

Building Program

(LFB Building Program Summary Memorandum Dated April 17, 2023)

LFB Summary Memorandum Items for Which an Issue Paper Has Been Prepared

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June 1, 2023

Joint Committee on Finance

Paper #235

Building Program Overview (Building Program)

[LFB Building Program Summary Memorandum (April 17, 2023): Page 1, #1 thru #4]

CURRENT LAW

Each state agency that requested projects for the 2023-25 state building program submitted a capital budget request to the Secretary of the Building Commission in 2022. Staff of the Department of Administration (DOA) analyzed the requests and provided recommendations for the 2023-25 building program to the Building Commission for its consideration. On March 23, 2023, a series of motions before the Commission to recommend the Governor's proposed building program for consideration by the Joint Finance Committee resulted in 4-4 tie votes.

The attached information related to bonding and building program authorizations may assist the Committee as it considers which projects to include in the building program for the 2023-25 biennium. Tables 1 through 4 provide information on GPR debt service and general fund supported borrowing (GFSB) amounts, while Tables 5 through 9 provide information on prior building programs and proposed 2023-25 enumerated projects. For more information on proposed projects, see the Legislative Fiscal Bureau's "Summary of the Governor's 2023-25 Building Program," published April 17, 2023.

DISCUSSION POINTS

1. Table 1 shows outstanding GFSB principal in December of each year from 2013 through 2022. As shown in Table 1, outstanding GFSB has declined from \$5.21 billion in 2013 to \$3.51 billion in 2022, as the state has paid off more GFSB than it has issued during that time period.

TABLE 1

**Outstanding GPR Supported General Obligation
Bonding as of December of Each Year
(in Millions)**

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2013	\$5,208.5	2018	\$4,209.9
2014	4,885.8	2019	4,015.3
2015	4,826.6	2020	3,892.2
2016	4,780.9	2021	3,670.9
2017	4,433.4	2022	3,512.7

2. Table 2 presents GPR debt service as a percentage of total GPR expenditures from 2012-13 to 2024-25. The debt service numbers for 2022-23 through 2024-25 reflect the most recent estimates of current law debt service, while the GPR expenditures for 2023-24 and 2024-25 are the adjusted base with Committee actions to date.

TABLE 2

**Annual GPR Debt Service
(\$ in Millions)**

<u>Fiscal Year</u>	<u>GPR Expenditures</u>	<u>GPR Debt Service</u>	<u>Debt Services as % of Expenditures</u>
2012-13	\$14,332.9	\$616.7	4.30%
2013-14	14,673.9	717.1	4.89
2014-15	15,503.5	509.7*	3.29
2015-16	15,378.9	507.2*	3.30
2016-17	15,897.0	566.8	3.57
2017-18	16,504.6	543.6	3.29
2018-19	17,515.1	600.6	3.43
2019-20	17,476.5	489.7*	2.80
2020-21	19,287.7	509.7	2.64
2021-22	18,785.2	498.5	2.65
2022-23	19,122.1	474.6	2.48
2023-24**	20,526.0	458.5	2.23
2024-25**	20,606.0	527.9	2.56

*Excludes principal payments that were not paid in those years as a result of debt restructuring.

**Adjusted base Committee actions to date and certain cost-to-continue items.

3. GPR debt service as a percentage of GPR expenditures can represent a policy goal when

considering the amount of GFSB to be authorized in a budget. With general fund expenditures totaling around \$20 billion, each percentage point is \$200 million, and a goal of keeping debt service below 3.5% of GPR expenditures would mean that annual debt service should not exceed \$700 million. However, Joint Finance Committee actions through the rest of budget deliberations will likely increase the amount of GPR expenditures in 2023-24 and 2024-25, which would decrease the current GPR debt service as a percentage of GPR expenditures.

4. Each biennial budget includes the state building program for that biennium by enumerating projects and authorizing the related bonding. Given the timing needed to plan, bid, and construct many of the projects included in the 2023-25 building program, any bonding authorized for it will have little effect on debt service in the 2023-25 biennium. Once the bonds are issued, debt service will be paid over the 20-year life of the bonds. Table 3 shows estimated annual debt service amounts (principal and interest) associated with the issuance of varying amounts of GFSB at assumed interest rates of 3% or 3.5%, once the full authorization amount has been issued. However, AB 43/SB 70 would provide cash to finance the 2023-25 building program rather than issuing new, general fund supported general obligation bonds. To the extent that cash is utilized rather than bonding to fund the building program, the amounts in Table 3 represent annual debt service savings that would be realized by the state.

TABLE 3
Examples of Debt Service Once All Bonds Are Issued
(in Millions)

<u>Bonding Amount</u>	<u>Estimated Debt Service</u>	
	<u>3%</u>	<u>3.5%</u>
\$500	\$33.6	\$35.2
1,000	67.2	70.4
1,500	100.8	105.5
2,000	134.4	140.7

5. Table 4 shows an illustration of the general fund's potential capacity for additional GPR debt service. Several assumptions are incorporated into Table 4, including: (a) a growth rate of 2% in annual GPR expenditures; (b) a goal of debt service not exceeding 3.5% of GPR expenditures; and (c) estimated debt service on all currently authorized bonds prepared by capital finance staff based on issuance assumptions for pending capital finance needs. The final column in Table 4 subtracts estimated debt service on all currently authorized bonds from the 3.5% goal and shows the capacity for additional debt service. As shown in Table 4, as current debt is paid down and the general fund grows at an assumed 2% rate, the general fund's capacity to support GPR debt service increases. Based on the example in Table 4, GFSB authorizations in the amounts shown in Table 3 would be compatible with a goal to maintain GPR debt below a 3.5% level.

