STRATEGICECONOMICS

ASSESSMENT OF CURRENT FISCAL CONDITIONS

CITY OF FARGO GROWTH PLAN

Prepared for:

czb
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THE CITY OF Fargo FAR MORE

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I. INTRODUCTION

Report Purpose

Under any future growth scenario Fargo might select, it is important to understand how the City manages costs associated with growth and how these costs impact its overall fiscal health. Such information will also inform Fargo about its long-term financial stability and provide guidance as to possible metrics for evaluating future growth patterns and trends. This evaluation process can help ensure that future growth is supporting the City's long-term financial health.

To address questions about how Fargo pays for growth and manages its ongoing fiscal health, it is important to understand the difference between capital expenditures, i.e., the cost to building new infrastructure or other public facilities, and operating expenditures, i.e., what the costs to operate the City on an annual basis including paying salaries and maintaining infrastructure. Through this report, Strategic Economics has identified and evaluated revenues and costs associated with operating costs and capital expenditures and examined their relationship with demographic trends and land use patterns identified as part of the" Evaluation of Past Growth Patterns and Trends for the City of Fargo" report.

This report assesses Fargo's current fiscal conditions to understand how the City manages costs associated with growth and how these costs affect its overall developmental framework. To perform this assessment, this report studies two of Fargo's primary governmental funds which are tied to the City's demographic and land use growth – the General Fund and proprietary or enterprise funds. The report evaluates the current performance of these governmental funds to discuss whether Fargo's fiscal performance will remain sustainable in the future. It also recommends pathways for course correction in case of fiscal deficits through the use of the fiscal tools Fargo can use to increase its revenue generating potential.

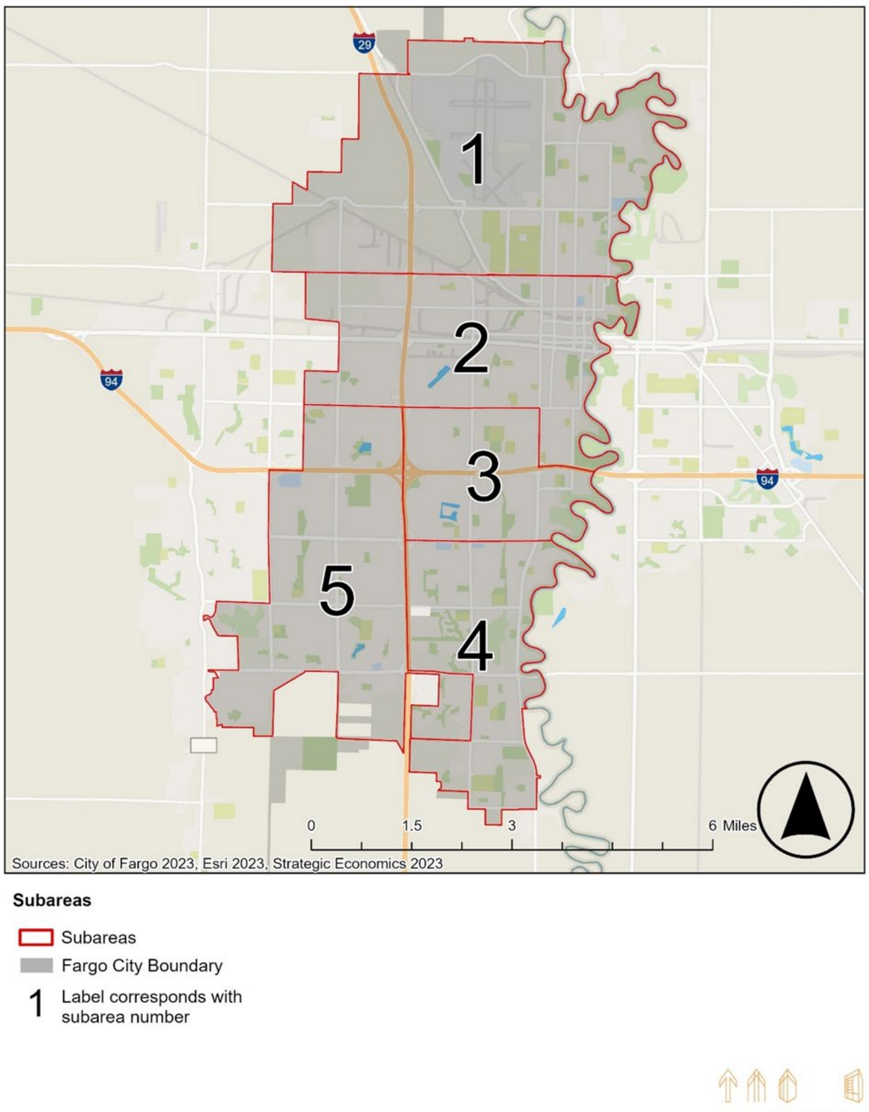
This report utilizes data from Fargo's current and past Annual Budgets and its Comprehensive Annual Financial Reports (CAFR) to examine how Fargo's fiscal conditions have changed over time. Documents dating from 2011 to 2022 were examined to produce fiscal trends for Fargo's governmental funds. Apart from the budget and CAFR, Fargo's 2023 Infrastructure Funding Policy and definitions of funds and departments from the City of Fargo's website were utilized to present relevant information in this report.

Fiscal Trends Geographies

This analysis uses multiple geographies to provide context and reference points for this fiscal trends analysis. Primary comparative geographies include the United States, the state of North Dakota, City of Fargo and five subareas within the City of Fargo. A prior report titled" Evaluation of Past Growth Patterns and Trends for the City of Fargo", henceforth referred to as the Growth Trends report, delineated five subareas within the City of Fargo to measure growth trends in different parts of the City over time. Fargo's subarea delineation, based on the Growth Trends report is shown in Figure 1. This report utilizes the same subarea delineation to track property valuation trends and their fiscal impact on Fargo. Although Fargo's fiscal trends are not directly compared with its adjacent communities, these communities do have an impact on the City's fiscal health, especially since Fargo is a regional utility service provider and a major employment center in the Upper Midwest.

The Growth Trends report identified four significant infill growth nodes within Fargo. Fargo's infill growth nodes present opportunities for augmenting existing property valuations in the City and expanding Fargo's current property tax base. Growth nodes in Fargo are depicted through Figure 13. Infill growth nodes and their relationship with Fargo's fiscal trends are discussed in greater detail in Chapter III.

FIGURE 1: SUBAREA BOUNDARIES FROM EVALUATION OF PAST GROWTH PATTERNS AND TRENDS FOR THE CITY OF FARGO



Source: Strategic Economics, 2023.

Fargo's Governmental Funds

This section describes Fargo's governmental funds, their types, and functions in the first subsection. The second subsection assesses the relationship between Fargo's governmental funds and land use and demographic trends to delineate which governmental funds will be studied in detail in this report.

TYPES AND FUNCTIONS OF FARGO'S GOVERNMENTAL FUNDS

Governmental funds constitute monetary resources used in financing governmental projects and expenditures and to account for governmental activities. Fargo's governmental funds account for both revenues and expenditures associated with the City's governmental activities. Fargo uses three types of governmental funds to track the City's financial activity -

- **General Fund**: The General Fund is the chief operating fund for the City of Fargo. It supports resources essential for the functioning of the City.
- **Proprietary or Enterprise Funds**: The City of Fargo maintains 12 different proprietary funds which account for business-type activities, each of which is responsible for managing its own revenues and costs. Proprietary funds include Municipal Airport, Water, Wastewater, Storm Sewer, Vector Control, Solid Waste, Southeast Cass Sewer, Forestry, Street Lighting, Transit, Civic Memorial Auditorium and FargoDome activities.
- **Fiduciary Funds**: Fiduciary funds account for resources held for the benefit of parties outside the government and do not support the City of Fargo's own programs. They consist of pension trust funds and the City's four custodial funds which include the Park District Special Assessments, Metro Flood Project Diversion Authority, Red River Regional Dispatch Center, and Police Custodial Fund.

HOW FISCAL HEALTH OF GOVERNMENTAL FUNDS IS MEASURED

The fiscal health of the City's governmental funds describes the state of Fargo's monetary affairs. Fiscal health can be defined as the ability to continue or improve the current standard of services provided by an organization without jeopardizing its financial stability. There is a direct relationship between demographic and land use change and fiscal health of Fargo's governmental funds. While this relationship has been described in greater detail in upcoming chapters, a conceptual introduction to the relationship between physical and fiscal growth of Fargo is given below-

- The majority of General Fund revenues and expenditures are tied to development and population growth trends. One third of Fargo's General Fund revenues depend on income received through property taxes[1], indicating that an addition of new buildings would result in greater General Fund revenues. Further, demand for large expenditure items such as police and fire[2] requirements also increase with population. Therefore, the fiscal health of the General Fund has a direct relationship with demographic and built environment changes.

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[1] Property taxes in North Dakota are based on the value of the real estate being taxed. In Fargo, the Assessment Department determines that value by applying mass appraisal techniques on all properties and administering any property tax exemptions for qualifying properties. Property taxes represent the largest source of General Fund revenues in 2022 as shown in Figure 2.

[2] Police and fire, or public safety constituted 41 percent of total General Fund expenditures in 2022 as shown in Figure 2. Police and fire rely on property taxes for their revenues.

- Proprietary funds utilize multiple sources of revenue, including user (utility) fees and sales tax, Revenue from utility fees and sales tax depend upon the number of active users of utilities and retail facilities in Fargo. Proprietary funds rely on demographic change within Fargo and its surrounding region to expand their area of coverage and increase the number of active users.
- Fiduciary funds do not have a direct relationship with population growth or land use change for their revenues or expenses. They have an indirect relationship with population growth because pension liabilities increase with the increase in the number of public employees hired which in turn depend on population and demand for services. However, the impact of expenditures on hiring and pension is gradual and more reliant on macroeconomic conditions like the cost of living, inflation, mortgage rates and other factors.

Only two out of Fargo's three governmental funds have a direct relationship with population and demographic change. Since this report is only interested in how the City of Fargo manages costs associated with growth and how these costs impact the City's overall fiscal health, the discussion of fiscal trends is limited to the General Fund and proprietary funds only.

