

# The Presidio Trust:

Developing a  
National Park  
While Attaining Self-Sufficiency



January 2004



NATIONAL ACADEMY OF  
PUBLIC ADMINISTRATION

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*A Report by a Panel of the*

**NATIONAL ACADEMY OF  
PUBLIC ADMINISTRATION**

*for the United States Congress and the Presidio Trust  
Corporation*

**January 2004**

**THE PRESIDIO TRUST:  
DEVELOPING A NATIONAL PARK  
WHILE ATTAINING  
SELF-SUFFICIENCY**

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*The views expressed in this report are those of the Panel. They do not necessarily reflect the views of the Academy as an institution.*

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## FOREWORD

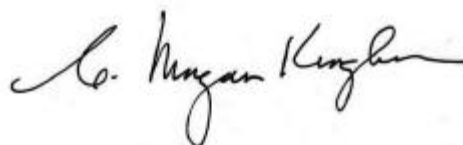
The Presidio is located on 1,490 acres at the tip of the San Francisco peninsula. For nearly 220 years it has served as a military base of operations for Spain, Mexico, and the United States. Congress designated it a National Historical Landmark in 1962. In 1994, the Presidio closed as a military base and became part of Golden Gate National Recreational Area (GGNRA) under National Park Service (NPS) management. When the magnitude and costs of transforming the Presidio from a military base to a national park became clear, the Congress created the Presidio Trust Corporation (the Trust) to manage the transformation.

The 1996 Presidio Trust Act not only provided that administrative control and responsibilities for specific Presidio functions be shared between two independent organizations—the Trust and the NPS—but also mandated that the Trust become financially self-sufficient by 2013. This mandate was a unique requirement for a national park site and has dominated much of the planning and budgeting activities during the Trust’s first five years.

The Academy Panel found that the Trust must meet both of its statutory goals—achieving financial self-sufficiency and transforming the Presidio into a viable, sustainable national park site—to fully achieve its overall mission. The Panel confirmed that the Trust had made significant progress in meeting its dual statutory goals, and that it could meet its 2013 financial self-sufficiency target if it continues to control its operating costs and successfully implement its current capital spending plan. But, the margin of safety is small, especially considering the considerable challenges and financial risks confronting the Trust.

The Panel strongly believes that how the Trust achieves financial self-sufficiency is as important as meeting that mandate. In attaining the former, the Trust must also create a sufficient financial base for enhancing visitor access, restoring the natural landscape, protecting the magnificent vistas, and developing the Presidio’s unique historical and cultural heritage.

I want to thank the Panel for an exceptional report that contains practical recommendations for the Presidio Trust Corporation and its uniquely challenging task to transform the Presidio from a military base to a national park site. Let me also commend the project staff for their diligent, thorough efforts to develop the information and analyses supporting the Panel’s findings and recommendations. Finally, I would like to thank the Congress and the Trust for providing the Academy an opportunity to contribute to an important public enterprise.



C. Morgan Kinghorn, Jr.  
President  
National Academy of Public Administration





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## LIST OF ACRONYMS

|       |   |
|-------|---|
| APP   | Annual Performance Plan                     |
| APR   | Annual Performance Review                   |
| BRAC  | Base Realignment and Closure Act            |
| CFO   | Chief Financial Officer                     |
| DRMS  | Defense Reutilization and Marketing Service |
| FFB   | Federal Financing Bank                      |
| FMP   | Financial Management Plan                   |
| FOIA  | Freedom of Information Act                  |
| FTE   | Full Time Equivalent                        |
| GAO   | General Accounting Office                   |
| GCCA  | Government Corporation Control Act          |
| GGNPA | Golden Gate National Parks Association      |
| GGNRA | Golden Gate National Recreation Area        |
| GMPA  | General Management Plan Amendment           |
| GPRA  | Government Performance and Results Act      |
| IRR   | Internal Rate of Return                     |
| IT    | Information Technology                      |
| LDAC  | Letterman Digital Arts Center               |
| MOA   | Memorandum of Agreement                     |
| MOU   | Memorandum of Understanding                 |
| NHPA  | National Historic Preservation Act          |
| NPS   | National Park Service                       |
| NCO   | Noncommissioned Officer                     |
| OMB   | Office of Management and Budget             |
| OPIC  | Overseas Private Investment Corporation     |
| PRP   | Preferred Renter Program                    |
| PSP   | Public Safety Program                       |
| PTIP  | Presidio Trust Implementation Plan          |
| PTMP  | Presidio Trust Management Plan              |
| RIF   | Reductions-in-Force                         |
| RTC   | Resolution Trust Corporation                |
| SDC   | Service District Charge                     |
| SRO   | Single Room Occupancy                       |
| USFWS | U.S. Fish and Wildlife Service              |
| USPP  | U.S. Park Police                            |
| USPS  | U.S. Postal Service                         |
| VMP   | Vegetation Management Plan                  |



## EXECUTIVE SUMMARY

The Presidio has been part of modern North American history since 1776, when Spanish soldiers and colonists settled the site. The 1,490-acre Presidio has served as a base of military operations for Spain, Mexico and then the United States for nearly 220 years, and was designated a National Historic Landmark in 1962. In 1988, the Department of Defense determined that the Presidio was excess to its needs, and on October 1, 1994, the Presidio closed as a military base and became part of the Golden Gate National Recreation Area (GGNRA) under National Park Service (NPS) management. When the magnitude and estimated costs of the building rehabilitation and other development needs of operating the Presidio largely with appropriated funds became clear to Congress and NPS, Congress created a wholly owned, independent government corporation—the Presidio Trust Corporation (the Trust) to manage the Presidio and its transformation.

Within the Presidio, administrative control and responsibilities for particular functions are shared between two independent organizations. The Trust controls 80% of the area—the 1,200 interior acres with most of the 469 historic buildings (Area B). NPS manages the remaining 20%, those areas adjoining the San Francisco Bay and Pacific Ocean (Area A). In addition, the Presidio Trust Act assigned NPS responsibility, in conjunction with the Trust, for public interpretive services, visitor orientation and education programs for the entire Presidio, including Area B. However, since there is no natural boundary separating Area A from Area B, the public sees the Presidio as a single entity.

The Act also included the unique requirement for a national park site that the Trust become financially self-sustaining within 15 years after the first meeting of its Board of Directors. This financial self-sufficiency mandate dominated the planning, budgeting, and decision-making of the Trust during its first 5 years. Indeed, the concern over the Trust's ability to meet this mandate led Congress to direct the General Accounting Office (GAO) to study the activities of the Trust and provide reports to Congress 3 years and 7 years after the first Trust Board meeting. In addition, the Trust contracted with the National Academy of Public Administration (the Academy) in March 2003 to conduct a review of the Trust's financial and business management practices in response to a congressional directive included in the House Interior Appropriation Subcommittee Report on the FY 2003 Interior Appropriations bill. This review would have four principal objectives:

- A review of the Trust's current financial plans and budget projections and the initial capital and operating spending trade-offs between revenue producing and other environmental and cultural preservation and enhancement activities.
- An evaluation of the economic and financial assumptions used to develop the projections, including the sensitivity of those projections to changes in assumptions.

- An assessment of the effectiveness of the current organizational structure, particularly its ability to manage the Trust’s business, financial, environmental protection, and cultural/recreational enhancement activities efficiently. This shall include a review of internal alignment of policy and operational responsibilities between the Board and staff.
- An evaluation of the Trust’s current financial authorities, their adequacy for meeting all of the Trust’s statutory missions, and the effectiveness of internal controls and administrative systems to manage and evaluate the use of these authorities, especially loan authorities.

In its 2002 *Annual Report*, the Trust defined its dual goals—“to preserve and enhance the natural, cultural, scenic, and recreational resources of the Presidio for public use in perpetuity, and to achieve long-term financial sustainability.” The Academy Panel fully concurs with the Trust Board’s own assessment that the Trust must meet its statutory financial self-sufficiency mandate and its broader national park site goal if it is to successfully fulfill its overall mission. The Trust can achieve its mandate to become financially self-sufficient by 2013 in a number of ways, but how the Trust achieves that mandate is critically important.

The Panel believes that in its long-range financial implementation plan, the Board should not only express its vision for the Presidio as part of the GGNRA, but also:

- Determine the costs to achieve that vision within the Trust’s long-term planning horizon.
- Identify the expected sources for the resources needed to achieve that vision over that time period.
- Specify what portions of the vision will have to be delayed or foregone if the required resources cannot be attained.

Such an explicit statement will firmly establish the inseparability of the Trust’s financial self-sufficiency and national park site goals. This report contains a number of Panel recommendations to improve the Trust’s long-term financial viability and help ensure that it can meet its financial self-sufficiency mandate. Implementing the recommendations will also provide additional resources needed to help achieve the Trust’s vision for the Presidio as part of the national park system.

## **REALIZING THE GOALS OF A NATIONAL PARK SITE**

As the Trust Board and staff have frequently noted, they will only achieve their broad statutory mission if, in attaining financial self-sufficiency, they create the financial base to rehabilitate the Presidio’s historic buildings and landscapes, restore its natural resources, and preserve its distinct character. Thus, the Trust must balance achieving self-sufficiency with the related goals of enhancing visitor access, restoring the natural landscape, protecting the magnificent vistas,

developing the unique historical and cultural heritage, and conducting environmental remediation.

The Trust shares responsibilities for these broader national park goals with NPS, its statutory partner and co-manager of the Presidio. In addition, because of the anticipated role of philanthropy at the Presidio, the Golden Gate National Park Conservancy (the Conservancy) is an important third partner. The three agencies have worked together effectively on a range of natural resources projects such as developing the Vegetation Management Plan, reforestation, and restoring Mountain Lake. There is less integrated effort in cultural resources and program development, although effective collaboration has occurred in some areas such as creating the Presidio Trust Trails and Bikeways Master Plan.

### **Strengthening Critical Partnerships**

The evolution in the relationship between the Trust and NPS is a good example of how individuals can set the tone for positive interaction. The current Trust and NPS leaders have made effective interagency coordination and collaboration a top priority. These current, enhanced interactions do not mean that the relationship is tension-free. The two organizations share goals in preserving the Presidio and making it a welcoming destination for visitors, but their organizational cultures differ substantially. Staff in both organizations believe that some of the differences in their cultures derives from their differing statutory missions, particularly the mandate that the Trust become financially self-sufficient by 2013. This mandate has required the Trust to adopt some practices and timeframes that are more like those in the private sector. NPS' history, and the fact that decisions for one park are made in the context of operating many others, has led to a culture that values consensus-building in decision-making.

Because these cultural differences will continue to exist, the Panel believes it is time to institutionalize aspects of the current, positive relationship so that it depends as much on how the partnership is structured as on who is in leadership positions. An equal relationship will better link the contribution of resources with decision-making, an important foundation for an effective partnership. Finally, as the Trust works with the Conservancy to raise additional funds, it needs to have a strong voice in how those funds will be used for cultural programs.

**The Panel recommends that Section 102(b) of The Presidio Trust Act be amended to read, “The Secretary and the Presidio Trust be jointly responsible for providing public interpretive services, visitor orientation and educational programs, in Area B of the Presidio. The Secretary shall be responsible for providing these services in Area A.”**

While the Panel has observed growing cooperation between the Trust and NPS, there remains some level of mistrust between the two organizations. If full and mutual cooperation with NPS cannot be achieved through equality in the relationship, it may be appropriate for Congress to change the statutory language to make the Trust responsible for providing public interpretive services, visitor orientation, and educational programs for Area B, in cooperation with NPS. A lead role for the Trust would parallel other government corporations. For example, when Tennessee Valley Authority took over all river development from the Corps of Engineers, the



Corps did not retain any residual functions in the areas where Tennessee Valley Authority had jurisdiction.

**The Panel recommends that, if after a designated period of time as equal partners for public interpretive services, visitor orientation, and educational programs for Area B, the Trust and NPS have not created a strong, cooperative partnership, Congress place the Trust in the lead role for these functions.**

### **Leveraging Resources Through Partners and Volunteers**

Strong partnerships flow from clear responsibilities and shared contributions and can advance the mission of both organizations. The Trust's relationships with the Conservancy and NPS are true strategic alliances, defined as long-term, dynamic, multi-faced, and key to each partners' individual success. Trust partnerships with universities and other organizations have forged community links and leveraged resources for a range of activities.

It is essential that current Presidio volunteer and partnership relationships continue to thrive. It is equally important that the Trust continue to allocate some of its own resources to the activities that volunteers and partnerships support to demonstrate that these activities and programs command the same level of priority as real estate development.

The Panel commends the Trust on its considerable use of volunteers, and recognizes that these resources from residents of the region, partner universities, NPS, and the Conservancy help the Trust accomplish a great deal in the natural and cultural resources areas. **The Panel recommends that the Trust:**

**Continue its joint efforts with NPS and the Conservancy to increase volunteer activities on mutually agreed natural and cultural resources projects at the Presidio and extend its relations with local colleges and universities to undertake mutually beneficial research and education projects at the Presidio.**

### **RESTRUCTURING TO BETTER BALANCE OBJECTIVES**

The Panel also believes that some reorganization within the Trust could help achieve a better balance between the Trust's financial self-sufficiency and broader national park site goals. The Trust's organization has evolved as it has grown from a founding Board of Directors and staff of one in 1996 to more than 500 in mid 2001 and 325 in August 2003. While its basic functions have remained the same—serving the public, enhancing the Presidio's natural and cultural resources, and developing properties—as areas of emphasis have shifted, staff skill sets and organization structure have changed to meet changing needs.

While natural resource preservation, park access, and natural and cultural programs are major components of the Presidio Trust's mission, they are not prominent in the organization's

structure and thus may not be as well represented in Trust decision-making as they could be. This lack of prominence within the Trust structure could send a message to others, particularly the two critical partners—NPS and the Conservancy—that real estate issues predominate. It could also make it more difficult for partner organizations and potential donors to recognize where their functions or interests align with those of the Trust. As a practical matter, the natural and cultural resources areas are given more prominence within the NPS organization. To address these concerns, **the Panel recommends that the Trust:**

**Create a division comprised of natural and cultural resources so that these park missions have the same level of visibility within the organization and voice in decision-making that the real estate mission enjoys.**

**Refocus the Division of Planning to concentrate on land-use planning and planning for various national park objectives and long-term real estate use alternatives.**

**Emphasize the importance of planning beyond the Presidio Trust Management Plan by designating a unit to refine and manage the Trust’s internal strategic and annual plans and reports associated with Government Performance Results Act requirements.**

**Leave the programs function within the Division of Public Affairs and Programs and emphasize the “park access” role of these functions and the potential for creating lodging opportunities beyond camping within Area B. Consider renaming the division to reflect these important activities.**

## **ACHIEVING FINANCIAL SELF-SUFFICIENCY**

In its October 2001 report to Congress, GAO concluded, “The Trust should meet its legal obligation of financial self-sufficiency by 2013 according to financial projections prepared by the Trust in conjunction with its current planning process.” Since then, the Trust has published a new broad land use plan for Area B in May 2002—the *Presidio Trust Management Plan: Land Use Policies for Area B of the Presidio of San Francisco* (the PTMP)—that presented the Trust’s vision for the future long-term operation of the Presidio and the policies and planning principles to be followed in achieving that vision. In addition, economic conditions in the San Francisco area have deteriorated substantially, with the decline most pronounced in the commercial real estate market. The Trust has not been immune to these broader economic trends, experiencing higher turnover in its residential properties, declines in its nonresidential property income, and delays in undertaking additional projects to rehabilitate and rent remaining Presidio nonresidential properties.

Despite these adverse, short-term effects on its revenues, the Trust has improved its long-term financial outlook by quickly developing more space for residential use and moving aggressively

to control its operating costs. The Trust Board approved a 12.4% cut in Trust operating expenditures in FY 2003 and an additional 16.4% cut in FY 2004. Current Trust long-term financial projections indicate that the Trust can meet its 2013 self-sufficiency mandate and by 2020 rehabilitate more than 90% of the Presidio properties that the PTMP proposed be retained, provided operating costs remain under control and the capital spending plan is successfully executed. The Trust Board is convinced it will meet its 2013 financial self-sufficiency mandate, citing as evidence its willingness to reduce operating expenditures to address any serious future revenue gaps.

In its analysis of the Trust's long-term financial projections, the Academy Panel confirmed the importance of controlling the growth in Trust operating expenditures and capital costs. The viability of the Trust's long-term financial outlook was highly sensitive to increases in either of these two costs. The Panel used a modified financial projection model to evaluate the Trust's long-term financial viability under a range of different economic scenarios. This analysis confirmed that the Trust could meet its 2013 financial self-sufficiency mandate and maintain a modest cash reserve to meet financial contingencies if it could successfully restrain operating costs and complete its current capital spending plan. But the margin of safety—the size of the annual cash reserve—was small, especially given the considerable challenges and risks confronting the Trust.

The major challenges and risks the Trust may face in the future include:

- *Delayed recovery from current Bay area economic conditions*, particularly the decline in the commercial rental market.
- *Higher rehabilitation costs than the current \$589 million estimate*, particularly for delayed or deferred projects.
- *Inability to control operating costs*, especially law enforcement, public safety and other nondiscretionary expenditures.
- *Imposition of additional mandates* by other federal, state, or local entities that restrict current spending plans.
- *More rapid annual declines in its annual appropriation through 2012* due to federal fiscal difficulties.
- *Changes in expectations of the level and types of park services* to be provided by the Trust.
- *Adverse effects from potential economic cyclical declines over the next 10-20 years.*
- *Changes in inflation and other external economic factors* that affect future revenues and expenditures.

Although the cash reserve projected by the Panel’s modified model could withstand moderate changes in any one of these risks or challenges, the ability to withstand severe changes or multiple adverse impacts was far less certain. Consequently, the Panel recommends a number of financing alternatives, policy and planning changes, and projection model improvements to enhance the Trust’s financial outlook and reduce its financial risks.

### **Enhancing the Financial Outlook and Reducing Risks**

The Trust’s current capital spending plan relies heavily on private capital to finance the rehabilitation of many of the remaining nonresidential properties, particularly those large-scale projects requiring substantial capital funds. To date, the Trust has neither jointly financed the rehabilitation of buildings with private developers nor used the \$200 million in loan guarantees Congress has already appropriated to help reduce private financing costs. The Panel believes that a greater use of federal financing to rehabilitate some of the remaining Presidio buildings could substantially reduce their financing costs, accelerate their start-up, and provide opportunities for innovative partnerships to jointly share financial risks and returns over time.

The current federal budget environment may make it more difficult for the Trust to obtain an appropriation for its remaining \$100 million of authorized borrowing authority. Given the fiscal environment, the Trust should find it easier to obtain a small additional credit subsidy that would support significantly larger amounts of loan guarantees or direct loans, especially after it has successfully used some of its currently available loan guarantees. Therefore, **the Panel recommends that the Trust:**

**Develop specific program regulations to use its already appropriated loan guarantee authority to provide lower-cost financing for many of the remaining major building and other nonresidential rehabilitation projects.**

**Seek a small credit subsidy appropriation for its direct loan authority once it has successfully used some of its existing loan guarantees.**

**Solicit contract proposals that provide for joint financing of nonresidential projects, including those currently identified for master developers.**

**Test the feasibility and evaluate the relative advantages of using joint ventures with private partners to finance the rehabilitation and leasing of several of its currently designated master developer projects.**

### **Taking Advantage of User Fees and Philanthropic Resources**

The Panel found that the Trust had effectively employed some user fees both to produce revenues and help address other policy objectives. The Trust should continue to distinguish between two types of user fees—those focused on Presidio tenants and those affecting visitors

and other park users. Any new user fee for park users would need to be jointly developed with NPS.

The Panel also found that the Trust's planned role for philanthropy at the Presidio is reasonable and consistent with philanthropy's role for other national parks, including the GGNRA. The Trust is working with the Conservancy to forge a Memorandum of Understanding between the two entities that would define the respective roles of each in securing greater philanthropic support.

The Panel believes that successful philanthropic funding efforts depend on two critical factors: (1) effective staff work to identify potential opportunities and to follow up on initial commitments, and (2) active involvement of Board members to use their extensive network of contacts to secure funding support. To extend these current Trust user fee and philanthropic efforts, **the Panel recommends that:**

**The Trust begin billing separately for utility costs once buildings are individually metered.**

**The Trust and NPS establish a formal joint working group to develop new user fees affecting use of the Presidio.**

**The Board establish long-term philanthropic funding goals to fund desired park services that cannot be financed from internal Trust revenue sources, and include these assumptions as an alternative in its long-term financial plan.**

**The Trust develop a consolidated philanthropic funding plan for the Presidio that considers the Trust's goals and coordinates with those of the rest of GGNRA.**

**The executive director hire a philanthropic development officer to coordinate Board and staff activities related to securing philanthropic support.**

**The Board work to expand philanthropic funding sources for the Presidio, in conjunction with the Conservancy.**

### **Strengthening Financial Planning**

The Trust's 2013 financial self-sufficiency mandate has emphasized the importance of establishing a long-term financial plan and the need for a financial projection model to evaluate the effect of policy alternatives and monitor progress in meeting the approved financial plan. In response, the Trust developed a long-term financial plan demonstrating how it could achieve financial self-sufficiency by 2013 and submitted its Financial Management Program (FMP) to Congress on July 8, 1998. The long-range financial plan outlined in the FMP has not been formally updated even though many of the underlying assumptions have been superseded by

subsequent policy changes, actual developments at the Presidio, and dramatic changes in economic conditions in the San Francisco area.

While the Board has used the annual Trust budget to reflect specific implementation decisions and monitor general progress toward meeting the development and program objectives established in the PTMP, the 5-year budget horizon is not long enough to include the critical years of 2012 and 2013. In addition, it is difficult to readily identify how much of the Trust's total current resources are allocated for recreational, cultural, preservation, restoration, and other park services, since the Trust budget is organized and presented along organizational, rather than programmatic, lines. Trust staff have provided the Board with 18-year financial projections to help the Board assess the potential effects of specific real estate decisions; but the Board has not formally approved these projections nor do the projections contain substantial information on long-term park service investment needs. To improve Trust long-term financial planning, **the Panel recommends that:**

**The Trust staff develop and the Board approve a comprehensive, detailed, long-range financial plan showing how the PTMP can be implemented, natural resources and cultural values enhanced, and financial self-sufficiency attained between now and 2013. The plan should be sufficiently flexible to accommodate changes in either economic conditions or other economic opportunities, such as the infusion of philanthropic funding.**

**The Board:**

**Establish targets for the desired mix and level of park services and their associated costs within its comprehensive long-range financial plan.**

**Indicate the park service targets that can be attained with current resources as well as enhanced services levels that could be achieved if philanthropic funding or other unanticipated revenues become available in the future.**

**Enhancing Projections and Reserves**

The Panel believes that a long-term financial forecasting model is an essential tool for meeting the Trust's strategic goals and objectives. The Trust's current financial forecasting model has rich detail and provides reasonable forecasts and estimates of the impact of current policies and alternatives on the ultimate viability of the Presidio Trust after 2012. While the Trust model has been more than adequate for past needs, it is time that the modeling process anticipate and address the full range of the Presidio mission, revenue, and spending alternatives in long-term financial plans.

The Panel believes that while the Trust has effectively used external real estate experts who are familiar with the Trust to develop, extend, and run its current model, it now needs to expand the model to include aspects of park planning and management that extend beyond real estate

operations. While the Trust can continue to rely on contractors to help develop this enhanced model, there may be some advantages to establishing greater in-house operation and control. This could ensure that the broader scope of a planning and forecasting model is fully addressed. In addition, model development often increases knowledge about the internal operations and can facilitate improvements or more efficiency in those operations.

Enhancing the forecasting model will require the involvement of the Presidio Trust Board and senior management at the earliest stages of further model development. The Panel made several recommendations to improve the current Trust financial projection model including that:

**Senior management develop and the Board approve model requirements before additional model development takes place. The requirements should provide direction and guidance to ensure that the revised model best meets the needs of the Trust.**

**The Trust document its current financial forecasting model. The documentation should include a full description of the model's logic flow, the sources of its data inputs, the key assumptions underlying model results, and any critical decisions made outside the model that are required for its operation.**

**The Trust replace the constant dollar assumption with an assumption that applies appropriate inflation rates to those cost and revenue components that are sensitive to inflation.**

The Panel also believes that the Trust must guard against unexpected financial contingencies that could jeopardize its ability to meet its financial self-sufficiency and national park site goals. The Trust staff can use its improved financial forecasting model to identify the effect of changes in current economic conditions and key financial variables on the Trust's long-term financial projections. The Board can establish tolerance limits for the amount of financial risk they will plan to accommodate given these projections results. **The Panel therefore recommends that:**

**The Trust staff propose and the Board approve a contingency reserve large enough to absorb expected adverse effects from various alternative economic scenarios, including costs stemming from the aging of the infrastructure and the stock of historic buildings, and periodically review the size of that reserve as changes in future conditions warrant. Further, the contingency reserve should be explicitly funded by obtaining mandatory borrowing authority, establishing a contingency reserve within available corporate reserves, or using another permanent funding source.**



## **THE LEADERSHIP ROLE OF THE BOARD**

The Board has recently changed as new Board members replace those whose appointments have expired. In this report, the Panel recommends that the Board assume several significant additional responsibilities. Detailed Board involvement on a wide range of operational issues has been critically important to the success of the Trust to date, and the Board will need to assess its ability to continue its current activity while absorbing new members and new responsibilities. A change in focus would allow the Board to concentrate more on policy and governance issues, especially the new Board activities the Panel has recommended in this report, and on establishing the processes that will help their successors perform these Board roles.

As the Board looks to the future, the Panel would encourage the Trust Board to build the partnership with NPS and the Conservancy at top levels as Trust staff have worked to do at the staff levels of the organizations.

**The Academy Panel recommends that the Presidio Trust Board invite the GGNRA superintendent and the Conservancy director to those meetings at which the Board will discuss plans or activities that would benefit from GGNRA or Conservancy consultation.**

Although there is no comparable body at GGNRA, the Panel believes communication and cooperation between the Trust and GGNRA would be enhanced if GGNRA would reciprocate by inviting Trust participation at some of their meetings, especially when issues affecting the Presidio are to be discussed.

A key element for Board success in any endeavor is enhanced staff support. The current Board and staff are in a position to put in place a set of processes that sustains Board involvement on important issues and secures their input on those operational subjects they choose to pursue. These new processes would also help to further develop and formalize a more structured communication process that will be important for new Board members. To assist the Trust's Board in its chosen future role, **the Panel recommends that:**

**The Board and staff develop a process whereby, prior to Board meetings, all Board members receive issue papers for each major agenda item, with options for decisions and the pros and cons for each.**

**Board minutes present specific wording of each motion rather than just noting them as "actions taken," and summarize the discussion and rationale for a resolution's passage or defeat.**

**The executive director use the results of each Board meeting to determine which portions, if any, relate to individual senior staff and their functions. These would guide short-term tracking and, as appropriate, establish accountability for staff implementation.**

**The Board direct the Trust staff to develop its first strategic and annual performance plans consistent with the Trust's FY 2005 budget proposals.**

**The Board use the approved plans to monitor at least quarterly staff progress in achieving the plans' specific goals.**

The Academy Panel believes that the Presidio Trust's knowledgeable and dedicated Board of Directors, with the support of its experienced, talented staff, has made considerable progress in meeting its dual and inseparable statutory goals under unique and sometimes difficult circumstances. The Trust will continue to face significant challenges in achieving its financial self-sufficiency mandate while transforming, in conjunction with NPS, the Presidio from a military post to a sustainable national park site. The Panel's recommendations will strengthen the Trust's ability to identify and overcome future financial risks, forge the long-term, effective partnerships needed to meet its national park goals, and sustain the Board's critical leadership role as its founding members are replaced over the next few years.

## **CHAPTER 1 INTRODUCTION**

The Presidio has been part of modern North American history since 1776, when Spanish soldiers and colonists settled the site. The 1,490-acre Presidio (the Spanish word for walled fortification) has served as a base of military operations for Spain, Mexico and then the United States for nearly 220 years, and was designated a National Historic Landmark in 1962. At the urging of Congressman Philip Burton, whose district included San Francisco, Congress included in the 1972 Golden Gate National Recreation Area (GGNRA) legislation a provision that would transfer the Presidio to NPS if the Army vacated the base. Later, 145 acres of the Presidio were irrevocably permitted from the Army to the National Park Service (NPS).

The Army continued construction at the Presidio during the 1980s, and had a memorandum of understanding (MOU) with the mayor of San Francisco to consult with the city on construction, as a courtesy, thus formalizing the Army's interaction with its neighbors. In 1988, the Department of Defense determined that the Presidio was excess to its needs, and designated the base for closure in 1989, pursuant to the Base Realignment and Closure (BRAC) Act. The 1989 BRAC determination prompted several years of discussion at the local and congressional levels about how to transform the Presidio from a military post to a national park site. This was no small challenge. The Presidio is not similar to the Grand Canyon or Yosemite in function or size; it is an urban park with a large number of buildings to preserve and maintain, many protected by historic preservation legislation.

When the Army left in 1994, some buildings had been abandoned for up to 20 years and were badly deteriorated. The forest, planted largely with trees designed to live 100 years, was approaching the end of its projected lifespan, and a number of areas needed environmental remediation.

### **THE PRESIDIO UNDER NPS: 1994-1998**

On October 1, 1994, the Presidio closed as a military base and became part of the GGNRA under NPS management. Prior to that, the U.S. Army and NPS worked for more than 5 years to plan for the transition, and NPS had already leased a number of the buildings. As part of the transition process, the Army and NPS teams assessed the condition of all 770 Presidio structures and developed cost estimates to rehabilitate them. The Army agreed to provide \$69 million for infrastructure improvements (phone, water, sewer, and electrical systems), and \$12 million for building rehabilitation. Without substantial infrastructure improvements (e.g., the Army's telecommunications system was inoperable), NPS would not have been able to use the Presidio space itself or lease it to others. At the time of the transition, NPS and the Army concurred that no matter what activities were undertaken on the grounds, basic annual operating expenses for the Presidio (maintaining the buildings, mowing the grass, road maintenance, etc.) would be about \$22 million.

As part of this extensive planning process, which included public participation, NPS established the General Management Plan Amendment (GMPA) in July 1994 to guide the overall

management and development of the Presidio. The GMPA contained site concepts, land-use plans, and building treatments for 13 distinct planning areas. It called for rehabilitating 348 historic buildings for new uses, and removing 276 buildings, some of which were as small as a shed. The GMPA also called for some new construction. The GMPA emphasized using the Presidio for organizations with missions related to environmental, social, and cultural issues. Most highly publicized was the envisioned role of bringing together people and organizations to resolve intractable global issues. As the GMPA said:

The Presidio of San Francisco, one of America's greatest natural and cultural treasures, will soon be transformed from a military base to a national park unlike any other. It will pioneer a new role for a national park by creating a global center dedicated to the world's most critical environmental, social, and cultural challenges. The Presidio's new role symbolizes the swords-to-plowshares concept.

Between fiscal years (FYs) 1995-97, NPS used \$74 million of appropriated funds, \$27 million of private capital, and \$11 million of tenant rental income to operate the Presidio, begin some renovations, and purchase equipment—especially safety and fire equipment needed to meet commitments to the city of San Francisco to provide these services internally, rather than relying on the city.

During its management of the Presidio, NPS also leased some buildings, such as the Child Care Center, the bowling alley, the health facility—now the YMCA—the Noncommissioned Officers' (NCO) Club to the then-Golden Gate National Parks Association, and parts of the Letterman complex<sup>1</sup> to the Thoreau Center for Sustainable Development. The latter two leases embodied the GMPA's broad social policy goals and NPS' effort to use creative public/private partnerships to fund most, if not all, of building renovation capital costs.

### **Growing Concerns over Presidio Development Costs**

Congress expressed concern about several aspects of the NPS' management of the Presidio, including the cost estimates for rehabilitating Presidio buildings, and the estimated returns from several NPS leasing projects. These issues and the general continued pressures on the federal budget process all contributed to a 1997 congressional request from Senator Frank Murkowski, Chairman of the Energy and Natural Resources Committee, for a General Accounting Office (GAO) review. GAO was asked to address a number of specific questions related to the Thoreau Center and fire equipment purchases, NPS installation of fiber optic cable along the Golden Gate Bridge, and conversion of the NCO Club to a facility for the Golden Gate National Parks Association (now the Golden Gate National Parks Conservancy (the Conservancy)).

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<sup>1</sup> The former Letterman Hospital site is at the main entrance to the Presidio. Established in 1898, it served soldiers for almost a century. Most of the historical buildings and cultural landscape are in the western part of what is now the Letterman Planning District in PTMP. Some of the non-historic buildings were removed in 2002 and construction is underway for the Letterman Digital Arts Center, a subsidiary of Lucas films, Ltd. The new campus will feature four buildings, scenic walkways, and a seven-acre park. The Thoreau Center is in space that was built as a hospital during the Civil War.

GAO said that the NPS actions it reviewed were “reasonable and consistent with the objectives” of GMPA.<sup>2</sup> For example, GAO characterized the Thoreau Center renovation and lease as appropriate, and “all participants in the transactions appeared to benefit.” However, several key members of Congress and senior managers within NPS remained concerned about the magnitude of Presidio costs and the ability of NPS to develop and manage the Presidio’s extensive real estate properties efficiently.

## CREATING A GOVERNMENT CORPORATION

As NPS became more familiar with the rehabilitation and maintenance challenges at the Presidio, it became increasingly clear that the “costs to implement the GMPA showed the Presidio to be by far the most expensive park managed by NPS. The NPS estimated annual costs at \$40 million and capital improvement cost estimates ranged from \$490 million to \$741 million.”<sup>3</sup> Given these mounting costs, Congress grew concerned about operating the Presidio as a park funded solely with appropriated funds. Recognizing that the Presidio would cost more to operate than any of its wilderness parks, NPS suggested that Congress create an entity to manage the majority of the property. The GMPA itself called for establishing an organization such as the Presidio Trust to provide enhanced leasing and revenue retention authorities.

On November 12, 1996, Congress passed Public Law 104-333, which created a wholly owned, and independent government corporation—the Presidio Trust (the Trust)—to manage a large part of the Presidio grounds “in a manner which is consistent with sound principles of land-use planning and management and which protects the Presidio from development and uses which would destroy the scenic beauty and historic and natural character of the area and cultural and recreational resources.”<sup>4</sup> What made the Presidio Trust Act particularly notable was its provision that:

Within 1 year after the first meeting of the Board of Directors of the Trust, the Trust shall submit to Congress a plan which includes a schedule of annual decreasing federally appropriated funding that will achieve, at a minimum, self-sufficiency for the Trust within 15 complete fiscal years after such a meeting of the Trust.<sup>5</sup>

If this goal of self-sufficiency by 2013 is not achieved, all property under the Trust’s administrative jurisdiction (Area B) will be transferred to the General Services Administration to be disposed of in accordance with the procedures outlined in the Defense Authorization Act of 1990 (104 Stat. 1809).

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<sup>2</sup> U.S. General Accounting Office, *NPS: Concerns Over Costs Relating to Army’s Transfer of the Presidio of San Francisco*, GAO/OSI/RCED-97-114, April 3, 1997, p. 1.

<sup>3</sup> The Presidio Trust, *Presidio Trust Management Plan: Land Use Policies for Area B of the Presidio of San Francisco*, p. B2.

<sup>4</sup> The Presidio Trust Act, P.L. 104-333, Sec. 101(5), codified as 16 U.S.C., 460bb appendix.

<sup>5</sup> *Ibid.* Sec. 105(b).

As the GAO noted in its October 2001 progress report on Presidio Trust activities, “The Congress gave the Trust wide latitude for managing, preserving, and protecting the Presidio in its effort to achieve financial self-sufficiency by 2013. The Trust has the authority to, among others things, guarantee loans to tenants who finance capital improvements of Presidio buildings, manage building leases, borrow up to \$50 million from the U.S. Treasury, and demolish buildings that it deems to be beyond cost-effective rehabilitation.”<sup>6</sup>

**Figure 1-1: Map Showing Areas A and B**



P.L. 104-333 affirmed that the entire Presidio would remain within the national park system as part of GGNRA, delineated distinct land boundaries for those areas under each agency’s administrative control, determined the powers and authorities of each agency, and specified what activities the Trust and NPS would control. As shown in Figure 1-1, the Act divided land boundaries into Areas A and B. The Trust would have administrative jurisdiction over **Area B** of the Presidio (approximately 1,200 acres) within 1 year of the Trust Board of Directors’ first meeting. NPS would retain complete administrative jurisdiction over **Area A** (approximately 325 acres of land and 423 acres of submerged tidal lands). This section has only a few buildings, and contains Crissy Field, the recently restored former airfield. To help clarify that the Trust and NPS shared responsibilities for the Presidio, the Act also provided that:

- The Trust is to manage the leasing, maintenance, rehabilitation, repair, and improvement of property in accordance with purposes in the 1972 GGNRA legislation (86 Stat. 1299).
- The NPS would carry out specific responsibilities on the portion of the park managed by the Trust, such as public interpretive services, visitor orientation, and educational programs on all Presidio lands.

<sup>6</sup> U.S. General Accounting Office, *Significant Progress Made in Preserving the Presidio and Attaining Self-Sufficiency*, GAO-02-87, October 2001, p.4.

- The Trust was to enter into a memorandum of agreement (MOA) with the Secretary of Interior, acting through the chief of the U.S. Park Police (USPP), for law enforcement activities and services for that portion of the Presidio transferred to the Trust's administrative jurisdiction.

## **LEADERSHIP AND ORGANIZATION**

The Presidio Trust statute specified that the powers and management of the Trust be vested in a seven-member Board of Directors. The six presidential appointees can serve two 4-year, consecutive terms, though three of the first group could serve only a total of 6 years, to stagger Board replacement. When the Trust Act was proposed, there was discussion as to whether NPS should have a representative on its Board, such as the GGNRA superintendent. The compromise reached was that the seventh member would serve at the pleasure of the Secretary of Interior.

President Clinton appointed six members to the Board in April 1997, with substantial bipartisan congressional input. President Bush reappointed three of these individuals to their second 4-year terms in 2001, and two to their second 2-year terms, with similar bipartisan input. (The sixth presidential appointee replaced a Board member who moved out of the area several years ago.) The terms of the two second-term appointees expired in March 2003, as did the first term of the individual who was appointed when one member moved. However, Board members remain until the President makes additional appointments, so all continued to serve through mid-September. The President announced the appointment of three new Board members on August 21<sup>st</sup>; they were sworn in on September 25, 2003.

There have been several Secretary-designated appointees to the Trust Board. Early appointees were senior individuals within the department and were stationed in Washington and could rarely attend Board meetings. The most recent Secretary-designated appointee is a Bay Area resident who has been very active on the Board.

Operational aspects of the Board are set forth in the corporate bylaws, which are rooted in the statute. Through its meetings and regular communication with the Trust's executive director, the Board sets policy and often provides direct guidance in areas such as finance, budget, natural resource conservation, real estate development, and historic preservation.

### **Organization of the Trust**

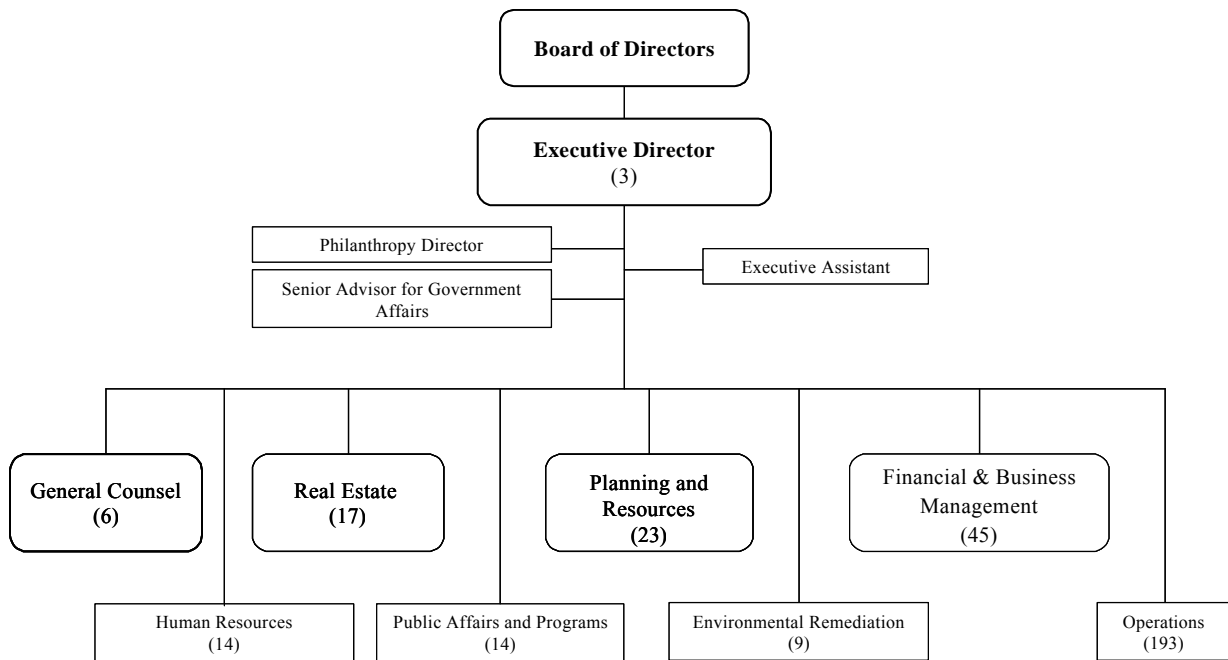
The Trust's structure (as shown in Figure 1-2) has the Board of Directors at the top of the organization with all divisions reporting to the Board through the executive director, who manages the \$80 million annual budget and about 325 employees. The direct reporting organizations are:

- General Counsel
- Real Estate



- Planning and Resources (planning, natural and cultural resources)
- Financial and Business Management (headed by the Chief Financial Officer (CFO), includes finance, procurement, Information Technology (IT))
- Human Resources
- Public Affairs, Special Events, and Programs
- Operations (engineering, building and grounds repair and maintenance, utilities)
- Environmental Remediation

**Figure 1-2: Presidio Trust Organization**



The staffing levels for major offices as of August 2003 are also shown in Figure 1-2. Staffing was slightly over 500 prior to 2002 when the Trust laid off 90 employees, bringing the level down to about 410. Attrition further reduced staffing to 354 prior to the second layoff, which occurred in June 2003 and left the Trust with 325 employees. Both rounds of staff reductions were a major component of cost-cutting efforts to reduce operating costs.

The bulk (193) of the Trust’s full-time equivalent (FTE) positions are located in the Division of Operations. These FTEs are primarily blue-collar workers performing construction and maintenance activities. The functions of the Office of Operations make it clear that the Presidio provides many of the essential services of a small town. For example, the Division of Operations

has staff who work on abatement of mold and hazardous materials. The Presidio supplies most of its own city services and relies on San Francisco for very little utilities support.

Most functions that relate to the “park” component of the Trust’s mission are in the Division of Planning and Resources, while park-specific programs are in the Division of Public Affairs, Programs, and Communications. Some of the disciplines in the Division of Planning and Resources include archaeologists, historians, ecologists, and environmental protection specialists. The Division of Public Affairs, Programs and Communications includes a special events staff. It would be difficult to find a more diverse set of functions in any federal agency, let alone one of this size.

## **REDESIGNING THE PLAN FOR THE PRESIDIO**

When the Presidio Trust was formed, it initially operated under NPS’ GMPA; Area A, which NPS controls, still does. However, the Board decided that a combination of factors made that plan unrealistic for Area B. These included:

- The self-sufficiency mandate required greater emphasis on securing stronger and more stable revenue-producing activities, since Congress had clearly rejected the GMPA’s reliance on continued annual appropriations of \$16 to \$25 million.
- The substantial level of philanthropic support for Trust activities at the Presidio did not materialize to the extent assumed in the GMPA. Although NPS (working with the Conservancy) received more than \$30 million in donations for Area A (specifically for the Crissy Field restoration), the Trust had not secured substantial philanthropic support for Area B as of September 2003.
- Nonprofit tenants have not shown the expected interest in developing and using Presidio building space. Key prospective tenants, such as the University of California at San Francisco, which had expressed interest in the Letterman Hospital facility for medical research, changed their minds. In addition, the deterioration of the San Francisco economy after the dot.com bust in late 2000 substantially depressed the funding sources for nonprofit organizations.

The Board decided a new plan was needed.

The initial *Presidio Trust Implementation Plan (PTIP)* of July 2001 was an aggressive plan to promote commercial and residential growth in the park to a higher level than anticipated in the GMPA. The Trust received 38 sets of comments on the plan and its accompanying Draft Environmental Impact Statement, many of them extensive and very critical. Public meetings had an acrimonious tone. The Board and Trust staff absorbed the comments and developed the May 2002 *Presidio Trust Management Plan (PTMP)*, whose subtitle was *Land Use Policies for Area B of the Presidio of San Francisco*. By that time, the Trust also had a new planning director and a new executive director, and public interaction was more proactive. The PTMP also called for less new construction than the PTIP. There are other, more specific, plans for the Presidio, such

as the Vegetation Management Plan, and the Trails and Bikeways Master Plan. As with the PTMP, these plans are developed in cooperation with NPS and with public participation.

## **ACCOMPLISHMENTS AND CHALLENGES GOING FORWARD**

Park development (natural and economic) is complex. The park is home to 280 plant species, 16 of which are rare or endangered, and 220 species of birds. It has the last free-flowing stream in San Francisco and the only natural lake in the GGNRA. The Presidio is also one of the largest historical preservation projects in the nation, with 469 buildings on the National Register of Historic Places. In the past 3 years, the Trust has rehabilitated more historic buildings than any other site in the country. Amid these natural and historic resources, 2,400 people live, 2,000 people work, and 175 organizations call the Presidio home.

The Trust must achieve self-sufficiency, but must also address issues involving historic preservation, natural resources issues such as reforestation, environmental remediation, visitor access, changing real estate market conditions, and cooperation with the public and NPS. Despite the complexities and fiscal challenges, the Trust has made progress in many areas. These include:

- Developing PTMP as well as the Presidio Vegetation Management Plan and the Presidio Trails and Bikeways Master Plan; the latter NPS and the Trust approved in summer 2003.
- Continuing the infrastructure improvements NPS began by investing \$16.3 million since 1998 to improve roads, sanitary and storm sewers, electrical systems, telecommunications, and information technology.
- Negotiating a \$99 million remediation fund with the Army and obtaining insurance policies that protect against unknown sites within the Presidio and excess costs of remediating known sites.
- Maintaining the flexibility needed to switch from commercial to residential rehabilitation and rentals during the commercial real estate market downturn.
- Developing plans to enhance natural resources, such as restoring the aging forest, implementing two acres of reforestation each year, and developing a strategy to seek donors to fund a range of natural resource projects.
- Implementing the Oracle database software, which integrates many other information systems, and involved retraining all Trust staff.
- Executing a long-term lease with Letterman Digital Arts, which will generate more than \$1 billion in revenue for the Trust over the life of the lease.

The types of challenges the Presidio Trust faces include:

- Resolving the inherent, albeit creative, tension between achieving real estate development goals and maintaining (and improving) the park's natural environment. As a National Historic Landmark District, there are more challenges associated with park development than there would be if the Presidio were simply a park with historic buildings within it.
- Coping with the economic downturn in the San Francisco market, which has limited commercial real estate revenue opportunities.
- Preserving vacant buildings, even though there may not be an opportunity to lease them in the near future.
- Achieving self-sufficiency without having control over many elements that affect its costs and revenues. For example, if the city and state begin reconstruction of Doyle Drive (an elevated highway that runs over part of the Presidio and connects to the Golden Gate Bridge), the Trust will not be able to lease a number of nearby commercial properties. As the USPP budget increases, the Trust absorbs these costs without direct input to that budget or the ability to pursue alternative security arrangements.
- Subsidizing other federal agencies if Congress mandates that they can lease property at less than market rates, thereby reducing the Trust's own revenue potential.
- Working with the U.S. Fish and Wildlife Service (USFWS) to protect the plant species San Francisco lessingia. One component of its protection will entail removing profitable residential housing on the Presidio over the next 30 years. While the housing will be replaced, because costs will have to be recovered over time, net revenues will decline substantially.
- Facing the possibility of reduced federal appropriations, which affect investment and operations (in real estate and natural resources) that are based in part on a planned level of federal appropriations.

## **ORIGIN AND OBJECTIVES OF THIS ACADEMY STUDY**

In response to a congressional directive included in the House Interior Appropriation Subcommittee Report on the FY 2003 Interior Appropriations bill (Report 107-564), the Presidio Trust Corporation contracted with the National Academy of Public Administration (Academy) in March 2003 to review the Trust's finance and business management practices. The Trust and the Academy agreed that the review would have four principal objectives:

- A review of the Trust's current financial plans and budget projections and the initial capital and operating spending trade-offs between revenue producing and other environmental and cultural preservation and enhancement activities.

