Minnesota

Mining Tax Guide

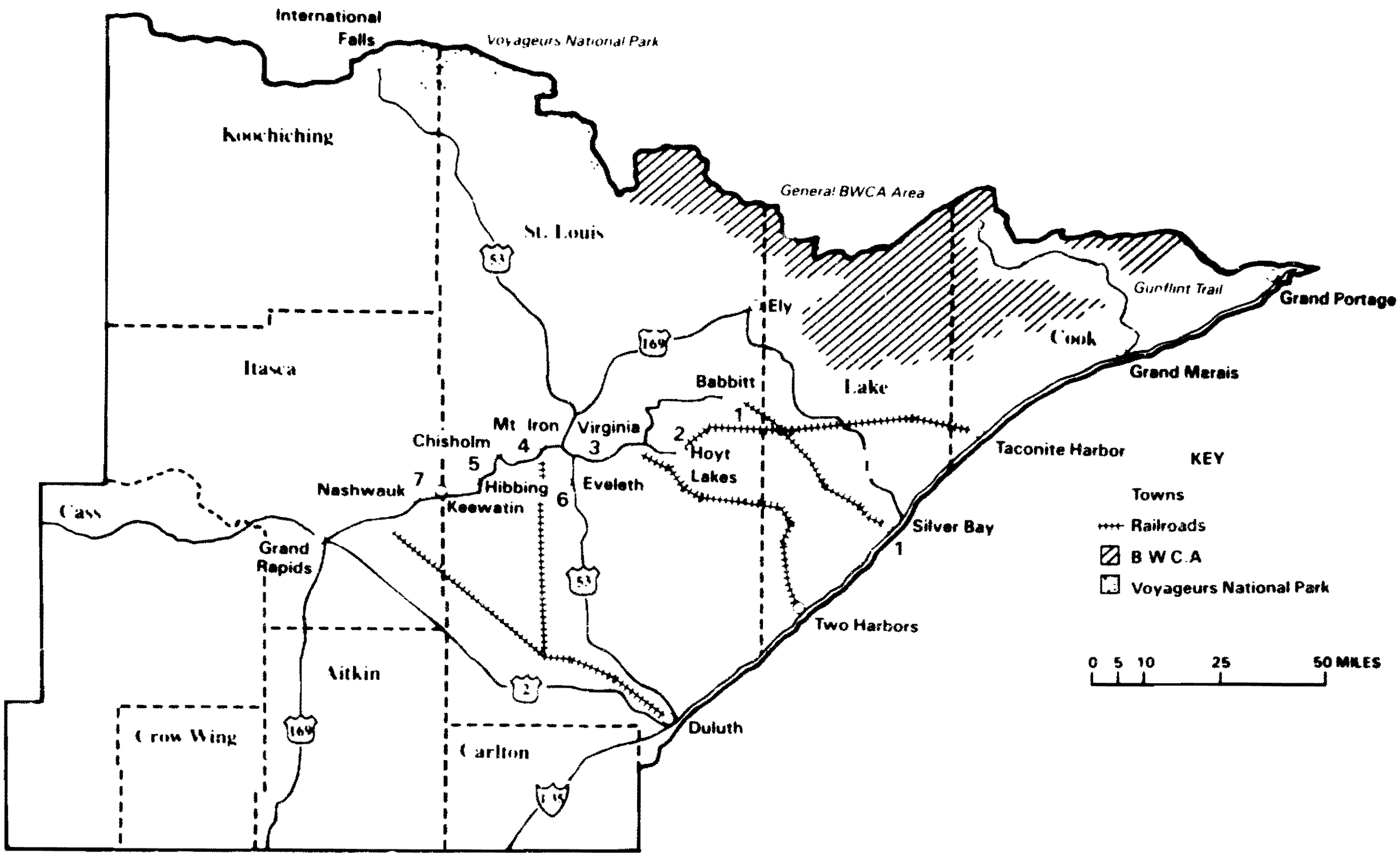
MINERALS TAX OFFICE

October 1994

MINNESOTA Department of Revenue

MAP OF NORTHEASTERN MINNESOTA

TACONITE COMPANY LOCATIONS, OWNERSHIP AND GENERAL INFORMATION



	Effective Capacity* (million tons)
1) CYPRUS NORTHSHORE MINING CORP. Owner: Cyprus- Amax Mineral Company (100%)**	4.0
2) LTV STEEL MINING COMPANY Cliffs Mining Company, Managing Agent Owner: LTV Steel (100%)	8.0
3) MINORCA PLANT Owner: Inland Steel Mining Co. (100%)	2.5
4) MINNTAC PLANT Owner: USX Corporation (100%)	15.0
5) HIBBING TACONITE COMPANY Cliffs Mining Company, Managing Agent Owners: Bethlehem Steel Company (70.3%) Cliffs Mining Company (15%) The Steel Company of Canada, Ltd. (14.7%)	8.5

	Effective Capacity* (million tons)
6) EVELETH MINES Oglebay Norton Company, Managing Agent Owners: Rouge Steel Company (41.7%) Oglebay Norton Company (14.5%) Virginia Horn Taconite (Armco) (33.1%) Ontario Eveleth Company (Stelco) (10.7%)	5.4
7) NATIONAL STEEL PELLET COMPANY Owner: National Steel Corporation (100%) National Steel Ownership: National Intergroup (30%) Nippon Kokan KK (70%)	4.7
TOTAL EFFECTIVE CAPACITY:	48.1

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

** As this Mining Tax Guide went to press (September, 1994) Cleveland-Cliffs, Inc. had agreed in principle to purchase Cyprus Northshore Mining Corp.

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

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LIST OF TABLES AND GRAPHS

ABOUT THE BACK COVER

NATIONAL STEEL PELLET COMPANY

The picture of this taconite plant is included on the back cover to remind ourselves and our readers that 1994 was the year in which the National Steel Pellet Company (NSPC) was resurrected from the dead.

On August 1, 1993, the United Steelworkers Union went on strike against the National Steel Corporation. Months of negotiation were not productive and in October, 1993 the owners of NSPC announced that the plant was being idled indefinitely. This left approximately 600 NSPC employees out of work.

In June, 1994, new managers were hired by the owners to operate National Steel Corporation. Within a short time they announced their desire to reopen NSPC if a new contract could be negotiated with the United Steelworkers and new contracts could be secured for power, transportation and royalties. These events did occur and workers began returning to the taconite plant in early August. Taconite pellets were being shipped by early September.

AUBURN MINE

The mine picture depicts the Auburn Mine near Virginia. It was reopened and began production in 1994. The producer is Auburn Minerals LLC, which is owned by Premier Aggregates, a Virginia, Minnesota, contractor and Edward Kramer & Sons, a Plain, Wisconsin, contractor. The company expects to produce 200,000 tons in 1994 and 400,000 tons per year through 1998.

The reopening of the Auburn Mine may allow natural ore mining in Minnesota to continue well into the future.

Auburn Minerals sells washed coarse and fine natural ore primarily to steel companies for use in sinter plants. The Auburn property is owned by USX and leased to Auburn Minerals. The two primary customers for this ore are USX and Warren Consolidated Industries (Youngstown Sheet and Tube).

Premier Aggregates began operating the Connie Mine, also near Virginia in 1991 and will cease production at the end of 1994.

INTRODUCTION

Cleveland-Cliffs, Incorporated (CCI) announced their signing a letter of intent to purchase Cyprus Northshore Mine in mid-1994. With this acquisition, CCI owns Cyprus 100 percent, has 15 percent ownership in Hibbing Taconite, as well as being the managing agent, and is the managing agent for LTV Steel Mining Company. Cleveland-Cliffs is also the managing agent of the Tilden and Empire mines in Michigan and has ownership and management interests in Canada and Australia. Industry observers are watching to see what this ownership change will mean to other Minnesota and North American producers of acid pellets, flux pellets and DRI.

The Minnesota Mining Tax Guide is published to identify **all Minnesota mining-related taxes** paid by the mining and exploration industry. It also serves as a ready reference of current and historical information for the reader. This book strives to *simplify the complicated tax statutes* using language that is easy to understand and comprehend through non-technical narratives, tables, graphs and flowcharts. Emphasis is placed on providing clear and concise information that can be used by officials of the state, counties, municipalities, school districts, mining and steel industry personnel, and concerned citizens.

The Taconite Production Tax is the largest tax paid by the mining industry and a major source of revenue to the counties, municipalities, and school districts where taconite mining exists. This section provides current and historical information on the total taconite produced and the amount of production tax paid. It also explains how the tax is distributed. Administrators and governing bodies of local counties, municipalities, and school districts can use this information when determining budgets, planning future projects and setting tax levies.

Other major taxes paid by the mining industry are Occupation Tax (similar to income tax), Royalty Withholding Tax, and Use Tax (sales tax). These taxes are all paid directly to the state with the money placed in the state's general fund. Though the information on these taxes is not as detailed as the production tax, these sections aim to provide a basic understanding of what each tax is and how it works. Other taconite and iron ore related taxes, which are paid directly to the counties, are included. These sections are the Ad Valorem taxes, which are similar to property taxes. They are assessed on taconite railroads, unmined taconite, auxiliary mining lands for taconite operations, unmined natural ore, and severed mineral interests.

Taxes that apply to the exploration and mining of minerals other than taconite and iron ore are also identified and explained. These minerals include gold, silver, copper, nickel and lead, among many others. Although several taxes applying to taconite and iron ore also apply to these minerals, the Net Proceeds Tax is exclusive to these other minerals.

The section on the Aggregate Material Production Tax, more commonly known as the 'gravel tax', has been expanded. This tax is a production tax on the removal of aggregate material. This tax is collected by the county, but the distribution of the funds is mandated by the state. This office maintains records for tax collected by each county for a statewide total. We are also the Department of Revenue resource for gravel tax information.

All information included in this publication has been developed from tax returns, reports and other information provided to the Minerals Tax Office by the mining and exploration companies and other Minnesota state agencies. Any suggestions from our readers for additional or different information are welcome. We are trying to provide the information our readers want and need.

Figure 1
DISTRIBUTION OF MINING TAXES

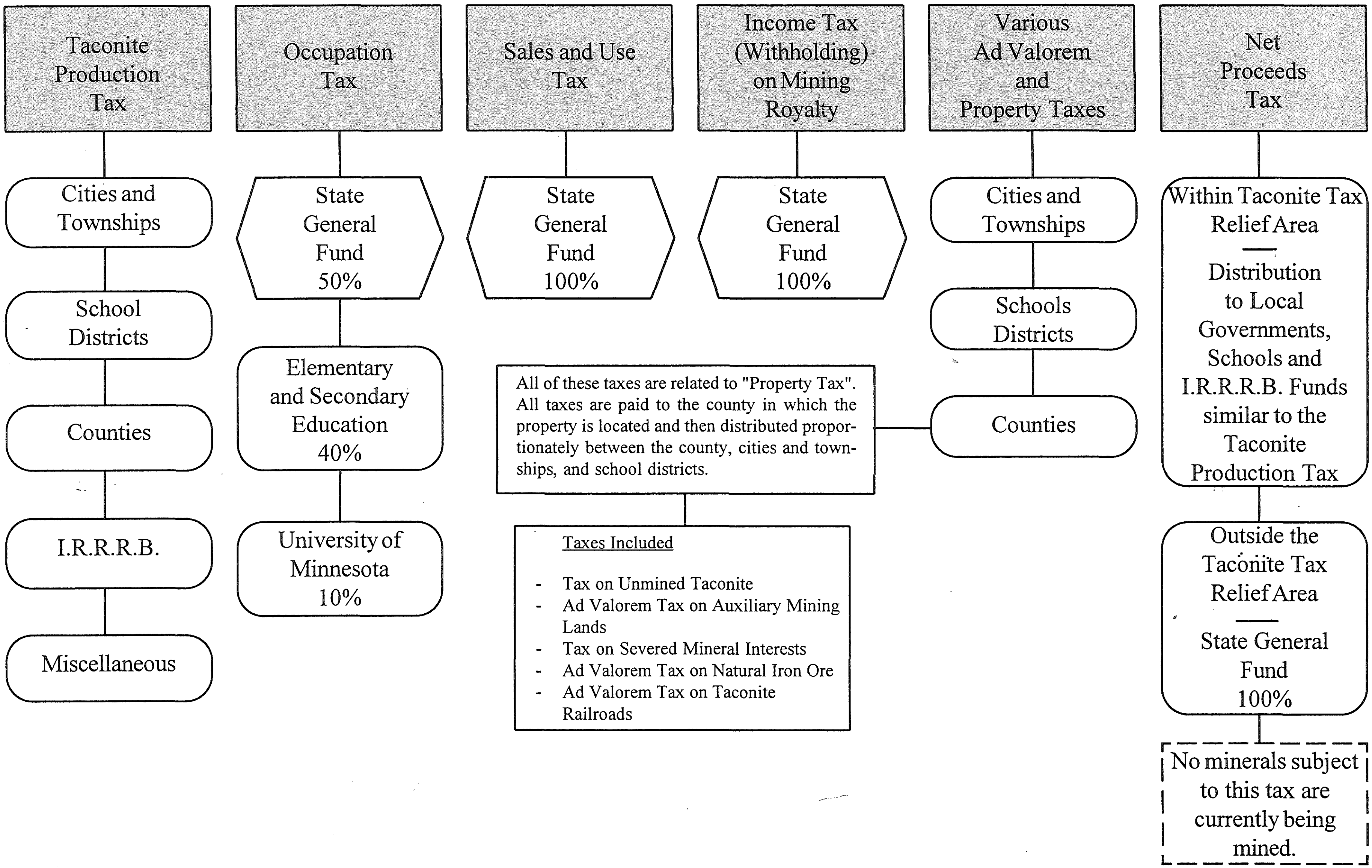
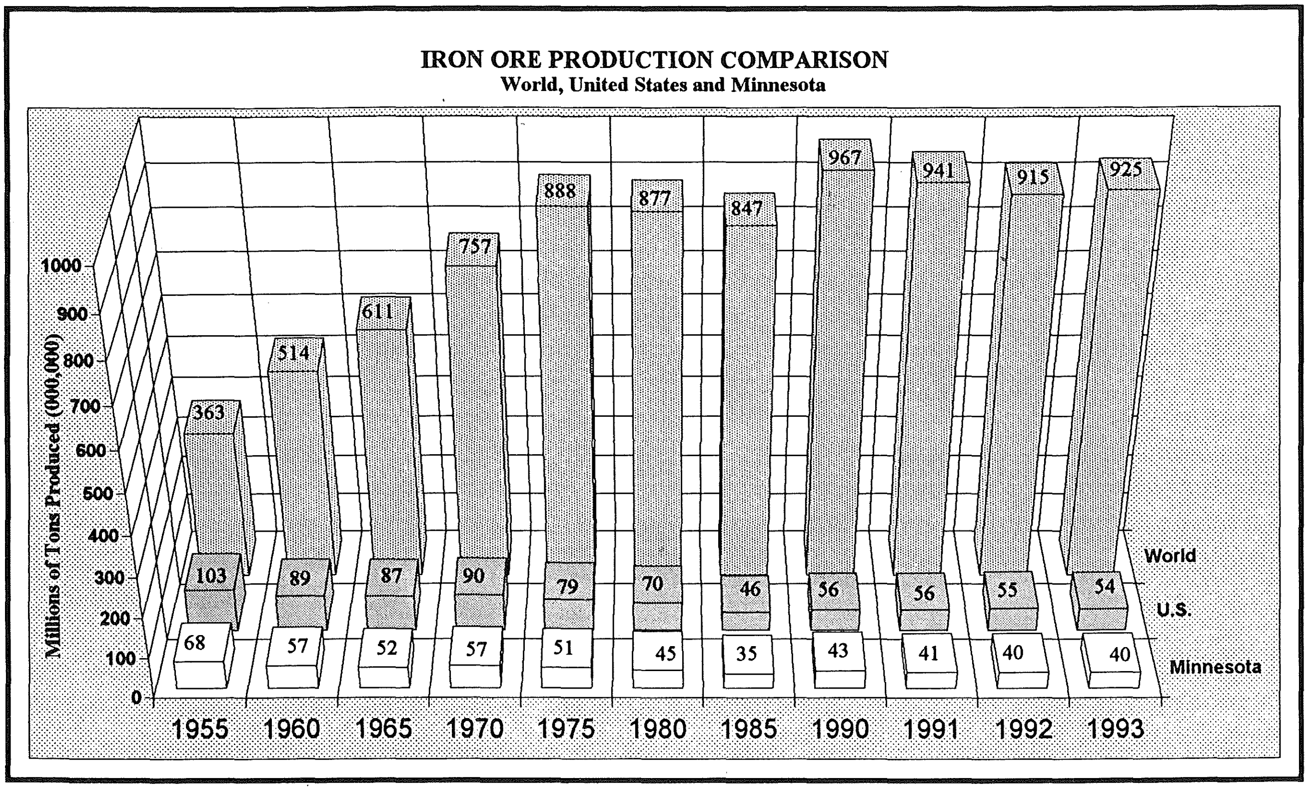
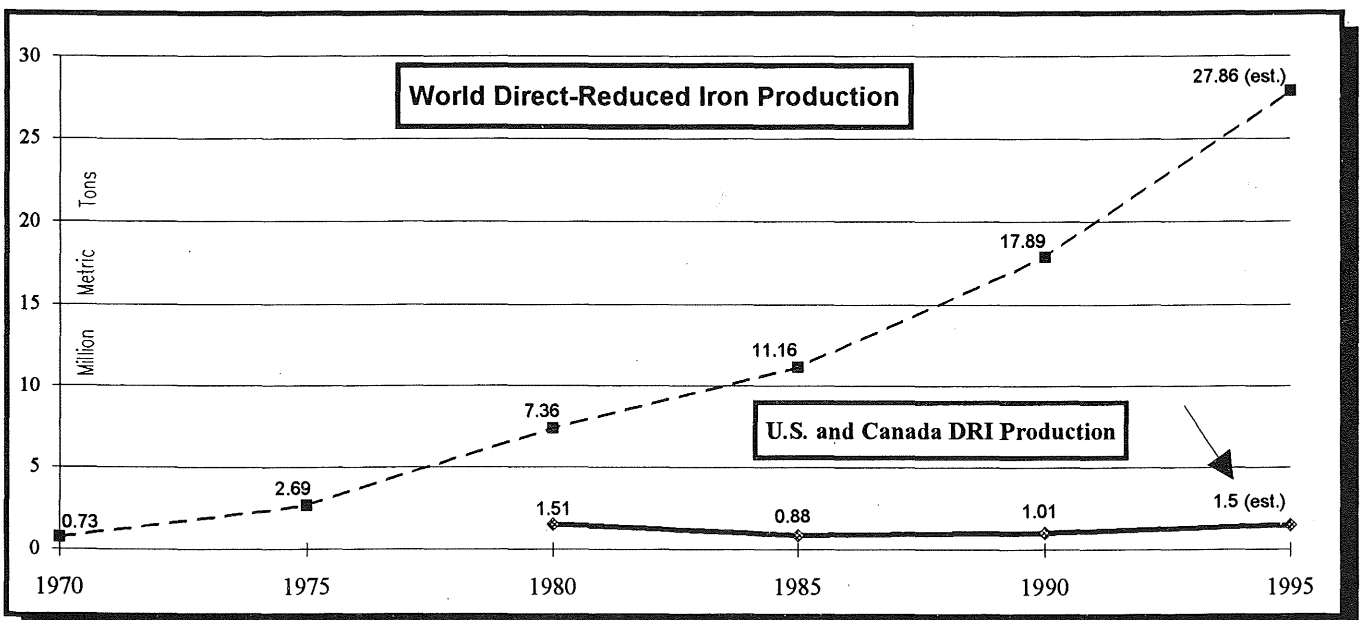


Figure 2



As this chart shows, the U. S. iron ore production (actual and as a percentage of world production) has continued to decline gradually for the last four decades. However, Minnesota's percentage of U. S. production has gradually increased from the 60% range in the 1950's and 1960's, to the 70% to 80% range in the 1990's. Taconite production in Minnesota accounts for 99%+ of the Minnesota iron ore production. World and U.S. production are provided by the American Iron Ore Association.

Figure 3



Information for the graph was provided by the U. S. Bureau of Mines and the Midrex Direct Reduction Corporation in the March 12, 1994 issue of Skillings Mining Review. United States DRI production was: 1980 - .62; 1985 - .14; 1990 - .39; 1991 - .41; 1992 - .39; 1993 - .40 (estimate). United States and Canada DRI production was: 1991 - 1.01; 1992 - 1.02; 1993 - 1.18. World DRI production for years not shown was: 1991 - 19.37; 1992 - 20.71; 1993 - 23.87.

