This report contains a summary of the activities of the Houston-Galveston Area Emission Reduction Credit Organization (AERCO) from January 1 through December 31, 2016, its tenth year of organizational activity under its renewed twelve-year charter that expires on October 18, 2018.

In 1993 the 73rd Texas Legislature passed Senate Bill (S.B.) 514, 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) tax-exempt nonprofit 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. 514. As required by AERCO’s charter, this report will be submitted to the Texas Commission on Environmental Quality (TCEQ).

Activities for the period included the nominations, appointments and reappointments of members to the Board of Directors (the “Board”) for three-year terms, financial transactions, actions relating to the Clean School Bus Program, and program and Board highlights. Staff from the Houston-Galveston Area Council (H-GAC staff) continued to provide administration services to AERCO and the Board under the TCEQ Third-Party Supplemental Environmental Project (SEP) Agreement.

AERCO Board and Appointments

According to AERCO’s bylaws, the Board is comprised of eighteen (18) voting members from all eight counties in the region’s ozone nonattainment area (consisting of Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery and Waller Counties) and one (1) ex oficio (nonvoting) member from the Emissions Banking and Trading Program (EBT) of the TCEQ Air Quality Division.

Board membership reflects a range of interests:

- Economic Development Interests (3)
- Environmental Interests (2)
- General Public (3)
- Large Industrial Sources of Emissions (7)
- Small Regulated Businesses (3)
- TCEQ Ex Oficio (1)

Nine (9) voting members are appointed from Harris County, two (2) members each are appointed from Galveston and Brazoria counties, and one (1) member each is appointed from Chambers, Fort Bend, Liberty, Montgomery, and Waller Counties.
Listed in the table below are Board members serving as of December 31, 2016:

<table>
<thead>
<tr>
<th>County Represented</th>
<th>Category Represented</th>
<th>Board Member</th>
<th>Employer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazoria</td>
<td>Large Industry</td>
<td>VACANT</td>
<td></td>
</tr>
<tr>
<td>Brazoria</td>
<td>Large Industry</td>
<td>VACANT</td>
<td></td>
</tr>
<tr>
<td>Chambers</td>
<td>Large Industry</td>
<td>Simon, B.J.</td>
<td>Baytown/West Chambers County Economic Development Foundation</td>
</tr>
<tr>
<td>Fort Bend</td>
<td>Economic Development</td>
<td>LaCour, Lance (CEcD)</td>
<td>Katy Economic Development Council</td>
</tr>
<tr>
<td>Galveston</td>
<td>General Public</td>
<td>VACANT</td>
<td></td>
</tr>
<tr>
<td>Galveston</td>
<td>Large Industry</td>
<td>Passantino, Patrick “Pat”</td>
<td>Valero Energy Corporation – Texas City Refinery</td>
</tr>
<tr>
<td>Harris</td>
<td>Economic Development</td>
<td>Richards, Malcolm (JD)</td>
<td>Tetra Tech, Inc.</td>
</tr>
<tr>
<td>Harris</td>
<td>Environmental</td>
<td>Naquin, Mary Jane</td>
<td>Informed Futures</td>
</tr>
<tr>
<td>Harris</td>
<td>Environmental</td>
<td>VACANT</td>
<td></td>
</tr>
<tr>
<td>Harris</td>
<td>General Public</td>
<td>VACANT</td>
<td></td>
</tr>
<tr>
<td>Harris</td>
<td>Large Industry</td>
<td>Castilleja, Jo Anna</td>
<td>Shell Oil Company</td>
</tr>
<tr>
<td>Harris</td>
<td>Large Industry</td>
<td>Kush, John J.</td>
<td>NRG Energy, Inc.</td>
</tr>
<tr>
<td>Harris</td>
<td>Large Industry</td>
<td>Lewis, Edward “Eddie” C. (JD)</td>
<td>Norton Rose Fulbright LLP</td>
</tr>
<tr>
<td>Harris</td>
<td>Small Business</td>
<td>Rash, Jeanette</td>
<td>SafeClear Management Group</td>
</tr>
<tr>
<td>Harris</td>
<td>Small Business</td>
<td>Zamarripa, Fernando</td>
<td>WCF Development</td>
</tr>
<tr>
<td>Liberty</td>
<td>Small Business</td>
<td>Holman, Courtland</td>
<td>Dayton Community Development Corporation</td>
</tr>
<tr>
<td>Montgomery</td>
<td>General Public</td>
<td>VACANT</td>
<td></td>
</tr>
<tr>
<td>Waller</td>
<td>Economic Development</td>
<td>VACANT</td>
<td></td>
</tr>
<tr>
<td>TCEQ</td>
<td>Ex Oficio</td>
<td>VACANT</td>
<td>EBT Program</td>
</tr>
</tbody>
</table>
Members leaving the board in 2016 included:

1. John Hebert, representing Liberty County (retired June 28, 2016)
2. Orval Rhoads, representing Waller County (retired as of July 2016)
3. Edward Fiesinger, representing Brazoria County (passed away in October 2016)
4. Jarod Davis, representing Brazoria County (resigned as of December 31, 2016)
5. Deric C. Patton, TCEQ ex officio member (resigned as of December 2016)

Effective June 1, 2016, Courtland Holman replaced Mr. Hebert on the Board, representing Liberty County.

Members Mary Jane Naquin, Patrick Passantino and B.J. Simon served on the 2016 Officer Nominations Committee from August through November. At the November 9 Board meeting the following officers were unanimously reelected according to their recommendations:

- Chair: John Kush
- Vice Chair: Eddie Lewis
- Secretary: Jeanette Rash

AERCO Financial Transactions

The H-GAC Finance Department provided the following AERCO financial summaries through H-GAC’s fiscal year end, December 31, 2016:

<table>
<thead>
<tr>
<th>Date</th>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/2016</td>
<td>Balance Forward</td>
<td>$1,790,610.39</td>
</tr>
<tr>
<td></td>
<td>Add Texas SEP Fund Contributions</td>
<td>$459,927.00</td>
</tr>
<tr>
<td></td>
<td>Add Interest Earned from State Bank Account</td>
<td>$1,481.78</td>
</tr>
<tr>
<td></td>
<td>Subtract State Reimbursements to H-GAC for payments made to Humble ISD, Liberty ISD, Splendora ISD, Danbury ISD, Texas Serenity Academy, and admin expenses.</td>
<td>($633,270.61)</td>
</tr>
<tr>
<td>12/31/2016</td>
<td>Ending Balance</td>
<td>$1,618,748.56</td>
</tr>
<tr>
<td>1/1/2017</td>
<td>Balance Forward</td>
<td>$1,618,748.56</td>
</tr>
</tbody>
</table>

**AERCO Accounts Balance Sheet (Fiscal Year 2016)**

<table>
<thead>
<tr>
<th>Date</th>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/2016</td>
<td>Balance Forward</td>
<td>$250,873.41</td>
</tr>
<tr>
<td></td>
<td>Add SEP Fund Contributions</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>Subtract Bank Fees, Reimbursements to Humble ISD, Friendswood ISD</td>
<td>($200,490.58)</td>
</tr>
<tr>
<td>12/31/2016</td>
<td>Ending Balance</td>
<td>$50,382.83</td>
</tr>
<tr>
<td>1/1/2017</td>
<td>Balance Forward</td>
<td>$50,382.83</td>
</tr>
</tbody>
</table>

**Combined Totals for SEP and General Accounts**

<table>
<thead>
<tr>
<th>Date</th>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1/2016</td>
<td>Previous Balance Total</td>
<td>$2,041,483.80</td>
</tr>
<tr>
<td>12/31/2016</td>
<td>Current Balance Total</td>
<td>$1,669,131.39</td>
</tr>
</tbody>
</table>
Board Action Highlights

During this reporting period the Board held regular meetings in February, May, August and November. Highlights from these meetings include:

- On February 10, 2016, the Board took action on the following items:
  - Approved the Board Minutes for November 11, 2015
  - Approved the Fourth Quarter 2015 AERCO Financial Report
  - Approved the Fourth Quarter 2015 TCEQ Third-Party Administrator SEP Report
  - Approved the 2015 Annual Report
  - Approved the Designation of SEP Funds for:
    - Goose Creek Independent School District (ISD) (10 buses) $265,657.00
    - Columbia-Brazoria ISD (4 buses) $168,000.00
    (This was a revised grant amount from the $198,312.00 that the AERCO Board approved on November 11, 2015.)

