



Legislative Fiscal Bureau

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June 4, 2001

Joint Committee on Finance

Paper #255

Bonding Authorizations 2001-03 Biennium (Building Program)

[LFB 2001-03 Budget Summary: Page 158-5 #2 (part)]

CURRENT LAW

Through May, 2001, the Legislature has authorized approximately \$12.8 billion of general obligation debt. Of this amount \$10.7 billion in general obligation bonds have been issues through calendar year 2000 and \$2.1 billion remains available for issuance.

BUILDING COMMISSION

Enumerate projects totaling \$1,640,779,300 as part of its building program recommendations. Of this amount, \$1,260,179,300 from all funding sources of enumerated 2001-03 financing authority for: (a) specific enumerated projects (\$992,481,800); and (b) all agency projects (\$267,697,500). (Enumeration and funding authority for the remaining \$380,600,000 of projects for which bonding is recommended for issuance after June 30, 2003, is addressed in a separate Legislative Fiscal Bureau paper.)

Specify that funding for these projects be drawn from the following sources: (a) \$1,052,146,800 from new general obligation bonding authority; (b) \$21,597,500 from general obligation bonding authority that is currently authorized; (c) \$13,445,500 of new revenue bonding authority; (d) \$14,138,000 from agency operating funds; (e) \$38,925,700 from federal funds; and (f) \$119,925,800 from agency gifts, grants and other receipts.

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DEM - 1

DISCUSSION POINTS

Existing Authorization of General Obligation Bonds

1. The specific purposes for which general obligation debt may be contracted are authorized by the Legislature. Most of these bonding authorizations are contained in the biennial budget to fund that biennium's building program, as well as other bonding programs. The Building Commission, with the assistance of DOA's capital finance office then issues the bonds to fund the projects or program purposes for which the bonding was authorized.

2. The amount of outstanding indebtedness in each year is not cumulative, but rather represents the principal amount of debt that remains to be repaid on the total amount of general obligation bonds issued at that point in time. For example, as of December, 2000, Wisconsin had approximately \$4.067 billion of general obligation and building corporation bonds outstanding, which represents the principal amount of debt that remained to be paid from issuing approximately \$11.08 billion of general obligation bonds and commercial paper to that date. Table 1 presents a summary of the outstanding state general obligation and building corporation indebtedness as of December, 2000.

TABLE 1

**Outstanding General Obligation and Building Corporation Debt
-- As of December, 2000**

<u>Bonding Category</u>	<u>Amount Outstanding</u>
Tax Supported	
General Fund	\$2,831,448,948
Segregated Funds	51,063,989
Subtotal	\$2,882,512,937
Self-Amortizing	
Veterans' Mortgage Loans	\$785,320,000
University of Wisconsin And Other Minor Categories	399,875,140
Subtotal	1,185,195,140
TOTAL	\$4,067,708,077

3. Principal and interest payments from all funds for general obligation borrowing are estimated to total \$508.6 million in 2002-03 and \$550.7 million in 2002-03. Approximately 71% of the principal and interest amounts owed on state debt in the 2001-03 biennium will be paid from the state's general fund. Since 1988, the level of state indebtedness has grown each year, with the amount of new debt exceeding the amount of debt repaid. Table 2 indicates the growth in state indebtedness since 1987.

TABLE 2

Outstanding Indebtedness 1993 through 2000

(\$ in Millions)

<u>Year</u>	<u>Debt Outstanding</u>	<u>Annual Percent Change</u>
1987	\$2,227.9	
1988	2,180.8	-2.3%
1989	2,230.1	2.3
1990	2,323.5	4.2
1991	2,607.7	12.2
1992	2,734.7	4.9
1993	2,913.4	6.6
1994	2,970.3	2.0
1995	3,078.4	3.6
1996	3,290.0	6.9
1997	3,429.9	4.3
1998	3,564.9	3.9
1999	3,743.5	5.0
2000	4,067.7	8.7

2001-03 General Obligation Bonding Authorizations

4. As part of the biennial building program, the Legislature also authorizes any new bonding or other monies needed to fund the projects enumerated in the state building program. The 2001-03 building program recommendations include the authorization of \$1,283,246,800 in general obligation bonding, including: (a) \$745,615,600 of new GPR-supported general obligation borrowing; (b) \$526,711,900 of PR-supported general obligation borrowing; and (c) \$10,919,300 in SEG-supported borrowing.

5. Table 3 indicates how the \$745.6 million in GPR-supported general obligation recommended as part of the 2001-03 state building program compares with past biennial building programs.

TABLE 3

**GPR-Supported General Obligation
Bonding Authorized in the State Building Program
(\$ in Millions)**

<u>Biennium</u>	<u>Authorization</u>
1989-91	\$278.9
1991-93	468.1
1993-95	225.6
1995-97	246.7
1997-99	366.2
1999-01	424.4
2001-03	745.6

6. In addition to the \$745.6 million in GPR-supported general obligation bonding recommended in the state building program, GPR-supported bonding is also proposed for non-building program purposes. These purposes include \$121.4 million in bonding for environmental and water quality improvement. Table 4 identifies the proposed GPR-supported bonding authority increases included in the state biennial operating and capital budgets, excluding refunding authorizations.

TABLE 4

**GPR-Supported General Obligation Bonding (2001-03)
(\$ in Millions)**

	<u>Authorization</u>
2001-03 State Building Program	
2001-03 Authorizations	\$486.4
Out-Year Authorizations	259.2
Bonding in Budget Bill	<u>121.4</u>
Total	\$867.0

7. As indicated Table 4, of the \$867.0 million in proposed GPR-supported bonding authorizations included in the biennial budget fund state building program, \$219.2 million of that authority, primarily associated with the Biostar and agricultural initiative, would not be available until future biennia. However, this authorization could reduce the acceptable level of bonding available to meet the funding priorities of future biennia. The \$867.0 million in total general fund supported borrowing would be less than the \$929.0 million of general fund supported borrowing in the 1999-01 biennium when the stewardship program was reauthorized but would be greater than the amounts authorized in prior biennia: \$495.0 million in 1991-93, \$391.7 million in 1993-95, \$338.8 million in 1995-97 and \$558.8 million in 1997-99.

Debt Service Estimates

8. GPR debt service has ranged from 2.88% to 3.38% of GPR tax revenues since 1993-94. Table 5 indicates the GPR debt service as a percentage of GPR tax revenues since 1993-94. Due primarily to the reduction in GPR tax revenues associated with the tax reductions enacted as part of 1999 Act 9, estimated 2000-01 debt service as percentage of GPR tax revenues will match the highest level since 1993-94.

TABLE 5

Annual GPR Debt Service and GPR Tax Revenues (\$ in Millions)

<u>Fiscal Year</u>	<u>GPR Tax Revenues</u>	<u>GPR Debt Service</u>	<u>Debt Service as a % of GPR Tax Revenues</u>
1993-94	\$7,287.6	\$246.5	3.38%
1994-95	7,806.9	250.3	3.21
1995-96	8,209.5	271.2	3.30
1996-97	8,804.0	278.1	3.16
1997-98	9,528.2	285.2	2.99
1998-99	9,984.4	292.8	2.93
1999-00	10,945.9	315.7	2.88
2001-01	10,056.5	340.0	3.38

9. The administration's "Budget in Brief" indicates that the state's debt management is geared at maintaining annual GPR debt service at no more than 4.0% of annual GPR tax revenues, with a target of annual GPR debt service that is between 3.0% and 3.5% of annual GPR tax revenues. This limitation is suggested to ensure that debt service does not consume an increasing share of the state budget. It was also projected at that time that GPR debt service as a percentage of GPR tax revenue would rise to an estimated 3.42% of GPR in 2002-03.

10. However in a May 18, 2001 report to the Legislature titled a Projection of General Obligation Debt Service, DOA Capital Finance indicates that using current estimates of GPR tax revenues, projected debt service payments as percentage of GPR tax revenues will equal 3.42% in 2001-02 and 3.53% in 2002-03. These figures are based on an schedule of estimated issuance of previously authorized, but unissued, bonding authority as well as the estimated issuance of a portion of the bonding proposed under the 2001-03 budget bill and the 2001-03 state building program.

11. Estimates of future debt service amounts contain three primary components: (a) existing debt service on bonds that have been issued; (b) estimated debt service on bonds that have been previously authorized, but not yet issued; and (c) estimates on debt service for bonds authorized in the current biennium. Due to the timing of debt service payments, the bonds authorized in the 2001-03 budget and the 2001-03 state building program will not likely have a significant impact on debt service payments in the 2001-03 biennium, but would affect debt service

in the 2003-05 biennium, and thereafter.

12. While the full annual impact will not be seen for several biennia, when all the general fund supported general obligation bonds are issued, the annual general fund debt service associated with the bonding recommended under the Building program could total an estimated \$60 million annually assuming a 20 year repayment schedule. However, some of the bonding will be issued for periods shorter than 20 years which could lead to annual GPR debt service costs in excess of \$60 million over the next ten years.

13. Table 6 provides an estimate of GPR debt service for the next three biennia based on the amount of existing debt, DOA's estimate of the amounts of currently authorized debt that may be issued and the anticipated issuance of the bonding proposed in the budget bill budget bill and the 2001-03 building program. Table 6 does not include an estimate of the issuance of bond authorizations in 2003-05 and beyond except for those proposed for authorization in advance of the 2003-05 biennium.

TABLE 6

**Comparison of Estimated GPR Debt Service with Hypothetical GPR Tax Revenues
(\$ in Millions)**

	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Existing debt service	\$355.0	\$342.4	\$324.4	\$308.3	\$292.8	\$276.2
GPR Debt service on unissued authorized bonding	3.9	36.4	69.0	90.1	98.1	102.1
GPR Debt service on 2001-03 authorized bonding	<u>2.6</u>	<u>12.0</u>	<u>29.2</u>	<u>54.5</u>	<u>80.3</u>	<u>107.1</u>
Total	\$361.5	\$390.8	\$422.6	\$452.9	\$471.2	\$485.4
GPR tax revenues	\$10,575.2	\$11,070.6				
at 3% growth			11,402.7	11,744.8	12,097.1	12,460.1
at 4% growth			11,513.4	11,974.0	12,452.9	12,951.0
at 5% growth			11,624.1	12,205.3	12,815.6	13,456.4
GPR debt service as percent of GPR tax revenues	3.42%	3.53%				
at 3% growth			3.71%	3.86%	3.90%	3.90%
at 4% growth			3.67%	3.78%	3.78%	3.75%
at 5% growth			3.64%	3.71%	3.68%	3.61%

14. In the event that anticipated debt service levels exceed the desired percentage, DOA and the Building Commission could limit the issuance of bonding authorized. However, if that course is chosen, the ability to carry out the projects contained in the state building program or the program activities associated with the bonding provided in the budget bill could be impaired. In

addition, since the level of debt service in the 2001-03 biennium is close to the target range of 3.0% to 3.5%, and is below the administration's ceiling of 4.0%, it does not appear that the Commission would need to limit the issuance of bonding.