Figure 4

HISTORY OF MINNESOTA TACONITE PRODUCTION

(Taconite Production Tax Report Tonnages)

	Butler	Erie/LTV	Eveleth	Hibbing	Inland	National	Reserve/ Cyprus	USX	Total
1949-1954	---	785,426	---	---	---	---	587,134	546,563	1,919,123
1955	---	195,979	---	---	---	---	521,200	623,491	1,340,670
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	8,039,657	52,826	---	---	---	10,023,520	877,459	19,004,162
1966	70	8,551,944	1,536,370	---	---	---	10,829,799	758,544	21,676,727
1967	1,617,409	9,900,479	1,738,068	---	---	470,918	9,695,533	888,950	24,311,357
1968	2,334,752	10,718,707	1,800,124	---	---	839,663	10,002,064	4,573,743	30,269,053
1969	2,599,906	10,198,586	1,916,899	---	---	2,285,744	10,352,579	6,056,598	33,410,312
1970	2,637,655	10,743,031	1,986,000	---	---	2,728,932	10,825,617	6,426,609	35,347,844
1971	2,647,930	10,192,628	2,055,131	---	---	2,813,242	9,628,920	6,439,695	33,777,546
1972	2,302,971	9,972,068	2,141,233	---	---	2,420,056	9,042,632	8,674,583	34,553,543
1973	2,563,093	11,657,631	2,065,042	---	---	2,578,023	10,424,648	12,540,908	41,829,345
1974	2,523,518	10,897,352	2,171,678	---	---	2,476,793	10,367,742	12,616,204	41,053,287
1975	2,437,411	10,884,511	2,164,677	---	---	2,433,579	10,695,052	12,193,687	40,808,917
1976	2,393,347	10,778,287	2,291,714	303,419	---	2,461,083	10,052,204	12,294,537	40,574,591
1977	1,686,590	4,646,451	2,572,909	2,150,170	232,457	2,621,627	5,033,248	7,428,136	26,371,588
1978	2,507,633	7,424,801	4,924,732	5,408,928	1,925,378	5,096,348	9,154,801	12,927,230	49,369,851
1979	2,552,255	8,820,258	5,604,688	6,250,348	2,238,443	5,367,815	7,033,658	16,492,186	54,359,651
1980	1,575,454	5,679,043	5,778,256	6,800,202	1,407,598	2,896,456	4,582,997	14,147,065	42,867,071
1981	2,194,960	7,943,641	5,879,859	7,125,897	2,385,967	3,424,392	7,643,807	12,381,951	48,980,474
1982	1,040,799	3,963,897	4,611,260	5,703,410	1,792,702	1,291,211	1,520,113	3,307,025	23,230,417
1983	1,556,523	2,045,065	3,265,821	4,205,470	2,136,155	3,270,837	985,318	7,708,073	25,173,262
1984	1,989,952	4,696,117	3,932,117	6,075,049	2,032,164	4,584,782	3,666,288	8,712,123	35,688,592
1985	952,476	4,862,497	2,943,613	5,059,291	1,821,941	4,428,662	3,282,389	9,913,832	33,264,701
1986	**Closed**	4,232,962	3,455,690	4,881,987	1,807,451	4,021,372	1,433,898	5,617,695	25,451,055
1987	---	6,774,330	3,481,280	7,685,375	2,118,660	4,314,534	**Closed**	7,668,870	32,043,049
1988	---	7,888,582	4,238,636	8,653,270	2,247,840	4,607,944	---	11,848,960	39,485,232
1989	---	7,372,667	4,910,384	8,186,626	2,269,177	4,745,024	**CYPRUS**	11,846,319	39,330,197
1990	---	7,798,292	4,417,255	8,136,923	2,265,876	4,809,930	2,384,061	12,709,299	42,521,636
1991	---	6,887,320	3,374,068	8,016,302	2,337,141	4,850,261	1,986,223	12,470,635	39,921,950
1992	---	6,622,640	3,571,784	7,801,946	2,109,743	4,997,512	1,394,451	12,351,795	38,849,871
1993	---	7,403,623	3,124,040	7,244,015	2,403,766	2,758,923	3,406,029	13,509,891	39,850,287
	40,125,707	273,712,399	92,006,154	109,688,628	33,532,459	89,595,663	229,918,376	273,186,272	1,141,765,658

Erie Mining Company was renamed LTV Steel Mining Company in 1987.

Reserve Mining Company became Cyprus Northshore Mining Corporation in 1989.

Numbers after 1986 do not include flux.

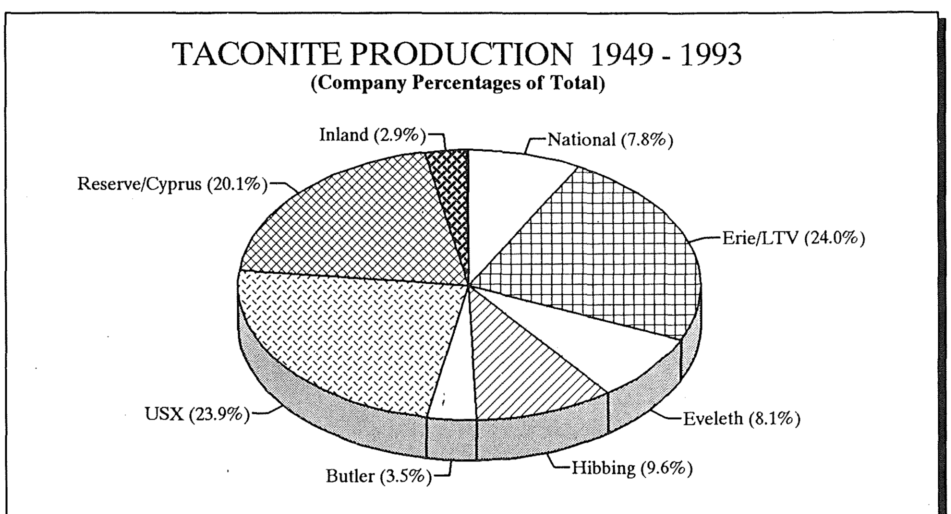


Figure 5

SUMMARY OF ALL TAX LIABILITIES FOR THE MINNESOTA MINING INDUSTRY

(000's)

TAX	1984	1986	1988	1989	1990	1991	1992	1993	1994 Est.
Ad Valorem - Unmined Natural Ore									
- (Year Assessed)	$ 3,326	$ 2,626	$ 878	$ 874	$ 644	$ 494	$ 341	$ 330	$ 330
Occupation - Taconite	29,915	6,234	2,993	350	2,057	2,008	1,551	1,709	1,800
- Natural Ore	442	343	294	145	11	32	38	0	25
Taconite Production	65,514	48,658	57,402	72,149	78,930	82,411	82,035	80,196	80,347
School Bonds	775	669	720	862	980	995	1,010	1,021	900
Railroad Gross Earnings - Taconite	1,678	1,671	1,397	N/A	N/A	N/A	N/A	N/A	N/A
Railroad Ad Valorem - Taconite (Yr. Paid)	N/A	N/A	N/A	N/A	267	264	139	143	141
Royalty - Taconite	4,564	2,436	2,540	2,646	N/A	N/A	N/A	N/A	N/A
- Natural Ore	536	208	179	244	N/A	N/A	N/A	N/A	N/A
Unmined Taconite (Year Assessed)	321	385	365	355	353	350	356	352	350
Sales & Use (Taconite Only)	7,110	4,890	8,352	11,113	13,127	11,860	11,702	11,991	12,000
TOTAL: (Taconite Only)	$108,879	$ 64,973	$ 73,769	$ 87,474	$ 95,714	$ 97,888	$ 96,794	$ 95,269	$ 95,538
TONS PRODUCED: (Taconite)	35,689	25,451	39,485	39,375*	42,522*	39,922*	38,850*	39,850*	40,000*
TOTAL TAXES PAID									
ON PER TON BASE: (Taconite)	3.05	2.55	1.87	2.22	2.25	2.45	2.49	2.39	2.39

* Tons are without flux additive. Beginning in 1990, production tons are also reported dry.
Shaded portions are taconite taxes only.

NOTE: Numbers may not add up due to rounding.

Total taxes per ton reached a peak in 1982. The tax rate per ton was abnormally high that year due to the effects of three-year averaging with only 23.4 million tons produced. During 1984, an agreement was negotiated to settle a series of court cases concerning mining taxes. As a result of this settlement, the legislature enacted various reforms and tax reductions which began to take effect in 1984. This, along with gradually increasing production, had the effect of lowering the tax rate through 1988. Effective rates increased in 1989 due to higher three-year average production and the effects of an escalator which applies to the production tax.

Figure 6

MINNESOTA TAXES LEVIED ON TACONITE

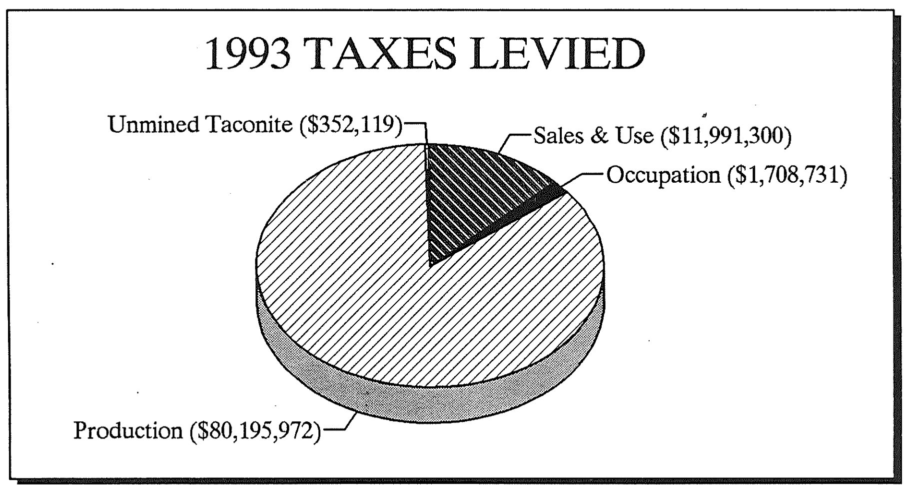
Production Year	Unmined Taconite Tax	Sales & Use Tax	Production Tax	Occupation Tax	Royalty Tax	School Bonds	Railroad Gross Earnings Tax	Total Taxes	Total Tons Produced	Total Taxes Per Ton
1960	$ ---	$ ---	$ 735,708	$ 638,489	$1,280,553	$1,741,820	$ 815,952	$ 5,212,522	13,383,000	$ .39
1965	---	---	1,107,097	1,740,307	502,167	1,443,170	1,337,497	6,130,238	19,004,162	.32
1970	64,000	Not Available	4,252,668	3,161,186	787,108	1,346,642	1,768,702	11,380,306	35,347,844	.32
1975	64,000	7,214,111	30,347,066	18,955,051	2,657,458	193,905	3,072,496	62,504,087	40,808,917	1.53
1977	--	7,375,115	48,757,124	3,190,408	2,626,141	182,745	1,509,773	63,641,306	26,371,588	2.41
1979	239,748	12,590,482	88,483,670	23,856,757	4,775,352	165,726	3,634,407	133,746,142	55,333,032	2.42
1980	232,218	9,981,715	87,178,532	13,807,599	4,619,799	138,476	2,983,819	118,942,158	43,059,750	2.76
1981	240,064	9,797,691	99,018,289	12,707,553	5,392,864	183,267	4,960,605	132,300,333	49,368,518	2.68
1982	284,701	7,827,049	80,305,437	3,347,835	4,093,008	176,421	1,354,173	97,388,624	23,445,104	4.15
1983	330,969	5,765,048	67,341,038	7,385,782	2,821,421	824,083	926,207	85,394,548	25,173,262	3.39
1984	321,389	7,110,166	64,514,255	29,915,354	4,563,672	774,865	1,678,295	108,877,996	35,688,592	3.05
1985	396,669	6,476,570	65,091,787	9,906,688	3,576,000	782,076	1,985,441	88,215,231	33,264,701	2.65
1986	384,697	4,890,472	48,657,782	6,233,533	2,436,402	699,422	1,670,756	64,973,064	25,451,055	2.55
1987	392,614	5,286,947	51,184,126	5,355,872	1,959,251	673,000	1,404,961	66,256,771	32,043,049	2.07
1988	365,244	8,351,535	57,402,070	2,993,234	2,540,422	720,208	1,397,211	73,769,924	39,485,232	1.87
1989	355,065	11,112,722	72,149,188	349,691	2,645,527	862,122	**	87,474,315	39,375,431	2.22
1990	352,935	13,127,042	78,929,646	2,057,281	*	980,368	226,879	95,714,152	42,521,636[a)]	2.25
1991	349,551	11,860,378	82,411,317	2,007,906	*	994,841	263,692	97,887,685	39,921,950[a)]	2.45
1992	355,596	11,702,398	82,035,382	1,551,335	*	1,010,205	139,193	96,788,513	38,849,871[a)]	2.49
1993	352,119	11,991,300	80,195,972	1,708,731	*	1,020,631	143,079	95,411,832	39,850,287[a)]	2.39
1994 Est.	350,000	12,000,000	80,347,000	1,800,000	*	900,000	140,841	95,537,841	40,000,000[a)]	2.39

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

* Repealed effective after December 31, 1989.

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

a) Tons are without flux additive.
Beginning in 1990, production tons are also reported dry.



TACONITE PRODUCTION TAX
(M.S. 298.24, M.S. 298.28)

The Taconite Production Tax is a severance tax paid on concentrates or pellets produced by the various taconite companies. It is paid "in lieu of" ad valorem taxes on taconite and lands containing taconite. With some exceptions, it also excludes land and structures used in the production of taconite from ad valorem taxes. (Special ad valorem taxes are discussed in detail on pages 41 and 42).

The taconite production tax rate for concentrates produced in 1993 remained frozen at $2.054 per taxable ton. The tax is levied on "taxable tons" which are the average tonnage produced during the current and previous two production years. The taconite production tax rate for concentrates produced in 1990 was $1.975 per taxable ton. The 1991 tax rate is the 1990 rate escalated by the percentage increase in the Gross National Product Implicit Price Deflator from the fourth quarter of the second preceding year to the fourth quarter of the preceding year. The rate was frozen at $1.975 for the 1990 production year. For production year 1991, the escalator was allowed to take effect which increased the rate to $2.054. Normally, the escalator takes effect each year unless the rate is frozen or changed by the legislature.

The rate was frozen by the 1992 legislature at $2.054 per ton for production years 1992 and 1993. The 1994 legislature continued the frozen rate at $2.054 per ton for production year 1994 payable 1995.

The revenues from the production tax are distributed by statutory formulas to various cities, townships, counties, and school districts within the taconite tax relief area (the area is comprised of the present taconite mining area plus areas where natural ore was formerly mined). Funds are also allocated to the Iron Range Resources and Rehabilitation Board (I.R.R.R.B.) which administers the Taconite Environmental Protection Fund and the Northeast Minnesota Economic Fund.

<u>LEGISLATIVE CHANGES</u>

Payment Dates and Method Changed. The 1993 legislature eliminated the 90 percent and 10 percent payment schedule. Beginning with the 1993 tax payable in 1994, there will be only one payment date, February 24, when 100 percent of the tax is due. The date that the Department of Revenue is required to notify each producer of their tax obligation has been changed from February 8 to February 15.

Also, beginning in 1994, all payments to the six counties and the I.R.R.R.B. must be paid by electronic fund transfer.

Taconite Economic Development Fund (298.227). The Taconite Economic Development Fund was first created for production years 1992 and 1993 at a rate of 10.4-cents per taxable ton. The 1994 legislature extended the Taconite Economic Development Fund through the 1995 production year at the rate of 15.4-cents/ton established in 1993. Each producer's share can be spent for equipment and machinery or research and development in Minnesota on mining technology or taconite, iron, or steel production technology. A joint labor-management committee must agree on projects to be funded. Each producer has two potential sources of Taconite Economic Development Funds:

1. <u>Acid or Flux Pellets</u>

   The amount of the production tax that is credited to each producers share of the Taconite Economic Development Fund was increased from 10.4-cents/ton to 15.4-cents/ton in 1993. All producers qualify for this through 1995, as mentioned above.

2. <u>Pellet Chips and Fines</u>

   This provision remains the same as last year--an amount equal to 50 percent of the tax for pellet chips and fines not exceeding 1/4-inch in size will be allocated to each company's share of the Taconite Economic Development Fund. The total amount shall 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 and fines and not the three-year average. Crushed pellets are not eligible for the chips and fines credit.

Thus, each company is eligible to receive 15.4-cents per taxable ton plus an additional amount based on current year sales of chips and fines.

A listing of the projects funded and current years distribution of the Taconite Economic Development Fund is shown in Figure 7 on page 8.

<u>ECONOMIC DEVELOPMENT INCENTIVES</u>

The 1994 legislature authorized the I.R.R.R.B. to loan up to $10 million from the Economic Fund (2002) for construction and equipping of direct-reduced iron plants. The amount is limited to $5 million per facility and the loan authority expires December 31, 1995. The plant must produce iron upgraded to a minimum of 75 percent Fe. This loan provision is also available to mineral producers subject to net proceeds tax (generally non-ferrous).

REDUCED TAX RATE FOR DRI

The 1994 legislature established a reduced production tax rate for DRI. For concentrates produced in 1994 through 1999, the rate is 25 percent of the normal production tax rate for the first 500,000 tons and 50 percent for any remainder. The three-year average will also apply to this tonnage.

FLUX PELLETS

Fluxed pellets have limestone or other basic flux additives combined with the iron concentrates before pelletizing. All of the companies have experimented with flux pellets. Two companies, Inland Steel and USX, are producing fluxed pellets. Cyprus and Eveleth Mines are producing a partially fluxed pellet containing a low percentage of limestone additive. Cyprus also produces fluxed pellets and acid pellets. The remaining companies produce primarily acid pellets. M.S. 298.24, Subd. 1, clause (e) allows the weight of flux added to be subtracted from the weight of pellets 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 with 1988, 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 weight of the flux is shown on Figure 26.

PELLET WEIGHING

A survey of weighing procedures used has been completed. Dust and other environmental problems have been an increasing concern with all of the industry and the railroads. It appears that fluxed pellets have increased problems with dust. There has been a need to increase dust control water sprays at various points in the pellet processing and shipping operations. Therefore, due to these environmental concerns and basic fairness, the Department of Revenue changed from natural weight to dry weight for tax reporting purposes. This change was effective beginning with the 1990 production year. The years 1989 and 1988 were still reported on a natural basis for three-year average purposes.

DEFINITION OF TACONITE TAX RELIEF AREA

One common prerequisite exists for all taconite aids and grants--that is the recipient must be within the geographic confines of the taconite tax relief area. A taconite tax relief area is defined by statute (M.S. 273.134) as follows:

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

(1) It is 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 and in which, as of the applicable assessment date, the assessed valuation of unmined iron ore is not more than 60 percent of the assessed valuation of all real property, or

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

Figure 7

1993 TACONITE ECONOMIC DEVELOPMENT FUND
$.154-Cents Production Tax Rebate (Payable 1994)

COMPANY	1993 REBATE	USES
Cyprus Northshore Mining	$ 348,384	Acquire 992c Loader for Pellet Reclaim (used).
Eveleth Mines	$ 586,435	Modify Concentrate Reclaim ($52,410); Soda/Ash Feeders ($135,000); Modify Shop Facility ($205,025); Upgrade Crusher ($194,000).
Hibbing Taconite Company	$1,183,863	Tailing Basin Study ($400,000); Autogen Mill Control ($193,000); Autogen Mill Solids ($155,000); Storm Water Pollution Control (203,000); Burr Brown Electric ($115,000); Transformer Converter ($175,000).
Inland Steel Mining Company	$ 444,761	
LTV Steel Mining Company	$1,456,052	Furnace Air Control ($65,000); Truck Weigh Scale ($120,000); Belt Scales, Taconite Harbor ($230,000); Slegten Flow System ($457,000); Replace PCB Transformers ($285,000).
National Steel Pellet Company	$ 647,185	Pending--possibly part of autogenous grinding system.
USX Corporation	$1,967,726	Column Flotation ($2,000,000); Burning Machine ($430,000); New Small Roll ($40,000); Rebuild Milling Machines ($40,000 & $85,000).
TOTAL:	$6,634,406	

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 I.R.R.R.B. 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 Department of Revenue makes all computations regarding the amount to be paid by the companies and the aid payments due to cities, schools, townships and counties. Interest earnings on undistributed funds are remitted by the counties to the I.R.R.R.B.

