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2014

2014 Distribution of Taconite Production Tax

(Based on 2013 Production Year)

Total Taconite Production Tax — $109,928,009*

Production tax per taxable ton – $2.560. Taxable tonnage – 39,607,765 tons.

Cities and Townships — $14,911,750 — 37.6 cpt

- **City and Township Mining & Conc Fund****: $2,134,737, 5.4 cpt
- **Township Fund**: $1,287,505, 3.3 cpt
- **Taconite Municipal Aid****: $6,633,334, 16.7cpt
- **Taconite Railroad**: $591,142, 1.5 cpt
- **Mining Effects****: $1,794,389, 4.5 cpt
- **Special City/Township Fund**: $157,055, 0.4 cpt
- **Transferred from schools to cities and townships**: $2,313,588, 5.8 cpt

School Districts — $21,426,698 — 54.1 cpt

- **Taconite School $0.0343 Fund****: $1,610,748, 4.0 cpt***
- **Regular School $0.2472 Fund****: $10,676,982, 27.0 cpt***
- **Taconite Railroad**: $1,106,935, 2.8 cpt ***
- **Building Maintenance Fund**: $1,535,158, 3.9 cpt
- **Taconite Referendum****: $6,178,596, 15.6 cpt
- **School Bond Payments**: $2,631,867, 6.6 cpt

Counties — $14,502,580 — 36.6 cpt

- **Regular County Fund****: $9,095,093, 23.0 cpt
- **County Road and Bridge Fund****: $4,623,110, 11.6 cpt
- **Taconite Railroad**: $784,377, 2.0 cpt

Property Tax Relief and Misc. — $13,783,501 — 34.8 cpt

- **Taconite Property Tax Relief**: $13,783,501, 34.8 cpt

IRRRB — $32,459,946 — 81.9 cpt

- **IRRRB Fund****: $3,819,425, 9.6 cpt
- **IRRRB Fixed Fund**: $1,252,520, 3.2 cpt
- **Iron Range Higher Education Acct.**: $1,980,388, 5.0 cpt
- **Producer Grant & Loan Fund**: $3,241,471, 8.2 cpt
- **IRRRB Educational Revenue Bonds**: $4,147,804, 10.5 cpt
- **Taconite Env. Protection Fund**: $12,938,216, 32.6 cpt
- **Douglas J. Johnson Economic Protection Trust Fund**: $5,080,122, 12.8 cpt

Other — $12,843,534 — 32.4 cpt

- **Taconite Economic Development Fund**: $12,621,936, 31.9 cpt
- **Range Association of Municipalities & Schools****: $142,382, 0.3 cpt
- **Hockey Hall of Fame**: $79,216, 0.2 cpt

* Includes $8,713,708 from the State General Fund (22.0 cpt).

** Payments to the funds are guaranteed at a percentage level of the base year (1983 or 1999) by M.S. 298.225 for local aids and M.S. 298.293 for property tax relief.

*** ($2,313,588) was subtracted from the Taconite School, Regular School and Tac RR funds and transferred to cities/townships within the districts because it was above levy limitations (5.8) cpt

cpt = cents per taxable ton

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Data Charts

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More mining data coming to our website in 2015!

We will be updating our website in Summer 2015 to include more of the mining data currently found in our paper *Minnesota Mining Tax Guide.* You'll find:

- Easy-to-understand information about mining taxes
- Data charts updated as information becomes available—no need to wait for a paper guide to get the most recent information
- Data available in printer-friendly formats

We think you'll like this new way of receiving your mining tax information.

We plan to print an abbreviated version of the paper guide next year, but for comprehensive information, please visit our website.

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The *Minnesota Mining Tax Guide* is printed on a limited basis by the Minnesota Department of Revenue. It is available on our website at **www.revenue.state.mn.us** or by calling 218-744-7424. Alternative formats for persons with visual impairments or other disabilities are provided upon request.

Overview

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

Taconite Production Tax

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

The production tax distributed in 2014 is the tax due for the 2013 production year. The taconite production tax rate for concentrates and pellets produced in 2013 was $2.560 per taxable ton. An additional tax of three cents per ton is imposed for each 1 percent that the iron content exceeds 72 percent. The taxable tonnage for 2013 is the average tonnage produced in 2011, 2012 and 2013. If this tax is imposed on other iron-bearing material, it is applied to the current-year production.

The inside front cover illustrates how the production tax is distributed. It shows both the cents per ton (cpt) distribution and the total amount distributed to various funds. The funds to which the production tax are distributed are explained on pages 7–11, *Distribution of Funds.*

State Taxes

Other major taxes paid by the mining industry are the occupation tax, similar to an income tax, pages 31 - 34, and sales and use tax, pages 37–38. These taxes are deposited in the State General Fund.

Aggregate Material Sales/Use Tax

An explanation of sales and use tax on aggregate material is found on page 39.

County Taxes

Other taconite and iron ore ad valorem (property) taxes are paid directly to the counties, pages 40–46. These are property taxes assessed on auxiliary mining lands, unmined taconite, unmined natural iron ore, taconite railroads and severed mineral interests.

Taxes on Other Minerals

Taxes on minerals other than taconite or iron ore, such as gold, silver, copper, nickel, lead and other nonferrous minerals are explained on page 47.

Figure 1

Iron Ore Production Comparison

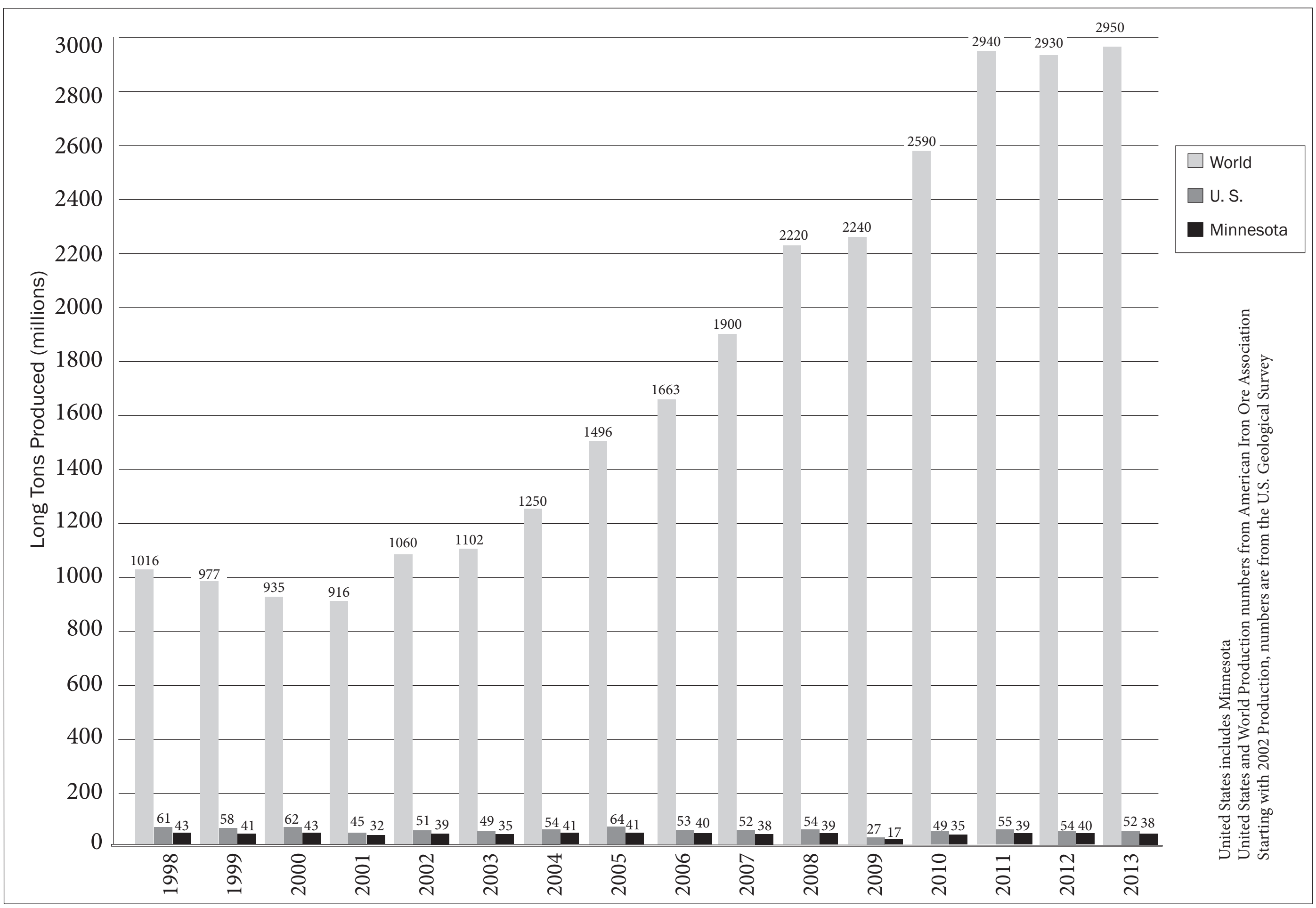
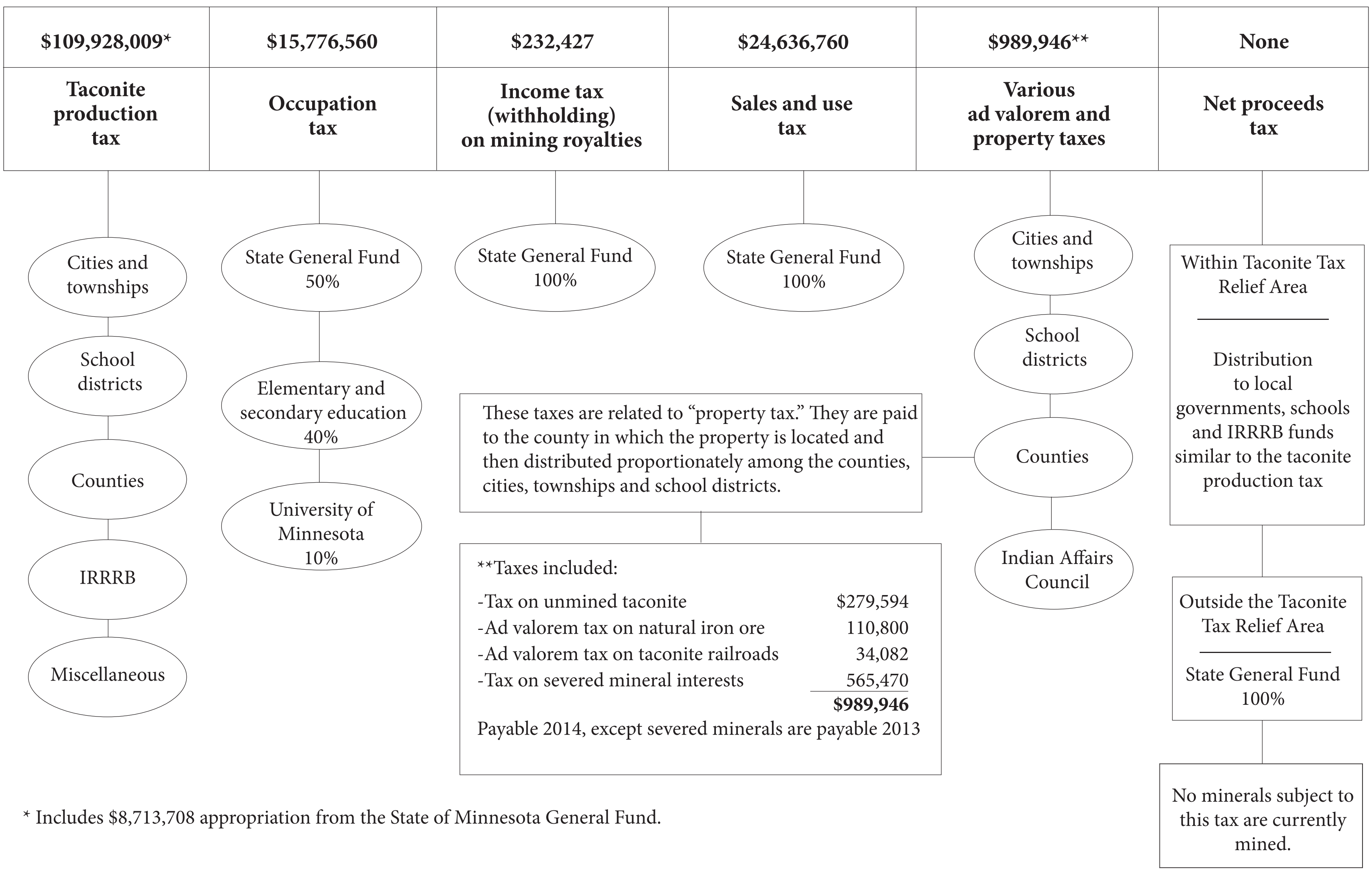


Figure 2

Distribution of Mining Taxes
Production year 2013 tax obligations - $151,563,702



* Includes $8,713,708 appropriation from the State of Minnesota General Fund.

Figure 3

Minnesota Taconite Production Summary (1950–2013)

	Butler[1]	**Eveleth**	**Hibbing Taconite**	**Inland**	**Erie/LTV**[2]	**National**	**Reserve**[3]	**U.S. Steel–Minntac**	**Total**
1950-59	–	–	–	–	8,698,109	–	19,505,772	3,844,384	**32,048,265**
1960-69	6,563,140	7,044,287	–	–	84,781,306	3,596,325	85,868,508	17,114,580	**204,968,146**
1970-79	24,252,403	27,977,804	14,112,865	4,396,278	96,017,018	30,997,498	92,258,522	108,033,775	**398,046,163**
1980-89	9,310,164	42,496,916	64,376,577	20,019,655	55,458,801	37,585,214	23,114,810	93,151,913	**345,514,050**
							Cyprus/ Northshore		
1990-94	–	19,349,520	39,391,327	11,627,818	36,182,510	19,149,095	12,605,743	64,514,640	**202,820,653**
							Northshore		
1995-02	–	36,278,954	59,316,864	20,677,968	42,417,328	40,691,180	30,353,690	103,671,262	**333,407,246**
		United Taconite				**U.S. Steel–Keewatin Taconite**			
2003	–	1,630,242	7,769,999	2,657,673	–	4,376,891	4,683,657	13,231,018	**34,349,480**
2004	–	4,030,871	8,101,948	2,693,971	–	5,343,915	4,912,594	14,327,728	**39,411,027**
2005	–	4,836,140	8,147,611	2,558,197	–	5,196,512	4,799,887	13,996,412	**39,534,759**
				Mittal Steel USA					
2006	–	4,207,096	8,125,923	2,707,562	–	5,234,336	4,970,526	13,702,701	**38,948,144**
				Arcelor-Mittal					
2007	–	5,278,708	7,265,682	2,495,201	–	5,220,394	4,975,108	12,750,828	**37,985,921**
2008	–	4,986,395	8,058,366	2,571,803	–	4,663,703	5,299,304	13,588,239	**39,167,810**
2009	–	3,777,486	1,693,512	1,364,783	–	74,680	3,081,289	7,087,356	**17,079,106**
2010	–	5,028,482	5,697,457	2,604,162	–	4,883,724	4,599,796	12,226,427	**35,040,048**
2011	–	5,095,221	7,604,595	2,625,659	–	4,969,039	5,591,721	13,047,915	**38,934,150**
2012	–	5,220,491	7,753,828	2,658,023	–	5,144,477	5,140,985	13,063,450	**38,981,254**
2013	–	5,081,692	7,312,252	2,645,243	–	4,956,740	3,776,603	13,448,911	**37,221,441**
Total	**40,125,707**	**182,320,305**	**254,728,806**	**84,303,996**	**323,555,072**	**182,083,723**	**315,538,515**	**530,801,539**	**1,913,457,663**

[1] Butler closed in 1986.
[2] Erie sold to LTV in 1987. LTV closed in 2001.
[3] Reserve closed in 1987.

