



Senate Fiscal Agency  
P. O. Box 30036  
Lansing, Michigan 48909-7536



BILL ANALYSIS

Telephone: (517) 373-5383  
Fax: (517) 373-1986  
TDD: (517) 373-0543

Senate Bills 1074 through 1077 (as reported without amendment)  
Senate Bill 1078 (Substitute S-3 as reported)  
Senate Bills 1079 and 1109 (as reported without amendment)  
Sponsor: Senator Jud Gilbert, II (S.B. 1074 & 1109)  
Senator Wayne Kuipers (S.B. 1075)  
Senator Ron Jelinek (S.B. 1076)  
Senator Jim Barcia (S.B. 1077)  
Senator Bruce Patterson (S.B. 1078)  
Senator Cameron S. Brown (S.B. 1079)  
Committee: Technology and Energy

Date Completed: 4-4-06

### **RATIONALE**

Environmental concerns, economics, and geopolitical factors have contributed to increased interest in alternative energy sources. As demand for oil increases globally, access to it is threatened by conflicts in the Middle East and elsewhere, as well as natural disasters such as the 2005 hurricanes in the Gulf of Mexico. From an environmental perspective, the pollution caused by burning petroleum products calls for cleaner fuel sources. Many people are particularly interested in the development of alternative energy, such as hydrogen fuel cells and fuels containing nonfossil organic material, to power motor vehicles. (For more information on these alternative fuels, see **BACKGROUND**.) The future of these technologies, however, faces a number of challenges, including a lack of infrastructure and public awareness. It has been suggested that the State take steps to encourage the use of alternative automobile fuels.

### **CONTENT**

**Senate Bill 1074** would amend the Motor Fuel Tax Act to do the following:

- Impose a 12-cents-per-gallon tax on certain alternative fuels temporarily.
- Require an annual determination of the difference between the amount of revenue collected under the bill and the amount that would have

been collected under existing tax provisions.

- Require the Legislature to appropriate the amount of the difference to the Michigan Transportation Fund (MTF).

**Senate Bill 1075** would amend the Management and Budget Act to require the Director of the Department of Management and Budget, by October 1, 2006, to install the necessary fueling infrastructure, or contract with a supplier to supply alternative fuels (i.e., E85 fuel and biodiesel fuel blends), at all State motor transport facilities so that all State-owned vehicles capable of using alternative fuels were able to use them.

**Senate Bill 1076** would amend the Michigan Strategic Fund Act to require the Fund to create and administer a matching grant program to provide incentives to service station owners and operators to convert existing fuel delivery systems, and create new fuel delivery systems, designed to provide E85 fuel and biodiesel blends. The program would have to provide grants of up to 50% of the costs to convert an existing fuel delivery system, not to exceed \$2,000 per facility; and up to

**50% of the new construction costs to create a fuel delivery system, not to exceed \$20,000 per facility.**

**Senate Bill 1077 would create the "Fuels of the Future Commission Act" to establish the Fuels of the Future Commission within the Michigan Department of Agriculture (MDA); and require the Commission to investigate and make recommendations to the Governor and the Legislature regarding alternative fuels.**

**Senate Bill 1078 (S-3) would amend the Michigan Renaissance Zone Act to allow the State Administrative Board to designate up to 10 additional renaissance zones for renewable energy facilities.**

**Senate Bill 1079 would amend the Motor Fuels Quality Act to extend to diesel and specified alternative fuels regulations concerning the quality, storage, manufacture, delivery, and sale of gasoline; require distributors and retail dealers of diesel and alternative fuels to obtain a license for each retail outlet; and require firms selling hydrogen in Michigan to register with and be approved by the MDA.**

**Senate Bill 1109 would repeal Section 1124 of the Motor Fuel Tax Act, which provides that selling or knowingly purchasing any motor fuel or other product for use in the fuel supply tank of a motor vehicle for use on the public roads or highways of this State that does not meet ASTM standards is a felony.**

Senate Bills 1074, 1077, 1078 (S-3), 1079, and 1109 are described below in further detail.