The proceeds of the 1993 taconite production tax (payable 1994) are distributed by statute as follows (all figures are cents per taxable ton):

M.S. 298.28,			
Subd. 2	- Taconite Cities and Towns:		2.5
Subd. 3	- Taconite Municipal Aid Account:		12.3
Subd. 4	- School Districts -		
	(b) Taconite schools (mining and/or concentrating in the district):	5.5	
	(c) School districts that qualify for taconite homestead credit in proportion to their levies:	22.0	
	Basic School District Total:		27.5
	(d) Taconite Referendum Fund:	(formula amount - see page 9)	
Subd. 5	- Counties -		
	(b) Taconite Counties:	13.0*	
	(c) (includes Electric Power Plant)		
	(d) Taconite Counties Road/Bridge:	3.5*	
	Counties Total:		16.5*
Subd. 6	- Taconite Property Tax Relief (includes .75-cents for Cook County and Cook County schools):		15.0**
Subd. 7	- I.R.R.R.B.:		3.0**
Subd. 8	- Range Association of Municipalities and Schools:		0.2
Subd. 9	- N.E. Minnesota Economic Protection Fund:		1.5**
Subd. 9a	- Taconite Economic Development Fund:		10.4
Subd. 10	- Indexing Provisions:		---
Subd. 11	- Distribution of Remainder:		---

* Beginning with the 1986 production year, the cents-per-ton distribution was frozen at an escalated rate of 20.52508-cents for the County Fund and 5.52599-cents for the County Road and Bridge Fund. However, the actual distribution may be larger due to M.S. 298.225.

** These funds are escalated using the Gross National Product Implicit Price Deflator. After escalation, the cents-per-ton for Taconite Property Tax Relief was 30.00941-cents, I.R.R.R.B. was 6.00188-cents, and the 1.5-cent N.E. Minnesota Economic Protection Fund was 3.00094-cents. *The full amount distributed, including escalation and M.S. 298.225 guarantees, is listed in Figure 12.*

DISTRIBUTION OF FUNDS (M.S. 298.28)

Subd. 2 - Taconite Cities and Towns

A total of 2.5-cents per ton is allocated to cities and towns where taconite mining and concentrating occurs. Forty percent (1.0-cent/ton) of this fund goes to those cities and townships in which mining activity occurs. The remaining 60 percent (1.5-cents/ton) goes to those cities and townships in which the concentrating of the taconite occurs. (Note: This is done on a company-by-company basis).

If both mining and concentrating take place in a single taxing district, then the entire 2.5-cents is allocated there. If mining occurs in more than one city or town, then the revenue (1.0-cent/ton) is divided based on either a percentage of taconite reserves or a four-year average of production. Most taconite mines have mining in two or more units.

If concentrating is split between two cities or towns, the revenue (1.5-cents/ton) is divided by the percentage of hours worked in each. The primary crusher is considered the first stage of concentration. The only current examples of this are Cyprus (Babbitt and Silver Bay) and Eveleth Mines (Eveleth, Fayal Township, and McDavitt Township). *Distribution detail in Figure 15.*

Subd. 3 - Taconite Municipal Aid Account

The Taconite Municipal Aid 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. This amount is then reduced according to the percentage aid guarantee provisions of 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 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 Subdivision 6 on this page. The statutory references governing Municipal Aid are M.S. 273.134, M.S. 298.28, Subd. 1, Clause 2, and M.S. 298.282. *Distribution detail in Figure 15.*

Subd. 4 - School Districts

(a) - \$.275 per taxable ton distributed under (b) & (c) plus increase in paragraph (d).

(b) - School District \$.055 Fund - A total of \$.055 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. *Distribution detail in Figure 16.*

4(c) - School \$.22 Fund - All taconite companies pay \$.22 per taxable ton into a fund which is split among the 15 school districts comprising the taconite relief area. Each school district receives the amount which it was entitled to receive in 1975 from the taconite occupation tax. 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 in Figure 16.*

4(d) - Taconite Referendum Fund - 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 Taconite Referendum Fund pays the difference between the local levy and \$175 per pupil unit. The payment is made on July 15 each year. The fund receives money based on the theoretically escalated portion of the 22-cent school fund. 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 Taconite Referendum Fund shall reserve \$25 per pupil unit (of the \$175 authorized) for outcome-based learning programs approved by the Commissioner of Education. *Distribution detail in Figure 16.*

Subd. 5 - Counties

(a) - The allocation of 16.5-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). This 16.5-cents was subject to escalation prior to 1986. By 1986, the 13-cents amount in Subd. 5(b) had increased to 20.52508-cents and was frozen. The 3.5-cents amount for county road and bridge covered in Subd. 5(d) had increased to 5.52598-cents and was also frozen at that level. The amounts listed in (b) and (d) are the statutory amounts prior to escalation. *Distribution detail in Figure 18.*

(b) - Taconite Counties with Mining or Concentrating - Thirteen-cents per taxable ton is distributed to the county in which the taconite was mined or quarried or in which the concentrate is produced (split in same manner as taconite cities and towns), less any amount distributed in Subd. 5(c). *Distribution detail in Figure 18.*

(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 13.0-cents per ton (for that company) shall be 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). For the 1993 production year, this amounted to \$93,119 or 1.33577-cents per taxable ton including the adjustment. The only company whose distribution is affected by this provision is LTV due to their power plant location at Taconite Harbor in Cook County. Their one-cent per ton distribution for the 1983 base year was based on 9,793,639 tons. This amount was carried forward from 1979 based on a previous guarantee. The current year M.S. 298.225 guarantee percentage is always applied.

$$\$97{,}936 \text{ (1983 base)} \times 95.081404\% = \$93{,}119$$

(d) - Taconite Counties Road and Bridge - Each county receives a portion of the aid in the same manner as taconite cities and towns, to be deposited in the county road and bridge fund. The basic allocation is 3.5-cents per taxable ton subject to adjustment as per M.S. 298.225. *Distribution detail in Figure 18.*

Subd. 6 - Taconite Property Tax Relief

(a) - Taconite Property Tax Relief - A total of 15-cents per taxable ton is escalated by the Gross National Product Implicit Price Deflator is allocated to the Taconite Property Tax Relief Account. The qualifications and distribution of taconite property tax relief are described in the following paragraphs. The escalation feature was frozen for 1991 and 1992. For the 1991 production year, the rate was 26.9-cents per taxable ton. For the 1993 production year, the rate increased to 30.00941-cents per taxable ton.

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

If an owner-occupied home or farm is located in a city or town which contained at least 40 percent of its valuation as iron ore on May 1, 1941, or currently has a taconite mine, processing plant, or electric generating facility, the taconite credit is 66 percent of the tax on that property to a maximum of $287.50 for taxes payable in 1994. 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 on the property to a maximum credit of $262.20 for taxes payable in 1994.

The taconite homestead credit cannot reduce the "effective tax rate" on each parcel of property below 95 percent of the "base year effective tax rate". "Effective tax rate" is the net tax divided by the market value, and the "base year effective tax rate" is the payable 1988 effective tax rate on a property with an identical market value to that of the property receiving the credit in the current year. The amount of the taconite homestead credit cannot be less than $10.00 per homestead. The total amount of taconite property tax relief paid in each county and school district is listed in Figure 10. An example of the calculation is shown on page 15.

The statutory references 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. *Distribution detail in Figure 10.*

(b) - Electric Power Plant Aids From Property Tax Relief - For any electric power plant located in another county (as described in 5c), .1875-cents per taxable ton from the Taconite Property Tax Relief account shall be paid to the county. The amount was subject to escalation until frozen for the 1987 production year. The M.S. 298.225 guarantee also applies. For the 1993 production year, the total amount was .30726-cents per taxable ton (LTV's taxable tonnage). The frozen escalated rate is .296035-cents per taxable ton for Cook County subtracted from LTV's property tax relief distribution. The remaining amount ($783 for 1993) is provided by the M.S. 298.225 guarantee. The guaranteed amount for 1993 is determined by applying the 95.081404 percent guarantee by the $22,528 1983 distribution.

(c) - Electric Power Plant Aid from Property Tax Relief - This subdivision allocates .5625-cents per LTV's taxable tonnage to Cook County school district due to the LTV power plant in Cook County. Because of escalation (frozen in 1987), this amounted to .888104-cents per taxable ton (LTV tons) for 1993. This school aid is guaranteed at 50 percent or the variable rate, whichever is less. The 1983 base for the school was $67,586. For 1993, no guarantee applies and the distribution is calculated by multiplying the LTV taxable tons and the .888104-cents per ton escalated rate.

Subd. 7 - Iron Range Resources & Rehabilitation Board

An amount of three-cents per taxable ton escalated by the Gross National Product Implicit Price Deflator is allocated to this board. These funds are used by the I.R.R.R.B. for general operating expenses and community development grants.

Subd. 8 - Range Association of Municipalities & Schools

This .2-cent per taxable ton is paid to R.A.M.S. for the purpose of providing an area-wide approach to problems which demand coordinated and cooperative actions. All cities, towns, and schools in the taconite and iron ore mining area are included.

Subd. 9 - N.E. Minnesota Economic Protection Trust Fund

In addition to the amount provided in the remainder after all other distributions are completed, 1.5-cents per taxable ton is allocated to the Northeast Minnesota Economic Protection Trust Fund.

(a) - Taconite Economic Development Fund - This subdivision is explained in detail under 'Legislative Changes' on page 7.

Subd. 10 - Indexing

Provides indexing of the cents per ton allocation for Subd. 4(d), Subd. 6(a), Subd. 7 and 9. For the 1992 and 1993 distributions (1991 and 1992 production years), the amount distributed per ton shall be the same as in 1991.

For the 1994 distribution (1993 production year), the amount distributed shall be the distribution per ton for 1991 increased in the same proportion as the increase between the fourth quarter of 1989 and the fourth quarter of 1992 in the implicit price deflator. That amount shall be increased in 1995 and subsequent years 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 all other aid distributions including school bond credits and payments, taconite railroad, Department of Revenue, and I.R.R.R.B. payments, the remainder shall be distributed two-thirds to the Taconite Environmental

Protection Fund and one-third to the N.E. Minnesota Economic Protection Trust Fund. The remainder includes interest earned on monies on deposit by the counties prior to final distribution. Beginning in 1989, the taconite railroad gross earnings tax was abolished and these railroads were made subject to property tax, the same as other railroads.

Prior to 1989, every taconite railroad paid a 3.75 percent gross earnings tax to the state. Taconite railroads are wholly owned by a mining company and are principally used for the transportation of taconite concentrates. They are not used to haul freight commercially as a common carrier.

(c) - Occupation Tax Grandfather Amount to I.R.R.R.B. - In 1978 and each year thereafter, there has been distributed to the I.R.R.R.B. the amount it received in 1977 from the distribution of the taconite and iron ore occupation taxes. Amount: $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.

1. Department of Revenue - Minerals Tax Office

Beginning with the 1993 production year (payable 1994), $55,000 per year for two years was appropriated from production tax revenues to the Department of Revenue for costs and expenses incurred in the administration of the Taconite Production Tax (Chapter 192, Section 19, Laws of Minnesota for 1993, 78th Legislature).

2. School Bond Credits and Payments

The legislature has authorized payment of school bonds from taconite revenues at various times. This has been done both with production tax credits for bonds paid by a mining company and direct payments. The first credits were authorized when whole new towns were build for the Erie and Reserve taconite plants in Hoyt Lakes and Silver Bay. Since that time, school bond payments have been authorized by the legislature for most Iron Range school districts. Taconite revenues have been authorized to fund 100, 90, or 80 percent of the bond payment, depending on the school district situation and year of enactment. *Distribution detail in Figure 17.*

A) A $240,000 payment is made from the production tax to School District 710 for payment of school bonds. An amount equal to four-cents per ton of Eveleth Mines taxable tonnage is subtracted from money otherwise payable to the Northeast Minnesota Economic Protection Fund. Any remaining amount required to equal $240,000 shall be paid as provided by M.S. 298.225.

B) The 1982 legislature increased the taconite production tax credit to four-cents per taxable ton for school district bonds. However, a credit of seven-cents per ton is allowed for Independent School District 712, Mt. Iron-Buhl. The school bond credits are subtracted from the amount which would otherwise be distributed to the Northeastern Minnesota Economic Fund. These credits are for bond payments made by the companies and are not collected or distributed by the Department of Revenue. Only two school districts (Nashwauk-Keewatin and Mt. Iron-Buhl) are covered by credits.

C) The 1988 legislature passed a provision that has the production tax pay a portion of the bonds issued by the following four school districts: 318 (Grand Rapids), 701 (Hibbing), 706 (Virginia), 708 (Tower), and 2142 (St. Louis County). Money for the payments are deducted, in equal shares, from the distributions made to the Taconite Environmental Protection Fund and the Northeast Minnesota Economic Protection Trust. *Distribution detail in Figure 17.*

D) The 1990 legislature authorized additional school bonds for eight school districts. These payments are made by the respective county auditors from production tax revenues. Money for the payments is deducted in equal shares from the environmental and economic protection funds. *Distribution detail in Figure 17.*

E) The 1992 legislature authorized three additional school bond issues. The three districts are Grand Rapids, Lake Superior, and Virginia. Lake Superior and Virginia have issued bonds but Grand Rapids has not been able to get voter approval on a new bond issue as of September 1, 1994.

AID GUARANTEE (M.S. 298.225)

The recipients of the taconite production tax as provided in M.S. 298.28, subdivisions 2 to 5, subdivision 6, paragraphs (b) and (c), subdivisions 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 than 42,000,000 taxable tons, the amount distributed from the fund will be reduced proportionately by two percent per each 1,000,000 tons by which the production is less than 42,000,000 tons. For example, if the taxable tonnage (three-year average) is 39,800,000, then the proportionate reduction is 4.4 percent. This is calculated by multiplying two percent times 2.2 million tons. The 1993 guarantee percentage is 95.081404%.

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 I.R.R.R.B. shall make the payments of any remaining difference from the corpus of the Taconite Environmental Protection Fund and the corpus of the Northeast Minnesota Economic Protection Trust Fund in equal proportions, as directed by the Commissioner of Revenue. The aid payments covered by this variable guarantee are listed as follows:

1. 2.5-cents City and Town Fund.
2. 12.3-cents Taconite Municipal Aid.
3. 3-cents escalated to I.R.R.R.B.
4. .2-cents R.A.M.S.
5. .1875-cent power plant transfer from Taconite Property Tax Relief Account to Cook County.

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

1. 13.0-cents Taconite County Fund.
2. 3.5-cents Taconite County Road and Bridge Fund.

The following funds are guaranteed at 50 percent or the variable guarantee, whichever is less:

1. 22-cents School Fund.
2. 5.5-cents School District Fund.
3. Taconite Referendum Fund.
4. .5625-cent power plant transfer from Taconite Property Tax Relief Account to S.D. 166.

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

Figure 8

NORTHEAST MINNESOTA ECONOMIC PROTECTION TRUST FUND AND ENVIRONMENTAL PROTECTION FUND

Period Ending	Economic Fund Balance	Environmental Protection Fund Balance
December 31, 1983	$28,487,283	
June 30, 1984	27,019,423	
September 30, 1985	28,859,669	
June 30, 1986	31,537,559	
June 30, 1987	31,186,041	
June 30, 1989	31,279,724	
June 30, 1990	36,679,552	$4,027,594
June 30, 1991	42,004,602	4,997,728
June 30, 1992	48,840,406	8,583,918
June 30, 1993	54,084,189	1,459,629
June 30, 1994	57,633,818	1,411,886

Economic Fund Major Withdrawals:

September 27, 1982	$ 2.5 million	I.R.R.R.B. Jobs Program
February 3, 1983	$ 5.0 million	I.R.R.R.B. Jobs Program
May 24, 1983	$10.0 million	I.R.R.R.B. Economic Development
February 25, 1984	$2.08 million	Aid guarantees to cities/schools (M.S. 298.225)*
February & May, 1987	$ .46 million	M.S. 298.225
September 26, 1989	$ 1.9 million	Property Tax Relief Guarantee**

* This aid guarantee formula was revised by the 1984 legislature so that further withdrawals should not be necessary except during serious depression of the iron ore industry.

** Funding for Taconite Property Tax Relief was reduced from 22-cents-per-ton to 12-cents-per-ton by the 1988 legislature. When this proved to be inadequate funding, it was increased by the legislature in the 1989 special session from12-cents to 15-cents-per-ton. This should eliminate withdrawals from the Northeast Minnesota Economic Fund for property tax relief in normal production years.

The Taconite Area Environmental Protection Fund (M.S. 298.223) and the 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 provided under M.S. 298.28 and school bond payments are completed. A special allocation of 1.5-cents per ton for the economic fund is provided for in M.S. 298.28. The remainder is split with one-third going to the economic fund and two-thirds to the environmental protection fund.

The Taconite Environmental Protection Fund was "created for the purpose of reclaiming, restoring, and enhancing those areas of northeast 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 fund is administered by the I.R.R.R.B. commissioner. Projects must be approved by the I.R.R.R.B., the Legislative Advisory Commissioner, and the governor.

The Northeast Minnesota Economic Protection Trust Fund is somewhat different in that only interest and dividends earned by the trust fund may be expended before January 1, 2002. Approval for expenditures from earnings is similar to the environmental fund. Expenditures from the principle of the trust fund may be made prior to 2002 only with authorization of the full legislature. This has been done on several occasions, as shown in Figure 8.

TACONITE PROPERTY TAX RELIEF

The taconite homestead credits described on page 11 are administered by the county auditors for the eligible relief areas within the county. The amounts payable in 1993 are listed in Figure 10. Total amounts distributed as shown in Figure 10 are determined by the formula described on page 15 and do not equal the total amount of production tax allocated for property tax relief shown in the tables as collections or payments into account.

The difference is carried in the Taconite Property Tax Relief Fund balance with St. Louis County as fiscal agent. If the fund balance and production tax collections are not sufficient to make the payments, the deficit is made up from the Economic Protection Fund. (NOTE: The payments out by formula are split between the local municipalities, counties, and schools based upon the current local tax rate).

Figure 9

TACONITE PROPERTY TAX RELIEF FUND BALANCE

Year Payable	Payments into Account*	Interest Earned**	Payments Out (by formula)	Balance December 31
1984	$13,261,800	N/A	$19,109,000	$ 4,183,498
1985	8,884,100	N/A	10,357,400	3,041,834
1986	9,398,900	$426,700	10,572,700	2,308,000
1987	9,122,400	449,800	10,971,500	908,700
1988	9,727,800	325,700	10,883,300	79,000
1989***	5,904,200	214,400	8,081,000	9,211
1990	9,569,872	438,580	7,651,586	2,366,077
1991	10,848,818	505,139	7,914,709	5,805,325
1992	10,891,942	411,356	8,308,617	8,800,006
1993	10,847,642	437,219	8,980,640	11,104,227
1994	11,783,383	550,000 Est.	11,130,000 Est.	12,307,610 Est.
1995 Est.	12,060,836			

* Listed under year payable, 1994 payments result from 1993 production.

** Managed by Dept. of Finance and no interest paid to fund prior to 1986. Other factors such as money returned by schools was not researched. St. Louis County began as fiscal agent in 1986.

*** A deficit of $1,892,536 was covered by a transfer from the N.E. Minnesota Economic Protection Trust Fund.

Figure 10

TACONITE PROPERTY TAX RELIEF FUND DISTRIBUTION

Total Listed by School District Area:

	Mobile Home	Real Property
001 - Aitkin	$ 3,512	$ 632,134
166 - Cook County	1,978	307,131
182 - Crosby-Ironton	6,174	664,154
316 - Coleraine	6,305	468,348
318 - Grand Rapids	19,999	1,698,604
319 - Nashwauk/Keewatin	1,219	181,677
381 - Lake Superior	3,451	913,808
692 - Babbitt	501	228,780
695 - Chisholm	643	250,837
696 - Ely	1,083	230,629
697 - Eveleth	1,741	378,518
699 - Gilbert	617	117,243
701 - Hibbing	10,192	709,988
706 - Virginia	1,003	306,467
708 - Tower/Soudan	534	200,184
710 - St. Louis County	7,233	845,228
712 - Mt. Iron/Buhl	2,104	289,982
2711 - Mesabi East	2,338	486,301
TOTAL (Payable 1993):	$70,627	$8,910,013

Total Listed by County Area:

	Mobile Home	Real Property	Grand Total
St. Louis (69)	$28,158	$4,207,243	$4,235,401
Itasca (31)	27,523	2,348,629	2,376,152
Lake (38)	3,230	745,224	748,454
Crow Wing (18)	6,205	693,902	700,107
Aitkin (01)	3,481	602,386	605,867
Cook (16)	1,978	307,131	309,109
Koochiching (36)	52	5,498	5,550
Total (Payable 1993):	$70,627	$8,910,013	$8,980,640

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

The aid amounts listed in Figures 15 and 16 do not include taconite property tax relief.

