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BILL



ANALYSIS

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Senate Bill 1030 (as reported without amendment)
Sponsor: Senator Cameron S. Brown
Committee: Agriculture and Bioeconomy

(as passed by the Senate)

Date Completed: 2-25-10

RATIONALE

Renewable energy is emerging as a significant part of Michigan's economy. To encourage the growth of this industry, the Michigan Renaissance Zone Act provides for the designation of up to 15 renaissance zones in which renewable energy facilities are exempt from most State and local taxes. To date, 11 renaissance zones have been approved for renewable energy facilities, according to the Michigan Economic Development Corporation. (The zones are listed in **BACKGROUND**, below.) One biodiesel producer located in a renaissance zone in Adrian has begun exploring other uses for its products and byproducts. To qualify for renaissance zone status, however, a renewable energy facility must be engaged in the activities described in the Act. It has been suggested that the definition of "renewable energy facility" be expanded to encompass the production of additional materials.

CONTENT

The bill would amend the Michigan Renaissance Zone Act to include in the definition of "renewable energy facility" a facility that creates chemicals from the wind, sun, biomass, or other specified renewable sources.

The Act allows the State Administrative Board to designate up to 15 renaissance zones for renewable energy facilities, upon the recommendation of the Michigan Strategic Fund board, and upon the recommendation of the Agriculture Commission if a renewable energy facility uses agricultural crops or residues or

processed products from agricultural crops as its primary raw material source. At least five of the renaissance zones must be designated for renewable energy facilities that focus primarily on the production of cellulosic biofuels.

"Renewable energy facility" means a facility that creates energy directly or fuel from the wind, the sun, trees, grasses, biosolids, algae, agricultural commodities, processed products from agricultural commodities, or residues from agricultural processes, wood or forest processes, food production and processing, or the paper products industry. The bill would refer to a facility that creates energy, fuels, or chemicals from those sources.

The term also includes a facility that creates energy or fuels from solid biomass, animal wastes, or landfill gases, including a facility that focuses on research, development, or manufacturing of systems or components of systems used to create energy or fuel from those items. The bill also would include a facility that creates chemicals or systems used to create chemicals from those sources.

MCL 125.2683

BACKGROUND

To date, 11 of the 15 available renaissance zones for renewable energy facilities have been approved, according to the Michigan Economic Development Corporation. The following table lists these zones and the facilities that comprise them.

Renewable Energy Facility Renaissance Zones	
Location	Facility
Adrian	Biofuel Industries Group (2008)
Alpena	Alpena Prototype Biorefinery (2010)
Holland	LG Chem (pending legislation)
Ithaca	Liberty Renewable Fuels, LLC
Kentwood	Heat Transfer International, LLC (2010)
Kinross Twp.	Frontier Renewable Resources, LLC (aka Mascoma)
Midland	Dow Solar Solutions
St. Clair	Energy Components Group (2010)
Thomas Twp.	Suniva PV Manufacturing & Distribution
Site Pending	Solexant
Site Pending	Westerwald AG

Source: Michigan Economic Development Corporation

ARGUMENTS

(Please note: The arguments contained in this analysis originate from sources outside the Senate Fiscal Agency. The Senate Fiscal Agency neither supports nor opposes legislation.)

Supporting Argument

NextDiesel, owned by the Biofuel Industries Group, is a producer of biodiesel located in Adrian, Michigan. Recently, the company has been experimenting with a wider mix of products. For example, methyl-ester, the primary component of biodiesel, also can be used to produce biodegradable lubricants such as motor oil or chain oil for chainsaws. Currently, most lubricants are petroleum based and can do environmental damage if they are spilled or disposed of improperly. Developing environmentally friendly alternatives could represent a big step in reducing water and soil contamination, and could lessen reliance on petroleum.

Other products under development by the company reportedly include biodegradable lighter fluid, green pesticides, and other lawn chemicals, which can be produced using the same basic technology used to make biodiesel, and in some cases can use waste products that otherwise would be discarded.

NextDiesel has been exploring these new markets as demand for biodiesel has declined recently, driven in part by lower oil prices as well as the expiration of the \$1 per

gallon Federal tax credit for biodiesel on December 31, 2009. In the face of that lower demand, the development of alternative products is necessary to maintain a viable business model. The bill would ensure that NextDiesel was able to keep operating within the renaissance zone while diversifying its product base.

Response: The term "chemicals" is very broad, and should be replaced with a clearer, narrower term, such as "bio-chemicals". Also, by expanding the definition of "renewable fuels facility" to include the production of chemicals, the bill would risk diverting resources from the production of biodiesel, ethanol, and other fuels. While green chemistry is a promising area for development that could have economic and environmental benefits for the State, the production of chemicals does not constitute what most people would consider renewable energy. Perhaps it would be preferable to create additional renaissance zones specifically for the production of green chemicals. On the other hand, if the activity in question is simply a way to generate revenue from byproducts, the bill should specify that only a limited percentage of the plant's output could consist of chemicals, to ensure that renewable fuels remained the facility's focus.

Legislative Analyst: Curtis Walker

FISCAL IMPACT

The bill would likely have a minimal impact on State and local revenue. By expanding the types of activities that qualify a firm as a renewable energy facility, the bill could increase the level of activity within affected zones. The impact would depend on a number of factors, including where the additional activity would be located and the economic and tax characteristics of the facilities that would be developed.

The bill would reduce revenue to the State General Fund and local units and would increase State expenditures from the General Fund. Most local property taxes abated in renaissance zones are not reimbursed by the State, reducing local unit revenue. However, the State's General Fund reimburses lost revenue to public libraries, intermediate school districts, local school districts, community colleges, and the School Aid Fund.

If \$100 million of investments were eventually made in the zones as a result of the bill, the bill would increase General Fund expenditures by at least \$1.5 million per year, a portion of which would represent lost School Aid Fund revenue. Revenue losses, such as under the business taxes and individual income tax, are not reimbursed and are not included in this example; nor are local unit revenue losses that would not be reimbursed.

Fiscal Analyst: David Zin

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.