TABLE 4

**Example of Calculation of Debt Service Capacity
Assuming 2% Growth of GPR Spending and 3.5% Goal for Debt Service
(in Millions)**

	<u>Net GPR 2% Growth</u>	<u>3.5% of Net GPR</u>	<u>Debt Service on Current Authorizations</u>	<u>Capacity for Additional Debt Service</u>
2023-24	\$20,526	\$718	\$459	\$260
2024-25	20,606	721	528	193
2025-26	21,018	736	452	283
2026-27	21,438	750	467	284
2027-28	21,867	765	481	285
2028-29	22,305	781	505	276
2029-30	22,751	796	503	294
2030-31	23,206	812	460	352
2031-32	23,670	828	443	386
2032-33	24,143	845	419	426

6. Table 5 shows general obligation borrowing amounts for each of the last five biennial building programs. Amounts include enumerated projects and all agency projects by fund source.

TABLE 5**Building Program General Obligation Borrowing Levels
(\$ in millions)**

	<u>General Obligation Borrowing</u>			
	<u>GPR</u>	<u>PR</u>	<u>SEG</u>	<u>Total</u>
2013-15				
Enumerated Projects	\$324.3	\$522.0	\$15.5	\$861.8
All Agency Program	<u>186.5</u>	<u>79.1</u>	<u>5.2</u>	<u>270.8</u>
Total	\$510.8	\$601.1	\$20.7	\$1,132.6
2015-17				
Enumerated Projects	\$101.2	\$0.0	\$0.0	\$101.2
All Agency Program	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total	\$101.2	\$0.0	\$0.0	\$101.2
2017-19				
Enumerated Projects	\$329.0	\$134.5	\$4.8	\$468.3
All Agency Program	<u>181.7</u>	<u>22.0</u>	<u>1.0</u>	<u>204.7</u>
Total	\$510.7	\$156.5	\$5.8	\$673.0
2019-21				
Enumerated Projects	\$668.7	\$396.5	\$14.0	\$1,079.2
All Agency Program	<u>275.0</u>	<u>97.2</u>	<u>1.8</u>	<u>374.0</u>
Total	\$943.7	\$493.7	\$15.8	\$1,453.2
2021-23				
Enumerated Projects	\$717.4	\$41.6	\$20.5	\$779.5
All Agency Program	<u>233.0</u>	<u>99.1</u>	<u>13.1</u>	<u>345.2</u>
Total	\$950.4	\$140.7	\$33.6	\$1,124.7

7. Table 6 shows historical building programs recommended by the Governor/Building Commission during the biennial budget process, as well as the final building program budget enumerated for that legislative session, since the 2001-03 biennium. Prior to 2019-21, a building program recommended by the Commission had been submitted to the Joint Committee on Finance for its consideration. However, the programs recommended by the Governor in 2019-21, 2021-23, and 2023-25 received 4 to 4 tie votes by the Commission and were forwarded without its recommendation. Adjustments to prior building program projects are not shown in Table 6.

TABLE 6**New Building Program Funding
(In Millions)**

<u>Biennium</u>	<u>Building Commission's Recommendation</u>	<u>Total Building Program for Biennium</u>
2001-03	\$1,640.8	\$1,595.8
2003-05	533.9	709.5
2005-07	1,443.5	1,171.6
2007-09	1,318.1	1,183.0
2009-11	1,414.2	1,700.9
2011-13	1,017.7	971.9
2013-15	1,449.8	1,538.0
2015-17	655.9	848.7
2017-19	759.1	1,009.2
<u>Biennium</u>	<u>Governor's Recommendation</u>	<u>Total Building Program for Biennium</u>
2019-21	\$2,317.5	\$1,735.4
2021-23	2,229.4	1,409.6
2023-25	3,327.4	TBD

8. Table 7 shows the all funds project enumeration amounts by agency since 2013-15. All funds includes new and existing general obligation bonds, existing revenue bonds, agency operating funds, gifts and other funds, and federal funding. At times, the building program includes grants for private projects, which may be shown as specified projects or under the Building Commission in the attachment. Adjustments to prior building program projects are not shown in Table 7.

TABLE 7**Building Program Project Enumerated Amounts (All Funding Sources)
(in Millions)**

	<u>2013-15</u>	<u>2015-17</u>	<u>2017-19</u>	<u>2019-21</u>	<u>2021-23</u>
Administration	\$178.84	\$4.75	\$79.00	\$5.69	-
Building Commission	61.24	78.13	87.27	40.00	\$149.00
Corrections	34.47	17.42	50.85	23.73	23.70
Educational Communications Bd.	-	-	-	-	-
Health Services	6.71	4.87	38.70	34.85	55.53
Justice	-	-	-	-	-
Medical College of Wisconsin	14.77	-	-	18.50	-
Marquette University	-	4.00	-	-	-
Military Affairs	69.93	8.77	30.66	8.11	47.00
Natural Resources	32.00	49.19	10.25	17.92	36.06
Children's Hospital of Wisconsin	21.25	-	-	-	-
Public Instruction	-	-	-	7.39	-
State Fair Park	-	-	7.92	3.00	-
State Historical Society	-	-	1.65	100.00	14.32
Transportation	-	12.42	-	-	-
UW System	703.76	451.93	323.70	1,025.62	628.65
Veterans Affairs	5.91	84.82	17.94	18.51	16.87
All Agency	<u>329.13</u>	<u>132.42</u>	<u>361.29</u>	<u>432.04</u>	<u>438.42</u>
	\$1,458.01	\$848.72	\$1,009.23	\$1,735.36	\$1,409.55

9. The major agency projects enumerated as part of the 2023-25 state building program, as recommended by the Governor, are listed in Table 8 for each agency. Table 8 does not include adjustments to prior building program projects. In AB 43/SB 70 "segregated revenue" would be defined as the moneys transferred from the general fund to the capital improvement fund under the provisions of AB 43/SB 70 to be used to fund building projects authorized in the 2023-25 state building program. The segregated funding and total enumeration amounts are shown for each project.

