



Legislative Fiscal Bureau

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

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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
<i>[Change to Bill]</i>	<i>\$25,000,000]</i>

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.

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

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