

City of Fargo
House Finance and Taxation Committee Hearing
HB1200 - 2% Property Tax Caps
1/19/2021

Chairman Headland and members of the House Finance and Taxation Committee, thank you for the opportunity to testify on HB 1200. I am Kent Costin, Director of Finance of the City of Fargo.

We have testified in previous legislative sessions on the strategy of this bill and wanted to provide a variety of reasons that placing a 2% cap on one of our major revenue sources will have a negative impact on ability to meet the needs of our community.

There are many variables that go into development of municipal budgets and in the end of what can be a difficult process, City leaders are charged with balancing budgets, just like State Legislators. Over my past thirty-four years of managing and reporting City finances, I think of many categories of expenditures that cannot and should not be restrained by placing a 2% property tax cap. Bear in mind that our property tax levy is a major revenue source representing about 32% of our General Fund budget.

Factors that most directly impact our budgets include national, State, and local economic conditions, city growth, federal and state revenue sharing levels, taxation, interest rates, commercial and residential building growth, wage inflation and workforce availability, additional staffing for a growing community, health care and pension benefits, equipment and facility needs, and new debt service on our capital assets investments. All these issues will impact budgets that are partially supported by property taxes. There can be significant volatility in these costs as well as volatility in our revenue sources as well, often greatly more than 2%. Many of these items are uncontrollable and are an essential part of our operating and capital budgets. We manage them diligently and have been able to balance out budgets on a consistent basis without raising property taxes.

We have experienced fuel prices that spiked as much as 60%, health care premiums that trend in double digits, (21% in 2021) and an almost total loss of investment income in recent years. Returns on cash reserves have declined in the past years from 6% - 7% a few years ago to now less than 1%. Our local sales tax collections that have historically produced steady growth declined in 2016 through 2018 and are slowly returning to 2015 levels.

The COVID-19 pandemic of 2020 has impacted our revenue base including our major revenue sources from the State aid and highway funds. Major downward adjustments were approved mid-year 2020 anticipating a decline in State and local revenue sources. We anticipate a recovery could occur once our communities are fully vaccinated, however, there is no way to predict the long-term impact of the pandemic and how many years an economic recovery might take. Cities will need to carefully evaluate their revenue base and adjust as needed to maintain service levels. If Federal and State COVID-19 support dwindle in the future local leaders may need more flexibility in raising revenues.

Despite the difficulty in managing our budgets, our City Commission has reduced our tax rate by about 6% over the past six years. We believe that we have been good stewards of taxpayer money and do not feel that a property tax cap is necessary. Our conservative approach to budgeting our resources is evident when looking at our spending growth patterns that have declined in recent years.

If our City is spending beyond our ability to sustain our operations, it will eventually impact our services to the Community. Voters are in control of electing City Commissioners and if they feel they are not being served well or if we are not doing a good job of managing our financial affairs they will vote for change. Recently, Fargo instituted approval voting that gives more power to the people when electing our City Commissioners.

The City of Fargo opposes this bill as it will unnecessarily restrict and constrain our ability to manage our financial affairs and serve our citizens in healthy manner. We support a DO NOT PASS vote on this bill.

Thank you for the opportunity to submit our testimony.