TABLE 8

**State Agency 2023-25 Enumerated Major Projects
Segregated Revenue and Total Project Authority**

	<u>Segregated Revenue</u>	<u>Total Enumeration</u>
State Industry and Labor Building (GEF 1) - Building Renovation and Parking Garage Repairs		\$141,407,000
Wisconsin Air Services - New Airplane Hangar		4,675,000
State Capitol - Sidewalk & Storm Water Piping Replacement	\$6,400,000	6,400,000
Hill Farms Building D - State Lab of Hygiene - New Lab		4,203,000
State Capitol - Fiber and Cable Upgrades	<u>41,375,000</u>	<u>41,375,000</u>
Total	\$47,775,000	\$198,060,000
Building Commission		
Bronzeville Center For The Arts - African American Art Center - Milwaukee County	\$5,000,000	\$54,900,000
Children's Wisconsin - Dental Clinic Expansion - Milwaukee County	4,789,000	9,578,000
Woodman's Sports And Convention Center - Janesville	15,000,000	50,500,000
Green Bay National Railroad Museum Expansion	7,000,000	15,000,000
Marquette University - School Of Dentistry Upgrades - Milwaukee	10,750,000	28,000,000
Milwaukee Iron District - New Soccer Stadium	9,300,000	45,000,000
Door County Peninsula Players Theatre – Dormitory Upgrade	1,000,000	4,213,000
Versiti Blood Research Institute Addition - Milwaukee County	<u>10,000,000</u>	<u>63,500,000</u>
Total	\$62,839,000	\$270,691,000
Corrections		
Type 1 Juvenile Correctional Facility - Statewide	\$83,000,000	\$83,000,000
Type 1 Juvenile Correctional Facility - Statewide - Planning Only	4,000,000	4,000,000
Green Bay Correctional Institution - New Health Services Unit	25,057,000	25,057,000
Statewide - Minor Facilities Renewal Program - Roof and ADA Compliance	4,099,000	4,099,000
Dodge Correctional Institution - Health Services Unit Replacement	28,851,000	28,851,000
Statewide - Minor Facilities Renewal Program - Asphalt Pavement Improvements	13,629,000	13,629,000
Lincoln Hills School/Copper Lake School – School Building HVAC Improvements	5,723,000	5,723,000
Grow Academy - 16 Bed Replacement Facility	24,904,000	24,904,000
Fox Lake Correctional Institution - Housing Units 1-6 Bathroom Remodel	21,393,000	21,393,000
Fox Lake Correctional Institution - Vocational Building Elevated Walkway Replacement	<u>11,967,000</u>	<u>11,967,000</u>
Total	\$222,623,000	\$222,623,000
Health Services		
Central Wisconsin Center - Food Service Building Renovation	\$56,002,000	\$56,002,000
Winnebago Mental Health Institute - Utility And Service Tunnel Improvements	31,955,000	31,955,000
Statewide – Minor Facilities Renewal Program - HVAC Improvements	8,330,000	8,330,000
Systemwide – Minor Facilities Renewal Program - Envelope Repairs	<u>20,111,000</u>	<u>20,111,000</u>
Total	\$116,398,000	\$116,398,000
Military Affairs		
Madison AASF 2 - Fire Suppression System	\$932,000	\$3,906,000
Black River Falls – New Readiness Center	11,455,000	45,819,000
Statewide - Tower Updates, Phase II	13,656,000	13,656,000
Fort Mccoy - WING Challenge Academy Design	700,000	700,000
Madison AASF 2 – Remodel Hangar Pod Doors 5 And 6	<u>1,112,000</u>	<u>4,446,000</u>
Total	\$27,855,000	\$68,527,000

