



Recommendations for the FMFADA Organization Structure

Fort Monroe Federal Area Development Authority | September 18, 2009



Preface to the September 2009 Report Update

In the spring of 2009, the Fort Monroe Federal Area Development Authority (FMFADA) retained RCLCO (formerly Robert Charles Lesser & Co., LLC), to conduct a management and organization study and recommend an appropriate management and organization structure for the FMFADA that would enable them to achieve their mission during implementation of the reuse plan. The analysis and recommendations of that study were delivered in a report and presented to the FMFADA Board on June 25, 2009 at Fort Monroe, Virginia. It was decided at that meeting that the Board would take up close inspection of the recommendations via the convening of a Governance subcommittee, and that RCLCO would join this subcommittee in Richmond on August 7, 2009.

Over the ensuing several months since the original delivery of the report, and in part due to the proceedings of the above meetings, RCLCO has made some modifications to the original report. These modifications are clarifying in nature and do not change the substance of the analysis and recommendations of the draft report. They include:

- 1) Addition of two additional case study analogues – the Charlottesville-Albemarle Airport Authority and the Virginia Port Authority – as an addendum to this report.
- 2) Correction of the Committee structure as originally described to reflect by-laws that were amended in January of 2009 but were not available during the research and analysis phase of the report-writing.
- 3) Clarification of certain characterizations about the current FMFADA structure and analysis of its strengths, weaknesses, opportunities, and threats
- 4) Clarification about the potential future role of a Commonwealth entity functioning as a business enterprise, which RCLCO believes has tremendously strong potential if executed properly.

Separately, RCLCO has been working closely with the Governance subcommittee to provide further detail about the potential governance structures – including Board composition and size – that may be acceptable and optimal for the FMFADA going forward. This additional effort, summarized in materials presented to the Governance subcommittee was founded on the basis of the recommendations in this report, is ongoing at the time of the writing of this Preface to the September 2009 update.

ORGANIZATION STRATEGY FOR THE FMFADA

Executive Summary

Executing the Mission for Fort Monroe – To preserve the historic and natural resources at Fort Monroe, Virginia, and to promote public access, enjoyment, and educational enrichment while striving to achieve economic sustainability in its operations

With the reuse plan completed, conveyance on the horizon, and a mandate to become an economically self-sufficient entity, the Fort Monroe Federal Development Authority (FMFADA) is now moving into the implementation phase of its mission at Fort Monroe. Succeeding in its mission to preserve the historic and natural resources at Fort Monroe, Virginia, and to promote public access, enjoyment, and educational enrichment while striving to achieve economic sustainability in its operations will involve a paradigm shift at the FMFADA, as the organization is being tasked with building the organizational infrastructure to rely on self-generated revenue to fund the worthy public goals for Fort Monroe.

The FMFADA will need to build into its organization an internal business, or profit center, that is revenue-positive and successful enough to fund the historic and natural asset management and public programs goals that form the core of its stewardship responsibilities. It is no understatement to say that the FMFADA will need to conduct itself more like a private business enterprise and less like a governmental body. The most likely opportunity to build this internal business lies in the unique property attributes of Fort Monroe, which are suitable for a wide variety of revenue-producing functions that would in the private sector fall under the category of real property management and development. The FMFADA is also poised to successfully harness this potential source of revenue, because property conveyance in 2011 will take place when the real estate economy is widely anticipated to be on an upward trajectory.

The sustainability challenge at Fort Monroe is formidable, but there are comparable organizations in the United States who have successfully used profitable property management/development strategies to preserve priceless assets without taxpayer support. In formulating its recommendations, RCLCO made a thorough investigation of the FMFADA, and compared it with these successful national organizations. We also performed detailed interviews with staff, Board Members, and public and private stakeholders.

This study concludes that the FMFADA in its current organizational structure is not equipped to successfully implement such a strategy. It has been successful in accomplishing the initial goals for the organization – successfully adopting a reuse plan for Fort Monroe – but it is not well built for accomplishing the mission ahead – implementing the reuse plan in a manner which achieves the mission. Without changes to its organizational structure, the FMFADA, may require additional state annual appropriations well beyond 2011 and into the foreseeable future.

The reasons for this assessment, detailed in this report, include the following:

- The FMFADA is not well-equipped or structured to make decisions in the private business environment or the environment of real property management/development
- There is not enough FMFADA staff to manage or oversee the multitude of responsibilities – including legal, public and board engagement, historic asset management and business – necessary for the Reuse Plan's, and associated documents, vision for Fort Monroe to succeed
- There is room for greater clarity regarding roles and responsibilities within the overall organization, as well as the appropriate balance between the social and business goals and objectives of the organization
- The Commonwealth procurement requirements are too cumbersome for a business entity, although recently enacted legislation may serve to mitigate this concern.
- The Programmatic Agreement, critical to preserving Fort Monroe's legacy, will be a barrier to successful implementation of the reuse plan if not staffed appropriately and executed pragmatically

Building the Organization for Success

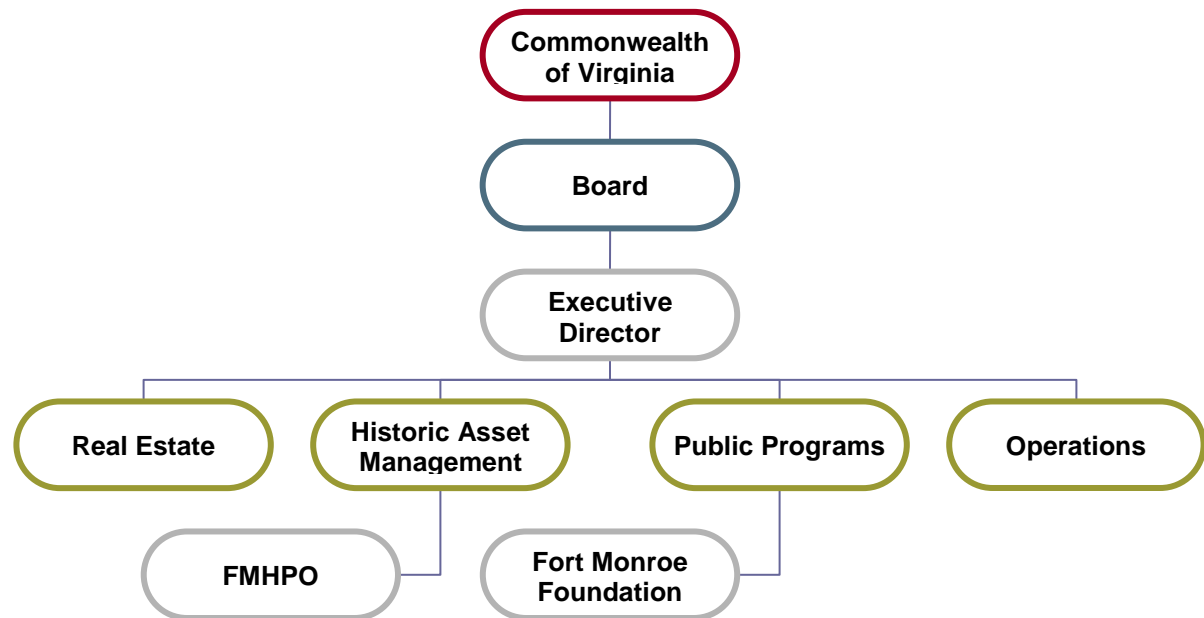
Based upon the work conducted as part of this study, it is recommended that the FMFADA commence the restructuring of the internal organization at both the Board and Staff levels. The future activities of the FMFADA should be driven by the following core prerogatives:

- Fort Monroe belongs to the citizens of Virginia and beyond, and the Commonwealth/FMFADA bears the fiduciary responsibility for preserving it as an accessible national treasure
- The management and development of real property is the primary source of revenue for the FMFADA, and monies from these activities will make possible the historic/natural asset management and public programs components of the mission
- The FMFADA must achieve early and continued success in the field of real property management and development in a manner that is cost-effective yet revenue-maximizing and remains consistent with the overall mission
- The FMFADA must be a self-sustaining entity as soon as possible, and not become dependent on perennial Commonwealth appropriations
- The FMFADA must be able to successfully execute the Programmatic Agreement in a fashion that enables it to achieve its mission
- Fort Monroe must be a source of private employment generation and net economic gain to the Commonwealth, the Hampton Roads region, and the City of Hampton

Based upon the above, this study also recommends the following:

1. Restructure the FMFADA into four main divisions organized around functional responsibilities: real estate, historic asset management, public programs, and corporate operations.
 - Each department is headed by a Deputy Director who reports directly to the Executive Director.

- The Fort Monroe Historic Preservation Officer resides within the Historic Asset Management division but reports to a Deputy Director
- The Deputy Director for Public Programs is also President of a separate Fort Monroe Foundation, a 501(c)(3) organization that receives tax-deductible contributions from charitable giving.



2. Staff each division with enough internal role-players necessary to accomplish the mission.
 - The FMFADA needs additional staff, all employed by the FMFADA, whose salaries are paid for by organization revenues.
 - New positions should be identified in the annual business plan and filled expeditiously. Part-time employees should be considered to reduce costs below the level of Deputy Director. Outsourcing should be considered when the function is short-term in nature or the task requires expertise not

resident within the organization. Complete descriptions of the minimum necessary staff to accomplish the mission are given in the body of the report.

3. Structure the Board to ensure, at a minimum:
 - Demonstration of skills in the fields of urban planning, education/public programs, finance/banking, real property business, historic preservation, tourism, or other skills mission-critical to the FMFADA
 - The Board should take fiduciary responsibility for the FMFADA so that decisions made are grounded in the economic realities
 - Statutory positions should be filled, at least to a large extent, by career staff to avoid wholesale board changes with each new gubernatorial administration
 - Ensure that all aspects of the current Board structure, including provisions for non-Board members to join committees, are utilized to put as much expertise as possible to work for the FMFADA
4. Move the FMFADA out from under the Commonwealth's administrative umbrella
 - Like the VEDP, the FMFADA is a political subdivision that needs to function more like a business than an agency
 - Unlike VEDP, the FMFADA has an opportunity to generate significant revenue internally
 - Allowing it to function with fewer regulatory and procedural hurdles will incentivize and enable the FMFADA to succeed in its mission
5. Empower the Executive Director and Staff
 - The Executive Director of the FMFADA needs to have the latitude ordinarily given to a company CEO in order for the FMFADA to function as a self-sustaining business enterprise
 - This entails being able to make decisions within the context of the Board-approved annual business plan without additional Board approval

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- The Executive Director should be accountable to the Board, who in turn are accountable to the citizens of Virginia, as the “shareholders” in the organization

The report which follows provides background and context for the recommendations above, as well as additional detail about FMFADA divisions, position responsibilities, and avenues for restructuring the Board relationships.

Background and Objectives

In the spring of 2009, the Fort Monroe Federal Development Authority (FMFADA) retained RCLCO (formerly Robert Charles Lesser & Co., LLC) to conduct an organizational strategy study for the FMFADA. The purpose of this study was to evaluate the current state of the organization vis-à-vis its mission, goals, and objectives, conduct additional independent research and stakeholder outreach to understand the potential trajectories for the organization, and prepare recommendations for the FMFADA to be implemented on a going-forward basis.

With this as a background, the objectives of this study were to:

1. Assess the current strengths, weaknesses, opportunities, and threats to the FMFADA
2. Distill from other analogous organizations information about organizational best practices that would inform recommendations for the FMFADA
3. Understand the current context of the FMFADA by investigating other political subdivisions of Virginia
4. Conduct extensive interviews with FMFADA stakeholders, including a cross-section of the board as well as officials from the Commonwealth. Incorporate findings from these interviews into an understanding of the current state of the FMFADA.
5. Synthesize the above – alongside independent analysis conducted by RCLCO – into a set of recommendations for the FMFADA organization to be implemented on a going-forward basis.

Methodology

RCLCO completed the following tasks as part of its scope of work for this study:

1. Researched the existing documentation on the FMFADA, including legislation, board member biographies, budgets, meeting minutes (when available), existing and proposed rules, bylaws, and regulations (including the Programmatic Agreement), reuse plan documents, and information gleaned from existing stakeholders and consultants familiar with the history of the FMFADA and other analogous organizations within and beyond Virginia
2. Conducted independent case study research on analogous organizations within Virginia and around the nation to understand ways in which these organizations were created, staffed, organized, and funded
3. Conducted interviews with members of the FMFADA Board, official representatives of the Commonwealth, FMFADA staff members, and other stakeholders
4. Conducted independent analysis of all of the information above as well as independently arrived-at conclusions and findings
5. Synthesized the above into a set of findings and recommendations for the FMFADA

The FMFADA at a Crossroads

In 2005, Congress voted to close Fort Monroe. In the years that followed, the FMFADA has completed a reuse plan for Fort Monroe in Hampton, Virginia, which was approved in August of 2008. The FMFADA will take control of Fort Monroe on or about September of 2011. In this respect, it would be appropriate to deem the work to-date of the FMFADA a success and to credit its team members with that success.

What is less clear is what happens next. The FMFADA has proposed as its mission the following:

Acting on behalf of the Commonwealth of Virginia, the Mission of the FMFADA is to preserve the historic and natural resources at Fort Monroe, Virginia, and to encourage public access, enjoyment, and educational enrichment, while striving to achieve economic sustainability in its operations

Economic self-sustenance is not simply a laudable goal for the FMFADA. In fact, the FMFADA is charged by the Commonwealth with being an economically self-sustaining enterprise that is responsible for: Real Estate Development/Management, Historic Preservation Management, Recreational Programming, and Public Programs/Education.

In order to succeed in its self-sufficiency mandate, it must excel in its revenue-producing activities, which is in this case the business of real property management and development. This is because the most likely source of significant revenue streams from the above four categories is Real Estate Development/Management, and it is assumed that revenues above costs from these activities will be used to fund in part or in whole the remaining three categories of responsibilities. What this means for the FMFADA is that it will no longer be solely at the center of a politically-sensitive planning process, but will shift into an execution mode and take on as its primary activity the development, operation/management, marketing, and maintenance of Real Estate. This is not to suggest that historic asset management and public programming will not be central to the activities of the FMFADA, but rather that these activities will depend upon a successful Real Estate program for funding if the FMFADA is to be economically self-sustaining. To be perfectly clear, the FMFADA will always be first and foremost a Historic Asset Management and Public Programs entity, and it will have as its primary source of funding the revenues attributable to real property management and development.

The FMFADA is now faced with the task of transforming itself from a planning body into an organization engaged in the business of developing and operating/managing real property in order to fulfill its mission. In other words, the FMFADA is being asked to quickly evolve from an organization that functions primarily as a political and policy-making body to one that functions as a revenue-generating and profit-maximizing enterprise. This complexity of this transformation cannot be understated for at least three reasons:

- First, the field of real property management and development is in and of itself a highly complicated and specialized field that cannot be regarded merely as a part-time endeavor or a second job;
- Second, the FMFADA will need to learn to behave much more like a private enterprise to deal directly with developers, tenants, property managers, and subcontractors that will regard Fort Monroe competitively with other business opportunities; and
- Third, the real estate economy is one of the most cyclical and complicated in the country, and the FMFADA enters the world of real estate at one of the most tumultuous times in the history of the modern real estate economy.

Implicit in the above challenges for the FMFADA is the directive for the organization to be economically self-sustaining. In this respect, viewing the future of the FMFADA as a private sector-oriented real estate enterprise – and ensuring that the FMFADA excels in its real estate plan – is not only appropriate, but crucial. Should the FMFADA not succeed in the business of real estate, either it will be forced to seek additional state appropriations on an annual basis or begin to allow portions of Fort Monroe to deteriorate. Either option brings with it a negative fiscal and financial implication as well as poses a strong threat to the overall mission of the FMFADA for the Commonwealth.

