

UNLOCKING TERP

Maximizing Texas' \$2 Billion Clean Air Opportunity

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Unlocking TERP: Maximizing Texas' \$2 Billion Clean Air Opportunity

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Abstract

In advance of the 90th Texas Legislature, which convenes in January 2027, Environmental Defense Fund has completed a detailed and thorough analysis of Texas Emissions Reduction Plan grants and NOx emissions over the lifetime of the program. Using more than two decades worth of data provided by the Texas Commission on Environmental Quality, this briefing paper details how TERP has transformed over the last five years and provides recommendations to further maximize efficiencies and increase market-driven investments for the program — all without raising any new revenue or fees.

Key Words

Texas, transportation, clean trucks, state policy, air quality, grants, emissions.

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Unlocking TERP Report

Executive Summary

The Texas Emissions Reduction Plan is a nationally recognized air quality grant program that provides financial incentives for projects that decrease emissions of nitrogen oxides and other pollutants from mobile sources and non-road equipment. TERP was created by the Texas Legislature in 2001 and is administered by the Texas Commission on Environmental Quality.

In advance of the 90th Texas Legislature, which convenes in January 2027, Environmental Defense Fund has completed a detailed and thorough analysis of TERP grants and NO_x emissions over the lifetime of the program. Using more than two decades worth of data provided by TCEQ, the following briefing paper details how TERP has transformed in recent years and provides recommendations for how the Legislature can further maximize efficiencies and increase market-driven investments — all without raising any new revenue or fees.

There is currently \$2 billion in revenue collected for TERP that is sitting untouched in a general revenue dedicated account. These funds were collected prior to major TERP reforms five years ago and are currently used for certification purposes to balance the state's budget. The following paper examines the existing funding mechanisms for TERP and how the \$2 billion in extra funds can be utilized by the Legislature. It further discusses how the reformation of TERP makes the coming biennium the ideal time to increase funding and lays out industry-supported policies that will support the increased funds. Key recommendations discussed in this paper include:

1. Draw down \$400 million in existing TERP funds to support rapidly increasing demand from industry for clean transportation funds.
2. Pass legislation to consolidate existing TERP grants to help maximize efficiency and increase competitiveness for funds.

Funding TERP & the state budget

The 77th Texas Legislature established the Texas Emissions Reduction Program in 2001 through Senate Bill 5. The goal of TERP was to maximize reductions in NO_x from medium- and heavy-duty vehicles to facilitate compliance with National Ambient Air Quality Standards established by the United States Environmental Protection Agency under authority of the Federal Clean Air Act. The following session, in 2003, House Bill 1365 designated revenue streams from specific surcharges and fees applied to the sales, use, storage, registration and inspection of heavy-duty off-road and on-road vehicles and equipment, including truck tractors and semi trailers.ⁱ

Revenues collected for TERP are received by the Comptroller into the TERP Trust Fund No. 1201. As reported by TCEQ, the following are the specific fees and surcharges collectedⁱⁱ:

1. 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.ⁱⁱⁱ
2. 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.^{iv}
3. A 10% surcharge of the total fees due for the registration of truck tractors and certain commercial motor vehicles.^v
4. 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.^{vi}
5. A \$10 fee on commercial motor vehicles that are required to have an annual safety inspection.^{vii}

For most of TERP's lifetime, the revenue collected from these surcharges and fees was deposited into the TERP Fund and then appropriated by the Texas Legislature. Prior to 2019, the Legislature historically did not fully allocate all the funds collected back into TERP grants. Instead, the Legislature would set aside funds collected into a different account, the General Revenue-Dedicated Account No. 5071. Present day, according to information obtained directly

from the Texas Comptroller of Public Accounts, GR-Dedicated Account No. 5071 has a balance of \$1,993,081,558 — approximately \$2 billion total.

TABLE 1

Texas Emissions Reduction Plan Accounts

Account Name	Purpose	Amount on 9/1/25
TERP Trust Fund No. 1201	Deposit revenue collected within the biennium from fees & surcharges; all funds emptied at end of biennium	\$0; in FY 2024-25, \$388M was used for TERP grants, with \$210 million transferred to TxDOT
GR-Dedicated Account No. 5071	Hold excess TERP funds prior to 2019; help certify the state budget	\$1,999,081,558

The Texas Comptroller of Public Accounts maintains two separate accounts for TERP. Funds in TERP Trust Fund No. 1201 are automatically distributed to the Texas Commission on Environmental Quality following monthly collections. Funds in GR-Dedicated Account No. 5071 are held by the Comptroller but may be used by the Texas Legislature through legislative appropriations acts.

