I. Call to Order – President Ganim called the meeting to order at 3:30 pm.

II. Approvals
   A. Meeting Agenda – Professor Gillan moved and Professor Foley Nicpon seconded that the agenda be approved. The motion carried unanimously.
   B. Faculty Senate Minutes (December 4, 2018) – Professor Wurster moved and Professor Durham seconded that the minutes be approved. The motion carried unanimously.
   C. Committee Appointments (Sandy Daack-Hirsch, Chair, Committee on Committees)
      • None at this time
III. New Business

- University Finance and Planning (Terry Johnson, University Chief Financial Officer and Treasurer and Susan Klatt, Director of Financial Management & Budget and University Secretary)

President Ganim reminded that group that central administration had recently notified the campus that the university was exploring the possibility of a public-private partnership for its utility system. Mr. Johnson and Ms. Klatt had been invited to speak to the Senate to provide more details and to answer questions. Mr. Johnson began his presentation by indicating that the university is trying to create a new revenue stream to invest in the core missions of teaching and research. He stressed that the university is still only exploring the idea of a public-private partnership for the university’s utility system and has not committed to it yet. He then provided an overview of the public-private partnership model. Currently, the university’s utility system is owned by the university and operated by its employees. The university has responsibility for making sure that the system, which delivers heat, air conditioning, etc., to the campus is maintained in good working order and in compliance with all regulations. The utility system is responsible for billing the campus for consumption. Under the public-private partnership (P3) model, the university would still own the utility system. Although in some P3 agreements the asset is sold, the university is not contemplating this option. Instead, the university plans to sign a service agreement with an operator, which will maintain and operate the system. The university will conduct a competitive process to find an operator.

Mr. Johnson then addressed the university’s reasons for exploring a P3 agreement. The operator will make a sizeable payment to the university at the beginning of the agreement. The university will then make payments to the operator over the life of the agreement, potentially for several decades. Operators are looking for partners that are fiscally responsible and that have the ability to make payments over a long period of time. The initial payment to the university will be placed in an endowment and the investment from the endowment will be used to fund core academic and research programs. Commenting that no doubt the campus has many questions about a potential P3 agreement, Mr. Johnson emphasized that the partnership would not be a sale of university assets, is not a strategy to eliminate employee jobs, and will not allow the university to forgo its responsibility to the environment. The partnership would allow the university to continue its commitment to providing faculty, staff, and students research opportunities within the utility system and would provide needed resources to invest in the university.

Turning to a more detailed explanation of what a utility system public-private partnership entails, Mr. Johnson indicated that a P3 is a contractual agreement between a private sector company and a governmental body such as the UI. The university will enter into a professional services agreement with a private sector company for the operation and management of the UI utility system for a lengthy period of time, likely 50 years. In return, the UI will receive from the private sector company an upfront payment to be invested in the university’s endowment. The UI will pay the private sector company back for managing the utility system over the 50-year term. Mr. Johnson explained that the university will use the shared governance framework created to support the new budget model to determine how the endowment earnings will be
spent. There will be extensive consultation with shared governance by collegiate and central administrators. The university will continue to own the utility system under any agreement, and the private sector operator will be required to maintain the utility system in good working order.

The scope of the university’s utility services is wide and complex, Mr. Johnson indicated. The agreement would cover steam, chilled water, and basic water. Other facets of the system under consideration for inclusion in the agreement are high quality water (for research and pharmaceutical development), utility distribution pathways/tunnels, and fuel procurement. The university currently uses a variety of biofuels and would like to maintain and enhance that diversity. Regarding the university’s commitment to employees, Mr. Johnson stressed that the intent of a P3 agreement is not to eliminate employee jobs. Based on observation of similar P3 agreements around the country, he estimated that about 80% of existing employees would be hired by the new operator. Those who are not will be offered university positions, which may involve training in new skills. Other commitments that the university intends to keep if it enters into an agreement are that campus-wide sustainability efforts will be continued, that the utility system will be coal-free by 2025, that the new operator will continue to explore new sources of bio-fuels, and that the utility system will be maintained in similar or better conditions.

Mr. Johnson concluded his presentation by explaining that the process overview and timeline calls for a request for qualifications (RFQ) to be issued in April-May, with a request for proposals (RFP) to be issued in June-September. The winning bid, if any, will be selected in October-December. Assuming that this process moves forward successfully as planned, resources will begin to be allocated to campus programs in FY2021. A series of information sessions will be held from now through early March to inform the campus about the P3 exploration initiative. A website has been created to keep the campus community updated on the initiative, https://pathforward.uiowa.edu/utility-system-public-private-partnership-p3.

