

# TEXAS EMISSIONS REDUCTION PLAN

AN ISSUE BRIEF FROM LEGISLATIVE BUDGET BOARD STAFF

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## OBJECTIVE

The Texas Emissions Reduction Plan (TERP) program aims to improve air quality through voluntary incentive grants and research.

## KEY FACTS

- ◆ Fees and surcharges are assessed and deposited to the TERP Account No. 5071 to provide funding for the grant program and to pay costs associated with research and program administration.
- ◆ Various grant programs exist within the TERP program. Among the largest in the 2012–13 biennium are the Emissions Reduction Incentive Grants Program, the Texas Natural Gas Vehicle Grant Program, and the Regional Air Modeling Program.
- ◆ The main funding sources of the TERP program, which accounted for 84 percent of revenue collections during fiscal year 2011, include a \$15 to \$20 vehicle title transfer fee and a fee on the sale or lease of off-road diesel equipment.

## BUDGETARY IMPACT

During the 2012–13 biennium, approximately \$322.5 million in revenues are expected to be deposited to the TERP Account No. 5071. Appropriations for the program over the same period are \$132.4 million.

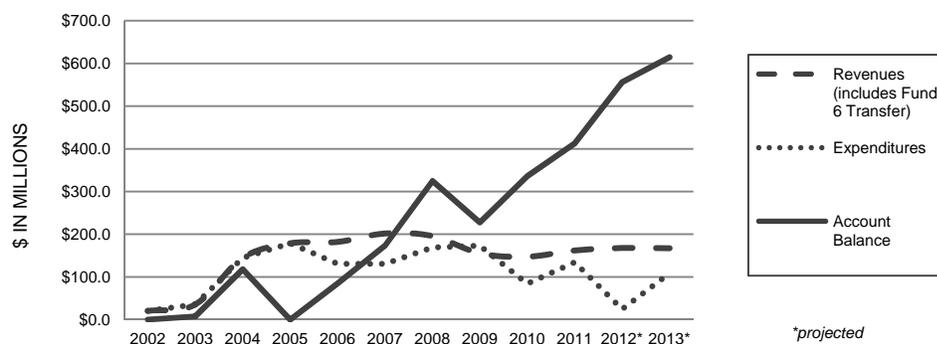
## STATUTORY REFERENCES

Health and Safety Code, Chapters 386 and 387

The Texas Emissions Reduction Plan (TERP) was established by the Legislature in 2001 to improve air quality and ensure that air in the state meets minimum federal air quality standards, to develop multi-pollutant approaches to the state's environmental problems, and to fund research and development that would make the state a leader in new technologies to solve environmental problems while creating new business and industry. TERP funding comes from fees and surcharges assessed on various types of vehicle and equipment purchases and leases, registrations, and vehicle title transfers. Fee revenues are deposited to the General Revenue-Dedicated TERP Account No. 5071. The TERP program has been modified by every legislature since its creation. The program's most significant and visible impact has come as a result of grants for the replacement and retrofitting of diesel engines with equipment that emits reduced levels of nitrogen oxides (NOx), a primary component in the creation of ozone and the pollutant that the TERP program was established to address.

Since the program's inception through the end of fiscal year 2013, overall program expenditures are estimated to be \$1.3 billion. For the 2012–13 biennium, the Texas Commission on Environmental Quality (TCEQ) and the Texas Engineering Experiment Station (TEES) receive appropriations out of the TERP Account No. 5071 totaling \$132.4 million (see also Revenue Uses). Fig. 1 shows revenues, expenditures, and the fund balance of the TERP Account No. 5071 from 2002 through 2013.

**FIG. 1**  
**TEXAS EMISSIONS REDUCTION PLAN REVENUE ACCOUNT NO. 5071**  
**REVENUE, EXPENDITURES & ACCOUNT BALANCE 2002 THROUGH 2013**



SOURCES: Texas Commission on Environmental Quality, Comptroller of Public Accounts, Legislative Budget Board.

