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POLICY BRIEF

Beyond the Budget: The Surge of Non-Agency Pork in Wisconsin

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Key Points

- **Governor Evers has proposed a record $3.8 billion in capital spending over the 2023-25 biennium.** 47% of this spending is dedicated to projects at the UW-System, while 17% is dedicated to the "All Agency" program, which is dedicated to maintenance, remodeling, and renovation of existing buildings.
- **Under Governor Evers, capital spending requests from agencies have been approved a higher rate than under Governor Walker.** Under his tenure, Evers has approved 75.1% of agency and non-state agency capital spending requests, while Walker only approved about 53.8%.
- **Non-state agency or "pork barrel" projects account for 7% of the overall 2023-25 proposed capital budget.** Under his proposed capital budget, Governor Evers diverts $62.8 million of taxpayer funds to pay for a number of private projects, including $9.3 million for a private soccer stadium in Milwaukee, $15 million for a sports and convention center in Janesville, and $7 million to expand a railroad museum in Green Bay.
- **Over the last three capital budgets, Governor Evers has approved 96% of non-agency capital requests.** By comparison, over the course of Governor Walker's tenure, only 45% of non-state agency requests were approved.

Introduction

On February 28th, Governor Tony Evers released his proposed capital budget—a proposal to spend a record $3.8 billion over the 2023-25 biennium. Now, the capital budget is primarily focused on state-financed construction projects throughout the state of Wisconsin. But what really is the purpose of the capital budget? For that matter, how do the size and scope of Evers' proposal compare to previous capital budgets? In this policy brief, we'll answer these questions. We'll also examine the growth of an incipient type of expense: "non-state agency" spending.

The capital budget is important because it represents a deceptively high cost to Wisconsin taxpayers. Much of the spending in the capital budget is financed through borrowing (supported by the general fund). This means that the costs to taxpayers are, in the long run, even higher than what is reported here due to interest payments. As such, it is critical that any projects financed with the capital budget be absolutely necessary and represent good stewardship of taxpayer money. In this policy brief, we'll explore the extent to which that is the case.

The Capital Budget Process[1]

The process for the capital budget begins when state agencies request funding. Each agency must present a six-year facilities plan that serves as the basis for funding requests over the coming biennium.

These agency requests are submitted to the State Building Commission, an eight-member body which is composed of the Governor, a citizen member appointed by the governor, and three legislators from each house.[2] The Governor makes recommendations that he then directs to the two subcommittees of the building commission—one subcommittee deals with the University of Wisconsin System requests (generally the largest single portion of the capital budget), and one subcommittee handles everything else.

These subcommittee recommendations are then considered by the full building commission, and their approved proposals are sent to the Joint Finance Committee of the state legislature. The portion of those requests approved by the Joint Finance Committee then becomes a part of the regular budget bill that is then voted on by the legislature. The entire process is illustrated in Figure 1 below.

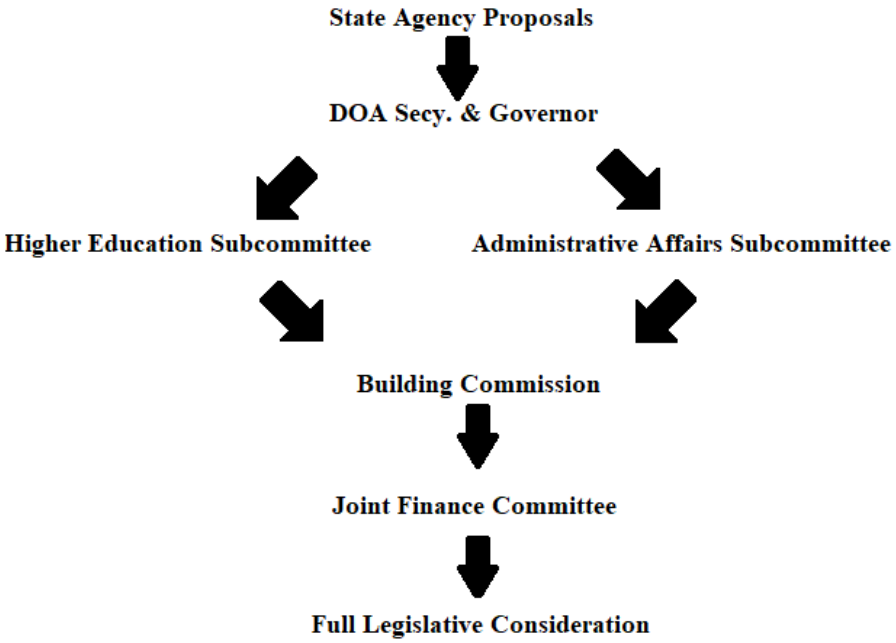


Figure 1. The Capital Budget Process

[1] This section heavily references the Legislative Fiscal Bureau's Budget Process Paper. https://docs.legis.wisconsin.gov/misc/lfb/informational_papers/january_2023/0078_state_budget_process_informational_paper_78.pdf

