



2021

ANNUAL COMPREHENSIVE FINANCIAL REPORT



The City of Fargo, North Dakota
for the fiscal year ended
December 31, 2021



CITY OF FARGO NORTH DAKOTA

ANNUAL COMPREHENSIVE FINANCIAL REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2021**

PREPARED BY:
THE FINANCE DEPARTMENT
TERRI GAYHART, DIRECTOR OF FINANCE

**CITY OF FARGO, NORTH DAKOTA
ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2021**

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June 29, 2022

To the Honorable Mayor, Members of the City Commission, and the Citizens of the City of Fargo, North Dakota:

I am pleased to submit the City of Fargo's Annual Comprehensive Financial Report for the fiscal year ending December 31, 2021. This report satisfies audit and financial reporting requirements pursuant to North Dakota Century Code 54-10-14 and the Uniform Guidance.

This report is prepared by the City's Finance Department in accordance with generally accepted accounting principles. The Finance Department is responsible for the accuracy, clarity, and presentation of the financial statements. We believe this report fairly and accurately presents the financial position of the City and the results of operation of the various funds for the period covered, and that all disclosures necessary for such presentation have been included.

Eide Bailly LLP has issued an unmodified "clean" opinion on the City of Fargo's financial statements for the year ended December 31, 2021. The independent auditor's report is located at the front of the financial section of this report. There were no audit findings.

It is management's responsibility to develop a system of internal controls to safeguard the assets of the City. In developing the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. Because the cost of internal controls should not exceed their benefits, the City's internal controls are designed to provide reasonable basis rather than absolute assurance that the financial statements will be free from material misstatement. We assert that this financial report is complete and reliable in all material respects.

Generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements. Management's Discussion and Analysis is included in this report on page 5. This letter of transmittal has been designed to compliment the MD&A and should be read in conjunction with it. The MD&A contains a more detailed analysis of changes in financial condition.

CITY OF FARGO PROFILE

The City of Fargo was incorporated in 1875 and is located in the eastern border of North Dakota at the intersection of Interstate Highways I-29 and I-94. This regional economic center continues to expand with a trend of consistent growth over the past several years. The current population based on the 2020 census is 125,990 representing a 19.3% growth since the 2010 census. Health care, education and retail have a strong presence that expands the local economy into a broader regional economic center. The City is empowered to levy taxes on real property located within its boundaries and continues to expand its size with many annexations completed in the past few years. A recent demographic study expects Fargo's population trend to continue to grow for the next several years to approximately 171,000 by 2040.

The City of Fargo operates under a Home Rule Charter, established in 1986, with a Mayor-Commission form of government. Policy making and legislative authority is vested in a five-member Commission. The City Commission is responsible for policy and ordinance adoption, approving budgets, committees, and

serving needs of the community. The Mayor and City Commissioners are elected at-large and serve four-year terms. Dr. Tim Mahoney is the Mayor. He has served as a City Commissioner since 2005, as interim Mayor in December of 2014, and was elected Mayor in April 2015, serving in that capacity since. A municipal election was held in June of 2022 to elect a Mayor and two City Commissioners. Mayor Mahoney and Commissioner Piepkorn were both reelected to four-year terms. Denise Kolpack was elected to replace Commissioner Gehrig who did not run for reelection.

All Department Heads serve on the Mayor's Cabinet, a venue that is used as a forum to communicate City and community issues. The City Administrator, Bruce Grubb, is the liaison to the City Commission and is responsible for overseeing the day-to-day operations of the City and its eighteen Departments. Michael Redlinger is the Assistant City Administrator. Mr. Grubb has announced his retirement effective June 25, 2022, the interim City Administrator will be Michael Redlinger. Long time Finance Director Kent Costin retired on April 1, 2022. After an exhaustive national search Terri Gayhart was selected as his replacement.

The City of Fargo provides a full range of governmental services, including public safety; construction and maintenance of infrastructure; public utilities including water, wastewater, solid waste and urban forestry; health and social services; public transportation; recreation and culture; and general support services necessary to serve the citizens of Fargo.

The City is required to adopt a preliminary budget by August 10 and a final budget by October 7 of each year. All Departments submit their requests to the Mayor during the budget development process that begins each May. Currently, the Mayor utilizes a budget team approach to discuss budget strategy with the City Administrator, Assistant City Administrator, and the Director of Finance; however, the Mayor is responsible for the final decisions relating to the preliminary budget presentation. The City Commission is responsible for adoption of the final budget. Budget control is maintained at the fund, function (e.g. Public Safety), and Department (e.g., Police) levels. Department Heads may make transfers of appropriations within a Department. Supplemental budget appropriations require approval by the City Commission.

