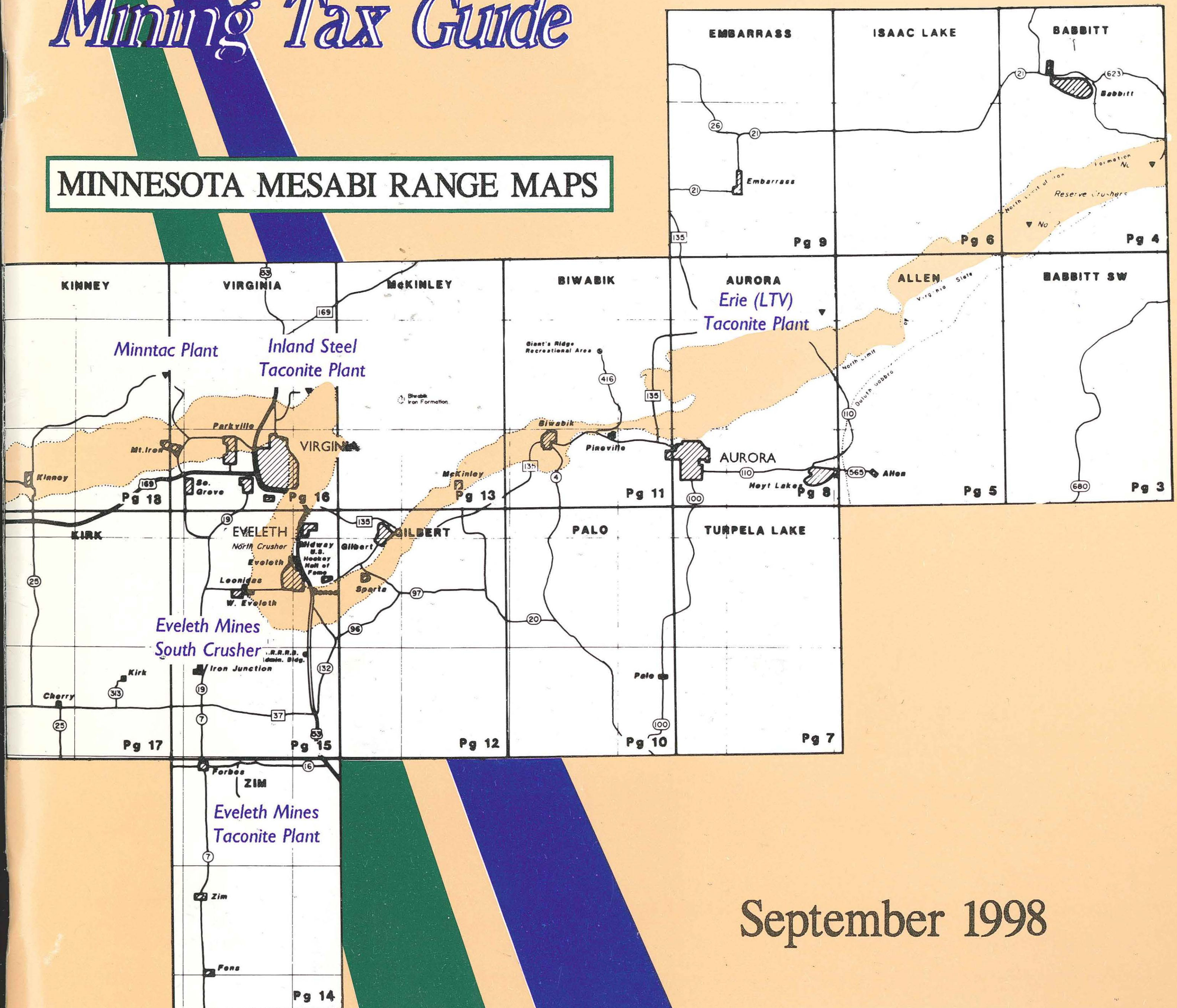
MINNESOTA
Mining Tax Guide

MINNESOTA MESABI RANGE MAPS



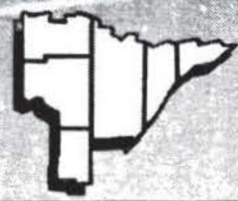
September 1998

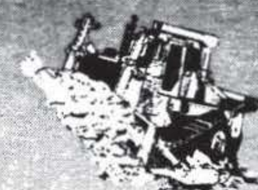
MINNESOTA Department of Revenue
MINERALS TAX OFFICE

1998 Distribution of Taconite Production Tax
1997 Production Year

Total Taconite Production Tax	Less: School Bond Credits	Net Production Tax Distributed
$95,410,433 Production Tax is $2.141 per taxable ton. The three-year average taxable tonnage was 44,563,490.	**– $705,767** 1.6-c.p.t.	**$94,704,666** $2.125 per taxable ton





CITIES and TOWNSHIPS
$9,626,177
21.6- c.p.t.

- City & Township Fund* $2,083,419 4.7-c.p.t.
- Taconite Municipal Aid* $6,951,616 15.6-c.p.t.
- Taconite Railroad $591,142 1.3-c.p.t.

SCHOOL DISTRICTS
$23,575,574
52.9- c.p.t.

- School District $.055 Fund* $2,605,249 5.9-c.p.t.
- School $.22 Fund $10,111,969 22.7-c.p.t.
- Taconite Railroad $1,785,380** 4.0-c.p.t.
- Taconite Referendum $4,877,652 10.9-c.p.t.
- School Bond Payments $4,195,324 9.4-c.p.t.

**32.6 cents-per-ton will be subtracted from STATE aids or levies a taconite school disctrict would otherwise receive

COUNTIES
$13,479,992
30.3- c.p.t.

- Regular County Fund* $10,021,984 22.5-c.p.t.
- County Road & Bridge Fund* $2,673,631 6.0-c.p.t.
- Taconite Railroad $784,377 1.8-c.p.t.

PROPERTY TAX RELIEF AND MISC
$13,740,933
30.8- c.p.t.

- Taconite Property Tax Relief $13,555,273 30.4-c.p.t.
- R.A.M.S.* $110,660 .2-c.p.t.
- State of Minnesota $75,000 .2-c.p.t.

I.R.R.R.B.
$22,514,514
50.5- c.p.t.

- I.R.R.R.B. Fund* $3,061,057 6.8-c.p.t.
- I.R.R.R.B. Fixed Fund $1,252,520 2.8-c.p.t.
- Taconite Env. Protection Fund $12,904,541 29.0-c.p.t.
- NE Minnesota Economic Protection Fund $5,296,396 11.9-c.p.t.

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

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

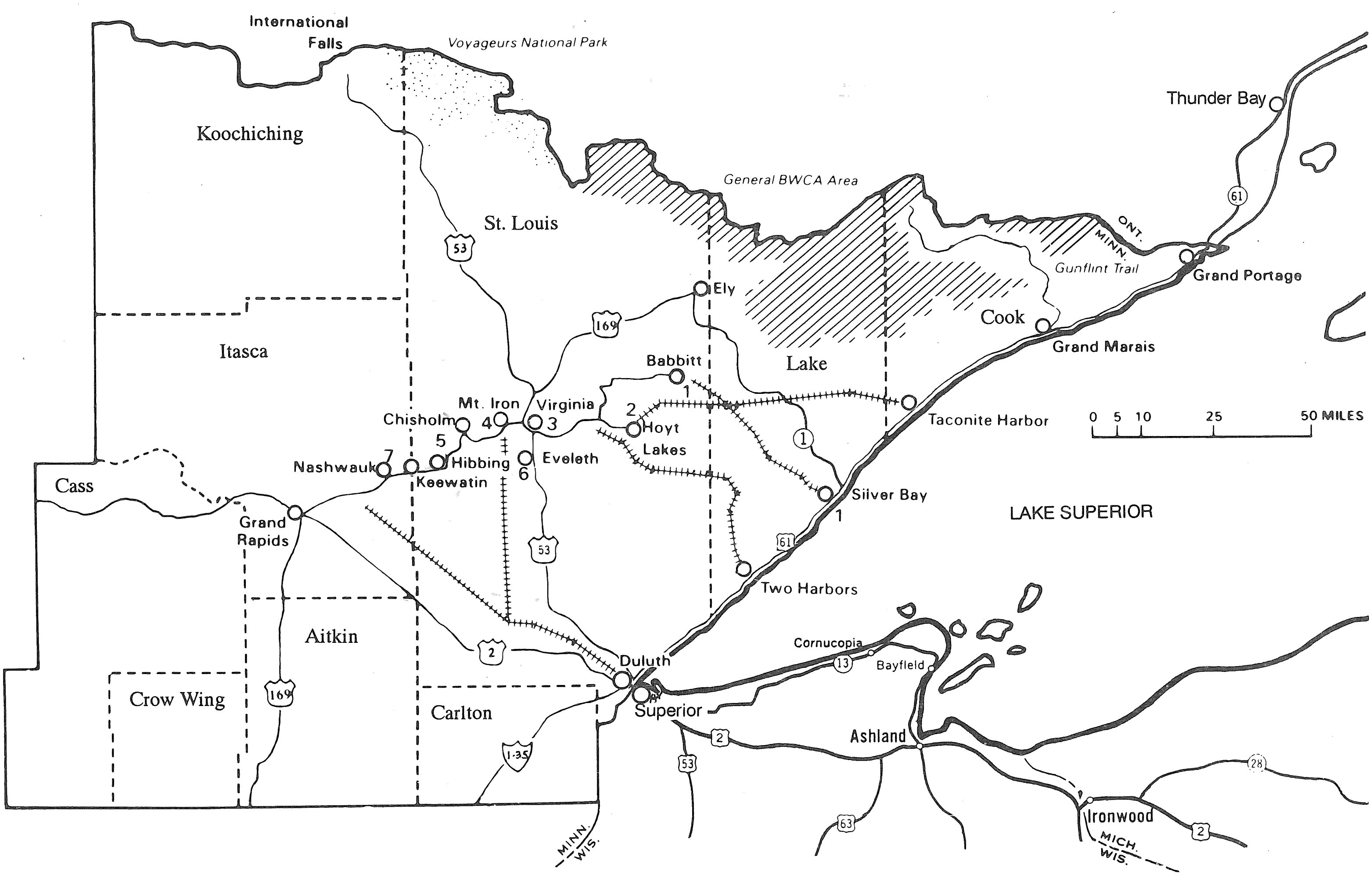
TACONITE ECONOMIC DEVELOPMENT FUND
$7,444,818
16.7- c.p.t.

OTHER I.R.R.R.B. ADMIN. ECONOMIC DEVELOPMENT FUNDS
$4,322,658
9.7- c.p.t.

- Hoyt Lakes Industrial Park $2,094,484 4.7- c.p.t. 1998 Distribution Only
- Producer Grants $2,228,174 5.0-c.p.t.

MAP OF NORTHEASTERN MINNESOTA

TACONITE COMPANY LOCATIONS, OWNERSHIP AND GENERAL INFORMATION



	Effective Capacity* (million tons)
1) NORTHSHORE MINING COMPANY Owner: Cliffs Mining Company (100%)	4.7
2) LTV STEEL MINING COMPANY Cliffs Mining Company, Managing Agent Owner: LTV Steel (100%)	8.0
3) MINORCA PLANT Owner: Inland Steel Mining Company (100%) Inland Steel Ownership ISPAT International, N.V. (100%)	2.5
4) MINNTAC PLANT Owner: USX Corporation (100%)	15.0

	Effective Capacity* (million tons)
5) HIBBING TACONITE COMPANY Cliffs Mining Company, Managing Agent Owners: Bethlehem Steel Company (70.3%) Cliffs Mining Company (15%) Steel Company of Canada, Ltd. (14.7%) (Stelco)	8.5
6) EVTAC Owners: Rouge Steel Company (45%) Virginia Horn Taconite (A-K Steel) (40%) Ontario Eveleth Company (Stelco) (15%)	5.4
7) NATIONAL STEEL PELLET COMPANY Owner: National Steel Corporation (100%) National Steel Ownership: Nippon Kokan KK (67.6%) Publicly Held (32.4%)	5.0

* 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 partnerships and subsidiaries are listed on legal corporate documents.

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INCOME TAX WITHHOLDING ON MINING AND EXPLORATION ROYALTY

SALES AND USE TAX

AGGREGATE MATERIAL TAX

ABOUT THE COVER

This cover is an enlargement of the Minnesota Mesabi Map Set from page 59 of the Mining Tax Guide. The map set originally consisted of 35 quadrangle maps covering the Mesabi Iron Range. The Vermilion Range quads of Tower and Soudan were added in 1994 and Ely was added in 1996.

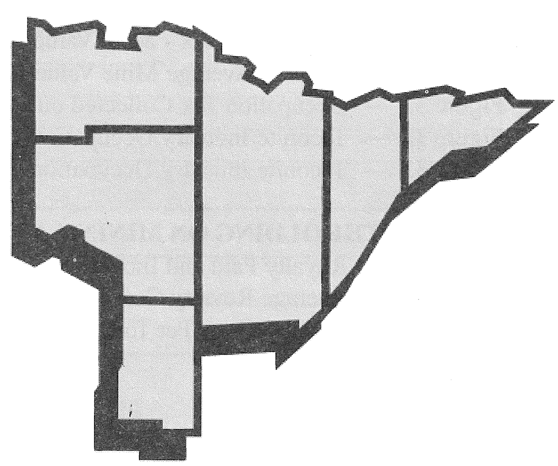
These 35 maps issued by the State of Minnesota show the status of the taconite mining industry including pits, stockpiles, tailing ponds and related information. Also noted on the four-color maps are changes in highways, railroads, gas and oil pipelines, major power lines, recreation trails and lake accesses, and municipal and school district boundaries. The St. Louis County portion of the maps includes parcel code numbers that enables the user to more easily obtain ownership and tax information from the county auditor's or assessor's office. The maps aid communities, developers and industrial planners in fitting their plans into the existing topography and developments.

The original maps, completed in 1989, were current to 1986. Eveleth, Gilbert, Kinney, McKinley and Virginia have been updated to January 1, 1996. The original 35 quadrangle maps, including the 1995 and 1996 updates with color, are available for $170 plus $11.05 sales tax and $8.50 shipping (UPS Midwest rate).

The maps were prepared and funded as a joint effort of the Minnesota Department of Revenue, Minnesota Department of Natural Resources, the Iron Range Resources & Rehabilitation Board, the Range Association of Municipalities and Schools and St. Louis and Itasca Counties. The base maps used for this project were the U.S. Geological Survey Quadrangle maps with 1 inch equaling 2000 feet, each covering an area 6 by 8° miles (18° by 25 inch sheets).

The maps were based on a series prepared originally by Great Northern Iron Ore Properties, with the first edition published in 1934 containing 27 uncolored maps, each covering an area of 1° by 4 miles (or 10 square miles) totaling 270 square miles. The total area extended from Grand Rapids to Babbitt on the Mesabi Iron Range.

In 1939, the second edition containing 30 maps in color was published and was reissued in both 1945 and 1950. During 1954, the fourth edition and final edition containing 30 maps appeared, and in 1959 the fourth and final edition was completely updated and consisted of 50 maps. All of the maps covered 10 square miles.



INTRODUCTION

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

PRODUCTION TAX

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

The production tax distributed in 1998 is the tax due for the 1997 production year. The taconite production tax rate for concentrates and pellets produced in 1997 was $2.141 per taxable ton. The taxable tonnage for 1997 is the average of the tonnage produced in 1995, 1996 and 1997.

The flowchart on the inside front cover provides a simple and easy to understand picture of where the production tax of $2.141 per taxable ton is distributed. This flowchart shows both the cents-per-ton distribution, as indicated above, and the total amount distributed to various funds. The cost per ton production tax distribution table has been eliminated. The various funds to which the production tax is distributed are explained in the several pages titled ***Distribution of the Taconite Production Tax.***

STATE TAXES

Other major taxes paid by the mining industry are the Occupation Tax (similar to an income tax) -- pages 30-38 and Use Tax (sales tax) -- pages 42 & 43. These taxes are all paid directly to the state with the money placed in the general fund.

COUNTY TAXES

Other taconite and iron ore ad valorem (property) taxes are paid directly to the counties -- pages 46-52. These are property taxes assessed on taconite railroads, unmined taconite ore, auxiliary mining lands, unmined natural ore and severed mineral interests.

TAXES ON OTHER MINERALS

Taxes on minerals other than taconite or iron ore are also identified and explained. These minerals include gold, silver, copper, nickel, lead and other nonferrous minerals -- pages 53-55.

AGGREGATE MATERIAL TAX

A section on the Aggregate Material Production Tax has grown over the years -- pages 44 & 45. Information for collections is provided by counties.

> **The Mining Tax Guide is available on the internet at www.taxes.state.mn.us.**

IRON ORE PRODUCTION COMPARISON

Figure 1

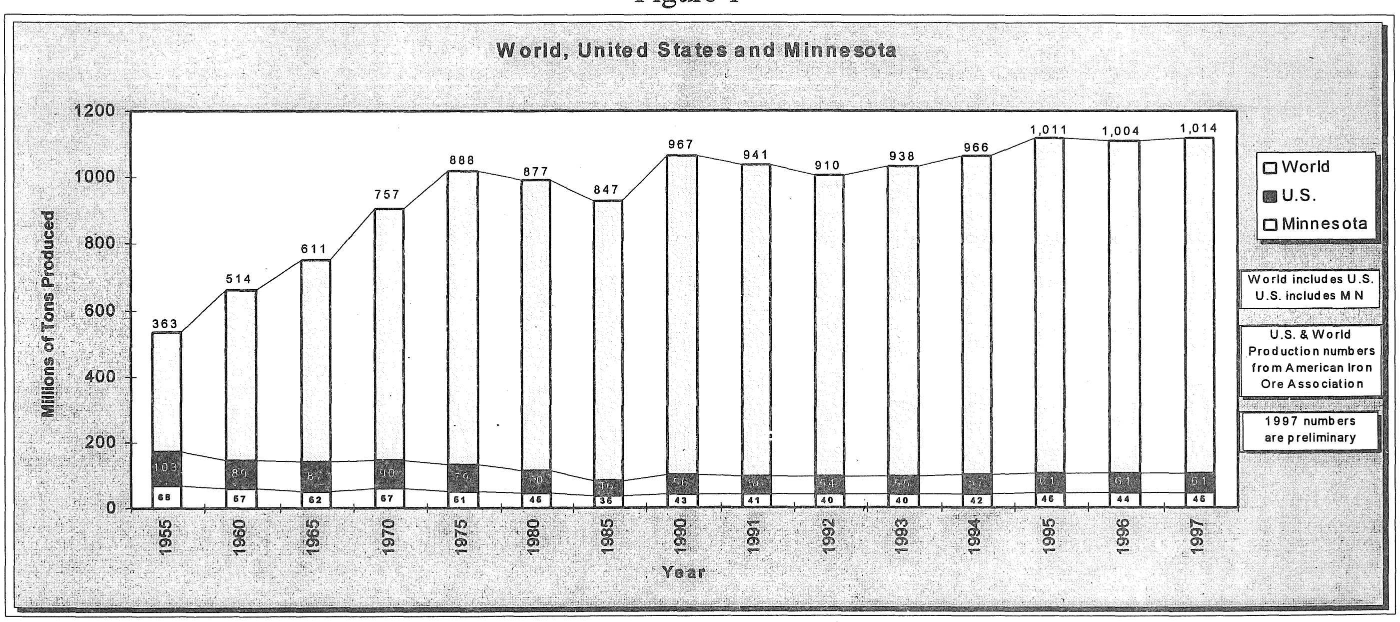


Figure 2

DISTRIBUTION OF MINING TAXES

Production Year 1997 Tax Obligations - $112,127,890

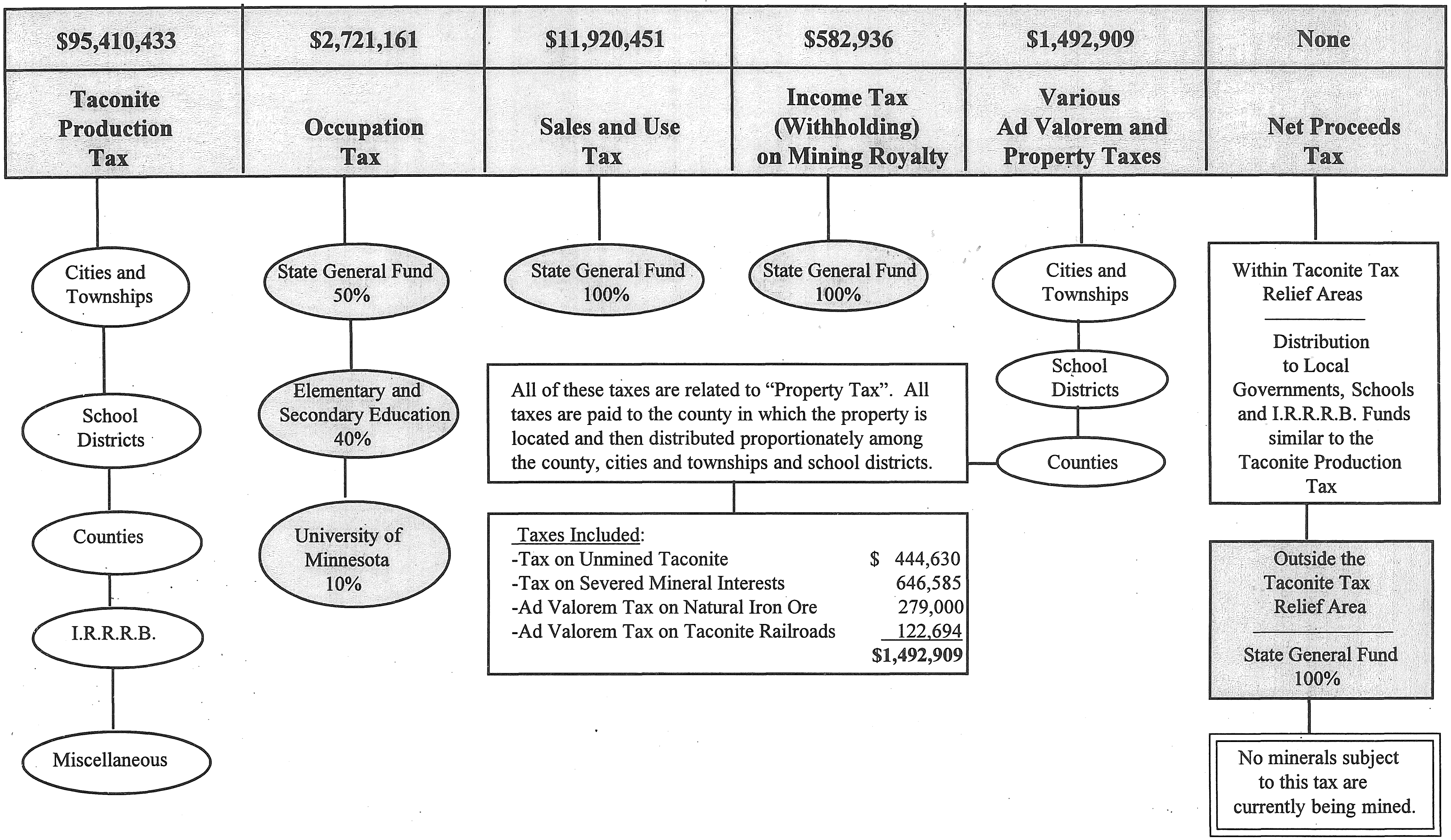


Figure 3

HISTORY OF MINNESOTA TACONITE PRODUCTION

(Taconite Production Tax Report Tonnages)

