



Legislative Fiscal Bureau

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May 25, 2017

Joint Committee on Finance

Paper #176

UW System Capital Budget (Building Program)

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

CURRENT LAW

Building program projects with costs 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 non-statutory provision enacted as part of the biennial budget bill. In addition, the Legislature must authorize any new bonding needed to fund the project.

BUILDING COMMISSION

Enumerate the following capital projects for the UW System and authorize the following GPR- and PR-supported bonding amounts as part of the 2017-19 state building program to be included under Assembly Bill 64/Senate Bill 30.

<u>Institution/Project</u>	<u>GPR-Supported Bonding</u>	<u>Existing PR-Supported Bonding</u>	<u>Gifts</u>	<u>PR Cash</u>	<u>Total</u>
Systemwide					
Classroom Renovations/ Information Technology Improvements	\$0	\$0	\$0	\$10,000,000	\$10,000,000
Milwaukee					
Northwest Quadrant Renovation	46,800,000	3,200,000	2,180,000	0	52,180,000
Whitewater					
Utility Corridor Improvements/ Chiller Plant Upgrade	16,698,000	11,902,000	0	0	28,600,000
Extension					
Lowell Hall Floors 2-4 Renovation	0	3,005,000	0	1,000,000	4,005,000
Milwaukee					
Sandburg Hall Renovation-Phase 1	<u>0</u>	<u>31,000,000</u>	<u>0</u>	<u>2,500,000</u>	<u>33,500,000</u>
Total	\$73,498,000	\$49,107,000	\$2,180,000	\$3,500,000	\$128,285,000

DISCUSSION POINTS

1. The attachment shows the capital projects requiring enumeration that were included in the UW System Board of Regents' capital budget request for the 2017-19 biennium. The projects are listed in the order of priority given to them by the Regents. The Regents' request included 25 major projects. Of these projects, 16 would be supported in whole or in part by state general fund supported borrowing (GFSB). The remaining nine would be supported by program revenue supported bonding (PRSB) and PR-cash. In total, the Regents requested enumerations of \$630.5 million including \$367.9 million in GFSB and \$222.3 million in PRSB.

2. The Building Commission recommended that five of the projects requested by the Board of Regents be enumerated and that two of the requested projects be funded with bonding enumerated for the all agency program. The five projects recommended for enumeration by the Building Commission include three projects for which GFSB was requested and two projects that would be funded entirely with PRSB and PR-cash. The projects recommended for enumeration by the Building Commission total \$128.3 million including \$73.5 million GFSB and \$49.1 million PRSB, with all of the PRSB being reallocated from previously enumerated projects.

3. Table 1 compares the total amount of capital projects enumerated for the UW System in the five most recent biennial budgets and the total amount of all capital projects enumerated in each of those budgets. As shown in the table, the amount enumerated for UW System capital projects made up the majority of enumerations in each of the most recent five budgets, ranging from 62.3% of the total in 2013-15 to 77.8% in 2009-11. As recommended by the Building Commission, enumerations for UW System capital projects would make up 32.2% of total enumerations under the 2017-19 biennial budget.

TABLE 1

**Funding for Major Projects Enumerated by the Biennial Budget Act
2007-09 to 2015-17 and as Recommended for 2017-19**

	<u>UW System</u>	<u>Total</u>	<u>UW System as % of State Total</u>
2007-09	\$658,988,000	\$900,085,200	73.2%
2009-11	931,031,600	1,196,927,600	77.8
2011-13	420,529,000	601,242,600	69.9
2013-15	703,764,000	1,128,879,100	62.3
2015-17	451,934,000	716,309,500	63.1
2017-19*	128,285,000	397,811,300	32.2

*Building Commission recommendations.

4. Table 2 shows the amounts requested by the UW System for major projects compared with the amounts provided in each building program. As shown in Table 2, the 2017-19 building program would fund 36.2% of amount requested if all agency moneys are included, which is

significantly less than the next lowest (58.3%) funding level in earlier building programs.

TABLE 2

Funding for UW System Projects Included in State Building Programs Compared to the Amounts Requested

	<u>UW System Request</u>	<u>Included in Building Program</u>	<u>Percent of Request Included</u>
2007-09	\$850,204,000	\$658,988,000	77.5%
2009-11	1,001,994,000	931,031,600	92.9
2011-13	403,276,000	420,529,000	104.3
2013-15	888,733,000	703,764,000	79.2
2015-17	775,519,000	451,934,000	58.3
Proposed 2017-19*	794,531,400	287,921,000	36.2

*Including all agency funding requested by the Board of Regents.

