



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 7, 2019

Subject: 2018 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, 2017 and 2018 followed by an analysis of the City's most significant funds:

Unencumbered Cash Balances	2017	2018	Increase/(Decrease)	
			Amount	Percentage
General Fund	\$ 6,885,133	\$ 7,264,316	\$ 379,183	5.5%
Income Tax Fund	6,283,421	6,487,262	203,841	3.2%
Capital Improvement Fund	1,283,059	1,350,123	67,064	5.2%
Broadband Fund	113,538	106,216	(7,322)	-6.4%
All Other Funds	2,121,189	2,379,129	257,940	12.2%
Total All Funds	\$ 16,686,340	\$ 17,587,046	\$ 900,706	5.4%

General Fund

The general fund is the primary operating fund of the City and accounts for nearly every City department. The unencumbered cash balance in the general fund, increased 5.5% to \$7,264,316. It is essential that adequate fund balance levels 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 44.1% of the fund's 2018 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 type for 2017 and 2018:

Revenues by Source	2017	2018	Increase/(Decrease)	
			Amount	Percentage
Income tax transfers-in	\$ 8,600,886	\$ 8,501,455	\$ (99,431)	-1.2%
JEDD revenues	3,272,521	3,820,280	547,759	16.7%
Real and other taxes	904,497	959,069	54,572	6.0%
Charges for services	458,329	476,106	17,777	3.9%
Intergovernmental	441,457	457,236	15,779	3.6%
All other revenues	850,729	702,200	(148,529)	-17.5%
Total	\$ 14,528,419	\$ 14,916,346	\$ 387,927	2.7%

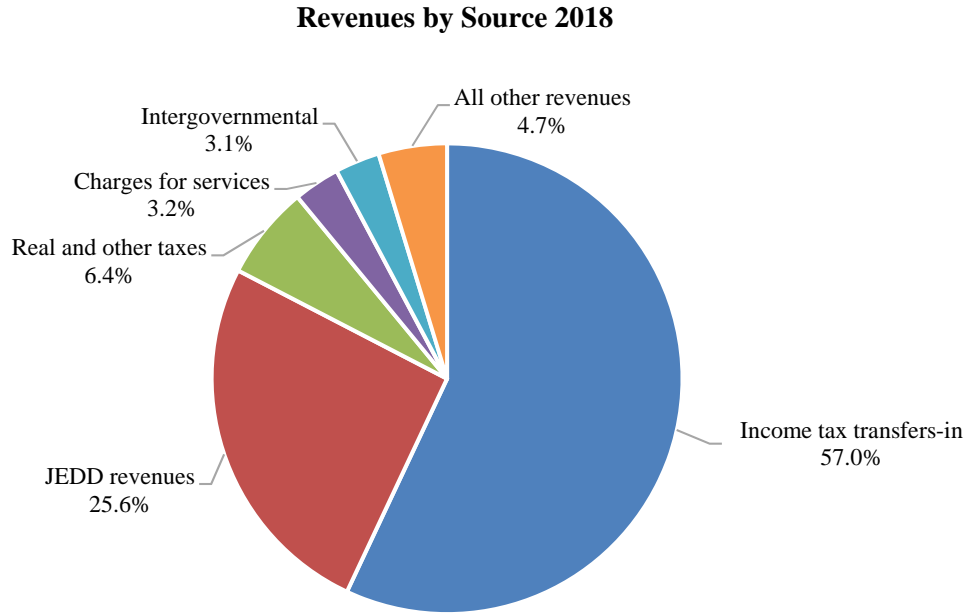
Seventy-five percent of income tax revenues, net of refunds and collection costs, are required to be allocated to the general fund. This income tax allocation, included in the table above as “Income tax transfers-in,” is calculated on a trailing one-year time period, meaning the amounts allocated to the fund in 2018 are based on the actual net collections in 2017. Net income tax revenues decreased by 1.2% in 2017, giving way to the decreased income tax allocation to the general fund in 2018. Please refer to the ***Income Tax Fund*** section for an analysis of actual income tax revenue collections in 2018.

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 JEDD income tax rate is directly tied to the City of Akron’s income tax rate, which increased from 2.25% to 2.5% in 2018. As a result, the City’s share of JEDD revenues increased by 16.7% to \$3,820,280 in 2018.

