



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #175

All Agency Program (Building Program)

[LFB 2017-19 Budget Summary: Page 505, #1 and Page 508, #2]

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 borrowing or other moneys needed to fund the project.

One exception to the requirement that individual projects be enumerated by the Legislature is the category of projects known as "All Agency" projects. 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, such as maintenance, that recur, but where the Commission may need to address unanticipated needs during the biennium.

BUILDING COMMISSION

Provide \$361,290,600 of all funds for "All Agency" projects to be funded as part of the 2017-19 state building program. Specify that the funds for "All Agency" projects would be provided from the following sources: (a) \$181,668,000 of new general fund-supported general obligation borrowing authority; (b) \$22,000,000 of new program revenue-supported general obligation borrowing authority; (c) \$57,500,000 of existing program revenue-supported general obligation borrowing authority; (d) \$5,819,000 of stewardship borrowing authority; (e) \$1,000,000 of new conservation segregated fund-supported borrowing authority; (f) \$11,880,000 of segregated revenue-supported borrowing authority; (g) \$53,617,800 of program revenue cash; (h) \$9,724,000 of gifts, grants, and other receipts; and (i) \$18,081,800 of federal funds.

Specify the following amounts for various categories of "All Agency" projects:

TABLE 1

Main Categories of Recommended "All Agency" Project Funding

<u>All Agency Categories</u>	<u>Total Funding</u>
Facilities Maintenance and Repair	\$178,167,000
Utilities Repair and Renovation	113,903,300
Health, Safety and Environmental Protection	33,016,300
Energy Conservation	20,000,000
Preventative Maintenance Program	900,000
Programmatic Remodeling and Renovation	12,129,000
Capital Equipment and Acquisition	<u>3,175,000</u>
Total	\$361,290,600

DISCUSSION POINTS

1. The Building Commission's recommendations for the "All Agency" projects portion of the 2017-19 state building program would be funded with \$204,668,000 of new general obligation borrowing. Of these amounts, \$181,668,000 (88.8%) would be general fund-supported borrowing, \$22,000,000 (10.7%) would be program revenue-supported borrowing, and \$1,000,000 (0.5%) would be segregated fund-supported borrowing.

2. The facilities maintenance and repair, utilities repair and renovation, and health, safety, and environmental protection categories would account for the majority (98.1%) of the recommended "All Agency" general obligation borrowing for the 2017-19 state building program. The following table provides total general obligation borrowing each "All Agency" category would receive based on the Building Commission's recommendations.

TABLE 2

**Main Categories of Recommended "All Agency"
Total General Obligation Borrowing**

<u>All Agency Categories</u>	<u>Total General Obligation Borrowing</u>
Facilities Maintenance and Repair	\$111,368,000
Utilities Repair and Renovation	65,500,000
Health, Safety and Environmental Protection	24,000,000
Energy Conservation	0
Preventative Maintenance Program	800,000
Programmatic Remodeling and Renovation	0
Capital Equipment and Acquisition	<u>3,000,000</u>
Total	\$204,668,000

3. The state owns over 6,000 facilities totaling over 84 million square feet of space. According to Department of Administration Division of Facilities Development (DFD) staff, these facilities have an estimated replacement value of over \$18.5 billion. DFD staff indicate that approximately 70% of these facilities are more than 30 years old. In general, 30 years is an age that typically requires physical, mechanical, and electrical improvements to facilities. The total amount of funding for all agency projects (\$361.3 million) represents approximately 2% of the estimated replacement value.

4. The 2017-19 capital budget instructions issued to state agencies emphasized that due to budget pressures and the Governor's goal to maintain an appropriate level of debt service as a percentage of statewide expenditures, there would not be enough new borrowing to fund every project requested. The instructions indicated that the majority of available resources would likely be allocated to fund the repair and maintenance of existing facilities, high priority projects approved for planning in previous biennia, or identified in previous agency long-range plans that align with the Governor's priorities.

5. With these goals in mind, the Governor's recommended 2017-19 state building program emphasized maintaining and conducting needed repairs on existing state facilities. The Building Commission subsequently approved the Governor's recommended capital budget, which focused on funding "All Agency" maintenance and repair projects. The Building Commission's recommended general obligation borrowing levels for "All Agency" projects total \$204.7 million (47.8%) of the \$427.9 million of general obligation borrowing recommended for the 2017-19 state building program. The remaining \$223.2 million of general obligation borrowing is recommended for new construction projects primarily within the Department of Administration (\$75.0 million), the University of Wisconsin System (\$73.5 million), and the Department of Corrections (\$18.9 million).

