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Joint Committee on Finance

Paper #180

Non-State Projects in 2015-17 State Building Program (Building Program)

[LFB 2015-17 Budget Summary: Page 565, #3, and Page 566, #4]

CURRENT LAW

Building program projects with a cost exceeding \$760,000 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 moneys needed to fund the project.

BUILDING COMMISSION

Enumerate the following non-state projects and authorize the following GPR-supported bonding amounts as part of the 2015-17 state building program to be included under Assembly Bill 21/Senate Bill 21 (AB 21/SB 21).

<u>Project</u>	<u>GPR-Supported Bonding</u>
Wisconsin Agriculture Education Center, Inc. -- Manitowoc County	\$5,000,000
Carroll University Science Laboratory Facility	<u>3,000,000</u>
Total	\$8,000,000

Create a bonding authorization and debt service appropriation for each of these projects.

Specify that that Legislature finds and determines that that there is public interest and purpose associated with each of these projects. In addition, specify that if each facility is not used for its designated purpose, the state would retain an ownership interest in the facility.

Require that the state funding commitment be in the form of a grant to each entity for which the project is being completed. Specify that before approving any state funding commitment to each project, the Building Commission would be required to make a determination that each grant recipient has secured additional funding from non-state donations for their project. Specify that the Building Commission would not be allowed to make the grants for these projects, unless the Department of Administration (DOA) has reviewed and approved the plans for the construction of the projects, although DOA could not supervise any services or work or let any contract for the project.

DISCUSSION POINTS

1. Given that the two, non-state projects recommended by the Building Commission would be exclusively located in one community, each project meets the criteria established in 2011 Act 220 and was listed on the earmark transparency report to the Committee required under Act 220. Because these two projects are part of the building program amendment to AB 21/SB21, if the Committee does not want to fund the projects, the Committee could modify the building program amendment to delete the projects.

2. Prior to 1997, non-state projects were not included in the state's biennial building programs, which typically address state facility needs. However, since the 1997-99 biennia, the Building Commission and the Legislature have included several local projects as part of the biennial state building program. For example, in 2013 Act 20 alone, the Legislature authorized \$19.3 million in GPR-supported bonding for six non-state projects. Since 1997, the state has provided a total of \$51,308,300 in GPR-supported bonding toward 23 local projects, as indicated in Table 1. Estimated annual GPR debt service on these bonds will be \$3.7 million and overall state financing costs associated with the projects will total an estimated \$73.5 million.

TABLE 1**Local Projects Enumerated in Recent State Building Programs**

<u>Project</u>	<u>Bonding Authorized</u>
Nash Auto Museum - Kenosha (1997 Act 27)	\$1,000,000
Swiss Cultural Center - New Glarus (1999 Act 9)*	1,000,000
Milwaukee Policy Athletic League Youth Activities Center (1999 Act 9)	1,000,000
HR Academy, Inc. Youth and Family Center - Milwaukee (2001 Act 16)	1,500,000
Hmong Cultural Center - Dane County and La Crosse County (2007 Act 20)*	2,250,000
Kenosha Civil War Exhibit (2007 Act 20)	500,000
Bond Health Center - Oconto (2007 Act 20)	1,000,000
Aids Resource Network (2009 Act 28)	300,000
Aids Resource Center -- Green Bay, Milwaukee, or Kenosha (2009 Act 28)	800,000
Bradley Center Sports and Entertainment Corporation - Milwaukee (2009 Act 28)	5,000,000
Dane County Yahara Watershed Initiative (2009 Act 28)	6,600,000
Madison Children's Museum (2009 Act 28)	250,000
Myrick Hixon EcoPark - La Crosse (2009 Act 28)	500,000
Aldo Leopold Climate Change Classroom and Interactive Library Madison and Monona (2009 Act 28)	500,000
Oshkosh Opera House (2009 Act 28)	500,000
L.E. Phillips Library – Eau Claire (2009 Act 28)	125,000
Lac du Flambeau Indian Tribal Cultural Center (2011 Act 32)	250,000
Dane County Livestock Facilities (2013 Act 20)	9,000,000
Domestic Abuse Intervention Service Facility and Shelter - Madison (2013 Act 20)	560,000
Family Justice Center - Milwaukee (2013 Act 20)	10,625,000
KI Convention Center Expansion - Green Bay (2013 Act 20)	2,000,000
Norskedalen Nature and Heritage Center - Vernon County (2013 Act 20)	1,048,300
Wisconsin Maritime Center for Excellence - Marinette County (2013 Act 20)	<u>5,000,000</u>
Total	\$51,308,300

* Project would be deleted under the Commission's 2015-17 state building program recommendations.

