



2017

Comprehensive Annual Financial Report



The City of Fargo, North Dakota
for the fiscal year ended
December 31, 2017



**CITY OF FARGO
NORTH DAKOTA**

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE YEAR ENDED
DECEMBER 31, 2017**

**PREPARED BY:
FINANCE DEPARTMENT**

**CITY OF FARGO, NORTH DAKOTA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED DECEMBER 31, 2017**

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June 7, 2018

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 Comprehensive Annual Financial Report (CAFR) for the City of Fargo for the fiscal year ending December 31, 2016. 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, 2017. The independent auditor's report is located at the front of the financial section of this report.

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 have been 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 4. 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 is estimated at 123,998, a 17% growth since 2010. 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 being completed in the past few years. This trend is predicted for the next several years as our population and economy expands. A recent demographic study expects Fargo's population to grow to 171,540 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

and serving needs of the community. The Mayor and City Commissioners are elected at large and serve four year terms. Tim Mahoney is the Mayor. He has served as a City Commissioner since 2005, as interim Mayor in December of 2014, and Mayor since that time. The next municipal election will be held in June of 2018 at which time the citizens will elect two new City Commissioners.

All Department Heads serve on the Mayor's Cabinet which 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. The City recruited Michael Redlinger as Assistant City Administrator in 2016.

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 an annual operating budget by October 7 of each year. All Departments submit their requests to the Mayor during the budget development process that begins each June. Currently, the Mayor utilizes a budget team approach to discuss budget strategy with the 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). Department Heads may make transfers of appropriations within a Department. Supplemental budget appropriations require approval by the City Commission.

STATE OF NORTH DAKOTA AND ECONOMIC CONDITIONS IN FARGO

Statewide Financial Conditions Declining

Statewide economic conditions have declined in North Dakota resulting primarily from the impact of declining oil prices and the impact on exploration in the western part of the State. Intergovernmental revenues in our General Fund stabilized in 2017 as compared to a decrease noted in 2016.

The Tax Commissioner for the State of North Dakota reported increases in statewide taxable sales and purchases by 7.19% in 2017 as compared to 2016. This is a significant improvement since reporting a decline of 24% from 2016 to 2015 tax collection levels.

The changes in intergovernmental revenues are discussed in more detail in the management discussion and analysis section of this report. State shared revenues were very close to our budget projections.

The median Fargo per capita income and our labor force continues to rise and is reflective of our strong local economy. Per capita incomes have increased to \$50,364 in 2016 as compared to \$49,987 in 2015 which represents a 17.8% increase in income levels over the past five years. Our labor force has increased to 70,726 in 2017 as compared to 69,230 five years ago which represents an 13.9% increase. Fargo's unemployment rate of 2.2% is lower than the State and national averages.

Strong Trend in Building Permit History

Construction activity in Fargo continues to remain strong as evidenced by a building permit total of \$475 million in 2017 and \$494 million in 2016. Residential permits decreased by 22% in 2017, however, commercial construction increased by 29%. Demand for housing remains strong in our community in light of the strength of our local economy. Building permit activity has accelerated for the past five years and has stabilized around \$500 million for the past three years.

Sales Taxes Funding Key Infrastructure / Voter Extension to 2084 for Flood Control

Fargo is utilizing sales tax revenues as a primary funding source for key infrastructure projects. All of our 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 us from Red River flood events, and improving our highway systems throughout our community. Existing sales tax authorizations expire in 2028, and 2084. During 2016, voters approved a long-term extension of sales tax to 2084 for the Fargo Moorhead flood control diversion project.

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

Local Sales Tax Revenue Trends

Fargo's locally imposed sales tax revenue totaled \$47.6 million, down from \$ 51.1 million in 2016.

Statewide sales tax revenue increased by 7.19% during 2017 due to increased economic activity related to oil production in western North Dakota. State economic data is improving following a sharp decline in recent years.

MAJOR INITIATIVES FOR THE YEAR

Fargo Moorhead Diversion Channel Project

The Army Corp of Engineers (USACE) has been studying various alternative flood protection projects for the Fargo-Moorhead area for several years. USACE has recommended a large flood diversion channel (to the west of the cities of Fargo and West Fargo) combined with a southern embankment, temporary water storage area and water control structures to limit the flow of water through Fargo Moorhead that will redirect and lower record river flood levels 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 record of decision was approved by the Chief of the Army Corp of Engineers. This critical step recognized the feasibility, final review, and concurrence to include this project on the Federal Government's approved projects listing.

