

Transfer of Fund 39 Accumulated Balance

School Boards must levy sufficient amounts to meet all principal and interest payments as they become due. Additional sums may be levied per sec. 67.11(1) (e), Wis. Stats., if the district intends to make a prepayment on the debt.

Historically, the School Financial Services Team has advised districts against increasing their current debt service tax levy for amounts that will not be spent before setting the tax levy for the next year. However, state law does allow a district to increase its tax levy above the amounts to pay current debt, “in order to speed the payment of municipal obligations.”

Debt Service Levy [§ 67.11(1) (e)]: Such further sums raised by taxation or otherwise, as may be necessary to make all interest and principal payments due in any year. The levying and collection of the taxes or other revenues are authorized; but the governing body may, in its discretion, levy and collect larger sums than the sums so authorized, in order to speed the payment of municipal obligations.

The question is: What can a school district do with a Fund 39 balance after the final payment on any outstanding Fund 39 indebtedness is made? The issue is because the tax levy associated with Fund 39 is a non-controlled levy (a property tax levy outside of the district’s revenue limit); the use of the balance has specific consequences.

There are three options for utilizing these remaining funds.

1. Option 1: A school board has the authority to retain a balance in Fund 39 until some future date when the district issues additional Fund 39 debt. Relevant Wisconsin State Statutes specify the following:
 - a. § 67.11(4) *Money shall not be withdrawn from a debt service fund account and appropriated to any purpose other than the purpose for which the account was instituted until that purpose has been accomplished.*
 - b. § 67.11(5) *Any balance in any debt service fund account after all of the municipal obligations for the payment of which the account was instituted have been paid and canceled, and after all investments under sub. (2) (b) and (c) have been finally disposed of or realized upon, shall be carried into the general fund of the municipal treasury unless transferred as directed by the municipality’s governing body.*

§ 67.11(4) can be interpreted to mean that funds remaining in Fund 39 can only be used for making payments on Fund 39 debt and does not allow those funds to be used for other purposes.

§ 67.11(5) allows a school board to earmark the remaining Fund 39 balance for

other Fund 39 debt which could be issued in the future. Discussions with external parties, including a public accounting firm which specializes in auditing and consulting of government entities, including school districts, has stated there is no requirement in Generally Accepted Government Accounting Standards (GAGAS) for a district to transfer any excess fund balance out of its debt service fund upon the final Fund 39 debt payment.

2. Option 2: A school board may transfer any excess fund balance out of Fund 39 to Fund 10. However, revenue limit law (§ 121.92) dictates the Department of Public Instruction to reduce or offset a district's state aids by an amount equal to the Fund 39 transfer amount.

§ 67.11(5) cited above allows a transfer of remaining Fund 39 fund balance into the district's General Fund (Fund 10). Wisconsin Uniform Financial Accounting Requirements (WUFAR) requires this type of transfer to be a residual equity transfer using Function 419000. The transfer into Fund 10 is considered a deductible receipt. If the full transfer is spent in the same year, there is no impact to shared costs. If the full transfer is not spent in the year of the transfer, shared costs will be reduced by the unspent amount.

This type of transfer will result in a revenue limit penalty imposed on the district. Funds generated in Fund 39 are outside controlled revenues and when transferred to Fund 10 become part of the district's controlled revenue limit. § 67.11(1) dictates the only allowable sources of funds for Fund 39 as follows:

(a) All moneys accruing to the borrowed money fund prescribed by s. 67.10 (3) which at any stage are not needed and which obviously thereafter cannot be needed for the purpose for which the money was borrowed.

(b) All moneys raised by taxation under s. 67.05 (10) or 67.12 (12) (ee) for the purpose of making principal and interest payments on municipal obligations.

(d) The premium, if any, for which the municipal obligations have been sold above par value and accrued interest.

(e) Such further sums raised by taxation or otherwise, as may be necessary to make all interest and principal payments due in any year. The levying and collection of the taxes or other revenues are authorized; but the governing body may, in its discretion, levy and collect larger sums than the sums so authorized, in order to speed the payment of municipal obligations.

Sources of Fund 39 are either amounts generated by district tax levy [items (b) and (e) above], or non-tax levy sources [noted in (a) and (d) above.] The levying

and collection of property taxes in Fund 39 that are not used for their intended purposes, the payment of principal and interest on Fund 39 debt, would necessarily have to have special treatment upon transfer to the district's General Fund (Fund 10). The composition of any Fund 39 balance transferred to Fund 10 could be analyzed for the source of funds as indicated in (a) through (e) above. If a portion of the transferred balance was generated by Fund 39 tax levy then the district, in effect, historically over levied in Fund 39. This portion would have to reduce the subsequent year general fund tax levy to compensate for any prior year over levy. The mechanism for accomplishing this would be to generate a revenue limit reduction for the amount of the transferred funds generated by tax levy. It is the Department of Public Instruction's determination that any transfer of non-tax levy sources in Fund 39 (such as premium or accrued interest or excess Fund 49 transferred funds) to Fund 10 would result in a reduction to the district's revenue limit.

Consequence: If a district transfers a Fund 39 balance (regardless of tax levy or non-levy tax sources) to Fund 10, the Department of Public Instruction will assess a revenue limit penalty equal to the transferred amount. In other words, a district's revenue limit will be reduced dollar for dollar.

3. Option 3: A school board may make a partial transfer of funds from Fund 39 to Fund 10. However, revenue limit law (§ 121.92) dictates the Department of Public Instruction to reduce or offset a district's state aids by an amount equal to the Fund 39 transfer amount.

Consequence: If a district transfers a portion of a Fund 39 balance (regardless of tax levy or non-levy tax sources) to Fund 10, the Department of Public Instruction will assess a revenue limit penalty equal to the transferred amount. In other words, a district's revenue limit will be reduced dollar for dollar.