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

Figure 4

Minnesota Taxes Levied on Taconite

Production years	Unmined taconite tax	Use tax (net)[1]	Production tax	Occupation tax[2]	Royalty tax[3]	School bonds	Railroad gross earnings tax[4]	Total taxes	Total tons produced[5]	Total taxes per ton
1956-60	–	–	$2,457,832	$1,046,907	$1,730,615	$6,410,394	$2,570,566	$14,216,314	42,259,000	$.34
1961-65	–	–	4,884,757	6,830,282	1,926,246	8,372,662	5,843,668	27,857,615	81,923,000	.34
1966-70	$64,000	–	12,558,526	10,726,680	3,519,487	7,518,661	7,982,248	42,369,602	145,015,000	.29
1971-75	64,000	$7,214,111	65,013,384	44,909,601	9,262,076	3,841,750	12,321,573	142,626,495	192,013,000	.74
1976-80	471,966	45,967,313	324,497,931	78,350,978	18,142,273	852,437	14,733,733	483,016,631	214,883,632	2.25
1981-85	1,573,792	36,976,524	376,270,806	63,263,212	20,447,300	2,740,712	10,904,721	512,177,067	166,940,177	3.07
1986-90	1,850,555	42,451,323	308,322,812	16,989,611	9,581,602	3,935,120	4,739,807	387,870,830	178,831,169	2.17
1991-95	2,013,388	61,954,403	411,847,680	10,728,133	–	4,868,599	919,839	492,332, 042	205,300,201	2.40
1996-00	2,102,157	42,631,033	467,090,494	11,497,627	–	1,977,079	592,377	525,890,767	219,266,001	2.40
2001	316,140	(1,652,702)	72,842,808*	56,153	–	–	71,861	71,634,260	31,628,494	2.26
2002	317,033	844,287	74,814,128*	1,340,700	–	–	24,636	77,340,784	37,511,567	2.06
2003	300,173	1,197,577	72,497,652*	1,441,500	–	–	20,483	75,457,385	34,349,480	2.20
2004	273,601	8,514,814	79,262,806*	5,659,500	–	–	17,208	93,727,929	39,411,027	2.38
2005	261,687	7,825,884	78,544,450	6,650,000	–	–	14,287	93,296,308	39,534,759	2.36
2006	532,102	8,744,868	84,451,384	7,736,000	–	–	13,135	101,477,489	38,948,144	2.61
2007	495,033	6,603,598	85,644,627	10,358,000	–	–	12,275	103,113,533	37,985,921	2.71
2008	466,991	9,554,673	89,630,648	23,388,181	–	–	8,977	123,049,470	39,167,810	3.14
2009	238,274	(2,835,766)	74,255,473	340,000	–	–	9,612	72,007,593	17,079,106	4.22
2010	239,518	17,101,895	72,441,708	12,617,000	–	–	10,137	102,410,258	35,122,570**	2.92
2011	228,517	24,673,718	73,287,396	22,055,000	–	–	10,725	120,255,356	39,120,810**	3.07
2012	297,390	2,579,876	94,204,746	21,817,000	–	–	13,632	118,912,644	39,680,723	3.00
2013	**279,594**	**24,636,760**	**101,214,301**	**15,776,560**	**–**	**–**	**34,082**	**141,941,297**	**38,481,228**	**3.69**

Taxes often levied (assessed) for one year and paid in the following year
1 Total use tax less total refunds paid after 1990, see *Figure 33*.
2 Amount paid (unaudited).Does not include adjustments.
3 Repealed effective after December 31, 1989.
4 Repealed effective after December 31, 1988. Beginning with payable 1990, taconite railroads were taxed on an ad valorem basis.
5 Tons are without flux additive beginning in 1987. Beginning in 1990, production tons are reported dry.
* Full amount of tax levied. Does not include bankruptcy adjustments.
** Includes tonnage produced by Mesabi Nugget but not taxed under production tax.

Taconite Production Tax

(M.S. 298.24, 298.27 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 (see pages 40 and 41). Electric power plants principally devoted to the generation of power for taconite mining and concentrating are considered to be used in the production of taconite (or direct reduced ore) and are covered by the *in lieu exemption* for property taxes. If part of the power is used for other purposes, that proportion of the power plant is subject to the general property tax. The power plant must be owned by a company subject to production tax to qualify for the exemptions.

Tax Rate

The taconite production tax rate for any given year is determined by multiplying the prior year's rate by the percentage change in the Gross Domestic Product Implicit Price Deflator (GDPIPD) from the fourth quarter of the second preceding year to the fourth quarter of the preceding year. The U.S. Department of Commerce publishes the GDPIPD monthly in *Survey of Current Business*. This escalator takes effect each year unless the rate is frozen or changed by the Minnesota State Legislature. The tax rate for the 2013 production year was $2.560 per taxable ton. For concentrates produced in 2014, the rate escalated to $2.597 per taxable ton.

Taxable Tons

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

Distribution

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

Funds are also allocated to the Iron Range Resources & Rehabilitation Board (IRRRB), which administers the Taconite Environmental Protection Fund (TEPF), the Douglas J. Johnson Economic Protection Trust Fund (DJJ), the Taconite Economic Development Fund (TEDF) (sometimes referred to as the Mining Reinvestment Fund), 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 27–30.

Payment Dates and Method

For taxes payable in 2004 and thereafter, the payments are due 50 percent on February 24 and 50 percent on August 24. The Department of Revenue must notify each taconite producer of its tax obligation for the year before February 15.

Each 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, school districts, and other recipients.

Taconite Economic Development Fund (M.S. 298.227)

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

No distribution is made under the TEDF in any year in which total industry production falls below 30 million tons. Any portion of the TEDF fund not released within one year of deposit is divided, with two-thirds to the Taconite Environmental Protection Fund and one-third to the Douglas J. Johnson Economic Protection Trust Fund. The 2001 legislature made the TEDF permanent at 30.1 cpt for distributions in 2002 and thereafter. The first 15.4 cents (of the 30.1 cents) did not require a matching investment by the company. A matching expenditure of at least 50 percent is required to qualify for the additional 14.7 cents per ton (above 15.4 cents). Beginning with distributions in 2014, a matching investment of the entire 30.1 cents is required. The legislature reduced the distributions to 25.1 cents beginning with 2015 distributions.

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

Each producer has two potential sources of TEDF money:

1. **Acid or fluxed pellets** — The production tax amount credited to each producer's share of the TEDF is 30.1 cpt.
2. **Pellet chips and fines** — An amount equal to 50 percent of the tax for pellet chips and fines sold not exceeding 5/16-inch, is allocated to each company's share of the TEDF. The total amount may not exceed $700,000 for all companies. If the total claimed exceeds $700,000, each company's share will be prorated. The determination of this allocation is

based on current production year **sales** of chips, fines and concentrate—not the three-year average of production. Sales of crushed pellets *do not* qualify for this credit. [M.S. 298.28, subd. 9a(b).]

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

Fluxed Pellets

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

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

Occupation tax is based on iron units and uses the full weight including flux.

Pellet Weighing

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

Definition of Taconite Tax Relief Area

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

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

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

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

Definition of Taconite Assistance Area

A "Taconite Assistance Area" means the geographic area that falls within the boundaries of a school district that contains a municipality in which the assessed valuation of unmined iron ore on May 1, 1941, was not less than 40 percent of the assessed valuation of all real property, or contains a municipality in which there was a taconite facility or taconite power plant on January 1, 1977. Any area within the Taconite Tax Relief Area is also considered to be within the Taconite Assistance Area.

State Appropriation (M.S. 298.285)

The Department of Revenue determines a state aid amount equal to a tax of 22 cents per taxable ton of iron ore concentrates. It is distributed under M.S. 298.28 as if the aid were production tax revenues. The aid is appropriated from the state's General Fund.

2014 Legislation

For 2013 production, distributable in 2014 only, a special fund was established to receive 18.84 cents per ton from the balance of the Taconite Property Tax Relief Account. The funds were allocated to 18 various public work and economic development projects.

For 2014 production and forward:

(1) The Iron Range school consolidation and cooperatively operated school account was created and will be administered by the IRRRB. It will receive distributions from the following:

- For production years 2014 through 2022, the fund will receive ten cents per ton from taconite production tax. This will be reduced to five cents per ton beginning with the 2023 production year.
- For production years 2014, 2015 and 2016, the fund will receive two-thirds of the amount generated by the increase in the tax rate due to the change in the GDPIPD. This amount is cumulative over the three years.
- Six cents per ton will be annually allocated to the fund from the occupation tax by May 15.

(2) For production years 2014, 2015 and 2016, the Douglas J. Johnson Economic Protection Trust Fund will receive the remaining one-third of the amount generated by the increase in the tax rate due to the change in the GDPIPD. This amount is cumulative over the three years.

(3) The escalation factor used for the township fund, 6.5 cent IRRRB fund, Taconite Property Tax Relief Account, and the Douglas J. Johnson Economic Protection Trust fund was frozen for the 2014, 2015 and 2016 production years.

(4) The distribution to the county fund was reduced by five cents per ton to 10.525 cents per ton.

(5) The M.S. 298.225 guarantee distribution to the county fund was reduced by five cents per ton.

(6) The distribution to the Taconite Economic Development Fund was reduced by five cents per ton to 25.1 cents per ton.

For 2016 production and forward, beginning the production year after a taconite school bond receives its last taconite payment, an amount equal to what the bond received from the 2012 (pay 2013) production year distributions will be added to the Iron Range school consolidation and cooperatively operated school account fund with the amount being deducted from the same sources as the original bond. (The 2016 production year is the first year this would apply.)

For 2023 production and forward:
(1) The distribution to the Iron Range school consolidation and cooperatively operated school account will be reduced from 10 cents per ton to five cents per ton.

(2) The five cents per ton distribution to the County road and bridge fund will be increased to 10 cents per ton.

2014 Distribution of Funds (M.S. 298.28)

Subd. 2 - Cities and Towns Where Mining & Production is located

(a) The Taconite Cities and Towns Fund allocates 4.5 cents per ton to cities and towns where taconite mining and concentrating occur. Fifty percent goes to cities and townships in which mining activity occurs. The remaining 50 percent 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 (2.25 cpt) is divided based on either a percentage of taconite reserves or a four-year production average. Most taconite mines have mining in two or more areas.

If concentrating is split between two or more cities or towns, the revenue (2.25 cpt) is divided by the percentage of hours worked in each. The primary crusher is considered the first stage of concentration. The only current examples are Northshore (Babbitt, Beaver Bay Township and Silver Bay), former LTV (Hoyt Lakes and Schroeder Township-LTV power plant), and United Taconite (Eveleth, Fayal Township, and McDavitt Township). Beaver Bay Township qualifies due to the location of the tailing basin that is part of the concentrating process. Distribution detail is shown in *Figure 10*.

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

(c) If there are excess distributions from the 3.43 cent, 24.72 cent, and taconite railroad school funds after covering the levy reduction in M.S. 126C.48, subd. 8, then the excess money must be distributed to the cities and townships within the school district in the proportion that their taxable net tax capacity within the school district bears to the net tax capacity of the school district for property taxes payable in the year prior to distribution.

Subd. 3 - Taconite Municipal Aid Account

(a) The Taconite Municipal Aid is funded at 12.5 cents per taxable ton. The Kinney-White allocation (par. b and c) and the 0.3 cent Range Association of Municipalities and Schools (RAMS) allocation in subd. 8 are subtracted from it. The payment is made on September 15. Each city or township first receives the amount it was entitled to receive in 1975 from the occupation tax. The amount is then reduced according to the percentage aid guarantee provisions in M.S. 298.225. For example, if production levels mandate a 90 percent aid guarantee, then the occupation tax grandfather amount is also reduced to 90 percent. The remainder of the aid is distributed according to a complex formula using levies, valuation, population and fiscal need factors.

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

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

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

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

* Minimum allowable LETCR = 8.16

A DI is determined for all eligible communities. A percentage is determined by comparing the DI 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 Taconite Municipal Aid Fund.

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

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

(d) The Township Fund was funded at 3 cents per ton for townships located entirely within the Taconite Tax Relief Area for 2009 distributions. For distributions in 2010 and subsequent years, the 3 cents is escalated in the same proportion as the Implicit Price Deflator as provided in M.S. 298.24, subd. 1. The money is distributed to the townships on a per capita basis with a maximum of $50,000 per township. If a township would receive more than $50,000, the portion that exceeds $50,000 is redistributed among the townships under $50,000.

Subd. 4 - School Districts

(a) A total of 32.15 cents per taxable ton is allocated under (b) and (c), plus the amount in paragraph (d).

(b) (i) Taconite School Fund (3.43 cents)
A total of 3.43 cents per taxable ton for each taconite company is allocated to school districts in which mining and concentrating occurs. If the mining and concentrating take place in separate districts, 50 percent is allocated to the location of mining and 50 percent to concentrating. In addition, if the mining occurs in more than one school district, the 50 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 50 percent portion is further split according to hours worked in each district. The primary crusher, tailings basin and power plant owned by a taconite company are considered part of concentrating. When these are in different school districts from the plant, the hours-worked split is used. Distribution detail is shown in *Figure 11*.

(b) (ii) School Building Maintenance Fund (4 cents)
Four cents per taxable ton is allocated to specified school districts, based on proximity to a taconite facility, to be used for building maintenance and repairs. The money allocated from each taconite facility shall be apportioned between its recipient school districts based on pupil units.

a. Keewatin Taconite proceeds are allocated to the Coleraine and Nashwauk-Keewatin districts.
b. Hibbing Taconite proceeds are allocated to the Chisholm and Hibbing districts.
c. ArcelorMittal and Minntac proceeds are allocated to the Mountain Iron-Buhl, Virginia, Mesabi East and Eveleth-Gilbert districts.
d. Northshore Mining proceeds are allocated to the St. Louis County and Lake Superior districts.
e. United Taconite proceeds are allocated to the St. Louis County and Eveleth-Gilbert districts.

This additional money is not subject to the 95 percent levy limitations in M.S. 126C.48, subd. 8.

(c) Regular School Fund (24.72 cents)
A total of 24.72 cents per taxable ton is split among the 15 school districts in the Taconite Tax Relief Area. Each school district receives the amount it was entitled to receive in 1975 from the taconite occupation tax (under M.S. 298.32). This amount may be increased or reduced by the percentage aid guarantee provisions of M.S. 298.225. The remaining amount in the fund is distributed using an index based on pupil units and tax capacities. Generally, districts with larger tax capacities per pupil unit tend to receive a proportionately smaller amount of this fund. Eleven cents per ton of this distribution is not subject to the 95% levy limitation in M.S. 126C.48, subd. 8. Distribution detail is shown in *Figure 11.*

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

(d) Taconite Referendum Fund (21.3 cents)
The Taconite Referendum Fund (TRF) receives an allocation of 21.3 cents per taxable ton. Taconite school districts receive money from the fund on July 15 based on two calculations: (1) an additional $175 per pupil unit over and above state aids by passing a special levy referendum equal to 1.8 percent of net tax capacity. The pupil units used in the computation are the greater of the previous year or the 1983-84 school year units. The fund pays the difference between the local levy and $175 per pupil unit. (2) A second calculation equal to 22.5 percent of the amount obtained by subtracting 1.8 percent of the district's net tax capacity from the district's 2012 weighted average daily membership times the sum of (A) $415, plus (B) the district's fiscal year 2013 referedum allowance. If any money remains in the fund, it is distributed to the Taconite Environmental Protection Fund (two-thirds) and the Douglas J. Johnson Economic Protection Trust Fund (one-third). *Note: A district receiving money from the TRF*

must reserve the lesser of $25 or the amount received per pupil unit (of the $175 authorized) for early childhood programs or outcome-based learning programs. Distribution detail is in *Figure 11.*

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

Subd. 5 - Counties

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

(b) Taconite Counties with Mining or Concentrating
An amount of 15.525 cents per taxable ton is distributed to the county in which the taconite is mined or quarried or in which the concentrate is produced (split in the same manner as taconite cities and towns), less any amount distributed in subd. 5(c). Distribution detail is shown in *Figure 13.*

(c) Counties - Electric Power Plant
If an electric power plant owned by and providing the primary source of power for a taconite plant is located in a county other than the county in which the mining and concentrating processes are conducted, one cent per ton (for that company) is distributed to the county in which the power plant is located. *This one cent is not escalated but is subject to M.S. 298.225 adjustment with variable guarantee.*

Cook County continues to receive aid based on Minnesota Power's power plant, located in Taconite Harbor, due to the guarantee provided by M.S. 298.225. (Minnesota Power has owned and operated the power plant since purchasing it during LTV's bankruptcy in 2001.) For the 2013 production year, this amounted to $93,251. The one cent per ton distribution for the 1983 base year was figured on 9,793,639 tons. The current year M.S. 298.225 guarantee percentage is always applied.

$0.01 x 9,793,639 x 95.215530% = $93,251

There is also a transfer of $21,450 ({1983 base of $22,528} x 95.215530%) to the county fund covered in subd. 6(b). Therefore, Cook County receives a total of $114,701 due to the power plant.

(d) Taconite County Road and Bridge
Each county receives a portion of the aid that is deposited in the County Road and Bridge Fund in the same manner as taconite cities and towns. The basic allocation is 10.525 cents per taxable ton subject to adjustment as in M.S. 298.225. Distribution detail is shown in *Figure 13.*

Subd. 6 - Taconite Property Tax Relief

(a) Taconite Property Tax Relief
The amount sent to this fund was rebased by the 2013 legislature at 34.8 cents per taxable ton for the 2013 production year. The fund will resume indexing by using the Gross Domestic Product Implicit Price Deflator beginning with the 2017 production year. The qualifications and distribution of Taconite Property Tax Relief are described in the following paragraphs.

The *Taconite Homestead Credit* reduces the tax paid by owners of certain properties located on the Mesabi and Vermillion ranges located within the Taconite Tax Relief Area. The properties receiving this credit are owner-occupied homes and owner-occupied farms.

If an owner-occupied home or farm is located in a city or town that contained at least 40 percent of its valuation as iron ore on May 1, 1941, or which had a taconite mine, processing plant, or electric generating facility on January 1, 1977, or currently has a taconite mine, processing plant, or electric generating facility, the taconite credit is 66 percent of the tax, up to a maximum credit of $315.10 for taxes payable in 2014.

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

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

State laws governing taconite property tax relief are contained in M.S. 273.134 to M.S. 273.136 and M.S. 298.28, subd. 6. This is guaranteed by the Douglas J. Johnson Economic Protection Trust Fund as stated in M.S. 298.293.

b) Electric Power Plant Aid from Property Tax Relief
For any electric power plant located in another county, as described in 5(c), 0.1875 cent per taxable ton (cpt) from the Taconite Property Tax Relief account is paid to the county. The distribution is subject to the M.S. 298.225 variable guarantee. For the 2013 production year, $21,450 was distributed, with the entire amount coming from the M.S. 298.225 guarantee (calculation details on page 9 under (c) counties).

(c) Electric Power Plant Aid from Property Tax Relief
This subdivision allocates 0.4541 cent per LTV's taxable tonnage to the Cook County school district due to LTV's power plant in Cook County. The distribution is subject to the M.S. 298.225 guarantee at 31.2 percent or the variable rate, whichever is less. For the 2013 production year, $21,087 was distributed. This is calculated by multiplying the 1983 base of $67,586 x .312 = $21,087.

