



ONONDAGA COUNTY WATER AUTHORITY

ANNUAL REPORT

YEAR ENDED DECEMBER 31, 2008

ONONDAGA COUNTY WATER AUTHORITY

OPERATIONS & ACCOMPLISHMENTS

Year Ended December 31, 2008

Introduction

Onondaga County Water Authority's (OCWA) Operations & Accomplishments Report for the fiscal year ended December 31, 2008, 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 and Spafford. Additionally OCWA 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, Granby, Minetto, Oswego, Volney and Schroepfel. OCWA also has provides intermittent service to the City of Fulton, the Town of Scriba and the Village of Phoenix. In Madison County OCWA 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 December 31, 2008 the Authority provided water services directly to 83,735 residential, 4,872 commercial accounts, 49 industrial accounts, and 40 wholesale accounts. OCWA also has 1,253 accounts related to fire services and fire hydrants. The estimated population of the residential units served was 340,000 persons as of such date. There has been substantial residential growth within the service area over the last few years, however projected growth for new homes in 2009 has dropped correspondingly with the national economic woes. Projected growth is expected 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 2,400 new accounts over the next two years.

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

Anheuser-Busch, Inc.
Solvay Paperboard
Crucible Steel
Trigen-Syracuse (Cogenerator)
Bristol Meyers Squibb
Clinton Ditch

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Queensboro Farms
Syracuse China
Northeast Biofuels, Inc.
Community General Hospital
Lockheed Martin
Covanta Onondaga LP
Frazer & Jones Co.
Crouse Hinds
Carr Street (Co-Generator)

Source of Supply: For 2008 42.85% of the water supply of the Water System is drawn from Otisco Lake. The remainder is purchased primarily from the Metropolitan Water Board's filtered Lake Ontario supply (55.95%). A small portion of the water is purchased from the City of Syracuse's unfiltered Skaneateles Lake supply (1.18%). The Metropolitan Water Board 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.

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>
1998	16,175,000	25,628,000	497,000	42,300,000
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

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.

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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.

Water demand is illustrated by a comparison of water sales, revenues and physical plant of the Water System in 1985, 1995 and 2008 as shown in the following table:

ITEM	1985	1995	PERCENT INCREASE (DECREASE)	2008	PERCENT INCREASE (DECREASE)
Average Metered Water Sales	41.76 MGD	39.13 MGD	(6.2%)	33.96 MGD	(13.2%)
Operating Revenue	\$13,648,129	\$17,546,000	28.5%	\$29,035,860	65.5%
Miles of Mains Owned & Leased	875.5	1,332.72	52.2%	1,768.77	31.5%
Active Accounts	44,603	69,445	55.7%	89,987	32.7%
Fire Hydrants	4,563	7,765	70.1%	11,040	42.2%

Average daily quantity of water sales and yearly totals of metered water sales by the Water System during the twelve months ended December 31, 2008 were as follows:

	AVERAGE DAILY SALES (1000 gallons)	YEARLY TOTALS (1000 gallons)
Residential & Commercial	17,320	6,339,245
Industrial	8,740	3,198,842
Wholesale	<u>7,336</u>	<u>2,684,926</u>
TOTAL	33,396	12,223,013

WATER METERED & BILLED (in Million Gallons)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Residential & Commercial	6,482	6,515	6,786	6,198	6,621	6,338
Industrials	4,055	3,752	3,750	3,463	3,421	3,199
Wholesale	2,995	2,696	2,880	2,681	2,738	2,685
Total	13,532	12,963	13,416	12,342	12,780	12,222

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Financial Highlights

OCWA's 2008 total revenues increased by \$611,049 (2.13%) compared to the total for 2007. Upon recognizing the impact that climate change is having on traditional summer sales the Authority's board of directors took steps in 2006 and 2007 to increase rates with the intent of minimizing the impact of wet summer weather on overall revenues. While water sales rebounded slightly in 2007, due to higher summer demand than recent summers past, overall sales per customer still remained below the average use of the 1990s. For 2008, wet weather was prevalent throughout the summer and as a result there was no discernable difference between winter quarter and summer quarter use for residential and commercial customers. However, unlike 2006 when summer sales remained equally flat and total sales declined from the previous year, revenues for 2008 increased slightly over total revenues for 2007, in spite of the decreased demand. Fiscal year 2008 rates for residential, commercial and wholesale customers were increased 7.7%. Rates for industrial customers were increased by 6.7% and public and private fire protection rates were increased 3.25%. While revenues did rise slightly for 2008, total water sales declined 1.426 (4.1%) million gallons per day compared to 2007. Overall, residential water use dropped 3.5%, commercial use was down 5.9%, wholesale purchases was off 1.7% and industrial sales fell 6.2% for the year. Improved efficiency and water conservation efforts by OCWA's largest customer, Anheuser Busch, single handedly accounted for 70% of the decreased industrial use.

