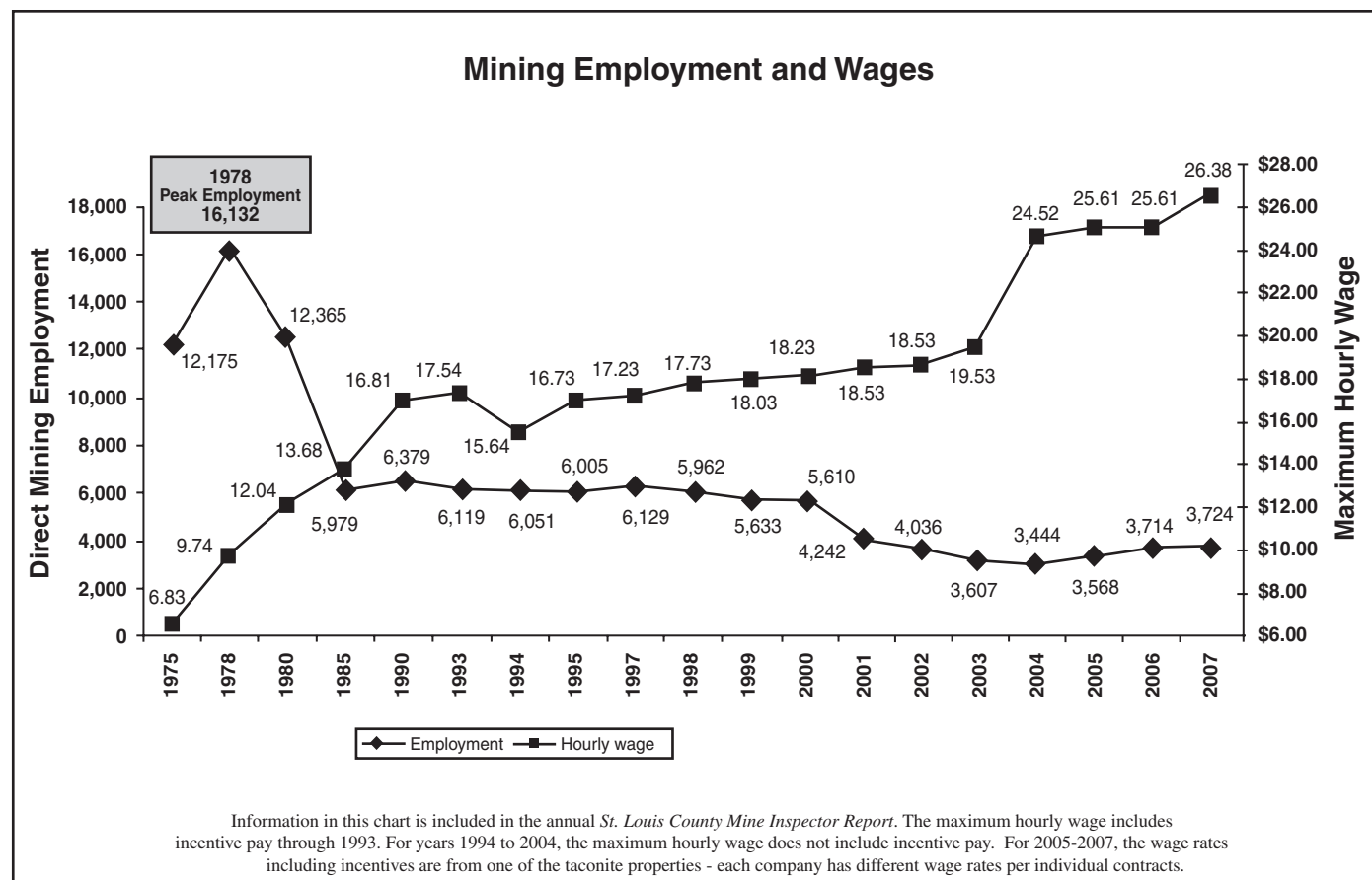
Beginning Jan. 1, 2001, all persons or companies paying royalties are required to withhold Minnesota income tax from royalty payments (6.25 percent) and remit the withholding tax and applicable information to the Minnesota Department of Revenue. See the section on *Income Tax Withholding on Mining and 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 chemical 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 40 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 42



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 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 1 to 2 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 1 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 2 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 IRR. 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.

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 2 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.

Region 3 — Koochiching, Itasca, Aitkin, Carlton, St. Louis, Lake and Cook counties.

