

THE CITY OF SIDNEY



Citizens' Summary Financial Report
For the Year Ended December 31, 2009

The City of Sidney Citizens' Summary Financial Report For the Year Ended December 31, 2009

The City of Sidney bears a responsibility to be good stewards of the public's money and to properly account for those funds. It is our goal to meet, or exceed, nationally recognized standards of excellence in financial reporting. The City has received the Certificate of Achievement in Financial Reporting award from the national Government Finance Officers' Association (GFOA) for eleven consecutive years and the GFOA's Distinguished Budget Presentation award for eleven consecutive years. In addition, the City of Sidney has received national recognition for being one of the leaders in implementing required new accounting standards.

The City's financial statements are audited annually by an independent accounting firm working in conjunction with the Auditor of State. We are pleased to report that the City of Sidney's financial statements for the year ended December 31, 2009, received an unqualified audit opinion. (Often called a "clean opinion", this is the best audit opinion that can be obtained.)

The City of Sidney's Comprehensive Annual Financial Report (CAFR) is available on the City's website at www.SidneyOH.com or at the Amos Memorial Public Library. The CAFR contains the City's audited financial statements, the audit opinion, and other financial information.

Many interested citizens want less detailed financial information, without rows and rows of numbers and accounting jargon. For them, we have prepared the following report which is intended to summarize the financial activities of the City of Sidney. This report is un-audited. For the most part, the data was compiled from the financial information appearing in the City's CAFR.

If you have any comments, suggestions, or requests for additional information, please submit them to the:

Finance Officer
201 West Poplar Street
Sidney, Ohio 45365
937-498-8146

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In the City's financial reports, all activities are reported in one of two categories: 1) Governmental Activities, or 2) Business-Type Activities.

GOVERNMENTAL ACTIVITIES

Governmental Activities are those activities that generally are funded with tax dollars, such as police and fire services, public parks and community recreation, and construction and improvements of streets.

How Governmental Activities Are Funded

The City of Sidney's Governmental Activities are funded mainly with municipal income tax dollars. In 2009, the 1.50% City income tax funded about 51% of Governmental Activities. Grants and contributions, primarily consisting of state and federal grants and state-shared taxes, represented the second-largest source at 25%.

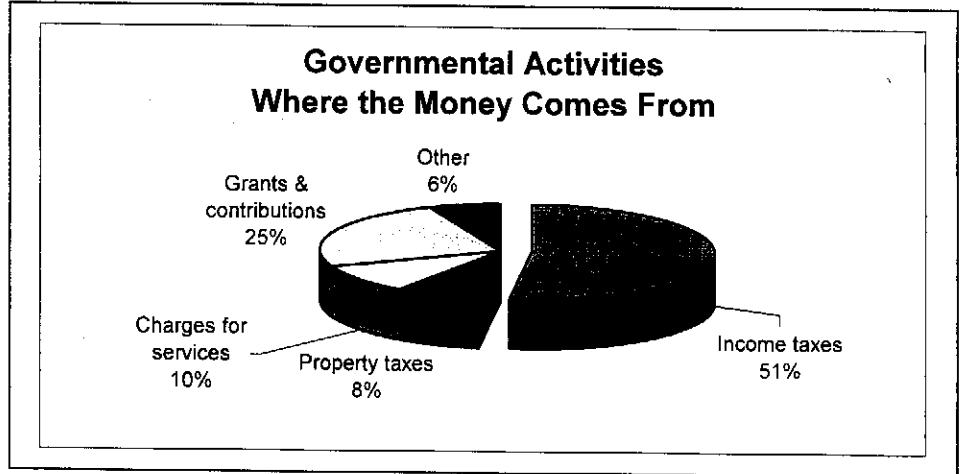


Table 1: Governmental Activities – Revenue for Years Ended December 31, 2005–2009

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Income taxes	\$ 12,707,698	\$ 13,261,167	\$ 13,417,106	\$ 12,505,553	\$ 9,996,527
Property taxes	1,336,737	1,492,187	1,481,916	1,440,528	1,451,435
Charges for services	2,095,597	2,156,768	2,369,925	1,862,994	1,826,508
Grants & contributions	5,899,660	5,699,535	4,647,409	3,713,186	4,743,017
Other revenue	820,158	938,877	1,732,345	1,326,837	1,201,502
Total	\$ 22,859,850	\$ 23,548,534	\$ 23,648,701	\$ 20,849,098	\$ 19,218,989

