

Houston-Galveston Area Emission Reduction Credit Organization (AERCO)
Annual Report for January 1-December 31, 2017

This report summarizes the activities of the Houston-Galveston Area Emission Reduction Credit Organization (AERCO) from January 1 through December 31, 2017, eleventh year of organizational activity under its twelve-year charter that expires on October 18, 2018.

The 73rd Texas Legislature passed Senate Bill (S.B.) 514 in 1993, authorizing the creation of AERCOs 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 designated by the Texas Commission on Environmental Quality (TCEQ), AERCO operates within the eight (8)-county nonattainment area including Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery and Waller Counties (Nonattainment Area). As required by AERCO's charter, this report will be submitted to the Texas Commission on Environmental Quality (TCEQ).

In 2013 the Houston-Galveston Area Council (H-GAC) Board of Directors (Board) approved TCEQ's designation of AERCO's geographic area for receiving and disbursing Supplemental Environmental Project (SEP) funds for clean school buses as follows:

The geographic area served by AERCO is the TCEQ Regions 10 and 12, excluding Shelby County. This area currently includes the twenty-seven (27) counties of Angelina, Austin, Brazoria, Chambers, Colorado, Fort Bend, Galveston, Hardin, Harris, Houston, Jasper, Jefferson, Liberty, Matagorda, Montgomery, Nacogdoches, Newton, Orange, Polk, Sabine, San Augustine, San Jacinto, Trinity, Tyler, Walker, Waller, and Wharton.

Activities for 2018 included the nominations, appointments and reappointments of members to the AERCO Board of Directors (the "Board") for three-year terms, financial transactions, actions relating to the Clean School Bus Program, and program and Board highlights. H-GAC staff members (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 has eighteen (18) voting members from all eight (8) 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 officio (nonvoting) member from the TCEQ Emissions Banking and Trading Program (EBT).

Board membership reflects the following 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 Officio (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 from Chambers, Fort Bend, Liberty, Montgomery, and Waller Counties.

Listed in the table below are Board members serving as of December 31, 2017, sorted by county and last name:

| Name | Employer | Representing | | Term Expires |
|-----------------------------|--|--------------|----------------------|--------------|
| | | County | Category | |
| Michelle Gutermuth | Olin Corporation | Brazoria | Large Industry | 05/31/2019 |
| Will Nipper | Dow Chemical Company | Brazoria | Large Industry | 05/31/2019 |
| B.J. Simon | Baytown/West Chambers County Economic Development Foundation | Chambers | Large Industry | 05/31/2019 |
| Vacant | | Fort Bend | Economic Development | 05/31/2020 |
| Patrick Passantino | Valero Energy Corp. - Texas City Refinery | Galveston | Large Industry | 06/30/2018 |
| Vacant | | Galveston | General Public | 05/31/2020 |
| Jo Anna Castilleja | Shell Oil Company | Harris | Large Industry | 05/31/2019 |
| Teresa U. Henderson | Shamrock Manor Civic Club | Harris | General Public | 05/31/2018 |
| Denae W. King, PhD | Texas Southern University | Harris | Environmental | 05/31/2018 |
| John A. Kush | NRG Energy, Inc. | Harris | Large Industry | 05/31/2020 |
| Edward (Eddie) C. Lewis, JD | Norton Rose Fulbright LLP | Harris | Large Industry | 05/31/2018 |
| Mary Jane Naquin | Informed Futures | Harris | Environmental | 05/31/2020 |
| Jeanette A. Rash | SafeClear Management Group | Harris | Small Business | 05/31/2020 |
| Malcolm Richards, JD | Tetra Tech, Inc. | Harris | Economic Development | 05/31/2018 |
| Vacant | | Harris | Small Business | 05/31/2019 |
| Courtland Holman | Dayton Community Development Corp. | Liberty | Small Business | 05/31/2019 |
| Vacant | | Montgomery | General Public | 05/31/2019 |
| Chad Cryer | TCEQ Emissions Banking and Trading Program | TCEQ | Ex Officio | Unlimited |
| Yancy Scott, PE CFM | Waller County | Waller | Economic Development | 05/31/2019 |

Members leaving the board in 2017 included:

1. Lance LaCour, CECD, representing Fort Bend County
2. Fernando Zamarripa, representing Harris County

New members to the board during 2017 included:

1. Will Nipper, representing Brazoria County as of February 21, 2017
2. Yancy Scott, PE CFM, representing Waller County as of February 21, 2017
3. Michelle Gutermuth, representing Brazoria County as of July 18, 2017
4. Teresa U. Henderson, representing Harris County as of July 18, 2017
5. Denae W. King, PhD, representing Harris County as of July 18, 2017

Members Courtland Holman, Mary Jane Naquin and B.J. Simon served on the 2017 Officer Nominations Committee, with Ms. Naquin acting as Chair. At the November 8 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 financial summaries of AERCO's bank accounts through H-GAC's fiscal year end on December 31, 2017:

| Date | Source | Amount |
|---|--|-----------------------|
| <i>State Bank Account</i> | | |
| 1/1/2017 | Balance Forward | \$1,085,371.84 |
| | Add Texas SEP Fund Contributions | \$588,442.00 |
| | Add Interest Earned from State Bank Account. | \$2,184.20 |
| | <i>Subtract State reimbursements to H-GAC for payments made to Santa Fe ISD, Brazosport ISD, Houston ISD, Danbury ISD and administrative expenses.</i> | <i>(\$670,107.22)</i> |
| 12/31/2017 | Ending Balance | \$1,005,890.82 |
| 1/1/2018 | Balance Forward | \$1,005,890.82 |
| <i>General Bank Account (Non-Interest Bearing)</i> | | |
| 1/1/2017 | Balance Forward | \$56,457.83 |
| | Add SEP Fund Contributions | \$0.00 |
| | <i>Subtract bank fees, account rebalance for Dow check, and reimbursements Any ISDs</i> | <i>(\$6,423.69)</i> |
| 12/31/2017 | Ending Balance | \$50,034.14 |
| 1/1/2018 | Balance Forward | \$50,034.14 |
| <i>Combined Totals for SEP and General Bank Accounts</i> | | |
| 1/1/2017 | Previous Balance Total | \$1,141,829.67 |
| 12/31/2017 | Current Balance Total | \$1,055,924.96 |

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 8, 2017, the Board took action on the following items:
 - Approved Staff distributing future member meeting materials packets electronically as well as by United States mail
 - Approved resolutions recognizing and honoring the service of former members:
 - Jarod Davis, JD
 - Orval Rhoads, PE RPLS
 - Edward G. Fiesinger, PE
 - Approved the Board summary for November 9, 2016
 - Approved the fourth quarter 2016 TCEQ Third-Party Administrator SEP Report
 - Approved the fourth quarter 2016 AERCO Financial Report
 - Approved the 2016 annual report
 - Approved the designation of SEP Funds for:
Santa Fe Independent School District (ISD) (4 buses) \$260,000.00

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

- Announcements
 - TCEQ appointed Chad Cryer, EBT Program, as its ex officio member to the AERCO Board.
 - Jarod Davis resigned from the Board
 - H-GAC Board expected to approve the nominations for new AERCO members Will Nipper and Yancy Scott on February 21, 2017
- Presentation of the quarterly TCEQ EBT report
- On May 10, 2017, the Board acted on the following items:
 - Approved the Board Minutes for February 8, 2017
 - Approved 2017 Officer Nominations Committee consisting of Courtland Holman, Mary Jane Naquin, and B.J. Simon
 - Approved the First Quarter 2017 TCEQ Third-Party SEP Administrator Report
 - Approved the First Quarter 2017 AERCO Financial Report
 - Approved the Designation of SEP Funds for two (2) project contracts:
 - Houston ISD (3 Buses) \$43,813.00
 - Houston ISD (43 buses) \$202,867.02
 - This amount is partial funding reimbursement for requested maximum grant total of \$977,144.00.
 - Although the maximum grant total grant is planned for distribution over five (5) contract years, each year must be submitted separately for Board approval.
 - Grant sub-recipient understands that funding is not guaranteed from year to year and that it may therefore not receive the maximum total of \$977,144.00.

