

EPIC Report

Prepared by:

**The Nebraska Department of Revenue
Motor Fuels Division**

and

The Nebraska Ethanol Board

December 2004

STATE OF NEBRASKA



Mike Johanns
Governor

December 1, 2004

DEPARTMENT OF REVENUE
Mary Jane Egr
Tax Commissioner
MOTOR FUELS DIVISION
Janet A. Lake
Administrator

Mr. Patrick J. O'Donnell
Clerk of the Legislature
Nebraska State Capitol Building
Room 2018
Lincoln, NE 68509

Dear Mr. O'Donnell:

This report has been prepared by the Nebraska Department of Revenue and the Nebraska Ethanol Board in compliance with the provisions of section 66-1345(6) R.S.Supp., 2002, which states:

(6) On or before December 1, 2003, and each December 1 thereafter, the Department of Revenue and the Nebraska Ethanol Board shall jointly submit a report to the Legislature which shall project the anticipated revenue and expenditures from the Ethanol Production Incentive Cash Fund through the termination of the ethanol production incentive programs pursuant to section 66-1344. The initial report shall include a projection of the amount of ethanol production for which the Department of Revenue has entered agreements to provide ethanol production credits pursuant to section 66-1344.01 and any additional ethanol production which the Department of Revenue and the Nebraska Ethanol Board reasonably anticipate may qualify for credits pursuant to section 66-1344.

The report is presented in four sections: Agreements, Analysis, Funding, and Conclusion. The Agreement section identifies the current ethanol production agreements, including the physical location and capacity of each plant. As of June 30, 2004, the Department of Revenue had entered into 29 written agreements with potential producers. Of those, 11 plants met the eligibility requirements by June 30, 2004.

The Analysis section is based upon the combined data experiences of the Department of Revenue and Nebraska Ethanol Board.

The Funding section identifies the sources of funds for the fiscal years covered in this report. Finally, the Conclusion section discuss our best estimates of costs.

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If you have any questions regarding this report, please contact either Janet Lake, Administrator, Nebraska Department of Revenue, Motor Fuels Division, at 471-5678 or Steve Sorum, Project Manager, Nebraska Ethanol Board, at 471-2941.

Sincerely,



Mary Jane Egr
Nebraska Department of Revenue

Sincerely,



Todd Sneller
Nebraska Ethanol Board

cc: Senator Curt Bromm, Speaker
Senator Pat Engel, Chair, Executive Committee
Senator Robert Kremer
Senator David Landis
Senator Roger Wehrbein
Senator Tom Baker
Governor's Office
Legislative Fiscal Analyst

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Agreements

As required by section 66-1344.01 R.S.Supp.,2002, the Department of Revenue entered into agreements with the following entities to provide ethanol credits pursuant to section 66-1344(4) R.S.Supp.,2002. Only those in bold actually met all the eligibility conditions by June 30, 2004.

<u>Name</u>	<u>Plant Location</u>	<u>Plant Size (Gallons)</u>
Aurora Cooperative Elevator Co.	Nuckolls County	20 million
Brunswick Renewable Resources, Inc.	Scottsbluff County	15 million
Bunge Milling, Inc.	Crete	30 million
Cargill, Inc.	Blair	110 million
Chase County Development Corp.	Chase County	30 million
Cornhusker Energy LLC	Cass or Otoe County	30 million
*Cornhusker Energy Lexington LLC	Lexington	40 million
*Crossroads Cooperative	Gering	20 million
*Elkhorn Valley Ethanol LLC	Norfolk	40 million
Flatwater Biologics LLC	Dundy County	40 million
High Plains Cattle Co.	Imperial/McCook/Ogallala	15 million
High Plains Cattle Co.	Chappell or Sidney	15 million
*Horizon Renewable Energy LLC	Cambridge	20 million
Husker Ag Processing LLC	Plainview	20 million
KAAPA LLC	Axtell	30 million
Kuester Ag Processing	Stanton	2 million
Midwest Renewable Energy LLC	Sutherland	14 million
Nebraska Ethanol LLC	Dakota County	45 million
NEDAK, Inc.	Atkinson	Unknown
**Nordic Biofuels of Ravenna LLC	Ravenna	84 million
Nordic Biofuels LLC	Hershey	40 million
*Oregon Trail Ethanol Coalition LLC	Thayer County	40 million
Platte Valley Fuel Ethanol LLC	Central City	40 million
Resource Utilization Company, Inc.	Pierce or Dakota County	40 million
Schlichting Farms	Lyons	250,000
*S.W. Energy LLC	McCook	30 million
Trenton Agri Products LLC	Trenton	30 million
Venture Bio-Fuels LLC	Hitchcock or Red Willow County	40 million
*Wheatland Industries LLC	Madrid	40 million

* Denotes projects whose initial plant size is stated as 100,000 gallons. Final plant size projected to increase to listed amount.

** Denotes project whose initial plant size is stated as 150,000 gallons. Final plant size projected to increase to listed amount.

