

Capital Project for Capital Lease of the Turner Street Facility

JOINT FINANCE AND AUDIT COMMITTEE AND BUILDINGS AND GROUNDS COMMITTEE

July 27, 2012

For many years, the university has housed several permanent support units in leased space and outdated space that hinder service to the academic enterprise. In 2005, the university developed a long-term strategy to collapse leases, locate critical support units closer to their academic customers, and overcome substantial deferred maintenance conditions. The central component of the strategy involves working with the Virginia Tech Foundation to economically provide a permanent location on the edge of campus near the academic activity.

On November 3, 2008, the Board of Visitors passed a resolution requesting the Virginia Tech Foundation to acquire control of a four acre property near the northeast side of campus (Turner Street) to support moving forward with the project. Subsequently, on December 15, 2008, the Foundation signed a letter of intent to enter into a 25-year ground lease on the land. On April 15, 2011, the Foundation purchased the four acre parcel outright.

The Foundation and the university worked collaboratively on a build-to-suit lease for an overall project that includes the four acre parcel of land, an approximate 140,000 gross square foot (GSF) mixed use building, and an approximate 247,000 GSF parking structure. A portion of the land, 0.79 acre, remains vacant to accommodate future growth. The mixed use building will have approximately 112,000 GSF of administrative office space and 28,000 GSF of retail space. The parking garage will have approximately 800 spaces. The plan calls for the university to enter into a long-term lease for 80 percent of the office building to provide a permanent home for several key university support functions and 100 percent of the parking structure for parking needs on the north-east side of campus, including the Center for the Arts. The total project value is \$51 million and the proportionate value of the university use is approximately \$46 million. As with all capital project proposals, the university has prepared a funding plan to provide assurance regarding the financial feasibility of the project.

Design work began in May 2010 and substantial completion is scheduled for December 2012 with move in anticipated for February 2013. Because the plan calls for long-term use of the administrative office space and parking garage, the nature of the arrangement will meet the capital lease thresholds under Generally Accepted Accounting Principles.

Under the 2006 Management Agreement between the Commonwealth of Virginia and the university, the Board of Visitors has the authority to approve capital leases funded entirely with nongeneral fund revenues. This request is for an authorization to move forward with a capital lease(s) of the Turner Street Facility which is funded entirely with nongeneral fund revenues.

RESOLUTION OF A CAPITAL LEASE FOR THE TURNER STREET FACILITY

WHEREAS, in 2005, the university developed a long-term strategy to collapse leases, locate critical support units closer to their academic customers, and overcome substantial deferred maintenance conditions; and,

WHEREAS, a central component of the strategy involves working with the Virginia Tech Foundation to economically provide a permanent location on the edge of campus near the academic activity; and,

WHEREAS, on November 3, 2008, the Board of Visitors passed a resolution requesting the Virginia Tech Foundation to acquire control of a four acre property near the northeast side of campus (Turner Street) to support moving forward with the project; and,

WHEREAS, the Foundation and university worked collaboratively on a build-to-suit lease for an overall project that includes the four acre parcel of land, an approximate 140,000 gross square foot (GSF) mixed use building, and an approximate 247,000 GSF parking structure; and,

WHEREAS, the plan calls for the university to enter into long-term leases for 80 percent of the office building and 100 percent of the parking structure; and,

WHEREAS, the university has a need for permanent space of this type; and,

WHEREAS, the university has prepared a funding plan based on nongeneral fund lease savings and resource reallocations to provide assurance regarding the financial feasibility of the project; and,

WHEREAS, under the 2006 Management Agreement between the Commonwealth of Virginia and the university, the Board of Visitors has authority to approve capital leases funded entirely with nongeneral funded revenues;

NOW THEREFORE BE IT RESOLVED, that the university be authorized to move forward on a transaction with the Virginia Tech Foundation for build-to-suit capital leases for the Turner Street Facility.

RECOMMENDATION:

That the resolution authorizing Virginia Tech to enter into capital leases with the Virginia Tech Foundation for the Turner Street Facility be approved.

September 10, 2012