- An evaluation of the economic and financial assumptions used to develop the projections, including the sensitivity of those projections to changes in assumptions.
- An assessment of the effectiveness of the current organizational structure, particularly its ability to manage the Trust’s business, financial, environmental protection, and cultural/recreational enhancement activities efficiently. This shall include a review of internal alignment of policy and operational responsibilities between the Board and staff.
- An evaluation of the Trust’s current financial authorities, their adequacy for meeting all of the Trust’s statutory missions, and the effectiveness of internal controls and administrative systems to manage and evaluate the use of these authorities, especially direct loan and loan guarantee authorities.

## **STUDY METHODOLOGY**

The Academy established an expert Panel of Academy Fellows to direct the project and provide guidance to the staff who conducted the research. The Panel met four times, and three of those sessions were held at the Presidio. During these meetings, the Panel met with senior Trust staff members and six of the seven Board members. Staff conducted their research at the Presidio, and in Washington, DC.

The staff:

- Collected and reviewed key documents and written materials, such as Board policies and minutes, budget justifications and long-term financial projections, MOUs, the PTMP and all public comments on the drafts, news articles, and GAO reports.
- Conducted interviews with Trust senior staff, Board members and key external stakeholders. The latter included officials from NPS, GGNRA, the Conservancy, real estate and financial firms in San Francisco, Office of Management and Budget (OMB), GAO, and the National Trust for Historic Preservation.
- Analyzed budget, financial and other economic data from the Trust and other San Francisco entities to assess the comparability and consistency of Trust data and assumptions as well as the stability and viability of their long-term financial projections and development plans.
- Performed sensitivity analyses on Trust long-term financial projections. This included reviewing Trust financial projection models, examining their internal operations, identifying the critical assumptions affecting model operations and outcomes, and evaluating the impact of alternative values for these critical assumptions on model results.
- Developed an alternative, integrated, forecasting model to “stress test” development and financial alternatives. This involved independent modeling activity to support a more

robust assessment of the viability of current and alternative long-term Trust financial plans under various economic scenarios.

- Analyzed Trust organization structure and management plans. This included Board and staff processes and procedures.
- Briefed members of the Board, the executive director, other Trust staff, and congressional staff on the progress of the study.

The Academy Panel provided a draft report of its findings and recommendations to the Trust for its review and comment in September 2003. The Panel met again in November 2003 to review and approve revisions made to the September draft report based on Trust comments, and to complete the final report.

## **ROAD MAP TO THE REPORT**

Chapter 2 examines programs underway and partnerships with other organizations that contribute to achieving the Trust's dual goals. It notes the critical roles volunteers and philanthropy can play in leveraging the Trust's resources to maintain and enhance the Presidio as a national park. Finally, the chapter examines the Trust's organization structure in terms of its varied missions, and whether that structure helps it achieve its goals.

Chapter 3 reviews the Trust's long-term financial planning to date and assesses the strengths and weaknesses of its current financial plans. It also reviews current Trust financial modeling efforts to provide long-term financial projections, assess the strengths and weaknesses of the current projection model, evaluates the adequacy of key assumptions underlying those projections, and recommends alternatives to improve those financial projections

Chapter 4 identifies the key economic and financial challenges confronting the Trust and assesses their impact on the viability of the Trust's long-term financial plans. It also examines alternatives to enhance the Trust's financial outlook or reduce its current financial risks. Finally, the chapter develops alternative long-term projections for critical assumptions in the Trust's current financial projection model to identify their impact on current Trust baseline projections and some alternative long-term financial projections, assuming the adoption of recommended policy alternatives.

Chapter 5 discusses the role of the Board. It looks at the tools the Board has to help it make decisions, and explores whether there are actions the current members can take to facilitate the Board's evolution as its founding members depart. It also examines how the Government Performance and Results Act (GPRA) strategic planning and monitoring can help the Board focus on the potential trade-offs needed to achieve the self-sufficiency mandate and provide a range of park services.





## **CHAPTER 2 REALIZING THE GOALS OF A NATIONAL PARK**

It is the inviting open spaces, spectacular vistas, varied architecture, ecology, and rich history that distinguish the Presidio and make it worthy of designation as part of the national park system. The Trust expresses its goals to protect and develop these resources through PTMP and works with its many stakeholders and partners to accomplish its mission, especially NPS and the Conservancy. Although their perspectives may differ somewhat, all of the organizations are dedicated to achieving the Trust's mission, "To preserve and enhance the natural, cultural, scenic, and recreational resources of the Presidio for public use in perpetuity, and to achieve long-term financial sustainability."<sup>7</sup>

The Trust's capital has largely been used to develop its real estate assets so as to generate the income required for self-sufficiency. Through partnerships with others, the Trust is leveraging its human and financial capital to preserve and develop its natural and cultural resources.

Given the need to preserve deteriorating buildings and quickly develop capital from its real estate assets, the Trust's structure has largely emphasized these activities. An organization's structure represents its chosen vehicle for implementing its priorities, and determines who sits at the table when decisions are made about budget allocations, resource trade-offs, spending reductions, etc. In that sense, it has a strong impact on the delivery of services and mission fulfillment.

This chapter examines programs underway and partnerships with other organizations in the context of the Trust's mission. It discusses the roles of volunteers and philanthropy in leveraging the Trust's operating and capital resources. It then examines the Trust's organization structure in terms of its varied missions, and whether that structure balances the full range of goals and the challenges to fulfilling them to achieve the broader goal of developing a national park.

### **PLANNING AND PARTNERING TO ACHIEVE THE MISSION**

The PTMP outlines the Trust's commitment to promoting public access to and enjoyment of the park. It provides that:<sup>8</sup>

- The Presidio will remain an open space haven with its natural, historic, scenic, cultural, and recreational resources preserved for public use and enjoyment.
- Open space and natural habitats will be preserved, enhanced, and increased.
- Over time, the Presidio Trust will reduce the total building area in the park by 360,000 square feet or more, from the 5.96 million square feet that exist today to 5.6 million square feet or less.

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<sup>7</sup> Presidio Trust, *Preservation & Progress: The Presidio Trust 2002 Year-End Report*, p. 1.

<sup>8</sup> PTMP, p. xii.

- The historic forest will be rehabilitated, wetlands enhanced, and native plant and wildlife species protected.
- The Presidio’s National Historic Landmark status will be preserved; any changes within the landmark district will comply with the National Historic Preservation Act and be compatible with the park’s setting.
- Public uses will invite and engage visitors to the park; employee housing will perpetuate the historic sense of community.
- Construction will be limited to developed areas, and will be compatible with existing structures.
- The Presidio Trust will apply sustainable design practices and promote energy and water conservation, waste reduction and recycling, and clean technologies.
- The Presidio Trust will discourage automobile use by promoting walking, biking, public transit, and internal shuttle use.
- Presidio tenants will be selected according to their conformance with PTMP planning principles, their ability to enhance the Presidio’s financial viability, and their contribution to implementation of the general objectives of the GMPA.
- Public input will continue to be valued in ongoing planning for the Presidio’s future.

Though the plan was issued in 2002, it is not considered a static document. The Trust is committed to working with prospective tenants, visitors, neighbors and other park users to seek public input and conduct detailed studies and appropriate environmental analyses “before undertaking projects that involve significant demolition, subsequent new construction, or significant changes to the historic landscape of the Presidio.”<sup>9</sup>

The 1996 Presidio Trust Act calls for the Secretary of Interior (essentially, NPS) in cooperation with the Trust to provide interpretive services, educational programs, and visitor orientation on all lands within the Presidio. The PTMP’s planning principles reflect NPS’ role in interpretation, which will deepen the public’s understanding of the park’s resources and history.

The Trust’s other major partner is the Conservancy, a nonprofit organization (similar to others affiliated with national parks throughout the country) that assists GGNRA with educational, natural resources, and cultural activities through publishing, fundraising, and volunteer organization. There are weekly coordination meetings with the three organizations on natural resources, and a senior Trust official characterizes the relationship as more like that of a family than a partnership.

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<sup>9</sup> PTMP, p. 126.

## THE EVOLVING NPS RELATIONSHIP

The GMPA guided overall management and development of the Presidio under NPS' tenure. In the traditional environment that relies on congressional appropriations as the primary funding source, GMPA's focus was on the agency's core values, such as park preservation and resource conservation. The NPS initially selected potential building occupants for what they could contribute not only to restoring the buildings and providing income to NPS, but, most importantly, to achieving the GMPA's vision that the Presidio would "pioneer a new role for a national park by creating a global center dedicated to the world's most critical environmental, social, and cultural challenges." The lack of a self-sufficiency goal let NPS emphasize these non-financial contributions of prospective tenants in making its decisions on individual building rehabilitation and development.

For example, the Thoreau Center's multi-tenant buildings were primarily leased to nonprofit organizations that were "working for a healthy environment and just society." Thoreau partners spent over \$13.5 million to renovate twelve buildings and will continue to maintain it during their long-term lease. In return, NPS agreed to a 55-year lease with a 10-year rent relief provision that helped amortize the initial capital costs Thoreau Partners incurred. By avoiding the renovation costs and obtaining a long-term anchor tenant, NPS hoped to create a model of public-private partnerships for further development at the Presidio. The historic preservation tax credit was instrumental in making the development possible.

Using the same principles but a different model, NPS leased the Non-Commissioned Officer (NCO) Club. It entered into a cooperative agreement to share capital costs, with the then-GGNPA<sup>10</sup> paying for furnishings and landscaping (\$289,000) and NPS paying for the building renovation with Army funds (\$1.4 million). In return, GGNPA received a 7-year lease, at no cost, with a further provision that they use any NCO Club net revenue (estimated at \$100-250,000 annually) on Presidio-related activities.

When the Trust was formed to assume control for Area B, NPS was initially concerned that the Trust would put business and financial concerns ahead of natural resources and community needs because of the Trust's congressional mandate to become self-sufficient—a unique requirement among national parks. This concern was also reflected in many local newspaper op-ed pieces. The potential for strained relations between the two agencies was heightened by the independent, and at times aggressive, management style of the Trust's first executive director, a real estate developer who was not familiar with NPS or the many Presidio stakeholders in the San Francisco area.

As discussed in Chapter 1, the Trust received many comments, mostly negative, on its first broad plan, PTIP. NPS had 30 pages of detailed comments and criticisms. Among them were recommendations that the plan be revised to:

- [Place the] vision of maintaining cultural, natural, scenic, and recreational resources [ahead of the 2013 mandate]

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<sup>10</sup> The Golden Gate National Park Association was the predecessor of the Conservancy.

- Ensure the integrity of the Presidio as a National Historic Landmark District
- Specify a future public planning process [ensuring public and environmental review]
- Preserve and enhance key natural resources and open space<sup>11</sup>

The draft of the Trust’s successor plan, PTMP, responded to many of the comments on the PTIP NPS and others made. NPS had only three pages of comments on the PTMP and many of them were supportive. The PTMP incorporated more of the GMPA’s perspective and involved NPS, the public, and other interested stakeholders more extensively in its development. Relations between the Trust and NPS have continued to improve. Trust and NPS staff indicate that many factors have contributed to this improvement, including time, a new executive director at the Trust, and continued efforts by leaders of both organizations to work together.

Today, the Trust’s executive director and the GGNRA superintendent meet regularly, alternating locations, and talk on the phone often. Program staff at the Trust meet quarterly with NPS interpretation staff to coordinate programs, and, as noted, natural resources staff of the Trust, NPS, and the Conservancy meet weekly.

These enhanced interactions do not mean that the relationship is tension-free. The two organizations share goals in preserving the Presidio and making it a welcoming destination for visitors, but their organizational cultures differ substantially. Staff in both organizations believe that some of the differences in their cultures derived from the agencies’ different statutory missions, particularly the mandate that the Trust become financially self-sufficient by 2013. This mandate has required the Trust to adopt some practices and timeframes that are more like those of the private sector. Because of its long history, and the fact that decisions for one park are made in the context of operating many others, NPS’s culture values consensus-building in decision-making.

Trust staff believe these cultural differences are especially notable in the two agencies’ approach to environmental remediation. The Trust has sole responsibility for environmental clean-up in Areas A and B. It has MOAs with the Department of the Army, which established the \$99 million remediation fund, and with NPS. The latter requires NPS concurrence before the Presidio Trust can contact external regulators (such as Cal EPA), even on matters that are solely Area B issues. While Trust and NPS staff confer regularly, senior Trust managers believe that the effect of this requirement “has been to place NPS in a more-or-less watchdog role and to increase the time and cost of the Presidio cleanup program.”

One external stakeholder applauded the efforts of top leadership in both organization to “make the relationship work,” but noted, “There will always be tension between the Trust and NPS, but both entities will nevertheless need one another. However, the relationship may have to be formalized at some point, as it cannot rely solely on personality luck.”

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<sup>11</sup> United States Department of the Interior, National Park Service. Letter to James Meadows, Executive Director, The Presidio Trust from Brian O’Neil, General Superintendent, GGNRA, The National Park Service, October 25, 2001, pp. 1-3.

## **Natural Resources Activities**

The PTMP states that, “When appropriate, the Trust and NPS will enter into written agreements to help define overall goals and objectives, roles and responsibilities, decision-making processes, and financial obligations of both parties in collaborative projects.”<sup>12</sup> In May 2002, the Trust and NPS entered into such an agreement to establish a partnership to manage natural resources for Areas A and B, formally called the Memorandum of Agreement (MOA) Regarding Natural Resources Management at the Presidio of San Francisco. Among other things, the MOA states that both parties agree to:

- Cooperatively share responsibility for the planning, coordination, and implementation of a community-based natural resources stewardship program, including resources education and volunteer programs
- Jointly produce an implementation program for the management of natural resources, including execution of the Vegetation Management Plan (VMP) in 2002
- Jointly create a Stewardship and Sustainability Center with a natural resource stewardship component that includes nursery, forestry, stewardship, vegetation and wildlife programs, as well as composting, recycling, and other sustainability programs. The purpose of the Stewardship and Sustainability Center is to situate the natural resources staff of the parties in a common location
- Collaborate on publications, speaking arrangements, interviews, release of photographs and/or endorsements of information regarding joint natural resources projects and programs
- Work collaboratively with the Conservancy, as identified in the Letter of Agreement, on the operation of natural resources management

Two plans that have resulted from Trust and NPS cooperation (begun by NPS prior to the MOA’s final approval and continued with the Trust in the lead) include:

### **1. The Presidio Trust Vegetation Management Plan**

Collaborating, the Trust and NPS have formulated goals to provide a management framework for enhancing, rehabilitating, restoring, and protecting planted native vegetation for the entire Presidio. These goals are consistent with the Trust’s PTMP and NPS’ GMPA. NPS and the Trust staff attribute success largely to the management styles of the two agency’s leaders, and to making this project a top priority, pursuant to the MOA.

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<sup>12</sup> PTMP, p. 129.

## **2. The Presidio Trust Trails and Bikeways Master Plan**

This project established a comprehensive trails and bikeways network for the entire Presidio. The Plan links to the Conservancy's *Trails Forever*; a trails and bikeways project that connects the entire GGNRA. The Trust and NPS believe this has been a successful project because the two agencies have shared a sense of priority for it.

There are a range of ongoing projects and cooperative efforts underway. For example, the Conservancy volunteers do much of the work in the plant nursery, and NPS funds some staff there and one-half an education position. The Trust provides the space and purchases seeds and other supplies. Other specific projects include:

### **3. Historic Forest**

The forest, which the Army planted over a 20-year period beginning in the 1880s, contributes substantially to the Presidio's character as a national historic site. However, there is little species diversification, and the relatively short-lived trees have begun to die. The Trust believes they have about 50 years to reforest, and wants to convert the forest to one with an uneven age so trees don't all die at once. It costs about \$150,000 to \$200,000 to reforest an acre. This entails removing trees, preparing the soil, planting, and maintaining the acre (weed, water, etc.) for 2-5 years. There are 300 acres, and there are appropriated funds to do 2 acres per year (until 2013).

### **4. Mountain Lake**

The 2,000 year-old natural lake is dying because of sediment build-up and run-off from neighborhoods. Soil excavated from the adjacent MacArthur Tunnel was deposited in the lake and greatly reduced its size and depth. The lake used to extend farther to the east, but the Army built a road that separated it, and put in culverts. The Trust wants to replace the road with a bridge (Phase 2 of this project), take out the non-native historic woods, and restore the lake in that area. This will also help clean up the run-off problem. The Trust, NPS, and the Conservancy are jointly doing phase 1. The estimated cost to implement Phase 2 will be about \$700,000 for construction and \$75,000 per year for the first 5 years after construction. The latter covers the salary for a restoration coordinator, supplies, weeders, infill planting, and other maintenance expenses. Success of restoration projects such as this is increased if the native plant species can become well established without much competition from weeds.

### **5. Tennessee Hollow Watershed**

Through the Spanish and Mexican eras, the creeks of Tennessee Hollow were lined with vegetation and trees, and provided an ecological break from the grasslands and scrub landscapes. One spring flowed naturally into the Bay. Such distinct corridors of water and vegetation are called riparian corridors, and provide a place for animals to drink and forage. This watershed is where the Tennessee Volunteers camped during the Spanish-American War in 1898. Urban development and channeling of the creeks and streams

(which occurred throughout the Bay area) have limited this resource. Planning, with public input, is underway to restore much of the Hollow to be a haven for wetland vegetation and a resting place for people and animals. Cost estimates for the project (which entails relocating some residential units) are not yet available.

## **6. Inspiration Point Viewshed**

This overlook had become largely blocked by trees and had not been maintained. The recently completed project restored an historic view of San Francisco and 2.5 acres of serpentine grassland, which comprise remnants of what was once an expansive prairie on the east side of the Presidio. Visitors can now safely park at the overlook to enjoy the view and take pictures.

These projects are components of the Presidio Park Stewardship Program, which was begun by NPS in 1994 and in which both organizations participate. The NPS organizes volunteers for the Presidio Park Stewards Program for Area B lands. For that Area, the volunteer hours totaled 12,238 hours (the equivalent of 5.5 employees) in 2002. These include Americorps and NPS interns, community service projects from corporate and nonprofit groups, and the Presidio Park Stewards, which have two drop-in programs a week serving 10 remnants or restored natural areas in Area B of the Presidio. It also includes education programs for students in middle and high schools through the following programs: National Park Labs (year-long or semester-long curriculum on the restoration cycle), GOAPE (an adventure and experiential-based curriculum at Galileo High for students at risk), Presidio Youth Stewards (1-3 hours of service learning), and high school interns.

## **Cultural Activities**

Within NPS are programs that deal with cultural resources preservation (such as historic preservation for building rehabilitation, history research, museum management, archaeology, and Native American consultation), and those that address interpretive cultural programs. Within the Trust, historic preservation activities often relate to preserving the buildings. To manage these activities, the Division of Planning and Resources includes both an historic preservation compliance officer and an archaeologist. The Trust's Public Affairs and Programs Division, at times working directly with NPS, usually coordinates programs that highlight Area B's cultural assets.

NPS offers groups the opportunity to schedule programs on such topics as the changing cultures of those who lived at the Presidio, and "Houses, Heroes and History," which focuses on the Army post's past and plans for its future. NPS also offers these and other ranger or docent walks for the general public about once per month each. What is not available are ongoing films or ranger presentations in the Presidio Visitors' Center, which is in temporary quarters in the Officers' Club. NPS does staff a more expansive park Visitors' Center dealing with Crissy Field, in Area A, which provides a wide range of activities. All together, NPS offers an average of 20 interpretive programs monthly in Areas A and B, including those offered at the Crissy Field Center.

The Trust has three staff in its program unit, and spends about \$460,000 on direct program activities. As in the natural resources area, these funds and staff time are leveraged with volunteers, such as the archaeologists, who donated their time for public programs, and efforts of partner organizations.

NPS maintains the Visitors' Center on Area B, which is open 7 days per week and entails about four FTE. While the NPS budget and staff time are not broken out by Area A and B, NPS estimates that there are about two additional FTE devoted to Area B, in the form of direct services or the time of the GGNRA chief ranger or public affairs staff. The NPS conducts several programs each weekend day and some during the week (using rangers or volunteer docents), and collaborates with the Trust on events such as Teachers' Night at the Presidio. A number of NPS-sponsored events may start at the Visitors' Center in Area A and move into Area B, or vice versa.

There is no formal document or MOA for NPS and Trust interactions on cultural issues as there is on natural resources. Some Trust staff are not sure that this would be in the Trust's best interest, given that cooperation is good at present and a formal document could lead to time-consuming NPS reviews of proposed programs. NPS believes that some type of formal MOA or partnership on cultural programs would strengthen collaboration and enhance the Presidio's role as a national park site.

Academy staff asked for clarification about who has the ultimate authority on interpretation in cultural areas. NPS and Trust staff stressed their ongoing cooperation on current activities. Trust staff believe that challenging issues would probably not arise until projects rose to the level of, for example, a military history museum, and NPS reiterates that it has "responsibilities for management or display of Presidio collections in museums."

### **Improving Visitor and Other User Access**

The Presidio Trust Act established Building 102 as Area A space within Area B for an NPS-operated Visitor Center, and noted that it should be named the "William Penn Mott Visitor Center." It is one of the red brick military barracks that faces the former Main Post Parade Grounds. NPS used this space for administrative offices and visitor services until 2002 when renovations began. There is a mix of appropriated and donated funds to renovate this space, and renovations were underway until it became clear that the seismic retrofit would cost more than twice the initial estimate. Renovations were on hold as of September 2003.

While the Area B Visitor Center is not as comprehensive as it probably will be when it is again in a permanent location, Academy staff were struck by the lack of information on Trust-sponsored events available at the temporary Visitor Center. Trust staff indicated that they provided these materials, but there was no mechanism to notify them when supplies were low.

Academy staff discussed with NPS and Trust staff when there might be funds available, or if there would be another space that would meet visitor needs and be less expensive to renovate. There is little incentive for the Trust to come up with the additional \$1.5 million required,



because this is NPS space and Trust capital can be used on buildings that have a higher or positive economic return. NPS does not have the funds for the renovation.

Since the Act was passed in 1996, plans have evolved at the Presidio. One option under discussion is whether it would make sense to have the Visitors' Center in a modern building closer to the planned transportation hub that will open in late 2003.

To serve visitors remotely, the Trust's web site ([www.presidio.gov](http://www.presidio.gov)) was completely revised, with input from partner organizations, and put on line in August 2003. It has links to many partners, with NPS being the most prominent. A calendar shows all activities, including those sponsored by Trust tenants or any group holding an activity at the Presidio. It is a portal site, so organizations can sign on with a password and update the calendar.

### **Conclusions and Recommendations: Partnering Through the Evolving NPS Relationship**

Birds and streams know no boundaries. That is how one Trust staff member explained why the Trust/NPS relationship in natural resources had evolved relatively quickly to the current level of cooperation. In addition, senior Trust staff in the natural resources area have NPS work experience, which facilitates communication. Both organizations share a synergistic view that the whole is greater than the sum of the parts and that the two organizations have to work together to restore the natural resources for the entire Presidio.

The Trust and NPS have worked hard to make their relationship a positive one, and there is much evidence that they have succeeded. Some of the easing of previous tensions may be due simply to the passage of time; any change as major as the Trust Act will engender some level of stress. Even so, the evolution in the two organizations' relationship is a good example of how individuals can set the tone for positive interaction. Current leaders make this a top priority.

Nonetheless, there are cultural and environmental differences between the two organizations that continue to create challenges. The Trust's practices often emphasize speed while NPS often adopts longer timeframes to evaluate and accomplish its goals. These different time horizons are not surprising, given NPS' reliance on government funding for the bulk of its support, and the Trust's need to become self-sufficient by 2013. Bridging the differences will not be easy. Because both agencies recognize the role each has to play in restoring and enhancing the Presidio and have worked together successfully on specific projects to accomplish their mutual goals, the Panel believes they can build on one another's strengths.

The Panel considered ways to institutionalize aspects of the current, positive relationship so that it depends as much on how the partnership is structured as on who is in leadership positions. It would be a great loss if the improved interactions were to degenerate.

One option for making the resources expended through the relationship more predictable is to negotiate a baseline level of NPS interpretive and visitor services for Area B. If the Trust wants a level of services exceeding the baseline, it could purchase the services by reimbursing NPS for the cost of staff time devoted to, for example, additional ranger-led tours. It might be difficult, however, for NPS to guarantee a baseline level of services for Area B of the Presidio. In

addition, this option might convey the message that most NPS services are to be provided on a reimbursable basis. Another option would be to allow the Trust to contract for services with outside entities when NPS is unable to provide the desired level.

The Panel also considered recommending a change to the Trust statutory language to make the Trust, rather than NPS, responsible for providing public interpretive services, visitor orientation, and educational programs for Area B, in cooperation with NPS—essentially the reverse of the current language. It is the Trust that, through its capital budget and the Conservancy’s philanthropic efforts, will generate the funds to, for example, restore cultural resources. The Trust also has the greater incentive to bring the public to view them or participate in programs on Area B. Added service needs in Area B could be viewed as resource needs NPS would find difficult to fund. The Panel has initially rejected the idea of reversing the current language since Area B of the Presidio is clearly part of the national park system.

However, the Trust is also the only part of the national park system that must become self-sustaining. This mandate will undoubtedly induce the Trust to aggressively pursue more varied paths, partners, and funding sources than other parks. With NPS (as the secretary’s representative) essentially having veto power over Trust initiatives, NPS could inhibit, for example, developing a military history or Native American museum if it did not believe the Trust was partnering with an appropriate organization or thought the facility should be located in a different building.

The Panel is not trying to create negative “what-if” scenarios. To take full advantage of each agency’s contributions, Congress created a unique joint management structure for the Presidio interpretive services between the Trust and NPS that was deliberately different from any other national park. Thus, the Panel believes that equality in the relationship recognizes the interdependent roles of the Trust and NPS in developing and sustaining meaningful park services. It also reflects the fact that the Trust has and will continue to expend resources for visitor programs and services, and without Trust staff time and funds, there would be relatively few interpretive services and other cultural programs directly geared to Area B. An equal relationship will better link the contribution of resources with decision-making, an important foundation for an effective partnership.

Finally, as the Trust works with the Conservancy to raise additional funds, it needs to have a strong voice in how those funds will be used for cultural programs. It is not enough to tell a potential donor, “If you provide these funds we will try to persuade NPS to use them for XYZ.” The Panel believes that a key reason for the successful fundraising that NPS and the Conservancy undertook to restore Crissy Field was because the two organizations could work toward a clear set of goals.

**Therefore, the Academy Panel recommends that:**

**Section 102(b) of The Presidio Trust Act be amended to read, “The Secretary and the Presidio Trust be jointly responsible for providing public interpretive services, visitor orientation and educational programs,**

**in Area B of the Presidio. The Secretary shall be responsible for providing these services in Area A.”**

**Section 103(b)(1) of the Presidio Trust Act be amended to read, “The Secretary and the Trust shall have the flexibility to designate a building on Area B for use as a visitor center, and the Secretary shall retain jurisdiction over those portions of the building used as a visitor center. The building shall be named the “William Penn Mott Visitor Center.”**

While NPS is the recognized steward of the nation’s national parks, the Trust has established itself as an equal champion of preserving Area B’s natural and cultural resources and serving the visitors who use them. Creating statutory equality for both recognizes that each co-manager has an equally shared responsibility for transforming this former military post into a sustainable national park site, and that this can only be achieved through their joint, cooperative efforts. When there is an equal partnership, it would be appropriate for the two organizations to develop an MOU to express how each would fulfill their role. At the same time it would also be appropriate to revisit the existing MOA on remediation to ensure that clean-up responsibilities and funding authorities are appropriately aligned.

Providing flexibility for both agencies to jointly determine the most effective location of the William Penn Mott Visitor Center in Area B eliminates an unnecessary statutory directive. It may be that NPS and the Trust will decide that Building 102 remains the most appropriate site. Whatever the choice, the Panel believes this joint location decision will also encourage the agencies to work together in establishing and maintaining the new center as the focal point of visitor information about the Presidio.

While the Panel has observed growing cooperation between the Trust and NPS, there remains some level of mistrust between the two organizations. The Trust will not achieve its self-sufficiency mandate and its national park site goals without full, and mutual, cooperation with NPS. If this cannot be achieved through equality in the relationship, it may be appropriate for Congress to change the statutory language to make the Trust responsible for providing public interpretive services, visitor orientation, and educational programs for Area B, in cooperation with NPS. A lead role for the Trust would parallel other government corporations. For example, when TVA took over all river development from the Corps of Engineers, the Corps did not retain any residual functions in the areas where TVA had jurisdiction.

**The Panel recommends that, if after a designated period of time as equal partners for public interpretive services, visitor orientation, and educational programs for Area B, the Trust and NPS have not created a strong, cooperative partnership, Congress place the Trust in the lead role for these functions.**

In 2 years, GAO will undertake a second review of the Trust’s progress toward self-sufficiency. That study could also provide an assessment of the cooperation between the two organizations. If Congress finds that timeframe not suitable, it could direct another independent assessment of the relationship after a more acceptable timeframe.

## LEVERAGING RESOURCES THROUGH PARTNERS AND VOLUNTEERS

### Golden Gate National Parks Conservancy

Most of the major national parks have one or more philanthropic groups to help identify and encourage donors and organize volunteer efforts. At GGNRA, the Conservancy has performed this role for more than 20 years. At the Presidio, the Conservancy secured \$34.5 million in private donations to fund the restoration of Crissy Field and assist NPS in the planning and management of that Area A project.

The Trust signed a Cooperative Agreement with the Conservancy for services related to natural resources projects to “identify projects and transfer funds from the Trust to [the Conservancy], and from [the Conservancy] to the Trust, to provide and perform natural resources services and operations within the Presidio.”<sup>13</sup> The agreement covers such things as defining project statements and costs and the extent of cost-sharing, methods through which the Conservancy would reimburse the Trust for agreed-upon costs, Trust funding support to the Conservancy for activities related to the Presidio Nursery Program, and implementation of resource education programs serving residents, tenants and Presidio-based employees.

A separate document, formally called Natural Resources Management Letter of Agreement, outlines the Trust, NPS, and the Conservancy’s commitment to work collaboratively on natural resources management project and programs. Among other things, all three agencies agree to “ensure joint work planning and accounting for funds, volunteers, work completed and other work planning and implementation... keeping costs of the restoration and remediation projects independent.”

The Conservancy, NPS and the Trust have worked on several projects requiring volunteers to complete. These include:

- **Trails Forever**—a multi-year project to rejuvenate and improve trails, bikeways, overlooks, benches and picnic areas at the Presidio and other GGNRA areas; and
- **Presidio Green**—a project to restore, improve and expand the green spaces of the Presidio.

For natural resources, the Conservancy produces up to 60,000 native plants per year through the Presidio Native Plant Nursery and organizes volunteers and (very important in volunteer nurturing) provides their food, which the Trust and NPS cannot legally do. In 2002, the Conservancy directly managed volunteers who provide 12,081 hours of services (the equivalent of 5.5 full-time employees) in the Presidio Nursery.

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<sup>13</sup> Cooperative Agreement No. PT-2002-CA-02 between the Presidio Trust and Golden Gate National Parks Association (now the Conservancy) for Services Related to Natural Resources Projects at the Presidio of San Francisco. P.1.

Volunteer days occur twice per week and education days once per week. On average, 25 volunteers per week participate in the program. The Conservancy also hosted 41 school classes, in which an estimated 860 middle and high school students participated. The curricula-based programs and experiential, service-oriented programs enable students to provide the nursery with nearly 220 volunteer hours while learning the basic science principles using applied techniques of restoration and nursery practices. During the summer, two high school interns are given the opportunity to learn first-hand all aspects of working in the nursery.

The Trust recently awarded Restoration Services contracts for which the Trust will pay up to \$50/hour for weeding, something volunteers also do. Trust staff noted that if one were to use a \$20/hour estimate for volunteer hour services, these volunteers contribute \$486,380 of services to the Presidio each year (24,319 volunteer hours). In addition, Trust staff believe they provide “priceless community connections that link the Presidio with San Francisco.”

### **Partners and Volunteers for Cultural Resources**

Natural resources can exist without (or perhaps in spite of) human involvement, though people can be involved in many ways, such as planting the forest at the Presidio. However, cultural resources at the Presidio solely reflect the activities of humans, from the Ohlone people who collected shellfish along the shore to the armies of three nations. The PTMP says that, “The Presidio Trust will preserve and rehabilitate the historic landscapes and buildings that define the Presidio’s character, and will seek to make accessible the stories inherent in archeological remains that mostly lie beneath the ground.”<sup>14</sup>

There are substantial archeological features at the Presidio—including the remains of El Presidio, the original Spanish/Mexican garrison—and the buildings that housed Japanese-American recruits who served as translators and interrogators during World War II, and the building from which the order to intern Japanese-Americans was signed. Among the 470 historic buildings are examples of every major building period of U.S. military history since the 1850s. All preservation and rehabilitation activities must comply with the National Historic Preservation Act (NHPA) and the California preservation laws. Because of the complexity of these laws and ensuing regulations, cultural resources staff spend a great deal of time on compliance.

In the first few years of the Trust’s operations, cultural activities were generally large, self-funded events, such as major art exhibits. This has evolved to more park-specific activities. In the summer of 2003, a team of Stanford University Archaeology professors and students investigated buried remains near El Polin Spring, which is within Tennessee Hollow. They discovered the stone foundation of an adobe house believed to have been the home of two families in the early 1800s. The site was open to visitors for much of the summer so they could observe the archaeologists’ work and talk with researchers. Stanford staff also presented an evening lecture series throughout the summer. The Trust partnership with Stanford University included housing the students in an old Army barracks, and the university helped with signage and outreach for visitors, in conjunction with the Trust public affairs staff. Many of Stanford’s expenses are funded through grants a faculty member obtained.

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<sup>14</sup> PTMP, p. 3.

The Trust works with several colleges and universities on archaeology and preservation activities. Two University of California at Berkeley doctoral students are working on the Trust's archaeological collections, while another is working on Civil War period archaeological deposits. The Trust previously funded a field supervisor for these students, but can no longer do so. However, a faculty member secured grants to pay for the university supervisor's time. Another Berkeley student is examining dietary differences of Presidio inhabitants by examining animal bones. Sonoma State University students are working on bone identification. Trust staff note that while these projects would benefit the universities and their students, they are research efforts for which the Trust would otherwise have to expend funds.

There is a training program through the College of the Redwoods for Trust craft staff who learn how to use historic renovation techniques and materials. While staff work on a building to learn how to meet the Secretary of Interior's standards, they earn college credit. Courses are paid with Trust training funds.

Unlike natural resources volunteers, who are coordinated by the Conservancy, Trust cultural resources staff coordinate the volunteers, many of them retirees, who work two days per week to help screen, sort and catalog materials and do research. Staff note that there is a volunteer waiting list, but that they can only accommodate them 2 days per week because there are other staff projects to undertake.

### **Partnering with Philanthropic Organizations**

The Board has chosen to seek philanthropic funds largely for projects associated with "greening the Presidio" and to use appropriated funds for real estate development projects that must provide future revenues needed to attain financial self-sufficiency. The Board and staff believe the philanthropic community is more likely to fund natural and cultural resource projects. The current Board chair formerly chaired the GGNPA (now the Conservancy) and other Board members have had experience in philanthropic efforts. In addition, a current Trust staff member had worked for the Conservancy as the project manager for the Crissy Field fundraising effort. In early 2003, the Board brought 18 potential donors together to provide information on Trust activities such as the trails plans and background materials on the open space improvement activities.

Concurrently, the Trust has worked with the Conservancy to develop fundraising objectives. There will be some instances in which foundations or others will be more willing to give to the Conservancy than a federal entity, even a federal corporation, but there may also be some instances where donors may want to contribute directly to the Trust. The Conservancy does not charge a fee for its fundraising or volunteer coordination efforts, but it does expect to have input on the use of any philanthropic funds it provides. The Trust and the Conservancy are negotiating a second agreement through which the Conservancy would have a lead role in fundraising for the Trust, working with a to-be-hired development officer in the executive director's office.

## **Conclusions and Recommendations: Leveraging Resources through Partners and Volunteers**

Strong partnerships flow from clear responsibilities and shared contributions and can advance the mission of both organizations. Partnerships take many forms, such as shared work, activity sponsorships, advocacy, or joint fundraising. The Trust's relationships with the Conservancy and NPS are true strategic alliances, defined as long-term, dynamic, multi-faced, and key to each partners' individual success. Trust partnerships with universities and other organizations have forged community links and leveraged resources for a range of activities.

It is essential that current Presidio volunteer and partnership relationships continue to thrive. It is equally important that the Trust continue to allocate some of its own resources to the activities that volunteers and partnerships support to demonstrate that these activities and programs command the same level of priority as real estate development.

The Panel commends the Trust on its considerable use of volunteers, and recognizes that these resources from residents of the region, partner universities, NPS, and the Conservancy help the Trust accomplish a great deal in the natural and cultural resources areas. **The Panel recommends that the Trust:**

**Continue its joint efforts with NPS and the Conservancy to increase volunteer activities on mutually agreed natural and cultural resources projects at the Presidio and extend its relations with local colleges and universities to undertake mutually beneficial research and education projects at the Presidio.**

**Develop a consolidated philanthropic funding plan for the Presidio that considers the Trust's goals and coordinates with those of the rest of GGNRA.**

**Finalize the agreement with the Conservancy through which the Conservancy would have a lead role in fundraising on behalf of the Trust.**

**Hire a development officer to coordinate Board and staff activities related to securing philanthropic support.**

The Panel also believes that the Board has a critical role in establishing philanthropic funding goals and in working with the Conservancy and others to expand the sources of philanthropic support for the Presidio. Effective staff support can help identify potential sources and can provide the necessary follow-up activities, but individual Board members have the stature and contacts essential to consummate sustained philanthropic funding campaigns. While this is not an explicit statutory requirement for Board membership, it is nonetheless an essential Board member activity. If the philanthropic funding goals the Board establishes exceed the amounts the Conservancy believes it can reasonably secure, given its other GGNRA commitments, the Board may need to develop sources beyond those traditionally available to the Conservancy and NPS.

Therefore, **the Panel Recommends that**

**The Board work to expand philanthropic funding sources for the Presidio in conjunction with the Conservancy.**

In expanding the Trust's philanthropic outreach capabilities, the Panel believes that a national advisory committee could be particularly useful once the Trust, NPS, and the Conservancy have determined the theme(s) that distinguish the Presidio from other national parks and from state or local parks and monuments. For example, if one of them is the 220-year military history of the Presidio, a national advisory committee comprised in part of recognized national military scholars or representatives of military organizations could help develop specific projects and identify potential funding sources that might not be as accessible to the Trust and Conservancy Boards. The Panel also believes that the Board may want to formally acknowledge its philanthropic role by amending its by-laws to include that function, or by leaving the by-laws as they are but establishing a committee to take the lead in philanthropy.

**RESTRUCTURING TO BETTER BALANCE PRESERVATION, RECREATION, AND DEVELOPMENT OBJECTIVES**

The Presidio Trust's organization has evolved as it has grown from a founding Board of Directors and staff of one in 1996 to more than 500 in mid 2001 and 325 in August 2003. While its basic functions stay the same—serving the public, enhancing the Presidio's natural and cultural resources, and developing properties—as areas of emphasis have shifted, staff skill sets and organization structure have changed to meet changing needs.

The Trust's structure (as shown in Figure 2-1) has the Board of Directors at the top of the organization with all divisions reporting through the executive director to the Board. The major direct reporting organizations are:

- General Counsel
- Real Estate
- Planning and Resources
- Financial and Business Management
- Human Resources
- Public Affairs and Programs
- Operations
- Environmental Remediation

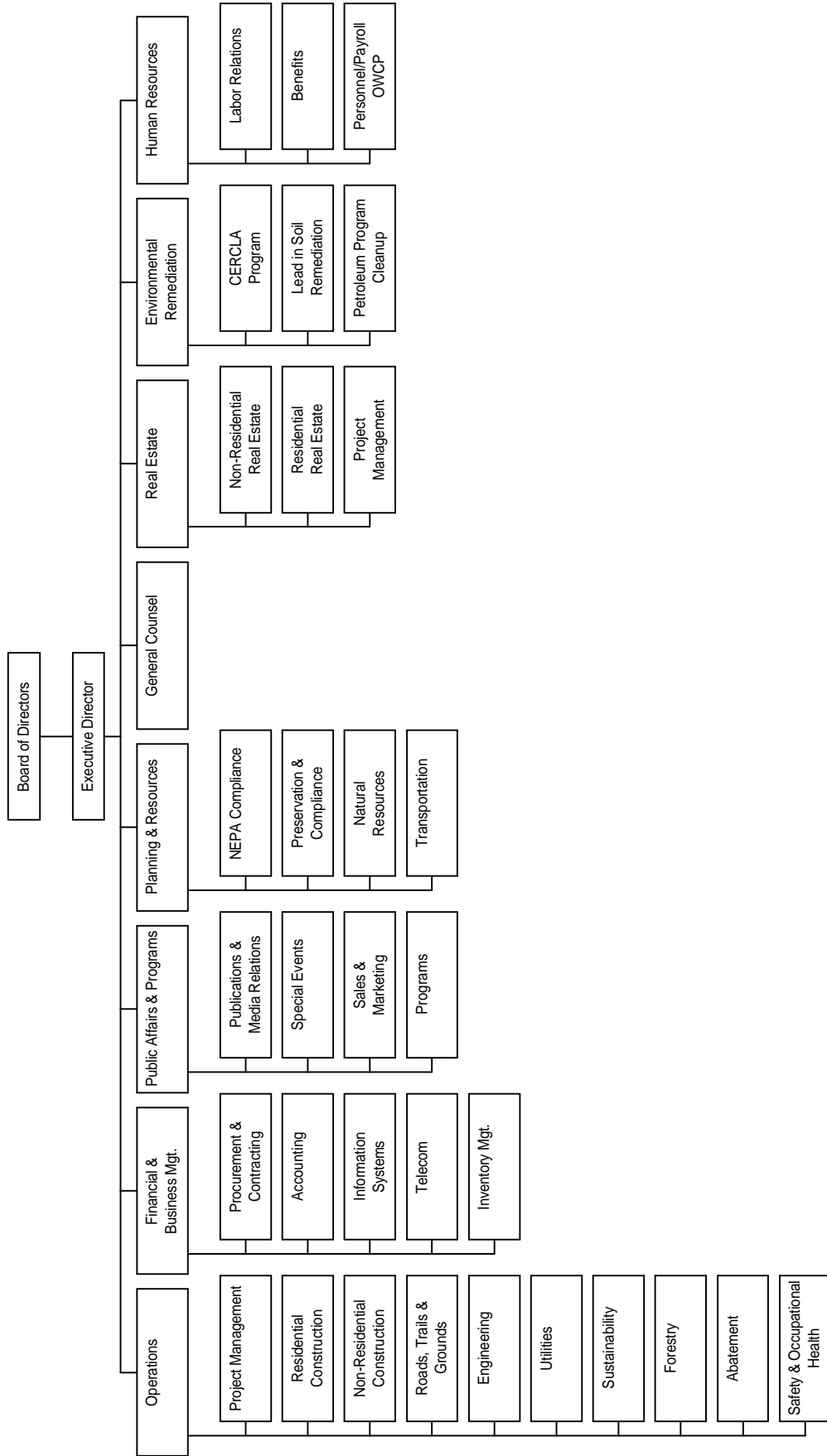
There has never been a senior-level unit (on par with the division structure) solely devoted to natural and cultural resources, programs, or public access. However, in moving natural and cultural resources from Operations to the newly renamed Planning and Resources Division in 2002, the Trust has attempted to make these resource activities more prominent within the structure.



Reasons for the strong focus on real estate within the Trust's current organizational structure could include:

- The Presidio Trust Act focuses almost exclusively on preserving structures and developing revenue from the use of these properties and securing private capital to help fund their rehabilitation.
- The 2013 self-sufficiency requirement provides a strong focus on real estate development, as the primary source of revenue.
- The former executive director was a real estate developer and saw this as the dominant role.

**Figure 2-1: Current Presidio Trust Organization**



## **“Park” Activities in the Division of Planning and Resources**

As indicated, many functions that relate to the “park” component of the Trust’s mission are now in the Division of Planning and Resources. The full functions of that division are:

- Planning, including environmental planning
- Archaeology
- Landscape architecture
- Natural resources
- Preservation
- Transportation planning
- Cultural resources (includes compliance with NHPA)

All of these functions were included in the PTMP. Trust staff stress that “planning” has not ended with PTMP. There is extensive planning for specific site development such as the Letterman Digital Arts Center or development of the former Public Health Service Hospital, and for rejuvenation of natural resources such as the Tennessee Hollow. In addition, as discussed earlier, the Trust has developed specific plans for vegetation and trails.

Broadly, the purpose of the many projects in the Planning and Resources Division is “to let the park emerge at the Presidio.” Its official mission is to be responsible for, “The creation and implementation of strategies to support protection, preservation, enhancement, and enjoyment of park resources, and the introduction of compatible new uses in furtherance of the Presidio’s transition from post to park.” These open-space projects do not have an obvious financial return, but are a key part of the Presidio mission. Trust staff note there are opportunities to make critical open-space improvements, so that the park will become more than a collection of individual landscapes.

The goals are to:

- Increase access
- Help the public understand how to use the park
- Create a sense that this is a national park
- Craft the use of philanthropic funds to achieve goals

## **National Park Service Organization for Managing Resources**

The Trust is not the only organization that operates urban parks and leases real estate. New York’s Central Park is perhaps the most well known urban park, though the buildings within it are essentially those that serve the public using the park. NPS operates some building-intensive parks, most obtained through base closings. A number of these are within the GGNRA, including Forts Baker and Mason—former military facilities with some of the same challenges of serving the public while offering cultural activities and maintaining a real estate function. The key difference between these locations and Presidio Area B is that while NPS will bring in rent for a number of buildings, it knows it will continue to receive appropriated funds. Only the Trust

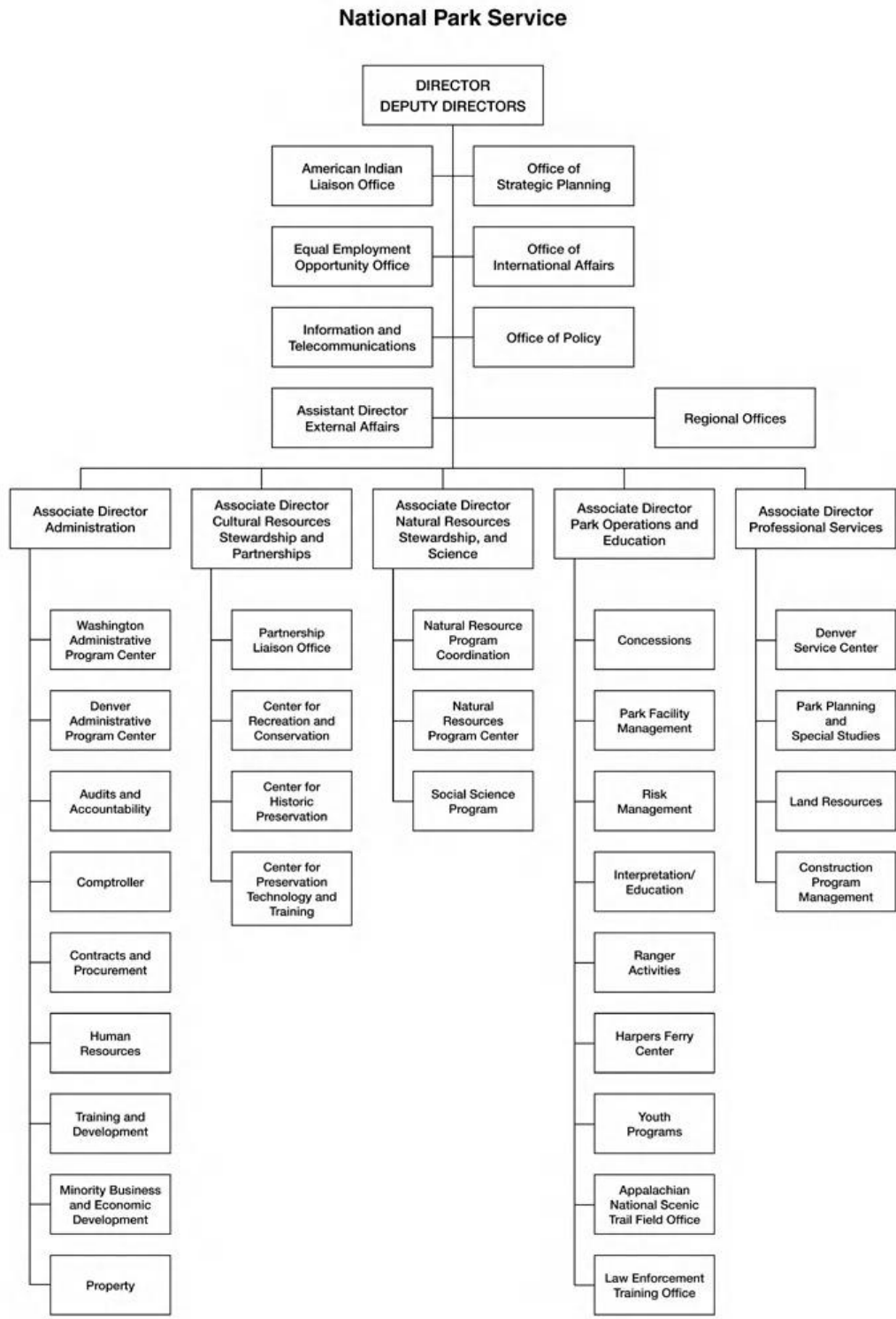
has the unique mandate to become financially self-sufficient while managing a major national park component.