While the weather continues to be the central theme for the year-to-year fluctuations in revenues, it is not the only source of declining demand. In recent years average consumption for the Authority's 83,751 residential service connections continues to remain well below the average for the 1990's. The growing use of water saving fixtures and water efficient appliances in new and remodeled homes coupled with the replacement of older appliances and fixtures play a major role in declining demand, just as declining household size also factors into the equation. While we are still seeing an increase in the number of residential accounts, local population totals continue to remain relatively flat in keeping with the trend over the past decade. The region continues to see more one and two person households where the children have grown and moved on and in some instances those children are now establishing their own homes with one or two residents.

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Financial Highlights – Continued

On the expense side of the operation, total expenses for 2008 increased by \$2,594,437 (9.6%) over 2007. The depreciation and amortization total increased by \$223,715 (5.3%). The summertime increase in fuel costs added \$161,372 for the year as both gasoline and diesel prices doubled compared to 2007. Labor costs were up \$1,087,149 over 2007. Part of the increase is due to contractual obligations with the Authority's CSEA and Teamsters Union personnel and part is due to the addition of new personnel required due to the addition of the Village of Minoa and Village of East Syracuse systems to the OCWA system. Additionally, due to security concerns the Marcellus water treatment plant is now manned 24 hours per day, resulting in the addition of two fulltime operators. A decline in capital work also resulted in more time being charged to operations and maintenance. Due to the implementation of GASB 45 in 2008, OCWA also included other post employment benefits in the operating budget and as such expenses were increased by \$1,515,567 in recognition this ongoing liability. Offsetting increased expenses was the decline in purchased water due to lower demand, in particularly summer demand. As a result purchased water was \$374,015 (4.3%) lower compared to 2007.

With respect to the Authority's indebtedness, OCWA made arrangements to fund the expansion and improvement of the Marcellus water treatment plant and intake with the New York State Environmental Facilities Corporation (EFC). The EFC was able to fund the Authority's \$14,226,510 E.F.C Drinking Water Installment Bonds – 2008 A through the Drinking Water Revolving loan program with a one-third-interest subsidy.

The Van Buren IMG elevated tank, the Canastota 1.5MG ground storage tank and the Hastings IMG elevated tank were fully completed in 2008. In June of 2008, through passage of a local law by the Onondaga County Legislature, the Authority took over the construction of three covered storage tanks that the Metropolitan Water Board is required to build to replace its open reservoirs located in Van Buren (Western Reservoir) (20 MG) and Manlius (Eastern Reservoir) (30MG). By year-end design was completed and bids were taken for the first two tanks. With bids in hand the total project cost for the new tanks was established to be \$33 million. Funding for the new tanks will be secured in early 2009 and construction will begin in the spring. In addition to the aforementioned projects, the Authority added 126,878 feet of main (84,004 feet due to the addition of the East Syracuse system), 215 line valves and 141 hydrants. Another 103 hydrants were replaced during 2008.

With respect to overall growth of the system, OCWA's 2008 customer base reached a peak of 90,212-billed accounts for an increase of 2,379 accounts. Customers were added as a result of the 22 developer main extensions completed in 2008 along with the 61 developer extensions completed in 2007. Overall, OCWA increased total water main in service by 24.02 miles for the year, bringing the total main in service up to 1,768.77 miles.

