

Testimony of Steven Lawitts
Acting Commissioner, New York City Department of Environmental Protection
before the
New York City Council Committees on Environmental Protection & Finance
concerning the
FY 2017 Executive Budget

Monday, May 9, 2016
City Hall, 2:30 pm

Good afternoon Chairpersons Ferreras-Copeland and Constantinides and Members. I am Steve Lawitts, First Deputy Commissioner of the New York City Department of Environmental Protection (DEP). As you know, I am serving as Acting Commissioner for the next month while Commissioner Lloyd is on a brief medical leave. Commissioner Lloyd appreciates your well wishes and looks forward to returning to DEP in June. I am joined today by Acting Deputy Commissioner for Public Affairs Eric Landau; Assistant Commissioner for Budget Joseph Murin; as well as other senior managers. I appreciate the opportunity to testify on the Fiscal Year 2017 (FY17) Executive Budget.

As you very well know, DEP has overall responsibility for the City's water supply and sewer system, including providing drinking water to all New Yorkers, maintaining pressure to fire hydrants, managing storm water, and treating wastewater. In addition, DEP also regulates air quality, hazardous waste, and critical quality of life issues, including noise.

Before I review our Expense and Capital budgets I would like to review with the Members the water rate increase proposed for FY17. Although we understand that no increase is ever welcome, the need to maintain and improve the delivery of water and sewer service is critical. In the absence of state and federal assistance for drinking water and wastewater infrastructure, water and sewer rates paid by our customers are the only source of revenue to support this service, which is essential for local public health, quality of life and economic development, and which is highly regulated at the state and federal levels.

On April 8th, we proposed a 2.1% increase to the New York City Water Board, which, if adopted would represent the lowest increase in sixteen years. Factors that allowed DEP to slow the growth in the proposed rate, while ensuring funds are available to advance all major programs on schedule in FY17, include: internal cost controls, strong revenues, interest rate savings, and the Administration's return of the rental payment.

- Internal Cost Controls – Our operations and maintenance expenses for FY16 are \$126 million below projections. Expenditures on needs like contracts, energy and fuel oil, and real estate taxes on watershed lands were not as high as anticipated, adding additional one-time savings. In addition, through efficiencies in procurement and in technological improvements, DEP has created targeted savings that are not expected to affect current services.
- Strong Revenues – Strong collections are due, in large part, to DEP's substantial completion of the installation of the wireless meter reading system. (Over 820,000 automated meter

reading devices have been installed on 97% of properties citywide.) This has resulted in an 83% reduction in estimated bills since 2009 and a 62% reduction in billing disputes since 2011, which have been accompanied by improved revenue collection since bills are reflective of actual readings.

- Interest Rate Savings – Due to continued low interest rates, debt service was \$121 million lower than projected for FY 2016.
- Return of the Rental Payment – Building on Mayor de Blasio’s commitment to reduce the rental payment, the FY 17 Rental Payment was lowered by 50% (\$122 million).

Under the proposed rate, a typical single-family homeowner will see an increase of \$1.85 per month, on average. And, a typical multi-family home with metered billing will see an increase of less than \$1.20 per unit per month. In addition, as part of this year’s rate proposal, DEP continued, expanded, and introduced a number of progressive changes to the water and wastewater rate schedule for FY17, including:

- freezing the minimum charge for the third consecutive year for close to 150,000 customers who use fewer than 100 gallons per day, which a quarter of all single-family homeowners do, many of them seniors. Those customers are currently billed at the minimum water charge of \$1.27 per day, including wastewater charges;
- expanding the Home Water Assistance Program, which currently provides a \$116 credit to almost 52,000 New Yorkers – recipients of the federal Home Energy Assistance Program, and low-income seniors and disabled homeowners who receive City Department of Finance Tax exemptions. This year the program will be expanded to include an additional 68,000 senior homeowners who make less than \$50,000 per year, based on income eligibility confirmed by the Department of Finance;
- creating the Multi-Family Affordable Housing Credit, which will provide a \$250 credit per unit to any multi-family residential property that meets affordability criteria and signs, at a minimum, a 15-year affordability agreement with NYC Housing Preservation and Development or the NYC Housing Development Corporation. In total this program will provide \$10 million of assistance to affordable housing projects serving as many as 40,000 units.

