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BILL



ANALYSIS

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House Bill 5555 (Substitute S-3 as reported)
Sponsor: Representative Ed Clemente
House Committee: New Economy and Quality of Life
Senate Committee: Commerce and Tourism

Date Completed: 4-1-10

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 (MEDC). In 2009, amendments to the Michigan Business Tax Act established about \$1 billion in tax credits for various advanced battery activities, including pack engineering, cell manufacturing, large storage battery manufacturing, and battery pack assembly. Reportedly, all but one of the cell manufacturing plants awarded credits, LM Chem, are located in a renaissance zone. Some people believe that the definition of "renewable energy facility" in the Michigan Renaissance Zone Act should include a facility for the research, development, or manufacturing of systems or components involving the conversion of chemical energy for advanced battery manufacturing, so the site of the LM Chem development also could be designated as a renewable energy renaissance zone.

In addition, one biodiesel producer located in a renewable energy 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 focuses on research, development, or manufacturing of systems that involve the conversion of chemical energy for advanced battery technology, and a facility that creates chemicals from the wind, sun, biomass, or other specified renewable sources.

The Act provides for the establishment of up to 15 renaissance zones for renewable energy facilities. "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 would include a facility that creates chemicals or systems used to create chemicals from those sources. The bill also would include a facility focused on

research, development, or manufacturing of systems or components of systems that involve the conversion of chemical energy for advanced battery technology.

MCL 125.2683

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

An array of advanced battery tax credits awarded by the State of Michigan has resulted in the pledge of more than \$5 billion for total new business investment in Michigan, with the potential to create about 8,000 direct jobs in the State, and to leverage \$1.3 billion of Federal funding for battery projects located in Michigan. This effort to attract and foster advanced battery businesses is designed to make Michigan the battery capital of North America and the cradle of the automobile industry of the future. The credits awarded so far have resulted in advanced battery projects slated for communities across the State. All but one of these developments also are located in a renaissance zone, providing further opportunities to attract expanded economic activity.

The Korean manufacturer LG Chem and its North American subsidiary, Compact Power, Inc., which is headquartered in Troy, Michigan, plan to build a 650,000-square-foot facility in Holland, Michigan, to produce lithium-ion battery cells for use in the Chevrolet Volt. The technology to be used, however, apparently does not fit within the current definition of "renewable energy facility" in the Michigan Renaissance Zone Act. By extending the definition to a facility focused on research, development, or manufacturing of systems or their components that involve converting chemical energy for advanced battery technology, the bill would allow the MEDC to designate a renewable energy renaissance zone for the LG Chem project, giving it the same benefits as Michigan's other battery projects have. This would help to maximize the economic development potential of all the advanced battery operations that will begin soon in this State.

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 with 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: Patrick Affholter

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 could reduce revenue to the State General Fund and local units and could increase State expenditures from the General Fund. State taxes could be reduced and the State would be liable through the School Aid Fund to reimburse school districts for lost revenue. Most other local property taxes abated in renaissance zones are not reimbursed by the State, reducing local unit revenue.

Fiscal Analyst: Eric Scorsone

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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.