

**The Houston-Galveston Area Emission Reduction Credit Organization  
Annual Report for January 1, 2005 – December 31, 2005**

This report contains a combined summary of the activities of the Houston-Galveston Area Emission Reduction Credit Organization (AERCO) through December 2005, its twelfth and final year of organizational activity under its present 12-year charter, which expires on March 23, 2006.

The 73<sup>rd</sup> Texas Legislature passed S.B. 513 in 1993, authorizing the creation of AERCOs in an effort to promote the coexistence of air quality improvement and economic development statewide. The Houston-Galveston AERCO, a 501(c)(3) corporation, was created on March 23, 1994 and is administered in accordance with its bylaws and the requirements under applicable Texas laws, including S.B. 513. As required by AERCO’s charter, this report will be submitted to the Texas Commission on Environmental Quality (TCEQ).

Activities for the period include the nominations and appointments/reappointments of members to the Board of Directors (the “Board”) for three-year terms, continuation of AERCO’s re-certification process, TCEQ application as a recipient of Supplemental Environmental Project (SEP) program funds, financial transactions, and program and board highlights.

**AERCO Board and Appointments**

AERCO’s Board of Directors consists of 18 members who represent the general public (4), environmental concerns (2), large industry (6), small regulated businesses (3), and economic development interests (3). Board membership reflects a range of interests in all eight counties of the region’s ozone nonattainment area. Nine members are appointed from Harris County, two members each are appointed from Galveston and Brazoria counties, and one member each is appointed from Chambers, Fort Bend, Liberty, Montgomery, and Waller counties.

AERCO Board members and H-GAC staff worked to secure nominations from the respective counties to fill several resignations. Board appointments are listed as of October. Ed Fiesinger continued as AERCO Board Chair, with officer elections held in April. Re-nomination and recommendation letters were sent in May; and despite subsequent efforts to fill them, Galveston County currently has two vacancies.

<b>Houston-Galveston AERCO Board of Directors, 2005-2006</b>				
<i>Board Member</i>	<i>Representing</i>	<i>Membership Category</i>	<i>Nominated by</i>	<i>Term Exp.</i>
Patrick Bartosh, <i>Secy-Treas.</i>	Harris County	Small Business	H-GAC Staff	5/06
Jacqueline Lentz	Harris County	Environment	City of Houston	5/06
Matt Kuryla	Harris County	Economic Development	Greater Houston Partnership	5/06
John Kush	Harris County	Large Industry	H-GAC Staff	5/07
Mary Jane Naquin	Harris County	Environment	Environmental Organization	5/08
Mark Peak, P.E.	Harris County	General Public	City of Houston Mayor	5/08
Alton Porter	Harris County	General Public	S.E. Economic Development	5/08
Jeanette Rash	Harris County	Small Business	City of Houston	5/07
G. Michael White	Harris County	Large Industry	City of Baytown	5/06
Ed Fiesinger, <i>Board Chair</i>	Brazoria County	Large Industry	Brazoria County	5/07
Steve Kilpatrick	Brazoria County	Large Industry	Brazoria County	5/07
W.E. "Buddy" Irby	Chambers County	Large Industry	Chambers County	5/08
Ke Chen	Fort Bend County	Economic Development	Fort Bend County	5/06

VACANT	Galveston County	Large Industry	Galveston County	5/07
VACANT	Galveston County	General Public	Galveston County	5/08
John J. Hebert	Liberty County	Small Business	Liberty County	5/06
Mark Bosma	Montgomery County	General Public	Montgomery County	5/07
Tom Beck, <i>Vice Chair</i>	Waller County	Economic Development	Waller County	5/08

**Houston-Galveston AERCO Re-Certification under Chapter 384**

AERCOS were established under Chapter 384 of the Texas Health & Safety Code, which governs the state’s continuing statutory revision program. The Code provides revisions of general and permanent statute law without substantive change. Under Code provisions, TCEQ must re-certify the Houston-Galveston AERCO for another 12 years or the organization will dissolve on or after March 23, 2006. To facilitate a timely filing with the State of Texas, Board members began the process of drafting the required petition and associated documents in 2004 and continued it in 2005.

