



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #172

Tribal Gaming Revenue Allocations

Aquaculture Demonstration Facility (UW System)

[LFB 2001-03 Budget Summary: Page 690, #29]

CURRENT LAW

Construction of the Aquaculture Demonstration Facility was approved under 1999 Act 9 along with two new, annual PR appropriations under the UW System, one for principal repayment and interest of construction costs and the other for operational costs. The PR funding for the UW appropriations is derived from tribal gaming revenues.

GOVERNOR

Provide \$300,000 PR and 2.0 positions beginning in 2002-03 for operations and maintenance of the UW aquaculture demonstration facility. Because the facility is not expected to open until the end of the 2002-03 fiscal year, funding is provided only for initial staffing and supplies expenses related to the establishment of the facility and would come from Indian gaming revenues.

DISCUSSION POINTS

1. According to the UW, the mission of the aquaculture facility is to promote and advance the development of commercial aquaculture in a northern climate, with specific emphasis on the state of Wisconsin. At the facility, workshops would be offered for potential aquaculturists, internships would be available for students from area technical colleges and universities, advanced workshops/seminars on new techniques and technologies would be designed for experienced members of the aquaculture industry, and applied research projects would be designed and

conducted based on problems posed by the industry.

2. Of the \$300,000 provided in the bill for UW aquaculture demonstration facility, \$130,000 would support the cost of salaries and fringe benefits for the 2.0 FTE staff positions starting in 2002-03. The salary and fringe benefits allocation would support an executive director and a program assistant. In addition, \$170,000 would be available for supplies and services; these funds could also be used for permanent property needed for the establishment of the facility.

3. Under 1999 Act 9, the UW Board of Regents was authorized \$3,000,000 in program revenue supported borrowing to build a full-scale aquaculture demonstration facility. In addition, two new, annual PR appropriations were created under the UW System for the payment of principal and interest costs incurred in financing the construction of the facility for the operational costs of the facility. The PR funding for the UW appropriations would be derived from tribal gaming revenues and would be transferred to the new UW appropriations from two appropriations created for this purpose under the Department of Administration. The use of tribal gaming revenue for the operating and construction costs was authorized for the aquaculture facility based on the original Building Commission recommendation because of the relationship of fishing to the traditional economic basis of Native American tribes.

4. The original proposal for the development of the aquaculture demonstration facility grew out of a study by the Ashland Area Development Corporation. Based on the plan, the Governor requested, and the Legislature approved, \$3,000,000 for the construction of the facility in the Ashland area and assigned oversight to the UW System. The UW System President has designated UW-Superior as the institution to administer the development of this project, in consultation with the other UW institutions, representatives of the aquaculture industry and representatives of other state and federal entities. A steering committee, consisting of representatives from UW-Superior, UW-Milwaukee Water Institute, UW-Extension, Wisconsin Sea Grant Institute, Wisconsin DNR, Wisconsin DATCP, City of Ashland, Lac du Flambeau Tribal Natural Resources, Bureau of Indian Affairs and the Wisconsin aquaculture industry, has been assembled to coordinate planning and development of the facility and its programming.

5. A site for the new facility was selected in March 2001, and the design and planning phase of the project has begun. The aquaculture facility would be located in Red Cliff, adjacent to the Red Cliff Indian Reservation in Bayfield County. Since the Department of Facilities Development (DFD) does not expect the aquaculture facility to be completed until the end of the 2002-03 fiscal year, the Governor's budget only provides partial funding for the operating expenses. If the center was not completed and the requested positions remained vacant during 2002-03, the funds would likely lapse.

6. According to executive budget staff, the funding provided in the budget would be sufficient to get staff in place to organize the completion and opening of the facility. In addition, the facility staff would be able to identify and secure grant funding for research and equipment expenditures prior to completion of the facility. The bill would only provide partial operating funding for the facility, so if federal grants were unavailable, the UW System would need to request

additional funding for ongoing operations or fund operations through a base reallocation in the 2003-05 biennium. The UW System projects that ongoing costs for the aquaculture facility would cost approximately \$1.1 million annually for facility staff and operating costs.

7. According to UW-Superior and the aquaculture steering committee, start-up costs for movable equipment needed for the research and day-to-day operations of the aquaculture facility would cost an estimated \$634,600. Movable equipment needed for the facility includes re-circulating tanks, hatching bins, monitoring equipment, computers and a water heat exchanger. The Act 9 project enumeration and bonding excluded funding for movable equipment and the Governor's proposal would not fund all of the equipment that, according to the UW, would be essential for operating the facility.

8. The Committee could increase the Act 9 project enumeration by \$350,000 and authorize \$350,000 of PR supported general obligation authority for the aquaculture facility in order to fund movable equipment with a longer asset life. The additional bonding, if authorized, would be supported by tribal gaming revenues. The project architect has expressed a need to purchase and install equipment such as tanks, oxygen equipment, re-circulating systems, water chillers and a water heat exchanger while the building is being constructed in order to facilitate design and installation. The remaining equipment could be funded using the \$170,000 provided in the Governor's budget for supplies and services or funded in subsequent biennia once the facility has been completed.

9. Given that the facility would not be completed until the fall, 2002, or spring, 2003, the Committee could decide not to fully fund the facility's operating costs and salaries during the 2001-03 biennium. Instead, the Committee could provide \$80,000 and 1.0 position in 2002-03 for a facility director that would be based at UW-Superior until the project is completed as well as \$170,000 in supplies and services funding for movable equipment or other costs. According to DFD and UW staff, a facility director hired prior to completion of construction would help the design team tailor the project to the users needs. The facility director could coordinate with researchers and employees at UW-Superior and other participating agencies to assist in the design phase of the facility and identify federal funding and grants for future research and operations at the aquaculture facility.

10. While the Board of Regents must first approve all construction projects proposed by the campuses, the Board does not require campuses to estimate the operating and maintenance costs associated with a new building or to indicate how such costs would be funded. In general, however, UW institutions are expected to pay for operating and maintenance costs associated with new buildings through base reallocations. One could argue that the Governor's proposal to separately fund the operating and maintenance costs for this particular facility could set a precedent for other campuses to request funding for similar purposes. However, it could be argued that it would be unreasonable to require UW-Superior or other UW campuses to fund operational costs for this particular facility through a base funding reallocation.

ALTERNATIVES TO BILL

1. Approve Governor’s recommendation to provide \$300,000 PR and 2.0 PR positions in 2002-03 for initial staffing and supplies expenses related to the establishment of an aquaculture demonstration facility.

2. Modify the Governor’s recommendation by increasing the 1999 Act 9 project enumeration by \$350,000 and authorizing an additional \$350,000 in program revenue supported general obligation bonding for the purchase of movable equipment for the aquaculture facility. Debt service on the bonds would be paid with tribal gaming revenues beginning in 2003-04.

Alternative 2	BR
2001-03 FUNDING (Change to Bill)	\$350,000

3. Modify the Governor’s recommendation by deleting \$50,000 and 1.0 position in 2002-03. The remaining funding would provide \$80,000 for an aquaculture facility director based at UW-Superior starting in 2002-03 as well as \$170,000 that could be used for movable equipment or other facility costs.

Alternative 3	PR
2001-03 FUNDING (Change to Bill)	- \$50,000
2002-03 POSITIONS (Change to Bill)	- 1.00

4. Maintain current law.

Alternative 4	PR
2001-03 FUNDING (Change to Bill)	- \$300,000
2002-03 POSITIONS (Change to Bill)	- 2.00

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