[2] Each house contributes two members from the majority party, and one member from the minority party. Because both houses of the legislature are currently controlled by Republicans, the commission consists of four Republican lawmakers and two Democrat lawmakers.

That sums up the general process for the "state agency requests" portion of the capital budget—how they originate and what bodies vote on them before any become law. Figure 2 brings some historical perspective, giving us a view of how expensive these requests typically are. Figure 2 goes back to 2007 and depicts, for each biennium, three key numbers: the amount of funding requested from state agencies, the amount included in the Governor's proposed capital budget, and the amount ultimately approved by the legislature in the budget.

The share of overall capital requests that have been recommended for funding has varied significantly between the last two Governors. Under Governor Walker, about 53.8% of requested funding was passed on to the legislature. Under Governor Evers, that figure is about 75.1%.

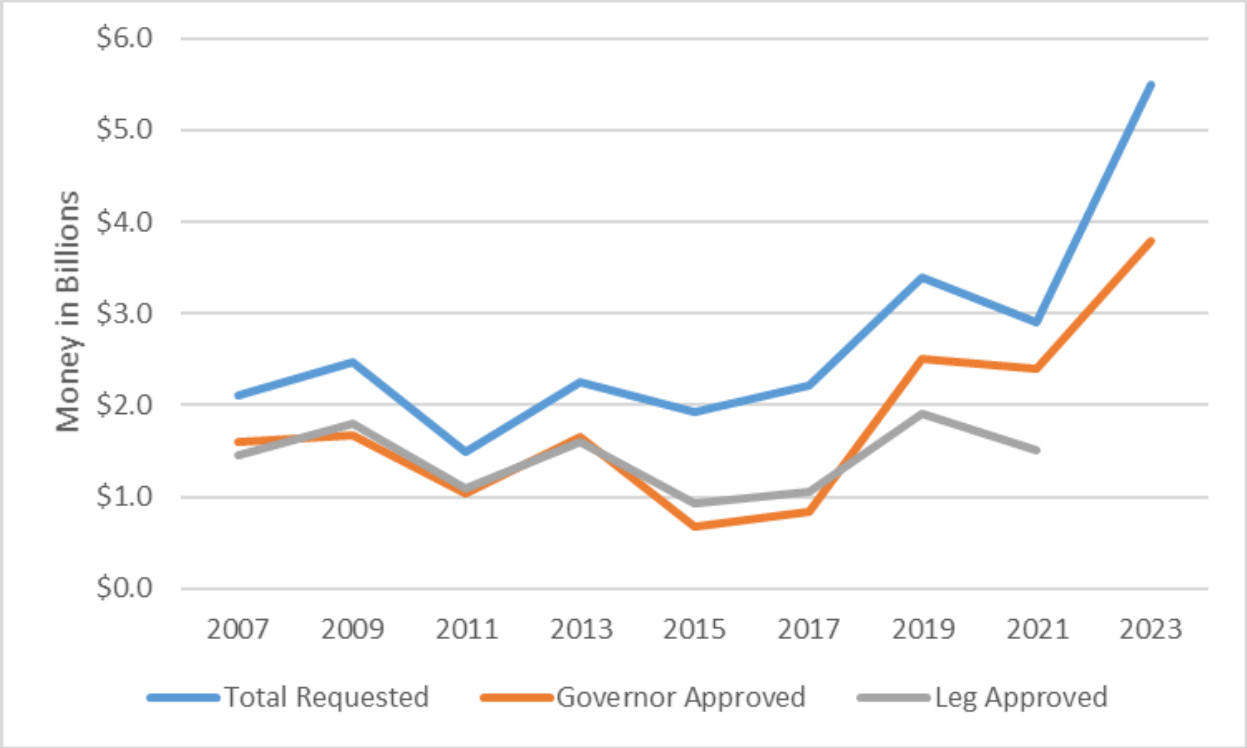


Figure 2. Capital Requests and Approvals Over Time

Note that it has always been the case that state agencies have requested significantly more than either the Governor or legislature will agree to (this is indicated by the gap between the blue line and the others). However, under Governor Evers, the amount approved by the governor has diverged from the legislature significantly, coming far closer to agency requests. In each of the last two budgets, the gap between the Governor recommendations and what the legislature ultimately approves has exceeded $600 million—up from an almost nonexistent gap across the preceding decade.[i]