As described in a Baker Botts L.L.P. memorandum dated June 25, 2004 to the AERCO Board chair, the H-GAC resolution and accompanying petition for re-certification, together with the bylaws, need to be approved by H-GAC and forwarded to TCEQ. After TCEQ receives the H-GAC resolution and petition, it will hold a public hearing in the region to obtain public comment on the petition. If TCEQ finds that Chapter 384 requirements are met and re-certification of the Houston-Galveston AERCO is in the public interest, approval of the petition will be granted.

The AERCO Board applied to TCEQ to renew its SEP agreement, as part of its mission to acquire and distribute emission reduction credits. AERCO’s original SEP agreement with TCEQ, effective June 1, 1996, terminated on August 31, 1998. The SEP program allows mitigation of civil penalties through donations to approved SEP recipients. TCEQ accepted AERCO’s application to be a SEP recipient and AERCO is seeking regional SEP funds.

**AERCO Financial and Contractual Transactions**

Account activities include H-GAC’s maintaining a separate account (LOC 461) for Clean Cities/Clean Vehicles program activities related to funding area school districts under EPA’s *Adopt-a-School-Bus* program.

H-GAC provided staffing and legal support with transportation planning (PL) funds from the Federal Highway Administration (FHWA) and local sources.

In addition, Baker Botts LLP, through the law firm’s AERCO Board member, generously accepted H-GAC and AERCO as a pro bono client for purposes of expediting AERCO’s renewal Supplemental Environmental Project (SEP) agreement and Re-Certification charter with TCEQ.

The H-GAC Finance Department provided these AERCO financial summaries through H-GAC’s year end, December 31, 2005.

<b>AERCO STAFF AND LEGAL SUPPORT for JANUARY 1 - DECEMBER 31, 2005</b>			
<b>Fiscal Year</b>	<b>Budgeted Funding</b>	<b>Expenditures</b>	<b>Funding Source</b>
2005-2006	\$ 40,000.00	<b>\$ 22,976.79</b>	Federal Highway Administration
12/31/2005	Ending Balance	<b>\$ 17,023.21</b>	

**Account Balances for January 1 – December 31, 2005**

<b>AERCO 0430 GENERAL PL ACCOUNT BALANCE SHEET for JANUARY 1 – DECEMBER 31, 2005</b>			
<b>Date</b>	<b>Source</b>	<b>Amount</b>	<b>Cumulative Balance</b>
	AERCO 0430: General PL Account	\$ 97,743.00	
	LOC 461: Adopt-a-School Bus Program	200,000.00	
01/01/2005	Balance Forward		\$296,942.50
	ADD: Interest thru 08/31/05		800.50
08/31/2005	Fund Balance		\$297,743.00
	Adopt-a-School Bus Program Local Match	(200,000.00)	97,743.00
	ADD: Interest thru 10/31/05		190.00
11/30/2005	Fund Balance at 10/31/05		\$97,933.00
	ADD: interest thru 12/31/05		240.00
<b>12/31/2005</b>	<b>Ending Balance</b>		<b>\$98,173.00</b>

<b>AERCO LOCAL ACCOUNT 461 for JANUARY 1 - DECEMBER 31, 2005</b>			
<b>Fiscal Year</b>	<b>Budgeted Funding</b>	<b>Amount</b>	
2005-2006	AERCO 0430: General PL Acct	\$ 200,000.00	
	LESS: Disbursements to school districts	(\$ 175,000.00)	\$ 75,000.00
<b>12/31/2005</b>	<b>Ending Balance</b>		<b>\$ 75,000.00</b>

**AERCO PROGRAM AND BOARD HIGHLIGHTS**

The AERCO Board identified general objectives in 2005 that included renewing AERCO’s 12-year charter; using AERCO funds to promote area emission reductions; and obtaining Supplemental Environmental Project (SEP) program funds.

**AERCO Emission Trading and Related Activities**

To help achieve program objectives in 2004, the AERCO Board approved the acceptance of 159 Program Compliance Credits (PCCs) at \$500 each, or \$79,500 total, from Southwestern Bell (SBC) and a certificate was issued in AERCO’s name. The AERCO Board intended to work through TCEQ to sell a portion of the PCCs to establish a price and retire the remaining PCCs at that same price when market demand became available. The Texas Legislature, however, ruled to repeal the Texas Clean Fleet program effective September 1, 2005 and, with no market demand, no PCCs were sold or retired.

