Sustainability Charter Committee

Wednesday, April 17

1:00 PM – 2:30 PM

**Room 301, Communications Center**

(Office of Sustainability)

AGENDA

1. Feedback for auxiliary unit planning projects
2. Discussion of P3 and past updates
3. Presentation of P3 and Q&A with Rod Lehnertz and Terry Johnson
4. Scheduling of next meeting and adjournment

Sustainability Charter Committee

April 17, 2019

Meeting Minutes

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MEMBERS/LIAISONS PRESENT: Stratis Giannakouros, Blake Rupe, Brenda Eckstein

Eden Dewald, Ioannis Koutsonikolis, Emily Manders, Matthieu Biger, Shaun Vecera, Tony Senio, Brian Thompson, Heather Sander, Richard Priest, Julia Krist

OTHERS PRESENT: Terry Johnson, Hunter Staszac, Claire Jacobmeyer, Amina Grant, Christian Bako, Beth Mackenzie, Glenn Rogers

Auxiliary Unit Planning Feedback:

*Included in distributed materials.*

The Sustainability Student Round Table Meeting took place on February 20th, 2019. A charge was made to the Office of Sustainability and the Environment by President Harreld during the meeting. The OSE was tasked to work with auxiliary units to improve current practices in terms of sustainability as well as outline new ways to incorporate sustainability practices into their respective auxiliary units.

Proposed Method of Implementation:

1. Auxiliary Unit Definitions
   1. Those campus units who do not receive money from the general fund
      1. Facilities Management
      2. Housing
      3. Dining
      4. Parking & Transportation
      5. Athletics
      6. Hospitals
   * Exceptions for potential inclusion
     + Purchasing
2. Proposed Method for Planning Process
   1. OSE Interns will collaborate with representatives from the auxiliary units to create a plan that is both feasible and progressive
      1. OSE Interns will establish contacts within each aux unit to communicate and meet with throughout the planning process. The collaborative planning will involve the following:
         1. Establishing an understanding of sustainability measures currently be taken in units
         2. Conducting comparisons to peer institutions
            1. Big 10
            2. STARS Gold Universities
            3. Iowa Universities
            4. Peers in terms of size
         3. Referencing STARS report and evaluate potential collected metrics for indicators for any established goals
         4. Conducting general research to scout potential programs or
      2. The auxiliary unit plans will then be reviewed and discussed by all participants involved:
         1. Plans will be certified by the auxiliary units
         2. Plans will be presented and passed through the Presidential Charter Committee on Sustainability
         3. Finalized plans will be sent to UI administration
3. Presidential Charter Committee as a Liaison
   1. The Charter Committee will act as the official liaison between the OSE and the aux units for implementation and reporting on plan progress
      1. The aux unit plans will be sent to the respective units, as well as university administration by the charter committee
      2. Representatives from the aux units will report to the charter committee once a year
      3. A summary of auxiliary unit updates will be compiled by the charter committee throughout the year

Review Discussion of P3:

The discussion began with a review of a prior meeting that took place with Ben Fish, the manager of the UI Power Plant. The meeting found that:

* P3 is primarily a financial deal. This is because UI already has the energy facilities and infrastructure that the deal will take into question.
* The official agreement is a 50-year license to operate and maintain the power plant, including most of campus and the water treatment plant.
  + Many important features of the P3 will be dependent on the details of the contract.
  + Fish suggested that part of the P3 endowment would be used to pay off existing debts in the energy program. However, endowment would most clearly be used to generate returns that would cover increased energy usage promised in the contract.
* The third party would oversee energy renewal and improvement operations.
  + The primary advantage for the third party in the agreement is a tax deduction based off assumed depreciation from the contract.
    - Fish believes that the third party may also be attracted to UI’s energy pellet program and may be interested in learning that technology.
  + Although the third part would be running the operations, a UI cabinet would still maintain control over decisions about the power plant’s functions.
  + Companies interested in the agreement include ENGIE (the Ohio State third party), NRG, Suez, Veolia, and Corix.
* One risk of the contract is that the endowment may be overdrawn upon before the contract expires, resulting in a negative balance.
  + The university may not make money off the endowment. At the breakeven point, the endowment’s returns would be used only to pay the third party for their services.
  + However, the endowment would increase the university’s total amount of endowed funds and rank the university higher in that area.
  + Ohio State received an additional 15% of the endowment for sustainability-related programs on campus.

