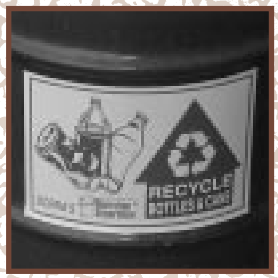









Recycling Works

ONONDAGA COUNTY RESOURCE RECOVERY AGENCY ANNUAL REPORT 2002

OCRRA
Our Mission

The Onondaga County Resource Recovery Agency is supported by an experienced team of employees, integrating their diverse skills to manage our community's Solid Waste System in an efficient, safe, environmentally sound and cost-effective manner.

www.ocrra.org

It was an interesting year. The OCRRA Board of Directors initiated new programs and faced new challenges.

OCRRA's recycling team once again was plowing new ground with several pilot projects that were enthusiastically received by the public. The hardcover book program is an example of a very cost effective recycling success.

These endeavors are grounded in OCRRA's overriding philosophy that we should constantly strive to provide the environmentally preferred method of dealing with the solid waste we produce at home or at work.

Revenues in 2002 exceeded those from the prior year by more than $400,000 even though the total tonnage processed by the system was down. Onondaga County, similar to so many areas of the country, felt the effects of the economic downturn.

Expenses were up primarily as a result of the unanticipated expenditures brought about as a result of the Covanta Energy bankruptcy; related litigation with Covanta Onondaga; and increased pass through costs. OCRRA terminated the Service Agreement with Covanta Onondaga on February 22, 2002 after Covanta defaulted under the agreement. (Readers will find a review of events in Note 5 to the financial statements.)

Throughout 2002 the OCRRA Board actively pursued a course toward resolving the matter without the need for protracted and costly litigation while concurrently protecting OCRRA's contractual rights as well as those of the 33 member municipalities. Covanta's decision on April 1 to reorganize under Chapter 11 of the Bankruptcy laws was a matter of foremost concern to the Board. The OCRRA Board has remained resolute in its posture of protecting the interests of the Agency and its 33 participating municipalities.

From the Chairman

Covanta's litigation against OCRRA combined with its bankruptcy petition has thwarted ongoing efforts to refinance the debt structure and capitalize on the prevailing low interest rates in the bond market. The inability to consummate the restructuring, as previously planned, compelled OCRRA to make use of approximately $4.4 million from reserves.

Debt restructuring could result in savings to the community ranging between three and four million dollars per year depending upon market conditions. Refinancing at lower interest rates could go a long way towards creating a balanced budget and obviating the need to dip into reserves for operations.

Management and Board members dedicate themselves to maintaining a positive business relationship between OCRRA and the haulers serving the community. The community wins when haulers are provided disposal facilities that are economical, functional, and user-friendly. The current contract with the large commercial haulers expires in 2005. It is the Board's intention to seek an extension of the hauler contract even in the wake of adoption of the Interstate Flow Control Law by the Onondaga County Legislature. We are most appreciative of our elected leaders and the community at large for the continued support they have demonstrated for OCRRA in its roll as the designated source for environmentally sound waste disposal in Onondaga County. The Board is committed to holding the line on expenses and demonstrating to our elected leaders that the trust they have placed in OCRRA has not been misplaced.

Our Board of Directors is comprised of dedicated citizen volunteers who give many hours to oversee the successful operation of an award winning solid waste management program. These Board members are successes in their own right and come from divergent backgrounds and professions. This diversity of skills provides the Board as a whole with the opportunity to tap the experience and knowledge required to make the soundest of decisions when shaping critical policy issues.

Matthew H. Irish
OCRRA
Board Chairman

I would be remiss if I failed to express my gratitude to a pair of OCRRA Board members whose service concluded at year's end. Vincent Leuzze served on the OCRRA Board for six years. During his tenure Vince served as the Board's Vice Chair as well as chairing the Administration, Recycling, and Strategic Planning Committees. Also leaving the OCRRA Board was Lynn McCormick. Her departure was premature but necessitated when she assumed the role of Town Clerk for the Town of Van Buren. The state law creating OCRRA prohibits elected officials from serving simultaneously on the OCRRA Board. Their insight and wisdom will be missed. And it is with sadness that I report that we lost one of the charter members of the OCRRA Board. Dr. Paul Brennan passed away last year. Dr. Brennan's engineering insights were of much critical importance during the early years of the Agency when it was navigating its way through the waters of the permitting process for the Waste To Energy Facility. These former Board members will be missed.

Finally, I am most grateful to Executive Director Tom Rhoads, Legal Counsel Bill Bulsiewicz, and the entire OCRRA team for their advice and guidance throughout the course of a most challenging year.

From the Executive Director

Tom Rhoads
OCRRA
Executive Director

Retrenchment of recycling programs was on the radar screen in a number of communities. There was a string of published reports of cities and counties agonizing whether they could sustain the full array of their environmental programs. Not so with OCRRA.

For us, it was full throttle ahead.

Two thousand two was a year filled with accomplishments, increased outreach into the community, and culminated by our County Legislature's decision to forge onward with legislation to protect the community's integrated solid waste management plan. The OCRRA approach has been used as a model by other cities and counties across the country that are either establishing a solid waste management plan or seeking improvements in their system.

In 2002, OCRRA was not looking for ways to reduce services. Quite to the contrary, OCRRA was expanding its list of environmentally sound solutions that are offered to its member communities. The organization worked very hard to expand program and service while reducing costs wherever possible.

The Agency launched what proved to be a most popular computer-recycling program and partnered with Onondaga County Government and private businesses in a mercury thermometer exchange program; just two examples of our continued determination to remove from the waste stream discarded products that are best handled through a combined effort of recycling and proper disposal.

Also targeted during 2002 were businesses, schools, and other institutions that are significant producers of paper. The success of this concerted effort was borne out by increases ranging up to 200% in the recapture rate of certain paper products that previously had been tossed into the trash. Our recycling team scoured offices and commercial settings to gauge their effectiveness, offer recycling tips, and suggest ways to slash trash bills.

From the inception of the mandatory recycling program in July 1990, our community has embraced the concept of preserving natural resources and supporting efforts at waste reduction. This dedication makes a difference you can see. The combined total of mandatory and voluntary recycling in the OCRRA system again reached a new high. In 2002 it was just under 70% of the total waste stream. The businesses and residents of the OCRRA system continue to demonstrate their commitment to recycling and waste reduction. No thoughts of cutting back on the wide range of earth friendly programs. These signal achievements were accomplished as recycling expenditures came in under budget by approximately 2.7 %.

Activity at the Rock Cut Road Transfer Station was up during the past year. Rock Cut Road caters primarily to homeowners and small businesses searching for a suitable outlet to recycle their throwaways or a secure disposal site for small loads. Customer-friendly is the approach and it has paid off.

The cornerstone of the OCRRA system is an assurance that all of the non-recyclable waste will be delivered to the Agency's solid waste management facilities for processing and disposal via the most sound environmental solutions.

The OCRRA Board and management devoted considerable time and energy in pressing for adoption of a local law that would establish Interstate Flow Control. The Interstate Flow Control Law would compliment the existing Intrastate Flow Control ordinances that had been enacted during the years 2000 and 2001. By year's end, the Onondaga County Legislature was poised to enact the proposed local law.

Passage of this measure will conform with the U.S. Second Circuit Court of Appeals ruling that accords municipalities the opportunity to designate that their waste go to publicly operated solid waste management systems for the proper environmental disposition. An additional benefit of designating the Onondaga Waste To Energy Facility for the disposal of waste from our member municipalities is that it will assist OCRRA in refinancing the annual debt service, which would reduce costs to the Agency (and our member municipalities) by millions.

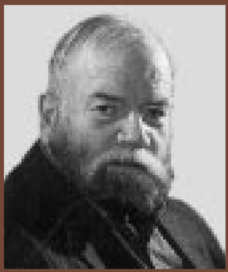
Resolution of the current litigation with Covanta, which could occur during 2003, may allow OCRRA to proceed with its plans to restructure the debt.

We are most grateful for the support we continue to receive from all levels of government. We are equally gratified by community support for our programs.

Volunteer Board of Directors

Matthew H. Irish
OCRRA Board Chair
Vice President
Irish Millar Construction, Inc.

Kim Albert Barber
Waste-To-Energy Committee Chair
Manager, EHS Technology
Bristol-Myers Squibb Co.



Rainer H. Brocke, Ph.D.
State University of New York
Environmental Science & Forestry

Anthony Mangano
OCRRA Vice Chair
Administration Committee Chair
General Manager
Ramada Inn

Ronald L. Simons, CPA
Managing Partner
Syracuse Office
Piaker & Lyons CPA's

Sheila Finn
Attorney at Law
Melvin & Melvin, LLP

Richard H. Viau
OCRRA Board Treasurer
President
Viau Construction

Scott A. Lacik
Bank Officer
Key Bank

Elizabeth Liddy, Ph.D.
Director
Center for Natural Language Processing
Syracuse University

Robert Ripberger
Recycling Committee Chair
Carrier Corporation (retired)

H. Larry Vozzo
Senior Vice President & General Counsel
Blasland, Bouck & Lee, Inc.

Albert J. Antelmi
Insurance Broker
Antelmi, Fusco, & Cazzola

Jeffrey M. Evans, Ph.D.
Transfer Committee Chair
Director
Planning & Sourcing
Bristol-Myers Squibb Co.

