Testimony of Caswell F. Holloway
Commissioner, New York City Department of Environmental Protection (DEP)

New York City Council Committee on Environmental Protection
FY 2011 Preliminary Budget
March 8, 2010

Good morning Chairman Gennaro and Members. I am Cas Holloway, Commissioner of New York City Environmental Protection. Thank you for the opportunity to testify on the Fiscal Year 2011 Preliminary Budget.

As this is my first appearance before the Committee as Commissioner, I would like to briefly explain some of the work we've been doing over the past nine weeks as context for a discussion of the Preliminary Expense and Capital Budgets for Fiscal Year 2011.
Since I started on January 1st, I have been focusing on DEP's four core functions:

- To supply, distribute and treat the one billion-plus gallons of water that flow daily into New York City from our upstate watersheds and out of New York City into the harbor after treatment;

- To provide excellent customer service to the 834,000 account holders whose revenue makes this system work; and to the 9 million people in and out of the City who enjoy our water;

- To make all the investments necessary to ensure the system meets or exceeds the applicable environmental standards as well;

- To work closely with our regulatory partners to implement Mayor Bloomberg's PlaNYC Agenda and provide clean air, water and a healthy overall environment for the people who live, work in and visit New York City.

We are currently developing a strategic plan that will set out goals and metrics in each of these four core areas, and in the fourth area, which we refer to internally as "Air, Water, and the Environment," I have created a new position—Deputy Commissioner for Sustainability—who is responsible for making sure that PlaNYC—and the sustainability principles that are its foundation – become part of the way DEP builds and operates. Carter Strickland, formerly of the Mayor's Office of Long-Term Planning and Sustainability, has been on the job since January and we're off to a fast start.

As this Committee knows, DEP's portfolio is staggering in its size and complexity: in the City there are 6,600 miles of water mains, and 7,400 miles of sewers, fourteen wastewater treatment plants, nearly a hundred pumping stations, and three enormous water tunnels burrowed through bedrock underneath the City. Upstate we own over a hundred thousand acres of land, 19 reservoirs that store more than five hundred billion gallons of water, 7 wastewater treatment plants, and a complex system of dams, aqueducts and tunnels that carry our drinking water, courtesy of gravity, into the Bronx and from there to the rest of the City. The cost of maintaining a system this size is also substantial.

FY 2011 Preliminary Capital Budget

In the current fiscal year we project our capital commitments at $3.2 billion. In FY2011, the Preliminary Budget projects $1.7 billion in commitments. Which means that even during the deepest national recession since the 1930's, DEP is one of the most important engines of job creation in the region. To explain what our capital budget means in terms of employment, using federal metrics, we estimate that every million dollars of construction in this region creates approximately 6.5 "person-years" of work. Using that baseline assumption, DEP's FY10 capital spending will generate 5,000 well-paying construction and construction-related jobs for four years. In fact, the current level of capital investment in our water system is virtually unprecedented since the Croton system went into service in 1842.

Three current projects represent the most significant investments in the future of the City's drinking water system since the construction of City Tunnels 1 and 2 – which date from 1917 and 1936:

- City Tunnel 3. Stage 1 is already in service; The Manhattan Stage—known as Stage 2--will be in service in 2013, and shaft work is already underway to create the connections necessary to feed the distribution system that Tunnel 3 is being built to support. Tunnel 3 has been under construction since 1970. Completing it has been a top priority for the Bloomberg Administration. The total project cost is $6 billion.

- Croton Water Filtration Plant. More than one thousand construction workers a day clock-in at the Croton Water Filtration Plant site in the Bronx. The plant will be operational in 2012, and will enable us to supply nearly 300 million gallons of water per day from the Croton watershed. The total cost of the project is estimated at $2.8 billion, including approximately $242 million of that is being used for parks and other community improvements;

- Ultra-violet Disinfection Facility for the Catskill-Delaware Water system. The UV plant will provide secondary disinfection for Cat-Del water, which is currently treated with chlorine before entering the in-City distribution system. We expect the plant to be operational in 2013 and the construction cost is $2 billion.

In addition to these investments, the $5 billion upgrade of the Newtown Creek Wastewater Treatment plant is 2/3 complete, and just last week we started construction of one of the final large projects at the site—the central residuals building. The Mayor's investments in Newtown Creek are already paying off. Last month, State DEC Commissioner Pete Grannis and I announced that for the first time, the City's 14 wastewater Treatment plants are meeting monthly Clean Water Act standards for secondary wastewater treatment. We expect shortly to certify that Newtown Creek is meeting all treatment standards under the Clean Water Act—a major milestone for water quality in New York City that substantially advances Mayor Bloomberg's commitment in PlaNYC to open 90% of the City's waterfront to recreation by 2030.