As you all know, Mayor de Blasio made an announcement on April 25th of this year, when he decided not to collect the remaining 50% (\$122 million) of the rental payment, five years sooner than originally projected. Returning this payment to DEP will provide for a one-time credit of \$183 to all Tax Class 1 properties, which includes 1-, 2-, and 3-family homeowners. If adopted, DEP will be able to issue these water and sewer bill credits by the end of the summer to all 664,402 properties in Tax Class 1. The full elimination of the rental payment will also result in a total savings of 7% (or \$1.1 billion) for ratepayers through FY2020.

The NYC Water Board is currently holding public hearings on the rate – one in each borough – and is scheduled to meet and adopt a rate for FY17 on May 20th.

City Water Tunnel No. 3

I also want to take some time to address City Water Tunnel No. 3. As you know, the City began construction of City Water Tunnel No. 3 in 1970, and it is one of the largest and longest-running public works projects in the City's history. While work on the tunnel has already taken 46 years and around \$4 billion, it is a crucial conveyance that moves water from Hillview Reservoir into the city, and will provide redundancy for City Water Tunnels No. 1 and No. 2. In 2013 we activated the final leg of the Manhattan portion of the tunnel and laid the groundwork to get water flowing into the Brooklyn/Queens leg of the tunnel. The tunnel and most of the infrastructure shafts that support it are complete – just two shafts remain to be designed and constructed.

As you know, Mayor de Blasio has prioritized the construction of the remaining two shafts, and has included \$685 million in the Executive Budget and upcoming 10-year strategy, allowing for an accelerated construction of the shafts to begin in 2020, one year earlier than previously projected, as well as ensuring that the tunnel is activation-ready by the end of 2017. Specifically the budget includes:

- \$357 million in the Four-Year Capital Plan for site acquisition, design, excavation, and construction of shafts 17B and 18B – the two remaining shafts;
- \$300 million to be added in the upcoming Ten-Year Capital Strategy in January 2017 for the installation of mechanical and electrical equipment;
- \$21 million to immediately disinfect and test the Brooklyn/Queens section of Tunnel No. 3, making it activation-ready, contingent upon regulatory approvals, by the end of 2017. This means that the tunnel will be ready as a backup to deliver potable water within 48 hours, should the city confront an emergency that would require additional redundancy to existing Tunnel No. 2;
- \$7 million to construct a new connection between Water Tunnel No. 3's Brooklyn/Queens section and the Richmond Tunnel to Staten Island, which will ensure that Staten Islanders have yet another back-up connection.

These efforts are essential to our City, and they come on top of multiple layers of redundancy already built into our water-supply infrastructure. Our drinking water is frequently renowned as the best in the country, exceeding all federal and State standards for quality. The system that delivers it is safe, reliable, and secure. I thank the Mayor for prioritizing this essential project and ensuring that the kinds of water crises happening elsewhere around the country and the world, could not happen here in New York City.

FY17 Expense Budget

The projected Expense Budget for the current fiscal year, FY16, is \$1.48 billion. This includes approximately \$221 million in Community Development Block Grant (CDBG) funds for which

DEP serves as the contracting entity for the City. For FY17 we expect DEP's expense budget to be \$1.44 billion, including \$175 million in CDBG funding for the Build It Back program.

Highlights of the net changes from the Preliminary Budget include the following:

New Needs:

- An increase of \$28.7 million to fund the dredging and removal of CSO-impacted sediments from Flushing Bay;
- An increase of \$21.3 million for the continuation of various programs related to the Filtration Avoidance Determination (FAD) in the upstate watershed areas;
- An increase of \$14.8 million in collective bargaining for Sewage Treatment Workers, Environmental Police Officers, marine titles and Painters;
- An increase of \$10.1 million for treatments and additives used to keep our drinking water safe and of the highest quality;
- An increase of \$7.2 million for spare parts and equipment needed for operation;
- An increase of \$5.2 million for higher-than-anticipated contract prices for the removal of biosolids at wastewater treatment plants;
- An increase of \$2.7 million to fund 18 engineering positions, contracts, and software licenses for the city-wide Drainage Plan;
- An increase of \$1.0 million to fund six positions for the Forestry Program staff and Timber Harvest Contract.

