



## Legislative Fiscal Bureau

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May 24, 2007

Joint Committee on Finance

Paper #180

### **GPR-Supported Bonding Authorizations and 2007-09 Building Program Projects (Building Program)**

#### *Base Agency*

[LFB 2007-09 Budget Summary: Page 625, Item #1, Page 629, Item #2, Page 630, Item #3 (part)]

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#### **CURRENT LAW**

Building program projects with costs 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.

As of December, 2006, Wisconsin had approximately \$5.7 billion of general obligation bond and commercial paper principal outstanding, which represents the principal amount of debt that remains to be paid from issuing approximately \$15.9 billion of general obligation bonds to that date. Of this outstanding principal amount, \$4.1 billion is associated with GPR-supported bonding.

#### **BUILDING COMMISSION**

Enumerate \$1,318,077,000 in projects in the 2007-09 building program. Of these projects, this paper deals with the projects listed in Attachment 1, with total enumerations of \$626,896,000. Specify that funding for the projects in Attachment 1 would be drawn from the following sources: (a) \$448,930,900 from new general obligation bonding authority; (b) \$25,618,900 from general obligation bonding authority that is currently authorized; (c) \$6,121,600 of revenue bonding authority included under SB 40; (d) \$500,000 of revenue bonding authority that is currently authorized; (e) \$34,528,200 from agency operating funds; (f)

\$46,788,400 from federal funds; and (g) \$64,408,000 from agency gifts, grants, and other receipts.

Separate papers address the remaining projects with enumerations totaling \$691,181,000, including \$212,765,000 of project enumerations relating to projects that include out-year bonding.

## DISCUSSION POINTS

### State General Obligation Indebtedness

1. The specific purposes for which general obligation debt may be contracted are authorized by the Legislature. Most of these bonding authorizations are contained in the biennial budget to fund that biennium's building program, as well as other bonding programs. The Building Commission, with the assistance of DOA's capital finance office then issues the bonds to fund the projects or program purposes for which the bonding was authorized.

2. The state's outstanding indebtedness represents the principal amount of debt that remains to be repaid on the total amount of general obligation bonds issued at that point in time. For example, as of December, 2006, Wisconsin had approximately \$5.7 billion of general obligation and commercial paper obligations outstanding, which represents the principal amount of debt that remained to be paid from issuing approximately \$15.9 billion of general obligation bonds and commercial paper to that date. Table 1 presents a summary of the outstanding state general obligation indebtedness as of December, 2006.

**TABLE 1**

### Outstanding General Obligation Debt -- As of December, 2006

<u>Bonding Category</u>	<u>Amount Outstanding</u>
<b>Tax Supported</b>	
General Fund	\$4,080,518,842
Segregated Funds	<u>319,795,433</u>
Subtotal	\$4,400,314,275
<b>Self-Amortizing</b>	
Veterans' Mortgage Loans	\$380,220,000
University of Wisconsin And Other Categories	<u>916,774,413</u>
Subtotal	\$1,296,994,413
<b>TOTAL</b>	<b>\$5,697,308,688</b>

3. The level of state indebtedness has grown over time, with the amount of new debt exceeding the principal amount of debt repaid. Table 2 indicates the growth in state indebtedness since 1995.

**TABLE 2**  
**Outstanding Indebtedness 1995 through 2006**  
**(\$ in Millions)**

<u>Year</u>	<u>Debt Outstanding</u>	<u>Annual Percent Change</u>	<u>Cumulative Percent Change</u>
1995	\$3,078.4		
1996	3,290.0	6.9%	6.9%
1997	3,429.9	4.3	11.4
1998	3,564.9	3.9	15.8
1999	3,743.5	5.0	21.6
2000	4,067.7	8.7	32.1
2001	4,187.3	3.0	36.0
2002	4,386.2	4.7	42.3
2003	4,370.2	-0.4	42.0
2004	4,876.5	11.6	58.4
2005	5,092.3	4.4	65.4
2006	5,697.3	11.9	85.1

**Additional GPR-Supported Bonding Available in 2007-09**

4. As part of the biennial building program, the Legislature also authorizes any new bonding or other monies needed to fund the projects enumerated in the state building program. The Building Commission's 2007-09 building program recommendations include the authorization of \$1.06 billion in new general obligation bonding, of which \$448.4 million would be GPR-supported bonding. However, only \$344.3 million this bonding would be available for issue in the 2007-09 biennium. The remaining \$104.1 million in GPR-supported bonding would not be available to issue until 2009-11 and beyond.

