



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #256

### **2001-03 Building Program Delayed Bonding Issuance (Building Program)**

[LFB 2001-03 Budget Summary: Page 158-1, #1 (part) and page 158-5 #2 (part) and page 158-6 #3 (part)]

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#### **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**

Enumerate a total of \$1.64 billion of projects from all funding sources as part of the 2001-03 building program. Of this amount, provide \$380,600,000 from all funding sources in the 2001-03 state building program, where the relating bonding could not be issued until after the 2001-03 biennium. This funding would be provided as follows: (a) \$227,500,000 in general obligation borrowing; (b) \$3,600,000 in program revenue supported borrowing; and (c) \$149,500,000 in gifts, grants and other receipts.

Enumerate the following projects as part of the 2001-03 state building program. Delay the issuance of any bonding for these projects until after the 2001-03 biennium.

<b>All Agency</b>	
UW System Facilities Repair and Renovation	\$40,000,000
<b>Biostar</b>	
Other Biostar Projects (Microbial Sciences, Biochemistry and Interdisciplinary Biology Buildings -- UW - Madison)	290,000,000
(Total project enumeration -- \$317,000,000 of which \$27,000,000 would be available in the 2001-03 biennium)	
<b>University of Wisconsin System - Agricultural Initiative</b>	
Meat/Muscle Science Laboratory -- UW Madison	20,000,000
Veterinary Diagnostic Laboratory -- UW Madison	23,600,000
<b>Department of Health and Family Services</b>	
Sand Ridge Treatment Center Expansion	<u>7,000,000</u>
<b>TOTAL</b>	<b>\$380,600,000</b>

Provide the Building Commission authority to authorize \$158,500,000 in general fund supported general obligations bonding under its other public purposes bonding authority for the Biostar Initiative. Specify that the total amount of debt could not exceed the following amounts by the following dates:

- a. Prior to July 1, 2003, \$18,000,000
- b. July 1, 2003 to June 30, 2005, \$63,500,000
- c. July 1, 2005 to June 30, 2007, \$95,000,000
- d. July 1, 2007 to June 30, 2009, \$127,500,000; and
- e. July 1, 2009, or thereafter, \$158,500,000.

## **DISCUSSION POINTS**

### **Out-Year Bonding Authorizations**

1. Enumerating projects for the 2003-05 and later biennia would provide reasonable certainty that the projects would be built and those agencies that would use the building could plan accordingly. Further, knowing that the facility is approved to be built would allow DOA to conduct more extensive design and planning for the facility to ensure that the facility could be constructed more quickly in the 2003-05 biennium.

2. However, the Building Commission has used another mechanism in recent biennia

that also allows for a more extensive design and planning process that can ensure that the facility could be constructed more quickly in the 2003-05 biennium. In recent biennia, the Building Commission has included in its building program recommendations a list of projects that the Commission decided not to recommend for enumeration but rather recommended that the projects be provided funds for the planning of the project. Any agency that received advanced planning funds for a project in one biennium must include that project as a priority in the agency's subsequent biennial capital budget requests. The planning funds are generally provided from the state building trust fund, from an agency funding source or from gifts and grants. In its report on the 2001-03 state building program recommendations, the Building Commission specified that planning would be conducted on seven University of Wisconsin System projects for potential enumeration in the 2003-05 biennium that have projected budgets totaling \$162.7 million, including \$72.7 million in general fund supported borrowing.

3. Each biennial building program generally focuses on projects proposed for that biennium. However, occasionally bonding is provided for a project in subsequent biennia. Frequently, the Building Commission must make difficult decisions in choosing between projects for inclusion in the state building program. In recent biennia, the Commission and the Legislature have chosen to soften the blow of an adverse decision by enumerating specific projects or categories of projects, but with a delayed effective date for the bonding. For example, three projects were enumerated in the 1997-99 biennium under 1997 Act 27 as part of the 1999-01 state building program, with a delayed effective date for the bonding.

4. In addition, in past biennia, the Building Commission has recommended and the Legislature has approved, a multi-biennia bonding authorizations targeted at specific programs or institutions, similar to the proposed Biostar initiative. For example, the Legislature approved a phase-in of \$162.5 million in bonding under the Wistar program and \$72 million under the Healthstar programs. The bonding authorizations for these programs were provided over five biennia for the Wistar program and three biennia for the Healthstar program.