Summary of Fargo's Economic Trends

Fargo's economy is situated within the economy of the State of North Dakota and the United States as a whole and economic changes affecting the state, or county have direct impacts on Fargo. This section explains Fargo's economic relationship with the State of North Dakota and the United States and its impact on Fargo's local economy. It situates Fargo within the context of the state and the country and talks about broader economic changes that have affected Fargo's economic wellbeing and fiscal health in the last decade.

The State of North Dakota has historically relied on oil extraction for its economic growth. From 2006 to 2015, North Dakota experienced a period of rapidly expanding oil extraction from the Bakken Formation. The oil boom in North Dakota resulted in ample job creation, staving off the impact of the 2008 nationwide housing crisis recession and creating the lowest unemployment rates in North Dakota in the United States from 2008 to 2014. From 2011 to 2021, Fargo experienced extremely low unemployment rates, in conjunction with steady increases in income and labor force.

Oil production led to large surpluses in government revenues in the State, which were passed down to all jurisdictions within North Dakota including the City of Fargo through intergovernmental transfers from 2011 to 2014. In 2012, Fargo had to revise its budget revenues to upwards by 7.5 percent and was able to redirect additional intergovernmental income to capital projects in the near term. This period saw a rise in new infrastructural projects associated with flood mitigation in Fargo, including the approval for the Fargo's Flood Mitigation and Diversion Project by the U. S. Army Corps of Engineers (USACE) in 2012. Similarly in 2013, revenues were revised once more, as the state provided an additional $4.9 million to fund street infrastructure. By 2013 state aid levels had grown by 101 percent from 2010 levels.

A global decline in gas prices from 2015 onwards saw substantially lower growth in oil production. In 2015 and 2016, the reduction in intergovernmental revenues decreased Fargo's general fund by 4.4 and 9 percent respectively. This trend continued until 2018. when oil prices rose again, and intergovernmental revenues received a three percent boost. By 2019, oil prices plummeted again, and Fargo's property taxes had to be increased by two mills[3] to meet required General Fund expenditures.

Intergovernmental transfers, particularly those from the federal government increased after the Covid-19 pandemic. There was a large injection of federal funding into Fargo's budget through the Coronavirus Aid, Relief, and Economic Security (CARES) and American Rescue Plan (ARP) Act. In 2020 Fargo received significant CARES Act funds, including a $15.9 million State of North Dakota pass-through grant for public safety. In 2020, grants accounted for a total contribution of $62 million across all governmental and proprietary functions. The City received an allocation of $20.2 million of ARP grant funding across 2021 and 2022. Despite the availability of grant funds, the Covid-19 pandemic and low oil prices curtailed economic activity throughout the state.

Report Contents

This report is divided into four chapters.

Introduction: This chapter provides an overview of the report's purpose, discusses Fargo's fiscal trends geographies and the structure of its governmental funds, and summarizes economic trends at the national and state levels that affect Fargo's fiscal health.

General Fiscal Trends: This chapter explains trends in revenues and expenses associated with Fargo's General Fund and its proprietary funds. It also examines a few markers of fiscal health of governmental funds in Fargo.

Fargo's Fiscal Relationship with Growth Trends: This chapter discusses how Fargo's governmental funds are related to demographic growth and real estate development. It discusses fiscal levers that Fargo can utilize to enhance its governmental fund revenues and ensure fiscal sustainability in the future.

Key Findings: This chapter summarizes key findings from the previous two sections and presents opportunities for maintaining fiscal health and stability despite continued growth in the City.

[3] The mill levy is the percentage of taxable value of a property that is levied or assessed in property tax annually. Increase in mill rates effectively increased the property tax levy without expanding the assessed value of properties. As a result, property owners are expected to pay greater taxes without an increase in their property valuations. It is explained in further detail in Chapter II.

II. GENERAL FISCAL TRENDS

Fiscal trends point to the general financial condition of government funds. An analysis of fiscal trends uncovers the capacity of governmental funds to grow, shrink or remain stable. For the purpose of this report, analyzing fiscal trends helps identify how revenues and costs associated with land use patterns and growth have performed over time. In this chapter, there are two main sections-

- **Trends in Fargo's General Fund**: In this section, Fargo's General Fund, its sources of revenues and expenditures are explained, and their trends are discussed over time. The section ends with a brief discussion on the fiscal health of Fargo's General Fund.
- **Trends in Fargo's Proprietary Funds**: This section describes Fargo's proprietary funds, major sources of revenues and fiscal trends of proprietary fund revenues over time.

Trends in Fargo's General Fund

This section covers the City of Fargo's most important operating fund, the General Fund. The General Fund is largely discretionary, and the City of Fargo can allocate the fund to support programs and services that benefit its residents and businesses. Fargo's General Fund provides resources for most governmental activities within the City.

The section begins with definitions of Fargo's sources of revenues and expenses, followed by changes in the relative composition of revenue and expenditure items from 2012 and 2022. The purpose of this comparison is to investigate changing patterns of governmental income and spending in Fargo. Fargo's General Fund is closely related to demographic and real estate changes, and therefore changes in General Fund revenue and expenditure sources can signal changing growth patterns in the City. The final subsection analyzes the fiscal health of Fargo's General Fund by looking at two metrics – the ratio of General Fund expenditures to revenues[4], and the unassigned fund balance[5].

COMPOSITION OF FARGO'S GENERAL FUND

The General Fund represents the sum of costs associated with executing daily activities that provide quality services to the citizens of Fargo. Fargo's General Fund has the following sources of revenue.

- **Property Taxes**: these constitutes taxes for locally assessed properties based on a tax rate and taxable value of properties, assessed, and collected by the City of Fargo. As shown in Figure 2, property taxes constituted 22 percent of total General Fund revenues in 2012 and 32 percent of total General Fund revenues in 2022. It is the largest source of revenue for Fargo's General Fund in 2022.
- **Intergovernmental**: Fargo's intergovernmental revenues come from federal, state, and local agencies either in the form of grants for specific purposes or for more general purposes. In 2012, intergovernmental funds were Fargo's largest source of revenue comprising nearly 34 percent of total General Fund revenues. In 2022, it was the second largest General Fund revenue source comprising 22 percent of total revenues.

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[4] It refers to the ratio of total general fund expenditures by total general fund revenues for a given year.
[5] Unassigned fund balance represents revenues that are available to the City after all assigned expenditures for discretionary governmental use. Unassigned fund balance will be explained in greater detail in an upcoming subsection.

- **Charges for Services**: The City of Fargo charges a variety of fees associated with the delivery of services. Charges for services comprised the third largest source of revenue in Fargo's General Fund in 2012 and 2022 as shown in Figure 2.
- **Transfers In**: The City of Fargo's General Fund receives transfers from other governmental funds in exchange for services provided to utilities, engineering, and other departments. For example, public works, which is funded through the general fund, provides vehicles and other services to water and wastewater utilities who in turn reimburse public works for such services. Such reimbursements are tabulated under transfers in. Transfers comprise the fourth largest source of revenue for the General Fund in 2012 and 2022 as shown in Figure 2.
- **Licenses and Permits**: Examples of licenses and permits that generate revenues for the City of Fargo could include emergency ambulances, fire inspections, etc. In 2012, four percent of total General Fund revenues came from licenses and permits as shown in Figure 2. Franchise Fees: Franchise fees are charged by cities to allow utility companies (telecommunications, natural gas, electricity, water, and solid waste) to access structures like transmission towers, sewage systems and roads. In Fargo, franchise fees made up close to six percent of total General Fund revenues in 2012 and 2022 as shown in Figure 2.
- **Fines**: Fines and penalties made up 3.4 percent of total General Fund revenues in 2012 but decreased to 1.6 percent in 2022 as shown in Figure 2. Revenues from fines, forfeitures and penalties come from several sources including parking citations and code violation fines.
- **Miscellaneous**: Revenues collected from miscellaneous sources accounted for less than one percent of the General Fund revenues in 2012, and 1.5 percent of total General Fund revenues in 2022 as shown in Figure 2.
- **Interest**: Interest includes income generated from the City of Fargo's investments. In both 2012 and 2022, interests comprised the smallest share of total General Fund revenues as shown in Figure 2.

Fargo's General Fund has the following expenditure items.

- **Public Safety**: Public safety represents expenditures related to Fargo's police and fire departments. These costs represent the largest share of public expenditures in Fargo, comprising close to 40 percent of total General Fund expenditures from 2012 to 2022 as shown in Figure 2. The percentage share of public safety in Fargo's General Fund expenditures rose by nearly five percent from 2012 to 2022.
- **General Government**: This expenditure includes employee salaries for general government functions, such as the Finance Department, worker's compensation, communications, auditing fees, banking fees, credit card fees, security services, automobile and animal impounding, insurance, investment management fees, office supplies, publishing, and other administrative costs. It is the second largest source of General Government spending, both in 2012 and 2022 as shown in Figure 2. Like public safety, general government expenditure as a percentage of total General Fund expenditure grew by nearly five percent in the last decade (2012 to 2022).
- **Public Works**: The Public Works, or Operations department in Fargo comprises of the Central Garage, Forestry, Streets and Sewers and Water Mains and Hydrants. It serves important infrastructural functions in the City while also assisting utilities and engineering departments in their day-to-day functioning. It is the third largest source of expenditure for Fargo's General Fund comprising nearly 11 percent and 14 percent of total General Fund expenditures in 2012 and 2022 as shown in Figure 2.

