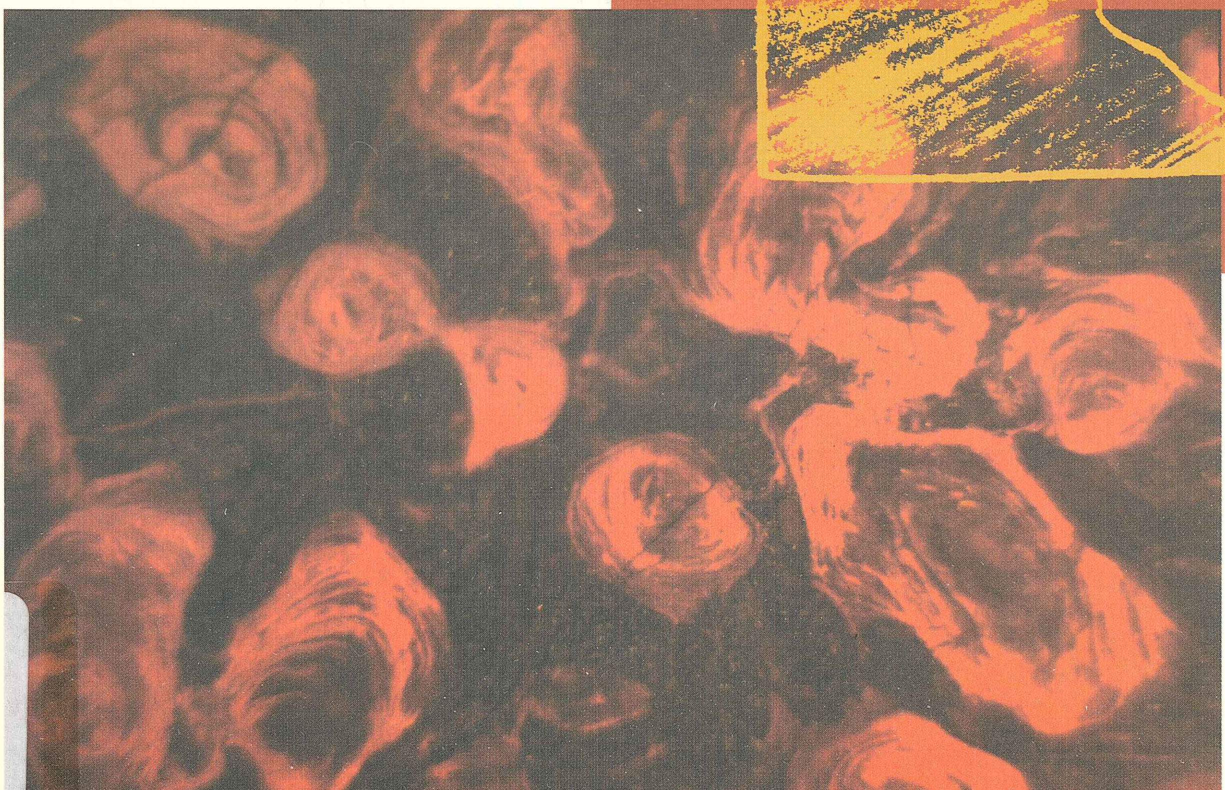
MINNESOTA

MINING TAX GUIDE

October 1999



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ABOUT THE COVER

The cover pictures are the scientific description of stromatolite, commonly known as Mary Ellen Jasper. They were provided by by Pete Pastika, Northshore Mining, Babbitt, Minnesota, and his brother, Tim Pastika, Minnesota Department of Natural Resources, Minerals Division, Hibbing, Minnesota.

Stromatolites are some of the oldest fossils on Earth. They are composed of layer upon layer of primitive, single-celled plants similar to blue-green algae. They thrived two billion years ago in the warm, shallow marine environment that existed along what is now the Mesabi Range. Sediments settling on these plants were trapped by gum-like mats of algae. As new generations grew, layered, dome-like structures formed.

These plants were the first on Earth to carry out photosynthesis on a grand scale. The process released vast quantities of oxygen into the sea and, ultimately, into the atmosphere. The oxygen was probably responsible for the first mass extinction on Earth, since most life forms at that time were anaerobic. In other words, they were unable to survive in an oxygenated environment. However, when iron in the water was depleted, the oxygen accumulated in the atmosphere. This helped create an atmosphere suitable for life forms as we know them.

The plants that became stromatolites released oxygen into the sea and were responsible for precipitating iron from the water. This formed the Biwabik Iron Formation that is mined today on the Mesabi Range.

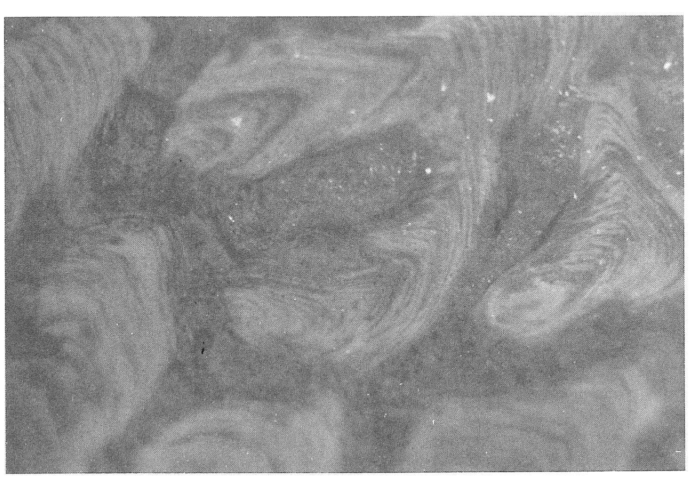


TABLE OF CONTENTS

LIST OF TABLES AND GRAPHS

INTRODUCTION

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

TACONITE PRODUCTION TAX

The taconite production tax is the largest tax paid by the iron mining industry. It is a major source of revenue to the counties, municipalities and school districts where taconite mining exists or where natural ore mining was formerly significant.

The production tax distributed in 1999 is the tax due for the 1998 production year. The taconite production tax rate for concentrates and pellets produced in 1998 was $2.141 per taxable ton. The taxable tonnage for 1998 is the cumulative, average tonnage produced in 1996, 1997 and 1998.

The flowchart on page 13a illustrates where the production tax is distributed. It shows both the cents per ton (cpt) distribution and the total amount distributed to various funds. The cost per ton production tax distribution table was eliminated. The funds to which the production tax are distributed are explained on pages 8 through 12, *Distribution of Funds.*

STATE TAXES

Other major taxes paid by the mining industry are the occupation tax, similar to an income tax, pages 29 - 37, and sales and use tax, pages 41and 42. These taxes are deposited in the State General Fund.

COUNTY TAXES

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

TAXES ON OTHER MINERALS

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

AGGREGATE MATERIAL TAX

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

AGGREGATE MATERIAL SALES/USE TAX

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

IRON ORE PRODUCTION COMPARISON

Figure 1

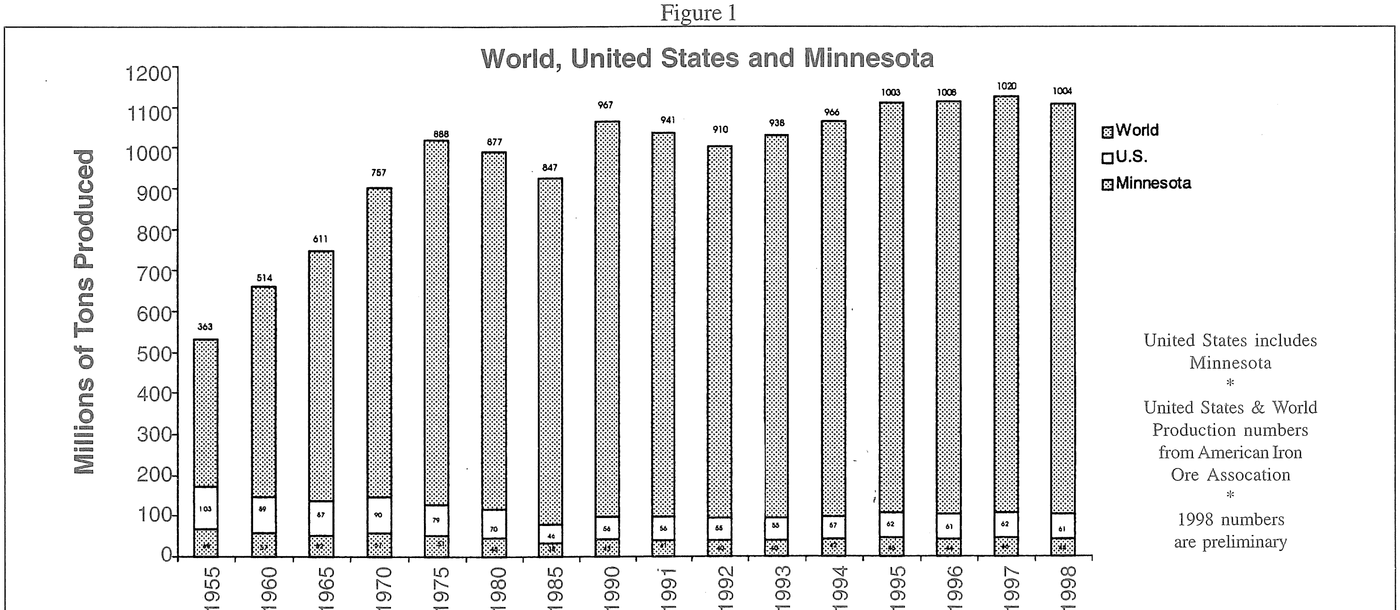


Figure 2

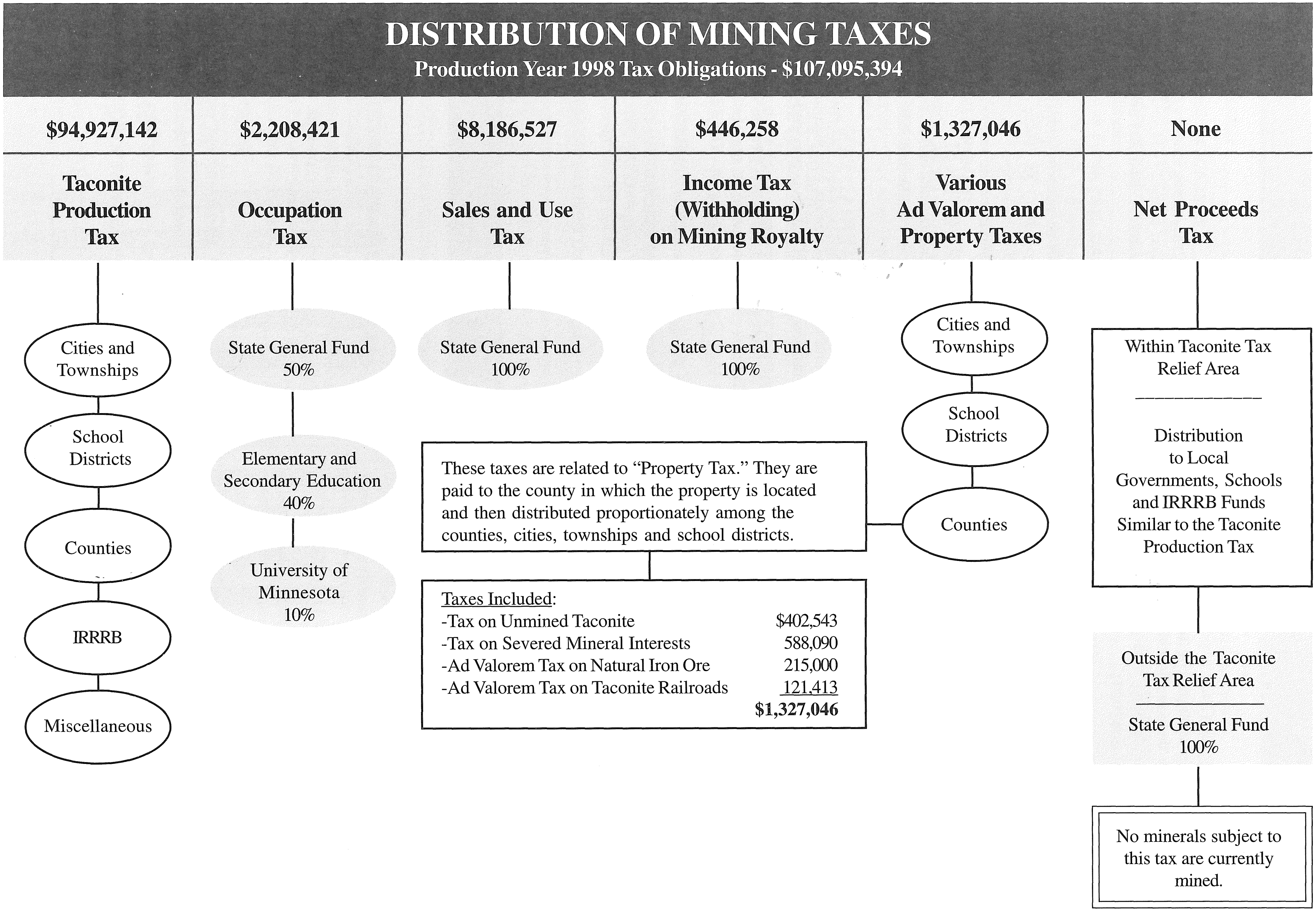

DISTRIBUTION OF MINING TAXES
Production Year 1998 Tax Obligations - $107,095,394
$94,927,142
Taconite Production Tax
Cities and Townships
School Districts
Counties
IRRRB
Miscellaneous
$2,208,421
Occupation Tax
State General Fund 50%
Elementary and Secondary Education 40%
University of Minnesota 10%
$8,186,527
Sales and Use Tax
State General Fund 100%
$446,258
Income Tax (Withholding) on Mining Royalty
State General Fund 100%
$1,327,046
Various Ad Valorem and Property Taxes
Cities and Townships
School Districts
Counties
These taxes are related to "Property Tax." They are paid to the county in which the property is located and then distributed proportionately among the counties, cities, townships and school districts.
Taxes Included:
-Tax on Unmined Taconite $402,543
-Tax on Severed Mineral Interests 588,090
-Ad Valorem Tax on Natural Iron Ore 215,000
-Ad Valorem Tax on Taconite Railroads 121,413
$1,327,046
None
Net Proceeds Tax
Within Taconite Tax Relief Area
Distribution to Local Governments, Schools and IRRRB Funds Similar to the Taconite Production Tax
Outside the Taconite Tax Relief Area
State General Fund 100%
No minerals subject to this tax are currently mined.

Figure 3

HISTORY OF MINNESOTA TACONITE PRODUCTION

(Taconite Production Tax Report Tonnages)

Year	Butler	Eveleth*	Hibbing	Ispat	LTV**	National	Northshore***	USX	Total
1949	—	—	—	—	45,290	—	—	—	45,290
1950	—	—	—	—	129,666	—	—	—	129,666
1951	—	—	—	—	99,977	—	—	—	99,977
1952	—	—	—	—	101,325	—	13,071	—	114,396
1953	—	—	—	—	228,499	—	257,435	133,504	619,438
1954	—	—	—	—	180,669	—	316,628	413,059	910,356
1955	—	—	—	—	195,979	—	521,200	623,491	1,340,670
1956	—	—	—	—	211,698	—	4,238,729	618,452	5,068,879
1957	—	—	—	—	487,303	—	5,558,262	766,739	6,812,304
1958	—	—	—	—	2,953,993	—	4,837,258	747,033	8,538,284
1959	—	—	—	—	4,109,000	—	3,763,189	542,106	8,414,295
1960	—	—	—	—	7,144,214	—	5,446,342	799,365	13,389,921
1961	—	—	—	—	6,772,654	—	5,652,522	761,913	13,187,089
1962	—	—	—	—	7,593,349	—	6,153,812	771,890	14,519,051
1963	—	—	—	—	7,852,473	—	8,044,362	798,405	16,695,240
1964	303	—	—	—	8,009,243	—	9,667,975	827,713	18,505,234
1965	10,700	52,826	—	—	8,039,657	—	10,023,520	877,459	19,004,162
1966	70	1,536,370	—	—	8,551,944	—	10,829,799	758,544	21,676,727
1967	1,617,409	1,738,068	—	—	9,900,479	470,918	9,695,533	888,950	24,311,357
1968	2,334,752	1,800,124	—	—	10,718,707	839,663	10,002,064	4,573,743	30,269,053
1969	2,599,906	1,916,899	—	—	10,198,586	2,285,744	10,352,579	6,056,598	33,410,312
1970	2,637,655	1,986,000	—	—	10,743,031	2,728,932	10,825,617	6,426,609	35,347,844
1971	2,647,930	2,055,131	—	—	10,192,628	2,813,242	9,628,920	6,439,695	33,777,546
1972	2,302,971	2,141,233	—	—	9,972,068	2,420,056	9,042,632	8,674,583	34,553,543
1973	2,563,093	2,065,042	—	—	11,657,631	2,578,023	10,424,648	12,540,908	41,829,345
1974	2,523,518	2,171,678	—	—	10,897,352	2,476,793	10,367,742	12,616,204	41,053,287
1975	2,437,411	2,164,677	—	—	10,884,511	2,433,579	10,695,052	12,193,687	40,808,917
1976	2,393,347	2,291,714	303,419	—	10,778,287	2,461,083	10,052,204	12,294,537	40,574,591
1977	1,686,590	2,572,909	2,150,170	232,457	4,646,451	2,621,627	5,033,248	7,428,136	26,371,588
1978	2,507,633	4,924,732	5,408,928	1,925,378	7,424,801	5,096,348	9,154,801	12,927,230	49,369,851
1979	2,552,255	5,604,688	6,250,348	2,238,443	8,820,258	5,367,815	7,033,658	16,492,186	54,359,651
1980	1,575,454	5,778,256	6,800,202	1,407,598	5,679,043	2,896,456	4,582,997	14,147,065	42,867,071
1981	2,194,960	5,879,859	7,125,897	2,385,967	7,943,641	3,424,392	7,643,807	12,381,951	48,980,474
1982	1,040,799	4,611,260	5,703,410	1,792,702	3,963,897	1,291,211	1,520,113	3,307,025	23,230,417
1983	1,556,523	3,265,821	4,205,470	2,136,155	2,045,065	3,270,837	985,318	7,708,073	25,173,262
1984	1,989,952	3,932,117	6,075,049	2,032,164	4,696,117	4,584,782	3,666,288	8,712,123	35,688,592
1985	952,476	2,943,613	5,059,291	1,821,941	4,862,497	4,428,662	3,282,389	9,913,832	33,264,701
1986	**Closed**	3,455,690	4,881,987	1,807,451	4,232,962	4,021,372	1,433,898	5,617,695	25,451,055
1987	—	3,481,280	7,685,375	2,118,660	6,774,330	4,314,534	**Closed**	7,668,870	32,043,049
1988	—	4,238,636	8,653,270	2,247,840	7,888,582	4,607,944	—	11,848,960	39,485,232
1989	—	4,910,384	8,186,626	2,269,177	7,372,667	4,745,024	—	11,846,319	39,330,197
1990	—	4,417,255	8,136,923	2,265,876	7,798,292	4,809,930	2,384,061	12,709,299	42,521,636
1991	—	3,374,068	8,016,302	2,337,141	6,887,320	4,850,261	1,986,223	12,470,635	39,921,950
1992	—	3,571,784	7,801,946	2,109,743	6,622,640	4,997,512	1,394,451	12,351,795	38,849,871
1993	—	3,124,040	7,244,015	2,403,766	7,403,623	2,758,923	3,406,029	13,509,891	39,850,287
1994	—	4,862,373	8,192,141	2,511,292	7,470,635	1,732,469	3,434,979	13,473,020	41,676,909
1995	—	5,141,072	8,386,431	2,560,350	7,440,366	5,026,048	3,658,130	12,788,787	45,001,184
1996	—	4,842,571	7,910,004	2,530,053	7,182,697	4,775,999	4,071,680	12,560,634	43,873,638
1997	—	4,964,481	7,479,612	2,388,631	7,168,585	5,108,503	4,059,463	13,646,373	44,815,648
1998	—	4,773,026	7,608,548	2,550,795	6,657,167	5,260,207	4,182,872	13,291,377	44,323,992
Totals	**40,125,707**	**116,589,677**	**149,265,364**	**46,073,580**	**309,631,849**	**111,498,889**	**249,325,500**	**338,946,463**	**1,361,457,029**

* 1965 - 1987, Eveleth Taconite
1978 to December 1996, Eveleth Mines
December 1996 to present, EVTAC Mining

** Erie Mining Co. was renamed LTV Steel Mining Co. in 1987

*** 1949 - 1986, Reserve Mining Co.
1987 - 1989, Closed
1990 - September 1994, Cyprus/Northshore
September 1994 to present, Northshore (CCI)

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

Figure 4

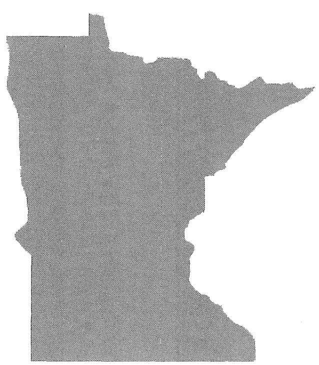
SUMMARY OF ALL TAX LIABILITIES FOR THE MINNESOTA MINING INDUSTRY

(000s)

TAX	1992	1993	1994	1995	1996	1997	1998	1999 Est.
Ad Valorem - Unmined Natural Ore (Year Assessed)	$ 341	$ 330	$ 315	$ 279	$ 272	$ 279	$ 215	$200
- Natural Ore	38	0	22	87	176	213	87	100
Occupation - Taconite	1,551	1,709	2,302	3,072	2,460	2,508	2,152	2,000
Taconite Production	82,035	80,196	81,500	85,705	90,513	94,705	94,268	91,400
School Bonds	1,010	1,021	918	925	612	706	659	0
Railroad Ad Valorem - Taconite (Year Paid)	139	143	141	233	124	123	121	120
Unmined Taconite (Year Assessed)	356	352	488	468	456	445	403	400
Sales & Use (Taconite Only)	11,255	11,663	13,137	14,494	11,980	11,920	8,187	7,000
TOTAL (Taconite Only)	$96,346	$95,084	$98,486	$104,897	$106,145	$110,406	$105,790	$100,920
TONS PRODUCED (Taconite)	38,850*	39,850*	41,677*	45,001*	43,874*	44,816*	44,324*	39,000*
TOTAL TAXES PAID ON PER TON BASIS (Taconite)	$2.48	$2.39	$2.36	$2.33	$2.42	$2.46	$2.39	$2.59

* Tons are without flux additive.
Beginning in 1990, production tons are reported dry.

