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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH SESSION

H. F. No. 1782

01/24/2012 Authored by Anzele

The bill was read for the first time and referred to the Committee on Education Finance

1.1 A bill for an act
1.2 relating to taxation; minerals; modifying taconite production tax; dedicating a
1.3 portion of taconite production tax proceeds to certain school districts; amending
1.4 Minnesota Statutes 2010, sections 298.24, subdivision 1; 298.28, subdivision 4.

1.5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.6 Section 1. Minnesota Statutes 2010, section 298.24, subdivision 1, is amended to read:

1.7 Subdivision 1. **Imposed; calculation.** (a) For concentrate produced in ~~2001, 2002,~~
1.8 ~~and 2003~~ 2012, there is imposed upon taconite and iron sulphides, and upon the mining
1.9 and quarrying thereof, and upon the production of iron ore concentrate therefrom, and
1.10 upon the concentrate so produced, a tax of ~~\$2.103~~ \$2.662 per gross ton of merchantable
1.11 iron ore concentrate produced therefrom. ~~For concentrates produced in 2005, the tax rate~~
1.12 ~~is the same rate imposed for concentrates produced in 2004.~~ For concentrates produced in
1.13 2009 and subsequent years, the tax is also imposed upon other iron-bearing material.

1.14 (b) For concentrates produced in ~~2006~~ 2013 and subsequent years, the tax rate shall
1.15 be equal to the preceding year's tax rate plus an amount equal to the preceding year's tax
1.16 rate multiplied by the percentage increase in the implicit price deflator from the fourth
1.17 quarter of the second preceding year to the fourth quarter of the preceding year. "Implicit
1.18 price deflator" means the implicit price deflator for the gross domestic product prepared by
1.19 the Bureau of Economic Analysis of the United States Department of Commerce.

1.20 (c) An additional tax is imposed equal to three cents per gross ton of merchantable
1.21 iron ore concentrate for each one percent that the iron content of the product exceeds 72
1.22 percent, when dried at 212 degrees Fahrenheit.

1.23 (d) The tax on taconite and iron sulphides shall be imposed on the average of the
1.24 production for the current year and the previous two years. The rate of the tax imposed

will be the current year's tax rate. This clause shall not apply in the case of the closing of a taconite facility if the property taxes on the facility would be higher if this clause and section 298.25 were not applicable. The tax on other iron-bearing material shall be imposed on the current year production.

(e) If the tax or any part of the tax imposed by this subdivision is held to be unconstitutional, a tax of \$2.103 per gross ton of merchantable iron ore concentrate produced shall be imposed.

(f) Consistent with the intent of this subdivision to impose a tax based upon the weight of merchantable iron ore concentrate, the commissioner of revenue may indirectly determine the weight of merchantable iron ore concentrate included in fluxed pellets by subtracting the weight of the limestone, dolomite, or olivine derivatives or other basic flux additives included in the pellets from the weight of the pellets. For purposes of this paragraph, "fluxed pellets" are pellets produced in a process in which limestone, dolomite, olivine, or other basic flux additives are combined with merchantable iron ore concentrate. No subtraction from the weight of the pellets shall be allowed for binders, mineral and chemical additives other than basic flux additives, or moisture.

(g)(1) Notwithstanding any other provision of this subdivision, for the first two years of a plant's commercial production of direct reduced ore from ore mined in this state, no tax is imposed under this section. As used in this paragraph, "commercial production" is production of more than 50,000 tons of direct reduced ore in the current year or in any prior year, "noncommercial production" is production of 50,000 tons or less of direct reduced ore in any year, and "direct reduced ore" is ore that results in a product that has an iron content of at least 75 percent. For the third year of a plant's commercial production of direct reduced ore, the rate to be applied to direct reduced ore is 25 percent of the rate otherwise determined under this subdivision. For the fourth commercial production year, the rate is 50 percent of the rate otherwise determined under this subdivision; for the fifth commercial production year, the rate is 75 percent of the rate otherwise determined under this subdivision; and for all subsequent commercial production years, the full rate is imposed.

(2) Subject to clause (1), production of direct reduced ore in this state is subject to the tax imposed by this section, but if that production is not produced by a producer of taconite, iron sulfides, or other iron-bearing material, the production of taconite, iron sulfides, or other iron-bearing material, that is consumed in the production of direct reduced iron in this state is not subject to the tax imposed by this section on taconite, iron sulfides, or other iron-bearing material.

(3) Notwithstanding any other provision of this subdivision, no tax is imposed on direct reduced ore under this section during the facility's noncommercial production of direct reduced ore. The taconite or iron sulphides consumed in the noncommercial production of direct reduced ore is subject to the tax imposed by this section on taconite and iron sulphides. Three-year average production of direct reduced ore does not include production of direct reduced ore in any noncommercial year. Three-year average production for a direct reduced ore facility that has noncommercial production is the average of the commercial production of direct reduced ore for the current year and the previous two commercial years.

(4) This paragraph applies only to plants for which all environmental permits have been obtained and construction has begun before July 1, 2008.

EFFECTIVE DATE. This section is effective for concentrate produced in 2012 and thereafter.

Sec. 2. Minnesota Statutes 2010, section 298.28, subdivision 4, is amended to read:

Subd. 4. **School districts.** (a) 23.15 cents per taxable ton, plus the increase provided in paragraph (d), less the amount that would have been computed under Minnesota Statutes 2008, section 126C.21, subdivision 4, for the current year for that district, must be allocated to qualifying school districts to be distributed, based upon the certification of the commissioner of revenue, under paragraphs (b), (c), and (f).

