

Building Commission

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LFB Summary Items for Which an Issue Paper Has Been Prepared

<u>Item #</u>	<u>Title</u>
3	Use of Proceeds from the Lease or Sale of State-Owned Real Property (Paper #175)
-	Bond Security and Redemption Fund Interest Earnings (Paper #176)
-	Interest Savings from Bond Prepayment (Paper #177)



Legislative Fiscal Bureau

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June, 2019

Joint Committee on Finance

Paper #175

Use of Proceeds from the Lease or Sale of State-Owned Real Property (Building Commission)

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CURRENT LAW

If there is any outstanding public debt used to finance the acquisition, construction, or improvement of property leased or sold by the state, the Department of Administration (DOA) or the Building Commission must deposit the net proceeds from the lease or sale into the bond security and redemption fund to repay the principal and to pay the interest on the debt and to pay any premium due upon refunding any of that debt. DOA or the Building Commission must also allocate an amount from the net proceeds to pay for the costs of maintaining federal tax law compliance applicable to the debt. If the property was acquired, constructed, or improved with federal financial assistance, DOA or the Building Commission must pay to the federal government any of the proceeds required by federal law. If the property was acquired by gift or grant or with gift or grant funds, DOA or the Building Commission must adhere to any restriction governing the use of the proceeds. If there is no debt outstanding on the property, there are no moneys payable to the federal government, and there is no restriction governing use of the proceeds, and if the net proceeds exceed the amount required to be deposited, paid, or used for another purpose, DOA or the Building Commission must use the net proceeds (or remaining net proceeds) to pay principal and interest costs on outstanding public debt issued to finance the acquisition, construction, or improvement of other state property. If any net proceeds remain thereafter, DOA or the Building Commission must use the net proceeds to pay principal and interest costs on other outstanding public debt.

GOVERNOR

Authorize DOA or the Building Commission to deposit some or all of the net proceeds from the lease or sale of state-owned real property, not to exceed the amount that would have been deposited into the bond and security redemption fund under current law, into the capital

improvement fund for use as a substitute source of funding for a project enumerated under the authorized state building program that is within the same statutory bond purpose as the property leased or sold. Specify that DOA or the Building Commission would be responsible for determining which projects to fund and would authorize expenditures for those projects. Modify the current factors considered by DOA or the Building Commission to also consider the costs of establishing an escrow needed to redeem the outstanding debt and the costs of maintaining federal tax law compliance in the selection of the project financed with the lease or sale proceeds. Specify that if DOA or the Building Commission deposits lease or sale proceeds into the capital improvement fund for use as a substitute source of funding, the amount of public debt that may be contracted under the statutory bond purpose for which the amount deposited is used as a substitute funding source would be reduced by the amount used as a substitute source of funding.

Require that if there are any outstanding revenue obligations used to finance the acquisition, construction, or improvement of any property that is leased or sold, DOA and the Building Commission must adhere to any restrictions in the authorizing resolution governing the use of the lease or sale proceeds. To the extent the authorizing resolution does not restrict the use of such proceeds, authorize DOA or the Building Commission to deposit an amount in the appropriate revenue obligation fund or apply the amount for a purpose for which similar revenue obligations may be issued under current law. Specify that if the net proceeds exceed the amount required to be deposited, paid, or used for another purpose, then in addition to paying debt service, the net proceeds or the remaining net proceeds could be used for a purpose for which similar revenue obligations may be issued under current law. Specify that if DOA or the Building Commission deposits net proceeds from a property leased or sold into an appropriate fund or applies net proceeds for a purpose for which revenue obligations may be issued, the amount of revenue obligations authorized under current law would be reduced by the amount deposited or applied.

Specify that these exceptions do not apply to certain bonds authorized for the Milwaukee Initiative, the Wisconsin Initiative for State Technology and Applied Research Program, the HealthStar Program, the BioStar Initiative, amounts allocated for the repair and renovation of University of Wisconsin System facilities under the Wisconsin Initiative for State Technology and Applied Research Program, and for the Bradley Center Sports and Entertainment Corporation.

MODIFICATION

Delete the items that would exclude certain bonds authorized for the following projects from the Governor's recommendation: the Milwaukee Initiative, the Wisconsin Initiative for State Technology and Applied Research Program, the HealthStar Program, the BioStar Initiative, amounts allocated for the repair and renovation of University of Wisconsin System facilities under the Wisconsin Initiative for State Technology and Applied Research Program, and for the Bradley Center Sports and Entertainment Corporation.

