



# COMPREHENSIVE FINANCIAL PLAN (2016 – 2031)

EXECUTIVE SUMMARY

## City of Bayfield, Wisconsin

May 19, 2021

MAY 19, 2021

## TABLE OF CONTENTS

CONSULTANT’S FINANCIAL MANAGEMENT REPORT .....	1
--	---

### EXECUTIVE SUMMARY

INTRODUCTION .....	2
GENERAL FUND .....	3-10
SPECIAL REVENUE FUNDS.....	11-13
ENTERPRISE FUNDS.....	14-16

### SUPPLEMENTAL INFORMATION

CAPITAL IMPROVEMENT PLAN (2021 – 2025).....	17-18
PROPERTY TAX PROJECTIONS.....	19



May 19, 2021

The Honorable Gordon T. Ringberg, Mayor and  
Members of the City Council  
City of Bayfield  
P.O. Box 1170  
Bayfield, WI 54814

#### CONSULTANTS' FINANCIAL MANAGEMENT REPORT

This report is directed toward providing information for your review and consideration relative to the financial management of the City of Bayfield. The report is designed to provide information that may be helpful to City officials in their role as managers of the City.

In the preparation of these schedules, assumptions were made as noted regarding certain future events. As is the case with such assumptions regarding future events and transactions, some or all may not occur as expected, and the resulting differences could be material. We have no responsibility to prepare subsequent reports or update the schedules.

*Baker Tilly Municipal Advisors, LLC*

# City of Bayfield

## Executive Summary

### Introduction

Municipalities are often challenged with limited or declining revenue sources; however, the demand for services rarely decreases. Balancing revenue decline with demand for services underscores the need for local units of government to extend their planning horizons beyond one year. In addition, it is important to maintain adequate cash reserves so that cash flow shortages can be managed internally, thus saving on interest costs associated with external borrowing. Effective management of cash reserves allows local government to plan and make minor budget adjustments rather than sweeping changes.

Baker Tilly developed a long-range financial planning model for the City. The Model is an Excel-based tool developed by Baker Tilly to enable cities to prepare long-range financial forecasts. The model incorporates assumptions regarding revenue and expenditure growth estimates, tax base changes, capital outlays, and existing and anticipated debt service to provide estimates over a 10-year time period.

Features of the long-range financial planning model include:

- A long-range forecast of the City's General Fund, Capital Project Funds, Special Revenue Funds, Enterprise Funds and Debt Service Funds
- A user-friendly input form to enable the user to enter new or to make changes to anticipated capital improvements including the year of improvement, department, project name, funding source(s) and the depreciable life
- Details regarding assumptions utilized by fund for both revenue and expenditure forecasts
- A property tax base forecast module that will enable the user to estimate growth in equalized values
- Charts, graphs, and tables depicting historical trends, key ratios, and future forecasts
- A module incorporating the debt reports/debt services payments related to the financing of previous capital expenditures.

Benefits of long-range financial planning:

- Provides a road map for future projects and priorities
- Allows the City to run scenarios based on unfavorable, expected, and favorable conditions to capture a range of potential financial outcomes.
- Identifies areas of opportunity and risk
- Gives direction to elected officials and promotes community buy-in of the City's priorities
- Demonstrates active financial management which positively affects bond ratings

# City of Bayfield

## Executive Summary

### **Background**

The City has five major governmental funds and one enterprise fund that accounts for the water and sewer utilities.

### **General Fund**

Accounts for operations related to General Government, Public Safety, Public Works, Parks and Recreation, Strategic Planning and Forestry.

### **Harbor Fund**

Accounts for operations of the City-owned marina.

### **Courthouse Fund**

Accounts for operations of the National Park Headquarters building.

### **Debt Service Fund**

Accounts for principal and interest payments of long-term debt.

### **Capital Projects Fund**

Accounts for acquisition of capital assets.

### **Historical Financial Health - General Fund**

When analyzing the financial health of the City of Bayfield, a good place to start is an understanding of where the City has been in order to identify strengths, weaknesses, and trends. We have reviewed the last five years (2016-2020) of historical financial activity of the City.

### **Observations - General Fund**

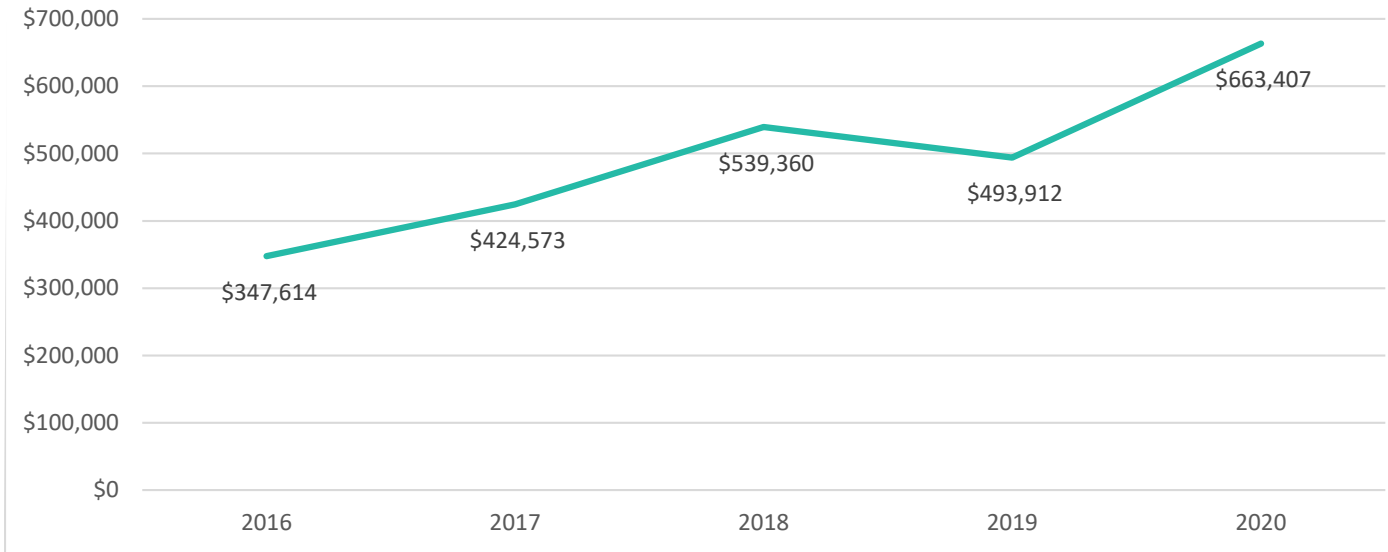
- Average growth in actual revenues from 2016 through 2020 was 8.5% (in 2017, \$173,000 of property tax was shifted from the Capital Fund to General). Average growth from 2018 to 2020 was 3%.
- Average growth in actual expenses from 2016 through 2020 was 1.4%.
- Fund balances have been above the recommended minimum of 15% of operating disbursements from 2016 through 2020.
- Budgeted expenses for 2021 (\$1,526,399) are 19.3% higher than 2020 actual (\$1,279,976).
- Without budget reductions and/or new revenue streams, fund balances are expected to decline by an average of \$127,400 per year until depleted by the end of 2027 assuming the following: expenditure of 100% of the proposed 2021 budget, expenses increase annually by 1.5%, and no growth in revenue.

# City of Bayfield

## General Fund

Fund balances have increased since 2016.

### Actual Ending Fund Balances (2016 - 2020)



Fund balances are a result of revenue and expenditure activity over time. Spending more money than is received in any accounting period results in diminishing fund balances. On average for the past five years, expenditures have been less than annual revenues by \$31,000 resulting in an overall increase in General Fund cash reserves. Cash reserves are indicator of financial health. The recommended minimum level of cash reserves in a major operating fund is 15% of expenditures. The City's General Fund cash reserves have averaged over 39% of expenditures from 2016 through 2020.

The City's fund balances are classified as follows:

**Non-spendable** - Includes fund balance amounts that cannot be spent either because they are not in spendable form or because legal or contractual requirements require them to be maintained intact.

**Restricted** - Consists of fund balances with constraints placed on use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.

