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FY 2012 Preliminary Budget
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Good afternoon Chairman Gennaro and Members. I am Cas Holloway, Commissioner of the New York City Department of Environmental Protection. Thank you for the opportunity to testify on the Fiscal Year 2012 Preliminary Budget.

When I testified before this committee a year ago, I talked about DEP's four core functions:

Customer Service. First and foremost, DEP is a customer service organization. 9 million people—nearly half the population of New York State—rely on the water and wastewater services we provide every day.

835,000 of those customers pay the water bills that make it possible to run and maintain our ingenious and tremendously complicated system; we have a special obligation to them to provide accurate, fast and efficient service, and to run DEP as transparently as possible—so you know how we're spending those resources.

DEP also counts among our customers thousands of home and business owners who need our approval to hook into the water and sewer system. We have a responsibility to make their jobs easier by making permitting processes simple, fast, and efficient so they can focus on helping New York City to grow and thrive.

Water Supply and Wastewater Treatment. Our second core function—and the heart of our day-to-day operations—is to supply and distribute more than 1 billion gallons of water each day to 9 million New Yorkers, and to treat the 1.3 billion gallons of wastewater residents, businesses and visitors send to our 14 wastewater treatment plants daily.

Capital Projects. DEP runs on of the largest construction operations in the region, with $14 billion of projects currently in some phase of design or construction. Our third core function is to maintain and build the City's water and wastewater system—through well managed projects that are on time and on budget.

Sustainability. Our fourth core function is to maintain the quality of the water New Yorkers drink, the air we breathe, the harbor waters that surround us, and to protect residents and businesses alike from environmental hazards like asbestos and excessive noise, that can impact public health, and generally lower New Yorkers' quality of life.

I committed last year to develop a strategic plan to accomplish all of this at the lowest possible cost: by cutting our expenses; spending capital dollars only where they will achieve the greatest public health and environmental benefits; using DEP's vast asset base to attract private investment; and working with our regulators—primarily the Federal EPA and the State Departments of Health and Environmental Conservation —to end the cycle of unfunded mandates in favor of a partnership-based approach that will continue environmental improvement at a sustainable pace, and for a price New Yorkers can afford.

Last month we delivered on that promise when Mayor Bloomberg and I released *Strategy 2011-2014,* a strategic plan that lays out 100 distinct initiatives to make DEP the safest, most efficient, cost-effective, and transparent water utility in the nation. Each initiative advances a key goal connected to the four core functions I just described. The plan will guide DEP's investments and operations over the next four years, and we will keep you and the public up-to-date about our progress with an annual report card. If you haven't already, I hope you will take a few minutes to review that plan, and I'd welcome the opportunity to meet with you to discuss specific initiatives, capital investments or other activity in your respective districts, or on any other issue.

What does all of this have to do with the budget? Keeping water and sewer service affordable is at the core of our plan, and cost was an explicit consideration for each of the 100 initiatives we are committed to achieving. Some, like the Green Infrastructure Plan that I will discuss at greater length shortly, were developed for the express purpose of reducing the costs of improving water quality in New York Harbor; others, like repairing the leaks in the Delaware Aqueduct, are significant new capital commitments—but we're paying for it by re-prioritizing our entire 10-year capital investment plan, not by increasing it. As the Mayor said when we released the plan last month, "DEP's strategic plan is a blueprint for making sure that our growing city continues to have a sound environmental infrastructure and a great quality of life . . . Many of its 100 goals and initiatives can be accomplished over the next four years. And they're <u>all</u> affordable, even in this era of budget constraints."

<u>FY 2012 Preliminary Expense Budget</u>

DEP's projected expense budget for fiscal year 2012 is $987 million; our four-year capital budget—from fiscal years 2012—2015— is $6.6 billion. On the expense side, we've worked aggressively since last year to cut costs, and we achieved an 8% across-the-board expense budget reduction that included a headcount reduction of 214 positions, and nearly $20 million in savings on sludge removal. We're going through another round of cuts to take effect in 2012, and we expect to achieve significant reductions. The Agency expects significant combined savings from this year and for next year on a recurring basis, though we have some new needs—principally in connection with the new facilities we'll be bringing on line, including the Croton Water Filtration Plant and Ultraviolet Disinfection Plant—that will offset those savings.