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Summary of Statements of Net Assets

TABLE 1

	2007	2008
ASSETS		
Cash	\$ 147,241	\$ 84,069
Accounts Receivable	4,920,982	5,418,964
Materials, Supplies and Prepaid Expenses	1,585,111	1,614,863
Restricted Assets	11,163,689	18,986,890
Unamortized Bond Issuance Costs	264,206	501,708
Plant and Water Rights, Net	<u>158,899,877</u>	<u>166,664,418</u>
TOTAL ASSETS	<u><u>\$ 176,981,106</u></u>	<u><u>\$ 193,270,912</u></u>
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 2,887,414	\$ 2,906,283
Liabilities Payable from Restricted Assets	1,149,641	1,182,830
Water Revenue Bonds	20,192,672	33,159,872
OPEB Liability	0	1,515,567
Capital Lease Obligations	<u>946,125</u>	<u>800,250</u>
Total Liabilities	25,175,852	39,564,802
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	137,761,080	132,704,296
Restricted Net Assets	8,347,720	15,925,579
Unrestricted Net Assets	<u>5,696,454</u>	<u>5,076,235</u>
Total Net Assets	<u>151,805,254</u>	<u>153,706,110</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 176,981,106</u></u>	<u><u>\$ 193,270,912</u></u>

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Summary of Statements of Net Assets – Continued

Total assets increased approximately \$16.3 million in 2008 as a result of the following items:

- The decrease in cash of \$63,172 is due to the lower balance in the Authority's operations and maintenance fund at year-end.
- Accounts receivable have increased by \$497,982 or 10.1%. 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 \$263,228 (9.2%). 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 \$234,500 or 10.8% over the year-end 2007 balance. A portion of the increase is related to the rate increases ranging from 3.25% for fire protection to 7.7% for residential, commercial and municipal customers.
- Restricted assets increased by \$7.8 million (70.1%) in 2008. This increase is, for the most part, the net of the increase in funds related to the 2008 EFC Bond Issue and the use of funds for the construction of capital assets.
- The increase in Unamortized Bond Issuance Costs is also related to the 2008 EFC Bonds and the costs incurred in issuing those bonds.

Plant and water rights increased due to additional capital projects either completed or in progress at the end of 2008. A detailed outline of the additions is located just after Table 4 "Capital Assets at Year End" later in this analysis.

Total liabilities increased by approximately \$14.4 million in 2008 as a result of the following items:

- The Water Revenue Bond balance increased due to the addition of the 2008 EFC Bond Issue in the amount of \$14,226,510. The bonds were issue to provide funds for improvements at the Authority's water treatment plant. Also contributing to the change in the Water Revenue Bond balance are the principal payments totaling \$1,235,000 that were made during 2008. Principal payments of \$750,000 and \$485,000 were made on the 2001 Revenue Bonds and 2005 Revenue Bonds respectively.

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Summary of Statements of Net Assets – Continued

- 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, 2008 include a liability in the amount of \$1.5 million that represents the Authority's unfunded liability.

- Capital lease obligations decreased by \$145,875 due to principal payments made on various leases.

Review of Revenues

TABLE 2

	2007	2008
Residential/Commercial Sales	\$ 18,297,774	\$ 18,986,236
Industrial Sales	3,991,304	4,078,266
Municipal (Water Utility) Sales	3,661,347	3,731,989
Fire Protection	967,517	1,081,080
Miscellaneous Revenue	1,108,189	1,158,288
Interest from Investments Held in Trust	609,611	171,177
Other Interest Income	0	0
Gain (Loss) on Disposal of Fixed Assets	(9,918)	29,837
TOTAL REVENUES	<u>\$ 28,625,824</u>	<u>\$ 29,236,873</u>

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Review of Revenues – continued

OCWA implemented rate increases for all customer classes effective January 1, 2008. Residential, commercial and municipal wholesale customer rates were raised 7.7%, Industrial customers 6.7% and Fire Protection 3.25%. The increases, which were determined in late 2007, were based on the projected requirements for 2008 and took into account changes that were expected to have an effect on 2008 operations.

Total water revenues for 2008 increased by \$959,629 (3.6%) from the previous year. For 2008, Residential and commercial sales increased by \$688,462 (3.8%), industrial sales by \$86,962 (2.2%) and municipal sales by \$70,642 (1.9%) as compared to 2007 figures. The main reason that water revenues did not increase by the amount that would be expected from the rate increases noted above is that the number of gallons billed in each sales category decreased in 2008. The respective decreases were residential and commercial by 4.3%, industrial by 6.5% and municipal by 1.9%. Fire protection revenues increased by \$113,563 (11.7%) due to the rate increase and the increased number of hydrants in the system.

Interest from investments held in trust and other interest income decreased by a total of \$438,434 (71.9%). This decrease reflects the fact that fewer funds were available to invest due to the usage of proceeds from the 2005 revenue bonds as well as significantly lower yields on investments.

