

Testimony of Caswell F. Holloway
Commissioner, New York City Department of Environmental Protection (DEP)
New York City Council Committee on Environmental Protection
FY 2012 Executive Budget
May 17, 2011

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 Executive Budget.

Last year, DEP committed to tightening our belt by operating more efficiently; rethinking our capital plan to stretch every dollar as far as it can go; and making critical water and wastewater investments on a timeframe that New Yorkers can afford. That work is beginning to pay off. The 7.5% rate increase that the Water Board adopted last Friday is the lowest in six years, and 35% less than the 11.5% increase that was projected last year.

Any rate increase—particularly in these tough economic times—will be a challenge for families and businesses throughout the five boroughs. But we are headed in the right direction, and we will continue to work hard to deliver the world-class services New Yorkers rightly expect. To ease the burden in the short term, we are offering a 2% discount for a year to any customer who enrolls online for paperless billing and pays their water bill through direct debit. And to assist us in obtaining payment from delinquent customers, we have issued a Request for Proposals (RFP) for firms that can provide revenue collection services.

As part of the water rate process, I made a detailed presentation at public hearings in each borough, through which I explained the services DEP provides and what it costs to provide them. In a sentence: every day, DEP's nearly 6000 employees supply 1 billion gallons of drinking water to 9 million New Yorkers; treat 1.3 billion gallons of wastewater to protect New York Harbor; enforce the Air Code to protect and improve air quality; and protect New Yorkers from environmental hazards, including asbestos and excessive noise.

I learned about unique concerns and conditions in each borough, but the overall message was consistent: the significantly lower-than-expected rate increase for the coming fiscal year is welcome news, but DEP must work harder to continue to drive down costs and stabilize rates—without sacrificing the world-class service that New Yorkers rightly expect.

As I said in my preliminary budget testimony in March, DEP's *Strategy 2011-2014* offers a roadmap to accomplish our goals for our customers; as a water and wastewater utility; as the manager of one of the largest capital programs in the region; and as the City agency charged with protecting water and air quality, and improving New Yorker's quality of life. Our plan outlines 100 specific initiatives to improve customer service, reduce operating costs, and run the safest, most efficient water and wastewater utility in the nation. *Strategy 2011-2014* provides a framework for re-prioritizing our Ten Year Plan to focus our capital dollars on our greatest infrastructure needs; on sound asset management; on maintaining the system in a state of good repair, and delivering one of the region's largest construction programs on time and within budget.

FY 2012 Executive Expense Budget

DEP's projected expense budget for Fiscal Year 2012 is \$1.0 billion. That number reflects the hard work we began last year when we implemented an 8% across-the-board reduction in costs, with a recurring annual savings of roughly \$75 million, and a reduction in 214 positions. This year, we are in the midst of an additional round of budget tightening. To hold down the FY12 expense budget, we have eliminated 108 positions due to efficiencies and consolidations, saving \$9.4 million without affecting services. We will use these savings to offset new positions, including 28 staff for operating the Catskill-Delaware Ultraviolet Disinfection Facility, and 20 staff needed to continue implementation of the NYC Green Infrastructure Plan.

Personal services is the single largest agency expense, at \$455 million, or 44% of the expense budget for FY12. The other key elements of our expense budget are:

- Upstate taxes (\$146 million or 14%);
- Contract services (\$117 million or 11%);
- Heat, light, and power (\$103 million or 10%)
- Chemicals (\$53 million 5%); and
- Biosolids management (\$39 million 4%).

For FY12, we are projecting savings of \$22 million from landfilling biosolids, space consolidation, and other reductions in supplies and contract services. Nearly \$11.2 million of this savings is the result of a change in the way we handle 1200 tons of sludge every day—a natural byproduct of the wastewater treatment process.

Last year we increased the portion of sludge sent to landfills; over the long term, however, we want to find a beneficial use for as much of the City's sludge as possible. Sludge has many potential applications, including energy extraction and as a component for building materials. In response to an RFP released last fall, DEP received 17 proposals from firms that could provide us with beneficial end uses for our sludge. The proposals are currently under review, and we're hopeful that they will enable DEP to direct as much sludge as possible to beneficial re-use.

Heat, light, and power—DEP's energy costs—are a significant part of our expense budget and our greenhouse gas emissions. Both of these will increase substantially as we bring new facilities online, unless we start taking aggressive steps now to become more efficient. Our strategic plan includes six 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 (RFEI) to develop a co-generation facility at our Wards 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 wastewater treatment plants.

Working closely with Deputy Mayor Steve Goldsmith, DEP is examining its operations to identify efficiencies. In fact, just this morning, we announced the release of an RFP for

consultant services to assist us in identifying ways to make our core operations more efficient and cost-effective.

