



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #187

2005-07 Building Program Delayed Bonding Issuance (Building Program)

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

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

Building Program Project Enumerations. Specify that the following general fund supported bonding (GFSB) and program revenue supported bonding (PRSB) amounts authorized under the 2005-07 building program could not be issued until after June 30, 2007.

	<u>General</u>		<u>Total</u>	<u>Other</u>	<u>Project</u>
	<u>Obligation</u>	<u>Bonding</u>			
	<u>GPR</u>	<u>PR</u>			<u>Total</u>
University of Wisconsin System					
Wisconsin Institute for Discovery	\$137,500,000	0	\$137,500,000	\$243,200,000*	\$380,700,000
Purchase Space and University					
Square UW- Madison	39,850,000	\$0	39,850,000	17,000,000**	56,850,000
Sterling Hall Renovation - UW-Madison	20,000,000	0	20,000,000	19,500,000***	39,500,000
St. Mary's Columbia Campus Medical					
Facilities- UW-Milwaukee	56,530,000	55,590,000	112,120,000	0	112,120,000
Tri-State Initiative Facilities - UW-Platteville	10,000,000	0	10,000,000	40,615,000****	50,615,000
Wisconsin Historical Society					
Wisconsin Historical Society and Veterans					
Museum Shared Storage Building	15,000,000	0	15,000,000	0	15,000,000
Veterans Affairs					
Veterans Administration Purchase and					
Remodeling of Buildings at 22 and 30					
W. Mifflin Street in Madison	<u>0</u>	<u>20,500,000</u>	<u>20,500,000</u>	<u>0</u>	<u>20,500,000</u>
Total	\$278,880,000	\$76,090,000	\$354,970,000	\$320,315,000	\$675,285,000

* The building program would utilize \$50 million of existing GFSB that would be available in the 2005-07 biennium and authorize \$193.2 million of gifts and grants funding for this project.

** The building program would authorize \$17 million PRSB for this project that would be available in the 2005-07 biennium.

*** The building program would authorize \$17.5 million GFSB for this project that would be available in the 2005-07 biennium.

**** The building program would authorize \$10.0 million GFSB and \$23.1 million PRSB that would be available for the project in the 2005-07 biennium.

DISCUSSION POINTS

1. In accordance with statutory requirements for a long-range plan for the building program, agencies submit six-year facilities plans to the Department of Administration (DOA). 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 2005-07 state building program. In general, DOA staff, after reviewing the agency facility plans within the context of the overall bonding level to be included in the biennial state building program, as well as the state's overall fiscal condition, recommend those projects of highest priority for construction during the next two years for enumeration in the biennial state building program.

2. Frequently, the state agencies, DOA staff, the Governor, the Building Commission and the Legislature must make difficult decisions in choosing between projects for inclusion in the

state building program. For example, \$323.5 million in agency requests for GFSB projects were not included in DOA staff recommendations for the 2005-07 state building program. In recent years, there have been three ways in which the Building Commission and the Legislature have chosen to mitigate an adverse decision to exclude a specific project for funding under a building program: (a) providing advanced planning funds for projects likely to be enumerated in the subsequent biennial building program; (b) enumerating projects within a biennial building program, but delaying the construction and the bonding provided for the project until the next biennium; or (c) providing multi-biennia bonding authorizations targeted at broad UW-System programs for specific types of projects to be enumerated at a later date.

3. Identifying a project for advanced planning allows for a more extensive design and planning process that can ensure that the facility could be constructed more quickly in a subsequent biennium. Building Commission policy requires that 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 capital budget request. The planning funds are generally provided from the building trust fund, from an agency funding source, or from gifts and grants. These funds are generally repaid to the building trust fund with bond proceeds when bonds are issued to finance a project. In its report on the 2005-07 building program, the Building Commission specified that advanced planning would be conducted on two agency projects for potential enumeration in the 2007-09 biennium that have projected budgets totaling \$23 million GFSB.

4. The Building Commission recommendations would enumerate seven projects totaling \$278.9 million GFSB, of which \$113.1 million would not be available until the 2007-09 biennium, \$73.3 million in the 2009-11 biennium, \$46 million in the 2011-13 biennium, and \$46.5 million in the 2013-15 biennium. Each of the last four biennial building programs have included a number of projects identified for enumeration that have had delayed effective dates for the bonding provided for those projects. However, in the 2003-05 biennium, DOA staff moved away from the policy of enumerating projects that would not be funded in the biennium, by not recommending such projects for enumerations. The Building Commission also did not include any advanced enumerations of projects to be funded in a later biennium. However, the Legislature subsequently included a project under the 2003-05 building program with \$7.5 million GFSB only authorized for issuance in the 2005-07 biennium.

