TESTIMONY OF
COMMISSIONER DAVID M. FRANKEL

NEW YORK CITY DEPARTMENT OF FINANCE

BEFORE THE NEW YORK CITY COUNCIL
FINANCE COMMITTEE

ON THE MAYOR'S FINAL BUDGET
FOR FY2011

MAY 13, 2010

Good morning Chairman Recchia and members of the Finance Committee. I appear before you today proudly representing the more than 2,000 employees of the Department of Finance as you begin hearings on the Mayor's Final Budget for fiscal year 2011. Thank you for this opportunity to testify.

Before taking your questions, I will briefly cover a number of topics. First, as part of an exercise meant to address the significant budget challenges we face, the Mayor asked us in March for another group of PEGs, or Programs to Eliminate the Gap. I will discuss those programs we expect to implement. Second, I will update you on the processing of applications for the Senior Citizen Rent Increase Exemption, or SCRIE, which I know remains a source of concern to your constituents. Third, I want to report to you on an event I attended last week with small businesses concerned about some of the property-tax issues raised by the Chairman when I appeared before you in March. Finally, I will review the latest data on the assessment roll and the annual lien sale.

I. Budget PEGs

When I testified a few months ago, I shared details of $20.4 million in PEGs that our agency had absorbed as part of the effort to keep the City's finances in balance.

As you know, the continued uncertainty in Albany, where a state budget is today exactly six weeks late, has continued to cloud a difficult budget picture. In March, another group of PEGs were requested. We continue to do more with less and I will outline here our latest efforts to continue to increase collections and reduce expenses.

For the next fiscal year, our largest PEGs come from increased collections anticipated from our Audit division. Data from recently closed audit cases indicate that our initiative to hire 29 new audit staff will generate at least $10 million more than the previous annual projection of $16 million. By using better data-mining and modeling techniques, we are generating a larger-than-anticipated number of cases. Using what we believe is a more accurate revenue rate, we now project that each of the new auditors will generate about $750,000 of new revenue per year. At the same time, the addition of these auditors has allowed us to reassign more experienced auditors to the newly formed tax-shelter group. That group has already identified 16 additional likely targets for audit, which will also help us exceed the original budgeted revenue estimates.

On the expense side of the ledger, our PEGs eliminate four positions for a savings of $326,000. This will reduce staff in our Assigned Counsel Plan unit and eliminate our graphic arts department.

In another staff-related change, we will move four Deputy Sheriffs to a grant-funded warrant program that pursues parents who do not meet their legal obligations. This is funded by a federal and state reimbursement program through HRA, and will save $323,000.

Finally, we will eliminate the private cleaning contract for the Bush Terminal Warehouse, Finance's storage facility in Sunset Park. Going forward, we will expand the agency's use of Work Experience Program (or WEP) workers to clean the warehouse, saving $90,000 annually.

I also note that apart from specific PEG responses, we are consistently looking for ways to make the Agency more efficient from both performance and budgetary perspectives. This is critical. Between the city issues with our non-controllable expenses rising at an unsustainable rate, the difficult situation with the state budget that is only going to get worse and the federal budget deficits that we will all be affected by, we are going to have to do more with less for years to come. I note that just yesterday the Treasury Department announced that the Federal budget deficit hit a record for the month of April. Federal revenues are down significantly and the deficit is now at over $1.5 trillion. While the Feds can print money, at some point this all catches up to us and we have to be prepared.

II. SCRIE Update

Turning to SCRIE, when I last testified, we had approximately 13,150 SCRIE applications on hand. Since then an additional 4,300 applications have come in, making the total 17,450. Of this, 12,500 are renewals and 4,950 are new applications.

Since March we have worked aggressively to overcome the resulting backlog.

With respect to new applications, we have approved 1,600 and denied 750. Of the remaining 2,600 applications, we have reviewed 2,100 and determined these applications are missing information. All these new applicants have been sent letters and we await their response. The other 500 new applications were received in the past three weeks and are being reviewed. It is our goal to ensure we process the 200-250 new applications we receive each week in a timely fashion.

