



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #186

GPR Supported Bonding Authorizations and 2005-07 Building Program Projects (Building Program)

[LFB 2005-07 Budget Summary: Page 96-1, #1 and 96-6, #4]

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.

As of December, 2004, Wisconsin had approximately \$4.87 billion of general obligation bonds and commercial paper obligations outstanding, which represents the principal amount of debt that remains to be paid from issuing approximately \$13.9 billion of general obligation bonds to that date.

BUILDING COMMISSION

Enumerate \$1,443,469,000 in projects in the 2005-07 building program. Of these projects, this paper deals with the projects listed in Attachment 1, with total enumerations of \$719,840,600. Specify that funding for the projects in Attachment 1 be drawn from the following sources: (a) \$532,570,200 from new general obligation bonding authority; (b) \$32,712,475 from general obligation bonding authority that is currently authorized; (c) \$7,435,100 of revenue bonding authority included under AB 100; (d) \$13,578,600 from agency operating funds; (e) \$42,096,225 from federal funds; and (f) \$91,448,000 from agency gifts, grants, and other receipts.

Separate papers address the remaining projects with enumerations totaling \$723,628,400,

including \$675,285,000 of project enumerations relating to projects that include out-year bonding.

DISCUSSION POINTS

State General Obligation Indebtedness

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 state's outstanding indebtedness 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, 2004, Wisconsin had approximately \$4.87 billion of general obligation and commercial paper obligations outstanding, which represents the principal amount of debt that remained to be paid from issuing approximately \$13.9 billion of general obligation bonds and commercial paper to that date. Table 1 presents a summary of the outstanding state general obligation indebtedness as of December, 2004.

TABLE 1

Outstanding General Obligation Debt -- As of December, 2004

<u>Bonding Category</u>	<u>Amount Outstanding</u>
Tax Supported	
General Fund	\$3,225,307,815
Segregated Funds	<u>552,376,171</u>
Subtotal	\$3,777,683,986
Self-Amortizing	
Veterans' Mortgage Loans	\$369,940,000
University of Wisconsin And Other Categories	<u>728,836,354</u>
Subtotal	\$1,098,776,354
TOTAL	\$4,876,460,340

3. The level of state indebtedness has grown over time, with the amount of new debt exceeding the principal amount of debt repaid. Table 2 indicates the growth in state indebtedness since 1990.

TABLE 2
Outstanding Indebtedness 1990 through 2004
(\$ in Millions)

<u>Year</u>	<u>Debt Outstanding</u>	<u>Annual Percent Change</u>	<u>Cumulative Percent Change</u>
1990	\$2,323.5		
1991	2,607.7	12.2%	12.2%
1992	2,734.7	4.9	17.7
1993	2,913.4	6.6	25.4
1994	2,970.3	2.0	27.8
1995	3,078.4	3.6	32.5
1996	3,290.0	6.9	41.6
1997	3,429.9	4.3	47.6
1998	3,564.9	3.9	53.4
1999	3,743.5	5.0	66.1
2000	4,067.7	8.7	75.1
2001	4,187.3	3.0	80.2
2002	4,386.2	4.7	88.8
2003	4,370.2	-0.4	88.1
2004	4,876.5	11.6	109.9

Additional GPR Bonding Available in 2005-07

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 Building Commission's 2005-07 building program recommendations include the authorization of \$971 million in new general obligation bonding, of which \$667.9 million would be GPR supported bonding. However, only \$389.0 million this bonding would be available for issue in the 2005-07 biennium. The remaining \$278.9 million in GPR supported bonding would not be available to issue until 2007-09 and beyond. (These delayed bonding authorizations are discussed in separate papers).

5. Table 3 indicates how the \$667.9 million in GPR supported bonding authorizations under the building program, including the \$278.9 million that could not be issued until subsequent biennia, compares with past biennial building programs. These amounts are included because this would be the opportunity for the Legislature to deliberate over whether or not to provide this bonding.

TABLE 3

**GPR Supported General Obligation Bonding
Authorized in Biennial State Building Programs*
(\$ in Millions)**

<u>Biennium</u>	<u>Authorization</u>
1995-97	\$246.7
1997-99	366.2
1999-01	424.4
2001-03	712.2
2003-05	247.2
2005-07	667.9

*Amounts shown include bonding amounts authorized in each biennium rather than the biennium in which the bonding becomes available for issue.