Other revenues decreased by \$148,529 or 17.5% in 2018. This decrease resulted from the Community Improvement Corporation of Fairlawn (CIC) reimbursing the City for wiring funds to purchase a Sand Run Parkway property on its behalf in 2017. The CIC subsequently obtained its own wiring capabilities, eliminating the need for such reimbursements in 2018.

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As shown below, the general fund continues to be heavily reliant upon income taxes and JEDD revenues, which accounted for 82.6% of the fund's revenues in 2018:



The following table provides a comparison of general fund expenditures by function for 2017 and 2018:

Expenditures by Function	2017	2018	Increase/(Decrease)	
	Amount	Amount	Amount	Percentage
Security of persons and property	\$ 6,536,209	\$ 6,936,517	\$ 400,308	6.1%
General government	2,613,953	2,658,143	44,190	1.7%
Transportation	2,326,549	2,410,152	83,603	3.6%
Community environment	541,698	565,841	24,143	4.5%
Transfers/Advances-out	2,215,127	1,220,300	(994,827)	-44.9%
All other expenditures	777,353	798,034	20,681	2.7%
Total	\$ 15,010,889	\$ 14,588,987	\$ (421,902)	-2.8%

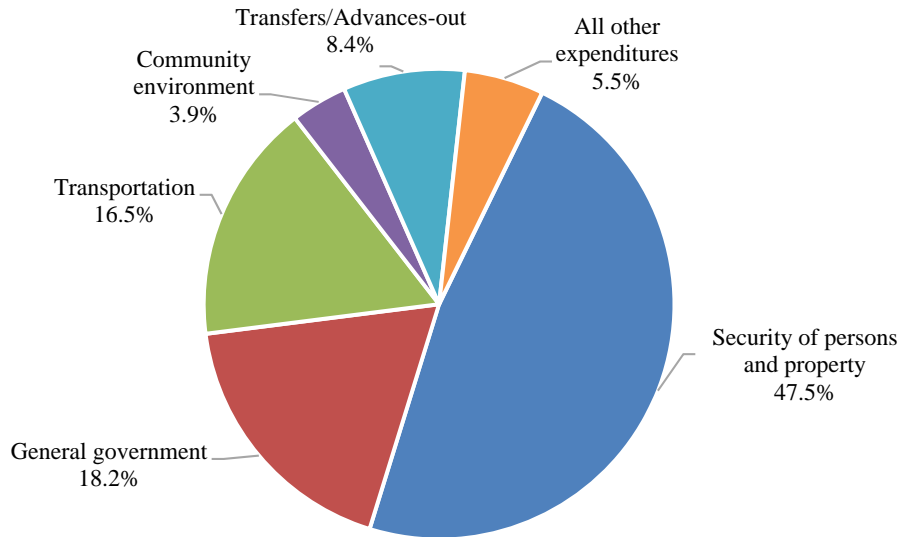
Increases to employee wages and health insurance costs impacted nearly every expenditure function in 2018. Salaries and wages were increased 3.25% for the communication specialists and 2.5% for all other employees. Furthermore, medical insurance rates increased by 4.9%, while dental insurance rates decreased 7.15%.

The activities of the Police, Dispatch, and Fire & EMS Departments are reported as security of persons and property expenditures. These expenditures increased by 6.1% or \$400,308, primarily due to increased personnel costs. In addition to the wage and health insurance increases previously noted, the retirement of a high-ranking employee in the Police Department and the addition of a seventh full-time communication specialist contributed to the overall increase.

Interfund transfers/advances-out of the general fund decreased by \$994,827 or 44.9%. The decrease resulted from less resources being needed to subsidize the operating and capital costs of the FairlawnGig utility, due to the utility's growing customer base and associated user fees.

The general fund’s resources were primarily used for security of persons and property, general government, and transportation purposes, which accounted for 82.2% of the fund’s expenditures in 2018, as illustrated below:

Expenditures by Function 2018



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, increased \$203,841 or 3.2% during the year.