Figure 11

66% TACONITE HOMESTEAD CREDIT EXAMPLE

TAXES PAYABLE 1994

Gross Tax Computation

1.	Total Market Value	$50,000.00
2.	Net Tax Capacity	$ 500.00
3.	Local Tax Rate	115.000%
4.	Net Tax Capacity Tax (2 x 3)	$ 575.00
5.	Referendum Tax Rate	$ 0.09500%
6.	Referendum Tax (5 x 1)	$ 47.50
7.	Total Gross Tax (4 + 6)	$ 622.50

Preliminary Credit and Net Tax Computation

8.	Preliminary Taconite Credit (7 x 66%, maximum $287.50)	$ 287.50
9.	Preliminary Net Tax (7 - 8)	$ 335.00

Limited Credit Computation

10.	Pay 1988 Assessed Value (1 x 17%)	$ 8,500.00
11.	Pay 1988 Mill Rate	190 mills
12.	Pay 1988 Gross Tax (10 x 11)	$ 1,615.00
13.	Pay 1988 Homestead Credit (12 x 54%, $700 maximum	$ 700.00
14.	Pay 1988 Tax After Homestead Credit (12 - 13)	$ 915.00
15.	Pay 1988 Taconite Credit*	$ 418.36
16.	Pay 1988 Net Tax (14 - 15)	$ 496.64
17.	Base Year Effective Tax Rate (16 / 1)	0.9933%
18.	Minimum Effective Tax Rate (95% x 17)	0.9436%
19.	Pay 1993 Effective Tax Rate (9 / 1)	0.6700%
20.	Adjusted Pay 1993 Effective Tax Rate (Greater of 18 or 19)	0.9436%

Final Net Tax and Credit Computation

21.	Final Net Tax (20 x 1)	$ 471.80
22.	Final Pay 1993 Taconite Credit (7 - 21)	$ 150.70

* 66% of the first $596 included on line 14 with a maximum credit of $246.10, plus 54% of line 14 over $596 with a maximum credit of $288.90. The total maximum credit is $535.

TACONITE ASSISTANCE PROGRAM

The Iron Range Resources and Rehabilitation Board (I.R.R.R.B.) has developed a Taconite Assistance Program for the purpose of providing dedicated funds for the Iron Range taconite producers that will enhance the long-range viability of the Iron Range mining industry.

This assistance provides a maximum of $2 million per taconite company in the form of either a loan or grant, or a combination of both. All seven taconite producers have taken advantage of this assistance program as grant recipients. Some producers have qualified for less than the full $2 million.

Grants	Loans
-- Must be part of cost reduction or plant expansion.	-- Project must improve processes or be R&D.
-- Private participation must fund 65% of project.	-- Loans shall not exceed 50% of project cost.
-- Project must result in cost reduction, increased efficiency, or process improvements.	-- Project must result in cost reduction, increased efficiency, or process improvements.
-- New technology projects are encouraged.	-- New technology projects are encouraged.

Figure 12

CENTS-PER-TON PRODUCTION TAX DISTRIBUTION - 1994

(1993 Production Year)

Aid Recipient	Cents Per Taxable Ton
Taconite Cities and Towns	3.3
Taconite Municipal Aid	16.7
School Districts	42.4*
County	24.4
County Road and Bridge	6.5
Taconite Property Tax Relief	29.8
I.R.R.R.B.	9.9
R.A.M.S.	.3
Taconite Railroad Grandfather Amount	8.0
Taconite Environmental Protection Fund	28.3
N.E. Minnesota Economic Protection Fund	8.8
Taconite Economic Development Fund	16.8
School Bond Credits and Payments	10.1
State of Minnesota	.1
	205.4

* 34.4-cents-per-ton will be subtracted from state aids or levies a taconite school district would otherwise receive. The 5.5-cent and 22-cent school funds and the school portion of taconite railroad funds are subtracted while the taconite referendum money is in addition to state aid.

1994 PRODUCTION TAX DISTRIBUTION

(Flowchart)

The production tax distributed in 1994 is the 1993 tax due. The taconite production tax rate for concentrates produced in 1993 was $2.054 per taxable ton. The taxable tons for the 1993 production tax are the average tonnage produced in 1991, 1992 and 1993.

The flowchart on the following page attempts to provide a simple and easy to understand picture of where the production tax of $2.054 per taxable ton is distributed. This is a very complex subject with many legal requirements and provisions.

This flowchart shows both the cents-per-ton distribution, as indicated above, and the total amount distributed to various funds. These total amounts can also be found on the tables following the flowchart.

The various funds to which money is distributed are explained in the preceding several pages titled "Distribution of the Taconite Production Tax".

If you have any questions concerning this subject, please contact the Minerals Tax Office. The address and telephone number are listed on the inside back cover.

Figure 13

TACONITE PRODUCTION TAX DISTRIBUTION FLOWCHART - 1994

TOTAL TACONITE PRODUCTION TAX

$81,216,603

Production Tax is $2.054 per taxable ton. The three-year average taxable tonnage was 39,540,702.

Less: School Bond Credits

$1,020,631
2.6-c.p.t.

NET PRODUCTION TAX TO BE DISTRIBUTED

$80,195,972

The remaining production tax to be distributed is $2.028 per taxable ton.

The cents-per-ton (c.p.t.) numbers (rounded indicate the portion of the $2.054 tax paid PER TON distributed to that fund or group of funds.

The dollar amount in each box reflects the amount distributed to that fund or group of funds.

CITIES AND TOWNSHIPS $8,533,749 21.6-c.p.t.	SCHOOL DISTRICTS $21,521,737 54.4-c.p.t.	COUNTIES $12,986,904 32.8-c.p.t.	MISCELLANEOUS $11,943,731 30.2-c.p.t.	I.R.R.R.B. $25,209,851 63.8-c.p.t.
City & Township Fund* $1,321,816 3.3-c.p.t.	School District $.055 Fund* $2,418,109** 6.1-c.p.t.	Regular County Fund* $9,642,040 24.3-c.p.t.	Taconite Property Tax Relief $11,783,383 29.8-c.p.t.	I.R.R.R.B. Fund* $2,671,666 6.8-c.p.t.
Taconite Municipal Aid* $6,620,791 16.8-c.p.t.	School $.22 Fund $9,373,812** 23.7-c.p.t.	County Road and Bridge Fund* $2,560,487 6.5-c.p.t.	R.A.M.S.* $105,348 .3-c.p.t.	I.R.R.R.B. Fixed Fund $1,252,520 3.1-c.p.t.
Taconite Railroad $591,142 1.5-c.p.t.	Taconite Railroad $1,785,380** 4.5-c.p.t.	Taconite Railroad $784,377 2.0-c.p.t.	State of Minnesota $55,000 .1-c.p.t.	Taconite Env. Protection Fund $11,174,329 28.3-c.p.t.
School Bond Payments $2,972,470 7.5-c.p.t.	Taconite Referendum* $4,971,966 12.6-c.p.t.	Taconite Economic Developement Fund $6,634,406 16.8-c.p.t.	Guarantee Fund M.S. 298.225 M.S. 298.293	Northeast Minnesota Economic Protection Fund $3,476,930 8.8-c.p.t.

** 34.3-cents-per-ton will be subtracted from STATE aids or levies a taconite school district would otherwise receive.

* Payments to the funds are guaranteed at a percentage level of the base year (1983) by M.S. 298.225 for local aids and M.S. 298.293 for property tax relief.

Figure 14

TACONITE PRODUCTION TAX DISTRIBUTION*

PRODUCTION YEAR:	1988	1989	1990	1991	1992	1993
City & Township	$ 1,134,857	$ 1,273,832	$ 1,357,960	$ 1,356,690	$ 1,348,197	$ 1,321,816
Taconite Municipal Aid	5,707,488	6,378,838	6,797,130	6,791,732	6,750,637	6,620,791
School District - Regular	2,112,938	2,403,521	2,555,904	2,524,558	2,486,989	2,418,109
School District Fund	8,177,023	9,302,169	9,899,052	9,785,511	9,644,654	9,373,812
Taconite Referendum Fund	4,085,759	5,003,608	4,982,178	4,982,319	4,970,333	4,971,966
County	9,087,474	9,684,687	9,894,236	9,846,561	9,806,650	9,642,040
County Road & Bridge	2,371,223	2,544,745	2,628,013	2,615,419	2,604,696	2,560,487
Taconite Prop. Tax Relief	5,904,193	9,566,917	10,848,818	10,891,942	10,847,642	11,783,383
State	---	55,000	55,000	55,000	55,000	55,000
I.R.R.R.B. ($.03 Indexed)	1,994,855	2,325,936	2,548,451	2,538,079	2,525,239	2,671,666
Range Association of Municipalities & Schools	90,451	101,530	108,230	108,128	107,449	105,348
Taconite Railroad (Fixed)	3,160,899	3,160,899	3,160,899	3,160,899	3,160,899	3,160,899
I.R.R.R.B. (Fixed)	1,252,520	1,252,520	1,252,520	1,252,520	1,252,520	1,252,520
710 School Bond Payment	240,000	240,000	240,000	240,000	240,000	240,000
Other School Bond Payments	769,937	919,667	1,751,132	1,957,293	2,280,376	2,732,470
Taconite Environmental Protection Fund	9,075,227	13,434,666	15,352,862	17,618,006	14,604,537	11,174,329
N.E. Minnesota Economic Protection Fund	2,237,226	4,500,653	5,497,261	6,686,660	5,144,724	3,476,930
Taconite Economic Development Fund	---	---	---	---	4,204,840	6,634,406
TOTAL:	$57,402,070	$72,149,188	$ 78,929,646	$82,411,317	$82,035,382	$80,195,972

* The production tax is collected and distributed in the year following production, e.g., the 1992 production tax was collected and distributed during 1993.

Figure 15

TACONITE PRODUCTION TAX DISTRIBUTIONS TO CITIES & TOWNSHIPS - 1994

(Based upon 1993 Production Year Tax Revenues - Not including Taconite Property Tax Relief Dollars)

Name	Mining & Concentrating	Taconite Municipal Aid	Taconite* Railroad	Total
COOK COUNTY				
Schroeder Township	$ ---	$ 0	$ 47,700	$ 47,700
CROW WING COUNTY				
Crosby	---	127,185	---	127,185
Ironton	---	42,269	---	42,269
Riverton	---	3,428	---	3,428
Trommald	---	2,949	---	2,949
Irondale Township	---	13,586	---	13,586
Rabbit Lake Township	---	3,410	---	3,410
Wolford Township	---	871	---	871
ITASCA COUNTY				
Bass Brook	---	0	---	0
Bovey	---	86,112	---	86,112
Calumet	---	47,176	---	47,176
Coleraine	---	110,197	---	110,197
Keewatin	19,937	125,939	---	145,876
Marble	---	71,359	---	71,359
Nashwauk	14,176	140,967	---	155,143
Taconite	---	37,620	---	37,620
Grand Rapids Township	---	0	---	0
Greenway Township	18,053	40,403	---	58,456
Iron Range Township	---	12,960	---	12,960
Lone Pine Township	5,913	2,681	---	8,594
Nashwauk Township	36,320	34,649	---	70,969
LAKE COUNTY				
Silver Bay	102,084	216,367	152,706	471,157
Beaver Bay Township	---	---	12,565	12,565
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	65	170,253	---	170,318
Babbitt	89,259	158,934	166,767	414,960
Biwabik	---	114,735	---	114,735
Buhl	---	117,220	---	117,220
Chisholm	---	517,464	---	517,464
Ely	---	300,614	---	300,614
Eveleth	37,106	369,234	---	406,340
Franklin	4,880	424	---	5,304
Gilbert	6,593	183,263	---	189,856
Hibbing	286,049	1,335,997	---	1,622,046
Hoyt Lakes	198,735	268,318	152,153	619,206
Kinney	5,727	65,618**	---	71,345
Leonidas	2,939	11,986	---	14,925
McKinley	---	18,608	---	18,608
Mountain Iron	326,257	351,182	---	677,439
Virginia	29,805	956,506	---	986,311
Balkan Township	---	73,549	---	73,549
Bassett Township	---	---	11,745	11,745
Biwabik Township	0	39,385	---	39,385
Breitung Township	---	14,203	---	14,203
Eagle's Nest Township	---	0	---	0
Fayal Township	1,702	40,172	---	41,874
Great Scott Township	9,408	23,168	---	32,576
McDavitt Township	66,176	21,463	---	87,639
White Township	24,351	338,542**	---	362,893
Wuori Township	36,281	9,825	---	46,106
TOTALS:	$1,321,816	$6,620,791	$591,142	$8,533,749

* Fixed amount based on 1977 Taconite Railroad Gross Earnings Tax distributions.

** Includes amount from M.S. 298.28, Subd. 1, Clause (2)(b).

Figure 16

TACONITE PRODUCTION TAX DISTRIBUTIONS TO SCHOOL DISTRICTS - 1994

School Districts	$.055	$.22	Taconite Railroad	Taconite Referendum	Total
001 - Aitkin	$ ---	$ 235,156	$ ---	$ 184,605	$ 419,761
166 - Cook County	61,911	62,811	427,383	52,110	604,215
182 - Crosby-Ironton	---	305,006	---	203,400	508,406
316 - Coleraine	51,975	1,038,934	--	335,020	1,425,929
318 - Grand Rapids	---	653,763	---	516,997	1,170,760
319 - Nashwauk-Keewatin	141,163	394,111	---	164,910	700,184
381 - Lake Superior	128,837	655,317	552,774	436,704	1,773,632
695 - Chisholm	---	657,612	---	228,498	886,110
696 - Ely	---	286,556	---	172,266	458,822
701 - Hibbing	537,361	1,405,640	---	663,171	2,606,172
706 - Virginia	140,408	763,546	---	361,105	1,265,059
712 - Mt. Iron-Buhl	703,497	482,101	---	227,258	1,412,856
2142 - St. Louis County	211,140	839,210	459,421	659,818	2,169,589
2154 - Eveleth-Gilbert	74,290	883,214	---	366,487	1,323,991
2711 - Mesabi East	367,527	710,835	345,802	399,617	1,823,781
TOTALS:	$2,418,109	$9,373,812	$1,785,380	$4,971,966	$18,549,267

Figure 17

TACONITE PRODUCTION TAX SCHOOL BOND CREDITS AND PAYMENTS

(Payments during 1994 and 1995 from 1993 production year revenues)

School Districts	Year Authorized(1	Final Payment Year(2	Credit	Payment	Total	Outstanding Balance(3
316 - Coleraine	1990	2009	---	$ 76,000	$ 76,000	$ 559,355
318 - Grand Rapids	1988	1997	---	110,872	110,872	380,000
318 - Grand Rapids	1992	N.A.(4	---	---	---	---
319 - Nashwauk-Keewatin	1982	1993	$ 126,210	---	126,210	---
381 - Lake Superior	1992	2003	---	59,093	59,093	753,973
381 - Lake Superior	1990	1995	---	55,864	55,864	135,000
695 - Chisholm	1990	2005	---	320,000	320,000	1,760,102
696 - Ely	1990	2000	---	112,648	112,648	640,000
701 - Hibbing	1988	1999	---	360,313	360,313	1,690,625
706 - Virginia	1988	2003	---	220,074	220,074	1,972,000
706 - Virginia	1992	2012	---	286,774	286,774	5,000,000
712 - Mt. Iron-Buhl	1982	1998	894,421	---	894,421	3,210,000
2142 - St. Louis Cty. (Babbitt)	1990	1996	---	99,712	99,712	268,000
2142 - St. Louis Cty. (Tower)	1988	2003	---	88,816	88,816	608,000
2142 - St. Louis County	1982	1995	---	240,000	240,000	480,000
2142 - St. Louis County	1990	1996	---	431,900	431,900	1,190,000
2142 - St. Louis County	1988	2003	---	110,404	110,404	780,000
2154 - Eveleth-Gilbert (Eveleth)	1990	2006	---	320,000	320,000	1,763,307
2154 - Eveleth-Gilbert (Gilbert)	1990	2009	---	80,000	80,000	541,082
TOTALS:			$1,020,631	$2,972,470	$3,993,101	$21,731,444
Bonds authorized by 1992 legislature but not yet issued (318):						5,600,000
GRAND TOTAL:						$27,331,444

(1) Legislative year in which taconite funding was enacted.
(2) Production year from which final bond payment will be deducted.
(3) Portion of outstanding bond balance to be paid by taconite funds (not including interest).
(4) To date, voters have turned down bond issue.

Figure 18

TACONITE PRODUCTION TAX DISTRIBUTIONS TO COUNTIES - 1994

(Does not include dollars from Taconite Property Tax Relief)

County	Regular County 13.0-Cents	Road & Bridge 3.5-Cents	Taconite Railroad	Total
Cook	$ 114,539	$ ---	$187,190	$ 301,729
Itasca	592,017	155,324	---	747,341
Lake	727,777	187,814	243,034	1,158,625
St. Louis	8,207,707	2,217,349	354,153	10,779,209
TOTAL:	$9,642,040	$2,560,487	$784,377	$12,986,904

Figure 19

TACONITE PRODUCTION AND TAX REVENUE - BY COMPANY

PRODUCTION YEAR 1993

Company	Production Tons	Taxable* Tonnage	Production Tax Rate	Tax Collected** After Credits
Cyprus	3,406,029	2,262,234	$2.054	$ 4,646,629
Eveleth	3,124,040	3,356,631	2.054	6,894,520
Hibbing	7,244,015	7,687,421	2.054	15,789,963
Inland	2,403,766	2,283,550	2.054	4,690,412
LTV Steel	7,403,623	6,971,194	2.054	14,318,832
National	2,758,923	4,202,232	2.054	8,505,175
USX	13,509,891	12,777,440	2.054	25,350,441
TOTAL:	39,850,287	39,540,702	$2.054	$80,195,972

ESTIMATED FOR PRODUCTION YEAR 1994

Company	Production Tons	Taxable* Tonnage	Production Tax Rate	Tax Collected** After Credits
Cyprus	3,500,000	2,767,000	$2.054	$ 5,683,000
Eveleth	4,000,000	3,565,000	2.054	7,323,000
Hibbing	8,000,000	7,682,000	2.054	15,779,000
Inland	2,300,000	2,271,000	2.054	4,665,000
LTV Steel	7,500,000	7,175,000	2.054	14,738,000
National	1,000,000	2,919,000	2.054	5,995,000
USX	13,700,000	13,187,000	2.054	26,163,000
TOTAL:	40,000,000	39,566,000	$2.054	$80,346,000

* The taxable tonnage is the average production of the current year and previous two years.
** Production tax revenue after school bond credits have been taken.

Figure 20

1993 PRODUCTION BY PRODUCT TYPE

COMPANY	PELLETS ACID	PELLETS FLUX	PELLETS PARTIAL FLUX*	CHIPS AND FINES ACID	CHIPS AND FINES FLUX	CHIPS AND FINES FINE CONCENTRATES
Cyprus	---	1,774,876	1,510,969	120,184	---	---
Eveleth	---	---	3,056,354	---	67,686	---
Hibbing	7,244,015	---	---	---	---	---
Inland	464,295	1,848,824	---	14,027	76,620	---
LTV	7,047,722	---	---	355,901	---	---
National	2,758,883	---	---	---	---	40
USX	3,722,532	9,787,359	---	---	---	---
TOTAL:	21,237,447	13,411,059	4,567,323	490,112	144,306	40

Total Pellets:	39,215,829
Total Chips and Fines:	634,458
Grand Total:	39,850,287 (dry with flux subtracted)

*Partial Flux pellets contain less than 1.99% flux.