In addition to these Citywide projects, the $8.8 billion Preliminary Capital Budget funds infrastructure projects throughout the five boroughs in the years FY2010-14. .. Using the federal employment metric I just mentioned, $8.8 billion will create over 50,000 "person-years" of well-paid employment, or 10,000 jobs for five years.

Queens

In Queens, the Preliminary Budget includes $1.5 billion of spending from FY2010-14, including $332 million for new sewers. And that number does not include recent investments, such as the $300 million holding tank for combined sewer overflows (CSO) beneath the ball fields in Flushing Meadow Park; or the CSO holding tank in Alley Pond Park that we are in the final stages of completing at a cost of $100 million.

Bronx

In the Bronx, the Preliminary Budget includes $450 million of capital spending in FY2010-14, including $243 million to complete the Croton Filtration Plant. To eliminate the need for truck traffic to transport residual material created during the filtration process, DEP is building a seven-mile long force main to handle residuals from the Croton plant. The $18.1 million force main will follow a seven-mile route from the Mosholu site to the Hunts Point Wastewater Treatment plant. The Preliminary Budget also provides $76.2 million at the Hunts Point Wastewater Treatment Plant to complete a $470 million upgrade. [SLIDE 10] And DEP will also be funding a $25 million upgrade of water mains as part of a DDC-managed project to improve Pelham Parkway.

Brooklyn

In Brooklyn, the Preliminary Budget includes $1.4 billion of commitments in FY2010-14, including $156 million for new sewers, $157 million for the Gowanus Pumping Station upgrade, and $647 million to complete the upgrade of the Newtown Creek Wastewater Treatment Plan. In Canarsie, DEP will is soon to finish a $422 million CSO holding tank that will capture runoff which now flows into Paerdegat Basin. Part of the project includes a $14.6 million stimulus-funded restoration of degraded wetlands and shore areas around the perimeter of the Basin that is funded through the American Recovery and Reinvestment Act.

Manhattan

In Manhattan, the Preliminary Budget projects $301 million in capital spending, including $167 million to complete ten shaft connections to City Tunnel 3, as well as the water mains that will connect those shafts to the existing Manhattan water distribution system. This work is critical to turning on the Manhattan leg of City Tunnel 3 by 2013. Although it is not reflected in the Preliminary Budget because it was funded in prior years, we are also in the finishing stages of $165 million of upgrades at the North River Wastewater Treatment plant.

Staten Island

In Staten Island, we will begin construction of a $300 million project for construction of a new water tunnel (or, "siphon") to provide critical redundancy for Staten Island's water supply. DEP is funding $125 million of that amount and the Army Corps will fund the remaining amount. Because Staten Island lacks storm and sanitary sewers in some areas, an additional $330 million is budgeted in FY2010-14 for sewers. The Preliminary Budget also includes $257 million for remediation of the closed Brookfield Avenue landfill, made possible in part through funding from State DEC.

We'll also continue our investments in the Staten Island Bluebelt, the award winning, ecologically sound and cost-effective storm water management system for approximately one third of Staten Island. Bluebelts are natural drainage corridors; the program preserves these areas, so that they can perform their functions of conveying, storing, and filtering storm water. In addition, the Bluebelts provide important community open spaces and diverse wildlife habitats. In FYs 2010 and 2011, DEP plans to spend more than $34 million on both developing and maintaining the Bluebelts we already own, as well as obtaining more lands to work into the Bluebelt system.

<u>Upstate and the Watershed</u>

We're also funding important capital improvements to the upstate parts of our water supply system. The reconstruction of the Gilboa Dam, which encloses the Schoharie reservoir, is a new capital projected that is funded for $419 million in the FY2010-2014 Plan. The reconstruction work will repair long-term deterioration of the dam's concrete spillway and side channel, upgrade the dam to meet all current NYS dam safety standards, and improve operational capabilities.

Fortunately, last year we received $219 million of federal grants through the American Recovery and Reinvestment Act (ARRA), to help advance more projects and put more people to work. In addition to funding important wastewater treatment work, that $219 million of ARRA funding also allowed us to use our own funding for $153 million of projects that had been shelved or were funded in out-years, including $72 million in various Queens sewer and water work; $63 million in sewer and water main projects in other boroughs; and $18 million for the substation at the Rockaway wastewater treatment plant.

