



## Legislative Fiscal Bureau

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May 27, 2009

Joint Committee on Finance

Paper #182

### **GPR Supported Bonding Authorizations and 2009-11 Building Program Projects (Building Program)**

[LFB 2009-11 Budget Summary: Page 707, #1, 711, #2]

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#### **CURRENT LAW**

Building program projects with costs 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**

Enumerate \$1,414,158,700 in projects in the 2009-11 state building program. Of these projects, this paper deals with the projects listed in Attachment 1, with total enumerations of \$915,422,100. Specify that funding for the projects in Attachment 1 would be drawn from the following sources: (a) \$331,382,100 from new GPR supported bonding authority; (b) \$383,128,000 from new PR supported bonding authority; (c) \$7,978,300 of SEG supported bonding authority; and (d) \$192,933,700 from other sources including existing bonding authority, revenue bonding authority, agency operating funds, federal funds, and agency gifts, grants, and other receipts.

Separate papers address the remaining projects with enumerations totaling \$498,736,600 relating to specific projects enumerated in the 2009-11 building program.

## 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 the Department of Administration'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, 2008, Wisconsin had approximately \$5.9 billion of general obligation bonds and commercial paper obligations outstanding, which represents the principal amount of debt that remained to be paid from issuing approximately \$17.3 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, 2008. As shown in Table 1, the GPR portion of the state's outstanding general obligation debt was \$4.15 billion.

**TABLE 1**

#### **Outstanding General Obligation Debt -- As of December, 2008**

<u>Bonding Category</u>	<u>Amount Outstanding</u>
<b>Tax Supported</b>	
General Fund	\$4,154,544,870
Segregated Funds	<u>394,662,860</u>
Subtotal	\$4,549,207,730
<b>Self-Amortizing</b>	
Veterans' Mortgage Loans	\$348,105,000
University of Wisconsin And Other Categories	<u>1,042,068,700</u>
Subtotal	\$1,390,173,700
Total	\$5,939,381,430

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 1995.

**TABLE 2**  
**Outstanding Indebtedness 1995 through 2008**  
**(\$ in Millions)**

<u>Year</u>	<u>Debt Outstanding</u>	<u>Annual Percent Change</u>	<u>Cumulative Percent Change</u>
1995	\$3,078.4		
1996	3,290.0	6.9%	6.9%
1997	3,428.4	4.2	11.4
1998	3,564.2	4.0	15.8
1999	3,743.1	5.0	21.6
2000	4,067.6	8.7	32.1
2001	4,240.4	4.2	37.7
2002	4,386.2	3.4	42.5
2003	4,370.2	-0.4	42.0
2004	4,876.5	11.6	58.4
2005	5,092.3	4.4	65.4
2006	5,697.3	11.9	85.1
2007	5,781.4	1.5	87.8
2008	5,939.4	2.7	92.9

**Additional GPR Supported Bonding Available in 2009-11**

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 2009-11 building program recommendations include the authorization of \$1.17 billion in new general obligation bonding, of which \$522.4 million would be GPR supported bonding. In addition, the Commission also recommends a \$12.2 million increase in GPR bonding for projects enumerated as part of previous state building programs.

5. Table 3 indicates how the \$522.4 million in GPR supported bonding authorizations under the Building Commission's recommendations for the state building program compares with past biennial building programs. Of this amount, \$345.6 million would be available in the 2009-11 biennium.

**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	425.4
2001-03	709.8
2003-05	247.2
2005-07	499.1
2007-09	412.3
2009-11	522.4

\*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 GPR supported bonding recommended to fund state building program projects, biennial budgets also include bonding authorizations for other purposes. AB 75 would authorize \$145.9 million in GPR supported bonding for non-building program purposes, which would be available in the 2009-11. However, in an earlier budget decision, the Committee increased the GPR supported bonding for the state's environmental improvement fund programs by \$500,000, which increases the bonding under AB 75 that would be available to be issued in the 2009-11 biennium to \$146.4 million.

7. If the Building Commission recommendations would be approved and no further changes would be made to GPR supported bonding amounts under AB 75, an additional \$504.2 million in GPR supported bonding would be available for issue during the 2009-11 biennium. Specifically, the following amounts would be available: (a) \$345.6 million in GPR supported bonding authorizations that would be available in 2009-11 under the building program amendment, (b) \$12.2 million in GPR supported bonding for previously authorized building programs under the building program amendment; and (c) \$146.4 million in GPR supported bonding included for program purposes under AB 75.

