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Frequently Asked Questions about Debt Defeasance and Tax Rate

Updated: 7/15/2022

The School District of Reedsburg Annual Meeting will be on Monday, July 18, 2022. District electors have an opportunity to review the School District of Reedsburg Board of Education's proposed budget at its Annual Meeting. Two of the Board of Education's key objectives this year are to pre-pay debt and maintain a consistent tax rate. The Board's proposed budget achieves these two important goals.

We welcome you to learn more about the School District of Reedsburg budget by visiting our webpage <https://www.rsd.k12.wi.us/district/financial-information.cfm> or by attending the annual meeting.

The Annual Meeting will be held at the Central Office (501 K Street, Reedsburg). The Annual Meeting has specific agenda items tied to powers of the Annual Meeting articulated in state statute 120.10. <https://docs.legis.wisconsin.gov/statutes/statutes/120/i/10>

1. Why does the Board of Education have a Focus Area of Responsible Fiscal Management - Funding our Priorities and Demonstrating a Return on the Public's Investment in our Schools?

Through the recently approved 2022-2027 Strategic Plan, the School Board has stated a Focus Area of Responsible Fiscal Management to prepare the District financially for potential future projects in which the District could take on additional debt with little to minimal levy impact.

2. Why have a goal of tax rate consistency?

The reason for this goal is to allow for community, family, and business planning regarding a significant expenditure: property taxes. Another reason is to manage the differences in reassessment timing across all of the municipalities that comprise the School District of Reedsburg.

3. How does the Board of Education create a consistent tax rate across fiscal years?

The State of Wisconsin's school finance system limits the amount of property taxes in certain accounting funds through a system called the revenue limit formula. The Board of Education has the ability to determine the amount of the property tax levy in the debt service fund, which is the fund that pays back all of the prior community-approved debt, and the community service fund, which is the fund that supports community-based programs in the district. Between the property taxes controlled by the revenue limit formula and the property taxes approved by the Board of Education, the total property tax levied can be calculated to maintain a consistent tax rate across fiscal years.

4. What does the term "debt defeasance" mean?

Defeasance is a provision in a contract that voids a bond or loan on a balance sheet when the borrower sets aside cash or bonds sufficient enough to service the debt. A common comparison would be pre-paying your car or home mortgage payments.

Empowering all students to maximize their potential in fearless pursuit of human excellence.

5. Is this allowed under Wisconsin state law?

Yes, Wisconsin state law allows School Boards to levy property taxes into Fund 39, the debt service fund, to prepay district debt. (120.12(4)) <https://docs.legis.wisconsin.gov/statutes/statutes/120/I/12>.

6. Is Debt Defeasance new to school districts?

The practice of debt defeasance is not new. Several other Badger Conference districts have utilized it, as well as districts in other parts of the state.

7. What are the advantages to taxpayers to pre-pay debt?

The prepayment of debt pays off debt already approved by the community, which will eventually be paid. Paying the debt earlier reduces the cost of the interest on the loans, saving taxpayers' future property tax costs while at the same time preparing the District financially for potential future projects in which it could take on additional debt with little to minimal levy impact.

8. What will be presented to the Board of Education as the Tax Levy 2022-2023 summary?

The debt service levy will be adjusted to reflect the equalized property values of the entire district, as well as the state equalization aid received for the 2022-23 school year. A debt service defeasance will be a part of the calculation that maintains the consistent tax rate of \$7.94 per \$1,000. The amount of savings that will be generated for taxpayers will be known and reported later this year when the amount of defeasance for 2022 is finalized, and the escrow transactions are processed.

9. How has the School Board used this financial goal in previous years?

For the past four years, the tax levy for the referendum-approved debt has included the annual payment, plus additional dollars to prepay the debt as soon as possible. To date, \$1.6 million has been collected for debt prepayment. The prepayment date begins April 1, 2028, at which time the interest will stop on the prepaid amount, resulting in saving taxpayers ten years of interest currently outstanding at 3-4%.

10. How will the School Board use this financial goal in the future school years?

This year the School District of Reedsburg has completed its facility conditions assessment, capacity study, and growth projections projects and is beginning Master Planning for Facilities. The Board of Education will be evaluating options for students, operational improvements, and potential facility needs that will include financial plans addressing the financial goal of tax rate consistency across fiscal years.

11. Where can I learn more information about school finance?

Visit the Wisconsin Department of Public Instruction <https://dpi.wi.gov/sfs>.

12. How can I learn more about school finance in the School District of Reedsburg?

The district is committed to ensuring residents have access to information. • Email: dmichel@rsd.k12.wi.us • Visit the website for more information: <https://www.rsd.k12.wi.us/district/annual-meeting.cfm>.