Year	Butler	Eveleth[1]	Hibbing	Inland	LTV[2]	National	Northshore[3]	USX	Total
1949	—	—	—	—	45,290	—	—	—	45,290
1950	—	—	—	—	129,666	—	—	—	129,666
1951	—	—	—	—	99,977	—	—	—	99,977
1952	—	—	—	—	101,325	—	13,071	—	114,396
1953	—	—	—	—	228,499	—	257,435	133,504	619,438
1954	—	—	—	—	180,669	—	316,628	413,059	910,356
1955	—	—	—	—	195,979	—	521,200	623,491	1,340,670
1956	—	—	—	—	211,698	—	4,238,729	618,452	5,068,879
1957	—	—	—	—	487,303	—	5,558,262	766,739	6,812,304
1958	—	—	—	—	2,953,993	—	4,837,258	747,033	8,538,284
1959	—	—	—	—	4,109,000	—	3,763,189	542,106	8,414,295
1960	—	—	—	—	7,144,214	—	5,446,342	799,365	13,389,921
1961	—	—	—	—	6,772,654	—	5,652,522	761,913	13,187,089
1962	—	—	—	—	7,593,349	—	6,153,812	771,890	14,519,051
1963	—	—	—	—	7,852,473	—	8,044,362	798,405	16,695,240
1964	303	—	—	—	8,009,243	—	9,667,975	827,713	18,505,234
1965	10,700	52,826	—	—	8,039,657	—	10,023,520	877,459	19,004,162
1966	70	1,536,370	—	—	8,551,944	—	10,829,799	758,544	21,676,727
1967	1,617,409	1,738,068	—	—	9,900,479	470,918	9,695,533	888,950	24,311,357
1968	2,334,752	1,800,124	—	—	10,718,707	839,663	10,002,064	4,573,743	30,269,053
1969	2,599,906	1,916,899	—	—	10,198,586	2,285,744	10,352,579	6,056,598	33,410,312
1970	2,637,655	1,986,000	—	—	10,743,031	2,728,932	10,825,617	6,426,609	35,347,844
1971	2,647,930	2,055,131	—	—	10,192,628	2,813,242	9,628,920	6,439,695	33,777,546
1972	2,302,971	2,141,233	—	—	9,972,068	2,420,056	9,042,632	8,674,583	34,553,543
1973	2,563,093	2,065,042	—	—	11,657,631	2,578,023	10,424,648	12,540,908	41,829,345
1974	2,523,518	2,171,678	—	—	10,897,352	2,476,793	10,367,742	12,616,204	41,053,287
1975	2,437,411	2,164,677	—	—	10,884,511	2,433,579	10,695,052	12,193,687	40,808,917
1976	2,393,347	2,291,714	303,419	—	10,778,287	2,461,083	10,052,204	12,294,537	40,574,591
1977	1,686,590	2,572,909	2,150,170	232,457	4,646,451	2,621,627	5,033,248	7,428,136	26,371,588
1978	2,507,633	4,924,732	5,408,928	1,925,378	7,424,801	5,096,348	9,154,801	12,927,230	49,369,851
1979	2,552,255	5,604,688	6,250,348	2,238,443	8,820,258	5,367,815	7,033,658	16,492,186	54,359,651
1980	1,575,454	5,778,256	6,800,202	1,407,598	5,679,043	2,896,456	4,582,997	14,147,065	42,867,071
1981	2,194,960	5,879,859	7,125,897	2,385,967	7,943,641	3,424,392	7,643,807	12,381,951	48,980,474
1982	1,040,799	4,611,260	5,703,410	1,792,702	3,963,897	1,291,211	1,520,113	3,307,025	23,230,417
1983	1,556,523	3,265,821	4,205,470	2,136,155	2,045,065	3,270,837	985,318	7,708,073	25,173,262
1984	1,989,952	3,932,117	6,075,049	2,032,164	4,696,117	4,584,782	3,666,288	8,712,123	35,688,592
1985	952,476	2,943,613	5,059,291	1,821,941	4,862,497	4,428,662	3,282,389	9,913,832	33,264,701
1986	Closed	3,455,690	4,881,987	1,807,451	4,232,962	4,021,372	1,433,898	5,617,695	25,451,055
1987	—	3,481,280	7,685,375	2,118,660	6,774,330	4,314,534	Closed	7,668,870	32,043,049
1988	—	4,238,636	8,653,270	2,247,840	7,888,582	4,607,944	—	11,848,960	39,485,232
1989	—	4,910,384	8,186,626	2,269,177	7,372,667	4,745,024	—	11,846,319	39,330,197
1990	—	4,417,255	8,136,923	2,265,876	7,798,292	4,809,930	2,384,061	12,709,299	42,521,636
1991	—	3,374,068	8,016,302	2,337,141	6,887,320	4,850,261	1,986,223	12,470,635	39,921,950
1992	—	3,571,784	7,801,946	2,109,743	6,622,640	4,997,512	1,394,451	12,351,795	38,849,871
1993	—	3,124,040	7,244,015	2,403,766	7,403,623	2,758,923	3,406,029	13,509,891	39,850,287
1994	—	4,862,373	8,192,141	2,511,292	7,470,635	1,732,469	3,434,979	13,473,020	41,676,909
1995	—	5,141,072	8,386,431	2,560,350	7,440,366	5,026,048	3,658,130	12,788,787	45,001,184
1996	—	4,842,571	7,910,004	2,530,053	7,182,697	4,775,999	4,071,680	12,560,634	43,873,638
1997	—	4,964,481	7,479,612	2,388,631	7,168,585	5,108,503	4,059,463	13,646,373	44,815,648
Totals	40,125,707	111,816,651	141,656,816	43,522,785	302,974,682	106,238,682	245,142,628	325,655,086	1,317,9133,037

1. Eveleth Taconite through 1977
   Eveleth Mines 1978 to 12/96
   12/96 Eveleth Mines/EVTAC Mining
2. Erie Mining Co. was renamed LTV Steel Mining Co. in 1987.
3. 1949 - 1986 Reserve Mining Co.
   1987 - 1989 Closed
   1990 - 9/94 Cyprus/Northshore
   9/94 Northshore (CCI)

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

Figure 4

SUMMARY OF ALL TAX LIABILITIES FOR THE MINNESOTA MINING INDUSTRY
(000's)

TAX	1991	1992	1993	1994	1995	1996	1997	1998 Est
Ad Valorem - Unmined Natural Ore (Year Assessed):	$ 494	$ 341	$ 330	$ 315	$ 279	$ 272	$279	244
Occupation - Taconite:	2,008	1,551	1,709	2,302	3,072	2,460	2,508	2,500
- Natural Ore:	32	38	0	22	87	176	213	250
Taconite Production:	82,411	82,035	80,196	81,500	85,705	90,513	94,705	92,610
School Bonds:	995	1,010	1,021	918	925	612	706	659
Railroad Ad Valorem - Taconite (Year Paid):	264	139	143	141	233	124	123	100
Unmined Taconite (Year Assessed):	350	356	352	488	468	456	445	450
Sales & Use (Taconite Only):	11,385	11,255	11,663	13,137	14,494	11,980	11,920	11,500
TOTAL (Taconite Only):	$97,413	$96,346	$95,084	$98,486	$104,897	$106,145	$110,406	$107,809
TONS PRODUCED (Taconite):	39,922*	38,850*	39,850*	41,677*	45,001*	43,874*	44,816*	42,000
TOTAL TAXES PAID ON PER TON BASIS (Taconite):	$2.44	$2.48	$2.39	$2.36	$2.33	$2.42	$2.46	$2.57

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

Shaded portions are taconite taxes only.

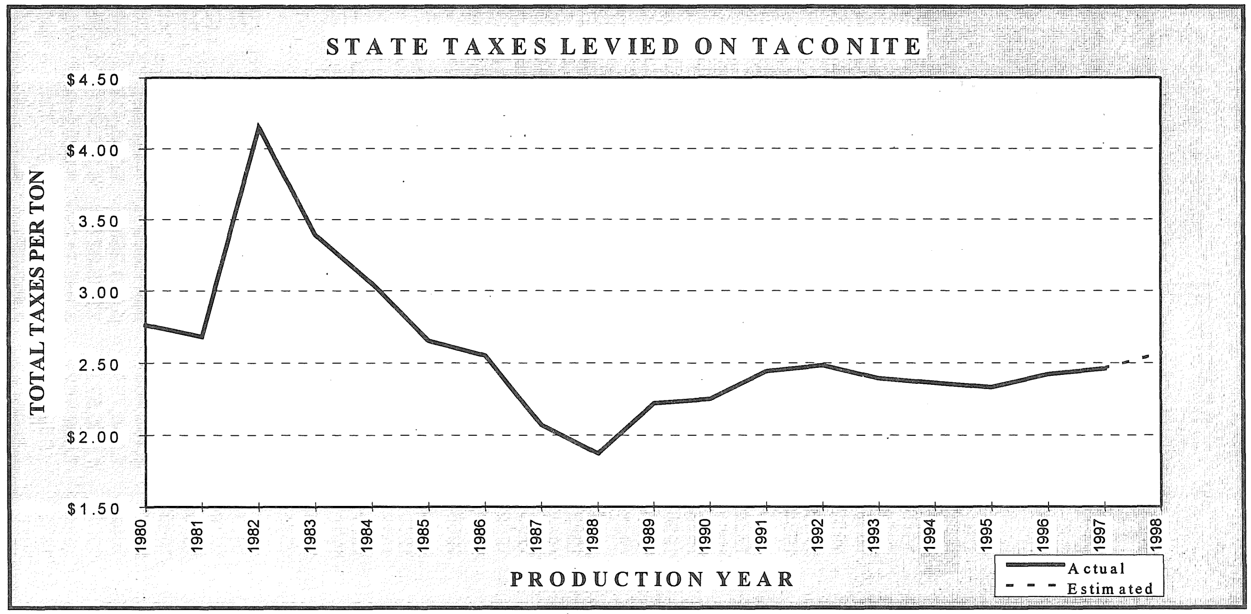


Figure 5

MINNESOTA TAXES LEVIED ON TACONITE

Production Year	Unmined Taconite Tax	Use Tax (Net) [a]	Production Tax	Occupation Tax	Royalty Tax	School Bonds	Railroad Gross Earnings Tax	Total Taxes	Total Tons Produced [b]	Total Taxes Per Ton
1960	$ —	$ —	$735,708	$638,489	$1,280,553	$1,741,820	$815,952	$5,212,522	13,383,000	$0.39
1965	—	—	1,107,097	1,740,307	502,167	1,443,170	1,337,497	6,130,238	19,004,162	0.32
1970	64,000	Not Available	4,252,668	3,161,186	787,108	1,346,642	1,768,702	11,380,306	35,347,844	0.32
1975	64,000	7,214,111	30,347,066	18,955,051	2,657,458	193,905	3,072,496	62,504,087	40,808,917	1.53
1976	Not Available	7,446,168	30,857,046	18,269,842	2,841,120	188,325	3,338,487	62,940,988	40,574,591	1.55
1977	Not Available	7,375,115	48,757,124	3,190,408	2,626,141	182,745	1,509,773	63,641,306	26,371,588	2.41
1978	Not Available	8,573,833	69,221,559	19,226,372	3,279,861	177,165	3,267,247	103,746,037	49,544,671	2.09
1979	239,748	12,590,482	88,483,670	23,856,757	4,775,352	165,726	3,634,407	133,746,142	55,333,032	2.42
1980	232,218	9,981,715	87,178,532	13,807,599	4,619,799	138,476	2,983,819	118,942,158	43,059,750	2.76
1981	240,064	9,797,691	99,018,289	12,707,553	5,392,864	183,267	4,960,605	132,300,333	49,368,518	2.68
1982	284,701	7,827,049	80,305,437	3,347,835	4,093,008	176,421	1,354,173	97,388,624	23,445,104	4.15
1983	330,969	5,765,048	67,341,038	7,385,782	2,821,421	824,083	926,207	85,394,548	25,173,262	3.39
1984	321,389	7,110,166	64,514,255	29,915,354	4,563,672	774,865	1,678,295	108,877,996	35,688,592	3.05
1985	396,669	6,476,570	65,091,787	9,906,688	3,576,000	782,076	1,985,441	88,215,231	33,264,701	2.65
1986	384,697	4,890,472	48,657,782	6,233,533	2,436,402	699,422	1,670,756	64,973,064	25,451,055	2.55
1987	392,614	5,286,947	51,184,126	5,355,872	1,959,251	673,000	1,404,961	66,256,771	32,043,049	2.07
1988	365,244	8,351,535	57,402,070	2,993,234	2,540,422	720,208	1,397,211	73,769,924	39,485,232	1.87
1989	355,065	11,112,722	72,149,188	349,691	2,645,527	862,122	**	87,474,315	39,330,197	2.22
1990	352,935	13,022,869	78,929,646	2,057,281	*	980,368	266,879	95,609,978	42,521,636	2.25
1991	349,551	11,385,280	82,411,317	2,007,906	*	994,841	263,692	97,412,587	39,921,950	2.44
1992	355,596	11,255,028	82,035,382	1,551,335	*	1,010,205	139,193	96,341,143	38,849,871	2.48
1993	352,119	11,683,161	80,195,972	1,708,731	*	1,020,631	143,079	95,083,693	39,850,287	2.39
1994	488,176	13,136,780	81,500,355	2,301,596	*	917,810	140,841	98,485,558	41,676,909	2.36
1995	467,946	14,494,154	85,704,654	3,158,565	*	925,112	233,034	104,983,465	45,001,184	2.33
1996	455,792	11,980,487	90,512,836	2,460,000	*	612,273	123,682	106,145,070	43,873,638	2.42
1997	444,630	11,920,451	94,704,666	2,508,206	*	705,767	122,694	110,406,414	44,815,648	2.46
1998 Est.	450,000	11,500,000	92,600,000	2,500,000	*	659,039	100,000	107,809,039	42,000,000	2.57

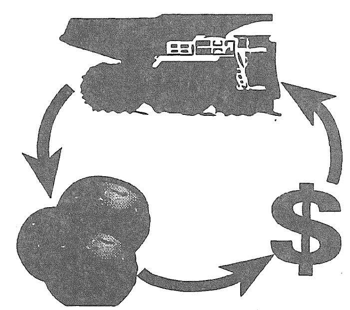
Taxes often levied (assessed) for one year and paid in the following year

* Repealed effective after December 31, 1989.

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

a) Total use tax less total refunds paid (page 43) after 1990.

b) Tons are without flux additive beginning in 1987. Beginning in 1990, production tons are reported dry.



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

Defined

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 46 & 47)

Tax Rate

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

Taxable Tons

The production tax is levied on taxable tons, which are the average tons produced during the current year and the previous two production years. This statute was enacted to eliminate the peaks and valleys of tax distribution to the tax recipients. This results in a more stable tax base resembling a property tax.

History

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

A more complete history of the tax rate and tax collected can be found in Figures 19 & 20.

Distribution

The revenues from the production tax are distributed by statute to various cities, townships, counties and school districts within the taconite relief area. This is an area made up of the present taconite mining areas plus areas where natural ore was formerly mined.

Funds are also allocated to the Iron Range Resources and Rehabilitation Board (I.R.R.R.B.), which administers the Taconite Environmental Protection Fund, the Northeast Minnesota Economic Fund, the Taconite Economic Development Fund (sometimes referred to as investment tax credit), the Taconite Assistance Program and other loan and grant programs for both the range cities and townships and the taconite industry. More information on the I.R.R.R.B. can be found on pages 25 - 28.

Payment Dates and Method

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

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

1998 LEGISLATION

Production Tax

The 1998 legislature froze the production tax at the 1997 rate of $2.141 per taxable ton. In years when the escalator is allowed to take effect, the rate is subject to revision until January of the year the tax is payable if the Department of Commerce revises the GNPIPD.

Economic Development Fund

The Taconite Economic Development Fund (TEDF-sometimes referred to by the industry as *Investment Tax Credit*) was extended through the 1999 production year at the existing rate of 15.4 cents per taxable ton. Previously the TEDF was effective through the 1998 production year.

Any portion of the TEDF fund not released within two years of deposit shall be divided two-thirds to the Environmental Protection Fund and one-third to the Northeast Minnesota Economic Protection Trust Fund. To date all funds have been approved and released to the taconite producers before the two year deadline expired.

Producer Grants (M.S.298.2961)

The 5-cent per taxable ton allocated to Producer Grants by the 1997 legislature was extended through production year 1999. The proceeds must be used for: [1] environmentally unique reclamation projects, or [2] pit or plant expansions or modernizations (other than DRI) that extend the life of the plant. The IRRRB generally requires a real estate transfer or other asset valued at 15% of the grant to qualify for this program.

Temporary Loan Authority (MS 298.296, Subd. 4)

The 1998 legislature expanded the incentives available for direct reduced iron (DRI) and nonferrous development. Details on the amounts of loans and grants available are covered under DRI on page 24.

Hoyt Lakes Industrial Park

The entire amount of the tax increase attributable to the implicit price deflator as applied to 1997 production year is allocated for an industrial park in Hoyt Lakes. This amounted to $2,094,484. An equal amount will be appropriated from the 1998 production year for the Chisholm/Hibbing Airport Industrial Park.

Changes to Distribution of Funds M.S. 298.28

The most significant changes made by the 1998 legislature are the addition of a four-cent per ton aid distribution for communities affected by mining and a change in the Taconite Homestead Credit formula. The four-cents per taxable ton is allocated to cities and organized townships that have boundaries within three miles of a taconite mine pit which has been actively mined in at least one of the prior three years. The Taconite Homestead Credit formula was changed to eliminate the provision which limited the credit by setting a minimum rate of 95% of the 1988 effective tax rate. This provision had the unintended effect of limiting the credit to only $10 for many homes in the core Iron Range area.

Taconite Economic Development Fund (M.S. 298.227)

The Taconite Economic Development Fund was first created for production years 1992 and 1993 at a rate of 10.4-cents per taxable ton. The 1995 legislature extended the Taconite Economic Development Fund through the 1996 production year at the rate of 15.4 cents-per-ton established in 1993. The 1996 legislature increased the credit to 20.4 cents-per-ton effective for the 1996 production year and extended it through the 1998 production year. The 1997 legislature reduced the TEDF by 5-cents per ton and rescheduled this money through the producer grant program. Each producer's share can be spent for equipment and machinery or research and development in Minnesota on mining technology or taconite, iron, or steel production technology. No distribution shall be made under this provision in any year in which total industry production falls below 30 million tons. A joint labor/management committee must agree on projects to be funded. The 1998 legislature extended both the TEDF and Producer Grant programs through the 1999 production year. Each producer has two potential sources of Taconite Economic Development Funds:

1. Acid or Flux Pellets
   The amount of the production tax that is credited to each producer's share of the Taconite Economic Development Fund is 15.4-cents/ton. All producers qualify for this through production year 1999, as mentioned above.
2. Pellet Chips and Fines
   This provision remains the same as last year—an amount equal to 50 percent of the tax for pellet chips and fines not exceeding 5/16-inch in size will be allocated to each company's share of the Taconite Economic Development Fund. The total amount shall not exceed $700,000 for all companies. If the total claimed exceeds $700,000, each company's share will be prorated. The determination of this allocation is based on *current production year sales* of chips and fines and not the three-year average of production. However, sales of fine concentrate do qualify for this credit. Crushed pellets are not eligible for the chips and fines credit.

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

A listing of the projects funded and current years distribution of the Taconite Economic Development Fund is shown in Figure 23 on page 27 in the I.R.R.R.B. section.

Flux Pellets

Fluxed pellets have limestone or other basic flux additives combined with the iron concentrates before pelletizing. All of the companies have experimented with flux pellets. Two companies, Inland Steel and USX, are producing fluxed pellets. EVTAC, National, and Northshore are producing a partially fluxed pellet containing a low percentage of limestone additive. Northshore also produces fluxed pellets and acid pellets. LTV began experimenting with partially fluxed pellets during 1998.

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

Occupation tax is based on iron units and uses the full weight including flux. A reconciliation of both tonnages and the weight of the flux is shown on Figure 27 on page 34.

Pellet Weighing

Pellet tonnages have been reported on a dry weight basis beginning with the 1990 production year.

Definition of Taconite Tax Relief Area

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

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

(1) It is a municipality in which the assessed valuation of unmined iron ore on May 1, 1941, was not less than 40 percent of the assessed valuation of all real property, or

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

DISTRIBUTION OF FUNDS

(M.S. §298.28)

Subd. 2 - Taconite Cities and Towns

(a) A total of 4.5 cents-per-ton is allocated to cities and towns where taconite mining and concentrating occurs. Forty percent (1.8 cents-per-ton) of this fund goes to those cities and townships in which mining activity occurs. The remaining 60 percent (2.7 cents-per-ton) goes to those cities and townships in which the concentrating of the taconite occurs. (Note: This is done on a company-by-company basis).

If both mining and concentrating take place in a single taxing district, then the entire 4.5-cents is allocated there.

If mining occurs in more than one city or town, then the revenue (1.8 cents-per-ton) is divided based on either a percentage of taconite reserves or a four-year average of production. Most taconite mines have mining in two or more units.

If concentrating is split between two cities or towns, the revenue (2.7 cents-per-ton) is divided by the percentage of hours worked in each. The primary crusher is the first stage of concentration. The only current examples of this are Northshore (Babbitt, Beaver Bay Township and Silver Bay) and EVTAC (Eveleth, Fayal Township, and McDavitt Township). *Distribution detail in Figure 12.*

(b) Mining Effects -- Four cents per taxable ton shall be allocated to cities and organized townships affected by mining because their boundaries are within three miles of a taconite mine pit that has been actively mined in at least one of the prior three years. If a city or town is located near more than one mine meeting these criteria, the city or town 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. Of the amounts distributed under this paragraph to each municipality, one-half must be used for infrastructure improvement projects, and one-half must be used for projects in which two or more municipalities cooperate. Each municipality that receives a distribution under this paragraph must report annually to the IRRRB and the Commissioner on the projects involving cooperation. This section will take effect with the distribution in 2000 (1999 P.Y.).

Subd. 3 - Taconite Municipal Aid Account

(a) - The Taconite Municipal Aid payment is made on September 15. Each city or township first receives the amount it was entitled to receive in 1975 from the occupation tax. This amount is then reduced according to the percentage aid guarantee provisions of M.S. 298.225. For example, if production levels mandate a 90 percent aid guarantee, then the occupation tax grandfather amount is also reduced to 90 percent. The remainder of the aid is distributed according to a complex formula using levies, valuation, population, and fiscal need factors.

The 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, then the local effort tax capacity rate (LETCR) is 350 divided by 17 plus the excess over 350 divided by 15. The minimum allowable LETCR is 8.16.

The final step in this formula is to compute the distribution index (DI). The distribution index for a community equals its FNF minus LETCR times the adjusted net tax capacity divided by 100.

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

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

$$\text{If } \underline{\text{FNFPC}} \le 350,\ \text{LETCR}^* = \frac{350}{17} + \frac{\text{excess over 350}}{15};$$

$$\text{Determine DI} = \text{FNF minus LETCR x } \frac{\text{Adjusted Net Tax capacity}}{100}$$

*Minimum allowable LETCR - 8.16

The conditions necessary for a municipality to qualify for this aid are identical to the qualifications for the 66% taconite property tax relief listed under Subdivision 6 (page 9). The statutory references governing Municipal Aid are M.S. 273.134, M.S. 298.28, Subd. 1, Clause 2, and M.S. 298.282. *Distribution detail is Figure 12.*

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

Subd. 4 - School Districts

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

(b) - School District \$.055 Fund

A total of \$.055 per taxable ton for each taconite company is allocated to school districts in which mining and concentrating occurs. If the mining and concentrating take place in separate districts, 40 percent is allocated to the location of mining and 60 percent to concentrating. This amount will be reduced to \$.0446 per taxable ton beginning with the 1998 production year.

In addition, if the mining occurs in more than one school district, the 40 percent portion is further split based on either a four-year average of production or a percentage of taconite reserves. If the concentrating function of a company takes place in more than one school district, the 60 percent portion is further split according to hours worked in each district. *Distribution detail in Figure 13.*

(c) - School \$.22 Fund

All taconite companies pay \$.22 per taxable ton into a fund which is split among the 15 school districts comprising the taconite relief area. This amount will be reduced to .1782 per taxable ton beginning with the 1998 production year. Each school district receives the amount which it was entitled to receive in 1975 from the taconite occupation tax. This amount may be increased or reduced by the percentage aid guarantee provisions of M.S. 298.225. The remaining amount in the fund is distributed using an index based on pupil units and tax capacities. Generally, districts with larger tax capacities per pupil unit tend to receive a proportionately smaller amount of this fund. *Distribution detail in Figure 13.*

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 shall receive that portion of the distribution which its index bears to the sum of the indexes for all taconite school districts.

(d) - Taconite Referendum Fund (T.R.F.)