3. In an effort aimed at addressing these concerns, the Building Commission has developed policies and criteria for including state funding for local projects in the state's capital budget. Under the Building Commission policies and guidelines the following requirements are to be used in determining whether a local project should be included in the state building program.

- the project must be in the public interest;
- there should be a statewide basis justifying the need for the project;
- local or other financing alternatives should be considered first;

- the requestor should be required to provide evidence that the purpose and use of the project is such that it can be financed with tax-exempt bonds;
- the requestor and DOA should consider appropriate language to protect the state's interest in the project if the property is used for purposes other than those approved by the Building Commission;
- the Commission can modify its original approval if the proposed change is in the public interest and approved by state bond counsel;
- the requestor agrees to provide a 50% or greater match for the project before initial review by the Commission and the Commission may require appropriate guarantees for this match; and
- the local project must be submitted and reviewed following the same procedures used for state agency requests for funding through the state capital budget.

4. According to Department of Administration (DOA) Division of Facilities Development staff, each local project recommended by the Commission was submitted and reviewed following the same procedures used for state agency requests for funding through the state capital budget.

5. It is likely that the GPR-supported bonds for these two non-state projects would not be issued until 2016-17, or later, if fundraising efforts are slower than anticipated. Therefore, there would be little, if any, GPR debt service costs associated with bonding recommended for the projects in the 2015-17 biennium. However, under a twenty-year, flat repayment structure, annual debt service costs once the bonds are fully-issued would result in the annual and total debt service amounts indicated in Table 2. While local projects similar to the proposed projects have been deemed worthy and have been funded with GPR-supported borrowing in recent years, some question exists as to whether such projects are a priority use of GPR-supported borrowing.

TABLE 2

Estimated GPR Debt Service on Bonding for Non-State Projects

<u>Project</u>	<u>Annual GPR Debt Service</u>	<u>Total GPR Debt Service</u>
Wisconsin Agriculture Education Center, Inc.	\$360,000	\$7,200,000
Carroll University Science Laboratory Facility	<u>215,000</u>	<u>4,300,000</u>
Total	\$575,000	\$11,500,000

6. The GPR-Bonding authorized for these two non-state, capital projects would be offset by reductions in bonding elsewhere in the Building Commission's 2015-17 state building program recommendations. Some of these reductions are associated with the deletion of projects enumerated in previous state building programs. For example, the Building Commission is recommending the

deletion of the nearly \$34.2 million in GPR-supported bonding for the projects listed in Table 3, for which the bonding has yet to be issued. As a result, the Committee could adopt the Commission's recommendations to enumerate these two facilities, without having to increase the overall statutory bonding authority. The bonding authority for the deleted projects would be repurposed, in part, to fund these two, non-state capital projects recommended for enumeration.

TABLE 3

Building Commission's Recommended Project Deletions

<u>Deleted Project (Biennium Authorized)</u>	<u>Deleted Bonding</u>
Swiss Cultural Center - New Glarus (1999-01)	1,000,000
Hmong Cultural Center - Dane County (2007-09)	2,000,000
Rural Dental Education Outreach Facility - Marshfield (2009-11)	10,000,000
State Historical Society Joint Museum Facility (2011-13)	15,000,000
Marshall E. Sherrer Correctional Center Housing and Food Service (2013-15)	4,052,000
Dept. of Military Affairs Readiness Center, Motor Vehicle Storage, and Field Maintenance Shop Facility - Wisconsin Rapids (2013-15)	<u>2,118,100</u>
Total	\$34,170,100

7. The Building Commission recommendations indicated that five non-state agency projects were submitted to the Commission approval. Of these five projects, only the Eau Claire Regional Arts Center - Confluence Project, and the Port of Milwaukee Heavy Lift Crane project were not recommended for enumeration. A separate executive budget provision, which would have provided \$15 million in GPR cash funding for the Eau Claire Regional Arts Center - Confluence Project, was deleted under an earlier action of the Committee. The Commission is also recommending enumeration of a separate project that would continue state's assistance with a capital project at the Marquette School of Dentistry.

