

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7682

BILL NUMBER: HB 1561

DATE PREPARED: Jan 14, 1999

BILL AMENDED:

SUBJECT: Air emissions reduction credit program.

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FUNDS AFFECTED: **GENERAL**
 DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill requires the Indiana Development Finance Authority (IDFA) and the Air Pollution Control Board to adopt rules to establish an air emissions reduction credit program that uses market based, economic incentives to reduce or prevent emissions of air contaminants in Indiana. It specifies that the air emissions reduction credit program must: (1) allow air emissions reduction credits to be earned, banked, and traded for nitrogen oxide, particulate matter, volatile organic compounds, sulfur dioxide, carbon monoxide, and other air contaminants that may be added to the program by the authority and the board; and (2) allow air emissions reduction credits to be earned by the source of an air contaminant to the extent that the source reduces the emission of the air contaminant below an established baseline level for the air contaminant.

It provides that the: (1) value of air emissions reduction credits; and (2) liability for air emissions reduction credits bought and sold are determined by the buyer and seller of the air emissions reduction credits. It specifies that the owner of air emissions reduction credits may: (1) hold the credits for future use; or (2) trade the credits on an exchange. It requires the IDFA to establish a registry program to: (1) identify and register air emissions reduction credits; and (2) act as a repository for all public information concerning air emissions reduction credits and air emissions reduction credits trading.

It allows IDFA to enter into a contract with a person to operate the registry program. It requires the Department of Environmental Management to adopt rules that provide for the review and approval of protocols to be used to establish an air emissions baseline level for the source of an air contaminant if a baseline level has not been established for the source: (1) in a permit issued to the source; or (2) under a statute or rule.

Effective Date: July 1, 1999.

Explanation of State Expenditures: This bill requires the Indiana Development Finance Authority (IDFA)

and the Air Pollution Control Board (APCB) to adopt rules to establish an air emissions reduction credit program. There will be some administrative expenses associated with the adoption of rules. The APCB's expenses are paid out of the Environmental Management Special Fund.

This bill requires IDFA to establish a registry program to identify and register air emissions reduction credits and to act as a repository for all public information concerning the credits and credits trading. IDFA may contract with another person to operate the registry program. IDFA must charge a fee in an amount necessary to pay the administrative costs of the registry program. Although fee revenue should cover expenses for administering the registry, there will be initial expenses associated with establishing the registry. There is no current funding structure for IDFA to pay the expenses associated with the registry program. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions.

This bill provides that air emissions reduction credits may only be purchased from within a nonattainment area as classified under the federal Clean Air Act or from air emissions sources that affect the air quality within the nonattainment area. Clark, Floyd, Lake, and Porter Counties have been classified by the APCB as nonattainment for ozone. Lake County has also been classified as nonattainment for particulate matter (PM). Portions of Lake and Marion Counties have been classified as nonattainment for carbon monoxide, while a portion of Lake County has been classified as nonattainment for sulfur dioxide.

The U.S. Environmental Protection Agency (EPA) has proposed new federal standards for ozone and PM. The EPA will designate nonattainment areas under the new ozone standards in 2000. In addition, the EPA will designate nonattainment areas under the new PM standards in 2002 - 2005. According to the Indiana Department of Environmental Management, the following additional counties are likely to be nonattainment under the new ozone standard: Allen, Elkhart, LaPorte, Marion, Posey, St. Joseph, Vanderburgh, and Warrick. It is not known which counties may be nonattainment areas under the new PM standard.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Department of Environmental Management; Indiana Development Finance Authority.

Local Agencies Affected:

Information Sources: Lara Beck, Indiana Development Finance Authority, 233-4332; Wendy Hoffspiegel, Indiana Department of Environmental Management, 233-3835 (information on nonattainment areas).