6. In addition to the \$389.0 million in GPR bonding authorizations available in 2005-07 under the building program amendment, \$39.5 million in bonding that was authorized under previous building programs would be available in the 2005-07 biennium. As a result, a total of \$428.5 million in GPR supported bonding for building program projects would be available for issue in the 2005-07 biennium.

7. Also, similar to the 2003-05 biennium, AB 100 would authorize a significant amount of GPR supported bonding for non-building program purposes. AB 100 would authorize \$283.4 million in GPR supported bonding for non-building program purposes, including \$33.4 million for environmental and water quality improvement and \$250 million for major highway and rehabilitation projects. However, in an earlier budget decision, the Committee reduced the GPR supported bonding for the clean water fund program by \$25.3 million, which reduces the bonding under AB 100 to \$258.1 million. Also, \$120 million in previously authorized GPR supported bonding for the state stewardship program would become available for issue in the 2005-07 biennium. Table 4 identifies bonding that could be issued in the 2005-07 biennium under AB 100, the Building Commission's recommended building program, and the existing bonding authorizations that become available for issue in the biennium.

TABLE 4

**GPR Supported Bonding Available For Issue in 2005-07 Biennium
(\$ in Millions)**

	<u>Amount</u>
2005-07 Building Program	\$389.0
Bonding in AB 100	258.1
Existing Bonding Available in 2005-07 Biennium	
Previously Enumerated Projects	39.5
Stewardship Program	<u>120.0</u>
Total	\$806.6

8. In addition, in the 2003-05 biennium, \$565.5 million in general obligation bonding was provided for highway rehabilitation projects. The debt service on these bonds was paid from the segregated transportation fund during the 2003-05 biennium. However, under 2003 Act 64, the debt service was converted to GPR debt service beginning in the 2005-07 biennium. When added to the amounts that could be issued in the 2005-07 biennium, as shown in Table 4, the amount of GPR supported debt coming online could be increased by nearly \$1.37 billion in the 2005-07 biennium. This would compare to the approximately \$480 million in principal on outstanding GPR supported debt that the state is currently expected to pay off in the 2005-07 biennium.

9. Due to the state's general fund fiscal concerns, legislation passed in the 2003-05 biennium that transferred funds from the state's transportation fund to the general fund, which reduced the amount of funds available to cash fund state highway rehabilitation projects. Most of these funds are now replaced with general fund supported bonding. AB 100 would transfer another \$268 million in transportation revenues and authorize the issuance of another \$250 million in GPR supported bonding in 2005-07 to largely replace those funds. As a result, under current law and AB 100, a total of \$815.5 million in GPR supported bonding would be provided for highway rehabilitation projects over the two biennia. A significant policy decision for the Committee, relative to the level of bonding to be provided in the biennium is whether the state can afford to provide large amounts of GPR supported bonding for both highway rehabilitation projects and building program projects at the same time.

10. 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 10 years, the state has ranged between 18.4% and 25.5% 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 24.5% 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.

Debt Service on GPR Supported Bonding

11. In the past it had been the goal of the state to limit bonding authorizations so as to maintain total, annual GPR debt service payments on those bonds at 3.5%, or less, of total GPR revenues for that year. In recent years, the state 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 and exacerbate any state out-year spending commitments. The Governor's Budget in Brief indicates that previously authorized but unissued debt will push debt service costs higher for the biennium. It further indicates that new bonding authorizations, together with the timing of new bond issues, should cause GPR debt service to rise above 4% of GPR revenues by 2006-07. However, it notes if actual GPR supported bonding issuance would be limited to \$685 million in the 2005-07 biennium, GPR debt service costs would rise to 3.9% of GPR revenues in the biennium.

12. In developing its building program recommendations, the Building Commission gives consideration as to the impact of these bonding authorizations on GPR debt service for the 2005-07 biennium. However, this impact is not a good measure of the amount of bonding to authorize in a biennium because much of the bonding authorized in one biennium will not fully impact the state GPR debt service payments until the following biennium at the earliest. Therefore, the full debt service impact of bonds authorized in the 2005-07 biennium will not likely be felt until the 2007-09 biennium.

13. 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. Bonds are not always issued in the biennium in which the bonds are authorized, due to the timing of projects, or the bonds were authorized for a multi-year purpose like the state's stewardship program.