5. The proposed \$137.5 million GFSB for the Wisconsin Institute for Discovery (WID) program is an example of a multi-biennia, general fund supported bonding program, which would make bonding available through the 2013-15 biennium. Examples of previously authorized, multi-biennia, GFSB authorizations targeted at specific University of Wisconsin programs or institutions include: (a) the Biostar initiative, which was authorized \$158.5 million; (b) the Wistar program, which was authorized \$162.5 million; and (c) the Healthstar program, which was authorized \$72 million. The bonding authorizations for these programs were provided over five biennia for the Biostar and Wistar programs and three biennia for the Healthstar program.

6. Use of these funding mechanisms provides reasonable certainty that funding will be available and that the specific projects or types of projects will be built. As a result, those agencies

that would use the building could plan accordingly. In addition, providing advanced planning funds or a future bonding commitment demonstrates the state's commitment to a project, which makes it easier to solicit donations on the project. DOA staff also indicates that committing funding two or more years in advance of construction of a building or facility can also enhance coordination between the affected agency's operating and capital budgets and can improve coordination among agencies on projects that involve multiple agencies.

7. As mentioned earlier, many projects were not recommended by the Building Commission to be funded in the 2005-07 biennium. Further, priorities associated with projects change as facility usage changes. For example, the Governor has indicated that his intentions are to continue downsizing the state workforce, which could have an effect on agency space needs. Therefore, if projects are committed for future biennia, given the potential for changes in state government, it is not certain that when the project is constructed, the project will be the best use of state monies.

8. Enumerating projects to be funded in future biennia also limits the ability of a future Legislature to establish priorities for the future building programs. If, for budgetary reasons, the authorization of general fund supported borrowing would need to be restricted in future biennia, the advance commitment of \$283.9 million GFSB under the 2005-07 building program could limit the decisions of the Legislature through the 2013-15 biennium. 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, design and early phases of such projects.

9. In addition, authorizing general fund supported bonding that cannot be issued until a subsequent biennia can also make it difficult for the Building Commission and the Legislature to monitor the total amount of bonding that is available to be issued in a given biennium. As a result, a stacking effect of bonding authorizations can occur as additional GFSB is added to the advanced authorizations as part of the budget process and building program. This occurs in part because when budget decisions are made as to the amount of bonding, bonds previously authorized for issuance in that biennium may not be factored into the deliberations. In developing its recommendations, the Building Commission gives consideration as to the impact of new bonding authorizations on GPR debt service for that biennium. However, this impact is not a good measure of the long-term effect of new bonding, because much of the bonding authorized in one biennium will not fully impact state GPR debt service payments until the following biennium at the earliest.

10. As mentioned, a stacking effect of bonding authorizations can occur when bonding is authorized in one biennium but not allowed to be issued until future biennia. In total, under the Building Commission's out-year bonding recommendations and current law, the state will have committed a significant amount of GFSB in the 2007-09 biennium and beyond. The following table illustrates this stacking effect over the next three biennia given the authorizations provided under current law, AB 100, and the building program recommendations. As illustrated in the table, despite only \$389.0 million in building projects for the 2005-07 biennium, \$806.6 million in general fund supported bonds would be available for issue in the 2005-07 biennium due to previously authorized bonding, bonding proposed under AB 100 and the proposed building program. Also,

before any decisions are made on the 2007-09 and 2009-11 operating and capital budgets, \$264.1 million GFSB would already be available for issuance for 2007-09 and \$193.3 million GFSB would be already be authorized for 2009-11.

