

WILLIAM J. ROTH, JR.
MAYOR



MARK H. LUDWIG
FINANCE DIRECTOR
PATRICIA M. BERTSCH
TAX ADMINISTRATOR
ASSISTANT FINANCE DIRECTOR

CITY OF FAIRLAWN

MEMORANDUM

To: William J. Roth, Jr., Mayor
From: Jacob Kaufman, Financial Analyst
Date: January 6, 2016
Subject: 2015 Annual Report

The overall financial strength of the City remained steady in 2015. The unencumbered cash balance serves as a useful measure of the City's net resources available for spending at year-end. Included below is a comparison of the unencumbered cash balances of the City's funds at December 31, 2014 and 2015:

Unencumbered Cash Balances	2014	2015	Increase/(Decrease)	
			Amount	Percentage
General Fund	\$ 6,776,343	\$ 6,686,716	\$ (89,627)	-1.3%
Income Tax Fund	4,850,396	5,951,999	1,101,603	22.7%
Capital Improvement Fund	2,561,023	862,588	(1,698,435)	-66.3%
All Other Funds	2,881,583	3,033,993	152,410	5.3%
Total All Funds	\$ 17,069,345	\$ 16,535,296	\$ (534,049)	-3.1%

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, decreased slightly to \$6,686,716; however, it still provides the City with a reserve balance equal to 45.8% of the fund's annual budget.

The income tax fund was established for the administration and collection of the City's income tax. The combination of obvious net profit overpayments; significant, non-recurring withholding transactions; and conservative budgeting resulted in the unencumbered cash balance in the income tax fund increasing by \$1,101,603 or 22.7%.

The capital improvement fund accounts for the acquisition, construction, and improvement of the City's capital assets. The capital improvement fund's unencumbered cash balance decreased by \$1,698,435 or 66.3%. The decrease resulted from the following significant, nonrecurring capital projects occurring in 2015: Fairlawn Park Stream Restoration; West Market Street Improvement; and Cleveland-Massillon Road Widening. In 2016, the City expects to receive reimbursement for 50% of the cost of the Fairlawn Park Stream Restoration Project through an Ohio Environmental Protection Agency grant and 20% of the cost of the Cleveland-Massillon Road Widening Project from Summit County.

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 2014 and 2015:

	2014	2015	Increase/(Decrease)	
			Amount	Percentage
Income Tax Revenue	\$ 12,013,091	\$ 13,150,016	\$ 1,136,925	9.5%
Less: Shared Tax Paid to Akron	(1,182,127)	(1,362,223)	(180,096)	15.2%
Net Income Tax Revenue	\$ 10,830,964	\$ 11,787,793	\$ 956,829	8.8%

Income tax revenues increased by 9.5% in 2015 to \$13,150,016. The City collected \$2,880,290 from businesses located in Fairlawn's shared tax districts, \$1,362,223 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 \$11,787,793, an increase of 8.8% over the prior year. Much of this increase was driven by growth in the Embassy Parkway shared tax district, which grew by 19.3%; obvious net profit overpayments; and significant, non-recurring withholding transactions.

General Fund Revenues

The general fund continued to be heavily reliant upon income taxes and JEDD revenues in 2015, which accounted for 82.4% of the fund's revenues. The table below provides a summary of general fund revenues by type in 2014 compared to 2015:

Revenues by Source	2014	2015	Increase/(Decrease)	
			Amount	Percentage
Income tax transfers-in	\$ 6,922,050	\$ 7,551,975	\$ 629,925	9.1%
JEDD revenues	3,198,445	3,483,088	284,643	8.9%
Real and other taxes	874,865	902,560	27,695	3.2%
Charges for services	473,250	533,651	60,401	12.8%
Intergovernmental	601,123	340,724	(260,399)	-43.3%
All Other Revenues	602,591	578,182	(24,409)	-4.1%
Total	\$ 12,672,324	\$ 13,390,180	\$ 717,856	5.7%

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 ***Income Tax Revenue*** section for a comparison of income tax revenue collected in 2014 and 2015.

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 \$3,483,088 in 2015, an increase of 8.9% over the previous year.

Intergovernmental revenue decreased by \$260,399 or 43.3% in 2015. This decrease was due, in part, to the conclusion of the Federal Assistance to Firefighters grant, for which the City received reimbursement in 2014 and the receipt of a significant Bureau of Workers' Compensation refund in 2014.

