Strategic Fiscal Review 2016-17
House Budget Recommendations: HB 1 as Introduced
Texas Commission on Environmental Quality--Texas Emissions Reduction Plan

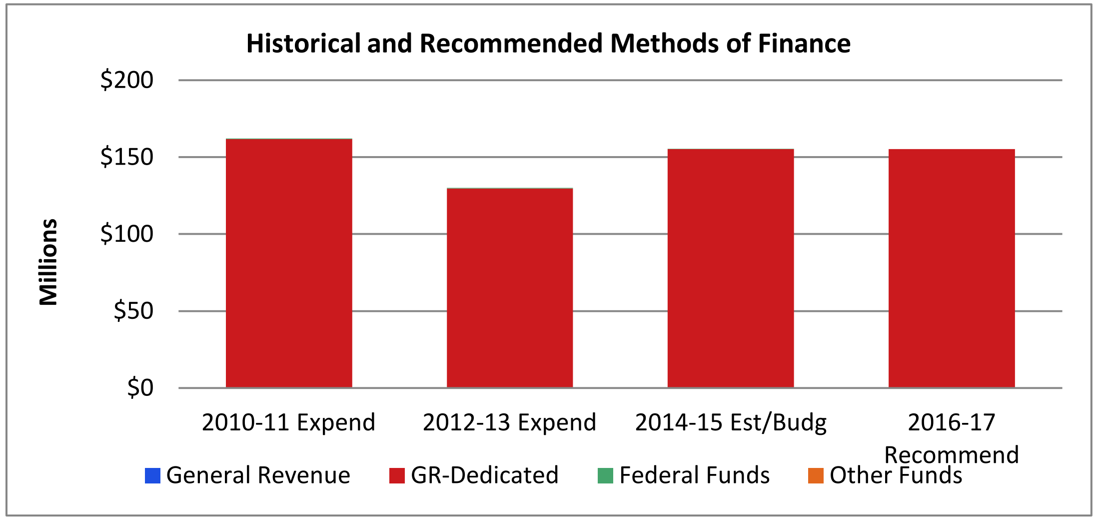
The staff of the Legislative Budget Board conducted the Strategic Fiscal Review in the fall of 2014. The analysis contained in these materials reflects that staff review. The budget amounts for 2016-17 reflect budget recommendations contained in House Bill 1

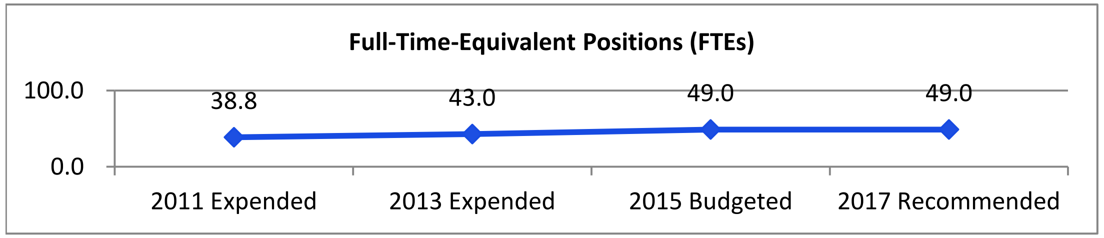
Schedule 1: Agency Overview

Mission Statement: The Texas Commission on Environmental Quality strives to protect the state's public health and natural resources consistent with sustainable economic development. The agency's goal is clean air, clean water, and the safe management of waste.

Legal Authority: Health and Safety Code 386.051, 386.252, 386.390-394, General Appropriations Act, 2014-15 Biennium, Eighty-third Texas Legislature, Regular Session, 2013, Art. VI, Rider 21.

Total Number of Programs: 1





Overview and Significant Findings

■ The Texas Emissions Reduction Plan (TERP), was established in 2001 by the 77th Legislature, to reduce nitrogen oxides (NOx) and other emissions from heavy-duty on-road vehicles and non-road equipment by providing grants and rebates for voluntary upgrades and replacements, including school buses. Additional detail is discussed in the Notes section below.

■ The General Revenue-Dedicated TERP Account No. 5071 cash balance is projected to be $1,066.5 million on August 31, 2015, according to the Comptroller's Biennial Revenue Estimate (BRE) for 2016-17. The account balance is expected to grow by $170.7 million to $1,237.2 million by the end of the 2016-17 biennium, assuming BRE anticipated growth of $450.8 million, payments for encumbrances, and appropriations provided in the Introduced Appropriations Bill.

■ Recommendations provide $155.3 million in funding for TERP for 2016-17 out of the TERP Account No. 5071, an amount equal to the 2014-15 funding levels. This includes funding for 49.0 FTEs.

■ The LBB report Reduce Reliance on General Revenue-Dedicated Accounts for Certification identifies a biennial increase of $81.0 million for 2016-17 out of the TERP Account No. 5071. The funding recommendation would increase appropriations by the amount of Certificate of Title Fee revenue collected in counties considered in severe nonattainment for Federal Clean Air Act air quality standards. Along with other recommendations in the report, this would serve to reduce balances in the TERP Account No. 5071.

Schedule 1: Agency Overview

TERP Incentive Programs: The Texas Emissions Reduction Plan (TERP) includes multiple incentive programs, each with its own statutorily-designated service area. The main incentive programs are listed below, along with with brief program descriptions, statutory citations, and the statutory allocation from the TERP revenue stream each program is provided in statute.

