

EPIC Report

Prepared by:

The Nebraska Department of Revenue

Motor Fuels Division

and

The Nebraska Ethanol Board

December 2003

STATE OF NEBRASKA



Mike Johanns
Governor

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:

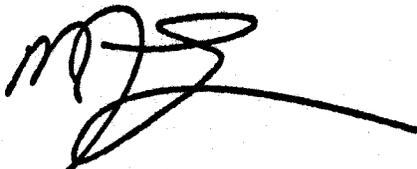
(6) On or before December 1, 2003, and each December 1 thereafter, the Department of Revenue and the Nebraska Ethanol Board shall jointly submit a report to the Legislature which shall project the anticipated revenue and expenditures from the Ethanol Production Incentive Cash Fund through the termination 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 Conclusions. The Agreement section identifies the current ethanol production agreements, including the physical location and plant size. We currently have written agreements with 23 applicants covering a total of 25 projects.

The Analysis section is based upon the combined data of the Department of Revenue and Nebraska Ethanol Board. It is grouped into three scenarios. Scenario A anticipates four qualified plants. Scenario B anticipates five qualified plants. Scenario C anticipates a sixth qualified plant for the reduced benefit period allowed by statute.

The Funding section identifies the sources of funds for the fiscal years covered in this report. Finally, the Conclusions section discusses our best estimates of costs for each of the aforementioned scenarios.

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.



Mary Jane Egr
State Tax Commissioner
Nebraska Department of Revenue



Todd Sneller
Administrator
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

Agreements

As required by section 66-1344.01 R.S.Supp.,2002, the Department of Revenue has entered into agreements with the following entities to provide ethanol credits pursuant to section 66-1344(4) R.S.Supp.,2002:

<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
Flatwater Biologics, LLC	Dundy County	40 million
High Plains Cattle Co.(two plants)	Imperial/McCook/Ogallala	15 million
	Chappell or Sidney	15 million
Husker Ag Processing, LLC	Plainview	20 million
KAAPA, LLC	Axtell	30 million
Kuester Ag Processing	Stanton	2 million
Nebraska Ethanol, LLC	Dakota County	45 million
**Nordic Biofuels, LLC (two plants)	**Ravenna	84 million
	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
Sutherland Ethanol Co., LLC	Sutherland	16 million
Trenton Agri Products, LLC	Trenton	30 million
Venture Bio-Fuels, LLC	Hitchcock or Red Willow County	40 million
Voudrie Business Development, Inc.	Dawson/Lincoln/Kearney/ or Red Willow Cty	30 million

* Denotes projects whose initial plant size is stated as 100,000 gallons. Within first year of operation, plant size projected to increase to listed amount.

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

Analysis

Scenario A

Based upon a review of these projects, we anticipate four plants are reasonably certain to qualify for credits. These entities appear to be able to claim credits in the aggregate amount of approximately \$11.2 million per year through the eight year claim periods available to them.

Scenario B

An additional four projects may have some limited potential for qualification. Of these four, we anticipate one may qualify. If this does occur, there is the potential for additional credits of approximately \$2.8 million per year being claimed through the eight year claim period available.

Scenario C

Although there has been no recent production at another particular project, there is a remote possibility that an additional facility may qualify to claim credits under section 66-1344(4)(b)(ii) R.S.Supp.,2002. If this does occur, there is the potential for additional credits of approximately \$2.8 million per year being claimed through the four year claim period available.

We do not anticipate that the remaining projects will qualify.

Although not significant in its overall impact, several entities remain able to qualify for credits under section 66-1344(3) R.S.Supp.,2002 (LB605). To claim credits under this section, only ethanol production through December 31, 2003 may qualify; however, there is no statutory limitation within which claims may be filed for credits earned on this production. Of these entities, we anticipate that two will qualify and submit claims for credits. The amount of these claims may total \$1.1 million and such claims are included in each scenario provided.

Another entity has indicated a substantial increase in ethanol production. However, at this point they appear to be unable to meet the physical plant expansion criteria necessary to claim these credits. An additional entity has documented their physical plant expansion. However, due to market forces we do not anticipate that they will claim credits.

All remaining entities have exhausted their ability to claim additional credits under section 66-1344(3) R.S.Supp.,2002.

Funding

Funding is provided by general fund appropriations of \$1.5 million per year for fiscal years 2001-2002 through 2007-2008 and an excise tax on the sale of corn and grain sorghum for the period October 1, 2001 through September 30, 2009 of approximately \$5 million per year, plus any amounts of accrued interest thereon. In addition, the \$1.5 million appropriation was not made for fiscal year 2002-2003 as a result of changes made by Laws 2002, LB1, Ninety-seventh Legislature, Second Special Session, but is shown as being transferred in fiscal year 2007-2008. These amounts are deposited into the Ethanol Production Incentive Cash (EPIC) Fund.

Conclusions

If the projects described in Scenario A are completed, 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 \$42 million will remain.

If the projects described in Scenario B are completed, 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 \$65 million will remain.

If the projects described in Scenario C are completed, we estimate that the EPIC Fund will no longer be able to meet its projected obligations during fiscal year 2004-2005. At the conclusion of the entitlement periods available to qualified claimants on June 30, 2012, we estimate unpaid credits of approximately \$76 million will remain.

