



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #188

Out-Year Bonding for UW System Projects (Building Program)

[LFB 2005-07 Budget Summary: Page 96-8, #5 and #6, and 96-9, #7]

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.

BUILDING COMMISSION

A. Wisconsin Institute for Discovery

Create a program to be known as the Wisconsin Institute for Discovery (WID) for the purpose of providing financial support to attract federal and private funds to construct facilities for biotechnology, nanotechnology, and information technology education and research activities at the UW-Madison. Specify that projects financed under the WID program would have to be designed to provide computational and biological sciences education and research facilities, ancillary systems, and supporting infrastructure. Specify that the WID program projects would be financed from the Building Commission's other public purpose bonding authorization or as otherwise authorized in the state building program.

Provide \$137.5 million in general fund supported bonding (GFSB) under the Building Commission's other public purpose bonding authorization, in addition to any existing Biostar project funds (\$50 million of this existing bonding would be allocated under the 2005-07 building program) that would be used for WID projects. Issuance of the \$137.5 million in bonds could not to exceed the following amounts on the following dates:

- a. \$0 through the 2005-07 biennium and 2007-09 biennium;
- b. \$45.5 million through the 2009-11 biennium;
- c. \$91.0 million through the 2011-13 biennium; and
- d. \$137.5 million through the 2013-15 biennium.

An additional \$193.2 million for WID would be funded from gifts and grants.

B. UW-Madison University Square Development

Enumerate the purchase of space at University Square at UW-Madison at a total project cost of \$56,850,000. Authorize \$39,850,000 GFSB and \$17,000,000 of program revenue supported bonding (PRSB) to fund the purchase of space at University Square. Specify that the \$39,850,000 GFSB could not be issued until the 2007-09 biennium.

C. UW-Platteville Tri-State Initiative Facilities

Enumerate the construction of the tri-state initiative facilities at UW-Platteville at a total project cost of \$50,615,000. Authorize \$20,000,000 GFSB, \$23,100,000 PRSB and \$7,515,000 in gifts or grants to fund the project. Specify that the \$20,000,000 GFSB could not be issued until the 2007-09 biennium.

Modify the UW System's tuition appropriation to authorize the use of tuition for: (a) the payment of principal and interest costs incurred in financing the construction of the tri-state initiative facilities at UW-Platteville, which would be enumerated as part of the 2005-07 state building program; (b) to make payments, as determined by the Building Commission, that are attributable to the proceeds of obligations incurred in financing the facilities; and (c) to make payments under any agreement or ancillary arrangement that may be entered into that is associated with the issuance of public debt.

Specify that the UW-System Board of Regents would be required to first use differential tuition charged to nonresident students enrolled at UW-Platteville to make the debt service payments. Require that if this differential tuition is insufficient to make the debt service payments, the Board of Regents would have to use other tuition monies to make the payments. Provide that the tuition appropriation could be used to make debt service payments. In addition, specify that if tuition revenues are insufficient to cover the annual debt service payments due to be paid from the appropriation, funds may be advanced from an existing Building Commission debt service appropriation, which guarantees the payment on certain self amortizing debt and is to be reimbursed for any amount advanced.

D. UW-Milwaukee St. Mary's Columbia Campus Medical Facilities

Enumerate the purchase of St. Mary's Columbia Campus Medical Facilities for UW-Milwaukee at a total project cost of \$112,120,000. Specify that, beginning on July 1, 2007, and ending on June 30, 2009, not more than 50% (\$28,265,000) of the GFSB and 50% (\$27,795,000) of the PRSB could be incurred. Beginning on July 1, 2009, the remainder of the bonding could be incurred.

E. UW-Madison Sterling Hall Renovation

Enumerate a renovation project at UW-Madison relating to Sterling Hall at a total project budget of \$39,500,000. Authorize \$37,500,000 GFSB and \$2,000,000 in gifts and grants for this project. Specify that \$20,000,000 GFSB could not be issued until the 2007-09 biennium.