We have made even greater progress with the renewal applications. As of today, we have processed all of these applications received through last week and currently have a less than 10 day turnaround time. Since March 1, we have approved 8,050 and denied 40 applications. We still have 4,400 open incomplete applications, but all tenants have been sent letters explaining what is missing. We are currently waiting to hear back from them.

In total, from March 1 through last week, we have sent a total of 15,500 letters to applicants and 9,000 to landlords. These include approval and denial notices, as well as letters informing applicants of how to fix an incomplete application. I expect these letters to lead to a reduction in concerned calls to your offices from tenants and landlords about SCRIE benefits.

Moving forward, we are continuing to enhance the SCRIE process. One of the ways that we hoped would make the process easier for applicants was eliminating the need for seniors to send us income tax returns, since we already have this information on hand. However, we now estimate about 75% of SCRIE applicants do not file returns probably because they fall below the filing threshold. We are looking at how those applicants can supply legally required income information to us in a way that makes sense. We will also be working with Council to improve the application language and design, as well as information provided on Finance's web site.

III. Small Businesses and Property Taxes

Let me turn to an issue that came up when I last appeared before you. In March, you described the frustrations of small-businesses concerned about property-tax increases.

Last week I appeared before the Economic Development Committee of Community Board 3 on the Lower East Side of Manhattan. For two hours, I had a lively discussion with a diverse group of business owners, property owners and engaged New Yorkers that could only have happened here.

Many of these business owners were concerned about property taxes. Since their leases required that they pay increases in property taxes, they wanted to know how to find out if their landlords had received a property tax refund so they could ask for their share. I told the businesses information on most assessment reductions is available on line from the Tax Commission. In addition, I pointed out that since 2007 the Mayor and City Council have enacted several pieces of legislation oriented to small businesses that reduced their collective tax burden by about $270 million.

While discussions around property tax questions and other tax related issues can get heated and emotional and have no easy solutions, I find discussions with community groups invaluable, both as a means to correcting misconceptions and getting input from those most affected by the law and the process. As I mentioned last time, I and other members of my staff would be happy to accept similar invitations to appear before groups in your communities.

IV. Assessment Roll and Lien Sale

Under the City Charter, Finance is mandated to release the Final Assessment Roll by May 25th. While the roll is not yet final, we expect billable assessed value to be about $1.375 billion lower on the final roll than the tentative roll. This results from Tax Commission actions, changes by notice, and the completion of exemption processing. The reduction is in line prior years.

Also, I know you are aware of lien-sale matters because you held a hearing on the subject just last week. The final day to pay noticed debt in the lien sale was last Friday. We saw significant revenue collected during the notice period; in fact a majority of the properties initially at risk of having a lien sold, either paid in full, entered into a payment agreement, or received an exemption that removed them from the lien sale. 17,000 properties of the initial pool of 25,000 submitted payments totaling $95 million, which removed roughly $230 million of debt from the lien sale. 1,100 properties were pulled from the sale, most due to a senior citizen or disabled homeowner exemption or because it was part of an HPD program. There are currently about 6,800 properties with liens still qualified for the sale, representing $135 million in debt, $89 million of which is property tax.

V. Final Thoughts

One of the important things we do at Finance is administering exemptions and abatements. In fiscal year 2009, the City granted $3.9 billion in property-tax exemptions and abatements to private properties. These actions are all mandated by state and city laws. $1.6 billion of that is dedicated to relief for residential properties in programs such as the 421-a, Mitchell-Lama, and J-51 programs. Also in this group are the Senior Citizen and Disabled Homeowner property tax exemptions. Another $500 million goes to the ICIP/ICAP program, which is dedicated to protecting jobs and encouraging commercial development. The remaining $1.7 billion is for institutional properties such as not-for-profit religious, medical, educational, and cultural facilities, which often serve as the anchors of our neighborhoods.

While it is important that we properly administer tax benefits that go to the deserving, we must also make sure that we hold those that do not pay their fair share accountable.

That minority of businesses and individuals who evade their tax obligations, or who don't pay in a timely or accurate way, create an unfair playing field and make victims of the rest of us. Leveling that playing field is a critical mission of the agency.