15. The state Constitution imposes a ceiling on the aggregate amount of general obligation debt the state may incur in any calendar year. Over the past ten years, the state has ranged between 10% and 45.7% of this annual limit. In addition, there is an alternative calculation of the annual debt limit under the Constitution that is based on the cumulative level of outstanding debt. Under this calculation, the state has used 29% of the allowable net indebtedness. As a result, the state's annual debt issuance has been well under the limits on debt issuance established in the Constitution.

16. In general, the bond market, by assessing the state's ability to meet its debt service obligations, along with its programmatic and administrative governmental functions, provides an indicator on the cumulative debt levels of the state. While the state currently borrows money at very competitive interest rates, rating agencies have expressed concern about the state's annual financial statements. One rating agency (Moody's), recently listed the state's annual accounting and structural deficits, low general fund ending balances and lack of rainy day funds as factors in revising the outlook on its current rating for Wisconsin general obligation bonds from stable to negative. Another (Standard and Poors) has indicated that the gradual accumulation of financial reserves will be a primary determinant in future rating actions of the state by that agency.

17. If the state's debt levels increase, relative to its ability to repay, a financial penalty would be incurred in the form of having to pay higher interest rates and eventually the state's bond rating could suffer. This is one factor behind the DOA's self-imposed 4.0% limit on annual GPR debt service as a percentage of GPR revenues.

18. If the Joint Committee on Finance is concerned about the overall level of GPR-supported general obligation bonding, a statutory limit could be established on the new bonding that could be authorized in each biennium. For example, the level of non-refunding, GPR-supported borrowing that could be authorized in each biennium could be limited to 5% of the estimated GPR tax revenues to be received by the state in the even-numbered fiscal year of that biennium. Had this limit been in effect for the 2001-03 biennium, based on the GPR revenue estimates for 2001-02, this would have limited new GPR supported borrowing to \$528.7 million, which would be \$79.1 million less than the amount proposed to be authorized for issuance in the 2001-03 biennium under the biennial budget and state building program.

19. If the Committee wished to impose such a limit for the 2001-03 biennium, the Committee could establish the \$527.8 million GPR supported borrowing cap for the 2001-03 biennium. The cap could apply to both state building program bonding authorizations in the biennium and other program borrowing purposes included in the budget bill. This would be similar to a provision passed by the Joint Committee on Finance during deliberations on the 1995-97 state building program, when that Committee capped bonding at \$375.0 million and directed the Building Commission to submit a revised list of projects to the Joint Finance Committee under a 14-day

passive review process. Under this alternative, the Committee could reduce the Building Commission's other public purpose borrowing by \$79.1 million, and direct the DOA Division of Facilities Development staff to submit a revised list of projects to the Committee for the Committee's second quarterly meeting under s. 13.10 of the statutes in 2001-02. The revised list could be introduced by the Committee as separate legislation.

20. However, placing a limit on the amount of bonding that may be authorized in this and subsequent biennia could reduce the flexibility of this and future Legislatures to meet program and capital budget demands. In addition, a statutory limit can be modified or eliminated by subsequent legislation, so it would not bind future legislative action.

ALTERNATIVES TO BASE

1. Approve the Building Commission's recommendations and enumerate those projects and the \$1,260,179,300 in all funds as part of the 2001-03 state building program for which no other action by the Committee has been taken and for which bonding was recommended to be authorized in the 2001-03 biennium. [Enumeration and funding authority for \$380,600,000 of projects, for which bonding could be issued after June 30, 2003, is addressed in a separate LFB paper.]

<u>Alternative 1</u>	<u>All Funds</u>
2001-03 FUNDING (Change to Base)	\$1,260,179,300
[Change to Bill]	\$1,260,179,300]

2. Modify the Building Commission's recommendations by reducing the Building Commission's other public purpose borrowing by \$79.1 million, and direct DOA Division of Facilities Development staff to submit a revised list of projects to the Committee for consideration at the Committee's second quarterly meeting under s. 13.10 of the statutes of 2001-02. The Committee could introduce separate legislation at that time to implement the reduced building program. Enumerate the remaining projects and funding sources for those projects for which bonding is proposed in the 2001-03 biennium and for which no other Committee action has been taken.

A total of \$1,181,079,300 in all funds would be provided, including \$407,315,600 in general fund supported borrowing, \$523,111,900 in self amortizing borrowing and \$20,689,600 in segregated revenue supported borrowing.

<u>Alternative 2</u>	<u>All Funds</u>
2001-03 FUNDING (Change to Base)	\$1,181,079,300
[Change to Bill]	\$1,181,079,300]

3. In addition to Alternative 1 or 2, effective with the 2001-03 biennium, establish a statutory limit on the level of non-refunding, GPR-supported borrowing that could be authorized by

Legislature in each biennium to 5% of the GPR tax revenues estimated to be received by the state in the even-numbered fiscal year of that biennium.

4. Take no action. No projects for which bonding is recommended in the 2001-03 biennium would be enumerated and no funding would be provided.

Prepared by: Al Runde

MO# Alt 1

BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE 7 NO 9 ABS _____

MO# Alt. 2+3

BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE 15 NO 1 ABS _____

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June 4, 2001

Joint Committee on Finance

Paper #256

2001-03 Building Program Delayed Bonding Issuance (Building Program)

[LFB 2001-03 Budget Summary: Page 158-1, #1 (part) and page 158-5 #2 (part) and
page 158-6 #3 (part)]

CURRENT LAW

Building program projects with a cost exceeding \$500,000 are required to be enumerated in the authorized state building program. To enumerate a project, the Legislature lists the project title and budget in a nonstatutory provision enacted as part of the biennial budget bill. In addition, the Legislature must authorize any new bonding or other monies needed to fund the project.

BUILDING COMMISSION

Enumerate a total of \$1.64 billion of projects from all funding sources as part of the 2001-03 building program. Of this amount, provide \$380,600,000 from all funding sources in the 2001-03 state building program, where the relating bonding could not be issued until after the 2001-03 biennium. This funding would be provided as follows: (a) \$227,500,000 in general obligation borrowing; (b) \$3,600,000 in program revenue supported borrowing; and (c) \$149,500,000 in gifts, grants and other receipts.

Enumerate the following projects as part of the 2001-03 state building program. Delay the issuance of any bonding for these projects until after the 2001-03 biennium.

All Agency

UW System Facilities Repair and Renovation	\$40,000,000
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Biostar

Other Biostar Projects (Microbial Sciences, Biochemistry and Interdisciplinary Biology Buildings -- UW - Madison)	290,000,000
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(Total project enumeration -- \$317,000,000 of which \$27,000,000 would be available in the 2001-03 biennium)

University of Wisconsin System - Agricultural Initiative

Meat/Muscle Science Laboratory -- UW Madison	20,000,000
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Veterinary Diagnostic Laboratory -- UW Madison	23,600,000
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Department of Health and Family Services

Sand Ridge Treatment Center Expansion	<u>7,000,000</u>
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TOTAL	\$380,600,000
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Provide the Building Commission authority to authorize \$158,500,000 in general fund supported general obligations bonding under its other public purposes bonding authority for the Biostar Initiative. Specify that the total amount of debt could not exceed the following amounts by the following dates:

- a. Prior to July 1, 2003, \$18,000,000
- b. July 1, 2003 to June 30, 2005, \$63,500,000
- c. July 1, 2005 to June 30, 2007, \$95,000,000
- d. July 1, 2007 to June 30, 2009, \$127,500,000; and
- e. July 1, 2009, or thereafter, \$158,500,000.

DISCUSSION POINTS**Out-Year Bonding Authorizations**

1. Enumerating projects for the 2003-05 and later biennia would provide reasonable certainty that the projects would be built and those agencies that would use the building could plan accordingly. Further, knowing that the facility is approved to be built would allow DOA to conduct more extensive design and planning for the facility to ensure that the facility could be constructed more quickly in the 2003-05 biennium.

2. However, the Building Commission has used another mechanism in recent biennia

that also allows for a more extensive design and planning process that can ensure that the facility could be constructed more quickly in the 2003-05 biennium. In recent biennia, the Building Commission has included in its building program recommendations a list of projects that the Commission decided not to recommend for enumeration but rather recommended that the projects be provided funds for the planning of the project. Any agency that received advanced planning funds for a project in one biennium must include that project as a priority in the agency's subsequent biennial capital budget requests. The planning funds are generally provided from the state building trust fund, from an agency funding source or from gifts and grants. In its report on the 2001-03 state building program recommendations, the Building Commission specified that planning would be conducted on seven University of Wisconsin System projects for potential enumeration in the 2003-05 biennium that have projected budgets totaling \$162.7 million, including \$72.7 million in general fund supported borrowing.

3. Each biennial building program generally focuses on projects proposed for that biennium. However, occasionally bonding is provided for a project in subsequent biennia. Frequently, the Building Commission must make difficult decisions in choosing between projects for inclusion in the state building program. In recent biennia, the Commission and the Legislature have chosen to soften the blow of an adverse decision by enumerating specific projects or categories of projects, but with a delayed effective date for the bonding. For example, three projects were enumerated in the 1997-99 biennium under 1997 Act 27 as part of the 1999-01 state building program, with a delayed effective date for the bonding.

4. In addition, in past biennia, the Building Commission has recommended and the Legislature has approved, a multi-biennia bonding authorizations targeted at specific programs or institutions, similar to the proposed Biostar initiative. For example, the Legislature approved a phase-in of \$162.5 million in bonding under the Wistar program and \$72 million under the Healthstar programs. The bonding authorizations for these programs were provided over five biennia for the Wistar program and three biennia for the Healthstar program.

5. Enumerating projects in the 2003-05 biennium could limit the ability of the 2003 Legislature to establish its priorities for the 2003-05 building program. If, for budgetary reasons, the authorization of general fund supported borrowing would need to be restricted in future biennia, the advance commitment of \$227.5 million in borrowing under the 2001-03 building program could limit the decisions of future Legislatures. While the argument could be made that a future Legislature could revisit these advance borrowing commitments, doing so could prove difficult if funds are expended on the planning and design of projects because the 2001 Legislature would have funded the project on a delayed basis.

6. While the full debt service costs would not likely be incurred until the 2003-05 biennium or beyond, the annualized general fund debt service costs associated with the \$227.5 million in general fund supported bonding requested for these projects would be approximately \$18.3 million GPR annually.

7. In addition to the \$227.5 million in out-year general fund supported borrowing discussed in this paper, the Building Commission is also recommending \$31.7 million in general

fund supported borrowing in the 2003-05 biennium for the following projects: (a) \$6.2 million for digital television conversion by the Educational Communications Board; (b) \$2 million for the Kenosha Civil War Museum; and (c) \$23.5 million for a biomedical research and technological incubator at the Medical College of Wisconsin. Also, under current law, the state stewardship program authorizes the issuance of \$46.0 million in general fund supported bonding per year.