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 82.7% of the fund's expenditures in 2015. The following table provides a comparison of general fund expenditures by function in 2014 and 2015:

Expenditures by Function	2014	2015	Increase/(Decrease)	
	Amount	Amount	Amount	Percentage
Security of persons and property	\$ 5,945,953	\$ 6,194,328	\$ 248,375	4.2%
General government	2,206,342	2,543,791	337,449	15.3%
Transportation	1,961,716	2,344,091	382,375	19.5%
Community environment	488,996	1,108,172	619,176	126.6%
Transfers-out	1,921,900	453,000	(1,468,900)	-76.4%
All Other Expenditures	862,221	758,737	(103,484)	-12.0%
Total	\$ 13,387,128	\$ 13,402,119	\$ 14,991	0.1%

General government expenditures increased by \$337,449 or 15.3%, primarily due to the progression of the City's FairlawnGig project. Most notably, the City entered into an agreement with Fujitsu Network Communications, Inc. for the engineering and design of the high speed wireless and fiber optic networks.

The activities of the City's Service Department and Engineering Department are collectively reported as transportation expenditures within the general fund. The 19.5% increase in transportation expenditures resulted from several Service Department expenditure accounts being moved to the general fund in 2015 to ease cash flow constraints in the street construction and maintenance fund.

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 (CIC). Community environment expenditures increased by 126.6% or \$619,176. This increase resulted from the development agreement entered into by the City, CIC, and STEMCO. As part of the agreement, the City is making certain infrastructure improvements, through the CIC, in exchange for STEMCO opening a technical center and office building facility in Fairlawn Corporate Park. It is estimated that the City and CIC will receive net income of approximately \$700,000 over the life the 20 year development agreement.

The decrease in transfers-out resulted from a nonrecurring transfer of \$1,500,000 to the capital improvement fund in 2014 to acquire and improve City infrastructure and other capital items.

Independent Audit

The City's Basic Financial Statements for the year ended December 31, 2014 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 July 24, 2015. The City received a clean (unqualified) audit opinion, which is a testament to the diligence and professionalism of the support staff of the Finance and Tax Departments.

Next Year's Outlook

On December 21, 2015, the Fairlawn City Council passed the temporary appropriations for 2016. The table below provides a summary of the City's total appropriations, net of interfund activity, for 2015 compared to 2016:

Total Appropriations (net of interfund activity)	2015		2016		Increase/(Decrease)	
	Permanent	Temporary	Amount	Percentage		
General Fund	\$ 12,953,593	\$ 12,994,826	\$ 41,233	0.3%		
Income Tax Fund	2,019,900	2,110,040	90,140	4.5%		
Capital Improvement Fund	2,912,175	1,494,500	(1,417,675)	-48.7%		
All Other Funds	1,161,783	1,191,113	29,330	2.5%		
Total All Funds	\$ 19,047,451	\$ 17,790,479	\$ (1,256,972)	-6.6%		

Overall, the total 2016 temporary appropriations proposed for all City funds (net of interfund activity) are \$1,256,972 or 6.6% less than the 2015 permanent appropriations. The general fund's appropriations increased by \$41,233 or 0.3%, due to anticipated staffing changes, most notably the expected hiring of an additional Communications Specialist. Income tax fund appropriations were \$90,140 or 4.5% greater due growth in the City's shared tax districts requiring greater shared tax revenue payments to Akron. Appropriations in the capital improvement fund decreased by \$1,417,675 or 48.7%. This decrease resulted from the inclusion of the following nonrecurring construction projects in the 2015 Permanent Appropriations: Fairlawn Park Stream Restoration; West Market Street Improvement; and Cleveland-Massillon Road Widening.

Salaries, wages, and health insurance costs were included in the 2016 temporary appropriations at their 2015 rates and adjusted for anticipated staffing changes. The City is currently engaged in salary and wage negotiations with its bargaining units for 2016. The City's Health Insurance Committee selected a United Healthcare medical insurance plan for 2016 that was 2.3% or \$28,813 less than the 2015 SummaCare plan. This change and any changes resulting from the City's ongoing salary and wage negotiations will be reflected in the 2016 permanent appropriations.

The Finance and Tax Departments look forward to the challenges of the new year.