Jit Turakhia, P.E.
President
J.T. Systems, Inc.

Roger B. Eidt
Resident Construction Manager
Kvaerner-John Brown Inc. (retired)

Recycling

ANDREW J. RADIN, ***Director of Recycling & Waste Reduction***

Arriving Syracuse University students are encouraged to recycle.

Onondaga County residents and businesses reached impressive new recycling achievements in 2002. Kids did their part by recycling at school. Residents pitched in by recycling bottles, cans, glass, and newspapers. Stores recycled thousands of tons of cardboard and paper. And manufacturers found innovative ways to recycle their non-hazardous waste materials and residues. When it was all added up, the community had once again raised the bar on its recycling efforts:

Residents placed out over 42,327 tons of recyclable paper, beverage containers, and other items as part of the curbside recycling program.

Businesses, schools, and others in the public and private sectors recycled an astonishing 699,220 tons of material that would have otherwise been ultimately buried in landfills.

Hazardous wastes are carefully packed away and then they are off to approved facilities for safe disposal.

All told, the community recycled about 70% of its residential and commercial waste; the highest proportion of material since OCRRA began collecting recycling data over a decade ago.

These achievements point to a community committed to the environmental, social, and financial benefits of recycling and waste reduction. It is a commitment that remains strong from year to year, and continues to show growth and quality improvements. Since 1990, OCRRA has helped the community recycle nearly 6.8 million tons of material. It is an achievement that has helped firmly establish our community as a national leader in recycling and waste reduction, thanks to recycling champions in homes, businesses, and schools. The growth in the recycling program was reflected in the Board's decision to purchase an additional 100,000 residential Blue Bins at a significant investment. Over the years, the number of mandatory items has grown to such an extent that many households require two Blue Bins to hold a week's worth of recyclables.

But numbers tell only part of the story. In 2002, OCRRA reached out to thousands of residents, businesses, and schools in new ways to enhance their existing recycling efforts and offer innovative recycling opportunities.

Hardcover Book Recycling

OCRRA implemented a month long hardcover book recycling program at its Rock Cut Road Transfer Station. County residents, businesses, and schools had the opportunity to drop off their old hardcover books throughout the month of July. More then 40,000 books, approximately 45 tons, were collected and recycled. Thousands of residents took advantage of the program, helping to set the stage for similar collections in the future. The old books will find new use, after processing, as roofing material, insulation, and new paper.

Household Computer Recycling

According to an EPA report, electronics are a fast growing portion of America's trash. It is estimated that 250 million computers are destined to become obsolete by the year 2005. EPA states that more than 3.2 million tons of electronic waste will find their way into thousands of landfills across the country. To encourage the safe management of old computers, OCRRA took the environmentally sound approach to help remove computer equipment from the waste stream by implementing a household computer recycling program. The program will also ensure that material that cannot be recycled or reused will be disposed safely at an approved site.

Onondaga County residents were able to drop off old monitors, printers, computer towers, laptops, mouse, keyboards, scanners, and other peripherals at

> *"The community recycled about 70% of its residential and commercial waste; the highest proportion of material since OCRRA began collecting recycling data over a decade ago."*

the Rock Cut Road Transfer station the second Saturday of each month. Over 137,000 pounds of old home computer equipment were collected, including 2,325 monitors, 2,037 computer towers, and 1,117 printers. Over 2,333 residents were served through December 2002.

Household Mercury Thermometer Exchange Program

OCRRA held two household mercury thermometer exchange events in conjunction with its Household Hazardous Waste (HHW) days. Onondaga County residents were able to exchange their mercury containing thermometers for a new mercury free thermometer. The mercury thermometer exchange helps prevent mercury contained in household thermometers from escaping into the environment when the thermometers are broken or thrown away. Over 500 mercury-containing thermometers were collected and replaced during the two events. Numerous local businesses helped underwrite the cost of the mercury free thermometer program, including POMCO, High Acre Apartments, Kings Gate Apartments, The Medicine Shoppe, Harvey's Drugs, and Leader Kress Drugs.

Old paint is recycled and distributed to non-profit groups.

OCRRA's Community Events and Public Outreach

OCRRA brought the recycling message directly into neighborhoods and special community events in 2002. Agency employees hosted informational booths at various events throughout the area, including the Flower and Garden Show, the Family Show, the Spanish Action League Northeast Community Center Picnic, the Golden Harvest Festival at Beaver Lake Nature Center, the Farmer's Market, Nojaim's Supermarket, the New York State Fair, the Syracuse Chamber of Commerce Businesses Show, and Power Jam Family Picnic. A variety of information materials was distributed including nearly 2,000 Blue Bins, recycling instructions, battery bags, household hazardous waste sign up, and compost site registration. Over 25,000 people were contacted through these events.

Over 25,000 Visitors Utilize Customer-Friendly Compost Sites

OCRRA's two yardwaste compost sites continued to attract users from throughout the county seeking mulch and compost for their gardens and flowerbeds. Residents also dropped off their yardwaste all season long by paying a one-time seasonal fee of $10.00. The compost sites remained one of the Agency's most popular environmental services.

Household Hazardous Waste Days Collect Hundreds of Barrels of Dangerous Materials

There is no question that there needs to be a safe disposal outlet for hazardous products. OCRRA continued to serve in this capacity in 2002 by assuring the community that these substances will be sent to approved hazardous waste disposal sites. In 2002, over 3,400 residents participated in OCRRA's 2 drop off events, resulting in an impressive quantity of potentially dangerous materials that filled over 700 drums. The New York State Department of Environmental Conservation awarded the Agency a $450,000 grant covering a three year period to help underwrite the costs of this important environmental service.

Recycling Champions Saluted by OCRRA

Through numerous visits to businesses and schools throughout the community in 2002, OCRRA's Recycling Specialists found many recycling champions making outstanding contributions

The POWER 106 Family Jam is one of the largest summer festivals. An ideal chance to distribute blue bins for recycling.

2002 RECYCLING CHAMPIONS

WTVH
SYROCO
Rings and Things
Pioneer Management
Edgewater Development
JR Clancy
One Franklin Square
Town of Salina
Syracuse University Sheraton
Salvation Army
Vera House
Delavan Center
Syracuse Real Food COOP
ICM Corporation
Blue Cross Blue Shield
VA Medical Center
Jreck Subs
Spinnakers on the Lake
Jamesville Beach Park
SU Carrier Dome
Brooklyn Pickle
Solvay Paperboard
Subway Sandwich Shop
Beauchamp OCPL
Catholic Charities Vincent House
Glisson's Mobile
Allied American Abstract
Orion International
Office Max Penn Can Mall
New Venture Gear
Porter Magnet School
Borders of Carousel Center
Navarino Apartments
Country View Apartments
James Hanley Federal Building
Dairylea Cooperative, Inc.
Clay Court Apts. North Syracuse
Alpha Chi Omega Sorority – SU
Delta Kappa Epsilon Fraternity – SU
Elmcrest Elementary School
Seymour Elementary School
Syracuse Fire Station #6
Salina Meadows Office Park
CNY Family Sports Center
Lockheed Martin
Bellevue Heights Apartments
Frontenac-Genesee Apartments
Hancock Air National Guard Base
Sacred Heart Apartments
Spaghetti Warehouse

OCRRA's recycling team distributed blue bins at various high traffic locations. Recycling Specialist Jan Schober greets a shopper emerging from a popular supermarket.

to Onondaga County's recycling effort. Many were highlighted in special print ads and radio announcements for their outstanding recycling achievements.

While the recycling champions served as models for the rest of the community, OCRRA also developed new information tools to help schools, businesses, restaurants, apartment complexes and parks join the ranks of those in Onondaga County with top notch recycling programs. In addition to creating new special recycling decals with bold, colorful graphics, the Agency's recycling team also distributed heavy-duty corrugated recycling receptacles to encourage separation and recycling of paper and recyclable beverage containers. OCRRA produced approximately 4,000 of these special recycling containers for distribution throughout the community. Now they can be found in local ice rinks, office buildings, teachers lounges, and public venues throughout the area. OCRRA remains committed to working closely with local businesses to help them remove as much recyclable material as possible from their work environments.

In addition to visiting businesses, OCRRA's team of recycling specialists and educators continued to focus on helping schools recycle, while also teaching kids about the environmental benefits of recycling. OCRRA's recycling educator consultant, a New York certified teacher, spoke to 12,000 local students in 400 classes.

Apartment managers throughout the OCRRA service area were contacted this year and were provided up-to-date information to help their tenants recycle.