## FEDERAL REQUIREMENTS

Although not specifically required by the U.S. Environmental Protection Agency (EPA), TERP was established to replace mandatory measures for reducing nitrogen oxides that had been included in the State Implementation Plan (SIP) prior to 2001. The SIP is essentially a roadmap that the state uses to demonstrate to the EPA that Texas is on target to achieve air quality standards under the Federal Clean Air Act (CAA). The mandatory measures included a

limit on the use of construction and industrial equipment from 6am to 10am and a requirement that the owners and operators of certain diesel-powered construction, industrial, commercial, and lawn and garden equipment replace such equipment with authorized lower emission replacements. The TERP program instead established voluntary incentive programs, including grant funding for the replacement and retrofit of various types of equipment to reduce NOx emissions. The TERP program was designed to address NOx emissions in four areas that were considered non-attainment for ozone under the Federal CAA—Houston-Galveston, Dallas-Ft. Worth, Beaumont-Port Arthur, and El Paso—as well as areas known as near-nonattainment areas, which are areas at risk of receiving a non-attainment designation in the near future.

**LOCAL IMPACT**

Since the 2006–07 Biennium, the TCEQ has administered the Clean School Bus Program which provides grants for technologies that reduce diesel-exhaust emissions inside the cabin of a school bus. Since the program’s inception through August 2012, local governments owning school buses have received an estimated \$19 million to retrofit 6,692 school buses. Local governments are also eligible for other TERP programs to assist in the purchase or retrofitting of equipment and vehicles that have lower air pollution emissions.

**REVENUE SOURCES**

Revenues to the TERP Account No. 5071 come from various fees and surcharges and totaled \$190.0 million in fiscal year 2012. Fig. 2 shows a breakdown of the various revenue sources that comprise the TERP Account.

**REVENUE USES**

Revenues to the TERP Account No. 5071 are appropriated for various purposes, and statute prescribes the percentage of funding from the TERP Account No. 5071 that can be used for each eligible purpose of program funds. Total appropriations to the TERP Account No. 5071 for the 2012–13 biennium totaled \$132.4 million:

- \$55.7 million was designated for Emissions Reduction Incentive Grants, which mainly provides funding for the replacement and retrofitting of diesel engines;
- \$18.3 million was appropriated for the Texas Natural Gas Vehicle Grant Program, which provides funding for the purchase or lease of natural gas vehicles or engine and the establishment of natural gas fueling stations along certain interstate highways; and
- \$14.0 million was appropriated for the Regional Air Monitoring Program.

Remaining funds are appropriated for:

- TCEQ agency administration,
- Texas Clean Fleet Program,
- Texas Clean School Bus Program,
- Alternative Fueling Stations/Clean Transportation Triangle Program,
- Alternative Fueling Facilities Program
- TCEQ research,
- TEES energy efficiency programs,
- A health effects study, and
- Funding for the Energy System Laboratory.

**USEFUL REFERENCES**

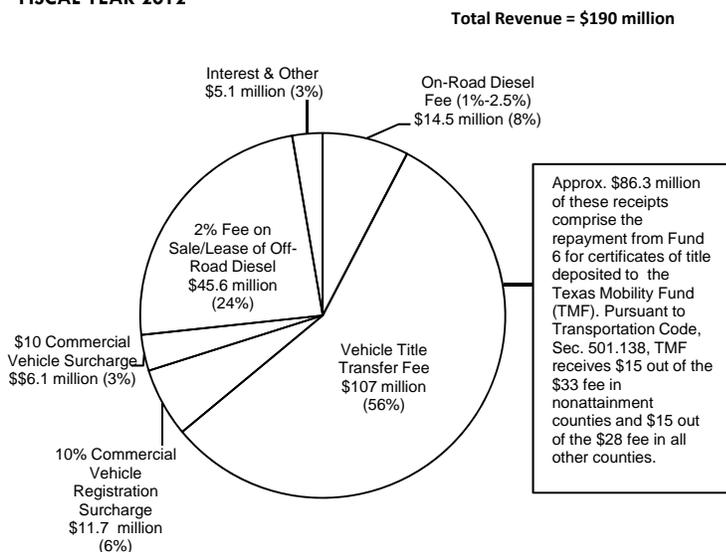
<http://www.tceq.texas.gov/airquality/terp>

[http://www.tceq.texas.gov/assets/public/implementation/air/terp/rg388\\_pendingfinal.pdf](http://www.tceq.texas.gov/assets/public/implementation/air/terp/rg388_pendingfinal.pdf)

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**FIG. 2  
TEXAS EMISSIONS REDUCTION PLAN REVENUE SOURCES  
FISCAL YEAR 2012**



SOURCES: Comptroller of Public Accounts, Legislative Budget Board.