APPENDIX D

TEXAS EMISSIONS REDUCTION PLAN ANNUAL REPORT, DECEMBER 2023

2025 REGIONAL HAZE PROGRESS REPORT

NON-RULE PROJECT NUMBER 2024-007-OTH-NR
SFR-122/2024-007-OTH-NR

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Texas Emissions Reduction Plan Annual Report

Prepared by
Air Grants Division

TCEQ SFR-128/23
December 2023

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY • PO BOX 13087 • AUSTIN, TX 78711-3087
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Overview

The Texas Commission on Environmental Quality (TCEQ) implements the Texas Emissions Reduction Plan (TERP) to reduce emissions of nitrogen oxides (NO_x), a precursor to ozone pollution. TERP grant programs provide financial incentives to individuals, state and local governments, corporations, and other legal entities to upgrade or replace their older, higher emitting vehicles and equipment with newer, cleaner vehicles and equipment. The TERP programs also encourage the use of alternative fuels for transportation in Texas, and the implementation of new technologies that reduce emissions from stationary sources and oil and gas operations.

Since 2001, emissions reductions from TERP have been included in the State Implementation Plan (SIP) to help demonstrate attainment and progress toward attainment of the National Ambient Air Quality Standards (NAAQS) established by the United States Environmental Protection Agency (EPA) under authority of the federal Clean Air Act (FCAA). TERP programs continue to support attainment demonstrations in SIP revisions as additional measures called "Weight of Evidence," which includes activities that are expected to further reduce ozone levels in the nonattainment areas.

Fees and surcharges related to the sale and use of vehicles and heavy-duty equipment in Texas fund the TERP programs. Revenue from the TERP fees exceeded $526 million in the fiscal year (FY) 2022–2023 biennium, with more than $341 million allocated for TERP programs and administration, and over $184 million transferred to the state highway fund for congestion mitigation and air quality improvement projects.

This report provides information about the TERP grant programs and TERP Trust expenditures from September 1, 2021, through August 31, 2023. Appendix 1 of this report lists the initial allocations for the TERP programs, as well as program demand totals, expenditures and awards, projected NO_x emission reductions, and the cost-effectiveness of the TERP incentive grant programs.

TCEQ produced this report to fulfill the requirements of the General Appropriations Act (GAA), Article VI, Section 25. See the TERP Biennial Report to the 88th Texas Legislature for additional information about the TERP programs and projects since 2001, or visit TCEQ TERP Reports webpage.

TERP Programs

TERP was established in 2001 by Senate Bill (SB) 5, 77th Texas Legislature, Regular Session, under Texas Health and Safety Code (THSC) Chapter 386. TERP objectives include achieving maximum reductions in NO_x to help areas in Texas meet the NAAQS and demonstrate compliance with the SIP. TERP objectives also include reducing diesel exhaust emissions from school buses, as well as advancing technologies that reduce NO_x and other emissions from stationary sources and oil and gas operations. Finally, TERP programs aim to encourage the use of alternative fuels in the state and to promote energy efficiency to help keep the air clean.

TERP incentive grant programs include:

- **Diesel Emissions Reduction Incentive (DERI) Rebate Grants and DERI Emissions Reduction Incentive Grants (ERIG)** programs, providing grants to upgrade or replace on-road vehicles, non-road equipment, stationary equipment, marine vessels, and locomotives, as well as add or expand on-vehicle electrification and idle reduction infrastructure, and rail relocation and improvement projects.
- **Texas Natural Gas Vehicle Grants Program (TNGVGP)**, providing grants to upgrade or replace existing diesel or gasoline vehicles with natural gas engines or vehicles.
- **Seaport and Rail Yard Areas Emissions Reduction Program (SPRY)**, providing grants to replace older drayage trucks and equipment operating at eligible seaports and rail yards in areas of Texas designated as nonattainment under the FCAA.
- **Texas Clean Fleet Program (TCFP)**, providing grants to owners of at least 75 vehicles in Texas to replace a minimum of 10 diesel vehicles with new alternative fuel or hybrid vehicles powered by natural gas, propane, hydrogen, methanol (85% by volume), or electricity.
- **Light-Duty Motor Vehicle Purchase or Lease Incentive Program (LDPLIP)**, providing rebates for the purchase of light-duty vehicles operating on compressed natural gas (CNG), liquefied petroleum gas (LPG), electricity (plug-in or plug-in hybrid), or hydrogen fuel cell.
- **Texas Clean School Bus Program (TCSB)**, providing grants to replace or retrofit older school buses to reduce emissions of diesel exhaust throughout the state.
- **Alternative Fueling Facilities Program (AFFP)**, providing grants for the construction or reconstruction of facilities to store, compress, or dispense alternative fuels, including biodiesel, hydrogen, methanol (85% by volume), natural gas, LPG, or electricity.
- **New Technology Implementation Grant Program (NTIG)**, providing grants for electricity storage projects related to renewable energy, or to reduce emissions of pollutants from stationary sources and oil and gas activities in Texas.
- **Port Authority Studies and Pilot Programs (PASPP)**, providing grants to port authorities in Texas nonattainment areas to encourage cargo movement that reduces NO_x emissions and particulate matter (PM).
- **Governmental Alternative Fuel Fleet Grant Program (GAFF)**, providing grants to assist state agencies and political subdivisions in purchasing or leasing new motor vehicles that operate primarily on CNG, liquefied natural gas (LNG), LPG, hydrogen fuel cell, or electricity.

Additional TERP programs include:

- **Energy Efficiency Programs**, supporting goals for energy efficiency, energy efficiency programs in institutions of higher education and certain government entities, and the Texas Building Energy Performance Standards.
- **Regional Air Monitoring Program**, supporting air monitoring sites in the North Texas region.

- **Health Effects Studies**, conducting studies on health effects related to air quality and exposure to certain compounds and pollutants.
- **Air Quality Research Support Program**, identifying, prioritizing, and funding research important to air quality management in Texas.
- **Foreign Emissions and Exceptional Events Research**, providing research on the impact of foreign emissions and exceptional events.
- **Air Quality Planning**, supplementing funding of air quality planning activities in affected counties.

TERP Trust

TERP is funded from revenue deposited to the TERP Trust established under THSC Section 386.250 as an account outside the state treasury. Beginning September 1, 2021 (FY 2022), the Texas Legislature authorized TCEQ to use the revenue deposited to the TERP Trust to implement and administer the TERP programs. THSC Section 386.252 requires TCEQ to transfer no less than 35% of TERP Trust revenue to the state highway fund for use by the Texas Department of Transportation (TXDOT) for congestion mitigation and air quality improvement projects in nonattainment areas and affected counties. THSC Section 386.250 also requires that TCEQ transfer any TERP funds not used by the last day of the state fiscal biennium to the credit of the state highway fund. Table 1, below, lists TERP Trust biennial totals and transfers for FY 2022-2023, and the projected totals for FY 2024-2025.

Table 1. TERP Trust Biennial Totals and Transfers

Biennium	*TERP Trust*	*TERP Programs and Administration*	*State Highway Fund*
FY 2022-2023	$526,023,334	$341,847,119	$184,176,215
FY 2024-2025	$518,149,000*	$336,796,850*	$181,352,150*

**Projected. Final FY 2024-2025 totals may vary based on actual revenue receipts.*

Revenue

The TERP Trust receives revenue from the fees and surcharges listed below.

- Tax Code Section 151.0515(b): A 1.5% surcharge on the sale price or lease/rental amount of off-road, heavy-duty diesel equipment sold, rented, or leased in the state (a surcharge is also applied to the storage, use, or consumption of this equipment in Texas).
- Tax Code Section 152.0215(a): A 2.5% surcharge of the total consideration on the sale or lease of on-road diesel vehicles over 14,000 pounds for pre–1997 model years, and a 1% surcharge for those vehicles model year 1997 and newer.

