



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

BILL ANALYSIS



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

Senate Bill 375 (Substitute S-1 as reported)
Sponsor: Senator Darwin L. Boher
Committee: Local Government

Date Completed: 10-2-17

RATIONALE

Many buildings across the State are not energy efficient due to their age or construction. Upgrading or retrofitting these structures can save a building owner money and improve Michigan's environment but can be an expensive undertaking, especially when the savings generated from the upgrades may take many years to offset the costs. A property assessed clean energy (PACE) program addresses this issue by providing a long-term financing option for energy efficiency improvements that a building owner may find more feasible or attractive than other financing methods.

The Property Assessed Clean Energy Act was enacted in 2010 to authorize local units of government to adopt PACE programs. Under such a program, a local unit of government (a county, township, city, or village) may enter into a contract with the owner of privately owned commercial or industrial real property within a district to finance or refinance one or more energy projects on the property. The contract may provide for the repayment of the cost of an energy project through assessments on the property benefited. The financing or refinancing may include the cost of materials and labor necessary for installation, permit fees, inspection fees, and other fees that may be incurred by the owner pursuant to the installation.

It now has been suggested that the Act should extend PACE programs to anaerobic digester projects. Apparently, there is interest across the State in developing these projects (which involve the decomposition of organic material to yield a product that can be beneficial, such as biofuel). Anaerobic digesters are expensive, however, and currently ineligible for PACE financing.

CONTENT

The bill would amend the Property Assessed Clean Energy Act to allow local units of government to acquire, install, or improve an anaerobic digester energy system under a PACE program, as presently allowed for other types of energy projects.

The Act defines "energy project" as the installation or modification of an energy efficiency improvement or the acquisition, installation, or improvement of a renewable energy system. The bill would include in the term the acquisition, installation, or improvement of an anaerobic digester energy system.

The bill also would require a local unit of government to obtain verification that an anaerobic digester energy system was properly installed and operating as intended following the completion of an energy project, as currently required for a renewable energy system or energy efficiency improvement.

The term "anaerobic digester" would mean a device for optimizing the anaerobic digestion of biomass for the purpose of recovering biofuel for energy production. "Anaerobic digester energy system" would mean an anaerobic digester and the devices used to generate electricity or heat

from biogas produced by the anaerobic digester or to store the biogas for the future generation of electricity or heat.

The bill would take effect 90 days after its enactment.

MCL 460.933 & 460.939

BACKGROUND

Anaerobic digestion is a process that decomposes manure or other organic material to produce different outputs, such as carbon dioxide, methane, and water, that can be used productively. For example, the carbon dioxide gas output (referred to as biogas) can be burned to produce both heat and electricity, while methane can be used to fuel vehicles. Since biogas is a mixture of methane and carbon dioxide, it is considered renewable. Anaerobic digesters (sometimes referred to as methane digesters) are the enclosed devices that accomplish this process.

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

Anaerobic digesters are desirable because they can reduce reliance on fossil fuels, decrease odors and greenhouse gases released into the atmosphere, and dispose of waste in a productive way. However, the annual operating costs of an anaerobic digester can range from \$11,000 to \$51,000, depending on the size of the operation, according to estimates of the Natural Resources Conservation Service (NRCS). These are on top of the initial capital cost of the facility, which can range from \$60 per animal for a typical manure storage pond to \$300 per animal for an aboveground prefabricated tank, according to the NRCS. For a dairy farm with 200 cows, for example, the initial cost would be between \$12,000 and \$60,000. By making an anaerobic digester eligible for PACE program financing, the bill would give those interested in the device a financial option to deploy and operate it, which would have a positive economic and environmental impact in Michigan.

Legislative Analyst: Drew Krogulecki

FISCAL IMPACT

The bill would have a minimal impact on local governments that have or establish a PACE district. Under current law, many types of energy efficiency and renewable energy projects may be financed through a PACE program. The proposed expansion of the eligible types of energy projects to include the acquisition, installation, or improvement of an anaerobic digester energy system would not have a substantial impact on the parameters of the program. The decision to establish a PACE district remains with each city, village, township, or county. The bill would have no fiscal impact on State government.

Fiscal Analyst: Elizabeth Pratt

SASVA1718\375a

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.