OCRRA highlighted Earth Day with numerous activities. It honored Lincoln Middle School in Syracuse with the Dr. Vonnell Mastri Recycling Award at a school assembly attended by County Executive Nick Pirro and a representative from the Mayor's office. OCRRA's annual Earth Day litter clean up on the Saturday after Earth Day saw some 50 tons of litter and 1,115 tires removed from local roadways, parks, and neighborhoods by approximately 5,000 volunteers in 223 community groups. Since the program began, over

Syracuse Fire Station #6 just one of the recycling champions in 2002.

one million pounds of litter have been collected by thousands of community volunteers and safely disposed by OCRRA. The Earth Day Litter Clean Up remains one of the largest single day community-wide service events in the area. OCRRA was pleased to once again coordinate the event, resulting in a cleaner and greener Onondaga County.

The Agency implemented a direct mail campaign to reach out to hundreds of community organizations, inviting them to utilize recycled paint from OCRRA's September Household Hazardous Waste Collection. As a result, over 1,500 gallons of recycled paint were provided to over 50 non-profit agencies, municipal entities, park systems, and other human service organizations.

OCRRA participated again on the NYS Steering Committee for the national America Recycles Day on November 15 that promotes the purchase of products made of recycled materials. OCRRA submitted over 7,410 pledge cards collected during the State Fair and several other functions.

The OCRRA booth was flooded by patrons of the Regional Farmer's Market.

Beyond these noteworthy activities, a host of other services continued to be provided through the recycling program, including the following:

- Ran a recycling drop off six days/week, year round for mandatory recyclables at the Agency transfer stations. Provided a no-charge drop-off for household scrap metal and office paper from small businesses.
- Guaranteed a zero tip fee for haulers who deliver curbside recyclables to the Agency's contracted Material Recovery Facility. OCRRA paid $334,970 for the processing of recyclables collected from the households of the community.
- Collected household batteries through a local network of drop off locations, and ran a month-long curbside battery collection program.
- Coordinated a curbside collection of phone books during a six-week period that coincided with the distribution of the Verizon phone book. Verizon Yellow Pages and ALLTEL provide free space to OCRRA to run its recycling instructions in the phone books.
- Facilitated textile collections at the Rock Cut Road Transfer Station.
- Ran a high-profile public education program to increase recycling that included billboards, radio and newspaper ads, the production of flyers, and promotional materials like pencils and badges that were distributed at the New York State Fair and to school children.
- Published a quarterly newsletter, Operation Separation Update, distributed to 35,000 residents per quarterly issue.
- OCRRA expanded its web site activity with E-mails to thousands of businesses and residents with handy recycling reminders and offers to contact the Agency for recycling assistance.

OCRRA continues to enlist the entire community in an ongoing effort to maximize the amount of material recycled, and minimize the waste requiring disposal.

Compost and mulch require constant attention. OCRRA's compost sites provide services from early spring until late in the fall.

Transfer Operations

JOSEPH A. FONTANELLA, *Director of Transfer Operations*

During the year 2002, Transfer Operations continued to strive to achieve its goals of safe and efficient operations at our two Transfer Stations while maintaining excellent customer service. During the course of the year, OCRRA drivers traveled over 602,000 miles transporting ash residue and by-pass material to an out of county landfill, processible material to the Waste to Energy Facility (WTE) and recovered metal and corrugated cardboard to appropriate recycling facilities. Customer comments continue to be favorable and increased utilization of the Rock Cut Road facility by small users as well as the continuation of the popular Flat-Rate system at Ley Creek have contributed to less waiting time and better overall service to all of our customers.

Ley Creek Transfer Station

Construction & Demolition Debris and oversized MSW was received and processed at the Ley Creek Transfer Station in 2002. The total intake at the station was over 86,700 tons which equates to a nearly 9% decrease from the year 2001. This material was processed and separated by the transfer station workers for delivery to several different facilities. The WTE facility received 71,600 tons of material from Ley Creek. In addition, 3,550 tons of scrap metal and corrugated cardboard were recovered and recycled. Nearly 105 tons of items containing CFC refrigerant were removed from the waste stream and sent to a contractor for extraction and recovery of the refrigerant and the metal. The by-pass waste was transported in Agency tractor-trailers to an out of county landfill. The number of customer vehicles served at Ley Creek was 56,500 including 15,000 Flat Rate customers.

The Rock Cut Road Transfer Station was jammed with old household computer equipment on the second Saturday of the month. Melissa Conto of OCRRA's business unit helps out.

“During the year 2002, Transfer Operations continued to strive to achieve its goals of safe and efficient operations at our two Transfer Stations while maintaining excellent customer service.”

Rock Cut Road Transfer Station

The utilization of this facility by small users and cash customers increased by another 15% in the year 2002. This followed a 21% increase in the year 2001 and a 26% increase in the year 2000. In total, 15,900 vehicles entered the facility through the scales and another 39,200 customers utilized the facility for bag sticker and recycling drop off services. This dramatic increase in the utilization of the Rock Cut Road Station has removed traffic from the Ley Creek facility. This has resulted in improved turnaround times and customer service for all of our customers. The materials recovered from the Rock Cut Road Station include nearly 24 tons of items containing CFC refrigerant, 323 tons of scrap metal and 205 tons of corrugated cardboard, in addition to the recyclable materials collected in the recycling bins.

This facility also houses the Agency maintenance shop and is the base for our fleet of ash transport dump trucks. During 2002, Agency drivers transported more than 87,700 tons of ash residue from the WTE facility to an out of county landfill.

Transfer Operation employees also work in conjunction with the other departments within the Agency. Transfer workers team up with the recycling department on Household Hazardous Waste Day activities; Earth Day programs and routinely provide maintenance support for the equipment operated at the compost sites.

A pilot program to recycle hardcover books was a huge success. Dave Kenyon of North Syracuse took advantage of this opportunity to recycle a carload of books collected over the years.

Reducing emissions from OCRRA’s truck fleet was the purpose in switching to a Biodiesel fuel product. OCRRA’s Leroy Sabin fills up his ash truck.

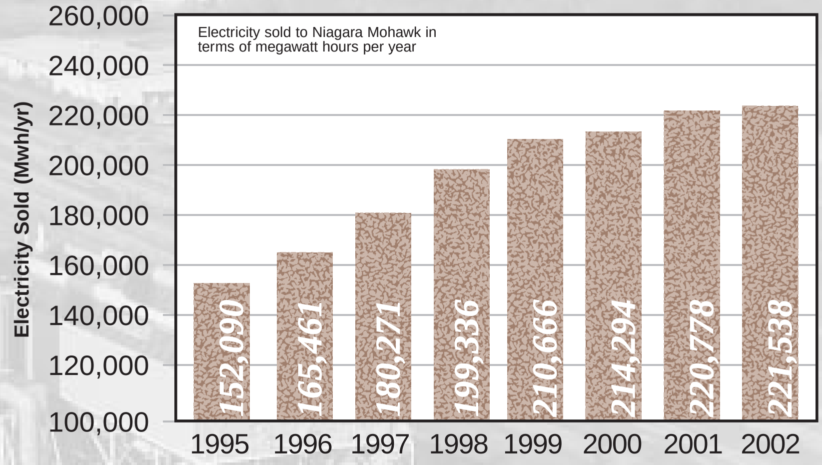
Latex paint collected at OCRRA’s Household Hazardous Waste Days is recycled and later distributed to community, governmental, and charitable groups.

Waste to Energy

DAVID J. CARLEO, P.E., ***Agency Engineer***

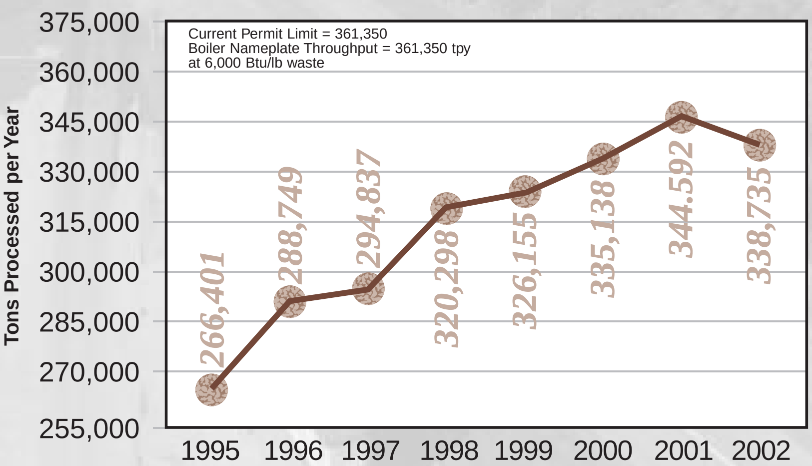
Annual Electricity Sales (Mwh per Year)

Onondaga County Resource Recovery Facility



Annual Waste Processed

Onondaga County Resource Recovery Facility



“More electricity for less waste combusted was primarily due to the increased heating value of the waste processed in 2002 than for 2001.”

New highs for energy generation and electricity sales were established in 2002 at the Waste To Energy Facility. While the amount of waste delivered and processed was lower than in 2001, when a record 344,592 tons were processed, energy generation and electricity sales reached record levels. This was accomplished at the same time when air emissions continued at levels far below health risk standards and the strict Environmental Protection Agency’s (EPA) Title V air permit.

