



MARK H. LUDWIG
FINANCE DIRECTOR

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TAX ADMINISTRATOR/
ASSISTANT FINANCE DIRECTOR

WILLIAM J. ROTH, JR.
MAYOR

CITY OF FAIRLAWN

MEMORANDUM

To: William J. Roth, Jr., Mayor

From: Jacob D. Kaufman, Tax Administrator/Assistant Finance Director

Date: January 5, 2021

Subject: 2020 Finance/Tax Annual Report

Cc: Mark Ludwig, Finance Director

The City's unencumbered cash balances serve as useful measures 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, 2019 and 2020 followed by an analysis of the City's most significant funds:

Unencumbered Cash Balances	2019	2020	Increase/(Decrease)	
			Amount	Percentage
General Fund	\$ 5,536,204	\$ 7,029,719	\$ 1,493,515	27.0%
Income Tax Fund	6,616,750	6,270,467	(346,283)	-5.2%
Capital Improvement Fund	1,252,086	1,361,052	108,966	8.7%
Federal Capital Grants Fund	151,978	(6,185,649)	(6,337,627)	-4170.1%
Broadband Fund	271,337	788,079	516,742	190.4%
Summit Co Criminal Justice Tech Fund	-	9,199	9,199	n/a
All Other Funds	3,264,495	3,539,321	274,826	8.4%
Total All Funds	\$ 17,092,850	\$ 12,812,188	\$ (4,280,662)	-25.0%

General Fund

The general fund is the primary operating fund of the City and accounts for nearly every City department. Maintaining adequate fund balance levels is essential to mitigate current and future risks and to ensure stable tax rates. The unencumbered cash balance in the general fund increased 27.0% to \$7,029,719 during 2020. At this level, it provides the City with a strong reserve balance equal to 43.3% of the fund's 2020 expenditure budget. For comparison, the Government Finance Officers Association recommends that governments, at a minimum, maintain an unrestricted general fund balance of no less than 16.7% of regular operating expenditures.

The table below provides a comparison of general fund revenues by source for 2019 and 2020:

Revenues by Source	2019	2020	Increase/(Decrease)	
			Amount	Percentage
Income tax transfers-in	\$ 8,608,973	\$ 8,632,676	\$ 23,703	0.3%
JEDD revenues	3,525,070	3,803,405	278,335	7.9%
Real and other taxes	934,598	754,403	(180,195)	-19.3%
Charges for services	430,769	402,533	(28,236)	-6.6%
Intergovernmental	572,268	1,009,612	437,344	76.4%
Investment income	381,742	120,916	(260,826)	-68.3%
Advances-in	571,650	152,966	(418,684)	-73.2%
All other revenues	1,025,667	783,173	(242,494)	-23.6%
Total	\$ 16,050,737	\$ 15,659,684	\$ (391,053)	-2.4%

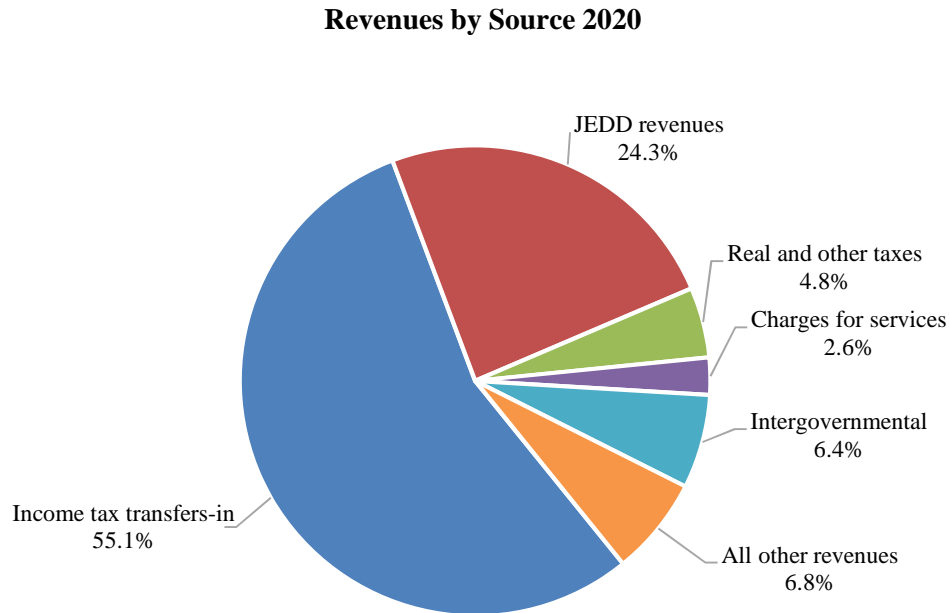
Seventy-five percent of income tax revenues, net of refunds and collection costs, are required to be allocated to the general fund. This income tax allocation, included in the table above as “Income tax transfers-in,” is calculated on a trailing 12 months basis coinciding with the calendar year, meaning the amounts allocated to the fund in 2020 are based on the actual net collections in 2019. Net income tax revenues increased by 1.9% in 2019, leading to the increased income tax allocation to the general fund in 2020. Please refer to the **Income Tax Fund** section for an analysis of actual income tax revenue collections in 2020.