The \$2 billion is currently used to help certify the state’s budget and is counted as part of the Certificate of Revenue Estimate issued by the comptroller. According to the comptroller’s office, after amounts for statutory transfers, balances, and expected revenue collections and adjustments are accounted for, Texas will have \$203.63 billion in revenue available for \$198.97 billion in general-purpose spending available for the current 2026-27 biennium. This means that there is, present day, an expected surplus of \$4.66 billion in general revenue funds — including \$2 billion in GR-Dedicated account No. 5071.

For years, the conventional wisdom at the Texas Capitol was that the \$2 billion in the GR-Dedicated TERP account was necessary to certify the state budget, and TERP can simply operate on new revenues collected each biennium. This was fair thinking for most of TERP’s lifetime. When TCEQ first began collecting revenues, following the 2003 legislative session, Texas faced a \$10 billion budget deficit. In 2011, Texas faced a \$27 billion budget shortfall. During each of these downturns, TERP funds in the dedicated account were critical to balancing the budget. The safety net of TERP funds were important to Texas’ finances and long-term economic stability, and keeping them in the GR-Dedicated made good fiscal sense.

It is much harder to make the same argument today. The state of Texas has more than \$26 billion in the Economic Stabilization Fund, better known as the “rainy day fund,” which is a state savings account that collects excess oil and gas revenues and makes them available for emergency appropriations. In fact, Texas’ economy has been so strong for so long that the Legislature has been able to create a number of new long-term infrastructure funds — including ones for water, transportation and broadband — while still maintaining record surpluses.

TABLE 2

Texas’ investments in major infrastructure funds¹

Infrastructure Fund	Year Created	Revenues
State Highway Fund ²	2015 (Prop 7)	\$22.7 billion deposited to date, from ongoing general revenue transfers
Texas Water Fund	2023 (Prop 6)	\$1 billion approved by voters, \$2.5 billion added by the Legislature in 2025
Texas Energy Fund	2023 (Prop 7)	\$10 billion, approved by voters
Texas Broadband Infrastructure Fund	2023 (Prop 8)	\$1.5 billion, approved by voters
Dementia Prevention and Research Fund	2025 (Prop 14)	\$3 billion, approved by voters

¹ Information for Texas’ infrastructure funds collected from the Texas Comptroller of Public Accounts website, “Manual of Accounts.” Data retrieved on April 19, 2026. Available at <https://fmcpa.cpa.state.tx.us/fiscalmoa/fund.jsp>.

² The State Highway Fund was originally created in 1917; the Legislature created a mechanism for increasing revenue in 2015.

With Texas’ strong economic foundation, now is the time to use the TERP funds for their intended purpose. For the 2028-29 budget, the Legislature should consider taking 20%, or \$400 million, from the GR-Dedicated Account NO. 5071 and transferring it to the TERP Trust Fund No. 1201 to be used to supplement newly collected TERP revenue.

