

EPIC Report

Prepared by:

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

and

The Nebraska Ethanol Board

December 2006

STATE OF NEBRASKA

DEPARTMENT OF REVENUE
Mary J. Egr Edson
Tax Commissioner

December 1, 2006



Dave Heineman
Governor

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 NEB. REV. STAT. § 66-1345(6), 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 lists the eleven facilities that have qualified for credits. It identifies their physical location and plant size. The Analysis section is based upon the combined data experiences of the Department of Revenue and Nebraska Ethanol Board. The Funding section identifies the various sources of funds for the fiscal years covered in this report. Finally, the Conclusion section discusses our best estimates of costs and how these costs relate to the time periods available to earn and use credits under NEB. REV. STAT. § 66-1344.

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 Edson
State Tax Commissioner
Nebraska Department of Revenue

Sincerely,



Todd Sneller
Administrator
Nebraska Ethanol Board

cc: Senator Kermit Brashear, Speaker
Senator Pat Engel, Chair, Executive Committee
Senator Robert Kremer
Senator David Landis
Senator Don Pederson
Senator Tom Baker
Governor's Office
Legislative Fiscal Analyst

Agreements

As required by NEB. REV. STAT. § 66-1344.01, the Department of Revenue entered into agreements with twenty-nine entities to provide ethanol credits pursuant to NEB. REV. STAT. § 66-1344. Of those twenty-nine entities, the following eleven met all the eligibility requirements by June 30, 2004.

<u>Name</u>	<u>Plant Location</u>	<u>Plant Size (Gallons)</u>
*Cornhusker Energy Lexington LLC	Lexington	40 million
*Elkhorn Valley Ethanol LLC	Norfolk	40 million
*Mid America Agri Products/Horizon LLC	Cambridge	20 million
Husker Ag Processing LLC	Plainview	20 million
KAAPA LLC	Axtell	30 million
Midwest Renewable Energy LLC	Sutherland	14 million
**Nordic Biofuels of Ravenna LLC	Ravenna	84 million
Platte Valley Fuel Ethanol LLC	Central City	40 million
*S.W. Energy LLC	McCook	30 million
Trenton Agri Products LLC	Trenton	30 million
*Mid America Agri Products/Wheatland 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 NEB. REV. STAT. § 66-1344(1)(LB605). That program was for ethanol production through December 31, 2003. We are not aware of any pending claims under that program.

Of the eleven plants that qualified on or before June 30, 2004, six are operational. They are:

Cornhusker Energy Lexington LLC
Husker AG Processing LLC
KAAPA LLC
Midwest Renewable Energy LLC
Platte Valley Fuel Ethanol LLC
Trenton Agri Products LLC

It is anticipated that the remaining five plants will become operational during the periods indicated:

Nordic Biofuels of Ravenna LLC is projected to commence production in the spring of 2007.

Mid America Agri Products/Wheatland LLC is projected to commence production in the spring of 2007.

Elkhorn Valley Ethanol LLC is projected to commence production in the summer of 2007.

Mid America Agri Products/Horizon LLC is projected to commence production in the fall of 2007.

The remaining plant, S.W. Energy LLC, is projected to commence production in the fall of 2008.

Of the eleven plants that qualified, six were small plants frequently referred to as pilot projects. Five of the six were 100,000 gallon plants and the other was a 150,000 gallon plant. All of these are required to be permanent and will become part of any future plant built at those locations. Most told us these pilot projects will become Research and Development units when the larger plant is built. All of these plants shut down operations after meeting the eligibility requirements.

Funding

Funding is derived from several different sources. They include: the general fund; transfers from the Petroleum Release Remedial Action Cash Fund; an excise tax on the sale of corn and grain sorghum; retention of a portion of tax refunded on motor fuels; a tax on natural gasoline used as a denaturant, and interest as it becomes available while the EPIC Fund maintains a positive balance. The following table identifies the amounts and sources of these funds for fiscal years 2006-2007 through 2011-2012.

Source of Funding
Ethanol Production Incentive Cash Fund
 (All amounts are in millions of dollars)

06-07	07-08	Fiscal Year				Funding Source	
		08-09	09-10	10-11	11-12		
1.5	5.5*	2.5	2.5	2.5	2.5	\$ 66-1345.04	General Fund
2.5						\$ 66-1345.04	General Fund
5.0						\$ 66-1345.04	General Fund
1.5	1.5	1.5	1.5	1.5	1.5	\$ 66-1519	PRF
11.5	10.0	10.5	11.0	1.2		\$ 66-1345.01	Grain Check-off
0.45	0.575	0.725	0.363			\$ 66-726(2)	Off-Road Refunds &
							§ 66-489(2) Denaturant Tax
<u>22.45</u>	<u>17.575</u>	<u>15.225</u>	<u>15.363</u>	<u>5.2</u>	<u>4.0</u>	Totals	

* Includes additional 1.5 to back-fund fiscal year 02-03.

Conclusion

This report assumes credits being earned and claimed by eleven facilities. We project that two facilities will complete their entitlement period during fiscal year 2010/2011 and one will complete its entitlement period during fiscal year 2007/2008. We anticipate the remaining eight facilities will continue earning and claiming credits through fiscal year 2011/2012.

We estimate that the EPIC Fund will no longer be able to meet its projected obligations during fiscal year 2007-2008. At the conclusion of the entitlement periods available to qualified claimants on June 30, 2012, we estimate unpaid credits of approximately \$69 million will remain.

Projected EPIC Fund Balance

EPIC Fund - Estimated Expenditures

FY	06/07	07/08	08/09	09/10	10/11	11/12 Totals	
LB 605							
Plant 1	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,052,500)	(13,302,500)	
Plant 2	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(14,062,500)	
Plant 3	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,312,500)	(16,375,000)
Plant 4	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(16,875,000)
Plant 5	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(16,875,000)
Plant 6	(2,812,500)	(2,812,500)					(5,625,000)
Plant 7	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(16,875,000)
Plant 8	(1,980,000)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(16,042,500)
Plant 9		(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(14,062,500)
Plant 10		(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(14,062,500)
Plant 11			(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(11,250,000)
Totals	(21,667,500)	(28,125,000)	(28,125,000)	(28,125,000)	(27,365,000)	(22,000,000)	(155,407,500)

EPIC Fund - Estimated Revenues

FY	06/07	07/08	08/09	09/10	10/11	11/12 Totals	
Checkoff	11,500,000	10,000,000	10,500,000	11,000,000	1,200,000	44,200,000	
General Funds	9,000,000	5,500,000	2,500,000	2,500,000	2,500,000	24,500,000	
PRF	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	9,000,000	
Off-Road Refund	450,000	575,000	725,000	362,500		2,112,500	
Totals	22,450,000	17,575,000	15,225,000	15,362,500	5,200,000	4,000,000	79,812,500

EPIC Fund - Estimated Cash Flow

FY	06/07	07/08	08/09	09/10	10/11	11/12 Totals	
Projected EPIC Beginning Balance	6,415,089	7,422,117	(2,868,109)	(15,768,109)	(28,530,609)	(50,695,609)	
EPIC Fund - Revenues	22,450,000	17,575,000	15,225,000	15,362,500	5,200,000	4,000,000	79,812,500
EPIC Fund - Expenditures	(21,667,500)	(28,125,000)	(28,125,000)	(28,125,000)	(27,365,000)	(22,000,000)	(155,407,500)
Interest on Invested Funds	224,528	259,774	0	0	0	0	484,302
Totals	7,422,117	(2,868,109)	(15,768,109)	(28,530,609)	(50,695,609)	(68,695,609)	

Interest Rate on Invested Funds of 2.9%