Professor Durham asked for further clarification why the university was considering this initiative. Mr. Johnson responded that the university is facing resource constraints and is seeking to generate more resources to invest in academic/research programs. Professor Balakrishnan commented that private companies have a profit motive; therefore, he anticipated that the university’s expenditures, through the payments to the private company, would increase, leading to the university taking money from the future to pay for the present. Mr. Johnson explained that the private companies that enter into such P3 agreements can deduct depreciation and other items on their taxes that the university, as a non-profit entity, cannot. This is how the private company will see a positive benefit from this agreement. He added that many universities around the country are looking into P3 agreements for their utilities, residence hall systems, and parking facilities.

Professor Thomas Rietz, from the Department of Finance in the Tippie College of Business, who has been working with the Office of the Vice President for Finance and Operations on this issue, then spoke briefly. He commented that there was no guarantee that a P3 agreement would be a good deal. Aside from the financial aspect, there are many legal details to work out, as well as details regarding the upfront payment. He reiterated that the university would receive this upfront payment and then pay the private company back over a period of fifty years. There are
three ways that this could be beneficial for the university. First, the university could realize a profit on the upfront payment after it is invested. Second, the private company could operate the utilities more efficiently than the university does, although that is unlikely. Third, the private company could acquire a depreciation tax shield, thereby making the investment appealing to an outside operator. The university will need to determine whether the return on investment generated by the upfront payment will be enough to cover the payments back to the private company plus generate funds to invest in the projects outlined in the UI strategic plan. Professor Logsdon asked how much the upfront payment was expected to be. Mr. Johnson responded that, based on P3 agreements at other institutions, a tentative estimate for an upfront payment would be around $500 million.

Professor Macfarland expressed concern about future economic consequences of the P3 agreement, even though it might be beneficial to the university in the short term. He added that the university would be prohibited from directly managing the utility system because of the P3 agreement, so it was incorrect to say that the university would still own it. Mr. Johnson responded that, if the university does move forward with a P3, it must be with the understanding that we are not creating problems for those who come after us. He has been working on modelling the costs to the university to determine whether to move forward. Professor Macfarland characterized the P3 agreement as a mortgage and questioned its usefulness to the university. Mr. Johnson disagreed with this characterization, noting that the future operator will also be taking on risk and will bring in expertise. He added that a P3 agreement is a good potential solution to creating a resource that we can garner today for investment back into the university’s core missions. Ideally, the programs we end up creating with the investment money will generate additional revenue for the university. Professor Rietz acknowledged Professor Macfarland’s concerns. He commented that the reason for putting the upfront payment into an endowment instead of spending it outright was to be sure future costs could be covered.

Professor Lehan Mackin asked if the operator would be taking on risks related to possible future changes in the tax code. Mr. Johnson commented that this was indeed a potential risk for the operator; however, the changes to the tax code that were implemented in December 2017 appeared to be beneficial for us in this regard. President Ganim noted that Iowa has a relatively high corporate tax rate, something that private companies would consider before entering into a P3 here. Professor Gillan asked how payments for energy would be handled. Mr. Johnson responded that payments would be handled in a similar manner to today; the university constantly makes decisions regarding how much electricity, for example, to purchase off the grid. The university may retain the right to oversee fuel purchases. If the operator can reduce the cost of running the utility system, those savings will flow to the university.

Professor Foley Nicpon asked about the impact on current university employees’ salaries and benefits if they move to employment with a private company. Mr. Johnson responded that the university is looking into salary and benefit information for employees at other institutions who have made this transition. He anticipated that the salaries and benefits would be reasonably comparable. He stressed that this is a facet of the discussion that the university is looking at very carefully. A senator asked if the P3 would prohibit the university from expanding its utility
system, since it would be responsible for capital investment. Mr. Johnson responded that no, this would not prevent the university from expanding the utility system as needed for growth in patient care or research or academic programs. The new operator will be responsible for making those capital improvements to the system. The utility system will grow with the university. The university may, however, retain complete control of the distribution system, parts of which will require upgrades in the near future. Past President Snyder asked if the university would be able to take advantage of a potential new or disruptive cheaper energy technology under the P3 agreement. Mr. Johnson responded that yes, the university could. He added that the university may retain responsibility for fuel procurement, but even if it doesn’t, the operator will pass cost savings on to the university.