Subd. 7 — Iron Range Resources & Rehabilitation Board (IRRRB)

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

Subd. 8 — Range Association of Municipalities & Schools (RAMS)

An amount equal to 0.3 cent per taxable ton (subject to M.S. 298.225 guarantee) is paid to the RAMS to provide an area-wide approach to problems that demand coordinated and cooperative actions. All cities, towns and schools in the taconite and iron ore mining area are included. This amount is subtracted from the Taconite Municipal Aid distribution in subd. 3.

Subd. 9 — Douglas J. Johnson Economic Protection Trust Fund (DJJ)

In addition to the amount provided in the remainder after all other distributions are completed, 3.35 cents per taxable ton is allocated to the DJJ for production year 1998 and thereafter.

Subd. 9a — Taconite Economic Development Fund

This subdivision is explained in detail on pages 5 and 29.

Subd. 9b — Producer Grants

Five cents per taxable ton must be paid to the Taconite Environmental Protection Fund (TEPF) for use under M.S. 298.2961, subd. 4.

Subd. 9c — City of Eveleth

The City of Eveleth shall receive 0.20 cents per taxable ton for support of the Hockey Hall of Fame provided that an equal amount of donations have been received. Any amount of the 0.20 cents per ton that exceeds the donations shall be distributed to the IRRRB.

Subd. 9d — Iron Range Higher Education Account

Five cents per taxable ton must be allocated to the IRRRB to be deposited in the Iron Range Higher Education account to be used for higher education programs conducted at educational institutions in the Taconite Assistance Area defined in M.S. 273.1341. The Iron Range Higher Education committee under M.S. 298.2214 and the IRRRB must approve all expenditures from the account.

Subd. 10 — Indexing

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

Subd. 11— Remainder

(a) After calculating the initial distributions to the various funds and grandfathered amounts including (b) & (c) below, the remainder is distributed two-thirds to the TEPF and one-third to the DJJ. Any interest earned on money on deposit by the counties is sent to the IRRRB to be split into the two funds using the same two-thirds/one-third apportionment.

(b) Taconite Railroad
Until 1978, the taconite railroad gross earnings tax was distributed to local units of government based on a formula of 50 percent to school districts, 22 percent city or town, 22 percent county, and six percent state. The respective shares were further split based on miles of track in each government unit. Beginning in 1978, the distributions were frozen at the 1977 level and funded from production tax revenues. The total amount distributed in 2013 is $2,482,454. Taconite railroad aids are not subject to the percentage reduction mandated for other aids by M.S. 298.225 and so remain constant from year to year. Beginning with the 2002 production year, the taconite railroad distribution to schools was reduced to 62 percent of the 1977 amount.

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

Additional Payments

In Minnesota Laws 2013, Chapter 143, Article 11, Section 11, the legislature authorized the Commissioner of IRRRB to issue $38,000,000 in revenue bonds to make grants to school districts within the Taconite Assistance Area. The grants are to be used for various building projects with the exception of ISD 2142 which must use the grant for debt service reduction for a bond passed in 2009. The revenue bonds are paid from taconite production tax revenues prior to the calculation of the remainder under M.S. 298.28, subd. 11, with a maximum of 10 cents per ton. Any amount above 10 cents per ton will be paid by the DJJ fund.

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

These payments are listed in detail on page 21 and consist of school bond payments to school districts within the Taconite Tax Relief Area and Taconite Assistance Area. Most are funded 80 percent taconite and 20 percent local efforts.

In Minnesota Laws 2005, Chapter 152, Article 1, Section 39 the legislature authorized the Commissioner of IRRRB to issue $15,000,000 in revenue bonds to make grants to school districts in the Taconite Tax Relief Area or Taconite Assistance Area. The bonds are to be used by the school districts to pay for health, safety and maintenance improvements. The bonds are funded in equal shares from the TEPF and the DJJ. Minor amendments were made by the 2006 legislature.

Aid Guarantee (M.S. 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 million taxable tons. If the production is less, the amount distributed from the fund is reduced proportionately by two percent per each 1,000,000 tons by which the taxable tons are less than 42 million tons. For example, if the taxable tonnage (three-year average) is 39.8 million 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 TEPF and the DJJ. 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 TEPF and the DJJ in equal proportions.

The Commissioner of the Minnesota Department of Revenue determines the amounts. The aid payments covered by this variable guarantee are listed as follows:

1. 4.5 cents—Taconite Cities and Towns Fund
2. 12.2 cents—Taconite Municipal Aid Account
3. 21.3 cents— Taconite Referendum Fund
4. 6.5 cents—escalated to IRRRB
5. 0.3 cent—RAMS
6. 0.1875 cent—Electric Power Plant Aid is transferred from Taconite Property Tax Relief Account to Cook County
7. 4 cents - Mining Effects Fund (uses 1999 production year as base year)

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

1. 15.525 cents—Taconite County Fund
2. 10.525 cents—Taconite County Road and Bridge Fund

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

1. 24.72 cents—Regular School Fund
2. 3.43 cents—Taconite School Fund
3. 0.4541 cent—Electric Power Plant Aid is transferred 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 DJJ, as stated in M.S. 298.293.

Taconite Production Tax Distribution Calculation (M.S. 298.28)

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 State of Minnesota also makes a payment of 22 cents per taxable ton (payable 2014). This money was added to the amount available for distribution.

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

The proceeds of the 2013 taconite production tax (payable 2014) were distributed as follows:

M.S. 298.28	Payment Recipients	Cents per Taxable Ton
Subd. 2a	Taconite cities and towns	4.5
Subd. 2b	Taconite cities and towns (mining effects)	4.0
Subd. 3	Taconite municipal aid account	12.2
Subd. 3(d)	Township Fund	3.0*
Subd. 4	School districts	
	(b)(i) Taconite schools (mining and/or concentrating in the district)	3.43
	(b)(ii) School Building Maintenance Fund	4.0
	(c) Regular School Fund (distributed by formula)	24.72
	(d)Taconite Referendum Fund	(formula amount–see page 9)
Subd. 5	Counties	
	(b and c) Taconite counties (includes electric power plant)	15.525
	(d) Taconite county Road and Bridge	10.525
	Counties total	**26.05**
Subd. 6	Taconite property tax relief (includes .6416 cents for Cook County and Cook County Schools)	34.8*
Subd. 7	IRRRB	6.5*
Subd. 8	Range Association of Municipalities and Schools	0.3
Subd. 9	Douglas J. Johnson Economic Protection Trust Fund	3.35*
Subd. 9a	Taconite Economic Development Fund	30.1
Subd. 9b	Taconite Environmental Fund for use in Producer Grants	5.0**
Subd. 9c	City of Eveleth (Hockey Hall of Fame)	0.2
Subd. 9d	Iron Range Higher Education Account	5.0
Subd. 10	Indexing provisions	-
Subd. 11	Distribution of remainder	-

* These funds are escalated using the Gross Domestic Product Implicit Price Deflator. After escalation, the cents per ton for Township fund was 3.25 cents, Taconite Property Tax Relief was 34.8 cents, IRRRB was 8.75 cents, and the Douglas J. Johnson Economic Protection Trust Fund was 4.44 cents.

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

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

Taconite Environmental Protection Fund (TEPF) and Douglas J. Johnson Economic Protection Trust Fund (DJJ) (M.S. 298.223 and 298.291)

The TEPF and the DJJ (formerly known as Northeast Minnesota Economic Protection Trust Fund) 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 to the DJJ and two-thirds going to the TEPF.

The TEPF was created for the purpose of reclaiming, restoring and enhancing those areas of Minnesota that are adversely affected by environmentally damaging operations involved in mining and producing taconite and iron ore concentrate. The scope of activities includes local economic development projects. The IRRRB Commissioner administers the fund, and the board and the governor approve projects.

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

Figure 5

DJJ and TEPF Fund Balances

Period Ending	DJJ Balance	TEPF Balance
June 30, 2005	$83,433,221	$15,691,497
June 30, 2006	80,394,959	9,234,489
June 30, 2007	84,478,169	9,659,460
June 30, 2008	88,971,850	8,332,921
June 30, 2009	91,327,362	10,849,252
June 30, 2010	95,098,257	17,047,396
June 30, 2011	83,749,720	16,816,569
June 30, 2012	85,974,981	14,686,541
June 30, 2013	89,788,626	10,802,916
June 30, 2014	**$66,697,130**	**$11,195,092**

DJJ Major Withdrawals

Feb. 2006	$6.49 million	Loan to Mesabi Nugget (LTV Lands)
May 2009	$6.04 million	Mesabi Nugget Loan repayment/transfer (M.S. 298.2931 and 298.223, subd. 1[6])
Oct. 2010	$8.7 million	Redemption of Giants Ridge Revenue Bonds
June 2011	$4 million	Loan to PolyMet Mining
June 2012	$250,000	Big Trout Lakes—Chisholm property
June 2013	($2 million)	GR Bond Redemption repayment
Nov. 2013	$5.04 million	Loan to Chisholm/Hibbing Airport
April 2014	$20 million	Loan to Segetis

Taconite Property Tax Relief

The taconite homestead credits described on page 9 are administered by the county auditors. 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 Douglas J. Johnson Economic Protection Trust Fund. The last time this occurred was in 1989.

Figure 6

Taconite Property Tax Relief Fund Balance

Year Payable	Payments into Account[1]	Interest & Other	Payments Out (by formula)	Balance December 31
2005	$13,567,734[2]	$398,393	$11,254,494	$27,145,288
2006	14,449,177[2]	941,169	11,400,696	31,134,938
2007	14,753,800	1,336,342	22,435,332[3]	24,789,748
2008	16,347,135[2]	1,545,680	19,931,625[4]	22,750,938
2009	9,770,711[2]	520,872	11,506,130	21,536,391
2010	12,468,249	431,000	19,902,000[5]	14,534,000
2011	11,846,794	160,000	11,845,000	14,696,000
2012	12,801,910	27,200	11,546,000	15,979,000
2013	16,493,071	33,341	26,239,269[6]	6,265,724
2014	13,783,501			

1 Listed under year payable; for example, 2014 payments result from 2013 production.
2 Includes bankruptcy settlements of $49,173 from United Taconite in 2005; $729,423 from LTV in 2006; $1,312,081 from EVTAC in 2008; and $36,324 from EVTAC in 2009.
3 Includes $10,887,059 in public works and local economic development projects.
4 Includes $4,323,954 in public works and local economic development projects.
5 Includes $9,032,845 in public works and local economic development projects.
6 Includes $14,826,100 in public works and local economic development projects.

Figure 7

2013 Taconite Property Tax Relief Fund Distribution

Total by School District

	Mobile home	Real property
166 - Cook County	$1,278	$528,489
316 - Coleraine	2,418	839,325
319 - Nashwauk-Keewatin	819	402,097
381 - Lake Superior	675	1,409,315
695 - Chisholm	147	582,431
696 - Ely	346	561,973
701 - Hibbing	6,699	1,767,785
706 - Virginia	453	1,031,215
712 - Mt. Iron-Buhl	2,786	461,447
2142 - St. Louis County	1,443	1,965,295
2154 - Eveleth-Gilbert	707	935,218
2711 - Mesabi East	541	905,494
Total Payable 2013	**$18,312**	**$11,390,084**

Total by County

	Mobile home	Real property	Total
(69) St. Louis	$13,464	$8,471,826	$8,485,290
(31) Itasca	3,237	1,241,422	1,244,659
(38) Lake	330	1,143,642	1,143,972
(16) Cook	1,278	528,489	529,767
(36) Koochiching	3	4,705	4,708
Total Payable 2013	**$18,312**	**$11,390,084**	**$11,408,396**

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

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

Figure 8

Taconite Residential Homestead Credit Examples

Taxes payable 2014

	Gross tax computation	66% Example 1	66% Example 2
1.	Estimated Market Value [EMV]	$50,000.00	$100,000.00
2.	Homestead Market Value Exclusion	$20,000.00	$28,240.00
3	Taxable Market Value [TMV] (1-2)	$30,000.00	$71,760.00
4.	Class Rate	1.00%	1.00%
5.	Net Tax Capacity [NTC]	$300.00	$717.60
6.	Local Tax Rate	130.00%	130.00%
7.	Net Tax Capacity Tax (5 x 6)	$390.00	$932.88
8.	Referendum Tax Rate	0.09500%	0.09500%
9.	Referendum Tax (8 x 1)	$47.50	$95.00
10.	Gross Tax (7 + 9)	$437.50	$1,027.88
	Net tax and taconite credit computation		
11.	Taconite Credit (10 x 66%, $315.10 maximum)	$288.75	$315.10
12.	Net Tax (10 - 11)	$148.75	$712.78

	Gross tax computation	57% Example 1	57% Example 2
1.	Estimated Market Value [EMV]	$50,000.00	$100,000.00
2.	Homestead Market Value Exclusion	$20,000.00	$28,240.00
3	Taxable Market Value [TMV] (1-2)	$30,000.00	$71,760.00
4.	Class Rate	1.00%	1.00%
5.	Net Tax Capacity [NTC]	$300.00	$717.60
6.	Local Tax Rate	130.00%	130.00%
7.	Net Tax Capacity Tax (5 x 6)	$390.00	$932.88
8.	Referendum Tax Rate	0.09500%	0.09500%
9.	Referendum Tax (8 x 1)	$47.50	$95.00
10.	Gross Tax (7 + 9)	$437.50	$1,027.88
	Net tax and taconite credit computation		
11.	Taconite Credit (10 x 57%, $289.80 maximum)	$249.38	$289.80
12.	Net Tax (10 - 11)	$188.12	$738.08

Figure 9

Taconite Production Tax Distribution*

Production Year	2009	2010	2011	2012	2013
City and township	$1,741,289	$1,707,978	$1,706,822	$2,066,752	2,134,737
Township Fund	961,848	938,421	949,390	1,223,128	1,287,505
Taconite municipal aid	5,361,555	5,234,627	5,223,462	6,355,475	6,633,334
Special City/Township Fund***	49,156	93,382	157,055	157,055	157,055
Mining effects	1,503,108	1,474,603	1,472,299	1,758,238	1,794,389
School district — regular	1,329,597	1,296,216	1,294,390	1,566,247	1,610,748
School district fund	5,823,744	5,670,746	5,662,383	6,908,326	10,676,982
School Building Maintenance Fund	1,256,439	1,217,160	1,214,044	1,506,072	1,535,158
Taconite Levy Shortfall Payment	501,635	807,218	–	–	–
Taconite Referendum Fund	3,067,031	2,974,743	3,077,212	3,091,236	6,178,596
County	8,861,655	8,862,567	8,866,377	9,000,065	9,095,093
County road and bridge	3,760,396	3,657,961	3,652,361	4,486,556	4,623,110
Taconite Property Tax Relief	3,435,404	11,846,794	12,801,910	16,493,071	13,783,501
IRRRB ($.03 Indexed)	2,881,831	2,811,548	2,840,686	3,636,468	3,819,425
Range Association of Municipalities and Schools	113,697	110,294	110,110	137,802	142,382
Taconite railroad (fixed)	2,482,454	2,482,454	2,482,454	2,482,454	2,482,454
IRRRB (fixed)	1,252,520	1,252,520	1,252,520	1,252,520	1,252,520
School bond payments	4,119,962	4,021,158	3,542,825	3,363,147	2,631,867
Taconite Environmental Protection Fund	13,200,509	6,386,643	6,897,113	13,318,892	12,938,216
Producer Grant & Loan Fund	2,831,630	2,782,967	2,780,307	3,176,600	3,241,471
Douglas J. Johnson Economic Protection Trust Fund	4,302,341	842,910	1,214,783	5,017,442	5,080,122
IRRRB Educational Revenue Bonds	1,407,525	1,408,725	1,408,525	1,411,925	4,147,804
Iron Range Higher Education Acct	1,570,547	1,521,884	1,519,224	1,915,517	1,980,388
Taconite Economic Development Fund	254,341	9,673,605	9,845,732	12,231,412	12,621,936
Hockey Hall of Fame	62,822	60,876	–	76,621	79,216
Transfer from schools to cities**	–	–	–	–	–
Public Works & Local Economic Development Fund	9,032,845	–	–	–	–
Excess School levy replacement money****	–	–	(309,725)	(1,742,074)	(2,313,588)
Levy replacement money to cities/townships****	–	–	309,725	1,742,074	2,313,588
Total	**$81,165,881**	**$79,138,000**	**$79,971,984**	**$102,633,021**	**$109,928,009**

* The production tax is collected and distributed in the year following production. For example, the 2013 production tax was collected and distributed during 2014.

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

*** Prior to 2009, this amount was included in the Taconite municipal aid amounts.

**** If the combined total of the school district fund, regular school fund and Taconite railroad exceeds the levy replacement amount, the excess is transferred to cities & townships within the district.