- **Public Health**: This expenditure item is related to the Fargo Cass Public Health department which provides various health services to Fargo's residents. As shown in Figure 2, public health represents close to 13 percent of total General Fund expenditures in 2022.
- **Recreation and Culture**: This includes Fargo's expenditures on parks and recreation, art, and culture. Recreation and Culture comprised five percent of total General Fund expenditures from 2012 to 2022 as shown in Figure 2.
- **Transfers to Other Funds**: Fargo's General Fund also transfers resources to other governmental funds for services procured through them. The City of Fargo transferred less than two percent of total General Fund expenditures to other funds from 2012 to 2022 as shown in Figure 2.
- **General Support**: This includes expenditures related to departments which support the City of Fargo's day to day operations, such as the IT Department. General support services comprised less than two percent of total General Fund expenditures from 2012 to 2022 as shown in Figure 2.
- **Total Capital Outlay**: This includes construction and improvements to the City's supporting equipment and infrastructure. Examples of capital requests from the 2024 Capital Outlay include requests for equipment from the Assessors' office, central garage, communications, facilities management, etc. The total capital outlay in 2012 comprised close to seven percent of total General Fund expenditures.
- **Economic Development**: Economic Development comprised less than one percent of Fargo's total General Fund expenditures in 2022 as shown in Figure 2.
- **Public Transportation**: Public Transportation comprised a significant share (8.8 percent) of Fargo's total General Fund expenditures in 2012 as shown in Figure 2.
- **Unallocated**: Although Fargo had an unallocated balance of 0.4 percent of total General Fund expenditures in 2012, it had no expenditure in that category in 2022 as shown in Figure 2.

FIGURE 2: GENERAL FUND REVENUES AND EXPENDITURES IN NOMINAL DOLLARS IN FARGO, FOR 2012 AND 2022

	2012		2022		2012-2022	
	Amount	Percentage of Total	Amount	Percentage of Total	Change in Value	Percentage Change
Revenues						
Property Taxes	$17,641,000	22.3%	$31,540,802	32.0%	$13,899,802	79%
Intergovernmental	$26,412,561	33.5%	$21,736,860	22.1%	-$4,675,701	-18%
Charges for Services	$14,484,566	18.3%	$16,207,978	16.5%	$1,723,412	12%
Transfers In	$8,506,000	10.8%	$11,670,832	11.9%	$3,164,832	37%
Licenses and Permits	$3,204,002	4.1%	$6,689,081	6.8%	$3,485,079	109%
Franchise Fees	$4,349,000	5.5%	$6,262,395	6.4%	$1,913,395	44%
Fines	$2,715,000	3.4%	$1,584,689	1.6%	-$1,130,311	-42%
Miscellaneous	$748,232	0.9%	$1,448,718	1.5%	$700,486	94%
Interest	$900,000	1.1%	$1,316,523	1.3%	$416,523	46%
Total Revenues	$78,960,361	100.0%	$98,457,878	100.0%	$19,497,517	25%
Expenses						
Public Safety	$27,394,568	36.5%	$43,658,312	41.9%	$16,263,744	59%
General Government	$12,441,406	16.6%	$22,264,806	21.4%	$9,823,400	79%
Public Works	$8,308,377	11.1%	$14,218,934	13.6%	$5,910,557	71%
Public Health	$8,671,267	11.6%	$13,721,335	13.2%	$5,050,068	58%
Recreation & Culture	$3,720,749	5.0%	$5,306,936	5.1%	$1,586,187	43%
Transfers to Other Funds	$1,333,064	1.8%	$1,591,423	1.5%	$258,359	19%
General Support	$1,385,540	1.8%	$1,514,020	1.5%	$128,480	9%
Total Capital Outlay	$4,910,000	6.5%	$1,404,008	1.3%	-$3,505,992	-71%
Economic Development	-	-	$499,610	0.5%	N/A	N/A
Public Transportation	$6,600,029	8.8%	-	-	N/A	N/A
Unallocated	$272,000	0.4%	-	-	N/A	N/A
Total Expenses	$75,037,000	100.0%	$104,179,384	100.0%	$29,142,384	39%

Sources: City of Fargo, 2012, 2021; Strategic Economics, 2023.

TRENDS IN GENERAL FUND REVENUES AND EXPENSES

This subsection provides a snapshot of all noteworthy changes in revenues and expenditures associated with Fargo's General Fund. The next subsection delves into some major changes in the revenue and expenditure sources and explains them in greater detail using year by year data from Fargo's budget documents and Comprehensive Annual Financial Reports from the last decade, from 2012 to 2022.

Noteworthy changes in the General Fund revenues from 2012 to 2022 for the City of Fargo, as shown in Figure 2 include the following:

- Fargo's total General Fund revenues increased by 25 percent or nearly $20 million from 2012 to 2022. All revenue sources barring intergovernmental revenues and fines showed high increases during that period.
- The largest increase in General Fund revenues from 2012 to 2022 came from property taxes. During this period, property taxes increased by 80 percent or nearly $14 million. Large increases in property taxes relate to population growth and higher development activity in Fargo and will be explained in detail in the upcoming subsection.
- The second largest contribution to the increase in General Fund revenues came from licenses and permits, which more than doubled, adding close to an additional $3.5 million from 2012 to 2022.
- Transfers increased by nearly 40 percent or $3.2 million from 2012 to 2022.
- At the same time, there was a 20 percent or nearly $5 million decline in intergovernmental revenues from 2012 to 2022. Intergovernmental revenues showed the largest decline in value among all other General Fund revenue sources during that period.
- Revenue from fines decreased by 46 percent or nearly $400,000 from 2012 to 2022.

Based on Figure 2, noteworthy changes in General Fund expenses from 2012 to 2022 for the City of Fargo include the following:

- Total General Fund expenditures increased by nearly 40 percent or $30 million from 2012 to 2022, while revenues had only increased by $20 million during that period.
- Public safety, or police and fire showed the largest increase in General Fund expenditures, increasing by 60 percent or nearly $16.5 million from 2012 to 2022. Public works and public health also show large increases of more than $5 million from 2012 to 2022. Large increases in General Fund expenditures in public safety, public works and public health are tied to population growth and an increased demand for services. Higher public health expenditures also relate to the increased demand for health services during and after the Covid-19 pandemic.
- General government showed the second largest increase in General Fund expenditures, increasing by nearly 80 percent or almost $10 million from 2012 to 2022. Fargo's 2022 budget included a 3.5 percent competitive wage adjustment for existing employees, along with the addition of 20 full time employees which led to a significant increase in general government expenditures in 2022[6].

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[6] City of Fargo (2021) 2021 Annual Comprehensive Financial Report.

- Total capital outlay shows the only decrease in General Fund expenditures, declining by nearly 70 percent or $3.5 million from 2012 to 2022.

MAJOR CHANGES IN GENERAL FUND REVENUES

In this subsection, Strategic Economics investigates the most significant changes to General Fund revenues from 2012 to 2022. While the previous section describes all noteworthy changes to the composition of the General Fund, this section selects only two of these changes to demonstrate how Fargo's demographic and economic trends altered sources of revenues in the General Fund. These include increases in property taxes and decreases in intergovernmental revenues.

INCREASE IN PROPERTY TAXES

This section discusses two parts to the increase in property taxes and its consequent share of General fund revenues – how property taxes overtook intergovernmental transfers as the major source of General Fund revenues and how the City of Fargo has managed to decrease its mill rates while collecting substantially higher property taxes.

An increase in the share of property taxes in total General Fund revenues signifies greater fiscal autonomy for the City of Fargo. Intergovernmental funds are transferred to Fargo from the state or the federal levels while property tax revenues are collected locally and are relatively immune to state and national economic conditions. Therefore, an increase in property taxes signifies a decrease in reliance on often unpredictable external revenue sources, greater autonomy of Fargo's local government and greater control over sources of revenue and expenditures of Fargo's General Fund.

By 2022, property taxes surpassed intergovernmental transfers as the largest source of Fargo's General Fund revenues. From 2012 to 2022, both property taxes and intergovernmental transfers were responsible for close to 55 percent of total General Fund revenues. In 2012, intergovernmental transfers were responsible for 33.5 percent of General Fund revenues whereas property taxes accounted for 22.3 percent. By 2022, the share of intergovernmental transfers and property taxes in

MILL RATES AND ASSESSED VALUATIONS

In Fargo, the mill levy is the basis of calculating property tax. The mill levy is determined every year by dividing the amount needed by the City for each taxpayer funded entity from the Property taxes (based on the budget) by the total taxable value of the City for that year. This becomes the percentage of taxable value assessed in property tax annually. The calculation of property taxes from the City of Fargo's mills from 2012 to 2021 is demonstrated in Figure 3. Pursuant to Article 3 of Fargo Home Rule Charter (HRC) ad valorem taxation shall not exceed 64 mills, unless authorized by the voters.

The assessed value of the property is 50 percent its estimated (true and full) market value. The taxable value is calculated on the basis of the assessed value. In case of commercial and agricultural properties, the taxable value is 10 percent of the assessed value. In case of residential properties, the taxable value is 9 percent of the assessed value.

Property taxes levied for the fiscal year are therefore calculated using the formula:

Property Tax Levied = Mill Rates x Taxable Value of Property x 1/1000.

total General Fund revenues flipped, making property taxes the most important source of General Fund revenues in Fargo.

FIGURE 3: MILL RATES AND PROPERTY TAXES LEVIED BY YEAR IN FARGO, FROM 2013 TO 2022

Year	Total Taxable Value (in Nominal Dollars)	Mill Rates	Property Taxes Levied (in Nominal Dollars)
2012	$346,750,408	58.25	$23,439,045
2013	$360,271,576	57.25	$23,964,157
2014	$387,008,093	57.25	$26,036,427
2015	$436,837,979	55	$28,012,985
2016	$489,481,255	53	$30,267,785
2017	$527,912,051	51	$31,586,925
2018	$556,125,077	51	$33,447,420
2019	$594,470,390	53	$33,765,795
2020	$620,144,629	53	$35,482,579
2021	$655,291,882	53	$36,320,566
2022	$709,660,276	55	$40,696,619
Change from 2012 to 2022	$362,909,868	-3.25	$17,257,574

Sources: City of Fargo, from 2012 to 2022; Strategic Economics, 2023.

Fargo's property taxes grew due to a large increase in total taxable value despite a decrease in mill rates. The City of Fargo has two levers to increase its property taxes – the mill rates and the taxable value of properties. Increasing mill rates will increase the total property taxes levied for the fiscal year. However, as shown in Figure 3, Fargo's mill rates declined by 3.25 mills in 2022 from 2012 levels, while property taxes levied increased by $17 million or nearly 70 percent. The increase in property taxes is due to a large increase in total taxable value in the City of Fargo, which has more than doubled from 2012 to 2022, adding nearly $400 million to Fargo's property tax base. The increase in total taxable value owing to a large boom in real estate development has allowed the City of Fargo to meet its General Fund revenue needs with smaller mill rates.