Taconite school districts qualify for an additional $175 per pupil unit over and above state aids by passing a special levy referendum equal to 1.8 percent of net tax capacity. The T.R.F. pays the difference between the local levy and $175 per pupil unit. The fund received a distribution of 21.3 cents per taxable ton in 1998. On July 15, 1999 and thereafter it will be increased according to the increase in the implicit price deflator as provided in M.S. 298.24. If any money remains in the fund, it is distributed to the Environmental Protection Fund (two-thirds) and the Northeast Minnesota Economic Protection Trust (one-third). Note: A district receiving money from the T.R.F. shall reserve $25 per pupil unit (of the $175 authorized) for early childhood programs or outcome based learning programs. The outcome based programs must be approved by the Commissioner of the Department of Children, Families and Learning. *Distribution detail in Figure 13.*

Subd. 5 - Counties

(a) - The allocation of 16.5-cents per taxable ton to taconite counties (subject to adjustment by M.S. 298.225) is to be distributed under Subd. 5(b) through (d). This 16.5 cents was subject to escalation prior to 1986. By 1986, the 13 cents amount in Subd. 5(b) had increased to 20.52508-cents and was frozen. The 3.5 cents amount for county road and bridge covered in Subd. 5(d) had increased to 5.52598 cents and was also frozen at that level. The amounts listed in (b) and (d) are the statutory amounts prior to escalation. *Distribution detail in Figure 15.*

(b) - Taconite Counties with Mining or Concentrating

Thirteen cents per taxable ton is distributed to the county in which the taconite was mined or quarried or in which the concentrate is produced (split the same as taconite cities and towns), less any amount distributed in Subd. 5(c). *Distribution detail in Figure 15.*

(c) - Counties - Electric Power Plant

If an electric power plant owned by and providing the primary source of power for a taconite plant is located in a county other than the county in which the mining and concentrating processes are conducted, one-cent of the 13.0-cents per ton (for that company) shall be distributed to the county in which the power plant is located. (This one-cent is not escalated, but is subject to M.S. 298.225 adjustment). For 1997, this amounted to $97,936 or 1.3483 cents per taxable ton including the adjustment. The only company whose distribution is affected by this provision is LTV due to their power plant location at Taconite Harbor in Cook County. Their one cent per ton distribution for the 1983 base year was based on 9,793,639 tons. This amount was carried forward from 1979 based on a previous guarantee. The current year M.S. 298.225 guarantee percentage is always applied.

$97,936 (1983 base) x 100.00% = $97,936

(d) - Taconite Counties Road and Bridge

Each county receives a portion of the aid in the same manner as taconite cities and towns, to be deposited in the county road and bridge fund. The basic allocation is 3.5-cents per taxable ton subject to adjustment as per M.S. 298.225. *Distribution detail in Figure 15.*

Subd. 6 - Taconite Property Tax Relief

(a) - Taconite Property Tax Relief

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

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

If an owner-occupied home or farm is located in a city or town which contained at least 40 percent of its valuation as iron ore on May 1, 1941, or currently has a taconite mine, processing plant, or electric generating facility, the taconite credit is 66% of the 1st $596 of tax plus 54% of the amount over $596 of the payable 1988 base year. The total maximum credit is $535 for taxes payable in 1998. 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% of the first $596 of the tax plus 54% of the amount over $596. The total maximum credit is $480.

The taconite homestead credit cannot reduce the "effective tax rate" on each parcel of property below 95 percent of the "base year effective tax rate". "Effective tax rate" is the net tax divided by the market value, and the "base year effective tax rate" is the payable 1988 effective tax rate on a property with an identical market value to that of the property receiving the credit in the current year. The amount of the taconite homestead credit cannot be less than $10.00 per homestead. The total amount of taconite property tax relief paid in each county and school district is listed in Figure 8. Examples of the calculation are shown in Figures 9 & 10. The 1988 limitation discussed above was repealed by the 1998 legislature beginning with taxes payable in 1999. This change will tend to increase the credit for many homeowners in the core Iron Range area. Many of these homes received only a $10 credit due to this limitation.

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

(b) - Electric Power Plant Aid From Property Tax Relief

For any electric power plant located in another county (as described in 5c), .1875 cent-per-taxable ton from the Taconite Property Tax Relief account shall be paid to the county. The amount was subject to escalation until frozen for the 1987 production year. The M.S. 298.225 guarantee also applies. For the 1997 production year, the total amount was .3105 cents-per-taxable ton (LTV's taxable tonnage). The frozen escalated rate is .296035 cents-per-taxable ton for Cook County subtracted from LTV's property tax relief distribution. The remaining amount ($1,025 for 1997) is provided by the M.S. 298.225 guarantee. The guaranteed amount for 1997 is determined by applying the 100 percent guarantee by the $22,529 1983 distribution.

(c) - Electric Power Plant Aid from Property Tax Relief

This subdivision allocates .7282 cents per LTV's taxable tonnage to Cook County school district due to the LTV power plant in Cook County. This change is effective for the 1999 production year. Because of escalation (frozen in 1987), this amounted to .888104 cents per taxable ton (LTV tons) for 1996. This school aid is guaranteed at 40.5 percent or the variable rate, whichever is less. The 1983 base for the school was $67,586. For 1996, no guarantee applies and the distribution is calculated by multiplying the LTV taxable tons and the .888104 cents per taxable ton escalated rate resulting in $65,405 in aid. For the 1999 production year the distribution rate is reduced to 81% of the 1987 rate or .719364 per ton.

Subd. 7 - Iron Range Resources & Rehabilitation Board

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

Subd. 8 - Range Association of Municipalities & Schools

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

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

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

(a) - Taconite Economic Development Fund

Refer to 'Legislative Changes' on page 7.

Subd. 10 - Indexing

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

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

Subd. 11 - Remainder

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

(b) - Taconite Railroad

Up to 1978, the taconite railroad gross earnings tax was distributed to local units of government based on a formula of 50 percent to schools districts, 22 percent city or town, 22 percent county, and six percent state. The respective shares were further split based on miles of track in each government unit. Beginning in 1978, the distributions were frozen at the 1977 level and funded from production tax revenues. The total amount distributed is $3,160,899.

Taconite railroad aids are not subject to the percentage reduction mandated for other aids by M.S. 298.225. Thus, taconite railroad aids remain constant from year to year. Beginning with the 1999 production year, the taconite railroad distribution to schools is reduced to 81% of the 1977 amount.

Beginning in 1989, the taconite railroad gross earnings tax was abolished and these railroads were made subject to property tax, the same as other railroads.

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

(c) - Occupation Tax Grandfather Amount to I.R.R.R.B.

In 1978 and each year thereafter, there has been distributed to the I.R.R.R.B. the amount it received in 1977 from the distribution of the taconite and iron ore occupation taxes. Amount: $1,252,520.

ADDITIONAL PAYMENTS

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

1. Department of Revenue - Minerals Tax Office

Beginning with the 1993 production year (payable 1994), $55,000 per year for two years was appropriated from production tax revenues to the Department of Revenue for costs and expenses incurred in the administration of the Taconite Production Tax. The 1995 legislature increased this appropriation to $75,000 per year (Chapter 254, Article 1, Section 16, Laws of Minnesota for 1995).

2. School Bond Credits and Payments

The legislature has authorized payment of school bonds from taconite revenues at various times. This has been done both with production tax credits for bonds paid by a mining company and direct payments. The first credits were authorized when whole new towns were built for the Erie and Reserve taconite plants in Hoyt Lakes and Silver Bay. Since that time, school bond payments have been authorized by the legislature for most Iron Range school districts. Taconite revenues have been authorized to fund 100, 90, 80, or 70 percent of the bond payment, depending on the school district situation and year authorized. *Distribution detail in Figure 14.*

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

(b) - The 1988 legislature passed a provision that has the production tax pay a portion of the bonds issued by the following four school districts: 318 (Grand Rapids), 701 (Hibbing), 706 (Virginia), 708 (Tower), and 2142 (St. Louis County). Money for the payments are deducted, in equal shares, from the distributions made to the Taconite Environmental Protection Fund and the Northeast Minnesota Economic Protection Trust. *Distribution detail in Figure 14.*

(c) - The 1990 legislature authorized additional school bonds for eight school districts. These payments are made by the respective county auditors from production tax revenues. Money for the payments is deducted in equal shares from the environmental and economic protection funds. *Distribution detail in Figure 14.*

(d) - The 1992 legislature authorized three additional school bond issues. The three districts are Grand Rapids, Lake Superior, and Virginia. Lake Superior and Virginia have issued bonds but Grand Rapids has not been able to get voter approval on a new bond issue as of September 1, 1995. These bonds are subtracted in equal shares from the environmental economic protection funds.

(e) - The 1996 legislature authorized eight additional school bond issues and reauthorized Grand Rapids. The districts and amounts are listed in the footnote for Figure 14. The 1996 bonds are subtracted in equal shares from the environmental and economic protection funds.

AID GUARANTEE (M.S. 298.225)

The recipients of the taconite production tax as provided in M.S. 298.28, subdivisions 2 to 5, subdivision 6, paragraphs (b) and (c), subdivisions 7 and 8 are guaranteed to receive distributions equal to the amount distributed to them with respect to the 1983 production year, provided that production is not less than 42,000,000 taxable tons. If the production is less than 42,000,000 taxable tons, the amount distributed from the fund will be reduced proportionately by two percent per each 1,000,000 tons by which the production is less than 42,000,000 tons. For example, if the taxable tonnage (three-year average) is 39,800,000, then the proportionate reduction is 4.4 percent. This is calculated by multiplying two percent times 2.2 million tons. The 1995 guarantee percentage is 100%. This aid guarantee is funded equally from the initial current year distributions to the Taconite Environmental Protection Fund and the Northeast Minnesota Economic Protection Fund. If the initial distributions are insufficient to fund the difference, the Commissioner of the I.R.R.R.B. shall make the payments of any remaining difference from the corpus of the Taconite Environmental Protection Fund and the corpus of the Northeast Minnesota Economic Protection Trust Fund in equal proportions, as directed by the Commissioner of Revenue. The aid payments covered by this variable guarantee are listed as follows:

1. 4.5-cents City and Town Fund.
2. 12.3-cents Taconite Municipal Aid.
3. 3-cents escalated to I.R.R.R.B.
4. .2-cents R.A.M.S.
5. .1875-cent power plant transfer from Taconite Property Tax Relief Account to Cook County.

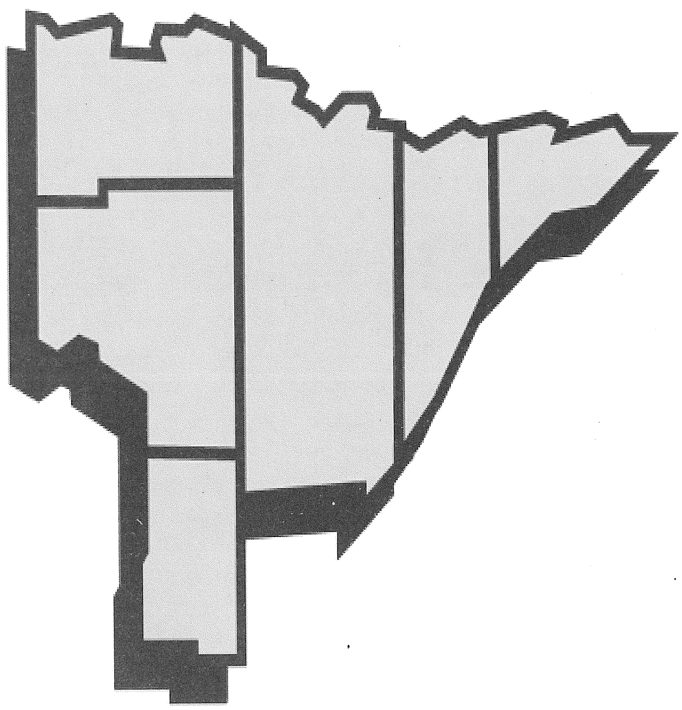
The following funds are guaranteed at 75 percent or the variable guarantee, whichever is less:

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

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

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

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



TACONITE PRODUCTION TAX DISTRIBUTION CALCULATION

The taconite mining companies make the production tax payments directly to six counties (Cook, Lake, St. Louis, Itasca, Crow Wing, and Aitkin) and the I.R.R.R.B. Each county auditor is responsible for making the taconite aid payments to the various jurisdictions within the county. St. Louis County was designated as fiscal agent for the taconite property tax relief account and issues taconite property tax relief checks to the other counties.

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

The proceeds of the 1996 taconite production tax (payable 1997) are distributed by statute as follows (all figures are cents per taxable ton):

M.S. 298.28,		
Subd. 2 - Taconite Cities and Towns		**4.5**
Subd. 3 - Taconite Municipal Aid Account:		**12.3**
Subd. 4 - School Districts -		
(b) Taconite schools (mining and/or concentrating in the district):	**5.5**	
(c) School districts within the taconite relief area (distributed by formula):	**22.0**	
Basic School District Total:		**27.5**
(d) Taconite Referendum Fund:	**(formula amount - see page 9)**	
Subd. 5 - Counties -		
(b) Taconite Counties:	**13.0***	
(c) (includes Electric Power Plant)		
(d) Taconite Counties Road/Bridge:	**3.5***	
Counties Total:		**16.5***
Subd. 6 - Taconite Property Tax Relief (includes .75-cents for Cook County and Cook County schools):		**15.0****
Subd. 7 - I.R.R.R.B.:		**3.0****
Subd. 8 - Range Association of Municipalities and Schools:		**0.2**
Subd. 9 - N.E. Minnesota Economic Protection Fund:		**1.5****
Subd. 9a - Taconite Economic Development Fund:		**15.4**
Subd. 9b - Producer Grants		**5.0**
Subd. 10 - Indexing Provisions:		**—**
Subd. 11 - Distribution of Remainder:		**—**

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

** These funds are escalated using the Gross National Product Implicit Price Deflator. After escalation, the cents-per-ton for Taconite Property Tax Relief was 30.4179-cents, I.R.R.R.B. was 6.8690-cents, and the 1.5-cent N.E. Minnesota Economic Protection Fund was 3.2611-cents.

The full amount distributed, including escalation and M.S. 298.225 guarantees, is listed in Figure 11.

Figure 6

NORTHEAST MINNESOTA ECONOMIC PROTECTION TRUST FUND AND ENVIRONMENTAL PROTECTION FUND		
Period Ending	**Economic Fund Balance**	**Environmental Protection Fund Balance**
December 31, 1983	$28,487,283	
June 30, 1984	27,019,423	
September 30, 1985	28,859,669	
June 30, 1986	31,537,559	
June 30, 1987	31,186,041	
June 30, 1988	31,290,815	
June 30, 1989	31,279,724	
June 30, 1990	36,679,552	$4,027,594
June 30, 1991	42,004,602	4,997,728
June 30, 1992	48,840,406	8,538,918
June 30, 1993	54,084,189	1,459,629
June 30, 1994	57,633,818	1,411,886
June 30, 1995	61,596,404	4,034,811
June 30, 1996	66,451,967	3,638,011
June 30, 1997	61,901,073	4,440,733
June 30, 1998	67,339,738	4,709,999

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

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

** 1996 M.S. 298.2961

The Taconite Area Environmental Protection Fund (TEDF) (M.S.§298.223) and the Northeast Minnesota Economic Protection Trust Fund (NEPF) (M.S. §298.291 through §298.294) were established by the 1977 legislature. These two funds receive the remainder of the production tax revenues after all distributions provided under M.S. §298.28. The remainder is split with one-third going to the economic fund and two-thirds to the environmental protection fund.

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

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

TACONITE PROPERTY TAX RELIEF

The taconite homestead credits described on page 9 are administered by the county auditors for the eligible relief areas within the county. The amounts payable in 1997 are listed in Figure 8. Total amounts distributed as shown in Figure 8 are determined by the formula described on page 15 and do not equal the total amount of production tax allocated for property tax relief shown in the tables as collections or payments into account. The difference is carried in the Taconite Property Tax Relief Fund balance with St. Louis County as fiscal agent. If the fund balance and production tax collections are not sufficient to make the payments, the deficit is made up from the Economic Protection Fund. The last time this occurred was in 1989 (NOTE: The payments out by formula are split between the local municipalities, counties, and schools based upon the current local tax rate).

Figure 7

TACONITE PROPERTY TAX RELIEF FUND BALANCE

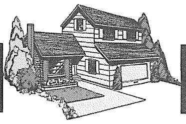
Year Payable	Payments into Account*	Interest Earned**	Payments Out (by formula)	Balance December 31
1985	$ 8,884,100	N/A	$10,357,400	$ 3,041,834
1986	9,398,900	$ 426,700	10,572,700	2,308,000
1987	9,122,400	449,800	10,971,500	908,700
1988	9,727,800	325,700	10,883,300	79,000
1989***	5,904,200	214,400	8,081,000	9,211
1990	9,569,872	438,580	7,651,586	2,366,077
1991	10,848,818	505,139	7,914,709	5,805,325
1992	10,891,942	411,356	8,308,617	8,800,006
1993	10,847,642	437,219	8,980,640	11,104,227
1994	11,783,383	712,838	11,136,577	12,463,871
1995	12,143,854	1,087,081	11,758,988	13,935,818
1996	13,055,526	1,080,173	11,600,147	16,471,370
1997	12,924,447	1,039,106	11,809,166	18,625,757
1998	13,555,273	1,000,000 (Est)	11,590,000 (Est)	21,591,000 (Est)
1999 (Est)	15,951,000			

* Listed under year payable, 1998 payments result from 1997 production.

** Managed by Dept. of Finance and no interest paid to fund prior to 1986. Other factors such as money returned by schools was not researched. St. Louis County began as fiscal agent 1986. Also includes minor amounts of incorrect homestead claims repaid.

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

Figure 8



TACONITE PROPERTY TAX RELIEF FUND DISTRIBUTION

Total Listed by School District Area:

	Mobile Home	Real Property
001 -Aitkin	$4,454	$782,322
166 - Cook County	2,299	385,350
182 - Crosby-Ironton	8,173	809,639
316 - Coleraine	11,365	668,729
318 - Grand Rapids	29,447	2,119,016
319 - Nashwauk-Keewatin	2,005	246,370
381 - Lake Superior	3,829	1,169,014
695 - Chisholm	209	342,406
696 - Ely	1,942	405,788
701 - Hibbing	11,752	1,145,466
706 - Virginia	1,804	480,745
712 - Mt. Iron-Buhl	1,907	254,200
2142 - St. Louis County	9,221	1,437,717
2154 - Eveleth-Gilbert	2,858	770,604
2711 - Mesabi East	1,140	698,395
TOTAL (PAYABLE 1997)	$93,405	$11,715,761

Total Listed by County Area:

	Mobile Home	Real Property	Grand Total
St. Louis (69)	$32,255	$5,739,589	$5,771,844
Itasca (31)	42,817	3,034,115	3,076,932
Lake (38)	3,391	958,719	962,110
Crow Wing (18)	8,173	843,235	851,408
Aitkin (01)	4,454	748,726	753,180
Cook (16)	2,299	385,350	387,649
Koochiching (36)	16	6,027	6,043
TOTAL: (Payable 1997)	$93,405	$11,715,761	$11,809,166

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

The aid amounts listed in Figure 12 and 13 do not include taconite property tax relief.

The supplemental taconite property tax relief paid from general fund revenues to Deer River and Floodwood is not included in any of the production tax tables.

Figure 9

57% & 66% TACONITE HOMESTEAD CREDIT EXAMPLE

TAXES PAYABLE 1998

GROSS TAX COMPUTATION	57%	66%
1. Total Market Value	$ 50,000.00	$50,000.00
2. Net Tax Capacity	$ 500.00	$ 500.00
3. Local Tax Rate	115.000%	115.000%
4. Net Tax Capacity Tax (2 x 3)	$ 575.00	$ 575.00
5. Referendum Tax Rate	0.09500%	0.09500%
6. Referendum (5 x 1)	$ 47.50	$ 47.50
7. Total Gross Tax (4 + 6)	$ 622.50	$ 622.50
EDUCATION CREDIT COMPUTATION		
8. Education Homestead Credit Rate	7.751	7.751
9. Education Homestead Credit (8 x 2) *	$ 38.76	$ 38.76
PRELIMINARY CREDIT & NET TAX COMPUTATION		
10. Adjusted Gross Tax (7-9)	$ 583.74	$ 583.74
11. Preliminary Taconite Credit (10 x 57%, $289.80 max.)	$ 289.80	--
or (10 x 66%, $315.10 max.)	--	$ 315.10
12. Preliminary Net Tax #1 (10 - 11) **	$ 293.94	$ 268.64
LIMITED CREDIT COMPUTATION		
13. Pay 1988 Assessed Value (1 x 17%)	$ 8,500.00	$ 8,500.00
14. Pay 1988 Mill Rate	190 mills	190 mills
15. Pay 1988 Gross Tax (13 x 14)	$ 1,615.00	$ 1,615.00
16. Pay 1988 Homestead Credit (15 x 54%, $700 max.)	$ 700.00	$ 700.00
17. Pay 1988 Tax After Homestead Credit (15-16)	$ 915.00	$ 915.00
18. Pay 1988 Taconite Credit ***	$ 393.06	$ 418.36
19. Pay 1988 Net Tax (17-18)	$ 521.94	$ 496.24
20. Base Year Effective Rate (19/1)	1.0439%	0.9933%
21. Minimum Effective Tax Rate (95% x 20)	.9917%	.9436%
22. Pay 98 Effective Tax Rate (12/1)	.5879%	.5373%
23. Adjusted Pay 1998 Effective Tax Rate (Greater of 21 or 22)	.9917%	.9436%
24. Preliminary Net Tax #2 (23 x 1)	$ 495.85	$ 471.80
FINAL NET TAX & CREDIT COMPUTATION		
25. Final Pay 98 Taconite Credit (10-24)	$ 87.89	$ 111.94
26. Final Pay 98 Net Tax (24-25)	$ 407.96	$ 359.86

* The education homestead credit (maximum $225 per homestead) cannot exceed the school district tax on any parcel.

** If the combined credits are greater than the net tax, the taconite homestead credit is reduced to bring the preliminary net tax up to $0.

*** 57% of the first $596 included on line 14 with a maximum credit of $220.80, plus 54% of line 14 over $596 with a maximum credit of $259.20. The total maximum credit is $480 or 66% of the first $596 included on line 14 with a maximum credit of $246.10, plus 54% of line 14 over $596 with a maximum credit of $288.90.

The total maximum credit is $535.