Figure 10

2014 Taconite Production Tax Distribution to Cities and Townships

(Based on 2013 production year tax revenues)

	4.5 cent mining & conc.	4.0 cent mining effects	M.S. 298.28 subd. 3(b)	3.0 cent township fund	Taconite railroad*	Taconite municipal aid	Transferred from schools	Total
AITKIN COUNTY								
Aitkin	–	–	–	–	–	–	$4,117	**$4,117**
Palisade	–	–	–	–	–	–	291	**291**
Aitkin Township	–	–	–	–	–	–	4,178	**4,178**
Farm Island Township	–	–	–	–	–	–	10,776	**10,776**
Fleming Township	–	–	–	–	–	–	3,883	**3,883**
Glen Township	–	–	–	–	–	–	4,478	**4,478**
Hazelton Township	–	–	–	–	–	–	8,005	**8,005**
Kimberly Township	–	–	–	–	–	–	1,263	**1,263**
Lakeside Township	–	–	–	–	–	–	428	**428**
Lee Township	–	–	–	–	–	–	190	**190**
Libby Township	–	–	–	–	–	–	480	**480**
Logan Township	–	–	–	–	–	–	915	**915**
Malmo Township	–	–	–	–	–	–	2,639	**2,639**
Morrison Township	–	–	–	–	–	–	855	**855**
Nordland Township	–	–	–	–	–	–	6,712	**6,712**
Spencer Township	–	–	–	–	–	–	2,046	**2,046**
Verdon Township	–	–	–	–	–	–	57	**57**
Waukenabo Township	–	–	–	–	–	–	3,112	**3,112**
Wealthwood Township	–	–	–	–	–	–	2,361	**2,361**
Workman Township	–	–	–	–	–	–	136	**136**
COOK COUNTY								
Grand Marais	–	–	–	–	–	–	7,570	**7,570**
Lutsen Township	–	–	–	$19,310	–	–	13,734	**33,044**
Schroeder Township	$8,457	–	–	9,609	47,700	0	5,695	**71,461**
Tofte Township	–	–	–	11,431	–	–	5,976	**17,407**
CROW WING COUNTY								
Crosby	–	–	–	–	–	236,041	3,331	**239,372**
Crosslake	–	–	–	–	–	–	279	**279**
Cuyuna	–	–	–	–	–	–	903	**903**
Deerwood	–	–	–	–	–	–	1,790	**1,790**
Emily	–	–	–	–	–	–	8,206	**8,206**
Ironton	–	–	–	–	–	56,286	742	**57,028**
Riverton	–	–	–	–	–	4,065	294	**4,359**
Trommald	–	–	–	–	–	3,263	240	**3,503**
Bay Lake Township	–	–	–	–	–	–	13,092	**13,092**
Center Township	–	–	–	–	–	–	1,915	**1,915**
Deerwood Township	–	–	–	–	–	–	7,155	**7,155**
Fairfield Township	–	–	–	–	–	–	2,320	**2,320**
Irondale Township	–	–	–	–	–	39,062	3,587	**42,649**
Lake Edward Township	–	–	–	–	–	–	3,231	**3,231**
Little Pine Township	–	–	–	–	–	–	801	**801**
Mission Township	–	–	–	–	–	–	9,071	**9,071**
Nokay Township	–	–	–	–	–	–	25	**25**
Oak Lawn Township	–	–	–	–	–	–	467	**467**
Pelican Township	–	–	–	–	–	–	1,639	**1,639**
Perry Township	–	–	–	–	–	–	1,452	**1,452**
Rabbitt Lake Township	–	–	–	–	–	0	1,940	**1,940**
Ross Lake Township	–	–	–	–	–	–	3,443	**3,443**
Wolford Township	–	–	–	–	–	21	2,196	**2,217**
ITASCA COUNTY								
Big Fork	–	–	–	–	–	–	965	**965**
Bovey	0	–	–	–	–	65,745	9,749	**75,494**
Calumet	–	–	–	–	–	33,260	4,590	**37,850**
Cohasset	–	–	–	–	–	0	49,744	**49,744**
Coleraine	–	–	–	–	–	90,993	43,702	**134,695**
Effie	–	–	–	–	–	–	260	**260**

Figure 10

2014 Taconite Production Tax Distribution to Cities and Townships (cont.)

(Based on 2013 production year tax revenues)

	4.5 cent mining & conc.	4.0 cent mining effects	M.S. 298.28 subd. 3(b)	3.0 cent township fund	Taconite railroad*	Taconite municipal aid	Transferred from schools	Total
ITASCA COUNTY CONTINUED								
Grand Rapids	–	–	–	–	–	–	52,020	**52,020**
Keewatin	46,126	68,104	–	–	–	113,872	13,247	**241,349**
LaPrairie	–	–	–	–	–	–	19,203	**19,203**
Marble	–	–	–	–	–	49,506	7,339	**56,845**
Nashwauk	20,342	62,757	–	–	–	101,807	18,463	**203,369**
Squaw Lake	–	–	–	–	–	–	302	**302**
Taconite	30,640	–	–	–	–	28,554	18,155	**77,349**
Warba	–	–	–	–	–	–	611	**611**
Alvwood Township	–	–	–	–	–	–	392	**392**
Arbo Township	–	–	–	–	–	–	4,385	**4,385**
Ardenhurst Township	–	–	–	–	–	–	1,798	**1,798**
Balsam Township	–	–	–	–	–	–	8,139	**8,139**
Bearville Township	–	–	–	–	–	–	2,758	**2,758**
Big Fork Township	–	–	–	–	–	–	1,743	**1,743**
Blackberry Township	–	–	–	–	–	–	5,505	**5,505**
Carpenter Township	–	–	–	–	–	–	2,571	**2,571**
Feeley Township	–	–	–	–	–	–	3,632	**3,632**
Good Hope Township	–	–	–	–	–	–	919	**919**
Goodland Township	–	–	–	21,313	–	–	24,991	**46,304**
Grattan Township	–	–	–	–	–	–	264	**264**
Greenway Township	19,359	–	–	39,438	–	27,826	24,283	**110,906**
Harris Township	–	–	–	–	–	–	19,401	**19,401**
Kinghurst Township	–	–	–	–	–	–	926	**926**
Lawrence Township	–	–	–	19,901	–	–	19,301	**39,202**
Liberty Township	–	–	–	–	–	–	457	**457**
Lone Pine Township	5,744	25,650	–	18,353	–	2,685	29,476	**81,908**
Max Township	–	–	–	–	–	–	917	**917**
Moose Township	–	–	–	–	–	–	572	**572**
Nashwauk Township	93,055	44,426	–	31,788	–	17,737	27,485	**214,491**
Nore Township	–	–	–	–	–	–	435	**435**
Pomroy Township	–	–	–	–	–	–	285	**285**
Sago Township	–	–	–	–	–	–	1,800	**1,800**
Spang Township	–	–	–	–	–	–	2,146	**2,146**
Splithand Township	–	–	–	–	–	–	1,227	**1,227**
Stokes Township	–	–	–	–	–	–	1,224	**1,224**
Third River Township	–	–	–	–	–	–	590	**590**
Trout Lake Township	61	–	–	–	–	–	29,882	**29,943**
Wabana Township	–	–	–	–	–	–	6,560	**6,560**
Wawina Township	–	–	–	–	–	–	1,918	**1,918**
Wildwood Township	–	–	–	–	–	–	1,899	**1,899**
LAKE COUNTY								
Beaver Bay	–	–	–	–	–	–	2,733	**2,733**
Silver Bay	102,980	–	–	–	152,706	239,771	7,037	**502,494**
Two Harbors	–	–	–	–	–	–	13,157	**13,157**
Beaver Bay Township	2,517	–	–	21,541	12,565	0	9,570	**46,193**
Crystal Bay Township	–	–	–	21,359	6,951	–	3,329	**31,639**
Fall Lake Township	–	–	–	25,001	–	–	22,599	**47,600**
Silver Creek Township	–	–	–	50,000	20,612	–	19,814	**90,426**
Stony River Township	–	–	–	8,106	19,943	–	5,851	**33,900**

Figure 10

2014 Taconite Production Tax Distribution to Cities and Townships (cont.)

(Based on 2013 production year tax revenues)

	4.5 cent mining & conc.	4.0 cent mining effects	M.S. 298.28 subd. 3(b)	3.0 cent township fund	Taconite railroad*	Taconite municipal aid	Transferred from schools	Total
ST. LOUIS COUNTY								
Aurora	16,623	79,582	–	–	–	179,940	18,549	**294,694**
Babbitt	112,143	188,322	–	–	166,767	237,654	3,522	**708,408**
Biwabik	7,429	28,303	–	–	–	68,452	23,622	**127,806**
Brookston	–	–	–	–	–	–	315	**315**
Buhl	–	38,486	–	–	–	84,922	28,858	**152,266**
Chisholm	–	68,541	–	–	–	523,082	170,308	**761,931**
Cook	–	–	–	–	–	–	1,564	**1,564**
Ely	–	–	–	–	–	340,071	2,949	**343,020**
Eveleth	65,660	115,686	–	–	–	447,177	42,158	**670,681**
Gilbert	13,467	51,043	–	–	–	200,333	21,349	**286,192**
Hibbing	458,754	222,318	–	–	–	1,586,096	411,139	**2,678,307**
Hoyt Lakes	238,768	95,347	–	–	152,153	241,287	43,645	**771,200**
Iron Junction	–	–	–	–	–	–	1,468	**1,468**
Kinney	12,461	6,517	33,525	–	–	30,421	5,166	**88,090**
Leonidas	6,582	1,624	–	–	–	6,625	767	**15,598**
McKinley	–	3,634	–	–	–	11,234	1,358	**16,226**
Meadowlands	–	–	–	–	–	–	233	**233**
Mountain Iron	561,626	110,677	–	–	–	382,159	163,688	**1,218,150**
Orr	–	–	–	–	–	–	652	**652**
Tower	–	–	–	–	–	36,323	1,617	**37,940**
Virginia	46,761	334,538	–	–	–	917,716	170,287	**1,469,302**
Winton	–	–	–	–	–	–	128	**128**
Alango Township	–	–	–	11,613	–	–	953	**12,566**
Alborn Township	–	–	–	20,903	–	–	2,233	**23,136**
Alden Township	–	–	–	9,928	–	–	1,079	**11,007**
Angora Township	–	–	–	11,066	–	–	1,555	**12,621**
Arrowhead Township	–	–	–	–	–	–	4,419	**4,419**
Ault Township	–	–	–	5,146	–	–	1,762	**6,908**
Balkan Township	–	11,417	–	38,118	–	19,260	63,305	**132,100**
Bassett Township	–	5,135	–	1,822	11,745	–	1,236	**19,938**
Beatty Township	–	–	–	16,577	–	–	11,936	**28,513**
Biwabik Township	37,656	22,739	–	36,478	–	23,905	23,555	**144,333**
Breitung Township	–	–	–	27,187	–	0	6,124	**33,311**
Brevator Township	–	–	–	–	–	–	1,411	**1,411**
Camp 5 Township	–	–	–	1,594	–	–	712	**2,306**
Cedar Valley Township	–	–	–	8,881	–	–	4,732	**13,613**
Cherry Township	–	–	–	38,573	–	–	3,820	**42,393**
Clinton Township	–	31,661	–	46,178	–	–	7,529	**85,368**
Colvin Township	–	–	–	14,300	–	–	11,076	**25,376**
Cotton Township	–	–	–	19,901	–	–	3,179	**23,080**
Crane Lake Township	–	–	–	3,734	–	–	3,142	**6,876**
Culver Township	–	–	–	13,389	–	–	1,213	**14,602**
Duluth Township	–	–	–	50,000	–	–	13,266	**63,266**
Eagle's Nest Township	–	–	–	10,930	–	0	5,408	**16,338**
Ellsburg Township	–	–	–	9,928	–	–	2,549	**12,477**
Elmer Township	–	–	–	6,785	–	–	471	**7,256**
Embarrass Township	–	–	–	27,370	–	–	1,538	**28,908**
Fairbanks Township	–	–	–	3,051	–	–	1,270	**4,321**
Fayal Township	3,811	56,328	–	50,000	–	34,991	53,712	**198,842**
Field Township	–	–	–	18,034	–	–	1,771	**19,805**
French Township	–	–	–	25,183	–	–	75,187	**100,370**
Great Scott Township	20,472	15,194	–	17,943	–	17,314	41,023	**111,946**
Greenwood Township	–	–	–	42,717	–	–	23,166	**65,883**
Industrial Township	–	–	–	36,614	–	–	2,844	**39,458**

Figure 10

2014 Taconite Production Tax Distribution to Cities and Townships (cont.)

(Based on 2013 production year tax revenues)

	4.5 cent mining & conc.	4.0 cent mining effects	M.S. 298.28 subd. 3(b)	3.0 cent township fund	Taconite railroad*	Taconite municipal aid	Transferred from schools	Total
ST. LOUIS COUNTY CONTINUED								
Kabetogama Township	–	–	–	6,057	–	–	3,057	**9,114**
Kelsey Township	–	–	–	6,239	–	–	749	**6,988**
Kugler Township	–	–	–	8,197	–	–	746	**8,943**
Lavell Township	–	–	–	13,799	–	–	5,656	**19,455**
Leiding Township	–	–	–	17,851	–	–	3,849	**21,700**
Linden Grove	–	–	–	6,649	–	–	640	**7,289**
McDavitt Township	107,907	–	–	20,812	–	18,073	1,870	**148,662**
Meadowlands Township	–	–	–	13,844	–	–	1,213	**15,057**
Morcom Township	–	–	–	4,236	–	–	494	**4,730**
Morse Township	–	–	–	50,000	–	–	7,677	**57,677**
Ness Township	–	–	–	2,914	–	–	515	**3,429**
New Independence Township	–	–	–	13,389	–	–	1,639	**15,028**
Northland Township	–	–	–	7,560	–	–	1,382	**8,942**
Owens Township	–	–	–	11,841	–	–	1,095	**12,936**
Pequaywan Township	–	–	–	5,693	–	–	2,898	**8,591**
Pike Township	–	–	–	18,808	–	–	12,359	**31,167**
Portage Township	–	–	–	7,650	–	–	2,118	**9,768**
Sandy Township	–	–	–	16,076	–	–	9,460	**25,536**
Stoney Brook Township	–	–	–	15,029	–	–	928	**15,957**
Sturgeon Township	–	–	–	6,467	–	–	654	**7,121**
Toivola Township	–	–	–	7,787	–	–	953	**8,740**
Vermillion Lake Township	–	–	–	12,341	–	–	2,502	**14,843**
Waasa Township	–	11,753	–	11,340	–	–	1,279	**24,372**
White Township	35,869	72,549	123,530	50,000	–	104,124	33,932	**420,004**
Willow Valley Township	–	–	–	5,783	–	–	546	**6,329**
Wuori Township	59,467	22,058	–	26,050	–	11,681	16,522	**135,778**
Total	**$2,134,737**	**$1,794,389**	**$157,055**	**$1,287,505**	**$591,142**	**$6,633,334**	**$2,313,588**	**$14,911,750**

— Indicates not eligible.
* Fixed amount based on 1977 Taconite railroad gross earnings tax distributions.
0 Indicates eligible, but no payment at current valuation and production.

Figure 11

2014 Taconite Production Tax Distribution to School Districts

School Districts		$.0343 Taconite School Fund	$.2472 Regular School Fund	Taconite Railroad	$.04 School Bldg Maintenance Fund	$.213 Taconite Referendum	Taconite Levy Replacement Transfer*	Total by School District
001	Aitkin	–	$294,476	–	–	$62,694	($60,670)	$296,500
166	Cook County	$21,087	61,241	$264,977	–	91,498	(32,975)	405,828
182	Crosby-Ironton	–	326,191	–	–	222,602	(64,371)	484,422
316	Greenway	56,775	1,011,171	–	$139,351	372,009	(202,954)	1,376,352
318	Grand Rapids	–	1,167,527	–	–	428,400	(168,638)	1,427,289
319	Nashwauk-Keewatin	143,283	331,116	–	61,586	268,675	(94,639)	710,021
381	Lake Superior	80,412	488,721	342,720	84,137	244,417	(105,242)	1,135,165
695	Chisholm	–	1,089,194	–	77,301	469,527	(232,536)	1,403,486
696	Ely	–	95,411	–	–	213,624	(10,754)	298,281
701	Hibbing	315,212	1,994,831	–	224,975	1,219,547	(494,275)	3,260,290
706	Virginia	86,887	1,093,646	–	203,825	728,472	(202,642)	1,910,188
712	Mtn. Iron-Buhl	447,268	527,905	–	96,435	349,776	(242,552)	1,178,832
2142	St. Louis County	167,728	552,021	284,841	244,234	429,452	(118,880)	1,559,396
2154	Eveleth-Gilbert	102,599	1,011,243	–	252,230	652,570	(136,026)	1,882,616
2711	Mesabi East	189,497	632,288	214,397	151,084	425,333	(146,434)	1,466,165
Total		**$1,610,748**	**$10,676,982**	**$1,106,935**	**$1,535,158**	**$6,178,596**	**($2,313,588)**	**$18,794,831**

* Money in excess of the Taconite Levy Replacement amount is transferred to cities and townships within the district.

Figure 12

Taconite Production Tax School Bond Payments

School Districts		Year Authorized[1]	Final Payment Year[2]	Payment[3]	Outstanding Balance[4]
166	Cook County[5]	1996	2016	$465,185	$1,347,500
316	Greenway	2000	2019	156,720	800,000
381	Lake Superior	2000	2022	383,942	2,732,199
695	Chisholm	2000	2020	300,307	1,823,539
696	Ely	1996	2015	63,760	128,000
706	Virginia	1996	2016	172,940	499,225
712	Mt. Iron-Buhl	1998	2017	284,520	1,104,000
2154	Eveleth-Gilbert	1996	2017	304,493	1,212,000
2711	Mesabi East	2008	2016	500,000	Annual Payment[6]
Total				**$2,631,867**	**$9,646,463**

1 Legislative year in which taconite funding was enacted.
2 Production year from which final bond payment will be deducted.
3 Payments made from 2013 pay 2014 tax distribution
4 Estimated portion of outstanding bond balance to be paid by taconite funds (not including interest).
5 All taconite bonds funded at 80 percent taconite, 20 percent local effort, unless otherwise noted: Cook County – 1996, 70 percent ; Mesabi East – 2008, $500,000.
6 Annual payment of $500,000 is authorized under 2008 Session Laws Chapter 154.