8. In total, under the Building Commission's out-year bonding recommendations and current law, the state will have committed a significant amount of general fund supported bonding in the 2003-05 biennium and beyond. Table 1 illustrates the future general fund supported bonding commitments under current law and under the recommended state building program by biennium.

TABLE 1

**Current Law and 2001-03 Recommended Building Program
Out-Year Bonding Authorizations**

<u>Biennium</u>	<u>Bonding Authorization</u>
2003-05	\$256,200,000
2005-07	123,500,000
2007-09	124,500,000
2009-11	77,000,000

9. In addition to the bonding authorized in the state building program, the biennial operating budget generally contains general fund supported borrowing for environmental and water quality programs. However, as indicated in Table 1, before any deliberations on the 2003-05 biennial budget or state building program begin, the state will already have authorized \$256.2 million in general fund supported bonding for the 2003-05 biennium.

10. Many projects were not recommended by the Building Commission to be funded in the 2001-03 biennium. Further, priorities associated with projects change as facility usage changes. Therefore, if projects are committed for the future biennium, it is uncertain that by the time the project is constructed, it will be the best and highest priority use of state dollars.

UW System Facilities Repair and Renovation

11. The Building Commission indicates that a facilities audit of the UW-System indicates that an \$807 million backlog in facilities maintenance and repair exists for UW-System facilities. The Commission indicates that this backlog is significant and needs to be addressed in the 2001-03 biennium and beyond. Therefore, the Commission recommends a significant increase in facilities maintenance and repair projects for the UW-System in the 2001-03 biennium compared with prior biennia. In addition, the Commission recommends that \$40 million in general fund

supported bonding be authorized in the 2003-05 biennium as the first installment in the series of increases that are needed over the next 10 years to address the maintenance and repair backlog.

12. While the need for facilities maintenance and repair funding may be warranted, the UW-System is also receiving a significant amount bonding for new construction and expansion of existing facilities. Including the Biostar initiative, under the Building Commission's recommendations, the University System would have \$714.4 million in projects specifically enumerated in the 2001-03 state building program. The funding would be provided for \$380.9 million in projects in the 2001-03 with the funding provided for \$333.6 million in projects in subsequent biennia. Also, The UW-System will receive \$117.8 million in all agency bonding and \$3 million for small facilities maintenance and repair an utility maintenance projects in the 2001-03 biennium and \$40 million for these smaller projects in the 2003-05 biennium. In total, the University System would receive 53.3% of the total funding recommended by the Building Commission for projects enumerated under the 2001-03 state building program. In addition, as mentioned earlier, the Building Commission also specified that planning would be conducted on seven University System projects with projected budgets totaling \$162.7 million, including \$72.7 million in general fund supported borrowing. The following table identifies the total projects enumerated as part of the University System's capital budget.

2001-03 Building Program
Recommended University of Wisconsin System Building Projects
(\$ in Millions)

	<u>2001-03</u>	<u>2003-05 or Later</u>	<u>Total</u>
General Fund Supported Borrowing	\$234.2	\$220.5	\$454.7
Program Revenue Supported Borrowing	212.0	3.6	215.6
Gifts, Grants and Other Receipts	51.6	149.5	201.1
Agency Operating Funds	<u>3.8</u>	<u>0.0</u>	<u>3.8</u>
Total	\$501.6	\$373.6	\$875.2

13. Under the Building Commission's recommendations for the 2001-03 biennium and out-year bonding commitments, the UW-System is receiving significant funding for both new construction projects (\$714.4 million) and facilities maintenance and repair (\$160.8 million). It could be argued that given the priority the UW-System has placed on the new construction and facility expansion projects included in the Building Commission recommendations, funding for facilities maintenance and repair projects should not be funded as well.

14. Conversely, the state has a large investment in the existing facilities throughout the UW-System campuses. Maintaining and completing repairs on these existing facilities would safeguard that investment and could be viewed as a higher priority than new construction, however meritorious.

Biostar Initiative

15. Former Governor Thompson proposed the BioStar program to accommodate expanded laboratory space for bio-science faculty and to increase UW-Madison's instructional and research capacity in other life science disciplines. BioStar would follow the WisStar model with overall program funding at a 50/50 match between general fund supported bonding and gift and grant monies. Specifically, four new buildings would be funded over a ten-year period at a total cost of \$317 million. The first of the buildings, a \$27 million biotechnology addition, would be enumerated for the 2001-03 biennium. The following three projects would be enumerated for out-year bonding:

Microbial Sciences Building. \$100 million for a new building to replace outdated and overcrowded facilities used by programs of the Departments of Bacteriology, Medical Microbiology and Immunology, and Food Microbiology and Toxicology. The design phase of this project would begin in 2001-03 with construction planned for the 2003-05.

Biochemistry Building Addition. \$85 million to replace outdated space and expand the Biochemistry Building to accommodate more functional specialized instructional and research laboratories for the biochemical sciences. Design would start in 2003-04 and construction would begin in 2005-07.

Interdisciplinary Biology Building. \$105 million to construct an interdisciplinary facility in order to provide improved facilities for university-wide undergraduate programs and cross-college, graduate-level training programs in the biological sciences. The project would likely start late in 2007-09 with construction continuing through 2009-11.

16. The estimated operating costs of the facilities would be \$4.5 million annually in current dollars once all are completed. Like the WisStar program, the BioStar program would require UW-Madison to cover the increased operating costs associated with the new facilities through research grant funding and anticipated intellectual property rights revenue that would be generated by research conducted in the facilities. Once all the general fund supported bonding is issued for these out-year projects, the annualized debt service costs would total approximately \$11.3 million annually.

17. Proponents of the BioStar initiative support the 2001-03 building program recommendations in recognition of the potential importance of biotechnology for Wisconsin's future economic growth. Over the past ten years, 68 per cent of the new companies spun off from UW-Madison were in the biological sciences. The biological sciences community at UW-Madison includes approximately 800 faculty, 2,000 graduate students, 30 percent of undergraduate degrees and spans more than sixty departments and research centers. In addition, more than half of UW-Madison's \$417 million in extramural research support went to faculty affiliated with the biological sciences.

18. According to UW-Madison staff, the out-year bonding enumeration for the BioStar initiative demonstrates the state's commitment to strengthening UW-Madison's biological science

programs and increases their ability to raise the significant level of gift funding necessary for the projects. BioStar includes UW-Madison's top building priorities over the next few biennia and if out-year bonding was not offered, these building projects would likely be requested in future biennia. In addition, proponents argue that the future bonding commitment is important for raising money, because it is easier to solicit donations on a building that has been approved rather than a building that is just a concept. To date, the Wisconsin Alumni Research Foundation (WARF) has commitments for \$80 million of the gift funding for the BioStar initiative over the 10-year span of the building program. However, it could be argued that UW-Madison should be required to receive enumeration for projects as they are requested, a practice that is typically followed for other UW System building projects and those of other state agencies.

Agricultural Initiative

19. The Building Commission's recommendations indicate that the \$20 million meat/muscle science laboratory is part of the Governor's agricultural initiative to address all phases of the agribusiness industry, including food safety, packaging, and consumer appeal. The Commission indicates that the facility will replace the existing facility, and will facilitate the development of advanced slaughter, processing, cooking and packaging technologies.

20. Further, the Commission indicates that the new laboratory would provide the state's meat industry a chance to partner with the UW-Madison to conduct research that would otherwise not likely occur. It is also indicated that the facility and its faculty/researchers will have the capability to address new technological challenges that arise in the meat industry and transfer that knowledge to the industry.

21. Despite the proposed partnership with the meat industry and the facility's potential impact on providing research and developing new technologies and a more competent workforce, the Building Commission does not require any gifts, grants or other receipts from the industry toward the \$20.0 million facility. The Commission does, however, direct the UW-Madison to seek to maximize gift contributions for the facility and the meat science program.

22. In accordance with statutory requirements for a long-range plan for the building program, agencies submit six-year facilities plans to DFD. These plans define the facility related needs of the agency into specific projects and establish a timeline for those projects over the next six years. The first two years of the plan would form the basis for the agency's request for projects to be included as part of the 2001-03 building program. The meat/muscle science center was not included as part of the University's six-year plan until this year and the campus utility costs and siting considerations associated with the facility are unknown. Therefore, the Commission indicates that it is more appropriate to design the facility in the 2001-03 biennium and begin construction on the facility in 2003-05.

23. UW-Madison facilities planning officials indicate that while a need for the facility may exist in the state, the facility has never been identified as priority by the UW-Madison College of Agriculture and Life Sciences (CAL S) and thus, has not been a priority at the campus planning level. No estimates of the utility, administrative or staffing costs associated with the facility were

provided by the University. UW-Madison currently offers no undergraduate degree in meat science and the meat science program is relatively small, with five graduate students in meat science related disciplines and five meat science related courses taught at the campus to students in related disciplines each academic year. If the meat science program were expanded as a result of the facility, additional faculty may be needed. UW-Madison officials indicate that the Dean of CALS has indicated that if the project is constructed, endowment funds would be used to fund those staff. The annualized debt service costs on the facility would be an estimated \$1.6 million GPR per year for twenty years.

24. The Building Commission also recommended enumeration in 2001-03 to construct a new Veterinary Diagnostic Lab facility with \$20 million in general fund supported borrowing and \$3.6 million in program revenue supported borrowing, with funding available in 2003-05. The Building Commission Secretary, in an April 25, 2001, memorandum to the Co-Chairs of the Joint Committee on Finance indicated that the \$3.6 million program revenue bonding authorization for the facility was not included in the Building Program amendment; therefore, the Committee would have to modify the Building Program amendment to incorporate this intent.

25. The annualized debt service costs on the facility would be an estimated \$1.6 million GPR per year for twenty years. Based upon a consultant report, the DFD recommended replacing the existing facility. The current laboratory building is 36 years old and is outdated because of technological changes and advances in diagnostic techniques. As part of the Building Commission recommendation, \$3.6 million was enumerated for adding space for the UW-Madison Veterinary School's large animal hospital. The enumerated funding for the large animal hospital would be gift funding; the Vet School will be launching a fund raising campaign for the facility in 2001-03. Again, it is argued that project enumeration would assist fund raising efforts.

100-Bed Addition to Sand Ridge Treatment Center

26. The new Sand Ridge Secure Treatment Center (SRSTC), which has a capacity of 300 beds, has just recently been completed, and will begin housing sexually violent persons (SVPs) committed under Chapter 980. Currently, 235 SVPs are housed at the Wisconsin Resource Center. Over the 2001-03 biennium, the SVPs will be transferred to Sand Ridge from the WRC. The WRC has a 460-bed capacity and is intended to treat prison inmates with mental health problems. Since there are no other suitable institutions for the SVPs, growth in the SVP population has caused a displacement of prison inmates from the WRC.