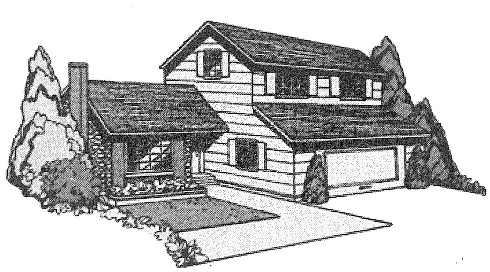


Figure 10

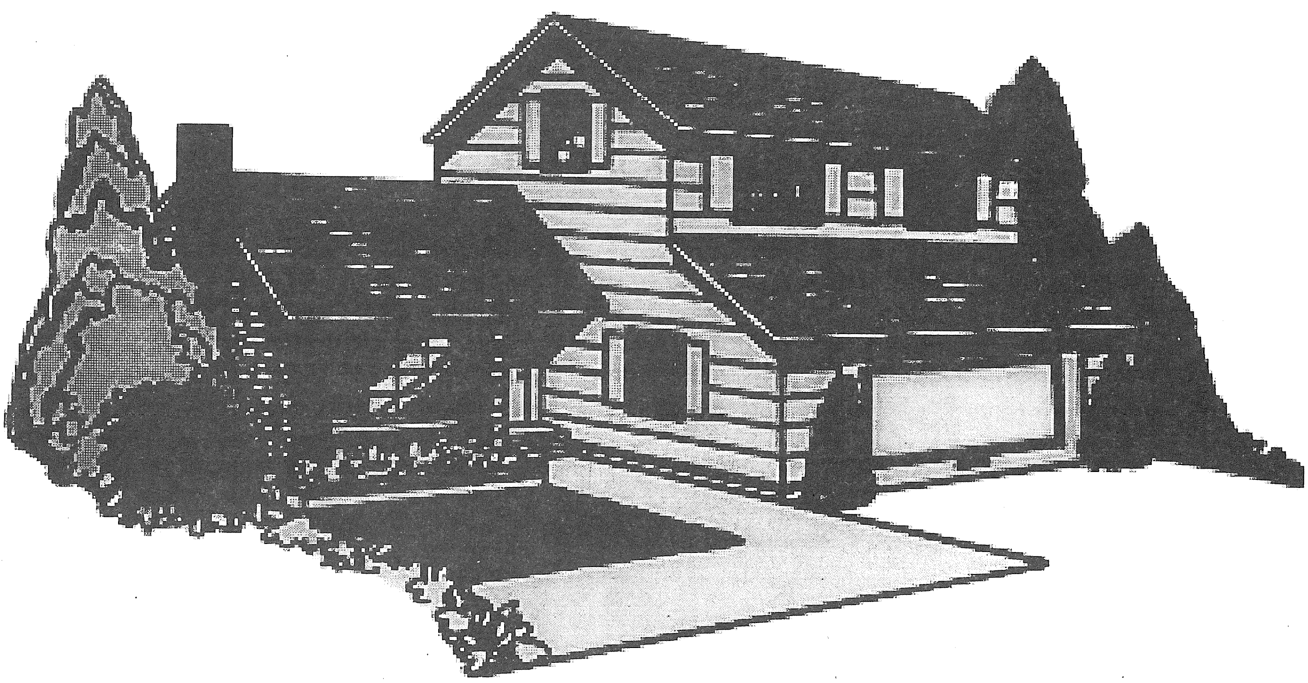
57% & 66% TACONITE HOMESTEAD CREDIT EXAMPLE

TAXES PAYABLE 1999

GROSS TAX COMPUTATION	57%	66%
1. Total Market Value	$50,000.00	$50,000.00
2. Net Tax Capacity	$ 500.00	$ 500.00
3. Local Tax Rate	115.000%	115.00%
4. Net Tax Capacity	$ 575.00	$ 575.00
5. Referendum Tax Rate	0.09500%	0.09500%
6. Referendum (5 x 1)	$ 47.50	$ 47.50
EDUCATION CREDIT COMPUTATION	**57%**	**66%**
7. Total Gross Tax (4 + 6)	$ 622.50	$ 622.50
8. Education Homestead Credit Rate	20.136%	20.136%
9. Education Homestead Credit (8 x 2) *	$ 100.68	$ 100.68
FINAL NET TAX	**57%**	**66%**
10. Adjusted Gross Tax (7 - 9)	$ 521.82	$ 521.82
11. Taconite Credit (10 x 57%, $289.80 maximum) or	$ 289.80	
(10 x 66%, $315.10 maximum) **		$ 315.10
12. Net Tax (10 - 11)	$ 232.02	$ 206.72

* The education homestead credit cannot exceed the school district tax on any parcel.
The 1999 maximum education homestead credit is $320.00 per homestead.
The 1999 education homestead credit rate will be equal to 66.2% of the preliminary general education rate.

** Taconite credit cannot be less than $10.



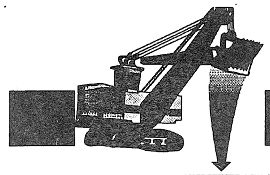


Figure 11

TACONITE PRODUCTION TAX DISTRIBUTION*

PRODUCTION YEAR	1992	1993	1994	1995	1996	1997
City and Township	$1,348,197	$1,321,816	$1,337,932	$1,388,842	$2,045,705	$2083,419
Taconite Municipal Aid	6,750,637	6,620,791	6,689,911	6,941,010	6,978,940	6,951,616
School District — Regular	2,486,989	2,418,109	2,425,449	2,499,143	2,560,047	2,605,249
School District Fund	9,644,654	9,373,812	9,396,265	9,681,360	9,927,592	10,111,969
Taconite Referendum Fund	4,970,333	4,971,966	4,923,657	4,853,151	4,803,952	4,877,652
County	9,806,650	9,642,040	9,677,788	9,835,295	9,849,966	10,021,984
County Road and Bridge	2,604,696	2,560,487	2,561,491	2,603,669	2,627,320	2,673,631
Taconite Property Tax Relief	10,847,642	11,783,383	12,143,854	13,055,526	12,924,447	13,555,273
State	55,000	55,000	55,000	75,000	75,000	75,000
I.R.R.R.B. ($.03 Indexed)	2,525,239	2,671,666	2,687,126	2,821,445	2,949,813	3,061,057
I.R.R.R.B. (Fixed)	1,252,520	1,252,520	1,252,520	1,252,520	1,252,520	1,252,520
Range Association of Municipalities and Schools	107,449	105,348	106,631	110,689	111,217	110,660
Taconite Railroad (Fixed)	3,160,899	3,160,899	3,160,899	3,160,899	3,160,899	3,160,899
710 School Bond Payment	240,000	240,000	240,000	240,000	-	-
Other School Bond Payments	2,280,376	2,732,470	2,643,181	2,763,131	3,665,402	4,195,324
Taconite Environmental Protection Fund	14,604,537	11,174,329	11,462,347	12,669,494	12,801,894	12,904,541
N.E. Minnesota Economic Protection Fund	5,144,724	3,476,930	3,875,826	4,697,905	5,324,091	5,296,396
Taconite Economic Development Fund	4,204,840	6,634,406	6,860,477	7,055,575	9,454,031	7,444,818
Producer Grants	-	-	-	-	-	2,228,174
Hoyt Lakes Industrial Park	-	-	-	-	-	2,094,484
TOTAL	**$82,035,382**	**$80,195,972**	**$81,500,355**	**$85,704,654**	**$90,512,836**	**$94,704,666**

* The production tax is collected and distributed in the year following production, e.g., the 1997 production tax was collected and distributed during 1998.

Figure 12

TACONITE PRODUCTION TAX DISTRIBUTIONS TO CITIES & TOWNSHIPS - 1998

(Based upon 1997 Production Year Tax Revenues—Not including Taconite Property Tax Relief Dollars)

Name	Mining & Concentrating	Taconite Municipal Aid	Taconite Railroad*	Total
COOK COUNTY				
Schroeder Township	$10,928	0	$47,700	$58,513
CROW WING COUNTY				
Crosby	—	$168,541	—	168,541
Ironton	—	43,036	—	43,036
Riverton	—	5,887	—	5,887
Trommald	—	4,111	—	4,111
Irondale Township	—	21,469	—	21,469
Rabbitt Lake Township	—	3,212	—	3,212
Wolford	—	2,685	—	2,685
ITASCA COUNTY				
Bovey	—	85,989	—	85,989
Calumet	—	42,956	—	42,956
Cohasset	—	0	—	0
Coleraine	—	107,642	—	107,642
Keewatin	37,469	127,778	—	165,247
Marble	—	70,326	—	70,326
Nashwauk	14,908	133,903	—	148,811
Taconite	—	41,126	—	41,126
Grand Rapids Township	—	51,601	—	51,601
Greenway Township	18,986	37,163	—	56,149
Iron Range Township	—	13,180	—	13,180
Lone Pine Township	6,220	2,820	—	9,040
Nashwauk Township	68,380	35,501	—	103,881
LAKE COUNTY				
Silver Bay	105,677	253,220	152,706	511,603
Beaver Bay Township	—	—	12,565	15,289
Crystal Bay Township	—	—	6,951	6,951
Silver Creek Township	—	—	20,612	20,612
Stony River Township	—	—	19,943	19,943
ST. LOUIS COUNTY				
Aurora	2,293	182,013	—	184,306
Babbitt	85,530	176,007	166,767	428,304
Biwabik	—	122,623	—	122,623
Buhl	—	112,307	—	112,307
Chisholm	—	520,389	—	520,389
Ely	—	314,408	—	314,408
Eveleth	60,304	384,688	—	444,992
Gilbert	44,847	215,026	—	259,900
Hibbing	498,142	1,458,818	—	1,956,960
Hoyt Lakes	274,431	270,005	152,153	696,639
Kinney	9,827	67,848**	—	77,675
Leonidas	5,112	11,116	—	16,278
McKinley	—	17,223	—	17,223
Mountain Iron	559,863	371,059	—	930,922
Virginia	35,606	872,759	—	908,365
Balkan Township	—	62,892	—	62,892
Bassett Township	—	—	11,745	11,745
Biwabik Township	0	41,563	—	41,563
Breitung Township	—	13,190	—	13,190
Eagle's Nest Township	—	0	—	0
Fayal Township	2,960	47,960	—	50,920
Great Scott Township	16,144	25,212	—	41,356
McDavitt Township	119,343	28,849	—	148,192
White Township	38,387	370,915**	—	407,302
Wuori Township	67,311	12,500	—	79,811
TOTAL	**$2,083,419**	**$6,951,616**	**$591,142**	**$9,626,177**

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

Figure 13

TACONITE PRODUCTION TAX DISTRIBUTIONS TO SCHOOL DISTRICTS - 1998

School Districts		$.055	$.22	Taconite Railroad	Taconite Referendum	Total
001	Aitkin	—	$316,444	—	$186,561	$503,005
166	Cook County	65,405	71,147	$427,383	33,215	597,150
182	Crosby-Ironton	—	365,246	—	213,729	578,975
316	Greenway	51,975	1,149,380	—	330,468	1,531,823
318	Grand Rapids	—	778,819	—	472,164	1,250,983
319	Nashwauk-Keewatin	149,010	433,534	—	161,502	744,046
381	Lake Superior	129,788	719,931	552,774	417,284	1,819,777
695	Chisholm	—	648,796	—	225,843	874,639
696	Ely	—	245,202	—	164,062	409,264
701	Hibbing	536,006	1,540,247	—	653,800	2,730,053
706	Virginia	127,759	875,299	—	357,906	1,360,964
712	Mt. Iron-Buhl	712,833	473,685	—	223,891	1,410,409
2142	St. Louis County	250,321	811,088	459,421	607,372	2,128,202
2154	Eveleth-Gilbert	138,736	848,714	—	362,512	1,349,962
2711	Mesabi East	398,214	650,060	345,802	393,643	1,787,719
TOTALS:		$2,560,047	$9,927,592	$1,785,380	$4,803,952	$19,076,971

Figure 14

TACONITE PRODUCTION TAX SCHOOL BOND CREDITS AND PAYMENTS

(Payments during 1998 and 1999 from 1997 production year revenues.)

School Districts		Year Authorized(1	Final Payment Year(2	Credit	Payment	Total	Outstanding Balance(3
166	Cook County (4	1996	2015	—	$535,213	$535,213	$6,272,000
316	Greenway	1990	2009	—	76,000	$ 76,000	346,568
316	Greenway	1996	2008	—	19,876	19,876	400,000
318	Grand Rapids	1988	1997	—	106,900	106,900	0
318	Grand Rapids	1996	2011	—	222,024	222,024	4,480,000
381	Lake Superior	1992	2003	—	101,381	101,381	593,515
695	Chisholm	1990	2005	—	320,000	320,000	982,624
696	Ely	1990	2000	—	115,330	115,330	308,000
696	Ely	1996	2015	—	93,683	93,683	788,000
701	Hibbing	1988	1999	—	344,888	344,888	644,375
701	Hibbing	1996	2011	—	92,226	92,226	1,760,000
706	Virginia	1988	2003	—	217,860	217,860	1,036,000
706	Virginia	1992	2012	—	324,838	324,838	4,565,645
706	Virginia	1996	2016	—	389,997	389,997	4,800,000
712	Mt. Iron-Buhl (4	1982	1998	$705,767	—	705,767	249,844
2142	St. Louis Cty. (Tower)	1988	2003	—	81,762	81,762	428,000
2142	St. Louis County (4	1988	2003	—	107,825	107,825	545,000
2142	St. Louis County	1996	2005	—	317,244	317,244	2,064,000
2154	Eveleth-Gilbert (Eveleth)	1990	2006	—	320,000	320,000	991,796
2154	Eveleth-Gilbert (Gilbert)	1990	2009	—	80,000	80,000	348,514
2154	Eveleth-Gilbert	1996	2017	—	249,030	249,030	2,880,000
2711	Mesabi East	1996	2011	—	79,247	79,247	605,000
TOTALS:				$705,767	$4,195,324	$4,901,091	$ 35,088,881

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

Figure 15

TACONITE PRODUCTION TAX DISTRIBUTIONS TO COUNTIES - 1997

PRODUCTION YEAR 1997

(Does not include dollars from Taconite Property Tax Relief)

County	Regular County 13.0-Cents	Road & Bridge 3.5-Cents	Taconite Railroad	Total
Cook	$ 120,465	0	$187,190	$ 307,655
Itasca	738,736	$ 194,825	0	903,561
Lake	734,803	189,627	243,034	1,167,464
St. Louis	8,427,980	2,289,179	354,153	11,071,312
TOTAL	**$9,849,966**	**$2,673,631**	**$784,377**	$13,479,992

Figure 16

TACONITE PRODUCTION AND TAX REVENUE - BY COMPANY

PRODUCTION YEAR 1997

Company	Production Tons	Taxable* Tonnage	Production Tax Rate	Tax Collected** After Credits
EVTAC	4,964,481	4,982,708	$2.141	$ 10,667,978
Hibbing	7,479,612	7,925,349	2.141	16,968,172
Inland	2,388,631	2,493,011	2.141	5,337,537
LTV Steel	7,168,585	7,263,883	2.141	15,551,974
National	5,108,503	4,970,183	2.141	10,641,162
Northshore	4,059,463	3,929,758	2.141	8,413,612
USX	13,646,373	12,998,598	2.141	27,124,231
TOTAL	**44,815,648**	**44,563,490**	**$2.141**	**$94,704,666**

ESTIMATED FOR PRODUCTION YEAR 1998

Company	Production Tons	Taxable* Tonnage	Production Tax Rate	Tax Collected** After Credits
EVTAC	3,900,000	4,569,000	$2.141	$ 9,782,000
Hibbing	7,400,000	7,597,000	2.141	16,264,000
Inland	2,200,000	2,373,000	2.141	5,080,000
LTV Steel	7,000,000	7,117,000	2.141	15,238,000
National	4,800,000	4,895,000	2.141	10,480,000
Northshore	4,200,000	3,110,000	2.141	8,800,000
USX	12,500,000	12,902,000	2.141	26,965,000
TOTAL	**42,000,000**	**43,563,000**	**$2.141**	**$92,609,000**

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

** Production tax revenue after school bond credits have been taken.

Figure 17

1997 PRODUCTION BY PRODUCT TYPE

COMPANY	PELLETS			CHIPS AND FINES			
	ACID	FLUX	PARTIAL FLUX*	ACID	FLUX	FINE CONC.	TOTAL
Eveleth	—	—	4,898,700	65,781	—	—	**4,964,481**
Hibbing	7,479,612	—	—	—	—	—	**7,479,612**
Inland	—	2,309,638	—	—	78,993	—	**2,388,631**
LTV	6,784,129	—	—	384,456	—	—	**7,168,585**
National	—	—	5,075,861	—	—	32,642	**5,108,503**
Northshore	—	1,866,028	2,193,435	—	—	—	**4,059,463**
USX	—	13,646,373	—	—	—	—	**13,646,373**
TOTAL:	**14,263,741**	**17,822,039**	**12,167,996**	**450,237**	**78,993**	**32,642**	**44,815,648**

*Partial flux pellets contain less than 2.00% flux.

Acid Production:	14,746,620	Total Pellets:	44,253,776
Flux Production:	30,069,028	Total Chips & Fines:	561,872
	44,815,648	Grand Total:	**44,815,648** (dry with flux subtracted)

Figure 18

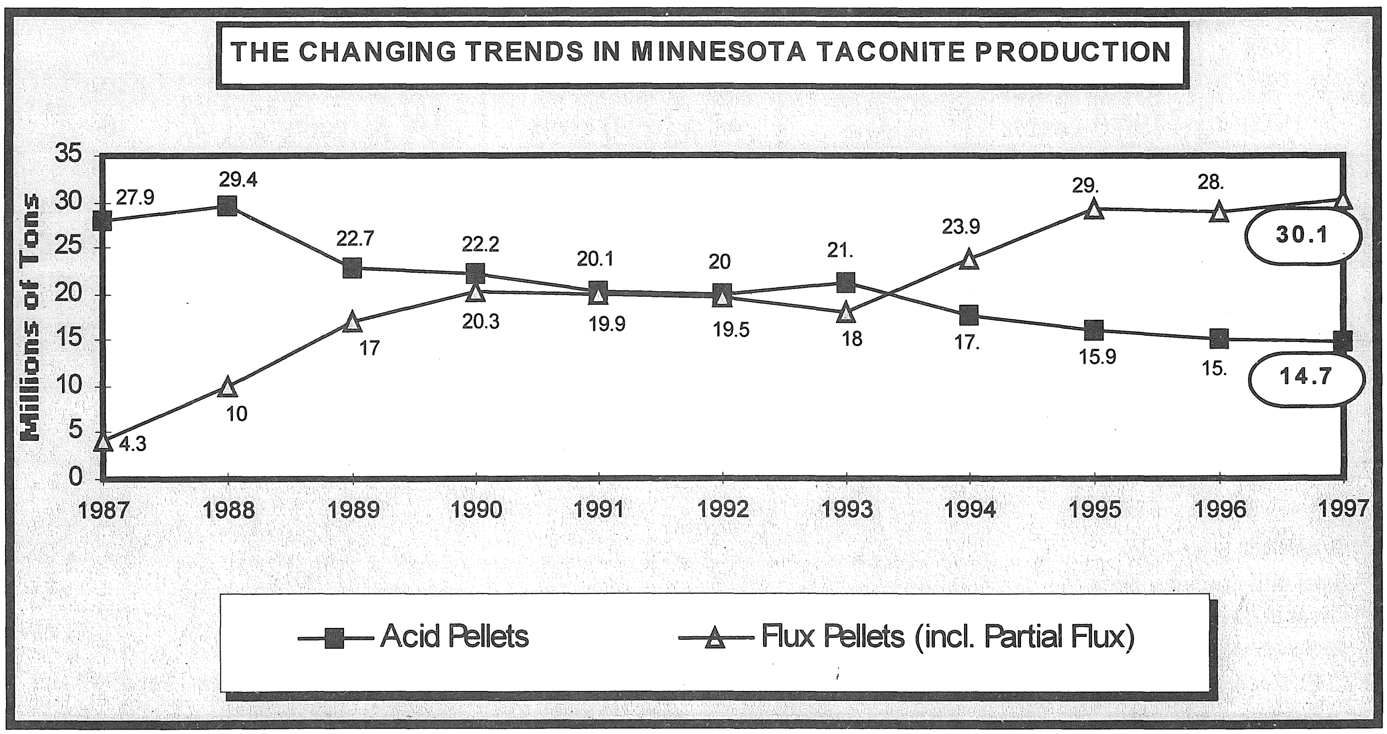


Figure 19

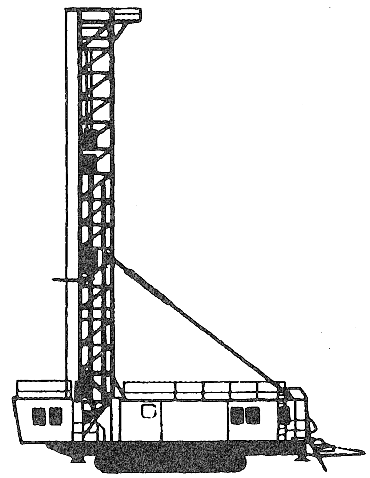
PRODUCTION TAX RATE HISTORY & INDEX SUMMARY

PRODUCTION YEAR	STATUTORY BASE RATE	FE INDEX	INFLATION INDEX	TOTAL RATE	TEDF CREDIT♦♦
1941	5.0 - cents	.5 - cents	None	5.5 - cents	-0-
1969	11.5 - cents	.5 - cents	0 (WPI*)	12.0 - cents	-0-
1970	11.5 - cents	.5 - cents	0 (WPI)	12.0 - cents	-0-
1971	15.5 - cents	.5 - cents	.4 (WPI) cents	16.4 - cents	-0-
1972	18.5 - cents	.5 - cents	1.3 (WPI) cents	20.3 - cents	-0-
1973	20.5 - cents	1.0 - cents	2.8 (WPI) cents	24.3 - cents	-0-
1974	20.5 - cents	1.0 - cents	8.2 (WPI) cents	29.7 - cents	-0-
1975	60.5 - cents	1.0 - cents	13.4 (WPI) cents	74.9 - cents	-0-
1976	60.5 - cents	1.0 - cents	15.5 (WPI) cents	76.5 - cents	-0-
1977	125.0 - cents	4.5 - cents	0 (SMPI**) cents	129.5 - cents	-0-
1978	125.0 - cents	6.0 - cents	8.9 (SMPI) cents	139.9 - cents	-0-
1979	125.0 - cents	6.0 - cents	28.8 (SMPI) cents	159.8 - cents	-0-
1980	125.0 - cents	6.0 - cents	42.2 (SMPI) cents	173.3 - cents	-0-
1981	125.0 - cents	6.0 - cents	60.6 (SMPI) cents	191.6 - cents	-0-
1982	125.0 - cents	6.0 - cents	76.8 (SMPI) cents	207.8 - cents	-0-
1983	125.0 - cents	6.0 - cents	73.7 (SMPI) cents	204.7 - cents	-0-
1984	125.0 - cents	6.0 - cents	79.7 (SMPI) cents	210.7 - cents	-0-
1985	125.0 - cents	3.0 - cents	76.8 (SMPI) cents	204.8 - cents	-0-
1986	190.0 - cents	-0-	Frozen (IPD***)	190.0 - cents	-0-
1987	190.0 - cents	-0-	Frozen (IPD)	190.0 - cents	-0-
1988	190.0 - cents	-0-	Frozen (IPD)	190.0 - cents	-0-
1989	190.0 - cents	-0-	7.5 (IPD) cents	197.5 - cents	-0-
1990	190.0 - cents	-0-	♦7.5 (IPD) cents	197.5 - cents	-0-
1991	190.0 - cents	-0-	15.4 (IPD) cents	205.4 - cents	-0-
1992	190.0 - cents	-0-	♦15.4 (IPD) cents	205.4 - cents	10.4 - cents
1993	190.0 - cents	-0-	♦15.4 (IPD) cents	205.4 - cents	15.4 - cents
1994	190.0 - cents	-0-	♦15.4 (IPD) cents	205.4 - cents	15.4 - cents
1995	190.0 - cents	-0-	♦15.4 (IPD) cents	205.4 - cents	15.4 - cents
1996	190.0 - cents	-0-	19.4 (IPD) cents	209.4 - cents	20.4 - cents
1997	190.0 - cents	-0-	24.1 (IPD) cents	214.1 - cents	15.4 - cents
1998 Est.	190.0 - cents	-0-	24.1 (IPD) cents	214.1 - cents	15.4 - cents

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

Figure 19

TACONITE PRODUCED AND PRODUCTION TAX COLLECTED



Year	Production Tons	Production Tax Collected (000)	Collected Rate Per Production Ton	Taxable Tons*	Tax Rate per Taxable Ton
1955	1,341	$78	$0.06		
1956	5,069	297	0.059		
1957	6,812	397	0.058		
1958	8,574	500	0.058		
1959	8,414	528	0.063		
1960	13,390	735	0.055		
1961	13,187	766	0.058		
1962	14,526	842	0.058		
1963	16,701	972	0.058		
1964	18,505	1,075	0.058		
1965	19,004	1,104	0.058		
1966	21,677	1,257	0.058		
1967	24,311	1,427	0.059		
1968	30,269	1,782	0.059		
1969	33,410	3,778	0.113		
1970	35,348	4,253	0.12		
1971	33,778	5,539	0.164		
1972	34,544	7,002	0.203		
1973	41,829	10,159	0.243		
1974	41,053	11,952	0.291		
1975	40,809	30,347	0.744		
1976	40,575	30,857	0.76		
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 Est.	42,000	92,610	2.205	43,563	2.141

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

DIRECT REDUCED IRON (DRI)

The interest in recent years about DRI worldwide has caused some taconite producers to explore the possibility of building such a plant in Minnesota. Recognizing this trend the legislature has taken measures to encourage a DRI plant in Minnesota.

REDUCED PRODUCTION TAX RATE FOR DRI

The 1997 Legislature established a new schedule of reduced rates for DRI. The first five years of a DRI plant's production are subject to a reduced rate:

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

The regular rate of production tax for DRI was increased by the 1997 Legislature. The rate for production in 1997 and thereafter will be the standard tax rate plus an additional tax of 3 cents per gross ton for each 1 percent that the iron content of the product exceeds 72%, when dried at 212 degrees Fahrenheit. Tax on eighty percent (80%) DRI would be $2.381 per taxable ton.