Professor Sheerin, citing examples from Chicago and Indiana, commented that there are many instances in which P3 agreements have gone terribly wrong with negative consequences for the public. She asked if the university is aware of these situations. Mr. Johnson indicated that the university is certainly aware of these events, but there are also examples of P3 agreements that have turned out well, especially for other higher education institutions. He added that the university will be highly selective when choosing a private company and that the university must be able to control the outcomes of the agreement. Professor Kletzing asked why the agreement had to last so long (50 years). Tremendous changes have come to the energy industry in the last 50 years, and no doubt even more transformative change will occur in the next 50 years. He asked if the university could back out of the agreement if a much cheaper energy source comes along. Mr. Johnson answered that savings in energy costs would be passed on to the university under the P3 agreement. Professor Kletzing asked about a situation in which a new energy technology would not use our utility system at all – would we still be obligated to pay for our utility plant’s operation? Mr. Johnson responded that we would still be committed to the terms of the agreement. Professor Rietz reiterated that when fuel purchase costs drop, so do the university’s costs, because that is a direct pass-through to the university, not part of our fees to the provider.

Professor Jung raised the concern that the state might reduce its allocation to the university as the result of a new large revenue stream generated by a P3 agreement. Mr. Johnson indicated that the three Regents institutions received a letter from Governor Reynolds last summer requesting that the universities explore the possibility of P3 agreements in order to augment their revenue. UI administrators have since been in communication with both the governor and legislators on the university’s progress in exploring this option. It is unclear at this time what impact the P3 revenue might have on the state appropriation in the future, given eventual turnover in the legislature and the governor’s office. President Ganim noted that the university has engaged several consultants as it explores the P3 option, including Wells Fargo for financial aspects of the project, and Jones Day for legal aspects. He asked for further details on the impact of the consultants’ work on the university’s deliberations. Mr. Johnson added that the university has also hired Jacobs Engineering for a condition assessment of the utility system. He commented that this is a very complex, technical process and that these firms were selected because of their deep experience in this area. Wells Fargo has done financial analyses and will soon provide preliminary valuations of what the upfront payment might be. The university is working with Jones Day on contractual language that will protect the university over the fifty-
year term of the agreement. President Ganim indicated that special sessions of the Faculty Council and Faculty Senate will be held over the next two weeks to allow for senators to have additional time for discussion with university administrators about the proposed P3 agreement.

- **Gary Barta, Athletic Director**

  Reflecting on senators’ active engagement just now with Mr. Johnson regarding the proposed P3 initiative, Mr. Barta thanked the group for their important work on behalf of their faculty colleagues. He commented that, as a member of the President’s cabinet, he had also wondered about some of the issues raised today about P3 agreements, but that he also knew that if we do not continue to innovate how we operate, we may be left behind. Turning to athletics issues, Mr. Barta indicated that he came to the UI in 2006 and has spoken to the Senate six or seven times since then. He added that his message and his department’s everyday work are essentially the same as they were in 2006. In spite of the many changes the university and collegiate athletics have experienced since then, the core mission of bringing young people to the campus and providing them access to an excellent education while they pursue a sport that they love and grow into young adults, is unchanged. Mr. Barta reminded the group of the athletics department’s value statement: win, graduate, and do it right. Everything the department does must fit into one of those categories. He acknowledged that there are generally three types of attitudes towards athletics on campus. Some people are strong supporters, others are neutral, and still others question the need even to sponsor athletics at the university. Regarding the third group, Mr. Barta indicated that his intention was to provide enough information about what the athletics department does for those individuals at least to feel that athletics is done the right way at UI. He reiterated a point that he has often made, which is that while athletics is not the most important activity that takes place at the university, it is the most visible, whether that is fair or not.

  Commenting briefly on the various UI athletic teams, Mr. Barta noted that football and field hockey had successful seasons. Both men’s and women’s basketball are currently ranked in the top 20 in the country. Also, both teams are 19-5, a distinction shared with only one other institution. UI is ranked third in wrestling and its track teams are ranked in the top 20. Academically, the graduation success rate has hit 90% for three years in a row. We are usually in the top three or four among our Big Ten peers on this statistic. Student athletes have had a graduation rate at or above the rate for the general student body for the past 13 years. The average student athlete GPA is just above 3.0. Mr. Barta praised the time management and leadership skills of student athletes, who must successfully balance the academic and athletic aspects of their lives. In addition, student athletes have accrued over 10,000 hours annually in volunteer time.

