Onondaga County Resource Recovery Agency

OCRRA 2003 Annual Report

$100,000,000

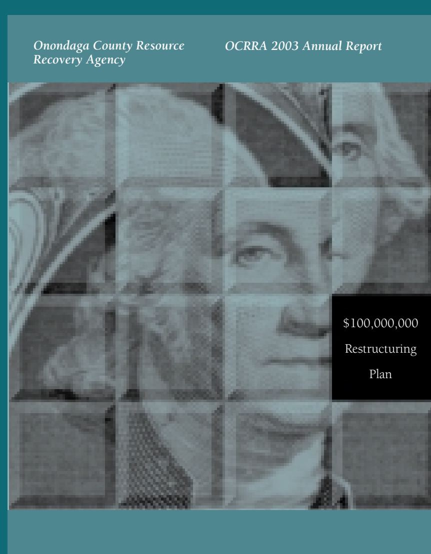
Restructuring

Plan

Our Mission: OCRRA, 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.

About the Cover

The look of this year's cover of the Annual Report of the Onondaga County Resource Recovery Agency is a reflection of the restructuring, which transpired in 2003. Throughout this report the refinancing package and the amended agreements will be spelled out in greater detail. The millions upon millions of dollars that will be saved over the next 12 years assures the community that the viability of OCRRA and the many services it has provided over the past 14 years will continue well into the future. This can only be viewed as good news to our community, our partners that makeup the OCRRA system, our business associates, and those who have invested in this vital public service.



Chairman's Report

It was a year of landmark achievements. It was also a year in which OCRRA established record highs in the tonnage the community recycled as well as that processed at the Waste To Energy Facility.

Executive Director Tom Rhoads addresses in detail two of the most impressive accomplishments not only of 2003, but also for any year during OCRRA's existence since 1990. While Tom and Agency Counsel William Bulsiewicz devoted nearly every working hour in negotiating a debt restructuring agreement that changed the direction of the Agency, the energies of OCRRA team members were focused on other objectives.

During 2003, you might have read other communities were evaluating measures to trim back the recycling services they offered. At OCRRA, however, we continued full speed ahead.

OCRRA's recycling programs are a critical component to handling our community's solid waste in an environmentally friendly manner. During the early days of OCRRA, much attention was focused on the Waste To Energy Facility as the primary disposal option for our throwaways. The simple fact is that recycling plays an equal if not larger role in one of the most basic needs of both the residential and commercial sectors. To place it in perspective, in 2003 the Waste To Energy Facility safely processed a record 349,000 tons of non-recyclable waste into electricity. And yet, this pales by comparison when stacked up against the combined mandatory and voluntary recycling efforts that topped 767,000 tons. Better than 68% of all the waste generated by businesses and homes within the OCRRA system was recycled.

Each year OCRRA seeks new avenues for expanding its earth friendly programs for managing discarded items. Here are just a couple of examples. Paperbacks were added to the hard-

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

cover book recycling effort during the month of July, an opportunity that drew thousands to our Rock Cut Road Transfer Station. Old household television sets joined computers as acceptable electronic waste items that were dropped off four times a year for recycling or disposal at an approved site. The OCRRA Board of Directors adopted a resolution calling upon the New York State Legislature to expand the Bottle Deposit Law adopted back in the early 1980's. This law, when initially passed, primarily covered carbonated beverages. During the intervening years, there has been an explosion in the consumption of what's often referred to as sport drinks, teas, and bottled water. None of these were part of the original Bottle Bill. Beverage containers requiring deposits are recycled 70-80% of the time while those that require no deposit have an extremely meager recycling rate hovering around the 20% level. It has been demonstrated that a Bottle Deposit Bill greatly increases recycling while concurrently cutting roadside litter. Simply put, that's good for the environment.

The OCRRA staff consistently seeks to work with the private sector in promoting recycling. An example of this public-private partnership occurred when the American Plastics Council, recognizing the strong community commitment to recycling, agreed to an OCRRA request to provide 85 of their bottle-shaped recycling containers. One of the primary locations for these highly visible recycling receptacles was the Great New York State Fair. The Fair annually attracts close to one million persons. These receptacles acted like magnets. Fair visitors recycled water bottles and other summertime drinks rather than trashing them. Other public venues also received these special recycling containers.

The OCRRA Board of Directors, since its inception, has been comprised of dedicated volunteers who donate long hours out of a sense of public service to the community. A number of our veteran members finished up their terms during the recently concluded year. We are indebted to them for their years of service during challenging times. It can be said that they helped fashion the solutions to complex problems. Ron Simons served two terms as Chair of the OCRRA Board and was intimately involved in the successful restructuring of the Agency's debt. Jit Turakhia brought his engineering expertise to the Board and to the Waste To Energy Committee, which he chaired for several years. Richard Viau, during his tenure, served as Board Treasurer and never shied away from asking the tough questions. Sheila Finn left the Board after accepting an offer to enter private practice with a prestigious Syracuse law firm. Her insight and experience will be missed. It was also during 2003 that a veteran of prior OCRRA Boards, Ed Kearney, passed away. Ed had been both a Board officer and committee chair.

Since OCRRA assumed the responsibility of implementing and overseeing our community's integrated solid waste management plan, the OCRRA Board has attracted those individuals who have been extremely successful in their chosen careers. They approached their service as OCRRA Board members in a non-partisan manner determined to make those choices that best serve the entire community. As Board Chair, I am truly grateful for their input and support.

In 2003 the Waste To Energy Facility safely processed a record 349,000 tons of non-recyclable waste into electricity.

Executive Director's Report

When it's all added up, the restructuring plan will save the thirty-three municipalities and 450,000 residents OCRRA serves more than $100 million through 2015.

The year 2003 marked the culmination of a 22-month march toward resolution of the single most pressing problem facing the Agency: the crushing debt burden that was slowly draining reserves.

A little background.

In 1992 when OCRRA issued more than $178 million in revenue bonds to finance the Waste To Energy Facility, a mechanism was in place to assure the Agency that adequate revenues would be forthcoming on an annual basis to make debt service payments while concurrently providing the required funding for operational needs. A U.S. Supreme Court decision in 1994 (Carbone vs. Clarkstown) involving a downstate community created uncertainty over the enforceability of local laws, which compelled haulers to deliver their solid waste to specifically designated disposal facilities. The court ruling in the Carbone decision produced serious negative ramifications from coast to coast upon those systems similar to OCRRA.

Tom Rhoads
OCRRA Executive Director

The court decision coincided with reductions in tipping fees by sanitary landfills. Projections in the early 1990's that landfill tipping fees would be in the $120 to $130 per ton range proved to be dramatically off as landfills slashed their tipping fees to the $50 per ton mark and lower.

With interest rates steadily falling over the past few years, OCRRA saw its opportunity to refinance its long term obligations and cut dramatically the annual amount expended on debt service payments.

It was a long and winding road that was complicated by the unexpected Chapter Eleven Bankruptcy filing by Covanta for reorganization to cope with the financial stress on their business operations. Despite this hurdle, the various parties consummated the restructuring deal in October 2003.

OCRRA was able to use $21,735,000 from the restricted reserves held by the 1992 Trustee for debt reduction. Under terms of the new financial structure, the principal amount of the Agency's senior debt was reduced from $133,950,000 to $82,115,000. The interest rate on the senior debt was reduced from 7% to 5%. Subordinate debt of $30,000,000 in the form of Capital Appreciation Bonds, is serviced only to the extent that funds are available after senior debt service costs and operations costs are met. Any unpaid subordinate debt after 2015 becomes the responsibility of the operator of the Waste To Energy Facility. A reduction in outstanding debt coupled with lower interest rates will have a very substantial impact on OCRRA's annual debt service payment obligations.

The new financial package reduces debt payment obligations by more than $7,000,000 per year from this point forward through the year 2015, when the senior debt is retired. One of the key components of the new agreement hammered out by the various parties was a newly amended Service Agreement (the contract) between OCRRA and Covanta Onondaga, LP. An adjustment in the terms of the Service Agreement reduces OCRRA's annual operations fee to Covanta by more than $1.4 million per year.

When it's all added up, the restructuring plan will save the thirty-three municipalities and 450,000 residents OCRRA serves more than $100 million through 2015.

Without restructuring, OCRRA would have been staring at a five and one-half million dollar hole in its 2004 budget that could only be closed through the use of a rapidly dwindling reserve fund.

