
FISCAL UPDATE Article

Fiscal Services Division

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BOARD OF REGENTS APPROVES PUBLIC-PRIVATE PARTNERSHIP AGREEMENT FOR UNIVERSITY OF IOWA UTILITY SYSTEM

Contract Approval. At a special meeting on December 10, 2019, the Board of Regents approved a proposed 50-year public-private partnership (P3) agreement regarding the utility system on the University of Iowa (UI) campus. At the beginning of the meeting, Governor Kim Reynolds addressed the Board, expressing her approval for the proposal.

Under the agreement, two European companies — ENGIE, a global energy services company, and Meridiam Energy, an equity investor — have formed a new entity as UI Energy Collaborative Holdings, LLC (the collaborative), that will partner with the University of Iowa to operate the campus utility system. The university will continue to own the utility system and to pay utility system employee salaries and benefits, as well as other costs of operation.

On December 3, UI President Bruce Harreld and his staff conducted an online [webinar](#) about the proposed agreement. President Harreld used a portion of the webinar materials in his presentation to the Board prior to approval.

Amount Received by the University. The collaborative will give the university an upfront payment of \$1.165 billion, which will be used as follows:

- Approximately \$153.0 million will be used to pay off existing utility bonds.
- Approximately \$13.0 million will be used to pay consulting fees incurred by the university in developing the agreement.
- Approximately \$999.0 million will be invested in a new 501(c)(3) endowment, the principal of which will be maintained but the earnings used to cover utility costs and strategic plan initiatives.

Amounts Paid by the University. The university will pay the collaborative an annual concessionaire fee as well as paying for annual campus utility costs.

Concessionaire Fee — The annual concessionaire payment is estimated to be \$60.2 million in FY 2022 and consists of the following:

- A fixed fee, which will be \$35.0 million annually for the first five years and will increase by 1.5% annually thereafter.
- Operations and maintenance costs, which include employee salaries and benefits and are estimated to total \$21.4 million in FY 2022. Under the agreement, current university employees associated with the utility system will be offered positions with the collaborative. President Bruce Harreld stressed that by having the university continue to pay the salaries and benefits, there is no incentive for the new operator to reduce the workforce.
- Capital expenditures, which are estimated to be \$3.8 million in FY 2022.

Annual Utility Costs — Currently, the university bills campus utility users \$99.5 million annually and uses the funds to operate the system. The university's current utility costs total approximately \$98.0 million, which includes fuel and electricity; operational expenses of both the power and water plants; debt service; sewer, fire, and refuse removal services; energy control and environmental compliance; and annual insurance and auditing costs. The university plans to continue to bill users for their use of utility services and estimates ongoing utility costs to be paid by the university in FY 2022 at \$45.9 million.

Assuming estimated FY 2022 revenue from campus utility users of \$99.5 million, the concessionaire payment due to the collaborative of \$60.2 million, and annual utility costs paid by the university of \$45.9 million, the university estimates it will need to use \$6.7 million from the endowment to make up the difference.

Management of the Endowment. The 501(c)(3) endowment will be managed by a three-member board consisting of a Board of Regents appointee, a faculty senate appointee, and the university's Senior Vice President for Finance and Operations. The P3 board will meet quarterly to review the operation of the fund, manage the investments, and determine the yearly allocation to the university.

Funding Strategic Plan Initiatives. The university plans to use \$15.0 million annually from interest on the endowment to fund one-time grants that will implement efforts in support of the university's strategic plan to:

- Increase retention and graduation rates.
- Provide additional support for first-generation students.
- Improve students' time to degree and reduce student debt.
- Create additional undergraduate research opportunities.
- Increase outreach and engagement across the State.
- Invest in research facilities and grant applications.

Proposals for grants will be submitted to the university's existing budgeting process, beginning with the Path Forward Work Groups, subject area experts who will review all of the proposals and move them on to the Path Forward Steering Committee. The Committee will determine what proposals move onto the Budget Review Board for final selection and funding.

Additional Information. A video of the full Board of Regents meetings, as well as agenda items, the P3 agreement, documents that were part of the request for proposals, correspondence with Governor Reynolds, and a list of bids submitted are available on the Board's website [here](#).

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