	Segregated <u>Revenue</u>	Total <u>Enumeration</u>
Natural Resources		
Pattison State Park - Dam Reconstruction	\$7,848,000	\$7,848,000
Statewide – Trail Accessibility Improvements	3,957,000	3,957,000
Badger State Trail - Stewart Tunnel Repair	6,606,000	6,606,000
Friendship Ranger Station - Fire Reponse Ranger Station Replacement		7,649,000
Crandon Ranger Station - Fire Reponse Ranger Station Replacement		4,512,000
Potawatomi State Park - Observation Tower Revitalization	6,060,000	6,060,000
Lemay Forestry Center – New Fire Response Equipment Facility		3,023,000
Lemay Forestry Center – New Fire Equipment Fabrication Storage Facility		<u>3,930,000</u>
Total	<u>\$24,471,000</u>	\$43,585,000
Department Of Transportation		
Spooner – Multi-Divisional Replacement Facility		\$11,490,000
University of Wisconsin System		
Systemwide - Instructional Space Projects Program	\$46,604,000	\$46,604,000
Systemwide - Minor Facilities Renewal Program	64,827,000	89,939,000
Systemwide - Central Plants & Utility Distribution Renovation	105,048,000	149,269,000
Madison - Engineering Replacement Building/Computer Aided Engineering Facility Demolition	197,336,000	347,336,000
La Crosse - Prairie Springs Science Center Completion/Cowley Hall Demolition	182,506,000	182,506,000
Milwaukee - Health Sciences Renovation (planning)	1,000,000	1,000,000
Whitewater - Winther Hall/Heide Hall Entry Additions & Renovations (planning)	500,000	500,000
Madison - Humanities Art Department Relocation & Consolidation	140,322,000	169,072,000
Madison - Music Hall Restoration & Exterior Envelope Renovation	9,741,000	39,741,000
Stout - Heritage Hall Addition & Renovation (planning)	500,000	500,000
Oshkosh - Gruenhagen Conference Center Plumbing Riser Replacement		20,462,000
Stevens Point - Champions Hall Addition & Renovation/Two Building Demolition		32,906,000
Madison - Kronshage-Jorns-Humphrey Residence Halls Additions & Renovations		79,211,000
Oshkosh - Donner-Webster Residence Halls Additions & Renovations		57,671,000
La Crosse - Center for the Arts Parking Ramp/University Police Building Addition		27,642,000
Eau Claire - Science/Health Science Building Completion/Phillips Hall Demolition	226,757,000	231,326,000
Madison - Camp Randall Sports Center Replacement		<u>285,163,000</u>
Total	<u>\$975,141,000</u>	\$1,760,848,000
Veterans Affairs		
King - Power Plant Chillers Repair, Phase II	\$3,464,000	\$9,895,000
Wisconsin Veterans Museum - Museum Upgrade And Expansion – Acquisition Only	<u>9,000,000</u>	<u>9,000,000</u>
Total	<u>\$12,464,000</u>	\$18,895,000
All Agency		
Facility Maintenance and Repair	\$195,000,000	\$341,756,600
Utility Repair and Renovation	70,000,000	127,343,200
Health, Safety and Environmental Protection	20,000,000	30,702,600
Preventive Maintenance Program		870,000
Programmatic Remodeling and Renovation	5,000,000	42,985,800
Capital Equipment Acquisition	5,000,000	5,000,000
Land and Property Acquisition		10,615,500
Energy Conservation	<u>5,000,000</u>	<u>57,010,200</u>
Total	<u>\$300,000,000</u>	\$616,283,900
Grand Total	1,789,566,000	3,327,400,900

10. Table 9 shows the recommended adjustments to previous building programs. The segregated revenue and total enumeration amounts are shown for each project.

TABLE 9

**Modifications to Previous Building Programs
New Segregated Revenue and Total Project Authority**

	<u>Segregated Revenue</u>	<u>Revised Total Enumeration</u>
2015-17 Building Program		
<i>Military Affairs</i>		
West Bend AASF 1 - Hangar Addition and Fire Suppression	\$2,726,000	\$12,671,000
2017-19 Building Program		
<i>Corrections</i>		
Type 1 Juvenile Correctional Facility - Statewide	32,609,000	78,400,000
<i>State Fair park</i>		
Cream Puff Pavilion Renovation		12,500,000
<i>Veterans Affairs</i>		
King - Central Kitchen Replacement	13,537,700	41,498,800
2019-21 Building Program		
<i>Natural Resources</i>		
Wausau Service Center - Service Center Addition	3,432,500	4,707,000
<i>Historical Society</i>		
Wisconsin History Museum	42,341,000	160,487,000
<i>Veterans Affairs</i>		
Southern WI Veterans Memorial Cemetery - Administration Building Expansion and Fire Protection	1,083,000	3,708,000
2021-23 Building Program		
<i>Health Services</i>		
Winnebago Mental Health Institute - Patient Admissions Area	17,716,000	34,511,000
Mendota Mental Health Institute - Utility Improvements	41,080,000	56,000,000
Sand Ridge Secure Treatment Center - Skilled Care Unit Expansion	5,563,000	18,175,000
<i>Military Affairs</i>		
Clintonville Readiness Center - New Motor Vehicle Storage Building	<u>63,100</u>	<u>2,786,000</u>
Totals	\$160,151,300	\$425,443,800

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June 1, 2023

Joint Committee on Finance

Paper #236

Use of One-Time Cash for Building Program or Debt Reduction Purposes (Building Commission/Building Program)

[LFB 2023-25 Budget Summary: Page 88, #2]

[LFB Building Program Summary Memorandum (April 17, 2023): Page 9, #5]

BACKGROUND

The state issues three types of debt obligations: general obligation debt and commercial paper, revenue obligation debt and commercial paper, and appropriation obligation debt. The table below summarized the level of outstanding principal as of December, 2022, for each type of debt issued by the state.

Outstanding Principal on State Bonding Programs

<u>Type of Bonds</u>	<u>Outstanding Debt December, 2022</u>
General Obligation Bonds	
General Purpose Revenue Supported	\$3,512,680,364
Program Revenue Supported	1,857,753,186
Segregated Revenue Supported	1,449,682,450
Transportation Revenue Obligations	1,565,305,000
Clean Water Revenue Obligations*	394,970,000
Appropriation Obligations (GPR Supported)	
Pension	1,244,110,000
Tobacco Settlement	<u>1,416,725,000</u>
Total	\$11,441,226,000

*Includes Environmental Improvement Fund bonds.