At the top level, NPS has five major divisions:

- Administration
- Cultural Resources Stewardship and Partnerships
- National Resources Stewardship and Science
- Park Operations and Education
- Professional Services

Most parks have senior managers for each area. The NPS organization chart (Figure 2-2) shows the types of functions in each area.

**Figure 2-2: NPS Organization**



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The GGNRA (which has a number of parks within it) has a superintendent and one assistant superintendent; most activities are divided into one of two areas.

- Operations has most people in uniform—law enforcement, maintenance, interpretation, natural and cultural resources.
- Business Partnerships and Planning has contracts, administration, budget, personnel, planning, business management, and a project office, which deals with leasing.

### **Programs as the Point of Public Access**

The programs the Presidio Trust offers for the public, either alone or with partners, have evolved from primarily major exhibits (such as an art exhibit) to a mix of activities that focus on the park itself. Some are still major events, but the Trust is generally no longer the primary source of funds. For example, exhibits such as the “The American Flag: Two Centuries of Concord and Conflict” are funded by the organization that brings them to the Presidio, with the Trust providing publicity and staff resources to assist with such things as exhibit set-up.

Until 2002, programs were part of a staff office located in the Office of the Executive Director that included Administration and Government Relations. In placing it with Public Affairs, the current executive director sought to combine the two functions that had most direct access with the general public and provide more of a park-based focus. Senior Trust staff believe this was a good decision, and point to the increase in Trust-sponsored programs in the summer of 2003.

The units within the Division of Public Affairs, Programs, and Communication are:

- Public Affairs (publications, outreach, media affairs)
- Public Programs and Partnerships
- Special Events and Special Use Permitting
- Venue Sale, Marketing, and Management

While programs bring people to the park, national parks with lodging facilities have a very different atmosphere than those that lack them. The Presidio has a camping area that is generally fully reserved, but there is no lodge or other accommodations available to the general public.<sup>15</sup> Thus, there are no evening ranger-led events or even continual tourist traffic through the park. As one external stakeholder said, when it first became known that the Presidio would be a national park site in 1994, no one involved would have believed that there would be no tourist lodging available nine years later. In 1999, the Trust put out a Request for Qualifications for firms to convert some of the officer housing on Funston Avenue to guest lodging. Three firms replied, and an independent assessment that the Trust commissioned deemed one of them financially viable and appropriate for maintaining the Trust’s historic preservation goals. However, as the

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<sup>15</sup> The Trust has refurbished two Funston Avenue homes for use by those doing business for the Trust, and has documented the savings that result from using this facility rather than paying for lodging. In addition, two guest suites in Pershing Hall (near the Officer’s Club) have been renovated and are used primarily for those doing business with the Trust; they have had limited use by couples married in the Presidio Chapel.

San Francisco commercial real estate downturn began, the expected economic returns for the facilities diminished and a project never went forward. The Trust is beginning to consider tackling the issue again.

### **Conclusions and Recommendations: Restructuring for Better Balance**

The Presidio Trust is not similar to large national parks such as Glacier National Park or Lake Mead National Recreation Area in function or size; it is an urban park with a large number of buildings to preserve and maintain, most protected by historic preservation legislation. Nevertheless, the Trust staff's dedication to natural and cultural resources, and understanding of the need for capital expenditures to develop them, is clear.

While natural resource preservation, park access, and natural and cultural programs are major components of the Presidio Trust's mission, they are not prominent in the organization's structure and thus may not be adequately represented in Trust decision-making. The lack of prominence within the Trust structure could send a message to others that real estate development activities predominate, or could make it more difficult for partner organizations to recognize where their functions align with those in the Trust. As a practical matter, the natural and cultural resources areas are given more prominence within NPS' organization.

The Trust has the flexibility to organize itself in ways that make the most sense for a government corporation with many missions. The Panel believes that the Trust should utilize this flexibility to give resources and public access more emphasis. Restructuring to make resources and park access more prominent, however, is more than a matter of moving or adding boxes to an organization chart. It involves simultaneously taking steps designed to:

- Serve the public most effectively
- Facilitate partnerships to leverage resources
- Maintain an appropriate span of control for the executive director
- Collocate units that can reinforce one another
- Assess the budget impact of resource changes on critical programs

The Panel is particularly concerned about this last point, given the significant reductions in Trust operating costs in the last 2 years. It is difficult to assess the impact of lost opportunities, such as the effect on natural or cultural resources activities of the 12.4% cut in the operating budget that occurred for FY 2003. Without a GPRA-type planning effort, the Trust lacks a mechanism to identify which goals will not be achieved or must be delayed when expenditures are cut. No one with a sole focus on natural and cultural resources and public access is available to compensate for this deficiency by saying, "We had scheduled campground modernization, or a series of programs on Spanish history, or a bed and breakfast facility. Now we can't do that."

There is a range of options to ensure that the consequences of budget changes on mission-critical resources programs are recognized:

- The elements concerned with cultural and natural resources (archaeology, landscape architecture historic preservation, natural resources) that are now in Planning and

Resources could be established as a separate unit with responsibility for reforestation, vegetation and other natural resources preservation, historic preservation, and archaeology. It may make sense to place some of the natural resources functions that stayed in Operations when Planning and Resources was formed in 2002—some portions of the sustainability and forestry program—in such a unit.

- Natural and cultural resources could be separate units. The cultural affairs unit could continue with its archaeological and preservation functions and take the lead on bringing philanthropic funds together for some of the museums that have been under discussion.
- Either a joint natural/cultural resources unit or one of them, if separate, could focus on “public access,” with the goal of developing lodging units, enhanced recreation opportunities, or other tourist activities or facilities.
- The Programs function could continue as the Program and Partnership Division within Public Affairs, or it could be a separate unit that addresses current programming efforts and museum development goals and adds “public access” functions.
- The Programs function could be merged with natural and cultural resources so that all elements of park “resources” are together—natural and cultural resources, park access, visitor programs, and recreation.

While planning that puts the PTMP into practice will continue for years, the Trust is undertaking greater implementation activity, a function traditionally handled largely by program units. Long-term implementation planning is still needed to identify alternatives that meet PTMP policies and principles. Specifically, the Trust needs plans to provide the mix of park services the Board approves, as well as real estate alternatives for the remaining unrehabilitated sites (such as Fort Scott) or sets of buildings (such as Funston Avenue). The Trust also needs to place more emphasis on the statutory strategic planning/GPRA functions, which could be handled by a refocused Planning Division or an entity within the Office of the Executive Director, once the Board has approved these efforts. Because these GPRA strategic and annual performance plans must also be linked to the Trust’s budget, the unit that handles the plans would need to coordinate closely with the Finance Department and the Trust’s CFO in managing these plans.

**The Academy Panel recommends that the executive director of the Presidio Trust:**

**Create a division comprised of natural and cultural resources so that these park missions have the same level of visibility within the organization and voice in decision-making that the real estate mission enjoys.**

**Refocus the Division of Planning to concentrate on land-use planning and planning for various national park objectives and long-term real estate use alternatives.**

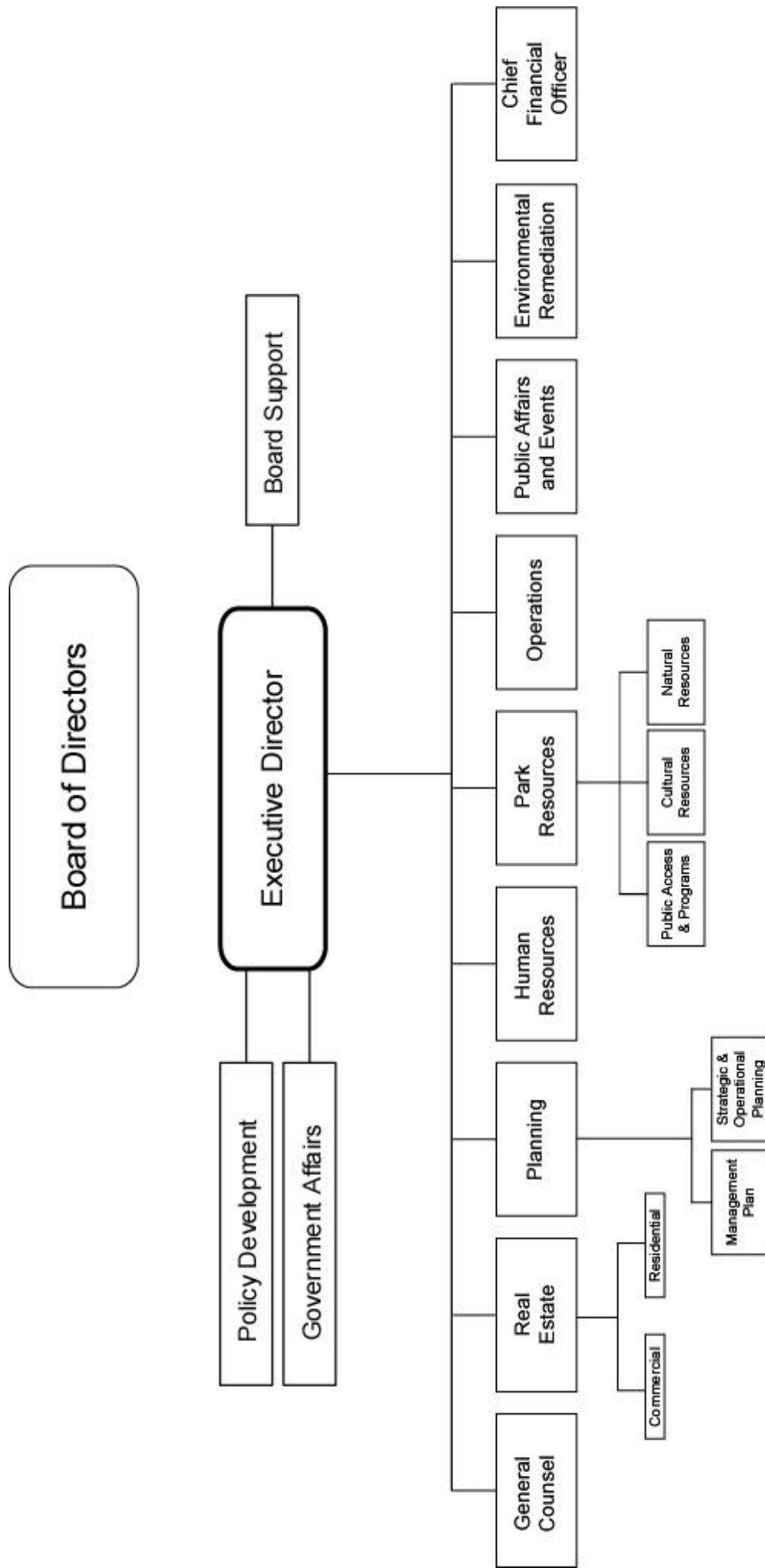


**Emphasize the importance of planning beyond PTMP by designating a unit to refine and manage the Trust’s internal strategic and annual plans and reports associated with Government Performance Results Act requirements.**

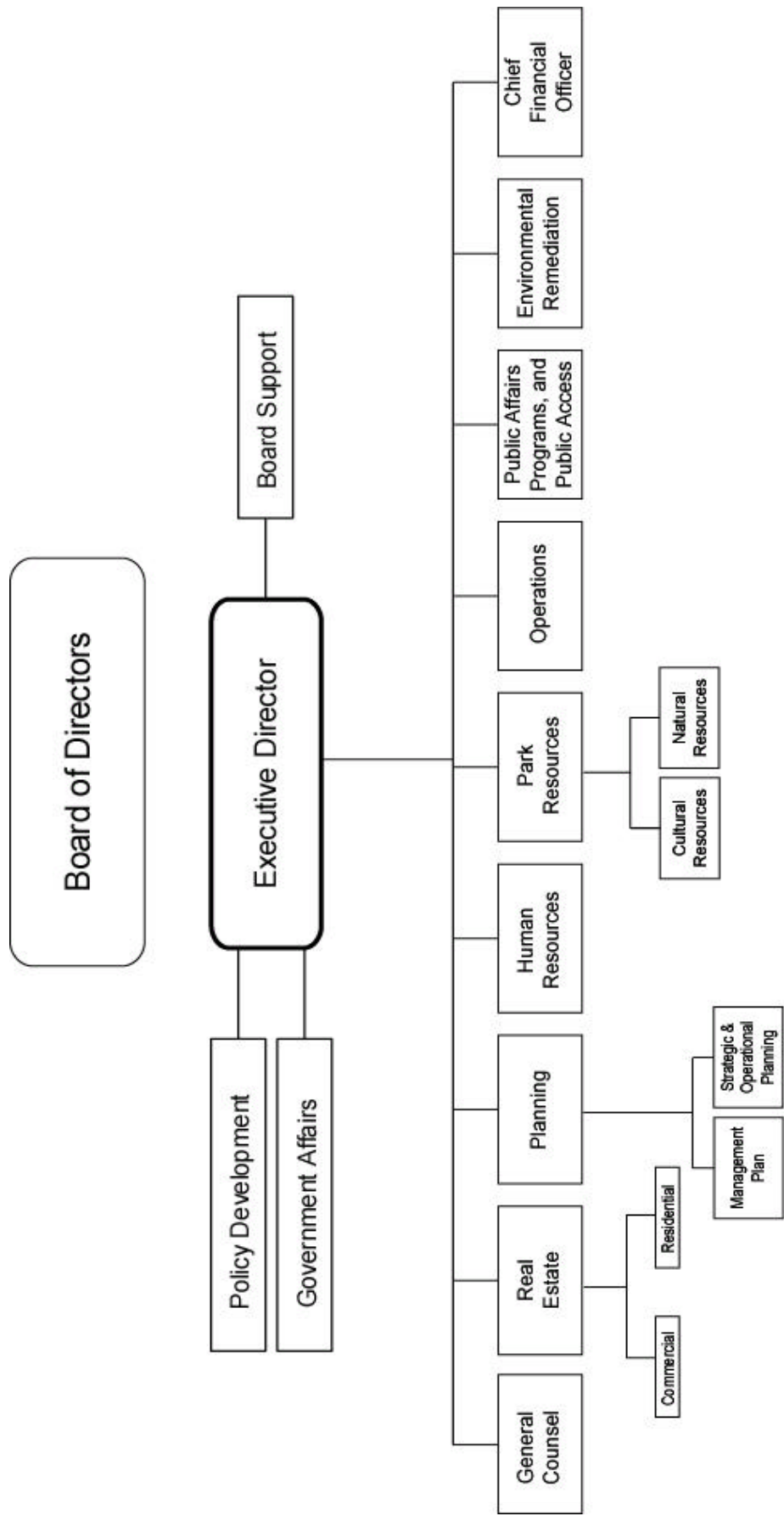
**Leave the programs function within the Division of Public Affairs and Programs and emphasize the “park access” role of these functions and the potential to create lodging opportunities beyond camping within Area B. Consider renaming the division to reflect these important activities.**

Figures 2-3 and 2-4 offer options for structuring a Division of Park Resources, which is a name the Panel offers as an example rather than a specific suggestion. Although it presented other options, the Panel recommends that cultural and natural resources be placed in the same division to stress the integrated nature of the park’s preservation and development. The Panel also recommends that Programs remain separate within the organizational structure because their current placement works well. Ultimately, the Trust will want to select a structure that emphasizes the natural landscape and the buildings and archaeological sites that populate the Presidio. These are the elements that make the Presidio a national treasure, and the public’s access to it can be better served by elevating these functions.

**Figure 2-3: Option for Presidio Trust Organization Structure  
Park Resources Division with a Public Access and Programs Component**



**Figure 2-4: Option for Presidio Trust Organization Structure  
Park Resources Division with Programs Remaining in Public Affairs**





## CHAPTER 3 ENHANCING THE PRESIDIO TRUST'S FINANCIAL PLANNING

*“The Trust can achieve financial self-sufficiency in any number of ways, but if it does so without having created the financial base to ensure the rehabilitation of the Presidio’s historic buildings and landscapes, the restoration of its natural resources, and the preservation of its distinct character, the Trust will not have accomplished its mission.”<sup>16</sup>*

The Trust has clearly recognized that it will need to make policy trade-offs over time to achieve financial self-sufficiency by 2013, meet its other multiple statutory objectives, and satisfy its numerous stakeholders. It also has recognized that it will need a process to evaluate policy alternatives, secure stakeholder input on those alternatives, and assess current and expected future progress. The Trust needs a master plan for defining its preferred long-term vision for the Presidio as part of the GGNRA, establishing a feasible approach to achieve and implement that vision, and obtaining input from the public to help shape the final elements in the PTMP.

This chapter reviews the Trust’s long-term financial planning to date and assesses the strengths and weaknesses of those current financial plans. It also reviews the Trust’s modeling efforts to provide long-term financial projections; evaluates the model’s structure, internal logic, operational efficiency and the adequacy of key assumptions that significantly affect model outputs; and recommends alternatives to improve the model and resulting financial projections.

### TRUST FINANCIAL PLANNING

While all government agencies develop and operate under a financial plan, the Trust’s unique mandate to become financially self-sufficient by 2013 requires a more detailed and longer-term financial plan than most other federal entities.

#### **The Financial Management Program**

Congress required the Trust to submit a plan to achieve, at a minimum, self-sufficiency within 15 fiscal years after the first meeting of the Board.<sup>17</sup> The Trust fulfilled this requirement by submitting a Financial Management Program (FMP) to Congress on July 8, 1998. The FMP proposed a timetable to gradually reduce annual federal appropriations, provided financial projections of expected long-term Presidio revenues and costs, and described the critical assumptions underlying those projections, including the “adherence to the general objectives of the Golden Gate National Recreation Area GMPA for the Presidio.”<sup>18</sup>

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<sup>16</sup> The Presidio Trust, “Fiscal Year 2004 Budget Justification”, p. 1. The Presidio Trust, “Presidio Trust Management Plan: Land Use Policies for Area B of the Presidio of San Francisco” May 2002. p. ii.

<sup>17</sup> The Presidio Trust Act, Sec 105 (b), PL104-333, as amended.

<sup>18</sup> The Presidio Trust, “Financial Management Program: Report to Congress July 8, 1988”, p. 3.

A key component of the FMP was the proposed timetable for gradually reducing annual federal appropriations to zero in 2013, when financial self-sufficiency was to be attained. Table 3-1 (end of chapter) shows this FMP appropriations schedule relative to actual appropriations actions through FY 2003. The FY 2004 budget proposals are also shown.

Although Congress has provided additional appropriations for \$50 million in borrowing authority, \$1.04 million in loan guarantee credit subsidies, and \$1 million for special transportation needs in FY 2002 and FY 2003, it has reduced the annual appropriation supporting general Trust operations. In FY 2003, the reduction was \$1.31 million—a 5.8% cut.

### **The Presidio Trust Management Plan**

The long-range financial plan outlined in the FMP has not been formally updated, even though many of the underlying assumptions have been superseded by subsequent policy changes, actual developments at the Presidio, and dramatic changes in economic conditions in the San Francisco area. Perhaps the most significant change has been the updated vision for the future long-term operation of the Presidio established in PTMP. The PTMP, published in May 2002 after extensive consultation with the public and other Presidio stakeholders, provides a comprehensive vision for Area B of the Presidio as part of the GGNRA. While that vision incorporated many critical components from NPS' GMPA, it also included some fundamentally different perspectives. These responded to the altered financial reality created by the congressional directive that the Presidio become financially self-sufficient by 2013.

The PTMP establishes a broad road map or overall land-use plan to guide the development of Area B, but leaves open for future decisions specific project choices and their potential policy trade-offs. In addition, PTMP describes the general financial constraints governing future Area B operations. However, as the Trust readily acknowledged, PTMP “is not an implementation plan, but [rather] a statement of policy that is intended to guide future implementation decisions ... and anticipates further detailed planning and public input.”<sup>19</sup> More specifically, PTMP is not a detailed long-term financial plan, and it does not show how subsequent policy, planning, and financial changes have affected the original FMP while still permitting the Trust to achieve financial self-sufficiency by 2013.

### **Current Financial Planning**

The Board has used the annual Trust budget to reflect specific PTMP implementation decisions and monitor general progress toward meeting the development and program objectives of PTMP. The annual budgets focuses on decisions and activities proposed for the current and subsequent (budget) year. However, the budget projections cover only a 5-year horizon, which is not long enough to include the critical years of 2012 and 2013, when the Trust must achieve financial self-sufficiency.<sup>20</sup>

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<sup>19</sup> PTMP, p ii.

<sup>20</sup> For example, the FY 2004 budget includes financial projections for the four “out-years” from FY 2005 through FY 2008.

Trust staff have provided the Board with longer-term financial projections depicting the impact of specific decisions over the next 15-20 years. However, the Board has not formally approved these projections<sup>21</sup>. In addition, although the Board has used them for evaluating current budget and other planning decisions, these projections focus almost exclusively on revenue streams from real estate development alternatives. They contain little information on other long-term park service investments and do not constitute a detailed, comprehensive, long-range financial development plan.

The Trust is developing a 5-year GPRA-focused strategic plan. While this strategic plan may provide more details on specific actions to be accomplished over the next 5 years, and may be more comprehensive than the current long-range projections, it will still have only a 5-year horizon. It will not depict financial and development activities in the critical year, 2013.

### **Conclusions and Recommendations: A Long-Range Financial Plan**

The Panel believes that the Trust would benefit from a comprehensive long-range financial plan that updates the FMP and implements PTMP's land-use plan.

Such a plan could:

- Define a preferred approach for achieving the Trust's objectives and vision for the Presidio, as described in the PTMP, by establishing explicit revenue and cost targets for major Presidio programs.
- Integrate the Board's strategic goals and objectives with GPRA requirements.
- Afford Congress, the Board, and the public a clear opportunity to evaluate progress in meeting planning targets and long-term objectives.
- Enable the Board and the public to assess the impact of specific project proposals on the potential trade-offs for the full range of approved long-term financial planning targets.
- Accommodate short-term changes in economic and other external conditions that alter the feasibility or viability of particular project proposals without necessitating wholesale changes in approved planning targets.
- Help the Board determine when deviations from approved targets require policy changes or revisions in program targets.
- Allow the Board to focus on critical major policy decisions and program trade-offs while monitoring the impact of detailed operational decisions on approved planning targets.

This plan should be shared with the public to provide opportunities to exchange viewpoints in an open, inclusive setting. Developing a comprehensive, detailed, and flexible long-range financial

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<sup>21</sup> These projections and their underlying assumptions are described and analyzed in detail in Chapter 4.

implementation plan could require substantial Presidio staff resources. It could accelerate Board decisions to make broad policy trade-offs in establishing detailed planning targets and might cause public controversy as these potential broad policy trade-offs are expressed. While this process can be time consuming and resource intensive, it can help build trust, if not full support, among public stakeholders by reducing misunderstandings about the rationale for difficult planning choices. At the same time, the development of this long-range, comprehensive, financial plan should not impede or delay on-going efforts to seek viable proposals to rehabilitate and reuse remaining available properties, consistent with the planning principles and policies already established in PTMP.

**The Panel recommends that the Trust staff develop and the Board approve a comprehensive, detailed, long-range financial plan showing how the PTMP can be implemented, natural resources and cultural values enhanced, and financial self-sufficiency attained between now and 2013. The plan should be sufficiently flexible to accommodate changes in either economic conditions or other economic opportunities, such as the infusion of philanthropic funding.**

Since this long-range financial plan must reflect current budget policy decisions, the first 5 years of the plan are likely to contain much more detailed information and will need to be updated more frequently to reflect the effects of budget policy and other changes. Updates to the out-year estimates will depend on the level of detail the Board chooses to establish for those estimates and the impact of intervening policy changes on them.

Although development of a long-range financial plan need not involve as extensive and time-consuming public process as the development of the PTMP, this approved plan should be available for public review to help inform various stakeholders on the long-range financial outlook for the Trust, the financial risks the Trust expects to face, and the likelihood that the Trust will be able to fulfill its statutory goals. The Panel believes that this long-range financial plan, in conjunction with the already developed PTMP, will provide an effective, comprehensive management program, as contemplated in Sec 104 (c) of the Act, for transforming the Presidio into a self-sustaining national park component within the GGNRA.

## **A CRITICAL FINANCIAL PLAN COMPONENT—THE MIX OF PARK SERVICES**

All organizations have to make choices about the kinds and levels of services and programs to provide. While such choices reflect organizational values and objectives, they also reflect spending priorities and resource limitations. The Trust has expressed the range of its services in fifteen planning principles contained in PTMP. These principles “will guide future actions and decisions, protecting the Presidio’s cultural resources and ensuring the long-term preservation of the National Historic Landmark District.”<sup>22</sup> They cover the full range of the Trust’s historical preservation, environmental protection, ecological restoration, and recreational, cultural, educational, and other visitor activity objectives.

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<sup>22</sup> PTMP, p. 3.



These principles are stated in very broad terms. Examples include:

- Rehabilitate the historic planted forest, and preserve, enhance, and manage other forested areas.
- Restore and preserve the Presidio's rich historic legacy.
- Identify, protect, enhance, restore, and expand the Presidio's ecosystems.
- Protect, establish, and manage areas of native vegetation.
- Provide a wide range of cultural and educational experiences for visitors and volunteers in the park.
- Provide visitor orientation and consistent signage, and make access as universal as possible.<sup>23</sup>
- Make the park an enjoyable place and a destination for visitors to the Bay area.

The PTMP does not provide either a timetable for accomplishing these park services objectives or an estimate of their total costs. Trust staff and Board members have indicated that this is because PTMP was intended only to provide general planning principles and a broad road map.

More specific plans also lack detailed timetables or cost estimates, or both. For example, the December 2001 VMP provides the framework for protecting, restoring and enhancing the vegetation at the Presidio, but does not provide details on timing, costs, or approved levels of vegetation preservation and extension for the Presidio.

The costs to provide various park services are included in the annual Presidio Trust budget. However, the Trust budget is organized and presented along organizational rather than programmatic lines. Consequently, the budget estimates include these costs within the operating budgets for specific Presidio Trust staff offices and the capital budget for infrastructure and natural resources. The Trust budget shows the impact of Board decisions to reduce operating costs on Presidio Trust organizations and staff offices, but does not convey the impact of the cuts on specific park services, since the budget does not identify individual park service program costs.

In contrast, the NPS's budget data for the GGNRA highlight these park services resource allocations. The GGNRA 2001 business plan identifies the percent of available resources allocated to park service program areas (e.g. resource protection, visitor experience and enjoyment), funding sources for each program area, and aggregate funding "shortfalls" from NPS estimated program requirements.

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<sup>23</sup> *Ibid.*, pps. 9, 15, and 30.

Trust staff have cost estimates for particular types of park services (e.g. the costs to replace and restore the aging Presidio forest). However, total costs to achieve approved park service levels over the next 10 to 20 years do not appear in an aggregate form comparable to the total estimated investment costs for rehabilitating the 5.6 million square feet of building space identified in PTMP (\$589 million). The Trust has indicated it intends to rely on future philanthropic funding to finance many of these park services

### **Conclusions and Recommendations: Mix of Park Services**

Without aggregate cost estimates for types of park services, the Panel believes that it will be difficult for the Board and the public to assess the impact of resource trade-offs on park services. These trade-offs need to be considered even if, or perhaps especially if, some of the funding for park services depends upon uncertain future philanthropy.

The Panel believes that the Trust would benefit from a long-term financial plan that identifies the costs, mix, and levels of park services to be provided in Area B comparable to those identified in NPS' business plans for GGNRA. The Panel also believes such a plan would enhance the ability of Congress, the Board, and the public to assess the current and long-term impact of annual budget decisions allocating resources to these Area B services. Such a plan will also assist Congress in its oversight of the Trust's progress in achieving its statutory goals and mission. The 5-year GPRA strategic plan currently under development may provide some of this information, but it will not provide a long enough time frame to include 2013.

Providing greater visibility to these park services program costs in the current budget and the recommended long-term financial plan may help address a number of issues. First, it will improve the public's understanding of how securing additional revenues from individual development projects can enhance long-term park service program levels. Second, it will help the Board evaluate the long-term implications of specific policy trade-offs it must consider as it approves changes to current policies. Finally, as discussed more fully in the following section, it will facilitate the Trust's efforts to secure philanthropic funding by identifying funding gaps for particular services that philanthropy can address. **Therefore, the Panel recommends that the Board:**

**Establish targets for the desired mix and level of park services and their associated costs within its comprehensive long-term financial plan.**

**Indicate park service targets that can be attained with current resources as well as enhanced levels that could be achieved if philanthropic funding or other unanticipated revenues become available in the future.**

### **PHILANTHROPIC FUNDING FOR PARK SERVICES**

Philanthropy, including donations of money and volunteer time, has made major contributions to the national park system and the GGNRA in particular. Most of the major national parks have one or more philanthropic groups associated with the park to help identify and encourage donors

and organize volunteer efforts. As discussed in Chapter 2, the Conservancy secured \$34.5 million in private donations to fund the planning for and restoration of Crissy Field.

Between 1982 and 2002, the Conservancy has provided \$68.8 million in total aid to GGNRA (excluding the Crissy Field funds). In FY 2002, Conservancy aid to GGNRA amounted to \$4.3 million. Because of the priority in raising the Crissy Field funds, the Conservancy 2002 level of financial support was below the \$10.2 million and \$14.5 million provided in 2001 and 2000, respectively.<sup>24</sup>

To date, the Trust has not received significant amounts of philanthropic funds to support major park programs. The Board determined that most fundraising should be delayed until the Trust was more firmly established as an organization so that major donors would be more inclined to provide support.

The Trust plans to rely on philanthropic funding to finance several major non-revenue producing enhancement projects in Area B—particularly the reforestation efforts and the redesign and restoration of the Main Post Parade Ground. Believing this to be an appropriate time to begin presenting the Presidio Trust to the philanthropic community, the Board had staff develop four-color brochures to describe a number of the open space or cultural projects that might interest the donor community. The Board believes these are projects the philanthropic community is more likely to fund, allowing the Trust to concentrate most of its own capital on revenue-producing projects.

### **Conclusions and Recommendations: Philanthropic Funding for Park Services**

The Panel believes that the Trust's planned role for philanthropy at the Presidio is reasonable and consistent with philanthropy's role for other national parks, including GGNRA. The Panel also acknowledges that the availability of philanthropic funds is highly uncertain, and this complicates long-term financial planning.

Because of the uncertainty of philanthropic funding, the Trust has been unwilling to simply assume such funds will be available in its long-range financial planning. Consequently, the Trust's budget forecast does not anticipate any philanthropic funding for park services. In addition, the Trust's long-term projections do not assume that any philanthropic funding will become available during the 18-year period. The Panel agrees that philanthropic funding is highly uncertain and it is admittedly difficult to include such uncertain funding in a comprehensive, long-term financial plan.

While the Panel appreciates the reasons for the Trust's prudent, conservative approach, this approach precludes identifying potential levels of preservation, protection, and recreation services that could be provided if philanthropic funds become available. A long-range financial plan alternative that shows optional park services (capital and operational spending) funded by future philanthropy could help define specific philanthropic funding goals. If these optional park

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<sup>24</sup> In 2000, philanthropic funds from the Conservancy, other GGNRA donors and volunteer support amounted to more than \$22.8 million and accounted for over 35 % of total GGNRA funding sources for that year.

service levels also affect other Trust spending or revenue projections,<sup>25</sup> the alternative can include those effects to show the total impact on the other financial plan components. The Panel also notes that most non-profit organizations rely heavily, if not totally, upon uncertain philanthropic funding and routinely include estimates for planned philanthropic funds in their budgets.

The first step in implementing this role for philanthropy is to define more precisely the long-term funding goals. The Panel believes that a long-term financial plan should include alternatives for spending on park services that depend on uncertain philanthropic sources in a way that doesn't introduce unnecessary financial uncertainty. To accomplish this, **the Panel recommends that the Board:**

**Establish long-term philanthropic funding goals to fund desired park services that cannot be financed from internal Trust revenue sources, and include these assumptions as an alternative in its long-term financial plan.**

The Board has a critical role in approving the long-term financial plan, determining the desired level of detail contained in the plan, establishing specific long-term targets for park service program levels and identifying philanthropic funding goals to help achieve those park service targets. To perform its role, the Board needs timely and reliable information from the Trust staff and a financial projection model to monitor progress in achieving approved spending targets and other goals, and to assess the impact of future policy alternatives and project decisions on these approved goals.

## **FINANCIAL MODELS TO MONITOR PROGRESS**

The policies of the Board and the activities of the Presidio Trust necessarily are forward-looking. Whatever their immediate objectives, all actions of the Trust must be assessed in terms of their impact on its financial viability by 2012, the last year for which appropriations are authorized under the Presidio Trust Act. To help it meet the viability constraint, the Trust has developed a financial forecasting model to assess alternatives, monitor progress, and show the impact of internal and external changes.

### **Role of the Presidio Trust Financial Model**

A long-term financial forecasting model serves the Trust in a number of important ways. These include:

- Quantifying how the Board and senior management currently conduct operations and how they plan to do so in the future.
- Measuring and forecasting the Trust's financial viability and health.

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<sup>25</sup> For example, additional recreational and cultural activities may increase public information and public safety costs while providing additional user fee revenues to help fund some or all of these incremental costs.

- Complementing the strategic planning process.
- Fleshing out the long-range financial plans guiding Trust operations.
- Comparing policy options and alternatives.
- Making the assumptions underlying forecasts explicit.
- Identifying data needed to assess performance.

Model forecasts convey information about the likelihood of financial viability after appropriations end in 2012 and how robust the Trust's financial position may be. Simulations show the estimated impact of events such as declines in rental revenue, increases in operating costs, the leasing of specific properties, and alternative sources of revenue.

The model currently used by the Presidio Trust is less than 1 year old and is the third in the Trust's 5-year history. It has been used to assess the consequences of reducing operating expenses in FY 2004, and to compare the Trust's ability to withstand declines in rental income under different borrowing scenarios.<sup>26</sup>

While the first model was created and used to compare the financial implications of alternative land-use proposals during preparation of PTMP, the current version focuses primarily on real estate management. It draws on budget estimates supplied by each operating division and combines them with aggregate data on current rents and the costs and revenues associated with future investments in residential and nonresidential properties.

### **Current Model Users**

The primary consumers of the information provided by the model are the Trust's Board and the executive director. The executive director has used model results to frame recommendations, and the Board has used model results to inform its policy decisions, but neither the executive director nor the Board appears to have played a major role in setting out the requirements for model development or operation. For example, there are no Board memoranda or directives identifying the types of issues the Board wants to use the model's results to address.

The CFO and the business operations director currently determine the capabilities and guide the development of the Trust's financial forecasting model. They are actively involved in all modeling activity, and summarize and report model results for the executive director and the Board.

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<sup>26</sup> The Presidio Trust is currently developing a model that incorporates a number of the recommendations below. In particular, it contains the ability to model inflation for various categories of income and expense, has re organized inputs and outputs into a more logical structure, and simulates accelerated investment using cash accumulations. The Panel believes that these improvements will greatly benefit the financial analytical capability of the Trust.

Other stakeholders include the congressional committees, OMB, GAO, and community groups. None are involved in the formulation or use of the forecasting model. GAO will need to understand the model in detail when it undertakes its second review of the Presidio Trust in 2005, but is not expected to become involved earlier. Some neighborhood groups have questioned the assumptions and data, but have not been involved in the model's development or operation.

### **Conclusions and Recommendations: Requirements Statement for the Trust Financial Model**

The Panel believes that a long-term financial forecasting model is an essential tool for meeting the Trust's strategic goals and objectives. It is needed to plan, compare alternatives, and measure the Presidio Trust's future viability without appropriations—the key reason for its creation. A model can be a useful vehicle to communicate the assumptions, logic, and data underlying forecasts and projections.

The Trust's current financial forecasting model has rich detail and is a good description of the kinds of real estate activities the Trust undertakes. It provides reasonable forecasts and can give a sense of the impact of current policies and alternatives on the ultimate viability of the Presidio Trust after 2012. While the Trust model has been more than adequate for past needs, its structure, assumptions and forecasts will receive increasing scrutiny in the coming years, especially as the Trust approaches the 2013 appropriations cutoff.

The Panel believes that it is time that the modeling process anticipate and address the full range of the Presidio mission, revenue, and spending alternatives in long-term financial plans. While the Trust staff continue to refine and extend the current financial forecasting model, those efforts can be most effective if they are implementing policy directions from the Board.

The Panel also believes that involvement of the Presidio Trust Board and senior management at the earliest stages of further model development is necessary to ensure that the model can meet the strategic goals and objectives of the corporation. This involves specifying the vision and scope of the model, its use for specific tasks, and a detailed requirements statement. The requirements statement should include the kinds of questions to be addressed, the level of detail to be provided, when the model will be needed, and how often it will be updated.

#### **The Panel recommends that:**

**Senior management develop and the Board approve model requirements before additional model development takes place. The requirements should provide direction and guidance to ensure that the revised model best meets the needs of the Trust.**

Appendix G contains a template for the model requirements documents and an example of the language that might be appropriate for the Presidio Trust. The language is intended only to provide an example to help the Trust start the process of identifying requirements specific to the needs of its stakeholders. It cannot substitute for a thorough self-assessment and determination of model needs.

## **MODEL STRUCTURE AND OPERATION<sup>27</sup>**

The financial forecasting model relies heavily on information provided by senior staff and consultants, and depends on the basic land-use guidelines and timing set forth in PTMP. Schedules and costs of investment are based on information provided by the Trust's real estate division.

Consultants are heavily involved in the model's support and maintenance. It is maintained and run by the Sedway Corporation, a subsidiary of C.B. Richard Ellis, a national real estate management company. Sedway also provides much of the data used for the commercial office real estate revenue assumptions, based on 8 years of rental history for Class B and C buildings in the area. The John Stewart Company, the Presidio's on-site residential property manager, supplies residential rental data.

### **Data Inputs**

The financial forecasting model is a linked collection of eighteen financial spreadsheets that use budget and planning data to show cash flows over time. They include: individual spreadsheets projecting operating and capital expenditures for each division; a residential revenue estimating spreadsheet; a real estate spreadsheet that summarizes investment and income flows from new investments and from Master Development projects; and a capital projects spreadsheet that summarizes operating and capital expenditures for each division.

The model employs a partial listing of residential and commercial properties that shows, for each property, the timing of investments and rents and Service District Charges (SDC), which are the Presidio Trust's equivalent of local property taxes. It also uses building square footage, utility costs, and related information. A number of additional spreadsheets, which are contained in the workbook file but are not part of the model, provide further information on commercial and residential rentals.

### **Flow**

The model classifies and arrays receipts and expenses by type of property or type of activity over an extended period of time. Most of its operations are arithmetic calculations, such as summing ranges of cells according to accounting relationships, or multiplying values by constants (e.g., assumed vacancy rates, SDC cost per square foot). The forecasting capabilities stem from built-in inflation and cost assumptions for operating expenses during the first 5 years and projected investment in and rentals of residential and commercial properties over the entire modeling period.

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<sup>27</sup> This analysis and the sensitivity analysis in Chapter 4 are based on the model used by the Presidio Trust from March through June, 2003.

The spreadsheets contain few internal program decision and flow mechanisms. For example, investment plans are determined externally, and the current version of the model does not permit internal investment decisions based on the availability of funds, expected rate of return, and cost.

Inputs and assumptions are not maintained in an area separate from model outputs. This adds to the difficulty of tracking the logic flow and makes it harder to ensure that adjustments for simulations are made properly.

The entire model is self-contained and easily runs on a single desktop or laptop using Microsoft Windows and Excel. It does not access external databases directly, even though all of the Trust's residential property data are currently maintained in a Microsoft Access database. Data about commercial properties are maintained in a special Trust database, formerly a Microsoft Access database.

Presidio staff have indicated that this version of the model is being revised. The revision may include internal algorithms to select and reprioritize investments based on market conditions and the current and expected availability of funds.

### **Program Logic**

Figure 3-2 (end of chapter) illustrates the program logic of the forecasting model. The model aggregates all properties generating revenues in 2003, collecting and pooling the associated costs and revenues into base estimates for residential and nonresidential properties. To these base costs it adds the costs of operations each year plus investment costs when they occur and revenues for specific properties that will be leased in 2004 and beyond.

Some of the 2003 operating costs are individual division budget estimates. Other costs are included as numeric constants, taken directly from the Presidio Trust's FY 2003 budget, but not documented in the model. All post-2003 operating cost estimates are built on the 2003 entries. During the 2004-7 period, operating costs include varying increases for inflation, but also contain several undocumented cuts or adjustments. After 2007, operating costs are generally straight-lined, with additional, specific cuts in 2013 and 2020 to meet expected revenue reductions.

Investments costs for new properties coming on line in 2003 and beyond are added according to an externally determined schedule. The model assumes that rents from these properties begin the year after the investments are completed. Once they begin, rents do not increase or decrease. Some residential properties begin generating revenues in midyear, and adjustments are made to annualize them.

SDC charges are applied to nonresidential properties at a rate of \$3.50 per square foot, in the years in which there are lease revenues. Certain Master Developer properties pay SDC charges, but no ground rents.

Vacancy rates and rent collection efficiency loss assumptions are included in the model to reduce estimated rental income each year. Vacancy rates are 10% for new nonresidential properties. A



residential rent collection efficiency charge of 10% includes an assumed 5% vacancy rate, a 2.5% management fee and a 2.5% administrative fee.

The method of estimating total revenues adds to 2003 base revenues the revenues from properties newly improved and rented after 2003. Consequently, this approach loses virtually all of the detail for those properties that are currently under lease. While this approach may reduce the complexity of the spreadsheets, it does not necessarily simplify the flow of the model's logic. For instance, a modeling approach that did the same calculations for each property each year might have a simpler logical structure.

Aggregating properties currently under lease prevents the model from being used for questions that may be of interest to the Board, but that require detail about all properties, such as:

- The costs of subsidized rents under current and alternative scenarios.
- The revenues associated with modifications to existing properties, such as converting large residential units into a larger number of smaller units.
- How operating costs and rents and SDC charges on existing properties would have to change to accommodate alternate spending plans, including nonrevenue yielding park infrastructure and public programs.

In addition, the model currently omits the environmental remediation expenses funded by a \$99 million transfer from the Army. While these activities are being tracked separately, their omission here means that the model loses an opportunity to comprehensively meet the broader needs of the Presidio Trust. Finally, Fort Scott as a potential Master Developer project is omitted from the model; Presidio staff have indicated that some of its component costs and revenues are included, but the remaining buildings are assumed not to be rehabilitated or generate revenues until after 2020.

### **Conclusions and Recommendations: Model Structure and Operation**

The Panel believes that while the Trust has effectively used external real estate experts who are fully familiar with the Presidio Trust to develop, extend, and run its current model, it now needs to expand the model to include aspects of park planning and management that extend beyond real estate operations. While the Trust can continue to rely on contractors to help develop this enhanced, expanded model, there may be some advantages to establishing greater in-house operation and control. First, it may be necessary to ensure that the broader scope of a planning and forecasting model is fully addressed. Second, model development often increases knowledge about the internal operations being modeled that, if internalized, can facilitate improvements or more efficiency in those operations. Finally, internal model operation can promote greater use and understanding of the model and its results throughout the Trust.

The Panel also believes that there is unnecessary complexity, which is generated in part by the multiple spreadsheets, multiple methods of calculating the same type information, and possible omissions in revenue estimates. There should be a greater emphasis on simplicity and

consistency. Information that is not used should not be included. Inputs and outputs should be in separate areas of the model, and constants should be located with input variables. All variables and constants should be clearly named and explained. All revenues and all expenses should be included.

The Panel further believes that the limited information that the model provides about properties currently under lease may not permit the model to address questions of interest to the Board. If this is a problem, it will become apparent when a Board-approved requirements statement is issued.

**The Panel recommends that:**

**Future changes to the modeling language, logic, and structure should flow from a Board-approved requirements statement and have the following attributes:**

- **logical consistency**
- **completeness of information**
- **simplicity of structure**
- **reliability and the avoidance of error**
- **ease of documentation**
- **ability to update data and change assumptions**
- **capability of simulating alternatives.**

**The model should also utilize existing data and databases, to the extent possible.**

## **DOCUMENTING THE MODEL**

The model's structure, logic flow and data inputs are not formally documented. The lack of documentation has encouraged an informal model structure that can result in *ad hoc* patches. When changes need to be made, the lack of documentation makes it easy to put data anywhere in any spreadsheet, which can add to the difficulty of tracking the logic flow and making subsequent changes.

The formal documentation of the financial forecasting model will need to address the needs of a range of different users:

- The Board and senior management need high-level documentation that will help them get up to speed quickly and easily, understand projections and simulations, and suggest useful alternative policies.
- Auditors, including the GAO, need detailed descriptions of the logic and flow of the model and the data that will allow them to test the model and assess the sensitivity of its assumptions.

- Developers need detailed, technical documentation that would allow them to update and modify the model without necessarily having to reinvent it each time.

### **Conclusions and Recommendations: Documenting the Model**

The Panel believes that full documentation would clarify the underlying model structure, make it more difficult to introduce *ad hoc* changes and patches, improve model consistency, show how the model addresses the requirements, and make explicit all key assumptions. It would also make it easier to train potential users.

Most important, it would ensure continuity. Without adequate documentation, the operation of the model becomes overly dependent upon a few key staff. Any loss of expertise could jeopardize the ability of the Trust to update and run the model in the future, diminishing the Board's ability to closely monitor progress in achieving its approved long-term financial plan.

#### **The Panel recommends that the Trust:**

**Formally document its current financial forecasting model. The documentation should include a full description of the model's logic flow, the sources of its data inputs, the key assumptions underlying model results and any critical decisions made outside the model that are required for its operation.**

### **CRITICAL ASSUMPTIONS IN THE CURRENT MODEL**

#### **Constant Dollar Estimates of Costs and Revenues**

Current dollar estimates assume that revenues and costs each year adjust to incorporate changing price levels, labor costs, and other factors, such as, lease escalation clauses, employee pay raises. Constant dollar estimates assume that the purchasing power of the dollar is fixed and does not adjust for inflation, pay raises, or other factors.

The financial forecasting model used by the Trust for most of the period from March 2003 to the present has assumed constant dollar rental income—no inflation in either residential or nonresidential rental income during that period—despite the fact that residential leases are relatively short-term (1–3 years) and commercial leases usually contain escalator clauses. Neither capital or investment costs are inflated over the projection period. However, for the first 5 years of the forecasting period, the model has used current dollar estimates for operating costs. (Operating costs are determined externally and likely incorporate projected salary increases.) Beginning in 2008, the model has assumed constant dollars for operating costs as well, with some reductions in 2013 and again in 2020.

The use of constant dollars is a carryover from the first Presidio Trust financial model. Trust staff indicated that the reason for this assumption is that rents are expected to reflect the volatility of the San Francisco real estate market, while operating costs will be more stable. However, in the long term, both are expected to move together.