8. GPR supported bonding authorized under previous building programs and for program purposes such as the state stewardship program also would become available for issuance during the 2009-11 biennium, including \$81.6 million associated with previously authorized state building program projects. In addition, \$146.6 million in previously authorized GPR supported bonding for the state stewardship program would become available for issue in the 2009-11 biennium. Table 4 identifies the GPR supported bonding that could be issued in the 2009-11 biennium under AB 75, the Building Commission's recommended building program, and the

existing bonding authorizations that become available for issue in the biennium.

**TABLE 4**

**Additional GPR Supported Bonding Available For Issue  
in the 2009-11 Biennium  
(\$ in Millions)**

	<u>Amount</u>
2009-11 Building Program	\$345.6
Additions to Previous Building Programs	12.2
Bonding in AB 75	146.4
Existing Bonding Available in 2009-11 Biennium	
Previously Enumerated Projects	81.6
Stewardship Program	<u>146.0</u>
Total	\$731.8

9. As indicated in Table 4, under current law, AB 75, and the building program recommendations, an estimated \$731.8 million in GPR supported bonding would be available for issuance in the biennium, or \$365.9 million per year. For comparison, over the past 10 years, the state has issued an average \$324 million in GPR supported bonding each year.

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 12.8% and 25.3% 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 22.9% of the allowable net indebtedness. Therefore, 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 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 bond issuance and debt service levels are considered in the high-moderate range by rating agencies. Rating agencies have generally cited concerns about the state's finances in their ratings of the state general obligation debt. Specifically, they have 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. These factors have contributed to the state's ongoing accounting deficit under generally accepted accounting principles (GAAP). The GAAP deficit generally reflects the state's year end general fund balance under its statutory basis of accounting adjusted for revenue and expenditure items attributable to the current fiscal year, which is exacerbated when annual general fund surpluses are low, or do not exist. For example, in 2007-08, while the state had

a positive balance of \$130.6 million using the statutory basis of accounting, when presented using GAAP, the state had a GAAP deficit of \$2.5 billion.

12. In recent biennia, due to budgetary constraints on the state's general fund, the state has deferred paying a portion of the GPR principal on its outstanding GPR supported debt. These actions have the effect of lowering the amount of GPR debt service paid in a specific year. However, debt service costs in subsequent years are higher than they otherwise would be because these "rolled over" principal amounts are again scheduled to be repaid. Also, until these principal amounts are repaid, the state's incurs additional interest on these unpaid amounts. AB 75 would continue this trend for the 2009-11 biennium, by deferring the payment of \$107 million in GPR principal in each year of the biennium. The repayment of this GPR principal will be restructured and repaid for several years beyond the 2009-11 biennium. Table 5 indicates the amount of GPR principal deferred in recent years, as well as the principal amounts to be deferred under AB 75.

**TABLE 5**

**GPR Principal Amounts Deferred in Recent Years  
(\$ in Millions)**

<u>Year</u>	<u>Amount</u>
2001-02	\$102.0
2002-03	25.0
2003-04	175.0
2007-08	63.6
2008-09	61.8
2009-10 (AB 75)	107.0
2010-11 (AB 75)	107.0

13. State debt management has been geared toward 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 policy is intended to ensure that debt service does not consume an increasing share of the state budget and add to state out-year spending commitments. In developing its building program recommendations, the Building Commission considers the impact bonding authorizations would have on the GPR debt service to GPR revenues ratio. However, this impact is not a good measure for determining the amount of bonding to recommend in a biennial building program, 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. For example, the full debt service impact on any bonds issued as result of the Building Commission's 2009-11 building program recommendations would not fully affect the GPR debt service to revenue ratio until the 2011-13 biennium at the earliest.

14. 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. These increased debt service amounts will be partially offset by old debt being retired during the period the bonds remain outstanding.