Under 2007 Act 226, DOA was authorized to issue appropriation obligation bonds to refund the outstanding tobacco securitization bonds issued by the Badger Tobacco Asset Securitization

Corporation in 2002, and repurchase the rights to the state's tobacco settlement revenues. Under the corresponding bond issuance, 2009 Series A, \$1.53 billion of principal was issued for this purpose, and the debt service on the appropriation obligation bonds would be repaid from a GPR appropriation through 2036-37.

DISCUSSION POINTS

1. After the May revision to revenue estimates, there is an estimated \$10.8 billion of general fund moneys available based on Committee actions to date, of which \$2.2 billion is ongoing. Although there are many competing uses for GPR funding, there may be sufficient one-time GPR resources available to substitute cash for the GPR-supported borrowing typically used in funding projects included in the state's building program or to use cash to pay off existing debt.

2. This paper discusses three options for one-time uses of cash as it relates to the state's debt and building program. These options include: (a) using cash to fund projects enumerated in the 2023-25 building program; (b) using cash to pay off outstanding general fund supported general obligation debt; and (c) using cash to pay off outstanding tobacco settlement appropriation obligation bonds. Each option discussed below would avoid creating an ongoing expenditure obligation. Further, the Committee could choose any combination of the alternatives and in any amounts.

A. Cash Funding the 2023-25 Building Program

3. Under AB 43/SB 70, \$1,955,000,000 would be transferred from the general fund to the state capital improvement fund in the 2023-25 biennium. The moneys transferred would be kept separate from other moneys in the capital improvement fund and would have to be used, in lieu of bonding, to fund building projects authorized in the 2023-25 state building program. All earnings on or income from the investment of the transferred moneys would be deposited in the general fund. Additionally, any excess moneys that are not used to fund building projects would be transferred to the general fund.

4. Similar to the recommendation under AB 43/SB 70, the Committee could choose to transfer moneys from the general fund to the capital improvement fund to fund 2023-25 building program projects [Alternatives A1 through A4]. Funding the 2023-25 building program with one-time cash from the general fund would result in debt service savings compared to funding those projects with general obligation bonds. The table below shows estimated total interest savings that would be realized at various funding levels, if all or a portion of the 2023-25 building program were funded with cash rather than general obligation bonding. The table assumes that bonds would have a 20-year life and would have an interest rate 3.5%. At a 3.5% interest rate, every \$100 million of bonds issued would accrue an estimated \$40.7 million of interest over their 20-year life. The most recent new money general obligation bond issuance, in January of 2023, had a true interest cost of 3.58%.

**Interest Over the Life of the Bonds at Various Bonding Levels
(Millions)**

<u>Bonding Amount</u>	<u>Interest Rate</u> 3.5%
\$500	\$204
1,000	408
1,500	612
2,000	816

5. Utilizing surplus moneys rather than bonding to fund 2023-25 building program projects allows the state to avoid creating ongoing expenditure obligations. The state could free up funds that would otherwise be used to make annual debt service (principal and interest) payments. For example, if the state were to issue \$1.0 billion of general fund supported general obligation bonds at a 3.5% interest rate with a level payment structure, it would have to budget \$70 million annually for GPR debt service payments (principal and interest) over the 20-year life of the bonds.

6. However, given the timing needed to plan, bid, and construct projects that would be included in the 2023-25 building program, any bonds authorized would likely not be issued until later in the 2023-25 biennium or in the 2025-27 biennium. As such, debt service savings from funding projects with cash would be realized in future biennia.

B. Pay Off Outstanding General Obligation Bonds

7. As of December, 2022, the state had \$6.8 billion of outstanding debt on general obligation bond issues. Of the amount outstanding, \$3.5 billion is supported by debt service payments from the general fund and \$1.4 billion is supported by payments from other tax-supported funds, primarily the transportation fund and the conservation fund. The remaining \$1.9 billion of outstanding obligations are self-amortizing, which means that they have revenue streams resulting from the programs for which they were issued and from which debt service payments are made.

8. Capital Finance has indicated that it has two options when it comes to paying off existing debt: defeasing debt and making a debt tender offer. Defeasing debt is a process in which Capital Finance would set aside funds by purchasing a portfolio of securities (held in escrow) that would be sufficient to meet all payments of principal and interest on an outstanding bond as they become due. A debt tender offer is a process used to retire debt, in which the state has the ability to make an offer to its existing bondholders to repurchase a specified number of bonds at a particular price and a specified time.

9. According to Capital Finance, the decision of whether to make a debt tender offer or to defease debt is best made at the time such actions would be taken. If the Committee were to decide to use cash on a one-time basis to retire general fund supported general obligation debt, it could specify the amount of funds to be used for this purpose, which would be transferred to the bond security and redemption fund [Alternatives B1 through B3]. Capital Finance would then assess current market

conditions to determine the most cost-effective approach for using those funds. Capital Finance could target debt in various ways, including based on an issue's coupon rate, or based on timing of debt service payments.

C. Pay Off Outstanding Tobacco Settlement Appropriation Obligation Bonds

10. Alternatively, the Committee could consider using cash to pay off all or a portion of outstanding debt on tobacco settlement appropriation obligation bonds [Alternatives C1 through C3]. As of December, 2022, the state had \$1.4 billion of outstanding principal on tobacco settlement appropriation obligation bonds. In the 2023-25 biennium, debt service (principal and interest) is budgeted at \$111.2 million GPR in 2023-24 and \$119.7 million GPR in 2024-25. After consideration of the principal payments to be made in 2022-23 and in the 2023-25 biennium under debt service payments approved by the Committee (\$136.5 million), there would be \$1,282.2 million of these bonds still outstanding. The following table shows the current schedule for principal and interest payments on this debt from 2025-26 through final maturity in 2036-37.