The City receives additional income tax monies, reported as Joint Economic Development District (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 46.67% of the income tax proceeds from the JEDD, net of collection expenditures. The City’s share of JEDD revenues increased by 7.9% to \$3,803,405 in 2020, after decreasing by roughly the same percentage in 2019.

The following other significant fluctuations were noted during 2020:

- On-going travel restrictions, due to the COVID-19 pandemic, resulted in a \$170,152 decrease in transient guest taxes, included above as real and other taxes.
- Intergovernmental revenues increased by \$437,344 or 76.4%, due to the Bureau of Workers’ Compensation issuing nearly \$8 billion in dividends to Ohio employers to ease COVID-19’s impact on the state’s business community and economy.
- Investment income decreased by 68.3% or \$260,826, as a result of the Federal Reserve’s decision to cut interest rates in an effort to stabilize the U.S. economy amid recession concerns.
- Advances-in decreased by \$418,684, due to the prior year repayment of funds advanced (loaned) to the federal capital grants fund for right-of-way (ROW) acquisitions in conjunction with the Cleveland-Massillon Road widening project.
- Other revenues decreased by 23.6% or \$242,494, due, in part, to the prior year receipt of excess proceeds from the sale of five parcels of real estate on Riviera Drive from the Community Improvement Corporation of Fairlawn (CIC).

As shown below, the general fund continues to be heavily reliant upon income taxes and JEDD revenues, which accounted for 79.4% of the fund's revenues in 2020:



The following table provides a comparison of general fund expenditures by function for 2019 and 2020:

Expenditures by Function	2019	2020	Increase/(Decrease)	
			Amount	Percentage
General government	\$ 2,575,292	\$ 2,351,057	\$ (224,235)	-8.7%
Security of persons and property	6,862,447	6,601,283	(261,164)	-3.8%
Transportation	2,683,252	2,609,493	(73,759)	-2.7%
Community environment	743,243	323,811	(419,432)	-56.4%
Transfers/Advances-out	4,047,313	1,240,059	(2,807,254)	-69.4%
All other expenditures	841,966	729,707	(112,259)	-13.3%
Total	\$ 17,753,513	\$ 13,855,410	\$ (3,898,103)	-22.0%

Increases to employee wages and health insurance costs impacted nearly every expenditure function in 2020. Salaries and wages were increased 2.5% for all employees and further increased due to the occurrence of a 27th bi-weekly pay date in 2020. Additionally, medical insurance rates increased 7.9%, while dental insurance rates were unchanged in the second year of a two-year contract

The activities of the Police, Dispatch, and Fire & EMS Departments are reported as security of persons and property expenditures. These expenditures decreased by \$261,164 or 3.8%, due to the partial allocation personnel costs to two restricted grant funds. The City was awarded federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funding through both the State of Ohio and Summit County. The local coronavirus relief fund and the Summit County COVID-19 payroll support grant program fund were created to account for the revenues and expenses associated with these awards. In accordance with guidance issued

by the U.S. Treasury Department, a portion of the City's public safety personnel costs were allocated to these funds and subsequently paid with CARES Act funding.