It is also noteworthy that an off-site health-monitoring program conducted by the county health department, a program that began prior to the start-up of the facility, continues to demonstrate that (1) no relationship between the operation of the plant and increased levels of organics in the surrounding ambient soils and facility ash residue has been established, and furthermore, (2) no detectable pattern or specific instances of toxicologically significant concentrations of any of the constituents measured have been observed, nor over the time period investigated there have been no statistically significant changes observed in the concentrations of any of the monitored air samples. The air-monitoring program continues to suggest that the air sampled resembles rural concentrations for the subject constituents rather than those expected in an urban setting when compared to published studies.

Municipal solid waste processed for 2002 was down 1.9 % from the record level of 2001, but the Facility generated for export 760 Megawatt-hours (Mwh) more electricity by processing nearly 5,900 tons less of waste. More electricity for less waste combusted was primarily due to the increased heating value of the waste processed in 2002 than for 2001. The greater yield of electricity for trash processed is significant at a time when world oil prices are escalating and the availability of foreign oil supplies themselves are tenuous with ever-growing tensions in the Middle East. By converting non-recyclable trash into nearly 222,000 Mwh of electricity, the Facility saved the equivalent of 400,000 barrels of oil, worth at current oil prices, $14,000,000. The amount of electricity sold was sufficient to supply the needs of about 22,000 homes. OCRRA received nearly $12,000,000 in electricity sales.

Similarly impressive is the fact that by burning the non-recyclable wastes generated within Onondaga County, which reduces the volume by almost 90%, approximately 850,000 cubic yards of landfill space, is saved. That quantity is significant since that volume is equivalent to a 10-acre landfill to a height of 50 feet. The resulting ash from the combustion of the solid waste is only about 25% by weight of that processed. The much smaller amount of ash is then landfilled thereby reducing the need for valuable landfill space, and, most importantly, the ash itself has again been demonstrated to be non-hazardous by the New York State Department of Environmental Conservation (NYSDEC) following the required 2 rounds of semi-annual testing in 2002.

These facts are all noteworthy achievements of the Facility following its 8th full year of operation.

2002 Annual Stack Test Results

(Regulatory Title V Compliance)

Constituent	Average Measured Emissions Unit 1	Unit 2	Unit 3		R-Permit Limit[1]	% of Limit[2] Fac Ave	% of Limit[3] Max Unit
Particulates (gr/dscf @ 7% O_2)	0.00249	0.00334	0.00274		**0.010**	28.6	33.4
Sulfur Dioxide (ppmdv @ 7% O_2)	0.012	0.49	4.81	CEM	**30**	5.9	16.0
Sulfur Dioxide (lb/hr)	0.020	0.190	4.44		**16.2**	9.6	27.4
Sulfur Dioxide Removal Efficiency (%)	>99.9	99.1	94.9	CEM	**>=85**	114.1	116.6
Nitrogen Oxides (ppmdv @ 7% O_2)	165	171	171	CEM	**180**	93.9	95.0
Nitrogen Oxides (lb/hr)	47.4	49.1	49.6		**58**	84.0	85.5
Carbon Monoxide (ppmdv @ 7% O_2)	12.5	11.9	7.3	CEM	**45**	23.5	27.8
Carbon Monoxide (lb/hr)	2.15	2.22	1.08		**8.04**	22.6	27.6
Total Hydrocarbons (ppmdv @ 7% O_2)	1.73	1.94	1.21		**30**	5.4	6.5
Total Hydrocarbons (lb/hr)	0.170	0.198	0.122		**2.76**	5.9	7.2
Sulfuric Acid Mist (lb/hr)	0.511	0.251	0.282		**1.69**	20.6	30.2
Hydrogen Fluoride (lb/hr)	0.0221	*0.0189*	*0.0213*		**0.165**	*12.6*	13.4
Polychlorinated Dibenzo-p-Dioxins and Furans							
(ng/dscm @ 7% O_2) - Total	*12.7*	*1.40*	*6.17*		**30**	22.5	42.3
(ug/dscm @ 7% O_2) - NY TEFs	*1.89E-04*	*2.53E-05*	*1.83E-04*		**0.0004**	33.1	47.3
(lb/hr) - NY TEFs	*2.91E-08*	*3.78E-09*	*2.84E-08*		**1.29E-07**	15.8	22.6
Hydrogen Chloride (ppmdv @ 7% O_2)	*2.60*	*2.18*	*2.43*		**25**	*9.6*	*10.4*
Hydrogen Chloride (lb/hr)	*0.587*	*0.510*	*0.560*		**5.24**	*10.5*	*11.2*
HCl Removal Efficiency (%)	*99.6*	*99.7*	*99.7*		**>=95**	*104.9*	*104.9*
Ammonia (ppmdv @ 7% O_2)	5.71	3.68	1.57		**50**	7.3	11.4
Ammonia (lb/hr)	0.602	0.402	0.168		**4.88**	8.0	12.3
Arsenic (lb/hr)	6.96E-05	1.61E-04	1.27E-04		**7.80E-04**	15.3	20.6
Beryllium (lb/hr)	*4.74E-06*	*4.77E-06*	*4.78E-06*		**1.15E-05**	*41.4*	*41.6*
Cadmium (mg/dscm)	0.000887	0.00170	0.00168		**0.04**	3.6	4.3
Cadmium (lb/hr)	1.32E-04	2.65E-04	2.57E-04		**1.90E-03**	11.5	13.9
Chromium (lb/hr)	1.36E-04	1.82E-04	1.48E-04		**1.93E-03**	8.0	9.4
Copper (lb/hr)	4.58E-04	5.63E-04	5.13E-04		**4.00E-03**	12.8	14.1
Lead (mg/dscm)	0.0109	0.0246	0.0226		**0.44**	4.4	5.6
Lead (lb/hr)	1.62E-03	3.84E-03	3.47E-03		**3.81E-02**	7.8	10.1
Manganese (lb/hr)	2.86E-04	2.96E-04	2.97E-04		**2.30E-02**	1.3	1.3
Nickel (lb/hr)	3.34E-04	2.81E-04	2.64E-04		**4.00E-03**	7.3	8.4
Vanadium (lb/hr)	*4.74E-05*	*4.77E-05*	*4.78E-05*		**6.00E-04**	*7.9*	*8.0*
Zinc (lb/hr)	9.18E-03	1.47E-02	1.65E-02		**1.88E-02**	71.6	87.8
Mercury (ug/dscm @ 7% O_2)	*2.36*	*2.42*	*3.26*		**80**	*3.4*	*4.1*
Mercury (lb/hr)	*0.000350*	*0.000376*	*0.000508*		**0.012**	*3.4*	*4.2*
Mercury Removal Efficiency (%)	*98.4*	*98.4*	*97.6*		**>=85**	*115.5*	*115.8*
PM_{10} (gr/dscf @ 7% O_2)	0.000543	0.000469	0.000435		**0.010**	4.8	5.4
PM_{10} (lb/hr)	0.183	0.165	0.144		**3.16**	5.2	5.8
Polychlorinated Biphenyls (PCBs)							
(ug/dscm @ 7% O_2)	0.0130	0.0109	0.0110		**0.053**	21.9	24.5
Polycyclic Aromatic Hydrocarbons (PAHs)							
(ug/dscm @ 7% O_2)	*0.354*	*0.295*	*0.479*		**1.0**	*37.6*	*47.9*
(lb/hr)	*0.0000538*	*0.0000442*	*0.0000732*		**0.00014**	*40.8*	*52.3*
Formaldahyde (ug/dscm @ 7% O_2)	28.1	47.8	43.6		**50**	79.7	95.6
Hexavalent Chromium - Cr^{+6} (lb/hr)	*0.000092*	*0.000354*	*0.0000858*	4	**0.0003**	*59.1*	***118.0***
	0.0000465	0.0000841	0.0000365	5	0.0003	18.6	28.0
Benzene (lb/hr)	*0.141*	*0.135*	*0.152*	6	**None**	**N/A**	**N/A**

[1] Permit limits obtained from Covanta Onondaga, LP, New York State Department of Environmental Conservation Title V Permit Number 7-3142-00028/00009, issued 1/8/2002

[2] Calculated as the average of the three unit test runs (each unit result is an average of three replicate test runs) over the Permit limit expressed as a percent; for limits involving >=, the minimum value was used

[3] Calculated as the maximum of the three unit test runs (each unit result is an average of three replicate test runs) over the Permit limit expressed as a percent; for limits involving >=, the minimum value was used

[4] Hexavalent chromium results from testing performed July 22-August 1 using test methodology SW846 0061

[5] Hex-Cr results from testing performed December 10-12, 2002, using test methodology BIF Method 0013

[6] Benzene testing is not required under Title V; was tested during the additional hex-Cr testing in December 2002

Note: Values in italics represent one or more individual test runs being a less than (<) value; all data as reported by Covanta Onondaga and as submitted to the NYSDEC for compliance

Units:

gr/dscf = grains per dry standard cubic foot
ppmdv = parts per million dry volume
lb/hr = pounds per hour
lb/10^6 Btu = lb/MMBtu = pounds per million Btu
ng/dscm = nanograms (billionth's of a gram) per dry standard cubic meter
ug/dscm = micrograms (millionth's of a gram) per dry standard cubic meter
P = Passes regulatory limit

Business & Financial Summary

ROBERT P. SCHAEFFLER, *Deputy Director*

Audits
The Agency's financial statements for 2002 are presented in the accompanying pages. These financial statements have been prepared by the management of the Agency and audited by our independent auditors, PricewaterhouseCoopers, LLP. These statements should be referenced for all financial information. It is noteworthy to report that the Agency has received an unqualified audit opinion not only for this past fiscal year but for every year since start up in 1990. The following management discussion is offered only as a generalized summary of certain business and fiscal conditions of the Agency.

