

The Houston-Galveston Area Emission Reduction Credit Organization Annual Report for January 1, 2007 – December 31, 2007

This report contains a summary of the activities of the Houston-Galveston Area Emission Reduction Credit Organization (AERCO) through December 2007, its second year of organizational activity under its renewed 12-year charter, which expires on October 18, 2018.

The 73rd 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, financial transactions, other actions relating to the Clean School Bus Program, 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.

Board appointments are listed as of December 31, 2007. Ed Fiesinger continued as AERCO Board Chair.

Board Member	Representing	Membership Category	Employer
Bartosh, Patrick	Harris	Small Business	Sage Environmental Consulting
Beck, Tom	Waller	Econ. Development	Waller County
Bosma, Mark	Montgomery	General Public	Montgomery Co.
Chen, Ke	Ft. Bend	Econ. Development	KCE Consulting
Fiesinger, Ed	Brazoria	Large Industry	Zephyr Environmental Corp
Hebert, John J.	Liberty	Small Business	Hebert Distributing
Irby, W.E. "Buddy"	Chambers	Large Industry	Bayer Corporation
Kilpatrick, Steve	Brazoria	Large Industry	Dow Chemical
Kuryla, Matt	Harris	Econ. Development	Baker Botts, L.L.P

Kush, John	Harris	Large Industry	NRG Texas Power LLC
Santos, Betin	Harris	Environment	International Council for Local Environmental Initiatives – Local Governments for Sustainability
Naquin, Mary Jane	Harris	Env./General Public	Informed Futures
Peak, Mark	Harris	General Public	Sierra Research
Porter, Alton	Harris	General Public	City of La Porte
Rash, Jeanette	Harris	Small Business	Harris Co. Auto Recyclers Association
Araiza, Adrian	Galveston	Large Industry	Valero Texas City Refinery
Cernak, Steve	Galveston	General Public	Port of Galveston
Lewis, Edward	Harris	Large Industry	Fulbright & Jaworski, L.L.P

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 Clean School Bus HGB program.

For FY 2006-2007 H-GAC budgeted approximately \$25,000 to provide staffing activities in transportation planning (PL) funds from the Federal Highway Administration (FHWA) and local sources. For FY 2006-2007 H-GAC consolidated the AERCO and Air Quality Planning budget estimates in Section 4.2 of the 2006-2007 Unified Planning Work Program (UPWP).

The H-GAC Finance Department provided the AERCO financial summaries through H-GAC's year end, December 31, 2007.

Account Balances for January 1 – December 31, 2007

AERCO 0430 GENERAL PL ACCOUNT BALANCE SHEET for JANUARY 1 – DECEMBER 31, 2007			
Date	Source	Amount	Cumulative Balance
2006	AERCO 0430: General PL Account	\$241,315.54	
01/01/2007	Balance Forward	\$241,315.54	
01/01/07 to 12/31/07	ADD: SEP Fund Contribution	\$792,551.83	
01/01/07 to 12/31/07	ADD: Private Corp. Contribution	\$62,000.00	
01/01/07 to 12/31/07	ADD: Interest earned from bank account.	\$11,843.96	

**AERCO 0430 GENERAL PL ACCOUNT BALANCE SHEET
for JANUARY 1 – DECEMBER 31, 2007**

Date	Source	Amount	Cumulative Balance
	<i>Less: Reimbursement to HGAC for TXDOT fee of 2006</i>	(14,729.00)	
	<i>Bank Fee</i>	(26.41)	
12/31/2007	<i>Ending Balance of all accounts</i>		\$1,092,955.44
	Remaining amount set aside for TXDOT fees (has not been spent)	(\$23,430.00)	
	Remaining amount set aside for Clean Vehicles	(\$25,000.00)	
2008	<i>Balance Forward – Jan 2008 (minus set aside money for TXDOT fees & Clean Vehicles)</i>		\$1,044,525.44

AERCO Local Account 461 for January 1 - December 31, 2007

Fiscal Year	Budgeted Funding	Amount	Balance
2006-2007	AERCO 0430: General PL Acct	\$ 25,000.00	\$25,000.00
12/31/2007	<i>Ending Balance</i>		\$ 25,000.00
11/16 Board Action	Clean Cities/Clean Vehicles: TxDOT Fees	\$23,430.00	
2008	Acct. Balance Forward – Jan 2008 Amount remaining to cover additional TXDOT fees	\$23,430.00	\$23,430.00

AERCO Board Action Highlights

During this reporting period, the Houston-Galveston AERCO Board held meetings in February, May, August, and November. Board meeting highlights include the following:

On February 7, 2007, the Board took action on the following items:

- Approved the Board minutes for November 1, 2006.
- Approved Guidelines for Clean School Bus Funding and Contracting for AERCO
- Tabled a motion to delegate authority to AERCO leadership to transfer funds to school districts prior to AERCO review
- Decided against AERCO expanding its administration of SEP funding to include 5 additional counties.

All other agenda items were included as discussion items only. These included cooperative purchasing discussions, program reporting updates, reviewing the draft annual report, Clean Vehicles updates, Clean School Bus updates, and TCEQ updates.

On May 8, 2007, the Board took action on the following items:

- Approved the Board minutes for February 7, 2007.
- Finalized the AERCO Annual Report
- Approved the transfer of AERCO funds (\$25,000) to Sheldon ISD for a school bus replacement project
- Approved the transfer of SEP funds (\$35,569) to Sheldon ISD for a school bus replacement project
- Approved the transfer of SEP funds (\$54,000) to Humble ISD to replace four school buses

All other agenda items were included as discussion items only. These included review of the quarterly TCEQ report, Clean Vehicles updates, Clean School Bus updates, and TCEQ updates.

On August 8, 2007, the Board took action on the following items:

- Approved the Board minutes for May 8, 2007.
- Approved the transfer of SEP funding (no amount specified) to Pearland ISD for the installation of crankcase filters, pending further review of emission calculations
- Approved a motion to support an Idling Reduction Resolution for School Buses
- Approved a SEP agreement letter between AERCO and Valero

All other agenda items were included as discussion items only. These included review of the quarterly TCEQ report, review of a financial report, review of brochure changes, Clean Vehicles updates, Clean School Bus updates, and TCEQ updates.

On November 7, 2007, the Board took action on the following items:

- Approved the Board minutes for August 8, 2007.
- Determined that the final brochure update could be approved by the chair

All other agenda items were included as discussion items only. These included discussion of the quarterly TCEQ report, Clean Vehicles updates, Clean School Bus updates, and TCEQ updates.

AERCO Emission Trading and Related Activities

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.

Community Outreach

H-GAC updated the AERCO Web page at <http://www.h-gac.com/taq/airquality/aerco/default.aspx>, and worked with H-GAC's Clean Vehicles program coordinator to distribute funds for area school districts. In addition, extensive outreach was conducted regarding the Clean School Bus HGB program and SEP fund projects. This includes a workshop in February 2007, a break-out session for school districts at the annual Advancing the Choice conference in June 2007, and a press event highlighting a \$50,000 donation from El Paso Corporation in December 2007.