Kansas Association of Ethanol Processors

TO: House Committee on Taxation
FROM: Mike Chisam, President, Kansas Ethanol, LLC, and on behalf of the
Kansas Association of Ethanol Processors (KAEP)
RE: **Testimony in Opposition to HB 2401**, imposing an excise tax on Kansas produced ethanol
DATE: March 18, 2015

Good afternoon Chairman Kleeb and members of the Committee. On behalf of Kansas Ethanol, LLC, and the Kansas Association of Ethanol Processors, thank you for allowing us the opportunity to testify in opposition to HB 2401.

I am the President and CEO of Kansas Ethanol, LLC in Lyons, Kansas, and the Immediate Past Chairman of the Kansas Association of Ethanol Processors (KAEP), an association which represents the ethanol industry in Kansas.

The 540 million gallons of ethanol produced annually by the thirteen plants in Kansas 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, and provides our large cattle industry with nutrient-rich feed products. 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.

According to a 2010 Kansas Legislative Research Department report and current industry statistics, the Kansas ethanol industry annually pays over $2 million in property taxes, $53 million in trucking fees, and $750 million to Kansas farmers for their grain. In addition, the industry employs 384 people directly who earn an average salary of $49,000, and several thousand more are employed indirectly – and they all pay taxes. But what I believe to be even more exciting and beneficial to the state is the future we are forging for our industry in Kansas.

Several facilities have invested millions of dollars in innovative technologies, developed by Kansas companies, to produce value added products and reduce operating costs. These innovations put the Kansas plants at the forefront of the industry. We are paving the road to producing value-added feed products, renewable diesel from waste and corn oil, and cellulosic ethanol from grasses and grain fiber. These innovations will provide job growth, wage growth, and tax revenue growth.

However, enactment of HB 2401 stops this growth in its tracks. To illustrate what I mean I'd like to take a closer look at the last three years of operation at Kansas Ethanol, LLC. In 2012, our net income for the year was negative. Grain prices were high and ethanol prices were low relative to the price of corn. That year the average ethanol price we received was 2.29/gal. With the 4.33% excise tax imposed, we would have incurred an additional expense of 10 cents per gallon. That equates to a $5.84 million tax bill that would have made the decision to idle the facility easy. One Kansas plant did idle that year and furloughed most of its employees. With HB 2401 in place all the plants would have done the same that year.

In 2013, the situation was better. Profitability returned and Kansas Ethanol, LLC realized a respectable margin. With that money we paid a modest dividend and invested in our state-of-the-art DDGS Tub and Cube facility, setting the stage for the addition of 8 new jobs in Rice County the following year. Modest funds were also invested in capital projects that reduced operating costs through enhanced efficiency. If HB 2401would have been imposed the funds used for the DDGS Tub and Cube facility development and capital improvements would have been diverted to pay the $5.93 million tax and the new jobs and efficiency gains would not have been realized.

Last year, profits were significant, eight jobs were added, and we decided to invest in a turbine generator and the ICM Fiber Separation Technology at our facility. These enhancements will reduce our overall operating costs, further diversify our distillers' grain product offerings, position us to make cellulosic ethanol in the future, and add five additional jobs at our facility. The impacts from HB 2401could have been absorbed last year, but the tax payment of $5.36 million would have forced us to scale down our plans significantly and forgo the job additions.

This bill has the power to idle our facilities in some years and would render capital improvements and innovation difficult to justify every year with such a significant additional expense to overcome. Without continued innovation and improvement, our Kansas facilities would become uncompetitive and unsustainable. Loss of business to our out of state competitors would occur, our employees would lose their jobs, farmers would lose a critical market for their grain, and our industry would disappear in Kansas.

In short, this bill is a death sentence for the ethanol industry of Kansas and worsens the fiscal position of the state if passed into law. I urge you to oppose this bill and not pass it out of Committee. Allow our industry and other renewable industries the opportunity to grow, prosper, and contribute to a broad based, Kansas solution.

Thank you for the opportunity to share our comments, and I will stand for questions at the appropriate time.