The FMFADA as a Real Estate Enterprise

The activities of the FMFADA as a Real Estate Enterprise will likely be distinctly different from its activities today, although the exact activities will depend largely on the type of real estate strategy eventually pursued. These activities will likely include:

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- Solicitation of a development partner or partners
 - Negotiation with development partner or partners
 - Bond Issuance
 - Construction Management or Oversight
 - Property Development
 - Legal Activities
 - Marketing
 - Leasing and Transactions
 - Tenant Relations
 - Property Management/Operations
 - Brand Management
 - Tenant Services
 - Negotiation of Lease Terms
 - Recruitment and Retention of Talent
 - Recruitment and Management of Contractors

Whether the FMADA conducts these activities itself or manages contractors to conduct these activities, two things are certain: first, the FMFADA must be knowledgeable and experienced in making decisions regarding all aspects of the above activities, and; second, the FMFADA must be empowered to make these decisions in a manner suitable for conducting business in the business world. The implications of the above two factors are that the FMFADA will at the very least need to maintain a core group of team members that have detailed knowledge about the above areas and are empowered to make decisions about these areas in a timely manner.

Perhaps more importantly, the above activities differ from current FMFADA operations in a substantive manner. To be sure, engaging in the activities above requires a different range of skill sets and organizational structure than is currently in place at the FMFADA. And to succeed, the FMFADA must succeed not only in the activities of today, but also in transforming itself into an organization capable of excelling in the activities of tomorrow.

Briefly stated, the current activities of the FMFADA are related to planning and policy-making and revolve around the creation of a reuse plan and successful conveyance of Fort Monroe. Project management, public process, and navigating the procedural complexities and political processes of the Commonwealth are the core operating abilities

critical to succeeding in these activities. Decision-making has been by necessity a collaborative process involving numerous stakeholders, the necessity of compromise, and timeframes that can range from weeks to months or even years.

The future activities of the FMFADA are transactional and customer-centric in nature, and are driven by the business fundamentals of marketing and “selling” a product in the marketplace, namely, the Fort Monroe address. The selling of this address includes both components related directly to real property management/development as well as the appeal of the address to local, regional, and national tourists. Decision-making will take place within the crucible of market competition, as potential residents, tenants, and tourists will weigh the Fort Monroe address against other opportunities and will expect certain levels of capacity and execution in exchange for leasehold, rental payments, development capital, or programs that could be in the millions of dollars.

Furthermore, if it is to be a self-sustaining entity, the FMFADA will no longer have the luxury of time or funding to satisfy the broadest possible coalition of political interests in its strategic decision-making. Instead, it will often find itself making difficult decisions between the economic and social goals of the organization. To illustrate, consider the following scenarios:

1. There is wide public support for robust recreational offerings at Fort Monroe. These offerings incur provision costs, such as materials, labor, maintenance, and insurance. Despite the popularity of the recreational activities, delivering these resources may have to be delayed until the FMFADA is generating sufficient revenues from its real property activities to fund these offerings. Such a decision may not be popular, but may be necessary if the FMFADA is to meet the economic self-sustainment goal.
2. The FMFADA is fortunate to have many wonderful building assets, and reportedly plenty of interest from numerous groups to occupy portions of these structures. However, not all prospective occupants are alike, and the FMFADA will have to consider the highest and best use from a revenue standpoint in addition to social and community goals, and may in some cases have to favor the revenue side of the equation (i.e. a professional office rent-paying business) over community goals (i.e. an arts center). Again, such a decision would be politically unpopular, but may be necessary if the business goals are to be met.

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3. Upon completion of hospitality assets on-site, it is determined that occupancies are very low compared to competitive hotels/resorts in the market. This causes an immediate and significant reduction on projected annual revenues. The FMFADA would need to make decisions in real-time to adjust pricing, revisit the contract with the hotel operator, choose a different reservations network, or begin marketing campaigns in order to compensate. There may not be time to wait for consensus building among the citizens of the Commonwealth in order to commence appropriate corrective actions.

In the above scenarios – as well as the vast majority of scenarios that will face the FMFADA when it opens for business - priorities and programs will need to be responsive to the vagaries of real estate market cycles, which often vary most dramatically at the local level. Consensus may become the exception rather than the norm. Authority to act may need to be delegated to trusted team members capable of negotiating directly with customers in real time, and decision-by-committee or by consensus will no longer be feasible if the FMFADA is to be successful in the marketplace.

The FMFADA Examined – Strengths, Weaknesses, and Opportunities, and Threats

RCLCO conducted an in-depth analysis of the FMFADA as well as the FMFADA Board to understand its strengths, weaknesses, opportunities, and threats over the next three to five years. This analysis was based on a combination of internal interviews, external stakeholder interviews, and comparison of the FMFADA to other analogous organizations with similar missions/goals.

Strengths

The FMFADA immediately benefits from the origin of its namesake – Fort Monroe itself. This unique property has excellent physical and location attributes that will make it an attractive opportunity for many in the business of managing/operating real properties or in real estate development. While the focus of this report was not an analysis of the real estate potential of Fort Monroe itself, it suffices to say that the FMFADA is fortunate to work with a property that possesses so many positive attributes from a development/operating perspective.

The FMFADA may also have the benefit of opportune timing upon conveyance of Fort Monroe to the FMFADA in 2011. While real estate market conditions as of this report remain in flux, and the U.S. market as a whole is experiencing a particularly sharp economic downturn, a confluence of thinking suggests that markets overall and especially real estate will be rebounding at or around the timing of the conveyance of Fort Monroe. Should this be the case, and the FMFADA is able to use the intervening time to secure the development future of the asset through well-crafted relationships with development partners, the FMFADA may be in a position to expect strong revenues both from existing properties as well as leasehold payments on development assets as forecasted in the Real Estate Development Strategy authored by Bay Area Economics.

The FMFADA has some degree of operating autonomy from the Commonwealth of Virginia, and will achieve additional autonomy in July 2009 by separating from the Department of Housing and Community Development, the Commonwealth agency that served as the growth platform for FMFADA. The degree of operating autonomy at this

point is still a matter of some debate, but the legislative mechanisms in place provide a positive platform for the FMFADA overall. If the FMFADA is to succeed in the world of marketing, leasing, and developing property, and become a self-sustaining entity, it will require a decision-making structure that is both time-efficient and cost-effective. The risks will be missed opportunities to enhance performance or increased cost to resolve challenges to the success of the organization.

The FMFADA is also well on the way to having a solid foundation for future activities, and has accomplished a tremendous amount already. Not only has the FMFADA created a reuse plan, but this reuse plan has been accepted and is being used to craft a real estate and organization strategy. The FMFADA team is deeply engaged in crafting a business plan as well as ensuring that it is properly built to execute its mission. They have commenced talks with the Army to potentially secure them as tenants from day one of operations, ensuring the promise of some perhaps substantial cash flows in early phases.

Within the organization, the FMFADA benefits from the dedication, passion, and perseverance of its five full-time employees. It has carefully selected individuals that bring energy, drive, and enthusiasm to the mission and vision for Fort Monroe, and these individuals have brought to the FMFADA the type of zeal and work ethic found in most successful start-up companies. In many ways, this strength has allowed the FMFADA to accomplish much more than otherwise possible with so few persons on staff. While enthusiasm alone is never enough, it should be noted that without this energy and drive exhibited by the existing team, the FMFADA would likely not be as far along in its current plan as it is today.

Perhaps more importantly, the FMFADA team has the political savvy to both understand and navigate the nuances of the political environment in which it operates. This has been enormously important in balancing the competing social and political goals of the Commonwealth with those of Hampton Roads constituents to fund FMFADA, engaging the public, managing relationships with elected leaders and military officials, and paving the way for property conveyance.

The FMFADA also brings to the table a range of strong experience and expertise that have buoyed its effort throughout the process. The team is well-suited to the current effort of bringing Fort Monroe through the conveyance process, and demonstrates excellent leadership, political savvy, and knowledge of historic asset management and public programs.

Weaknesses

Current real estate markets present a challenge to FMFADA. Currently, the United States and global markets are undergoing one of the most severe recessions in history. Even real estate that was once considered “easy” to develop has now become extremely difficult to develop, especially given the challenges in financing projects and finding development partners that do not face their own internal financial problems. During the immediate development horizon at Fort Monroe – assumed to be immediately upon conveyance as per the programmatic needs to properly manage the historic assets and infrastructure investments – it is unclear whether the FMFADA will be entering the market during a time of relative stability or continued volatility.

The size of the FMFADA organization is a critical weakness. Not only is the existing team functioning above 100% capacity, but it is certain that the number of tasks and their level of complexity will only become greater during the implementation phase. Other national LRAs examined during this study have no fewer than 12 to 15 full-time employees – and some of the most successful LRAs have many times more. Constraints on the size of the FMFADA staff are likely driven by the reluctance to increase its burden on the Commonwealth budget. However, the FMFADA should avoid the pitfalls that befell GIPEC (the Governors Island Preservation and Education Corporation), described later in this report, as it moved from planning to execution and failed to add significant staff capacity as it did so. Far and away the most efficient and cost-effective path to economic self-sustainment is appropriately staffing the organization to meet its mission at the outset. This study recommends that the FMFADA conducts detailed fully-integrated financial analyses of all of its proposed activities to determine the optimal phasing and staffing required to meet the goals and objectives of the organization.

The FMFADA has leveraged its consultants extensively, and, in many ways, used them as extensions of the staff. This has worked very well during the planning phase and before property conveyance, but there is tremendous risk in having consultants replace in-house experience for key decision making in the system. The FMFADA will need to add staff that has specific expertise directly related to executing the plan before the property is conveyed. Failure to do so will place added financial burdens on the FMFADA, as the cost of contracted consultant expertise will become more expensive over time. The FMFADA should be using consultants as advisors and to expand capacity to meet fluctuations in workload, and not as replacements for decision-making capability on either the board or the staff.

As the FMFADA moves from planning to execution, it will engage in long-term agreements with the private sector in order to fulfill its mission. While this would be true of almost any public organization that engages with private business, in real estate management and deal-making, the FMFADA needs to be able to make efficient and effective spending decisions related to cultivating relationships, meeting with prospective partners, and travel and marketing expenditures. Consider how well the FMFADA would contend with the following likely scenarios:

1. A prospective office tenant is touring available space at Fort Monroe and is prepared to sign a lease immediately if the FMFADA agrees to several specific lease requests, including additional tenant improvement allowances, a shorter-duration lease, and a modified gross lease rate. The tenant is prepared to sign elsewhere if a decision cannot be reached while on-site.
2. A prospective tenant requires specialized lab facilities to be in place within a specific time period. She wants assurances, including documentation and contract language that gives her comfort that these goals will be met.
3. A prospective development partner is touring several sites for potential investment. He is prepared to invest in Fort Monroe, but is proposing a structured finance arrangement whereby his contributions would increase over time in proportion to the anticipated return on each subsequent tranche of

investment. He wants to negotiate the terms of such an arrangement before visiting another prospective investment site.

In each of the above scenarios, business decisions would be dependent upon experienced professionals on-site who have full authority to act upon the behalf of the FMFADA and enter into contractual discussions with potential partners. Without this in-house expertise, the FMFADA may have to rely on commissioning consultant studies in order to make recommendations for a later decision, and this in fact is too long a process to be business-effective.

With respect to funding, the FMFADA is subject to the Commonwealth's budgeting and procurement procedures, which involve once-a-year funding requests and annual allocations and are subject to political priorities. As the needs of FMFADA may change on a weekly or even daily basis – driven significantly by immediate opportunities and real estate market cycles – the existing policies are likely to prove cumbersome at best and hinder the FMFADA from executing its mission at worst. For example, the FMFADA may have the opportunity to market office space to a potential tenant that is screening multiple properties in the Hampton area. In an effort to compete for business, the FMFADA would want to create a new and customized professionally-designed and printed marketing brochure that is targeted to the specifics of this particular tenant. Designers, printers, stock photo licenses, and other components of this effort would need to be purchased based upon the business need, even if such expenditures were not part of the original annual appropriation, or did not meet state procurement requirements. Under the current funding structure for the FMFADA, accomplishing the above would more than likely be a challenging endeavor.

The current structure of the FMFADA – and the primacy of its board for both decision-making authority and in securing funding/support – is extremely susceptible to changes in politics. Seven of the 18 members of the Board are nominated by the Governor, and Virginia Governors are limited to a single four-year term limit. As gubernatorial administrations change, so shall the makeup of the Board. This lack of continuity presents a weakness in the organizational structure, which demands continuity and institutional memory to succeed in executing its mission.

The decision-making process followed by the FMFADA Board raises several questions and is currently considered a weakness. In its original structure, the FMFADA is governed by an 18-member board that is broken up into three standing committees; as of January 2009, the key committee responsible for Operations and Transactions was disbanded and instead there were Nominating and Executive Committees created, and in June of 2009 a Governance Committee was created to review the recommendations of this study. In addition, the FMFADA is also advised by a separate Historic Preservation Advisory Group. The committees and the advisory group make recommendations to the Board Chair, who in turn directs the Executive Director. Inspection of the governing documents shows that two of the three committees have some overlapping responsibilities specific to real estate operations, suggesting confusing lines of responsibility. This study was not able to ascertain the effectiveness of the committees as is, as there were no notes from committee meetings available for review. Notably, the disbandment of the Operations and Transactions Committee and the creation of a Nominating Committee and Governance Committee suggest a bias towards focusing on governance and procedure rather than the business of executing the Reuse Plan. Moreover, the fact that the Historic Preservation Advisory Committee – originally charged with creating a financially-sound business plan for the reuse of Fort Monroe but solely focused on issues of political, cultural, and procedural concern – also indicates that governance of the whole may not be focused on the business of executing the reuse plan.

There are at least two areas of capacity weakness, both within the FMFADA and within the board. First and foremost, the FMFADA in its current format is designed to function as a lean organization with an active board – meaning that in order for the FMFADA to succeed, it must have significant Board activity and work products. However, interviews with Board representatives indicate that the board meets frequently enough to satisfy the law, but no more frequently. Moreover, interviews reveal that only two of the current board members have business experience relevant to the development and/or management of real property. Within FMFADA itself, the team has a high level understanding of real estate, but arguably currently lacks the experience to oversee the full implementation of the real estate development and operating components of the Reuse Plan. Both of the above weakness areas indicate that the FMFADA or the Board could benefit greatly from the addition of both actual real estate development and operations/management expertise.

The Programmatic Agreement for Fort Monroe presents more questions than answers, but the current assessment of this document is that it represents a weakness. The PA is robust and well thought out, and represents a laudable effort by many dedicated professionals to ensure that any future development or real estate activities at Fort Monroe have the benefit of “ground rules” that are clearly articulated, as well as the benefit of a dedicated human resource, the Fort Monroe Historic Preservation Officer, who will serve as steward of the ground rules and the “helping hand” between these rules, the FMFADA, the Commonwealth, and development partners. However, interviews with several close to the document as well as intimate with the field of historic preservation suggest that the rules may be overly burdensome, perhaps more so than any Programmatic Agreement in the nation, and could hinder approved development efforts at Fort Monroe. While this opinion has yet to be substantiated – something that only the market can do – even the mere possibility of a potential regulatory/compliance burden can have a significant impact on the ability to entice private sector participation in proposed development efforts.

