



Stephen L. Nass

Wisconsin State Senator

AB 303 Purchasing Power of the Board of Commissioners of Public Lands (BCPL)

Testimony of Senator Steve Nass

Assembly Committee on Government Accountability & Oversight

May 24, 2017 • 300 Northeast, State Capitol

Thank you Chairman Hutton for holding a hearing and allowing me to provide written testimony in support of Assembly Bill 303. This bill 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

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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.

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 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
Total	-\$500,000	\$19,712,000	\$3,486,600	\$22,698,600		

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.



TYLER AUGUST

STATE REPRESENTATIVE • 32ND ASSEMBLY DISTRICT
SPEAKER PRO TEMPORE

Attached is an LFB memo regarding one example of how the BCPL could have made more money if BCPL had bought the Femrite Data Center. The Femrite Data Center was privately built in 2006 for \$23 million and subsequently leased to the state for \$2.5 million per year. In 2016, after paying rent for 10 years, the building was purchased by the state for \$22.5 million. In 2006, had the BCPL bought the building for the \$23 million construction cost, the public schools would have earned \$22.7 million in rent from the state. In comparison, the investment options available to BCPL at that time would have only earned \$5.8 million over the same period of time. In this example alone, allowing the BCPL to invest in a state building would have earned the schools an additional \$16.9 million. I have attached a detailed table from LFB on this specific example.

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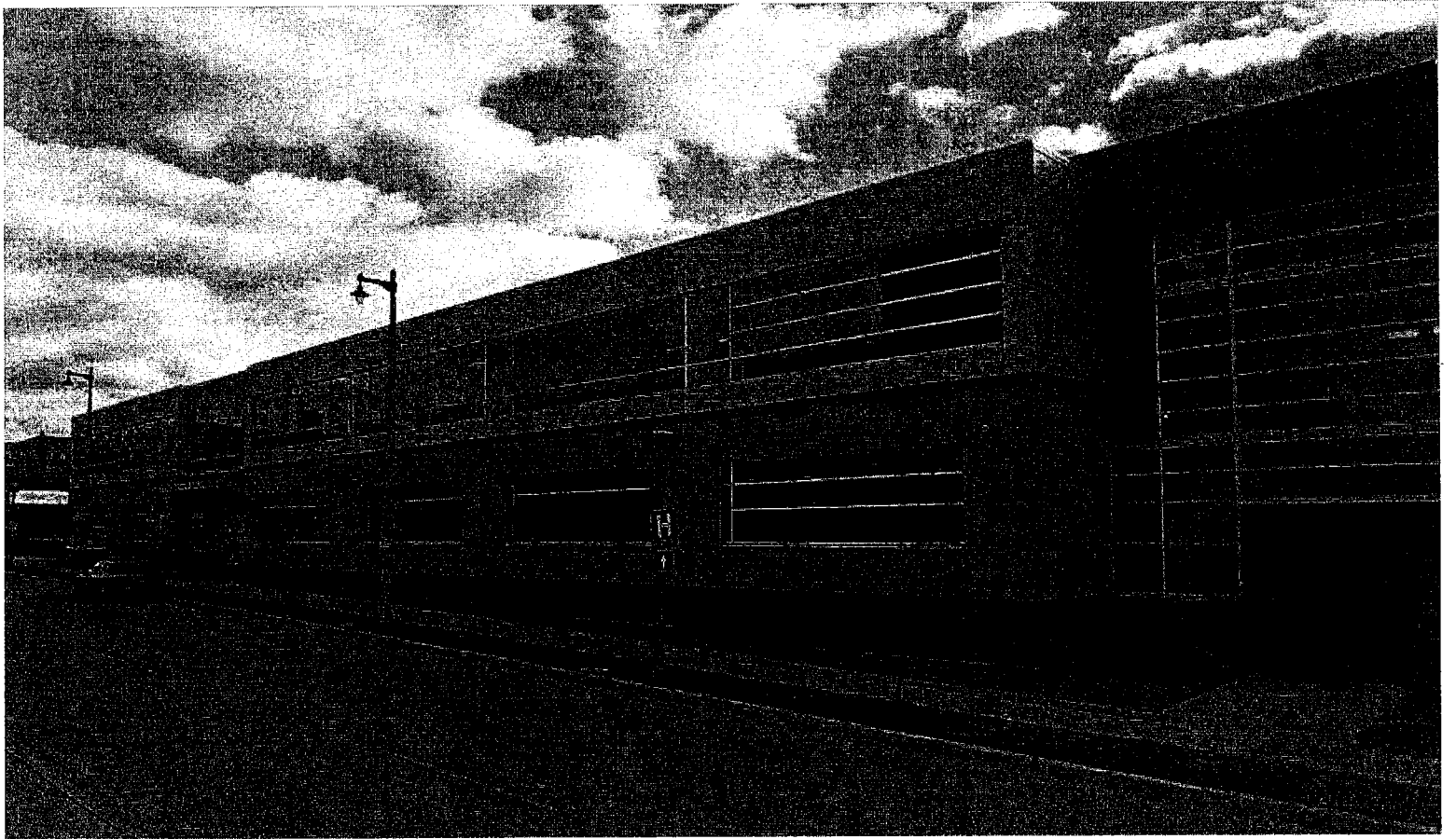
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Member	School District	Amount	
Hutton	Elmbrook	\$	157,771.00
Brandtjen	Menomonee Falls	\$	74,485.00
Krug	Nekoosa	\$	24,866.00
Wichgers	Muskego-Norway	\$	101,242.00
Kuglitsch	New Berlin	\$	85,219.00
August	Delavan-Darien	\$	48,922.00
Pope	Mount Horeb Area	\$	44,174.00
Hintz	Oshkosh	\$	189,419.00
Brostoff	Mikwaukee	\$	2,250,150.00