Savings:

- A decrease of \$18.5 million for targeted OTPS reductions;
- A one-time decrease of \$4.2 million as a result of funds received from the Demand Response Program for energy usage reductions at peak times;
- Due to lower-than-forecasted prices for heat, light and power and various fuel oils, DEP expects to see price reductions in those areas. DEP has also been using digester gas, where practical, in lieu of heat, light, power or fuel oils. Combined, these savings are expected to be \$21.3 million in FY17.

The Expense Budget breaks down into the following large categories:

Personal Services

The FY17 budget projects \$520 million, 36% of our total Expense Budget, in personal services to pay the salaries for our nearly 6,000 funded positions. As with other agencies, changes in employee benefits are not shown in the agency's budget.

Taxes on Upstate Watershed Lands

The FY17 budget projects \$167 million or nearly 12% of the Expense Budget. The ownership of watershed lands represents a critical investment in maintaining the high quality of New York City's drinking water by protecting it at the source and ensuring that it does not require more expensive treatment, such as filtration. I am pleased to report that we have successfully negotiated agreements with upstate jurisdictions to make our tax obligations more stable and predictable and, in some cases, to reduce them.

Heat, Light and Power

DEP's energy costs account for \$92 million or 6% of the FY17 Expense Budget. DEP is the third-largest municipal consumer of electric power in New York City after the Department of Education and Health+Hospitals, and our consumption will grow as we bring new treatment facilities on line for both drinking water and wastewater. To control energy costs and reduce our greenhouse gas emissions, DEP is investing in projects to reduce energy needs, such as a cogeneration system at the North River Wastewater Treatment Plant.

Chemicals & Biosolids

Chemicals, such as chlorine and fluoride, that are used in the treatment of drinking water, and other chemicals used during the wastewater treatment process, account for \$65 million, which is 5% of our total Expense Budget. Finally, management of 1,200 tons per day of biosolids is projected to cost about \$51 million in FY17, or about 4% of our projected FY17 expenses.

FY2016-FY2020 Four-Year Capital Plan

DEP's FY17 Executive Capital Budget is \$12.3 billion for FY16-20, as presented by Mayor de Blasio on April 26, 2016. Highlights of the Executive Four-Year Plan in addition to Water Tunnel No. 3 are as follows:

East Side Coastal Resiliency Project

The City will invest \$505 million, of which DEP's component is \$170 million to integrate the coastal flood protection system along the eastern shore of Manhattan, from 23rd Street to the Manhattan Bridge.

Catskill Aqueduct Reconstruction – Kensico to Hillview

DEP is funding structural reconstruction, replacement of mechanical equipment and building reconstruction of the Lower Catskill Aqueduct at \$144 million, an increase of \$104.8 million over the Preliminary Plan. At 100 years old, various mechanical components of the aqueduct and support chambers, gates, valves, roads, and culverts have reached the end of their useful life and require repair, reconstruction, or replacement to ensure the continued reliable use of this section of the aqueduct for delivery of treated drinking water to the City.

Computer Equipment to Implement Security Measures throughout the Water System

This project will be funded at \$20 million for the design and installation of a unified agency-wide security system to include access control, intrusion detection, cameras and other security items needed to protect the water supply system, wastewater plants, support facilities and DEP employees.

Southeast Queens

As you know, alleviating flooding in Southeast Queens is a major priority for New York City. In 2015, as part of OneNYC and the FY16-25 Ten-Year Capital Plan, Mayor de Blasio announced a \$1.5 billion program to substantially accelerate relief in Southeast Queens by pairing traditional sewer construction with green infrastructure throughout the region. The FY16-20 Four-Year Plan includes \$778 million of this funding.