Additionally, while the FMFADA is charged with becoming a self-sustaining entity and plans to do so by 2016, it is in the meantime a beneficiary of the Commonwealth, and its operating budget is determined by the annual appropriations process in Virginia. In fairness, the FMFADA has strong champions of its cause that have influence in the Commonwealth appropriations process, and these champions of Fort Monroe have performed well in defending budget requests and ensured a stream of funding for the FMFADA, even in the midst of budget shortfalls and cuts. However, the appropriations process is static, and is not well-suited for an organization that must respond quickly to seize an opportunity or mitigate the negative impact of a challenge. Moreover, the process is limiting, in that the FMFADA may only pursue funded activities and is not capable of responding to new or unique opportunities as they arise.

There are numerous weaknesses, all of which pertain in some way to the FMFADA Board. It should be noted that there is a wide divergence in interpretation, even within the FMFADA, of the extent to which the FMFADA is comprised of the staff and board, or whether or not the FMFADA is comprised of its working staff but is advised by a large corporate-style board. Further divergence exists regarding which model is appropriate, desired, or recommended going forward. With this as a backdrop, the following weaknesses were evident during the course of this investigation:

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- The Board includes five cabinet-level members who are appointed by the Governor, and two additional members who are appointed by the Governor. As Virginia governors are term-limited, turnover of these seven positions portends difficulty in maintaining board continuity.
 - Board membership has focused primarily on issues of cultural resources and achieving broad consensus, perhaps at the expense of bringing on “skill players” in the fields of real estate, tourism/hospitality, property management, education/public program or business. Membership on the Board or rules for Committee Chairs do not have functional or expertise-driven requirements, save ex-officio roles which are tied to positions, not expertise.
 - Only two members of the board claims expertise in the field of real estate, and this experience or expertise is not readily-evident in any of the other available biographies or resumes of board members. This is an awkward relationship, at best, for an organization depending on its Board to make real estate decisions with significant long-term implications.
 - Roles and responsibilities within the Board overlap and are in some ways counter-productive. For example, in the original structure, the Operations/Transactions Committee makes recommendations for leases, while the Marketing committee makes recommendations for the lease prices, and the Finance committee makes decisions about how to invest proceeds from leases. In the current structure, it is unclear whether the Executive Committee assumes the roles that the Operations/Transactions Committee once held or whether these roles are now eliminated altogether. This example in particular illustrates an inefficient-at-best division of responsibilities that may be grounded in good spirits but perhaps not in sound business fundamentals. Moreover, this prevents clear decision-making and presents confusing lines of responsibility.

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- Interviews suggest that Board participation is driven by legal requirements as much as voluntary interest. For a structure that is predicated on an active Board that drives work and accomplishments, there is little if any record of Committee activity between Board meetings.

The above list enumerates a few of the complications that arise when attempting to evaluate the current Board structure. The structure is a weakness to the FMFADA for the following aggregate reason: the FMFADA as conceived is comprised of a lean staff and an active Board that is expected to make key decisions regarding the business of the FMFADA. The FMFADA in actuality is comprised of a lean staff and a strong supportive Board that is less active than required for the current model and may not have all of the necessary skills on hand to make the key decisions regarding the business of real estate development.

Opportunities

The current real estate market actually provides unique opportunities for the FMFADA, if it can move quickly to seize them. At this time, many real estate-related professionals find themselves unemployed or underemployed. Among these individuals are top talents that are now looking for new and/or unique opportunities and are willing to relocate—conditions which had not prevailed in this industry for many years. The FMFADA has a window of opportunity to bring to its organization very high levels of talent and unique expertise at labor rates and on terms that would be unavailable during stronger market conditions.

Similarly, the real estate professional services market is currently experiencing some level of downturn, and many providers have embraced bargain pricing as a means to navigate the current market cycle. This includes a wide variety of disciplines, including property management and maintenance, marketing and leasing, owner's representation services, plumbing and mechanical, operations, and other areas. Moving forward quickly and negotiating long-term contracts at 2009 prices would serve the FMFADA well, especially if, as is widely anticipated, "normal" conditions return by the time the property is conveyed.

The completion of the reuse plan provides a critical inflection point in the history of the FMFADA – a point in time which can be used to assess the successes of the past and plan for the successes yet to come. While not a true “resting point” along the journey, the completion of the reuse plan does give momentum and legitimacy to any efforts to make changes to the FMFADA before embarking upon the execution phase of the work.

Threats

The greatest threat facing the FMFADA in the near term is the changing nature of the organization’s mission. When it was established, the FMFADA assumed the formidable task of creating a reuse plan for Fort Monroe. The needs associated with this task – political savvy, dedication to public process, outstanding consultant recruitment and management, and excellent project management – are ones that the current organization and its Board are quite capable of meeting. The fact that there is a well-constructed reuse plan at this early stage is a testament to how well the organization is capable of meeting its current needs.

However, in the coming months, the FMFADA needs to shift gears from one that is planning in nature to one that is execution in nature. In this circumstance, “execution” will involve engaging in the business activities directly related to real estate development and management while simultaneously executing public programs and historic asset management to ensure financial self-sustainability over the long term. As this shift takes place, so shall the needs of the FMFADA to adapt to this changing role. Attention will continue to be needed in the areas of state and local politics and project management, but new in-house experience is required to provide focus and action-oriented capabilities necessary to deal with the complexities of the real estate activities of the reuse plan.

Inertia is potentially an equally potent threat to the FMFADA. There will be no doubt some level of sentiment – broad or narrow – that the FMFADA should continue on as-is in perpetuity. There will also be some sentiment that the FMFADA should continue to function more like a policy-setting and contractor-management entity than a revenue-producing business unit. Finally, there will be pressures to emphasize one of the FMFADA’s four charges in the reuse plan – real estate, historic asset management, recreation, and public programming – more than the other. The successes of

FMFADA in transforming itself into a body capable of executing the strategy will be key to its medium- and long-term success, hence the need to overcome this inertia immediately.

The current structure of the FMFADA is one with limited staff and extensive Board responsibility. Such a structure demands an actively-involved board, as well as one that is well-versed and balanced (meaning that no critical activity should outweigh another—for example, Real Estate vs. Programs or Historic Preservation vs. economic self-sustainability) in critical missions of the organization, including the likely primary revenue-generating activity at Fort Monroe – real estate development and management. Without either revisiting the current Board composition and activities, or redesigning them, the FMFADA will have challenges to its success going forward.

As the FMFADA seeks development partners, Fort Monroe will face competition from other equally-compelling development sites across the nation. High-quality developers that have the expertise and capability to take on the development challenges at Fort Monroe are not plentiful, particularly navigating through the PA requirements, and among these, many will undoubtedly have some level of internal financial challenges that will affect their ability to perform at high levels. The remaining, viable subset of potential development partners will likely be contacted by numerous development and economic development entities seeking partnership. These partners will likely select potential development opportunities based on: financial upside, quality of internal team, amount of regulatory burden, and location of development opportunity, among other factors. Being competitively positioned to attract and retain top development/real estate talent will not be simple, and FMFADA would be wise to consider the implications of this scenario sooner rather than later.

Additionally, the scope and scale of the Programmatic Agreement in its current format presents a threat to the potential success of the FMFADA as a Real Estate Enterprise. Interviews with historic asset management specialists familiar with Fort Monroe and with Programmatic Agreements in other locations confirm that the Programmatic Agreement written for Fort Monroe is very complicated and will likely add time and expense to administer and, in the worst case, result in less interest from the private sector. The regulatory and compliance burden, in concert with the potential for

any alteration of the PA only possible 24 months after conveyance, suggests that it may be difficult for the FMFADA or its development partners to engage in any type of real estate development aside from recruiting potential occupants to take on existing structures on a strictly as-is basis.

Analog Case Study Research

Fortunately for the FMFADA, the challenges it faces have been encountered by other organizations in similar circumstances. During the course of this study, several different organizations involved in processes and activities similar to the FMFADA were profiled and analyzed in order to highlight best practices as well as potential pitfalls that FMFADA may encounter as it attempts to form an effective organizational structure. Dozens of organizations were investigated to some degree, but ultimately a smaller set of the most relevant key analogs were profiled in depth in order to ascertain a detailed understanding of their organizational structure as well as their strengths and challenges. These analogs were selected based on both their general relevance to FMFADA (size, location, tasks, etc.) and the nature of different elements of their organization that are unique or noteworthy, and thus potentially germane to FMFADA.

These key analogs include The Presidio in San Francisco, California, Jekyll Island in Georgia, Patriots Point in Charleston County, South Carolina, Governors Island, in New York City, New York, and Glenview Naval Air Station in Glenview, Illinois. These analogs are described in brief below, along with key takeaways and lessons learned for the FMFADA. An exhibit detailing the list of potential case studies and the final set of analog case studies, as well as some background information on their size and location, is given in the Appendix.

The Presidio – San Francisco, California

Number of Employees: 285

Departments: Project Office, Administrative, Public Safety, Resource Management and Planning

Board Composition: Six members

Financial Self-Sufficiency Status: Mandated by U.S. Congress by 2013 – On Track for Compliance

Size: 1,168 Acres

Budget: \$66.4m revenue (\$9.3m net operating income)

BRAC Round: Round I (1988)

Closure Date: 1994

The Presidio Trust was established by the United States Congress to oversee the operations, historic preservation, and redevelopment of The Presidio, a 1,168-acre parcel, originally a Spanish colonial outpost, and more recently a long-standing U.S. Army installation, located in San Francisco California. The Presidio comprises nearly six million square feet of buildings, including 469 historic structures that contribute to its status as a National Historic Landmark District. The Presidio's transformation from a military base to a national park began in 1972 when the US Congress created the Golden Gate National Recreation Area (GGNRA). In 1996, two years after base closure under BRAC, the Congress devised a management and funding model for the Presidio that is unique among national parks. The Presidio Trust was created to preserve the park's natural, scenic, cultural, and recreational resources, and to become financially self sufficient. The Trust manages the interior 80 percent of Presidio lands (known as Area B), including most buildings and infrastructure. The National Park Service manages coastal areas (known as Area A).

Unique among local redevelopment authorities and structured as such in the spirit of driving innovation in the BRAC redevelopment process, the Presidio Trust is a wholly-owned corporation of the federal government. Congress requires that the Trust oversee the park's cultural, historical, and natural resource preservation, park enhancement, and public use while also ensuring that it develops the financial wherewithal to sustain the park in perpetuity. The Trust Act implemented by Congress provides the Presidio Trust with the flexibility to operate functionally in the marketplace, make real-time decisions, and retain revenues to reinvest in the park. The structure of the Presidio Trust is unique in the nation, and, according to some, was designed as a response to slower-moving local redevelopment authorities that do not closely enough resemble private enterprises sufficient to conduct the business of real estate.

Plans call for the net building footprint at the Presidio to be reduced from 5.96 million square feet to 5.6 million square feet. A variety of real estate uses are envisioned to occupy this space. The exact allocation of uses will be determined through specific use restrictions put in place to guide future development. The Trust's objective is to achieve a balanced use of its building space at build-out: one-third of the buildings will be used for office, one third for housing,

and one third for other public-serving uses. The number of housing units will remain the same as is in place today (1,654 residential units). However, up to 400,000 square feet of new residential construction is planned in already developed areas in order to replace demolished housing. Housing is seen as a vital component of the Presidio's redevelopment, since it provides a reliable source of funding in both good and bad economic times, and maintaining a substantial residential population will add to the vitality, safety, and security of the Presidio. Those who work within the park will receive preference for housing, which will limit automobile use within the site.

Of a total of 1.82 million square feet of commercial space, 1.5 million is already occupied or committed at the site. This includes the site's marquis tenant, Lucasfilms, which occupies 840,000 square feet. The remaining office space is in historic buildings, and, due to its smaller format, is unlikely to appeal to large commercial enterprises that typically will locate in central business districts or major suburban office submarkets. New office users in these remaining spaces will generally be small businesses or organizations. The tenant diversity at the Presidio is seen as a key piece in achieving long-term financial stability.

The remaining one-third of the built space at the Presidio will be for public-serving uses including cultural and educational uses, such as museums, exhibition space, public or private schools and learning centers, historic sites, performing arts venues, recreation, small-scale lodging, and other various amenities for park visitors.

At build-out, capital costs for the Presidio will likely exceed \$600 million. Annual operating expenses are expected to stabilize at \$43 million per year, making it the most expensive national park to operate and maintain. The Trust has so far been successful in striking the right balance between preservation and meeting the financial goals mandated by Congress. This has allowed it to continue to rehabilitate buildings, restore and preserve natural resources, expand open space, and preserve the park's historic character. Furthermore, the Presidio's unique relationship with the federal government has allowed it to be able to keep its redevelopment plans flexible in order to respond to changing market conditions.

The Presidio's historic buildings represent one of the nation's most comprehensive collections of military architecture. Its large stock of impressive historic structures and its designation as a National Historic Landmark District means that historic rehabilitation is a priority for the Presidio Trust and one of its foremost activities. The ability to execute historic rehabilitation at a high level has clear ramifications in terms of the Presidio's financial health. The Trust is charged with ensuring that the overall historic character of the park is preserved, while, on an individual basis, each building is updated in a way that is reflective of its historic nature but also geared towards the needs of modern tenants who will pay to occupy the premises.

Historic preservation at the Presidio is guided by a Programmatic Agreement. Within this agreement, it is mandated that the Presidio Trust be responsible to "carry out a variety of undertakings, including but not limited to maintenance, rehabilitation, repair, moving, interim and long-term leasing, construction and demolition of buildings, structures, and roads, and work regarding grounds and associated landscaping within Area 'B' of the Presidio." This charges the Presidio Trust itself with the rehabilitation of the historic structures on site. This process is undertaken 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*. Historic rehabilitation is overseen by a Federal Preservation Officer (FPO). Today this position is held by Ric Borjes. According to the Programmatic Agreement, Ric (or anyone in the FPO position) is responsible "for coordination of the preservation program and implementation of the terms in this PA. The agency official designated as the Trust's FPO shall meet the requirements for that position as defined in the Secretary of the Interior's Standards and Guidelines for Federal Agency Historic Preservation Programs Pursuant to the National Historic Preservation Act." Within the organizational structure of the Presidio Trust, the FPO is within the project office division. This division is broad and deals with most issues relating to the built environment at the Presidio. The FPO oversees all historic rehabilitation and compliance activities. Under the FPO will be a historic compliance coordinator that assists the FPO in carrying out responsibilities for review and consultation mandated by the National Historic Preservation Act.

The Trust assesses its preservation priorities annually in an effort to perform preventative maintenance on buildings that have not been identified yet for full rehabilitation. Additionally, each year it is decided which buildings should undergo a

full rehabilitation so that they may become “market ready” and added to the lease rolls. This is determined in part by an analysis of conditions in the external real estate market and the demand for certain types of space.

Significant Takeaways

Experience-Based Board Appointments

The six-member Board of Directors for the Presidio Trust is directly appointed by the President of the United States, but these appointments are not political plums. Rather, the appointments are governed by stringent knowledge requirements that are in place to ensure that key decision-makers have a keen understanding of the day-to-day operating activities (such as planning, real estate, development, environmental protection, etc.) of the Trust.

As the composition of the Board currently stands, one of the six members will be the U.S. Secretary of the Interior or his/her designee. Besides this appointee, Board members are required to possess extensive knowledge and experience in one or more fields of city planning, finance, real estate development, and resource conservation. At least one of the members is required to be a veteran of the Armed Services. Finally, it is also required that at minimum, three board members shall reside within the San Francisco Bay Area. This last requirement ensures that the Board has a built-in local knowledge base, and that these members will be keenly aware of the political and economic environment that the Presidio Trust will be operating in.