1998 LEGISLATION

The 1998 Legislature appropriated $10 million for grants from the general fund for construction of up to three direct reduction iron processing facilities. The Commissioner of Trade and Economic Development and Natural Resources must jointly agree on the issue the ***grants***. This appropriation is from the general fund and is available until June 30, 2003. The total funding for DRI or nonferrous plants from the 2002 fund is $15 million. This funding was extended one year to June 30, 1999. The loan portion is $7.5 million and $7.5 million is available for grants.

1997 LEGISLATION

The 1997 Legislature reduced prior authorization for **loans** from the corpus of the Northeast Minnesota Economic Protection fund (2002 Fund) from $10 million to $7.5 million. The maximum **loan** to one DRI facility is $5 million. These loans could be for either: 1) a value-added iron products plant, or 2) a new mine or minerals processing plant for nonferrous minerals. Up to $5.5 million in ***grants*** was also authorized. An additional $2 million in ***grants*** from the corpus of this fund remains available.

SUMMARY OF 1997 & 1998 DRI INCENTIVES

The maximum any single project could receive is:

DRI	Non-Ferrous
$ 5 million loan (2002 fund)	$ 5 million loan (2002 fund)
$ 7.5 million grant (2002 fund)	$ 7.5 million grant (2002 fund)
$10 million grant (gen. fund)	**$12.5 million Total**
$ 2.72 million* grant (gen. fund)	
$ 1.95 million loan (US Govt.)	
$27.17 million Total**	

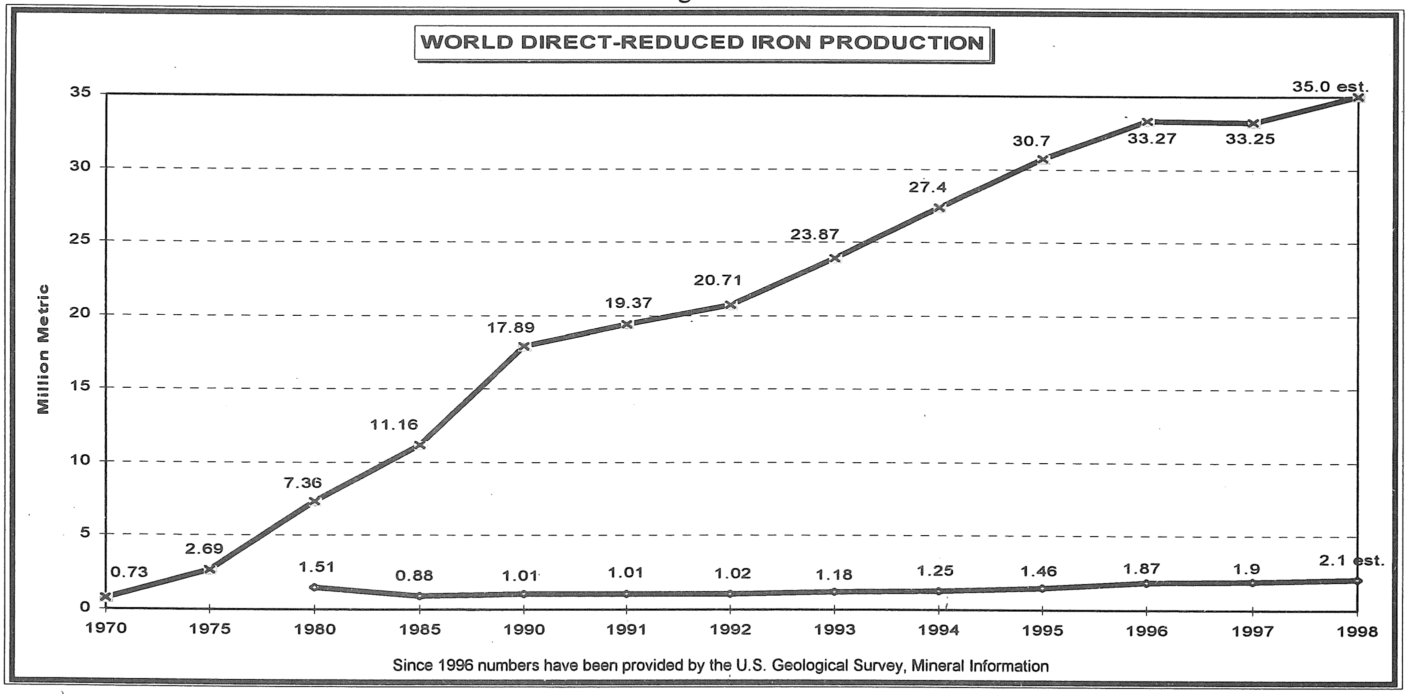
*This is the remainder of a $3.5 million grant from the State of Minnesota.

**One project would probably not receive this total, but this is the maximum available.

GENERAL INFORMATION

In addition to the special rates and incentives, the same rules as taconite production tax apply to DRI. The plant and facilities related to DRI production would be exempt from regular ad valorem property taxes. The taxable tonnage would be based on a 3 year average of production. Pig iron is considered to be DRI for the purposes of this tax and the incentives.

Figure 21



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

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

The IRRRB is headquartered in Eveleth, Minnesota. The agency is directed by a commissioner who is appointed by the governor. The commissioner is advised by a board comprised of five state senators and five state representatives, a majority of whom must come from TTRA districts, as well as the commissioner of the Minnesota Department of Natural Resources.

While economic development of the TTRA through loans and grants to businesses and local governments is the IRRRB's main focus, the agency also owns and operates two tourism facilities, the Giants Ridge Golf & Ski Resort in the Town of White near Biwabik and the Ironworld complex in Chisholm. Giants Ridge has been a quality alpine and Nordic Skiing facility since 1984; however, with the opening of its new 18-hole golf course in June 1997, it became a year round resort. Ironworld is an historical theme park which preserves and celebrates Iron Range history and culture. The complex includes the Iron Range Research and Interpretative Centers, a railroad system, a festival park with a miniature golf course and various other entertainment facilities. Ironworld is also home to the IRRRB's Mineland Reclamation division, which undertakes safety, environmental and economic development projects on abandoned minelands of the pre-taconite era, often in cooperation with adjacent communities. Each year, IRRRB Mineland Reclamation grows and plants 300,000 containerized seedlings on the Mesabi, Vermilion and Cuyuna iron ranges.

The IRRRB also funds tourism promotional activities in cooperation with the Northern Lights Tourism Alliance. The agency constructs and grooms snowmobile and other trails to enhance tourism and quality of life, and operates a Building Demolition program that razes dilapidated structures to make room for new development and enhancement of the local tax base. For the past six years, Commissioner Jim Gustafson has chaired the Governor's Task Force on Mining and Minerals, a group charged with recommending actions that will sustain and enhance the long-term viability of mining in the region and the state. The Task Force has issued reports to the governor and legislature each year since 1993.

In Fiscal Year 1999, the IRRRB Commissioner has proposed a budget of $37,124,688 to deliver the projects, programs and activities mentioned above. The agency proposes to do so with a budgeted complement of 98 full-time employees, as well as a number of temporary and seasonal personnel.

The following pages include additional detail on the FY 99 Budget as well as tables and charts that display IRRRB assistance to the taconite industry, including $41,654,147 made available since 1993 to the seven Minnesota taconite producers for investments in new equipment, facilities and research through the rebate of production taxes from the Taconite Economic Development Fund (TEDF, M.S.§298.227).

The IRRRB also provided $32,976,549 in the form of grants and loans through its Taconite Assistance Program and other assistance to taconite producers. This amount includes $10 million appropriated in 1996 from the 2002 Fund for the Producer Grant Program (M.S.§298.2961) through which the IRRRB makes grants to the taconite producers to help them undertake environmentally unique reclamation projects or pit or plant expansions or modernizations for other than a value-added iron products plant that extend the life of the plant. In 1997, the legislature redirected a nickel of the 20.4 cents rebated to the taconite producers, or approximately $2 million each year that otherwise would flow to the TEDF, to the IRRRB Producer Grant Program for grants to the companies in 1998 and 1999. 1998 legislation provides for 15.4 cents TEDF and 5 cents producer grant distribution in the year 2000, as well.

Over the years 1993-98, the IRRRB has reinvested a total of $74,630,696 in the Minnesota taconite industry through these programs. See Figure 24B on page 29 for details.

Figure 22

FY 99 IRRRB BUDGET

(As presented to the IRRR Board on July 2, 1998)

SOURCES OF FUNDING	All Accounts	Board	TEPF	NEPF	Supp Tax
Carry Forward & Prior Year Cancellations	19,736,914	6,165,717	4,709,999	8,861,198	
Taconite Production Taxes (Received in 1998)	17,886,570	4,313,577	12,904,541		668,452
Receipts:					
Interest on Invested Cash	5,439,000	775,000	1,596,000	3,068,000	
Payback on Loans & Projects	2,087,000	165,000		1,922,000	
Total Other Departmental Earnings	4,301,695	4,301,695			
Total Sources of Funding	**49,451,179**	**15,720,989**	**19,210,540**	**13,851,198**	**668,452**

BUDGETED USES OF FUNDS	All Accounts	Board	TEPF	NEPF	Supp Tax
Programs Division					
Total Business Development Program	12,831,618			12,831,618	
Total Community Development Program	8,267,901	3,723,449	3,890,000		654,452
Communications Program	247,069	247,069			
Total Tourism Program	1,040,228		1,040,228		
Total Research and Planning Program	1,061,668	1,061,668			
Informational Technology Program	400,000	400,000			
Facilities Division					
Total Giants Ridge Recreational Area Program	4,547,709	857,788	3,689,921		
Total Ironworld Complex Program	2,144,000		2,144,000		
Total Mineland Reclamation Program	1,075,088		1,075,088		
Total Trails Program	710,854		710,854		
Building Demolition Program	199,228		199,228		
Eveleth Maintenance/Shop Program	626,348	626,348			
Facility Improvements Reserve	2,000,000		2,000,000		
Administrative Services Division					
Total General Support Program	1,400,430	1,400,430			
Information Systems Program	213,137	213,137			
Human Resources Program	359,410		359,410		
Charge back administrative costs to each fund	0	(1,000,000)	836,000	150,000	14,000
Total Budgeted Uses of Funds	37,124,688	7,529,889	15,944,729	12,981,618	668,452
Carry Fwd Unobligated "Position" to FY 2000	12,326,491	8,191,100	3,265,811	869,580	0
	All Accounts	**Board**	**TEPF**	**NEPF**	**Supp Tax**

TEPF is the Taconite Area Environmental Protection Fund (page 13).
NEPF is the Northeast Minnesota Economic Protection Trust Fund (page 13).
Board is specific amount appropriated to the IRRRB from Production Tax (page 10, subd. 7 and subd. 11 (c).
Supplemental Tax is an amount appropriated from Occupation Tax for Koochiching and Carlton Counties (page 30).
FY 99 is the fiscal year from July 1, 1998 through June 30, 1999.

Figure 23

TACONITE ECONOMIC DEVELOPMENT FUND

DISTRIBUTION TO NORTHEAST MINNESOTA TACONITE PRODUCERS*

Summary

Payable 1993 through 1998 (on 1992 through 1997 Production)

		1998			
COMPANY	**1993-1997**	**PROJECT DESCRIPTION**	**AMOUNT**	**TOTAL AMOUNT**	**TOTAL PER COMPANY**
EVTAC Mining	$3,391,713	Plant and equipment improvements	Paid $ 837,756	Paid $4,229,469	$ 4,229,469
Hibbing Taconite	6,095,314	*Pending*	*Pending* 1,220,504	Paid 6,095,314 *Pending* 1,220,504	7,315,818
Inland Steel Mining	2,206,543	Fine ore magnetic separation project	Paid 468,486	Paid 2,675,029	2,675,029
LTV Steel Mining	7,125,371	*Pending*	Paid 1,445,578	Paid 8,570,949	8,570,949
National Steel	3,022,984	*Pending*	*Pending* 797,548	Paid 3,022,984 *Pending* 797,548	3,820,532
Northshore Mining	2,397,856	Purchase of five 200 ton haulage trucks	Paid 673,162	Paid 3,071,018	3,071,018
USX-Minnesota Ore Operations	9,969,548	*Pending*	*Pending* 2,001,784	Paid 9,969,548 *Pending* 2,001,784	11,971,332
TOTAL	**$34,209,329**	** In accordance with M.S. 298.277*	Paid 3,424,982 *Pending* 4,019,836 **$7,444,818**	Paid 37,634,311 *Pending* 4,019,836 **$41,654,147**	**$41,654,147**
10.4-c.p.t. in 1993 *15.4-c.p.t. in 1994, 1995 & 1996* *20.4-c.p.t. in 1997*		15.4 cents per ton Chips and Fines Credit **Total**	$6,862,778 582,040 **$7,444,818**	*A brief explanation of the TEDF is included on page 7.*	

Figure 24A

IRRRB PRODUCER GRANT PROGRAM

M.S. 298.2961 (1996)

In 1996 the Minnesota Legislature appropriated $10 million from the IRRRB's 2002 Fund for grants to the seven taconite producers for: [1] environmentally unique reclamation projects, or [2] pit or plant expansions or modernizations other than for a value-added iron products plant that extends the life of the plant. Under current law, five cents per ton or approximately $2.2 million in Producer Grants will be distributed in 1998 and 1999.

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

Company	1997 Project Description		1997 Amount		1998 Amount	Total Per Company
EVTAC Mining	New rotary blasthole drill, hydraulic shovel and 240 ton production truck, plant improvements	Paid *Pending*	$1,058,775 55,725	*Pending*	$249,135	$ 1,363,635
Hibbing Taconite	Refurbishment of a 1974 Marion drag line, plant improvements	*Pending*	1,818,000	*Pending*	396,267	2,214,267
Inland Steel Mining	B-E 49R rotary blasthole drill	Paid	555,000	*Pending*	124,651	679,651
LTV Steel Mining	Installation of new magnetic separators	*Pending*	1,619,500	*Pending*	363,194	1,982,694
National Steel	B-E 59R rotary blasthole drill, facility and equipment	Paid *Pending*	1,035,120 54,480	*Pending*	248,509	1,338,109
Northshore Mining	B-E 295B cable shovel, CAT 992D loader	Paid	882,700	*Pending*	196,488	1,079,188
USX-Minnesota Ore Operations	Convert the east end of the West Pit from rail to truck hauling	Paid	2,920,700	*Pending*	649,930	3,570,630
		Paid *Pending* **TOTAL**	$6,452,295 3,347,705 **$10,000,000**		$ 0 2,228,174 **$ 2,228,174**	**$12,228,174**

Figure 24B

TACONITE INDUSTRY INVESTMENTS
1993 - 1998

Company	Taconite Assistance Program	Taconite Economic Development Fund	Producer Grant Program	Other Assistance	Total
EVTAC	$2,000,000	$4,229,469	$1,363,635	$500,000	$8,093,104
Hibbing Taconite Company	2,000,000	7,315,818	2,214,267		11,530,085
Inland Steel Mining Company	2,000,000	2,675,029	679,651		5,354,680
LTV Steel Mining Company	2,000,000	8,570,949	1,982,694		12,553,643
National Steel Pellet Company	2,000,000	3,820,532	1,338,109	6,248,375	13,407,016
Northshore Mining Company	2,000,000	3,071,018	1,079,188		6,150,206
USX - Minnesota Ore Operations	2,000,000	11,971,332	3,570,630		17,541,962
Total Investment	**$14,000,000**	**$41,654,147**	**$12,228,174**	**$6,748,375**	**$74,630,696 ***
GRAND TOTAL	**$74,630,696 ***				

* Figure includes amounts pending. Totals through Fiscal Year 1998, ending June 30, 1998.

OCCUPATION TAX ON TACONITE AND IRON ORE (M.S. § 298.01 - M.S. 298.18)

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

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

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

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

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

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

OCCUPATION TAX RETURN

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

The starting value of the occupation tax is the mine value, determined by the Commissioner of Revenue and published in the annual Occupation Tax Directive.

Any reader having questions or wanting more detail about the occupation tax mine value or how the return is prepared is invited to contact the Minerals Tax Office. Occupation tax forms and instructions are available on the Minnesota Department of Revenue's website at: www.taxes.state.mn.us.

MINE VALUE

The Department of Revenue and representatives of the taconite industry met to develop an ongoing procedure determining annually any change in the mine value. The procedure used since December, 1990 is:

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

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

A copy of the Final Directive and backup for 1997 are on the following two pages. These show how the value per Fe unit is determined.

OCCUPATION TAX DISTRIBUTION

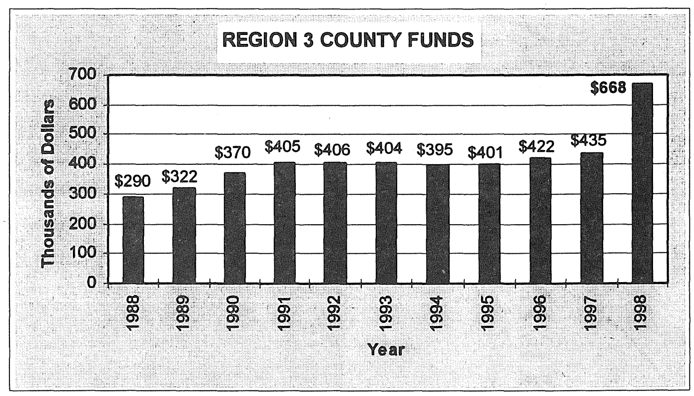
All occupation tax is deposited in the state general fund. Fifty percent remains in the general fund.

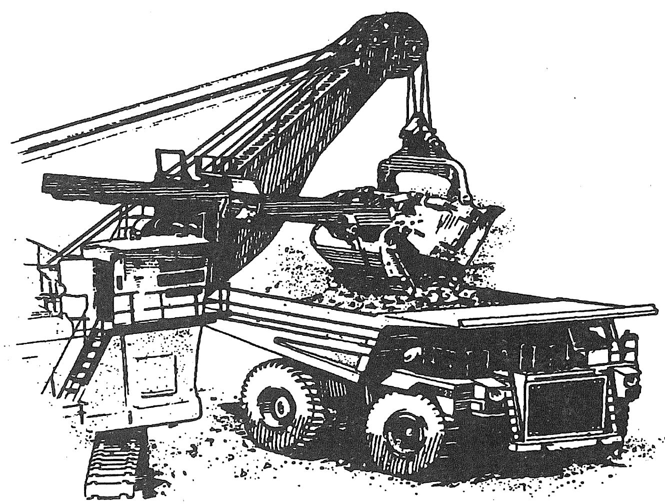
Education

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

Region 3

An amount equal to one and one-half cents per taxable ton of taconite is appropriated from the occupation tax to the IRRRB for counties in Region 3 not qualifying for taconite property tax relief. Only Carlton and Koochiching counties qualify. This money must be used to provide economic or environmental loans or grants. The amount distributed in 1998 was $668,452 based on 44,563,490 taxable tons produced in 1997. *Prior to 1997, the amount distributed was based on one-cent per taxable ton.*





FINAL DIRECTIVE
BASIC DATA FOR PREPARING 1997 OCCUPATION TAX REPORTS

TACONITE

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

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

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

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

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

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

Those taconite producers with non-equity sales since 1990 have made their election. Only those with non-equity sales in 1997 for the first time may select the actual sales price option for the first time. Any request for change in the option elected must be approved by the Department of Revenue. These transactions must meet the definition of a non-equity (arms-length) transactions above.

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

Chips, Fines and Concentrate. A separate mine value for pellet chips (fines) and concentrate shall be used. The value of acid pellet chips or concentrate will be 75 percent of the value of acid pellets. Flux pellet chips or concentrate will be valued at 75 percent of the producers' flux pellet value. In order to qualify for this lower mine value, pellet chips must qualify for the Taconite Economic Development Fund (M.S. §298.28, subd. 9[b]). These chips or concentrate can be stockpiled or shipped, but the chips cannot be commingled with or shipped with regular pellets. All production or shipments not meeting this definition must be valued at the appropriate higher pellet value.

TACONITE VALUES

Pellet price per Iron Unit (per dry gross ton)
for the period January 1, 1997 through December 31, 1997:

	MINE VALUE
Acid Pellets:	\$.475 per Fe unit
Pellet Chips (Fines) and Concentrate	75% of acid or fluxed pellet price
Flux Pellets - Partial Flux (.1% - 1.99% flux):*	\$.464 + \$.0155 = \$.4795
- Flux (2.00% and higher flux): *	\$.475 + \$.0155 per Fe unit for each 1% flux

EXAMPLE - Pellet with 4.8% flux in finished pellet: 4.0 x \$.0155 = \$.062
Mine Value \$.475 + \$.062 = \$.537

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

FINAL DIRECTIVE
1997 OCCUPATION TAX REPORT

BACKUP DATA

Final Directive

The 1990 agreement between the taconite producers and the Department of Revenue provides that any change in mine value would be determined by two factors continues in effect. These factors are:

1. The change in the SMPI from June of the prior year to June of the current year (75%).
2. The change in the actual selling price of non-equity sales (25%).

This directive was determined using the final adjusted June, 1996 SMPI (115.6) and final adjusted June, 1997 SMPI (116.3). The non-equity sales factor was developed from completed reports provided by the taconite producers and steel companies making ***non-equity sales and/or purchases of taconite pellets***.

Acid Pellets - How Value Determined

The mine value of acid pellets is determined by the change in the SMPI between June, 1996 and June, 1997 and the non-equity sales per Fe unit per gross ton.

SMPI				
June, 1996 SMPI (Final):	115.6	1996 Mine Value:	$	.464
June, 1997 SMPI (Final):	116.3	1997 SMPI % of 1995 Value:		x100.606%
116.3 ÷ 115.6 =	100.606%	1997 SMPI Factor:	$	.46681

NON-EQUITY SALES

Weighted Average Sales Price		Weighted Average Price Per Ton		Weighted Average DRY Fe Analysis		Weighted Average Sales Price **Per Fe Unit**
$55,075,989 / 1,663,740 Tons Sold	=	$33.1037	÷	66.19	=	$0.500103

ACID PELLET MINE VALUE

SMPI	$.46681 x 75% = $.35011	**1996 ACID PELLET MINE VALUE:**
Non-Equity Sales	$.500103 x 25% = .12503	
	$.47514	$.475 per Fe unit

Flux Pellets - How to Determine Value

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

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

$.475 + $.0155 = $.4905

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

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

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

The Mine Value of Flux Pellets (4.82% Flux) is: $.464 + $.062 = $.526 per Fe unit.

Mine Value - Chips and Concentrates

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

Figure 25

OCCUPATION TAX MINE VALUE AND OCCUPATION TAX PAID

PRODUCTION YEAR 1997

TACONITE COMPANY	1997 EMPLOYMENT*	1996 EMPLOYMENT*	1997 TONS PRODUCED	1997 MINE VALUE	OCCUPATION TAX PAID**
EVTAC	657	650	4,926,223	$158,707,465	$ -0-
Hibbing	878	900	7,479,612	235,091,685	365,000
Inland	371	369	2,447,164	87,194,523	-0-
LTV	1,420	1,433	7,168,585	219,035,388	-0-
National	502	405	5,105,540	163,260,436	-0-
Northshore	507	524	4,141,206	134,473,929	130,000
USX	1,769	1,710	14,237,533	486,333,768	2,508,000
Totals	**6,104**	**6,012**	**45,505,863**	**$1,484,097,194**	**$ 2,508,000**
Audit Total				ADDITIONAL TAX	266,638***
				REFUNDS	$(138,851)***
NATURAL ORE COMPANY					
Auburn Minerals, L.L.C.	25	20	500,712	$7,260,324	$212,955
Totals	25	20	**500,712**	**$7,260,324**	**$212,955**
TOTALS	6,129	6,005	**46,006,575**	**$1,491,357,518**	$ 2,720,955

* Employment information from St. Louis County Mine Inspector Annual Report - 1997.

** An automatic 7 month extension is granted if 90% of the tax is paid May 1st. The exact tax liability for the year will not be known until December 1st.

