

Legislative Analysis



ALTERNATIVE FUELS

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House Bill 5181 as introduced
Sponsor: Rep. Jeff Mayes

House Bill 5753 (Substitute H-1)
Sponsor: Rep. Gabe Leland

House Bill 5751 (Substitute H-2)
Sponsor: Rep. Philip LaJoy

House Bill 5754 (Substitute H-1)
Sponsor: Rep. Neal Nitz

House Bill 5752 (Substitute H-2)
Sponsor: Rep. Tom Casperson

House Bill 5755 (Substitute H-1)
Sponsor: Rep. John Stahl

Committee: Agriculture
Complete to 3-15-06

A SUMMARY OF HOUSE BILLS 5181 AND 5751-5755 AS REPORTED FROM COMMITTEE 2-28-06

Generally speaking, the bills would encourage the increased production capacity and consumption of "alternative fuels" such as E85, biodiesel blends, and hydrogen fuel.

House Bill 5181

The bill would create the "Fuels of the Future Commission Act" to create the Fuels of the Future Commission within the Department of Agriculture to investigate and recommend strategies for encouraging the use of alternative fuels. The commission, chaired by the director of the Department of Agriculture (or his or her designee), would include members representing the Michigan Economic Development Corporation, the Department of Labor and Economic Growth, corn producers, soybean producers, automotive fuel blenders, retail petroleum sellers, biodiesel producers, ethanol producers, environmental organizations, automotive manufacturing, state colleges and universities researching alternative fuels, and any other member the governor believes is necessary to further the commission's purpose. The commission would have to issue a written report within one year of the bill's effective date and issue additional follow-up reports at least on an annual basis. The bill would be repealed January 1, 2010.

House Bill 5751

The bill would amend the Motor Fuel Tax Act (MCL 207.1008) to provide a motor fuel tax of 12 cents per gallon on gasoline that is at least 85 percent ethanol and on diesel fuel that contains at least 5 percent biodiesel. The current 19-cent per gallon tax would remain on other gasoline and the 15-cent per gallon tax would remain on other diesel fuel.

The director of the Department of Agriculture would annually determine the difference between the amount of motor fuel collected at the lower rates and the amount that would have been collected had the higher rates remained in place. The Legislature would be required to appropriate the amount of the difference annually to the Michigan Transportation Fund. If the Legislature did not make the appropriation, the lower rates would cease to be in effect beginning the first fiscal year after the year in which an appropriation was not made.

The lower rates would be no longer effective the earlier of (1) 10 years after the effective date of this bill; or (2) the date that the total cumulative differential in tax receipts was greater than \$2.5 million.

House Bill 5752

The bill would amend the Michigan Renaissance Zone Act (MCL 125.2683 et al.) to allow for the designation of up to ten additional renaissance zones, specifically for renewable energy facilities. A renaissance zone could only be created with the consent of the appropriate city, village, or township, or a combination, and the county in which the facility is located. The zones would be designated by the State Administrative Board on the recommendation of the Michigan Strategic Fund Board.

A renewable energy facility would be defined as a system that creates energy from a process using residues from agricultural products, forest production, paper products industries, and food production and processing; trees and grasses grown specifically to be used as energy crops; and gaseous fuels produced from solid biomass, animal wastes, municipal wastes, or landfills.

[Renaissance zones are typically described as granting virtually tax-free status to the businesses or residents in them. Businesses in renaissance zones are exempt from the single business tax (SBT), the six-mill state education tax, local real and personal property taxes, specific taxes levied in lieu of property taxes, and (in Detroit) the utility users tax, as well as state and city income taxes.]

When designating a renaissance zone for a renewable energy facility, the State Administrative Board would consider: the economic impact on local suppliers who supply raw materials, goods, and services to the facility; the creation of jobs "relative to the employment base of the community rather than the static number of jobs created"; the viability of the project; and the economic impact on the community where the facility is located. Preference would be given, "other things being equal," to a business entity already located in the state.

The SAB could revoke the designation of all or a portion of a zone for a renewable energy facility if it determined that the facility failed to commence operations; ceased operations; or failed to commence construction or renovation within one year from the date the zone was designated.

House Bill 5753

The bill would amend the Management and Budget Act (MCL 18.1213) to require the director of the Department of Management and Budget, not later than January 1, 2007, to install the necessary infrastructure for, or contract with a supplier to provide, E85 fuel and biodiesel fuel blends at all state motor transport facilities.

House Bill 5754

The bill would amend the Michigan Strategic Fund Act (MCL 125.2078) to require the Michigan Strategic Fund to create and administer matching grant programs to provide owners and operators of service stations and bulk plants with up to 50 percent of the cost for creating fuel delivery systems capable of providing E85 fuel and biodiesel blends.