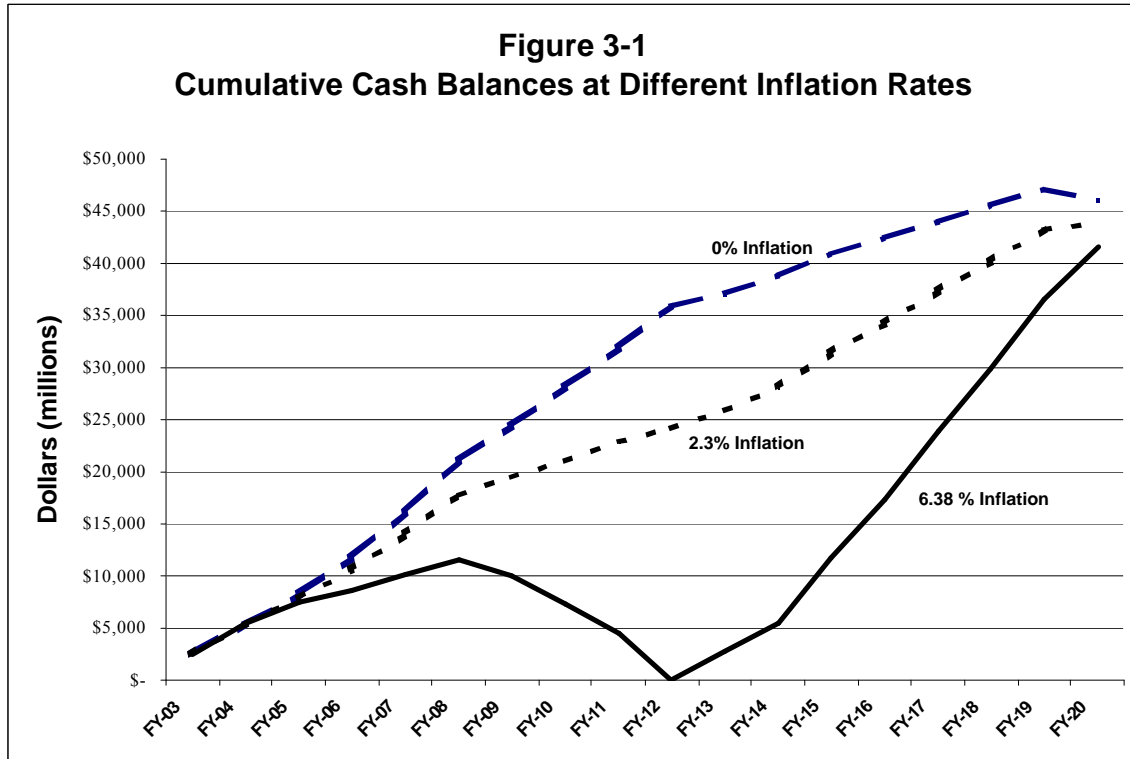
The assumption that costs and revenues grow at the same rate over time does not justify the use of constant dollar estimates, as different cost and revenue components may be affected by different inflation rates at different times. This can increase the volatility of cash flows.

The mixing of debt service costs and appropriations receipts, which are not subject to inflation, with other operating costs and revenues that are subject to inflation, generates forecasts that are inconsistent. This is aggravated by the assumption that all other operating costs implicitly adjust for inflation during the first 5 years, but subsequently are unaffected by inflation.

Inflation can result in highly volatile estimates of cash balances. This volatility is generally greater the higher the rate of inflation. Forecasts tend to be more volatile using alternative assumptions about inflation when accumulated cash balances are at low levels. Volatility increases when inflation is asymmetric—when specific components of costs or revenues respond differently to inflation and those changes are magnified by inflation in subsequent years. Figure 3-1 illustrates this potential volatility using the Trust model, as adjusted by Academy staff, to forecast cumulative cash balances under various inflation rates. The forecasts are based on the Presidio Trust financial forecasting model in use in the spring and summer of 2003. General inflation rates of 0%, 2.3%, and 6.38% are applied to revenue and costs for the entire forecast period. The 2.3% rate is the long-term inflation rate contained in the President's 2003 Budget Midsession Review; the 6.38% rate is the largest rate that could be used in the financial forecasting model that would not create a negative cumulative cash balance forecast during the forecast period.<sup>28</sup> The volatility of cash flows is much greater under the high inflation scenario, and there is a distinct shift in the patterns before and after 2012.

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<sup>28</sup> The current version of the Academy-modified Trust model contains revised Trust operating cost estimates for FY 2003 and FY 2004. The changes made by the Academy staff are described in detail in Chapter 4.



The reason for the volatility is the existence of appropriations revenues prior to 2012 and debt services costs,<sup>29</sup> both of which are unaffected by inflation. In the early years, when appropriations are a significant source of revenue, higher rates of inflation will increase costs more than revenues, thereby reducing estimated net cash. In later years, especially when debt begins to be repaid in 2015, higher rates of inflation will increase revenues faster than costs thus increasing estimated net cash flows. Higher rates of inflation will increase the volatility of revenue, cost, and net cash projections; lower rates will reduce it.

While all of the cash balance forecasts converge near the end of the forecast period, the use of inflation forecasts and the choices of reasonable and defensible inflation rates are very important. Through all iterations of the model and all the various scenarios, Academy staff have noted an acute sensitivity of operating revenues and costs to various rates of inflation, discussed in more detail in Chapter 4 and Appendix F. The Academy simulations have generally applied the same inflation rates to all types of revenues and costs for the same periods. Different assumptions could yield substantially different results.

The ability of the Trust to withstand adverse impacts of inflation also will depend on the rate at which cash balances are accumulating. In particular, under the current scenario, with a fairly healthy accumulation of cash balances, the Trust can absorb up to a sustained 6.38% rate of inflation. Higher rates of inflation result in a projected cash shortfall in the years leading up to 2012. However, it appears that after appropriations end, inflation that affects costs and revenues

<sup>29</sup> Debt service costs include interest payments on the \$50 million borrowed from Treasury and the repayment of debt after 2015.

equally appears to improve the accumulated cash position of the Trust, as long as costs do not increase or revenues decline for other, unrelated reasons.

Probably the most important conclusion to draw from Figure 3-2 is the most obvious—the Presidio Trust cannot afford to ignore inflation. Inflation may never reach sustained periods of 6.38%, but there is less reason to suspect that inflation will not occur at all. It is also likely that revenue and cost components will be affected by different rates of inflation over different time periods and these will impact the Trust’s estimated annual cash flows and net cash balance. Operating revenues, operating expenses, and capital investments costs are all extremely sensitive to inflation assumptions. Forecasts that ignore these sensitivities will not be useful.

### **Volatility**

In general, all cash flows are subject to volatility. Rents, labor costs, interest rates, and unexpected emergencies and windfalls all change and impact one another, often in unexpected ways over time. The longer the time horizon for the projection, the more significant volatility can be.

The Trust’s model consists of a series of linear equations in spreadsheet format that make no allowance for volatility. Nevertheless, this type of model can be used to test the Trust's financial projections by running alternate scenarios. Using conservative assumptions to conduct stress tests provides a means of assessing the possible effects of negative movements in market rents, costs of funds, or labor and materials.

A linear model can simulate the volatility of key variables by changing the assumptions repeatedly, but it does not by itself provide estimates of the precision of the forecasts that knowledge of forecast variance would supply. A more sophisticated technique is to build known or assumed probability distributions into the model’s parameters and run the model hundreds or thousands of times, each time with randomly selected values of the parameters, to obtain model forecasts and estimates of their variance. Specialized software is available for such “Monte Carlo” estimation procedures.

### **Vacancy rates**

The Trust model uses explicit vacancy rate assumptions to develop projections of residential and commercial rents. The Presidio Trust gets frequent reports on local area comparable rents and vacancy rates from its property managers and consultants, and the rates used in the model are based on the Trust’s experience.

In 2003 and 2004, the model reduces projected residential rents by 10% to reflect assumed vacancy rates. Beginning in 2005, it reduces rents by 5% to reflect lower vacancy rates. The Department of Housing and Urban Development reports that residential rental vacancy rates ranged from 5 to 6% in the San Francisco Bay area during the first quarter of 2003, while in 2001, high-end rental vacancy rates were in the 5% range and lower elsewhere.

The model reduces rents for commercial properties by 10% each year, to reflect vacancy rates in the San Francisco area. Cushman and Wakefield report that commercial vacancy rates in the San Francisco Central Business District were about 20% during the first quarter of 2003, up from about 10% in 2001; in non Central Business District areas they were about 26%, up from about 15% in 2001.

### **Cash Reserve Accumulation**

The model's output is a summary spreadsheet that contains most of the data of analytical interest generated by other spreadsheets. It looks much like a cash flow statement and produces a "contingency" residual after all operating and capital expenses are deducted from operating revenues, appropriations and borrowings. This "contingency," or net cash flow, is not a reserve in the usual sense, because it doesn't accumulate. The model assumes that contingency funds will be used for some unknown expenditure in the current year, exhausting their future availability, but these unknown expenditures are never reflected in the model.

Trust analysts have focused on the net cash flow measure as the principal indicator of the strength or weakness of the Presidio Trust's finances. The Trust's ability to withstand declines in operating revenues has been used by the Board and senior staff to evaluate their ability to remain on track to financial self-sufficiency even when faced with some adverse economic scenarios.

The model has been used for "stress testing" against assumed revenue declines—5% of residential revenue and 10% of new nonresidential revenue except for the Letterman Digital Arts Center. A second stress test assumes the same reductions plus a 5% cut in anticipated appropriations. In each case, the test was whether contingency cash reserve in the current year would be adequate to offset the decline in revenue. The tests were used to support a Trust staff recommendation, adopted by the Board, for a 14% cut in operating expenditures, beginning in FY 2004.

### **Conclusions and Recommendations: Critical Assumptions in the Current Model<sup>30</sup>**

The Panel believes that several key assumptions in the Trust's financial forecasting model should better reflect economic conditions and contingencies, thereby improving the accuracy and usefulness of current long-term financial projections. In particular, the constant dollar assumption ignores the extreme sensitivity of projected operating revenues and costs and investment costs to inflation and can result in misleading estimates of cumulative cash balances when unplanned changes in any of those components occur.

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<sup>30</sup> As this report was being completed, Trust staff shared with Academy staff a new version of the Trust's financial forecasting model that addresses a number of the concerns raised by the Panel. In particular, this revised model separates out inputs and outputs, and includes the capability to estimate the impact of inflation, applies to various components of revenues and expenditures, on projected cash balances. However, the revised model does not currently incorporate inflation assumptions in its baseline estimates, is more complex than earlier versions, and uses new target variables. The Panel commends the Trust staff for acting promptly to produce a vastly improved product, but believes that a carefully developed requirements statement and detailed documentation are even more important than before.

Volatility needs to be recognized. Whether the model needs to specifically address it in its structure or the type of sensitivity analyses performed will depend on the needs of the Board and senior staff, as expressed in the requirements statement for the model.

The Panel agrees that net cash is an appropriate choice as a measure of financial health and viability, but the assumption that net cash disappears each year is unwarranted. Net cash reflects unobligated funds that are available for any use, including meeting unexpected needs, making investments, or paying down debt. The Presidio Trust is specifically authorized to carry forward and use available resources without additional appropriations. If annual cash balances are spent, that additional spending should be reflected in operating or capital cost estimates. If cash balances accumulate into a contingency reserve, some of the accumulation could be reserved for special needs or used to accelerate investments, which would increase future cash flows.

**The Panel recommends that the Trust staff change two key assumptions in the Trust model:**

**Replace the constant dollar assumption with an assumption that applies appropriate inflation rates to those cost and revenue components that are sensitive to inflation.**

**Accumulate any annual net cash balance over time.**



**Table 3-1**  
**Presidio Trust Funding <sup>(1)(2)</sup>—1999-2013**  
(in millions)

|   | FY 1999 <sup>(3)</sup> | FY 2000      | FY 2001      | FY 2002      | FY 2003      | FY 2004 | FY 2005 | FY 2006 | FY 2007 | FY 2008 | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
|---|------------------------|--------------|--------------|--------------|--------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Presidio Trust Financial Management Plan</b>     | 14.91                  | 24.38        | 23.75        | 23.13        | 22.50        | 21.88   | 21.25   | 20.63   | 20.00   | 19.38   | 18.75   | 18.13   | 15.00   | 12.00   | 0.00    |
| <b>Presidio Trust Request</b>                       | 14.91                  | 24.40        | 23.75        | 23.13        | 22.50        | 21.88   |         |         |         |         |         |         |         |         |         |
| <b>OMB Passback/President's Budget</b>              | 14.91                  | 24.40        | 23.40        | 22.40        | 21.33        | 20.70   |         |         |         |         |         |         |         |         |         |
| <b>Appropriation</b>                                | 14.91                  | 24.40        | 23.40        | 23.13        | 21.33        |         |         |         |         |         |         |         |         |         |         |
| <b>Less Rescission</b>                              | -0.11                  | -0.17        | -0.05        |              | -0.14        |         |         |         |         |         |         |         |         |         |         |
| <b>Special - Transportation <sup>(4)</sup></b>      |                        |              |              | 1.00         | 1.00         |         |         |         |         |         |         |         |         |         |         |
| <b>Non Credit Appropriations</b>                    | <u>14.80</u>           | <u>24.23</u> | <u>23.35</u> | <u>23.13</u> | <u>21.19</u> |         |         |         |         |         |         |         |         |         |         |
| <b>Difference between Appropriations and Plan</b>   | -0.11                  | -0.14        | -0.40        | 0.00         | -1.31        | -1.18   |         |         |         |         |         |         |         |         |         |
| <b>Credit Authority</b>                             |                        |              |              |              |              |         |         |         |         |         |         |         |         |         |         |
| <b>Borrowing Authority</b>                          | 20.00                  | 20.00        | 10.00        |              |              |         |         |         |         |         |         |         |         |         |         |
| <b>Loan Guarantee Credit Subsidy <sup>(5)</sup></b> |                        | 1.04         |              |              |              |         |         |         |         |         |         |         |         |         |         |

**NOTES:**

- (1) In FY 1997 the National Park Service (NPS) provided the Presidio Trust with \$124,000 of set-up costs from its appropriation.
- (2) In FY 1998 \$25,000,000 for the Presidio was appropriated to the NPS, which provided the Trust with \$2,500,000 from its appropriation to cover Presidio Trust costs.
- (3) The Financial Management Plan called for \$25 million in FY 1999, which was appropriated, but the NPS received \$10,087,000 of the total.
- (4) The transportation appropriation was added at the congressional level and was not considered in the pass back amount. The \$1M can only be spent on defined transportation projects. The \$1M transportation appropriation for FY 2003 had not been received by the Trust as of 04/21/2003.
- (5) In FY 2000, \$1.04 million in credit subsidy was appropriated to be used for up to \$200,000,000 in loan guarantees to nongovernment borrowers

**Figure 3-2**  
**The Presidio Trust Financial Forecasting Model**

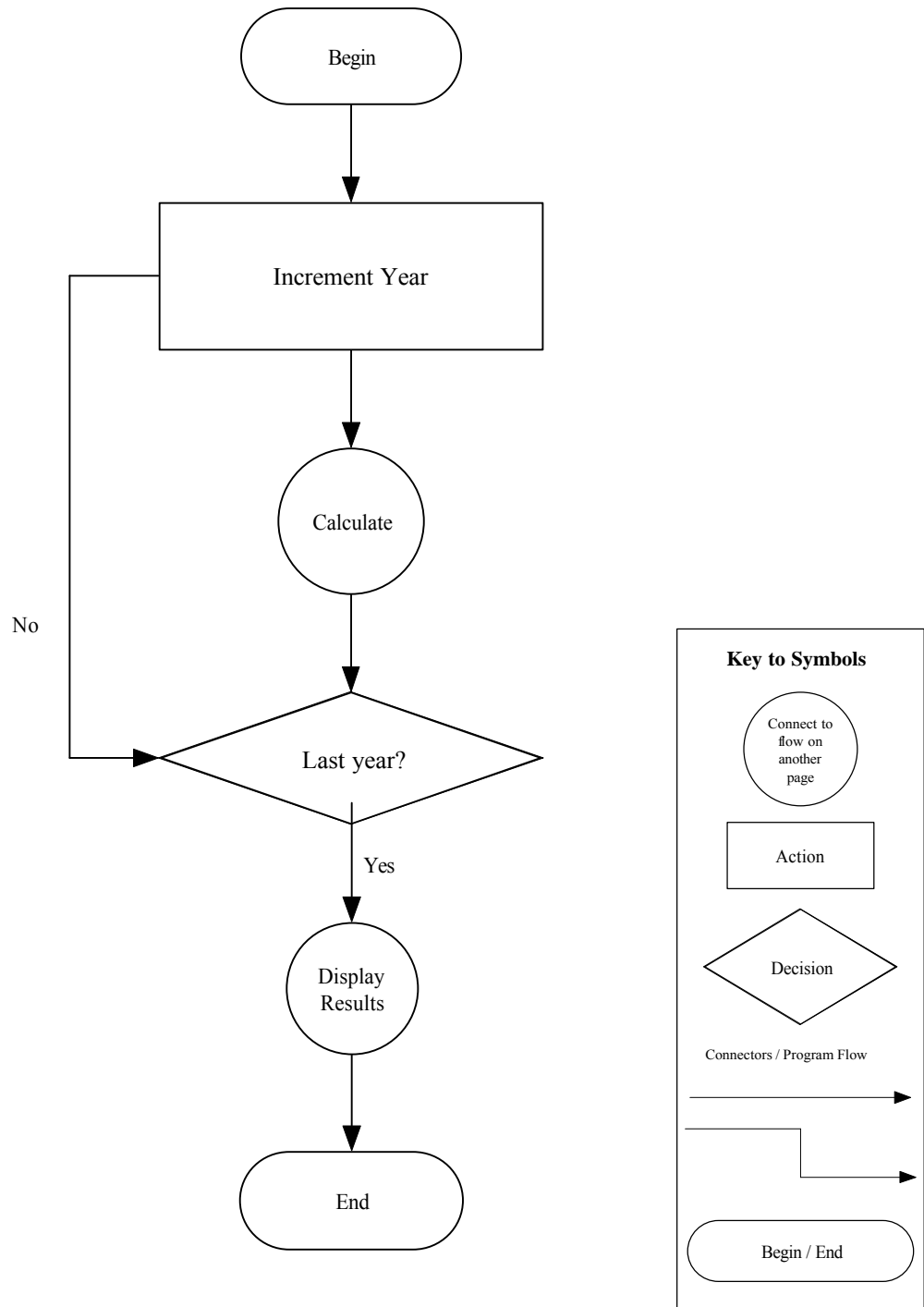


Figure 3-2 (continued)

Forecast One Year's Net Cash Flow

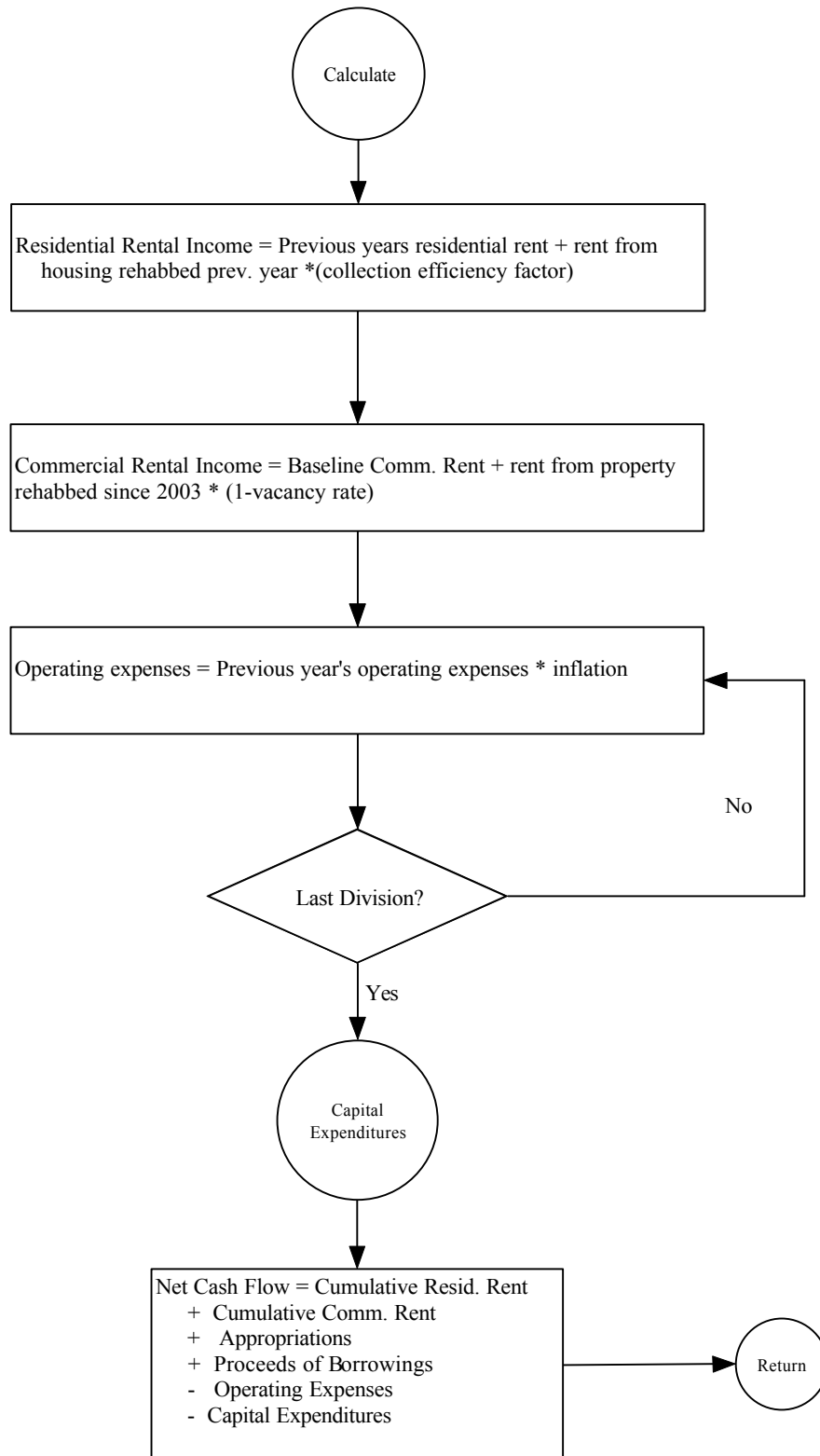
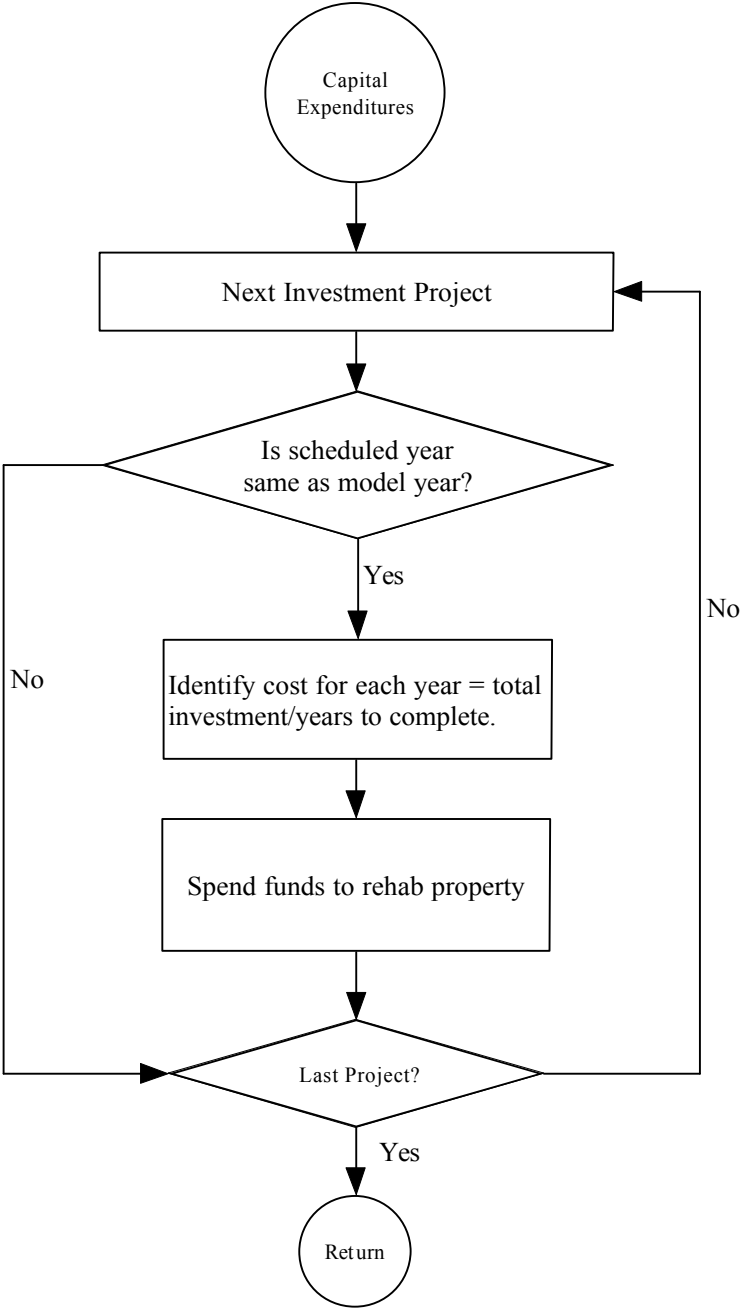


Figure 3-2 (continued)

# Rehabilitation and Other Capital Investment



## **CHAPTER 4**

### **STRENGTHENING THE FINANCIAL VIABILITY OF THE PRESIDIO**

The Presidio Trust Corporation faces a number of economic, financial, and other policy challenges that could potentially impede its ability to meet all its statutory goals, especially the requirement to become financially self-sufficient by 2013. Some of these challenges arise from external forces or the actions of external entities. Others reflect the effect of current Trust policy decisions or actions.

This chapter identifies these key economic and financial challenges confronting the Trust and assesses their impact on the viability of the Trust's long-term financial plans. In addition, it examines alternatives for enhancing the Trust's financial outlook or reducing its current financial risks. Finally, the chapter evaluates the long-term financial viability of the Trust's current baseline financial projections under a range of economic scenarios using a financial projection model that modifies several key assumptions in the Trust's current model.

#### **VIABILITY OF CURRENT TRUST FINANCIAL PLANS AND PROJECTIONS**

In its October 2001 report to Congress, GAO concluded, "The Trust has made significant progress toward preserving, protecting, and improving the Presidio...The Trust should meet its legal obligation of financial self-sufficiency by 2013 according to financial projections prepared by the Trust in conjunction with its current planning process."<sup>31</sup> Economic conditions in the San Francisco area have deteriorated significantly since that initial GAO assessment. As a result of the economic recession during the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 2000 and the accompanying dot.com implosion, unemployment rose substantially in the Bay area and the San Francisco commercial real estate market suffered one of its worst cyclical declines.

#### **Current Economic Environment**

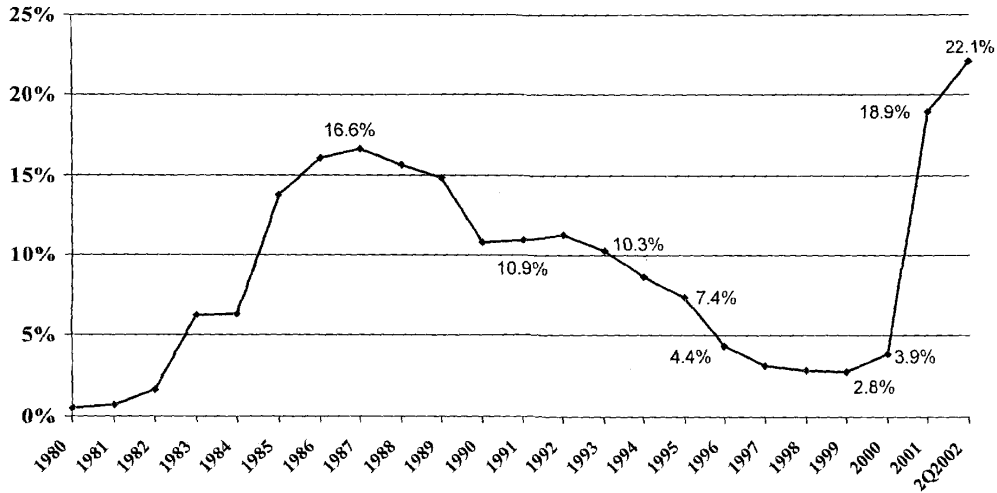
The San Francisco commercial real estate market has been very sensitive to broad economic changes and in the past 20 years has experienced two sharply defined cycles. Most recently, vacancy rates for downtown San Francisco office space soared to an estimated 22.1% in 2002, from 2.8% and 3.9% in 1999 and 2000, respectively (see Figure 4-1). Correspondingly, commercial rents plummeted from their peaks in 1999 and 2000 (when they reached \$69-80 per square foot), with 2002 commercial rents in downtown San Francisco at about \$22-31 per square foot (see Figure 4-2). These dramatic changes reflect the decline in demand for office space from the economic recession and the increase in supply induced by the rapid run-up in rents during the dot.com expansion of 1999 and 2000.

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<sup>31</sup> GAO, "National Parks: Significant Progress Made in Preserving the Presidio and Attaining Financial Self-sufficiency." GAO -02-87, p. 2.

**Figure 4-1**  
**Historical Vacancy Rates**

**Downtown San Francisco Office Space, 1980 - 2002**

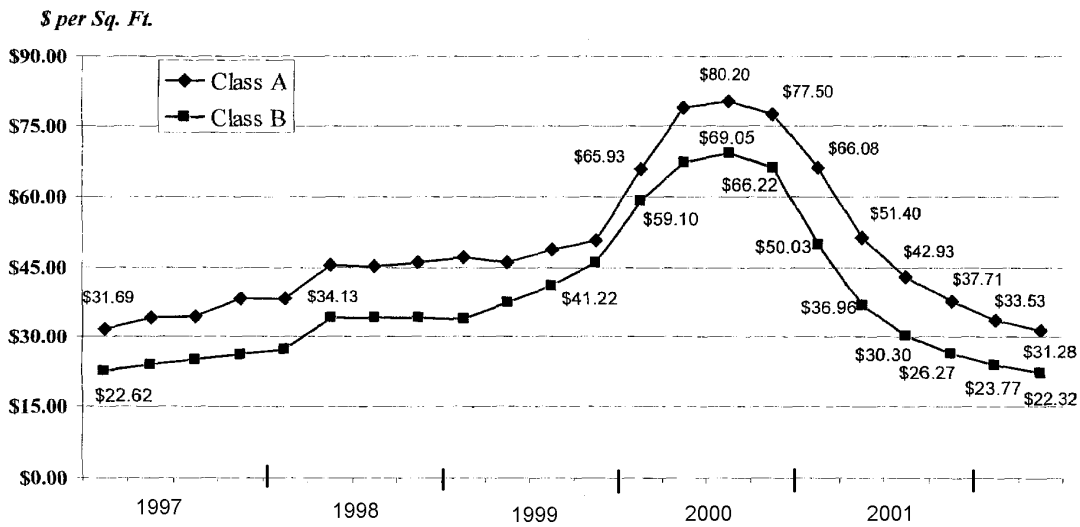


Source: Grubb & Ellis Research & Advisory Services



**Figure 4-2**  
**Class A & B Office Asking Lease Rents**

**Downtown San Francisco**



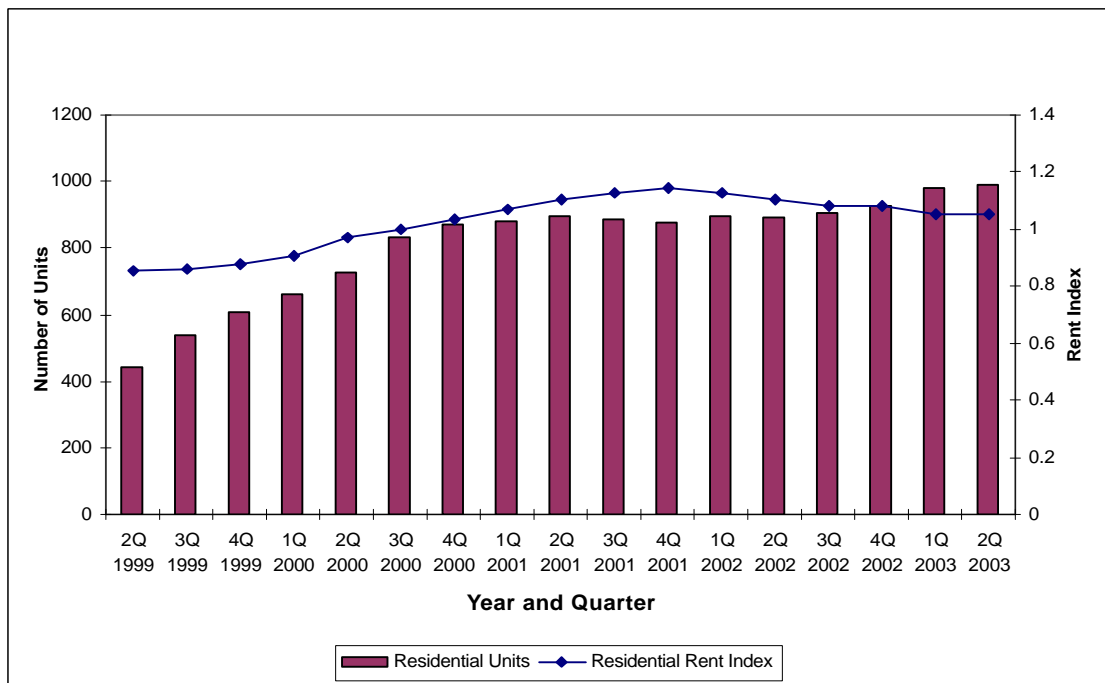
Source: Grubb & Ellis Research & Advisory Services



Residential rents in the San Francisco market have also declined and vacancy rates have increased, but the impact has been less severe. San Francisco residential vacancy rates doubled between 2000 and 2002 to 5.7%, but these rates were still almost 20% below national levels. In most markets, a 5% vacancy rate reflects a moderately tight rental market. San Francisco residential rents have also declined about 12% over this same period, but remain well above national rent levels (about 30%).

Although somewhat isolated from the San Francisco commercial and residential rental markets, the Presidio is not immune to these broader economic trends. Presidio residential units experienced higher turnover and vacancy rates<sup>32</sup> in 2001 and 2002 relative to 2000, but these rates improved for the first half of 2003. Average market rents for Presidio residential units have also declined about 11% in 2003 from their 2001 peak, but this is only a return to 2000 levels (see Figure 4-3). This improvement in the Presidio residential rent picture may reflect changes in the types of units rented. The Trust increased the number of occupied units from 832 during the 3<sup>rd</sup> quarter of 2000 to 991 in the 2<sup>nd</sup> quarter of 2003. Thus, Presidio residential rental income has continued to increase during this turbulent economic period, growing from \$13.3 million in 2000 to \$22.7 million in 2002 and an estimated \$23.2 million in 2003.

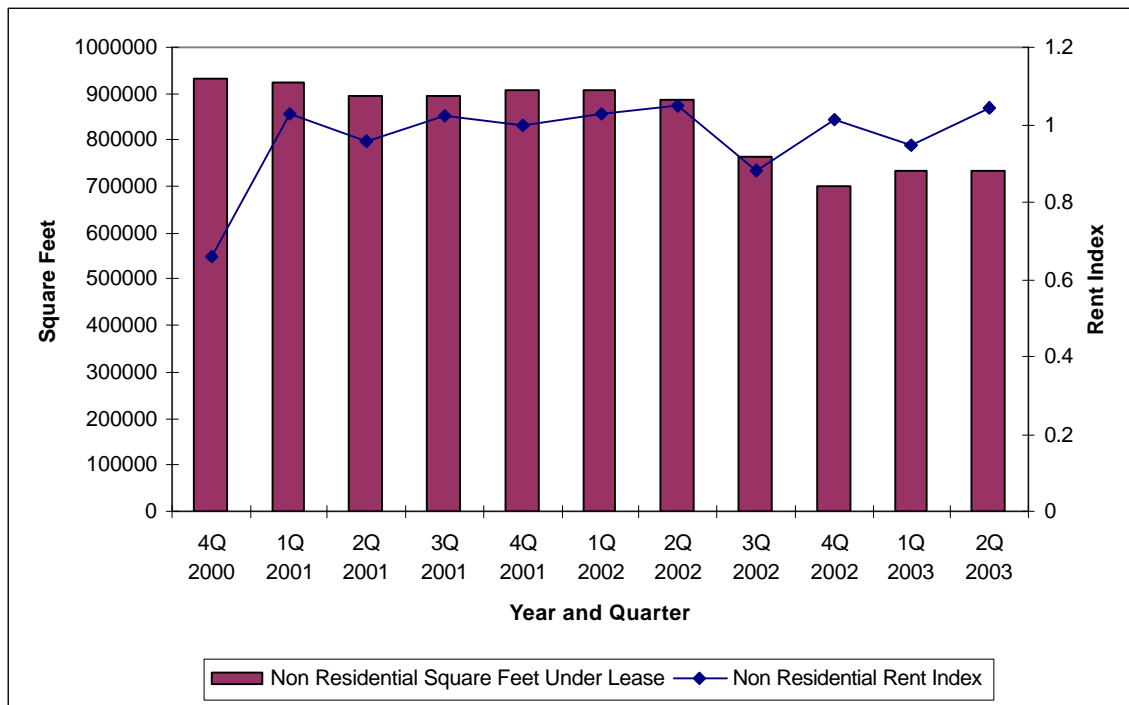
**Figure 4-3: Occupied Residential Units and Rent Index**



<sup>32</sup> Turnover rates reflect the number of tenants moving out during the year relative to the number of occupied units at the start of the year. Vacancy rates reflect the number of units available for rent during the quarter that are not occupied. Vacancy rates for Presidio residential units have declined steadily from 1999 through the first quarter of 2000; they then increased from 3.9 % in the first quarter of 2000 to a peak of 11.6 % in the second quarter of 2002. Vacancy rates have declined since then to 4.8 % in the second quarter of 2003. Data are from the John Stewart Company.

On the other hand, the Presidio nonresidential market has declined quite sharply, with the total amount of space rented down more than 20% between 2000 and 2003. Nonresidential rents have also fallen, but the decline in Presidio average nonresidential rents<sup>33</sup> has been a modest 2% between the second quarter 2002 peak and second quarter 2003 (see Figure 4-4). This change reflects the lower demand for space and the change in the type of space rented. The net result was a reduction of about \$1.8 million in annual nonresidential rental income over this same period—about a 21% decline. While the decline in the Presidio nonresidential market is less severe than the collapse in the San Francisco commercial real estate market, it shows that the Presidio is not immune to external economic shocks.

**Figure 4-4: Non-Residential Square Feet and Rent Index**



**Current Development and Spending Trends**

During its first 5 years, the Trust has undertaken a wide range of preservation, restoration, rehabilitation, maintenance, and improvement projects geared to achieving its financial self-sufficiency objectives. Specifically, the Trust has:

- Built an organization from scratch to meet its multiple, statutory objectives
- Focused its rehabilitation and development activities on projects likely to provide immediate and ongoing, nonfederal revenue sources by:

<sup>33</sup> This measure was developed from Trust data and reflects total nonresidential rents per square foot of rented space.



- Rehabilitating about 900 of the 1,116 existing residential housing units, which increased annual residential rental income from \$7.3 million in 1999 to \$22.7 million in 2002
- Renovating 30 buildings for a range of commercial and other nonresidential tenants, which more than doubled nonresidential income from \$5.2 million in 1999 to \$11.4 million in 2002<sup>34</sup>
- Redeveloping a 23-acre site with a long-term lease for an “anchor” tenant, producing an expected annual rental income starting at \$5.8 million in 2006
- Improved the aging Presidio infrastructure by investing \$16.3 million to upgrade roads, sewer systems, electrical systems, telecommunications and information technology
- Completed the environmental clean-up at two of the 13 landfill sites
- Secured \$99 million from the Army to fund environmental remediation needs such as landfill clean-up costs and purchased two insurance policies—one to cover up to \$100 million in additional costs and another to cover remediation needs not included in the known inventory of sites
- Initiated a number of ecological preservation and protection activities identified in the recently completed VMP developed with NPS
- Established, with substantial public comment and input, a comprehensive land-use plan (PTMP) to guide future rehabilitation and development and develop natural and cultural resources

From 1999 through 2002, the Trust spent a total of \$ 240.7 million for operating costs and capital projects (see Table 4-1). Operating expenditures account for the vast majority of this spending—\$171.5 million, or more than 71% of the total. Capital expenditures amounted to \$62.4 million, about 26% of the total. Other spending on interest and insurance completed the total spending. Operating expenditures increased dramatically from \$28.1 million in 1999 to \$51.9 million in 2001 and \$52.41 million in 2002. Annual capital expenditures have varied, reflecting the availability of appropriated borrowing authority, remaining annual appropriations, and high priority or profitable projects.

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<sup>34</sup> The Trust projects a temporary decline in this nonresidential income in 2003 and perhaps 2004 due to the current economic difficulties in the San Francisco area, particularly in the commercial rental market.

**Table 4-1**  
**The Presidio Trust**  
**Cash Flow Summary**  
**Fiscal Years 1999-2004** <sup>(1)</sup>  
(in Millions)

|   | <b>FY 1999</b> | <b>FY 2000</b> | <b>FY 2001</b>  | <b>FY 2002</b> | <b>FY 2003</b> | <b>FY 2004</b> |
|---|----------------|----------------|-----------------|----------------|----------------|----------------|
|   | Actual         | Actual         | Actual          | Actual         | Budget         | Budget         |
| <b>Income</b>                           |                |                |                 |                |                |                |
| Residential                             | \$5.70         | \$13.30        | \$21.30         | \$22.73        | \$23.22        | \$23.23        |
| Non-Residential                         | 5.20           | 6.50           | 11.10           | 11.80          | 9.12           | 10.54          |
| Other                                   | 7.60           | 5.60           | 7.60            | 7.32           | 7.83           | 7.47           |
| <b>Subtotal - Income</b>                | <b>\$18.50</b> | <b>\$25.40</b> | <b>\$40.00</b>  | <b>\$41.85</b> | <b>\$40.17</b> | <b>\$41.24</b> |
| <b>Other Cash in</b>                    |                |                |                 |                |                |                |
| Borrowing - New                         | 20.00          | 20.00          | 9.98            | 0.00           | 15.00          | 0.00           |
| Borrowing - Carryover                   |                | 16.00          | 30.00           | 22.38          |                | 0.00           |
| Appropriation                           | 14.90          | 24.40          | 23.40           | 23.12          | 21.19          | 20.70          |
| Less Rescission (in total)              | -0.10          | -0.20          | -0.07           |                |                |                |
| Carryforward                            |                |                | 2.10            | 3.03           | 7.98           | 12.60          |
| Interest Revenue Earned on Investments  |                |                |                 |                | 0.28           | 0.10           |
| <b>TOTAL CASH IN</b>                    | <b>\$53.30</b> | <b>\$85.60</b> | <b>\$105.41</b> | <b>\$90.38</b> | <b>\$84.62</b> | <b>\$74.64</b> |
| <b>Expenditures (2)</b>                 |                |                |                 |                |                |                |
| Operating Expenditures                  | 28.10          | 39.10          | 51.90           | 52.41          | 45.91          | 38.44          |
| Other Expenditures                      | 2.00           |                |                 |                |                |                |
| Capital Projects Funded Internally      | 3.00           | 7.00           | 9.50            | 8.00           | 28.27          | 30.25          |
| Capital Projects Funded by Borrowing    | 4.00           | 6.00           | 17.60           | 7.30           |                | 0.00           |
| Contingency, Interest & Insurance Costs | 0.20           | 1.40           | 1.00            | 1.92           | 3.71           | 5.84           |
| <b>TOTAL EXPENDITURES</b>               | <b>\$37.30</b> | <b>\$53.50</b> | <b>\$80.00</b>  | <b>\$69.63</b> | <b>\$77.89</b> | <b>\$74.53</b> |
| <b>NET CASH FLOW-BORROWING</b>          | <b>16.00</b>   | <b>30.00</b>   | <b>22.38</b>    | <b>15.08</b>   | <b>0.00</b>    | <b>0.00</b>    |
| <b>NET CASH FLOW-OPERATIONS</b>         | <b>0.00</b>    | <b>2.10</b>    | <b>3.03</b>     | <b>5.67</b>    | <b>6.72</b>    | <b>0.11</b>    |
| <b>TOTAL NET CASH FLOW</b>              | <b>\$16.00</b> | <b>\$32.10</b> | <b>\$25.41</b>  | <b>\$20.75</b> | <b>\$6.72</b>  | <b>\$0.11</b>  |
| <b>ENVIRONMENTAL REMEDIATION</b>        |                |                |                 |                |                |                |
| <b>Cash In</b>                          |                |                |                 |                |                |                |
| Environmental Remediation               | 25.00          | 27.00          | 53.50           | 2.70           | 2.00           | 1.80           |
| Environmental Remediation - Carryover   |                | 21.20          | 43.80           | 92.00          | 87.20          | 73.00          |
| <b>TOTAL CASH IN</b>                    | <b>\$25.00</b> | <b>\$48.20</b> | <b>\$97.30</b>  | <b>\$94.70</b> | <b>\$89.20</b> | <b>\$74.80</b> |
| <b>Expenditures</b>                     |                |                |                 |                |                |                |
| Environmental Remediation               | 3.80           | 4.40           | 5.30            | 7.50           | 16.20          | 23.00          |
| <b>NET CASH FLOW - ENVIR. REM. (3)</b>  | <b>\$21.20</b> | <b>\$43.80</b> | <b>\$92.00</b>  | <b>\$87.20</b> | <b>\$73.00</b> | <b>\$51.80</b> |

NOTE: <sup>(1)</sup> Based on budgetary accounting, which differs from the audited financial statements in the timing of accounting transactions  
<sup>(2)</sup> This table does not include the accrual for Federal Employee Health Benefits (FEHB) and Civil Service Retirement System (CSRS)  
<sup>(3)</sup> Net cash flow from environmental remediation is restricted and can only be used for a specific program

The Trust focused most of its initial capital spending on the rehabilitation of residential units in order to produce quickly a large and relatively stable internal revenue source. The PTMP estimated that total capital expenditures of \$589 million would be needed to rehabilitate residential and nonresidential buildings, improve the existing infrastructure, fund open space expansion and enhancements, and support other park improvements.<sup>35</sup> Residential rehabilitation costs accounted for about 25% (\$148.3 million) of these estimated capital costs.

In reviewing their spending trends during the development of the FY 2003 budget, Trust officials concluded that the previous increases and resulting operating expenditure levels were not sustainable. Trust capital spending through FY 2002 had funded less than 11% of the total capital costs estimated in the PTMP. Operating costs substantially exceeded Trust revenues from residential and nonresidential rents, fees, and other sources and were likely to do so well into the future.

The current San Francisco economic difficulties and their adverse impact on Trust commercial rental income reinforced the importance of controlling these internal operating costs. Unless they were reduced substantially, Trust staff financial projections indicated that after 2013, the Trust would be unable to fund any significant amount of the remaining PTMP capital costs, meet Treasury's interest and principal payment requirements for the \$50 million in borrowing, maintain the unrehabilitated buildings, fund depreciation costs, and meet other unforeseen contingencies. Trust officials believed that these operating cost levels would impair the Trust's ability to attain financial self-sufficiency and meet the other preservation, recreational, and land-use goals in the PTMP by 2013 and beyond. Consequently, the Board approved reductions in operations, including staffing lay-offs for the FY 2003 and FY 2004 budgets to cut operating costs to a \$38.4 million target level in FY 2004.

Table 4-2 shows that the initial reductions were concentrated in the Operations Division, which accounted for more than half of the Trust's total FY 2002 operating costs. The second set of reductions was more evenly distributed across the Trust divisions; only the law enforcement, fire and safety area continued to grow in FY 2004. Many of these reductions reflect changes in Trust operating requirements as it completed its staff-intensive land-use planning process and finished rehabilitating most of the existing residential properties using internal work crews.

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<sup>35</sup> Presidio Trust Management Plan: Land Use Policies for Area B of the Presidio of San Francisco, May 2002; p 116, figure 4.1. These capital costs excluded any new construction costs and the environmental clean-up costs funded by the Army and the insurance policies. These estimated capital costs were based on previous engineering costs developed by the Army and NPS in the mid 1990's. The PTMP described these estimates as "preliminary".