In the above chart and Table 1, revenues are classified as follows:

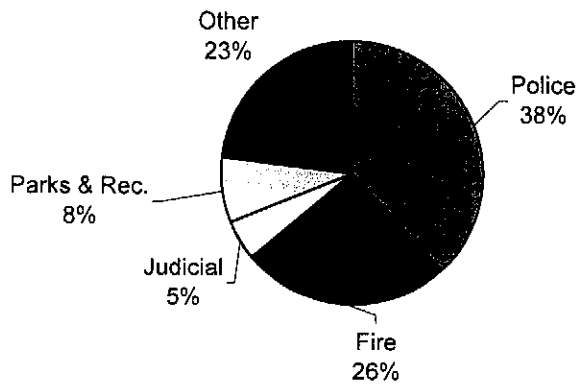
- **Income taxes:** This is revenue from the City's 1.5% municipal income tax. Twenty percent (20%) of these collections are used for capital projects with the remaining 80% being used for governmental operations.
- **Property taxes:** Income from the City's 3.2 mills tax on real property.
- **Charges for services:** This category includes fines, permit fees, and cemetery charges. EMS fees and Municipal Court fines and fees represent a large portion of this category.

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- **Grants and contributions:** This category includes grant funds for the CHIP low-income housing program, other Community Development Block Grant income, and other grants. Also included are contributions of infrastructure by private developers (e.g., a private developer constructs streets in a newly-developed area).
- **Other revenue:** This amount includes investment income, gains or losses on the disposal of capital assets, and other miscellaneous revenue.

How Your Tax Dollars Are Used

Governmental Activities Where Your Tax Dollars Go



City of Sidney taxes provide funds to enable the City to provide basic governmental services. About 69%, or 69 cents of every tax dollar, goes to support public safety (e.g. police, fire and judicial). Parks and recreation (8%) is another significant use of tax dollars.

Table 2: Uses of Income Tax and Property Tax Revenue in 2009

Taxes:	
Income tax revenue	\$9,996,527
Property tax revenue	1,451,435
Total income tax & property tax revenue	<u>\$11,447,962</u>
Income taxes and property taxes were spent on:	
Police	\$4,377,151
Fire	3,031,700
Judicial	571,600
Parks and recreation	969,702
Community development / community environment	947,427
Other	1,550,382
Total Uses of income taxes and property taxes	<u>\$11,447,962</u>

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In the previous chart and Table 2, expenditures for Governmental Activities are broken down into these areas:

- *Public safety and judicial:* Police, fire, emergency medical services, City prosecutor's office, and Municipal Court.
- *Parks and recreation:* Maintenance of the City park system, public right-of-ways, urban tree program, and community recreation programs.
- *Community development / community environment:* Planning and zoning, engineering, building inspection, and code enforcement.
- *Other:* General and administrative activities, interest on long-term debt issued for governmental purposes, street lighting, net costs of administering the Shelby Public Transit System, etc.

Income Tax Collections

The municipal income tax is the key funding source for essential City services. The two primary sources of income tax collections are (1) direct collections and (2) withholdings. Direct collections are received when businesses pay income taxes based their net profits. Another source of direct collections is when individual taxpayers complete their annual Sidney tax return and pay additional tax owed. For the most part, individuals pay their Sidney income tax when their employer withholds the tax from their paycheck. Employers then remit these Sidney income taxes withheld to the City.

From the chart below you can see that tax collections declined 19.2% over a two-year period from 2007 to 2009. The decline was fueled by rising unemployment, which decreases employer withholding payments, and declining business net profits.

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009 Over (Under) 2007</u>	<u>Percent Change</u>
Direct					
Collections	\$ 2,482,321	\$ 2,023,615	\$ 1,601,773	\$ (880,548)	- 35.5%
Withholdings	<u>\$11,034,099</u>	<u>\$10,498,614</u>	<u>\$9,316,668</u>	<u>\$(1,717,431)</u>	<u>- 15.6%</u>
Total	\$13,516,420	\$12,522,229	\$10,918,441	\$(2,579,979)	- 19.2%

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What is the Value of Your Tax Dollar?

