

## IMPACT STATEMENT

**Legislation title:** Adopt an internal cost of carbon policy to ensure major City decisions formally consider the social and environmental costs of carbon emissions in evaluation processes (Resolution)

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### **Purpose of proposed legislation and background information:**

In September 2019, youth climate activists held a youth climate strike and presented City leadership with a list of demands. At the top of this list, youth called on the City to **“Establish a Climate Test. Every decision made by the city of Portland and its departments must take into account the health of the planet and choose what will most benefit the earth.”** (<https://actionnetwork.org/events/pdx-climate-strike-4>).

In December 2019, Mayor Ted Wheeler directed the Bureau of Planning and Sustainability to **“implement a ‘climate test’ to ensure major City decisions are integrating climate action”** and directed bureau leadership **“to return to City Council with a proposed ‘climate test’ (such as a carbon fee and/or a shadow price on carbon) that will ensure City bureaus are making informed climate-friendly decisions, particularly for major capital investments and high carbon-impact decisions, such as fuel and vehicle purchases.”** (December 11, 2019 memo from Mayor Wheeler to bureau directors.) This directive was later codified in the Climate Emergency Declaration adopted by Portland City Council in June 2020 (Resolution No. 37494.)

The internal cost of carbon policy (Exhibit A) represents the mechanism by which City bureaus will formally incorporate the cost of carbon emissions into the evaluation of major capital investment options and high carbon-impact decisions. The intent of the City’s internal cost of carbon policy is to normalize the inclusion of climate impacts into project, planning and policy decision-making. This policy establishes a framework that makes the cost of carbon much more visible in decision-making and creates a consistent mechanism for City staff to quantify actual or modeled costs associated with select projects and operational decisions that produce carbon emissions.

The policy scope applies to analyses that use benefit-cost analysis on a lifecycle basis to inform decision-making with respect to City assets, including City buildings, City fleet vehicles, energy and fuel purchases, transportation infrastructure, resource management and resource recovery at the Columbia Boulevard wastewater treatment plant, and ecosystem services.

The application of an internal cost of carbon into bureaus' respective business case evaluation frameworks serves to quantify the lifecycle cost of carbon associated with the investment and impacts project benefit-cost ratios. Quantifying carbon emissions and assigning a cost to those emissions serves to inform City decision-makers about the cost effectiveness and fiscal impact of pursuing lower carbon investment options relative to a base case (business as usual.)

The Climate Emergency Declaration (Resolution 37494, adopted June 30, 2020) required that:

*The City of Portland will involve youth and other stakeholders in the development of a proposed climate test – such as an internal carbon fee or shadow price on carbon – by Fall 2020 that will ensure City bureaus are making informed decisions based on the best available climate science, particularly for major capital investments and high-carbon-impact decisions, such as fuel and vehicle purchases, and explore options for a lifecycle climate test that could apply to other areas where the City has environmental, safety, land use, zoning, or design review authority.*

The proposed legislation supports the following City policies:

- Climate Emergency Declaration (Resolution No. 37494) commits the City to develop a climate test to help inform City decision making based on the best available climate science; and
- 2015 Climate Action Plan (Resolution No. 37135) set a 2030 objective to reduce carbon emissions from City operations 53 percent below fiscal year 2006-07 levels; and
- Sustainable Purchasing Policy (Resolution No. 37483, adopted March 2020), identifies the development and application of a shadow price of carbon as an emerging best practice for reducing greenhouse gas emissions in City operations; and
- Sustainable City Principles, adopted in 2015, commit Portland elected officials and staff to think beyond first costs and consider long-term, cumulative impacts when making policy and financial decisions; and
- Financial Planning Policy amendment FIN 2.03 (Resolution No. 37419, April 2019) requiring City bureaus to minimize environmental, social, and economic risks; and to maintain infrastructure at the lowest life cycle cost which meets service objectives; and
- Portland is a signatory to the C40 Net Zero Carbon Buildings Declaration, which commits City assets and infrastructure to becoming net zero carbon by 2030.