Figure 13

2014 Taconite Production Tax Distribution to Counties

(Based on 2013 production year tax revenues)

County	Regular County 15.525 cents	Road and Bridge 10.525 cents	Taconite Railroad	Total by County
Cook	$114,701	–	$187,190	$301,891
Itasca	897,284	$455,467	–	1,352,751
Lake	627,892	246,744	243,034	1,117,670
St. Louis	7,455,216	3,920,899	354,153	11,730,268
Total	**$9,095,093**	**$4,623,110**	**$784,377**	**$14,502,580**

Figure 14

Taxable Taconite Production and Tax by Mine

(Based on 2013 production year tax revenues)

Producer	Production Tons	Taxable Tonnage*	Production Tax Rate	Tax Assessed
ArcelorMittal	2,645,243	2,642,975	$2.560	$6,766,016
Hibbing Taconite	7,312,252	7,556,892	2.560	19,345,644
Magnetation, LLC	958,627	958,627	2.560	2,454,085
Mesabi Nugget	210,573	179,602	1.549	278,203
Mining Resources	90,587	90,587	2.560	231,903
Northshore	3,776,603	4,836,436	2.560	12,381,276
U.S. Steel-Keewatin Taconite	4,956,740	5,023,419	2.560	12,859,953
U.S. Steel-Minntac	13,448,911	13,186,759	2.560	33,758,103
United Taconite	5,081,692	5,132,468	2.560	13,139,118
Total	**38,481,228**	**39,607,765**	**$2.560**	**$101,214,301**

* The taxable tonnage is the average production of the current year and previous two years. Magnetation and Mining Resources pay on current-year production only.

Figure 15

2013 Taxable Production by Product Type

Producer	Pellets			Chips and Fines			DRI	Total by Mine
	Acid	Fluxed	Partial Fluxed	Acid	Fluxed/ Partial Fluxed	Concentrate	Nuggets	
ArcelorMittal	–	2,611,632	–	–	33,611	–	–	2,645,243
Hibbing Taconite	–	–	7,312,252	–	–	–	–	7,312,252
Magnetation LLC	–	–	–	–	–	958,627	–	958,627
Mesabi Nugget	–	–	–	–	–	–	210,573	210,573
Mining Resources	–	–	–	–	–	90,587	–	90,587
Northshore	–	–	3,635,032	–	119,152	22,419	–	3,776,603
U.S. Steel-Keewatin Taconite	–	–	4,956,740	–	–	–	–	4,956,740
U.S. Steel-Minntac	659,148	12,789,763	–	–	–	–	–	13,448,911
United Taconite	–	–	5,007,452	–	74,240	–	–	5,081,692
Total	**659,148**	**15,401,395**	**20,911,476**	**0**	**227,003**	**1,071,633**	**210,573**	**38,481,228**

*Partially fluxed pellets contain less than 2 percent flux.

Figure 16

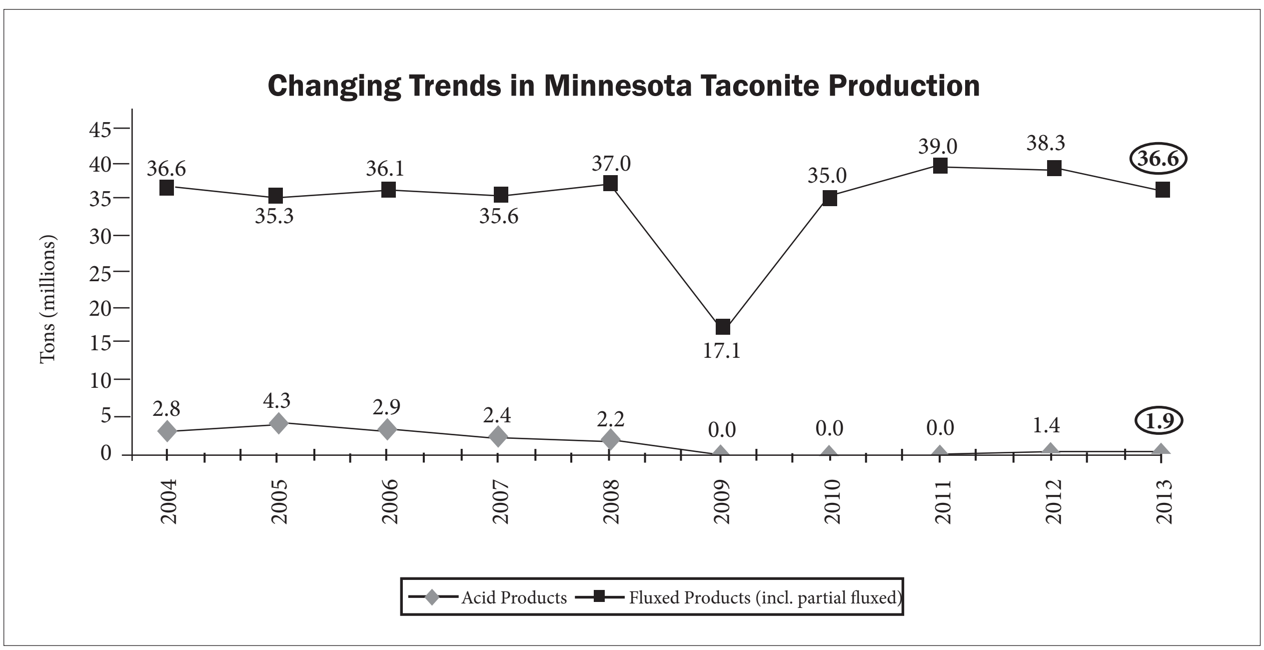


Figure 17

Taconite Production Tax Rate History and Index Summary

Production Year	Statutory	Fe (iron)	Inflation	Total	TEDF
1941	5.0 cents	0.5 cents	None	5.5 cents	0
1969-70	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 - 88	190.0 cents	0	Frozen (IPD***)	190.0 cents	0
1989	190.0 cents	0	7.5 (IPD) cents	197.5 cents	0
1990	197.5 cents	0	0 (IPD) cents	197.5 cents	0
1991	197.5 cents	0	7.9 (IPD) cents	205.4 cents	0
1992	205.4 cents	0	0 (IPD) cents	205.4 cents	10.4 cents
1993-95	205.4 cents	0	0 (IPD) cents	205.4 cents	15.4 cents
1996	205.4 cents	0	4.0 (IPD) cents	209.4 cents	15.4 cents
1997	205.4 cents	0	8.7 (IPD) cents	214.1 cents	15.4 cents
1998-99	214.1 cents	0	0 (IPD) cents	214.1 cents	15.4 cents
2000	214.1 cents	0	3.2 (IPD) cents	217.3 cents	15.4 cents
2001-03	210.3 cents	0	0 (IPD) cents	210.3 cents	30.1 cents
2004-05	210.3 cents	0	3.4 (IPD) cents	213.7 cents	30.1 cents
2006	210.3 cents	0	10.0 (IPD) cents	220.3 cents	30.1 cents
2007	210.3 cents	0	15.5 (IPD) cents	225.8 cents	20.1 cents
2008	210.3 cents	0	21.3 (IPD) cents	231.6 cents	30.1 cents
2009	210.3 cents	0	26.1 (IPD) cents	236.4 cents	30.1 cents
2010	210.3 cents	0	27.7 (IPD) cents	238.0 cents	30.1 cents
2011	210.3 cents	0	30.9 (IPD) cents	241.2 cents	30.1 cents
2012	210.3 cents	0	36.2 (IPD) cents	246.5 cents	30.1 cents
2013	256.0 cents****	0	0.0 (IPD) cents	256.0 cents	30.1 cents
2014	**256.0 cents**	**0**	**3.7 (IPD) cents**	**259.7 cents**	**25.1 cents**

* Wholesale price index
** Steel mill products index
*** Gross national product implicit price deflator, gross domestic implicit price deflator beginning in 2000.
**** The 2013 legislature changed the statutory rate to $2.560 per ton for the 2013 production year, with indexing to resume with the 2014 production year.

Figure 18

Taconite Produced and Taconite Production Tax Collected

Year	Production Tons (000s)	Taconite Production Tax (000s)	Collected Rate Per Production Ton	Taxable Tons* (000s)	Tax Rate Per Taxable Ton
1977	26,372	48,891	1.854	37,759	$1.295
1978	49,545	69,394	1.401	49,614	1.399
1979	55,333	88,485	1.599	55,373	1.598
1980	43,060	87,179	2.025	50,296	1.733
1981	49,369	99,018	2.006	51,799	1.916
1982	23,445	80,305	3.425	38,624	2.078
1983	25,173	67,341	2.675	33,302	2.047
1984	35,689	64,514	1.876	35,689	2.107
1985	33,265	65,092	1.957	34,477	2.048
1986	25,451	48,658	1.912	31,468	1.900
1987	32,043	51,184	1.597	29,039	1.900
1988	39,485	57,402	1.454	32,326	1.900
1989	39,375	72,149	1.832	36,968	1.975
1990	42,522	78,930	1.856	40,461	1.975
1991	39,922	82,411	2.064	40,606	2.054
1992	38,850	82,035	2.112	40,431	2.054
1993	39,850	80,196	2.012	39,541	2.054
1994	41,677	81,500	1.956	40,126	2.054
1995	45,001	85,705	1.904	42,176	2.054
1996	43,874	90,513	2.063	43,517	2.094
1997	44,816	94,705	2.113	44,563	2.141
1998	44,324	94,268	2.126	44,338	2.141
1999	41,293	93,064	2.254	43,468	2.141
2000	37,785	79,773	2.111	36,711	2.173
2001	31,628	62,288	1.969	34,638	2.103
2002	37,512	64,405	1.717	35,575	2.103
2003	34,349	65,546	1.908	31,302	2.103
2004	39,411	79,263	2.011	37,091	2.137
2005	39,535	78,544	1.987	36,755	2.137
2006	38,948	84,451	2.168	38,335	2.203
2007	37,986	85,645	2.255	37,929	2.258
2008	39,168	89,631	2.288	38,701	2.316
2009	17,079	74,255	4.348	31,411	2.364
2010	35,049	72,442	2.067	30,438	2.380
2011	38,968	73,287	1.881	30,384	2.412
2012	39,681	94,205	2.374	38,310	2.465
2013	**38,481**	**101,214**	**2.630**	**39,608**	**2.560**

* The 1977 law was the first to apply the production tax rate against *taxable tons*, the greater of the current year's production, or the three-year average of production tons. The taxable tonnage for 1984 was the current year only. The taxable tonnage for 1985 was the average tonnage for 1984 and 1985. A three-year average is used for 1986 and beyond, except for other iron-bearing material which uses the current year.

Direct Reduced Iron (DRI)

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

A steel plant would be subject to ad valorem (property) taxes as would any other business. If a steel plant were in conjunction with a DRI plant, the DRI portion would be subject to the taconite production tax, thus exempt from ad valorem (property) taxes.

Reduced Production Tax Rate for DRI

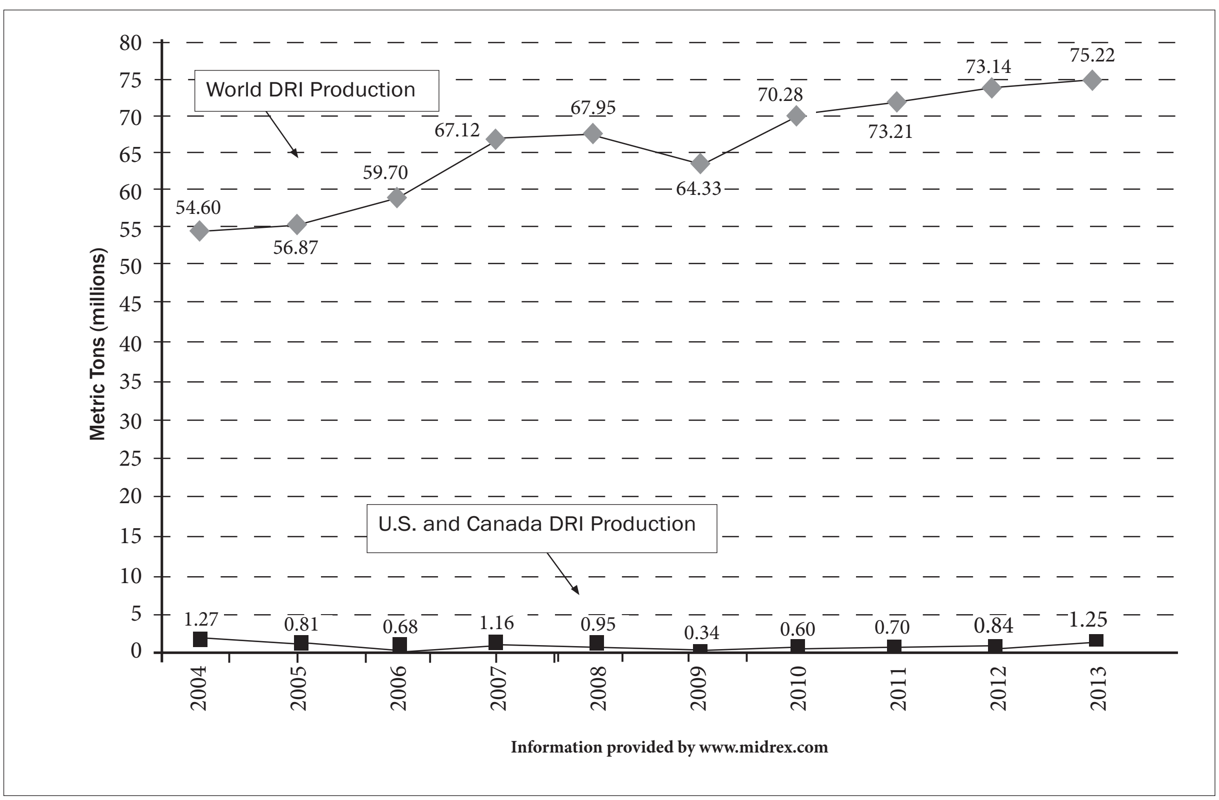
The first five years of a DRI plant's commercial production are subject to reduced tax rates if all environmental permits have been obtained and construction has begun before July 2, 2008. Commercial production is defined as more than 50,000 tons.

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 three cents per gross ton for each one percent that the iron content exceeds 72 percent when dried at 212 degrees Fahrenheit. Thus, at a base production tax rate for 2014 of $2.597 per ton, the tax rate for 90 percent iron DRI would be $3.137. The rate for 95 percent DRI would be $3.287.

Figure 19

World Direct Reduced Iron Production



Iron Range Resources & Rehabilitation Board

Introduction

Iron Range Resources & Rehabilitation Board (IRRRB) is a unique Minnesota state agency whose mission is to promote and invest in business, community and workforce development for the betterment of northeastern Minnesota – a 13,000 square mile service area defined by Minnesota Statute 273.1341.

Established in 1941, the IRRRB through business development seeks to create new jobs and economic development by supporting existing businesses' expansions and attracting new businesses. Agency community development programs are designed to prepare cities and townships for change and growth by investing in infrastructure and public works. To develop a well-trained workforce that meets the needs of existing and emerging industries, IRRRB partners with schools, colleges and industries in creating and implementing innovative educational programs.

IRRRB programs and operations are funded by a portion of the Taconite Production Tax, paid by mining companies in lieu of local property taxes on each ton of iron ore pellets produced.

Governance

A commissioner, appointed by the governor, oversees agency operations and programs. The commissioner is advised by a board comprised of the state senators and representatives elected from state senatorial or legislative districts in which one-third or more of the residents reside within the IRRRB service area. One additional state senator is appointed by the senate Subcommittee on Committees of the Committee on Rules and Administration.

Economic Development

While much of the agency's business support is for other industries and companies to diversify the regional economy, financial assistance provided by IRRRB also has helped leverage the development and construction of new large-scale mining projects. IRRRB support in creating new value-added products such as iron nuggets and iron unit reclamation, has created hundreds of construction and permanent jobs across the region.

Magnetation, Inc. plans to complete construction of a fourth iron ore concentrate plant on the Iron Range in the first quarter of 2015. Magnetation, which in 2009 began production at its first plant near Keewatin, is an iron unit reclamation company that uses a proprietary process to extract weakly magnetic particles from previously mined natural ore deposited years ago in tailings basins. The company's second plant near Bovey began production June 1, 2012. Magnetation and Steel Dynamics, Inc. are partners in a third plant, Mining Resources, LLC, near Chisholm. Mining Resources, LLC. provides feed to Mesabi Nugget's iron nugget plant near Aurora and Hoyt Lakes. In addition, Magnetation on November 9, 2011, began shipping 650,000 wet metric tons of concentrate per year to a steelmaker in Mexico

Essar Steel Minnesota is constructing a $1.8 billion state-of-the-art open pit mine and pellet plant. The first phase of the project, which will produce 4.1 million tons of iron ore pellets annually, is targeted to begin production in late 2015. Iron ore pellet production is forecast to expand to 7 million tons per year by mid-2016. At peak, more than 800 contractor employees will be employed to construct the project. Essar Steel Minnesota plans to recruit 300 permanent employees to operate the facility upon completion.

Beyond iron ore pellets, iron ore concentrate and steel production, IRRRB supports the development of a non-ferrous mining industry in northeastern Minnesota. The Duluth Complex, with an estimated 4 billion tons of crude, non-ferrous ore, is perhaps the largest deposit of base and platinum group metals in the United States.

PolyMet Mining Corporation's NorthMet project near Hoyt Lakes and the Twin Metals Minnesota project near Babbitt and Ely, hold the potential to create hundreds of construction and permanent jobs and generate millions in new revenue to local units of government, the state and federal government. Additional non-ferrous projects are under exploration or in various stages of development in northeastern Minnesota. Copper, nickel and platinum group metals can be mined, processed and used in applications to help manufacture electronic components, electric-powered cars, catalytic converters, hospital equipment, jet engine fuel nozzles, piping, and in power transmission.