DECREASE IN INTERGOVERNMENTAL FUND TRANSFERS

Decline in the share of total intergovernmental revenues in Fargo's General Fund can be tied to the decline in intergovernmental transfers from the state. The share of intergovernmental transfers in Fargo's General Fund revenues decreased by nearly 10 percent from 2013 to 2022 as shown in Figure 2. The decline in intergovernmental revenues from 2015 onwards was due to a decrease in statewide economic activity as oil prices declined. As shown in Figure 4, total intergovernmental transfers from the state level declined by nearly six million dollars between 2013 and 2017. By 2022 intergovernmental revenues will be more than $5 million below 2013 levels.

FIGURE 4: TOTAL INTERGOVERNMENTAL TRANSFERS BY LEVEL OF GOVERNMENT IN FARGO FROM 2013 TO 2022

Total Intergovernmental Transfers by Level of Government, City of Fargo, from 2013 to 2023

	Intergovernmental Transfers in Millions of Dollars		
Year (Source)*	Federal	State	Local
2013 (a)	$9.06	$23.69	$2.09
2014 (a)	$8.78	$20.98	$2.19
2015 (a)	$9.26	$19.96	$2.22
2016 (b)	$18.44	$17.57	$1.80
2017 (b)	$12.12	$16.63	$2.43
2018 (c)	$7.46	$17.67	$9.07
2019 (c)	$7.03	$18.84	$9.48
2020 (d)	$36.70	$16.78	$1.30
2021 (d)	$19.05	$19.44	$1.23
2022 (d)	$21.94	$18.44	$1.68
Change from 2013 to 2022	$12.88	-$5.25	-$0.41

Sources:
(a) City of Fargo (2016), The Approved 2017 Budget;
(b) City of Fargo (2019), The Approved 2020 Budget;
(c) City of Fargo (2022), 2023 Approved Budget;
(d) City of Fargo (2023), 2024 Approved Budget;
Strategic Economics, 2023.

FISCAL HEALTH OF FARGO'S GENERAL FUND

Two metrics have been used in this subsection to explain the fiscal health of Fargo's General Fund-

- **Expenditure to revenue ratio**: This calculates the ratio of total General Fund expenditures to total General Fund revenues for a given fiscal year. A ratio of one or below would indicate that expenses are lower than revenues and the General Fund is fiscally sound.
- **Unassigned General Fund balance percentage:** The City of Fargo strives to maintain a management goal of unassigned General Fund balance at 25 percent or higher of total General Fund expenditures. Percentages below 25 would indicate failure to achieve that management goal.

Fargo's General Fund expenditure to revenue ratio increased by 0.19 or nearly 20 percent from 2012 to 2022 as shown in Error! Reference source not found.. This indicates that Fargo's General Fund revenues are unable to keep pace with the growth in General Fund expenditures. Apart from 2013, 2014, and 2020, almost every year in the decade has incurred more General Fund expenditures than revenues.

Fargo's unassigned General Fund balance has decreased by 11 percent in 2022 from 2012 levels. From 2012 to 2021, all year's show an unassigned general fund balance percentage of more than 25 percent as shown in Figure 5. In 2022, unassigned general fund balance dropped sharply by seven percent from 2021 levels and the City of Fargo failed to achieve its management goal of 25 percent or more.

FIGURE 5: GENERAL FUND EXPENDITURE TO REVENUE RATION AND UNASSIGNED GENERAL FUND BALANCE AS A PERCENTAGE OF TOTAL EXPENDITURES BY FISCAL YEAR, FROM 2012 TO 2022

Year	Expenditure to Revenue Ratio	Unassigned General Fund Balance as Percentage of Total General Fund Expenditures
2012	1.02	32%
2013	0.96	29%
2014	0.97	32%
2015	1.04	34%
2016	1.07	32%
2017	1.13	31%
2018	1.12	29%
2019	1.13	26%
2020	0.96	33%
2021	1.15	28%
2022	1.21	21%
Change from 2012 to 2022	0.19	-11%

Sources: City of Fargo, 2023; Strategic Economics, 2023.

Trends in Fargo’s Proprietary Funds

Fargo’s proprietary funds represent the City’s business type activities. They are also called enterprise funds. Proprietary funds are used to construct and maintain most infrastructure in the City of Fargo. This section discusses the primary revenue sources for proprietary funds to understand how the City of Fargo supports infrastructure capital costs, ongoing operations, and maintenance. It then looks at fiscal trends of primary revenue streams to understand the overall fiscal health of proprietary funds in Fargo.

REVENUE SOURCES AND FUNCTIONS OF PROPRIETARY FUNDS

This subsection of the report is interested in two important functions of proprietary funds – provision of infrastructure capital costs and ongoing operations and maintenance of infrastructure. While there are numerous sources of revenue under each proprietary fund, this report delves into the most significant local sources of proprietary fund revenue in Fargo - special assessments, sales tax, and utility fees.

INFRASTRUCTURE CAPITAL COSTS

Figure 6 describes the City of Fargo’s 2023 infrastructure funding policy which includes funding sources for both infrastructure construction and ongoing maintenance. Some of the important sources of revenue for infrastructure funding include-

Special Assessments: Figure 6 shows that special assessments are used to pay for almost all infrastructure, including installation and maintenance of water mains, sanitary sewer and stormwater infrastructure and roads. Special assessments are a method used by the City of Fargo to pay for infrastructure improvements that benefit properties. The cost of these projects is divided among the properties that benefit from them. The City of Fargo creates or alters improvement districts for the purpose of imposing special assessments fees on them. The infrastructure is then paid for using bonds as security which are filed with the City auditor. These districts are created when two or more properties benefit from an infrastructure agreement and when owners of three-fourths of the area to be added to a business improvement district sign the petition for a new special assessment.

Sales Tax: As shown in Figure 6, sales tax is primarily used to pay for the installation and maintenance of flood walls or levees. It is also used to pay the balance of funds remaining after special assessments for various stormwater infrastructure, roads, and streets. Fargo has three types of sales tax for different infrastructure programs.

- In 2009, Fargo authorized a one cent sales tax through December 2028 for infrastructure and capital improvement funding related primarily to an approved utility infrastructure master plan. The City of Fargo will use this sales tax for infrastructure capital improvements which may include the following: streets and traffic management; water supply and treatment needs, including construction or expansion of water treatment facilities; water distribution system needs; sewage treatment and collection system needs, including construction or expansion of sewage treatment facilities and flood protection projects.
- In 2010, a half-cent sales tax was authorized through December 2084 for flood risk protection, mitigation, and reduction.

- In 2013, another half-cent sales tax was authorized through December 2032 for infrastructure improvements including flood protection, mitigation, and reduction, which was later extended to 2084.

Fargo's sales taxes are one of many funding sources responsible for funding the Fargo-Moorhead Flood Diversion project approved in 2012 by USACE. This project will allow the entire Fargo-Moorhead region to have permanent, reliable flood protection by 2027[7].

State and Federal Funds: State and federal funds either in the form of grants for specific projects or more general in nature grants aid in infrastructure development in Fargo. As shown in Figure 6, state and federal funds cover the balance remaining after funding through special assessments and sales tax for the construction and maintenance of arterial roads and other structures like interchanges, bridges, overpass, etc. North Dakota State Water Commission (NDSWC) funds provide revenues for comprehensive flood risk reduction plans.

Ongoing Operations and Maintenance Costs of Infrastructure Using Utility Fees

Special assessments and sales tax cover the majority of infrastructure construction and maintenance costs. Utility fees cover the operating costs of infrastructure, including staff time and supplies, cost of providing services to individual properties, future repairs and rehabilitation and administrative costs of billing customers. The cost of expansion of water and sewage treatment facilities is baked into their utility fee structure.

Figure 6: Summary of City of Fargo's 2023 Infrastructure Funding Policy

Utility	Main Source of Funding	Funding Source for Balance	Notes
Water			
Mains - Trunk and Local			
Installation, Repair and Replacement	Special Assessments (25 years)	Water Utility	
Feeder Mains and Water Tower			
Installation, Service Replacement and System Expansion	Water Utility		
Sanitary Sewer			
Mains - Trunk and Local			
Installation, Repair and Replacement	Special Assessments (25 years)	Sewer/Wastewater Utility	
Lift Stations			
Installation	Special Assessments (25 years)		
Repair and Replacement	Sewer/Wastewater Utility		
Expansion	Special Assessments (25 years)	Sewer/Wastewater Utility	
Stormwater			
Mains and Outfalls			

[7] Metro Flood Diversion Authority. https://fmdiversion.gov/

Installation, Repairs and Replacements, Expansion of Relief Sewers, Enhancements	Special Assessments (25 years)	Stormwater Utility, Sales Tax	
Detention/Retention Basins			
Installation, Repair and Replacement	Special Assessments (25 years)	Stormwater Utility, Sales Tax	
Lift Stations			
Installation	Special Assessments (25 years)		
Repair and Replacement	Special Assessments (25 years)	Stormwater Utility, Sales Tax	
Flood Wall or Levee			
Installation, Repair and Replacement	Special Assessments (25 years)	Sales Tax	Storm Water Utility can also be used as a source for balance funds for repair and replacement
Comprehensive Flood Risk Reduction Plan	Sales Tax & North Dakota State Water Commission Funds		
Roads and Streets			
Local Streets and Collectors			
Installation	Special Assessments (25 years)		
Repair and Replacement	Special Assessments (25 years)	Sales Tax	
Arterial			
Installation	Special Assessments (25 years)	Sales Tax or Federal Funds	
Repair, Rehabilitation and Replacement	Special Assessments (25 or 15 years)	Sales Tax	Federal Funds can also be a source of balance funds for rehabilitation and replacement of arterials
Alleys			
Installation, Repair and Replacement	Special Assessments (25 years)		
Structures - Interchanges, Bridges, Overpass, Underpass, etc.			
Installation, Rehabilitation and Replacement	Special Assessments (25 years)	Sales Tax or Federal Funds	

Sources: City of Fargo, 2023; Strategic Economics, 2023.