5. Table 3 indicates how the \$448.4 million in GPR-supported bonding authorizations under the building program, including the \$104.1 million that could not be issued until subsequent biennia, compares with past biennial building programs. These amounts are included because this would be the opportunity for the Legislature to deliberate over whether or not to provide this bonding.

**TABLE 3**

**GPR-Supported General Obligation Bonding  
Authorized in Biennial State Building Programs\*  
(\$ in Millions)**

<u>Biennium</u>	<u>Authorization</u>
1995-97	\$246.7
1997-99	366.2
1999-01	424.4
2001-03	712.2
2003-05	247.2
2005-07	667.9
2007-09	448.4

\*Amounts shown include bonding amounts authorized in each biennium rather than the biennium in which the bonding becomes available for issue.

6. The GPR-supported bonding recommended to fund state building program projects is not the only such bonding included in state biennial budget bills. Each biennium, biennial budgets also include bonding authorizations for other purposes. SB 40 would authorize \$80.6 million in GPR-supported bonding for non-building program purposes, which would be available in the 2007-09 biennium. However, in an earlier budget decision, the Committee increased the GPR-supported bonding for the clean water fund program by \$10.4 million, which increases the bonding under SB 40 that would be available to be issued in the biennium to \$91.0 million.

7. In addition to the \$344.3 million in GPR-supported bonding authorizations that would be available in 2007-09 under the building program amendment, \$115.9 million in bonding that was authorized under previous building programs would become available in the 2007-09 biennium. (This excludes the \$28.3 million in bonding for a UW-Milwaukee project, which was initially scheduled to be issued in the 2007-09 biennium under current law but would be delayed by two years under the building program amendment). As a result, a total of \$460.2 million in additional GPR-supported bonding for building program projects would be available for issue in the 2007-09 biennium. Also, \$120 million in previously authorized GPR-supported bonding for the state stewardship program would become available for issue in the 2007-09 biennium. Table 4 identifies bonding that could be issued in the 2007-09 biennium under SB 40, the Building Commission's recommended building program, and the existing bonding authorizations that become available for issue in the biennium.

**TABLE 4**

**Additional GPR-Supported Bonding Available For Issue  
in the 2007-09 Biennium  
(\$ in Millions)**

	<u>Amount</u>
2007-09 Building Program	\$344.3
Bonding in SB 40	91.0
Existing Bonding Available in 2007-09 Biennium	
Previously Enumerated Projects	115.9
Stewardship Program	<u>120.0</u>
Total	\$671.2

8. As indicated in Table 4, under current law, SB 40, and the building program recommendations, it is estimated that the state could issue \$671.2 million in GPR-supported bonding in the biennium, or \$335.6 million per year. For comparison, over the past 10 years, it is estimated that the state has issued an average \$393.3 million in general fund supported bonding each year.

9. The state Constitution imposes a ceiling on the aggregate amount of general obligation debt the state may incur in any calendar year. Over the past 10 years, the state has ranged between 18.4% and 25.5% of this annual limit. In addition, there is an alternative calculation of the annual debt limit under the Constitution that is based on the cumulative level of outstanding debt. Under this calculation, the state has used 23.2% of the allowable net indebtedness. Therefore, the state's annual debt issuance has been well under the limits on debt issuance established in the Constitution.

