

*Now Available
from IBO...*

Federal Aid to
New York City
in the
Aftermath of
September 11:
How Much, and
for What?

...on our Web site.

**New York City
Independent Budget Office
Ronnie Lowenstein, Director
110 William St., 14th floor
New York, NY 10038
Tel. (212) 442-0632
Fax (212) 442-0350
e-mail: ibo@ibo.nyc.ny.us
<http://www.ibo.nyc.ny.us>**

Governor Wants Remaining Welfare Surplus to Help Close Budget Gap

The Governor's Executive Budget for the state fiscal year beginning April 1, 2002 would spend \$2.5 billion of surplus Temporary Assistance for Needy Families (TANF) funds—including nearly \$1 billion (40 percent of the total) to help close the looming state budget gap. The Governor's plan would use all of the new \$1.8 billion surplus anticipated from next year's TANF grant, as well as exhaust a \$662 million contingency fund accumulated from prior year surpluses. With all of the existing reserve funds committed to next year's gap closing and nothing saved from the new surplus, the state will have no margin to cover possible increases in caseloads or reductions in TANF funding in subsequent fiscal years.

Welfare budgeting was transformed by the 1996 federal welfare reform law. States now receive a fixed block grant from the federal government which does not change even as caseloads grow or shrink. Because caseloads have shrunk considerably from the 1994 and 1995 levels that were used in setting the block grants, the annual grant to New York and most other states has exceeded the amount needed to provide for the remaining cases. New York has gradually expanded its use of these excess or surplus funds for other purposes, usually for providing services such as child care to low income households. This year, the Governor proposes to spend about \$1.5 billion of the surplus to continue these programs.

See Surplus on page 3

City Facing Water Restrictions

With the amount of water in the city's reservoirs falling to roughly half their normal capacity for this time of year, officials recently issued a "drought warning"—meaning that there is less than a one in three chance that the reservoirs will fill to normal capacity by June 1st. Absent a deluge of rainy or snowy days, it is likely that a "drought emergency" will be declared soon and stringent measures to reduce water consumption will be imposed. The city last declared a drought emergency in March 1989.

While the city cannot make it rain or snow, it has sought to encourage water conservation. In 1994, New Yorkers used 1.4 billion gallons of water each day; by 2001, even with a rising population, daily consumption fell to 1.2 billion gallons. But even as the city has invested in conservation programs, millions of gallons of water are lost daily because of leaks in the water system. A longstanding leak in the Delaware Aqueduct gushes 38 million gallons per day—a loss of 152 billion gallons since city engineers spotted the leak in 1990.

Much of New York City's water system is over 100 years old and has been in continuous use since construction. Throughout the system there are leaks—as would be expected with a system as old and as large as this one. The Department of Environmental Protection (DEP) estimates that 5 percent of the city's daily water supply is leaking from various points along the Catskill system.

See Rationing on page 2

Rationing from page 1

The city Budget currently includes \$110 million through 2004 to repair the Delaware Aqueduct, although until the full extent of the leaks is known, it is unclear how much the reconstruction will actually cost.

Water Use Restrictions

The declaration of a “Drought Emergency” for the city’s water supply will place restrictions on water usage. These restrictions include a prohibition on washing vehicles, sidewalks, driveways, and streets. In addition, non-residential customers must implement a 15 to 25 percent reduction in overall water usage, depending on the severity of the drought emergency declared.

The big leaks. Since 1990, there has been evidence of water leakage in the Delaware Aqueduct, in a section of the tunnel near the city of Newburgh. The internal pressure in the aqueduct has forced the leaking water through 650 feet of limestone, breaking the surface in several locations. The leaking water has created a wetland area and filled a cemetery pond in Newburgh. In Roseton, the leak has become the source for an artesian well—a pipe has been installed to ease collection of the water by residents.

DEP estimates that up to 38 million gallons per day are leaking from the aqueduct—roughly 3 percent of the city’s total daily consumption. Riverkeeper, Inc., an environmental group, estimates the loss at as much as 100 million gallons per day.

In an effort to determine the true extent of the damage, DEP contracted with the Woods Hole Oceanographic Institution to construct an Autonomous Underwater Vehicle—an unmanned submarine—that is sent through the tunnel and uses sensors and cameras to collect information about the tunnel’s condition. DEP sent a prototype of the submarine through the tunnel in January 2002 and expects to launch the final version through the aqueduct in October 2002. The total cost is projected to be \$2.5 million.

The Delaware Aqueduct cannot be drained in order to assess the leakage problem more traditionally. The construction of an aqueduct parallel to the Catskill and Delaware Aqueducts as part of the construction of city Water Tunnel No. 3 will alleviate this problem to some degree by providing some redundancy in the system. First conceived in 1954, when the city recognized a need for a new water tunnel to meet the growing demand on its 150-year old water distribution

system and the need to inspect and rehabilitate the city’s other two tunnels, construction of No. 3 began in 1970. DEP now projects that Tunnel No. 3 will be completed in 2020, at a total cost of roughly \$6 billion (in 2000 dollars). Whether fixing the leak will require draining the Delaware Aqueduct—meaning waiting for completion of that stage of Water Tunnel No. 3—will not be known until the submarine has assessed the damage.