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 merchantable 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

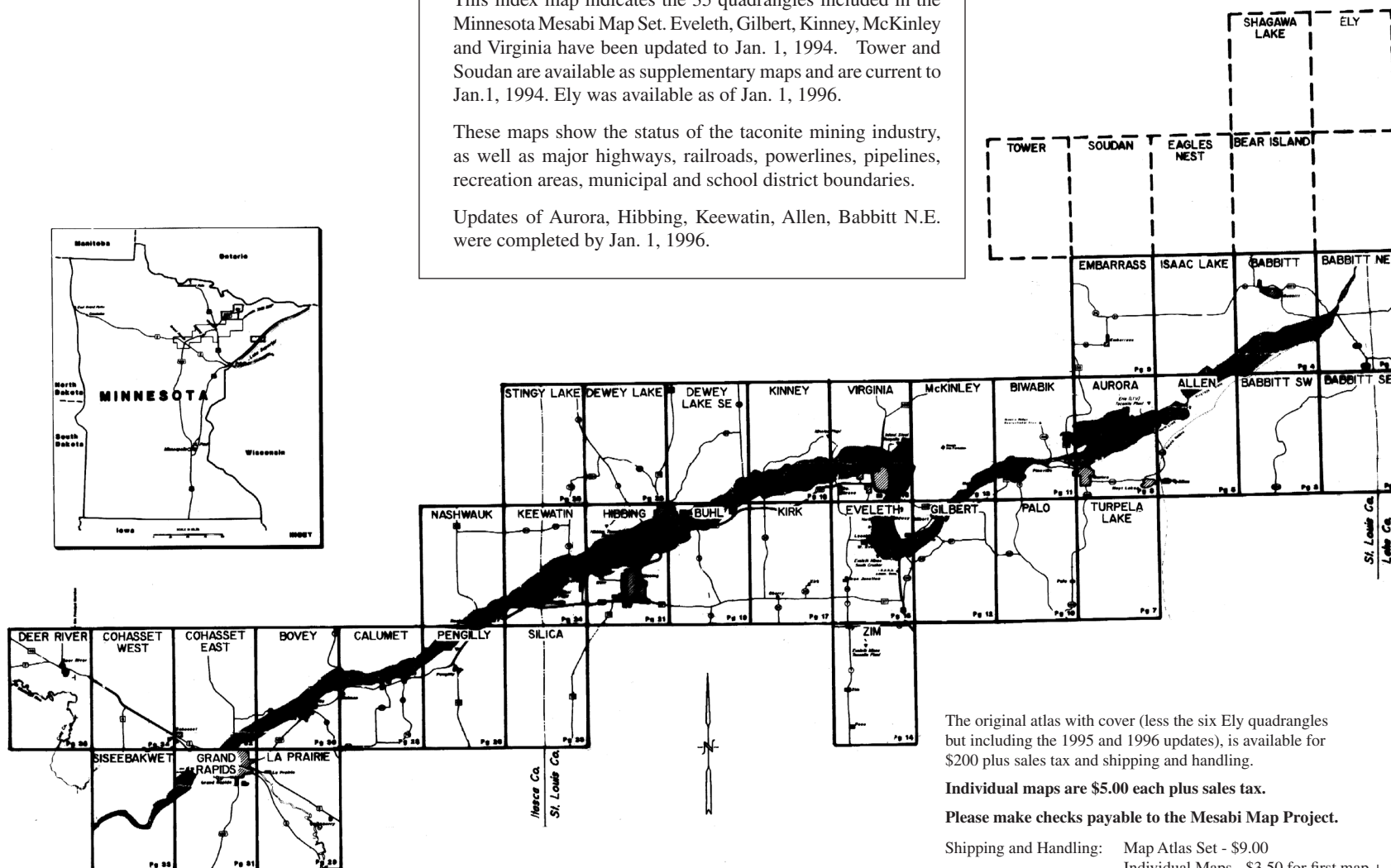
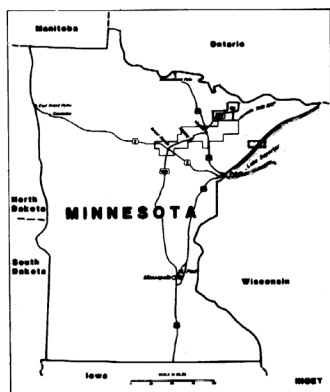
| January | February | March | April |
|---|--|---|--|
| <ul style="list-style-type: none"> – Ad Valorem Tax Reports mailed to companies – Ad valorem estimates submitted by companies (January - February) <p>15 Form MT-11, Taconite and Semi-Taconite Tax Report mailed to companies with memorandum</p> <p>31 Form MW-1, Minnesota Employers Quarterly Withholding Return, due</p> <p>Sales and use tax</p> <ul style="list-style-type: none"> – Electronic funds transfers (all months) <p>14 Payments must be made</p> <p>25 Return mailed to St. Paul, MN</p> | <p>1 Taconite Production Tax Report due from companies</p> <p>15 Taconite production tax determinations mailed to companies</p> <ul style="list-style-type: none"> – 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 <p>24 Taconite production tax payment (50%) due in county offices by electronic fund transfer</p> <p>25 Distribution of taconite production tax by counties (collected February 24)</p> <p>28 Form MW-6, Minnesota Annual Reconciliation of Income Tax Withheld due</p> <p>28 Royalty/Withholding Tax Paid Report, MT2-RW, due</p> | <p>1 Taconite Municipal Aid amounts mailed to cities or to RAMS</p> | <p>1 Owner or lessee of mineral rights submits specific data on drill hole logs and lab tests during previous year for unmined taconite tax</p> <p>15 Ad valorem tax present worth estimates mailed to companies</p> <p>30 Form MW-1, Minnesota Employers Quarterly Withholding Return, due</p> |
| May | June | July | August |
