

City of Bayfield

Office of the Clerk and Mayor
125 South First Street - P.O. Box 1170
Bayfield, Wisconsin 54814
Phone (715) 779-5712
cityclerk@cityofbayfield.com

What is the state of the City of Bayfield as of October 20, 2021?

Well, I am proud to say that we've still got "a pot to micturate in". However, we're not sure how much longer this will last.

Earlier this year, our audit firm, Baker Tilley, put together a financial planning tool to help us see into the future. Now understanding that there is no such thing as a true "crystal ball", and that any forecast is only as good as the data that is put into the model, the initial report from Baker Tilley stated:

"Based on the assumptions used in the financial planning model and building off of the 2021 budget, the estimated average annual budget deficit over the next 10 years is \$127,400. Without additional revenues or permanent budget reductions, fund balances could be depleted by 2027."

Now we've known the City was in trouble for a while, and every year we would agonize to prioritize our needs, and then reduce spending somewhere. We cut back on some operations and services, deferred maintenance, and postponed major projects, but despite all the reductions, our revenues could not keep up with inflation.

We knew we were approaching a tipping point where, if nothing changed, we would need to lay off staff and drastically reduce more services, but with this financial planning model we could now see that we don't have as much time as we hoped to find a solution.

The recommendations from Baker Tilley were for the City to investigate ways to reduce costs or increase revenues. Options for consideration included:

1. Direct bill hydrant rental to water utility customers. This will reduce the budget deficit in the General Fund by approximately \$50,250. Hydrant rental (public fire protection) is no longer considered a covered service related to levy limits; therefore, the City's levy will not be impacted by converting it to direct billing.
2. Levy increase by referendum
3. Continue to utilize debt service levy to fund capital projects
4. Institute a paid parking system
5. Continue to analyze public charges for services, fines, and other fees to determine if increases are necessary to recover costs

We're still not getting any help from Madison

Last year in my State of the City, I shared information from the [April 2019 issue of *The Municipality*](#), a publication from the Wisconsin League of Municipalities, in which Jason Stein explained;

"More than a century ago, Wisconsin made the choice to use state income and later sales taxes to provide aid to local governments while generally not allowing municipalities to levy those same taxes. Today, cities and villages in Wisconsin rely on the property tax to a greater degree than most states nationally and any other state in the Midwest.

In past generations, large state aid payments helped hold down property taxes in Wisconsin while also providing funding for local services. Yet, with state aid payments stagnant for years and municipalities now under tight state-imposed caps on property taxes, questions are mounting about whether local officials can sustain appropriate service levels in areas such as public safety, streets, libraries, and parks."

Municipalities all over the state are feeling the same financial pressures that we are, but despite proposals from the Governor, and pleas from municipal leaders to raise the caps on property tax and provide additional state aid, the budget recently passed by our Representatives in Madison did not include any positive actions to help Wisconsin's cities, towns and villages.

For 2022 our State Shared Revenue will be reduced by \$7,393 (18%), and Transportation Aid will probably drop by \$1,187 (1%). Although we do qualify for \$49,299 in State and Federal American Rescue Plan Act (ARPA) funds, this is not revenue we can expect going forward.

Changes made in Madison in 2015 to the laws governing the Public Accommodation Tax or Room Tax have now fully kicked in. The room tax is levied on the cost of hotel and other overnight stays, but not on food or other lodging amenities. Historically, we had split the proceeds of the tax 50/50 with the Bayfield Chamber. The Chamber used their share to promote Bayfield to our visitors, and we were able to funnel our share to the general fund. However, the changes in law in 2015 now require 70% of the room tax funds be used toward marketing and tourism development efforts, and the share of the revenue that can go into our general fund has been reduced to 30%, meaning a lower contribution towards police, trash pickup, road repair, or other services that are stressed by our seasonal visitors. For 2022, we are expecting a reduction in the room tax that we can apply to the General Fund of \$2,467.

Although a 5.50% sales tax is collected by our businesses in the City, 5.0% goes to the State, 0.5% is paid to the county, but we do not receive any of the regular sales tax directly. However, we do generate revenue from the 0.5% Premier Resort Tax which is charged against certain tourism related goods and services sold in the City. Despite COVID, or maybe, because of COVID, we saw an increase in the amount of Premier Resort Tax collected this past year, and are expecting an additional \$3,000 in 2022.

We did have some new construction in the City which increased the Levy by \$4,533 for 2022, plus we are able to add \$80,289 of general obligation debt to the levy.

Even before the recommendations from the auditors, our committees and enterprise operations were analyzing our public charges for services, fines, and other fees, and made increases where it was necessary, and we will continue to seek donations, grants, and utilize debt service levy to fund capital projects. But with no other significant increases in revenue, we were still headed for the abyss.

