



**Stephen L. Nass**  
Wisconsin State Senator

**SB 692/AB 303 Purchasing Power of the Board of  
Commissioners of Public Lands (BCPL)**

Testimony of Senator Steve Nass

Senate Committee on Government Operations, Technology, &  
Consumer Protection

January 31, 2018 • 201 Southeast, State Capitol

Thank you Chairman Stroebel for holding a hearing on Senate Bill 692 and Assembly Bill 303. This legislation will utilize the purchasing power of the Board of Commissioners of Public Lands (BCPL) to build office space for state agencies at a better value. At the same time, it will also benefit our public schools by providing an opportunity to increase the return rate for investments benefiting the Common School Fund (CSF). This legislation was drafted at the request of State Treasurer Matt Adamczyk, who serves as a commissioner of the BCPL.

Under current law, the BCPL manages the common school fund, the normal school fund, the university fund, and the agricultural college fund. The BCPL oversee the investment of the principle of these funds and the proceeds are distributed to our public schools and universities. Currently, the BCPL has only limited authority to invest trust fund moneys in land.

This bill expands the BCPL's authority to invest trust fund dollars in the acquisition of land and the construction, acquisition, improvement, and maintenance of office buildings to be used for the primary purpose of leasing space to state departments and agencies. Acquisition of a property or construction of a building by the BCPL must be approved by a three-fourths vote of the State Building Commission, under the bill.

An example of how this expanded authority could increase investment returns for the Common School Fund (CSF) and benefit our state schools is illustrated by the Femrite Data Center Building. The Femrite Data Center was privately built in 2006 for \$23 million and subsequently leased to the State of Wisconsin for more than \$2 million per year. In 2016, after paying rent for 10 years, the building was purchased by the state for \$22.5 million.

*"In God We Trust"*

11th Senate District

P.O. Box 7882 • Madison, WI 53707-7882 • (608) 266-2635

Toll Free: (800) 578-1457 • E-mail: [Sen.Nass@legis.wi.gov](mailto:Sen.Nass@legis.wi.gov)

Had the BCPL purchased the building for the \$23 million construction cost in 2006, our public schools would have earned \$22.7 million in rent from the state, according to the attached memo prepared by the Legislative Fiscal Bureau (LFB). By comparison, the investment options open to BCPL at that time would have only earned \$5.8 million on the same investment over that time period. Allowing the BCPL to invest in a state building would have allowed our public schools to receive an additional \$16.9 million in this example alone. The additional revenue created under this example would have been distributed to school districts on a per-pupil basis.

This bill provides a positive benefit for state taxpayers and public schools. Instead of being beholden to private developers or forced to issue GPR funded bonds for new facilities, the Department of Administration (DOA) would be able to utilize the BCPL's estimated \$1 billion in assets to help provide office space for state agencies. The rental income paid to the BCPL will then be distributed as additional funds to our schools.

SB 692 and AB 303 does not require the BCPL to make this type of investment, but it does provide another investment option to be considered by the Board. A transaction with the state could not be entered into without the approval of the State Building Commission. Therefore, no transaction can occur unless it is deemed to be a mutually beneficial arrangement by both the State of Wisconsin and the BCPL.

Thank you again for the opportunity to provide testimony in support of SB 692 and AB 303. If any committee members have further questions, please do not hesitate to contact me.

