



## Legislative Fiscal Bureau

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May 24, 2007

Joint Committee on Finance

Paper #186

### Department of Veterans Affairs Central Office Purchase (Building Program)

#### *Base Agency*

[LFB 2007-09 Budget Summary: Page 625, #1 and 629, #2]

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#### **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 purchase of the Department of Veterans Affairs' central office facility in Madison as part of the 2007-09 state building program. Authorize \$9,500,000 in PR-supported bonding from the Department of Veterans Affairs self amortizing bonding authorization for the project.

#### **DISCUSSION POINTS**

1. The Department of Veterans Affairs (DVA) has requested the enumeration of the purchase of the building that currently houses the Department's central offices and the Wisconsin Veterans Museum, located at 22 and 30 W. Mifflin St. in Madison. DVA was provided general authority to acquire a headquarters and museum facility by gift, purchase, or condemnation under 2003 Act 83.

2. DVA currently occupies 60,800 square feet at 22 and 30 West Mifflin in Madison,

which includes offices, program space, and the Veterans Museum. The Veterans Museum occupies the basement and first three floors of the 10 floor building and DVA has administrative space in the 5<sup>th</sup> through 9<sup>th</sup> floors. Other state agencies and private sector tenants also lease space in the building. DVA has been leasing this space since 1990. DVA's request for this enumeration indicated that the ownership of the building would allow DVA greater flexibility to expand the museum and/or office facilities to satisfy additional growth and space needs. Further, enumerating the facility at this time would provide DVA some assurance that they will remain at their current facilities. The agency's current lease includes a purchase option.

3. The Building Commission recommended the enumeration of the acquisition, construction, development, enlargement, or improvement of facilities at 22 and 30 W. Mifflin St. in Madison as part of the 2005-07 state building program. The Commission also recommended authorizing \$20,500,000 in PR-supported bonding, which included \$8,150,000 for purchase of the Mifflin St. properties and \$12,350,000 for renovating and updating the building. However, under the Commission's recommendation at that time, the bonding could not have been issued until July 1, 2007. The Joint Finance Committee and subsequently the Legislature deleted the enumeration of the purchase of the Mifflin St. properties as part of the 2005-07 state building program.

4. Under the 2005-07 provision, language was included that would have modified the existing DVA debt service appropriation for self amortizing housing facilities by: (a) deleting the reference to housing in the appropriation title; (b) referencing the receipt of monies from operations at 22 and 30 W. Mifflin St. in Madison; (c) authorizing the payment of principal and interest costs incurred in acquiring, constructing, developing, enlarging, or improving facilities at 22 and 30 W. Mifflin St. in Madison; and (d) authorizing payments related to an agreement or ancillary arrangement associated with public debt. The Department of Administration indicates that this language was erroneously omitted from the language drafted for the Building Commission's recommendations. If the Committee wishes to approve the enumeration of the DVA building purchase, the Committee should include these modifications to DVA's debt service appropriation.

5. The current DVA rent for the Mifflin St. properties is \$1,371,800 annually. The estimated debt service associated with the \$9.5 million in PR-supported bonding for the building purchase would be \$760,000 annually for 20 years. DOA indicates that it is currently unknown how the ownership costs would compare to these lease costs, since the annual costs would depend largely on the actual purchase cost, the cost of repairs and improvements to the building, and the annual maintenance and operating cost of the building. DOA indicates that such a comparison would be completed before Building Commission approval of the purchase was sought.

6. The building program documents included with the Building Commission's recommendations do not indicate the amounts or types of revenues that would be generated at DVA's Mifflin Street facilities and whether those revenues would be sufficient to meet any debt service required on the bonds issued to purchase and remodel the properties. However, Building Commission documents do indicate that because DVA does not occupy the entire space that would be purchased, DVA could lease the remaining space to other state agencies. This revenue would likely be available to assist in making annual debt service payments on any bonds issued for these

facilities.

7. Currently, some of the 30 W. Mifflin space is occupied by private tenants. Under current law, the Building Commission may lease state office space for commercial use at fair market value. If DVA were to purchase the buildings, it is likely that DVA would have to hire staff or contract with DOA or a vendor to manage the space that is leased by other occupants.

8. If a significant amount of the space was to be used for private office space, the state would like be prohibited from issuing tax-exempt bonding for a portion or all of the cost of the building purchase. Such a prohibition would affect the overall cost financing the purchase and renovation. Currently about 19% of the 30 W. Mifflin St. building is leased by other state agencies or private businesses.

9. The amounts recommended by the Building Commission do not include funding for repairing and updating the building, which will likely cost more than the purchase price. It could be argued that the repair and renovation costs should be identified and included in the enumeration of the Mifflin properties purchase. In the absence of this information, the Committee could choose to delete the provision, until the full costs of the project and the costs of alternatives are known.

10. However, it could be argued that there is a value in having the Veterans Museum located near the State Capitol Building in Madison. The Museum provides a resource for educating the public and students on field trips to the Capitol about military service and Wisconsin veterans. The purchase of the current building would ensure that this space would remain available to the state for this purpose.

## **ALTERNATIVES TO BASE**

1. Approve the Building Commission's recommendation to enumerate the purchase of the Department of Veterans Affairs' central office facility in Madison as part of the 2007-09 state building program. Authorize \$9,500,000 in PR-supported bonding from the Department of Veterans Affairs' self amortizing bonding authorization for the project. In addition, modify the Building Commission's recommendation by modifying the existing DVA debt service appropriation for self amortizing housing facilities by: (a) deleting the reference to housing in the appropriation title; (b) referencing the receipt of monies from operations at 22 and 30 W. Mifflin St. in Madison; (c) authorizing the payment of principal and interest costs incurred in acquiring, constructing, developing, enlarging, or improving facilities at 22 and 30 W. Mifflin St. in Madison; and (d) authorizing payments related to an agreement or ancillary arrangement associated with public debt.

<b>ALT 1</b>	<b>Change to Bill</b>	<b>Change to Base</b>
	Revenue	Revenue
BR	\$9,500,000	\$9,500,000

2. Maintain current law (the project would not be enumerated under the 2007-09 state building program and no PR-supported bonding would be authorized).

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