Program	Description	Legal Authority	Statutory Allocation
Diesel Emissions Reduction Incentive Grants (ERIG) Program	Grants to reduce emissions of nitrogen oxides (NOX) from mobile sources in air quality nonattainment areas designated under the federal Clean Air Act (42 U.S.C. Section 7407) and other "Affected Counties" listed under Health and Safety Code, §386.001(2).	Health and Safety Code, Chapter 386, Subchapter C	Balance of funding not allocated to other programs
Texas Clean Fleet Program	Grants to replace diesel vehicles with vehicles powered by alternative fuel (natural gas, liquefied petroleum gas, hydrogen, methonal - 85 percent by volume, and electricity) or hybrid vehicles. Applicants must own at least 75 vehicles in Texas and apply to replace at least 20 vehicles. The statute does not define a service area, but TCEQ originally aligned the eligible areas with the ERIG program areas. For future grants, the agency is aligning the program areas to those counties eligible under the Texas Natural Gas Vehicle Grant Program, in order to make those two programs more consistent.	Health and Safety Code, Chapter 392	5%
Texas Natural Gas Vehicle Incentive Grant Program	Grants to replace older medium- and heavy-duty vehicles with natural gas vehicles operating in the counties designated under the Clean Transportation Triangle (see below).	Health and Safety Code, Chapter 394	16%
Clean Transportation Triangle	Funding for natural gas fueling facilities along and between the triangular area between Houston, Dallas-Fort Worth, and San Antonio, as well as designated nonattainment areas and counties designated as an "Affected County" under Health and Safety Code, §386.001(2).	Health and Safety Code, Chapter 394	5%
Alternative Fueling Facilities Program	Funding for facilities to provide alternative fuel (natural gas, liquefied petroleum gas, biodiesel, hydrogen, methanol - 85% by volume, hydrogen, and electricity) located in the state's nonattainment areas.	Health and Safety Code, Chapter 393	5%
Drayage Truck Incentive Program	Grants to replace drayage trucks operating at or delivering cargo to and from seaports and rail yards located in the state's nonattainment areas. In addition, at least 50 percent of annual mileage must occur in the nonattainment areas and affected counties.	Health and Safety Code, Chapter 386, Subchapter D-1	2% to 5%
Light-Duty Motor Vehicle Purchase or Lease Incentive Program	Rebate grants of up to $2,500 for the purchase of a light-duty vehicle powered by compressed natural gas, liquefied petroleum gas, or electricity. This is a statewide program that expires on August 31, 2015.	Health and Safety Code, Chapter 386, Subchapter D	5%
Texas Clean School Bus Program	Grants to install retrofit systems on school buses to reduce emissions of particular matter from diesel exhaust. This program is statewide.	Health and Safety Code, Chapter 390	4%
New Technology Implementation Grants Program	Grants to provide funding for: Advanced Clean Energy Projects as defined under Health and Safety Code, §382.003; new technology projects that reduce emissions of regulated pollutants from point sources; and electricity storage projects related to renewable energy. These grants are available for projects statewide.	Health and Safety Code, Chapter 391	3% (at least $1 million set aside for renewable energy storage)

Regional Air Monitoring Program	Funding through a regional nonprofit entity located in North Texas to establish and operate additional air quality monitors in TCEQ Regions 3 and 4.	Health and Safety Code, §386.252(a)(4):	$3 million

In addition to these allocations, not more than $200,000 may be used for a health effects study; ($500,000 is to be deposited in the state treasury to the credit of the Clean Air Account created under Health and Safety Code, §382.0622 to supplement funding for air quality planning activities in affected counties; and at least $4 million and up to 4 percent to a maximum of $7 million, whichever is greater, is allocated to the TCEQ for administrative costs. In addition, not more than $216,000 is allocated to the agency to contract with the Energy Systems Laboratory (ESL) at the Texas Engineering Experiment Station annually for the development and annual computation of creditable statewide emissions reductions obtained through wind and other renewable energy resources for the state implementation plan, and 1.5 percent of the money in the fund is allocated for administrative costs incurred by the ESL.

TERP Objectives

The U.S. Environmental Protection Agency (EPA) established the National Ambient Air Quality Standards (NAAQS) for criteria pollutants under authority of the federal Clean Air Act (42 USC 7401 et. seq.). The EPA has established those standards under 40 CFR Part 50. The Clean Air Act also requires that states take responsibility for a state implementation plan for those areas determined nonattainment for one or more of the standards. The TERP incentive programs provide tools to help nonattainment areas achieve emissions reduction targets and to help other areas from exceeding a pollutant standard and being designated nonattainment. Objectives of the commission in administering the TERP through appropriated funds are listed in HSC, §386.052(b) and include:

(1) achieving maximum reductions in nitrogen oxides (NOx) to demonstrate compliance with the state implementation plan;
(2) preventing areas of the state from being in violation of national ambient air quality standards;
(3) achieving cost-saving and multiple benefits by reducing emissions of other pollutants;
(4) achieving reductions of emissions of diesel exhaust from school buses; and
(5) advancing new technologies that reduce NOx and other emissions from facilities and other stationary sources.

NOx combines with volatile organic compounds in the presence of sunlight to form ground-level ozone (smog). Ozone is a lung irritant and can cause respiratory problems, irritate lung tissue, reduce lung capacity, aggravate asthma and other respiratory illnesses, and impair immune systems. Populations in the areas designated for nonattainment for ground-level ozone and other areas of concern for ground-level ozone benefit from the reductions in NOX emissions achieved by the TERP programs. Reductions in emissions of other pollutants in these areas and statewide also help reduce any adverse health affects from those pollutants. The Clean School Bus Program helps reduce exposure of school children to emissions of particulate matter from diesel exhaust, which may cause health problems in certain concentrations.

The emissions reductions achieved from the TERP incentive programs directly benefit public health through reducing exposure of the population to ground-level ozone as well as to other potentially harmful pollutants. An ancillary benefit of the TERP incentives has been to enhance the market for newer vehicles and equipment in Texas. Also, the programs aimed at replacing vehicles with newer alternative fuel vehicles has helped spur the market for those vehicles in Texas and helped to increase the availability of fueling stations to provide alternative fuel.