All that has now been reversed. We have finally reached a breakeven budget that does not require the use of reserves.

The resolution of this issue was only possible because OCRRA, Covanta, the limited partners, and the bondholders were able to craft a debt restructuring plan that required give and take on the part of all of the interested parties.

There was another milestone achievement during 2003 that bolsters the stability of the environmental solutions OCRRA provides. The Onondaga County Legislature adopted a local law which mandates that all non-recyclable residential and commercial municipal solid waste collected within the system must be transported to the designated OCRRA disposal facility. Adoption of this waste site designation local law was made possible following a ruling handed down in 2001 by the Second Circuit of the U.S. Court of Appeals.

In that ruling, the Second Circuit took a closer look at the Carbone decision mentioned above and drew a distinction regarding solid waste systems that were publicly or municipally operated. The Second Circuit ruled that a balancing test should be used to weigh the benefits of a publicly run system versus the impact on interstate commerce. This decision provided the foundation for adoption of the local law by the County Legislature.

Debt restructuring and adoption of a County Waste Site Designation Law were achieved because of the support and commitment of our volunteer Board of Directors to management's aggressive restructuring efforts. The Board was led by Chair Matt Irish and Vice Chair Anthony Mangano. Both Mr. Irish and Mr. Mangano devoted numerous hours to the ongoing and extended negotiations that culminated with these seminal achievements.

There were other significant achievements realized by the Agency during 2003 as noted in the Chairman's Report. OCRRA serves the community with a great team approach. A key member of that team, Deputy Director Robert Schaeffler, announced his plans to retire at year's end. Bob joined OCRRA during its incipient stage as the charter Board of Directors started assembling its management team. He was the first OCRRA employee hired who had not previously been exposed to solid waste issues in Onondaga County. As Bob fondly recalled, it was a modest beginning. His office was nothing more than a card table and a folding chair in the middle of an empty room. No cubicles. No office furniture. And yet, two years later he was an integral part of the OCRRA team that issued $183 million in bonds to build our system. The Agency's assets had swelled by millions, but so too had its liabilities. Over the course of the next fourteen years Bob was a major contributor in helping to put the pieces together that helped to form a stronger and more fiscally sound OCRRA. He will be missed.

During the past year while Agency Counsel, Bill Bulsiewicz, and I were devoting all of our time to the restructuring, the rest of the team delivered an outstanding year. The whole organization is looking forward to providing the best environmental solutions for the community in 2004 and many years to come.

The principal amount of Agency's senior debt was reduced from $133,950,000 to $82,115,000.

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, Corporate Environmental,
Health, & Safety Technology
Bristol-Myers Squibb Co.

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

Scott A. Lacik
Bank Officer
Key Bank

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

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

Robert Ripberger
Recycling Committee Chair
Carrier Corporation (retired)

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

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

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

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

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Velasko Concepts, Inc.

John Copanas
City Clerk
City of Syracuse

John R. Brennan, Esq.
Attorney at Law
Byrne, Costello, &
Pickard, P.C.

Ravi Raman, P.E.
President
RAM-Tech Engineers, P.C.

Recycling

The community recycled a total of over 767,345 tons of material that would have otherwise required disposal; an increase of 25,800 tons from 2002

In 2003, Onondaga County residents again demonstrated their commitment to help their environment by recycling at home, at work, at school, and while out and about in the community.

Over 43,688 tons of materials, including newspaper, magazines, and glass, metal and plastic containers, were recycled through OCRRA's curbside recycling program, Operation Separation™; an increase of over 1,360 tons of material from 2002.

Businesses, schools, and other organizations in the community also pitched in, removing 723,659 tons of material from the waste stream for recycling. By year's end, the community had recycled a total of over 767,345 tons of material that would have otherwise required disposal; an increase of 25,800 tons from 2002, and the greatest amount since OCRRA began collecting recycling data over a decade ago.

The numbers, in total, are astounding. But what makes this achievement more impressive, is that much of it comes from countless individual actions of citizens practicing recycling and waste prevention everyday. All told, the community recycled 68% of the total waste stream generated in 2003. Since 1990, a staggering 7.5 million tons of material have been recycled within the county. If this material had required disposal, the costs would have exceeded $350 million.

But Onondaga County's commitment to recycling reaches beyond certain financial benefits. It is a community-wide environmental ethic practiced everyday, and it is squarely aimed at benefiting future generations through reducing pollution, conserving natural resources, and saving energy.

OCRRA's recycling team visited a number of community events. Free recycling Blue Bins were handed out at the Golden Harvest Festival.

OCRRA's Operation Separation™ program provides residents with a wide variety of opportunities to practice this environmental ethic throughout the year. In 2003, OCRRA reached out to thousands of residents, businesses, and schools to enhance their existing recycling efforts, including the following 2003 recycling program highlights:

- Soft cover books were added to the July hardcover book recycling program, resulting in the collection of over 191,000 pounds of books, doubling the 2002 book recycling total. The old books will find new use, after processing, as roofing material, insulation, and new paper.
- Electronic waste is the fastest growing portion of the nation's waste stream. OCRRA responded to the challenge locally with four drop off days at its Rock Cut Road Transfer Station, serving nearly 2,000 residents. Old

OCRRA's Rick Dickerson sorts through a portion of the thousands of books dropped off by Onondaga County residents during the July hardcover and paperback recycling effort.

household TV sets were added during OCRRA's computer recycling drop off events; over 122,000 pounds of old computers and TV's were collected in 2003 for recycling, including 1,639 monitors, 1,429 computer towers, 723 printers, and 986 laptops. The Agency also assisted local businesses with finding recycling outlets for their obsolete computer equipment.

■ The number of Household Hazardous Waste Collection Days was increased from two times a year to three times a year, serving some 3,000 residents. The New York State Department of Environmental Conservation awarded the Agency a grant to support 50% of the costs of this expensive but environmentally important program. The drop off days assure the community that potentially toxic substances such as pesticides and herbicides will be sent to approved hazardous waste disposal sites.

■ A total of 85 high-profile recycling receptacles for bottles and cans was obtained (at no charge) from the American Plastics Council for use in such public venues as the Great New York State Fair, the Rosamond-Gifford Zoo at Burnet Park, P&C Stadium, and the Museum of Science and Technology.

Syracuse's Seymour School was selected as the 2003 winner of the Vonnell Mastri Recycling Excellence Award. The award is given annually in memory of the late Dr. Mastri, an OCRRA Board member who vigorously promoted recycling.

■ OCRRA partnered with the City of Syracuse Department of Public Works and Naef Recycling as part of a direct-mail public education/blue bin distribution effort, resulting in over 4,710 new blue bins delivered to city residents during the last quarter of 2003.

■ A mercury thermometer exchange program was launched at the Rock Cut Road Transfer Station. OCRRA teamed up with Bristol Myers Squibb and the Onondaga County Department of Water Environment Protection to provide residents with over 500 non-mercury thermometers in exchange for their mercury thermometers. The mercury thermometers that were collected were then properly disposed as part of the Agency's household hazardous waste collection program. The mercury thermometer exchange helps prevent mercury contained in household thermometers from escaping into the environment when the thermometers are broken or thrown away.

■ OCRRA's recycling team assisted businesses, schools, and apartments throughout Onondaga County with implementing or enhancing their recycling programs. The Syracuse City School District, of the districts

Bottle-shaped recycling receptacles arrive at the Great New York State Fair. Provided to OCRRA by the American Plastics Council, the Agency placed them at public venues such as the Fair to capture non-carbonated beverage containers not covered by the state's Bottle Deposit Bill.

Since 1990, a staggering 7.5 million tons of material have been recycled within the county. If this material had required disposal, the costs would have exceeded $350 million.

Over 122,000 pounds of old computers and TV's were collected in 2003 for recycling, including 1,639 monitors, 1,429 computer towers, 723 printers, and 986 laptops.

OCRRA's Jeff Cooper and Jan Schober put the finishing touches on a deck made from recycled plastic grocery bags, shrink wrap, and waste wood. Donated by the TREX Company, the deck was part of the OCRRA booth at the Great New York State Fair.

OCRRA assisted, saw a 10% drop in its total trash output in 2003.

■ A total of 100,000 pounds of household batteries were collected for recycling or proper disposal through the annual curbside collection and a network of convenient 24/7 drop-off locations.

