

Resolution for a Capital Lease for the 3200 Commerce Street Property

JOINT FINANCE AND RESOURCE MANAGEMENT COMMITTEE AND BUILDINGS AND GROUNDS COMMITTEE

September 1, 2020

The Virginia Tech Transportation Institute (VTTI) is a critical research engine for the university with over 300 active research projects and \$50 million of annual research expenditures. The university's vision to expand research and development under the Institute is a key strategic initiative for the future. Specifically, VTTI identified the acquisition of 3.29 acres of property with 10,434 square feet of additional office and garage space at 3200 Commerce Street in Blacksburg, Virginia as an essential asset for growth.

This location provides a large space to house VTTI's technical support operations and facilitate vehicle repairs and modifications, streamlines access to research vehicles, and promotes the expedient staging of research props and fixtures. The space also provides a conditioned area for sponsors and researchers to interact with vehicle systems and is a critical staging area for modified vehicles and equipment that are not fully weather rated.

On behalf of the university, the Virginia Tech Foundation (Foundation) acquired the property for \$1.52 million on May 29, 2020. The funding plan to cover the projects costs calls for the university to enter a lease with the Foundation at a rate sufficient to retire the acquisition costs, normal operating costs, and property carrying costs. VTTI will fund the lease costs for the property from its returned overhead revenues. The University Controller's Office has reviewed the lease and determined the terms and conditions meet the standard for a capital lease. Under the university's management agreement for capital projects with the commonwealth, capital leases are defined as capital projects that require a capital project authorization, irrespective of their total value. Thus, while the asset acquisition costs are below the commonwealth's \$3 million capital project threshold, the lease meets the Generally Accepted Accounting Principles (GAAP) for a capital lease.

The university and VTTI are ready to proceed with entering a lease with the Foundation for the 3200 Commerce Street property and have developed an entirely nongeneral fund resource plan sufficient to cover the \$1.52 million property acquisition costs, future property carrying, and maintenance costs. Under the 2006 Management Agreement between the Commonwealth of Virginia and the university, the Board of Visitors has the authority to approve the budget, size, scope, and funding of nongeneral fund capital outlay projects, including capital leases. This request is for authorization to enter into a capital lease with the Foundation for the 3200 Commerce Street property.

**RESOLUTION FOR A CAPITAL LEASE FOR
THE 3200 COMMERCE STREET PROPERTY**

WHEREAS, the Virginia Tech Transportation Institute (VTTI) is a critical research engine for the university with over 300 active research projects and \$50 million of annual research expenditures; and,

WHEREAS, VTTI identified the acquisition of 3.29 acres of property at 3200 Commerce Street in Blacksburg, Virginia as essential to its operations and strategic growth; and,

WHEREAS, the Foundation has acquired the property inclusive of the 10,434 gross square foot facility containing additional office and garage space for \$1.52 million; and,

WHEREAS, the university has a funding plan that calls for entering a long-term lease with the Foundation at a rate sufficient to retire the acquisition costs, normal property carrying costs, and operating expenses; and,

WHEREAS, the lease rates will be based on a break-even arrangement with the rates reverting to usual and customary property carrying costs after the facility costs are retired; and,

WHEREAS, Virginia Tech has developed a nongeneral fund resource plan utilizing VTTI operating revenues which are sufficient to support the full costs of the lease; and,

WHEREAS, under the 2006 Management Agreement between the Commonwealth of Virginia and Virginia Tech, the Board of Visitors has authority to approve the budget, size, scope, debt issuance, and overall funding of nongeneral funded major capital outlay projects, including capital leases.

NOW, THEREFORE, BE IT RESOLVED, that Virginia Tech be authorized to enter into a capital lease with the Virginia Tech Foundation for the 3200 Commerce Street property.

RECOMMENDATION:

That the resolution authorizing Virginia Tech to enter into a capital lease with the Virginia Tech Foundation for the 3200 Commerce Street property be approved.

November 15, 2020