

WILLIAM J. ROTH, JR.
MAYOR



MARK H. LUDWIG
FINANCE DIRECTOR
JACOB D. KAUFMAN
TAX ADMINISTRATOR
ASSISTANT FINANCE DIRECTOR

CITY OF FAIRLAWN

MEMORANDUM

To: William J. Roth, Jr., Mayor
From: Jacob D. Kaufman, Tax Administrator/Assistant Finance Director
Date: January 4, 2017
Subject: 2016 Annual Report
Cc: Mark Ludwig, Finance Director

Unencumbered Cash Balances

The City's unencumbered cash balances serve as a useful measure of net resources available for spending at year-end and provide insight into the overall financial strength of the City. Included below is a comparison of the unencumbered cash balances of the City's funds at December 31, 2015 and 2016:

Unencumbered Cash Balances	2015	2016	Increase/(Decrease)	
			Amount	Percentage
General Fund	\$ 6,686,716	\$ 7,510,033	\$ 823,317	12.3%
Income Tax Fund	5,951,999	6,387,836	435,837	7.3%
Capital Improvement Fund	862,588	1,151,062	288,474	33.4%
All Other Funds	3,033,993	3,011,390	(22,603)	-0.7%
Total All Funds	\$ 16,535,296	\$ 18,060,321	\$ 1,525,025	9.2%

The general fund is the primary operating fund of the City and supports nearly every City department. The unencumbered cash balance in the general fund, increased 12.3% to \$7,510,033. It is essential that adequate levels of fund balance be maintained to mitigate current and future risks and to ensure stable tax rates. The general fund's current unencumbered cash balance provides the City with a strong reserve balance equal to 51.9% of the fund's 2016 expenditure budget. For comparison, the Government Finance Officers Association recommends, at a minimum, that governments maintain an unrestricted general fund balance of no less than 16.7% of regular operating expenditures.

The income tax fund was established for the administration and collection of the City's income tax. Conservative budgeting combined wide-ranging growth across the City's tax base resulted in the unencumbered cash balance in the income tax fund increasing by \$435,837 or 7.3%.

The capital improvement fund accounts for the acquisition, construction, and improvement of the City's capital assets. The fund's unencumbered cash balance increased by \$288,474 or 33.4% due, in part, to \$193,634 in unencumbered debt proceeds issued for the FairlawnGig project. The unencumbered debt proceeds have been reappropriated for the project in 2017.

General Fund Revenues

The general fund continued to be heavily reliant upon income taxes and Joint Economic Development District (JEDD) revenues in 2016, which accounted for 83.0% of the fund's revenues. The table below provides a comparison of general fund revenues by type for 2015 and 2016:

Revenues by Source	2015	2016	Increase/(Decrease)	
			Amount	Percentage
Income tax transfers-in	\$ 7,551,975	\$ 8,295,827	\$ 743,852	9.8%
JEDD revenues	3,483,088	3,344,739	(138,349)	-4.0%
Real and other taxes	902,560	937,930	35,370	3.9%
Charges for services	533,651	486,549	(47,102)	-8.8%
Intergovernmental	340,724	297,847	(42,877)	-12.6%
All Other Revenues	578,182	659,699	81,517	14.1%
Total	\$ 13,390,180	\$ 14,022,591	\$ 632,411	4.7%

Seventy-five percent of income tax revenues, net of refunds and collection costs, are required to be allocated to the general fund. These income tax allocations are included in the table above as "Income tax transfers-in". Please refer to the following *Income Tax Revenue* section for a comparison of income tax revenue collected in 2015 and 2016.

The City receives additional income tax monies, reported as JEDD revenues, as the result of its participation in the Bath-Akron-Fairlawn JEDD. Akron is responsible for the administration, collection, and enforcement of the income tax for the JEDD. The City is entitled to 48.15% of income tax proceeds from the JEDD, net of collection expenditures. The City's share of revenue generated by the JEDD amounted to \$3,344,739 in 2016, a decrease of 4.0% from the previous year.