**Table 4-2**  
**The Presidio Trust**  
**Preliminary Operating Budget <sup>(1)</sup>**  
**Fiscal Years 2002-2004**  
(in Millions)

|   | <b>FY 2002<br/>Actual</b> | <b>FY 2003<br/>Budget</b> | <b>FY 2004<br/>Budget</b> |
|---|---------------------------|---------------------------|---------------------------|
| <b><u>Presidio Trust Offices</u></b>      |                           |                           |                           |
| General Counsel                           | \$1.44                    | \$1.71                    | \$1.25                    |
| Philanthropy                              | 0.00                      | 0.00                      | 0.26                      |
| Real Estate                               | 2.13                      | 2.29                      | 2.16                      |
| Planning, Natural Resources & Compliance  | 3.66                      | 4.34                      | 3.00                      |
| Finance, Business & Technology Management | 5.60                      | 6.64                      | 4.90                      |
| Government Affairs/Administration         | 3.49                      | 2.61                      | 2.08                      |
| Operations (Facilities)                   | 26.43                     | 18.68                     | 15.43                     |
| Special Events/Programs/Public Affairs    | 3.14                      | 2.62                      | 2.20                      |
| Law Enforcement, Fire & Safety            | 6.52                      | 7.02                      | 7.15                      |
| <b>TOTAL OPERATING EXPENDITURES</b>       | <b>\$52.41</b>            | <b>\$45.91</b>            | <b>\$38.43</b>            |

NOTE: This table does not include the accrual for FEHB and CSRS.

(1) Based on budgetary accounting, which differs from the audited financial statements in the timing of accounting transactions

### **Risks and Threats to Current Long-Term Financial Projections**

Using the financial forecasting model described in Chapter 3, Trust staff have developed a baseline 18-year financial projection (the “baseline projection”) building upon the 2004 budget request to Congress and reflecting the proposed reductions in operating expenditures to \$45.9 million in 2003 and \$38.4 million in 2004.

#### ***The Trust Baseline Projection***

Under the Trust’s baseline projection:<sup>36</sup>

- Operating expenditures decline further to \$38.1 million in 2005, grow slowly to \$40.8 million in 2012 before declining again in 2013 to \$37.5 million and remaining at that level until 2019.<sup>37</sup>
- Annual congressional appropriations decline slowly from \$20.7 million in 2004 to \$15.7 million in 2012, before terminating in 2013.<sup>38</sup>

<sup>36</sup> This baseline projection reflects the Trust’s “base case” estimates made in September 2003, updated for more recent September 2003 estimates for the revised FY 2003 and FY 2004 budget.

<sup>37</sup> The Trust baseline model assumes another reduction in operating costs of \$3 million in 2020 to \$34.5 million.

- Capital expenditures total \$368.8 million between 2003 and 2020, with \$315.7 million allocated to revenue-producing residential and nonresidential rehabilitation (including supporting infrastructure), and the remaining \$53.1 million allocated to nonrevenue park improvements, protection, and preservation projects.
- Residential rent revenues increase to \$24.8 million in 2005, then increase slowly to \$30.3 million in 2012 before declining by \$2.4 million in 2013 as one-third of the Baker Beach housing is demolished to increase open space and help preserve the San Francisco lessingia (another one-third is assumed to be demolished in 2020 and the final increment in 2030).
- Nonresidential rent revenue increases from \$10.5 million in 2004 to \$18.9 million in 2006, as the Letterman Digital Arts Center (LDAC) project is completed, and continues growing to \$28.1 million in 2012, and \$31.8 million in 2020.
- An estimated \$140 million in private capital from “master developers” will fund rehabilitation costs for 2.2 million square feet of nonresidential space.

By 2020, approximately 5.2 million of the 5.6 million square feet of total space to be used under PTMP will be rehabilitated under the baseline projection. Because much of this rehabilitation cost will be funded by private capital, the Trust receives only residual ground rent from these properties beyond the annual service district charge (SDC) payments.<sup>39</sup> There is also an annual cash reserve of about \$3 million under the baseline projection to meet contingencies. If unused, the reserve will accumulate to \$49.5 million by 2020—about 4% of total Trust expenditures over the period.

While the Trust’s baseline projection anticipates accomplishing much of the work needed to fulfill the PTMP land use plan by 2020, some anticipated spending is not included:

- Capital expenditures for the construction of approximately 113,000 square feet of replacement residential housing, an estimated \$7.6 million demolition for the remaining Baker Beach housing, and the construction of additional replacement housing for this last increment.
- Rehabilitation of the barracks buildings at Fort Scott.

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<sup>38</sup> The cumulative projected appropriation funding of \$185.1 million between 2003 and 2012 in the Trust’s current baseline projection is only \$4 million less than the \$189 million appropriation estimate in the 1998 FMP.

<sup>39</sup> This SDC functions as a local property tax, since its revenues help fund police, fire and other basic “municipal” services the Trust supplies. The SDC is explicitly applied only to nonresidential tenants, with the “tax” assessed at \$3.50 per square foot of occupied space.

- Capital expenditures for park restoration, preservation and other services. There is only \$53.1 million in capital expenditures for “nonrevenue producing activities”.<sup>40</sup>
- Funding of cultural programs. There was a 36% reduction in the \$2.2 million spending for cultural programs in 2003, and that reduced level is maintained throughout the 18-year period.

The Trust Board believes that since annual capital spending averaged \$15.5 million in the baseline projection between 2015 and 2020 with full Treasury debt principal and interest repayments, but no annual appropriation, similar annual capital spending should be supportable beyond 2020. This would help address these remaining investment needs. Trust staff believe that the baseline projection “can achieve the PTMP land-use plan, but only if the operating expenditures are reduced to \$36.5 million (and essentially held at that level over time) and the capital spending plan is actually successfully executed.”<sup>41</sup> The Trust Board believes that it can achieve its 2013 financial self-sufficiency goal under the baseline projection, particularly because it has been willing to cut operating expenditures to address any serious revenue gaps.

The cash reserve generated under the Trust’s baseline projection—about \$2.6 million annually between 2003 and 2012—does provide the Trust some financial ability to withstand adverse impacts from future economic shocks, but the margin of safety appears small. The reserve is about 4% of total projected spending over the period.<sup>42</sup> Trust staff have shown that the baseline projection can withstand adverse declines in future rental income—up to 5% for residential and 10% for nonresidential (excluding LDAC) properties—and absorb a 5% reduction in future annual appropriations without affecting projected operating and capital expenditures.

### ***Major Financial Risks and Other Challenges***

The Panel believes that these initial stress tests identify some, but not all, of the financial risks and challenges confronting the Trust over the next 10-20 years. Other major financial risks and challenges include:

- *Delayed recovery from current Bay area economic conditions*, particularly the decline in the commercial rental market. Much of the remaining Presidio property to be rehabilitated and used is earmarked for nonresidential purposes. Some Bay area analysts suggest that it could take 3-4 years for the San Francisco commercial real estate market to absorb the current excess office space.

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<sup>40</sup> Academy staff were unable to identify current Trust estimates of these necessary or desired capital expenditures. One component of these costs is the restoration of the aging Presidio forest. Reforesting the 300 acres of Presidio woodlands whose effective life is expected to expire over the next 20 years is a key example of these currently unfunded requirements. The total cost of reforestation ranges between \$45-\$60 million (\$150,000-\$200,000 per acre), but the Trust has been able to allocate only enough funds to reforest about 2-3 acres per year. At this rate of funding, the remaining reforestation costs alone in 2020 could range between \$36 and \$48 million.

<sup>41</sup> Presidio Trust staff March 19, 2003 memorandum to the Board of Directors re: 18-year Financial Projections.

<sup>42</sup> Total operating and capital expenditures between 2003 and 2012 under the baseline projection are \$621 million, excluding the annual cash reserve. The cumulative cash reserve over this period—\$25.9 million—is 4.2%.

- *Higher rehabilitation costs than the current \$589 million estimate*, particularly for delayed or deferred projects. These PTMP cost estimates may increase over time simply due to inflation. But, since many of the more expensive rehabilitation projects have yet to be undertaken, the reliability of PTMP’s capital cost estimates remains uncertain.
- *Inability to control operating costs*, especially law enforcement, public safety and other nondiscretionary expenditures. There has been rapid growth in U.S. Park Police law enforcement costs in recent years. The Trust has had little control over these costs.
- *Imposition of additional mandates* by other federal, state, or local entities that restrict current spending plans. Uncertainty on the approach for resolving current differences with the U.S. Fish and Wildlife Service over protection strategies for the San Francisco lessingia is a prime example.
- *More rapid annual declines in the annual appropriation* due to federal fiscal difficulties. Congress reduced the 2002 and 2003 appropriations below the levels identified in the 1998 Financial Management Plan.
- *Changes in expectations of the level and types of park services* the Trust will provide. One risk is that future levels of philanthropic funding could underfund the goals for park services that the Board has approved.
- *Adverse effects from potential economic cyclical declines over the next 10-20 years*. The baseline projection does not anticipate another economic decline between now and 2013 or 2020, but the San Francisco economy has not experienced such a prolonged period of stability in the past.
- *Changes in inflation and other external economic factors* that affect future revenues and expenditures. As noted in Chapter 3, the assumption of “constant dollars” raises concerns since inflation will have different effects on revenue and cost projections over the next 10 years.

The impact of these risks and challenges on the financial viability of the current baseline projection will vary. Quantifying these impacts requires using an economic model that employs various stress testing techniques. A later section of this chapter presents a summary of some stress test results. While not all of these risks and challenges may emerge over the next 10 years, their existence suggests the need to examine opportunities to strengthen the Trust’s long-term financial outlook and reduce some of these current risks.

## FINANCING ALTERNATIVES TO ENHANCE THE TRUST'S FINANCIAL OUTLOOK

In creating the Presidio Trust Corporation to manage the rehabilitation and use of the buildings in Area B, Congress recognized that private sector resources would be needed to help fund the Presidio's estimated \$589 million of rehabilitation investment costs. The Presidio Trust Act, as amended, authorized \$150 million in borrowing authority for these investments. In addition, "to augment or encourage the use of nonfederal funds to finance capital improvements on Presidio properties,"<sup>43</sup> Congress provided loan guarantee and direct loan authority subject to credit subsidy appropriations made available in subsequent appropriations acts.

Congress appropriated \$50 million<sup>44</sup> of the \$150 million borrowing authority, and the Trust has used all of those funds to finance capital investments. Although Congress also appropriated a \$1.04 million credit subsidy in FY 2000 to finance \$200 million in loan guarantees,<sup>45</sup> the Trust has not yet used any of that loan guarantee authority. The Trust has not asked for, nor has Congress appropriated, any credit subsidy for its authorized direct loan authority.

Between FY 1999 and FY 2002, more than \$65 million has been invested in Area B properties and infrastructure. To date, the Trust has used its own capital, including the \$50 million of appropriated borrowing authority, primarily to rehabilitate residential properties and a few smaller nonresidential buildings, and to renovate and improve the Presidio infrastructure (e.g. utilities, roads, etc). It has relied on private financing to fund the rehabilitation costs of the larger-scale nonresidential projects (e.g. the LDAC project) and a few buildings that the developer/financer wanted to occupy after completion (e.g. the Moore film building project). Total private investment over the last 4 years has amounted to \$17 million.<sup>46</sup>

The current baseline projection continues to assume that the Trust will rely on private financing to fund the remaining large-scale nonresidential projects such as the Public Health Service Hospital, West Crissy Field, Funston Avenue buildings, and the Montgomery Street barracks. The Trust believes that their limited federal resources mandate reliance on private capital for these major investments.<sup>47</sup> However, the currently depressed commercial real estate market in San Francisco poses a major challenge for the Trust and its continued reliance on master developers<sup>48</sup> to finance, rehabilitate, occupy or sublease, and maintain these larger projects.

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<sup>43</sup> The Presidio Trust Act, PL 104-333, sec 104 (d) (1).

<sup>44</sup> Congress appropriated this borrowing in three separate increments. Each increment appropriated an amount not to exceed a specified level. This language appears to allow reuse of any borrowing authority that is repaid.

<sup>45</sup> The Presidio Trust Act limits the Trust loan guarantee to 75% of the individual loan value. [section 104 (d) (1) (A) (iii)].

<sup>46</sup> Excludes LDAC and Presidio golf course.

<sup>47</sup> This reliance on private sector financing for the larger nonresidential projects (referred to as master developer projects) in the baseline projection does not seem to depend on the availability of additional federal funding. When the Trust staff projections assume an additional \$50 million of borrowing authority is available for Trust use, their financial projections continue to assume the same amount of private financing for the same large non-residential projects. Trust staff believe that the acceleration in smaller, internal projects financed from additional borrowing authority reflects the higher return on investment expected from these particular projects relative to the expected returns from these larger, master developer projects.

<sup>48</sup> Master developers are larger real estate developers and financiers capable of financing the rehabilitation of projects whose total costs are expected to exceed \$25 million.



One market analyst described the current San Francisco commercial market conditions as the “hundred year flood” scenario. With abnormally high commercial vacancy rates in key San Francisco markets and depressed commercial rents, private developers are less likely to earn competitive returns in rehabilitating and renting Presidio properties.

The opportunity costs for rehabilitating and leasing these properties have increased. Private master developers rely on the historic rehabilitation tax credit to reduce their project costs by 20%, but to qualify for that tax credit, the developers need a long-term (39 years or longer) lease. Locking in long-term rental contracts at the bottom of the business cycle will prevent the Trust from optimizing the return on these properties over the long-term.

Trust staff readily acknowledge that reliance on private capital increases the cost of rehabilitating Presidio properties and reduces the net rental income the Trust can expect to realize from these privately financed projects. Even though long-term interest rates are at levels not seen in almost 40 years, Treasury long-term borrowing rates remain several hundred basis points below private long-term borrowing rates.<sup>49</sup> Trust staff also estimate that the long-term lease income available from privately financed projects generates only about 20% of the market rental rate. This 80% revenue difference reflects the higher assumed return the private sector needs to compensate not only for the use of higher cost private financing, but also the various risks borne by the developer, including construction cost uncertainties, rent-up and leasing risk, and other operating risks.

### **Greater Use of Federal Guarantees and Credit Programs**

To date, the Trust has not jointly financed the rehabilitation of buildings with private developers. The Trust may have used its own funds (at the Treasury borrowing rate) for improving the infrastructure around the building, but it has not used Trust funds to share the rehabilitation financing costs. Nor has the Trust used any of its already appropriated guarantee authority to reduce private borrowing costs or any of its authorized, but unappropriated, direct lending authority to provide lower-cost federal loans<sup>50</sup> to help finance some of the rehabilitation costs of major projects.

Other federal corporations and agencies have used federal direct loans and loan guarantees effectively to lower costs to specific recipients, reallocate private funding to areas with a higher public than private rate of return, or achieve other governmental objectives. For example, the Resolution Trust Corporation (RTC) used federal guarantees and direct loans (seller financing) to reduce the costs of disposing of more than \$500 billion of assets from failed thrift institutions. The Overseas Private Investment Corporation (OPIC) uses direct loans and loan guarantees to redirect private foreign direct investment to areas or countries that would not otherwise receive

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<sup>49</sup> During the second quarter of 2003, the 10-year Treasury bond rate was 3.33%; the corporate long-term AAA bond rate was 4.97%—a spread of 164 basis points. Over the last 4 years, this spread averaged 176 basis points.

<sup>50</sup> To avoid an explicit interest subsidy, the interest rate on direct loans could be set at the Treasury borrowing rate, but this “unsubsidized” federal interest rate would still be substantially less than private borrowing rate costs at comparable maturities.

the same desired amount of private international capital. The Small Business Administration, in conjunction with commercial banks and other lending institutions, has used its loan guarantee programs to increase the availability of credit, especially longer-term loans, to small businesses in communities throughout the country.

The Trust has very broad authority to develop its own program regulations to govern the use of its loan guarantee and direct loan authorities, but has not yet developed any regulations, including its appropriated loan guarantees. Any loan guarantee or direct loan program regulations proposed by the Trust must be reviewed and approved by the Secretary of the Treasury, and must be published in the *Federal Register* for public review and comment before implementation.

Academy staff discussions with Bay area developers and lenders, including several who have bid on and undertaken Presidio projects, indicated strong private sector support for using federal guarantees and direct loans to help reduce financing costs and perceived risks, thereby making more projects economically viable even under current market conditions. These discussions also revealed a consistent unawareness that the Trust had loan guarantee authority available. Private developers and lenders suggested that such guarantees could prove most helpful in making certain projects feasible and in lowering costs for already feasible projects.

### **Conclusions and Recommendations: Greater Use of Federal Guarantees and Credit Programs**

The Panel believes that a greater use of federal financing to rehabilitate some of the remaining Presidio buildings could substantially reduce financing costs for those projects. With lower financing costs, the economic return from rehabilitating Presidio property increases, and thus becomes more competitive with other San Francisco commercial development alternatives. The Trust may face difficulty in attempting to obtain additional borrowing authority to increase the federal financing for remaining building rehabilitation at the Presidio. Although the Trust still has \$100 million of unused borrowing authority, it needs an appropriation to use any of that authority. Given the current federal budget environment, obtaining an appropriation for the remaining borrowing authority could be difficult.

However, additional borrowing authority is not the only way of securing federal financing to lower financing costs. The Trust already has a credit subsidy appropriation to support up to \$200 million of federal loan guarantees. In addition, Trust access to its authorized direct loan authority requires a much smaller appropriation than needed to use its borrowing authority. Federal direct loans require only a credit subsidy appropriation and this represents only the loan loss reserve needed to cover the default risk for the direct loan being issued. Thus, to use \$50 million in borrowing authority, the Trust would require an appropriation of \$50 million, but to use \$50 million of direct loan authority, it would need a much smaller appropriation.<sup>51</sup> As an example, the credit subsidy appropriation of \$1.04 million for the Presidio Trust in FY 2000 would support up to \$200 million of loan guarantees.

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<sup>51</sup> The credit subsidy for a direct federal loan reflects the loss reserve for the credit risk associated with the loan (i.e. the estimated net loss from a potential loan default). It would also include any direct interest subsidy if the interest rate on the loan were below the Treasury rate.

The Panel agrees that the Trust could accelerate the rehabilitation of remaining properties and increase expected rental income from these properties by using more lower-cost federal financing. Given the current federal fiscal environment, the Trust should make greater use of its federal credit authorities, especially the already appropriated \$200 million in loan guarantees.

**Therefore, the Academy Panel recommends that the Trust:**

**Develop specific program regulations to use its already appropriated loan guarantee authority to provide lower-cost financing for many of the remaining major building and other nonresidential rehabilitation projects.**

**Seek a small credit subsidy appropriation for its direct loan authority once it has successfully used some of its existing loan guarantees.**

**Solicit contract proposals that provide for joint financing of nonresidential projects, including those currently identified for master developers.**

In developing the regulations for its loan guarantee program, the Trust will need to work with local lenders and developers to determine the types of regulatory requirements that would be attractive to the private sector, while still protecting the Trust's and the federal government's financial interests. In addition, the Trust will need to work with the administration and Congress to secure support for a credit subsidy appropriation for any proposed direct loan program.

Academy staff used its modified version of the Trust's financial forecasting model<sup>52</sup> to estimate the potential effect of using federal credit programs to reduce rehabilitation costs for remaining master development projects. At current market rates, Academy staff estimated that this could reduce financing costs by about 59 basis points-- reflecting the spread between long-term Treasury bonds and representative commercial mortgage rates.<sup>53</sup> If the Trust could capture 70 percent of these savings in negotiations with master developers, this change could provide the Trust additional revenues of \$9.1 million over the forecast period to help meet its current unfunded investment needs for park restoration, protection, and development.

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<sup>52</sup> The Academy staff's modified model is described later in this chapter, p 116, and in Appendix F.

<sup>53</sup> The 30-year Treasury bond rate was 5.22% on November 4, 2003, while commercial mortgage rates ranged from 5.5% to 6.6% depending upon purpose and loan to value ratio. Assuming a 6% representative commercial rate, the interest rate spread between long-term Treasury bonds and commercial mortgages was about 78 basis points. Given a 75% guarantee, the potential financial savings of 59 basis points represents about 6.5 percent of the principal value on a 30-year loan. Assuming master developer investments of \$200 million for Presidio properties over the forecast period, the potential financial savings could be almost \$13 million. These potential savings are about 36% of the \$36.3 million in projected Trust investments for these projects over the projection period.

## **Seeking More Innovative Joint Financing and Risk Sharing Ventures**

The Presidio Trust Act provides very broad authority to “negotiate and enter into such agreements, leases, contracts and other arrangements with any person, firm, association, organization, corporation or governmental entity, including, without limitation, entities of federal, state and local governments as are necessary and appropriate to carry out its authorized activities.”<sup>54</sup>

The broad authority conferred by the Trust Act is not without constraints. The Act requires that the Trust maintain ownership of the Presidio in the federal government. This restricts the Trust’s ability to put the federal government’s ownership interest at risk by participating in a joint venture, partnership, or similar arrangement with a private entity. Further, the Trust Act does not explicitly override the Government Corporation Control Act. Without such a specific exemption, the Trust’s ability to participate in or form other affiliated entities is prohibited. The Trust has entered into leases in which it participates in the income stream from the building as well as proceeds from the sale or refinancing of the tenant’s interest. Additionally, the Trust routinely has enhanced its rental return by investing in the improvement of certain buildings and sites before delivery to the tenants.

In a recent paper, Academy Fellow Thomas Stanton reviewed four case studies of federal agencies or corporations using innovative techniques to facilitate their asset sales. Two of the agencies studied, the RTC and the Defense Reutilization and Marketing Service (DRMS), used innovative joint ventures with private sector partners to increase the returns they obtained from the sale of assets from failed thrifts or excess military property. Stanton concluded, “The strength of the joint venture concept, as shown by the experience of the RTC and DRMS, is that it aligns the incentives of the private partner with those of the government. When the private partner makes money, the government does too.”<sup>55</sup>

In a slightly different context, the OPIC has developed several innovative financing techniques to induce private entities to invest in high-risk projects, or projects in high-risk countries, that would not otherwise obtain private direct foreign investment capital.

## **Conclusions and Recommendations: Seeking More Innovative Joint Financing and Risk Sharing**

Creative financing and innovative risk-sharing agreements are often complex and frequently impose risks that the government historically has not managed well. Congress explicitly recognized the limitations of traditionally organized governmental agencies, such as NPS, in developing and managing large, complex operations outside their normal areas of expertise by creating the Trust as an independent federal corporation to develop and manage Area B of the Presidio. However, there is also evidence that appropriately structured joint ventures or partnerships between governmental entities and the private sector can improve the government’s investment returns. The Panel believes that the Trust’s broad authority would seem to permit

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<sup>54</sup> *Ibid*, Sec 104(b)

<sup>55</sup> Thomas H. Stanton, “Lessons Learned: Obtaining Value from Federal Asset Sales”, Public Budgeting and Finance/ Spring 2003. P 42.

prudent risk and profit sharing arrangements with private developers/lessees to share some of the development risks (joint financing) in return for some of the potential upside return (increasing rents as market conditions improve).

The Panel believes that the lack of any joint ventures with the private sector to share some of the risks of rehabilitating nonresidential properties limits the Trust's ability to share in some of the "upside" gains once the San Francisco commercial rental market rebounds. While current Trust lease agreements allow some sharing of gains when the current tenant sells or refinances, gain-sharing with stable, long-term tenants appears limited to possible rent escalators included in the negotiated lease.

The lack of joint ventures may also delay rehabilitation of some remaining larger-scale projects, or produce lease revenues for rehabilitated projects that do not allow the Trust to realize market rates of return over time. Either outcome could have a negative impact on the Trust's ability to attain financial self-sufficiency and meet its other statutory objectives.

The use of available federal credit programs should provide more opportunities for the Trust to develop joint financing proposals for some of the remaining larger and costly projects. Such joint financing ventures should also afford opportunities to explore innovative leasing partnerships that allow some sharing of not only financing and development risks but also economic returns over time. Any joint venture must, however, be carefully structured to ensure that the private partner's incentives are aligned with the Trust's (government's) objectives. In addition, that investment structure must be sufficiently transparent so that it can be monitored and evaluated.

**The Panel recommends that the Trust test the feasibility and evaluate the relative advantages of using joint ventures with private partners to finance the rehabilitation and leasing of several of its currently designated master developer projects.**

### **Additional User Fees**

The Trust has already employed some user fees for Presidio tenants, such as the development and application of the SDC applied on a square footage basis for leased nonresidential space.<sup>56</sup> Residential rents incorporate an implicit local property tax since the Presidio's rental rates are comparable to San Francisco market rents. In 2002, the SDC produced \$2.2 million in revenues for the Trust. Special event users generated an estimated \$1million in revenues for the Trust in FY 2002, while users of recreational facilities at the Presidio provided the Trust additional revenues. Specifically, the Trust receives rent payments based on a percentage of gross revenues

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<sup>56</sup> While the SDC is intended to serve as a local property tax to fund a range of municipal services (e.g. public safety, infrastructure maintenance, etc), it is not clear that the current SDC rate fully covers those costs for current nonresidential tenants. The Trust needs to review the SDC periodically and revise it as necessary to assure that these costs are adequately covered.

from the management companies operating the golf course, the bowling alley and the YMCA health facility.<sup>57</sup> There are no other significant Presidio Trust user fee revenues.

By contrast, NPS applies user fees more extensively in other areas of the GGNRA. To some extent, federal budgetary pressures have induced NPS to seek alternative revenue sources to help finance national park operations nationwide. At GGNRA, user fees range from visitor fees at Alcatraz to admission fees at Muir Woods and camping fees. Trust staff have periodically discussed with NPS and Park Police staff adopting a parking fee for the Presidio, but there remain significantly different views among these agencies about the scope, size, and purpose of parking fees. Specific issues include size of fee, application of fees to all or only selected groups (e.g. visitors and other users, not tenants), areas within Presidio where fees are charged, and enforcement costs.

The Trust has been providing separate utility meters in its rental properties to monitor utility consumption and provide the capability to bill tenants separately for utility usage. Billing for utilities independently of residential rents is a common practice in the San Francisco residential rental market,<sup>58</sup> and landlords believe that this approach provides tenants with an economic incentive to control energy usage. Trust staff estimate its total utility costs for residential units to be about \$2.2 million annually.

### **Conclusions and Recommendations: Additional User Fees**

User fees can produce revenue and help address other policy objectives such as managing demand for particular sites or events and conserving use of scarce or sensitive resources. The Panel believes it is important to distinguish between two general types of user fees—those focused on Presidio tenants and those affecting visitors and other park users. Because of the unique management of the Presidio, the Panel believes that NPS and the Trust would jointly need to develop and implement any new user fees affecting park users. For example, user fees for access to Presidio events, parking fees for visitors, other intra-park transportation fees, and concession fees should be consistently implemented throughout GGNRA. A critical issue here is to ensure fees for park users do not discourage access and use of the Presidio. Concern about access is not as critical an issue for those user fees applied to Presidio tenants. Moreover, tenant-oriented user fees are primarily within the discretion and control of the Trust.

**The Panel recommends that:**

**The Trust begin billing separately for utility costs once buildings are individually metered.**

**The Trust and NPS establish a formal joint working group to develop new user fees affecting use of the Presidio.**

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<sup>57</sup> For example, the Arnold Palmer management company operating the Presidio golf course paid about \$1.4 million in rent in FY 2002. This rent payment was based on a percentage of the revenues obtained by the company through green fees, golf cart rentals, merchandise sales, and other earned income.

<sup>58</sup> A San Francisco real estate analyst estimated that 70% of advertised San Francisco rentals provided separate billing for utilities (primarily gas and electricity).

Academy staff estimate that the Trust can capture some of the expected savings in utility costs as tenants reduce their current utility consumption once they are billed directly for those costs. While current rent levels will decline to compensate tenants for their utility cost payments, the Trust could limit that rent reduction to capture some of the expected utility cost savings. If the Trust can capture 15% of current utility costs, this annual saving of \$330,000 implies a total savings of \$6.4 million over the forecast period. The Trust can use any utility cost savings to help meet current unfunded park investment needs, or build a reserve for contingencies.

## **ALTERNATIVE POLICIES TO REDUCE FINANCIAL RISKS**

The Presidio Trust Act provided the Trust a broad set of financial and other authorities, vested in the Trust Board, to achieve the goals set forth in the Act. The Board, in turn, has adopted various policies to guide the Trust staff activities that implement capital spending decisions and other operations. In reviewing these statutory authorities and Board policies, the Academy Panel identified a few that appear to impose financial risks or unnecessary costs that could threaten the viability of the Trust’s baseline financial projection.

### **Use of Presidio Building Space**

The Presidio Trust Act provided the Trust substantial flexibility to restore, maintain and use the historical and other buildings to achieve its multiple statutory objectives. In the PTMP, the Trust established a clear, public commitment to increase open space by capping the total amount of building space. Specifically, PTMP commits the Trust to “reduce the total building area in the park by 360,000 square feet or more, from the 5.96 million square feet that exist today to 5.6 million square feet or less.”<sup>59</sup> Although there is no disagreement about the appropriateness of this total building space cap in PTMP, there are different views among Trust staff and Board members about how to best use that building space.

Some of the uncertainty about building use—essentially how much should be used as residential or commercial—emanates from the deliberate flexibility of PTMP. On the one hand, PTMP states that “approximately one-third of the Presidio’s building space will be devoted to public uses, including educational and cultural uses, interpretation sites, small-scale lodging, recreation and other visitor amenities (e.g. restaurants, snack bars, entertainment). About one-third will provide housing, with priority for people who work in the park, and about another one-third will be used for office space.”<sup>60</sup> On the other hand, PTMP also contains several tables showing the allocation of the total building space cap of 5.6 million square feet to specific purposes (e.g., 1.96 million square feet for housing, or 1,400 to 1,654 housing units in the available space<sup>61</sup>). The illustrative numbers in these PTMP tables suggest a much more restrictive building use than the broader language in PTMP.

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<sup>59</sup> Op cit. PTMP, p. xii.

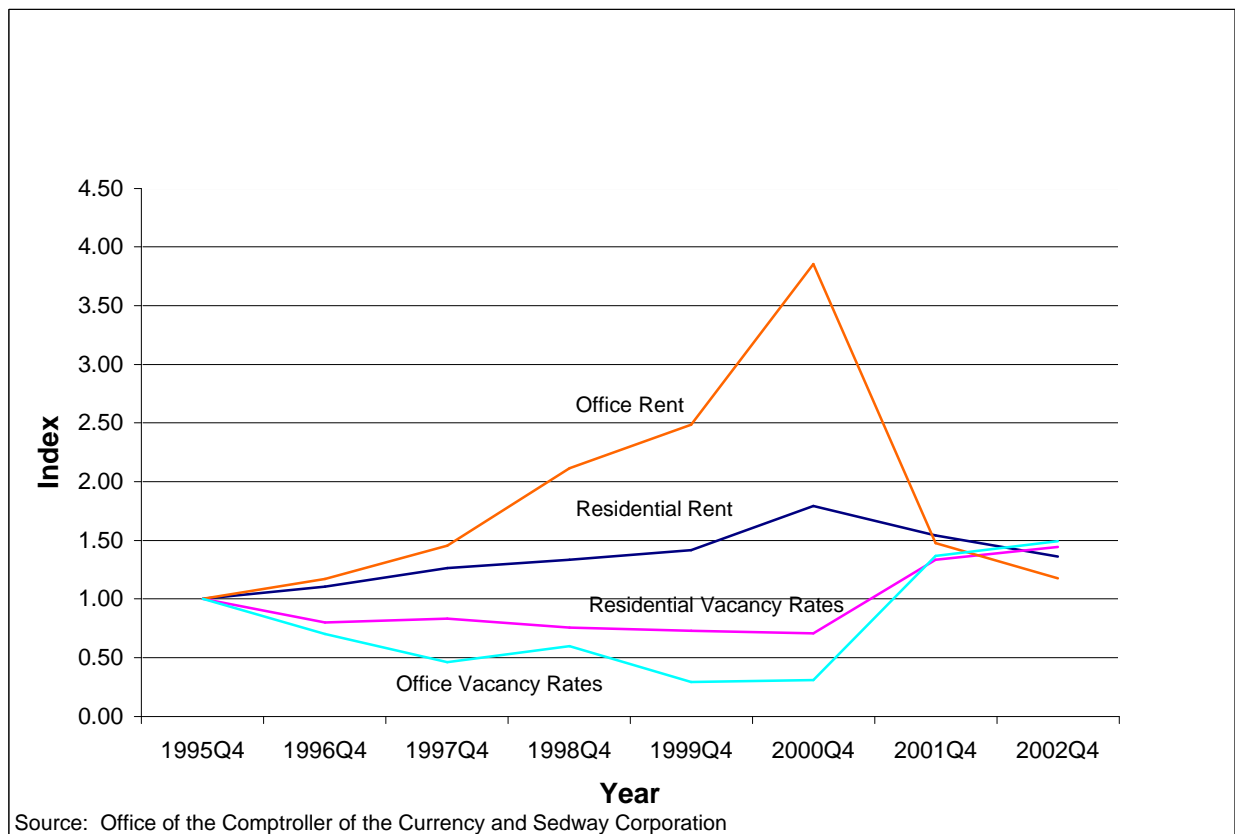
<sup>60</sup> *Ibid*, p. 32.

<sup>61</sup> *Ibid*, Table on p. 36 and Table on p. 45.

One reason that the uncertainty about building space use continues is that none of the stated building use restraints had been reached as of September 2003. The Trust has done some rehabilitation on about 86% of the available residential units. The Trust is also experimenting with restructuring some of its larger four-bedroom apartments into one and two-bedroom units to respond to the demographic housing demands in the San Francisco market. If this proves economically viable, the Trust could increase the number of small housing units without increasing the amount of total space allocated for housing.

Trust Board members and staff currently believe that residential usage of Presidio buildings provides a more stable revenue base to support operations and better helps achieve the Trust's statutory objectives. The San Francisco residential real estate market has been adversely affected by the current economic slump, but the decline in this market has been far less severe than the decline in the commercial real estate market. Even for Presidio properties, residential rent growth has slowed, whereas nonresidential rents have declined since their 2001 peak. A review of San Francisco rent indices (see Figure 4-5) confirms that residential rents were far less volatile than commercial rents over the last 7 years.

**Figure 4-5  
San Francisco Residential and Office Rent Indices**





The Board and staff have no plans for changing the current roughly one-third, one-third, one-third building use allocation described in PTMP. While residential, office or other uses have not yet approached those broad limits, Trust staff projections show that faster development using additional borrowing authority could broach the residential limit by FY 2005. There also appears to be general agreement that increasing residential use of available building space would be the least controversial change to the current PTMP building use allocations.

### **Conclusions and Recommendations: Use of Presidio Building Space**

Although none of the illustrative unit number or square foot targets for specific types of building use described in PTMP have been reached, the Panel is concerned that these alternative space restraints could unnecessarily limit the Board's ability to consider attractive proposals that would help achieve financial self-sufficiency and the broader park goals. Therefore, **the Panel recommends that the Board:**

**Interpret broadly PTMP descriptions of proposed functional uses of the total building space cap and not impose strict unit or square foot "limits" on residential and nonresidential usage.**

To help implement this recommendation, the Trust staff may want to include within the Board approved long-range financial plan several alternative building use assumptions (and related financial estimates) that support greater use of rehabilitated space for residential or nonresidential use.

### **Below-Market Rent Policies**

Although the Presidio Trust Act does not explicitly authorize the Trust to provide subsidies for particular tenants in Area B buildings, neither does it preclude it. The Trust Board has approved a policy establishing market rate rents for its residential and nonresidential properties. When the Trust assumed management responsibility for Area B in 1998, it acquired a number of tenants in residential and nonresidential buildings who were paying below-market rents, or in some cases, no rent at all. Many of these residential tenants were either Army or NPS employees. Over time, the Trust has worked to reduce the number of tenants receiving a housing subsidy. But, Army staff still occupy 19 residential units on the Presidio and pay below-market rents based on the Army's basic housing allowance.<sup>62</sup> Likewise, although the number has declined substantially since the mid 1990's, 29 NPS staff still pay below market rents.

In addition to these "inherited" subsidized tenants, the Trust has established its own "Affordable Housing Program" for about 20% of its currently available rental units. One rationale for this program is that it improves public safety by encouraging USPP officers, NPS rangers, and firefighters to live in Area B (though not all members receive a subsidy). The USPP believe that having USPP officers living in Presidio housing, with many having take home patrol vehicles, significantly increases law enforcement visibility, enhances the level of law enforcement

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<sup>62</sup> In 2000, the Army made a \$2 million payment to the Presidio to compensate for this difference. That payment covered the subsidy through 2005, when the Army is expected to vacate its remaining occupied units.

activity,<sup>63</sup> and improves response time. The USPP contend that these substantial law enforcement benefits justify the rental subsidies the Trust currently provides to those USPP officers receiving affordable housing subsidies.

Making affordable housing available also supports Trust objectives of encouraging employees working at the Presidio to live in Area B, thereby contributing to energy conservation and reductions in pollution from auto emissions. Trust staff have also indicated that they use this as a marketing tool to attract organizations whose employees might otherwise have to commute from long distances to secure a residential rent that aligns with their salaries.

The John Stewart Company, the Trust's contract manager for all residential properties, manages this program. There are three distinct affordable housing programs:

- The Preferred Renter Program (PRP) applies to about 125 units used by certain individuals who work at least 32 hours per week at the Presidio. The John Stewart Company calculates income and rent payments based on household income. Rents are 30% of household income from the principal employee working at the Presidio and have been at that rate for the last 2 years. Prior to that, rents were 40% of primary Presidio employee income. The income distribution among PRP tenants is roughly as follows
  - About 5% very low income (0-30% median)
  - About 45-50% low income (31-60% median)
  - About 45% moderate (61% -median)
- The Public Safety Program (PSP) covers about 40 units occupied by officers, NPS rangers and fire personnel.<sup>64</sup> Rent is 25% of the principal employee's income for the first 16 units and 30% for the next 24. The first 16 are intended to be allocated to "on-call" officers<sup>65</sup>.
- The Single Room Occupancy (SRO) or dormitory program pertains to Building 1028, which has 58 units with rooms and separate baths with shared kitchen facilities. Space is about 265 square feet per unit and occupancy is limited to 2 people. Preference is given to those with income below 50% of median. Rents for these units vary by income level:
  - \$475 per month for very low income (below 50% median)
  - \$500 per month for low income (50%-80% of median)
  - \$525 per month for moderate income (above 80% of median).

The median income in the San Francisco area is \$90,000. The annual cost of this residential subsidy program is more than \$3.5 million (see Table 4-3).

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<sup>63</sup> The USPP cite several examples where off-duty, resident USPP officers have supplemented on-duty USPP staff in deterring criminal activity or responding to specific incidents.

<sup>64</sup> These are contract employees hired by NPS.

<sup>65</sup> USPP noted that 9 of their 33 officers assigned to Presidio Trust duties receive the "on call" rental subsidy. Another "on call" subsidy is allotted to an NPS civilian employee serving as a communications dispatcher for both police and fire operations.

**Table 4-3**  
**Presidio Subsidized Housing Programs**  
(in thousands)

**Presidio Subsidized Housing Programs**

| <b>Program</b>      | <b>Number of<br/>Units</b> | <b>Annual Subsidy<br/>Cost <sup>(1)</sup></b> | <b>Annual Subsidy<br/>Per Unit</b> |
|---------------------|----------------------------|---|------------------------------------|
| NPS/Other inherited | 29                         | \$389.30                                      | \$13.42                            |
| DOD                 | 19                         | <u>461.90</u>                                 | <u>24.31</u>                       |
| Subtotal            | 48                         | <u>851.20</u>                                 | <u>17.73</u>                       |
| Pub Safety/on call  | 71                         | 1,314.80                                      | 18.52                              |
| Preferred Renter    | 93                         | 1,088.40                                      | 11.70                              |
| Dormitory           | 24                         | 63.90   | 2.66                               |
| Employee            | 13                         | <u>263.20</u>                                 | <u>20.25</u>                       |
| Subtotal            | 201                        | <u>2,730.30</u>                               | <u>13.58</u>                       |
| <b>Total</b>        | <b>249</b>                 | <b><u>\$3,581.50</u></b>                      | <b><u>\$14.38</u></b>              |

<sup>(1)</sup> This cost is the difference between market rent and the rent received for each subsidized unit as calculated by John Stewart Co.

While a number of nonresidential tenants also pay below market rents, many of these were long-term rent agreements NPS negotiated during its tenure and subsequently assigned to the Trust. For other nonresidential tenants, the Trust has accepted some below-market rents to compensate the developer for both the various risks borne and the use of higher cost private funds to rehabilitate the building. However, three federal tenants pay no rent<sup>66</sup> for the buildings they occupy on the Presidio, and this subsidy is not compensation for any agency investment in rehabilitating the occupied building. These tenants are NPS, USPP, and the Presidio Trust Corporation.

The rationale for providing nonresidential space rent-free is primarily a continuation of past practice and administrative convenience and simplification. NPS occupied most of its Area B space when it managed the Presidio during the mid 1990s. Trust staff note that charging rent to USPP and to themselves will simply require additional accounting since these higher rent costs will be passed on to the Trust budget either directly as a Trust rental charge, or indirectly, through higher USPP service costs.<sup>67</sup> The Trust also notes that charging NPS rent is particularly sensitive given the NPS' budget restraints, and could rekindle tensions between the two agencies.

<sup>66</sup> The USPP note that they do pay utility costs for their buildings, as do all other Presidio non-residential tenants. However, other tenants also pay rent in addition to utility and SDC charges.

<sup>67</sup> Trust staff also acknowledged that the NPS would pay some part of any rent charged USPP, consistent with the current allocation of USPP costs between the Trust and NPS.

## **Conclusions and Recommendations: Below-Market Rent Policies**

The Trust's "Affordable Housing Program" creates inherent equity issues. Horizontal equity concerns exist, since all "eligible" tenants with comparable incomes are not provided a housing subsidy. Likewise, there are vertical equity issues, since some higher income "eligible" tenants receive a subsidy while some lower income "eligible" tenants do not. These rental subsidies provide a substantial benefit to the recipient.

The Panel believes that using some Presidio rental properties for affordable housing is a commendable practice, but also believes that the Trust should not be funding such programs. Federal and state housing subsidy programs already exist to increase housing affordability by reducing costs for certain qualified tenants. The Panel also believes that unique job-related housing needs can be met more efficiently by explicitly adjusting employee wages or providing specific housing allowances rather than in-kind rental subsidies.<sup>68</sup>

The Panel believes the Trust should apply a consistent market rate rental policy for all nonresidential tenants. Charging market rents will force agencies to examine their need to use existing space and make resource trade-offs more efficiently. Finally, this approach is consistent with government rental policies.

Because the costs of current rental subsidies reduce the resources available to achieve other Trust statutory objectives and raise both equity issues and efficiency concerns,

### **The Panel recommends that the Trust terminate all residential and nonresidential rent subsidies.**

The Trust could choose to phase in this change over several years to mitigate its impact on currently subsidized tenants. The Panel believes that this policy will ensure a consistent application of the Trust Board's overall policy of establishing market rate rents for its residential and nonresidential properties. The Panel notes that this recommendation applies to permanent housing subsidy policies and not to short-term incentive pricing to reduce Presidio rental vacancies.

Academy staff have used its modified model to estimate the impact of eliminating current rental subsidies on Trust revenues. Using the John Stewart Company's estimate of \$3.58 million in current residential rent subsidy costs, eliminating rent subsidies could increase Trust revenues by \$70 million over the forecast period.

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<sup>68</sup> The Trust and USPP could use this approach to address the value of improved law enforcement services from having USPP officers living on the Presidio. As the USPP noted, many local communities set residency requirements as a condition of employment for public safety employees to capture these potential law enforcement benefits. The Trust and USPP could take a similar approach, or could negotiate an incremental housing allowance for those USPP officers who must live in Presidio housing. The size of this housing allowance would then reflect the value of the enhanced law enforcement services expected from those USPP officers residing on site.

## **Depreciation Policy**

Depreciation is a cost of doing business, even in a national park managed by a government corporation. Buildings wear out, especially historic buildings, many of which were never intended to be permanent when they were built. However, the Trust has not created and funded a depreciation reserve, and only current funding sources are available for needed repairs.

The basis for this policy is that earmarking funds for buildings simply because they are old is inherently inefficient. Structure replacement and repair are investments like any other and should not necessarily become a priority over other investments, such as new construction, new infrastructure, or mission-critical non revenue-generating park needs. Another reason is that any depreciation reserve would have to be invested until it is needed, and there is no programmatic justification for investing available funds in assets outside the Presidio. In short, the Trust is operating like any other corporation in allocating its capital investments to those projects providing the highest expected economic returns.

One Board member has requested that the implicit liability be recognized, and as a result the Presidio Trust model calculates and tracks depreciation on residential and nonresidential properties. The former is calculated at a rate of \$1.21 per square foot and the latter at a rate of \$1.73 per square foot, as each property is leased. However, even in the model, the calculations are purely informational, and are not included in the projected cash flows as deductions from rents.

The Presidio Trust has adopted a pay as you go approach, meeting its annual depreciation needs primarily through spending on maintenance and operations. The Trust's annual income statement explicitly accounts for capital depreciation on Presidio buildings and infrastructure. Trust staff believe that the Trust's reported net income and financial condition appropriately and accurately reflect depreciation. Discussions with OMB staff confirm that the Trust's approach for accounting for and funding depreciation expenses is consistent with that followed by other federal corporations.

## **Conclusions and Recommendations: Depreciation Policy**

The Panel fully concurs with the Trust's approach for funding depreciation on a pay-as-you-go approach. The Trust must have the flexibility to maximize its returns from investment by allocating its capital according to expected economic returns. At the same time, the Trust must continue to account fully and accurately for its capital consumption and insure that its annual income statement appropriately reflects the depreciation of Presidio buildings and infrastructure.

While the Trust's approach for funding and accounting for depreciation is prudent and consistent with the practices of other federal corporations, the Panel is concerned that the Trust also faces unique challenges for a federal corporation that are more common to municipalities than private corporations. Consequently, the Trust must be particularly sensitive to the need to adequately fund its capital maintenance and replacement requirements along with other operational needs. As a review of the Urban Institute's Infrastructure program indicates, municipalities all too

frequently defer or underfund capital maintenance and replacement needs to meet short-term budget shortfalls. The Trust cannot adopt similar short-term expedients and expect to meet its financial self-sufficiency and other national park site goals. A pay as you go approach to fund depreciation needs risks underfunding or deferring those costs unless the Trust is vigilant and committed to assuring that capital consumption needs compete equally with other operational needs and expenses. To help assure this,

**The Panel recommends that the Trust’s long-term financial plan and its financial forecasting model track anticipated depreciation. In particular, the capital budget section of the forecasting model should identify and price the repair and replacement of currently occupied structures.**

**To assure that funds are available for unexpected and unforeseen emergencies, contingency funding, discussed below, should be sufficient to meet all major repair and replacement of facilities and equipment on an emergency basis.**

### **USPP Statutory Mandate**

The Presidio Trust Act specifies that, “The Trust shall enter into a Memorandum of Agreement with the Secretary, acting through the Chief of the United States Park Police, for the conduct of law enforcement activities and services within those portions of the Presidio transferred to the administration jurisdiction of the Trust.”<sup>69</sup> Trust Board and senior staff readily acknowledge that the Presidio is the most secure neighborhood within the San Francisco area. They have found the USPP to be very responsive to calls for assistance or other incidents raising law enforcement issues. However, Trust officials are concerned about the very rapid growth in USPP costs and the difficulty in determining how much of total USPP resources are allocated to Trust law enforcement needs at the Presidio relative to law enforcement services USPP provides other parts of GGNRA.

Trust payments to the USPP have increased from \$ 2.6 million in FY 1999 to \$ 3.2 million in FY 2002—an increase of 23.1 %. For FY 2003, the Trust expects USPP cost to increase 17.3 % to \$3.8 million.<sup>70</sup> The Trust’s FY 2004 budget proposes to spend another \$3.9 million on USPP.

As noted earlier, the public safety and law enforcement area has been the only staff area within the Trust expected to increase between FY 2003 and FY 2004. Congress sets pay rates for USPP officers and the USPP determines the level of law enforcement service to be provided to the Trust under the statutory MOA. The Trust Board and senior staff believe that the statutory requirement to use USPP to meet the Presidio’s law enforcement needs precludes any opportunity for the Trust Board or staff to consider trade-offs between law enforcement costs and

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<sup>69</sup> Op. cit. Presidio Trust Act Sec 104(i).

<sup>70</sup> USPP notes that the Trust’s FY 2003 budget estimates for USPP may exceed actual costs given higher than expected turnover and vacancies for the USPP in San Francisco during FY 2003. Trust financial data indicate that reimbursements to the USPP through June 2003 were only \$3.05 million; however, the total FY 2003 reimbursement for the USPP was not available for this report.

services with the USPP. Finally, the Trust staff note that the \$3 million cap on USPP costs for Trust law enforcement services initially included in the Presidio Trust Act was subsequently removed.