Figure 21

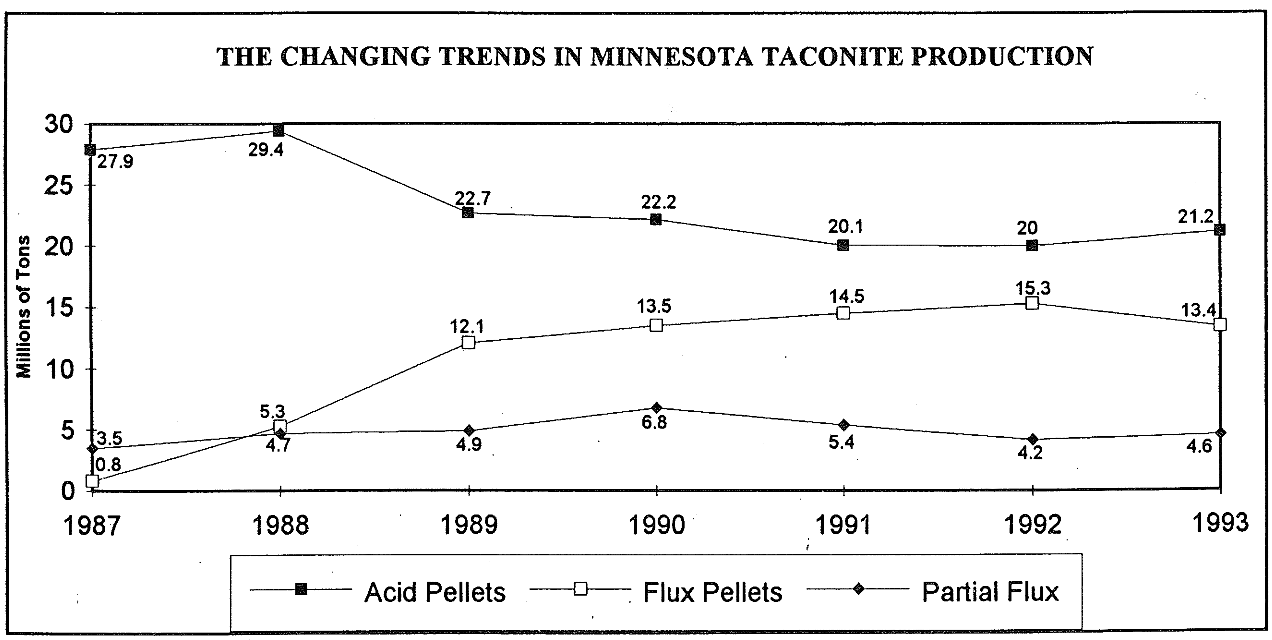


Figure 22

MINING EMPLOYMENT AND WAGES - A HISTORICAL PERSPECTIVE

TACONITE COMPANY	1970	1975	1980	1985	1990	1991	1992	1993
Butler Taconite Company	559	600	462	440	0	0	0	0
Erie (LTV Steel Mining Co.)	2,796	2,711	1,900	1,108	1,721	1,630	1,592	1,543
Eveleth Mines	474	568	1,431	772	742	725	650	532
Hibbing Taconite Company	0	260	1,237	538	889	948	954	936
Inland Steel Mining Co.	0	18	450	304	325	325	328	327
National Steel Pellet Co.	565	745	831	690	685	702	660	686
Reserve Mining/Cyprus[1]	1,780	1,612	1,386	360	429[1]	400[1]	395[1]	416[1]
U. S. Steel (Minntac)	2,479	3,820	4,221	1,777	1,670	1,676	1,693	1,715
	9,140	10,334	11,918	5,989	6,461	6,406	6,272	6,175
NATURAL ORE COMPANY								
Cleveland-Cliffs, Inc.	145	148	137	0	0	0	0	0
Coons/Pittsburgh Pacific[2]	306	236	0	0	0	0	0	0
Hanna Mining	351	357	54	0	0	0	0	0
Jones & Laughlin (LTV Steel Co.)	288	412	145	102	85	74	40	17
Pickands Mather/Premier Aggregates*	291	50	0	0	0	0	10*	10*
Rhude & Fryberger, Inc.	91	158	36	12	0	0	0	0
Snyder Mining	80	0	0	0	0	0	0	0
U. S. Steel Corporation	1,099	480	115	0	0	0	0	0
	2,731	1,841	487	125	85	74	50	27
TOTALS (Taconite/Natural Ore):	11,791	12,175	12,365	6,114	6,546	6,480	6,322	6,202
HOURLY WAGE RANGE:	$2.885-$4.755	$4.465-$6.834	$9.125-$12.036	$10.295-$13.676	$12.712-$16.810	$12.712-$16.810	$13.368-$17.540	$13.368-$17.540

[1] Reserve Mining Company closed due to bankruptcy in 1986. In 1990, the mine and plant were reopened as Cyprus Northshore Mining Corporation.

[2] Coons/Pittsburgh Pacific also includes Crow Wing County. **The data for this table is from the St. Louis, Itasca and Crow Wing county mine inspector reports.**

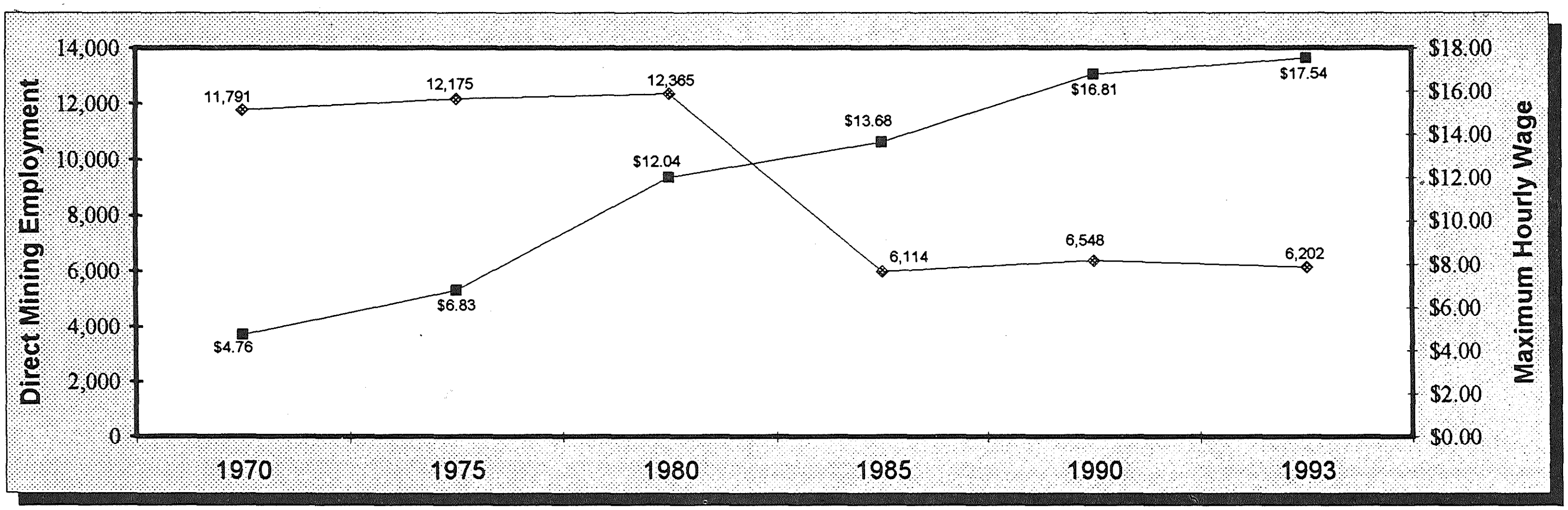


Figure 23

TACONITE PRODUCED AND PRODUCTION TAX COLLECTED

Year	Production Tons (000)	Production Tax Collected (000)	Collection Rate per Production Ton	Taxable Tons* (000)	Tax Rate per Taxable Ton
1955	1,341	$ 78	$ .058		
1956	5,069	297	.059		
1957	6,812	397	.058		
1958	8,574	500	.058		
1959	8,414	528	.063		
1960	13,390	735	.055		
1961	13,187	766	.058		
1962	14,526	842	.058		
1963	16,701	972	.058		
1964	18,505	1,075	.058		
1965	19,004	1,104	.058		
1966	21,677	1,257	.058		
1967	24,311	1,427	.059		
1968	30,269	1,782	.059		
1969	33,410	3,778	.113		
1970	35,348	4,253	.120		
1971	33,778	5,539	.164		
1972	34,544	7,002	.203		
1973	41,829	10,159	.243		
1974	41,053	11,952	.291		
1975	40,809	30,347	.744		
1976	40,575	30,857	.760		
1977	26,372	48,891	1.854	37,759	$1.295*
1978	49,545	69,394	1.401	49,614	1.399*
1979	55,333	88,485	1.599	55,373	1.598*
1980	43,060	87,179	2.025	50,296	1.733*
1981	49,369	99,018	2.006	51,799	1.916*
1982	23,445	80,305	3.425	38,624	2.078*
1983	25,173	67,341	2.675	33,302	2.047*
1984	35,689	64,514	1.876	35,689	2.107
1985	33,265	65,092	1.957	34,477	2.048
1986	25,451	48,658	1.912	31,468	1.900
1987	32,043	51,184	1.597	29,039	1.900
1988	39,485	57,402	1.454	32,326	1.900
1989	39,375	72,149	1.832	36,968	1.975
1990	42,522	78,930	1.856	40,461	1.975
1991	39,922	82,411	2.064	40,606	2.054
1992	38,850	82,035	2.112	40,431	2.054
1993	39,850	80,196	2.012	39,541	2.054
1994 Est.	40,000	80,347	2.009	39,567	2.054

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

OCCUPATION TAX ON TACONITE, SEMI-TACONITE AND IRON ORE
(M.S. 298.01 - M.S. 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 shall be computed in accordance with the Minnesota corporate franchise (income) tax, including the alternative minimum tax (AMT).

The occupation tax is paid in lieu of the corporate franchise (income) tax, thus exempting mining companies from corporate income tax.

Generally, occupation tax deductions follow those allowed for the Minnesota corporate franchise tax with two major exceptions:

1) The tax is non-unitary because it applies only to the Minnesota mine and plant. All shipments to out-of-state steel plants are considered non-Minnesota sales for purposes of apportionment. Generally, this means that only 30 percent of the mining income is subject to the 9.8 percent franchise tax.

2) Mining companies are allowed percentage depletion. This deduction is a tax preference item for the alternative mining tax calculation.

The occupation tax applies to both ferrous and nonferrous minerals including not only taconite and iron ore, but also other minerals such as gold, silver, copper, nickel and titanium.

OCCUPATION TAX RETURN

The occupation tax return and any tax due must be filed and paid by May 1 of the following year. The occupation tax instructions include information allowing the mining companies to file their return and any tax due by regular mail or overnight delivery.

The starting value of the occupation tax will continue to be the mine value, determined by the Commissioner of Revenue and published in the annual occupation tax directive.

Any reader having questions or wanting more detail about the occupation tax mine value or how the return is prepared is invited to contact the Minerals Tax Office.

MINE VALUE

The Department of Revenue and representatives of the taconite industry met to develop an ongoing procedure for the annual mine value determination. The procedure agreed upon in December, 1990 was:

1) Seventy-five percent of the 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 mine value will reflect the actual transaction prices of taconite pellets sold in non-equity sales.

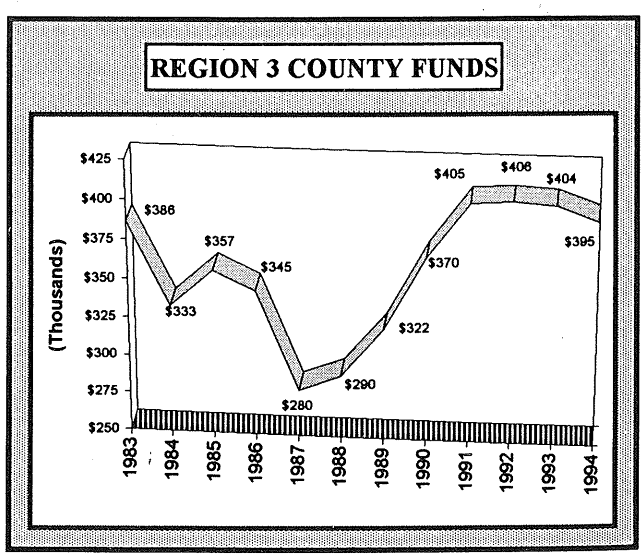
This process develops a mine value for acid pellets only. Fluxed pellets have a higher value due to improved performance in the blast furnace and higher production costs.

A copy of the Final Directive and backup for 1993 are on the following two pages. These show how the value per Fe unit is determined.

OCCUPATION TAX DISTRIBUTION

All occupation tax paid is deposited in the state general fund. Fifty percent remains in the general fund; forty percent is distributed to elementary and secondary schools, and ten percent to the University of Minnesota. An amount equal to one-cent per taxable ton of taconite is appropriated to the I.R.R.R.B. for counties in Region 3 not qualifying for taconite property tax relief. Only Carlton and Koochiching counties qualify. This money must be used to provide economic or environmental loans or grants.

Figure 24



FINAL DIRECTIVE
BASIC DATA FOR PREPARING 1993 OCCUPATION TAX REPORTS

TACONITE

The starting point for occupation tax is the Mine Value, i.e., the value of taconite pellets AFTER beneficiation or processing, but PRIOR to any stockpiling, transportation, marketing and marine insurance, loading or unloading costs.

The production tonnage for both occupation tax and production tax shall be reported on a dry basis. The reported weights and analysis must correspond, i.e. 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 Department of Revenue.

Non-arms-length transactions. When taconite pellets, concentrate, or natural iron ore is 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: A) any steel producer having any ownership interest in the selling or shipping company, or B) 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) shall 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 an option has been elected they must continue to use that option for all arms-length transactions. Those taconite producers with non-equity sales in 1990 or 1991 made their election. Only those without non-equity sales in 1990, 1991, or 1992 may select option one for sales in 1993. Any request for change in the option elected must be approved by the Department of Revenue. These transactions are those not included in the non-arms-length definition above.

The following data shall be used to prepare the 1993 Occupation Tax Report:

TACONITE VALUES

Pellet Price per Iron Unit (per dry gross ton)
For the period January 1, 1993 through December 31, 1993:

	MINE VALUE
Acid Pellets:	.425 per Fe unit
Pellet Chips (Fines) and Concentrate:	75% of acid or fluxed pellet price
Flux Pellets - Partial Flux (.1% - 1.99% flux):*	.425 + .0155 = .4405
- Flux (2.00% and higher flux):*	.425 + .0155 per Fe unit for each 1% flux

EXAMPLE - Pellet with 4.8% flux in finished pellet: 4.0 x $.0155 = .062
Mine Value .425 + .062 = .487

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

Any company utilizing the production tax weight reduction for flux additives (M.S. 298.24, Subd. 1(e)) *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 only.

A separate mine value for pellet chips (fines) and concentrate shall be used. The value of acid pellet chips or concentrate will be 75 percent of the value of acid pellets. Flux pellet chips or concentrate will be 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 (M.S. 298.28, subd. 9[b]). These 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.

FINAL DIRECTIVE
1993 OCCUPATION TAX REPORT

BACKUP DATA

Final Directive

The 1990 agreement that the mine value would be determined by two factors: 1) the change in the SMPI from June of the prior year to June of the current year (75%), and 2) the actual selling price of non-equity sales (25%) continues in effect.

This directive was determined using the final adjusted June, 1992 SMPI (106.5) and final adjusted June, 1993 SMPI (108.0). The non-equity sales factor was developed from completed reports provided by the taconite producers and steel companies making non-equity sales or purchases.

Acid Pellets - How Value Determined

The mine value of acid pellets is determined by the change in the SMPI between June, 1991 and June, 1992 and the non-equity sales per Fe unit per gross ton.

SMPI	June, 1992 SMPI (Final):	106.5	1992 Mine Value:	.420
	June, 1993 SMPI (Final):	108.0	1993 SMPI % of 1992 Value:	101.408%
	108.0 / 106.5 = 101.408%		1993 SMPI Factor:	.4259136

	Weighted Avg. Sales Price		Weighted Avg. Price Per Ton		Weighted Avg. DRY Fe Analysis		Weighted Avg. Sales Price Per Fe Unit
NON-EQUITY SALES	$96,397,023 / 3,476,095 Tons Sold	=	$27.7314	/	65.89	=	$0.420869

ACID PELLET MINE VALUE	SMPI	.4259 x 75% =	.3194	
	Non-Equity Sales	.4209 x 25% =	.1052	1993 ACID PELLET MINE VALUE:
			.4246	.425 per Fe unit

Flux Pellets - How to Determine Value

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

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

.425 + .0155 = .4405

Flux - Pellets containing two percent flux or more will be valued at $.0155 per Fe unit PER EACH ONE PERCENT OF FLUX in the finished pellet. Percentages will be: 2.0% - 2.99%; 3.0% - 3.99%, etc.

Percent (%) flux in finished pellet (4.8%)*   *4.0* x .0155 = .062
Flux Addition

*(From page 1 - Production Tax Report) rounded down to the closest %, i.e., 4.82% rounded to 4.0%

The Mine Value of Flux Pellets (4.82% Flux) is: .425 + .062 = .487 per Fe 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 shall be valued at 75 percent of the acid pellet price. Flux chips or concentrate shall be valued at 75 percent of the flux pellet value. Concentrate sold or shipped without being processed into pellets shall use the same value as chips.

PRODUCTION TAX DEDUCTION ON OCCUPATION TAX RETURN

Since the beginning of taconite production, the Occupation Tax Report has allowed a deduction for the production tax paid. However, the deduction has had several changes over the years.

From the first taconite produced in the early 1950's until 1974, the full production tax paid was allowed as a deduction. In 1975, the legislature increased the production tax from 25-cents per ton to 75-cents per ton, but continued the occupation tax deduction at 25-cents per ton.

Through 1976, the production tax was imposed upon the actual tons produced. In 1977, this was changed to the greater of the current year's production or a three-year average of production tons. This continued until 1983.

Litigation by the industry over the tax being imposed on the "greater of the current year's production or a three-year average of production" was resolved by eliminating the "greater of" provision and imposing the tax on a three-year average of production.

In order to accomplish this without taxing prior year's production twice, the 1984 production tax was on the 1984 production only. The tax for 1985 was on the average of the 1984 and 1985 production. From 1984 until the present, the tax has remained on a three-year average of production.

Full Allowance of Production Tax Paid

Beginning in 1987, the production tax deduction for occupation tax purposes was increased from 25-cents per ton to the total amount of production tax paid. At that time, the production tax was over $2.00 per ton.

The reason for any variations in the taconite production tax paid column in Figure 31 is the use of the two-year average for 1985 and the three-year average since 1986.

Figure 25

OCCUPATION TAX MINE VALUE AND OCCUPATION TAX PAID - 1993

TACONITE COMPANY	1993 EMPLOYMENT*	1993 TONS PRODUCED	1993 MINE VALUE	1993 OCCUPATION TAX PAID
Cyprus	416	3,483,036	$ 101,735,565	$ -0-
Eveleth	552	3,192,834	88,913,995	-0-
Hibbing	936	7,349,950	203,933,510	432,493
Inland	327	2,577,119	74,416,099	-0-
LTV	1,543	7,403,623	203,813,849	-0-
National	603	2,775,227	77,634,043	-0-
USX	1,715	14,261,785	420,658,041	1,276,238
TOTALS:	6,092	41,043,574	$1,173,105,102	$1,708,731
NATURAL ORE COMPANY				
Premier Aggregates	10	144,568	$ 1,401,923	$ -0-
LTV	17			
	27			
TOTAL LONG TONS:		41,188,142		
TOTAL EMPLOYMENT:	6,119			

* Employment information from St. Louis County Mine Inspector Annual Report - 1993.

Figure 26

RECONCILIATION OF OCCUPATION TAX AND PRODUCTION TAX TONNAGES - 1993*

Acid Pellets, Chips and Fines

Company	Gross Natural Tons	Less: Moisture	Occupation Tax Production Tons	Less: Flux	Production Tax Production Tons
Cyprus	120,421	.21%	120,184	-0-	120,184
Hibbing	7,349,950	1.44%	7,244,015	-0-	7,244,015
Inland	488,083	2.00%	478,322	-0-	478,322
LTV Steel	7,403,623	0.00%	7,403,623	-0-	7,403,623
National	2,775,227	0.50%	2,758,923	-0-	2,758,923
USX Corp.	3,807,581	2.23%	3,722,532	-0-	3,722,532
Subtotal:	21,944,885		21,727,599		21,727,599

Flux Pellets, Chips and Fines

Company	Gross Natural Tons	Less: Moisture	Occupation Tax Production Tons	Less: Flux	Production Tax Production Tons
Cyprus	3,362,615	0.07%	3,360,267	(74,422)	3,285,845
Eveleth	3,192,834	1.65%	3,140,238	(16,198)	3,124,040
Inland	2,089,036	2.00%	2,047,257	(121,813)	1,925,444
USX Corp.	10,454,204	2.34%	10,209,349	(421,990)	9,787,359
Subtotal:	19,098,689		18,757,111	(634,423)	18,122,688
TOTAL:	41,043,574		40,484,710	(634,423)	39,850,287

* The taconite production tax and the occupation tax use different production tonnages. Figure 26 is a reconciliation to show the total production for each company including flux and moisture and excluding flux and moisture. This table should eliminate any errors or misunderstanding concerning tonnage.

Figure 27

CRUDE ORE MINED

	1990	1991	1992	1993
CYPRUS	7,101,478	6,032,618	3,911,593	9,574,353
EVELETH	14,416,762	11,134,610	11,582,928	10,275,547
HIBBING	29,867,646	30,297,580	29,421,200	27,573,814
INLAND	7,694,297	7,495,470	7,894,935	7,110,410
LTV	25,353,159	22,582,621	22,309,077	24,442,769
NATIONAL	16,980,219	17,644,339	18,457,852	10,543,112
USX	45,155,450	45,511,944	45,110,293	47,940,585
TOTAL:	146,569,011	140,699,182	138,687,878	137,460,590

Figure 28

OCCUPATION TAX - MINE VALUE TACONITE

(Historical Summary)

Year		Acid Pellet Price Per Fe Unit		Percent Fe		Lake Erie Value Per Ton	Less: Transportation		Mine Value
1965		0.25200	x	65.00%	=	16.38	3.64	=	12.740
1970		0.26600	x	65.00%	=	17.29	4.05	=	13.240
1975		0.46020	x	65.00%	=	29.91	6.83	=	23.080
1980		0.72890	x	65.00%	=	47.38	10.70	=	36.680
1981		0.77880	x	65.00%	=	50.62	12.86	=	37.760
1982		0.86900	x	65.00%	=	56.49	12.69	=	43.800
1983		0.86900	x	65.00%	=	56.49	13.03	=	43.460
1984		0.86900	x	65.00%	=	56.49	13.07	=	43.420
1985		0.72500	x	65.00%	=	47.13	13.07	=	34.060
1986		0.72500	x	65.00%	=	47.13	13.07	=	34.060
1987 (1/1-4/30)	Acid	0.72500	x	65.00%	=	47.13	13.07	=	34.060
	Flux (1%)	0.74000	x	65.00%	=	48.10	13.07	=	33.408

		Acid Pellet Price Per Fe Unit		Flux Premium		Flux Pellet Price Per Fe Unit		Percent Fe Acid	Percent Fe Flux		Mine Value Acid	Mine Value Flux
1987 (5/1-12/31)	Acid	0.37344					x	65.00		=	24.270	
	Flux (1%)					.38888	x		62.00	=		24.110
1988	Acid	0.37344					x	65.00		=	24.270	
	Flux (1%)					.38905	x		62.00	=		24.120
1989	Acid	0.37344					x	65.00		=	24.270	
	Flux (1%)					.38905	x		62.00	=		24.120
1990	Acid	0.42000					x	65.00		=	27.300	
	Flux (1%)	0.04200	+	.015	=	.43500	x		62.00	=		26.970
1991*	Acid	0.42000					x	65.00		=	27.300	
	Flux (4%)	0.42000	+	.062	=	.48200	x		62.00	=		29.884
1992	Acid	0.42000					x	65.00		=	27.300	
	Flux (4%)	0.42000	+	.062	=	.48200	x		62.00	=		29.884
1993	Acid	0.42500					x	65.00		=	27.625	
	Flux (4%)	0.42500	+	.062	=	.48700	x		62.00	=		30.194

Some numbers are corrected from prior year Minnesota Mining Tax Guides.

