



ONONDAGA COUNTY WATER AUTHORITY

ANNUAL REPORT

YEAR ENDED DECEMBER 31, 2010

OPERATIONS & ACCOMPLISHMENTS

Year Ended December 31, 2010

Introduction

Onondaga County Water Authority's (OCWA) Operations & Accomplishments Report for the fiscal year ended December 31, 2010, provides an introduction to the major activities that had an effect on the operations of the Authority and it also addresses the financial performance and status of OCWA.

Operational Highlights

Service Area: The Water System supplies water for domestic, commercial and industrial uses and for fire protection in part or all of thirty towns and fifteen villages in Onondaga County (outside the City of Syracuse), and in parts of the Counties of Oswego, Madison and Oneida.

The area served in Onondaga County includes the major portion of the Towns of Camillus, Cicero, Geddes and Salina, as well as parts of the Towns of Clay, DeWitt, Lysander, Manlius, Marcellus, Onondaga, Lafayette, Pompey, Tully, Van Buren, Otisco, Spafford, and Skaneateles. Additionally the Authority serves the Villages of Camillus, Fayetteville, Liverpool, Manlius, Minoa, North Syracuse, Baldwinsville, East Syracuse, Marcellus, and Solvay. In Oswego County the Authority serves the Village of Central Square and the Towns of Hasting, West Monroe, Constantia, Granby, Minetto, Oswego, Volney and Schroepfel. The Authority also has provides intermittent service to the City of Fulton, the Town of Scriba and the Village of Phoenix. In Madison County the Authority serves the Villages of Canastota and Chittenango and parts of the Towns of Lenox and Sullivan. In Oneida County the Authority serves the Village of Sylvan Beach and parts of the Towns of Vienna, Verona and Annsville.

As of February 24, 2011, the Authority provided water services directly to 85,923 residential, 4,934 commercial accounts, 47 industrial accounts, and 40 wholesale accounts. The Authority also has 1,302 accounts related to fire services and fire hydrants. The estimated population of the residential units served was 250,000 persons as of such date. There has been substantial residential growth (primarily via acquisition of systems serving existing homes) within the service area over the last few years, however projected growth for new homes in 2010 and 2011 has dropped correspondingly with the national economic woes. Projected growth is expected to be limited to providing service existing residents served by a small water system or served by private wells. Current potential of this nature is estimated to be 1,200 new accounts over the next two years.

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The sixteen largest industrial customers within these areas, served directly by the Water System in order of usage, are:

<u>Customer</u>	<u>Consumption (in Gallons)</u>	<u>% of Sales</u>
Anheuser-Busch, Inc.	773,519,000	6.62%
Solvay Paperboard	674,920,000	5.78%
Crucible Steel	328,522,000	2.81%
Tri-Gen Syracuse	198,656,000	1.70%
Bristol Meyers Squibb	190,450,000	1.63%
Clinton Ditch	122,020,000	1.04%
Sunoco, Inc.m R&M	110,463,000	0.95%
Queensboro Farms	73,640,000	0.63%
Community General Hospital	48,620,000	0.42%
Lockheed Martin	34,830,000	0.30%
Covanta Onondaga LP	30,360,000	0.26%
Frazer & Jones	23,370,000	0.20%
Crouse Hinds	21,130,000	0.18%
Carr Street (Co-Generator)	20,810,000	0.18%
Suburban Lodging	12,680,000	0.11%
Ameripride	12,550,000	0.11%

Source of Supply: For 2010 44.99% of the water supply of the Water System was drawn from the Authority's source at Otisco Lake, 51.49% was purchased from the Metropolitan Water Board's filtered Lake Ontario supply, and 3.50% was purchased from the City of Syracuse's Skaneateles Lake supply.

The Metropolitan Water Board ("MWB") was created by the Onondaga County Legislature and it operates the Onondaga County Water District, which is a wholesale supplier of water to the Authority.

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The following tabulation shows, for recent years, the average daily quantity of water from the various sources of supply.

WATER OBTAINED FROM SOURCES OF SUPPLY (Average Gallons Per Day)

<u>YEAR</u>	<u>OTISCO LAKE</u>	<u>LAKE ONTARIO VIA METRO WATER BOARD</u>	<u>CITY OF SYRACUSE SOURCES</u>	<u>TOTAL</u>
1999	16,239,000	27,276,000	676,000	44,191,000
2000	17,759,000	25,832,000	378,000	43,969,000
2001	17,030,783	25,807,835	385,463	43,233,394
2002	17,104,885	25,768,219	435,485	43,315,128
2003	16,953,989	24,320,961	499,005	41,780,348
2004	17,187,000	22,605,806	482,016	40,341,743
2005	17,632,897	26,381,390	529,506	44,550,662
2006	16,772,679	21,263,156	482,810	38,524,849
2007	16,671,945	23,305,208	562,342	40,599,057
2008	16,516,595	21,568,024	453,729	38,545,505
2009 ¹	15,994,000	19,595,000	1,226,000	36,815,000
2010 ²	16,778,016	19,203,734	1,306,120	37,287,870

¹ In 2009, the City of Syracuse, the MWB and the Authority agreed to modify their respective responsibilities for the operation and maintenance of certain regional water facilities (the Southern Branch system), with the Authority assuming responsibility for the operation and maintenance and the parties agreeing the Authority would purchase water directly from the City rather than from MWB (who had purchased the water from the City under the prior arrangements). As a result, the amount of water purchased from MWB decreased and the amount purchased from the City increased by an equal amount, but the source of the water had not changed.