The fact that USPP provides law enforcement services to the Trust and NPS (to the latter for Area A of the Presidio and other areas of GGNRA) adds to these Trust's concerns because of the difficulty in monitoring the allocation of USPP resources used for each agency. The USPP commander and the Trust executive director regularly meet every few weeks to discuss law enforcement needs and issues for Area B. In addition, USPP supervisors and other Trust staff meet frequently to address specific law enforcement issues, especially those involving special events. The USPP does provide separate reports for the Trust detailing overtime and other expenses for individual special events. However, Trust staff indicate that their concerns about overall resource allocation address broader issues involving total USPP resources, not simply incremental resource requirements for individual, special events.

An August 2001 Academy Panel report on USPP contained a number of recommendations to improve USPP mission priorities, budget development and execution, and staff utilization. In particular, the Academy Panel recommended that USPP resources at GGNRA be allocated strictly to the law enforcement needs of the Presidio Trust and that other GGNRA law enforcement needs be met with park rangers.<sup>71</sup>

### **Conclusions and Recommendations: USPP Statutory Mandate**

The Panel concurs with the Trust Board and staff that USPP's law enforcement services have made the Presidio a very secure environment. Families feel safe in their Presidio homes. A secure Presidio environment is an attraction for prospective employers and their employees and is critical for ensuring pleasurable experiences for visitors and other park users. However, the Panel also believes that the Trust Board is ultimately responsible for all the safety and security services provided Presidio tenants, employees and visitors and cannot effectively fulfill that responsibility if it cannot determine the resources devoted to these services relative to all other Presidio services. To help accomplish this, **the Panel recommends that:**

**The Act be amended to clarify the authority of the Trust Board to determine the appropriate level of law enforcement activities and services for Area B of the Presidio and to contract for specific services with entities other than the USPP when those services can be attained more cost effectively.**

**In addition, the Trust should initiate efforts under the current MOA to develop an effective reporting and monitoring system for reviewing quarterly with the USPP its allocation of resources between the Trust and other NPS law enforcement activities.**

With this recommendation, the Panel reaffirms the inherent function of any federal corporation to insure the security of its operations and its ability to fulfill its mission. The Panel believes the

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<sup>71</sup> NAPA, *The U.S. Park Police: Focusing Priorities, Capabilities and Resources for the Future*. August 2001, p. 28.

Trust Board must be able to include law enforcement costs with other Trust operating costs in making prudent, annual budget decisions and monitoring its progress in achieving its long term financial and program objectives. The Trust must also have the flexibility to consider alternative law enforcement service providers for specific types of activities (e.g. school crossing guards, building guards, meter readers) where those services can be provided more cost effectively by others.

## **THE TRUST'S LONG-TERM FINANCIAL PROJECTIONS UNDER DIFFERENT ECONOMIC SCENARIOS**

The Trust needs a financial forecasting model to examine the impact of alternate economic and financial assumptions on its ability to remain financially viable after appropriations end in FY 2013. Academy staff have modified the Trust's financial forecasting model to address some of its shortcomings (discussed in Chapter 3) and have used the modified model to assess the potential impact of some of the major financial risks and challenges previously discussed. In addition, specific Panel recommendations have been modeled and the results presented in earlier sections of this chapter.

### **The Modified Model**

Despite the changes in appearance and the ability to track changes in inflation and other factors, the modified model is similar to the Presidio Trust's model. The Academy staff made four major modifications to the latter:

- Allowed the annual estimated net cash surplus to accumulate over time
- Provided the model with the ability to account explicitly for future cost and revenue increases from price inflation
- Straightlined operating costs from FY 2004 through 2020, to make them consistent with other cost and revenue estimates in the model, all of which assume constant dollars
- Applied an assumed rate of inflation that would affect revenues and costs beginning in FY 2005 to create consistent current dollar projections<sup>72</sup>

Table 4-4 shows the model's baseline accumulated cash reserve and cash reserves under several sensitivity tests.

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<sup>72</sup> Academy staff used 2.3% as the long-term rate of inflation, the same rate assumed for the Midsession Review of the Budget of the United States for FY 2004.



**Table 4-4**  
**Baseline Estimates of the Modified Trust Model**  
(in thousands)

|   | <b>Cumulative Cash Balances</b> |             |             |             |             |
|---|---------------------------------|-------------|-------------|-------------|-------------|
|   | <b>2003</b>                     | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2020</b> |
| Baseline  | \$2,471                         | \$24,248    | \$25,985    | \$28,144    | \$43,863    |
| Operating expenses increase by \$2.247 million. | 2,471                           | 4,306       | 3,285       | 2,623       | 0           |
| Investment costs increase by 1.23 %             | 2,471                           | 10,247      | 9,656       | 8,984       | 109         |
| Increased vacancies, reduced rents              | 2,471                           | 4,477       | 3,288       | 2,356       | -1,949      |

Projections of net cash balances using this modified model indicate that the Trust’s financial viability is critically dependent on the successful management and control of future operating and capital costs. In addition, the Trust’s long-term financial outlook remains extremely vulnerable to external shocks, such as cyclical reductions in rental income, increases in vacancy rates, and especially increases in operating and capital costs. Appendix F provides a more complete review of the various simulations tested and their impact on the Trust’s projected cash balances and long-term financial viability. Table 4-4 contains the results for three particularly sensitive simulations:

- If operating costs were to increase by as little as \$2.247 million in 2004 and remain at that higher level throughout the period, cash balances would steadily decline and disappear by 2020.
- If the cost of investment were to increase by more than 1.23 % over the forecast period, cash balances by 2020 would be negative.
- If the current economic slump were to persist and deteriorating rental market conditions were to increase vacancy rates by 3% above assumed levels and depress rental income by 3% for all the Trust rental properties, cash balances would be negative by the end of the forecast period.

These examples illustrate the importance of simulating the effects of scenarios incorporating changes in several economic variables. While the probability that a combined scenario would occur as described in the third example above is small, nevertheless, changes in the baseline assumptions are likely to occur in a group, and the Trust needs to be able to generate forecasts capable of dealing with such multiple impacts. It also needs to be able to deal with forecasts that, although unlikely, nevertheless have some probability of occurring.

As a simple example, if there is a 10% chance that inflation will reach 5% and hold steady through the forecast period, a 40% chance that inflation will reach 3% and hold steady, and a 50% chance that it will hold at 2.3%, the appropriate value of the accumulated cash reserves for each forecast year is a weighted average of the three forecasts. In this example, the expected

inflation rate would be 2.85%. This expected rate should be one of the factors used in determining a prudent contingency reserve for the Trust.

### **Conclusions and Recommendations: Long-Term Financial Projections Under Different Economic Scenarios**

The sensitivity analyses using the modified model confirm the Board's concerns about the need to monitor and carefully manage Trust operating costs. The Academy's modified model baseline projection assumes operating costs will continue to be restrained, and if those restraints are successful, a small cash reserve can be maintained and/or additional investment undertaken. However, that modified baseline projection is highly vulnerable to external shocks, such as unanticipated increases in the costs of public safety or increases in construction costs.

The presence of a modest cash reserve under this baseline scenario indicates the viability of the long-term financial outlook under the most favorable economic scenarios. But, the Panel believes that the Trust must also be prepared to confront and weather alternative, more adverse scenarios. To help accomplish this:

**The Panel recommends that the Trust establish a contingency reserve large enough to absorb expected adverse effects from various alternative economic scenarios, including costs stemming from the aging of the infrastructure and the stock of historic buildings, and periodically review the size of that reserve as changes in future conditions warrant. Further, the contingency reserve should be explicitly funded by obtaining mandatory borrowing authority, establishing a contingency reserve within available corporate reserves, or using another permanent funding source.**

The use of mandatory borrowing authority would require a statutory change since the Trust only has discretionary authorized borrowing authority of \$150 million for capital spending.<sup>73</sup> Although Congress would most likely require explicit criteria that must be met to trigger the release of these funds, such mandatory borrowing authority would not require either setting aside Trust funds in an earmarked corporate reserve or spending Trust funds to purchase a type of insurance policy.

The size of the contingency reserve will depend upon the risks that the Trust is likely to face over time and the likelihood that those risks will emerge at any given point in time. Because of this, the size of the contingency reserve may also vary over time. The Board must use its judgment to determine what probability to assign various alternative scenarios and direct the Trust staff to use a modified financial projection model to estimate the impacts of each scenario on the Trust's long-term financial outlook. By summing the impact of these estimated effects, weighted by their assigned probability, the Board can determine the size of the contingency reserve needed to accommodate the risks the Board believes it is likely to face over its current planning horizon.

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<sup>73</sup> This authorized borrowing authority is discretionary since funds are only available through subsequent appropriations action. Mandatory authority would provide funds without requiring additional congressional action, although some triggering mechanism might be established in the statute.

## **CHAPTER 5**

### **BOARD ROLE IN PREPARING THE TRUST FOR LONG-TERM SUSTAINABILITY**

The Board of Directors is the Trust's governing body, and its composition will change as new Board members replace those whose appointments expire. This chapter examines the Board's role to date and explores whether there are actions the current members can take to facilitate the Board's transition as its founding members depart.

Since its inception in 1968, Academy Panels have examined the organization and work of government corporations. Though all have their own enabling legislation, many of them are listed in the 1945 Government Corporation Control Act (GCCA, 31 U.S.C. 9101-09) or, if established later, reflect the principles of that act. The former Bureau of the Budget created a model charter for government corporations, and the Panel found that the Presidio Trust Act reflects many of the principles underlying that model charter and the GCCA itself. In particular, the Act established an effective system of governance for the corporation and required that the Trust maintain its financial and investment policies in accordance with the GCCA and other applicable federal laws.

The Act also required that the six presidentially appointed Board members possess "extensive knowledge and experience in one or more of the fields of city planning, finance, real estate development, and resource conservation."<sup>74</sup> This statutory requirement probably facilitated the selection of highly skilled appointees, helping explain the competency and dedication of the current Trust Board.

#### **ENHANCING THE TRANSITION FROM A FOUNDING BOARD**

All boards have life cycles, moving from start-up through growth to maturity. Typically, founding board members perform much of an organization's work and develop policies on an as-needed basis. As a board moves into its growth stage, staff of the organization frequently do more of the work in accordance with the board's policies and under its direction and oversight. As the organization itself matures, staff and board obtain more experience to help define and establish their individual roles, assign agreed-upon responsibilities, and develop mechanisms for holding each other accountable. Most often, the board focuses more on governance issues, fundraising, and financial oversight.<sup>75</sup> Rarely are these orderly processes, though boards that work in a collegial fashion can approach their evolution with a sense of purpose to achieve shared goals.

John Carver, an expert on effective board development and operations, believes that because policies dominate all aspects of organizational life they present the most powerful lever to exercise leadership. He notes that making policies explicit and consistent, consciously choosing

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<sup>74</sup> Presidio Trust Act, Section 103(c)(1)(B).

<sup>75</sup> Michael Burns, "The Organizational Lifecycle and How it Affects Your Board," *The New England Nonprofit Quarterly*, Summer 1997.

policies from among alternatives, and obsessively keeping the spotlight on the chosen policies never allows the governing focus to waiver from policies and the organization's fidelity to them.<sup>76</sup> He has also developed an approach to implementing policy governance by focusing on ends and means and monitoring its own performance against policies. The board "defines, delegates, and monitors but probably does not carry out organizational work." It acts only as a body, and instructs only the CEO.<sup>77</sup>

## **Evolution of the Presidio Trust Board**

From inception through the first half of 2003, the Presidio Trust Board was predominantly a founding Board that focused on operations as well as broad policy guidance. Five of the seven members were the original appointees, and the other two members had served for several years. Most of these founding Board members had assisted the Presidio in some way prior to their appointment to the Board. For example, the City Planning Department handled consultations with the Army when it operated the Presidio, and it was advised by the volunteer City Planning Commission, whose former head now chairs the Presidio Trust's Board of Directors. Three Board members testified before Congress in favor of creating the Trust, and one, who has been active in Bay area parks for decades, advised Congressman Burton as he wrote the legislation to create GGNRA.

When the Trust began operations, there was one staff member, so the Board had extensive involvement in operations and staff hiring. Even now, beyond their participation in Board meetings, all members serve on at least one committee and members are involved in a wide range of activities. They may also attend public events or civic meetings, or meet with potential donors. Board members and staff interact regularly, and individual Board members have played key (and necessary) roles in major activities, such as negotiating the environmental remediation agreement with the Department of the Army and the lease agreement for the Letterman Digital Arts Complex, at 850,000 square feet, the Trust's largest development to date.<sup>78</sup>

Most Board members and senior Trust staff believe that the size of the Board is appropriate and that a larger one could become too bureaucratic. They also support the current Board structure and composition, particularly the designation of one member as the Secretary of Interior's representative.

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<sup>76</sup> John Carver, *Boards that Make a Difference: A New Design for Leadership in Nonprofit and Public Organizations*, Jossey-Bass Publishers, San Francisco, 1999, pp. 25-26.

<sup>77</sup> John Carver and Miriam Mayhew Carver, *Reinventing Your Board: A Step-by-Step Guide to Implementing Policy Governance*, Jossey-Bass Publishers, San Francisco, 1997, pp. 16 and 41.

<sup>78</sup> In January 1999, the Trust selected four development proposals from among 18 submitted for the former Letterman Hospital area. One was a proposal from Letterman Digital Arts Ltd. (LDA), an affiliate of Lucasfilms, Ltd., for a digital arts center. By June 1999 the LDA proposal was selected as the "preferred alternative." Over the next year the project underwent design and environmental review by the Trust and other reviewing agencies. Nearly 1,500 individuals and organizations provided comments on the project and its accompanying draft Environmental Impact Review Statement. The final Environmental Impact Statement was issued in May 2000. In June 2000 LDA submitted revised schematic architectural plans, which received additional review and comment by the public, the National Park Service, and by Federal and California historic agencies. The schematic architectural plans were approved by the Presidio Trust in July 2001, and deconstruction of buildings on the site began in 2002. When completed, the center will house a number of Lucasfilms Ltd. related companies, and will include public walkways and a seven-acre park. For information on progress, go to [www.lucasfilm.com/presidio/2002/](http://www.lucasfilm.com/presidio/2002/).

The National Park Service suggested that the GGNRA superintendent be added to the Board as an ex-officio (non-voting) member, and noted that this would be similar to the Board of the Valles Caldera National Preserve. This 88,900 acre property in the Jemez Mountains in northern New Mexico was privately owned until 2000, when the federal government purchased it under the Valles Caldera National Preservation Act. It is an unsettled property previously used largely for cattle grazing. Congress deliberately chose not to make the Preserve part of either NPS or the Forest Service, though a representative of each serves on the Board. The Forest Service had management authority for the Preserve until its Trustees assumed them in August 2002.

Trust staff acknowledge that the Board has considered the NPS suggestion that the GGNRA superintendent be an ex-officio member, but has not adopted that suggestion in part because the Board already has a Interior Department representative. The current Secretary of Interior's representative lives in the Bay area and is able to attend meetings regularly.

### **Framework for Board Operations**

The framework for Board procedures is set forth in the corporate bylaws, which are rooted in the statute.

- The Board members elect the chair and vice chair, who serve two-year terms as officers, with no limit on the number of terms served.
- The Board must meet at least once every four months, and two meetings per year must be open to the public. Public meetings must be announced in general circulation print media and the *Federal Register*.
- There is no limit on the number of additional meetings (termed “special meetings”) that the Board may hold. The Board must meet when three members of the Board make a written request for a meeting.
- The Board is required to keep “summaries of its proceedings showing the presence or absence of each Board member and the vote (including failure to vote and abstentions) of each member upon every motion.” The executive director is to record the proceedings of the meetings.

In practice:

- The Board meets at least monthly, and in the past (especially during PTMP preparation) met twice per month. Summary minutes are posted on the Trust's web site.
- Votes are generally unanimous so the Board's practice has been not to list individual votes.

- Public Board meetings are held two to three times per year, and these serve largely as public information sessions at which Board and staff provide updates and members of the public offer comments. For these meetings, full transcripts are published.

Although the intensity of Board member activity has lessened since the completion of PTMP, with their monthly meetings, committee meetings, and regular informal interactions with staff, they remain a very active group.

Despite the committee structure, much of the workload falls on the full Board. For example, according to Board members and Trust staff, discussion at Board meetings on specific building development decisions is often so extensive as to transform the entire Board into its Real Estate Committee. In addition, because all Board members had wanted to serve on the Planning Committee, that committee was abolished and planning became an activity of the whole Board. Not every Board member is interested in detailed discussions of all issues; some prefer that if an issue has been thoroughly explored in a committee, the Board needs only a brief summary of the benefits and costs of an issue or proposal before making a decision.

Staff support for the Board includes preparing (in conjunction with the Board chair) the agenda, developing supporting materials, and sending them to the Board approximately one week prior to each meeting. This is more structured than the previous process used to develop Board materials. Senior Trust staff attend all meetings and, after a debriefing session, track progress and prepare materials for the next Board meeting.

Under the first executive director, all Board communication went through him. Under the current executive director, senior staff deal directly with Board members as the need arises. The Office of the Executive Director continues to coordinate Board activities and materials preparation.

### **Using Minutes to Express Board Rationale for Decisions**

Minutes of government corporations are open to the public. However, in accordance with the Freedom of Information Act (FOIA), materials prepared for Board discussion in making decisions are not required to be made public.

A member of the general counsel's staff takes formal minutes of the Trust's Board meetings. A member of the executive director's staff takes informal notes for staff use in following up on Board guidance, but these are not published or presented to the Board. The Board approves the formal minutes and has chosen to inform the public about its activities by posting the minutes on the Trust's web site.

From inception until summer 2002, Board minutes provided only the briefest historical record of the Board's activities. For example, the minutes for one 3-hour meeting (June 27, 2001) contained only three one-sentence "discussion items." Since summer 2002, the minutes have been more informative in terms of issues discussed and decisions reached. However, there is neither a great deal of background on the discussion preceding specific decisions or always a clearly written rationale for actions taken. For example, at the March 26, 2003 meeting, the

minutes note “Approval of Educational Tenant Policy (Resolution 03-14).” The minutes indicate that one Board member presented comments and recommendations on the draft policy, and that the resolution voted upon contained modifications to the initial draft resolution. However, it is not clear from the minutes what the Educational Tenant Policy now is, why the Board chose to adopt it, and how the proposed recommendations affected the final resolution.

### **Using GPRA Tools for Monitoring Policy and Program Implementation**

The 1993 Government Performance and Results Act (GPRA) established several tools federal agencies can use to relate their mission and broad goals to operations, monitor progress in meeting those goals, and better communicate their success in achieving them to Congress and the public. The Act requires most federal agencies to develop and adhere to planning, evaluation, and reporting requirements, such as mission statements, 5-year strategic plans, annual performance plans, and annual performance reports. These documents must include explicit goals and objectives, descriptions of how they will be achieved, and establishment of measurable performance indicators to determine success. The GPRA reporting information must be tied closely to annual budgets.

Agencies must submit:

- Strategic plans that cover 5 years and are updated at least every 3 years. They must include a mission statement, general goals and objectives and agency plans for achieving these goals and objectives, how these goals relate to annual performance goals, key external factors that could affect performance, and program evaluations the agency plans to undertake.
- Annual Performance Plans (APPs) that: establish objective, quantifiable performance goals; describe operational processes and resources to achieve them; establish performance indicators; provide a basis for comparing program results to performance goals; and describe the means to be used to verify and validate results.
- Annual Performance Reports (APRs) that: describe performance indicators and results, and how they compare to performance goals; review the success in achieving performance goals and, if needed, explain why they have not been met and what should be done; describe any waivers of administrative requirements and their effectiveness; include summary evaluation findings; and show results for the preceding year (ultimately for 3 years).

Because the PTMP development was underway, Trust officials believed that preparing the strategic plan prior to PTMP completion did not make sense, and OMB concurred with the Trust’s request to delay preparing GPRA strategic and operational plans. The GPRA-required strategic planning is now underway. A preliminary draft of the Trust’s FY 2003-07 GPRA plan had four broad goals. However, the Trust is substantially revising its GPRA plan and a revised draft was not available for Academy staff review.

The Trust is deciding where in the organization to place GPRA implementation. Though several staff are working on the plan, responsibility for developing the Trust's strategic GPRA plan is in the Office of the Executive Director. As a critical user of these GPRA planning and monitoring tools, the Board must review and approve the proposed strategic GPRA plan, the Annual Performance Plans and the Annual Performance Reports to assure they meet the Board's policy and program monitoring needs.

### **National Park Service Strategic and Annual Plans**

While the Trust can establish its plan independent of NPS, the NPS goals reflect many of the themes that resonate in Trust planning and actions. The National Park Service has four goal categories, which relate to Department of Interior goals. They are:

- Preserve park resources
- Provide for the public enjoyment and visitor experience of park
- Strengthen and preserve natural and cultural resources and enhance recreational opportunities managed by partners
- Ensure organizational effectiveness

Within each broad goal category, NPS has established mission goals and specific long-term goals. For example, under Preserve Park Resources one mission goal is "Natural and cultural resources and associated values are protected, restored and maintained in good condition and managed within their broader ecosystem and cultural context." Within that mission goal are nine long-term goals dealing with topics such as reducing exotic vegetation, bringing the more than 24,000 historic structures across the nation to good condition or maintaining them, and preserving the nearly 15,000 archeological sites. For each long-term goal, NPS collects data and reports it through its APR.

### **Conclusions and Recommendations: Enhancing the Transition from a Founding Board**

Due in large part to the statute's requirement that Board members possess extensive knowledge in key areas, those appointed to the Trust's Board have been well qualified. Equally important, their personal dedication has provided leadership that has been very beneficial to the Trust.

The Panel considered the NPS suggestion that the GGNRA superintendent be made an ex-officio member of the Trust's Board. Government corporation boards vary significantly in size and composition, including whether there are ex-officio members. For example, the three-member Tennessee Valley Authority Board has no ex-officio members, nor do the five member Neighborhood Reinvestment Corporation and the Pension Benefit Guarantee Corporation Boards, which are comprised solely of cabinet secretaries or heads of federal agencies. The Valles Caldera National Preserve, which NPS cited as one with NPS and Forest Service representation on its board, is very different than the Presidio Trust—there is no need for self-sufficiency and there are no historic buildings to rent or maintain; nor does its Board include a



cabinet secretary appointee. Because the Presidio Trust Board does not have an Interior appointee member, the Panel decided not to recommend amending the statute to make the GGNRA superintendent a formal, ex-officio, member of the Board.

However, it is essential that the Presidio Trust and NPS work together at top levels, and the Panel would encourage the Trust Board to invite the GGNRA superintendent to attend its meetings, particularly when the Board is discussing issues affecting GGNRA. Although there is no comparable body at GGNRA, the Panel believes communication and cooperation between the Trust and GGNRA would be enhanced if GGNRA would reciprocate by inviting Trust participation at some of their meetings, especially when issues affecting the Presidio are to be discussed. In addition, given that the Conservancy is the Trust's partner in obtaining philanthropic contributions, the Panel believes the Board would benefit from its input at meetings that address philanthropic issues. Therefore, **the Academy Panel recommends that:**

**The Presidio Trust Board invite the GGNRA superintendent and the Conservancy director to those meetings at which the Board will discuss plans or activities that would benefit from GGNRA or Conservancy consultation.**

There are a number of areas where the Board's role in making or guiding policy is essential in the near term. These include:

- Restoring the Presidio's natural resources and further developing park facilities and cultural resources
- Identifying the unique characteristics that distinguish the Presidio from other urban parks and other national parks
- Determining whether this is an opportune time to bring a lodging capability to the park
- Reviewing the policy of subsidizing rents for a number of Presidio residential tenants
- Setting the requirements for the financial forecasting model
- Guiding development of a long-range financial implementation plan
- Working to expand philanthropic funding sources

Detailed Board involvement on a wide range of operational issues has been important during the Trust's start-up, but the Board may be able to adjust its level of involvement as the Trust becomes better established and most senior staff have been in place for several years. This would allow the Board to focus more on policy and governance issues, especially the new Board activities the Panel has recommended in this report, and on establishing the processes that will help the founding Board's successors perform these Board roles.

A key element of this evolution is enhanced staff support, such as a division of labor between board and staff that complements the actions of both. In this phase of the Trust's development, the staff can initiate more of the organization's activities, especially operational ones, provided the Board has effective communication and monitoring processes. A more structured communication process will facilitate this evolution by enabling the Board to delegate responsibilities while retaining effective oversight and control; this will be especially important for new Board members. Several other Panel recommendations—particularly the development and approval of a detailed, long-term financial plan and the specification of requirements for a financial forecasting model described in Chapter 4—also would benefit from more structured communication processes.

To assist the Trust's Board in its evolution, the staff will need to make clear presentations of issues for Board discussion and decisions. The Board must rely on staff to prepare issue papers that clearly define the Board's options and distribute them in a timely manner so that all Board members, including those who cannot attend a meeting, have the same information.

**The Panel recommends that the Board and staff develop a process whereby, prior to Board meetings, all Board members receive issue papers for each major agenda item, with options for decisions and the pros and cons for each.**

The Panel recognizes that this increase in the quality and timeliness of information going to the Board will require a more intensive staff process, one that could consume considerable time for a Board that meets monthly. However, it is essential to develop a process that permits Board members to fully consider issues prior to the meetings so that they are better equipped to fully discuss them. Papers need not be lengthy unless the issue is complex.

Also, as part of its evolution, the Panel believes that the Board may want to reexamine the roles of its committees. A key question facing the Board is whether it should retain the same mix of committees and, if so, whether issues addressed in committees need to come to the full Board for extensive discussion. If staff prepare issue papers for Board action, the need for some standing committees may be lessened. Conversely, the Board may decide that more work should be done in committees, with only summaries presented to the Board. If the Board were to take the latter route, the staff role in preparing issue papers would be more prominent in committee work.

Since Board decisions guide Trust activities, the communication tool that emanates from the meeting needs to be sufficiently detailed to inform readers of actions and why they were taken. Current minutes are more useful than those in the past, but still do not provide a complete explanation of and the rationale for actions taken. Government corporations also have an obligation to fully inform the public of their decisions. Transparency is not only essential; it can help turn observers into supporters and challengers into partners.

To provide better communication of Board discussions and decisions, **the Panel recommends that:**

**Board minutes present specific wording of each motion rather than just noting them as “actions taken,” and summarize the discussion and rationale for a resolution’s passage or defeat.**

**The executive director use the results of each Board meeting to determine which portions, if any, relate to individual senior staff and their functions. These would guide short-term tracking and, as appropriate, establish accountability for staff implementation.**

The Panel also believes that the Board cannot complete its transition from a founding Board without established, recognized processes for monitoring the effectiveness of policy and program implementation. The Trust can use the GPRA tools it is currently developing for these purposes. Now that the Trust has finished PTMP and has a better sense of the staff resources available to accomplish its mission, it is time to add a sense of urgency for completing the GPRA 5-year strategic and annual performance plans. These plans should be completed in concert with the development of the Trust’s FY 2005 budget proposals and plan.

These GPRA strategic and performance plans will be especially important for the Board as it absorbs three new members and focuses more on setting policies and overseeing accomplishments. The Board will need effective mechanisms to communicate policies and operational goals to staff and to monitor staff progress in achieving those goals. These are precisely the functions a GPRA strategic plan was designed to perform. In addition, the development of specific goals within the Trust’s strategic plan will facilitate coordination with NPS goals for the GGNRA. Consequently, **the Panel recommends that the Trust Board:**

**Direct the Trust staff to develop its first strategic and annual performance plans consistent with the Trust’s FY 2005 budget proposals.**

**Use the approved strategic and annual performance plans to monitor at least quarterly staff progress in achieving the plans’ specific goals.**

The Academy Panel reiterates that the Presidio Trust’s Board of Directors possesses wide and diverse expertise, is dedicated to the Trust’s diverse missions and, with the support of a dedicated staff, has been the driving force in moving the Trust from a new corporation with a unique mix of responsibilities to one that is poised to succeed on many fronts.



## PROJECT PANEL AND STAFF LIST

**Jane G. Pisano**—*Chair*, President and Director, Natural History Museum of Los Angeles County. Former Senior Vice President, External Relations and C. Erwin and Lone L. Piper Dean, School of Public Administration, University of Southern California; President, The 2000 Partnership; President, Los Angeles 2000 Committee; Director, Olympic Programs, Corporate Administration, The Times Mirror Company.

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Donald Fisher, Member  
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Amy Meyer, Member  
Mary Murphy, Member  
William Reilly, Member  
Toby Rosenblatt, Chair

**The Presidio Trust: Staff**

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Karen Cook, General Counsel  
Craig Cooper, Environmental Program Manager  
Donald Fisher, Board Member  
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Fran Gross, Business Operations Director  
Harry Haigood, Chief Financial Officer  
Jim Lechleitner, Director of Employment and Management  
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**Sierra Club**

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**National Trust for Historic Preservation**

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**Equity Community Builders LLC**

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Roy Schweyers, Director of Housing and Community Development



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**THE PRESIDIO TRUST ACT**

## THE PRESIDIO TRUST ACT

### THE PRESIDIO TRUST ACT

(as amended through December 28, 2001)

16 U.S.C. § 460bb appendix

(enacted as Title I of H.R. 4236, P.L. 104-333, 110 Stat. 4097, on

November 12, 1996)

(amended by P.L. 105-83, 111 Stat. 1607, November 14, 1997)

(amended by P.L. 106-113, 113 Stat. 1501, November 29, 1999)

(amended by P.L. 106-176, 114 Stat. 23, March 10, 2000)

(amended by P.L. 107-107, 115 Stat. 1328, December 28, 2001)

### SEC. 101. FINDINGS.

The Congress finds that-

- (1) the Presidio, located amidst the incomparable scenic splendor of the Golden Gate, is one of America's great natural historic sites;
- (2) the Presidio was the oldest continuously operating military post in the Nation dating from 1776, and was designated a National Historic Landmark in 1962;
- (3) preservation of the cultural and historic integrity of the Presidio for public use recognizes its significant role in the history of the United States;
- (4) the Presidio, in its entirety, is a part of the Golden Gate National Recreation Area, in accordance with Public Law 92-589;
- (5) as part of the Golden Gate National Recreation Area, the Presidio's significant natural, historic, scenic, cultural, and recreational resources must be managed in a manner which is consistent with sound principles of land use planning and management, and which protects the Presidio from development and uses which would destroy the scenic beauty and historic and natural character of the area and cultural and recreational resources;

(6) removal and/or replacement of some structures within the Presidio must be considered as a management option in the administration of the Presidio; and

(7) the Presidio will be managed through an innovative public/private partnership that minimizes cost to the United States Treasury and makes efficient use of private sector resources.

### SEC. 102. AUTHORITY AND RESPONSIBILITY OF THE SECRETARY OF THE INTERIOR.

- (a) **Interim Authority** - The Secretary of the Interior (hereinafter in this title referred to as the "Secretary") is authorized to manage leases in existence on the date of this Act for properties under the administrative jurisdiction of the Secretary and located at the Presidio. Upon the expiration of any such lease, the Secretary may extend such lease for a period terminating not later than 6 months after the first meeting of the Presidio Trust. The Secretary may not enter into any new leases for property at the Presidio to be transferred to the Presidio Trust under this title, however, the Secretary is authorized to enter into agreements for use and occupancy of the Presidio properties which are assignable to the Trust and are terminable with 30 days notice. Prior to the transfer of administrative jurisdiction over any property to the Presidio Trust, and notwithstanding section 1341 of title 31 of the United States Code, the proceeds from any such lease shall be retained by the Secretary and such proceeds shall be available, without further appropriation, for the preservation, restoration, operation and maintenance, improvement, repair and related expenses incurred with respect to Presidio properties. The Secretary may adjust the rental charge on any such lease for any amounts to be expended by the lessee for preservation, maintenance, restoration, improvement, repair and related expenses with respect to properties and infrastructure within the Presidio.



## THE PRESIDIO TRUST ACT

### SEC. 103. ESTABLISHMENT OF THE PRESIDIO TRUST.

- (b) **Public Information and Interpretation** - The Secretary shall be responsible, in cooperation with the Presidio Trust, for providing public interpretive services, visitor orientation and educational programs on all lands within the Presidio.
- (c) **Other** - Those lands and facilities within the Presidio that are not transferred to the administrative jurisdiction of the Presidio Trust shall continue to be managed by the Secretary. The Secretary and the Presidio Trust shall cooperate to ensure adequate public access to all portions of the Presidio. Any infrastructure and building improvement projects that were funded prior to the enactment of this Act shall be completed by the National Park Service.

### (d) **Park Service Employees**

- (1) Any career employee of the National Park Service, employed at the Presidio at the time of the transfer of lands and facilities to the Presidio Trust, shall not be separated from the Service by reason of such transfer, unless such employee is employed by the Trust, other than on detail. Notwithstanding section 3503 of title 5, United States Code, the Trust shall have sole discretion over whether to hire any such employee or request a detail of such employee.
- (2) Any career employee of the National Park Service employed at the Presidio on the date of enactment of this title shall be given priority placement for any available position within the National Park System notwithstanding any priority reemployment lists, directives, rules, regulations or other orders from the Department of the Interior, the Office of Management and Budget, or other Federal agencies.

- (a) **Establishment** - There is established a wholly-owned government corporation to be known as the Presidio Trust (hereinafter in this title referred to as the "Trust").

### (b) **Transfer**

- (1) Within 60 days after receipt of a request from the Trust for the transfer of any parcel within the area depicted as Area B on the map entitled "Presidio Trust Number 1," dated December 7, 1995, the Secretary shall transfer such parcel to the administrative jurisdiction of the Trust. Within 1 year after the first meeting of the Board of Directors of the Trust, the Secretary shall transfer to the Trust administrative jurisdiction over all remaining parcels within Area B. Such map shall be on file and available for public inspection in the offices of the Trust and in the offices of the National Park Service, Department of the Interior. The Trust and the Secretary may jointly make technical and clerical revisions in the boundary depicted on such map. The Secretary shall retain jurisdiction over those portions of the building identified as number 102 as the Secretary deems essential for use as a visitor center. The Building shall be named the "William Penn Mott Visitor Center." Any parcel of land, the jurisdiction over which is transferred pursuant to this subsection, shall remain within the boundary of the Golden Gate National Recreation Area. With the consent of the Secretary, the Trust may at any time transfer to the administrative jurisdiction of the Secretary any other properties within the Presidio which are surplus to the needs of the Trust and which serve essential purposes of the Golden Gate National Recreation Area. The Trust is encouraged to transfer to the administrative jurisdiction of the Secretary open space areas which have high public use potential and are contiguous to other lands administered by the Secretary.

## THE PRESIDIO TRUST ACT

- (4) **Organization And Compensation** - The Board shall organize itself in such a manner as it deems most appropriate to effectively carry out the authorized activities of the Trust. Board members shall serve without pay, but may be reimbursed for actual and necessary travel and subsistence expenses incurred by them in the performance of the duties of the Trust.
- (5) **Liability Of Directors** - Members of the Board of Directors shall not be considered Federal employees by virtue of their membership on the Board, except for purposes of the Federal Tort Claims Act and the Ethics in Government Act, and the provisions of chapter 11 of title 18, United States Code.
- (6) **Meetings** - The Board shall meet at least three times per year in San Francisco and at least two of those meetings shall be open to the public. Upon a majority vote, the Board may close any other meetings to the public. The Board shall establish procedures for providing public information and opportunities for public comment regarding policy, planning, and design issues. The Board may establish procedures for providing public information and opportunities for public comment regarding policy, planning, and design issues through the Golden Gate National Recreation Area Advisory Commission.
- (7) **Staff** - The Trust is authorized to appoint and fix the compensation and duties and terminate the services of an executive director and such other officers and employees as it deems necessary without regard to the provisions of title 5, United States Code, or other laws related to the appointment, compensation or termination of Federal employees.
- (8) **Necessary Powers** - The Trust shall have all necessary and proper powers for the exercise of the authorities vested in it.
- (9) **Taxes** - The Trust and all properties administered by the Trust and all interest created under leases, concessions, permits and other agreements associated with the properties shall be exempt from all taxes and special assessments of every kind by the State of California, and its political subdivisions, including the City and County of San Francisco.
- (10) **Government Corporation**
- (A) The Trust shall be treated as a wholly-owned Government corporation subject to chapter 91 of title 31, United States Code (commonly referred to as the Government Corporation Control Act). Financial statements of the Trust shall be audited annually in accordance with section 9105 of title 31 of the United States Code.
- (B) At the end of each calendar year, the Trust shall submit to the Committee on Energy and Natural Resources of the United States Senate and the Committee on Resources of the House of Representatives a comprehensive and detailed report of its operations, activities, and accomplishments for the prior fiscal year. The report also shall include a section that describes in general terms the Trust's goals for the current fiscal year.

SEC. 104. DUTIES AND AUTHORITIES OF THE TRUST.

(a) **Overall Requirements of the Trust** - The Trust shall manage the leasing, maintenance, rehabilitation, repair and improvement of property within the Presidio under its administrative jurisdiction using the authorities provided in this section, which shall be exercised in accordance with the purposes set forth in section 1 of the Act entitled "An Act to establish the Golden Gate National Recreation Area in the State of California, and for other purposes," approved October 27, 1972 (Public Law 92-589; 86 Stat. 1299; 16 U.S.C. 460bb), and in accordance with the general objectives of the General Management Plan (hereinafter referred to as the "management plan") approved for the Presidio.

(b) **Authorities** - Trust may participate in the development of programs and activities at the properties transferred to the Trust, except that the Trust shall have the authority to negotiate and enter into such agreements, leases, contracts and other arrangements with any person, firm, association, organization, corporation or governmental entity, including without limitation, entities of Federal, State and local governments as are necessary and appropriate to carry out its authorized activities. The National Park Service or any other Federal agency is authorized to enter into agreements, leases, contracts and other arrangements with the Presidio Trust which are necessary and appropriate to carry out the purposes of this title. Any such agreement may be entered into without regard to section 321 of the Act of June 30, 1932 (40 U.S.C. 303b). The Trust may use alternative means of dispute resolution authorized under subchapter IV of chapter 5 of title 5, United States Code (5 U.S.C. 571 et seq.). The Trust shall establish procedures for lease agreements and other agreements for use and occupancy of Presidio facilities, including a requirement that in entering into such agreements the Trust shall obtain reasonable competition. The Trust may not dispose of or convey fee title

to any real property transferred to it under this title. Federal laws and regulations governing procurement by Federal agencies shall not apply to the Trust, with the exception of laws and regulations related to Federal Government contracts governing working conditions and wage rates, including the provisions of sections 276a-276a-6 of title 40, United States Code (Davis-Bacon Act), and any civil rights provisions otherwise applicable thereto. The Trust, in consultation with the Administrator of Federal Procurement Policy, shall establish and promulgate procedures applicable to the Trust's procurement of goods and services including, but not limited to, the award of contracts on the basis of contractor qualifications, price, commercially reasonable buying practices, and reasonable competition. The Trust is authorized to use funds available to the Trust to purchase insurance and for reasonable reception and representation expenses, including membership dues, business cards and business related meal expenditures.

(c) **Management Program** - The Trust shall develop a comprehensive program for management of those lands and facilities within the Presidio which are transferred to the administrative jurisdiction of the Trust. Such program shall be designed to reduce expenditures by the National Park Service and increase revenues to the Federal Government to the maximum extent possible. In carrying out this program, the Trust shall be treated as a successor in interest to the National Park Service with respect to compliance with the National Environmental Policy Act and other environmental compliance statutes. Such program shall consist of-

- (1) demolition of structures which in the opinion of the Trust, cannot be cost-effectively rehabilitated, and which are identified in the management plan for demolition,
- (2) evaluation for possible demolition or replacement those buildings identified as categories 2 through 5 in the

## THE PRESIDIO TRUST ACT

Presidio of San Francisco Historic Landmark District  
Historic American Buildings Survey Report, dated 1985,

- (3) new construction limited to replacement of existing structures of similar size in existing areas of development, and
- (4) examination of a full range of reasonable options for carrying out routine administrative and facility management programs.

The Trust shall consult with the Secretary in the preparation of this program.

### (d) Financial Authorities

- (1) To augment or encourage the use of non-Federal funds to finance capital improvements on Presidio properties transferred to its jurisdiction, the Trust, in addition to its other authorities, shall have the following authorities subject to the Federal Credit Reform Act of 1990 (2 U.S.C. 661 et seq.):

- (A) The authority to guarantee any lender against loss of principal or interest on any loan: Provided that—
  - (i) the terms of the guarantee are approved by the Secretary of the Treasury;
  - (ii) adequate subsidy budget authority is provided in advance in appropriations Acts; and
  - (iii) such guarantees are structured so as to minimize potential cost to the Federal Government. No loan guarantee under this title shall cover more than 75 percent of the unpaid balance of the loan. The Trust may collect a fee sufficient to cover its costs in connection with each loan guaranteed under this title. The authority to enter into any such loan guarantee agreement shall expire at the end of 15 years after the date of enactment of this title.

(B) The authority, subject to appropriations, to make loans to the occupants of property managed by the Trust for the preservation, restoration, maintenance, or repair of such property.

- (2) The Trust shall also have the authority to issue obligations to the Secretary of the Treasury, but only if the Secretary of the Treasury agrees to purchase such obligations to the extent authorized in advance in appropriations Acts. The Secretary of the Treasury is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under chapter 31 of title 31, United States Code, and the purposes for which securities may be issued under such chapter are extended to include any purchase of such notes or obligations acquired by the Secretary of the Treasury under this subsection. Obligations issued under this subparagraph shall be in such forms and denominations, bearing such maturities, and subject to such terms and conditions, including a review of the creditworthiness of the loan and establishment of a repayment schedule, as may be prescribed by the Secretary of the Treasury, and shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration current market yields on outstanding marketable obligations of the United States of comparable maturities. No funds appropriated to the Trust may be used for repayment of principal or interest on, or redemption of, obligations issued under this paragraph.

- (3) The aggregate amount of obligations issued under paragraph (2) of this subsection which are outstanding at any one time may not exceed \$150,000,000.

(c) **Donations** - The Trust may solicit and accept donations of funds, property, supplies, or services from individuals, foundations, corporations, and other private or public

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conduct of law enforcement activities and services within those portions of the Presidio transferred to the administrative jurisdiction of the Trust.

entities for the purpose of carrying out its duties. The Trust is encouraged to maintain a liaison with the Golden Gate National Park Association.

- (f) **Public Agency** - The Trust shall be deemed to be a public agency for purposes of entering into joint exercise of powers agreements pursuant to California government code section 6500 and related provisions of that code.
- (g) **Proceeds** - Notwithstanding section 1341 of title 31 of the United States Code, all proceeds and other revenues received by the Trust shall be retained by the Trust. Those proceeds shall be available, without further appropriation, to the Trust for the administration, preservation, restoration, operation and maintenance, improvement, repair and related expenses incurred with respect to Presidio properties under its administrative jurisdiction. The Secretary of the Treasury shall invest, at the direction of the Trust, such excess moneys that the Trust determines are not required to meet current withdrawals. Such investment shall be in public debt securities with maturities suitable to the needs of the Trust and bearing interest at rates determined by the Secretary of the Treasury taking into consideration the current average yield on outstanding marketable obligations of the United States of comparable maturity.
- (h) **Suits** - The Trust may sue and be sued in its own name to the same extent as the Federal Government. Litigation arising out of the activities of the Trust shall be conducted by the Attorney General; except that the Trust may retain private attorneys to provide advice and counsel. The District Court for the Northern District of California shall have exclusive jurisdiction over any suit filed against the Trust.
- (i) **Memorandum of Agreement** - The Trust shall enter into a Memorandum of Agreement with the Secretary, acting through the Chief of the United States Park Police, for the
- (j) **Bylaws, Rules, and Regulations** - The Trust may adopt, amend, repeal, and enforce bylaws, rules and regulations governing the manner in which its business may be conducted and the powers vested in it may be exercised, including rules and regulations for the use and management of the property under the Trust's jurisdiction. The Trust is authorized, in consultation with the Secretary, to adopt and to enforce those rules and regulations that are applicable to the Golden Gate National Recreation Area and that may be necessary and appropriate to carry out its duties and responsibilities under this title. The Trust shall give notice of the adoption of such rules and regulations by publication in the Federal Register.
- (k) **Direct Negotiations** - For the purpose of compliance with applicable laws and regulations concerning properties transferred to the Trust by the Secretary, the Trust shall negotiate directly with regulatory authorities.
- (l) **Insurance** - The Trust shall require that all leaseholders and contractors procure proper insurance against any loss in connection with properties under lease or contract, or the authorized activities granted in such lease or contract, as is reasonable and customary.
- (m) **Building Code Compliance** - The Trust shall bring all properties under its administrative jurisdiction into compliance with Federal building codes and regulations appropriate to use and occupancy within 10 years after the enactment of this title to the extent practicable.
- (n) **Leasing** - In managing and leasing the properties transferred to it, the Trust shall consider the extent to which prospective tenants contribute to the implementation of the

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general objectives of the General Management Plan for the Presidio and to the reduction of cost to the Federal Government. The Trust shall give priority to the following categories of tenants: Tenants that enhance the financial viability of the Presidio and tenants that facilitate the cost-effective preservation of historic buildings through their reuse of such buildings.

(o) **Reversion** - If, at the expiration of fifteen years, the Trust has not accomplished the goals and objectives of the plan required in section 105(b) of this title, then all property under the administrative jurisdiction of the Trust pursuant to section 103(b) of this title shall be transferred to the Administrator of the General Services Administration to be disposed of in accordance with the procedures outlined in the Defense Authorization Act of 1990 (104 Stat. 1809), and any real property so transferred shall be deleted from the boundary of the Golden Gate National Recreation Area. In the event of such transfer, the terms and conditions of all agreements and loans regarding such lands and facilities entered into by the Trust shall be binding on any successor in interest.

(p) **Exclusive Rights to Name and Insignia** - The Trust shall have the sole and exclusive right to use the words 'Presidio Trust' and any seal, emblem, or other insignia adopted by its Board of Directors. Without express written authority of the Trust, no person may use the words 'Presidio Trust,' or any combination or variation of those words alone or with other words, as the name under which that person shall do or purport to do business, for the purpose of trade, or by way of advertisement, or in any manner that may falsely suggest any connection with the Trust.

### SEC. 105. LIMITATIONS ON FUNDING.

- (a) (1) From amounts made available to the Secretary for the operation of areas within the Golden Gate National Recreational Area, not more than \$25,000,000 shall be available to carry out this title in each fiscal year after the enactment of this title until the plan is submitted under subsection (b). Such sums shall remain available until expended.
- (2) After the plan required in subsection (b) is submitted, and for each of the 14 fiscal years thereafter, there are authorized to be appropriated to the Trust not more than the amounts specified in such plan. Such sums shall remain available until expended. Of such sums, funds shall be available through the Trust for law enforcement activities and services to be provided by the United States Park Police at the Presidio in accordance with section 104(i) of this title.
- (b) Within 1 year after the first meeting of the Board of Directors of the Trust, the Trust shall submit to Congress a plan which includes a schedule of annual decreasing federally appropriated funding that will achieve, at a minimum, self-sufficiency for the Trust within 15 complete fiscal years after such meeting of the Trust. No further funds shall be authorized for the Trust 15 years after the first meeting of the Board of Directors of the Trust.
- (c) The Administrator of the General Services Administration shall provide necessary assistance, on a reimbursable basis, including detailees as necessary, to the Trust in the formulation and submission of the annual budget request for the administration, operation, and maintenance of the Presidio.

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### SEC. 106. GENERAL ACCOUNTING OFFICE STUDY.

(a) Three years after the first meeting of the Board of Directors of the Trust, the General Accounting Office shall conduct an interim study of the activities of the Trust and shall report the results of the study to the Committee on Energy and Natural Resources and the Committee on Appropriations of the United States Senate, and the Committee on Resources and Committee on Appropriations of the House of Representatives. The study shall include, but shall not be limited to, details of how the Trust is meeting its obligations under this title.

(b) In consultation with the Trust, the General Accounting Office shall develop an interim schedule and plan to reduce and replace the Federal appropriations to the extent practicable for interpretive services conducted by the National Park Service, and law enforcement activities and services, fire and public safety programs conducted by the Trust.

(c) Seven years after the first meeting of the Board of Directors of the Trust, the General Accounting Office shall conduct a comprehensive study of the activities of the Trust, including the Trust's progress in meeting its obligations under this title, taking into consideration the results of the study described in subsection (a) and the implementation of plan and schedule required in subsection (b). The General Accounting Office shall report the results of the study, including any adjustments to the plan and schedule, to the Committee on Energy and Natural Resources and the Committee on Appropriations of the United States Senate, and the Committee on Resources and Committee on Appropriations of the House of Representatives.