This leads me to my final point, one that I repeat whenever I speak publicly. I believe that the wonderfully dedicated staff of the Department of Finance – some of them here with me today -- should be considered heroes. They should be the heroes of the majority of individuals and businesses who meet their obligations to support all of the services you will be talking about through these budget hearings, from sanitation to public safety to education – all the services that we provide as a government.

Thank you. I will be happy to answer your questions.

TESTIMONY OF COMMISSIONER DAVID J. BURNEY, FAIA

PROPOSED EXECUTIVE EXPENSE, REVENUE, CAPITAL AND CONTRACT BUDGETS HEARING

MAY 13, 2010

Good afternoon Chairman Recchia and members of the Finance Committee. I am David Burney, Commissioner of the Department of Design and Construction. I am pleased to be here with you today. I have a brief statement, after which I will gladly answer any questions.

The agency's current Fiscal Year 2010 Operating Budget is $106.5 million. Of that, $83.9 million is for Personal Services and $22.6 million is for Other Than Personal Services. The projected Fiscal Year 2011 Operating Budget is $106.6 million. Of that, $86.1 million is for Personal Services and $20.5 million is for Other Than Personal Services.

In an effort to reduce operating expenses and improve staff efficiency, by the end of this Fiscal Year DDC will have closed its borough offices in the Bronx, Staten Island and Brooklyn, relocating all three

operations to our headquarters in Long Island City. As a result, we expect to realize a savings of approximately $432,000 in fiscal year 2011, which will increase to more than $1 million in fiscal year 2012.

With six weeks remaining in Fiscal Year 2010, I am pleased to report that DDC expects to meet or exceed the major statistical indicators that reflect our mission to deliver the City's construction projects in an expeditious, cost-effective manner, while maintaining the highest degree of architectural, engineering, and construction quality.

Of the 10 DDC critical performance indicators included in the City's CPR (Citywide Performance Reporting) tool which has appeared on NYC.gov for the past two years, nine are categorized as "Green," meaning stable or improving compared to the same period last year. These nine indicators reflect improved plan vs. actual schedule performance for all infrastructure and structures projects both active and completed. Also reflected are reduced average cost changes for all completed construction projects, plus favorable responses to Post-construction Satisfaction Surveys. The remaining indicator,

which is in the "Yellow" category, shows a minor downward trend with on-time performance for completed structures design projects.

DDC continues with the urgently needed rehabilitation and modernization of the 200-year-old landmark building in which we are sitting, to assure its safe, continued use for years to come. The first priority has been to stabilize and repair existing deteriorated conditions in various areas of the building. The stabilization efforts include the scaffolding in the Committee Room which was put in place to support major plaster ceiling elements. Since I last addressed you in March, the elevator replacement and sub-cellar contract was awarded, and mobilization began earlier this month. Further work on the east wing will commence following the City Council's move, in July, to your temporary swing space.

The overall scope of the City Hall work includes:

- **Life safety repairs to various building components including reinforcement of deteriorated wood roof trusses in various areas—as just noted, much of this work has been completed,** although further investigation may yet reveal hidden deterioration that will need to be addressed.

- Fire safety measures including installation of a building-wide sprinkler system.
- Repair of the Council Chamber ceiling.
- Replacement of the elevator.
- Repairs and reconfiguration of Council areas on the ground floor and basement.
- Building-wide fire alarm system and HVAC components.
- Solar panels to partially serve the electrical load borne by the existing, outdated system.
- Achieve LEED Silver certification from the U.S. Green Building Council.

As a follow-up to my previous testimony concerning capital projects on non-City owned property, our staffs continue working together, along with the OMB task force, to facilitate progress on these

projects. Since the program's inception, 85 projects have been registered with 10 more now ready for registration by the Comptroller's Office and there are additional projects in the pipeline for this year. We continue to be available to meet with recipient organizations, provide assistance and answer questions.

That concludes my prepared remarks and I will be happy to answer any questions you may have.