Waste-to Energy Bond
The Agency's key goal remains the reduction of debt service costs. Debt service is currently 46% of OCRRA's annual expenses. The 2002 bankruptcy of the parent company of the Waste-to-Energy (WTE) operator, Covanta Energy, delayed the agency's opportunity to restructure the debt at the May 1, 2002 first bond call date even though municipal bond interest rates hit 40 year lows during the year. Debt restructuring continues to be actively pursued by the Agency.

Bond Ratings
Early in 2002 as a result of the WTE's operator (Covanta Energy) lowered debt ratings by two rating agencies and subsequent 4/1/02 Chapter 11 Bankruptcy filing, many of Covanta's WTE customer ratings including OCRRA's were downgraded below investment grade. Fitch Ratings lowered OCRRA's Project Bond ratings to "B" and Moody's lowered it to Ba3 early in 2002.

Revenues
Agency revenues in 2002 included $31,610,606 from operations with a small increase in electric revenue and a 3% increase in tipping fee revenues compared to 2001 and other revenues of $2,025,806. The decline on investment earnings due to low interest rates coupled with the use of reserves to cover anticipated operating deficits resulted in a significant reduction of investment earnings compared to prior years.

Expenses
Operating expenses for 2002 were $38,079,650, 2.3% higher than 2001 due primarily to the Covanta bankruptcy related legal defense fees and increased WTE costs. Many of the Agency's non-WTE related operating expenses performed better than the 2002 budget plan. The operation and maintenance costs of the Covanta operated Waste to Energy Facility continue to represent the largest expense category after debt service.

Agreements
The Agency completed the second year of a five (5) year agreement with all system large haulers which assures the continued delivery of waste into the OCRRA System through 2005.
On February 22, 2002 an Event of Default occurred whereby the Agency took legal actions to terminate the Solid Waste Service Agreement with Covanta Onondaga, LP as noted in the independent auditors' report. Since then, the Agency has proceeded through several legal decisions in various courts on the matter. That litigation is ongoing. The Agency finalized a four year Agreement with the represented workers bargaining unit, Local 545C, Operating Engineers, extending that positive working partnership. The Agency's long-term agreement with the Seneca Meadows landfill remains in effect and continues to generate significant savings in disposal costs.

“ OCRRA implemented new financial system software which provided significantly better on-line financial data to Agency management enhancing our decision making process. ”

Capital Planning

The Agency maintains a fully funded 5-year Capital Plan. Capital planning allows the Agency to designate appropriate capital funds for improvements in the system to provide better service, efficiency, and safety to the customers that utilize our facilities.

Trust Reserves

The Agency, pursuant to Master Bond Resolutions and Indentures of Trust, is required to maintain prudent reserve levels for the security of bondholders and meet operational and Service Agreement (termination is under review by the courts) requirements.

Trust Funds continue to be maintained by Deutsche Bank as Trustee. These funds are fully secured and collateralized under fixed and flexible Repurchase Agreements and other qualified investment products conforming to the Agency's Investments Guidelines and the New York State Comptroller's Guidelines.

Financial Control Systems

During 2002, the Agency implemented new financial system software which provided significantly better on-line financial data to Agency management enhancing our decision making process and improving both control and monitoring of revenue and expenses at the cost center level.

Continued Award Winning Budgets

For the seventh consecutive year the agency was awarded the prestigious Government Finance Officer's Association Distinguished Budget Award acknowledging the Agency's dedication to informing the public and others of the proposed revenues and expense plans along with management discussions for the upcoming fiscal year.

Charlie Mickle's son Eric assists his father in squaring away the agency's computerized equipment during “take-your-child-to-work-day”.

Independent Auditor's Report

Members of the Board
Onondaga County Resource Recovery Agency

In our opinion, the accompanying balance sheets and the related statements of revenue, expenses and changes in retained earnings and of cash flows present fairly, in all material respects, the financial position of Onondaga County Resource Recovery Agency (the "Agency") at December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Agency's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As further described in Note 5 to the financial statements, the Agency is currently in litigation to terminate its Waste-to-Energy Facility Service Agreement with Covanta Onondaga, L.P.

January 17, 2003

BALANCE SHEETS

December 31, 2002 and 2001

Assets	**2002**	**2001**
Current assets:		
Cash and cash equivalents	$ 7,552,496	$ 3,679,891
Assets limited as to use - required for current obligations	8,536,854	8,893,494
Accounts receivable, net of allowance for doubtful accounts of $5,633 and $28,086 at December 31, 2002 and 2001, respectively	2,544,292	2,739,149
Prepaid expenses and other receivables	261,923	97,194
Facility lease, current portion	7,311,088	6,684,508
Total current assets	26,206,653	22,094,236
Assets limited as to use:		
Held by trustee under indenture:		
Investments	23,451,090	53,864,218
Board designated funds:		
Cash	1,193,473	1,873,420
Investments	22,530,699	–
Accrued interest receivable	285,088	328,090
Total assets limited as to use	47,460,350	56,065,728
Less: Assets limited as to use - required for current obligations	(8,536,854)	(8,893,494)
Noncurrent assets limited as to use	38,923,496	47,172,234
Property, plant and equipment, net	6,968,723	7,205,386
Facility lease, net of current portion	97,032,536	104,343,632
Total Assets	**$ 169,131,408**	**$ 180,815,488**

Liabilities and Equity		
Current liabilities:		
Revenue bonds payable, current portion	$ 6,900,000	$ 7,175,000
Accounts payable	3,065,278	3,031,115
Accrued interest payable	1,636,854	1,718,494
Accrued expenses and other	305,130	323,495
Total current liabilities	11,907,262	12,248,104
Long-term liabilities:		
Revenue bonds payable, net of current portion	133,950,000	140,850,000
Total liabilities	145,857,262	153,098,104
Retained earnings	23,274,146	27,717,384
Total Liabilities and Equity	**$ 169,131,408**	**$ 180,815,488**

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

Years Ended December 31, 2002 and 2001

	2002	**2001**
Operating revenues:		
Tipping fees	$ 18,760,633	$ 18,194,550
Electric revenue	11,987,423	11,949,801
Other	862,550	1,063,743
Total operating revenues	31,610,606	31,208,094
Operating expenses:		
Personal services	3,614,211	3,598,506
Contractual services:		
Landfill contracts	2,452,434	2,629,082
Other contractual services	194,215	157,587
Materials and supplies	196,306	211,483
Professional fees	529,274	126,036
Recycling and composting	654,674	675,750
Hazardous waste disposal	224,642	195,846
Repairs and maintenance	112,582	126,054
Utilities	119,853	131,356
Insurance	146,657	104,774
Rental	96,754	103,573
Depreciation	778,883	742,976
Taxes and other payments to Host Communities	271,121	267,652
Other	326,793	188,477
WTE operations costs (Note 5)	28,361,251	27,913,941
Total operating expenses	38,079,650	37,173,093
Operating loss	(6,469,044)	(5,964,999)
Other revenues (expenses):		
Interest income - cash and repurchase agreements	2,034,562	3,207,310
Interest income - lease receivable	9,884,448	10,454,635
Interest expense	(9,984,404)	(10,462,743)
Other	91,200	(3,825)
Total other revenue	2,025,806	3,195,377
Net Loss	(4,443,238)	(2,769,622)
Retained earnings, beginning of year	27,717,384	30,487,006
Retained Earnings, End of Year	**$ 23,274,146**	**$ 27,717,384**

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2002 and 2001

	2002	**2001**
Cash flows from operating activities:		
Operating loss	$ (6,469,044)	$ (5,964,999)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	778,883	742,976
Provision for bad debts	13,448	28,086
WTE operations cost used to reduce lease payments receivable (Note 5)	16,568,964	16,552,062
(Increase) decrease in assets and increase (decrease) in liabilities:		
Accounts receivable	181,409	(471,922)
Prepaid expenses	(164,729)	(48,720)
Accounts payable and other	15,798	(9,218)
Net cash provided by operating activities	10,924,729	10,828,265
Cash flows from capital and related financing activities:		
Acquisition of capital assets, net	(542,220)	(1,054,279)
Proceeds from disposal of capital assets, net	91,200	–
Principal payments on bonds	(7,175,000)	(6,680,000)
Interest expense paid	(10,066,044)	(10,538,633)
Net cash used in capital and related financing activities	(17,692,064)	(18,272,912)
Cash flows from investing activities:		
Purchase of certificates of deposit	–	(11,000,000)
Maturity of certificates of deposit	–	11,000,000
Decrease in assets limited as to use - investments, net	7,882,429	1,833,902
Interest received on invested funds	2,077,564	3,435,505
Net cash provided by investing activities	9,959,993	5,269,407
Net increase (decrease) in cash and cash equivalents	3,192,658	(2,175,240)
Cash and cash equivalents, beginning of year	5,553,311	7,728,551
Cash and Cash Equivalents, End of Year	**$ 8,745,969**	**$ 5,553,311**

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization and Purpose

The Onondaga County Resource Recovery Agency (the "Agency") was established in 1981 as a public benefit corporation under New York State law. The Agency was created to implement the County's multi-faceted solid waste management plan. The Agency began active operations in 1990.