Enacting these prerequisites for potential Board members is beneficial from both an execution and political standpoint. Having Board members with a high level of technical acumen in areas relevant to the Presidio’s redevelopment ensures enthusiasm and engagement from Board members, while at the same time enabling the board to make informed decisions. From both an execution and political standpoint, the stipulation that three of the Board’s members be residents of the Bay Area has been seen as a particularly shrewd decision. Since

appointments are made at the federal level, having a Board composed of several area residents presents a local face to the public. Further, these members bring with them an adept understanding of the Bay Area marketplace and an ability to adroitly navigate the local political landscape.

Board Subcommittees Based on Professional Experience

There are three subcommittees which board members can join. They are the Real Estate and Housing Committee, the Finance and Budget Committee, and the Operations and Management Committee. The formation of these subcommittees has allowed Board members to focus their fact-finding and decision-making processes by allowing those with the most applicable expertise to be more intimately involved with the decision-making process for those issues where they can provide the most insight.

Financial Self-Sufficiency Mandated by 2013 – Presidio Trust is on Track

Congress has stipulated that the Presidio Trust generate sufficient revenues to support its operations by FY 2013. To this end, Congress has provided The Trust with a variety of tools, including the ability to generate and retain revenue, the ability to lease real property, the ability to make loans, and the ability to provide loan guarantees to encourage the use of non-federal funds by third parties to invest in the rehabilitation of the Presidio's historic buildings and infrastructure.

The Presidio was able to generate most of its revenue from the leasing of existing buildings, including both residential and commercial. Agreements were made with many non-residential tenants that stated that they would become responsible for investing in the tenant improvements at various sites. This limited the Trust's need for capital expenditures for historic renovations. They worked closely with tenants to oversee this process. Those buildings that were the easiest to rehabilitate were quickly turned around and added to the rent rolls. This allowed for a sizable base of income-producing properties from an early stage. Many buildings became available in the late 1990s and early 2000s. This was a time when the housing and office markets in San Francisco were particularly strong. This propitious market timing helped drive occupancy and thus enhance lease revenues.

Aside from real estate revenue, the Trust actively seeks out philanthropic donations. This effort has thus far been met with great success. Unlike at some of the other key analogs, this is not done through a separate 501(c)(3) organization, and the Trust itself will absorb donations. It has been recommended to the Trust that they hire a philanthropic development officer whose job would be to coordinate Board and staff activities related to securing philanthropic support. During FY2004, the Trust entered into a partnership with the Parks Conservancy in order to raise funds for projects that aim to enhance the natural environment within the park. This includes building trails and overlooks, revitalizing the Main Parade Ground, and improving the Rob Hill Campground. Due in part to this partnership, many capital improvements, particularly in terms of recreational amenities, have been funded almost entirely through philanthropic gifts and grants.

Other operating revenue is generated through utilities, special events, and interest from investments. These other sources have accounted for nearly 12% of total revenue since 1998. Congressional appropriations continue to diminish, and when they expire in 2013, it is very likely that the Presidio Trust will be able to operate the Presidio in the black.

Revenues Derived Primarily from Appropriations and Lease Revenues

Redevelopment and maintenance for the Presidio is undeniably a costly proposition. Many of the near-term decisions made by the Presidio Trust will have long-term impacts on the financial sustainability of the venture. The near term challenges that the Trust must manage include changes in the level and sources of revenue, timing of cash flow, market conditions, leasing risks and incentives, and cost control.

The Trust's main funding sources are federal appropriations and lease revenue. Appropriations will be phased out in 2013, when The Presidio is expected by Congress to have achieved full financial self-sufficiency. The Presidio Trust Management Plan states that "the quality and quantity of building space that is rehabilitated and leased between now and 2013, will determine how the Trust meets the initial threshold of financial self-

sufficiency.” Other, less substantial, funding sources are Treasury borrowing and third-party capital sources. Without the federal appropriations provided to the Trust, it is hard to imagine how this immense redevelopment effort could have been carried out.

Maximize Lease Revenue Upfront and Strategically Manage Leasing

The experience of the Presidio has shown that maximizing lease revenue from historic structures as soon as possible is a key to financial success. The ability to get rehabilitation started on day one after the transfer ensured that revenues from leases of these buildings are generated as soon as possible. A key strategy at the Presidio was to prioritize rehabilitation so that those buildings needing the least capital expenditures for their rehabilitation are prioritized. This represents “low hanging fruit” that can form a solid foundation of lease revenue for the Trust and create a reliable funding source to cover operating expenses and future capital expenditures. With \$50 million borrowed from the U.S. Treasury, the Trust made immediate improvements in 1999 to former Army Housing and was able to put these units on the rent rolls in short order. The logic behind the “quick and easy” rehabilitation strategy at the Presidio is that if historic buildings are “mothballed” after the transfer, they will not be generating income and indeed become more burdensome over the long run as the cost for rehabilitation increases rapidly.

Additionally, the Presidio credits a portion of its success to its lease structure. Instead of selling their residential assets or entering into long-term ground leases (essentially the same as selling), the Trust has chosen to execute annual leases on these properties and directly oversee them. According to the Trust’s Executive Director, Craig Middleton, this “has allowed us to ride the wave of increases over time with a steady stream of rental income. This has provided a basis for covering our operating costs.” The Trust realizes that conventional wisdom states that getting an up-front profit from sales may look more appealing, but they prefer to rely on the ongoing revenue sources from leases. This configuration has provided the flexibility needed to maximize revenues. As managers of the properties, they have been able to benefit from increases in rental income over time and from the persistent need for housing (particularly rental) in San Francisco. This was especially true during the early 2000s, when the San Francisco housing market saw dramatic price increases and especially strong demand fundamentals. For

instance, the Trust has maintained a residential vacancy rate of approximately three percent, significantly better than the San Francisco annual average of six percent. The flip side of this is that financial planning must consider market fluctuations and the impact of these on rental income on an annual basis. Revenue from residential leases on the site was just over \$23 million in 2006 when 1,000 of a total park-wide cap of 1,654 units were available.

For non-residential uses, the Trust has typically entered into long-term ground lease agreements. The execution of an agreement in 2002 with Lucasfilms to redevelop the vacant and obsolete Letterman Army Hospital site on 23 acres was a major success. The 840,000 square foot facility generates ground lease payments of \$5.8 million per year, with periodic adjustments, in addition to service district charges (similar to common area maintenance payments). In addition to the Lucasfilms lease, non-residential lease revenue is derived from the additional 42 buildings that have been leased since 1998. Of these, 23 were historic preservation projects. More than \$35 million in private capital has been invested by the tenants in these historic rehabilitation projects. Non-residential leasing is projected to generate \$25.5 million in FY2009.

Federal Authority has Provided Benefits and Challenges

The Presidio is unique in that it is a Federal entity and has special authorities and obligations granted by the Congress. While this arrangement has benefitted the Presidio, in many instances it has been a hindrance in others.

This relationship is a positive one, by providing the Trust's flexible management capabilities. Unlike many other local redevelopment authorities, there are no multiple jurisdictional layers that create an onerous and contentious political environment which acts to inhibit an authority's ability to execute redevelopment. The relationship that the Trust has with the federal government allows it to manage the redevelopment in a way that is responsive to both the market and the Presidio's specific needs as they are discovered. It provides for a nimble organization that is able to react to changing conditions.

This relationship has been particularly beneficial to the Trust in terms of personnel issues. Unlike many other authorities that operate in an ordinary civil service environment, the Presidio Trust has the ability to adjust compensation and hire, fire, and promote employees. This allows it to operate more like a private sector business that can respond quickly and efficiently to changing needs and conditions from a human resources perspective. For instance, there was a need for a larger workforce early on as the number of rehabilitation and infrastructure projects was greater. As this need diminished, the Trust was able to respond to its change in staffing needs appropriately in a fashion that ensured cost savings and efficiency.

On the negative side, the Presidio Trust is not permitted to borrow money unless it is taken from the U.S. Treasury. The Trust has Treasury borrowing capacity up to \$150 million. However, according to Craig Middleton, the reality is that the Trust “can’t really borrow that money because it is scored against the federal budget as if it were an outlay, akin to an appropriation.” Within the first three years of its existence, the Trust was able to borrow \$50 million, but as the fiscal situation in government has changed, they have been continually denied for additional loans.

Patriots Point – Charleston County, South Carolina

Number of Employees: 66

Departments: Operations, Tourism/Business Development, Development, Patriots Point Foundation

Board Composition: Six members

Financial Self-Sufficiency Status: Yes,

Size: 343 acres

Budget: \$17.3m revenue

Patriots Point sits on 343 acres in Mount Pleasant, Charleston County, South Carolina, fronting the Cooper River, across from the City of Charleston. It is controlled and managed by the Patriots Point Development Authority, which took control of the land in 1974 and 1975. While many activities take place within Patriots Point, the main attraction and the primary concern of the Authority is the Naval and Maritime Museum. At the museum, the Authority currently offers tours of the USS Yorktown aircraft carrier, destroyer USS Laffey, submarine USS Clamagore, and U.S Coast Guard Cutter Ingram. Various aircraft and other military exhibits are also open to the public. In addition to the museum, the Authority owns the Patriots Point golf course, which is managed and leased by Charleston Harbor Golf Partners, LP. The Authority operates the museum gift shop. A major resort hotel and marina have been developed on parcels leased from the Authority. Additionally, the Authority leases other parcels of its land to various entities. Most of these have made their own leasehold improvements to accommodate their specific needs and activities.

The Patriots Point Development Authority is South Carolina State “enterprise agency” and, as previously stated, is responsible for the operation of the naval and maritime museum. Although the Authority operates somewhat independently, it lacks full corporate powers. In addition, the Authority is financially accountable to and dependent on the state, and subject to various state procurement, budget, personnel, and other regulations. The Authority was formed by the state to develop and improve the area and assist in developing Patriots Point by acquiring, constructing, equipping, and maintaining museum buildings, aquariums, laboratories, public exhibits, entertainment facilities, historical monuments, and lodging.

The core mission of Patriots Point is twofold and is centered around the Naval and Maritime Museum. The first part of the mission relates directly to this museum. It states that the Authority will “establish, develop, and operate a national museum of ships, naval and maritime equipment, artifacts, manuscripts, and other historic military displays for the purpose of fostering patriotism, generating pride and respect for the United States of America, and for memorializing all soldiers, sailors, and airmen who have given their lives in the service of their country.” Secondly, the Authority is charged with the provision and maintenance of ancillary activities that support the museum and the Authority’s core mission. The second part of the mission states that the Authority will “develop and enhance Patriots Point and its

contiguous water areas to support the operation of its historic ships and aircraft, provide a place of education and recreation, and stimulate national and international travel by providing museums, attractions, lodging and accommodations.”

The land holdings at Patriots Point are divided into six distinct parcels. Parcels one and two are home to the museum, and available land within these is dedicated solely to the future expansion of the museum and its functions. Parcel three is 34 acres including the Charleston Harbor Resort and Marina. This is the main source of lease income for the Authority. Also on this parcel are cottages, retail space, and an office/residential complex. The Authority has entered into a 99-year ground lease to develop this land. Parcel four is a preserved area. The majority of this is under a conservation agreement with the State of South Carolina Department of Natural Resources. Since this land cannot be developed commercially, the Authority will not receive any income from this parcel. Parcel five is the Patriots Point Golf Links. In 1997, a new lease was executed with the current developers/operators of the course. This lease does not maintain a provision for minimum rent. This is a potential challenge for the Authority, as lease income is tied to the performance of the golf course. However, if the golf course continues to perform as projected, it will continue to provide the Authority with a reasonable return. Finally, parcel six at Patriots Point includes a 35-acre athletic complex. In December 1996, the Authority entered into a lease with the College of Charleston. Annual rental payments are projected at \$1.7 million. Of the three parcels where development exists (i.e., three, five, and six), this parcel provides the Authority with the lowest rate of return.

The majority of the funding for the museum at Patriots Point comes directly from the Authority. However, the Museum receives additional funding from the Patriots Point Foundation (an independent 501c3 organization). The Authority recognized the integral role that outside fundraising would play in the ongoing operations of the museum. As such, this foundation was set up to take on this challenging task. The Foundation is a member-based organization that can rely on regular member dues for a regular funding source. It also seeks the charitable giving from other foundations and individuals. One-time donations (big and small) are an important funding source for the Foundation. In the last fiscal year, no funds were received from the Foundation, nor were any funds given by the Authority to the Foundation. This is

typical of the Foundation's fundraising. Funds are provided to the Authority for specific projects on an "as needed" basis.

While the Authority provides most funding for the operations and maintenance of the museum, funding for major capital projects is collected through the foundation. One example of a Foundation-funded project is a handicapped elevator installed in 2007 on the hanger deck of the USS Yorktown. Currently, the Foundation is raising funds to build a 1,700-square foot Marine Education Center aboard the USS Yorktown that will accommodate 53,000 students who can learn history and science within this venue. The long-term capital project of the Foundation is a multi-use 20,000-square foot facility called Patriots Hall. This will be located on the waterfront and will be used by veterans, visitors, and the local community.

Since the Foundation is essentially a separate entity from the Authority, it has its own staff and a Board of Trustees. The Foundation has a President, Vice President, Secretary, and Treasurer along with a small support staff. The Board of Trustees is composed of ten members – mostly from the local community. While it has its own governing structure, the President of the Foundation reports to the Executive Director of the Patriots Point Authority.

Significant Takeaways

Non-Real Estate Revenues Cover Operating Expenses

The Authority has been successful in creating a strong enough presence for their museum and recreational/educational activities that revenues from these activities now largely cover operating expenses at Patriots Point. The primary sources of revenue include museum admissions, gift shop sales, fees from education programs such as the youth education and camping programs, and on-site vending franchises. Patriots Point is entirely self-sufficient financially, and currently receives no assistance from the State of South Carolina. However, the state does have oversight responsibility of the agency. As such, the Authority has the ability to request the state to appropriate funds to meet financial obligations that are not funded by income from the development.

Lease Income Funds Capital Improvements

Patriots Point receives income from the ground leasing of various parcels on the site. The Authority controls 343 acres of usable land divided into six parcels. Three of these parcels generate lease income. Substantial lease revenue comes from improvements such as a golf course, the Charleston Harbor Hilton Resort, cottages, a marina, retail space, and an office/residential complex. These are all on some form of a ground lease. Income from these leases has for several years been dedicated to a capital fund for maintenance of the historic museum and other capital projects throughout Patriots Point.

Ground Lease Provides Higher Rate of Return than Outright Land Sales

The Authority has found, and outside consultants have confirmed, that their use of 99-year ground leases has been a more financially viable approach than outright land sales for the non-museum-related parcels within Patriots Point. Some ground leases are structured based on the value of the improvements on the land. This provides a risk that market fluctuations could result in the generation of insufficient, or lower than expected, revenues. Conversely, strong property markets increase the likelihood that leaseholders will undertake development and create value-added improvements to the site. This will increase the ultimate lease income received by the Authority. To date, favorable market timing has ensured that the leased land has indeed been built upon at Patriots Point, and that the ultimate lease revenues will surpass the value if they had been sold in the open market. For instance, at parcel three, the ground lease income for a ten-year period between 1997 and 2007 was over \$10 million. Now that the parcel is coming close to full development, there will be a steady income stream to the Authority of close to \$1.3 million annually.

