Renewable Fuels and Co-Products Program

ISSUE

Iowa commits $4.0 million of motor vehicle Use Tax receipts annually to value-added agriculture through the Value-Added Agriculture Products and Processes (VAAPP) Program of the Department of Economic Development (DED) and the Renewable Fuels and Co-Products Program of the Department of Agriculture and Land Stewardship (DALS). The Renewable Fuels and Co-Products Program is reviewed here. The VAAPP Program is discussed in a separate Issue Review.

AFFECTED AGENCIES

Department of Economic Development
Department of Agriculture and Land Stewardship

CODE AUTHORITY

Section 423.24(1)(b), Code of Iowa
Section 15E.111, Code of Iowa
Chapter 159A, Code of Iowa

BACKGROUND

Senate File 2385 (Value-Added Agricultural Products and Processes Act), enacted by the 1990 Legislative Session, created the VAAPP Program. The Program was funded by an initial allocation of $209,000 from the DED’s Iowa Community Development Loan Fund.

Senate File 545 (Renewable Fuels Act), enacted by the 1991 Legislative Session, created the Renewable Fuels Fund and the Office of Renewable Fuels within the DALS. House File 2456 (Ethanol Production Act), enacted by the 1992 Legislative Session, allocated $4.0 million from motor vehicle Use Tax receipts to the DALS Renewable Fuels Fund, beginning in FY 1994 and ending with FY 1998. House File 2337 (Agricultural Development and Rural Revitalization Act), enacted by the 1994 Legislative Session:

- Extended the $4.0 million Use Tax allocation through FY 2000.
- Amended the DED’s Value-Added Agricultural Products and Processes Program and allocated 91.25% ($3,650,000) of the annual Use Tax allocation to the VAAPP Fund.
Reduced the funding for the Renewable Fuels Program to 8.35% ($350,000 per year) of the Use Tax allocation. Prior to FY 1994, the Renewable Fuels Program was funded through an allocation from the Farm Commodity Division’s General Fund appropriation.

Sections 5 through 9 and 11 through 15 of SF 391 (FY 1998 Transportation, Capitals, and Infrastructure Appropriations Act), enacted by the 1997 Legislative Session continued funding of both Programs by providing a standing General Fund appropriation of $3,650,000 to the VAAPP Program and $350,000 to the Renewable Fuels and Co-Products Program, beginning in FY 2001.

CURRENT SITUATION

The Renewable Fuels and Co-Products Program and Fund are created in Chapter 159A, Code of Iowa. The Office of Renewable Fuels and Co-Products is created in Section 159A.3 and 159A.4. Those Sections also create an Advisory Committee, Coordinator position, and provide the duties and goals of the Office, Coordinator, and Committee. The Fund is created in Section 159A.7 and the use of the money in the Fund is limited to financing the Coordinator, Advisory Committee, research, and financial assistance. Further, the Fund’s use is restricted to:

1. At least 40.0% ($140,000 per year) shall be used to support education, promotion, and advertising of renewable fuels and co-products. For an FY 1997 list of expenditures, see Attachment 1.

2. Up to 30.0% ($105,000 per year) may be used to support research at the three State universities. During FY 1997, the DALS reports the following research projects received financial support:
   - University of Iowa - Development of an on-board ethanol reformer for automobiles, $25,000.
   - Iowa State University with the Iowa Soybean Association - Investigation of unburned hydrocarbon emissions and fuel stability from biodiesel-fueled engines, $25,000.
   - Marketing Research with the Governor’s Ethanol Coalition and the Department of Natural Resources, $5000.

3. Up to 1.5% of the Use Tax allocation may be used for administration. This has been interpreted to be 1.5% of the $4.0 million allocation to both the Renewable Fuels Program and the VAAPP Program ($60,000 per year). This translates to 17.1% of the $350,000 allocation to the Renewable Fuels Program.

4. Any remaining funds shall be used for technical assistance to persons interested in developing value-added renewable fuels and co-products industries in Iowa. For an FY 1997 list of financial assistance, see Attachment 2.

From FY 1994 (the year the current Program and funding were established) to FY 1997, the Program received $1.5 million in revenue. As categorized by the DALS, the revenue has been expended or remains as follows (Attachment 3, Table 2):

- Promotion, education, & advertising - - $538,000 (36.8%)
- Research - - $127,000 (8.7%)
- Administration and Conference expenses - - $264,000 (18.2%)
• Technical assistance - $244,000 (16.7%)
• Remaining balance - $285,000 (19.6%)

The administrative rules for the Technical Assistance Program (item 4 above) are found in 21 Iowa Administrative Code, Chapter 12. The rules specify the purpose of the Renewable Fuels and Co-Products Program is to encourage the renewable fuels and co-products industry of Iowa by providing specific funding for technical assistance to any person located or desiring to locate in Iowa.