Under an agreement between the Agency and the County of Onondaga, the Agency is responsible for implementing the County Solid Waste Management Program, as well as the construction, operation and otherwise ensuring the availability of solid waste management and recycling facilities for participating municipalities in the County of Onondaga, State of New York. Under current law the Agency's operations can service only the thirty-three participating municipalities in Onondaga County.

Financing Reporting Entity

The financial statements of the Agency reflect the financial position and the results of operations in accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." The Agency has elected to apply all applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board ("APB") Opinions, issued on or before November 30, 1989 and thereafter, unless those pronouncements conflict with or contradict GASB Pronouncements.

Basis of Accounting

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The financial statements have been prepared on the accrual basis of accounting. The measurement focus is upon determination of net income, cost recovery, financial position and presentation and return on capital.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. (Buildings and other improvements – 5-25 years; plant and equipment – 4-15 years; furniture and fixtures – 4-7 years; vehicles, heavy equipment and computer equipment – 4 years).

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Agency considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Statutes authorize the Agency to maintain deposits with financial institutions and to invest in certificates of deposit, obligations of New York State, the United States Government and its agencies, and repurchase agreements collateralized by U. S. obligations.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents (Continued)

Unrestricted and restricted cash equivalents are covered or collateralized by either federal depository insurance, securities held by the pledging bank's trust department in the Agency's name, or U. S. Government and/or federal agency securities held by the Trustee.

Investments

Investments which consist of repurchase agreements and temporary cash investments are stated at cost, which approximates fair value, at December 31, 2002 and 2001.

Assets Limited as to Use

Assets limited as to use represent funds restricted as to use under the Project Revenue Bonds and funds designated by the Board of Directors for purposes further described in Note 3.

Landfill and Related Costs

The Agency has secured the required permits for the construction of an in-county landfill to be located in the Town of Van Buren (the "Landfill"). Currently, the Agency transports the ash from the Waste-to-Energy Facility and other nonburnable waste to the Seneca Meadows Landfill, near Waterloo, New York. Construction of the in-county landfill will occur when environmental and economic factors dictate that it is in the best interest of Onondaga County businesses and residents.

The cost of the designated site is classified in property, plant and equipment in Note 4. Engineering and consulting fees related to siting, environmental studies and permitting of the landfill are capitalized and are included in the cost basis of the land. According to Governmental Accounting Standards Board Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs, should the Agency decide to transport waste to the Landfill, the Agency is required to accrue a portion of the estimated total of closure and postclosure care in each period that waste is accepted at the site. Recognition of such a liability shall begin on the date the Landfill begins accepting waste. As of December 31, 2002, there has been no waste delivered to the Landfill.

Federal Income Taxes

The Agency is exempt from federal income taxes under Internal Revenue Service Code Section 115.

Concentration of Risk

One hauler delivered approximately 35% and 40% of the municipal solid waste to the System during the periods ended December 31, 2002 and 2001, respectively. See also Note 2.

Environmental and Regulatory Risk

The Agency operates in an environmentally sensitive industry and is subject to extensive federal, state and local laws and regulations adopted for the protection of the environment. The laws and regulations primarily applicable to the Facility are those related to discharge of emissions into the air and management of solid waste but can also include those related to water use, discharges to water and hazardous waste management. Certain of these laws have extensive and complicated requirements relating to obtaining operating permits, monitoring, record keeping and reporting. Management believes that the Facility is in material compliance with permits and other applicable environmental laws.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

New Reporting Standard

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". The Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The Agency is required to implement this standard for the fiscal year ending December 31, 2003. The Agency has not yet determined the full impact that adoption of GASB Statement 34 will have on the financial statements.

2. Operating Considerations

The Agency has incurred losses in 2001 and 2000. As a result, the Agency renegotiated all hauler agreements and extended hauler contracts through 2005. This action provides the Agency with additional time to develop a long-term financial strategy, as further described below, and in consideration of its on-going litigation with Covanta Onondaga, L.P. (see Note 5). At December 31, 2002, discretionary cash reserves available to support operations and/or debt service obligations totaled approximately $21.4 million (see Note 3). The Agency has budgeted the use of approximately $4.8 million from the General Fund to support the year 2003 operations.

The Agency and its Board continue to work with Onondaga County and the thirty-three participating municipalities towards a long-term solution to the Agency's current revenue shortfall. Those municipalities continue to have a contractual obligation to "deliver or cause to deliver" the waste from their community. In 2000 the Agency and the County asked the thirty-three System participating municipalities to adopt local laws that would require private haulers picking up waste in their community to deliver all waste bound for in-state disposal to the OCRRA System. Such laws, if properly grounded, have been sustained by high-level Federal appellate court decisions. The participating municipalities agreed but, because of their limited resources, requested the County and the Agency to defend and indemnify their adoption of such a law in the event of litigation. They also requested the Agency to defend and indemnify other actions taken in furtherance of their participation in the OCRRA System. By the end of calendar year 2001 all thirty-three participating municipalities had adopted such an intra-state law. Both the Agency and the County have signed the agreements to provide the requested defense and indemnification coverage.

In July 2001, the Federal Second Circuit Court of Appeals in United Waste Haulers vs. Oneida-Herkimer Counties found that a County waste site designation law that directed waste to a public facility was valid provided the local benefits outweighed the potential impact on Interstate Commerce. U.S. Supreme Court certiorari was denied and the case is now before the Federal District Court for the Northern District of New York to take testimony on the local benefits vs. commerce impact issue. It is widely expected that such a valid local purpose will be established. Based upon the precedent established by this case, on February 3, 2003 the Onondaga County Legislature adopted a similar law covering municipal solid waste generated in the thirty-three municipalities that participate in the Onondaga County Solid Waste Management System. Onondaga County demanded, however, that the Agency agree to defend and indemnify the County for any legal challenge or claims resultant from their adoption of this local law. The Agency has executed a defense and indemnification agreement to satisfy this demand.

NOTES TO FINANCIAL STATEMENTS

3. Assets Limited As to Use

Assets limited as to use includes Board Designated Funds and assets held by a trustee in accordance with the terms of the Project and System Revenue Bonds Master Bond Resolution (see Note 6). The use of the assets held by trustee include the following funds at December 31:

	2002	2001
Investments Held by Trustee Under Indenture		
Project Revenue Bond Funds - 1992 Series		
Debt Service Reserve Fund - To pay principal, interest and sinking fund payments on the Project Revenue Bonds to the extent that funds are not otherwise available in other designated funds.	$ 16,515,750	$ 16,515,750
Earnings Fund - Accumulation of earnings from all project fund investments to pay for semi-annual interest payments on the Project Revenue Bonds.	698,486	3,972,727
Other Funds - To pay principal, interest and sinking fund payments on the project revenue bonds, net service billings and redemption/purchase.	6,236,854	7,069,343
	23,451,090	27,557,820
System Revenue Bond Funds - 1992 Series		
Net Revenue Fund - Funds accumulated to pay installments Sinking Fund.	–	3,025,849
Debt Service Reserve Fund - To pay Sinking Fund installments and interest on System Revenue Bonds when due (to the extent not available in Net Revenue Fund).	–	569,724
Rate Stabilization Fund - To be used to offset otherwise required rate increases due to business interruption or unusual, unexpected or extraordinary costs incurred.	–	4,776,497
Renewal and Replacement Fund - To pay for reasonable and necessary solid waste disposal system repair, replacement and maintenance costs.	–	1,137,182
General Fund - Contingency Reserve Fund, may be used to make up deficiencies in debt service reserve funds or for other designated purposes. (See Note 2)	–	16,797,146
	–	26,306,398
	23,451,090	53,864,218
Board Designated Funds		
Capital improvement fund	2,330,655	1,873,420
Operating reserves	21,393,517	–
	23,724,172	1,873,420
Total Assets Limited As to Use	**$ 47,175,262**	**$ 55,737,638**

In 2002, the Board of Directors of the Agency designated the use of the funds released from restriction upon the repayment of the System Revenue Bonds. The Board of Directors has designated these funds to be used to offset required rate increases due to business interruption or unusual, unexpected or extraordinary costs incurred, to pay for reasonable and necessary solid waste disposal system repairs, replacement and maintenance costs, to make up deficiencies in debt service reserve funds or for other designated purposes. At December 31, 2002, these designated funds amounted to $21,393,517.