DISCUSSION POINTS

A. Wisconsin Institute for Discovery

1. Each biennial building program generally focuses on projects for that biennium proposed by UW System campuses and approved by the Board of Regents for inclusion in the UW System's capital budget recommendations. In recent biennia, the Commission and the Legislature have chosen to enumerate specific projects or categories of projects with a delayed effective date for the bonding. For example, both the Wistar and Biostar programs were provided with out-year bonding in order to complete different phases of the project.

2. Governor Doyle proposed providing bonding authority for WID to strengthen UW-Madison's leadership position in science and engineering. The facility would be utilized for a broad array of research with a focus on interdisciplinary research requiring shared, flexible research space to bring together biologists, computer scientists, engineers, medical faculty, statisticians, chemists, and informatics researchers for federal and privately funded research grants. Funding for the WID facility would follow the Wistar and Biostar model with overall program funding at a 50/50 match between general fund supported bonding and gift and grant monies and the new buildings funded over a ten-year period for a total cost of \$380,700,000. Donors for the project have not been publicly identified.

3. The proposal calls for WID to be constructed in three phases, with the first phase being a \$150,000,000 facility constructed with \$100,000,000 in gifts and \$50,000,000 of existing GFSB originally identified for the fourth Biostar building. The fourth Biostar building, the interdisciplinary biology building, was to be started in 2005-07 with construction continuing through 2007-09. The planned interdisciplinary facility would be incorporated into WID with the original purpose of providing improved facilities for university-wide undergraduate programs and cross-college, graduate level training programs in the biological sciences along with interdisciplinary research space. Phases two and three would be constructed during the 2009-11 and 2013-15 biennia. When completed, the facility would contain 750,000 square feet with 510,000

square feet for research space, 195,000 for education and outreach, and 45,000 square feet for business development offices.

4. The three phases would be constructed from west to east on a site between University Avenue and Johnson Street with existing UW-Madison tenants moved to either existing or new facilities. The occupants of buildings to be cleared for the first phase of WID would be moved to existing UW-Madison facilities. Subsequent phases would require removal and replacement of a service building for physical plant, an electrical substation, and Brogden Hall. The Psychology Department currently occupies Brogden Hall; however, they would move to Sterling Hall in 2007-09 if the proposed Sterling Hall remodeling was enumerated in the 2005-07 biennium. Brogden Hall would serve as temporary space for the education department until the building, built in the early 1960s, would be demolished for the third phase of WID in 2013-15.

5. Proponents of WID support the 2005-07 building program recommendations in recognition of the potential importance of the development and transfer of new bio- and health-care related technologies for Wisconsin's future economic growth. Ties between the University and the private sector for technology transfer would be facilitated through space devoted to technology incubation and transfer, including office and conference space, and would be utilized to provide a catalyst for economic development based on UW-Madison research.

6. The facility would provide additional research space for UW-Madison to remain competitive in attracting additional federal and private research funds. Currently, UW-Madison has approximately 3.0 million square feet for research space. Total research space has grown by approximately 15% over the past 10 years, in part, to accommodate demand for space from increases in extramural research awards granted to UW-Madison. Over the past 10 years, extramural research awards from federal and non-federal sources have increased by approximately 90%, from \$372.6 million in 1994-95 to \$704.8 million in 2003-04. Compared to other major research universities, UW-Madison ranks among the top five for total research and development expenditures and among the top 10 recipients of federal research grants.

7. The additional space would require additional maintenance and custodial staff, and utility costs associated with the new space. However, UW-Madison has not identified estimates of operating and fuel and utility costs for the facilities. For both the Wistar and Biostar program, UW-Madison was required to cover the increased operating costs associated with the new facilities through base reallocations and through additional program revenue funds available for custodial services through federal indirect cost reimbursements and other program revenue funds. The additional space associated with WID would increase UW-Madison's fuel and utility costs; traditionally, fuel and utility costs associated with research space have been funded through GPR while academic facilities are funded through a mix of tuition and GPR. The debt service costs would total approximately \$15.0 million GPR annually at current interest rates.