Through a combination of property tax and income tax, the "average" family residing in Sidney pays \$62 per month to the City. This is calculated as:

Property Tax

Median value of a single-family owner-occupied home within the City of Sidney ^(a) \$ 102,200

To determine assessed value, multiply by 35% 35%
Assessed value \$35,770

To determine property tax liability, multiply assessed value by effective property tax rate ^(b) 5.204%
\$1,861

Less: 12.5% rollback (232)

Total estimated property tax \$1,629

City of Sidney's portion ^(c) 6.1%
Paid to City of Sidney \$ 99

Income Tax

The City of Sidney income tax rate is 1.5%. City income taxes are paid to the City where you work. However, if the income tax rate where you work is less than 1.5%, the difference is paid to Sidney.

Median family income ^(a) \$43,043

To determine earnings tax liability, multiply annual income by 1.5% 1.5%
Paid to City of Sidney \$646

Total Tax paid to the City of Sidney

Property tax	\$ 99
Income tax	<u>646</u>
Total annual tax	<u>\$ 745</u>

\$62 per month

^(a) Source: U.S. Census Bureau (American Community Survey 2006-2008)

^(b) Source: Shelby County Auditor

^(c) Allocation of property tax paid is:

Sidney City Schools (including Joint Vocational School)	87.1%
Other taxing districts	6.8%
City of Sidney	<u>6.1%</u>
	<u>100.00%</u>

Take the monthly amount of \$62 and compare it to your other typical monthly expenses for telephone, cable, internet, utility bills as well as the cost of gasoline. We believe that the citizens of the City of Sidney receive excellent value for their tax dollars. The following list is a sampling of the governmental services provided for **\$62 per month**:

- ✓ Police protection
- ✓ Fire protection
- ✓ Emergency medical services – covers your insurance co-payments and the total cost for uninsured residents

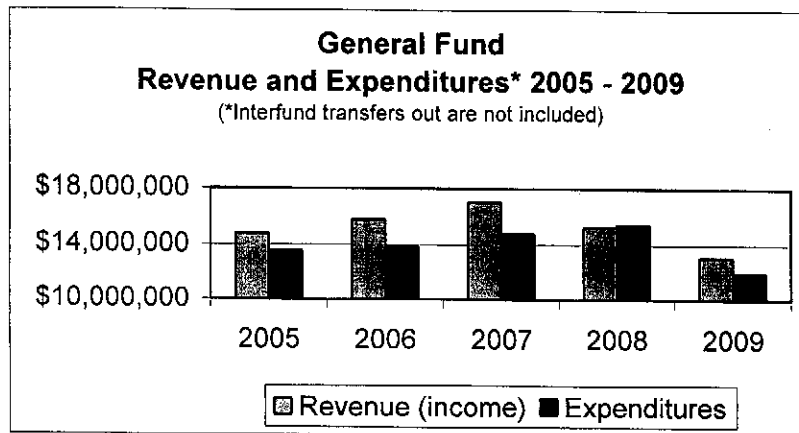
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- ✓ Maintenance, improvements, and upkeep on 100 miles of streets
- ✓ Enjoyment of the extensive city parks system, including 192-acre Tawawa Park, 16 neighborhood parks covering 430 acres, 37 park shelters, 14 tennis courts, 13 baseball fields, 15 basketball courts, 12 soccer fields, 2 pee wee football fields, 22 modular play structures and 4.5 miles of bikeway
- ✓ Municipal Swimming Pool – tax dollars pay for about 20-30% of the pool’s operating costs & 100% of capital improvements
- ✓ Recreation programs for all ages – youth through senior citizens
- ✓ Maintenance of the Senior Center building, which is utilized by over 1,000 of our senior adults
- ✓ Building inspection & zoning and code enforcement
- ✓ Snow & ice control on city streets
- ✓ Partial funding of yard waste collection
- ✓ Partial funding of Shelby Public Transit, which primarily serves the area’s elderly and disabled population.
- ✓ Partial funding of Graceland Cemetery

The City of Troy completed a survey which rated certain “Quality of Life Costs” in Southwest Ohio communities in 2008. Sidney ranked the *lowest cost* out of 34 area cities. “Quality of Life Costs” ranked in this survey included such expenses as household property & income taxes; refuse, storm water and license plate fees; and water and sewer costs.

General Fund

Most governmental activities (e.g., police, fire, parks) are accounted for in the General Fund.