*** Not included in totals. Amounts apply to previous years.

Figure 26

OCCUPATION TAX PAID BY COMPANY

1990 - 1997 (000'S)

Taconite	1990	1991	1992	1993	1994	1995	1996	1997** (Preliminary)
Eveleth Mine	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Hibbing Tac	$ 830	$ 599	$ 489	$ 432	$ 502	$ 798	$ 483	$ 365
Inland Steel	-0-	-0-	-0-	-0-	-0-	12	-0-	-0-
LTV Steel	-0-	-0-	-0-	-0-	-0-	13	-0-	-0-
National Steel	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Northshore	38	-0-	-0-	-0-	71	245	148	130
USX	1,190	1,409	1,062	1,277	1,545	2,000	1,087	2,013
TOTAL	**$2,058**	**$2,008**	**$1,551**	**$1,709**	**$2,118**	**$3,068**	**$1,718**	**$2,508**
Natural Ore	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**
Auburn	NA	NA	NA	NA	$47	$87	$175	$213
LTV	$11	$32	$ 9	NA	NA	NA	NA	NA
Premier	NA	NA	NA	NA	$22	NA	NA	NA
TOTAL	**$11**	**$32**	**$9**	**-0-**	**$69**	**$87**	**$175**	**$213**
TOTAL TAX PAID	$2,069	$2,040	$1,560	$1709	$2,234	$3,155	$1,893	$2,721

Figure 27

RECONCILIATION OF OCCUPATION TAX AND PRODUCTION TAX TONNAGES - 1997*

Company	Gross Natural Tons	Less: Moisture	Occupation Tax Production Tons (Dry Weight)	Less: Flux	Production Tax Production Tons
ACID PELLETS, CHIPS AND FINES					
Hibbing	7,573,893	1.24	7,479,612	-0-	7,479,612
LTV Steel	7,168,585	0.00%	7,168,585	-0-	7,168,585
Subtotal	14,742,478		14,648,197		14,648,197
FLUX PELLETS, CHIPS AND FINES					
EVTAC	5,089,355	1.89%	4,992,365	(27,884)	4,964,481
Inland	2,582,501	2.00%	2,530,851	(142,220)	2,388,631
National	5,189,137	.93%	5,138,182	(29,679)	5,108,503
Northshore	4,141,206	0.00%	4,141,206	(81,743)	4,059,463
USX Corp.	14,570,736	2.29%	14,237,533	(591,160)	13,646,373
Subtotal	31,572,935		31,040,137	(872,686)	30,167,451
TOTAL PRODUCTION SUMMARY					
Acid	14,742,748		14,648,197		14,648,197
Flux	31,572,935		31,040,137		30,167,451
TOTAL	46,315,413		45,688,334	(872,686)	44,815,648

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

Figure 28

CRUDE ORE MINED

	1993	1994	1995	1996	1997
EVTAC	10,275,547	15,301,069	16,511,735	16,517,165	16,249,707
Hibbing	27,573,814	30,151,351	30,890,140	29,408,702	28,467,532
Inland	7,110,410	7,475,103	7,954,695	7,832,557	7,748,820
LTV	24,442,769	25,296,435	26,001,125	24,752,648	24,428,945
National	10,543,112	6,469,797	18,419,272	16,933,415	19,141,563
Northshore	9,574,353	9,964,610	11,230,963	12,807,379	12,165,395
USX	47,940,585	49,130,952	50,587,464	49,773,665	53,819,074
TOTAL:	138,687,878	143,789,317	161,595,394	158,025,531	162,021,036

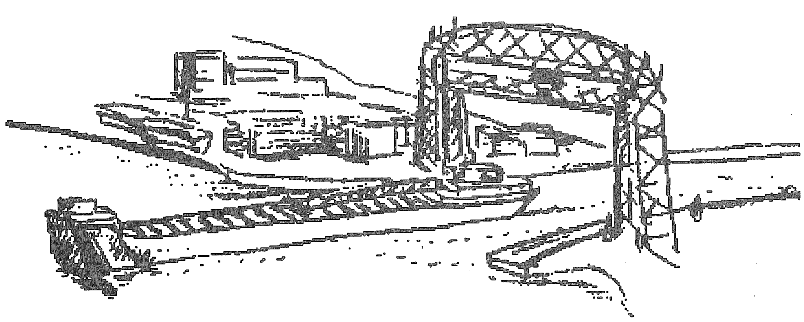


Figure 29

OCCUPATION TAX MINE VALUE - TACONITE (Historical Summary)

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

Year		Acid Pellet Price Per Fe Unit		Flux Premium		Flux Pellet Per Fe Unit		Percent Fe Acid	Percent Fe Flux		Mine Value Acid	Mine Value Flux
1987 (5/1-12/31)	Acid	$0.37344					x	65		=	$24.27	
	Flux (1%)					$.38888	x		62	=		$24.11
1988 & 1989	Acid	0.37344					x	65		=	24.27	
	Flux (1%)					.38905	x		62	=		24.12
1990	Acid	0.420					x	65		=	27.30	
	Flux (1%)	0.042	+	$.015	=	.435	x		62	=		26.97
1991* & 1992	Acid	0.420					x	65		=	27.30	
	Flux (4%)	0.420	+	.062	=	.482	x		62	=		29.884
1993	Acid	0.425					x	65		=	27.625	
	Flux (4%)	0.425	+	.062	=	.487	x		62	=		30.194
1994	Acid	0.439					x	65		=	28.535	
	Flux (4%)	0.439	+	.062	=	.501	x		62	=		31.062
1995	Acid	0.476					x	65		=	30.94	
	Flux (4%)	0.476	+	.062	=	.538	x		62	=		33.356
1996	Acid	0.464					x	65		=	30.16	
	Flux(4%)	0.464	+	.062	=	.526	x		62	=		32.612
1997	Acid	0.475					x	65		=	30.88	
	Flux(4%)	0.475	+	.062	=	.537	x		62	=		33.29

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

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

Figure 30

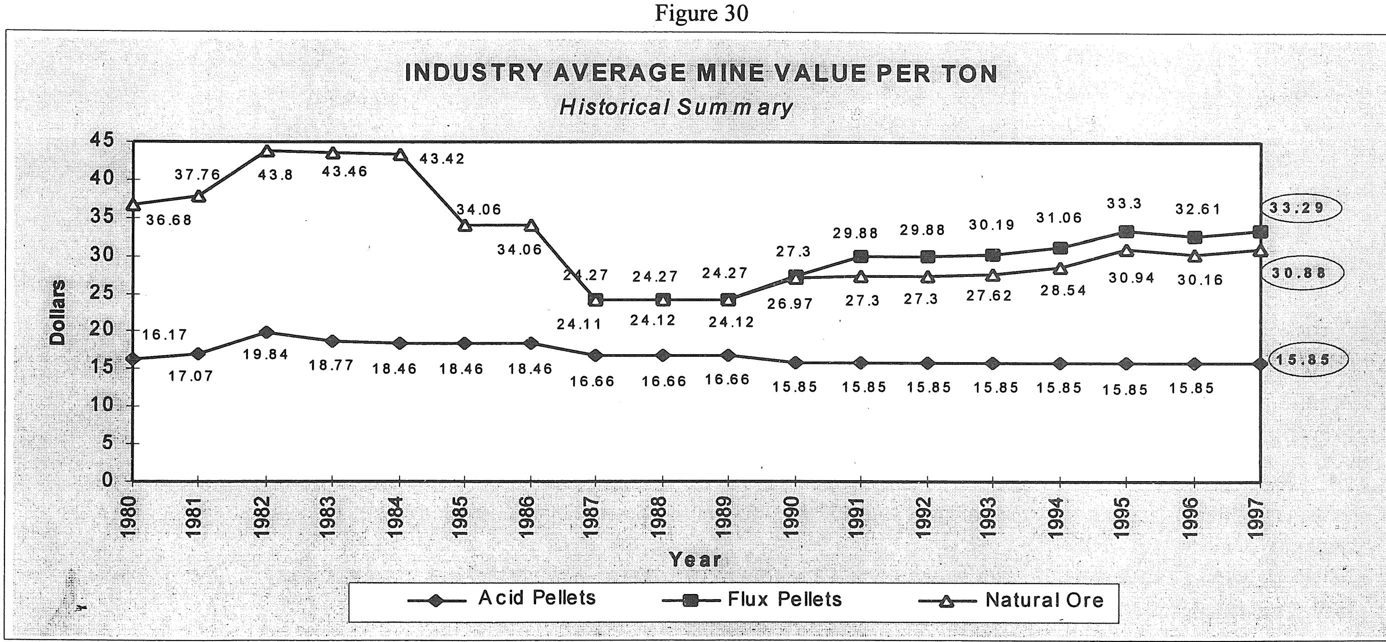


Figure 31

OCCUPATION TAX COLLECTED ON IRON ORE AND TACONITE PRODUCTION

1955 - 1997

	IRON ORE		TACONITE		TOTALS	
Year	Tons Produced (000's)	Occupation Tax (000's)	Tons Produced (000's)	Occupation Tax (000's)	Tons Produced (000's)	Occupation Tax (000's)
1955	66,545	$31,501	1,341	$ -0-	67,886	$31,501
1960	44,042	20,655	13,390	638	57,432	21,293
1965	33,462	15,646	19,004	1,740	52,466	17,386
1966	32,601	15,545	21,677	1,898	54,278	17,443
1967	25,480	12,646	24,311	1,611	49,791	14,257
1968	21,893	10,802	30,269	1,807	52,162	12,609
1969	22,511	10,968	33,410	2,285	55,921	13,253
1970	21,172	9,278	35,348	3,161	56,520	12,439
1971	17,530	7,301	33,778	5,379	51,308	12,680
1972	14,439	6,376	34,554	3,659	48,993	10,035
1973	17,941	8,836	41,829	6,824	59,770	15,660
1974	17,654	9,698	41,053	10,092	58,707	19,790
1975	10,227	5,038	40,809	18,955	51,036	23,993
1976	9,494	6,480	40,575	18,270	50,069	24,750
1977	4,647	2,641	26,372	3,190	31,019	5,831
1978	5,905	3,937	49,545	19,266	55,450	23,203
1979	4,230	2,663	55,333	23,856	59,563	26,519
1980	2,221	1,000	43,060	13,808*	45,281	14,808
1981	1,664	1,232	49,369	11,372*	51,033	12,604
1982	789	719	23,445	-0-*	24,234	719
1983	851	499	25,173	2,386*	26,024	2,885
1984	850	442	35,689	10,606*	36,539	11,048
1985	1,465	394	33,265	4,070*	34,730	4,464
1986	1,122	343	25,451	5,866*	26,573	6,209
1987	1,403	789	32,109	5,356	33,512	6,145
1988	743	294	39,772	2,993	40,515	3,287
1989	603	160	39,882	350	40,485	510
1990	417	11	42,522**	2,057	43,593	2,068
1991	406	32	39,922**	2,008	40,328	2,040
1992	528	38	38,850**	1,551	39,956	1,589
1993	145	0	40,485**	1,709	40,630	1,709
1994	318	22	42,448**	2,302	42,766	2,324
1995	349	87	45,857**	3,072	46,206	3,159
1996	441	176	44,711**	2,460	45,152	2,636
1997	501	213	45,500**	2,508	46,007	2,721
1998 Est.	500	250	42,000**	2,500	42,500	2,750

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

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

Figure 32

TACONITE INDUSTRY OCCUPATION TAX REPORT AVERAGES ON A PER TON BASIS

Year	Tons Produced (000Tons)	(1) Average Value	(2) Trans-portation	(3) Cost of Bene-ficiation	(4) Cost of Mining	Develop-ment	Taconite Production Tax Paid	Sales & Use Tax Paid	Admin. & Misc. Expense	Royalty	Taxable Value of Production	Occupation Tax Paid
1972	34,554	$17.437	$4.472	$7.267	$2.073	$0.665	$0.203	$0.133	$0.398	$0.657	$1.569	$0.106
1973	41,829	18.034	4.771	6.851	1.978	0.600	0.243	0.133	0.360	0.679	2.419	0.163
1974	41,053	22.122	5.845	8.058	2.162	0.737	0.250	0.154	0.450	0.818	3.648	0.246
1975	40,809	28.846	6.887	9.499	2.799	0.891	0.250	0.177	0.621	0.976	6.746	0.464
1976	40,575	32.200	7.609	11.334	3.254	1.219	0.250	0.183	0.778	1.077	6.496	0.450
1977	26,372	34.827	8.127	17.376	4.816	1.415	0.366	0.280	1.368	1.110	-0.031	0.121
1978	49,545	37.080	8.766	14.725	4.096	1.497	0.254	0.173	1.076	1.259	5.234	0.388
1979	55,333	41.306	9.929	16.094	4.260	1.760	0.253	0.227	1.297	1.320	6.166	0.435
1980	43,060	46.365	10.679	20.867	5.028	2.006	0.298	0.214	1.519	1.444	4.310	0.321
1981	49,369	51.107	13.307	20.986	5.515	2.155	0.266	0.187	2.150	1.705	4.836	0.257
1982	23,445	53.946	12.658	31.007	6.228	2.213	0.419	0.274	4.441	2.078	(5.372)	0.140
1983	25,173	56.178	13.034	26.624	4.952	1.485	0.365	0.186	4.819	1.832	2.881	0.453
1984	35,689	56.480	13.077	19.852	4.227	1.997	0.270	0.204	4.534	1.691	10.628	0.838
1985	33,265	47.102	13.064	19.289	4.235	1.568	0.285	0.194	4.399	1.654	2.414	0.297
1986	24,017	47.143	13.024	18.474	4.317	0.902	0.321	0.222	4.479	1.498	3.690	0.259
1987	32,109	26.766	0.053	15.595	3.278	0.556	1.684	0.179	3.384	1.281	0.756	0.167
1988	39,786	24.325		14.901	3.559	0.864	1.524	0.192	2.718	1.180	(0.613)	0.075
1989	39,882	24.424		15.895	4.163	1.083	1.830	0.233	3.024	1.161	(2.965)	0.009
1990	43,176	27.444		16.286	4.513	1.076	1.928	0.256	3.013	1.129	(0.757)	0.048
1991	40,619	28.754		16.837	4.667	1.358	2.102	0.272	3.530	1.156	(1.168)	0.049
1992	39,428	28.863		17.001	4.489	1.425	2.103	0.269	4.275	1.286	(1.985)	0.039
1993	40,485	28.976		16.089	4.491	1.261	1.941	0.265	4.050	1.083	(0.205)	0.042
1994	42,448	30.144		16.429	4.709	1.575	1.936	0.270	3.757	1.092	0.376	0.054
1995	45,857	32.527		16.618	4.690	1.563	1.849	0.245	3.712	1.218	2.632	0.067
1996	44,618	31.748		18.013	5.275	1.684	2.042	0.271	4.022	1.268	(0.827)	0.061
1997	**45,659**	**32.504**		**17.500**	**4.945**	**1.822**	**2.038**	**0.224**	**3.906**	**1.183**	**0.886**	**0.055**

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

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

Figure 33

TACONITE INDUSTRY OCCUPATION TAX REPORT AVERAGE COST PER TON

BENEFICIATION

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

MINING

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

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

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

INCOME TAX WITHHOLDING ON MINING AND EXPLORATION ROYALTY

(M.S. §290.923)

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

Royalty is defined as any amount (in money or value of property) received by any person having any right, title or interest in or to any tract of land in this state for permission to explore, mine, take out or remove ore therefrom. The ores subject to the withholding are iron ore, taconite, and other minerals (copper, nickel, gold, etc.) subject to the Net Proceeds Tax. Royalties can include rents, bonus payments, and nonrecoverable lease payments.

ROYALTY PAYERS

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

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

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

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

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

ROYALTY PAID TO A TRUST

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

1. The trust becomes responsible for withholding from the beneficiaries.
2. The trust must inform the beneficiaries of the requirements to withhold tax and provide them with a W-4.
3. The trust must provide each beneficiary with the 1099 MISC by January 31st of the following year.
4. The trust must prepare and submit the required withholding returns—MW-1, MW-5, and MW-6 to the State of Minnesota.

ROYALTY REPORTS

The MW-6 (Annual Reconciliation of Income Tax Withheld), must be submitted to the Department of Revenue by February 28th, whether tax was withheld or not. The MW-6 must be accompanied by the 1099 MISC forms for each recipient. Royalty payers with over 250 recipients must provide the Department of Revenue with the 1099 MISC information on magnetic tape. Royalty payers with less than 250 recipients can submit the 1099 MISC information on disc or paper copy. It must, however, be consistent with the federal format.

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

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

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

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

Where wages and royalty withholding are combined, a copy of the MW-6 and the 1099 MISC's must also be sent to the Minerals Tax Office.

ROYALTY RECIPIENTS
Individuals who had no Minnesota income tax liability in the preceding year and reasonably expect to have no liability for the current year are exempt from the withholding tax. Nonresident individuals will not incur a Minnesota income tax liability for 1997 and are not required to file a Minnesota individual income tax return if their Minnesota assignable gross income is less than $6,950. A W-4 exemption certificate must be filed with the royalty payer so that Minnesota income tax will not be withheld from the royalties received.

If tax is incorrectly withheld by the royalty payer, the royalty recipient must file a Minnesota income tax return, M-1NR, to obtain a refund. Royalty recipients ***are no longer*** eligible to use percentage depletion on their individual income tax returns.

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

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

Minnesota Department of Revenue
Forms Distribution
10 River Park Plaza
Mail Station 4451
St. Paul, MN 55146-4451
1-800-657-FORM

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

ROYALTY TABLES (Page 41)
The royalty costs per ton beginning from 1970 to date (Figures 35 & 36) are located on page 41.

Figure 34

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

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

Figure 35

AVERAGE ROYALTY COST PER TON OF PELLETS PRODUCED

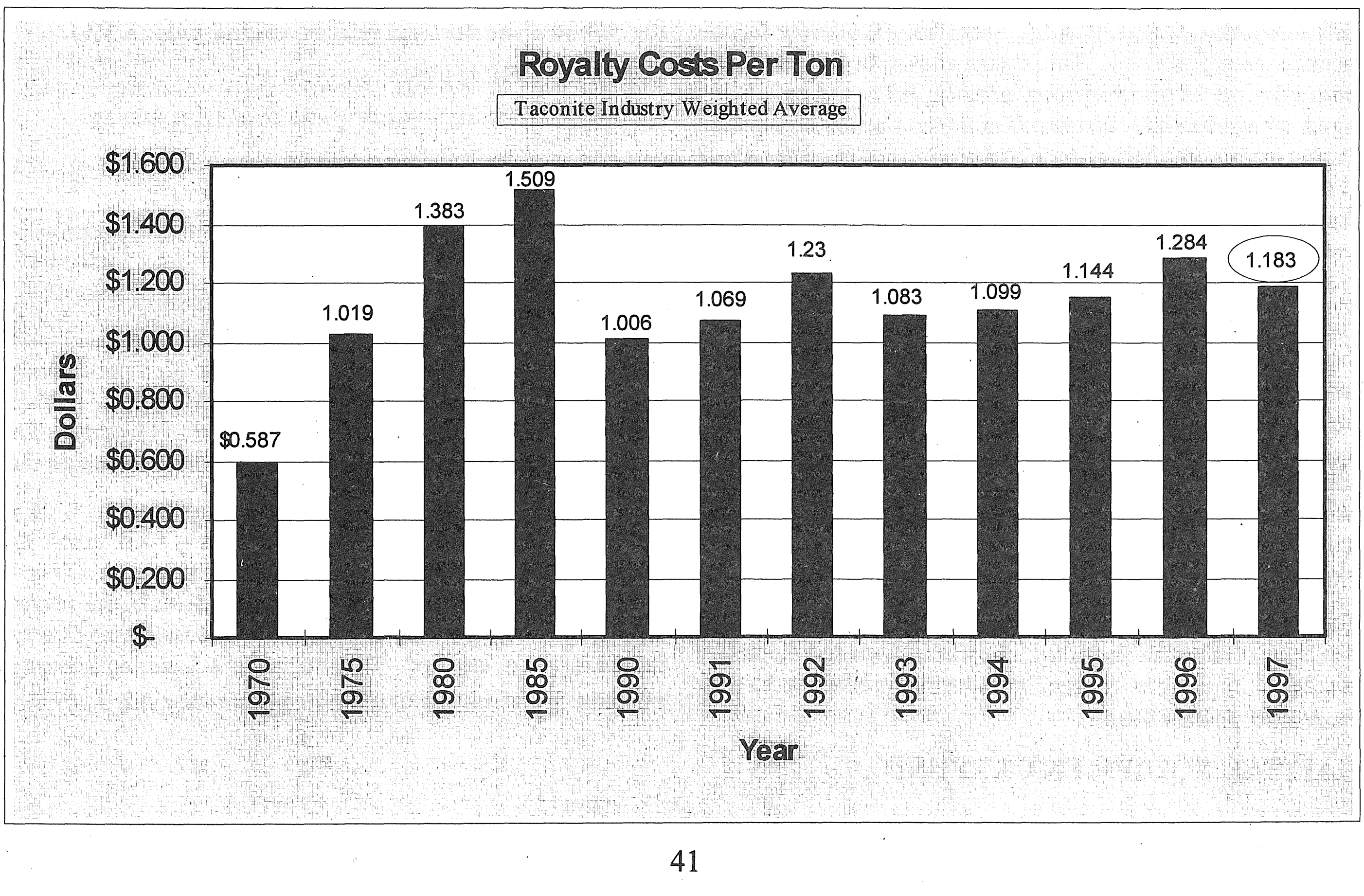
	1970	1975	1980	1985	1990	1992	1993	1994	1995	1996	1997
Industry Production (millions of tons):	35.3	40.8	42.9	33.3	43.2	39.5	40.5	42.3	45.9	44.6	45.7
Butler	0.714	1.139	1.815	1.954	Closed	Closed	Closed	Closed	Closed	Closed	Closed
Erie (LTV)	0.314	0.954	1.749	2.289	1.288	1.569	1.475	1.454	1.545	1.452	1.418
Eveleth***	0.949	2.218	3.578	2.621	1.644	1.886	1.846	1.876	1.416	1.464	1.445
Hibbing***	*	*	0.398	0.772	0.805	1.525	1.465	1.439	1.495	1.603	1.800
Inland	*	*	1.212	1.801	1.396	1.705	0.772	0.779	0.810	0.994	1.022
National	0.549	0.974	1.525	2.001	2.041	2.132	1.836	1.743	1.606	1.441	1.226
Reserve/Northshore**	1.12	1.919	2.82	3.087	1.35	1.126	1.187	1.220	1.472	1.683	1.790
USX-Minntac	0.000	0.171	0.288	0.334	0.239	0.277	0.266	0.329	0.397	0.595	0.446
Industry Average:											
Weighted:	0.587	1.019	1.383	1.509	1.006	1.23	1.083	1.099	1.144	1.284	1.183
Arithmetic:	0.729	1.229	1.673	1.857	1.252	1.46	1.328	1.256	1.249	1.319	1.292

* Plant not yet in production. ** Reserve's/Northshore's royalty costs per ton are based primarily upon shipments, not production.

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

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

Figure 36



SALES AND USE TAX

(M.S. §297A)

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

The current sales tax rate is 6.5 percent. Minnesota's sales and use tax, first adopted in 1967, is now the second largest source of state taxes, yielding **$2.9 billion in fiscal year 1996**.

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

INDUSTRIAL PRODUCTION EXEMPTION

The industrial production exemption, M.S. §297A.25, Subd. 9, allows industry to exempt items from sales and use tax that are used or consumed in the production of personal property intended to be sold ultimately at retail, whether or not the item so used becomes an ingredient or constituent part of the property produced. Items included in the exemption are chemicals, fuels, petroleum products, lubricants, packaging materials, electricity, gas, and steam. Explosives, a major item for the mining industry, are exempt under the chemical classification. **A fact sheet number 147 titled "Taconite and Iron Mining" is available from the Minnesota Department of Revenue or at www.taxes.state.mn.us.**

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

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

The 1994 Minnesota Legislature expanded M.S. §297A.25 Subd. 9 to exempt materials including chemicals, fuels and electricity purchased by persons engaged in industrial production to treat production process waste.

CAPITAL EQUIPMENT REFUND

CAPITAL EQUIPMENT REFUND

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

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

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

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

The 1994 legislature expanded the capital equipment refund law to include replacement equipment, repair, replacement and spare parts, accessories, special purpose buildings and foundations for capital equipment (M.S. §297A.01, Subd. 20). This is for a partial refund of the tax paid. For the period of July 1, 1997 through June 30, 1998 the refund is 3.6 percent. **After June 30, 1998 the refund is for the total sales or use tax paid (6.5%).**

1998 LEGISLATION

No changes affecting iron ore, taconite or other mining.

1997 LEGISLATION

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

Two capital equipment refund claims can be filed per calendar year. Each claim can include more than one project. A claim can include both 6.5 percent and partial percentage amounts. The claim form has separate blocks for each of the percentages that can be claimed.