The TERP Emissions Reduction Incentive Grants (ERIG) program includes a Third-Party grants program to provide funds to state and regional agencies to establish a pass-through grant program to fund projects that meet the ERIG requirements. The TCEQ has provided grants in the past to the Railroad Commission of Texas for an propane forklift program, which was expanded to include natural gas vehicles. The Houston-Galveston Area Council (H-GAC) and the North Central Texas Council of Governments (NCTCOG) were provided funding for regional subgrant programs. Also, the Texas General Land Office received funds for a program aimed at natural gas vehicles.

Program Changes and Outlook
Changes to the program since initial creation have included the addition of programs aimed at reducing emissions through increasing the use of alternative fuels for transportation in defined areas and statewide, including: in 2009 with the creation of the Texas Clean Fleet Program; in 2011 with the Texas Natural Gas Vehicle Grant Program, Clean Transportation Triangle Program, and Alternative Fueling Facilities Program; and in 2013 with the revised Light-Duty Motor Vehicle Purchase or Lease Incentive Program. The New Technology Implementation Grants Program and the Regional Air Monitoring Program were created by the Legislature in 2011 and the new Drayage Truck Incentive Program was established in 2013.

As older vehicles and equipment are retired and replaced with new models, the emissions from mobile sources will decrease. Revisions to the federal emissions standards for on-road engines in 2010 substantially reduced emissions from new engines. Similar revisions to standards for non-road engines went into effect in 2013 and 2014, and marine and locomotive engine standards are also becoming more stringent. As older engines are retired through normal turnover, the newer engines will emit substantially lower levels of pollutants. This means that over time, the need for incentives to encourage replacement of vehicles and equipment will become less. However, many larger vehicles and pieces of equipment operate for at least 15 years and many operate for a much longer period. Therefore, the tipping point for when the effectiveness of the TERP incentives will be substantially reduced will probably not occur for some time.

In addition, the U.S. Environmental Protection Agency (EPA) is considering reducing the National Ambient Air Quality Standard (NAAQS) for ground-level ozone to a lower level. A lower standard is likely to increase the number of areas in Texas not attaining the standards and areas near the standard. The agency reports that **this is likely to increase the number of eligible vehicles and equipment, and increase the need and demand for the program.**

Federal Funds
At the regional level federal funding has been available under the federal Congestion Mitigation and Air Quality (CMAQ) program. The CMAQ program provides a flexible funding source to state and local governments for transportation projects and programs to help meet the requirements of the Clean Air Act. Funding is available to reduce congestion and improve air quality for areas that do not meet the NAAQS for ozone, carbon monoxide, or particulate matter (nonattainment areas) as well as former nonattainment areas that are now in compliance (maintenance areas). H-GAC and NCTCOG have received periodic CMAQ funds that have been used, in some cases, to provide subgrants for projects that may be similar to those funded under the TERP.

Federal Diesel Emissions Reduction Act (DERA) funds have also been available through the U.S. Environmental Protection Agency for projects similar to those funded under the TERP. American Recovery and Reinvestement Act (ARRA) funding was also made available by EPA for projects meeting the DERA program criteria. Both H-GAC and NCTCOG received funding for projects similar to projects that may be funded under the TERP ERIG Program.

Measuring Program Effectiveness

To determine whether the agency has been meeting the objectives of the TERP program, there are several programs for which TCEQ has been able to determine cost-effectiveness in terms cost per ton of NOx emissions removed from the air. The following provides a description of the extent to which the agency has determined the effectiveness of each of the following significant grant programs within TERP.

■ ERIG Program	The agency has calculated an average cost per ton of NOx reduction of $5,628. The ERIG is the most cost effective program in terms of Nox reduced and quantifiable emissions reductions that can be used to demonstrate compliance with Clean Air Act standards to the U.S. EPA. .
■ Clean Fleet Program	The agency has calculated an average cost per ton of NOx redcution of $75,037.
■ Natural Gas Vehicle Incentive Grant Program	The agency has calculated an average cost per ton of NOx redcution of $32,090.
■ Drayage Truck Incentive Program	The agency reports that eventually there will be cost-effectiveness calculations available for this program; however, because the program was established in fiscal year 2014, it is too early to determine calculations.
■ Alternative Fueling Facilities Program	This program provides funding for entities to build infrastructure for alternative fueling facilities; as such, the agency reports that no air pollution reductions can be specifically assigned to this program.
■ Clean Transportation Triangle	This program provides funding for entities to build infrastructure for alternative fueling facilities; as such, the agency reports that no air pollution reductions can be specifically assigned to this program.
■ Clean School Bus Program	This program focuses mainly on the air quality and reduction of particulate matter in the passenger area of school buses, and it is not aimed at reducing ambient ozone levels; thus, no quantifiable NOx reduction can be measured.
■ New Technology Implementation Grants	Projects funded through this program generally relate to the storage of power generated from alternative energy sources for which the agency does not expect to ascertain quantifiable emissions reductions.

Texas Commission on Environmental Quality--Texas Emissions Reduction Plan

Schedule 2A: Program Listing -- Services and Administration

Agency Submission		Review and Analysis								
Agency Ranking	**Program Name**	**Year Created**	**State Authority**	**Federal Authority**	**Authority**	**Mission Centrality**	**State Service Category**	**Service Area**	**Significant Audit and/or Report Findings**	**Outsourced Services?**
NA	**Texas Emissions Reduction Plan**	2003	Statute	NA	Strong	Moderate	Natural Resources Management & Regulation	Statewide	Yes	Yes
	Program Summary Included									

Note: An Audit Report on The Texas Emissions Reduction Plan Program at the Commission on Environmental Quality was released by the State Auditor's Office on December 2010. All of the audits recommendations were implemented.