The single largest expense in the FY 2012 budget is $452 million in personnel services to pay the salaries for our nearly 6,000 employees. Outside of personnel costs, taxes on upstate watershed lands accounts for more than 10% of all expenses, and will come in at over $140 million in 2012. This is a sizeable amount, but our upstate land holdings are critical to protecting our drinking water quality, and the alternative—a multi-multi-billion dollar filtration plant—would be much more costly. We work closely with our upstate partners to ensure that the taxes we pay are fair, and to promote responsible economic activity—like agriculture supported through the Watershed Agricultural Council, known as WAC—that protects the City's Catskill, Delaware, and Croton watersheds.

Heat, light and power—DEP's energy costs—account for over $90 million of the FY 12 expense budget, and our power bill—and greenhouse gas emissions—will increase substantially as we bring new facilities online, unless we start taking aggressive steps now to become more efficient. Our strategic plan includes 6 energy-related initiatives to increase efficiency, reduce overall demand, and generate revenue through public-private partnerships that take advantage of DEP's energy-rich asset base. We recently received 12 submissions in response to a request for expressions of interest in developing a co-generation facility at our Ward's Island plant. Our four-year capital plan includes almost $300 million for investments to make our treatment plants more energy efficient, including $60 million in FY 2011 for digester gas system upgrades at five of our treatment plants.

Sludge management is another significant expense. The wastewater treatment process generates approximately 1200 tons of sludge each day, and last year we generated nearly $20 million of recurring expense savings by diverting a portion of our sludge to landfills. Over the long term, however, we want to find a beneficial use for as much of the City's sludge as possible, and we recently received 17 submissions in response to an RFP released last fall. The evaluation process is under way, and cost will certainly be a factor in our decision-making. Although it is a byproduct of the sewage treatment process, sludge has many potential applications, including energy extraction and as a component for building materials; we're hopeful that the firms interested in working with us have made viable, cost effective proposals.

FY 2012 Preliminary Capital Budget

On the capital side, the Preliminary Capital Budget includes $1.7 billion for FY 2012, as compared with a forecast of $2.5 billion for FY 2011. The Preliminary Ten-Year Capital Plan projects $12.1 billion for water and wastewater infrastructure. Of the FY12 total, $764.6 million is projected for drinking-water system investments, which have been a signature priority for the Bloomberg Administration. As the members of this committee know, three of the largest capital projects currently in construction will significantly transform the way drinking water is supplied and distributed in the City:

- Croton Water Filtration Plant. Nearly a thousand construction workers a day clock in at the Croton Water Filtration Plant site in the Bronx. The plant will be operational in 2013, and will enable us to supply nearly 300-million gallons of filtered water per day from the Croton watershed. The total cost of the project is estimated at $3 billion, including approximately $242 million, that is being used for parks and other community improvements;

- Ultraviolet Disinfection Facility for the Catskill-Delaware Water system. The UV plant will provide an additional disinfection barrier 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 2012, and the construction cost is $1.6 billion.

- City Water Tunnel No. 3. Completion of City Water Tunnel No. 3 in Manhattan is scheduled for 2013. Activation of the tunnel will enable DEP to provide much-needed redundancy to City Water Tunnel No. 1 in which has been in service since 1917. Tunnel No. 3 has a total construction cost of about $5 billion, and Mayor Bloomberg has committed more funding to complete it than the five previous administrations combined.

In addition to these ongoing projects, the Capital Plan addresses one of the most complicated challenges to the long-term reliability of the City's water supply: the leaks in the section of the Delaware Aqueduct known as the Rondout-West Branch Tunnel. Last November we unveiled a plan to build a three-mile bypass tunnel around a portion of the aqueduct that is leaking in Roseton in Orange County, and repair other leaks in Wawarsing, in Ulster County, from within the existing tunnel. We are on track to break ground on the bypass tunnel in 2013, and to complete the connection to the Delaware Aqueduct in 2019. We project that the bypass tunnel and internal repairs will cost approximately $1.2 billion, and the water projects necessary to supplement the city's supply during the part of the construction period when the Delaware Aqueduct will be offline will cost approximately $900 million.