IRRRB also operates a Mineland Reclamation program, headquartered in Chisholm. The Mineland Reclamation program partners with communities and mining companies in undertaking safety, environmental and economic development projects on abandoned minelands.

Taconite Mining

IRRRB supports a healthy Minnesota mining industry. Since the Taconite Economic Development Fund (TEDF) was approved by the Minnesota Legislature in 1993, more than $186.3 million in Taconite Production Tax payments has been rebated to taconite producers for reinvestment in local facilities.

In addition to the TEDF, IRRRB has provided an additional $46.4 million since 1993 through its Taconite Assistance Program, Producer Grant Program and other assistance. Included is a $10 million appropriation from the Douglas J. Johnson Economic Protection Trust Fund, which in 1996 provided grants to taconite producers for environmentally unique reclamation projects and facility improvements.

From 1993-2014, IRRRB has reinvested approximately $232.7 million in the Minnesota iron ore industry through its programs.

Figure 20

FY 2015 Iron Range Resources & Rehabilitation Board Budget[1]

(as approved by the IRRRB on June 23, 2014)

Sources of Funds	**All Funds**	**Board[2]**	**TEPF[3]**	**DJJ[4]**	**Supplemental Tax[5]**	**Iron Range School Collaboration[6]**
Unobligated Operating Reserve In	$6,085,554	$810,653	$1,295,200	$3,979,701	-	-
Taconite Production Taxes	$21,251,632	$5,071,945	$16,179,687	-	-	-
Investment Earnings	550,116	143,820	144,785	261,511	-	-
Loan Revenues	2,772,094	418,028		2,354,067	-	-
Facilities Revenues	4,231,768	4,034,977	-	196,791	-	-
Occupation Tax Region III	594,116	-	-	-	594,116	-
Taconite Homestead Credit Transfer	2,574,505	-	2,574,505	-	-	-
Iron Range School Collaboration	7,213,634					7,213,634
Total Current Resources	**$39,187,865**	**$9,668,770**	**$18,898,977**	**$2,812,369**	**$594,116**	**$7,213,634**
Total Resources Available	**$45,273,419**	**$10,479,423**	**$20,194,177**	**$6,792,070**	**$594,116**	**$7,213,634**

Budgeted Uses of Funds	**All Funds**	**Board**	**TEPF**	**DJJ**	**Supplemental Tax**	**Iron Range School Collaboration**
Projects						
Development Projects	$9,050,000	-	$3,550,000	$5,500,000	-	-
Public Works	5,574,505	-	5,574,505	-	-	-
Programs						
Program Grants	4,595,000	250,000	4,345,000	-	-	-
Occupation Tax Region III	594,116	-	-	-	594,116	-
Iron Range School Collaboration	7,213,634	-	-	-	-	7,213,634
Facilities						
Giants Ridge Golf & Ski Resort	7,862,536	7,662,536	200,000	-	-	-
Operations & Development	6,099,179	2,526,272	2,558,565	1,014,342	-	-
Total Budgeted Uses of Funds	**$40,988,970**	**$10,438,808**	**$16,228,070**	**$6,514,342**	**$594,116**	**$7,213,634**
Unobligated Operating Reserve Out	**$4,284,449**	**$40,615**	**$3,966,107**	**$277,728**	**$0**	**$0**

1 FY 2015 is the period July 1, 2014 through June 30, 2015.
2 “Board” is an amount appropriated to the IRRRB from the Production Tax, pages 10 and 11, subd. 7 and subd. 11(c).
3 “TEPF” is the Taconite Area Environmental Protection Fund, page 13.
4 “DJJ” is the Douglas J. Johnson Economic Protection Fund, page 13.
5 “Supplemental Tax” is an amount appropriated from the Occupation Tax for Koochiching and Carlton Counties, page 33.
6 “Iron Range School Collaboration” is appropriated from the annual Production Tax and Occupation Tax, page X.

Figure 21

Taconite Economic Development Fund (TEDF) Distribution to Minnesota's Iron Ore Producers*

(as approved by the IRRRB on December 18, 2014)

	Total Project Investment	Individual Project Estimates	TEDF Distribution
ArcelorMittal Minorca Mine	$1,880,000		$818,240
Cobber Magnetic Separator Improvements		$780,000	
Process Gas Scrubber Stack Replacement		$1,100,000	
Hibbing Taconite	$5,000,000		$2,274,624
Guarding of Potential Hazards		$500,000	
Filtercake Reclaim Upgrade		$2,400,000	
Rebuild Plant Infrastructure		$500,000	
Albany Pumps and Pipeline Replacement		$1,600,000	
Magnetation, LLC	$4,011,500		$709,404
Plant 4, 17'x32' Gear Driven Ball Mill (Primary Mill)		$4,011,500	
Mesabi Nugget, LLC	$139,000		$54,060
Lime and Soda Ash Make-Up System		$139,000	
Mining Resources, LLC	$13,000,000		$88,460
Development of the Sherman Fine Tailings Basins		$13,000,000	
Northshore	$4,706,535		$1,600,862
Fine Crusher Assemblies		$2,469,000	
Direct Reduction (DR) Grade Pellets		$2,237,535	
United Taconite, LLC	$3,800,000		$1,595,023
Furnace Line 2 Cooler, Fairlane Plant		$3,800,000	
U. S. Steel–Keewatin Taconite	$3,900,000		$1,512,049
Fine Screening Upgrade		$2,400,000	
Tails Basin Reclamation and Dust Control		$550,000	
Carlz Pit Water Supply		$400,000	
Tailings Pipe Replacement		$400,000	
Potable Water Storage Tank		$150,000	
U. S. Steel–Minntac	$16,700,000		$3,969,214
Sulfate Compliance #6 Sump		$8,000,000	
Concentrator Finisher Upgrades		$5,000,000	
Agglomerator Step II Concentrate Reclaim Upgrade		$1,900,000	
Fine Screening Upgrade Line 16		$1,800,000	
Total	**$53,137,035**	**$53, 137,035**	**$12,621,936**

* Each company is eligible for a maximum grant that is equal to 30.1 cents per ton (cpt) based on each company's 2013 taxable taconite production tonnage as determined by the Minnesota Department of Revenue. Each company must match, at minimum, 100% of the grant amount. For example, to receive an $818,240 TEDF grant, ArcelorMittal-Minorca must provide at least $818,240 to complete a project costing at least $1,636,480.

Rate History (cpt=cents per ton)

10.4 cpt in 1993
15.4 cpt in 1994–1996
20.4 cpt in 1997
15.4 cpt in 1998–2001
30.1 cpt in 2002 - 2007
20.1 cpt in 2008
30.1 cpt in 2009
Only chips and fines in 2010
15.4 cpt in 2011
30.1 cpt in 2012–2014

Figure 22

Taconite Industry Investments 1993–2014

Total Investments – $232,694,955

	Taconite Assistance Program	TEDF[1]	Producer Grant Program	Other Assistance	Total
ArcelorMittal Minorca Mine (former Ispat Mining Company)	$2,000,000	$13,410,421	$1,328,226		$16,738,647
Hibbing Taconite Company	$2,000,000	$35,026,397	$4,026,531	$1,000,000	$42,052,928
LTV Steel Mining Company (Permanently closed in January 2001)	$2,000,000	$11,361,981	$2,675,966		$16,037,947
Magnetation, Inc.		$16,500			$16,500
Magnetation LLC		$1,314,213			$1,314,213
Mesabi Nugget		$94,399			$94,399
Mining Resources		$88,460			$88,460
Northshore Mining Company	$2,000,000	$21,341,367	$2,033,805		$25,375,172
United Taconite (former EVTAC Mining)	$2,000,000	$22,660,841	$2,263,294	$1,500,000	$28,424,135
U.S. Steel - Keewatin Taconite (former National Steel Pellet Company)	$2,000,000	$21,455,110	$2,327,192	$6,173,375	$31,955,677
U.S. Steel - Minntac	$2,000,000	$59,535,705	$6,811,172	$2,250,000	$70,596,877

1 TEDF is the Taconite Economic Development Fund.

Occupation Tax

(M.S. 298.01, 298.16 – 298.18)

Minnesota's occupation tax applies to the mining and producing of both ferrous and nonferrous minerals, including taconite and iron ore, and other minerals such as gold, silver, copper, nickel and titanium.

The occupation tax is paid in lieu of the corporate franchise tax on mining activities. Generally, it is determined in the same manner as Minnesota's corporate franchise tax under M.S. 290.02 but there are a few exceptions:

- The unitary provisions of the corporate franchise tax law do not apply to occupation tax.
- Mining companies may use percentage depletion.
- The alternative minimum tax (AMT) does not apply.
- All sales are Minnesota sales, so 100 percent of net income is assigned to Minnesota.
- The tax rate is 2.45 percent.

Ferrous Minerals

Gross income from mining or producing ferrous minerals is based on "mine value;" i.e., the value of the products produced *after* beneficiation or processing, but *prior* to any stockpiling, transportation, marketing and marine insurance, loading or unloading costs.

The procedure for determining a company's mine value was developed by the Minnesota Department of Revenue and representatives from the taconite industry in 1990. The department sets product values each year, which are generally based on the following:

1) Seventy-five percent of the change in the product 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 product value is based on actual transaction prices of products sold in nonequity sales as reported by the mining companies.

When ferrous minerals, such as taconite pellets, chips or concentrate, are used by the producer or disposed of or sold in a **non-arms-length transaction,** the company must use the product values set by the department to determine the mine value for occupation tax.

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

For **nonequity or arms-length transactions,** a company may choose to determine the mine value by using either 1) actual sales prices (f.o.b. mine) or 2) the product values set by the department. It must select one of these options the first time a nonequity sale is made. *Once it selects an option, however, it must continue to use that option for all nonequity sales in the future.* Requests to change the selected option must receive approval from the department.

Product Values

Acid Pellets: The value of acid pellets is based on the change in the SMPI from June of the previous year to June of the current year (75%), and actual sales prices of nonequity sales (25%).

Flux Pellets: The value of flux pellets is based on the acid pellet value, adjusted based on the amount of flux in the finished pellets.

- *Partial Flux (less than 2 percent flux):* Pellets with 1.99 percent or less flux are valued at $0.015 per Fe (iron) unit higher than the acid pellet value.
- *Flux:* Pellets with 2 percent or more flux are valued at $0.015 per Fe (iron) unit higher than the acid pellet value *per each 1 percent of flux* in the finished pellet.

2013 Product Values per Iron Unit

Value per Fe (iron) unit (per dry gross ton) for the period Jan. 1, 2013 – Dec. 31, 2013:

	Value
Acid pellets	$1.294 per iron unit
Pellet chips (fines) and concentrate	75% of acid or fluxed pellet price
Flux Pellets – partial flux (.1% – 1.99% flux)*	$1.294 + $0.015 = $1.309
Flux (2.00% and higher flux) *	$1.294 + $0.015 per iron unit for each 1% flux
Direct reduced iron (DRI)	$4.634 per iron unit

Example: Pellet with 4.8% flux in finished pellet: 4.0 × $0.015 = $0.060
Mine value: $1.294 + $0.060 = $1.354

Chips, Fines and Concentrate: Acid chips (fines) and concentrate are valued at 75 percent of the acid pellet value. Flux chips and concentrate are valued at 75 percent of the flux pellet value.

Direct Reduced Iron (DRI): The value of DRI is based on the change in the SMPI from June of the previous year to June of the current year (100%). There are currently insufficient nonequity sales reported to determine a nonequity sales factor.

Acid Pellet and DRI Values 2009–2013

	Acid Pellets (per iron unit)	DRI (per iron unit)
2009	0.880	N/A
2010	1.216	4.920
2011	1.378	5.273
2012	1.368	5.043
2013	1.294	4.634

Nonferrous Minerals

Gross income from mining or producing nonferrous minerals, such as copper, nickel, gold, etc., is calculated differently from the method used for ferrous minerals.

For **nonequity or arms-length transactions,** gross income is based on actual sales. Generally, for **non-arms-length transactions,** gross income is based on the average annual market price as published in the *Engineering and Mining Journal*.

Occupation Tax Distribution

All occupation tax revenue is deposited in the state's General Fund. Ten percent is used for the general support of the University of Minnesota and 40 percent for elementary and secondary schools. Fifty percent remains in the General Fund.

Of the amount remaining in the General Fund, the following appropriations are made based on taxable tonnage. For 2013, there were 39,607,765 taxable tons produced.

Region 3 Counties: An amount equal to 1.5 cents per taxable ton is appropriated to the IRRRB for counties in Region 3 not qualifying for taconite property tax relief. Only Carlton and Koochiching counties qualify. These funds must be used to provide economic or environmental loans or grants.

Region 3 Distributions

2014	$594,116	2011	$456,565
2013	$574,655	2010	$267,284
2012	$455,767	2009	$580,509

Department of Natural Resources. An amount equal to 2.5 cents per taxable ton is appropriated to the Mining Environmental and Regulatory account managed by the Department of Natural Resources. These funds must be used for work on environmental issues and to provide regulatory services for ferrous and nonferrous mining operations in the state. The distribution is made on July 1 annually. The amount distributed in 2014 was $990,194.

Figure 23

Employment and Mine Value by Mine

Production Year 2013

	Employment 2012	Employment 2013	2013 Tons Produced	2013 Mine Value [1]
ArcelorMittal	349	352	2,806,418	$240,127,972
Hibbing Taconite	756	764	7,338,133	633,827,774
Northshore	670	572	3,837,073	323,232,478
U.S. Steel-Keewatin Taconite	416	422	4,977,691	424,535,020
U.S. Steel-Minntac	1,474	1,520	14,002,013	1,199,848,807
United Taconite	535	514	5,102,588	428,473,204
Total – Taconite	**4,200**	**4,144**	**38,063,916**	**$3,250,045,255**
Mesabi Nugget	117	135	210,573	$89,119,383
Total – DRI	**117**	**135**	**210,573**	**$89,119,383**
Magnetation	178	166	958,640	$60,007,988
Mining Resources	63	61	401,004	24,678,588
Total – Natural Ore	**241**	**227**	**1,359,644**	**$84,686,576**
Total – All	**4,558**	**4,506**	**39,634,133**	**$3,423,851,214**

1 The mine value is based on product values set by the Minnesota Dept. of Revenue. It does not represent actual sales by companies.

Figure 24

Occupation Tax by Company[1]

	2006 (000s)	2007 (000s)	2008 (000s)	2009 (000')	2010 (000s)	2011 (000s)	2012 (000s)	2013 (000s)
ArcelorMittal	$130	$680	$1,137	$0	$0	$50	$700	$250
Hibbing Taconite	2,175	2,260	5,420	0	300	4,550	4,360	3,165
Northshore	280	832	1,563	340	707	2,015	1,545	360
U.S. Steel	5,000	5,500	12,668	0	9,600	13,400	12,187	9,320
United Taconite	151	1,086	2,600	0	2,010	2,040	3,000	2,000
Total – Taconite	**$7,736**	**$10,358**	**$23,388**	**$340**	**$12,617**	**$22,055**	**$21,792**	**$15,095**
Mesabi Nugget	$0	$0	$0	$0	$0	$0	$0	$0
Total – DRI	$0	$0	$0	$0	$0	$0	$0	$0
Magnetation	$0	$0	$0	$0	$0	$0	$25	$682
Mining Resources	$0	$0	$0	$0	$0	$0	$0	0
Total – Natural Ore	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$25**	**$682**
Total	**$7,736**	**$10,358**	**$23,388**	**$340**	**$12,617**	**$22,055**	**$21,817**	**$15,777**

1 Amount paid by May 1 each year. Does not include adjustments.

Figure 25

Occupation Tax by Product Type[1]

(Iron Ore, Direct Reduced Ore, Taconite)

	Iron Ore		Direct Reduced Iron		Taconite		Total	
Year	Tons Produced (000s)	Occupation Tax (000s)	Tons Produced (000s)	Occupation Tax (000s)	Tons Produced** (000s)	Occupation Tax (000s)	Tons Produced (000s)	Occupation Tax (000s)
2006	0	0	-	-	39,668	7,736	39,668	7,736
2007	0	0	-	-	38,687	10,358	38,687	10,358
2008	0	0	-	-	39,927	23,388	39,927	23,388
2009	71	0	-	-	17,645	340	17,716	340
2010	90	0	74	0	35,984	12,617	36,148	12,617
2011	168	0	153	0	39,771	22,055	40,092	22,055
2012	704	25	175	0	39,873	21,792	40,752	21,817
2013	**1,360**	**682**	**211**	**0**	**38,064**	**15,095**	**39,635**	**15,777**

1 Amount paid by May 1 each year. Does not include adjustments.

Figure 26
Occupation Tax Averages – Taconite Only

Year	Tons produced (000s)	Average value[1]	Cost of beneficiation	Cost of mining	Development	Taconite & property tax paid	Sales and use tax paid	Admin. and misc. expense	Royalty	Taxable value of production	Occupation tax paid
2009	17,645	58.69	31.51	10.42	1.61	4.12	0.16	13.24	2.84	(5.21)	0.02
2010	35,984	80.31	29.31	10.40	1.54	1.87	0.22	4.54	3.31	29.12	0.35
2011	39,771	90.77	31.02	12.27	1.76	1.94	0.17	4.60	4.26	34.76	0.55
2012	39,873	90.18	30.78	13.31	1.59	2.63	0.21	3.91	3.90	33.83	0.55
2013	**38,064**	**85.38**	**32.66**	**13.57**	**1.64**	**2.50**	**0.27**	**5.15**	**3.73**	**25.87**	**0.40**

Cost of Beneficiation

Year	Tons Produced (000s)	Beneficiation Labor (000s)	Per Ton	Beneficiation Supplies (000s)	Per Ton	Beneficiation Depr. and Int. (000s)	Per Ton	Beneficiation Misc. Per Ton	Total Beneficiation Per Ton
2009	17,645	90,278	5.12	347,216	19.68	87,021	4.93	1.78	31.51
2010	35,984	145,487	4.04	764,173	21.24	82,209	2.28	1.75	29.31
2011	39,771	159,707	4.02	921,154	23.16	78,669	1.98	1.86	31.02
2012	39,873	174,099	4.37	912,601	22.89	61,823	1.55	1.97	30.78
2013	**38,064**	**192,824**	**5.07**	**911,656**	**23.95**	**60,179**	**1.58**	**2.06**	**32.66**

Cost of 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
2009	17,645	48,470	2.75	98,104	5.56	8.31	2.11	10.42
2010	35,984	94,968	2.64	234,066	6.50	9.14	1.26	10.40
2011	39,771	111,181	2.80	324,276	8.15	10.95	1.32	12.27
2012	39,873	133,369	3.34	352,359	8.84	12.18	1.13	13.31
2013	**38,064**	**134,025**	**3.52**	**344,632**	**9.05**	**12.57**	**1.00**	**13.57**

1 The average value may not match the values on *Figure 23* because this is an average of all taconite produced (acid, flux, chips, concentrate).