Over 10 years



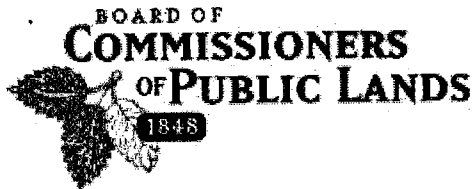
Year	Total Paid to DCF Milwaukee Landlord (Money that would have gone to BCPL if owned)	Depreciation (Principal) (If we depreciated building to match BCPL loan)	Interest Income
2013	\$1,399,402.20	\$726,719.88	\$672,682.32
2014	\$1,427,390.24	\$687,405.12	\$739,985.12
2015	\$1,455,938.05	\$714,179.58	\$741,758.47
2016	\$1,485,056.81	\$743,468.50	\$741,588.31
2017	\$1,514,757.95	\$773,207.24	\$741,550.71
2018	\$1,545,053.10	\$804,135.53	\$740,917.57
2019	\$1,575,954.17	\$835,911.82	\$740,042.35
2020	\$1,607,473.25	\$869,737.43	\$737,735.82
2021	\$1,639,622.72	\$904,526.92	\$735,095.80
2022	\$1,672,415.17	\$940,707.98	\$731,707.19
	\$15,323,063.66	\$8,000,000.00	\$7,323,063.66
	\$15,323,064	Total Rent Paid over 10 years to Developer	
	\$8,000,000	Likely Value in 2023 to sell to DOA	
	\$23,323,064	Subtotal for Income before Cost of Building	
	\$8,000,000	Initial Cost of Building in 2013	
	\$15,323,064	TOTAL Potential BCPL earnings over 10 years	
		This is total income minus \$8 Million initial cost	
	\$1,783,363	Amount BCPL could have made with \$8 Million Trust Fund Loan at 4%	
	\$13,539,700	Amount more Matt's Plan could have made versus Trust Loan	

5. **RENTAL.** The Lessee shall pay the Lessor rent for the Premises during the initial lease year at the following rate: The sum of One Million, Three Hundred Ninety-Nine Thousand, Four Hundred Two And 20/100 Dollars (\$1,399,402.20) per annum, in equal monthly installments of One Hundred Sixteen Thousand Six Hundred Sixteen And 85/100 Dollars (\$116,616.85). The annual rental rate for the first and each subsequent year and renewal periods of this Lease shall be in accordance with the following schedule:

Rental Rate Schedule			
Begin Date	End Date	Annual Rent	Monthly Rent
June 1, 2013	May 31, 2014	\$1,399,402.20	\$116,616.85
June 1, 2014	May 31, 2015	\$1,427,390.24	\$118,949.19
June 1, 2015	May 31, 2016	\$1,455,938.05	\$121,328.17
June 1, 2016	May 31, 2017	\$1,485,056.81	\$123,754.73
June 1, 2017	May 31, 2018	\$1,514,757.95	\$126,229.83
June 1, 2018	May 31, 2019	\$1,545,053.11	\$128,754.43
June 1, 2019	May 31, 2020	\$1,575,954.17	\$131,329.51
June 1, 2020	May 31, 2021	\$1,607,473.25	\$133,956.10
June 1, 2021	May 31, 2022	\$1,639,622.72	\$136,635.23
June 1, 2022	May 31, 2023	\$1,672,415.17	\$139,367.93
June 1, 2023	May 31, 2024	\$1,705,863.47	\$142,155.29
June 1, 2024	May 31, 2025	\$1,739,980.74	\$144,998.40
June 1, 2025	May 31, 2026	\$1,774,780.36	\$147,898.36
June 1, 2026	May 31, 2027	\$1,810,275.96	\$150,856.33
June 1, 2027	May 31, 2028	\$1,846,481.48	\$153,873.46
June 1, 2028	May 31, 2029	\$1,883,411.11	\$156,950.93
June 1, 2029	May 31, 2030	\$1,921,079.34	\$160,089.94
June 1, 2030	May 31, 2031	\$1,959,500.92	\$163,291.74
June 1, 2031	May 31, 2032	\$1,998,690.94	\$166,557.58
June 1, 2032	May 31, 2033	\$2,038,664.76	\$169,888.73

The annual rent throughout the entire lease term, including optional extensions, shall be payable in advance in monthly installments as shown above on the first day of each month, except for the month of July during which the monthly installment is not due until the 15th day. Said rental payments shall be made to Lessor at the address for notices hereinafter set forth.

6. **COVENANTS OF LESSOR.** Lessor hereby covenants and agrees with Lessee as follows:



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 %

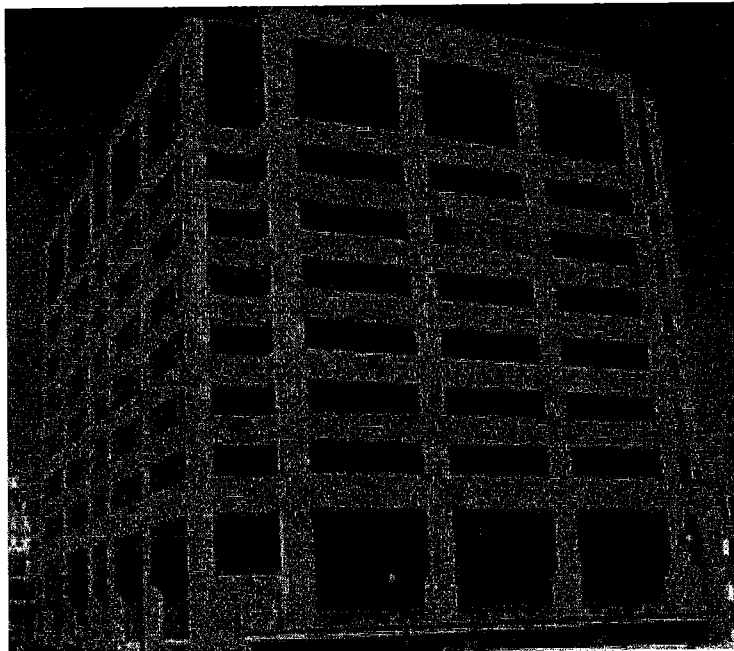
<i>Date</i>	<i>Payment</i>	<i>Principal</i>	<i>Interest</i>	<i>Balance</i>
3/15/2014	\$978,336.32	\$726,719.88	\$251,616.44	\$7,273,280.12
3/15/2015	\$978,336.32	\$687,405.12	\$290,931.20	\$6,585,875.00
3/15/2016	\$978,336.32	\$714,179.58	\$264,156.74	\$5,871,695.42
3/15/2017	\$978,336.32	\$743,468.50	\$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
Totals:	9,783,363.18	8,000,000.00	1,783,363.18	