PROPRIETORY FUNDS FISCAL TRENDS

This subsection delves into the fiscal trends of primary revenue sources of proprietary funds described above. It examines proprietary fund revenues by source every year and then discusses increases, decreases and other patterns of change in fund revenues over time.

TRENDS IN SPECIAL ASSESSMENTS

Revenues from special assessments have increased by nearly 50 percent from 2013 to 2022. As shown in Figure 6, special assessments represent the most important source of funding for installation and maintenance of Fargo's infrastructure. Figure 7 below shows that revenues from special assessments have increased by nearly $13 million or close to 50 percent in the last 10 years, from 2013 to 2022.

The increase in special assessment projects also indicates an increase in special assessment districts whose cost is absorbed by the City of Fargo. The initial cost of special assessments is fronted by the City when special assessment bonds are issued. The City recoups its costs gradually from the beneficiaries of special assessments districts through their annual property tax assessments. Special assessment districts gradually accumulate revenues over 15 years or more, on a yearly basis.

The City of Fargo has concentrated a large number of overlapping special assessment districts in subareas 3,4 and 5. As shown in Figure 8, there have been a large number of overlapping special assessment districts in the City of Fargo. From 2020 to 2023, there have been 52 new special assessment districts, many of which have overlapped with one another, concentrating investments in each overlap. These overlaps are particularly concentrated at the southern boundary of Fargo, indicating new infrastructural developments in newly annexed land near the southern boundaries of the City[8].

FIGURE 7: TOTAL SPECIAL ASSESSMENTS REVENUE AND DEBT SERVICE COVERAGE OF SPECIAL ASSESSMENT BONDS BY FISCAL YEAR IN FARGO, FROM 2013 TO 2022

Year	Special Assessment Revenues*	Debt Service Coverage
2013	$28,217,162	1.19
2014	$33,035,969	1.44
2015	$26,817,909	0.98
2016	$37,005,479	1.3
2017	$38,133,231	1.27
2018	$38,646,930	1.26
2019	$43,926,433	1.32
2020	$48,726,546	1.31
2021	$54,980,777	1.45
2022	$41,209,736	1.18
Change from 2013 to 2022	$12,992,574	-0.01

Notes:
*Based on Projects on Assessment Rolls and an Allowance for Special Assessment Payments
Sources: City of Fargo, 2023; Strategic Economics, 2023.

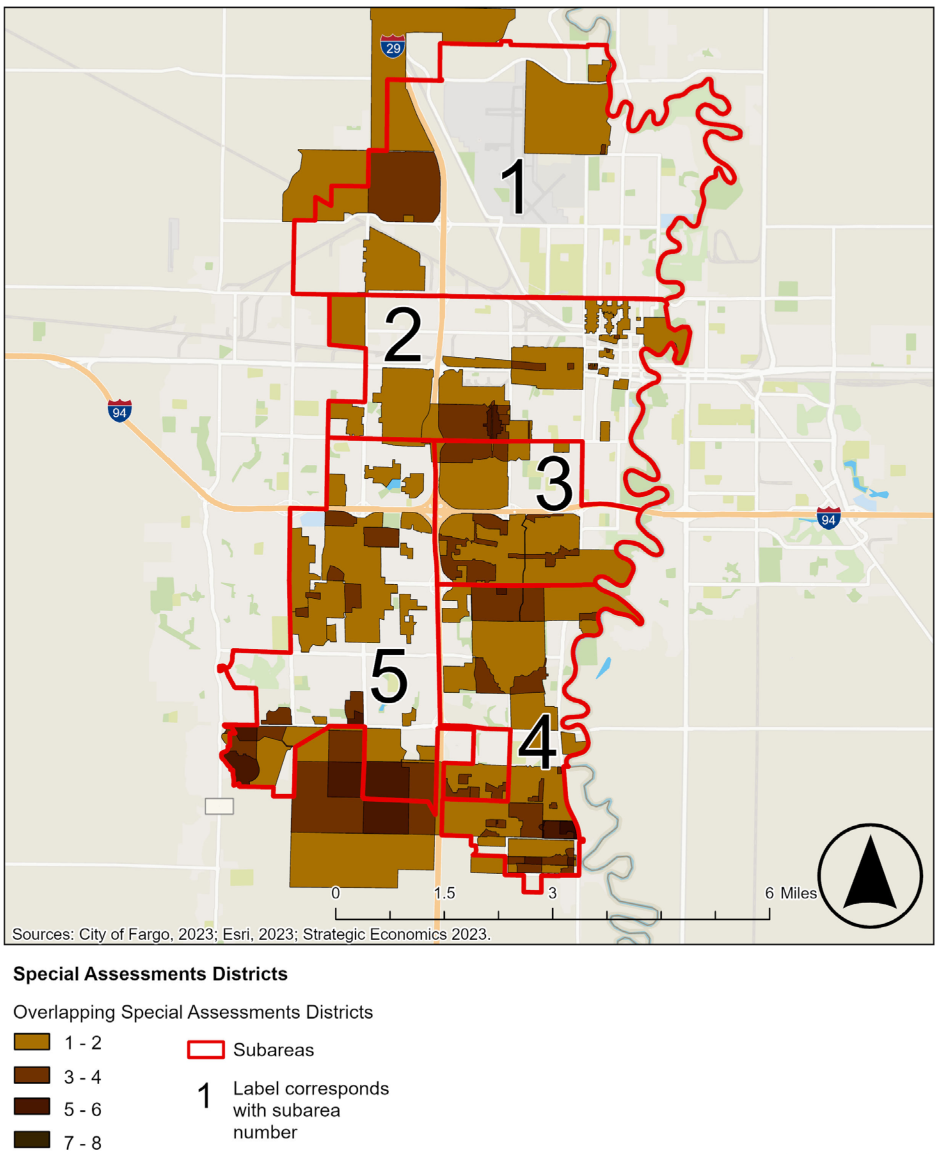
Fargo's special assessment bonds debt service coverage ratio has fluctuated from 2013 to 2022, from a low of 0.98 in 2015 to a high of 1.45 in 2021. Debt service coverage ratio measures the availability of cash flow to pay current debt obligations. It is the ratio of net operating income by total debt service[9]. The higher the debt service coverage ratio, the better the financial performance. A debt

[8] The Growth Trends report shows that majority of new annexation in the last two decades (2000 to 2010 and 2010 to 2020) has taken place near Fargo's southern boundary.
[9] Total debt service includes principal and interest for that period of payment.

service coverage ratio of 1 indicates that there is only enough operating income to pay off debt service costs and not more. Notable trends in special assessment bonds debt service coverage ratios are –

- In 2015, Fargo's special assessment bond debt service coverage ratio had fallen below 1, indicating that the City of Fargo did not make enough net operating income to meet its debt obligations.
- Before and after 2015, the City of Fargo has consistently reported a debt service coverage ratio of more than 1 on its special assessment bonds.
- In 2022, the City of Fargo reported the second lowest debt service coverage ratio since 2013 at 1.18. Debt coverage service ratio for special assessments decreased by 0.27 in 2022 from 2021 levels.

FIGURE 8: OVERLAPPING SPECIAL ASSESSMENT DISTRICTS IN FARGO, 2020 ONWARDS



TRENDS IN SALES TAX

Sales tax revenues in 2022 have increased by nearly $22 million or 50 percent since 2013. Total sales tax revenues have increased almost every year of the decade, barring 2016 to 2018 as shown in Figure 9. The largest increase took place in 2021, when an additional $8.7 million was collected in sales tax revenues.

Sales tax collections for revenue bonds in 2022 have decreased by $13 million or nearly 60 percent from 2013. Revenue bonds are a category of municipal bond supported by the revenue from a specific project. In Fargo, sales tax revenue bonds finance infrastructure projects, and are secured by sales tax revenue. From 2014 to 2015, there was a nearly $12 million or 50 percent reduction in sales tax revenue bonds collections, followed by another decrease of nearly $3 million or 30 percent from 2016 to 2017 as shown in Figure 9. Since 2017 onwards, sales tax revenue bonds collections have remained relatively stable.

Sales tax revenue bonds debt service coverage has decreased from 2.87 in 2013 to 1.20 in 2022. Sales tax debt coverage has decreased by 1.67 in 2022, indicating that the City is making 60 percent lower sales tax collections to meet its sales tax bond debt obligations than it did in 2013.

FIGURE 9: TOTAL SALES TAX REVENUES, SALES TAX COLLECTIONS AND DEBT SERVICE COVERAGE OF SALES TAX REVENUE BONDS BY FISCAL YEAR IN FARGO, 2013 TO 2022

		Sales Tax Revenue Bonds	
Year	Total Sale Tax Revenues	Sales Tax Collections	Debt Service Coverage
2013	$44,111,937	$20,609,635	2.87
2014	$48,493,573	$24,168,140	2.36
2015	$52,075,892	$12,747,118	2.02
2016	$49,927,219	$10,412,491	1.65
2017	$48,070,709	$7,554,672	1.2
2018	$48,038,202	$7,555,260	1.2
2019	$49,623,454	$7,551,678	1.2
2020	$51,720,983	$7,553,418	1.2
2021	$60,456,731	$7,556,148	1.2
2022	$65,918,347	$7,552,698	1.2
Change from 2013 to 2022	$21,806,410	-$13,056,937	-1.67

Sources: City of Fargo, 2023; Strategic Economics, 2023.

TRENDS IN UTILITY FEES

Fargo's utility rates have increased with the need for capacity expansion of existing infrastructure in the City. Fargo's utility rates account for the cost of future expansion of the City's infrastructure. In 2012, the expansion of the water treatment plant was approved for an estimated cost of $90M which was partially funded by State of North Dakota Water Commission and a State Revolving Fund loan, to be paid back through Fargo's recently approved sales tax. The expansion of the water treatment plant began in 2018, and the State Revolving Fund Loan for the water treatment plant expansion was amended to remove the sales tax pledge and pledge water utility fund revenues instead. Due to this amendment, the existing $73M debt was transferred to the utility fees. In order to increase the operating revenues to meet this debt, utility fee increases were observed in the case of both water and wastewater. Figure 10 shows that water utility fees increased by $0.15 in 2018 and wastewater utility fees increased by $0.5 in 2018 and $2.50 in 2021 to meet pledged debt obligations.

