



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873  
Email: [fiscal.bureau@legis.wisconsin.gov](mailto:fiscal.bureau@legis.wisconsin.gov) • Website: <http://legis.wisconsin.gov/lfb>

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Joint Committee on Finance

Paper #178

### Non-State Projects in 2017-19 State Building Program (Building Program)

[LFB 2017-19 Budget Summary: Page 509, #6, Page 510, #7, and Page 511, #8]

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#### 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 2017-19 state building program to be included under Assembly Bill 64/Senate Bill 30 (AB 64/SB 30).

<u>Project</u>	<u>GPR-Supported Bonding</u>
Brown County Innovation Center	\$5,000,000
St. Ann Center for Intergenerational Care; Bucyrus Campus	5,000,000
La Crosse Center	<u>5,000,000</u>
Total	\$15,000,000

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

Specify that the Legislature finds and determines 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. Further specify that contracts for the project would not require approval of the DOA Secretary or the Governor.

## **DISCUSSION POINTS**

1. Given that the three, 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 provided to the Committee as required under Act 220. Because these three projects are part of the building program amendment to AB 34/SB 30, 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 biennium, the Building Commission and the Legislature have included several local projects as part of the biennial state building program. For example, in 2015 Act 55, the Legislature authorized \$23 million of GPR-supported bonding for three non-state projects. Since 1997, the state has provided a total of \$74,308,300 of GPR-supported bonding toward 26 local projects, as indicated in Table 1. Estimated annual GPR debt service on these bonds will be \$6.0 million and overall state financing costs associated with the projects will total an estimated \$119.3 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 Police 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 (2007 Act 20)	1,000,000
Aids Network (2009 Act 28)	300,000
Aids Resource Center (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)	5,000,000
Wisconsin Agriculture Education Center, Inc. (2015 Act 55)	5,000,000
Carroll University Science Laboratory Facility (2015 Act 55)	3,000,000
Eau Claire Confluence Arts Center (2015 Act 55)	<u>15,000,000</u>
<b>Total</b>	<b>\$74,308,300</b>

\*Funding for this project was deleted in 2015 Act 55.

\*\*Funding for this project was reduced by \$2,000,000 in 2015 Act 55.

3. In an effort aimed at addressing concerns related to the increased state debt associated with funding non-state projects, 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;
- a local project shall be submitted and reviewed following the same procedures used for state agency requests for funding through the capital budget. A local project is defined as one which is owned and maintained by a local unit of government or a private institution;
- 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 the state's bond counsel; and
- 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.

4. It is likely that the GPR-supported bonds for these three non-state projects would not be issued until late 2017-18, or later. Therefore, there would be little, if any, GPR debt service costs associated with the bonding recommended for the projects in the 2017-19 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 questions exist 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>
Brown County Innovation Center	\$400,000	\$8,000,000
St. Ann Center for Intergenerational Care; Bucyrus Campus	400,000	8,000,000
La Crosse Center	<u>400,000</u>	<u>8,000,000</u>
Total	\$1,200,000	\$24,000,000

5. 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.

6. The Building Commission recommendations indicated that seven non-state agency projects were submitted to the Commission for approval. Of these seven projects, The College of Osteopathic Medicine -- New Academic and Administration Building, Concordia University Wisconsin -- New Free Enterprise Center, Incourage -- Tribune Building Project, and Western Wisconsin Hmong Cultural Center -- Eau Claire were not recommended for enumeration.

7. Of the total 75 projects requested by state agencies, the Building Commission recommended enumeration or "All Agency" program funding for 29 of these projects for the 2017-19 state building program. Given that state agencies were denied a significant number of 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 \$15 million for a local, non-state projects.

8. Some have argued in the past that if a 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 indicated 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 the 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. Some may contend that the three local projects included in the Governor's recommended capital budget have a greater regional impact than a statewide impact. However, the administration has maintained that each of the three projects impact both their respective regions and the entire state. In defense of its position, the administration has stated that the La Crosse Center is a regional and state asset because it brings more people into Wisconsin. The Brown County Innovation Center is both a regional and state asset because the Fox Valley is an important component of the state's economic system and that development of the Center meets one of the state's objectives to develop more science, technology, engineering, and mathematics programs. Finally, the St. Ann's Center for Intergenerational Care, Bucyrus Campus is a regional and state asset because it provides services to a critical area that the state is focused on rebuilding. The administration also indicated that it is in the state's interest to ensure that Milwaukee is thriving because it is one of the state's economic engines.