#### **Senate Bill 1074**

Under the Motor Fuel Tax Act, a tax of 19 cents per gallon on gasoline and 15 cents per gallon on diesel fuel must be imposed on motor fuel imported into or sold, delivered, or used in this State. The bill would make an exception to these tax rates for gasoline that is at least 85% ethanol ("E85") and diesel that contains at least 5% biodiesel ("B5"). Those fuels would be taxed at a rate of 12 cents per gallon.

Beginning on the bill's effective date, the Director annually would have to determine the difference between the amount of motor fuel tax collected and the amount of motor fuel tax that would have been collected but for the differential rates established under the bill. The 12-cent tax would no longer be effective 10 years after the bill's effective date, or on the date the Director certified that the total cumulative rate differential was greater than \$2.5 million, whichever was earlier. (The term "director" is not defined in the Act or the bill.)

The Legislature annually would have to appropriate the amount determined as the rate differential to the MTF. If the Legislature did not do so, the 12-cent tax would no longer be effective beginning the first fiscal year after the year in which the required annual appropriation was not made.

#### **Senate Bill 1077**

The proposed Fuels of the Future Commission would have to investigate and recommend strategies that the Governor and the Legislature could implement to promote the use of alternative fuels and encourage the use of vehicles that used alternative fuels. The Commission also would have to identify mechanisms that promoted alternative fuel research.

Additionally, the Commission would have to identify mechanisms that promoted effective communication and coordination of efforts between the State and local governments, private industry, and institutes of higher education concerning the investigation of, research into, and promotion of alternative fuels.

The Commission could review any State regulation that could hinder the use, research, and development of alternative fuels and vehicles able to use them and recommend changes to the Governor.

The Commission would have to consist of the following members:

- The MDA Director or his or her designee.
- One member representing the Michigan Economic Development Corporation.
- One member representing the Department of Labor and Economic Growth.

- At least one member from the largest organization in the State representing corn producers exclusively.
- At least one member from the largest organization in the State representing soybean producers exclusively.
- One representative of automotive fuel blenders in Michigan.
- One representative of retail petroleum sellers in Michigan.
- One representative of biodiesel producers.
- One representative of ethanol producers.
- One representative of environmental organizations.
- Three representatives of the automotive manufacturing industry.
- Three representatives of Michigan colleges and universities engaged in alternative fuel research.
- Any other member whom the Governor concluded was necessary to further the Commission's purposes.

The MDA Director would have to serve as the chair of the Commission.

Within one year after the bill's effective date, the Commission would have to issue to the Legislature and the Governor a written report on its investigation and recommendations. Follow-up reports would have to be issued at least annually, and could be issued more frequently if the Commission deemed it advisable.

The proposed Act would be repealed on January 1, 2010.

### **Senate Bill 1078 (S-3)**

Under the bill, the State Administrative Board could designate up to 10 additional renaissance zones for renewable energy facilities upon the recommendation of the Michigan Strategic Fund board in one or more cities, villages, or townships if the municipality or combination of municipalities consented to the creation of a renaissance zone for a renewable energy facility within their boundaries. Each renaissance zone designated for a renewable energy facility would have to be one continuous distinct geographic area.

The bill would define "renewable energy facility" as a system that creates energy from a process using residue from corn, soybeans, wood, 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 waste, or landfills.

The State Administrative Board could revoke the designation of all or a portion of a renaissance zone designated under the bill if the Board determined that the facility failed to commence operation, ceased operation, or failed to commence construction or renovation within one year from the date the zone was designated.

When designating a renaissance zone under the bill, the Board would have to consider all of the following:

- The economic impact on local suppliers who supplied raw materials, goods, and services to the renewable energy 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.
- The economic impact on the community in which the facility was located.
- All other things being equal, giving preference to a business entity already located in Michigan.

### **Senate Bill 1079**

#### Standards

The Motor Fuels Quality Act requires the MDA Director to establish standards to ensure the purity and quality of gasoline sold or offered for sale in Michigan, and standards for the amount and type of additives allowed to be included in gasoline. Under the bill, the MDA Director would have to establish similar standards for diesel fuel.