8. Some have argued in the past that if project has such significant local or private importance, local governments, private entities, or the population benefitting from the project should fund the project, and state borrowing should be limited to state infrastructure and facility improvements. From the state's perspective, prior to 1997, this had been the case. Since 2007, the number of local projects enumerated each year has grown substantially. While the Building Commission's recommendations indicate that the Legislature would find a statewide purpose and public interest for the proposed facilities, unlike a state road or state facility, the likelihood that a wide array of the public would benefit from these facilities is much smaller. In addition, while the proposed projects, as well as past, non-state projects, may be worthy projects to the local proponents, it is likely that other worthy projects in state exist, but their proponents were unaware that they could request state borrowing for their projects. Continuing the practice of borrowing for these non-state projects may make more local communities or entities aware of the state's willingness to fund such projects, which could further increase future requests for assistance in the form of borrowing.

9. No established state program exists to fund the non-state projects like those recommended by the Commission. Rather, state funding for these earmarked projects is seemingly provided on an ad hoc basis, with the proponents of most local or non-state projects likely having limited knowledge of the potential for state funding for their project. If the Committee approves these non-state projects, but is concerned about the ad hoc nature in which these projects are currently funded, the Committee could establish a more widely-known and a more competitive grant program, and require DOA to promulgate administrative rules with specific grant criteria and eligibility and maximum grant requirements for the 2017-19 biennium. DOA Division of Facilities Development staff would be required to determine the most competitive projects with the highest statewide significance and submit them to the Building Commission for inclusion in the state's biennial building program. [Alternative A1] In addition, the Committee could establish a limit on the amount of GPR-supported bonding, the state would be willing to commit to such non-state, capital projects each biennium. [Alternatives A2a, A2b, or A2c]

Wisconsin Agricultural Education Center, Inc.

10. Since 2010, Manitowoc County local and regional agriculture professionals and producers have been discussing and planning the possibility of developing the proposed Wisconsin agricultural education center. According to a document provided by DOA, this group developed the Wisconsin Agricultural Education Center, Inc., (WAEC, Inc.) as a legal entity in October, 2012, and the Corporation received federal 501(c)(3), nonprofit status in December, 2013. The organization is run by Board of Directors, which recently hired an Executive Director in March, 2015.

11. WAEC, Inc. requested and, under the Building Commission's recommendations, would receive \$5 million in GPR-supported bonding to assist in the construction of a 14,000 square foot the main discovery education center building in the Town of Newton in Manitowoc County. The discovery center, in total, would include 21,000 square feet of conference/education space, interactive displays, as well as a calf birthing barn/theater, and restaurant retail space for food demonstrations and culinary events featuring Wisconsin-made products. Project information provided to the Building Commission by DOA indicates that the Center would showcase Wisconsin's agricultural industry, help consumers reconnect with farmers, and educate visitors about sustainable and responsible agricultural practices, with programming based on input from the community, producers, and the dairy industry. WAEC documents indicate that an offer has been accepted on the building site and the WAEC Board of Directors is working with a well-known firm specializing in capital development and approaches to raise the funding necessary to complete construction of the facility. [Alternative B1]

12. Under the state's capital budgeting process, state agencies and the UW System submit their biennial capital requests to DOA. DOA reviews the requests and the Governor then makes recommendations to the Building Commission as to which projects should be included in the biennial state building program. However, under the state's biennial operating budget, administration officials, including the Secretary of the Department of Transportation, have generally noted that while the Governor's budget would include significant borrowing for transportation purposes, lower recommended bonding in other areas of the state budget would mean that overall state bonding will be lower than in past biennia. In large part, over the past several biennia, and

under the Governor's budget bill, the lack of revenues available to meet the demands of the state highway programs and other DOT programs have led to decisions to use bonding extensively to fund the state highway program.

13. This practice would continue under the Governor's current budget, and likely led to the decision of the Governor to recommend that the Building Commission deny most state agency and UW campus' requests for new, GPR-supported bonding to meet their capital and facility needs. In total, state agencies requested \$238 million in GPR-supported bonding for capital projects in the biennium, including \$10.3 million in existing stewardship bonding. The Commission provided only \$54 million in repurposed GPR-supported bonding, with no enumeration of projects to be funded with existing stewardship bonding.

14. Given that the state agencies were largely denied their requests for GPR-supported bonding to finance their capital needs in the biennium, it could be argued that the state should not, at the same time, provide \$5 million for a local, non-state project like the proposed Wisconsin Agricultural Education Center, Inc., discovery education center project. [Alternative B2]

Carroll University Science Laboratory Facility

15. The Carroll University project would be a 44,000 square foot laboratory facility consisting of three levels: a lower level that would include interactive human behavior, comparative anatomy, and physiology teaching laboratories as well as a human cadaver laboratory, a behavior laboratory, and an aquatics room; the main level would include teaching laboratories for biology, and genetics, microbiology, and physiology research spaces; and, the upper level would include chemistry teaching laboratories and organic biochemistry and physical and analytical research spaces. The University indicates that its fundraising for the project has been successful allowing it to dedicate \$21.5 million toward the \$26 million projects. Carroll University requested the remaining \$5 million needed to fund the project, but the Commission's recommendations would provide \$3 million.