Questions Asked

Why is the contract for 50 years specifically? (Rather than 30 years which is the limit on tax benefits for the concessionaire.)

What kind of fuel would be used? What guarantees would be in the contract to ensure increased use of renewable energy?

What is in it for the university to share the energy pellet information? Will there be a license in the contract to protect that information or to ensure that it has value in the contract?

Will students working at the plant be interns for those companies rather than the university?

Will the university ask for an additional account to be used for sustainability-related programs? (Similar to Ohio State’s 15%.)

Presentation of P3:

*Rod Lehnertz was unable to come to the meeting. Terry Johnson gave the presentation alone.*

*Rod Lehnertz is the Senior Vice President of Finance and Operations at the University of Iowa. Terry Johnson is the Chief Financial Officer and Treasurer.*

**What is the history of P3, and where does this come from? What is in it for the UI? What are the risks?**

The UI is at a crossroads. At around 2025, there will be a significant decrease in the number of college graduates in the Midwestern region (an expected decline of 15%). Most of UI students come from this region, so there could be a possible decline in UI enrollments.

State funding has also significantly declined over the last 20 years, particularly since 2015. This has been offset by tuition increases. There is a group that has done analysis on this that believes that the UI is the 5th worse state in the country since the late 90s in terms of ratio of appropriations to tuition. The UI has increased efficiency to offset these funding issues, and believes that the P3 will provide dollars into the university that can then be reinvested into core academics and research programs with the intent of bringing the university to the top 50 in rankings (currently 80th of all universities, 54th of public, in the country).

As high school demographics change, if the university can get in to the top 50, the UI will become more attractive to these students and students that are from states where high school graduates are expected to increase. We are having some success but will have more if we reach that “elite” status as recognized by rankings. Those improvements are being considered by teams discussing strategic plan. The top 50 goal is a backdrop goal of these plans.

The P3 would provide revenue (a sizable upfront payment in terms of the endowment and income off that endowment) to make these changes. The UI is hoping for approximately $15 million revenue off the endowment each year. To make the most off that funding, the UI will continue to focus on financial efficiency (freeing up resources that can be reinvested back into core academic programs).

**How will the endowment be protected so that it makes money? Will there be agreements to ensure that it is not drawn down to the point that it no longer makes significant returns?**

Tom Reitz (Dept. of Finance at the Tippie College of Business) has helped on past projects and is helping Terry create this plan. So far, they have faced some difficulties in this process and have delayed the P3 because Terry was not confident that the current model justified the risks of the P3. Terry does not plan to move forward with the P3 until there is a higher threshold.

Wells Fargo advisors have provided Terry with a specific set of factors that would allow the UI to get to that threshold. The UI will go forward with the RFQ phase in order to attain better estimates of the endowment amount. At this point, those factors have probably a 50% likelihood of achievement. The UI is waiting on the Wells Fargo to give a stronger estimate and plan to achieve that estimate.

The UI will pay the concessionaire a fixed annual fee, operation costs (what we currently pay), and debt servicing expense that is in the existing model’s budget. The RFQ phase will determine what that fixed annual fee would be.

**Will this money coming from the P3 be protected so that it can be used towards the goals that you articulate? How do we protect ourselves from DSM cutting UI’s funding more?**

Pres. Harrold is talking to the leadership of the Iowa legislature and has been given reassurances from those politicians that they would like the P3 to continue and will not decrease funding drastically. However, at the end of the day, there is no guarantee that the Iowa legislature will not make drastic reductions to funding. Some potential methods of protection may be to put pressure on UNI and ISU to follow suit with a P3, which could have a positive or negative impact.

* The UI will be examining what revenues could be increased to cover the fixed costs of the deal if one of the perceived risks were to be fulfilled. Student enrollment and tuition is one revenue. Healthcare and decreasing healthcare costs is another.
* Terry has calculated that approximately $854 to $853 million will be needed for the endowment. Strategies for investment of the endowment are being developed by Chicago, New York, and Des Moines investment firms. The end date for the RFQ stage is June 14th.
* However, without the P3 (and its presumed success), the UI’s financial condition is expected to worsen with inflation. If profits are at a breakeven each year, inflation will cause those profits to downturn over time and the UI may be struggling by the end of the next decade.
* Other potential options to increase profits besides the P3 exist. The UI is looking for the best idea with the biggest and most likely potential payoff. This is a serious consideration and Terry is hoping that the UI will come together to solve this problem.