Currently, "gasoline" means any fuel sold in Michigan that is suitable for use in spark-ignition internal combustion engines, and known commonly or commercially or sold as gasoline. The bill would delete the reference to any fuel sold in Michigan and instead refer to a volatile mixture of liquid hydrocarbons generally containing a small amount of additives.

The bill would define "diesel fuel" as any liquid other than gasoline that is suitable for use as a fuel or a component of a fuel in a

compression-ignition internal combustion diesel engine.

#### Licensure

The Act requires a distributor or retail dealer to obtain a license from the MDA for each retail outlet the person operates before engaging in transferring, selling, dispensing, or offering gasoline for sale. The license fee is \$100 per year. Under the bill, the license requirement also would apply to a distributor or retail dealer of diesel fuel, biodiesel, biodiesel blend, or hydrogen fuel.

#### Hydrogen Fuel Registration

The bill would require any firm offering hydrogen fuel for sale in this State first to register with and obtain approval from the MDA. The bill specifies that registration would have to include a complete list of the fuel specifications the product was to meet and the sites where the product was offered for sale to the general public.

Under the bill, "hydrogen fuel" would mean a substance containing the chemical formula  $H_2$  that exists as a colorless, odorless, and highly flammable gas except at low cryogenic temperatures or when highly compressed that is gaseous or liquefied and suitable for use in a fuel cell or hydrogen fuel vehicle.

#### Retail Storage Tanks

The Act requires a retail dealer periodically to test a storage tank at a retail outlet to ensure that the tank does not have more than two inches of water or water-alcohol at the bottom. If there is more than two inches, gasoline may not be sold to a consumer from that tank until the water or water-alcohol level is reduced to a level of less than two inches. Under the bill, these provisions also would apply to tanks storing diesel fuel, biodiesel, or biodiesel blend.

The bill would define "biodiesel" as a fuel composed of mono-alkyl esters of long chain fatty acids derived from vegetable oils or animal fats, and, in accordance with standards specified for by the American Society for Testing and Materials, designated B100, and meeting the requirements of D-6751, as approved by the MDA.

"Biodiesel blend" would mean a fuel composed of a blend of biodiesel fuel with petroleum-based diesel fuel, suitable for use as a fuel in a compression-ignition internal combustion diesel engine.

#### Manufacture of Fuel

Under the Act, except as provided by Federal law or regulation, in the manufacture of gasoline at any Michigan refinery, a refiner may not manufacture gasoline unless it meets the standards established by the MDA Director. Under the bill, this regulation also would apply to the manufacture of diesel or hydrogen fuel.

#### Distribution of Fuel

The Act prohibits a distributor from selling or transferring to any distributor, retail dealer, or bulk purchaser-end user any gasoline, unless the gasoline meets the standards established by the Director, except as provided by Federal law or regulation. The bill would include diesel fuel, biodiesel, biodiesel blend, and hydrogen fuel in this provision. Also, the gasoline or other fuel would have to be suitable for its intended purpose.

#### Fuel Carrier

The Act prohibits a carrier or an employee or agent of a carrier, whether operating under contract or tariff, from causing gasoline tendered to the carrier for shipment or transfer to another carrier, distributor, or retail dealer to fail to comply, at the time of the delivery, with the standards established by the Director. Under the bill, this prohibition also would apply to a carrier of diesel fuel, biodiesel, biodiesel blend, or hydrogen fuel.

#### Fuel Sales

Under the Act, a person may not knowingly sell, dispense, or offer for sale gasoline, unless it meets the MDA Director's standards. Under the bill, this prohibition also would apply to diesel, biodiesel, biodiesel blend, and hydrogen fuel.

#### Fuel Delivery

The Act prohibits a refiner or distributor from transferring, selling, dispensing, or offering gasoline for sale in Michigan unless the refiner or distributor indicates on each bill, invoice, or other instrument evidencing a gasoline delivery the name of the wholesale distributor who received delivery of the gasoline. The bill would include diesel fuel, biodiesel, biodiesel blend, and hydrogen fuel in this provision.