■ Agency personnel encouraged citizens to support an expansion of the New York State Bottle Bill to increase recycling and decrease roadway litter; over 5,000 signatures were collected in support of the legislation to update the Returnable Container Act to include water bottles, sport drinks and iced teas.

■ OCRRA again coordinated the community's annual Earth Day clean up; over 5,000 volunteers collected 52 tons of litter, including over 1,000 tires. Since the program began, over 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. The Agency was an active participant in 2003 in the county's Cleaner and Greener beautification effort.

■ The Agency continued its distribution of over 2,000 gallons of recycled/reprocessed paint to local human service organizations, fire departments, parks, and municipalities. The year's final paint distribution event was held in November to coincide with America Recycles Day. Some of the organizations receiving the recycled paint included Porter Magnet School in the City of Syracuse, the Boy Scouts of America, Carpenters Brook Fish Hatchery, and Concerned Actions Citizen Program.

■ Over 32,000 community residents seeking mulch and compost for their gardens and flowerbeds were served at the Agency's two yardwaste compost sites. 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.

■ OCRRA's Recycling Team was part of numerous area events and fairs, including the Golden Harvest Festival at Beaver Lake Nature Center, Onondaga Lake Community Day at Onondaga Lake Park, the Home and Garden Show, Juneteenth Celebration in downtown Syracuse, Regional Farmers Market, and the Great New York State Fair. A variety of information materials were distributed including several thousand blue bins, recycling instructions, battery collection bags, household hazardous waste sign up, and compost site registration.

■ 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 again contacted this year and were provided up-to-date information to help their tenants recycle.

OCRRA honored Seymour Elementary School in Syracuse with the 2003 Dr. Vonnell Mastri Recycling Award at a school assembly attended by County Executive Nick Pirro and a representative from the Mayor's office. A large red maple tree was planted on school grounds and an Earth Day flag was presented to the student body to commemorate their recycling accomplishments.

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 $173,437 for the processing of recyclables collected from the households of the community. This amount was $161,533 less than the previous year, thanks to favorable market conditions for recyclable commodities.

■ 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 in cooperation with the Salvation Army.

■ 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.

Household hazardous waste days are so popular that the Agency expanded the number of collection dates during 2003. Trained workers from a private vendor unload the vehicles, determine their chemical composition, and safely pack them for shipment to approved disposal facilities. Old latex paint is recycled by OCRRA and given to charitable and governmental groups.

■ Published a quarterly newsletter, Operation Separation Update, distributed to 40,000 residents per quarterly issue.

■ OCRRA's Enforcement Officers conducted regular random inspections of trash for recyclables at the Resource Recovery Facility operated by Covanta Energy for OCRRA and curbside inspections of recycling compliance.

■ OCRRA expanded its web site activity with emails to thousands of businesses and residents with handy recycling reminders and offers to contact the Agency for recycling assistance.

OCRRA continues to provide the community with a wide-ranging variety of environmental programs. Each year, residents enthusiastically respond to these opportunities to recycle and properly dispose of various materials in a manner that protects the environment and benefits future generations.

A total of 100,000 pounds of household batteries was collected for recycling or proper disposal through the annual collection.

OCRRA's Maureen Nosik, Jeff Cooper, and Charlie Mickle pitched in to help unload cars dropping off old household computers and unwanted television sets. TV's were added to the list in 2003. The objective was to recycle as much as possible of these old electronic products while removing them from the waste stream.

Transfer Operations

In 2003, Transfer Operations met their goals of safe and efficient operations at our two Transfer Stations while maintaining excellent customer service. During the course of the year, our drivers traveled nearly 608,000 accident free miles transporting ash residue and by-pass material to a nearby landfill under contract, processible material to the Waste To Energy Facility and recovered metal and corrugated cardboard to appropriate recycling facilities.

Customer comments continued 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 contributed to less waiting time and better overall service to all of our customers.

The total intake at the Ley Creek station exceeded 98,750 tons, which equates to a 14% increase over the year 2002.

Ley Creek Transfer Station

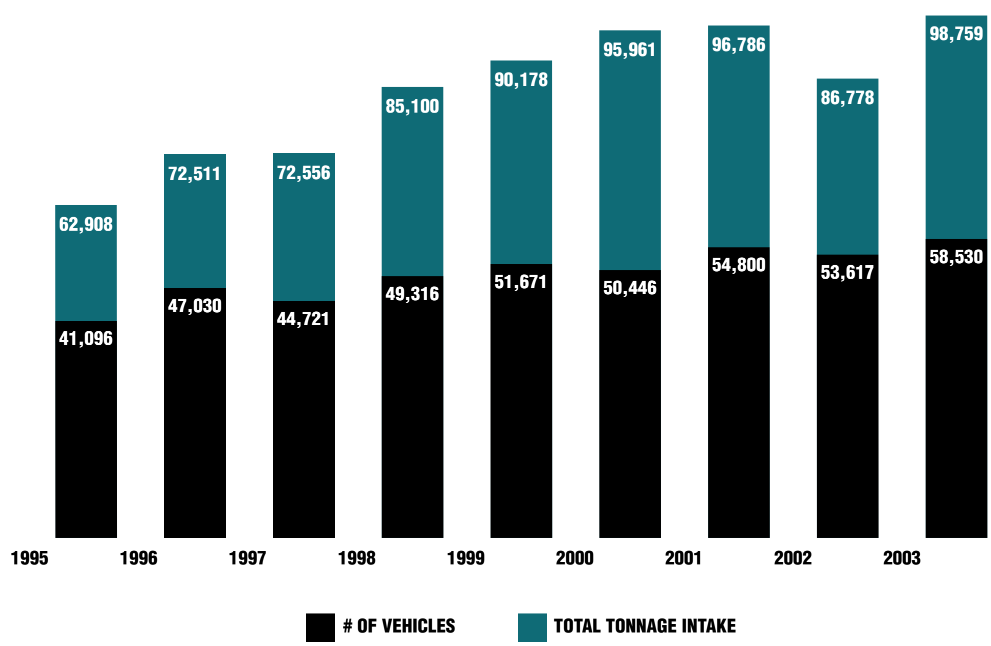
Construction & Demolition Debris and outsized Municipal Solid Waste (MSW) were received and processed at the Ley Creek Transfer Station in 2003. The total intake at the station exceeded 98,750 tons, which equates to a 14% increase over the year 2002. The intake in 2003 was the largest amount received at Ley Creek since the Waste to Energy Facility (WTE) came on line and the Ley Creek Station assumed its current activities. This material was processed and separated by the transfer station workers for delivery to several different facilities. The WTE facility received 78,000 tons of material from Ley Creek. In addition, 4,185 tons of scrap metal and corrugated cardboard were recovered and recycled. Nearly 139 tons of items containing Chlorofluorocarbon (CFCs) were removed from the waste stream. OCRRA sent the discards containing CFCs, a refrigerant or propellant, to a contractor for extraction of the gas, which is considered harmful to the environment. Once the gas was recovered, the metal was then recycled.

The by-pass waste, that small fraction which could not be recycled or processed at the Waste To Energy Facility, was transported in Agency tractor-trailers to the contracted landfill for proper disposal. The number of customer vehicles served at Ley Creek was 58,530 including 16,758 Flat-Rate customers.

Rock Cut Road Transfer Station

The utilization of this facility by small users and cash customers decreased by 8% in the year 2003. This follows three years of consecutive increases in the utilization of this facility. In total, 14,600 vehicles entered the facility

Ley Creek Intake History



through the scales and another 31,270 customers utilized the facility for bag sticker and recycling drop off services.

The decrease in customer usage can be attributed to the formation of the Southern Onondaga Trash System. This district now provides residential pick-up service to many of the customers in the southern part of the county who used to bring their own trash and recyclables to the Rock Cut Road facility. Even though fewer customers visited the facility in 2003, tonnage intake increased. The materials recovered from the Rock Cut Road Station included nearly 30 tons of items containing CFC refrigerants, 383 tons of scrap metal and 244 tons of corrugated cardboard, in addition to the recyclable materials collected in the recycling bins.