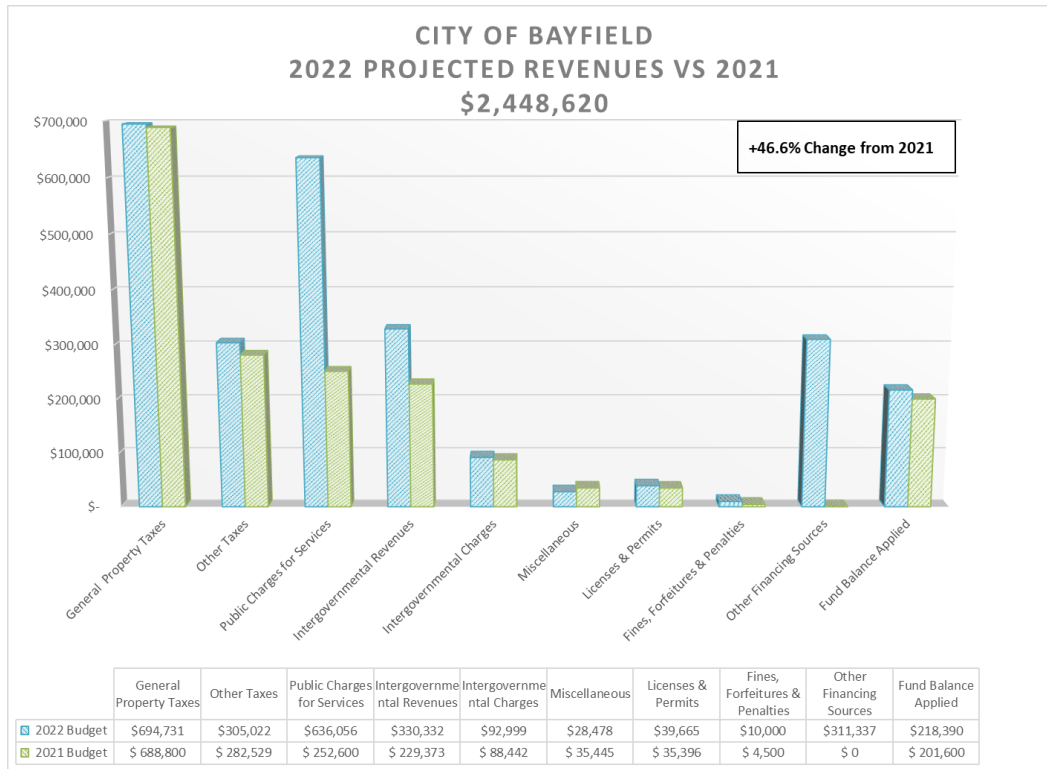
So, What Else Can We Do?

City Council has expressed reluctance to ask our citizens to approve a property tax increase through referenda. Not only would this be an unpopular option, but from the experience of other municipalities, referendums for general spending, and not related to a specific project, generally fail.

Given the limits imposed by the State, and the lack of other viable revenue options to effectively maintain our assets and provide services to our citizens, we need to seek out other opportunities to collect fees for services. Linking the cost of a services closely to usage promotes equity while providing revenue to the General Fund.

We want to avoid punishing fees like Wheel Taxes and Hydrant Fees, that impact property owners more than visitors, but we also want to avoid aggressive fees that may keep visitor away from the city. We want tourist to come to Bayfield, but it would nice if they could help share in the expense of keeping Bayfield safe, clean and charming.

In the budget proposal before you, you can see revenues have increased by 46.6% from 2021



The largest increases can be found in Public Charges for Services (\$383k), Other Financing Sources (\$311k), and Intergovernmental Revenues (\$101k).

Our parking committee has been working hard to put together a paid parking plan for long term lots and the downtown commercial district. The discussions in this committee can be heated as they deliberate to develop a system that will work best for the City. There are still details to be worked out before they are able to share their plan with the community for public comment, but using very conservative estimates, it is believed that they can contribute \$258 thousand in revenue towards Public Charges for Services, with \$87 thousand in expenses. This is based on a 20% utilization of paid parking spaces, which means that only 1.5 cars would be parked in each paid spot, each week, during the peak season. I have to believe that actual utilization will be higher.

The \$311k listed in Other Financing Sources are loans that need to be secured to purchase a new plow truck and backhoe for Public Works. Of course next year, this amount will flip to the expense side of the ledger as the debt will need to be paid off. Council will need to advise staff on terms they would like to see with this borrowing.

