



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #777

### **Proceeds from Sale of UW System Property (UW System)**

[LFB 2005-07 Budget Summary: Page 499, #5]

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#### **CURRENT LAW**

The net proceeds from the sale of surplus state land or property are deposited to the budget stabilization fund.

#### **GOVERNOR**

Specify that current law procedures for the sale of surplus land by the Building Commission, which include approval by the Joint Committee on Finance if the fair market value exceeds \$20,000, would not apply to the Board of Regents from the bill's effective date through June 30, 2007. Require the Board to deposit the net proceeds from the sale of real property prior to July 1, 2007, into the UW System's general operations receipts PR appropriation for the general operations of the UW System. Require the Board of Regents to: (a) deposit sufficient proceeds in the bond security and redemption fund to pay off any outstanding debt relating to the property; (b) pay to the federal government any of the net proceeds required by federal law, if federal financial assistance was received for the property; and (c) adhere to any restriction governing the use of the proceeds, if the property were acquired by gift.

#### **DISCUSSION POINTS**

1. Under current law, the State Building Commission and Joint Committee on Finance must approve any proposed sale of surplus land or property. Currently, proceeds from the sale of surplus properties are deposited into the state's budget stabilization fund. Prior to the 2003-05 budget act, the proceeds from the sale of state buildings or state land were credited to the Joint Committee on Finance's supplemental appropriation. Under prior law, if the building or land was

used by a single agency, JFC was authorized to transfer up to half of the net proceeds back to the agency if requested by the agency; the Building Commission could request that any monies not transferred to an agency be transferred to the building trust fund.

2. AB 100 includes a reduction of UW System's GPR-funded general program operations appropriation by \$40 million in 2005-06 and \$25 million in 2006-07. According to the administration, these reductions include \$20 million in 2005-06 related to the management or sale of assets.

3. According to executive budget staff, the proposal to authorize the Board of Regents to retain proceeds from the sale of real property and other assets during the 2005-07 biennium is intended to offset the \$20 million reduction in 2005-06. The UW System would deposit the proceeds into the UW System's program revenue general operations receipts appropriation. According to executive budget staff, the GPR funding reduction would be offset through retention of funds from the sale of property or sale of revenue related assets such as parking concessions or power plants. In the absence of asset sale revenue, the UW System would need to reduce operations expenditures in order to accommodate this GPR reduction.

4. The Board of Regents has allocated \$10 million of the \$20 million reduction to campuses with the balance held in systemwide reserve until asset management savings have been identified. However, campuses and the Board of Regents have not publicly identified potential asset sales. In order to provide oversight of the sale of UW System assets, the Committee could retain the current requirement relating to surplus land or property that the Committee approve any sale with a value in excess of \$20,000.

5. In the past, the UW System Board of Regents has sought the authority to retain the proceeds from the sale of real estate acquired with non-GPR funds. One can argue that the current law provision does not provide financial incentive for the UW System to sell surplus properties, since such a sale would not benefit a campus. Under AB 100, the UW System would be able to retain the proceeds from the sale of property through July 1, 2007, unless they were acquired, constructed, or improved with federal financial assistance, or restricted by terms of a gift or grant.

6. Opponents of this provision argue that selling assets for ongoing operational expenditures, provides short-term budget relief in exchange for the permanent loss of real property or other assets. In addition, the potential sale of other assets, such as those associated with UW System enterprise and service delivery activities, could create monopolies for essential campus services, including parking, the provision of electricity, steam and chilled water, and other campus auxiliary services. One can argue that there is no guarantee that the sale of such assets to a private vendor would result in reduced long-term costs for the state or the UW System.

## **ALTERNATIVES**

1. Approve the Governor's recommendations.

2. Modify the Governor's recommendations to require Joint Committee on Finance approval of any property or other asset sales with a value in excess of \$20,000.
3. Delete the provision.

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