



ONONDAGA COUNTY WATER AUTHORITY

ANNUAL REPORT

YEAR ENDED DECEMBER 31, 2011

ONONDAGA COUNTY WATER AUTHORITY

OPERATIONS & ACCOMPLISHMENTS

Year Ended December 31, 2011

Introduction

Onondaga County Water Authority's (OCWA) Operations & Accomplishments Report for the fiscal year ended December 31, 2011, 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, Elbridge, 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 Schroepel. 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 28, 2012, the Authority provided water services directly to 85,531 residential, 6,034 commercial accounts, 48 industrial accounts, and 18 wholesale accounts. The Authority also has 1,331 accounts related to fire services and fire hydrants. The estimated population of the residential units served is presently 250,000. Overall growth was below normal for 2011 and due primarily to the addition of customers located in newly constructed water district and corresponded with continued national economic woes. Projected growth is expected to be limited to providing service existing residents served by small water system or those served by private wells. Potential additional customers of this nature are 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 (gallons)</u>	<u>% of Sales</u>
Solvay Paperboard	664,200,000	5.76%
Anheuser Busch	577,766,000	5.01%
Crucible Steel	307,295,000	2.67%
Tri-Gen Syracuse	201,387,000	1.75%
Bristol Labs	163,750,000	1.42%
Sunoco, Inc. R&M	162,039,000	1.41%
Clinton Ditch	112,990,000	0.98%
Queensboro Farms	79,650,000	0.69%
Community General	51,500,000	0.45%
Frazer & Jones	49,250,000	0.43%
Covanta Onondaga LP	33,670,000	0.29%
Lockheed Martin	32,830,000	0.28%
Crouse Hinds	21,680,000	0.19%
Ameripride	17,460,000	0.15%
Carr Street (Co-Gen)	12,650,000	0.11%
Suburban Lodging	10,570,000	0.09%

Source of Supply: For 2011 46.61% of the water supply of the Water System was drawn from the Authority's source at Otisco Lake, 49.78% was purchased from the Metropolitan Water Board's filtered Lake Ontario supply, and 3.79% 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
2011	17,283,745	18,538,652	1,410,433	37,239,698

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 2011 as shown in the following table:

<u>ITEM</u>	<u>1985</u>	<u>1995</u>	<u>PERCENT INCREASE (DECREASE)</u>	<u>2011</u>	<u>PERCENT INCREASE (DECREASE)</u>
Average Metered Water Sales	41.76 MGD	39.13 MGD	(6.2%)	31.57 MGD	(19.32%)
Operating Revenue	\$13,648,129	\$17,546,000	28.5%	\$37,400,695	113.16%
Miles of Mains Owned & Leased	875.5	1,332.72	52.2%	1,981.12	48.65%
Active Accounts	44,603	69,445	55.7%	92,963	33.87%
Fire Hydrants	4,563	7,765	70.1%	12,074	55.49%

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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, 2011 were as follows:

<u>CLASSIFICATION</u>	<u>AVERAGE DAILY SALES (1000 gallons)</u>	<u>YEARLY TOTALS (1000 gallons)</u>
Residential & Commercial	17,171	6,267,371
Industrial	6,956	2,538,894
Wholesale	<u>7,452</u>	<u>2,719,868</u>
TOTAL	31,579	11,526,133

	<u>WATER METERED & BILLED (in Million Gallons)</u>					
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Projected 2012</u>
Residential & Commercial	6,621	6,338	6,191	6,318	6,267	6,271
Industrials	3,421	3,199	2,636	2,717	2,539	2,542
Wholesale	<u>2,738</u>	<u>2,685</u>	<u>2,624</u>	<u>2,649</u>	<u>2,720</u>	<u>2,733</u>
Total	12,780	12,222	11,451	11,683	11,526	11,546

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Financial Highlights

OCWA's 2011 water revenues increased by \$1,994,809 over 2010, however the increase does not reflect the whole story. In 2010 OCWA undertook a study of its rate structure with the intent of radically restructuring rate schedules for all customer classifications. The study, which was concluded by the middle of January 2011, had two major impacts for the year. First and foremost, OCWA moved away from a minimum billing system that included minimum consumption based on meter size and embraced a new two pronged billing system that includes a base service fee based on meter size (and its related equivalent dwelling unit) that is tied to OCWA's capital improvement program. Additionally, the new rates encourage wise water use through the implementation of inclining rate blocks for all water used, a significant departure from the past practice of a multiple step system that included a minimum amount of water use coupled with an inclining / declining rate structure that essentially rewarded excess residential use. The second major impact of the conversion to the new rate structure was the delay in implementation of the new rates until March 1st as opposed to the January 1st norm for rate change implementation. In addition to the changed rate schedule structure, the weather has an impact on total sales as well. Initially the summer started out warm and dry and daily demand showed signs of exceeding budgeted production level. However by late July/early August the weather patterns changed and more persistent rains dampened daily demand and ultimately saw customer use fall below normal summer projections.