Lack of Real Estate Expertise In-House has Led to Some Missed Opportunities

In keeping with its mission, the staff of the Authority is largely involved in the planning and day-to-day operations of the Naval and Maritime Museum. Board members are political appointees and typically do not have an intimate knowledge of the real estate business. The staff of the Authority, in particular the Executive Director, is

ultimately responsible for making Patriots Point's real estate decisions. The Executive Director has myriad responsibilities, and not having a person on staff whose sole objective is to report to the Director on real estate issues has led to some missed opportunities.

Overall, Patriots Point has been somewhat lucky in terms of its real estate efforts to date. This has mainly to do with the relative strength of the Charleston property market since the inception of non-museum development on the site. However, for example, the lease for the golf course was renewed in 1997. At this time, the terms of the proposed lease were not closely reviewed by the staff or - perhaps more accurately - the expertise to fully and carefully analyze the lease was not possessed in house. This task could also have been outsourced to any outside real estate consultant or law firm—but it was not. The result was that the Authority entered into a lease that did not have minimum rent provisions. This exposes the Authority to undue risk based on the performance of the golf course and the owner/operators' ability to manage it over the long-term.

Jekyll Island, Georgia

Number of Employees: 223 (171 FT, 103 PT)

Departments: Marketing, Administrative, Facilities, Operations, the Georgia Sea Turtle Center

Board Composition: Nine members plus two elected legislative advisory board members

Financial Self-Sufficiency Status: Yes

Budget: \$18M annually

Size: 17 square miles

In 1950, the Jekyll Island State Park Authority was established by the State of Georgia to govern and manage this barrier island along the Atlantic Coast. The island encompasses over 17 square miles. Only 35% of the island is developable, and the remainder will be preserved in a natural state. There are a variety of current uses on the island including: retail, golf courses, a convention center, multiple hotels and motels, a water park, restaurants, a

campground, museum, 600+ historic residential units, and additional recreational amenities. The Jekyll Island Authority serves as steward of the island, overseeing all natural areas and commercial operations. The Authority oversees the operation, maintenance and promotion of the island's amenities and Historic District, and the provision of most municipal services for the island's residential community, 10 hotels, rental cottages, and businesses. The Jekyll Island Authority is charged by the state with operating Jekyll Island profitably.

Various amenities are operated by the Authority, which include the Historic District, 63 holes of golf, a tennis center, miniature golf and bike rental, Summer Waves Waterpark, an oceanfront soccer complex, a 55,000-square foot Convention Center, restaurants, and a campground. The Authority provides fire/emergency medical service and maintains several public picnic areas, beach crossovers, bike paths, a boat ramp, and a small airstrip.

It is the mission of the Jekyll Island Authority to “provide trustworthy stewardship and conservation of our natural and cultural resources, and generate appropriate revenues to sustain, enhance and develop services, programs and amenities that maximize benefits to our customers, guests, and employees.” The Authority’s stated strategic goals include: workforce productivity and effectiveness, conservation and preservation of natural resources, conservation and preservation of cultural resources, revenue enhancement, lease management, marketing, foundation support, technology infrastructure and use, and customer service.

Significant Takeaways

Board of Directors is Policy-making Entity – Divided into Several Subcommittees with Staff Members Playing Supporting Role

Like other key analogs, Jekyll Island’s Board of Directors (composed of nine individuals) is the policy-making body for the Authority. To aid in the decision making process, board members are divided into various subcommittees based on their personal expertise. Subcommittees include: legislative, finance, personnel, historic preservation/conservation, marketing, and public/private partnerships. These subcommittees are also composed of various staff members that act as advisors to board members. This advisory role is separate from the daily

operations activities performed by the staff. The incorporation of key staff members into the subcommittees provides the voice of the Authority staff at the Board level, and ensures that the Board can make informed decisions that have been considered from the perspective of the “on the ground” realities experienced every day by the staff.

Staff Divided Between Four Main Divisions

The organizational structure of the Jekyll Island Authority is divided into four divisions, each of which is managed by a senior director who will report to the Executive Director (who reports to the Board). The responsibilities for each division are broad. The divisions are: administrative, operations, marketing, and facilities.

- The administrative division oversees numerous activities including accounting, residential and business leases, purchasing, human resources, and the warehouse. This division manages the leasing of properties (all Jekyll Island properties are on a ground lease through the State of Georgia) to homeowners and business operators. When a residence is sold, the ground lease is transferred to the new owner. Leases are subject to the terms and conditions of the Jekyll Island Authority Act and Authority Ordinances.
- The operations division oversees the National Historic Landmark District, Convention Center, food services, golf & tennis, campground, Summer Waves Water Park, miniature golf, bike rentals, and various educational programs pertaining to coastal ecology, such as nature walks and sea turtle patrols.
- The marketing division is responsible for a host of activities including advertising and public relations campaigns, operations of the welcome center, interactive marketing efforts, and special events. This division also oversees the development of marketing plans and advertising schedules, preparation of news releases, and responding to complaints. The sales staff (a subdivision of marketing) attends trade

shows and coordinates mail outs targeting large meeting or convention groups, group tours, and golf groups. The sales staff provides liaison services between the Convention Center, hotels, and meeting planners. Given the large recreational component at Jekyll, this division was seen as crucial in helping the island develop a brand and attract tourists.

- The Facilities, Engineering, and Construction Division is responsible for maintaining Jekyll Island's facilities and grounds. It provides public services for island residents, including water and sewer, trash collection, and fire and emergency medical services. This division is responsible for wildlife protection and maintaining the island's natural dune and ecological systems.
- The Georgia Sea Turtle Center is essentially another division in its own right, as it reports directly to the Executive Director. This is operated by the Jekyll Island Foundation. The Foundation is a 501(c)(3) tax-exempt non-profit organization that conducts fundraising for its efforts through planned giving, private donations, corporate support, and philanthropic foundation support. The Foundation was formed in 2000 to assist the Jekyll Island Authority in its mission to conserve the island's natural environment and drive its education and historic preservation activities. The Foundation will "identify and fund projects that build, enhance, and protect public enjoyment of and interaction with the island." Its ultimate mission states that that Jekyll Island Foundation will serve to "raise, receive, manage and disburse funds for the stewardship of the historic and natural resources of Jekyll Island. This stewardship includes preservation and improvement of historic sites, conservation of the undeveloped portion of the island, and development and improvement of amenities for visitors to the island." The Foundation maintains its own Board of Directors composed of four "offices" (executive committee) and sixteen "directors." The President of the Foundation is on the staff of the Authority and has direct reporting to the Executive Director.

Unlike some other analogs, development and real estate activities were not given a direct line to the Executive Director at the Jekyll Island Authority. Instead, those involved with real estate are divided between two separate

divisions and need to report to the senior director of each division before they can gain access to the decision-making power of the Executive Director.

Lease Revenue is Major Source of Operating Revenue – Far from the Only Source

The largest source of operating revenue at Jekyll Island actually comes from the golf courses. After this, primary sources of revenue are (in order) commercial leases (including 10 hotels), the convention center, campgrounds, and parking.

While revenue from ground leases is a substantial portion of Jekyll Island's revenue, there are many other sources from which regular income is derived. These include: municipal services (12% of total revenue), parking (9%), hotel/motel taxes (8%), campground (5%), museum (3%), mini-golf/bikes (2%), and other sources (5%). Together, these non-lease revenues comprise over 40% of total average annual revenue at Jekyll Island. The Jekyll Island Authority has developed a diversified base of income between both lease revenues and non-lease generating revenue sources. This has ultimately increased the Authority's financial stability, as they are not overly reliant on any one source of revenue. However, an overall downturn in the economy will still impact most activities on the island given its reliance on tourism and discretionary spending.

Glenview Naval Air Station (The Glen), Glenview, Illinois

Number of Employees: 5 (10 at peak of development – includes short-term employees)

Departments: Capital Projects Division of the Village of Glenview

Board Composition: Village of Glenview Board of Trustees has seven members

BRAC Round: 1993

Closure Date: 1997

Size: 1,120 Acres

Financial Self-Sufficiency Status: Yes, the Village of Glenview has sold off most of the land at the former NAS and through development has increased the municipal tax base by 35%

The Village of Glenview, Illinois acted as the sole local redevelopment authority in the redevelopment of the Glenview naval Air Station into “The Glen,” a mixed-use community on the site of the former air base. The mission statement for this redevelopment effort is to “create a lasting source of pride for the community by building quality public amenities, infrastructure, housing plus recreational and job opportunities.”

This is a unique base redevelopment because, unlike traditional BRAC conveyances, which take place only between the Federal government and the LRA, the Navy agreed to fully annex the base into the Village of Glenview upon closure. This ensured that the village could be the sole local redevelopment authority and did not need to share this with neighboring jurisdictions or contend with a separate LRA. Through this annexation, the village, with its community’s input, sought to maximize its ability to create and control the development process.

Glenview is also unique among the analogs in terms of its organization structure and its approach to the execution of the redevelopment. The Village realized that their own employees did not possess the skills and technical prowess to effectively drive the redevelopment effort. Furthermore, it was recognized that timely, informed decisions would be crucial to market success in this project. Working within the bureaucracy of the various departments within the village government did not lead to efficient operation.

In response, the Village developed a Capital Projects Division primarily to oversee the redevelopment of The Glen. This division was entrusted with much of the daily decision-making capacity. Internally, it is a lean division that leverages consultants in order to execute its mission. However, this division is overseen by a highly-experienced and capable director, Don Owen, who was chosen for this position specifically because of his breadth of public and private sector experience in real estate activities.

To augment its capacity to execute the redevelopment, the Village of Glenview sought a real estate advisor to “fly co-pilot” with them and provide expertise on an ongoing basis. In 1998, it retained Meisrow-Stein, which acted as the real estate advisors to the Village and helped guide the process from strategy to planning to implementation. The relationship between Meisrow and the Village Capital Projects staff was a largely collaborative one. As part of their contract, Meisrow kept a team of at least five individuals on site at the Glen at all times to work directly with the Village staff. However, to provide surge capacity, they relied on their 200-plus staff to come in as needed for specialized tasks. As communicated to RCLCO, this allowed the Village to have a project team that could grow or shrink in size as determined by the current stage of redevelopment. This applied both to Meisrow’s “surge capacity” as well as the Village’s Capital Projects Division (which has maintained as many as ten staff members at various points in time). For instance, in addition to the project engineers, director, and assistant director that remain in place today, there were at other points additional engineers and planning staff in addition to a CAD technician.

Notably, many of the people on the Village staff had a direct counterpart on Meisrow’s team, suggesting that one-to-one skill set duplicity may be in fact a reasonable structure. This team approach limited any contentious issues between the Meisrow team and the Village staff. The Meisrow team on site was chosen according to its specific abilities and expertise, and this was determined based on the needs of the Village; Meisrow in turn ensured that areas of specialization that were not particular strengths of the village staff were represented on their project team. A senior project manager from Meisrow was responsible for overseeing the activities of the on-site team. This individual worked directly with Don Owen, the director of the Capital Projects Division at the Village.

The relationship between the Village of Glenview and Meisrow was structured on a professional fee basis. However, the village did agree to provide Meisrow with upside compensation if they were able to achieve certain predetermined goals. The Village set a “high hurdle rate” for land sales at Glenview. If Meisrow exceeded this figure, then they were able to share in a certain portion of the profits. Due to both Meisrow’s skillful management of this process and the favorable market timing of this project, this figure was easily exceeded. The village’s original project budget allowed for \$114 million from land sales revenues. The original hurdle set for Meisrow was \$150 million. As of today, where 95% of land has been sold, revenues total \$225 million.

Significant Takeaways

Municipality as the Redevelopment Authority and Master Developer

The Village of Glenview became the master developer for “The Glen” and as such was able to act as the master of its own destiny upon the closure of the Glenview Naval Air Station. The Village of Glenview was responsible for the development of the entire site, as opposed to simply a portion of the site. Still, with the stipulation of a lean staff, the Village of Glenview retained development advisors to ride co-pilot with them as their own very seasoned professionals built a relationship with Meisrow Stein to advise on the development. The village was responsible for the removal of existing runways, and built main roadways and utilities to prepare land parcels for sale. As an AAA-rated home rule municipality in Illinois, they had the financial and legal capacity to carry out the project and sell bonds to fund the infrastructure work. Given FMFADA’s status as an individual entity within the Commonwealth of Virginia, it is able - like municipalities - to get rated and issue bonds. This can assist in funding upfront capital expenditures

Small yet Nimble Staff with Real Estate Expertise and Direct Line to Executive Director

The Village of Glenview established a new division within its governance structure as the redevelopment of the Naval Air Station got underway. The Village established the Capital Projects Department. This is a five-person division that reports directly to the City Manager/Board of Trustees. Three of the individuals are trained engineers who oversee individual projects. The division is headed by a Director, and there is also a Deputy Director. The Director is a knowledgeable real estate professional with private sector industry experience and a broad knowledge of the public sector—specifically, of base redevelopment. This individual is ultimately responsible for the execution of the redevelopment at The Glen, and is a critical team member because he represents the internal capacity to make business decisions based on his breadth of experience in the field of real estate, and also is the advocate for the vision for The Glen.

While the Village maintains a small yet highly qualified staff to oversee development at the Glen, the majority of activities related to development and real estate are outsourced. These relationships are managed by the

Director of the Capital Projects Department. Examples of outsourced activities include real estate advisory, architecture/urban planning, environmental and infrastructure engineering, legal advisory, and financial advisory. For comparison, a larger organization like the Presidio Trust keeps many of these activities in house. Glenview has found that they can successfully outsource many crucial activities associated with the redevelopment given the selection of the right consultants and an experienced director at the helm to see them guide these tasks to successful completion within the parameters of the Village's vision for The Glen.

Lack of Multiple Jurisdictional Layers Entices Private Sector Investment

The redevelopment of the Glenview Naval Air Station ("The Glen") is largely unique among BRAC-impacted bases. The United States Navy completely annexed the Naval Air Station to the Village of Glenview. The Village went on to become the sole local redevelopment authority responsible for the site's redevelopment. As previously described, the Village hired a small yet highly effective and experienced staff to oversee the redevelopment activities. They relied heavily on outsourcing for various activities while also keeping a strong oversight capability from the capital projects department.

Since the Village itself is the only jurisdiction involved with the redevelopment and it is in fact the local redevelopment authority as well, this has allowed for a streamlined redevelopment process at The Glen. From the perspective of the private sector, this has been very appealing. Very few regulatory hurdles exist and the approvals and entitlement process is efficient, transparent, and straightforward. There is less political wrangling overall with this model since the redevelopment authority only has to answer to itself. Fort Ord is a good example of the opposite situation where multiple jurisdictions played a role in base redevelopment to the detriment of the overall project.

Governors Island – New York, New York

Board Composition: 12 Members

Financial Self-Sufficiency Status: Not mandated by Congress – not on track for achievement

Size: 150 Acres

BRAC Round: N/A

Governors Island sits roughly 800 yards off the southern tip of Manhattan and half that distance from the Brooklyn waterfront. Owned by New York State until 1800, the island was conveyed to the federal government through several transactions from 1800 to 1903, and was subsequently occupied and managed by the U.S. Army and the U.S. Coast Guard. In 1995, as part of a national cost cutting measure at the federal level, the U.S. Coast Guard closed its facilities on the Island and all personnel were relocated the following year. The northern portion of the island has been designated a National Historic Landmark as well as a New York City Historic District. In 2003, the Federal Government transferred ownership of 150 acres of the 172-acre Island to the Governors Island Preservation and Education Corporation; 22 acres remain under the jurisdiction of the National Park Service, as the Governors Island National Monument. In addition, five buildings in this historic district are on the National Register of Historic Places.