Testimony of Caswell F. Holloway, Commissioner
New York City Department of Environmental Protection (DEP)
on the **Fiscal Year 2011 Executive Budget**
before the New York City Council Committees on
Environmental Protection & Finance
(City Hall, May 13, 2010)

Introduction

Good afternoon Chairs Gennaro and Recchia and members of the committees. I am Cas Holloway, Commissioner of the Department of Environmental Protection.

Thank you for the opportunity to testify today about DEP's Fiscal Year 2011 Executive Budget. This hearing coincides with a series of six public hearings hosted by the New York City Water Board in each of the 5 Boroughs (2 hearings were held in Manhattan) on the water rate proposal for fiscal year 2011 that I presented to the Board on April 9, 2010. I have attended each of the hearings thus far to make a brief presentation on the proposal and to hear people's testimony.

At those hearings and half a dozen meetings I hosted earlier this year in all five boroughs, I have tried to explain the tremendous amount of work that nearly 6,000 DEP employees do to supply, distribute and treat more than a billion gallons of water a day; to show examples of the $14 billion of capital work we currently have in design and under construction; and to explain our operating and capital costs and how they form the basis for DEP's water rate proposal every year.

The main concern I am hearing, which has also been expressed by Council members, is that water rates are too high, and that any increase is especially difficult to bear in the current economic climate, particularly in light of the recent water rate increases that have been necessary to operate, maintain, and build the water system. At the same time, I have been gratified to hear that customers are generally pleased with the service they are getting from DEP through our employees on matters large and small. New Yorkers also understand that water and sewer services cost money, and that we need to continually invest in the system to ensure that we continue to deliver some of the best drinking water in the nation. In fact a couple of speakers have pointed out that the cost of water here is quite low compared to other major cities in the country and around the world, and the quality is among the best.

Nonetheless, the 12.9% increase proposed for this year is unwelcome, and I have been asked to do everything I can to mitigate the impact of future increases. At DEP we are committed to doing that, and I'll talk about the steps we're taking internally, and how the City Council can assist in the effort.

My testimony today will cover 3 subjects: (i) a summary of DEP's expense and capital budgets and their connection to the water rate proposal for fiscal year 2011; (ii) DEP's unprecedented capital program and the debt-service increases that have been required to fund it; and (iii) the tools DEP needs to ensure that everyone who can afford to pay their water bill pays, so that all New Yorkers contribute their fair share to maintain one of the City's critical capital assets and precious resources--and water rates can be kept as low as possible.

I. **The Fiscal 2011 Executive Budget and Water Rate Proposal**

As I noted at the outset, DEP has proposed a 12.9% water rate increase for fiscal year 2011. Why are water rates projected to increase? The basic reason is that projections for next year show revenues declining and costs increasing, creating a gap that we need to fill by increasing the water rate. The two largest components of DEP's budget are operations and maintenance, and the debt service we pay to fund our enormous capital program.

The good news is that we expect operations and maintenance costs to decrease by $170 million next year from $1.35 billion to $1.18 billion. The first thing I did as Commissioner was ask my senior management team to implement an across-the-board, 8% expense budget reduction for Fiscal Year 2011 and beyond – and I'm happy to report that we will achieve that. We expect to reduce headcount by more than 200, and we'll make some operational changes that, taken together, will generate approximately $87 million in recurring savings – some of which we've already started to see this year. These cuts, combined with changes in chemical pricing and conservative budgeting, add-up to a combined $170 million in operations and maintenance savings next year.

While we have made cuts to reduce the system's expenses, these savings are partially offset by other critical needs such as settling long-outstanding labor agreements; beginning to hire the staff that will be needed to operate the $2.8 billion water filtration plan we are building for the Croton Watershed in the Bronx and the $1.6 billion Ultra-Violet disinfection plant under construction for the Catskill-Delaware Watersheds; and uncontrollable expenses such as recent increases in the price of oil and gas.

While operations and maintenance costs are expected to drop, we project that our debt service costs will increase from an estimated $837 million this year, to $1.2 billion next year. That's a 47% increase, much of it necessary to fund ongoing work at massive, legally mandated capital projects. This along with other components to run the system require us to raise $2.95 billion for fiscal year 2011.