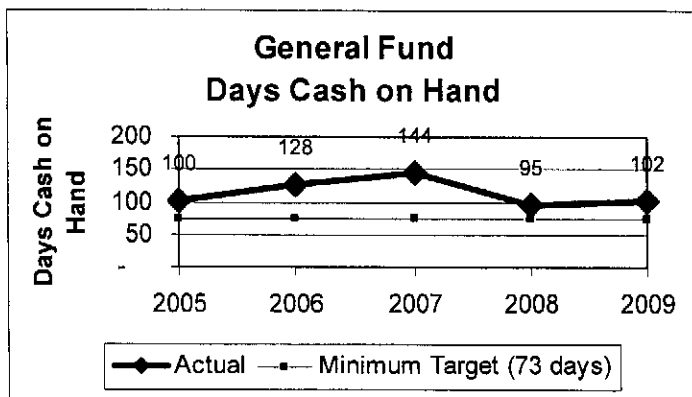
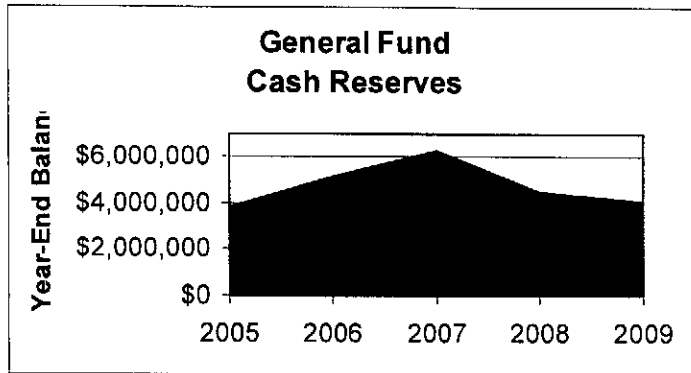
General Fund revenue (income) decreased by 14.4% in 2009, largely due to the decline in income tax revenues. General Fund expenditures decreased by 22.9% in 2009 as a result of the budget reductions made in response to declining revenues.

General Fund cash reserves.

It is crucial that the General Fund have sufficient cash fund balance reserves to guard against unforeseen emergencies and to provide a “cushion” in difficult financial times.

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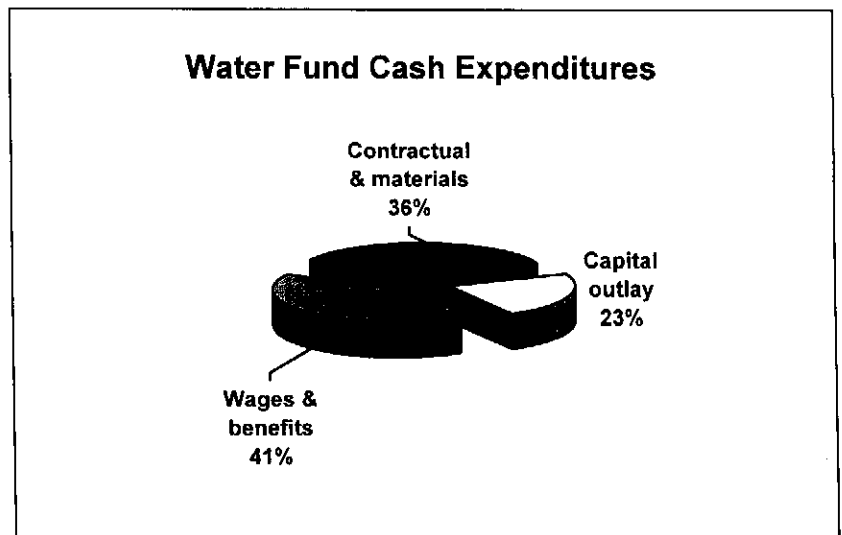
By the end of 2009, the cash reserves are at \$4.0 million. These reserves, along with budgetary restraint, have enabled the City to continue to provide high quality essential services during slow economic times.



It is the City of Sidney's financial policy to maintain General Fund cash reserves in an amount at least equal to about 73 days cash needs. Actual cash on hand improved from 100 days in 2005 to 144 days in 2007. In 2008, days of cash on hand declined to 95 days. Much of this decline was due to devoting more income tax dollars to one-time capital expenditures. As income tax collections declined in 2009, the City reduced expenses significantly to end the year with cash on hand at 102 days, well above the 73 day minimum.

