LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

March 2, 2017

TO: Honorable Craig Estes, Chair, Senate Committee on Natural Resources & Economic Development

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **SB26** by Estes (Relating to the Texas emissions reduction plan and other related programs and measures to reduce emissions.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB26, As Introduced: an impact of $0 through the biennium ending August 31, 2019.

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
2018	$0
2019	$0
2020	$0
2021	$0
2022	$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *Texas Emissions Reduction Plan* 5071	Change in Number of State Employees from FY 2017
2018	($46,824,980)	6.0
2019	($46,824,980)	6.0
2020	($164,654,824)	6.0
2021	($164,654,824)	6.0
2022	($164,654,824)	6.0

Fiscal Analysis

The bill would expand the definition of alternative fuels for vehicles used by state agency to include vehicles powered by hydrogen fuel cells, and to clarify that "plug-in hybrid vehicles" are hybrid electric vehicles.

The bill would extend the Texas Emissions Reduction Plan (TERP) program, currently set to expire on August 31, 2019, to the end of the biennium in which Texas attains the national ambient air quality standards for ground-level ozone. The Clean School Bus (CSB) program, the New Technology Implementation Grant (NTIG) program, the Texas Clean Fleet (CF) program, and the Texas Natural Gas Vehicle Grant (NGVG) program would each be extended from August 31, 2019 to the end of the biennium in which Texas attains the national ambient air quality standards for ground-level ozone.

The bill would allow the Texas Commission on Environmental Quality (TCEQ) to reallocate funding between TERP programs based on demand for grants under particular programs. The bill would remove various caps on program funding, such as the 4 percent cap on the CBS program, or minimum spending levels, such as the 16 percent minimum on the NGVG program. Funding previously appropriated solely for administrative expenses would be expanding to allow use for administrative expenses and outreach and education activities.

The bill would combine the Alternative Fueling Facilities (AFF) program and the Clean Transportation Triangle (CTT) program into one program under the AFF program name; the combined program would be extended from August 31, 2018 to the end of the biennium in which Texas attains the national ambient air quality standards for ground-level ozone. The funding allocations for the two programs, each receiving 5 percent of TERP funding under current law, would be allocated an initial value of 10 percent, subject to reallocation.

The bill would add a new definition of "Clean Transportation Zone," which includes areas within the existing Clean Transportation Triangle, areas within a new "Southern Area", defined as counties between Laredo, San Antonio, and Corpus Christi, as well as areas designated as nonattainment or near nonattainment. There areas would be eligible for AFF program funding.

The bill would make changes to the NTIG program, changing the eligibility of emissions sources under the program from "point sources" to "stationary sources." The list of projects eligible for funding under the NTIG program would be expanded to include new technology projects that reduce emissions from oil and gas production, storage, and transmission activities through replacement, repower, or retrofit of stationary compressor engines or installation of systems to reduce or eliminate flaring of gas or the burning of gas using other combustion control devices.

The bill would remove an allocation of 1.5 percent of TERP funds for the Texas A&M Engineering Experiment Station (TAMEES) for administrative costs, but it would provide that funds in the TERP Account No. 5071 could still be allocated to TEES for administrative costs.

The bill would renew the Light-Duty Vehicle Purchase or Lease Incentive (LDMVPLI) program; this program expired on August 31, 2015. The program would provide incentive grants for the purchase or lease of vehicles powered by compressed natural gas or liquefied petroleum gas and electric drive vehicles powered by battery or a hydrogen fuel cell. The LDMVPLI program would expire at the end of the biennium in which Texas attains the national ambient air quality standards for ground-level ozone.

The bill would create the Governmental Alternative Fuel Fleet Grant (GAFFG) program, which would provide grants to an eligible state agency, county, municipality, or political subdivision in purchasing or leasing new motor vehicles that operate primarily on compressed natural gas, liquefied natural gas, liquefied petroleum gas, hydrogen fuel cells, or electricity, including fully electric motor vehicles or plug-in hybrid electric vehicles. No more than 10 percent of the total amount awarded in any fiscal year may be used for purchasing, leasing, installing, or procuring refueling infrastructure, equipment, or services. TCEQ is required to provide an online application process for application submissions, which the agency estimates may take two years to complete, possibly delaying the implementation of the program until the system is put in place. Funding for this program would be appropriated by the legislature from the General Revenue-Dedicated Texas Emissions Reduction Plan Account No. 5071 (TERP account), and expenditures may not exceed 3 percent of the balance in the TERP account at the beginning of each fiscal year. Administrative expenses are capped at three-fourths of one percent of the total amount awarded for the GAFFG program in one fiscal year up to $1.0 million. TCEQ has indicated that at maximum program funding levels for fiscal year 2018, the administrative expenses cap may be too low to effectively administer the program, especially if the online application system is not funded through a separate appropriation.

The bill would allow TCEQ to streamline the application process for the Diesel Emissions Reduction Incentive Grant (DERIG) program by developing, maintaining, and periodically updating a system to accept applications electronically through the agency's website. The bill would include within the definition of "drayage" land-based equipment used to transport a load to, from, or in a seaport or rail yard, making such equipment eligible for grant funding from the Drayage Truck Incentive (DTI) program. The bill would also add a definition of a "certified" engine to include either new engine or vehicle certification by the U.S. Environmental Protection Agency (EPA) or approval or certification by the EPA under the rules for approving alternative fuel conversion systems under certain circumstances. Funding for the CSB program would be expanded to include replacement of school buses; the program currently funds only retrofits.