**Tobacco Settlement Appropriation Bonds Debt Service
from 2025-26 to Final Maturity**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025-26	\$58.1	\$62.1	\$120.2
2026-27	436.3	52.9	489.2
2027-28	70.4	30.9	101.3
2028-29	76.0	28.0	104.0
2029-30	17.4	24.8	42.2
2030-31	18.4	24.1	42.4
2021-32	19.4	23.3	42.7
2032-33	20.4	22.5	43.0
2033-34	132.8	21.7	154.4
2034-35	139.3	16.3	155.7
2035-36	147.2	10.8	158.0
2036-37	<u>146.7</u>	<u>4.8</u>	<u>151.5</u>
Totals	\$1,282.2	\$322.2	\$1,604.4

11. If the Committee wishes to pay off all or a portion of these tobacco settlement bonds, it could increase the current appropriation used to pay debt service on these bonds in 2023-24. Capital Finance could use these moneys to defease or use a tender offer to pay off this debt. If for whatever reason these moneys would remain unused at the end of 2023-24, they would lapse to the general fund.

ALTERNATIVES

A. Cash Finance 2023-25 Building Program

1. Transfer \$500,000,000 from the general fund to the capital improvement fund to fund building projects authorized in the 2023-25 state building program. Specify that the moneys transferred would be kept separate from other moneys in the capital improvement fund and that all earnings on or income from the investment of the transferred moneys would be deposited in the general fund. Specify that any excess moneys that are not used to fund building projects would be transferred to the general fund. Create an appropriation under the Building Commission for the expenditure of these moneys. [Compared to 20-year bonds with a 3.5% interest rate, debt service (principal and interest) would be reduced by \$35.2 million annually and interest costs over the life of the bonds would be reduced by \$204 million.]

ALT A1	Change to Base
GPR-Transfer	\$500,000,000

2. Transfer \$1,000,000,000 from the general fund to the capital improvement fund to fund building projects authorized in the 2023-25 state building program. Specify that the moneys transferred would be kept separate from other moneys in the capital improvement fund and that all earnings on or income from the investment of the transferred moneys would be deposited in the general fund. Specify that any excess moneys that are not used to fund building projects would be transferred to the general fund. Create an appropriation under the Building Commission for the expenditure of these moneys. [Compared to 20-year bonds with a 3.5% interest rate, debt service (principal and interest) would be reduced by \$70.4 million annually and interest costs over the life of the bonds would be reduced by \$408 million.]

ALT A2	Change to Base
GPR-Transfer	\$1,000,000,000

3. Transfer \$1,500,000,000 from the general fund to the capital improvement fund to fund building projects authorized in the 2023-25 state building program. Specify that the moneys transferred would be kept separate from other moneys in the capital improvement fund and that all earnings on or income from the investment of the transferred moneys would be deposited in the general fund. Specify that any excess moneys that are not used to fund building projects would be transferred to the general fund. Create an appropriation under the Building Commission for the expenditure of these moneys. [Compared to 20-year bonds with a 3.5% interest rate, debt service (principal and interest) would be reduced by \$105.6 million annually and interest costs over the life of the bonds would be reduced by \$612 million.]

ALT A3	Change to Base
GPR-Transfer	\$1,500,000,000

4. Transfer \$2,000,000,000 from the general fund to the capital improvement fund to fund building projects authorized in the 2023-25 state building program. Specify that the moneys transferred would be kept separate from other moneys in the capital improvement fund and that all earnings on or income from the investment of the transferred moneys would be deposited in the general fund. Specify that any excess moneys that are not used to fund building projects would be transferred to the general fund. Create an appropriation under the Building Commission for the expenditure of these moneys. [Compared to 20-year bonds with a 3.5% interest rate, debt service (principal and interest) would be reduced by \$140.8 million annually and interest costs over the life of the bonds would be reduced by \$816 million.]

ALT A4 Change to Base

GPR-Transfer \$2,000,000,000

5. Take no action.

B. Pay off General Obligation Debt

1. Transfer \$400,000,000 from the general fund to the bond security and redemption fund to defease or use a tender offer to pay off outstanding principal and interest on general fund supported general obligation debt.

ALT B1 Change to Base

GPR-Transfer \$400,000,000

2. Transfer \$800,000,000 from the general fund to the bond security and redemption fund to defease or use a tender offer to pay off outstanding principal and interest on general fund supported general obligation debt.

ALT B2 Change to Base

GPR-Transfer \$800,000,000

3. Transfer \$1,200,000,000 from the general fund to the bond security and redemption fund to defease or use a tender offer to pay off outstanding principal and interest on general fund supported general obligation debt.

ALT B3 Change to Base

GPR-Transfer \$1,200,000,000

4. Take no action.

C. Pay Off Tobacco Settlement Appropriation Obligation Debt

1. Provide \$400,000,000 GPR in 2023-24 in the existing appropriation used to pay debt service on the appropriation obligation bonds issued to repurchase the rights to the state's tobacco settlement revenues for the purpose of defeasing or using a tender offer to pay off outstanding bonds.

ALT C1	Change to Base
GPR	\$400,000,000

2. Provide \$800,000,000 GPR in 2023-24 in the existing appropriation used to pay debt service on the appropriation obligation bonds issued to repurchase the rights to the state's tobacco settlement revenues for the purpose of defeasing or using a tender offer to pay off outstanding bonds.