### **Brown County Innovation Center**

10. The Brown County Innovation Center project involves construction of a 55,000 square foot, two-story facility to provide an educational, research, entrepreneurship, and community-based

training center. The Building Commission recommended enumeration of the Brown County Innovation Center at \$15 million and recommended \$5 million of general fund supported borrowing to partially fund the project [Alternative A1].

11. The Brown County Innovation Center would be the first development of the planned 240 acre Brown County Research and Innovation Park adjacent to the University of Wisconsin -- Green Bay (UWGB) campus. The Center would provide space for a number of programs, including the following: UWGB's Baccalaureate degree in Mechanical Engineering; UWGB's three existing Engineering Technology degree programs (electrical, mechanical and environmental); non-profit organizations such as The Einstein Project and the Greater Green Bay STEM Network; the Greater Green Bay Gigabit Initiative; and other community partnerships.

12. According to Brown County officials, the Center would initially be managed by Brown County in cooperation with primary and secondary education and industry partners. In the long-term, the County intends to create a management structure through a Board of Directors developed as a 501(c)(3) organization, similar to the Milwaukee Regional Innovation Center, Inc., or a 501(c)(6) organization, similar to the Milwaukee County Research Park Corporation.

13. The County intends that the Center's tenants, including UWGB, will enter into an operating agreement or lease with the County to pay operating costs based on each organization's occupancy and usage. County officials indicated that additional funds to pay for the Center's operational costs will be derived through the Brown County budget process and through anticipated fund raising efforts.

14. Although the Center will house several UWGB engineering programs, County officials indicated that neither UWGB nor the UW System will contribute towards funding construction of the Center. Of the remaining \$10 million of project costs not funded by the state grant, the County intends to bond for \$5 million, while the remaining \$5 million is intended to be paid from private donations through a fund raising campaign coordinated by the County, UWGB, and the Einstein Project.

15. The County has developed a request for proposals for architectural and engineering services associated with construction of the Center. County officials anticipate that a contract will be awarded by August, 2017, with a goal of opening the Center in September, 2019.

16. The project justification asserted that the Center would serve as a focal point for the region's growth plans by providing engineering training to meet Brown County's 18.5% increase in demand for engineering professionals since 2010. The justification also indicated that manufacturing is the largest employment sector in the Green Bay region with nearly one of every five workers in Brown County employed in the manufacturing industry. (According to the U.S. Bureau of Labor Statistics, the number of manufacturing jobs in the Green Bay region has remained around 30,000 between 2006 and 2016.) The justification further indicated that the Center would contribute towards the region's manufacturing sector, which increasingly requires technological knowledge, entrepreneurship, and research and development.

17. The project justification cites a 2014 study conducted by the National Center for

Higher Education Management Systems. Results of the study indicated that in 2013, there was a need for Baccalaureate Degree engineers in Northeast Wisconsin.

18. While the Green Bay region could benefit from a science, technology, engineering, and mathematics center, some may contend that construction of such a center should be funded from non-state sources. Of the total 29 projects requested by the UW System, the Building Commission recommended enumeration or "All Agency" program funding for eight UW System projects for the 2017-19 state building program. Given that UW campuses were denied their requests for GPR-supported bonding to finance academic facilities in the biennium, some may contend that the state should not, at the same time, provide \$5 million to Brown County for construction of the Brown County Innovation Center [Alternative A2].

### **St. Ann Center for Intergenerational Care; Bucyrus Campus**

19. The St. Ann Center for Intergenerational Care; Bucyrus Campus project involves completion (phase two) of a facility currently used to provide childcare and early childhood education and day care services for adults of varying physical and mental abilities in the City of Milwaukee. The Building Commission recommended enumeration of the St. Ann Center for Intergenerational Care; Bucyrus Campus project at \$25.3 million and recommended \$5 million of general fund supported borrowing to partially fund phase two of the project [Alternative B1].

20. The St. Ann Center for Intergenerational Care is open to members of the public for services including therapeutic massages, physical and occupational therapy, bathing for persons with disabilities, use of a warm water therapeutic pool, use of a hair salon, and medical services. St. Ann Center's original campus is located on Milwaukee's south side. Its second "Bucyrus Campus" is located on Milwaukee's north side and opened in September, 2015.