² In 2009, the City of Syracuse, the MWB and the Authority agreed to modify their respective responsibilities for the operation and maintenance of certain regional water facilities (the Southern Branch system), with the Authority assuming responsibility for the operation and maintenance and the parties agreeing the Authority would purchase water directly from the City rather than from MWB (who had purchased the water from the City under the prior arrangements). As a result, the amount of water purchased from MWB decreased and the amount purchased from the City increased by an equal amount, but the source of the water had not changed.

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Condition of Properties: Inspections of the visible physical plant of the Water System show it generally to be in good operating condition and well maintained. All structures are of substantial construction. The chemical properties of Otisco Lake Reservoir water are such that corrosion and tuberculation of underground piping is practically non-existent, and pipes in the ground for over 75 years have almost the same carrying capacities today as when new. Water System water losses are low, indicating a tight system with proper maintenance and control of leakage.

Adequacy of System: Since the acquisition of the Water System by the Authority in December 1955, improvements have been made to keep pace with demands. The Water System has adequate capacity to meet the peak demands of the Water System. The Authority's Capital Reinvestment Program is designed to address problem areas in a prioritized manner as identified on an ongoing basis.

Quality Control: The Authority has been at the forefront of the industry being proactive in taking steps to improve and maintain the quality of the water above the state and federal mandates. The Authority has received numerous awards attesting to the exceptional quality of their water.

Water demand is illustrated by a comparison of water sales, revenues and physical plant of the Water System in 1985, 1995 and 2010 as shown in the following table:

<u>ITEM</u>			<u>1985</u>	<u>1995</u>	<u>PERCENT INCREASE (DECREAS E)</u>	<u>2010</u>	<u>PERCENT INCREASE (DECREAS E)</u>
Average Metered Water Sales			41.76 MGD	39.13 MGD	(6.2%)	32.01 MGD	(18.19%)
Operating Revenue			\$13,648,1 29	\$17,546,0 00	28.5%	\$35,422,9 41	101.89%
Miles of Mains Owned & Leased			875.5	1,332.72	52.2%	1,860.30	39.59%
Active Accounts			44,603	69,445	55.7%	92,247	32.83%
Fire Hydrants			4,563	7,765	70.1%	11,798	51.93%

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Average daily quantity of water sales and yearly totals of metered water sales by the Water System during the twelve months ended December 31, 2010 were as follows:

<u>CLASSIFICATION</u>	AVERAGE DAILY SALES (1000 gallons)	YEARLY TOTALS (1000 gallons)
Residential & Commercial	17,311	6,318,468
Industrial	7,443	2,716,719
Wholesale	<u>7,256</u>	<u>2,648,640</u>
TOTAL	32,010	11,683,827

	WATER METERED & BILLED (in Million Gallons)					
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Projected 2011</u>
Residential & Commercial	6,198	6,621	6,338	6,191	6,318	6,381
Industrials	3,463	3,421	3,199	2,636	2,717	2,744
Wholesale	<u>2,681</u>	<u>2,738</u>	<u>2,685</u>	<u>2,624</u>	<u>2,649</u>	<u>2,675</u>
Total	12,342	12,780	12,222	11,451	11,683	11,800

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Financial Highlights

OCWA's 2010 total revenues increased by \$4,215,232 (13.5%) compared to the total for 2009, with rate increases for all customer classes representing the main source of increased revenues for 2010. The OCWA Board took steps to increase the Authority's rates primarily to address added debt service related to construction. By the end of 2010 two of the three large covered tanks being built by OCWA to replace MWB's open reservoirs were substantially completed and placed in service. The \$14.5 million improvement of the OCWA water treatment plant was also completed in 2010. Additionally, OCWA refunded its 2001 revenue bond and as part of the same bond issue added \$2 million for green improvements to the Authority's headquarters in Salina.

Overall, water sales (consumption) for 2010 increased as compared to 2009, in part due to a warm, dry start to the summer and in part due to an increase in industrial water sales. Average quarterly water sales remained generally in line with the average experiences over the past decade, which remains substantially lower than the average use of the 1980s and 1990s. Further, the current averages are anticipated to be the new norm as we head into the 21st century. Fiscal year 2010 rates for residential and commercial customers were increased by 12%. Industrial and

Wholesale rates were increased 10%, and public and private fire protection rates were increased 3.25%. Water Revenues for 2010 increased by \$4,126,382 (13.7%) over 2009 revenues, and total water sold increased 643,000 (2%) gallons per day compared to 2008. Overall, residential water use increased 2.47%, commercial use was up 0.3%, wholesale purchases were up 0.95% and industrial sales rose 3.07% for the year. Water conservation efforts by OCWA's largest customer, Anheuser Busch, continued to be successful and the brewery's daily demand fell by 254,000 gallons per day. The decrease at Anheuser Busch, however, was offset by the emergence of Crucible Steel from bankruptcy and its return to former usage levels. Also, the former Northeast Biofuels ethanol plant went back into operation in June of 2010 as a Sunoco ethanol production facility, and Solvay Paperboard purchases increased by 7.3% over 2009.

OCWA's 2010 total customer account base increased by 800 (0.8%) over the year-end total for 2009. However it should be noted that the conversion of the Village of Marcellus water system from one intermittent wholesale customer to 620 retail customers took place in December of 2009 and as such the full impact of the new customers was not felt until 2010.