Overall, water sales (consumption) for 2011 decreased by 116.3 million gallons (MG) as compared to 2010. Industrial sales declined by 177.8 million gallons for the year. Continued conservation efforts at the Anheuser Busch brewery in Baldwinsville single handedly accounted for a 195.75 million gallons decrease from 2010. Increased use by the Sunoco Ethanol plant in Fulton offset the Anheuser Busch decline by 51.6 million gallons for the year. Increased wholesale water sales to Municipal customers (70.2 MG) also helped offset the decline in industrial sales. As stated earlier, the wetter summer weather had an impact on residential and commercial water sales with a resulting decrease of 83.2 MG as compared to 2010.

OCWA's 2011 total customer account base increased by 704 (0.77%) over the year-end total for 2010. The completion of the North Shore Water District construction in the Towns of West Monroe and Constantia accounted for 334 of the new customers. Construction of the systems new pipelines was completed by the end of 2010, which allowed for customers at lower

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Financial Highlights – Continued

elevations to connect to and be served by the new system during part of 2011. With the completion of the water districts new storage tank and pump station (late in 2011) the number of new customers should more than double in 2012. In addition to new customers in West Monroe and Constantia, Hasting added 52 accounts per completion of a new water district and Onondaga County, as a whole, added 269 new customers in a sluggish economy.

On the expense side of the Authority's operation, total expenses for 2011 increased by \$3,869,377 (11.6%) over 2010. Depreciation increased by \$579,895 (13.0%) for the year, primarily due to the completion two large covered storage tanks built to replace open, finished water storage facilities formerly owned by the Metropolitan Water Board (MWB). The tank projects were regulatory driven by the promulgation of the Long Term 2 – Enhanced Surface Water Treatment rule whereby USEPA ordered water systems with such reservoirs implement alternative treatment or replacement with covered storage facilities. Review and analysis determined construction of three new covered tanks designed to replace two open reservoirs was the most cost effective, long-term solution for compliance with the regulation. All three of the planned tanks are now in service with two the three fully completed. The 20 MG Western tank in Van Buren was the first tank completed and the 30 MG tank in Manlius was next on line. By the end of 2011 the third tank, a 20 MG tank located next to the 30 MG tank in Manlius, was placed in service, but final work on this tank will not wrap up until the middle of 2012.

Labor, for 2011, increased by \$413,866 (5.9%) and benefit costs were up \$540,127 (13.5%). Wages were up, in part due to contractual obligations with OCWA's personnel who are members of the Teamsters (3% increase) and CSEA (3.5% increase). Two new water distribution maintenance workers were added in 2011 as well. In addition to the wage increases and the newly added employees, overtime expense increased over 2010 due to a significant escalation in weather related main breaks experienced during the winter months.

The increase in Employee Benefits totaled \$540,127 (13.5%) over 2010 is primarily attributed to a \$403,140 required increased contribution to the New York State Retirement System. Health Insurance costs increased \$78,762 or 3.3% over 2010. Overall increased health insurance premiums were offset by increased employee contributions by both Teamsters personnel and non-bargaining unit personnel.

Purchased water for 2011 increased by \$434,094 over 2010 purchases. Total water purchased for 2011 declined by 204.6 million gallons from the previous year, however the decrease was offset by rate increases by both the City of Syracuse (effective 7/1/10) and the Metropolitan Water Board (effective 1/1/11).

The largest increased expense for 2011 came about as a result of the completion of the triennial actuarial review of OCWA's Other Post Employment Benefits (OPEB). As a result of the review, completed at the end of 2011, the annual OPEB expense was increased by \$990,465 over

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Financial Highlights – Continued

the 2010 calculation. The change in the OPEB obligation represents the single largest increased expense for all of 2011 and represents 25.6% of OCWA's total increased expenses for 2011.