The bypass and repairs at Wawarsing will restore the long-term reliability of the Delaware Aqueduct. To ensure the quality of the water coming from the west-of-Hudson watersheds, our capital plan also continues the highly successful and extensive watershed protection program, including land acquisition that has already protected more than 116,000 acres through outright purchase and easements. Thanks to the hard work of our partners at State DEC and the many watershed stakeholders, DEP received a new 15-year permit from DEC that extends the land acquisition program for another 15 years.

Our Capital Plan includes many more projects, including water and sewer work throughout the five boroughs, and work on our wastewater treatment plants to increase capacity and the level of treatment.

Queens

In Queens, the Preliminary Budget includes $2.3 billion of spending from FY2012-21, including $417 million for sewers, of which $190 million is for high-level storm sewers in Southeast Queens.

Bronx

In the Bronx, the Preliminary Budget includes $326 million of capital spending in FY2012-21, including $56 million to continue the on-going construction work at the Croton Filtration Plant. The Preliminary Budget also provides $39 million for the reconstruction of the Throgs Neck Pumping Station. DEP will also be funding a $59 million upgrade of various water main projects.

Brooklyn

In Brooklyn, the Preliminary Budget includes $601 million of commitments in FY2012-21, of which $137 million is for sewer and water main work in the Coney Island Area. In addition, $110 million is budgeted for the 26th Ward Primary Settling Tank and Solids Handling work, required by the Jamaica Bay Consent Order, and $53 million for the sludge loading dock at Newtown Creek.

Manhattan

In Manhattan, the Preliminary Budget projects $969 million in capital spending, including $568 million to complete ten shaft connections to City Water Tunnel No. 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 Water Tunnel No. 3 by 2013. In addition, $65 million is provided for the Reconstruction of Boilers at the Wards Island Wastewater Treatment Plant.

Staten Island

In Staten Island, the Preliminary Budget projects $400 million in capital spending; including $276 million in FY2012-21 for sewers. In the coming months, we will begin construction of a $250 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, and the U.S. Army Corps of Engineers is funding the remaining amount because the project is being done in connection with the Army Corps's deepening of New York Harbor. We are also in the middle of a $248 million remediation of the closed Brookfield Avenue landfill, a joint City and State-funded project.

We are continuing to build-out the Staten Island Bluebelt, the award winning, ecologically sound and cost-effective stormwater 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 natural functions of conveying, storing, and filtering stormwater. In addition, the Bluebelts provide important community open spaces and diverse wildlife habitats. For FY2012-21, DEP plans to spend more than $75 million on developing and maintaining the Bluebelts we already own, as well as obtaining more lands to work into the Bluebelt system.

We are also investing heavily to improve customer service. To provide more timely billing information to our customers, DEP continues to install wireless meter reading devices, also known as AMR, at all properties citywide. AMR will allow DEP to eliminate estimated bills and provide more accurate billing and consumption information on a near real-time basis. Customers can take advantage of this information with our new online tool, which allows them to manage their water use more effectively. As of last week, we have installed more than 625,000 AMR devices—75% of the City—and we are on track to complete the citywide installations by January 2012.

DEP's $252 million investment in wireless meter reading has enabled us to expand customer service in ways not formerly possible. Just this month, Mayor Bloomberg and I launched an automated leak notification program that proactively alerts owners of one-, two- and three-family homes to spikes in water consumption so that they can quickly respond to potential leaks and fix them before they become a costly problem. The initiative is part of the City's broader effort, called NYC Simplicity, to make government more customer-focused, innovative, and efficient. Spearheaded by Deputy Mayor Goldsmith, NYC Simplicity seeks to use technology and data to improve the customer experience, streamline operations and save taxpayer dollars. During the pilot phase of this program we alerted roughly 1,300 customers about potential leaks, which we estimate collectively saved several hundred thousand dollars.