5. Enumerating projects in the 2003-05 biennium could limit the ability of the 2003 Legislature to establish its priorities for the 2003-05 building program. If, for budgetary reasons, the authorization of general fund supported borrowing would need to be restricted in future biennia, the advance commitment of \$227.5 million in borrowing under the 2001-03 building program could limit the decisions of future Legislatures. While the argument could be made that a future Legislature could revisit these advance borrowing commitments, doing so could prove difficult if funds are expended on the planning and design of projects because the 2001 Legislature would have funded the project on a delayed basis.

6. While the full debt service costs would not likely be incurred until the 2003-05 biennium or beyond, the annualized general fund debt service costs associated with the \$227.5 million in general fund supported bonding requested for these projects would be approximately \$18.3 million GPR annually.

7. In addition to the \$227.5 million in out-year general fund supported borrowing discussed in this paper, the Building Commission is also recommending \$31.7 million in general

fund supported borrowing in the 2003-05 biennium for the following projects: (a) \$6.2 million for digital television conversion by the Educational Communications Board; (b) \$2 million for the Kenosha Civil War Museum; and (c) \$23.5 million for a biomedical research and technological incubator at the Medical College of Wisconsin. Also, under current law, the state stewardship program authorizes the issuance of \$46.0 million in general fund supported bonding per year.

8. In total, under the Building Commission’s out-year bonding recommendations and current law, the state will have committed a significant amount of general fund supported bonding in the 2003-05 biennium and beyond. Table 1 illustrates the future general fund supported bonding commitments under current law and under the recommended state building program by biennium.

**TABLE 1**  
**Current Law and 2001-03 Recommended Building Program**  
**Out-Year Bonding Authorizations**

<u>Biennium</u>	<u>Bonding Authorization</u>
2003-05	\$256,200,000
2005-07	123,500,000
2007-09	124,500,000
2009-11	77,000,000

9. In addition to the bonding authorized in the state building program, the biennial operating budget generally contains general fund supported borrowing for environmental and water quality programs. However, as indicated in Table 1, before any deliberations on the 2003-05 biennial budget or state building program begin, the state will already have authorized \$256.2 million in general fund supported bonding for the 2003-05 biennium.

10. Many projects were not recommended by the Building Commission to be funded in the 2001-03 biennium. Further, priorities associated with projects change as facility usage changes. Therefore, if projects are committed for the future biennium, it is uncertain that by the time the project is constructed, it will be the best and highest priority use of state dollars.

**UW System Facilities Repair and Renovation**

11. The Building Commission indicates that a facilities audit of the UW-System indicates that an \$807 million backlog in facilities maintenance and repair exists for UW-System facilities. The Commission indicates that this backlog is significant and needs to be addressed in the 2001-03 biennium and beyond. Therefore, the Commission recommends a significant increase in facilities maintenance and repair projects for the UW-System in the 2001-03 biennium compared with prior biennia. In addition, the Commission recommends that \$40 million in general fund

supported bonding be authorized in the 2003-05 biennium as the first installment in the series of increases that are needed over the next 10 years to address the maintenance and repair backlog.

12. While the need for facilities maintenance and repair funding may be warranted, the UW-System is also receiving a significant amount bonding for new construction and expansion of existing facilities. Including the Biostar initiative, under the Building Commission's recommendations, the University System would have \$714.4 million in projects specifically enumerated in the 2001-03 state building program. The funding would be provided for \$380.9 million in projects in the 2001-03 with the funding provided for \$333.6 million in projects in subsequent biennia. Also, The UW-System will receive \$117.8 million in all agency bonding and \$3 million for small facilities maintenance and repair and utility maintenance projects in the 2001-03 biennium and \$40 million for these smaller projects in the 2003-05 biennium. In total, the University System would receive 53.3% of the total funding recommended by the Building Commission for projects enumerated under the 2001-03 state building program. In addition, as mentioned earlier, the Building Commission also specified that planning would be conducted on seven University System projects with projected budgets totaling \$162.7 million, including \$72.7 million in general fund supported borrowing. The following table identifies the total projects enumerated as part of the University System's capital budget.