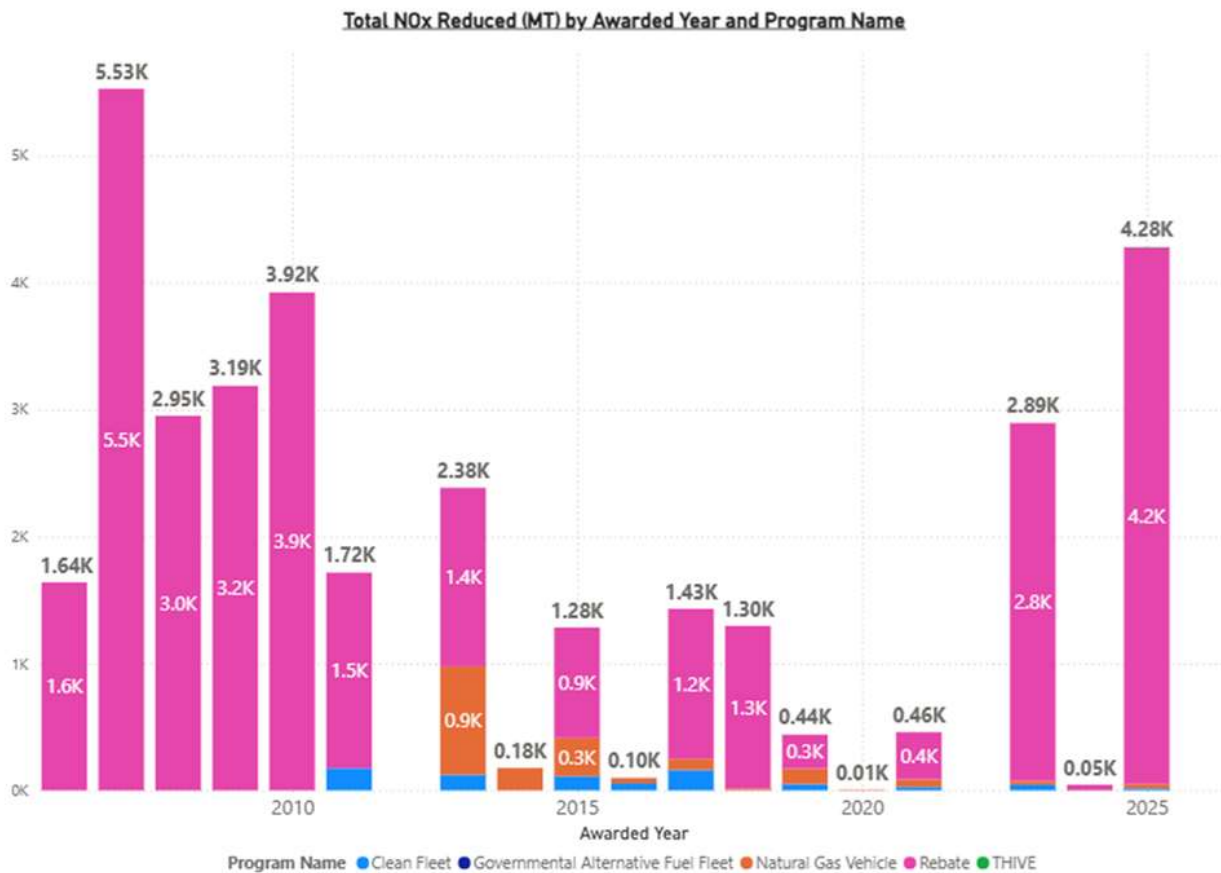
Nearly doubling TERP’s grant budget can greatly increase emissions reductions, and support growing industry demand for newer, cleaner off-road and on-road equipment. And, due to the recent transformation of TERP and legislative change in recent years, the agency is well-positioned to manage the extra funds and continue its successful administration of the program.

The transformation of TERP: Before and after 2021

In the last five years, with the direction and support of the Legislature, TERP has successfully transformed into one of the strongest air quality grant programs in the country.

According to the agency’s December 2025 annual report, TERP awarded over \$412 million in fiscal years 2024-25^{viii}, funding 3,879 incentive grant projects that are estimated to result in the reduction of 6,137 tons of NOx emissions. Based on EDF analysis, this represents the second largest reduction of NOx emissions in the program’s history.

EDF analyzed all TERP data going back to 2003, with a focus on programs related to clean truck programs. Even among five core programs, the resurgent impact of TERP on the reduction of NOx emissions is clear:



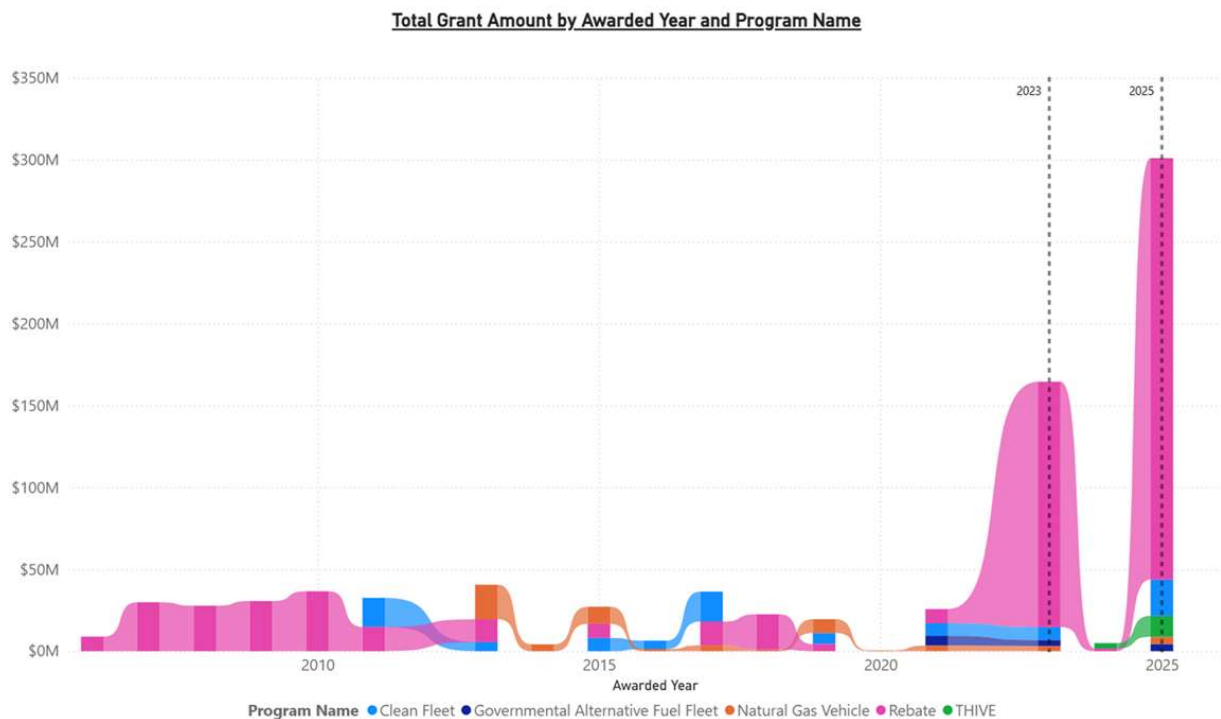
Data source: Texas Commission on Environmental Quality. Analyzed March 31, 2026.

Legislation restructures TERP

Legislation adopted in 2019 and 2021 explains the resurgence of TERP’s effectiveness, and marks the turning point for TERP. The Legislature fundamentally changed how revenue is allocated through TERP, resulting in a sharp increase in funding and allowing TCEQ to hire more TERP staff, increasing their capacity to intake grants and manage project contracts.

Following legislation in 2019, the comptroller now administers the primary TERP account (called the TERP Fund); the Legislature no longer appropriates specific dollar amounts in each legislative session. Instead, in accordance with legislation that passed in 2021, the Comptroller automatically transfers 35% of all TERP funds collected to the Texas Department of Transportation for congestion mitigation projects. The trade-off of TCEQ transferring the TERP dollars to TxDOT is that all other revenues are no longer swept into the GR-Dedicated Fund.

The following chart shows the sharp increase in funding levels before and after the legislative changes – with a focus on the five major grants that focus on clean trucks:



Data source: Texas Commission on Environmental Quality. Analyzed March 31, 2026.

In anticipation of the increased funding and increased workload, TCEQ hired an additional 49 full-time employees during the 2021-2022 biennium. This brought the total number of FTEs for the Office of Air, Air Grants Division to 107 – a critical increase for the department that oversees TERP-related grant requests and contracts. Onboarded following the 87th Texas Legislature in 2021, the increased staff capacity has successfully improved the agency’s ability to manage the increase of funds, grants and projects. The investment by the Legislature five years ago proved impactful as more companies have had access to more dollars, allowing for more projects that further drive down emissions throughout Texas and especially in the state’s nonattainment areas where so many TERP grants are focused.

The sequence of changes and improvements for TCEQ and TERP, coupled with the state’s steady and ongoing economic success, have set the foundation for even greater investments in the program. The agency is now in position to take on more funds as well as further improve the management and execution of the TERP program.