Wastewater Treatment

The Executive Four-Year Plan projects a \$5.0 billion investment in wastewater treatment projects, \$3.5 billion of which is for the reconstruction or replacement of components of the wastewater treatment plants and pumping stations.

It is worth noting that \$209 million of this \$3.5 billion is budgeted for the construction of a new cogeneration system at the North River Wastewater Treatment Plant. The new system will use renewable digester gas produced by the wastewater treatment process to both power equipment and heat the facility. It will help us reduce our energy use and help the City meet the Mayor's major commitment to reduce greenhouse gas emissions 80% by 2050.

The remaining \$1.5 billion investment will be used to mitigate combined sewer overflows, with \$645 million for green infrastructure such as rain gardens, infiltration beds, and bioswales, and the remainder for gray infrastructure, such as tanks and tunnels to store wastewater.

A significant part of our wastewater treatment budget is \$746 million in funding to cover planned consent-order work related to the Long-Term Control Plans (LTCs) for combined sewer overflows (CSOs) and stormwater control. The most significant element of this commitment is \$560 million for improvements to reduce CSO discharges into the Gowanus Canal. In addition, DEP will undertake projects in the Bronx River, Alley Creek, Hutchinson River, and Flushing Creek, as well as measures in other waterbodies where plans have yet to be completed. We are also currently in discussions with the New York State Department of Environmental Conservation about significant additional investments we will make over the next 30 years to further improve water quality in designated water bodies.

Reservoirs, Dams, Treatment Facilities and Water Mains

Over the next five years, the Administration is proposing to invest an additional \$3.0 billion in protecting the quality of our reservoirs and the integrity of our dams, providing for treatment where necessary, and maintaining and repairing the water main system conveying potable water to all New Yorkers. We have budgeted \$276 million for the reconstruction of dams in our three watersheds – Catskill, Delaware, and Croton.

In 2007, DEP received an unprecedented 10-year Filtration Avoidance Determination (FAD), waiving the requirement to filter drinking water from the Catskill and Delaware watersheds. For the continuation of our current FAD programs, the Executive FY16-20 Capital Plan includes \$139 million, including \$83 million for land acquisition. The key to maintaining the city's FAD has been the program's grounding in strong monitoring and scientific study, both of which support the three pillars of watershed protection—land acquisition, regulations governing certain activities in the watershed, and programs with our watershed partners—upstate communities and organizations. The FAD is a vital element to our effective operations. Without it, we believe we would be mandated to build another very costly drinking water filtration plant.

The Rondout-West Branch Tunnel Repair

The Delaware Aqueduct conveys more than half of New York City's high-quality drinking water every day from reservoirs in the Catskill Mountains and repairing it is the central component of the \$1.5 billion program that aims to ensure clean, safe and reliable drinking water for future

generations of New Yorkers. Although this project extends even beyond the current Plan, the Executive Budget provides over \$238 million for projects associated with its repair related to conservation and providing supplemental sources of water during the Delaware Aqueduct shutdown. Increasing the capacity of the Catskill Aqueduct—a project distinct from pressurization—accounts for \$131 million of the total.

Sewers

The Executive FY16-20 Capital Plan projects \$3.0 billion of spending on sewers including:

- \$1.1 billion for replacement of sewers (storm, sanitary or combined), including the Mayor’s initiative for accelerated replacement of some of our oldest infrastructure;
- \$1.6 billion for new sewers (of all types) of which;
 - Storm sewers as a category by itself (either new or reconstructed) accounts for \$1.3 billion of projected spending, of which \$209 million is for high-level storm sewers; and
 - \$359 million of the total is for both the conventional sewers and the lands necessary to create Bluebelt systems, which are being extended beyond Staten Island to Springfield Lake in Queens, Van Cortlandt Park, the New York Botanical Gardens in the Bronx, and other locations.

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On behalf of the almost 6,000 employees of DEP who make a difference each and every day for our environment, I want to thank the Chairs and committee members for their support of our agency and express our continued commitment to work with the Council and your committees going forward.

That completes my prepared statement. Thank you for the opportunity to present testimony. I look forward to answering any questions that you have.