



A Capital Concern:

Why State Spending on Capital Projects is on the Rise

After four years of reduced capital spending, Gov. Tony Evers and lawmakers approved more than \$1.9 billion in building projects in the state budget. A closer look shows this higher spending reflects in part the smaller investments in 2015 and 2017 and still leaves some unresolved challenges, particularly in the state prison system.

At first glance, the state's 2019-21 capital budget stands out for a sizable increase in spending. Including new projects and added spending for ongoing ones, GOP lawmakers and Democratic Gov. Tony Evers provided more than \$1.9 billion for constructing, renovating, and repairing state buildings. That figure nearly doubles the previous budget and represents the largest capital budget since 2001, even after adjusting for inflation. To finance the spending, state leaders also approved a more than twofold increase in borrowing.

Yet the capital budget also represents a return to long-term spending patterns after four years of reduced investment in the state's thousands of facilities, which include University of Wisconsin buildings, prisons, and state offices. Though higher than in recent years, the new capital budget makes up about the same share of the state's overall 2019-21 budget (2.3%) as it did a decade ago.

The increase in spending was driven in large part by the \$3.5 billion in project requests made by state agencies last year under former Gov. Scott Walker—the highest amount in at least the past decade. In proposing his hefty capital budget in March, Evers accepted project requests from state agencies at about the same rate Walker did during his first term and former Gov. Jim Doyle did during his last term. In the end, lawmakers and the governor approved just over half of the total amount requested—a larger share than recent years but still below the average since 2007.

This edition of the *Wisconsin Taxpayer* examines why state agencies requested so much last year. We find the sharp increase followed a pair of two-year budgets in which the state approved fewer projects. Though the state limited its borrowing and spending during those years, those short-term savings may have come at a price: a review shows the requested amount of several deferred projects rose at twice the rate of inflation.

Going forward, state taxpayers could face additional pressure. The inmate population is rising within state prisons, which according to federal data are already among the most overcrowded in the nation. The state's buildings also appear to be aging, though detailed data on that point could not be obtained. In 2017, DOA reported that 70% of state facilities were then more than 30 years old, the age at which most buildings require either substantial renovations or replacement. That suggests potential challenges ahead.

State leaders must strike a difficult balance with capital spending. Though overspending could lead to unsustainable debt or crowd out other needs, under-investment also carries risks. After all, these building projects will affect the state's ability to educate UW students, care for infirm veterans, and safely confine inmates for decades to come.

In examining the state's capital budget, the Wisconsin Policy Forum seeks to build on our research exam-

ining local government [infrastructure challenges](#) in the Milwaukee area. Though smaller in scope, this report considers some options for responding to the demand for state projects and potentially controlling costs.

STATE BUILDINGS AND BUDGETING

As the largest employer in Wisconsin, the state must build or lease properties in locations across the state: offices, homes for elderly veterans or for the disabled, fish hatcheries for trout and walleye, historic sites for tourists, National Guard armories, and sophisticated research labs.

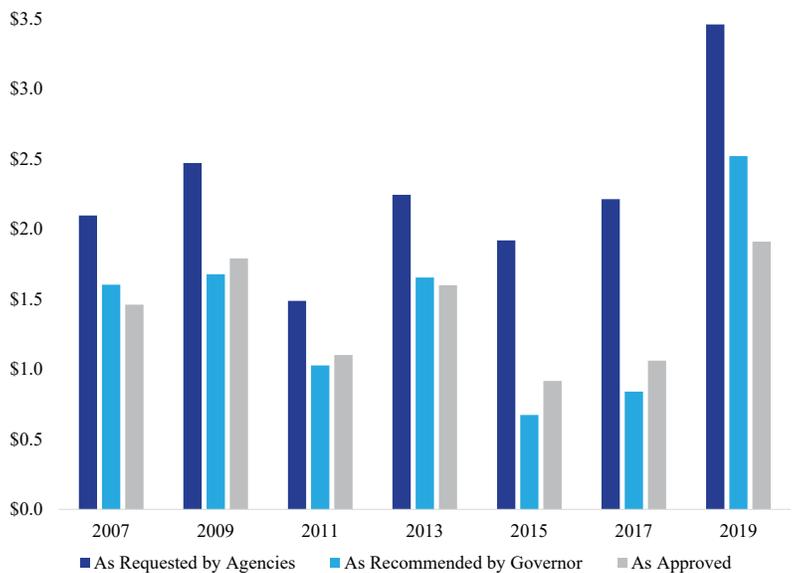
In all, the state is responsible for more than 6,000 buildings totaling more than 84 million square feet, according to the Legislative Fiscal Bureau. The largest number of buildings belongs to the UW System, which owns roughly 1,800 residence halls, classrooms, student centers, and other buildings necessary for providing higher education across 13 four-year campuses from Milwaukee to Superior. In addition, the Department of Corrections operates 19 adult prisons and 16 adult correctional centers as well as a juvenile prison campus; and the Department of Administration owns 29 facilities including offices, parking ramps, and utilities.