21. Phase one of construction of the Bucyrus Campus involved nearly \$19 million of renovations of an 80,000 square foot vacant property. To fund phase one, St. Ann Center applied approximately \$4 million of new market tax credits, \$3.6 million of mortgages, and \$11.4 million of private donations. Of the remaining \$6.3 million of project costs associated with phase two of the project, \$1.3 million is anticipated to come from private donations and grants, with the remaining \$5 million from the state grant.

22. According to Building Commission documents, state funding of \$5 million would be applied towards completion of the following: an 8,100 square foot Alzheimer's/dementia care unit; an 8,200 square foot overnight respite care unit with nine bedrooms, a handicapped-accessible bathing area, laundry room, activity room, kitchen, client socialization room, and storage area; completion of two remaining childcare classrooms totaling 1,600 square feet; a 1,500 square foot intergenerational multi-fiber arts room; a 6,600 square foot aquatic center (pool/whirlpool and locker rooms); construction of a 350-seat wheelchair-accessible outdoor band shell and lighted walkway; a 2,400 square foot gymnasium that will be open to the public; completion of a 600 square foot beauty salon; and 700 square feet of office space and an interior corridor. According to St. Ann Center staff, construction of phase two of the Bucyrus Campus is anticipated to be complete by December 31, 2017 to allow for opening the new units on January 1, 2018.

23. St. Ann Center staff indicated that the anticipated daily occupancy of the Bucyrus Campus once complete is 350 adults and 200 to 240 children. In addition, dozens of clients are anticipated to visit the Bucyrus Campus each week for services including baths, massage appointments, hair appointments, and various forms of therapy. With completion of the Bucyrus Campus, staff anticipate accommodating 24 to 30 additional children for early childhood education, over 150 adults for day services, nine clients per day in the overnight respite care unit, and hundreds of children for swim lessons annually. With completion of the Bucyrus Campus's band shell, hundreds more individuals are anticipated to visit the Bucyrus Campus each week for religious ceremonies and musical, theatrical, and other performances.

24. St. Ann Center staff indicated that the childcare and adult day care areas of the Bucyrus Campus are currently filled to capacity with growing waiting lists. In one year of operation, the number of adults and children who attend the Bucyrus Campus nearly equaled those who attend the St. Ann Center south side campus (148 adult clients and 138 children aged 6 weeks to 17 years-old). The waiting list for one-year-old childcare reached a high of 18 children, but declined after it became evident that the two one-year-old classrooms would not be completed in phase one of the project.

25. St. Ann Center currently employs 69 permanent staff at its Bucyrus Campus. In keeping with the St. Ann Center philosophy of "building the neighborhood from within," over 90% of currently employed individuals live in the surrounding neighborhood. St. Ann Center staff indicated that 200 to 220 staff will be employed at Bucyrus Campus once it is complete. Of these employees, approximately 18 to 20 are anticipated to be part-time.

26. St. Ann Center staff indicated that the incomplete property negatively affects operations of the Bucyrus Campus in terms of staffing and costs. Currently, administrators oversee both the existing and new program areas that are to be added with phase two of the project, which has created a strain on staff workloads. According to St. Ann Center staff, high occupancy levels maintain lower operational costs. However, because the incomplete facility incurs occupancy costs associated with the entire facility, such as those from utilities and security, St. Ann Center must pay for such costs with lower cash flows due to the facility not being fully operational.

27. Completion of the Bucyrus Campus will have a positive impact on St. Ann Center's clients and the surrounding neighborhoods. However, given that state agencies were largely denied their requests for GPR-supported bonding to finance their capital needs in the biennium, some may contend that the state should not, at the same time, provide \$5 million for a local, non-state project like the St. Ann Center for Intergenerational Care; Bucyrus Campus [Alternative B2].

### **La Crosse Center**

28. The La Crosse Center project involves renovation and expansion of a multi-purpose convention center located in the City of La Crosse. The Building Commission recommended enumeration of the La Crosse Center at \$47 million and recommended \$5 million of general fund supported borrowing to partially fund the project [Alternative C1].

