



Pittsburgh Water and Sewer Authority History of Board and Leadership Failures

Under current law, the PWSA Board includes the City Treasurer and City Finance Director and at least one member of City Council. All other Board members are appointed by the Mayor and confirmed by City Council. This composition creates inherent conflicts of interest in determining what is best for PWSA.

The Blue Ribbon Panel’s in-depth review found that PWSA’s leadership in the past has been weak, ineffective and conflicted. Furthermore, based on political considerations, elected officials and PWSA’s Board and senior leaders have made numerous decisions not in the best interest of PWSA. The following synopsis was assembled to demonstrate how the conflicted leadership of PWSA has made decisions that have contributed to PWSA’s current problems.

CONTRACTS: CONFLICTED OR POORLY VETTED

- **Original Lease:** When the Pittsburgh Water and Sewer Authority was created in 1984, it had entered into a 50-year lease and management agreement with the City. As part of the agreement, a deal was created between PWSA and ALCOSAN that entailed a billing arrangement whereby PWSA collected money for ALCOSAN sewage fees. If accounts went to collections, ALCOSAN was paid first, even if there were only partial payments made by customers. As a result, PWSA lost millions of dollars – money that could have gone into maintaining PWSA’s distribution and treatment facilities.
- **Amended Lease:** In 1995, a new 30-year lease agreement was executed, which required PWSA to issue bonds in order to pay the city \$101 million, which was used to shore up the City’s pension fund. Former Mayor Tom Murphy said that from 1984 to 1995, “the city had siphoned surpluses from the water system to balance budgets.”
- **Cooperation Agreement:** Also, in 1995, PWSA entered into a 40-year cooperation agreement with the City, which required PWSA to provide up to 600 million gallons of free water each year, continue subsidizing payments for city residents receiving water from Pennsylvania American Water Co., and pay the city \$7.15 million each year for direct and overhead expenses, with no accounting for services rendered. Pennsylvania Auditor General Eugene DePasquale estimated that the free water supplied by PWSA as part of this agreement would have totaled \$6.8 million in 2017 alone. As a result, tens of millions of dollars were not invested in maintaining our water system.

- **Agreement with ALCOSAN:** Under this agreement, PWSA is required to pay ALCOSAN the full amount of ALCOSAN’s wastewater treatment charges for ALCOSAN’s customers within PWSA’s services area. This means that PWSA bears the full collection risk for ALCOSAN, resulting in millions of dollars in subsidies from PWSA to ALCOSAN.
- **Veolia Agreement:** In 2012, PWSA Board contracted with Veolia Water North America, an outside management company, to direct its operations. The contract agreed to grossly overpay Veolia for its services. Per the contract, Veolia was paid, in part, for cost savings realized. PWSA Performance Audit of City Controller concluded that agreements that pay contractors a percentage of cost saving allows for a potential conflict of interest. Veolia was paid more than \$11 million over 3-1/2 years.
- **Bay Valley Foods Agreement:** During Veolia’s tenure, PWSA leadership negotiated a contract that sells water wholesale to Bay Valley Foods at less than PWSA’s cost. In addition, Veolia was paid a million dollar plus bonus related to this contract. Board oversight was so lacking that it did not even recognize the contract itself was a money loser, let alone adding in the bonus payment to Veolia.