27. While there would be no cost in the 2001-03 biennium, the annualized debt service costs on the \$7.0 million general fund supported bonds for the facility would be an estimated \$560,000 annually for 20 years.

28. Prior to 1999-00, the number of institutionalized SVPs grew at a rate of 40 to 50 per year. In July, 1999 there were 204 institutionalized SVPs, and by July, 2000 the number grew to 232, an increase of 28 over the prior year. In March, 2001, the number of SVPs grew to 235, an increase of three over nine months. The experience over the last nine months is a slower rate of growth than in the prior year.

29. If the population grew at a rate of 28 per year from the March, 2001 level, by July, 2003 there would be a total of 298 SVPs, which would essentially fill up the capacity of Sand Ridge. However, if the growth rate was three for every nine months (the actual experience over the last nine months), the number of SVPs would only be 262 on July, 2003.

30. The consequence of having inadequate capacity at Sand Ridge is that fewer prison inmates would be able to receive mental health services at the WRC, and would have to rely on the mental health services available at the state prisons. In 1999-00, 214 prison inmates on average were served at the WRC, which was a reduction from the 230 in the prior year due to the growth of the SVP population.

ALTERNATIVES TO BASE

1. Approve the Building Commission's recommendation as modified to provide \$380,600,000 from all funding sources of enumerated financing authority in the 2001-03 state building program. Specify that the funding be provided as follows: (a) \$227,500,000 in general obligation borrowing; (b) \$3,600,000 in program revenue supported borrowing; and (c) \$149,500,000 in gifts, grants and other receipts. (The modification would incorporate the Building Commission's intent to provide the \$3.6 million in program revenue borrowing for the veterinary diagnostic laboratory.)

Enumerate the following projects in the 2001-03 state building program, but delay issuance of any bonding until after the 2001-03 biennium.

Building Commission -- All Agency

UW System Facilities Repair and Renovation \$40,000,000

Biostar

Other Biostar Projects (Microbial Sciences, Biochemistry and Interdisciplinary Biology Buildings -- University of Wisconsin -- Madison 290,000,000
(Total project enumeration--\$317,000,000 of which \$27,000,000 would be available in the 2001-03 biennium)

University of Wisconsin System

Meat/Muscle Science Laboratory -- UW Madison 20,000,000

Veterinary Diagnostic Laboratory -- UW Madison 23,600,000

Department of Health and Family Services

Sand Ridge Treatment Center Expansion 7,000,000

<u>Alternative 1</u>	<u>ALL FUNDS</u>
2001-03 FUNDING (Change to Base)	\$380,600,000
[Change to Bill]	\$380,600,000]

2. Modify the Building Commission's recommendations to, instead, provide one or more of the following:

a. Provide \$40 million in general fund supported general obligation bonding authority for UW-System facilities repair and renovation.

<u>Alternative 2a</u>	<u>BR</u>
2001-03 FUNDING (Change to Base)	\$40,000,000
[Change to Bill]	\$40,000,000]

b. Enumerate Other Biostar Initiative projects (Microbial Sciences, Biochemistry and Interdisciplinary Biology Buildings at the University of Wisconsin – Madison) at total funding level of \$290,000,000, including \$140.5 million in general fund supported general obligation bonding beyond the 2001-03 biennium, using the Building Commission's schedule of debt authorization.

<u>Alternative 2b</u>	<u>ALL FUNDS</u>
2001-03 FUNDING (Change to Base)	\$290,000,000
[Change to Bill]	\$290,000,000]

c. Enumerate the Meat/Muscle Science Laboratory as part of the 2001-03 state building program as recommended by the Building Commission and provide \$20.0 million in general fund supported borrowing to fund the facility. Specify that the bonding authorization would not be effective until July 1, 2003.

<u>Alternative 2c</u>	<u>BR</u>
2001-03 FUNDING (Change to Base)	\$20,000,000
[Change to Bill]	\$20,000,000]

d. Enumerate the Veterinary Diagnostic Laboratory at UW-Madison in the 2001-03 state building program as recommended by the Building Commission and provide \$20.0 million in general fund supported borrowing and \$3.6 million in program revenue supported borrowing to fund the facilities. Specify that the bonding authorization would not be effective until July 1, 2003.

Alternative 2d	BR
2001-03 FUNDING (Change to Base)	\$23,600,000
[Change to Bill]	\$23,600,000]

e. Enumerate the Sand Ridge Treatment Center Facility under the Department of Health and Family Services as recommended by the Building Commission in the 2001-03 state building program and provide \$7.0 million in general fund supported borrowing to fund the facility. Specify that the bonding authorization would not be effective until July 1, 2003.

Alternative 2e	BR
2001-03 FUNDING (Change to Base)	\$7,000,000
[Change to Bill]	\$7,000,000]

3. Take no action. None of the projects recommended to be funded with out-year bonding authorizations would be enumerated or funded.

Prepared by: Al Runde, John Stott and Richard Megna

MO# _____			
BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
GARD	Y	N	A
KAUFERT	✓	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

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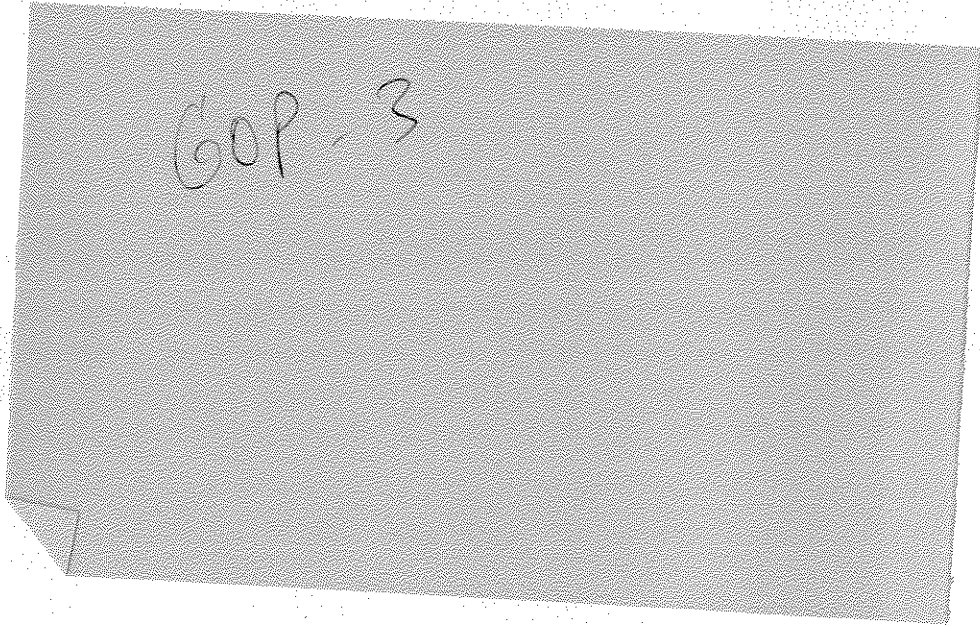
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Legislative Fiscal Bureau

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June 4, 2001

Joint Committee on Finance

Paper #257

Prison Construction -- Waupun Minimum-Security Housing Unit, Probation and Parole Hold Facility and Inmate Workhouse (Building Program)

[LFB 2001-03 Budget Summary: Page 158-1, #1]

CURRENT LAW

No provision.

BUILDING COMMISSION

Enumerate the following projects as part of the 2001-03 state building program: (a) a 100-bed minimum-security housing unit at the Waupun State Farm (\$3,045,000 general fund supported borrowing); (b) a 150-bed probation and parole hold facility at the Thompson Correctional Center in Deerfield (\$11,323,000 general fund supported borrowing); and (c) an additional 150-bed inmate workhouse (\$4,500,000 general fund supported borrowing).

DISCUSSION POINTS

1. In 1999 Act 9, construction of two inmate workhouses and regional probation and parole hold facility(ies) were authorized. These authorizations resulted in the following projects being authorized by the Building Commission:

- *Winnebago Inmate Workhouse.* On September 13, 2000, the Building Commission approved \$5,036,600 in general fund-supported borrowing for the construction of a 150-bed inmate workhouse and an expansion of the kitchen and dining space at the Winnebago Correctional Center. The workhouse is designed to provide housing for inmates participating in the work release program. As approved, the housing unit will consist of 38 four-bed sleeping units, toilet/shower facility, recreation areas, classrooms, office space, maintenance and storage areas. In addition, the

project will expand the kitchen and dining areas at the Winnebago Correctional Center to accommodate the additional inmates. Under 2001 Senate Bill 55, as approved by the Joint Committee on Finance, the facility is scheduled to open in May, 2002.

- *Sturtevant Probation and Parole Hold Facility.* On December 20, 2000, the Building Commission approved \$12,345,500 in general fund-supported borrowing for the construction of a 150-bed probation and parole hold (P&P) facility in Sturtevant, adjacent to the Racine Correctional Institution. The project as approved will be built concurrently with and attached to the Sturtevant inmate workhouse (described below), and will share food service, maintenance and support areas. The P&P hold facility will contain two 75-bed housing units. Each of the units will have televisiting, attorney interview rooms and common areas. Food service will be provided from a kitchen at the facility, staffed by inmates from the workhouse and placed on trays for offenders in the P&P facility. The facility will also have administrative and support areas, and the central control center. Under 2001 SB 55, as approved by the Joint Committee on Finance, the facility is scheduled to open in January, 2003.

- *Sturtevant Inmate Workhouse.* On December 20, 2000, the Building Commission approved \$3,199,000 in general fund-supported borrowing for the construction of a 150-bed inmate workhouse in Sturtevant. The workhouse, attached to the Sturtevant P&P Hold Facility, will consist of 38 four-bed sleeping rooms, with a central toilet/shower facility. The workhouse will also have recreation areas, classrooms, laundry, office space, maintenance, electrical and mechanical area, canteen and storage. Under 2001 SB 55, as approved by the Joint Committee on Finance, the facility is scheduled to open in January, 2003.

2. Operational costs associated with the probation and parole hold facility were not provided in the 1999-01 biennium. Funding of \$1,299,600 GPR in 1999-00 and \$3,067,000 GPR in 2000-01 for operation of the inmate workhouses was placed in the Joint Committee on Finance's supplemental appropriation for release to Corrections upon construction of the facilities. Since the facilities have not yet been constructed, Corrections has not requested release of these funds.

3. On May 31, 2001, in action regarding 2001 Senate Bill 55, the Joint Committee on Finance approved \$1,174,900 GPR and 25.0 GPR positions in 2001-02 and \$6,912,700 GPR in 2002-03 and 100.0 GPR positions annually associated with operation of the three facilities authorized in the 1999-01 biennial budget. Of the total, \$1,174,900 GPR and 25.0 GPR positions in 2001-02 and \$3,833,300 GPR and 50.0 GPR positions in 2002-03 was approved to staff the two inmate workhouses, and \$3,079,400 GPR and 50.0 GPR positions in 2002-03 was approved to staff the probation and parole hold facility.