The Governors Island Preservation and Education Corporation (GIPEC) is responsible for the planning, redevelopment, and ongoing operations for 150 acres of Governors Island. The National Park Service owns and operates an additional 22 acres of the island. A partnership of New York City and New York State, GIPEC seeks to bring Governors Island back to life, making this island at the center of New York Harbor a destination with great public open space as well as future education, not-for-profit, and commercial facilities. The Governors Island Preservation and Education Corporation is governed by a 12-member Board of Directors. Half of the Board is appointed by the Governor of New York, and half is appointed by the Mayor of New York City.

Despite the marquis address and top-notch publicity, the story of Governors Island and GIPEC is perhaps best understood in terms of what has *not* been completed. Since conveyance, so little had been accomplished at Governors Island that the State of New York launched a formal audit of the organization in 2007 (primarily because GIPEC did not comply with a legal mandate to have a master plan in-place by December 31, 2006). Following this audit, then-Governor Spitzer was forced to retool the organization, bring on hard to find new talent, and commit the organization to a series of public promises and deadlines that it admittedly will have difficulty meeting. Not to say that GIPEC does not have strengths, but this discussion and study finds the failures of GIPEC to be particularly germane to the discussion about FMFADA. Analysis of the existing documentation on GIPEC, including the State Audit, reveal three main areas in which GIPEC failed its mission early on, all of which should be illustrative for FMFADA as it contemplates its next steps.

Understaffed Organization

From the get-go, GIPEC had been conceived as a board-driven enterprise with a lean staff that was crafted to execute the board's direction. In principle, this seems like a plausible management scenario, especially as Board appointments came directly from either the Governor of New York or the Mayor of New York City. However, as GIPEC began to grapple with the actual responsibilities of public outreach, garnering development proposals, crafting a master plan, and other tasks, it found itself overwhelmed—so much so that the organization had a difficult time maintaining even its key staff positions filled, and turnover within the organization grew. Meanwhile, the board, which consisted of very talented professionals, could not act as a substitute for actual day-to-day personnel on staff. By the time that GIPEC began to add staff, it was already playing catch-up, and unfortunately caught in the beginnings of the decline in economic conditions. The audit in 2007 cited the fact that GIPEC did not have enough staff members necessary to conduct business as a major reason for the organization's lack of progress. Correct or not, the lack of staff was one reason why GIPEC was unable to successfully manage its RFEI process in 2005 – it simply did not have the manpower necessary to promptly review the numerous responses received in a timely and business-responsive manner.

Satisfying Everyone and Satisfying No One

GIPEC's extensive outreach effort should be applauded, as they spent a considerable amount of their time in the first few years of inception engaging the public, hosting island events, meeting with Community Boards and placating powerful political constituents in New York City and Albany. However, the emphasis on politics over progress eventually cornered GIPEC, as it started to make commitments and promises that conflicted either with the business plan of developing/operating the island or with one another. For example, an effort to plan a Gondola to carry residents of Brooklyn directly from the Red Hook area became a rallying cry for Brooklyn residents who wanted easier access to the Island from Brooklyn in addition to the existing ferry from Lower Manhattan. However, such a promise – eventually erased from the conceptual drawings available publicly but included in the documents submitted by Urban Strategies, Inc. – was in direct conflict with NYCEDC (New York City's Economic Development Corporation) plans to convert Pier 34 into a cruise ship dock, as well as angered Manhattan residents who felt that they would become second-class citizens in terms of convenience and access to Governors Island.

Meanwhile, GIPEC spent a tremendous amount of energy during its first years of operation satisfying the Board's request to gain public input into the design process, and especially bringing citizens onto the island for early-phase recreation. While seemingly innocuous in concept, this forced GIPEC staff to focus on elaborate public events, concerts, and "get to know the island" events (such as "Imagine Yourself on Governors Island") that consumed their staff capacities at precisely the time that GIPEC should have been exploring developer partnerships and financing alternatives in greater depth. The input provided – while clearly an added value to the community – often created clear images in the public mind's eye about what Governors Island would be when developed – images that are not easy to change or erase when the business-feasible concepts for redevelopment were floated to the media periodically during the process.

The above may be extreme examples of the dangers of public promises, but the point is that GIPEC was too slow in clearly defining what it would *not* do and who it would be willing to anger. Without a clear sense of what the place will *not* be, GIPEC could not begin to meaningfully explore potential options and political allies. By trying to

be everything to everybody and by focusing too much on gathering public input, GIPEC mismanaged its early opportunity to pursue its business plan in a way that could have been effective.

Embed the Nonprofit

GIPEC, a subsidiary of the Empire State Development Corporation, does not benefit from the existence of a non-profit dedicated to the furtherance of planning efforts on Governors Island. However, this is not because such an entity does not exist – The Governors Island Alliance has been in existence and active for at least as long as GIPEC – but rather because this non profit is a wholly separate entity. This has at least two realms of opportunity cost to GIPEC.

First, it spells lost public goodwill towards GIPEC. The Governors Island Alliance has become to be perceived as the “public ally”, in part due to the fact that it is prominently a not-for-profit entity. This means that GIPEC faces additional scrutiny from the public when it announces potential directions and is often on the defensive, especially from those that accuse it of pursuing profit at the expense of public good.

Second, it means lost potential revenue for GIPEC. As a non-profit 501(c)(3) the Governors Island Alliance can be a preferred receiving organization for charitable contributions. These contributions could go a long way to fund public programming, outreach efforts, or other such activities that GIPEC is currently funding out of its operating budget and appropriations.

Case Study Summaries - Lessons Learned

Analysis of the case study analogs as a whole provides a wealth of information regarding how the FMFADA can organize itself to ensure success. Benefiting from examples of how these other organizations succeeded – and also

knowing where they did not – this study suggests specific recommendations for the FMFADA organizational structure later in this document. The recommendations proposed draw significantly from ten primary lessons learned from the analog case studies, described below.

1. Select Board Members Based on Professional Background

Successful redevelopment efforts benefit from Board members that bring applicable expertise to the organization during the execution phase. The realms of expertise required in an execution phase include many aspects of private real estate development, such as financial modeling, architecture, urban planning, construction management, marketing, and a host of other areas fundamental to the business of place-making. Without this expertise, redevelopment agencies must either depend on extensive and expensive amounts of long-term consultant support, hire additional staff commensurate with the development task at hand, or risk failure.

The privilege of Board membership should come with a variety of requirements in educational or professional background so that the Board maintains a stable representation of specific implementation disciplines at all times during the execution phase despite turnover of membership. For example, the Watertown Redevelopment Authority (Watertown Arsenal; Watertown, MA) stipulates that of their six board members, at least one shall be experienced in financial matters, one in real estate, and one in law. The Presidio offers another example of this whereas “Board members are required to possess extensive knowledge and experience in one or more fields of city planning, finance, real estate development, and resource conservation.”

2. Maintain a Real Estate Point Person on Your Team

Redevelopment authorities do not engage in policy alone – they do the business of real estate development. And it is impossible to succeed in this business without dedicated staff on the inside that has experience in real estate development and operations. This can take the form of a dedicated team member, or an entire department within an organization.

This is important even when development itself is primarily a private sector endeavor – and it can be argued that in these cases the caliber of real estate professionals working on the inside needs to be *more* robust, as they will be in charge of actively managing contracted real estate developers and operators whose interests will at times run counter to the goals and objectives of the public sector.

In this study, The Presidio, Jekyll Island, and The Glen have a real estate professional as a full-time staff member, and The Presidio and The Glen have more than one team member or an entire division. For example, the Village of Glenview (Glenview Naval Air Station; Glenview, Illinois) outsources nearly all of the real estate and planning activities associated with the redevelopment of the base. However, they have hired a very capable director of development on the village staff who coordinates and oversees all activities related to real estate and redevelopment. The Presidio does not have a real estate division that reports directly to the Executive Director. However, within the very broad “Project Office,” there is a real estate division that employs a real estate planning, leasing, and management staff.

3. Control Jurisdictional Issues

Some of the most successful redevelopment authorities (particularly those involved with BRAC sites) have been able to achieve their redevelopment goals because they were able to operate in a jurisdictional environment that was simple and did not have multiple layers. BRAC sites that have multiple cities or entities with varying levels of jurisdiction over the site – Fort Ord is an example – have been forced to operate in much more complex and stratified political environments. This often acts as a major impediment to the execution capabilities of a local redevelopment authority.

To the extent that a local redevelopment authority can be set up with sufficient jurisdiction – or perhaps a single city or some other single entity that has jurisdiction – will have a significant impact on the likelihood for success.

Most of the case study examples are single entities that do not share jurisdiction over their land. For example, Craig Middleton – the Executive Director of the Presidio Trust – has said that the success of the Presidio is thanks in part to its unique nature as a federal-to-federal transfer. This federal jurisdiction gives the Trust complete control over its property. Likewise, the successful execution at

The Glen was due to its somewhat unique situation. The military actually fully annexed the Naval Air Station to the Village of Glenview when the base was closed. This enabled the Village of Glenview to become the sole local redevelopment authority and provided it with complete jurisdictional authority over the site and its redevelopment.

4. Non-Real Estate Activities Can be Major Revenue Generators

While revenue generated from lease income is most often the main generator of income at the analogs, it is also important to note the role of non-real estate activities. Many of the analogs use their recreational and educational resources and even their infrastructure as a source of revenue. For example, this can take the form of museum admission, gift shop revenue, funds from parking, campground admission, and utility metering.

All of the analogs examined receive some portion of their revenue from sources other than leases. Patriots Point and Jekyll Island are perhaps the best examples of this. The Patriots Point Authority has been successful in creating a strong enough presence for their museum and recreational/educational activities that revenues from these activities now largely cover operating expenses at Patriots Point. The primary sources of revenue include museum admissions, gift shop sales, education programs such as the youth education and camping programs, and on-site vending franchises. Funds from ground leases on the three developable parcels are used primarily for capital improvements.

At Jekyll Island, revenue from real estate-related activities and leases accounts for nearly 60% of total revenue. However, a variety of uses not related to real estate represent the remainder of the funds. These other sources include municipal services, parking, hotel/motel taxes, campground, museum, mini-golf/bikes, and other sources. The experience at Patriots Point and Jekyll Island in particular show how recreational, educational, and even infrastructure uses can play a major role in providing steady revenue streams from operation.

5. Foundations and Philanthropic Donations are a Key Piece of the Puzzle

Several of the analogs, most notably Patriots Point and Jekyll Island, have formed independent 501(c)(3) organizations to manage and seek out philanthropic donations that can offer supplemental

funding to the Authorities – typically for specific capital improvement projects. Even if an independent foundation is not formed, philanthropic donations are often a key piece of the funding puzzle. While the Presidio does not have a foundation, it is still very active in pursuing outside donations. Not only will foundations be responsible for managing and administering individual donations, but they can also be member-based organizations that charge dues and guarantee a regular revenue stream. They can also work with other foundations to arrange donations and go after available grants as an additional funding source.

For example, the Georgia Sea Turtle Center at Jekyll Island is operated by the Jekyll Island Foundation. This Foundation is essentially another division that reports directly to the Executive Director. The Foundation is a 501(c)(3) tax-exempt non-profit organization that conducts fundraising for its efforts through planned giving, private donations, corporate support, and philanthropic foundation support. The Foundation was formed in 2000 to assist the Jekyll Island Authority in its mission to conserve the island's natural environment and drive its education and historic preservation activities. The Jekyll Island Foundation maintains its own Board of Directors, is composed of four "officers" (executive committee) and sixteen "directors." There is a Director of the Foundation on the staff of the Authority that has direct reporting to the Executive Director.

6. Generate Income Early On from the Leasing of Existing Structures that Require Minimal Rehabilitation

The Presidio, with its vast existing stock of historically significant buildings, offers the preeminent example of the thoughtful execution of this strategy. As soon as the Presidio Trust took control of the site, they had a plan in place that identified those buildings which would require the least investment in terms of historic rehabilitation, and also those that have the highest income-producing potential. This plan was implemented with great success, and the leasing of the rehabilitated buildings created a solid financial footing for the Presidio as it began the long and complex undertaking of the site's complete redevelopment.

7. Board of Directors Typically Comprised of Six to Nine Individuals

Analog research has shown that Board of Directors (or Trustees) are typically composed of six to nine individuals. The Jekyll Island Authority has nine Board members plus two advisory board members,

Patriots Points has six members on its Board, The Glen is overseen by the Village of Glenview's Board of Trustees which has seven members. Governors Island in New York has a twelve-person Board. Even such a large-scale redevelopment as The Presidio is only overseen by a six-member Board. In general, it has been the experience of the analogs that having Boards with less than ten members has allowed for less political posturing and a more streamlined decision-making process.

8. Board Members Divided into Committees Based on Their Professional Background

Several of the analogs have implemented policies that ensure that at least a certain number of Board members possess technical skills and professional experience that will augment the primary tasks that the authority is involved with. Similarly, many Boards are divided into different subcommittees focusing on specific aspects of the operations and development. Typically, those with expertise in a subject area will oversee the most applicable subcommittee. This policy has helped to drive informed and thoughtful decision making.

For example, The Board of Directors at the Jekyll Island Authority has several committees including legislative, finance, personnel, historic preservation/conservation, marketing, and public/private partnerships. If Board members possess relevant expertise in one or more of these areas, they will be assigned to the committee. One or more staff member is also assigned to a committee to assist in the decision-making process, typically based on their area of expertise.

9. Marketing/Branding as a Key Element of Organization

Particularly when it comes to areas that have not been open to the public in the past (e.g., The Glen), creating a brand and executing a marketing campaign is a crucial element to success. For newly redeveloped areas, this is especially important. For example, Jekyll Island has done an impressive job of “selling” their product and creating a solid brand recognized throughout the southeast. This occurred because of the large resources (human and financial) put into marketing. The director of the marketing division reports directly to the Executive Director of the Authority and oversees one of the largest divisions of the Authority.

10. The Fewer Layers of Jurisdictional Authority, the Better

Some redevelopment authorities must work with several towns, cities, and other governing bodies as they go through the redevelopment process. The ability to limit this overlap in governance/oversight has proven effective. The private sector's appetite to take part in redevelopment efforts will be driven in large part by the ease of operations within the governing structure of the given local redevelopment authority. If a private sector stakeholder is forced to work within the parameters and political framework of multiple jurisdictions, there runs a risk of the process becoming so onerous as to drive away private sector partners.

The Glen has shown how this can work efficiently. As the sole entity operating the local redevelopment authority at the Glenview Naval Air Station, they have been able to run the authority as if it were a business. The private sector has responded very positively to this straightforward structure to the benefit of the overall redevelopment effort.

RECOMMENDATIONS

In order to successfully accomplish its mission as a self-sustaining organization, the FMFADA must evolve over the next two years into an organization built to succeed as a real estate enterprise. Simultaneously, it must build into its organization the capacity to administer the Programmatic Agreement and satisfy the historic management component of its mission, as well as craft a public programs and educational execution capacity. In light of the assessment of the FMFADA discussed in the preceding sections, and reflecting on the lessons learned from the case study analogues, the organization in its current architecture is not well suited to successfully execute these areas. The discussion below outlines the recommended organization structure for the FMFADA.

It should be noted that the recommendations below are designed specifically for the stated mission and objectives of the FMFADA as conveyed in legislation, documentation, insights from interviews with FMFADA stakeholders, and the task at hand with respect to Fort Monroe. Critically, they reflect the consensus that the FMFADA needs to very quickly become self-sustaining, and are designed to help the FMFADA avoid the potential pitfall of becoming dependent on Commonwealth appropriations in perpetuity. They incorporate all of the analyses and research conducted and summarized in the preceding sections. Should the mission and objectives of the FMFADA change, or the expectations of the FMFADA change, the recommendations outlined below would require modification.