Shaded portions are taconite taxes only.



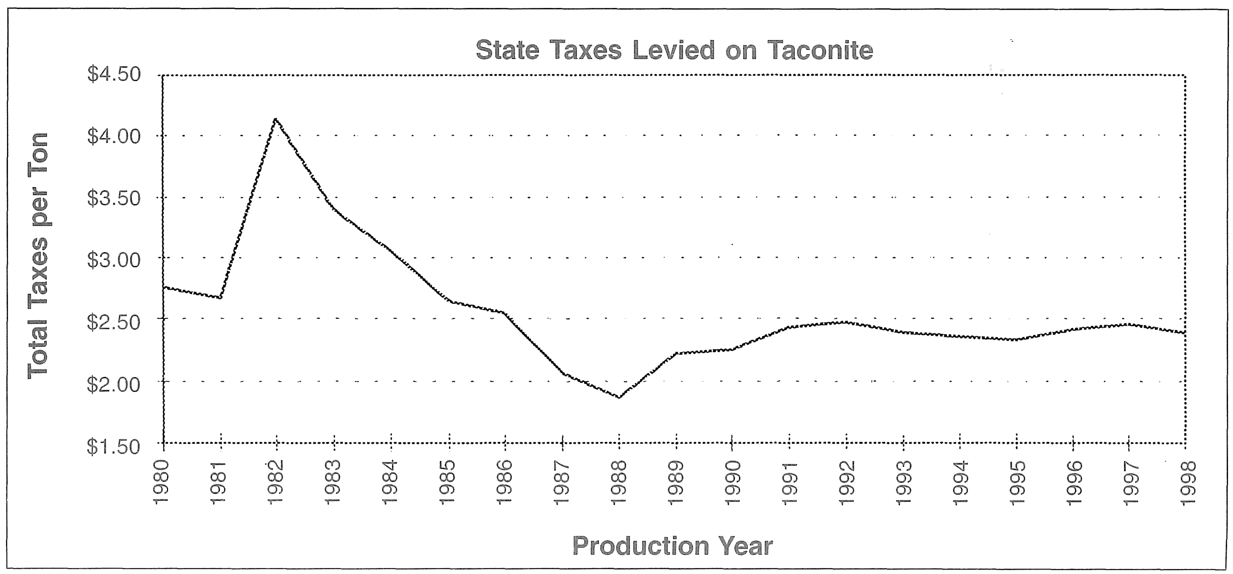


Figure 5

MINNESOTA TAXES LEVIED ON TACONITE

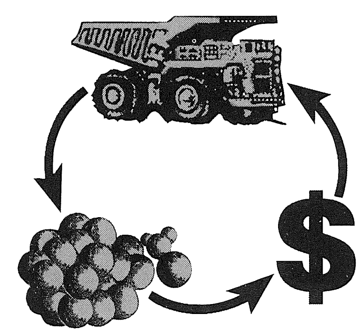
Production Year(s)	Unmined Taconite Tax	Use Tax (Net) [1]	Production Tax	Occupation Tax	Royalty Tax	School Bonds	Railroad Gross Earnings Tax	Total Taxes	Total Tons Produced [2]	Total Taxes Per Ton
1914-50	-	-	$4,536	-	$3,345	-	-	$7,881	N/A	N/A
1951-55	-	-	178,523	-	57,671	$122,625	$11,083	369,902	N/A	N/A
1956-60	-	-	2,457,832	$1,046,907	1,730,615	6,410,394	2,570,566	14,216,314	42,259,000	$.34
1961-65	-	-	4,884,757	6,830,282	1,926,246	8,372,662	5,843,668	27,857,615	81,923,000	.34
1966-70	$64,000	-	12,558,526	10,726,680	3,519,487	7,518,661	7,982,248	42,369,602	145,015,000	.29
1971-75	64,000	$7,214,111	65,013,384	44,909,601	9,262,076	3,841,750	12,321,573	142,626,495	192,013,000	.74
1976-80	471,966	45,967,313	324,497,931	78,350,978	18,142,273	852,437	14,733,733	483,016,631	214,883,632	2.25
1981	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	3,576,335	782,076	1,985,441	88,215,566	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	39,330,197	2.22
1990	352,935	13,022,869	78,929,646	2,057,281	*	980,368	266,879	95,609,978	42,521,636	2.25
1991	349,551	11,385,280	82,411,317	2,007,906	*	994,841	263,692	97,412,587	39,921,950	2.44
1992	355,596	11,255,028	82,035,382	1,551,335	*	1,010,205	139,193	96,346,739	38,849,871	2.48
1993	352,119	11,683,161	80,195,972	1,708,731	*	1,020,631	143,079	95,103,693	39,850,287	2.39
1994	488,176	13,136,780	81,500,355	2,301,596	*	917,810	140,841	98,485,558	41,676,909	2.36
1995	467,946	14,494,154	85,704,654	3,158,565	*	925,112	233,034	104,983,465	45,001,184	2.33
1996	455,792	11,980,487	90,512,836	2,460,000	*	612,273	123,682	106,145,070	43,873,638	2.42
1997	444,630	11,920,451	94,704,666	2,508,206	*	705,767	122,694	110,406,414	44,815,648	2.46
1998	402,543	8,186,527	94,268,103	2,121,421	*	659,039	121,413	105,759,046	44,323,992	2.39
1999 Est.	400,000	7,000,000	91,400,000	2,000,000	*	0	120,000	100,920,000	39,000,000	2.59

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

* Repealed effective after December 31, 1989.

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

1. Total use tax less total refunds paid after 1990, see *Figure 37,* page 42.
2. Tons are without flux additive beginning in 1987. Beginning in 1990, production tons are reported dry.



TACONITE PRODUCTION TAX

(MINNESOTA STATUTES 298.24 AND 298.28)

Definition

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

Tax Rate

The taconite production tax rate for any given year is determined by multiplying the prior year's rate by the percentage change in the Gross National Product Implicit Price Deflator (GNPIPD) from the fourth quarter of the second preceding year to the fourth quarter of the preceding year. The GNPIPD is published monthly in *Survey of Current Business* by the U.S. Department of Commerce. This escalator takes effect each year unless the rate is frozen or changed by the Legislature.

Taxable Tons

The production tax is levied on taxable tons, which are the average tons produced during the current year and the previous two production years. Minnesota Statute 298 eliminates the peaks and valleys of tax payments by the taconite producers and distribution to the tax recipients. The result is a more stable tax base resembling a property tax.

History

1986 - 1988	$1.900
1989 - 1990	$1.975
1991 - 1995	$2.054
1996	$2.094
1997	$2.141
1998	$2.141
1999	$2.141

A more complete history of the tax rate and tax collected is found in *Figures 18 & 19*, pages 21 and 22.

Distribution

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

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

Payment Dates and Method

The taconite production tax is due and payable by electronic fund transfer on February 24 each year. If the 24th falls on a weekend or holiday, the payment date is the next regular work day. The Minnesota Department of Revenue must notify each taconite producer of its tax obligation by February 15.

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

1999 LEGISLATION

Production Tax

The 1999 Legislature froze the production tax at the 1998 rate of $2.141 per taxable ton. In years when the escalator is allowed to take effect, the rate is subject to revision until January of the year the tax is payable if the U.S. Department of Commerce revises the GNPIPD.

Economic Development Fund

The Taconite Economic Development Fund (TEDF), often referred to by the minimg industry as the *Investment Tax Credit,* was extended through the 2001 production year at the existing rate of 15.4 cents per taxable ton.

Producer Grants (M.S. 298.2961)

The 5 cent per taxable ton allocated to Producer Grants by the 1997 Legislature was extended through production year 2001. The proceeds must be used for: 1) environmentally unique reclamation projects, or 2) pit or plant expansions or modernizations, other than direct reduced iron (DRI), that extend the life of the plant. The IRRRB generally requires a real estate transfer or other asset or service valued at 15 percent of the grant to qualify for this program.

Temporary Loan Authority (M.S. 298.296, Subd. 4)

The 1999 Legislature further expanded the incentives available for direct reduced iron and nonferrous development. The loan authority for $7,500,000 from the 2002 Fund was expanded to grants and equity investments. The June 30, 1999, termination date was eliminated. Details on the amounts of loans and grants available are covered under DRI on page 23.

Minnesota Minerals 21st Century Fund

The Minnesota Minerals 21st Century Fund was created by the 1999 Legislature. It set aside $20 million in a separate account appropriated to the Minnesota Department of Trade and Economic Development commissioner. Its purpose is *to make loans or equity investments in mineral processing facilities including, but not limited to, taconite processing, direct reduction processing and steel production.* Ten million dollars appropriated by the 1998 Legislature for direct reduced iron plants was added to this fund, without the IRRRB match. It was also changed to include nonferrous, making the total fund $50 million.

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

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

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

TACONITE ECONOMIC DEVELOPMENT FUND (M.S.298.227)

The Taconite Economic Development Fund (TEDF) was first created for production years 1992 and 1993 at a rate of 10.4 cents per taxable ton (cpt). The 1995 Legislature extended the Taconite Economic Development Fund through the 1996 production year at 15.4 cpt, established in 1993. The 1996 Legislature increased the credit to 20.4 cpt for the 1996 production year and extended it through the 1998 production year.

The 1997 Legislature reduced the TEDF by 5 cpt and rescheduled it through the Producer Grant Program. Each producer's share can be spent for equipment and machinery or research and development in Minnesota mining technology or taconite, iron or steel production technology. No distribution is made under the TEDF or the Producer Grant Program in any year in which total industry production falls below 30 million tons. Any portion of theTEDF fund not released within two years of deposit is divided two-thirds to the Environmental Protection Fund and one-third to the Northeast Minnesota Economic Protection Trust Fund. To date, all funds have been approved and released to the taconite producers before the two-year deadline expired. A joint labor/management committee must agree on projects to be funded. The 1999 Legislature extended both the TEDF and Producer Grant programs through the 2001 production year. Each producer has two potential sources of:

1. Acid or Flux Pellets — The production tax amount credited to each producer's share of the Taconite Economic Development Fund is 15.4 cpt. All producers qualify through production year 2001, as previously mentioned.
2. Pellet Chips and Fines — This remains the same as last year—an amount, equal to 50 percent of the tax for pellet chips and fines not exceeding 5/16-inch, is allocated to each company's share of the Taconite Economic Development Fund. The total amount may not exceed $700,000 for all companies. If the total claimed exceeds $700,000, each company's share will be prorated. The determination of this allocation is based on current production year sales of chips, fines and concentrate—not the three-year average of production. Sales of crushed pellets *do not* qualify for this credit. (M.S. 298.28, Subd. 9(a), paragraph (b).)

Therefore, each company is eligible to receive 15.4 cents per taxable ton plus an additional amount based on current year sales. A listing of TEDF-funded projects and yearly distributions TEDF is shown in *Figure 22* on page 26.

FLUX PELLETS

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

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

Occupation tax is based on iron units and uses the full weight including flux. A reconciliation of both tonnages and the flux weight is shown on *Figure 27*, page 33.

PELLET WEIGHING

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

DEFINITION OF TACONITE TAX RELIEF AREA

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

"Tax relief area" means the geographic area contained within the boundaries of a school district that contains a municipality that 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; or

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

DISTRIBUTION OF FUNDS (MINNESOTA STATUTE 298.28)

Subd. 2 - Taconite Cities and Towns Fund

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

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

If concentrating is split between two cities or towns, the revenue (2.7 cpt) is divided by the percentage of hours worked in each. The primary crusher is considered the first stage of concentration. The only current examples are Northshore (Babbitt, Beaver Bay Township and Silver Bay), LTV (Hoyt Lakes and Schroeder Township-LTV powerplant) and EVTAC (Eveleth, Fayal Township, and McDavitt Township). Beaver Bay Township qualifies due to the location of the tailings basin that is part of the concentrating process. Distribution detail is shown in *Figure 11,* page 17.

(b) Mining Effects — Four cents per taxable ton is allocated to cities and organized townships affected by mining because their boundaries are within three miles of a taconite mine pit that was actively mined in at least one of the prior three years. If a city or town is located near more than one mine meeting the criteria, it is eligible to receive aid calculated from only the mine producing the largest taxable tonnage. When more than one municipality qualifies for aid based on one company's production, the aid must be apportioned between the municipalities in proportion to their populations. One-half of the money must be used for infrastructure improvement projects and one-half for projects in which two or more municipalities cooperate. Each municipality that receives a distribution under this paragraph must report annually to the IRRRB and its commissioner on the projects involving cooperation. This section takes effect with the 2000 distribution (1999 production year).

Subd. 3 - Taconite Municipal Aid Account

(a) 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. The amount is then reduced according to the percentage aid guarantee provisions in M.S. 298.225. For example, if production levels mandate a 90 percent aid guarantee, then the occupation tax grandfather amount is also reduced to 90 percent. The remainder of the aid is distributed according to a complex formula using levies, valuation, population and fiscal need factors.

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

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

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

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

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

* Minimum allowable LETCR -8.16

The conditions necessary for a municipality to qualify for this aid are identical to the qualifications for the 66 percent taconite property tax relief listed under Subd. 6, see page 9. The state laws governing Municipal Aid are M.S. 273.134, M.S. 298.28, Subd. 1, Clause 2, and M.S. 298.282. Distribution detail is *Figure 11,* page 17.

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

Subd. 4 - School Districts

(a) Twenty-seven and one-half cents (27.5) per taxable ton was distributed in 1999 (22.28 cents in 2000) under (b) & (c) plus increase in paragraph (d).

(b) School District 5.5 Cent Fund

A total of 5.5 cents per taxable ton (4.46 cpt in 2000) for each taconite company is allocated to school districts in which mining and concentrating occurs. If the mining and concentrating take place in separate districts, 40 percent is allocated to the location of mining and 60 percent to concentrating. In addition, if the mining occurs in more than one school district, the 40 percent portion is further split based on either a four-year average of production or a percentage of taconite reserves. If the concentrating function of a company takes place in more than one school district, the 60 percent portion is further split according to hours worked in each district.

The primary crusher, tailings basin and power plant owned by a taconite company are considered part of concentrating. When these are in different school districts than the plant, the hours worked split is used. Distribution detail in *Figure 12,* page 18.

(c) School 22 Cent Fund
All taconite companies pay 22 cents per taxable ton (17.82 cents for 2000) into a fund that is split among the 15 school districts in the Taconite Relief Area. Each school district receives the amount it was entitled to receive in 1975 from the taconite occupation tax. This amount may be increased or reduced by the percentage aid guarantee provisions of M.S. 298.225. The remaining amount in the fund is distributed using an index based on pupil units and tax capacities. Generally, districts with larger tax capacities per pupil unit tend to receive a proportionately smaller amount of this fund. Distribution detail is in *Figure 12,* page 18.

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

(d) Taconite Referendum Fund (TRF)
Taconite school districts qualify for an additional $175 per pupil unit over and above state aids by passing a special levy referendum equal to 1.8 percent of net tax capacity. The TRF pays the difference between the local levy and $175 per pupil unit. The fund receives money based on the theoretically escalated portion of the 22 cents per taxable ton in 1999. On July 15, 1999, and thereafter, the rate will increase according to the increase in the implicit price deflator as provided in M.S. 298.24. If any money remains in the fund, it is distributed to the Environmental Protection Fund (two-thirds) and the Northeast Minnesota Economic Protection Trust (one-third). *Note: A district receiving money from the TRF must reserve $25 per pupil unit (of the $175 authorized) for early childhood programs or outcome-based learning programs. The outcome-based programs must be approved by the commissioner of the Minnesota Department of Children, Families and Learning*. Distribution detail is in *Figure 12,* page 18.

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) increased to 20.52508 cents and was frozen. The 3.5 cents amount for county road and bridge covered in Subd. 5(d) 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 is in *Figure 14,* page 19.

(b) Taconite Counties with Mining or Concentrating
Thirteen cents per taxable ton is distributed to the county in which the taconite is mined or quarried or in which the concentrate is produced (split in the same manner as taconite cities and towns), less any amount distributed in Subd. 5(c). Distribution detail is in *Figure 14,* page 19.

(c) Counties - Electric Power Plant
If an electric power plant owned by and providing the primary source of power for a taconite plant is located in a county other than the county in which the mining and concentrating processes are conducted, one cent of the 13 cents per ton (for that company) is distributed to the county in which the power plant is located. *This one cent is not escalated but is subject to M.S. 298.225 adjustment.* For 1998, this amounted was $97,936 or 1.3985 cents per taxable ton, including the adjustment. The only qualifying company whose distribution is affected LTV Steel, due to its power plant location at Taconite Harbor in Cook County. Its one cent per ton distribution for the 1983 base year was figured on 9,793,639 tons. This amount was carried forward from 1979 based on a previous guarantee. The current year M.S. 298.225 guarantee percentage is always applied.

$97,936 (1983 base) x 100% = $97,936

There is also a transfer of $22,529 from property tax relief to the county fund covered in Subd. 6, (b). It gives Cook County $120,465 due to the LTV power plant. ($97,936 + $22,529 = $120,465)

(d) Taconite County Road and Bridge
Each county receives a portion of the aid that is deposited in the County Road and Bridge Fund in the same manner as taconite cities and towns. The basic allocation is 3.5 cents per taxable ton subject to adjustment as in M.S. 298.225. Distribution detail is in *Figure 14,* page 19.

Subd. 6 - Taconite Property Tax Relief

(a) Taconite Property Tax Relief
The amount sent to this fund was set by the 1998 Legislature at 38.81 cents per taxable ton (less two cents explained later) for the 1998 production year. For the production year 1999 and subsequent years, it will be indexed by the gross national product implicit price deflator. The qualifications and distribution of taconite property tax relief are described in the following paragraphs. Beginning with the 1996 production year and thereafter, the escalated rate was reduced by two cents per ton, which was allocated to the cities and townships under Subd. 2 (a).

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

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

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

The total amount of taconite property tax relief paid in each county and school district is listed in *Figure 8,* page 14. An example of the calculation is shown in *Figure 9,* page 15. The 1988 limitation was repealed by the 1998 Legislature beginning with taxes payable in 1999. This change increased the credit for many homeowners in the core Iron Range area. Many of these homes previously received only a $10 credit due to this limitation.

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

(b) Electric Power Plant Aid From Property Tax Relief
For any electric power plant located in another county, as described in 5c, 0.1875 *cent* per taxable ton from the Taconite Property Tax Relief account is 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 1998 production year, the total amount was 0.3217cpt (LTV's taxable tonnage). The frozen escalated rate is 0.296035 cpt for Cook County subtracted from LTV's property tax relief distribution. The remaining amount ($1,798 for 1998) is provided by the M.S. 298.225 guarantee. The guaranteed amount for 1998 is determined by applying the 100 percent guarantee by the $22,529 1983 distribution.

(c) Electric Power Plant Aid from Property Tax Relief
This subdivision allocates 0.7282 *cent* per LTV's taxable tonnage to Cook County school district due to the LTV power plant in Cook County. This change is effective for the 1999 production year. Because of escalation (frozen in 1987), this amounted to 0.888104 cpt (LTV tons) for 1998. This school aid is guaranteed at 40.5 percent or the variable rate, whichever is less. The 1983 base for the school was $67,586. For the 1998 production year, no guarantee applied and the distribution was calculated by multiplying the LTV taxable tons and the 0.888104 cpt escalated rate resulting in $62,192 in aid. For the 1999 production year, the distribution rate is reduced to 81 percent of the 1987 rate or 0.719364 cent per ton.

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 the Iron Range Resources and Rehabilitation Board (subject to M.S. 28.225 guarantee). The funds are used by the IRRRB for general operating expenses and community development grants.

Subd. 8 — Range Association of Municipalities & Schools
This 0.2 cent per taxable ton (subject to M.S. 298.225 guarantee) is paid to the Range Association of Municipalities and Schools (RAMS) to provide an area-wide approach to problems that demand coordinated and cooperative actions. All cities, towns and schools in the taconite and iron ore mining area are included.

Subd. 9 — Northeast Minnesota Economic Protection Trust Fund
In addition to the amount provided in the remainder after all other distributions are completed, 3.35 cents per taxable ton was allocated to the Northeast Minnesota Economic Protection Trust Fund for production year 1998 and thereafter.

(a) Taconite Economic Development Fund
This subdivision is explained in detail on page 24 and 26.

Subd. 10 — Indexing
Beginning with distribution in 2000 (1999 production year), the amounts determined under Subd. 6, paragraph (a), and Subd. 9 are increased in the same proportion as the increase in the implicit price deflator as provided in Section 298.24, Subd. 1.

The distributions per ton determined under Subd. 5, paragraphs (b) and (d), and Subd. 6, paragraph (b) for distribution in 1988 and subsequent years are the distributions per ton determined for distribution in 1987. The distribution per ton under Subd. 6, paragraph (c), for distribution in 2000 and subsequent years is 81 percent of the distribution per ton determined for distribution in 1987.

Subd. 11— Remainder

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

(b) Taconite Railroad
Until 1978, the taconite railroad gross earnings tax was distributed to local units of government based on a formula of 50 percent to school districts, 22 percent city or town, 22 percent county, and six percent state. The respective shares were further split based on miles of track in each government unit. Beginning in 1978, the distributions were frozen at the 1977 level and funded from production tax revenues. The total amount distributed is $3,160,899. Taconite railroad aids are not subject to the percentage reduction mandated for other aids by M.S. 298.225. So, taconite railroad aids remain constant from year to year. Beginning with the 1999 production year, the taconite railroad distribution to schools is reduced to 81 percent of the 1977 amount.

(c) Occupation Tax Grandfather Amount to IRRRB
In 1978 and each year thereafter, the amount distributed to the IRRRB is the same it received in 1977 from the distribution of the taconite and iron ore occupation taxes: $1,252,520.