Monitoring, maintaining, and replacing these state buildings represents a huge undertaking. In addition, state capital spending subsidizes some local and private projects deemed to be of value to residents statewide, such as livestock

buildings for the World Dairy Expo trade show at the Alliant Energy Center in Madison and renovations to Marquette University’s School of Dentistry.

In the fall of every even-numbered year, each state agency submits a list of funding requests for major capital projects to the Department of Administration. Smaller maintenance and repair projects budgeted for less than \$1 million are not approved individually, but rather are grouped together across state government in the “All Agency” program. Minor building maintenance and repairs of \$5,000 or less are funded through agency operating budgets. The capital budget deals with build-

Fig. 1: 2019-21 Capital Requests Largest in More than a Decade
Capital Spending and Requests in Billions (\$2019) by Budget Cycle, 2007-21



Sources: Department of Administration, Legislative Fiscal Bureau

HILL FARMS CASE STUDY

In addition to building new structures, state officials must decide whether and when to replace aging facilities. Once a building nears the end of its useful life, the state may save money in the long run by replacing rather than renovating it. Take, for example, the former Hill Farms office building in Madison, a 368,100 square-foot structure that once served as the headquarters for the Department of Transportation. The 2013-15 capital budget included a request to replace the then 49-year-old building with a new 600,000 square-foot structure for a cost then estimated at \$197 million.

A state consultant analyzed the 50-year financial impact of two scenarios: one in which the new facility would be built starting in 2015, and one in which the old building would remain occupied until 2035. The consultant found a new facility would be cheaper in the long run. The expense of maintaining the existing offices included \$34.1 million needed for immediate improvements and \$1 million more a year to heat and cool the building.

In addition, a new parking facility alongside the new office could generate \$750,000 to \$1.5 million more in yearly fees along with revenue from the sale of state property freed up by the overall development. When combined with the higher future construction costs, the consultant found the total cost of delayed replacement outweighed even the extensive borrowing needed to finance new construction right away. (See DOA photo on cover.)

ings and other state facilities—projects dealing with highways and bridges are handled through separate Department of Transportation requests.

The governor and his administration review the capital requests and submit recommendations to the state Building Commission, an eight-member body composed of the governor, two majority and one minority member from each legislative chamber, and one citizen member. The commission then votes on whether to approve, or enumerate, each project. The final decision, however, is made by lawmakers and the governor as part of the larger state budget process.

Capital budget projects are mainly financed through state-issued bonds, with payments on the debt accounted for within future state operating budgets. Some other sources such as gifts and federal funds also contribute to the overall capital funding. For new projects (not counting changes to previously approved projects), the 2019-21 capital budget includes:

- \$1.42 billion in new general obligation bonds
- \$16.7 million in previously approved bonds
- \$91.6 million in operating funds from state agencies
- \$141.8 million in gifts, grants, and other funds
- \$32.1 million in federal funds

