

US EPA ARCHIVE DOCUMENT

## Regional Air Quality and Economic Development Strategy

### Executive Summary

In this proposal, the Chicago Department of Environment (CDOE), is seeking to exercise Section 173(a)(1)(B) of the Clean Air Act to promote clean air and economic development. Section 173(a)(1)(B) allows the Administrator of the United States Environmental Protection Agency (USEPA), in consultation with the Secretary of Housing and Urban Development (HUD), to identify a zone in which economic development should be targeted. For the purposes of this proposal, such zones will be called "smart growth zones." A new or modified major stationary source which locates in a smart growth zone (within the nonattainment area) would draw emission reductions from a growth allowance generated from the State's emission inventory in lieu of obtaining emission offsets. The growth rate allowance would be created using emissions reduction activities of Chicago and other municipalities.

This project is expected to deliver superior environmental benefits by:

- retiring a percentage of the generated growth allowance prior to use by a new or modified stationary source thus creating a larger emission reduction than currently required under the New Source Review (NSR) program.
- achieving reductions from sources not targeted by Illinois' current attainment plan.

While the authority for this proposal exists under 173(a)(1)(B), the use of XL is beneficial because:

1. this project represents an innovative use of a Clean Air Act provision which has not been implemented; and
2. area(s) designated for economic development under this provision have not been identified previously; and
3. some of the strategies designed to reduce emissions from mobile and area sources of pollution have not been used previously as part of a State Implementation Plan (SIP). Innovation and flexibility are needed on the part of the USEPA to assure their successful implementation.

Under project XL, the CDOE is expected to achieve superior environmental performance and, through a new system of environmental protection, will be able to operate in a more flexible, and cost effective manner.

## **I. Introduction**

### *A. Description of Facility/Community/Geographic Area*

The Chicago metropolitan severe ozone nonattainment region comprises six counties and parts of two additional counties in the northeastern section of the State of Illinois. At more than 9,000,000 inhabitants, the six county area contains approximately two thirds of Illinois' residents. The City of Chicago is the region's largest municipality with a 1998 population of 2,802,079. The older inner ring suburbs and the city are urban in nature with the region's outlying areas having a larger proportion of open and rural space.

Under New Source Review (NSR) in the Chicago metropolitan nonattainment area, a new or modified major stationary source is required to achieve Lowest Achievable Emission Rate (LAER) and obtain emission offsets if the potential emission increase at the facility is greater than 25 tons/year. The area has a 182(f) NO<sub>x</sub> waiver which means that the area is treated as though it is in attainment for NO<sub>x</sub>. Therefore, LAER achievement and offsets are not currently required for NO<sub>x</sub>.

### *B. Contact Information*

This proposal is sponsored by the City of Chicago. The City is currently seeking co-sponsors for this project including the Illinois Environmental Protection Agency and other regional municipalities

The designated contact at the City of Chicago is:

Alexandra Holt  
30 N. LaSalle, Ste 2500  
Chicago, IL 60602  
Phone: 312/744-3172  
Fax: 312/744-6451  
Email: aholt@ci.chi.il.us

## **II. Project Description:**

### *A. Summary*

Clean air and compliance with Federal requirements is a critical goal for the Chicago non-attainment region. Not only does the region's current non-attainment status impact regional health, it also impacts regional economic development. The traditional approach to emissions reduction has focused on larger point sources, while mobile and area sources now account for more than 80% of the region's emissions

inventory. These sources make up an increasing share of emissions budgets in metropolitan areas across the country.

The City of Chicago and other regional municipalities have begun to address the problem of area and mobile sources as a way to achieve additional VOC reductions. These actions include small incinerator bans, expanded alternative fuel use, and use of low VOC paintings and coatings. Some of these activities have been completed, are under development or prioritized for future implementation. Chicago and other municipalities wish to use these reductions to not only move the region toward attainment, but also to advance economic growth. Specifically, municipal governments would use their emissions reduction actions to offset the emissions of industrial sources.

Currently, a new major facility or major modification to an existing facility, under New Source Review, would be required to meet LAER and obtain offset emissions at a ratio of 1.3 tons reduced per 1 ton emitted. Under this XL proposal, the source would still be required to meet LAER requirements, but would not be required to obtain offsets. Instead, Chicago and other regional municipalities would create emissions reductions from their local activities as part of the Regional Dialogue on Clean Air and Redevelopment. The reductions would be used to create a growth allowance which would be used in lieu of NSR offsets.