All other agenda items were administration or discussion items only, including:
  - Announcement of H-GAC Board approval of the renominations for AERCO members Patrick Passantino, Eddie Lewis and Malcolm Richards
  - Presentation of the quarterly TCEQ EBT report
  - Clean Vehicles and Clean School Bus updates
  - Presentation of an analysis of the November 4, 2016 Amendment to the City of Houston’s Emissions Reduction from Idling Motor Vehicles Ordinance.

- On May 11, 2016, the Board took action on the following items:
  - Approved the Board Minutes for February 10, 2016
  - Approved the First Quarter 2016 AERCO Financial Report
  - Approved the First Quarter 2016 TCEQ Third-Party SEP Administrator Report
  - Approved the Designation of SEP Funds for:
    - Magnolia ISD (10 Buses) $215,023.00
    - Santa Fe ISD (2 buses) $100,000.00

All other agenda items were administration or discussion items only, including:
  - Presentation of the quarterly TCEQ EBT report
  - Clean Vehicles and Clean School Bus updates

- On August 10, 2016, the Board took action on the following items:
  - Approved the Board Minutes for May 11, 2016
  - Approved the 2017 Meeting Schedule (minimum: quarterly on second Wednesdays)
    - February 8, 2017
    - May 10, 2017
    - August 9, 2017
    - November 8, 2017
  - Additional meetings may be scheduled as needed, subject to the seventy-two (72) hour member and public notice.
Approved the 2016 Officer Nominations Committee, comprised of member volunteers Mary Jane Naquin, Patrick Passantino and B.J. Simon

Approved the Second Quarter 2016 AERCO Financial Report

Approved the Second Quarter 2016 TCEQ Third-Party SEP Administrator Report

Acceptance of Designation of SEP Funds for:

- Danbury ISD (1 bus) $50,000.00

All other agenda items were administration or discussion items only, including:

- Announcements
  - H-GAC Board approval of the revised AERCO bylaws
  - H-GAC Board approval of the nomination for new AERCO member Courtland Holman report and a report on the July 20, 2016 public meeting in Houston regarding proposed EBT rules revisions, and Clean Vehicles and Clean School Bus updates.
  - Presentation of the quarterly TCEQ EBT report
  - Report on the July 20, 2016 TCEQ public meeting in Houston regarding proposed EBT rules revisions
  - Clean Vehicles and Clean School Bus updates

On November 9, 2016, the Board took action on the following items:

- Approved the Board Minutes for August 10, 2016
- Re-elected Officers for 2016-2017 as Recommended by the 2016 Officer Nominations Committee: Chair John Kush, Vice Chair Eddie Lewis and Secretary Jeanette Rash
- Approved the Third Quarter 2016 AERCO Financial Report
- Approved the Third Quarter 2016 TCEQ Third-Party Administrator SEP Report
- Approved the Designation of SEP Funds for:
  - Brazosport ISD (6 buses) $210,000.00

All other agenda items were administration or discussion items only, including:

- Announcements
  - Death of long-time AERCO member Ed Fiesinger in October 2016
  - Retirement of member Orval Rhoads in July 2016
  - H-GAC Board approval of the renomination for member B.J. Simon
  - Resignation of member Jarod Davis during the public comments time at this Board meeting, effective December 31, 2016
- Presentation of the quarterly TCEQ EBT report
- Clean Vehicles and Clean School Bus updates
- Scheduling an informal Board luncheon and refresher course on the AERCO program for February 8, 2017, before the regularly scheduled public Board meeting the same day
AERCO Emission Trading and Related Activities

Although H-GAC staff responded to emission reduction credit (ERC) inquiries from the general public, for this reporting period AERCO did not engage in any ERC purchases, sales, trades or other activity involving the exchange of ERCs.

Community Outreach

As of January 2016 Cameron Stawicki became lead staff liaison to the Board. Robert Veazie and Annette Olsen continued in supporting positions. H-GAC staff updated AERCO’s website at http://www.h-gac.com/about/advisory-committees/aerco/ac_aerco.aspx to reflect new Board members and worked with H-GAC’s Clean Vehicles Program coordinator to distribute funds to area school districts. In addition, staff performed outreach in the form of emails, flyer distribution, news articles, and phone calls for the Clean School Bus Program.