* indicates prepayment

Schedule #: Temporary Schedule for Printing Purposes

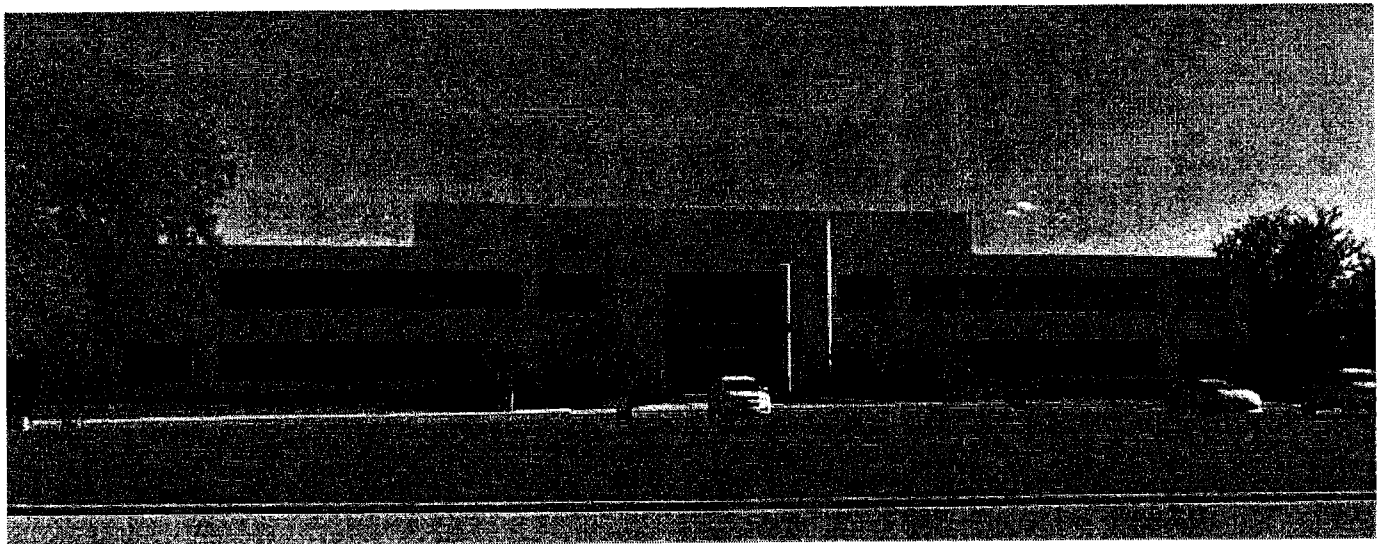
Doyle proposed sale of DOA building in 2007

- 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.