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Texas Commission on Environmental Quality--Texas Emissions Reduction Plan

Schedule 2B: Program Listing -- Fiscal

Agency Submission					Review, Analysis and Funding								
Agency Ranking	Program Name	1st Year Full Implementation	2010-11 Expended	2012-13 Expended	2014-15 Est / Budg	2015 FTEs Budg	2016-17 HB 1 - Intro	2017 FTEs Rec.	Percent Change from Base	FTEs Change from Base	Revenue Supported?	Appropriate Use of Constitutional and GR-Dedicated Funds?	Agency Funding Alternatives in Recs?
NA	Texas Emissions Reduction Plan	$ 18,942,660	$ 161,703,719	$ 129,597,524	$ 155,279,007	49.0	$ 155,279,007	49.0	0.0%	0.0	Yes	Compliant	No
Total		$ 18,942,660	$ 161,703,719	$ 129,597,524	$ 155,279,007	49.0	$ 155,279,007	49.0	0.0%	0.0			

Program Summary Included

Strategic Fiscal Review 2016-17
House Budget Recommendations: HB 1 as Introduced
Texas Commission on Environmental Quality--Texas Emissions Reduction Plan

Schedule 2C: Program Listing -- Explanation of Recommendations

Agency Submission: Agency Ranking	Agency Submission: Program Name	Review and Analysis: Funding Compared to 2014-15		Explanation of 2016-17 HB 1 Introduced
NA	**Texas Emissions Reduction Plan**		**Funding**	■ Recommendations for Texas Emissions Reduction Plan (TERP) in the General Appropritions Bill, As Introduced, **provide funding for 2016-17 at the 2014-15 expended/budgted levels.**
			Funding	■ **Recommendations provide for the redirection of $3.9 million out of the TERP Account No. 5071 funds from the Light Duty Motor Vehicle Incentive Program**, which expires in fiscal year 2015, to the Emissions Reduction Incentive Grant Program (ERIG).
			Funding	■ The LBB GEER Report, Reduce Reliance on General Revenue-Dedicated Accounts for Certification, **recommends an increase of $81.0 million in additional appropriations out of the TERP Account No. 5071 for the 2016-17 biennium** to appropriate the full amount of the transfer to the TERP Account from the State Highway Fund No. 6 related to Certificate of Title Fee revenues collected in counties designated as severe nonattainment for air quality.
		NA	**Statutory**	■ To reduce this balance, an LBB GEER report titled Reduce Reliance on General Revenue-Dedicated Accounts for Certification presents two options for reducing reliance on TERP for certification relate to motor vehicle certificate fee revenue. O**ption 1 of the report would move an estimated $447.0 million in balances in the TERP Account No. 5017 to the State Highway Fund No. 6.** A second option **(Option 2) would amend statute to reduce future transfers from the State Highway Fund to the TERP Account No. 5071 to an amount equal to the amount of motor vehicle certificates of title fees collected in certain nonattainment areas** (those subject to Clean Air Act Section 185 penalties) and deposited to the Texas Mobility Fund. It is estimated that this would result in the redirection of $159.8 million in revenues from the TERP Account No. 5071 to the State Highway Fund No. 6 during 2016-17.
		NA	**Statutory**	■ **It is recommended that the ERIG program be the focus of any additional funding that may be appropriated from the TERP Account No. 5071** because the ERIG program has been proven to be the most effective at achieving quantifiable reductions in NOx emissions.

Program Summary Included

Texas Commission on Environmental Quality--Texas Emissions Reduction Plan

Mission centrality is a judgment of how directly connected a program is to the core mission and goals of the agency, as identified in statute, agency strategic plans, or other documents.
Authority is an assessment of how strong and explicit the legal basis is for the existence of the program and the way in which the agency is administering it.

MISSION CENTRALITY

AUTHORI	Weak	Moderate	Strong
Strong		Texas Emissions Reduction Plan (1)	
Moderate			
Weak			

Note: The matrix does not include Indirect Administration programs.

The TERP program is characterized as being strong in terms of authority because the objectives and details of the program are laid out specifically in statute. TERP is characterized as moderate in terms of Mission Centrality because the program functions as a tool in meeting the agency's Goal A, Assessment Planning, and Permitting, as reported in the agency's Strategic Plan for 2013-17 :

To plan for air quality, water quality, and waste management by: developing the State Implementation Plan for attainment of the National Ambient Air Quality Standards (NAAQS), designing and implementing specific strategies to improve water quality, and analyzing solid waste generation and management in Texas.

TERP is a program that supports the agency's overall efforts to develop the State Implementation Plan for attainment of NAAQS, and it is one of many tools the agency uses to improve the state's air quality. However, the program was never designed to be permanent, and under current law the entire TERP program will expire on August 31, 2019.

Schedule 4: Constitutional and General Revenue-Dedicated Accounts

1	**Account:**	**Texas Emissions Reduction Plan (TERP) Account No. 5071**
	Legal Cite(s):	Health and Safety Code, §286.251; Tax Code, §§151.0515 and 152.0215; Transportation Code, §§501.138, 502.358, and 548.5055.
	Authorized Use:	Use of the TERP fund is prescribed in Health and Safety Code, §386.252. Money in the fund may be used only to implement and administer programs established under the plan. Money appropriated to the TCEQ for programs under Health and Safety Code, §386.051(b) shall be allocated as follows: (1) not more than 4 percent may be used for the clean school bus program under Health and Safety Code, Chapter 390; (2) not more than 3 percent may be used for the new technology implementation grant program under Chapter 391, from which at least $1 million will be set aside for electricity storage projects related to renewable energy; (3) 5 percent shall be used for the clean fleet program under Health and Safety Code, Chapter 392; (4) not more than $3 million may be used by the agency to fund a regional air monitoring program in commission Regions 3 and 4 to be implemented under the TCEQ 's oversight, including direction regarding the type, number, location, and operation of, and data validation practices for, monitors funded by the program through a regional nonprofit entity located in North Texas having representation from counties, municipalities, higher education institutions, and private sector interests across the area; (5) not less than 16 percent shall be used for the Texas natural gas vehicle grant program under Health and Safety Code, Chapter 394; (6) not more than five percent may be used to provide grants for natural gas fueling stations under the clean transportation triangle program under Health and Safety Code, §394.010; (7) not more than 5 percent may be used for the Texas alternative fueling facilities program under Chapter 393; (8) a specified amount may be used each year to support research related to air quality as provided by Chapter 387; (9) not more than $200,000 may be used for a health effects study; (10) $500,000 is to be deposited in the state treasury to the credit of the clean air account created under Health and Safety Code, §382.0622 to supplement funding for air quality planning activities in affected counties; (11) at least $4 million and up to 4 percent to a maximum of $7 million, whichever is greater, is allocated to the TCEQ for administrative costs; (12) at least 2 percent and up to five percent of the fund is to be used by the commission for the drayage truck incentive program established under Health and Safety Code, Subchapter D-1; (13) not more than 5 percent may be used for the light-duty motor vehicle purchase or lease incentive program established under Health and Safety Code, Subchapter D; 14) not more than $216,000 is allocated to the agency to contract with the Energy Systems Laboratory (ESL) at the Texas Engineering Experiment Station annually for the development and annual computation of creditable statewide emissions reductions obtained through wind and other renewable energy resources for the state implementation (15) 1.5 percent of the money in the fund is allocated for administrative costs incurred by the ESL; and (16) the balance is to be used by the commission for the diesel emissions reduction incentive program under Subchapter C as determined by the commission.