4. The 2001-03 capital budget recommends \$18,868,000 in general fund supported borrowing for: (a) a 100-bed minimum-security housing unit at the Waupun State Farm (\$3,045,000 general fund supported borrowing); (b) a 150-bed probation and parole hold facility at the Thompson Correctional Center in Deerfield (\$11,323,000 general fund supported borrowing); and (c) an additional 150-bed inmate workhouse (\$4,500,000 general fund supported borrowing). These three projects represent the Department of Corrections' second, third and fourth capital budget priorities. (The first priority, movable equipment costs at the New Lisbon Correctional Institution,

was funded by the Building Commission at the April 18, 2001, Building Commission meeting and is not part of the 2001-03 capital budget.)

5. The projects are described as follows:

- *Waupun Farm Minimum-Security Housing Unit.* The Building Commission recommends \$3,045,000 in general fund supported borrowing to construct a 100-bed minimum security housing unit on state-owned land at the Waupun Correctional Farm. According to Corrections, the building will be designed to provide space for inmates, common showers and toilets, a security station, multipurpose area, food preparation and storage space, laundry facilities, staff offices and property storage space. Corrections indicates that minimum-security inmates assigned to facility will be those with jobs at the Waupun farm, the Industries Distribution Center, Waupun Central Warehouse and the Waupun Dairy. Inmates at the facility will have religious services, canteen, library, recreation and visiting.

- *Thompson Correctional Center (Deerfield) Probation and Parole Hold Facility.* The Building Commission recommends \$11,323,000 in general fund supported borrowing to construct a 150-bed probation and parole hold facility at the Thompson Correctional Center in Deerfield. The facility would be designed to be similar to the Sturtevant P&P Hold facility. According to Corrections, the maximum-security facility would be used to detain probation and parole offenders who have violated conditions of their supervision. The Department estimates that the length of stay at the facility would be over 30 days, with the individual length of stay depending on the reason for the hold and the investigative process. Offenders at the facility would not be given work release, but Division of Community Corrections staff would see offenders for assessment, evaluation and case planning. Depending on the length of stay, some programming could be provided.

- *Inmate Workhouse.* The Building Commission recommends \$4,500,000 in general fund supported borrowing to construct a 150-bed inmate workhouse. The facility would be designed in a manner similar to the Winnebago and Sturtevant inmate workhouses. A site for the facility is not identified, but the Commission indicates that the new workhouse would be located with an existing facility in order to share kitchen facilities. The minimum-security facility would house inmates who are either on work release or work crew activities, or whose job is to maintain the facility. As with the other inmate workhouses, the program is designed to connect inmates with jobs and enhance inmates' abilities to reintegrate into the community upon release.

6. With regard to both the Waupun farm housing unit and the inmate workhouse, Corrections indicates that the Department has a shortage of in-state minimum-security beds. As of May, 2001, the minimum-security correctional centers were operating at 146% of operating capacity, compared to a systemwide 128% of capacity. According to the Department, "The immediate emphasis for capital investment by the Department is the pressing need to increase the number of beds at medium and minimum security levels for men and women. The use of contract beds has provided relief to crowded existing institutions, but has brought a new set of issues and problems for the Department. The use of out-of-state beds is considered a temporary relief valve and not a long-term solution."

7. With regard to the Thompson Correctional Center P&P Hold facility, Corrections indicates that the Division of Community Corrections currently utilizes bed space in several county jails and in some state correctional institutions. Corrections states: "This process is expensive for the state and creates a financial and operational hardship on those counties affected. It also promotes crowding in the jails and selected DOC facilities for extended periods." By building a probation and parole hold facility in Deerfield, Correction would have probation and parole hold facilities in Milwaukee, Sturtevant (near Racine) and Deerfield (near Madison).

8. If the Committee approves the Building Commission's recommendations to enumerate the Waupun farm housing unit, the Thompson Correctional Center P&P Hold facility and the additional inmate workhouse as part of the 2001-03 state building program, operational costs will need to be provided to staff and operate the facilities. Assuming that the facilities recommended under the 2001-03 capital budget are staffed and operated as are those being funded in SB 55, operation of the new facilities would require \$7.2 million on an annual basis in the 2003-05 biennium. In addition, debt service payments, assuming a 5% interest rate on a 20-year repayment schedule, are estimated to be \$1.5 million annually.

9. While Corrections has indicated a preference for placing inmates in in-state beds and has identified a need for minimum-security beds and additional state probation and parole placement locations, concerns have been expressed that approval of certain capital projects, especially correctional facilities, results in future operating cost demands. Given that approval of these projects will result in future increased costs, the projects could be removed from the 2001-03 building program.

ALTERNATIVES TO BASE

1. Approve the Building Commission's recommendation to enumerate the following projects as part of the 2001-03 state building program: (a) a 100-bed minimum-security housing unit at the Waupun State Farm (\$3,045,000 general fund supported borrowing); (b) a 150-bed probation and parole hold facility at the Thompson Correctional Center in Deerfield (\$11,323,000 general fund supported borrowing); and (c) an additional 150-bed inmate workhouse (\$4,500,000 general fund supported borrowing).

<u>Alternative 1</u>	<u>BR</u>
2001-03 FUNDING (Change to Base)	\$18,868,000
[Change to Bill]	\$18,868,000

2. Approve one or more of the following projects:

a. A 100-bed minimum-security housing unit at the Waupun State Farm (\$3,045,000 general fund supported borrowing).

<u>Alternative 2a</u>	<u>BR</u>
2001-03 FUNDING (Change to Base)	\$3,045,000
[Change to Bill]	\$3,045,000

b. A 150-bed probation and parole hold facility at the Thompson Correctional Center (\$11,323,000 general supported borrowing).

Alternative 2b	BR
2001-03 REVENUE (Change to Base)	\$11,323,000
[Change to Bill]	\$11,323,000]

c. An additional 150-bed inmate workhouse (\$4,500,000 general fund supported borrowing).

Alternative 2c	BR
2001-03 REVENUE (Change to Base)	\$4,500,000
[Change to Bill]	\$4,500,000]

3. Take no action. This alternative would remove the Waupun state farm housing unit, additional inmate workhouse and the probation and parole hold facility at the Thompson Correctional Center from the 2001-03 capital budget.

Alternative 3	BR
2001-03 FUNDING (Change to Base)	\$0
[Change to Bill]	- \$18,868,000]

Prepared by: Jere Bauer

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June 4, 2001

Joint Committee on Finance

Paper #258

State Fair Park Board Projects (Building Program)

[LFB 2001-03 Budget Summary: Page 158-11, #2 (part) & #7b]

CURRENT LAW

The State Fair Park Board is provided \$14,887,100 in general fund supported bonding for the construction of a housing facility and improvement of facilities at State Fair Park and \$44,787,100 million in program revenue (PR) supported general obligation bonding to construct or improve facilities at the Park. To date, \$14.6 million in PR supported bonding authority and \$1.5 million in GPR supported bonding authority remains unexpended.

BUILDING COMMISSION

Provide \$10,000,000 in general fund supported borrowing as follows: (a) \$7,000,000 for a new agricultural building; (b) \$2,000,000 for new barns; (c) \$700,000 for primary electrical system replacement; and (d) \$300,000 for parking, landscaping and demolition of existing exhibit halls.

Further, provide \$96,950,000 in PR supported bonding as follows: (a) \$50,000,000 for a Wisconsin heritage hall and youth area; (b) \$34,000,000 for an exposition hall; (c) \$6,500,000 for a new grandstand (in addition to \$14,500,000 enumerated in the 1999-01 budget bill); (d) \$2,000,000 for land acquisition; (e) \$2,000,000 for a great lawn and fountain area; (f) \$1,000,000 for a perimeter fence and gates; (g) \$800,000 for parking, landscaping and demolition of existing exhibit halls; and (h) \$650,000 for lot paving and landscaping at the north gate.

In addition, require the Department of Natural Resources (DNR) to earmark \$2 million for infrastructure projects approved by the State Fair Park Board from the property development and local assistance subprogram of stewardship 2000 program bonding. According

to State Fair Park officials, the \$2,000,000 would be used for infrastructure costs related to the exposition hall.

DISCUSSION POINTS

State Fair Park Revenues and Expenditures

1. It is estimated the State Fair Park will pay \$5.4 million PR and \$2.2 million GPR in debt service over the biennium for previously authorized bonds. In addition, once the remaining \$14.6 million authorized in PR supported bonding authority is released, debt service on that amount would be approximately \$1,166,000 PR annually. The additional general fund and program revenue payments that would be expected after issuance of bonds recommended by the Building Commission are shown below. Due to the timing of bond issuance and construction schedules, actual debt service on new bonds would be considerably lower in 2001-03. Further, the table shows that another \$22.65 million in GPR supported borrowing is anticipated to be needed in future biennia to complete implementation of the State Fair Park's redevelopment master plan.

TABLE 1

Additional Bonding Request and Annualized Debt Service

	2001-03 <u>BR</u>	<u>Annualized Debt</u>	Future Biennia GPR <u>supported BR</u>	Total <u>Masterplan</u>
Agricultural Buildings	\$9,000,000	\$717,100 GPR	\$5,000,000	\$14.0 M
Exposition Hall Demolition	300,000	23,900 GPR	500,000	0.8 M
Exposition Hall Infrastructure	2,000,000	159,300 GPR*		2.0 M
Electric System Replacement	<u>700,000</u>	<u>55,800 GPR</u>		0.7 M
Subtotal	\$12,000,000	\$956,100 GPR		
Heritage Hall and Youth Area	\$50,000,000	\$3,983,600 PR		50.0 M
Exposition Hall	34,800,000	2,772,600 PR		34.8 M
Grandstand	6,500,000**	517,900 PR		6.5 M
Major Utilities and Safety			9,500,000	9.5 M
Land Acquisition	2,000,000	159,300 PR	4,000,000	6.0 M
Great Lawn	2,000,000	159,300 PR	2,000,000	4.0 M
Fencing, Landscaping and Paving	<u>1,650,000</u>	<u>131,500 PR</u>	<u>1,650,000</u>	<u>3.3 M</u>
Subtotal	\$96,950,000	\$7,724,200 PR	\$22,650,000	
TOTAL	\$108,950,000	\$8,680,300		\$131,600,000

* Designated from existing stewardship 2000 bonding authority (DNR would pay the debt service).

**Excludes \$14.5 million in currently authorized bonding.

2. A March, 1996, Legislative Audit Bureau report indicated that the State Fair Park's ability to finance additional program revenue debt was limited because the availability of sufficient revenues is questionable. The audit indicated that it would be particularly difficult to finance any major construction or renovation projects from Park revenues, especially since the Park's expenditures had been exceeding revenue for most of the early 1990's. The audit was conducted based on data through 1995.