Spending Over Time

Capital spending requests have gone up substantially under Governor Evers.[ii] Governor Walker's final capital budget proposal in 2017 was approximately $2.21 billion. Governor Evers' smallest capital budget request in 2021 exceeded that amount by about $700 million, and his largest (the most current one, in 2023) exceeds that by about $1.6 billion, an increase of about 31% over Governor Walker's largest proposal.

By far the largest share of the proposed capital budget goes to the UW-System; this was true under Governor Walker and it remains true under Governor Evers. The pie chart below depicts the share of capital spending for each area based on the Governor's 2023-25 proposal. Note that some of the smallest spending areas have been placed into the category of "Other" for ease of reading.[3] The UW-System accounts for about 47% of all capital spending proposed at $1.760 billion. The next largest category, "All Agency," is a program that funds the maintenance, repair, and renovation of state facilities across all state agencies.

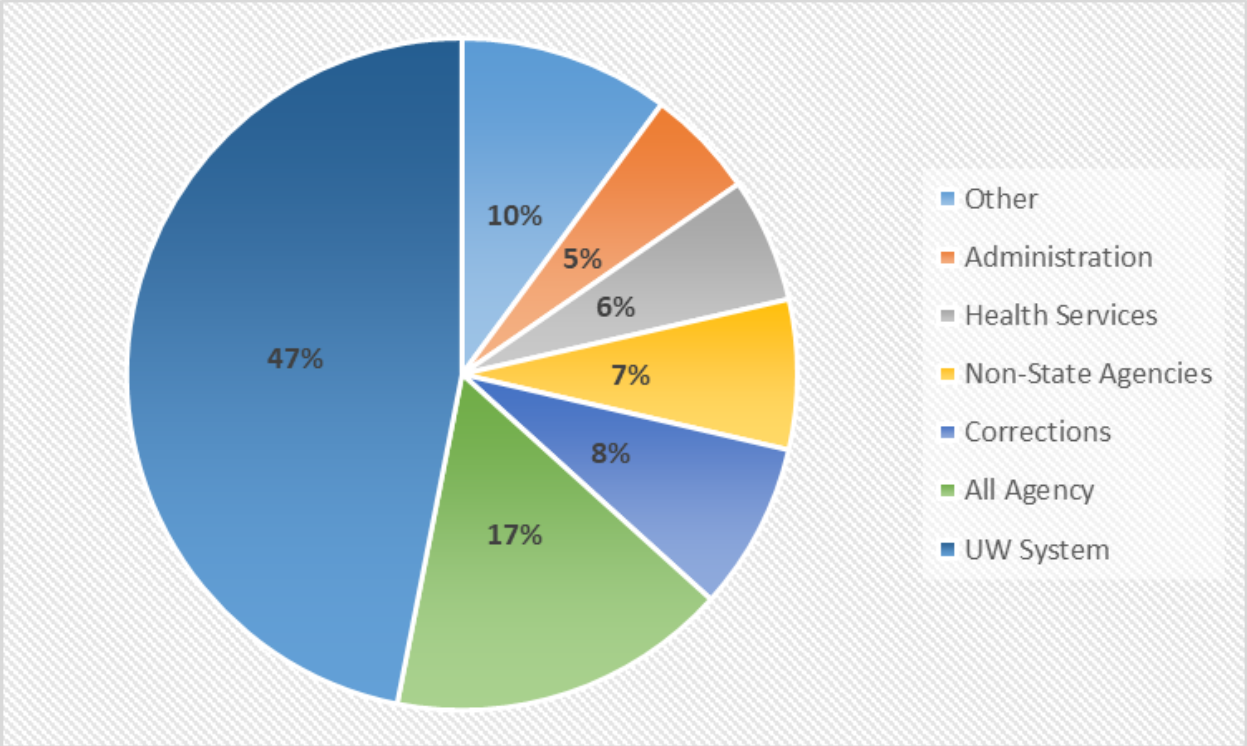


Figure 3. 2023-25 Capital Budget Requests by Agency

An important subset of the capital budget worthy of further discussion are requests from non-state agencies, which represent approximately 7% of the Governor's proposed capital budget. Those are discussed in the following section.