14. When the \$806.6 million in GPR supported bonds indicated earlier in Table 4 are fully issued, the annual debt service costs on the bonds would total an estimated \$75 million annually. In addition, the annual GPR debt service on the \$565.5 million for major highway and rehabilitation projects, which is converted to GPR debt service beginning in the 2005-07, is estimated at \$61.2 million annually for the next several years. These increased debt service amounts will be partially offset by old debt being retired during the period the bonds remain outstanding.

15. Table 5 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 2005-07 building program. Table 5 does not include an estimate of the issuance of bond authorizations in 2007-09 and beyond except for only existing or proposed bonding authorizations that would become available in that biennium.

TABLE 5

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

	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Existing debt service	\$318.5	\$419.8	\$434.8	\$453.5	\$444.3
GPR Debt service on unissued authorized bonding	0	4.4	33.2	57.3	76.1
GPR Debt service on 2005-07 authorized bonding	<u>0</u>	<u>1.9</u>	<u>20.1</u>	<u>45.2</u>	<u>64.8</u>
Total	\$318.5	\$426.1	\$490.6	\$556.0	\$585.2
GPR tax revenues	\$11,449.1	\$11,943.0	\$12,486.3		
at 4% growth				\$12,985.8	\$13,505.2
at 5% growth				13,110.6	13,766.1
at 6% growth				13,235.5	14,029.6
GPR debt service as percent of GPR tax revenues	2.78%	3.57%	3.93%		
at 4% growth				4.28%	4.33%
at 5% growth				4.24	4.25
at 6% growth				4.20	4.17

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 of the cumulative debt levels of the state. Wisconsin's debt service and bond issuance levels are considered in the high-moderate range by rating agencies. In addition, rating agencies have expressed concern about the state's annual financial statements. In recent years, the state's general obligation bond issues were downgraded. In announcing the State's latest rating changes, rating agencies generally cited concerns about the state's finances. Specifically, they identified the state's lack of general fund surpluses, the lack of a significant reserve or "rainy day" fund, and the use one-time revenues to fund ongoing expenditures as credit concerns. Significant annual increases in GPR debt service on outstanding bonds would contribute to the difficulty for the state to fund its ongoing costs, and then accumulate general fund reserves.

17. If bonding rating agencies determine that the state's debt levels are increasing faster than the state's relative ability to repay that debt, a financial penalty could be incurred in the form of having to pay higher interest rates and eventually the state's bond rating could suffer. Due to current low interest rates, the recent downgrades have not significantly impacted the state's cost of borrowing. These low interest rates have compressed rates at the low end of the rate scale. However, as indicated in the Budget in Brief, a return to more normal interest rates could cause the state's lower bond rating to result in higher borrowing costs.

18. Currently, the administration does not foresee any additional rating downgrades at this time. In March, 2005, Moody's removed its negative outlook on the State's long term general obligation bond rating. However, the Budget in Brief indicates that many investment managers of bond funds owning Wisconsin bonds are very concerned about the possibility of a further rating downgrade that will erode the value of the state's bonds they manage. It further indicates that the state's rating status can be maintained only by limiting the uses and amounts of new debt authorizations, by active management of the timing and structure of new bonds issued, and, most importantly, by resolving Wisconsin's basic structural financial problems.

2005-07 Building Program Authorizations

19. The proposed building program would authorize \$389.0 million in new general fund supported that would be available to fund building program projects in the 2005-07 biennium. Most of these projects are listed in the attachment to this paper (the others are dealt with individually in other papers). Of this amount, \$220 million (56.6%) would be provided for all agency building projects that are not specifically enumerated in the state building program. These broad types of projects are enumerated under titles that indicate a general category of work and that establish an overall budget for the biennium for that purpose. The "All Agency" enumerations are used for types of projects, such as maintenance, that recur, but where the Commission may need to address unanticipated needs during the biennium.

20. The amount of GPR supported all agency bonding is somewhat higher than the amounts provided for these purposes in past building programs. In the 2003-05 biennial budget, the Committee reduced the amount of all agency funds recommended by the Building Commission to equal the amount provided in the previous biennium. However, given the ongoing backlog of maintenance on state buildings that has been consistently identified, concerns were raised during the Building Commission deliberations on the building program about the effect that a similar reduction to all agency bonding in 2005-07 would have on the physical condition of state buildings.