Review of Expenses

TABLE 3

	2007	2008
Operations	\$ 7,196,993	\$ 7,789,615
Purchased Water	8,621,715	8,247,700
General and Administrative	2,380,081	3,880,835
Less: Burden Applied	(873,152)	(816,966)
Depreciation	3,576,650	3,794,598
Bond Amortization	(2,631)	4,135
Water District Lease Amortization	615,646	614,647
Maintenance	4,493,994	4,916,625
Other Expense	980,062	1,152,606
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TOTAL EXPENSES	\$ 26,989,358	\$ 29,583,795

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Review of Expenses - continued

Total expenses for 2008 were up by approximately \$2.6 million (9.6%) compared to fiscal year 2007. Much of the overall variance can be attributed to several significant items such as labor, other postemployment benefits, health insurance, gas/electric, fuel costs and depreciation. These items, as well as others, 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 \$452,066 (7.3%) during 2008. This increase was caused by the factors outlined below.

Both the Teamsters and CSEA contracts included wage increases effective January 1, 2008. The contracts with the Teamsters and CSEA each called for an increase of 3.5%. Wage increases for non-bargaining unit employees averaged 4.0%. Also, the Authority now has employees at its water treatment plant 24 hours per day which has increased costs. Another factor is the amount of labor charged to capital projects decreased by 4.5% which correspondingly necessitates an increase in the labor charged to O&M. Finally, the Authority added three new positions in 2008. These include an Underground Facilities Locator who was placed in one of the Authority's Distribution Maintenance Departments and two Water Plant Operator Trainees who were added to the Water Treatment Plant. The Operator Trainees allow the plant to have employees on site 24 hours per day, as was noted above.

Notable Operation Expense Changes (Other Than Labor)

Operating Expenses less Depreciation and Amortization increased by \$2,198,182 in 2008 over 2007 figures. Approximately \$1.5 million of the increase is due to the costs related to postemployment benefits (OPEB) required to be recorded in 2008. The OPEB expense is 68.9% of the total increase. In addition to OPEB there were other areas that impacted operating expenses. The individual effect of those expenses are examined in the following paragraphs

OCWA incurred a \$50,468 (6.1%) increase to its electric and natural gas charges for 2008 over 2007 amounts. In addition to increases in gas and electric rates the Authority added several facilities during 2008.

Group health insurance increased by \$255,282 (14.3%) as compared to 2007 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. Partially offsetting the increase to group health insurance was a decrease in commercial insurance costs by \$18,953 (2.9%) over 2007.

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Notable Operation 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 \$636,219, a decrease of \$16,413 (2.5%) over the 2007 amount. This is the third consecutive year in which there has been a decrease in contributions.

Fuel Costs increased by \$129,184 (43.6%) in 2008 over the previous year. Most of the increase is due to the significantly higher fuel prices especially in the first half of the year. A portion of the increase is because of the larger service area that the authority covers.

Chemical costs increased by \$59,797 (21.3%) in 2008 over 2007 figures. Several of the chemicals that the Authority uses in water treatment had price increases of more than 10% during the year, with one being increased by 37%. In addition the quantity purchased increased in some cases.

Purchased Water

Purchased water cost was down by \$374,015 (4.3%) for 2008. The vast majority of the water that OCWA purchases is from the Metropolitan Water Board (MWB). The main factor that accounts for the decrease is that the Authority purchased 613,004,000 fewer gallons in 2008 as compared to 2007. That is a 7.2% reduction in the amount of water purchased from MWB.

Depreciation

There was an increase of \$217,948 in depreciation expense in 2008. This occurred because capital assets in the amount \$15,040,624 were placed in service during the year and depreciation has commenced. In comparison, \$7,799,597 in capital assets were placed in service in 2007. The amount of additional depreciation for 2007 was correspondingly less.

Summary of Overall 2008 Operations

In 2008, OCWA experienced a net loss before capital contributions of \$346,922, a decrease of \$1,983,388 from the net income of \$1,636,466 for the fiscal year ended December 31, 2007. This decrease was caused by the net effect of several factors. Among them are: lower consumption and therefore lower revenues, OPEB expense and higher costs for labor, gas/electric, chemicals, fuel and health insurance.