[3] These areas are Transportation, State Fair Park, Natural Resources, Veterans Affairs, Military Affairs, and Historical Society.

Non-State Agency Requests

Since 1997, the State Building Commission has allowed non-state entities, such as non-profits and local governments, to request state aid for the construction or renovation of a facility. In response to concerns about using state tax dollars on non-state entities, the state building commission laid out requirements for a project to receive funding, which we will discuss further in the next section.

Traditionally, the state has supplemented these projects with "general fund"-supported borrowing (GFSB), which is ultimately paid for by taxpayers. Since 2007-09, the state legislature has approved approximately $132.7 million in state funds used on non-state agency requests. GFSB utilizes the state's general-purpose revenue (GPR) to support bonds issued to pay for each project, so the costs to the state are likely considerably higher due to the cost of interest payments on the bond issuance. It is worth noting, however, that Governor Evers proposed capital budget provides this funding in cash rather than GFSB in the 2023-25 budget due to the large budget surplus available.

As Figure 4 shows, the amount requested by non-state entities has grown significantly since 2011-13. However, we see some divergence in the approach between Governor Walker and Governor Evers. Under Governor Walker's tenure, the amount requested by non-state agencies grew to $135 million per budget cycle on average. However, Governor Walker only approved about 45% of the amount requested by non-state entities. Contrast that with Governor Evers, who has seen the average amount requested by non-state entities per budget balloon to nearly $235 million, of which Evers has approved 96% of these requests for his proposed capital budgets.

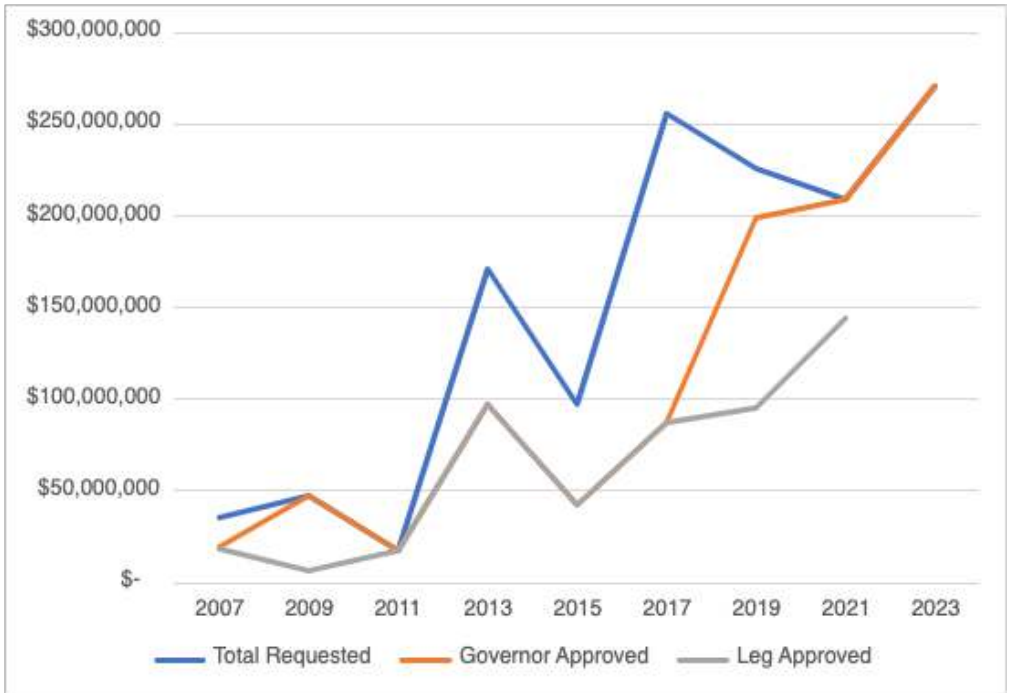


Figure 4. Non-State Agency Capital Requests (All Funds)

While Figure 4 shows the total amount requested by non-state entities, much of the funding for these projects comes from money raised by the non-state entity from other sources such as donations or local government funding sources. For example, in the 2021-23 capital budget, the Legislature earmarked $40 million in GFSB for the new Milwaukee Public Museum. The museum would then have to raise at least $85 million. Ultimately, the non-state portion for the museum has grown significantly, but it illustrates how the matching concept fuctions.[iii]

The Governor's 2023-25 recommended capital budget earmarks a record $270.7 million in all funds for non-state agency requests, with nearly $62.8 million in taxpayer dollars supporting non-agency requests. Now, this sum doesn't even include the $290 million in GPR-supported cash that Governor Evers included in his 2023-25 Executive Budget to fund improvements of American Family Field, the home of the Milwaukee Brewers.[iv] This money is proposed as a cash grant from general purpose revenue and is being considered outside of the state's capital budget.