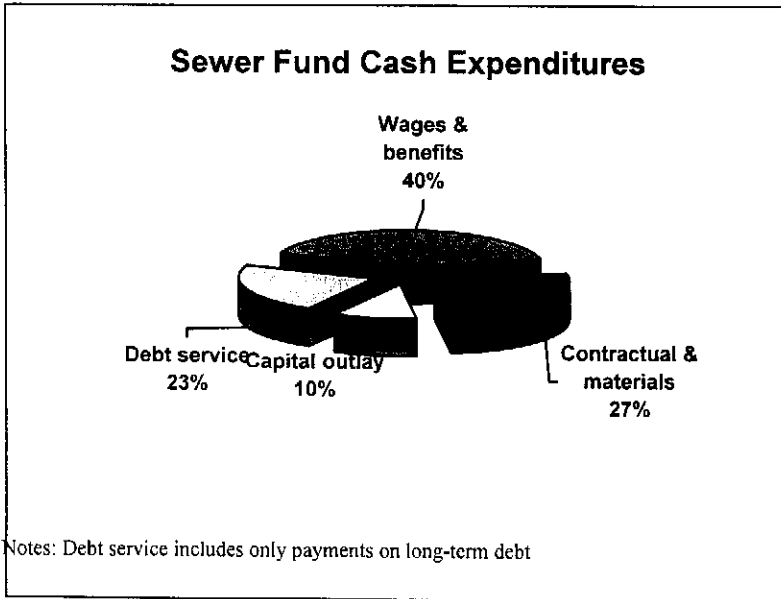
BUSINESS-TYPE ACTIVITIES

Business-type activities are generally those activities that are expected to be self-supporting from user fees and charges. For example, the expenses of the Water Fund and the Sewer Fund are covered entirely by water and sewer user charges. No tax dollars support water or sewer operations.



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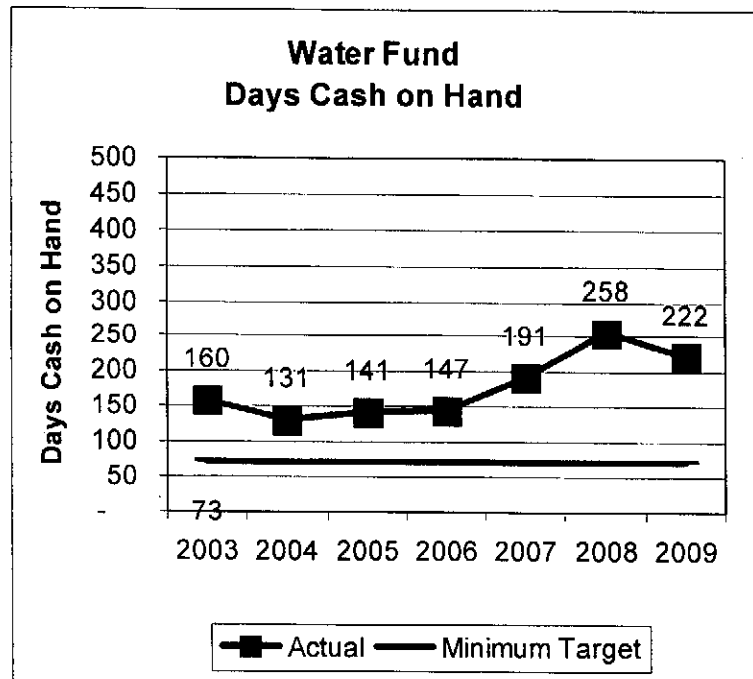
The data in these charts is taken from the City of Sidney budgetary (cash-basis) financial statements and the classifications used are:



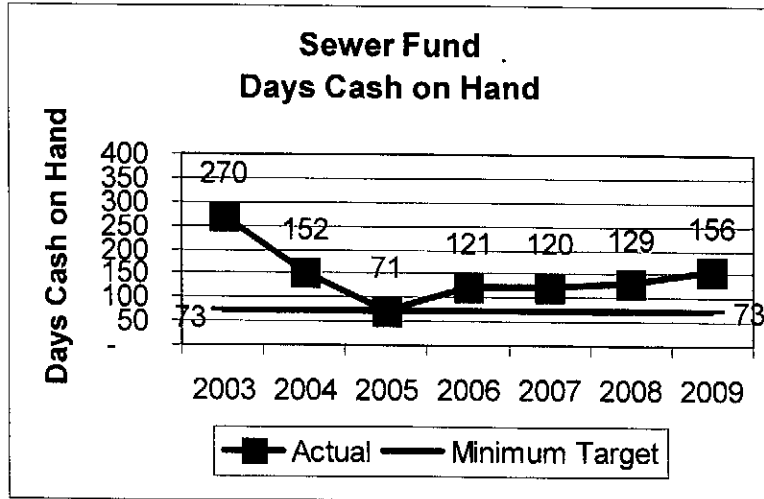
- **Wages and benefits.** These are the wages, benefits, and payroll taxes associated with personnel assigned to these functions.
- **Contractual and materials.** These are other non-personnel-related operating expenses.
- **Capital outlay.** This category is for expenditures to purchase or construct assets with a useful life of at least two years. Examples are replacement of old water and sewer lines, large equipment items, improvements at the water plant, wastewater plant, or pump stations.

- **Debt service.** These are the principal and interest payments to pay off long-term debt that was obtained in previous years as a means of financing major capital projects. Further information on the City's long-term debt is provided later in this report.

Cash balances. The Water Fund and Sewer Fund must maintain sufficient cash balances to address operational and capital needs. Generally, the upward movement reflects the accumulation of cash for capital projects. In 2007 the City began to save funds for a potential new water source. The decline in 2009 reflects the negative effect on revenue from reduced business consumption, another effect of the national recession on the local economy. Each utility's minimum target is 73 days of cash on hand.

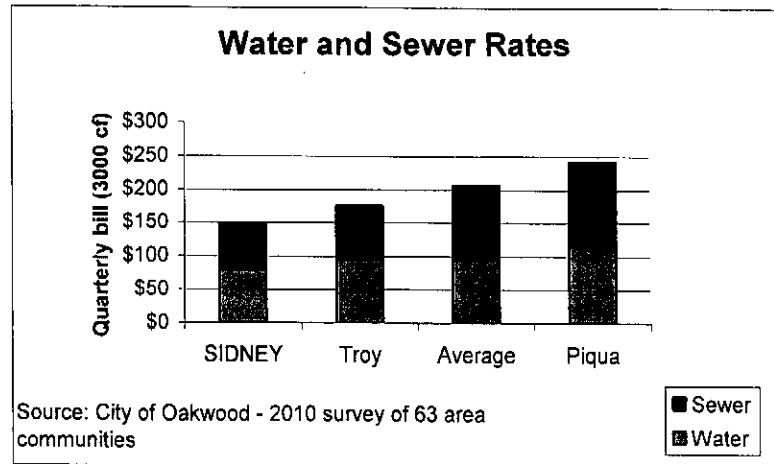


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Note in this Sewer graph cash balances have fluctuated both upward and downward considerably. Generally, the upward movement reflects the accumulation of cash for capital projects and the downward movement is the subsequent expenditure of cash for those projects.

Water and sewer rates. Water and sewer operations are totally financed by user charges. Water and Sewer rates are reviewed annually and adjusted as needed. This annual adjustment of rates results in regular, but small, rate increases that keep pace with the cost of providing the service. This method, we believe, is preferable to less frequent, but larger, rate adjustments.



The above chart, taken from the City of Oakwood's 2010 area survey of 63 communities, shows that the City of Sidney's water and sewer rates are about 16% less than Troy's, 28% less than the area average, and 39% below Piqua's water and sewer rates.

INVESTMENT PORTFOLIO

The City maintains a cash deposit and investment pool for substantially all of its funds. The City must follow the requirements of the Ohio Revised Code, the City's charter and the City's investment policy in managing its investments. These requirements include permitted investments, the maturity of the investments, and the composition of the portfolio.

The first priority of the City's investment plan is to preserve the safety of the investment principal. Secondary priorities are liquidity (i.e, ensuring that cash is available when needed to pay bills), and return on investments.