For this reporting period, the Houston-Galveston AERCO did not engage in any emission reduction credit (ERC) purchases, sales, trades, or other activity involving the exchange of ERCs. TCEQ estimates an average of \$6,700 for a ton of NOx per project for the Houston area TERP program and also reports that its mobile ERC (MERC) program values NOx at \$40,000 per ton per year.

## Regional Voluntary Programs

The AERCO Board reviewed possible activities under the Regional Voluntary Mobile Emission Reduction Program (VMEP) section of the State Implementation Plan (SIP) for ground-level ozone (O<sub>3</sub>). AERCO's participation in a voluntary program enables entities to donate emission credits to be retired toward the SIP in exchange for possible tax deduction eligibility. Measures include cap and trade policies, which were merged with the DERC and mobile programs in 2004 to provide greater flexibility.

The state defines VMEPs as incentive-based programs that can be funded through federal transportation dollars, including Congestion Mitigation/Air Quality (CMAQ) funds. The 2004 mid-course revisions to the region's ozone SIP reduced H-GAC program commitments through voluntary measures, originally outlined in the December 2000 SIP, to 0.8 tons per day (tpd) VOCs (volatile organic compounds) and 7.0 tpd NO<sub>x</sub> (nitrogen oxides).

VMEPs cite that any mobile reduction that can be classified as an MDERC (Mobile Discrete Emission Credit). Voluntary incentive programs for AERCO include H-GAC's Clean Cities/ Clean Vehicles program initiatives, including participation in EPA's *Adopt-a-School Bus* program, which helps fund economically disadvantaged school districts that utilize technologies to lower NO<sub>x</sub> emissions and fuel requirements through retrofit or replacement bus engines.

In FY 2005-2006, AERCO donated \$200,000 from its funds to area districts to help fund local match requirements. As of December, H-GAC had distributed \$125,000 to local school districts, with \$75,000 remaining for distribution in 2006. The Adopt-a-School Bus program has been reorganized in this region and the H-GAC Clean Cities/ Clean Vehicles program expects to take over the management of that emission reduction initiative in 2006.

## Community Outreach

H-GAC distributed the AERCO brochure, updated the AERCO Web page at [www.h-gac.com/HGAC/Programs/AERCO/default.htm](http://www.h-gac.com/HGAC/Programs/AERCO/default.htm), and worked with H-GAC's Clean Cities/Clean Vehicles program coordinator to distribute funds for area school districts.

## AERCO Board Action Highlights

During this reporting period, the Houston-Galveston AERCO Board held meetings in January, April, July, October, and November 2005. These are highlights:

On January 13, 2005, the Board took action on the following items:

- Approved the Board minutes for October 14, 2004.
- All other agenda items were included as discussion items only. These included revising the SEP Funds Agreement for greater flexibility, regeneration of funds for greater disbursement, and TCEQ's restrictions for trading MERCs.
- One Board resignation was noted, leaving a vacancy for Harris County. Staff will prepare a certificate of recognition.

On April 21, 2005, the Board took action on the following items:

- Approved the Board minutes for January 13, 2005 and October 4, 2002.
- Approved the 2004-2005 Annual Report for submission to the state.
- Discussions held regarding the May 2005 nomination process for current vacancies and for members whose terms are expiring.

On July 27, 2005, the Board took action on the following items:

- Approved the Board minutes for April 21, 2004.
- Appointments for Harris and Galveston counties were accepted. One Board resignation for Galveston County was noted and staff will prepare a certificate of recognition. Two Galveston County vacancies remain.

On October 4, 2005, the Board took action on the following items:

- Approved the Board minutes for July 27, 2005.
- Approved final revisions for the AERCO SEP package for TCEQ submittal.
- Approved the Re-certification application and resolution, which was approved by the H-GAC Board for submission to TCEQ.

On November 16, 2005, the Board took action on the following items:

- Approved the Board minutes for October 4, 2005.
- Approved the resolution for a one-time allocation of \$38,160 to H-GAC's Clean Cities/ Clean Vehicles Program for planned review, inspection, and oversight as required by TxDOT.
- Received the TCEQ-approved SEP package.

On February 1, 2000, the Board took action on the following items:

- Approved the Board minutes for November 16, 2005.
- Received TCEQ's tentative approval to renew the H-G AERCO's Charter for a second 12-year period.