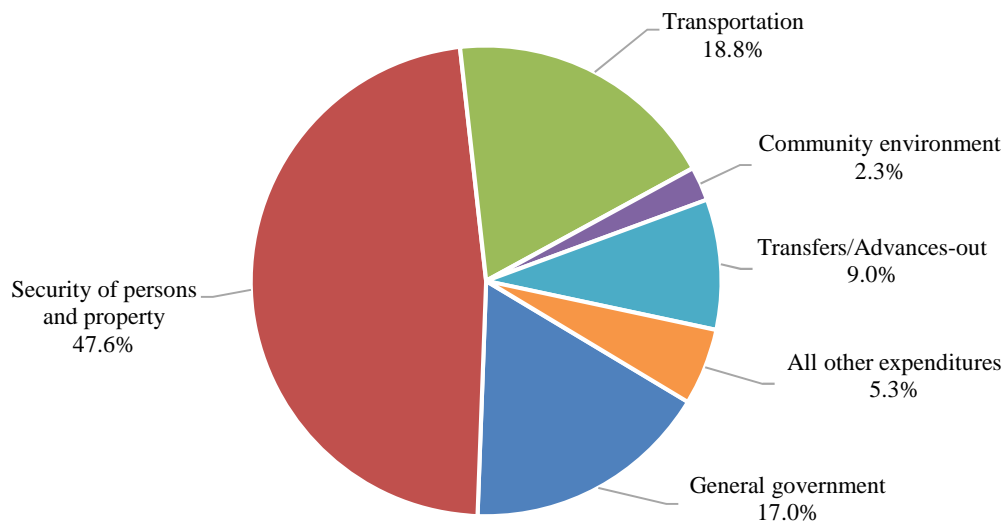
General government expenditures include the activities of the Mayor's administration and all other City departments not otherwise classified under another expenditure function. The 8.7% decrease in general government expenditures resulted, in part, from the partial allocation personnel costs to the local coronavirus relief fund, in accordance with U.S. Treasury Department guidelines. Furthermore, the decrease was also the result of steps taken to limit spending amid the economic uncertainty of the COVID-19 pandemic.

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 CIC. Community environment expenditures decreased by 56.4% or \$419,432, due to the prior year demolition of the Cornus Hill Mansion and subsidized-purchase of a development property by the CIC.

Interfund transfers/advances-out of the general fund decreased by \$2,807,254 or 69.4%. The decrease was the result of the following two significant interfund transactions occurring in the prior year. The fund advanced money to the federal capital grants fund to acquire ROW parcels needed for the widening of Cleveland-Massillon Road. The fund transferred money to the capital improvement fund to cover the costs incurred for the emergency replacement of a collapsed storm sewer line near Sand Run Parkway.

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 2020, as illustrated below:

Expenditures by Function 2020



Income Tax Fund

The income tax fund was established for the administration and collection of the City’s 2% income tax. 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 unencumbered cash balance in the income tax fund, decreased \$346,282 or 5.2% during the year.

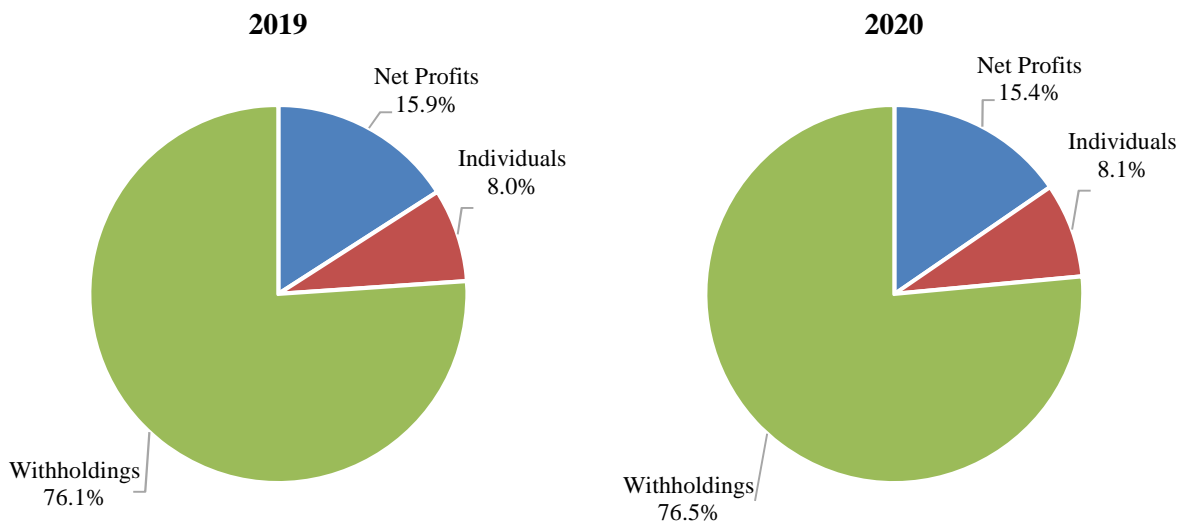
The following table provides a comparison of income tax revenues collected in 2019 and 2020:

	2019	2020	Increase/(Decrease)	
			Amount	Percentage
Income Tax Revenue	\$ 14,002,625	\$ 13,383,443	\$ (619,182)	-4.4%
Less: Shared Tax Paid to Akron	(1,499,941)	(1,453,280)	46,661	-3.1%
Net Income Tax Revenue	\$ 12,502,684	\$ 11,930,163	\$ (572,521)	-4.6%

Income tax revenues decreased by 4.4% in 2020 to \$13,383,443. The City collected \$3,083,395 from businesses located in shared tax districts, \$1,453,280 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 \$11,930,163, or 4.6% less than the prior year. The local economy continues to suffer from the strain of the COVID-19 pandemic. The temporary shutdown of businesses and ongoing restrictions placed on others have contributed to an overall decrease of 3.9% in withholding taxes and 7.3% in net profit taxes.

As shown in the following chart, the composition of the City’s income tax revenues remained consistent, with 76.1% and 76.5% of revenues coming from withholding taxes in 2019 and 2020, respectively.

Income Tax Collections by Type

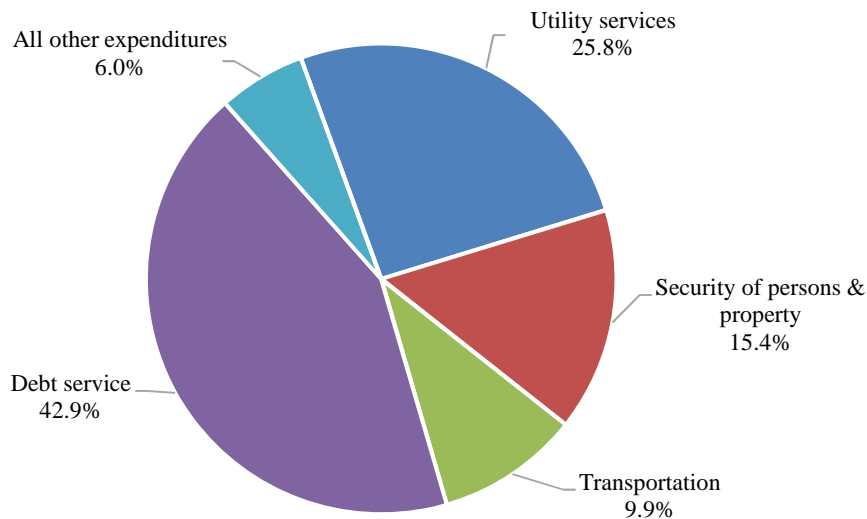


Capital Improvement Fund

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 \$108,966 or 8.7% in 2020 due to the decision to forgo various projects amid the economic uncertainty of the COVID-19 pandemic.

In addition to servicing the City's outstanding capital debt issues, the capital improvement fund's resources were primarily used for utility services, security of persons and property, and transportation purposes, which accounted for 51.1% of the fund's expenditures in 2020, as illustrated below:

Expenditures by Function 2020



The following major capital acquisitions and improvements occurred in 2020:

- Police Body and Dashboard Cameras (partial payment of \$129,640)
- 2009 Ambulance Replacement (partial payment of \$172,855)
- Cleveland-Massillon Road Widening - ROW Acquisition and Construction (\$165,314 local share)
- Hilan Road Waterline Installation (\$244,200)
- Cleveland-Massillon Rd Fiber Optic Relocation (\$237,803)

Federal Capital Grants Fund

The federal capital grants fund was established to separately track federal financial assistance awarded for the acquisition, construction, maintenance, and improvement of capital items. The City has been awarded federal funding through the Highway Safety, Congestion Mitigation Air Quality Improvement, and Surface Transportation Block Grant programs for the widening of Cleveland-Massillon Road. During the year, \$1,444,711 in federal funding was expended for ROW acquisitions and construction.