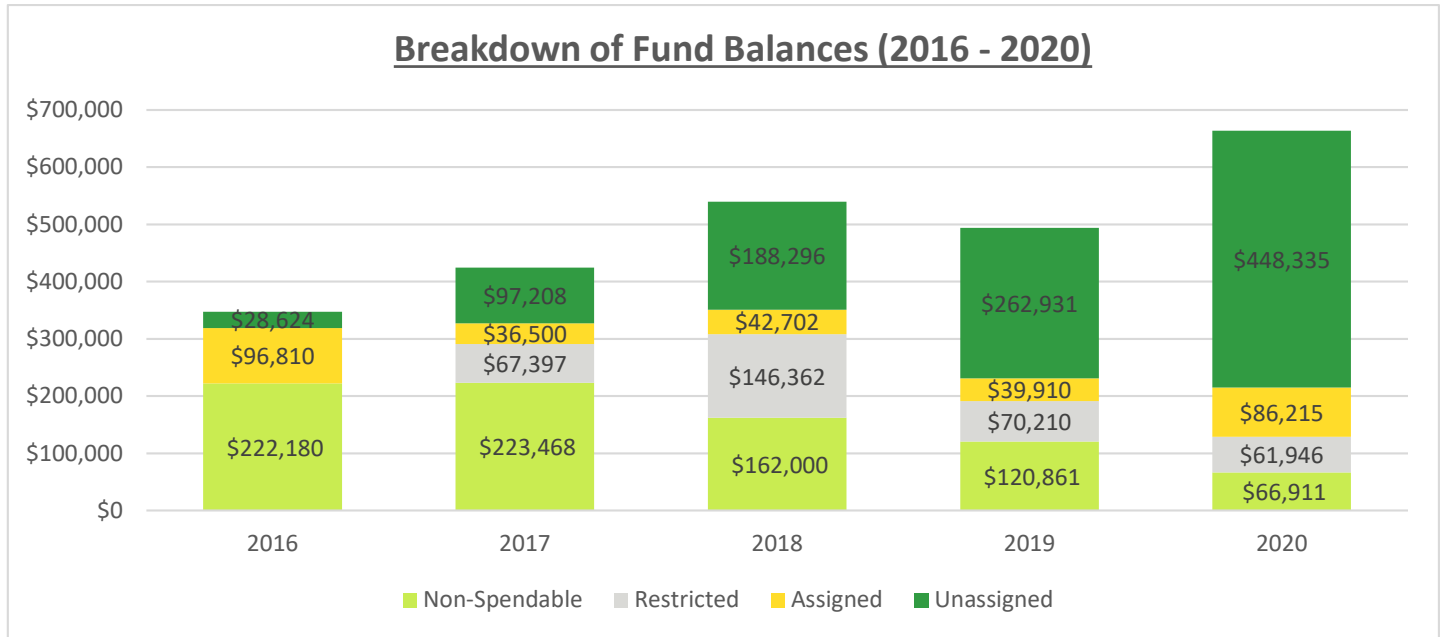
**Assigned** - Includes spendable fund balance amounts that are intended to be used for specific purposes that do not meet the criteria to be classified as restricted. The City Council has, by adoption of its budget resolution, assigned amounts for specific purposes.

**Unassigned** - Includes residual positive fund balance within the general fund which has not been classified within the other above mentioned categories.

## City of Bayfield

### General Fund

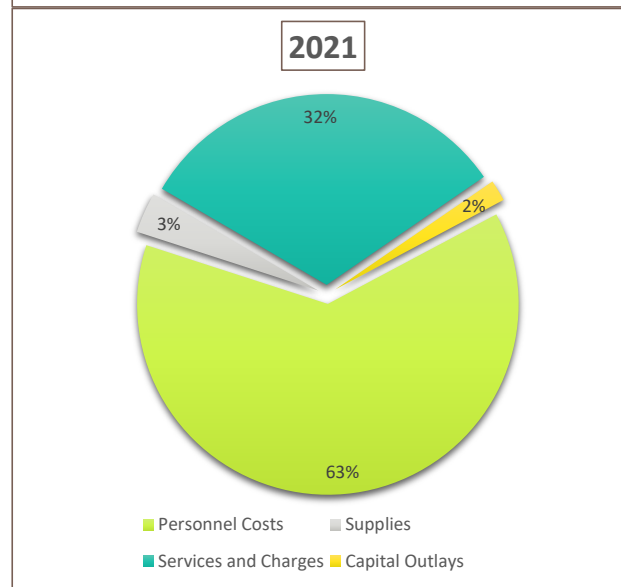
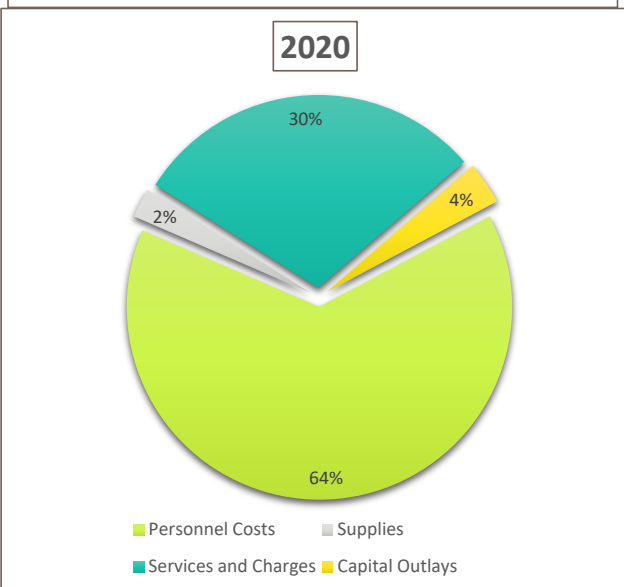
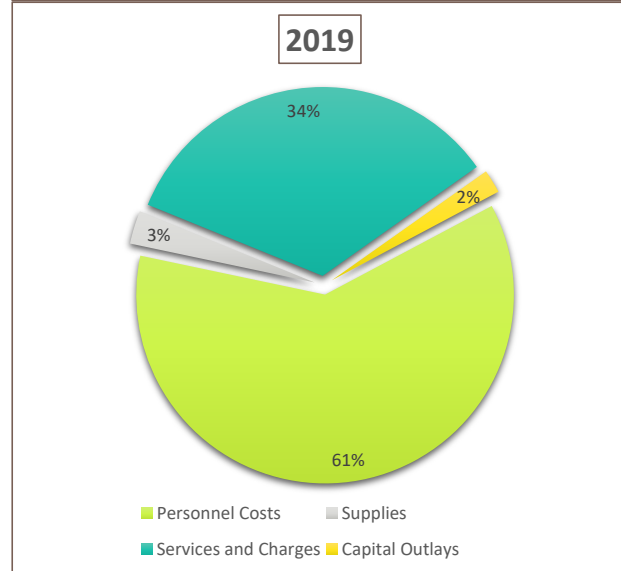
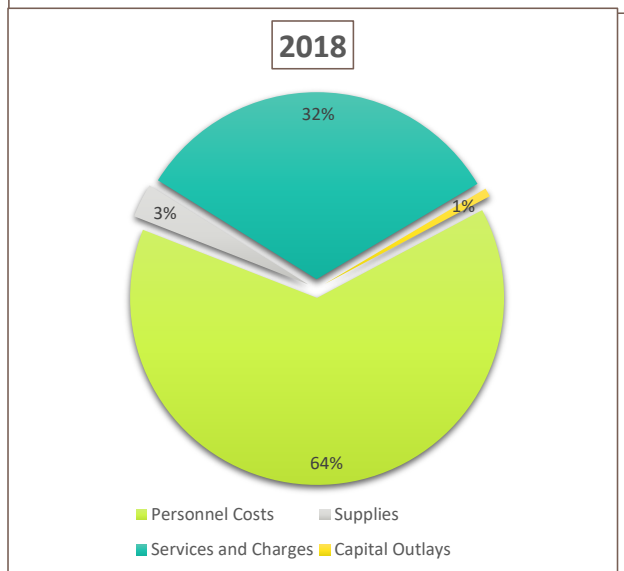
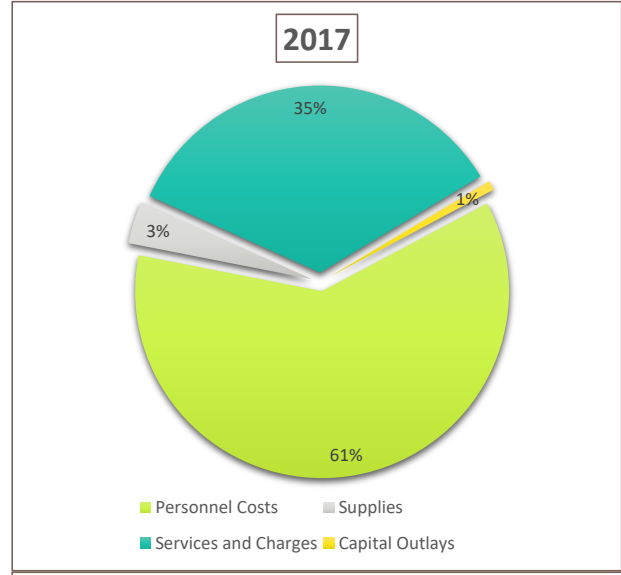
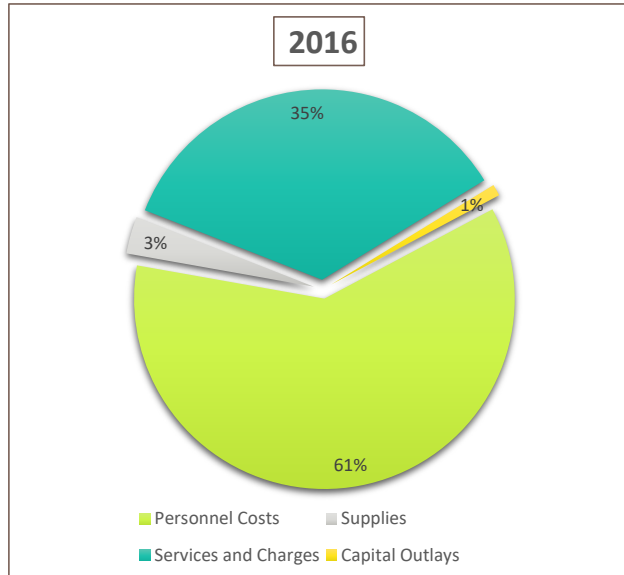
The chart below shows the composition of the City's fund balances from 2016 through 2020.