Water Conservation

Despite a rising population, DEP has achieved a reduction in water usage of 200 million gallons per day over the last eight years—a 14 percent drop. DEP’s conservation programs are outlined below.

Universal metering. Water consumption by system users has dropped relatively steadily since 1988—the first year of the transition from a flat-rate billing system to consumption based billing. There are approximately 828,000 water and sewer customer accounts for system users. Of these, approximately 714,000 are billed based on metered consumption and 114,000 on an annual flat-rate system. Owners of properties that have not moved towards meter installation (and are not part of the multiple family program discussed below) must pay a fine in the form of a surcharge doubling their water and sewer bills. The surcharge was levied on approximately 25,000 accounts in 2001.

It is planned that all flat-rate billing will be phased out by June 2004. The metering conversion program is projected to cost \$312 million—as of June 2001, \$243 million had been spent.

Multiple family conservation program. The Multiple Family Conservation Program offers owners of multiple family housing units consisting of six or more dwellings the option of paying a fixed charge—currently \$436.72 per unit—in lieu of metered billing. The owner, in return, must invest in low-consumption plumbing hardware for 70 percent of the fixtures in the building, for which DEP will provide financial assistance under its toilet rebate program (see below).

In addition, DEP will conduct audits of the buildings in the program to ensure that conservation is being achieved. Various forms of this program have been in place since the transition to metering began; the current program was implemented in July 2001 and will run until June 2004.

Toilet rebate program. The most dramatic results from

See Rationing on page 3

Rationing from page 2

conservation can be seen with the start of DEP's ultra-low-flow toilet rebate program in March 1994. The program has met its goal to replace 1.3 million toilets—out of roughly 3.9 million residential toilets—reducing total water consumption citywide by 7 percent, and saving system users 20 to 35 percent off their water bills. The estimated water savings is 70 million gallons per day. The city benefits because capital investment for additional water sources and sewage treatment system expansions can be deferred.

Customers participating in the program had a plumber install a “low-consumption” toilet, and then submitted an application to the program administrators. DEP offered a rebate of \$240 for the first fixture and \$150 for the installation of a second fixture. The program also provided rebates for low-flow showerheads and other water saving devices. The program is projected to cost \$381 million, with commitments through 2004—as of June 2001, \$345 million had been spent. Future funding commitments will cover outstanding program applications. In addition, DEP recently decided to add a toilet rebate program to the Multiple Family Conservation Program, thereby allowing participants in that program to receive rebates for installing low-flow toilets.

Residential water survey program. The city also offers a wide range of services to help customers cut back their water usage—and their water bills. Through the Residential Water Survey Program, DEP provides water usage audits in residential units—and some commercial buildings—and will produce an on-the-spot report on inefficiencies, as well as a leak assessment. The consumer will also receive a more detailed report by mail. DEP also produces several different water conservation kits for city residents and upstate customers who use water from the city system.

Other conservation efforts. In addition to these programs, DEP has spent \$125,700 annually since 1999 on advertising for water conservation programs and efforts to get citizens to conserve water generally. In prior years the budget was significantly less: \$2,000-\$25,700, depending on the year.

The significant reductions in water use achieved over the last decade are unlikely to be matched in coming years. The city's aging water and sewer infrastructure will require continued significant investment, however, to prevent erosion in the gains already made.

Written by Merrill Pond.

Surplus from page 1

New Fiscal Relief Initiatives

The balance of the surplus—over \$900 million—would be allocated for new fiscal relief, swapping TANF for state and local funds. Of this amount, only \$85 million would go to help local governments by replacing local funds. The balance would be used to replace state funds.

The fiscal relief will be used to fund a variety of state programs. For the first time major portions of the TANF surplus would be used to fund education programs including: \$345 million for the Tuition Assistance Program, \$50 million for universal and experimental pre-k programs, and \$11 million for extended day school programs.

Another \$186 million would be used to free up state and local funds that were used to make up TANF maintenance of effort (MOE) shortfalls in federal fiscal years 1998 and 1999, thus making these funds available for fiscal relief in 2002-2003. This was made possible by more favorable accounting of state and local MOE spending in those years.

The state has also determined that it can use \$247 million of the 2002-2003 TANF surplus to retroactively fund large

portions of its Earned Income Tax Credit (EITC) and child care credit for past years. This frees up an equivalent amount of state funds in 2002-2003.

Finally, the budget sets aside \$100 million of the TANF surplus to provide \$50 million in state and \$50 million in local fiscal relief, based on a federal proposal to provide temporary MOE relief as a result of the WTC disaster. This proposal would require approval by Congress.

In summary, the proposed budget emphasizes using TANF funds to provide temporary fiscal relief. This creates future risks. Unless Congress increases the size of the TANF block grant when it is up for reauthorization later this year, or Family Assistance caseloads drop significantly (the state budget actually projects an increase in caseloads for next year) the available surplus will be much smaller the following year and there would be no contingency fund cushion to soften the blow. Maintaining programs that were created or expanded with TANF surplus funds would therefore require other state and local funds.

Written by Paul Lopatto.