



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #945

### **Bonding Authority (UW Hospital and Clinics Authority)**

[LFB 2001-03 Budget Summary: Page 680, #1]

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#### **CURRENT LAW**

The University of Wisconsin Hospitals and Clinics Authority (Authority) was created to operate and manage the UW Hospital and Clinics, beginning July 1, 1996. The Authority is a public body corporate and politic that is defined and authorized by state law and governed by a public board. State law permits the Authority to issue bonds for any corporate purpose. Bonds issued by the Authority are not a debt of the state and do not obligate the state to levy any tax or make any appropriation for payment of the bonds. The State is not liable for debt service payments. The Authority is also allowed to seek financing and incur indebtedness from the Wisconsin Health and Educational Facilities Authority (WHEFA), which provides financing to health facilities.

The Authority cannot issue bonds or incur indebtedness from WHEFA if, after the bonds are issued or the indebtedness is incurred, the amount of all outstanding bonds and indebtedness would exceed \$106,500,000. Excluded from this limit is bonds or indebtedness issued to refund outstanding bonds or indebtedness.

#### **GOVERNOR**

Increase the amount of bonds the Authority could issue or the indebtedness it could incur by \$68.5 million, for a total limit of \$175,000,000.

#### **DISCUSSION POINTS**

1. Under 1999 Act 9 (the 1999-01 budget act), the amount of bonds the Authority

could issue or indebtedness it could incur was increased from \$50 million to \$106.5 million, or by \$56.5 million.

2. In March, 2000, the Authority issued the additional \$56.5 million in revenue bonds for the following projects: (a) six operating rooms, a new 18 bed pediatric intensive care unit, and a new transplant clinic and organ procurement program office (\$29,652,000); (b) new ambulatory service facilities including expansion of radiology patient amenities and diagnostic equipment and the Wisconsin Comprehensive Cancer Center clinic and chemotherapy area, and the addition of a Breast Center (\$24,412,700); and (c) relocation of the medical flight program and remodeling (total cost of \$3,464,900, a portion of which was funded with operating cash).

3. As of February, 2001, the Authority had total outstanding debt of \$136.6 million. Debt that was in existence prior to the formation of the Authority is not subject to the cap. The Authority has not incurred any indebtedness from WHEFA.

4. State statutes require the Authority to maintain, control and supervise the use of the University Hospitals and Clinics, subject to lease agreements with the Board of Regents, for the purposes of the following: (1) delivering comprehensive, high-quality health care to patients, including a commitment to provide such care for the medically indigent; (2) providing an environment suitable for instructing medical and other health professions students, physicians, nurses and members of other health-related disciplines; (3) sponsoring and supporting research in the delivery of health care to further the welfare of the patients treated and applying the advances in knowledge to alleviate human suffering, promote health and prevent disease; and (4) assisting health programs and personnel throughout the state and region in the delivery of health care.

5. As part of its strategic planning, the Authority has identified capital projects estimated at \$81.9 million. The Chief Financial Officer (CFO) indicates that these projects are necessary in order to fulfill its statutory mission and strategic goals. Of the estimated funding needed for the identified projects, \$7.2 million is for general remodeling and maintenance and will be funded from operating cash, and remaining \$74.7 million is estimated for major projects, some of which would require additional borrowing.

6. Projects that the Authority has identified that would require some borrowing total \$70.2 million and include: (a) completing the ambulatory service facilities including inpatient holding areas, waiting areas for diagnostic services, a pre-operative workup area and several outpatient clinics (\$14.8 million); (b) remodeling inpatient facilities which have not been updated since they were constructed in 1976, converting two outpatient units to inpatient units and relocating the outpatient clinics (\$19.5 million); (c) relocating and remodeling outpatient dialysis, pediatrics, pediatric specialties, dermatology and orthopedics from, or within the main clinic for better accessibility and efficiency (\$7.5 million); (d) remodeling and expanding the emergency room (\$3.4 million); (e) remodeling, expanding and enhancing the children's hospital which has not been updated since it was built in 1976 (\$15 million); and (f) converting the School of Nursing facilities to clinical use when the School moves to its new facilities (\$10 million)

7. The Authority indicates that it has, and will continue to, maintain appropriate financial ratios to attract lenders to purchase its revenue bonds, and to fund the principal and interest payments due on bonds.

8. In addition, updating facilities would allow the Authority to improve its current average age of plant of 10.0 years. For an "A" rating, Standard and Poor's requires that the average age of plant be no more than 8.6 years.

9. According to the CFO, the Authority does not plan to incur additional debt immediately. Rather, some of the projects may be scheduled for the fall of 2002. Therefore, the Committee could eliminate the provision that would increase the amount of bonds the Authority could issue or the indebtedness it could incur. Under this alternative, the Authority could request an increase through separate legislation when the borrowing is needed.

10. However, the CFO indicates that authority to increase borrowing is needed now so that the Authority can plan for its capital and financing needs, and choose the optimal market timing for selling bonds.

## **ALTERNATIVES**

1. Approve Governor's recommendation to increase the amount of bonds the Authority could issue or the indebtedness it could incur by \$68.5 million.

2. Maintain current law.

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