**Debt Service on GPR-Supported Bonding**

10. In recent years, the state debt management has been geared toward maintaining annual GPR debt service at no more than 4.0% of annual GPR tax revenues, with a target of annual GPR debt service that is between 3.0% and 3.5% of annual GPR tax revenues. This limitation is suggested to ensure that debt service does not consume an increasing share of the state budget and exacerbate any state out-year spending commitments. In developing its building program recommendations, the Building Commission gives consideration to the impact of these bonding authorizations would have on the GPR debt service to GPR revenues ratio in the 2007-09 biennium. However, this impact is not a good measure for determining the amount of bonding to recommend in a biennial building program because much of the bonding authorized in one biennium will not fully impact the state GPR debt service payments until the following biennium at the earliest. For example, the full debt service impact of bonds recommended by Building Commission under the 2007-09 building program would not fully affect the GPR debt service to revenue ratio until the 2009-11 biennium at the earliest.

11. Estimates of future debt service amounts contain three primary components: (a) existing debt service on bonds that have been issued; (b) estimated debt service on bonds that have been previously authorized, but not yet issued; and (c) estimates on debt service for bonds authorized in the current biennium. Bonds are not always issued in the biennium in which the bonds are authorized, due to the timing of projects, or the bonds were authorized for a multi-year purpose like the state's stewardship program. These increased debt service amounts will be partially offset by old debt being retired during the period the bonds remain outstanding.

12. Table 5 provides an estimate of GPR debt service through the 2009-11 biennium based on the amount of existing debt, an estimate of the amounts of currently authorized debt that may be issued, and the anticipated issuance of the bonding proposed in the budget bill budget bill and the 2007-09 building program. As indicated in the table, the GPR bonding amounts in the bill and those amounts recommended in the 2007-09 building program would not impact GPR debt service amounts significantly until the 2009-11 biennium.

**TABLE 5**  
**Comparison of Estimated GPR Debt Service with Hypothetical GPR Tax Revenues**  
**(\$ in Millions)**

	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2010-11</u>	<u>2011-12</u>
Existing debt service	\$472.7	\$485.2	\$465.8	\$440.5	\$416.8
GPR Debt service on unissued authorized bonding	0.0	20.6	53.3	89.2	104.2
GPR Debt service on 2007-09 authorized bonding	<u>0.0</u>	<u>0.1</u>	<u>1.0</u>	<u>13.1</u>	<u>40.0</u>
Total	\$472.7	\$505.9	\$520.1	\$542.8	\$561.0
GPR tax revenues (Jan. Estimates)	\$12,542.6	\$12,940.5	\$13,398.1		
at 4% growth				\$13,934.0	\$14,491.4
at 5% growth				14,068.0	14,771.4
at 6% growth				14,202.0	15,054.1
GPR debt service as percent of GPR tax revenues	3.77%	3.91%	3.88%		
at 4% growth				3.90%	3.87%
at 5% growth				3.86	3.80
at 6% growth				3.82	3.73

\*Includes the Governor's recommendation to convert \$26.6 million in 2007-08 and \$43.3 million in 2008-09 and thereafter from GPR debt service to SEG (transportation fund) associated with bonding for state highway projects.

13. In the Budget in Brief, the Governor indicates that GPR debt service as a percentage of GPR revenues was initially projected to rise slightly above the 4.0% debt management target.

However, the document also notes that SB 40 proposes a change to GPR debt service costs by shifting the debt service costs of highway rehabilitation projects from GPR back to the segregated transportation fund, which keeps GPR debt service below the 4% level for the biennium. Table 5 includes the Governor's proposal to convert \$26.6 million in 2007-08 and \$43.3 million in 2008-09 in debt service on highway-related projects from GPR to SEG funding. If these amounts would not be converted, the GPR debt service to GPR revenues ratio would be an estimated 4.11% in 2007-08 and 4.20% in 2008-09.

14. In general, the bond market, by assessing the state's ability to meet its debt service obligations, along with its programmatic and administrative governmental functions, provides an indicator of the cumulative debt levels of the state. Wisconsin's bond issuance and debt service levels are considered in the high-moderate range by rating agencies. In addition, rating agencies have expressed concern about the state's annual financial statements. In recent years, the state's general obligation bond issues were downgraded. In announcing the state's latest rating changes, rating agencies generally cited concerns about the state's finances. Specifically, they identified the state's lack of general fund surpluses, the lack of a significant reserve or "rainy day" fund, and the use one-time revenues to fund ongoing expenditures as credit concerns. However, more recently, rating agencies have removed their negative outlook on Wisconsin's long term borrowing programs and the state's rating appears to have stabilized. Significant annual increases in GPR debt service on outstanding bonds could complicate efforts by the state to fund its ongoing costs, and accumulate general fund reserves.

