Ratification of Lease Activities Approved by the University

FINANCE AND RESOURCE MANAGEMENT COMMITTEE

September 28, 2023

The university adopted Governmental Accounting Standards Board (GASB) Statement No. 87 *Leases* in the fiscal year 2022 reporting period. The new standard replaced the distinction between operating and capital leases with a distinction between short-term and long-term leases.

The university recognizes long-term leases when a lease has a maximum term greater than 12 months and present value equal to or greater than $50,000. These long-term leases are debt obligations of the university. The university approves and the Board of Visitors ratifies lease activities below the capital project threshold according to the approval process the Board of Visitors approved at the June 2021 meeting.

On September 30, 2022, the university signed a five-year extension with the Virginia Tech Real Estate Foundation, Inc. for its leased space located at 400 and 460 Turner Street, Blacksburg, VA 24060. The university has occupied the space since November 2012. The net present value of the lease modification exceeds the capital project threshold and should have received prior board approval. The university seeks separate ratification for the leased space.

The university approved the following long-term leases payable activities in fiscal year 2023.

<table>
<thead>
<tr>
<th>Long-term Leases Payable Activities</th>
<th>Count</th>
<th>Debt Effect (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>400 and 460 Turner Street</td>
<td>1</td>
<td>$ 3.3</td>
</tr>
<tr>
<td>New Leases</td>
<td>8</td>
<td>3.2</td>
</tr>
<tr>
<td>Lease Modifications</td>
<td>18</td>
<td>5.0</td>
</tr>
<tr>
<td>Early Terminations</td>
<td>5</td>
<td>(0.5)</td>
</tr>
<tr>
<td><strong>Net New Obligations</strong></td>
<td></td>
<td><strong>11.0</strong></td>
</tr>
</tbody>
</table>

See Attachment A for more detail on the university’s long-term leases payable.

The university also approved $2.6 million of payments for long-term lease improvements and capitalized $13.1 million of long-term lease improvements completed in fiscal year 2023. See Attachment B for more detail on the university’s long-term lease improvement activities.

**RECOMMENDATION:**

That the fiscal year 2023 university approved lease activities be ratified, including the lease modification for the university’s space at 400 and 460 Turner Street.

November 6, 2023
## Long-Term Leases Payable Activity

*for the fiscal year ended June 30, 2023*

*all dollars in thousands*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Previously approved lease activity</td>
<td>$ 121,570</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$ 121,570</td>
</tr>
<tr>
<td>Board approved lease activity^1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VTRC-A Floors 2-6 Lease Novation^2</td>
<td>-</td>
<td>23,329</td>
<td>-</td>
<td>(5,431)</td>
<td>-</td>
<td>17,898</td>
</tr>
<tr>
<td>Gilbert Street Project^3</td>
<td>-</td>
<td>56,788</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>56,788</td>
</tr>
<tr>
<td>Research Swing Space^3</td>
<td>-</td>
<td>20,614</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>20,614</td>
</tr>
<tr>
<td>University approved lease activity^4</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>400 and 460 Turner Street^5</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total university approved lease activity</td>
<td>-</td>
<td>3,319</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,319</td>
</tr>
</tbody>
</table>

### Total value of long-term lease activity

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 121,570</td>
<td>$ 103,970</td>
<td>$ 8,327</td>
<td>$ (5,953)</td>
<td>$ (21,963)</td>
<td>$ 205,951</td>
</tr>
</tbody>
</table>

### Number

<table>
<thead>
<tr>
<th>Other university approved lease activity</th>
<th>1,000,000 - $2,999,999</th>
<th>$250,000 - $999,999</th>
<th>$249,999 or less</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>7</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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^1Long-term lease activities with a present value equal to or greater than the capital projects threshold.

^2Approved November 8, 2021.

^3Approved April 4, 2022.

^4All other long-term lease activities, ratified by the Board of Visitors annually.

^5Board ratification sought for university approved lease modification exceeding the capital projects threshold.

^6Leases with the Virginia Tech Foundation represent $170.3 million (83%) of the ending value of long-term leases payable.
## Long-Term Lease Improvements Activity
for the fiscal year ended June 30, 2023
*all dollars in thousands*

<table>
<thead>
<tr>
<th>Value</th>
<th>Beginning Balance</th>
<th>Additions: Payments</th>
<th>Reductions: Capitalized Projects</th>
<th>Ending Balance (unaudited)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previously approved lease improvement activity</td>
<td>$10,464</td>
<td>$</td>
<td>$</td>
<td>$10,464</td>
</tr>
<tr>
<td>Board approved lease improvement activity(^1)</td>
<td>-</td>
<td>-</td>
<td>(10,320)</td>
<td>(10,320)</td>
</tr>
<tr>
<td>Gilbert Street Project</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>University approved lease improvement activity(^2)</td>
<td>-</td>
<td>2,631</td>
<td>(2,775)</td>
<td>(144)</td>
</tr>
<tr>
<td>Total lease improvement activity</td>
<td>$10,464</td>
<td>$2,631</td>
<td>$ (13,095)</td>
<td>$</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000,000 - $2,999,999</td>
<td></td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$250,000 - $999,999</td>
<td></td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$249,999 or less</td>
<td></td>
<td>3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^1\)Long-term lease improvement projects with a present value equal to or greater than the capital projects threshold.

\(^2\)All other long-term lease improvement activities, ratified by the Board of Visitors annually.