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

- Announcements
 - H-GAC Board approval of new member nominees Will Nipper and Yancy Scott on February 21, 2017
 - Ms. Olsen confirmed that one member did not receive his U.S. mailed copy of the member meeting materials package, but all electronic copies were received.
- Presentation of the quarterly TCEQ EBT report
- On August 9, 2017, the Board took action on the following items:
 - Approved resolutions recognizing and honoring the service of former members:
 - Lance LaCour, CECD, representing Fort Bend County
 - Fernando Zamarripa, representing Harris County
 - Approved the Board minutes for May 10, 2017
 - Approved the 2018 meeting schedule (minimum: quarterly on second Wednesdays)
 - February 14, 2018
 - May 9, 2018
 - August 8, 2018
 - November 14, 2018
 - Additional meetings may be scheduled as needed, subject to the seventy-two (72)-hour member and public notice.
 - Approved the 2017 Officer Nominations Committee, comprised of member volunteers Courtland Holman, Mary Jane Naquin and B.J. Simon
 - Approved the second quarter 2017 TCEQ Third-Party SEP Administrator Report
 - Approved the second quarter 2017 AERCO Financial Report
 - Acceptance of designation of SEP Funds for:
 - AAMA, Inc. Sanchez Charter School (2 buses) \$100,000.00

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

- Announcements
 - H-GAC Board approval on July 18 of the following AERCO member nominations and renominations:
 1. Michelle Gutermuth, representing Brazoria County in the Large Industry category (new)
 2. Teresa U. Henderson, representing Harris County in the General Public category (new)
 3. Denaë W. King, PhD, representing Harris County in the Environment category (new)
 4. Jo Anna Castilleja, representing Harris County in the Large Industry category
 5. John A. Kush, representing Harris County in the Large Industry category
 6. Mary Jane Naquin, representing Harris County in the Environment category
 7. Jeanette Rash, representing Harris County in the Small Regulated Business category
 8. Yancy Scott, PE CPM, representing Waller County in the Economic Development category

9. Fernando Zamarripa, representing Harris County in the Small Regulated Business category
 - The Officer Nominations Committee reported that the current officers were willing to serve another one-year term and that other interested members should contact Mary Jane Naquin for consideration in the November 9 election.
 - Presentation of the quarterly TCEQ EBT report
 - Public comments included:
 - Ms. Naquin requested that at future meetings staff will provide a quarterly report detailing the air emission reductions and cost effectiveness of the AERCO funded projects versus actual air quality improvements.
 - Jeanette Rash asked staff to reach out to Cleveland ISD in Liberty County with information about the school bus grant program.
 - On November 8, 2017, the Board acted on the following items:
 - Re-elected officers for 2017-2018 as recommended by the 2017 Officer Nominations Committee:
 - Chair: John Kush
 - Vice Chair: Eddie Lewis
 - Secretary: Jeanette Rash
 - Approved the Board minutes for August 9, 2017
 - Approved the 2018 minimum meeting schedule
 - February 14, 2018 (Valentine's Day and Ash Wednesday)
 - May 9, 2018
 - August 8, 2018
 - November 14, 2018
 - Approved the Third Quarter 2017 TCEQ Third-Party Administrator SEP Report
 - Approved the Third Quarter 2017 AERCO Financial Report
 - Approved the Designation of SEP Funds for:
 - Spring Branch ISD (19 buses) \$250,000.00
 - Approved adding the staff's new AERCO Emissions Reduction/Cost Effectiveness Report to all future AERCO annual reports rather than quarterly reports
 - Approved adding the printed quarterly EBT Program report to all future Board meeting packets
- All other agenda items were administration or discussion items only, including:
- Presentation of the quarterly TCEQ EBT report
 - Staff reported outreach to Cleveland ISD about the Clean School Bus Program, but there was no interest at this time.
 - Staff presented the AERCO Board member nomination and approval process.

Approved School Bus Totals for 2017

| Meeting Date | Grant Sub-Recipient | Number of Buses | Grant Funds |
|---------------|-----------------------------|-----------------|---------------------|
| 2/8/2017 | Santa Fe ISD | 4 | \$260,000.00 |
| 5/10/2017 | Houston ISD (two contracts) | 46 | \$246,680.02 |
| 8/9/2017 | AAMA, Inc. Sanchez Charter | 2 | 100,000.00 |
| 11/8/2017 | Spring Branch ISD | 19 | \$250,000.00 |
| TOTALS | | 71 | \$856,680.02 |