Currently, a distributor or refiner may not transfer, sell, dispense, or offer gasoline for sale in Michigan to a retail dealer unless the distributor indicates on each bill, invoice, or other instrument evidencing a delivery of gasoline, the name and license number issued under the Act of the retail dealer who received the delivery. The bill provides, instead, that a distributor or refiner could not transfer, sell, dispense, or offer gasoline, diesel fuel, biodiesel, biodiesel blend, or hydrogen fuel for sale in Michigan to a retail dealer unless the retail dealer had a valid retail gasoline outlet license under the Act.

Under the Act, a bill, invoice, or other instrument evidencing a delivery of gasoline issued by a refiner or distributor for gasoline deliveries to purchasers who are not required to hold a license under the Act or the Motor Fuel Tax Act must indicate clearly the name and address and other information necessary to identify the purchaser. Under the bill, this requirement also would apply to a delivery of diesel fuel, biodiesel, biodiesel blend, or hydrogen fuel.

#### Sediments

The bill would include diesel fuel, biodiesel, and biodiesel blend in a provision prohibiting a refiner, distributor, bulk purchaser-end user, or retail dealer from transferring, selling, dispensing, or offering gasoline for sale unless it is visibly free from undissolved water, sediments, and other suspended matter.

#### Document Storage & Use

If the MDA Director has reason to believe a violation of certain provisions of the Act or rules promulgated under it has occurred, he or she may require a refiner, distributor, storage facility, blender, bulk purchaser-end user, or retail dealer to provide to the MDA the original documents pertaining to the receipt, transfer, delivery, storage, or sale of

gasoline, and to allow the documents to remain the Department's possession. Under the bill, this requirement also would apply to violations involving diesel fuel, biodiesel, biodiesel blend, or hydrogen fuel.

The Act requires a refiner, distributor, bulk purchaser-end user, blender, or retail dealer to preserve information regarding the receipt, transfer, delivery, or sale of gasoline, including loading tickets, bills of lading, drop tickets, meter tickets, invoices, and billings, for three years. The bill would include information regarding the storage of gasoline in this requirement, and require sales reports also to be kept for three years.

The Act requires a retail outlet to retain on its premises the original drop tickets and invoices for one month before transfer to another location, unless the storage location is easily accessible from the retail outlet and the original records are delivered to the retail outlet for receipt by the MDA within 24 hours after the retail outlet has been given a written request for the records. The bill would include bills of lading among the documents that must be retained on the premises for one month before transfer. The bill also would delete the exception that applies if the storage location is easily accessible and the records are delivered within 24 hours after receipt of the request.

#### **Senate Bill 1109**

Section 1124 of the Motor Fuel Tax Act prohibits a person from selling or knowingly purchasing any motor fuel or other product for use in the fuel supply tank of a motor vehicle for use on the public roads or highways of this State that does not meet ASTM (American Society for Testing and Materials) standards for motor fuel or other products as published in the Annual Book of Standards and its supplements.

Section 1124 also provides that it is the responsibility of a transporter or a transporter's agent to dispose of any motor fuel or other product that violates the standards. The transporter or the transporter's agent must dispose of the motor fuel or other product in accordance with Federal and State law.

A person who knowingly violates or knowingly aids and abets another to violate Section 1124 is guilty of a felony.

The bill would repeal this section.

MCL 207.1008 (S.B. 1074)  
18.213 (S.B. 1075)  
Proposed MCL 125.2078 (S.B. 1076)  
MCL 125.2863 et al. (S.B. 1078)  
290.642 et al. (S.B. 1079)  
207.1124 (S.B. 1109)

## **BACKGROUND**

### Ethanol

Ethanol is produced by fermenting and distilling starch crops (traditionally corn) that have been converted into simple sugars, and can be blended with gasoline to increase octane and improve emissions quality. Ethanol has been used more frequently in recent years as a replacement for the additive MTBE, which many states have banned due its propensity to contaminate groundwater. According to the Corn Marketing Program of Michigan, all automobile manufacturers approve the use of gasoline containing 10% ethanol ("E10") in all of their vehicles, and E10 is widely available throughout the State. Some manufacturers offer Flexible Fuel Vehicles (FFVs) that can run on traditional gasoline or ethanol blends of up to 85%. In a 2005 study, the American Coalition for Ethanol (ACE) found that the fuel economy of ethanol was lower than that of gasoline, and decreased as the percentage of ethanol increased. The ACE found, however, that the cost per mile to operate a vehicle using ethanol was lower than the cost per mile for gasoline.