Intergovernmental revenue decreased by \$42,877 or 12.6% in 2016. This decrease was due, in part, to deeper cuts to the local government funding provided by the State. The State's operating budget bill for FY2016 and FY2017 reduced the total amount available for distribution to municipal corporations and redirected the amounts not distributed to villages and townships as supplements. As a result, the local government funding the City received from the State decreased by 21.4% in 2015 and 53.0% in 2016.

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General Fund Expenditures

The general fund's resources were primarily used for security of persons and property, general government, and transportation purposes, which accounted for 83.4% of the fund's expenditures in 2016. The following table provides a comparison of general fund expenditures by function for 2015 and 2016:

Expenditures by Function	2015	2016	Increase/(Decrease)	
	Amount	Amount	Amount	Percentage
Security of persons and property	\$ 6,194,328	\$ 6,207,326	\$ 12,998	0.2%
General government	2,543,791	2,496,930	(46,861)	-1.8%
Transportation	2,344,091	2,296,826	(47,265)	-2.0%
Community environment	1,108,172	452,117	(656,055)	-59.2%
Transfers/Advances-out	453,000	970,705	517,705	114.3%
All Other Expenditures	758,737	761,804	3,067	0.4%
Total	\$ 13,402,119	\$ 13,185,708	\$ (216,411)	-1.6%

Community environment expenditures include the activity of the City's Zoning, Housing, and Residential Building Department, as well as, payments to subsidize the operations of the Community Improvement Corporation of Fairlawn (the "CIC"). Community environment expenditures decreased by 59.2% or \$656,055, as a result of a development agreement entered into by the City, CIC, and STEMCO in 2015. The agreement required the City to make subsidy payments to the CIC in 2015 to fund infrastructure improvements, which began in late 2015 and were completed in late 2016.

Interfund transfers/advances-out increased by \$517,705 or 114.3%, primarily due to the fund providing seed-money to initiate projects in two other funds. The newly created broadband fund received interfund transfers totaling \$437,829 to cover the operating costs of the FairlawnGig utility during the startup-phase, while the permissive tax fund received an interfund advance of \$78,576 for the resurfacing of Ghent Road. The general fund will be repaid the \$78,576 advanced, once the City receives reimbursement from Summit County's permissive license tax funds for the Ghent Road resurfacing.

Income Tax Revenue

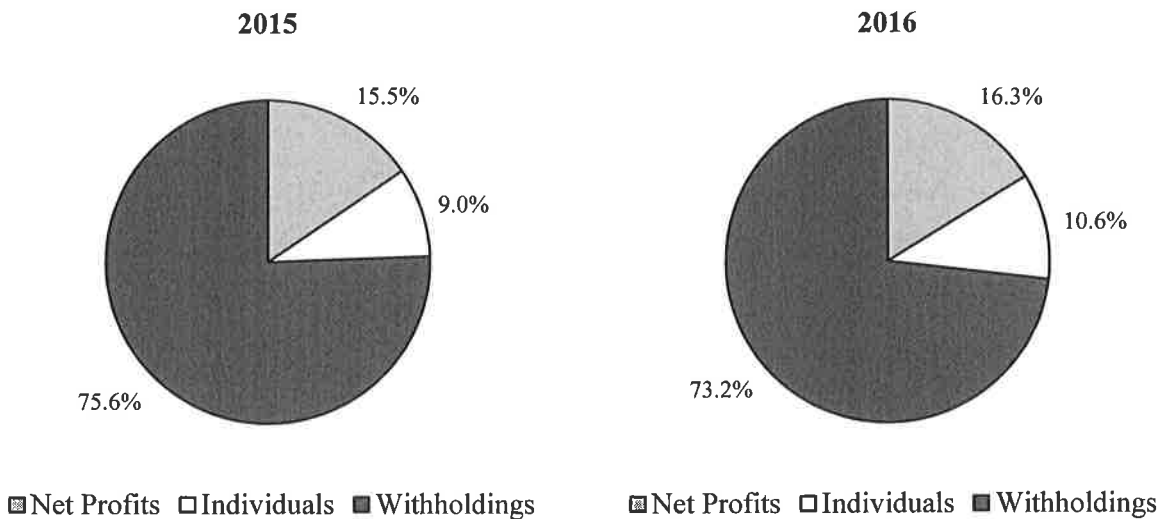
Income taxes, the City's largest revenue source, are collected to provide funds for the general operations of the City and the acquisition, construction, and improvement of the City's capital assets. Seventy-five percent of income tax revenues, net of refunds and collection costs, are required to be allocated to the general fund, while the remaining 25% is required to be allocated to the capital improvement fund. The following table provides a comparison of income tax revenue collected in 2015 and 2016:

	2015	2016	Increase/(Decrease)	
	Amount	Amount	Amount	Percentage
Income Tax Revenue	\$ 13,150,016	\$ 13,642,465	\$ 492,449	3.7%
Less: Shared Tax Paid to Akron	(1,362,223)	(1,439,318)	(77,095)	5.7%
Net Income Tax Revenue	\$ 11,787,793	\$ 12,203,147	\$ 415,354	3.5%

Income tax revenues increased by 3.7% in 2016 to \$13,642,465. The City collected \$3,026,854 from businesses located in Fairlawn’s shared tax districts, \$1,439,318 of which was sent to Akron in accordance with various tax sharing agreements. Net income tax revenues (excluding shared tax revenues remitted to Akron) amounted to \$12,203,147, an increase of 3.5% over the prior year. Much of this increase was driven by general growth among business net profit filers and filers in the Embassy Parkway shared tax district, which grew by 14.3% and 8.5%, respectively. Furthermore, we noted collections from resident filers increased by 23.6%, due to the enforcement of the estimated tax payment requirements mandated by HB 5 and codified in the new income tax code.

As shown in the following chart, the composition of the City’s income tax revenues remained consistent, with 75.6% and 73.2% of revenues coming from withholding taxes in 2015 and 2016, respectively.

Income Tax Collections by Type



Capital-Related Debt

On May 19, 2016, the City, through the Development Finance Authority of Summit County (the “DFA”), issued \$10,175,000 in Development Lease Revenue Bonds for the purpose of paying the costs of acquisition, construction, improvement, and equipping of the FairlawnGig, a municipal broadband utility, to provide wireless and fiber optic high speed broadband internet services to the City and the Bath-Akron-Fairlawn JEDD and to pay costs of issuance of the bonds. The bonds are secured by rental payments to be made by the City pursuant to an agreement to lease the FairlawnGig from the DFA, as lessor, to the City, as lessee, with ownership transferring to the City upon termination of the lease and payment of the lease purchase price. The City’s obligation to make rental payments is secured by a pledge of the City’s nontax revenues as defined in the operative documents. The interest rate on the bonds is 3.69% and the final maturity date is December 1, 2046.

Independent Audit

The City's Basic Financial Statements for the year ended December 31, 2015 were compiled by the Finance Department with technical assistance provided by Julian & Grube, Inc. The State Auditor's Office conducted the annual independent audit of the City's financial statements and issued their report on September 19, 2016. The City received an unmodified (clean) audit opinion, which is a testament to the diligence and professionalism of the staff of the Finance and Tax Departments.

