Colbey Sullivan Updated: July 2012

# The Ethanol Industry in Minnesota

Ethanol—an alcohol commonly produced by fermenting the starch in field corn—can be blended with gasoline as a fuel extender and oxygenate. Examples of ethanol-gasoline blends include E10 (10 percent ethanol, 90 percent gasoline) and E85 (85 percent ethanol, 15 percent gasoline). Due in large part to policy and financial support at the state and federal levels, Minnesota ethanol production capacity has grown significantly—from less than 1 million gallons in 1987 to more than 1 billion gallons by the end of 2011.

## Major Federal Laws

***Renewable fuel standard*** In general, since 2005 federal lawmakers have required transportation fuel companies to blend ethanol into the gasoline sold to U.S. motorists. As a result, the law guarantees a base level of demand for ethanol and encourages U.S. ethanol production.

***Federal fuel tax credit for ethanol*** Prior to December 31, 2011, a person who blended ethanol with gasoline was eligible for a refundable credit against his or her federal fuel tax liability. This credit encouraged fuel suppliers to use ethanol by lowering its effective cost.

***Duties on imported ethanol*** Prior to December 31, 2011, the federal government imposed a 54-cent per gallon secondary tariff on imported ethanol. This tariff increased the cost of imported ethanol relative to ethanol produced in Minnesota and elsewhere in the United States. There remains a 2.5 percent ad valorem (i.e., percent of value) federal tax on imported ethanol.

## Major State Laws

***Ethanol mandate*** Predating the federal Renewable Fuel Standard, since 2003 Minnesota law has required gas stations to sell E10 blends. In 2009 and 2010, lawmakers amended the law to require the highest ethanol-gasoline blend approved by the federal government for use in all vehicles; currently that fuel is E10.

***Blender's tax credit*** Enacted in 1980 and phased out completely by 1997, the tax credit for agricultural alcohol gasoline (more commonly referred to as the "blender's credit") reduced state fuel tax liability for blenders mixing ethanol and gasoline in Minnesota.

***Producer payments*** In 1986, the legislature created the ethanol development fund to directly pay owners of Minnesota ethanol plants 20 cents per gallon of ethanol produced, subject to certain limitations. For 2004 through 2007, the legislature reduced payments to 13 cents per gallon, with a pledge to make up the remaining seven cents per gallon later. The program closed to new applicants in 2000 and the state issued the final payments to eligible plants in 2012. The total program cost is $345.5 million.

***Public education and ethanol promotion efforts*** Each year from 1987 through 1998, the legislature appropriated funds (usually $100,000 per year) to the Department of Agriculture to educate the public about the benefits of ethanol and encourage the creation of farmer-owned plants.

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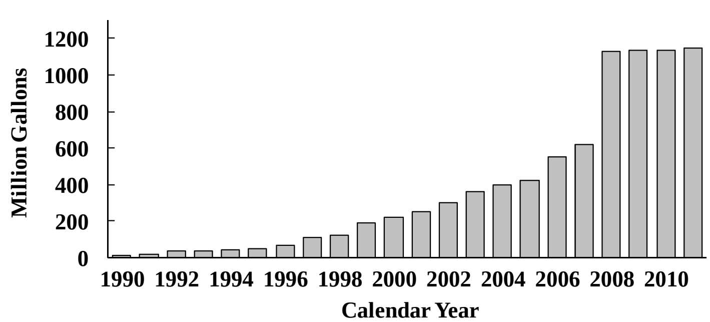
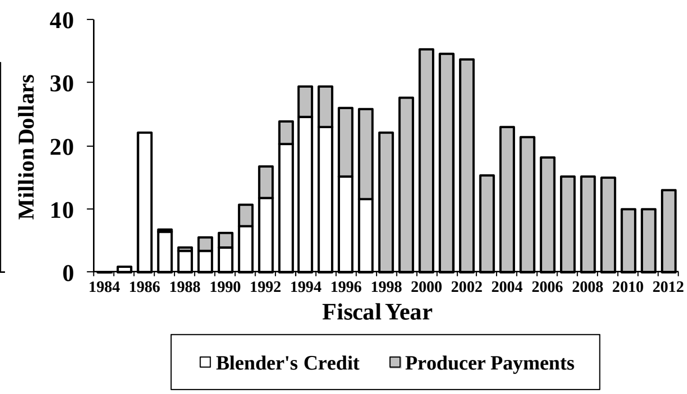
| ***Loans for start-up expenses and purchase of stock*** | A 1993 law created the Ethanol Production Facility Loan Program, providing up to $500,000 in direct loans to seven plants for assistance during the construction and early production phases. The program is closed to new applicants. A 1994 law authorized low-interest loans to farmers for up to 45 percent of the cost to purchase shares of stock in a value-added agricultural product processing facility. Investors in at least 13 of Minnesota's ethanol plants have utilized these loans. |
| ***Tax increment financing*** | A number of communities have used tax increment financing (TIF) to encourage construction of local ethanol plants. In the early 1990s, the legislature enacted laws that made it easier to use TIF for ethanol projects. |
| ***Economic development support*** | At least three plants have received low-interest loans via the Minnesota Investment Fund, an economic development program designed to add and retain high-quality jobs. Another four received grants from its predecessor, the Economic Recovery Grants Program. |
| ***Job Opportunity Building Zones (JOBZ)*** | JOBZ provides local and state tax exemptions to new or expanding businesses that locate in designated areas of Greater Minnesota. At least nine ethanol plants have signed JOBZ agreements since the program began in January 2004. A 2006 law extended tax incentive eligibility from the standard 12 to 15 years for ethanol plants enrolled between April 30, 2006, and July 1, 2007. |
| ***E85 promotion*** | Since 1995, the state has taxed E85 at a lower rate than E10 and pure gasoline. Beginning in 2002, the legislature directed state agencies to purchase vehicles capable of burning cleaner fuels like E85 and use cleaner fuels whenever reasonably available. Since 2005, laws have authorized a total of $2,400,000 in grants to partially reimburse service station owners who install E85 dispensing pumps. A 2005 law requires auto dealers to provide written notice to consumers that new flexible fuel vehicles can run on E85. |
| ***Environmental review exemptions*** | Since 2004, an extensive environmental impact study is not required prior to construction of an ethanol plant capable of producing less than 125 million gallons per year and located outside of the Twin Cities metropolitan area. In 2011, lawmakers prohibited governmental entities from requiring an environmental review based solely on the anticipated production capacity of an expanding plant. |

**Ethanol Production Capacity in Minnesota**




**Cost of Minnesota's Blender's Credit and Producer Payments**

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