$144 million of that need will come from upstate and other non-city revenues, and the remaining $2.8 billion must come from New York City water ratepayers. If we applied the FY 2010 rate next year, we would generate approximately $2.49 billion—$320 million short of what we need to cover the costs of running the water system next year. That translates to a 12.9% water rate increase. That increase is 1.4% lower than the 14.3% increase that we thought would be necessary last year, and we were able to both reduce the water rate increase and settle two long-standing labor disputes that affected more than 1,000 essential employees. Our water rate proposal also offers a 1% discount to customers who sign up to pay their bills through direct debit, which you can do through our website: www.nyc.gov/dep. We've also proposed a stormwater pilot for stand-alone parking lots that are not receiving any water or sewer charges. These parking lots are generating a tremendous amount of stormwater, which severely taxes our sewer infrastructure, and can contribute to combined sewer overflows when it rains. However, because these lots receive no water service and are not paying a sewer charge, they are not paying their share of the costs DEP incurs to capture and treat stormwater.

II. Unfunded Mandates & Debt Service

It should be clear from my testimony so far that the primary driver of the rate increases New Yorkers have seen in the past several years is debt service to fund our capital program. And the spectacular growth in capital work is largely attributable to projects that the City is obligated to build on a specific timeline, because of state and federal rules and laws. In fact, of the over $19 billion in capital commitments that DEP has made in the last ten years, $13 billion or 68% has gone to fund mandated projects imposed by federal and state regulators—with negligible federal or state funding for DEP to do the required design and construction work. Between FY 2002 and FY 2010, DEP's debt service obligations rose by 65%, from $500 million to $837 million. In the last four years alone, debt service has grown 27%, from $658 million to $837 million

To give you an example of how mandated projects drive debt service, consider two of our largest capital projects: the construction of a filtration facility in the Bronx for the Croton Watershed, and an ultraviolet disinfection facility in Westchester for the Catskill-Delaware Watershed. While these investments will further enhance the quality of water delivered, the quality changes will be largely transparent to our consumers. However, the City was required to build both of them at the same time, regardless of relative risk and we'll be required to pay more than $61 million per year to operate the plants by the time both are operational in 2013.

Put simply, these projects are being built now to be in compliance with federal and state regulations, without regard for local need, competing water infrastructure demands, or the cumulative cost of building and operating massive infrastructure.

In the years between FY 2002 and FY 2011, these two projects alone cost over $4.4 billion in design and construction, and annual debt service costs ratepayers $134 million. On a household basis, those projects, plus other unfunded mandates, have increased the price of water and sewer service for the average homeowner by $177 per year. This is not to say that legally mandated projects are categorically unnecessary; we would likely choose to make some of the same investments, at some point based on our own assessment of public health and environmental impact. For example, this year we announced that the City's 14 Wastewater Treatment Plants are meeting monthly Clean Water Act standards for the first time ever—and that's due in large part to the $5 billion reconstruction of the Newtown Creek Treatment Plant that is currently under way.

But federal and state mandates, and the consent orders that come with them, dictate when and how investments get made, and they are too-often applied in a one-size-fits-all manner that can result in unnecessary cumulative burdens. Going forward, the largest components of our current mandated projects have already been bid-out and budgeted and, barring any unexpected new unfunded mandates, the capital budget will return to more manageable levels this year. DEP's capital plan for Fiscal Years 2011 to 2014 is $5.7 billion, as compared with $12.2 billion for the fiscal years 2007 to 2010. Not only does the size of our capital budget decrease over the next four years, the percentage of the budget attributable to mandated projects declines as well. That means more of our capital dollars can go to discretionary projects such as building sewers and water mains, and keeping our dams and wastewater infrastructure in good repair. And we must address long-standing issues, like the leak in the Delaware Aqueduct that we want to be sure is not indicative of larger structural problems.

Note, however, that even as our annual capital commitments normalize, the bonds that were sold to pay for mandated projects that are in construction or recently completed will be paid off for the next 30 years—and so will continue to exert pressure on the water rate for many years to come.

