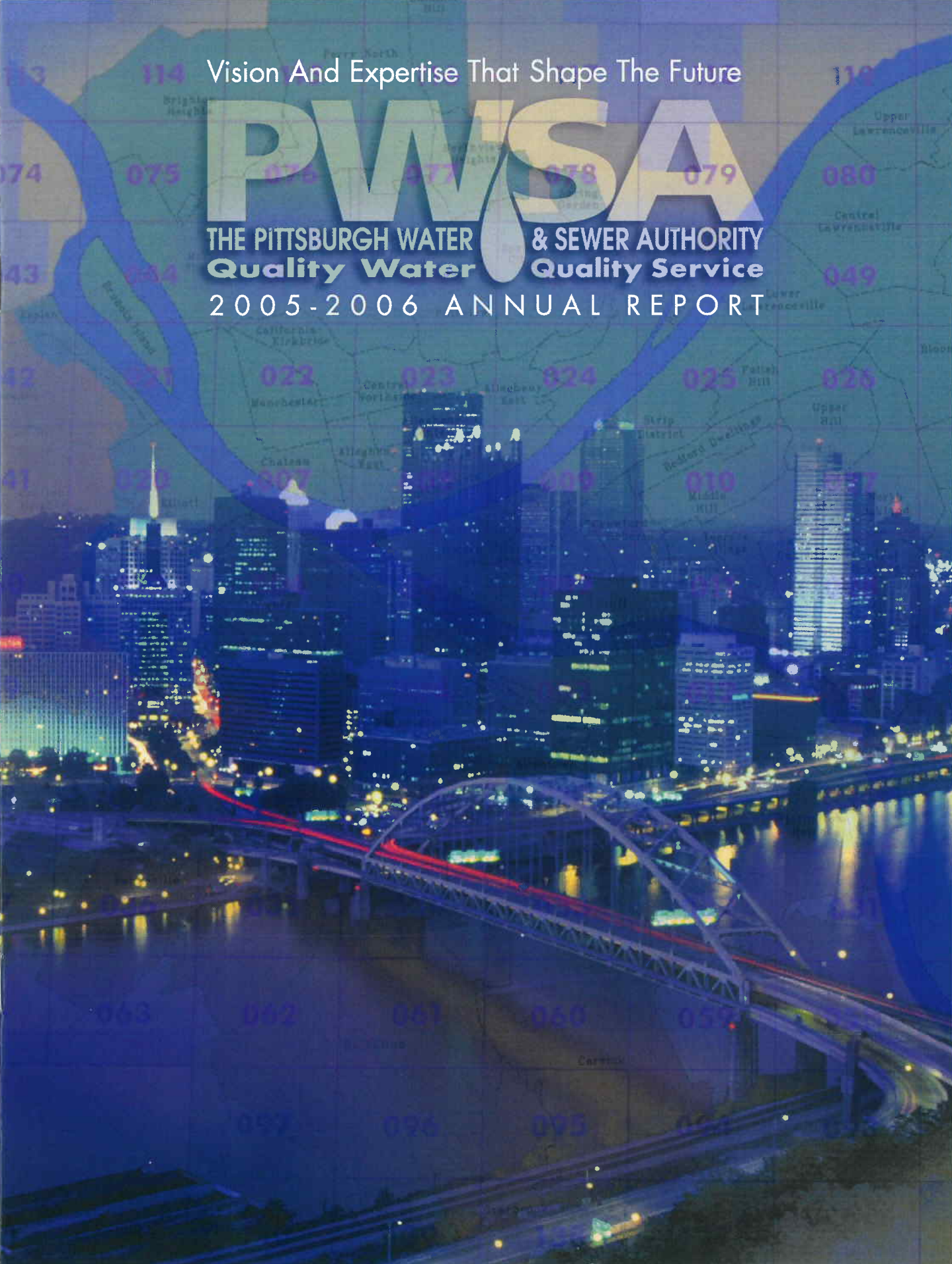


Vision And Expertise That Shape The Future

PWWSA

THE PITTSBURGH WATER & SEWER AUTHORITY
Quality Water & **Quality Service**

2005-2006 ANNUAL REPORT



Employing Expertise To Your Best Advantage



Gregory Tutsock
Executive Director

"With the opportunities and challenges The Pittsburgh Water and Sewer Authority (PWSA) faces today and in the future, our success remains a reflection of the dedication and hard work that each employee demonstrates every single day. With this commitment — and the direction and leadership from the Board of Directors — anything and everything is possible for the Authority."