Increase in water utility fees coupled with capacity for regional supply allow Fargo to fulfill its water treatment plant expansion debt obligations. The increase in water treatment capacity enabled Fargo to become a regional supplier of water and wastewater services to other municipalities in Cass County including West Fargo. It is expected that the increase in utility rates coupled with the increase in the number of new utility accounts across the region will enable Fargo to fulfil its debt obligations.

FIGURE 10: UTILITY RATES FOR WATER AND WASTEWATER BY FISCAL YEAR IN FARGO, 2012 TO 2021

Utility Type	Water	Waste Water	
Specifications	Per 1000 gallons for the First 200,000 gallons	Fixed Rate for Residential Connections	Commercial Connections, Per 1000 gallons
2012	$4.25	$19.00	$2.05
2013	$4.25	$19.00	$2.05
2014	$4.25	$16.00	$2.05
2015	$4.25	$16.00	$2.05
2016	$4.25	$16.00	$2.05
2017	$4.25	$16.00	$2.05
2018	$4.40	$16.50	$2.10
2019	$4.40	$16.50	$2.10
2020	$4.40	$16.50	$2.10
2021	$4.40	$19.00	$2.20
Change from 2012 to 2021			
Numerical Change	$0.15	$0.00	$0.15
Percentage Change	4%	0%	7%

Sources: City of Fargo, 2023; Strategic Economics, 2023.

III. FARGO'S FISCAL TOOLS

This chapter examines Fargo's fiscal relationship to growth trends in order to understand Fargo's fiscal levers. Fargo's fiscal tools, also referred to as fiscal levers in the chapter, represent key growth opportunities that can be strategically utilized to increase Fargo's fiscal sustainability in the future. These fiscal tools or levers stem from Fargo's existing relationships between population and economic growth and fiscal health.

Fargo's Fiscal Health's Relationship to Growth Trends

Fargo's governmental funds, their sources of revenues and expenditures have a relationship with demographic and land use changes in the City. This chapter explores direct relationships between Fargo's demographic and real estate growth trends and fiscal trends of Fargo's governmental funds. Some of the causes and effects of Fargo's fiscal relationships with growth trends are explained below.

Nearly 55 percent of Fargo's General Fund revenues and 70 percent of expenditures are linked to population growth. The relationship between Fargo's general fund and population growth is explained below.

- Property taxes which constituted 32 percent of revenues in 2022 depend upon the increase in taxable value for its growth. Taxable value, or the combined value of all property within the City, grows with the addition of new residential or commercial units, or new land into the City. Demand for new units or annexation of land within the City limits is generated by population growth.
- An increase in population will generate additional demand for services, licenses and permits and incur additional fees, leading to an increase in revenues from City services. Together, charges for services, licenses, and permits and fines currently constitute another 25 percent of General Fund revenues, with potential for growth through population increase.
- Demand for public safety – fire and police services- increases incrementally with population growth. Property taxes are the largest source of revenue for public safety services in the City of Fargo.
- Demand for new infrastructure and their maintenance also increases with population growth and expansion of existing built environment. The expansion of Fargo's built environment generated nearly 80 percent more expenditure in public works from 2012 to 2022. Some of these expenditures are paid for through transfers in from proprietary funds since public works provides ongoing maintenance and other services to several utility departments. General Fund revenues, and primarily property taxes are responsible for various maintenance operations like snow ploughing which cost more than a million dollars a year.
- Demand for public health and recreational expenses, which depend on a combination of property taxes and intergovernmental revenues increase with population growth and the physical expansion of the City's limits.

All significant sources of proprietary fund revenues are also connected to population growth for their expansion.

- Population growth, expansion of the City's limits or re-densification of existing parts of the City generate demand for new infrastructure or improvements to existing infrastructure through special assessments. The initial cost of special assessments is fronted by the City from their existing reserves. Generation of revenues through special assessments and the successful repayment of special assessments bonds are reliant on population growth and real estate development demand in Fargo.
- As mentioned in the Growth Trends report, Fargo is a regional leader when it comes to retail real estate within the Fargo-Moorhead MSA. Sales taxes generated in Fargo are paid for by residents of Fargo, along with residents of the larger region who rely on Fargo for their retail needs. Therefore, population growth within and around Fargo will increase sales tax revenues in Fargo, which can be utilized for infrastructural improvements.
- As population grows, there is increased demand for utilities to cover larger service populations and denser areas. Considering utility rates remain constant, revenues generated through utility fees will increase with the number of additional utility accounts proportionally.

Fargo's Fiscal Levers

Fargo does have fiscal levers related to growth that the City can utilize to create fiscal advantages and improve the sustainability of Fargo's fiscal health in the future. Fargo's fiscal levers include revenue sources within its local control, which the City can expand through local initiatives and investments. Fiscal levers represent fiscal initiatives that foster greater governmental fund revenues in the medium to long term.

Fargo's fiscal levers include the ability to

- Expand property taxes through increases in overall taxable value
- Expand proprietary fund revenues through regional service provision

In the two sub-sections below, the mechanics of Fargo's fiscal levers are explained.

EXPANSION OF PROPERTY TAXES THROUGH AN INCREASE IN TAXABLE VALUE

Shifting Fargo's General Fund's dependence on intergovernmental funds for General Fund revenue into a reliance on local property taxes created a new fiscal lever for the City. Intergovernmental transfers into Fargo's General Fund represented volatile sources of income based on state-wide and national economic conditions beyond the control of Fargo's local government. In North Dakota the majority of intergovernmental transfers were a result of oil and gas revenues, which are expected to continue to decline owing to a national shift to renewable resources of energy. When property taxes overtook intergovernmental transfers as the most important source of General Fund revenues, the City of Fargo's control over the sustainability and fiscal health of its financial resources increased.

Fargo can utilize either its total taxable value (also referred to as property tax base) or its mill rates to leverage greater property taxes. Increasing mill rates to generate higher property taxes from existing residents requires a vote from the City Commission and Fargo residents recently showed opposition to higher mill rates proposed for the 2024 budget[10]. Total taxable value can be increased through increased investments in development in the City, which will ultimately generate higher property taxes. The sub-subsections below describe ways in which the assessed value or the taxable value of properties can be enhanced through different development strategies to expand Fargo's property tax revenues.

INCREASING PROPERTY TAXES FROM NEW DEVELOPMENT ON ANNEXED LAND

Growth by annexation leads to newer development with higher property values per acre than existing parts of the City. Fargo's Growth Trends report assessed that the majority of new growth in subareas 4 and 5 had taken place through new development on newly annexed land. Figure 11 demonstrates high growth in subareas 5 and 4 through a 249 percent and 126 percent increase total assessed value of all property from 2009 to 2022. Average assessed values per acre are 88 percent and 41 percent higher in 2022 than 2009 in subareas 5 and 4, indicating that either the average value of newer property is higher, or that development is denser in 2022 than in 2009.

Growth by annexation will be beneficial to the City's revenue sources as long as the incremental cost of serving new constituents is lower than the existing cost of serving existing residents. Through annexation, the City brings new property into the City limits to levy property taxes on it. Since certain services with fixed costs are already established in the City, Fargo does have the potential to support an additional population without incurring a lot of additional costs. These benefits, however, vary by the amount of newly annexed area and its level of development. If newly annexed land is undeveloped, and involves substantial infrastructural expenditures to develop it, or involve additional staffing requirements for public safety or public health, it can lead to a decrease in generated revenues.

To avoid additional costs of developing completely undeveloped land, the City of Fargo could focus development through annexation on parts of the region which already have trunk lines laid down, and utility costs will not outweigh the benefits of additional development through annexation. The majority of Fargo's newly annexed land is concentrated in subareas 4 and 5 as described in the Growth Trends report. Subareas 4 and 5 include areas near the southern boundary of the City which have built-in options for service expansion. Developing land that has no existing infrastructure will be counterproductive to property tax revenues and should therefore be discouraged.

INCREASING PROPERTY TAXES THROUGH SPECIAL ASSESSMENTS

Infrastructural installations and improvements through special assessments enable the development of newer, higher value neighborhoods, while preserving or enhancing the assessed value of existing neighborhoods. Special assessments enable undeveloped areas to obtain services and infrastructure and already developed areas to improve the quality of their infrastructure. By providing necessary services, special assessments enable the development of high value new buildings on newly annexed land, raising the assessed value per acre of the neighborhood. By improving the quality of infrastructure in existing parts of the City, special assessments enhance the quality of services maintaining the assessed value of existing properties and preventing them from plummeting in the future.

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[10] Haney, Don (2023) "Property tax tension by residents as Fargo City Commission prepares to vote on 2024 budget" KFGO. Accessed on October 30, 2023. https://kfgo.com/2023/09/19/property-tax-tension-by-residents-as-fargo-city-commission-prepare-to-vote-on-2024-budget/

By increasing the assessed value of properties, special assessments raise property tax revenues without increasing mill rates. Special assessments in Fargo are a form of incentive since the City bears the cost of infrastructure installation or improvements before passing on the cost to benefiting users. This allows the City to maintain or improve the quality of existing and new neighborhoods and continue to enhance its property tax base using its available resources. Despite its initial liability to the City of Fargo, special assessments continue to allow growth to pay for its way. Since special assessments add the cost of improvements to benefiting properties only, they do not affect the annual property tax assessments of all properties in the City and successfully keep the overall mill rates at lower levels. A 2022 report by TischlerBise recommended the City to continue using special assessments district financing as a tool to encourage comprehensive infrastructure construction and continue to finance accrued debt strategically[11].

Increasing Property Taxes through Mixed Use, Infill Development

Commercial properties show high growth in property values across all of Fargo's subareas from 2009 to 2022. Growth in assessed values of commercial properties, particularly in case of office properties, is higher than growth in average assessed values of single family and apartment units from 2009 to 2022 across all subareas, as shown in Figure 12. The greatest change in values per acre across all subareas from 2009 to 2022 has been in the case of office properties. New commercial development in recently annexed subareas (3,4 and 5) showed higher assessed values per acre than residential properties in 2022.