  Most recently, Mr. Barta noted, a prominent news story related to UI athletics has been the Wave, a newly-established tradition in which fans at home football games wave in unison to patients in the children’s hospital, which overlooks the stadium. Over a million people visit campus annually to attend sporting events, and millions more tune in on television. Athletics is the “front porch” of the university and provides an opportunity to showcase everything we do here. Mr. Barta then shared some information on the athletics department’s finances. He indicated that the department’s budget has been independent of the general education fund
since 2007. This is now considered the norm for UI. The department’s scholarship expense is
about $13 million annually, paid to the university. The department also paid about $1.85 million
in overhead costs to the university this past year. Utility costs came to about $3 million.
Revenue comes from several sources. Mr. Barta indicated that since the 1980’s, the athletics
department has been working with a marketing company, Learfield. This early public-private
partnership has turned out to be extremely beneficial for the university. The Big Ten television
contract has also generated significant resources. Ticket revenue last year was $23 million, equal
to the amount of money the department transferred to the university, including for the
transactions listed earlier. Athletics makes contributions to the general education fund, thus far
supporting diversity and alcohol harm reduction initiatives, among others.

The athletics department works collaboratively with other offices on campus. For example,
Mr. Barta is a member of the President’s cabinet and the associate athletics director for
academics has a direct reporting line to the Provost. The top financial, compliance and human
resources administrators in athletics also have direct reporting lines to the corresponding
university central administrators. Mr. Barta commented that, although he could not promise
that no significant scandal would ever occur here, he could say that his department has taken
steps to reduce greatly the possibility of a scandal occurring here, because of the care taken in
hiring athletics personnel and the direct reporting lines in place for senior athletics
administrators. Mr. Barta meets with collegiate deans and offers them occasional use of a
stadium suite. Athletics staff teach a first-year seminar on sport administration. Senior athletics
staff are encouraged to participate in high-level university searches and other initiatives. In
conclusion, Mr. Barta indicated that there are 24 sports on campus and 650 student athletes,
along with 250 fulltime employees in the athletics department.

Referencing Mr. Barta’s earlier comment about athletics being the “front porch” of the
university, Professor Lehan Mackin asked how Mr. Barta leverages this visibility to advocate on
behalf of the university to legislators and to citizens of the state. Mr. Barta responded that when
he and his staff travel throughout the state, as they do frequently, meeting with the general
public as well as with legislators and the governor, they often speak about the university’s
impact on the state, in coordination with the President’s Office. There are also segments on the
Big Ten Network that spotlight the academic work of each university, thus providing us with a
large audience for our message. Professor Logsdon commented that he was a former season
ticket holder who gave up his tickets because of what he perceived to be the hypocrisy of the
athletic vs. the university mission. He then asked for clarification regarding what was covered by
the $1.85 million overhead payment to the university. Mr. Barta responded that this payment
covered services such as financial and legal assistance provided by central administrators to the
athletics department. Professor Logsdon asked if the department pays any rent for the facilities
it uses. Mr. Barta responded that no athletics buildings in recent history have been constructed
with university funds. The athletics department has paid for those buildings with its own funds.
Mr. Barta noted that there may be some older buildings that were partially constructed with
university funds, but that the athletics department has taken over the maintenance of those
structures. Mr. Barta stressed that he is not discounting Professor Logsdon’s skepticism and
indicated an interest in discussing his concerns further.
Professor Gillan asked if it was a common practice for university athletics departments to contribute money to general education funds for university strategic initiatives. Mr. Barta speculated that less than 20 of the Division I institutions do this. Professor Macfarland commented that, if one looks at the football program through the lens with which one views the academic programs, then our football program is doing a terrific job. He explained that in our academic programs, we select our students carefully and then dedicated faculty members work very hard with those students to maximize their educational and personal potential. Faculty also measure their students’ progress frequently. Professor Macfarland congratulated the athletics department for adhering to these same standards in the football program. Mr. Barta responded that he appreciated the comment. He added that coaches are instructors with a different type of classroom and they care deeply about their student-athletes. Professor Kwitek commented that she appreciated that the athletics department is self-supporting. She asked what would happen, however, if the department falls into the red. Mr. Barta indicated that the department is building a reserve fund to cover its expenses in the event of financial difficulties.