PWSA provides water and wastewater services that meet or exceed regulations and customer expectations, and does so at the lowest possible cost.

Our business plan formalizes and documents initiatives and objectives that will guide us into the future.

PWSA's mission is multifaceted and diverse. We serve a variety of constituencies, including:

Our Customers:

We deliver water and wastewater services that address the diverse needs of our customers.

Our Financial Stakeholders:

We seek to strengthen our financial condition and controls to meet our financial responsibilities, and to position us for future market opportunities.

Our Employees and Associates:

We foster a culture that encourages employee development and safety.

Our Internal Systems:

We focus on providing efficient, cost-effective service, operations and capital program delivery to maintain a competitive offering.

Our Regulatory and Environmental Stakeholders:

We deliver our services in compliance with all regulatory and environmental requirements.

Focusing Our Vision On Excellence

It is my pleasure to present you with the PWSA 2005-2006 Annual Report. It has been a busy and productive year for the Authority, as we have watched our organization evolve and our project teams accomplish a number of important objectives.

Some of the most notable changes in this organization have occurred on the Board of Directors. In July of 2006, the late Mayor, Bob O'Connor, appointed me Chairman of the PWSA Board – succeeding State Representative Joseph Preston, who had so effectively served this organization for many years. At the same time, Robert Jablonowski, Henry Blum and Don Linzer were appointed to serve as members of the PWSA Board of Directors as well. The four of us joined seasoned Board members Richard Fees and Councilman Len Bodack to provide oversight and guidance to the PWSA management team.

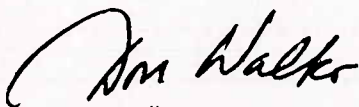
In the months since my appointment, I have had the opportunity to see first hand how important the services provided by PWSA are to the residents of the City of Pittsburgh. This is an organization that understands the potential of our future and is committed to meeting the challenges with excellence. The Board is working hand in hand with Executive Director Gregory Tutsock and PWSA employees to fulfill the mission of providing water and wastewater services that meet or exceed quality standards, while addressing customer expectations at the lowest possible cost.

In the upcoming year, we will focus our efforts on working closely with the City of Pittsburgh, its supporting agencies, community groups, consultants and legislators to make progress on a number of important development initiatives. We will also move ahead with capital improvements to our water distribution and sewage handling systems, continue to comply with the requirements of PWSA's Sewer Consent Order and Agreement, and carry on with our five-year business plan for the organization.

PWSA has a tremendous responsibility to serve its customers on a daily basis, and we realize our key role in helping to shape the future of both the city and our region. We take these challenges seriously, and look forward to providing everyone we serve with exceptional service and innovative thinking.

Please take a few minutes to review the following pages of this report. As always, we at PWSA welcome your questions, comments and suggestions on how we can improve our service to you.

Cordially,



Don Walko
Pennsylvania State Representative
Chairman



Mr. Don Walko
Chairman

Defining Opportunities For Future Accomplishments

Board of Directors

State Representative Don Walko

As Chairman of PWSA, Mr. Walko brings over 12 years of governmental service to the Authority as a Pennsylvania State Representative for District 20, representing residents in the City of Pittsburgh in Wards 2, 6, 9, 10, 23, 24, 25, 26 and 27, the Townships of Reserve and Ross, and the Borough of West View.

Mr. Walko brings a tremendous amount of experience to PWSA, working hand in hand with the City of Pittsburgh, Allegheny County, local government agencies, private developers, community groups and residents.

Robert P. Jablonowski

Working as a Chemist for over 35 years at Duquesne Light, Mr. Jablonowski understands laboratory management. He brings a wealth of knowledge and experience to the Authority as he provides insight to the operations and maintenance of the water and sewer infrastructure.

Henry C. Blum

As a native City of Pittsburgh resident and local community leader, Mr. Blum has worked as a Foreman at Mellon Arena for over 45 years. Mr. Blum is the Secretary of the Board and is PWSA's liaison with our union employees and their representatives.