ADDITIONAL PAYMENTS

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

1. Minnesota Department of Revenue - Minerals Tax Office
Beginning with the 1993 production year (payable 1994), $55,000 per year for two years was appropriated from produc-

tion tax revenues to the Minnesota Department of Revenue for costs and expenses incurred in the administration of the taconite production tax. The 1995 Legislature increased the amount to $75,000 per year (Chapter 254, Article 1, Section 16, Laws of Minnesota for 1995). It was not renewed by the 1997 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 built 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, 80, or 70 percent of the bond payment, depending on the school district situation and year authorized. Distribution detail is in *Figure 13,* page 18.

(a) The 1982 Legislature increased the taconite production tax credit to four cents per taxable ton for school district bonds. However, a seven cents per taxable ton credit is allowed for Independent School District 712, Mtn. Iron-Buhl. The school bond credits are subtracted from the amount that should otherwise be distributed to the Northeast Minnesota Economic Fund. The credits are for bond payments made by the companies and are not collected or distributed by the Minnesota Department of Revenue. Currently, only Mtn. Iron-Buhl is covered by the credit.

(b) The 1988 Legislature passed a provision that allows 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). 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 is in *Figure 13*, page 18.

(c) The 1990 Legislature authorized additional school bonds for eight school districts. The payments are made by the respective county auditors from production tax revenues. Payments are deducted in equal shares from the Environmental and Economic Protection Funds. Distribution detail is in *Figure 13,* page 18.

(d) The 1992 Legislature authorized three additional school bond issues: Grand Rapids, Lake Superior and Virginia. Lake Superior and Virginia issued bonds, but Grand Rapids was unable to get voter approval for a new bond issue as of Sept. 1, 1995. The bonds are subtracted in equal shares from the Environmental Economic Protection Funds.

(e) The 1996 Legislature authorized eight additional school bond issues and reauthorized Grand Rapids. The districts and amounts are listed in the footnote for *Figure 13,* page 18. The 1996 bonds are subtracted in equal shares from the Environmental and Economic Protection Funds.

(f) The 1998 Legislature authorized 5.3 million in school bonds for Mtn. Iron-Buhl that would be funded 80 percent with taconite funds.

AID GUARANTEE (MINNESOTA STATUTE 298.225)

The recipients of the taconite production tax, provided in M.S. 298.28, Subds. 2 to 5, Subd. 6, paragraphs (b) and (c) and Subds. 7 and 8, are guaranteed to receive distributions equal to the amount distributed to them with respect to the 1983 production year, provided that production is not less than 42,000,000 taxable tons. If the production is less, the amount distributed from the fund is reduced proportionately by two percent per each 1,000,000 tons by which the 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. 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 IRRRB makes the payments of any remaining difference from the capital of the Taconite Environmental Protection Fund and the Northeast Minnesota Economic Protection Trust Fund in equal proportions. This is determined by the commissioner of the Minnesota Department of Revenue. The aid payments covered by this variable guarantee are listed as follows:

1. 4.5 cents—City and Town Fund
2. 12.3 cents—Taconite Municipal Aid
3. 3 cents—escalated to IRRRB
4. 0.2 cent—RAMS
5. 0.1875 cent—power plant transfer from Taconite Property Tax Relief Account to Cook County

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

1. 13 cents—Taconite County Fund
2. 3.5 cents—Taconite County Road and Bridge Fund

The following funds are guaranteed at 40.5 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. 0.5625 cent—power plant transfer from Taconite Property Tax Relief Account to School District 166, Cook County

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

TACONITE PRODUCTION TAX DISTRIBUTION

The taconite mining companies make the production tax payments directly to six counties (Cook, Lake, St. Louis, Itasca, Crow Wing, and Aitkin) and the IRRRB. 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 Minnesota Department of Revenue makes all computations regarding the amount 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 IRRRB.

The proceeds of the 1998 taconite production tax (payable 1999) are distributed by state law as follows (*all figures are cents per taxable ton*):

M.S. 298.28 — Payment Recipients		Cents per ton
Subd. 2	- Taconite Cities and Towns	4.5
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 within the taconite relief area (distributed by formula)	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 7.5? cent for Cook County and Cook County schools)	36.81**
Subd. 7	- IRRRB	6.5**
Subd. 8	- Range Association of Municipalities and Schools	0.2
Subd. 9	- Northeast Minnesota Economic Protection Fund	3.35**
Subd. 9a	- Taconite Economic Development Fund	15.4
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 36.81 cents, IRRRB was 6.92 cents, and the Northeastern Minnesota Economic Protection Fund was 3.35 cents.

The full amount distributed, including escalation and M.S. 298.225 guarantees, is listed in Figure 10, page 16.

Figure 6

NORTHEAST MINNESOTA ECONOMIC PROTECTION TRUST FUND AND ENVIRONMENTAL PROTECTION FUND

Period Ending	Economic Fund Balance	Environmental Protection Fund Balance
Dec. 31, 1983	$28,487,283	
June 30, 1984	27,019,423	
Sept. 30, 1985	28,859,669	
June 30, 1986	31,537,559	
June 30, 1987	31,186,041	
June 30, 1988	31,290,815	
June 30, 1989	31,279,724	
June 30, 1990	36,679,552	$4,027,594
June 30, 1991	42,004,602	4,997,728
June 30, 1992	48,840,406	8,538,918
June 30, 1993	54,084,189	1,459,629
June 30, 1994	57,633,818	1,411,886
June 30, 1995	61,596,404	4,034,811
June 30, 1996	66,451,967	3,638,011
June 30, 1997	61,901,073	4,440,733
June 30, 1998	61,863,771	4,709,999
June 30, 1999	71,863,771	5,003,671

Economic Fund Major Withdrawals

Sept. 27, 1982	$ 2.50 million	IRRRB Jobs Program
Feb. 3, 1983	$ 5.00 million	IRRRB Jobs Program
May 24, 1983	$10.00 million	IRRRB Economic Development
Feb. 25, 1984	$ 2.08 million	Aid guarantees to cities/schools (M.S. 298.225) *
February & May, 1987	$ .46 million	M.S. 298.225
Sept, 26, 1989	$ 1.90 million	Property Tax Relief Guarantee
July 1, 1996	$10.00 million	Producer Grant Program**

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

** 1996 M.S. 298.2961

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

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

The Northeast Minnesota Economic Protection Trust Fund is somewhat different in that only interest and dividends earned by the fund may be spent before Jan. 1, 2002. Approval for expenditures from the principal may be made prior to 2002 with authorization from the Legislature. This has been done on several occasions as shown in *Figure 6* above.

TACONITE PROPERTY TAX RELIEF

The taconite homestead credits described on page 9 are administered by the county auditors. The amounts payable in 1998 are listed in *Figure 8* below. Distribution is determined by the formula described on page 15. The amounts do not equal the total production tax allocated for property tax relief shown in the tables as collections or payments. The difference is carried in the Taconite Property Tax Relief Fund balance with St. Louis County as fiscal agent. If the fund balance and production tax collections are not sufficient to make the payments, the deficit is made up from the Economic Protection Fund. The last time this occurred was in 1989.

Figure 7

TACONITE PROPERTY TAX RELIEF FUND BALANCE

Year Payable	Payments into Account*	Interest Earned**	Payments Out (by formula)	Balance December 31
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	712,838	11,136,577	12,463,871
1995	12,143,854	1,087,081	11,758,988	13,935,818
1996	13,055,526	1,080,173	11,600,147	16,471,370
1997	12,924,447	1,039,106	11,809,166	18,832,791
1998	13,555,273	1,416,146	11,269,163	22,535,047
1999	16,237,808	Est. 1,000,000	Est. 14,880,000	Est. 24,892,855
2000 Est.	15,755,000			

* Listed under year payable; therefore, 1999 payments result from 1998 production.

** Managed by the Minnesota Department of Finance. No interest paid to fund prior to 1986. Other factors such as money returned by schools was not researched. St. Louis County began as the fiscal agent in 1986. *Note: It includes minor amounts of incorrect homestead claims repaid.*

Figure 8

TACONITE PROPERTY TAX RELIEF FUND DISTRIBUTION

Total Listed by School District Area:

School District	Mobile Home	Real Property
001 - Aitkin	$4,352	$764,164
166 - Cook County	2,314	342,257
182 - Crosby-Ironton	7,244	660,895
316 - Coleraine	8,616	627,838
318 - Grand Rapids	28,093	2,009,788
319 - Nashwauk-Keewatin	1,524	156,841
381 - Lake Superior	3,411	1,079,551
695 - Chisholm	232	377,462
696 - Ely	1,650	342,964
701 - Hibbing	13,326	1,242,469
706 - Virginia	1,764	454,996
712 - Mt. Iron-Buhl	1,878	198,287
2142 - St. Louis County	8,884	1,435,013
2154 - Eveleth-Gilbert	2,739	697,201
2711 - Mesabi East	2,022	791,389
TOTAL (PAYABLE 1998)	**$88,048**	**$11,181,115**

Total Listed by County Area:

County	Mobile Home	Real Property	Grand Total
St. Louis	$32,910	$5,735,155	**$5,763,065**
Itasca	38,233	2,794,467	**2,832,700**
Lake	2,984	878,537	**881,521**
Crow Wing	7,244	687,660	**694,904**
Aitkin	4,352	737,399	**741,751**
Cook	2,313	342,257	**344,570**
Koochiching	12	5,640	**5,652**
TOTAL: (Payable 1998)	**$88,048**	**$11,181,115**	**$11,269,163**

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

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

The aid amounts in Figures 11, 12 and 14, pages 17, 18, and 19, do not include taconite property tax relief.

Figure 9

57% & 66% TACONITE HOMESTEAD CREDIT EXAMPLE

TAXES PAYABLE 1999

	GROSS TAX COMPUTATION	57%	66%
1	Total Market Value	$50,000.00	$50,000.00
2	Net Tax Capacity	$500.00	$500.00
3	Local Tax Rate	115.000%	115.000%
4	Net Tax Capacity Tax (2 x 3)	$575.00	$575.00
5	Referendum Tax Rate	0.09500%	0.09500%
6	Referendum (5 x 1)	$47.50	$47.50
	EDUCATION CREDIT COMPUTATION	**57%**	**66%**
7	Total Gross Tax (4 + 6)	$622.50	$622.50
8	Education Homestead Credit Rate	20.136%	20.136%
9	Education Homestead Credit (8 x 2)*	$100.68	$100.68
	FINAL NET TAX	**57%**	**66%**
10	Adjusted Gross Tax (7 - 9)	$521.82	$521.82
11	Taconite Credit (10 x 57%, $289.80 maximum) or	$289.80	
	(10 x 66%, $315.10 maximum) **		$315.10
12	Net Tax (10 - 11)	$232.02	$206.72

* The education homestead credit cannot exceed the school district tax on any parcel.
The 1999 maximum education homestead credit is $320 per homestead.
The 1999 education homestead credit rate is equal to 66.2 percent of the preliminary general education rate.

** Taconite credit can now be less than $10.

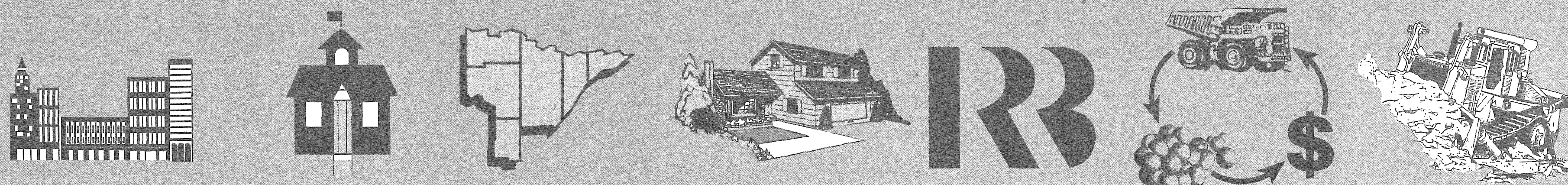
If a split classification parcel is eligible for taconite homestead credit, the entire parcel is eligible for up to the maximum amount.

In the case of fractional homesteads, the taconite homestead credit maximum is apportioned according to the percent of interest in the property.

The taconite homestead credit should be calculated after subtracting the disaster credit, education homestead credit and all other applicable credits from the gross tax on the parcel.

1999 Distribution of Taconite Production Tax
1998 Production Year

Total Taconite Production Tax	*Less: School Bond Credits*	Net Production Tax Distributed
$94,927,142	**– $659,039**	**$94,268,103**
Production Tax is $2.141 per taxable ton. The three-year average taxable tonnage was $44,337,759.	1.5-cpt	$2.126 per taxable ton



CITIES and TOWNSHIPS — $9,576,672 — 21.6 cpt
- City & Township Fund* $2,065,390 4.7 cpt
- Taconite Municipal Aid* $6,920,140 15.6 cpt
- Taconite Railroad $591,142 1.3 cpt

SCHOOL DISTRICTS — $23,274,238 — 52.5 cpt
- School District $0.055 Fund* $2,580,893 5.8 cpt
- School $0.22 Fund $10,047,818 22.7 cpt
- Taconite Railroad $1,785,380** 4 cpt
- Taconite Referendum $4,906,500 11.1 cpt
- School Bond Payments $3,953,647 8.9 cpt

COUNTIES — $13,376,884 — 30.2 cpt
- Regular County Fund* $9,941,015 22.4 cpt
- County Road & Bridge Fund* $2,651,492 6 cpt
- Taconite Railroad $784,377 1.8 cpt

PROPERTY TAX RELIEF AND MISC — $16,422,943 — 37 cpt
- Taconite Property Tax Relief $16,237,808 36.6 cpt
- Range Association of Municipalities and Schools* $110,135 0.2 cpt
- State of Minnesota $75,000 0.2 cpt

IRRRB — $19,829,799 — 44.7 cpt
- IRRRB Fund* $3,069,671 6.9 cpt
- IRRRB Fixed Fund $1,252,520 2.8 cpt
- Taconite Env. Protection Fund $11,000,476 24.8 cpt
- Northeast Minnesota Economic Protection Fund $4,507,132 10.2 cpt

Guarantee Fund M.S. 298.225 M.S. 298.293

TACONITE ECONOMIC DEVELOPMENT FUND — $7,476,195 — 16.9 cpt

OTHER IRRRB ADMIN. ECONOMIC DEVELOPMENT FUNDS — $4,311,372 — 9.7 cpt
- Chisholm-Hibbing Airport Industrial Park $2,094,484 4.7 cpt 1999 Distribution Only
- Producer Grants $2,216,888 5 cpt

**32.5 cents per ton will be subtracted from state aids or levies a taconite school disctrict 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.

cpt = cents per taxable ton

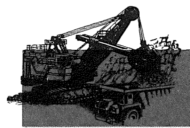


Figure 10

TACONITE PRODUCTION TAX DISTRIBUTION*

PRODUCTION YEAR	1993	1994	1995	1996	1997	1998
City and Township	$1,321,816	$1,337,932	$1,388,842	$2,045,705	$2,083,419	$2,065,390
Taconite Municipal Aid	6,620,791	6,689,911	6,941,010	6,978,940	6,951,616	6,920,140
School District — Regular	2,418,109	2,425,449	2,499,143	2,560,047	2,605,249	2,580,893
School District Fund	9,373,812	9,396,265	9,681,360	9,927,592	10,111,969	10,047,818
Taconite Referendum Fund	4,971,966	4,923,657	4,853,151	4,803,952	4,877,652	4,906,500
County	9,642,040	9,677,788	9,835,295	9,849,966	10,021,984	9,941,015
County Road and Bridge	2,560,487	2,561,491	2,603,669	2,627,320	2,673,631	2,651,492
Taconite Property Tax Relief	11,783,383	12,143,854	13,055,526	12,924,447	13,555,273	16,237,808
State	55,000	55,000	75,000	75,000	75,000	75,000
IRRRB ($.03 Indexed)	2,671,666	2,687,126	2,821,445	2,949,813	3,061,057	3,069,671
Range Association of Municipalities and Schools	105,348	106,631	110,689	111,217	110,660	110,135
Taconite Railroad (Fixed)	3,160,899	3,160,899	3,160,899	3,160,899	3,160,899	3,160,899
IRRRB (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	-	-
Other School Bond Payments	2,732,470	2,643,181	2,763,131	3,665,402	4,195,324	3,953,647
Taconite Environmental Protection Fund	11,174,329	11,462,347	12,669,494	12,801,894	12,904,541	11,000,476
Northeast Minnesota Economic Protection Fund	3,476,930	3,875,826	4,697,905	5,324,091	5,296,396	4,507,132
Taconite Economic Development Fund	6,634,406	6,860,477	7,055,575	9,454,031	7,444,818	7,476,195
Producer Grants	-	-	-	-	2,228,174	2,216,888
Hoyt Lakes Industrial Park	-	-	-	-	2,094,484	-
Chisholm-Hibbing Industrial Park	-	-	-	-	-	2,094,484
TOTAL	**$80,195,972**	**$81,500,355**	**$85,704,654**	**$90,512,836**	**$94,704,666**	**$94,268,103**

* The production tax is collected and distributed in the year following production. For example, the 1998 production tax was collected and distributed during 1999.

Figure 11

TACONITE PRODUCTION TAX DISTRIBUTION TO CITIES & TOWNSHIPS - 1999

(Based on 1998 Production Year Tax Revenues—Not Including Taconite Property Tax Relief Dollars)

Name	Mining & Concentrating	Taconite Municipal Aid	Taconite Railroad*	Total
COOK COUNTY				
Schroeder Township	$10,951	$0	$47,700	**$58,651**
CROW WING COUNTY				
Crosby	-	168,147	-	**168,147**
Ironton	-	42,227	-	**42,227**
Riverton	-	6,504	-	**6,504**
Trommald	-	4,214	-	**4,214**
Irondale Township	-	21,945	-	**21,945**
Rabbitt Lake Township	-	2,858	-	**2,858**
Wolford	-	3,371	-	**3,371**
ITASCA COUNTY				
Bovey	-	82,114	-	**82,114**
Calumet	-	39,616	-	**39,616**
Cohasset	-	0	-	**0**
Coleraine	-	105,998	-	**105,998**
Keewatin	34,951	126,424	-	**161,375**
Marble	-	64,385	-	**64,385**
Nashwauk	14,908	123,473	-	**138,381**
Taconite	-	39,212	-	**39,212**
Grand Rapids Township	-	60,728	-	**60,728**
Greenway Township	18,986	35,671	-	**54,657**
Iron Range Township	-	13,327	-	**13,327**
Lone Pine Township	6,220	2,820	-	**9,040**
Nashwauk Township	73,522	36,147	-	**109,669**
LAKE COUNTY				
Silver Bay	105,392	249,844	152,706	**507,942**
Beaver Bay Township	2,741	-	12,565	**15,306**
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	7,013	175,564	-	**182,577**
Babbitt	82,962	175,704	166,767	**425,433**
Biwabik	-	116,667	-	**116,667**
Buhl	-	107,619	-	**107,619**
Chisholm	-	520,609	-	**520,609**
Ely	-	301,565	-	**301,565**
Eveleth	59,074	372,639	-	**431,713**
Gilbert	44,817	212,651	-	**257,468**
Hibbing	487,362	1,495,847	-	**1,983,209**
Hoyt Lakes	266,707	284,918	152,153	**703,778**
Kinney	9,954	68,745**	-	**78,699**
Leonidas	4,986	10,819	-	**15,805**
McKinley	-	16,448	-	**16,448**
Mountain Iron	567,045	380,104	-	**947,149**
Virginia	34,730	853,357	-	**888,087**
Balkan Township	-	60,327	-	**60,327**
Bassett Township	-	-	11,745	**11,745**
Biwabik Township	0	40,399	-	**40,399**
Breitung Township	-	16,488	-	**16,488**
Eagle's Nest Township	-	0	-	**0**
Fayal Township	2,887	44,589	-	**47,476**
Great Scott Township	16,352	25,154	-	**41,506**
McDavitt Township	116,149	29,559	-	**145,708**
White Township	30,456	367,231**	-	**397,687**
Wuori Township	67,225	14,112	-	**81,337**
TOTAL	**$2,065,390**	**$6,920,140**	**$591,142**	**$9,576,672**

* Fixed amount based on 1977 Taconite Railroad Gross Earnings Tax distributions. ** Includes amount from M.S. 298.28, Subd. 1, Clause (2) (b).
— Indicates not eligible. 0 indicates eligible, but no payment at current valuation and production.

Figure 12

TACONITE PRODUCTION TAX DISTRIBUTIONS TO SCHOOL DISTRICTS — 1999

School Districts		$.055	$.22	Taconite Railroad	Taconite Referendum	Total
001	Aitkin	-	$358,208	-	$184,741	$542,949
166	Cook County	62,192	75,199	$427,383	33,519	598,293
182	Crosby-Ironton	-	375,622	-	206,644	582,266
316	Greenway	51,975	1,099,171	-	328,914	1,480,060
318	Grand Rapids	-	789,870	-	549,747	1,339,617
319	Nashwauk-Keewatin	194,851	464,087	-	161,384	820,322
381	Lake Superior	129,759	733,609	552,774	413,945	1,830,087
695	Chisholm	-	699,668	-	225,160	924,828
696	Ely	-	209,926	-	157,270	367,196
701	Hibbing	529,028	1,529,877	-	659,685	2,718,590
706	Virginia	135,712	844,722	-	364,353	1,344,787
712	Mtn. Iron-Buhl	714,105	456,862	-	227,995	1,398,962
2142	St. Louis County	241,515	873,534	459,421	629,704	2,204,174
2154	Eveleth-Gilbert	136,601	901,219	-	364,984	1,402,804
2711	Mesabi East	285,155	636,244	345,802	398,455	1,765,656
TOTALS:		$2,580,893	$10,047,818	$1,785,380	$4,906,500	$19,320,591

Figure 13

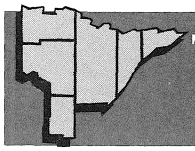
TACONITE PRODUCTION TAX SCHOOL BOND CREDITS & PAYMENTS

(Payments during 1999 and 2000 from 1998 production year revenues.)

