LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

April 9, 2007

TO: Honorable Dennis Bonnen, Chair, House Committee on Environmental Regulation

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

IN RE: **SB12** by Averitt (Relating to programs for the enhancement of air quality, including energy efficiency standards in state purchasing and energy consumption; providing penalties.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for SB12, As Engrossed: an impact of $0 through the biennium ending August 31, 2009.

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
2008	$0
2009	$0
2010	$0
2011	$0
2012	$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from *TEXAS MOBILITY FUND* 365	Probable Revenue Gain/(Loss) from *TEXAS EMISSIONS REDUCTION PLAN* 5071	Probable Savings/ (Cost) from *TEXAS EMISSIONS REDUCTION PLAN* 5071	Probable Savings/ (Cost) from *CLEAN AIR ACCOUNT* 151
2008	$0	$0	($695,602)	($26,500,000)
2009	$0	$0	($669,602)	($28,500,000)
2010	$0	$0	($669,802)	($28,500,000)
2011	($103,155,000)	$195,260,000	($195,260,000)	($28,500,000)
2012	($106,335,000)	$206,935,000	($206,935,000)	($28,500,000)

Fiscal Year	Change in Number of State Employees from FY 2007
2008	7.0
2009	7.0
2010	7.0
2011	7.0
2012	7.0

Fiscal Analysis

Article 1 of the bill would make changes to the Low Income Vehicle Repair Assistance, Retrofit, and Accelerated Vehicle Retirement Program (LIRAP), including enhancement of capabilities for the retirement of old vehicles and their replacement. The bill would allow the Texas Commission on Environmental Quality (TCEQ) to provide replacement assistance under the LIRAP program for vehicles that not only fail an emissions test but also are gas powered and older than 10 years. In addition, the owner would be required to meet financial eligibility requirements, and the vehicle would be required to meet safety and emissions inspections requirements. The maximum amount for a qualified replacement vehicle is $2,500 for a gasoline-powered vehicle or $3,500 for a hybrid vehicle. The replacement vehicle would be required to meet federal Bin 5 or Tier 2 or cleaner emissions standards, have a gross vehicle weight of less than 10,000 pounds, and have a total cost that does not exceed $25,000. The bill would also set a limit of 10 percent for administrative costs for the counties to administer the local program, allow funding for replacement of pre-1996 vehicles, and allow funding for replacement of vehicles that have passed the EPA Start-up Acceleration Simulation Mode Standards emissions test but would have failed the EPA Final Acceleration Simulation Mode Standards emissions test.

The bill also would require that the TCEQ work in partnership with auto manufacturers and dealers in the state to increase awareness of the LIRAP program. The bill allows funding to be used specifically for publicizing the program.

The Local Initiatives Projects authorization for local air quality programs in counties participating in the LIRAP program would be repealed and replaced, with a maximum yearly cap of $5.0 million out of the Clean Air Account No. 151.

Article 2 would amend the Texas Emissions Reduction Plan (TERP) and New Technology Research and Development (NTRD) programs administered by the TCEQ. The counties that may be designated as affected counties eligible for the TERP program are expanded to include counties containing all or part of a major highway transportation corridor.

Article 2 also would raise the cost per ton TERP grant award cap to $15,000 and allow grants to other state agencies for idling reduction infrastructure projects at rest areas and other public facilities. The bill would provide that the TCEQ administer the TERP Account instead of the Comptroller.

The bill would amend the New Technology Research and Development Program to provide TCEQ oversight over grants provided to nonprofit organizations. The use of grant revenue for administrative costs would be limited to 10 percent of funding provided, and a nonprofit organization would be subject to the requirements of open meetings and public information as outlined in the Government Code.

The bill would extend to August 31, 2013, from September 30, 2010 under current law, the expiration date for the following fees deposited to the credit of the General Revenue-Dedicated TERP Account No. 5071: the 2 percent surcharge on the sale, lease or rental of new or used off-road, heavy-duty diesel equipment; the 2.5 percent (1996 and earlier models), and 1 percent (1997 and later models) surcharge on every retail sale, lease, or use of an on-road diesel motor vehicle over 14,000 pounds; the TERP surcharge imposed on the registration of a truck-tractor or commercial motor vehicle in an amount equal to 10 percent of the total registration fees due; and the TERP surcharge of $10 on the inspection of every commercial motor vehicle required to be inspected.