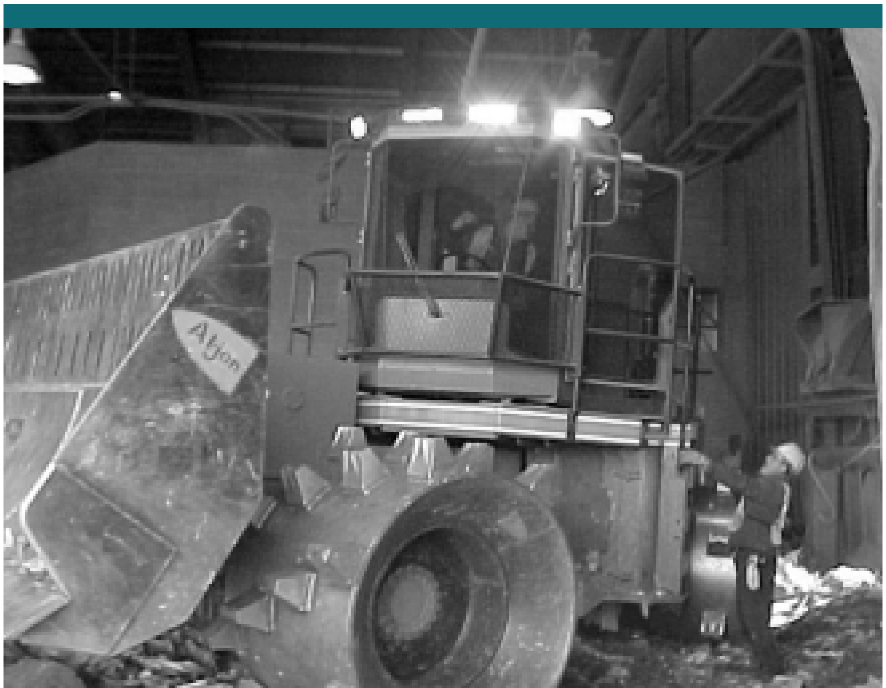
OCRRA's Ken Chamberlain is ready to help customers dropping off recyclables at the Rock Cut Road Transfer Station.

This facility also houses the Agency maintenance shop and is the base for our fleet of ash transport dump trucks. During 2003, Agency drivers transported 91,065 tons of ash residue from the WTE facility to the contract landfill.

Transfer Operations also works in conjunction with the other departments within the Agency. Transfer workers are a great part of the service team on Household Hazardous Waste Day activities, Earth Day programs, Computer and TV recycling collections and routinely provide maintenance support for the equipment and trucks operated by the Recycling team in conjunction with compost site and battery collection operations.

The New York State Department of Environmental Conservation (NYSDEC) renewed the operating permits for both of the transfer stations during 2003. OCRRA had submitted the permits for renewal in May of 2002. The renewed permits are good for a 10-year period.

Our drivers traveled nearly 608,000 accident free miles transporting ash residue and by-pass materials to a nearby landfill.



Ley Creek Transfer Station Plant Operator Leroy Sabin gives advice to Mitch Stewart as he operates a newly acquired compactor.

Waste To Energy

Another benchmark was established at the Waste To Energy Facility as it processed a record 349,100 tons of non-recyclable waste during 2003. The Facility is permitted to handle, on an annual basis, a maximum of 361,350 tons.

When the facility was undergoing the permitting process in the early 1990's, critics claimed it was oversized. Last year's tonnage processed belies the argument that was made roughly a decade ago. To put it into perspective, the Facility operated at almost 97% of its allowable limit. Since the Facility's first full year of operation, there has been an annual increase in the tonnage processed with the sole exception of one year. The growth, quite frankly, has been phenomenal. Rising from a low of 266,401 tons in 1995 to a high of 349,100 tons processed in 2003.

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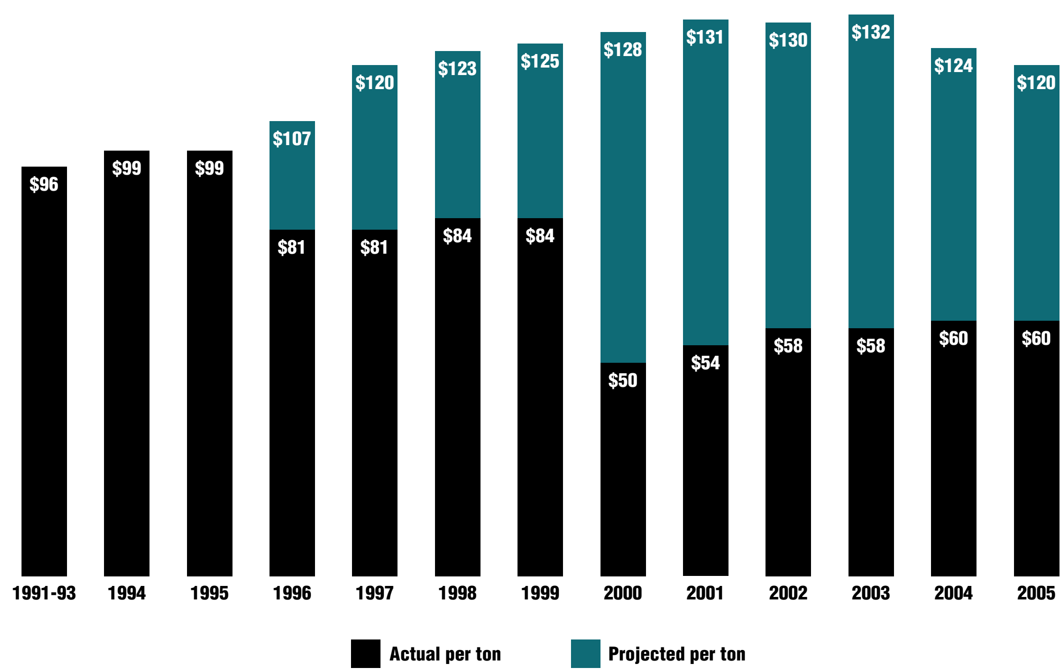
Also establishing a new record was the electricity converted from the processed waste. In 2003 it climbed to an all time high of 224,036 megawatt hours.

All this occurred as the Facility continued to be in compliance with the most stringent air emissions levels of any such plant in the nation. Annual stack testing of air emissions and the continuous emissions monitoring systems (CEMs) not only met the Title V Air Permit as established by the United States Environmental Protection Agency (EPA), but were well below those levels contained in the Health Risk Assessment. As the accompanying stack test results demonstrate, the overwhelming number of constituents tested were well below the permitted levels. The far right hand column of the stack test results for 2003 indicated that the Facility achieved a performance rating of "pass" during the yearly test in every instance.

The conversion of non-recyclable solid waste into usable energy provides not only for saving valuable and dwindling landfill space, but also reduces our dependency on a non-renewable natural resource to generate electricity. Combusting 350,000 tons of solid waste generates approximately 90,000 tons of ash residue; landfilling this same quantity of waste would "consume" about 700,000 cubic yards of airspace. This is equivalent in volume to a 10-acre landfill being filled to a depth of almost 40 feet, and this does not take into account the amount

OCRRA Actual vs. Projected Tip Fees



Note: Projected tipping fee from 1992 Bond Issue

OCRRA Ash Residue Characterization Semi-Annual Test Results—June 2003

Test Sample	Test Result (milligrams per liter)	Permit Limit	Pass or Fail
Cadmium	0.48	1.0	Pass
Lead	0.97	5.0	Pass

OCRRA Ash Residue Characterization Semi-Annual Test Results—November 2003

Test Sample	Test Result (milligrams per liter)	Permit Limit	Pass or Fail
Cadmium	0.50	1.0	Pass
Lead	0.25	5.0	Pass

Ash residue does not exhibit a hazardous characteristic thus allowing it to be managed as a non-hazardous solid waste

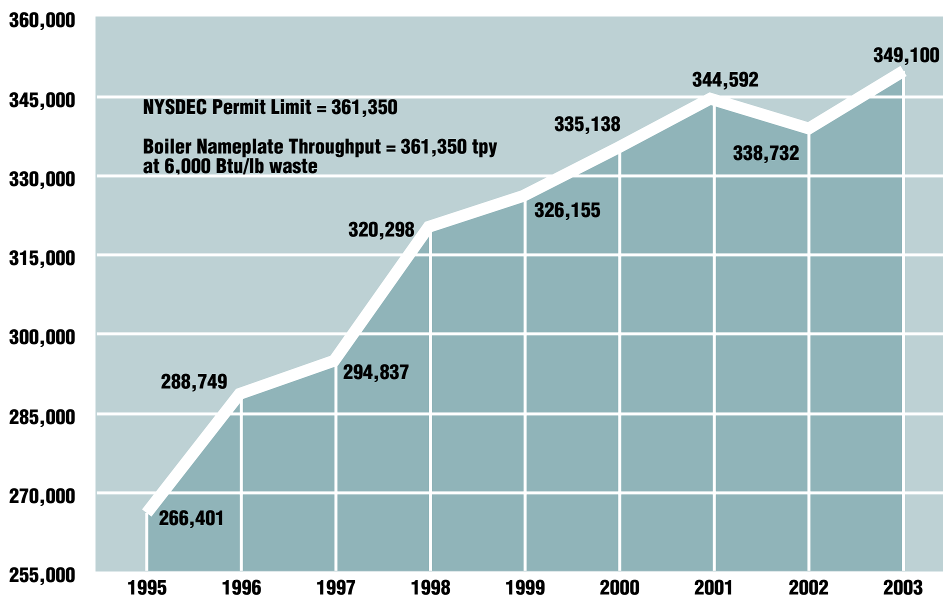
of space needed for daily cover and other landfill components.