29. The multi-purpose La Crosse Center is located in downtown La Crosse and is owned

and operated by the City of La Crosse. Originally constructed in 1980, the Center consists of approximately 100,000 square feet of space, including an 8,000 person capacity arena, an 18,000 square foot multi-purpose room ("North Hall"), and a 3,000 square foot room ("Zielke Suite") overlooking the Mississippi River. Annually, the Center hosts approximately 400,000 guests and 200 events including concerts, conventions, meetings, and sporting events.

30. According to Building Commission documents, project activities would include remodeling the existing venue, development of a new ballroom, and addition of a new lobby, which would function as an added gathering space. According to Center staff, construction would tentatively begin in spring, 2018, with a goal of completing the renovation and expansion by the end of 2019.

31. A goal of the renovation and expansion is to assist the La Crosse Center retain and attract large events. According to Center staff, the annual number of conventions hosted by the Center peaked in the early 2000s, when approximately 40 conventions were facilitated at the Center each year. In recent years, the Center has facilitated approximately 25 to 27 conventions each year. Center staff indicated that the Center currently hosts several large events that are growing in size. Without the renovation and expansion, the Center may be unable to accommodate such events in upcoming years. (An example of a growing event currently hosted by the Center is the Midwest Organic & Sustainable Education Service (MOSES) Conference.) Center staff indicated that the expansion and renovation could also help attract new, larger events that have expressed interest in operating at the Center in the past, but that are currently too large for the Center to accommodate.

32. In June, 2016, the City of La Crosse gave approval for the La Crosse Center to bond for \$35 million of expansion and renovation costs. Accounting for the \$5 million of general fund supported borrowing recommended by the Building Commission, the remaining \$7 million of project costs would need to be funded from other sources. According to Center staff, funding sources for the remaining project costs are not yet identified, but could come from the sale of facility naming rights or from cost savings due to revising the project design.

33. In 2015, Convention, Sports & Leisure International completed a market analysis study for the La Crosse Center. Results of this study suggested that without improvements to the aesthetic and physical layout of the Center, combined with the continued growth of regional competitive venues, the overall number of events hosted by the Center would slowly decline in the near term, leading to a quicker decline in the future. The market analysis study also indicated that the hotel base adjacent to the Center was somewhat limited when the study was completed in 2015. According to Center staff, four new hotels have opened in the adjacent area since then, adding approximately 450 new rooms nearby.

34. The market analysis study suggested improvements to the Center would not add significant net income to the Center's operations due to increased costs resulting from operating the additional space. However, the study indicated that the Center could see an increase in incremental operating revenue due to added event activity.

35. Renovation and expansion of the La Crosse Center is anticipated to help the Center retain and attract large events. However, given that 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 La Crosse Center [Alternative C2].

**ALTERNATIVES**

**A. Brown County Innovation Center**

1. Approve the proposed \$15,000,000 Brown County Innovation Center project to be funded with \$5,000,000 GPR-supported bonding and a \$10,000,000 grantee match.

<b>ALT A1</b>	<b>Base</b>	<b>Change to Building Program</b>
BR	\$5,000,000	\$0

2. Delete the proposed project from the building program.

<b>ALT A2</b>	<b>Base</b>	<b>Change to Building Program</b>
BR	\$0	-\$5,000,000

**B. St. Ann Center for Intergenerational Care; Bucyrus Campus**

1. Approve the proposed \$25,268,200 St. Ann Center for Intergenerational Care; Bucyrus Campus project to be funded with \$5,000,000 GPR-supported bonding and a \$20,268,200 grantee match.

<b>ALT B1</b>	<b>Base</b>	<b>Change to Building Program</b>
BR	\$5,000,000	\$0

2. Delete the proposed project from the building program.

<b>ALT B2</b>	<b>Base</b>	<b>Change to Building Program</b>
BR	\$0	-\$5,000,000

**C. La Crosse Center**

1. Approve the proposed \$47,000,000 La Crosse Center project to be funded with \$5,000,000 GPR-supported bonding and a \$42,000,000 grantee match.

<b>ALT C1</b>	<b>Change to</b>	
	<b>Base</b>	<b>Building Program</b>
BR	\$5,000,000	\$0

2. Delete the proposed project from the building program.

<b>ALT C2</b>	<b>Change to</b>	
	<b>Base</b>	<b>Building Program</b>
BR	\$0	- \$5,000,000

Prepared by: Emma Schumann