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Information for Legislators

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BACKGROUND INFORMATION ON THE TACONITE ENVIRONMENTAL PROTECTION FUND AND THE NORTHEAST ECONOMIC PROTECTION FUND

Introduction

The taconite environmental protection fund and the northeast Minnesota economic protection fund were created in 1977 to protect and enhance the environmental and economic health of the Iron Range. The funds are funded by means of a portion of the taconite production tax; a tax which is paid by mining companies in lieu of property tax.

Proceeds of the environmental protection fund are dedicated to the environmental rehabilitation and economic development of the Iron Range. Proceeds of the economic protection fund are also dedicated to the economic rehabilitation and development of the Iron Range; however, according to the current statute, the fund may not be used until the year 2002, at which time additional action by the governor and the legislature is necessary to authorize the dispersal of money from the fund.

The following is a more detailed description of the statutory purposes of and limitations on these two funds. Also included is a chart illustrating how and to whom the taconite production tax is distributed.

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THE TACONITE ENVIRONMENTAL PROTECTION FUND

Statutory Authority:

Minnesota Statutes, Sections 298.223 to 298.226.

Administering Agency:

The Iron Range Resources and Rehabilitation Board (IRRRB).

Purpose for which created:

Reclaiming, restoring and enhancing those portions of the Iron Range adversely affected by the environmentally damaging operations of mining taconite and iron ore; and

Promoting the economic development of northeast Minnesota.

Purposes for which funds may be used:

--To investigate matters in need of study to determine the environmental problems requiring remedial action;

-- To reclaim, restore or reforest minelands which are not otherwise provided for by state law;

-- Local economic development projects, including sewer and water systems and other public works; and

-- To monitor mineral industry-related health problems among mining employees.

Source of funds:

The production tax imposed in lieu of property tax on the mining and quarrying of taconite and iron sulphides and upon the production of iron ore concentrate therefrom. See Minnesota Statutes, Sections 298.24, and 298.28, subdivision 1, clause 10. The environmental protection fund receives two-thirds of the amount of tax proceeds that remain after distribution has been made to various government entities in the amounts provided by law (see Chart 1). The environmental protection fund also receives any net interest and dividends arising from the investment of its funds by the state board of investment.

Procedure for the selection of projects and expenditure of funds:	By September 1 of each year, the commissioner of the IRRRB prepares a list of projects, together with descriptions and cost estimates. Upon the recommendation of the Iron Range Resources and Rehabilitation Board, the list is submitted to the Legislative Advisory Commission (LAC) for its review. By November 1 of each year, the LAC submits the list of projects to the governor with its recommendations. By December 1 of each year, the governor shall approve, disapprove or return for further consideration each individual project. Funds for a project may be expended only upon approval of the project by the governor.
Other uses of fund proceeds:	-- IRRRB annual administrative costs related to the carrying out of the environmental protection fund. These costs (exclusive of detailed engineering expenses for the projects) may not exceed 5% of the amount annually expended from the fund. -- If and when a taconite producer goes out of business and, therefore, ceases to pay production tax, the environmental protection fund will, for a period of two years, pay 50%* of the resulting decrease in tax revenues to the other entities that share in the distribution of the taconite production tax.
Funds available for expenditure in 1982:	Approximately $19 million.

* The other 50% will be made up by the northeast Minnesota economic protection fund, according to legislation enacted by the 1981 Legislature. See Laws 1981, First Special Session, Chapter 1, Article 10, Section 13. Prior to 1981, the environmental protection fund paid the full amount of the revenue reduction.

THE NORTHEAST ECONOMIC PROTECTION FUND

Statutory Authority: Minnesota Statutes, Sections 298.291 to 298.294.

Administering Agency: None.

Purpose for which created: The fund is dedicated to the economic rehabilitation and diversification of industry in northeast Minnesota if and when it experiences severe economic dislocations and widespread unemployment as the result of a drastic reduction in mining activity.

Purposes for which funds may be used: Those remedial measures which the governor has recommended to the Legislature to deal with the economic situation in the region, and for which money from the fund has been appropriated by the Legislature.

Source of funds: The production tax imposed in lieu of property tax on the mining and quarrying of taconite and iron sulphides and upon the production of iron ore concentrate therefrom. See Minnesota Statutes, Section 298.24 and 298.28, subdivision 1, clause 10. The economic protection fund receives one-third of the amount of tax proceeds that remain* after distribution has been made to various government entities in the amounts provided by law (see Chart 1). The economic protection fund also receives any net interest and dividends arising from the investment of its funds by the state board of investment.

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* The economic protection fund, according to the original legislation, was supposed to start receiving 50% of the remaining production tax proceeds in 1983, thereby reducing the share of the environmental protection fund from 2/3 to 1/2. However, the 1981 Legislature amended the law by eliminating this future distribution change and retaining the 2/3-1/3 shares of the two funds. See Laws 1981, 1st Special Session, Chapter 1, Article 10, Section 15.

Prerequisites for the expenditure of funds:	--It is January 1, 2002 or later; --The governor declares that the economic situation in northeast Minnesota requires remedial action by the legislature due to the decline of mineral-related activities; and --The Legislature appropriates the necessary funds.
Other uses of fund proceeds:	-- If, during any year, the taconite property tax relief account does not contain sufficient funds to pay the property tax relief specified in Laws 1977, Chapter 423, Article 10, Section 4, the economic protection fund will make up the difference. —If and when a taconite producer goes out of business and, therefore, ceases to pay production tax, the economic protection fund will, for a period of two years, pay 50%* of the resulting decrease in tax revenues to the cities, counties, school districts and other entities that share in the distribution of the taconite production tax. --If a taconite producer who ceases production permanently is required by a special law to make bond payments for a school district, the economic protection fund will assume the payments if the taconite producer ceases to make them.**
Fund balance as of 1982:	Approximately $43 million.

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* See footnote on page 3, supra.

** Prior to 1981, these school bond payments were the responsibility of the environmental protection fund. See Laws 1981, 1st Special Session, Chapter 1, Article 10, Section 13.

CHART 1

TACONITE PRODUCTION TAX

Tax Rate: Base rate equals $1.25 per gross ton of merchantable iron ore concentrate produced in 1977. After 1977, the base rate increases with changes in the steel mill products index. An additional tax of 1.6% is imposed for each percent that the iron content of the product exceeds 62%.

DISTRIBUTION OF PRODUCTION TAX PROCEEDS
(Per Taxable Ton)

2.5 ¢	Taconite cities and towns
12.3 ¢	Taconite municipal aid account
29.0 ¢	Taconite schools
15.5 ¢	Taconite counties
4.0 ¢	Taconite counties' road and bridge fund
25.75¢	Taconite property tax relief account (homestead credit)
1.0 ¢	State general fund (to pay the cost of administering taconite production tax)
3.0 ¢	Iron Range Resources and Rehabilitation Board Account
0.2 ¢	Range Association of Municipalities and Schools
2/3 of remaining tax proceeds	Environmental Protection Fund
1/3 of remaining tax proceeds	Economic Protection Fund