COVID-19 PANDEMIC AND CARES ACT FUNDING

The City responded to the COVID 19 pandemic by coordinating a vaccination center site open to all citizens in the City. Additionally, the City operated a COVID testing site during all of 2021. The testing site was closed in March of 2022 as the City switched gears from a pandemic to an endemic response. The Fargo city offices returned to a "back to normal" approach for our municipal operations effective June 2, 2021.

Management initiated several cost saving measures in the first quarter of 2021 including a suspension of travel; a temporary hiring freeze; delaying capital expenditures; waiving penalties on delinquent utility accounts; and deferring of certain charge for services. Significant CARES Act grants were received during the year due to the COVID-19 pandemic, the largest was a State of North Dakota pass-through grant for public safety costs in the amount of \$15.9 million.

AMERICAN RESCUE PLAN IMPACTS AND FUNDING

The City of Fargo, as a metropolitan city, was awarded a direct allocation of American Rescue Plan (ARP) grant funding from the US Treasury to offset community impacts resulting from the COVID-19 pandemic. These funds are being programmed to cover one-time expenditures over the upcoming years. Half of the \$20.2 million that was awarded to the City of Fargo was received in 2021 while the second half will be received in 2022.

FINANCIAL AND ECONOMIC CONDITIONS IN FARGO

Financial Conditions

The median Fargo per capita income continues to rise and is reflective of our strong local economy. Per capita incomes have increased to \$58,158 in 2020 as compared to \$50,364 in 2016 representing a 15.5% increase in income levels over the past five years. Our labor force has increased to 72,514 in 2021 as compared to 69,230 five years ago which represents an 4.7% increase. Fargo's unemployment rate is currently 2.2% while the State of North Dakota is 3.0%.

Spike in Building Permits

Construction activity in Fargo remained strong in 2021. Building permits totaled \$763 million in 2021 compared to \$720 million in 2020. Leading the way were Commercial permits for new construction and remodeling, those categories increased 45% in 2021. Demand for housing remains strong in our community in light of the strength of our local economy, low mortgage rates and overall quality of life we offer.

In October 2020, Amazon announced that it would build a fulfillment center in Fargo. This is a major new industry employer. The facility is valued at approximately \$100 million and employs hundreds of new employees. It became operational in late 2021.

Sales Taxes Funding Key Infrastructure

Fargo is utilizing sales tax revenues as a primary funding source for key infrastructure projects. All City sales tax resources (2% tax rate) are dedicated to various types of infrastructure. The most significant expenditures are being made in updating municipal utilities to accommodate present and future growth; flood levees to protect the community from Red River flood events; and improving the highway systems throughout the community. Existing sales tax authorizations expire in 2028, and 2084. In 2016, voters approved a long-term extension of sales tax to 2084 for the Fargo Moorhead Diversion Project, a multi-generational flood-control solution to protect the citizens and economy of the Fargo-Moorhead region.

A more comprehensive review of these statistics is contained in the statistical section of this report.

Fargo's locally imposed sales tax collections totaled \$60.4 million this year as compared to \$51.7 in 2020, a 16.9% increase. We are pleased to show strong growth in sales tax year over year.

MAJOR INITIATIVES FOR THE YEAR

Fargo Moorhead Diversion Channel Project History and Status

The construction of a major flood control project continues to be one of the highest priorities for the metropolitan community. A history of this project, including past and present status, is summarized below.

The United States Army Corps of Engineers (USACE) has studied various alternative flood protection projects for the Fargo-Moorhead area for several years. Following extensive study of flood mitigation alternatives, USACE recommended a large flood diversion channel (to the west of the cities of Fargo and West Fargo) combined with a southern embankment to temporarily store water and control flows, as the preferred technical solution to mitigating flood risk. The project temporarily stores and "stages" water through various control structures to limit the flow of water through Fargo Moorhead, thereby lowering river levels and flood risk significantly. The estimated current project cost is anticipated to exceed \$2.4 billion. These costs will be funded by a combination of various Federal, State and local stakeholders.

In October of 2012 a federal record of decision was approved by the Chief of USACE. This critical step recognized the feasibility, final review, and concurrence to include this project on the Federal Government's approved list of authorized projects. This project was included in the 2013 Water Resources Development Act Bill and has been approved by the U.S. Senate and the House of Representatives.

Work continued in 2015 on securing Federal and State funding for this project. Local officials and the North Dakota and Minnesota Congressional Delegations worked together to help formulate plans for a public-private partnership demonstration project (PPP) as a way to provide long-term funding of this project. In February of 2015, USACE named this project as a federal P3 demonstration project.

In February 2016, USACE approved this project as a federal "new start" project and provided budgetary resources to commence project construction. The Fargo-Moorhead Diversion Authority, along with the City of Fargo and the City of Moorhead, executed a final project participation agreement with USACE in July 2016 that obligates Federal funding.