It is important to note that a substantial part of DEP's capital budget is committed to satisfying regulatory mandates that are required by the federal and state governments, but not funded by them. With the exception of recent ARRA funding, over the last twenty years, that level of federal contributions to water infrastructure have been minimal. But the scope and number of unfunded mandates as grown dramatically. New York City ratepayers currently pay 99.5% of the costs of operating, maintaining, and building the system. In recent years, as much as three-quarters of the capital budget has consisted of multi-billion-dollar mandated projects that have been a major driver of recent water-rate increases. While mandated projects ensure compliance and can clearly provide benefits to the system and its users, the scope and schedule of unfunded regulatory mandates too often do not take into account cumulative (or any) costs, or competing system priorities that would have a greater benefit to the system.

Because DEP largely does not have a choice about when to schedule mandated projects, when prices for heavy construction were at record highs during the recent boom, DEP was awarding very large contracts for two multi-billion dollar mandated drinking-water facilities, and multiple mandated wastewater treatment facilities. If those projects were not driven by consent orders and compliance schedules, we might have made different choices in terms of scheduling or phasing the work. Overall, the combination of federal disinvestment, aggressive federal regulation, and record-high construction costs has led to a situation where, at present, thirty-seven cents of every rate payer dollar goes to debt service.

Fortunately, we are on track to complete some large mandated projects in the next two or three years, and I have already initiated a top-to-bottom review of the current ten-year capital plan to ensure that we have a strong business case for every investment that is closely tied to the agency's four core missions: to supply, distribute, and treat the one-billion gallons of water that New Yorkers need every day.

FYI 2011 Preliminary Expense Budget

We are looking at the entire Expense Budget with these same goals in mind. Given the current economic conditions, I have asked our management team for an across-the-board 8% reduction of agency expenses for FY11 and beyond. This reduction is consistent with the Mayor's goal to do more with less, and reduce the burden on ratepayers. For example, sludge management is among the costlier items in our Expense Budget, at $67 million for FY2011. To explore the prices and technologies that the market has to offer, last year DEP issued an RFI for sludge management services. Based on the responses we received we estimate that we will save approximately $18 million a year by declining to renew our contract with the New York Organic Fertilizer Company in Hunts Point, and using landfilling services instead. We plan to make this this year and aggressively pursue more cost-effective beneficial re-use of biosolids.

Although an 8% reduction will not be easy, we started working on it on my first day at Lefrak City, and I am confident that we can meet that target through a consolidation of duplicative functions, finding new efficiencies, and focusing on our core functions. The FY11 Expense Budget is projected at $968 million, a decrease from the FY10 Expense Budget (as modified) of $1.045 billion.

The largest item in our expense budget, $411.8 million or 42.5% of the total, is for personnel costs for our approximately 6,000 person workforce. Most New Yorkers may only see DEP staff when they're at work in the street on the nearly 14,000 miles of sewers and water mains that run beneath the City. Those field staff are only a part of the picture. Nearly 2,000 employees work in wastewater treatment, and DEP employs more than 1,000 people in the upstate watersheds. DEP's workforce is highly skilled; in addition to engineers, electricians and architects, many have backgrounds in microbiology, public health, real estate acquisition, industrial hygiene, computer technology and forestry, to name a few. In addition, DEP also has a watershed police force that is fully staffed at 191 Environmental Police Officers.

Approximately $556.6 million or 57.5% of the total expense budget is in the category of other than personal services (OTPS). Within the OTPS category the largest single item is the $122 million in taxes we pay on our 140,000 acres of land, as well as our reservoirs, dams and structures. The Preliminary Budget includes $94 million for various contract services such as parts, maintenance and security. While most of our system relies on gravity, the wastewater treatment processes require substantial amounts of energy so we also pay $98 million for heat, light and power (primarily in the form of electricity). With the possible exception of taxes, these are all items that can and will be considered as we look for innovations and efficiencies that will allow us to provide the same or better service to our customers while we reduce the financial burden our rates place on them in difficult times.

In the tax levy-funded part of the agency's budget, which deals with air quality and other non-water-related issues, we have reduced by 5 positions the headcount supporting the Asbestos Technical Review Unit (A-TRU), a joint initiative with the Department of Buildings (DOB) to increase public safety at abatement sites. We expect to provide the same level of services even with these reductions.

That completes my prepared statement. Thank you for the opportunity to testify this morning. I know that Chairman Gennaro and I have some common goals and I look forward to working over the next several years with him and with this Committee.