NOTES TO FINANCIAL STATEMENTS

3. Assets Limited As to Use (Continued)

Assets held by the Trustee as of December 31, 2002 are invested in temporary cash investments or repurchase agreements as follows:

Maturity Date	Rate	Cost
January 2, 2003	1.13 %	$ 23,229,184
May 1, 2003	5.95 %	6,236,855
May 1, 2015	6.80 %	16,515,750
Total		**$ 45,981,789**

The repurchase agreements are collateralized by U.S. Treasury Bonds and government backed mortgage certificates with market values totaling approximately $57.6 million.

Additionally, the Agency has designated cash totaling $2,330,655 and $1,873,420 at December 31, 2002 and 2001, respectively, to fund its five-year solid waste disposal system capital projects plan.

4. Property, Plant and Equipment

Property, plant, equipment and construction in progress as of December 31 are as follows:

	2002	**2001**
Land	$ 396,190	$ 396,190
Landfill site costs	186,684	186,684
Landfill site	3,749,591	3,749,591
Landfill buildings and improvements	764,725	752,375
Buildings and improvements	1,296,432	1,191,897
Machinery and vehicles	5,288,850	5,609,510
Furniture and fixtures	103,180	108,158
Computer equipment	295,565	266,885
Land improvements	68,799	68,799
Construction in progress	–	5,000
	12,150,016	12,335,089
Less: Accumulated depreciation	(5,181,293)	(5,129,703)
	$ 6,968,723	**$ 7,205,386**

The Agency collects rental income and incurs maintenance on certain properties which are located on the Agency's landfill site.

5. Facility Lease with Covanta Onondaga, L.P.

In December 1992, the Agency issued Project Revenue Bonds for the purpose of constructing a Waste-to-Energy Facility (the "Facility") and funding certain reserves and other related costs. Pursuant to various agreements, Covanta Onondaga, L.P. (formerly Ogden Martin Systems of Onondaga Limited Partnership) (the "Partnership") also funded certain project costs and constructed the Facility. The Agency leases the Facility and equipment to the Partnership under a long-term lease which has been recorded by the Agency as a financing lease. The lease expires May 1, 2015 with the Partnership having the option to purchase the Facility for $1.

NOTES TO FINANCIAL STATEMENTS

5. Facility Lease with Covanta Onondaga, L.P. (Continued)

The Agency and the Partnership also entered into a 25-year Service Agreement, which expires in 2015. Under the terms of the Service Agreement, the Partnership is to operate and maintain the Facility. The obligations of the Partnership under the Service Agreement are guaranteed by Covanta Energy Corporation (formerly Ogden Corporation) (the “Corporation”). The Agency is obligated to pay a monthly Service Fee for the benefit of the Partnership and the Trustee for the Bonds. The obligation is unconditional and is required to be paid by the Agency even if there is no waste delivered to the Facility.

The Service Fee includes a capital charge component, an operation and maintenance charge component, which includes labor and material costs, as defined in the Service Agreement, and a pass-through charge, which consists of certain insurance costs, water and sewage use charges, state and local taxes other than income taxes and certain other specified items. In addition, the Partnership is entitled to 10% of the net revenues received from the sale of electricity during the period and 50% of the net revenues received from the sale of recovered materials during the period.

All revenues of the Facility, which includes all rates, fees, charges and other realized income received by the Agency from or for the ownership, operation, use or services of the Facility, including tipping fees paid by haulers, in excess of expenses, are to be paid directly to the Trustee. Pursuant to the Master Bond Resolution, such amounts will provide for monthly payment of the Service Fee related to the Facility. As the Partnership is responsible for paying debt services on the Project Revenue Bonds in lieu of making payments on its lease receivable, the actual cash payment made to the Partnership for the Service Fee under the Service Agreement is equal to the Service Fee, as defined above, less the Capital Charge, which is held by the Trustee for satisfaction of the principal and interest on the Project Revenue Bonds. Since the Agency’s obligation to pay the service fee is unconditional, the Agency remains responsible for debt service until the Bonds are repaid.

Calculation of payments under the service agreement are based on an assumed delivery of 310,000 tons of waste per year. If less is delivered, the Agency must reimburse the Partnership the shortfall in its share of the electric revenue. For delivery in excess of that amount, the Agency will pay an additional waste processing fee.

The waste-to-energy operations cost is composed of the following:

	2002	**2001**
Operating and pass through costs	$ 11,153,180	$ 10,622,548
Additional waste processing fee	639,107	739,331
Capital charge	16,568,964	16,552,062
Total service cost	**$ 28,361,251**	**$ 27,913,941**

Total minimum lease payments at December 31, 2002 are approximately $157.2 million, including unearned income of approximately $52.9 million. Minimum annual lease payments through 2007 are approximately $16.6 million per annum.

NOTES TO FINANCIAL STATEMENTS

5. Facility Lease with Covanta Onondaga, L.P. (Continued)

The Agency financed the construction of, and leases, a Waste-to-Energy Facility (the "Facility") to Covanta Onondaga, L.P. (the "Partnership"), for the purpose of converting municipal solid waste into renewable energy. The Agency has a Service Agreement with the Partnership to operate the Facility. Under the Service Agreement, failure to provide credit enhancement, in the form of a letter of credit or guarantee of obligations, if the Covanta Energy Corporation's senior long-term debt credit rating is reduced below investment grade among other defined events, constitutes an event of default on the part of the Partnership and affords the Agency the right to terminate the Service Agreement. The Service Agreement requires the Partnership to provide such letters of credit to assure contract compliance. Covanta Energy Corporation's senior long-term credit rating was reduced below investment grade in January 2002. In accordance with the Service Agreement, the Agency requested that the Partnership provide the Agency (and the Trustee) with a $50,000,000 letter of credit or a guarantee of obligations. The Partnership had until February 21, 2002 to respond to this requirement. On February 13, 2002, the Agency's Board of Directors authorized the termination of the Service Agreement if the letter of credit or guarantee of obligations was not received by the February 21, 2002 deadline. When the letters of credit were not provided as required, the Agency moved under the Service Agreement on February 22, 2002, with a Notice of Termination.

According to the terms of the Service Agreement, if the Service Agreement is terminated by the Agency as a result of an Event of Default by the Partnership, the Partnership is required to pay the Agency $2,000,000. The Agency then has two options. Under the first option the Agency may purchase the Facility, "as is", at its fair market value. If the Agency chooses the first option and the fair market value of the Facility exceeds the outstanding project bonds, the Agency will assume direct recourse liability on all the then outstanding project bonds and will be required to pay the Partnership the difference in cash. If the Agency chooses the first option and the fair market value of the Facility is less than the outstanding project bonds, the Agency would have direct recourse liability for the portion of the then outstanding project equivalent to the fair value of the Facility and the Partnership would have a direct recourse liability for that portion of the outstanding bonds that exceeds the fair market value of the Facility. The Agency has had an appraiser value the property. Under the second option, the Agency may elect not to purchase the Facility, in which case the Partnership must pay the Agency $13,000,000, the site lease will terminate after one year during which time the Partnership will raze the Facility and the Partnership will defease or assume direct recourse liability for the then outstanding project bonds.

The Partnership, on February 26, 2002, filed action in Federal Court to declare the Agency's termination of the Service Agreement invalid. This action was later discontinued in Federal Court and reinstituted in State Court. On March 22, 2002, the Agency answered Covanta's Complaint and moved for Partial Summary Judgment asking the State Court to rule that the termination was valid. On April 1, 2002, Covanta Energy Corporation and many of its related companies and subsidiaries filed for bankruptcy, including Covanta Onondaga, L.P. Covanta Onondaga, L.P. subsequently attempted to move the case to Bankruptcy Court but in the first instance the Agency successfully repulsed that effort. Covanta Onondaga, L.P. then attempted to file a separate action in Bankruptcy Court with the request that the Bankruptcy Court stay the original action in State Supreme Court. The Federal District Court in Syracuse subsequently enjoined the Covanta Onondaga, L.P. action in Bankruptcy Court from proceeding. In January 2003, the decision of the Federal District Court to enjoin the Bankruptcy Court was reversed on appeal to the U.S. Second Circuit Court of Appeals. As a result, it appears the action to determine the validity of the Agency's actions to terminate the Contract may be determined in Bankruptcy Court as the action by Covanta Onondaga, L.P. to stay the State Court termination action was successful.

NOTES TO FINANCIAL STATEMENTS

6. Revenue Bonds

The Agency's Project Revenue Bonds issued in conjunction with the construction of the Waste-to-Energy Facility (see Note 5), mature at various dates through 2015, are callable by the Agency at its discretion on or after May 1, 2002 and carry interest rates which range from 6.875% to 7%, payable semi-annually on May 1 and November 1. Under the Master Bond Resolution, the Agency has pledged all revenues under its solid waste management program, all restricted funds established under the Resolution and the Facility and site.