15. Table 6 provides an estimate of GPR debt service through the 2011-13 biennium based on the amount of existing debt, an estimate of the amounts of currently authorized debt that may be issued, and the anticipated issuance of the bonding proposed under AB 75 and the 2009-11 building program. The table also indicates the debt service reductions in the current year and in the 2009-11 biennium, and the increases in expected debt service in future years, associated with the past deferral of GPR principal amounts and the amounts proposed under AB 75. As indicated in the table, the GPR bonding amounts in the bill and those amounts recommended in the 2009-11 building program would not impact GPR debt service amounts significantly until the 2011-13 biennium.

**TABLE 6**

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

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Existing debt service *	\$511.4	\$555.7	\$526.8	\$456.3	\$428.9
GPR Debt service on unissued authorized bonding	0.0	20.5	55.0	81.9	97.5
GPR Debt service on deferred principal	-61.8	-107.0	-107.0	46.8	51.5
GPR Debt service on 2009-11 authorized bonding	<u>0.0</u>	<u>1.7</u>	<u>11.7</u>	<u>21.6</u>	<u>31.6</u>
Total	\$449.6	\$470.9	\$486.5	\$606.6	\$609.5
GPR tax revenues estimates	\$12,117.5	\$11,718.9	\$12,251.1		
at 2% growth				\$12,496.1	\$12,746.0
at 3% growth				12,618.6	12,997.2
at 4% growth				12,741.1	13,250.8
GPR debt service as percent of GPR tax revenues	3.71%	4.02%	3.97%		
at 2% growth				4.85%	4.78%
at 3% growth				4.81	4.69
at 4% growth				4.76	4.60

\*Includes offsets to GPR debt service with other sources of \$35.1 million in 2009-10, \$43.9 million in 2010-11, \$44 million in 2011-12, and \$44.2 million in 2010-13.

16. As indicated in Table 6, the ratio of GPR debt service to GPR revenues is estimated to increase from around 4% to above 4.5% under each of the illustrated levels of growth in revenues, which is well above the state's 3.0% to 4.0% target. The growth in this ratio is due in part to the growth in overall GPR debt service in the future as new debt is expected to exceed the

amounts retired each year, and as the principal amounts that have been deferred in recent years have to be repaid. Also, lower estimated general fund revenues in the 2009-11 biennium compared to earlier estimates have also negatively impacted this ratio. This office's May estimates reduced general fund revenues by \$1.6 billion or 4.3% compared to the revenues under AB 75.

17. As shown by the state's recent pattern of having to defer principal payments on its debt, the state is having difficulty funding its ongoing costs, let alone accumulating any significant general fund reserves. If bonding rating agencies determine that the state's debt levels are increasing faster than the state's relative ability to repay that debt, the state could have to pay higher interest rates and eventually the state's bond rating could suffer. However, due to current low market interest rates, the state's rating has not yet significantly impacted the state's cost of borrowing.

18. Authorizing significant amounts of additional GPR supported bonding, the full cost of which will not be felt until future biennia, will add to the amount of GPR debt service that would need to be repaid in the next biennium and beyond. As shown in Table 6, the repayment of the deferred principal alone is expected to add another \$46.8 million in 2011-12 and \$51.5 million in 2012-13 in GPR debt service. Further, the bonding authorized in AB 75 and the 2009-11 building program, will add an estimated \$21.6 million in debt service in 2011-12 and \$31.6 million in 2012-13.

### **2009-11 Building Program Authorizations**

19. The two primary categories of GPR supported bonding recommended by the Building Commission are all agency projects and new construction projects for the UW System. Approximately \$331.4 million of these projects are listed in the attachment to this paper (the others are dealt with individually in other papers).

20. The Building Commission would recommend \$200 million (57.9% of the recommended GPR supported bonding that would be available in the 2009-11 biennium) 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 that recur, but where the Commission may need to address unanticipated needs during the 2009-11 biennium, such as maintenance.

21. Table 7 lists the GPR supported bonding for all agency projects provided in past biennia and the amount the Building Commission recommended for 2009-11.



**TABLE 7**

**GPR Supported Bonding for All Agency Projects  
(\$ in Millions)**

<u>Biennium</u>	<u>GPR Bonding</u>
1997-99	\$104.0
1999-01	144.4
2001-03	180.8
2003-05	180.8
2005-07	200.0
2007-09	125.0
2009-11	200.0

22. The amount of GPR supported bonding recommended for all agency projects is comparable to the amounts provided for these purposes in recent building programs. During deliberations on recent biennial budgets, the Committee reduced the amount of all agency funds recommended by the Building Commission. However, there is an ongoing backlog of maintenance on state buildings that has been consistently identified. As a result, concerns were raised during the Building Commission's deliberations on the 2009-11 state building program about the effect that a similar reduction to all agency bonding would have on the physical condition of state buildings.