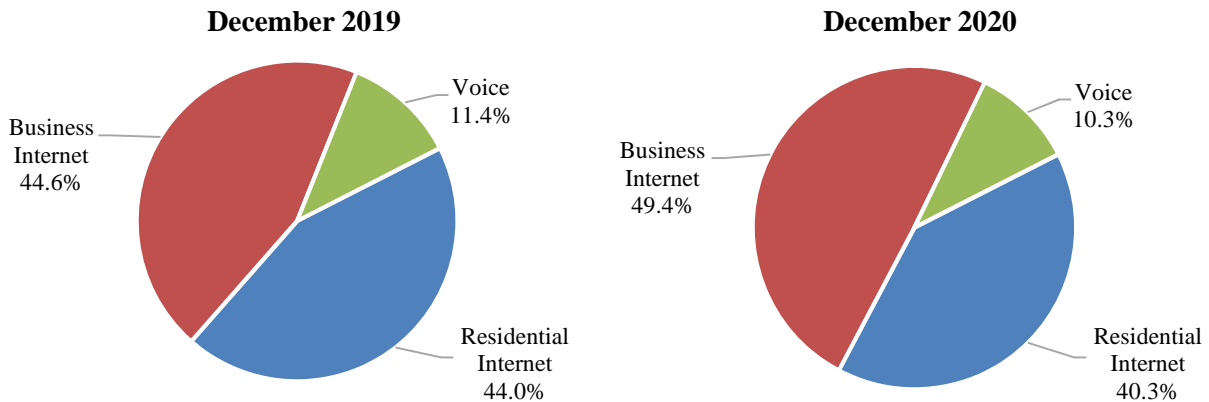
Broadband Fund

The broadband fund was created to account for the activities of the FairlawnGig utility. The unencumbered cash balance in the broadband fund increased to \$788,079 during the year, as the utility’s customer base and service offerings continued to grow. The following table further details FairlawnGig’s year-over-year growth in terms of active customers and monthly recurring revenues:

	December	December	Increase/(Decrease)	
	2019	2020	Amount	Percentage
Active Customers	1,947	2,086	139	7.1%
Monthly Recurring Revenues	\$ 186,426	\$ 225,818	\$ 39,392	21.1%
Average Revenue per User	\$ 95.75	\$ 108.25	\$ 12.50	13.1%

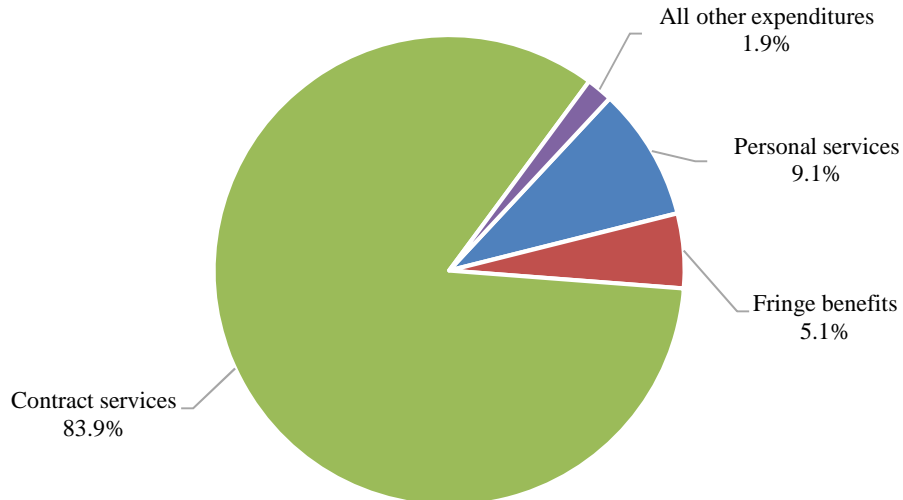
As shown in the following chart, the composition of FairlawnGig’s monthly recurring revenues shifted slightly, with internet services comprising 89.7% of revenues in 2020, up from 88.6% in 2019.

Monthly Recurring Revenues by Source



FairlawnGig's resources were primarily used for contract services pertaining to customer installations, the provisioning of services, and maintenance of the system, which accounted for 83.9% of the utility's expenditures in 2020, as illustrated below:

Expenditures by Function 2020



Summit County Criminal Justice Technology Fund

Summit County used federal CARES Act funding to award the City a grant to design and construct a new fiber-optic network to connect the county jail with a number of courthouses and other law enforcement/social services agencies in order to allow for improved and secure communications, video arraignments, and other remote communications. The Summit County criminal justice technology fund was created to account for revenues and expenses associated with this grant and the ensuing project. During the year, \$3,432,379 in federal CARES funding was expended for the construction of the network. In addition, the project generated \$15,468 in new monthly recurring revenues for the broadband fund.

