

BOARD OF REGENTS OF THE UNIVERSITY OF WISCONSIN SYSTEM

EXECUTIVE COMMITTEE

Minutes of the Meeting

June 27, 2002

2:45 p.m.

Held by telephone conference

Present: Regent President Gottschalk, Regent Vice President Marcovich, Regent Boyle, and Regent Gracz.

Unable to attend: Regent Smith. Regent Mohs did not attend the open session portion of the meeting. He joined the meeting for the closed session.

Approval of agreements related to the UW-Madison/MGE Co-Generation Facility

Assistant Vice President Nancy Ives provided an update on this project, which has been under development for about two years. The plan addresses both the need of UW-Madison for service to about two million additional square feet of space that will be on line in the next few years and the need of Madison Gas and Electric for additional electricity to serve its customers, including the UW as a principle user. The project was developed jointly by the Department of Administration, MGE, and UW, with the assistance of outside consultants. Ms. Ives expressed appreciation to DOA Secretary George Lightbourn and Rob Cramer, head of the Division of State Facilities Development, for leading this effort.

She outlined the following significant elements of the plan:

- 1) The UW will pay the first \$80 million. Additional costs up to a total of \$87.5 million will be shared by the UW and MGE, and any costs above \$87.5 million will be absorbed by MGE.
- 2) Because the project is equipment-intensive, \$60 million to \$67 million of the total will be included in a master lease, with the remainder financed by MGE.
- 3) The cost to the UW by 2004 will be about \$10 million per year (including \$4.8 million in the master lease, payments to MGE for financing, about \$1.4 million for maintenance and \$1.4 million for steam.)
- 4) While the university does not have money in hand for these payments, the Department of Administration will support the university's request to fund this project.

Regent Marcovich asked what would happen if the needed dollars from the state are not forthcoming, to which Mr. Cramer responded that there is an obligation on the part of the state to proceed with funding. However, MGE is aware that there is some risk because the money is not in hand. In the absence of needed funding, the UW could exercise the non-appropriation clause that will be included in the agreement or the parties could re-structure the master lease so as to reduce costs.

Ms. Ives added that, to further minimize risk, the UW has the right of first refusal to purchase the facility if MGE should back out of the project and the right to approve any party that might wish to purchase it from MGE.

In response to a question by Regent Gottschalk, John Harrod, UW-Madison Interim Associate Vice Chancellor for Facilities, indicated that the matter of shading university greenhouses has been resolved and that the campus is comfortable with the current design of the facility.

At the suggestion of Regent Marcovich, the last word in item (1) of the resolution was changed from "reduced" to "re-negotiated".

Upon motion by Regent Gracz, seconded by Regent Boyle, the following resolution was adopted unanimously.

West Madison Co-Generation Facility

Resolution 8577:

That, upon the recommendation of the Senior Vice President of Academic Affairs and the UW-Madison Chancellor, authority be granted to:

- (1) lease land to Madison Gas and Electric Company (MGE). The project site includes approximately 4.5 acres of land located north of the Walnut Street Heating Plant. The proposed term of the lease would be 50 years with renewal options. The initial annual lease rate of about \$172,000 is based on appraisals for the entire site, and would be adjusted every five years based on the Consumer Price Index. If/when the Board of Regents owns part of the facility, the acreage leased and corresponding payment would be renegotiated.
- (2) execute necessary easements for construction and operation of the facility.
- (3) enter into a Design and Construction Agreement with MGE, stipulating standards for construction including the steam and chilled water capacity necessary to serve UW-Madison, acceptance testing, and performance.

- (4) enter into a Master Lease for the acquisition of necessary chilling and heating equipment. At least \$60 million in assets will be acquired through this Master Lease, with annual costs of approximately \$4.8 million, beginning in fy 2004. This assumes 5% interest for 20 years.
- (5) enter into an Operations and Maintenance agreement with MGE, under which MGE will operate and maintain the facilities, the University will purchase steam (for heating) and chilled water services (electricity for cooling) and pay a proportionate share of operating and maintenance costs.
- (6) enter into a Backup Power and Station Service Rate Agreement, specifying the terms for provision by MGE of backup power during power shortages and agreement that electricity needed to run chillers will be charged to the University at the station rate (without added transmission costs).
- (7) enter into a lease agreement with MGE for the University's share of heating/chilling assets that do not qualify for the Master Lease program. This would include an option to purchase those assets (including the building housing the chilling equipment), at any time at fair market value. Prior to State/University acquisition, University costs to amortize MGE financing of the facility (assuming 15% interest over a 30-year period) would be approximately \$3 million per year for 30 years. It would seem desirable to seek authority in 2003-05 to purchase these assets upon completion/occupancy at the cost of construction, estimated at approximately \$20 million. This would reduce annual costs by approximately \$1.4 million per year, assuming a 20-year state bond at 5% interest.

Regent Mohs was not present for this portion of the meeting and did not participate in the discussion or vote on this item. President Lyall was present but did not participate in the discussion or vote.

At 3:05 p.m., it was moved by Regent Marcovich and seconded by Regent Gracz that the Committee recess into closed session to consider salary matters, as permitted by s. 19.85[1][c], *Wis. Stats.*

The motion was adopted on a unanimous roll-call vote, with Regents Gottschalk, Marcovich, Boyle, and Gracz voting in the affirmative.

Regent Mohs joined the meeting after the vote was taken.

The Committee arose from closed session at 3:40 p.m., at which time the meeting was adjourned.

Judith A. Temby