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**Nebraska Ethanol Board**

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# EXECUTIVE SUMMARY

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## Introduction

The Nebraska Ethanol Board was established by legislative enactment in 1993. Its creation followed two decades of attempts by the Nebraska Legislature to support the state's corn producers by devising programs that would promote the use of gasoline blended with alcohol and encourage the establishment of privately owned grain alcohol plants in the state. The earliest efforts, which were largely unsuccessful, involved attempts to attract ethanol plants to the state through the use of matching funds and grant programs.

In 1990, the Legislature abandoned these efforts and established a tax-incentive program, still in effect today, which was designed to benefit ethanol producers. Shortly thereafter, two earlier-established ethanol promotion entities were eliminated and the Nebraska Ethanol Board (board) was established in their place.

While the board does not administer the tax-incentive program,<sup>1</sup> it is solely responsible for the expenditure of approximately \$400,000 appropriated to it annually from its cash fund, the Agricultural Alcohol Fuel Tax Fund. Expenditures from this fund are targeted at activities, spelled out in statute, that can be broadly categorized as relating either to ethanol advocacy, market development, or research.

The purpose of the program evaluation described in this report was to (1) determine how money appropriated to the board from the cash fund is being used, (2) determine whether the activities of the board and its staff are consistent with legislative intent as expressed in the Ethanol Development Act, and (3) assess the effects of the board's efforts on the production and marketing of Nebraska ethanol.

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## The Nebraska Ethanol Board's Use Of Cash Fund Appropriations

The seven-member board is staffed by four full-time employees: an administrator, a project manager, a business manager, and an administrative assistant. On average, more than 60 percent of its annual expenditure (\$221,635 in FY1997-98) is dedicated to salaries, employee benefits, and per diem payments to board members.

According to the board's administrator, the board has, since its inception been guided by a long-term plan—albeit an unwritten one—designed to benefit Nebraska's ethanol industry. As described to the Program Evaluation Unit (unit), the first phase of the plan concentrated on attracting ethanol production plants to the state. With seven plants, which produce nearly 350 million gallons of ethanol per year, now operating in the state, the board has moved on to phase two of

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<sup>1</sup> The tax-incentive program is administered by the Nebraska Department of Revenue.

its plan—pursuing advocacy activities designed to create a national demand for ethanol and open new markets. Once sufficient markets have been developed, the focus of the board will shift again, towards the marketing of ethanol produced in Nebraska.

The advocacy activities aimed at opening new markets and increasing demand for ethanol nationally currently account for the largest share of expenditures made by the board—\$65,353 in FY1997-98. This figure includes expenditures made for travel and membership dues paid to several advocacy groups that lobby nationally for clean air regulations and clean fuels, as well as to a number of state agricultural organizations and small associations with similar interests.<sup>2</sup> The board also makes expenditures in support of demonstrations of alternative uses of ethanol.

In justifying the expenditures it makes on ethanol advocacy, the board reasons that creating a greater demand for ethanol nationally is a necessary step before Nebraska's ethanol can be extensively and effectively promoted. At present, the promotional aspects of the board's activities consume only a small percentage of the board's resources (\$15,370 in FY1997-98). To the extent that the board pursues such activities, they are directed at consumers in Nebraska and at petroleum marketers who sell ethanol.

The board also dedicates a very small portion of its resources—primarily staff time—to research activities related to ethanol. In general, the board does not directly fund research, but instead attempts to locate external funding sources.

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## Conclusion

Based on its analysis of board expenditures, the unit concluded that the activities of the board and its staff were consistent with both the letter and intent of the Ethanol Development Act. However, while the activities of the board in the areas of advocacy, market development, and research are easy to describe, their effectiveness is difficult to measure. This is because it is impossible to separate the effects of the board's activities from the effects of activities conducted by other entities promoting ethanol, such as national advocacy groups, ethanol producers, and independent researchers. Additionally, the board itself does little to measure the effects of its activities and can produce little evidence that its activities are effective.

To address this problem, the Legislative Program Evaluation Committee (committee) recommends that the board develop ways to

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<sup>2</sup> Salaries for the board's four staff members are not included in this figure or the figures for market development and research, although the staff's work does fit within these broad categories.

measure the effectiveness of its efforts. Such measurements will be especially important when the board's focus shifts from advocacy to the actual promotion of Nebraska ethanol.

The committee also recommends that the board's long-term plan be committed to writing. (The committee made additional recommendations for improving the way the board tracks and documents expenditures. All of the committee's recommendations are discussed in detail beginning on page 17 of this report.)

Finally, while the committee agrees that the board's activities are consistent with statutory intent, it also believes the report raises a policy question about the appropriate role of the board. Specifically, in light of the Ethanol Development Act's sunset provision ending direct incentives for ethanol production<sup>3</sup>—and the board's similar shift in focus away from attracting plants to the state—the committee sees a need for the Legislature to revisit the role of the board. However, the committee believes such a review should be delayed until the board commits its long-term plan to writing.

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<sup>3</sup> Laws 1999, LB 605 recently postponed the sunset from December 31, 2000, to December 31, 2003, to expend surplus funds.