**2001-03 Building Program  
Recommended University of Wisconsin System Building Projects  
(\$ in Millions)**

	<u>2001-03</u>	<u>2003-05 or Later</u>	<u>Total</u>
General Fund Supported Borrowing	\$234.2	\$220.5	\$454.7
Program Revenue Supported Borrowing	212.0	3.6	215.6
Gifts, Grants and Other Receipts	51.6	149.5	201.1
Agency Operating Funds	<u>3.8</u>	<u>0.0</u>	<u>3.8</u>
<b>Total</b>	<b>\$501.6</b>	<b>\$373.6</b>	<b>\$875.2</b>

13. Under the Building Commission's recommendations for the 2001-03 biennium and out-year bonding commitments, the UW-System is receiving significant funding for both new construction projects (\$714.4 million) and facilities maintenance and repair (\$160.8 million). It could be argued that given the priority the UW-System has placed on the new construction and facility expansion projects included in the Building Commission recommendations, funding for facilities maintenance and repair projects should not be funded as well.

14. Conversely, the state has a large investment in the existing facilities throughout the UW-System campuses. Maintaining and completing repairs on these existing facilities would safeguard that investment and could be viewed as a higher priority than new construction, however meritorious.

## **Biostar Initiative**

15. Former Governor Thompson proposed the BioStar program to accommodate expanded laboratory space for bio-science faculty and to increase UW-Madison's instructional and research capacity in other life science disciplines. BioStar would follow the WisStar model with overall program funding at a 50/50 match between general fund supported bonding and gift and grant monies. Specifically, four new buildings would be funded over a ten-year period at a total cost of \$317 million. The first of the buildings, a \$27 million biotechnology addition, would be enumerated for the 2001-03 biennium. The following three projects would be enumerated for out-year bonding:

*Microbial Sciences Building.* \$100 million for a new building to replace outdated and overcrowded facilities used by programs of the Departments of Bacteriology, Medical Microbiology and Immunology, and Food Microbiology and Toxicology. The design phase of this project would begin in 2001-03 with construction planned for the 2003-05.

*Biochemistry Building Addition.* \$85 million to replace outdated space and expand the Biochemistry Building to accommodate more functional specialized instructional and research laboratories for the biochemical sciences. Design would start in 2003-04 and construction would begin in 2005-07.

*Interdisciplinary Biology Building.* \$105 million to construct an interdisciplinary facility in order to provide improved facilities for university-wide undergraduate programs and cross-college, graduate-level training programs in the biological sciences. The project would likely start late in 2007-09 with construction continuing through 2009-11.

16. The estimated operating costs of the facilities would be \$4.5 million annually in current dollars once all are completed. Like the Wistar program, the Biostar program would require UW-Madison to cover the increased operating costs associated with the new facilities through research grant funding and anticipated intellectual property rights revenue that would be generated by research conducted in the facilities. Once all the general fund supported bonding is issued for these out-year projects, the annualized debt service costs would total approximately \$11.3 million annually.

17. Proponents of the BioStar initiative support the 2001-03 building program recommendations in recognition of the potential importance of biotechnology for Wisconsin's future economic growth. Over the past ten years, 68 per cent of the new companies spun off from UW-Madison were in the biological sciences. The biological sciences community at UW-Madison includes approximately 800 faculty, 2,000 graduate students, 30 percent of undergraduate degrees and spans more than sixty departments and research centers. In addition, more than half of UW-Madison's \$417 million in extramural research support went to faculty affiliated with the biological sciences.

18. According to UW-Madison staff, the out-year bonding enumeration for the BioStar initiative demonstrates the state's commitment to strengthening UW-Madison's biological science

programs and increases their ability to raise the significant level of gift funding necessary for the projects. BioStar includes UW-Madison's top building priorities over the next few biennia and if out-year bonding was not offered, these building projects would likely be requested in future biennia. In addition, proponents argue that the future bonding commitment is important for raising money, because it is easier to solicit donations on a building that has been approved rather than a building that is just a concept. To date, the Wisconsin Alumni Research Foundation (WARF) has commitments for \$80 million of the gift funding for the BioStar initiative over the 10-year span of the building program. However, it could be argued that UW-Madison should be required to receive enumeration for projects as they are requested, a practice that is typically followed for other UW System building projects and those of other state agencies.

### **Agricultural Initiative**

19. The Building Commission's recommendations indicate that the \$20 million meat/muscle science laboratory is part of the Governor's agricultural initiative to address all phases of the agribusiness industry, including food safety, packaging, and consumer appeal. The Commission indicates that the facility will replace the existing facility, and will facilitate the development of advanced slaughter, processing, cooking and packaging technologies.