15. If bonding rating agencies determine that the state's debt levels are increasing faster than the state's relative ability to repay that debt, the state could have to pay higher interest rates and eventually the state's bond rating could suffer. Due to current low interest rates, the state's rating has not significantly impacted the state's cost of borrowing. These low interest rates have compressed rates at the low end of the rate scale. The Budget in Brief indicates these lower interest rate levels may increase modestly in the biennium, but are expected to remain near the low levels of recent years.

### **2007-09 Building Program Authorizations**

16. The two primary categories of GPR supported bonding recommended by the Building Commission are all agency projects and the UW system new construction projects. The proposed building program would authorize \$344.3 million in new GPR supported bonding that would be available to fund building program projects in the 2007-09 biennium. Approximately \$273.7 million of the \$344.3 million in projects are listed in the attachment to this paper (the others are dealt with individually in other papers).

17. The Building Commission would recommend \$165 million (47.9% of the GPR supported bonding total in the 2007-09 biennium) for all agency building projects that are not specifically enumerated in the state building program. These broad types of projects are enumerated under titles that indicate a general category of work and that establish an overall budget for the biennium for that purpose. The all agency enumerations are used for types of projects that recur, but where the Commission may need to address unanticipated needs during the 2007-09 biennium,

such as maintenance.

18. The following table lists the GPR-supported bonding for all agency projects provided in past biennia and the amount the Building Commission recommended for 2007-09.

**GPR-Supported Bonding for All Agency Projects**  
**(\$ in Millions)**

<u>Biennium</u>	<u>GPR Bonding</u>
1997-99	\$104.0
1999-01	144.4
2001-03	180.8
2003-05	180.8
2005-07	200.0
2007-09	165.0

19. The amount of GPR-supported bonding recommended for all agency projects is somewhat lower than the amounts provided for these purposes in recent building programs. During deliberations on recent biennial budgets, the Committee reduced the amount of all agency funds recommended by the Building Commission. However, there is an ongoing backlog of maintenance on state buildings that has been consistently identified. As a result, concerns were raised during the Building Commission deliberations on the 2007-09 state building program and during the Joint Finance Committee public hearing on the proposed 2007-09 state building program about the effect that a similar reduction to all agency bonding in 2007-09 would have on the physical condition of state buildings. However, during the Committee's public hearings on the Building Commission's recommendation, DOA staff to the Building Commission indicated that the state had \$35 million in existing bonding that would also be available for the 2007-09 biennium, which will assist with this backlog.

20. University of Wisconsin System projects would be the other major use of bonding authorized for building projects recommended to be constructed in the 2007-09 biennium. The UW System would be authorized approximately \$113.8 million (33.1% of the total) of the \$344.3 million in GPR-supported bonding that would be available for the 2007-09 biennium. The UW System would also receive \$91.6 million (88%) of the \$104.1 million in GPR-supported bonding recommended under the proposed building program that would not be available until the 2009-11 biennium at the earliest. These proposed UW System projects are addressed in separate budget papers.

21. Each of the UW System GPR-bonding supported projects enumerated for construction during the 2007-09 biennium is included in each campus' six-year facilities plan, which identifies projects that are a priority for enumeration in the biennium. In addition, UW System campuses make up a significant amount of the total agency facility space of the state and there was a round of major construction activity on UW System campuses during the 1950s' and 1960's. As a



result, many of those structures may need replacement or substantial renovations, which contributes to the need for the recommended level of investment.

22. Taking into account Committee decisions on other papers relative to the authorization of GPR-supported bonding, if the Committee has concerns about the level of this bonding, the Committee could decline to authorize some or all of the recommended projects funded with GPR-supported bonding.