### Biodiesel

Biodiesel can be made from various organic materials such as vegetable oils, animal fats, and recycled restaurant grease. The fuel typically is made from soybean oil, due to the low cost and abundance of soybeans. Blends of up to 20% biodiesel ("B20") can be used in a standard diesel engine. Higher blends, up to B100, may require certain engine modifications. Biodiesel is biodegradable and has been shown to reduce most air pollutants. Additionally, it results in increased lubricity. Biodiesel performance generally is consistent with that of diesel, although cold weather has been shown to cause problems in blends of greater than 20%.

### Hydrogen

As the most abundant element on the planet, hydrogen has been identified as a potential replacement for fossil fuels. With the use of a device called a fuel cell, hydrogen can power vehicles and small electronic devices, or produce electricity for entire buildings, while generating water vapor as the only emission. Hydrogen does not exist on its own in nature, however; it must be extracted from hydrocarbons or separated from water, which both require heat from the burning of fossil fuels.

## **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**

Many people agree that dependence on gasoline to run vehicles is problematic in that oil is a finite resource and will one day become scarce. Further, many agree that the burning of this fuel over a period of time has polluted the air, increased the "greenhouse" effect on the atmosphere, and caused a number of other environmental problems. Though opinions vary widely concerning the length of time existing resources will last and the degree of environmental damage to date, given the widespread belief that increased use of nonrenewable fuels is unwise, and perhaps damaging, numerous individuals, private concerns, and governments have spent many years and millions of dollars searching for and researching alternative energy sources. While the development of alternative energy technologies has advanced, none has replaced traditional transportation fuel on a mass scale. Nevertheless, some believe that the conversion from fossil fuel dependence to alternative energy sources may be near.

Although hydrogen has received much attention as a potential replacement for fossil fuels, it is unclear when it could become commercially viable. The required technology and the lack of infrastructure pose significant challenges to the widespread adoption of hydrogen as an automotive fuel. The bills focus on increasing awareness of and retail access to ethanol and biodiesel, fuels that already are

available commercially, and, due to Federal subsidies, competitive in price with gasoline. According to the Corn Marketing Program of Michigan, there are approximately 6 million FFVs on the nation's roads today; many FFV drivers, however, are unaware that their vehicles can run on ethanol blends.

The various incentives under the bills for fuel producers, retailers, and consumers presumably would encourage more use of alternative fuels and increase confidence in their potential to replace traditional energy sources. Additionally, the bills would provide an economic boost to the State's largest industries--agriculture and manufacturing. Ethanol and biodiesel and their manufacturing byproducts add value to farmers' commodities, and production facilities add jobs to rural communities. Increased retail access could encourage more people to purchase FFVs made by Michigan-based automobile companies. Other states have made significant investments in biofuels. Reportedly, at this time, there are more than 100 E85 pumps in Illinois and approximately 200 in Minnesota. There are only four in Michigan, however. With its strong manufacturing and agricultural traditions, Michigan has the potential to take a leadership role in the development and proliferation of alternative fuels.

**Response:** Perhaps Senate Bill 1074 could be more effective in encouraging the purchase of biofuels if the tax break were larger, or the tax were eliminated completely for a period of time. The State sometimes forgoes temporarily the collection of specific taxes to attract certain businesses with the expectation of long-term economic benefits. A similar approach might be appropriate with regard to alternative fuels. Additionally, it might be prudent to encourage renewable energy facilities to locate in existing renaissance zones, rather than creating new zones under Senate Bill 1078 (S-3).

#### **Supporting Argument**

Section 1124 of the Motor Fuel Tax Act apparently was added to enable the prosecution of fraudulent actors in the fuel business. Reportedly, that section sometimes conflicts with other statutes and regulations regarding fuel quality and environmental standards. Under the Motor Fuels Quality Act, the MDA traditionally has had primary regulatory and enforcement

authority over fuel quality and weights and measures, but does not always adopt ASTM standards. When the Department does adopt ASTM standards, it must do so by promulgating a rule. The timing of the rule-making process can result in regulatory conflicts.