- **Office of Finance and Operations Review Update (Joe Yockey, Chair, Review Committee)**
  Secretary Yockey reminded the group that the Operations Manual requires that the central administrative offices be reviewed on a regular basis. He indicated that the review of the Office of the Vice President for Finance and Operations is two-fold, with one review of the Office itself (including the Treasurer’s Office, Purchasing, Business Services, etc.) and the other review of Senior Vice President Rod Lehnertz. Along with Secretary Yockey as chair, the review committee includes Ramji Balakrishnan (Business), Barbara Eckstein (Liberal Arts & Sciences), Megan Foley Nicpon (Education), Alicia Gerke (Medicine), Lia Plakans (Education), and external reviewer Brian Burnett, Senior Vice President for Finance and Operations, the Chief Financial Officer, and Treasurer for the University of Minnesota.

  In early December the review committee held 14 interviews on campus with individuals who work in the Office or work closely with the Office. Two surveys were also conducted, a survey of faculty perceptions of the Office and a survey of staff across the university who work closely with the Office. The committee reviewed extensive documentation, as well, including the Office’s self-study and other documents that the review committee requested as questions arose. Both reports have been completed and Vice President Lehnertz now has the opportunity to read the reports and submit corrections of factual errors. Then, both reports will be given to President Harreld. The review of the Office will eventually be posted on the Faculty Senate website, while the review of Vice President Lehnertz will remain a confidential personnel record. President Ganim noted that Finance and Operations is an enormous entity and thanked the review committee for their diligent and extensive work.

- **President’s Report (Russ Ganim)**
  President Ganim reminded the group that the Shared Governance Advisory Task Force on Academic and Research Centers, Institutes, and Activities was constituted in response to the center and institute closures that took place over the summer. Task Force membership includes shared governance leaders, faculty members and administrators. The Task Force has met twice and the minutes of the first meeting, on November 9, were distributed to senators. At the second meeting, on December 13, the new budget model was the dominant theme of discussion, as both
faculty and administrators strive to gain a greater understanding of the model. Two major questions have emerged thus far. The first is, how will the central service administrative units be financed? The second is, how will indirect costs be distributed across the university? President Ganim commented that this aligns with why the task force was initially created. We want to be able to develop mechanisms to review possible closures or reductions in centers, institutes, or other activities. Until we determine exactly how the budget model is structured, it will be difficult to identify pressure points in collegiate budgets. While the response to the new budget model appears to be favorable overall, there are still matters to be sorted out. As the task force continues its work, it must develop processes for review and identification of units that might be vulnerable if the university’s financial situation gets worse or stays stagnant.

Another central administrative review is about to begin, President Ganim indicated. Next to be reviewed is the Office of the General Counsel. Past President Pete Snyder will chair the review committee, which will also include Caroline Sheerin (Law), Richard Fumerton (Liberal Arts and Sciences), and Carolyn Colvin (Education). The external reviewer will be Raymond Taffora, Vice Chancellor for Legal Affairs at the University of Wisconsin-Madison. The review committee has been reading the Office’s self-study and plans to conduct interviews on campus and send out a survey later in the semester. The report is expected to be completed by the end of May.

Regarding administrative searches, President Ganim noted that the Faculty Senate officers met with the candidates for Provost. Three Provost candidates recently came to campus and a decision should be made soon by President Harreld. Campus visits by the candidates for Vice President for Research will begin this week and the Senate officers expect to meet with these candidates, as well.

In conclusion, President Ganim indicated that the Faculty Council is considering the development of a process for review and use of consultants by the university. At this initial stage it is necessary to gather information and speak with senior administrators regarding the criteria for hiring consultants. Once this information is collected, the Council will consider next steps, perhaps to include the formation of a subcommittee to examine the issue further. A grass roots initiative in which the officers would like to engage senators is an in-depth discussion of the balance of tenured/tenure-track faculty vs. other faculty tracks. These in-depth discussions should take place within colleges and should involve faculty and collegiate administrators, as together they seek to develop a greater sense of intentionality in the hiring of new faculty.

IV. From the Floor – There were no items from the floor.

V. Announcements
   • A special session of the Faculty Council will be held on Tuesday, February 19, 3:30-4:30 pm, 341 IMU.
   • A special session of the Faculty Senate will be held on Tuesday, February 26, 4:00-5:00 pm, Senate Chamber, Old Capitol.
   • The next regular Faculty Council meeting will be Tuesday, March 12, 3:30-5:15 pm, University Capitol Centre 2390.
   • The next regular Faculty Senate meeting will be Tuesday, March 26, 3:30-5:15 pm, Senate Chamber, Old Capitol.

VI. Adjournment – Professor Durham moved and Professor Gillan seconded that the meeting be adjourned. The motion carried unanimously. President Ganim adjourned the meeting at 5:10 pm.