And we are already finding savings while at the same time, creating opportunities for our workforce. On April 18th, we awarded a contract to DEP employees as part of a new in-sourcing pilot program that allows municipal labor unions to compete against private contractors on capital maintenance contracts at the city's wastewater treatment plants and pumping stations. The contract scope includes the replacement of 25 submersible pumps at the North River Wastewater Treatment Plant. The contract was awarded following a joint bid submitted by employees from Local 1320, the New York City Sewage Treatment Workers and Senior Sewage Treatment Workers, and Local 3, the International Brotherhood of Electrical Workers. The bid was 12% lower than the nearest private contractor bid.

Our second biggest cost, upstate property taxes, may seem like a lot, but it is actually a cost savings in the long term. Acquiring sensitive upstate land is an integral part of our ability to continue running an unfiltered water supply. Failure to continue this program would necessitate the construction of a \$10 billion plus filtration plant, with an estimated annual operating budget of at least \$100 million. That's a price none of us can afford.

FY 2012 Executive Budget (Capital)

The Executive Ten-Year Plan projects \$12.6 billion for FY2012-2021 and \$2.1 billion for FY 2012. I cannot stress often enough that the key factor that has driven DEP's capital budget is unfunded state and federal mandates. And these unfunded mandates generate annual debt service costs that are now larger than our operating and maintenance budget. As I testified last week at a hearing on the FY 2012 water rate proposal, next year we project that \$0.42 of every water dollar collected will go to fund debt service for DEP's capital program.

Of the \$21 billion Mayor Bloomberg committed to water and sewer projects between 2002 and 2010—more capital funding than went to any other city agency, including education and public safety—approximately 72%, or \$15 billion, was for projects that are mandated by federal or state regulations and whose schedules and scopes are established and enforced by judicial consent orders. Although federal and state regulations are enforced without sufficient regard for local needs or local priorities, they have to be funded almost entirely by local ratepayers. 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.

As a direct result of the compressed construction required for large, mandated projects, water rates have increased by double digits in each of the last four years prior to this one—11.5% in 2008, 14.5% in 2009, 12.9% in 2010 and another 12.9% for 2011. The timing of those rate increases could not have been worse for New Yorkers—many of whom are seniors on a fixed income and hard hit by the recession. If regulators had been willing to show some flexibility, we could have spread out or deferred some of this work so that we could mitigate increases in the price of water and sewer service.

At this point, we project that the percent of mandated capital spending in the FY2012-2021 window will decline to 24% of all capital spending. But there are water quality and

drinking water regulations that may generate new mandates in the next 10 years. The fact that a project is mandated by the state or federal government does not mean that it's a bad investment for the system. To the contrary, in many cases, the City would likely make the same or a similar investment at some point. 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. Giving localities the benefit of the doubt means developing flexible remedies—without the threat of a judicial order, or rigid, inflexible milestones that require increased water rates, or major diversions of existing resources.

There are some other mandated projects on the horizon that make little sense. Covering the 90-acre Hillview Reservoir pursuant to requirements under the federal Enhanced Surface Water Treatment Rule is a perfect example of a strict rule that might make sense in some cases, but not in New York City. Building a cover, a project estimated at \$1.6 billion, is an extremely expensive method of protecting Hillview from a theoretical contamination threat, specifically microbiological pathogens such as *Cryptosporidium* and *Giardia*. Our monitoring data shows that Hillview Reservoir is not a source of these pathogens—and we are already building a \$1.6 billion Ultraviolet Disinfection Facility approximately 10 miles north of Hillview to inactivate these pathogens. The City's Health Department has done an independent review at DEP's request and concluded that a monitoring regime is sufficient to protect public health. So in the New York City context, complying with the cover rule would not only be expensive and disruptive—it would have zero public health benefit. We have asked EPA to re-visit this and other unnecessary rules in the context of President Obama's comprehensive review of federal regulations, and we hope they will do so.

Unless something changes in the federal government's approach to environmental enforcement, we're going to see more of the same from Washington, and the state regulators who follow Washington's lead. The good news is that 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.

DEP is deeply engaged in discussions with our regulators on mandate relief. And EPA Administrator Jackson and her staff have signaled a strong willingness to move in a new direction, most recently announcing a program to showcase green infrastructure projects around the country as an effective method to control stormwater. But without a similar change in EPA's enforcement approach, I believe that bold, cost-effective sustainability initiatives like green infrastructure cannot succeed. I want to thank Chairman Gennaro for working with us on ways that the Council can be helpful in supporting the Green Infrastructure Plan, which has been submitted for approval to the State Department of Environmental Conservation as a modification to an unfunded combined sewer overflow (CSO) mandate.