Another important aspect of historical trends is analyzing what causes cost fluctuations. The charts on the next page shows a breakdown of historical operating costs by category. Personnel costs is the largest expense category accounting for over 60% of expenses historically. Services and charges is the next largest expense category representing 30% of expenses. Operating cost categories have remained fairly consistent as a percentage of overall operating costs through the five-year period. Also shown on the next page is a breakdown of the 2021 budget by major expense category which is consistent with the historical years. Page 7 shows the allocation of the City's 2021 budget by City function.

# City of Bayfield

## General Fund

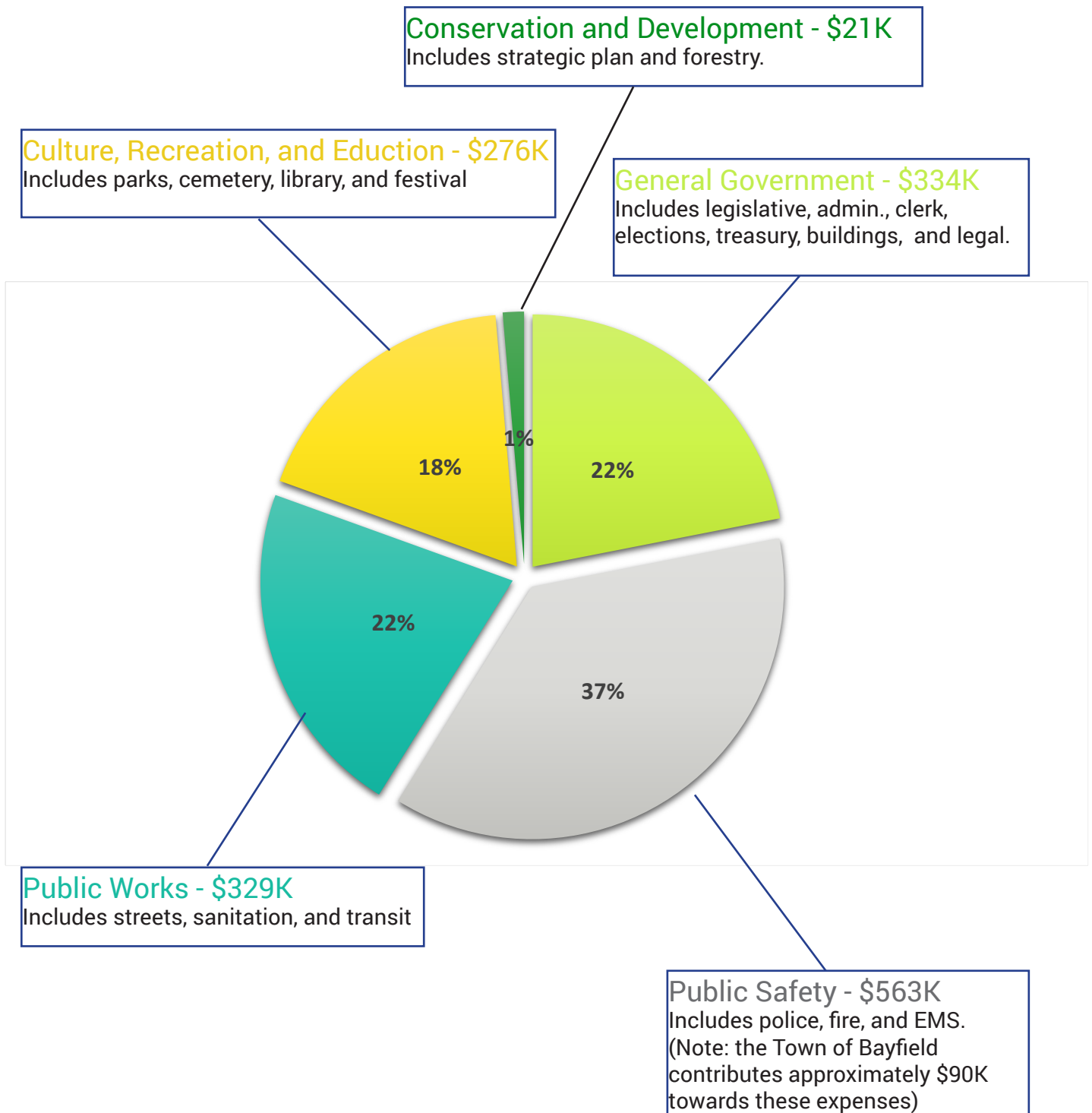




# City of Bayfield

## General Fund

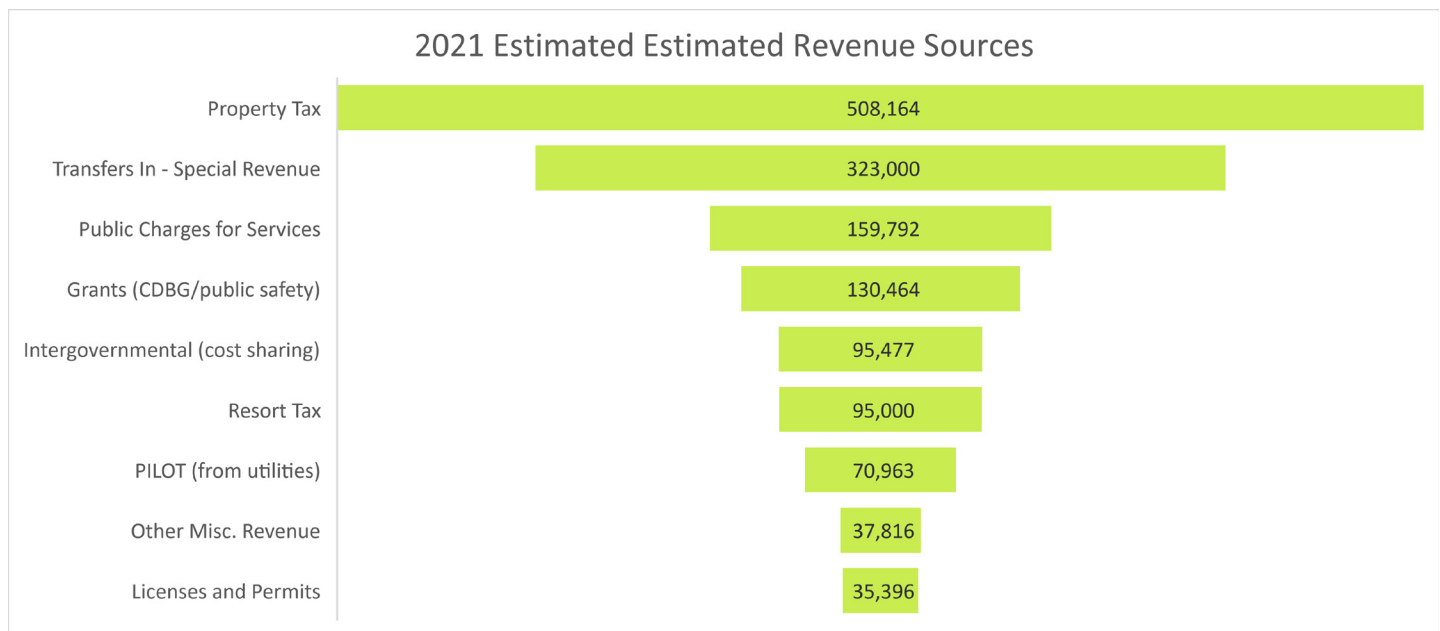
### *Allocation of 2021 Budget by City Function*



