

Capital Project to Supplement the Applied Projects Building
JOINT FINANCE AND RESOURCE MANAGEMENT COMMITTEE
AND BUILDINGS AND GROUNDS COMMITTEE

September 29, 2018

The Board of Visitors approved a capital lease project for the Applied Projects Building with an \$8.4 million total cost at its September 11, 2017 meeting. The university has been leasing space from a vendor for its applied projects research activity, and this project provides a permanent location to grow the program. The scope and budget for the project was based on a facility feasibility study and internal reviews conducted by the Corporate Research Center (CRC).

To ensure uninterrupted continuity of research projects underway in the leased facility, the CRC developed a fast track implementation plan with overlapping design and construction phases. This approach collapsed the schedule to ensure the new building is ready for occupancy in time to transition existing research prior to the lease expiration. The foundation package is complete and installed, and the building package is ready for implementation.

Since the capital lease approval in September 2017, circumstances and opportunities have emerged requiring a supplement to the original authorization. Pricing for the 45,000 gross square feet building package exceeds the budget by \$790,000, the program is requesting \$354,000 of new infrastructure to support an unexpected opportunity for specialized instruments, and the program is also requesting the financing package be expanded to spread \$600,000 of furnishings costs over time. Thus, the adjustments increase the total required budget to \$10.144 million from \$8.4 million, a \$1.744 million increase. The university and CRC conducted a thorough value engineering analysis to contain the proposed adjustments to the lowest costs possible without impacting the program or building service life. The university has reviewed the proposed cost adjustments with the CRC and the Vice President for Research and Innovation and determined these adjustments are necessary to achieve the intent of the originally authorized scope and program.

The university and Vice President for Research and Innovation have worked together and developed a funding plan to support the incremental annual lease for the \$1.744 million of new costs. 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, including capital lease. This request is for a \$1.744 million supplement to adjust the total authorization for the Applied Projects Building and its capital lease to \$10.144 million.

RESOLUTION TO ADJUST THE CAPITAL LEASE FOR THE APPLIED PROJECTS BUILDING

WHEREAS, the Board of Visitors approved a capital lease authorization for the Applied Projects Building with a \$8.4 million total project cost at its September 11, 2017 meeting; and,

WHEREAS, the costs to complete the originally authorized scope, infuse infrastructure to support an unexpected opportunity for specialized instruments, and finance furnishings increase the total project costs by \$1.744 million; and,

WHEREAS, the university has determined these scope and cost adjustments are necessary to achieve the intent of the originally authorized program; and,

WHEREAS, the university will enter a long-term lease for the entire facility at a rate sufficient to retire the debt and financing costs and cover normal operating expenses; and,

WHEREAS, the lease rates will be based on a break-even arrangement with the rates reverting to usual and customary property carrying costs after the facility costs are retired; and,

WHEREAS, Virginia Tech has developed a nongeneral fund resource plan sufficient to support the full costs of the lease; and,

WHEREAS, under the 2006 Management Agreement between the Commonwealth of Virginia and Virginia Tech, 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 move forward with a \$1.744 million supplement to adjust the total project authorization for the Applied Projects Building to \$10.144 million and enter into a capital lease with the Virginia Tech Foundation for the development of approximately 45,000 gross square feet of office, laboratory, and applied projects space inclusive of upfits and certifications.

RECOMMENDATION:

That the above resolution authorizing Virginia Tech to supplement and complete the Applied Projects Building and enter into a capital lease with the Virginia Tech Foundation be approved.

November 5, 2018

Resolution to Adjust the Capital Lease for the Applied Projects Building Supplement

November 5, 2018

DWIGHT SHELTON

VICE PRESIDENT FOR FINANCE AND CHIEF FINANCIAL OFFICER

**BOB BROYDEN,
ASSOCIATE VICE PRESIDENT FOR CAPITAL ASSETS AND
FINANCIAL MANAGEMENT**



Resolution to Adjust the Capital Lease for Applied Project Building Supplement

- The Board of Visitors approved a capital lease authorization for the Applied Projects Building with a \$8.4 million total project cost at its September 11, 2017 meeting.
- The costs to complete the originally authorized scope, infuse infrastructure to support an unexpected opportunity for specialized instruments, and finance furnishings increase the total project costs by \$1.744 million.
- This request is to adjust the total project costs to \$10.144 million.
- The university has worked with Vice President for Research and Innovation to fund the incremental lease costs.

Resolution to Adjust the Capital Lease for Applied Project Building Supplement

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