**ATTACHMENT 3**

**Board of Commissioners of Public Lands  
Investment Proposal Income and Expenses**

| <u>Lease Year</u> | <u>Purchase or Sale</u> | <u>Base Rent</u>    | <u>Other Payment*</u> | <u>Total</u>        | <u>Annual Percentage Return</u> | <u>Cumulative Net Return</u> |
|-------------------|-------------------------|---------------------|-----------------------|---------------------|---------------------------------|------------------------------|
| 0**               | -\$23,000,000           | \$0                 | \$0                   | -\$23,000,000       | -100.00%                        | -\$23,000,000                |
| 1                 |                         | 1,850,600           | 162,900               | 1,850,600           | 8.05                            | - 21,149,400                 |
| 2                 |                         | 1,876,200           | 341,900               | 1,876,200           | 8.16                            | - 19,273,200                 |
| 3                 |                         | 1,902,400           | 338,100               | 1,902,400           | 8.27                            | - 17,370,800                 |
| 4                 |                         | 1,929,100           | 358,000               | 1,929,100           | 8.39                            | - 15,441,700                 |
| 5                 |                         | 1,955,800           | 355,700               | 1,955,800           | 8.50                            | - 13,485,900                 |
| 6                 |                         | 1,983,200           | 368,600               | 1,983,200           | 8.62                            | - 11,502,700                 |
| 7                 |                         | 2,011,000           | 388,000               | 2,011,000           | 8.74                            | - 9,491,700                  |
| 8                 |                         | 2,038,900           | 399,100               | 2,038,900           | 8.86                            | - 7,452,800                  |
| 9                 |                         | 2,067,900           | 387,500               | 2,067,900           | 8.99                            | - 5,384,900                  |
| 10                | <u>22,500,000</u>       | <u>\$2,096,900</u>  | <u>\$386,800</u>      | <u>24,596,900</u>   | 106.94                          | 19,212,000                   |
| <b>Total</b>      | <b>-\$500,000</b>       | <b>\$19,712,000</b> | <b>\$3,486,600</b>    | <b>\$22,698,600</b> |                                 |                              |

Annualized Rate of Return over 11 Years: 6.4%

\*Additional rental payment equal to the difference between municipal services payments and real estate taxes DOA would have been responsible for under the private lease agreement with Lokre Data Center, LLC, as shown in Attachment 2.

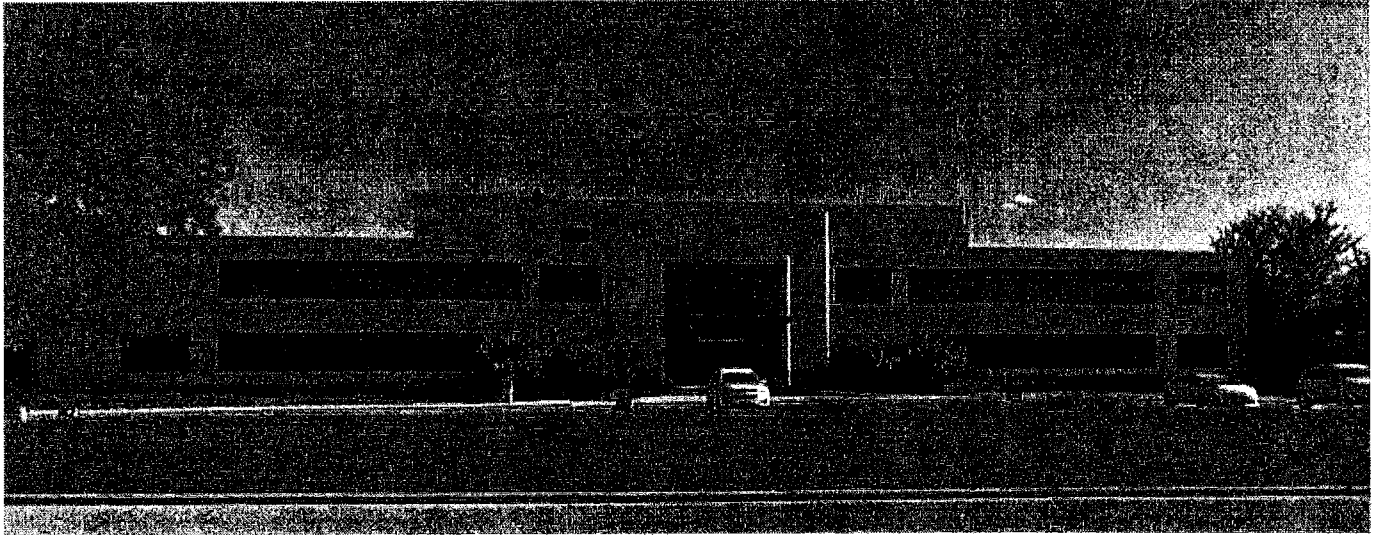
\*\*It is assumed that the facility was constructed the year before the start of the lease agreement. The lease agreement start was April 1, 2006.