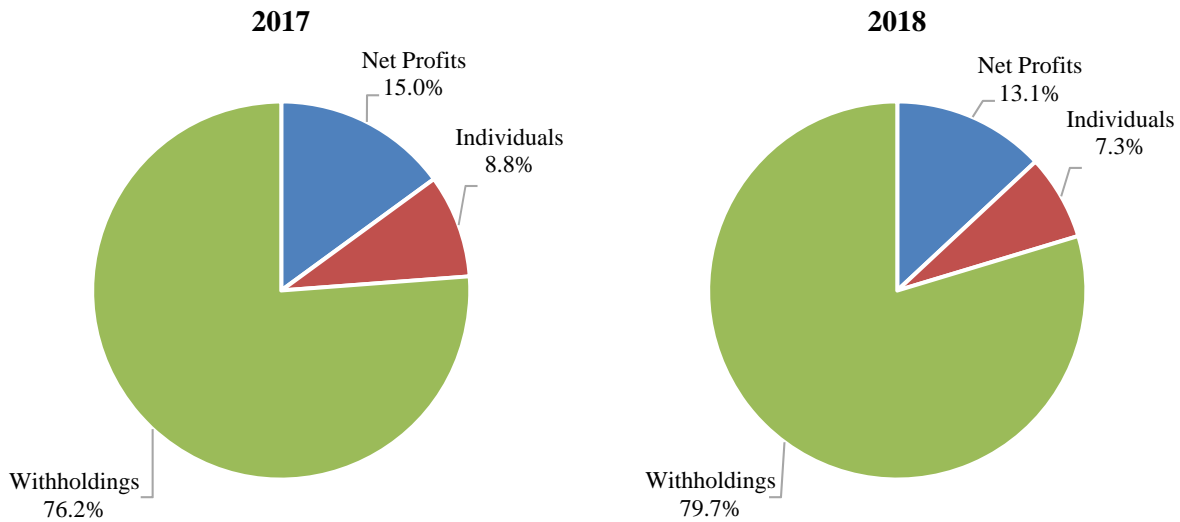
The following table provides a comparison of income tax revenue collected in 2017 and 2018:

	2017	2018	Increase/(Decrease)	
			Amount	Percentage
Income Tax Revenue	\$ 13,621,980	\$ 13,744,969	\$ 122,989	0.9%
Less: Shared Tax Paid to Akron	(1,562,859)	(1,472,411)	90,448	-5.8%
Net Income Tax Revenue	\$ 12,059,121	\$ 12,272,558	\$ 213,437	1.8%

Income tax revenues increased by 0.9% in 2018 to \$13,744,969. The City collected \$3,089,950 from businesses located in shared tax districts, \$1,472,411 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 \$12,272,558, or 1.8% greater than the prior year. Withholding taxes grew by 5.5% during 2018, as a result of several significant, non-recurring transactions. However, that growth was partially offset by declines in net profit taxes (12.0%) and individual income taxes (16.8%), with the latter being impacted by a HB 49 mandate pushing the fourth quarter estimated tax due date back to January 15 of the subsequent year.

As shown in the following chart, the composition of the City's income tax revenues remained consistent, with 76.2% and 79.7% of revenues coming from withholding taxes in 2017 and 2018, respectively.

Income Tax Collections by Type



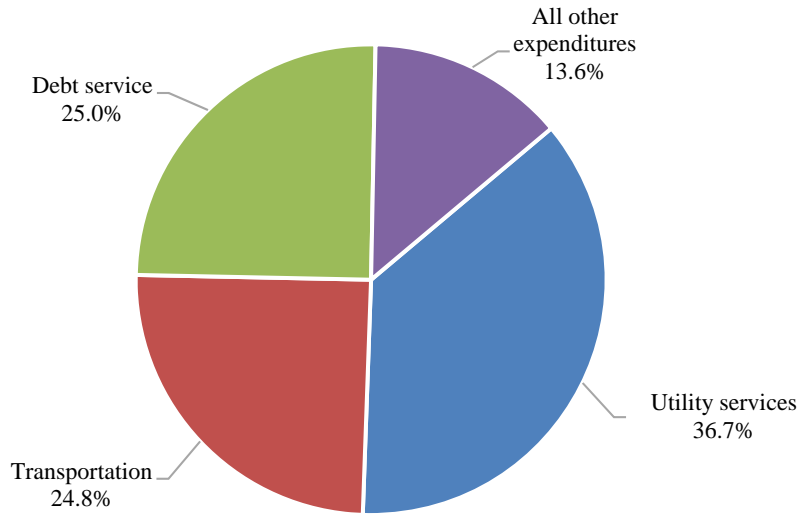
Capital Improvement Fund

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 \$67,064 or 5.2% due, in part, to several purchases coming in under budget during the year.

