



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #190

Children's Research Institute (Building Program)

[LFB 2005-07 Budget Summary: Page 96-9, #8]

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 the construction of a \$40,000,000 children's research institute at the Children's Hospital and Health System in the City of Wauwatosa, including \$10,000,000 in general fund supported bonds, \$20,000,000 in gifts and \$10,000,000 in federal funds. Authorize the Building Commission to issue up to \$10,000,000 in general fund supported bonds to the make a grant to the Children's Hospital and Health System for construction of a children's research institute. Create a GPR sum sufficient appropriation to fund the debt service payment or any payments on an agreement or ancillary arrangement associated with the bonding. Provide that these payments could be made through the bond security redemption fund appropriation.

Establish the following requirements related to the release of up to \$10,000,000 in general fund supported borrowing; (a) specify that before approving any state funding for the construction of the institute and before awarding the grant, the Building Commission would be required to determine that the Children's Hospital and Health System has secured additional funding commitments of at least \$30 million from nonstate revenue sources; (b) require that if for any reason the facility is constructed with state grant funds but is not used as a children's research institute in the City of Wauwatosa, or the institute is not operated to conduct pediatric

research, the state would retain an ownership interest in the facility equal to the amount of the state's grant; and (c) specify that DOA would review and approve the plans for the project although DOA could not supervise any services or work or let any contract for the project.

Specify that the Legislature finds and determines the following related to the use of state borrowing for the project: (a) that there is a critical need for pediatric research to be conducted in the Milwaukee metropolitan area at a unified site; (b) that state support for the construction of a children's research institute at a location that permits interconnection with functionally related facilities at the Medical College of Wisconsin will contribute to the advancement of public health in the state; (c) pediatric research is a statewide responsibility of statewide dimension; and (d) because it will better ensure that this important responsibility is undertaken in the manner most advantageous to the people of the state, it will have a direct and immediate effect on a matter of statewide concern for the state to facilitate the construction and operation of a children's research institute.

DISCUSSION POINTS

1. The proposed Children's Research Institute would be part of the Children's Hospital of Wisconsin (CHW). The proposed research facility is CHW's highest priority. Currently, most of the research being done under the auspices of the Institute is conducted in multiple, unrelated facilities in the Milwaukee area. The Institute indicates that based on current plans, staff recruitments, and research commitments, their current space falls short of the Institute's immediate needs.

2. The mission of the Children's Research Institute is to support and conduct research that includes basic clinical, public health epidemiology, and outcomes research to further new discoveries in pediatric health care for the benefit of children. Key pediatric research programs that are expected to move to the Children's Research Institute include: (a) cardiovascular disease (congenital defects, hypertension, and bleeding disorders); (b) genetics (obesity, diabetes, and gene therapy); (c) immunology (rheumatic disorders, lupus, and tumor immunology); and (d) community/public health research (child abuse and injury prevention).

3. The Children's Research Institute would be a 90,000 square foot facility and would be interconnected with Medical College of Wisconsin's (MCW's) biomedical research facility project. The footprint of the structure would include both facilities. MCW and the Institute would share certain core facility and operational resources, such as the animal research facility on the first floor of the facility and shared conference and office space on the second floor. In addition, each entity would also have their own tower or wing of the facility in which to conduct their independent research. The MCW portion of the project was enumerated under the 2001-03 state building program as an \$88 million structure, of which \$25 million is funded with general fund supported borrowing authorized under that building program enumeration. The joint structure is currently being constructed, and because the footprint of the structure includes the Children's Research Institute's portion of the project, the Institute will be built regardless of the Legislature's decision as

to whether to provide the general fund supported bonding.

4. The construction of the Children's Research Institute project would be enumerated as a \$40 million project to be funded with \$10 million in state general fund supported bonding, \$10 million in federal funds, and \$20 million from gifts, grants, and other receipts. As a part of the current U.S. congressional budget deliberations, the local congressional delegation has requested an earmark of the \$10 million in federal funds identified for the project under federal budget legislation. Children's Research Institute officials indicate that if the state or federal funds are not provided, the facility would have to raise additional private gift and grant funds to complete the facility currently under construction. The officials indicate that having a mostly, or entirely, gift-funded project could make fund-raising more difficult.

5. Because the state provided \$25 million to the MCW portion of the project, which accounts for 28.4% of that project's total cost, it may be reasonable to provide \$10 million for CHW's research facility, which would account for 25% of that project's total costs.

6. Historically, local, non-state projects tend not to be included in the state building program. However, in recent biennia the Building Commission and the Legislature have included local projects in the biennial state building program. Since 1997, the state has provided \$6.5 million toward the following five local projects with estimated construction budgets of over \$24.1 million.

Local Projects Enumerated in Recent State Building Programs

<u>Project</u>	<u>State Funding</u>	<u>Total Funding</u>
Nash Auto Museum (1997 Act 27)	\$1,000,000	\$8,000,000
Swiss Cultural Center (1999 Act 9)	2,000,000*	6,000,000
Milwaukee Policy Athletic League Youth Activities Center (1999 Act 9)	1,000,000	5,074,000
Racine Discovery Place Museum (2001 Act 16)	1,000,000	2,000,000
HR Academy, Inc. Youth and Family Center (2001 Act 16)	<u>1,500,000</u>	<u>3,000,000</u>
 Total	 \$6,500,000	 \$24,074,000

*Includes \$1,000,000 grant from the Department of Commerce tribal gaming economic diversification grant and loan program.