Richard M. Fees

As the City of Pittsburgh Treasurer, Mr. Fees has been an active member of the PWSA Board for over 10 years. He serves as Treasurer of the Board and helps to oversee all of the Authority's finances.

Councilman Len Bodack

As the City of Pittsburgh council representative, Mr. Bodack serves as the Assistant Secretary/Assistant Treasurer of the Board, and has been a member since 2003. Mr. Bodack represents residents in Council District 7, and he brings his prior working experience as a pipe designer and draftsman to PWSA.

Don Linzer

Mr. Linzer is a member of the Board and is a Certified Public Accountant with Schneider Downs. As a member of the Finance Committee, he brings to the Authority his accounting, tax and business advisory skills.



State Representative Don Walko
Chairman



Robert P. Jablonowski
Vice-Chairman



Henry C. Blum
Secretary



Richard M. Fees
Treasurer



Councilman Len Bodack
Assistant Secretary
and Assistant Treasurer



Don Linzer
Member

Responding To Customer Needs With Smart Strategies

2006 Engineering and Construction Projects

Over the past 12 months, PWSA has addressed a variety of projects throughout our service area. Highlights of our engineering and construction activities include:

Major Water Line Replacement Work

Greentree Road Water System Upgrade

Installed approximately 2,000 feet of a new 8-inch water line in the Ridgemont neighborhood of the City of Pittsburgh.

Upper Oakland Water System Upgrade

Installed approximately 2,000 feet of a new 20-inch transmission water main in upper Oakland to provide additional supply to the surrounding community.

Major Sewer Replacement Work

Centre Avenue

Installed a new 24-inch sewer line on Centre Avenue in Oakland.

Kemper Street

Installed a new 15-inch sewer line on Kemper Street in Squirrel Hill.

Maple Terrace

Installed a new 21-inch sewer line on Maple Terrace in Mount Washington.

Olympia Road

Installed a new 24-inch sewer line, as well as installed an 8-inch water line on Olympia Road in Mount Washington.

Major Sewer Lining Rehabilitation Projects

- Fern Hollow
- Mount Royal Road
- Quarry Street
- Valmont Street

Continuation of the Assessment Stage of the Combined Sewer Overflow (CSO) Consent Order and Agreement

- Assessing and Inspecting Manholes
- Manhole and Catch Basin Point Repairs
- Televising of Sewer Lines (Approximately 30 Miles Per Year)
- Dye Testing of Sewer Inlets
- Mapping of Sewer Inlets

Water Tank Inspections

Drained and inspected seven water storage tanks that hold between 500,000 and 5.5 million gallons of water:

- Allentown Tanks
- Bedford Tanks
- Brashear Tanks
- Spring Hill Tanks

Clearwell Analysis

Completed a study of the 44-million gallon Clearwell at PWSA's Water Treatment Plant to pinpoint needed renovations to the existing structure. The Clearwell supports disinfection of the water leaving the plant.

Improvements to Water Treatment Plant

- Began to upgrade the Supervisory Control and Data Acquisition System (SCADA) for the Pump Stations.
- Rehabilitated the exterior electrical system of the Water Treatment Plant.

Improvements to Mission Yard

The boilers at the Mission Yard facility were replaced, and repairs to the facility's roof were made.

Upcoming Projects for 2007

In the coming year, PWSA will be working on a number of projects, including:

Liberty Park

Installing new water and sewer infrastructure for Liberty Park housing development in East Liberty.

Sheraden Park

Stream separation project at Chartiers Creek in Sheraden Park.

Jack's Run Sewer Improvement Project

Working collectively with Bellevue Borough, Ross Township and ALCOSAN on the stream separation project at Jack's Run in the North Side.

