

## Department of Planning and Budget 2006 Fiscal Impact Statement

**1. Bill Number** HB680

**House of Origin**    ☐ Introduced    ☐ Substitute    ☐ Engrossed

**Second House**    ☐ In Committee    ☐ Substitute    ☒ Enrolled

**2. Patron**        Wittman, Lohr and Morgan

**3. Committee**    Passed Both Houses

**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 Incentive Grant Program (the Program) to administer the Fund. The Program offers grants to producers of biofuels, which are defined as neat biodiesel fuels or neat ethanol fuels that are not blended 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 \$0.10 per gallon of neat biofuel produced in the given calendar year, which gallon has also been sold by the producer to customers. The Program and Fund would expire on January 1, 2017.

**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.

The fiscal impact of this legislation will ultimately be determined by the amount of funding the General Assembly elects to appropriate to the fund. However, potential funding demand can be estimated based 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. The grant amount needed to fund one 40-60 million gallons per year (mgy) ethanol plant and one 15mgy biodiesel plant would be \$5.5 - \$7.5 million. Additional plants or higher production capacities would increase this amount by \$1 million for every \$10 million gallons produced.

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 15mgly 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:** No, the Governor's introduced budget (HB/SB30) includes \$3.0 million from the unappropriated balance that can be used to fund the actual grant payments. However, if the General Assembly does not approve this funding, then a budget amendment will be necessary.

The Department of Mines, Minerals, and Energy (DMME) can absorb the cost for development of the application/production report and required evidence/documentation needed to implement the Biofuels Production Incentive Grant Program.

- 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:** There have been no changes to the bill since the Senate substitute version.

**Date:** 03/22/06 / dma

**Document:** G:\2006 Fis\Hb680er.Doc

cc: Secretary of Commerce and Trade