20. Further, the Commission indicates that the new laboratory would provide the state's meat industry a chance to partner with the UW-Madison to conduct research that would otherwise not likely occur. It is also indicated that the facility and its faculty/researchers will have the capability to address new technological challenges that arise in the meat industry and transfer that knowledge to the industry.

21. Despite the proposed partnership with the meat industry and the facility's potential impact on providing research and developing new technologies and a more competent workforce, the Building Commission does not require any gifts, grants or other receipts from the industry toward the \$20.0 million facility. The Commission does, however, direct the UW-Madison to seek to maximize gift contributions for the facility and the meat science program.

22. In accordance with statutory requirements for a long-range plan for the building program, agencies submit six-year facilities plans to DFD. These plans define the facility related needs of the agency into specific projects and establish a timeline for those projects over the next six years. The first two years of the plan would form the basis for the agency's request for projects to be included as part of the 2001-03 building program. The meat/muscle science center was not included as part of the University's six-year plan until this year and the campus utility costs and siting considerations associated with the facility are unknown. Therefore, the Commission indicates that it is more appropriate to design the facility in the 2001-03 biennium and begin construction on the facility in 2003-05.

23. UW-Madison facilities planning officials indicate that while a need for the facility may exist in the state, the facility has never been identified as priority by the UW-Madison College of Agriculture and Life Sciences (CALs) and thus, has not been a priority at the campus planning level. No estimates of the utility, administrative or staffing costs associated with the facility were

provided by the University. UW-Madison currently offers no undergraduate degree in meat science and the meat science program is relatively small, with five graduate students in meat science related disciplines and five meat science related courses taught at the campus to students in related disciplines each academic year. If the meat science program were expanded as a result of the facility, additional faculty may be needed. UW-Madison officials indicate that the Dean of CALS has indicated that if the project is constructed, endowment funds would be used to fund those staff. The annualized debt service costs on the facility would be an estimated \$1.6 million GPR per year for twenty years.

24. The Building Commission also recommended enumeration in 2001-03 to construct a new Veterinary Diagnostic Lab facility with \$20 million in general fund supported borrowing and \$3.6 million in program revenue supported borrowing, with funding available in 2003-05. The Building Commission Secretary, in an April 25, 2001, memorandum to the Co-Chairs of the Joint Committee on Finance indicated that the \$3.6 million program revenue bonding authorization for the facility was not included in the Building Program amendment; therefore, the Committee would have to modify the Building Program amendment to incorporate this intent.

25. The annualized debt service costs on the facility would be an estimated \$1.6 million GPR per year for twenty years. Based upon a consultant report, the DFD recommended replacing the existing facility. The current laboratory building is 36 years old and is outdated because of technological changes and advances in diagnostic techniques. As part of the Building Commission recommendation, \$3.6 million was enumerated for adding space for the UW-Madison Veterinary School's large animal hospital. The enumerated funding for the large animal hospital would be gift funding; the Vet School will be launching a fund raising campaign for the facility in 2001-03. Again, it is argued that project enumeration would assist fund raising efforts.

### **100-Bed Addition to Sand Ridge Treatment Center**

26. The new Sand Ridge Secure Treatment Center (SRSTC), which has a capacity of 300 beds, has just recently been completed, and will begin housing sexually violent persons (SVPs) committed under Chapter 980. Currently, 235 SVPs are housed at the Wisconsin Resource Center. Over the 2001-03 biennium, the SVPs will be transferred to Sand Ridge from the WRC. The WRC has a 460-bed capacity and is intended to treat prison inmates with mental health problems. Since there are no other suitable institutions for the SVPs, growth in the SVP population has caused a displacement of prison inmates from the WRC.

27. While there would be no cost in the 2001-03 biennium, the annualized debt service costs on the \$7.0 million general fund supported bonds for the facility would be an estimated \$560,000 annually for 20 years.

28. Prior to 1999-00, the number of institutionalized SVPs grew at a rate of 40 to 50 per year. In July, 1999 there were 204 institutionalized SVPs, and by July, 2000 the number grew to 232, an increase of 28 over the prior year. In March, 2001, the number of SVPs grew to 235, an increase of three over nine months. The experience over the last nine months is a slower rate of growth than in the prior year.



29. If the population grew at a rate of 28 per year from the March, 2001 level, by July, 2003 there would be a total of 298 SVPs, which would essentially fill up the capacity of Sand Ridge. However, if the growth rate was three for every nine months (the actual experience over the last nine months), the number of SVPs would only be 262 on July, 2003.