Installation of Chlorine Booster Stations

- Allentown Tank
- Lincoln Tank
- Squirrel Hill Tank

Completing Tank Inspections

- Garfield Tank
- Herron Hill Tank
- Lincoln Tank
- Squirrel Hill Tank

Managing Resources For Maximum Returns

STATEMENTS OF NET ASSETS:

Years ended December 31, 2005 and 2004
(dollars expressed in thousands)

ASSETS	2005	2004
Current assets:		
Cash and cash equivalents (unrestricted)	\$26,344	\$20,617
Accounts Receivable, net:		
Water and Sewer	13,259	12,473
Wastewater Treatment	7,585	7,454
Other	1,791	2,332
Inventory and prepaid expenses	1,810	1,734
Total current assets	50,789	44,610
Restricted Funds:		
Cash and cash equivalents	10,598	25,843
Investments	73,161	16,004
Total restricted funds	83,759	41,847
Fixed assets - at cost, net	434,551	441,722
Bond issue costs, net	7,662	7,357
TOTAL ASSETS	\$576,761	\$535,536

LIABILITIES AND NET ASSETS

Current liabilities:		
Bonds and loans payable, current portion	\$12,474	\$11,467
Accrued payroll	912	810
Accounts payable - wastewater	10,104	11,965
Accounts payable	4,998	6,186
Total current liabilities	28,488	30,428
Restricted funds payable:		
Bonds payable, current portion	5,126	4,713
Accounts payable	1,324	2,357
Accrued interest	6,671	6,551
Total restricted funds	13,121	13,621
Deferred revenue	420	442
Payroll related obligations	830	962
Bonds and loans payable, net	589,942	550,506
Refunding loss	(16,771)	(18,833)
TOTAL LIABILITIES	\$616,030	\$577,126
Net Assets:		
Invested in capital assets, net	\$(65,381)	\$(52,022)
Restricted for capital activity and debt service	9,393	7,726
Unrestricted	16,719	2,706
Total net asset deficit	(39,269)	(41,590)
TOTAL LIABILITIES AND NET ASSET DEFICIT	\$576,761	\$535,536

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS:

Years ended December 31, 2005 and 2004
(dollars expressed in thousands)

OPERATING REVENUES	2005	2004
Residential, commercial and industrial water sales	\$82,726	\$71,559
Other	2,305	2,241
TOTAL OPERATING REVENUES	\$85,031	\$73,800

OPERATING EXPENSES

Direct operating expenses:		
Production	\$20,302	\$18,802
Other	10,858	10,805
Payments to City of Pittsburgh under Cooperation Agreement	7,150	7,150
City rate equalization - subsidy to other water companies	1,093	2,543
Depreciation	13,795	12,647
Capitalized lease amortization	2,557	2,557
TOTAL OPERATING EXPENSES	\$55,755	\$54,504
OPERATING INCOME	\$29,276	\$19,296

NON-OPERATING REVENUES (EXPENSES):

Interest revenue	\$1,348	\$685
Interest expense	(27,660)	(26,811)
Amortization of bond issue costs	(643)	(628)
TOTAL NON-OPERATING EXPENSE	\$(26,955)	\$(26,754)
INCREASE/(DECREASE IN NET ASSETS)	\$2,321	\$7,458)

CHANGE IN NET ASSETS:

Net asset (deficit)		
Beginning of Year	(41,590)	(34,132)
END OF YEAR	\$(39,269)	\$(41,590)

PWSA Facts

2004 Revenues: **\$74 million**

2004 Expenditures: **\$82 million**

2005 Revenues: **\$85 million**

2005 Expenditures: **\$83 million**

Budgeted Employees: **274**

Current 2005 Capital Improvement Program Value: **\$50 million**

Water Treatment Plant Capacity: **117 million gallons per day (MGD)**

Average Daily Production: **70 MGD**

Number of Water Customers: **83,000**

Number of Water/Sewer Customers (combined): **113,000**

Population Served for Water/Sewer Service: **335,000 residents**

Miles of Water Lines: **1,200**

Storage Facilities: **Five reservoirs and 11 tanks**

Storage Capacity: **455 million gallons**

Number of Valves: **More than 32,000**

Number of Fire Hydrants: **More than 7,800**

Number of Water Main Leaks Repaired in 2006: **281**

Number of Water Service Line Leaks Repaired in 2006: **171**

Lab Tests Performed: **More than 54,000 annually**

Miles of Sewer Lines: **1,300**

Sewage Pumping Stations: **4**

Number of Catch Basins: **More than 40,000**

Number of Manholes: **More than 30,000**



PWSA
THE PITTSBURGH WATER & SEWER AUTHORITY
Quality Water Quality Service

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