7. Recent state building programs have also included projects for non-state institutions comparable to the Children's Research Institute: (a) 1999 Act 9 provided \$15 million in general fund supported bonding to aid in the construction of a dental clinic and educational facility at the Marquette University Dental School; and (b) 2001 Act 16 provided \$25 million in general fund supported bonding to aid in the construction of a biomedical research and technology incubator at the Medical College of Wisconsin. Similar to the Children's Research Institute, these facilities,

unlike the other local projects listed above, are not aimed at a specific location or population in the state, but rather have a broader impact on the health of citizens in the state as well as state's economy.

8. In February, 2005, Child Magazine, a national children's health and wellness magazine, ranked the Children's Hospital of Wisconsin as the 3rd best pediatric medical center in the country. CHW officials indicate that in part due to such recognition, patients from across the state access CHW facilities for pediatric care. CHW officials also indicate that 50% of their patients are children from across the state, who are uninsured or have exhausted their private insurance and are medical assistance eligible. They indicate that having a research facility that could lead to medical breakthroughs, which could reduce health care costs for children in the state and the medical assistance costs of the state. In addition, the facility is projected to generate up to 110 new research and professional positions through 2010.

9. In the past, concerns have been raised related to the trend of including local or non-state projects in biennial state building programs, since there are many local projects or entities within communities throughout the state that could use state assistance. Approving a project like the Children's Research Institute could further the recent trend toward state funding for these projects and give other private entities that may have a public purpose or cause to request state aid for their local project.

10. In an effort aimed at addressing this concern, the Building Commission has developed policies and criteria for including state funding for local, non-state projects in the state's capital budget. The Building Commission recommendations indicate that the proposed children's research institute would be consistent in most respects with the Commission's guidelines on local, non-state projects. Under the Building Commission policies and guidelines, the following requirements are to be used in determining whether a local project should be included in the state building program.

- the project must be in the public interest;
- there should be a statewide basis justifying the need for the project;
- local or other financing alternatives should be considered first;
- the requestor should be required to provide evidence that the purpose and use of the project is such that it can be financed with tax-exempt bonds;
- the requestor and DOA should consider appropriate language to protect the state's interest in the project if the property is used for purposes other than those initially approved by the Building Commission. The Commission can modify its original approval provided the proposed change is in the public interest and approved by state bond counsel;

- the requestor agrees to provide a 50% or greater match for the project before initial review by the Commission and the Commission may require appropriate guarantees for this match; and

- the local project shall be submitted and reviewed following the same procedures used for state agency requests for funding through the state capital budget.

11. DOA staff indicates that the project is consistent with the Building Commission guidelines on the use of state bonding for local governments and private institutions. However, due to the late submission of the project for consideration in the 2005-07 state building program, the project may not meet the requirement that it go through the same procedures that state agency capital project requests go through.

12. In accordance with statutory requirements for a long-range plan for the building program, agencies submit six-year facilities plans to 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. Frequently, state agencies and DOA staff must choose between projects for inclusion in the state building program. Because the Children's Research Institute project was first recommended just prior to Building Commission's deliberations on the 2005-07 building program, the proposed Children's Research Institute did not go through this entire capital budget planning process.

13. However, the project was submitted in time to receive some review from the DOA staff and was incorporated in DOA staff recommendations to the Building Commission on the 2005-07 state building program. Also, the project received a unanimous vote from both the Building Commission's administrative affairs subcommittee and from the full Commission to be included in the 2005-07 state building program.

14. It is likely the general fund supported bonds for the project would not be issued until late 2006-07, or until the 2007-09 biennium. Therefore, no GPR debt service costs associated with bonding for the facility would be incurred in the 2005-07 biennium. Under a twenty-year, flat repayment structure, the annual debt service costs once the bonds are fully issued would result in debt service payments of an estimated \$800,000 GPR annually. In total, the principal and interest costs associated with the facility would exceed an estimated \$16 million GPR over the twenty-year period. While projects like the Children's Research Institute have been deemed worthy and have been funded with GPR-supported bonding by past administrations and legislatures, given the statewide demands on the state's general fund budget in recent years, such projects may no longer be considered a priority use of general fund supported bonding.

ALTERNATIVES

1. Approve the Building Commission's recommendation to authorize the Building

Commission to issue up to \$10,000,000 in general fund supported bonds to the make a grant to the Children's Hospital and Health System for construction of a children's research institute. Enumerate the construction of a \$40,000,000 children's research institute at the Children's Hospital and Health System in the City of Wauwatosa, including \$10,000,000 in general fund supported bonds, \$20,000,000 in gifts and \$10,000,000 in federal funds. Include the Building Commission's recommendations relative to the statutory language associated with the project.

Alternative 1	BR
2005-07 REVENUE (Change to Bill)	\$10,000,000

2. Maintain current law. The Children's Research Institute project would not receive state funding and would not be enumerated in the 2005-07 state building program.

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