3. Any revenue from State Fair Park activities (including lease payments from the race track and the Pettit National Ice Center) that remains after operation costs are paid, is transferred to the Park capital improvement continuing appropriation account. Revenues are generally available for capital improvement projects in the following year. Any reduction in revenues or increase in debt service or other operating costs effectively reduces the amount of funds that are available for immediate capital improvements. Over the past five years, \$2.5 million in excess of operational expenses has been transferred to the capital improvement fund, or an average of \$500,000 per year. The Park Board has spent \$2.4 million from the fund over the same time.

4. Historically, the capital improvement fund has been used to finance renovation and repair projects related to the Park's existing facilities. However, the balance in the fund has declined from \$3.0 million in 1990-91 to approximately \$722,300 estimated to be available on June 30, 2001. State Fair Park officials have stated that good management practice requires that a minimum balance of \$500,000 be maintained in the capital improvement fund for emergency repairs. Under current projections, it is anticipated no revenues will be transferred to the capital improvement fund in 2000-01, as Park operating expenditures will exceed revenues. Further, the June 30, 2003, balance of the capital improvement fund is estimated at \$30,000. With such a limited balance, the capital improvement fund will have difficulty funding even small projects. In order to maintain an adequate balance in the capital improvement fund, the Committee may wish to reduce capital expenditure authority by one-half to \$224,000 annually, which was the amount authorized prior to the 1999-01 budget. By limiting expenditure authority to \$224,000 annually, it is estimated the June 30, 2003 balance of the capital improvement fund would be \$478,000. If the Park needed additional expenditure authority in its continuing appropriation, it could request it from the Department of Administration.

5. Between 1995-96 and 1999-00, Park revenue increased by 16.7%, while operating expenditures increased by 18.2% (not including capital improvements). Table 2 portrays State Fair Park expenditures and revenues in each of the past five fiscal years and projections through the 2001-03 biennium.

TABLE 2

State Fair Park Expenditures and Revenues (in thousands)

	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01*</u>	<u>2001-02*</u>	<u>2002-03*</u>
Revenue								
State Fair	\$8,189	\$8,314	\$8,428	\$8,061	\$8,682			
Racing**	864	1,047	1,111	1,387	1,467			
Other	<u>4,005</u>	<u>4,030</u>	<u>4,581</u>	<u>4,735</u>	<u>5,093</u>			
Total	\$13,058	\$13,391	\$14,120	\$14,183	\$15,242	\$15,672	\$16,142	\$16,626
Expenditures								
General Ops.	11,392	11,506	12,031	12,245	13,270	14,029	13,578	13,603
PR Debt Service	1,153	1,369	1,451	1,475	1,560	1,702	2,413	2,971
Capital Improvements	<u>200</u>	<u>981</u>	<u>290</u>	<u>147</u>	<u>781</u>	<u>448</u>	<u>448</u>	<u>448</u>
Total	\$12,745	\$13,856	\$13,772	\$13,867	\$15,611	\$16,179	\$16,439	\$17,022

*Estimated.

** Racing revenue includes rent, debt service payments and payments related to concessions, parking and other activities that are used to offset additional Park costs due to racing.

6. As shown in Table 2, the annual State Fair generates approximately 57% of the Park's total revenue. If the State Fair has low attendance due to inclement weather or other circumstances, the Park Board may have difficulty meeting expenditures or continuing general maintenance activities. Further, if program revenues are insufficient, the state's general fund is ultimately responsible for the debt service on all of the bonds issued for improvements to the Park.

7. In recommending bonding for the construction of any facility at State Fair Park, the Building Commission is statutorily required to assure that the proposed project is consistent with the overall objectives of State Fair Park and that the Park is able to pay the full debt service.

Contracts and Race Track Improvements

8. The State Fair Park maintains a contractual relationship with the Pettit National Ice Center and Haas Racing Teams. The Pettit National Ice Center currently is required to pay the Park approximately \$892,000 annually for debt service reimbursement, but the Center is five months (\$370,000) behind on payments. Park officials indicate that the Center has missed monthly payments before, but has made larger payments in the summer months to catch up. However, it is uncertain when these payments will be made. In addition, the revenues of the Pettit Center may be less stable in the future due to the construction of a new Olympic oval in Salt Lake City where the U.S. national team now trains. The Park provides some maintenance for the facility, but required rental payments (approximately \$74,300 per month) are only sufficient to reimburse the Park for debt service on the ice center bonds. Responsibility for major maintenance or capital equipment replacement (such as eventual overhaul or replacement of heating, cooling or ventilation systems) is not addressed in the lease. The current lease agreement will expire in 2013 when debt service costs would be paid off.

9. The current racing contract was amended for the second time in November, 1997, to update debt service payments owed by Haas Racing Teams for track resurfacing costs. The contractor can unilaterally extend the contract for up to three, seven-year terms if the contractor remains current on the payments required under the contract. The first extension began on November 1, 1998. Under the contract, Haas is required to pay base rent of \$300,000 annually beginning in August, 1999, with additional rents based on a proportion of net income. Table 3 displays the revenue received since 1994 from the contract with the race promoter.

TABLE 3
State Fair Park Revenues from the Racing Contract

	<u>Base Rent</u>	<u>Additional Rent</u>	<u>Total Rent</u>	<u>Debt Service</u>
1994 Race Season	\$25,000	\$0	\$25,000	\$0
1995 Race Season	110,000	195,276	305,276	8,433
1996 Race Season	135,000	383,269	518,269	51,261
1997 Race Season	135,000	362,670	497,670	51,193
1998 Race Season	135,000	300,694	435,694	319,272
1999 Race Season	300,000	0	300,000	353,418
2000 Race Season	308,040	N.A.*	N.A.	361,874

*Final reconciliation of 2000 rents is not expected until July.

10. Although the State Fair Park Board was authorized \$14.5 million in PR-supported bonding for racetrack seating replacement in 1999-01, the project has not been started and approximately \$2 million of the bonding authority was used for other projects, including a new entrance gate and fencing at the Park. In May, 2001, the Building Commission instead allowed \$1 million in general fund supported bonding that had been authorized for land acquisition and \$1 million in PR supported bonding that was residual or designated for utility improvements to be used for the grandstand as well. Thus, the Building Commission has approved the use of \$14.5 million in general obligation bonding authority for the \$20.5 million project. Further, at the May, 2001 Building Commission meeting, the Park requested \$6,000,000 for the grandstand project from gifts and grants. In earlier action under its budget request, the Building Commission recommended providing an additional \$6.5 million in PR-supported bonding for the \$20.5 million grandstand project. However, it is now estimated that an additional \$6 million (rather than the \$6.5 million) would be needed to complete the project for \$20.5 million. Further, since the \$6,000,000 has been authorized from gifts and grants, the Committee may wish to decrease bonding authority recommended for the project by \$6,500,000 to recognize anticipated gifts and grants funding.

11. The price of the grandstand project has increased from 1999-01 authorized levels of \$14.5 million due to new design plans that would allow the space below the new bleachers to be utilized for retail space that would open both to the fairgrounds and to the racetrack. According to Park officials, the overall number of seats would increase from the current grandstand capacity of

12,500 to 21,000. Further, it is anticipated that the improved sight lines and other features of the new design would increase the desirability, and thereby the pricing of seats. To the extent that State Fair Park receives a portion of Haas revenue under the current contract, increased revenue from additional seating could also increase revenues to the Park. Further, Fair officials anticipate additional revenue from placing advertising on the grandstands and from renting the 40,000 square feet of space beneath the bleachers to vendors and retailers.

12. When bonding authority of \$14.5 million was approved in the 1999-01 budget, State Fair Park officials indicated that the Haas Racing Teams would pay the debt service on both the seating and race track improvements, as is specified in the current contract. However, that no longer appears to be the case. While Haas is paying the debt service on race track improvements authorized in 1999-01, it is uncertain how much, if any, of the grandstand seating debt service will be paid by the racing team. Some would argue the Park should pay bleacher debt service since it utilizes the grandstands for non-racing events and would gain revenues from the retail space beneath the bleachers in the new design. On the other hand, as the seating is used mainly for racing events, it could be argued that the racing team should be primarily responsible for debt service. However, if the project increased rents from Haas to pay for the bonding beyond the increased revenues to the racing team, rent revenue (net of debt related payments) to the Park could be lowered under the formula in the contract. However, no estimate of revenues has been made available. The Building Commission believes that the project would increase revenue since more quality seats would be available. However, if the racing contract is not renewed before November, 2005 or if the contractor does not make payments sufficient to cover the debt service cost on the bonds used to fund improvements at the track (approximately \$1.67 million annually associated with bonding under the Commission's recommendations, including previously authorized bonds), State Fair Park would be required to make the payments. If the Park were unable to pay for the bonding, the state would be responsible for payments.

Infrastructure Improvements

13. Prior to the authorizing of \$13.0 million in GPR supported bonding for a dormitory in 1995, State Fair Park had been a self-sufficient, program revenue supported entity. The dormitory facility was constructed to replace an aging facility and to safely house the state's youth during the State Fair. The 1997-99 budget bill transferred \$2 million of the \$13 million in authorized bonds to a separate bonding appropriation to acquire, construct, develop, enlarge or improve State Fair Park facilities. The 1999-01 budget bill authorized an additional \$1,887,100 in general fund supported bonding to provide 50% of the cost of some infrastructure improvements and a land purchase. As noted previously, the \$1 million in general fund supported bonding authority enumerated for a land purchase instead is being used for the grandstand project.

14. The Building Commission's recommendation would provide unmatched, additional GPR supported borrowing for general improvements at the Park. Further, as shown in Table 2, the Park estimates requesting an additional \$22.65 million in general fund supported bonding in future years for implementing the Park's masterplan. Annual debt service on the additional \$22.65 million for future projects is estimated at approximately \$2 million GPR annually for 20 years. Thus, when

all masterplan projects are implemented, the states GPR debt service payments for the Park would be roughly estimated at \$4.0 million annually.

15. Under the Building Commission's recommendation, \$7 million would be used for a new, multipurpose agricultural building. The building would be a four-season facility that could be used for promotional events as well as for agricultural exhibits. In addition, \$2 million would be used for the construction of new barns. These buildings would replace the agricultural products facility and the horse, swine, sheep and rabbits, and poultry barns at the Park. State Fair Park officials indicate that by building fewer, but larger structures with a higher total net square footage to replace multiple agricultural facilities, the Park grounds would be better able to host larger events such as the National Junior Angus Show, as well as to use the facilities for events outside of the annual state fair.

16. Another \$300,000 in general fund supported borrowing would be used for parking, landscaping and demolition of existing structures in conjunction with the exposition hall project. According to Park officials, the \$2 million in stewardship dollars would be used to fund additional costs related to the proposed placement of the exposition hall over Honey Creek (a streambed that runs under the State Fair grounds in an enclosed channel constructed in 1963 by the Milwaukee Metropolitan Sewerage District). As envisioned by Park officials, the \$2 million would be used to build a bridge on which the exposition hall would rest.