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Summary of Statements of Net Assets

TABLE 1

	2010	2011
ASSETS		
Cash	\$ 243,275	\$ 147,588
Accounts Receivable	6,646,457	6,923,515
Materials, Supplies and Prepaid Expenses	2,353,726	2,393,097
Restricted Assets	21,697,846	30,250,954
Unamortized Bond Issuance Costs	707,872	782,973
Plant and Water Rights, Net	<u>203,137,805</u>	<u>214,248,554</u>
TOTAL ASSETS	<u><u>\$ 234,786,981</u></u>	<u><u>\$ 254,746,681</u></u>
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 2,913,072	\$ 3,167,246
Liabilities Payable from Restricted Assets	2,832,980	2,398,589
Bonds Payable	64,665,960	80,191,925
OPEB Liability	4,839,610	7,527,257
Capital Lease Obligations	<u>551,000</u>	<u>442,125</u>
Total Liabilities	75,802,622	93,727,142
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	137,920,845	133,614,504
Restricted Net Assets	15,568,635	24,394,225
Unrestricted Net Assets	<u>5,494,879</u>	<u>3,010,810</u>
Total Net Assets	<u>158,984,359</u>	<u>161,019,539</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 234,786,981</u></u>	<u><u>\$ 254,746,681</u></u>

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Summary of Statements of Net Assets – Continued

Total assets increased approximately \$20.0 million in 2011 as a result of the following items:

- The decrease in cash of \$95,687 is due to the lower balance in the Authority's operations and maintenance fund at year-end.
- Accounts receivable have increased by \$277,058 or 4.2%. 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 \$93,233 (2.6%). 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 \$222,500 or 7.4% over the year-end 2010 balance. The increase is related to the rate increase of 9% for all customer classes except fire protection which was not increased.
- Restricted assets increased by \$8,553,108 million (39.4%) in 2011. This increase is due to the net effect of several factors. One is that the amounts in various construction funds established prior to 2011 decreased by a total of \$4.1 million. Another factor is the establishment of a construction fund related to the 2011 bonds. This increased restricted assets by nearly \$10.3 million. And finally, the creation of bond payment and bond reserve funds related to the 2011 bonds increased restricted assets by \$722,100.
- Unamortized bond issuance costs increased by \$75,101 (10.6%) in 2011. This increase is due to the costs related to the issuance of OCWA's \$16,910,000 revenue bonds which were issued during the year.
- Plant and water rights increased due to additional capital projects either completed or in progress at the end of 2011. 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 \$17.9 million in 2011 as a result of the following items:

- Liabilities Payable from Restricted Assets decreased by \$434,736 (15.3%) as compared to 2010 due to the combination of several factors. One factor is that the amounts due to contractors for work performed in 2011, for which payment was not made until 2012, was \$591,371 million less than in the same period of the previous year. Retainage held at the end of 2011 was \$83,546 less than at the end of 2010. Customer deposits increased by \$47,439 and finally, accrued interest on bonds increased by \$193,206.
- The Bonds Payable balance increased due to the issuance of bonds in the amount of \$16.91 million in 2011. The Bonds Payable balance was also affected by principal payments totaling \$2,500,000 which were made during 2011.
- 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, 2011 include a liability in the amount of \$7.5 million that represents the Authority's unfunded liability.

- Capital lease obligations decreased by \$108,875 due to principal payments made on various leases.

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Review of Revenues

TABLE 2

	2010	2011
Residential/Commercial Sales	\$ 24,567,025	\$ 26,331,938
Industrial Sales	4,129,045	4,188,937
Municipal (Water Utility) Sales	4,399,573	4,580,244
Fire Protection	1,158,183	1,147,516
Miscellaneous Revenue	1,169,115	1,152,060
Interest from Investments Held in Trust	20,066	21,324
Gain (Loss) on Disposal of Fixed Assets	<u>(2,410)</u>	<u>(25,063)</u>
TOTAL REVENUES	<u><u>\$ 35,440,597</u></u>	<u><u>\$ 37,396,956</u></u>

- OCWA implemented rate increases for all customer classes except fire protection during 2011. Residential, commercial, industrial and municipal customers were raised 9.0%. The increases, which were determined in late 2010, were based on the projected requirements for 2011 and took into account changes that were expected to have an effect on 2011 operations. The rate increases did not take effect until March 1, 2011. Rate increases normally take effect on January 1st.

Total water revenues for 2011 increased by \$1,994,809 (5.8%) over the previous year. Residential and commercial sales increased by \$1,764,913 (7.2%), industrial sales by \$59,892 (1.5%) and municipal sales by \$180,671 (4.1%). Fire protection decreased by \$10,667 (0.9%). Water revenues increased by less than the rate increases would indicate because as noted above, the rates did not take effect until March 1st which diminished the impact of the rate increase for the year.