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In addition to servicing the City's outstanding capital debt issues, the capital improvement fund's resources were primarily used for utility and transportation purposes, which accounted for 61.5% of the fund's expenditures in 2018, as illustrated below:

Expenditures by Function 2018



The following major capital acquisitions and improvements occurred in 2018:

- Replacement of 2 Police Cruisers (\$95,323)
- Replacement of 2 Dispatch Radio Consoles (partial payment of \$110,000)
- Replacement of a Street Maintenance Truck (\$60,613)
- Engineering for the 2019 Street Repair Program (\$80,000)
- Smith Road Improvement Engineering/Inspection (\$79,067)
- Smith Road Improvement Construction (\$520,933)

Broadband Fund

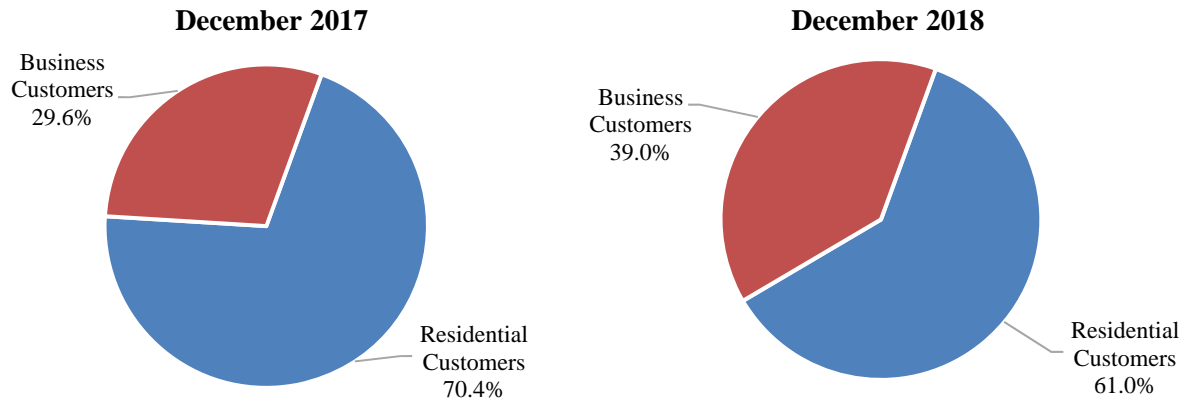
The broadband fund was created to account for the activities of the FairlawnGig utility. The unencumbered cash balance in the broadband fund decreased slightly to \$106,216 during the year, while FairlawnGig's customer base and service offering continued to grow.

The following table provides a comparison of FairlawnGig's active customers and monthly recurring revenues in December 2017 and 2018:

	December 2017	December 2018	Increase/(Decrease)	
			Amount	Percentage
Active Customers	1,505	1,736	231	15.3%
Monthly Recurring Revenues	\$ 103,186	\$ 141,185	\$ 37,999	36.8%
Average Revenue per User	\$ 68.58	\$ 81.30	\$ 12.72	18.5%

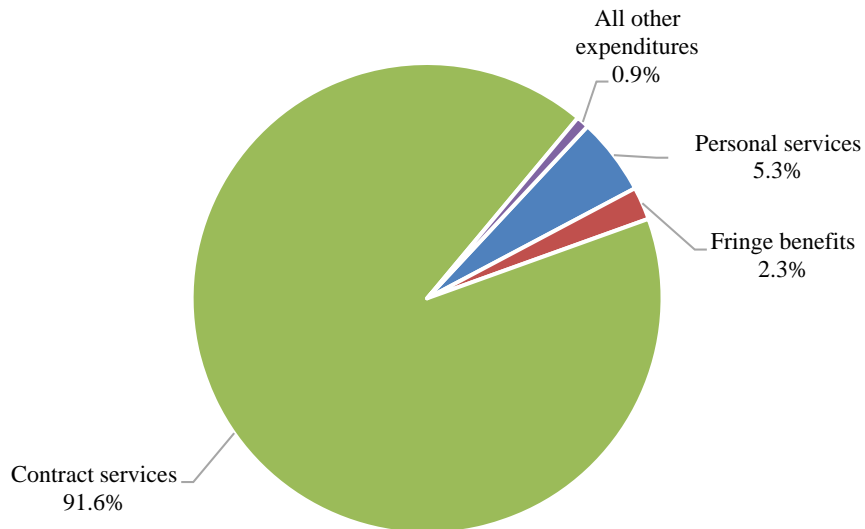
As shown in the following chart, the composition of FairlawnGig's monthly recurring revenues shifted slightly, with 61.0% of revenues coming from residential customers in 2018, down from 70.4% in 2017.