Independent Audit

The City's Basic Financial Statements for the year ended December 31, 2019 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 October 20, 2020. The City received an unmodified audit opinion, which is a testament to the diligence and professionalism of the Finance/Tax Department staff.

Next Year's Outlook

On December 21, 2020, Council approved the 2021 temporary appropriations. Overall, the total 2021 temporary appropriations for all City funds (net of interfund activity) are \$10,066,996 or 30.3% less than the 2020 permanent appropriations. The table below provides a comparison of the City's total appropriations, net of interfund activity, for 2020 and 2021:

Total Appropriations (net of interfund activity)	2020	2021	Increase/(Decrease)	
	Permanent	Temporary	Amount	Percentage
General Fund	\$ 15,427,486	\$ 14,471,416	\$ (956,070)	-6.2%
Income Tax Fund	2,438,880	2,265,172	(173,708)	-7.1%
Capital Improvement Fund	3,396,992	2,475,492	(921,500)	-27.1%
Federal Capital Grants Fund	7,764,315	61,728	(7,702,587)	-99.2%
Broadband Fund	2,190,285	2,240,310	50,025	2.3%
All Other Funds	2,054,379	1,691,223	(363,156)	-17.7%
Total All Funds	\$ 33,272,337	\$ 23,205,341	\$ (10,066,996)	-30.3%

The general fund's appropriations decreased by \$956,070 or 6.2% primarily due to the occurrence of a 27th bi-weekly pay date in 2020. In addition, salaries and wages were increased 2.5% for all employees in 2021 and adjusted for anticipated personnel changes, while medical insurance premiums increased by 7.0%.

The appropriations for the income tax fund are \$173,708 or 7.1% less than the 2020 permanent appropriations. The budgets for tax refunds and shared tax revenue payments were decreased in anticipation of the ongoing COVID-19 pandemic continuing to negatively impact income tax collections.

Appropriations in the capital improvement fund decreased by \$921,500 or 27.1%. This decrease resulted from the inclusion of the Cleveland-Massillon Road widening contracts in the 2020 budget.

The federal capital grants fund budget of \$61,728 represents the remaining federal funding available for the acquisition of outstanding ROW parcels on the Cleveland-Massillon Road widening project.

Finally, the broadband fund's appropriations increased by \$50,025 or 2.3% over the 2020 permanent appropriations. The addition of a second Broadband Utility Technician I, allocation of half of the Service Director's salary, and the aforementioned adjustments to salaries/wages and medical insurance premiums accounted for the overall increase.

For additional information or questions, please contact the City of Fairlawn, Finance Department at 330-668-9524.