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Review of Expenses

TABLE 3

	2010	2011
Operations	\$ 8,614,002	\$ 8,638,883
Purchased Water	8,074,995	8,509,089
General and Administrative	4,758,127	6,289,454
Less: Burden Applied	(862,828)	(844,895)
Depreciation	4,468,029	5,047,924
Bond Amortization	6,094	(61,153)
Water District Lease Amortization	571,746	545,493
Maintenance	5,161,554	5,744,997
Other Expense	<u>2,557,474</u>	<u>3,348,778</u>
TOTAL EXPENSES	<u><u>\$ 33,349,193</u></u>	<u><u>\$ 37,218,570</u></u>

Total expenses for 2011 were up by approximately \$3.9 million (11.6%) compared to fiscal year 2010. Areas of expense that experienced significant changes, both plus and minus, in 2011 including: labor, health insurance, pensions, OPEB, purchased water, electric/natural gas, professional services, depreciation 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 \$413,866 (5.9%) during 2011 as compared to 2010. Both the Teamsters and CSEA contracts included wage increases effective January 1, 2011. The rates for the CSEA employees increased by 3.5% and Teamsters rates increased by 3.0%. In addition to the rate increases, the Authority also added two water distribution maintenance workers during 2011 and overtime increased due to the large number of main breaks that took place during the winter months.

Notable Expense Changes (Other Than Labor)

Group health insurance increased by \$78,763 (3.8%) as compared to 2010 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.

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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 \$1,320,804 an increase of \$403,140 (44%) over the 2010 amount.

OPEB expense for 2011 increased by \$990,465 (58.4%) over the 2010 amount. This is due to the results of an actuarial review which must be completed every three years. As noted earlier, this represents the single largest increased expense for all of 2011.

OCWA also experienced a \$52,724 (5.8%) decrease to its electric and natural gas charges for 2011 as compared to 2010 amounts. This is due in part to rates and in part due to more energy efficient facilities.

Professional services decreased by \$63,760 (21.5%) in 2011 over 2010 amounts. The decrease is due to two items that had an impact on 2010, but not on 2011. The first is that legal fees related to the Finger Lakes Railroad condemnation were primarily charged to 2010. The second is that the cost of the Authority's Cost of Service Study was completely charged to 2010.

Purchased water cost increased by \$434,094 (5.4%) for 2011. Rate increases by both the City of Syracuse (effective 7/1/10) and the Metropolitan Water Board (effective 1/1/11) more than offset the decline by 204.6 million gallons purchased in 2011 as compared to 2010.

Depreciation increased by \$579,895 (13.0%) in 2011 over 2010 figures. This is a reflection of the fact that OCWA added nearly \$42 million to Water Plant in Service in 2010 as well as \$7.5 million in 2011.

There was an increase of \$791,304 (30.9%) in Other Expense in 2011. The main factor that influenced the increase was the \$785,126 (31.2%) increase in bond interest expense in 2011 over 2010 amounts. The first is the \$126,925 increase in interest expense on the 2010 bonds because the bonds were in place for a full year in 2011 as opposed to only part of the year in 2010. Next is the interest expense on the bonds that the Authority issued in 2011. These bonds had interest expense of \$576,136 in 2011, none in 2010. Finally, interest expense on the 2009 bonds increased by \$291,825. These bonds converted to long-term in March 2010 and had only 10 months of interest at the new rate. 2011 interest expense on the 2009 bonds reflects a full year at the new rate.

Summary of Overall 2011 Operations

In 2011 OCWA experienced a net income before capital contributions of \$178,386, a decrease of \$1,913,018 from the net income of \$2,091,404 for the fiscal year ended December 31, 2010. This decrease 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:

- For 2011 system growth included the installation of 10 developer / individual main extensions, totaling 15,381 feet of main.
- By the end of 2011 the new West Monroe / Constantia water system was completed with the addition of 146,873 feet of water main, 245 hydrants, a new pump station and a 500,000 gallon elevated storage tank. To date 334 new customers have been added, however the full impact of the new system will not be recognized until 2012 as construction of the storage tank and pump station were not completed and placed into service until the latter part of 2011.
- The Town of Hastings continues to develop and add small districts. For 2011 another 52 services were activated.
- For all of Onondaga County 269 services were activated for the year, representing continued sluggish growth in the current economic environment.
- OCWA and Onondaga County continue to work proactively to attract industrial customers to the County, using the availability and cost of water as a selling point. Additionally, OCWA and CenterState CEO (formerly the Greater Syracuse Chamber of Commerce) instituted a collaborative effort aimed at attracting industries with high water demands.

Areas of growth, 2012 and beyond:

- The Town of Granby continues to work on the development of a northwestern water supply district and is now investigating a third, larger water district in the southwestern part of the town.
- Demand for developer main extensions declined for 2011 as compared to 2010. However the number of initial inquiries for 2012 indicates there could be a slight increase over number of new development requests seen in each of the last three years.
- OCWA essentially now serves all the towns and villages within its potential service territory, which covers a very large geographic footprint in the Four Counties (Onondaga, Oswego, Madison and Oneida). Collectively OCWA serves 30 towns and 13 villages on a retail basis. Additionally OCWA wholesales water to three towns on a regular basis and has another seven wholesale connections that are used on an intermittent basis. Future growth, with respect to retail sales will be tied to infill in the 30 towns served throughout the four County region.