In addition, the bill would maintain the state fee for a certificate of title deposited to the credit of the General Revenue-Dedicated TERP Account No. 5071 at $20 for all applicants in a nonattainment area, whereas under current law the fee would have been reduced and the portion of the fee going to the TERP Account No. 5071 would have been reduced to $15 for all applicants regardless of county of residence. Proceeds of the certificate of title fee scheduled to be deposited to the Mobility Fund No. 365 starting on September 1, 2008, would revert to the TERP Account No. 5071 on September 1, 2010.

Article 3 of the bill amends the energy efficiency programs administered by the State Energy Conservation Office and establishes new energy efficiency requirements for appliances sold in Texas. State agencies and institutions of higher education will now be included, along with local political subdivisions, in the requirement to establish goals to reduce electric consumption by five percent each year for six years, beginning September 1, 2007. It would also direct state agencies to purchase energy efficient appliances and equipment, if such items are available and cost-effective.

The bill would amend Chapter 388 of the Health and Safety Code, relating to energy efficiency, to allow the State Energy Conservation Office (SECO), to adopt by rule more stringent energy efficiency standards. SECO's responsibility to provide assistance and information to help entities meet required standards would be expanded to include institutions of higher education and state agencies. These entities would have to establish a goal to reduce electric consumption by the entity by 5 percent each year for six years, beginning September 1, 2007, and report to SECO annually their efforts and progress.

The bill would require the Texas Building and Procurement Commission (TBPC) to develop and update a list of equipment and appliances that met adopted energy efficiency standards and assist state agencies in selecting products appropriate under the standards. The bill would require the TBPC or state agencies to purchase equipment and appliances that met or exceeded standards if available and cost effective.

Methodology

Article 1

Provisions expanding the universe of owners and vehicles eligible for LIRAP vehicle replacement assistance would result in an increased demand for funding from LIRAP fee proceeds. This analysis assumes that all revenues collected from LIRAP fees and deposited to the credit of the General Revenue-Dedicated Clean Air Account No. 151 would be appropriated to meet this increased demand. According to the TCEQ, $32,000,000 in LIRAP revenues is expected in fiscal year 2008 and $34,000,000 is expected in 2009. This analysis assumes $34,000,000 in revenues in 2010 through 2012 as well.

The TCEQ would require one additional FTE and related costs to conduct audits of program requirements, including repair assistance, replacement incentives, retirement certifications, and programmatic administrative costs. An additional one-time cost in fiscal year 2008 of $30,000 would be needed for a contract to determine the new final testing standards established by the bill. An additional one-time cost in fiscal year 2008 of $300,000 will be needed to install revised software in the emissions testing analyzer. The bill's requirement that the TCEQ work in partnership with automobile manufacturers and dealers to increase public awareness and participation in LIRAP would require an estimated $250,000 per fiscal year for each of the five years. The AirCheck Texas Repair and Replacement Assistance brochure would need to be reprinted to include the dollar limits and any other updated information. The brochure is given to each vehicle owner whose vehicle fails an emissions test. Reprinting the brochure would cost an estimated $100,000 in fiscal year 2008 and $10,000 in subsequent years.

This estimate assumes that the $5.0 million authorized for Local Initiatives Projects air quality program would result in the need for $5.0 million from the Clean Air Account No. 151. Two FTEs would be required to administer contracts for the Local Initiatives Projects

Total administrative costs for implementing Article 1 of the bill total $871,813 in fiscal year 2008 and $432,313 in subsequent years, all from the General Revenue-Dedicated Clean Air Account No. 151, and it would require three additional FTEs.

