

January 21, 1999

## ETHANOL PRODUCTION INCENTIVE PROGRAM - NORTH DAKOTA AND SURROUNDING STATES

### APPROPRIATIONS

The ethanol production incentive program began in North Dakota in 1989. Prior to 1989, the state allowed a four cent per gallon tax reduction for ethanol-blended gasoline sold by retailers. The schedule below shows the appropriations made by the Legislative Assembly for the ethanol production incentive program since its inception in 1989:

|  | Appropriation<br>From Highway Tax<br>Distribution Fund |
|--|--|
| 1989-91  | \$3,750,000 <sup>1</sup>                               |
| 1991-93  | 3,650,000  |
| 1993-95  | 3,650,000  |
| 1995-97  | 3,000,000  |
| 1997-99  | 1,750,000 <sup>2</sup>                                 |
| <b>Total through June 30, 1999</b>   | <b>\$15,800,000</b>                                    |
| 1999-2001 executive budget   | 1,500,000  |
| <b>Total through June 30, 2001</b>   | <b>\$17,300,000</b>                                    |
| <sup>1</sup> This amount was reduced by \$342,000 due to budget reductions made as a result of the loss of revenues resulting from the defeat of the gas tax measure on the December 5, 1989, special election ballot.                 |  |
| <sup>2</sup> Includes \$250,000 of unspent 1995-97 ethanol production incentive funding resulting from the ADM plant in Walhalla not receiving incentive payments during the second year of the biennium because it was not operating. |  |

### EXPENDITURES

The following schedule shows the actual ethanol production incentive payments made to the ethanol plants in North Dakota since the inception of the program in 1989:

| Fiscal Year                              | Alchem Plant<br>in Grafton | ADM Plant in<br>Walhalla | Total               |
|--|----------------------------|--------------------------|---------------------|
| 1989                                     | \$1,103,026                | \$540,555                | \$1,643,581         |
| 1990                                     | 196,663                    | 506,972                  | 703,635             |
| 1991                                     | 875,000                    | 950,000                  | 1,825,000           |
| 1992                                     | 865,466                    | 939,577                  | 1,805,043           |
| 1993                                     | 950,000                    | 875,000                  | 1,825,000           |
| 1994                                     | 875,000                    | 950,000                  | 1,825,000           |
| 1995                                     | 875,000                    | 950,000                  | 1,825,000           |
| 1996                                     | 1,000,000                  | 500,000                  | 1,500,000           |
| 1997                                     | 1,000,000                  |                          | 1,000,000           |
| 1998                                     | 870,686                    |                          | 870,686             |
| 1999<br>(through<br>January 15,<br>1999) | 492,619                    |                          | 492,619             |
| <b>Total</b>                             | <b>\$9,103,460</b>         | <b>\$6,212,104</b>       | <b>\$15,315,564</b> |

### REVENUES

Since 1991, the Legislative Assembly has provided for additional revenues to the highway tax distribution fund to provide the funding necessary for the ethanol production incentive program. The 1991 Legislative Assembly provided for the additional revenues by extending, by one year, the vehicle age categories of the motor vehicle registration fee rate schedules for the 1991-93 and 1993-95 bienniums and by withholding an additional two cents from the agricultural fuel tax refund for the 1991-93 and 1993-95 bienniums. The 1995 Legislative Assembly extended these additional revenue provisions through the 1997-99 biennium. However, the 1997 Legislative Assembly, in Senate Bill No. 2019, reduced the agricultural fuel tax refund reduction by one cent, from two cents to one cent because only the Alchem plant in Grafton was eligible for production incentives during the 1997-99 biennium. (The ADM plant in Walhalla had discontinued operations in September 1995.)

The 1999-2001 executive budget proposes, in House Bill No. 1019, to continue the agricultural fuel tax reduction of one cent relating to the ethanol production incentive program through the 1999-2001 biennium. In addition, the 1999-2001 executive budget recommends in House Bill No. 1183 to remove the sunset clause of June 30, 1999, for extending, by one year, the vehicle age categories of the motor vehicle registration fee rate schedules.

### OTHER LEGISLATIVE ACTION

The 1995 Legislative Assembly, in House Bill No. 1134, limited the length of time an ethanol plant may receive incentives. The bill provides that a plant operating before July 1, 1995, may not receive incentives from the state for more than five years of operation after June 30, 1995. A plant that begins operations after June 30, 1995, may not receive the incentive payments from the state for more than 10 years of operation, and after December 31, 2007, the state may not provide production incentives to any ethanol plant.

The bill also provided that a plant operating before July 1, 1995, which produces fewer than 15 million gallons of ethanol in the previous fiscal year may receive up to \$1 million in incentives from the state for production in each fiscal year. A plant in operation before July 1, 1995, which produces 15 million gallons or more of ethanol in the previous fiscal year and any plant that begins operations after June 30, 1995, are eligible to receive an equal share of up to \$500,000 of incentives from the state for production in each fiscal year.

The ADM plant in Walhalla discontinued its operations in September 1995 and reopened in July 1998.

Because the ADM plant was not operating, the 1997 Legislative Assembly provided that only the Alchem plant in Grafton was eligible for the production incentives of up to \$875,000 per year for the 1997-99 biennium.

The 1999-2001 executive budget recommends in House Bill No. 1019 to extend the number of years ethanol plants may receive production incentives since June 30, 1995, from five to seven years for plants operating before July 1, 1995, and for 12 years for plants beginning operation after June 30, 1995. The recommendation provides that after December 31, 2009, the state may not provide production incentives to any ethanol plant.

## **SURROUNDING STATES**

### **North Dakota**

North Dakota provides ethanol incentive payments of 40 cents per gallon of production with an annual limit of \$875,000 for the Alchem plant in Grafton.

A plant operating before July 1, 1995, may not receive incentives from the state for more than five years after June 30, 1995. (The executive budget extends this to seven years.) A plant beginning operations after June 30, 1995, may not receive incentives from the state for more than 10 years. (The executive budget extends this to 12 years.)

A plant operating before July 1, 1995, which produces fewer than 15 million gallons per year may receive up to \$1 million per year in incentives and a plant operating before July 1, 1995, which produces 15 million gallons or more per year and any plant beginning operations after June 30, 1995, are eligible to receive an equal share of up to \$500,000 per year. These amounts are based on the funding

appropriated by the Legislative Assembly each biennium.

Currently, two ethanol plants are operating in North Dakota.

### **South Dakota**

South Dakota provides ethanol incentive payments of 20 cents per gallon of production with a \$1 million annual limit per plant. The cumulative amount of incentive payments a plant may receive is \$10 million.

South Dakota taxes gasohol at a 16 cent per gallon rate, 2 cents per gallon less than its gasoline tax rate of 18 cents per gallon.

Currently, two plants are operating in South Dakota, and a third plant will begin operating in 1999.

### **Montana**

Montana provides ethanol incentive payments of 30 cents per gallon of production with a \$3 million annual limit per plant.

Currently, no plants are operating in Montana; however, two potential plants are in the financing stages.

### **Minnesota**

Minnesota provides ethanol incentive payments of 20 cents per gallon of production with a \$3 million annual limit per plant. A plant is eligible for the incentive payment for 10 years.

Minnesota requires all gas sold in the state to contain at least 2.7 percent oxygen which creates demand for ethanol in Minnesota.

Currently, 13 plants are operating in Minnesota. One new plant will begin operating in 1999.