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

ELECTRONIC FUND TRANSFER

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

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

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

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

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

Figure 37

USE TAX PAID

YEAR	USE TAX	M.S. §298.40 OCCUPATION TAX OFFSET (TAX NOT COLLECTED)	REFUND* CLAIMS	NET USE TAX COLLECTED
1983	$ 5,808,237	$2,613,605		$ 3,194,632
1984	7,110,166	4,283,181		2,826,985
1985	6,476,570	4,216,360		2,260,210
1986	4,890,472	2,399,142		2,491,330
1987	5,286,947	1,827,482		3,459,465
1988	8,351,535	1,149,975		7,201,560
1989	11,112,722	129,744	$ 83,478	10,899,500
1990	13,127,042	-0-	104,173	13,022,869
1991	11,860,378	-0-	475,098	11,385,280
1992	11,702,398	-0-	447,370	11,255,028
1993	11,991,300	-0-	328,139	11,663,161
1994	14,200,022	-0-	1,063,242	13,136,780
1995	15,929,989	-0-	1,435,835	14,494,154
1996	16,821,715	-0-	4,841,228	11,980,487
1997	18,535,506	-0-	6,615,005	11,920,000
1998 Est.	19,000,000	-0-	7,000,000	12,000,000

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

AGGREGATE MATERIAL TAX
(GRAVEL TAX - M.S. §298.75)

INTRODUCTION

The aggregate material tax is a production tax on the removal of aggregate material. Aggregate material is gravel, sand, silica sand, crushed rock, limestone and granite (but not dimension stone and dimension granite). **The tax imposed on importers and operators is ten cents per cubic yard or seven cents per short ton.** For the purposes of this statute, an **importer** is any person who brings aggregate from another state or county (township) not imposing this tax into a county (township) that imposes the Aggregate Material Tax. The tax is imposed on an importer when the aggregate material is imported into a county (township) imposing the tax from a county (township) that does not impose the tax. An **operator** is a person engaged in removing aggregate material from the surface or subsurface of the soil, for the purpose of sale, either directly or indirectly, through the use of aggregate material in a marketable product. The tax is imposed on an operator within the county (township) when the material is sold or transported from stockpile, whichever occurs first.

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

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

1998 LEGISLATION

No legislation regarding this tax was passed in 1998.

1997 LEGISLATION (Update)

1997 legislation authorized Pope, St. Louis and Carlton Counties to begin collecting the tax. Pope County imposed the tax effective April 1, 1998. Carlton and St. Louis Counties decided not to impose the tax.

The same legislation authorized some townships surrounding Duluth to impose the tax if St. Louis County chose not to impose the tax. Those townships are: Alden, Brevator, Canosia, Duluth, Fredenberg, Gnesen, Grand Lake, Industrial, Lakewood, Midway, Normanna, North Star, Rice Lake and Solway. Solway Township voted to impose the tax, but has not set an effective date.

REPORTING REQUIREMENTS

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

TAX ADMINISTRATION

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

"Aggregate material must be measured and weighed ***after*** it has been extracted from the pit, quarry or deposit."

Any operator has 30 days ***after*** the tax has been paid to appeal any estimate.

The law requires the county to distribute the tax as follows: 60% -- County Road and Bridge Fund, 30% -- Township or City Road and Bridge Fund as determined by the County Board and 10% -- Reserve Fund for Pit Restoration of abandoned pits or quarries on public and tax forfeit lands. Townships collecting this tax have no legally mandated distribution.

The tax is first collected from the county (township) where the aggregate is produced. If two adjoining counties (townships) both impose the tax, the county (township) into which the aggregate is imported cannot collect or impose the tax. The only exception to this is: if the aggregate material is transported directly from the extraction site by a waterway, railway or other non-highway method, the tax imposed shall be apportioned equally between the county (township) of extraction and the county (township) of destination.

AGGREGATE TAX EXAMPLES

No Tax Imposed Examples

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

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

Tax Imposed Example

Example: A privately-owned aggregate pit sells aggregate to a township, other local units of government, county or the State of Minnesota. The tax is imposed on the pit operator.

Example: A governmental unit-owned or privately-owned pit sells aggregate to an individual or contractor who picks up the aggregate at the pit. The tax is imposed on the pit operator.

Example: Same as above, but operator delivers the aggregate; either dumping or leveling the aggregate. The tax is imposed on the pit operator.

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

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

Figure 38

AGGREGATE TAX COLLECTED

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

AGGREGATE TAX COLLECTED BY COUNTY-1997

Becker	$93,673	Pennington	$14,170
Benton	0	Polk	3,326
Big Stone	81,228	Pope	0
Carver	63,203	Ramsey	42,045
Clay	183,414	Red Lake	34,853
Dakota	575,393	Scott	258,275
Hennepin	357,327	Sherburne	185,913
Kittson	34,332	Sibley	37,185
Le Sueur	180,184	Stearns	59,566
Mahomen	3,212	Washington	389,986
Marshall	1,914	Wilkin	19,331
Norman	13,037	**Total**	**$2,658,567**

SALES TAX ON AGGREGATE MATERIALS

Aggregate material is gravel, sand, silica sand, crushed rock, limestone and granite.

SALES TO CONTRACTORS

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

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

SALES TO TOWNSHIPS

Taxable: The purchase of aggregate by a township for any use other than road and bridge maintenance is taxable, i.e. aggregate is purchased for the township's parking lot, playground, snowmobile trails, etc.

Non-Taxable: Effective after June 30, 1998, purchases of aggregate by townships are exempt from sales tax if they are used exclusively for road and bridge maintenance. This exemption does not apply to cities, counties or special taxing districts.

SALES TO CITIES, COUNTIES OR SPECIAL TAXING DISTRICTS

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

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

AGGREGATE PIT OWNED BY A GOVERNMENT UNIT

Taxable: If a pit is owned or leased by a governmental unit, sales are subject to sales tax if sold to anyone else for their own use, unless it is purchased for resale. See previous section on contractors.

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

PIT OWNER NOT IN THE BUSINESS OF SELLING AGGREGATE

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

AGGREGATE CRUSHING

Taxable: Aggregate crushing is considered fabrication labor and is taxable. Fabrication labor is defined as the making or creating of a product into a new or changed product. Fabrication labor is taxable even when the customer provides the materials for the products that will be created or altered.

AGGREGATE SCREENING

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

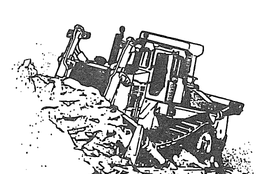
Example: Aggregate is purchased from a pit owner and another party is hired to crush, size (screen) or otherwise process the material. The pit owner must charge the purchaser sales tax on the material; the party that crushes, sizes or otherwise processes the material must charge sales tax on the fabrication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

READY MIX CONCRETE PRODUCER/BITUMINOUS PRODUCER

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

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

For additional information on the Sales and Use Tax, contact the Minnesota Department of Revenue at -- 1-800-657-3777 or at www.taxes.state.mn.us.



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. These actively used lands include the plant site, mining pit, stockpiles, tailings pond and water reservoirs. Also included are lands stripped and ready for mining, but not lands merely cleared of trees. Exemptions are granted on a parcel basis to the nearest five acres. Lands adjacent to these facilities, commonly referred to as auxiliary mining lands, are subject to assessment of ad valorem tax administered by the county.

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

Each property classification has a legislatively-set percentage called the class rate that is multiplied by the assessor's estimated market value (EMV) to calculate tax capacity. For payable 1998 the class rate for the timber classification is 1.5% of the estimated market value. For the industrial classification, there are two class rates; 2.7% for the first $150,000 of the estimated market value of the property and 4% for the value over $150,000.

The 1997 Legislature expanded the eligibility for the lower 2.7% rate so that now each mining operation will have up to $150,000 of the EMV of the lands under control classified at the lower rate. This change is for taxes payable in 1998. Both of the industrial class rates were reduced for payable 1999. The lower rate from 2.7 to 2.45 percent and the higher rate from 4.0 to 3.5 percent, while the timber rate was reduced from 1.5 percent to 1.25 percent for payable 1999 taxes.

Property taxes are calculated by multiplying a property's tax capacity times the tax extension rate for the jurisdiction where it is located. Tax extension rates are determined by county, local government and school district spending. For payable 1998, they range from a low of approximately 90% to a high of approximately 209% in St. Louis County. In addition, the **market value** times the referendum rate must be added to the tax determined above if there is a referendum in the taxing district.

The following schedule provides for adjustments in both the valuations and classification of auxiliary mining lands located on the iron formation versus off-formation lands as well as further refinements based on the proximity of these lands to active mining operations. It also outlines valuation adjustments to be made on excess lands (those located more than one-quarter mile as market conditions and/or Minnesota statutes dictate.

ST. LOUIS COUNTY MINING LAND ASSESSMENT SCHEDULE

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

AD VALOREM TAX ON UNMINED TACONITE
(M.S. §298.26)

A tax not exceeding $15.00 per acre may be assessed upon the taconite or iron sulfides in any 40-acre tract from which the production of iron ore concentrate is less than 1,000 tons.

The heading on M.S. §298.26 is somewhat misleading in that it refers to a TAX ON UNMINED IRON ORE OR IRON SULFIDES. The tax clearly applies to unmined taconite and has been administered in that manner. The working "iron ore" does not refer to high-grade natural ore in this instance.

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

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

The categories are listed as follows:

1) Those lands which are underlain by magnetic taconite of sufficient quantity and grade to be currently economic. They are considered to be "economic" taconite and are given a market value of $500 per acre.

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

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

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

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

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

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

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

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

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

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

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

For payable 1998 the tax is calculated by multiplying the market value for the parcel of land by the 4.00 percent class rate times the local tax rate plus the market value times the referendum rate. (NOTE: Call your county auditor for more information.)

Figure 39

UNMINED TACONITE TAX PAID
(Year Payable)

County	1991	1992	1993	1994	1995	1996	1997	1998
Itasca	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
St. Louis	352,935	349,551	355,596	352,119	488,176	467,946	455,792	444,630
TOTALS	$352,935	$349,551	$355,596	$352,119	$488,176	$467,946	$455,792	$444,630

AD VALOREM TAX ON UNMINED NATURAL IRON ORE
(M.S. §272.03, 273.02, 273.12, 273.13, 273.165, 273.1104)

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

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

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

The following expenses are allowed as a deduction from the Lake Erie market value on the computation of present worth (Hoskold Formula):

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

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

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

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

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

Also, further changes in terminology were introduced. The term "class rate" is introduced for taxes payable in 1990. The class rate for Class 5 property which includes unmined iron ore was 5.06 percent in 1990.

The 1998 legislature reduced the class rate from 4% to 3.50% for payable 1999.

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

Local tax rates are a function of county, local government, and school district spending. For 1998, they range from a low of approximately 90% to a high of approximately 215% in St. Louis County. The following class rates were in effect through 1999 as follows:

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

Since 1963, the Revenue Department has tried to maintain all ores on the tax rolls, including the uneconomic, underground, and unavailable classifications. A schedule of minimum rates was established in 1963 and major revisions were made in 1974, 1986, 1988 and 1992. The "Market Values" for iron ores which do not show a value with the Hoskold Formula are determined from the schedule of minimum rates.

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

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

Figure 40

MINIMUM RATES

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

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

Thus, the market value for underground wash ore with an iron content of less than 60 percent would be calculated as follows: Number of Tons x 1.8 Cents-Per-Ton = Market Value. The tax would then be determined using the tax capacity formulas explained previously.

Figure 41

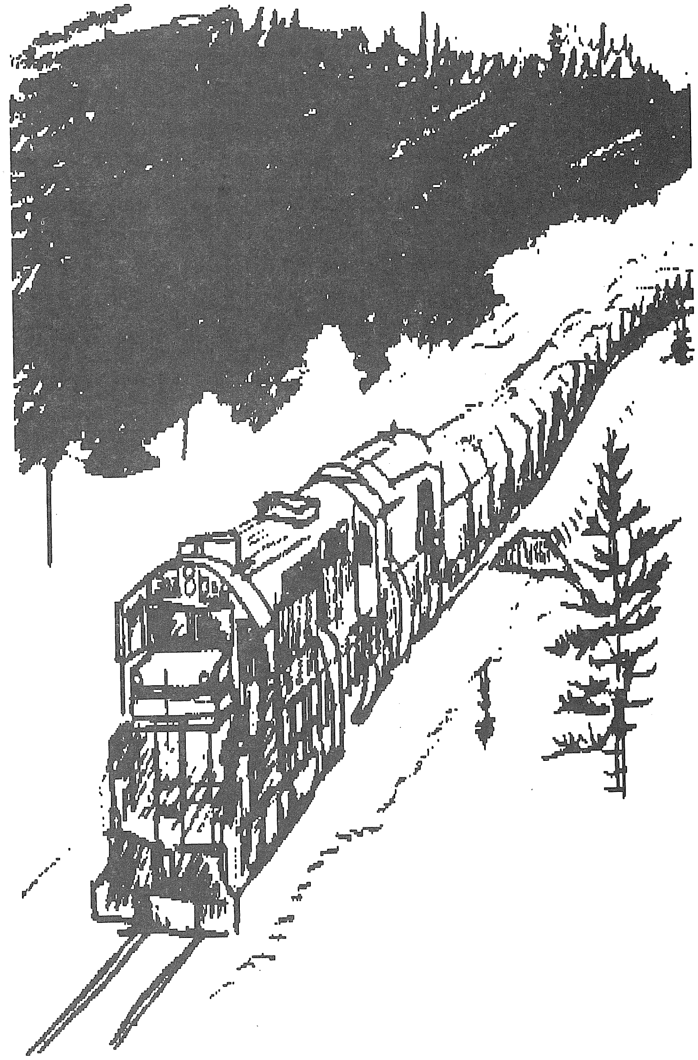
IRON ORE AD VALOREM TAX PAYABLE

YEAR ASSESSED	MARKET VALUE	YEAR PAYABLE	ESTIMATED TAX PAYABLE: CROW WING	ITASCA	ST. LOUIS	TOTAL
1980	$26,772,233	1981	$42,659	$585,267	$3,061,142	$3,689,068
1981	25,378,108	1982	43,640	487,610	3,239,027	3,770,277
1982	22,442,833	1983	44,479	217,269	3,282,925	3,544,673
1983	20,875,960	1984	51,659	222,023	3,425,894	3,699,576
1984	17,030,758	1985	50,925	152,997	3,122,369	3,326,291
1985	14,092,882	1986	49,508	142,558	2,844,507	3,036,573
1986	11,058,467	1987	29,405	113,672	2,483,064	2,626,141
1987	8,608,800	1988	30,228	112,449	2,229,592	2,372,269
1988	5,771,300	1989	19,365	46,426	812,665	878,456
1989	5,808,900	1990	18,633	44,130	811,489	874,252
1990	4,190,200	1991	17,712	41,199	584,779	643,690
1991	3,401,700	1992	18,966	45,019	429,850	493,835
1992	5,785,900	1993	19,600	46,000	276,300	341,900
1993	5,476,900	1994	20,900	47,400	254,600	322,900
1994	5,071,600	1995	14,000	34,800	262,400	311,200
1995	4,823,000	1996	12,100	32,600	237,600	282,300
1996	4,448,800	1997	10,900	34,900	226,200	272,000
1997	4,175,400	1998	10,400	23,500	244,900	278,800
1998	4,020,900	1999				

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

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

AD VALOREM TAX ON TACONITE RAILROADS (M.S. §270.80 - 270.88



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

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

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

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

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

Figure 42

TACONITE RAILROAD AD VALOREM TAX ASSESSED

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

AD VALOREM TAX ON SEVERED MINERAL INTERESTS
(M.S. §272.039, 272.04, 273.165)

DEFINITION
Severed mineral interests are those mineral interests that are owned separately from the title to surface interests in real estate. Severed mineral interests are taxed under M.S. sections 272.039, 272.04, and 273.165, subd. 1 at 40-cents per acre per year times the fractional interest owned. The minimum tax on any mineral interest (usually 40-acre tracts or government lots) regardless of the fractional interest owned, is $3.20 per tract. No tax is due on mineral interests taxed under other laws relating to the taxation of minerals, such as unmined taconite or iron ore, or mineral interests exempt from taxation under constitutional or related statutory provisions.

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

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

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

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

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 one of the plaintiffs. Shortly after this decision, the legislature amended the law to require notice to the last owner of record and a court hearing before a forfeiture for failure to timely record becomes complete. Under these requirements, court orders have been obtained by the state in several counties declaring the forfeiture of particular severed mineral interests to be complete and giving title to the state.

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

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

Figure 43

TAX COLLECTION AND DISTRIBUTION

Period Ending	80% Retained by Local Government	20% Payment to Indian Business Loan Account	Total Collections of Affected Counties
December 31, 1990	$377,772	$94,443	$472,215
December 31, 1991	455,128	113,782	568,910
December 31, 1992	494,612	123,653	618,265
December 31, 1993	339,512	84,878	424,390
December 31, 1994	342,068	85,517	427,585
December 31, 1995	547,372	136,843	684,215
December 31, 1996	571,436	142,859	714,295
December 31, 1997	517,268	129,317	646,585

INDIAN BUSINESS LOAN ACCOUNT

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

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

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

Figure 44

Minnesota Department of Revenue
Mail Station 3340
Saint Paul, Minnesota 55146-3340
(651) 296-2286

ABSTRACT OF TAX SETTLEMENT

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

STATE'S SHARE OF THE FOLLOWING:

Reimbursement of Homestead Benefits .... $________

$5.00 County Conservation Fee (M.S. 40.A152, Subd. 1) .... ________

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

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

Severed Mineral Interest .... ________

Total .... $________

Acknowledged Correct

Signature of County Treasurer Date Signature of County Auditor Date

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

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

DEPARTMENT OF REVENUE

The processing and payment of the Severed Mineral Interest Tax is handled by the Document Processing Division of the Department of Revenue in St. Paul. The Deposit Control Section is responsible for severed minerals tax (651) 296-5960 or 296-2717. The Special Taxes Processing Division (Sharon Scott) (651) 215-3853 is responsible for reporting collections to the Indian Affairs Council.

INDIAN AFFAIRS COUNCIL

The Indian Affairs Council, which administers the twenty percent portion of the tax allocated for the Indian Business Loan Account, may be contacted at (218) 755-3286 in Bemidji. Joe Day is the person in the Bemidji office to contact.

TAXES ON OTHER MINING AND/OR EXPLORATION

This section will identify and explain the taxes that apply to the exploration and/or mining of materials other than iron ore. Figure 45 identifies each tax by statute number and references each of them in this publication.

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

Figure 45

INDEX OF OTHER MINING/EXPLORATION TAXES

Tax	Current Laws	Mining Tax Guide Page No.
Ad Valorem Tax (Smelter and Plant Facilities Only)	(M.S. 272 and 273)	Page 53
Net Proceeds Tax	(M.S. 298.015-298.018) - 2.0%	See Page 54
Occupation Tax	(M.S. 298.01) - 9.8%	See Page 30 & 55
Sales and Use Tax	(M.S. 297A) - 6.5%	See Page 42 & 55
Severed Mineral Interest	(M.S. 272.039, 272.04, 273.165)	See Page 51
Withholding Tax on Royalty Payments	(M.S. 290.923) - 7% Withholding from Royalty Payments	See Page 39 & 55

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

The 1991 legislature amended the definition of real property in M.S. 272.03, subdivision 1, (c)(i), to specifically *exclude* mine shafts, tunnels, and other underground openings used to extract ores and minerals taxed under chapter 298. This is consistent with the Department of Revenue's previously stated position on taxation of those items. The tax on ore reserves (other than taconite and iron ore) was specifically removed in 1987. (M.S. 273.12, 1987, c. 268, art. 957). The 1997 legislature amended M.S. 273.12 to continue this exemption. Companies mining any of the minerals listed would be subject to property tax like any other business, i.e., on the value of the land and buildings only.

Machinery such as pumps, motors, grinding mills, etc., is considered personal property and *not* subject to ad valorem tax. In 1997 the St. Louis County Assessor indicated that new industrial buildings were valued at $25 to $30 per square foot for ad valorem tax purposes. Storage buildings may be assessed as low as $9 or $10 per square foot. Rates are set by the county, local communities, and school districts according to statute, and the tax is administered and collected by the county.

Minnesota's property taxes are computed as follows:

For commercial and industrial property, the assessor's estimated market value is multiplied by a class rate (see below) to obtain gross tax capacity (The first $150,000 of value is at 2.7 percent). This is then multiplied by the local tax rate to calculate tax payable. In St. Louis County, where the majority of Minnesota's mining industry is located, the local tax rates varied from .9 to approximately 2.15. If a referendum tax is passed, the referendum rate times the full market value must be added. The legislature has established target class rates lower than the current rate to reduce the tax burden on commercial and industrial property. A list of recent rates follows:

	CLASS RATES Over $150,000	First $150,000
Payable 1994	4.60%	3.00%
Payable 1995	4.60%	3.00%
Payable 1996	4.60%	3.00%
Payable 1997	4.60%	3.00%
Payable 1998	4.00%	2.70%
Payable 1999	3.50%	2.45%

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

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

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

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

Additional information is available from the Minerals Tax Office.

Gross Proceeds

1) If the minerals are sold in an arms-length transaction, the gross proceeds are the proceeds from the sale.

2) If the minerals are used by the taxpayer or disposed of in a non-arms-length transaction, such as shipments to a wholly-owned smelter or transactions between affiliated companies, the gross proceeds are determined as follows:

   a) Prices are determined using the average annual price in the Engineering and Mining Journal. If there is no average annual price for the mineral, then an arithmetic average of the monthly or weekly prices published in the Engineering and Mining Journal is used. For minerals not listed in the Engineering and Mining Journal, another recognized published price as determined by the Commissioner of Revenue will be used; and

   b) the price as determined above is multiplied by the amount of the mineral credited or paid for by the smelter. Any special smelter charges included in this price are deducted. The resulting amounts are the gross proceeds for tax calculation.

Net Proceeds

The net proceeds tax was designed to apply to mining, generally after initial beneficiation of the ore is completed. It is not intended to tax value added by further refining, smelting, or hydrometallurgical processes applied to previously beneficiated ore concentrates.

Net proceeds are gross proceeds less certain deductions. Not all expenses, however, are allowed as a deduction. The following is a comprehensive list of unallowable deductions and allowable deductions:

Unallowable Deductions Include:

— Sales, marketing, and interest expense.
— Insurance and tax expense not specifically allowed.
— Administrative expense outside of Minnesota.
— Research expense prior to production.
— Reserve for reclamation costs after production ends.
— Royalty expense, depletion allowances, and the cost of mining land.

Allowable Deductions

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

— Labor, including wages, salaries, fringe benefits, unemployment and workers' compensation insurance.
— Operating equipment and supplies, including sales and use tax paid. Cost of machinery, equipment, and supplies of a capital nature is deductible as depreciation expense only, per Section 167 of the I.R.C.
— Transportation of the minerals if the expense is included in the sales price.
— Administrative expense inside Minnesota.
— Exploration, research, or development expense in Minnesota is deductible in the year paid.
— Exploration and development expense in Minnesota incurred prior to production must be capitalized and deducted on a straight-line basis over the first five years of production.
— Reclamation costs paid in a year of production.

The carry-back or carry-forward of deductions is not allowed.

Distribution

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

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

The proceeds shall be distributed on July 15.

Economic Development Incentives

The Iron Range Resources and Rehabilitation Board (I.R.R.R.B.) has authority to loan up to $5 million for a new mine or processing plant subject to net proceeds tax. This authority expires June 30, 1998. The I.R.R.R.B. loans are generally made at below market rates. In addition to the loan, up to $7.5 million is potentially available for grants.

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

The Minnesota Constitution mandates that the state impose an occupation tax on the business of mining. In order to meet this constitutional requirement, the Occupation Tax shall be computed in accordance with the Minnesota Corporate Franchise (Income) Tax beginning with 1990.