## **ALTERNATIVES TO BASE**

1. Approve the Building Commission's recommendations to enumerate the projects listed in the attachment as part of the 2007-09 state building program at a total cost of \$626,896,000. Authorize \$448,930,900 in general obligation borrowing for these projects (\$273,720,500 in general fund supported bonding, \$154,161,000 in program revenue supported bonding and \$21,049,400 in segregated revenue supported bonding).

<b>ALT 1</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
BR	\$448,930,900	\$448,930,900

2. Approve some or all of the recommended projects listed in the attachment as part of the 2007-09 state building program (specific projects would need to be identified for inclusion).

3. Maintain current law. (None of the \$626,896,000 in projects addressed in this paper would be included in the 2007-09 state building program).

Prepared by: Al Runde  
Attachment



## ATTACHMENT

### List of 2007-09 Building Program Projects Addressed in This Paper

	<u>General Obligation Bonding</u>			<u>Other Funding</u>	<u>TOTAL</u>
	<u>GPR</u>	<u>PR</u>	<u>SEG</u>		
<b>Administration</b>					
Preservation and Storage Facility	\$0	\$10,000,000	\$0	\$15,000,000	\$25,000,000
General Executive Facility 3 Renovation	0	5,304,000	0	0	5,304,000
State Transportation Building Replacement	<u>0</u>	<u>50,000,000</u>	<u>0</u>	<u>0</u>	<u>50,000,000</u>
Total	\$0	\$65,304,000	\$0	\$15,000,000	\$80,304,000
<b>Corrections</b>					
Kettle Moraine Correctional Institute Health Services Unit	\$4,831,700	\$0	\$0	\$0	\$4,831,700
Racine Correctional Institution Food Preparation	<u>5,424,800</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,424,800</u>
Total	\$10,256,500	\$0	\$0	\$0	\$10,256,500
<b>Educational Communications Board</b>					
WHHI-FM Tower Replacement -- Highland	\$1,023,400	\$0	\$0	\$0	\$1,023,400
<b>Health and Family Services</b>					
Sand Ridge Secure Treatment Facility 300-Bed Addition	\$34,000,000	0	\$0	\$0	\$34,000,000
Wisconsin Resource Center 45-Bed Female Treatment Unit	<u>11,056,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>11,056,000</u>
Total	\$45,056,000	0	\$0	\$0	\$45,056,000
<b>Military Affairs</b>					
Armed Forces Reserve Center Replacement - Dane County	\$5,308,600	\$0	\$0	\$33,000,000	\$38,308,600
Aircraft Maintenance Hangar Remodeling - West Bend	0	0	0	749,000	749,000
Motor Vehicle Storage Buildings - Rice Lake and Wausau	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,500,000</u>	<u>1,500,000</u>
Total	\$5,308,600	\$0	\$0	\$35,249,000	\$40,557,600
<b>Natural Resources</b>					
Governor Thompson State Park Initial Development	\$0	\$0	\$0	\$3,524,900	\$3,524,900
Hank Aaron State Trail Western Extension	0	0	0	1,600,000	1,600,000
Park Entrance and Visitor Stations -- Blue Mound, Council Grounds and Wildcat Mountain State Parks	0	0	0	2,345,100	2,345,100
Northern Region Co-Headquarters - Spooner	0	0	4,494,600	0	4,494,600
Ranger Station Replacements - Plover, Prentice, and Tomah	0	0	4,122,700	0	4,122,700
Wild Rose Fish Hatchery Renovation - Phase 2.5	0	0	6,000,000	3,000,000	9,000,000
Wilson Nursery Expansion	<u>0</u>	<u>0</u>	<u>644,900</u>	<u>0</u>	<u>644,900</u>
Total	\$0	\$0	\$15,262,200	\$10,470,000	\$25,732,200
<b>State Historical Society</b>					
Shelving for Storage Facility - Dane County	\$3,250,000	\$0	\$0	\$0	\$3,250,000
<b>Transportation</b>					
Division of State Patrol/Educational Communications Board					
Gap Filler Towers - Statewide	\$100,000	\$0	\$0	\$2,298,900	\$2,398,900
Division of Motor Vehicles/Department of Natural Resources					
Office Renovation - Phase 2 - Wausau	0	0	250,000	392,700	642,700
Division of Motor Vehicles Service Center Remodeling - Eau Claire	0	0	0	559,700	559,700
Division of State Patrol Post Remodeling - Fond du Lac	<u>0</u>	<u>0</u>	<u>0</u>	<u>526,200</u>	<u>526,200</u>
Total	\$100,000	\$0	\$250,000	\$3,777,500	\$4,127,500