Revenue Source: The following is a list of revenues deposited to the TERP Account No. 5071, a description of each revenue, and an estimate of the revenue to be generated from each source during the 2016-17 biennium, based on the Comptroller's Biennial Revenue Estimate for 2016-17.

Revenue and Authorization	Description	2016-17 Estimated Revenue (In Millions)
Motor Vehicle Sale and Use Tax--Health and Safety Code, §386.251 and Tax Code §152.0215	Levied on the sale, lease or use of on-road diesels: 2.5 percent for vehicles made before 1997 and 1.0 percent on vehicles made after 1997.	$31.1
Motor Vehicle Certificate of Title Fee--Health and Safety Code, § 386.251 and Transportation Code, §501.138	Fee assessed on vehicle title transfers of $15 in counties that are in attainment for air quality standards and $20 counties in nonattainment counties. The fee is deposited to the Texas Mobility Fund, with the Department of Transportation depositing an equal amount of funds to the TERP Account No. 5071 from the undedicated portion of the State Highway Fund.	$240.8*
Motor Vehicle Registration Fees--Health and Safety Code, §386.251 and Transportation Code, §502.358	Surcharge on truck-tractor or commercial vehicle registration equal to 10 percent of total registration fees due.	$28.6
Motor Vehicle Inspection Fee, Health and Safety Code, §386.251 and Transportation Code, §548.5055	$10 surcharge on every commercial motor vehicle inspection.	$13.9
Limited Saes and Use Tax--Health and Safety Code Section 386.251 and Tax Code Section 151.0515--	2.0 percent of sale or rental priece on the sale, lease or use of off-road diesels.	$136.4
	Total	**$450.8**

*Comptroller's Biennial Revenue estimate for Motor Vehicle Certificates Deposited to the Texas Mobility Fund.

Program(s) Funded	**In Compliance with Authorized Use?**	**1st Full Year Appropriated**	**2010-11 Expended**	**2012-13 Expended**	**2014-15 Est/Budg**	**2016-17 HB 1 - Intro**	**Comments**
1 Texas Emissions Reduction Plan No. 5071	Qualified	$ 18,942,660	$161,703,719	$ 129,597,524	$ 155,279,007	$ 155,279,007	Revenues deposited to the Texas Emissions Reduction Plan (TERP) Account No. 5071 have significantly exceeded appropriations resulting in a large fund balance building in the account. The Comptroller estimates the TERP Account No. 5071 balance on August 31, 2015 will be $1,066.5 million, the highest amount in any General Revenue–Dedicated account. The fund balance in the acccount is expected to grow by $170.7 million to $1,237.2 million by the end of the 2016-17 biennium, assuming BRE anticipated growth of $450.8 million, payments for encumbrances, and appropriations provided in the Introduced Appropriations Bill.
Total, Texas Emissions Reduction Plan (TERP) Account No. 5071		**$ 18,942,660**	**$161,703,719**	**$ 129,597,524**	**$ 155,279,007**	**$ 155,279,007**	
Total		**$ 18,942,660**	**$161,703,719**	**$ 129,597,524**	**$ 155,279,007**	**$ 155,279,007**	