17. Although bonding from the stewardship fund has been used for infrastructure projects at State Parks in the past, some would argue that funding a building project at State Fair Park is not an appropriate use of stewardship dollars. The Department of Natural Resources (DNR) is authorized \$46 million in general obligation bonding authority annually through 2009-10 for stewardship 2000, with \$34.5 million specified for land acquisition and \$11.5 million for property development and local assistance. While using stewardship 2000 program bonding may seem an appropriate funding source to some, it would also reduce the amount of property DNR could purchase or improve. Further, the Building Commission recommendations would include earmarking an additional \$5 million of stewardship 2000 bonding (\$1 million from land acquisition and \$4 million from property development and local assistance) for three other projects (Lakeshore State Park, an agricultural stewardship initiative and reconstructing a ski chalet at Rib Mountain State Park). This recommendation is discussed in a separate LFB budget paper (#261). However, a general component of the Park's masterplan is to provide additional green space on the grounds. Thus, funding a portion of the masterplan costs at State Fair Park from Stewardship may be viewed as appropriate.

18. The Building Commission also recommends providing \$700,000 for primary electrical system replacement. State Fair Park officials have indicated this funding is needed to improve the Park's current electrical system, which has had numerous failures, most notably during the 2000 State Fair.

19. The Governor has indicated that general fund supported borrowing is needed for these infrastructure improvements since the Park will not realize significant additional revenue from

the construction of the new facilities, infrastructure and updated equipment. Split funding would provide assistance from the state in repairing and upgrading Park facilities while also requiring the Park to make an investment in its infrastructure. However, it is doubtful that the Park would be able to assist in supporting these improvements due to the financial condition of State Fair Park. Thus, given concerns over the Park's ability to fund additional program revenue supported debt, it could be argued that general fund supported borrowing is necessary for immediate infrastructure improvements.

Capital Improvements

20. The Building Commission also recommends providing additional program revenue supported borrowing of \$96,950,000. The State Fair Park Board anticipates funding a \$50 million Wisconsin heritage hall and youth area through gifts, grants and donations. Planning for the multi-use retail, educational and entertainment venue would begin in 2001-03. As part of the conceptualized 175,000 square foot heritage hall, State Fair Park would like to consolidate current private food, beverage and retail operations and to provide a market experience in a common building to allow for year-round operations. Further, it is envisioned that the hall would include a large-screen, high technology theater and a restaurant and beer hall. Plans for the heritage hall are in preliminary stages and the hall has yet to be designed. It is thought the heritage hall would be located in the center of the Park. Another component of the \$50 million project is expected to be an interactive, hands-on center to provide agricultural education and an indoor (44,000 square foot) and outdoor play area specifically designated for youth.

21. The Building Commission recommendation includes providing \$34 million for the construction of a net 200,000-square-foot exposition building (expected to be approximately 270,000 gross square feet). The exposition building would replace five current structures currently owned and operated by the State Fair Park: the South, North and East Exhibit Halls, the Family Living Center and the Youth Expo Building. These buildings are between 60 and 90 years old and together offer 160,000 square feet of exhibit space. The exposition building is proposed to be built where the administration building, police, central park and approximately 600 parking spaces are located. The other five structures would be razed once the exposition building is operating.

22. Some have raised concerns about the exposition building project, including the competition such a building would create with neighboring exposition facilities (for example, in Milwaukee and Madison). Further, whereas State Fair Park currently offers discounted rates for events billed to nonprofit entities that offer free admission, revenue assumptions for the exposition building are based on higher rental rates and on booking those events that provide the greatest financial return. Some nonprofit and lower-cost entities that have a history of operating at the fairgrounds may no longer be able to afford to operate there. Park officials indicate that these are the types of entities that could instead use the proposed agricultural building.

23. To make the exposition hall financially viable, overall revenues of exposition facilities at State Fair Park (excluding the annual State Fair and parkwide events) would need to more than triple from \$2.3 million in 1999-00 at the existing facilities to \$7.8 million in 2004 for the

second year of operations of the new exposition hall.

24. The Building Commission and the State Fair Park Board already have authorized the issuance of \$36 million in Industrial Revenue Bonds (IRBs) for the exposition building. The \$36 million in IRBs are expected to be issued by the City of West Allis to a nonprofit corporation (controlled by State Fair Park Board members) under s. 501(c)(3) of the Internal Revenue Code that would own and/or operate the exposition center until the IRBs were retired. Park officials anticipate that if bonding were authorized in the budget at lower interest rates, the state-authorized bonding revenue would replace the IRBs. Further, Park officials contend that while state-issued bonds would be preferable, they chose IRBs initially in order to get the project started more quickly. At this point, it appears the project would continue regardless of whether the Legislature supports providing state-issued bonding authority. Generally, prior to beginning construction, state building projects in excess of \$500,000 are enumerated in state law and are typically included in the biennial state budget. Generally, debt costs for state general obligation bonds are lower than for IRBs (each 1% difference on a \$36 million bond issue would result in a decreased annual payment of approximately \$250,000 based on a 20-year level debt repayment structure). According to Park officials, the dissolution of the 501(c)(3) organization and ownership of the exposition building would revert to the state once the IRB debt were retired (which could occur almost immediately if PR-supported bonds were authorized for the project).

25. In addition to the grandstand, heritage hall and exposition building bonding, the Building Commission recommends providing \$2,000,000 for land acquisition, \$2,000,000 for a great lawn and fountain area, \$1,000,000 for a perimeter fence and gates, \$800,000 for parking, landscaping and demolition of existing exhibit halls and \$650,000 for lot paving and landscaping at the north gate. The Park hopes to acquire approximately 16 acres of land within and adjacent to the grounds for additional parking and to relocate current grounds department equipment to an area further from Park activities. The great lawn and fountain area would be located between the grandstand and the proposed heritage hall (in the current international amphitheater area). In addition to the walkways, trees and fountain, funding would be used for providing outdoor electrical service hook-ups for mobile vendors, for acquisition of current vendor structures and for general demolition of existing structures. The fencing would be of the same wrought iron design as was used for the new entryway at the Park and would be put in as projects in each portion of the Park are completed.

26. It is planned that donations would be used in conjunction with program revenues to fund major portions of the costs of the capital improvements. In addition, Park officials hope to receive additional revenue to support debt service from naming rights of the exposition hall and grandstand. Park officials have stated that the \$50 million in bonding for the heritage hall and youth area would be completely funded from gifts, grants and donations. Further donations of \$1 million are being sought to pay for a large portion of the great lawn and fountain project. Providing less PR supported general obligation bonds could be considered to reflect anticipated gifts, grants and donations.

27. Park officials indicate it is important to authorize \$96.95 million in program revenue

supported bonding, even though a majority of those projects is expected to be funded from donations and some of the projects are not slated to begin until at least August 2003, in order to attract funding from private sources. It is their belief that it will be easier for others to donate when they see the state is prepared to authorize the bonds. Further, as gifts and grants were received, State Fair Park officials have indicated it would substitute the non-state revenues for general obligation bonding authority. On the other hand, if program revenue supported bonds are issued and anticipated donations and revenues fail to materialize, the State Fair Park Board and ultimately the state's general fund would be responsible for paying off the bonds. In this regard, it should be noted that the bill would more than triple the amount of PR-supported general obligation bonding authorized for the State Fair (from \$44.8 million to \$141.7 million).

28. Further, once the Legislature authorizes the bonding, the Legislature retains little control over a project. For example, while the Legislature had provided bonding authorization of \$14.5 million for grandstand improvements that were portrayed as being completely paid for by Haas Racing Teams, that no longer appears to be the case. Further, a portion of that bonding was used for other projects and general fund supported bonding will now be used for part of the project. Thus, the state may now be directly funding at least \$14.5 million in debt service that had originally been intended to be supported from other revenues (the racing promoter).

29. One option the Committee could consider would be to specify that the Building Commission may not to approve any state funding commitment or issue a certain amount of the bonding that would be enumerated in the 2001-03 state building program until the Joint Committee on Finance determines that the State Fair Park has secured adequate funding commitments from gifts, grants, or other receipts to finance the project. This would allow the Legislature to maintain some control over the amount of bonding actually authorized to help ensure that the Park would be able to cover debt service on the amounts released while showing an up-front commitment from the state in order to draw in private funding for the projects.

ALTERNATIVES TO BASE

A. General Fund Supported Bonding Authorization

1. Approve the Building Commission's recommendation to provide general fund supported borrowing as follows:

- (a) \$7,000,000 for a new agricultural building;
- (b) \$2,000,000 for new barns;
- (c) \$700,000 for primary electrical system replacement; and
- (d) \$300,000 for parking, landscaping and demolition of existing exhibit halls.

Alternative A1	BR-GPR
2001-03 FUNDING (Change to Base)	\$10,000,000
[Change to Bill]	\$10,000,000]

2. Maintain current law.

B. Program Revenue Supported Bonding Authorization

1. Approve the Building Commission's recommendation to provide additional general obligation PR supported borrowing as follows:

- (a) \$50,000,000 for a Wisconsin heritage hall and youth area;
- (b) \$34,000,000 for an exposition building;
- (c) \$6,500,000 for a new grandstand (in addition to \$14,500,000 enumerated in the 1999-01 budget bill);
- (d) \$2,000,000 for land acquisition;
- (e) \$2,000,000 for a great lawn and fountain area;
- (f) \$1,000,000 for a perimeter fence and gates;
- (g) \$800,000 for parking, landscaping and demolition of existing exhibit halls; and
- (h) \$650,000 for lot paving and landscaping at the north gate.

Alternative B1	BR-PR
2001-03 FUNDING (Change to Base)	\$96,950,000
[Change to Bill]	\$96,950,000]

2. Provide additional general obligation PR supported borrowing of \$6,000,000 (the amount needed to complete the project) for a new grandstand rather than \$6.5 million under the Building Commission recommendation.

Alternative B2	BR-PR
2001-03 FUNDING (Change to Alternative B1)	-\$500,000

3. Specify that the Building Commission may not to approve any state funding commitment or issue the amount of bonding listed below until the Joint Committee on Finance determines that the State Fair Park has secured adequate funding commitments from gifts, grants, or

other receipts to support the project.

- a. \$50,000,000 for a Wisconsin heritage hall and youth area
- b. \$6,000,000 for a new grandstand
- c. \$2,000,000 for a great lawn and fountain area

4. Modify the Governor's recommendation to enumerate the following projects as follows:

- a. \$50,000,000 in gifts, grants or donations for a Wisconsin heritage hall and youth area (to reflect anticipated donations for this project).
- b. \$6,000,000 in gifts, grants or donations for a new grandstand (to reflect anticipated revenues from the Haas Racing Teams or donations).
- c. \$1,000,000 in general obligation PR supported bonding and \$1,000,000 in gifts, grants or donations for a great lawn and fountain area (to reflect anticipated donation levels for this project).