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

WITHHOLDING TAX ON ROYALTY (M.S. 290.923)

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

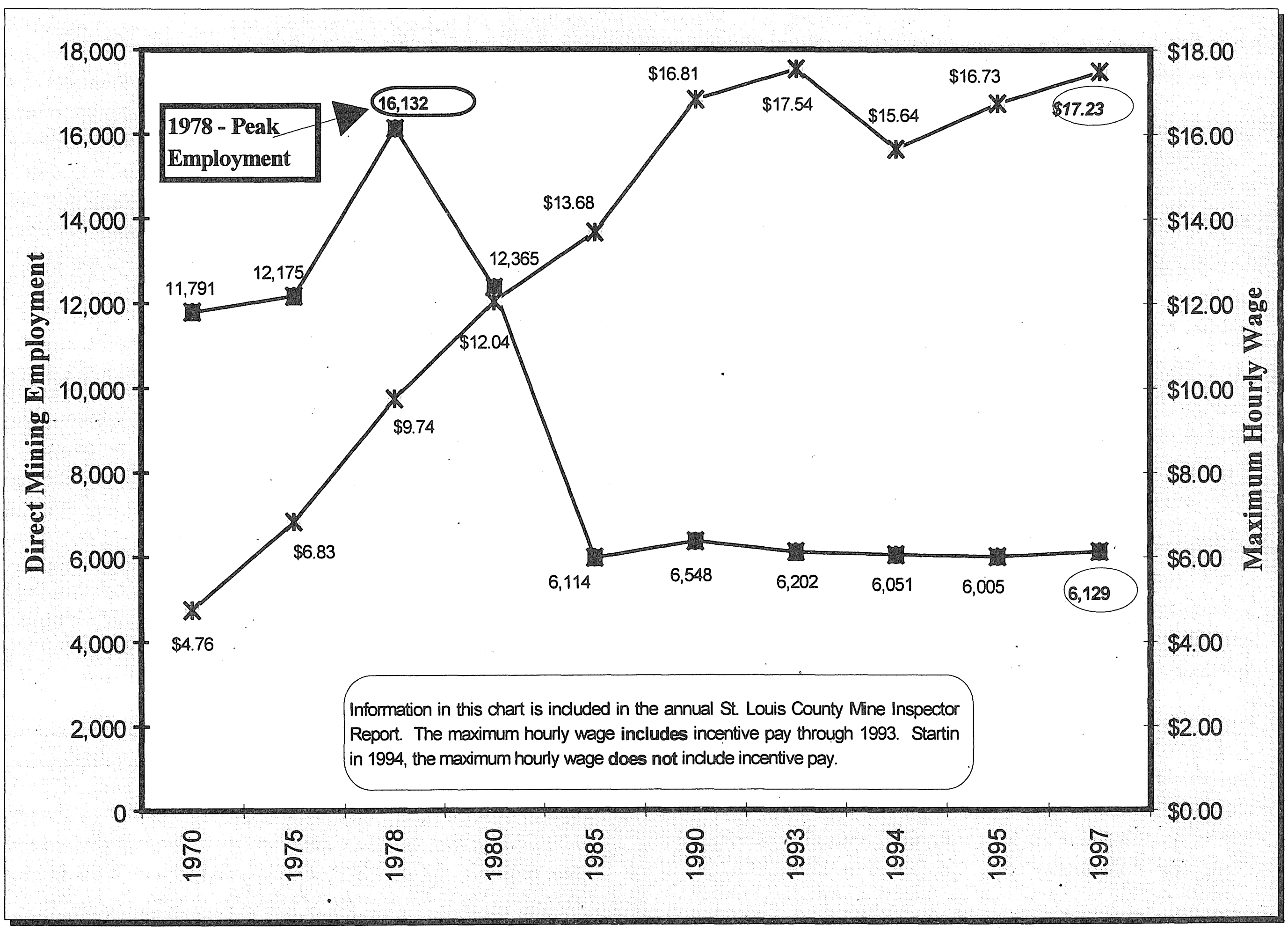
SALES AND USE TAX (M.S. 297A)

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

The specific exemption of mill liners applies only to the taconite industry. Purchases of liners or lining materials by other mining operations would be subject to sales and use tax.

Mining Employment and Wages

Figure 46



GLOSSARY OF TERMS

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

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

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

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

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

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

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

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

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

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

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

The purpose for this type of measurement is the historical and continued use of the selling price quoted in cents per iron unit. One example is a currently published price of acid pellets FOB mine at 37.344-cents per dry gross ton iron unit OR $.37344 per iron unit.

Fiduciary — An individual or an organization holding something in trust for another. (Sales tax collected establishes a fiduciary relationship between collector and the State of Minnesota.)

Flux Pellets — Taconite pellets containing limestone or another basic flux additive. Flux pellets eliminate the need to add limestone in the blast furnace, improving productivity and quality. Adding flux reduces the iron content of a pellet. Flux pellets, as used in this guide, means pellets containing 2.0% or more limestone or other flux.

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

Gross National Product Implicit Price Deflator (GNPIPD) — An index maintained by the U.S. Department of Commerce measuring inflation in the overall economy. The taconite production tax rate is adjusted annually based on the change in this index. The percentage increase in this index from the 4th quarter of the second preceding year to the 4th quarter of the preceding year determines the production tax rate. The 4th quarter 1996 GNPIPD was 111.01 compared to the 4th quarter of 1995 at 108.59. If the rate had not been frozen by the legislature, these numbers would have determined the 1997 production tax rate.

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

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

This was the starting point for occupation tax since it began in 1921. It was the standard method of pricing domestic iron ore and taconite for occupation tax until the mid-1980's (see Mine Value).

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

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

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

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

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

Natural Ore -- Iron ore that can be fed to a blast furnace with less complicated processing than taconite requires. Natural ore typically contains 50% +Fe 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".

Open Hearth — An obsolete steel making furnace still used in some Eastern European and 3rd world countries. No open hearth furnaces are presently operating in the United States.

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

For 1996 occupation tax purposes, pellet chips were valued at 75 percent of the value of the unbroken pellets.

Percentage Depletion — A taxable income *deduction* representing a return on capital investment on a "wasting" asset subject to a gradual reduction in reserves. This deduction applies to income derived from various mining or oil and gas properties. For iron ore, the *deduction* is a flat percentage of 15 percent of income from the **iron ore** only mined on a specific property.

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

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

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

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

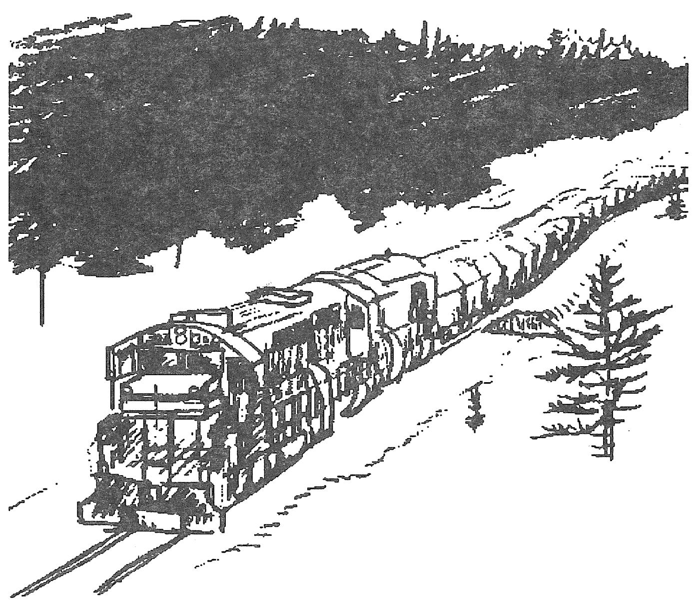
Steel Mill Products Index (SMPI) — A United States government index tracking the actual selling price of all steel products in the United States. This index is published monthly by the Department of Labor. This index is part of the formula used to determine a mine value for occupation tax purposes each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

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

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

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

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



MINING INDUSTRY TAX CALENDAR

JANUARY

- Ad Valorem Tax Reports mailed to companies.
- Ad Valorem estimates submitted by companies (January -February).

15 Form MT-11, Taconite and Semi-TaconiteTax Report mailed to companies with memorandum.

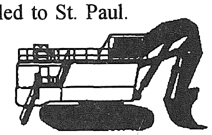
31 Form MW-1, Minnesota Employer's Quarterly Withholding Return due

SALES AND USE TAX

Electronic Fund Transfers (all months):

14 Payments must be made.

25 Return mailed to St. Paul.



FEBRUARY

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

- Taconite Production Tax Report due from companies.

15 Taconite Production Tax determinations mailed to companies.

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

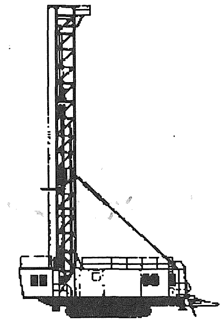
24 Taconite Production Tax payment (100%) due in county offices by electronic fund transfer.

25 Distribution of Taconite Production Tax by counties (collected February 24).

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

MARCH

1 Taconite Municipal Aid amounts mailed to cities or to RAMS

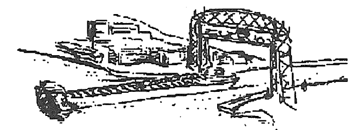


APRIL

1 Owner or lessee of mineral rights submits specific data on drill hole logs and lab tests during previous year for Unmined Taconite Tax.

15 Ad Valorem Tax present worth estimates mailed to companies.

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



MAY

1 Occupation Tax Return and payment due.

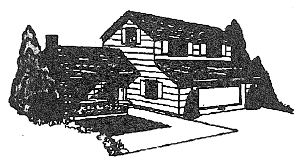
15 First half property tax on taconite railroad property due to counties.

20 Ad Valorem tax hearing held on first business day after May 20.

31 Production Cost Summary Report (Goldenrod Form) due.

JUNE

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



JULY

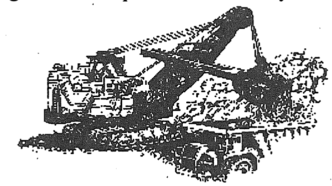
1 Commissioner of Revenue will certify amount of Taconite Municipal Aid to municipality.

15 Taconite Referendum distribution to school districts of Taconite Production Tax made by the counties.

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

AUGUST

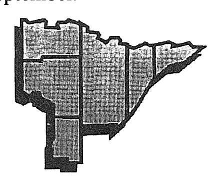
- Form MW-5 and payment of income tax withheld due at varying times each month depending on amount of tax due, i.e., eighth-month period or monthly.



SEPTEMBER

15 Taconite Municipal Aid account funds distributed by counties.

- Minnesota Mining Tax Guide available in early September.



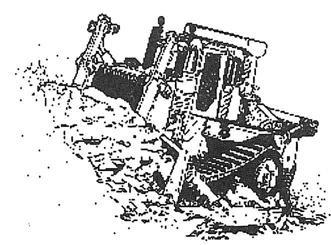
OCTOBER

10 Taconite Production Tax estimates due from companies.

15 Second half property tax on taconite railroad property due to counties.

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

NOVEMBER



DECEMBER

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

1 Production Tax forms mailed to companies.

30 Occupation Tax forms mailed to companies.

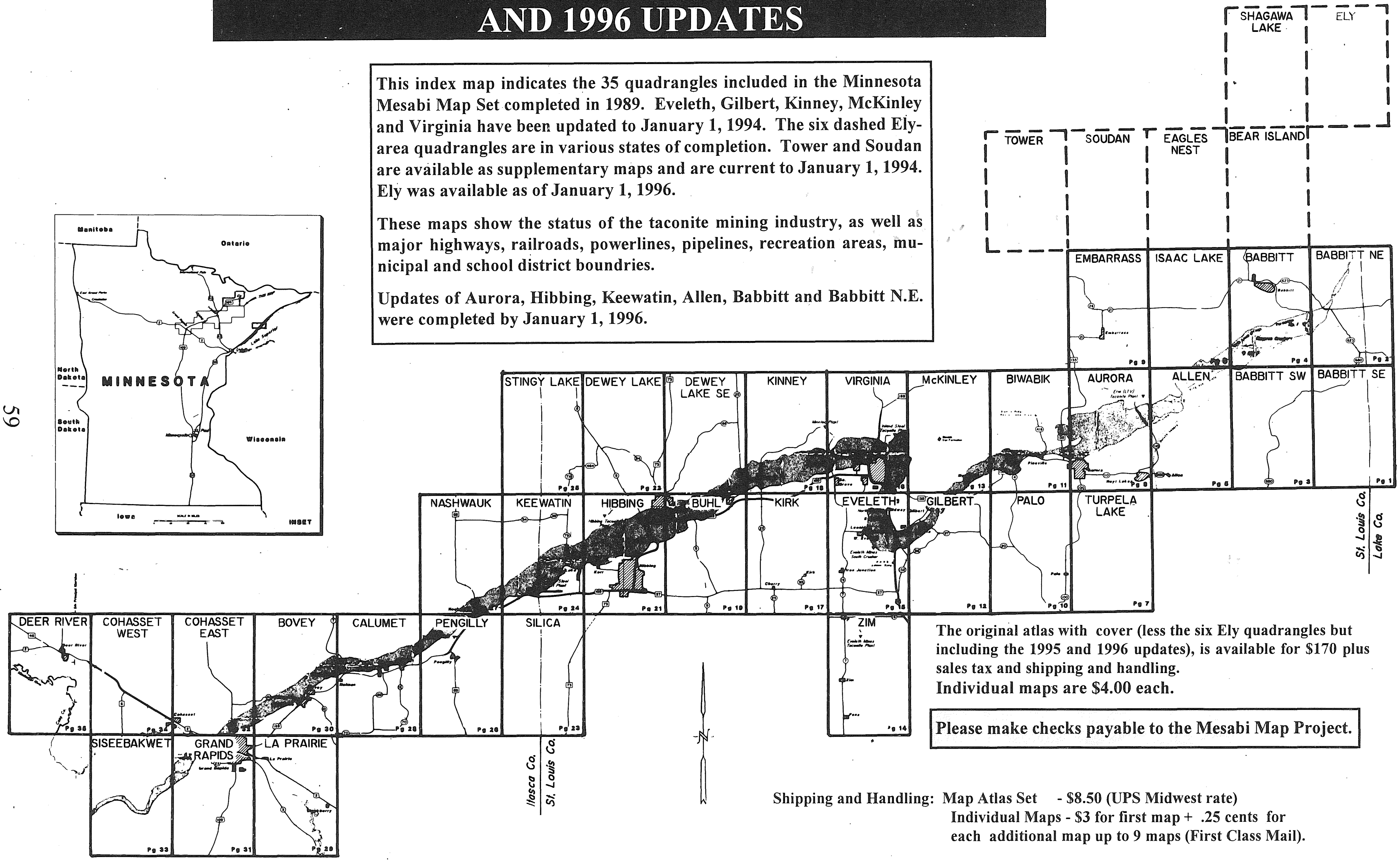
30 Royalty/Withholding Tax Paid Report, MT2-RW, mailed to companies.

INDEX MAP - MINNESOTA MESABI MAP SET AND 1996 UPDATES

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

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

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



The original atlas with cover (less the six Ely quadrangles but including the 1995 and 1996 updates), is available for $170 plus sales tax and shipping and handling.
Individual maps are $4.00 each.

Please make checks payable to the Mesabi Map Project.

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

Orders can be placed with the Minerals Tax Office, P.O. Box 481, Eveleth, MN 55734.
Phone: (218) 744-7420 or Fax: (218) 744-7421.

SURETY DEPOSITS

The following information explains the surety deposit requirements for out-of-state contractors. The 1989 Legislature passed a law requiring payers to withhold and deposit a portion of payments made to out-of-state contractors with the state of Minnesota.

Who is a contractor?

Minnesota statutes limits a "contractor" to those persons who supply labor only or labor and materials for specific construction, repairs, rehabilitation, or improvements under a contract requiring the employment of employees for wages. The term "contractor" does not include those persons who enter into contracts with the state or any political or governmental subdivision of the state as dealers or merchants.

Minnesota Statute 290.9705 requires that 8 percent of each payment paid to out-of-state contractors for work done in Minnesota must be withheld as a surety deposit on any contract that exceeds or that can reasonably be expected to exceed $100,000. The Department may waive this requirement if certain conditions are met.

If an out-of-state contractor enters into a contract that exceeds or is expected to exceed $100,000, the contractor will have to file form SD-E (Exemption from Surety Deposits for Out-of- State Contractors) with the Department of Revenue. The department uses this form to determine if the contractor is exempt from the 8 percent surety deposit requirements.

The department will grant an exemption if:

- The contractor gives the department a cash surety or bond, secured by an insurance company licensed in Minnesota, which guarantees the contractor will comply with all provisions of Minnesota withholding, sales, and corporate income tax laws, ***or***
- The contractor has done construction work in Minnesota at any time during the three calendar years before entering into the contract and has fully complied with Minnesota withholding, sales, and corporate income tax laws.

If the Minnesota Department of Revenue determines the contractor is exempt, the department will certify the form and return a copy to the contractor, who is responsible for providing a copy of the SD-E to whoever hired them.

However, if the department determines the contractor is not exempt, the department will notify whoever hired the contractor (the payor) to withhold the 8 percent surety deposit from each payment made to the contractor. The person or company hiring the contractor will use form SD-D (Surety Deposit-Deposit Form) to make the surety deposits.

The Department of Revenue will retain the surety deposits until the contractor's state tax obligations are considered fulfilled. The department will then refund, with interest, any amounts held as surety to the contractor. To obtain a refund, file Form SD-R, Refund of Surety Deposits for Non-Minnesota Contractors.

Questions?
If you have questions about any of this information or any other withholding tax matter, please call one of the numbers shown below.

You may also write to:

Minnesota Department of Revenue
Withholding Tax Division
Mail Station 6525
St. Paul, MN 55146-6525

1-800-657-3594 or (612) 282-9999
For TDD, contact Minnesota Relay at
1-800-297-5353 or (612) 297-5353

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MATTHEW G. SMITH, Deputy Commissioner

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CAROLYN KOSKELA, Secretary
e-mail: carolyn.koskela@state.mn.us

DONALD H. WALSH, Manager
e-mail: don.walsh@state.mn.us

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Minerals Division

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HENK DAHLBERG, Mineral Potential Mgr.

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Coleraine Minerals Research

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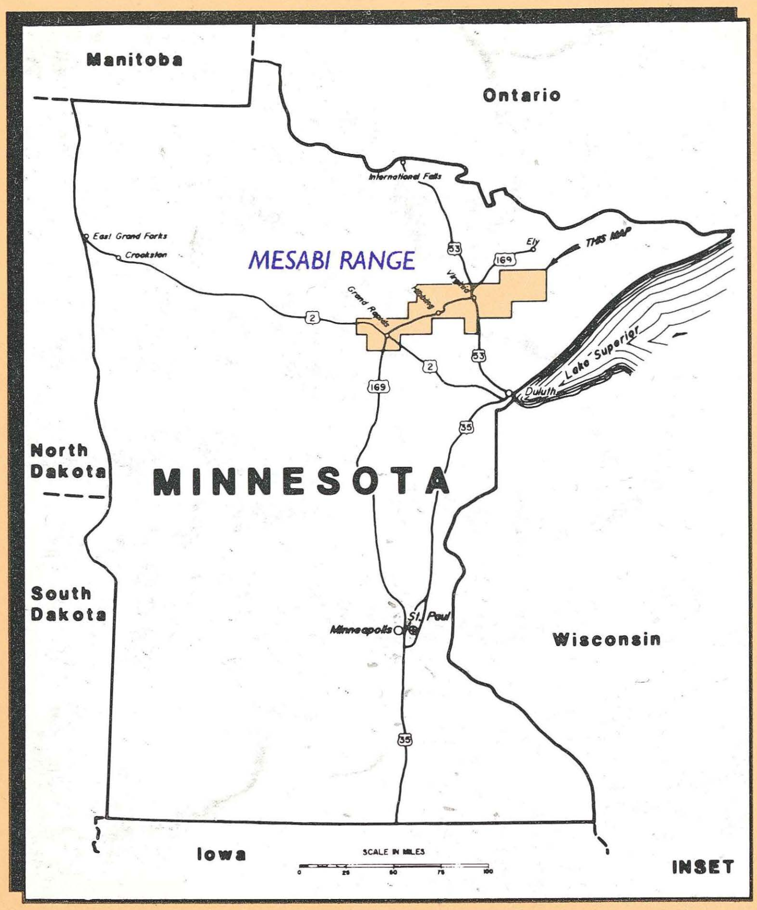
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SCALE IN MILES
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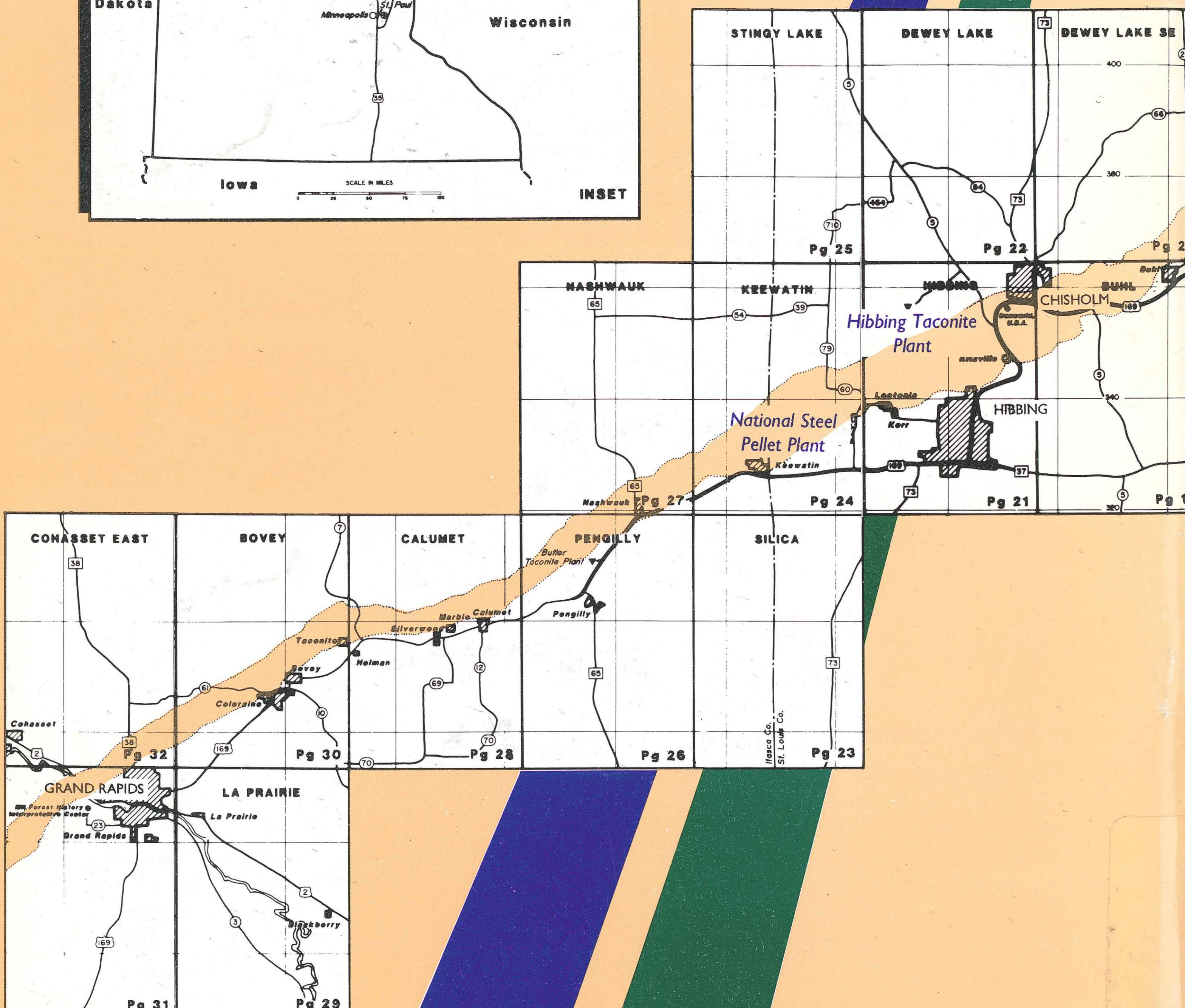
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NASHWAUK
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Pg 27
Pg 24
Pg 21
COHASSET EAST
BOVEY
CALUMET
PENGILLY
SILICA
Butler Taconite Plant
Pengilly
Marble
Calumet
Silverwood
Taconite
Holman
Bovey
Coleraine
Cohasset
Itasca Co.
St. Louis Co.
Pg 32
Pg 30
Pg 28
Pg 26
Pg 23
GRAND RAPIDS
LA PRAIRIE
La Prairie
Grand Rapids
Blackberry
Pg 31
Pg 29