*Beginning in 1991, the value of flux pellets was modified to .0155 per each one percent flux in the pellets.

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

Figure 29

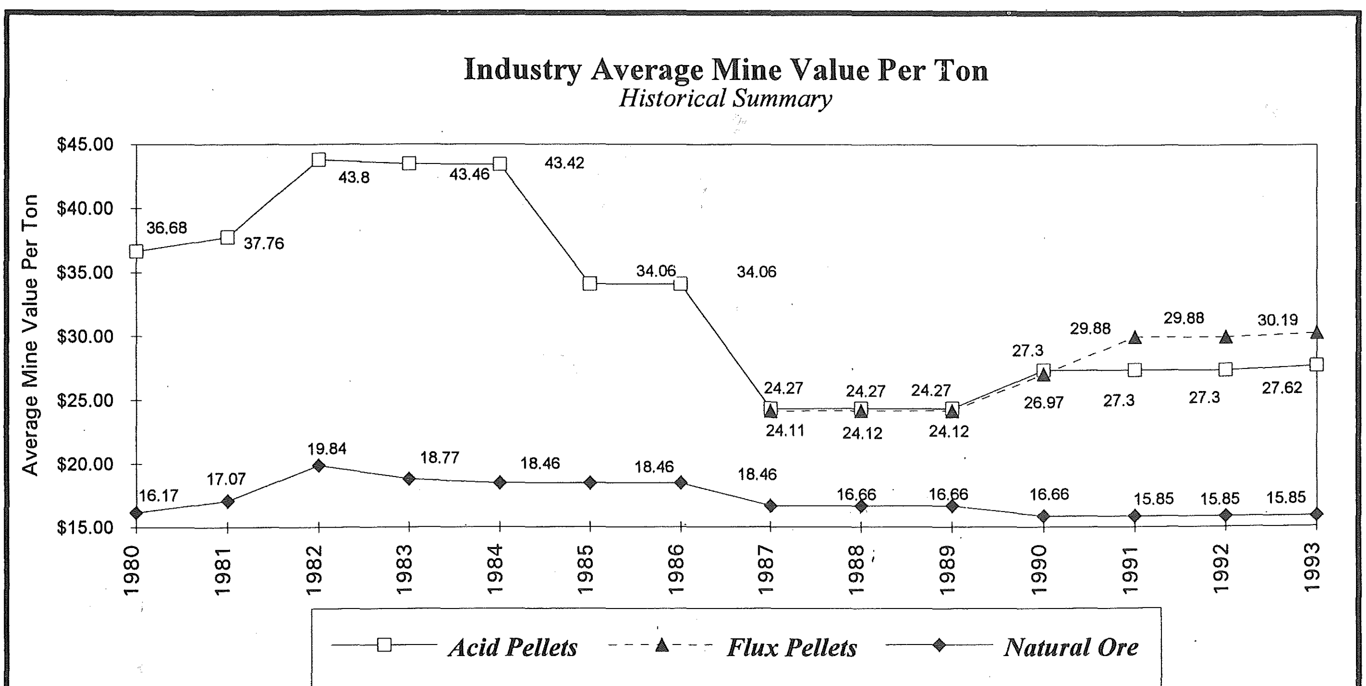


Figure 30

OCCUPATION TAX COLLECTED ON IRON ORE AND TACONITE PRODUCTION

1955 - 1993

	IRON ORE		TACONITE		TOTALS	
Year	Tons Produced (000's)	Occupation Tax (000's)	Tons Produced (000's)	Occupation Tax (000's)	Tons Produced (000's)	Occupation Tax (000's)
1955	66,545	$31,501	1,341	$ -0-	67,886	$31,501
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
1966	32,601	15,545	21,677	1,898	54,278	17,443
1967	25,480	12,646	24,311	1,611	49,791	14,257
1968	21,893	10,802	30,269	1,807	52,162	12,609
1969	22,511	10,968	33,410	2,285	55,921	13,253
1970	21,172	9,278	35,348	3,161	56,520	12,439
1971	17,530	7,301	33,778	5,379	51,308	12,680
1972	14,439	6,376	34,554	3,659	48,993	10,035
1973	17,941	8,836	41,829	6,824	59,770	15,660
1974	17,654	9,698	41,053	10,092	58,707	19,790
1975	10,227	5,038	40,809	18,955	51,036	23,993
1976	9,494	6,480	40,575	18,270	50,069	24,750
1977	4,647	2,641	26,372	3,190	31,019	5,831
1978	5,905	3,937	49,545	19,266	55,450	23,203
1979	4,230	2,663	55,333	23,856	59,563	26,519
1980	2,221	1,000	43,060	13,808*	45,281	14,808
1981	1,664	1,232	49,369	11,372*	51,033	12,604
1982	789	719	23,445	-0-*	24,234	719
1983	851	499	25,173	2,386*	26,024	2,885
1984	850	442	35,689	10,606*	36,539	11,048
1985	1,465	394	33,265	4,070*	34,730	4,464
1986	1,122	343	25,451	5,866*	26,573	6,209
1987	1,403	789	32,109	5,356	33,512	6,145
1988	743	294	39,772	2,993	40,515	3,287
1989	603	160	39,882	350	40,485	510
1990	417	11	42,522**	2,057	43,593	2,068
1991	406	32	39,922**	2,008	40,328	2,040
1992	528	38	38,850**	1,551	39,956	1,589
1993	145	0	40,485**	1,709	40,630	1,709
1994 Est.	250	10	39,000**	2,000	39,250	2,010

* 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 Minerals Tax Office.

** Refer to Figure 26 - Beginning with 1990 production, the Department of Revenue changed from natural weight to dry weight. The taconite production tonnage shown is a net dry weight without moisture or flux.

Figure 31

TACONITE INDUSTRY OCCUPATION TAX REPORT AVERAGES ON A PER TON BASIS

Year	Tons Produced (000 Tons)	(1) Average Value	(2) Trans-portation	(3) Cost of Benefi-ciation	(4) Cost of Mining	Development	(5) Taconite Production Tax Paid	Sales & Use Tax Paid	Admin. & Misc. Expense	Royalty	Taxable Value of Production	Occupation Tax Paid
1972	34,554	17.437	4.472	7.267	2.073	0.665	0.203	0.133	0.398	0.657	1.569	0.106
1973	41,829	18.034	4.771	6.851	1.978	0.600	0.243	0.133	0.360	0.679	2.419	0.163
1974	41,053	22.122	5.845	8.058	2.162	0.737	0.250	0.154	0.450	0.818	3.648	0.246
1975	40,809	28.846	6.887	9.499	2.799	0.891	0.250	0.177	0.621	0.976	6.746	0.464
1976	40,575	32.200	7.609	11.334	3.254	1.219	0.250	0.183	0.778	1.077	6.496	0.450
1977	26,372	34.827	8.127	17.376	4.816	1.415	0.366	0.280	1.368	1.110	(0.031)	0.121
1978	49,545	37.080	8.766	14.725	4.096	1.497	0.254	0.173	1.076	1.259	5.234	0.388
1979	55,333	41.306	9.929	16.094	4.260	1.760	0.253	0.227	1.297	1.320	6.166	0.435
1980	43,060	46.365	10.679	20.867	5.028	2.006	0.298	0.214	1.519	1.444	4.310	0.321
1981	49,369	51.107	13.307	20.986	5.515	2.155	0.266	0.187	2.150	1.705	4.836	0.257
1982	23,445	53.946	12.658	31.007	6.228	2.213	0.419	0.274	4.441	2.078	(5.372)	0.140
1983	25,173	56.178	13.034	26.624	4.952	1.485	0.365	0.186	4.819	1.832	2.881	0.453
1984	35,689	56.480	13.077	19.852	4.227	1.997	0.270	0.204	4.534	1.691	10.628	0.838
1985	33,265	47.102	13.064	19.289	4.235	1.568	0.285	0.194	4.399	1.654	2.414	0.297
1986	24,017	47.143	13.024	18.474	4.317	0.902	0.321	0.222	4.479	1.498	3.690	0.259
1987	32,109	26.766	0.053	15.595	3.278	0.556	1.684	0.179	3.384	1.281	0.756	0.167
1988	39,786	24.325		14.901	3.559	0.864	1.524	0.192	2.718	1.180	(0.613)	0.075
1989	39,882	24.424		15.895	4.163	1.083	1.830	0.233	3.024	1.161	(2.965)	0.009
1990	43,176	27.444		16.286	4.513	1.076	1.928	0.256	3.013	1.129	(0.757)	0.048
1991	40,619	28.754		16.837	4.667	1.358	2.102	0.272	3.530	1.156	(1.168)	0.049
1992	39,428	28.863		17.001	4.489	1.425	2.103	0.269	4.275	1.286	(1.985)	0.039
1993	40,485	28.976		16.089	4.491	1.261	1.941	0.265	4.050	1.083	(0.205)	0.042

(1) This average value will not match the values on Figure 29 because this is one average of all taconite produced (acid, flux, chips, concentrate).
(2) Transportation consists of the rail and lake transportation allowance, 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 (from Figure 32).
(4) Cost of mining is the total mining labor, mining supplies and depreciation (from Figure 32).
(5) For additional information, refer to the Production Tax Deduction on Occupation Tax Return (page 28).

Beginning with 1990, the information in this table comes from the Production Cost Summary Information Report (based upon the pre-1990 Occupation Tax Report) because the post-1990 Occupation Tax Report no longer provides this detail.

Figure 32

TACONITE INDUSTRY OCCUPATION TAX REPORT AVERAGE COST PER TON

BENEFICIATION

	Tons Produced (000)	Beneficiation Labor (000)	Per Ton	Beneficiation Supplies (000)	Per Ton	Beneficiation Depreciation & Interest (000)	Per Ton	Beneficiation/ Miscellaneous Per Ton	Total Beneficiation Per Ton
1982	23,445	$153,361	$6.541	$366,730	$15.642	$188,239	$8.029	$.795	$31.007
1983	25,173	158,209	6.285	325,389	12.926	184,617	7.334	.079	26.624
1984	35,689	112,415	3.150	419,708	11.760	173,211	4.854	.088	19.852
1985	33,265	106,804	3.211	372,156	11.188	156,363	4.701	.189	19.289
1986*	24,017	64,990	2.706	259,928	10.823	116,637	4.857	.088	18.474
1987	32,109	70,993	2.211	314,491	9.795	112,667	3.509	.080	15.595
1988	39,786	90,047	2.263	389,070	9.779	109,732	2.758	.101	14.901
1989	39,882	95,238	2.388	425,570	10.671	109,483	2.746	.090	15.895
1990*	43,176	116,305	2.694	471,931	10.930	110,641	2.562	.100	16.286
1991	40,619	120,285	2.961	445,389	10.965	103,431	2.547	.364	16.837
1992	39,428	137,850	3.496	412,429	10.460	101,392	2.572	.473	17.001
1993	40,485	118,713	2.932	419,558	10.363	102,798	2.539	.255	16.089

MINING

	Tons Produced (000)	Mining Labor (000)	Per Ton	Mining Supplies (000)	Per Ton	Cost of Mining	Mining Depreciation Per Ton	Total Mining Costs Per Ton
1982	23,445	$56,247	$2.399	$ 57,952	$2.472	$4.871	$1.357	$6.228
1983	25,173	49,284	1.958	44,428	1.765	3.723	1.229	4.952
1984	35,689	60,957	1.708	63,600	1.782	3.490	.737	4.227
1985	33,265	57,540	1.730	54,739	1.646	3.376	.859	4.235
1986*	24,017	39,162	1.631	43,290	1.802	3.433	.884	4.317
1987	32,109	40,239	1.253	47,179	1.469	2.722	.556	3.278
1988	39,786	55,238	1.388	67,491	1.696	3.084	.474	3.559
1989	39,882	61,850	1.551	82,090	2.058	3.609	.554	4.163
1990*	43,176	70,770	1.639	105,330	2.440	4.079	.434	4.513
1991	40,619	81,313	2.002	93,208	2.295	4.297	.370	4.667
1992	39,428	75,363	1.911	87,287	2.214	4.125	.364	4.489
1993	40,485	77,831	1.922	90,984	2.247	4.169	.322	4.491

Beginning with 1990, the information in this table comes from the Production Cost Summary Information Report (based upon the pre-1990 Occupation Tax Report) because the post-1990 Occupation Tax Report no longer provides this detail.

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

INCOME TAX WITHHOLDING ON MINING AND EXPLORATION ROYALTY

(M.S. 290.923)

The income tax withholding is a seven percent tax assessed on exploration and/or mining royalty income. This section will define royalty, identify who must pay the tax, and outline the statutory requirements of both the royalty payer and the royalty recipient. Also included is the royalty cost, by company, per ton of pellets produced (Figure 34) and the industry-wide cumulative total royalty paid and income tax withholding (Figure 33).

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 this state for permission to explore, mine, take out or remove ore therefrom. The ores subject to the withholding are iron ore, taconite, and other minerals (copper, nickel, gold, etc.) subject to the Net Proceeds Tax. Royalties can include rents, bonus payments, and non-recoverable lease payments.

ROYALTY PAYERS

All payers of mining and/or exploration royalty are required to withhold and remit an income tax of seven percent on royalty paid for use of Minnesota lands effective January 1, 1990 (M.S. 290.923).

Royalty payers have the option to apply for a separate Minnesota tax identification number to be used for reporting income tax withholding on mining/exploration royalty rather than combining it with the wage/salary withholding. To apply for a separate identification number, an Application for Tax Identification Number, Form MBA, must be completed and submitted to the Minnesota Department of Revenue. When reporting royalty withholding under its own identification, separate returns must be used--MW-1: Quarterly Withholding Return; MW-3: Annual Reconciliation of Income Tax Withheld, and MW-5: Minnesota Income Tax Withholding Deposit Form.

Royalty payers are obligated to inform recipients of the withholding tax requirement and must provide them with a federal form W-4, exemption certificate. The State of Minnesota uses the federal form because a similar state form is not available. The W-4 informs the payer whether or not to withhold tax from the recipient. Unless the payer receives a W-4 indicating an exempt status, the payer is obligated to withhold tax. Copies of the W-4's received from royalty recipients must be sent to the Minerals Tax Office, P. O. Box 481, Eveleth, MN 55734-0481.

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

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

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

1. The trust becomes responsible for withholding from the beneficiaries.
2. The trust must inform the beneficiaries of the requirements to withhold tax and provide them with a W-4.
3. The trust must provide each beneficiary with the 1099 MISC by January 31st of the following year.
4. The trust must prepare and submit the required withholding returns--MW-1, MW-3, and MW-5 to the State of Minnesota.

The MW-3 (Annual Reconciliation of Income Tax Withheld), must be submitted to the Department of Revenue by February 28th, whether tax was withheld or not. The MW-3 must be accompanied by the 1099 MISC forms for each recipient. Royalty payers with over 250 recipients must provide the Department of Revenue with the 1099 MISC information on magnetic tape. Royalty payers with less than 250 recipients can submit the 1099 MISC information on disc or paper copy. It must, however, be consistent with the federal format.

If a separate identification number is used for royalty withholding only, the MW-3 and 1099 MISC, where applicable, must be submitted to:

Minerals Tax Office
P. O. Box 481
Eveleth, MN 55734-0481

If the same identification number is used for both wages and royalty withholding, submit the MW-3 and the 1099 MISC, where applicable to:

Withholding Tax
Mail Station 1195
St. Paul, MN 55146-1195

Where wages and royalty withholding are combined, a copy of the MW-3 and the 1099 MISC's must also be sent to the Minerals Tax Office.

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. Non-resident individuals will not incur a Minnesota income tax liability for 1993 and are not required to file a Minnesota individual income tax return if their Minnesota assignable gross income is less than $6,050. 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 may be eligible to use percentage depletion on their individual income tax returns.

For information previously provided about income tax withholding on mining and exploration royalty, refer to the 1989 through 1992 Minerals Tax News or the 1989 through 1991 Minnesota Mining Tax Guide.

QUESTIONS/FORMS

Inquiries should be directed to the Minerals Tax Office. Forms can be obtained by contacting:

Minnesota Department of Revenue
Forms Distribution
10 River Park Plaza
Mail Station 4451
St. Paul, MN 55146-4451
(612) 296-9118

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

ROYALTY TABLES (Page 36)

The royalty costs per ton beginning from 1965 to date (Figure 35) is located on page 36.

Figure 33

ROYALTY PAID AND INCOME TAX WITHHELD
(Taconite, Natural Ore and Others)

	Royalty Paid	Income Tax Withheld
1990	$51,151,805	$545,746
1991	$49,335,480	$632,598
1992	$43,318,586	$714,752
1993	$46,811,559	$347,227

Figure 34

AVERAGE ROYALTY COST PER TON OF PELLETS PRODUCED

	1970	1975	1980	1985	1989	1990	1991	1992	1993
Industry Production (millions of tons):	35.3	40.8	42.9	33.3	39.9	43.2	40.6	39.5	40.5
Butler	0.714	1.139	1.815	1.954	Closed	Closed	Closed	Closed	Closed
Reserve/Cyprus**	1.120	1.919	2.820	3.087	**	1.350	1.156	1.126	1.227
Erie (LTV)	0.314	0.954	1.749	2.289	1.086	1.288	1.115	1.569	1.475
Eveleth***	0.949	2.218	3.578	2.621	1.577	1.644	1.717	1.886	1.846
Hibbing***	*	*	0.398	0.772	0.907	0.805	1.408	1.525	1.465
Inland	*	*	1.212	1.801	1.389	1.396	1.470	1.705	0.772
National	0.549	0.974	1.525	2.001	2.239	2.041	1.902	2.132	1.836
USX-Minntac	0.000	0.171	0.288	0.334	0.287	0.239	0.266	0.277	0.266
Industry Average:									
Weighted:	0.587	1.019	1.383	1.509	1.021	1.006	1.069	1.230	1.083
Arithmetic:	0.729	1.229	1.673	1.857	1.248	1.252	1.291	1.460	1.328

* Plant not yet in production.