Department of Corrections Madison HQ

Rented from 2001 until 2021 for \$90,000,000

Usable space 238,000 Sq. Feet

Building built in 1951

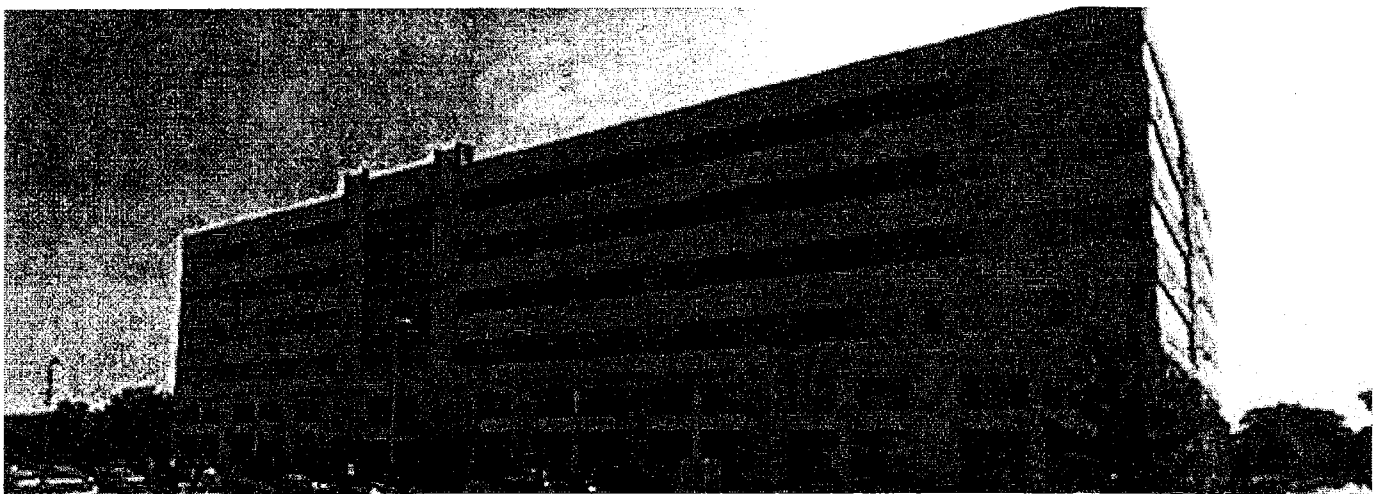


Department of Revenue Madison HQ (Below)

