



# Texas Emissions Reduction Plan Annual Report

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Prepared by  
Air Grants Division

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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<sub>x</sub>), 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. 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 termed “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 TERP programs. Revenue from TERP fees exceeded \$598 million in the fiscal year (fiscal or FY) 2024–2025 biennium, with more than \$388 million available for TERP programs and administration, and over \$209 million transferred to the state highway fund for congestion mitigation and air quality improvement projects.

This report provides information about TERP grant programs and TERP Trust expenditures from Sept. 1, 2023, through Aug. 31, 2025. Appendix 1 of this report lists the initial allocations for TERP programs, as well as program demand totals, expenditures and awards, projected NO<sub>x</sub> emission reductions, and the cost-effectiveness of TERP incentive grant programs.

TCEQ produced this report to fulfill the requirements of the [fiscal 2024-2025 General Appropriations Act \(GAA\), Article VI-27](#). See the TERP Biennial Report to the 89th Texas Legislature for additional information about TERP programs and projects since 2001, or visit [TCEQ’s TERP Reports webpage](#).

## TERP Programs

TERP was established in 2001 by Senate Bill 5, 77th Texas Legislature, Regular Session, under [Texas Health and Safety Code \(THSC\) Chapter 386](#). TERP objectives include achieving maximum reductions in NO<sub>x</sub> 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<sub>x</sub> and other emissions from stationary sources and oil and gas activities.

TERP incentive grant programs include:

- **Diesel Emissions Reduction Incentive (DERI) Rebate Grants and DERI Emissions Reduction Incentive Grants (ERIG)**, 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 Grant Program (TNGVGP)**, providing grants to convert or replace existing diesel or gasoline vehicles with natural gas models.
- **Seaport and Rail Yard Areas Emissions Reduction Program (SPRY)**, providing grants to replace older drayage trucks and cargo handling 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 grants 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 children's exposure to 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<sub>x</sub> 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 cells, or electricity.
- **Texas Hydrogen Infrastructure, Vehicle, and Equipment Grant Program (THIVE)**, providing grants in eligible counties for hydrogen vehicles, equipment, and refueling infrastructure.

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 Sept. 1, 2021 (fiscal 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 fiscal 2024-2025 biennium, and the projected totals for fiscal 2026-2027 biennium.

**Table 1. TERP Trust Biennial Totals and Transfers**

<i>Biennium</i>	<i>TERP Trust</i>	<i>TERP Programs and Administration</i>	<i>State Highway Fund</i>
FY 2024-2025	\$598,028,339	\$388,718,420	\$209,309,919
FY 2026-2027	\$625,350,268*	\$406,477,674*	\$218,872,594*

*\*Projected. Final FY 2026-2027 totals may vary based on actual revenue receipts.*

# Revenue

The TERP Trust consists of revenue received from fees and surcharges, as well as recaptured and returned grant funds.

## TERP Fees and Surcharges

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 EPA as in attainment or unclassifiable/attainment or EPA has approved a redesignation substitute making a finding of attainment. 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](#).

## Recaptured and Returned Grant Funds

TCEQ awards grant funds through the execution of a contract that includes provisions for recapturing grant funds in proportion to any loss of projected emissions reductions or underachievement of grant requirements. Grant funds recaptured under these provisions are returned to the TERP Trust and reallocated for other TERP projects. Additionally, any grant funds not utilized by a grantee are also returned to the TERP Trust and reallocated for other TERP projects.

# Allocation

Initial allocations for 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 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 grant award totals for each of the TERP programs are listed in Appendix 1 of this report and reflect funding available from actual program allocations. [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

TCEQ implements the TERP programs throughout the state fiscal biennium, incorporating any recent legislative changes. House Bill (HB) 4885, 88R, revised certain allocation amounts from the TERP Trust to fund a new Texas Hydrogen Infrastructure, Vehicles, and Equipment Program, and changed the allocation for administrative costs from \$16 million per fiscal year to not more than 15% of TERP Trust revenue each biennium, to accommodate increased funding for TERP programs. HB 4885 also added downstream oil and gas activities to the types of new technology emissions reduction projects eligible for funding under NTIG. Finally, HB 4885 increased the amount that TCEQ may contract with the Energy Systems Laboratory at the Texas A&M Engineering Experiment Station from \$216,000 per fiscal year to \$500,000 per fiscal year and added energy efficiency programs administered by the Public Utility Commission or State Energy Conservation Office, as well as the implementation of advanced building energy codes, to the types of projects that may be included in that contract.

In fiscal 2024-2025, requests for TERP grant funds exceeded the funds available. TCEQ awarded over \$412 million for a total of 3,879 incentive grant projects. TCEQ estimates these projects will result in the reduction of 6,137 tons of NO<sub>x</sub> emissions. Appendix 1 of this report lists the number of projects awarded grants from Sept. 1, 2023, through Aug. 31, 2025. It also lists the total grant funds awarded, total NO<sub>x</sub> emission reductions, and the cost-effectiveness of the TERP incentive grant programs as of Aug. 31, 2025.

## TxDOT Reports

In accordance with [THSC Section 386.252](#), TCEQ transfers 35% of revenue from the TERP Trust to the state highway fund for use by TxDOT for congestion mitigation and air quality improvement projects in nonattainment areas and affected counties. [THSC Section 386.057\(e\)](#) requires that, no later than Oct. 1 of each year, TxDOT reports to TCEQ the following information for all congestion mitigation and air quality improvement projects 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<sub>x</sub>, PM, or volatile organic compounds (VOC) for each congestion mitigation project planned or completed.