As the municipal activities are surplus to the reductions included in the Illinois attainment plan, the reductions will exceed what is needed to demonstrate attainment and would be approved into the State Implementation Plan (SIP) by the Illinois EPA and USEPA. 40% of the emission reductions associated with these activities would be retired toward maintaining attainment while the rest could be used by sources. The combination of the percentage retired before source use and the 1.3 ton reduction per 1 ton emitted by the source would show a greater overall emission reduction than the currently required 1.3 ton reduction per 1 ton emitted.

The growth allowance would be available to companies who locate in "smart growth zones." A smart growth zone would be defined as an area in need of economic development and which advances environmental improvements particularly with respect to clean air. Section 173(a)(1)(B) allows the Administrator of the USEPA, in consultation with the Secretary of HUD, to identify a zone to which economic development should be targeted.

From a broader policy perspective, this project is innovative because it creates a framework for addressing mobile and area pollution sources. In addition to creating a framework for addressing these types of pollution, this project will generate other environmental benefits. The XL project will act to promote growth and development in areas locally designated for redevelopment, thereby encouraging brownfield redevelopment, reducing impervious surface, and protecting habitat and green space at the fringe.

### *B. Project Specific Elements*

This XL proposal will implement the following state and federal provisions:

Section 173(a)(1)(B) of the Clean Air Act states:

“...in the case of a new or modified major stationary source which is located in a zone (within the nonattainment area) identified by the Administrator, in consultation with the Secretary of Housing and Urban Development, as a zone to which economic development should be targeted, that emissions of such pollutant resulting from the proposed new or modified major stationary source will not cause or contribute to emissions levels which exceed the allowance permitted for such pollutant for such area from new or modified major stationary sources under section 172(c);...”

IEPA SIP approved Part 203.302 Maintenance or Reasonable Further Progress and Emission Offsets states:

(a) The owner or operator of a new major source or major modification shall provide emission offsets equal to or greater than the allowable emissions from the source or the net increase in emissions from the modification sufficient to allow the Agency to determine that the source or modification will not interfere with reasonable further progress as set forth in Section 173 of the Clean Air Act (42 U.S.C. 7401 et seq.) .....1.3 to 1 in areas classified as severe....

(B) The Agency shall allow the use of all or some portion of the available growth margin to satisfy subsection (a) above if the owner or operator can present evidence that the possible sources of emission offsets were investigated, none were available at that time and the new or modified major stationary source is located in a zone (within the nonattainment area) identified by the USEPA, in consultation with the Secretary of HUD, as a zone to which economic development should be targeted.

Specifically, the following activities will occur under this project XL:

1. The USEPA, in consultation with HUD, will designate area(s) for redevelopment. For this proposal to achieve its goal of emission reductions across the entire nonattainment area, it is important that the area(s) chosen is large enough to include the communities and businesses involved in the Regional Dialogue on Clean Air and Redevelopment.
2. The City of Chicago, in consultation with the USEPA, IEPA, and HUD, will develop criteria which an area must meet in order to be designated a smart growth zone.

3. Once the IEPA has demonstrated attainment through modeling of the inventory, they will create an account in the inventory for the creation of a growth allowance. This account will then be populated with emission reductions beyond the current attainment plan. 40% of the emission reductions will be retired while the rest will be eligible for use under 173(a)(1)(B). USEPA will need to work with IEPA and CDOE to determine how Section 173(a)(1)(B) will be applied once the 8-hour standard is in effect.
4. USEPA, IEPA, CDOE and other members of the Regional Dialogue are currently working to generate, quantify and track emission reductions created by individuals, businesses and communities in the nonattainment area. A structure will be put in place to relay information/quantification of the emission reductions to the Illinois EPA and USEPA. This XL project will likely result in an increase in the number and amount of such emissions reductions by providing a clear incentive (allowing targeted growth) for generating the reductions.
5. A public participation process will be established to solicit comments from the public on the project.

### III. Project XL Criteria

#### A. Superior Environmental Performance

This proposal is designed to deliver superior environmental protection while allowing flexibility in satisfying the offset requirement under the NSR program. The superior environmental benefits accrue in a number of ways.

- The proposed growth allowance will exceed what is necessary to demonstrate attainment.
- 40% of the emissions reductions generated will be retired while the remainder will be available for sources to use in lieu of obtaining offsets. Therefore, the emissions reduction under this proposal will be greater than the 1.3 ton reduction currently required (1.3 tons in addition to the percentage retired).
- By creating a concrete incentive (cost savings to new development in smart growth zones) to implement programs under the Clean Air Campaigns, an increased number of the campaign activities will likely be funded and carried out. This proposal will quantify the effects of actions by people, communities, or businesses and show direct positive results. Taking emissions reduction activities out of the realm of “intangible benefits” and placing them in the realm of real economic benefits will create demand and have a positive effect on the environment. This shift will cause reductions in all parts of the emissions inventory (stationary, mobile, and area).
- The Dialogue participants will achieve real reductions in mobile and area sources which are beyond Federal and State regulatory control. Local governments, in particular, are

in a unique position to affect mobile and area sources through actions such as zoning decisions, purchasing preferences and municipal ordinances.