# City of Bayfield

## General Fund

Like many other local units of government, the City of Bayfield is challenged with balancing the increased demand and costs of services with stagnate or minimal revenue growth. Property tax makes up 35% of the revenue of the General Fund. Generally the City is limited to its prior tax levy dollar amount increased by the greater of the percentage change in the City's equalized value due to new construction or zero percent. Changes in debt service from one year to the next are generally exempt from this limit with certain exceptions. Levies can be increased above the allowable limits if the amount is approved by referendum.



- 35% General Property Tax
- 22% Special Revenues: Harbor, Pavilion, Courthouse, Tourism, and Capital Projects
- 11% Public Charges for Services
- 9% Grants (CDBG and Police/Fire)
- 7% Intergovernmental: County Library, reimbursement from departments
- 7% Resort Tax
- 5% Payment in Lieu of Taxes from the Utilities
- 3% Other Misc. Revenues
- 2% Licenses and Permits

Note: Transfers In from special revenue funds include recurring transfers to support operations. In 2021, there is an estimated transfer of \$38,000 from capital projects in addition to recurring transfers of:

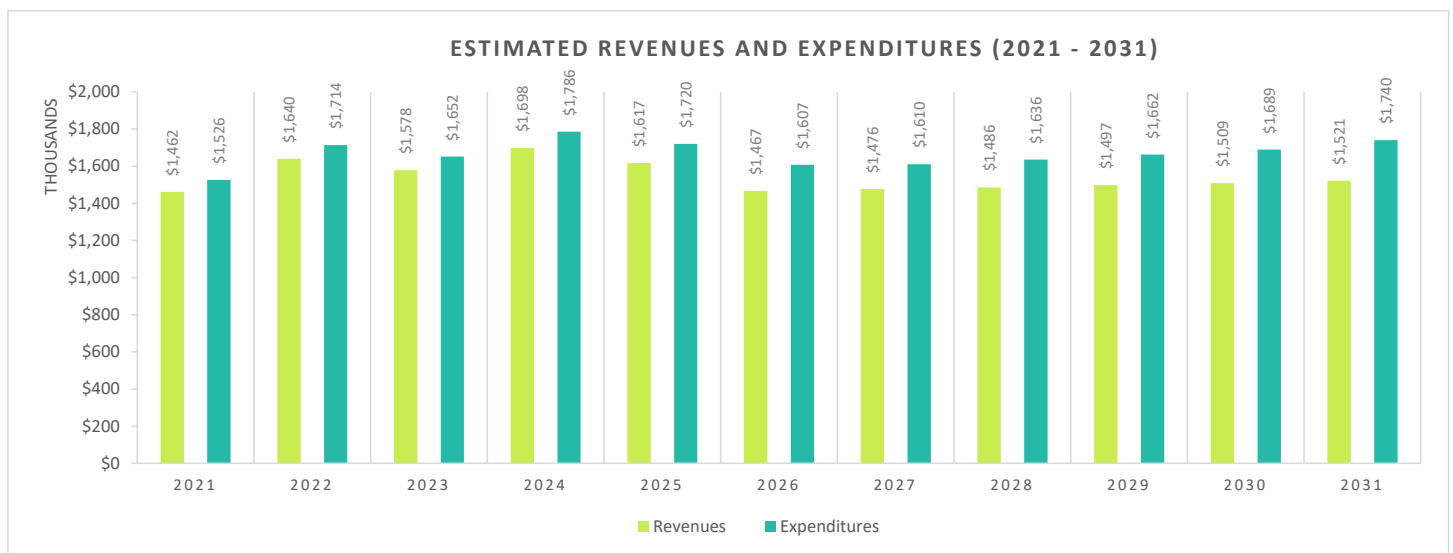
- Tourism - \$120,000
- Harbor - \$85,000
- Courthouse - \$75,000
- Pavilion - \$5,000

# City of Bayfield

## General Fund

### Estimated Future Health - General Fund

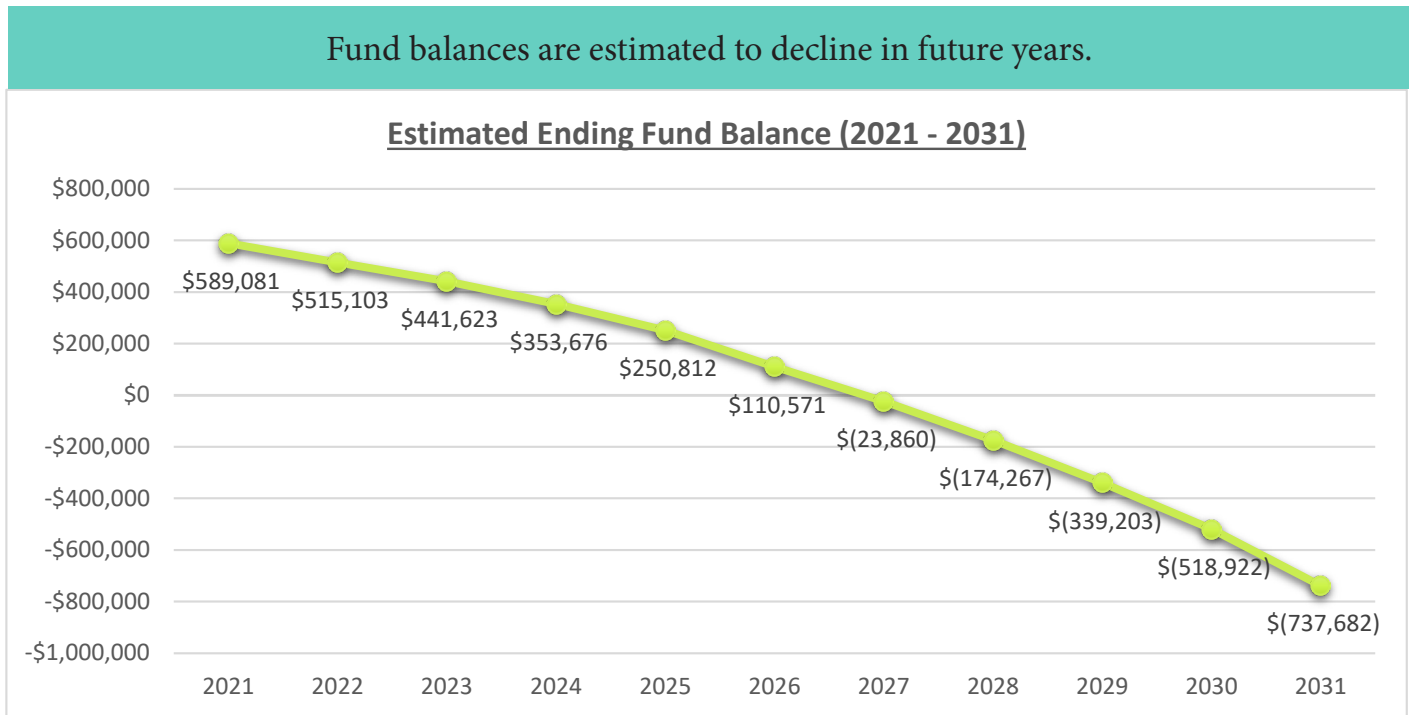
The most important part of a financial health check is to analyze where the City is going in the future. We have used historical trends, management information, and reserve requirements to estimate future fund balances and provide observations and recommendations to improve the financial health of the City. Budgeted expenditures for 2021 are 19.3% higher than 2020 actual. A portion of the increase includes projects carried over from 2020. In addition, the City is expecting a decline in health insurance costs in 2021 that is not reflected in the budget. 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.