During fiscal 2024, TxDOT reported \$101,507,599 was transferred from the TERP Fund to the credit of the state highway fund for use by TxDOT on projects to relieve congestion and improve air quality in nonattainment areas. From the pool of eligible projects, the full TERP allocation was applied to the construction costs of 15 projects in the Austin, Corpus Christi, El Paso, Houston, and San Antonio TxDOT Districts. These relief actions are projected to reduce a combined 15.9 tons of NO<sub>x</sub> emissions across the target areas each year, in addition to PM and VOC emissions reductions. The estimated cost per ton of NO<sub>x</sub> reduced for these projects ranges from \$615 to \$148,903,604. Based on TxDOT's projections, the most cost-effective congestion relief project—and the one with the greatest estimated NO<sub>x</sub> emissions reductions— is the US 281 freeway expansion. This expansion will create a six-lane expressway, including four general-purpose lanes and two HOV lanes from Loop 1604 to Bexar/Comal County Line that, all started with fiscal 2022 TERP funds.

During fiscal 2025, TxDOT reported \$107,781,107 was transferred from the TERP Fund to the credit of the state highway fund for use by TxDOT on projects to relieve congestion and improve air quality in nonattainment areas. From the pool of eligible projects, the full TERP balance was applied to the construction costs of one project in the Houston TxDOT District. This relief action is projected to reduce 0.43 tons of NO<sub>x</sub> emissions in the target area each year, in addition to PM and VOC emissions reductions. The estimated cost per ton of NO<sub>x</sub> reduced for this project is \$65,386,387. The congestion relief project will reconstruct existing IH 10 mainlanes and existing IH 10 HOV lanes to raise the roadway above the floodplain and construct a new shared use path along White Oak Bayou.

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 fiscal 2024-2025 was \$209,309,919; no additional revenue 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 [TCEQ's TERP Reports webpage](#).



# APPENDIX 1: TERP Programs and Administration FY 2024-2025

TERP Programs and Administration	Initial Allocations <sup>1</sup>	Number of Applications Received	Number of Grants Awarded	Total Funds Requested <sup>2</sup>	Total Expenditures and Funds Awarded	Projected NO <sub>x</sub> Reductions (tons)	Cost-Effectiveness (cost-per-ton of NO <sub>x</sub> reduced)
Administration	\$50,519,528 (15%)	N/A	N/A	N/A	\$34,164,196	N/A	N/A
Alternative Fueling Facilities Program (AFFP)	Max \$12,000,000	299	50	\$65,563,630	\$12,000,000	N/A	N/A
Diesel Emissions Reduction Incentive (DERI) - Emissions Reduction Incentive Grants (ERIG) - Rebate Grants	\$142,861,727 (projected balance)	2,381	1,586	\$472,113,894	\$294,791,071	5,594	\$52,698
Governmental Alternative Fuel Fleet Program (GAFF)	\$4,372,634 (3% FY2025)	36	13	\$9,059,300	\$4,372,634	N/A	N/A
Light-Duty Motor Vehicle Purchase or Lease Incentive Program (LDPLIP) <sup>3</sup>	\$8,419,921 (2.5%)	3,158	2,001	\$7,919,058	\$4,966,598	N/A	N/A
New Technology Implementation Grant Program (NTIG)	\$10,943,748 (8%, less \$16M for THIVE)	24	4	\$42,715,737	\$12,846,170	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)	\$20,207,811 (6%)	160	118	\$29,242,154	\$21,062,039	373	\$56,467
Texas Clean Fleet Program (TCFP)	\$16,839,843 (5%)	11	8	\$29,448,711	\$22,178,852	16	\$1,386,178
Texas Clean School Bus Program (TCSB)	\$13,471,874 (4%)	105	79	\$27,930,578	\$19,096,416	115	\$166,056
Texas Hydrogen Infrastructure, Vehicle, and Equipment Grant Program (THIVE)	Max \$16,000,000	44	8	\$185,735,402 <sup>4</sup>	\$16,000,000	4	\$4,000,000
Texas Natural Gas Vehicle Grants Program (TNGVGP)	\$25,259,764 (7.5%)	32	11	\$15,977,733	\$4,399,159	35	\$125,690
Other TERP Programs <sup>5</sup>	Max \$14,900,000	N/A	N/A	N/A	\$11,793,601	N/A	N/A
<i>Total</i>	<i>\$336,796,850</i>	<i>6,251</i>	<i>3,879</i>	<i>\$886,706,197</i>	<i>\$458,670,736<sup>6</sup></i>	<i>6,137</i>	

<sup>1</sup> **Initial Allocations:** includes the initial projected FY 2024-2025 TERP revenue totals distributed according to the percentages or amounts provided under [THSC Section 386.252](#). House Bill 4885 (88R, 2023) adjusted certain initial allocations starting in FY 2024; the maximum and percentages listed reflect those adjustments.

<sup>2</sup> **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).

<sup>3</sup> **LDPLIP:** [THSC Section 386.154](#) limits TCEQ for each biennium 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 to \$5,000 each for qualifying natural gas vehicles; demand for electric vehicle grants exceeded the 2,000 available in FY 2024-2025.

<sup>4</sup> **THIVE:** Approximately \$146.8 million of this total involved applications for projects that did not meet the program’s eligibility criteria.

<sup>5</sup> **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.

<sup>6</sup> **Total Expenditures and Funds Awarded:** includes \$388,718,420 in actual revenue received from fees and surcharges and \$69,952,316 in recaptured and returned grant funds.