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# **EPIC REPORT**

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*Prepared by:*

The Nebraska Department of Revenue  
Motor Fuels Division

and

The Nebraska Ethanol Board

**December 2008**



**Dave Heineman**  
Governor

# STATE OF NEBRASKA

DEPARTMENT OF REVENUE  
**Douglas A. Ewald**, Tax Commissioner  
P.O. Box 94818 • Lincoln, Nebraska 68509-4818  
Phone: (402) 471-5729 • www.revenue.ne.gov

December 1, 2008

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:

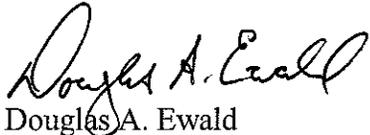
*(6) On or before December 1, 2003, and each December 1 thereafter, the Department of Revenue and the Nebraska Ethanol Board shall jointly submit a report to the Legislature which shall project the anticipated revenue and expenditures from the Ethanol Production Incentive Cash Fund through the termination 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.

Mr. Patrick J. O'Donnell  
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If you have any questions regarding this report, please contact Karen Rowley, Audit Manager, Nebraska Department of Revenue Motor Fuels Division, at 471-5756 or Steve Sorum, Project Manager, Nebraska Ethanol Board, at 471-2941.

Sincerely,



Douglas A. Ewald  
Tax Commissioner  
Nebraska Department of Revenue

Sincerely,



Todd Sneller  
Administrator  
Nebraska Ethanol Board

cc: Senator Mike Flood, Speaker  
Senator Pat Engel, Chair, Executive Board of the Legislative Council  
Senator Phillip Erdman, Chair, Agriculture Committee  
Senator Deb Fischer, Chair, Transportation &  
Telecommunications Committee  
Senator Lavon Heidemann, Chair, Appropriations Committee  
Senator Ray Janssen, Chair, Revenue Committee  
Governor's Office  
Legislative Fiscal Analyst

## Agreements

As required by NEB. REV. STAT. § 66-1344.01, the Department of Revenue entered into agreements with 29 entities to provide ethanol credits pursuant to NEB. REV. STAT. §66-1344. Of those 29 entities, the following 11 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 Bioenergy of Nebraska/Abengoa LLC	Ravenna	84 million
Platte Valley Fuel Ethanol LLC/Verasun	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

Of the 11 plants that qualified on or before June 30, 2004, ten are operational. They are:

1. Abengoa Bioenergy of Nebraska LLC
2. Cornhusker Energy Lexington LLC
3. Elkhorn Valley Ethanol LLC
4. Husker AG Processing LLC
5. KAAPA LLC
6. Mid American Agri Products/Horizon LLC
7. Mid America Agri Products/Wheatland LLC
8. Midwest Renewable Energy LLC
9. Verasun Central City LLC
10. Trenton Agri Products LLC

It is anticipated that the remaining plant, S.W. Energy LLC, will become operational in mid 2010.

Of the 11 plants that qualified, six were small plants frequently referred to as pilot projects. Five of the six plants 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 vehicle fuels; a tax on natural gasoline used as a denaturant; those funds in excess of \$550,000 otherwise designated to fund the Ethanol Board; 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 2008-2009 through 2012-2013.

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

FISCAL YEAR					FUNDING SOURCE	
08-09	09-10	10-11	11-12	12-13		
2.50	2.50	2.50	2.50		§ 66-1345.04	General Fund
1.50	1.50	1.50	1.50		§ 66-1519	Petroleum Release Fee
11.40	11.40	11.40	11.40	2.85	§ 66-1345.01	Grain Check-off
0.45	0.24				§ 66-726(2)	Off-Road Refunds and
					§ 66-489(2)	Denaturant Tax
0	0	0	0	0	§ 66-489(2)	Excess Funding
15.85	15.64	15.40	15.40	2.85	Totals	

## Conclusion

This report assumes credits being earned and claimed by 11 facilities. We project that two facilities will complete their entitlement period during fiscal year 2010-2011. We anticipate the remaining nine 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 2009-2010. At the conclusion of the entitlement periods available to qualified claimants on June 30, 2012, we estimate unpaid credits of approximately **\$23 million** will remain.

**Projected EPIC Fund Balance  
EPIC Fund - Estimated Expenditures**

<b>FY</b>	<b>2008/2009</b>	<b>2009/2010</b>	<b>2010/2011</b>	<b>2011/2012</b>	<b>2012/2013</b>	<b>Totals</b>
Plant 1	(2,812,500)	(2,812,500)	(2,000,000)			(7,625,000)
Plant 2	(2,812,500)	(2,812,500)	(2,812,500)			(8,437,500)
Plant 3	(2,812,500)	(2,812,500)	(2,812,500)	(2,400,000)		(10,837,500)
Plant 4	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)		(11,250,000)
Plant 5	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)		(11,250,000)
Plant 6	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)		(11,250,000)
Plant 7	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)		(11,250,000)
Plant 8	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)		(11,250,000)
Plant 9	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)		(11,250,000)
Plant 10	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)		(11,250,000)
Plant 11			(2,812,500)	(2,812,500)		(5,625,000)
<b>Totals</b>	<b>(28,125,000)</b>	<b>(28,125,000)</b>	<b>(30,125,000)</b>	<b>(24,900,000)</b>		<b>(111,275,000)</b>

**EPIC Fund - Estimated Revenues**

<b>FY</b>	<b>2008/2009</b>	<b>2009/2010</b>	<b>2010/2011</b>	<b>2011/2012</b>	<b>2012/2013</b>	<b>Totals</b>
Grain Checkoff	11,400,000	11,400,000	11,400,000	11,400,000	2,850,000	48,450,000
General Funds	2,500,000	2,500,000	2,500,000	2,500,000		10,000,000
Petroleum Release Remedial Action Fee (PRF)	1,500,000	1,500,000	1,500,000	1,500,000		6,000,000
Off-Road Refund	450,000	240,000				690,000
NEB Transfers - (Excess of \$550,000 revenue)	0	0	0	0		0
<b>Totals</b>	<b>15,850,000</b>	<b>15,640,000</b>	<b>15,400,000</b>	<b>15,400,000</b>	<b>2,850,000</b>	<b>65,140,000</b>

**EPIC Fund - Estimated Cash Flow**

<b>FY</b>	<b>2008/2009</b>	<b>2009/2010</b>	<b>2010/2011</b>	<b>2011/2012</b>	<b>2012/2013</b>	<b>Totals</b>
Projected EPIC Beginning Balance	22,537,612	10,600,676	(1,725,314)	(16,450,314)	(25,950,314)	
EPIC Fund - Revenues	15,850,000	15,640,000	15,400,000	15,400,000	2,850,000	65,140,000
EPIC Fund - Expenditures	(28,125,000)	(28,125,000)	(30,125,000)	(24,900,000)	0	(111,275,000)
Interest on Invested Funds	338,064	159,010	0	0	0	497,074
<b>Totals</b>	<b>10,600,676</b>	<b>(1,725,314)</b>	<b>(16,450,314)</b>	<b>(25,950,314)</b>	<b>(23,100,314)</b>	

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Interest Rate on Invested Funds of 3.0%