2019-21 CAPITAL BUDGET

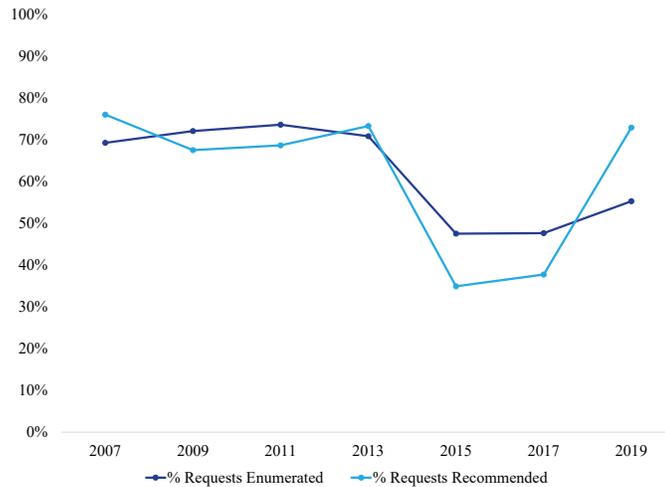
While the more than \$1.9 billion approved in the final capital budget was less than the \$2.5 billion sought by Evers, it still eclipsed the inflation-adjusted total for every capital budget going back to 2001 (when more than \$2.2 billion in 2019 dollars was approved). The latest capital budget is also a substantial departure from those approved in 2015 and 2017, each of which was roughly half as large even after adjusting for inflation.

The higher capital spending was driven primarily by the \$3.5 billion in requests from state agencies last year. As shown in Figure 1 on page 2, the latest requests exceeded by nearly \$1 billion those submitted in any other budget over the past decade, even after adjusting for inflation.

In the previous two state budgets, Governor Walker recommended a much smaller share of the total dollar amount of projects sought by agencies. (See Figure 2.) Those decisions reflected various factors that included concern over the separate, relatively high borrowing for state roads in recent years. At times, some of the total dollars provided may have gone to different projects than those requested by agencies.

In both of the previous two capital budgets, lawmakers ended up approving some of the project amounts

Fig. 2: Capital Approvals Dip, then Rebound
% of Request Amounts Backed by Governor & Approved in Final Budget



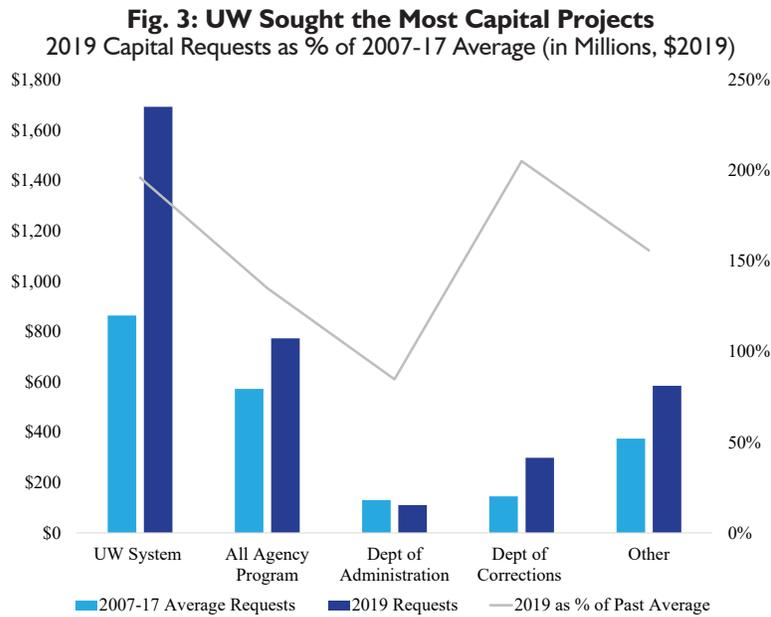
Sources: Dept. of Administration, Legislative Fiscal Bureau

requested by agencies but declined by Walker. In a sense, however, those relatively slim capital budgets may be larger outliers than the current one. At least some of the recent increase in project requests and approvals can be attributed to a backlog that built up over the previous four years and may have contributed to some higher costs.

While rejecting an unnecessary project can save taxpayers money, delaying a project can mean increased construction costs. For example, take three major UW projects that were rejected in 2015 and requested again in 2019: a health and recreation center in Stevens Point and a fieldhouse and residence hall in La Crosse. The cost of the fieldhouse, which was approved in the recent budget, rose 44%, from \$34 million in 2015 to \$49 million this year, despite its total square footage rising by only 8.5%. The other two projects, which were not authorized, saw their requested totals rise slightly (3%) despite their combined

CONSTRUCTION COSTS ON RISE

Inflation adjustments were made using the Consumer Price Index (CPI), which tracks the price of consumer goods and may not fully reflect the typically greater increases in construction costs. For example, the cost of a \$1 million construction project in 2000 would be almost \$1.4 million in 2017 dollars if adjusted using CPI, but nearly \$1.8 million if using the RSMears Construction Cost Index.



