

## **Capital Lease for National Tire Research Center**

### **JOINT BUILDINGS AND GROUNDS COMMITTEE AND FINANCE AND AUDIT COMMITTEE**

**August 1, 2011**

The Virginia Tech Transportation Institute (Institute) is a critical research engine for the university with 137 research projects, a \$67 million total research portfolio, and \$30 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, the university is developing a specialized tire research initiative known as the National Tire Research Center (Center) to support fulfilling this goal. The vision for the Center is to promote research growth and economic competitiveness in southern Virginia by providing a full service research, testing, and evaluation center for the automotive industry.

The key instrument of the Center is a Flat Trac Machine, which is a one-of-a-kind testing instrument capable of reaching rotation speeds of 180 miles per hour. The Institute successfully obtained external funding for the entire costs of the \$11.2 million instrument, which has been ordered and is being fabricated with an expected delivery of September 2012.

The Center requires approximately 15,300 square feet to accommodate current and projected operations, including 3,300 square feet with foundations and envelope specifications sufficient to support the activity of the Flat Trac Machine. Because of the necessary support facilities required to operate the equipment and collaborate on research activity, the proposed facility solution for the Center is to lease the existing Joint Unmanned Systems, Test, Experimentation and Research (JUSTER) facility at the Virginia International Raceway east of Danville, Virginia for the program operations with an addition of new construction for the Flat Trac machine. The JUSTER building was constructed in 2005 and includes 12,000 square feet with an appraised value of \$1.4 million. The estimated costs of an additional 3,300 square feet of new construction for the machine are \$1.3 million. Together, these spaces will meet the space needs of the Center.

The plan to acquire the space includes entering into a lease in summer 2011 to occupy the existing JUSTER building. The program will take occupancy of the 3,300 square foot addition upon completion of construction and acceptance of the space by the program. The expected costs of the total facility at the completion of construction are \$307,000 annually, plus maintenance and utilities. The initial lease term will be ten years with a ten year renewal option and will be leased from ViJo, LLC. The original facility solution was envisioned to be below the capital outlay thresholds.

The opportunity to address the program needs through a long-term lease with ViJo, LLC which meets the capital lease definition requires a capital authorization. This request is for authorization to enter into a capital lease as necessary to obtain the required space to support the Center. The proposed lease includes the existing JUSTER building (12,000 square feet) and the new construction space (3,300) for a total lease of 15,300 square feet.

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. This request is for an authorization to move forward with a capital lease to house the Center.

## **RESOLUTION OF CAPITAL LEASE FOR NATIONAL TIRE RESEARCH CENTER**

**WHEREAS**, the university's vision to expand research and development under the Virginia Tech Transportation Institute (Institute) is a key strategic initiative for the future of the institution; and

**WHEREAS**, the university is developing a specialized tire research initiative known as the National Tire Research Center (Center) to support fulfilling this goal; and

**WHEREAS**, the Center requires approximately 15,300 square feet to accommodate current and projected operations, including 3,300 square feet with foundations and envelope specifications sufficient to support the activity of specialized testing instruments; and

**WHEREAS**, the proposed facility solution for the Center is to lease the existing Joint Unmanned Systems, Test, Experimentation and Research (JOUSTER) facility at the Virginia International Raceway east of Danville, Virginia for the program operations with an addition of new construction for the Flat Trac Machine; and

**WHEREAS**, the Institute has reviewed the facility specifications and lease specifications and determined they will meet the needs of the Center; and

**WHEREAS**, the university has developed a funding plan that includes nongeneral fund resources sufficient to support the full costs of the lease(s); and

**WHEREAS**, under the 2006 Management Agreement between the Commonwealth of Virginia and the university, 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 the university be authorized to enter into a capital lease with ViJo, LLC for 15,300 square feet of space to house the National Tire Research Center, including the Flat Trac Machine, with an option to assign the lease to the Virginia Tech Foundation, Inc. in the future.

### **RECOMMENDATION:**

That the above resolution authorizing Virginia Tech to enter into a capital lease agreement with ViJo, LLC to house the National Tire Research center be approved.

August 29, 2011