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 91.6% of the utility's expenditures in 2018, as illustrated below:

Expenditures by Function 2018



Independent Audit

The City's Basic Financial Statements for the year ended December 31, 2017 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 August 21, 2018. The City received an unmodified (clean) audit opinion, which is a testament to the diligence and professionalism of the staff of the Finance/Tax Department.

Next Year's Outlook

On December 17, 2018, Council passed the 2019 temporary appropriations. Overall, the total 2018 temporary appropriations for all City funds (net of interfund activity) are \$2,647,667 or 11.5% greater than the 2018 permanent appropriations. The table below provides a summary of the City's total appropriations, net of interfund activity, for 2018 compared to 2019:

Total Appropriations (net of interfund activity)	2018		2019		Increase/(Decrease)	
	Permanent	Temporary	Amount	Percentage		
General Fund	\$ 14,274,867	\$ 14,903,915	\$ 629,048	4.4%		
Income Tax Fund	2,362,560	2,406,330	43,770	1.9%		
Capital Improvement Fund	3,371,391	2,788,486	(582,905)	-17.3%		
Federal Capital Grants Fund	-	2,320,000	2,320,000	n/a		
Broadband Fund	1,663,490	1,870,450	206,960	12.4%		
All Other Funds	1,430,726	1,461,520	30,794	2.2%		
Total All Funds	\$ 23,103,034	\$ 25,750,701	\$ 2,647,667	11.5%		

The general fund's appropriations increased by \$629,048 or 4.4%, due to increased personnel costs. Salaries and wages were increased 3.25% for the communication specialists and 2.5% for all other employees. Furthermore, health insurance was budgeted at a 10% increase to the 2018 rates and adjusted for anticipated staffing changes.

Although not reflected in the table above, two additional items impacting the general fund's 2019 appropriations include the transfer of \$600,000 to the capital reserve fund to replenish the funds used to purchase the Riviera Townhomes and the transfer of \$600,000 to the broadband fund to subsidize the operating and capital costs of the FairlawnGig utility.

The appropriations for the income tax fund are \$43,770 or 1.9% greater than the 2018 permanent appropriations. A \$33,000 (2.0%) increase in anticipated shared income tax revenue payments to the City of Akron contributed to the overall increase.

Appropriations in the capital improvement fund decreased by \$582,905 or 17.3%. The decrease resulted from the inclusion of the Smith Road Improvement Project in the 2018 budget.

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. The federal capital grants fund budget of \$2,320,000 represents the federal share of the right-of-way acquisition portion of the widening project, which will commence in 2019.

Finally, the broadband fund's appropriations increased by \$206,960 or 12.4% due to the utility's growing customer base, the addition of a second data center on Embassy Parkway, and the addition of a second full-time broadband utility technician.

As always, the staff of the Finance/Tax Department 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 2018 Month 12 - City of Fairlawn