On the expense side of the Authority's operation, total expenses for 2010 increased by \$2,912,713 (9.57%) over 2009. Depreciation and amortization total increased by \$437,145 (9.48%). Labor increased by \$194,363 (2.83%) and benefit costs were up \$482,853 (13.68%) with the increased contribution to the New York State Retirement system being the lead reason for the increased cost of benefits as compared to 2009. It should be noted that there are specific contractual obligations with the Authority's CSEA and Teamsters Union personnel, however successful negotiations with the Teamsters mitigated the overall impact of personnel related expenses. Additionally, the current number of OCWA employees remains below budgeted levels and will remain so until further signs of economic recovery are evident in Central New

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York. For 2010 chemical use added an additional expense of \$108,261 (23.8%) for the year, due primarily to changes in the treatment process brought about by the improvement project completed at the Marcellus water treatment plant and the Otisco Lake intake. Purchased water, due to demand management by OCWA Operations personnel, resulted in decrease of \$92,223 compared to 2009. Outside professional service expenses increased by \$158,421, more than double 2009 expenses, as a result of charges related to the Finger Lakes Railroad Condemnation, expenses related to OCWA's Cost of Service and Rate Study and the cost of additional engineering services. The largest increase in expenses for 2010 relate to additional bond interest expense, \$1,219,913 (93.81%) attributed to the 2009 \$33 million bond issue related to the construction of the Eastern 30 MG covered tank and the Western 20 MG tank, which were both placed into service in the latter part of 2010.

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Summary of Statements of Net Assets

TABLE 1

	2009	2010
ASSETS		
Cash	\$ 98,481	\$ 243,275
Accounts Receivable	5,735,167	6,646,457
Materials, Supplies and Prepaid Expenses	2,230,583	2,353,726
Restricted Assets	13,486,407	21,697,846
Unamortized Bond Issuance Costs	723,879	707,872
Plant and Water Rights, Net	<u>189,987,093</u>	<u>203,214,815</u>
TOTAL ASSETS	<u><u>\$ 212,261,610</u></u>	<u><u>\$ 234,863,991</u></u>
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 2,951,372	\$ 2,913,072
Liabilities Payable from Restricted Assets	4,394,480	2,832,980
Bonds Payable	45,522,196	64,742,970
OPEB Liability	3,142,428	4,839,610
Capital Lease Obligations	<u>656,875</u>	<u>551,000</u>
Total Liabilities	56,667,351	75,879,632
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	143,808,022	137,920,845
Restricted Net Assets	6,525,046	15,568,635
Unrestricted Net Assets	<u>5,261,191</u>	<u>5,494,879</u>
Total Net Assets	<u>155,594,259</u>	<u>158,984,359</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 212,261,610</u></u>	<u><u>\$ 234,863,991</u></u>

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Summary of Statements of Net Assets – Continued

Total assets increased approximately \$22.6 million in 2010 as a result of the following items:

- The increase in cash of \$144,794 is due to the higher balance in the Authority's operations and maintenance fund at year-end.
- Accounts receivable have increased by \$911,290 or 15.9%. There are two components that make up most of this increase. The first is accounts receivable for water that has been billed to customers. Accounts Receivable – Water increased by \$561,193 (17.6%). The other component is for estimated revenue that has been accrued on accounts that are billed on a quarterly or longer basis. Accrued Utility Revenue increased by \$348,300 or 13.1% over the year-end 2009 balance. A portion of the increase is related to the rate increases ranging from 3.25% for fire protection to 12% for residential & commercial customers.
- Materials, Supplies and Prepaid Expenses increased by \$123,143 (5.5%). Prepaid Expenses increased by \$94,595. Part of that increase is due to the installation of the final two carbon filters at OCWA's Water Treatment Plant. The filter media, which cost \$100,000 per filter are part of new treatment processes at the plant and are expected to last five years before requiring replacement. Postage deposited with the USPS increased by \$36,980 because the facility that the Authority uses to mail bills moved toward the end of the year. This required that there be deposits at two post offices at year end. Also, OCWA's inventory increased by a small amount \$28,549 (1.8%) over 2009. A small offsetting factor is that prepaid insurance decreased by \$10,793 (8.0%) as compared to year-end 2010.
- Restricted assets increased by \$8,211,439 million (60.9%) in 2010. This increase is due to the net effect of several factors. One is the use of \$1.5 million in the construction of OCWA's Water Treatment Plant improvements. Another factor is the establishment construction funds related to the 2009 and 2010 bonds. This increased restricted assets by nearly \$7.0 million. And finally, the net effect of converting the 2009 bonds to long-term, adding the 2010 bonds and refunding the 2001 bonds was an overall increase of \$2.1 million in the various bond payment and bond reserve funds.
- Plant and water rights increased due to additional capital projects either completed or in progress at the end of 2010. A detailed outline of the additions is located just after Table 4 "Capital Assets at Year End" later in this analysis.

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Summary of Statements of Net Assets – Continued

Total liabilities increased by approximately \$19.2 million in 2010 as a result of the following items:

- Liabilities Payable from Restricted Assets decreased by \$1.6 million (35.5%) over 2009. This is because of amounts due to contractors for work performed in 2010, for which payment was not made until 2011, was \$1.3 million less than in the same period of the previous year. Last year there were several large amounts payable to contractors working on OCWA's Water Treatment Plant and the 20MG and 30MG covered storage tanks. Also, retainage held at the end of 2010 was \$276,000 less than at the end of 2009. This decrease is also related to the above mentioned projects.
- The Bonds Payable balance increased due to several factors. One is the conversion of the 2009 EFC Bonds to long-term which increased bonds payable by \$19.3 million. Another is the issuance of the 2010 bonds which increased bonds payable by \$5.9 million. And finally, the refunding of the balance of the 2001 bonds which decreased bonds payable by \$5.5 million.
- GASB Statement No. 45 establishes guidance for the financial reporting of OPEB cost over a period that approximates employees' years of service. Under GASB Statement No. 45, based on an actuarial valuation, an annual required contribution ("ARC") is determined by the Authority. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. To the extent that the Authority contributes an amount less than the ARC, a net incremental OPEB obligation will result, which is required to be recorded as a liability on its financial statements.

