

Capital Project for Capital Lease of a Propulsion Laboratory

JOINT FINANCE AND AUDIT COMMITTEE AND BUILDINGS AND GROUNDS COMMITTEE

July 23, 2012

The Virginia Tech Propulsion group has long established associations with several gas turbine manufacturers, and these companies have donated several instruments, engines, and rigs for a state-of-the-art research program at Virginia Tech. Further, the university has entered productive collaborations with the Commonwealth of Virginia, Rolls-Royce, and other leaders in the propulsion industry to fund program research, including state funding for the Commonwealth Center for Aerospace Propulsion Systems.

The university does not have access to facilities that fully accommodate the propulsion program's equipment, which in turn limits the activities of the program research. The envisioned facility includes approximately 8,100 gross square feet of new construction to support research at the cutting edge of propulsion investigation, including next generation fighter and commercial aircraft engine technology and power generation gas turbine technology focused on the energy industry. The combination of this specialized facility and equipment will make Virginia Tech a unique destination within the United States for this type of research. As an illustration, of the National Aeronautics and Space Administration's nine Technology Readiness Levels (TRL), the proposed facility will shift Virginia Tech's propulsion program from TRL-1 to a TRL-5, which greatly expands opportunities for federal and industry funding sources.

In August 2011, the Board of Visitors authorized a capital planning project for a Propulsion Laboratory facility to address the research and instruction needs of the propulsion program. To accommodate the sound management, power supply, and proximity to main campus requirements, the college and university subsequently explored a new facility to be located at the Virginia Tech Montgomery Executive Airport. The results of the study show the costs at this location to be approximately \$7 million which is not affordable for the College of Engineering.

The university explored further for practical options that may support the unique requirements of this specialized facility. An effective site has been identified at the Corporate Research Center (CRC), Phase 2. Under this arrangement, the estimated project costs inclusive of design and construction are expected to be \$3.5 million which is an affordable cost for the college. To advance the project, the college and university have worked together on a funding plan to provide assurance regarding the financial feasibility of the project. Because the college plan calls for long-term use of the facility, the university will cover the entire costs of the project under this arrangement; thus, the lease 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 build-to-suit capital lease for a Propulsion Laboratory facility funded entirely with nongeneral fund revenues.

**RESOLUTION OF A CAPITAL LEASE FOR A
PROPULSION LABORATORY FOR THE COLLEGE OF ENGINEERING**

WHEREAS, the College of Engineering has identified expanding the research and instruction activities related to propulsion as a top priority; and,

WHEREAS, the university does not have access to facilities that fully accommodate the propulsion program's equipment, which in turn limits the research activities of the program; and,

WHEREAS, the sound management, power supply, and proximity to main campus requirements may be accommodated at the Corporate Research Center, Phase 2 for an affordable cost; and,

WHEREAS, the envisioned facility includes approximately 8,100 gross square feet of new construction to support research at the cutting edge of propulsion investigation; and,

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

WHEREAS, the estimated project costs inclusive of design and construction are expected to be \$3.5 million; and,

WHEREAS, the college and university have worked together on a funding plan to provide assurance regarding the financial feasibility of the project, which calls for the use of overhead revenues from the college to cover the proposed project costs; 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 a build-to-suit capital lease for a Propulsion Laboratory facility.

RECOMMENDATION:

That the resolution authorizing Virginia Tech to enter a capital lease with the Virginia Tech Foundation for a Propulsion Laboratory be approved.

September 10, 2012