Grants to service station owners and operators for E85 facilities would be capped at \$2,000 for the costs of converting an existing system into an E85 system, and \$15,000 for the cost of constructing a new E85 system.

Grants to bulk plants for biodiesel facilities would be capped at \$2,000 for the cost of converting an existing system into a biodiesel system, and \$20,000 for the constructing a new biodiesel system. A "bulk plant" would be a motor fuel storage and distribution facility that is not a terminal and from which motor fuel may be withdrawn by a tank wagon, a transport truck, or a marine vessel. [The bill incorporates the definition of "bulk plant" from the Motor Fuel Tax Act.]

If a grantee stops using the E85 or biodiesel system within three years of receiving the grant, the grantee would be required to repay the amount of the grant, as determined by the MSF.

The bill would also require the MSF to provide up to \$500,000 in FY 2006-2007 for the grant programs.

House Bill 5755

Generally speaking, House Bill 5755 would extend provisions in the Motor Fuels Quality Act (MCL 290.642 et al.), which regulates the sale and quality of gasoline sold or offered for sale in the state, to also apply to diesel fuel, biodiesel, biodiesel blends, and hydrogen fuel. Specifically, the bill would do the following:

- Require the director of the Department of Agriculture to establish standards relating to the purity and quality of diesel fuel sold or offered for sale in the state, and standards for the amount and types of additives that may be included in diesel fuel.
- Require firms selling hydrogen fuel to register and obtain approval from the Department of Agriculture.

- Prohibit retail outlets from selling or offering for sale diesel fuel, biodiesel, or biodiesel blends if there is at least two inches of water or water-alcohol in the storage tank.
- Prohibit the manufacture of diesel fuel and hydrogen fuel that does not meet the specifications required by the Department of Agriculture.
- Prohibit firms from transferring, selling, offering for sale, or dispensing diesel fuel, biodiesel, or biodiesel blends not meeting the required specifications.
- Prohibit refiners and distributors from transferring, selling, or dispensing diesel fuel, biodiesel, biodiesel blends, or hydrogen fuel unless sales invoices identify the name of the wholesale distributor who received delivery of the fuel.
- Prohibit refiners and distributors from transferring, selling, or dispensing diesel fuel, biodiesel, biodiesel blends, or hydrogen fuel to a retailer unless the retailer has a valid gasoline outlet license from the Department of Agriculture.
- Require sales invoices for diesel fuel, biodiesel, biodiesel blends, or hydrogen fuel sold to individuals not required to obtain a license under the Motor Fuels Quality Act or the Motor Fuels Tax Act to include identifying information of the purchaser.
- Prohibit firms from selling, transferring, or dispensing diesel fuel, biodiesel, or biodiesel blends unless the fuel is visibly free of undissolved water, sediments, and other suspended matter.
- Require distributors and retailers selling or transferring diesel fuel, biodiesel, biodiesel blends, or hydrogen fuel to obtain a license from the Department of Agriculture for each retail outlet from which the fuel is sold.
- Requires firms to provide the Department of Agriculture, in the course of an investigation into alleged violations of the act, with access to documents concerning the receipt, transfer, sale, or storage of diesel fuel, biodiesel, biodiesel blends, or hydrogen fuel
- Require the director of the MDA to establish an inspection, investigation, and testing program for diesel fuel, biodiesel, and biodiesel blends after standards for these fuels are established.

FISCAL IMPACT:

House Bill 5181

The bill would not appear to have a significant fiscal impact on the state or local governmental units.

House Bill 5751

According to the Department of Treasury, the bill would initially reduce Motor Fuel Tax revenue by an estimated \$100,000, with the potential for a greater reduction in future years as the consumption increases. However, the reduced rates for E85 and biodiesel would cease (1) 10 years after the effective date of this bill or (2) the date that the total cumulative differential in tax receipts was greater than \$2.5 million, whichever is earlier.

House Bill 5752

In the short term, there will be no significant fiscal impact on either the State of Michigan or its local units of government. In the long term, the impact is indeterminate and will depend on the availability, at competitive prices, of automobiles that can use ethanol, bio-diesel, or biomass fuels.

House Bill 5753

According to the Department of Management and Budget, the bill would increase costs to the department by an estimated \$146,000 for construction of E85 facilities and \$14,000 for using E85, because of lower fuel efficiency.

House Bill 5754

For FY 2006-2007, the total grant awards could not exceed \$500,000.

House Bill 5755

According to the Department of Agriculture, the bill would result in one-time costs of \$2.5 million in capital expenses, and on-going costs of an estimated \$800,000 for lab and investigation costs.

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.