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Consistent with the primary objective of preservation of investment principal, the City's investment policy limits City investments to only relatively safe investment securities. At December 31, 2009, the pooled investments consisted of the following:

	Fair Value	Weighted Average Maturity (in years)	% of Total Pool
U.S. Government-Sponsored Corporations:			
Federal Home Loan Bank	\$9,372,438	3.27	100%

DEBT INFORMATION

Self-supporting Debt

Backed by Sewer Revenues

The City occasionally pays for major capital projects with long-term debt financing. All of the City's bonds are "general obligation" (G.O.) bonds. G.O. bonds are guaranteed by the City's ability to levy property tax. However, the City's sewer system improvement bonds are self-supporting; that is, sewer revenues are the primary source of repayment and the property tax is only a secondary "back-up" repayment source. As of December 31, 2009, the City's only long-term sewer bond issuance had an outstanding balance of \$6,135,000. These bonds were originally issued in 2011 and will mature in 2022. Principal and interest payments totaling \$642,611 were made during 2009 for this sewer bond issuance.

Backed by Tax Incremental Financing

One-year bond anticipation notes originally issued in 2006 to finance a sewer project were rolled over in June 2009 for another one-year period. These notes totaled \$670,000 at December 31, 2009 and were re-financed as long-term bonds in June 2010. The funds to pay for the bonds' debt service will come from the City's first tax increment financing (TIF) arrangement. A TIF arrangement is an economic development incentive that allows a government to construct a public improvement that directly benefits private property. The private property owner then makes payments in lieu of property taxes to pay for the cost of the improvements. This particular TIF arrangement opened up approximately 43 acres on the west end of the City for commercial development.

The City's second TIF arrangement financed the construction of water and sewer infrastructure that not only allowed an area manufacturer to relocate its operations within the City, but also opened up an additional 290 acres for possible future industrial development. To finance this project, one-year notes totaling \$230,000 were rolled over in 2009 and re-financed as long-term bonds in June 2010. The funds to pay for the bond's debt service will come from payments in lieu of property taxes received from the owner of the private property.

Backed by Water Revenues

One-year notes totaling \$670,000 were rolled over in June 2009 to pay for the well field testing of a potential new water source for the City. These notes were re-financed as long-term bonds in June 2010 and will be re-paid with water utility revenues as the primary repayment source and property tax as a secondary "back-up" repayment source.

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During 2009, the City was awarded funding as a result of the American Recovery and Reinvestment Act of 2009 (ARRA) for an automated meter read system and various water distribution and water plant improvements.

The total award was approximately \$7.3 million with approximately 40%, or \$2.9 million, in the form of federal grant funding. Beginning in 2010, the remaining \$4.4 million will be repaid over a 20-year period with no interest charged. Water revenue is the sole source of repayment for this loan. There is no pledge of the City's general resources or the general credit of the City.

On behalf of the owners of the Northbrook Mobile Home Park (NMHP), the City received ARRA funding for their new water system improvements. Grant funding is \$252,000. The remaining \$315,540 is a zero-percent, twenty year loan. The loan is backed solely by the revenue generated by water charges and does not pledge the general resources or the general credit of the City. The owners of NMHP are responsible for the debt payments, which begin in 2010. As collateral, the City is holding a first mortgage for \$200,000 and a personal guaranty for \$100,000.

Tax-supported Debt

Table 4 displays the tax-supported debt of the City of Sidney.

Table 4: Tax-supported Debt

The City has the following general obligation bonds outstanding as of December 31, 2009:

<u>Purpose</u>	<u>Date of Issue</u>	<u>Original Principal Amount</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Final Maturity</u>
Monumental Building	12/01/98	\$ 2,765,000	3.25 – 5.00%	\$ 1,525,000	12/01/18
Police Station Imp.	07/13/04	\$ 7,600,000	4.00 – 4.70%	\$ 6,100,000	12/01/24

Debt Limitations

State law limits the amount of tax-supported debt that the City may issue. The most restrictive of these limitations requires that the City must get voter approval to issue net debt in an amount greater than 5.5% of the City-wide assessed property valuation. Under this limitation, the City may issue net debt up to \$20,883,796, calculated as follows:

Assessed value of real and tangible personal property	\$ 379,705,390
	<u> X 5.5%</u>
Unvoted debt limit: 5.5% of assessed value	<u>\$ 20,883,796</u>

By comparison, the City of Sidney has only \$7,625,000 of debt outstanding to which this limitation applies; therefore, the City has used 37% of its \$20,883,796 legal debt capacity.

