



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 25, 2005

Joint Committee on Finance

Paper #191

Hmong Cultural Center (Building Program)

[LFB 2005-07 Budget Summary: Page 96-10, #9]

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 \$5,000,000 Hmong Cultural Center in the City of Madison as part of the 2005-07 state building program. Provide \$2,500,000 in general fund supported general obligation bonding for the purpose of constructing the center, and specify that there is a public purpose for this project. Create a GPR sum sufficient appropriation to fund the debt service payments and any payments on an agreement or ancillary arrangement associated with the bonding. Provide that these payments could to be made through the bond security redemption fund appropriation.

Authorize the Building Commission to issue general obligation bonding for the purpose of making a grant to an organization designated by the Secretary of the Department of Administration (DOA) that represents the Hmong people for the construction of the center in Madison. Before approving any state funding commitment for the construction of the center, the Building Commission would be required to make a determination that the organization has secured additional funding commitments of at least \$2,500,000 from nonstate revenue sources for the construction of the center. The organization designated for the construction of the Hmong Cultural Center would be required to submit to the Building Commission an initial

budget and business plan, which would be required to include an analysis and description of the proposed operation of any satellite facility that would be operated in the City of Milwaukee for the same purpose as the center. Before awarding the grant, the Building Commission would be required to review and approve the initial budget and business plan. Specify that the Building Commission would not be allowed to make the grant, unless DOA has reviewed and approved the plans for the project although DOA could not supervise any services or work or let any contract for the project

As a condition of the grant, the organization would be required to enter into an agreement with the DOA Secretary guaranteeing that the center would be operated to serve the nonsectarian cultural interests of the Hmong people. Specify that if the Building Commission makes a grant for the construction of the facility, the state would retain an ownership interest in the facility equal to the amount of the state's grant if the facility is not used as a Hmong Cultural Center or is not operated to serve the nonsectarian interests of the Hmong people.

Specify that Legislature finds and determines the following related to the construction of and operation of a state Hmong Cultural Center: (a) that a significant number of Hmong people are citizens of this state; (b) that the Hmong people have a proud heritage that needs to be recognized and preserved and that Hmong people have experienced difficulties assimilating in Wisconsin; (c) that supporting the Hmong people in their efforts to recognize their heritage and to realize the full advantages of citizenship in this state is a responsibility of statewide dimension; and (d) because it would ensure that the heritage of the Hmong people is preserved and will better enable the Hmong people to realize the full advantages of citizenship, 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 Hmong Cultural Center.

DISCUSSION POINTS

1. According to Building Commission documents, approximately 160,000 Hmong people now live in the United States, with the highest concentrations living in Wisconsin, Minnesota, and California. The Hmong population in Wisconsin is the third largest in the country numbering in excess of 40,000.

2. The 2003-05 biennial budget, as passed by the Legislature, included the enumeration of a \$3,000,000 Hmong Cultural Center in Milwaukee, the construction of which would have been entirely funded with general fund supported bonding. The Governor's partial veto deleted the enumeration. The Governor's veto message indicated that the enumeration did meet the requirements established by under the Building Commission guidelines regarding the use of state bonding authority for local units of government and private institutions. The Governor also indicated that the enumeration did not go through the process of being approved and enumerated by the Building Commission. However, the Governor's veto message did indicate he remained committed to assisting the Hmong community work through the Building Commission processes.

3. At an April 21, 2004, meeting, the Building Commission released \$100,000 in funds from the segregated building trust fund to develop preliminary plans for a Hmong Cultural Center or Centers and to prepare a request for consideration as part of the 2005-07 capital budget. DOA hired a firm to assist in developing the project and a program statement for its operation. According to the Building Commission recommendations, input on the project was sought from a broad cross-section of the Hmong population in the state through sessions with leaders of Hmong mutual assistance associations and through seven public hearings across the state.

4. According to the Hmong Cultural Center plan, Madison was chosen as the site for the facility by Hmong groups and associations for the following reasons:

- centrally located for the Wisconsin Hmong population;
- located near existing hub of statewide organizations and agencies;
- in area with large arena or meeting facility to house state-wide events and city infrastructure to support statewide events;
- closely allied with a statewide university hub;
- national, international airport/transportation accessibility;
- strong ties to local business groups/foundations;
- strong local citizen interest;
- potential to promote the Center as an educational/destination hub;
- near a park or neighboring land for expansion and outdoor programming;

5. Based on this input, a proposal was forwarded to the state requesting state assistance in the construction of a 21,000 square foot building with an estimated construction cost of \$2,625,000 and a total project cost of \$4,500,000. This cost would include site acquisition and preparation, design fees, and moveable and special equipment. In addition, the proposal requested a Hmong Cultural Center satellite facility in Milwaukee with construction costs estimated at \$400,000 and an additional \$100,000 to equip the satellite facility.