- Texas Transportation Code Section 502.358(a): A 10% surcharge of the total fees due for the registration of truck-tractors and certain commercial motor vehicles.
- Texas Transportation Code Sections 501.138(a) and (b): A portion of the vehicle certificate of title fee: $20 of the $33 fee for applicants in the nonattainment areas and affected counties and $15 of the $28 fee for applicants in all other counties.
- Texas Transportation Code Section 548.5055(a): A $10 fee on commercial motor vehicles required to have an annual safety inspection.

The fees and surcharges will continue until, for each active or revoked ozone NAAQS, all areas in Texas have been designated by the EPA as in attainment or unclassifiable/attainment or the EPA has approved a re-designation substitute making a finding of attainment. The TERP fees and surcharges will expire once there is no pending judicial review of those EPA actions, and the final notice of such action is published in the Texas Register by TCEQ as required by THSC Section 382.037.

Allocation

Initial allocations for the TERP programs are based on projected TERP Trust revenue for the biennium and the initial allocation amounts listed in THSC Section 386.252. Initial TERP allocation amounts that are based on a percentage of the total TERP revenue are initially calculated using the total projected TERP Trust Revenue after the statutory minimum 35% transfer of revenue to the state highway fund for use by TXDOT. The final awards for each of the TERP programs are listed in Appendix 1 of this report and reflect final program allocations (**note:** THSC Section 386.252, provides that TERP funds may be reallocated to other programs under the plan as determined by TCEQ, after TCEQ solicits projects to award grants according to the initial allocation for each program).

TERP Program Implementation

In FY 2022-2023, requests for TERP grant funds exceeded the funds available. TCEQ awarded over $304 million for a total of 3,319 incentive grant projects. TCEQ estimates that these projects will result in the reduction of 5,909 tons of NO_x emissions. Appendix 1 of this report lists the number of projects that have been awarded grants since the TERP Trust became active on September 1, 2021. It also lists the total grant funds awarded, total NO_x emission reductions, and the cost-effectiveness of the TERP incentive grant programs in FY 2022-2023.

TCEQ implements the TERP programs throughout the state fiscal biennium, incorporating any recent legislative changes. House Bill 4885, 88R, revised certain allocation amounts of the TERP Trust, created a new Texas Hydrogen Infrastructure, Vehicles, and Equipment Program, and expanded NTIG's list of eligible oil and gas emission reduction projects. All changes made by HB 4885 will be implemented in FY 2024-2025.

TXDOT Reports

THSC Section 386.057(e) requires that, no later than October 1st of each year, TXDOT report to TCEQ the following information for all congestion mitigation and air quality improvement projects in nonattainment areas and affected counties that are planned to be funded, or received initial funding during the preceding 10 years, from TERP Trust funds:

- Projects to mitigate congestion and improve air quality that are currently planned.
- Projects to mitigate congestion and improve air quality that have been completed.
- Estimated emissions reductions for all planned and completed congestion mitigation projects.
- Estimated cost per ton analysis of reduced emissions of NO_X, PM, or volatile organic compounds (VOC) for each congestion mitigation project planned or completed.

In FY 2022, TXDOT reported that $81,260,747 was transferred from the TERP Trust to the credit of the state highway fund for projects to mitigate congestion and improve air quality in non-attainment areas. TXDOT utilized this balance to support the construction of a freeway expansion project to include a six-lane expressway with four general purpose lanes and two HOV lanes in Bexar County. TXDOT estimates that this project will reduce up to three tons of NO_X emissions each year, in addition to PM and VOC emissions reductions, for a total of $2,183,929 per ton of NO_X reduced.

In FY 2023, TXDOT reported that $95,054,042 was transferred from the TERP Trust to the credit of the state highway fund. TXDOT utilized this balance to support the construction of six projects in three metro districts: Austin, Houston, and San Antonio. TERP Trust funds contributed to free-way expansion, overpass installation, ramp revisions, and other intersection and roadway improvements meant to reduce traffic and idling emissions. These mitigation actions are projected to reduce a combined 14.5 tons of NO_X emissions across the target areas each year, in addition to PM and VOC emissions reductions. The estimated cost per ton of NO_X reduced for these projects ranges from $614.51 to $467,239,873. Based on TXDOT's projections, the most cost-effective congestion mitigation project, and the project with the greatest NO_X emissions reduction estimate, involves the freeway expansion to a six-lane expressway with four general purpose lanes and two HOV lanes in Bexar County that was initiated with FY 2022 TERP funds.

