

Fiscal Estimate Narratives
DATCP 12/11/2003

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|-------------------------------|------------------|---------------------|---------------|---------------|-----------------|
| LRB Number | 03-3824/1 | Introduction Number | SB-343 | Estimate Type | Original |
| Subject | | | | | |
| Payments to ethanol producers | | | | | |

Assumptions Used in Arriving at Fiscal Estimate

We estimate that the fiscal effect of this bill would be a net cost increase of \$2,350,000 in fiscal year 2005-2006. We arrived at this amount by comparing the amounts currently allocated under 20.115(1)(k) (\$1,900,000) and the amount that would be paid out during the 05-06 fiscal year to four ethanol producers. In order to arrive at this amount we needed to make two assumptions.

First, for comparing current law with this bill, we assumed that funding under current law would remain constant at the current level of \$1.9 million per year though the sunset date of the current law (June 30, 2006).

Second, we assumed that there would be a total of four ethanol producers eligible to receive incentive money in the 05-06 fiscal year. There are currently two producers who first received ethanol production incentives in 2003. A third producer has begun production and will most likely qualify for an incentive in 2004. We know of a fourth producer who has begun the plant construction process. Therefore, we predict that when this bill first takes effect, there will be two plants in the fourth 12 month production period, one plant in the third 12 month production period and one plant in the second 12 month production period. However, there are other firms considering entry into the ethanol production business. If any of these firms successfully construct plants and begin producing ethanol, there will be additional costs to the state.

This bill states that the department shall pay ethanol producers 10 cents per gallon for a given number of gallons for each year that the producer has produced ethanol. Ethanol producers in their first or second year of production receive payment based on 12.5 million gallons. Ethanol producers in their third or fourth year of production receive payment based on 10 million gallons. Based on the assumption of four eligible producers in FY 05-06, the total amount paid out of the program would be \$4,250,000. (\$1,000,000 for each of the two plants in the fourth 12 month production period, \$1,000,000 for the one plant in the third 12 month production period and \$1,250,000 for the one plant in the second 12 month production period).

Our estimate of a net increase cost of \$2,350,000 for this bill is based on comparing the assumed funding level of \$1,900,000 under current law with the total payments obligation of \$4,250,000 to (an assumed) four eligible producers during the 05-06 fiscal year.

This analysis is limited to amounts actually paid out as production incentives. There are administrative costs associated with this program that the department absorbs into its general operating budget. (We estimate that DATCP personell spent roughly 50 hours of staff time auditing applications and preparing payments in FY 02-03.) We do not expect this bill to have any significant change in the administrative costs associated with this program.

Long-Range Fiscal Implications

Currently, the ethanol payment incentives program is scheduled to sunset on June 30, 2006. This bill eliminates the sunset date.

Depending on how the \$1.9 M base is treated, the bill will result in additional costs as listed below. (These amounts include only the four eligible ethanol plants discussed above.)

Costs without the \$1.9 M base included:
2006-07 = \$3,500,000
2007-08 = \$3,250,000

2008-09 = \$2,500,000
2009-10 = \$2,250,000
2010-11 = \$1,000,000
2011-12 = \$500,000
2012-13 = \$0.

Costs with the \$1.9 M base included:

2006-07 = \$1,600,000
2007-08 = \$1,350,000
2008-09 = \$600,000
2009-10 = \$350,000
2010-11 = \$-0-
2011-12 = \$-0-
2012-13 = \$0.

Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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|--|--------------------|--|-----------------|
| LRB Number 03-3824/1 | | Introduction Number SB-343 | |
| Subject | | | |
| Payments to ethanol producers | | | |
| I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): | | | |
| | | | |
| II. Annualized Costs: | | Annualized Fiscal Impact on funds from: | |
| | | Increased Costs | Decreased Costs |
| A. State Costs by Category | | | |
| State Operations - Salaries and Fringes | | \$ | |
| (FTE Position Changes) | | | |
| State Operations - Other Costs | | | |
| Local Assistance | | | |
| Aids to Individuals or Organizations | 2,350,000 | | |
| TOTAL State Costs by Category | \$2,350,000 | | \$ |
| B. State Costs by Source of Funds | | | |
| GPR | 2,350,000 | | |
| FED | | | |
| PRO/PRS | | | |
| SEG/SEG-S | | | |
| III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.) | | | |
| | Increased Rev | Decreased Rev | |
| GPR Taxes | \$ | | \$ |
| GPR Earned | | | |
| FED | | | |
| PRO/PRS | | | |
| SEG/SEG-S | | | |
| TOTAL State Revenues | \$ | | \$ |
| NET ANNUALIZED FISCAL IMPACT | | | |
| | State | Local | |
| NET CHANGE IN COSTS | \$2,350,000 | | \$ |
| NET CHANGE IN REVENUE | \$ | | \$ |
| | | | |
| Agency/Prepared By | | Authorized Signature | Date |
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