### SEC. 107. CONDITIONAL AUTHORITY TO LEASE CERTAIN HOUSING UNITS WITHIN THE PRESIDIO.

(a) **Availability of Housing Units for Long-term Army Lease** - Subject to subsection (c), the Trust shall make available for lease, to those persons designated by the Secretary of the Army and for such length of time as requested by the Secretary of the Army, 22 housing units located within the Presidio that are under the administrative jurisdiction of the Trust and specified in the agreement between the Trust and the Secretary of the Army in existence as of the date of the enactment of this section.

(b) **Lease Amount** - The monthly amount charged by the Trust for the lease of a housing unit under this section shall be equivalent to the monthly rate of the basic allowance for housing that the occupant of the housing unit is entitled to receive under section 403 of title 37, United States Code.

(c) **Condition on Continued Availability of Housing Units** - Effective after the end of the four-year period beginning on the date of the enactment of this section, the Trust shall have no obligation to make housing units available under subsection (a) unless, during that four-year period, the Secretary of the Treasury purchases new obligations of at least \$80,000,000 issued by the Trust under section 104(d)(2). In the event that this condition is not satisfied, the existing agreement referred to in subsection (a) shall be renewed on the same terms and conditions for an additional five years.





**SUMMARY OF THE PRESIDIO TRUST MANAGEMENT PLAN:  
LAND USE POLICIES FOR AREA B OF THE PRESIDIO OF SAN FRANCISCO**

The entire 2002 Presidio Trust Management Plan (PTMP) is available on the Trust's web page, at [www.presidio.gov/About\\_the\\_Presidio/PlanningForTomorrow/](http://www.presidio.gov/About_the_Presidio/PlanningForTomorrow/)

**BACKGROUND AND HISTORY**

Since its inception, the Presidio Trust has carried out the mandates of the Trust Act by looking to the 1994 General Management Plan Amendment (GMPA), which is the National Park Service (NPS) plan for the entire Presidio, as the foundational plan that guides the Trust's planning and decision-making. The Trust Act and Trust policy reinforce the GMPA's importance. For this reason, the PTMP is not a wholly new plan for Area B.

The GMPA remains unaltered as NPS's management plan for Area A of the Presidio. The Trust and the NPS will continue to collaborate in ongoing planning efforts that affect Areas A and B. The GMPA will continue to guide the NPS interpretive services, visitor orientation and educational programs throughout the Presidio.

The PTMP reflects many of the GMPA's foundations and builds upon the GMPA while taking into account the Trust's mandate, policies, and approaches, and building in a measure of flexibility not contemplated in the GMPA. PTMP incorporates many adjustments to the original Trust plan, reflecting the substantial comments received during an extensive public participation process.

The PTMP provides an updated policy framework for Area B of the Presidio. However, it is not a detailed development plan; rather, the Plan has been characterized as more of a land use plan for the seven planning districts it established. The 136-page plan is organized into four chapters summarized below.

**I. PRESERVING and ENHANCING PARK RESOURCES**

The Presidio Trust will preserve the integrity of the Presidio National Historic Landmark District, and will give highest priority to actions that carry out the preservation, rehabilitation, and use of historic buildings and landscapes in accordance with *The Secretary of the Interior's Standards for the Treatment of Historic Properties and the Guidelines for Rehabilitating Buildings at the Presidio of San Francisco*. The Trust will ensure public review of any proposed projects that have the potential to adversely affect historic resources. If adverse effects on historic resources cannot be avoided, measures to reduce these effects will be developed. The Trust will also ensure the rehabilitation of planted forests that provide invaluable wildlife habitat, vistas, windbreaks and screening.

The Trust will protect, preserve and evaluate prehistoric and historic resources that have been discovered and collaborate with NPS to manage, maintain, and showcase when available, significant Presidio collections. The Trust will also partner with NPS (with input provided by the U.S. Fish and Wildlife Service (USFWS)) to restore and expand natural processes and functions of its native plant communities through its adopted Vegetation Management Plan (VMP). These projects will increase the amount of contiguous open space, and will occur in areas close to Baker Beach Housing, Tennessee Hollow, and Inspiration Point.

The Trust will manage on-site water resources to protect ground and surface water, natural wetland and riparian habitat, and water supplies for the Presidio community. One project currently underway is the restoration of Tennessee Hollow, which will allow for an integrated system of freshwater streams and freshwater, brackish and tidal marsh, reestablishing a connection to Crissy Marsh. Accordingly, the Trust is committed to ensuring the long-term ecological viability and health of Crissy Marsh, which was recently restored by NPS.

The Trust is committed to increase open space in order to improve the Presidio's natural, scenic and recreational qualities. In doing so, the Trust will create opportunities for visitors and volunteers to participate in the restoration of natural systems through community stewardship, and ensure a seamless network of trails, bikeways and other recreational activities throughout the Presidio. In collaboration with partner organizations, the Trust will also be able to provide park programs and increase public access, thereby creating the conditions for a diverse and thriving community of residents, tenants, and organizations.

## II. PARK LAND USES, TRANSPORTATION, and INFRASTRUCTURE

Approximately 75% of the Presidio's 1,491 acres will be open space, with fewer buildings and less overall building square footage. The Trust plans to reduce building area in Area B by 360,000 square feet or more, notwithstanding the possibility of new construction. The Presidio will continue to accommodate a variety of land uses, including housing, office, and public uses intended to serve park visitors and the Presidio community. The Trust's goal is to use one-third of the available building space to accommodate public use, one-third to accommodate residential uses, and one-third to accommodate office uses.

**Public Use:** The Presidio will become a home to a variety of cultural venues, including museums, artist studios, interpretive sites, and performing arts spaces, among others; cultural use will be largely concentrated in the Crissy Field and Main Post areas. The Presidio will also be home to a variety of educational services, including formal curriculum-based programs for children or adults, or less formal programs offering periodic workshops or tutorials. Preferred locations for educational services are Fort Scott and the Public Health Service Hospital (PHSH). Lodging and other visitor

amenities will also be provided by the Presidio; preferable locations are the Main Post, and Crissy Field.

**Housing:** Residential use is a cost-effective way to preserve buildings and the most reliable long-term source of revenue available to the Trust.

**Existing Supply and Management:** Currently, there are 1,116 conventional dwelling units and 538 group quarters; 80% of dwelling units and over 25% of group quarters are occupied. The Presidio Trust currently gives housing preference to full-time Presidio-based employees and will continue to do so.

**Removal and Replacement:** The Trust will provide for the phased demolition of some clusters of nonhistoric residential buildings. For example, the Baker Beach Housing complex is scheduled for removal over a 30-year period in order to expand open space and restore native plant communities such as the endangered lessingia. Similarly, the Trust will convert and rehabilitate some nonresidential buildings to further residential use. For example, residential use may be the best way to ensure that historic portions of the PHSH are sensitively rehabilitated. For that reason, senior housing or other residential use are preferred for the hospital building.

**Office Use:** Office space offers a cost-effective way to rehabilitate and reuse historic buildings, and is critical to generating revenues for the park. The Main Post, Letterman, and Fort Scott planning districts are the most appropriate locations for office space, but offices could be located elsewhere as well if preferred uses in other districts do not prove feasible.

**Transportation:** The Trust will use environmentally responsible transportation strategies to improve mobility within the park, minimize private automobile use, increase the use and availability of public transit and improve connections to regional transportation systems. For example, the Trust already provides an alternative-fuel internal shuttle service linked to public transit stops.

**Transit Hub and Regional Transit:** The Trust will construct a transit hub in the northern part of the Main Post district, and will work closely with the San Francisco Municipal Railway (MUNI) and Golden Gate Transit to improve transit serving the Presidio.

**Doyle Drive:** The San Francisco County Transportation Authority (SFCTA), Caltrans, and the Federal Highway Administration are currently drafting design and engineering alternatives for Doyle Drive to improve traffic safety and structural stability. The Trust supports long-range safety improvements on Doyle Drive and is actively involved in the planning process.

**Parking Management:** The Trust will develop policies for managing parking supplies and reducing the demand for parking. Examples of policies to consider include charging employees for parking during the workday, and charging residents for parking in excess of one space per housing unit.

**Infrastructure:** The rehabilitation of buildings, the operation of utilities, and the daily maintenance of structures and grounds keep the Presidio running smoothly. As such, the Trust has a capital investment program designed to bring these systems up to current standards so that they may serve new land uses. Safety, efficiency, and long-term sustainability are primary goals of the upgrading and replacement work.

### **III. PLANNING DISTRICTS: CONCEPTS and GUIDELINES**

Planning concepts and guidelines for Area B's seven planning districts (PDs) correspond to the varied characteristics of the districts, and will help guide future land use and implementation decisions; they are closely related to the GMPA.

PD 1, Main Post District: Visitor and Community Center: The Main Post will remain the heart of the Presidio; it will be a focal point for visitor orientation and a community center where people live, work, and enjoy themselves. The Main Post's substantial collection of historic buildings and landscapes will be the backdrop for visitor programs and a setting for businesses, organizations, and Presidio community services. Significant open spaces will be preserved and restored.

PD 2, Crissy Field District: Bay Front Recreation and Cultural Destination: Crissy Field will remain the "front yard" of the Presidio, with uses and improvements that complement the bay front park that the Crissy Field shoreline (Area A) has become. Sensitive site enhancements and visitor-oriented uses can help transform the area south of Mason Street in Area B into a friendly, welcoming place. Important open spaces, historic and natural resources will be protected and their viability ensured. The Trust will collaborate with NPS to ensure that the successful improvements made to Area A are carefully considered and complemented by activities and changes within Area B.

PD 3, Letterman District: Residential and Working Campus: The Letterman district is the most urban of the planning districts. Letterman will continue to be a compact, mixed-use office and residential area with support services, visitor amenities, and transit access. The campus-like environment will be enhanced, and a network of public open spaces, including a new seven-acre park in the eastern part of the district and a restored Tennessee Hollow in the west, will complement the central historic working core. On the eastern edge, a major facility will be the Letterman (Lucas) Digital Arts Center, which is currently under development.

PD 4, Fort Scott District: Contemplative Retreat: The Fort Scott district is relatively isolated, with a tranquil atmosphere, making it conducive to educational pursuits and the exchange of ideas. The Trust is seeking a tenant or a mix of organizations to help rehabilitate and occupy the historic buildings and activate the formal open space. Many of Fort Scott's facilities may be used for conferences and education, and may have a strong residential component, notwithstanding the preservation of the area's historic building and landscapes, however.

PD 5, Public Health Service Hospital District: The historic complex of buildings at the former PHSH will be rehabilitated to accommodate new uses, preferably, educational and residential. Important natural resources, including habitat for rare and unique plant and wildlife species, will be protected and enhanced. Nonhistoric structures may be removed, and replacement construction could be considered in the future.

PD 6, East Housing District: Residential Neighborhood and Nature's Refuge: The East Housing district will remain residential. Clusters of historic housing, sited to fit the hillside and offering easy access to natural features and recreational facilities, will be rehabilitated. Some nonhistoric housing is planned for removal in areas where natural resource restoration would occur along Tennessee Hollow riparian corridors. Open space and forest areas will be preserved to provide wildlife habitat.

PD 7, South Hills District, Outdoor Recreation and Woodland Retreat: The South Hills district will provide a serene, park-like setting. The amount of open space will be increased with the removal of Baker Beach Housing. Remnant natural systems, including Mountain Lake, serpentine grasslands, and other ecosystems will be preserved, expanded and restored. Most of the East and West Washington Boulevard Housing, as well as existing recreational amenities, will remain.

#### **IV. THE PLAN IMPLEMENTATION**

The Presidio Trust's success will be measured largely by the timely rehabilitation and reuse of the Presidio's historic buildings and landscapes, the quality and quantity of open spaces that are created or enhanced, and the extent to which these accomplishments and the park resources they address are understood and enjoyed by park visitors.

The Presidio Trust Act requires that the Trust generate sufficient revenues to support its operations by Fiscal Year 2013, at which time annual federal appropriations will end. Accordingly, consideration for the park's financial welfare is a key element of every Trust decision. Caring for the Presidio will be a costly endeavor and will involve managing a complex set of financial challenges and tradeoffs. Sufficient funds will be needed to pay for day-to-day operations and capital improvements, as well as to provide reserves for the future and cover financing costs.

##### ***Sources of Funds***

Lease Revenues: Residential lease revenues will decrease over time, as housing is removed to allow open space expansion. Nonresidential lease revenues from ground leases and building rents must therefore increase substantially over time to make up for declining appropriations and residential revenues. The Trust has aggressively pursued a program of rehabilitation and leasing of residential and nonresidential buildings. However, the amount of revenues generated as a result of leasing will depend on the

amount of space that is leased and the rental rate. These factors themselves will depend on the condition of the building in question and on the building's relative market value.

**Congressional Appropriations:** Since 1999, the Trust has received a total of approximately \$62.3 million in U.S. congressional appropriations; they have been used to fund 30% of operational costs and 43% of capital expenditures since that time. The 1998 Financial Management Program provides a schedule of annually decreasing appropriations necessary for the 2013 financial mandate; the level of investment delineated in this schedule is critical to achieving a continuous break-even status after 2013. Although the Trust assumes Congress will appropriate the planned amount, this is neither preestablished nor guaranteed. If given sufficient investment in the early years, and if planned rental income is achieved, the Trust should achieve financial self-sufficiency in 2013 and require no subsequent appropriations.

**Treasury Borrowing:** The need for capital investment by the Trust has remained critical to prepare facilities for leasing and to upgrade infrastructure. Congress has recently passed legislation that will increase the amount the Trust can borrow to \$150 million (formally \$50 million). However, Congress required that these additional funds be appropriated in the annual budget cycle; to date, none of these funds has been appropriated. Thus, similar to the Trust's annual appropriations, these additional funds are not guaranteed.

**Investment of Nonfederal Funds:** The Trust will augment the limited funds that can be borrowed from Treasury by encouraging the investment of private funds in the rehabilitation of Presidio resources. The Trust will foster this type of investment by offering loan guarantees and encouraging the use of historic tax credits. However, this approach will be used strategically because tenants who provide their own capital to rehabilitate buildings generally require rent reductions to amortize the capital expenditures.

**Grants and Philanthropic Gifts:** The availability of philanthropic grants and gifts is more difficult to predict because the sources are mostly outside of the Trust's control. The Trust may seek grants and donations to fund special public projects, open space enhancements, and programs. Thus, philanthropy will help enhance the quality and quantity of programs at the Presidio.

***Financing Strategy:*** Carrying out PTMP will require the Trust to manage changes in the level and sources of revenue, timing of cash flow, market conditions, leasing risks, and incentives, and cost controls. The long-term future of the park depends on the Trust's ability to balance these financial factors.

***Public Involvement in Future Planning and Decision Making:*** The nature of PTMP necessitates that more specific planning be undertaken in the future, and that further public input and environmental analysis be completed before specific project or program implementation decisions are made.

***Partnership with the National Park Service:*** The 1996 Presidio Trust Act sets forth the statutory framework for the relationship between NPS and the Trust. Specifically, “in cooperation with the Trust,” NPS is responsible “for providing public interpretive services, visitor orientation, and educational programs on all lands within the Presidio.” Beyond this specific statutory role, the two agencies will continue to collaborate on natural resources activities, collections management, special events, public safety, and transportation and parking issues. When appropriate, the Trust and NPS will enter into written agreements to help define overall goals and objectives, roles and responsibilities, decision-making processes, and financial obligations of both parties in collaborative projects.

***Tenant Diversity and Tenant Selection:*** The Trust is committed to retaining a diverse tenant mix, and will not limit the potential tenant pool to those of a particular business structure or purpose. The Trust may encourage master tenants, as part of their contribution to the park, to sub-lease to desired organizations. The Trust may also seek partnerships with philanthropic organizations to support organizations not fully capable of paying market-rate rents. Presidio tenants will be selected on the basis of the following criteria:

- Demonstrated ability to enhance the Presidio’s financial viability and/or rehabilitate and reuse historic buildings, thus contributing directly to the Trust’s primary goal of resource protection
- Responsiveness to the General Objectives of the GMPA and contribution to the visitor experience
- Compatibility with the planning principles and preferred uses articulated in this Plan

***Monitoring and Amending the Plan:*** The Trust will assess the Plan’s effectiveness on an ongoing basis as individual projects are implemented. Effectiveness will be monitored by tracking progress in meeting quantitative goals such as planned overall reduction in building square footage and increase in open space, and by assessing conformance with qualitative standards such as tenant diversity and planning district design guidelines.

At times, planning proposals may be considered that are not consistent with this Plan. These proposals will be fully reviewed and considered under the National Environmental Policy Act (NEPA). The final decision on the proposal may constitute a Plan amendment and will be informed by the NEPA public review process for the proposal. Any decisions to amend the Plan will be adopted by resolution of the Presidio Trust Board.





## REVIEW OF ECONOMIC SIMULATION RESULTS

Academy staff used a modified version of the Presidio Trust financial forecasting model to examine the effect of alternate economic scenarios and policy assumptions on the Trust's long-term financial viability. As described in chapter 4, modifications made to the Trust's financial forecasting model<sup>1</sup> included:

- Accumulating the annual estimated net cash surplus over time;
- Providing the model with an ability to explicitly account for cost and revenue increases from price inflation;
- Straightlining operating costs from FY 2004 through 2020, to make them consistent with other cost and revenue estimates in the model, all of which are unaffected by rates of inflation; and
- Applying an assumed rate of inflation that would affect revenues and costs beginning in FY 2005, to create consistent current dollar projections<sup>2</sup>.

In October, Trust staff shared with Academy staff its re-estimated long-range projections that reflected September Board decisions to increase Trust operating costs by about \$1.9 million for FY 2004. Also, in 2004 only, interest costs were below the March projection due to delays in obligating the proceeds of the Trust's borrowing from the Treasury. In November, Trust staff informed the Academy that a five year, renewable lease with the Sports Basement, yielding about \$1 million per year in additional lease revenues had been signed. These changes were incorporated into the Academy staff's modified model.

The specific alternate scenarios reflect the impact of the major financial risks and challenges confronting the Trust, including:

- Delayed recovery from current Bay area economic conditions, particularly the decline in the commercial rental market;
- Adverse effects from potential economic cyclical declines over the next 10-20 years;
- Higher rehabilitation costs than the current \$589 million estimate, particularly for delayed or deferred projects;
- Inability to control operating costs, especially law enforcement, public safety and other non-discretionary expenditures; and

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<sup>1</sup> This version of the financial forecasting model was the one used by the Presidio Trust from March–August, 2003.

<sup>2</sup> Academy staff used 2.3% as the long-term rate of inflation, the same rate assumed for the Midsession Review of the Budget of the United States for FY 2004.

- Changes in inflation and other external economic factors that affect future revenues and expenditures.

### Control Variables in the Model

While some of these adverse scenarios directly affect the Trust's financial forecasts (e.g. increases in capital or operating costs), others must be estimated using proxy variables that reflect the expected impacts under the scenario. For example, a delayed economic recovery in the Bay area economy could affect the Trust's financial forecast by reducing rent levels and/or increasing vacancy rates, or both, for the Trust's residential and nonresidential properties. Since a delayed recovery or another economic decline in the future can affect residential and nonresidential rent levels and vacancy rates differently, these parameters must be measured or controlled separately in the model to assess the independent impact of each potential change.

The modified model uses a number of individual control variables to estimate the potential impact of each proxy variable separately and in various combinations. These control variables allow the user to specify the expected change for any particular variable and identify the sensitivity of the Trust's financial forecast to that change. The principal control variables are shown in Table F-1.

**Table F-1**  
**Control Variables in the Modified Model**

|     | <b>Control Variable</b>  |
|-----|--|
| 1.  | Nonresidential vacancy rate  |
| 2.  | Residential vacancy rate   |
| 3.  | Residential rent discount factor   |
| 4.  | Nonresidential rent discount factor  |
| 5.  | Sustained dollar increase in operating costs   |
| 6.  | Inflation rate applied to investment costs   |
| 7.  | Inflation rate applied to operating costs  |
| 8.  | Inflation rate applied to residential income   |
| 9.  | Inflation rate applied to nonresidential income  |
| 10. | Inflation rate applied to the rental income from Master Developer projects for the year those projects are completed |
| 11. | SDC per square foot commercial space   |
| 12. | Inflation rate applied to SDC  |

Several of the alternative economic scenarios of risks for the Trust's long-term financial outlook involve changes in one or more of the control variables. The potential impact of each scenario depends on the sensitivity of the Trust's financial forecast to a change in each control variable, the size of the expected change for each variable, the number of control variables expected to change, and any interaction among those control variables that change.

The control variables are assumed to change in 2004 and remain at that level for the entire forecast period. In effect they represent permanent shifts, rather than cyclical movements. While the model could permit the latter, it would require increased structural complexity. If the model were to use economic shocks of shorter duration to approximate housing and economic cycles, the result would be that some of the variables discussed below could have larger values before the Trust was forced to use up all available cash resources.

### Comparison of Baseline Projections

Academy staff have shared the modified model with Trust staff and have jointly reviewed baseline projections using the Trust and the modified models. Since the modified model uses the same assumptions about the timing and selection of future capital projects, the same expected completion rent-up dates, the same phase-out schedule for appropriations, and the same debt service schedule, the major difference between the Trust and the Academy-modified forecasts of projected cash balances reflects the impact of inflation. The only other significant difference between the two is the Trust model's assumed operating cost reductions in 2013 and 2020. Trust staff assume that operating costs will be cut from \$40.8 million in 2012 to \$37.5 million in 2013 and will remain at that reduced level until 2020 when operating costs are again cut another \$3 million to \$34.5 million.

Table F-2 shows the cash balances for selected years over the forecast period for the baseline projections, under an assumed zero % inflation rate and an assumed inflation rate of 2.3%. Both of these projections are based on the Academy-modified model, which assumes that operating costs before inflation are straightlined at the 2004 levels.

**Table F-2**  
**Baseline Projections of Accumulated Cash Reserves**  
**(\$ 000)**

|                       | <b>2004</b> | <b>2005</b> | <b>2012</b> | <b>2013</b> | <b>2020</b> |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| <b>0% Inflation</b>   | \$5,412     | \$8,354     | \$35,871    | \$37,120    | \$46,023    |
| <b>2.3% Inflation</b> | \$5,412     | \$8,022     | \$24,248    | \$25,985    | \$43,863    |

### Simulation Results

Table F-3 summarizes the sensitivity analysis conducted by Academy staff using the modified model. Each of these simulations is discussed in more detail below. For each scenario, the data in Table F-3 indicate the projected value of accumulated cash reserves for selected years given the assumed change in the tested variable. The top row in Table F-3 shows the projected value of accumulated cash reserves for the Trust under the modified model's baseline projection. To remain financially viable, the projected accumulated cash reserves for the Trust must remain positive in every year of the projection period—i.e., through 2020. Thus, these baseline cash

reserves indicate the projected Trust financial cushion available to absorb the estimated financial impact from specific adverse economic scenarios.

For the first seven scenarios in Table F-3, the control value shows the maximum change in each tested control variable that can be absorbed by the projected cash reserve over the entire period. A small value indicates that the Trust's financial outlook is highly sensitive to changes in that variable. Thus, when only one control variable changes, the Trust's financial outlook is most sensitive to a change in operating costs and least sensitive to a change in vacancy rates for nonresidential properties.

Table F-3  
Model Estimates of the Effects of Alternate Economic Scenarios

| Scenario                                       | Control Value | Accumulated Cash Reserves (\$000) |          |          |          |
|--|---------------|-----------------------------------|----------|----------|----------|
|  |               | 2003                              | 2012     | 2013     | 2020     |
| <b>0. Baseline</b>                             | NA            | \$2,471                           | \$24,248 | \$25,985 | \$43,863 |
| <b>1. Incr. Non. Res. Vacancy Rates</b>        | 50.00%        | 2,471                             | 11,452   | 9,706    | 2        |
| <b>2. Incr. Resid. Vacancy Rates</b>           | 13.02%        | 2,471                             | 4,150    | 3,236    | 54       |
| <b>3. Reduced Residential Rents</b>            | 8.02%         | 2,471                             | 4,150    | 3,236    | 54       |
| <b>4. Reduced Non Residential Rents</b>        | 12.77%        | 2,471                             | 7,141    | 5,830    | 20       |
| <b>5. Higher Operating Costs—Non Inflation</b> | \$2.25M       | 2,471                             | 4,306    | 3,285    | 0        |
| <b>6. Higher Invest. Costs – Inflation</b>     | 3.53%         | 2,471                             | 10,247   | 9,656    | 109      |
| <b>7. Higher Operating Costs - Inflation</b>   | 2.94%         | 2,471                             | 14,252   | 13,265   | 320      |
| <b>8. General Inflation</b>                    | 6.38%         | 2,471                             | 32       | 2,737    | 41,573   |
| <b>9. Increased Vacancies, Reduced Rents</b>   | NA            | 2,471                             | 4,477    | 3,288    | -1,949   |

The last two scenarios in Table F-3 involve simultaneous changes in different control variables. These table entries present the combined impact of those changes.

**1 - 4. Delayed recovery from current Bay area economic conditions, and adverse effects from potential economic cyclical declines over the next 10-20 years.** The model was used to simulate higher vacancy rates and reduced rents. Table F-4 shows the estimated impact from changing each of these control variables one at a time.

**Table F-4**  
**Effects of Simulating Higher Vacancy Rates and Reduced Rents**

|   |  |
|---|--|
| 1. Higher Non Residential Vacancy Rates | With no changes to the model's other assumptions, nonresidential vacancy rates, not including master developer properties, could be as high as 50.00% over the entire forecast period, before accumulated cash reserves would be depleted.                   |
| 2. Higher Residential Vacancy Rates     | With no changes to the model's other assumptions, if residential vacancy rates were higher than 13.02% over the entire forecast period, accumulated cash reserves under the baseline projection would gradually disappear by the end of the forecast period. |
| 3. Lower Residential Rents              | With no changes to the model's other assumptions, if economic conditions worsened, declines in residential rental income of up to 8.02% could be tolerated over the entire forecast period without accumulated cash becoming negative.                       |
| 4. Lower Non Residential Rents          | With no changes to the model's other assumptions, if economic conditions worsened, declines in nonresidential rental income of up to 12.77% could be tolerated over the entire forecast period without the accumulated cash reserve becoming negative.       |

The Trust's accumulated cash balances are more sensitive to changes in residential vacancy rates and rental income levels than comparable nonresidential changes. This reflects the larger amount of Trust revenues currently generated by residential properties. Over time, as nonresidential income becomes a larger proportion of total Trust revenues, the sensitivity of cash balances to nonresidential rental income and vacancy rates would be expected to increase.

To provide some perspective on these individual sensitivity estimates, the Trust's nonresidential rent income declined 21 percent between the second quarter of 2002 and the second quarter of 2003. Likewise, average rents for the Trust's residential units declined about 11 percent from their 2001 peak to the second quarter of 2003. The Trust's residential vacancy rates increased from 3.9% in the first quarter of 2000 to 11.6% in the second quarter of 2002 before declining to 4.8% in the second quarter of 2003. While these individual sensitivities do not exceed the Trust's actual experience during the recent, substantial decline in the San Francisco real estate markets, the combined scenario discussed below more accurately reflects the impact of another cyclical market decline.

**5. Higher operating costs (non inflation).** This scenario reflects unanticipated, sustained increases in operating costs. If these were to increase by \$2.24 million, or about 5%, accumulated cash reserves would be depleted by 2020.

**6. Higher investment costs (inflation).** With no other changes to the model's assumptions, if the costs of rehabilitating properties were to increase annually by more than 1.23 percentage points above the base rate of inflation (2.3%), due to rising labor or other costs (e.g., more rapid deterioration than expected in remaining building conditions), accumulated cash reserves would become negative during the forecast period. All projections are very sensitive to changes to these costs, as well as to changes in operating costs, because these inflationary cost increases compound over time. Small changes in the rates have very large consequences, especially in the out-years.

**7. Higher operating costs (inflation).** With no other changes to the model's assumptions, if operating costs were to increase annually by more than 0.64 percentage points above the base rate of inflation annually due to rising labor costs or other factors, accumulated cash reserves in the Trust's baseline projection would become negative during the forecast period. Operating costs are very sensitive to changing price levels, and this will have a strong impact on the financial position of the Presidio Trust. This sensitivity means that the Trust must watch both changing rates of inflation and changes in individual operating cost components, which can have large out year impacts.

**8-9. Combined Impacts.** The previous discussion focused on the maximum adverse impact that individual changes alone would have on the long-term financial viability of the Trust. However, it is likely that the Trust will face more than one of these challenges or risks at any one time. Generally, scenarios that combine the effects of several challenges or risks emerging at the same time will need to be examined, such as those illustrated below.

**8. General Inflation.** If an inflation rate of 6.38% per year (4.08 percentage points above baseline) were to simultaneously affect residential rental income, nonresidential income, initial Master Developer rental income, SDC receipts, investment costs, and operating costs, revenues would decline in FY 2009-2012 but then steadily increase until 2020, when residential revenues would decline due to Baker Beach apartment demolition. The FY 2009-2012 negative annual cash flows cause the Trust's projected accumulated cash balances to decrease to \$32 thousand by FY 2012. Beginning in FY 2012 annual net cash flows are positive and growing, and by the start of FY 2020, accumulated cash balances increase to \$41.6 million.

The negative impact of higher inflation during the 2004—2012 period reflects the fact that more of the Trust's total costs are subject to inflation than total revenues. During that period revenues include federal appropriations, which are not affected by changes in inflation. Even though the appropriation is assumed to decline from \$20.7 million to \$15.7 million between 2004 and 2012, it is larger than the debt service cost component that is also unaffected by inflation. The latter remains a constant \$4.3 million until FY 2015, when repayments of loan principal begins. The recovery in the Trust's projected cash balance after 2012 is in part due to the ending of appropriations and new rentals of

rehabilitated properties completed during the period, both of which increase the sensitivity of Trust revenues to inflation.

**9. A new downturn in the rental market.** If the general rate of inflation remains at 2.30%, but residential and non residential rents fall relative to their baseline values by 3.0% while residential and nonresidential vacancy rates increase by 3% above baseline, accumulated cash reserves would fall to \$878.7 thousand by 2019 and then fall further to -\$1,949 in 2020. This last decline is due to reduced rental income, as additional Baker Beach apartments are torn down.

Under this combined scenario, the declines in rental income and increases in vacancy rates are well within the levels experienced by the Trust during the most recent San Francisco real estate market decline. This combined scenario reflects a steady state change, whereas the San Francisco real estate market is more volatile and cyclical. However, a smaller permanent reduction can approximate the net effect of several more severe but temporary declines over a 20-year period.

The scope of the project did not permit Academy staff to undertake a comprehensive dynamic stress test for the combined scenarios potentially facing the Trust. This is best undertaken by or in close cooperation with Trust staff, as their day to day working experience provides them the information and experience to systematically assess the likelihood of various events. Testing and modeling for uncertain events requires not only the ability to examine multiple scenarios but also expert judgment about the probabilities of each. For example, judgment is needed to assign a probability to the variables affected by another potential decline in the San Francisco real estate markets over the next 10 years. However, even where the probabilities themselves are speculative or intuitive, statistical or other estimation techniques<sup>3</sup> can be used to transform expert judgments into statistical distributions.

---

<sup>3</sup> For example, PERT methods, originally developed by the Navy for scheduling large projects, rely on beta distributions to quantify subjective expert assessments of the likelihood of events. See Kerzner, Harold, Ph.D., *Project Management: A Systems Approach to Planning, Scheduling, and Controlling*. New York: Van Nostrand Reinhold, 1998, pp. 660-662.





# **Vision and Scope Document**

**for**

## **The Presidio Trust**

# **Financial Forecasting Model**

**Version 4.0**

**Text Examples Prepared for the Presidio Trust by Harry G. Meyers**

**National Academy of Public Administration**

**Template Written by Karl E. Wieggers, Process Impact,**

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**September 30, 2003**

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## **Revision History**

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|             |             |                           |                |
|             |             |                           |                |

# **1. Business Requirements**

*<The business requirements provide the foundation and reference for all detailed requirements development. You may gather business requirements from the customer or development organization's senior management, an executive sponsor, a project visionary, product management, the marketing department, or other individuals who have a clear sense of why the project is being undertaken and the ultimate value it will provide, both to the business and to customers.>*

## **1.1. Background**

*<This section summarizes the rationale for the new product. Provide a general description of the history or situation that leads to the recognition that this product should be built. **Example:**>*

The Presidio Trust is a Federal government corporation entrusted with the stewardship of 1,168 acres in the Presidio, a National Historic Landmark at the center of the Golden Gate National Recreation area. The Trust's mandate is to preserve the cultural and historic integrity of the Presidio for public use, manage the significant natural, historic, scenic, cultural, and recreational resources, and protect them from development and uses which would destroy the scenic beauty and historic and natural character of the area and its cultural and recreational resources.

To do so it has been given the authority to lease property to generate the revenues to operate the park and undertake the necessary capital improvements. The Trust has been provided with budgetary, personnel, procurement, and financial authorities that greatly increase its flexibility, and in addition it will receive appropriations from the Congress through Fiscal Year 2012. Beginning in 2013 the Trust is required to be financially self-sufficient, and no further appropriations are authorized.

From the beginning it has been necessary to forecast receipts and expenditures to assess how best to meet the self-sufficiency requirement. The models developed for these forecasts have also given the Trust some ability to simulate and assess the financial impact of alternative policies and land use-strategies. However, they were developed to meet specific needs, such as comparing land use alternatives, and have been improved without specific guidance from primary users. As a consequence they are limited in their ability to meet the current needs of the Trust.

## **1.2. Business Opportunity**

*<Describe the market opportunity that exists or the business problem that is being solved. Describe the market in which a commercial product will be competing or the environment in which an information system will be used. This may include a brief comparative evaluation of existing products and potential solutions, indicating why the proposed product is attractive. Identify the problems that cannot currently be solved without the product, and how the product fits in with market trends or corporate strategic directions. **Example:**>*

Projected self-sufficiency is an important current performance measure for the Presidio Trust. Changes to current operating expenses and scheduled capital improvements can have important impacts on cash flow and financial viability. The existing model can project cash flow well, but it has a limited ability to simulate financial and policy alternatives, and is difficult to explain.

There is growing interest in the Congress and other Presidio Trust stakeholders, including the National Park Service and park preservation and support groups, as to how and how well the Trust will meet its self-sufficiency requirement and the potential impacts of policy alternatives. There have been questions raised about the modeling methodology, and there is likely to be closer scrutiny when the General Accounting Office prepares its second statutory review of the Presidio Trust in FY 2005.

During the past five years, the Presidio Trust's residential real estate operations have matured and its commercial real estate operations are growing. There now exists good data and historical experience for the Presidio Trust that can serve as the basis for an improved modeling and forecasting capability.

### 1.3. Business Objectives and Success Criteria

*<Describe the important business objectives of the product in a way that is quantitative and measurable. The value provided to customers is described in section 1.4, so this section should focus on the value provided to the business. This could include estimates of revenue or cost savings, return on investment analysis, or target release dates. Determine how success will be defined and measured on this project, and describe the factors that are likely to have the greatest impact on achieving that success. Include things within the direct control of the organization, as well as external factors. Establish measurable criteria to assess whether the business objectives have been met. Example:>*

BO-1: Have a new forecasting model in place within six months.

BO-2: Use the model to price out policy alternatives for the Board within nine months.

BO-3: Use the model to provide background for the FY 2005 budget request to OMB and the Congress.

SC-1: Have the model approved by the General Accounting Office in 2005.

SC-2: Forecast financial outcomes that average at least 95 percent of actuals for the first year of the forecast.

SC-3: Forecast financial outcomes that average at least 80 percent of actuals for the first five years of the forecast.

### 1.4. Customer or Market Needs

*<Describe the needs of typical customers or market segments, including needs that are not yet met by the marketplace or by existing systems. You may wish to describe problems customers currently encounter that the new product will (or will not) address and how the product would be used by customers. Identify the customer hardware and software environment in which the product must operate. Define at a high level any known critical interface or performance requirements. Avoid including any design or implementation details. Present the requirements in a numbered list so that more detailed user or functional requirements can be traced to them. Example:>*

**Example:>**

CN-1: An unambiguous measure of financial performance that is directly and closely related to the long term financial self-sufficiency of the Presidio Trust .

CN-2: The ability to assess the financial impact of policy alternatives in terms of how they affect the measure of financial performance over time.

CN-3: Improved usability – allow scenario manipulation by senior management with limited technical skills with less than 1 hour of training.

- CN-4: A formal modeling structure that lays out all key assumptions and their sensitivities.
- CN-5: The ability to incorporate and deal with volatility of key assumptions and its impact on forecasts.
- CN-6: The ability to update the model easily as the external environment or assumptions change.
- CN-7: The ability to tap into existing data bases to obtain needed information at little additional cost.

## **1.5. Business Risks**

*<Summarize the major business risks associated with developing this product, such as marketplace competition, timing issues, user acceptance, implementation issues, or possible negative impacts on the business. Estimate the severity of the risks and identify any risk mitigation actions that could be taken. **Example:**>*

- R-1: If the model shows financial health, appropriations may decline at a faster rate than planned for. Likelihood is high.

Mitigation strategy: The model should be able to show the consequences of any declines in appropriations below request, with respect to cash flow and ultimate financial viability.

- R-2: If the model shows reserves set aside for contingencies and for depreciation, these may be taken by OMB or the Congress during the budget/appropriations process, or appropriations may decline at a faster rate than planned for. Likelihood is high.

Mitigation strategy: Reserves need to be conservative and reflect historical experience. The model should be able to show the consequences of the losses of these resources or any other appropriations below request, with respect to cash flow and ultimate financial viability.

- R-3: If the model shows significant fiscal health, groups may use the model's forecasts to advance their agendas for reducing development and increasing green space. Likelihood is moderate to high.

Mitigation strategy: The model should be able to show the consequences of the losses of resources due to reduced development, with respect to cash flow and ultimate financial viability.

- R-4: Having a publicly available documentation of critical assumptions and model structure may result in second-guessing by those disagreeing with Board policies. Likelihood is low to moderate.

Mitigation strategy: None.

## **2. Vision of the Solution**

*<This section establishes a long-term vision for the system to be built to address the business objectives. This vision will provide the context for making decisions throughout the course of the product development life cycle. The vision should not include detailed functional requirements or project planning information. >*

## 2.1. Vision Statement

*<Write a concise vision statement that summarizes the purpose and intent of the new product and describes what the world will be like when it includes the product. The vision statement should reflect a balanced view that will satisfy the needs of diverse customers as well as those of the developing organization. It may be somewhat idealistic, but it should be grounded in the realities of existing or anticipated customer markets, enterprise architectures, organizational strategic directions, and cost and resource limitations. **Example:** >*

The Presidio Trust Financial Planning and Forecasting Model will meet the needs of the Board, senior management, the Congress and the public with an improved method of projecting Presidio Trust receipts and expenditures over an extended planning period. It will clearly show all key variables and assumptions, facilitate to a greater extent the comparison of financial impacts of proposed policy alternatives, make it easier to identify and test alternative assumptions, use existing data bases seamlessly, and be fully documented.

## 2.2. Major Features

*<Include a numbered list of the major features of the new product, emphasizing those features that distinguish it from previous or competing products. Specific user requirements and functional requirements may be traced back to these features. **Example:**>*

- F-1: Uses an unambiguous and clearly defined target variable that is a strong proxy for financial strength and long term self-sufficiency.
- F-2: Has the ability to compare alternate scenarios against a baseline for each year in the forecast period.
- F-3: Has a user interface that separates model assumptions, input data, and model output, and that presents results clearly and understandably.
- F-4: Incorporates volatility of parameters and estimates of key variables into its forecasts.
- F-5: Lists key variables whose values are internally determined by the model in response to changing assumptions and values of externally determined variables and parameters, e.g., amount of property or non-property park investment that will be undertaken in a particular year.
- F-6: Lists externally determined variables and parameters, e.g., current comparable rents, current area vacancy rates.
- F-7: Lists key assumptions, their definitions, and the sensitivity of the target value to small changes in their values, e.g., area economic growth rates, population growth, income growth, household formation, and inflation rates.
- F-8: Is PC-based and self-contained, including all necessary datasets.
- F-9: Permits ready exporting of data and forecasts to Excel.
- F-10: Uses real estate and other data from residential and commercial Presidio Trust real estate, planning and other databases. Modifies data internally as needed.
- F-11: Uses approved division planning and budget numbers as input.
- F-12: Maintains and protects tenant proprietary information.

## 2.3. Assumptions and Dependencies

*<Record any assumptions that were made when conceiving the project and writing this vision and scope document. Note any major dependencies the project must rely upon for success, such as specific technologies, third-party vendors, development partners, or other business relationships. **Example:**>*

- A-1: Most model data exist in operating databases that permit easy extraction and use.

### 3. Scope and Limitations

*<The project scope defines the concept and range of the proposed solution. It's also important to define what will not be included in the product. Clarifying the scope and limitations helps to establish realistic expectations of the many stakeholders. It also provides a reference frame against which proposed features and requirements changes can be evaluated. Proposed requirements that are out of scope for the envisioned product must be rejected, unless they are so beneficial that the scope should be enlarged to accommodate them (with accompanying changes in budget, schedule, and/or resources). >*

#### 3.1. Scope of Initial and Subsequent Releases

*<Describe the intended major features that will be included in the initial release of the product. Consider the benefits the product is intended to bring to the various customer communities, and generally describe the product features and quality characteristics that will enable it to provide those benefits. Avoid the temptation to include every possible feature that any potential customer category might conceivably want some day. Focus on those features and product characteristics that will provide the most value, at the most acceptable development cost, to the broadest community. **Example:**>*

Major features F-1- F-3 and through F-5 through F-10 will be implemented in the initial release. The volatility feature, F-4, and the security feature, F-11, will be implemented within the following six months and will be fully functional by the time the General Accounting Office begins its FY 2005 review of Presidio operations.

#### 3.2. Limitations and Exclusions

*<Identify any product features or characteristics that a stakeholder might anticipate, but which are not planned to be included in the new product. **Example:**>*

- L-1: Although the model will utilize budget information, including requested or assumed appropriations, it will not be a formal budget model, since it may make changes to the data based on alternate assumptions and the model's internal rules.
- L-2: Much of the internal detail will not be available to the public in a form that allows them to identify individual tenants. Until an adequate masking algorithm is developed (See feature F-11), certain stakeholders will only be permitted to see summary information.

### 4. Business Context

*<This section summarizes some of the business issues around the project, including profiles of major customer categories, assumptions that went into the project concept, and the management priorities for the project. >*

#### 4.1. Stakeholder Profiles

*<Stakeholders are individuals, groups, or organizations that are actively involved in a project, are affected by its outcome, or can influence its outcome. The stakeholder profiles identify the customers for this product and other stakeholders, and states their major interests in the product. Characterize business-level customers, target market segments, and different user classes, to reduce the likelihood of unexpected requirements surfacing later that cannot be accommodated because of schedule or scope constraints. For each stakeholder category, the*



profile includes the major value or benefits they will receive from the product, their likely attitudes toward the product, major features and characteristics of interest, and any known constraints that must be accommodated. Examples of stakeholder value include:

- improved productivity
- reduced rework
- cost savings
- streamlined business processes
- automation of previously manual tasks
- ability to perform entirely new tasks or functions
- conformance to current standards or regulations
- improved usability or reduced frustration level compared to current applications

**Example:->**

| <b>Stakeholder</b>           | <b>Major Value of Model</b>  | <b>Their Attitude Towards Model</b>                                  | <b>Major Features of Interest to Them</b>   | <b>Constraints</b>                          |
|------------------------------|--|--|---|---|
| Board                        | Increased ability to assess alternatives   | Will use it without getting into the details.                        | Ability to identify cost savings and enhancements and assess Trust's viability  | Must build model within existing resources. |
| Senior Management            | Improved usability, can use to simulate alternate strategies                       | Highly receptive. Will use it extensively but not be hands-on.       | Ability to assess alternatives, test assumptions, scope out proposals for the Board.                                  | None identified.                            |
| CFO                          | Help set budget priorities, integrate budget and database information.             | The product champion and principal user.                             | Ability to assess alternatives, test assumptions, scope out proposals for the Board, identify principal cost drivers. | Limited budget for modeling                 |
| Business Operations Director | Manages model project and oversees developer                                       | Strong supporter   | Structure, operation, maintenance, ability to deliver rapid turnaround.   | Limited budget for modeling                 |
| Congress/ OMB                | Performance measure of viability after appropriations end.                         | Would like good forecasts as early warnings. Not likely to be users. | Model, like financials, is a means of knowing that the Trust is carrying out its mission.                             | None identified.                            |
| National Park Service        | To see how the Presidio Trust is meeting its mandate to become financially viable. | Not concerned.   | Affected by the outcome and alternatives identified by the model users.   | None identified                             |

|                  |   |  |   |                  |
|------------------|---|--|---|------------------|
| Private Tenants  | To assess the likelihood of continued viability and maintenance of Park infrastructure  | Not currently involved   | Forecasts of viability, cash flow and reserves show the desirability to the Presidio as a location.   | None identified. |
| Community Groups | To see how the Presidio Trust is meeting its mandate to become financially viable, and to see how much resources are available for other objectives | See it as a means of justifying Trust Policies. Need to be sure that it is clear and fair. | Forecasts of viability, cash flow and reserves can be used to identify opportunities for less new construction, more green space, and more public programs. | None identified. |

### 4.2. Project Priorities

<Describe the priorities among the project’s requirements, schedule, and budget. For more information, see chapter 2 of *Creating a Software Engineering Culture* by Karl E. Wiegers (Dorset House, 1996). **Example:**>

- P-1: Must be completed by May, 2004 (in time for the FY 2005 budget cycle.)
- P-2: Initial release must include features F-1, F-2, and F3. It should include as many of features F4-F11 as is feasible.
- P-3: Features F4-F11 all must be included in the follow-up release (In time for the GAO review.)
- P-4: Model must be done within existing budget (Finance and Business Management division).

### 4.3. Operating Environment

<Describe the environment in which the system will be used and define the major availability, reliability, performance, and integrity requirements. This information will significantly influence the definition of the system’s architecture. Consider questions such as:

- Are the users widely distributed geographically or located close to each other? How many time zones are they in?
- When do the users in various locations need to access the system?
- Where is the data generated and used? How far apart are these locations? Does the data from multiple locations need to be combined?
- Are specific maximum response times known for accessing data that might be stored remotely?
- Can the users tolerate service interruptions or is continuous access to the system critical for the operation of their business?
- What access security controls and data protection requirements are needed? **Example:**>

The model, including all supporting data, will be relatively small and self-contained, and is expected to comfortably fit on a CD. It will not require any specific programs, except those commonly available on a Windows-based business workstation.

This release contemplates two primary Presidio Trust users and a developer/user. The primary Presidio Trust internal users include the Chief Financial Officer and the Business Operations director. The developer/user is expected to be a contractor.

Use of the model will be restricted to protect the confidentiality of tenants and their sensitive or proprietary information.

*Vision and Scope for Presidio Trust Financial Forecasting Model*

# **Software Requirements Specification**

**for**

## **The Presidio Trust**

# **Financial Forecasting Model**

**Version 4.0**

**Example Text Prepared for the Presidio Trust by Harry G. Meyers**

**National Academy of Public Administration**

**Template Written by Karl E. Wiegers, Process Impact**

[http://www.processimpact.com/process\\_assets/srs\\_template.doc](http://www.processimpact.com/process_assets/srs_template.doc)

**September 30, 2003**

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# 1. Introduction

## 1.1. Purpose

*<Identify the product whose software requirements are specified in this document, including the revision or release number. Describe the scope of the product that is covered by this SRS, particularly if this SRS describes only part of the system or a single subsystem. **Example:**>*

This Software Requirements Specification (SRS) describes the operational, external interface, and other system requirements for the Presidio Trust Financial Forecasting Model (FFM), Version 4.0. This document is intended as a guide for the development and verification of the model, for its subsequent documentation, and for review by the General Accounting Office and others who need to understand how the model works in detail. Unless otherwise noted, all requirements are high priority for Version 4.0.

## 1.2. Project Scope and Product Features

*<Provide a short description of the software being specified and its purpose, including relevant benefits, objectives, and goals. Relate the software to corporate goals or business strategies. If a separate vision and scope document is available, refer to it rather than duplicating its contents here. An SRS that specifies the next release of an evolving product should contain its own scope statement as a subset of the long-term strategic product vision. **Example:**>*

The Presidio Trust Financial Forecasting Model will enhance the ability of the Presidio Trust to project receipts and expenditures over an extended period and to simulate a broad range of alternative scenarios. A detailed project description is found in Vision and Scope Document for the Presidio Trust Financial Forecasting Model [1]. Section 3.1 in that document, Scope of Initial and Subsequent Releases (page 4), lists the features scheduled for full or partial implemental implementation in this version.