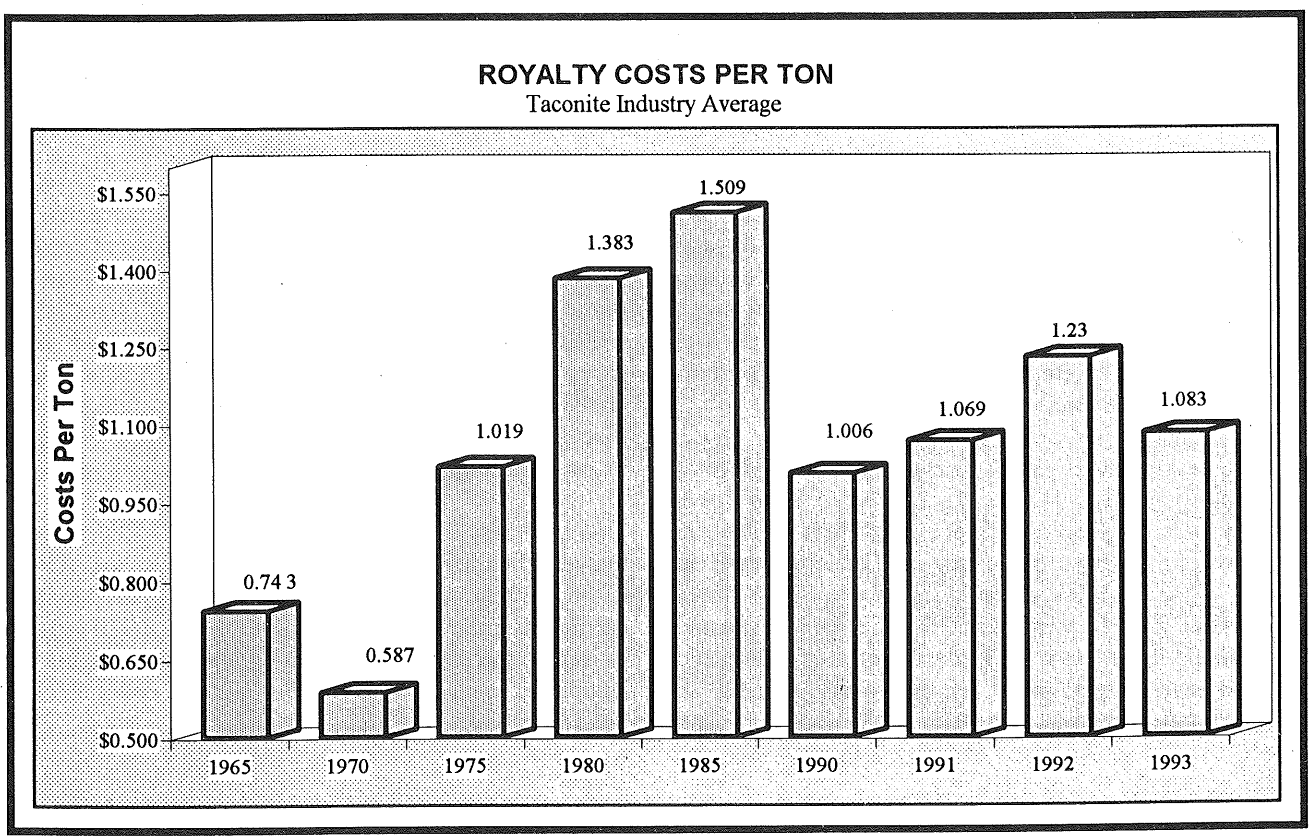
** Reserve's royalty costs per ton are based primarily upon shipments, not production.

*** Royalty stated on a calendar year (cash) basis with overrides to partners subtracted since 1980. This revision was incorporated in the 1993 Minnesota Mining Tax Guide for the first time.

Tonnages used have been on a 'dry' basis beginning in 1990.

USX owns a substantial part of the ore it mines and, therefore, has a lower average total royalty cost.

Figure 35



SALES AND USE TAX
(M.S. 297A)

The general 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, which includes a 0.5 percent local option sales tax. Minnesota's sales and use tax, first adopted in 1967, is now the second largest source of state taxes, yielding $1.5 billion in fiscal year 1992.

Sales and Use taxes are essentially identical. The sales tax is assessed by the vendor at the time of the sale of tangible personal property; the use tax paid by the purchaser (user) is imposed on the use, storage, or consumption of tangible personal property for which no sales tax was assessed (paid) at the time of purchase.

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 so 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.

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

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

CAPITAL EQUIPMENT REFUND

Effective July 1, 1984, the State of Minnesota instituted the capital equipment refund law. M.S. 297A.01, Subd. 16. Initially, the law was for a two percent refund of sales tax paid on purchases of capital equipment for a new or expanding business. In the 1989 special legislative session, the legislature extended the refund to the full six percent of sales tax paid on capital equipment. The 1990 legislative session expanded the definition of capital equipment to cover equipment used to extract raw materials, such as drills, shovels, and trucks which previously did not qualify for a refund.

A business filing a claim for refund on capital equipment purchased for a new or expanding business will be allowed to claim the full 6.5 percent of tax paid on purchases made after July 1, 1991. Claims can include only the capital equipment and the materials and supplies necessary to construct or install the machinery or equipment. Electrical wiring, cable trays and hangers used to connect the equipment to the control room or the on/off lockout equipment qualifies as part of the equipment. Capital equipment *does not include* accessories purchased as spare parts, repair parts, or as modifications or upgrades before or after the capital equipment is placed in service.

The 1993 Minnesota Legislature made a change to the Capital Equipment Refund Law that affects only the taconite mining industry. Previously, the law stated that replacement capital equipment did not qualify for a refund of the sales or use tax paid. Purchases or leases after June 30, 1993, of replacement capital equipment by taconite mining companies will qualify for a refund of the full 6.5 percent of tax paid.

In the 1994 legislative session, the capital equipment refund law was expanded to cover replacement equipment, repair and replacement parts and spare parts. This portion of the law is found in M.S. 297A.01, Subd. 20. A rule is currently being written that explains the sales and use tax refund on new capital equipment. Also included in the rule will be language on replacement capital equipment and repair and replacement parts. The rule will be published in the near future. A fact sheet on capital equipment refunds will be provided upon request.

Two claims for refund can be filed per year, however, each can include more than one project. The exemption does not apply to the purchase or lease of machinery or equipment to replace existing items (except for the taconite mining industry), repair or replacement parts for machinery or equipment, or equipment used or receive or store raw material (for all businesses).

Language was added to clarify how interest will be paid on sales and use tax refunds. Interest will be paid from the date the claim is filed, unless the claim includes a detailed schedule reflecting the tax period covered in the claim. If the claim includes a schedule, the interest will be paid from the date of payment of the tax to the date the refund is paid or credited. This method of calculating interest is effective for refund claims submitted on or after July 1, 1993.

ELECTRONIC FUND TRANSFER

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

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

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

For those companies not required to file electronically but electing to do voluntarily, payments and returns are due on the 20th of the month following the filing month.

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

Figure 36

USE TAX PAID

YEAR	USE TAX	M.S. 298.40 OCCUPATION TAX OFFSET (TAX NOT COLLECTED)	REFUND* CLAIMS	NET USE TAX COLLECTED
1983	$ 5,808,237	$2,613,605		$ 3,194,632
1984	7,110,166	4,283,181		2,826,985
1985	6,476,570	4,216,360		2,260,210
1986	4,890,472	2,399,142		2,491,330
1987	5,286,947	1,827,482		3,459,465
1988	8,351,535	1,149,975		7,201,560
1989	11,112,722	129,744	$ 83,478	10,899,500
1990	13,127,042	-0-	104,173	13,022,869
1991	11,860,378	-0-	475,098	11,385,280
1992	11,702,398	-0-	447,370	11,255,028
1993	11,991,300	-0-	328,139	11,663,161
1994 Est.	12,000,000		500,000	11,500,000

* These are capital equipment refund claims for a new or expanding business.

AGGREGATE MATERIAL TAX
(Gravel Tax - M.S. 298.75)

The aggregate material tax is a production tax on the removal of aggregate material. Aggregate material is gravel, sand, silica sand, crushed rock, limestone and granite (but not dimension stone and dimension granite). The tax is measured on a per cubic yard or per short ton basis. The tax is imposed on importers and operators. For the purposes of this statute, an importer is any person who brings aggregate from an unlisted county or another state into a county that imposes the aggregate material tax. An operator is a person engaged in removing aggregate material from the surface or subsurface of the soil, for the purpose of sale, either directly or indirectly, through the use of aggregate material in a marketable product.

Since 1986, this tax has been in effect in 22 counties:

> Becker, Benton, Big Stone, Carver, Clay, Dakota, Hennepin, Kittson, LeSueur, Mahnomen, Marshall, Norman, Pennington, Polk, Ramsey, Red Lake, Scott, Sherburne, Sibley, Stearns, Washington, and Wilkin.

The tax is not a sales tax, but is an independent tax, neither imposed on transactions when goods are sold at retail nor measured by the gross receipts of those sales. While sales tax exemptions may apply to the sales tax imposed, they do not apply to aggregate materials tax. Examples and exceptions to the aggregate materials tax are discussed below under "Examples and Exceptions to the Tax". In addition to the aggregate materials tax, sales of gravel are subject to state sales and use tax of 6.5 percent and possibly additional city or county sales tax.

TAX IMPOSITION AND DISTRIBUTION

The aggregate materials tax is imposed upon every importer or operator at the rate of ten-cents per cubic yard or seven-cents per short ton of aggregate produced and sold or imported into any county imposing this tax. The purpose of the tax was to provide funds for local roads and bridges used heavily by gravel haulers who paid no taxes for the upkeep of those roads or bridges.

The law requires the county to distribute the proceeds from this tax as follows: County Road and Bridge Fund (60%); Township Road and Bridge Fund (30%), and the Reserve Fund for Pit Restoration (10%).

Although this is a county tax, the Minerals Tax Office does provide compliance information and assistance to both counties and aggregate importers and producers.

REPORTING REQUIREMENTS

By April 14, July 14, October 14, and January 14, operators or importers must file a quarterly report and payment with the county auditor in the county in which the aggregate material is removed or imported.

EXAMPLES AND EXCEPTIONS TO THE TAX

If a governmental unit or other individual or entity owns a pit, quarry, or deposit and removes the aggregate for their own use, then no tax would be imposed.

Example: No tax would be imposed when the state Department of Transportation removes material from a state-owned pit for road construction.

Example: If a farmer removes gravel for personal use from a pit located on the farmer's property, then no tax would be due.

Example: A privately-owned gravel pit sells gravel to a township. The tax is imposed.

Example: If a county owns or leases a gravel pit, there is no aggregate material tax where the county removes gravel for its own use. There is also no tax if the county hires a contractor to crush and remove the gravel for use on county roads. The tax is to be imposed on every operator engaged in the business of removing aggregate material **for sale**. Consequently, there is no operator within the statutory definition, and no tax due. (Attorney General's opinion to Kanebec County attorney, May 13, 1983).

Figure 37

GRAVEL TAX COLLECTED

1980 - $ 153,789	1985 - $1,783,940	1990 - $1,939,276
1981 - $ 104,693	1986 - $1,938,702	1991 - $1,783,301
1982 - $ 236,039	1987 - $2,115,649	1992 - $1,895,260
1983 - $1,503,599	1988 - $1,830,535	1993 - $2,045,794
1984 - $1,731,600	1989 - $2,003,391	

AD VALOREM TAX ON TACONITE RAILROADS

(M.S. 270.80 - 270.88)

Prior to 1989, every taconite railroad company operating in the state had to annually pay into the state treasury a sum equal to 3.75 percent of the gross earnings derived from operations within the state. The gross earnings were calculated by a formula applying published tariffs from common carrier railroads. Taconite railroads were railroads owned and operated by a taconite company which did not carry freight as a common carrier.

Beginning with the January 2, 1989 assessment, taconite railroads have been included in the definitions of "common carrier" railroads and are assessed and taxed on an ad valorem basis pursuant to the sections of Minnesota Statutes 270.80 through 270.88.

The State Assessed Properties Section, Local Government Service Division, Minnesota Department of Revenue has developed strict rules governing the valuation, apportionment, and equalization of railroad operating property. These 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 for the State Assessed Property Section to complete their valuation and apportionment.

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. Items of personal property are 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 gets 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 has been 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.

A taconite railroad will then receive tax bills from the county similar to any other taxpayer showing the equalized market value in each taxing district and the amount of taxes due. The first half payment of taxes assessed for the 1993 assessment were due May 16, 1994, with the second half payment due October 17, 1994.

Figure 38

TACONITE RAILROAD AD VALOREM TAX ASSESSED

Year Payable	Year Assessed	St. Louis County	Lake County	Cook County	Total Tax
1990	1989	$105,167*	$156,675*	$5,037	$266,879
1991	1990	$112,800	$145,573	$5,319	$263,692
1992	1991	$ 53,409	$ 80,720	$5,064	$139,193
1993	1992	$ 38,454	$ 99,919	$4,706	$143,079
1994	1993	$ 48,655	$ 87,248	$4,938	$140,841

* Part of the tax assessed in 1989 (payable 1990) was not paid due to Reserve Mining Company bankruptcy. Taxes have been kept current since Cyprus assumed ownership.

AD VALOREM TAX ON UNMINED TACONITE

(M.S. 298.26)

A tax not exceeding $10.00 per acre may be assessed upon 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 on M.S. 298.26 is somewhat misleading in that it refers to a TAX ON UNMINED IRON ORE OR IRON SULFIDES. The tax clearly applies to unmined taconite and has been administered in that manner. The wording "iron ore" does not refer to high-grade natural ore in this instance.

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

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

The categories are listed as follows:

(1) Those lands which are underlain by magnetic taconite of sufficient quantity and grade to be currentlyeconomic. They are considered to be "economic" taconite and are given a market value of $500.00 per acre.

(2) Lands either not believed or not known to be underlain by magnetic taconite of currently economic quantity, quality, and grade. They are considered to be "uneconomic" taconite and are given a market value of $25.00 per acre.

To be classified as "economic" taconite [Category (1)], the taconite must pass the following criteria:

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

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

-- has a 15- to 25-feet minimum mining thickness

-- has a weight recovery of more than 20 percent

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

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

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

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

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

If the material fails any of the above criteria, then it is considered to be "uneconomic" taconite and classified as category (2).

For payable 1994, the tax is calculated by multiplying the market value for the parcel of land times the 4.60 percent class rate times the local tax rate for that specific tax area. (NOTE: Call your county auditor for more information).

Figure 39

UNMINED TACONITE TAX PAID

County	1986	1987	1988	1989	1990	1991	1992	1993	1994
Itasca	$ 36,123	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
St. Louis	360,546	384,697	392,614	365,244	355,065	352,935	349,551	355,596	343,965
Totals:	$396,669	$384,697	$392,614	$365,244	$355,065	$352,935	$349,551	$355,596	$343,965

AD VALOREM TAX ON AUXILIARY MINING LANDS FOR TACONITE OPERATIONS

(M.S. 270.80 - 270.88)

Lands and structures actively used for taconite production are exempt from the ad valorem tax and in lieu of property tax, are subject to the production tax. These 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 by parcel basis to the nearest five acres. 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 statutes. 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 various types of property are covered in M.S. 273.13.

For the industrial classification, the assessor's estimated market value (EMV) is multiplied by a class rate of 4.60 percent to obtain tax capacity which is then multiplied by the local tax rate to calculate tax payable. The class rate for the timber classification, on the other hand, is 1.5 percent of the estimated market value or about one-third the industrial class rate.

These class rates are set by the Minnesota legislature for taxes payable 1994. For payable 1995, these class rates will remain the same. Local tax rates are determined by county, local government and school district spending. For 1994, they range from a low of approximately .9 to a high of approximately 2.25 in St. Louis County.

The following schedule provides for adjustments in both the valuation and classification 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 also outlines valuation adjustments to be made on excess lands (those located more than one-quarter mile from mining activity) that have been disturbed by natural ore mining activity. This schedule was implemented in St. Louis County beginning in 1988 and is subject to change as market conditions and/or Minnesota statutes dictate.

ST. LOUIS COUNTY MINING LAND ASSESSMENT SCHEDULE

	VALUE ($/ACRE)	CLASSIFICATION
1. IRON FORMATION LAND		
A. Land within 1/4 mile of active pit or planned 15-year pit limit without 1/4 mile buffer, whichever limit is greater.	$350	Industrial
B. Excess land (more than 1/4 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 1/4 mile of mining activity	$250	Industrial
B. Excess land (more than 1/4 mile from mining activity).		
1. Stockpiles	75% of other private land	Timber or current use
2. Tailings Ponds	30% of other private land	Timber or current use

AD VALOREM TAX ON UNMINED NATURAL IRON ORE

(M.S. 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 tax levy is collected by the county auditor.

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.

The Department uses a five-year average for allowable costs taken from the occupation tax report each year. A five-year average of the Lake Erie market value of iron ore 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 a deduction from the Lake Erie market value on the computation of present worth (Hoskold Formula):

- 1a. Mining, normal costs
- 1b. Mining, special costs
- 2. Beneficiation
- 3. Miscellaneous (property tax, medical ins., etc.)
- 4. Development (future)
- 5. Plant & Equipment (future)
- 6. Freight & Marine Insurance
- 7. Marketing Expense
- 8. Social Security Tax*
- 9. Ad Valorem Tax (by formula)
- 10. Occupation Tax
- 11. Federal Income Tax
- 12. Interest on Development, Plant & Working Capital

* Since 1987, Social Security Tax is no longer identified as a separate expense, now included under Miscellaneous.

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

The present worth is then determined by multiplying the estimated future income (per ton) by the Hoskold Factor. The Department presently allows a 12 percent risk rate and six percent safe rate which 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 to be market value by the Department of Revenue

The 1989 legislature, in a special session on September 28th and 29th, continued work on the property tax reform issue. An effort was made to reduce the differential between homestead property and business property.

Also, further changes in terminology were introduced. The term "class rate" is introduced for taxes payable in 1990. The class rate for Class 5 property which includes unmined iron ore was 5.06 percent. All classes of property with a 5.06 percent class rate have a target class rate of four percent which the governor and legislature will attempt to achieve in future years through a phase-in period. 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 to determine the tax. The term "tax capacity extension rate" is replaced by local tax rate. This would once have been called a mill rate.

Local tax rates are a function of county, local government, and school district spending. For 1994, they range from a low of approximately .9 to a high of approximately 2.25 in St. Louis County. The following class rates were in effect through 1994 as follows:

	Class Rate
Payable 1992	4.75%
Payable 1993	4.70%
Payable 1994	4.60%

Since 1963, the Revenue Department 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 major revisions were made in 1974, 1986, 1988 and 1992. The "Market Values" for iron ores which do not show a value with the Hoskold Formula are determined from the schedule of minimum rates.

Effective on January 2, 1988 for taxes payable in 1989, a new schedule of minimum rates expressed as Market Value was adopted by the Department. The previous schedule which had been in effect since January 2, 1986 did not fully reflect current conditions in the iron ore industry.

The 1992 legislature amended M.S. 273.1104, Subd. 1, to eliminate the "times three" multiplier provision in valuing iron ore. In conjunction with this change, the Department of Revenue agreed to triple the minimum rates used in valuing uneconomic ores. Other adjustments made to some of the factors in the Hoskold Formula had the effect of increasing values for the few properties still valued by this method. Therefore, the net effect of the legislative change is close to revenue neutral as was intended. The new schedule revised in 1992 listing market value per ton is listed on the following page.

Figure 40

MINIMUM RATES

Open Pit Uneconomic	Ore Classification	Market Value/Ton (Cents)
(Stripping ratio less than five-to-one)	Wash Ore Conc. (OPC)	12.0
	Heavy Media Conc. (HMC)	9.0
	Low Grade (OPPRC)	3.0
Underground Uneconomic		
(Stripping ratio greater than five-to-one)	Underground Conc. >60% Fe (UGC)	2.4
	Underground Conc. <60% Fe (UGC)	1.8
	Underground Heavy Media (UGHM)	1.5
	Low Grade (UGPRC)	.9
	Aquaculture (all grades)	.9

Open pit ores which are too high cost to show a value with the Hoskold Formula are assigned minimum values from the open pit classification. Underground and uneconomic ores with stripping ratios exceeding five-to-one are assigned minimum values from underground uneconomic classification. Thus, the market value for underground wash ore with an iron content of less than 60 percent would be calculated as follows: Number of Tons x 1.8-Cents Per Ton = Market Value. The tax would then be determined using the tax capacity formulas explained previously.

Figure 41

IRON ORE AD VALOREM TAX PAID

			ESTIMATED TAX PAYABLE			
YEAR ASSESSED	MARKET VALUE	YEAR PAYABLE	CROW WING	ITASCA	ST. LOUIS	TOTAL
1979	$30,526,244	1980	$50,034	$774,064	$3,518,928	$4,343,026
1980	26,772,233	1981	42,659	585,267	3,061,142	3,689,068
1981	25,378,108	1982	43,640	487,610	3,239,027	3,770,277
1982	22,442,833	1983	44,479	217,269	3,282,925	3,544,673
1983	20,875,960	1984	51,659	222,023	3,425,894	3,699,576
1984	17,030,758	1985	50,925	152,997	3,122,369	3,326,291
1985	14,092,882	1986	49,508	142,558	2,844,507	3,036,573
1986	11,058,467	1987	29,405	113,672	2,483,064	2,626,141
1987	8,608,800	1988	30,228	112,449	2,229,592	2,372,269
1988	5,771,300	1989	19,365	46,426	812,665	878,456
1989	5,808,900	1990	18,633	44,130	811,489	874,252
1990	4,190,200	1991	17,712	41,199	584,779	643,690
1991	3,401,700	1992	18,966	45,019	429,850	493,835
1992	5,785,900	1993	19,600	46,000	274,900	340,500
1993	5,476,900	1994	21,300	48,100	257,600	327,000
1994	5,155,200	1995				

According to the provisions of M.S. 273.1104, a public hearing to review the valuations of unmined iron ore shall be held on the first secular day following May 20th. It was held May 23, 1994 to conform with the new tax laws. This hearing provides an opportunity for representatives of the mining companies and taxing districts to formally protest any of the ore estimates or valuation procedures which 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.