Explanation: The Governor's proposal would allow DOA and the Building Commission to use the net lease or sale proceeds of state property as a substitute source of funding for a project enumerated under the authorized state building program that is within the same statutory bond purpose as the property leased or sold. In an errata letter submitted to the Committee on May 1, 2019, the administration indicated it did not intend to exclude the following projects from

the Governor's proposed changes to the use of proceeds from the lease or sale of state-owned real property: the Milwaukee Initiative, the Wisconsin Initiative for State Technology and Applied Research Program, the HealthStar Program, the BioStar Initiative, amounts allocated for the repair and renovation of University of Wisconsin System facilities under the Wisconsin Initiative for State Technology and Applied Research Program, and for the Bradley Center Sports and Entertainment Corporation. This modification would accept the Governor's recommendation and delete the items that would exclude these projects from the Governor's recommendation.

Prepared by: Emma Drilias



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Paper #176

Bond Security and Redemption Fund Interest Earnings (Building Commission)

CURRENT LAW

Interest earnings on moneys deposited to the bond security and redemption fund are applied to debt service payments, which results in a lapse to the general fund from the various GPR sum sufficient debt service appropriations equal to the amount of the interest earned.

GOVERNOR

No provision.

MODIFICATION

Estimate a general fund lapse of -\$300,000 in each year of the 2019-21 biennium to reflect GPR savings from the use of interest earnings on funds deposited to the bond security and redemption fund.

Explanation: Payments on the state's outstanding debt (principal and interest) are made from the bond security and redemption fund (BSRF). Any interest earned on moneys deposited to this fund reduces the amount transferred from the general fund to the BSRF to make debt service payments equal to the amount of the interest earned. The annual -\$300,000 lapse would reflect interest earnings that are estimated to accrue in the bond security and redemption fund in both years of the 2019-21 biennium.

	Change to	
	Base	Bill
GPR-Lapse	-\$600,000	-\$600,000

Prepared by: Emma Drilias



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Paper #177

Interest Savings from Bond Prepayment (Building Commission)

CURRENT LAW

In each year of the 2019-21 biennium, the general fund will pay \$2.4 million GPR for interest costs associated with \$56.2 million of outstanding general obligation debt from three specific bond issues with call dates in 2019-20 and 2021-22. Total GPR debt service (both principal and interest) on all GPR supported general obligation debt is estimated to be \$572.4 million in 2019-20 and \$563.8 million in 2020-21.

On May 15, 2019, the Legislative Fiscal Bureau estimated that the ending balance in 2018-19 for the general fund will be higher than previously estimated by \$312 million.

GOVERNOR

Use a portion of the estimated \$312 million increase to the 2018-19 general fund balance to prepay \$56.2 million of outstanding general obligation debt.

MODIFICATION

Estimate savings to the general fund equal to \$2.4 million in each year of the 2019-21 biennium to reflect GPR savings on interest costs due to prepaying \$56.2 million of outstanding general obligation debt.

Explanation: The Governor is using a portion of the estimated \$312 million increase to the general fund balance in 2018-19 to pay off \$56.2 million of outstanding general obligation debt. Due to this decision, the state will not pay \$2.4 million of annual interest costs scheduled for payment in 2019-20 and 2020-21, which will result in general fund savings equal to \$4.8 million in the 2019-21 biennium. From 2021-22 through 2030-31, GPR debt service associated with these specific bond issues will be reduced by an estimated \$65.7 million, for a total savings from this transaction of \$70.5 million in GPR debt service, at the cost of an

initial prepayment of an estimated \$57.3 million GPR in 2018-19.

	Change to	
	Base	Bill
GPR-Lapse	- \$4,800,000	- \$4,800,000

Prepared by: Emma Drilias

BUILDING COMMISSION

LFB Summary Item for Which No Issue Paper Has Been Prepared

<u>Item #</u>	<u>Title</u>
1	Debt Service Reestimate

LFB Summary Item Addressed in a Previous Paper

<u>Item #</u>	<u>Title</u>
2	Transfer from the General Fund to the State Building Trust Fund (Paper #122)