

City of Fargo
Testimony on HB 1300
Finance and Taxation Committee 1/19/2021

Chairman Headland and members of the House Finance and Taxation Committee my name is Kent Costin, Director of Finance of the City of Fargo. Thank you for the opportunity to provide our testimony.

The City of Fargo stands in opposition to this bill. This bill was presented in the last legislative session and failed to pass. We provided testimony at that time which described the inequity between a taxpayer that pays their entire special assessment when initially levied vs. the taxpayer that chooses to pay their special assessment obligations over the life of the assessment.

Bill Creates Taxpayer Inequity

The taxpayer that pays their entire assessment will pay 100% of the amount assessed while the taxpayer who chooses to pay annual installments will not pay 100% of the assessed amount but rather a reduced amount. It gets more complicated than this because special assessments in Fargo are amortized for twenty- five years, which is long timeline. Also consider that an average home could turn over multiple times during the life of the special assessment amortization.

Let's follow who would actually receive the benefit of early termination. The taxpayer that paid up front would receive **ZERO** benefit from this bill modification. Subsequent owners who paid on the long-term special assessment obligation for many years and sold to the final owner would receive **ZERO** benefit. If we were to write off assessment balances in accordance with this bill draft the current owner would receive a benefit that was accumulated from annual payments by other taxpayers which creates an inequitable windfall to the owner of the property at the time the bonds are paid off.

Other sections of state law recognize that there will always be a residual balance in debt service funds at the end of the bonded obligations. They support simply transferring any remaining monies to the General Fund as the most equitable way of balancing out this long-term obligation recognizing that multiple ownership may have occurred and that rebating final residuals is not feasible.

Bond Covenants Prevent This Process

When bonds are issued the special assessment warrants are irrevocably pledged to secure our ability to issue and pay off bond issues for infrastructure. Special assessment warrants are issued pursuant to a resolution approved by the Governing body. In our case we simply state what projects are funded in a bond issue and levy the assessments over a twenty-five year term.

Fargo's Special Assessment Tax Force Studies Taxpayer Funding and Equity Issues

Following the last Legislative session Fargo established a Special Assessment Task Force whose mission was to review current assessment practices. The goal was to recommend changes that would lower the burden of special assessments. This group was comprised with City Commissioners, local developers, real estate agents, financial services representatives, and two private citizens. Special assessment practices in Fargo were reviewed in detail over an eighteen-month period. This effort resulted in updating our assessment policies that significantly lowered taxpayer burden. Twenty-two of twenty-six recommendations were included and amended into our assessment funding policy. The concept of early termination of special assessments as prescribed in this bill draft was included in this review process but was not endorsed due to the taxpayer inequity previously discussed.

We increased funding from City resources that lower the taxpayer share funded by special assessments. Approximately 70% of the project costs for reconstruction of infrastructure is paid by the City and 30% by the taxpayer. We also lowered our financing markup on special assessment from 1% down to .75% which we believe is the lowest markup rate in the State.

Administrative Oversight

The City of Fargo currently has thirty special assessment bond issues outstanding. These bond issues contain 975 active individual assessment districts tracking over \$400 million in outstanding special assessments spread across about 28,000 individual parcels. This bill adds additional administrative tasks to Finance Departments across the State that are already stretched thin and not everyone may be able to comply or would need to update their software programs resulting in additional costs for compliance with this draft bill.

Closing Comments

We believe that assessment policies and practices may vary considerably across the State. We also report that Fargo analyzed its policies and practices just a year ago and at that time our City Commission did not support the concept of this draft bill based upon the final study recommendations ultimately approved. We provide an excellent taxpayer value for our infrastructure and recognize the need to administer our special assessment as fairly as possible. We request a DO NOT PASS recommendation on HB 1300. Thank you for allowing this testimony.