**ATTACHMENT (continued)**

**List of 2007-09 Building Program Projects Addressed in This Paper**

	<u>General Obligation Bonding</u>			<u>Other</u>	<u>TOTAL</u>
	<u>GPR</u>	<u>PR</u>	<u>SEG</u>	<u>Funding</u>	
<b>University of Wisconsin System</b>					
Extension					
-Lowell Hall Guest Remodeling - Madison	\$0	\$3,600,000	\$0	\$0	\$3,600,000
Green Bay					
-Rose and Wood hall Remodeling	6,734,000	0	0	0	6,734,000
La Crosse					
-Stadiums and Fields	0	0	0	14,612,000	14,612,000
Madison					
-Music Performance Building	0	0	0	43,865,000	43,865,000
-Chadbourne Residence Hall - Phase 3 and Barnard Residence Hall	0	14,627,000	0	0	14,627,000
-Parking Ramps 36 and 46 Expansion	0	4,432,000	0	2,700,000	7,132,000
Oshkosh					
-Elmwood Center Remodeling and Addition, or Replacement	8,464,000	0	0	0	8,464,000
-Softball Stadium	0	0	0	500,000	500,000
Platteville					
-Williams Field House Addition and Remodeling	0	3,727,000	0	0	3,727,000
Stevens Point					
-Maintenance Building Remodeling and Addition	0	0	0	2,122,000	2,122,000
-Military Science Building Relocation	0	0	0	1,585,000	1,585,000
-Residence Halls Renovation	0	19,995,000	0	0	19,995,000
Stout					
-Harvey Hall Theater Renovation	5,139,000	0	0	0	5,139,000
-Price Commons 2nd Floor Renovation	0	2,429,000	0	650,000	3,079,000
Whitewater					
-Drumlin Dining Hall	0	1,275,000	0	0	1,275,000
-Multi-Sport Facility - Phase 3	0	0	0	3,474,000	3,474,000
System					
-Classroom Renovation/Instructional Technology	3,500,000	0	0	0	3,500,000
-Utility Improvements - Madison	<u>19,889,000</u>	<u>4,815,000</u>	<u>0</u>	<u>0</u>	<u>24,704,000</u>
Total	\$43,726,000	\$54,950,000	\$0	\$69,508,000	\$168,134,000

**ATTACHMENT (continued)**

**List of 2007-09 Building Program Projects Addressed in This Paper**

	<u>General Obligation Bonding</u>			<u>Other</u>	<u>TOTAL</u>
	<u>GPR</u>	<u>PR</u>	<u>SEG</u>	<u>Funding</u>	
<b>Veteran's Affairs</b>					
Wisconsin Veterans Home at King - 45-bed Assisted Living Facility	\$0	\$2,639,000	\$0	\$4,901,000	\$7,540,000
<b>All Agency</b>					
Facility Maintenance and Repair	\$90,000,000	\$17,568,300	\$5,537,200	\$18,614,400	\$131,719,900
Utilities Repair and Renovation	45,000,000	2,957,300		12,094,700	60,052,000
Health, Safety and Environmental Protection	10,000,000	870,400		1,827,000	12,697,400
Preventive Maintenance Program	3,000,000	0		1,000,000	4,000,000
Programmatic Remodeling and Renovation	5,000,000	4,922,000		4,558,500	14,480,500
Land and Property Acquisition	5,000,000	5,000,000		0	10,000,000
Capital Equipment Acquisition	<u>7,000,000</u>	<u>0</u>		<u>965,000</u>	<u>7,965,000</u>
Total	\$165,000,000	\$31,318,000	\$5,537,200	\$39,059,600	\$240,914,800
Grand Total	\$273,720,500	\$154,161,000	\$21,049,400	\$177,965,100	\$626,896,000