5. As an alternative, the Committee could increase the amount that would be enumerated for UW System capital projects such that the percentage of the capital budget that was enumerated for UW System projects is at least 62.3%. This percentage is equal to the lowest percentage of the capital budget that was enumerated for UW System projects in the five most recent budgets. If the Committee does not reduce the amount enumerated for other state agency projects, this could be accomplished by increasing the amount that would be enumerated for UW capital projects by \$317.1 million. A second option would be to provide an additional \$175.3 million of funding for UW projects, so that the total enumerated would equal 58.3% of the amount requested. The projects with GFSB that were not approved by the Building Commission are listed in the attachment in the priority order established by the Regents.

6. In past biennia, the Legislature has enumerated all, or nearly all, of the projects requested by the Board of Regents which would be financed with program revenue supported borrowing. Table 3 shows the number of PRSB projects that were requested by the Board of Regents in each of the five most recent biennia and the number and percentage of those projects that were enumerated by the Legislature. Projects for which both PRSB and GFSB were requested are excluded from the table. As shown in the table, the Legislature enumerated all of the PRSB projects requested by the Board of Regents in three of the five biennia shown and enumerated 80% and 92.9% of the requested PRSB projects in the other two biennia. By contrast, the Building Commission recommends that two of the nine PRSB projects requested by the Board of Regents be enumerated in the 2017-19, or 22.2%.

TABLE 3

Program Revenue Supported Borrowing Projects* Requested by the Board of Regents and Enumerated by the Legislature, 2007-09 and 2017-19

	<u>Requested</u>	<u>Enumerated</u>	<u>% Enumerated</u>
2007-09	14	14	100.0%
2009-11	14	13	92.9
2011-13	11	11	100.0
2013-15	16	16	100.0
2015-17	15	12	80.0
2017-19**	9	2	22.2

*Excludes projects for which general fund supported borrowing was also requested.

**As recommended by the Building Commission.

7. To be more consistent with previous biennia, the Committee could enumerate additional PRSB projects requested by the Board of Regents. The attachment shows the PRSB projects in priority order assigned to them by the Board of Regents. Enumerating the next five PRSB projects in the priority list requested by the Board of Regents would increase total enumerations by \$138,366,000 and authorize an additional \$118,860,200 PRSB. Enumerating all of the remaining PRSB projects requested by the Board of Regents would increase total enumerations by \$177,223,000 and authorize an additional \$153,680,200 PRSB.

8. The Building Commission recommends that \$52,180,000 be enumerated and \$46,800,000 GFSB be authorized for the Northwest Quadrant Renovation project at UW-Milwaukee. The Northwest Quadrant is comprised of seven facilities that were formerly the Columbia/St. Mary's hospital complex. The Board of Regents had requested that this project be enumerated at \$69,073,000 with \$63,693,000 of GFSB. As proposed, the project would have addressed safety and building code issues and remodeled 52,100 gross square feet of space to create new academic space and instructional laboratories for the Colleges of Nursing and Health Sciences, which would have allowed the College of Nursing to increase enrollments. According to the Department of Administration, the funding recommended by the Building Commission would be sufficient to address the safety and building code issues, but not fund any programmatic renovations. If the Committee wishes to fund the project as proposed by the Board of Regents, which would provide additional academic and instructional space for the Colleges of Nursing and Health Sciences, it could enumerate the project as requested by the Board of Regents, which would increase the total amount of projects enumerated for the UW System by \$16,893,000 and increase the amount of GFSB authorized for those projects by the same amount.

9. The administration's policy regarding bonding is to keep the amount authorized at the relatively low level provided in the 2015-17 biennium. Table 4 shows the bonding authorizations included in the biennial budget in the most recent five biennia and as proposed for the 2017-19 biennium, including the Building Commission's recommended building program. If the Committee wished to keep bond authorizations below the average for the five most recent biennia, instead of at the level of the most recent biennium as proposed by the Governor and Building Commission, the

Committee could authorize up to an additional \$1.5 billion of bonding. This amount could include additional bonding for capital projects included in the building program, transportation, and environmental projects.

TABLE 4

**Bonding Authorizations, 2007-09 to 2015-17 and as Proposed for 2017-19
(\$ in Millions)**

	<u>Bonding Authorization</u>
2007-09	\$2,814.3
2009-11	3,591.1
2011-13	1,896.7
2013-15	2,048.6
2015-17*	652.1
2017-19	661.8
Average (Excluding 2017-19)	\$2,200.6

*Amount was subsequently reduced by \$44.8 pursuant to the provisions of a borrowing purpose for transportation; major and rehabilitation projects subject to Joint Committee on Finance approval.