School Districts		Year Authorized[1]	Final Payment Year[2]	Credit	Payment	Total	Outstanding Balance[3]
166	Cook County [4]	**1996**	2015	—	$532,637	$532,637	$6,069,000
316	Greenway	1990	2009	—	88,880	88,880	1,072,000
316	Greenway	**1996**	2008	—	39,876	39,876	380,000
318	Grand Rapids	**1996**	2011	—	222,024	222,024	4,480,000
381	Lake Superior	1992	2003	—	97,734	97,734	520,579
695	Chisholm	1990	2005	—	320,000	320,000	823,156
696	Ely	1990	2000	—	113,220	113,220	212,000
696	Ely	**1996**	2015	—	68,754	68,754	760,000
701	Hibbing	1988	1999	—	342,544	342,544	331,250
701	Hibbing	**1996**	2011	—	92,226	92,226	1,760,000
706	Virginia	1988	2003	—	213,580	213,580	888,000
706	Virginia	1992	2012	—	325,299	325,299	4,408,590
706	Virginia	**1996**	2016	—	320,680	320,680	4,724,000
712	Mtn. Iron-Buhl [4]	1982	1998	$659,039	—	659,039	---
2142	St. Louis County (Tower)	1988	2003	—	83,302	83,302	364,000
2142	St. Louis County [4]	1988	2003	—	109,545	109,545	460,000
2142	St. Louis County	**1996**	2005	—	320,092	320,092	1,844,000
2154	Eveleth-Gilbert (Eveleth)	1990	2006	—	320,000	320,000	833,454
2154	Eveleth-Gilbert (Gilbert)	1990	2009	—	100,000	100,000	299,129
2154	Eveleth-Gilbert	**1996**	2017	—	180,778	180,778	2,848,000
2711	Mesabi East	**1996**	2011	—	62,476	62,476	580,000
TOTALS:				$659,039	$3,953,647	$4,612,686	$ 33,657,158

1 Legislative year in which taconite funding was enacted.
2 Production year from which final bond payment will be deducted. N.A. indicates that the school district has not yet passed a bond referendum.
3 Estimated portion of outstanding bond balance to be paid by taconite funds (not including interest).
4 All taconite bonds funded at 80 percent taconite, 20 percent local effort, unless otherwise noted: St. Louis County—1988, 100 percent; Mtn. Iron-Buhl—1982, 90 percent; and Cook County—1996, 70 percent.

Figure 14



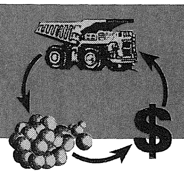
TACONITE PRODUCTION TAX DISTRIBUTION TO COUNTIES - 1998

PRODUCTION YEAR 1998

(Does not include dollars from Taconite Property Tax Relief)

County	Regular County 13 cents	Road & Bridge 3.5 cents	Taconite Railroad	Total
Cook	$ 120,465	--	$187,190	$ 307,655
Itasca	750,701	$ 198,047	--	948,748
Lake	732,984	189,158	243,034	1,165,176
St. Louis	8,336,865	2,264,287	354,153	10,955,305
TOTAL	**$9,941,015**	**$2,651,492**	**$784,377**	**$13,376,884**

Figure 15



TACONITE PRODUCTION AND TAX REVENUE - BY COMPANY

PRODUCTION YEAR 1998

Company	Production Tons	Taxable* Tonnage	Production Tax Rate	Tax Collected** After Credits
EVTAC	4,773,026	4,860,026	$2.141	$ 10,405,316
Hibbing	7,608,548	7,666,055	2.141	16,413,024
Ispat Inland	2,550,795	2,489,826	2.141	5,330,717
LTV Steel	6,657,167	7,002,816	2.141	14,993,029
National	5,260,207	5,048,236	2.141	10,808,273
Northshore	4,182,872	4,104,672	2.141	8,788,103
USX	13,291,377	13,166,128	2.141	27,529,641
TOTAL	**44,323,992**	**44,337,759**	**$2.141**	**$94,268,103**

ESTIMATED FOR PRODUCTION YEAR 1999

Company	Production Tons	Taxable* Tonnage	Production Tax Rate	Tax Collected** After Credits
EVTAC	3,800,000	4,513,000	$2.141	$ 9,661,000
Hibbing	6,800,000	7,286,000	2.141	15,599,000
Ispat Inland	2,300,000	2,413,000	2.141	5,167,000
LTV Steel	6,500,000	6,775,000	2.141	14,506,000
National	4,400,000	4,923,000	2.141	10,540,000
Northshore	4,200,000	4,147,000	2.141	8,880,000
USX	11,000,000	12,646,000	2.141	27,075,000
TOTAL	**39,000,000**	**42,703,000**	**$2.141**	**$91,428,000**

* 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 16

1998 PRODUCTION BY PRODUCT TYPE

COMPANY	PELLETS			CHIPS AND FINES			TOTAL
	ACID	FLUX	PARTIAL FLUX*	ACID	FLUX	FINE CONC.	
Eveleth	—	—	4,600,764	—	172,262	—	**4,773,026**
Hibbing	7,608,548	—	-----	—	—	—	**7,608,548**
Ispat Inland	—	2,550,795	—	—	—	—	**2,550,795**
LTV	6,305,291	—	—	351,876	—	—	**6,657,167**
National	—	—	5,244,155	—	—	16,052	**5,260,207**
Northshore	—	2,153,979	2,028,893	—	—	—	**4,182,872**
USX	—	13,291,377	—	—	—	—	**13,291,377**
TOTAL:	**13,913,839**	**17,996,151**	**11,873,812**	**351,876**	**172,262**	**16,052**	**44,323,992**

*Partial flux pellets contain less than two percent flux.

Acid Production:	13,913,839	Total Pellets:	43,783,802
Flux Production:	29,869,963	Total Chips & Fines:	540,190
	43,783,802	Grand Total:	**44,323,992** (dry with flux subtracted)

Figure 17

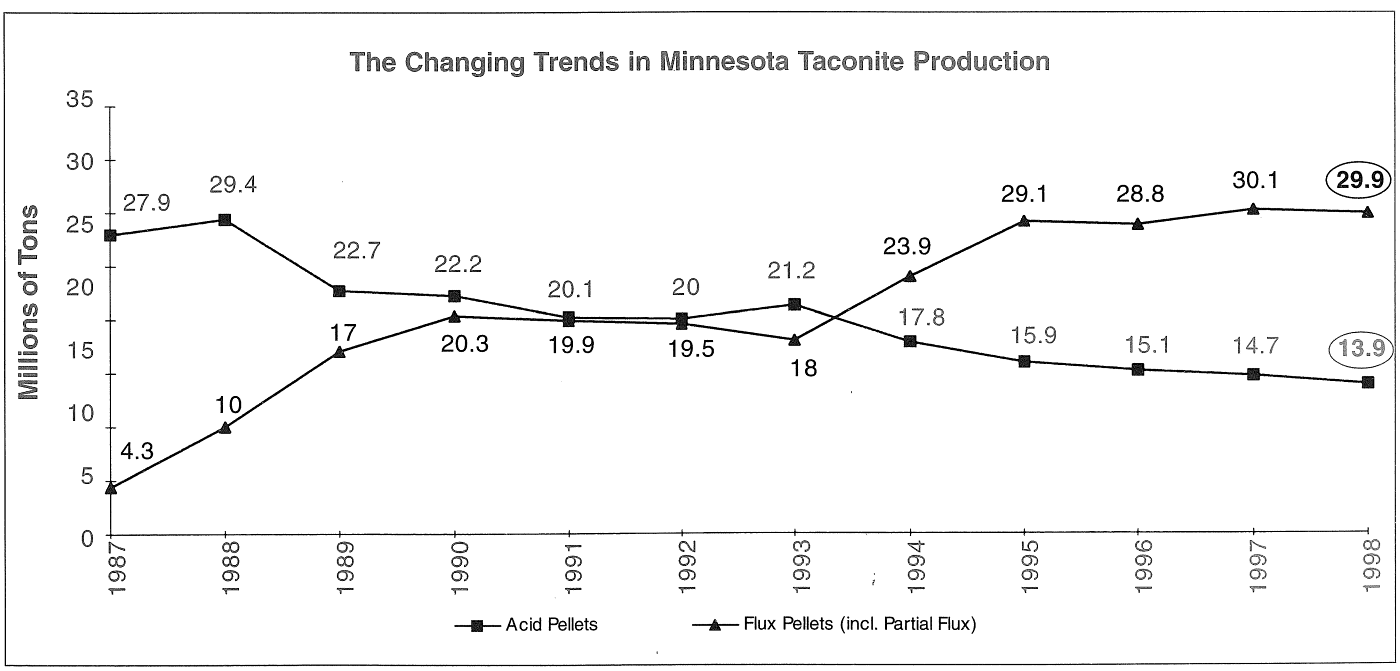


Figure 18

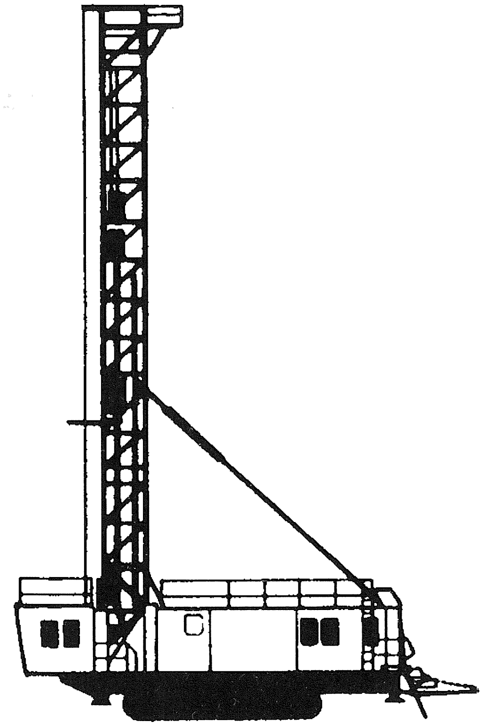
PRODUCTION TAX RATE HISTORY & INDEX SUMMARY

PRODUCTION YEAR	STATUTORY BASE RATE	FE (IRON) INDEX	INFLATION INDEX	TOTAL RATE	TEDF CREDIT ◆ ◆
1941	5.0 - cents	0.5 - cents	None	5.5 - cents	0
1969	11.5 - cents	0.5 - cents	0 (WPI*)	12.0 - cents	0
1970	11.5 - cents	0.5 - cents	0 (WPI)	12.0 - cents	0
1971	15.5 - cents	0.5 - cents	0.4 (WPI) cents	16.4 - cents	0
1972	18.5 - cents	0.5 - cents	1.3 (WPI) cents	20.3 - cents	0
1973	20.5 - cents	1.0 - cents	2.8 (WPI) cents	24.3 - cents	0
1974	20.5 - cents	1.0 - cents	8.2 (WPI) cents	29.7 - cents	0
1975	60.5 - cents	1.0 - cents	13.4 (WPI) cents	74.9 - cents	0
1976	60.5 - cents	1.0 - cents	15.5 (WPI) cents	76.5 - cents	0
1977	125.0 - cents	4.5 - cents	0 (SMPI**) cents	129.5 - cents	0
1978	125.0 - cents	6.0 - cents	8.9 (SMPI) cents	139.9 - cents	0
1979	125.0 - cents	6.0 - cents	28.8 (SMPI) cents	159.8 - cents	0
1980	125.0 - cents	6.0 - cents	42.2 (SMPI) cents	173.3 - cents	0
1981	125.0 - cents	6.0 - cents	60.6 (SMPI) cents	191.6 - cents	0
1982	125.0 - cents	6.0 - cents	76.8 (SMPI) cents	207.8 - cents	0
1983	125.0 - cents	6.0 - cents	73.7 (SMPI) cents	204.7 - cents	0
1984	125.0 - cents	6.0 - cents	79.7 (SMPI) cents	210.7 - cents	0
1985	125.0 - cents	3.0 - cents	76.8 (SMPI) cents	204.8 - cents	0
1986	190.0 - cents	0	Frozen (IPD***)	190.0 - cents	0
1987	190.0 - cents	0	Frozen (IPD)	190.0 - cents	0
1988	190.0 - cents	0	Frozen (IPD)	190.0 - cents	0
1989	190.0 - cents	0	7.5 (IPD) cents	197.5 - cents	0
1990	190.0 - cents	0	◆7.5 (IPD) cents	197.5 - cents	0
1991	190.0 - cents	0	15.4 (IPD) cents	205.4 - cents	0
1992	190.0 - cents	0	◆15.4 (IPD) cents	205.4 - cents	10.4 - cents
1993	190.0 - cents	0	◆15.4 (IPD) cents	205.4 - cents	15.4 - cents
1994	190.0 - cents	0	◆15.4 (IPD) cents	205.4 - cents	15.4 - cents
1995	190.0 - cents	0	◆15.4 (IPD) cents	205.4 - cents	15.4 - cents
1996	190.0 - cents	0	19.4 (IPD) cents	209.4 - cents	20.4 - cents
1997	190.0 - cents	0	24.1 (IPD) cents	214.1 - cents	15.4 - cents
1998	190.0 - cents	0	24.1 (IPD) cents	214.1 - cents	15.4 - cents
1999 Est.	190.0 - cents	0	24.1 (IPD) cents	214.1 - cents	15.4 - cents

* Wholesale price index
** Steel mill products index
*** Gross national product implicit price deflator
◆ In years following 1989 and 1991 when the inflation index was unchanged, it was frozen by legislative action.
◆◆ TEDF is the Taconite Economic Development Fund, an investment credit allowed against production taxes. For 1997 and 1998, five cents was allocated to IRRRB Producer Grant Program. (Total still 20.4 cents, if grant included.)

Figure 19

TACONITE PRODUCED AND PRODUCTION TAX COLLECTED



Year	Production Tons	Production Tax Collected (000s)	Collected Rate Per Production Ton	Taxable Tons*	Tax Rate Per Taxable Ton
1955	1,341	$78	$0.060		
1956	5,069	297	0.059		
1957	6,812	397	0.058		
1958	8,574	500	0.058		
1959	8,414	528	0.063		
1960	13,390	735	0.055		
1961	13,187	766	0.058		
1962	14,526	842	0.058		
1963	16,701	972	0.058		
1964	18,505	1,075	0.058		
1965	19,004	1,104	0.058		
1966	21,677	1,257	0.058		
1967	24,311	1,427	0.059		
1968	30,269	1,782	0.059		
1969	33,410	3,778	0.113		
1970	35,348	4,253	0.120		
1971	33,778	5,539	0.164		
1972	34,544	7,002	0.203		
1973	41,829	10,159	0.243		
1974	41,053	11,952	0.291		
1975	40,809	30,347	0.744		
1976	40,575	30,857	0.760		
1977	26,372	48,891	1.854	37,759	$1.295*
1978	49,545	69,394	1.401	49,614	1.399*
1979	55,333	88,485	1.599	55,373	1.598*
1980	43,060	87,179	2.025	50,296	1.733*
1981	49,369	99,018	2.006	51,799	1.916*
1982	23,445	80,305	3.425	38,624	2.078*
1983	25,173	67,341	2.675	33,302	2.047*
1984	35,689	64,514	1.876	35,689	2.107
1985	33,265	65,092	1.957	34,477	2.048
1986	25,451	48,658	1.912	31,468	1.900
1987	32,043	51,184	1.597	29,039	1.900
1988	39,485	57,402	1.454	32,326	1.900
1989	39,375	72,149	1.832	36,968	1.975
1990	42,522	78,930	1.856	40,461	1.975
1991	39,922	82,411	2.064	40,606	2.054
1992	38,850	82,035	2.112	40,431	2.054
1993	39,850	80,196	2.012	39,541	2.054
1994	41,677	81,500	1.956	40,126	2.054
1995	45,001	85,705	1.904	42,176	2.054
1996	43,874	90,513	2.063	43,517	2.094
1997	44,816	94,705	2.113	44,563	2.141
1998	44,324	94,268	2.126	44,338	2.141
1999 est.	39,000	91,400	2.343	42,713	2.141

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

DIRECT REDUCED IRON (DRI)

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

REDUCED PRODUCTION TAX RATE FOR DRI

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

Years of Operation	% of Regular Rate	Years of Operation	% of Regular Rate
1	0%	4	50%
2	0%	5	75%
3	25%	6	100%

The taconite production tax rate for DRI is the regular rate plus an additional tax of 3 cents per gross ton for each one percent that the iron content exceeds 72 percent when dried at 212 degrees Fahrenheit. The tax rate on 80 percent DRI would be $2.381 per taxable ton. The tax rate on 90 percent DRI would be $2.681 per taxable ton.

1997 LEGISLATION

The 1997 Legislature authorized *loans* from the capital of the Northeast Minnesota Economic Protection Fund (2002 Fund) of $7.5 million. The maximum *loan* to one DRI facility is $5 million. These loans could be for either: 1) a value-added iron products plant, or 2) a new mine or minerals processing plant for nonferrous minerals. *Grants* up to $5.5 million also were authorized. Additional *grants* of $2 million from the fund capital remain available.

1998 LEGISLATION

The 1998 Legislature appropriated $10 million for grants from the State General Fund for construction of up to three direct reduction iron processing facilities. The commissioners of the Minnesota Departments of Trade and Economic Development and Natural Resources must jointly agree on the *grants*. This appropriation is from the general fund and is available through June 30, 2003. The total funding for DRI or nonferrous plants from 2002 fund is $15. Half is available for loans and half for grants.

1999 LEGISLATION

The 1999 Legislature approved a $20 million State General Fund appropriation for a loan or equity investment in a minerals processing facility, a DRI facility or steel production facility. It will be administered by the Minnesota Department of Trade and Economic Development and will be matched with $20 million from the IRRRB. The $40 million is in addition to the $10 million appropriated in 1998 for DRI. The $10 million is available for either DRI or non-ferrous. The $10 million sunset provision was eliminated.

TACONITE AND STEEL MILL POWER PLANT EXEMPTION

Tools, implements and machinery of an electric generating facility (EGF) are exempt from property tax if all of the following requirements are met:

1. it has a capacity of at least 450 megawatts;
2. it is adjacent to a taconite mine DRI steel mill; and
3. it supplied more than 60 percent of its electricity in the prior year to the adjacent DRI plant and steel mill.

SUMMARY OF DRI INCENTIVES

The maximum any single project could receive is:

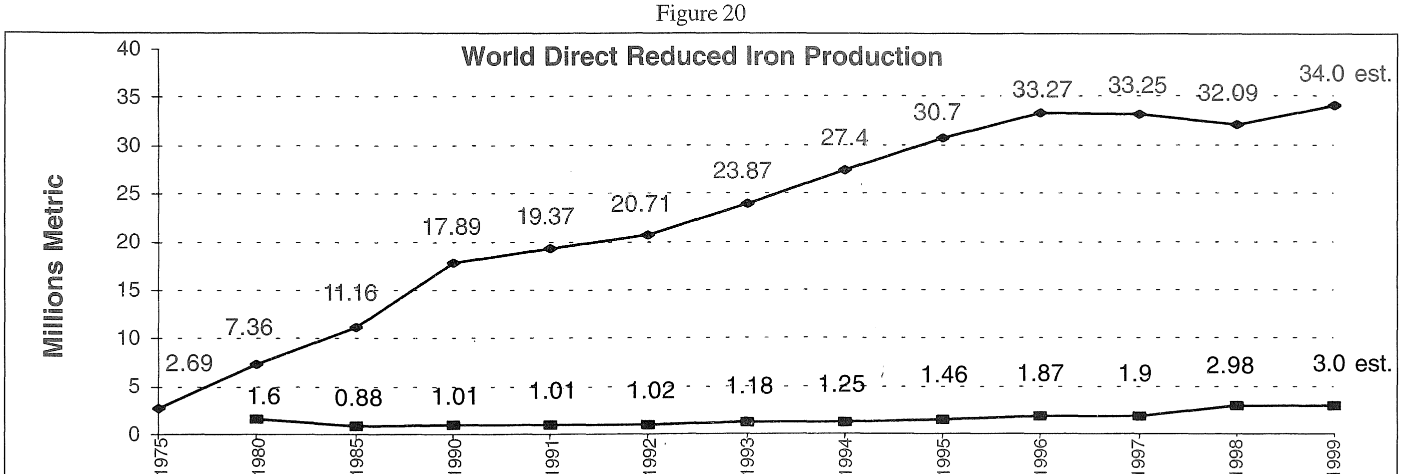
DRI		NONFERROUS	
$ 20	million loan or equity investment (State General Fund)	$20	million
20	million match (IRRRB)	20	million
10	million grant (State General Fund) (2002 Fund)	10	million (2002 fund)
15	million grant/loan/e.i.*	15	million grant/loan/e.i.*
1.95	million loan (US Government)		
$66.95	**million total****	**$65**	**million total****

* The $15 million can be a combination of grants, loans and equity investment
** This is the maximum available to all projects

GENERAL INFORMATION

A DRI production plant and facilities is exempt from regular ad valorem property taxes. The taxable tonnage is based on a three-year production average. Pig iron is considered DRI for the purpose of production tax and incentives.

Figure 20



Since 1996, numbers have been provided by the *U.S. Geological Survey, Mineral Information.*

IRON RANGE RESOURCES AND REHABILITATION BOARD

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

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

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

Ironworld is a historical theme park that preserves and celebrates Iron Range history and culture. The complex includes the Iron Range Research and Interpretative Centers, a railroad system, a festival park with a miniature golf course and other entertainment facilities. Ironworld also is home to the IRRRB's Mineland Reclamation Division. It undertakes safety, environmental and economic development projects on abandoned minelands of the pre-taconite era, often in cooperation with adjacent communities. Each year, IRRRB Mineland Reclamation grows and plants 300,000 containerized seedlings on the Mesabi, Vermilion and Cuyuna iron ranges.

The IRRRB also funds tourism promotional activities in cooperation with the Northern Lights Tourism Alliance. The agency constructs and grooms snowmobile and other trails to enhance tourism and quality of life. It operates a building demolition program that razes dilapidated structures to make room for new development and enhancement of the local tax base.

For the past six years, the IRRRB commissioner has chaired the Governor's Task Force on Mining and Minerals, a group charged with recommending actions that sustain and enhance the long-term viability of mining in the region and the state. The Task Force has issued reports to the governor and Legislature each year since 1993. Governor Ventura recently authorized the extension of the Task Force with Commissioner John Swift as chair for the year 2000.

For Fiscal Year 2000, the IRRRB commissioner has proposed a budget of $50,043,884 to deliver the projects, programs and activities previously mentioned. The agency proposes to do so with a budgeted complement of 98 full-time employees as well as a number of temporary and seasonal personnel.