23. University of Wisconsin System projects would be the other major use of bonding authorized for building projects recommended to be constructed in the 2009-11 biennium. Each of the UW System GPR supported bonding projects enumerated for construction during the 2009-11 biennium, and dealt with in this paper, were included in each campus' six-year facilities plan, which identifies projects that are a priority for enumeration in the biennium. In addition, UW System campuses make up a significant amount of the total agency facility space of the state and there was a round of major construction activity on UW System campuses during the 1950s' and 1960's. As a result, many of those structures may need replacement or substantial renovations, which contributes to the need for the recommended level of investment.

24. Taking into account Committee decisions on other papers relative to the authorization of GPR supported bonding, if the Committee has concerns about the level of this bonding, the Committee could decline to authorize some or all of the recommended projects funded with GPR supported bonding.

**ALTERNATIVES**

1. Approve the Building Commission's recommendations to enumerate the \$915,422,100 in projects listed in Attachment 1 in the 2009-11 state building program. Specify that funding for these projects would be drawn from the following sources: (a) \$331,382,100 from new GPR supported bonding authority; (b) \$383,128,000 from new PR supported bonding authority; (c) \$7,978,300 of SEG supported bonding authority; and (d) \$192,933,700 from other sources

including existing bonding authority, revenue bonding authority, agency operating funds, federal funds, and agency gifts, grants, and other receipts.

<b>ALT 1</b>	<b>Change to Bill Funding</b>
BR	\$722,488,400

2. Approve some or all of the recommended projects listed in the attachment as part of the 2009-11 state building program (specific projects would need to be identified for inclusion).

3. Maintain current law. (None of the \$915,422,100 in projects addressed in this paper would be included in the 2009-11 state building program).

Prepared by: Al Runde  
Attachment

## ATTACHMENT

### List of 2009-11 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>		
<b>Administration</b>					
Consolidated Laboratory - Madison	\$20,850,000	\$7,685,000	\$0	\$0	\$28,535,000
Preservation and Storage Facility	8,000,000	0	0	17,000,000	25,000,000
One West Wilson State Office Building Envelope	0	12,632,000	0	0	12,632,000
Capitol Heat and Power Plant Boiler Conversion	<u>0</u>	<u>25,602,600</u>	<u>0</u>	<u>0</u>	<u>25,602,600</u>
Total	\$28,850,000	\$45,919,600	\$0	\$17,000,000	\$91,769,600
<b>Corrections</b>					
Taycheedah Correctional Institution Segregation and Special Management Unit Expansion	\$5,697,300	\$0	\$0	\$1,867,600	\$7,564,900
Fox Lake Correctional Institution - Methane Digester	<u>0</u>	<u>5,442,900</u>	<u>0</u>	<u>0</u>	<u>5,442,900</u>
Total	\$5,697,300	\$5,442,900	\$0	\$1,867,600	\$13,007,800
<b>Military Affairs</b>					
Helicopter Parking and Taxiway Repair and Expansion - Madison	\$4,429,100	\$0	\$0	\$50,160,100	\$54,589,200
Field Maintenance Shop - Wausau	<u>1,213,700</u>	<u>0</u>	<u>0</u>	<u>11,553,800</u>	<u>12,767,500</u>
Total	\$5,642,800	\$0	\$0	\$61,713,900	\$67,356,700
<b>Natural Resources</b>					
Governor Thompson State Park Phase II Development	\$0	\$0	\$0	\$2,722,200	\$2,722,200
Rib Mountain State Park Entrance and Visitor Station and Park Development	0	0	0	6,116,900	6,116,900
Entrance and Visitor Stations - Black River State Forest and Lake Kegonsa State Park	0	0	0	1,611,800	1,611,800
Wild Rose State Fish Hatchery Renovation - Phase 3	0	0	1,979,700	0	1,979,700
Fire-Control-Heavy Unit Drive Thru Vehicle Storage Garages - Boscobel, Brule, Poynette, and Wausaukee	0	0	2,889,500	0	2,889,500
Vehicle Maintenance and Equipment Storage Building - Jackson County	<u>0</u>	<u>0</u>	<u>778,400</u>	<u>0</u>	<u>778,400</u>
Total	\$0	\$0	\$5,647,600	\$10,450,900	\$16,098,500
<b>State Historical Society</b>					
Multiple Historic Sites Initiative - Statewide	\$6,960,000	\$0	\$0	\$7,168,500	\$14,128,500
<b>Department of Transportation</b>					
Division of State Patrol Gap Filler Towers - Statewide Phase 3	\$0	\$0	\$0	\$2,180,200	\$2,180,200
Green Bay Division of Motor Vehicles Service Center Renovation				1,164,300	1,164,300
Truax Complex Addition and Security Modifications	<u>0</u>	<u>0</u>	<u>0</u>	<u>615,400</u>	<u>615,400</u>
Total	\$0	\$0	\$0	\$3,959,900	\$3,959,900