# City of Bayfield

## General Fund

The chart below illustrates the estimated impact on future fund balances.



We recommend that the City investigate ways to reduce costs or increase revenues. Options for consideration include:

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. Paid parking system
5. Continue to analyze public charges for services, fines, and other fees to determine if increases are necessary to recover costs

# City of Bayfield

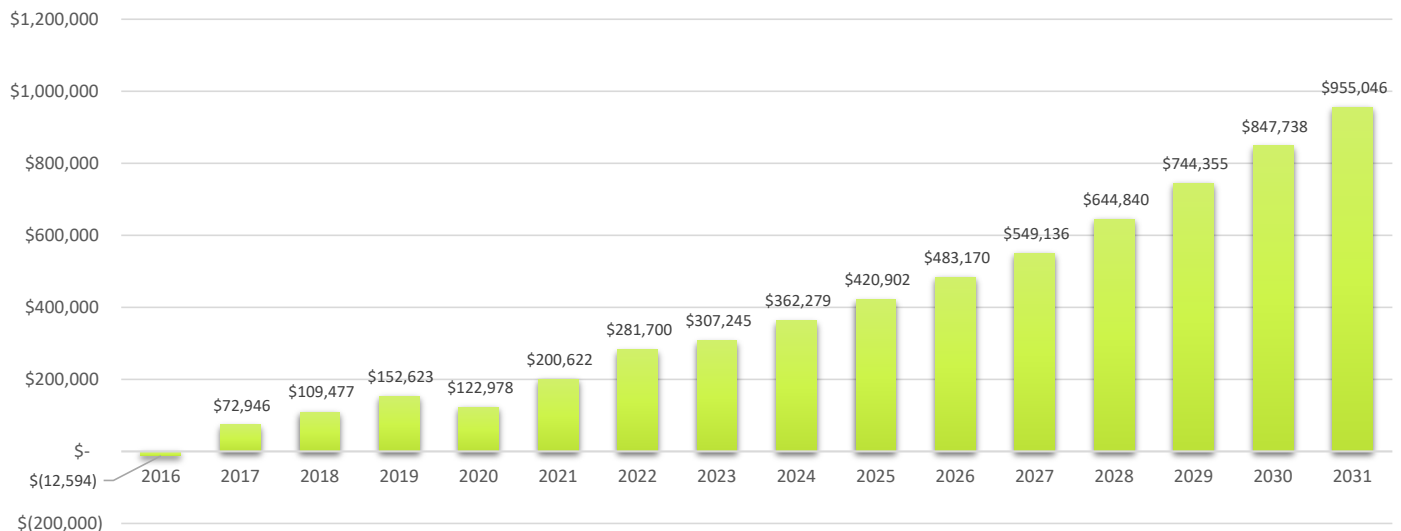
## Special Revenue Funds

Transfers from special revenue funds are 22% of General Fund revenues and are the second largest funding source of the General Fund. Harbor and Tourism look relatively stable although we understand that unforeseen events such as a pandemic or an economic downturn can change the financial outlook of these funds. Courthouse is projected to have increasing cash reserves primarily to due to the increase in rental revenue. The Pavilion fund is expected to have declining cash reserves over the next several years. The report assumes that the Tourism Fund will transfer funds annually (\$116,000) to the Pavilion Fund to cover debt payments for the Pavilion remodel and decking. By 2028, either an extension of the transfer agreement from Tourism or an alternate funding source will be necessary to fund the continued debt payments.

It is important to note that fund balances in the special revenue funds are non-spendable, restricted, or assigned to specific projects and purposes.

**\$3M Marina Breakwall project in 2021. (A funding source has not been identified for the \$1.5M Apostle Islands Marina improvement project in 2024.)**

**Harbor Fund**  
**Actual and Estimated Ending Cash**

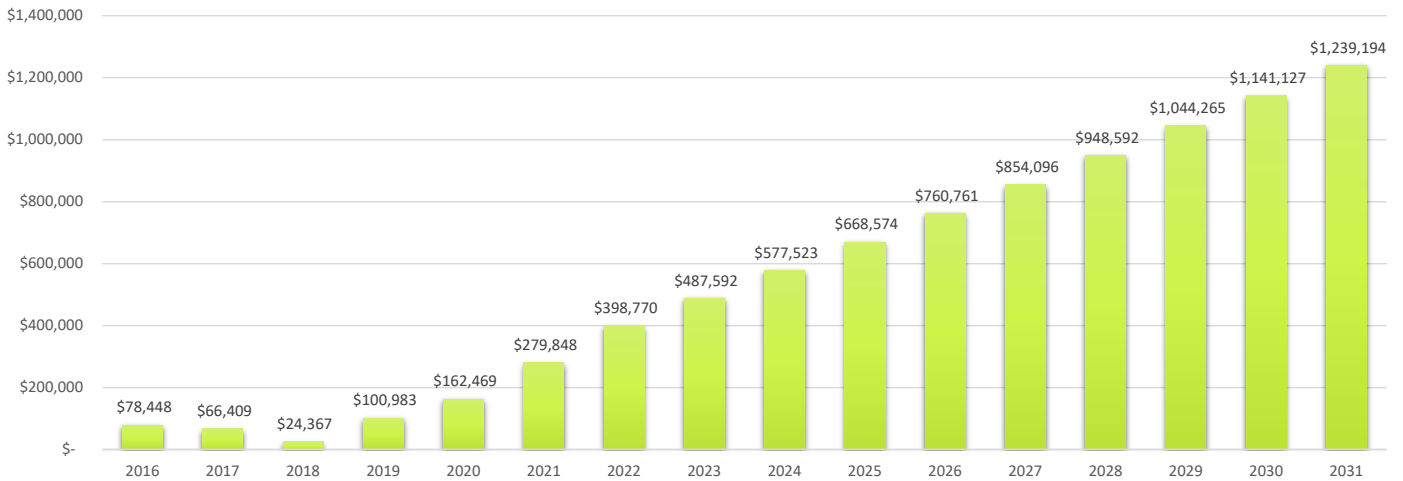


# City of Bayfield

## Special Revenue Funds

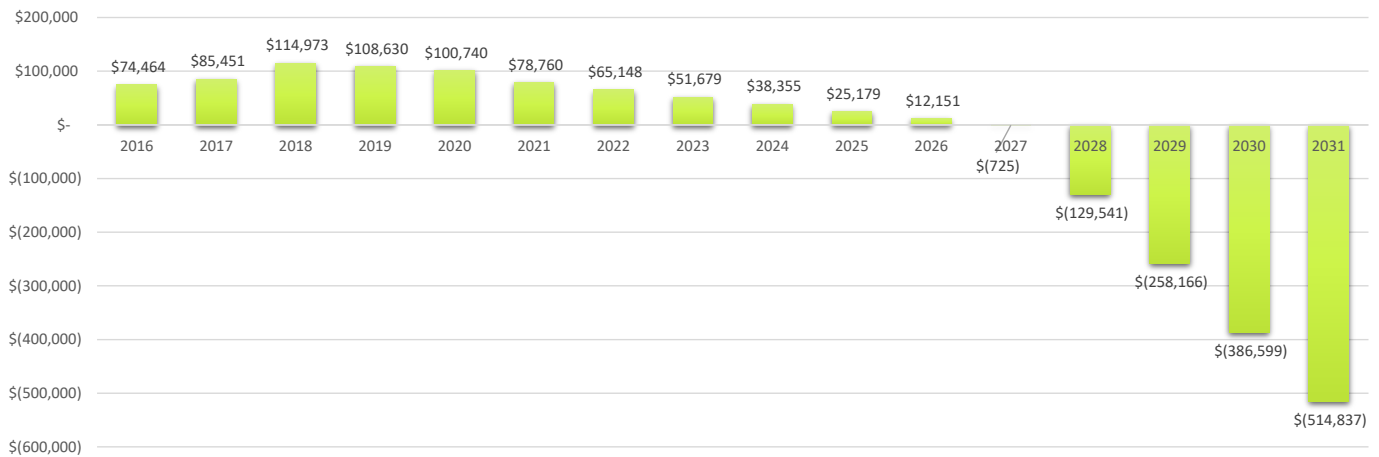
\$450K for building lease improvements in 2021.