Based on current annual appropriations for LIRAP of $5,500,000 out of the General Revenue-Dedicated Clean Air Account No. 151 increased administrative costs to the TCEQ of $871,813 in fiscal year 2008 and $432,313 in subsequent years, and $5,000,000 per year for the Local Initiatives Projects, remaining revenues available for LIRAP vehicle replacement assistance would total $20.6 million in fiscal year 2008 and $23.1 million in subsequent years. Assuming an average replacement assistance amount of $2,500, this would provide approximately funding for approximately 9,000 vehicle replacements per fiscal year.

Article 2

The bill's provisions expanding areas eligible for TERP funding to include major highway transportation corridors is expected to increase the number of projects and contracts to be administered by the TERP program and result in a corresponding increase in demand for TERP funds in a larger area of the state. This provision, along with the provision allowing the agency to purchase and install idle reduction technologies and facilities at rest areas and other public facilities on major highway transportation routes, will result in the need for four additional FTEs and related costs.An additional $400,000 each fiscal year for contracts for the audit and monitoring of TERP projects, based on the expansion of eligible areas and types of projects.

Total administrative costs for implementing Article 2 total $695,602 in fiscal year 2008 and $669,602 in future years, all from the General Revenue-Dedicated TERP Account No. 5071. In addition, six FTEs would be required to implement the provisions proposed in Article 2.

With regard to changes relating to fee collections, the changes would result in a gain to the General Revenue-Dedicated TERP Account No. 5071 of $195.3 million in fiscal year 2008 and $206.9 million in fiscal year 2009 and a loss to the Texas Mobility Fund No. 365 of $103.2 million in fiscal year 2008 and $106.3 million in 2009. These estimates were provided by the Comptroller, based on the *2008-09 Biennial Revenue Estimate*, and result from fee extensions for the: off-road, heavy-duty diesel equipment surcharge, the on-road diesel motor vehicle surcharge, TERP surcharge of 10 percent on the registration of truck-tractors and commercial vehicles, the TERP surcharge of $10 on the inspection of a commercial motor vehicle; and the changes proposed by the bill for proceeds of the certificate of title.

This estimate assumes appropriations out of the General Revenue-Dedicated TERP Account No. 5071 would remain level in fiscal years 2008, 2009, and 2010. For 2011 and 2012, this estimate assumes all revenues deposited to the TERP Account No. 5071 would be appropriated, since this would be a new General Revenue-Dedicated revenue stream as compared to current law.

State agencies receiving TERP grants as a result of the bill's provisions authorizing idling reduction infrastructure projects at rest areas and other public facilities could incur a positive fiscal impact. The extent to which such projects were funded would depend on how much funding the TCEQ would designate for such projects and how cost-effective such projects would be at reducing emissions as compared to other applicants.

Article 3

State agencies could experience some cost savings relating to the bill's provisions requiring agencies to establish goals to reduce electric consumption by five percent each year.

Technology

To implement the provisions of the bill, in fiscal year 2008, the TCEQ would require $300,000 to install revised software in the agency's emissions testing analyzer; $30,000 would be needed for a contract to determine the new final testing standards established by the bill; and $10,500 would be needed for computers for new FTEs.

Local Government Impact

Local governments would be the recipients of the additional $5 million annually statewide from the bill's from the Local Initiatives program. In addition, local governments could gain up to 10 percent of additional LIRAP funds passed through the counties for administration, estimated to be $2.7 million to $2.9 million per year, due to the expansion of eligibility for the LIRAP program.

In fiscal year's 2011 and 2012, local governments could receive some portion of the additional funds available in the General Revenue-Dedicated TERP Account No. 5071 resulting from changes to fee expirations and dedications proposed by the bill. The amount they would receive would depend on the number of applications they would submit and the relative cost-effectiveness of other applicants.

Similar to state agencies, local governments may experience cost savings in electricity costs due to the bill's requirements that political subdivisions establish energy savings goals.

Source Agencies: 304 Comptroller of Public Accounts, 582 Commission on Environmental Quality, 302 Office of the Attorney General, 303 Building and Procurement Commission, 405 Department of Public Safety, 601 Department of Transportation, 712 Texas Engineering Experiment Station

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