

Minutes
Physical Planning and Funding Committee
Thursday, October 12, 2002

Regent Gracz convened the joint meeting of the Physical Planning and Funding Committee and the Business and Finance Committee at 1:07 p.m. in the Minneiska Dining Room at UW-Whitewater. Present were Regents Klauser, Olivieri, Jones, Krutsch, Schneiders and Randall. Regent DeSimone was absent.

I.3.a. UW-Whitewater Presentation: Student Success Through Fiscal and Facility Planning Connections

The committees viewed a presentation by UW-Whitewater titled *Student Success through Fiscal and Facility Planning Connections*. Assistant Chancellor for Student Affairs Barbara Jones, and Past Student Government President Therese Ehle explained how the differential tuition approved by the Board of Regents in December 2001 addresses student, University and Regent goals of assuring student success. They explained how those funds are being used to improve academic and career advising and enhance the first year experience of their students.

Vice Chancellor for Administrative Affairs Jim Freer talked about the facilities connection, and the challenge of providing the right facilities in the right place and at the right time to match program priorities. Due to the length of time it takes to obtain funding through the capital budget, short-term space solutions must often be developed. For example, a permanent location for the improved Student Services programs won't be available for a few years. Meanwhile, those programs will be located in interim facilities, with the relocation costs paid by the operating budget.

The top priority for the near future is completion of the remodeling in the Upham Science building, followed by construction of a new business and economics building. In the longer term, two buildings that are not worth remodeling will be demolished.

I.3.b. UW-Madison: Update on Cogeneration Project

The Committees next heard an update on the UW-Madison/MGE Cogeneration project. Assistant Vice President Nancy Ives reported that our maximum has increased from \$87.5M to \$90M for MGE to assure performance of the finished facility and guarantee the outputs of steam and chilled water for the university. She stated that discussions continue regarding the water supply for the facility. This issue has delayed the official start of the six-month Public Service Commission (PSC) approval process and may also affect the cost of the project. Ives explained that, so far, only a land lease agreement has been signed.

Ives introduced Department of Administration (DOA), Division of Facilities Development Administrator Rob Cramer, who is the head negotiator for the University. He said that the MGE hopes to have a facility in construction by April 2003, but that timeline is dependent upon PSC approval. He remarked that MGE hopes the plant will be done sometime in the third or fourth quarter of 2004. MGE will guarantee that the plant will provide the

university with cooling and steam no later than April 2005, which should meet the University's needs at that time.

Cramer explained that during negotiations, the University indicated that it needed a guarantee from MGE that the plant would produce 20,000 tons of chilled water and 40,000 pounds of steam. To achieve guarantees of that output, DOA agreed that they would accept an increase from \$87.5M to \$90M for cost sharing. The University would maintain \$80M in first costs but, if the project cost more, it would share those costs with MGE, dollar for dollar until our total reaches \$90M.

In response to a question asked by Regent Klauser, Cramer explained that project equipment would be financed through the State Master Lease program. He noted that about two thirds of the State's portion of the project is the cost of equipment that goes into the plant, and that a majority of that equipment would qualify for the Master Lease. Cramer estimated that eligible equipment costs would be \$65M. Regent Klauser asked for clarification of the funding for the remaining equipment and Mr. Cramer explained that MGE has agreed to finance the non-matchable portion through a true lease to the State.

When asked by Regent Klauser whether the \$10M spread between the possible project costs of \$80M or \$90M was to be considered a contingency amount, Cramer answered that it was, and added that MGE feels that \$80M is a good estimate of a final cost. He explained that \$90M is a cap on the State's exposure and that MGE was unwilling to cap the project at \$80M because of the possibility of unpredictable events that might occur during construction.

Assistant Vice President Ives answered a question concerning project costs posed by Regent Klauser by explaining that the State has agreed to pay \$5M for assurance of the project outcome. She continued to explain that, if the project were to come in at \$75M the State would pay \$80M; if it were to come in at \$80M the State would pay \$85M and the cost sharing with MGE would apply to all dollars over \$85M. If the project were to come in at \$100M the State would pay nothing for assurance because the State's portion of the project is capped at \$90M.