This information is provided by Minnesota mining companies and is not audited by the Minnesota Dept. of Revenue.

Income Tax Withholding on Mining and Exploration Royalties

(M.S. 290.923)

Minnesota law requires income tax withholding at a 6.25 percent rate on exploration and/or mining royalty payments. This section defines what a royalty is, identifies who must withhold the tax on the royalty, and outlines the statutory requirements of both the royalty payer and the royalty recipient. Also included is the royalty cost by mine per ton of pellets produced *(Figure 27)*.

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 include iron, taconite, and minerals (copper, nickel, gold, etc.) subject to the net proceeds tax. Royalties may include rents, bonus payments, and non-recoverable lease payments.

Withholding Income Tax on Royalties

All payers of royalties are required to withhold and remit to the department 6.25 percent of royalties paid for use of Minnesota lands. Note: This does not include royalties paid to Partnerships, S corporations and C corporations. Royalties paid to these entities should not have income tax withheld. See below for information on royalties paid to trusts.

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

Royalty Recipients

Royalty recipients should claim amounts withheld as Minnesota income tax withheld when filing their Minnesota income tax return.

Individuals who had no Minnesota income tax liability in the preceding year and reasonably expect to have no liability for the current year can claim exemption from withholding tax. Nonresident individuals will not incur a Minnesota income tax liability for 2014 and are not required to file a Minnesota Individual Income Tax return if their Minnesota assignable gross income from royalties and all other Minnesota sources is less than $10,150.

To claim exemption from withholding, royalty recipients must complete State Form W-4MN. The royalty payer must send a copy to: Minnesota Revenue, Mail Station 6501, St. Paul, MN 55146-6501.

If tax is incorrectly withheld by the royalty payer, the royalty recipient must file a Minnesota income tax return to obtain a refund.

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

Royalty payers must submit federal Form 1099 MISC to the department by February 28 each year. You can submit 1099 forms electronically using e-Services or mail to: Minnesota Revenue, Mail Station 1173, St. Paul, MN 55146-1173.

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

Royalties Paid to Trusts

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

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

Royalties on State-Managed Mineral Lands

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

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

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

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

Information and Assistance

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

Website: www.revenue.state.mn.us
Email: withholding.tax@state.mn.us
Phone: 651-282-9999 or 1-800-657-3594

Figure 27

Average Royalty Cost Per Ton of Pellets Produced*

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Industry Production (millions of tons)	39.4	40.2	39.7	38.7	39.9	17.6	36.0	39.8	39.9	38.1
ArcelorMittal	1.298	1.819	1.73	2.11	2.91	2.33	3.10	5.77	4.95	4.12
Hibbing	1.631	2.045	1.92	2.19	2.31	5.32	2.90	2.78	2.87	2.64
Northshore**	2.659	5.481	5.08	5.02	6.95	4.45	6.08	7.42	6.02	5.83
United Taconite	1.333	1.724	1.84	2.16	2.72	2.34	3.68	3.99	3.49	3.46
U.S. Steel – Minntac	1.180	1.498	1.63	2.13	2.37	1.95	2.38	3.45	3.45	3.51
U.S. Steel – Keewatin	1.463	1.740	2.14	2.40	3.20	0.00	3.26	4.49	4.26	4.32
Industry Average –										
Weighted	1.516	2.169	2.22	2.55	3.15	2.84	3.31	4.25	3.89	3.72
Arithmetic	1.594	2.384	2.39	2.67	3.41	2.73	3.57	4.65	4.17	3.98

* This information is provided by Minnesota mining companies and is not audited by the Minnesota Dept. of Revenue.

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

Sales and Use Taxes

(M.S. Chapter 297A)

Minnesota has a 6.875 percent general sales tax rate. The sales tax applies to retail sales of taxable services and/or tangible personal property. A number of exemptions reduces the size of the sales tax base.

If you buy a taxable item for your own use without paying sales tax, you probably owe use tax. The tax rate is the same for both sales and use tax, and the same exemptions apply. Use tax is due on taxable items and services used in Minnesota if no sales tax was paid at the time of purchase.

All sales and use tax information must be filed electronically at the department's website www.revenue.state.mn.us or by phone at 1-800-570-3329.

Local Taxes

We currently administer and collect several local sales and use taxes. The general local taxes apply to the same items that are taxed by the Minnesota sales and use tax law. You must be registered for any locality if you do business there.

To figure the tax, combine the state tax rate and all applicable local rates. Apply the total combined rate to the taxable sales price and round to the nearest full cent. (Rate charts are available on our website.)

Local taxes are reported at the same time you report your Minnesota sales and use tax, but the figures are reported separately. You must be registered for each local tax you report. Call our office to register for local taxes if you file by phone. If you file by Internet, please add the applicable local taxes when you file your return.

Various local tax rates apply in the seven-county metropolitan area. Several localities outside the metropolitan area also impose local taxes.

Industrial Production Exemption

The industrial production exemption (M.S. 297A.68, subd. 2) 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. Sales Tax Fact Sheet 147, *Taconite and Iron Mining,* is available on the department's website.

The 1971 Minnesota legislature approved the production materials exemption (M.S. 297A.68, subd. 4) exclusively for the taconite mining industry. This statute allows an exemption from sales tax on grinding rods, grinding balls, and mill liners that are substantially consumed in the production of taconite. During the process, this material is added to, and becomes a part of, the product processed. For the purpose of the exemption, the term *mill* includes all facilities used to reduce and process ore.

In 1974, the Minnesota legislature amended the industrial production exemption (M.S. 297A.68, subd. 2) to cover accessory tools. The accessory tool exemption is available to all manufacturing-type businesses. The legislature, in defining what qualifies as an accessory tool, set three standards that must be met: 1) an item must be separate and detachable; 2) it must have a direct effect on the product; and 3) it must have a useful life of fewer than twelve months. In mining, shovel dipper teeth, shovel bucket lip and lower wing shrouds, cat and grader blade cutting edges, drill bits and reamers qualify for this exemption.

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

Mineral Production Facilities Exemption

The mineral production facilities exemption (M.S. 297A, subd. 14) exempts the purchase of materials to construct *any* of the following types of facilities. This includes materials to construct buildings to house the equipment even though the buildings, when completed, become real property.

- 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.
- A facility used for the manufacture of fluxed taconite pellets.
- A new capital project that has a total cost of more than $40 million that is directly related to production, cost or quality at an existing taconite facility that does not qualify under 1 or 2 above.
- A new mine or mineral processing plant for any mineral subject to the net proceeds tax.

Capital Equipment Refund

If you buy or lease qualifying capital equipment or replacement capital equipment for use in Minnesota, you are eligible for a refund of all, or a part of, the Minnesota and any local sales or use tax paid (M.S. 297A.68, subd. 5).

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

Replacement capital equipment means machinery and equipment to replace qualifying capital equipment; repair and replacement parts, accessories and upgrades to qualifying equipment; foundations for qualifying equipment; and special purpose buildings. Beginning July 1, 1998, purchases or leases of replacement capital equipment are eligible for a full refund of the sales and use tax paid.

You must pay sales tax when you buy or lease capital or replacement capital equipment. If the seller does not charge sales tax, you must report and pay use tax on the equipment. To get a refund of sales or use tax paid, you must file a capital equipment refund claim on Form ST11. You may file no more than two capital equipment refund claims in a calendar year.

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

Capital equipment is not the same as capitalized assets. Items capitalized for accounting purposes do not automatically qualify as capital equipment. Items expensed for accounting purposes, such as leased equipment, may be considered capital equipment for refund purposes.

Capital equipment does not include:

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

Labor–Repair and Maintenance for Business

From July 1, 2013 through April 1, 2014, the repair and maintenance of certain equipment and machinery for businesses was subject to the Minnesota sales and use tax. This included electronic and precision equipment, and commercial and industrial machinery and equipment. See Sales Tax Fact Sheet 152B on the department's website.

Mandatory Electronic Payments

You must generally pay all Minnesota business taxes electronically if you paid more than $10,000 of any business tax during the previous fiscal year (July 1 – June 30). Starting July 1, 2013, if you are required to pay business taxes electronically for one year, you must continue to do so for all future years.

June Accelerated Payment

If you had a sales and use tax liability of $250,000 or more in the state's prior fiscal year (July 1–June 30), you are required to make a June accelerated payment. Once you are required to make a June accelerated payment, you must continue making this payment until you receive further notice. The June accelerated payment is due two business days before June 30, and the remaining payment and return for June is due August 20. To avoid penalty, your June accelerated payment must be at least:

- 81.4 percent of your actual June liability, or
- 81.4 percent of your May liability, or
- 81.4 percent of your average monthly liability for the previous calendar year.

To avoid possible penalties and interest, it is important to review your account to ensure that you are filing and paying properly.

Claiming Exemptions and Refunds

- Industrial Production Exemption
- Taconite Production Material Exemption

File an exemption certificate (Form ST3) or direct pay permit with the vendor. No tax is collected.

- Capital Equipment Exemption
- Mineral Production Facilities Exemption

Pay the sales tax or self-assess use tax. File for 6.875% refund on Form ST11.

Figure 28

Use Tax Paid

Year	Use Tax	Refund Claims*	Net Use Tax
2009	16,040,963	18,876,729	(2,835,766)
2010	25,303,605	8,201,710	17,101,895
2011	32,704,326	8,030,608	24,673,718
2012	31,373,946	28,794,070	2,579,876
2013	**33,273,667**	**8,636,907**	**24,636,760**

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

Sales and Use Tax—Aggregate Material

(M.S. Chapter 297A)

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

Industrial Production Exemption

Aggregate producers may purchase certain items that are used or consumed in the production of tangible personal property intended to be sold ultimately at retail exempt from sales tax. This exemption includes chemicals, fuels, petroleum products, lubricants, gas and electricity. To purchase qualifying items exempt, the purchaser must provide the seller with a completed exemption certificate (ST3).

Capital Equipment

Capital equipment means machinery and equipment purchased or leased, and used in Minnesota by the purchaser or lessee primarily for manufacturing, fabricating, mining, or refining tangible personal property to be sold ultimately at retail if the machinery and equipment are essential to the integrated production process of manufacturing, fabricating, mining, or refining. Currently, capital equipment is taxable a the time of purchase. You may use Form ST11 to apply for a refund of tax paid on qualifying equipment.

On July 1, 2015, Minnesota will change to an upfront sales tax exemption on eligible capital equipment purchases. For purchases before that date, you must continue to pay sales or use tax and then request a refund on Form ST11. See Sales Tax Fact Sheet 103, *Capital Equipment,* for more information.

Aggregate Sales

Construction Contracts

Contracts that require the seller of aggregate to deliver and spread or place the aggregate, gravel, or similar materials in such a way that no further leveling or movement is required by the purchaser are improvements to real property. Contractors must pay sales or use tax on their cost of any taxable products or services used to complete the contract. Construction contracts are not taxable to the customer.

Retail Sales

If aggregate material is dumped in a pile, or if the contract does not require the seller to deposit the aggregate material in such a manner that no further leveling or movement is required, it is a sales of tangible personal property and the seller must charge sales tax on both the material and the delivery charges.

Delivery (hauling) of aggregate materials and concrete block is generally taxable, whether delivered by the seller or a third party hauler. Sales tax applied to the delivery charges even if the aggregate will be used to make an improvement to realty and regardless of how deposited at the delivery site. However, delivery of aggregate by a third party hauler is exempt if the aggregate is used for road construction. For more information, see Sales Tax Fact Sheet 128, *Contractors,* and 155, *Delivery Charges.*

Sales to Governments

Most sales to local governments are not taxable. For purposes of this exemption, "local governments" means statutory or home rule charter cities, counties, townships (towns), and qualifying cooperative agreements. This exemption applies to road-building materials and the delivery of aggregate materials. Sales to other non-qualifying areas of local government remain taxable. See Sales Tax Fact Sheet 176, *Local Governments,* for specific information.

Aggregate Pit Owned by a Government Unit

If a pit is owned or leased by a government unit, aggregate removed for its own use **is not taxable**. However, all aggregate sold to others is taxable, unless the purchaser provides an exemption certificate (ST3).

Aggregate Crushing and Screening

Screening and crushing of aggregate is fabrication labor subject to sales tax, unless the purchaser provides an exemption certificate (ST3). Fabrication labor is the making or creating of a new product or altering an existing product into a new or changed product, even when the customer provides the materials to be screened or crushed.

Ready-Mix Concrete Producers

The purchase of aggregate by a ready-mix concrete producer to be used in making the product is exempt from sales tax. The producer must give the seller a completed exemption certificate (ST3). to the aggregate seller.

Retail sales of ready-mix product are taxable unless the purchaser provides an exemption certificate (ST3).

Bituminous Producers

If the bituminous producer is primarily a contractor (makes and installs the product), then all purchases of aggregate are taxable.

If a bituminous producer is primarily a retailer (makes retail sales of bituminous and does not install the product), they may purchase the aggregate exempt from sales tax by giving the seller a completed exemption certificate (ST3).

Note: If the bituminous producer is a contractor-retailer, it must determine which function constitutes at least 50 percent of its business. If the producer is primarily a contractor, then it must pay sales or use tax on all purchases. If the producer is primarily a retailer, then it may purchase aggregate exempt from sales tax by giving the seller a completed exemption certificate (ST3).

Ad Valorem Tax on Auxiliary Mining Lands for Taconite Operations

(M.S. 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. 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 rural vacant land. In general, lands in close proximity to active taconite operations are assigned the industrial classification while those further away are classified as rural vacant land. 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 property's taxable market value (TMV) to calculate tax capacity. For payable 2014 taxes, the class rate for rural vacant land is 1.00 percent of the estimated market value. For the industrial classification, there are two class rates: 1.50 percent for the first $150,000 of the TMV and 2.0 percent for the value over $150,000.

Property taxes are calculated by multiplying a property's tax capacity times the tax extension rate for the jurisdiction where it is located. Tax extension rates are determined by county, local government and school district spending. In St. Louis County within the mining area for taxes payable in 2014, they range from a low of approximately 86 percent to a high of approximately 342 percent. In addition, the market value times the referendum rate must be added to the tax determined above if there is a referendum in the taxing district. For industrial class property, the state general tax rate of 52.160 percent applies in addition to the local tax rate.

The following schedule provides for adjustments in both the valuations and classifications of auxiliary mining lands located on the iron formation versus off-formation lands as well as further refinements based on the proximity of these lands to active mining operations. It outlines valuation adjustments to be made on excess lands where they are located as market conditions and/or Minnesota statutes dictate (see below). This schedule was updated based on market conditions for the 2013 assessment.

St. Louis County Mining Land Assessment Schedule

1. Iron formation land	**Value ($/acre)**	**Classification**
A. Land within ¼ mile of active pit	$1000	Industrial
B. Excess land (more than ¼ mile from mining activity or outside 15-year pit limit).		
1. Undisturbed	Same as other private land	Rural Vacant Land or current use
2. Disturbed		
a. Stockpiles	75% of other private land	Rural Vacant Land or current use
b. Abandoned Pits	50% of other private land	Rural Vacant Land or current use
2. Off-formation land		
A. Land within ¼ mile of mining activity	$700	Industrial
B. Excess Land		
1. Undisturbed	Same as other private land	Rural Vacant Land or current use
2. Tailings Ponds		
a. Stockpiles	75% of other private land	Rural Vacant Land or current use
b. Tailings Ponds	30% of other private land	Rural Vacant Land or current use

Ad Valorem Tax on Unmined Taconite

(M.S. 298.26)

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

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

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

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

The categories are:

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

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

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

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

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

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

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

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

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

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

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

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

For taxes payable in 2013, the tax is calculated by multiplying the market value for the parcel of land by the 2.00 percent class rate to obtain the tax capacity. The special rate on the first $150,000 of market value that applies to class 3 commercial/industrial property does not apply to class 5 unmined taconite. This is then multiplied by the local tax rate. *Note: Call your county auditor for more information.*

Figure 29

Unmined Taconite Tax Paid

(Year payable)

County	2007	2008	2009	2010	2011	2012	2013	2014
Itasca	$0	$0	$0	$0	$0	$0	$32,283	$32,468
St. Louis	532,102	495,033	466,991	238,274	239,518	228,517	265,107	247,126
Total	**$532,102**	**$495,033**	**$466,991**	**$238,274**	**$239,518**	**$228,517**	**$297,390**	**$279,594**

Ad Valorem Tax on Unmined Natural Iron Ore

(M.S. 272.03, 273.02, 273.12, 273.13, 273.165, 273.1104)

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

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

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

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

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

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

These 12 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 Minnesota Department of Revenue presently allows a 12 percent risk rate and six percent safe rate that yields the .33971 Hoskold factor when used with a 20-year life. A 20-year life has been used since 1968 as representative of the remaining life of Minnesota's natural iron ore reserves. The resulting value is considered the market value by the Minnesota Department of Revenue.