GASB Statement No. 45 does not require that the unfunded liability actually be funded, only that the Authority account for unfunded accrued liability. The financial statements at December 31, 2010 include a liability in the amount of \$4.8 million that represents the Authority's unfunded liability.

- Capital lease obligations decreased by \$105,875 due to principal payments made on various leases.

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Review of Revenues

TABLE 2

	2009	2010
Residential/Commercial Sales	\$ 21,299,194	\$ 24,567,025
Industrial Sales	3,719,060	4,129,045
Municipal (Water Utility) Sales	4,024,555	4,399,573
Fire Protection	1,084,635	1,158,183
Miscellaneous Revenue	1,131,777	1,169,115
Interest from Investments Held in Trust	9,094	20,066
Other Interest Income	0	0
Gain (Loss) on Disposal of Fixed Assets	<u>(42,950)</u>	<u>(2,410)</u>
TOTAL REVENUES	<u><u>\$ 31,225,365</u></u>	<u><u>\$ 35,440,597</u></u>

- OCWA implemented rate increases for all customer classes during 2010. Residential & commercial customer rates were raised 12%, industrial and municipal customers 10.0% and Fire Protection 3.25%. The increases, which were determined in late 2009, were based on the projected requirements for 2010 and took into account changes that were expected to have an effect on 2010 operations.

Total water revenues for 2010 increased by \$4,126,382 (13.7%) from the previous year. 2010 revenue saw increases in each category of water revenue. Residential and commercial sales increased by \$3,267,831 (15.3%), industrial sales by \$409,985 (11.0%), municipal sales by \$375,016 (9.3%) and fire protection by \$73,548 (6.8%). Water revenues increased by more than the rate increases would indicate because consumption also increased in 2010 over 2009 amounts. Consumption increased in the various categories by the following percentages: Residential 2.47%, Commercial 0.3%, Industrial 3.07% and Municipal 0.95%.

- Interest from investments held in trust and other interest income increased by a total of \$10,972 (120.7%). This increase reflects the fact that the Authority had additional funds to invest as noted in the section on restricted assets on Table 1 above. The yields on investments, however, continue to be extremely low.

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Review of Expenses

TABLE 3

	2009	2010
Operations	\$ 8,185,254	\$ 8,614,002
Purchased Water	8,168,218	8,074,995
General and Administrative	4,133,581	4,758,127
Less: Burden Applied	(898,846)	(862,828)
Depreciation	3,957,015	4,468,029
Bond Amortization	16,991	10,865
Water District Lease Amortization	594,179	571,746
Maintenance	4,895,272	5,161,554
Other Expense	<u>1,339,501</u>	<u>2,552,703</u>
TOTAL EXPENSES	<u><u>\$ 30,391,165</u></u>	<u><u>\$ 33,349,193</u></u>

Total expenses for 2010 were up by approximately \$3 million (9.7%) compared to fiscal year 2009. Areas of expense that experienced significant changes, both plus and minus, in 2010 including: labor, health insurance, pensions, purchased water, chemicals, electric/natural gas, professional services and bond interest expense are discussed below.

Labor Changes Impacting Operations, Maintenance, and General and Administrative Expenses

Labor expenses in operations, maintenance and general and administrative accounts increased by \$194,363 (2.8%) during 2010 as compared to 2009. Both the Teamsters and CSEA contracts included wage increases effective January 1, 2010. The rates for the CSEA employees increased by 3.5% and Teamsters rates increased by 3.0%.

Notable Expense Changes (Other Than Labor)

Group health insurance increased by \$112,356 (4.9%) as compared to 2009 for the Authority's employees and retirees. Insurance coverage is contractual and it should be noted that both employees and retirees contribute toward the cost of their coverage.

General liability and workers compensation insurances increased by \$102,000 (16.6%) in 2010. The general liability portion of the increase was \$79,000 and the workers compensation portion was \$23,000.

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Notable Expense Changes (Other Than Labor) – Continued

For pensions, OCWA's employees are covered under the New York State and Local Employees' Retirement System. OCWA's expense for contributions made to the system was \$917,664 an increase of \$377,000 (70%) over the 2009 amount.

Chemical costs increased by \$108,261 (23.8%) in 2010 over 2009 figures. The increase is due to changes in the treatment processes at the Authority's water treatment plant.

Fuel costs increased by \$33,544 (17.6%) in 2010 as compared to the previous year. This is a reflection of fuel prices that were beginning to increase in the latter part of 2010.

OCWA also experienced a \$92,499 (11.4%) increase to its electric and natural gas charges for 2010 over 2009 amounts. This is due in part to rate increases plus the addition of new pumping facilities

Professional services increased by \$158,421 (114.57%) in 2010 over 2009 amounts. The increase is due to several factors which include: legal fees related to the Finger Lakes Railroad condemnation, the cost of the Authority's Cost of Service Study, and additional payments for engineering services to O'Brien & Gere.

Purchased water cost was down by \$93,223 (1.1%) for 2010. The Authority's Operations personnel made a concerted effort to maximize the delivery of water produced through OCWA's water treatment plant. This replaced more expensive purchased water with water produced through OCWA's plant at a lower cost.

Depreciation increased by \$511,014 (12.9%) in 2010 over 2009 figures. This is a reflection of the fact that OCWA added nearly \$42 million to Water Plant in Service in 2010.