Figure 5, consequently, shows the portion of non-agency capital requests that are taxpayer-funded, either through GFSB or cash.

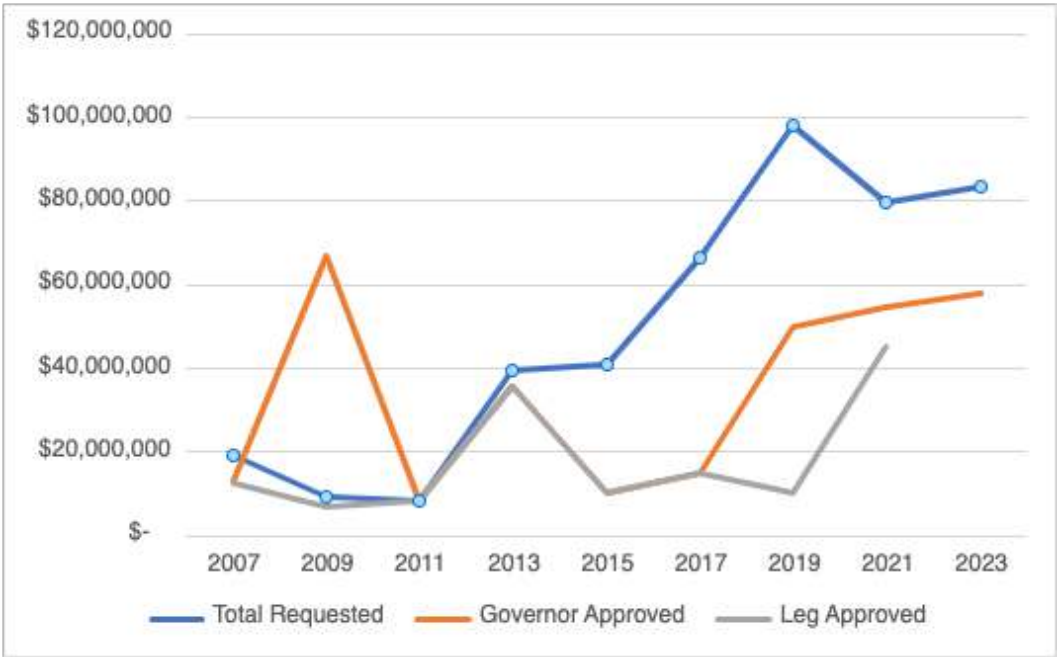


Figure 5. Non-State Agency Capital Requests (Taxpayer Funds)

Specific Projects

In response to concerns about using state tax dollars on non-state entities, the State Building Commission has provided requirements that a project must meet before being included in the state building program.[v] Those include the following:

- The project must be in the public interest;
- There should be a statewide basis justifying the need for the project;
- Local or other financing alternatives should be considered first;
- The requestor should be required to provide evidence that the purpose of the project is such that it can be financed with tax-exempt bonds;
- The requestor and the Division of Facilities Development, housed within the Department of Administration, should consider appropriate language to protect the state's interest if the property is used for purposes other than those approved by the Building Commission;
- The Commission can modify its original approval if the proposed change is in the public interest and approved by the state bond counsel;
- The requestor agrees to provide a 50% or greater match for the project before initial review by the Commission and the Commission may require guarantees for this match; and
- The local project must be submitted and reviewed following the same procedures used for state agency requests for funding through the state capital budget.

These criteria raise questions over the eligibility of the projects that non-state agencies have requested funds for. For example, the current proposed capital budget includes money for the following projects:

- $15 million in cash for a new sports and convention center in Janesville;
- $9.3 million in cash to build a private soccer stadium in Milwaukee;
- $7 million in cash to expand the National Railroad Museum in Green Bay;
- $5 million in cash to build the Bronzeville Center for the Arts in Milwaukee, and
- $1 million to upgrade the dormitories of the Peninsula Players Theatre in Door County.

