



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #168

Hill Farms State Transportation Building Replacement (Building Program)

[LFB 2013-15 Budget Summary: Page 526, #4]

CURRENT LAW

Building program projects with a cost exceeding \$760,000 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 moneys needed to fund the project.

BUILDING COMMISSION

Enumerate a \$196,615,000 Hill Farms State Transportation Building Replacement Project funded with \$146,615,000 newly authorized program revenue supported borrowing and \$50,000,000 of existing program revenue supported borrowing as part of the 2013-15 state building program.

DISCUSSION POINTS

Replacement Building

1. The replacement Hill Farms building would be a 600,000 square foot facility that would house 1,500 central office employees of the Department of Transportation (DOT) and the 388 Employee Trust Funds (ETF) employees. The facility would also include a separate 1,500 stall parking ramp structure. DOT and ETF would remain in their existing facilities until the Hill Farms replacement facility is constructed.

2. The existing 368,100 square feet Hill Farms State Office Buildings A and B were

constructed in 1964, and are located on a 21 acre site on the near west side of Madison. The facilities provide the central office space for the state's Department of Transportation. The Building Commission recommendations indicate that the buildings are outdated and inefficient, with all major building systems needing to be modernized to meet current code requirements. The Commission also notes that the building has issues concerning the American with Disabilities Act accessibility compliance, environmental air quality standards, and tenant needs and requirements.

3. The existing 51,007 square foot ETF facility, known as the Badger Road State Office Building is located at the intersection of Park Street and Badger Road on Madison's south side. The Badger Road State Office Building was built in 1957 and purchased by the state in 1977, and the latest renovation of the facility occurred in early 1990s. The Commission indicates that ETF has outgrown the facility and currently has 180 employees located at a separate state facility site, which the Building Commission recommendations indicate has proved to be inefficient for the agency's operations. The recommendations also note that the facility is in need of substantial maintenance and renovation.

4. The Hill Farms replacement building project has been around for some time. In the 2003-05 state building program, \$9.9 million was authorized for the first phase of renovation of the facility. A second phase of renovation funding was requested in the 2005-07 biennium, but it was determined that replacing the existing facility would be more cost effective. Subsequently, the 2007-09 state building program enumerated a replacement of Hill Farms Buildings A and B and provided \$50,000,000 in program revenue supported borrowing to finance the construction of the replacement facility. At the time the state had intended to obtain a change in zoning for the property and perhaps sell the remaining portion of the parcel to private developers. During deliberations on the 2009-11 state building program, the Department of Administration indicated that due to changes in the national and local economy, it received no responsive bids from private developers regarding the redevelopment of the site. Therefore, DOA requested an increase in the enumeration to \$107 million, indicating that it had completed programming of the facility for housing DOT, but was reviewing alternative development scenarios for the site. The Building Commission deferred the project request. Subsequently in the 2011-13 capital budget, DOA requested the enumeration of a 384,400 square foot, \$118.8 million Hill Farms replacement facility to house DOT staff as its top priority project. However, the project was not included in the Governor's recommendations to the Building Commission.

5. The current project recommended by the Building Commission, at 600,000 square feet, is a much larger facility than was envisioned in earlier biennia. As mentioned earlier, the proposed building would include the ETF staff, including the 180 staff that cannot currently be housed at the ETF Badger Road facility. In addition, DOA facilities development staff indicate that facility would include 100,000 square feet that would be used relocate staff from other public facilities that could possibly be sold, or to relocate agency staff currently in private leased space. Staff indicate that the consolidation of ETF and other agency staff accounts for much of the increase in the facility costs compared to earlier estimates. Also, they note that additional programming and pre-design work has allowed for better estimates of what the facility would cost.

6. DOA indicates that if the funding is not provided for the new DOT facility at this time, the state would need to spend approximately \$8.8 million in the 2013-15 biennium for critical maintenance on the existing facility, which includes heating, ventilation, and air conditioning (HVAC) and fire safety improvements. In the 2015-17 biennium, DOA estimates that an additional \$25.2 million would be needed for critical upgrades, which include additional HVAC costs, electrical upgrades, and exterior building improvements. Therefore, if the Committee deleted the enumeration of the replacement building, it could approve \$8.8 million in program revenue supported bonding to provide the needed facility upgrades in the 2013-15 biennium (Alternative 2). Providing \$8.8 million in program revenue supported bonding would increase annual debt service to be paid from the DOA's space rental account by an estimated \$650,000 annually. DOA currently estimates that a complete renovation of just the existing facility without the additional square footage of the proposed facility would cost \$142.0 million.

7. Also, deleting the proposed project enumeration is not without other cost considerations. The DOA Secretary has indicated that the tax exempt municipal bond market has experienced a period of historically-low interest rates. If the state would again defer the replacement of the Hill Farms State Transportation Building, those rates may not be as favorable if the state has to issue bonds in the future for the either the replacement or on-going maintenance and improvements to the existing facility. In addition, the overall costs of construction could be less favorable than those costs are in the current construction market.

Repayment of Borrowing

8. The program revenue for the debt service payments on \$196.6 million in bonding for the building would be made from the DOA space rental account, which receives revenues associated with rental charges from state agencies housed in general office facilities owned by the state and managed by DOA. Agency rental payments are generally made up from agency funding sources in proportion to the percentage each funding source makes up of the total agency operations funding. Therefore, rents paid by DOT to the space rental account are made from the segregated transportation fund, which funds all of the Department's program operations.