In the waning months of 2003, the Agency was granted permission from the New York State Department of Environmental Conservation (NYSDEC) to use the ash from the Waste To Energy Facility as an alternative structural fill at a portion of the Seneca Meadows Landfill that is being closed. This decision was based on the fact that the ash has consistently tested as non-hazardous since the Facility went into operation. The net effect is a reduction in the total cost of ash disposal incurred by the Agency for 2004.

As has been noted elsewhere in this Annual Report, the debt restructuring and a newly amended service agreement with Covanta Onondaga, LP are the two most significant events of the year. They position OCRRA to look forward to continued long-term success of the Waste To Energy Facility.

The conversion of non-recyclable solid waste into usable energy is equivalent in volume to a 10-acre landfill being filled to a depth of almost 40 feet.

Annual Waste Processed
Onondaga County Resource Recovery Facility
Tons processed per year



2003 Annual Stack Test Results

(Regulatory Title V Compliance)

Constituent	Average Measured Emissions Unit 1	Unit 2	Unit 3		Permit Limit (1)	(P) Pass or (F) Fail
Particulates (gr/dscf @ 7% O2)	0.000982	0.00213	0.000945	(2)	0.010	P
Sulfur Dioxide (ppmdv @ 7% O2)	0.000	0.889	0.333	CEM	3010	P
Sulfur Dioxide (lb/hr)	0.1	0.0	0.58		16.2	P
Sulfur Dioxide Removal Efficiency (%)	100.0	97.5	99.4	CEM	>=85	P
Nitrogen Oxides (ppmdv @ 7% O2)	163	168	176	CEM	180	P
Nitrogen Oxides (lb/hr)	50.6	49.1	49.4		58	P
Carbon Monoxide (ppmdv @ 7% O2)	9.8	18.8	13.1	CEM	45	P
Carbon Monoxide (lb/hr)	2.20	3.37	2.32		8.04	P
Total Hydrocarbons (ppmdv @ 7% O2)	2.33	2.35	2.30		30	P
Total Hydrocarbons (lb/hr)	0.270	0.242	0.233		2.76	P
Sulfuric Acid Mist (lb/hr)	0.244	0.183	0.288	(3)	1.69	P
Hydrogen Fluoride (lb/hr)	0.029	0.019	0.019		0.165	P
Polychlorinated Dibenzo-p-Dioxins and Furans						
(ng/dscm @ 7% O2) - Total	2.50	1.41	0.716	*	30	P
(ug/dscm @ 7% O2) - NY TEFs	2.38E-05	2.26E-05	1.36E-05	*	0.0004	P
(lb/hr) - NY TEFs	3.60E-09	3.60E-09	1.97E-09	*	1.29E-07	P
Hydrogen Chloride (ppmdv @ 7% O2)	2.79	2.13	4.03		25	P
Hydrogen Chloride (lb/hr)	0.654	0.512	0.883		5.24	P
HCl Removal Efficiency (%)	99.6	99.4	99.7		>=95	P
Ammonia (ppmdv @ 7% O2)	3.46	6.71	2.79		50	P
Ammonia (lb/hr)	0.378	0.753	0.282		4.88	P
Arsenic (lb/hr)	7.39E-05	8.37E-05	8.65E-05		7.80E-04	P
Beryllium (lb/hr)	4.87E-06	4.77E-06	4.66E-06		1.15E-05	P
Cadmium (mg/dscm)	0.000603	0.000909	0.000888		0.04	P
Cadmium (lb/hr)	9.23E-05	1.45E-04	1.29E-04		1.90E-03	P
Chromium (lb/hr)	2.38E-04	2.41E-04	3.50E-04		1.93E-03	P
Copper (lb/hr)	3.07E-04	4.96E-04	6.17E-04		4.00E-03	P
Lead (mg/dscm)	0.0106	0.0183	0.0182		0.44	P
Lead (lb/hr)	1.63E-03	2.91E-03	2.65E-03		3.81E-02	P
Manganese (lb/hr)	3.36E-04	2.89E-04	6.69E-04		2.30E-02	P
Nickel (lb/hr)	3.64E-04	3.38E-04	5.99E-04		4.00E-03	P
Vanadium (lb/hr)	4.87E-05	4.77E-05	4.66E-05		6.00E-04	P
Zinc (lb/hr)	1.01E-02	1.20E-02	1.65E-02		1.88E-02	P
Mercury (ug/dscm @ 7% O2)	2.33	6.96	3.28		28	P
Mercury (lb/hr)	0.000358	0.00111	0.000477		0.012	P
Mercury Removal Efficiency (%)	98.2	97.8	97.7		>=85	P
PM10 (gr/dscf @ 7% O2)	0.000696	0.000758	0.000408		0.010	P
PM10 (lb/hr)	0.258	0.305	0.147		3.16	P
Polychlorinated Biphenyls (PCBs)						
(ug/dscm @ 7% O2)	0.00729	0.00443	0.00330	*	0.053	P
Polycyclic Aromatic Hydrocarbons (PAHs)						
(ug/dscm @ 7% O2)	0.785	0.608	0.491	*	1.0	P
(lb/hr)	0.000120	0.0000963	0.0000703		0.00014	P
Formaldahyde (ug/dscm @ 7% O2)	49.1	43.7	44.9		50	P
Hexavalent Chromium - Cr+6 (lb/hr)	0.0000204	0.0000211	0.0000206		0.0003	P

Footnotes:

(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 with Mod 1 effective date of 3/24/2003

(2) Each unit result is an average of three replicate test runs.

(3) Testing for H2SO4 not required by Permit unless specifically requested by NYSDEC; testing was performed although not requested

(*) Test results for Unit #3 based upon four replicate test runs.

Notes: SO2, NOx, and CO values were determined by calibrated and tested Continuous Emissions Monitoring (CEM) equipment as part of RATA, Relative Accuracy Test Audit performed during annual air emissions (stack) testing

Units:

gr/dscf = grains per dry standard cubic foot
ppmdv = parts per million dry volume
lb/hr = pounds per hour
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

The facility achieved a performance rating of "pass" in every instance.

Earth Day

(Left to right) Terri DeRollo, Pauline Mattes, and Louise Zgardzinski were not deterred by the damp and chilly weather. Trash bags in hands, they cleaned up litter along a two mile stretch near their homes.

In South Onondaga, these young adults who will become tomorrow's leaders demonstrate an early appreciation for the environment.

Earth Day clean up; over 5,000 volunteers collected 52 tons of litter, including over 1,000 tires.

Just part of the 1,000 tires picked up along roadsides, retrieved from creek beds, and lugged out of wooded areas on Earth Day 2003.

Independent Auditor's Report

Members of the Board
Onondaga County Resource Recovery Agency
North Syracuse, New York

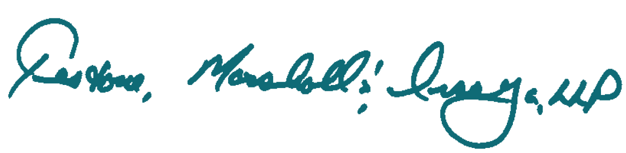
We have audited the accompanying financial statements of Onondaga County Resource Recovery Agency (the "Agency") as of and for the year ended December 31, 2003 as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidating 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying balance sheet and the related statement of revenue, expenses and changes in net assets and cash flows present fairly, in all material respects, the financial position of Onondaga County Resource Recovery Agency at December 31, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 10 to the financial statements, the Agency adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis For State and Local Governments*. This results in a change in the format and content of the financial statements.