8. For the 2005-07 biennium, the Regents did not directly request the facilities at UW-Madison associated with the WID recommendation; however, the portion of the facility related to the fourth phase of BioStar was already enumerated for the 2005-07 biennium. UW-Madison has

expressed a need for interdisciplinary research space that would be provided through WID in order to remain competitive with other top research institutions, and the space provided in the three phases of WID represents UW-Madison's top research facility building priorities over the next few biennia. Proponents argue that the out-year bonding enumeration for WID would demonstrate the state's commitment to strengthening UW-Madison's position as a national leader in biological science research, increase its ability to attract research funding and top research faculty, and could increase the University's ability to raise the significant level of gift funding necessary for each phase of the project.

9. However, it could be argued that UW-Madison should be required to receive enumeration for each phase as they are requested, a practice that is typically followed for other UW System building projects and those of other state agencies. Given concerns about overall GFSB and potential limits on the issuance of debt in future biennia, the existing enumeration for WID could reduce the level of bonding available to UW System campuses for their other building priorities in future biennia. Subsequent separate enumerations for each phase of WID would require UW-Madison to: (a) demonstrate their need for additional research space; (b) show their ability to continue attracting additional federal and private research grants; (c) demonstrate whether they can generate the gift funding for each phase; and (d) require UW-Madison to compete among other UW System building priorities for available bonding.

B. UW-Madison University Square Development

10. The Building Commission's 2005-07 building program recommendations include a \$56,850,000 enumeration to purchase a portion of the development at University Square Mall adjacent to the UW-Madison campus on the 700 block of University Avenue. The owner of the mall intends to replace the 25-year-old facility with a modern, mixed use development and has proposed a private-public partnership in this location to co-locate three University functions at the site. The development will also include privately developed commercial space, student housing, and underground parking.

11. The space available in the University Square project would accommodate the following three university functions: (a) approximately 53,000 assignable square feet (ASF) for consolidated clinical, counseling, and administrative offices for University Health Service (UHS); (b) 40,000 ASF for the Student Activity Center (SAC), which includes meeting rooms, work areas, and offices for student organizations and the general student body; and (c) 39,000 ASF of office space for student financial services, the campus registrar, and the bursar's office. The location of the University Square site along Murray Mall in the center of campus presents UW-Madison with an opportunity to consolidate offices and provide additional space for these functions that have significant contact with students.

12. The administrative offices and the student health services portion of the project would be funded through the out-year general fund supported bonding. Student segregated fees would fund space related to the SAC and a portion of the UHS space. Regent guidelines currently require UHS space to be funded with GPR while the operations are generally supported through

student segregated fees. The Regents made an exception to this policy based on a 1999 UW-Madison student referendum, in which students sought and received approval for segregated fee increase not to exceed \$20 per year per student to consolidate and expand UHS space and health services along with funding SAC space.

13. The Commission's recommendation would fund the purchase of office space for UHS, SAC, student financial services, the registrar, and campus bursar from the private developer of the project. As requested in its agency building request, the PRSB would be available in the 2005-07 biennium, and the GFSB would be enumerated for expenditure in 2007-08. The actual purchase of the office space would be expected at the time of occupancy.

14. Prior to construction, UW-Madison will be requesting permission from the Building Commission to enter into a ground lease to permit construction of the facility on University owned land. The developer currently owns the east and central part of the site occupied by the mall, and the University owns a parking lot on the west part of the property.

15. The Commission's recommendations indicate that the site of the University Square project is ideal for UHS, which has been located in inadequate space in multiple locations, and that it would provide centralized space for the other student service functions. In addition, the new space would complete the relocation of tenants of the A.W. Peterson Administration Building and make the site available for two gift-funded projects--the expansion of the Chazen Museum (formerly known as the Elvehjem Museum) and a new music performance space. According to Building Commission staff, the out-year bonding commitment provides advance assurance to the project's developer of the state's commitment to the project and enables the University, with subsequent Building Commission approval, to enter into a lease agreement with a purchase option when the bonding authority becomes available for their portion of the space.