30. The consequence of having inadequate capacity at Sand Ridge is that fewer prison inmates would be able to receive mental health services at the WRC, and would have to rely on the mental health services available at the state prisons. In 1999-00, 214 prison inmates on average were served at the WRC, which was a reduction from the 230 in the prior year due to the growth of the SVP population.

## ALTERNATIVES TO BASE

1. Approve the Building Commission's recommendation as modified to provide \$380,600,000 from all funding sources of enumerated financing authority in the 2001-03 state building program. Specify that the funding be provided as follows: (a) \$227,500,000 in general obligation borrowing; (b) \$3,600,000 in program revenue supported borrowing; and (c) \$149,500,000 in gifts, grants and other receipts. (The modification would incorporate the Building Commission's intent to provide the \$3.6 million in program revenue borrowing for the veterinary diagnostic laboratory.)

Enumerate the following projects in the 2001-03 state building program, but delay issuance of any bonding until after the 2001-03 biennium.

### **Building Commission -- All Agency**

UW System Facilities Repair and Renovation	\$40,000,000
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### **Biostar**

Other Biostar Projects (Microbial Sciences, Biochemistry and Interdisciplinary Biology Buildings – University of Wisconsin – Madison (Total project enumeration--\$317,000,000 of which \$27,000,000 would be available in the 2001-03 biennium)	290,000,000
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### **University of Wisconsin System**

Meat/Muscle Science Laboratory -- UW Madison	20,000,000
Veterinary Diagnostic Laboratory -- UW Madison	23,600,000

### **Department of Health and Family Services**

Sand Ridge Treatment Center Expansion	7,000,000
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<b>Alternative 1</b>	<b>ALL FUNDS</b>
<b>2001-03 FUNDING</b> (Change to Base)	\$380,600,000
<i>[Change to Bill]</i>	<i>\$380,600,000]</i>

2. Modify the Building Commission's recommendations to, instead, provide one or more of the following:

a. Provide \$40 million in general fund supported general obligation bonding authority for UW-System facilities repair and renovation.

<b>Alternative 2a</b>	<b>BR</b>
<b>2001-03 FUNDING</b> (Change to Base)	\$40,000,000
<i>[Change to Bill]</i>	<i>\$40,000,000]</i>

b. Enumerate Other Biostar Initiative projects (Microbial Sciences, Biochemistry and Interdisciplinary Biology Buildings at the University of Wisconsin – Madison) at total funding level of \$290,000,000, including \$140.5 million in general fund supported general obligation bonding beyond the 2001-03 biennium, using the Building Commission's schedule of debt authorization.

<b>Alternative 2b</b>	<b>ALL FUNDS</b>
<b>2001-03 FUNDING</b> (Change to Base)	\$290,000,000
<i>[Change to Bill]</i>	<i>\$290,000,000]</i>

c. Enumerate the Meat/Muscle Science Laboratory as part of the 2001-03 state building program as recommended by the Building Commission and provide \$20.0 million in general fund supported borrowing to fund the facility. Specify that the bonding authorization would not be effective until July 1, 2003.

<b>Alternative 2c</b>	<b>BR</b>
<b>2001-03 FUNDING</b> (Change to Base)	\$20,000,000
<i>[Change to Bill]</i>	<i>\$20,000,000]</i>

d. Enumerate the Veterinary Diagnostic Laboratory at UW-Madison in the 2001-03 state building program as recommended by the Building Commission and provide \$20.0 million in general fund supported borrowing and \$3.6 million in program revenue supported borrowing to fund the facilities. Specify that the bonding authorization would not be effective until July 1, 2003.

<b>Alternative 2d</b>	<b>BR</b>
<b>2001-03 FUNDING</b> (Change to Base)	\$23,600,000
<i>[Change to Bill]</i>	<i>\$23,600,000]</i>

e. Enumerate the Sand Ridge Treatment Center Facility under the Department of Health and Family Services as recommended by the Building Commission in the 2001-03 state building program and provide \$7.0 million in general fund supported borrowing to fund the facility. Specify that the bonding authorization would not be effective until July 1, 2003.

<b>Alternative 2e</b>	<b>BR</b>
<b>2001-03 FUNDING</b> (Change to Base)	\$7,000,000
<i>[Change to Bill]</i>	<i>\$7,000,000]</i>

3. Take no action. None of the projects recommended to be funded with out-year bonding authorizations would be enumerated or funded.

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