Owing to their generally higher property values and high growth potential, mixing residential and compatible commercial developments (retail, restaurants, and offices) can lead to potentially higher value, more dense developments. Studies have shown that dense, mixed-use developments in downtowns, or in adjacency to transit are more financially beneficial for cities compared to sprawling single-use developments[12]. shows that Fargo's mixed use growth nodes have generated very high growth in general commercial, multi-dwelling (or apartments) and single dwelling (single-family units) from 2009 to 2022.

Infill development and redevelopment of underutilized properties in Fargo has resulted in higher density, multistory buildings with much higher assessed property values than other mixed-use nodes in the City. Downtown Fargo has been revitalized through numerous incentivized infill projects. The greatest numerical change in assessed value of properties in Figure 14 is experienced in downtown mixed-use properties in Downtown Fargo from 2009 to 2022. Their values increased by nearly two million dollars on a per acre basis from 2009 to 2022. The assessed property values as well as the growth in assessed property values in Fargo's downtown mixed-use properties is nearly twice that of general commercial properties in Fargo's second largest node, the Sanford Medical Center as shown in Figure 14.

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[11] TischlerBise (2022) “Economic Incentive Program White Paper”. City of Fargo.

[12] Langdon, Phillip (2023) “Best Bet for Tax Revenue: Mixed Use Downtown Development”. New Urban Network. Accessed on October 31, 2023. https://newurbannetwork.com/best-bet-tax-revenue-mixed-use-downtown-development/

INCREASING PROPERTY TAXES THROUGH GROWTH INCENTIVES

The Downtown Renaissance Zone incentive program revitalized Fargo's downtown and created a vibrant, dense mixed-use neighborhood with higher property values than the rest of Fargo. Fargo's downtown and is represented as a growth node in Figure 13. The Renaissance Zone program rehabilitated and redeveloped Fargo's downtown through the use of property taxes, state income tax, historic preservation, and renovation tax credit incentives. The 2022 report by TischlerBise showed that the average annual increase in assessed home values in the Renaissance Zone was five percent higher than the average annual increase in median home values in Fargo. Within a half-mile radius of Fargo’s Downtown, single dwelling unit and multi dwelling unit assessed values increased by 82 and 112 percent respectively from 2009 to 2022 as shown in Figure 14.

Growth incentives create opportunities to replicate downtown Fargo’s success in other parts of Fargo. The 2022 TischlerBise report recommended the City of Fargo to continue with its Renaissance Zone program with a particular focus on dense multifamily developments to maximize housing buildout for the City’s growing population. The report concluded that the City’s incentive program was responsible for creating Fargo’s downtown commercial and entertainment hub. Incentive programs like the Renaissance program can be instrumental in creating dense mixed-use developments in other parts of the City as well.

Upcoming incentive programs can focus on Fargo's growth nodes which are dense employment uses to expand the City's property tax base. Fargo's growth nodes share some of the demographic, employment, and land use characteristics of the Downtown Renaissance Zone. However, they lack the density and lack vertical mixed-use characteristics of Downtown Fargo, as can be estimated in Figure 13. Other growth nodes currently produce lower assessed values compared to downtown as shown in Figure 14. However dense employment uses can become the focal points for property value increases through mixed use developments since they bring together employment (commercial) and residential uses. These lower density mixed use growth nodes can be supported through incentives to generate dense, vertical mixed-use districts that can multiply Fargo’s existing property tax base.

INCREASING PROPERTY TAXES THROUGH PUBLIC AND PRIVATE INVESTMENTS

Fargo shows higher growth in property taxes than would have been possible through population and real estate growth alone. The Growth Trends report demonstrates that from 2010 to 2020, Fargo’s population had grown by 20 percent and population and real estate growth have occurred in tandem with each other. However, Figure 2 shows that Fargo’s property tax revenues have grown by 25 percent from 2012 to 2022, indicating that property tax revenues have grown faster than population growth.

Property tax revenues have outpaced population growth due to large public and private investments in Fargo’s built environment. Special assessments are a form of public investments that alleviate the quality of existing neighborhoods while enabling new, high-quality developments to occur in newly annexed areas. The Renaissance zone program supplemented large private investments in Fargo’s Downtown by allowing $137 million in property tax exemptions. Other investments by the City of Fargo in Downtown included placemaking, road and streetscape improvements on Broadway Street and the construction of three new parking garages. Improvements in the quality of Downtown’s built environment made it economically attractive for businesses and new developments to relocate there. The TischlerBise report indicated that from 1999 to 2019, the assessed value of the Renaissance Zone had increased at nearly double the rate of inflation, adding by $346 million to its value in the last two decades. Downtown’s success is owed to a combination of public incentives and private investments.

FIGURE 11: TOTAL ASSESSED VALUE OF ALL PROPERTY AND AVERAGE ASSESSED VALUES PER ACRE BY SUBAREAS IN FARGO, 2009 AND 2022

	Subarea 1	Subarea 2	Subarea 3	Subarea 4	Subarea 5
Total Assessed Value of All Property					
2009	$1,180,202,200	$2,142,074,460	$1,203,177,800	$1,110,216,200	$1,434,197,300
2022	$3,003,255,200	$4,158,925,010	$1,944,995,500	$2,507,190,500	$5,007,401,100
Numerical Change: 2009 to 2022	$1,823,053,000	$2,016,850,550	$741,817,700	$1,396,974,300	$3,573,203,800
Percentage Change: 2009 to 2022	154%	94%	62%	126%	249%
Average Assessed Values Per Acre					
2009	$758,281	$991,761	$711,276	$597,845	$662,654
2022	$1,400,057	$2,223,610	$1,056,131	$844,628	$1,248,920
Numerical Change 2009 to 2022	$641,776	$1,231,849	$344,855	$246,783	$586,266
Percentage Change 2009 to 2022	85%	124%	48%	41%	88%

Sources: City of Fargo, 2023; Strategic Economics, 2023.

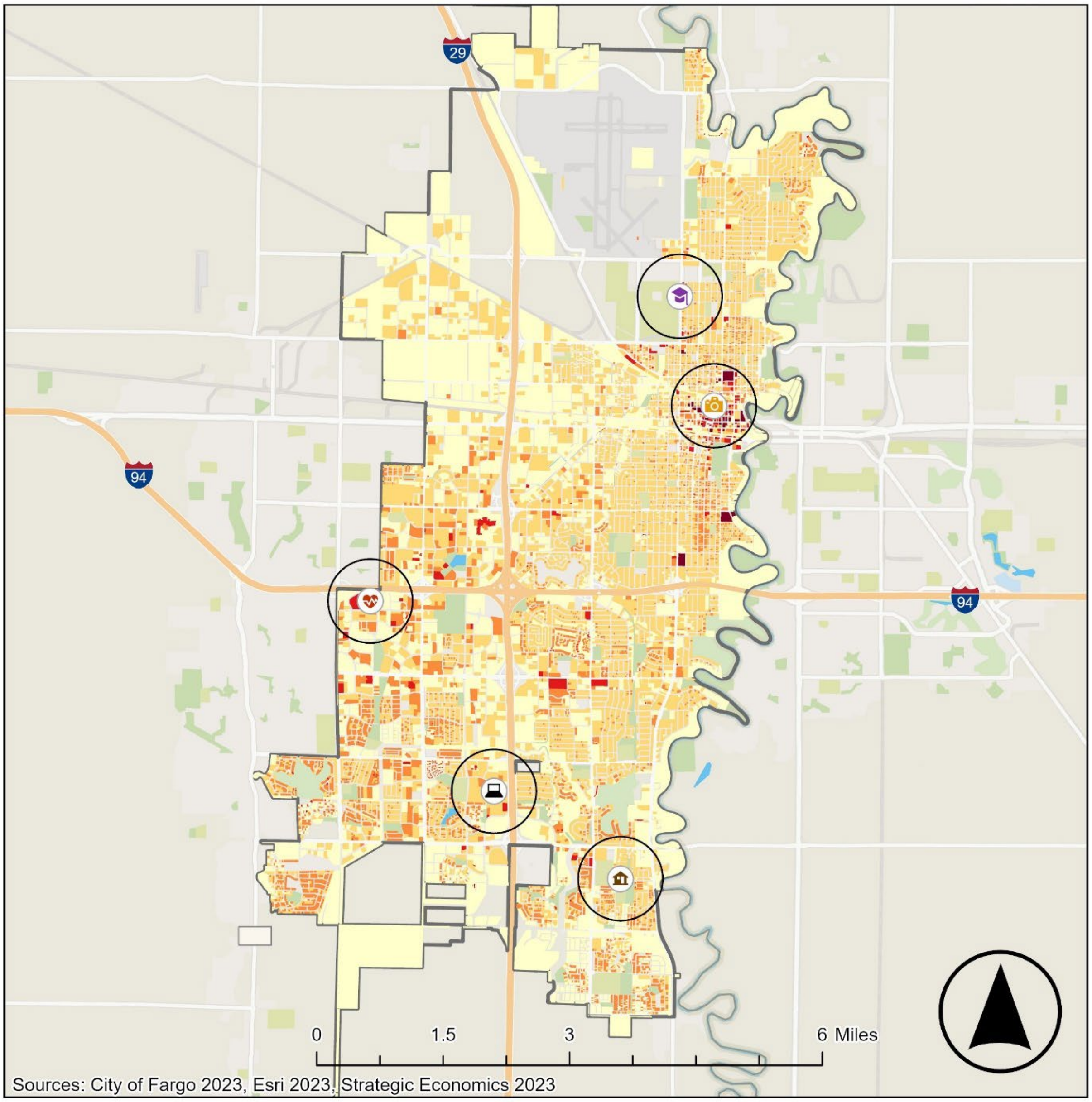
FIGURE 12: AVERAGE ASSESSED VALUES PER ACRE BY TYPE OF PROPERTY BY SUBAREA IN FARGO, 2009 AND 2022