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System Growth

Areas of growth included the following:

- Installation of 22 developer or individual main extensions, totaling 32,417 feet of main.
- The Village of East Syracuse was leased to OCWA and rolled into the Authority system in July of 2008
- The Southern Onondaga main extension project was nearing completion by the end of 2008 and the Onondaga County Health Department was approving limited connections to the new system by December. The new tank and all the water mains were in service by the end of 2008; however the new pump station is not expected to be on line until late winter or early spring of 2009.
- The Town of Granby system construction was fully completed in early 2008 and new customers were connecting throughout the year.

Areas of growth, 2008 and beyond:

- The Limeledge system project got back on track in 2008 and by year-end the Town and the Village of Marcellus had taken bids on the main construction, construction of a new tank and rehabilitation of the Village's existing tank. In early 2009 bids for pump station construction are expected. Construction should begin in early 2009 and is expected to run through the end of the year. Once completed OCWA will be serving new customers in the Limeledge area of the Town of Marcellus and the Town of Skaneateles. Additionally it is expected that the Village water system will be leased to OCWA.
- The Towns of West Monroe and Constantia have worked out an agreement for the extension of main and installation of a new storage tank to serve the north shore of Oneida Lake. With State funding secured, the design phase is in progress. Construction is not anticipated until late 2009 or early 2010
- With the state of the economy being dismal nationally, development is expected to continue to decline. In 2008 developer extension agreements were one third lower than the total for 2007.

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Capital Assets at Year End (Net of Depreciation)

TABLE 4

	Governmental Activities		Total Percent Change
	2007	2008	2007-2008
Water Plant in Service	\$ 180,092,924	\$ 195,133,548	8.35%
Water Rights - Source	5,250,000	5,250,000	0.00%
Construction Work-in-Progress (I&E)	11,891,690	7,793,642	-34.46%
Water District Lease	23,068,115	23,080,458	0.05%
Pre-Survey and Investigation	911,527	1,507,647	65.40%
Jobbing in Progress	542,309	469,751	-13.38%
Allowance for Depreciation	(48,787,468)	(51,839,389)	6.26%
Accumulated Amortization/Water Districts	(8,839,210)	(9,453,857)	6.95%
Residual Amortization/Water Rights	(5,200,000)	(5,250,000)	0.96%
Deferred Charge - Capital Interest on FP	30,010	27,382	-8.76%
Total	<u>\$ 158,899,877</u>	<u>\$ 166,664,418</u>	4.89%

Increase to Water Plant in Service Highlights:

The Authority continues to remain very active with respect to capital projects. During the year, projects completed included the following:

- The new Van Buren 1MG elevated tank was placed into service. It replaces the Lakeland standpipe and the Geddes Spheroid tank.
- The 1MG elevated tank in Hastings was completed and replaces the Central Square tank.
- The 1.5 MG Canastota tank was placed in service in 2008.
- The generators for the Howlett Hill and Warners pump stations were completed in 2008.
- Purchased and placed a 50KW mobile generator in service.

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

Increase to Water Plant in Service Highlights:- Continued

- The installation of 32,417 feet of developer water main (per 22 contracts) and the replacement of additional 9,963 feet of main as part of 11 system betterment projects.
- Replacement of 103 hydrants and the addition of 141 new hydrants.
- Replaced vehicles in OCWA's fleet as part of the Authority's ongoing asset management program.

Construction / Work-In-Progress Highlights

- Construction of the improvement to the Marcellus Water Treatment Plant and the Otisco Lake intake started in June 2008.
- A project is in progress to improve security at various OCWA facilities.
- Projects to improve the Abbey Road and Sylvan Beach tanks.
- Various 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. Engineering for the 20MG Western and the 30MG Eastern Reservoirs was nearing completion at the end of 2008.

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 decreased by \$72,558 at the end of 2008 as compared to the previous year end.

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Long-Term Debt Administration

The Authority has two General Water System Revenue Bond issues and one E.F.C Drinking Water Installment Bond issue outstanding with a remaining principal totaling \$32,801,510 as of December 31, 2008. OCWA's most recent bonds were issued in June of 2008. That was E.F.C Drinking Water Installment Bonds, 2008 Series A and was issued in the amount of \$14,226,510. 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 first principal payment is due in October 2010.

As noted above, the Authority also has two Revenue Bond issues. One is the General Water System Revenue Bonds, 2005 Series A which has a remaining principal balance of \$12,340,000 as of December 31, 2008. This amount reflects a principal payment of \$485,000 made in September 2008. The required principal payment on the bond in 2009 is \$505,000, 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.