For businesses and contractors who need a DEP permit to do their job, we recently began to allow plumbers to apply for and receive permits online for water and sewer line repairs and replacements. You can learn more about these and other customer service initiatives in our strategic plan; they're part of our effort to help homeowners and businesses save time and money.

I noted earlier that as part of our efforts to keep water and sewer service affordable, we did not increase the size of our capital plan to fund projects like the Delaware Aqueduct repair, but prioritized, with the help of the Asset Management program DEP launched in 2009.We evaluated over 27,000 assets across many parameters, including physical condition, performance, and the consequence of failure, and used that data to generate business cases for capital projects that would address specific groups of assets. This new process standardizes the prioritization of our limited capital dollars across the spectrum of assets the agency is responsible for, to ensure we're making the right investments at the right time.

I hope this short summary of projects under way and in the pipeline is helpful. Just as important is the question of what future investments we may be required to fund, and how soon, depending on actions taken by our federal and state regulators.

I don't need to tell the members of this committee that the size and pace of recent water rate increases cannot continue; you already know it. Mayor Bloomberg has committed more than $20 billion to water and wastewater infrastructure between 2002 and 2010—more capital funding than went to any other social need, including education and public safety. Water rates have increased by 117% during the same period—from an average bill of $375 for a family of four in 2002 to $816 today—to fund these investments.

Of that $20 billion, approximately $14 billion—more than 70%—was for projects that are mandated by federal or State regulations and whose schedules and scopes are established and enforced by consent or court orders. Less than 1% of our capital funding during this period came through federal grants, and even if you add ARRA Stimulus funding, grants account for just 1.3% of New York City's capital funding for water and wastewater infrastructure between 2002 and 2010. The fact that a project is mandated by the State or Federal government does not mean that it's a bad investment for the water system. To the contrary, in many cases, the City would likely make the same or a similar investment <u>at some point</u>. But consent orders dictate when and how a project will be done, and they are focused on a specific compliance issue—so they don't take into account the water systems' overall needs and priorities.

Combine this with the "one-size-fits-all" enforcement approach favored by EPA and other authorities, and the result is massive, simultaneous investments that require billions of dollars of debt-funded cash-on-hand to build. As a direct result of the compressed construction windows for the vast majority of DEP's consent order work, water rates have increased by double digits in each of the last 4 years—11.5% in 2008, 14.5% in 2009, 12.9% in 2010 and 12.9% for 2011—timing that couldn't be worse for New Yorkers—many of whom are seniors on a fixed income—hard hit by the recession. And more increases are projected into the future, to complete mandated work that is peaking now, and new projects that the water and sewer system needs to achieve and maintain a state of good repair.

Unless something changes in the federal government's approach—a new enforcement paradigm, or a massive infusion of funds for local governments and water utilities—we're going to see more of the same from Washington, and the State regulators who follow Washington's lead or risk losing jurisdiction over their water and wastewater infrastructure. As much as I—and the 835,000 property owners who pay New York City's water bills—would like a cash infusion, I think that's unlikely in the current fiscal environment. But a change in the enforcement paradigm is possible if EPA and State regulators are committed to it, with local governments like New York City as willing partners together with environmental groups and other stakeholders.

EPA Administrator Jackson and her staff—with initiatives like the Green Infrastructure Task force—have signaled a strong willingness to move in a new direction. But without acknowledging that these quantum leaps on the so-called "program" side of EPA must be accompanied by a change in EPA's enforcement approach, I believe that bold, cost-effective sustainability initiatives like green infrastructure cannot succeed.

The stakes are high. Thanks to the hard work of DEP's first-ever Deputy Commissioner for Sustainability Carter Strickland and his team, Mayor Bloomberg and I launched the Green Infrastructure Plan last September. As the members of this committee know, one of the most significant remaining water quality challenges we face is combined sewer overflows—CSOs—that happen when stormwater overwhelms portions of the City's sewer network that carry both storm and sanitary flows. Under a consent order currently in place with State DEC, the City would be required to build massive tanks and tunnels—what we call "grey" infrastructure—to capture CSOs and pump them to a treatment plant after a storm.