21. University of Wisconsin System projects would be the other major use of bonding authorized for recommended 2005-07 building projects. The UW-System would be authorized approximately \$114 million (29.2% of the total recommended) in general fund supported bonding for the 2005-07 biennium. The UW-System is also a major recipient of the \$283.9 million bonding recommended under the proposed building program that would not be available until 2007-09 and beyond. The UW-System has consistently been one of the largest recipients of GPR supported bonding in recent biennia.

22. Each of the UW-System projects enumerated for construction during the 2005-07 biennium is included in the System's six-year facility plan, which identifies projects that are a priority for enumeration in the biennium. In addition, because its campuses make up a significant amount of the total agency facility space of the state, it is reasonable that UW System projects should make up a large share of the state building program each biennium. In addition, the last round of major construction activities on UW-System campuses was during the 1950s' and 1960's. As a result, many of those structures are now due to be replaced or undergo substantial renovations,

which is likely driving the need for the recommended level of investment.

23. Taking into account any earlier Committee decisions on other papers relative to the authorization of GPR supported bonding, if the Committee remains concerned about level of this bonding, the Committee could decline to authorize some or all of the specific projects funded with GPR supported bonding that are addressed in this paper.

ALTERNATIVES

1. Approve the Building Commission's recommendations to enumerate the projects listed in the attachment as part of the 2005-07 state building program at a total cost of \$719,840,600. Authorize \$532,570,200 in general obligation borrowing for these projects (\$346,993,900 in general fund supported bonding, \$175,075,500 in program revenue supported bonding and \$10,500,800 in segregated revenue supported bonding).

Alternative 1	BR
2005-07 FUNDING (Change to Bill)	\$532,570,200

2. Approve some or all of the recommended projects listed in the attachment as part of the 2005-07 state building program (specific projects would need to be identified for inclusion).

3. Maintain current law. (None of the \$719,840,600 in projects addressed in this paper would be included in the 2005-07 state building program).

Prepared by: Al Runde
Attachment

ATTACHMENT

List of 2005-07 Building Program Projects Addressed in This Paper

	General Obligation Bonding			Other Funding	TOTAL
	GPR	PR	SEG		
Administration					
Renovation of Natural Resources General Executive Facility - Phase 2 Madison	\$350,000	\$4,639,100	\$850,000	\$0	\$5,839,100
Corrections					
Ethan Allen School - Visiting Center	1,325,000	0	0	0	1,325,000
Oakhill Correctional Center replacement - Oshkosh	4,779,800	0	0	0	4,779,800
Drug Abuse Correctional Center Replacement - Oshkosh	<u>1,900,000</u>	<u>0</u>	<u>0</u>	<u>12,000,000</u>	<u>13,900,000</u>
Total	8,004,800	0	0	12,000,000	20,004,800
Department of Military Affairs					
Mitchell Field Land Acquisition - Milwaukee	560,000	0	0	0	560,000
Field Maintenance Shop Renovation/Addition - Wausau	385,800	0	0	6,194,000	6,579,800
Readiness Center Renovation/Addition - Portage	2,193,100	0	0	5,581,100	7,774,200
Field Maintenance Shop Renovation/Addition - Whitewater	21,200	0	0	668,800	690,000
Camp Williams Search and Rescue Training Facility	0	0	0	3,331,300	3,331,300
Three Motor Vehicle Storage Buildings	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,250,000</u>	<u>2,250,000</u>
Total	3,160,100	0	0	18,025,200	21,185,300
Natural Resources					
Purchase of Service Center - Dodgeville	177,800	0	533,500	100,700	812,000
State Campground Expansion - Statewide	0	0	0	5,762,300	5,762,300
Newport State Park - Park Entrance and Visitor's Center	0	0	0	680,000	680,000
Wild Rose Fish Hatchery Renovation - Phase 2	0	0	3,892,600	7,696,900	11,589,500
Ranger Station Replacement - Merrill	<u>0</u>	<u>0</u>	<u>1,300,400</u>	<u>0</u>	<u>1,300,400</u>
Total	177,800	0	5,726,500	14,239,900	20,144,200
State Historical Society					
Old World Wisconsin Multipurpose and Storage Building	1,310,200	0	0	0	1,310,200
Department of Transportation					
Division of Motor Vehicles Expansion and Heating, Ventilation, and Air Conditioning Renovation - Fond du Lac	0	0	0	979,300	979,300
Division of State Patrol District Headquarters Remodeling - Fond du Lac	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,139,400</u>	<u>1,139,400</u>
Subtotal	0	0	0	2,118,700	2,118,700
University of Wisconsin System					
Madison					
Chadbourne Residence Hall Renovation	0	6,599,000	0	0	6,599,000
Purchase of Facilities and 21 and 35 N. Park Street Parking and Housing	0	46,832,200	0	0	46,832,200
Research Park II - Roads and Utilities	0	15,000,000	0	0	15,000,000
Education Building Restoration, Renewal, and Addition	0	0	0	31,000,000	31,000,000
Elvehjem Museum Addition - Phase 1	0	0	0	31,530,000	31,530,000
Engineering Student Learning Center	0	0	0	538,000	538,000
Kegonsa Campus Production and Research Facilities - Stoughton	0	0	0	4,500,000	4,500,000
Wisconsin National Primate Research Center Addition - Phase 1	0	0	0	8,500,000	8,500,000
Waisman Center Renovation	0	0	0	6,000,000	6,000,000