Sources: Department of Administration, Legislative Fiscal Bureau

square footage falling by 10% (This analysis does not account for any other possible changes to the proposals.)

The agency requests in the current budget were driven primarily by the UW System. The \$1.7 billion in funding requested across all campuses was nearly twice as high as the UW System’s inflation-adjusted average in the previous decade. (This figure does not include the smaller UW projects within the All Agency program.) The trend of higher requests also held across the majority of state agencies. (See Figure 3.)

As in the past, most of the 2019-21 capital budget goes to the UW System and the All Agency program, which receive \$1 billion and \$432 million respectively and account for about three-quarters of all spending. The most significant disagreements between the governor and lawmakers came in the area of state prisons, particularly around new state and county centers for youth. These projects will still be carried out, as current state law requires new juvenile facilities to be built by 2021, but possible adjustments to timing and funding are still being debated by the governor and legislators outside the budget.

As Figure 4 shows, other major differences include \$140 million less than the governor proposed for the All Agency program as well as the removal of a \$98.6 million state office

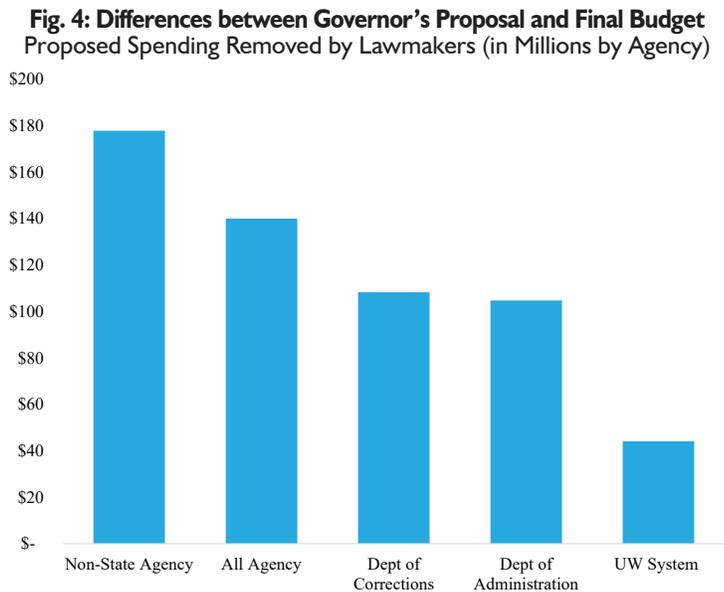
building in Milwaukee, a \$77.4 million project to expand the exhibition hall at the Alliant Energy Center, and an \$83 million science center at the UW-La Crosse campus.

UW SYSTEM

The UW System received the most 2019-21 capital project spending—no surprise given that UW owns more than 60% of the state’s square footage. The System typically receives roughly half of the overall funds in any state capital budget (not counting the additional All Agency funding that goes to smaller projects on campuses statewide).

The current funding represents an increase after two budgets in which the UW System received a below average percentage of its requested funds. (See Figure 5 on page 5.) The 2015 and 2017 decreases, combined with aging facilities, appear to have driven the UW System’s increased capital budget in 2019.