These projects aren't all clearly in the public interest. All of them seem to promise regional, rather than statewide, benefits, which calls into question their quality as potential investments for statewide taxpayer dollars. It's also arguable that these projects do not meet a number of the Building Commission's own criteria for consideration listed above. By contrast, Marquette University has requested funds for upgrades to the dental school. As the only dental school in the state, this has more of a claim to serve a statewide need, given that Wisconsinites anywhere in the state benefiting from Wisconsinite-educated dentists practicing anywhere in the state taxpayers who all benefit from a supply of dentists around the state.

Then again, it's important to note that Marquette University has Wisconsin's only dental school because they expressly desire that privilege and have been vocal against the state legislature approving any other.[vi] There's a moral here for all non-state agency requests: help from the government can wind up creating a project's own justification. These programs have the potential to become entrenched, even when Wisconsin would decide against funding them in the future.

WILL submitted a records request to examine the analyses conducted by the DOA to determine the appropriateness of a non-state agency request for funding to better understand how decisions behind the approval of these requests are made. At the time of publishing, we had not yet received those requests.

What's Next

On March 24th, the State Building Commission met to consider Governor Evers' proposed capital budget. The commission deadlocked with 4-4 votes on each project, meaning the proposed capital budget will now head to the Joint Finance Committee, where they consider each proposal on the merits.[vii] As the Finance Committee considers the merits of each individual project, it should examine each project using the following principles:

1. *Project Necessity*: Any project financed with the capital budget should be necessary and serve a vital need to the state. Priority should be given to cost-effective maintenance that will help extend the life of an existing asset. This will ensure that taxpayer money is used for projects that cannot wait.
2. *Public Interest and Statewide Concern*: Non-state agency requests should be subjected to a higher level of scrutiny than other state projects before they are approved. This includes consideration of whether the proposed project is a critical need for taxpayers around the entire state.
3. *Long-Term Viability:* When considering potential projects, especially at the UW-System, it's important to evaluate their long-term viability and financial sustainability. Over the past few years, nearly every UW campus has seen declining or stagnant enrollment, a trend that is only expected to be exacerbated in future decades with declining birthrates.[viii]
4. *Debt Capacity:* Legislators should also consider the state's overall debt burden when approving new projects. As of December 2022, the state had approximately $6.8 billion in outstanding general obligation debt.[ix] For comparison, that's down from December 2020, when the state's general obligation debt was at approximately $7.4 billion.[x]
5. *Interest Rates:* Compared to just a few years ago, interest rates are significantly higher, even for government entities. Lawmakers should account for these increased borrowing costs when considering the timing of long-term capital investments. Ultimately, projects dependent on borrowing should be subject to noticeably higher levels of scrutiny compared to recent memory.

Conclusion

In conclusion, Governor Evers' proposed 2023-25 capital budget represents a significant cost to Wisconsin taxpayers, with a record $3.8 billion in proposed spending. The majority of this is dedicated to the UW-System, with a significant portion going towards maintenance, repair and renovation of state facilities. However, non-state agency requests have also increased, raising concerns about the appropriate use of state tax dollars. It is critically important to state finances that any capital projects financed by the state be necessary and represent a good steward of

taxpayer money. Lawmakers should remain vigilant about vetting all capital budget requests, especially those for non-state agency projects to ensure they are truly a benefit to all Wisconsinites.

Endnotes

[i] https://doa.wi.gov/Pages/DoingBusiness/CapBud_Hist.aspx

[ii] https://wispolicyforum.org/research/a-capital-concern-why-state-spending-on-capital-projects-is-on-the-rise/

[iii] https://www.mpm.edu/wisconsin-wonders/funding

[iv] https://doa.wi.gov/budget/SBO/2023-25%20Budget%20in%20Brief%20ASE.pdf

[v] https://doa.wi.gov/DFDM_Documents/State-Building-Program/BldgCommPolicyProcManual.pdf

[vi] https://archive.jsonline.com/newswatch/as-mu-dental-school-expands-possible-rival-resurfaces-b9997162z1-223982601.html/

[vii] https://www.wispolitics.com/2023/building-commission-deadlocks-on-guvs-capital-budget-again

[viii] https://www.wisconsin.edu/education-reports-statistics/enrollments/

[ix] https://docs.legis.wisconsin.gov/misc/lfb/informational_papers/january_2023/0082_state_level_debt_issuance_informational_paper_82.pdf

[x] https://docs.legis.wisconsin.gov/misc/lfb/informational_papers/january_2021/0079_state_level_debt_issuance_informational_paper_79.pdf