

Testimony of Carter H. Strickland, Jr.
Commissioner, New York City Department of Environmental Protection
New York City Council Committees on Environmental Protection and Finance
FY 2013 Executive Budget
May 14, 2012

Good afternoon, Chairman Gennaro, Chairman Recchia and Members. I am Carter Strickland, Commissioner of the New York City Department of Environmental Protection (DEP). I am joined today by Steven Lawitts, DEP's Chief Financial Officer, Joseph Murin, DEP's Assistant Commissioner for Budget, and other senior managers. Thank you for the opportunity to testify on the Fiscal Year 2013 Executive Budget.

Through prudent cost-cutting, improved transparency and efficiency, and targeted advocacy for regulatory reform, we are doing everything we can to keep water bills low for the 836,000 customers that we serve. At the same time, we must ensure the delivery of clean, reliable water when New Yorkers turn on their taps, limit flooding, and remove pollutants from 1.3 billion gallons of wastewater generated every day. To provide these essential services, we must have adequate resources to run a system that includes 19 reservoirs, 295 miles of tunnels and aqueducts, 14,000 miles of water and sewer mains, and 22 wastewater treatment plants.

DEP's continuing commitment to operate more efficiently, stretch every capital dollar as far as it can go, and make critical water and wastewater investments on a timeframe that New Yorkers can afford is demonstrated by the fact that we were able to reduce the recently adopted rate increase to 7.0% from the 9.3% that we had forecast. The 7.0% increase for Fiscal Year 2013 (FY13) is the lowest in seven years, and our rates continue to be below the national average. Though rate increases are difficult during tough economic times, we are moving in the right direction and maintaining the high standard of services for New Yorkers. DEP's efforts to improve service delivery will continue. We expect our Operational Excellence program (OpX) initiatives regarding chemical usage, sludge processing, vehicle maintenance and re-negotiating DEP contracts to result in \$10 million in recurring savings starting in FY13, with additional recurring savings to start in later years.

As a part of our commitment to providing the highest level of customer service, we have substantially completed the installation of our Automated Meter Reading (AMR) network. AMR provides customers with readings on a daily basis, so customers can take control of their water and sewer bill by identifying costly leaks and waste. A total of 166,000 customers representing 187,000 billing accounts have signed up for access to our AMR network through nyc.gov/dep to date and I request that you urge your constituents to take advantage of this improvement in our system.

As a result of AMR, we have reduced the number of estimated bills issued year-to-date compared to 2010 by 65%. And fewer estimated bills mean fewer pieces of correspondence and higher collection rates. We have seen a 19% decline in fiscal year-to-date billing appeals compared to fiscal year 2008, prior to the installation of AMR.

For those unwilling to pay their fair share, we have used our lien sale authorization over the past four years to collect \$367 million from delinquent customers prior to sale, helping to keep rates lower during an unprecedented period of unfunded mandates. Our partnership with the Council on more outreach events, 0% down payment and 10-year payment agreements have resulted in a large reduction in the number of customers heading into the final sale. In comparison to 2011, at the 10-Day mark this year we are observing a 39% decline in the number of accounts, from 9,180 to 5,628, and a 48% decline in the amount of arrears from \$97.8 million to \$50.4 million.

Because single-family homes are not included in the lien sale, and the cost of service line shut-offs often exceeds the amount owed, we have identified an alternative collection method. DEP will work with a collection agency to increase our collection rate among our most delinquent customers, including single-family homeowners, while controlling costs. We expect to enter into a contract with Municipal Services Bureau, a private collection agency, by the start of FY13. The firm will focus on single-family homeowners and be paid on a flat fee. At the end of a formal process, the collection agency will conduct credit reporting for customers who fail to pay. Doing so will allow us to increase our collection rate and reduce the burden of forecast rate increases in the years ahead.

Additionally, for the first time ever, the city has agreed to institute a pilot program to cap the rental payment at the FY11 annual rate of \$196 million, adjusted yearly for inflation, for the next three fiscal years. This step will save approximately \$98 million from FY13 through FY15. This equates to a projected savings of \$14 million in FY13, \$32 million in FY14, and \$52 million in FY15. The returned funds will be used to mitigate future rate increases and invest in other programs like green infrastructure. Many municipal water and wastewater systems make payments to their general funds for city services, such as police, fire and sanitation—and the size of DEP's payment, even before this pilot, is well within the normal range of what other municipalities pay. The value of the rental payment is based on annual debt service payments and is critical to the financial stability of the system, which has allowed us to finance improvements at low interest rates.

