LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 24, 2003

TO: Honorable Kenneth Armbrister, Chair, Senate Committee on Natural Resources

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HB3587** by Callegari (Relating to powers, duties, and name of the Energy Corridor Management District.), **Committee Report 2nd House, As Amended**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3587, Committee Report 2nd House, As Amended: a negative impact of ($4,857,594) through the biennium ending August 31, 2005.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	($1,772,297)
2005	($3,085,297)
2006	($3,966,297)
2007	($5,773,297)
2008	($1,799,297)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from *GENERAL REVENUE FUND* 1	Probable (Cost) from *GENERAL REVENUE FUND* 1	Probable Revenue Gain from *TEXAS EMISSIONS REDUCTION PLAN* 5071	Probable Savings from *TEXAS EMISSIONS REDUCTION PLAN* 5071
2004	($1,619,000)	($153,297)	$103,395,000	$321,010
2005	($2,932,000)	($153,297)	$139,510,000	$327,420
2006	($3,813,000)	($153,297)	$142,460,000	$327,420
2007	($5,620,000)	($153,297)	$146,022,000	$327,420
2008	($1,646,000)	($153,297)	$148,896,000	$327,420

Fiscal Year	Probable (Cost) from *TEXAS EMISSIONS REDUCTION PLAN* 5071	Probable (Cost) from *STATE HIGHWAY FUND* 6	Change in Number of State Employees from FY 2003
2004	($101,757,446)	($5,377,000)	21.0
2005	($136,730,496)	($5,320,000)	21.0
2006	($139,591,996)	($5,320,000)	21.0
2007	($143,047,136)	($5,320,000)	21.0
2008	($145,834,916)	($5,320,000)	21.0

This estimate assumes the bill would take effect on September 1, 2003.

Fiscal Analysis

The bill would increase the application fee for a motor vehicle title (currently $13) by $20 in areas designated as nonattainment for air quality and by $12 in other areas. Revenues generated by the increase would be deposited to the credit of the Texas Emissions Reduction Plan (TERP) Account No. 5071 through August 31, 2008. Beginning on September 1, 2008, proceeds of the increase would be credited to the Texas Mobility Fund No. 365.

The bill would change the surcharge on heavy-duty diesel equipment from 1 percent under current law to 2 percent. It would also subject drilling equipment and mining equipment to the surcharge and extend the surcharge to include both sales and uses. The Comptroller currently does not assess the surcharge on leased and rented equipment.

In addition, the bill would extend the surcharge on the sale, lease and use of on-road diesel motor vehicles over 14,000 pounds to include 1997 models and newer and lower the percentage on such equipment from 2.5 percent under current law to 2 percent.

The bill would change the percentage allocations regarding the use of TERP funds. The Comptroller of Public Accounts and the Public Utility Commission, which currently receives 10 percent and 7.5 percent, respectively, of TERP Account No. 5071 funds for grant and incentive programs, would no longer receive financial assistance payments. These two agencies also would become ineligible for a portion of the 3 percent of TERP funds for administrative costs the agencies are eligible for under current law. The TERP-funded programs administered by the Comptroller and the PUC, however, would not be abolished but would not be allocated a portion of TERP funding. The Texas Council on Environmental Technology (TCET) would have its share increase from 7.5 percent under current law to 9.5 percent of TERP funds. At least 20 percent of TCET's funding would go to support research for air quality in the Houston-Galveston and Dallas-Fort Worth nonattainment areas by a nonprofit organization based in Houston. The percentage allocation for the Texas Commission on Environmental Quality (TCEQ), would increase from the current 72 percent to 87.5 percent.

The bill would allow the General Land Office to develop an energy-efficient building accreditation program for buildings exceeding building energy performance standards by 15 percent or more.

The bill also would require the TCEQ to develop a program for the reduction of emissions of nitrogen oxides from reciprocating internal combustion engines. The program would provide incentives for facilities in the East Texas region which would include partial reimbursement for the capital cost of installing technology to reduce emissions. The bill also would provide that interest from funds in the Emissions Reductions Incentive Account would remain in that account.

The bill would allow state agencies to give preference to or require vendors to demonstrate that they meet or exceed state and federal environmental standards.

The bill also would change the name of the Energy Cooridor Managment District to the Harris County Improvement District No. 4 and make changes to the duties, powers and operations of the distict.

Methodology

The Comptroller of Public Accounts estimates that the increase and expansion of applicability of the surcharge on heavy-duty equipment, the change in applicability of the surcharge on on-road diesel vehicles and the increased certificate of title fee would generate an additional $103.4 million to the TERP Account No. 5071 in 2004, increasing to $108.9 million by 2008, as shown in the table above.

The Comptroller estimates that the net effect on General Revenue Funds resulting from the bill's passage would be negative beginning in 2005, based on an estimated dynamic tax feedback effects created by the increase in industry and/or individual tax burdens. The net loss to General Revenue is shown in the table above. Although the Comptroller's Office could incur additional programming costs to implement the bill, administrative costs to the Comptroller are not expected to be significant.