10. In 2016-17, it is estimated that GPR debt service will be 3.56% of GPR expenditures in the current year and that GPR debt service as a percentage of GPR expenditures would be reduced to 3.38% in 2018-19 if the level of new GFSB authorizations recommended by the Building Commission is approved. If the Committee is willing to simply maintain, rather than lower, the percentage of GPR expenditures that are used to pay GPR debt service, the Committee could authorize up to an additional \$400 million of GFSB.

Revenue Bond Authority

11. As part of their biennial budget request, the Board of Regents requested the authority to issue bonds to fund program revenue supported capital projects. Under the proposal, the Board of Regents would be able to issue revenue bonds without the prior approval of the Building Commission and the total amount of bonds issued would be limited to \$299,443,000. Program revenues pledged for capital projects would be held in a separate fund outside the state treasury and interest and principal payments related to the revenue bonds would have been made from that fund. Bonds issued by the Board of Regents would specify that they would not be debt of the state and that the state would not be liable for such bonds.

12. Public universities in Illinois, Indiana, Iowa, Michigan, Minnesota, and Ohio all have the authority to issue bonds secured by university revenues to fund capital projects. Public universities in Michigan and the University of Minnesota derive this authority from the state

constitution. Public universities in Illinois, Indiana, Iowa, and Ohio and the Minnesota State College and Universities are authorized to issue revenues bonds by state statute.

- Illinois: Public universities in Illinois are all authorized to issue revenue bonds by separate acts. Under the University of Illinois Revenue Bond Financing Act for Auxiliary Facilities, the Board of Trustees of that university may issue bonds to purchase, construct, enlarge, improve, equip, complete, operate, control, and manage revenue producing facilities, including student residence halls, health facilities, physical education buildings, union buildings, auditoriums, and gymnasiums. Revenues generated by the operation of these facilities are held in the treasury of the university and are used to fund the cost of maintaining and operating the facilities as well as retiring the bonds issued to construct or acquire them. Only the revenues generated by these facilities and additional university revenue authorized to be retained in the treasury of the university may be pledged for the payment of bonds issued by the university. The bonds are not a debt of the state of Illinois or the University of Illinois Board of Trustees, which is stated on the face of each bond. The interest rate that can be paid on revenue bonds issued by the university is limited by state law. The Board of Trustees is required to submit to the Board of Higher Education an annual capital plan which includes the three-year needs of the university for capital expenditures to finance facilities with revenue bonds.

- Indiana: Public universities in Indiana can issue bonds for capital projects; however, in most cases bonds can only be issued if provided for by the General Assembly and approved by the budget committee, the budget agency, and the Governor. Bonds issued by public universities may be secured by income generated by the property and the property itself. Bonds issued for certain projects may additionally be secured by student tuition. Bonds issued by universities are not the debt of the state or of the university except to the extent property and income have been pledged to secure the bonds. In addition, construction contracts and contracts for architectural and engineering services that are financed by bond issuances cannot be made without the specific approval of the budget agency and the Governor.

- Iowa: Public universities in Iowa may issue bonds to purchase, lease, construct, or renovate student residence halls and dormitories including dining and other incidental facilities. Bonds issued for these projects may be secured by a pledge of a sufficient portion of net income derived from the facility financed and the income of any other such facilities at the same institution that have not already been pledged. Income from the facilities is held by the university treasurer separately from all other funds. Each bond must state on its face that it is payable solely from the income derived from these facilities and is not a debt of the state of Iowa. The title to any such facilities is held in the name of the state of Iowa.

Public universities may also issue bonds to fund the acquisition, construction, and maintenance of student unions, recreational buildings, auditoriums, stadiums, field houses, athletic buildings and areas, parking structures and areas, electric, heating, sewage treatment, and communication utilities, research equipment, and additions to existing buildings or structures. The Board of Regents may charge all students, or any specified class of students, fees and charges for these facilities and pledge these fees and charges, along with other income generated by the facilities and the facilities themselves, to secure the bonds. Bonds issued by the universities for these facilities are not the debt of the state.

In addition, public universities may issue bonds for academic and related projects if authorized by the General Assembly and approved by the Governor. Bonds issued for these projects may be secured by student fees and charges and institutional income and are not debt of the state. A portion of student fees and charges and institutional income that is sufficient to pay the principal and interest on the bonds must be held by the university treasurer separately from other funds.