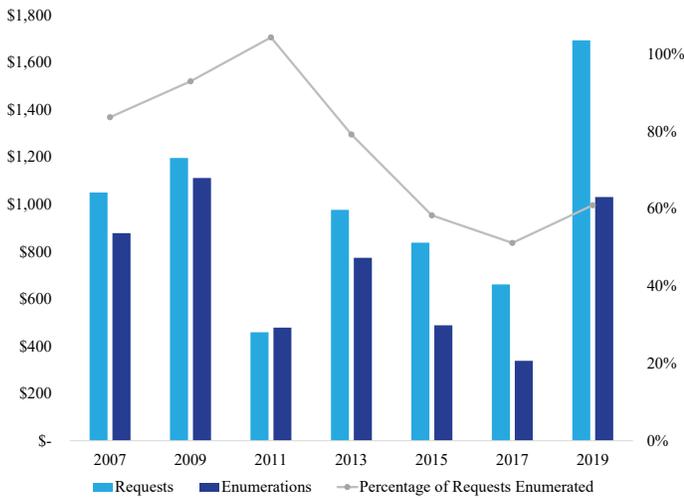
Numbers from UW’s annual financial statements may add at least some further context. The statements provide an estimate of the net value after depreciation of the System’s buildings and other capital improvements, such as parking lots and street lights. This metric—prepared for accounting purposes and not for managing facilities—shows the value of UW’s capital assets in



Source: Legislative Fiscal Bureau

Fig. 5: UW System Projects Rebound

UW Project Requests and Approvals by Budget Year (in Millions)



Sources: Department of Administration, Legislative Fiscal Bureau

nominal dollars rose steadily from 2008 to 2014 but has been effectively stagnant since then.

The rising age of UW System facilities may help to explain these figures and the higher demand for capital projects. A large number of UW buildings are reaching the end of their projected lifespans, with System officials estimating 30% were at least 50 years old. The remaining buildings constructed over the last 40 to 50 years generally were “built to 30-year life expectancy standards and are in need of significant maintenance and renovation,” [UW reports](#).

The UW was unable to provide data on age and square footage by facility, citing concerns about reliability. However, the broad data provided did cover their overall physical condition. The UW data also cover the programmatic condition of each structure, or how well suited it is to its desired function, which the System also considers when deciding on capital improvements.

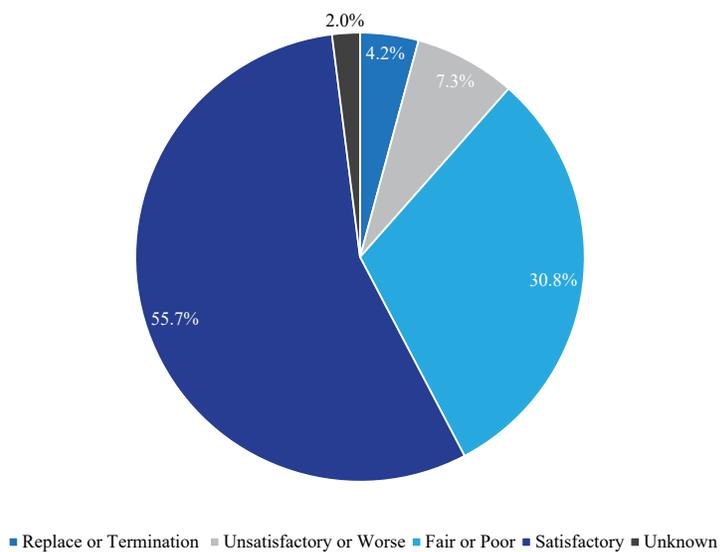
As of December 2018, 4.2% of UW System facilities received condition ratings of “Replace” or “Termination,” meaning that the buildings were in poor enough condition they were not deemed worthy of restoration. An additional 7.3% had a physical condition rating of “Unsatisfactory,” meaning that the

estimated costs of restoring the building to its ideal condition were 45% to 60% of its replacement value. Almost one third of UW facilities, 30.8%, received the next highest ratings of “Poor” or “Fair,” meaning estimated restoration costs were 15% to 45% of their replacement value. The remaining 55.7% (2% were not rated) received a rating of “Satisfactory” or higher, meaning estimated restoration costs were less than 15% of replacement value.

To put these figures into context, the UW System estimated the replacement value of their buildings at roughly \$13.6 billion in August 2018. This replacement value is not spread out evenly across the square footage of these buildings. That rules out precise estimates for renovation costs, but they are clearly substantial. The more than \$1 billion in major UW projects in the current budget, along with the unspecified amount of All Agency funding, should help to address these potential needs.

