LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

May 12, 2025

TO: Honorable Drew Darby, Chair, House Committee on Energy Resources

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **HB5600** by McLaughlin (relating to incentives for the development of the clean hydrogen industry in this state, including tax benefits, loans, and grants for clean hydrogen projects, clean hydrogen workforce development, hydrogen powered motor vehicles, and certain items used to produce clean hydrogen.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB5600, Committee Report 1st House, Substituted: a negative impact of ($5,159,524) through the biennium ending August 31, 2027. There would be an additional indeterminate cost to provide funding for the Clean Hydrogen Development Fund and the Clean Hydrogen Workforce Development Grant Program, both of which would be dependent on legislative appropriations made for the programs.

Additionally, the bill will have a direct impact of a revenue loss to the Property Tax Relief Fund of ($95,000,000) for the 2026-27 biennium. Any loss to the Property Tax Relief Fund must be made up with an equal amount of General Revenue to fund the Foundation School Program.

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***
2026	($2,743,892)
2027	($2,415,632)
2028	($2,430,632)
2029	($2,454,632)
2030	($2,492,632)

All Funds, Five-Year Impact:

Fiscal Year	**Probable Revenue Gain/(Loss) from *General Revenue Fund* 1**	**Probable Revenue Gain/(Loss) from *Property Tax Relief Fund* 304**	**Probable Savings/(Cost) from *General Revenue Fund* 1**	***Change in Number of State Employees from FY 2025***
2026	($71,000)	$0	($2,672,892)	8.0
2027	($86,000)	($95,000,000)	($2,329,632)	8.0
2028	($101,000)	($110,000,000)	($2,329,632)	8.0
2029	($125,000)	($130,000,000)	($2,329,632)	8.0
2030	($163,000)	($155,000,000)	($2,329,632)	8.0

Fiscal Analysis

The bill would establish the Clean Hydrogen Development Fund as a special fund in the state treasury outside the General Revenue Fund to be administered by the Comptroller in consultation with the Texas Commission on Environmental Quality (TCEQ) and the Texas Railroad Commission (TRC). The fund would consist of legislative appropriations, gifts, grants, and donations to the fund, interest earned on investments, and money from any other source. Money in the fund could be appropriated to the Comptroller to provide loans and grants for purposes related to clean hydrogen projects. The bill lists criteria to be considered by the Comptroller in awarding grants or loans, and requires the Comptroller to establish eligibility requirements.

The bill requires the Texas Workforce Commission (TWC) to establish and administer the Clean Hydrogen Workforce Development Grant Program to award grants to institutions of higher education to provide workforce training and develop curriculum or certification programs related to clean hydrogen production. The bill lists eligibility requirements of institutions of higher education.

The bill would exempt the sale, use, and rental of hydrogen motor vehicles from taxes imposed under Tax Code Chapter 152 until September 1, 2035.

The bill would exempt hydrogen electrolyzer manufacturers that relocate to Texas from another state in the United States from franchise taxes until the tenth anniversary of the entity's beginning date.

The bill would create a tax credit for an entity that develops or operates a clean hydrogen project equal to the lesser of 20 percent of the entity's qualifying capital expenditures, or the amount of franchise tax due. A taxable entity could not convey, assign, or transfer the tax credit to another taxable entity unless substantially all of the entity's assets are conveyed, assigned, or transferred in the same transaction.

The Comptroller would be required to adopt rules necessary to implement and administer the legislation.

Note: This legislation 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 in, with, or outside 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.

Methodology

According to the Comptroller, there would be a revenue loss to the Property Tax Relief Fund of $95 million in fiscal year 2027, $110 million in fiscal year 2028, $130 million in fiscal year 2029, and $155 million in fiscal year 2030, related to tax credits for clean hydrogen projects. This is calculated as an elimination of franchise tax for entities engaged in clean energy projects for reports based on the years in which the majority of the qualifying capital expenditures occur, as 20 percent of qualifying capital expenditures would greatly exceed this amount.

According to the Comptroller, the number of hydrogen motor vehicles that would be exempted from the motor vehicle sales and use tax were extrapolated using S&P Global Market Intelligence's Texas Light Vehicle Sales Forecasts Model. This analysis assumes that the number of hydrogen motor vehicles used for rental would be insignificant, resulting in a loss to the motor vehicle sales and use tax of $71,000 in fiscal year 2026, and $86,000 in fiscal year 2027.

This analysis assumes that the Comptroller would require six additional full-time equivalent (6.0 FTEs) positions to implement the bill. This includes 1.0 Program Specialist VI for the development of a public-facing online trading system, 3.0 Program Specialists to assist with the application process for the loan or grant and measurement and verification of tax credits, and 1.0 Programmer IV and 1.0 Systems Analyst to support the grant program database for application and administration. Personnel costs for the 6.0 FTEs is estimated to be $615,000 in each fiscal year. Additionally, an estimated $1,500,000 in Professional Fees annually beginning in fiscal year 2026 would be necessary to contract with the Energy Systems Lab for technical assistance related to the manufacture of hydrogen electrolyzes and related technologies, project evaluation services and guidance.

This analysis assumes that TWC would require two additional full-time equivalent (2.0 FTEs) positions to implement the Clean Hydrogen Workforce Development Grant Program. This includes 2.0 Grant Specialists III to research, collaborate with subject matter experts, and develop, draft, review, and finalize the documents used for a Request for Applications (RFA) to award grants under the grant program. Staff time will also be required to evaluate and select awardees for these competitive grants. Personnel and operating costs for the 2.0 FTEs is estimated to be $233,892 in fiscal year 2026, and $214,632 in each subsequent fiscal year.

There could be an additional indeterminate revenue loss related to the franchise tax exemption for entities engaged in the business of manufacturing hydrogen electrolyzers that relocate to Texas from another state in the United States. Because the bill does not specifically require an entity to physically manufacture electrolyzers in the state, nor does it require an entity to be exclusively or primarily engaged in the manufacturing of electrolyzers, the number of entities who would receive a franchise tax credit cannot be determined at this time.

There could be an additional indeterminate revenue loss for clean hydrogen data center projects, whose annual sales tax liability could range between $6 million and $200 million dependent on the megawatt capacity of the data center. While there are no hydrogen powered data centers currently operational in the state, there is expected prospective use of hydrogen for powering data centers by companies such as ECL and Energy Abundance Development Corporation, that would qualify for an exemption under the provisions of the bill.

There would be an indeterminate cost to the state for the Clean Hydrogen Development Fund and the Clean Hydrogen Workforce Development Grant Program dependent on legislative appropriations to provide the grants and loans authorized by the programs.

It is assumed that any administrative costs incurred by TCEQ or TRC could be absorbed using existing resources.

Technology

The Comptroller assumes a one-time IT cost of $324,000 in fiscal year 2026 for 2,160 programming hours using contractor resources to create the grant system and process fund donations and disbursements.

Local Government Impact

The fiscal implications of the bill to units of local government cannot be determined at this time.

Source Agencies: 304 Comptroller of Public Accounts, 320 Texas Workforce Commission, 455 Railroad Commission, 582 Commission on Environmental Quality

LBB Staff: JMc, RStu, CSmi, SD