The Texas Department of Transportation (TxDOT) is expected to experience increased costs for the increase of the surcharge on heavy-duty equipment from 1 percent to 2 percent. The increase of one percent in the surcharge on heavy-duty equipment is estimated to add an additional $5.3 million in costs to TxDOT, based on increases contractors have to pay in additional fee's which would pass along to the agency.

In 2004, TxDOT also would require an estimated $56,976 for one time programming changes, notifications, and form and manual updates. All costs to TxDOT are assumed to be paid out of the State Highway Fund No. 006.

TCEQ's 87.5 percent of new TERP Account No. 5071 revenues, plus an additional 15.5 percent of the current revenue stream, is anticipated to result in an additional $93.7 million in fiscal year 2004 for diesel emissions reductions grants, rising to $133.7 million by fiscal year 2005. The TCET would receive additional TERP funds from the increase in TERP revenues and the increase of the agency's share of TERP funds ranging from $10.3 million in 2004 to $14.6 million in 2005. Of this amount, $2.8 million in 2004 would be for air quality modeling research.

Of the three percent allocated for administrative costs, it is estimated that the TCEQ would require an additional $549,590 in fiscal year 2004 and $491,090 in future years and require an additional 9 FTEs to handle the significant increase in the amount of grant funds available.

There is an anticipated savings to the TERP Account No. 5071 because the Comptroller of Public Accounts and the Public Utility Commission would no longer be eligible to receive TERP funding. Based on the current TERP Account No. 5071 revenue stream and anticipated administrative costs for 2004-08, is estimated to result in a savings of $321,010 in fiscal year 2004 and $327,420 in future years. There would be no expected savings from the portion of TERP funds the Comptroller and the PUC currently receive for grant and incentive payments, since these funds would be allocated instead to the TCEQ and to TCET for expenditure.

The PUC is expected to have on-going costs associated with the program, however, since it would still be required to conduct monitoring of grants awarded during 2002-03 and to develop an evaluation report required in Health and Safety Code, Section 386.205. It is estimated that costs to the PUC would total $153,297 each year and be paid out of the General Revenue Fund.

This estimate assumes the Texas Engineering Experiment Station's (TEES) Energy System's Laboratory does not receive sufficient TERP funds from the current revenue stream to carry out its statutory requirements in Health and Safety Code, Chapter 388. Accordingly, it is estimated that the TEES would receive an additional $764,706 each fiscal year for an estimated additional 10 FTEs. Provisions of the bill requiring the TEES to measure reductions in energy and emissions produced under the energy-efficient building program, assuming one is established by the General Land Office, would require 2 additional FTEs and cost an estimated $150,000 per year. The TEES could incur additional costs performing technical evaluations of certified energy rating systems requested by municipalities in determining energy code compliance.

Since the TCEQ and the TEES would be the only agencies eligible for the 3 percent administrative cost portion of TERP funding, only $1.5 million out of $3.1 million to $4.0 million in additional TERP funds for administration (3 percent of total collections) would be expected to be appropriated by the Legislature. The TCET's administrative responsibilities would increase, but the TCET does not share in the 3 percent allocated to the other agencies for administrative costs, and Health and Safety Code, Section 386.052, limits the agency's administrative expenditures to no more than $250,000 per year.

No significant cost to the General Land Office is anticipated as a result of the bill's provisions relating to the energy-efficient building accreditation grant program.

No significant administrative costs are expected to the TCEQ associated with the reciprocating internal combustion engines emissions reductions program. No significant fiscal impact is expected as a result of the bill's provisions that interest in the Emisssions Reductions Incentive Account remain in that account, since it is expected that the TCEQ would expend the majority of funds in the account each year.

No significant fiscal impact to state agencies is expected from the bill's provisions allowing agencies to give preference to or requiring vendors to demonstrate that they meet or exceed state and federal environmental standards.

Technology

No significant impacts to technology are expected as a result of the bill's passage.

Local Government Impact

Local governments could incur costs to the extent that the cost of acquiring heavy-duty equipment could increase by 1 percent over its current cost, while the cost of acquiring 1997 or newer on-road diesel vehicles could increase by 2 percent. Costs for pre-1996 on-road diesel vehicles would actually decrease by 0.5 percent, partially offsetting costs. Costs could be further offset to the extent that such local governments could receive grants from the TCEQ through the diesel emissions reduction program.

No significant fiscal implications are expected to result from the bill's provisions relating to the Energy Corridor Management District.

Source Agencies: 304 Comptroller of Public Accounts, 305 General Land Office and Veterans' Land Board, 369 Council on Environmental Technology, 473 Public Utility Commission of Texas, 582 Commission on Environmental Quality, 601 Department of Transportation, 712 Texas Engineering Experiment Station

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