(b)(i) 3.43 cents per taxable ton must be distributed to the school districts in which the lands from which taconite was mined or quarried were located or within which the concentrate was produced. The distribution must be based on the apportionment formula prescribed in subdivision 2.

(ii) Four cents per taxable ton from each taconite facility must be distributed to each affected school district for deposit in a fund dedicated to building maintenance and repairs, as follows:

(1) proceeds from Keewatin Taconite or its successor are distributed to Independent School Districts Nos. 316, Coleraine, and 319, Nashwauk-Keewatin, or their successor districts;

(2) proceeds from the Hibbing Taconite Company or its successor are distributed to Independent School Districts Nos. 695, Chisholm, and 701, Hibbing, or their successor districts;

(3) proceeds from the Mittal Steel Company and Minntac or their successors are distributed to Independent School Districts Nos. 712, Mountain Iron-Buhl, 706, Virginia, 2711, Mesabi East, and 2154, Eveleth-Gilbert, or their successor districts;

(4) proceeds from the Northshore Mining Company or its successor are distributed to Independent School Districts Nos. 2142, St. Louis County, and 381, Lake Superior, or their successor districts; and

(5) proceeds from United Taconite or its successor are distributed to Independent School Districts Nos. 2142, St. Louis County, and 2154, Eveleth-Gilbert, or their successor districts.

Revenues that are required to be distributed to more than one district shall be apportioned according to the number of pupil units identified in section 126C.05, subdivision 1, enrolled in the second previous year.

(c)(i) 15.72 cents per taxable ton, less any amount distributed under paragraph (e), shall be distributed to a group of school districts comprised of those school districts which qualify as a tax relief area under section 273.134, paragraph (b), or in which there is a qualifying municipality as defined by section 273.134, paragraph (a), in direct proportion to school district indexes as follows: for each school district, its pupil units determined under section 126C.05 for the prior school year shall be multiplied by the ratio of the average adjusted net tax capacity per pupil unit for school districts receiving aid under this clause as calculated pursuant to chapters 122A, 126C, and 127A for the school year ending prior to distribution 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 indices for all school districts that receive the distributions.

(ii) Notwithstanding clause (i), each school district that receives a distribution under sections 298.018; 298.23 to 298.28, exclusive of any amount received under this clause; 298.34 to 298.39; 298.391 to 298.396; 298.405; or any law imposing a tax on severed mineral values after reduction for any portion distributed to cities and towns under section 126C.48, subdivision 8, paragraph (5), that is less than the amount of its levy reduction under section 126C.48, subdivision 8, for the second year prior to the year of the distribution shall receive a distribution equal to the difference; the amount necessary to make this payment shall be derived from proportionate reductions in the initial distribution to other school districts under clause (i). If there are insufficient tax proceeds to make the distribution provided under this paragraph in any year, money must be transferred from the taconite property tax relief account in subdivision 6, to the extent of the shortfall in the distribution.

(d) Any school district described in paragraph (c) where a levy increase pursuant to section 126C.17, subdivision 9, was authorized by referendum for taxes payable in 2001, shall receive a distribution of 21.3 cents per ton. Each district shall receive \$175 times the pupil units identified in section 126C.05, subdivision 1, enrolled in the second previous

year or the 1983-1984 school year, whichever is greater, less the product of 1.8 percent times the district's taxable net tax capacity in the second previous year.

If the total amount provided by paragraph (d) is insufficient to make the payments herein required then the entitlement of \$175 per pupil unit shall be reduced uniformly so as not to exceed the funds available. Any amounts received by a qualifying school district in any fiscal year pursuant to paragraph (d) shall not be applied to reduce general education aid which the district receives pursuant to section 126C.13 or the permissible levies of the district. Any amount remaining after the payments provided in this paragraph shall be paid to the commissioner of Iron Range resources and rehabilitation who shall deposit the same in the taconite environmental protection fund and the Douglas J. Johnson economic protection trust fund as provided in subdivision 11.

Each district receiving money according to this paragraph shall reserve the lesser of the amount received under this paragraph or \$25 times the number of pupil units served in the district. It may use the money for early childhood programs or for outcome-based learning programs that enhance the academic quality of the district's curriculum. The outcome-based learning programs must be approved by the commissioner of education.

(e) There shall be distributed to any school district the amount which the school district was entitled to receive under section 298.32 in 1975.

(f) Four cents per taxable ton must be distributed to qualifying school districts according to the distribution specified in paragraph (b), clause (ii), and two cents per taxable ton must be distributed according to the distribution specified in paragraph (c). These amounts are not subject to sections 126C.21, subdivision 4, and 126C.48, subdivision 8.

(g) Twenty-five cents per taxable ton shall be distributed to school districts in the taconite assistance area, as defined in section 273.1341, and school districts in the region 3 occupation tax area, for the purpose of the enhancement of science, math, and technology educational opportunities for pupils in elementary and secondary school. The revenues required to be distributed under this paragraph shall be apportioned to each eligible school district according to the number of pupil units identified in section 126C.05, subdivision 1, enrolled in the previous year.

EFFECTIVE DATE. This section is effective for distributions payable in 2013 and thereafter.