The IRRRB also assists the taconite industry, including $49,130,342 made available since 1993 to the seven Minnesota taconite producers for investments in new equipment, facilities and research. This is made possible through the rebate of production taxes from the Taconite Economic Development Fund (TEDF, Minnesota Statute §298.227).

The agency also provided $35,193,437 in the form of grants and loans through its Taconite Assistance Program and other assistance to taconite producers. This amount includes $10 million appropriated in 1996 from the 2002 Fund for the Producer Grant Program through which the IRRRB makes grants to taconite producers to help them undertake environmentally unique reclamation projects or pit or plant expansions or modernizations for other than a value-added iron products plant that extend the life of the plant. In 1997, the Legislature redirected a nickel of the 20.4 cents rebated to the taconite producers, or approximately $2 million each year that otherwise would flow to the TEDF, to the IRRRB Producer Grant Program for grants in 1998 and 1999.

Nineteen ninety-nine legislation provides15.4 cents TEDF and 5 cents producer grant distribution in 2000 and 2001, as well. Between 1993-99, the IRRRB has reinvested a total of $84,323,779 in the Minnesota taconite industry through the above programs.

Figure 21

FY 00 IRRRB BUDGET

(As approved by the Iron Range Resources and Rehabilitation Board on June 21, 1999)

SOURCES OF FUNDS:	**All Accounts** 1)	**Board** 2)	**TEPF** 3)	**NEPF** 4)	**Supp Tax** 5)
Carry Forward Monies From Prior Years	32,000,000	6,000,000	5,000,000	21,000,000	0
Taconite Production Taxes	15,987,583	4,322,191	11,000,476		664,916
Interest on Invested Cash	5,000,000	800,000	1,500,000	2,700,000	
Payback on Loans & Projects	2,100,000	150,000		1,950,000	
Other Department Earnings	4,166,486	4,166,486			
Total Sources of Funds	**59,254,069**	**15,438,677**	**17,500,476**	**25,650,000**	**664,916**
BUDGETED USES OF FUNDS:	**All Accounts**	**Board**	**TEPF**	**NEPF**	**Supp Tax**
Programs Division					
Business Development Program	6,712,493			6,712,493	
Community Development Program	7,939,971	4,089,055	3,200,000		650,916
Communications Program	255,229	255,229			
Tourism Program	1,156,340		1,156,340		
Mining & Natural Resources Program	540,235	540,235			
Information Technology Program	2,750,000	2,750,000			
Agency Projects	18,650,000	1,650,000	1,000,000	16,000,000	
Facilities Division					
Giants Ridge Recreational Area Program	4,817,353	1,095,000	3,722,353		
Ironworld Complex Program	2,297,872		2,297,872		
Mineland Reclamation Program	982,808		982,808		
Trails Program	540,750		540,750		
Building Demolition Program	222,481		222,481		
Facility Improvements	200,000	200,000			
Eveleth Maintenance/Shop Program	715,544	715,544			
Administrative Services Division					
General Support	1,515,288	1,515,288			
Information Systems	359,417	359,417			
Human Resources	388,103		388,103		
Charge Back Administrative Costs to Each Fund	0	(1,000,000)	836,000	150,000	14,000
TOTAL BUDGETED USES OF FUNDS	**50,043,884**	**12,169,768**	**14,346,707**	**22,862,493**	**664,916**
Carry Fwd Unobligated "Position" to FY 2001	**9,210,185**	**3,268,909**	**3,153,769**	**2,787,507**	**0**
	All Accounts	**Board**	**TEPF**	**NEPF**	**Supp Tax**

1) FY 00 includes July 1, 1999 through June 30, 2000.
2) Board is specific amount appropriated to the IRRRB from Production Tax, page 10, subd. 7 and subd. 11 (c).
3) TEPF is the Taconite Area Environmental Protection Fund, page 13.
4) NEPF is the Northeast Minnesota Economic Protection Trust Fund, page 13.
5) Supplemental Tax is an amount appropriated from Occupation Tax for Koochiching and Carlton Counties, page 29.

Figure 22

TACONITE ECONOMIC DEVELOPMENT FUND DISTRIBUTION TO NORTHEAST MINNESOTA TACONITE PRODUCERS*

Summary

Payable 1993 through 1999 (on 1992 through 1998 Production)

Company	1993-1998	1999 Project Description	Amount		Total Amount		Total Per Company
EVTAC Mining	$4,229,469	Pending	Pending	$932,850	Paid	$ 4,229,469	
					Pending	932,850	$5,162,319
Hibbing Taconite	$7,315,818	Pending	Pending	$1,180,572	Paid	$7,315,818	
					Pending	1,180,572	$8,496,390
Inland Steel Mining	$2,675,029	Pending	Pending	$383,433	Paid	$2,675,029	
					Pending	383,433	$3,058,462
LTV Steel Mining	$8,570,949	Pending	Pending	$1,503,959	Paid	$8,570,949	
					Pending	1,503,959	$10,074,908
National Steel	$3,820,532	Pending	Pending	$794,612	Paid	$3,820,532	
					Pending	794,612	$4,615,144
Northshore Mining	$3,071,018	Pending	Pending	$653,185	Paid	$3,071,018	
					Pending	653,185	$3,724,203
USX - Minnesota Ore Operations	$11,971,332	Vibration Analysis and Structural Steel Upgrade	Paid	$2,027,584	Paid	$13,998,916	
					Pending	0	$13,998,916
		* in accordance with M.S. 298.227	Paid	$2,027,584	Paid	$43,681,731	
			Pending	$5,448,611	Pending	5,448,611	
TOTAL	**$41,654,147**			**$7,476,195**		**$49,130,342**	**$49,130,342**

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

15.4 cpt	$6,828,014
Chips and Fines Credit	648,181
Total	$7,476,195

A brief explanation of the TEDF is included on page 7.

Figure 23

IRRRB PRODUCER GRANT PROGRAM

MINNESOTA STATUTE 298.2961 (1996)

In 1996 the Minnesota Legislature appropriated $10 million from the IRRRB's 2002 Fund for grants to the seven taconite producers for: 1) environmentally unique reclamation projects; or 2) pit or plant expansions or modernizations other than for a value-added iron products plant that extend the life of the plant. Under current law, 5 cents per ton or aproximately $2.2 million in Producer Grants will be distributed in 1999, 2000, 2001 and 2002.

The guidelines for projects funded under the program are: 1) Project Approval – Producer Grant projects must be approved by a joint committee consisting of an equal number of salaried and nonsalaried employees, as defined by M.S. 298.227; 2) Company Match – Each company must match its Producer Grant dollars by a ratio of 65 percent company funds to 35 percent grant funds; and 3) Company Consideration – Each company must provide lands or some other item(s) of consideration equal to at least 15 percent of the amount of its Producer Grant.

Company		1997 Amount		1998 Amount		1999 Amount	Total Per Company
EVTAC Mining	Paid	$1,114,500	Paid	$0	Paid	$0	
			Pending	249,135	Pending	243,001	$1,606,636
Hibbing Taconite	Paid	1,818,000	Paid	396,267	Paid	0	
	Pending	0	Pending	0	Pending	383,303	2,597,570
Inland Steel Mining	Paid	555,000	Paid	0	Paid	0	
			Pending	124,651	Pending	124,491	804,142
LTV Steel Mining	Paid	1,538,525	Paid	0	Paid	0	
	Pending	80,975	Pending	363,194	Pending	350,141	2,332,835
National Steel	Paid	1,089,600	Paid	236,084	Paid	0	
			Pending	12,425	Pending	252,412	1,590,521
Northshore Mining	Paid	882,700	Paid	0	Paid	0	
			Pending	196,488	Pending	205,234	1,284,422
USX-Minnesota	Paid	2,920,700	Paid	649,930	Paid	0	
			Pending	0	Pending	658,306	4,228,936
Amount Paid		$9,919,025		$1,282,281		$0	$11,201,306
Amount Pending		80,975		945,893		2,216,888	3,243,756
TOTALS		**$10,000,000**		**$2,228,174**		**$2,216,888**	**$14,445,062**

Figure 24

TACONITE INDUSTRY INVESTMENTS
1993 THROUGH 1999

Company	Taconite Assistance Program	Taconite Economic Development Fund	Producer Grant Program	Other Asisstance	Total
EVTAC Mining	$2,000,000	$5,162,319	$1,606,636	$500,000	$9,268,955
Hibbing Taconite Company	2,000,000	8,496,390	2,597,570		13,093,960
Inland Steel Mining Company	2,000,000	3,058,462	804,142		5,862,604
LTV Steel Mining Company	2,000,000	10,074,908	2,332,835		14,407,743
National Steel Pellet	2,000,000	4,615,144	1,590,521	6,248,375	14,454,040
Northshore Mining Company	2,000,000	3,724,203	1,284,422		7,008,625
USX-Minnesota Ore Operations	2,000,000	13,998,916	4,228,936		20,227,852
Total Investment	**$14,000,000**	**$49,130,342**	**$14,445,062**	**$6,748,375**	**$84,323,779 ***

Grand Total **$84,323,779 ***

* Figure includes amounts pending. Totals through Fiscal Year 1999, which ended June 30, 1999.

OCCUPATION TAX ON TACONITE AND IRON ORE

(MINNESOTA STATUTE 298.01 — 298.18)

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

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

1999 LEGISLATION

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

OCCUPATION TAX RETURN

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

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

1) The tax is *nonunitary* because it applies only to the Minnesota mine and plant. See 1999 legislation.

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

The occupation tax applies to both ferrous and nonferrous minerals, including not only taconite and iron ore, but other minerals such as gold, silver, copper, nickel and titanium. The occupation tax return must be filed by May 1 of the following year.

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

MINE VALUE

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

1) Seventy-five percent of the change in mine value is based on the change in the Steel Mill Products Index (SMPI) from June of the previous year to June of the current year; and

2) Twenty-five percent of the change in mine value reflects the actual transaction prices of taconite pellets sold in nonequity sales.

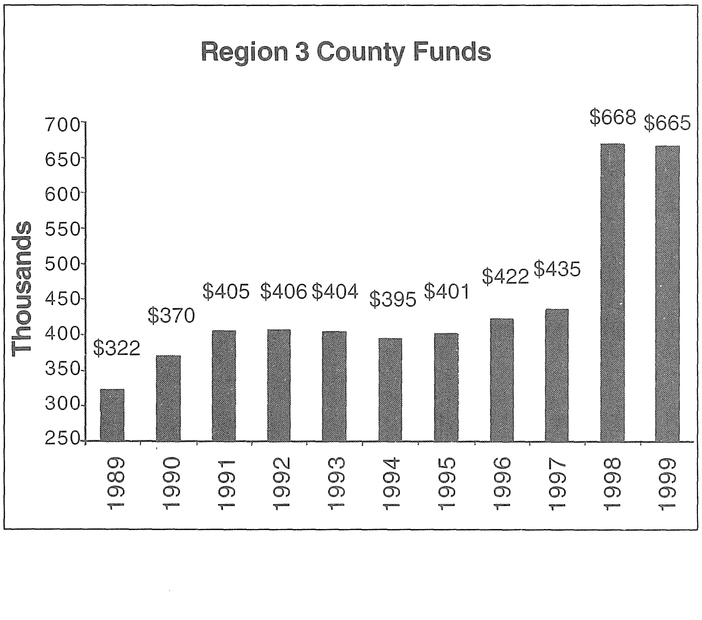
A copy of the *Final Directive* and backup for 1998 are on the following two pages. They show how the value per Fe (iron) unit is determined.

OCCUPATION TAX DISTRIBUTION

All occupation tax is deposited in the State General Fund. Fifty percent remains in it.

Education: Fifty percent is dedicated to education. Forty percent of the occupation tax is distributed to elementary and secondary schools and ten percent to the University of Minnesota.

Region 3: An amount equal to one and one-half cents per taxable taconite ton is appropriated from the occupation tax to the IRRRB for counties in Region 3 not qualifying for taconite property tax relief. Only Carlton and Koochiching Counties qualify. This money must be used to provide economic or environmental loans or grants. *The amount distributed in 1999 was $664,916 based on 44,327,754 taxable tons produced in 1998. Prior to 1997, the amount distributed was based on one cent per taxable ton.*



FINAL DIRECTIVE - 1998 OCCUPATION TAX
BASIC DATA FOR PREPARING 1998 OCCUPATION TAX REPORTS

TACONITE

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

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

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

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

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

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

Taconite producers with nonequity sales since 1990 have made their election. Only those with first-time, 1998 nonequity sales may select the actual sales price option for the first time. Any request for a change in the option elected must receive approval from the Minnesota Department of Revenue. Transactions must meet the definition of nonequity (arms-length) transactions previosuly defined.

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

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

TACONITE VALUES

Pellet price per Fe (iron) unit (per dry gross ton)
for the period Jan. l, 1998 through Dec. 31, 1998:

TACONITE PRODUCT	MINE VALUE
Acid Pellets	$.474 per iron unit
Pellet Chips (Fines) and Concentrate	75% of acid or fluxed pellet price
Flux Pellets - Partial Flux (.1% - 1.99% flux)*	$.474 + $.0155 = $.4895
- Flux (2.00% and higher flux) *	$.474 + $.0155 per iron unit for each 1% flux

EXAMPLE - Pellet with 4.8% flux in finished pellet: 4.0 x $.0155 = $.062
Mine Value $.474 + $.062 = $.536

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

BACKUP 1998 DATA TO FINAL DIRECTIVE
1998 OCCUPATION TAX REPORT

BACKUP DATA

Final Directive

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

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

The directive was determined using the final adjusted June 1997 SMPI (116.3) and final, adjusted June 1998 SMPI (114.8). The nonequity sales factor was developed from completed reports provided by the taconite producers and steel companies making *nonequity sales and/or purchases of taconite pellets.*

Acid Pellets — How Value is Determined

The mine value of acid pellets is determined by the change in the SMPI between June 1997 and June 1998 and the nonequity sales per Fe (iron) unit per gross ton. The price of all pellet sales is converted to an acid sales price.

Steel Mill Products Index (SMPI)			
June 1997 SMPI (Final)	116.3	1997 Mine Value	$ .475
June, 1998 SMPI (Final)	114.8	1998 SMPI % of 1997 Value	x98.71%
114.8 ÷116.3 =	98.71%	1998 SMPI Factor	$ .46887

NON-EQUITY SALES						
Weighted Average All Pellet Sales Price		Weighted Average All Pellet Sales Price Per Long Ton		Weighted Average All Pellet Sales **DRY Fe (iron) Analysis**		Weighted Average Sales Price **Per Fe (iron) Unit**
$285,268,339 / 9,048,057 Tons Sold	=	$31.5281	÷	64.53	=	$0.488568

ACID PELLET MINE VALUE		
SMPI	$.46887 x 75% = $.35165	**1998 ACID PELLET MINE VALUE:**
Nonequity Sales	$.488568 x 25% = .122142	
	$.473794	$.474 per Fe (iron) unit

Flux Pellets - How to Determine Value

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

Partial Flux - Pellets with 1.99 percent or less flux will be valued at $.0155 per Fe (iron) unit higher than acid pellets:
$.474 + $.0155 = $.4895

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

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

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

The Mine Value of Flux Pellets (4.82% Flux) is: $.474 + $.062 = $.536 per Fe (iron) unit.

Mine Value - Chips and Concentrates

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

Figure 25

OCCUPATION TAX MINE VALUE AND OCCUPATION TAX PAID

PRODUCTION YEAR

TACONITE COMPANY	1997 EMPLOYMENT*	1998 EMPLOYMENT*	1998 TONS PRODUCED	1998 MINE VALUE	OCCUPATION TAX PAID** PRELIMINARY
EVTAC	657	635	4,800,381	$151,341,951	$ -0-
Hibbing	878	835	7,608,548	245,723,842	425,000
Ispat	371	371	2,701,301	98,568,235	29,991
LTV	1,420	1,352	6,657,167	202,933,965	-0-
National	502	512	5,289,451	167,505,145	10,000
Northshore	507	508	4,274,664	138,713,852	75,000
USX	1,769	1,723	13,864,488	472,634,850	1,611,844
Totals	**6,104**	**5,936**	**45,196,000**	**$1,477,421,840**	**$2,151,835**
NATURAL ORE COMPANY					
Auburn Minerals, L.L.C.	25	26	392,482	$5,690,989	$86,577
Totals	25	26	**392,482**	**$5,690,989**	**$86,577**
TOTALS	6,129	5,962	**45,588,482**	**$1,483,112,829**	$ 2,238,412

* Employment information from *St. Louis County Mine Inspector Annual Report - 1998.*

** An automatic seven-month extension is granted if 90 percent of the tax is paid May 1. The exact tax liability for the year will not be known until December 1.

Figure 26

OCCUPATION TAX PAID BY COMPANY

1990 - 1998 (000s)

Taconite	1990	1992	1993	1994	1995	1996	1997 (Final)**	1998 (Preliminary)**
Eveleth Mine	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Hibbing Tac	$830	$489	$432	$502	$798	$ 483	$352	$425
Inland Steel	-0-	-0-	-0-	-0-	12	-0-	-0-	30
LTV Steel	-0-	-0-	-0-	-0-	13	-0-	-0-	-0-
National Steel	-0-	-0-	-0-	-0-	-0-	-0-	2	10
Northshore	38	-0-	-0-	71	245	148	112	75
USX	1,190	1,062	1,277	1,545	2,000	1,087	2,013	1,612
TOTAL	**$2,058**	**$1,551**	**$1,709**	**$2,118**	**$3,068**	**$1,718**	**$2,479**	**$2,152**
Natural Ore	**1990**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Auburn	NA	NA	NA	$47	$87	$175	$213	$87
LTV Steel	$11	$9	NA	NA	NA	NA	NA	NA
Premier	NA	NA	NA	$22	NA	NA	NA	NA
TOTAL	$11	$9	-0-	$69	$87	$175	$213	$87
TOTAL TAX PAID	$2,069	$1,560	$1,709	$2,187	$3,155	$1,893	$2,692	$2,239

Figure 27

RECONCILIATION OF OCCUPATION TAX AND PRODUCTION TAX TONNAGES - 1998*

Company	Gross Natural Tons	Less: Moisture	Occupation Tax Production Tons (Dry Weight)	Less: Flux	Production Tax Production Tons
ACID PELLETS, CHIPS AND FINES					
Hibbing	7,702,318	1.21%	7,608,548	-0-	7,608,548
LTV Steel	6,657,167	0.00%	6,657,167	-0-	6,657,167
Subtotal	14,359,485		14,265,715		14,265,715
FLUX PELLETS, CHIPS AND FINES					
EVTAC	4,887,743	1.70%	4,800,381	(27,355)	4,773,026
Ispat	2,756,431	2.00%	2,701,301	(150,506)	2,550,795
National	5,359,450	1.29%	5,289,451	(29,244)	5,260,207
Northshore	4,274,664	0.00%	4,274,664	(91,792)	4,182,872
USX Corp.	14,189,061	2.29%	13,864,488	(573,111)	13,291,377
Subtotal	31,467,349		30,930,285	(872,008)	30,058,277
TOTAL PRODUCTION SUMMARY					
Acid	14,359,485		14,265,715		14,265,715
Flux	31,467,349		30,930,285		30,058,277
TOTALS:	45,826,834		45,196,000	(872,008)	44,323,992

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

Figure 28

CRUDE ORE MINED

	1994	1995	1996	1997	1998
EVTAC	15,301,069	16,511,735	16,517,165	16,249,707	15,291,580
Hibbing	30,151,351	30,890,140	29,408,702	28,467,532	29,579,704
Ispat	7,475,103	7,954,695	7,832,557	7,748,820	8,233,999
LTV	25,296,435	26,001,125	24,752,648	24,428,945	22,403,375
National	6,469,797	18,419,272	16,933,415	19,141,563	19,803,145
Northshore	9,964,610	11,230,963	12,807,379	12,165,395	12,882,338
USX	49,130,952	50,587,464	49,773,665	53,819,074	48,980,515
TOTAL:	143,789,317	161,595,394	158,025,531	162,021,036	157,174,656

Figure 29

OCCUPATION TAX MINE VALUE - TACONITE
(HISTORICAL SUMMARY)

Year		Acid Pellet Price Per Fe Unit		Percent Fe		Lake Erie Value Per Ton	Less Transportation		Mine Value
1965		$0.25200	x	65.00%	=	$16.38	$3.64	=	$12.740
1970		0.26600	x	65.00%	=	17.29	4.05	=	13.240
1975		0.46020	x	65.00%	=	29.91	6.83	=	23.080
1980		0.72890	x	65.00%	=	47.38	10.70	=	36.680
1982-1984		0.86900	x	65.00%	=	56.49	12.69	=	43.800
1985-1986		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

Year		Acid Pellet Price Per Fe Unit		Flux Premium		Flux Pellet Per Fe Unit		Percent Fe Acid	Percent Fe Flux		Mine Value Acid	Mine Value Flux
1987-1989	Acid	$0.37344					x	65		=	$24.27	
	Flux (1%)					$.38888	x		62	=		$24.11
1990-1992	Acid	0.42000					x	65		=	27.30	
	Flux (4%)	0.42000	+	.062	=	.48200	x		62	=		29.884
1993	Acid	0.42500					x	65		=	27.625	
	Flux (4%)	0.42500	+	.062	=	.48700	x		62	=		30.194
1994	Acid	0.43900					x	65		=	28.535	
	Flux (4%)	0.43900	+	.062	=	.50100	x		62	=		31.062
1995	Acid	0.47600					x	65		=	30.94	
	Flux (4%)	0.47600	+	.062	=	.53800	x		62	=		33.356
1996	Acid	0.46400					x	65		=	30.16	
	Flux (4%)	0.46400	+	.062	=	.52600	x		62	=		32.612
1997	Acid	0.47500					x	65		=	30.88	
	Flux (4%)	0.47500	+	.062	=	.53700	x		62	=		33.29
1998	Acid	0.47400					x	65		=	30.81	
	Flux (4%)	0.47400	+	.062	=	.53600	x		62	=		33.23