C. UW-Platteville Tri-State Initiative Facilities

16. The UW System Board of Regents approved the tri-state initiative, a differential tuition program for new, entering non-resident undergraduate students who attend UW-Platteville from the states of Illinois and Iowa beginning in the fall of 2005-06. UW-Platteville would target students who select or are strongly considering workforce related majors in engineering, professional, or technical degrees with the goal of providing additional graduates in these programs to fill critical state workforce needs in these areas.

17. Under the program, eligible students would be charged the resident tuition rate (\$4,000 in 2004-05) plus a premium of \$4,000 per year, which would be a discount of approximately \$6,000 from the standard nonresident tuition rate of approximately \$14,000, for eligible students from Illinois and Iowa. The premium would remain the same through 2006-07. The tuition related to the additional enrollment has been planned to cover 100% of the marginal cost per student, administrative costs, and the debt service for all initiative-related remodeled or new facilities. UW-Platteville would need to expand both state supported and auxiliary operations on campus in order to fully implement the planned additional enrollment of 2,000 students by 2011-12.

18. Under its 2005-07 building program recommendations, the Building Commission recommends combining UW-Platteville's request for the Ullsvik addition and remodeling project and the new engineering facility to create the Tri-State Initiative with total funding of \$50,615,000. Funding for the project includes \$20,000,000 GFSB, of which \$10,000,000 would not be available until 2007-09, \$21,500,000 PRSB from tri-state student tuition revenue, \$1,600,000 PRSB from operational revenue, and \$7,515,000 gifts. The Commission combined the projects in order to ensure that they would be completed in a timely manner to handle the increase in student population related to the tri-state initiative. The advance enumeration for the project was included since the construction schedule would not require the state to issue a portion of the bonding until 2007-09.

19. The UW System Board of Regents included both the Ullsvik Center and engineering building in their major project recommendations for the 2005-07 biennium. The Ullsvik Center remodeling and addition would provide space for the campuses administrative functions, new classrooms, and offices for faculty and academic staff. In addition, the funding request included program-revenue supported bonding related to the renovation of existing banquet facilities, kitchen, and public assembly spaces. As with the Building Commission recommendation, the funding request for the engineering building was funded with tuition revenue associated with the tri-state enrollments. The current engineering building does not have adequate space for laboratories, and office capacity to support current engineering enrollment and the campuses long-term plan called for expanded engineering space prior to the planned enrollment increases related to the initiative.

20. The Building Commission's proposal includes a modification to the UW System's tuition appropriation to authorize the use of tuition for the payment of principal and interest costs and other costs associated with the issuance of public debt that are incurred in financing the construction of the tri-state initiative facilities. Total estimated debt service associated with the tuition portion of the project would be \$1.7 million annually. In planning for the initiative, the campus has considered the debt service costs and will establish a tuition reserve from tri-state tuition revenues to accommodate potential enrollment and revenue fluctuations. However, the ability of the campus to make these debt service payments from tri-state tuition revenues would depend on sufficient non-resident students attending and paying the \$4,000 tuition premium.

21. Currently, debt service for academic buildings is provided through a GPR-funded debt service appropriation under the UW System and tuition revenue is not used to directly fund debt service. Concern could be raised that permitting the payment of debt service from the UW System tuition appropriation could establish a precedent for future issuance of debt funded through tuition. In addition, if tuition revenue associated with the tri-state initiative did not materialize, the tuition portion of the facilities' funding would need to draw upon tuition revenue from existing students once the reserves have been depleted.

22. In order to provide oversight of the tuition-funded principal and interest related to the tri-state project, and limit future tuition-funded debt service for academic buildings, the Committee could create a separate PR debt service appropriation under the UW System. The new debt service appropriation would be funded from tri-state initiative tuition revenue at UW-Platteville. Similar to the Building Commission recommendation, the UW-System Board of

Regents could be required to first use differential tuition charged to nonresident students enrolled at UW-Platteville to make the debt service payments. In addition, the provision could require that if the differential tuition were insufficient to make the debt service payments, the Board of Regents could use other tuition monies to make the payments and annually report the transfer related to the difference to the Joint Committee on Finance and the Department of Administration by October 15th.