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. The construction project will take about eight to ten years to construct subject to funds being appropriated in a timely manner.

Work continued in 2015 on securing Federal and State funding for this project. Local officials and our congressional delegation from North Dakota and Minnesota worked together to help formulate plans for a public private partnership pilot project (PPP) as a way to provide long term funding of this project. In February of 2015 the Army Corp of Engineers named this project as federal P3 demonstration project.

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

A request for proposals and related vendor selection one on one meetings will continue into 2018 with a contractor selection planned by early 2019 for construction of the diversion channels and associated infrastructure.

In November, 2016 voters approved a long term extension of certain sales tax authorizations for 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 2017-2019 biennium, \$66.5 million was appropriated for a portion of their \$570 million funding commitment.

USACE construction on the southern embankment began in April 2017, but these construction efforts have been placed on hold due to a federal court's temporary injunction. In the fall of 2017, federal judge Tunheim issued a temporary injunction halting USACE construction efforts citing the need for USACE to obtain a permit from Minnesota DNR in order to complete construction of the southern embankment. Following Judge Tunheim's decision, the Governors of Minnesota and North Dakota personally formed and participated in a task force to recommend changes to the project that would result in a permissible project under Minnesota DNR's rules and regulations. The Governor's task force completed its work in December of 2017 and published its recommendations in January of 2018. The Diversion Authority then made revisions to the project based upon the Governor's task force recommendations and subsequently submitted a new permit application for the Project to Minnesota DNR on March 16, 2018.

The Diversion Authority, USACE and Minnesota DNR are currently working collaboratively to complete the supplemental EIS process and the Minnesota DNR permit process. The issuance of a permit by Minnesota DNR would likely result in the lifting of the temporary injunction and resumption of construction activities by USACE.

Our success on this project is significant and we were fortunate to be selected by the Army Corp of Engineers for this demonstration project that has national significance in its planned delivery method.

Fargo Becomes Regional Water Service Provider to West Fargo

In June 2016, Fargo began providing water services to the City of West Fargo. This project significantly increased the water quality for residents of West Fargo and created a new revenue stream within the Water Department. They consume about 2.99 million gallons per day.

The City signed a wastewater collection service agreement with the City of West Fargo and Horace in 2017. This configuration, as a regional utility services provider is mutually beneficial and demonstrates the ability to work together on cost effective service delivery. Work will begin on an expansion of the Wastewater treatment plant in 2018 with an anticipated completion date of early 2022.

Status of Municipal Building Projects

Our largest building project includes a New City Hall. This has been under construction for the past two years. It is nearing completion and will open this summer.

The Roberts Street Parking Ramp opened up in July, 2017. This unique project incorporates a parking ramp that is wrapped with residential and commercial units in maximize the use of this property. It increases our Downtown parking capability significantly.

The third major project is the expansion of our water treatment plant to accommodate future growth and demands for water services. The project will incorporate advanced water treatment technologies due to

changing water quality conditions on the Sheyenne River as a result of discharges from Devils Lake. In addition advanced water treatment technologies, the project will also increase the City's overall treatment capacity from 30 million gallons per day (MGD) to 45 MGD. Construction began in 2015 and will be completed in 2018.

The Fargo Police Department moved its field operations to a building adjacent to the Public Works facility on 7th Ave North. This will eventually become the home of the Department. The growth in our Police Department over the past several years required us to obtain a larger facility. Administration staff will move into this facility in 2018.

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.

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.

A strategic plan for the growth and redevelopment of our core Downtown area was completed this year. This document provides guiding principles to help improve the quality of life in Fargo.