There was an increase of \$1,213,202 (90.6%) in Other Expense in 2010. There are several factors that influenced this increase. The first is the \$1.26 million increase in interest expense on the 2009 bonds because the bonds were in place for a full year in 2010 as opposed to only part of the year in 2009. Next is the interest expense on the bonds that the Authority issued in 2010. These bonds had interest expense of \$79,000 in 2010, none in 2009. Finally, the 2001 bonds had a decrease in interest expense of \$96,000 in 2010 due to their being refunded during the year.

Summary of Overall 2010 Operations

In 2010 OCWA experienced a net income before capital contributions of \$2,091,404, an increase of \$1,257,204 from the net income of \$834,200 for the fiscal year ended December 31, 2010. This increase was caused by the net effect of the various factors described above..

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OCWA Budget Process

Each year the Authority's department managers prepare comprehensive draft budgets, one for operations and maintenance and one for capital projects. The executive staff combines the budgets and prepares a recommendation for the Authority's Board to review in early October of each year. The Board, in turn, conducts a budget workshop with executive management and a final recommendation is made for approval by the Board at its October meeting. Per the implementation of New York State's Public Authorities Accountability Act, OCWA's annual budget process must be completed by the end of October. Copies of the approved budget are then forwarded to elected officials at the County and State level in accordance with PAAA guidelines.

Executive management, also in accordance with OCWA's trust indenture, provides a copy of the budgets to the Authority's consulting engineer for review and approval. Executive management and the consulting engineer meet to review both budgets prior to the consulting engineer submitting their letter acknowledging satisfactory review.

The operations and maintenance budget is generally not amended once it has been approved by the Board. On a monthly basis, each Authority department manager completes a budget variance, which is in turn submitted to the Executive Director. Also on a monthly basis, a summary budget variance report is provided to the Board and extraordinary variances (plus and minus) are explained.

With respect to the capital budget, specific projects for the year are approved at the preceding year's October board meeting. It should also be noted that although the October budget approval encompasses all approved projects for the coming year, each project must be submitted to the Board for approval of the project's work authorization prior to the start of the project.

Executive management also prepares 20-year capital budgets and 20-year operations and maintenance budgets for the Authority. Both budgets include a list of assumptions that are used to prepare the long-range projections. It should be noted that both long-range budgets are updated regularly and submitted to the OCWA Board for review and are ultimately added to the Authority's annual business plan.

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System Growth

Areas of growth included the following:

- Installation of 14 developer or individual main extensions, totaling 18,015 feet of main.
- By the end of 2010 the installation of water mains related to the new West Monroe / Constantia water system was completed and approximately 20 new customers were added. The full impact of the new system will not be recognized until later in 2011 when construction of the district's water storage tank and pump station are complete.
- The Town of Hastings added another small water district in the northern part of the Town and the total number of Hastings customers increased by 135.
- OCWA and Onondaga County are working proactively together to attract industrial customers to the County, using the availability and cost of water as a selling point.

Areas of growth, 2011 and beyond:

- The new West Monroe / Constantia water system construction is well underway. Water mains have been installed, the pump station and water storage facility are under construction and scheduled for completion in 2011. Once completed the impact of new customers should be between 600 and 1,000.
- The Town of Granby continues to work on the development of a northern water supply district.
- Demand for developer main extensions remains relatively flat, although the 2011 number of initial inquiries related to potential new developments has increased slightly over what was seen in 2009 and 2010.

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Capital Assets at Year End (Net of Depreciation)

TABLE 4

	Governmental Activities		Total Percent Change
	2009	2010	2009-2010
Water Plant in Service	\$ 202,455,638	\$ 244,343,299	20.69%
Water Rights - Source	5,250,000	5,250,000	0.00%
Construction Work-in-Progress (I&E)	28,725,032	4,370,984	-84.78%
Water District Lease	23,080,458	23,169,890	0.39%
Pre-Survey and Investigation	568,494	413,111	-27.33%
Jobbing in Progress	435,104	493,401	13.40%
Allowance for Depreciation	(55,204,842)	(59,010,971)	6.89%
Accumulated Amortization/Water Districts	(10,048,037)	(10,619,783)	5.69%
Residual Amortization/Water Rights	(5,250,000)	(5,250,000)	0.00%
Deferred Charge - Capital Interest on FP	(24,754)	(22,126)	-10.62%
Deferred Charge - Refunding	0	77,010	100.00%
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Total	<u>\$ 189,987,093</u>	<u>\$ 203,214,815</u>	6.96%

Increase to Water Plant in Service Highlights

The Authority continues to remain active with respect to capital projects and acquisitions. During the year, the following three projects were substantially completed and placed into service. Their total cost is \$38.7 million of the nearly \$42 million in projects placed in service during 2010.

- Improvements to the Marcellus Water Treatment Plant and the Otisco Lake intake - \$12.4 million
- Western Reservoir (20MG) covered storage tank - \$11.3 million
- Eastern Reservoir (30MG) covered storage tank - \$15.0 million

ONONDAGA COUNTY WATER AUTHORITY

OPERATIONS & ACCOMPLISHMENTS

Year Ended December 31, 2010

In addition to the three large projects mentioned above OCWA placed additional water plant into service during 2010, including the following.

- The purchase of water meters in the amount of \$520,000 as part of OCWA's ongoing meter replacement project.
- The installation of water mains totaling \$1.75 million
- The installation of new and replacement hydrants and water services.
- The replacement of vehicles in its fleet as part of OCWA's asset management program.