Strategic Fiscal Review 2016-17

Texas Commission on Environmental Quality--Texas Emissions Reduction Plan

Schedule 5: Program Summary

All 2016-17 funding recommendations reflect HB 1 as Introduced

Program: Texas Emissions Reduction Plan

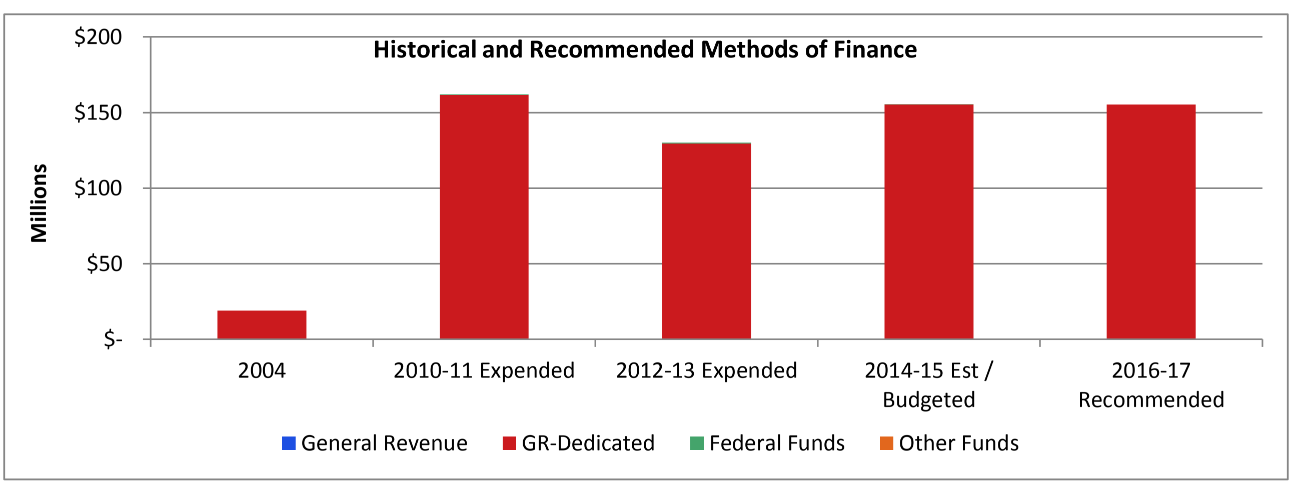
Agency Ranking NA

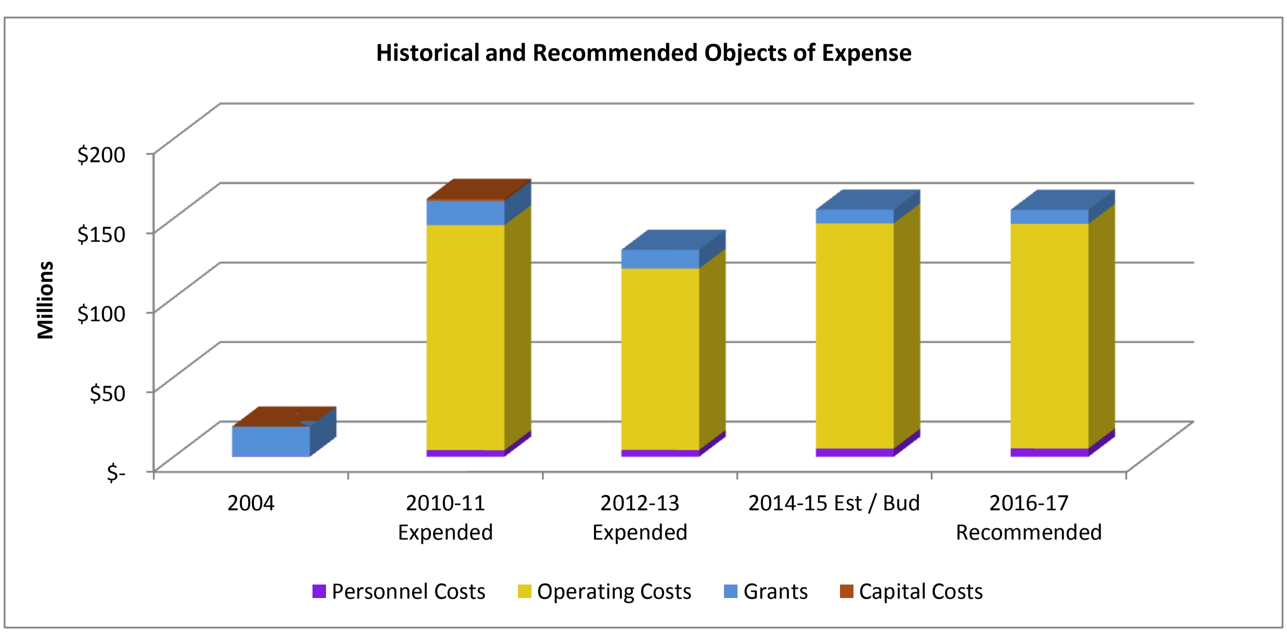
The Texas Emissions Reduction Plan (TERP), was established in 2001 by the 77th Legislature, to reduce nitrogen oxides (NOx) and other emissions from heavy-duty on-road vehicles and non-road equipment by providing grants and rebates for voluntary upgrades and replacements, including school buses.

Legal Authority: Health and Safety Code 386.051, 386.252, 386.390-394, General Appropriations Act, 2014-15 Biennium, Eighty-third Texas Legislature, Regular Session, 2013, Art. VI, Rider 21.

Year Created	2003	**Performance and/or Operational Issue**	No	**Outsourced Services**	Yes
Authority	Strong			**Revenue Supported**	Yes
Centrality	Moderate			**Use of Dedicated Funds**	Compliant
Service Area	Regional	**State Service Category**	Natural Resources Management & Regulation		

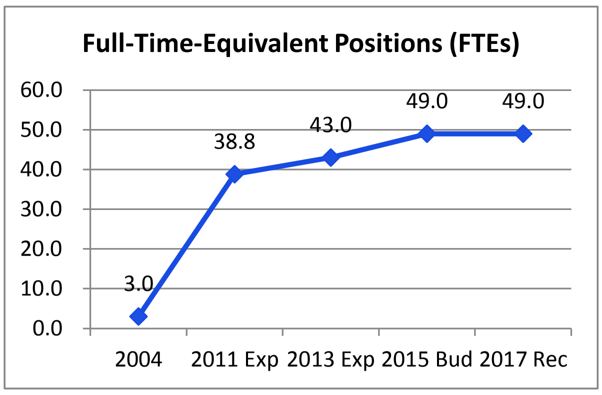
Major Activities	2014-15 Estimated	2015 FTEs	2016-17 Recommend	2017 FTEs	% of Total
Direct Administration	$ 8,000,000	49.0	$ 8,000,000	49.0	5.2%
Clean School Bus	$ 6,211,161	0.0	$ 6,211,161	0.0	4.0%
New Technology Implementation Grant Program	$ 4,658,370	0.0	$ 4,658,370	0.0	3.0%
Clean Fleet Program	$ 7,763,950	0.0	$ 7,763,950	0.0	5.0%
Regional Air Monitoring	$ 6,000,000	0.0	$ 6,000,000	0.0	3.9%
Texas Natural Gas Vehicle Grants	$ 24,844,641	0.0	$ 24,844,641	0.0	16.0%
Clean Transportation Triangle	$ 7,763,950	0.0	$ 7,763,950	0.0	5.0%
Texas Alternative Fueling Facilities	$ 7,763,950	0.0	$ 7,763,950	0.0	5.0%
Drayage Truck Incentive Program	$ 3,105,580	0.0	$ 3,105,580	0.0	2.0%
Light-duty Motor Vehicle Purchase or Lease Incentive Program	$ 7,763,950	0.0	$ -	0.0	0.0%
Emission Reduction Incentive Grants	$ 68,571,455	0.0	$ 76,335,405	0.0	49.2%
Air Quality Research	$ 2,000,000	0.0	$ 2,000,000	0.0	1.3%
Health Effects Study and Energy Systems Laboratory	$ 832,000	0.0	$ 832,000	0.0	0.5%
New Technology Research Development Grants	$ -	0.0	$ -	0.0	0.0%
TOTAL	**$ 155,279,007**	**0.0**	**$ 155,279,007**	**0.0**	94.8%