Mr. Cramer continued his update by informing the committees that the DNR has voiced concern about the impact of this facility on the water flow through the Yahara River watershed. The DNR has not yet granted a necessary permit for the extraction of lake water because of this concern. He stated that DOA is meeting with DNR staff and other interested parties such as Madison Metropolitan Sewage District (MMSD), the city of Madison Water Utility and the PSC to discuss solutions to this problem. Cramer reported that discussions have focused on creating a partnership to create a pilot facility to return water to the watershed. This would result in an \$8.2M expense that would be shared by participating parties, with the State and MGE sharing a \$4.2M portion of that cost. Cramer continued by saying that he also expects that there will be a \$500,000 one-time payment requirement to purchase wetland as mitigation to phosphorus loading in the watershed.

Mr. Cramer reported to the committees that MGE has agreed to use the State's goal relative to minority business involvement on the State's portion of this project. Regent Randall

asked that Mr. Cramer pursue expansion of those standards to the entire project as an illustration of common goals in this partnership and noted that the project would not proceed without the State's dollars. Regent Randall remarked that our capital budget is a huge driver in the economic development of our State and should be used to develop business opportunities.

Mr. Cramer informed the group that he expects the PSC application for the project to be completed shortly and anticipates that the project will be going forward as a 2003-05 operating budget request.

Regent Klauser mentioned his concern in regard to the amount of time taken by negotiations since time adds to costs and may affect when this project will be on-line. He continued by saying he thought it was a good project and that there is a side-benefit to having electricity produced at a competitive price at this site which will also be available to the University if there is a shortage on the grid. Klauser stated that he thought it was important to move forward and hoped the other agencies involved will proceed promptly, in a coordinated fashion.

The joint meeting ended at 2:20. Committee Chair Regent Gracz reconvened the meeting of the Physical Planning and Funding Committee at 2:40 p.m. Present were Regents Randall and Schneiders. Regent DeSimone was absent.

I.3.b. Approval of Committee Minutes

The minutes of the September 12, 2002 meeting stood approved as distributed.

I.3.c. Report of the Vice President/Assistant Vice President

Building Commission Actions: Assistant Vice President Ives reported that the Building Commission approved about \$32M for various projects at their September meeting, including \$26 M for the new Fine Arts facility at UW-Stevens Point. She discussed details of items on the Building Commission agenda which can be found on the spreadsheet attached to these minutes.

Ives reported to the Committee that UW-Milwaukee had issued a request for proposals (RFP) relative to the Kenilworth building for redevelopment of that facility to provide a public/private partnership. She explained that 150,000 sq. ft. of that space would be returned for art research studio space. Ives noted that this effort is expected to be a no-cost venture that would provide improved space for art at no cost to the campus and provide more housing for students as well as meet the needs of the community.

Regent Schneiders stated that she thought the Committee should have been included in the decision process defining the proposal before the RFP was sent out. Regent Randall stated that he had some involvement in this project concerning the determination of the campus needs and how this facility should fit those needs. Regent Randall commented that this project can provide an opportunity to spur economic development in a neighborhood that is diverse both culturally and economically. He mentioned that he had recently spoken with Vice Chancellor of Administrative Affairs Don Melkus and he had agreed to check whether there were points awarded to any proposers for including minority businesses in their proposals at the

development stage, so community businesses would be included. Randall continued by saying that he hoped there would be encouragement for potential developers to build partnerships that would include businesses who are currently involved in that neighborhood.

Ives offered to return at the November meeting with a report to further discuss the Kenilworth building with the Committee.

I.3.e. UW-Whitewater: Wells Residence Hall Fire Sprinkler System (Design Report)

This item requested approval of the Design Report and authority to construct a Wells Residence Hall Fire Sprinkler System project at an estimated total project cost of \$1,972,000.

When Wells Hall was constructed in 1967, state codes did not require fire sprinkling and the emergency generator only needed to serve the fire alarm panel and the egress/exit lighting. However, with the passage of 1999 Wisconsin Act 43, there now exists a requirement that residence halls, such as Wells, with a height in excess of 60 feet, shall have fire sprinkler systems installed by 2006. The installation of this fire protection system will bring the complex into compliance with the law and will provide needed fire protection for the residents who live in the two towers.