The Management's Discussion and Analysis on pages 19 through 22 is not a required part of the statements of net assets but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.



January 28, 2004
Syracuse, New York

Management Discussion and Analysis

This discussion and analysis of the Agency's financial performance in 2003 is designed to be read in conjunction with its financial statements and accompanying notes.

HIGHLIGHTS

Financial Highlights

- The Agency restructured its debt in 2003 resulting in net deferred gain of approximately $12 million to be realized over 11½ years.
- The restructuring also encompassed a settlement of litigation with Covanta Onondaga, resulting in reductions in operating Service Fees paid by the Agency.
- Operating revenues increased approximately 3% over the previous year while operating expenses declined by 3.7% over the same period.

Agency Highlights

- Processed approximately 349,000 tons at the Waste-to-Energy facility.
- Adoption of a local Solid Waste Site Designation law by the Onondaga County Legislature.
- Use of ash from the Waste-to-Energy facility as structural fill for landfill closure resulting in significant ongoing reductions in ash disposal costs.
- Environmental programs continued to grow in size and quality. The community recycling effort is at 68%.
- Permit renewals were obtained for each of the Agency transfer stations. These stations have the capacity to handle all of the non-recyclable trash in the thirty three municipalities OCRRA serves in the unlikely event that the Waste-to-Energy facility is experiencing any processing problems.

USING THIS ANNUAL REPORT

Required Financial Statements

The Financial Statements of the Agency report information about the Agency using accounting methods similar to those used by private sector entities. They offer short and long-term financial information about our activities. The Statement of Net Assets includes all of the Agency's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Agency and assessing its liquidity and financial flexibility. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Change in Net Assets. This statement measures the results of the Agency's operations over the past year and can be used to determine whether the Agency has successfully recovered all its costs through its fees, charges and other revenues. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Agency's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and noncapital financing activities and provides answers to where cash comes from, where it was used and the change in cash balances during the reporting period.

This annual report consists of two parts: Management's Discussion and Analysis, and Financial Statements. The Notes to the Financial Statements explain in more detail some of the information in the financial statements.

Required Financial Statements

The Financial Statements report information about the Agency using accounting methods very similar to those used by private sector companies. These statements include short and long-term financial information about our activities.

The Statement of Net Assets reflects the Agency's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities) and serves as a means of assessing the financial viability of the Agency.

Management Discussion and Analysis

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

While Government Accounting Standards Board Statement (GASBS) No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* requires, in Management's Discussion and Analysis, the comparison of current and prior year Agency-wide financial information, it may be omitted in the first year of implementing the standard because the prior-year information is unavailable or not readily comparable. Therefore, Tables 1 and 2 below list only the current year information. In future years a comparative analysis of Agency-wide data will be presented.

The Agency's total net assets were $21,624,274 on December 31, 2003.

Table 1
Net Assets

Current assets	$ 35,596,378
Assets limited as to use	3,398,615
Property, plant and equipment - net	6,954,192
Bond issuance costs - net of accumulated amortization	1,420,324
Facility lease - net of current portion	104,001,767
Total Assets	151,371,276
Current liabilities	10,350,951
Long-term liabilities	119,396,051
Total Liabilities	129,747,002
Net Assets - Invested in Capital Assets	6,954,192
Unrestricted	11,271,467
Restricted	3,398,615
Total Net Assets	$ 21,624,274

Changes in the Agency's net assets can be determined by reviewing the following condensed Statement of Revenues, Expenses and Changes in Net Assets for the year 2003.

Table 2
Changes in Net Assets

Operating Revenues	$ 33,020,049
Other Revenues	10,500,301
Total Revenues	43,520,350
Operating Expenses	36,678,948
Other Expenses	8,491,274
Total Expenses	45,170,222
Change in Net Assets	(1,649,872)
Net Assets - January 1, 2003	23,274,146
Net Assets - December 31, 2003	$ 21,624,274

The reduction in the Agency's net assets was related primarily to high debt service costs. The Agency restructured this debt in October 2003 (see Note 6) resulting in lower debt service payments in the last quarter of 2003 and lower debt service payments in the future.

THE AGENCY'S FUNDS

The Agency does not utilize Funds or Fund Accounting. The Agency maintains funds on deposit with a Trustee as required by contractual obligations entered into as part of the Agency restructuring as detailed in Note 6 to the financial statements. As of December 31, 2003 Agency funds held by the trustee of $3,398,615 are recorded as Restricted under the Agency's Net Assets.

Management Discussion and Analysis

Budgetary Highlights

The Agency had budgeted for the use of $4.8 million of reserves in order to balance the 2003 budget. As a result of the restructuring, increased revenues and decreased expenses, the reduction in the Agency's net assets was limited to $1.65 million, $3.1 million dollars better than planned.

Capital Assets

At the end of 2003 the Agency had $6.95 million invested in capital assets consisting primarily of two transfer stations and various pieces of operating equipment.

Debt

In October of 2003 the Agency refunded its bonded debt by issuing 2003 Series A and Series B Bonds in the combined amount of $112,115,000. The proceeds of these issues, combined with assets limited as to use, were used to pay off the balance of the Agency's 1992 Revenue Bonds and approximately $1,450,000 in underwriting and other issuance costs.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The industry in which OCRRA operates is highly regulated and highly competitive. The October 2003 restructured debt and service agreement for the operation of the Waste to Energy facility give the Agency a better platform to successfully operate in this economic sector. In 2004 OCRRA is projecting a net operating gain from its operations after sustaining net losses in the four prior years.

The 2004 Budget develops the revenue and expense requirements to continue OCRRA's efforts to provide sound environmental solid waste disposal solutions to our community. Next year's budget communicates several critical themes:

1. **Forging a Strengthened Partnership**

   Despite the untimely 2002 Chapter 11 Bankruptcy filing by the Waste-to-Energy operator, Covanta Energy Corp., and the local Covanta Onondaga operation, positive events occurred late in 2003:

   A. After extensive litigation by both OCRRA and Covanta, the adversarial position subsided and the parties began a team effort to resolve contractual differences.

   B. Group teams comprised of OCRRA's management, Covanta officials, Covanta's Limited Equity Partners, and the major bondholder were formed and after considerable effort, hammered out a mutual agreement whereby each party made key concessions for the betterment of a workable and cost effective restructured Service Agreement.

   C. Each of the participants benefited for the long haul by keeping the Solid Waste System intact and financially sound without interruption of services to the community.

2. **Return to Financial Stability**

   Since 2000, the Agency has relied upon the use of its reserves to balance annual budgets. That situation depleted approximately $13.5 million in net assets to meet system competition challenges coupled with OCRRA's inability to refinance in 2002 due to Covanta-related bond downgrades and subsequent filing for Chapter 11 Bankruptcy.

   The 2003 restructuring of both the Agency's debt and operating agreement with Covanta will allow OCRRA to emerge from a 4-year deficit cycle to a projected surplus in 2004.

3. **Environmental Stewardship is Central to OCRRA's Mission**

   The annual cost of protecting the environment and public health as measured in our 2004 Budget would be dwarfed by the costs of cleanups or illness if the infrastructure of the Onondaga County trash system reverted to the system in place before OCRRA. Protecting the environment is an investment for our children, their children and grandchildren. Even in these difficult economic times we must stay the course on protecting the environment. OCRRA remains committed to its core environmental mission. Its permits, contracts, and mission statement all require successful environmental stewardship. Performance to budget in 2004 is also dependent upon OCRRA meeting and exceeding all of its environmental responsibilities.

4. **Retaining System Trash Tonnage**

   OCRRA's tonnage retention and processing success in 2003 is projected to be carried into 2004 and was due to partnerships. The Budget for 2004 is built on critical partnerships with our core customers: the thirty-three member municipalities in the OCRRA system and the haulers who deliver trash and recyclables from these municipalities. OCRRA must also remain cost competitive with landfill disposal charges and may utilize alternate tools such as contracts, local laws, or user fees to retain revenues. Customer service remains critically important to retaining tonnage.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our county residents, customers and creditors with a general overview of the Agency's finances. If you have questions about this report or need additional financial information, contact the Agency's Information Officer at 100 Elwood Davis Road, North Syracuse, NY 13212-4312.