Analysis

To the best of our knowledge, there will be no further activity under section 66-1344(3) R.S.Supp.,2002 (LB605). That program was for ethanol production through December 31, 2003. As noted, \$352,123 was transferred in FY 2004/2005 and we are not aware of any pending claims under that program.

Of the eleven plants that qualified on or before June 30, 2004, six were small plants frequently referred to as pilot projects. Five of the six had annual capacity rates of 100,000 gallons, while the sixth had an annual capacity of 150,000 gallons. Each pilot plant must become a permanent part of any future plant built at those locations. Most project developers state the pilot projects will become Research and Development components of the larger plants.

All of these plants shut down operations after meeting the eligibility requirements. It is difficult to determine when they will have completed their large plant and resume claiming credits. For the purposes of projections, we have assumed the pilot plants will ultimately qualify for the maximum amount of credits beginning in February 2006, and their first claims against the EPIC fund would be in April 2006.

Funding

Funding is provided by several different sources:

1. General fund appropriations of \$1.5 million per year for fiscal years 2001-2002 through 2007-2008; (66-1345.04) and the \$1,500,000 General Fund appropriation that was not made in FY 2002-2003 is added to FY 2007-2008 as indicated in 66-1345.04.
2. An excise tax on the sale of corn and grain sorghum.

	Per Bushel Of Corn	Per hundredweight of grain sorghum
7/1/1995 - 12/31/1999	\$.0075	\$.0075
1/1/2000 - 12/31/2000	.0050	.0050
10/1/2001 - 9/30/2004	.0050	.0050
10/1/2004 - 10/1/2010	.0075	.0075

We have estimated revenue of \$6,875,000 for FY 2004-2005, \$7,500,000 for each of the years FY 2005-2006 through FY 2009-2010, and \$1,825,000 in the remaining quarter of the program.

3. For the period of January 1, 2005 through December 31, 2009, one and one-quarter cents per gallon of motor vehicle fuel for which refunds have been approved under 66-726 shall be transferred to the EPIC. We have estimated an annual amount of \$375,000.
4. The Legislature directed that \$1,500,000 be transferred from the Petroleum Release Remedial Action Cash Fund to EPIC on July 1 for each of the years from 2004 through 2011.
5. Some interest will also be earned while a balance exists in EPIC.

Conclusion

We estimate that the EPIC Fund will no longer be able to meet its projected obligations during fiscal year 2005-2006. At the conclusion of the entitlement periods available to qualified claimants on June 30, 2012, we estimate unpaid credits of approximately \$128 million will remain.

Projected EPIC Fund Balance

EPIC Fund - Estimated Expenditures

FY	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	Totals
LB 605	-352,123								
Plant 1	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,312,500		-19,187,500
Plant 2	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500		-19,687,500
Plant 3	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-22,500,000
Plant 4	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-22,500,000
Plant 5		-1,406,250	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-18,281,250
Plant 6	-2,520,000	-2,520,000	-2,520,000	-2,520,000					-10,080,000
Plant 7		-1,406,250	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-18,281,250
Plant 8		-1,406,250	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-18,281,250
Plant 9		-1,406,250	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-18,281,250
Plant 10		-1,406,250	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-18,281,250
Plant 11		-1,406,250	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-2,812,500	-18,281,250
Totals	-\$14,122,123	-\$22,207,500	-\$30,645,000	-\$30,645,000	-\$28,125,000	-\$28,125,000	-\$27,625,000	-\$22,500,000	-\$203,994,623

EPIC Fund - Estimated Revenues

FY	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	Totals
Checkoff	6,875,000	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000	1,825,000		46,200,000
General Funds	1,500,000	1,500,000	1,500,000	3,000,000					7,500,000
PRF	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	12,000,000
Off-Road Refund	187,000	375,000	375,000	375,000	375,000	187,000			1,874,000
Totals	\$10,062,000	\$10,875,000	\$10,875,000	\$12,375,000	\$9,375,000	\$9,187,000	\$3,325,000	\$1,500,000	\$67,574,000

EPIC Fund - Estimated Cash Flow

FY	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	Totals
Projected EPIC Beginning Balance	8,169,554	4,346,348	-6,923,130	-26,693,130	-44,963,130	-63,713,130	-82,651,130	-106,951,130	
EPIC Fund - Revenues	10,062,000	10,875,000	10,875,000	12,375,000	9,375,000	9,187,000	3,325,000	1,500,000	67,574,000
EPIC Fund - Expenditures	-14,122,123	-22,207,500	-30,645,000	-30,645,000	-28,125,000	-28,125,000	-27,625,000	-22,500,000	-203,994,623
Interest on Invested Funds	236,917	63,022	0	0	0	0	0	0	299,939
Totals	\$4,346,348	-\$6,923,130	-\$26,693,130	-\$44,963,130	-\$63,713,130	-\$82,651,130	-\$106,951,130	-\$127,951,130	

Interest Rate on Invested Funds of 2.9%