### **Financial and budgetary impacts:**

The proposed legislation does not have direct budgetary impacts to City investments, as the internal cost of carbon is a non-cash cost that serves as an evaluation tool meant to inform the business case for City investments. There may, however, be indirect financial

impacts associated with the implementation of this policy in such cases where a bureau decides to proceed with a lower carbon, but higher cost, project option.

The legislation does not propose additional staff positions to implement the policy. Additional staff time may be required to implement the policy as part of existing City capital project and capital set-aside development processes, respectively. Bureau of Planning and Sustainability staff time will be required to develop resources and tools to aid in the calculation methodology and to conduct staff training to implement the policy.

### **Community impacts and community involvement:**

Youth climate activists were instrumental in calling for the City to establish a climate test, starting with the youth-led Climate Strike in September 2019. Key participants included Portland Youth Climate Council (PYCC) and Sunrise Movement PDX. Community outreach for this policy focused on engaging with youth to respond to those demands and understand what youth would like to see in the City's climate test.

As research into the climate test began in earnest in January of 2020, City staff invited youth climate activists to participate in a series of youth roundtable sessions to introduce the goals of the climate test and an initial draft policy framework, hear initial ideas and feedback from youth, and hear how youth would like to be engaged in the policy development process to chart a course for ongoing engagement.

City staff held three youth roundtable public meetings to introduce the goals of the climate test and an initial draft policy framework, hear initial ideas and feedback from youth, and hear how youth would like to be engaged in the policy development process to chart a course for ongoing engagement. Meetings were held on August 13 (11 participants), September 17 (7 participants), and October 22 (4 participants).

Since the climate test was part of the Climate Emergency Declaration, some feedback on the climate test was received as part of the public comment period for that resolution. Comments received from youth respondents stated that "...an internal price on carbon is not what the youth who have struck envision for a climate test. A climate test should be a lens through which all decisions in the City are made. Each proposed policy or project should be evaluated to see the impacts it would have on Portland's climate and equity goals. If it is not in line with those goals the policy/project should not go through. A carbon fee or price on carbon is important and should be added as a separate clause elsewhere in the resolution, but the climate test must be more extensive."

In developing the internal cost of carbon policy, staff tried to balance the demands of youth climate activists with the needs and constraints of the implementing bureaus. Based on extensive research into the available policy options and on conversations with the infrastructure bureaus, and after acknowledging the realities of the City budget as a result of the Covid-19 pandemic, City staff concluded that the broadest implementation of a climate test as proposed by youth climate activists will take more time and requires a

phased approach. Staff believe that starting with the attached internal cost of carbon policy is an important and necessary first step, but more work remains to be done in future phases.

The proposed internal cost of carbon policy was made available for public comment from November 2 to November 20, 2020. City staff promoted the public comment period through BPS and Mayor's office communications channels, including web, social media and direct email.

Six public comments were received. Most were positive. However, a handful of comments, including those of the Portland Youth Climate Council, expressed dismay over the proposal's lack of an actual monetary carbon fee, its limited scope and the length of timeline to implement. Youth also expressed frustration over not being sufficiently engaged in the process.

### **100% Renewable Goal:**

The internal cost of carbon policy directly contributes to the City's goal of meeting 100 percent of community-wide energy needs with renewable energy by 2050. Renewable energy inherently has lower carbon emissions than fossil-fuel based energy resources. When City investments related to energy and fuel use are evaluated using the internal cost of carbon framework, the benefit cost ratio of lower-carbon investments increases, making them more attractive to pursue than higher carbon choices. The policy also can be expanded in the future to apply to decision-making in broader community-based applications.

It is likely that this policy will reduce the City's total energy use. The application of the internal cost of carbon will benefit the cost-effectiveness of City project options that reduce carbon emissions. In many instances (though not all), lower carbon emissions are a result of reduced energy use in the project.

The application of the policy will benefit the cost-effectiveness of City project options that employ renewable, carbon-free sources of energy. Thus, this policy is likely to increase the City's renewable energy use.

## **Budgetary Impact Worksheet**

### **Does this action change appropriations?**

- YES:** Please complete the information below.  
 **NO:** Skip this section