ALT C2	Change to Base
GPR	\$800,000,000

3. Provide \$1,282,200,000 GPR in 2023-24 in the existing appropriation used to pay debt service on the appropriation obligation bonds issued to repurchase the rights to the state's tobacco settlement revenues for the purpose of defeasing or using a tender offer to pay off outstanding bonds. [This would reduce out-year principal and interest costs by \$1,604.4 million over the life of the bonds.]

ALT C3	Change to Base
GPR	\$1,282,200,000

4. Take no action.

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June 1, 2023

Joint Committee on Finance

Paper #237

Building Project Threshold Increases (Building Program)

[LFB Building Program Summary Memorandum (April 17, 2023): Page 10, #9]

CURRENT LAW

State law establishes various cost thresholds at which state building program projects must meet certain requirements. These requirements are as follows.

Any construction project having a total project budget exceeding \$1.0 million is considered to be a major project and must be enumerated by the Legislature in the state building program or be exempted from enumeration by session law prior to Building Commission approval for construction.

Any construction project having a total project budget of \$1.0 million or less, regardless of the funding source, is considered a minor project. The Building Commission may authorize or delete any project costing \$1.0 million or less in accordance with the priorities established by the Commission. In general, no agency may enter into a contract for construction, reconstruction, remodeling or additions to any building, structure or facility which involves a cost exceeding \$300,000 without completion of final plans, arrangement for supervision of construction, and prior approval of the Building Commission. Projects with an estimated budget of less than \$300,000 and that are proposed for funding from the building trust fund, general fund supported borrowing, or program revenue supported borrowing must also be approved by the Commission.

For projects with estimated costs between \$50,000 and \$300,000, in most instances, DOA is required to contract with the lowest qualified responsible bidder. Whenever the estimated construction cost of a project exceeds \$50,000, or if less and in the best interest of the state, DOA is required to advertise for proposals by publication of a Class 1 notice. Any project with an estimated cost in excess of \$300,000 must be let using the single prime contractor process, under which a single prime contractor has a contractual relationship with the state. DOA may let any single prime construction project to a single trade contractor (a contractor whose primary business

is mechanical, electrical, plumbing, or fire protection work) if at least 85% of the estimated construction cost is for work involving the contractor's primary business trade. If the estimated cost of a construction project is \$7.4 million or more, the selection committee must use a request-for-proposal process to select an architect or engineer.

DISCUSSION POINTS

1. The Governor's 2023-25 capital budget recommendations would adjust building project thresholds as follows:

a. increase the threshold at which a project would be required to be enumerated in the state building program from \$1,000,000 to \$2,000,000;

b. increase the threshold at which the Building Commission may authorize a project for any state agency in accordance with priorities established by the Commission and may adjust the priorities by deleting, substituting, or adding new projects as needed to reflect changing program needs and unforeseen circumstances from \$1,000,000 to \$2,000,000;

c. increase the threshold at which small projects do not require Building Commission approval and can follow simplified bidding procedures from not more than \$300,000 to not more than \$600,000;

d. increase the threshold at which DOA is allowed to let construction projects to a single trade contractor for all work on the project if at least 85% of the estimated construction cost of the project is for work that involves the trade that is the primary business of the single trade contractor from \$300,000 to \$600,000;

e. increase the threshold on the size of contract for construction, reconstruction, remodeling of, or addition to state facilities that would require Building Commission approval of final plans for the project from \$300,000 to \$600,000. As under current law, State Fair Park Board projects require Building Commission approval, even if the total cost is under this threshold;

f. increase the threshold at which projects are required to utilize single prime bidding and contracting from \$300,000 to \$600,000;

g. increase the threshold at which the contracts and change orders for engineering architectural services and work on construction projects require the Governor's approval from \$300,000 to \$600,000;

h. increase the threshold on the size of contract for which DOA would be required to seek bids from the lowest responsible qualified bidder and meet the requirements for soliciting those bids from \$50,000 to \$100,000; and

i. increase the threshold at which the selection committee must use a request-for-proposal process to select an architect or engineer for a project based on qualifications from \$7,400,000 to \$15,000,000.

2. The above mentioned thresholds were last increased by 2017 Act 237, with the exception of the threshold at which contracts are large enough that DOA must meet certain bidding requirements, which was last updated by 2011 Act 32.

3. Over time, inflation can result in the same project taking significantly more funding to complete, as the cost of labor inputs and materials increase. The Governor's recommendations attempt to recognize the impact that inflation has had on the building project thresholds set in statute. According to DOA, the cost of even less complex systems and maintenance work has increased such that required approvals and process steps may slow down necessary maintenance work on state facilities.

4. The Governor's recommendations would increase each building project threshold by 100%. If the Committee agrees with these proposed thresholds, it could increase the thresholds in statute to the amounts described above [Alternative 1].

5. However, the Committee may wish to consider whether a 100% increase reflects the cost increases seen since 2017. Based on data published by Engineering News-Record (ENR), the monthly building cost index has increased 38% from May, 2017, to May, 2023. From 2011 through 2023, the building cost index increased by 60%. Likewise, the Mortenson construction cost index for Milwaukee increased 45% from 2017 to 2022 and 69% from 2011 to 2022. The Governor's recommendations indicate that the indexing of thresholds is based on inflation measures through 2025. Therefore, assuming annual inflation of 2.5% from 2023 to 2025, the total increase in cost since 2017 would be around 45% to 50%.