Section 1124 also proved problematic several years ago, when the U.S. Environmental Protection Agency (EPA) announced that it would require the introduction in the marketplace of Ultra Low Sulfur Diesel beginning in 2006. The ASTM adopted a lubricity standard for this fuel but established an effective date of January 1, 2005. The petroleum industry had been preparing for the EPA's deadline and could not comply with the ASTM standard by the beginning of 2005. In order to avoid the penalties prescribed in Federal law for corporations that commit felonies, industry members were considering suspending sales. Although the Department of Treasury issued a waiver to allow the continuation of fuel sales, the conflicts presented by Section 1124 should be resolved.

By eliminating Section 1124 of the Motor Fuel Tax Act, Senate Bill 1109 would settle regulatory discord and leave all fuel quality enforcement within the MDA and under the appropriate statute--the Motor Fuels Quality Act.

#### **Opposing Argument**

Ethanol and biodiesel are not a cost-effective solution to the pollution caused by fossil fuels, dependence on foreign petroleum-based products, or potentially dwindling oil supplies. According to a 2005 study by Cornell University and the University of California-Berkeley, both ethanol and biodiesel made from a variety of organic materials generate less energy than is used in their production processes. The study noted that manufacturers actually burn fossil fuels to make ethanol, which does nothing to reduce pollution or alleviate the need to import fuel.

Federal subsidies already have lowered the price of these products to consumers; implementing incentives at the State level would serve only to prop up fuels that motorists would not adopt naturally in the marketplace. Given that increased use of these biofuels would not mitigate pollution significantly, reduce this nation's reliance on

foreign oil, or provide a viable alternative for fossil fuels, the use of the various mechanisms under the bills would be unwise.

**Response:** According to the Corn Marketing Program of Michigan, ethanol currently produces 67% more energy than is required to manufacture it. According to the National Biodiesel Board, biodiesel generates the most energy of any alternative transportation fuel in relation to the energy needed to produce it. Taking into account the planting and harvesting of raw material, production, and transportation to the end user, for every unit of energy spent in the process, 3.2 units are gained.

Legislative Analyst: Julie Koval

## **FISCAL IMPACT**

### **Senate Bill 1078**

The bill would reduce fuel tax receipts by an indeterminate amount associated with the proposed tax on gasoline containing at least 85% ethanol, commonly referred to as "E85". All fuel tax revenue is deposited in the Michigan Transportation Fund (MTF), pursuant to the Michigan Constitution. Annual revenue to the MTF would be reduced based on the amount of E85 sold in Michigan. Currently, there are no data to indicate the amount of E85 sold in Michigan. Under the bill, all E85 fuel sold in Michigan would be taxed at 12 cents per gallon, as opposed to 19 cents per gallon. As a point of reference, the Federal Highway Administration estimates that about 1.5 billion gallons of gasohol (i.e., gasoline that contains at least 10% ethanol) was used in Michigan in 2003, the most recent year for which data are available. It is estimated that E85 comprised about 150,000 gallons of this quantity. Using these figures, the MTF revenue would be reduced by approximately \$10,600 annually. The MTF revenue reduction would increase as E85 sales increase.

Similarly, the bill would reduce MTF deposits associated with the proposed tax imposed on diesel fuel containing at least five percent biodiesel, commonly referred to as "B5". Under the bill, all B5 would be taxed at 12 cents per gallon, as opposed to 15 cents per gallon. Currently, there are no data to indicate the amount of B5 sold in Michigan;

therefore, the impact on the MTF is indeterminate.

Under Public Act 51 of 1951, which governs the Michigan Transportation Fund, MTF revenue is distributed in the following manner, after certain statutory deductions: 10% to the Comprehensive Transportation Fund, 35% to the State Trunkline Fund, 35% to county road commissions, and 20% to city and village road agencies. Any reduction to MTF revenue resulting from this bill would be allocated by these same percentages.