#### *B. Flexibility and other Benefits*

This proposal provides both flexibility and cost savings. Flexibility is achieved by giving sources an alternative method of compliance with the offset requirement as well as giving a community the flexibility to use the growth allowance to entice sources they wish to have locate in a smart growth zone. Cost savings will be realized by the new source or modification the growth allowance are provided by Clean Air Campaign activities. In addition, the cost per ton of the municipal actions and those activities developed in the campaigns may be less costly than additional industrial controls.

#### *C. Stakeholder Involvement*

A stakeholder outreach process will be developed. Generally, the outreach will involve a series of public meetings and comment periods at key points through out the project. In addition, this proposal will be discussed in the Regional Dialogue steering committee, where representatives from communities, local governments, businesses and environmental groups, will be given an opportunity to discuss and comment.

#### *D. Innovation or Pollution Prevention*

This is an innovative strategy because

- this provision of the Act has never been implemented
- the project will use innovative criteria to designate the smart growth zones
- USEPA, the City and IEPA would quantify and count toward the growth allowance, a number of emissions reduction activities which the Agency has not quantified or counted before.

The project encourages pollution prevention by providing an incentive for the City as well as businesses, and individuals to generate emission reductions beyond what is required under existing rules.

#### *E. Transferability*

Although this proposal is designed to build on the activities being developed in the Chicago metropolitan nonattainment area, the basic concept of 173(a)(1)(B) may be employed in other nonattainment areas of the country.

#### *F. Feasibility*



CDOE and IEPA have the administrative and technical capability to implement this proposal. The sponsoring organizations have also committed adequate staff resources to implement the project. The proposal is supported by the management of CDOE and IEPA. Assistance will also be provided by stakeholders in the Regional Dialogue, including the USEPA and Illinois EPA.

#### *G. Evaluation, Monitoring, and Accountability*

Emissions reduction credits generated by municipal activities in the Regional Dialogue will be approved by the Illinois EPA and USEPA and tracked to assure that they meet the requirements of the SIP. Provisions in the SIP are federally enforceable under the Clean Air Act, ensuring enforceability and accountability of the allocation of growth allowance credits.

#### *H. Shifting of Risk Burden*

This project is consistent with Executive Order 12898 on Environmental Justice. No unjust or disproportionate shifting of the risk burden will occur. Under current NSR rules, a source obtains offsets from another stationary source reduction within the nonattainment area. This proposal would allow for sources to satisfy this requirement in lieu of obtaining offsets by creditable mobile, area, and stationary source reductions or by using the current offset requirement. The municipality, and thus the region, will experience an overall reduction in emissions which will directly affect the community in which the smart growth zone is located. This proposal will show superior environmental performance which will benefit the entire Chicago region.

### **V. Enforcement and Compliance Profile Section**

As noted above, the Chicago area is a nonattainment area for ozone. Sources that wish to implement section 173(a)(1)(B) of the Act must be in compliance at time of use.

### **VI. Schedule Information**

The completion and signing of the XL Final Project Agreement (FPA) and the establishment of a system/structure to track and confirm the emissions reductions are key factors in the projects schedule. Given that the background work for the project has been completed as part of the Regional Dialogue, CDOE, USEPA and the IEPA can negotiate and sign the XL FPA on an expedited basis. CDOE and IEPA hope that the structure and timing of the FPA will allow project implementation to begin as soon as the emissions tracking system is in place. Specific schedule milestones and time frames will be agreed on by all parties once the project is selected.

### **VII. Milestones in the XL process**

Project Development; EPA/State Review - (May/June 2000)

- EPA and IEPA will review the proposal and forward to CDOE any requests for additional information within two weeks from the date the proposal is submitted.



- Once all needed information is obtained, EPA will make the selection decision within two weeks.
- CDOE will begin stakeholder involvement process as soon as possible after submitting the proposal to EPA.

#### Final Project Agreement Development - (July/ August 2000)

- A proposed Final Project Agreement will be developed and published in the Federal Register.
- Who drafts the FPA, the number of drafts, and how they are reviewed will be agreed on by the sponsor, the state, stakeholders and EPA.

#### Implementation and evaluation

- Implementation and evaluation process and timeline will be determined through the FPA development process. Chicago hopes to begin implementation as soon as a structure is put in place to relay information/quantification of the emissions reductions to the Illinois EPA and USEPA.
- Project completion is desired no more than nine months to one year from the date of this proposal