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

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

Figure 30

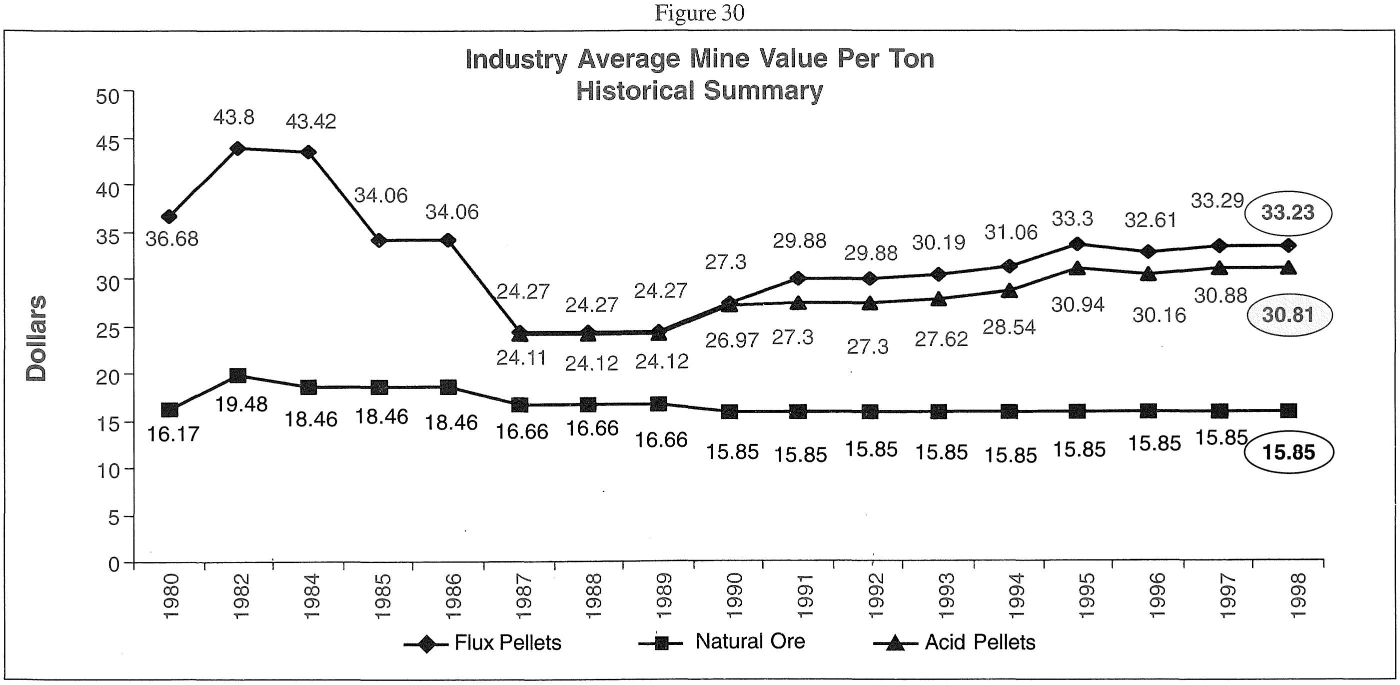


Figure 31

OCCUPATION TAX COLLECTED ON IRON ORE AND TACONITE PRODUCTION

1955 - 1998

Year	IRON ORE		TACONITE		TOTALS	
	Tons Produced (000s)	Occupation Tax (000s)	Tons Produced (000s)	Occupation Tax (000s)	Tons Produced (000s)	Occupation Tax (000s)
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
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	318	22	42,448**	2,302	42,766	2,324
1995	349	87	45,857**	3,072	46,206	3,159
1996	441	176	44,711**	2,460	45,152	2,636
1997	501	213	45,688**	2,508	46,007	2,721
1998	392	87	45,196**	2,152	45,588	2,238
1999 Est.	500	100	39,100	2,000	39,600	2,100

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

** Refer to *Figure 27,* page 33 — Beginning with 1990 production, the Minnesota Department of Revenue changed from natural weight to dry weight. The taconite production tonnage shown is a net dry weight without moisture or flux.

Figure 32

TACONITE INDUSTRY OCCUPATION TAX REPORT AVERAGES ON A PER TON BASIS

Year	Tons Produced (000 Tons)	(1) Average Value	(2) Transportation	(3) Cost of Beneficiation	(4) Cost of Mining	Development	Taconite Production Tax Paid	Sales & Use Tax Paid	Admin. & Misc. Expense	Taxable Value of Production	Royalty	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
1994	42,448	30.144		16.429	4.709	1.575	1.936	0.270	3.757	1.092	0.376	0.054
1995	45,857	32.527		16.618	4.690	1.563	1.849	0.245	3.712	1.218	2.632	0.067
1996	44,618	31.748		18.013	5.275	1.684	2.042	0.271	4.022	1.268	(0.827)	0.061
1997	45,659	32.504		17.500	4.945	1.822	2.038	0.224	3.906	1.183	0.886	0.055
1998	**45,196**	**32.689**		**17.582**	**4.943**	**1.639**	**2.031**	**0.028**	**3.895**	**1.185**	**1.245**	**0.048**

(1) This average value will not match the values on *Figure 29,* page 34, because this is an average of all taconite produced (acid, flux, chips, concentrate).
(2) Transportation consists of the rail and lake transportation allowance and marketing and marine insurance from the occupation tax directives through April 30, 1987.
(3) Cost of beneficiation includes beneficiation labor, supplies, depreciation, interest, and miscellaneous, *Figure 33*, page 37.
(4) Cost of mining is the total mining labor, mining supplies and depreciation, *Figure 33*.

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

Figure 33

TACONITE INDUSTRY OCCUPATION TAX REPORT AVERAGE COST PER TON

BENEFICIATION

Year	Tons Produced (000s)	Beneficiation Labor (000s)	Per Ton	Beneficiation Supplies (000s)	Per Ton	Beneficiation Depre. & Int. (000s)	Per Ton	Beneficiation/ Miscellaneous Per Ton	Total Beneficiation Per Ton
1984	35,689	112,415	3.150	419,708	11.760	173,211	4.854	0.088	19.852
1985	33,265	106,804	3.211	372,156	11.188	156,363	4.701	0.189	19.289
1986*	24,017	64,990	2.706	259,928	10.823	116,637	4.857	0.088	18.474
1987	32,109	70,993	2.211	314,491	9.795	112,667	3.509	0.080	15.595
1988	39,786	90,047	2.263	389,070	9.779	109,732	2.758	0.101	14.901
1989	39,882	95,238	2.388	425,570	10.671	109,483	2.746	0.090	15.895
1990*	43,176	116,305	2.694	471,931	10.930	110,641	2.562	0.100	16.286
1991	40,619	120,285	2.961	445,389	10.965	103,431	2.547	0.364	16.837
1992	39,428	137,850	3.496	412,429	10.460	101,392	2.572	0.473	17.001
1993	40,485	118,713	2.932	419,558	10.363	102,798	2.539	0.255	16.089
1994	42,448	123,354	2.906	469,106	11.051	98,752	2.327	0.145	16.429
1995	45,857	136,258	2.971	511,530	11.155	99,699	2.173	0.319	16.618
1996	44,618	151,535	3.396	545,974	12.237	97,451	2.184	0.196	18.013
1997	45,659	149,575	3.276	550,717	12.062	88,165	1.931	0.231	17.500
1998	**45,196**	**152,743**	**3.380**	**552,479**	**12.224**	**84,750**	**1.875**	**0.103**	**17.582**

MINING

Year	Tons Produced (000s)	Mining Labor (000s)	Per Ton	Mining Supplies (000s)	Per Ton	Cost of Mining	Mining Depreciation Per Ton	Total Mining Costs Per Ton
1984	35,689	60,957	1.708	63,600	1.782	3.49	0.737	4.227
1985	33,265	57,540	1.73	54,739	1.646	3.376	0.859	4.235
1986*	24,017	39,162	1.631	43,290	1.802	3.433	0.884	4.317
1987	32,109	40,239	1.253	47,179	1.469	2.722	0.556	3.278
1988	39,786	55,238	1.388	67,491	1.696	3.084	0.474	3.559
1989	39,882	61,850	1.551	82,090	2.058	3.609	0.554	4.163
1990*	43,176	70,770	1.639	105,330	2.44	4.079	0.434	4.513
1991	40,619	81,313	2.002	93,208	2.295	4.297	0.37	4.667
1992	39,428	75,363	1.911	87,287	2.214	4.125	0.364	4.489
1993	40,485	77,831	1.922	90,984	2.247	4.169	0.322	4.491
1994	42,448	81,778	1.927	101,974	2.402	4.329	0.38	4.709
1995	45,857	92,362	2.014	109,056	2.378	4.392	0.298	4.69
1996	**44,618**	**83,441**	**1.870**	**131,305**	**2.943**	**4.813**	**0.462**	**5.275**
1997	**45,659**	**81,413**	**1.783**	**128,129**	**2.806**	**4.589**	**0.356**	**4.945**
1998	**45,196**	**81,703**	**1.808**	**127,659**	**2.825**	**4.633**	**0.310**	**4.943**

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

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

INCOME TAX WITHHOLDING ON MINING AND EXPLORATION ROYALTY

(MINNESOTA STATUTE 290.923)

Income tax withholding is a seven percent tax assessed on exploration and/or mining royalty income. This section defines royalty, identifies who must pay the tax, and outlines the statutory requirements of both the royalty payer and the royalty recipient. Also included is the royalty cost by company per ton of pellets produced (*Figure 35*) and the industry-wide cumulative total royalty paid and income tax withholding *Figure 34*, page 40.

Royalty is defined as any amount (in money or value of property) received by any person having any right, title or interest in or to any tract of land in Minnesota for permission to explore, mine, take out or remove ore. Ores subject to withholding are iron, taconite, and other minerals (copper, nickel, gold, etc.) subject to the net proceeds tax. Royalties may include rents, bonus payments, and nonrecoverable 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 Jan. 1, 1990.

Royalty payers have the option to apply for a separate Minnesota tax identification number used for reporting income tax withholding on mining/exploration royalty, rather than combining it with the wage/salary withholding. To apply for a separate identification number, an *Application for Business Registration, Form ABR*, must be completed and submitted to the Minnesota Department of Revenue. When reporting royalty withholding under its own identification, separate returns must be used — *MW-1: Quarterly Withholding Return*; *MW-5: Minnesota Income Tax Withholding Deposit Form*; and *MW-6: Annual Reconciliation of Income Tax Withheld.*

Royalty payers are obligated to inform recipients of their withholding tax requirement and must provide them with a federal form *W-4*, exemption certificate. The State of Minnesota uses the federal form. The W-4 informs the payer whether to withhold tax from the recipient. Unless the payer receives a W-4 indicating an exempt status, the payer is obligated to withhold tax. Copies of W-4s received from royalty recipients must be sent to the Minnesota Department of Revenue, Minerals Tax Office, 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 income tax. A W-4 is not required.

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

ROYALTY PAID TO A TRUST

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

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

ROYALTY REPORTS

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

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

Minnesota Department of Revenue
Minerals Office
P. O. Box 481
Eveleth, MN 55734-0481

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

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

Where wages and royalty withholding are combined, a copy of the MW-6 and the 1099 MISCs must also be sent to the MNDOR 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. Nonresident individuals will not incur a Minnesota income tax liability for 1999 and are not required to file a Minnesota individual income tax return if their Minnesota assignable gross income is less than $7,050. 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 *are no longer* eligible to use percentage depletion on their individual income tax returns.

QUESTIONS/FORMS

Inquiries should be directed to the Minnesota Department of Revenue, Minerals Tax Office, Eveleth.
Forms are available by contacting:

Minnesota Department of Revenue
Forms Distribution
600 North Robert Street
Mail Station 1421
St. Paul, MN 55146-1421
1-800-652-9094

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

ROYALTY TABLES

The royalty costs per ton beginning in 1970 to the present are shown in *Figures 35 & 36*, page 40.

Figure 34

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

YEAR	ROYALTY PAID	INCOME TAX WITHHELD
1990	$51,151,805	$545,746
1991	$49,335,480	$632,598
1992	$43,318,586	$714,752
1993	$46,889,065	$347,227
1994	$40,067,385	$347,996
1995	$48,160,466	$302,067
1996	$53,751,312	$452,575
1997	$53,902,838	$582,936
1998	$52,945,700	$446,258

Figure 35

AVERAGE ROYALTY COST PER TON OF PELLETS PRODUCED

	1970	1975	1980	1985	1990	1992	1994	1995	1996	1997	1998
Industry Production (millions of tons)	35.3	40.8	42.9	33.3	43.2	39.5	42.3	45.9	44.6	45.7	45.2
Butler	0.714	1.139	1.815	1.954	Closed	Closed	Closed	Closed	Closed	Closed	Closed
Erie (LTV)	0.314	0.954	1.749	2.289	1.288	1.569	1.454	1.545	1.466	1.418	1.419
Eveleth***	0.949	2.218	3.578	2.621	1.644	1.886	1.876	1.416	1.564	1.445	1.451
Hibbing***	*	*	0.398	0.772	0.805	1.525	1.439	1.495	1.440	1.800	1.646
Inland	*	*	1.212	1.801	1.396	1.705	0.779	0.810	0.994	1.022	1.016
National	0.549	0.974	1.525	2.001	2.041	2.132	1.743	1.606	1.448	1.226	1.052
Reserve/Northshore**	1.12	1.919	2.82	3.087	1.35	1.126	1.220	1.472	1.683	1.790	1.806
USX-Minntac	0.000	0.171	0.288	0.334	0.239	0.277	0.329	0.397	0.595	0.446	0.640
Industry Average — Weighted	0.587	1.019	1.383	1.509	1.006	1.23	1.099	1.144	1.268	1.183	1.185
Arithmetic	0.729	1.229	1.673	1.857	1.252	1.46	1.256	1.249	1.313	1.292	1.290

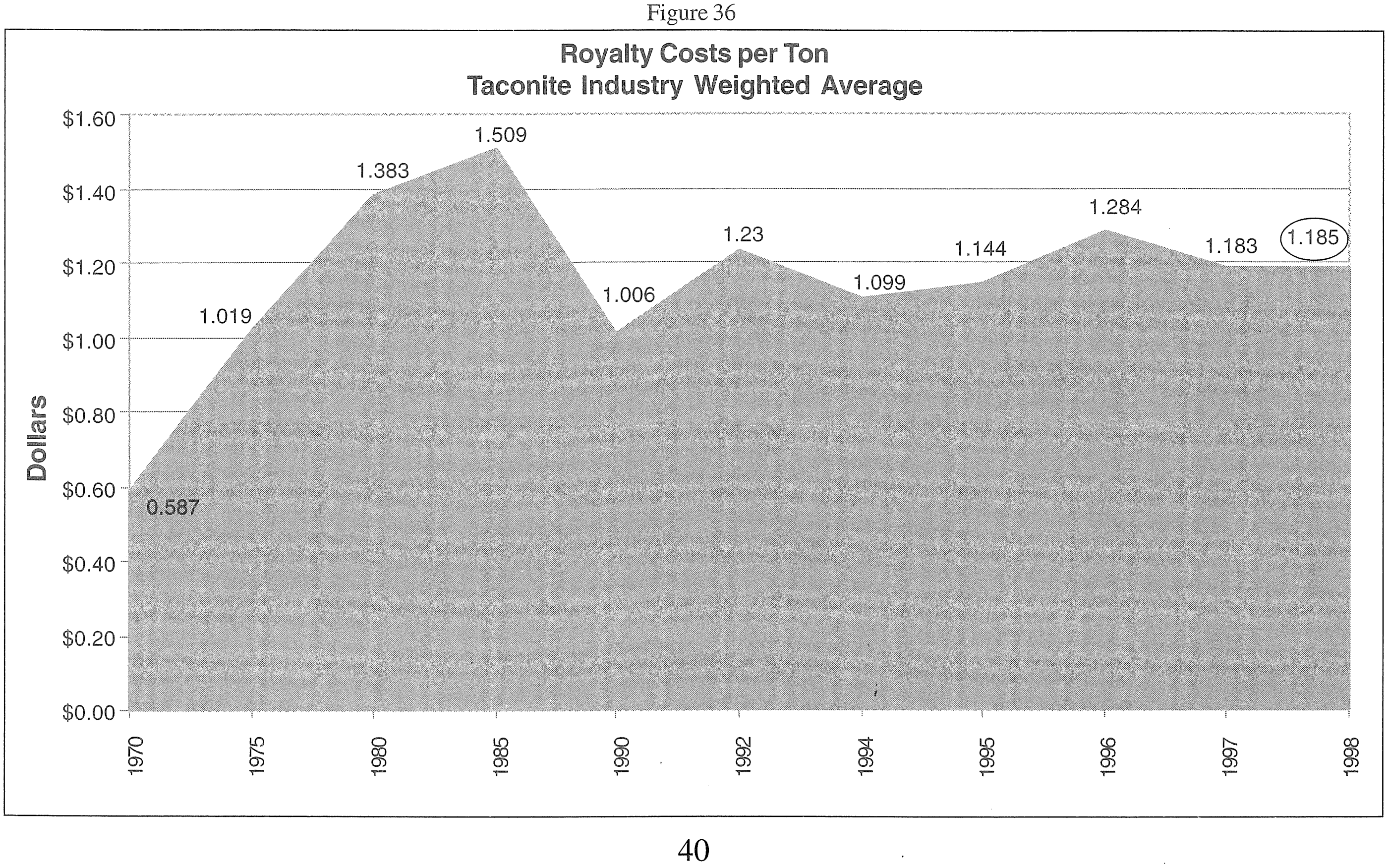
* Plant not yet in production.

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

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

Tonnages used are a "dry" basis, which began in 1990. USX owns a substantial part of the ore it mines, thus a lower per ton royalty cost.

Figure 36



SALES AND USE TAX
TACONITE & IRON ORE

(MINNESOTA STATUTE 297A)

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

The current sales tax rate is 6.5 percent. First adopted in 1967, Minnesota's sales and use tax is now the second largest source of state taxes, yielding *$3.25 billion in fiscal year 1998.*

Sales and use taxes are essentially identical. The sales tax is assessed by the seller at the time of sale of tangible personal property. The use tax is paid by the purchaser, or user, and is imposed on the use, storage, or consumption of tangible personal property for which no sales tax was 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 used becomes an ingredient or constituent part of the property produced. Items included in the exemption are chemicals, fuels, petroleum products, lubricants, packaging materials, electricity, gas, and steam. Explosives, a major item for the mining industry, are exempt under the chemical classification. Note: A fact sheet, *Taconite and Iron Mining, number 147*, is available from the Minnesota Department of Revenue or on the Web at www.taxes.state.mn.us.

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

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

CAPITAL EQUIPMENT REFUND

On July 1, 1984, the State of Minnesota instituted the Capital Equipment Refund Law (M.S. 297A.01, Subd. 16). Initially, the law granted a two percent sales tax refund on capital equipment purchases for new or expanding businesses. The law currently grants a full 6.5 percent refund on sales or use tax paid on qualifying capital equipment.

Equipment purchased does not have to be new; however, it must be new to the business making the purchase.

<u>Example</u>: A welding shop purchases a used welder. The welder is an addition to the two welders the shop already has. Even though the purchase is for a used welder, it would qualify for the full refund of tax paid because the welder is an addition to the shop making the purchase.

The 1993 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. After June 30, 1993, purchases or leases of replacement capital equipment by taconite mining companies qualify for a refund of the full 6.5 percent sales tax.

The 1994 Legislature expanded the Capital Equipment Refund Law to include replacement equipment, repair, replacement and spare parts, accessories, special purpose buildings and foundations for capital equipment (M.S. 297A.01, Subd. 20). This was for a partial refund of the tax paid. A court case won by Eveleth Taconite in April 1999, gives the taconite industry the full 6.5 percent refund on all purchases after July 1, 1994.

Two capital equipment refund claims may be filed per calendar year and may include more than one project. Interest is 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 is paid from the date the tax was paid to the date the refund is paid or credited. This method of calculating interest has been in effect for refund claims submitted since July 1, 1993.

1997 LEGISLATION

The 1997 Legislature repealed the partial capital equipment provisions for all purchases after June 30, 1998. A refund of the full 6.5 percent sales tax paid on qualifying purchases beginning July 1, 1998 was authorized.

1998 AND 1999 LEGISLATION

There were no changes affecting iron ore, taconite or other mining.

ELECTRONIC FUNDS TRANSFER

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

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

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

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

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

Figure 37

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	14,200,022	-0-	1,063,242	13,136,780
1995	15,929,989	-0-	1,435,835	14,494,154
1996	16,821,715	-0-	4,841,228	11,980,487
1997	18,535,506	-0-	6,615,055	11,920,451
1998	17,361,851	-0-	9,175,324	8,186,527
1999 Est.	17,000,000	-0-	10,000,000	7,000,000

* These are capital equipment refund claims for a new or expanding businesses and for repair and replacement parts.

CAPITAL EQUIPMENT EXEMPTIONS & REFUNDS

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

WHAT IS CAPITAL EQUIPMENT?

Capital equipment is machinery and equipment used directly in the production of tangible goods that are ultimately sold at retail. The machinery and equipment must be for a new business or the expansion of an existing business.

WHAT IS REPLACEMENT CAPITAL EQUIPMENT?

Replacement capital equipment is machinery or equipment that is purchased to replace existing capital equipment.

For the taconite mining industry, the replacement capital equipment law took effect on July 1, 1993. All other manufacturing industries qualified effective July 1, 1994.

The 1994 law also extended the refund to include repair and replacement parts in addition to replacement equipment and machinery—but at a graduated percentage of refund based on purchase date. The refund percentage for the taconite industry was different from the rest of the manufacturing industries. Effective June 30, 1998, the refund percentage for all industries — mining and otherwise — became the full 6.5 percent. For additional information, request *Sales Tax Fact Sheet 103: Capital Equipment, Replacement Capital Equipment*, from the Minnesota Department of Revenue, 1-800-652-9094, or download it from the Internet at http://www.taxes.state.mn.us.

WHAT IS THE MINERAL PRODUCTION FACILITIES EXEMPTION?

The Mineral Production Facilities exemption was enacted by the 1994 Legislature and says that the purchase of materials to construct *any* of the following types of facilities is exempt:

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

SALES AND USE TAX
AGGREGATE MATERIAL

(MINNESOTA STATUTE 297A)

Aggregate material is gravel, sand, silica sand, crushed rock, limestone and granite (not dimension stone or dimension granite).