III. Capital Work Throughout the Five Boroughs

In addition to mandated projects, we are making critical investments to ensure that the water system is viable for the next 100 years. Mayor Bloomberg has made the city's infrastructure a top priority, and investments such as City Water Tunnel No. 3, the Staten Island Bluebelt and Siphon, and the Avenue V Pump Station in Brooklyn, are essential to achieving DEP's core mission: to supply, distribute and treat the more than 1 billion gallons of water that 9 million New Yorkers need every day. And we are continuing to fund critical projects in each of the five boroughs to maintain and improve the 6,600 miles of water mains and 7,400 miles of sewer mains that make the system work.

Queens

In Queens, we have budgeted an additional $1.7 billion for Fiscal Years 2010 through 2014, including $330 million for new sewers, $200 million for water mains and over $800 million for upgrades to Queens wastewater treatment plants and CSO facilities.

Bronx

In the Bronx, we project $592 million in capital spending from FY 2010 through FY 2014, including $382 million to continue the Croton Filtration Project, a $28.4 million, seven-mile force main from the Mosholu site to the Hunts Point Wastewater Treatment plant, and $57 million in funding at the Hunts Point Wastewater Treatment Plant to complete upgrades.

Brooklyn

In Brooklyn, we have budgeted $1.54 billion from FY 2010 through 2014, including $142 million for new sewers, $153 million for the Gowanus Pumping Station upgrade, as well as $548 million in additional costs at the Newtown Creek Wastewater Treatment Plant.

Manhattan

We have budgeted $425 million in additional capital spending in Manhattan. $252 million of that will go for water supply purposes, including the funding to complete ten Manhattan shaft connections from City Tunnel No. 3 to the under-the-street distribution network.

Staten Island

In Staten Island, to improve the reliability of its water supply, this year we will begin a $294 million project for construction of a new water tunnel to provide redundancy for the Staten Island water supply system. Because Staten Island lacks storm and even sanitary sewers in some areas, an additional $361 million is budgeted from FY 2010 through FY 2014 for sewers. The budget also includes $258 million for remediation of the closed Brookfield Avenue landfill, a joint City/State project. (Note that the City's share is paid for using general obligation debt proceeds, because the remediation is not connected to the water system.)

We're also funding important capital improvements to the upstate parts of our water supply system. The reconstruction of the Gilboa Dam is funded for $347 million in the FY 2010-2014 Plan. The planned reconstruction work is intended to repair long-term deterioration of the concrete spillway and side channel, upgrade the dam to all current New York State dam safety standards, and improve operational capabilities.

What are our options for reducing debt service costs going forward? Our first obligation is to do what is necessary to supply, distribute, and treat more than 1 billion gallons of water every day. But we must also be prudent in our capital investments, and we are in the midst of a detailed review of the capital plan to ensure that we have set the right priorities.

And we have to engage our regulators—the EPA and State DEC and the State Department of Health—to ensure that the rules governing water quality, and the investments needed to comply with the rules, will achieve meaningful improvements on a timeline and in a manner that New Yorkers can afford. There must also be a willingness to look at existing mandates and make adjustments considering science-based assessments of public health risks and environmental benefits.

I have already begun to engage our State and Federal partners to build the kind of relationship that will, I hope, enable more agreements like the one Mayor Bloomberg and I announced on February 25th with State DEC Commissioner Pete Grannis and Chairman Gennaro. Rather than spending time and money in a legal battle with environmental stakeholders and regulators over nitrogen discharges into Jamaica Bay, the City and the State—with federal EPA support—joined environmental stakeholders to develop a plan to dramatically improve water quality by reducing nitrogen discharges through $115 million of investments over ten years, giving the City much more flexibility in managing contracts and costs than we would expect from litigation.

This is an approach I hope to replicate, and with the cooperation of our regulators, and your help, I am confident that it can lead to more manageable capital budgets, and lower water rates.

IV. <u>Collections and Enforcement</u>

I've talked about the expense and capital budgets, and the rate proposal for Fiscal Year 2011. For DEP, providing adequate funding for the water and wastewater systems, while keeping water rates as low as possible, requires that we have the tools necessary to ensure that people who can afford to pay their bills actually pay.