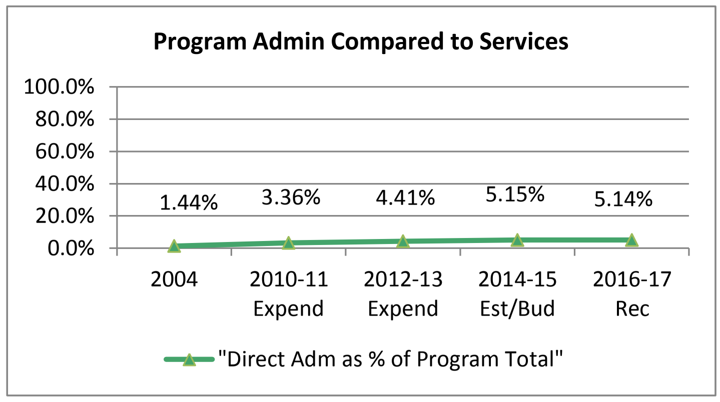




Program: Texas Emissions Reduction Plan

Agency Ranking | **NA**





Summary of Recommendations

1 **Increase TERP appropriations in an effort to reduce the fund balance.** Recommendations provide funding for TERP for 2016-17 out of the TERP Account No. 5071 at 2014-15 levels. Option 2 of the LBB GEER Report, *Reduce Reliance on General Revenue-Dedicated Accounts for Certification* **recommends an increase of $81.0 million in additional appropriations** out of the TERP Account No. 5071 for the 2016-17 biennium to appropriate the full amount of the transfer to the TERP Account from the State Highway Fund No. 6 related to Certificate of Title Fee revenues collected in counties designated as severe nonattainment for air quality. The report also recommends ending the transfer of Certificate of Title fee revenues for all other counties, resulting in a reduction of $159.8 in biennial revenues to TERP. In addition, the report recommends a one-time transfer if $447.0 million If the Statutory Change for Program Improvement below is implemented as well, the increase would be provided for the Emissions Reduction Incentive Program because that program has the greatest demonstrated performance in terms achieving quantifiable reductions in Nitorgen Oxide (NOx) emissions that help the state in its efforts to meet federal air quality standards.

2 **Redirect funds from the expiring Light Duty Motor Vehicle Incentive Program to the Emissions Reduction Incentive Grant Program.** The Light Duty Motor Vehicle Incentive Program within TERP created in Health and Safety Code, Chapter 386, Subchapter D, will expire on August 31, 2015. Thus, recommendations do not include the $3.9 million in annual allocations for the program for 2016-17 but **recommendations do include this amount as additional funding for the Emissions Reduction Incentive Grant (ERIG) program**, because the ERIG program receives the balance of TERP funding that is not otherwise specifically allocated. This results in base level recommended funding of $38.1 million per fiscal year for 2016-17 for the program.

Performance and/or Operational Issues

1 **An *Audit Report on The Texas Emissions Reduction Plan Program at the Commission on Environmental Quality* was released by the State Auditor's Office on December 2010.** The audit contained the following findings: (1) the TCEQ should strengthen its TERP Program grantee selection process; (2) the TCEQ should strenghten its monitoring of TERP Program grants to ensure that grantees comply with program requirements; and (3) the TCEQ should improve its efforts to recover TERP Program grant funds from grantees that do not comply with program requirements. All of the audits recommendations were implemented.

Recommended Statutory Changes for Program Improvement

1 **Revenues to the TERP Account No. 5071 Significantly Exceed Appropriations and a Large Fund Balance Exists in the Account.** The Comptroller estimated that Texas Emissions Reduction Plan (TERP) Account No. 5071 balance available for certification for General Revenue Funds appropriations on August 31, 2015 will be $1,066.5 million, the highest amount in any General Revenue–Dedicated account. Recommended appropriations and transfers from the account are expected to result in the unencumbered balance increasing to $1,237.7 million by the end of the 1016-17 biennium. To reduce this balance, an LBB GEER report titled *Reduce Reliance on General Revenue-Dedicated Accounts for Certification* presents two options for reducing reliance on TERP for certification relate to motor vehicle certificate fee revenue**. Option 1 of the report would move an estimated $447.0 million in balances in the TERP Account No. 5017 to the State Highway Fund No. 6. A second option (Option 2) would amend statute to reduce future transfers from the State Highway Fund to the TERP Account No. 5071 to an amount equal to the amount of amount motor vehicle certificates of title fees collected in certain nonattainment areas (those subject to Clean Air Act Section 185 penalties) and deposited to the Texas Mobility Fund.** It is estimated that this would result in the redirection of $159.8 million in revenues from the TERP Account No. 5071 to the State Highway Fund No. 6 during 2016-17. This would result in the 2016-17 estimated TERP Account No. 5071 revenue being reduced from $450.8 million to an estimated $291.0 million, with the ending TERP Account No. 5071 balance being reduced to $549.4 million by the end of fiscal year 2017.