| <p>1 Occupation tax return and payment due</p> <p>15 First half of property tax on taconite railroad property due to counties</p> <p>20 Ad valorem tax hearing held on first business day after May 20th</p> <p>31 Production Cost Summary Tax Report (goldenrod form) due</p> | <p>30 Ad valorem tax final adjustments to property equalization sheets mailed to county assessors</p> | <p>1 Comissioner of Revenue certifies amount of Taconite Municipal Aid to municipality</p> <p>15 Taconite referendum distribution to school districts of taconite production tax made by the counties</p> <p>31 Form MW-1, Minnesota Employers Quarterly Withholding Return due</p> | <p>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</p> <p>24 Taconite production tax payment (remaining 50%) due in county offices by electronic funds transfer</p> <p>25 Distribution of taconite production tax by counties (collected August 24)</p> |
| September | October | November | December |
| <p>15 Taconite Municipal Aid account funds distributed by counties</p> <ul style="list-style-type: none"> – <i>Minnesota Mining Tax Guide</i> available – <i>October 10th estimate forms mailed to companies</i> | <p>10 Taconite production tax estimates due from companies</p> <p>15 Second half of property tax on taconite railroad property due to counties</p> <p>31 Form MW-1, Minnesota Employers Quarterly Withholding Return, due</p> | <p>1 Letters sent to six counties and the IRRRA to verify their electronic funds transfer data</p> | <p>1 Minerals Tax Office submits Unmined Taconite Tax Reports to county assessors</p> <p>1 Production tax forms mailed to companies</p> <p>30 Occupation tax forms mailed to companies</p> <p>30 Royalty/Withholding Tax Paid Report, MT2-RW, mailed to companies</p> |