FMFADA Organization

As shown in successful organizations, RCLCO recommends that the FMFADA organize itself around its functional areas, each of which is organized around a core mission of the organization. In this case, the FMFADA can be organized into four divisions: real estate, historic preservation management, public programs, and operations. Each Department is headed by a senior-level manager with the title of Deputy Director who reports directly to the Executive Director. The activities of each of these Departments are outlined below.

Notably, at the time of the writing of this report, it is yet-to-be-determined whether the FMFADA will engage multiple developers/operators or a single developer/operator, and by what means the FMFADA is most likely to generate revenue in the near term or the long term. Furthermore, the specific medium-term arrangement with the Army is still under negotiation, implying that the timing of particular needs outlined above is still in flux, and some needs (such as tenant relations and property management) may be near-term while others, (such as construction management) may be

further out. Department activities are broadly outlined below, and the core staff ideally situated within each department is given later in the document.

Real Estate is the primary revenue-producing Department of FMFADA and a core “business” of the organization. It is charged with all aspects of producing and maintaining streams of revenue from the Fort Monroe real property assets. This includes, but is not limited to:

- Tenant recruitment and relations
- Lease negotiation
- Marketing
- Maintenance
- Renovation/Rehabilitation
- Property Management
- Engineering
- Deal-making (with development partners/operators)
- Zoning and entitlements
- Planning and Development
- Tenant Relations
- Infrastructure Development
- Construction and Construction Management
- Public Participation/Stakeholder Outreach
- Utilities
- Groundskeeping

The Real Estate Department coordinates with the Historic Management Department as necessary, especially to ensure that the Programmatic Agreement is properly administered. Note, however, that Historic Management is a peer-level Division, implying a level of access to the Executive Director that is equal to, not subordinate to, Real Estate.

Historic Asset Management administers the Programmatic Agreement as well as serves as the in-house resource for all issues related to the building and site-related historic preservation matters at Fort Monroe. The Fort Monroe Historic Preservation Officer works within the Historic Management Department. While this individual will need supporting staff

to accomplish her or his objectives, this person will not direct the Department but will rather report to a Department head who directly reports to the Executive Director. Further detail on the staffing of the FMHPO is given later in this document. The responsibilities of Historic Management include, but are not limited to:

- Administration of the Programmatic Agreement
- Preservation and Restoration
- Compliance
- Research
- Archaeology
- Property Stewardship
- Enhancement of Cultural Resources
- Provision of Content for Public Programs

Public Programs is the Department of FMFADA charged with educational programming, public recreational offerings, marketing/fundraising, and general public outreach. This Department's Deputy Director also serves as President of the Fort Monroe Foundation, which is described below. The responsibilities of the Public Programs Department include, but are not limited to:

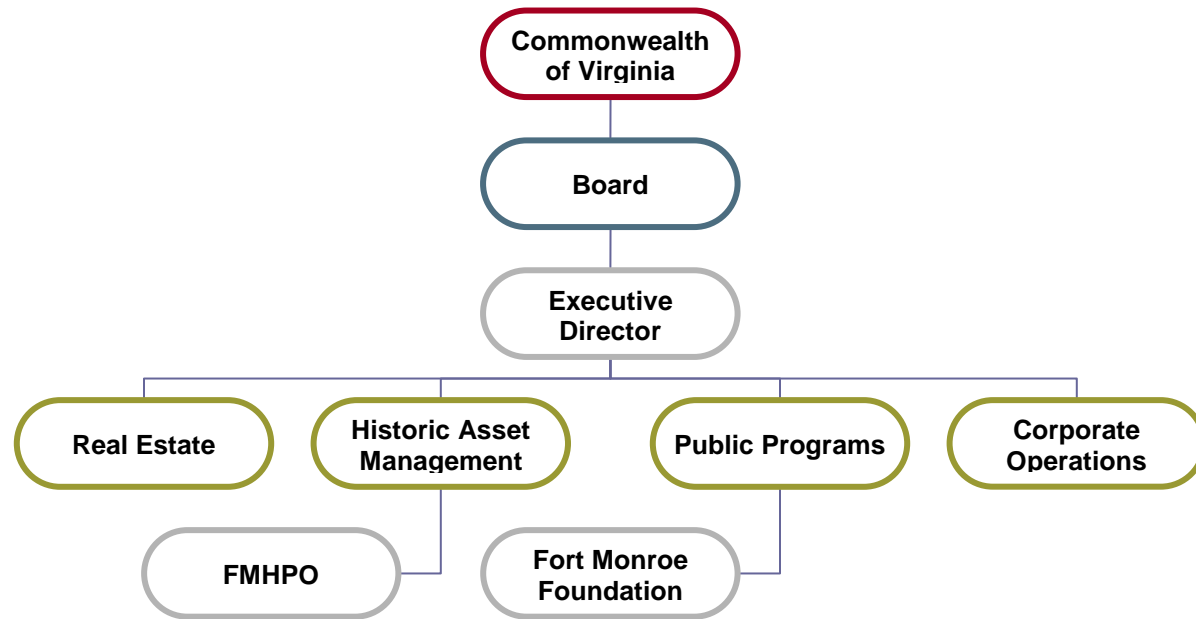
- Education and Interpretation
- Program Development
- Recreation and Heritage Tourism
- Staff Training
- Curation (along with Historic Management)
- Liaison with Compatible Relevant Organizations

Administration is the administrative Department of FMFADA and is a shared service for all of the Departments as well as the Board and the Fort Monroe Foundation. Its activities will include, but are not limited to:

- Regulatory Compliance
- Reuse Plan Administration

-
- Conveyance
 - Treasury
 - Finance
 - Contracts Management
 - Legal
 - Reversion Coordination
 - Accounting/Bookkeeping
 - Payroll
 - Human Resources
 - Information Technology
 - Clerical
 - Brand Management

In addition to the four Departments, it is also recommended that the FMFADA create a not-for-profit Fort Monroe Foundation, which should adopt as its mission: “To preserve and promote the cultural and historic legacy of Fort Monroe.” This purpose of the foundation, which should be chartered as 501 (c)(3) organization, is to support Public Programming’s educational and recreational heritage tourism activities through direct financial support and provision of other resources. As a 501 (c)(3), the Foundation can be a preferred recipient of tax-deductible contributions, allowing it to play an important financial and resource support role. The President of the Fort Monroe Foundation also serves as the Deputy Director for Public Programs.



FMFADA Positions

It is one of the stated goals of the FMFADA to remain a “lean” organization that accomplishes its work with an appropriate but not excessive amount of resources and personnel. Meanwhile, at the time of the writing of this report, there are several large issues surrounding the exact nature of the real estate strategy that have yet to be resolved, but which substantively impact any estimates of required personnel necessary. Depending on decisions made after the delivery of this report, the FMFADA may choose to execute work internally or use staff to manage outside contracted resources. The recommendations below assume that staff will be contracting outside resources – and it should be noted that staff members who manage outside resources typically require their own level of expertise in the field which they manage. With this as background, the following position list and descriptions represent the minimum necessary staff necessary to accomplish the mission of FMFADA. In aggregate, they comprise the FMFADA at maturity, and not all of these positions need be filled simultaneously or immediately.

Real Estate

Director

Executive-Level Position; Head of Department;

Deputy Director	Supports Director with cross-functional capacity (either development or management)
Leasing Specialist	Responsible for new and renewal
Marketing Specialist	Manages marketing campaigns
Property Manager	Administers property management for occupied buildings
Chief Planner	Steward of the Fort Monroe re-use plan and masterplan
Engineer	On-site operations/systems resource
Architect	On-site buildings/vertical construction resource
Project Manager	Day-to-day manager of development partner relationships
Assistant	Clerical/Secretarial

Public Programs

Director	Executive Level Position; Head of Department
Program Officer	Responsible for program creation, content, execution
Marketing/Communications	Directs all external communications from Department
Curator	Position is shared with Dept. of Historic Management
Development Director	Coordinates with partners/sister agencies/organizations

Historic Management

Director	Executive Level Position; Head of Department
FMHPO	Duties as Described in Programmatic Agreement
Deputy FMHPO	Assists FMHPO with existing properties
Deputy FMHPO	Assists FMHPO with new properties/new development
Coordinator	Manages compliance and regulatory FMHPO paperwork

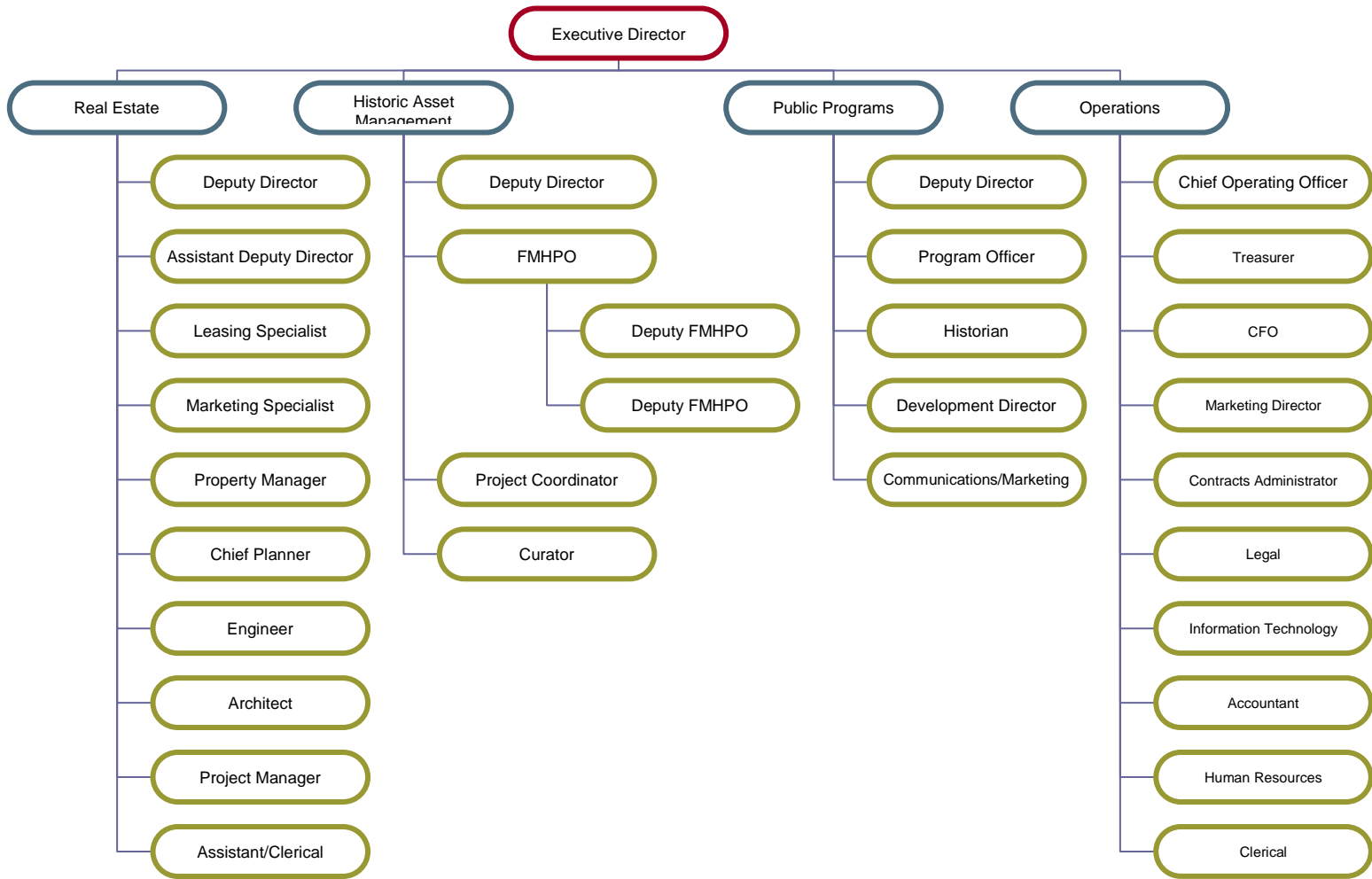
Corporate Operations

Chief Operating Officer	Executive Level Position; Head of Department
Treasurer	Administers any debt issuance or capital formation
CFO	Directs internal finances, including accounting
Marketing Director	Manages the overall Fort Monroe Brand; Coordinates all marketing efforts
Contract Manager	Manages contracts with vendors, contractors
Legal	Compliance, Legal

Information Technology	On-site professional for technical support
Accountant	Accounts Receivable
Accountant	Accounts Payable
Accountant	Supplemental (Fort Monroe Foundation, Payroll, Surge)
Human Resources	Directs recruitment, retention, benefits, etc.
Clerical	Clerical
Clerical	Clerical

Fort Monroe Foundation

President	Also serves as Director of Public Programs
Development Director	Fundraising, Partnerships
Grants/Awards Administration	
Clerical	



Governance

Along with changes to the FMFADA organizational structure, changes to the governance structure will be necessary. As described above, the current governance model for FMFADA may be successful only with the presence of a very active board with a deep understanding of real estate issues and frequent and meaningful committee activities. However, even under the best circumstances, the current model may not allow the FMFADA to function enough like a private enterprise to succeed in the business of executing their mission.

Consider the following example of the mismatch between the existing governance structure and the needs of the FMFADA going forward. In lieu of a CEO or President, the FMFADA has an Executive Director. Were it to function as a successful real estate enterprise, this Executive Director, functioning like a CEO or President, would have broad latitude over major operational, structural, and financial decisions, as well as have fiduciary responsibility to the organization and the Board as well as authority to act on their behalf. The current model assumes a less empowered Executive Director position who plays a secondary role to the Board and who must seek Board approval for most, if not all, decisions. As described above, this model is unsustainable in a corporate environment, which is built around personal relationships, deal-making, rapid decision-making, and entrepreneurial vision. Instead, the FMFADA Executive Director needs to function much more like a CEO and much less like a policy advocate.

What is certain is that decision-making within the FMFADA will need to be revisited, clarified, and modified to support the mission of the enterprise. Either the Executive Director position will need to be granted enhanced levels of autonomy, allowing the position to actually function like a CEO, or the Board structure will need to be redefined to mandate active participation and day-in, day-out engagement of Board members (not proxies) who fill specific FMFADA-specific skill sets. The following progresses in three steps: 1) baseline recommendations to address the fundamental weaknesses in the governance structure; 2) recommendations for the CEO-driven model; and 3) recommendations for the Board-driven model.

Baseline Recommendations

1. The FMFADA Board should incorporate skill requirements that it at all times should maintain or exceed. These requirements should be structured so that at all times, 50% of the FMFADA Board should be comprised of individuals whose full-time professional responsibilities involve at least one of the following:

Real Estate
Finance
Urban Planning
Historic Preservation
Facilities Management
Tourism
Cultural/Educational Programming

Furthermore, the FMFADA Board should maintain or exceed representation of each of the disciplines above. Members may not count more than one discipline for the purposes of this requirement for the Board.

2. Non-statutory Board tenure should be revised to create staggered appointment schedules but sufficient overlap to ensure continuity within the actual Board.
3. Statutory members shall be career service professionals and not appointed officials. They will be selected by the Governor's appointed officials during the second year of the administration and will begin their service during the third year of the administration. The incoming Governor will inherit these persons for the first two years of the new administration, at which point in time the Governor's new appointments can choose to renew or terminate the tenure of the career staff.
4. Board members will assume fiduciary responsibility for the FMFADA.

