LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

March 28, 2005

TO: Honorable Phil King, Chair, House Committee on Regulated Industries

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: **HB2201** by Hughes (Relating to implementing a clean coal project in Texas.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2201, As Introduced: an impact of $0 through the biennium ending August 31, 2007.

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
2006	$0
2007	$0
2008	$0
2009	$0
2010	$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from *OIL OVERCHARGE ACCT* 5005
2006	($20,000,000)
2007	$0
2008	$0
2009	$0
2010	$0

Fiscal Analysis

The bill would define "clean coal project" as a coal-based electric generating facility in partnership with the U.S. Department of Energy's FutureGen project. The bill would provide for the Texas Commission on Environmental Quality (TCEQ) to issue permits for clean coal projects; it would direct the Water Development Board to provide flexibility to regional water planning groups in amending water plans to facilitate planning for water supplies to meet the demands of clean coal projects. It would provide jurisdiction to the Railroad Commission over injection of carbon dioxide produced by clean coal projects.

The bill would change the name of the Renewable Energy Demonstration Program at the State Energy Conservation Office (SECO) at the Comptroller's Office to the Innovative Energy Demonstration Program, and it would provide that clean coal projects are eligible for grant funding under the program. The bill would direct SECO to distribute 50 cents of grant money out of the Innovative Technology Fund for every dollar invested by individuals or companies in the promotion and development of FutureGen clean coal projects. The bill states that SECO shall not distribute such funds in excess of $20 million.

The bill would expand an appraisal value limitation in Tax Code, Chapter 313, Subchapter B, to include clean coal projects, and it would allow corporations to deduct from a corporation's taxable capital or from its taxable earned surplus 10 percent of the amortized cost of equipment used in clean coal projects.

The bill would take effect immediately if it would pass both houses by a two-thirds vote. Otherwise, it would take effect on September 1, 2005.

Methodology

This estimate assumes that any administrative costs incurred by the TCEQ, the Water Development Board, the Railroad Commission, and the Comptroller in implementing the provisions of the bill could be absorbed within existing agency resources.

This estimate assumes that at least $40 million would be invested by individuals or companies for the promotion and development of FutureGen clean coal projects in fiscal year 2006. The SECO would therefore be required to disburse $20 million of grant funding for the Innovative Energy Demonstration Program, effectively reaching the maximum grant limit for the program in the first year of its existence. Although the bill states that the SECO shall distribute funds from the Innovative Technology Fund, the Comptroller's Office reports that this fund does not exist. This estimate therefore assumes grant payments would be made out of the Oil Overcharge Account.

Providing a 10 percent deduction for capital expenditures associated with clean coal projects would result in a loss in General Revenue to the state, because it would reduce the amount of franchise tax collected. The loss in General Revenue would depend on the number of clean coal projects and the value of equipment associated with those projects. There would also be a loss of revenue to local school districts and a corresponding cost to the Foundation School Fund because of the expansion of the appraised value limitation provisions. Again, the loss and resulting cost would depend on the number of clean coal projects and the value of equipment associated with those projects.

Local Government Impact

School districts, cities, and counties could experience a loss in property tax revenue due to the bill's provision expanding the appraisal value limitation in Tax Code, Chapter 313, Subchapter B, to include clean coal projects. The revenue loss would depend on whether a clean coal project would occur in a particular taxing unit's jurisdiction and the value of equipment associated with the project.

Source Agencies: 304 Comptroller of Public Accounts, 455 Railroad Commission, 580 Water Development Board, 582 Commission on Environmental Quality

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