The term "class rate" was introduced for taxes payable in 1990. For 2002 and thereafter, this rate is reduced to 2.0 percent.

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

Local tax rates are a function of county, local government, and school district spending. In addition, a statewide general property tax levy applies to most types of property with the exception of agricultural and homestead properties. For example, for taxes payable in 2014, tax rates ranged from a low of approximately 86 percent to a high of approximately 342 percent (not including the state general property tax rate of 52.160 percent) in St. Louis County. The class rate from 2002–2014 has been 2 percent.

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

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

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

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

A notice of the market value of unmined ore is sent to each person subject to the tax and to each taxing district affected on or before May 1 (M.S. 273.1104).

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

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

Figure 30
Minimum Rates

	Market value/ton (cents)	
Ore Classification	**Itasca and St. Louis Counties**	**Crow Wing County**
Wash Ore Concentrate (OPC)	12.0	6.0
Heavy Media Concentrate (HMC)	9.0	4.5
Low Grade (OPPRC)	3.0	1.5
Underground Uneconomic (stripping ratio greater than 5 to 1)		
Underground Concentrate > 60% Fe (UGC)	2.4	1.2
Underground Concentrate < 60% Fe (UGC)	1.8	0.9
Underground Heavy Media (UGHM)	1.5	0.75
Low grade (UGPRC)	0.9	0.45
Low grade (UGR)	0.9	0.45

Figure 31
Iron Ore Ad Valorem Tax Payable

Year Assessed	Market Value	Payable Year	Estimated Tax Payable			Total
			Crow Wing	Itasca	St. Louis	
2005	$2,355,700	2006	$2,700	$13,300	$77,400	$93,400
2006	2,350,100	2007	2,500	12,700	79,100	94,300
2007	2,255,300	2008	2,300	11,600	68,400	82,300
2008	2,345,800	2009	2,200	11,400	70,100	83,700
2009	2,347,000	2010	2,200	12,200	71,500	85,900
2010	2,345,500	2011	2,400	12,700	76,400	91,500
2011	2,341,600	2012	2,600	14,300	87,400	104,300
2012	2,485,800	2013	2,700	13,900	93,200	109,800
2013	2,492,600	2014	2,800	14,100	93,900	110,800

Ad Valorem Tax on Taconite Railroads

(M.S. 270.80 - 270.88)

Beginning with the Jan. 2, 1989 assessment, taconite railroads have been included in the definitions of common carrier railroads and were assessed and taxed on an ad valorem basis according to Minnesota law. LTV and Northshore were the only railroads classified as taconite railroads. Since the 2003 assessment, Northshore Mining is the only operating railroad.

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

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

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

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

Figure 32

Taconite Railroad Ad Valorem Tax Assessed

Year Payable	Assessed	St. Louis County	Lake County	Total Tax
2005	2004	$3,896	$13,312	$17,208
2006	2005	3,366	10,921	14,287
2007	2006	3,054	10,081	13,135
2008	2007	3,212	9,063	12,275
2009	2008	2,562	6,415	8,977
2010	2009	2,319	7,293	9,612
2011	2010	2,514	7,623	10,137
2012	2011	2,460	8,265	10,725
2013	2012	2,981	10,651	13,632
2014	**2013**	**7,286**	**26,796**	**34,082**

Ad Valorem Tax on Severed Mineral Interests

(M.S. 272.039, 272.04, 273.165)

Definition

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

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

The severed mineral tax is a property tax that is levied by local taxing authorities in the same manner as other local property taxes. Proceeds from the tax are distributed in this manner: 80 percent is returned by the county to local taxing districts where the property is located in the same proportion that the local tax rate of each taxing district bears to the total surface tax rate in the area; and 20 percent to the Indian Business Loan Account in the state treasury for business loans made to Indians by the Department of Employment and Economic Development.

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

Nonpayment Penalty: Forfeiture

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

Tax Imposed

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

History of Litigation

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

Figure 33

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, 2006	$341,884	$85,471	$427,355
Dec. 31, 2007	451,904	112,976	564,880
Dec. 31, 2008	433,578	108,395	541,973
Dec. 31, 2009	463,472	115,868	579,340
Dec. 31, 2010	448,864	112,216	561,080
Dec. 31, 2011	444,016	111,004	555,020
Dec. 31, 2012	487,096	121,774	608,870
Dec. 31, 2013	452,376	113,094	565,470

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

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

DNR Lease

If someone buys a DNR mining lease of 3 or more years duration, the severed mineral interest tax of 40 cents per acre applies. Contact the DNR, Minerals Division, to determine the status of activities under any state metallic minerals lease.

Indian Business Loan Account

The 20 percent portion of the severed mineral interest tax that is allocated to the Indian Loan Program is reported by the county auditors on the *Severed Mineral Interest Return (SMI1)*. Normally, the form is submitted twice each year to correspond with payment of property taxes.

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

Department of Revenue

The processing and payment of the severed mineral interest tax is handled by the Special Taxes Division of the Minnesota Department of Revenue, Mail Station 3331, St. Paul, MN 55146-3331. Phone 651-556-4721.

Loan Program

The Indian Business Loan Program is administered by the Department of Employment and Economic Development, 1st National Bank Building, 332 Minnesota Street, Suite E-200, St. Paul, MN 55101-1351. Phone: 651-259-7424.

Taxes on Other Mining and Exploration

Companies mining or exploring for nonferrous minerals or energy resources are also subject to Minnesota taxes. This includes mining or exploring for:

- Base metals, such as copper, nickel, lead, zinc, titanium, etc;
- Precious metals, such as gold, silver and platinum; and
- Energy resources, such as coal, oil, gas and uranium.

Companies conducting these activities are subject to the following taxes the same as companies that mine ferrous minerals:

- Occupation tax (see page 31)
- Income tax withholding on royalties (see page 35)
- Sales and use taxes (see page 37)
- Ad valorem tax on severed mineral interests (see page 45)

In addition, they are subject to ad valorem tax (property tax) in certain situations and a net proceeds tax.

Ad Valorem Tax (M.S. 272–273)

Companies mining or exploring for nonferrous minerals or energy resources are subject to property tax the same as other businesses.

For commercial and industrial property, the assessor's estimated market value is multiplied by a class rate to obtain gross tax capacity. The first $150,000 of market value is taxed at 1.5 percent, while a 2 percent rate applies to market value over $150,000. To determine the tax, the product of the market value and class rate must be multiplied by the local tax rate plus the 52.160 percent state general property tax rate for taxes payable in 2014. In St. Louis County, where the majority of Minnesota's mining industry is located, the local tax rates payable in 2014 varied from a low of 86 percent to a high of approximately 342 percent. If a referendum tax is passed, the referendum rate times the full market value must be added.

If a company is mining minerals or energy resources subject to the net proceeds tax under M.S. 298.015, then the following property is exempt:

- deposits of ores, metals, and minerals and the lands in which they are contained;
- all real and personal property used in mining, quarrying, producing, or refining ores, minerals, or metals, including lands occupied by or used in connection with the mining, quarrying, production, or ore refining facilities;
- and concentrate.

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

The net proceeds tax applies to the mining or producing of nonferrous minerals and energy resources, i.e., all ores, metals and minerals mined, extracted, produced or refined within Minnesota, except for sand, silica sand, gravel, building stone, crushed rock, limestone, granite, dimension granite, dimension stone, horticultural peat, clay, soil, iron ore and taconite concentrates.

The tax is equal to 2 percent of the net proceeds from mining in Minnesota. Net proceeds are the gross proceeds from mining less allowable deductions. Gross income from mining or producing nonferrous minerals or energy resources is calculated differently from the method used for ferrous minerals.

For **non-equity or arms-length transactions,** gross income is based on actual sales. Generally, for **non-arms-length transactions,** gross income is based on the average annual market price as published in the *Engineering and Mining Journal*.

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

Deductions from the tax include only those expenses necessary to convert raw materials to marketable quality. Expenses such as transportation, stockpiling, marketing or marine insurance that are incurred after marketable ores are produced are not allowed, unless the expenses are included in gross proceeds.

Distribution of the tax. If the minerals or energy resources are mined *outside* the Taconite Assistance Area, the tax is deposited in the state's General Fund. If they are mined or extracted *within* the Taconite Assistance Area, the tax is distributed to:

- Cities and towns (5%), counties (20%), and school districts (10%) where the minerals or energy resources are mined or extracted, or where the concentrate is produced. If concentrating occurs in a different taxing district from where the mining occurs, 50 percent is distributed to the taxing districts where mined and the remainder to those districts where processed. In addition, counties must pay 1 percent of their proceeds to the Range Association of Municipalities and Schools.
- Regular School Fund (20%)
- Taconite Municipal Aid Account (10%).
- Taconite Property Tax Relief (20%), using St. Louis County as fiscal agent.
- IRRRB (5%).
- Douglas J. Johnson Economic Protection Trust Fund (5%).
- Taconite Environmental Protection Fund (5%).

Distributions are made annually on July 15; however, there are currently no companies subject to the net proceeds tax.

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.

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

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

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

Douglas J. Johnson Economic Protection Trust Fund (DJJ) — A portion of taconite production tax revenues is allocated to this fund with the intent to use the funds to diversify and stabilize the long-range economy of the Iron Range.

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

Dry weight — The weight of iron ore or pellets excluding moisture. For pellets, the dry weight is normally 1 to 2 percent less than the natural weight.

Electric Arc Furnace (EF or EAF) — 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.

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.

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

Partially fluxed pellets — Fluxed pellets containing 1.99 percent or less limestone or other flux additive.

Gross Domestic Product Implicit Price Deflator (GDPIPD) — 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 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 for weighing iron ore and taconite in the United States. A long ton equals 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 2,204.62 pounds.

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

Mini mill — A small steel mill using an electric furnace that produces steel from scrap iron.

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

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

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

Non-equity sales — See Arms-length transaction.

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

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

Percentage depletion — A taxable income deduction in the form of an allowance 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 Iron Range cities, towns and schools receiving any funding from the taconite production tax.

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

Royalty — A share of the product or profit reserved by the owner for permitting another to use the property. A lease by which the owner or lessor grants to the lessee the privilege of exploring, mining and operating the land in consideration of the payment of a certain stipulated royalty on the mineral produced.

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 product value for occupation tax purposes each year.

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

It is not merchantable in its natural state, and it cannot be made merchantable by simple methods of beneficiation involving only crushing, screening, jigging, washing and drying or any combination thereof. (MS 298.001, subd. 4)

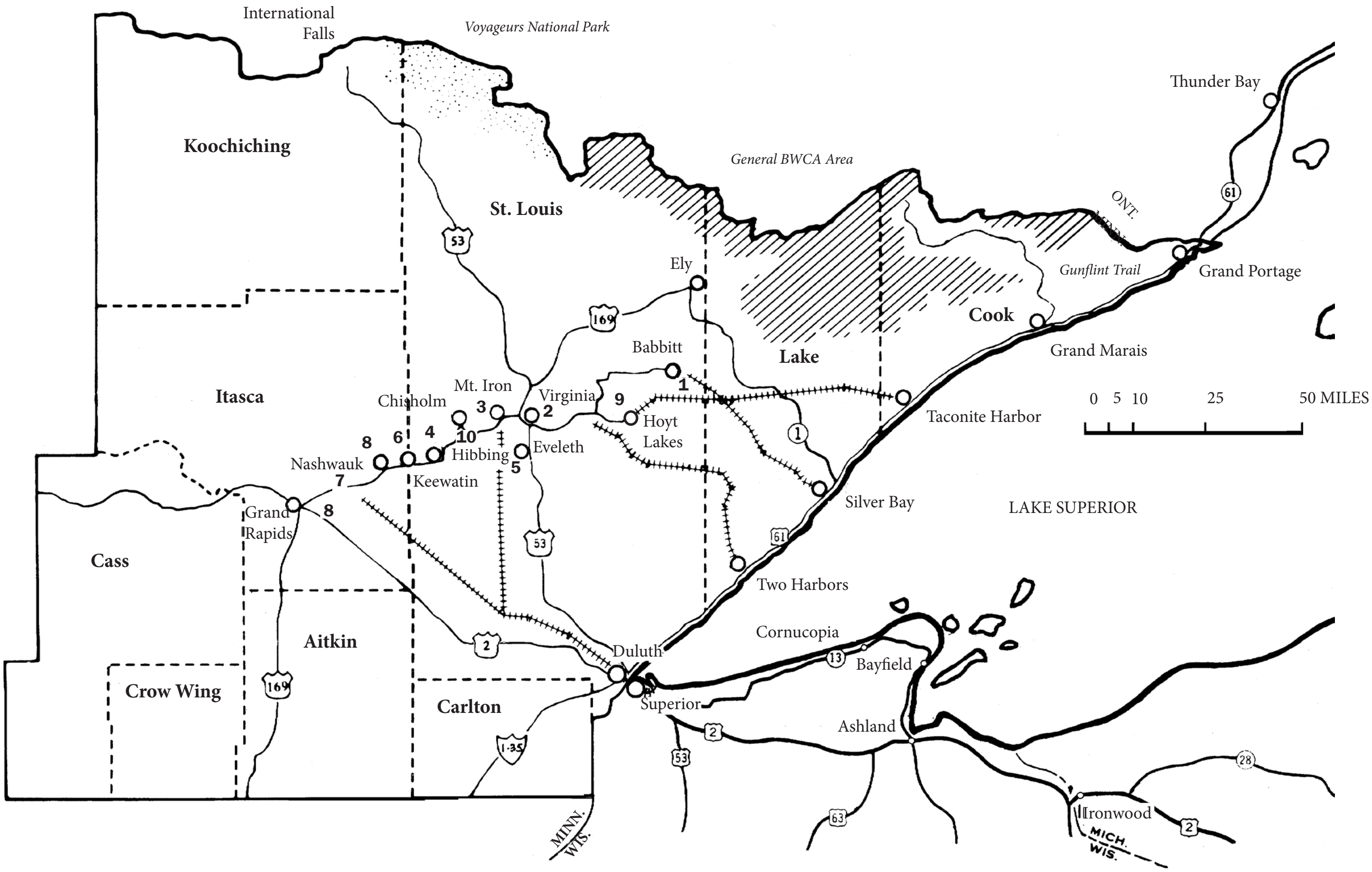
Tailing — Small rock particles containing little or no iron, which are separated during various stages of crushing, grinding, and concentration. Most of the separation is done with magnetic separators. Silica is the main mineral constituent of tailings.

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. For other iron bearing material subject to the taconite production tax, only the current year is used.

Mining Industry Tax Calendar

January	February	March	April
– Ad Valorem Tax Reports mailed to companies – Ad valorem estimates submitted by companies (January - February) 14 Form MT-11, Taconite and Semi-Taconite Tax Report mailed to companies with memorandum	1 Taconite Production Tax Report due from companies 14 Taconite production tax determinations mailed to companies – Printout listing 50% production tax payments sent to county auditors – School bond payment schedule mailed to Cook, Itasca, Lake and St. Louis counties 24 Taconite production tax payment (50%) due in county offices by electronic funds transfer 25 Distribution of taconite production tax by counties (collected February 24)	1 Taconite Municipal Aid amounts mailed to cities or to RAMS – Occupation tax forms mailed to companies	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
May	**June**	**July**	**August**
1 Occupation tax return (M30 series) and payment due 15 First half of property tax on taconite railroad property due to counties 20 Ad valorem tax hearing held on first business day after May 20th 25 Production Cost Summary Tax Report (M30-P) due	30 Ad valorem tax final adjustments to property equalization sheets mailed to county assessors	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	1 Printout listing second-half production tax payments sent to counties 24 Taconite production tax payment (remaining 50%) due in county offices by electronic funds transfer 25 Distribution of taconite production tax by counties (collected August 24)
September	**October**	**November**	**December**
15 Taconite Municipal Aid account funds distributed by counties – October 10th estimate forms mailed to companies	10 Taconite production tax estimates due from companies 15 Second half of property tax on taconite railroad property due to counties		1 Unmined taconite tax reports submitted to county assessors 1 Production tax forms mailed to companies 1 Extended occupation tax return due

Mine Locations and Production Capacity



		Effective Capacity* (million tons)
1.	**Northshore Mining** Owner: Cliffs Natural Resources, Inc. (100%)	6.2
2.	**ArcelorMittal Minorca Mine** Owner: ArcelorMittal (100%)	2.8
3.	**U. S. Steel–Minntac** Owner: USS Corporation (100%)	16.0
4.	**Hibbing Taconite** Cliffs Natural Resources, Inc., Managing Agent Owners: ArcelorMittal (62.3%) Cliffs Natural Resources, Inc. (23%) U. S. Steel Canada (14.7%)	8.0
5.	**United Taconite LLC** Owners: Cliffs Natural Resources, Inc. (100%)	5.3

		Effective Capacity* (million tons)
6.	**U. S. Steel–Keewatin Taconite** Owner: USS Corporation (100%)	6.0
7.	**Essar Steel Minnesota LLC** (under construction) Owner: Essar Resources Inc. (100%)	Unknown
8.	**Magnetation LLC** Owners: Magnetation, Inc. (50.1%) AK Steel (49.9%)	1.5
9.	**Mesabi Nugget LLC** Owners: Steel Dynamics, Inc (81%) Kobe Steel, Ltd (19%)	0.5
10.	**Mining Resources LLC** Owners: Steel Dynamics, Inc. (80%) Magnetation, Inc. (20%)	1.0

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

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