Indeed, the 2019-25 UW capital plan suggests the System’s future capital requests may fall over the next two budgets. Per System staff, \$722 million of the UW’s 2019-2021 requests were not funded in the final budget (this figure is not simply the difference between the UW’s requested and approved amounts, as some of the funding the System received was for projects they never requested). Even if all of these unfunded requests were

Fig. 6: More than Two-Fifths of UW Buildings Fair, Poor, or Worse
Physical Condition Rating as % of Total Square Footage



Source: University of Wisconsin System

rolled over to 2021, the resulting totals would amount to roughly three-quarters of what was requested in 2019. However, newly identified needs could still emerge.

STATE PRISONS

As already noted, the biggest changes to Evers’ proposed capital budget came within the Department of Corrections. Of the \$194 million in new funding sought by the governor, \$85.7 million was approved. That share was still larger than other recent budgets, which have seen DOC requests approved at a lower rate than those made by other state agencies. From 2007 to 2017, Corrections had only 19% of its requested funds approved, 18 percentage points lower than the next closest agency, as Figure 7 shows. It should be noted that the numbers in the chart do not account for whether the approved funds went for projects requested by the agencies.

Meanwhile, the demand for state prison projects is growing. Currently, the Department of Corrections faces a legislative mandate to overhaul its juvenile program and must also consider overcrowding in its adult prisons, and concerns about the age of some facilities. Though other solutions to some of these problems may exist, these trends within the juvenile and adult institutions have led to calls for building more state and county facilities.

Many of the projects declined by lawmakers were related to juvenile facilities, and ultimately may represent only a delay in additional funding. The state’s joint

prison for male and female youth, Lincoln Hills and Copper Lakes Schools, has faced widespread questions about conditions and programming.

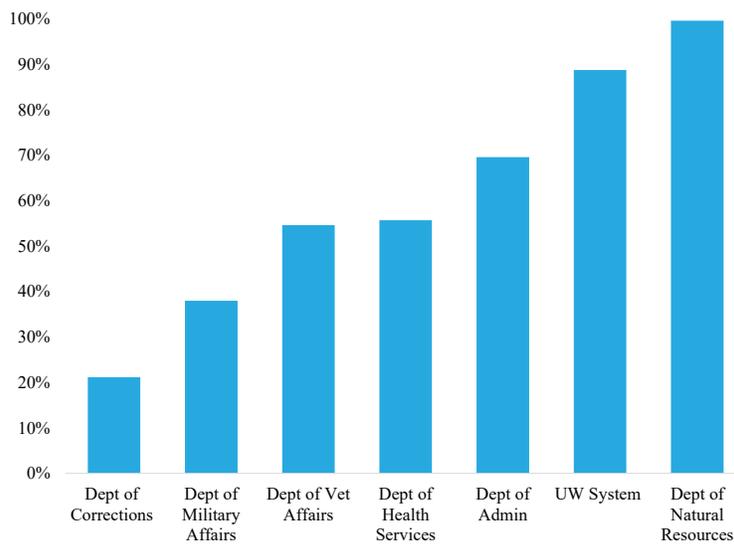
Under legislation adopted in 2017 (Wisconsin Act 185), the prison north of Wausau must close and new facilities must be in place by Jan. 1, 2021. However, the governor recently signed a measure pushing the closure deadline to July 2021 and has called for eliminating the deadline altogether.

As a first step towards replacing Lincoln Hills, lawmakers in the previous legislative session authorized \$25 million in borrowing for new state juvenile prisons; \$40 million in grants to counties to construct secure facilities to house less serious offenders; and \$15 million for the Department of Health Services to expand the Mendota Juvenile Treatment Center for offenders with mental health issues. After accounting for legislators’ changes and the governor’s partial vetoes, the current budget ended up increasing funding for county facilities by \$40 million, state facilities by \$22 million, and the Mendota expansion by \$44 million.

The closure timeline of Lincoln Hills and Copper Lake affects more than just juvenile inmates. It has a significant impact on adult corrections, as the prison campus is slated to be converted into a 575-bed minimum security facility for men.