D. UW-Milwaukee Columbia Acquisition

23. The Columbia Hospital campus in Milwaukee contains 828,000 GSF in existing buildings, a 788 stall five level parking garage and 174 surface parking stalls on 10.9 acres adjacent to the northwest side of the UW-Milwaukee campus. The owner of the facility (Columbia-St. Mary's) plans to consolidate its operations at another site in Milwaukee over the next four to five years. Given UW-Milwaukee's urban setting, surrounding development, and build-out of the existing campus, the UW System Board of Regents has identified the site as a priority acquisition. Acquisition of the facility would increase the campus's parking capacity, provide additional student housing, and provide additional space for academic programs, classrooms, and support spaces.

24. UW-Milwaukee has conducted a feasibility study of the Columbia property to evaluate the condition of the facilities and the implications of the acquisition of the property for the campus. In order to best utilize the existing space, portions of the existing facilities would require renovation or demolition and replacement. The Building Commission recommends enumerating the project in the 2005-07 building program with the bonding for the project not available until the 2007-09 and 2009-11 biennia. The total estimated cost of the project would be \$112.2 million with a maximum of \$56,530,000 GFSB available for the project with the balance from PRSB. Parking, student housing, and food service operations would be the primary sources of program revenue for the site.

25. The Commission recommends advance enumeration in order to plan for the acquisition and remodeling of the Columbia Hospital facilities. UW-Milwaukee has not made a decision on the purchase of the property and has not negotiated a purchase price for the property. Nonetheless, the UW System feels that enumeration at this time would enhance the UW System Board of Regent's bargaining position with regard to the current owner and potential partners in the redevelopment of the property.

E. UW-Madison Sterling Hall Renovation

26. The renovation project at Sterling Hall would allow the movement of the Psychology Department to Sterling Hall. Sterling Hall was constructed in 1916, with an east wing addition in 1959, which was severely damaged in 1970 and repaired. Sterling Hall has served both Physics and Astronomy.

27. By renovating Sterling Hall, the Psychology Department could vacate their current space at Brogden, which could be used as surge space as other departments move to accommodate

other major campus projects. The renovations to Sterling Hall would provide Psychology with additional space for research labs and to meet the space needs of the Department.

28. The Building Commission's recommendations would delay the issuance of \$20 million of bonding for this project until the 2007-09 biennium. This delay would reduce the amount of bonding available for immediate issuance in the 2005-07 biennium, although it would add to the amount of bonding advance-committed for the 2007-09 biennium. The capital budget recommendations identify a construction schedule relating to the renovations that will take approximately two-years, so that bonds issued after June 30, 2007, could provide funds for the later portions of the project.

ALTERNATIVES

A. Wisconsin Institute for Discovery

1. Approve the Building Commission's recommendations to create the WID for the purpose of providing financial support to attract federal and private funds to construct facilities for biotechnology, nanotechnology, and information technology education and research activities at the University of Wisconsin. Specify that projects financed under the WID program would have to be designed to provide computational and biological sciences education and research facilities, ancillary systems, and supporting infrastructure. Specify that the WID program projects would be financed from the Building Commission's other public purposes bonding authorization or as otherwise provided in the authorized state building program.

Enumerate the WID program as part of the 2005-07 state building program at a total project cost of \$380,700,000. Authorize \$137,500,000 GFSB for the program and specify that \$50,000,000 in existing GFSB for the Biostar program and \$193,200,000 in gifts, grants, and other receipts would be provided to fund WID projects.

Provide \$137.5 million GFSB under the Building Commission's other public purposes bonding authorization, in addition to any existing Biostar project funds (\$50 million of this existing bonding would be allocated under the 2005-07 building program) that would be used for WID projects. The \$137.5 million bonding authorization would not be allowed to exceed the following amounts on the following dates:

- a. \$0 through the 2005-07 biennium and 2007-09 biennium;
- b. \$45 million through the 2009-11 biennium;
- c. \$91 million through the 2011-13 biennium; and
- d. \$137.5 million through the 2013-15 biennium.