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Capital Assets at Year End (Net of Depreciation)

TABLE 4

	Governmental Activities		Total Percent Change
	2010	2011	2010-2011
Water Plant in Service	\$ 244,343,299	\$ 251,845,495	3.07%
Water Rights - Source	5,250,000	5,250,000	0.00%
Construction Work-in-Progress (I&E)	4,370,984	13,348,277	205.38%
Water District Lease	23,169,890	23,169,890	0.00%
Pre-Survey and Investigation	413,111	296,041	-28.34%
Jobbing in Progress	493,401	326,289	-33.87%
Allowance for Depreciation	(59,010,971)	(63,552,664)	7.70%
Accumulated Amortization/Water Districts	(10,619,783)	(11,165,276)	5.14%
Residual Amortization/Water Rights	(5,250,000)	(5,250,000)	0.00%
Deferred Charge - Capital Interest on FP	(22,126)	(19,498)	-11.88%
Total	<u>\$ 203,137,805</u>	<u>\$ 214,248,554</u>	5.47%

Increase to Water Plant in Service Highlights

During the year, projects that were completed and placed into service included the following:

- OCDOT Improvements E. Taft Road – install approximately 9,935 ft. of 4”, 6”, 8”, 10” & 12” pipe – \$1,572,247
- Main Extension Inverness Gardens – install approximately 3,310 ft of 8” pipe - \$128,999
- Improvements to Coye Road, Westvale and Howlett Hill Tanks - \$523,443
- The purchase of water meters in the amount of \$662,826 as part of OCWA’s ongoing meter replacement project.
- The completion of various additional water main projects - \$1,388,394
- The installation of new and replacement water services - \$947,093
- The installation of new and replacement hydrants - \$401,953
- The replacement of vehicles in its fleet as part of OCWA’s asset management program.

OPERATIONS & ACCOMPLISHMENTS

Year Ended December 31, 2011

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

Construction Work-In-Progress Highlights

Construction Work-In-Progress increased by \$8,977,293 during 2011, from \$4,370,984 at the beginning of the year, to \$13,348,277 at year end. Of that amount, \$10,300,663 is related to the following two projects:

- Eastern Reservoir (20MG) covered storage tank - \$8,108,511
- Northern Concourse – Roof, Siding and HVAC improvements at OCWA’s Headquarters Facility - \$2,192,152

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

- New Westhill Pump Station to serve West Hill Water District and surrounding areas
- 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.
- 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 decreased by \$167,112 at the end of 2011 as compared to the previous year end.

OPERATIONS & ACCOMPLISHMENTS

Year Ended December 31, 2011

Long-Term Debt Administration

The Authority has three General Water System Revenue Bond issues and two E.F.C. Drinking Water Bond issues outstanding with a remaining principal totaling \$78,395,000 as of December 31, 2011. OCWA's most recent bonds were issued in April 2011.

On April 5, 2011, the Authority issued \$16,910,000 in General Water System Revenue Bonds Series 2011. The bonds bear interest at rates ranging from 2.5% to 5.0% and have a final maturity date of September 15, 2028. The bonds were issued for capital improvements to the water system including construction of a third covered water storage tank, two large pump stations, one small pump station and various other capital projects. The first principal payment in the amount of \$565,000 is due on September 15, 2015.

The General Water System Revenue Bonds, Series 2010A have a remaining principal balance of \$4,975,000 as of December 31, 2011. This amount reflects a principal payment of \$950,000 made in September 2011. The required principal payment on the bond in 2012 is \$995,000. 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 E.F.C. Drinking Water Bonds, 2009 Series A have a remaining principal balance of \$32,485,000 as of December 31, 2011. This amount reflects a principal payment of \$515,000 made in June 2011. The required principal payment on the bond in 2012 is \$540,000. The interest rate is 4.8721%. Bonds mature serially in varying annual amounts and have a final maturity date of June 15, 2038.

The 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 \$13,250,000 as of December 31, 2011. This amount reflects a principal payment of \$495,000 made in October 2011. The required principal payment on the bond in 2012 is \$510,000. 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 \$10,775,000 as of December 31, 2011. This amount reflects a principal payment of \$540,000 made in September 2011. The required principal payment on the bond in 2012 is \$560,000. As is the case with all of the bonds, one twelfth of the required amount 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.