	Subarea 1	Subarea 2	Subarea 3	Subarea 4	Subarea 5
Average Single-Family Residential Assessed Values Per Acre					
2009	$736,132	$687,411	$720,182	$858,492	$919,155
2022	$1,254,834	$1,184,844	$1,147,209	$1,396,879	$1,804,356
Numerical Change 2009 to 2022	$518,702	$497,433	$427,027	$538,386	$885,201
Percentage Change 2009 to 2022	70%	72%	59%	63%	96%
Average Apartment Values Per Acre					
2009	$725,197	$925,732	$597,228	$470,915	$494,535
2022	$1,185,860	$2,025,187	$905,861	$672,199	$754,126
Numerical Change 2009 to 2022	$460,663	$1,099,455	$308,633	$201,284	$259,590
Percentage Change 2009 to 2022	64%	119%	52%	43%	52%
Average Retail and Restaurants* Values Per Acre					
2009	$453,095	$811,403	$707,057	$500,066	$906,305
2022	$854,909	$1,166,377	$963,102	$814,191	$1,378,147
Numerical Change 2009 to 2022	$401,814	$354,974	$256,045	$314,125	$471,842
Percentage Change 2009 to 2022	89%	44%	36%	63%	52%
Average Office Values Per Acre					
2009	$521,367	$1,184,260	$681,307	$790,745	$911,326
2022	$1,264,396	$2,573,007	$1,294,847	$1,129,091	$1,670,474
Numerical Change 2009 to 2022	$743,029	$1,388,747	$613,541	$338,346	$759,148
Percentage Change 2009 to 2022	143%	117%	90%	43%	83%
Average Industrial Values Per Acre					
2009	$285,095	$304,790	$222,456	$410,989	$198,325
2022	$573,832	$559,353	$394,361	$649,252	$478,905
Numerical Change 2009 to 2022	$288,737	$254,563	$171,906	$238,263	$280,581
Percentage Change 2009 to 2022	101%	84%	77%	58%	141%

Notes: Retail and restaurants include convenience store, retail, strip center, automobile repair shop, supermarket, health club, car washes, restaurant-family, shopping center, laundry/dry cleaner, restaurant-fast food

Sources: City of Fargo, 2023; Strategic Economics, 2023.

FIGURE 13: ASSESSED PROPERTY VALUES IN HALF-MILE RADIUS OF FARGO'S GROWTH NODES, IN CONSTANT 2022 DOLLARS



Growth Nodes and Property Values in Fargo (constant 2022 dollars) net non-tax generating land

Property Value (land and building value combined)

- $0 - $100,000
- $100,001 - $220,000
- 220,001 - $1,000,000
- $1,000,001 - $30,000,000
- > $30,000,000
- City Limits
- .5 mile radius buffer

Growth Nodes

- Downtown Fargo
- Microsoft Campus
- New Development in the South
- North Dakota State University
- Sanford Medical Center

STRATEGICECONOMICS

FIGURE 14: AVERAGE ASSESSED VALUES PER ACRE BY DETAILED PROPERTY TYPE BY GROWTH NODES* IN FARGO, 2009 AND 2022

Detailed Property Type by Growth Node	2009	2022	Change from 2009 to 2022 Numerical Change	Percentage Change
Downtown Fargo				
Downtown Mixed-Use	$1,640,032	$3,595,693	$1,955,660	119%
General Commercial	$436,116	$756,869	$320,753	74%
Multi-Dwelling	$767,912	$1,629,038	$861,127	112%
Single-Dwelling	$743,879	$1,351,338	$607,459	82%
Sanford Medical Center				
General Commercial	$773,607	$1,851,238	$1,077,631	139%
Multi-Dwelling	$540,185	$954,967	$414,782	77%
Single-Dwelling	$1,089,818	$1,662,621	$572,803	53%
Microsoft Campus				
General Commercial	$616,858	$876,906	$260,048	42%
General Office	$560,278	$1,245,214	$684,936	122%
Multi-Dwelling	N/A	$2,340,102	N/A	N/A
Single-Dwelling	$828,238	$1,351,421	$523,183	63%
North Dakota State University Campus				
General Commercial	$613,832	$1,227,430	$613,598	100%
Limited Industrial	$70,567	$125,424	$54,857	78%
Multi-Dwelling	$815,356	$1,596,253	$780,897	96%
Neighborhood Commercial	$428,079	$647,819	$219,740	51%
Single-Dwelling	$664,454	$1,207,111	$542,658	82%
New Development in the South				
General Commercial	$15,156	$175,020	$159,863	1055%
General Office	$465,995	$541,101	$75,107	16%
Multi-Dwelling	$438,228	$1,305,322	$867,095	198%
Neighborhood Commercial	$45,727	$152,422	$106,696	233%
Neighborhood Office	$45,718	$352,277	$306,559	671%
Single-Dwelling	$719,651	$1,424,205	$704,554	98%

Notes: *A half-mile radius around growth nodes was used to create average values per acre around the point location of growth nodes. It is depicted in Figure 13.
Sources: City of Fargo, 2023; Strategic Economics, 2023.

EXPANSION OF PROPRIETARY FUND REVENUES THROUGH REGIONAL SERVICE PROVISION

Expansion of proprietary fund revenue sources is essential to ensure high quality of services, offset infrastructural risks and keep utility rates lower. Higher proprietary fund revenues will ensure adequate resources for the installation, maintenance and expansion of infrastructure while encouraging dense, mixed-use developments which typically have higher infrastructural needs. Since Fargo supplies utilities to the larger region and collects fees to support its operations, the revenue base of proprietary funds is diversified and there is reduced risk of default. A sustainable source of revenue for proprietary funds keeps utility rates lower for all users and well distributed across the larger region, while ensuring a reliable supply of utilities to Fargo's residents.

Fargo's status as a destination for health, educational and employment services draw employees and residents from the Upper Midwest into the City, increasing demand for utility services and augmenting proprietary fund revenues. Fargo's status as a regional service provider will continue to propel its population and household growth and add new utility connections and buildings into the City. Population growth augments both Fargo's General Fund and its proprietary funds.

Beyond population growth in the City, there are several other ways to expand Fargo's proprietary fund revenues –

- **Capacity expansion of existing utilities like water and wastewater will enable Fargo to expand its regional network of users and generate greater utility fees revenues.** By 2023, Fargo expanded its capacity to serve an additional 100,000 more people. Capacity expansion for utilities is baked into the utility fees, and individual projects pay for their connections through special assessments. Additional capacity expansion could become a liability for the City in the future but for now, the default rates for utility bill payments are very low and the cost of expansion remains distributed between residents and neighborhoods.
- **Fargo's status as a regional retail destination draws customers from a service area spanning tens of miles, augmenting its sales tax revenues.** Higher sales tax generation enables Fargo to meet its flood mitigation and other infrastructural needs, while encouraging further retail development, retail sales and employment in the City. While sales tax is responsible for infrastructural improvements in the City, it also funds Fargo-Moorhead Flood Diversion project which is expected to protect 235,000 people, properties, and businesses in the region from flooding. Thus, Fargo's sales tax revenues, while being collected from a larger region, also benefit it.

IV. KEY FINDINGS

Fargo's fiscal growth has outpaced its population growth. The City has increased its General Fund revenues by 25 percent from 2012 to 2022, and nearly doubled its total taxable value and property taxes during the same period. From 2010 to 2020, Fargo's population grew by 20 percent. The greater proportional increase in General Fund revenues over population growth shows that new population growth alone does not account for the City's overall fiscal health. New commercial development and redevelopment in older parts of the City have all contributed to the City's expanded tax base.

Despite strong revenue growth, standard fiscal health indicators signal that Fargo has budget challenges. General Fund expenditures are typically higher than revenues and Fargo's unassigned General Fund balance failed to achieve the City's management goal in 2022. However, these challenges are not due to the City's total growth, or its growth patterns, but primarily to ongoing operating costs including salaries, which is the City's largest overall General Fund expenditure.

The City has several fiscal tools to help balance costs and revenues. One such tool is for the City to continue to increase its property tax base by adding to its total taxable value through new developments in dense, mixed use, infill locations. This can maximize the per acre property tax yield to support the General Fund. Fargo also has the option to increase its proprietary fund revenues by expanding its utility services into the region and by attracting more retail customers from a larger service area to accrue greater utility fees and sales tax revenues.

Fargo has shifted its reliance on fund transfer revenue from the state to local sources, improving the City's fiscal autonomy. The share of property taxes in Fargo's General Fund overtook intergovernmental transfers as the primary source of General Fund revenue by 2022. Greater reliance on this local revenue sources provide Fargo a certain level of fiscal independence from the fossil fuel industry and allows the City to capitalize on its growing knowledge-based economy, which has also contributed to the increase in local property tax revenues.

Fargo's focus on dense, infill mixed use growth has doubled property values in Downtown Fargo and this success can be replicated in other growth nodes through incentives. Fargo's current incentive programs can be expanded to include its employment dense growth nodes to replicate Downtown's success. Growth nodes can be leveraged using incentives to also facilitate better urban form and present opportunities for mixed use districts in a way that other traditional commercial or industrial areas do not provide.

Fargo's infrastructural development policy enables growth to pay its way. Through special assessments, the City of Fargo incentivizes installation, maintenance, and upgradation of infrastructure, and passes on the cost of development to benefiting neighborhoods and business districts. This allows new development to generate enough revenue to cover its associated costs without increasing property tax mills for all Fargo residents.

Fargo's position as a regional service provider generates additional resources to maintain, improve and expand its utility services. Fargo supplies utilities to neighboring cities within Cass County and has recently expanded its water and wastewater treatment facilities to enable additional capacity. Since

Fargo provides services regionally, the cost of providing services is spread to a larger region, keeping Fargo's utility rates low and reducing the risk of default.

Being a regional retail destination allows Fargo to accrue sales tax revenues from a regional customer base and invest these funds in high priority infrastructure projects that benefit both the City and the region. Fargo's retail sales taxes are responsible for funding and maintaining the Fargo-Moorhead Flood Diversion project which is expected to provide reliable flood protection to the region by 2027, protecting 235,000 people, homes, businesses, and property. These sales tax revenues also enable Fargo to capture funds from non-Fargo residents and/or businesses to help fund capital improvements within the City, providing an additional and important tool for funding certain infrastructure improvements beyond the diversion project.