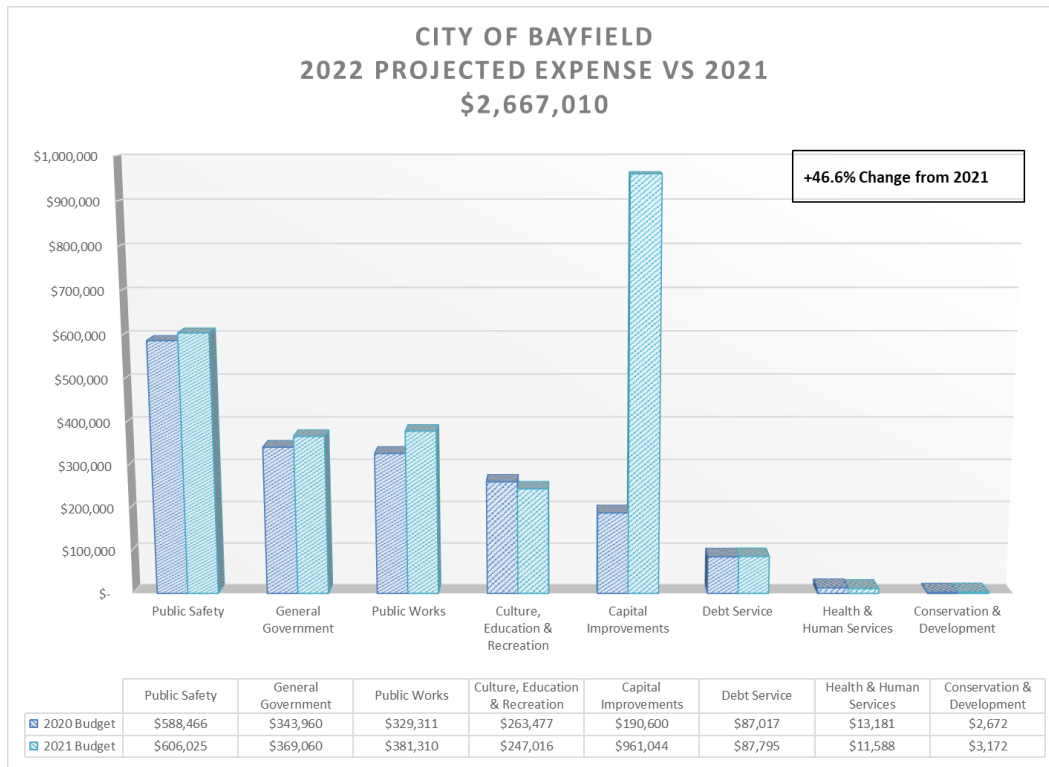
The third large increase in revenue in the Intergovernmental Revenues section is mostly from an increase in the Payment in Lieu of Taxes (PILOT) payments. PILOT is payment made to compensate the City for some or all of the property tax revenue lost due to tax exempt ownership or use of real property. We receive PILOT from the State for the DNR building, the County for the Public Housing Units, the Fire Department for the land the hydrants and the underground pipes, and from the Water & Sewer Utilities for their pump houses and the infrastructure in the ground.

The Water/Sewer Utility accumulated approximately \$200 thousand of debt, which was owed to the City's General Fund, during the years they implemented over \$18 million in various water and sewer upgrades. They were falling behind in their payments, and a decision was made by the City at that time to cap the PILOT to allow the Utility to catch up. The Utility has been paying the debt back for the past five years, and will satisfy the outstanding loan this year. They have raised their rates and are now more solvent than before the PILOT was suspended. The Utility is now in a position where the PILOT can be restored without having to raise the rates in the near future.

For 2022 we will still be drawing from fund balances for certain expenses, however these are things that we had planned and save for: e.g., the retirement of our Police Chief, Courthouse Building renovations, a large improvement project at the Apostle Islands Marina; including the southern shoreline around the East Dock Park, and to utilize tourism funds for the Pavilion capital improvements. Additionally, a large carryover of surplus funds is expected due to the change made to go toward a high deductible plan for the City's Group Health Insurance.

A More Hopeful Future?

As you know, we are required to have a balanced budget, so the increases in revenues that are proposed are matched with an increase of expenses. Although our operating budgets continue to be lean, with few increases in expenses, I am pleased to see items in our CIP list that had been deferred in the past, like our zoning code update, wayfinding, upgrades to the campground, and badly needed repairs to City Hall.



I am relieved to see that there are ways we can raise revenue without having to go to referendum to raise taxes, and I look forward to more discussion with Council on this budget proposal.

Thank you for wanting to keep Bayfield, the Greatest Little City, on the Greatest of Lakes!