9. Similarly, for other state agencies, rent payments are made from the GPR, PR, SEG, and FED general operations appropriations of each agency occupying space in a DOA managed facility, in proportion to their funding. It is an average cost system, which means all space shares equally in the costs, and rents are uniform across the type of facility for centrally-managed state office facilities regardless of the age, location, or cost of the state facility. For example, in Madison, all class one centrally-owned office space pays \$22.85 per square foot whether in the Risser Justice Center, which was completed in 2001, or the current DOT building completed in 1964. Increases in rental rates are sought whenever the revenues to the space rental account are projected to be insufficient to cover costs, as determined by DOA.

10. Depending on when the newly-constructed DOT office facility comes on-line, that facility could have higher costs in the near term than the building it replaced due to the debt service on the bonds used to finance the facility. If these near term costs more than offset cost savings from having a newer, lower maintenance facility, the higher costs would need to be funded from the space rental account. Consequently, if a state rental increase would be needed to cover these costs,

it would affect the operations budgets of those state agencies paying for class one state office space.

11. According to DOA budget documents, DOA's space rental program revenue account is expected to end the 2013-15 biennium with a \$22.6 million balance. The following table indicates the financial condition of the space rental program revenue account in the biennium, which includes the Committee's earlier actions, which affected expenditures to be funded from the account.

Space Rental Program Revenue Account

| | <u>2013-14</u> | <u>2014-15</u> |
|----------------------------|--------------------|--------------------|
| Opening Balance | \$8,919,800 | \$14,745,700 |
| Net Rent and Other Revenue | 62,679,400 | 63,809,200 |
| Debt Service | -19,100,000 | -19,100,000 |
| Other Expenditures | <u>-37,753,500</u> | <u>-37,197,800</u> |
| Closing Balance | \$14,745,700 | \$22,257,100 |

12. Based on information provided by DOA, the costs per square foot to operate the new facility could range from significantly less than the existing facilities to near the costs of those facilities. Given the age of the DOT facility and the fact that the state has not funded significant upgrades to the facility, annual debt service costs associated with the existing facility are minimal. However, servicing the proposed \$196.6 million in debt on the facility would cost approximately \$14.4 million annually for twenty years. Because the bonds would be issued as self amortizing, the principal repayment could be amortized over 30 years, which would reduce the annual debt service costs to \$11.4 million, but total interest costs over the repayment period would be higher. Also, a 30-year repayment period increases the likelihood that upgrades or renovations may be needed on the facility before the initial debt is retired. Given that the projected start date for construction of the facility is July, 2014, it is unlikely the state would have to pay a substantial amount of principal or interest payments in the biennium on the \$196.6 million in debt to be issued for the project.

13. However, if the full debt service payments begin in 2015-16, and assuming all other revenues and expenditures remain the 2014-15 base level, the space rental account would have an estimated \$63.8 million in net revenue and total expenditures, including the additional debt service (assuming a 20-year repayment) expenditures associated with DOT facility, would be \$70.7 million. While the space rental account is currently projected to have a balance of \$22.3 million entering the 2015-17 biennium, estimated expenditures could exceed base revenues by \$6.9 million annually, unless other reductions in expenditures occur or revenues are increased. If the debt associated with the facility would be serviced over 30 years, the estimated expenditures could exceed estimated revenues by \$3.9 million annually.

14. Parking revenues could help offset some of the debt service associated with retiring the \$196.6 million in debt that would be issued to finance the construction of the Hill Farms replacement facility. DOA indicates that existing rates for the DOT surface lot spaces are generally \$27.84 per month, while the rates per space in the new parking facility could range between \$67.58

to \$100 per month. With 1,500 stalls being leased each month, it is estimated that the additional parking revenues would total between \$715,000 to \$1,300,000 annually.

15. Separate provisions under the budget bill would provide the DOA Secretary and the Building Commission the authority to sell state properties. Further, the Building Commission has ongoing authority to sell surplus state properties. DOA indicates that any proceeds from the sale of the current Badger Road State Office Facility could be applied to debt funded from the space rental account. Further, they note that the portion of the 21 acre site not needed for the replacement Hill Farms DOT facility could be sold to private developers and the proceeds from the sale could also be applied to the debt on the new facility.

16. In the end, if the project causes a need for revenues to the space rental account to be increased, the rental rate per square foot for state general office facility space may need to be increased. As mentioned earlier, any increase in those rental rates would increase the operations costs of all state agencies that are housed in DOA general office facility space and would be funded from all funding sources in proportion to each fund's share of the affected agency's operations costs.

ALTERNATIVES

1. Approve the Building Commission's recommendation and enumerate a \$196,615,000 Hill Farms State Transportation Building Replacement Project funded with \$146,615,000 of newly authorized program revenue supported borrowing and \$50,000,000 of existing program revenue supported borrowing as part of the 2013-15 state building program.

| ALT 1 | Change to Bill Funding |
|--------------|-----------------------------------|
| BR | \$146,615,000 |

2. Delete the Building Commission's recommendation and, instead, provide \$8,800,000 in program revenue supported borrowing in the facilities repair and renovation all agency project category to fund improvements needed at the Hill Farms State Transportation Building site in Madison.

| ALT 2 | Change to Bill Funding |
|--------------|-----------------------------------|
| BR | \$8,800,000 |

3. Delete the Building Commission's recommendation.

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