**Estimate of General Fund Supported Bonding
Authorized for Issuance**

	<u>2005-07</u>	<u>2007-09</u>	<u>2009-11</u>
2005-07 Operating Budget (AB 100)			
DATCP-Soil and Water	\$7,000,000	\$0	\$0
Environmental Improvement Fund*	-9,600,000	0	0
DNR Environmental Bonding	10,700,000	0	0
DOT-Major Highway and Rehabilitation Projects	<u>250,000,000</u>	<u>0</u>	<u>0</u>
Subtotal	\$258,100,000	\$0	\$0
Previously Authorized/Unissued			
Stewardship Program	\$120,000,000	\$120,000,000	\$120,000,000
Biostar Initiative	32,000,000	31,000,000	0
2003-05 Advanced Enumerations	<u>7,500,000</u>	<u>0</u>	<u>0</u>
Subtotal	\$159,500,000	\$151,000,000	\$120,000,000
2005-07 Building Program			
2005-07 Building Program Projects	\$388,985,300	\$0	\$0
Wisconsin Institute for Discovery	0	0	45,000,000
2007-09 Advanced Enumerations	<u>0</u>	<u>113,115,000</u>	<u>28,265,000</u>
Subtotal	\$388,985,300	\$113,115,000	\$73,265,000
 Total Authorized for Issue	 \$806,585,300	 \$264,115,000	 \$193,265,000

* Includes earlier Joint Finance Committee action to delete the Governor's recommended bonding for the Clean Water Fund program and to delete \$15.7 in existing bonding authority.

11. The Building Commission has discussed approval of a six-year capital budget plan which, unlike the current six-year facilities plan, would involve the enumeration of priority projects over the six-year period. Therefore, establishing a six-year capital budget plan could make the advance commitment of bonding for projects a biennial practice. Similar to the 2005-07 building program recommendations, the six-year capital budget plan would list the following: (a) projects already enumerated for each of the three biennia by previous Legislatures; (b) the multi-year bonding authorizations that would be available in each biennia; (c) those projects not yet enumerated, for which planning funds have been expended in each biennium. Projects identified under each of these categories would become the basis for the subsequent biennial building program recommendations.

12. Having a long-term capital budget plan may prove beneficial for state facility planning purposes and could be helpful for the Building Commission. However, continuing the practice of authorizing bonding for projects that are not expected to be constructed until future

biennia could result in steady increases in overall state bonding levels. To address this, the Building Commission could be required to consider bonding previously authorized under a prior building program in its building program recommendations.

13. Another mechanism that could ensure that the bonds previously authorized are accounted for when developing a subsequent biennial building program would be to establish a target amount of bonding that can be included in a each biennial building program. This amount could be inflated each year to account for the annual increase in constructions costs. DOA staff indicate that the 2005-07 building program activities would result in nearly \$430 million in general fund supported bonds being available for issue in the 2005-07 biennium (\$389.0 in current 2005-07 building program recommendations plus \$32 million in previously enumerated Biostar projects and \$7.5 million in previously enumerated 2005-07 projects). This amount could serve as a basis for the bonding target.

14. As an alternative way of constraining the amount general fund supported bonding authorized each year, some have suggested that the state should not authorize any more bonding in a biennium than would be paid in principal on outstanding bonds in that biennium. These amounts are reported by DOA Capital Finance in December of each year. If this measure would be used in developing the target amount of general fund supported bonding for each biennium, the target amount for the 2007-09 building program could be set at approximately \$480 million. Because there are significant pressures on the use of general fund supported borrowing, the higher limit based roughly on principal repayment may be more realistic.

15. The target GFSB bonding level could be reduced by any bonds authorized in previous biennia for future issuance, as well as any bonds included in the operating budget. Because the capital budget is submitted two months after the operating budget, the GFSB target could be reduced by the amount of general fund supported bonding included in the Governor's biennial budget recommendations. This could have the effect of either reducing the amount of general obligation bonding included under the Governor's biennial budget recommendations or reducing the amount of bonding available to be included in the Building Commission's biennial building program recommendations.

16. Establishing a target level of general fund supported bonding to be included in the state building program could limit the flexibility of the Legislature to meet both the capital and operating budget needs of the state. However, the proposed target would be statutory, so that the Legislature could modify it. However, it would serve to guide the Building Commission in establishing its building program recommendations.

ALTERNATIVES

1. Establish a target level of general fund supported bonding that would be used in funding the projects included in the Building Commission's biennial building program recommendations. Require that the target level be established as follows:

(a) set equal to \$480 million for the 2007-09 biennium, and increased each biennium thereafter to reflect the estimated increase in costs of construction;

(b) reduce the target level by any amount of bonding authorized under a prior building program or biennial budget, but that could not be issued until the biennium for which the biennial building program is being established; and

(c) reduce the target level of general fund supported bonding by the amount of such bonding included in the Governor's biennial budget recommendations for the biennium for which the building program is being established.

2. Maintain current law.

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