- Minnesota State Colleges and Universities: The Board of Trustees may issue bonds to acquire, construct, remodel, or equip revenue-producing buildings, including residence halls, dormitories, dining halls, student unions, and parking facilities, up to an amount authorized by the state legislature, currently \$405 million. Bonds issued for these projects may be secured by the revenues generated by the building or facility and other revenue-generating buildings and facilities. The Legislature may not appropriate money from the general fund to pay for these bonds and bonds issued by the Board for these purposes are not debt of the state. All revenues derived from the operation of these buildings must be set aside in a separate fund and only used to pay the principal and interest on the bonds issued for those buildings and for the operation and maintenance of the buildings. Before issuing any bonds, the Board must consult with and obtain the advisory recommendations of the chairs of the House of Representatives Ways and Means Committee and the Senate Finance Committee about the facilities to be financed by the bonds.

- Ohio: Public universities in Ohio may issue bonds to purchase, construct, equip, renovate, maintain, and operate housing and dining facilities, auxiliary facilities, and education facilities. Bond issuances are authorized by resolution by the university's Board of Trustees and bonds may be secured by all or any of the receipts of the university excluding moneys raised by taxation and state appropriations. Bond holders do not have right to any excises or taxes levied by the General Assembly and payment of the bonds is limited to the receipts pledged for that purpose.

13. As public universities in the surrounding states all have the ability to issue revenue bonds for capital projects in at least some circumstances, the Committee may wish to grant the Board of Regents similar authority. If UW System revenue bonds were to be modeled after transportation revenue bonds and other revenue bonds issued by the state, the Committee could specify in the bill an amount of revenue bonds that could be issued for UW System auxiliary projects, which would include residence and dining halls, student unions, athletic facilities, and parking. The Committee could also authorize the Building Commission to approve the issuance of revenue bonds by the Board of Regents for such projects when the Building Commission determines that the bonds could be fully repaid by moneys pledged for that purpose. Revenues pledged for the payment of principal and interest on revenue bonds would be paid into a separate fund in the state treasury. Revenue bonds issued by the Board of Regents would not be debt of the state; instead, these bonds would be secured by the income of the facility for which they were issued and the facility itself.

14. Under current law, program revenue supported bonding issued to support UW System capital projects is repaid with revenues generated by the UW System, usually revenues generated by auxiliary enterprises or student segregated fees. Although these bonds are repaid with UW System revenues and not state tax dollars, they are still debt of the state. Because these bonds are backed by the full faith and credit of the state, they usually carry a relatively low interest rate. As the Board of Regents does not have the authority to issue revenue bonds under current law, the UW System and

its constituent institutions do not currently have credit ratings. It is possible that some UW institutions would have a lower credit rating than the state, which would likely mean that revenue bonds issued by the Board of Regents and secured by revenues generated by those institutions would have higher interest rates than similar bonds issued by the state. This could increase the total cost of projects funded with revenue bonds at those institutions and possibly lead to higher fees charged to students and others.

ALTERNATIVES

A. Enumeration of UW Capital Projects

1. Approve the Building Commission's recommendation to enumerate five UW System building projects as part of the 2017-19 building program at a total cost of \$128,285,000. Authorize \$73,498,000 in general fund supported bonding under the UW System to support these projects.

2. Modify the Building Commission's recommendation to enumerate additional building projects requested by the Board of Regents for inclusion in the 2017-19 building program. The amount of general fund supported bonding and program revenue supported bonding that would be authorized to support UW building projects would be determined by the additional building projects included for enumeration by the Committee.

3. Modify the Building Commission's recommendation to enumerate additional building projects funded by program revenue supported bonding that were requested by the Board of Regents but not recommended for inclusion in the 2017-19 building program. The additional projects would be selected based on the priority assigned to them by the Board of Regents.

a. Enumerate an additional five projects funded by program revenue supported bonding, under the UW System, which would bring the total number of such projects enumerated to seven. This would increase the amount enumerated for UW System projects by \$138,366,000 and authorize an additional \$118,860,200 PRSB.

ALT 3a	Change to Bldg. Prog.
BR--PRSB	\$118,860,200

b. Enumerate an additional seven projects funded by program revenue supported bonding, which would enumerate all of the projects funded by program revenue supported borrowing that were requested by the Board of Regents. This would increase the amount enumerated for UW System projects by \$177,223,000 and authorize an additional \$153,680,200 PRSB.

ALT 3b	Change to Bldg. Prog.
BR--PRSB	\$153,680,200

4. Modify the Building Commission's recommendation to enumerate the Northwest Quadrant Renovation project at UW-Milwaukee at a total cost of \$69,073,000 instead of \$52,180,000. Authorize an additional \$16,893,000 in general fund supported bonding to support this project.