Statement of Net Assets

For the Year Ended December 31, 2003

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 24,714,173
Accounts receivable	2,896,209
Prepaid expenses and other receivables	390,038
Facility lease, current portion	7,595,958
Total current assets	35,596,378
ASSETS LIMITED AS TO USE	
Investments held by trustee under indenture	3,398,615
PROPERTY, PLANT AND EQUIPMENT, net	6,954,192
DEFERRED CHARGES, net	1,420,324
FACILITY LEASE, net of current portion	104,001,767
TOTAL	$151,371,276
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Bonds payable, current portion	$ 5,220,000
Deferred revenue, current portion	1,164,612
Accounts payable	2,790,630
Accrued interest	923,794
Accrued expenses and other current liabilities	251,915
Total current liabilities	10,350,951
LONG-TERM LIABILITIES	
Bonds payable, net of current portion	107,361,725
Deferred revenue, net of current portion	12,034,326
Total liabilities	129,747,002
NET ASSETS	
Invested in capital assets	6,954,192
Unrestricted	11,271,467
Restricted	3,398,615
Total Net Assets	21,624,274
TOTAL	$151,371,276

See Notes to Financial Statements

Statement of Revenues, Expenses and Change in Net Assets

For the Year Ended December 31, 2003

OPERATING REVENUES	
Tipping fees	$19,532,475
Electric revenue	12,125,574
Other	1,362,000
Total operating revenues	33,020,049
OPERATING EXPENSES	
Personal services	3,925,647
Contractual services	
Landfill contracts	2,643,516
Other contractual services	255,044
Materials and supplies	217,222
Professional fees	398,221
Recycling and composting	378,082
Hazardous waste disposal	225,524
Repairs and maintenance	139,693
Utilities	124,483
Insurance	201,136
Operating leases	94,846
Depreciation and amortization	721,416
Taxes and other payments to Host Communities	278,291
Other	417,870
Waste-to-Energy operations cost	26,657,957
Total operating expenses	36,678,948
OPERATING LOSS	(3,658,899)
OTHER REVENUE (EXPENSE)	
Interest income - cash and repurchase agreements	1,365,091
Interest income - lease receivable	8,126,374
Interest expense	(8,491,274)
Gain on sale of investment	750,000
Other revenue	258,836
Total other revenue - net	2,009,027
DECREASE IN NET ASSETS	(1,649,872)
NET ASSETS - JANUARY 1, 2003	23,274,146
NET ASSETS - DECEMBER 31, 2003	$21,624,274

See Notes to Financial Statements

Statement of Cash Flows

For the Year Ended December 31, 2003

CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from tipping fees	$19,169,619
Receipts from electric revenue	12,125,574
Other operating receipts	1,362,000
Payments to vendors and suppliers	(5,617,831)
Payments to employees	(3,057,340)
Payments for Waste-to-Energy (WTE) Operations	(11,861,185)
Payments for insurance and risk management	(1,069,443)
Net cash provided by operating activities	11,051,394
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from bonds issued	112,115,000
Payments on bonds outstanding	(140,850,000)
Purchase of property, plant and equipment	(675,554)
Payments for interest on bonds outstanding	(9,204,334)
Payments for bond issuance costs	(1,451,655)
Net cash utilized in capital and related financing activities	(40,066,543)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from the sale of investments	23,280,699
Proceeds from the use of assets limited as to use	20,052,475
Proceeds from interest on invested funds	1,650,179
Net cash provided by capital and related financing activities	44,983,353
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,968,204
CASH AND CASH EQUIVALENTS - JANUARY 1, 2003	8,745,969
CASH AND CASH EQUIVALENTS - DECEMBER 31, 2003	$24,714,173
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating loss	$(3,658,899)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	721,416
Provision for bad debt expense	10,939
WTE operations used to reduce lease costs	14,796,772
Changes in operating assets and liabilities:	
Accounts receivable	(362,856)
Prepaid expenses and other current assets	(128,115)
Accounts payable and accrued expenses	(327,863)
Total adjustments	14,710,293
Net cash provided by operating activities	$11,051,394

See Notes to Financial Statements

Notes to Financial Statements

For the Year Ended December 31, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose

The Onondaga County Resource Recovery Agency (the "Agency") was statutorily created in 1981 as a public benefit corporation under New York State law. The Agency's purpose was 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 contracts the Agency's operations service only the thirty-three participating municipalities in Onondaga County.

Measurement Focus and Basis of Accounting

The Agency operates as a proprietary fund. Proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net assets.

The Agency utilizes the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or an economic asset is used.

Estimates

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 or revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

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.

Cash and cash equivalents at December 31, 2003 includes $1,946,700 designated by the Board of Directors for the Agency's five-year solid waste disposal capital asset plan.

Accounts Receivables

Accounts receivable are carried at their estimated collectible amounts. They are periodically evaluated for collectibility based on past credit history with customers and their current financial condition.

Investments

Investments which consist of United States Treasury Bills are stated at cost, which approximates fair value, at December 31, 2003. Additional investments owned during the year consisted of repurchase agreements and temporary cash investments.

Deferred Charges

Deferred charges represent debt issuance costs amortized on a straight line basis over the term of the debt. Accumulated amortization at December 31, 2003 amounted to $31,331.

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 related assets which range from 4 to 25 years.

Deferred Revenue

In connection with the Agency's current refunding of its debt (see note 6), the facility lease was modified (see note 5) resulting in a gain of approximately $13,450,000. This gain has been deferred and will be reflected in revenue over the term of the lease.

Assets Limited as to Use

Assets limited as to use represent funds restricted as to use under the Agency's Revenue Bond Agreements.

Net Assets

Equity is classified as net assets and displayed in three components:

a. Invested in capital assets - capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

b. Restricted net assets - net assets with constraints placed on the use either by (1) external groups such as creditors or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

c. Unrestricted net assets - all other assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Landfill and Related Costs

The Agency has secured the required permit 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 non-recyclable waste that cannot be processed at the facility to the Seneca Meadows Landfill, near Waterloo, New York under a long-term contract. 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 included in property, plant and equipment in (see 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 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, 2003 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

A single hauler delivered approximately 30% of the municipal solid waste to the System during the year ended December 31, 2003.

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 are primarily applicable 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 its facilities are in material compliance with permits and other applicable environmental laws.

2. OPERATING CONSIDERATIONS

The Agency incurred losses in 2000, 2001 and 2002. The Agency took action in several areas to address these losses. These actions include restructuring and pay down of the Agency's debt that will result in senior debt service reductions of approximately $7 million annually through 2015. The debt is now organized in two refunding bond issues: Senior Lien Revenue Bonds and Subordinate Lien Revenue Bonds in the form of Convertible Capital Appreciation Bonds. The Agency also renegotiated its Service Agreement with the operator of the Waste-to-Energy facility resulting in significant additional expense reductions in the order of approximately $1.4 million per year. Both the debt restructuring and Service Agreement transaction were settled on October 10, 2003. The Agency had allowed for the use of $4.8 million in reserves to balance the 2003 budget. Actions by management and the Board, combined with the restructuring noted above, reduced actual use of reserves for operating expenses by almost two-thirds of the amount budgeted.

In December 2003 the Agency began to benefit from a temporary modification in its long-term ash residue disposal contract. The modification creates a reduction in unit disposal costs by allowing the Seneca Meadows Landfill to utilize the ash as structural fill at a project on the landfill's property. The disposal cost reduction/structural fill project is contracted to continue in 2004 and 2005.

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 Interestate Commerce. U.S. Supreme Court certiorari was denied and the case is now before Federal District Court for the Northern District of New York to take testimony on the local benefit 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 requested 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.

3. ASSETS LIMITED AS TO USE

Assets limited as to use include 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 includes the following funds at December 31, 2003:

Investments Held by Trustee under Indenture	
Revenue Bond Funds - 2003A Series	
Debt Service 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.	$ 1,743,794
Revenue Fund - Accumulation of earnings from all project fund investments to pay for semi-annual interest payments on the Project Revenue Bonds.	1,654,821
Total	$ 3,398,615

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment activity for the year ended December 31, 2003 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Land	$ 396,190	$ —	$ —	$ 396,190
Landfill site	3,749,591	—	—	3,749,591
Landfill site costs	186,684	—	—	186,684
Landfill buildings and improvements	764,725	4,289	—	769,014
Buildings and improvements	1,296,432	102,562	—	1,398,994
Machinery and vehicles	5,288,850	567,389	(344,500)	5,511,739
Furniture and fixtures	103,180	1,316	—	104,496
Computer equipment	295,565	—	(2,403)	293,162
Land improvements	68,799	—	—	68,799
Total property, plant and equipment	12,150,016	675,556	(346,903)	12,478,669
Less: Accumulated depreciation	(5,181,294)	(690,086)	346,903	(5,524,477)
Property, plant and equipment - net	$6,968,722	$ (14,530)	$ —	$6,954,192

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

5. FACILITY LEASE AND SERVICE AGREEMENT

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. (the "Partnership") also funded certain project costs and constructed the Facility. The Agency leased the Facility and equipment to the Partnership under a long-term lease expiring May 1, 2015 with the Partnership having the option to purchase the Facility for $1.