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 \$200 plus sales tax and shipping and handling.

Individual maps are \$5.00 each plus sales tax.

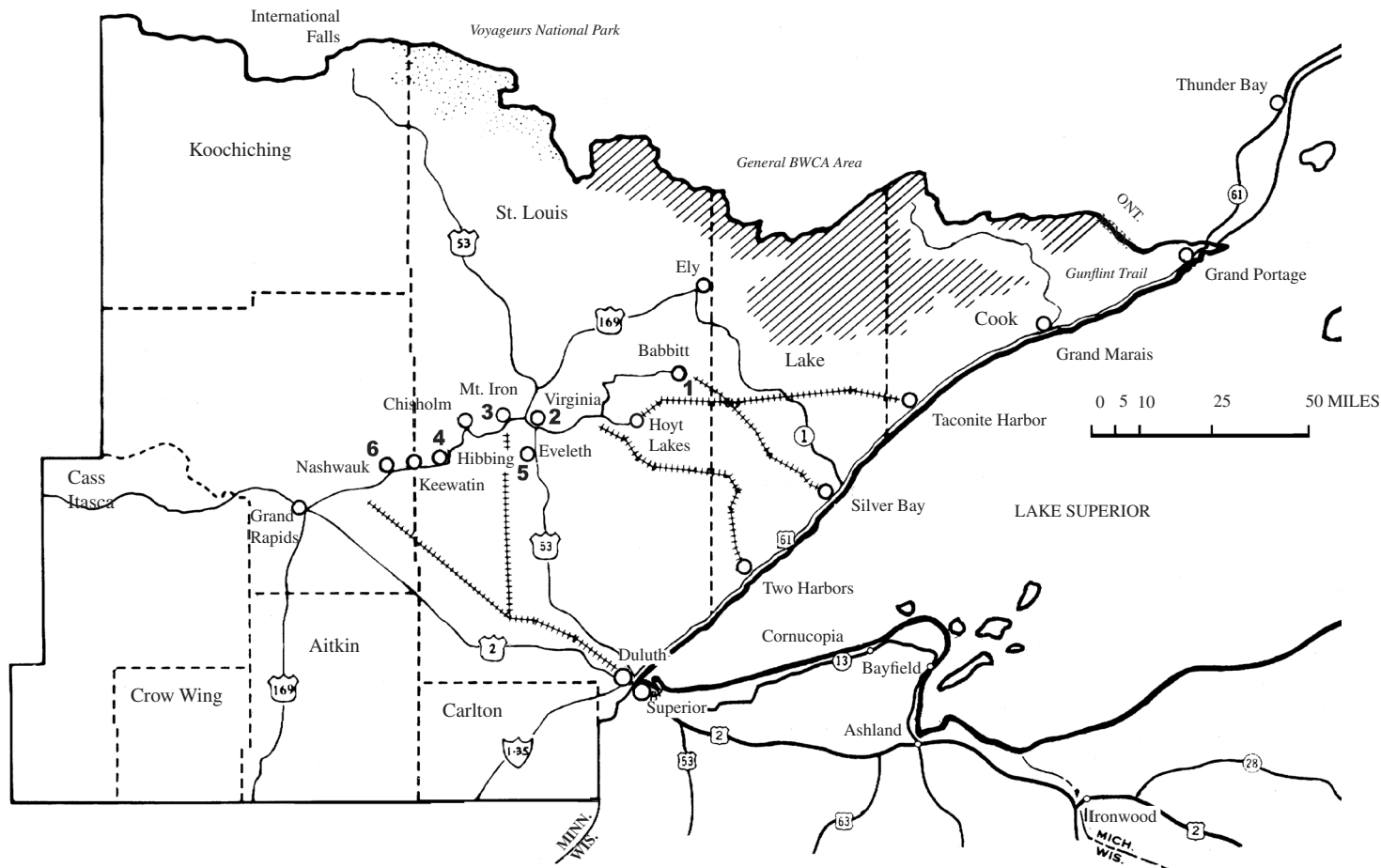
Please make checks payable to the Mesabi Map Project.

Shipping and Handling: Map Atlas Set - \$9.00
Individual Maps - \$3.50 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, 612 Pierce Street, Eveleth, MN 55734. Phone (218) 744-7424, Fax (218) 744-7421.

Map of Northeastern Minnesota

Taconite Company Locations Ownership and General Information



| | Effective Capacity* —(million tons) | | Effective Capacity* (million tons) |
|--|--|---|---------------------------------------|
| 1. NORTHSHORE MINING COMPANY Owner: Cliffs Natural Resources, Inc. (100%) Cleveland, Ohio | 4.7 | 5. United Taconite Company LLC Owners: Cliffs Natural Resources, Inc. (100%) Cleveland, Ohio | 4.3 |
| 2. ARCELORMITTAL Owner: ArcelorMittal (100%) East Chicago, Indiana | 2.8 | 6. KEEWATIN TACONITE COMPANY Owner: USX Corporation (100%) Pittsburgh, Pennsylvania | 5.5 |
| 3. MINNTAC PLANT Owner: USX Corporation (100%) Pittsburgh, Pennsylvania | 15.0 | | |
| 4. HIBBING TACONITE COMPANY Cliffs Natural Resources, Inc., Managing Agent Owners: ArcelorMittal (62.3%) East Chicago, Indiana Cliffs Natural Resources, Inc. (23%) Cleveland, Ohio Steel Company of Canada, Ltd. (Stelco) (14.7%) Hamilton, Ontario | 8.5 | TOTAL EFFECTIVE CAPACITY: | 40.8 |

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

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.