

Capital Project Resolution for the Dairy Center Relocation Phase One

FINANCE AND AUDIT COMMITTEE

May 7, 2013

The existing dairy facilities located on Southgate Drive must be razed to make way for a new U.S. 460 Interchange. The Interchange is expected to start construction in the summer of 2015, and replacement facilities for dairy herd operations must be in place by spring of 2015 to allow for a transition period. The university has developed a two-phase relocation strategy for relocating the dairy teaching and research facilities.

The first phase of the relocation is to move the dairy herd operations to ensure continuity of the instructional activities currently occurring at the Southgate Drive location. Based on findings of program studies with the college and department, the lactating and non-lactating herd operations will move to the Kentland Farm. The facility plan calls for a milking parlor, free stall barn, and associated infrastructure and support facilities for a herd of 232 cows. The overall scope includes approximately 95,000 gross square feet of agriculture buildings and associated site improvements.

The dairy program activities would normally qualify for state support. However, because of the timing requirements to start moving the herd by spring 2015, the state's limited capacity to fund new capital projects, and to ensure no disruption in instructional activities, the university has developed a self-funded plan for phase one of the relocation. Phase two includes relocation of dedicated research facilities, and permanent replacement facilities may be provided after the summer 2015 move. The university is working with the state to fund the phase two component, and a planning authorization was received from the state during the 2013 General Assembly Session which will allow design to begin in July 2013.

This resolution request is for phase one. The university has evaluated project delivery strategies for phase one and has selected a lease arrangement with the Virginia Tech Foundation (Foundation) as the best overall solution. The plan calls for the university to provide a long-term land lease to the Foundation and for the Foundation to design, construct, equip, and finance the project. The university will lease the completed project from the Foundation. The land and improvements will revert to the university at the termination of the land lease with the Foundation. The lease with the Foundation will be structured to ensure that the lease payments are sufficient but not beyond the amounts needed to cover the costs incurred by the Foundation.

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, debt issuances, and overall 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 phase one at a project cost not to exceed \$14 million.

RESOLUTION OF A CAPITAL LEASE FOR THE DAIRY CENTER RELOCATION PHASE ONE

WHEREAS, the College of Agriculture and Life Sciences is a critical component of the university's land-grant missions with outstanding faculty, students, and staff; and,

WHEREAS, the existing dairy facilities located on Southgate Drive that support multiple instructional programs in the college and the broader university must be razed to make way for a new U.S. 460 Interchange; and,

WHEREAS, based on findings of program studies with the college and department, the lactating and non-lactating herd operations can be accommodated at the Kentland Farm; and,

WHEREAS, the project scope includes approximately 95,000 gross square feet of milking parlor, free stall barn, support facilities and associated infrastructure for a herd of approximately 232 cows; and,

WHEREAS, the facility solution calls for the Foundation to build replacement facilities and for the university to lease the facilities; and,

WHEREAS, the lease rates will be based on a break-even arrangement with the land and improvements reverting to the university after the project costs are retired and the lease terminates; and,

WHEREAS, the university has developed a funding plan that includes resources sufficient to support the lease; and,

WHEREAS, the anticipated lease arrangements are expected to meet the Generally Accepted Accounting Principles (GAAP) capital lease definition; 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 issuances, and overall funding of nongeneral funded capital outlay projects, including capital leases;

NOW, THEREFORE, BE IT RESOLVED, that the university be authorized to move forward on transactions with the Virginia Tech Foundation to plan, design, construct, equip, and finance the necessary facilities, inclusive of a capital lease, for phase one of the dairy center relocation at a project cost not to exceed \$14 million.

RECOMMENDATION:

That the resolution authorizing Virginia Tech to enter into a capital lease with the Virginia Tech Foundation for the Dairy Center Relocation Phase One be approved.

June 3, 2013