6. An illustration of the emphasis that the Building Commission's 2017-19 state building program recommendations place on maintaining and improving existing facilities is presented in Table 3. Table 3 compares state building programs' new general obligation borrowing for "All Agency" programs to total general obligation borrowing over past biennia. The Building Commission's recommended "All Agency" general obligation borrowing for the 2017-19 biennium it is the third lowest amount compared to the five previous biennia. However, it comprises the largest percent of total general obligation borrowing included in state building programs over that time period.

TABLE 3**Building Program New General Obligation Borrowing
(\$ in Millions)**

<u>Biennium</u>	<u>General Obligation Borrowing</u>		<u>All Agency as % of Total</u>
	<u>"All Agency"</u>	<u>Total</u>	
2007-09	\$191.8	\$877.0	21.9%
2009-11	290.7	1,155.4	25.2
2011-13	320.6	732.1	43.8
2013-15	270.8	1,132.6	23.9
2015-17	0.0	101.2	0.0
2017-19*	204.7	427.9	47.8

*Recommended by the State Building Commission.

7. The majority of the total general obligation borrowing included in the Building Commission's recommended 2017-19 state building program is GPR-supported borrowing. Table 4 compares the recommended "All Agency" GPR-supported borrowing to the total GPR-supported borrowing included in state building programs over past biennia. As Table 4 shows, the Building Commission's recommended "All Agency" GPR-supported borrowing for the 2017-19 state building program comprises the largest percent of total GPR-supported borrowing compared to the five previous biennia.

TABLE 4**Building Program New GPR-Supported Borrowing
(\$ in Millions)**

<u>Biennium</u>	<u>GPR-Supported Borrowing</u>		<u>All Agency as % of Total</u>
	<u>"All Agency"</u>	<u>Total</u>	
2007-09	\$125.0	\$412.3	30.3%
2009-11	200.0	513.6	38.9
2011-13	185.0	420.6	44.0
2013-15	186.5	510.8	36.5
2015-17	0.0	101.2	0.0
2017-19*	181.7	320.5	56.7

*Recommended by the State Building Commission.

8. However, the growth in the "All Agency" portion of the total recommended GPR-supported borrowing for the 2017-19 state building program would be offset by the reduced size of GPR-supported borrowing as a percent of total GPR-supported borrowing for the specifically enumerated projects under the Commission's recommendations. As shown in Table 4, the total \$320.5 million of GPR-supported borrowing recommended for the 2017-19 state building program

would be the second lowest amount provided for a biennial state building program compared to the five previous biennia.

9. Currently, DFD does not have a database that tracks facility maintenance and repair needs for state agencies. Biennially, DFD requests that state agencies determine the maintenance and repair needs of their facilities. For the 2017-19 biennium, agencies estimated total maintenance and repair needs of \$535.7 million. Of that amount, agencies requested that \$372.2 million (69.5%) be funded by GPR-supported borrowing. The Building Commission's recommended GPR-supported borrowing amount for the "All Agency" program under the 2017-19 state building program comprises 48.8% (\$181.7 million / \$372.2 million) of the amount requested by agencies.

10. In limiting the GPR-supported borrowing included in the building program, the administration cites the goal of keeping GPR debt service below 4% of total GPR expenditures. In 2016-17, GPR debt service is estimated to equal 3.56% of the total GPR expenditures. GPR debt service is estimated to equal 3.56% of total GPR expenditures in 2017-18 and 3.38% of total GPR expenditures in 2018-19 based on provisions in AB 64/SB 30 and debt service reestimates. This percentage decreases over time, as existing debt is paid off. However, the debt service on each \$220 million of new GPR supported bonding that is issued would increase the GPR debt service percentage by 0.1%.

11. The cost estimating guidelines provided by DFD for 2017-19 capital budget requests directed state agencies to use a cost escalator of 0.9% for the six months between July, 2015, and January, 2016, and 2.0% for every six months thereafter through July, 2021. Using these cost escalators, delaying \$190.5 million (\$372.2 million - \$181.7 million) of project costs by two years would increase these projects' costs by \$15.7 million by the beginning of the 2019-21 biennium, assuming that all of these projects would otherwise be implemented in the 2017-19 biennium.

12. The UW System Board of Regents identified funding for the state's "All Agency" program as its highest priority in its capital budget request for the 2017-19 biennium. The Regents requested that \$100,000,000 GFSB and \$59,636,000 existing PRSB be enumerated to support projects funded through the "All Agency" program at UW institutions. The amount requested by the Regents would fund approximately 64% of the "All Agency" projects identified by UW institutions at the time of the request. Under current practice, funding for "All Agency" projects is enumerated in seven categories and not by agency. As a result, the portion of the "All Agency" funding recommended for enumeration by the Building Commission that would be allocated to UW projects is unknown. However, both UW System and DOA staff have indicated that, based on practice, it is likely that the Regents' request for "All Agency" funding for UW projects would be funded during the biennium if the amount of "All Agency" funding recommended by the Building Commission is enumerated.