ONONDAGA COUNTY WATER AUTHORITY

OPERATIONS & ACCOMPLISHMENTS

Year Ended December 31, 2011

Long-Term Debt Administration – Continued

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, 2011
2011 Series Bonds	\$16,910,000
2010 Series A Bonds	4,975,000
2009 E.F.C. Bonds	32,485,000
2008 E.F.C. Bonds	13,250,000
2005 Series A Bonds	10,775,000
Total	<u>\$ 78,395,000</u>

OCWA Bond Rating

In March of 2011, Moody's Investors Service assigned a Aa2 rating to OCWA's General Water System Revenue Bonds, 2011 Series. At the same time it also affirmed the Aa2 rating on OCWA's previously issued revenue bonds and the 2008 and 2009 EFC Bonds.

ONONDAGA COUNTY WATER AUTHORITY

OPERATIONS & ACCOMPLISHMENTS

Year Ended December 31, 2011

Looking Forward

The rate increase for 2012 was not a simple percentage increase for each customer class. As stated earlier, OCWA completed a rate study in January of 2011 and implemented completely revised rate schedules for all metered customer classifications effective March 1, 2011. Based on the new rate structure, the base system fee, tied to OCWA's capital improvement program, was increased by \$0.91 per equivalent dwelling unit (EDU). Additionally, the commodity rate per 1,000 gallons used was increased by 4 cents for all customer classes at all levels of use. Accordingly, the percentage increases presented below are based on the impact on average use for each customer classification. 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 2012 are listed below:

Year	Residential / Commercial	Wholesale	Industrial	Fire Protection
2012	2.47%	2.31%	2.38%	0.0%
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 2012 the Metropolitan Water Board elected to raise its water rates \$0.04 per 1,000 gallons purchased. In July of 2010 the City of Syracuse Water Department raised rates 10%. OCWA's 2012 O&M Budget takes both increases into account. As OCWA Water Distribution personnel continue to become more familiar with the operation of the Southern Branch water system and other system changes, the mix of water produced by and purchased continues to evolve. For 2011 OCWA purchased 49.78% (down from 50.89% in 2010) of its water from MWB. The purchase of water from the City of Syracuse increased to 3.79%, up from 3.46% in 2010. However, total water purchased for 2011 dropped to 53.59% for 2011, down from 54.37% in 2010. With the completion of the new West Hill pump station by the spring 2012 purchased water should decline again. It should be noted that for 2011, purchased water costs were roughly 27.14% of the Authority's operating expense, before depreciation and amortization.

OPERATIONS & ACCOMPLISHMENTS

Year Ended December 31, 2011

- OCWA added two employees in the Distribution Maintenance department in 2011 bringing total full time employees to 129 by year end. As the system continues to grow and the miles of main and the number of hydrants and valves continue to increase, additional personnel will be added in the Distribution Maintenance and Meter Repair departments to handle the increased work load and a long vacant supervisory position in the Distribution Operations department is expected to be filled as well. Personnel additions will be made within budgetary limits, which are monitored on a continual basis.
- On a positive note, chemical costs for 2012 should remain stable as they did for 2011. Additionally OCWA's cost of electric and natural gas should decline again in 2012 as it did in 2011. Energy efficiency improvements at the Marcellus Water Treatment Plant and OCWA's Northern Concourse headquarters account for a major part of the savings. Additionally decreased National Grid rates will add to the lowered expense for the year.
- Major capital construction projects once again lead the way for OCWA in 2012. The Manlius 20MG covered tank should be completed by the middle of 2012. 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, will also be wrapped up by mid-year. 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 to get underway in 2012 addressed 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 the aforementioned major capital projects, OCWA's ongoing annual capital budget for 2012 is projected to be \$4,075,810, with 57% directed toward system improvements related to replacement of mains, valves and hydrants. Routine rehabilitation of two storage tanks accounts for 15.7% of the capital budget. Meter replacements (11.7%) and heavy equipment and vehicle replacements (10.7%) account for 22.4% of the 2012 capital budget. The remaining 4.9% of the capital budget is split between several OCWA departments for SCADA, security and radio equipment upgrades. 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.

OPERATIONS & ACCOMPLISHMENTS

Year Ended December 31, 2011

Request for Information

This report is presented as a broad overview of the operations and 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 2011 **FINAL**