<u>Alternative B4</u>	<u>PR</u>	<u>BR-PR</u>
2001-03 FUNDING (Change to Alternative B1)	\$57,000,000	-\$57,000,000

5. Maintain current law

C. State Fair Park Stewardship 2000 Earmark

1. Approve the Building Commission's recommendation to require DNR to earmark \$2 million for projects approved by the State Fair Park Board from the property development and local assistance sub program of stewardship 2000 program bonding.

2. Approve the Governor's recommendation, but allow DNR to determine from where the stewardship funds are allocated.

3. Provide an additional \$2 million in general fund supported borrowing.

<u>Alternative C3</u>	<u>BR-GPR</u>
2001-03 FUNDING (Change to Base)	\$2,000,000
(Change to Bill)	\$2,000,000

4. Maintain current law.

D. Capital Improvement Fund

1. Delete \$224,000 PR from the State Fair Park capital budget in each fiscal year. (\$224,000 in authority would remain in the continuing appropriation.)

<u>Alternative D1</u>	<u>PR</u>
2001-03 FUNDING (Change to Base)	- \$448,000
[Change to Bill]	- \$448,000]

2. Maintain current law.

Prepared by: David Schug

MO# A.1.C.B.4
C2.D.2

BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE 19 NO 4 ABS _____

MO# _____

BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE _____ NO _____ ABS _____

AGENCY: Medical College of Wisconsin

LFB PAPER #: 259

ISSUE: Building Program

ALTERNATIVE: Alt. 1 & 3

GOP - 2

SUMMARY:

The only difference between Alt. 1 & 2 is that Alt. 1 allows MCOW to use some of their bonding authority to pay for planning. LFB argues fairly strongly against the use of bonding in this way, so on the merits, we should probably go with Alt. 2, but if you want to try to do something for MCOW here, go with Alt. 1.

Alt. 3 just includes a statement of public purpose so this can be a legitimate use of state bonding authority.

BY: Cindy



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

June 4, 2001

Joint Committee on Finance

Paper #259

Medical College of Wisconsin (Building Program)

[LFB 2001-03 Budget Summary: Page 158-7, #5]

CURRENT LAW

No provision

BUILDING COMMISSION

Authorize the Building Commission to issue up to \$25 million in general fund supported bonding to aid in the construction of a biomedical research and technology incubator at the Medical College of Wisconsin (MCW). Create a \$25 million bonding authorization and a sum sufficient appropriation under the Medical College to fund debt services and make payments that are attributable to the proceeds of the obligations incurred in financing the construction grants associated with the project. The funding would be provided in a form of a construction grant to the Medical College. Borrowing would be authorized as follows:

a. Before July 1, 2003, up to \$1.5 million may be issued. Specify that before approving any state funding commitment for the incubator and before providing the funding for the construction of the incubator, the Building Commission would be required to determine that the Medical College has secured additional funding commitments of at least \$3.5 million from nonstate revenue sources; and

b. On July 1, 2003, up to an additional \$23.5 million may be issued. Specify that before these funds are provided, the Medical College would be required to certify to the Building Commission that the total funding commitments of the state and nonstate sources will pay for the construction of the facility.

Specify that the Building Commission would not be allowed to make any grant exceeding \$1.5 million to the Medical College for the project, unless the Department of Administration has reviewed and approved the plans for the project. Exclude the project from the current law construction and contracting requirements for state construction projects by specifying that DOA would not be allowed to supervise any services or work or let any contract for the project. Further, exclude the contracts for the project from the written approval of the DOA Secretary of the Governor as required under current law for most state construction projects.

Specify that as a condition of the state construction grant for the facility, the Medical College would be required to provide the state with an option to purchase the biomedical research and technology incubator, under the following conditions:

- a. The option price is the fair market value at the time that the option is exercised less a credit recognizing the amount of the state's construction grant;
- b. The option would be subject to any mortgage or other security interest of any private lender; and
- c. The option could be exercised only if the operation of the biomedical research and technology program at the Medical College of Wisconsin, or any successor organization, is suspended or a private lender forecloses on any mortgage associated with the facility.

Specify that if the state does not exercise its option to purchase the incubator facility and the facility is sold to a third party, the sale agreement must provide the state the right to receive an amount equal to the state construction grant from the net proceeds of the sale after the mortgage and all other secured debts have been satisfied. Require that the state's right to the net proceeds be paramount to the right of the Medical College of Wisconsin.

DISCUSSION POINTS

1. MCW officials indicate that the biomedical research and technology incubator facility would allow for expansion of the College's existing biomedical research initiatives, enhance student-training opportunities and workforce development, create new intellectual property suitable for commercial exploitation and provide scientific support to fledgling biotech firms in the state. It would be used to "incubate" and spin off technological advances through patents and licenses.
2. According to MCW officials, the creation of new technologies is directly related to the magnitude of sponsored research conducted at research institutions. The College ranks as the fourth fastest-rising major research medical school in terms of funding from the National Institutes of Health (NIH). MCW holds 51 patents and currently has 62 patents pending. In 2000, MCW had 30 invention disclosures, 20 options agreements, submitted 30 patent applications, was issued four patents and signed two license agreements.
3. While no detailed budget is available on the project, MCW officials estimate that the

facility will cost \$72 million to \$88 million. Therefore, the proposal for \$25 million in general fund supported bonding would fund about 30% of the total cost of the project.

4. In accordance with statutory requirements for a long-range plan for the building program, agencies submit six-year facility plans to the Division of Facilities Development. These plans define facility related needs into specific projects and establish a timeline for those projects over the next six years. The first two years of the plan would form the basis of the agency's request for projects to be included as part of the 2001-03 building program. While it is not unprecedented to include a project, like the one proposed for MCW, as a priority that has not gone through the six-year planning process, most projects that are enumerated are included in this process.

5. The bill would enumerate \$1.5 million of general fund supported bonding in 2001-03 as a conditional grant to the Medical College for planning for a new biomedical research and technology incubator. The state funds must be matched by \$3.5 million of non-state funds prior to any state funds being committed.

6. General fund supported bonding can only be used for internal improvements to the state. While bond proceeds may be used for planning a facility, it is generally accepted that cash funds be used for planning a project, and when the project moves forward to construction and the bonds are issued, the planning funds are reimbursed with bond proceeds. Therefore, if bonding is authorized for planning, as recommended by the Building Commission, and the project is not constructed, any bond proceeds used to plan the project would have to be repaid.

7. On July 1, 2003, the remainder of the bonding, up to \$23.5 million, would be authorized upon certification to the Commission that total funding commitments, including state and non-state sources, would pay for the construction of the facility. Committing bonding authority for 2003-05 would reduce the number of other projects that could be authorized in the next biennium. However, the commitment is intended to assist MCW in securing private funds and federal grants to finance the remainder of the project.

8. Given the restrictions on bonding for planning, the Committee could eliminate the authorization of bonding for planning, and instead authorize bonding only for construction of the incubator. Because the bonding, as the state's commitment to the project, cannot be issued until MCW has secured \$3.5 million in funds from non-state resources, MCW could use those funds, or leverage those funds to conduct the planning for the project, instead of using the state supported borrowing. The state's \$25 million commitment to the project would still exist, and fund raising for the project would not likely be hindered.

9. When the \$25 million in bonds for the project is fully issued, the annualized debt service costs associated with the bonds would be approximately \$2 million GPR annually.

10. The Building Commission recommendations also include \$158.5 million in bonding authorization for a Biostar Initiative at the University of Wisconsin-Madison. (The project would be matched with \$158.5 million in gifts and grants.) The recommendations indicate that the MCW

facility would complement the Biostar initiative by providing biomedical research and job creation in southeastern Wisconsin.

11. The biotechnology industry is thought to be a key element in developing products for medical, environmental and agricultural needs. The industry also feeds in to other industries such as electronics and computers, health care and plastics. Both schools contend that their projects would stimulate growth in these fields in Wisconsin, bring in more federal and private funds, and provide students with training opportunities in high-wage industries. However, while educational and economic benefits may result from construction of these facilities, the commitment of state funds is large, and should be considered amongst other needs in the state.

12. Under the Wisconsin Constitution, general obligation bonds of the state have to be issued for a public purpose. As part of the 1999-01 state building program, the Legislature included \$15 million in general fund supported borrowing for construction of a \$30 million University of Marquette Dental School facility. Statutory language was included indicating the public purpose associated with constructing the facility. If the Committee approves the funding for the MCW biomedical research and technology incubator, the Committee may want to include a public purpose statement indicating the statewide public health, research, economic and welfare benefits associated with the biomedical research conducted at the facility.

ALTERNATIVES TO BASE

1. Approve the Building Commission's recommendations to: (a) issue up to \$25 million in general fund supported borrowing to aid in the construction of a biomedical research and technology incubator at the Medical College of Wisconsin; (b) create a sum sufficient appropriation under MCW to fund debt service and make payments attributable to the proceeds of the obligations; (c) specify that up to \$1.5 million may be issued before July 1, 2003, for planning purposes, and require MCW to secure funding of commitments of at least \$3.5 million from non-state revenue sources before the \$1.5 million could be issued; (d) specify that up to \$23.5 million may be issued on July 1, 2003, for construction of the incubator, and require MCW to certify to the Building Commission that total funding commitments from state and non-state sources would pay for the construction cost of the facility; (e) specify that grants exceeding \$1.5 million would not be awarded until DOA has reviewed and approved the project plans; (f) exclude the project from state construction and contracting requirements; (g) require MCW to provide the state with an option to purchase the facility under certain conditions; and (h) specify that, subject to certain restrictions, if the state does not exercise the option to purchase the facility, and the facility is sold to a third party, the sale must provide the state with the right to receive an amount equal to the state construction grant.

<u>Alternative 1</u>	<u>BR</u>
2001-03 FUNDING (Change to Base)	\$25,000,000
[Change to Bill]	\$25,000,000]

2. Modify the Building Commission's recommendations to eliminate the \$1.5 million authorized for planning in 2001-03. Instead provide that \$25 million would be authorized for construction of the facility in 2003-05.

<u>Alternative 2</u>	<u>BR</u>
2001-03 FUNDING (Change to Base)	\$25,000,000
[Change to Bill	\$25,000,000]

3. In addition, to Alternatives 1 or 2, include a statement of public purpose indicating the statewide public health, research, economic and welfare benefits associated with the biomedical research conducted at the facility.

4. Maintain current law.

Prepared by: Carri Jakel

MO# Alt 1+3

BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

MO# Alt 2+3

BURKE	Y	N	A
DECKER	Y	N	A
MOORE	Y	N	A
SHIBILSKI	Y	N	A
PLACHE	Y	N	A
WIRCH	Y	N	A
DARLING	Y	N	A
WELCH	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
ALBERS	Y	N	A
DUFF	Y	N	A
WARD	Y	N	A
HUEBSCH	Y	N	A
HUBER	Y	N	A
COGGS	Y	N	A

AYE 7 NO 9 ABS _____

AYE _____ NO _____ ABS _____

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GOP - 2
Dem - 1