OPERATIONS & ACCOMPLISHMENTS

Year Ended December 31, 2010

Capital Assets at Year End (Net of Depreciation) – Continued

Construction Work-In-Progress Highlights

Construction Work-In-Progress decreased by \$24,354,048 during 2010, from \$28,725,032 at the beginning of the year, to \$4,370,984 at year end. The decrease is related to the substantial completion of the three major projects that the Authority moved to Water Plant in Service during the year. They are, as noted above, the Improvements to the Marcellus Water Treatment Plant and the Otisco Lake intake, the Western Reservoir (20MG) covered storage tank and the Eastern Reservoir (30MG) covered storage tank

Some of the projects that make up the current balance in Construction Work-In-Progress include the following:

- OCDOT Improvements E. Taft Road – a project to install approximately 9,935 ft. of 4”, 6”, 8”, 10 “ & 12 “ pipe.
- System Betterment Sun Harbor Dr – a project to install approximately 1,915 ft. of 8” pipe.
- System Betterment Reed St – a project to install approximately 1,965 ft. of 8” pipe.
- System Betterment Main St (Nine Mile Creek to Elm St) – a project to install approximately 915 ft. of 6”, 8” & 10” pipe.
- Northern Concourse – Roof, Siding and HVAC improvements at OCWA’s Headquarters Facility
- Various smaller system betterments and main extensions still in progress at year-end.

Pre-Survey and Investigation Highlights

Pre-survey and investigation costs capture costs related to studies undertaken related to potential additions and improvements to the OCWA system. This account decreased due to factors including the transfer of project costs to Construction Work-in-Progress and/or Water Plant in Service.

Jobbing in Progress

Jobbing in progress captures costs associated with activities for which an individual or developer will pay for the job in full. The installation of new hydrants and large services within certain areas of OCWA’s system are examples of this. A deposit for the job is taken. When the project is completed, the Authority will either bill the developer if the actual cost is more than the deposit or refund a portion of the deposit if the cost is less. “Job Orders” are also used to capture costs associated with repairing or replacing assets, generally hydrants and services, which are hit and damaged by individuals. The Authority then bills the individual or the individual’s insurance for the repair cost. The account is also used to track the cost of contract operations and of maintenance agreements with various water systems. The balance in this account had increased by \$58,297 at the end of 2010 as compared to the previous year end.

ONONDAGA COUNTY WATER AUTHORITY

OPERATIONS & ACCOMPLISHMENTS

Year Ended December 31, 2010

Long-Term Debt Administration

The Authority has two General Water System Revenue Bond issues and two E.F.C. Drinking Water Bond issues outstanding with a remaining principal totaling \$63,985,000 as of December 31, 2010. OCWA's most recent bonds were issued in August 2010.

On August 19, 2010, the Authority issued \$5,925,000 in General Water System Revenue Bonds, Series 2010A. The bonds bear interest at rates ranging from 3.0% to 5.0% and have a final maturity date of September 15, 2025. The bonds were issued to provide funds to redeem all outstanding 2001 Series A Bonds maturing after 2010 as well as provide funds for capital improvements. The first principal payment in the amount of \$950,000 is due on September 15, 2011.

The E.F.C. Drinking Water Bonds, 2009 Series A were issued in the maximum principal amount of \$33,000,000. The New York State Environmental Facilities Corporation (EFC) agreed to purchase the bonds from time to time in amounts equal to "Advances" which were based upon requisitions submitted by the Authority. The balance, up to the maximum principal amount, was to be advanced upon conversion. The conversion to long-term bonds took place in March 2010. The unpaid principal sum at December 31, 2010 was \$33,000,000. The interest rate is 4.8721%. Bonds mature serially in varying annual amounts and have a final maturity date of June 15, 2038. The first principal payment in the amount of \$515,000 is due on June 15, 2011.

The E.F.C. Drinking Water Installment Bonds, 2008 Series A were issued in the amount of \$14,226,510 has a remaining principal balance of \$13,745,000 as of December 31, 2010. The scheduled principal payment for 2011 is \$495,000 and is due on October 1, 2011. The 2008 Bonds mature serially in varying annual amounts through 2029, with an interest rate of 4.27%, one third of which is subsidized by E.F.C. (New York State Environmental Facilities Corporation).

The other revenue bond issue that the Authority has outstanding is the General Water System Revenue Bonds, 2005 Series A which has a remaining principal balance of \$11,315,000 as of December 31, 2010. This amount reflects a principal payment of \$520,000 made in September 2010. The required principal payment on the bond in 2011 is \$540,000, one twelfth of which is set aside monthly. The 2005 bonds mature serially in varying annual amounts through 2025, with interest rates ranging from 3.5% to 5.00%, payable semi-annually.

As noted above, 2001 Series A, General Water System Revenue Bonds were all refunded as part of the 2010 Series A bond issue. The refunding took place on September 15, 2010

Pursuant to a Trust Indenture, all revenues collected by the Authority are pledged to the payment of principal and interest on the bonds. All such revenues are deposited in the name of a trustee for allocation to funds set up in accordance with the Trust Indenture.

ONONDAGA COUNTY WATER AUTHORITY

OPERATIONS & ACCOMPLISHMENTS

Year Ended December 31, 2010

Long-Term Debt Administration – Continued

Series Bonds	Bonds Outstanding as of December 31, 2010
2010 Series A Bonds	\$ 5,925,000
2009 E.F.C. Bonds	33,000,000
2008 E.F.C. Bonds	13,745,000
2005 Series A Bonds	11,315,000
Total	<u>\$ 63,985,000</u>

OCWA Bond Rating

In August of 2010, Moody's Investors Service assigned a Aa2 rating to OCWA's General Water System Revenue Bonds, 2010 Series A. At the same time it also assigned a Aa2 rating to OCWA's previously issued 2008 and 2009 EFC Bonds totaling \$47.2 million and affirmed the Aa2 rating on the Authority's 2005 Series A Bonds.