In the Ten Year Plan, we have \$735 million for green infrastructure solutions to the challenges of how to reduce the combined sewer overflows—CSOs—that occur 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” or conventional infrastructure—to capture CSOs and pump them to a treatment plant after a storm.

The City still plans to use grey infrastructure where it is a cost-effective solution to a specific water quality problem. In fact, there is \$932.2 million in the Ten-Year Plan for optimizing grey infrastructure solutions to CSO abatement. But by shifting from the exclusive use of grey infrastructure to a strategy that combines both grey and green infrastructure, the City can reduce combined sewer overflows by more than 12 billion gallons per year by 2030, a 40 percent reduction. As compared with an all-grey plan for CSO abatement, New York City can reduce capital spending by \$2.4 billion over the next 20 years through implementing the Green Infrastructure Plan.

If we can reduce our borrowing by \$2.4 billion over 20 years, we can also reduce future water bills paid by ratepayers, which is why the NYC Green Infrastructure Plan is really the cornerstone of our efforts to end unfunded mandates. Green infrastructure also offers other benefits besides lower costs and greater CSO reduction than conventional infrastructure. Because green infrastructure uses trees, shrubs and other plantings, it provides benefits in terms of air quality, more attractive streetscapes, and a cooling effect on hot, summer streets. To encourage local partnership, the green infrastructure program includes \$3 million in grants available to individuals, businesses, or organizations that can help us manage stormwater.

Also included in the Ten Year Plan is funding for one of the most complicated and costly challenges facing the City's water supply: how to address the leaks in the section of the Delaware Aqueduct known as the Rondout-West Branch Tunnel. As I mentioned at the Preliminary Budget hearing, DEP will build a three-mile bypass tunnel around a portion of the aqueduct that is leaking in Orange County, and repair other leaks in Ulster County, from within the existing tunnel. We will break ground on the bypass tunnel in 2013, and complete the connection to the Delaware Aqueduct in 2019. The Ten-Year Plan provides \$2.1 billion in funding for both the tunnel repair itself and for the related capital projects that will provide the supplemental sources of water essential to meeting the City's needs when the Delaware Aqueduct is out of service.

Within the City, key elements in the Ten-Year Plan include:

- \$2.4 billion for projects in Queens such as Station 6, Shafts 17B and 18B, and high-level storm sewers in Laurelton;
- \$290 million for Bronx projects, including sewer and water main work and Croton-related Parks projects;
- \$810 million in Brooklyn, including work at the 26th Ward Wastewater Treatment Plant and sewer enhancements in Coney Island;
- \$1.1 billion in Manhattan, including water main connections to shaft sites and reconstruction work at the Wards Island Wastewater Treatment Plant; and
- \$488 million in Staten Island, including acquisitions connected with expansion of the Bluebelt to mid-Island watersheds.

To implement strong capital project controls and better manage our capital budget, *Strategy 2011-2014* makes 11 commitments, including creating a new Project Management Information System, implementing an Asset Management Plan, and enhancing in-house expertise.

In closing, I want to stress again the importance of re-thinking environmental mandates. DEP's Strategic Plan, the NYC Green Infrastructure 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.

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



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for the Record

Department of Environmental Protection Hearing

May 17th, 2011

Sandra Wynter

SEIU Local 32BJ

Good Afternoon, thank you for the opportunity to testify today on the Executive Budget's funding allocations for the Department of Environmental Protection.

My name is Sandra Wynter and I am a security officer for DEP 45 site in Brooklyn and a member of SEIU 32BJ. I have been a security officer for 35 years and worked at FJC Security for 17 years. I take great pride in the responsibility I have been given to protect DEP sites and facilities. I have 3 kids and while I don't earn much, my family depends on my wages and health care benefits and I cannot afford to lose this job.

I am well aware that the City faces a budget crisis and needs to save money. However, those savings should not be made on the backs of working people or at the expense of vital services that ensure the safety and wellbeing of the public.

DEP is facing a budget cut of over \$95 million dollars. A large percentage of that is coming from cuts to contracted security. The executive budget proposes cutting DEP's contracted security budget in half – which could lead to the loss of 100 or more full time security officer positions.

The Mayor's budget leaves the DEP no option but to cut the number of security officers protecting facilities that bring clean and safe drinking water into the homes of millions of New Yorkers. Compromising the safety of the City's water supply is not the solution to balancing the budget, especially when cuts could result in fewer officers stationed at sites identified as prime targets for terrorists' attacks.¹

As the city council goes through its budget process, we hope that you take into account the importance of security in public buildings and the city's responsibility to ensure the public's safety. We ask that you restore the funding for contracted security at DEP facilities so that my co-workers and I can continue to provide a first line of defense at our city's water and wastewater facilities.

Thank you.

¹ <http://www.fas.org/irp/crs/RS21026.pdf>

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