**Courthouse Fund**  
**Actual and Estimated Ending Cash**



Cash reserves are expected to decline. Additional revenue is needed for this fund.

**Pavilion Fund**  
**Actual and Estimated Ending Cash**



# City of Bayfield

## Special Revenue Funds

The Tourism Fund is the balance of Room Tax monies not allocated to the City of Bayfield or the Chamber of Commerce. The uses of this fund are restricted to projects that meet the “heads in beds test”. The Tourism Commission governs how the funds are spent. This fund will be used for the Bayfield Lakeside Pavilion remodel (\$425,000 in 2022 and \$950,000 in 2023).



# City of Bayfield

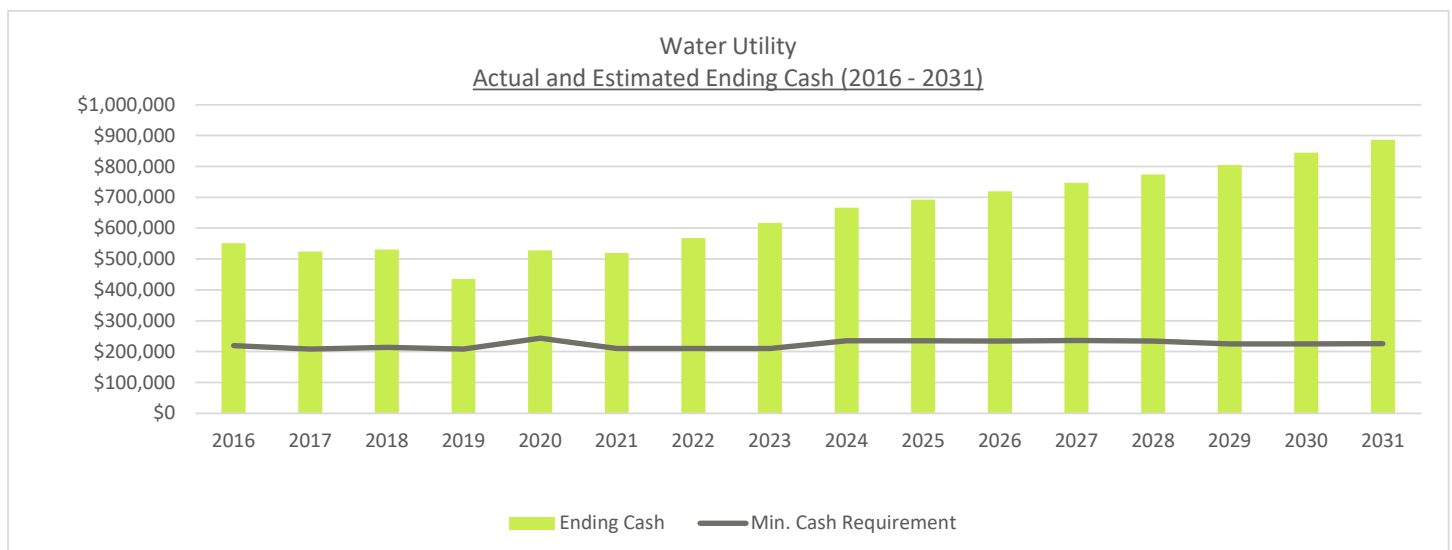
## Enterprise Funds

### Water and Sewer Utilities

In analyzing the adequacy of fund balances for the utilities, we compared them to recommended reserve balances. Recommended reserves are based on minimum reserve levels the City agreed to when bonds were issued plus industry best practices (such as reserving one year's capital spending). Recommended reserves should be viewed as minimum acceptable balances, and to the extent fund balances exceed those reserve requirements, the additional dollars are available for future capital needs or other revenue requirements of the utilities. For this report we assumed a six-month operating reserve requirement. It is important to note that no capital projects or new debt payments have been worked into this analysis beyond 2021. The addition of capital projects and new debt payments could change the outcome of these projections significantly and could require future rate adjustments.

### Water Utility

As of December 31, 2020, the fund balance of the water utility was \$528,319. Current and estimated fund balances exceed the assumed six-month operating reserve requirement. The chart below shows actual and estimated ending cash balances. Based on the current assumptions as provided herein, it appears that the current rates are adequate to generate revenues to operate the water utility, pay existing debt, and make some investments in capital improvements.



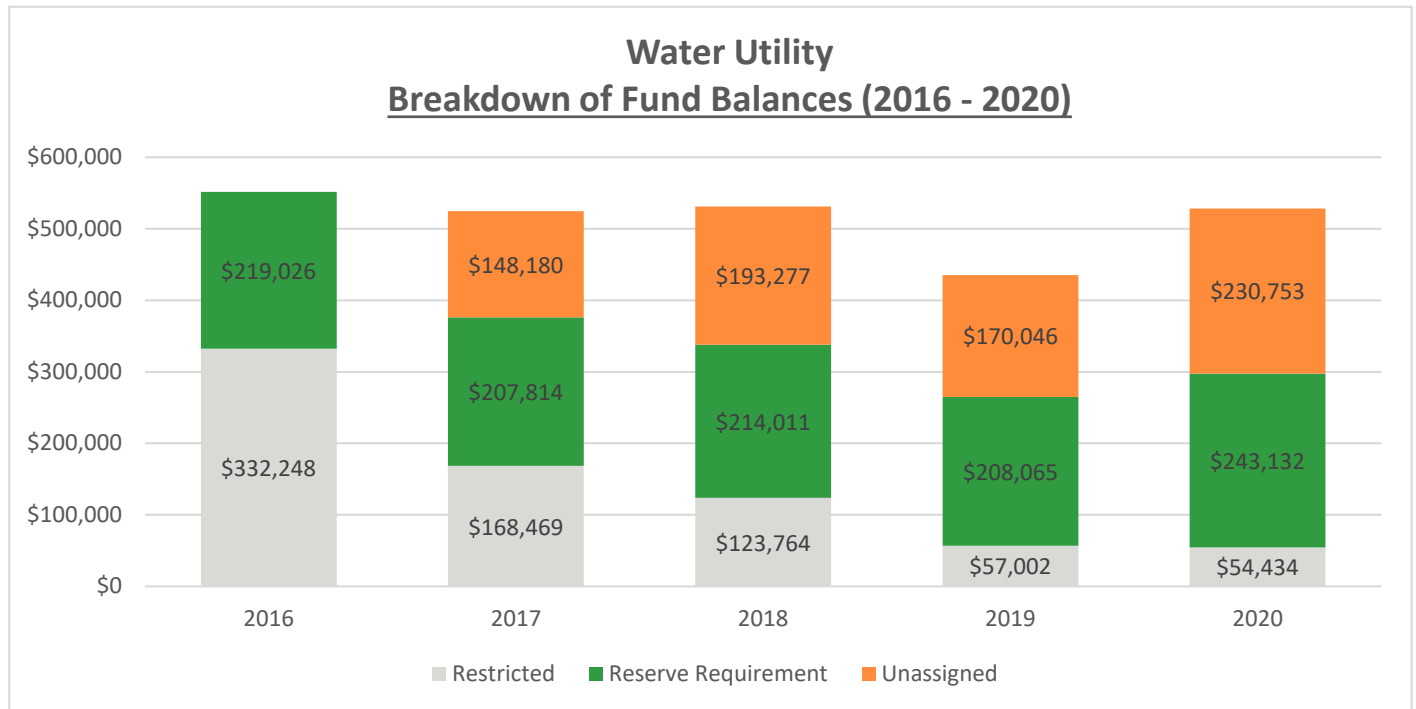


## City of Bayfield

### Enterprise Funds

#### Water Utility (Cont'd)

Below is a breakdown of actual fund balances from 2016 through 2020.