State Bought for \$30,000,000 in 2000

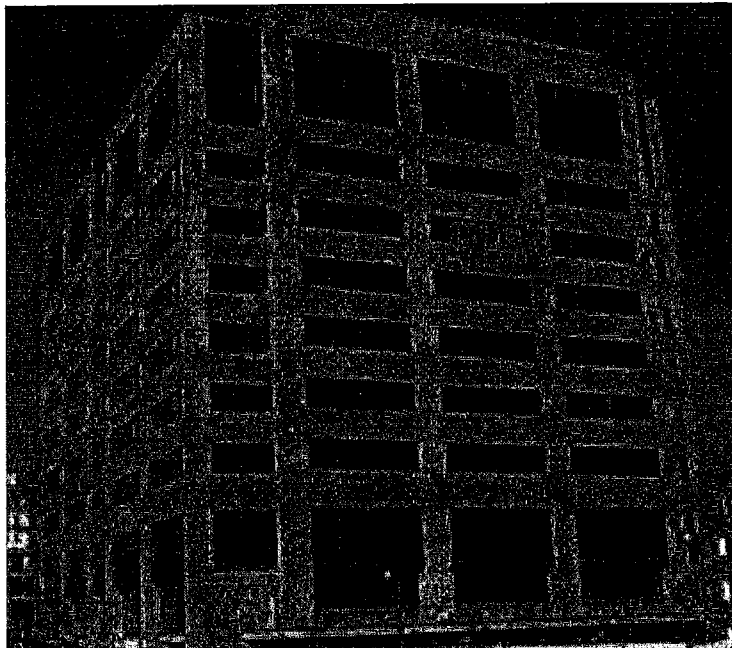
Size 240,000 Sq. Feet

Building built in 2000



## Doyle proposed sale of DOA building in 2007

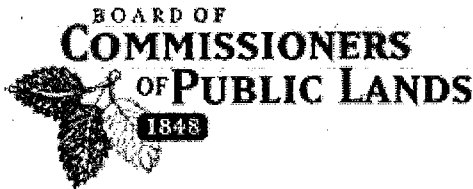
- In 2007, the State of Wisconsin was in a budget crunch. Thus, Gov. Doyle proposed selling the DOA headquarters to free up cash
- Sale price was to be for about \$30 million, minus other commissions
- Frankly, this was a terrible idea. It had bipartisan opposition.
- The building sale was never approved as the sale was under investigation for fraud
- If the building sale wasn't caught in a scandal, it very well might have been sold
- It would have been a much better idea to let the BCPL buy as an investment and rent back to the state, thus eliminating any possibility of fraud.
- BCPL could have bought in 2007 to help shore up state finances.
- I'm not necessarily advocating that the DOA building was sold at all, just that it would have been a much better option to sell to the BCPL than private sale.





**If BCPL Owned Milwaukee DCF Building Compared to Typical Trust Fund Loan**

| Year          | Rent Paid to Developer | Current loan example |
|---------------|------------------------|----------------------|
| 1             | \$1,399,402            | \$978,336            |
| 2             | \$1,427,390            | \$978,336            |
| 3             | \$1,455,938            | \$978,336            |
| 4             | \$1,485,057            | \$978,336            |
| 5             | \$1,514,758            | \$978,336            |
| 6             | \$1,545,053            | \$978,336            |
| 7             | \$1,575,954            | \$978,336            |
| 8             | \$1,607,473            | \$978,336            |
| 9             | \$1,639,623            | \$978,336            |
| 10            | \$1,672,415            | \$978,336            |
| Total         | \$15,323,064           | \$9,783,363          |
| Year 11       | Still own Building     | Loan fully paid off  |
| 11            | \$1,705,863            | \$0                  |
| 12            | \$1,739,980            | \$0                  |
| 13            | \$1,774,780            | \$0                  |
| 14            | \$1,810,275            | \$0                  |
| 15            | \$1,846,481            | \$0                  |
| 16            | \$1,883,411            | \$0                  |
| 17            | \$1,921,079            | \$0                  |
| 18            | \$1,959,500            | \$0                  |
| 19            | \$1,998,690            | \$0                  |
| 20            | \$2,038,664            | \$0                  |
| Years 11 - 20 | \$18,678,723           |                      |



*Managing Wisconsin's trust assets for public education.*

**Amortization Schedule**  
for Loan ID: 00000000.01

**Schedule Begin Date:** 6/1/2013

**Customer:**

**Amount of Original Disbursement:** \$8,000,000.00

**On:** 6/1/2013

**Original Term:** 10 years

**Interest Rate:** 4.00 %

| <i>Date</i>    | <i>Payment</i>      | <i>Principal</i>    | <i>Interest</i>     | <i>Balance</i> |
|----------------|---------------------|---------------------|---------------------|----------------|
| 3/15/2014      | \$978,336.32        | \$726,719.88        | \$251,616.44        | \$7,273,280.12 |
| 3/15/2015      | \$978,336.32        | \$687,405.12        | \$290,931.20        | \$6,585,875.00 |
| 3/15/2016      | \$978,336.32        | \$714,179.58        | \$264,156.74        | \$5,871,695.42 |
| 3/15/2017      | \$978,336.32        | \$743,468.50        | \$234,867.82        | \$5,128,226.92 |
| 3/15/2018      | \$978,336.32        | \$773,207.24        | \$205,129.08        | \$4,355,019.68 |
| 3/15/2019      | \$978,336.32        | \$804,135.53        | \$174,200.79        | \$3,550,884.15 |
| 3/15/2020      | \$978,336.32        | \$835,911.82        | \$142,424.50        | \$2,714,972.33 |
| 3/15/2021      | \$978,336.32        | \$869,737.43        | \$108,598.89        | \$1,845,234.90 |
| 3/15/2022      | \$978,336.32        | \$904,526.92        | \$73,809.40         | \$940,707.98   |
| 3/15/2023      | \$978,336.30        | \$940,707.98        | \$37,628.32         | \$0.00         |
| <b>Totals:</b> | <b>9,783,363.18</b> | <b>8,000,000.00</b> | <b>1,783,363.18</b> |                |

\* indicates prepayment

**Schedule #:** Temporary Schedule for Printing Purposes