6. The Hmong Cultural Center would be governed by a Board of Directors. The Board would operate the center as a section 501(c)(3) corporation for federal tax purposes. The corporation would need to generate revenues sufficient to cover the annual operating budget of the facility, which the Hmong Cultural Center financial plan estimates at between \$400,000 and \$525,000 annually over the first three years of operation. The financial plan indicates that certain operating functions would need to be fulfilled associated with the corporation and center from the outset. For planning purposes, it is assumed that funding would exist to fund three full time staff positions at the center, although whether the positions are paid or voluntary would depend on the sources of income and the budget the center will be able to support. The financial plan indicates that these funds would come from foundation and corporate sponsorships, individual contributions and dues, and from revenues from programming activities at the center.

7. The ability of the facility or facility operator to generate sufficient funds to operate the facility has been an issue with other state facilities that have been funded with state general fund supported borrowing. In particular, the initial operator of one local facility that included state

general fund supporting borrowing has not been able to generate sufficient revenues to cover the bills associated with operating the facility, including paying any local debt on the facility. As a result, the state may have to intervene to find a new operator or enforce its ownership interest. The financial plan for the Hmong Cultural Center indicates that operating revenues would be mainly derived from individual dues and donors rather than from revenues generated by the facility, which may not be the most stable source of revenue. However, in order to ensure the state's interests are protected, the Building Commission recommendations require that before awarding the grant, the Commission would be required to review and approve the initial budget and business plan.

8. Historically, local 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 five local projects with estimated construction budgets of over \$24.1 million. The estimated annual GPR debt service on bonding provided for these projects is \$440,000 with overall financing costs totaling \$8.8 million. The list of facilities does not include the state funding provided for non-state projects like the funding for the Marquette Dental School and the biomedical research and business incubator facility at the Medical College of Wisconsin. These facilities, unlike the facilities listed in the table, arguably, 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.

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.

9. As indicated in the table, the \$2.5 million in state support for the Hmong Cultural Center would be an increase in the amount has provide for past local projects aimed at a specific group or purpose. If the Committee were to provide \$2.0 million toward the project, that amount would equal the state's previously largest contribution for the Swiss Cultural Center. This level of state funding, along with the \$2.5 million in non-state funds, would cover the cost of constructing the \$4.5 million main cultural center facility in Madison. Under this alternative, no funding would

be available for the satellite cultural center facility in Milwaukee. However, as indicated in the proposed center's financial plan, as the Hmong Cultural Center becomes financially stable and programs develop and additional satellite facilities could be added. Using this rationale, the Milwaukee facility could be added at a future date.

10. In the past, concerns have been raised related to the trend of including local projects in biennial state building programs, since there are many local projects within communities throughout the state that could use state assistance. Approving a project like the Hmong Cultural Center could further the recent trend toward state funding for local projects and give other communities or groups of citizens cause to request state aid for their local project.

11. In an effort aimed at addressing this concern, the Building Commission has developed policies and criteria for including state funding for local projects in the state's capital budget. The Building Commission recommendations indicate that the proposed Hmong Cultural Center would be consistent in most respects with the Commission's guidelines on local 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.

- a. the project must be in the public interest;
- b. there should be a statewide basis justifying the need for the project;
- c. local or other financing alternatives should be considered first;
- d. 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;
- e. 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 approved by the Building Commission;
- f. the Commission can modify its original approval if the proposed change is in the public interest and approved by state bond counsel;
- g. 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
- h. the local project shall be submitted and reviewed following the same procedures used for state agency requests for funding through the state capital budget.

12. 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 \$200,000 GPR annually. In total, the costs associated with the facility would be over \$4.0 million GPR over the twenty-year period. While projects like the Hmong Cultural Center have been deemed worthy and have been funded with GPR supported borrowing in recent years, given the statewide demands on the state's general fund budget, such projects may no longer be considered a priority use of general fund supported borrowing.

ALTERNATIVES

1. Enumerate the construction of a \$5,000,000 Hmong Cultural Center in the City of Madison as part of the 2005-07 building program as recommended by the Building Commission. Provide \$2,500,000 in general fund supported general obligation bonding for the purpose of constructing the center, and specify that there is a public purpose for this project. Include the Building Commission recommendations relative to the statutory language associated with the project.

Alternative 1	BR
2005-07 REVENUE (Change to Bill)	\$2,500,000

2. Enumerate the construction of a \$4,500,000 Hmong Cultural Center in the City of Madison as part of the 2005-07 building program as recommended by the Building Commission. Provide \$2,000,000 in general fund supported general obligation bonding for the purpose of constructing the center, and specify that there is a public purpose for this project. Include the Building Commission recommendations relative to the statutory language associated with the project, except for those provisions related to the construction of a satellite facility in Milwaukee.

Alternative 2	BR
2005-07 REVENUE (Change to Bill)	\$2,000,000

3. Maintain current law. (The Hmong Cultural Center would not be enumerated in the 2005-07 state building program and no state funding would be provided for the project).

Prepared by: Al Runde