YTD Fund Report for Year 2015 Month 12 - City of Fairlawn

Fund	Description	Beg Yr Bal	YTD Rec	YTD Exp	Unexp	Enc	Unenc
101	GENERAL FUND	7,476,638.76	13,390,180.24	13,402,119.78	7,464,699.22	777,983.06	6,686,716.16
211	STREET CONSTR. & MAINTENANCE	92,130.56	296,235.45	229,866.27	158,499.74	7,807.26	150,692.48
212	PERMISSIVE TAX FUND	42,826.25	18,034.77	27,696.00	33,165.02	0.00	33,165.02
213	STATE HIGHWAY IMPROVEMENT	82,203.73	24,087.10	22,000.00	84,290.83	0.00	84,290.83
216	INCOME TAX FUND	5,054,138.10	13,150,015.68	12,089,519.83	6,114,633.95	162,635.37	5,951,998.58
221	ENFORCE & EDUCATION FUND (DUI)	11,487.35	703.00	0.00	12,190.35	0.00	12,190.35
222	SEWER MAINT/REPAIR FUND	354,772.73	134,087.00	41,006.52	447,853.21	139,169.48	308,683.73
331	CAPITAL IMPROVEMENT FUND	2,819,133.36	2,587,268.47	3,706,086.73	1,700,315.10	837,727.41	862,587.69
336	CAPITAL RESERVE FUND	2,026,459.63	0.00	0.00	2,026,459.63	0.00	2,026,459.63
441	BOND RETIREMENT FUND	13,994.68	199.63	0.00	14,194.31	0.00	14,194.31
780	UNCLAIMED FUND	26,741.40	0.00	0.00	26,741.40	0.00	26,741.40
781	ESCROW FUND	0.00	0.00	0.00	0.00	0.00	0.00
782	STREET OPENING DEPOSIT FUND	66,460.00	31,466.00	3,360.00	94,566.00	0.00	94,566.00
783	PERFORM/LANDSC DEPOSIT FUND	40,470.50	0.00	15,000.00	25,470.50	0.00	25,470.50
784	POLICE PENSION FUND	131,658.26	351,011.55	355,513.55	127,156.26	0.00	127,156.26
785	FIRE PENSION FUND	52,839.65	292,811.55	296,020.37	49,630.83	0.00	49,630.83
786	LAW ENFORCEMENT TRUST FUND	1,934.59	0.00	0.00	1,934.59	0.00	1,934.59
787	DRUG LAW ENF FUND	55,686.91	300.00	0.00	55,986.91	0.00	55,986.91
788	FURTHERANCE OF JUSTICE FUND	5,000.00	0.00	0.00	5,000.00	0.00	5,000.00
789	FED DRUG LAW ENF FUND	27,691.77	19.58	9,503.37	18,207.98	377.15	17,830.83
20 Funds		18,382,268.23	30,276,420.02	30,197,692.42	18,460,995.83	1,925,699.73	16,535,296.10

City of Fairlawn
Income Tax Receipts
December 31, 2015

Type (% shared)	October	November	December	YTD	Last Year to Date	Incr/(Decr) over Last YTD
Business Net Profit	\$ 46,062.34	\$ 34,838.45	\$ 150,475.98	\$ 1,478,351.95	\$ 1,145,536.68	29.05%
Rosemont (33.3%)	-	209.50	155.00	62,990.00	113,235.00	-44.37%
Embassy Parkway (50%)	25,514.64	13,662.42	93,918.99	487,560.77	237,311.59	105.45%
Shared Boundaries (50%)	-	-	-	5,468.00	3,396.00	61.01%
Resident	77,571.94	26,467.24	48,095.35	762,317.44	757,762.12	0.60%
Non-resident, conducting business in Fairlawn	38,084.55	20,922.54	19,013.41	415,022.15	451,884.12	-8.16%
Withholding	539,655.68	614,022.56	527,740.38	7,614,033.78	7,124,478.31	.687%
Rosemont (33.3%)	31,824.76	31,581.49	29,018.92	398,201.24	385,317.03	3.34%
Link (40%)	667.44	-	-	10,572.35	14,954.35	-29.30%
Embassy Parkway (50%)	132,554.76	131,105.82	143,624.90	1,908,396.59	1,770,773.45	7.77%
Shared Boundaries (50%)	647.16	588.42	815.05	7,101.41	8,442.36	-15.88%
Total Receipts	892,583.27	873,398.44	1,012,857.98	13,150,015.68	12,013,091.01	9.46%
Shared Tax Due Akron	90,232.45	83,274.27	128,903.14	1,362,222.74	1,182,127.45	15.23%
Total Net Receipts	\$ 802,350.82	\$ 790,124.17	\$ 883,954.84	\$ 11,787,792.94	\$ 10,830,963.56	
Increase/(Decrease) Over Last Year's Collections				\$ 956,829.38		8.83%
Adjustments:						
To remove obvious Business Net Profit overpayments				225,000.00		
To remove significant, non-recurring Withholding transactions <i>(for comparison purposes)</i>				506,235.85		
Adjusted Increase/(Decrease) Over Last Year's Collections				\$ 225,593.53		2.08%