In November 2016, voters approved a long-term extension of certain sales tax authorizations for the City of Fargo as well as Cass County until 2084. These should provide a sustainable long-term revenue stream that will allow us to finance this project.

During the State of North Dakota's Legislative session for the 2020-2021 biennium, \$66.5 million was appropriated and the legislative intent for funding through the 2029-2031 biennium was increased to \$750 million.

The State of North Dakota passed HB-1431 during the 2021 Legislative session. This bill was the State's first bonding bill. This was a significant achievement in approach to addressing the infrastructure needs across the State. The Diversion Authority was included in the bonding bill with a legislative appropriation of \$435 million. This will help reduce project borrowing costs by prioritizing immediate access to capital funding. Previously, the funding plan was to be spread across future legislative sessions.

The City's success in moving this project along is a result of its strong partnerships with the FM Diversion Authority, USACE, and Jacobs Engineering. Funding partners include the State of North Dakota, State of Minnesota, USACE, City of Fargo and Cass County. Governmental leaders from the Federal, State, and local levels have expended significant efforts in a collaborative manner to continue to advance this project.

Status of Major Municipal Facility Projects

The former Fargo Police Department building in Downtown was temporarily repurposed for a winter shelter facility for the homeless population. Fargo also contributed significant funding to a homeless facility in Moorhead, MN that is operated by Churches United for the Homeless. These projects were funded with CARES Act funds.

The water treatment plant expansion was completed in 2019. The project incorporates advanced water treatment technologies due to changing water quality conditions on the Sheyenne River as a result of discharges from Devils Lake. In addition to advanced water treatment technologies, the project also increased the City's overall treatment capacity from 30 million gallons per day (MGD) to 45 MGD. This was important due to the fact that Fargo became a regional water supplier to the cities of West Fargo and Cass Rural Water. This project spanned four construction seasons and is a major expansion that will serve community needs well into the future. Work continued in 2021 in fine-tuning monitoring and quality water quality control systems.

An expansion of the wastewater treatment facility was initiated in 2018. This is a major expansion of current facilities, allowing an increase in treatment capacity from 26 MGD to 50 MGD per day. The City became a regional wastewater service provider to West Fargo in 2019 and Horace in 2021. This

expansion is expected to be completed in 2023. Significant construction work continued on this project. The Wastewater Treatment plant sells reclaimed water to the Tharaldson Ethanol plant near Casselton and will be expanding this program by selling reclaimed water to a soybean crushing plant in the near future.

A new Downtown mixed use development (Mercantile) was approved in 2019 that includes the construction of another parking facility in the heart of the City. The City partnered with private developers and is responsible for financing the construction of the parking ramp portion of the project. Bonds for this project were issued in early 2020. The Mercantile ramp facility opened in 2020 as planned; the apartments are currently occupied and commercial development will be completed in 2022.

Significant downtown redevelopment opportunity exists for several locations in the Downtown area due to recent flood control buyouts, and moving out of former facilities for Fargo Cass Public Health and the Police Department. The City expects to market these facilities for development opportunity in the future and plan to use tax increment financing as needed for a variety of extraordinary costs.

Strategic Planning and Long Term Capital Improvement Plans

Strategic planning efforts are ongoing for various City functions and the development of long-term capital improvement plans have been formally adopted for municipal utility infrastructure projects over a twenty year planning horizon, flood control projects and Departmental capital needs for a five year timeframe. Major infrastructure projects are funded with a variety of sources, however, the major resources available are from sales tax and special assessment revenues.

AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Fargo for its annual comprehensive financial report for the fiscal year ended December 31, 2020. This is the twenty-third consecutive award received since submission to this voluntary quality review program. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized annual comprehensive financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current annual comprehensive financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this Annual Comprehensive Financial Report could not have been accomplished without the dedicated services of our entire staff. The staff members who were responsible for the achievement of this goal include:

Jamie Bullock, Finance Manager
Emily Scholz, Senior Accountant
Wyatt Papenfuss, Accountant
Jessica Houim, Accountant
Jordan Corneliusen, Finance Manager

This fiscal year will be one to remember as the city's financial reporting staff was challenged by the pandemic, alternative work settings, staff turnover, and additional workload resulting from a multitude of new grants. I deeply appreciate the high level of professionalism exhibited during 2021.

Finally, I would like to express my appreciation to the members of the City Commission, the Mayor, City Administrator, Cabinet members and City staff for operating the City in a professional and progressive manner.