AERCO Emissions Reduction/Cost Effectiveness

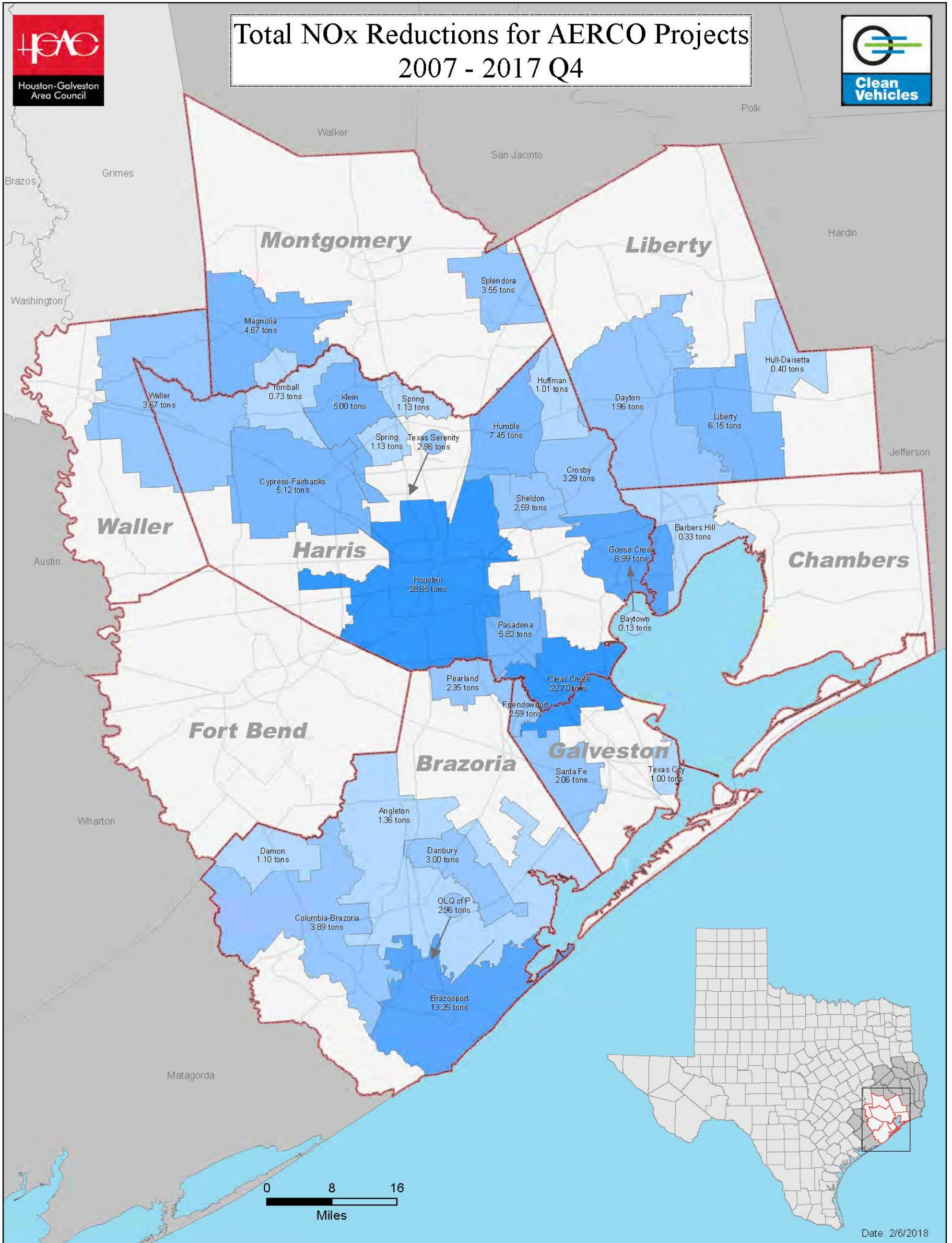
During 2017 AERCO-funded projects reduced NOx emissions within the Nonattainment Area by 9.3364 tons. Per Attachment A, AERCO's total NOx emission reductions from 2007 through December 31, 2017, totaled 148.63 tons.

AERCO Emission Trading and Related Activities

Although 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

Cameron Stawicki (lead) and Annette Olsen continued as staff liaisons to the Board. Staff updated AERCO's website at <http://www.h-gac.com/board-of-directors/advisory-committees/area-emission-reduction-credit-organization/default.aspx> to reflect new Board members and worked with H-GAC's Clean Vehicles Program Manager Robert Veazie to distribute funds to area school districts. In addition, staff performed outreach in the form of emails, flyer distribution, news articles, and phone calls on behalf of the Clean School Bus Program.



Total NOx Reduction (tons)

- 0.13 - 1.36
- 1.36 - 3.89
- 3.89 - 7.45
- 7.45 - 13.25
- 13.25 - 28.85

Total Tonnage Reduced
148.63

- Nonattainment Counties
- AERCO Air Qual Impr Zone
- Other Counties

What does 148.63 tons of NOx look like?