Note: In the first half of 2010 Moody's "recalibrated" all of its long-term municipal ratings to its global rating scale. As part of that process Moody's "recalibrated" the bond rating on the Authority's 2001 and 2005 Bond issues on April 16, 2010. The ratings changed from Aa3 to Aa2. A change of this nature would normally be considered an upgrade. In this case, however, Moody's advises that "Market participants should not view the recalibration of the municipal ratings as ratings upgrades, but rather as a recalibration of the ratings to a different rating scale".

ONONDAGA COUNTY WATER AUTHORITY

OPERATIONS & ACCOMPLISHMENTS

Year Ended December 31, 2010

Looking Forward

Based on increased debt expense related to the construction of two covered tanks built to replace MWB's open reservoirs in Manlius and Van Buren, along with the debt related to the 2010 bond issue and the projected 2011 bond issue, and taking into account projected increased operating expenses, the OCWA Board opted to increase rates for 2011 by 9.0% for residential, commercial, wholesale and industrial customers. Rates for fire protection accounts were not increased. The ongoing annual rate increases are in accordance with the Authority's 2001 Bond Indenture, whereby OCWA's Board is required to review rates on an annual basis and adjust them accordingly. Rate increases since 2001 and up to and including 2010 are listed below:

Year	Residential / Commercial	Wholesale	Industrial	Fire Protection
2011	9.0%	9.0%	9.0%	0.0%
2010	12.0%	10.0%	10.0%	3.25%
2009	15.0%	15.0%	9.9%	3.25%
2008	7.7%	7.7%	6.7%	3.25%
2007	9.8%	9.8%	6.75%	4%
2006	6%	6%	4%	4%
2005	8%	8%	5%	5%
2004	15%	15%	3%	3%
2003	2%	2%	2%	2%
2002	2%	2%	2%	2%

- For 2011 the Metropolitan Water Board elected to raise its water rates. The Authority's 2011 O&M Budget takes that increase into account. With the change in operation of the Southern Branch water system, OCWA purchased 51.5% (down from 53.3% in 2009) of its water from MWB and 3.5% from the City of Syracuse (up from 3.3% in 2009). Purchased water costs are roughly 31.4% of the Authority's operating expense, before depreciation and amortization.
- OCWA's personnel level remained flat for 2010 as new hires were restricted to replacement of key personnel only. At present, several positions are vacant due to retirement and will remain vacant for the foreseeable future, as the local and State economies continue to recover.

ONONDAGA COUNTY WATER AUTHORITY

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Year Ended December 31, 2010

Looking Forward – Continued

- With respect to major capital construction projects, the table is set 2011. Construction of the Manlius (20MG Eastern Reservoir) tank is slated to begin in April of 2011, however full completion, including start up and clean up will run until June of 2012. Also, in April of 2011 major improvements to OCWA's Northern Concourse headquarters will begin. Once completed the \$2 million dollar project will result in energy savings through implementation of green technologies. Also on the docket for 2011 is the construction of a new pump station designed to feed the West Hill Water District, where customers are supplied unfiltered water purchased from the Syracuse Water Department. Once completed the new pump station will supply the West Hill customers with lower cost OCWA water produced at the Marcellus water treatment plant. The final major project that will get underway in 2011, but will not be completed until early in 2012, is the rehabilitation of the two Southern Branch pipeline pump stations. Pumps, motors, controls and auxiliary power for both stations will be replaced with newer more energy efficient equipment. Additionally each station will be fitted with a new, more energy efficient heating system and energy efficient roofing system.
- In addition to major capital improvements, OCWA has ongoing capital needs related to the operation and maintenance of the distribution system. In keeping with its ongoing asset management efforts, operating and engineering staff will continue to review and prioritize the overall needs related to replacement and or enhancement of all OCWA assets throughout the system

Request for Information

This report is presented as a broad overview of the financial condition of the Onondaga County Water Authority. Questions related to the report or the Authority in general should be sent to the Executive Director, Onondaga County Water Authority, PO Box 9, Syracuse, New York 13211-0009. Questions can also be directed to the Executive Director via the Authority's web site at www.ocwa.org.

