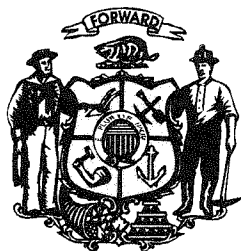


TONY EVERS
Governor



State of Wisconsin Building Commission

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April 2, 2019

Members of the Joint Committee on Finance
Wisconsin State Legislature
State Capitol
Madison, WI 53702

Dear Members of the Joint Committee on Finance:

As required under §13.48(7) of the Wisconsin Statutes, I am submitting the State Building Commission's (SBC) actions on the 2019-2021 State Building Program. The SBC reviewed Agency Requests and the Governor's Capital Budget Recommendations over three days in March 2019, and in an unprecedented turn of events, failed to provide recommendations for any of the 82 items submitted on the agenda. This is the first time in SBC records the Commission did not collaborate to develop a State Building Program.

The Administrative Affairs Subcommittee and Higher Education Subcommittee unanimously approved their subcommittee items during their respective meeting dates on March 18 and March 19, 2019, but the Full Commission did not adopt these recommendations at the meeting held on March 20, 2019. Individual motions were made for each agenda item and each one failed with a 4-4-0 vote. These votes can be viewed in the attached Draft 2019-2021 Capital Budget SBC Meeting Minutes.

The Agency Requests – submitted to the Walker Administration last fall – represented a historic high, totaling over \$3.4 billion, and included nearly \$2 billion requested by the UW System Board of Regents. The Agency Requests reflect a pent-up demand of projects over several biennia for capital renovations in facilities across the state. The Governor's Capital Budget Recommendations total \$2,520,357,400 (all funds), with \$873,110,100 Administrative Affairs agencies; \$1,075,208,000 University of Wisconsin System; and \$572,039,300 All Agency Program. Historically, over the past five budgets, Agency Requests for the Capital Budget have averaged \$1.8 billion. Of these requests, an average of 64% have been funded with the final enumeration amounts at approximately \$1.2 billion. If adjusted for inflation to today's dollars, these previous budgets would be funded at an average of \$1.4 billion. Following the historical trend, 60% of the Agency Requests this biennium would result in an approximately \$2 billion Capital Budget.

Pursuant to Wis. Stat. 13.48(7), "The building commission shall prepare and formally adopt recommendations for the long-range state building program on a biennial basis ... the building commission shall, no later than the first Tuesday in April of each odd-numbered year ... transmit the commission's recommendations for the succeeding fiscal biennium that require legislative approval to the joint committee on finance in the form of proposed legislation prepared in proper form". As a result of the Commission's failure to pass any recommendations, the SBC has no long-range State Building Program to transmit to the Joint Committee on Finance; and therefore, the Legislature will need to develop the 2019-2021 State Building Program without the customary SBC input. In the absence of an SBC recommendation, please find the attached 2019-2021 Capital Budget Agency Requests and Governor's Recommendations document as a starting point to assist the Legislature in their work to develop the 2019-2021 Capital Budget.

The project requests submitted in the Governor's Capital Budget Recommendations focus on deferred maintenance, life safety and code compliance projects, and important facility investments in Wisconsin's higher education system, natural resources, public service members and veterans, and the criminal justice system. The Governor's Recommendations also include adjusted funding for 2017 Wisconsin Act 185 that help move projects forward to support juvenile justice reform. In addition, the budget includes projects to partner with non-state entities for cancer research and entrepreneurial efforts across Wisconsin.

The State Building Program supports over 6,700 facilities across the state, many of which are 45-70 years old and are in a condition where the facilities no longer meet agency program needs. Your consideration of these projects will help address the state's growing deferred maintenance issues and provide suitable and safe facilities to support institutions of higher education and other important agency programs. Not addressing our deferred maintenance increases risks to life safety and running our building systems to failure.

As indicated previously, an average of 64% of agency requests have been funded over the past five budgets, with the remaining project requests carrying forward to the next biennium. Projects cost more over time due to inflation of construction cost for materials and labor, and therefore capital projects will continue to increase in cost if needs are ignored. According to data published by the Engineering News Record, an industry expert on cost of construction, project costs in Wisconsin increase at a rate of approximately 4% each year.

In the past few biennial budgets, overall bonding levels influenced Capital Budget decision-making. However, the projected annual debt service payments as a percentage of GPR tax revenues are estimated to be just 3.1% for the second year of the 2019-21 biennium compared to 3.3% for the second year of the current 2017-19 biennium. Further, assuming a modest revenue growth of 2.5%, the percentage of debt service to tax revenues, taking into account existing authorized bonding and the new bonding proposed in both the Governor's Capital Budget and Executive Budget, is trending downward to a low of 2.77% estimated for fiscal year 2025. Additionally, when adjusted for inflation, the combined total new bonding from the Governor's Capital Budget and Executive Budget is less new bonding than in each of the 1999-01 and 2001-03 biennial budgets.

While serving important infrastructure needs, the Capital Budget also represents an important economic development tool for the State of Wisconsin. Investments through the Capital Budget will help grow the economy by providing family-supporting jobs and supporting Wisconsin businesses. According to statistics published by the Associated General Contractors of Wisconsin on March 11, 2019, the Governor's proposed \$2.5 billion Capital Budget would have a substantial return on investment and create \$4.5 billion of economic activity, 40,000 jobs, and over \$200 million in tax revenues.

We look forward to the Legislature's review of these projects and are available to assist you in this process.

Sincerely,



Naomi De Mers
Secretary, State of Wisconsin Building Commission

Attachments: Draft 2019-2021 Capital Budget SBC Meeting Minutes
2019-2021 Capital Budget Agency Requests and Governor's Recommendations