YTD Fund Report for Year 2020 Month 12 - City of Fairlawn

Fund	Description	Beg Yr Bal	YTD Rec	YTD Exp	Unexp	Enc	Unenc
101	GENERAL	6,443,697.17	15,659,683.75	13,855,410.48	8,247,970.44	1,218,251.06	7,029,719.38
211	STREET CONSTR. & MAINTENANCE	402,885.21	383,728.85	311,880.95	474,733.11	9,752.86	464,980.25
212	PERMISSIVE TAX	75,497.99	170,720.71	228,024.00	18,194.70	0.00	18,194.70
213	STATE HIGHWAY IMPROVEMENT	46,671.06	31,211.02	24,786.17	53,095.91	0.00	53,095.91
216	INCOME TAX	6,857,695.97	13,403,562.60	13,755,951.48	6,505,307.09	234,839.61	6,270,467.48
221	ENFORCE & EDUCATION (DUI)	14,649.35	551.00	463.29	14,737.06	0.00	14,737.06
222	SEWER MAINTENANCE & REPAIR	503,706.12	133,984.35	201,601.47	436,089.00	118,832.98	317,256.02
225	STEMCO URBAN REDEV TIF	48,013.34	24,415.18	72,428.52	0.00	0.00	0.00
226	ENERGY SID	0.00	27,596.07	27,596.07	0.00	0.00	0.00
227	CRYSTAL CLINIC URBAN REDEV TIF	0.00	0.00	0.00	0.00	0.00	0.00
228	COURT COMPUTERIZATION	0.00	25,675.00	18,824.00	6,851.00	1,686.76	5,164.24
240	LOCAL CORONAVIRUS RELIEF	0.00	617,389.38	617,389.38	0.00	0.00	0.00
241	SUMMIT CO COVID-19 PSGP	0.00	214,524.45	214,524.45	0.00	0.00	0.00
331	CAPITAL IMPROVEMENT	1,858,425.69	3,095,431.04	2,262,976.02	2,690,880.71	1,329,828.47	1,361,052.24
336	CAPITAL RESERVE	1,826,459.63	200,000.00	0.00	2,026,459.63	0.00	2,026,459.63
340	FEDERAL CAPITAL GRANTS	268,054.17	1,659,334.53	1,740,715.66	186,673.04	6,372,321.87	(6,185,648.83)
510	BROADBAND	682,479.40	2,619,639.01	2,235,680.85	1,066,437.56	278,358.08	788,079.48
511	SUMMIT CO CRIMINAL JUSTICE TCH	0.00	6,500,000.00	3,432,379.31	3,067,620.69	3,058,421.66	9,199.03
780	UNCLAIMED	13,734.81	6,784.86	881.67	19,638.00	0.00	19,638.00
782	STREET OPENING DEPOSIT	131,765.00	13,880.00	43,520.00	102,125.00	0.00	102,125.00
783	PERFORM/LANDSC DEPOSIT	16,500.00	56,660.00	11,500.00	61,660.00	0.00	61,660.00
784	POLICE PENSION	174,980.16	425,556.33	366,498.28	234,038.21	67,510.82	166,527.39
785	FIRE PENSION	192,680.89	384,056.33	298,738.32	277,998.90	57,725.33	220,273.57
786	LAW ENFORCEMENT TRUST	4,221.35	0.00	4,221.35	0.00	0.00	0.00
787	DRUG LAW ENFORCEMENT	59,924.28	5,151.36	406.09	64,669.55	461.80	64,207.75
788	FURTHERANCE OF JUSTICE	5,000.00	0.00	0.00	5,000.00	0.00	5,000.00
26 Funds		19,627,041.59	45,659,535.82	39,726,397.81	25,560,179.60	12,747,991.30	12,812,188.30

**City of Fairlawn, Ohio
Income Tax Receipts
December 31, 2020**

Type			Increase/(Decrease)	
Tax District (% shared)	YTD	Last Year to Date	Vs. Last YTD	
Business Net Profit	\$ 1,543,438.58	\$ 1,578,645.13	\$ (35,206.55)	-2.2%
Rosemont (33.3%)	85,230.54	170,233.67	(85,003.13)	-49.9%
Link (40%)	-	-	-	-
Embassy Parkway (50%)	430,876.93	470,819.65	(39,942.72)	-8.5%
Shared Boundaries (50%)	4,358.00	5,629.00	(1,271.00)	-22.6%
Subtotal	<u>\$ 2,063,904.05</u>	<u>\$ 2,225,327.45</u>	<u>\$ (161,423.40)</u>	-7.3%
Individuals				
Resident	685,947.21	723,433.65	(37,486.44)	-5.2%
Non-resident	395,972.43	398,733.69	(2,761.26)	-0.7%
Subtotal	<u>\$ 1,081,919.64</u>	<u>\$ 1,122,167.34</u>	<u>\$ (40,247.70)</u>	-3.6%
Withholding	7,674,690.23	8,101,509.64	(426,819.41)	-5.3%
Rosemont (33.3%)	444,532.70	422,598.57	21,934.13	5.2%
Link (40%)	1,060.29	13,856.38	(12,796.09)	-92.3%
Embassy Parkway (50%)	2,110,649.53	2,109,445.35	1,204.18	0.1%
Shared Boundaries (50%)	6,686.84	7,720.29	(1,033.45)	-13.4%
Subtotal	<u>\$ 10,237,619.59</u>	<u>\$ 10,655,130.23</u>	<u>\$ (417,510.64)</u>	-3.9%
Total Receipts	<u>\$ 13,383,443.28</u>	<u>\$ 14,002,625.02</u>	<u>\$ (619,181.74)</u>	-4.4%
Less: Shared Tax Due Akron	(1,453,279.85)	(1,499,940.68)	46,660.83	-3.1%
Total Net Receipts	<u>\$ 11,930,163.43</u>	<u>\$ 12,502,684.34</u>	<u>\$ (572,520.91)</u>	-4.6%