BUDGET VARIANCE REPORT: DECEMBER 2010

DATE PREPARED: 03/25/11

DESCRIPTION	CURRENT MONTH:			YEAR TO DATE:		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES:						
WATER REVENUES	\$2,607,672	\$2,709,403	\$101,731	\$34,213,014	\$34,253,826	\$40,812
MISC REVENUES	\$51,900	\$54,324	\$2,424	\$1,045,800	\$1,169,115	\$123,315
INVESTMENT INCOME	\$950	\$9,609	\$8,659	\$11,400	\$20,066	\$8,666
	\$2,660,522	\$2,773,337	\$112,815	\$35,270,214	\$35,443,007	\$172,793
EXPENSES:						
LABOR	\$675,515	\$810,744	(\$135,229)	\$6,973,951	\$7,071,800	(\$97,849)
EMPLOYEE BENEFITS	\$349,022	\$325,193	\$23,829	\$4,284,859	\$4,012,769	\$272,090
PURCHASED WATER	\$677,569	\$671,381	\$6,188	\$8,533,412	\$8,074,995	\$458,417
CHEMICALS	\$51,600	\$45,015	\$6,585	\$810,341	\$563,165	\$247,176
ELECTRIC (GAS)	\$70,047	\$120,631	(\$50,584)	\$842,718	\$902,743	(\$60,025)
O/S PROFESSIONAL SERVICES	\$16,675	\$71,351	(\$54,676)	\$179,047	\$296,697	(\$117,650)
O/S CONTRACTORS	\$53,572	\$140,873	(\$87,301)	\$1,323,275	\$1,310,884	\$12,391
SUPPLIES	\$55,335	\$61,991	(\$6,656)	\$802,831	\$657,909	\$144,922
TRANSPORTATION	\$54,598	\$69,318	(\$14,720)	\$702,768	\$696,479	\$6,289
OTHER EXPENSES	\$348,112	\$512,454	(\$164,342)	\$2,812,704	\$2,952,351	(\$139,647)
MISC. ADMIN. EXPENSES	(\$49,642)	(\$81,449)	\$31,807	(\$643,102)	(\$793,944)	\$150,842
NET OPERATING EXPENSES	\$2,302,403	\$2,747,501	(\$445,098)	\$26,622,804	\$25,745,848	\$876,956
BOND INTEREST EXPENSE	\$230,168	\$184,137	\$46,031	\$2,594,298	\$2,520,273	\$74,025
OTHER INTEREST	\$10	\$10	\$0	\$32,432	\$32,430	\$2
DEPRECIATION & AMORTIZATION	\$451,573	\$416,664	\$34,909	\$5,088,876	\$5,048,279	\$40,597
TOTAL FIXED EXPENSES	\$681,751	\$600,812	\$80,939	\$7,715,606	\$7,600,982	\$114,624
TOTAL EXPENSES	\$2,984,154	\$3,348,313	(\$364,159)	\$34,338,410	\$33,346,830	\$991,580
NET REVENUE	(\$323,632)	(\$574,976)	(\$251,344)	\$931,804	\$2,096,177	\$1,164,373
PLUS: NON-CASH FIXED CHARGES	\$451,573	\$416,664	(\$34,909)	\$5,088,876	\$5,048,279	(\$40,597)
LESS: BOND PRINCIPAL ALLOCATION AND LEASE PAYMENTS	\$188,750	\$188,750	\$0	\$2,165,751	\$2,165,751	\$0
NET REVENUE (CASH BUDGET)	(\$60,809)	(\$347,062)	(\$286,253)	\$3,854,929	\$4,978,705	\$1,123,776

Budget Report for Onondaga County Water Authority

Run Date: 03/25/2011

Fiscal Year Ending 12/31/2011

Status: CERTIFIED

<u>Budget & Financial Plan:</u>	<u>Budgeted Revenues, Expenditures, And Changes In Current Net Assets</u>					
	Last Year (Actual) 2009	Current Year (Estimated) 2010	Next Year (Adopted) 2011	Proposed 2012	Proposed 2013	Proposed 2014
<u>REVENUE & FINANCIAL SOURCES</u>						
Operating Revenues						
Charges for services	\$30,127,444	\$34,057,206	\$36,600,395	\$39,894,431	\$43,385,193	\$45,229,064
Rentals & Financing Income	\$0	\$0	\$0	\$0	\$0	\$0
Other Operating Revenues	\$1,131,777	\$1,131,240	\$1,100,905	\$1,111,914	\$1,123,033	\$1,134,264
Nonoperating Revenues						
Investment earnings	\$9,094	\$13,470	\$11,400	\$25,000	\$25,000	\$25,000
State subsidies / grants	\$0	\$0	\$0	\$0	\$0	\$0
Federal subsidies / grants	\$0	\$0	\$0	\$0	\$0	\$0
Municipal subsidies / grants	\$0	\$0	\$0	\$0	\$0	\$0
Public authority subsidies	\$0	\$0	\$0	\$0	\$0	\$0
Other Non-Operating Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Proceeds from the issuance of debt	\$13,671,633	\$18,348,113	\$20,000,000	\$0	\$0	\$0
Total Revenues & Financing Sources	\$44,939,948	\$53,550,029	\$57,712,700	\$41,031,345	\$44,533,226	\$46,388,328
<u>EXPENDITURES</u>						
Operating Expenditures						
Salaries and Wages	\$6,877,437	\$6,922,903	\$7,229,138	\$7,526,012	\$7,751,793	\$8,066,746
Other Employee Benefits	\$3,529,916	\$4,109,642	\$4,590,663	\$4,870,693	\$5,167,806	\$5,483,042
Professional Services Contracts	\$138,276	\$221,588	\$233,696	\$238,370	\$243,137	\$248,000
Supplies and Materials	\$696,729	\$630,030	\$883,442	\$901,111	\$919,133	\$937,516
Other Operating Expenditures	\$13,241,121	\$13,708,766	\$14,834,461	\$15,205,899	\$15,606,357	\$15,998,175
Nonoperating Expenditures						
Payment of principal on bonds and financing arrangements	\$1,428,375	\$2,165,751	\$2,600,162	\$2,690,650	\$3,193,650	\$3,323,650
Interest and other financing charges	\$1,339,501	\$2,543,108	\$3,315,892	\$3,432,609	\$3,325,822	\$3,205,878
Subsidies to other public authorities	\$0	\$0	\$0	\$0	\$0	\$0
Capital asset outlay	\$27,971,823	\$22,276,467	\$27,088,221	\$7,534,200	\$9,678,884	\$10,525,461
Grants and Donations	\$0	\$0	\$0	\$0	\$0	\$0
Other Non-Operating Expenditures	\$42,950	\$0	\$30,000	\$0	\$0	\$0
Total Expenditures	\$55,266,128	\$52,578,255	\$60,805,675	\$42,399,544	\$45,886,582	\$47,788,468
Capital Contributions	\$1,053,949	\$1,350,000	\$1,268,000	\$1,510,000	\$1,540,200	\$1,571,004
Excess (deficiency) of revenues and capital contributions over expenditures	(\$9,272,231)	\$2,321,774	(\$1,824,975)	\$141,801	\$186,844	\$170,864

The authority's budget, as presented to the Board of Directors, is posted on the following website: <http://www.ocwa.org/o23.html>