Good afternoon Chairpersons Ferreras-Copeland and Constantinides and Members. I am Vincent Sapienza, Acting Commissioner of the New York City Department of Environmental Protection (DEP). I am joined today by Chief Financial Officer Joseph Murin, as well as other senior managers. I appreciate the opportunity to testify on the Fiscal Year 2018 (FY18) Executive Budget.

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 the status of the water rate. The Water Board is meeting on May 18 to evaluate rates for the coming fiscal year.

The Water Board is an independent body whose fiduciary mandate is to set rates that will satisfy System revenue requirements for operations & maintenance (O&M) expenses, servicing debt obligations, and achieving fiscally prudent year-end cash reserves.

The Board and DEP work with an independent rate consultant that assists in analyzing alternative water rate scenarios. The consultant collects information from DEP, the City’s Office of Management and Budget, and the Municipal Water Finance Authority, and prepares several cash flow and rate scenarios. DEP typically makes a rate proposal to the Board in a public meeting, which the Board then considers against alternative courses of action before adopting a rate to take effect on July 1. I should also note that an independent third-party accountant annually audits our financial statements and internal controls to ensure compliance with national accounting principles.

Typically, we have the Water Board’s rate proposal prior to the Council’s budget hearing. This year’s rate setting is a bit more complicated due to the Rent Stabilization Association’s lawsuit. Last year, Mayor de Blasio took the historic step to eliminate the water system’s annual Rental Payment to the City, which some of you in the Council had long was considered hidden tax. The Mayor’s bold action retained $122 million within the water system’s FY17 budget and is expected to have $1.1 billion returned to the System over the next four years.

The Water Board and the Mayor proposed that the rental return for FY17 be returned to Class 1 taxpayers The Board proposed that $183 be returned to each of 620,000 small homeowners.
The RSA challenged that proposal, arguing that landlords of large buildings should also get a share of the refund. Last year a State Supreme Court judge ruled in RSA’s favor, and this past February 16th, the State’s Appellate Division issued a split decision that affirmed the lower court’s ruling. Given the dissenting option, on April 25th the Appellate Division determined that the matter could be elevated to the New York State Court of Appeals. The Water Board and the City look forward to presenting the case to the full Court of Appeals, and we are confident of prevailing.

While the Water Board has yet to determine rates for the coming fiscal year, I can tell the Council that revenues in recent years have been in line with expectations and expenditures have been reasonably steady. More than 98% of properties now have automated water meters, so there are far fewer estimated and disputed bills. DEP’s continuous improvement initiative has also helped to make our agency one of the most efficient water utilities in the nation. Water and sewer fees in NYC are actually less than the national average. There is very little else in the City that costs less than the national average.

After the Water Board meets and determines the FY18 needs, DEP would be happy to brief the Council on the Board’s rate proposal.

Before I move on, I would like to update the Council on the implications of the recent State and federal budgets on DEP.

This year’s New York State budget includes $200 million specifically for projects in NYC’s watershed. We are developing a list of projects that would meet this criterion and look forward to working with the State to implement projects that will benefit both the City and the watershed towns.

With regard to the new federal Administration, while the president’s proposed budget included a significant cut to EPA’s funding (31%), DEP’s operating and capital budget is predominately funded by the NYC water rate and we receive essentially no federal funding for the operation of the water and wastewater systems. Rest assured that regardless of what transpires at the federal level, I am fully confident that DEP will continue to deliver on our critical mission.

**FY18 Expense Budget**

The projected Expense Budget for the current fiscal year, FY17, is $1.52 billion. This includes approximately $256 million in Community Development Block Grant (CDBG) funds for which DEP serves as the contracting entity for the City. For FY18, we expect DEP’s expense budget to be $1.41 billion, including $157 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 $8.5 million to fund the on-site dewatering of sludge and the removal of biosolids as the Owls Head dock is reconstructed;
• An increase of $5.7 million for the continuation of Superfund investigation work for the Gowanus Canal and Newtown Creek;
• An increase of $3.9 million for the continuation of the consulting contract that provides support for the current water and sewer billing system;
• An increase of $3.4 million to fund 43 new positions for a new sewer management program to comply with an EPA administrative order to reduce backups in select community boards;
• An increase of $1.9 million for the Municipal Separate Storm Sewer System (MS4) program that will fund nine new positions for inspections, assessments, enforcement actions and for the creation of a new tracking system to assist in the monitoring and reporting to the NYS Department of Environmental Conservation (DEC);
• An increase of $0.7 million to fund eight new positions for the auditing of self-certified asbestos assessments;
• An increase of $0.7 million to fund seven positions as liaisons with NYCDOT’s Highway Inspections and Quality Assurance program to provide inspections to active construction, emergency street openings/excavations and utility access cover openings.