INDUSTRIAL PRODUCTION EXEMPTION

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

CAPITAL EQUIPMENT REFUND

New or used original or replacement capital equipment, repair, replacement and spare parts, accessories, special purpose buildings and foundations for capital equipment qualify for the capital equipment refund for the 6.5 percent sales tax paid after June 30, 1998.

AGGREGATE MATERIALS SALES

SALES TO CONTRACTORS

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

Nontaxable: The purchase of aggregate by a contractor from a pit owner for resale is exempt from sales tax if the contractor provides the pit owner with a completed resale exemption certificate (*ST-5*). A retail sale by a contractor involves only the dumping of aggregate; no leveling, spreading, or further action by the contractor is provided. The contractor must charge sales tax to the end user of the aggregate. If the aggregate and delivery charge are stated separately, the delivery charge is not subject to tax. If not stated separately, the total amount is taxable.

SALES TO TOWNSHIPS

Taxable: The purchase of aggregate by a township for any use other than road and bridge maintenance is taxable. The township *must pay sales tax* on aggregate purchased for the township's parking lots, playgrounds, or snowmobile trails. Road and bridge items *subject to the sales tax* include culverts, bridge decking or railing, structural steel, or any other road surface materials such as asphalt, concrete or chloride used as a dust retardant or binder.

Nontaxable: Purchases of aggregate, machinery, equipment and accessories by townships are *exempt from sales tax* if they are *used exclusively for road and bridge maintenance*. For purposes of the statute only, the Minnesota Department of Revenue considers aggregate, *including crushing and screening*, to include black dirt, shale, clay and other earthen material if used *exclusively for road and bridge maintenance.*

SALES TO CITIES, COUNTIES OR SPECIAL TAXING DISTRICTS

Taxable: All sales of aggregate to cities, counties or special taxing districts are subject to sales tax when they are used by these entities. No exemption is provided for purchases used for road and bridge maintenance.

Nontaxable: Sales of aggregate to cities, counties or special taxing districts where the aggregate will be resold by these entities are exempt from sales tax if the entity provides the pit owner with a completed resale exemption certificate (*ST-5*).

AGGREGATE PIT OWNED BY A GOVERNMENT UNIT

Taxable: If a pit is owned or leased by a government unit, sales are subject to sales tax if sold to anyone else for his/her own use unless it is purchased for resale. See sales to contractors.

Nontaxable: If a pit is owned or leased by a government unit, there is no sales tax when the entity removes aggregate for its own use.

AGGREGATE CRUSHING

Taxable: Aggregate crushing is considered fabrication labor and is taxable. Fabrication labor is defined as the making or creating of a product or the altering of an existing product into a new or changed product. Fabrication labor is taxable even when the customer provides the materials to be crushed.

AGGREGATE SCREENING

Taxable: Aggregate screening is fabrication labor and subject to sales tax.

Example: Aggregate is purchased from a pit owner and another party is hired to crush, size (screen) or otherwise process the material. The pit owner must charge the purchaser sales tax on the material; the party that crushes, sizes or otherwise processes the material must charge sales tax on the fabrication labor.

Nontaxable: If an owner of a pit removes aggregate for personal use, it is not subject to sales tax.

READY MIX CONCRETE PRODUCER/BITUMINOUS PRODUCER

Nontaxable: The purchase of aggregate by ready mix concrete or bituminous producers used in making their product is exempt from sales tax if the ready mix concrete or bituminous producers provide a completed exemption certificate (*ST-3*) for industrial production to the aggregate seller (pit owner).

If either of these producers make retail sales of aggregate, the aggregate may be sold exempt from sales tax only if the purchaser provides a completed resale exemption certificate (*ST-5*).

AGGREGATE MATERIAL PRODUCTION TAX

GRAVEL TAX

(MINNESOTA STATUTE 298.75)

INTRODUCTION

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 imposed on importers and operators is ten cents per cubic yard or seven cents per short ton. Aggregate material must be measured or weighed after it is extracted from the pit, quarry or deposit.* For the purposes of this statute, an *importer* is any person who brings aggregate from another state or county (township) not imposing this tax into a county (township) that imposes the aggregate material tax. The tax is imposed on an importer when the aggregate material is imported into a county (township) imposing the tax from a county (township) that does not impose the 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. The tax is imposed on an operator within the county (township) when the material *is transported from the extraction site or is sold, used or transported from stockpile, whichever occurs first.*

Since 1986, this tax has been in effect in 22 counties: Becker, Benton, Big Stone, Carver, Clay, Dakota, Hennepin, Kittson, LeSueur, Mahnomen, Marshall,Norman, Pennington, Polk, Ramsey, Red Lake, Scott, Sherburne, Sibley, Stearns, Washington and Wilkin.

Pope County imposed the tax effective April 1, 1998. Canosia, Solway and Midway Townships in St. Louis County imposed the tax April 1, 1999.

AGGREGATE TAX LEGISLATION

1997 legislation authorized Pope, St. Louis and Carlton Counties to begin collecting the tax. Pope County imposed the tax effective April 1, 1998. Carlton and St. Louis Counties decided not to impose it. The same legislation authorized some townships surrounding Duluth to impose the tax if St. Louis County chose not to impose the tax. They were: Alden, Brevator, Canosia, Duluth, Fredenberg, Gnesen, Grand Lake, Industrial Lakewood, Midway, Normanna, North Star, Rice Lake and Solway.

The townships had until Jan. 5, 1999, to file a certificate of approval to impose the tax with the Secretary of State. As mentioned, three did.

No legislation regarding this tax was passed in 1999 or 1998.

TAX ADMINISTRATION

The aggregate material tax is the responsibility of each county auditor (township clerk) where the tax is imposed on its aggregate operations. The county auditor (township clerk) is accountable to develop the tax reports, correspond with aggregate operators or importers and collect the tax. He/she also has the right to audit and inspect all books and records of any aggregate material operator or importer.

The law requires the county to distribute the tax as follows: County Road and Bridge Fund, 60 percent; Township or City Road and Bridge Fund as determined by the County Board, 30 percent; and the Reserve Fund for Pit Restoration of abandoned pits or quarries on public and tax forfeit lands, 10 percent. *All proceeds from this tax shall be retained by each of the towns that impose the tax. Townships collecting this tax have no legally mandated distribution.*

The tax is first collected from the county (township) where the aggregate is produced. If two adjoining counties (townships) both impose the tax, the county (township) into which the aggregate is imported cannot collect or impose the tax. The only exception is: if the aggregate material is transported directly from the extraction site by a waterway, railway or other nonhighway method, the tax imposed will be apportioned equally between the county (township) of extraction and the county (township) of destination. *The county board can decide not to impose the tax on operators who produced less than 20,000 tons (14,000 cubic yards) during the previous year.*

REPORTING REQUIREMENTS

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

RESERVE FUND FOR PIT RESTORATION

M.S. 298.75, Subd. 7(c) mandates ten percent of the tax be distributed to a special reserve fund for the restoration of abandoned pits, quarries or deposits located on public and tax forfeited lands within the county. However, if there are none, the portion of the tax is deposited in the County Road and Bridge Fund. Information the Minnesota Department of Revenue, Minerals Tax Office, prepared for the *Legislative Aggregate Resources Task Force* showed that as of Dec. 31, 1998, counties had a total reserve fund balance of more $1.7 million. For more information contact the MNDOR Minerals Tax Office, Eveleth.

AGGREGATE TAX EXAMPLES

No Tax Imposed Examples

Example: If a government unit (township, city, county or state) owns or leases an aggregate pit, there is no aggregate material tax when the government unit removes aggregate for its own use. There is also no tax if the government unit hires a contractor to crush and remove the aggregate for use on its roads. The tax is imposed on every operator 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 Kanabec County Attorney, May 13, 1983.)*

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

Tax Imposed Example

Example: When a privately-owned gravel pit sells gravel to a township, other local unit of government, county or the State of Minnesota, the tax is imposed on the pit operator.

Example: When a government- or privately-owned pit sells aggregate to an individual or contractor who picks up the aggregate at the pit, the tax is imposed on the pit operator.

Example: Let's say the example is the same as above, but the operator delivers the aggregate, either dumping or leveling it. Again, the tax is imposed on the pit operator.

Example: Ready mix and bituminous producers who own their own aggregate pits must pay the tax to the county. If they purchase aggregate, the tax should be paid by the aggregate producer or importer.

OTHER QUESTIONS

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

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

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

Answer: No.

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

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

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

Answer: Yes. The sales tax must be shown separately on retail sales.

Figure 38

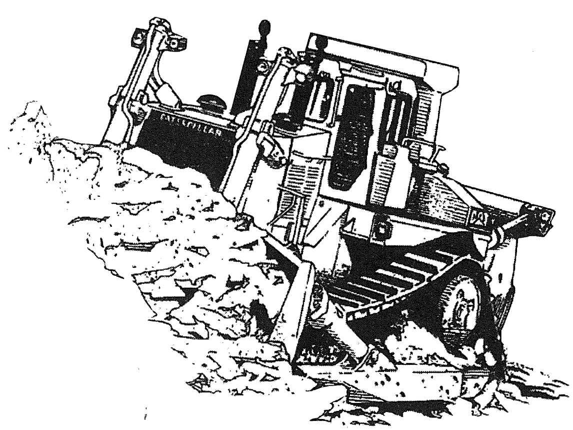
AGGREGATE TAX COLLECTED

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

AGGREGATE TAX COLLECTED BY COUNTY - 1998

Becker	$121,485	Pennington	50,425
Benton	0	Polk	78,035
Big Stone	80,056	Pope (4/1/98)	21,617
Carver	58,238	Ramsey	50,872
Clay	179,328	Red Lake	31,881
Dakota	615,771	Scott	308,241
Hennepin	263,144	Sherburne	191,927
Kittson	29,503	Sibley	45,841
Le Sueur	180,184	Stearns	113,643
Mahnomen	11,036	Washington	378,018
Marshall	20,111	Wilkin	10,377
Norman	41,685	TOTAL	$2,881,418

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



AD VALOREM TAX ON AUXILIARY MINING LANDS FOR TACONITE OPERATIONS

(MINNESOTA STATUTE 272.01)

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

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

Each property classification has a legislatively set percentage called the class rate that is multiplied by the assessor's estimated market value (EMV) to calculate tax capacity. For payable 1999 taxes, the class rate for timber is 1.25 percent of the estimated market value. For the industrial classification, there are two class rates: 2.45 percent for the first $150,000 of the estimated market value (EMV); and 3.5 percent for the value over $150,000.

The 1997 Legislature expanded the eligibility for the lower 2.45 percent rate so that now each mining operation has up to $150,000 of the EMV classified at the lower rate. This change began with taxes payable in 1998. Both the industrial class rates were reduced for payable 2000—the lower rate from 2.45 to 2.4 percent, and the higher rate from 3.5 to 3.4 percent. The timber rate was reduced from 1.25 percent to 1.20 percent for payable 2000 taxes.

Property taxes are calculated by multiplying a property's tax capacity times the tax extension rate for the jurisdiction where it is located. Tax extension rates are determined by county, local government and school district spending. In St. Louis County for payable 1999, they range from a low of approximately 90 percent to a high of approximately 222 percent. In addition, the market value times the referendum rate must be added to the tax determined above if there is a referendum in the taxing district.

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

ST. LOUIS COUNTY MINING LAND ASSESSMENT SCHEDULE

1. IRON FORMATION LAND	VALUE ($/ACRE)	CLASSIFICATION
A. Land within ¼ mile of active pit	$500	Industrial
B. Excess land (more than ¼ mile from mining activity or outside 15-year pit limit).		
1. Undisturbed	same as other private land	Timber or current use
2. Disturbed		
a. Stockpiles	75% of other private land	Timber or current use
b. Abandoned Pits	50% of other private land	Timber or current use
2. OFF-FORMATION LAND		
A. Land within ¼ mile of mining activity	$250	Industrial
B. Excess land (more than ¼ mile from mining activity		
1. Stockpiles	75% of other private land	Timber or current use
2. Tailings Ponds	30% of other private land	Timber or current use

AD VALOREM TAX ON UNMINED TACONITE

(MINNESOTA STATUTE 298.26)

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

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

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

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

The categories are listed as follows:

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

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

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

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

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

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

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

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

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

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

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

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

For payable 1999, the tax is calculated by multiplying the market value for the parcel of land by the 3.50 percent class rate times the local tax rate plus the market value times the referendum rate. *Note: Call your county auditor for more information.*

Figure 39

UNMINED TACONITE TAX PAID
(Year Payable)

County	1992	1993	1994	1995	1996	1997	1998	1999
Itasca	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
St. Louis	349,551	355,596	352,119	488,176	467,946	455,792	444,630	402,543
TOTALS	$349,551	$355,596	$352,119	$488,176	$467,946	$455,792	$444,630	$402,543

AD VALOREM TAX ON UNMINED NATURAL IRON ORE

(MINNESOTA STATUTES 272.03, 273.02, 273.12, 273.13, 273.165, 273.1104)

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

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

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

- 1a. Mining, normal costs
- 1b. Mining, special costs
- 2. Beneficiation
- 3. Miscellaneous (property tax, medical ins., etc.)
- 4. Development (future)
- 5. Plant & 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 has been included under miscellaneous.

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

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

In 1989, the Legislature continued work on property tax reform. An effort was made to reduce the difference between homestead property and business property. The term class rate was introduced for taxes payable in 1990. The class rate for Class 5 property, which includes unmined iron ore, was 5.06 percent.

In 1990, the governor and legislature agreed that all classes of property with a 5.06 percent class rate should be reduced to 4 percent through a phase-in period. The 1997 Legislature reduced the class rate to 4 percent for payable 1998. The 1998 Legislature reduced the class rate from 4 percent to 3.5 percent for payable 1999. The 1999 Legislature reduced the class rate to 3.4 percent for taxes payable in 2000.

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. In addition, the market value times the referendum rate must be added if there is a referendum in the taxing district.

Local tax rates are a function of county, local government, and school district spending. For example, in 1997,they ranged from a low of approximately .9 to a high of nearly 2.09 in St. Louis County. The following class rates were in effect through 2000:

CLASS RATES	
Payable 1990	5.06%
Payable 1991	4.95%
Payable 1992	4.75%
Payable 1993	4.70%
Payable 1994	4.60%
Payable 1995	4.60%
Payable 1996	4.60%
Payable 1997	4.60%
Payable 1998	4.00%
Payable 1999	3.50%
Payable 2000	3.40%

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

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

Effective Jan. 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, in effect since Jan. 2, 1986, did not 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 Minnesota 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 was as close to revenue neutral as was intended. The new schedule of minimum rates revised in 1992 listing market value per ton is shown on the next page.

Figure 40

MINIMUM RATES

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

Open pit ores that 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 previously explained.

Figure 41

IRON ORE AD VALOREM TAX PAYABLE

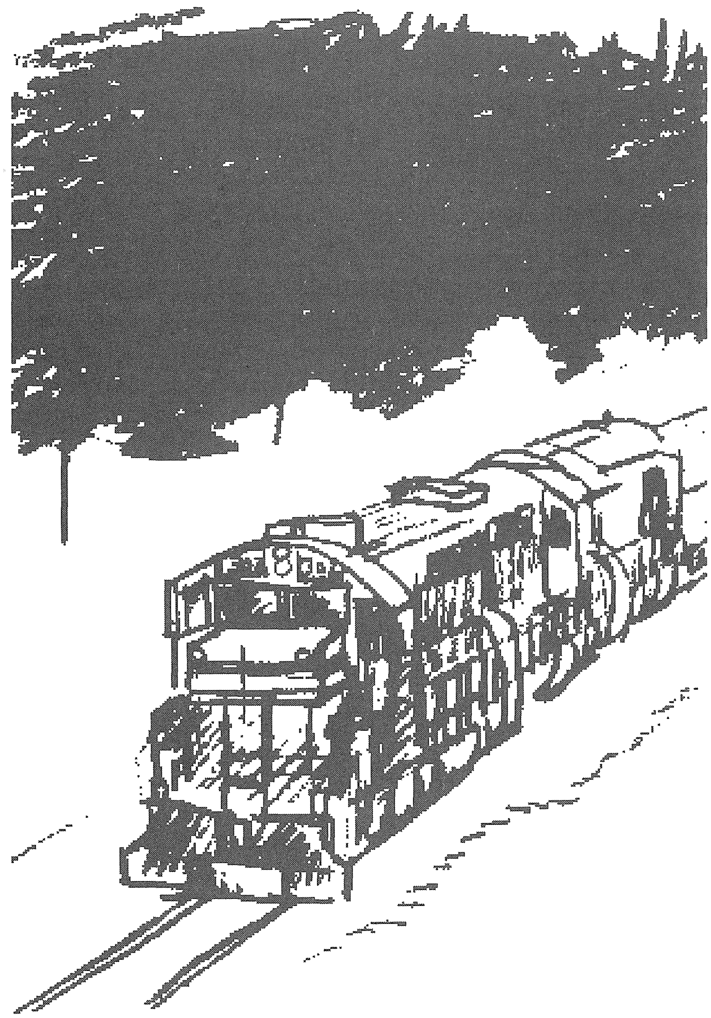
YEAR ASSESSED	MARKET VALUE	PAYABLE	YEAR ESTIMATED TAX PAYABLE CROW WING	ITASCA	ST. LOUIS	TOTAL
1981	$25,378,108	1982	$43,640	$487,610	$3,239,027	$3,770,277
1982	22,442,833	1983	44,479	217,269	3,282,925	3,544,673
1983	20,875,960	1984	51,659	222,023	3,425,894	3,699,576
1984	17,030,758	1985	50,925	152,997	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	276,300	341,900
1993	5,476,900	1994	20,900	47,400	254,600	322,900
1994	5,071,600	1995	14,000	34,800	262,400	311,200
1995	4,823,000	1996	12,100	32,600	237,600	282,300
1996	4,448,800	1997	10,900	34,900	226,200	272,000
1997	4,175,400	1998	10,400	23,500	244,900	278,800
1998	4,020,900	1999	8,200	18,900	188,100	215,200
1999	3,781,800	2000				

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

In addition, current conditions and future trends in the iron ore industry are discussed. Iron ore ad valorem taxes are expected to continue their long decline as remaining economic deposits are mined. Beginning with the 1993 assessment, reserves in old flooded pits converted to aquaculture were classified as underground, low-grade aquaculture (UGLGA).

AD VALOREM TAX ON TACONITE RAILROADS

(MINNESOTA STATUTE 270.80 - 270.88)



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

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

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

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

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

Figure 42

TACONITE RAILROAD AD VALOREM TAX ASSESSED

Year Payable	Assessed	St. Louis County	Lake County	Cook County	Total Tax
1990	1989	$105,167	$156,675	$5,037	$266,879
1991	1990	112,800	145,573	5,319	263,692
1992	1991	53,409	80,720	5,064	139,193
1993	1992	38,454	99,919	4,706	143,079
1994	1993	48,655	87,248	4,938	140,841
1995	1994	78,281	140,300	14,454	233,034
1996	1995	64,516	116,143	14,456	195,115
1997	1996	49,283	61,107	13,292	123,682
1998	1997	46,250	66,114	10,330	122,694
1999	1998	43,891	68,874	8,648	121,413

AD VALOREM TAX ON SEVERED MINERAL INTERESTS

(MINNESOTA STATUTES 272.039, 272.04, 273.165)

DEFINITION

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

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

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

NONPAYMENT PENALTY—FORFEITURE

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

TAX IMPOSED

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

HISTORY OF LITIGATION

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

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

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

Figure 43

TAX COLLECTION AND DISTRIBUTION

Period Ending	80% Retained by Local Government	20% Payment to Indian Business Loan Account	Total Collections of Affected Counties
Dec. 31, 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
Dec. 31, 1994	342,068	85,517	427,585
Dec. 31, 1995	547,372	136,843	684,215
Dec. 31, 1996	571,436	142,859	714,295
Dec. 31, 1997	517,268	129,317	646,585
Dec. 31, 1998	470,472	117,618	588,090

INDIAN BUSINESS LOAN ACCOUNT

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

The money deposited in the severed mineral interest account is distributed to the Indian Affairs Council at the end of each month. The tax is collected by county auditors twice each year, May and October, like 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 below:

Figure 44

Minnesota Department of Revenue
Mail Station 3340
Saint Paul, Minnesota 55146-3340
(651) 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. 40.A152, Subd. 1) .... ________

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

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

Severed Mineral Interest .... ________

Total .... $________

Acknowledged Correct

Signature of County Treasurer Date Signature of County Auditor Date

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

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

DEPARTMENT OF REVENUE

The processing and payment of the Severed Mineral Interest Tax is handled by the Payment and Return Resolution Division (PARTNR) of the Minnesota Department of Revenue. The Deposit Control Section is responsible for severed minerals tax (651) 296-5960. The Special Taxes Processing Division, (651) 297-2446, is responsible for reporting collections to the Indian Affairs Council.

INDIAN AFFAIRS COUNCIL

The Indian Affairs Council, which administers the 20 percent portion of the tax allocated for the Indian Business Loan Account, may be contacted in Bemidji at (218) 755-3223.

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

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

Figure 45

INDEX OF OTHER MINING/EXPLORATION TAXES

Tax	Current Laws	Mining Tax Guide Page No.
Ad Valorem Tax (Smelter and Plant Facilities Only)	M.S. 272 and 273	Page 54
Net Proceeds Tax	M.S. 298.015-298.018—2%	Page 55
Occupation Tax	M.S. 298.01—9.8%	Pages 30 & 56
Sales and Use Tax	M.S. 297A—6.5%	Pages 44 & 56
Severed Mineral Interest	M.S. 272.039, 272.04, 273.165	Page 52
Withholding Tax on Royalty Payments	M.S. 290.923—7% Withholding from Royalty Payments	Pages 38 & 56

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

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

Machinery such as pumps, motors, grinding mills, etc., is considered personal property and *not subject to ad valorem tax*. In 1999 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 could be assessed as low as $9 or $10 per square foot. Tax rates are set by the county, local communities and school districts according to state law, and the tax is administered and collected by the county.

