

● THROUGH THE LOOKING GLASS

A POLICY NUDGE TO MAKE 'SMART CITIES' GREENER CAN CREATE A WIN-WIN-WIN FOR CITIZENS, CITIES AND THE WORLD AT LARGE

What can Indian cities learn from New York

WRITING on LinkedIn recently, Prime Minister Narendra Modi noted, "The 15th Finance Commission and several academics have emphasised the crucial importance of sound property taxation. The third reform required states to notify floor rates of property tax and of water & sewerage charges, in consonance with stamp duty guideline values for property transactions and current costs respectively, in urban areas. This would enable better quality of services to the urban poor and middle class, support better infrastructure and stimulate growth. Property tax is also progressive in its incidence and thus the poor in urban areas would benefit the most. This reform also benefits municipal staff who often face delay in payment of wages. 11 states completed these reforms and were granted additional borrowing of ₹15,957 crores."

In an article earlier this year, we had explored how financing of urban infrastructure could be made more viable and vibrant. In the article, three key aspects were highlighted: (1) predictable urban local body (ULB) revenues, (2) capacity building, and (3) creating innovative products. The importance of property tax in creating predictable revenues is well known. Most of the bonds issued by ULBs in India (amounting to about ₹50 billion) have the backing of property tax receipts of the body in their escrow mechanisms.

Linking urban and green

In 2019, New York passed the Climate Mobilization Act. The Local Law 97 of 2019 sets emissions caps for buildings larger than 25,000 sq-ft beginning in 2024, which will cut carbon emissions at least 40% by 2030 and over 80% by 2050

AKHILESH TILOTIA

The author is with National Investment and Infrastructure Fund. Views are personal



from the affected buildings.

Buildings that do not comply will face fines set at \$269 per tonne of emissions that are in excess of the individual building's cap in a given year. About 50,000 buildings are expected to be affected by the law. This law is expected to reduce New York City's carbon emissions by 6 million tonnes, create 26,700 green jobs, and prevent 50-130 premature deaths annually.

A large part of the change is expected to come from reduction in use of energy by improving heating and cooling systems and upgrading electrical appliances. Reduction in emissions is also possible via rooftop solar installations. Different types of buildings (from parking to hospitals) will have a greenhouse gas target (kg/sq-ft) ranging between 4.3 and 23.8 between 2024-29, which reduces to between 1.1 and 11.9 by 2030-34. Other aspects like a \$30 million fund for retrofit accelerator for free technical assistance, treatment of battery storage, the impact of a non-green grid, etc, are also detailed.

A corresponding Local Law 95 of 2019 also requires energy grades to be posted on buildings larger than 25,000 sq-ft.

From carbon to capex

The price of carbon hardcoded in the law (\$269 per tonne) is significantly higher than the current cost of traded carbon (between \$10 and \$50 per tonne across geographies). While some forecasts do expect the price of carbon to trend up, especially as countries start to approach

their milestones of peak emissions by 2030 and net zero by 2050, the high carbon price currently baked in offers a strong reason for buildings to comply with the law. I had highlighted three avenues for financing green capex: countries, companies, and carbon. New York is using the carbon price to drive change. Depending on how the reality turns out, either it

would have reduced emissions via social participation or funds would be generated for it to take up compensatory emission-reducing activities.

Such a stream of income can be used to back up a sustainable bond financing: the pay-out on the bond can be structured in such a way that if emission levels are low, the pay-out on the bond is low (this is what sustainable bond financiers require); however, if emission levels do not decrease as expected, the higher pay-out on the

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bond can be financed via fines collection. A sustainable bond issue on the back of this law can allow cities to create immediate capex for bettering lives of its citizens and increasing their productivity.

Building the model for India

The use of price as an incentive (or disincentive) has strong economic rationale. The law uses the terminology of fines for buildings; it could alternatively have been labelled as a contribution by the buildings to a 'green fund', if they are unable to 'green' themselves. Such labelling or justification for a policy can help create political alignment and social consensus.

New York expects to put in a place a credible mechanism of collection of fines in case emission requirements are not met. This credibility of enforcement is critical to make the initiative real. Putting a high price on carbon will give rise to many experiments by residents: there can be some interesting lessons. Indian cities have struggled to collect property taxes as earlier Economic Surveys have documented and as the incentive scheme announced by the PM attests. This will require building up credible capacity within the ULB to identify, measure, bill, and collect the amounts.

India has allowed power companies to sell green power to citizens. Many city-based customers are now receiving offers from their electricity providers to pay a small premium for getting green power delivered to them. Coupling this initiative with an incentive to move towards greening their society (and not just their homes) can help reduce the carbon content of the grid and emissions of the city.

A policy nudge to make 'smart cities' greener can create a win-win-win for citizens, cities and the world at large.