Alternative A1	BR
2005-07 REVENUE (Change to Bill)	\$137,500,000

2. Modify the Building Commission's recommendations by creating the WID program and providing only the \$50,000,000 in existing GFSB initially provided for the Biostar program to fund the projects. Enumerate a \$100,000,000 WID program as part of the 2005-07 state building program to be funded with \$50,000,000 in existing GFSB and \$50,000,000 in gifts, grants, and other receipts.

3. Maintain current law. The WID program would not be created or enumerated as part of the 2005-07 building program.

B. UW-Madison University Square Development

1. Approve the Building Commission recommendation to enumerate the purchase of space at University Square at the UW-Madison at a total project cost of \$56,850,000. Authorize \$39,850,000 GFSB and \$17,000,000 PRSB to fund the purchase of the space at University Square. Specify that the \$39,850,000 GFSB provided for the project could not be issued until the 2007-09 biennium.

<u>Alternative B1</u>	<u>BR</u>
2005-07 REVENUE (Change to Bill)	\$56,850,000

2. Maintain current law. The project would not be included as part of the 2005-07 building program.

C. UW-Platteville Tri-State Initiative Facilities

1. Approve the Building Commission recommendation to enumerate the construction of the tri-state Initiative facilities at UW-Platteville at a total project cost of \$50,615,000. Authorize \$20,000,000 GFSB, \$23,100,000 PRSB and \$7,515,000 in gifts, grants, and other receipts to fund the project. Specify that the \$20,000,000 GFSB provided for the project could not be issued until the 2007-09 biennium. Approve the Building Commission's recommendations to modify the UW System's tuition appropriation to authorize the use of tuition to carry out the Building Commission recommendations related to the payment of debt service on the bonds authorized for the project.

<u>Alternative C1</u>	<u>BR</u>
2005-07 REVENUE (Change to Bill)	\$43,100,000

2. Modify Alternative C1 to eliminate the tuition appropriation modification and instead, create a separate PR debt service appropriation under the UW System. Specify that the appropriation would be funded from differential tuition charged to nonresident students under the tristate initiative at UW-Platteville. If the differential tuition would be insufficient to make the debt service payments, the Board of Regents could transfer tuition revenues from the UW System's general tuition appropriation. Require the UW System to submit a report to DOA and the Joint Committee on Finance annually, no later than October 15th, on the use and source of any transfer of

tuition funds related to the payment of this debt service.

Alternative C2	BR
2005-07 REVENUE (Change to Bill)	\$43,100,000

3. Maintain current law. The project would not be included as part of the 2005-07 building program and the related statutory changes to the UW System's tuition and debt service appropriations would not be included in the 2005-07 biennial budget.

D. UW-Milwaukee Columbia Acquisition

1. Approve the Building Commission recommendation to enumerate the purchase of the St. Mary's Columbia Campus Medical Facilities at UW-Milwaukee at a total project cost of \$112,120,000. Authorize \$56,530,000 GFSB and \$55,590,000 PRSB to fund the purchase of the facilities. Specify that for the St. Mary's Columbia Campus medical facilities project at UW-Milwaukee, beginning on July 1, 2007, and ending on June 30, 2009, not more than 50% (\$28,265,000) of the GFSB and 50% (\$27,795,000) of the PRSB could be issued. Beginning on July 1, 2009, the remainder of the bonding could be issued.

Alternative D1	BR
2005-07 REVENUE (Change to Bill)	\$112,120,000

2. Maintain current law. The project would not be included as part of the 2005-07 building program.

E. Sterling Hall Renovation

1. Approve the Building Commission recommendation to enumerate the renovation of Sterling Hall at UW-Madison at a total project budget of \$39,500,000. Authorize \$37,500,000 GFSB and \$2,000,000 in gifts and grants for this project. Specify that \$20,000,000 GFSB could not be issued until the 2007-09 biennium

Alternative E1	BR
2005-07 REVENUE (Change to Bill)	\$37,500,000

2. Maintain current law. The project would not be included as part of the 2005-07 building program.

Prepared by: John Stott and Dave Loppnow