ATTACHMENT (continued)

List of 2005-07 Building Program Projects Addressed in This Paper

	<u>General Obligation Bonding</u>			<u>Other Funding</u>	<u>TOTAL</u>
	<u>GPR</u>	<u>PR</u>	<u>SEG</u>		
University of Wisconsin System (continued)					
Milwaukee					
Golda Meir Library Remodeling - Phase 1	\$3,508,000	\$0	\$0	\$1,400,000	\$4,908,000
Oshkosh					
South Campus Parking Ramp	0	7,319,000	0	0	7,319,000
Platteville					
Pioneer Stadium Locker/Wrestling/Storage Building	0	644,000	0	0	644,000
Purchase of Residence Hall (West of Longhorn Drive)	0	20,000,000	0	0	20,000,000
Stevens Point					
Waste Management Laboratory	1,789,000	0	0	0	1,789,000
Stout					
Jarvis Science Wing Addition and Remodeling	40,637,000	0	0	0	40,637,000
Superior					
Jim Dan Hill Library Renovation	4,500,000	0	0	2,000,000	6,500,000
System					
Classroom Renovation/Instructional Technology	7,000,000	0	0	0	7,000,000
Utility Improvements - 3 Campuses	21,008,000	7,592,000	0	0	28,600,000
Whitewater					
College of Business and Economics Building	35,549,000	0	0	5,490,000	41,039,000
Sayles Residence Hall Renovation	<u>0</u>	<u>6,821,000</u>	<u>0</u>	<u>0</u>	<u>6,821,000</u>
Subtotal	113,991,000	110,807,200	0	90,958,000	315,756,200
Veterans Affairs					
120-Bed Skilled Nursing Facility - Chippewa Falls	0	0	0	24,500,000	24,500,000
Southern Wisconsin Veterans Retirement Center - Connector Walkways	0	0	0	3,410,500	3,410,500
Southern Wisconsin Veterans Memorial Cemetery - Phase 3 - Union Grove	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,500,000</u>	<u>4,500,000</u>
Subtotal	0	0	0	32,410,500	32,410,500
All Agency					
Facility Maintenance and Repair	122,377,000	31,351,100	3,924,300	12,789,800	170,442,200
Utilities Repair and Renovation	50,605,000	17,514,300	0	1,912,800	70,032,100
Health, Safety and Environmental Protection	25,928,000	3,354,500	0	319,000	29,601,500
Preventative Maintenance Program	2,000,000	2,000,000	0	0	4,000,000
Programmatic Remodeling and Renovation	10,000,000	409,300	0	2,456,500	12,865,800
Land and Property Acquisition	2,500,000	5,000,000	0	0	7,500,000
Capital Equipment Acquisition	<u>6,590,000</u>	<u>0</u>	<u>0</u>	<u>40,000</u>	<u>6,630,000</u>
Subtotal	220,000,000	59,629,200	3,924,300	17,518,100	301,071,600
Total-- All Projects	\$346,993,900	\$175,075,500	\$10,500,800	\$187,270,400	\$719,840,600