In 2007, thanks to the leadership of Speaker Quinn and the entire Council, DEP was authorized to sell water liens for customers who have had $1,000 or more of water debt for more than one year. The lien sale has proven to be a powerful tool to collect unpaid water and sewer bills from those customers who can afford to pay, but for some reason have not.

In short, the lien sale works. Very few liens are actually sold, because 89% of those eligible for the lien sale in 2008 and 2009 either paid their bill or entered into a payment plan well before any "sale" took place. In fact, in 2008 and 2009, DEP received $185 million from customers noticed in the 90-day list, and another $81.6 million in Payment Agreements. That translates to an additional 7.9% of water rate increases that responsible New Yorkers who pay their bills otherwise would have had to bear without the lien sale.

As you very likely know, DEP's lien sale authority will expire at the end of this year, and we strongly encourage the Council to authorize and expand it before end of the year. Just last week, I testified before the Finance and Community Development Committees on Intro 26, which would severely limit the pool of delinquent accounts eligible for the lien sale and with that, the revenues we can expect to collect for water and sewer service. I will not repeat today all of the reasons why this proposal would be bad for rate payers and DEP (my testimony is available at www.nyc.gov/dep).

But I will make two general points. First, Mayor Bloomberg and DEP understand that, particularly in these difficult economic times, we must do everything we can to help New Yorkers who face the greatest financial burden. There are a number of exemptions to the lien sale designed to do this, and DEP's Water Debt Assistance Program—with more than 500 participants now—is an example of new initiatives for these extraordinary times. But limiting lien-sale eligibility is not a way to help those in financial difficulty—in fact, it exacerbates the problem. DEP's experience is that including accounts in the lien sale is much more effective way to incentivize New Yorkers to work with us to pay their bill—rather than let it accumulate; and it is far less costly than other measures, like water-service termination.

We think the best course of action is to re-authorize the lien sale as it is currently structured, and expand it to single family homes. In 2008, concurrent with the first sale of water-only liens on multi-family homes, DEP began to enforce against seriously delinquent single-family homes by terminating water service pursuant to a long-standing authority to do so. While most of those single family owners who received a termination notice have paid in full or signed payment agreements, terminating service is a very labor-intensive and inefficient means of enforcing payment of water bills. The actual termination of service requires a crew to excavate the street, turn off the water, and restore the street to a safe condition, at an average cost of $2,700 per home.

In 2009, we served 15-day notices on 3,547 single-family homes. We terminated service at 65 of them. We collected $2.75 million from this group, but we spent $1.6 million to collect it, and tied-up the equivalent of 10 full-time field staff, who could otherwise have been performing work that would have benefited many more New Yorkers, such as repairing water mains, maintaining fire hydrants, or cleaning catch basins and sewers.

Currently, there are 8,500 single-family homes that would meet the eligibility criteria for a lien sale. If all 8,500 single-family homes that would be eligible for lien sale had their service terminated, it would take the equivalent of 24 full-time DEP employees and cost $3.8 million in order to collect $18.2 million in one year, for a net revenue increase to the water system of $14.4 million.

If the 8,500 single-family homes were instead eligible for the lien sale, we would expect to collect $25 million with virtually no operational expense. That $25 million is equivalent to a full point reduction of the water rate. The bottom line is that extending the lien sale authority to single family homes would eliminate the threat and substantial cost of water service termination, and significantly increase revenue collection, at substantially no cost. It is difficult to think of a more efficient way to lighten the burden on the ratepayers and increase service in the field.

Conclusion

In closing, DEP will continue to find ways to reduce operating expenses, and we're taking a hard look at the capital program to find savings. I'd ask the members of this Committee and the rest of the Council to work with DEP to encourage our federal and state regulators to embrace a new paradigm that focuses on cost-effective investments that increase water quality, and are built at a pace and scope that New Yorkers can afford. I also strongly encourage the Council to re-authorize and expand the tools DEP needs to ensure that those who can afford to pay their water bills actually pay.

That concludes my prepared statement. Thank you for the opportunity to present testimony and I look forward to any questions you may have.

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