## 1.3. References

*<List any other documents or Web addresses to which this SRS refers. These may include user interface style guides, contracts, standards, system requirements specifications, use case documents, or a vision and scope document. Provide enough information so that the reader could access a copy of each reference, including title, author, version number, date, and source or location. **Example:**>*

- [1] Meyers, Harry, Vision and Scope Document for the Presidio Trust Financial Forecasting Model
- [2] Meyers, Harry, Use Cases for the Presidio Trust Financial Forecasting Model
- [3] Wiegers, Karl, Software Requirements, Second Edition, Redmond, Washington, Microsoft Press, 2003.,
- [4] Wiegers, Karl, website at <http://www.processimpact.com/index.shtml>

## 2. Overall Description

### 2.1. Product Perspective

*<Describe the context and origin of the product being specified in this SRS. For example, state whether this product is a follow-on member of a product family, a replacement for certain existing systems, or a new, self-contained product. If the SRS defines a component of a larger system, relate the requirements of the larger system to the functionality of this software and identify interfaces between the two. A simple diagram that shows the major components of the overall system, subsystem interconnections, and external interfaces can be helpful. **Example:**>*

The Financial Forecasting Model is a refinement and formalization of earlier spreadsheet models. It will extend those models by providing a clear set of user-controlled input variables in one location, a consistent and clear output structure that readily permits comparisons of alternative scenarios, and an enhanced ability of users to identify and test alternative scenarios. It will project future financial flows with at least the same level of detail and accuracy but will permit a wider variety of simulations. It will permit forecasts under the assumptions of volatility in key economic and financial parameters. It will be fully documented and readily accessible to the General Accounting Office and the Trust's own auditors.

### 2.2. User Classes and Characteristics

*<Identify the various user classes that you anticipate will use this product. User classes may be differentiated based on frequency of use, subset of product functions used, technical expertise, security or privilege levels, educational level, or experience. Describe the pertinent characteristics of each user class. Certain requirements may pertain only to certain user classes. Distinguish the favored user classes from those who are less important to satisfy. **Example:**>*

The Board consists of seven individuals appointed by the President of the United States who are responsible for carrying out the mission of the Presidio as expressed in its legislation. They should not be expected to have the time or the need to get into the details of the model's operation. The Board will review model results, which may be summarized in spreadsheet or Power Point format, and suggest policy alternatives that then should be simulated. At a minimum, the model should be able to provide them with 24 hour turnaround. An enhancement would be the capability to provide real-time results of policy simulations in a readily understandable format.

The Executive Director is the chief executive officer, directly appointed by the Board and responsible for executing the policies of the Board and for managing all of the operations of the Presidio Trust. The Executive Director should not be expected to have the time or the need to get into the details of the model's operation, but should be able run it from a standard set of screens that facilitate the modification of inputs and assumptions and permit the ready review and comparison of forecasts. The Executive Director needs to be able to deal with a broader variety of policy simulations than those under consideration or review by the Board and at a finer level of detail. He/she will work with the Chief Financial Officer to summarize model results and their implications for the consideration of the Board. The model should have an interface understandable to the Executive Director that will permit the running of simulations from a standalone desktop or laptop computer and documentation, including an user manual targeted toward a high level, infrequent user, that will minimize the problems associated with relearning the model's structure and operation.



The Chief Financial Officer directs all of the business and financial operations of the Presidio Trust, including budget, accounting, and finance. The Chief Financial Officer has direct responsibility for the creation, operation, and maintenance of the Financial Forecasting Model. The Chief Financial Officer is expected to have a more detailed knowledge of the model structure and underlying data than the Executive Director, will use it more frequently, and will take the lead in setting up simulations and interpreting their results. The Chief Financial Officer should not be expected to be hands-on involved at the code level or with the maintenance of the underlying data. The model should have an interface readily understandable to the Chief Financial Officer. It should permit the running of simulations from a standalone desktop or laptop computer. It should have documentation that includes a user manual targeted to a user familiar with the business operations and finances of the Presidio Trust and who has a good understanding of the model's structure and operation.

The Business Operations Director is the project coordinator responsible for the Presidio Trust Financial Forecasting Model procurement. The Business Operations Director works directly with the contractor to assure that all of the requirements are met. The Business Operations Director will be involved almost every time the model is used and will work with the Chief Financial Officer to formulate problems for the model, run the model, analyze the results and prepare reports for the Chief Financial Officer and others. The model should have an interface understandable to the Business Operations Director. It should permit the running of simulations from a standalone desktop or laptop computer. It should have documentation that includes a user manual targeted to a user familiar with the business operations and finances of the Presidio Trust and who has a good understanding of the model's structure and operation.

If the Financial Forecasting model is procured under a task order the Model Developer will likely be involved in the use of the model as well as its creation. The Developer will require an intimate knowledge of the finances and operations of the Presidio Trust and will be responsible for the creation and support of the model and its underlying data.

The General Accounting Office will be a special class of user in 2005, when it reviews the operations of the Presidio Trust. The GAO will review and test the model, its parameters, and the underlying data in detail. The Financial Forecasting Model should have an interface understandable to the General Accounting Office. It should permit the running of simulations from a standalone desktop or laptop computer. It should have documentation that includes a user manual targeted to a user familiar with modeling systems, but less familiar with the business operations and finances of the Presidio Trust. It should provide a good understanding of the model's structure and operation.

### 2.3. Operating Environment

*<Describe the environment in which the software will operate, including the hardware platform, operating system and versions, and any other software components or applications with which it must peacefully coexist. **Example:**>*

- OE-1: The Presidio Trust Financial Forecasting Model shall operate as a self-contained program on any desktop or laptop computer with Windows 98 or higher and with Microsoft Office Professional (including Microsoft Access).
- OE-2: The entire program, and any databases that it needs shall be fully contained in a single CD-ROM,
- OE-3: The program and any databases that it needs shall operate on the current corporate server.

## 2.4. Design and Implementation Constraints

<Describe any items or issues that will limit the options available to the developers. These might include: corporate or regulatory policies; hardware limitations (timing requirements, memory requirements); interfaces to other applications; specific technologies, tools, and databases to be used; parallel operations; language requirements; communications protocols; security considerations; design conventions or programming standards (for example, if the customer's organization will be responsible for maintaining the delivered software). **Example:**>

CO-1: The model shall have the capability to access and use the latest data from corporate residential and commercial property management data bases and the Presidio Trust's financial and budgetary data bases.

## 2.5. User Documentation

<List the user documentation components (such as user manuals, on-line help, and tutorials) that will be delivered along with the software. Identify any known user documentation delivery formats or standards. **Example:**>

UD-1: The Financial Forecasting Model shall provide an online hierarchical and cross-linked help system in HTML that describes and illustrates all system functions.

UD-2: The model shall contain a contextual help system.

UD-3: The model shall have a quick reference card to permit high level users to access and use the system.

UD-4: The model shall provide an online tutorial as part of the Help menu to familiarize new or infrequent users with the model's operation.

UD-5: The Presidio Trust Financial Forecasting Model shall have complete written documentation of the model's structure, coding, and linkages to other data sets. It should enable any subsequent developer to get fully up to speed within two weeks if the initial developer is unavailable.

## 2.6. Assumptions and Dependencies

<List any assumed factors (as opposed to known facts) that could affect the requirements stated in the SRS. These could include third-party or commercial components that you plan to use, issues around the development or operating environment, or constraints. The project could be affected if these assumptions are incorrect, are not shared, or change. Also identify any dependencies the project has on external factors, such as software components that you intend to reuse from another project, unless they are already documented elsewhere (for example, in the vision and scope document or the project plan). **Example:**>

None.

## 3. System Features

<This template illustrates organizing the functional requirements for the product by system features, the major services provided by the product. You may prefer to organize this section by use case, mode of operation, user class, object class, functional hierarchy, or combinations of these, whatever makes the most logical sense for your product.>

< State the feature name in just a few words. **Example:**>

### 3.1. Simulating Financial and Budgetary Alternative Scenarios

#### 3.1.1 Description and Priority

*<Provide a short description of the feature and indicate whether it is of High, Medium, or Low priority. You could also include specific priority component ratings, such as benefit, penalty, cost, and risk (each rated on a relative scale from a low of 1 to a high of 9). Example:>*

A user running the model will be presented with a screen showing key variables and assumptions that may be changed for one or more years. The user makes changes and the model incorporates the changes into its projections. The user can see the model's output as either a cash flow statement for the forecast period, a comparison of selected target variables and years to a base forecast, or both. The model will at the user's option export the results to an Excel spreadsheet selected by the user. Priority: high.

#### 3.1.2 Stimulus/Response Sequences

*<List the sequences of user actions and system responses that stimulate the behavior defined for this feature. These will correspond to the dialog elements associated with use cases. Example:>*

Stimulus: A user begins the program.

Response: The system presents a list of key assumptions and their default values for each year of the forecast period. (The default values are used to run a baseline scenario.)

Stimulus: The user selects one or more assumptions by checking an accompanying check box.

Response: For each variable checked, the user is presented with a list of the values of the variable for each year.

Stimulus: The user changes the value of the variable in one or more years.

Response: The system asks the user if he/she wants to look at selected variables or a cash flow statement for each year of the forecast period.

Stimulus: User selects output variables of interest or a cash flow statement.

Response: System displays output. System prompts whether to export the output to an Excel spreadsheet, choose to view other output variables, choose to view a cash flow statement, or quit.

Stimulus: User selects other output variables or a cash flow statement to view.

Response: System displays output. System prompts whether to export the output to an Excel spreadsheet, choose to view other variables, choose to view a cash flow statement, or quit.

Stimulus: User opts to export output to Excel.

Response: System provides a wizard for exporting the output to Excel. System prompts whether to choose to view other variables, choose to view a cash flow statement, or quit.

### 3.1.3 Functional Requirements

*<Itemize the detailed functional requirements associated with this feature. These are the software capabilities that must be present in order for the user to carry out the services provided by the feature, or to execute the use case. Include how the product should respond to anticipated error conditions or invalid inputs. Requirements should be concise, complete, unambiguous, verifiable, and necessary. Use "TBD" as a placeholder to indicate when necessary information is not yet available. Each requirement should be uniquely identified with a sequence number or a meaningful tag of some kind. **Example:**>*

- REQ-1: The system shall be capable of updating its internal data from external data bases.
- REQ-2: The system shall contain a list of user-modifiable input variables.
- REQ-3: The system shall contain a list of user-selectable output variables.
- REQ-4: The system shall calculate a baseline forecast
- REQ-5: The system shall be able to display the output as a CashFlow statement.
- REQ-6: The system shall be able to export any or all of the output variables to a user-selected Excel spreadsheet.
- REQ-7: The system shall be able to export baseline and scenario Cash Flow statements to user-selected Excel spreadsheets.

## 4. External Interface Requirements

### 4.1. User Interfaces

*<Describe the logical characteristics of each interface between the software product and the users. This may include sample screen images, any GUI standards or product family style guides that are to be followed, screen layout constraints, standard buttons and functions (e.g., help) that will appear on every screen, keyboard shortcuts, error message display standards, and so on. Define the software components for which a user interface is needed. Details of the user interface design should be documented in a separate user interface specification.*

**Example:**>

- UI-1: The system shall provide user selection of variables utilizing label and edit controls similar to those provided on a Visual Basic for Applications form.
- UI-2: The system shall provide a Cash Flow screen similar to that shown in Table UI-2, below.
- UI-3: The system shall provide a help link from each screen that the user sees. In each case the help message will document what needs to be done on that screen and how to do it. The message will include screen shots where necessary.
- UI-4: The system shall permit keyboard navigation without a mouse, in addition to mouse and keyboard combinations.

## 4.2. Hardware Interfaces

<Describe the logical and physical characteristics of each interface between the software product and the hardware components of the system. This may include the supported device types, the nature of the data and control interactions between the software and the hardware, and communication protocols to be used. **Example:**>

None identified.

## 4.3. Software Interfaces

<Describe the connections between this product and other specific software components (name and version), including databases, operating systems, tools, libraries, and integrated commercial components. Identify the data items or messages coming into the system and going out and describe the purpose of each. Describe the services needed and the nature of communications. Refer to documents that describe detailed application programming interface protocols. Identify data that will be shared across software components. If the data sharing mechanism must be implemented in a specific way (for example, use of a global data area in a multitasking operating system), specify this as an implementation constraint. **Example:**>

SI-1: Residential Property

SI-1.1: The Financial Forecasting Model shall use a copy of the most recent update of the Residential Housing database maintained by the J.P. Stewart Company to update all internal information regarding residential properties and rents.

SI-2: Commercial Property

SI-2.1: The Presidio Trust Financial Forecasting Model shall use a copy of the most recent update of the Presidio Data base for commercial properties maintained by the Real Estate division and Woodmont Real Estate Services to update all internal information regarding nonresidential properties and rents.

SI-3: Budget and Cost Information

SI-3.1: The Presidio Trust Financial Forecasting Model shall be capable of linking to the Presidio Trust's Oracle Financial database to get updates of cost and budgetary data for all of its activities.

# 5. Other Nonfunctional Requirements

## 5.1. Security Requirements

<Specify any requirements regarding security or privacy issues surrounding use of the product or protection of the data used or created by the product. Define any user identity authentication requirements. Refer to any external policies or regulations containing security issues that affect the product. Define any security or privacy certifications that must be satisfied. **Example:**>

SE-1: The model shall not permit users to see or identify proprietary information, such as the rents paid by specific tenants or the other terms of their leases.

SE-2: The model shall be designed to protect the privacy and confidentiality of all residential tenants.

## **5.2. Software Quality Attributes**

*<Specify any additional quality characteristics for the product that will be important to either the customers or the developers. Some to consider are: adaptability, availability, correctness, flexibility, interoperability, maintainability, portability, reliability, reusability, robustness, testability, and usability. Write these to be specific, quantitative, and verifiable when possible. At the least, clarify the relative preferences for various attributes, such as ease of use over ease of learning.*

**Example:**>

## **6. Other Requirements**

*<Define any other requirements not covered elsewhere in the SRS. This might include database requirements, internationalization requirements, legal requirements, reuse objectives for the project, and so on. Add any new sections that are pertinent to the project. **Example:**>*

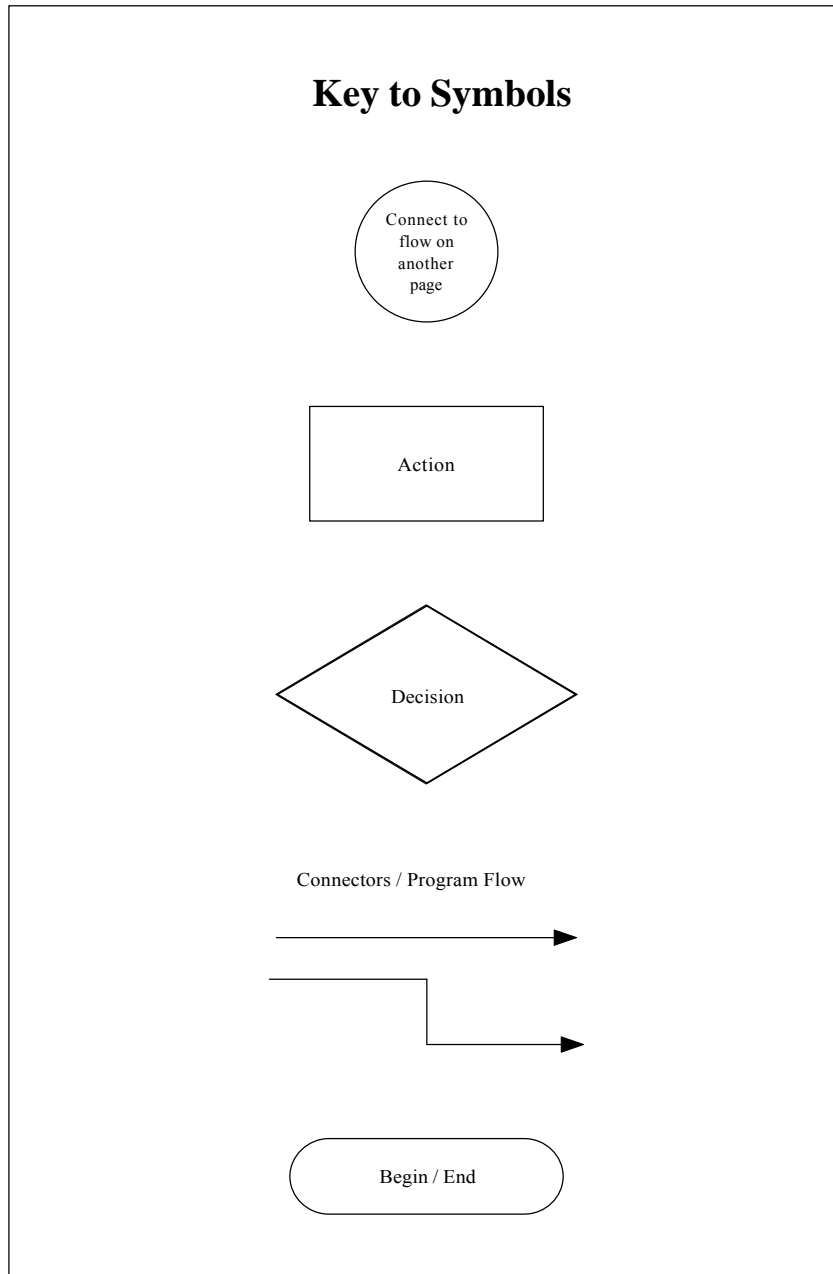
OR-1: The model shall be capable of prioritizing investments internally or accepting a listing of priorities for non residential investments. These priorities shall direct the pattern of investment according to the projected availability of funds.

## **Appendix A: Glossary**

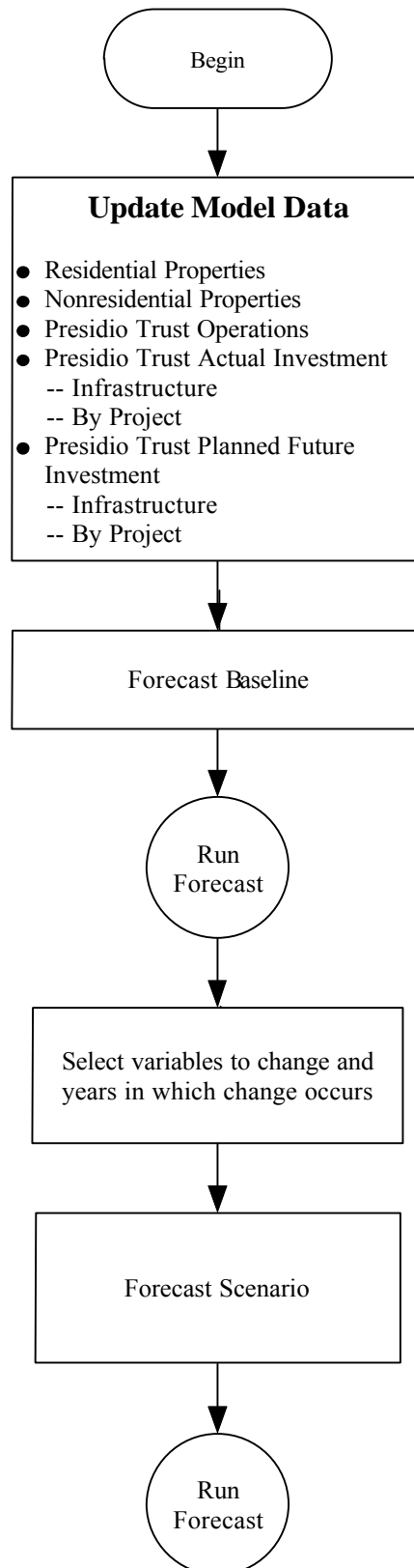
*<Define all the terms necessary to properly interpret the SRS, including acronyms and abbreviations. You may wish to build a separate glossary that spans multiple projects or the entire organization, and just include terms specific to a single project in each SRS. **Example:**>*

## Appendix B: Analysis Models

<Optionally, include any pertinent analysis models, such as data flow diagrams, class diagrams, state-transition diagrams, or entity-relationship diagrams. **Example:**>

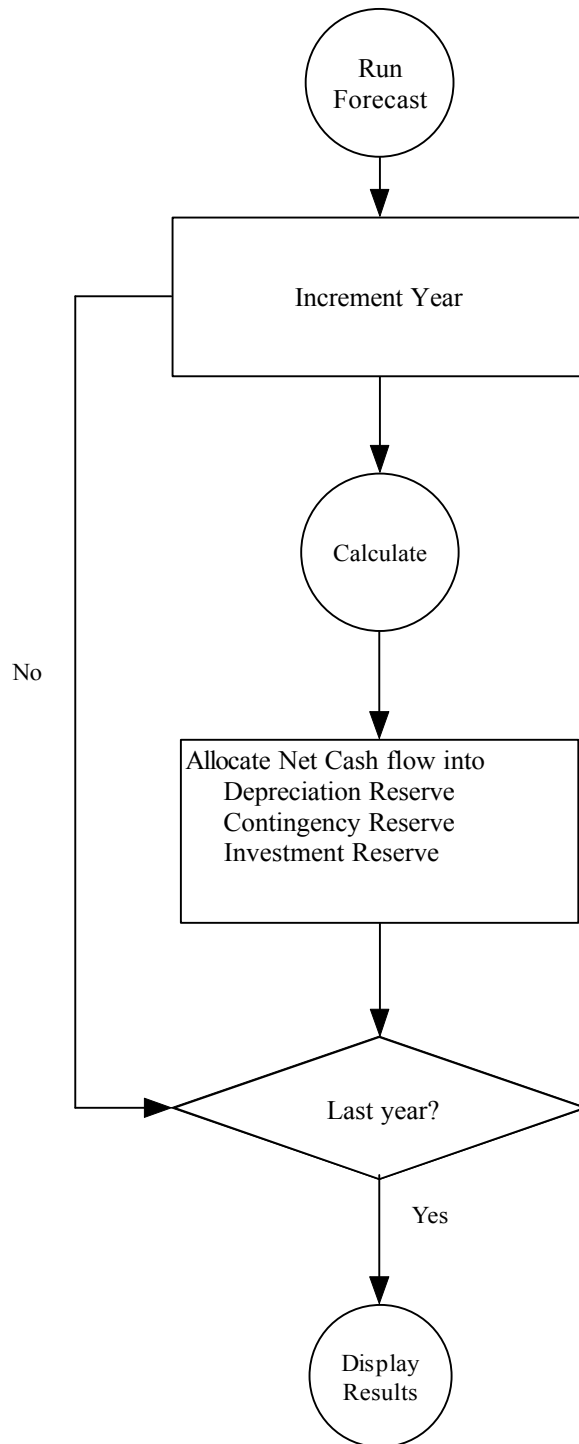


# The Presidio Trust Financial Forecasting Model

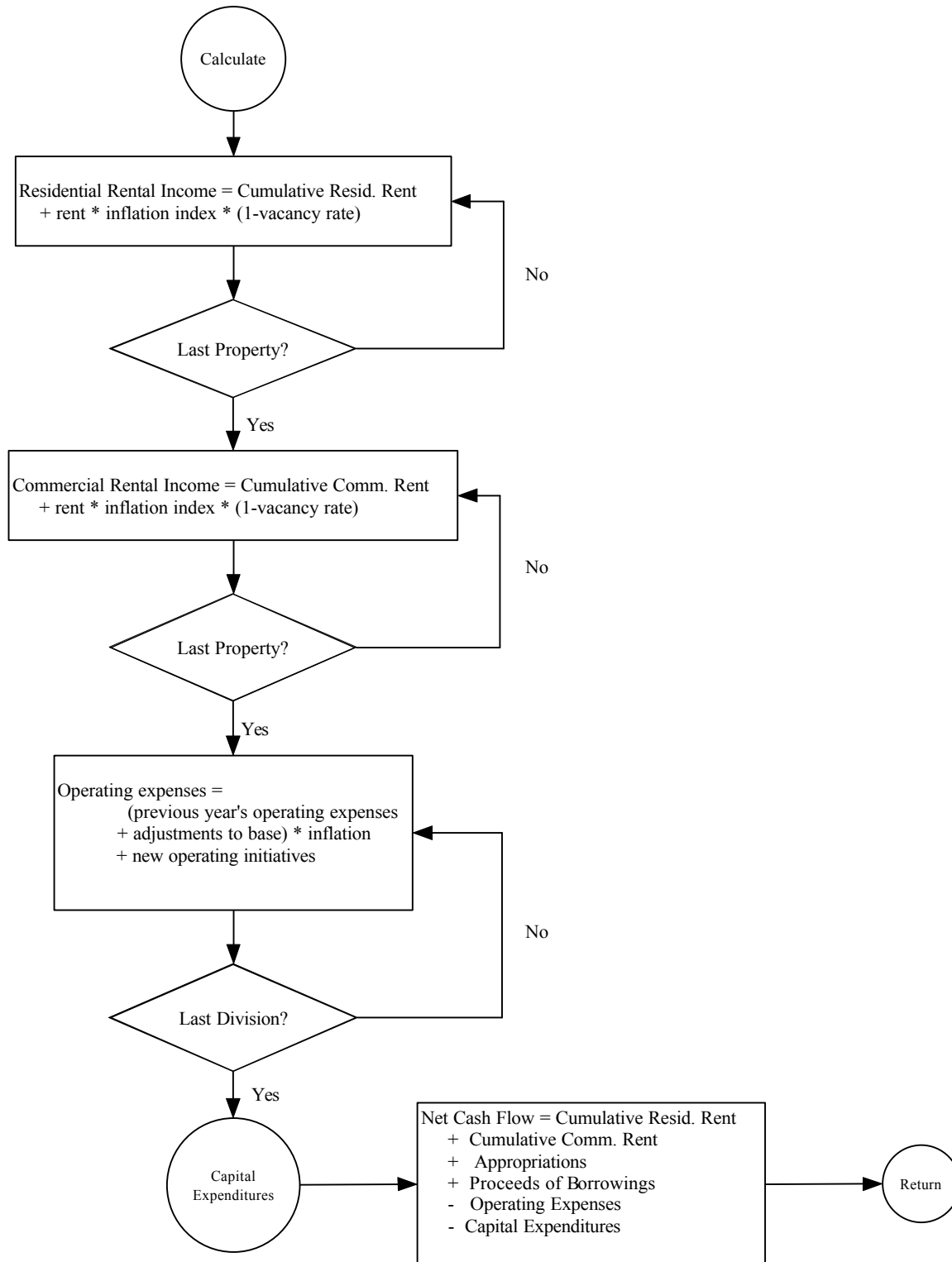




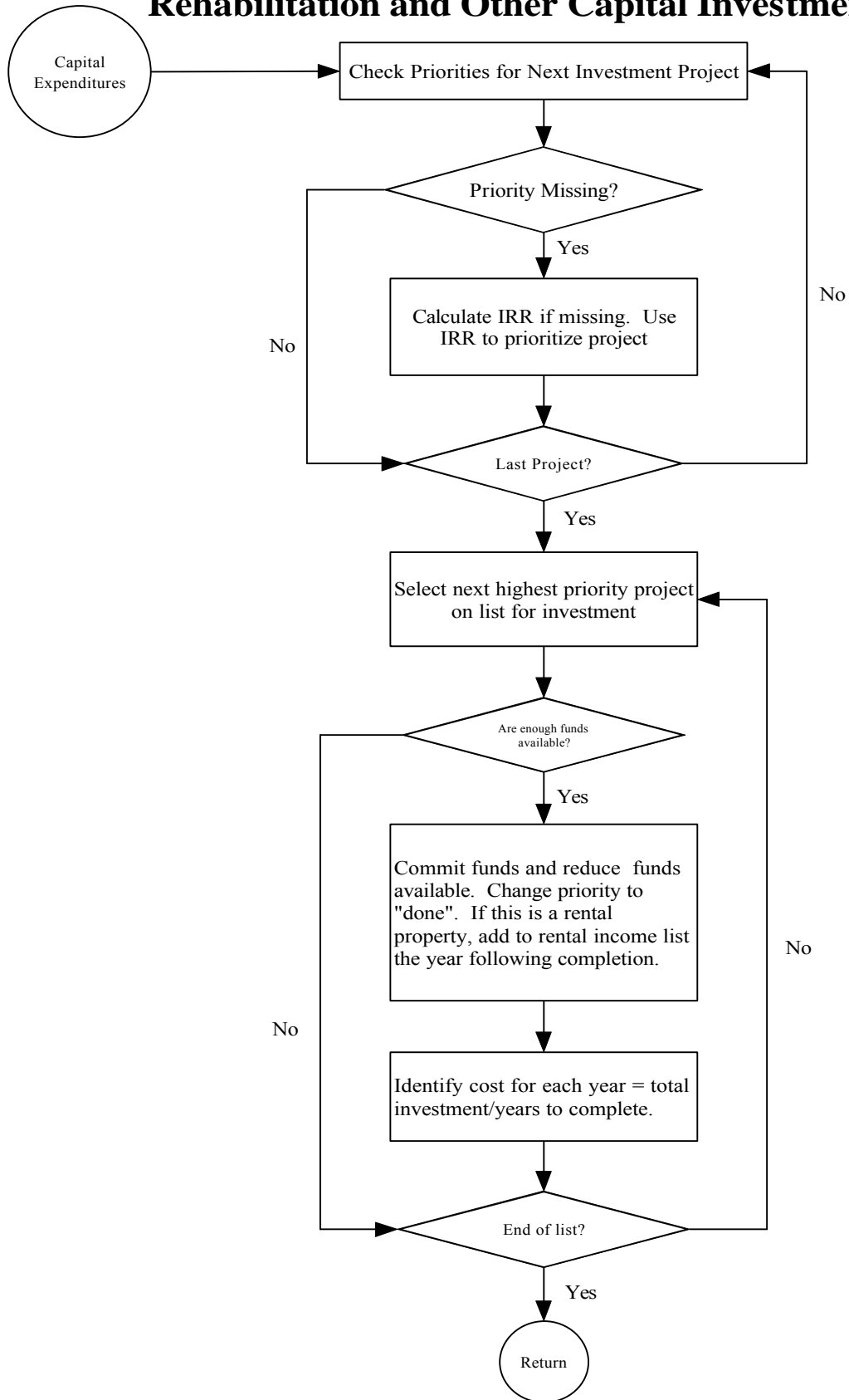
## Run Baseline / Scenario Forecasts



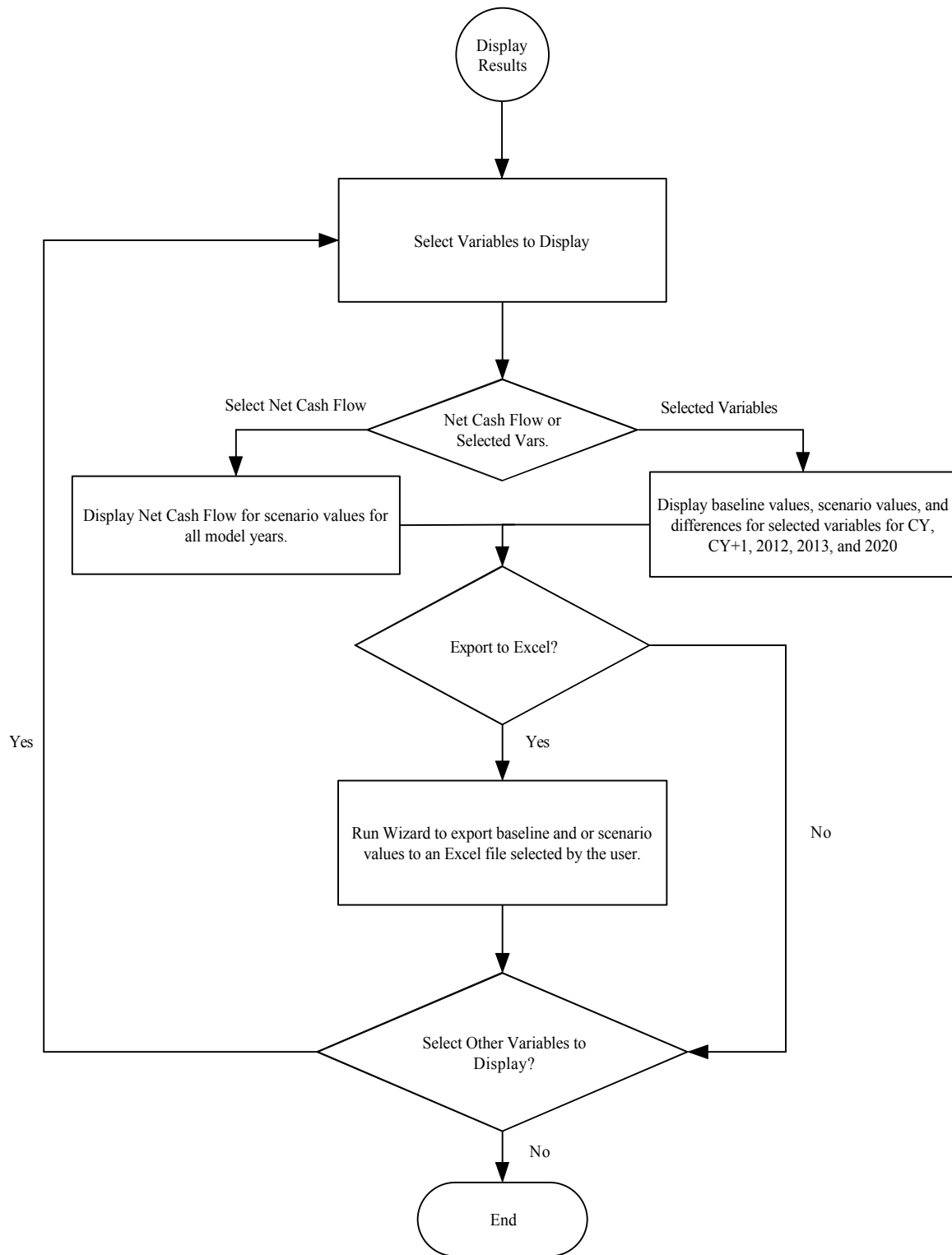
### Forecast One Year's Net Cash Flow



## Rehabilitation and Other Capital Investment



### Display / Export Results



## **Appendix C: Issues List**

*< This is a dynamic list of the open requirements issues that remain to be resolved, including TBDs, pending decisions, information that is needed, conflicts awaiting resolution, and the like.*

**Example:>**

Table UI-2

Presidio Trust Net Cash Flow Projections

|   | FY-03                  | FY-04                  | FY-05                  | FY-06                  |
|---|------------------------|------------------------|------------------------|------------------------|
|   |                        |                        | \$ 57,425,902          |                        |
| <b>1. Cash Flows from Operating Activities</b>                    |                        |                        |                        |                        |
| <b>Revenues</b>   |                        |                        |                        |                        |
| Residential   | \$ 23,017,803          | \$ 24,811,589          | \$ 28,228,498          | \$ 29,432,424          |
| Non-Residential Internal Rehab                                    | \$ 5,627,775           | \$ 5,894,578           | \$ 6,316,782           | \$ 6,800,501           |
| Non-Residential with MD   | \$ 463,407             | \$ 463,407             | \$ 467,407             | \$ 6,263,407           |
| <b>Subtotal: Rents</b>  | <b>\$ 29,108,985</b>   | <b>\$ 31,169,574</b>   | <b>\$ 35,012,686</b>   | <b>\$ 42,496,331</b>   |
| Utilities   | \$ 3,020,000           | \$ 3,152,280           | \$ 2,016,965           | \$ 2,160,862           |
| SDC Charges   | \$ 2,973,987           | \$ 3,457,697           | \$ 3,576,133           | \$ 4,501,282           |
| Other Revenue   | \$ 11,967,500          | \$ 6,275,000           | \$ 1,325,000           | \$ 1,477,500           |
| <b>Sub Total: Operating Revenues</b>                              | <b>\$ 47,070,472</b>   | <b>\$ 44,054,551</b>   | <b>\$ 41,930,785</b>   | <b>\$ 50,635,974</b>   |
| <b>Expenses</b>   |                        |                        |                        |                        |
| General Counsel   | \$ (2,037,380)         | \$ (1,367,380)         | \$ (1,394,728)         | \$ (1,450,517)         |
| Real Estate   | \$ (2,688,707)         | \$ (2,418,707)         | \$ (2,467,081)         | \$ (2,565,764)         |
| Planning  | \$ (4,641,015)         | \$ (2,968,711)         | \$ (3,028,085)         | \$ (3,149,208)         |
| Finance & Business Mgt.   | \$ (6,196,452)         | \$ (4,873,175)         | \$ (3,540,267)         | \$ (3,681,878)         |
| Administration  | \$ (3,512,276)         | \$ (2,528,838)         | \$ (2,579,415)         | \$ (2,682,592)         |
| Public Affairs  | \$ (1,450,023)         | \$ (942,515)           | \$ (961,366)           | \$ (999,820)           |
| Special Event & Public Programs                                   | \$ (2,242,477)         | \$ (1,457,610)         | \$ (1,486,762)         | \$ (1,546,233)         |
| Operations  | \$ (15,351,817)        | \$ (13,138,349)        | \$ (13,401,116)        | \$ (13,937,161)        |
| Finance and Insurance   | \$ (2,125,000)         | \$ (4,300,000)         | \$ (4,300,000)         | \$ (4,300,000)         |
| Law Enforcement, Fire and Safety                                  | \$ (6,624,223)         | \$ (6,789,829)         | \$ (6,959,574)         | \$ (7,133,564)         |
| <b>Sub Total: Operating Expenditures</b>                          | <b>\$ (46,869,369)</b> | <b>\$ (40,785,115)</b> | <b>\$ (40,118,394)</b> | <b>\$ (41,446,736)</b> |
| <b>Net Cash from Operating Activities</b>                         | <b>\$ 201,103</b>      | <b>\$ 3,269,436</b>    | <b>\$ 1,812,391</b>    | <b>\$ 9,189,239</b>    |
| <b>2. Cash Flows from Investing Activities</b>                    |                        |                        |                        |                        |
| Real Estate Division  | \$ (17,335,802)        | \$ (11,375,044)        | \$ (10,692,910)        | \$ (15,799,474)        |
| Operations/Other Division   | \$ (13,115,616)        | \$ (7,454,218)         | \$ (6,359,365)         | \$ (6,439,959)         |
| Planning and Resources Division                                   | \$ (3,604,023)         | \$ (2,018,324)         | \$ (1,967,475)         | \$ (3,168,973)         |
| Finance & Business Management                                     | \$ -                   | \$ (1,534,500)         | \$ -                   | \$ -                   |
| <b>Net Cash Used in Investing Activities</b>                      | <b>\$ (34,055,441)</b> | <b>\$ (22,382,086)</b> | <b>\$ (19,019,750)</b> | <b>\$ (25,408,407)</b> |
| <b>3. Cash Flows from Appropriations and Financing Activities</b> |                        |                        |                        |                        |
| Appropriations  | \$ 21,325,000          | \$ 19,665,000          | \$ 19,071,250          | \$ 18,477,500          |
| Proceeds from Borrowings  | \$ 15,000,000          | \$ -                   | \$ -                   | \$ -                   |
| Repayment of Borrowings   | \$ -                   | \$ -                   | \$ -                   | \$ -                   |
| <b>Appropriations and Net Cash Used in Financing Activities</b>   | <b>\$ 36,325,000</b>   | <b>\$ 19,665,000</b>   | <b>\$ 19,071,250</b>   | <b>\$ 18,477,500</b>   |
| <b>(Decrease)/Increase in Cash</b>                                | <b>\$ 2,470,661</b>    | <b>\$ 552,350</b>      | <b>\$ 1,863,891</b>    | <b>\$ 2,258,332</b>    |
| <b>Movement in Cash</b>   |                        |                        |                        |                        |
| At Start of Year  | \$ -                   | \$ 2,470,661           | \$ 3,023,011           | \$ 4,886,902           |
| (Decrease)/Increase   | \$ 2,470,661           | \$ 552,350             | \$ 1,863,891           | \$ 2,258,332           |
| At End of Year  | \$ 2,470,661           | \$ 3,023,011           | \$ 4,886,902           | \$ 7,145,234           |
| <b>Baseline Net Cash</b>  |                        |                        |                        |                        |
| At Start of Year  | \$ -                   | \$ 2,470,661           | \$ 3,959,842           | \$ 6,402,534           |
| (Decrease)/Increase   | \$ 2,470,661           | \$ 1,489,181           | \$ 2,442,692           | \$ 2,896,441           |
| At End of Year  | \$ 2,470,661           | \$ 3,959,842           | \$ 6,402,534           | \$ 9,298,974           |
| <b>Difference from Baseline</b>                                   |                        |                        |                        |                        |
| At Start of Year  | \$ -                   | \$ -                   | \$ (936,831)           | \$ (1,515,631)         |
| (Decrease)/Increase   | \$ -                   | \$ (936,831)           | \$ (578,801)           | \$ (638,109)           |
| At End of Year  | \$ -                   | \$ (936,831)           | \$ (1,515,631)         | \$ (2,153,740)         |

# **Use Cases**

**for**

# **The Presidio Trust**

# **Financial Forecasting Model**

**Version 4.0**

**Example Text Prepared for the Presidio Trust by Harry G. Meyers  
National Academy of Public Administration**

**Template Written by Karl E. Wieggers, Process Impact**

[http://www.processimpact.com/process\\_assets/use\\_case\\_template.doc](http://www.processimpact.com/process_assets/use_case_template.doc)

**September 30, 2003**

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## Revision History

| <b>Name</b> | <b>Date</b> | <b>Reason For Changes</b> | <b>Version</b> |
|-------------|-------------|---------------------------|----------------|
|             |             |                           |                |
|             |             |                           |                |

## **Guidance for Use Case Template**

*Document each use case using the template shown in the Appendix. This section provides a description of each section in the use case template.*

### **1. Use Case Identification**

#### **1.1. Use Case ID**

*Give each use case a unique integer sequence number identifier. Alternatively, use a hierarchical form: X.Y. Related use cases can be grouped in the hierarchy.*

#### **1.2. Use Case Name**

*State a concise, results-oriented name for the use case. These reflect the tasks the user needs to be able to accomplish using the system. Include an action verb and a noun. Some examples:*

- *View part number information.*
- *Manually mark hypertext source and establish link to target.*
- *Place an order for a CD with the updated software version.*

#### **1.3. Use Case History**

##### **1.3.1 Created By**

*Supply the name of the person who initially documented this use case.*

##### **1.3.2 Date Created**

*Enter the date on which the use case was initially documented.*

##### **1.3.3 Last Updated By**

*Supply the name of the person who performed the most recent update to the use case description.*

##### **1.3.4 Date Last Updated**

*Enter the date on which the use case was most recently updated.*

### **2. Use Case Definition**

#### **2.1. Actor**

*An actor is a person or other entity external to the software system being specified who interacts with the system and performs use cases to accomplish tasks. Different actors often correspond to different user classes, or roles, identified from the customer community that will use the product. Name the actor(s) that will be performing this use case.*

#### **2.2. Description**

*Provide a brief description of the reason for and outcome of this use case, or a high-level description of the sequence of actions and the outcome of executing the use case.*

### 2.3. Preconditions

List any activities that must take place, or any conditions that must be true, before the use case can be started. Number each precondition. Examples:

1. User's identity has been authenticated.
2. User's computer has sufficient free memory available to launch task.

### 2.4. Postconditions

Describe the state of the system at the conclusion of the use case execution. Number each postcondition. Examples:

1. Document contains only valid SGML tags.
2. Price of item in database has been updated with new value.

### 2.5. Normal Course

Provide a detailed description of the user actions and system responses that will take place during execution of the use case under normal, expected conditions. This dialog sequence will ultimately lead to accomplishing the goal stated in the use case name and description. This description may be written as an answer to the hypothetical question, "How do I <accomplish the task stated in the use case name>?" This is best done as a numbered list of actions performed by the actor, alternating with responses provided by the system. The normal course is numbered "X.0", where "X" is the Use Case ID.

### 2.6. Alternative Courses

Document other, legitimate usage scenarios that can take place within this use case separately in this section. State the alternative course, and describe any differences in the sequence of steps that take place. Number each alternative course in the form "X.Y", where "X" is the Use Case ID and Y is a sequence number for the alternative course. For example, "5.3" would indicate the third alternative course for use case number 5.

### 2.7. Exceptions

Describe any anticipated error conditions that could occur during execution of the use case, and define how the system is to respond to those conditions. Also, describe how the system is to respond if the use case execution fails for some unanticipated reason. If the use case results in a durable state change in a database or the outside world, state whether the change is rolled back, completed correctly, partially completed with a known state, or left in an undetermined state as a result of the exception. Number each alternative course in the form "X.Y.E.Z", where "X" is the Use Case ID, Y indicates the normal (0) or alternative (>0) course during which this exception could take place, "E" indicates an exception, and "Z" is a sequence number for the exceptions. For example "5.0.E.2" would indicate the second exception for the normal course for use case number 5.

### 2.8. Includes

List any other use cases that are included ("called") by this use case. Common functionality that appears in multiple use cases can be split out into a separate use case that is included by the ones that need that common functionality.

## **2.9. Priority**

*Indicate the relative priority of implementing the functionality required to allow this use case to be executed. The priority scheme used must be the same as that used in the software requirements specification.*

## **2.10. Frequency of Use**

*Estimate the number of times this use case will be performed by the actors per some appropriate unit of time.*

## **2.11. Business Rules**

*List any business rules that influence this use case.*

## **2.12. Special Requirements**

*Identify any additional requirements, such as nonfunctional requirements, for the use case that may need to be addressed during design or implementation. These may include performance requirements or other quality attributes.*

## **2.13. Assumptions**

*List any assumptions that were made in the analysis that led to accepting this use case into the product description and writing the use case description.*

## **2.14. Notes and Issues**

*List any additional comments about this use case or any remaining open issues or TBDs (To Be Determined) that must be resolved. Identify who will resolve each issue, the due date, and what the resolution ultimately is.*

**Example:**

|                |                 |                    |  |
|----------------|-----------------|--------------------|--|
| Use Case ID:   | 1               |                    |  |
| Use Case Name: | Run a Scenario  |                    |  |
| Created By:    | Harry G. Meyers | Last Updated By:   |  |
| Date Created:  | July 30, 2003   | Date Last Updated: |  |

|                      |   |
|----------------------|---|
| Actors:              | CFO, Business Operations Director   |
| Description:         | User runs program which gets most recent data updates from standard data bases. User is presented with a screen of key assumptions, parameters, and variables and optionally makes changes to one or more of them for selected years. User selects which output variables he/she wishes to track. Model projects revenues and expenditures for a fixed forecast period. It shows the target variable and any additional variables selected by the user. For each of these variables the model shows baseline values (no changes to assumptions), scenario values and the difference. Alternately, the program displays an output screen that contains all major revenue, expenditure, and other cash flow variables for the entire forecast period. User can print out either or both reports or export the results to a spreadsheet. |
| Preconditions:       | Databases containing model input data are updated and available.  |
| Postconditions:      | None  |
| Normal Course:       | <p><b>1.0 View/Print Selected Variables with Comparisons to Baseline.</b></p> <ol style="list-style-type: none"> <li>1. User begins program, is presented with a list of key assumptions, parameters, and variables that can be changed for one or more years.</li> <li>2. User changes selected items for selected years.</li> <li>3. User selects output variables in addition to model's cash flow target variable.</li> <li>4. For each variable selected, screen displays baseline values, scenario values and the difference for all years.</li> <li>5. User optionally prints the report.</li> <li>6. User optionally exports the report to a spreadsheet.</li> </ol>  |
| Alternative Courses: | <p><b>1.1 View/Print All Major Revenue, Expenditure, and Other Cash Flow Variables for the Entire Forecast Period Without Baseline Comparison.</b></p> <ol style="list-style-type: none"> <li>1. In step 3, user selects the output screen that contains all major revenue, expenditure and other cash flow variables for the entire forecast period.</li> <li>2. Return to step 5.</li> </ol>  |
| Exceptions:          | <p><b>1.0.E.1 Invalid input/output.</b></p> <ol style="list-style-type: none"> <li>1. System informs user that he/she has attempted to modify a variable or parameter that cannot be changed.</li> <li>2. System informs user that he/she has selected an invalid output variable.</li> </ol>   |

|                       |  |
|-----------------------|--|
|                       | <p><b>1.1.E.1 Invalid input/output.</b></p> <p>1. System informs user that he/she has attempted to modify a variable or parameter that cannot be changed.</p> <p>2. System informs user that he/she has selected an invalid output variable.</p> |
| Includes:             | None.  |
| Priority:             | High   |
| Frequency of Use:     | 50 times per year.   |
| Business Rules:       |  |
| Special Requirements: | None   |
| Assumptions:          | None   |
| Notes and Issues:     | None   |

## Credit

Photos courtesy of Harry G. Meyers