6. To reflect actual and estimated price increases from 2017 through 2025, the Committee could increase the above mentioned thresholds by 50%, rather than 100% [Alternative 2]. The Committee could make an exception for the threshold that has not been increased since 2011, and instead increase that threshold by 100%.

7. Beyond statutory requirements, the Building Commission has developed the following enumeration guidelines, which are included in each biennium's capital budget instructions, to assist the agencies in determining when a renovation or remodeling project requires enumeration versus being eligible for funding through the all agency program. Under these guidelines, a renovation or remodeling project requires enumeration if the project constructs new facility space and the total project cost exceeds \$1.0 million. Also, the guidelines indicate that a project would have to be enumerated if any of the following apply: (a) the project adds more than 500 square feet; (b) the project cost exceeds \$3.0 million (\$5.0 million for utility improvements); (c) the projected operational costs for the renovated space are significantly higher than under the existing use and configuration; or (d) a utility repair or renovation project adds significant capacity to, or is a major expansion of, an institution's utility system. The Commission may choose to increase the dollar amounts (perhaps to \$5.0 million and \$7.0 million for utility improvements.)

ALTERNATIVES

1. Adjust building project thresholds as follows (100% increase):
 - a. increase the threshold at which a project would be required to be enumerated in the state building program from \$1,000,000 to \$2,000,000;
 - b. increase the threshold at which the Building Commission may authorize a project for any state agency in accordance with priorities established by the Commission and may adjust the priorities by deleting, substituting, or adding new projects as needed to reflect changing program needs and unforeseen circumstances from \$1,000,000 to \$2,000,000;
 - c. increase the threshold at which small projects do not require Building Commission approval and can follow simplified bidding procedures from not more than \$300,000 to not more than \$600,000;
 - d. increase the threshold at which DOA is allowed to let construction projects to a single trade contractor for all work on the project if at least 85% of the estimated construction cost of the project is for work that involves the trade that is the primary business of the single trade contractor from \$300,000 to \$600,000;
 - e. increase the threshold on the size of contract for construction, reconstruction, remodeling of, or addition to state facilities that would require Building Commission approval of final plans for the project from \$300,000 to \$600,000. As under current law, State Fair Park Board projects require Building Commission approval, even if the total cost is under this threshold;
 - f. increase the threshold at which projects are required to utilize single prime bidding and contracting from \$300,000 to \$600,000;
 - g. increase the threshold at which the contracts and change orders for engineering architectural services and work on construction projects require the Governor's approval from \$300,000 to \$600,000;
 - h. increase the threshold on the size of contract for which DOA would be required to seek bids from the lowest responsible qualified bidder and meet the requirements for soliciting those bids from \$50,000 to \$100,000; and
 - i. increase the threshold at which the selection committee must use a request-for-proposal process to select an architect or engineer for a project based on qualifications from \$7,400,000 to \$15,000,000.
2. Adjust building project thresholds as follows (50% increase):
 - a. increase the threshold at which a project would be required to be enumerated in the state building program from \$1,000,000 to \$1,500,000;
 - b. increase the threshold at which the Building Commission may authorize a project for

any state agency in accordance with priorities established by the Commission and may adjust the priorities by deleting, substituting, or adding new projects as needed to reflect changing program needs and unforeseen circumstances from \$1,000,000 to \$1,500,000;

c. increase the threshold at which small projects do not require Building Commission approval and can follow simplified bidding procedures from not more than \$300,000 to not more than \$450,000;

d. increase the threshold at which DOA is allowed to let construction projects to a single trade contractor for all work on the project if at least 85% of the estimated construction cost of the project is for work that involves the trade that is the primary business of the single trade contractor from \$300,000 to \$450,000;

e. increase the threshold on the size of contract for construction, reconstruction, remodeling of, or addition to state facilities that would require Building Commission approval of final plans for the project from \$300,000 to \$450,000. As under current law, State Fair Park Board projects require Building Commission approval, even if the total cost is under this threshold;

f. increase the threshold at which projects are required to utilize single prime bidding and contracting from \$300,000 to \$450,000;

g. increase the threshold at which the contracts and change orders for engineering architectural services and work on construction projects require the Governor's approval from \$300,000 to \$450,000;

h. increase the threshold on the size of contract for which DOA would be required to seek bids from the lowest responsible qualified bidder and meet the requirements for soliciting those bids from \$50,000 to \$100,000; and

i. increase the threshold at which the selection committee must use a request-for-proposal process to select an architect or engineer for a project based on qualifications from \$7,400,000 to \$11,000,000.

3. Take no action.

Prepared by: Sydney Emmerich

BUILDING PROGRAM

LFB Summary Memorandum Items for Which No Issue Paper Has Been Prepared

<u>Item #</u>	<u>Title</u>
6	Type 1 Juvenile Correctional Facility
7	Wisconsin National Guard Challenge Academy at Fort McCoy
8	University of Wisconsin System Facilities
10	Bronzeville Center for the Arts - African American Art Center
11	Children's Hospital and Health System - Dental Clinic Expansion
12	Janesville - Woodman's Sports and Convention Center
13	National Railroad Museum Expansion
14	Marquette University - School of Dentistry Upgrades
15	Milwaukee Iron District - New Soccer Stadium
16	Peninsula Players Theatre - Dormitory Upgrade
17	Versiti Blood Research Institute Addition
18	Statement of Building Program Continuation
19	Project Loans