In addition, $5,675,000 of System Revenue Bonds were issued in December 1992 for the purpose of paying certain costs incurred by the Agency in connection with the development of an integrated recycling, recovery, composting and landfill solid waste management and disposal system in Onondaga County, including the purchase of certain existing solid waste management facilities, funding of reserves and other related costs. These bonds matured on May 1, 2002 and all obligations and liens of the Agency have been released.

The outstanding balance of the Agency's revenue bonds at December 31, 2002 are as follows:

Interest Rate	**Date Issued**	**Maturity Date**	**Outstanding December 31, 2002**
Project Revenue Bonds			
6.875%	1992	2006	$ 30,700,000
7.000%	1992	2015	110,150,000
			$ 140,850,000

The Series 1992 Project Revenue Bonds maturing in 2006 and 2015, are subject to mandatory redemption in part by lot on May 1 annually from mandatory sinking fund installments which extend through 2015 totaling as follows:

Year	**Project Revenue Bonds**
2003	$ 6,900,000
2004	7,400,000
2005	7,900,000
2006	8,500,000
2007	9,100,000
Thereafter	101,050,000
	$ **140,850,000**

Covenants require the Agency to impose charges sufficient to pay debt service, enforce certain contractual obligations that assure continued flow of Onondaga County waste into the system prepare annual budgets and maintain proper books and records, and to furnish appropriate financial information to the Trustee on an annual basis. These bonds are not actively traded and therefore a market value is not readily available.

NOTES TO FINANCIAL STATEMENTS

7. Employee Benefit Plans

Pension Plans

Plan Description

The Agency participates in the New York State and Local Employees' Retirement System (System), which is a cost-sharing, multiple-public employer defined benefit pension plan that provides retirement benefits as well as death and disability benefits. Membership in and annual contributions to the System are required by the New York State Retirement and Social Security Law (NYSRSSL). The System offers plans and benefits related to years of service and final average salary, and, effective July 17, 1998, all benefits generally vest after five years of accredited service. As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of its funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, Gov. Alfred E. Smith State Office Building, Albany, NY 12244.

Funding Policy

For personnel who became members of the System prior to July 27, 1976, participating employers contribute the entire amount determined by the System to be payable. Gross salaries, for Federal income tax purposes, of personnel who joined the System after July 27, 1976, are reduced by 3%. As a result of legislation enacted in 2000, effective October 1, 2000, personnel who became members of the System after July 27, 1976 and have ten years of service, are no longer required to contribute 3%. The entire amount for those employees with over 10 years of credited service determined by the System to be payable is now contributed to the System by the Agency. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The Agency is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were:

2002	$ 33,481
2001	18,568
2000	27,970

The Agency's contributions made to the Systems were equal to 100 percent of the contributions required for each year.

Post Retirement Benefits

In addition to providing pension benefits, the Agency provides certain health insurance benefits to certain retired employees under a plan administered by the Agency. Substantially all of the Agency's employees may become eligible for these benefits if they reach normal retirement age while working for the Agency. Total cost to the Agency of providing health insurance benefits to retirees during 2002 and 2001 was $6,850 and $5,750, respectively. The costs of these benefits are expensed as premiums are paid.

NOTES TO FINANCIAL STATEMENTS

7. Employee Benefit Plans (Continued)

Health Benefits

The Agency offers certain healthcare benefits to its represented and non-represented employees.

Deferred Compensation Plan

The Agency's employees can participate in the New York State Deferred Compensation Plan under Section 457 of the Tax Law.

8. Commitments

Operating Leases

The Agency leases certain pieces of equipment and office facilities under a number of operating leases. Obligations under all cancelable and noncancelable long-term operating leases for fiscal years ending December 31 are as follows:

2003	$ 89,771
2004	89,771
2005	62,847
2006	1,500
	$ 243,889

Landfill Contracts

The Agency has contracted with Seneca Meadows Landfill, Inc. at established rates for disposal services for incinerator ash residue and other system bypass wastes. The contract also includes disposal capacity for bypass and other solid waste to the Seneca Meadows Landfill. Costs incurred under this agreement were $2,413,582 and $2,571,158 during 2002 and 2001, respectively. The Agency has extended the contract with Seneca Meadows Landfill through May 2011. The per ton incinerator ash residue disposal charge will range from $21 to $30, and the per ton solid waste/bypass solid waste disposal charge will range from $31 to $40, over the term of the extended contract.

Host Community Agreements

The Agency entered into a Host Community Agreement (the Agreement) with the Town of Onondaga (Onondaga) which defines each party's rights and obligations related to construction and operation of the waste-to-energy facility in Onondaga. The term of the agreement began in December 1992 upon commencement of construction of the waste-to-energy facility and continues for 25 years from that date. Annual payments to Onondaga under the terms of the Agreement total $100,000 plus certain annual escalation costs.

NOTES TO FINANCIAL STATEMENTS

8. Commitments (Continued)

Host Community Agreements (Continued)

The Agency entered into an Interim Host Community Agreement (the interim agreement) with the Town of Van Buren (Van Buren) in 1998. The interim agreement provides for annual payments to Van Buren during the period prior to development of the landfill facility. Such annual payments include a payment in lieu of taxes (PILOT) in the amount of $44,000 and an additional payment for the Warners Fire District assessment in the amount of approximately $6,000. The interim agreement includes provisions for annual increases based upon a five-year rolling average of Van Buren tax rate; in no case, shall such annual increases be greater than 2%, according to the interim agreement.

The Agency recorded PILOT's to Van Buren in the amount of $43,325 and $43,374 in 2002 and 2001, respectively. The Agency also made payments to Van Buren of $6,675 and $6,625 in 2002 and 2001, respectively, for the Warners Fire District assessment. The Agency anticipates similar payments to be made in 2003.

Property Stabilization

Effective August 1, 1997, the Agency approved a property stabilization program to assist a limited number (26) of property owners who live immediately adjacent to the landfill site. Payments under the plan make up a portion of the difference between the fully assessed value of a property and the actual sales price. In 2002 and 2001, no such payments were made.

Litigation

The Agency is a party to various proceedings arising in the normal course of business. In addition, as more fully described in Note 5, the Agency is involved in certain legal action regarding its waste to energy facility. At this time, it is not possible to predict the likely outcome of the aforementioned proceedings, or the ultimate impact on the financial position of the Agency which may be material. The Agency has and will continue to vigorously contest any and all such proceedings.

9. Niagara Mohawk Power Agreement (NIMO)

The Agency and NIMO entered into a second electricity purchase agreement in August 1993 that together with the first (1984) agreement stipulated that upon acceptance of the Waste-to-Energy Facility by the Agency, NIMO would purchase the electric energy generated at a minimum rate for qualifying facilities set at six cents per kilowatt hour through 2009 and at a percentage of market rate thereafter. This contract provided that NIMO would purchase "approximately" 210,000,000 kwh per calendar year at the contracted six cents per kilowatt hour. NIMO and the Agency agreed to establish the upper limit for the six-cent rate at 243,000,000 kwh and amended the contract accordingly. The contract expires February 2025.

10. Subsequent Event (Unaudited)

On February 3, 2003, the Onondaga County Legislature approved a law that requires trash haulers to deliver all trash generated within the participating municipalities of Onondaga County to the Facility. As further discussed in Note 2, the thirty-three participating municipalities previously adopted a similar intra-state law to deliver all waste generated therein and bound for New York State to the Facility. The Agency already has contracts with virtually all of the haulers now operating in the participating municipalities agreeing to deliver waste therefrom to the System through 2005, and therefore, the Agency believes the only immediate impact the new law will have is on new similar businesses entering the area. As a condition of the new law, the Agency has agreed to defend and indemnify the County and reimburse any legal costs should the County become subject to legal action resulting from approval or enforcement of this law.

Earthday

(Clockwise from upper left) Lincoln Middle School students selected as the best recycling school in the City of Syracuse; East Syracuse-Minoa student Erica Heidelberger featured for her prize winning recycling exhibit; employees of the Wegmans supermarket chain are just part of the 5,000 persons participating in OCRRA's annual Earth Day clean up.

OCRRA MANAGEMENT

A. Thompson Rhoads, *Executive Director*
William J. Bulsiewicz, Esq., *Legal Counsel*
Robert P. Schaeffler, *Deputy Director*
Catherine M. Strong, *Executive Secretary*

DIRECTORS

Andrew J.Radin, *Recycling & Waste Reduction*
Joseph A. Fontanella, *Transfer Operations*
Andrus R. Brigham, *Public Information*
David J. Carleo, P.E., *Environmental Engineer*

OCRRA

Serving our community, our families and our future.

Onondaga County Resource Recovery Agency
100 Elwood Davis Road • North Syracuse, New York 13212 • 315.453.2866

www.ocrra.org

Printed on recycled paper