TCEQ transferred 35% of revenue from the TERP Trust to the state highway fund for use by TXDOT each month throughout the biennium. The TXDOT reports provided to TCEQ include a snapshot of the TERP funds they received and utilized at the time of their reporting. The final amount transferred to the state highway fund for use by TXDOT in FY 2022-2023 was $184,176,215, which includes $68,048 in revenue that was transferred at the close of the fiscal biennium.

Copies of these TXDOT reports are available to view or download with the TERP Annual Report at the TCEQ TERP Reports webpage.

APPENDIX 1: TERP Programs and Administration FY 2022-2023

TERP Programs and Administration	Initial Allocations[1]	Number of Applications Received	Number of Grants Awarded	Total Funds Requested[2]	Total Expenditures and Funds Awarded	Projected NO_X Reductions (tons)	Cost-Effectiveness (cost-per-ton of NO_X reduced)
Administration	Max $32,000,000	N/A	N/A	N/A	$24,501,868	N/A	N/A
Alternative Fueling Facilities Program (AFFP)	Max $12,000,000	289	87	$42,974,966	$11,400,000	N/A	N/A
Diesel Emissions Reduction Incentive (DERI) - Emissions Reduction Inventive Grants (ERIG) - Rebate Grants	$154,820,966 (projected balance)	1,170	919	$287,701,140	$210,369,242	4,994	$42,099
Governmental Alternative Fuel Fleet Program (GAFF)	$3,976,943 (3% FY2023)	54	18	$9,779,970	$3,976,943	N/A	N/A
Light-Duty Motor Vehicle Purchase or Lease Incentive Program (LDPLIP)[3]	$16,396,250 (5%)	2,394	2,019	$5,874,955	$5,071,623	N/A	N/A
New Technology Implementation Grant Program (NTIG)	$9,837,750 (3%)	12	8	$21,891,648	$9,837,750	N/A	N/A
Port Authority Studies and Pilot Programs (PASPP)	Max $1,000,000	1	1	$1,000,000	$1,000,000	N/A	N/A
Seaport and Rail Yard Areas Emissions Reduction Program (SPRY)	$19,675,500 (6%)	139	113	$20,591,608	$16,044,042	643	$24,921
Texas Clean Fleet Program (TCFP)	$16,396,250 (5%)	12	8	$24,477,684	$12,253,488	47	$261,962
Texas Clean School Bus Program (TCSB)	$13,117,000 (4%)	148	123	$41,163,655	$28,543,274	173	$163,273
Texas Natural Gas Vehicle Grants Program (TNGVGP)	$32,792,500 (10%)	98	23	$25,256,576	$5,615,940	52	$107,528
Other TERP Programs[4]	Max $14,332,000	N/A	N/A	N/A	$13,232,949	N/A	N/A
Total	*$326,345,159*	*4,317*	*3,319*	*$480,712,202*	*$341,847,119*	*5,909*	

[1] **Initial Allocations:** include the initial projected FY 2022-2023 TERP revenue totals distributed according to the percentages or amounts provided under THSC Section 386.252.
[2] **Total Funds Requested:** includes totals from all applications received under each grant program (**note:** some applications received were determined to be ineligible based on program requirements, and some requested grant amounts for eligible applications were changed prior to contract execution to meet program requirements).
[3] **LDPLIP:** THSC Section 386.154 limits TCEQ to no more than 2,000 grants of up to $2,500 each for qualifying electric or hydrogen fuel cell vehicles, and no more than 1,000 grants of up $5,000 each for qualifying natural gas vehicles; demand for electric vehicle grants exceeded the 2,000 available in FY 2022-2023.
[4] **Other TERP Programs:** includes the Regional Air Monitoring Program, Air Quality Research Support, Health Effects Study, Energy Systems Laboratory Contract, Air Quality Planning Activities (i.e., "Fund 151"), and Foreign Emissions and Exceptional Events Research.