Projected EPIC Fund Balance Scenario A

EPIC Fund - Estimated Expenditures FY	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12 Totals
LB 605	(1,100,000)								(1,100,000)
Plant 1	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,312,500)	(22,000,000)
Plant 2	(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 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)
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)
Totals	(\$6,725,000)	(\$11,250,000)	(\$11,250,000)	(\$11,250,000)	(\$11,250,000)	(\$11,250,000)	(\$11,250,000)	(\$10,750,000)	(\$5,625,000)

EPIC Fund - Estimated Revenues FY	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12 Totals
Checkoff	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	1,200,000		31,200,000
General Funds	1,500,000	1,500,000	1,500,000	1,500,000	3,000,000				9,000,000
	\$6,500,000	\$6,500,000	\$6,500,000	\$6,500,000	\$8,000,000	\$5,000,000	\$1,200,000	\$0	\$0
									\$40,200,000

EPIC Fund - Estimated Cash Flow FY	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12 Totals
Projected EPIC Beginning Balance	7,671,228	7,714,721	3,032,225	(1,611,647)	(6,361,647)	(9,611,647)	(15,861,647)	(25,911,647)	(36,661,647)
EPIC Fund - Revenues	6,500,000	6,500,000	6,500,000	6,500,000	8,000,000	5,000,000	1,200,000	0	0
EPIC Fund - Expenditures	(6,725,000)	(11,250,000)	(11,250,000)	(11,250,000)	(11,250,000)	(11,250,000)	(11,250,000)	(10,750,000)	(5,625,000)
Interest on Invested Funds	268,493	67,504	106,128	0	0	0	0	0	0
	\$7,714,721	\$3,032,225	(\$1,611,647)	(\$6,361,647)	(\$9,611,647)	(\$15,861,647)	(\$25,911,647)	(\$36,661,647)	(\$42,286,647)

Interest Rate on Invested Funds of 3.5%

Projected EPIC Fund Balance Scenario B

EPIC Fund - Estimated Expenditures

FY	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	Totals
LB 605	(1,100,000)									(1,100,000)
Plant 1	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,312,500)		(22,000,000)
Plant 2	(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 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		(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)
Totals	(\$6,725,000)	(\$14,062,500)	(\$14,062,500)	(\$14,062,500)	(\$14,062,500)	(\$14,062,500)	(\$14,062,500)	(\$13,562,500)	(\$8,437,500)	(\$113,100,000)

EPIC Fund - Estimated Revenues

FY	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	Totals
Checkoff	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	1,200,000			31,200,000
General Funds	1,500,000	1,500,000	1,500,000	1,500,000	3,000,000					9,000,000
	\$6,500,000	\$6,500,000	\$6,500,000	\$6,500,000	\$8,000,000	\$5,000,000	\$1,200,000	\$0	\$0	\$40,200,000

EPIC Fund - Estimated Cash Flow

FY	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12	Totals
Projected EPIC Beginning Balance	7,671,228	7,714,721	219,725	(7,335,085)	(14,897,585)	(20,960,085)	(30,022,585)	(42,885,085)	(56,447,585)	
EPIC Fund - Revenues	6,500,000	6,500,000	6,500,000	6,500,000	8,000,000	5,000,000	1,200,000	0	0	40,200,000
EPIC Fund - Expenditures	(6,725,000)	(14,062,500)	(14,062,500)	(14,062,500)	(14,062,500)	(14,062,500)	(14,062,500)	(13,562,500)	(8,437,500)	(113,100,000)
Interest on Invested Funds	268,493	67,504	7,690	0	0	0	0	0	0	343,687
	\$7,714,721	\$219,725	(\$7,335,085)	(\$14,897,585)	(\$20,960,085)	(\$30,022,585)	(\$42,885,085)	(\$56,447,585)	(\$64,885,085)	

Interest Rate on Invested Funds of 3.5%

Projected EPIC Fund Balance Scenario C

EPIC Fund - Estimated Expenditures FY	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12 Totals	
LB 605	(1,100,000)								(1,100,000)	
Plant 1	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,312,500)	(22,000,000)	
Plant 2	(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 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)	
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)	
Plant 5		(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	
Plant 6		(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	(2,812,500)	
Totals	(\$6,725,000)	(\$16,875,000)	(\$16,875,000)	(\$16,875,000)	(\$16,875,000)	(\$14,062,500)	(\$14,062,500)	(\$13,562,500)	(\$8,437,500)	(\$124,350,000)

EPIC Fund - Estimated Revenues FY	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12 Totals	
Checkoff	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	1,200,000		31,200,000	
General Funds	1,500,000	1,500,000	1,500,000	1,500,000	3,000,000				9,000,000	
	\$6,500,000	\$6,500,000	\$6,500,000	\$6,500,000	\$8,000,000	\$5,000,000	\$1,200,000	\$0	\$0	\$40,200,000

EPIC Fund - Estimated Cash Flow FY	03/04	04/05	05/06	06/07	07/08	08/09	09/10	10/11	11/12 Totals
Projected EPIC Beginning Balance	7,671,228	7,714,721	(2,592,775)	(12,967,775)	(23,342,775)	(32,217,775)	(41,280,275)	(54,142,775)	(67,705,275)
EPIC Fund - Revenues	6,500,000	6,500,000	6,500,000	6,500,000	8,000,000	5,000,000	1,200,000	0	0
EPIC Fund - Expenditures	(6,725,000)	(16,875,000)	(16,875,000)	(16,875,000)	(16,875,000)	(14,062,500)	(14,062,500)	(13,562,500)	(8,437,500)
Interest on Invested Funds	268,493	67,504	0	0	0	0	0	0	0
	\$7,714,721	(\$2,592,775)	(\$12,967,775)	(\$23,342,775)	(\$32,217,775)	(\$41,280,275)	(\$54,142,775)	(\$67,705,275)	(\$76,142,775)

Interest Rate on Invested Funds of 3.5%