Work will include the installation of a sprinkler system and installation of an electric motor driven fire pump. A new 200KW emergency generator will provide additional capacity to meet current National Electrical and NFPA 101 Life-Safety codes. The sprinkler system will be installed to meet the requirements of the National Fire Protection Association's Standard for the Installation of Sprinkler Systems.

This project will be phased over a two-year period due to the disruption involved by the installation of piping with an August 2004, completion date for the entire project.

A repayment schedule for this project will require that students pay an additional \$40 per year in fees.

Upon the motion of Regent Randall and the second of Regent Gracz the Committee approved Resolution I.3.e.

Resolution I.3.e.

That, upon the recommendation of the UW-Whitewater Chancellor and the President of the University of Wisconsin System, the Design Report be approved and authority be granted to construct a Wells Residence Hall Fire Sprinkler System project at an estimated total project cost of \$1,972,000 (\$1,000,000 Program Revenue-Cash and \$972,000 Program Revenue Supported Borrowing).

I.3.f. UW-Madison: Authority to Petition for Annexation of UW Arboretum to the City of Madison

This item requested authority to petition for annexation to the city of Madison 1,070 acres of the total approximate 1,260 acres of the University of Wisconsin-Madison Arboretum. The Arboretum today contains the world's largest, oldest, and most valuable collection of restored ecological communities and is managed by a Director, who reports to the Dean of the Graduate School.

The Arboretum lies in three different municipal jurisdictions: the Town of Madison, the city of Madison, and the city of Fitchburg. For many years, the University has felt it would be highly desirable and more efficient to consolidate the entire Arboretum into the city of Madison. The principal advantages of annexation of the Arboretum into the city of Madison are that it would facilitate the following:

- much needed comprehensive storm water runoff planning and control.
- connection of currently unsewered residential properties to municipal sewer systems.
- efficient provision of other municipal services such as fire and police protection since the city of Madison is in closest proximity to the area.

Chancellor Wiley spoke about this item and explained that passage of this resolution would give the University authority to complete annexation requirements and take it forward if, and when, it becomes timely.

Upon the motion of Regent Schneiders and the second of Regent Gracz the Committee approved Resolution I.3.f.

Resolution I.3.f.

That, upon the recommendation of the UW-Madison Chancellor and the President of the University of Wisconsin System, authority be granted to petition for annexation to the city of Madison 1,070 acres of the total approximate 1,260 acres of the University of Wisconsin-Madison Arboretum.

I.3.g. UW Hospitals and Clinics Authority on Lease and Affiliation Agreements

This item requested that the Board of Regents reaffirm and update its support for the University of Wisconsin Hospitals and Clinics Authority lease and affiliation agreements, as originally expressed in Resolution 8058, for the purpose of obtaining bond insurance and marketing the Series 2002 Hospital Revenue Bonds. A similar action was taken in 1999 relative to the Series 2000 bonds.

The University of Wisconsin Hospitals and Clinics Authority is scheduled to sell 2002 Series bonds for the purpose of financing additional improvements to University of Wisconsin Health Care (UWHC) facilities. The bond insurer required a resolution from the Board of Regents stating its intent with respect to continuation of the Lease and Affiliation Agreement between the Regents and the Authority. Passage of this resolution expressly added the Series 2002 bonds to the agreement.

Upon the motion of Regent Randall and the second of Regent Schneiders the Committee approved Resolution I.3.g.

Resolution I.3.g.

WHEREAS, the University of Wisconsin Hospitals and Clinics Authority (the “Authority”) is a public body corporate and politic created by Chapter 233 of the Wisconsin Statutes, as amended, for the purpose of maintaining, controlling and supervising the use of the University of Wisconsin Hospitals and Clinics (“UWHC”); and

WHEREAS, the Authority leases the space occupied by the UWHC on the UW-Madison campus from the Board of Regents of the University of Wisconsin System (“Board of Regents”) pursuant to a “Lease Agreement” dated as of June 29, 1996; and

WHEREAS, an “Affiliation Agreement” between the Authority and the Board of Regents, also dated as of June 29, 1996, specifies how the Authority and the Board of Regents will continue to work together to fulfill their interrelated mission, and addresses personnel, external relations, education, research planning, financial support, networking, professional staff, insurance and other matters; and