The Green Infrastructure Plan proposes making cost effective grey investments, and using green infrastructure—tree pits, green roofs, bio-swales and other installations—to capture stormwater at the source, before it can enter and potentially overwhelm the sewer system. We have already appointed an Assistant Commissioner for Green Infrastructure to oversee installations, and we project that the plan could reduce the cost of addressing CSOs by more than $2 billion that would otherwise have to be paid for through water rates. And cost savings are not the only, or even the primary benefit of the Green Infrastructure approach. In addition to reducing CSOs and improving water quality, green infrastructure improves air quality, lowers energy costs, increases open space and raises property values. Grey infrastructure foregoes all these benefits, and would <u>increase</u> energy consumption and greenhouse gas emissions.

We are in active negotiations with DEC about the plan, and to succeed they, and EPA must be willing to discard the current adversarial approach to enforcement in favor of a collaborative approach that includes the flexibility needed—in the form of the trial and error that will inevitably be necessary—for green infrastructure to work. Changing this adversarial dynamic will not be easy, but it is certainly possible. A first step could be embracing the idea that consent-order driven enforcement—and the litigation and the penalties that too-often come with it—should be used to compel the unwilling, not as "standard operating procedure." For localities like New York City that are putting billions into water and wastewater infrastructure; that are funding a Green Infrastructure plan to confront the CSO problem head on; and that have laid out a clear strategy to run a safe and compliant water and sewer systemEPA should be willing to give us the benefit of the doubt. Not every initiative needs to be—or should be—written into a consent order and overseen by a judge.

Giving localities the benefit of the doubt means developing flexible remedies that incorporate investments that are planned or are already under way; it means providing the opportunity to understand what EPA's enforcement priorities are, and how we propose to achieve them—without the threat of a judicial order, or rigid, inflexible milestones that require increased water rates, or major diversions of existing resources. Fundamentally, this requires treating utilities (and cities) as partners in a common effort rather than adversaries, and to the maximum extent possible, deferring to a local jurisdiction's plan to tackle a problem, as long as we get to the right result.

DEP's Strategic Plan and PlaNYC demonstrate that the City is willing, and has committed massive resources to improve our environment and public health in ways consistent with the goals of national environmental regulation. If we could adapt federal enforcement strategies to complement and reinforce these efforts, it would go a long way towards bridging the gap between federal enforcement, scarce funding, and local goals. I have been to Washington three times in the past year to make the case for changes in federal enforcement policy. I would welcome and appreciate the Council's support as we continue to make that case.

A very promising development happened in the regulatory area in January, when President Obama issued Executive Order [#], initiating a comprehensive review of Federal rules and regulations. As part of the effort, federal agencies including EPA are required to submit a preliminary review plan by mid-May, and EPA is soliciting public comments on how they should go about it. Last Friday we submitted comments requesting changes to specific regulations—including the rule that requires New York City to cover the Hillview reservoir—as well as general comments proposing a framework for review that includes not only existing nd future rules, but the way those rules are interpreted and enforced. We are hopeful that this process will result in meaningful changes that improve environmental protection, while at the same time eliminating unnecessary investments that analysis shows will not produce substantial public health and environmental benefits.

Before I close, I want to thank the Council for passing Intro 26-A, which allows the City to resume selling liens on properties on the basis of delinquent City charges. Persuading delinquent customers to pay is an important tool in helping to keep the rates low, and making sure that we don't unnecessarily burden the people who pay their water bills on time with the additional debt owed by the small number of customers who have chosen to be seriously delinquent. I'd like to continue to work with the Council to ensure that DEP has all the tools necessary to ensure that those who can afford to pay their bills actually pay.

Thank you for the opportunity to testify on DEP's FY 2012 preliminary budget; I'd be happy to answer any questions you may have.