Just after the Preliminary budget hearing in March we released the 2011 progress report on DEP's Strategy 2011-2014, which 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 Yorkers' quality of life. In the Strategy's first year, 63 initiatives have been fully or partially achieved while 36 are on track to be completed on schedule. We've already saved customers \$10 million through our Leak Notification Program, secured the ban of hydraulic fracturing in the watershed, and committed to a \$1.5 billion green infrastructure program over 20 years by signing a draft modified consent agreement with the New York State Department of Environmental Conservation (DEC). In addition, we have enhanced customer service by initiating the development of a service line protection program, launching an online Water and Sewer Permitting System for businesses, engineers and contractors, and by simplifying the Community Right-to-Know online reporting process.

In Operations, we certified that the Newtown Creek Wastewater Treatment Plant (WWTP) meets federal Clean Water Act (CWA) standards for secondary treatment two years ahead of schedule, lowered repair time of high-priority fire hydrants to an average of 5.9 days from 7.5 days in 2010 through a new partnership with the New York City Fire Department, expanded recreational boating access to Neversink, Pepacton and Schoharie Reservoirs and opened 6,765 acres of watershed land for recreational use.

Capital milestones include the completion of the Project Management Information System to manage and control project schedules and budgets and make relevant data viewable online, the creation of an internal Project Controls Division to maintain and expand control systems as well as support project teams in budget and schedule management, and the development of a 10-year capital plan prioritizing funding for critical assets.

We have reduced total recordable workplace illnesses and injuries by 42% year-to-date.

Finally I am proud to say that we have reached three noteworthy Sustainability milestones:

- we signed a draft consent agreement with DEC to adopt the NYC Green Infrastructure Plan into CWA compliance;
- we established the Office of Green Infrastructure and, including 2012 awards, awarded \$8.4 million in Green Infrastructure Grants (with an additional \$4.2 million provided by landowners); and,
- we started the process of revising the City Air and Noise Codes by holding stakeholder meetings throughout the five boroughs.

In the past year, we have also successfully convinced our regulators to defer or eliminate more than \$5 billion in unfunded mandates. This includes \$3.4 billion in canceled or deferred tanks or tunnels for CSO controls. We have also convinced the federal government to delay until 2023 a mandate to build a \$1.6 billion cover on the Hillview Reservoir in Westchester to protect water quality in a way that could be done at a fraction of the cost. DEP will continue to stress that this project should be eliminated outright. Because of these and other initiatives, only 20% of the Executive Four-Year Capital Plan is for mandated projects, a reversal of the past decade's trend.

I will now turn to the Executive expense budget.

Executive FY 2013 Expense Budget

The Preliminary expense budget for FY13 was \$1.020 billion. The Executive expense budget for FY13 is \$1.134 billion, an apparent increase of \$114 million. However, the net expense budget increase is \$81 million, due to an adjustment to the heat, light and power budget for natural gas to be used at the soon to be opened Catskill Delaware Ultra-Violet Disinfection Plant. This will be adjusted with the Office of Management and Budget. The calculation of the need for the rate increase was based on the adjusted figure of \$81 million.

The \$81 million net increase in the expense budget masks many of the savings initiatives that DEP has undertaken that kept this budget increase, and thus the rate, from being even higher. I

set a target of a 4% budget reduction across DEP, the equivalent of \$37 million, to take effect in FY13. I think it is a credit to DEP that we were able to exceed that target, achieving \$41 million in budget reductions. The most significant reductions were:

- \$12 million from reduction to our heat, light and power costs;
- \$6 million from biosolids disposal savings due to contracts for beneficial re-use coming in competitively priced against landfilling;
- \$6 million from personnel and operating expenses that are improving the System's assets and thus are eligible for capital spending; and
- \$5 million from chemical savings due to the reduction in fluoride dosage and re-negotiated prices.