Next Year's Outlook

On December 19, 2016, the Fairlawn City Council passed the 2017 temporary appropriations. Overall, the total 2017 temporary appropriations proposed for all City funds (net of interfund activity) are \$174,596 or 0.8% less than the 2016 permanent appropriations. The table below provides a summary of the City's total appropriations, net of interfund activity, for 2016 compared to 2017:

Total Appropriations (net of interfund activity)	2016		2017		Increase/(Decrease)	
	Permanent	Temporary	Amount	Percentage		
General Fund	\$ 13,136,355	\$ 13,289,688	\$ 153,333	1.2%		
Income Tax Fund	2,121,550	2,261,360	139,810	6.6%		
Capital Improvement Fund	4,035,356	2,629,384	(1,405,972)	-34.8%		
All Other Funds	1,858,255	2,796,488	938,233	50.5%		
Total All Funds	\$ 21,151,516	\$ 20,976,920	\$ (174,596)	-0.8%		

The general fund's appropriations increased by \$153,333 or 1.2%, due to projected personnel cost increases. Since negotiations with the City's bargaining units are ongoing, salaries and wages were budgeted at their 2016 rates and adjusted for anticipated staffing changes. In addition, the temporary appropriations included health insurance budgeted at a 10% increase to the 2016 rates and also adjusted for anticipated staffing changes. However, the City's Health Insurance Committee subsequently selected a Medical Mutual medical insurance plan for 2017 that was only 2.6% or \$35,102 more than the 2016 United Healthcare plan. This change and any changes resulting from the City's ongoing salary and wage negotiations will be reflected in the 2017 permanent appropriations.

Another item impacting the general fund's 2017 appropriations, but not shown in the table above, is the inclusion of an interfund transfer of \$1,313,243 to the broadband fund to cover the operating costs of the FairlawnGig utility. The funds will be transferred on an as-needed basis during the startup-phase, with the ultimate goal of the utility supporting itself through user fees as service expands.

Income tax fund appropriations were \$139,810 or 6.6% greater due to continued growth in the City's shared tax districts requiring greater shared tax revenue payments to Akron. Appropriations in the capital improvement fund decreased by \$1,405,972 or 34.8%. This decrease resulted from the decision to forgo the annual asphalt street repair program in 2017.

As always, the staff of Finance and Tax Departments look forward to the challenges of a new year. Please contact us if you have any questions or need any additional information.

YTD Fund Report for Year 2016 Month 12 - City of Fairlawn

Fund	Description	Beg Yr Bal	YTD Rec	YTD Exp	Unexp	Enc	Unenc
101	GENERAL FUND	7,464,699.22	14,022,590.92	13,185,707.24	8,301,582.90	791,549.82	7,510,033.08
211	STREET CONSTR. & MAINTENANCE	158,499.74	277,410.76	226,969.92	208,940.58	17,128.18	191,812.40
212	PERMISSIVE TAX	33,165.02	96,216.13	114,576.00	14,805.15	0.00	14,805.15
213	STATE HIGHWAY IMPROVEMENT	84,290.83	22,566.07	21,698.58	85,158.32	301.42	84,856.90
216	INCOME TAX	6,114,633.95	13,646,477.94	13,221,739.52	6,539,372.37	151,536.78	6,387,835.59
221	ENFORCE & EDUCATION (DUI)	12,190.35	925.00	0.00	13,115.35	0.00	13,115.35
222	SEWER MAINTENANCE & REPAIR	447,853.21	134,664.40	166,248.07	416,269.54	98,153.28	318,116.26
225	STEMCO URBAN REDEV TIF	0.00	0.00	0.00	0.00	0.00	0.00
226	ENERGY SID	0.00	0.00	0.00	0.00	0.00	0.00
331	CAPITAL IMPROVEMENT	1,700,315.10	13,852,809.40	3,788,711.20	11,764,413.30	10,613,350.94	1,151,062.36
336	CAPITAL RESERVE	2,026,459.63	0.00	0.00	2,026,459.63	0.00	2,026,459.63
441	BOND RETIREMENT	14,194.31	36.13	14,230.44	0.00	0.00	0.00
510	BROADBAND FUND	0.00	446,513.67	178,525.00	267,988.67	259,303.67	8,685.00
780	UNCLAIMED FUND	26,741.40	2,159.31	10,470.01	18,430.70	0.00	18,430.70
781	ESCROW	0.00	0.00	0.00	0.00	0.00	0.00
782	STREET OPENING DEPOSIT	94,566.00	8,300.00	57,100.00	45,766.00	0.00	45,766.00
783	PERFORM/LANDSC DEPOSIT	25,470.50	49,500.00	57,970.50	17,000.00	0.00	17,000.00
784	POLICE PENSION	127,156.26	339,317.65	335,252.97	131,220.94	0.00	131,220.94
785	FIRE PENSION	49,630.83	299,817.65	285,391.85	64,056.63	0.00	64,056.63
786	LAW ENFORCEMENT TRUST	1,934.59	0.00	0.00	1,934.59	0.00	1,934.59
787	DRUG LAW ENFORCEMENT	55,986.91	300.00	0.00	56,286.91	0.00	56,286.91
788	FURTHERANCE OF JUSTICE	5,000.00	0.00	0.00	5,000.00	0.00	5,000.00
789	FED DRUG LAW ENFORCEMENT	18,207.98	36.43	4,216.77	14,027.64	184.25	13,843.39
23 Funds		18,460,995.83	43,199,641.46	31,668,808.07	29,991,829.22	11,931,508.34	18,060,320.88