AD VALOREM TAX ON SEVERED MINERAL INTERESTS

(M.S. 272.039, 272.04, 273.165)

Severed mineral interests are those mineral interests that are owned separately from the title to surface interests in real estate. Severed mineral interests are taxed under M.S. sections 272.039, 272.04, and 273.165, subd. 1 at 25-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 $2 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. For taxes payable in 1995, the rate was increased to $.40 per acre. The minimum tax on any interest will increase from $2.00 to $3.20 per tract.

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 $.25/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: 80 percent is returned by the county to local taxing districts where the property is located in the same proportion that the local tax rate each taxing district bears to the total surface tax rate in the area, and 20 percent to the Indian Business Loan Account in the State Treasury for business loans to Indians by the Indian Affairs Council under M.S. section 116J.64 (1990). The registration and taxation of severed mineral interests is primarily a county function. The severed mineral interests are registered with the county recorder in the county where the interest is located. The county auditor then sends a tax statement similar to any other real estate interest. The tax is normally collected in two increments payable in May and October.

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

The tax on severed mineral interests was enacted in 1973 as part of an act that required owners of these interests 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. section 93.52. Failure to record severed mineral interests within time limits established by the law results in forfeiture to the state, M.S. section 93.55.

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 one of 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.

In 1988, the Legislature amended the law to allow the Commissioner 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 later separate case, the Minnesota Supreme Court ruled in 1983 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.

Figure 42

TAX COLLECTION AND DISTRIBUTION

Period Ending	80% Retained by Local Government	20% Payment to Indian Business Loan Account	Total Collections of Affected Counties
June 30, 1989	328,683	82,171	410,854
June 30, 1990	380,864	95,216	476,080
Dec. 31, 1990	377,772	94,443	472,215
Dec. 31, 1991	455,128	113,782	568,910
Dec. 31, 1992	494,612	123,653	618,265
Dec. 31, 1993	339,512	84,878	424,390

The twenty percent portion of the Severed Mineral Interest Tax which is allocated to the Indian Affairs Council is reported by the county auditors on the Abstract of Tax Settlement form. This is a special form used for remitting several property related taxes to the state, including the Severed Mineral Interest Tax. Normally, the form is submitted twice each year to correspond with payment of property taxes.

The monies collected in the severed mineral interest account are distributed to the Indian Affairs Council at the end of each month. The tax is collected by the county auditors twice each year (May and October) in the same manner as other property taxes. If the severed mineral interest tax is less than $50, the taxpayer is required to pay in full with the May payment.

A copy of the Abstract of Tax Settlement form is shown as follows:

Figure 43

Minnesota Department of Revenue
Mail Station 3340
Saint Paul, Minnesota 55146-3340
(612) 296-2286

ABSTRACT OF TAX SETTLEMENT

Name of County	Period of Report
	From , 19 to , 19

STATE'S SHARE OF THE FOLLOWING:

Reimbursement of Homestead Benefits .... $________

$5.00 County Conservation Fee (M.S. 40A.152, Subd. 1) .... ________

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

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

Severed Mineral Interest .... ________

Total .... $________

Acknowledged Correct

Signature of County Treasurer Date

Signature of County Auditor Date

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

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

The processing and payment of the Severed Mineral Interest Tax is handled by the Document Processing Division of the Department of Revenue in St. Paul. The Deposit Control Section is responsible for severed minerals tax (612) 296-5960.

The Indian Affairs Council, which administers the twenty percent portion of the tax allocated for the Indian Business Loan Account, may be contacted at (612) 296-3611.

TAXES ON OTHER MINING AND/OR EXPLORATION

This section will identify and explain the taxes that apply to the exploration and/or mining of materials other than iron ore.

Figure 44 identifies each tax by statute number and references each of them in this publication.

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

Figure 44

INDEX OF OTHER MINING/EXPLORATION TAXES

Tax	Current Laws	Mining Tax Guide Page No.
Ad Valorem Tax (Smelter and Plant Facilities Only)	(M.S. 272 and 273)	See Page 49
Net Proceeds Tax	(M.S. 298.015-298.018) - 2.0%	See Page 48
Occupation Tax	(M.S. 298.01) - 9.8%	See Page 25
Sales and Use Tax	(M.S. 297A) - 6.5%	See Page 37
Severed Mineral Interest	(M.S. 272.039, 272.04, 273.165)	See Page 45
Withholding Tax on Royalty Payments	(M.S. 290.923) - 7% Withholding from Royalty Payments	See Page 34

OCCUPATION TAX-CORPORATE INCOME TAX (M.S. 298.01)

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 shall be computed in accordance with the Minnesota Corporate Franchise (Income) Tax beginning with 1990.

The Corporate Income Tax is 9.8 percent and contains an alternative minimum tax. The effective corporate tax rate for a base or precious metals mine is expected to be about three percent because of the income allocation for out-of-state sales (70%). The three percent rate could vary somewhat depending upon the impact of the allocation formula. For more information on the Alternative Minimum Tax, refer to M.S. 290.092, Subdivision 4, or contact the Minerals Tax Office.

NET PROCEEDS TAX (M.S. 298.015-298.018)

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

Additional information is available from the Minerals Tax Office.

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 Engineering and Mining 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 for 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, generally after initial beneficiation of the ore is completed. It is not intended to tax value added by further refining, smelting, or hydrometallurgical processes applied to previously beneficiated ore concentrates.

Net proceeds are gross proceeds less certain deductions. Not all expenses, however, are allowed as a deduction. 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 of Minnesota.
-- Research expense prior to production.
-- Reserve for reclamation costs after production ends.
-- 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 I.R.C.
-- Transportation of the 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.
-- Reclamation costs paid in a year of production.

The carryback or carryforward of deductions is not allowed.

Distribution

The net proceeds tax on minerals and energy resources mined or extracted within the taconite tax relief area will be distributed according to the formula provided by M.S. 298.018. Tax paid on minerals and energy resources mined outside of the taconite tax relief area will be deposited in the general fund.

A summary of M.S. 298.018 distribution is listed:

(1) Five percent to the city or town where the minerals are mined or extracted.
(2) Ten percent to the Municipal Aid Account.
(3) Ten percent to the school district where mining or extraction occurred.
(4) Twenty percent to the School 22-cent Fund.
(5) Twenty percent to the county where mining or extraction occurred.
(6) Twenty percent to Taconite Property Tax Relief, St. Louis County as fiscal agent.
(7) Five percent to the I.R.R.R.B.
(8) Five percent to the N.E. Minnesota Economic Protection Trust Fund (2002 Fund).
(9) Five percent to the Taconite Environmental Protection Fund.

The proceeds shall be distributed on July 15.

Economic Development Incentives

The Iron Range Resources and Rehabilitation Board (I.R.R.R.B.) has authority to loan up to $5 million for a new mine or processing plant subject to net proceeds tax. This authority expires December 31, 1995. The I.R.R.R.B. loans are generally made at below market rates.

AD VALOREM TAX (M.S. 272-273)

The 1991 legislature amended the definition of real property in M.S. 272.03, subdivision 1, to specifically *exclude* mine shafts, tunnels, and other underground openings used to extract ores and minerals taxed under chapter 298. This is consistent with the Department of Revenue's previously stated position on taxation of those items. 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). Companies mining any of the minerals listed would be subject to property tax like any other business, i.e., on the value of the land and buildings only.

Machinery such as pumps, motors, grinding mills, etc., is considered personal property and *not* subject to ad valorem tax. In 1994, the St. Louis County Assessor indicated that new industrial buildings were valued at $25 to $30 per square foot for ad valorem tax purposes. Storage buildings may be assessed as low as $9 or $10 per square foot. Mill rates are set by the county, local communities, and school districts according to statute, and the tax is administered and collected by the county.

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 (see below) to obtain gross tax capacity (The first $100,000 of value is at 3.0 percent). This is then multiplied by the local tax rate to calculate tax payable. In St. Louis County, where the majority of Minnesota's mining industry is located, the local tax rates varied from a low of about .9 to a high of approximately 2.25. For more detailed information on assessment of auxiliary mining lands, refer to the section in the guide on "Ad Valorem Tax on Auxiliary Mining Lands for Taconite Operations". For taxes payable in future years, the legislature has established target class rates lower than the current rate in an effort to reduce the tax burden on commercial and industrial property. These rates are as follows:

CLASS RATES

	Over $100,000	First $100,000
Payable 1992	4.75%	3.1%
Payable 1993	4.70%	3.0%
Payable 1994	4.60%	3.0%
Payable 1995	4.60%	3.0%

There are some special policies that apply to metallic minerals leases (Minn. Rules, parts 6125.0100 - .0700) issued by the Department of Natural Resources. The Commissioner of Revenue has advised all county auditors and assessors that these leases issued by the Department of Natural Resources constitute a taxable interest in real estate (M.S. 272.01, subd. 2(a) & (b)). The taxes are to be assessed and collected as personal property taxes and do not become a lien against the real property. The Commissioner further advised that since activities under the leases during the initial years are limited to exploration, the tax should not exceed the severed minerals interest tax during the exploration stage. For all taxes levied in 1994 and thereafter, and payable in 1995 and thereafter, the tax should not exceed $.40 per acre while the lease activities constitute exploration. Specific terms of the 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.

To date, none of the metallic minerals leases have progressed beyond the exploration stage. The Department of Natural Resources, Minerals Division, should be contacted to determine the status of activities under any state metallic minerals lease.

WITHHOLDING TAX ON ROYALTY (M.S. 290.923)

Beginning January 1, 1990, all persons or companies paying royalty were required to withhold Minnesota income tax from their royalty payments (7%) and remit the withholding tax and applicable information to the State of Minnesota, Department of Revenue. See section on Income Tax Withholding on Mining and Exploration Royalty for further information.

SALES AND USE TAX (M.S. 297A)

All firms involved in the mining or processing of minerals will be 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 personal property to be sold ultimately 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 classification. 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 to be sold ultimately at retail. For details, contact the Minerals Tax Office.

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 sales and use tax.

MINING INDUSTRY TAX CALENDAR

JANUARY

– Ad Valorem Tax Reports mailed to companies.
– Ad Valorem estimates submitted by companies (January - February).
15 – Form MT-11, Taconite and Semi-Taconite Tax Report mailed to companies with memorandum.
31 – Form MW-1, Minnesota Employer's Quarterly Withholding Return due.

SALES AND USE TAX
Electronic Fund Transfers (all months):

14 – Payment must be made.
25 – Return sent to St. Paul.

FEBRUARY

1 – Royalty/Withholding Tax Paid Report, MT2-RW, due.
1 – Taconite Production Tax Report due from companies.
10 – Notice of taconite municipal aid mailed to communities.
15 – Taconite Production Tax determinations mailed to companies.
15 – Printout listing 100% production tax payment sent to county auditors. School bond payment schedule mailed to Itasca, Lake, and St. Louis counties.
15 – Ad Valorem Tax Reports due from mining companies.
24 – Taconite Production Tax payment (100%) due in county offices by electronic fund transfer.
25 – Distribution of Taconite Production Tax by counties (collected February 24).
28 – Form MW-3, Minnesota Annual Reconciliation of Income Tax Withheld due.

MARCH

APRIL

1 -- Owner or lessee of mineral rights submits specific data on drill hole logs and lab tests during previous year for Unmined Taconite Tax.
15 -- Ad Valorem Tax present worth estimates mailed to companies.
30 – Form MW-1, Minnesota Employer's Quarterly Withholding Return due.

MAY

1 – Occupation Tax Return and payment due.
15 – First half property tax on taconite railroad property due to counties.
20 – Ad Valorem tax hearing held on first business day after May 20.

JUNE

30 – Ad Valorem Tax final adjustments to property equalization sheets mailed to county assessors.

JULY

1 – Commissioner of Revenue will certify amount of Taconite Municipal Aid to municipality.
15 – Taconite Referendum distribution to school districts of Taconite Production Tax made by the counties.
31 – Form MW-1, Minnesota Employer's Quarterly Withholding Return due.

AUGUST

– Form MW-5 and payment of income tax withheld due at varying times each month depending on amount of tax due, i.e., eighth-monthly period or monthly.

SEPTEMBER

15 – Taconite Municipal Aid account funds distributed by counties.

OCTOBER

10 – Taconite Production Tax estimates due from companies.
15 – Second half property tax on taconite railroad property due to counties.
31 – Form MW-1, Minnesota Employer's Quarterly Withholding Return due.
– Minnesota Mining Tax Guide available in late October.

NOVEMBER

DECEMBER

1 – Minerals Tax Office submits Unmined Taconite Tax Reports to county assessors.
30 – Occupation Tax forms mailed to companies.
30 – Royalty/Withholding Tax Paid Report, MT2-RW, mailed to companies.

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).

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.

Beneficiation -- The process of improving the grade of ore 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 crushing ore-bearing rock through the final stages of magnetic separation and converting the concentrate into taconite pellets for use in making steel.

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

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

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

The purpose for this type of measurement is the historical and continued use of 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 an organization holding something in trust for another. (Sales tax collected establishes a fiduciary relationship between 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, means pellets containing 2.0% or more limestone or other flux.

Partial Flux Pellets -- Flux pellets containing 1.99% 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.

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 it began in 1921. It was the standard method of pricing domestic iron ore and taconite for occupation tax until the mid-1980's (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.

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.

M.S. 298.225 -- A Minnesota statute guaranteeing the taconite production tax aids received by municipalities, counties, schools, and the I.R.R.R.B. The aid levels are adjusted according to a sliding scale based on production levels.

Natural Weight -- The weight of iron ore or pellets including moisture.

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

Non-Equity Sales -- See "Arms-Length Transaction".

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 1991 occupation tax purposes, pellet chips were 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, a flat percentage of 15 percent of income from a specific property is allowed.

This deduction, however, cannot exceed 50 percent of taxable income from the property computed without the depletion deduction.

Range Association of Municipalities & 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 Chisholm, Minnesota.

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. 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 Department of Labor. This index is part of the formula used to determine a mine value for occupation tax purposes each year.

Taxable Tons -- The three-year average of the current and prior two years production. The taconite production tax is based on taxable tons.

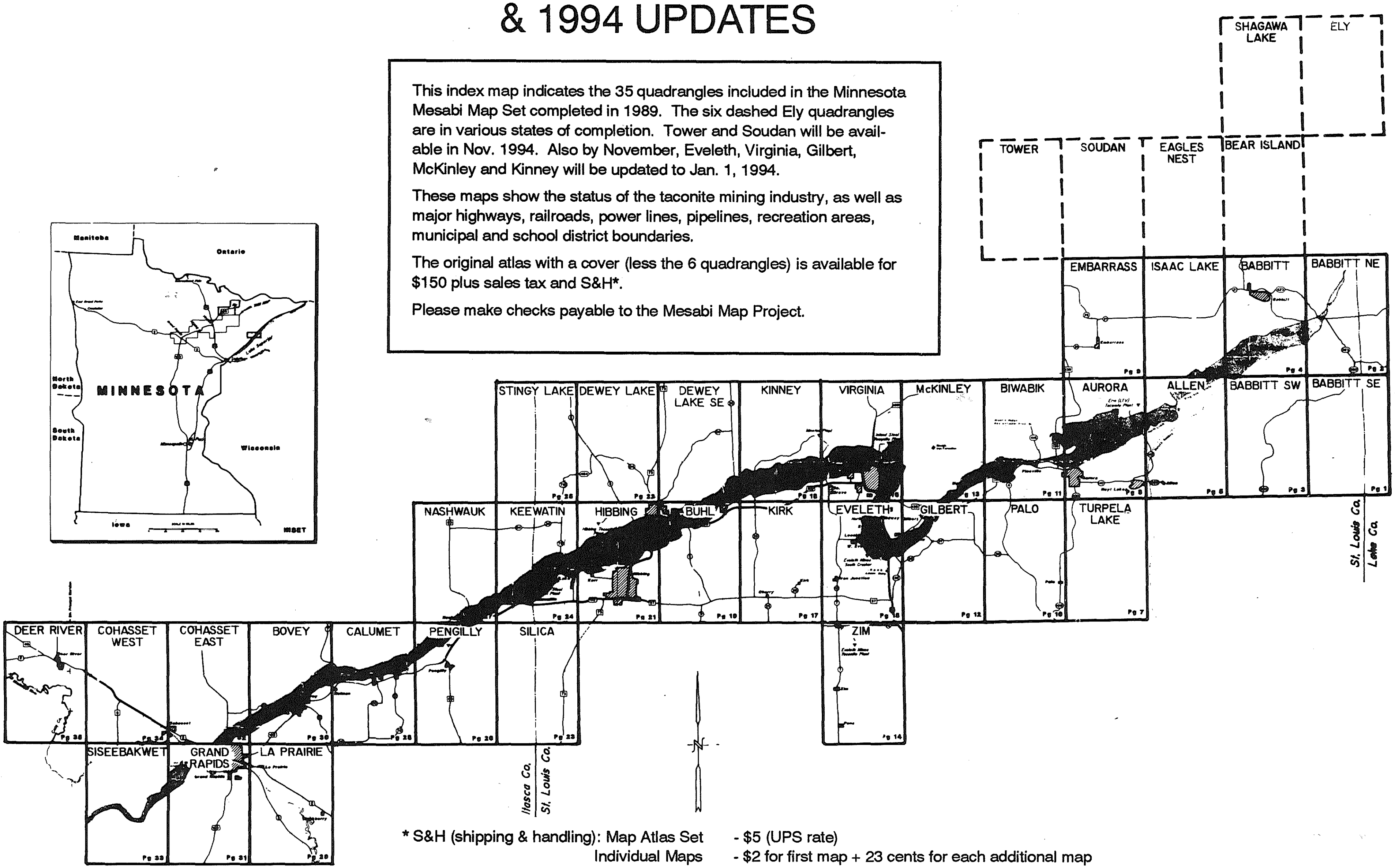
INDEX MAP - MINNESOTA MESABI MAP SET & 1994 UPDATES

This index map indicates the 35 quadrangles included in the Minnesota Mesabi Map Set completed in 1989. The six dashed Ely quadrangles are in various states of completion. Tower and Soudan will be available in Nov. 1994. Also by November, Eveleth, Virginia, Gilbert, McKinley and Kinney will be updated to Jan. 1, 1994.

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

The original atlas with a cover (less the 6 quadrangles) is available for $150 plus sales tax and S&H*.

Please make checks payable to the Mesabi Map Project.



* S&H (shipping & handling): Map Atlas Set - $5 (UPS rate)

Individual Maps - $2 for first map + 23 cents for each additional map up to nine maps (First Class Mail).

Orders can be placed with the Minerals Tax Office.

The address and telephone number are on the inside of the front cover.

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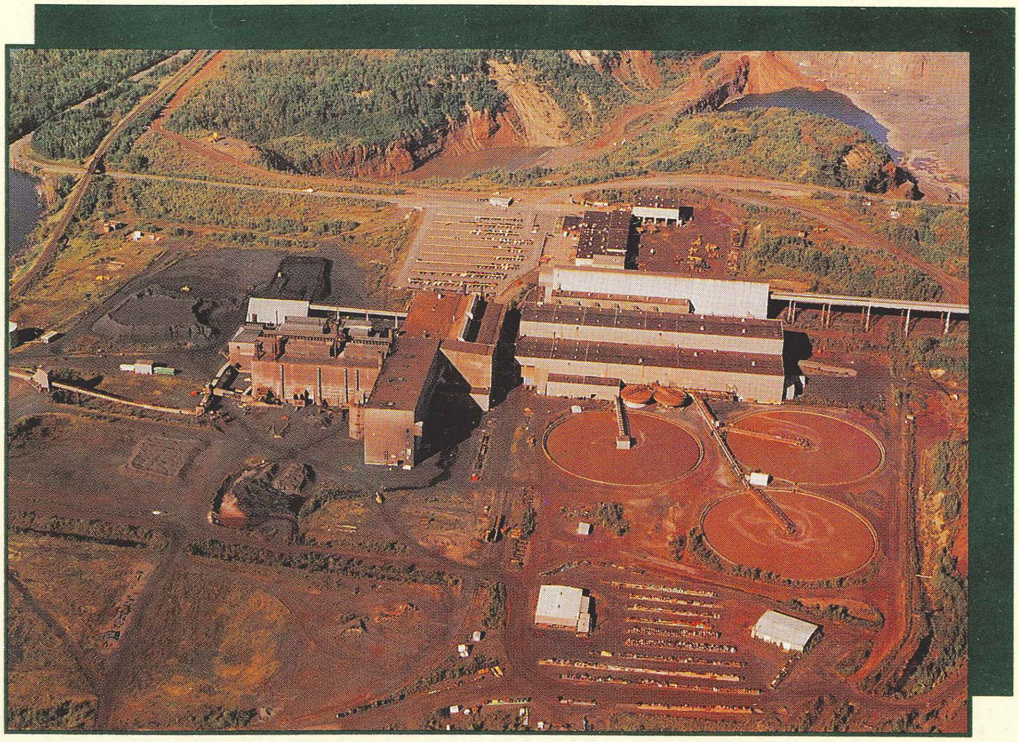

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