**ATTACHMENT (continued)**

**List of 2009-11 Building Program Projects Addressed in This Paper**

		<u>General Obligation Bonding</u>			<u>Other</u>	<u>Total</u>
		<u>GPR</u>	<u>PR</u>	<u>SEG</u>	<u>Funding</u>	
<b>University of Wisconsin System</b>						
La Crosse	Residence Hall		\$44,500,000	\$0	\$5,000,000	\$49,500,000
Madison	Utility Improvements	\$70,021,800	8,352,200	0	0	78,374,000
	Gordon Commons Relocation, Parking and Offices - Phases 1 and 2		37,543,000		3,762,000	41,305,000
	Lakeshore Residence Hall and Food Service		57,775,000		1,688,000	59,463,000
	21 North Park Street Office Building Purchase		38,546,000		0	38,546,000
	West Campus Athletic Facilities		3,973,500		3,973,500	7,947,000
	Agricultural Research Station Renovation - Various Locations Phase 1				5,800,000	5,800,000
	Kohl Center Hockey Facility Addition				27,787,000	27,787,000
	Science Museum				5,092,000	5,092,000
	Tandem Press Relocation				4,616,000	4,616,000
Milwaukee	Utility Improvements	5,449,200	969,800	0	0	6,419,000
Platteville	Residence Hall Upgrades		10,000,000	0	0	10,000,000
	Storage Facility		284,000		1,416,000	1,700,000
	Williams Field House Addition		4,500,000		7,200,000	11,700,000
	Stadium Locker Room Expansion				1,000,000	1,000,000
River Falls	Ramer Field Renovation		500,000	0	3,487,000	3,987,000
	Hagestad Hall Renovation		3,125,000		875,000	4,000,000
Stevens Point	Utility Improvements	1,000,000	6,725,000	0	0	7,725,000
	Waste Management Center	2,761,000		0	1,789,000	4,550,000
Stout	Memorial Student Center Renovation		18,000,000	0	0	18,000,000
Whitewater	Fisher and Wellers Halls Renovation		8,584,000	0	0	8,584,000
System	Classroom Renovation/Instructional Technology	<u>5,000,000</u>		<u>0</u>	<u>0</u>	<u>5,000,000</u>
Total		\$84,232,000	\$243,377,500	\$0	\$73,485,500	\$401,095,000
<b>All Agency</b>						
	Facility Maintenance and Repair	\$114,000,000	\$17,415,000	\$2,330,700	\$11,904,900	\$145,650,600
	Utilities Repair and Renovation	52,000,000	12,948,900		4,038,500	68,987,400
	Health, Safety and Environmental Protection	20,000,000	314,600		0	20,314,600
	Energy Conservation	0	50,000,000		0	50,000,000
	Preventive Maintenance Program	3,000,000	0		0	3,000,000
	Programmatic Remodeling and Renovation	7,000,000	7,550,500		1,344,000	15,894,500
	Land and Property Acquisition	2,000,000	159,000		0	2,159,000
	Capital Equipment Acquisition	<u>2,000,000</u>	<u>0</u>		<u>0</u>	<u>2,000,000</u>
Total		\$200,000,000	\$88,388,000	\$2,330,700	\$17,287,400	\$308,006,100
Total		\$331,382,100	\$383,128,000	\$7,978,300	\$192,933,700	\$915,422,100