The bill would take effect September 1, 2017.

Methodology

The new purchasing requirements in Government Code, §2158.051 are not estimated to have any significant fiscal impact.

The LDMVPLI program renewal is limited to funding 1,000 incentives for light-duty motor vehicles powered by compressed natural gas or liquefied petroleum gas in the amount of $5,000 per incentive in the biennium, and 2,000 incentives for light-duty motor vehicles powered by electric drive in the amount of $2,500 per incentive in the biennium, for a total program cost of $5.0 million in TERP account funding for the biennium, or $2.5 million each fiscal year.

Because the bill expands the types of NTIG projects that are eligible for TERP funding to include oil and gas-related activities, TCEQ would require additional staff with expertise in the oil and gas field. It is estimated that an additional 3.0 FTEs (a Program Supervisor, an Engineering Specialist, and a Financial Analyst) would be needed as a result of the bill.

This estimate is based on GAFFG program funding being 3 percent of $1,384,166,000, the ending fund balance in the TERP account according to the Comptroller's 2018-19 Biennial Revenue Estimate for fiscal year 2017. The GAFFG program's maximum funding for fiscal year 2018 would be $41,524,980. This estimate assumes a program allocation of this amount each fiscal year that follows. TCEQ estimates that, in order to administer and implement the new GAFFG program, 3.0 FTEs would be required (two Planner positions to administer the program processes and a

Contract Specialist). Fewer FTEs would be needed if appropriations were lower. The 6.0 additional FTEs that would be necessary as a result of the bill and the associated capital and operational needs would cost $538,287 in fiscal year 2018 and $513,087 in fiscal year 2019. The continuing costs of these FTEs and associated operational expenses would continue at fiscal year 2019 levels in future years. These costs would be funded from the TERP account and are assumed to be a portion of the total 3% funding level.

The online application system is estimated to cost $300,000 in the first year and $300,000 in the second year for system design, development and implementation. Ongoing maintenance costs are estimated to be $5,000 per fiscal year. These costs would be funded from the TERP account and area also included in the 3% total.

This estimate was made assuming that current TERP program activities would continue to be funded at 2016-17 funding levels, and that the new requirements concerning the renewal of the LDMVPLI program, the expansion of the NTIG program, and the implantation of the GAFFG program are funded in addition to existing TERP program activities. However, total appropriations to existing TERP programs could be reduced in order to shift funding to these new initiatives, while keeping expenditures from the TERP account the same as in the 2016-17 biennium.

The CF program and the NGVG program, which are currently set to expire at the end of fiscal year 2017, would continue to receive, respectively, $5.9 million and $18.9 million annual allocation of TERP Account funding (totaling $24.8 million each year), whereas under current law those funds would have been allocated to the DERIG program. With regard to the combined AFF program, the program would receive the 10 percent allocation ($11.8 million each year of the 2018-19 biennium) instead of receiving its current 5 percent allocation of $5.9 million in fiscal year 2018 before the program expires at the end of fiscal year 2018. The CTT program would expire under current law at the end of fiscal year 2017; its allocation of $5.9 million each year would have been allocated to the DERIG program. Note that in the bill, TCEQ would have the authority to alter program allocations based on demand for grants in various programs.

Beginning in fiscal year 2020, this estimate assumes that the current amount of TERP funds would continue at current levels to fund the various existing programs whereas under current law, appropriations out of the TERP Account No. 5071 to the TCEQ would be eliminated. Thus, in the table above a cost to the TERP Account No. 5071 is included equal to 2016 appropriations to the TCEQ of $118.1 million per year.

This estimate assumes that any administrative expenses associated with making DERIG applications available on the agency's website would be included in appropriations. This estimate assumes that appropriations to TAMEES for TERP activities would remain at 2016-17 levels.

This estimate assumes that no additional funds would be appropriated out of the TERP Account No. 5071 because of the bill's expansion of the areas eligible for CTT program funding. Because the bill does not increase the maximum statutory allocation for CTT grant funding of 5 percent of TERP funding, this estimate assumes that funding for the program would remain constant, while the number of entities eligible to apply for funding would increase.

The bill would do one or more of the following: create or recreate a dedicated account in the General Revenue Fund, create or recreate a special or trust fund either with or outside of the Treasury, or create a dedicated revenue source. The fund, account, or revenue dedication included in this bill would be subject to funds consolidation review by the current Legislature.

To the extent that appropriations pursuant to this bill reduce the available balance in TERP, there would be a cost to certification.

Technology

The online application system required by the bill for the GAFFG program would cost $300,000 in each fiscal year of the 2018-9 biennium. Recurring maintenance costs for the system would total $5,000 each fiscal year starting in 2020.

Local Government Impact

The local governments in counties contained within the bill's definition of the Clean Transportation Zone could become recipients of TERP grant awards. The extent of such funding would depend on the number of grant applications from those counties and whether those applications were competitive relative to other TERP grant applications TCEQ would receive.

Source Agencies: 304 Comptroller of Public Accounts, 582 Commission on Environmental Quality, 712 Texas A&M Engineering Experiment Station

LBB Staff: UP, SZ, MW, MSO, SD, PM