Department of Planning and Budget
2006 Fiscal Impact Statement

1. **Bill Number** HB1423

   House of Origin ☐ Introduced ☒ Substitute ☐ Engrossed

   Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. **Patron** Barlow

3. **Committee** Science and Technology

4. **Title** Biofuels Production Fund and Grant Incentive Program; established.

5. **Summary/Purpose:** This bill establishes the Biofuels Production Fund (the Fund) and the Biofuels Production Grant Incentive Program (the Program) to administer the Fund. The Program offers grants to producers of neat biofuels, which are defined as either biodiesel fuels or ethanol fuels that are not mixed with traditional fuels such as gasoline or diesel fuel. To be eligible for a grant the producer must produce in excess of 10 million gallons of neat biofuels within the Commonwealth in a calendar year using feedstock originating domestically within the United States. Producers that qualify for a grant under the program may be granted $0.20 per gallon of neat biofuel produced in the given calendar year at a 50% cost share of up to 80 million gallons. Therefore a producer meeting the maximum production limit under the program of 80 million gallons would be eligible for an $8,000,000 grant. The Program and Fund would expire on December 31, 2016.

6. **Fiscal Impact:** According to the Department of Mines, Minerals, and Energy (DMME), the development of the application/production report and required evidence/documentation needed to implement this grant will require hiring an outside consultant at an estimated one-time cost of $20,000. DMME does not plan to hire any new staff for this work because the work level would decrease substantially after the application is completed. DMME would then operate this program with existing staff, conditioned upon continued receipt of the State Energy Program federal grant at current levels.

   Funding needs for the actual grant payments are much more difficult to estimate. The funding need will depend on what size ethanol or biodiesel plant could realistically be expected if the incentive in this bill is put into place. Through conversations with Virginia Clean Cities and Green Virginia, DMME has learned that the most likely scenario is that one 40-60 million gallons per year (mgy) ethanol plant and one 15mgy biodiesel plant would be built. A typical ethanol plant would take up to 36 months to become operational. Assuming a 40mgy plant became operational on December 31, 2008 (approximately 36 months from now), the fiscal impact of this bill would be $4 million x 8 years (since the program and fund expires on December 31, 2016) = $32 million. A 60mgy plant would have a fiscal impact of $6 million x 8 years = $48 million. Adhering to a similar time frame for commencing operation, a 15mgy biodiesel plant would have a fiscal impact of $1.5 million x 8 years = $12 million. Under this scenario, total grant funding need would range from $44 million to $60 million over the life of the program. Furthermore, due to the substitute version limiting the total annual grant award to $8,000,000 regardless of the number of producers (rather than

$8,000,000 per producer), the maximum amount of grant funding required (assuming the same estimated time frame for commencing operation) would not exceed $64 million.

Revenue estimates generated by the ethanol and biodiesel plant operations are equally difficult to determine. According to a study entitled “Ethanol and the Local Community” by AUS Consultants/SJH & Company dated June 21, 2002, it would cost approximately $60 million to build and equip a 40mgy dry mill ethanol plant. Much of these expenditures for goods and services will be made in the Commonwealth. Once constructed, the direct effect of operating a plant of this size will create approximately 40 permanent new jobs and is expected to contribute approximately $1.2 million annually to state and local tax revenue. According to “The Biodiesel Plant Development Handbook” prepared by the Agricultural Utilization Research Institute, a 15mgy biodiesel plant would require a capital investment of approximately $13 million. The handbook further states that a plant of this size would require 28 permanent full-time employees. Tax revenue contributions would be approximately $300,000 annually.

7. **Budget amendment necessary:** Yes, Item 115 in HB30, the introduced budget bill.

8. **Fiscal implications:** See Item 6.

9. **Specific agency or political subdivisions affected:** Department of Mines, Minerals, and Energy.

10. **Technical amendment necessary:** No.

11. **Other comments:** The original version of this bill set the maximum grant amount at $8,000,000 per single producer. The substitute version caps the maximum grant amount at $8,000,000 in total. Therefore, regardless of the number of producers, this bill caps the total annual grant award at $8,000,000. Also, the substitute version further clarifies in §45.1-394.D. that the producer must use feedstock originating domestically within the United States.

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