The bill would cap the cumulative MTF revenue reduction resulting from the new fuel tax rates for E85 and B5 at \$2.5 million. The new tax rates would no longer be effective 10 years after the bill's effective date or when the \$2.5 million cap was reached, whichever was earlier. Due to the lack of data on E85 and B5 sales in Michigan, it is unknown when the cap would be reached.

The bill would require the Legislature annually to appropriate to the MTF the amount of lost fuel tax revenue, resulting from the taxes imposed on E85 and B5. The bill does not specify how this appropriation would be funded. It is important to note that current restrictions in Section 10 of Public Act 51 of 1951 (MCL 247.660) prevent the MTF from receiving deposits from other funds. Therefore, the appropriation provision contained in the bill appears to conflict with current statutory language restricting MTF deposits.

### **Senate Bill 1075**

The State currently has one State motor transport facility located at the Secondary Complex. The cost of installing fueling infrastructure to supply alternative fuels is estimated at \$140,000 to \$150,000. Alternative fuel (E85) is 20% less fuel efficient. The Department of Management and Budget estimates increased annual fuel costs of approximately \$15,000.

### **Senate Bill 1076**

The bill would have an indeterminate fiscal impact on the State. Based on 2002 census data, the number of gas stations and gas stations with convenience stores in Michigan totals 4,201. This figure does not include



large retailers that also sell gas, for example Meijer and Sam's Club. If 15% of these stations applied for and were awarded a conversion grant at the maximum level of \$2,000, the cost of these grants would be \$1,260,000, and if another 15% applied for and were awarded a new construction grant at the maximum level of \$20,000, the cost of the grants would be \$12,600,000. The bill does not identify a fund source for this grant program. Currently, the two major sources of revenue for the Michigan Strategic Fund are General Fund/General Purpose revenue, which is appropriated, and corporate revenue primarily from Indian casino gaming activities, which is not appropriated.

### **Senate Bill 1077**

The bill would have no fiscal impact on State or local government.

### **Senate Bill 1078 (S-3)**

The bill would reduce State and local revenue by an unknown amount. The impact of the bill would depend on a number of factors, including where the additional renaissance zones would be located, the economic and tax characteristics of the renewable energy facilities that would be developed in each of these zones, whether other businesses would move their existing operations into a renaissance zone to become eligible for the various tax exemptions granted in these zones, and whether the zones would be drawn to include property other than renewable energy facility property.

In the near future, the fiscal impact of the bill is likely to be minimal. Few, if any, facilities that would meet the definition of a renewable energy facility currently exist in the State. Furthermore, it will take some time for businesses to expand or relocate into the proposed zones and the fiscal impact of the bill largely would depend upon the value of the investments made in the property within the zones.

In future years, the bill would reduce revenue to both the State and local units and would increase State expenditures from the General Fund. Most local property taxes previously levied in renaissance zones are not reimbursed by the State, leaving local units to deal with reduced revenue.

However, the General Fund reimburses lost revenue to public libraries, intermediate school districts, local school districts, community colleges, and the School Aid Fund. Local school districts are able to levy 18 mills upon nonhomestead property, and the State education tax levies 6 mills on all property. Tax levies for the other reimbursed components can vary widely, although it is not uncommon for schools to levy an additional 6 to 12 mills in more rural areas, where these facilities may be more likely to be established. If \$100 million of investments eventually were made in the new zones, the bill would increase State 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 single business tax 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.

This estimate is preliminary and will be revised as new information becomes available.

### **Senate Bill 1079**

The bill would result in increased costs in excess of \$800,000 annually to the Michigan Department of Agriculture (MDA) associated with the establishment and enforcement of fuel standards for certain fuels. This estimate was provided by the MDA and does not include any capital investment associated with laboratory conversions/modifications required to regulate certain fuels. These additional costs would have to be borne by existing resources as the bill does not provide for any new revenue.

### **Senate Bill 1109**

To the extent that no offenders have been convicted of violating Section 1124 between 2000 and 2003, the bill would have no fiscal impact on State or local government.

Fiscal Analyst: Bill Bowerman  
Lindsay Hollander  
Elizabeth Pratt  
Craig Thiel  
Maria Tyszkiewicz

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.