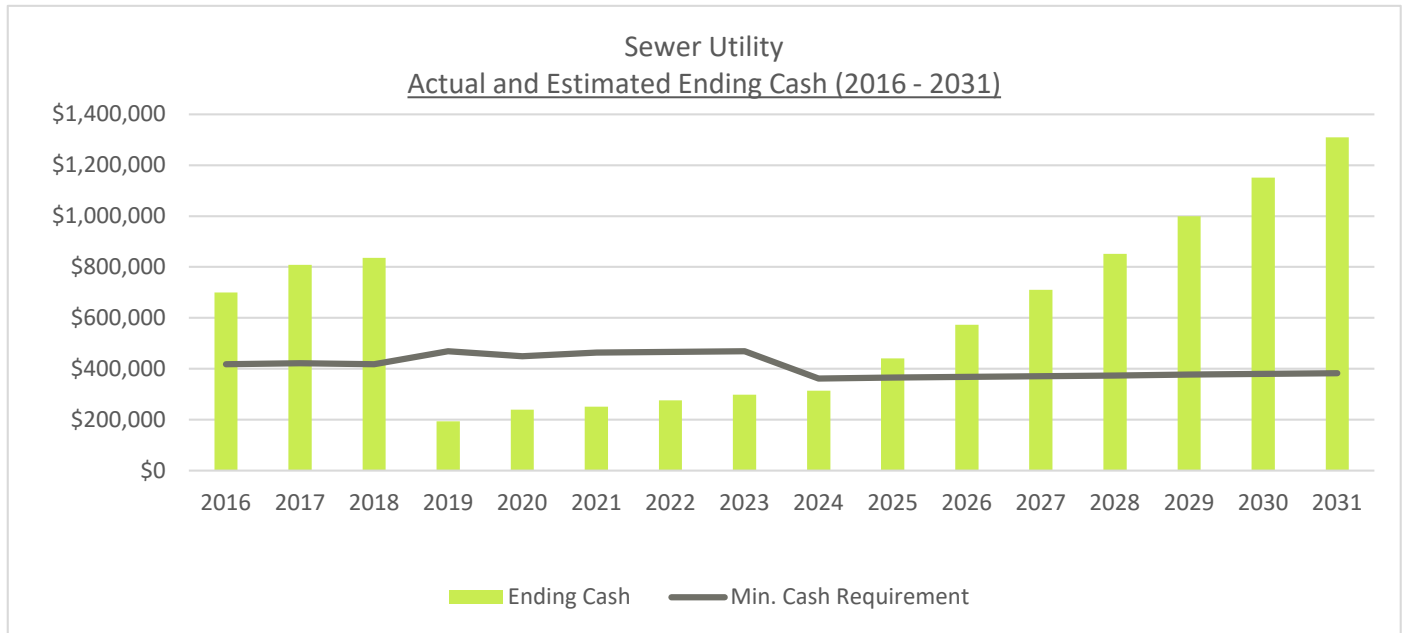
#### Sewer Utility

As of December 31, 2020, the fund balance of the sewer utility was \$239,935. In 2019 and 2020, fund balances were below the assumed six-month operating reserve requirement. Fund balances are estimated to stay below the reserve requirement through 2024. In 2025, as debt matures, fund balances start to trend upwards. This assumes additional debt is not rolled in to replace the maturing debt; however, It is more likely than not, that the sewer utility will need to issue debt as older debt rolls off. The chart on the next page shows actual and estimated ending cash balances. Assuming additional debt will be issued and debt payments remain relatively constant, it appears that the current rates are not adequate to generate revenues to operate the sewer utility, pay existing debt, and make future investments in capital improvements.

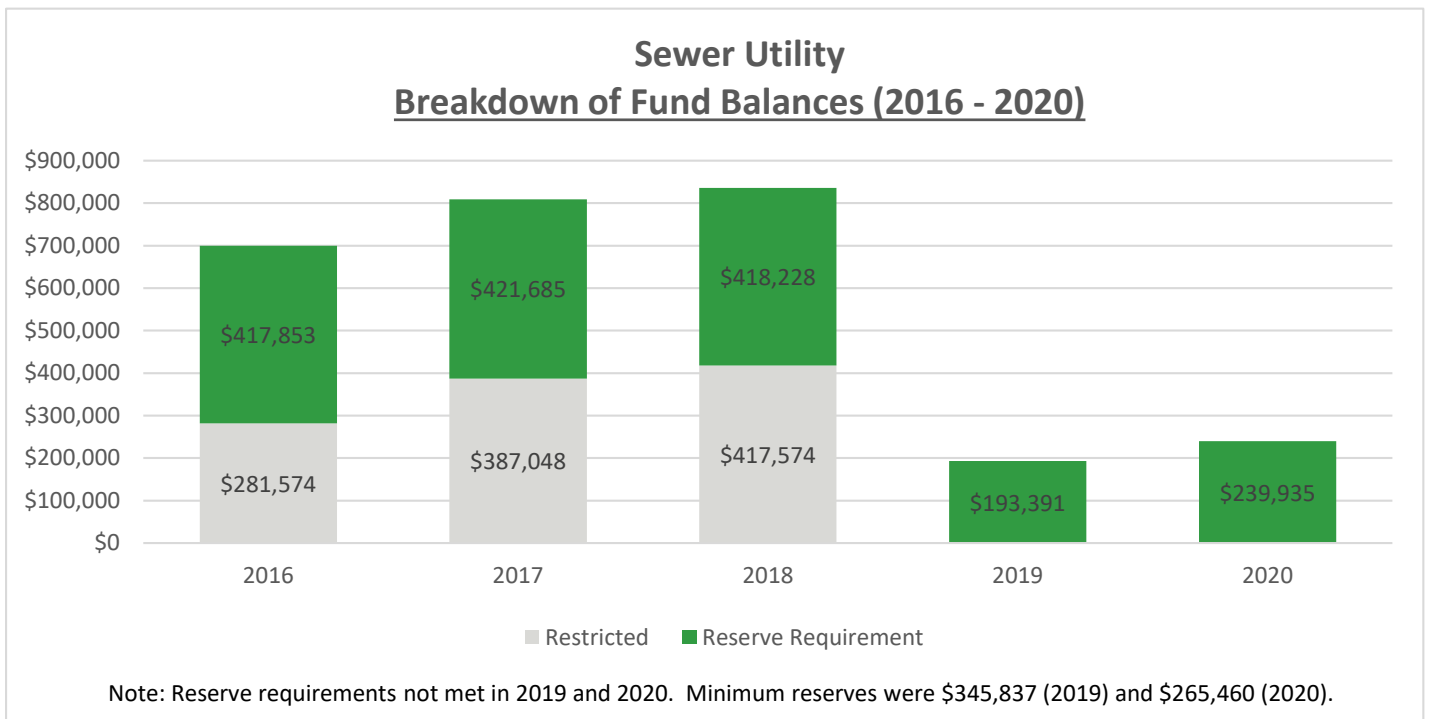
# City of Bayfield

## Enterprise Funds

### Sewer Utility (Cont'd)



Below illustrates actual and estimated ending cash and a breakdown of actual fund balances from 2016 through 2020.



We recommend that City management continue to take a proactive approach in monitoring operating expenditures and planning for future capital improvements in years to come. This will help ensure the sufficiency of the current and future rates and charges. In addition, tracking operating costs to the annual budget moving forward will keep the utilities headed in a positive direction.