DATE PREPARED: 02/16/12

DESCRIPTION	CURRENT MONTH:			YEAR TO DATE:		
	BUDGET	ACTUAL	VARIANCE	BUDGET	ACTUAL	VARIANCE
REVENUES:						
WATER REVENUES	\$2,895,162	\$2,845,688	(\$49,474)	\$36,600,395	\$36,248,635	(\$351,760)
MISC REVENUES	\$61,696	\$66,250	\$4,554	\$1,100,905	\$1,152,060	\$51,155
INVESTMENT INCOME	\$950	\$1,144	\$194	\$11,400	\$21,324	\$9,924
	\$2,957,808	\$2,913,081	(\$44,727)	\$37,712,700	\$37,422,019	(\$290,681)
EXPENSES:						
LABOR	\$815,094	\$829,500	(\$14,406)	\$7,229,138	\$7,485,666	(\$256,528)
EMPLOYEE BENEFITS	\$371,438	\$352,359	\$19,079	\$4,590,663	\$4,552,896	\$37,767
PURCHASED WATER	\$729,477	\$719,077	\$10,400	\$8,739,459	\$8,509,089	\$230,370
CHEMICALS	\$43,620	\$42,635	\$985	\$632,270	\$557,433	\$74,837
ELECTRIC (GAS)	\$71,970	\$85,801	(\$13,831)	\$865,450	\$850,019	\$15,431
O/S PROFESSIONAL SERVICES	\$18,130	\$29,972	(\$11,842)	\$233,696	\$232,937	\$759
O/S CONTRACTORS	\$55,468	\$242,043	(\$186,575)	\$1,534,374	\$1,414,707	\$119,667
SUPPLIES	\$49,813	\$126,041	(\$76,228)	\$883,442	\$861,199	\$22,243
TRANSPORTATION	\$53,938	\$92,891	(\$38,953)	\$689,210	\$786,382	(\$97,172)
OTHER EXPENSES	\$250,717	\$1,060,523	(\$809,806)	\$3,011,404	\$3,853,254	(\$841,850)
MISC. ADMIN. EXPENSES	(\$52,197)	(\$84,464)	\$32,267	(\$637,706)	(\$766,052)	\$128,346
NET OPERATING EXPENSES	\$2,407,468	\$3,496,377	(\$1,088,909)	\$27,771,400	\$28,337,529	(\$566,129)
BOND INTEREST EXPENSE	\$285,294	\$291,351	(\$6,057)	\$3,288,878	\$3,321,764	(\$32,886)
OTHER INTEREST	\$10	\$10	\$0	\$27,014	\$27,013	\$2
DEPRECIATION & AMORTIZATION	\$538,779	\$6,336	\$532,443	\$6,135,348	\$5,557,326	\$578,022
TOTAL FIXED EXPENSES	\$824,083	\$297,697	\$526,386	\$9,451,240	\$8,906,102	\$545,138
TOTAL EXPENSES	\$3,231,551	\$3,794,075	(\$562,524)	\$37,222,640	\$37,243,631	(\$20,991)
NET REVENUE	(\$273,743)	(\$880,993)	(\$607,250)	\$490,060	\$178,387	(\$311,673)
PLUS: NON-CASH FIXED CHARGES	\$538,779	\$6,336	(\$532,443)	\$6,135,348	\$5,557,326	(\$578,022)
LESS: BOND PRINCIPAL ALLOCATION AND LEASE PAYMENTS	\$217,084	\$217,084	\$0	\$2,600,162	\$2,600,162	\$0
NET REVENUE (CASH BUDGET)	\$47,952	(\$1,091,741)	(\$1,139,693)	\$4,025,246	\$3,135,551	(\$889,695)

Budget Report for Onondaga County Water Authority

Fiscal Year Ending 12/31/2012

Run Date: 03/05/2012
Status: CERTIFIED

Budget & Financial Plan: Budgeted Revenues, Expenditures, And Changes In Current Net Assets