16. The project justification included with the Building Commission recommendations indicates that the non-state grant would directly address the statewide need to meet a reported healthcare workforce shortage in Wisconsin. The grant would also fit with Carroll University's focus on preparing the health and medical service professionals who will provide primary care throughout the state, including to residents in medically underserved rural and urban areas of the state. The University indicates it has experienced strong demand for its programs in the fields of nursing, physician assistant, physical therapy, public health, psychology, and exercise science/psychology.

17. Recognizing the statewide need for health professionals and services, the state has provided past assistance with capital projects at the University of Marquette School of Dentistry and the Medical College of Wisconsin, including the Children's Research Institute. However, the state has not historically provided assistance for the construction of more general academic facilities for private institutions of higher learning. The Wisconsin Association of Independent Colleges and Universities currently has 24 members or associate members, including Marquette and the Medical College of Wisconsin. Similar to the precedent for the state borrowing for local, capital projects,

this could also establish a precedent whereby private higher learning institutions, in addition to those producing dentists and medical doctors or health research, could begin asking for state assistance. [Alternative C1]

18. State assistance for these facilities at private higher education health and education facilities is usually provided through Wisconsin Health and Educational Facilities Authority (WHEFA). As part of its mission, WHEFA provides capital financing for independent universities and colleges. In 2014 alone, WHEFA reports having provided \$64.1 million in capital finance assistance to the following educational facilities: (a) a \$10 million financing for a residence hall at Mount Mary University in Milwaukee; (b) a \$20 million financing to fund a portion of the acquisition, construction, and renovation of facilities at Carthage College in Kenosha; (c) a \$4.3 million financing associated with the acquisition and equipping of two apartment style residence halls located adjacent to St. Norbert College in De Pere; and (d) a \$29.8 million financing to assist Beloit College in refinancing their outstanding bonds allowing the College to finance its capital expenses at a lower rate.

19. Providing funding for the Carroll College project would mean that the state would be assisting in the construction of an academic science facility at an independent university, while similar facilities requested for UW System campuses were not provided funding under the Commission's recommendations. While \$27.3 million in repurposed GPR-supported borrowing would be provided for the UW System's system-wide projects, the Governor's recommendations to the Building Commission did not include any of the \$273.2 million in GPR-supported bonding requested by System campuses to fund their specific facility needs, including the following health science-related facilities: (a) a chemistry building addition and renovation at UW-Madison; (b) Boebel Hall, a biology classroom and laboratory facility at UW-Platteville; and (c) a new integrated research center and innovation campus at UW-Milwaukee.

20. Given that UW campuses were denied their requests for GPR-supported bonding to finance health related facilities in the biennium, it could be argued that the state should not, at the same time, provide \$3 million to a private, independent university for a similar facility on its campus. [Alternative C2]

ALTERNATIVES

A. Create a Non-State Capital Projects Program

1. Beginning with the 2017-19 biennium, establish a non-state, capital grant program and require DOA to promulgate rules establishing grant criteria, including eligibility and maximum grant requirements. Specify that DOA would be required to review the grants and select those having the highest statewide significance and submit those grant recommendation to the Building Commission for inclusion the biennial state building program.

2. Specify that the total grant amount available for the non-state, capital projects program would be:

- a. \$5 million in GPR-supported borrowing;
 - b. \$10 million in GPR-supported borrowing; or
 - c. \$15 million in GPR-supported borrowing.
3. Maintain current law.

B. Wisconsin Agriculture Education Center, Inc.

- 1. Approve the proposed \$11,626,800 Wisconsin Agricultural Education Center, Inc., project to be funded with \$5,000,000 GPR-supported bonding and \$6,626,800 in gifts grants and other receipts.
- 2. Delete the proposed project from the building program.

ALT B2	Change to Building Prog.
BR	- \$5,000,000

C. Carrol University Science Laboratory Facility

- 1. Approve the proposed \$26,500,000 Carrol University Science Laboratory Facility project to be funded with \$3,000,000 in GPR-supported bonding and \$23,500,000 in gifts, grants, and other receipts.
- 2. Delete the proposed project from the building program.

ALT C2	Change to Building Prog.
BR	- \$3,000,000

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