TERP Policy Recommendations

The strength of TERP comes from its reliable revenue stream, active and well-staffed administration and its overall market-driven approach to incentives. Unlike some grant programs in California and New York, TERP is designed to let applicants select vehicles and equipment of their choice. There is no mandate for any certain fuel type – electric, natural gas, hydrogen or clean diesel – which allows entities seeking grant funds for on-road and off-road transportation projects to focus only on grants that best align with their need and budgets.

However, TCEQ could still improve the TERP program by making it simpler to apply for funds. For example, an entity seeking a newer regional haul truck and accompanying infrastructure would have to review application materials for as many as six different grant programs, each with their own specific requirements that open at different times of the year. For entities trying to align their budgets and timelines for vehicle and equipment replacement schedules, navigating the large number of grants can be a significant barrier to participation.

Fortunately, there is a solution to this challenge with existing support from the Texas Legislature, TCEQ, and TERP applicants. During the 89th Legislative Session in 2025, EDF worked with Texas House Committee on Environmental Regulation Chair Brooks Landgraf on a comprehensive TERP bill that would consolidate five separate transportation-related grant programs, increasing efficiency for the agency and making it easier for companies seeking grant funds to navigate the application process.

The legislation, HB 3868, required a competitive application process and gives companies that want to deploy advanced clean trucks in Texas the ability to seek funding for any type of vehicle, along with infrastructure, in a single application. After weeks of negotiation, the legislation passed unanimously out of committee with support from groups across the policy spectrum, including Sierra Club, Public Citizen, the Texas Hydrogen Alliance, and the Texas Chemistry Council. Though the bill didn't receive full approval from the Texas House before the legislative deadline to consider bills had passed, Chairman Landgraf and stakeholders, including EDF, intend to bring the bill back when the Legislature convenes in January 2027.

In addition to making it simpler for companies to apply for grants, the TERP consolidation bill will free up considerable agency time. Each grant requires extensive internal preparation and legal review to stand up and execute. In working with TCEQ on the consolidation bill, TCEQ has stated that reducing the number of grants would free up agency staff time and give them increased capacity to process additional grant applications. The additional dollars that would come from increasing TERP funding by \$400 million would also include, by law, a percentage of funds available for the administration of the TERP program. Those funds could help cover costs of any additional full-time employees required for the increased project activity.

As elected officials and TCEQ prepare for the 90th Texas Legislature in January 2027, the policy opportunity for TERP is tremendous. Using revenue already collected for TERP and consolidating several grant programs can boost the program without increasing taxes, revenues or fees by a single dollar — doubling the economic opportunities for companies seeking clean transportation projects, as well as emissions reductions in key areas of the state.

References

ⁱ For a more detailed history on TERP, please review EDF's 2024 report, *TERP and Trucks: How Texas' Clean Air Program Can Maximize Efficiency and Increase Competition*. Available at https://blogs.edf.org/energyexchange/wp-content/blogs.dir/38/files/TERP_and_Trucks.pdf

ⁱⁱ *Texas Emissions Reduction Plan Annual Report*. Produced by the Texas Commission on Environmental Quality, December 2025. Available at <https://www.tceq.texas.gov/downloads/air-quality/terp/publications/sfr/128-25.pdf>

ⁱⁱⁱ Texas Tax Code Section 151.0515(b). Available at <https://statutes.capitol.texas.gov/?tab=1&code=TX&chapter=TX.151&artSec=151.0515>

^{iv} Texas Tax Code Section 152.0215(a). Available at <https://statutes.capitol.texas.gov/?tab=1&code=TX&chapter=TX.152&artSec=152.0215>.

^v Texas Transportation Code Section 502.358(a). Available at <https://statutes.capitol.texas.gov/?tab=1&code=TN&chapter=TN.502&artSec=502.358>.

^{vi} Texas Transportation Code Sections 501.138(a) and (b). Available at <https://statutes.capitol.texas.gov/?tab=1&code=TN&chapter=TN.501&artSec=501.138>

^{vii} Texas Transportation Code Section 548.5055(a). Available at <https://statutes.capitol.texas.gov/?tab=1&code=TN&chapter=TN.548&artSec=548.5055>

^{viii} This total is more than the \$388 million TCEQ received for TERP grants in the same biennium due to TCEQ being able to distribute recaptured and returned grant funds.