In October 2003, the Agency and the Partnership negotiated new lease and service agreements as part of the Agency's debt restructuring (see note 6). The duration of the agreements remains unchanged, expiring May 2015.

Pursuant to the facility lease agreement the real property comprising a portion of the Facility is leased to the Partnership.

Pursuant to the service agreement the Partnership operates and maintains the facility for the processing of solid waste delivered by the Agency to the Facility.

All revenues of the Facility, which include rates, fees, charges and other realized income received by the Agency from or for the ownership, operation, use or services of the Facility, in excess of expenses, are to be paid directly to the Trustee for the benefit of the Partnership and Trustee. The Partnership is also entitled to 10% of the net revenues received from the sale of electricity and 50% of the net revenues received from the sale of recovered materials during the lease period. 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 service on the Bonds in lieu of making payments on its lease receivable, a portion of the actual cash payment is held by the Trustee for satisfaction of the principal and interest on the Bonds.

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 $1,000,000 plus the lesser of the Agency's actual damages arising from the Event of Default and Termination of the Agreement and the Maximum Liability Cap on the date of termination.

The Agency's obligation is unconditional and requires payment by the Agency if there is no waste delivered; the Agency remains responsible for debt service until the Bonds are repaid.

The obligations of the Partnership under the service agreement and facility lease are guaranteed to the Agency and Trustee by Covanta Energy Corporation.

Calculations 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:

Operating and pass through costs	$ 11,159,570
Additional waste processing fee	701,616
Capital charge	14,796,771
Total	$ 26,657,957

Future minimum annual lease payments due from the Partnership (which approximate total debt service payments) are as follows at December 31, 2003:

YEARS ENDING DECEMBER 31,	AMOUNT
2004	$ 9,503,752
2005	9,504,000
2006	9,499,000
2007	9,504,375
2008	9,504,250
Thereafter	128,211,598
Total future minimum lease payments	175,726,975
Unearned income	(64,129,250)
Net investment in lease	111,597,725
Current portion	(7,595,958)
Long-term portion	$104,001,767

6. BONDS PAYABLE

On October 10, 2003, the Agency issued series 2003A Senior Lien Revenue Refunding Bonds totaling $82,115,000 and series 2003B Subordinate Lien Revenue Refunding Bonds totaling $30,000,000. The 2003A bonds bear interest at a rate of 5%. The 2003B bonds will be converted at their accreted value to current interest paying bonds in 2015. Prior to 2015 interest will accrue, but shall not be payable, at the rate of 7% on the 2003B bonds.

In order to secure the 2003A Bonds, the Agency has pledged all revenues of the system, which include all rates, fees, charges, and other realized income received by the Agency for the use of the solid waste system including facility revenues.

The 2003B Bonds are payable solely out of revenues and receipts, funds or monies derived by the Agency under the Lease Agreement and the indenture and from amounts otherwise available under the indenture for the payment of the series 2003B Bonds. At maturity, the Partnership is responsible for payment of the remaining balance of Subordinate Lien Revenue Bonds.

The bond proceeds of $112,115,000 were combined with assets limited as to use to pay off project revenue bonds of approximately $123,900,000 issued by the Agency in 1992 and approximately $1,450,000 in underwriting fees, insurance, and other issuance costs.

The current refunding reduced total debt service payments over the next 11 years by approximately $26,836,000. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately $12,000,000.

Bonds payable activity for the year ended December 31, 2003:

	Balance at December 31, 2002	Additions	Reductions	Balance at December 31, 2003
Project Revenue Bonds	$140,850,000	$ —	$140,850,000	$ —
Senior Lien Revenue Refunding Bonds	—	82,115,000	—	82,115,000
Subordinate Lien Revenue Refunding Bonds	—	30,000,000	—	30,000,000
Total	$140,850,000	$ 112,115,000	$140,850,000	$112,115,000

The Series 2003A Bonds maturing in 2006, 2010 and 2015, are subject to mandatory redemption in part by lot on May 1 annually from mandatory sinking fund installments which extend through 2015 as follows:

YEARS ENDING DECEMBER 31,	INTEREST	PRINCIPAL
2004	$ 4,283,752	$ 5,220,000
2005	3,774,000	5,730,000
2006	3,484,000	6,015,000
2007	3,179,375	6,325,000
2008	2,859,250	6,645,000
2009-2013	8,897,875	38,610,000
Thereafter	684,125	13,570,000
Total	$ 27,162,377	$ 82,115,000

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.

7. EMPLOYEE BENEFIT PLANS

Pension Plan

The Agency participates in the New York State and Local Employees' Retirement System (System), which is a cost sharing, multiple public employer defined benefit plan. The System 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 a range of plans and benefits related to years of service and final average salary. All benefits generally vest after five years of credited 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 control of the 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.

All participating employers in the System are jointly and severally liable for any actuarial unfunded amounts. Such amounts are collected through annual billings to all participating employers. Generally, all employees, except certain part-time employees, participate in the System. The System is noncontributory except for employees who joined the Employees' Retirement System after July 26, 1976, who contribute 3% of their salary during the first 10 years of service. Employee contributions are deducted by employers from employees' paychecks and are sent currently to the Retirement System.

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

YEAR ENDING DECEMBER 31,	AMOUNT
2003	$ 139,456
2002	33,481
2001	18,568

Post Retirement Benefits

In addition to providing pension benefits, the Agency provides certain health insurance benefits to certain retired employees hired before April 10, 2002 under a plan administered by the Agency. Eligible employees who retire from employment between the ages of 55 and 61 may waive their COBRA rights and continue their health insurance benefits (exclusive of dental coverage) by paying the full cost of the coverage. At age 62 these employees may continue coverage until they become Medicare eligible by paying 25% of the coverage. Once these employees are eligible for Medicare they lose their coverage and receive payments equal to $50 (fifty dollars) per month until their death. Total cost to the Agency of providing health insurance benefits to retirees during 2003 was $16,839. The cost of these benefits were expensed as paid.

Health Benefits

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

Deferred Compensation Plan

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

Notes to Financial Statements

For the Year Ended December 31, 2003

8. COMMITMENTS AND CONTINGENCIES

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 are as follows at December 31, 2003:

YEAR ENDING DECEMBER 31,	AMOUNT
2004	$ 89,771
2005	62,847
2006	1,500
Total	$ 153,368

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 ("Landfill"). Costs incurred under this agreement were $2,580,848 during 2003. 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. During 2003 the Agency and Landfill established the terms of a contract amendment providing for a reduced Ash Residue Disposal Charge for certain material delivered to the Landfill through the duration of a specified project but in no event beyond December 31, 2005

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.

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. 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 increase be greater than 2%, according to the interim agreement.

The Agency recorded PILOT's to Van Buren in the amount of $43,228 in 2003. The Agency also made payments to Van Buren of $6,772 in 2003 for the Warners Fire District assessment. The Agency anticipates similar payments will be made in 2004.

Property Stabilization

Effective August 1997, the Agency approved a property stabilization program to assist a limited number 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 2003, no such payments were made.

Litigation

The Agency is a party to various proceedings arising in the normal course of business. In addition, 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, a National Grid Company, participate in an electricity purchase agreement. This contract provides that NIMO will purchase "Approximately" 210,000,000 kwh per calendar year at six cents per kilowatt hour through 2009, and at a percentage of market rate thereafter. NIMO and the Agency have established the upper limit for the six-cent rate at 243,000,000 kwh.

10. RESTATEMENT

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The Agency implemented the general provisions of the Statement in the current year. Certain of the significant changes in the statement include the following:

- For the first time the financial statements include a Management's Discussion and Analysis (MD&A) section providing an analysis of the Agency's overall financial position and results of operations.
- Retained earnings at December 31, 2002 was reclassified into net assets. Total equity did not change as a result of the reclassification.

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