13. While some level of "All Agency" funding is needed to maintain and repair existing facilities, providing \$181.7 million of GPR-supported borrowing for such projects will result in additional debt service costs over the life of the debt. In total, \$181.7 million of GPR-supported "All Agency" borrowing could result in \$262.6 million in debt service costs over 15 years, assuming a 15-year average maturity for the bonds. Although the total amount of "All Agency" GPR-supported borrowing recommended in the 2017-19 state building program is less than the amounts

appropriated in three of the previous five biennia, some may contend that given the state's current fiscal constraints, the level of "All Agency" borrowing from GPR-supported borrowing may be excessive. One option would be to reduce the amount of GPR-supported borrowing to \$150 million, which would fund approximately 40.3% of the amount of GPR-supported borrowing requested by state agencies, rather than 48.8%.

14. "All Agency" funding appropriations are the primary funding sources agencies can use to address maintenance and repair projects that recur over the biennium. For this reason, and considering the anticipated \$15.7 million increase due to delaying GPR-supported borrowing for projects requested by agencies, the Committee may wish to consider increasing the amount of authorized GPR-supported borrowing. If the Committee is concerned that the level of GPR-supported borrowing recommended by the Building Commission for the 2017-19 "All Agency" program is too low, the Committee could approve increasing "All Agency" GPR-supported borrowing by \$90,000,000, which would increase the total amount of all agency funding from approximately 2% of the estimated replacement value of state building to approximately 2.5%, and would fund approximately 73.0% of the amount of GPR-supported borrowing requested by state agencies, rather than 48.8%.

ALTERNATIVES

1. Approve the Building Commission's recommendation to provide \$361,290,600 of all funds to fund "All Agency" projects under the 2017-19 state building program as follows: (a) \$181,668,000 of new general fund-supported general obligation borrowing authority; (b) \$22,000,000 of new program revenue-supported general obligation borrowing authority; (c) \$57,500,000 of existing program revenue-supported general obligation borrowing authority; (d) \$5,819,000 of stewardship borrowing authority; (e) \$1,000,000 of new conservation segregated fund-supported borrowing authority; (f) \$11,880,000 of segregated revenue-supported borrowing authority; (g) \$53,617,800 of program revenue cash; (h) \$9,724,000 of gifts, grants, and other receipts; and (i) \$18,081,800 of federal funds.

ALT 1	Change to	
	Base	Building Program
All Funds	\$361,290,600	\$0

2. Modify the Building Commission's recommendations by providing \$150,000,000 GPR-supported borrowing and total funding of \$329,622,600 for "All Agency" projects under the 2017-19 state building program as follows: (a) \$150,000,000 of new general fund-supported general obligation borrowing authority; (b) \$22,000,000 of new program revenue-supported general obligation borrowing authority; (c) \$57,500,000 of existing program revenue-supported general obligation borrowing authority; (d) \$5,819,000 of stewardship borrowing authority; (e) \$1,000,000 of new conservation segregated fund-supported borrowing authority; (f) \$11,880,000 of segregated revenue-supported borrowing authority; (g) \$53,617,800 of program revenue cash; (h) \$9,724,000 of gifts, grants, and other receipts; and (i) \$18,081,800 of federal funds.

ALT 2	Change to	
	Base	Building Program
All Funds	\$329,622,600	- \$31,668,000

3. Modify the Building Commission's recommendations by providing \$271,668,000 GPR-supported borrowing and total funding of \$451,290,600 for "All Agency" projects under the 2017-19 state building program as follows: (a) \$271,668,000 of new general fund-supported general obligation borrowing authority; (b) \$22,000,000 of new program revenue-supported general obligation borrowing authority; (c) \$57,500,000 of existing program revenue-supported general obligation borrowing authority; (d) \$5,819,000 of stewardship borrowing authority; (e) \$1,000,000 of new conservation segregated fund-supported borrowing authority; (f) \$11,880,000 of segregated revenue-supported borrowing authority; (g) \$53,617,800 of program revenue cash; (h) \$9,724,000 of gifts, grants, and other receipts; and (i) \$18,081,800 of federal funds.

ALT 3	Change to	
	Base	Building Program
All Funds	\$451,290,600	\$90,000,000

4. Maintain current law, which would result in no funding for "All Agency" projects under the 2017-19 state building program.

ALT 4	Change to	
	Base	Building Program
All Funds	\$0	- \$361,290,600

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