



TO: House Committee on Taxation
FROM: Don Gales, CEO, U.S. Energy Partners, L.L.C. DBA White Energy
RE: **Testimony in Opposition to HB 2401**, imposing an excise tax on ethanol produced in Kansas
DATE: March 18, 2015

Good afternoon Chairman Kleeb and members of the Committee. I am the CEO of U.S. Energy Partners, L.L.C. DBA White Energy in Russell, Kansas. On behalf of White Energy, thank you for allowing us the opportunity to write in opposition to HB 2401.

The Kansas ethanol industry greatly affects the economic vitality and development of communities across the state. Serving as a direct consumer of Kansas corn and sorghum, the ethanol industry has helped to stabilize the basis price of corn and sorghum for our state's farmers. The ethanol industry produces ready access to wet and dry distillers grains feed for Kansas livestock producers, dairies, and feed yards. We produce an average of 50 million gallons annually with purchases of an average of 13 million bushels of grain annually from local farmers (valued at over \$58 million in 2014).

The multiplier effect of the ethanol industry serves to promote the development of our rural economies and increase tax revenues at both state and local levels. The Kansas ethanol industry annually provides over \$2 million in real property taxes, \$100,000 in personal property taxes, \$53 million in trucking fees, 384 direct jobs, and an average salary of \$49,000¹. The ethanol industry is a significant employer in rural communities such as Russell. In 2014, when including direct, indirect, or induced, the number of jobs positively affected by the industry was 1,459², which is more than 21 percent of the total population of Russell County and almost one-third of the population of the city of Russell.

While we in the ethanol industry certainly understand the current budgetary constraints of our State, we must strongly oppose the new tax imposed on the ethanol industry under HB 2401. In Russell, we support the community in many ways including sponsoring and organizing an annual local food pantry drive and sponsoring events and projects for the local school district. Additional tax levies such as the one proposed often jeopardize programs like these.

As ethanol industry participants, we are price takers for our raw materials and end products with margins relatively established outside of our control due to multiple factors that move independently based on international and often geopolitical reasons. An excise tax on this often times precarious industry, as suggested by HB 2401, would be dangerous to the industry and the broader unintended consequences that are sure to follow, would be both immediate and severe.

This bill, as currently drafted, doesn't clarify that the tax is not applicable to ethanol production that is exported out of the State so we are left to presume that it would apply to all ethanol produced regardless of intended point of sale. To require a tax based on ethanol production disincentivizes additional capital investment in this State for the industry, discourages green renewable initiatives, and harms the competitive stance of domestic producers. Ethanol is a commodity that can be readily sourced from a variety of suppliers. It is then typically blended with an 84 octane gasoline to create an E10 gasoline product that is distributed and sold to consumers at the pump. If domestic refineries do not reimburse Kansas ethanol producers the additional production cost associated with this proposed legislation, then this bill encourages importation of ethanol over domestically produced ethanol. If domestic refiners do cover this additional production cost which is then passed on, then consumers are being taxed twice for the product – once as it is produced and then again as it's sold (through Kansas Motor Fuel Taxes).

We would strongly encourage the Committee to oppose this bill and not pass the bill out of Committee. Thank you for the opportunity to share our comments.

¹ 2010 Report by the Kansas Legislative Research Department.

² National Sorghum Producers estimated by prorating data from ABF Economics (<http://www.ethanolrfa.org/page/-/rfa-association-site/studies/Ethanol%20Economic%20Impact%20for%202014.pdf?nocdn=1>).