Still, on balance, the Agency's budget did go up by \$81 million, comprising the following Executive budget increases:

- \$10 million for increases to upstate property taxes, going up to \$153 million a year, one of our most significant operating expenses;
- \$8 million net increase for heat, light and power (after the above-mentioned adjustments), for new facilities coming on line, such as the Croton Water Filtration Plant and the Cat-Del UV Plant, and for the upgrades to facilities, such as the Newtown Creek Wastewater Treatment Plant;
- \$8 million net increase for chemicals, even after \$5 million in renegotiated savings, due to increased usage required at the new plants and other processes, as well as price increases;
- \$5 million for the Croton and Cat-Del UV in addition to chemicals and heat, light and power, which is necessary for personnel, and maintenance and service contracts;
- \$2 million for the continued implementation of the City's Green Infrastructure Plan to purchase, install, and maintain green infrastructure components (but overall, this plan will result in savings of approximately \$2.4 billion over 20 years);
- \$6 million for DOITT Intra-City Telecomm, software licenses, and to NYCWiN for AMR services;
- \$5 million for the new Capacity, Management, Operations and Maintenance (CMOM) group to enhance the capabilities of sewer maintenance crews by providing additional engineering, investigative and analytical support and to continue our shift from reactive to proactive maintenance, which should lead over the long term to both improved performance and avoided costs for overtime, emergency construction, insurance premiums, and lawsuits;
- \$13 million for the voucher program for fixture replacements and for other related expense items, such as studies and site assessment, to advance DEP's multi-billion Delaware Aqueduct repair and Water for the Future program; and
- \$12 million for mandated programs or projects such as the Filtration Avoidance Determination (FAD) for our Catskill/Delaware watershed, the Jamaica Bay Environmental Benefit Fund, Parks-related improvements in connection with the Croton plant, and fines related to using the Ashokan release channel during Hurricane Irene and Tropical Storm Lee.

In an effort to limit the 2013 water-rate increase, DEP will reallocate 55 budgeted positions, moving them to high priority tasks that include shaft maintenance and the CMOM program in the Bureau of Water & Sewer Operations, and to computer programming functions within DEP's Office of Information Technology.

We will also reallocate \$26.5 million within our OTPS budget. Cost savings from our new sludge disposal contract and our cancellation of the Con Ed water meter reading contract will be used to offset the funding shortfall in DEP's operations including wastewater treatment plant maintenance contracts and security guard services.

The Executive expense budget also includes:

- \$6.1 million in rollovers, which are one-time carryovers into the following year of anticipated expenses that were not incurred;
- \$3.8 million to fund a contract with IBM to provide overall technical assistance to the Bureau of Customer Services in order to ensure continued quality assurance and operation of the billing system, which includes updating and maintaining the billing system to current databases and platforms; and
- \$3.2 million for Superfund, to be dedicated primarily to the Remedial Investigation and Feasibility Study at Newtown Creek.

Executive FY2013-FY2016 Four-Year Capital Plan

In general, we have been able to reduce mandates from 70% of our capital budget to less than 20% going forward. That means that we have the ability to spend on much needed drainage projects, largely in Queens and Staten Island. In total, the Executive Four-Year Plan shows \$997 million in FY13-FY16 for investments in the sewer system. In addition, we are able to increase our spending on keeping our plants and other facilities in a State of Good Repair, which will prevent more expensive upgrades later on. The Executive budget includes \$1.9 billion for State of Good Repair projects. Many of these will be done through our Job Order Contract (JOCs) program, which is structured so that smaller capital repairs can be designed and built on a short schedule. The flexibility of the JOCs program is very helpful to keeping our costs down.

I will now turn to the variances between the Preliminary and the Executive Four-Year Capital Plan. The total variance in the four year plan is an increase of \$489.6 million. A majority of this increase is due to projects that will not commit in FY12 that were rolled over to FY13.

There are variances totaling \$27.3 million on contracts for the City Water Tunnel No. 3 connection work, which is Department of Design and Construction work on water mains.

There is a reduction of \$93.8 million, \$75 million of which is for the toilet replacement program, a conservation initiative associated with the Water for the Future project, because the capital eligibility of this project is under discussion. For the time being, this program is funded in the expense budget. There is also a reduction of \$18 million in OIT; this excess funding was allocated elsewhere in the capital budget.

There is a reduction of \$98.6 million for projects budgeted for the Water for the Future project. This funding is being deferred from the FY13–FY16 Four Year Capital Plan to out years to reflect a more refined construction schedule. The Catskill Optimization project is being deferred from FY14 to FY17 at the amount of \$74.5 million so that it will occur in tandem with the tunnel construction, and an additional project for \$24.1 million is also being deferred. The Bureau of Water supply will assess the proper timing of these projects in the upcoming FY14 Preliminary Ten-Year Plan.