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 comprehensive annual financial report for the fiscal year ended December 31, 2016. This will be the nineteenth 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 comprehensive annual 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 comprehensive annual 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 Comprehensive Annual 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:

Jenica Flanagan, Accounting Manager
Jamie Bullock, Grant Accountant
Jessica Houim, Accountant
Megan Zahradka, Financial Analyst
Sheree Calkins, Accounting Supervisor

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,

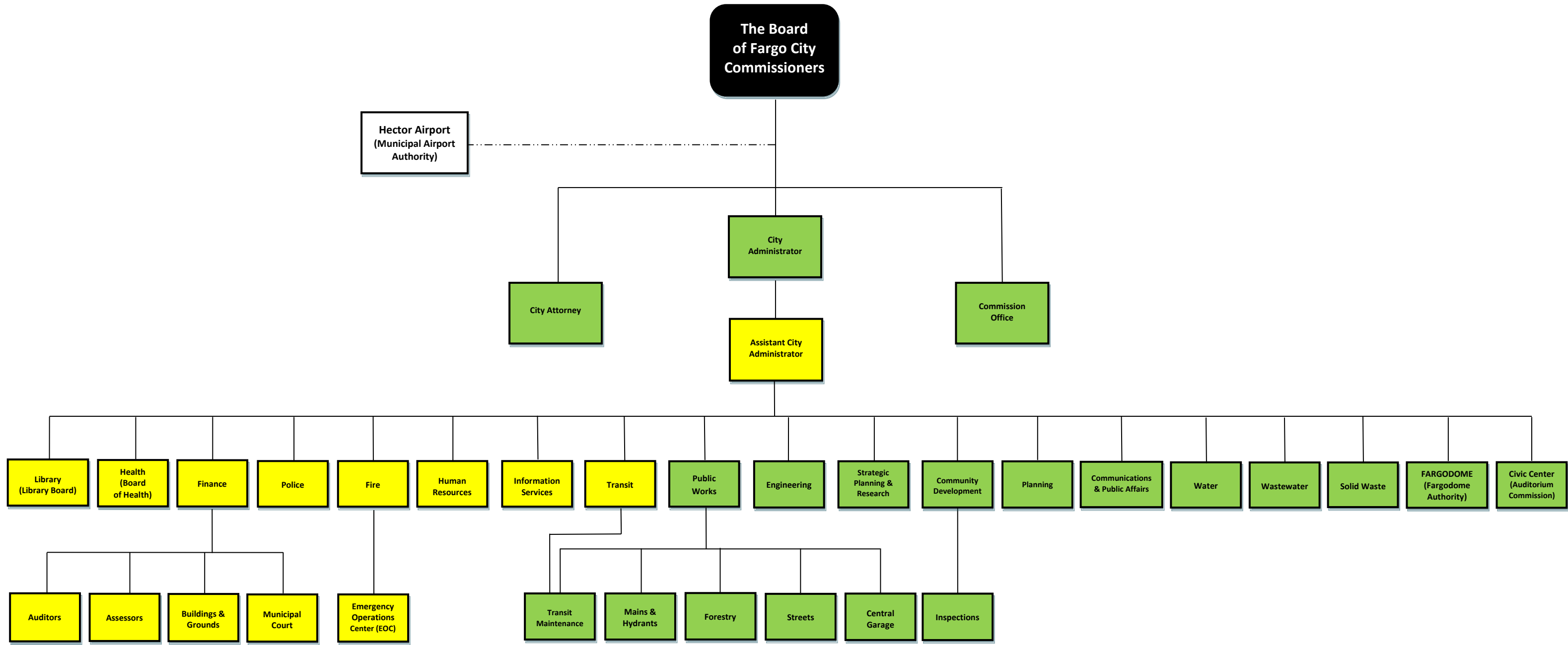
A handwritten signature in black ink that reads "Kent A. Costin". The signature is written in a cursive style with a large initial "K".

Kent A. Costin
Director of Finance

**CITY OF FARGO, NORTH DAKOTA
LISTING OF CITY OFFICIALS
AS OF DECEMBER 31, 2017**

NAME	OFFICE	TERM EXPIRES
Dr. Tim Mahoney	Mayor	June 2018
Dave Piepkorn	Commissioner	June 2018
Tony Gehrig	Commissioner	June 2018
Tony Grindberg	Commissioner	June 2020
John Strand	Commissioner	June 2020
Bruce Grubb	City Administrator	
Michael Redlinger	Assistant City Administrator	
Kent Costin	Finance Director	
Steven Sprague	City Auditor	
Kember Anderson	City Commission Executive Assistant	

The City of Fargo's Organizational Chart



Assistant City Administrator's Departmental Portfolio

City Administrator's Departmental Portfolio



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Fargo
North Dakota**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2016

Christopher P. Morrill

Executive Director/CEO