DEBT: POOR DECISIONS REGARDING STRUCTURE AND USES

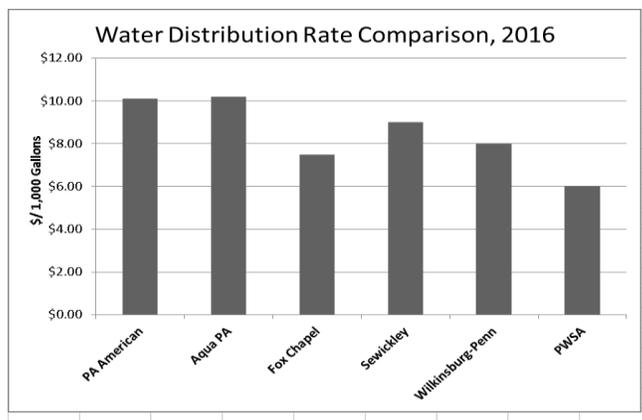
- When PWSA was first created in 1984, it was immediately saddled with \$94 million in debt for a water and sewer system infrastructure that was already over 70 years old. In 1985, another \$100 million in debt was issued and in 1986, two additional bond issuances occurred resulting in an aggregate PWSA debt burden at that time of over \$264 million.
- All told, between 1984 and 2008, PWSA had a total of \$575 million in bond issue funds, plus another \$68 million from PENNVEST loans, for a total debt of \$643 million.
- PWSA’s 30-year lease agreement signed in 1995, required PWSA to issue bonds in order to pay the city \$101 million, which was used to shore up the City’s pension fund.
- PWSA’s debt became an election issue in 2009, when former City Councilman Patrick Dowd, a mayoral challenger and water authority board member, called it “a perfect example of reckless decision-making.”
- PWSA had a debt load of \$842 million in December 2016, which had grown by \$43.2 million since December 2012.
- In October 2018, with a substantial debt burden, Moody’s downgraded PWSA’s rating to A3 from A2. Moody’s noted that the “system’s infrastructure has been impaired by years of disinvestment.”

CAPITAL INVESTMENTS: GROSSLY UNDERFUNDED, POORLY PLANNED AND EXECUTED

- Since the mid-1990s, PWSA has had only four major infrastructure projects—three involving reservoir covers.
- During each decade of 1960s and 1970s, PWSA (formerly the City Water Department) installed upwards of 600,000 feet of water pipe. The amount of water pipe installed fell precipitously beginning in 1981, with only about 650,000 feet TOTAL of water pipe installed over the next 30 years (from 1981 and 2010).
- PWSA invested \$31.4 million annually in capital improvements between 2012 and 2016, when, based on size and value, on average, it should have invested \$100 million annually.

RATES: FAILURE TO INCREASE AND PROPERLY STRUCTURE RATES

- There has been an historical failure at PWSA to increase rates or to properly structure them.
- Because rate hikes are unpopular among elected officials and despite increased attention to PWSA's decaying infrastructure, there were no rate increases for residential or industrial customers in four out of the last 10 years, with minimal rate increases (2.1 and 0.7 percent for residential customers) in two other years. Despite its aging infrastructure, PWSA rates over the period from 1998-2018 failed to keep up with other providers or even increases in the consumer price index.
- In 2016, Pennsylvania American Water Co. charged about \$10 per 1,000 gallons compared to PWSA's \$6 per 1,000 gallons. Aqua Pennsylvania, whose parent Aqua America recently announced plans to acquire Peoples Gas, charged customers more than \$10 per 1,000 gallons of water in 2016. Sewickley customers paid \$9 per 1,000 gallons, while customers of Wilkinsburg-Penn paid \$8. (See chart below)



Source: Pittsburgh Water and Sewer Authority

PERSONNEL DECISIONS: POLITICAL HIRES & STAFF TURNOVER

- After losing a re-election bid, former Pittsburgh City Council member and supporter of the Mayor was hired by PWSA in 2008 as water quality maintenance supervisor, after many years in public office. This personnel decision was one of several high-profile acts of cronyism that further cemented PWSA's status as a safe haven for politicians.
- Another former City Council member and Mayoral supporter was hired as PWSA safety manager, a post which has been vacant since 2009 and for which the authority had no other applicants.
- Numerous senior-level management positions at PWSA turned over at least once, between 2014 and 2017. In the past five years, PWSA has had five Executive Directors.
- Demonstrating an attempt toward thwarting cronyism in hiring practices, PWSA in 2015 offered severance pay totaling \$300,000 to five PWSA managers whose jobs were eliminated, including both former City Council members.
- Moody's Investors Service also noted in its October 2018 credit downgrade opinion of PWSA: "Continued turnover at the senior managing level of the authority is a considerable credit concern."
- The current PWSA Board is small and all are politically appointed or City employees. Key senior level employees are formerly staff members from the Mayor's office.