

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

April 13, 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 the development and expansion of clean hydrogen production, distribution, and utilization in this state.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB5600, As Introduced: an impact of \$0 through the biennium ending August 31, 2027. There would be an indeterminate cost to provide funding for the Clean Hydrogen Development Fund and to provide grants to educational institutions associated with the bill's provisions, both of which would be dependent on legislative appropriations made for those purposes.

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:

<i>Fiscal Year</i>	Probable Net Positive/(Negative) Impact to <i>General Revenue Related Funds</i>
2026	\$0
2027	\$0
2028	\$0
2029	\$0
2030	\$0

All Funds, Five-Year Impact:

<i>Fiscal Year</i>	Probable Savings/(Cost) from <i>Property Tax Relief Fund</i> 304
2026	\$0
2027	(\$95,000,000)
2028	(\$110,000,000)
2029	(\$130,000,000)
2030	(\$155,000,000)

Fiscal Analysis

The bill would establish the Clean Hydrogen Development Fund as a special fund in the state treasury to finance clean hydrogen projects. The fund would be administered by the Comptroller, in consultation with the Texas Commission on Environmental Quality (TCEQ) and the Railroad Commission. Money in the fund would consist of federal grants, private donations, and legislative appropriations, and could be used to provide loans, bonds, or grants.

The bill would provide a tax credit equivalent to 20 percent of qualified capital expenditures to a person or business entity that constructs or operates a clean hydrogen production facility. It would also provide a 10 year franchise tax exemption and a sales tax exemption to manufacturers of hydrogen electrolyzers that relocate to Texas from out of state. The Comptroller would adopt rules necessary to implement the bill.

The bill would exempt hydrogen powered commercial vehicles from state highway use taxes for 10 years, or until the cost parity with conventional energy sources is reached, as determined by the Texas Commission on Environmental Quality (TCEQ).

The bill would require the Texas Workforce Commission (TWC) to establish partnerships with universities, technical schools, or community colleges to provide specialized training for hydrogen sector jobs. TWC would be authorized to provide grants to educational institutions to develop curriculum and certification programs for hydrogen technology.

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

There would be an indeterminate cost to the state for the operation of the Clean Hydrogen Development Fund, dependent on the amounts and timing of any federal grants, donations, or legislative appropriations to the fund.

According to the Comptroller, plans for \$18.7 billion in capital investments in six different hydrogen production facilities have been announced. Assuming that the state tax credit would not be transferable or refundable, and that the credit would only be applicable against the franchise tax liabilities of the entities accruing credit, 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. If the credit were transferable and refundable, which would be determined by rule, the potential net state tax revenue reductions could exceed \$3.7 billion.

This analysis does not include a fiscal impact for the exemption of a franchise tax exemption for a relocating manufacturer. According to the Comptroller, it is unlikely that a manufacturer with operational hydrogen electrolyzer production capacity in another state would shutter such capacity in order to satisfy a requirement of relocation to Texas, and it is assumed that mere change of corporate domicile without relocation of physical production capacity would be insufficient for exemption.

This analysis assumes that the bill's reference to "state highway use tax" is construed as the state motor vehicle sales, use, and rental taxes, which are not applicable to hydrogen or hydrogen fuel cells used to power a motor vehicle. Therefore, there would be no fiscal implication. If "state highway use tax" included motor vehicle registration fees, the fiscal impact would be insignificant in the 2026-27 biennium, but could reach \$350,000 by 2030, according to the Comptroller's forecast of 5,500 hydrogen powered vehicles in use in Texas by then.

TWC assumes that any costs related to developing partnerships with universities, technical schools, or community colleges could be absorbed using existing resources. There would be an additional indeterminate cost to General Revenue to provide grants to educational institutions, which would be dependent on legislative appropriations made for that purpose.

TCEQ assumes that any costs necessary to support the Comptroller in the development and administration of the fund, including grant solicitation, could be absorbed using existing resources.

Local Government Impact

The fiscal implications of the bill 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, LCO, CSmi, SD, KK