The state’s adult prisons also need relief, whether it comes from new institutions like Lincoln Hills or criminal justice reform. Per the fiscal bureau, the adult system is projected to exceed its operating capacity by 639 inmates in fiscal year 2020 and 952 inmates in 2021. For context, the latest available data from the U.S. Bureau of Justice Statistics show that, as of Dec. 31, 2017, Wisconsin’s prisons ran at 102% of their operating capacity, the seventh-highest rate in the nation. [DOC’s 10-year development plan](#), published in 2009, found a “critical concern” even then about overcrowding. “There is simply no space available to handle any additional growth or to accommodate the relocation of inmates from one institution to another in the event of an emergency, natural disaster, or system breakdown,” the report reads.

Fig. 7: Few Prison Projects Advance
Percent of Requested Amounts Approved by Agency 2007-17



Sources: Department of Administration, Legislative Fiscal Bureau

Overcrowding has forced the state to rely increasingly on county jails to house inmates. According to a May Legislative Audit Bureau report, the state paid \$50.9 million to house inmates in county jails from fiscal year 2009 to 2018. Projections for future years differ, but fiscal bureau numbers show spending on adult inmate placements in county jails is projected to hit \$11.9 million in 2021.

Concerns have also been raised about the age of state prisons, some of which were first built over a century ago. The two main cell halls of the Green Bay Correctional Institution, a maximum-security prison which houses roughly 1,000 inmates, were constructed in 1904 and 1922. The south cell hall of Waupun Correctional Institution was finished in 1854 and is still used. The Joint Finance Committee proposed \$5 million to plan for replacing Green Bay Correctional Institution, but the governor vetoed it.

In addition, of the 23,325 beds listed for the agency's current operating capacity, at least 1,152 (4.9%) come from eight barracks units at prisons around the state. Constructed in 1996, these barracks were intended to be temporary, but still operate. The 2009 DOC development plan reported the barracks had reached the end of their useful lives and needed to be replaced. A decade later, little has been done to address these concerns. Evers recommended spending \$15 million to build three additional barracks, but lawmakers declined to do so.

POTENTIAL RESPONSES TO CAPITAL NEEDS

In responding to the growing cost pressures facing the state's capital program, one option is to consider which expenses can be avoided. In the case of prisons, for example, some advocates have argued the state might avoid or minimize the cost of another institution by overhauling current practices in sentencing, the treatment of substance abuse, and the oversight of offenders after their release.

Potential savings might also be found by scrutinizing funding for local and private building projects, which received \$13 million in the 2019-21 state budget. Ending or reducing this practice, however, could mean forgoing projects with public benefits and private funding. From 2007 to 2017, state funds accounted for 35% of the total costs for non-state projects.

When projects do move forward, the state may be able to save money by reforming its approach to bidding and contracting or by moving up or moving back work to take advantage of factors such as low interest rates.

The Wisconsin Taxpayer is published by the Wisconsin Policy Forum. The Wisconsin Policy Forum was created on January 1, 2018 by the merger of the Madison-based Wisconsin Taxpayers Alliance and the Milwaukee-based Public Policy Forum. Throughout their lengthy histories, both organizations engaged in nonpartisan, independent research and civic education on fiscal and policy issues affecting state and local governments and school districts in Wisconsin. WPF is committed to those same activities and that spirit of nonpartisanship.

Another critical consideration is the state's capacity to take on additional debt. After rising before and after the Great Recession, overall state debt levels have stayed relatively flat or even fallen, depending on the measure used. Debt payments as a share of spending in the state's main fund (the general fund) fell from 4.9% in 2014 to 3.3% in 2018, according to the fiscal bureau.

CONCLUSION

While the condition of Wisconsin's roads and bridges has drawn more attention in recent years, state buildings have their own challenges. Going into the 2019-21 budget, Wisconsin faced a backlog of requested new projects as well as capital repairs and improvements at existing facilities. The substantial capital spending proposed by the governor and approved by lawmakers—the most since 2001—can be seen at least in part as a response to those issues and should help to address them.

The capital budget still leaves unresolved issues, however, particularly for the Department of Corrections. The budget leaves at least some questions about how to shut down Lincoln Hills juvenile prison and does little to address overcrowded and aging facilities within the adult system. In other agencies, the state also faces a substantial number of older facilities.

As a result, the costly progress made in the current budget may need to be followed up with more investment—or at least hard decisions—in the future. Doing so will be neither inexpensive nor easy to balance against the state's many other priorities.

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