WHEREAS, on April 16, 1997, the Authority issued \$50 million of its Variable Rate Demand Hospital Revenue Bonds, Series 1997, for the purpose of financing improvements to UWHC facilities; and

WHEREAS, on March 23, 2000, the Authority issued \$56.5 million of its Hospital revenues Bonds, Series 2000, for the purposes of financing improvements to UWHC facilities; and

WHEREAS, the Authority has been recently authorized by legislation and proposes to issue up to \$68.5 million of its Hospital Revenue Bonds, Series 2002 (the “Bonds”), for the purpose of financing additional improvements to UWHC facilities; and

WHEREAS, the Authority has informed the Board of Regents that Financial Security Assurance, Inc., a municipal bond insurance company considering issuing an insurance policy insuring the payment of principal and interest on the Bonds (the “Bond Insurer”), is unwilling to insure the Bonds because the Bond Insurer fears that the Authority’s access to UWHC facilities may be terminated under the Lease Agreement and Affiliation Agreement, without adequate provision for the repayment of the Authority’s Hospital Revenue Bonds; and

WHEREAS, the Authority has indicated to the Board of Regents that it would be materially helpful to the Authority’s effort to obtain bond insurance and to market the Bonds, and an inducement to the Bond Insurer to insure such bonds, if the Board of Regents clarified under what conditions the Board of Regents might terminate the Lease Agreement and Affiliation Agreement;

NOW, THEREFORE, to the extent not inconsistent with Wisconsin law, the Board of Regents hereby resolves as follows:

1. The Board of Regents intends to keep the Lease Agreement and Affiliation Agreement in effect through their respective current termination dates of June 29, 2032, absent material deviation by the Authority from the policy objectives the Lease Agreement and Affiliation Agreement.
2. The Board of Regents will not exercise its option to terminate the Lease Agreement or Affiliation Agreement, or both, unless and until the Board of Regents, the Wisconsin Legislature, or some other party, or some combination of the foregoing, makes arrangements to adequately provide for the protection of bondholders. The term “adequately provide for the protection of bondholders” shall mean: (i) the Board of Regents has received the consent of the Bond Insurer, or (ii) the Bonds are redeemed or defeased in accordance with their terms, or (iii) legislation has been enacted or other appropriate action has been taken such that the obligor assuming the obligations of the Authority, if other than the Board of Regents of the State of Wisconsin, (a) is a public or not-for-profit entity, (b) is bound by the covenants in the Master Indenture of Trust and 2000 Series Supplement to the Master Indenture of Trust and 2002 Series Supplement to the Master Indenture of Trust, and (c) is financially able, in the judgment of the Bond Insurer, to pay debt service on the Bonds.
3. This Resolution shall not be revoked, rescinded or amended without the prior consent of the Bond Insurer.

Adjournment

There being no further business to come before the Committee, the meeting was adjourned at 3:22 p.m.



Judy Knoll, Recording Secretary

September 2002 SBC Actions for October 2002 PPF Committee Meeting		
Project / Funding		Amt. Approved
Cole, Sullivan and Bradley Halls Maintenance		
	\$5,266,671 Program Revenue Cash-Housing Funds	
	(Increase in proj for cost benefit analysis) \$40,000 Program Revenue Cash	\$5,306,671
Waiver of s.16.855 under s.13.48 (19) to accept a single prime contractor bid for the Genetics/Biotec Bldg Addn - \$27M Gov approved bidding to utilize both single and multiple bid process to dual track the bidding w. built-in timelines and include penalty and incentive clauses in contracts.		
WI Veterinary Diagnostic Lab Remodeling		
	\$675,000 Federal (USDA) funds	\$675,000
Waive s.16.855 under s13.48 (19) to enable accelerated desgin & construction process		
Fine Arts Center Remodeling & Addition		
	\$25,120,000 General Fund Supported Borrowing	
	(to be repaid by Gift Funds) \$1,000,000 Program Revenue Borrowing	\$26,120,000
	September SBC Meeting TOTAL	\$32,101,671