

**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:** Feb 19, 1999

**BILL AMENDED:** Feb 18, 1999

**SUBJECT:** Air emissions reduction credit program.

**FISCAL ANALYST:** Kristin Breen

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**FUNDS AFFECTED:**  **GENERAL**  
 **DEDICATED**  
 **FEDERAL**

**IMPACT:** State

**Summary of Legislation:** (Amended) This bill requires the Air Pollution Control Board (APCB) to adopt rules to establish an air emissions reduction credit program that uses market based, economic incentives that minimize the costs associated with required air emission reductions and encourage economic development in a manner that protects human health and the environment. It specifies that the air emissions reduction credit program must: (1) allow air emissions reduction credits to be earned, banked, and traded for nitrogen oxides, particulate matter, volatile organic compounds, sulfur dioxide, carbon monoxide; 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 also 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 specifies that the air emissions reduction credit program: (1) may not interfere with federal acid rain programs or the state implementation plan concerning nitrogen oxides; and (2) must defer to and facilitate federal air emissions credit trading programs to the extent that it is reasonable for the state to defer to and facilitate the federal programs. It requires the rules adopted by the APCB to facilitate interpollutant trading between volatile organic compounds and nitrogen oxides to: (1) control ozone; and (2) facilitate permitting of sources.

It requires the Department of Environmental Management (IDEM) to establish a registry program to: (1) 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 IDEM to enter into a contract with a person to operate the registry program.

It requires IDEM 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.

It requires IDEM to present proposed rules from the APCB to implement the air emissions reduction credit program to the Environmental Quality Service Council before July 1, 2000. It requires the Environmental Quality Service Council to: (1) recommend to the APCB that the proposed rules should be adopted as final rules; (2) recommend to the APCB that the proposed rules should be modified before the proposed rules are adopted as final rules; or (3) recommend to the General Assembly additional legislation that is necessary to implement the air emissions reduction credit program before December 31, 2000.

**Effective Date:** July 1, 1999.

**Explanation of State Expenditures:** (Revised) This bill requires 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 the Indiana Department of Environmental Management (IDEM) to establish a registry program to register air emissions reduction credits and to act as a repository for all public information concerning the credits and credits trading. IDEM may contract with another person to operate the registry program. IDEM 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.

This bill provides that air emissions reduction credits may be bought or sold within air quality control areas that have been classified as attainment, transitional, or unclassified areas under the federal Clean Air Act. It also provides that credits may be bought or sold within nonattainment areas, however the credit may only be purchased from within a nonattainment area 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; General Assembly.

**Local Agencies Affected:**

**Information Sources:** Erika Seydel Cheney, Indiana Department of Environmental Management, 232-8598;

Wendy Hoffspiegel, Indiana Department of Environmental Management, 233-3835 (information on nonattainment areas).