**Based off Ohio State’s program, what kind of numbers does the UI expect to see in terms of expenses and revenues?**

The RFQ document has outlines pre-fixed fees that are lower than Ohio State’s. The UI will escalate at the same 1.5% as OSU. While Ohio State started escalation in Year 2, UI is planning on starting escalation in Year 6.

The higher the amount of the fixed costs, and thus the endowment, will lower the probability of failure (if the endowment becomes negative by the end of the term). Currently, the probability of failure is high, but the potential returns make the P3 worth examining more.

**Is there something special about doing the P3 now?**

The P3 was chosen from a pool of ideas because it offered the largest upfront valuation and the highest probability of success. Some other considerations, such as parking, have already been exhausted in terms of raising price to the highest, competitive option.

Besides increasing revenues, the UI is also considering ways to decrease costs. One of the potential P3 companies has offered a guarantee way to decrease operating costs. However, the UI would still have final authority to approve that program if that company was chosen.

Economic sustainability will also be a factor. There will likely be a component in the agreement to incentivize the third party to create sustainable savings. The UI “won’t go there” if potential savings would require increasing environmentally unsound practices.

**How will the P3 affect the future of the biomass project, 2020 goals, removing coal?**

A report will be released on Friday that will explain which goals the UI plans to focus on in terms of the P3. On page 7, under “Concessionaire Objectives:” remove coal by 2025, incorporate sustainable and lower-cost fuels into the existing system, ensure low risk of power failures on campus, etc.

The specifics will be incorporated more in the RFQ document. The UI will create “key performance indicators” that will cause the third party to be penalized if they do not make the achievements. This RFQ document will be distributed to potential concessionaires during the RFQ phase.

**Why the duration of 50 years?**

Although the UI owns the asset, the concessionaire can record depreciation on the power plant on their own income statement under IRS law if the contract lasts for longer than 30 years. The longer the duration, the better in terms of tax deductions for the third party.

In addition, 50-year duration will maximize the amount of the endowment. The duration also comes with increasing risks.

**How will the P3 react to changes in the energy industry? If radical disruption will favor those who have a flexible asset, how will the university address the potential losses?**

The ONM is the costs to purchase or create utilities needed for the campus. If the ONM goes down, the university will benefit. There is a potential issue with adapting to new energy technologies in that the university’s facility is centralized. A new technology could require a large capital investment to create or adapt our facilities. The UI does not think that there will be a difference in the UI’s ability to manage the facilities under the P3. The only change will be the fixed costs for the P3, which would not be recoverable if the ONM dipped below those costs. The UI will require a larger discussion before making the decision to scrap current energy facilities and adapt to a new technology.

If the UI decided to change to a new energy production system, the concessionaire may benefit from more sustainable practices because they would have less expenses while receiving the same fixed payment and the depreciation tax deduction.

**How will the concessionaire make money off of the P3?**

The concessionaire will benefit from the fixed costs and the depreciation tax deduction.

**What is the certainty that the fixed payment will not be paid with increased student fees/tuition?**

Assuming enrollments don’t change, the UI will follow the rate of inflation in terms of tuition and assumes that the state will also follow inflation in terms of appropriations funding. If enrollments did drop, the UI would rely on tuition increases to cover fixed costs until tuition is no longer competitive. Current estimated cost recovery from the campus for the P3 is based only on inflation.

*Dr. Eckstein made the following statement:* This committee has a wonderful fluid relationship with facilities in that it is not the provision of a service but instead a dynamic partnership. We would like this fluidity to continue. As the P3 continues, the committee would like to be a part of that process and the committee hopes to avoid rigidity in the eventual P3 contract.

Next Meeting:

*The agenda will include a full discussion of auxiliary unit planning and feedback on those programs.*

May 8, 2019

Office of Sustainability

301 Communications Center