

Approval of Capital Lease Agreements for the Sciences College Consortia Program and Food, Nutrition and Health Vivarium

The University's goals for the rapid and significant expansion of its research programs are partially dependent upon the ability of the University to identify and establish sufficient research space to allow the faculty to pursue additional grants and contracts. To obtain this research space in a timely manner, the University is committed to pursuing various strategies. While the development of General Fund supported research space on the campus is a key strategy, this approach will not occur quickly enough to address all of the research space needs.

One alternative strategy is the acquisition of research space in the Corporate Research Center and elsewhere through lease commitments. In developing this strategy, some space may need to be leased for short or intermediate terms; however, some space is needed on a long-term basis.

The Commonwealth's capital outlay process applies to University leases that exceed specific thresholds with regard to total financial payments, and the rules further require the establishment of capital leases in cases where the lease would be classified as a capital lease in accordance with generally accepted accounting principles for leases. In such cases, the resulting capital lease will be recorded on the University's financial statements as an asset with a corresponding long-term financial obligation.

With the establishment of the Management Agreement with the Commonwealth effective July 1, 2006, the Board of Visitors is authorized to approve capital lease projects, with the corresponding financial obligation, without further review or approval by the Commonwealth.

The University has identified the need to enter into long-term leases with the Virginia Tech Foundation, Inc. (Foundation) for an integrated sciences facility. Accordingly, the University wishes to enter into capital lease agreements with the Foundation to house its Sciences College Consortia program and Food, Nutrition and Health Vivarium program, and it needs to pursue the establishment of these agreements promptly in order to obtain the needed research space by fall 2007.

Since the University has determined that the long-term nature of these leases will create capital leases in accordance with general accepted accounting principles, the University has developed a capital lease resolution for consideration by the Board of Visitors at its August 2006 meeting.

**Resolution on Capital Lease Agreements
for the Sciences College Consortia Program and
Food, Nutrition and Health Vivarium**

WHEREAS, Virginia Tech's stated goal of being among the top tier of research universities is constrained by the lack of available space that directly and indirectly supports growth in funded research activities; and,

WHEREAS, the Colleges of Agriculture and Life Sciences, Natural Resources, Science, and Veterinary Medicine (Sciences College Consortia) have engaged in a partnership which will help access the necessary state-of-the-art laboratory space for cluster hires and the related research in the areas of infections, disease, and obesity; and,

WHEREAS, the College of Agriculture and Life Sciences has identified a need for vivarium space, inclusive of holding/procedure areas, support and storage, and other required areas for small animal research, to increase the University's NIH funding opportunities; and,

WHEREAS, the need for research space for these programs is immediate and ongoing and the need cannot be fully addressed in a timely manner through the normal state funding process; and,

WHEREAS, the University desires to enter into capital lease agreements with the Virginia Tech Foundation, Inc. (Foundation) to provide long-term, cost efficient space for the programs; and,

WHEREAS, the University has evaluated and approved the lease justifications for approximately 77,000 gross square feet of laboratory space, including 7,000 gross square feet of vivarium space, suitable for the programs; and,

WHEREAS, the plans and specifications for the facility shall be consistent with the programmatic needs of the occupants and shall be constructed in accordance with all applicable governmental regulations and inspections; and,

WHEREAS, the annual costs shall be at a rate in which the Foundation will neither receive profit nor will lose money on the lease, over the life of the lease, to the extent allowed by law; and,

WHEREAS, the term of said agreements shall be for twenty (20) years, at an estimated total annual cost for each of the first two years of \$1,796,690 plus utilities, to be paid by indirect cost recoveries generated from research activities; and,

WHEREAS, the lease agreements shall further provide that after the 20-year lease term, the University may, at its option, extend the leases indefinitely at an annual amount not exceeding the actual costs incurred by the Foundation to operate and maintain the facility as directed by the University; and,

WHEREAS, effective July 1, 2006, the Board of Visitors is authorized to approve the establishment of capital leases, in accordance with the provisions of the Management Agreement with the Commonwealth;

NOW THEREFORE BE IT RESOLVED that the University be authorized to enter into capital leases with the Virginia Tech Foundation, Inc. for a facility to house its Sciences College Consortia program and the Food, Nutrition and Health Vivarium.

RECOMMENDATION:

That the above resolution authorizing Virginia Tech to enter into capital lease agreements with the Virginia Tech Foundation for a facility to house its Sciences College Consortia program and the Food, Nutrition and Health Vivarium be approved.

August 28, 2006