Savings:
• A decrease of $1.4 million as a result of planned revenues to be received from the sale of nitrogen credits to upstate communities that cannot meet their required nitrogen levels as their plants are being rebuilt;
• A decrease of $1.4 million as a result of lower bid pricing for fluoride purchase;
• A decrease of $1.0 million in fuel oil purchases as DEP continues to reuse digester gas and utilize cleaner burning natural gas in the wastewater treatment process

The Expense Budget breaks down into the following large categories:

Personal Services
The FY18 budget projects $534 million, 38% of our total Expense Budget, in personal services to pay the salaries for our more than 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 FY18 budget projects $166 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 $93 million or 7% of the FY18 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 $56 million, which is 4% of our total Expense Budget. Finally, management of 1,200 tons per day of biosolids is projected to cost about $51 million in FY18, or about 4% of our projected FY18 expenses.

**FY2018-FY2027 Ten-Year Capital Plan**

DEP’s FY18 Executive Capital Budget is $18.1 billion for FY18-27, as presented by Mayor de Blasio on April 26, 2017. Highlights of the Executive Ten-Plan are as follows:

**City Water Tunnel No. 3**

In 1970, the City began construction of City Water Tunnel No. 3, and it is one of the largest and longest-running public works projects in the City’s history. 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 part of this year’s Preliminary Capital Budget submission, the Mayor allocated an additional $300 million needed for the installation of mechanical and electrical equipment for the two shafts. This funding keeps us on schedule to begin construction of the shafts in 2020. These efforts are essential to our City, and they come on top of multiple layers of redundancy already built into our world-class water-supply infrastructure.

**Catskill Aqueduct Reconstruction – Kensico to Hillview**

This summer will mark the 100-year anniversary of the opening of the Catskill Aqueduct. Many of the components of the aqueduct are nearing the end of their useful life and require repair, reconstruction, or replacement. The capital plan includes $126 million (all added prior to this Executive Budget) to fund the structural reconstruction, replacement of mechanical equipment and building reconstruction of the Lower Catskill Aqueduct.

**Security Measures throughout the Water System**

This project is funded an incremental $120 million for a total of $140 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**

Alleviating flooding in Southeast Queens is a major priority for Mayor de Blasio and DEP. In 2015, the Mayor announced a $1.5 billion program to substantially accelerate relief in Southeast Queens by pairing traditional sewer construction with green infrastructure throughout the region. To date, DEP has committed $229 million to this work. So, this Ten-Year Plan has $1.6 billion funded, bringing the total expected commitments for Southeast Queens to $1.8 billion.
Wastewater Treatment
DEP plans to invest $6.7 billion in wastewater treatment projects, $3.9 billion of which is for the reconstruction or replacement of components of the wastewater treatment plants and pumping stations.

This Plan includes $33 million for the construction of a new cogeneration system at the North River plant that will use renewable digester gas produced by the wastewater treatment process to power equipment and heat the facility. This project will help us reduce our energy use and meet the Mayor’s major commitment to reduce greenhouse gas emissions 80% by 2050. This amount is in addition to the $232 million in planned commitments through FY17.

The remaining $2.8 billion investment will be used to mitigate combined sewer overflows, with $946 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 $1.8 billion in funding to cover planned consent-order work related to the Long-Term Control Plans (LTCPs) for combined sewer overflows (CSOs) and stormwater control. The most significant element of this commitment is $735 million for improvements to reduce CSO discharges into the Gowanus Canal. DEP will also 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.

Reservoirs, Dams, Treatment Facilities and Water Mains
Over the next 10 years, DEP proposes to invest $4.1 billion to protect the quality of our reservoirs and the integrity of our dams, provide for treatment where necessary, and maintain and repair the water main system conveying potable water to all New Yorkers. We have budgeted $1 billion for the reconstruction of dams in our three watersheds – Catskill, Delaware, and Croton.

In 2007, DEP received a 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 FY18-27 Capital Plan includes $172 million, including $97 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. DEP is still negotiating the FAD renewal with EPA and the New York State Department of Health and we expect more funding need in the next Plan submission.

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, $1.0 billion of which is for construction, which aims to ensure clean, safe and reliable drinking water. Although this project extends even beyond the current Plan, the
Executive Budget provides $201 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 $155 million of the above total.

Sewers
The Executive FY18-27 Capital Plan projects $4.3 billion of spending on sewers including:

- $1.9 billion for replacement of sewers (storm, sanitary or combined);
- $2.1 billion for new sewers (of all types) of which;
  - Storm sewers as a category by itself (either new or reconstructed) accounts for $1.7 billion of projected spending, of which $114 million is for high-level storm sewers; and
  - $394 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, Van Cortlandt Park, the New York Botanical Gardens, 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.