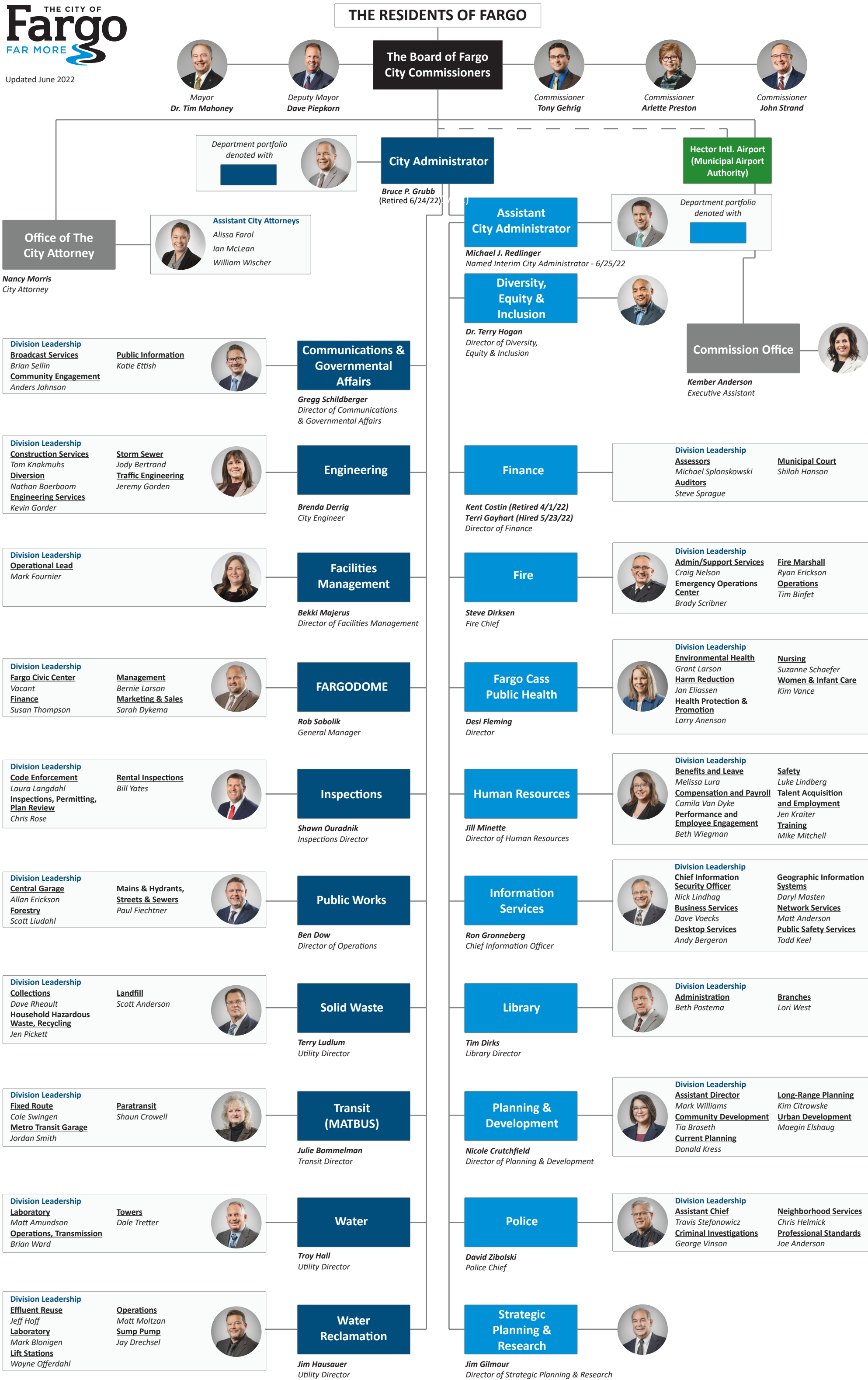
Respectfully submitted,

A handwritten signature in blue ink, appearing to read "mredlinger", is positioned above the printed name.

Michael Redlinger
Interim City Administrator

**CITY OF FARGO, NORTH DAKOTA
LISTING OF CITY OFFICIALS
AS OF DECEMBER 31, 2021**

NAME	OFFICE	TERM EXPIRES
Dr. Tim Mahoney	Mayor	June 2022
Dave Piepkorn	Commissioner	June 2022
Tony Gehrig	Commissioner	June 2022
Arlette Preston	Commissioner	June 2024
John Strand	Commissioner	June 2024
Bruce Grubb	City Administrator	
Michael Redlinger	Assistant City Administrator	
Kent Costin	Finance Director	
Steven Sprague	City Auditor	
Kember Anderson	City Commission Executive Assistant	





Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**City of Fargo
North Dakota**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

December 31, 2020

Christopher P. Morill

Executive Director/CEO