The other revenue bond issue that the Authority has outstanding is its 2001 Series A, General Water System Revenue Bonds with a balance of \$6,235,000 as of December 31, 2008. This amount reflects the principal payment of \$750,000 made in September 2008. The required principal payment on the bond in 2009 is \$780,000, one twelfth of which is set aside monthly. The 2001 bonds mature serially in varying annual amounts through 2015, with interest rates ranging from 3.5% to 5.00%, payable semi-annually.

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.

Series Bonds	Bonds Outstanding as of December 31, 2008
2008 EFC Bonds	\$ 14,226,510
2005 Series A Bonds	12,340,000
2001 Series A Bonds	<u>6,235,000</u>
Total	<u>\$ 32,801,510</u>

ONONDAGA COUNTY WATER AUTHORITY

OPERATIONS & ACCOMPLISHMENTS

Year Ended December 31, 2008

Long-Term Debt Administration - continued

OCWA Bond Rating

In February of 2009, Moody's Investors Service affirmed its Aa3 rating on OCWA's \$25.4 million General Water System Revenue Bonds, Series 2001 A and 2005 A. Moody's originally assigned a Aa3 rating to the Authority's \$13,840,000 2005 Water Revenue Bond issue in the fourth quarter of 2005. Also, the 2005 Water Revenue Bond issue was assigned a rating of AAA based on an insurance policy provided by Ambac Assurance Corporation.

As noted above, Moody's also affirmed the Aa3 rating that it assigned to the Authority's 2001 bonds back in the first quarter of 2001. With respect to that 2001 Water Revenue Bond issue, the issue was assigned a rating of AAA based on an insurance policy provided by Financial Security Assurance, Inc.

In accordance with the Trust Indenture, the Authority has established a bond reserve fund for its bond issues, and has maintained the required minimum balance for each. Income earned by the bond reserve funds is transferred routinely into the bond payment funds that are used to make the semi-annual bond payments. OCWA's Trustee, M&T Bank holds the bond reserve funds and the bond payment funds. Interest on the bond reserves is specifically for the payment of bond principal and interest.

Looking Forward

Primarily based on increased bonding costs for improvements to the OCWA water treatment facilities and construction of covered tanks to replaced MWB's open reservoirs, and taking into account increased operating expenses, the OCWA Board opted to increase rates for 2009 by 15.0% for residential, commercial and wholesale customers. Rates for industrial customers were increased 9.9% and fire protection accounts were raised by 3.25%. 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 2009 are listed below:

<u>Year</u>	<u>Residential/ Commercial</u>	<u>Wholesale</u>	<u>Industrial</u>	<u>Fire Protection</u>
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%

ONONDAGA COUNTY WATER AUTHORITY

OPERATIONS & ACCOMPLISHMENTS

Year Ended December 31, 2008

Looking Forward – Continued

- For 2009 the Metropolitan Water Board raised its water rates 3.75%. It should also be pointed out that OCWA purchases 56% of its water from MWB and that purchased water costs are roughly 34.0% of the Authority's operating expense, before depreciation and amortization.
- On February 2, 2009 OCWA assumed operations of MWB's Southern Branch water system. Heretofore, the system, which includes transmission mains, two pump stations and three ground storage tanks, was leased to the City of Syracuse to serve the higher elevation to the southwestern areas of the City. With growing demand in the Town of Onondaga, OCWA worked for a new solution to better serve its customers in the area. The new lease agreement between OCWA and MWB will allow for better service and potential growth in the Town of Onondaga.
- During 2008 OCWA added employees, however given the state of the economy in 2009; new hires will be restricted to replacement of key personnel only. At present three positions are vacant due to retirement and will remain vacant for the foreseeable future.
- With respect to capital construction projects, the table is set for the remainder of 2009 and most of 2010. The water treatment plant project will be ongoing throughout the remainder of 2009 and could potentially last into early 2010. The construction of the Van Buren (Western Reservoir) (20MG) tank should start in March of 2009 and will run well into 2010. The construction of the Manlius (Eastern Reservoir) (30MG) tank is slated to begin in April of 2009 and could possibly wrap up in late 2010, but has the potential to run into 2011. Once the first Manlius tank is completed the open reservoir will be taken out of service and a new 20 MG tank will be built inside the footprint of the old tank. This work is projected to start in 2011.
- 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.