# City of Bayfield

## Supplemental Information Capital Improvement Plan (2021 - 2025)

Capital Outlays						
	2021	2022	2023	2024	2025	Grand Total
<b>Community Development</b>	\$ 50,000	\$ -	\$ -	\$ -	\$ -	\$ 50,000
<b>Unfunded</b>	50,000	-	-	-	-	50,000
Zoning Code Update	50,000	-	-	-	-	50,000
<b>Elections</b>	10,000	-	-	-	-	10,000
<b>Capital Improvements Fund</b>	10,000	-	-	-	-	10,000
Election Equipment	10,000	-	-	-	-	10,000
<b>Parks</b>	26,000	78,500	92,500	62,500	42,500	302,000
<b>Capital Improvements Fund</b>	22,500	63,750	92,500	62,500	42,500	283,750
Dalrymple	12,000	26,000	26,000	26,000	26,000	116,000
East Dock/Cooper Hill	3,000	5,000	5,000	5,000	5,000	23,000
Halvor Reiten	-	14,750	13,500	13,500	3,500	45,250
Big Ravine/Gil Larsen	2,500	2,500	2,500	2,500	2,500	12,500
Waterfront Walk	5,000	15,000	45,000	15,000	5,000	85,000
Conservancy	-	500	500	500	500	2,000
<b>State and Federal Grants</b>	-	14,750	-	-	-	14,750
Halvor Reiten	-	14,750	-	-	-	14,750
<b>Unfunded</b>	3,500	-	-	-	-	3,500
Halvor Reiten	3,500	-	-	-	-	3,500
<b>Police</b>	-	6,500	5,000	8,500	60,000	80,000
<b>Capital Improvements Fund</b>	-	6,500	5,000	8,500	-	20,000
Replace Office Furniture	-	6,500	-	-	-	6,500
Police Capital equipment Savings Account	-	-	5,000	-	-	5,000
Office and mobile computer replacement	-	-	-	8,500	-	8,500
<b>Equipment Certificates</b>	-	-	-	-	60,000	60,000
Replace 2018 Ford Explorer	-	-	-	-	60,000	60,000
<b>Public Works</b>	15,000	15,000	15,000	15,000	15,000	75,000
<b>Capital Improvements Fund</b>	15,000	15,000	15,000	15,000	15,000	75,000
Ditching	15,000	15,000	15,000	15,000	15,000	75,000
<b>Sewer</b>	10,500	-	-	-	-	10,500
<b>Enterprise Fund - cash</b>	10,500	-	-	-	-	10,500
Sewer Camera	8,000	-	-	-	-	8,000
Operator Camera - Sewer	2,500	-	-	-	-	2,500
<b>Streets</b>	60,000	495,567	216,000	330,000	160,000	1,261,567
<b>Capital Improvements Fund</b>	60,000	85,000	76,000	-	60,000	281,000
Lawn Mower	-	-	16,000	-	-	16,000
Crack / Seal Coat	60,000	-	60,000	-	60,000	180,000
New Dump Truck	-	85,000	-	-	-	85,000
<b>Equipment Certificates</b>	-	210,567	140,000	250,000	100,000	700,567
Plow Truck & Sander	-	210,567	-	-	-	210,567
New Tractor Backhoe	-	-	140,000	-	-	140,000
New Skid steer	-	-	-	-	100,000	100,000
New Street Sweeper	-	-	-	250,000	-	250,000
<b>GO Bonds</b>	-	200,000	-	80,000	-	280,000
Reconstruct Manypenny 9th - West City Limits	-	200,000	-	-	-	200,000
Resurface North 10th Street 400'	-	-	-	80,000	-	80,000
<b>Water</b>	12,000	-	-	-	-	12,000
<b>Enterprise Fund - cash</b>	12,000	-	-	-	-	12,000
Well 4 Roof and Siding Repair - Water	12,000	-	-	-	-	12,000
<b>Courthouse</b>	-	450,000	-	-	-	450,000
<b>Special Rev Fund - debt</b>	-	450,000	-	-	-	450,000
Courthouse Bldg. Lease Imp.	-	450,000	-	-	-	450,000
<b>Harbor</b>	3,000,000	75,000	250,000	1,500,000	-	4,825,000
<b>Special Rev Fund - cash</b>	-	-	50,000	-	-	50,000
Long Range Harbor Plan	-	-	50,000	-	-	50,000

# City of Bayfield

## Supplemental Information Capital Improvement Plan (2021 - 2025) Cont'd

Capital Outlays						
	2021	2022	2023	2024	2025	Grand Total
<b>Special Rev Fund - debt</b>	\$ -	\$ 75,000	\$ 200,000	\$ -	\$ -	\$ 275,000
Marina Breakwall Project	-	-	-	-	-	-
LE Building Rehabilitation	-	75,000	-	-	-	75,000
City Dock Finger Piers Rehab	-	-	200,000	-	-	200,000
<b>State and Federal Grants</b>	<b>3,000,000</b>	-	-	-	-	<b>3,000,000</b>
Marina Breakwall Project	3,000,000	-	-	-	-	3,000,000
<b>Unfunded</b>	-	-	-	<b>1,500,000</b>	-	<b>1,500,000</b>
Apostle Islands Marina Improvement.	-	-	-	1,500,000	-	1,500,000
<b>Pavilion</b>	<b>8,250</b>	<b>500,000</b>	<b>1,150,000</b>	-	-	<b>1,658,250</b>
<b>Special Rev Fund - cash</b>	<b>8,250</b>	-	-	-	-	<b>8,250</b>
Auto scrubber	7,500	-	-	-	-	7,500
Sign	750	-	-	-	-	750
<b>Special Rev Fund - debt</b>	-	<b>500,000</b>	<b>1,150,000</b>	-	-	<b>1,650,000</b>
Interior Remodel	-	425,000	-	-	-	425,000
Roof	-	-	200,000	-	-	200,000
Addition / Decking	-	-	950,000	-	-	950,000
Windows / Doors	-	75,000	-	-	-	75,000
<b>General Buildings</b>	<b>1,025,600</b>	<b>15,000</b>	<b>5,000</b>	<b>5,000</b>	<b>12,500</b>	<b>1,063,100</b>
<b>Capital Improvements Fund</b>	<b>25,600</b>	<b>15,000</b>	<b>5,000</b>	<b>5,000</b>	<b>12,500</b>	<b>63,100</b>
Technology Improvements (security, electronic storage, network improvements)	-	7,500	-	-	7,500	15,000
Council Table-Chairs-2020 CO	7,500	-	-	-	-	7,500
City Hall Flooring - 2020 CO	12,500	-	-	-	-	12,500
Desk	-	2,500	-	-	-	2,500
Solar Investment (until 2026)	5,000	5,000	5,000	5,000	5,000	25,000
City Hall Printer	600	-	-	-	-	600
<b>Unfunded</b>	<b>1,000,000</b>	-	-	-	-	<b>1,000,000</b>
City Hall renovations	1,000,000	-	-	-	-	1,000,000
<b>Fire</b>	<b>45,240</b>	<b>25,240</b>	-	-	-	<b>70,480</b>
<b>General Fund</b>	<b>45,240</b>	<b>25,240</b>	-	-	-	<b>70,480</b>
Truck Payment (incl. in Existing Debt)	25,240	25,240	-	-	-	50,480
PPE	20,000	-	-	-	-	20,000
<b>Library</b>	<b>39,500</b>	<b>10,600</b>	-	-	-	<b>50,100</b>
<b>Capital Improvements Fund</b>	<b>9,500</b>	<b>10,600</b>	-	-	-	<b>20,100</b>
BSLGrant	4,500	-	-	-	-	4,500
Retaining Wall	5,000	5,000	-	-	-	10,000
Painting Outside Windows	-	5,600	-	-	-	5,600
<b>Unfunded</b>	<b>30,000</b>	-	-	-	-	<b>30,000</b>
Replace Furnace	20,000	-	-	-	-	20,000
LED Lights	10,000	-	-	-	-	10,000
<b>City_Administration</b>	<b>48,000</b>	<b>12,500</b>	<b>12,700</b>	<b>12,700</b>	<b>10,000</b>	<b>95,900</b>
<b>Capital Improvements Fund</b>	<b>48,000</b>	<b>2,500</b>	<b>2,700</b>	<b>2,700</b>	-	<b>55,900</b>
Computers	-	-	2,700	2,700	-	5,400
Phone System - 2020 CO	10,000	-	-	-	-	10,000
Desk	-	2,500	-	-	-	2,500
Employee Liab. (\$50-60,000 cap)	38,000	-	-	-	-	38,000
<b>Unfunded</b>	-	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>40,000</b>
Employee Liab. (\$50-60,000 cap)	-	10,000	10,000	10,000	10,000	40,000
<b>Cemetery</b>	<b>1,500</b>	-	-	-	-	<b>1,500</b>
<b>General Fund</b>	<b>1,500</b>	-	-	-	-	<b>1,500</b>
Surveying	1,500	-	-	-	-	1,500
<b>Grand Total</b>	<b>\$ 4,351,590</b>	<b>\$ 1,683,907</b>	<b>\$ 1,746,200</b>	<b>\$ 1,933,700</b>	<b>\$ 300,000</b>	<b>\$ 10,015,397</b>

# City of Bayfield

## Supplemental Information Property Tax Estimates (2021 - 2031)