	Last Year (Actual) 2010	Current Year (Estimated) 2011	Next Year (Adopted) 2012	Proposed 2013	Proposed 2014	Proposed 2015
REVENUE & FINANCIAL SOURCES						
Operating Revenues						
Charges for services	\$34,253,826	\$36,403,945	\$38,044,572	\$39,566,355	\$41,149,009	\$41,971,989
Rentals & Financing Income	\$0	\$0	\$0	\$0	\$0	\$0
Other Operating Revenues	\$1,169,115	\$1,127,307	\$1,090,360	\$1,101,264	\$1,112,276	\$1,123,399
Nonoperating Revenues						
Investment earnings	\$20,066	\$20,823	\$19,500	\$19,500	\$19,500	\$19,500
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	\$25,692,596	\$18,112,605	\$0	\$0	\$0	\$0
Total Revenues & Financing Sources	\$61,135,603	\$55,664,680	\$39,154,432	\$40,687,119	\$42,280,785	\$43,114,888
EXPENDITURES						
Operating Expenditures						
Salaries and Wages	\$7,071,800	\$7,427,737	\$7,804,588	\$8,038,726	\$8,362,287	\$8,613,156
Other Employee Benefits	\$4,012,769	\$4,557,518	\$5,043,200	\$5,350,835	\$5,677,236	\$5,892,971
Professional Services Contracts	\$296,697	\$226,309	\$231,918	\$236,556	\$241,287	\$246,113
Supplies and Materials	\$657,909	\$783,577	\$1,009,600	\$1,029,792	\$1,050,388	\$1,071,396
Other Operating Expenditures	\$13,706,673	\$14,501,628	\$15,103,643	\$15,498,247	\$15,885,747	\$16,301,449
Nonoperating Expenditures						
Payment of principal on bonds and financing arrangements	\$6,562,385	\$2,608,875	\$2,617,056	\$2,668,650	\$2,773,650	\$2,720,925
Interest and other financing charges	\$2,639,881	\$3,256,187	\$3,123,392	\$3,052,782	\$2,954,343	\$2,846,468
Subsidies to other public authorities	\$0	\$0	\$0	\$0	\$0	\$0
Capital asset outlay	\$18,272,956	\$16,885,000	\$13,579,810	\$5,578,884	\$6,125,461	\$6,223,971
Grants and Donations	\$0	\$0	\$0	\$0	\$0	\$0
Other Non-Operating Expenditures	\$2,410	\$0	\$30,000	\$0	\$0	\$0
Total Expenditures	\$53,223,480	\$50,246,831	\$48,543,207	\$41,454,472	\$43,070,399	\$43,916,449
Capital Contributions	\$1,298,696	\$1,662,520	\$1,025,000	\$1,045,500	\$1,066,410	\$1,087,738
Excess (deficiency) of revenues and capital contributions over expenditures	\$9,210,819	\$7,080,369	(\$8,363,775)	\$278,147	\$276,796	\$286,177

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

Onondaga County Water Authority
Measurements for NYS-ABO Annual Report:
Year Ending December 31, 2011

Board:

1. **OCWA Mission Statement review, and revision (if needed).**
 - a. **Mission Statement is reviewed annually, most recently revised on December 10, 2010.**
2. **Ethics Policy Compliance**
 - a. **Ethics Policy compliance is up to date.**
3. **Board Member Training**
 - a. **Four Board Members have completed their training and one Board Member is seeking at this time to schedule training.**

Finance:

1. **OCWA Bond Rating Status (currently Aa2 / Moody's)**
 - a. **Maintained rating of Aa2 by Moody's (rating dated March 15, 2011)**
2. **Debt Service Coverage (Required, Goal and Actual)**
 - a. **Required – 1.25x**
 - b. **Goal – 1.75x**
 - c. **Actual – 1.62x**
3. **Debt per Customer**
 - a. **Year-end 2011 - \$843 (Debt \$78,395,000 / Customers 92,963)**
 - b. **Year-end 2010 - \$694**
 - c. **Fitch's AA median - \$1,502**
4. **Monthly Budget Variances**
 - a. **All departmental variance completed for 2011**
5. **Annual Budget Fulfillment**
 - a. **The Net Income Before Capital Contributions of \$178,386 while not meeting the budgeted amount of \$490,060 was still positive.**
6. **Quarterly and Annual Investment Activity**
 - a. **The 2011 annual report and four quarterly investment reports have all been accepted by the Board of Directors.**

Onondaga County Water Authority
Measurements for NYS-ABO Annual Report:
Year Ending December 31, 2011

Operational:

1. **Water Quality Compliance**
 - a. **100% compliance for 2011**

2. **Metered Ratio**
 - a. **2011 year-end Meter Ratio = 86.06% (a 0.31% increase over 2010)**
 - b. **Water Production – 13,592,490,000 (37.24 mgd)**
 - c. **Water Sales -- 11,697,199,000 (32.05 mgd)**

3. **Water Main Breaks**
 - a. **Total Repairs - 419 main breaks(increase of 20 over 2010)**
 - b. **Total Located by OCWA Leak Detection Personnel - 155**
 - c. **Leaks per Mile of Main – Total – 0.22 breaks per mile of main**
 - d. **Leaks per Mile of Main – Total less leaks found by Leak Detection Crew. - .014 breaks per mile of main without total detected.**

4. **Condition of OCWA Facilities – Annual Facilities Inspection by Consulting Engineer**
 - a. **Final Report completed and delivered in December 2011 by Consulting Engineer – O’Brien & Gere**
 - b. **One-third of all facilities inspected annually, all facilities inspected every three years.**

5. **Employee Turnover Rate**
 - a. **Number of Employees Separated – Total of 4**
 - b. **Percent of Staff Separated - 3.0%**
 - c. **Percent separated per retirement - 2.3%**
 - d. **Percent separated voluntarily - 0.7%**
 - e. **Percent separated involuntary - 0.0%**

6. **Employee Development Contact Hours (Total and per employee)**
 - a. **Total Development Hours - 3,308 Contact Hours**
 - b. **Development Hours per Employee - 25.2 Contact Hours / Employee**