**City of Fairlawn, Ohio
Income Tax Receipts
December 31, 2016**

Type Tax District (% shared)	October	November	December	YTD	Last Year to Date	Increase/(Decrease) Vs. Last YTD	
Business Net Profit	\$ 68,146.48	\$ 16,705.01	\$ 247,827.82	\$ 1,689,779.94	\$ 1,478,351.95	\$ 211,427.99	14.3% (a)
Rosemont (33.3%)	6,997.00	1,000.00	-	26,637.00	62,990.00	(36,353.00)	-57.7%
Link (40%)	-	-	168.00	860.76	-	860.76	-
Embassy Parkway (50%)	9,038.59	1,484.46	61,400.76	493,963.87	487,560.77	6,403.10	1.3%
Shared Boundaries (50%)	-	-	747.00	7,437.00	5,468.00	1,969.00	36.0%
Resident	50,738.90	36,265.82	154,668.48	941,881.44	762,317.44	179,564.00	23.6% (b)
Non-resident, conducting business in Fairlawn	54,960.47	13,359.87	59,261.43	502,182.13	415,022.15	87,159.98	21.0%
Withholding	650,683.26	599,298.93	538,811.01	7,481,767.46	7,614,033.78	(132,266.32)	-1.7% (c)
Rosemont (33.3%)	34,116.83	31,553.47	32,626.25	414,455.01	398,201.24	16,253.77	4.1%
Link (40%)	600.13	485.29	488.27	5,073.12	10,572.35	(5,499.23)	-52.0%
Embassy Parkway (50%)	141,415.54	115,993.56	151,675.56	2,070,283.86	1,908,396.59	161,887.27	8.5% (d)
Shared Boundaries (50%)	704.21	863.76	660.20	8,143.06	7,101.41	1,041.65	14.7%
Total Receipts	1,017,401.41	817,010.17	1,248,334.78	13,642,464.65	13,150,015.68	492,448.97	3.7%
Less: Shared Tax Due Akron	89,523.83	70,216.16	118,379.68	1,439,318.12	1,362,222.74	77,095.38	5.7%
Total Net Receipts	\$ 927,877.58	\$ 746,794.01	\$ 1,129,955.10	\$ 12,203,146.53	\$ 11,787,792.94	\$ 415,353.59	3.5% (e)

Tick Mark Legend

- (a) Increase resulted from general growth with receipts from 34 businesses growing by \$5,000 or more, while receipts from only 19 have decreased by \$5,000 or more.
- (b) Increase resulted from the enforcement of the estimated tax payment requirements mandated by HB 5 and codified in the new income tax code.
- (c) Decrease resulted from significant, non-recurring withholding transactions received in 2015.
- (d) Increase resulted from multiple new businesses/taxpayers in the shared tax district.
- (e) Prior month's percentage was 1.6%.