The Corporate/CEO Model

The Corporate/CEO model is grounded in the belief that the FMFADA will function best when it is structured like a private enterprise. Successful private corporations have a strong CEO with significant decision-making latitude to operate the company and a Board that functions in an fiduciary capacity to the owners of the company. The CEO is entrusted to make tactical decisions in executing the business plan of the organization, and the Board is entrusted with providing strategic input to ensure that the overall mission is achieved. Board members are financially accountable to the organization as a whole, but are engaged in full-time jobs and are not expected to do "the work" of the organization. Instead, the CEO has at her or his disposal a competent professional staff that is charged with executing the business plan.

The Board, then, is responsible for staying informed about the FMFADA activities, successes, and failures. It provides guidance to the Executive Director and Department Heads regarding competing priorities and organization strategy, but is not charged with getting involved in the day-to-day operations of the FMFADA. The Board may set up targets or goals for the FMFADA to achieve, and is expected hold the CEO accountable for achieving the goals or providing due explanation as to why goals are not met. The Staff is responsible for the day-to-day responsibilities, and they are governed and managed by competent department heads and an Executive Director.

The Executive Director and COO together make the vast majority of the decisions regarding the FMFADA (in this case, development, tenaning, contracts, lease rates, etc.) When faced with a decision that requires interpretation of the FMFADA strategy or which has downstream implications for the organization as a whole, the Executive Director can seek the input of the Board or even just the Executive Committee. The Board provides input on strategy on an as-needed basis.

The Board meets at least quarterly, during which time they are to review the quarterly report prepared by the Executive Director. The Board can convene in person or electronically at any time between quarterly meetings. The Executive Committee should be comprised of the Board Chair and four other committee members chosen by their peers and entrusted with making decisions on behalf of the entire board. The roles and responsibilities of the existing individual committees should be reevaluated to eliminate blurred and overlapping lines of authority. Other committees can be established on an ad hoc basis as needs arise, and are terminated when the stated goals of the ad hoc committee is completed or when the Executive Committee or full board deems it appropriate.

Board-Driven Model

The Board-driven model is based on the premise that Board members take active daily roles in the operations of the FMFADA and are engaged in decisions regarding day-to-day business and operations. The Board, then, acts as the chief decision-maker within the organization, and is responsible for executing the variety of activities that the FMFADA will pursue, including tenant relations, leasing and marketing of space, contractor management, hiring/firing of employees, etc. The Staff functions as the execution arm of the board, and is available at the discretion of the Board to involve itself in executing the decisions made by the Board. The staff report to an Executive Director, who takes direction from the Board.

Decisions regarding day-to-day activities are made by the Board or an Executive Committee of the Board, and the Executive Director may provide input to the board in order to make these decisions. These will include, among other aspects: lease rates, structuring development partnerships, negotiations; purchases, staffing needs, and other items. Because these issues arise multiple times during the day, it is advisable that the Executive Committee agree to make themselves available for teleconference calls that are scheduled regularly each week as well as on an as-needed basis between calls. The Executive Committee will need to establish protocol for contract-signing and vote by proxy should members not be available.

The existing committee structure of the FMFADA may be preserved for these purposes, but with the following changes. All aspects of real estate would be migrated to the Operations/Transactions committee, and the Marketing Committee would retain the ability to work with the Operations/Transactions committee but would relinquish decision-making authority over leases, etc. Critically, committees would meet in person bi-weekly in order to execute the work to be accomplished. Additionally, it is recommended that the subcommittees add professionals with expertise in the focus areas mentioned above, as per the existing by-laws.

NEXT STEPS

While the above discussion highlighted areas in which the FMFADA may consider organization changes, these changes are recommended to help the FMFADA enhance its success rather than simply prevent failure. The organization has come a very long way in a short period of time and should celebrate its accomplishments to date including:

- Established a strong dedicated core team led by Executive Director Bill Armbruster
- Structured a strong board capable of negotiating the highly charged political environment under which the FMFADA has operated within during the planning stage
- Completed and approved a Reuse Plan for the site with an established mission and values for the site upon transfer
- Established an autonomus operating and directly funded organization that speaks for itself within the Commonwealth of Virginia.
- Completed an organizational analysis as well as a real estate strategy as important prelininary steps in implementing the Reuse plan upon transfer in 2011.

The FMFADA's mission cannot be achieved without formulating a comprehensive strategic implementation plan for Fort Monroe. Several critical decisions lie ahead which can either set the course for achieving success, or result in significant delays and added expense to get the organization on track. RCLCO recommends these next steps in the FMFADA's implementation process.

- **Step 1 – Synthesize All Inputs:** The FMFADA must properly synthesize all of the inputs from its various consultants and this internal analysis to affirm the mission/vision/values for the organization. This exercise includes being clear about what the orgnization will *not* do, and defining an implementation plan with a well-defined timeline, proper priorities and appropriate performance measures. The most critical task will be systhesizing the Organizational Strategy with the Real Estate Strategy.
- **Step 2 – Refine the Message:** Clearly define the external message for the future of Fort Monroe – articulating the “Big Idea” – that will generate clearer market interest as well as establish the interaction/engagement with external stakeholders. The FMFADA will have to make some difficult decisions that may not be the most politically expeditious for the organization. For example, while new development at Fort Monroe may be viewed

negatively by some vocal external stakeholders, it is essential to the economic sustainability of the site. The message: the FMFADA is open for business while it remains fully committed to the preservation and public programs components of the mission. This message must be consistently communicated by both the FMFADA staff and board, and not via proxy from external firms supporting the organization.

- **Step 3 – Resolve the Army’s Departure Date:** Although this is a cross-over item from the Real Estate Strategy currently underway, the most immediate real estate operating challenge is to determine when and in what manner the Army will vacate the site. Then the FMFADA must negotiate the terms of rental after transfer but prior to departure. Questions which need to be addressed include: Who and how will maintenance be provided to the Army as a tenant?; and What is the duration of each lease and what will be the additional rent paid by the Army? Finally, the FMFADA must urge early transfer of some property to provide income generation. The benefits of this focused approach are as follows:
 1. It buys time for FMFADA to phase implementation of the real estate strategy;
 2. It gives FMFADA time to staff the organization to meet the schedule and its overall mission;
 3. It keeps historic structures occupied thereby containing any future costs of deferred maintenance and renovation;
 4. It provides an opportunity for FMFADA to begin to generate some income from existing properties to demonstrate the economic viability of the site.

- **Step 4 – Test the Real Estate Market:** Go to the private sector market with a Request for Expression of Interest (RFEI) rather than an RFQ/RFP. This would allow the market to respond with its vision and interest in the real estate program on Fort Monroe. With a multitude of uses, extensive programmatic agreement requirements, significant operating versus development activity, stakeholder aversion to development, shortages in available capital, the environmental and general economic climate, an RFEI will allow the market to present its view of the real opportunities that exist at Fort Monroe. This approach provides the potential for greater buy-in from potential partners and external stakeholders and gives FMFADA the opportunity to better tailor and stage the final procurement efforts.

The straight RFQ approach contains risk. A proposer in an RFQ competes on a visionary basis that may be completely removed from political and economic reality. To attempt to eliminate this risk, FMFADA will need to establish a structure for the arrangement that then limits creativity among the bidders. A significant disadvantage of the RFQ/RFP is that it requires a very well defined program by FMFADA in order to secure the best possible terms and conditions in the end. The RFQ/RFP will be more effective after the RFEI because the market will help define the program, which can be combined with the FMFADA vision to secure the best possible partners for the initiative.

Going to market prematurely may lock the FMFADA into a relationship that it no longer wants or may not be willing to sustain. The FMFADA has more time to refine its plan and to slowly ramp up its management/operations staff while holding off on the development side of the equation.

By taking the steps outlined above, the FMFADA will be poised to implement its reuse plan and take control of Fort Monroe in 2011. These steps can be modified and/or performed concurrently, but this process should begin as soon as possible. However, no steps should be eliminated. FMFADA has demonstrated itself to be an adept political organization. In order to achieve its mission it needs to transition to an adept operating entity. The organization must be capable of balancing its important social goals and its economic goals equitably, and all within a governance structure designed to help the Authority succeed in fulfilling its mission.. An effective FMFADA is one that generates confidence among the stakeholders that the social interests are appropriately factored into decision making and the marketplace, and that the organization is efficiently organized to take advantage of and execute economic opportunities.

ADDENDUM

During the Governance Subcommittee meeting on June 25, 2009, the Subcommittee asked RCLCO to explore several other analogs for case study comparison. Specifically, the Subcommittee asked RCLCO to profile the governance of a Virginia municipal airport and the Port Authority. Following this request, RCLCO profiled the Virginia Port Authority and the Virginia Port Authority. These additional analog case studies are detailed below.

Virginia Port Authority

Background

The Virginia Port Authority was established in 1952 as a political subdivision of the Commonwealth of Virginia for the purpose of stimulating commerce of the ports of the Commonwealth, promoting the shipment of goods and cargoes through the ports, improving the navigable tidal waters within the Commonwealth, and in general to “perform any act or function which may be useful in developing, improving, or increasing the commerce of the ports of the Commonwealth.” The Authority owns and is responsible for the operations and security of three marine terminals: Norfolk International Terminals (NIT), Portsmouth Marine Terminal (PMT), and Newport News Marine Terminal (NNMT), and an inland intermodal facility, the Virginia Inland Port (VIP) located in Front Royal, Virginia. These facilities primarily handle import and export containerized and break-bulk cargoes.

Virginia International Terminals, Inc., (VIT) was incorporated as a nonprofit corporation on June 30, 1981, for the purpose of operating all the marine terminals owned by the Authority. VIT operates the state-owned ports through a Service Agreement with the Virginia Port Authority. The organization structure of VIT provides it the ability to enter into contracts with union labor (prohibited by state agencies under state law), negotiate and enter into contractual relationships with ship lines and others while not being subject to the Freedom of Information Act (FOIA), and more efficiently manage the flow of traffic at the marine terminals.

Governance

- As an agency of the Commonwealth, the Virginia Port Authority reports to the Virginia Secretary of Transportation.
- The Governor of Virginia appoints 11 citizens to form the Virginia Port Authority Board of Commissioners; the state treasurer is an ex-officio member of the Board.
- Commissioners serve staggered five year terms at the pleasure of the Governor, and no commissioner may serve more than two consecutive terms.
- Law dictates that there must be one, but no more than one, commissioner from Norfolk or Virginia Beach; one, but no more than one, commissioner from Portsmouth or Chesapeake; and one, but no more than one, commissioner from Hampton or Newport News.
- Traditionally, an active or retired senior executive from Norfolk Southern Railway and an individual with ties to the coal industry have served as members of the Board.
- The Board elects a chairman and vice chairman from within its membership.
- The Board of Commissioners appoints the executive director of the Virginia Port Authority, who is responsible for overseeing the daily execution of the agency's policies, and serving as an ex-officio member of VIT's Board of Directors.

Charlottesville-Albemarle Airport Authority

Background

The Charlottesville-Albemarle Airport Authority is the body that owns and operates the Charlottesville-Albemarle Airport (CHO). CHO is a non-hub airport with daily commercial service. The facility includes a 60,000 square foot terminal building with modern customer amenities and on-site rental cars, ground transportation, and food service. General aviation facilities include an executive terminal offering a full-service fixed base operation, flight schools, and aircraft charter firms.

The Airport Authority was jointly formed in 1984 by the City of Charlottesville and Albemarle County. All powers necessary to the ownership and operation of the airport were conferred upon the Airport Authority by these two governing bodies.

By Commonwealth law, all airport authorities are authorized to exercise the same powers as counties, cities, and towns. General scope of powers are “to establish, construct, manage, and operate and airport; to lease property to persons wishing to operate an airport; to charge a board fee, up to \$2.00; and to charge fees for use of the airport.” Airport Authorities may issue bonds to finance facilities. Commonwealth law states that “by implication, authority may issues bonds to finance facilities. Jurisdictions authorized to issue bonds and all powers conferred on localities in regard to building and operating airport facilities are also explicitly conferred on any joint airport commissions or authority.”

Governance

The powers of the Authority are vested in the governing board, which has three appointed members. Each member will continue to serve until his successor shall be duly appointed and qualified. By law these three members will be:

- The City Manager of the City of Charlottesville (or his/her principal assistant, as chosen by the city council).
- The County Executive of the County of Albemarle (or his/her principal assistant, as chosen by the county board of supervisors).
- One member will be chosen jointly by the governing bodies of the participating political subdivisions from the membership of the Charlottesville-Albemarle Joint Airport Commission. The city and county take turns selecting the joint appointee, who may serve for so long as he/she is eligible to serve as a member of the Charlottesville-Albemarle Joint Airport Commission.

The Authority annually elects one of the board members to serve as chairman, and another to serve as vice chairman.

The Authority also elects a secretary-treasurer annually (who may or may not be a member of the Authority). It is this person’s job to keep minutes of the Authority’s meetings and they are the custodian of all books, documents, and papers of the Authority.

The board members are required to appoint a chief executive officer for the Authority (who is not a member of the board). This person “shall exercise such powers and duties as may be delegated to him by the members, including powers and duties involving the exercise of discretion.”

In general, local governments are given wide discretion from the Commonwealth to form authorities and to establish their terms of agreement. The Virginia Aviation Board must ultimately approve the operation of any airport facility by the authority or the leasing or conveying of the facility to a private party for the operation of an airport or for industrial development.

The Charlottesville-Albemarle Joint Airport Commission was established by the governing bodies of the City of Charlottesville and Albemarle County. The Commission was formed by the city and county to act only as an advisory board to the Airport Authority in its operations of the airport. It works on matters at the request of the Airport Authority Board and/or the Executive Director. This Commission consists of seven members. The members must be a citizen of either the City of Charlottesville or of Albemarle County. They cannot hold any other municipal or county office.

The seven member board consists of:

- Three members appointed by the Charlottesville City Council
- Three members appointed by the Albemarle County Board of Supervisors
- One member appointed by the joint action of the Council and the Board of Supervisors

* * * * *

This engagement was conducted by Tim McGarrity, Managing Director; Shyam Kannan, Vice President; and Christian Volney, Senior Associate.. If you have any questions regarding the conclusions and recommendations included herein, or wish to learn about other RCLCO advisory services, please call (240)-644-1307.

GENERAL LIMITING CONDITIONS

Reasonable efforts have been made to ensure that the data contained in this study reflect accurate and timely information and are believed to be reliable. This study is based on estimates, assumptions, and other information developed by RCLCO from its independent research effort, general knowledge of the industry, and consultations with the client and its representatives. No responsibility is assumed for inaccuracies in reporting by the client, its agent, and representatives or in any other data source used in preparing or presenting this study. This report is based on information that to our knowledge was current as of the date of this report, and RCLCO has not undertaken any update of its research effort since such date.

Our report may contain prospective financial information, estimates, or opinions that represent our view of reasonable expectations at a particular time, but such information, estimates, or opinions are not offered as predictions or assurances that a particular level of income or profit will be achieved, that particular events will occur, or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report, and the variations may be material. Therefore, no warranty or representation is made by RCLCO that any of the projected values or results contained in this study will be achieved.

Possession of this study does not carry with it the right of publication thereof or to use the name of "Robert Charles Lesser & Co." or "RCLCO" in any manner without first obtaining the prior written consent of RCLCO. No abstracting, excerpting, or summarization of this study may be made without first obtaining the prior written consent of RCLCO. This report is not to be used in conjunction with any public or private offering of securities or other similar purpose where it may be relied upon to any degree by any person other than the client without first obtaining the prior written consent of RCLCO. This study may not be used for any purpose other than that for which it is prepared or for which prior written consent has first been obtained from RCLCO.