Since the activation of the Brooklyn leg of City Water Tunnel No. 3 is delayed until Shafts 17B and 18B are constructed, the Brooklyn / Queens leg will require maintenance and security until activation. A total of \$15 million is to provide for the next contract, as the current tunnel contract is expiring.

Various FAD funding needs of \$40.8 million, such as the Catskill Watershed Corporation, land acquisition and septic replacement program, were brought into the FY13–FY16 window in accord with the expected new agreement and for the planned contract registrations.

For the Bureau of Wastewater Treatment's state of good repair program, a total of \$96.8 million has been added. Projects include \$29.2 million for the 26th Ward WWTP primary settling tanks, which are part of the Jamaica Bay CSO Order; \$24.7 million for the stabilization program at the Jamaica Bay WWTP; \$22 million to reconstruct the digester roofs at 26th Ward; \$6.7 million for stabilization at Tallman Island WWTP; \$6.3 million for the Bowery Bay Phase III upgrade; \$6 million for construction management for various projects; and the balance of \$2 million for various capital projects.

Additional change orders for the continued completion of the work at the Croton Filtration Plant are budgeted for \$68.6 million. This includes \$52 million for construction and \$16.6 million for park-related work.

Finally, for specific sewer and water main work by DDC, \$42.4 million for water main replacement in Queens, \$12.6 million for water main work in various locations, \$16.3 million for new storm sewers and water main replacement in Acacia Avenue and other locations, and the balance of other DDC-related work of \$173.5 million for a grand total of \$244.8 million.

With regard to the projects in each borough, in Queens, the Executive Four-Year Plan includes \$1.04 billion of spending for FY13-FY16. Significant projects include: \$50 million for dredging Flushing Bay; \$74 million for rehabilitating wells in the former Jamaica Water service area; \$71 million for regulators in Queens; \$56 million for main sewage pump work at the Bowery Bay WWTP, and \$226 million for sewers. Ninety-four million dollars is just for sewers in southeast Queens; and \$29 million of that is for high-level storm sewers in southeast Queens.

In Staten Island, the Executive Four-Year Capital Plan projects \$454 million in capital spending, \$337 million of which is for sewers. We are in the middle of the construction of the \$250 million new water tunnel (or "siphon"), which is funded with \$125 million of DEP funds and the remaining from the Port Authority. This project will provide critical redundancy in Staten Island's water supply. We are continuing the \$248 million remediation of the closed Brookfield

Avenue Landfill, a joint City- and State-funded project. The City portion of the Brookfield costs is funded through general obligation debt. We are also continuing to build out the Staten Island Bluebelt, the award winning, ecologically sound, and cost-effective stormwater management for approximately one-third of Staten Island. For FY13-FY16, DEP budgeted \$70 million for obtaining more lands for the mid-Island Bluebelts.

In the Bronx, the Executive budget projects \$381 million of capital spending in FY13-FY16, including \$50 million for the installation of centrifuges at Hunts Point WWTP, \$33 million for the reconstruction of the Throgs Neck Pump Station, and \$61 million for upgrade of various water main projects.

In Manhattan, the Executive budget projects \$596 million in capital spending, including \$325 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, \$50 million is provided for the installation of new centrifuges at Wards Island WWTP.

In Brooklyn, the Executive Budget includes \$638 million of commitments in FY13-FY16, of which \$89 million is for sewer and water main work in the Coney Island area. In addition, \$152 million is budgeted for work at the 26th Ward plant, plus \$50 million for new centrifuges at 26th Ward.

In closing, I want to emphasize that DEP's Strategic Plan, the NYC Green Infrastructure Plan, and PlaNYC demonstrate that the City is willing to improve our environment and public health in ways consistent with the goals of national environmental regulation and, where justified, to commit adequate resources to do so. We will continue to ask for the Council's help in reforming unfunded mandates. We need to make sure that state and federal regulations and initiatives complement and reinforce our efforts to make NYC a sustainable, environmental, and affordable place to live.

Thank you for the opportunity to testify on DEP's FY13 Executive Budget. I would be happy to answer any questions that you may have.

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