Fund	Description	Beg Yr Bal	YTD Rec	YTD Exp	Unexp	Enc	Unenc
101	GENERAL FUND	7,819,113.37	14,916,345.77	14,588,986.58	8,146,472.56	882,156.53	7,264,316.03
211	STREET CONSTR. & MAINTENANCE	343,269.81	286,297.87	321,192.05	308,375.63	12,596.67	295,778.96
212	PERMISSIVE TAX	33,116.14	18,241.75	0.00	51,357.89	0.00	51,357.89
213	STATE HIGHWAY IMPROVEMENT	94,318.76	23,966.59	29,676.80	88,608.55	0.00	88,608.55
216	INCOME TAX	6,426,797.22	13,744,436.75	13,449,341.80	6,721,892.17	234,630.49	6,487,261.68
221	ENFORCE & EDUCATION (DUI)	13,473.35	670.00	0.00	14,143.35	0.00	14,143.35
222	SEWER MAINTENANCE & REPAIR	486,631.36	135,430.16	51,509.75	570,551.77	209,917.96	360,633.81
225	STEMCO URBAN REDEV TIF	0.00	24,594.00	287.08	24,306.92	24,306.92	0.00
226	ENERGY SID	0.00	49,058.90	49,058.90	0.00	0.00	0.00
331	CAPITAL IMPROVEMENT	4,652,914.75	2,900,549.19	5,068,854.76	2,484,609.18	1,134,486.67	1,350,122.51
336	CAPITAL RESERVE	1,026,459.63	200,000.00	0.00	1,226,459.63	0.00	1,226,459.63
340	FEDERAL CAPITAL GRANTS	0.00	0.00	0.00	0.00	0.00	0.00
510	BROADBAND FUND	774,843.84	1,985,046.62	2,061,533.91	698,356.55	592,140.47	106,216.08
780	UNCLAIMED FUND	1,904.09	12,307.33	0.00	14,211.42	0.00	14,211.42
782	STREET OPENING DEPOSIT	53,166.00	50,064.00	57,966.00	45,264.00	0.00	45,264.00
783	PERFORM/LANDSC DEPOSIT	31,010.80	16,500.00	31,010.80	16,500.00	0.00	16,500.00
784	POLICE PENSION	168,478.32	383,376.92	382,874.80	168,980.44	48,010.42	120,970.02
785	FIRE PENSION	117,482.77	352,476.92	328,230.20	141,729.49	63,564.59	78,164.90
786	LAW ENFORCEMENT TRUST	2,503.97	0.00	0.00	2,503.97	0.00	2,503.97
787	DRUG LAW ENFORCEMENT	57,506.91	2,328.74	302.52	59,533.13	0.00	59,533.13
788	FURTHERANCE OF JUSTICE	5,000.00	0.00	0.00	5,000.00	0.00	5,000.00
789	FED DRUG LAW ENFORCEMENT	188.78	1.71	190.49	0.00	0.00	0.00
22 Funds		22,108,179.87	35,101,693.22	36,421,016.44	20,788,856.65	3,201,810.72	17,587,045.93

City of Fairlawn, Ohio
Income Tax Receipts
December 31, 2018

Type		Last Year	Increase/(Decrease)	
Tax District (% shared)	YTD	to Date	Vs. Last YTD	
Business Net Profit	\$ 1,300,586.18	\$ 1,391,967.74	\$ (91,381.56)	-6.6%
Rosemont (33.3%)	24,040.72	57,887.01	(33,846.29)	-58.5%
Link (40%)	55.30	129.25	(73.95)	-57.2%
Embassy Parkway (50%)	467,046.74	584,324.09	(117,277.35)	-20.1%
Shared Boundaries (50%)	2,939.00	4,556.00	(1,617.00)	-35.5%
Subtotal	<u>\$ 1,794,667.94</u>	<u>\$ 2,038,864.09</u>	<u>\$ (244,196.15)</u>	-12.0%
Individuals				
Resident	664,754.88	777,001.92	(112,247.04)	-14.4%
Non-resident, conducting business in Fairlawn	337,234.12	426,909.20	(89,675.08)	-21.0%
Subtotal	<u>\$ 1,001,989.00</u>	<u>\$ 1,203,911.12</u>	<u>\$ (201,922.12)</u>	-16.8%
Withholding	8,352,443.64	7,736,810.88	615,632.76	8.0%
Rosemont (33.3%)	402,252.37	428,606.77	(26,354.40)	-6.1%
Link (40%)	15,093.27	6,902.29	8,190.98	118.7%
Embassy Parkway (50%)	2,170,903.87	2,198,695.24	(27,791.37)	-1.3%
Shared Boundaries (50%)	7,618.99	8,189.24	(570.25)	-7.0%
Subtotal	<u>\$ 10,948,312.14</u>	<u>\$ 10,379,204.42</u>	<u>\$ 569,107.72</u>	5.5%
Total Receipts	<u>\$ 13,744,969.08</u>	<u>\$ 13,621,979.63</u>	<u>\$ 122,989.45</u>	0.9%
Less: Shared Tax Due Akron	(1,472,411.42)	(1,562,859.49)	90,448.07	-5.8%
Total Net Receipts	<u>\$ 12,272,557.66</u>	<u>\$ 12,059,120.14</u>	<u>\$ 213,437.52</u>	1.8%