2 **The Emissions Reduction Incentive Grant Program (ERIG) Program Should be the Focus of Additional TERP Funding.** The various TERP grant programs target different types of projects, with varying measurable results. The ERIG program has been proven to be the most effective at achieving quantifiable reductions in NOx emissions. If the $81.0 million in additional TERP funding is appropriated or any additional amount is appropriated to TCEQ for TERP, **it is recommended that the ERIG program receive the additional appropriations**. Because TERP funding allocations are prescribed in statute, statute would need to be changed to allow that program to receive more than its current allocation of funding. Under current law, ERIG receives the balance of funding not allocated to other TERP purposes. Recommended funding levels for the ERIG of $76.3 million of the $155.3 million biennial TERP appropriation for TCEQ result in an effective allocation to the ERIG program of about 49 percent. If the ERIG appropriations were increased to $157.3 million of $236.3 million in total biennial appropriations, ERIG's allocation would effectively increase to 67 percent of funding. Although funding allocations percentages in statute do not match exactly with current appropriations, statutory allocations could be modified as necessary under an increased appropriations level to reflect each program's effective allocation of TERP funding.

Program: Texas Emissions Reduction Plan

Agency Ranking NA

Although the percentage allocation levels for most programs would be reduced under this scenario, the non-ERIG programs would still continue to receive funding at the 2014-15 level (except for the Light-Duty Motor Vehicle Purchase or Lease Incentive Program, which expires on August 31, 2015). Programs for which a defined amount is prescribed (Regional Air Monitoring Program, Health Effects Study, contract amount for the Energy Systems Laboratory) would not be affected, and the amount provided for the Energy Systems Laboratory would remain the same. Because statute provides for TCEQ TERP administration costs to be set at a minimum of 4 percent of funding, it is recommended that if TERP funding were increased by $81.0 million, TCEQ's allocation for administration be increased from the current $4,000,000 each fiscal year in baseline recommendations for 2016-17 to $4,725,260 each fiscal year.

Funding Alternatives Not Included in the Recommendations	Change from Recommendations GR-Related	Change from Recommendations All Funds	2017 FTEs
1 **Recommended Priorities for Additional Funding--152 percent funding level:** To reduce the projected balance in the TERP Account No. 5071, which is estimated to increase to $1,237.8 million by the end of fiscal year 2017 with baseline recommended appropriations for 2016-17, an additional $81.0 million in biennial funding for the TERP program would be provided. This additional funding amount is derived as a result of recommendations contained in an LBB report titled *Reduce Reliance on General Revenue-Dedicated Account for Certification.* The report contains an option which would amend statute to reduce future transfers from the State Highway Fund to the TERP Account to an amount equal to the amount of motor vehicle certificates of title fees collected in certain nonattaiment areas (those subject to Clean Air Act Section 185 penalties) and deposited to the Texas Mobility Fund. It is estimated that this would result in the redirection of $159.8 million in revenues from the TERP Account to the State Highway Fund during 2016-17, and it would result in estimated revenues to the TERP Account being reduced from $450.8 million to an estimated $291.0 million. If the option to reduce transfers to the State Highway Fund is implemented, the $81.0 million Priority for Additional Funding is appropriated, and $155.3 million baseline appropriation from the TERP Account is continued, new revenues to the TERP Account would exceed expenditures by an estimated $50.9 million during the 2016-17 biennium. The 152 percent funding option was not requested by the agency, and the agency did not provide input as to the effect of this funding scenario, as the agency did with respect to the 50 percent and 200 percent funding level scenarios discussed below.	$ 80,984,000	$ 80,984,000	0.0
2 **50 percent funding levels:** The TERP program's focus is reducing mobile emissions to help these areas meet the federal ozone standards and to help areas nearing ozone nonattainment to remain in attainment. The agency reports that a reduction in TERP funding is likely to result in higher ozone levels in ozone nonattainment areas and areas that are currently near the federal standard and trying to remain in attainment with the standard. To obtain similar emissions reductions in a timely manner without the TERP incentives or with reduced incentives, additional control strategies would need to be considered. Additional control strategies are likely to represent significant fiscal impacts to industrial sources and/or lifestyle changes to reduce emissions from mobile sources. There is a significant cost to industry and the State of Texas for not attaining federal air quality standards (increased permitting offsets, more required controls, the potential loss of federal highway funds, and less certainty on future costs due to increased/changing federal requirements). The agency reports that a 50 percent reduction, or a reduction of $77.6 million for the biennium for TERP could result in approximately 1,400 fewer projects funded and 6,700 fewer tons of NOX reduced. It is estimated that five fewer FTEs would be needed. The agency notes that the number of projects and tons of NOX reduced based on a particular amount of money can only be generally estimated. Some TERP grant programs may fund a large number of projects, but the projects may receive relatively smaller grant amounts. Alternatively, some programs may fund a fewer number of projects, but those projects involve greater funding amounts.	$ (38,816,422)	$ (38,816,422)	0.0

Program: Texas Emissions Reduction Plan

			Agency Ranking	NA
3	**200 percent funding levels:** The agency reports that significant emission reductions remain to be gained simply by replacing 2006 or older heavy-duty vehicles with 2010 or newer heavy-duty trucks and engines. Starting in 2007 federal heavy-duty on-road engine emission standards were significantly lowered, resulting in a 90% decrease in NOX emission rates for new engines compared with the standards for previous years. An increase in funding would help the TERP program further reduce mobile emissions in ozone nonattainment areas and other areas nearing ozone nonattainment. This in turn is expected to help key areas in Texas reach attainment and/or remain in attainment with the federal ozone standard. The agency reports that an increase in funding of $155.3 million for the biennium could result in approximately 2,800 more projects funded and 13,455 more tons of NOX reduced. An additional 10 FTEs would be needed to administer the additional applications, contracts, reimbursements, and project reports. The agency notes that the number of projects and tons of NOX reduced based on a particular amount of money can only be generally estimated. Some programs may fund a large number of projects, but the projects may represent small grant amounts. Alternatively, some programs may fund a fewer number of projects, but those projects involve greater funding.	$ 155,279,007	$ 155,279,007	10.0