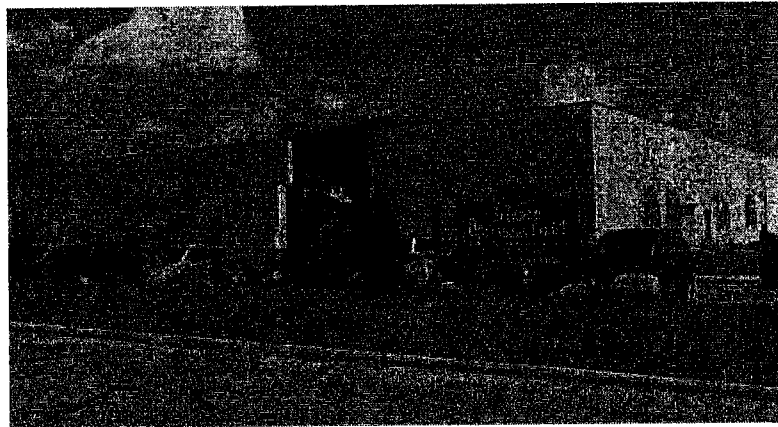
Dept. of Corrections Madison HQ

- On 12/22/2010, two weeks before Gov. Walker was first inaugurated, Gov. Doyle's DOA committed the taxpayers to a lease that ended 10 years in the future (6/30/2021) costing over \$51 over the decade
- Lease payments went from \$4.6 million in FY 2012 to \$5.697 million by FY 2021
- Current Annual rent cost is about \$5.2 million per year
- City of Madison assessed the building in 2016 for \$14.3 million, which means in 3 years the building is paid for at current rental rates
- Treasurer Adamczyk believes the building is worth less than \$10 million, which means in 2 years the building is paid for at current rental rates. (For example, a similarly sized vacant office building on the west side went from \$19.5 million to \$11 million in advertised list price)
- Why would taxpayers pay in rent what it would cost to own in only 2 years?
- Terrible deal for the taxpayers!
- BCPL could have bought in on June 30, 2016 when first lease was set to expire and been in a great bargaining position.



DNR Science Center in Madison

- Since 2006, the state leased a DNR Science Center in Madison.
- Building was built in 2006 to state specifications and was privately owned and leased to the state
- In 2006, it cost about \$3 million to build
- Building was authorized by Building Commission in 2017 to buy for \$3.5 million and awaiting full Legislative approval
- Annual lease in 2016 was about \$380,827 per year
- State paid \$4.5 million in rent from 2006 until now, PLUS \$3.5 million to purchase, so all in the state paid over \$8 million on a \$3 million building
- State should have bought from the beginning, BCPL could have done it for the state



Year	DNR Science Center Rent		
2006	\$315,050.00	13 year rent cost	\$4,485,178
2007	\$319,182.50	Purchase price in 2018	\$3,489,100
2008	\$323,521.63	Total paid	\$7,974,278
2009	\$328,077.71		
2010	\$332,861.59		
2011	\$337,884.67		
2012	\$343,158.90	Estimated build cost in 2015	\$3,000,000
2013	\$348,696.85		
2014	\$354,511.69	Taxpayers overpaid	\$4,974,278
2015	\$360,617.28		
2016	\$367,028.14		
2017	\$373,759.55		
2018	\$380,827.53		
	\$4,485,178.04		

Femrite Data Center in Madison

- Since 2005, the state has leased space for a state IT center—Femrite Data Center
- Building was built in 2006 and was privately owned and leased to the state
- In 2006, it cost \$23 million to build including inside fixtures, furniture and equipment
- Annual lease in 2016 was about \$2.5 million per year
- Building was bought by state in June of 2016 for \$22.5 million by Building Commission
- State paid \$23 million in rent from 2006 until 2015, PLUS \$22.5 million to purchase, so all in the state paid over \$45 million on a \$23 million building
- State should have bought from the beginning, BCPL could have done it for the state



Year	Base Rent	Taxes	Total Paid to Lokre Data Center (Developer) (Money that would have gone to BCPL if owned)
2006	\$1,850,600	\$162,900	\$2,013,500
2007	\$1,876,200	\$341,900	\$2,218,100
2008	\$1,902,400	\$338,100	\$2,240,500
2009	\$1,929,100	\$358,000	\$2,287,100
2010	\$1,955,800	\$355,700	\$2,311,500
2011	\$1,983,200	\$368,600	\$2,351,800
2012	\$2,011,000	\$388,000	\$2,399,000
2013	\$2,038,900	\$399,100	\$2,438,000
2014	\$2,067,900	\$387,500	\$2,455,400
2015	\$2,096,900	\$386,800	\$2,483,700
	\$19,712,000	\$3,486,600	\$23,198,600