Renewable Fuel is defined as an energy source at least in part derived from an organic compound, capable of powering machinery, including an engine or power plant. Co-products is defined as a product other than a renewable fuel which at least in part is derived from the processing of agricultural commodities, and which may include corn gluten feed, distillers of grains or solubles, or can be used as livestock feed or a feed supplement.

The rules state that the purpose of the Fund is to provide financial support for planning, technical assistance, and feasibility studies for persons interested in developing renewable fuel or co-products industries in Iowa. The rules specify the following Program qualifications and available assistance:

• The applicant must be interested in developing a value-added industry in Iowa by:
  • Producing a product, or using a new process to produce a product, from an agricultural commodity which was not previously produced from that commodity.
  • Establishing or expanding a renewable fuel production facility.
• Assistance is available as follows:
  • Up to $1,000 for a contracted consulting agency to perform an initial consultation and assessment of the project. The DALS has contracted this service with the Small Business Development Centers operated by Iowa State University.
  • Up to $24,000 for feasibility studies, planning, and technical assistance for each project’s business plan. Once the business plan is completed, the applicant may apply for assistance through DED’s VAAPP Program. An applicant is not required to receive assistance through the DALS Renewable Fuels Program to be considered by the VAAPP Program. During FY 1997, the DALS reports that of 54 projects which received a total of $45,758 in technical assistance funding from DALS, 24 received a total of $4,763,500 in assistance from the VAAPP Program (Attachment 2).
  • Any and all additional costs shall be paid by the applicant. However, an applicant may apply for further financial assistance through the DED’s VAAPP Program.

The Renewable Fuels Fund had an FY 1997 ending balance of $285,000 and utilized 1.0 FTE positions in FY 1997. Attachment 3, Table 1 provides the historical revenue, expenditures and fund balance of the DALS Renewable Fuels Fund.
ALTERNATIVES

In addition to the Renewable Fuels and Co-Products and VAAPP Programs, financial assistance for value-added agriculture processes and production may be available through the following State programs.

- DED’s Industrial New Jobs Training Program (Chapter 260E)
- DED’s Jobs Training Program (Chapter 260F)
- DED’s Community Economic Betterment Account (CEBA) Program (Section 15E.315)
- DED’s Enterprise Zone Program (HF 724 [Enterprise Zone Act], enacted by the 1997 Legislative Session)
- DED’s Community Development Block Grant Economic Development Set Aside Program (federal aid pass-through)
- DED’s New Jobs and Income Program (Chapter 15A)
- DED’s Workforce Development Fund (Section 15.343)
- Department of Transportation’s Revitalize Iowa’s Sound Economy (RISE) Program (Chapter 315)

BUDGET IMPACT

This Issue Review is presented for informational purposes only.

STAFF CONTACT: Jeff Robinson (Ext. 16767)
# FY97 Advertising, Education, and Promotional Expenditures

<table>
<thead>
<tr>
<th>Date</th>
<th>Vendor</th>
<th>Description</th>
<th>Revamp</th>
<th>Ethanol Biodiesel</th>
<th>Value Added</th>
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**SOURCE:** FY 1997 Office of Renewable Fuels and Co-Products Annual Report
## REVAMP and VAAPFAP PROJECT STATUS REPORT
### FY97 - As of June 30, 1997

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<th>No.</th>
<th>Applicant</th>
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<th>Revamp Awards</th>
<th>VAAPFAP Awards</th>
<th>VAAPFAP Grant/FL</th>
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**Source:** Fy 1997 Office of Renewable Fuels and Co-Products Annual Report
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**TOTALS**

Revamp Awards: $45,758
VAAPFAP Awards: $4,763,500
VAAPFAP Grant/FL: $1,989,500
VAAPFAP Loan: $2,655,000
Project Creation: $219,000
DALS Renewable Fuels and Co-Products Fund

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Expenditures by Category *

Table 2

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* Information provided by the DALS. In addition, DALS reports $65,752 in Renewable Fuels Office expenses for FY 1992 through FY 1994, paid by the State General Fund. There is a $1,293 difference between the State accounting system and DALS reports during FY 1997.

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