Minnesota's property taxes are computed as follows:
For commercial and industrial property, the assessor's estimated market value is multiplied by a class rate to obtain gross tax capacity. *See class rate chart.* The first $150,000 of value is 2.40 percent. This is 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 .9 to approximately 2.09. If a referendum tax is passed, the referendum rate times the full market value must be added. The Legislature has established target class rates lower than the current rate to reduce the tax burden on commercial and industrial property. A list of recent rates follows:

CLASS RATES

	Over $150,000	**First $150,000**
Payable 1994	4.60%	3.00%
Payable 1995	4.60%	3.00%
Payable 1996	4.60%	3.00%
Payable 1997	4.60%	3.00%
Payable 1998	4.00%	2.70%
Payable 1999	3.50%	2.45%
Payable 2000	3.40%	2.40%

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

To date, none of the metallic minerals leases have progressed beyond the exploration stage. Contact the DNR, Minerals Division, to determine the status of activities under any state metallic minerals lease.

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

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

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

Gross Proceeds

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

Net Proceeds

The net proceeds tax was designed to apply to mining, 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 deductions. The following is a comprehensive list of unallowable deductions and allowable deductions:

Unallowable Deductions Include:

— sales, marketing, and interest expense;

— insurance and tax expense not specifically allowed;

— administrative expense outside Minnesota;

— research expense prior to production;

— reserve for reclamation costs after production ends; and

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

Allowable Deductions

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

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

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

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

— administrative expense inside Minnesota;

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

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

— reclamation costs paid in a year of production.

The carryback or carryforward of deductions is not allowed.

Distribution

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

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

(2) Ten percent to the Municipal Aid Account

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

(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, using St. Louis County as fiscal agent

(7) Five percent to the IRRRB

(8) Five percent to the Northeast Minnesota Economic Protection Trust Fund (2002 Fund)

(9) Five percent to the Taconite Environmental Protection Fund

The proceeds must be distributed on July 15.

Economic Development Incentives (see page 23)

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

— $20 million loan or equity investment - state general fund

— $20 million match from IRRRB

— $10 million grant from state general fund, and

— $15 million grant/loan/equity investment - IRRB 2002 Fund.

This $65 million is the maximum available for all projects.

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

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

The corporate income tax rate is 9.8 percent and contains an alternative minimum tax. The effective corporate tax rate for a base or precious metals mine is 2.94 percent due to the income allocation for out-of-state sales (70 percent). The effective tax rate for production in 2001 (taxes payable in 2002) and beyond will be reduced to 2.45 percent. The out-of-state sales factor will be increased to 75 percent.

For more information about the alternative minimum tax, refer to M.S. 290.092, Subd. 4, or contact the Minnesota Department of Revenue, Minerals Tax Office, Eveleth.

WITHHOLDING TAX ON ROYALTY (M.S. 290.923)

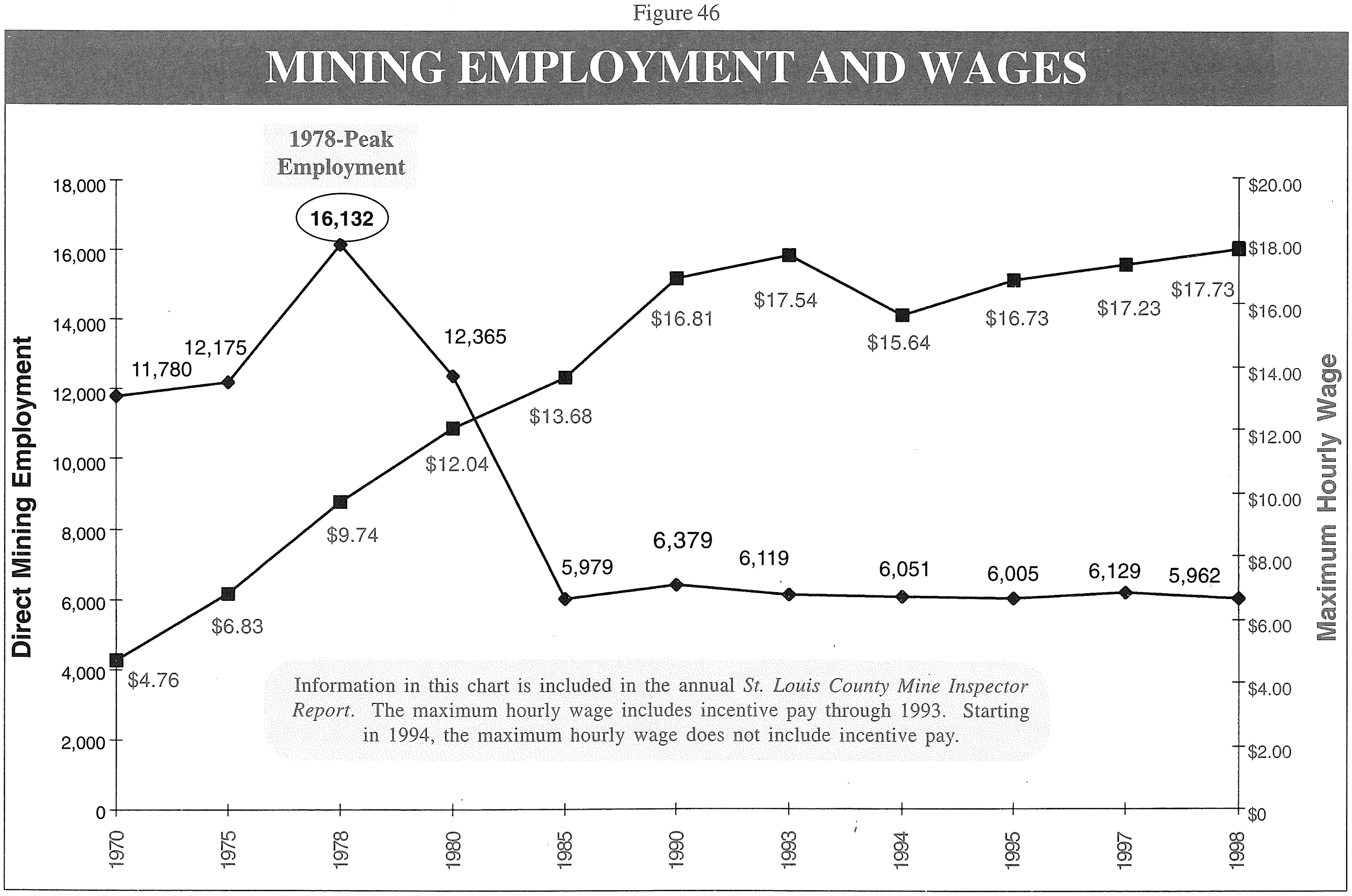
Beginning Jan. 1, 1990, all persons or companies paying royalty are required to withhold Minnesota income tax from royalty payments (7 percent) and remit the withholding tax and applicable information to the Minnesota Department of Revenue. See the section on *Income Tax Withholding on Mining and Exploration Royalty*, page 38.

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

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

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

Figure 46



GLOSSARY OF TERMS

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

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

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

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

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

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

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

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

EF, EAF—Electric Arc Furnace—A furnace in which an electric current is passed through the charge. These furnaces are much smaller than the conventional BOFs used by the integrated steel producers. See class rate chart (usually scrap steel) to produce molten steel.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mini Mill—A small steel mill using an electric furnace that produces steel from scrap iron. As of Dec. 31, 1995, mini mills accounted for nearly 40 percent of the U.S. steel production.

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

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

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

Nonequity Sales—See Arms-length Transaction.

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

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

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

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

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

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

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

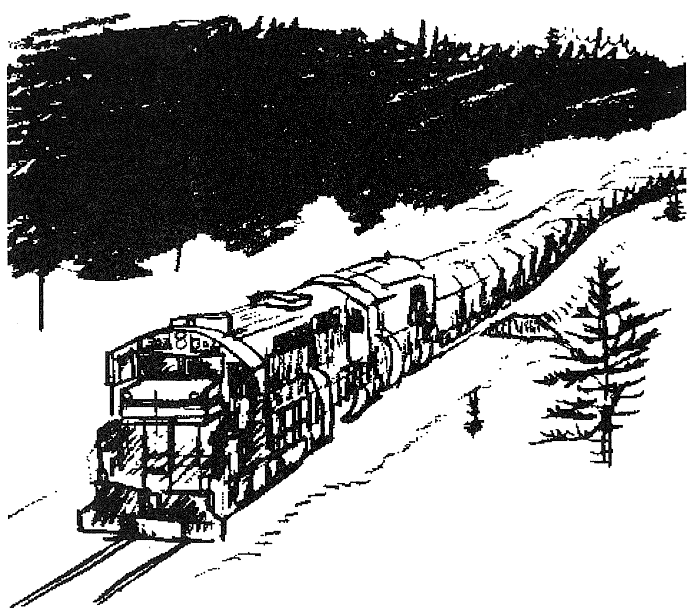
Steel Mill Products Index (SMPI)—A United States government index tracking the actual selling price of all steel products in the United States. This index is published monthly by the U.S. Department of Labor. It is part of the formula used to determine a mine value for occupation tax purposes each year.

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

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

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

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



MINING INDUSTRY TAX CALENDAR

JANUARY

- 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

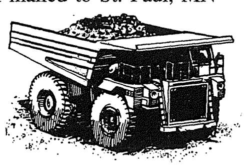
31 Form MW-1, Minnesota Employer's Quarterly Withholding Return due

SALES AND USE TAX

- Electronic Funds Transfers (all months):

14 Payments must be made.

25 Return mailed to St. Paul, MN



FEBRUARY

1 Royalty/Withholding Tax Paid Report, MT2-RW, due

- Taconite Production Tax Report due from companies

15 Taconite production tax determinations mailed to companies

- Printout listing 100% production tax payment sent to county auditors
- School bond payment schedule mailed to Itasca, Lake and St. Louis counties
- Notice of taconite production tax aids mailed to recipients

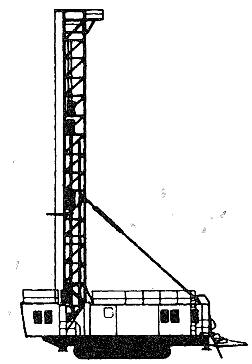
24 Taconite production tax payment (100%) due in county offices by electronic fund transfer

25 Distribution of taconite production tax by counties (collected February 24)

28 Form MW-6, Minnesota Annual Reconciliation of Income Tax Withheld due

MARCH

1 Taconite Municipal Aid amounts mailed to cities or to RAMS

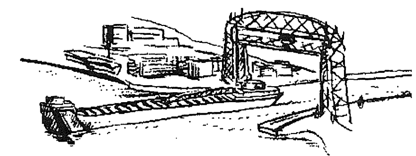


APRIL

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

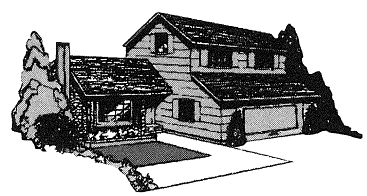
15 First half property tax on taconite railroad property due to counties

20 Ad valorem tax hearing held on first business day after May 20

31 Production Cost Summary Report (goldenrod form) due

JUNE

30 Ad valorem tax final adjustments to property equalization sheets mailed to county assessors



JULY

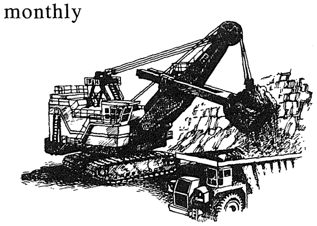
1 Commissioner of Revenue certifies amount of Taconite Municipal Aid to municipality

15 Taconite referendum distribution to school districts of taconite production tax made by the counties

31 Form MW-1, Minnesota Employer's Quarterly Withholding Return due

AUGUST

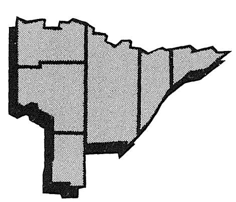
- Form MW-5 and payment of income tax withheld due at varying times each month depending on amount of tax due, i.e., eighth-month period or monthly



SEPTEMBER

15 Taconite Municipal Aid account funds distributed by counties

- *Minnesota Mining Tax Guide* available



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

NOVEMBER

1 Letters sent to six counties & the IRRRB to verify their electronic funds transfer data

DECEMBER

1 Minerals Tax Office submits Unmined Taconite Tax Reports to county assessors

1 Production tax forms mailed to companies

30 Occupation tax forms mailed to companies

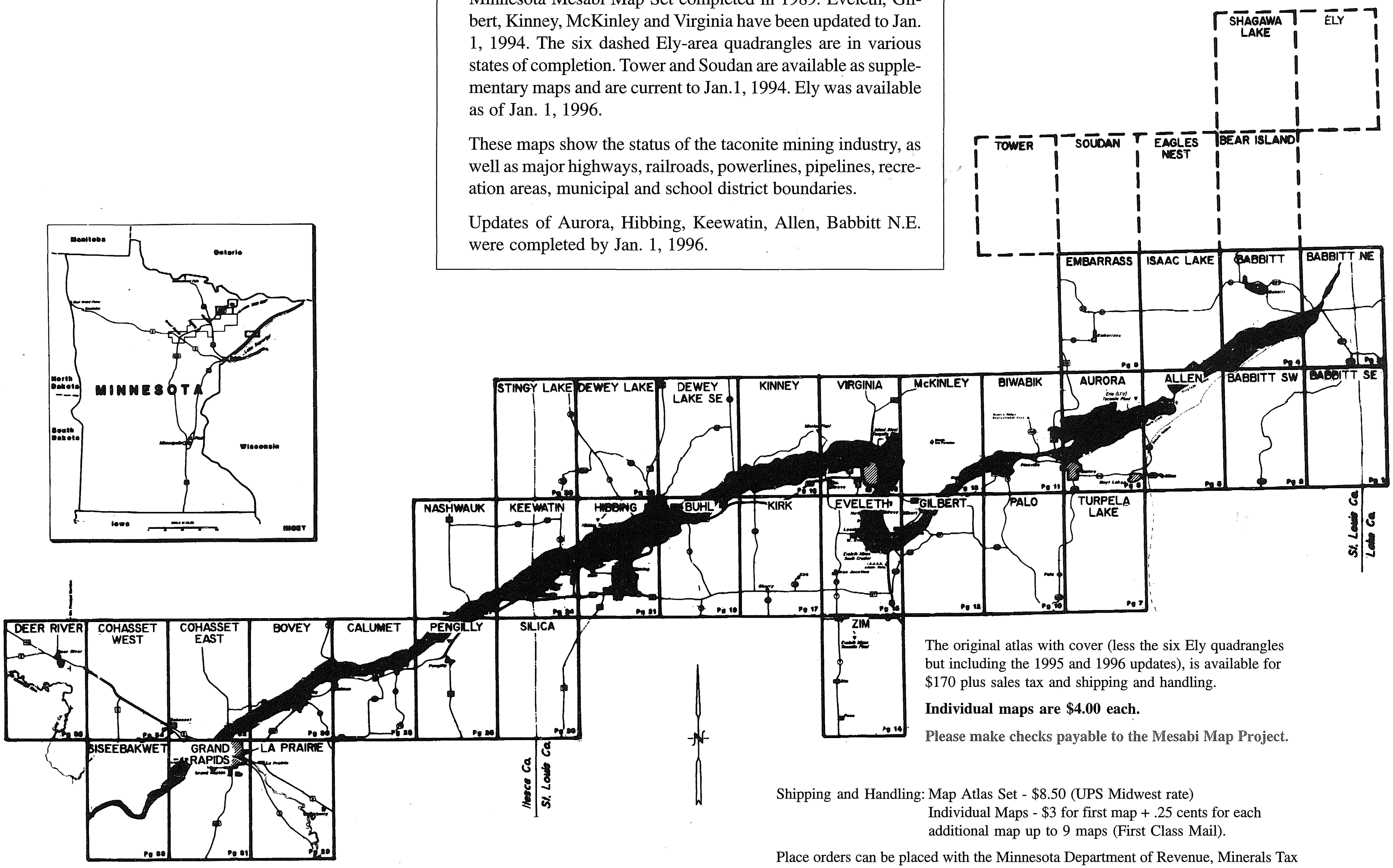
30 Royalty/Withholding Tax Paid Report, MT2-RW, mailed to companies

INDEX MAP - MINNESOTA MESABI MAP SET AND 1996 UPDATES

This index map indicates the 35 quadrangles included in the Minnesota Mesabi Map Set completed in 1989. Eveleth, Gilbert, Kinney, McKinley and Virginia have been updated to Jan. 1, 1994. The six dashed Ely-area quadrangles are in various states of completion. Tower and Soudan are available as supplementary maps and are current to Jan.1, 1994. Ely was available as of Jan. 1, 1996.

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

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



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

Individual maps are $4.00 each.

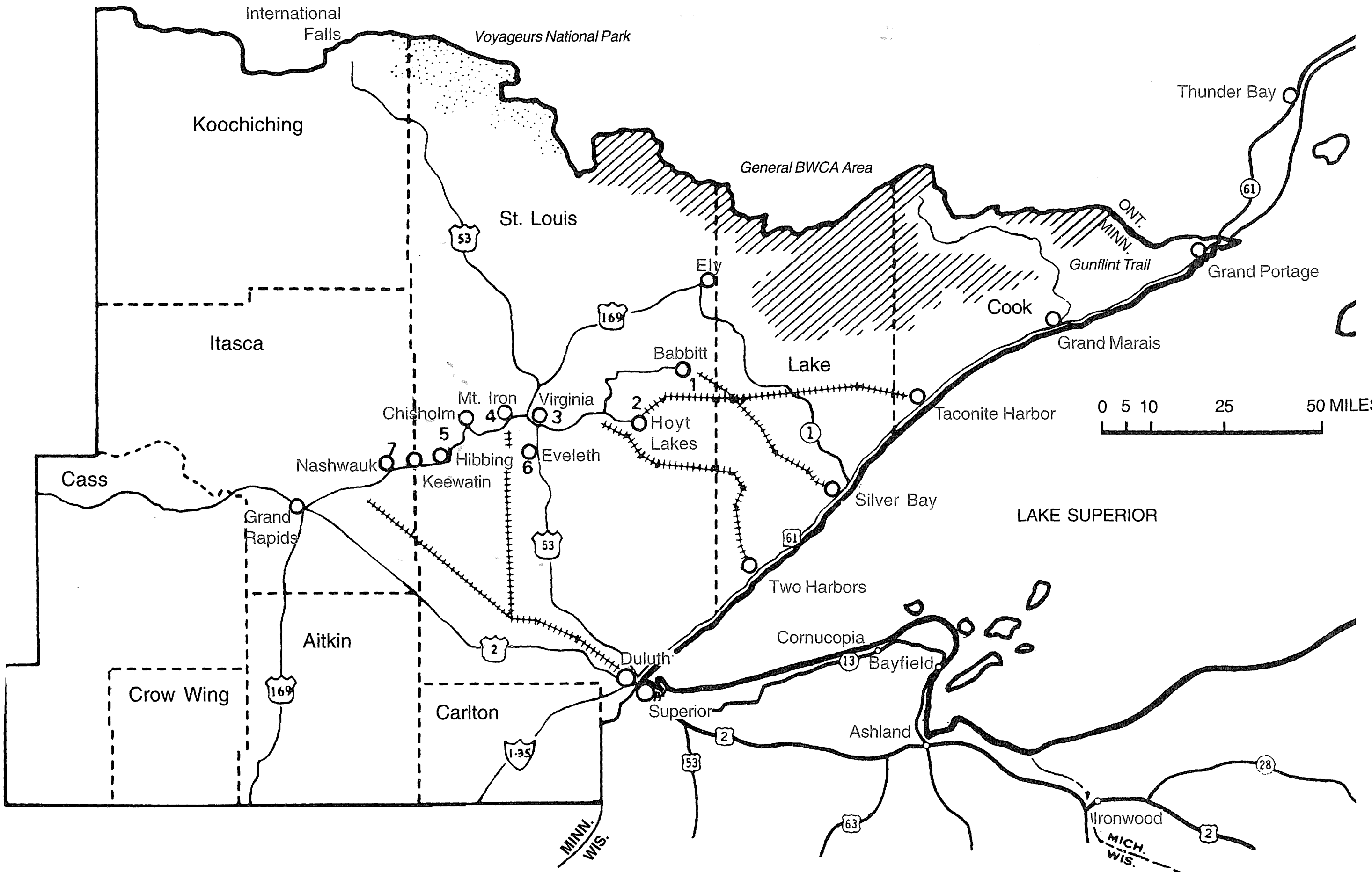
Please make checks payable to the Mesabi Map Project.

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

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

MAP OF NORTHEASTERN MINNESOTA

TACONITE COMPANY LOCATIONS
OWNERSHIP AND GENERAL INFORMATION



		Effective Capacity* (million tons)
1.	**NORTHSHORE MINING COMPANY** Owner: Cliffs Mining Company (100%) Cleveland, Ohio	4.7
2.	**LTV STEEL MINING COMPANY** Cliffs Mining Company, Managing Agent Owner: LTV Steel (100%) Cleveland, Ohio	8.0
3.	**MINORCA PLANT** Owner: Ispat Inland Mining Company (100%) Rotterdam, Netherlands	2.5
4.	**MINNTAC PLANT** Owner: USX Corporation (100%) Pittsburgh, Pennsylvania	15.0
5.	**HIBBING TACONITE COMPANY** Cliffs Mining Company, Managing Agent Owners: Bethlehem Steel Company (70.3%) Bethlehem, Pennsulvania Cliffs Mining Company (15%) Cleveland, Ohio Steel Company of Canada, Ltd. (Stelco) (14.7%) Hamilton, Ontario	8.5

		Effective Capacity* (million tons)
6.	**EVTAC** ** Owners: Rouge Steel Company (45%) Detroit, Michigan Virginia Horn Taconite (A-K Steel) (40%) Middletown, Ohio Ontario Eveleth Company (Stelco) (15%) Hamilton, Ontario	5.4
7.	**NATIONAL STEEL PELLET COMPANY** Owner: National Steel Corporation (100%) National Steel Ownership: Mishawaka, Indiana Nippon Kokan KK (67.6%) Tokyo, Japan Publicly Held (32.4%)	4.7

TOTAL EFFECTIVE CAPACITY: **48.8**

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

** Effective December 23, 1996, Eveleth Mines officially changed name and ownership. Eveleth Mines became Eveleth Mines, LLC, known as **EVTAC** Mining. Oglebay Norton was no longer the managing agent and sold their 14.4% ownership to the three remaining partners.

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

MINNESOTA Department of Revenue
www.taxes.state.mn.us
Minerals Tax Office
PO Box 481, Eveleth MN 55734
218-744-7420
fax 218-744-7421