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The City of Sidney takes a conservative approach to debt. Therefore, the City of Sidney's debt policy provides debt limitations more restrictive than the limitations imposed by state law. It is the City's policy that tax-supported debt may not exceed 3.0% of assessed valuation. Three percent (3.0%) of City-wide assessed valuation is \$11.4 million. With current outstanding debt of approximately \$7.6 million, the City has current capacity for additional tax-supported debt of \$3.8 million. However, the City has no plans at this time for such additional tax-supported debt.

Major Initiatives

For the Year and the Future:

- Significant budget reductions were made in 2009 and 2010 in response to the deepening economic downturn. Strategies implemented during 2009 and to be in place throughout this economic downturn include:
 - *Reducing the workforce through attrition and making targeted reductions in seasonal and part-time positions.* Most vacated positions have been left unfilled and significant reductions have been made to seasonal and part-time positions.
 - *Deferral of maintenance, improvements and non-essential purchases.* Many large purchases have been deferred until finances improve. This is an effective short-term strategy, but the benefit decreases over time as aging equipment becomes expensive to maintain.
 - *Training budgets reduced & overtime curtailed.* A well-trained workforce is important and we have reaped the benefits in increased safety and efficiency. In some situations, training is required to maintain licensure or certifications. That said, training budgets have been reduced and will continue to be at less than optimal levels for the foreseeable future.
 - *No cost of living wage increase in 2010 for all non-bargaining employees.* Also, there was no cost of living increase for police supervisors in accordance with their most recent collective bargaining agreement. In total, over one-third of the workforce received no cost of living increase in 2010. For 2011, the AFSCME union has agreed to possible wage concessions that could result in wage increases as low as 0% in 2011.
- The City was awarded funding for the following projects as a result of the American Recovery and Reinvestment Act of 2009 (ARRA). The benefit of receiving such awards is that it eases the burden of local residents paying for such capital projects, in the form of increased fees and utility charges.
 - Water projects were 40% federal grant funded with the remaining being repaid over a 20-year period with no interest charged.
 - \$1.8 million for a new automated meter read system. The new system will use radio technology to automatically read the meters and transmit data to the City's Utility Billing Office. This will allow the City to monitor for significant water leaks and notify customers in a timelier manner. The project reduced the necessary meter reading staff by two positions permitting those staff persons to fill other vacancies within the City. Eventually, this system will permit

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customers via the internet and pay their bill online. Monthly billing will become a reality with this system.

- \$5.8 million for various water distribution system improvements, including:
 - Looping of water mains to improve fire flows
 - Installation of a Riverside Drive transmission main
 - Purchase and installation of new high service pumps and controls at the Water Treatment Plant
 - Purchase of a new screening device at Raw Water Pump Station
- Grant funding totaling approximately \$233,000 for vehicle replacement and other capital equipment items benefiting Shelby Public Transit, the county-wide transit system, operated and maintained by the City.
- Shelby County initially received an allocation of \$2,542,000 for Recovery Zone Economic Development Bonds. The County then re-allocated 100% of their share to the City of Sidney. The City issued these bonds in September 2010 to finance the acquisition of the water source property and/or mineral rights. The bonds enabled the City to borrow at lower interest rates than what otherwise would have been available, thus reducing interest expense over the life of the bonds.
- The funding of the new Water Source Reserve Fund continued. Initially begun in 2007 with funds totaling \$300,000. This reserve has grown to approximately \$948,000 at December 31, 2009. The intent is to build a reserve that can then be used to fund the long-term new water source project. Considering the current recessionary environment, Council opted to postpone the design and construction phase of the project until the economy improves. The funding for the remainder of the project will likely be a combination of grant awards, if available, debt issuance and usage of the Water Source Reserve Fund. It may be necessary to increase water utility rates in the future in order to be able to pay the debt service requirements of such an extensive project.
- Widening and upgrading the section of Wapakoneta Avenue from I-75 to Parkwood Street is scheduled for 2011. The majority of this project is expected to be grant-funded.
- With the successful completion of the Canal Feeder Riverwalk project from Graceland Cemetery to the Westlake area in 2008, phase II of this Riverwalk project will connect the Westlake area to south of the city and is slated for completion in 2010. As with the first phase, it will be largely grant-funded.
- To increase the air traffic flow to and from Sidney, the extension of a runway and other improvements at the Sidney Municipal Airport are planned. These improvements are contingent on federal funding.

FINAL COMMENTS

We hope that the information in this report has been useful to you. Please direct your comments or requests for additional information to the Finance Department at 937-498-8146.