ALT 4	Change to Bldg. Prog.
BR--GFSB	\$16,893,000

5. No provision.

B. Revenue Bond Authority

1. Authorize the Board of Regents to issue bonds to support capital projects funded with program revenues as requested by the Board of Regents.

2. Specify an amount of revenue bonds that could be issued for UW System auxiliary projects, which would include residence and dining halls, student unions, athletic facilities, and parking. Authorize the Building Commission to approve the issuance of revenue bonds by the Board of Regents for such projects when the Building Commission determines that the bonds could be fully repaid by moneys pledged for that purpose. Specify that revenues pledged for the payment of principal and interest on revenue bonds would be paid into a separate fund in the state treasury. Specify that these bonds would be secured by the income of the facility for which they were issued and the facility itself and that revenue bonds issued by the Board of Regents would not be debt of the state.

3. No provision.

Prepared by: Emily Pope
Attachment

ATTACHMENT

Major Projects Included in the UW System's Capital Budget Request

<u>Institution</u>	<u>Project</u>	<u>GPR- Supported Bonding</u>	<u>PR- Supported Bonding</u>	<u>Gifts</u>	<u>PR Cash</u>	<u>Building Trust Funds</u>	<u>Total</u>
Enumerated in Building Program							
Systemwide	Classroom Renovations/Info. Technology	\$10,000,000	\$0	\$0	\$0	\$0	\$10,000,000
Milwaukee	Northwest Quadrant Renovation*	63,693,000	3,200,000	2,180,000	0	0	69,073,000
Milwaukee	Sandburg Hall Renovation-Phase 1	0	31,000,000	0	2,500,000	0	33,500,000
Whitewater	Utility Corridor Improvements/Chiller Plant Upgrade	16,698,000	11,902,000	0	0	0	28,600,000
Extension	Lowell Hall Floors 2-4 Renovation	0	3,005,000	0	1,000,000	0	4,005,000
Funded Through All Agency Program							
System	All Agency Maintenance, Utility and Other	100,000,000	59,636,000	0	0	0	159,636,000
System	Heating Plant and Boiler Replacements and Fuel Storage Additions	11,268,000	8,217,000	0	0	0	19,485,000
Extension	Wis. Public Television Digital Transmitter Replacement	2,000,000	0	0	0	0	2,000,000
Not Included in Building Program							
Platteville	Boebel Hall Addition and Renovation-Phase II	23,772,000	0	0	0	0	23,772,000
Parkside	Wyllie Hall Renovation-Phase I	35,201,000	685,000	0	0	0	35,886,000
Milwaukee	Chemistry Building Safety and Mechanical System Repairs/Renovation	7,061,000	0	0	0	0	7,061,000
Milwaukee	Engineering and Mathematical Science Laboratory Renovations/Repairs	11,376,000	0	0	0	0	11,376,000
Oshkosh	Clow Hall/Nursing Education Renovation-Phase II	18,810,000	0	0	0	0	18,810,000
La Crosse	Graff Main Hall HVAC System Upgrade	11,014,000	0	0	0	0	11,014,000
Milwaukee	Information Technology Infrastructure Upgrade	3,937,000	1,176,000	0	0	0	5,113,000
Madison	Lathrop Drive/Bascom Hill Utility Repairs-Phase I	23,839,000	8,817,000	0	0	0	32,656,000
Eau Claire	Haas Fine Arts Addition and Renovation-Phase I	63,504,000	0	0	0	0	63,504,000
Platteville	New Sesquicentennial Hall (Engineering)	54,602,000	587,000	0	0	0	55,189,000
Madison	Walnut Street Greenhouses Replacement-Phase II	11,125,000	0	11,125,000	0	0	22,250,000
River Falls	May Hall Addition and Renovation	0	4,955,000	0	0	0	4,955,000
La Crosse	New Fieldhouse and Soccer Support Facility	0	21,721,000	0	13,279,000	0	35,000,000
Stevens Point	New Student Health and Wellness Center	0	35,616,200	0	6,226,800	0	41,843,000
La Crosse	New Residence Hall	0	37,261,000	0	0	0	37,261,000
Eau Claire	Governor's Hall Addition and Renovation	0	19,307,000	0	0	0	19,307,000
Madison	Parking Lot 62 Ramp Replacement	0	20,647,000	0	3,000,000	0	23,647,000
Madison	Slichter Hall Renovation	0	14,173,000	0	1,037,000	0	15,210,000
Total		<u>\$467,900,000</u>	<u>\$281,905,200</u>	<u>\$13,305,000</u>	<u>\$27,042,800</u>	<u>\$0</u>	<u>\$790,153,000</u>

*Funded with a reduced project scope and budget of \$52,180,000.